THIS PROPOSED DISCLOSURE STATEMENT HAS NOT BEEN APPROVED UNDER SECTION 1125(B) OF THE BANKRUPTCY CODE BY THE BANKRUPTCY CODE AS CONTAINING ADEQUATE INFORMATION FOR USE IN CONNECTION WITH THE SOLICITATION OF ACCEPTANCES OR REJECTIONS OF THE PLAN OF REORGANIZATION DESCRIBED HEREIN. ACCORDINGLY, THE FILING AND DISSEMINATION OF THIS PROPOSED DISCLOSURE STATEMENT ARE NOT INTENDED AND SHOULD NOT IN ANYWAY BE CONSTRUED AS A SOLICITATION OF VOTES ON THE PLAN, NOR SHOULD THE INFORMATION CONTAINED HEREIN BE RELIED UPON FOR ANY PURPOSE BEFORE A DETERMINATION BY THE BANKRUPTCY COURT THAT THE PROPOSED DISCLOSURE STATEMENT CONTAINS ADEQUATE INFORMATION.

IN THE UNITED STATES BANKRUPTCY COURT
FOR THE WESTERN DISTRICT OF TEXAS
AUSTIN DIVISION

IN RE:	§	
	§	
KLD ENERGY TECHNOLOGIES, INC.,	§	**CASE NO. 16-10345-HCM**
	§	**CHAPTER 11**
DEBTOR	§	
	§	
8910 Research Blvd., Building B-1	§	
Austin, TX 78754	§	
	§	
Taxpayer Identification No.:	§	
32033226500	§	

DEBTOR'S DISCLOSURE STATEMENT REGARDING ITS CHAPTER 11 PLAN OF REORGANIZATION, AS MODIFIED, DATED JUNE 3, 2016

CONFIRMATION HEARING: _____ ___, 2016 AT _____

CONFIRMATION LOCATION: UNITED STATES BANKRUPTCY COURT
903 SAN JACINTO BLVD.
AUSTIN, TEXAS 78701

DEADLINE FOR ACCEPTING/REJECTING PLAN: _____ ___, 2016

DEADLINE FOR OBJECTING TO PLAN: _____ ___, 2016

I. INTRODUCTION

KLD Energy Technologies, Inc. (the "Debtor") submits its Disclosure Statement Regarding its Chapter 11 Plan of Reorganization, As Modified, Dated June 3, 2016 ("Disclosure Statement") under Section 1125 of the Bankruptcy Code and Rule 3016 of the Federal Rules of Bankruptcy Procedure to all of its known Creditors.

Capitalized terms used herein, if not separately defined, have the meanings assigned to them in the Plan or in the Bankruptcy Code and Bankruptcy Rules.

The Debtor has promulgated the Chapter 11 Plan of Reorganization, As Modified, Dated June 3, 2016 ("Plan") consistent with the provisions of the Bankruptcy Code. A copy of the proposed Plan is attached as Exhibit A. The purpose of the Plan is to provide an opportunity for payment to each Class of Claims. The Plan provides two alternatives for payment of Claims. First, the Plan provides for payment of Allowed Claims and a settlement with the Debtor-In-Possession Lender by which the Lender will distribute its equity holdings in the Reorganized Debtor to holders of Allowed Claims and Interest in exchange for a release of liability from such entities. If, however, the Plan cannot be confirmed, the Debtor intends to immediately initiate a structured sale process by which the assets of the Debtor are sold by order of the Bankruptcy Court. The Debtor believes that the Bankruptcy Court will approve bid and auction procedures substantially similar to those set out in Section VII. B. set forth below.

This Disclosure Statement is not intended to replace a careful review and analysis of the Plan, including the specific treatment you will receive under the Plan. It is submitted as an aid and supplement to your review of the Plan in an effort to explain the terms and implications of the Plan. Every effort has been made to explain fully various aspects of the Plan as it affects Creditors. If any questions arise, the Debtor urges you to contact the Debtor's counsel, and every effort will be made to resolve your questions. You may, of course, wish to consult with your own counsel.

A general discussion of the projected assets and distributions under the Plan are set out below in this Disclosure Statement. The following summary is general in nature. Creditors are referred to the full Disclosure Statement and Plan for a full discussion of these matters.

THERE CAN BE NO ASSURANCE THAT THE VALUES AND AMOUNTS REFLECTED IN THIS ANALYSIS WILL BE REALIZED AND ACTUAL RESULTS COULD VARY MATERIALLY FROM THOSE SHOWN HERE.

After a plan has been filed with a bankruptcy court, it must be accepted by holders of impaired claims against or interests in a debtor. Section 1125 of the Bankruptcy Code requires that a plan proponent fully disclose sufficient information about a debtor, its assets, and the plan to creditors and interest holders before acceptances of that plan may be solicited. This Disclosure Statement is being provided to the holders of Claims against the Debtor to satisfy the requirements under Section 1125 of the Bankruptcy Code.

The Bankruptcy Code provides that creditors and interest holders are to be grouped into "classes" under a plan and that they are entitled to vote to accept or reject a plan by class. While courts have disagreed on the proper method to be used in classifying creditors and interest

holders, a general rule of thumb (which is subject to exceptions) is that creditors with similar legal rights are placed together in the same class and that stockholders with similar legal rights are placed together in the same class. For example, all creditors entitled to priority under the Bankruptcy Code might be placed in one class, while all creditors holding subordinated unsecured claims might be placed in a separate class.

The Bankruptcy Code does not require that each claimant or interest holder vote in favor of a plan for the Court to confirm a plan. Rather, each class of claimants and interest holders must accept a plan (subject to the exception discussed below). A class of claimants accepts a plan if, of the claimants in the class who actually vote on a plan, such claimants holding at least two-thirds in dollar amount and more than one-half in number of allowed claims vote to accept the plan. For example, if a hypothetical class has ten creditors that vote and the total dollar amount of those ten creditors' claims is $1,000,000.00, then for such class to have accepted the plan, six or more of those creditors must have voted to accept the plan (a simple majority), and the claims of the creditors voting to accept the plan must total at least $666,667.00 (a two-thirds majority).

The Court may confirm a plan even though fewer than all classes of claims and interests vote to accept the plan. In this instance, the plan must be accepted by at least one "impaired" class of claims, without including any acceptance of the plan by an insider. Section 1124 of the Bankruptcy Code defines "impairment" and generally provides that a claim as to which legal, equitable, or contractual rights are altered under a plan is deemed to be "impaired."

If all impaired classes of claims and interests under a plan do not vote to accept the plan, the plan proponent is entitled to request that the Court confirm the plan pursuant to the "cramdown" provisions of Section 1129(b) of the Bankruptcy Code. These "cramdown" provisions permit a plan to be confirmed over the dissenting votes of classes of claims and/or interests if at least one impaired class of claims votes to accept a plan (excluding the votes of insiders), and the Court determines that the plan does not discriminate unfairly and is fair and equitable with respect to each impaired, dissenting class of claims and interests. The Bankruptcy Code provides several options for a plan to be "fair and equitable" to a secured creditor. Included among these options are that the secured creditor retains its lien and receives deferred cash payments at a market interest rate totaling either the value of the property securing the claim or the amount of the allowed claim as found by the Court, whichever is less. With respect to a class of unsecured claims, the requirement that a plan be "fair and equitable" requires that the holder of an unsecured claim be paid the allowed amount of its claim or that no junior interest receive or retain any property on account of its prior claim.

Independent of the acceptance of a plan as described above, to confirm a plan, the Court must determine that the requirements under Section 1129(a) of the Bankruptcy Code have been satisfied. THE DEBTOR BELIEVES THAT THE PLAN SATISFIES EACH OF THE CONFIRMATION REQUIREMENTS OF SECTION 1129(a) AND, IF NECESSARY, SECTION 1129(b) OF THE BANKRUPTCY CODE.

The Bankruptcy Code requires that the plan proponent solicit acceptances and rejections of the proposed plan before the plan can be confirmed by the Court. Before the plan proponent can solicit acceptances of the plan, the Court must approve the disclosure statement and

determine that the disclosure statement contains information adequate to allow creditors to make informed judgments about the plan. After Court approval of the disclosure statement, the disclosure statement, the proposed plan and a ballot are sent to the holders of claims. The creditors will then have the opportunity to vote on the plan and should consider the approved disclosure statement for such vote.

On _____ ____, 2016[1], the Court approved the Debtor's proposed Disclosure Statement as containing information of a kind, and in sufficient detail, as far as is reasonably practicable in light of the nature and history of the Debtor and the condition for the Debtor's books and records to enable a hypothetical, reasonable investor typical of holders of Claims of the relevant Classes to make an informed judgment whether to vote to accept or reject the Plan. The Court's approval of this Disclosure Statement does not constitute an endorsement of any of the information contained in either the Disclosure Statement or the Plan. Likewise, although the Debtor and its counsel have utilized information believed to be accurate in preparing this Disclosure Statement, neither the Debtor nor any of its counsel warrant the accuracy of the information contained in or relied upon in preparing this Disclosure Statement. Further, nothing contained in this Disclosure Statement may be construed to be a representation or warranty, express, implied or otherwise, that the Plan is free from risk, that acceptance or confirmation of the Plan will result in a risk-free or assured restructuring of the Debts of the Debtor, or that the projections or plans of the Debtor for payment will be realized. A copy of the Order Approving Disclosure Statement is attached as Exhibit B.

At the hearing scheduled by the Court, the Court will consider whether the Plan should be confirmed. The hearing to confirm the Plan is scheduled for _____ ___, 2016 at _____[2] in the Court located at 903 San Jacinto Blvd., Austin, Texas. Section 1129 of the Bankruptcy Code contains the requirements for confirmation of a Plan. **YOUR VOTE IS IMPORTANT.** In order for the Plan to be accepted, at least two-thirds in amount and more than one-half in number of the **voting Creditors** in each Class must affirmatively vote for the Plan. Even if all Classes of Claims accept the Plan, the Court may refuse to confirm the Plan. The Court must find that the Plan complies with the applicable provisions of the Bankruptcy Code and that the Proponent of the Plan has also complied with the Bankruptcy Code. The Court must also find that the Plan has been proposed in good faith and not by any means forbidden by law. The Court must find that the Proponents of the Plan have disclosed the identity and affiliation of the persons who will manage the Debtor after confirmation, that the appointment of such persons is consistent with the interest of Creditors and with public policy, and that the identity and compensation of any insiders that will be employed or retained by the Debtor have been disclosed. The Court must additionally find that each Class of Claims has either accepted the Plan or will receive at least as much as it would under a Chapter 7 liquidation. The Bankruptcy Code also provides for the treatment of certain Priority Claims. If any Classes of Claims are impaired under the Plan, the Court must find that at least one Class of Claims that is impaired has accepted the Plan without counting any votes by insiders. The Court must also find that confirmation of the Plan is not likely to be followed by the liquidation or the need for further liquidation of the Debtor. Additionally, the Plan must provide for payment of certain required fees to the United States Trustee.

[1] Date to be inserted after disclosure statement hearing.

[2] Date to be inserted after disclosure statement hearing.

If the Debtor is unsuccessful at confirming the proposed Plan, the Debtor intends to immediately initiate a structured sale process by which the assets of the Debtor are sold by order of the Bankruptcy Court. The Debtor anticipates seeking court approval of bidding and auction procedures shortly after the approval of the Disclosure Statement. The Debtor believes that the Bankruptcy Court will approve bid and auction procedures substantially similar to those set out in Section VII. B. set forth below.

NO SOLICITATION OF VOTES HAS BEEN OR MAY BE MADE EXCEPT PURSUANT TO THIS DISCLOSURE STATEMENT AND SECTION 1125 OF THE BANKRUPTCY CODE, AND NO PERSON HAS BEEN AUTHORIZED TO USE ANY INFORMATION CONCERNING THE DEBTOR TO SOLICIT ACCEPTANCES OR REJECTIONS OF THE PLAN OTHER THAN THE INFORMATION CONTAINED IN THIS DISCLOSURE STATEMENT. CREDITORS SHOULD NOT RELY ON ANY INFORMATION RELATING TO THE DEBTOR OTHER THAN THAT CONTAINED IN THIS DISCLOSURE STATEMENT AND THE EXHIBITS ATTACHED HERETO OR SUBMITTED HEREWITH.

EXCEPT AS SET FORTH IN THIS DISCLOSURE STATEMENT AND THE EXHIBITS, NO REPRESENTATION CONCERNING THE DEBTOR, ITS ASSETS, PAST OR FUTURE OPERATIONS, OR CONCERNING THE PLAN IS AUTHORIZED, NOR ARE ANY SUCH REPRESENTATIONS TO BE RELIED UPON IN ARRIVING AT A DECISION WITH RESPECT TO THE PLAN. ANY REPRESENTATIONS MADE TO SECURE ACCEPTANCE OR REJECTION OF THE PLAN OTHER THAN AS CONTAINED IN THIS DISCLOSURE STATEMENT SHOULD BE REPORTED TO COUNSEL FOR THE DEBTOR.

UNLESS ANOTHER TIME IS SPECIFIED, THE STATEMENTS CONTAINED IN THIS DISCLOSURE STATEMENT ARE MADE AS OF THE DATE HEREOF.

