UNITED STATES BANKRUPTCY COURT
NORTHERN DISTRICT OF ILLINOIS
EASTERN DIVISION

In re	Chapter 11
Morgan Administration, Inc., *et al.* d/b/a Home Owners Bargain Outlet,[1]	Case No. 18-30039
	(Jointly administered)
Debtors and Debtors in Possession.	Honorable Jacqueline P. Cox

DISCLOSURE STATEMENT FOR FIRST AMENDED JOINT CHAPTER 11 LIQUIDATING PLAN

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[1] The Debtors in these cases, along with the last four digits of each Debtor's federal tax identification number, are: Morgan Administration, Inc. (4200); Belvidere Associates LLC (8559); FP Retail Associates LLC (0915); Hillcrest Enterprises, LLC (4581); Jular Media LLC (0805); KLS Acquisition Corp. (0925); Loomis Enterprises LLC (5451); North Avenue Associates LLC (3229); Oak Creek Distribution LLC (0634); OL Enterprises LLC (9401); and Deforab LLC (9348).

On October 25, 2018, Morgan Administration, Inc.; Belvidere Associates LLC; FP Retail Associates LLC; Hillcrest Enterprises, LLC; Jular Media LLC; KLS Acquisition Corp.; Loomis Enterprises LLC; North Avenue Associates LLC; Oak Creek Distribution LLC; OL Enterprises LLC; and Deforab LLC, the debtors and debtor-in-possession in the above-captioned bankruptcy cases (collectively, the "**Debtors**"), filed voluntary petitions for relief under Chapter 11 of the Bankruptcy Code. The document you are reading serves as the *Disclosure Statement* (the "**Disclosure Statement**") regarding the *First Amended Joint Chapter 11 Liquidating Plan* (as may be amended or modified from time to time, the "**Plan**"), which is proposed by the Debtors and the Committee (the "**Plan Proponents**"). A copy of the Plan is attached hereto as **Exhibit A.** Capitalized terms not otherwise defined herein shall have the meaning as stated in the Plan.

I. INTRODUCTION

A. Purpose of this Document

The Plan effectuates a distribution of the Assets of the Estates to creditors in accordance with the priorities set forth in the Bankruptcy Code. The Plan provides that all of the Debtors' Assets, to the extent they have not already been liquidated, will be liquidated and the proceeds of the liquidation of the Assets will be utilized, pursuant to the terms of the Plan, to pay Allowed Claims and to fund the Creditor Trust and pay for its expenses.

More specifically, the Debtors' remaining Assets (including, but not limited to, Cash, Estate Causes of Action, proceeds of insurance and insurance policies, all rights and interests, all personal property, and all files, books and records of the Debtors' Estates) on the Effective Date, as detailed below, will be substantively consolidated into Morgan Administration, Inc. and transferred to the Creditor Trust established under the Plan for the benefit of the Holders of Allowed Claims. The Effective Date of the Plan will occur when all of the conditions to the Plan's effectiveness as set forth in Section VI.A. of the Plan have been met or waived. Holders of Allowed Administrative Expense Claims, Allowed Priority Tax Claims, and holders of Allowed Class 1 through 3 Claims, to the extent they remain unpaid, shall be paid in full upon the Effective Date or as soon thereafter as is practicable. If there are any unpaid Allowed Secured Claims (Class 4), they will be satisfied as provided in the Plan.

Creditor Trust Assets (including the proceeds thereof) will be used by the Creditor Trustee to pursue the Estate Causes of Action that the Creditor Trustee determines to pursue for the benefit of Holders of Allowed Claims. As all of the Creditor Trust Assets are liquidated (or otherwise disposed of), additional Cash Distributions may be made in accordance with the terms of the Plan and Creditor Trust Agreement, such that all net Cash proceeds of the Creditor Trust Assets are distributed to Holders of Allowed Claims as provided under the Plan and Creditor Trust Agreement.

This Disclosure Statement describes the assumptions that underlie the Plan and how the Plan will be executed. The Disclosure Statement includes information (a) regarding the history of the Debtors, their businesses, assets and liabilities, and the Chapter 11 Cases, (b) concerning the Plan and alternatives to the Plan, (c) advising the Holders of Claims and Equity Interests of their rights under the Plan, (d) assisting the Holders of General Unsecured Claims in making an informed judgment regarding whether they should vote to accept or reject the Plan, and (e) assisting the Bankruptcy Court in determining whether the Plan complies with the provisions of the Bankruptcy Code and, therefore, should be confirmed.

The Plan Proponents have requested that the Bankruptcy Court hold a joint hearing on approval of the Disclosure Statement and confirmation of the Plan. The Bankruptcy Court may approve this Disclosure Statement as containing "adequate information" under Section 1125(b) of the Bankruptcy Code while not approving the Plan or reserving a decision on confirmation of the Plan. The Plan is not binding on anyone until the Bankruptcy Court enters an order confirming the Plan.

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

1. Time and Place of Hearing on Approval of Disclosure Statement and Confirmation of Plan

By order of the Bankruptcy Court, the hearing on approval of the Disclosure Statement and on confirmation of the Plan (the "**Combined Hearing**") has been scheduled for **September 10, 2019 at 9:30 a.m. (prevailing Central Time)**. The Combined Hearing will be held before the Hon. Jacqueline P. Cox in Courtroom 680 of the Dirksen Building, 219 South Dearborn St.,

Chicago, Illinois 60604. The Combined Hearing may be adjourned from time to time by the Bankruptcy Court without further notice except for an announcement made at the Combined Hearing or any adjournment thereof

2. Deadline for Voting For or Against the Plan

If you are entitled to vote, it is in your best interest to vote on the enclosed ballot and return timely the ballot to BMC Group, LLC, pursuant to the instructions on the ballot. Your ballot must be physically received by BMC no later than **September 5, 2019** or it will not be counted.

3. Deadline for Objecting to the Confirmation of the Plan

Section 1128(b) of the Bankruptcy Code provides that any party in interest may object to Confirmation of a Plan, whether or not such party is entitled to vote on the Plan. Any objection to Confirmation of the Plan must be in writing, conform to the Federal Rules of Bankruptcy Procedure and the Local Rules of the Bankruptcy Court, set forth the name of the objecting party, the nature and amount of the Claim or Equity Interest held or asserted by the objecting party against the Debtor, the basis for the objection, and the specific grounds therefor.

