

IN THE UNITED STATES BANKRUPTCY COURT
FOR THE EASTERN DISTRICT OF VIRGINIA
Alexandria Division

In Re: :
DTREDS, LLC : CASE NO 15-12488-RGM
Debtor : Chapter 11
:

FIRST AMENDED DISCLOSURE STATEMENT

COMES NOW the debtor, DTREDS, LLC, (hereafter DTREDS) by counsel, and submits the following Amended Disclosure Statement pursuant to 11 U.S.C. 1125.

A. Purpose of the Disclosure Statement

The purpose of this Disclosure Statement is to provide parties asserting claims against the debtor with information regarding the treatment of their claims under the proposed Amended Plan dated September 22, 2016. More particularly, this Disclosure Statement should provide parties whose claims or interests are impaired under the Plan with adequate information to make an informed judgment when evaluating the Plan.

This Disclosure Statement also sets forth certain information regarding the debtor's assets, pre-petition history, significant events that have occurred in the Chapter 11 case, and the debtor's anticipated financial affairs post confirmation. This Disclosure Statement also describes the Plan, certain

alternatives to the Plan, the effects of the Plan's confirmation, and the manner in which distributions shall be made under the Plan.

This Disclosure Statement is not meant to take the place of the Plan. Creditors and other parties in interest are advised to read the Plan carefully and obtain the advice of independent legal counsel if desired.

B. Disclaimer

All creditors are advised and encouraged to read this Disclosure Statement and Plan in their entirety before voting to accept or reject the Plan. Plan summaries and statements made in this Disclosure Statement are qualified entirely by reference to the Plan and other Exhibits served with the Plan.

This Disclosure Statement contains summaries of certain provisions of the Plan, certain statutory provisions, certain valuations and other financial information, and certain events related to the debtor's chapter 11 case. Although the debtor believes that this information is accurate, such summaries are qualified to the extent that they are summaries, and do not set forth the entire text of documents referred to. The factual information contained in this Disclosure has been provided by the debtor and its agents in good faith after a reasonable

investigation of the matters reported on herein, but the debtor is not able to warrant or represent that the information contained herein, including the financial information, is without any inaccuracy or inadvertent omission.

Certain information contained in this Disclosure Statement is, by its very nature, speculative, containing estimates, assumptions, and projections that may not be borne out by future events. Except as specifically noted herein, this Disclosure Statement does not reflect any events or conditions that may occur after the date of this statement, nor has the information contained herein been audited by a Certified Public Accountant and may not be in accord with general accounting principles.

The information contained in this Disclosure Statement has been provided by the debtor, its attorney, and its agents.

HISTORY AND DESCRIPTION OF THE DEBTOR

DTREDS is a single member Limited Liability Corporation organized under the laws of the State of Delaware, with its principal place of business in Loudoun County, Virginia. All outstanding shares in the corporation are owned by Nathaniel Ferraco, who is the sole managing member.

Mr. Ferraco is a Major in the Air Force Reserve and a Veteran who has a service-connected disability from a tour of duty. Mr. Ferraco has a degree in Electrical Engineering from Pennsylvania State University and a Masters in Business Administration from Liberty University. He is recognized within the Defense and Homeland Security community as an expert in cyber security, secure communications, critical infrastructure, and satellite communications, including tower construction and decommissioning. As a Service Disabled Veteran Small Business, certified inside the Center for Veteran's Enterprise, DTREDS enjoys a preference over other contractors for government-related work and commercial communications carriers. This, combined with Mr. Ferraco's reputation allows DTREDS to obtain a steady flow of business.

It is important to note that Mr. Ferraco's participation in the debtor is absolutely critical to its reorganization and he cannot be replaced. Since most of the contracts DTREDS accepts are completed within thirty days, without the active participation of Mr. Ferraco, and without his Service Disabled Veteran Owned Small Business certification and his reputation, the debtor would not survive beyond sixty days.