NEITHER DELIVERY OF THE DISCLOSURE STATEMENT NOR ANY EXCHANGE OF RIGHTS MADE IN CONNECTION WITH THE DISCLOSURE STATEMENT AND THE PLAN SHALL UNDER ANY CIRCUMSTANCES IMPLY THAT THERE HAS BEEN NO CHANGE IN THE FACTS SET FORTH HEREIN SINCE THE DATE THE DISCLOSURE STATEMENT AND THE MATERIALS RELIED UPON IN PREPARATION OF THE DISCLOSURE STATEMENT WERE COMPILED.

THE APPROVAL BY THE BANKRUPTCY COURT OF THIS DISCLOSURE STATEMENT DOES NOT CONSTITUTE AN ENDORSEMENT BY THE BANKRUPTCY COURT OF THE PLAN OR A GUARANTEE OF THE ACCURACY OR THE COMPLETENESS OF THE INFORMATION CONTAINED HEREIN.

THIS DISCLOSURE STATEMENT AND THE PLAN ATTACHED HERETO SHOULD BE READ IN THEIR ENTIRETY PRIOR TO VOTING ON THE PLAN. FOR THE CONVENIENCE OF HOLDERS OF CLAIMS, THE TERMS OF THE PLAN ARE SUMMARIZED IN THIS DISCLOSURE STATEMENT, BUT ALL SUMMARIES ARE QUALIFIED IN THEIR ENTIRETY BY THE PLAN, WHICH CONTROLS IN THE EVENT OF ANY INCONSISTENCY.

II. DESCRIPTION OF THE DEBTOR'S BUSINESS EVENTS LEADING TO THE CHAPTER 11 CASE

On March 25, 2016, the Debtor filed a voluntary bankruptcy petition for relief under Chapter 11 of the Bankruptcy Code. The Debtor filed its petition in the United States Bankruptcy Court for the Western District of Texas, Austin Division. The bankruptcy is styled *In re KLD Energy Technologies, Inc.*, Case No. 16-10345-HCM. United States Bankruptcy Judge H. Christopher Mott presides over the Debtor's bankruptcy case.

Established in July 2008 by the conversion of KLD Energy Techologies LLC, a Texas limited liability company formed in July 2007, the Debtor is a Texas corporation with its principal place of business located at 8910 Research Blvd., Bldg. B-1, Austin, Texas 78754. Debtor also operates an Advanced Research facility in Morgan Hill, California. Debtor is a privately-owned technology company focused on developing innovative, sustainable propulsion technologies for the electric vehicle markets. Debtor's headquarters and engineering lab are located in Austin, Texas, and the Debtor's advanced research facility is located in Morgan Hill, California. The Debtor's propulsion and generation system is applicable in a broad range of markets, including elevators, air conditioners, pumps, generators and many other applications.

Debtor is focused on developing and commercializing innovative green technologies that have a positive global impact on people's lives and the environment. These disruptive technologies are based upon innovative sciences that represent a paradigm shift in design and enable the production of highly efficient, less polluting products. Debtor's mission is to develop innovative, sustainable propulsion technologies for the electric vehicle markets using its electric propulsion system, oneDRIVE™. Debtor's electric propulsion and generation system is also applicable in a broad range of markets, including: elevators, air conditioners, pumps, generators and other applications. Focused on the research, development and commercialization of advanced and sustainable technologies, Debtor has received worldwide interest. The Company has also won an Edison Award for innovation and excellence for energy sustainability for transportation.

Beginning in 2011, Debtor commenced production of the initial version of its electric motor and controller to an electric scooter manufacturer in Malaysia. This customer has reported that over three million kilometers have been driven on scooters with Debtor's electric motor and controller without any maintenance or performance issues.

The Debtor's revenue primarily comes from licensing and selling its KLD oneDRIVE™ propulsion and generation system. Since Debtor's inception, a number of factors have coalesced that significantly strained the Debtor's ability to fund its operations and service its outstanding

indebtedness and, ultimately, led to the Debtor's filing of the Chapter 11 Case. The electric motor systems industry is subject to rapid technological change, requiring the Debtor to respond to changes in product function and quality and remain cost competitive. As a result, the commercialization of the Debtor's technology has been delayed, resulting in a lack of meaningful revenue and continued operating losses.

Moreover, the Debtor is a development-stage company that has primarily been incurring research and development costs and engineering costs in connection with the commercialization of its technologies. The Debtor has raised over $65 million in capital in the form of equity and debt since inception in 2008. Funding has predominantly been used for research and development, engineering design, prototyping, pilot-production, and manufacturing of the Debtor's electric propulsion system.

Prior to December 2014, the Debtor determined that it needed to raise additional debt and equity capital to fund its operations. At the Debtor's Annual Shareholder meeting in December 2014, the Debtor presented a financing plan, whereby the Debtor would obtain $25 million of long-term debt payable at the end of five years. The proceeds of this debt financing would be used to retire or convert all existing debt and raise additional working capital. In addition the shareholders authorized up to an additional $30 million of preferred stock to fund its growth plans.

During the fourth quarter of 2014, the Debtor executed a $25 million Debt Financing Agreement with Stone Development, a private investment group. Originally the funding was scheduled for the first quarter of 2015; however, Stone Development incurred delays and rescheduled the funding until the third quarter of 2015. Despite providing a corporate guaranty of $8 million of the Debtor's bridge loans, Stone Development continues to encounter delays in funding its $25 million commitment. Because of the uncertainty of obtaining long-term debt financing to retire existing indebtedness, the Debtor was not able to raise any meaningful levels of equity in 2015.

As of March 25, 2016, the Debtor has issued 28.1 million shares of capital stock comprised of 6.5 million shares of Common Stock and 21.6 shares of preferred stock. Of the 6.5 million common shares approximately 5.5 million are founders shares issued to founder and Chairman of the Board Christian Okonsky and 1 million are issued to Chief Science Officer and technology inventor Ray Caamano by way of warrant exercise in connection to the licensing of his electric motor technology. The 21.6 million preferred shares were issued in conjunction with raising approximately $40 million, including $5 million from the Emerging Technology Fund of the State of Texas and the remainder from primarily individual investors. Throughout these offerings, the Debtor has issued numerous presentations and valuation opinions in its efforts to raise investment into the Debtor.

The shareholders have authorized up to 13 million shares of Common Stock that have been reserved for stock options to be issued to employees and directors. As of March 25, 2016, stock options to purchase approximately 9.0 million shares of Common Stock are outstanding. The stock options have an exercise price ranging from $0.40 to $0.65 per share.

In connection with raising capital, the Debtor has issued warrants to purchase 65 million shares of the Debtor's Common Stock. Of the warrants issued, 23.3 million have exercise prices at $3.00 per share or above, 29.8 million have an exercise price equal to $2.25 per share, and 11.9 million have exercise prices ranging from $0.32 - $2.20 per share.

The Debtor has 27.4 million of convertible notes and other debt which can be converted or reinvested into Series C Preferred Stock at the $2.25 per share offering price.

Debtor's major prepetition Secured Parties consist of the liens held by the Nader Group, Slosberg and Masaryk. The Nader Group's lien is in the amount of $2.8 million. The Slosberg Lien is in the amount of $2.3 million. The Masaryk Lien is in the amount of $0.3 million. In addition, Debtor has a large amount of unsecured trade creditors, unsecured creditors holding notes guaranteed by Stone Development or Cenntro Group, Ltd., and unsecured creditors that have guaranteed a portion of Debtor's line of credit with Frost Bank and the People Fund, in an approximate total amount of $7.8 million. Debtor's bankruptcy filing seeks to restructure the payment of these debts by paying the Claims in full through Plan payments or by converting a portion of the underlying debt into equity interests in the Reorganized Debtor[3]. However, if the Debtor is unable to effectuate this restructuring, the Debtor will sell the company's assets through a structured auction process approved by the Bankruptcy Court. The Debtor believes that the Bankruptcy Court will approve bid and auction procedures substantially similar to those set out in Section VII. B. set forth below.

III. DEBTOR'S BANKRUPTCY FILING

The Debtor's Bar Date, Schedules, and Monthly Operating Reports

On April 7, 2016, the Debtor filed its Schedules and Statement of Financial Affairs, detailing the Debtor's current assets and liabilities as well as its financial performance up to the Petition Date. The creditors should review the Schedules and Statement of Financial Affairs in considering whether to vote for the Debtor's proposed plan of reorganization. Copies of the Schedules, as amended, and Statement of Financial Affairs are attached as Exhibit C. To the extent that any of the financial data contained within the Schedules or Statement of Financial Affairs is amended, those amendments will be served on all creditors.

It is anticipated that the Debtor will generate revenues sufficient to meet all of the Debtor's current expenses, as well as all proposed payments required under the Plan. An income statement forecast is attached as Exhibit ___. [4]

The Debtor currently employs approximately 17 employees, comprised of 13 staff members and 4 executives.

As of the Petition Date, the Debtor began operating its business and managing its property as a Debtor-in-Possession pursuant to Sections 1007 and 1008 of the Bankruptcy Code.

[3] Amounts to be inserted upon filing of proofs of claim by creditors.

[4] Amounts to be inserted prior to disclosure statement hearing.

The Bar Date in this case is August 1, 2016, for non-governmental entities, and September 25, 2016, for governmental entities. Although the Debtor does not know yet what claims will be filed and ultimately allowed, the Debtor anticipates that the Creditors listed in its Schedules will file claims in the amounts set forth in those Schedules.

The Debtor's Assets As of the Petition Date

As of the Petition Date, the Debtor's scheduled assets totaled $54,745,498.00 consisting of the following:

- Cash: $60,219.00;
- Deposits and Prepayments: $126,652.00;
- Accounts receivable: $33,683.00;
- Investments: $8,000.00 (book value of NGS);
- Machinery and vehicles: $69,047.00;
- Office equipment, furnishings, and supplies: $85,244.00;
- Inventory: $1,068,854.00;
- Intangibles and Intellectual Property: $33,840,048.00; and
- Other Assets: $19,453,741.00.

Post Petition Events

A. Commencement and Administration of the Case

The Debtor's Chapter 11 bankruptcy was commenced on March 25, 2016. The Debtor's Chapter 11 bankruptcy case is intended to reorganize and restructure Debtor's liabilities in the context of a chapter 11 reorganization. The following is a description of the more significant matters to have come before the Court.

B. DIP Financing Agreement

On March 29, 2016, Debtor filed its Emergency Motion for Interim and Final Orders Authorizing the Debtor to Incur Postpetition Secured, Super-Priority Indebtedness; and Scheduling a Final Hearing Thereon ("DIP Motion"), in which the Debtor requested approval from the Court of a $2,500,000.00 debtor-in-possession financing loan. The DIP Motion called for an interim disbursement of $507,000.00 pending final approval of the DIP Loan. The DIP Motion provided for the following terms between the Debtor and Adams DIP Finance Group, LLC ("DIP Lender"):

DIP Loan: Up to a total amount of $2.5 million;

Intitial Advance:	$507,000.00 to be used during the first 15-day interim period;
Subsequent Advance:	Up to a total amount of $2.5 million of funds raised by DIP Lender conditioned upon investment into DIP Lender by existing Debtor investors and non-Debtor investors;
Conditions to Subsequent Advance:	Agreed budget; satisfactory progress towards Plan of Reorganization accordng to time line set forth in Exhibit A to the DIP Motion, as amended;
Maturity Date:	August 8, 2016, at which time Debtor shall repay any outstanding advances under the DIP Loan or convert such advances into Series D Preferred Stock at the sole discretion of the DIP Lender through a confirmed plan of reorganization, as set forth in Exhibit A to the DIP Motion, as amended;
Interest Rate:	10% per annum; and
DIP Collateral:	DIP Lender will receive a fully perfected first priority security interest in and to all prepetition and postpetition assets and properties of the Debtor and a super-priority administrative expense claim subject to the carve-out provisions in Exhibit A to the DIP Motion, as amended. Debtor stipualates that certain prepetition debts and Collateral are valid and enforceable.

The DIP Loan provided Debtor with sufficient working capital to fund its current operations and administer its Bankruptcy Case. On April 27, 2016, the Court entered its Final Order Authorizing the Debtor to Incur Postpetition Secured, Super-Prioity Indebtedness ("DIP Order").

C. Approval of Husch Blackwell LLP as Debtor's Bankruptcy Counsel

Husch Blackwell LLP serves as the Debtor's bankruptcy counsel. As a professional under § 327 of the Bankruptcy Code, the firm is entitled to seek interim and final compensation from the Debtor's Bankruptcy Estate upon a duly noticed application and after a hearing before the Court.

D. Management of the Reorganized Debtor

Pursuant to Sections 1107(a) and 1108 of the Bankruptcy Code, Debtor is operating its business as a debtor-in-possession.

E. Appointment of Chief Restructuring Officer and Business Development Manager

The Court appointed Terry Chase as the Chief Restructuring Officer of the Debtor in charge of developing the Debtor's intellectual property assets for sale or marketing. The Court appointed Donald Nevins as the Debtor's Business Development Manager in charge of the Debtor's marketing efforts.