Objections to the confirmation of the Plan must be filed with the Bankruptcy Court, and served on: (a) counsel to the Debtors, Jonathan P. Friedland and Elizabeth B. Vandesteeg, Sugar Felsenthal Grais & Helsinger LLP, 30 N. LaSalle Street, Suite 3000, Chicago, Illinois 60602, fax: (312) 372-7951, e-mail: jfriedland@sfgh.com and evandesteeg@sfgh.com; (b) the Debtors, c/o Michael Goldman, Chief Restructuring Officer, c/o KCP ADVISORY GROUP, 655 Deerfield Rd, Ste. 100 pmb 325, Deerfield, IL 60015, email: mgoldman@kcpadvisory.com; and (c) counsel for the Committee, Devon J. Eggert, FREEBORN & PETERS LLP, 311 S. Wacker Dr., Ste. 3000, Chicago, IL 60606, fax: (312) 360-6520, e-mail: deggert@freeborn.com, so as to be received no later than **September 5 , 2019 at 5:00 p.m. (prevailing Central Time).**

Objections to confirmation of the Plan are governed by Federal Rule of Bankruptcy Procedure 9014. UNLESS AN OBJECTION TO CONFIRMATION IS TIMELY AND PROPERLY SERVED AND FILED, IT MAY NOT BE CONSIDERED BY THE BANKRUPTCY COURT

4. Deadline for Former Employees to Object to Proposed PTO-Based Non-Priority Class 5 Claim

To the extent a former employee who has not previously filed a proof of claim disputes the proposed amount or treatment of the non-priority PTO-based Class 5 claim that is stated in that employee's PTO Claim Notice delivered with this Disclosure Statement, such employee must send an objection to the proposed treatment, in writing, to (a) counsel to the Debtors, Jack O'Connor, Sugar Felsenthal Grais & Helsinger LLP, 30 N. LaSalle Street, Suite 3000, Chicago, Illinois 60602, fax: (312) 372-7951, e-mail: joconnor@sfgh.com or by email to hoboinquiry@sfgh.com, with a copy to (b) counsel for the Committee, Devon J. Eggert, FREEBORN & PETERS LLP, 311 S. Wacker Dr., Ste. 3000, Chicago, IL 60606, fax: (312) 360-6520, e-mail: deggert@freeborn.com. Such objection must be received by the Debtors no later than **September 5 , 2019** at **5:00 p.m. (prevailing Central Time)**.

5. Identity of Person to Contact for More Information Regarding the Plan

Any interested party desiring further information should contact counsel for the Plan Proponents – for the Debtors: Jonathan P. Friedland, Sugar Felsenthal Grais & Helsinger LLP, 30 N. LaSalle Street, Chicago, Illinois 60602, telephone: (312) 704-2770; email: jfriedland@sfgh.com; for the Committee: Devon J. Eggert, FREEBORN & PETERS LLP, 311 S. Wacker Dr., Ste. 3000, Chicago, IL 60606, telephone: (312) 360-6305, e-mail: deggert@freeborn.com.

C. Disclaimer and Notice of Reserved Rights

FOR THE CONVENIENCE OF HOLDERS OF CLAIMS AND INTERESTS, THIS DISCLOSURE STATEMENT SUMMARIZES THE TERMS OF THE PLAN. SUMMARIES OF CERTAIN PROVISIONS OF THE PLAN OR CERTAIN OTHER DOCUMENTS REFERRED TO IN THIS DISCLOSURE STATEMENT, SUCH AS THE CREDITOR TRUST AGREEMENT, ARE NOT COMPLETE. PLEASE REVIEW THE FULL TEXT OF SUCH DOCUMENTS FOR A FULL UNDERSTANDING OF THEIR TERMS.

NO REPRESENTATIONS CONCERNING THE DEBTOR ARE AUTHORIZED BY THE PLAN PROPONENTS OTHER THAN AS SET FORTH IN THIS DISCLOSURE STATEMENT. ANY REPRESENTATIONS OR INDUCEMENTS OTHER THAN THOSE CONTAINED IN THIS DISCLOSURE STATEMENT SHOULD NOT BE RELIED UPON BY YOU IN ARRIVING AT YOUR DECISION. ANY NON-DEBTOR OR NON-COMMITTEE REPRESENTATIONS AND INDUCEMENTS SHOULD BE REPORTED TO COUNSEL FOR THE DEBTOR OR THE COMMITTEE, WHO WILL DELIVER SUCH INFORMATION TO THE COURT FOR SUCH ACTION AS MAY BE DEEMED APPROPRIATE.

THE INFORMATION CONTAINED IN THIS DISCLOSURE STATEMENT HAS NOT BEEN SUBJECTED TO A CERTIFIED AUDIT. HOWEVER, THE DATA IN THE PLAN PROPONENTS' POSSESSION IS BASED ON THE RECORDS OF THE DEBTORS. ALTHOUGH GREAT EFFORT HAS BEEN TAKEN TO MAKE SURE IT FAIRLY REPRESENTS THE CURRENT POSITION OF THE DEBTORS, THE PLAN PROPONENTS ARE UNABLE TO WARRANT OR REPRESENT THAT THE INFORMATION CONTAINED IN THIS DISCLOSURE STATEMENT IS WITHOUT ANY INACCURACY.

THE CONTENTS OF THIS DISCLOSURE STATEMENT SHOULD NOT BE CONSTRUED AS LEGAL, BUSINESS, OR TAX ADVICE. CREDITORS SHOULD CONSULT THEIR OWN LEGAL COUNSEL AND ACCOUNTANT AS TO LEGAL, TAX, AND OTHER MATTERS CONCERNING THEIR CLAIMS.

UNLESS YOUR CLAIM IS ALLOWED, IN WHOLE OR IN PART, UNDER THE PLAN OR IN PRIOR ORDERS, THE ABILITY OF THE DEBTORS AND OTHER CREDITORS OR PARTIES IN INTEREST TO OBJECT TO YOUR CLAIM IN ACCORDANCE WITH THE PLAN AND APPLICABLE LAW IS BEING PRESERVED AND NOT WAIVED UNDER THE PLAN. MOREOVER, ANY RIGHTS OF ACTION AGAINST YOU IN FAVOR OF THE DEBTORS ARE BEING PRESERVED UNDER THE PLAN UNLESS OTHERWISE EXPRESSLY PROVIDED UNDER THE PLAN.

II. BACKGROUND

A. Description and History of the Debtors' Business

The Debtors were founded by veterans of the home improvement chain, Handy Andy, in 1996. The Debtors opened their first location in West Allis, Wisconsin, in 1996. During the following years, the Debtors opened additional stores within the suburban neighborhoods outside of Milwaukee and Chicago, and were headquartered in Waukegan, Illinois. As of the Petition Date, the Debtors operated seven retail locations in Illinois and Wisconsin and warehouse in Bridgeview, Illinois. The locations operated substantially independently with certain management and administrative operations offered through Morgan Administration, Inc. Collectively, as of the Petition Date, the Debtors had approximately 400 employees.

The Debtors sold value-priced home-improvement goods, including flooring, housewares, furniture, tools, hardware, plumbing supplies, and cabinets. The Debtors also sold cabinets and countertops (both pre-fabricated and custom-made) manufactured by third-party suppliers, including such brands as Haas, Solstice, Shaw and American Standard. The majority of the Debtors' customers were homeowners purchasing materials for various do-it-yourself projects, along with contractors. Debtors' total sales totaled $78.9 million during the 12-month period ending December 2017.

B. Events Leading to Chapter 11 Bankruptcy

The factors leading to the filing of the chapter 11 cases are myriad, and include both issues specific to the Debtors and ones impacting the retail industry generally. In one sentence, sales had dropped in recent years and continued a downward trend, and the Debtors' initiatives to boost sales were not sufficient to prevent bankruptcy and ultimately liquidation.