On August 2, 2015 Mr. Ferraco filed a Chapter 7 bankruptcy in the Alexandria Division of the Eastern District of Virginia, Case No. 15-12669-RGM and all of his interest in the debtor

passed to his bankruptcy estate, which is still pending. It is not known when or if the Chapter 7 trustee will either administer Mr. Ferraco's interest in the debtor, or abandon it back to Mr. Ferraco.

The debtor has been managed by Mr. Ferraco since its inception. The debtor's principal place of business is located at 1329 Shepard Drive, Suite 2, Sterling, Virginia 20164.

The debtor does contract work for various Federal government agencies and other firms doing work for the Federal government, providing telecommunications services and construction work related to telecommunications infrastructure, including work on telecommunication towers. In 2013, the debtor was profitable with a gross yearly income exceeding 11 million dollars.

In 2014, the debtor accepted two large contracts, one at the Red River Army Base for 5.4 million and another at Offut Air Force Base for 1.6 million. These contracts were disastrously unprofitable, and drained away almost all of the debtor's working capital leaving it unable to make payments to any of its creditors. The debtor believes its failure related to these contracts was partly the result of poor decisions made by the project manager and the proposal team, ineffective accounting procedures, and the prime contractor's unjustified withholding of payments due to the debtor for work performed. As a result, all of the project managers and the proposal writing team who had

worked on these projects and the supervisory account were released.

At the time the Chapter 11 petition was filed, the debtor had less than thirty thousand dollars in current (less than 90 days) accounts receivables and funds on deposit. The debtor reorganized its accounting procedures and its staff, which was reduced to the minimum number of employees necessary.

Since its filing, the debtor focused on working with partners it trusted and who, based of the debtor reputation for quality work, requested the debtor by name, and took only jobs which could be completed quickly, typically within thirty days, and which would provide an immediate return. As a result, the debtor was able to return to profitability from the first month after filing, and has paid all of its post-petition obligations as they have come due.

FINANCIAL INFORMATION

The debtor had \$7,314.00 in its bank account on the date it filed this case, and \$13,800.00 in its Debtor in Possession at the end of that month, with a total cash income for the same period of \$17,127.17. The next moth after filing, August 2015, the Debtor in Possession Account ended with a balance of \$65,407.00 with total income of \$369,285.00 and a

profit for that month of \$65,407.00. In July of 2016, last month reported prior to this Amended Disclosure Statement, the debtor reported an income of \$602,849.00 and ended the month with \$101,438 in its Debtor in Possession account. In June of 2016, the debtor saw a total income of for the month of \$475,674.00 and ended the month with \$109,542.00 in its account.

Other than its receivables, the debtor has no claims against any party, no tax refunds due, nor any anticipation of a source of income other than from its operations.

The debtor is current in the filing of all of its monthly operating reports. Copies of summaries of the Monthly Operating Reports for the months of June and July of 2016 are attached and made exhibits to this Disclosure Statement.

PRESENT AND PROJECTED EARNINGS

Since the debtor's work is mostly construction work performed outdoors, it is typically seasonal, with a slack period between November and March. Much of the debtor's current work has come through an association with larger companies, including Parsons Corporation and InDyne, Inc.

The debtor has projected its income and expenses out for the next six years as reflected in the projection attached to this Statement as Exhibit A.

The debtor relies on Exhibit A as the basis for estimating what funds it will be able to pay its creditors under its Chapter 11 Plan.

FILED AND SCHEDULED CLAIMS

PRIORITY CLAIMS

The debtor is current with all payments due to the Office of the United States Trustee, and does not owe any post-petition taxes, wages, or other post-petition priority claims, with the exception of post-petition rent to Pleasant properties, LLC.

The debtor and its landlord disagree over whether a modification of their rental agreement took place. Depending on how that issue is resolved, Pleasant properties will have an administrative priority claim of between \$25,186.75 and \$27,262.81. Pleasant properties and the debtor will try to resolve this by agreement subject to Court approval, but if they are unable to do so, the Court will be asked to determine the correct amount.