F. Accusations of Creditors During Bankruptcy Case

During the Case, several individual creditors have made accusations about the Debtor's prepetition activity. Those accusations (which the Debtor does not agree with or consent to) contained in pleadings filed with the Bankruptcy Court are summarized below:

a. Carol A. Barry, a shareholder in the Debtor, is a resident of the Commonwealth of Virginia, is over the age of 65, retired and single. Beginning in or around 2012 through 2014, Barry purchased certain rights to and interests in the Debtor. At that time, she had a net worth of approximately $1.2 million, of which she invested approximately $40,000.00 to $50,000.00 in the Debtor. As an investor, she received periodic communications from representatives of the Company, including officers, directors and others who represented they possessed significant knowledge of the Debtor's business operations and potential. In or around early to mid-September 2015, various representatives of the Debtor solicited from "Fellow KLD Investors," including Barry, further investment in the Debtor. Among representations made to the KLD Investors were projections regarding the production and demand for the Company's vehicles, assurances of no further delay of funding of a $25 million credit facility that would permit the Debtor to retire all debt by September 30, 2015, and other information about the Debtor, including

- Technology advantages
- Global market opportunities
- Strategic partner and customer relationships
- Financial outlook and capital structure
- Business plan objectives and strategies

In reliance on representations made by and on behalf of the Debtor and assurances that the Debtor intended to "go public" in 2016 or 2017, Barry invested, as of September 30, 2015, an additional $400,000.00, in the Debtor, approximately one third of her net worth. Under cover of a letter dated November 25, 2015, Barry received a certificate for an additional 177,777 shares of Series C Convertible Preferred Stock in the Company.

Beginning in early to mid-January 2016, Barry began to receive increasingly urgent communications from representatives of the Debtor regarding the Company's cash flow shortages. From a presentation made by representatives of the Debtor at a Special Shareholders Meeting held on February 5, 2016, Barry learned that the Debtor had jettisoned the business strategy on which she based her decision in September 2015 to invest one-third of her net worth into the Debtor.

By email dated February 12, 2016, a representative of the Debtor informed Barry—

a. The Company was insolvent and facing the imminent prospect of shutting down and declaring bankruptcy;

b. "GOOD NEWS . . . that one of our Board members, Mark Adams, has formed an investor group to fund KLD $3 million to save us from liquidation . . . [to] benefit all shareholders and debt holders;" and

c. Adams had "set up a special purpose debtor-in-possession ("DIP") funding entity called Adams DIP Group, Inc."

In response to additional solicitations by representatives of the Company, Barry informed the Chief Executive Officer of the Company that she could not afford to invest further in any DIP funding vehicle.

The Debtor has not disclosed the relationship between the Debtor and "individuals and entities possessing significant knowledge of the Debtor's business and potential" who estimate the going concern value of the Debtor is only $12,500,000, while executives, board members and representatives of the Debtor, who had been representing in mid-2015 that the value of the Company was $50,000,000, now believe the value is currently $20,000,000.

b. Dale McPherson is a creditor of NGS, the subsidiary of the Debtor. McPherson is a consumer, scheduled with a $117,500 priority claim for consumer deposit under Section 507(a)(7). McPherson contracted with an affiliate of Debtor for a nano-grid energy system at his residential property for $253,630. He was told to pay $117,500 for the purchase of the materials. He did so. No work or materials were delivered. The money was transferred by the affiliate to the Debtor and then used by insiders to pay themselves salary. The Court should not authorize any further money going to insiders, particularly the CEO Christian Okonsky and CFO Mark Wabschall, that had any part in misuse of trust funds. McPherson owns a residential property at 805 Brooks Hollow Rd, Lakeway, Texas 78734. McPherson previously had installed an energy system at a prior residential property he had. The person that helped him with that was Victor Sauers II. Sauers later went to work for the Debtor, and specifically, for one of its business units operating under the NGS name. Nano-Grid is owned by the Debtor. McPherson and Sauers discussed installing an energy system at the Home. Sauers introduced McPherson to Christian Okonsky. Okonsky was the the Debtor's Chief Executive Officer. Okonsky pitched McPherson to try to have him invest into KLD. McPherson was not interested. Nano-Grid contracted to sell McPherson a state of the art energy system for his Home that the Debtor would then use as a model home to show future prospective customers. A proposal, dated October 30, 2015, was presented and signed by Nano-Grid and McPherson (the "Contract"). Under the Contract, McPherson would pay $253,360.00. McPherson was required to pay $117,500, which was represented him to be used to purchase the materials under the Contract for the Home. McPherson paid the $117,500 on November 30, 2015. Sauer and his entire team at Nano-Grid were abruptly terminated in February of 2016 and the business was shut down. The $117,500 had been deposited into Nano-Grid's account and then transferred to the Debtor's account. The Debtor's Chief Financial Officer Mark Wabschall ("Wabschall") was directly involved in this decision. Notwithstanding Nano-Grid being shut down, it continues to receive money (estimated at over $400,000) from energy contracts, presumably with such money being administered by executives including Okonsky Wabschall. Under information and belief, the executives of KLD were executives of Nano-Grid. They owed fiduciary duties to each. Taking money from Nano-Grid to benefit solely KLD breached those duties.

c. David Parker, ("Parker") a former employee of an affiliate of the Debtor known as KLD Energy Nano-Grid Systems, Inc. and a creditor alleges that he is owed monies comprised of un-paid wages, unpaid sales commissions, and un-used paid time off. He believes that monies from sales were deposited into the Nano-Grid corporate bank account and then was improperly transferred out of the Nano-Grid account and into Debtor's bank account by Christian Okonsky (Company CEO) and Mark Wabschall (Company CFO). Parker was hired by Nano-Grid as the Senior Sales Manager and the only employee in the Nano-Grid company working in sales. Nano-Grid is owned by Debtor. Debtor was essentially in management and financial control of Nano-Grid. The President of Nano-Grid (Victor Sauers) and the CEO of Nano-Grid (Mace Picken) both reported to the Nano-Grid Board of Directors and the Chairman of this board was Christian Okonsky (CEO of Debtor). Pickens resigned as CEO of Nano-Grid and Sauers and his entire team at Nano-Grid were abruptly terminated in February of 2016 and the Nano-Grid business was shut down. Notwithstanding Nano-Grid being shut down, it continues to receive money (estimated at over $400,000 over a 36 month contract which is paid monthly) from energy contracts sold by Parker and the Nano-Grid team, presumably with such money being administered (at their discretion) by former executives including Okonsky and Wabschall. Debtor has specifically not filed chapter 7 or 11 for Nano-Grid with the bankruptcy court due to the on-going receipt of monies as described above and the debt of Nano-Grid to its former employees and many creditors is being ignored in a potentially criminal manner. Under information and belief, the executives of Debtor were executives of Nano-Grid. They owed fiduciary duties to each. Taking money from Nano-Grid to benefit solely Debtor breached those duties. The same people who were responsible for this are now asking this Court for more money, to remain in control and hire more outside professionals. The relief should be denied, or alternatively, abated until such time as Parker is paid in full. Given the circumstances, the appointment of an examiner or chapter 11 trustee to specifically look at the Debtor and Nano-Grid financial co-mingling and breach of fiduciary duties situation is likely warranted. Parker, however, is a single former affiliate employee/creditor with a finite stake in the outcome who was recently and suddenly rendered un-employed, thus the legal expense of trying to provide sunlight onto the Debtor case cannot be solely on his shoulders.

IV. PLAN OF REORGANIZATION

Overview of the Plan

The Plan contemplates reorganizing the Debtor through the conversion of the Debtor-In-Possession lending facility into the equity of the Reorganized Debtor and the below described treatment of specific classes of creditors, as well as a distribution by the Debtor-In-Possession Lender of 80% of the equity in the Reorganized Debtor in consideration for the settlement of all claims against the Debtor-In-Possession Lender by the Debtor, the Debtor's Creditors and the Debtor's Equity holders. All claims and causes of action not specifically resolved by the Plan's provisions, including those claims and causes of action excluded from the Debtor-In-Possession Loan Collateral, will be transferred into the Litigation Trust for administration by a litigation trustee for the benefit of the Debtor's unsecured creditors and shareholders, with a distribution of any proceeds of such litigation upon the full administration of such assets by the Litigation Trust. All cash payments proposed in the Plan assume that only non-avoidable, allowed claims are within each Class to be paid under the Plan terms.

Alternatively, if the above restructuring is not approved by the Bankruptcy Court, the Debtor will sell the company's assets through a structured auction process approved by the Bankruptcy Court. The Debtor believes that the Bankruptcy Court will approve bid and auction procedures substantially similar to those set out in Section VII.B set forth below.

Anticipated Distribution

The Plan provides for the following payments:

- Allowed Administrative Claims: Full payment, in cash, on the Effective Date, or as otherwise agreed.

- Allowed Case Professional Fee Claims: Full payment, in cash, on the entry of orders approving the final fee applications of such Case Professionals

- Allowed Priority Tax Claims: Full payment, through equal monthly payments with repayment not to exceed five years and beginning thirty (30) days after the Effective Date of the Plan, with applicable interest under state law and Bankruptcy Code § 511;

- Allowed Priority Non-Tax Claims: Full payment, in cash, as required by the Bankruptcy Code.

- Debtor-In-Possession Loan Claim: Exchange of liability for equity in Reorganized Debtor subject to the terms and conditions of the Debtor-In-Possession Settlement.

- Secured Ad Valorem Claims: Full payment, through equal monthly payments with repayment not to exceed five years and beginning thirty (30) days after the Effective Date of the Plan, with applicable interest under state law and Bankruptcy Code § 511;

- Prepetition Unsubordinated Secured Debt Claims: Full payment under the terms and conditions set forth in the Court's April 27, 2016 Final Order Authorizing The Debtor To Incur Postpetition Secured, Super-Priority Indebtedness (Docket No. 72).

- Prepetition Subordinated Secured Debt Claims: Full payment of accrued interest quarterly on all obligations at prime plus 3% starting immediately upon plan confirmation, provided, however that the interest payments will be postponed for any quarter in which the Debtor lacks sufficient net cash to meet operating expenses. Payments to this Class may be postponed if payments to the Prepetition Unsubordinated Secured Debt Claims are not timely made as set forth in the Court's April 27, 2016 Final Order Authorizing The Debtor To Incur Postpetition Secured, Super-Priority Indebtedness (Docket No. 72).

- Prepetition 90-Day Secured Debt Claims: Full payment of accrued interest quarterly on all obligations at prime plus 3% starting immediately upon plan confirmation, provided, however that the interest payments will be postponed for any quarter in which the Debtor lacks sufficient net cash to meet operating expenses. Payments to this Class may be postponed if payments to the Prepetition Unsubordinated Secured Debt Claims are not timely made as set forth in the Court's April 27, 2016 Final Order Authorizing The Debtor To Incur

Postpetition Secured, Super-Priority Indebtedness (Docket No. 72). However, to the extent any Claims within this Class are deemed unsecured by avoidance or otherwise, such Claims will be treated as within the Class of Prepetition General Unsecured Debt Creditors.

- Prepetition Unsecured Trade Creditors: Unsecured Trade Creditors will be paid 100% of allowed claim in 60 equal monthly installments beginning at the 1st month anniversary following the emergence of the Debtor out of Chapter 11 bankruptcy. The allowed claim will accrue interest at 5% per annum from the date the Debtor emerges out of bankruptcy and will be paid on the 60th month anniversary.

- Prepetition Unsecured Guaranteed Debt Creditors: Unsecured debt holders that have promissory notes guaranteed by Stone Development or the Cenntro Group, Ltd., and unsecured creditors that have guaranteed a portion of the Debtor's line of credit with Frost Bank and the PeopleFund will be paid 50% of their allowed claim in one installment at the 37th month anniversary following the emergence of the Debtor out of Chapter 11 bankruptcy. The allowed claim will accrue interest at 5% per annum from the date the Debtor emerges out of bankruptcy and accrued interest will be paid on the37th month anniversary.

- Prepetition General Unsecured Debt Creditors: General Unsecured Creditors not within a previously described class will be paid 50% of their allowed claim in one installment at the 49th month anniversary following the emergence of the Debtor out of Chapter 11 bankruptcy. The allowed claim will accrue interest at 5% per annum from the date the Debtor emerges out of bankruptcy and will be paid on the 49th month anniversary. General Unsecured Creditors will also receive the proceeds of any litigation or asset administered by the Litigation Trust until paid in full.

- Prepetition Preferred Stockholders of Debtor: Although the equity interests of the Prepetition Preferred Stockholders of the Debtor will be extinguished on the Effective Date of the Plan, this Class of Interests will participate in the Debtor-In-Possession Settlement and receive 25% of the common stock in the Reorganized Debtor in exchange for a release of liability of the Debtor-In-Possession Lender.

- Prepetition Holders Of Existing Warrants and Options of the Debtor: Although all prepetition warrants and options will be extinguished on the Effective Date of the Plan, this Class of Interests will participate in the Debtor-In-Possession Settlement and receive 10% of the common stock in the Reorganized Debtor in exchange for a release of liability of the Debtor-In-Possession Lender. The warrants received by Anthony M. Masaryk are included within this Class.

- Prepetition Holders of Common Stock of the Debtor: Although all prepetition common stock will be extinguished on the Effective Date of the Plan, this Class of Interests will participate in the Debtor-In-Possession Settlement and receive 5% of the common stock in the Reorganized Debtor in exchange for a release of liability of the Debtor-In-Possession Lender.

Each executory contract and unexpired lease to which the Debtor is a party and that has not been previously assumed or rejected shall be deemed rejected, unless expressly assumed pursuant to the Plan.

All objections to Claims not allowed herein must be filed within ninety (90) days following the Effective Date of the Plan, unless extended by the Bankruptcy Court.