The Debtors are not alone. Numerous regional and national retailers have filed for chapter 11 protection in the past several years. Many have announced store reductions or complete shutdowns, including, among others, Sears, Mattress Firm, and Brookstone. The broader retail brick-and-mortar landscape is going through a major correction and the Debtors, like many other retail businesses, have been severely impacted.

The retail downturn was and continues to be particularly hard on the home improvement industry. Consumer sentiment and disposable income levels have dwindled over the past few years, pushing consumers, especially the typical middle-income HOBO customer, to cut back on discretionary spending, including do-it-yourself home projects.

Finally, in addition to Debtors' long-standing home improvement competitors, several new competitors entered the Midwest home improvements market during the past few years and have gained traction and expanded in the Chicago and Milwaukee suburbs.

As the Debtors' financial condition eroded, in the months and weeks leading up to the bankruptcy, the Debtors began to miss payments to several key vendors. In turn, certain vendors began to make reclamation demands for return of their goods on the Debtors. One key vendor filed suit in October 2018 against the Debtors and several of their principals in the U.S. District Court for the Northern District of Illinois, seeking payment of approximately $1.2 million or, alternatively, reclamation of the goods. The same vendor also sought a temporary restraining order and injunction against the Debtors to prevent them from selling that vendor's goods.

The erosion of the Debtors' sales strained their relationship with their senior secured lender, MB Financial, N.A. ("**MB**"), which was owed over $5.5 million as of the Petition Date.

These factors and events, among others, led to the decision to enter bankruptcy. Both before the Cases were filed and during the initial months of the Cases, the Debtors marketed themselves for sale as a going concern while, at the time, preparing for an orderly liquidation of assets. Ultimately, no going concern buyer came forward, and the Debtors moved forward with liquidation.

C. Management of the Debtors Before and During the Bankruptcy

The Debtors had a full management staff but were majority owned and led by their founder, Leo Schmidt. As the Debtors struggled, however, they sought expertise and leadership within the professional restructuring community. On October 19, 2018, the Debtors retained KCP Advisory Group, LLC, to provide restructuring advice and oversee preparations for a potential chapter 11 filing. On October 20, 2018, Michael Goldman, a Senior Managing Director at KCP, was appointed Chief Restructuring Officer (the "**CRO**") of the Debtors to, *inter alia*, evaluate company

operations, implement procedures to maximize the recovery for all legally interested parties, and generally assume overall management responsibility for the Debtors. After the Petition Date, the Court approved KCP and Mr. Goldman's continued engagement: Mr. Goldman has continued to lead the Debtors as CRO during these Cases, with KCP providing support services to the CRO.

D. Significant Events during the Bankruptcy Cases

1. Bankruptcy Proceedings

On October 25, 2018, the Debtors filed voluntary petitions for relief under chapter 11 of the Bankruptcy Code to complete the orderly liquidation of their estates, wind-up their affairs, and adjudicate all outstanding claims in a single forum to ensure that creditors, on all levels, are treated fairly and equitably.

a. *First Day Motions and Other Key Relief*

The Debtors requested certain relief in "first day" applications and motions filed with the Bankruptcy Court (collectively, the "**First Day Motions**") in order to minimize potential adverse effects of the bankruptcy filings and to maximize the value of their estates. The following does not summarize all such motions but presents certain key relief granted to the Debtors in the opening weeks of the Cases.

i. Joint Administration

On November 2, 2018, the Bankruptcy Court entered an order granting the joint administration of the Debtors' Bankruptcy Cases, with Morgan Administration, Inc. serving as the lead case under Case No. 18-30039 [Docket No. 68].

ii. Cash Collateral Order

MB Financial, N.A. had been the Debtors' primary or sole operating line lender for several years prior the Petition Date. As of the Petition Date, the Debtors were obligated to MB on eight notes with an amended principal face amount of $11,750,000, subject to a maximum amount of $8,000,000.00. The notes were cross-guaranteed and cross-secured by all personal property assets of each Debtor as to the other Debtors, including the Debtors' cash collateral. As of the Petition Date, MB was owed approximately $5.5 million.

On November 2 and November 20, 2018, the Bankruptcy Court entered, respectively an interim order and final order approving the use of cash collateral [Docket Nos. 67 and 123]. Entry of the cash collateral order was key to operating smoothly while undertaking the going out of business sales in November and December of 2018.

As a result of the successful liquidation of the Debtors' assets, MB has been paid in full.

iii. Wage Order

On November 1, 2018, the Bankruptcy Court authorized, but did not direct, the Debtors to pay unpaid prepetition wages and honor prepetition benefits to employees to the extent such employees would otherwise be entitled to a priority claim for such unpaid wages and benefits. [Docket No. 61] (the "**Wage Order**"). The Wage Order ensured that employees who stayed with the Debtors to assist in the liquidation would not suffer undue hardship due to losing a portion of their pay. Pursuant to the Wage Order, the Debtors ultimately paid approximately $300,000 to employees on account of unpaid prepetition wages and benefits, including employee "paid time off" (PTO) claims to the extent such accrued PTO would be entitled to priority claim treatment.

iv. Going out of Business Order and Sales

Just prior to the Petition Date, the Debtors (after a search and bidding process) retained a contractual joint venture comprised of Tiger Capital Group, LLC, Great American Group, LLC and HYPERAMS, LLC (collectively, the "**Agents**") to conduct going out of business ("GOB") sales at the Debtors' retail locations and to liquidate certain other assets. On November 2, 2018, the Bankruptcy Court entered an interim order authorizing and approving the Debtors' assumption of the Agency Agreement with the Agents [Docket No. 66]. A final order approving assumption of the Agency Agreement was entered November 19, 2018 [Docket No. 117].

Under the Agency Agreement, the Agents assumed certain obligations (including the obligation for employee salaries) in exchange for the right to, in effect, take over the Debtors' stores and conduct GOB sales for a return calculated on a formula that was negotiated at great length between the Debtors, MB, and the Agents. The sales were conducted from late October 2018 and were effectively concluded by mid-December 2018, allowing the Debtors to relinquish possession of all of their leased properties by the close of the year.

b. *Bankruptcy Schedules*

On November 19, 2018, the Debtors filed their respective Bankruptcy Schedules and Statements of Financial Affairs listing the Debtors' assets and liabilities as of the Petition Date [Docket Nos. 111 and 112]. No amendments have been filed.

c. *Debtors Retained Professionals*

The Debtors sought and received approval to retain certain professionals ("Professionals") to advise them during these Cases:

i. Sugar Felsenthal Grais & Helsinger LLP ("**SFGH**") – as bankruptcy counsel [Docket No. 142].

ii. KCP Advisory Group LLC ("**KCP**") – to provide a chief restructuring officer (Michael Goldman) and support personnel [Docket No. 137].

iii. Fuel Break Capital Partners LLC ("**Fuel Break**") – as investment banker [Docket No. 138].

iv. BMC Group, Inc. ("**BMC**") – as notice and claims agent [Docket No. 136].