The payments to all allowed priority claims both filed and scheduled with 4% interest as provided for in the plan total,

\$2,175,536.96 over the term of the Plan, including payment in full of the priority claim of the Internal Revenue Service of \$1,512,874.03.

SECURED CLAIMS

EagleBank is a first position secured creditor with a blanket lien on all of the debtor's assets. The current balance owed to EagleBank is \$3,653,262.41.

Action Capital Corporation is a factoring company which was assigned certain receivables. The amount claimed by Action Capital secured by those receivables is \$795,511.51. Action Capital has a subordination agreement with EagleBank related only to the specific receivables upon which it claims its security interest.

National Funding Inc. claims a blanket lien on all of the debtor's assets in the amount of \$199,769.72. However, the debtor takes the position that the lien of National Funding was unperfected and thus avoidable, and, in any case, there is no value in the debtor's assets above the secured claim of EagleBank for National's lien to attach to. If National's lien were valid, it would be in 3rd position behind EagleBank and Action Capital.

Davies, Barrell, Will, Lewellyn & Edwards, PLC claims a judicial lien against the debtor in the amount of \$10,010.63.

However, there is no value in the debtor's assets above the secured claim of EagleBank for National's lien to attach to.

The Mississippi Department of Revenue, The Texas Workforce Commission, and The Colorado Department of Revenue all claim statutory liens arising from unpaid taxes. The debtor is unaware of any property within these various jurisdictions upon which the claimants' liens could attach.

BRS Camvest alleges a blanket lien on all of the debtor's assets in the amount of \$245,405.00, however, BRS's lien appears to be unperfected, and thus avoidable. If BRS' lien were void, the debtor does not know its priority.

Loudoun County Virginia alleges a priming statutory tax lien in the amount of \$15,830.00. This lien is secured by all of the debtor's property and vehicles within the jurisdiction of Loudoun County.

All other secured creditors allege purchase money liens on various vehicles and equipment owned by the debtor. This equipment has either been surrendered, or the debtor has proposed retaining the property and curing any arrearage in the plan.

Unsecured Claims

There are in excess of 380 unsecured non-priority claims either filed or scheduled in the debtor's case totaling

more than \$6,900,000.00. That estimate does not include any secured claims that might be successfully objected to or avoided. The debtor estimates that its Chapter 11 Plan will distribute an approximate 5% dividend to all unsecured claimants. This figure is merely an estimate based on the best information known to the debtor at this time. The yearly dividend paid to all unsecured creditors as a class is not more than \$78,698.00. The actual percentage amount received by unsecured creditors may vary from the estimate above depending on the outcome of claims litigation and/or the amendment of filed claims.

The debtor's amended Plan proposes that certain receivables due to the debtor, those related to Red River Army Base and Offutt Air Force base be collected through the counsel for the unsecured creditor's committee (or some other designee if that counsel is unwilling to serve) and who will be the estate's special counsel for that propose. The debtor estimates the Red River Claim to be approximately \$1,500,000.00 and the Offutt claim to be approximately \$1,000,000.00. These claims are both subject to the lien held by EagleBank and the Red River claim is subject to an additional lien held by Action Capital for \$590,000.00. EagleBank has agreed to allow 30% of any recovery on these claims, net of attorney's fees and expanses to be paid into the Plan. The debtor cannot accurately estimate how large the contribution to the Plan from this source may be, but it believes

in good faith that it is reasonable to assume that it would be not less than \$150,000.00. The debtor needs to emphasize that estimate is based on the it's good faith belief as to what might be recovered for the benefit of the Plan after all of the deductions outlined above have been made and it is not a guarantee that any amount will be recovered.