Settlement with the Debtor-In-Possession Lender

The confirmed Plan will effectuate a settlement of all claims and causes of action that may exist, whether known or unknown, against the Debtor-In-Possession Lender and held by, either directly or indirectly, the Debtor, the Debtor's Creditors and the Debtor's Equityholders. In exchange for such release, the Debtor will distribute Eighty Percent (80%) of the equity in the Reorganized Debtor as follows:

a. The Debtor-In-Possession Lender will convert the entirety of its claim against the Debtor into a new Series D stock under a restructured capitalization of the Reorganized Debtor that reflects the following equity ownership percentages:

DESCRIPTION	POST-RESTRUCTURING EQUITY OWNERSHIP %
Conversion of DIP Facility into Preferred Stock	20%
Conversion of Debt into Preferred Stock	40%
Total Preferred Stock	60%
Exchange of Existing Preferred Stock into Common Stock	25%
Exchange of Existing Warrants and Options into Common Stock	10%
Exchange of Existing Common Stock into Common Stock	5%
Total Common Stock	40%
Total Post-restructuring Equity Ownership	100%

b. The Holder of Class 3 Debtor-In-Possession Loan Claim will receive a new Series D preferred stock with a 1x liquidation preference and right of participation up to 1x the original investment.

c. Holders of Class 5, Class 6 and Class 7 Secured Debt Claims will have the option to convert up to 50% of their Allowed Claim into Series D Preferred Stock. This conversion must be done within sixty (60) days of the Effective Date of the Plan and at the same conversion rate of other classes of debt holders converting their indebtedness into Series D Preferred Stock.

d. Holders of Class 9 Prepetition Unsecured Guaranteed Claims and Class 10 Prepetition General Unsecured Debt Claims will have the option to convert 50% of their Allowed Claim into a new Series of Preferred Stock which has 1x liquidation preference but no

participation rights ("Series D-1 Preferred Stock"), in addition to payment provided in Class 9 below.

e. Holders of Class 11 Prepetition Preferred Stockholders of the Debtor will receive Twenty-Five Percent (25%) equity ownership in Reorganized Debtor Common Stock. The number of shares of Preferred Stock being converted will be adjusted for the anti-dilution protection provided in the Conversion Price Adjustments in the Article IV of the Certificate of Formation. The number of shares of Preferred Stock will also reflect the issuance of the shares of Junior Preferred Stock that were held in reserve in connection with the acquisition of Kenguru, Inc. in 2015.

f. Holders of Class 12 Prepetition Holders Of Existing Warrants and Options of the Debtor will receive 10% ownership in Reorganized Debtor Common Stock. The allocation of Warrants will be calculated based on the relative exercise prices of each warrant. The allocation of Options will be calculated based on the average exchange rate of the Warrants.

g. Holders of Class 13 Prepetition Holders of Common Stock of the Debtor will receive Five Percent (5%) ownership in Reorganized Debtor Common Stock.

h. The Debtor-In-Possession Lender will release the indemnity provisions (including those in paragraphs 2.8 and 9.3) contained within the Post-Petition Senior Secured Super-Priority Credit Agreement attached as Exhibit C to the Court's April 27, 2016 Final Order Authorizing The Debtor To Incur Postpetition Secured, Super-Priority Indebtedness (Docket No. 72).

i. The equity interests in the Reorganized Debtor are expressly given as consideration for the release of liability set forth herein and are not given on account of the releasing parties' claims and/or interests against or in the Prepetition Debtor.

Summary of the Plan

As provided in Section 1123(a) of the Bankruptcy Code, Administrative Claims shall not be classified for purposes of voting under the Plan. The Allowed Claims against the Debtor are classified as set forth in this Article. A Claim is in a particular Class only to the extent that such Claim fits within the description of such Class, and is in such other and different Class or Classes to the extent that the remainder of such Claim fits within the description of such other Class or Classes. Any dispute with respect to classification of Claims or impairment shall be resolved by the Court upon motion of the holder of such Claim affected thereby, with notice to the Debtor. The Plan shall only provide Distributions to Allowed Claims; except as expressly provided herein nothing within the Plan shall allow any Claim. The Allowed Claims are classified as follows:

Class 1 - Allowed Priority Tax Claims
Class 2 - Allowed Priority Non-Tax Claims
Class 3 - Debtor-In-Possession Loan Claim
Class 4 - Secured Ad Valorem Claims
Class 5 - Prepetition Unsubordinated Secured Debt Claims
Class 6 – Prepetition Subordinated Secured Debt Claims
Class 7 – Prepetition 90-Day Secured Debt Claims
Class 8 - Prepetition Unsecured Trade Creditors
Class 9 - Prepetition Unsecured Guaranteed Debt Creditors
Class 10 - Prepetition General Unsecured Debt Creditors
Class 11 - Prepetition Preferred Stockholders of Debtor
Class 12 - Prepetition Holders Of Existing Warrants and Options of the Debtor
Class 13 - Prepetition Holders of Common Stock of the Debtor

Additionally:

- Upon Confirmation, the Reorganized Debtor's Causes of Action shall vest in the Litigation Trust. The Litigation Trust shall litigate (and continue any litigation commenced by the Debtor) of all Causes of Action, including Avoidance Actions, for the benefit of holders of Allowed Unsecured Claims. The Litigation Trust shall make distributions to holders of Allowed Unsecured Claims based upon the settlement or final judgment of any Causes of Action, including Avoidance Actions. The Reorganized Debtor will temporarily forego prosecution of Avoidance Actions to the extent that any recipient of a possible Avoidance Action signs an agreement that tolls the applicable statute of limitations pending the Reorganized Debtor's full performance under the Plan.

- Each executory contract and unexpired lease to which the Debtor is a party and that has not been previously assumed or rejected shall be deemed rejected, unless expressly assumed pursuant to the Plan. The Debtor reserves the right to add executory contracts and unexpired leases until thirty (30) days prior to the Confirmation Hearing. The final list of Assumed Agreements will be included with the Plan Supplement that will be filed on or before ten (10) days prior to the Confirmation Hearing.

- All objections to Claims not allowed herein must be filed within ninety (90) days following the Effective Date of the Plan, unless extended by the Bankruptcy Court.

- Claims in Classes 3 through 13 are impaired under the Plan, and therefore shall be entitled to vote to accept or reject this Plan. If a controversy arises as to whether any Claim or any Class of Claims is impaired under the Plan, the Court shall, upon notice and a hearing, determine such controversy. Any impaired Class that is not occupied by an Allowed Claim or a Claim temporarily allowed pursuant to Bankruptcy Rule 3018 as of the date of the Confirmation Hearing shall be deemed deleted from the Plan for purposes of voting on acceptance or rejection of the Plan and determining whether the Plan has been accepted by such class under Section 1129 of the Bankruptcy Code.

- The Effective Date of the Plan will be the first business day after expiration of thirty (30) days from the entry of an order confirming the Plan.

- Alternatively, if the above restructuring is not approved by the Bankruptcy Court, the Debtor will sell the company's assets through a structured auction process approved by the Bankruptcy Court. Distribution of the sale proceeds is anticipated to be governed by Bankruptcy Code § 726.

A. Administrative Claims

Administrative Claims: Except to the extent that any entity entitled to payment of any Allowed Administrative Claim agrees to different treatment, each holder of an Allowed Administrative Claim shall receive Cash from funds available from the operations of the Debtor in an amount equal to such Allowed Administrative Claim on the later of the Effective Date or the date such Administrative Claim becomes an Allowed Administrative Claim, or as soon thereafter as practicable, but not to exceed the later of (i) five (5) business days from the date such Administrative Claim becomes an Allowed Administrative Claim; or (ii) five (5) business days from the date of the Effective Date; provided, however, those Administrative Claims representing liabilities incurred in the ordinary course of business by the Debtor on or after the Petition Date, or assumed by the Debtor pursuant to the Plan or an order of the Court shall be paid by the Reorganized Debtor in accordance with the terms and conditions of the particular transactions and any agreements relating thereto or any order of the Court.

Administrative Claim Bar Date: The Plan constitutes a motion to fix and establish an administrative bar date of sixty (60) days following the Effective Date. Upon entry of the Confirmation Order, the Debtor shall provide notice of such Administrative Claim Bar Date to all entities on the Debtor's creditor matrix and every Person that may assert an Administrative Claim against the Debtor, according to the Debtor's books and records.

Administrative Claim Objection Deadline: The Plan constitutes a motion to fix and establish a deadline to object to timely filed Administrative Claims, such deadline being sixty (60) days following entry of the Confirmation Order.

Administrative Claim Reserve: On the Effective Date, the Reorganized Debtor will fund the Administrative Claim Reserve in an amount sufficient to pay all Allowed Administrative Claims in full (other than those Administrative Claims to be paid in the ordinary course of business of the Reorganized Debtor). The funds in the Administrative Claim Reserve shall be released and paid over to those holders of Allowed Administrative Claims. Any funds remaining in the Administrative Claim Reserve following payment of All Allowed Administrative Claims shall be released to the Reorganized Debtor.

B. Professionals Claims

Claims of Case Professionals: Any Claims of Case Professionals approved by the Court, and not previously paid pursuant to any orders approving such payments, shall be paid in Cash in such amounts as are Allowed by Final Order of the Court (i) within five (5) days following the date such Claim of a Case Professional becomes an Allowed Administrative Claim; or (ii) upon such

other terms as may be mutually agreed upon between such holder of a Claim and the Reorganized Debtor.

Claims of Case Professionals Bar Date: The Plan constitutes a motion to fix and establish a bar date of thirty (30) days following the Effective Date for the filing of final applications for allowances of compensation for services rendered and reimbursement of expenses incurred through the Effective Date. All Case Professionals seeking compensation for unpaid services rendered or reimbursement of expenses incurred through and including the Effective Date shall file their respective applications no later than such date as set forth in this Section. Upon entry of the Confirmation Order, the Debtor shall provide notice of such Claims of Case Professionals Bar Date to every Person that may assert a Claim for Case Professional fees against the Debtor.

Claims of Case Professionals Objection Deadline: The Plan constitutes a motion to fix and establish a deadline to object to timely filed Claims of Case Professionals, such deadline being sixty (60) days following the Effective Date.

Professionals Account: On the Effective Date, the Reorganized Debtor will fund the Case Professionals Account in an amount sufficient to pay all Allowed Claims of Case Professionals in full, except to the extent that any Case Professional agrees otherwise.

United States Trustee Fees: All fees owing to the United States Trustee under 28 U.S.C. § 1930 shall be paid by the Reorganized Debtor in Cash as such fees become due.

C. Classified Claims

Class 1: Allowed Priority Tax Claims. This Class shall consist of the Claims of the Allowed Priority Tax Claims, and the provisions of this section government the repayment of the indebtedness owing to the Allowed Priority Tax Claims, notwithstanding anything else in this Plan to the contrary. The Debtor shall priority principal and interest of all Allowed Priority Tax Claims in equal monthly installments beginning thirty (30) days after the Effective Date of the Plan, with interest accruing on such amounts as of the Effective Date of the Plan as required by 11 U.S.C. §§ 511 and 1129(a)(9)(C).

Funding: The Reorganized Debtor shall pay the Allowed Class 1 Claims with Cash, from funds available from operations of the Reorganized Debtor.

Impairment and Voting: Class 1 is impaired. Acceptance of the Plan from holders of Class 1 Claims will be solicited.

Class 2: Allowed Priority Non-Tax Claims. This Class shall consist of the Allowed Priority Non-Tax Claims allowable under 11 U.S.C. § 507 not already within a designated Class. Such claims will be paid on the Effective Date of the Plan as required by 11 U.S.C. § 1129 or under terms and conditions otherwise agreed to by the Holder of such Claim.

Funding: The Reorganized Debtor shall pay the Allowed Class 2 Claims with Cash, from funds available from operations of the Reorganized Debtor.

Impairment and Voting: Class 2 is impaired. Acceptance of the Plan from holders of Class 2 Claims will be solicited.

Class 3: Debtor-In-Possession Loan Claim. This Class shall consist of the Debtor-In-Possession Loan Claim arising from the Court's April 27, 2016 Final Order Authorizing The Debtor To Incur Postpetition Secured, Super-Priority Indebtedness (Docket No. 72). Such Claim, including any prepetition amounts permitted to be included within Class 3 by the Bankruptcy Court, will be exchanged for the equity in the Reorganized Debtor on the Effective Date of the Plan, subject to the terms and conditions of the Debtor-In-Possession Settlement. As described herein, the Debtor-In-Possession Settlement will result in the Debtor-In-Possession Lender distributing the equity in the Reorganized Debtor as follows as a restructured capitalization of the Reorganized Debtor in exchange for a full release of all claims and liability by the Debtor, the Debtor's Creditors and the Debtor's Equity Holders:

DESCRIPTION	POST-RESTRUCTURING EQUITY OWNERSHIP %
Conversion of DIP Loan into Preferred Stock	20%
Conversion of Debt into Preferred Stock	40%
Total Preferred Stock	60%
Exchange of Existing Preferred Stock into Common Stock	25%
Exchange of Existing Warrants and Options into Common Stock	10%
Exchange of Existing Common Stock into Common Stock	5%
Total Common Stock	40%
Total Post-restructuring Equity Ownership	100%

Class 4: Secured Ad Valorem Tax Claims. Treatment: The Secured Ad Valorem Tax Claims shall be paid by the Debtor, pursuant to the provisions of 11 USC §1129(a)(9)(C), in equal monthly installments, commencing thirty days from the Plan's Effective Date and ending sixty months from the petition date. The Claims shall bear interest at the statutory rate of 12% per annum from the date of filing of this case until said taxes are paid in full. Holders of Class 4 Claims shall retain all liens until such taxes are paid in full.