d. *Committee Appointment and Retained Professionals*

The Committee was formed on or about November 6, 2018. [Docket No. 78]. The members of the Committee include Rohnex, Supreme Construction, L.W. Mountain, Inc., All Tile, Inc., and Kountry Wood Products, LLC. The Court subsequently approved the Committee's retention of Freeborn & Peters LLP ("**FP**") as counsel to the Committee. [Docket No. 135].

e. *Claims Bar Date*

The last date for all creditors (other than a governmental unit) to file a proof of claim in the Chapter 11 Cases was January 28, 2019 (the "**General Claims Bar Date**"). The last date for a governmental unit to file a proof of claim in the Chapter 11 Cases was April 23, 2019 (the "**Governmental Claims Bar Date**").

f. *Paradigm Healthcare Plan and Completion of Run-Out*

From November 1, 2017 to October 31, 2018, the Debtors offered employees health insurance under a self-insured plan through the CIGNA healthcare provider network, with Paradigm Health Group, LLC dba Paradigm Health Plans ("**Paradigm**") engaged as the third-

party administrator for the plan (the "**Paradigm Healthcare Plan**"). Paradigm was wholly responsible for administration of medical and pharmacy claims submitted by employees, including, e.g., collection of premium payments from the Debtors, reconciliation of medical and pharmacy claims submitted by employees within CIGNA's provider network and otherwise, and payment of approved amounts to providers. The Paradigm Healthcare Plan terminated as of November 1, 2018, approximately a week after the Petition Date. At that point, several hundred individual claims remained to be administered and, ultimately, funded.

The Debtors worked with Paradigm over the ensuing months to negotiate a new contract to fully administer the claims that remained open following termination of the Paradigm Healthcare Plan, a process known as "run-out." During this negotiating period, funding of any such claims remained subject to certain limitations on payments placed on the Debtors by the Bankruptcy Code, and certain restrictions in the Debtors' use of cash as a result of orders (including the cash collateral order) entered early in the cases related to the liquidation of the Debtors' assets.

Following the completion of the liquidation and the satisfaction of the MB secured claim, the Debtors moved forward. To ensure they had the authority to proceed with Paradigm and complete the run-out, on February 25, 2019, the Debtors filed a *Motion for Authority to Satisfy Outstanding Health Care Plan Liabilities* [Docket No. 207]. The Bankruptcy Court approved the Motion on March 12, 2019 [Docket No. 216]. Following entry of the order, Paradigm commenced the run-out. As of this date, administration of such claims is substantially completed. The Debtors estimate that the final post-petition cost to the Estates of the run-out claims will be between approximately $274,000 and $317,000, including the fee paid to Paradigm to complete the run-out. Of that amount, approximately $248,000 has already been paid.

Prior to the Bar Date, certain Paradigm Healthcare Plan members with open claims filed proofs of claim. All such claims should be paid in full upon the completion of the run-out, to the extent of the Debtors' responsibility under the Paradigm Healthcare Plan. The treatment of these claims (and any similar claims) is addressed in Class 2 of this Plan – they are afforded priority

status to the extent unpaid; however, the Debtors believe that all such claims have been paid and are thus not entitled to any distribution under the Plan.

g. *Rejection of Unexpired Leases / Executory Contracts*

The Bankruptcy Code authorizes a debtor to reject unexpired leases and executory contracts that no longer provide a benefit to the estate. The Debtors operated out of several leased facilities in Illinois and Wisconsin that were closed on a rolling basis as the going out of business sales progressed. In order to facilitate the rejection of these leases and relinquishment of possession to the landlords, the Debtors sought and obtained the authority to reject a real estate lease by docketing a notice of lease rejection and serving the notice on the landlord, who had the ability to object. [Docket No. 116]. The Debtors subsequently issued notices of rejection of the leases of their various locations on a rolling basis throughout November and December 2018. [Docket Nos. 116, 150, 151, 152, 153, 154, 155, 180]. Subsequent to that, orders were entered confirming rejection of these real estate leases. [Docket Nos. 200, 201, 202, 203, 204, 205, 209, 214]. In addition, the Debtors received authority to reject several motor vehicle leases [Docket No. 193] and a contract for electronic security services. [Docket No. 224].

On the Effective Date, under the Plan, any and all agreements that constitute executory contracts or unexpired leases under Bankruptcy Code section 365 that have not already been rejected shall be rejected.

2. Other Legal Proceedings: Supreme Construction Adversary Proceeding

On January 11, 2019, one of the Debtors' creditors, Supreme Construction, Inc. ("**Supreme**"), filed an adversary proceeding in the Bankruptcy Cases, entitled *Supreme Construction, Inc. v. Morgan Administration, et al., and M.B. Financial Bank, N.A.*, Adv. Pro. No. 19-00014 (the "**Supreme Adversary**"), asserting various causes of action against the Debtors and MB, requesting, among other things, the imposition of a constructive trust over certain funds that the Debtors had received from customers. The Debtors and Supreme entered into a joint stipulation, whereby they agreed, among other things (1) to mediate the Adversary (and all other claims and disputes between the Parties) prior to litigation, and (2) to dismiss MB from the Supreme Adversary.

Supreme asserted in the Bankruptcy Cases and the Supreme Adversary (1) that a constructive trust should be imposed over at least $238,949.10, (2) that it was entitled under a Wisconsin statute to treble damages and attorneys' fees for claims related to work originating from HOBO's Wisconsin stores, (3) that it had a general unsecured claim of at least $575,368.25, and (4) that it had defenses to HOBO's alleged preference claims. The Debtors (1) denied that Supreme was entitled to a constructive trust of any kind, (2) further denied that Supreme would be entitled to treble damages or attorneys' fees under the Wisconsin statute, (3) asserted that Supreme had a general unsecured claim of approximately $575,000, and (4) asserted that Supreme had $173,000 in preference liability to the Debtors.

Supreme and the Debtors participated in a mediation on April 30, 2019 and were able to negotiate the terms of a settlement, whereby Supreme would be granted an allowed unsecured claim of $700,000 and the parties would otherwise covenant not to sue on any other claims or defenses they may have against one another. On June 10, 2019, the Debtors filed a motion pursuant to Bankruptcy Rule 9010 to approve the proposed settlement with Supreme [Dkt. 243]. On July 3, 2019, the Court entered an order approving the settlement between the Debtors and Supreme [Dkt 247].

3. Description of the Available Assets and their Value

The Debtors' primary assets are cash and potential recoveries from other sources including, in particular, potential litigation claims. All hard assets have been liquidated. All recoverable accounts receivable have been captured. As of July 1, 2019, the Debtors held $1,418,982 in cash. The value of any litigation claims that maybe pursued by the Creditor Trustee is not currently ascertainable.

4. Projected Recoveries from Litigation

The Plan Proponents have not conducted an exhaustive analysis of the Estates' potential claims and causes of action under Chapter 5 of the Bankruptcy Code (collectively, "**Avoidance Actions**") or other potential litigation claims, including claims against former officers, directors and other insiders. Such claims are being assigned to the Creditor Trust in the Plan and may be

pursued by the Creditor Trustee if pursuit is deemed warranted. Recoveries of such claims are inherently speculative and thus difficult to project at this stage of the Cases.