The debtor also has a good faith belief that it will succeed in many claims objections which will reduce the pool of unsecured creditors and increase the dividend to those who remain. The debtor intends to object to at least \$1,050,000.00 in filed unsecured claims. Particularly significant for this analysis are claims 103, 104, and 105, filed by G. Dale Gray, Sam Gray and G. Dale Gray and Sam Gray jointly. Those claims alone, which the debtor believes are without basis, exceed \$980,000.00.

LEASES

The debtor leases office space from Pleasant Properties, LLC, and copiers from Nauticon Imaging Systems and De Lange Landen Financial Services. The debtor's lease with Pleasant Properties is a month to month lease and was not assumed. The debtor intends to pay all month to month rent due to Pleasant Properties going forward and vacate the space it leases by the end of October, 2016, or as soon thereafter as it can, and lease

alternate space for less. The debtor will pay any rejection claim providing one is filed within the time provided for in the Chapter 11 Plan, any claim for pre-petition rent due as an unsecured claim, and the correct amount of the post-petition rent due as an administrative priority claim.

The debtor will continue to make the regular lease payments to Nauticon and De Lange.

PENDING CLAIMS AND LITIGATION

There has been litigation threatened against the debtor by the Business Software Alliance arising out the alleged misuse of copyrighted software which, if it occurred, was apparently done prior to the filing of the debtor's petition. The debtor disputes the liability; however, if it were proven, it appears that the claim would be approximately \$39,840.00 and would be a general unsecured claim without priority. However, there is some indication that the Software Alliance may have abandoned its pursuit of the debtor.

LIQUIDATION ANALYSIS

If the debtor were liquidated by a trustee in a case under chapter 7 at the time of this Disclosure Statement the debtor anticipates that the estate would include a modest amount in the

Debtor in Possession Account. This deposit, and all of the debtor's receivables, assets, fixtures, and good will, would all have a value of not more than \$1,500,000.00. The debtor bases this estimate on a offer in the Spring of 2016 for all of the debtor's assets it received from an interested buyer, knowledgeable in the telecommunications field, and who conducted a thorough analysis of the debtor's assets and its future prospects. However, offer was contingent on Nathaniel Ferraco continuing to work for the debtor for a period of at least three years. Without that stipulation, the investor had no interest in funding or acquiring the debtor.

Based on these figures, the debtor estimates that there would be nothing above the 3.6 million dollar secured claim of EagleBank for a hypothetical chapter 7 to distribute to priority or unsecured creditors.

Taking all of the above into account, the debtor estimates that upon conversion to Chapter 7, there would most likely be no funds available for distribution to any creditor other than EagleBank.

MANAGEMENT AND OWNERSHIP

The debtor is managed by Nathaniel Ferraco. The debtor does not propose or anticipate any change in management or ownership over the Plan term, except as stated below.

STATUS OF THE CASE

The debtor is continuing in business and has filed a Amended Chapter 11 Plan of Reorganization. The debtor has attached summaries of the last two monthly operating reports for June and July, 2016, and projections of future revenue and expenses, to this Disclosure Statement as exhibits.

SUMMARY OF PROPOSED PLAN OF REORGANIZATION

The Plan of Reorganization proposed by the debtor has divided the creditors into 29 Classes. All classes, with the exception of Class 1, 5, 26, and 27 claims, are impaired.

Payments under the debtor's Plan are made in accordance with Article IV which provides for monthly payments to the Class 3 creditor, EagleBank of \$36,666.00, not including the payments of \$25,000.00 and \$75,000.00, or the contingent payment of up to \$500,000.00 otherwise due to EagleBank under the Plan.

All unsecured claims shall be paid in quarterly disbursements directly from the debtor, each made on or about the middle day of each quarter with the first payment due in the middle of the first quarter next following the effective date of the Plan (the 14th day after the entry of an order of confirmation).