Default shall occur if one monthly installment due to Holders of this Class under the confirmed Plan is not paid by Debtor or if post-confirmation taxes (including 2017 taxes) are not paid timely pursuant to state law. In the event of default the Holders of this Class shall send written notice of default to Debtor's attorney and Debtor. If the default is not cured within twenty (20) days after notice of the default is mailed, the Holders of this Class may proceed with state law

remedies for collection of all amounts due under state law pursuant to the Texas Property Tax Code. The Debtor has the opportunity to cure two (2) times over the life of the Plan. In the event of a third default, the Holders of this Class may proceed with the state law remedies for collection of all amounts due under state law pursuant to the Texas Property Tax Code.

Funding: The Reorganized Debtor shall pay the Allowed Class 4 Claims with Cash, from funds available from operations of the Reorganized Debtor.

Impairment and Voting: Class 4 is impaired. Acceptance of the Plan from holders of Class 4 Claims will be solicited.

Class 5: Prepetition Unsubordinated Secured Debt Claims. This Class shall consist of the Secured Claims of Slosberg, the Nader Group and Masaryk. The Class will receive full payment under the terms and conditions set forth in the Court's April 27, 2016 Final Order Authorizing The Debtor To Incur Postpetition Secured, Super-Priority Indebtedness (Docket No. 72).

Claims in Class 5 will be paid accrued interest quarterly on all obligations at prime plus 3% starting immediately upon plan confirmation, provided, however that the interest payments will be postponed for any quarter in which the Debtor lacks sufficient net cash to meet operating expenses. After the 1st anniversary of Plan Confirmation, a failure to make interest payments for two consecutive quarters shall be an event of default if not cured within 45 days. If interest payments are postponed or in default, no payments shall be made to any creditor junior to the Claims of Class 5. The following annual payments of principal commence on 1st anniversary of Plan Confirmation: $1MM to Slosberg, $1MM to the Nader Group and $125,000 to Masaryk; balance to be paid in month 25. Proportional payments will be made to any other Holders of Allowed Class 5 Claims. Provided however that the annual payment of principal will be postponed for a period not to exceed 90 days if, upon the anniversary date, the Debtor does not have sufficient net cash to meet operating expenses after making the annual payments, with "sufficient net cash" to be based upon the financial forecast budgets attached to the Disclosure Statement. If sufficient net cash is not available, the Debtor is required to use its best efforts to either obtain financing or raise additional capital to make such payments.

If the Debtor is only able to make a partial payment to Holders of Class 5 Claims, the Debtor shall first pay Slosberg and the Nader Group, in an amount prorated to the principal amount of their claims, until the installment are paid in full, prior to making a payment to Masaryk; provided, however, in such event Masaryk may, in his sole discretion: (i) declare a default under the Plan and enforce any remedies under applicable law and (ii) terminate its stand-down agreement herein as against the Nader Group and any other UCC financing statement filers and bring any action to avoid liens and/or determine lien priority. To the extent that any Holder of a Class 5 Claim has its Secured position avoided by either the Debtor or the Litigation Trust, the Holder of such Claim will be treated under Class 8.

If the annual payment to the Holders Of Class 5 Claims is postponed, no payments shall be made to junior creditors in Classes 6 through 13.

If plan payments to Holders to Class 5 Claims are in default or postponed, no payments to any other Classes will be made until such time as sufficient net cash exists to make such payments.

Until such time as all plan payments are completed, confirmation of the Plan does not discharge the debts of Slosberg, the Nader Group and Masaryk. Such discharge will occur only upon payment in full under the Plan.

Post-confirmation, the Holders in Class 5 will forbear from exercising their rights to enforce the terms of their indebtedness, so long as the treatment of Class 5 under the confirmed Plan is not in default.

Funding: The Reorganized Debtor shall pay the Allowed Class 5 Claims with Cash, from funds available from operations of the Reorganized Debtor.

Impairment and Voting: Class 5 is impaired. Acceptance of the Plan from holders of Class 5 Claims will be solicited.

Settlement Participation: Class 5 will participate in the Debtor-In-Possession Settlement under the terms and conditions set forth below in Article 5 of the Plan.

Class 6: Prepetition Subordinated Secured Debt Claims. This Class shall consist of the Holders of Prepetition Secured Debt that have liens on the Debtor's assets that were perfected prior to December 25, 2015 and are subordinated to the Claims of Slosberg, the Nader Group and Masaryk pursuant to the Court's April 27, 2016 Final Order Authorizing The Debtor To Incur Postpetition Secured, Super-Priority Indebtedness (Docket No. 72).

Claims in Class 6 will be paid accrued interest quarterly on all obligations at prime plus 3% starting immediately upon plan confirmation, provided, however that the interest payments will be postponed for any quarter in which the Debtor lacks sufficient net cash to meet operating expenses. After the 1st anniversary of Plan Confirmation, a failure to make interest payments for two consecutive quarters shall be an event of default if not cured within 45 days. If interest payments are postponed or in default, no payments shall be made to any creditor junior to the Claims of Class 5. Annual payment of 50% of the principal owed to Holders of Class 6 Claims will occur on the first anniversary of Plan Confirmation. The balance of the principal will be paid in on the second anniversary of Plan Confirmation. Provided however that the annual

payment of principal will be postponed for a period not to exceed 90 days if, upon the anniversary date, the Debtor does not have sufficient net cash to meet operating expenses after making the annual payments, with "sufficient net cash" to be based upon the financial forecast budgets attached to the Disclosure Statement. If sufficient net cash is not available, the Debtor is required to use its best efforts to either obtain financing or raise additional capital to make such payments.

If the Debtor is only able to make a partial payment to Holders of Class 6 Claims, the Debtor shall in an amount prorated to the principal amount of their claims, until the installment are paid in full. To the extent that any Holder of a Class 6 Claim has its Secured position avoided by either the Debtor or the Litigation Trust, the Holder of such Claim will be treated under Class 10.

If the annual payment to the Holders Of Class 5 Claims is postponed, no payments shall be made to junior creditors in Classes 6 through 13.

If plan payments to Holders to Class 5 Claims are in default or postponed, no payments to any other Classes will be made until such time as sufficient net cash exists to make such payments.

Post-confirmation, the Holders in Class 6 will forbear from exercising their rights to enforce the terms of their indebtedness, so long as the treatment of Class 6 under the confirmed Plan is not in default.

Funding: The Reorganized Debtor shall pay the Allowed Class 6 Claims with Cash, from funds available from operations of the Reorganized Debtor.

Impairment and Voting: Class 6 is impaired. Acceptance of the Plan from holders of Class 6 Claims will be solicited.

Settlement Participation: Class 6 will participate in the Debtor-In-Possession Settlement under the terms and conditions set forth below in Article 5 of the Plan.

Class 7: Prepetition 90-Day Secured Debt Claims. This Class shall consist of the Holders of Prepetition Secured Debt that have liens on the Debtor's assets that were perfected on or after December 25, 2015 and are subordinated to the Claims of Slosberg, the Nader Group and Masaryk pursuant to the Court's April 27, 2016 Final Order Authorizing The Debtor To Incur Postpetition Secured, Super-Priority Indebtedness (Docket No. 72).

Claims in Class 7 will be paid accrued interest quarterly on all obligations at prime plus 3% starting immediately upon plan confirmation, provided, however that the interest payments will be postponed for any quarter in which the Debtor lacks sufficient net cash to meet operating expenses. After the 1st anniversary of Plan Confirmation, a failure to make interest payments for two consecutive quarters shall be an event of default if not cured within 45 days. If interest payments to Class 5 are postponed or in default, no payments shall be made to any creditor in junior to the Claims of Class 5. Annual payment of 50% of the principal owed to Holders of Class 7 Claims will occur on the first anniversary of Plan Confirmation. The balance of the principal will be paid in on the second anniversary of Plan Confirmation. Provided however that the annual payment of principal will be postponed for a period not to exceed 90 days if, upon the

anniversary date, the Debtor does not have sufficient net cash to meet operating expenses after making the annual payments, with "sufficient net cash" to be based upon the financial forecast budgets attached to the Disclosure Statement. If sufficient net cash is not available, the Debtor is required to use its best efforts to either obtain financing or raise additional capital to make such payments.

If the Debtor is only able to make a partial payment to Holders of Class 7 Claims, the Debtor shall pay in an amount prorated to the principal amount of the Holders' claims, until the installment are paid in full. To the extent that any Holder of a Class 7 Claim has its Secured position avoided by either the Debtor or the Litigation Trust, the Holder of such Claim will be treated under Class 10. The Plan specifically reserves the right to seek avoidance of Claims within this Class under Chapter 5 of the Bankruptcy Code post-confirmation.

If the annual payment to the Holders of Class 5 Claims is postponed, no payments shall be made to junior creditors in Classes 6 through 13.

If plan payments to Holders to Class 5 Claims are in default or postponed, no payments to any other Classes will be made until such time as sufficient net cash exists to make such payments.

Post-confirmation, the Holders in Class 7 will forbear from exercising their rights to enforce the terms of their indebtedness, so long as the treatment of Class 7 under the confirmed Plan is not in default.

Funding: The Reorganized Debtor shall pay the Allowed Class 7 Claims with Cash, from funds available from operations of the Reorganized Debtor.

Impairment and Voting: Class 7 is impaired. Acceptance of the Plan from holders of Class 7 Claims will be solicited.

Settlement Participation: Class 7 will participate in the Debtor-In-Possession Settlement under the terms and conditions set forth in Article 5 of the Plan.

Class 8: Allowed Prepetition Unsecured Trade Creditors. This Class shall consist of the Allowed Prepetition Unsecured Trade Creditors of the Debtor. Based upon the Debtor's Schedules and the filed proofs of claims, the Debtor believes the following creditors are members of this Class:

XXXX
XXXX[5]

Allowed Prepetition Unsecured Trade Creditors will be paid 100% of their Allowed Claim in sixty (60) equal monthly installments beginning at the 1st month anniversary of the Effective Date of the Plan. The allowed claim will accrue interest at 5% per annum from the Effective Date and such interest will be paid on the 60th month after the Effective Date. Holders of Allowed Prepetition Unsecured Trade Creditors will also receive the proceeds of any litigation or

[5] List to be inserted prior to disclosure statement hearing.

asset administered by the Litigation Trust until paid in full.

Settlement Participation: Class 8 will participate in the Litigation Trust and the Debtor-In-Possession Settlement under the terms and conditions set forth in Article 5 of the Plan. However, Holders of Class 8 Claims will no longer participate in Trust or Settlement once full payment of such Claims has been made.

Class 9: Prepetition Unsecured Guaranteed Debt Creditors. This Class shall consist of the Prepetition Unsecured Guaranteed Debt Creditors. Unsecured debt holders that have promissory notes guaranteed by Stone Development or the Cenntro Group, Ltd., and unsecured creditors that have guaranteed a portion of the Debtor's line of credit with the Frost Bank and the PeopleFund will be paid 50% of their allowed claim in one installment at the 37th month anniversary following the emergence of the Debtor out of Chapter 11 bankruptcy. The allowed claim will accrue interest at 5% per annum from the date the Debtor emerges out of bankruptcy and accrued interest will be paid on the 37th month anniversary.

Based upon the Debtor's Schedules and the filed proofs of claims, the Debtor believes the following creditors are members of this Class:

XXXX
XXXX[6]

Settlement Participation: Class 9 will participate in the Litigation Trust and the Debtor-In-Possession Settlement under the terms and conditions set forth in Article 5 of the Plan. However, Holders of Class 9 Claims will no longer participate in Trust or Settlement once full payment of such Claims has been made.

Class 10: Prepetition General Unsecured Debt Creditors. This Class shall consist of the Prepetition General Unsecured Debt Creditors. General Unsecured Creditors not within a previously described class will be paid 50% of their allowed claim in one installment at the 49th month anniversary following the emergence of the Debtor out of Chapter 11 bankruptcy. The allowed claim will accrue interest at 5% per annum from the date the Debtor emerges out of bankruptcy and will be paid on the 49th month anniversary. General Unsecured Creditors will also receive the proceeds of any litigation or asset administered by the Litigation Trust until paid in full.

Based upon the Debtor's Schedules and the filed proofs of claims, the Debtor believes the following creditors are members of this Class:

XXXX
XXXX[7]

Settlement Participation: Class 10 will participate in the Litigation Trust and the Debtor-In-Possession Settlement under the terms and conditions set forth in Article 5 of the Plan.

[6] List to be inserted prior to disclosure statement hearing.
[7] List to be inserted prior to disclosure statement hearing.

However, Holders of Class 8 Claims will no longer participate in Trust or Settlement once full payment of such Claims has been made.

Class 11: Prepetition Preferred Stockholders of Debtor. This Class shall consist of the Prepetition Preferred Stockholders of the Debtor. The prepetition equity interests of members of this Class will be extinguished on the Effective Date of the Plan. To the extent that proceeds of litigation received by the Litigation Trust are attributable to claims or causes of actions involving the prepetition equity holders, this Class will receive such proceeds to the extent determined by the Bankruptcy Court.

Settlement Participation: Class 11 will participate in the Debtor-In-Possession Settlement under the terms and conditions set forth in Article 5 of the Plan.