5. Post-Confirmation Dissolution of the Plan Proponents

From and after the Effective Date, the Creditor Trustee shall be authorized to take all action necessary to dissolve the Debtors as corporate entities under state law. On the Effective Date, the Committee shall cease to exist and its members, designated representatives and/or agents (including, without limitation, attorneys and other advisors and agents) shall, subject to those matters set forth below, be released and discharged from any further authority, duties, responsibilities and obligations relating to, arising from, or in connection with the Committee. The Committee shall continue to exist after such date solely with respect to all the applications filed pursuant to sections 330 and 331 of the Bankruptcy Code seeking payment of fees and expenses incurred by any professional on behalf of the Committee.

III. SUMMARY OF THE PLAN OF LIQUIDATION

A. What Creditors and Interest Holders Are Expected to Receive Under the Proposed Plan

As required by the Bankruptcy Code, the Plan classifies Claims and Interests in various Classes according to their right to priority. The Plan states whether each Class of Claims or Interests is impaired or unimpaired. The Plan provides the treatment each Class will receive. The following table summarizes the classes of claims and interests, estimated claims in each category (which remain subject to further reconciliation), and the treatment of each class under the Plan:

Class	Class Composition	$ Amount of Unpaid Claims (Approx.)	Amount and Timing of Distributions & Recovery	Impaired or Unimpaired
Not classified	Administrative Expense Claims	$250,000	Allowed Claims to be paid in full, on the later of the Effective Date or the date the claim is allowed (unless other treatment is accepted by the claimant) Recovery: 100%	Not applicable

Class	Class Composition	$ Amount of Unpaid Claims (Approx.)	Amount and Timing of Distributions & Recovery	Impaired or Unimpaired
Not classified	Priority Tax Claims	$41,401 (based on filed claims)	Allowed Claims to be paid in full, on the later of the Effective Date or the date the claim is allowed (unless other treatment is accepted by the claimant) Recovery: 100%	Not applicable
1	Employee PTO Priority Claims	$0.00[2]	Allowed Employee PTO Priority Claims, solely to the extent not previously paid, are to be paid in full, on the later of the Effective Date or the date the claim is allowed (unless other treatment is accepted by the claimant) Recovery: 100%	Unimpaired, not entitled to vote
2	Employee Health Care Priority Claims	$0.00[3]	Allowed Employee Health Care Priority Claims, solely to the extent not previously paid, are to be paid in full, on the later of the Effective Date or the date the claim is allowed (unless other treatment is accepted by the claimant) Recovery: 100%	Unimpaired, not entitled to vote

[2] Employees filed claims for unpaid wages and PTO asserting section 507(a)(4) priority status totaling $110,713.37. However, the Debtors books and records indicate that all of these claims, to the extent entitled to section 507(a)(4) priority status, were satisfied by payments made to the claimants during the case.

[3] Employees filed claims for unpaid health care benefits asserting section 507(a)(5) priority status totaling $179,739.39. However, the Debtors books and records indicate that all of these claims, to the extent entitled to section 507(a)(5) priority status, have been or will be satisfied by the completion of the run-out of all open claims by Paradigm under the Paradigm Healthcare Plan.

Class	Class Composition	$ Amount of Unpaid Claims (Approx.)	Amount and Timing of Distributions & Recovery	Impaired or Unimpaired
3	Other Priority Claims	$1,617 (based on filed claims)	Allowed Other Priority Claims shall be paid by the Creditor Trustee in order of the priorities set forth in section 507 of the Bankruptcy Code in full in Cash as soon as practicable following the later of: (i) the Effective Date and (ii) the date such Class 3 Priority Claim becomes an Allowed Claim (unless other treatment is accepted by the claimant) Recovery: 100%	Unimpaired, not entitled to vote
4	Secured Claims	$0.00	Allowed Secured Claims shall be satisfied as follows (a) by the return of such creditor's collateral, or (b) paid by the Creditor Trustee in full in Cash of the Allowed Secured Claim as soon as practicable following the later of: (i) the Effective Date, or (ii) the date such Class 4 Claim becomes an Allowed Claim (unless otherwise permitted by law, or other treatment is accepted by the claimant). Recovery: 100%	Unimpaired, not entitled to vote

Class	Class Composition	$ Amount of Unpaid Claims (Approx.)	Amount and Timing of Distributions & Recovery	Impaired or Unimpaired
5	General Unsecured Claims	$19,405,761[4] (based on filed and scheduled claims – reconciled to remove duplicates)	Allowed Claims shall be paid by Pro Rata payment of the Allowed Claim in cash upon the later of: (a) the date of allowance thereof by Final Order; (b) the earliest date on which there are Assets are available to pay the Allowed Class 5 Claims; or (c) any Distribution Date as determined by the Creditor Trustee Recovery – estimated: 4.6%	Impaired, entitled to vote
6	Equity Interest Holders	N/A	Pro rata share of any cash remaining, after payment in full of all Administrative Expense Claims, Priority Tax Claims, and Allowed Claims in Classes 1 through 5. Note: It is not anticipated that any distribution will be made to Equity Interest Holders. Recovery – estimated: 0%.	Impaired, deemed to reject, not entitled to vote

B. Unclassified Claims

In accordance with section 1123(a)(1) of the Bankruptcy Code, Administrative Expense Claims and Priority Tax Claims have not been classified. Holders of Administrative Expense Claims and Priority Tax Claims do not have a right to vote to accept or reject the Plan. However, Administrative Expense Claims and Priority Tax Claims are identified in this Disclosure Statement and the accompanying Plan, and their treatment is described, to promote "enabl[ing] a hypothetical

[4] This total includes all filed and scheduled claims, reconciled to eliminate duplications. The Plan Proponents have not yet conducted a further reconciliation or analysis of the legitimacy of all of these claims or their amounts. The final amount of allowed general unsecured Class 5 claims may vary from this total.

reasonable investor typical of holders of claims or interests of the relevant class to make an informed judgment about the plan[.]"

1. Administrative Expense Claims

An Administrative Expense Claim is a Claim that is entitled to priority under sections 503(b) and 507(a)(1) of the Bankruptcy Code.

The Administrative Expense Claims consist of: (a) the fees and expenses of the Debtors' Professionals (b) the fees and expenses of the Committee's Professionals; and (c) if any, the Claims for goods provided and services rendered to the Debtors during the Chapter 11 Cases.

On November 29, 2018, the Court entered the *Order Establishing Procedures for Interim Compensation & Reimbursement of Expenses of Professionals & Committee Members* [Dkt. 134] (the "***Interim Compensation Order***"], which provided for the payment of professional fees to court-approved professionals on a monthly basis based on statements circulated to the United States Trustee and key parties, and subject to a holdback of 20% of fees that would be paid only upon approval of a final compensation order allowing such fees.

As of July 1, 2019, the Professionals had accrued fees and incurred expenses for which payment had not been made in the following amounts, including amounts held in reserve pursuant to the Interim Compensation Order.