Class 1 creditors include those who have administrative claims, including, and limited to, the debtor's attorney and any other professional to the extent that their fees and expenses are approved by the Bankruptcy Court, and such quarterly fees as may be due the Office of the United States Trustee. These claims will be paid directly by the debtor promptly as they become due or are authorized by the Court.

Class 2: This class consists of all other creditors holding priority claims. This creditor shall be paid in full from quarterly disbursements directly from the debtor.

All other secured creditors shall either receive the return of their collateral, or in the case of the Bank of California (Class 9) shall be paid in accordance with the consent order approved by the bankruptcy court, or in the case of M&T Bank (Class 8) and Loudoun County (Class 12) otherwise paid their claims in full, including arrearage and interest as provided for in the Plan. The Class 23 Creditor, VCS Brian Vanderhoof, has been paid in full for the collateral retained by the debtor, a DF06011 Skid Winch, and shall receive no further payments under the Plan while the debtor shall receive good title to said collateral.

The Amended Plan proposes that the counsel for the unsecured creditor's committee (or some other designee) be assigned the task of collecting certain receivables owed the debtor as special

counsel for the estate. The unsecured creditors would benefit from any recovery since EagleBank, which has a blanket lien on the receivables, has agreed to allow 30% recovered, net of attorney's fees and expenses, to be paid into the Plan.

The Amended Plan also proposes that a new entity be formed by the debtor's principal, Nathaniel Ferraco, which would assume all of the equity and rights of the debtor, and all obligations of the debtor under the Plan and serve as its reporting and disbursing agent. Upon the transfer, Nathaniel Ferraco is obligated to pay \$75,000.00 into the Plan over its term.

VOTING REQUIREMENT FOR PLAN CONFIRMATION

In general, in order for the Plan to be confirmed, it must first be accepted by the holders of a majority in number and two-thirds in amount of those who voted in each class of impaired claims. However, if the Plan is not accepted by every class of impaired claims, but it is accepted by at least one such impaired class, the court may nevertheless confirm the Plan if the court finds that it does not unfairly discriminate and provides fair and equitable treatment to the non-accepting class or classes, and that it otherwise meets the requirements of 11 U.S.C. 1129.

BEST INTEREST OF THE CREDITORS

The debtor believes that the best interest of the creditors are served by the confirmation of this proposed Plan of reorganization. No creditor will receive less than would be received in a chapter 7 proceeding, and the debtor believes that the creditors in all classes and particularly the unsecured creditors in Class 28 will receive more under the treatment proposed in the Plan than if the debtor were liquidated in a chapter 7 proceeding.

MATERIAL TAX CONSEQUENCES OF THE PLAN

The distributions proposed under Article IV of the Plan will not impose any foreseeable material tax consequences on the debtor. However, to the extent that any creditors have written off any claims against the debtor on their tax returns, then they, or a hypothetical investor who has purchased their claims, may be required to recognize income from the distributions they receive under the debtor's Plan.

PLEASE NOTE: Neither the debtor nor its counsel can know the precise tax status of any creditor or equity security holder, and therefore any discussion of the tax consequences of the debtor's Plan as it may affect a creditor is limited, and may or may not be applicable to that creditor. Parties in interest are strongly

advised to seek advice as to the tax consequences of the debtor's Plan from a qualified tax advisor.

CONCLUSION

The debtor submits that the Plan complies in all respects with Chapter 11 of the Bankruptcy Code and recommends that it be confirmed.

Dated June 22, 2016.

/s/ Nathaniel Ferraco
DTREDS, LLC
By Nathaniel Ferraco

/s/ Richard G. Hall
Richard G. Hall, Esquire
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CERTIFICATE OF SERVICE

I hereby certify that on September 23, 2016 a copy of this Amended Disclosure Statement was mailed to the Office of the United States Trustee at 115 South Union Street, Alexandria, Virginia 22314, and to Madeleine Trainor at Redmond Peyton & Braswell 510 King Street, Suite 301, Alexandria, Virginia 22314.

/s/ Richard G. Hall