Class 12: Prepetition Holders of Existing Warrants and Options of Debtor. This Class shall consist of the Prepetition Holders of Existing Warrants and Options of the Debtor. The prepetition rights and equity interests of members of this Class will be extinguished on the Effective Date of the Plan. To the extent that proceeds of litigation received by the Litigation Trust are attributable to claims or causes of actions involving the prepetition Equity holders, this Class will receive such proceeds to the extent determined by the Bankruptcy Court.

Settlement Participation: Class 12 will participate in the Debtor-In-Possession Settlement under the terms and conditions set forth in Article 5 of the Plan.

Class 13: Prepetition Holders of Common Stock of the Debtor. This Class shall consist of the Prepetition Holders of Common Stock of the Debtor. The prepetition equity interests of members of this Class will be extinguished on the Effective Date of the Plan. To the extent that proceeds of litigation received by the Litigation Trust are attributable to claims or causes of actions involving the prepetition equity holders, this Class will receive such proceeds to the extent determined by the Bankruptcy Court.

Settlement Participation: Class 13 will participate in the Debtor-In-Possession Settlement under the terms and conditions set forth below in Article 5.

Provisions Relating to Payments

Distributions to holders of Allowed Claims shall be made at the address of each such holder as set forth on the schedules filed by the Debtor with the Court unless superseded by the address as set forth on the proofs of Claim filed by such holders or other writing notifying the Debtor of a change of address. If any holder's Distribution is returned as undeliverable, unless otherwise provided by applicable law or local rule, no further Distributions to such holder shall be made unless and until the Reorganized Debtor are notified of such holder's then current address, at which time all missed Distributions shall be made to such holder, without interest. Unless otherwise provided by applicable law or the Bankruptcy Rules, all claims for undeliverable Distributions shall be made within sixty (60) days after the date such undeliverable Distribution was initially made. After such date (as applicable), all unclaimed property shall be remitted to the Reorganized Debtor; the holder of any such Claim shall not be entitled to any

other or further Distribution under the Plan on account of such Claim and such Claim shall be deemed disallowed for purposes of any such Distribution.

All uncashed Distributions shall be handled in accordance with this Article, unless provided otherwise by applicable law. Checks issued by the Debtor with respect to any Allowed Claim shall be null and void if not negotiated within ninety (90) days after the date of issuance thereof. The holder of the Allowed Claim to whom such check originally was issued shall make a request for re-issuance of any check to the Reorganized Debtor. Any claim with respect to such a voided check shall be made on or before thirty (30) days after the expiration of the ninety (90) day period following the date of issuance of such check; provided however checks issued for the final Distribution that become null and void in accordance with the provisions contained herein shall not be re-issued and the holders of such Claims shall waive any right to the re-issuance of such checks. After such date, all funds held on account of such voided check shall be remitted to the Reorganized Debtor; the holder of any such Claim shall not be entitled to any other or further Distribution under the Plan on account of such Claim and such Claim shall be deemed disallowed for purposes of any such Distribution.

So long as the Reorganized Debtor remains current on all other Plan payments, the Reorganized Debtor reserves the right to prepay or settle Allowed Claims except as otherwise provided in the Plan.

If the Effective Date or any other date on which a transaction may occur under the Plan shall occur on a day that is not a Business Day, the transactions contemplated by the Plan to occur on such day shall instead occur on the next succeeding Business Day.

I. Objections to Proofs of Claim, Prosecution of Causes of Action, including Avoidance Actions

Objections to Claims: Except as otherwise provided in the Plan in connection with Administrative Claims and Claims of Case Professionals, objections to Claims must be filed with the Court and served in accordance with the Bankruptcy Rules by the later of (i) ninety (90) days following the Effective Date or (ii) thirty (30) days following the date such proof of Claim was timely filed; otherwise, such Claims shall be deemed Allowed in accordance with Section 502 of the Bankruptcy Code, unless an extension of such time period is sought by the Reorganized Debtor. Any Claims that are objected to are Disputed Claims until a final order on the objection is entered by the Court. Otherwise, such Claims shall be deemed Allowed in accordance with Section 502 of the Bankruptcy Code, unless an extension of such time period is sought by the Reorganized Debtor. Notwithstanding the foregoing, the provisions set forth in the Court's April 27, 2016 Final Order Authorizing The Debtor To Incur Postpetition Secured, Super-Priority Indebtedness (Docket No. 72), including the exhibits thereto, will be applicable to any objections to claims.

Responses to Objections: Prior to the expiration of twenty-one (21) days from receipt of an objection, the claimant whose Claim has been objected to must file with the Court and serve upon the objecting party a response to such Claim objection. Failure to file such a response

within the twenty-one (21) day time period shall cause the Court to enter a default judgment against the non-responding claimant and thereby grant the relief requested in the claim objection.

Litigation Trust and Causes of Action, including Avoidance Actions: Prior to the Confirmation Date, Debtor shall appoint and identify in the Plan Supplement the Litigation Trustee responsible for litigating the Causes of Action transferred to the Litigation Trust. After the Effective Date, the Litigation Trust, in its sole discretion, shall evaluate the potential Causes of Action, including Avoidance Actions, and determine whether to pursue any such Causes of Action for the benefit of the holders of Allowed Unsecured Claims. The Causes of Action have not been determined at this time but include Avoidance Actions and possible objections to claims filed by any of the Creditors. Notwithstanding the foregoing, the provisions set forth in the Court's April 27, 2016 Final Order Authorizing The Debtor To Incur Postpetition Secured, Super-Priority Indebtedness (Docket No. 72), including the exhibits thereto, will be applicable to any causes of action, including Avoidance Actions.

In accordance with Section 1123(b)(3) of the Bankruptcy Code and under the Plan, the Reorganized Debtor shall be vested with the right to prosecute, compromise, or otherwise resolve any and all Causes of Action. Except as released, settled, or compromised herein, the Reorganized Debtor will be vested with the right to prosecute, compromise, or otherwise resolve Avoidance Actions. All such Actions will be transferred into the Litigation Trust for administration by the Litigation Trustee for the benefit of Classes 6 through 11. The retained Causes of Action include any and all claims arising from facts and time periods potentially covered by any insurance policies held by the Debtor. The Debtor specifically retains the right to seek avoidance of any avoidable Secured Claim held against the Debtor under 11 U.S.C. § 547.

J. Provisions for Treatment of Disputed Claims/Executory Contracts and Leases

Distributions on Allowed Claims Only: Distributions under the Plan shall be made only to the holders of Allowed Claims. Until a Disputed Claim becomes an Allowed Claim, the holder of that Disputed Claim shall not receive the consideration otherwise provided to holders of Claims in the same Class as such Claim under the Plan. The Claim of any holder of an Allowed Claim that has received notice that the Reorganized Debtor may seek to bring an Avoidance Action against such holder under Section 547 of the Bankruptcy Code shall be deemed disallowed pursuant to Section 502(d) of the Bankruptcy Code until such time as the avoidable transfers are returned to the Debtor's estate or the Avoidance Action is otherwise resolved. Disallowance shall include any Assumed Agreement that has any outstanding balance owed to the Debtor. No Distribution shall be made to any holder of an Assumed Agreement unless and until such holder pays any outstanding amount due to the Debtor.

Establishment of Disputed Claims Reserve: On the occasion of each payment required under the Plan, the Reorganized Debtor, shall deposit Cash in a segregated, interest bearing account in such amount necessary to pay all Disputed Claims in accordance with the terms of the Plan if such Claims were to become Allowed Claims. This account shall be called the Disputed Claim Reserve. The Reorganized Debtor shall hold the Disputed Claim Reserve in trust for the benefit of the holders of Allowed Claims whose Distributions are unclaimed and the holders of Disputed Claims pending determination of their entitlement thereto under the terms of the Plan.

When a Disputed Claim becomes an Allowed Claim, the Reorganized Debtor shall release and deliver the Distributions reserved for such Allowed Claims (net of distribution costs) from the Disputed Claim Reserve. To the extent that any funds exist in the Disputed Claim Reserve after resolution of all Disputed Claims and distribution to all Allowed Claims, such funds shall be released to the Reorganized Debtor.

Assumption of Executory Contracts and Leases: The contracts and leases listed in the Plan (the "Assumed Agreements") shall be assumed on the Effective Date and shall vest in the Reorganized Debtor. The Debtor reserves the right to *add* contracts and leases until the filing of its Plan Supplement. The final list of Assumed Agreements will be included with the Plan Supplement that will be filed on or before tenth (10^{th}) day prior to the Confirmation Hearing. Additionally, the Debtor reserves the right to *remove* contracts until entry of the Confirmation Order. Notice of any additions or deletions shall be sent immediately to all non-debtors affected by the additions or deletions. Entry of the Confirmation Order shall constitute approval of such assumptions pursuant to Section 365(a) of the Bankruptcy Code and a finding by the Court that each such assumption is in the best interests of the Debtor, its Estate, and all parties in interest in this Case. In addition, the Confirmation Order shall constitute a finding of fact and conclusion of law that (i) each Assumed Agreement is an executory contract or lease which may be assumed by the Debtor, (ii) there are no defaults of the Debtor, no cure payments owing, no compensation due for any actual pecuniary loss and there is adequate assurance of future performance with respect to of each Assumed Agreement, (iii) upon the Effective Date, each Assumed Agreement constitutes legal, valid, binding and enforceable contracts in accordance with the terms thereof, and (iv) the counter party to each Assumed Agreement is required to and ordered to perform under and honor the terms of such Assumed Agreement.

The Debtor will assume the contracts listed on Exhibit E.

Contested Assumption: With respect to an Assumed Agreement to which a timely objection to assumption on the terms and with the findings and conclusions of law specified above has been filed (each a "Contested Assumed Agreement"), the Debtor shall have five (5) business days after the date of entry of an order by the Court with respect to any such timely objection regarding (i) the nature, extent and amount of any default, if any, by the Debtor, (ii) the method of cure thereof, (iii) the method of providing compensation for any actual pecuniary damage as a result of any default, if any, and the method of providing adequate assurance of future performance, and (iv) all other matters pertaining to assumption of such Assumed Agreement, to assume any such Contested Assumed Agreement on the terms and conditions so specified in the order of the Court (or on such other terms and conditions as may be agreed to by the counter party to the Contested Assumed Agreement and the Debtor) by filing a written notice of assumption of such Contested Assumed Agreement (the "Notice of Assumption") in the record of this Case. Any Contested Assumed Agreement which the Debtor elect to assume on the conditions agreed upon by the parties or specified in the order of the Court shall be assumed by filing a Notice of Assumption by the Debtor as of the Effective Date, and the Reorganized Debtor shall satisfy the conditions specified in the order of the Court (or such other terms and conditions as may be agreed to by the counter party to the Contested Assumed Agreement and the Reorganized Debtor), in connection with said Contested Assumed Agreement.

Notice: To the Debtor's knowledge, except as set forth in the Plan, none of the Assumed Agreements have any cure amount due and owing. Therefore, the Plan and its Disclosure Statement shall serve as notice to any counterparty to the Assumed Agreements, except as set forth in the Plan, that no cure amount is due and owing. Failure by such counterparty to object to the assumption and allocation of such Assumed Agreement shall be deemed to waive any claim arising under such agreement prior to the Effective Date.

Agreements Not Assumed: As of the Effective Date, except for the Assumed Agreements, the Debtor shall be deemed to have rejected any and all unexpired leases and executory contracts to which it is a party and that the Debtor has not previously rejected or assumed pursuant to Section 365 of the Bankruptcy Code. The Confirmation Order shall constitute approval of rejection of such contracts and leases. Such contracts shall be deemed rejected as of the day before the Petition Date.

Claims Relating to Rejection: Any Claim arising from a rejected executory contract or unexpired lease shall be a Rejection Claim. A Rejection Claim shall be treated as a General Unsecured Claim under the Plan if, but only if, a proof of Claim is filed within thirty (30) days after entry of the Confirmation Order.

K. Method of Distribution Under the Plan

The Reorganized Debtor shall make all Distributions required under and in accordance with the Plan. The funding available for such Distributions will be made from funds available from operations of the Reorganized Debtor and as set forth in the Plan. If necessary, a revised draft of the Plan Projections will be included in the Plan Supplement to be filed on or before tenth (10^{th}) day prior to the Confirmation Hearing.

L. Effect of Confirmation

Confirmation Order: The Bankruptcy Court shall not enter a Confirmation Order unless and until the Confirmation Order shall be reasonably acceptable in form and substance to the Debtor. Until the Effective Date, the Bankruptcy Court shall retain jurisdiction over the Debtor, as well as the Debtor's assets and properties. Thereafter, the Bankruptcy Court shall continue to maintain jurisdiction including, but not limited to:

1. To determine any and all objections and proceedings involving the allowance, estimation, classification and subordination of Claim, including any counterclaim;

2. To determine any and all applications for allowance of compensation and reimbursement of expenses and any other fees and expenses authorized to be paid or reimbursed under the Bankruptcy Code or the Plan;

3. To determine any applications pending on the Effective Date for the rejection or assumption of executory contracts or unexpired leases or for the assumption and assignment, as the case may be, of executory contracts or unexpired leases to which one of the Debtor is a party or with respect to which one of the Debtor may

be liable, and to hear and determine, and if need be to liquidate, any and all Claims arising therefrom;

4. To determine any and all applications, adversary proceedings, and contested or litigated matters that may be pending on the Effective Date;

5. To consider any modifications of this Plan, remedy any defect or omission or reconcile any inconsistency in any order of the Court, including the Confirmation Order, to the extent authorized by the Bankruptcy Code;

6. To determine all controversies, suits, disputes and proceedings that may arise in connection with the interpretation, enforcement, consummation or performance of the Plan or any Person's obligations hereunder;

7. To determine all controversies, suits, disputes and proceedings that may arise in connection with this Plan;

8. To hear and determine any Claim belonging to the Debtor, and to consider and act on the compromise and settlement of any other Claim against, or cause of action asserted by, the Debtor;

9. To recover all assets of the Debtor and property of the Debtor's Estate, wherever located;

10. To hear and determine matters concerning state, local, and federal taxes in accordance with sections 346, 505, and 1146 of the Bankruptcy Code (including any requests for expedited determinations under section 505(b) of the Bankruptcy Code filed, or to be filed, with respect to tax returns for any and all taxable periods ending after the Petition Date through, and including, the date that any final distribution is made);

11. To enter a Final Decree closing the Case;

12. To issue orders in aid of execution of this Plan to the extent authorized by section 1142 of the Bankruptcy Code; and

13. To determine such other matters as may be set forth in the Confirmation Order or which may arise in connection with this Plan or the Confirmation Order.