Professional	Unpaid Fees
Sugar Felsenthal Grais & Helsinger LLP	$78,844.72[5]
KCP Advisory Group LLC	$10,000 (estimated)[6]
Fuel Break Capital Partners LLC	$0.00[7]
Freeborn & Peters LLP	$24,017.67[8]
BMC Group, Inc.	$10,000 (estimated)

The Professionals will incur additional fees and costs, including without limitation, those fees and costs related to approval of the Disclosure Statement and Plan and final fee applications. Those

[5] Represents amounts held back in reserve from monthly payments made under the Interim Compensation Order.

[6] KCP Advisory Group LLC is not subject to the holdback and continues to be paid on a monthly basis for its fees and expenses for providing CRO and support services to the Debtors.

[7] Fuel Break Capital Partners LLC has been paid in full for its services as investment banker to the Debtors.

[8] Represents amounts held back in reserve from monthly payments made under the Interim Compensation Order.

additional, but unaccounted for amounts, shall also be Administrative Expense Claims. The Plan Proponents estimate that, in total, unpaid accrued professional fees and expenses that are not covered by existing retainers will total approximately $125,000 on the Effective Date of the Plan.

2. Priority Tax Claims

A Priority Tax Claim is a claim of a governmental unit of a type that is entitled to priority under section 507(a)(8) of the Bankruptcy Code. The aggregate amount of Priority Tax Claims, based on filed claims, is $41,401.38.

The Plan Proponents are in the process of analyzing these claims and may dispute certain claims, and thus reserves the right to object to such claims. Notwithstanding Debtors' intended objections, under the Plan, the holder of an Allowed Priority Tax Claim, unless otherwise agreed to by such holder, shall receive, in full satisfaction of such Claim, Cash in full, on the later of the Effective Date or the date the claim is allowed (unless otherwise agreed).

C. Classified Claims and Interests

The Plan proposes six (6) classes of Claims and Interests for purposes of treatment, voting on the Plan, and making distributions thereunder, namely:

Class 1 -- Employee PTO Priority Claims

Class 2 -- Employee Healthcare Priority Claims

Class 3 -- Other Priority Claims

Class 4 -- Secured Claims

Class 5 -- General Unsecured Claims

Class 6 -- Equity Interest Holders

D. Treatment of Classified Claims and Interests

1. Class 1 - Employee PTO Priority Claims.

Class 1 consists of the Employee PTO Priority Claims against the Debtors arising on account of monetary claims for "paid time off" ("**PTO**") accrued by employees under the Debtors' employment policies and/or employment contracts, to the extent such Claims are entitled to priority under section 507(a)(4) of the Bankruptcy Code.

Allowed Class 1 Employee PTO Priority Claims are Unimpaired by the Plan and, solely to the extent not already paid in full by the Debtors either prior to or after the Petition Date, shall be paid by the Creditor Trustee in full in Cash as soon as practicable following the later of: (i) the Effective Date and (ii) the date such Class 1 Employee PTO Priority Claim becomes an Allowed Claim (or otherwise as permitted by law); *provided*, *however*, that any Person holding a Class 1 Employee PTO Priority Claim may be treated on such less favorable terms as may be agreed to in writing by such Person.

Pursuant to the Wage Order, the Debtors paid in full all employee accrued unpaid PTO that was entitled to priority treatment – these payments were included in each employee's final paycheck. As a result, the Plan Proponents believe that all Class 1 Employee PTO Priority Claims have been paid in full. However, any person or entity asserting to be a Holder of an unsatisfied Class 1 Employee PTO Priority Claim shall have the time period set forth in Section VIII.B. of the Plan in which to file requests for payment of such Claims in the Chapter 11 Cases.

To the extent an Employee PTO Priority Claim is Allowed but not entitled to priority under section 507(a)(4) of the Bankruptcy Code, such Claim shall be treated as a Class 5 Claim under this Plan.

Class 1 is an Unimpaired Class and Holders of Class 1 Claims are not entitled to vote on the Plan.

2. Class 2 - Employee Healthcare Priority Claims.

Class 2 consists of Employee Health Care Priority Claims against the Debtors, to the extent such Claims are entitled to priority under section 507(a)(5) of the Bankruptcy Code. Any person or entity asserting to be a Holder of a Class 2 Employee Health Care Priority Claim shall have the time period set forth in Section VIII.B. of the Plan in which to file requests for payment of such Claims in the Chapter 11 Cases. To the extent an Employee Health Care Priority Claim is Allowed but not entitled to priority under section 507(a)(5) of the Bankruptcy Code, such Claim shall be treated as a Class 5 Claim under this Plan.

Allowed Class 2 Employee Health Care Priority Claims are Unimpaired by the Plan and, solely to the extent not already satisfied in full, shall be paid by the Creditor Trustee in full in Cash

as soon as practicable following the later of: (i) the Effective Date and (ii) the date such Class 2 Employee Health Care Priority Claim becomes an Allowed Claim (or otherwise as permitted by law); *provided*, *however*, that any Person holding a Class 2 Employee Health Care Priority Claim may be treated on such less favorable terms as may be agreed to in writing by such Person.

To the Debtors' knowledge, the class of Employee Healthcare Priority Claims is limited to claims arising from the Debtors' obligations to members of the Paradigm Healthcare Plan. Pursuant to the *Motion for Authority to Satisfy Outstanding Health Care Plan Liabilities* [Docket No. 207] and accompanying approval order [Docket No. 216], the Debtors engaged Paradigm post-petition to complete the administration of open claims under that plan, and the Debtors have paid or will pay all claims determined by Paradigm to be the employer's responsibility under that plan. As a result, all Class 2 Employee Healthcare Priority Claims have been or will be satisfied in full.

Class 2 is an Unimpaired Class and Holders of Class 2 Claims are not entitled to vote on the Plan.

3. Class 3 - Other Priority Claims.

Allowed Class 3 Priority Claims are unimpaired by the Plan and shall be paid in order of the priorities set forth in section 507 of the Bankruptcy Code in full in Cash on the Effective Date; *provided*, *however*, the Creditor Trustee shall be entitled to make such other distributions as are required under the Plan after the Effective Date provided that in the event that any Class 3 Claims have not become Allowed Claims prior to the Effective Date, the Creditor Trustee shall hold in suspense such amounts as are in his reasonable discretion sufficient to pay such Class 3 Claims pending the Final Order respecting such Class 3 Claims.

2. Class 4 Secured Claims.

The only known holder of an Allowed Secured Claim as of the Petition Date was MB, now known as Fifth Third Bank. MB was the Debtors' business line lender and was owed approximately $5,510,440.90 as of the Petition Date. The Secured Claim owing to MB was paid down pursuant to the orders granting Debtors' Motion for Entry of Interim & Final Orders (I) Authorizing Use of Cash Collateral; (II) Granting Adequate Protection; (III) Modifying the Automatic Stay To Permit Implementation; (IV) Scheduling a Final Hearing; & (V) Granting

Related Relief [Dkt. No. 123]. In addition, the Debtors conducted liquidation sales of all inventory and other assets as authorized by the orders granting Debtors' Motion For Entry of Interim & Final Orders (I) Authorizing the Debtors To Assume the Agency Agreement; (II) Authorizing & Approving the Conduct of Store Closing or Similar Themed Sales, With Such Sales To Be Free & Clear of All Liens, Claims & Encumbrances; & (III) Granting Related Relief [Dkt. No. 117]. At the conclusion of those liquidation sales, MB was paid the remaining balance of its outstanding accrued interest and fees.

3. Class 5 General Unsecured Claims

Class 5 Claims consist of all Claims that are not otherwise classified (and that are not Administrative Expense Claims or Priority Tax Claims). The Cash available for distribution to holders of Allowed Class 5 Claims shall consist of the Cash available after payment of Administrative Expense Claims, Priority Tax Claims, and Allowed, previously unpaid Claims in Classes 1 through 4. A holder of an Allowed Class 5 Claim shall receive, in full satisfaction of such Claim, Pro Rata payments in Cash of the amount of such Allowed Claim. The payment(s) shall be made upon the later of: (a) the date of allowance thereof by Final Order; (b) the earliest date on which there are Assets available to pay the Allowed Class 5 Claims; or (c) any Distribution Date as determined by the Creditor Trustee. There shall be no distributions to any holders of Allowed Class 5 Claims until all Allowed Administrative Expense Claims, Allowed Priority Tax Claims, and Allowed Claims in Classes 1 through 4 have been paid in full in accordance with the terms of the Plan. Distributions to be made to Class 5 shall be made as set forth in the Creditor Trust Agreement.

4. Class 6 Equity Interest Holders

Class 6 consists of the interests of the Debtors' equity security holders, including, without limitation, the membership interest(s) in the Debtors held directly or indirectly by Julie M. Traub, Kathleen M. Schmidt as Trustee of the Kathleen M. Schmidt Trust dated 1/20/98, Laura S. Werner, and Leo G. Schmidt as Trustee of the Leo G. Schmidt Trust dated 1/20/98.

It is not anticipated that there will be a distribution of any amounts to Allowed Equity Interest Holders. To the extent, however, any Cash remains after all Allowed Unclassified Claims

and all Allowed Claims in Classes 1 through 5 have been paid in full, then in such event, and in full and final satisfaction, settlement, and release, and in exchange for such Allowed Equity Interests, Class 6 Equity Interest Holders shall receive their share of the Cash available for distribution from the Creditor Trust to be distributed in accordance with the provisions of the corporate governance documents controlling disposition and treatment of such Equity Interests. The Creditor Trustee shall be permitted to distribute such funds to an escrowee (such as a title company) in favor of Class 6, with costs for such escrow to be paid from the distributed funds, and in full satisfaction of the Creditor Trustee's obligations to Class 6 under the Plan.

Given that it is not anticipated that Class 6 Equity Interest Holders will receive or retain any distribution under the Plan on account of their Equity Interests, pursuant to section 1126(g) of the Bankruptcy Code, Holders of Class 6 Claims are conclusively deemed to reject the Plan.

E. Means of Effectuating the Plan

Section IV of the Plan describes the means for implementing the Plan.

On or soon as practicable after the Effective Date, the following shall occur with respect to the implementation of the Plan: (i) all acts, documents and agreements appropriate to implement the Plan shall be executed; (ii) the Creditor Trustee, as disbursing agent under the Plan, shall make all Distributions required to be made on or about the Effective Date of the Plan in accordance with the terms and conditions of the Plan; and (iii) the Creditor Trustee, as disbursing agent under the Plan, shall fund reserves required to be funded pursuant to the Plan.

Upon the Effective Date, all transactions and matters provided for under the Plan shall be deemed to have been authorized and approved by the Debtors without any requirement of further action by any Debtor or any holder of an Equity Interest in the Debtors.

1. Substantive Consolidation

Section IV.A. of the Plan provides that the Estates of all of the Debtors are to be "substantively consolidated," with all cases other than Morgan Administration, Inc. to be closed. For all intents and purposes, the Debtors held themselves out to the public and their customers as a single consolidated entity known colloquially as "HOBO". The Debtors operated, to some degree, as separate corporate entities, and as is common in related but separate entities, held

numerous substantial Intercompany Claims on their books and records as of the Petition Date. However, the Debtors' secured lender, MB, held a blanket secured claims across the assets of all of the Debtors' operating entities and its claim was satisfied by the liquidation of the assets of all of the Debtors' operating entities. In addition, numerous other creditors held claims against more than one Debtor. According to the Debtors' chief restructuring officer, the Debtors operations and related accounting processes were sufficiently entangled that it would be forensically difficult and inordinately costly to fully reconcile all Intercompany Claims and the claims of creditors who held claims against more than entity, and to reconcile the proceeds and costs of the liquidation of the assets of the various Debtors to individual Debtors. For all of those reasons, the Plan Proponents are seeking to substantively consolidate these Chapter 11 Cases.

Upon substantive consolidation, all of the assets of the Debtors shall be combined into one pool of assets, and similarly, all of the liabilities of the Debtors shall be combined into one pool of liabilities for purposes of making distributions to the holders of Allowed Claims under the Plan. All existing Intercompany Claims between the Debtors will be cancelled.

In the event that the Bankruptcy Court does not approve the substantive consolidation of all of the Estates, the Plan Proponents reserve the right, pursuant to Section IV.A.3. of the Plan, to revoke or withdraw this Plan as to any Debtor(s) whose Estate(s) cannot be substantively consolidated.

The Plan Proponents believe that substantive consolidation will achieve a fair result for all Holders of Claims against and Equity Interests of the Debtors and will enable the assets of the Debtors to be administered in a more efficient, and thus less costly, manner. If the estates are not substantively consolidated, the Debtors believe that significant administrative expenses will be incurred in order to untangle the Debtors' prepetition books and records and allocate assets and liabilities between the various Estates for purposes of distribution.

2. Creation of the Creditor Trust and Vesting of Assets

Section IV.B. of the Plan describes the creation of the Creditor Trust and the vesting of Assets in the Creditor Trust. Unless otherwise expressly provided under the Plan, on the Effective Date, the Creditor Trust will be formed, and all of the Debtors' consolidated Assets, including,

without limitation, all Estate Causes of Action, will vest in the Creditor Trust free and clear of all claims, liens, encumbrances, charges and other interests, subject to the provisions of the Plan. On and after the Effective Date, the transfer of the Debtors' Assets from the Estates to the Creditor Trust will be deemed final and irrevocable and all Distributions to be made under the Plan shall be made from the Creditor Trust. The Creditor Trust is organized and established as a trust for the benefit of the Beneficiaries and is intended to qualify as a Creditor Trust within the meaning of Treasury Regulation Section 301.7701-4(d).

A transfer to the Creditor Trust shall be treated for all purposes of the Internal Revenue Code of 1986, as amended (the "Internal Revenue Code"), as a transfer to creditors to the extent creditors are Beneficiaries. For example, such treatment shall apply for purposes of Internal Revenue Code sections 61(a)(12), 483, 1001, 1012 and 1274. Any such transfer shall be treated for federal income tax purposes as a deemed transfer to the beneficiary-creditors followed by a deemed transfer by the beneficiary-creditors to the Creditor Trusts. The Beneficiaries of the Creditor Trust shall be treated for federal income tax purposes as the grantors and deemed owners of the Creditor Trust.