Discharge: To the fullest extent allowed by the Bankruptcy Code, on the Confirmation Date, and subject to the terms of the Plan, the Debtor shall be discharged from, and the Plan shall constitute an extinguishment and novation of, any Claim or debt of whatever character that arose before the date of such confirmation, and any Claim or debt of a kind specified in Sections 502(g), 502(h), or 502(i) of the Bankruptcy Code, whether or not—

(a) a proof of Claim based on such debt is filed or deemed filed under Section 501 of the Code;

(b) such Claim is allowed under Section 502 of the Bankruptcy Code; or

(c) the holder of such Claim has accepted the Plan.

On the Confirmation Date, all Liens against any assets and property, except for Liens as explicitly provided in the Plan, shall be deemed extinguished and discharged. Any litigation, including counterclaims, pending against the Debtor as of the Petition Date or that could have been brought against the Debtor prior to the Petition Date, shall be deemed resolved and restructured by the provisions of the Plan, and the Debtor shall move to dismiss such litigation with prejudice immediately after the Effective Date.

Binding Effect: Except as otherwise provided in Section 1141(d)(3) of the Bankruptcy Code, on and after the Effective Date, the provisions of the Plan shall bind any holder of a Claim against the Debtor and its respective successors and assigns, whether or not the Claim of such holder is impaired under the Plan and whether or not such holder has accepted the Plan.

Estate and Litigation Trust's Retention of Causes of Action: In accordance with Section 1123(b)(3) of the Bankruptcy Code and under the Plan, the Reorganized Debtor will be vested with, and shall transfer to the Litigation Trust, the right to prosecute, compromise, or otherwise resolve any and all Causes of Action. Except as released, settled, or compromised herein, the Litigation Trust will be vested with the right to prosecute, compromise, or otherwise resolve Avoidance Actions. The retained Causes Of Action include claims against former and current officers and directors related to the manner and substance of solicitations of investors and lenders, potential breaches of fiduciary duties by former and current officers and directors, and _____.[8] The Debtor specifically retains the right to seek avoidance of any avoidable Secured Claim held against the Debtor.

Additionally, in accordance with Section 1123(b)(3) of the Bankruptcy Code and under the Plan, the Reorganized Debtor and the Litigation Trust will be vested with the right to object to proofs of Claim. The Litigation Trust shall have the right and power to object to proofs of Claim or Claims including those deemed allowed under Section 1111(a) of the Bankruptcy Code on any ground, including those set forth in Section 502 of the Bankruptcy Code. **THE RIGHT TO OBJECT TO ANY CREDITOR'S CLAIM IS RESERVED IN FAVOR OF THE LITIGATION TRUST REGARDLESS OF WHETHER THE CREDITOR HAS VOTED IN FAVOR OF OR AGAINST THE PLAN.**

A copy of the Litigation Trust Agreement is attached as Exhibit F.

Continuing Investigation: The Debtor's schedules of assets and liabilities identify creditors whose Claims are disputed. The investigation of potential objections to Claims or other Causes of Action has not been completed. **THE PLAN DOES NOT AND IS NOT INTENDED TO RELEASE ANY SUCH RIGHTS AND CAUSES OF ACTION ARE SPECIFICALLY RESERVED IN FAVOR OF THE LITIGATION TRUST. FURTHER, NOTHING HEREIN IS INTENDED TO PREVENT THE CONTINUED LITIGATION OF CLAIMS.**

[8] List to be inserted prior to disclosure statement hearing.

Prosecution of Causes of Action: After the Effective Date, the Litigation Trustee, in its sole discretion, shall evaluate the potential Causes of Action, including Avoidance Actions, and determine whether to pursue any such Causes of Action for the benefit of the holders of Allowed General Unsecured Claims. The Debtor's Statement of Financial Affairs identifies the parties who received payments and transfers from the Debtor within ninety (90) days of the Petition Date. Additionally, the Litigation Trust will continue to litigate, compromise, or otherwise resolve any Causes of Action, including Avoidance Actions, Commenced by the Debtor prior to the Effective Date.

THE PLAN DOES NOT AND IS NOT INTENDED TO RELEASE CAUSES OF ACTION, INCLUDING AVOIDANCE ACTIONS, AND ALL SUCH RIGHTS OF CAUSES OF ACTION, INCLUDING AVOIDANCE ACTIONS, ARE SPECIFICALLY RESERVED IN FAVOR OF THE LITIGATION TRUST ON BEHALF OF ALLOWED GENERAL UNSECURED CLAIMS.

After the Effective Date, the Litigation Trustee shall prosecute, compromise, or otherwise resolve any and all Causes of Action, including Avoidance Actions, that the Litigation Trustee determines should be pursued. The Litigation Trustee shall retain counsel on an appropriate basis to prosecute these Causes of Action. The Bankruptcy Court shall retain jurisdiction to adjudicate any and all Causes of Action, including Avoidance Actions, and approve any settlement thereof. The Net Proceeds of the Causes of Action, including Avoidance Actions, shall be distributed, first, in the payment of the litigation fees and expenses of the Litigation Trustee, and, second, pro rata to the holders of Allowed Claims as set forth in Article 4 of the Plan.

Effective Date of the Plan: The Effective Date shall be the first business day after expiration of thirty (30) days from the entry of an order confirming the Plan; provided, however, that the Confirmation Order is a Final Order; and further provided, however, that the conditions precedent set forth in the Plan have been duly satisfied.

M. Summary of Other Provisions of the Plan

Classes and Subclasses: Any impaired Class that is not occupied as of the date of the Confirmation Hearing by an Allowed Claim or a Claim temporarily allowed pursuant to Bankruptcy Rule 3018 shall be deemed deleted from the Plan for purposes of voting on acceptance or rejection of the Plan and determining whether the Plan has been accepted by such class pursuant to 11 U.S.C. § 1129.

Modification of the Plan: Modifications of the Plan may be proposed in writing by the Debtor at any time before Confirmation, provided that the Plan, as modified, meets the requirements of Sections 1122 and 1123 of the Bankruptcy Code, and the Debtor shall have complied with Section 1125 of the Bankruptcy Code. The Plan may be modified at any time after Confirmation and before its substantial Consummation, provide that the Plan, as modified, meets the requirements of Sections 1122 and 1123 of the Bankruptcy Code, and the Court after notice and hearing, confirms the Plan, as modified, under Section 1129 of the Bankruptcy Code, and the circumstances warrant such modification. At any time after the Confirmation Date, the Reorganized Debtor, without the approval of the Court, may modify the Plan to remedy any

defect or omission, or reconcile any such inconsistencies in the Plan or in the Confirmation Order, as such matters may be necessary to carry out the purposes, intent and effect of the Plan, provided that such modification does not materially or adversely affect the interest of Creditors.

Deemed Acceptance to Modifications: A holder of a Claim that has accepted or rejected the Plan shall be deemed to have accepted or rejected, as the case may be, such Plan as modified, unless, within the time fixed by the Bankruptcy Court, such holder changes its previous acceptance or rejection.

Revocation of Plan: The Debtor reserves the right to revoke and withdraw the Plan before the entry of the Confirmation Order. If the Debtor revokes or withdraws the Plan, or if confirmation of the Plan does not occur, then the Plan shall be deemed null and void and nothing contained herein shall be deemed to constitute a waiver or release of any Claims by or against the Debtor or any other Person or to prejudice in any manner the rights of the Debtor or any Person in any further proceedings involving the Debtor.

Exemption from Transfer Taxes: Pursuant to Section 1146(c) of the Bankruptcy Code, the assignment or surrender of any lease or sublease, or the delivery of any deed or other instrument of transfer under, in furtherance of, or in connection with the Plan, including any deeds, bills of sale or assignments executed in connection with any disposition of assets contemplated by the Plan shall not be subject to any stamp, real estate transfer, mortgage recording or other similar tax.

Payment of Statutory Fees: All fees payable pursuant to Chapter 123 of title 28, United States Code, as determined by the Bankruptcy Court on the Confirmation Date, shall be paid on the Effective Date. Any statutory fees accruing after the Confirmation Date shall be paid when due.

Conditions Precedent to the Effectiveness of the Plan: The effectiveness of the Plan is subject, in addition to the requirements provided in Section 1129 of the Bankruptcy Code, to satisfaction of the following conditions precedent:

a. All actions, documents and agreements necessary to implement the Plan shall have been effected or executed;

b. The Debtor shall have received all authorizations, consents, regulatory approvals, rulings, letters, no-action letters, opinions or documents that are determined by the Debtor to be necessary to implement the Plan; and

c. The Confirmation Order in form and substance acceptable to the Debtor shall have been entered by the Bankruptcy Court.

Material Default Provisions: A failure to timely make a payment to a holder of an Allowed Claim pursuant to the terms of the Plan shall be an "Event of Default." Following an Event of Default, each holder of an Allowed Claim shall have the right to enforce their rights under the Plan by sending a written "Notice of Default" to the Reorganized Debtor and the Trustee of the KLD Energy Litigation Trust at the following addresses:

To the Reorganized Debtor:

KLD Energy Technologies, Inc.
8910 Research Blvd.
Building B-1
Austin, Texas 78754

with a copy to:

Lynn Hamilton Butler
Husch Blackwell LLP
111 Congress Avenue, Suite 1400
Austin, Texas 78701
lynn.butler@huschblackwell.com

To the Trustee of the KLD Energy Litigation Trust:

Except as previously stated herein for Class 5, with respect to each holder of an Allowed Claim, if the Event of Default is not cured within fourteen (14) days after service of a written Notice of Default then a "Material Default" shall have occurred and any holder of an Allowed Claim may (a) enforce the entire amount of its claim; (b) exercise its rights under the Plan; and (c) seek such relief as may be appropriate in any court of competent jurisdiction. In any event, if an Event of Default occurs with respect to any payment to holders of Allowed Claims, should a payment under the Plan become due prior to a Material Default, the Reorganized Debtor shall not be authorized to and may not make payments to some but not all holders of Allowed Claims. Instead, in such circumstance, at the time a payment comes due under the Plan, the Reorganized Debtor must make Pro Rata distributions to all holders of Allowed Claims with funds then available for distribution to holders of Allowed Claims.

V. TAX CONSIDERATIONS

Because the tax consequences of the Plan may vary based on individual circumstances, each holder of an Allowed Claim is urged to consult with its own tax advisor as to the consequences of the Plan to it under federal and applicable state, local and foreign tax laws.

VI. ACCEPTANCE AND CONFIRMATION OF THE PLAN

Voting Requirements for Confirmation: The Bankruptcy Code provides that any class of creditors or stockholders whose rights are "impaired" (in general terms, not fully honored) under a proposed plan has the right to vote, as a class, to accept or reject the plan. A class of creditors accepts a plan if more than one-half of the ballots that are timely received from members of the class, representing at least two-thirds of the dollar amount of claims for such ballots that are timely received, are cast in favor of the plan. If a plan impairs any class of claims, then at least one class of impaired claims must vote to accept the plan in order for it to be confirmed.

Voting Procedures

A. Submission of Ballots:

Each Creditor whose Class of Claim is impaired will receive, with this Disclosure Statement, a form of ballots entitled "BALLOT FOR ACCEPTING OR REJECTING DEBTOR'S PLAN" to be used in voting whether to accept or reject the Plan. A pre-addressed envelope for returning the ballots is enclosed for your convenience. Holders of unimpaired Claims and Claims that are not required to be classified are NOT entitled to vote under the Bankruptcy Code and votes by holders of such unimpaired and unclassified Claims are not being solicited.

Each holder of an Impaired Claim should first review this Disclosure Statement and the Plan and then complete the ballots. Each such holder of an Impaired Claim shall be entitled to cast one (1) ballot for accepting or rejecting the Plan. All votes to accept or reject the Plan must be cast by using the ballot provided, or a copy of such ballots. The ballots must be signed by the Creditor, or an officer, partner or authorized agent of the Creditor. If a ballot is signed by a trustee, executor, administrator, guardian attorney-in-fact, corporate officer or other acting in a fiduciary or representative capacity, such Person should indicate such capacity when signing and submit proper evidence satisfactory to the Debtor of his authority to so act when the ballot is returned.

Completed and signed ballots must be returned to the Debtor's attorney via electronic transmission or United States first-class mail to the following address:

Husch Blackwell LLP
c/o Penny Keller
111 Congress Ave., Ste. 1400
Austin, Texas 78701
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Ballots should be returned as soon as possible, and in any event must be returned so that they are actually received by 5:00 p.m., central time, on _____ ____, 2016.[9] Ballots received thereafter, or ballots not conforming to the requirements set forth above, may not be accepted and counted.

Except as provided below, unless the ballot being furnished is timely submitted on or prior to the voting deadline together with any other documents required by such ballot, the Debtor may, in its discretion, reject such ballot as invalid and therefore decline to count it in connection with seeking Confirmation of the Plan by the Bankruptcy Court.

Any vote cast to accept or reject the Plan with respect to any Claim to which an objection has been filed will not be counted for purposes of determining whether the Plan has been accepted or rejected, unless the Bankruptcy Court orders otherwise. A Creditor's vote may be

[9] Date to be inserted after disclosure statement hearing.

disregarded if the Bankruptcy Court determines, after notice and a hearing, that the Creditor's acceptance or rejection of the Plan was not in good faith or was not solicited or procured in good faith or in accordance with the provisions of the Bankruptcy Code.

B. Claim Amounts on Ballots:

On each ballot there is a space in which each Creditor may write the amount of such Creditor's Claim. If the Claim amount submitted differs from the amount of the Claim as allowed by Final Order of the Bankruptcy Court or as shown in the Debtor's Schedules, then the dollar amount of such Claim, for voting and Distribution purposes, shall be determined first, by reference to the Final Order allowing such Claim, or if no such order has been entered, then by the lesser of (i) the amount specified in the proof of Claim, and (ii) the amount of such Claim set forth in the Debtor's schedules; provided, however, that if the Claim is not listed on the Debtor's schedules, such Claim shall be deemed to be listed on the schedules in the amount of the proof of Claim solely for voting purposes unless otherwise object to by the Debtor. THE AMOUNT OF THE CLAIM SPECIFIED ON THE BALLOT WILL NOT SUPERSEDE THE ALLOWED AMOUNT OF A CLAIM FOR VOTING PURPOSES AS DETERMINED IN ACCORDANCE WITH THE PRECEDING SENTENCE. THE DEBTOR RESERVES ALL RIGHTS TO OBJECT TO ANY CLAIM OR TO THE VOTING OF ANY CLAIM.

C. Incomplete Ballots:

Any ballot received which does not indicate either an acceptance or rejection of the Plan shall be deemed to constitute an invalid ballot.

D. Waiver of Defects, Irregularities, etc.:

Unless otherwise provided herein or directed by the Court, all questions as to the validity, form, eligibility (including time of receipt), acceptances and revocations or withdrawal of ballots will be determined by the Debtor. The Debtor reserves the right to: (i) contest the validity of any revocation or withdrawal of any vote on the Plan, (ii) reject any and all ballots not in proper form, and (iii) waive any defects or irregularities or conditions of delivery as to any particular ballot. The interpretation of the applicable requirements (including those with respect to the ballot and the instructions thereto) by the Debtor, unless otherwise directed by the Court, will be final and binding on all parties. Unless waived, any defects or irregularities in connection with the deliveries of ballots must be cured within such time as the Debtor (or the Court) determines. Neither the Debtor nor any other Person will be under any duty to provide notification of defects or irregularities with respect to deliveries of ballots nor will any of them incur any liabilities for failure to provide such notification. Unless otherwise directed by the Court, delivery of such ballots will not be deemed to have been made until such irregularities have been cured or waived. Ballots previously furnished as to which any irregularities have not theretofore been cured or waived will be invalid.

Confirmation of the Plan

A. Confirmation Hearing:

The Court must hold a Confirmation Hearing before deciding whether to confirm the Plan. The Plan will not be valid until the Court has entered a Final Order confirming the Plan. Once confirmed and to the extent the other conditions under the Plan are met, the Plan will become effective on the Effective Date.

A hearing on Confirmation of the Plan, and on any objections to the Plan, will be held on _____ _____, 2016 at _____ in Austin, Texas. Any Creditor, or other party in interest desiring to object to Confirmation of the Plan must file a written objection with the Bankruptcy Court, and serve a copy of the objection on the Debtor and the Office of the United States Trustee, so as to be received no later than _____ ___, 2016[10]. In order to preserve an objection, anyone filing an objection to Confirmation must also attend the hearing on Confirmation, either in person or through counsel. The Confirmation Hearing may be adjourned from time to time by the Court without further notice except for an announcement made at the Confirmation Hearing or any adjournment of that hearing. UNLESS AN OBJECTION TO CONFIRMATION IS TIMELY SERVED AND FILED, IT MAY NOT BE CONSIDERED BY THE COURT.

B. Requirements for Confirmation of the Plan:

At the Confirmation Hearing, the Court will determine whether the Plan satisfies the requirements for Confirmation listed in Section 1129 of the Bankruptcy Code. One of the requirements for Confirmation is that the Plan must be accepted by at least one of the Classes and by at least two-thirds (2/3) in amount and a majority in number of such Allowed Claims whose holders actually cast ballots for acceptance or rejection of the Plan. If the Court determines that all Confirmation requirements are satisfied, it will enter an order confirming the Plan.

The Debtor shall utilize the provisions of Section 1129(b) of the Bankruptcy Code to satisfy the requirements for Confirmation of the Plan over the potential rejection by any Class.

VII. ALTERNATIVES TO THE DEBTOR'S PLAN OF REORGANIZATION

If the Plan is not confirmed, the alternatives include: (i) preparation and presentation of an alternative plan of liquidation; (ii) a sale of all or substantially all of Debtor's Assets through a Section 363 sale; or (iii) liquidation of the Debtor under Chapter 7 of the Bankruptcy Code.

The Debtor believes that failure to confirm the Plan will inevitably result in additional administrative expenses being incurred, thus reducing and delaying Distributions to General Unsecured Creditors. The Debtor believes that the Plan, as described herein, fairly adjusts the rights of various Classes of Creditors consistent with the distribution scheme embodied in the Bankruptcy Code and enables Creditors to realize the most, given the circumstances.

A. Alternative Plans of Reorganization:

Currently, there are no alternative plans of reorganization.

[10] Dates to be inserted after disclosure statement hearing.

B. Section 363 Sale:

One alternative, if a plan of reorganization cannot be confirmed, is that the Debtor will accept offers for the sale of all or substantially all of the Debtor's Assets and sell such Assets pursuant to a Section 363 sale. Debtor will make all reasonable efforts to effectively market and sell its assets through such process. Such efforts shall be funded in part by the DIP Loan proceeds as necessary to fund expenses related to marketing, negotiating and selling the Debtor's Assets. Given the nature of Section 363 sales, the proceeds from the sale of all or substantially all of Debtor's Assets is not expected to bring funds sufficient to cover the entirety of the Secured Claims and the DIP Lender's Super-Priority Claim, and thus, there would be no recovery to any other Creditors under a 363 sale of the Debtor's Assets.

The Debtor anticipates that the Bankruptcy Court will approve bid procedures prior to the Confirmation Hearing substantially similar to the following:

a. The Court will hold a sale hearing to approve the sale of the assets of the Debtor and the assumption of certain of the Debtor's executory contracts to the highest bidder (or combination of bidders).

b. The Debtor will be authorized to conduct the auction of the Debtor's assets at the sale hearing.

c. The Court will set a minimum qualified bid amount prior to the auction. If a bid is for less than the minimum qualified bid amount, the Debtor may, at its sole discretion, allow the bidder to participate in the auction

d. In order for a person or group of persons to make a bid at the auction, it or they shall serve a written bid on the Debtor prior to the sale hearing. A bid may be in the format of a draft asset purchase agreement or other written format. Any such bid shall include (a) appropriate evidence of the bidder's financial ability to consummate the transactions contemplated by its or their bid within the timeframe contemplated by the bid, including all obligations contemplated by the bid; (b) appropriate evidence of the bidder's ability to own and manage the Debtor entity or a history in owning and/or managing similar entities; and (c) a certified or bank check payable to the Debtor as a refundable deposit in the amount of Fifty Thousand Dollars ($50,000.00). The bid may contain a term sheet for a proposed lease for the Debtor's current locations and/or a form of proposed lease for the Debtor's current locations, either of which is subject to the approval of the Debtor's current landlords.

e. The Debtor may entertain late or non-conforming bids at its sole discretion, and may entertain bids as back-up bids in its sole discretion. Acceptance of any requested changes to submitted bids shall be in the discretion of the Debtor. In the event that any of such requested changes have not been accepted by the Debtor, in writing, prior to the commencement of the auction, the prospective bidder requesting such changes may elect to proceed without the requested changes, or shall not be qualified to participate in the auction. If the prospective bidder does not participate in the auction, the Debtor will refund the bidder's deposit.

f. Only those parties who submit timely written bids will be entitled to bid at the auction, unless the Debtor or the Court determines otherwise. No prospective bidder will be permitted to bid at the auction unless the Debtor, in his sole discretion, determines that the prospective bidder is financially qualified to consummate the sale.

g. The Debtor shall identify at the auction all parties who are qualified to participate in the auction.

h. The procedure at the auction shall be as follows: The Debtor shall announce the amount of the highest bid and the name or names of the high bidder. The Debtor shall then ask whether any other person wishes to make a further bid, which must be at least $50,000 in net cash value to the Estate more than the then-announced high bid. If a person makes such a bid, the auction shall continue in the same manner until there is no further bid (or combination of bids) topping the previous bid (or combination of bids) by at least $50,000 net cash value to the Debtor's estate. The bidder who submits the final high bid will be declared the successful bidder. If the successful bidder fails to close the sale, the second highest bidder will be required to purchase the Assets at the bid amount it finally casted at auction. If the second highest bidder elects not to close the purchase, such bidder will forfeit its deposit. The Debtor will continue to offer the Assets to the next highest bidder in the same manner until a bidder closes the sale. Any disputes regarding the auction are to be submitted to the Court for adjudication. All other bidders shall then be entitled to a refund of their $50,000 deposits upon the closing of the sale.

C. Liquidation Under Chapter 7:

One of the requirements to confirm a Chapter 11 plan is that creditors receive at least as much as they would under a Chapter 7 liquidation. In a Chapter 7 liquidation, a Trustee would be appointed to liquidate the Debtor's property and pay the Allowed Claims of Creditors. Property subject to Liens would either be sold for enough to pay the Liens or foreclosed upon by the applicable Secured Creditor. Once the property was liquidated and subject to prior orders of the Court, the Allowed Claims would be paid in the following order:

1. Claims of Unsubordinated Secured Creditors;

2. Claim of the DIP Lender;

3. Claims of the Subordinated Secured Creditors

4. The Chapter 7 Trustee's expenses;

5. Expenses incurred during the Chapter 11 case and allowed by the Court, including Administrative Claims from the Chapter 11 period of the case;

6. Priority Claims; and

7. A Pro Rata distribution of any remaining funds to the Unsecured Creditors.

The Debtor believes that a liquidation under Chapter 7 would result in a greatly reduced recovery, if any, to holders of Unsecured Claims because of the additional administrative expenses involved in the appointment of a Chapter 7 Trustee for the Debtor, the additional administrative expenses involved in the employment of attorneys and other professionals to assist the Chapter 7 Trustee, and the significant Secured Creditor Claims. Accordingly, the Debtor believes that, if holders of Unsecured Claims could or would receive anything in a Chapter 7 liquidation, these holders of Unsecured Claims may be expected to receive a significantly smaller distribution, if any, than under the Plan.

To determine what holders of Claims in each impaired Class would receive if the Debtor were liquidated, the Court must determine what funds could be generated from the liquidation of the Debtor's assets and property in the context of a Chapter 7 liquidation case, which would consist of the proceeds resulting from the disposition of the unencumbered assets of the Debtor. Such asset amounts would be reduced by post-petition Chapter 11 administrative costs, and costs incurred by the Chapter 7 trustee, including those related to professionals retained by the Chapter 7 trustee. In order to determine if the Plan is in the best interest of each impaired Class, the present value of the distributions from the net proceeds of a Chapter 7 liquidation are compared to the present value offered to such Classes of Claims under the Plan.

Given the liens of the Secured Claims and DIP Lender, assuming that all of the asset value as listed in the Debtor's Schedules was accumulated, such amount would not pay in full the Secured Claims and, thus, there would be no distribution to any other creditors, including the Debtor's Unsecured Creditors, in the event of a conversion of the case to Chapter 7. However, in a Chapter 7 liquidation, the Debtor anticipates that the realizable value of the above assets will be significantly less than the stated book amounts. The Debtor's Plan therefore provides a greater recovery on the Unsecured Claims when compared to a Chapter 7 liquidation.

VIII. CONCLUSION AND RECOMMENDATION

THE DEBTOR BELIEVES THAT CONFIRMATION OF THE PLAN IS PREFERABLE TO ANY OF THE ALTERNATIVES DESCRIBED ABOVE AND THAT THE PLAN IS DESIGNED TO PROVIDE GREATER RECOVERIES THAN THOSE AVAILABLE IN ANY OTHER FORM OF LIQUIDATION. ANY OTHER ALTERNATIVE WOULD CAUSE SIGNIFICANT DELAY AND UNCERTAINTY, AS WELL AS ADDITIONAL ADMINISTRATIVE COSTS, THUS, THE DEBTOR RECOMMENDS THE CONFIRMATION OF THE PLAN.

Dated: June 3, 2016

Respectfully submitted by:

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/s/ Lynn Hamilton Butler

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