3. Creditor Trust Administration

Pursuant to Section IV.C. of the Plan, on the Effective Date, the appointment of the Creditor Trustee shall become effective and the Creditor Trustee shall begin to administer the Creditor Trust pursuant to the terms of the Creditor Trust Agreement and the Plan. The Creditor Trustee may appear and be heard on all matters relating to the Bankruptcy Cases until the cases are closed pursuant to a final decree. The Creditor Trustee may pursue Causes of Action on behalf of the Trust, reconcile and object to Claims, pursue the collection or liquidation of other Assets, and otherwise administer the Creditor Trust in accordance with the Plan and the Creditor Trust Agreement.

4. Estate Causes of Action

The Plan and Creditor Trust Agreement assigns all Estate Causes of Action to the Creditor Trust to be pursued by the Creditor Trustee in its sole discretion. Existing or potential Estate Causes of Action that may be pursued by the Creditor Trustee after the Effective Date, include,

without limitation, (i) any and all Estate Causes of Action pursuant to any applicable section of the Bankruptcy Code, including, but not limited to, (a) any claims of the Debtors arising under section 362 of the Bankruptcy Code; (b) turnover claims arising under section 542 or 543 of the Bankruptcy Code; and (c) any Avoidance Actions; (ii) all other litigation claims arising under state or federal law; (iii) objections to Claims; (iv) claims that the Estates are entitled to set off or recoup against parties with Claims against the Estates; and (v) any action for equitable subordination of any Claim against the Estates pursuant to section 510 of the Bankruptcy Code.

The Committee has begun investigating certain potential Estate Causes of Action and the Creditor Trustee will be the beneficiary of and may continue such investigations. Among the investigations of potential Causes of Action are potential claims against former Insiders of the Debtors - certain of their former officers, directors, members of their management team or other Insiders - relating to their pre-bankruptcy conduct. The Committee believes, based on its preliminary investigation, that certain former Insiders of the Debtors may be vulnerable to litigation claims against them relating to the following alleged activities, among other things: (i) causing or authorizing the Debtors to overpay or otherwise improperly transfer funds to certain of the Debtors' officers, directors, other employees, or Insiders; (ii) causing or authorizing excessive personal benefits, such as excessive automobile leases and travel expenses; (iii) failing to properly oversee, monitor, or supervise the Debtors' operations and finances, including mismanagement of inventory and related reporting; and (iv) failing to properly oversee, monitor, manage or supervise the Debtors' self-insured healthcare plan. The foregoing are only allegations at this stage, and the Creditor Trustee will have the right to conduct further investigation and bring Causes of Action, if he or she deems it appropriate to do so.

The Creditor Trustee will also have the right to investigate and pursue any other Estate Causes of Action, including Avoidance Actions relating to, among other things: (i) avoidable preferential transfers, pursuant to section 547 of the Bankruptcy Code; and (ii) avoidable fraudulent transfers, pursuant to sections 544 and 548 of the Bankruptcy Code, as well as applicable state law. The precise value of any Avoidance Actions is unknown at this time.

Unless a specific Estate Cause of Action is expressly waived, relinquished, released, compromised, or settled in the Plan or in any Final Order, such Estate Cause of Action is expressly reserved for later adjudication by the Creditor Trustee (including, without limitation, any Estate Causes of Action of which the Debtors presently may be unaware, or which may arise or exist by reason of facts or circumstances unknown to the Debtors at this time, or facts or circumstances which may change or be different from those which the Debtors now believes to exist) and, therefore, no preclusion doctrine, including, without limitation, the doctrines of res judicata, collateral estoppel, issue preclusion, claim preclusion, waiver, estoppel (judicial, equitable, or otherwise), or laches shall apply to the Creditor Trustee's prosecution of Estate Causes of Action based on the Disclosure Statement, the Plan, or the Confirmation Order. Without limiting the generality of the foregoing, any Person with respect to which the Debtors have incurred an obligation (whether on account of services, purchase or sale of property, or otherwise), or who has received services from the Debtors or a transfer of money or property of the Debtor, or who has transacted business with the Debtors, should assume that such obligation, transfer, or transaction may be evaluated by the Creditor Trustee subsequent to the Effective Date and may be the subject of an Avoidance Action or other action or proceeding filed after the Effective Date.

THE PLAN PROPONENTS HAVE NOT COMPLETED THEIR INVESTIGATION REGARDING THE EXISTENCE OF ESTATE CAUSES OF ACTION. THE INVESTIGATION IN THIS REGARD IS ONGOING. AS A RESULT, ALL PARTIES-IN-INTEREST ARE HEREBY ADVISED THAT, NOTWITHSTANDING THE FACT THAT THE EXISTENCE OF ANY PARTICULAR ESTATE CAUSE OF ACTION MAY NOT BE LISTED, DISCLOSED OR SET FORTH IN THE PLAN, AN ESTATE CAUSE OF ACTION MAY BE FILED AGAINST ANY CREDITOR OR OTHER PARTY, EXCEPT FOR ANY RELEASED OR EXCULPATED PARTY, AS THE CREDITOR TRUSTEE MAY DETERMINE, IN THE EXERCISE OF ITS SOLE AND ABSOLUTE DISCRETION.

5. Retention of Professionals by the Creditor Trustee

Pursuant to Article IV.C. of the Plan, the Creditor Trustee may retain law firms, accounting firms, experts, advisors, consultants, investigators or other Professionals as it may deem necessary,

in accordance with the Creditor Trust Agreement, to aid in the performance of its responsibilities pursuant to the terms of the Plan, including in connection with the pursuit of Estate Causes of Action. The Professionals retained by the Creditor Trustee are not required to be "disinterested" as that term is defined in the Bankruptcy Code and may include, without limitation, counsel and financial advisors of any party in these Chapter 11 Cases in the Creditor Trustee's discretion.

6. No Liability of the Creditor Trustee

To the maximum extent permitted by law, the Creditor Trustee, its employees, officers, directors, agents, members, and representatives, and professionals employed or retained by the Creditor Trustee (the "**Creditor Trustee's Agents**"), will not have or incur liability to any Person for an act taken or omission made in good faith in connection with or related to the administration of the Creditor Trust Assets, the implementation of the Plan and the Distributions made thereunder or Distributions made under the Creditor Trust Agreement. The Creditor Trustee, the Creditor Trustee's Agents, and their respective employees, officers, directors, agents, members, and representatives, and professionals employed or retained by any of them, will in all respects be entitled to reasonably rely on the advice of counsel with respect to their duties and responsibilities under the Plan and the Creditor Trust Agreement.

7. Term of the Creditor Trustee; Removal or Resignation

The Creditor Trustee shall serve during the term of the Plan. The Creditor Trustee may resign upon thirty (30) days notice to certain parties entitled to notice. See Section 13.10 of the Creditor Trust Agreement. A Successor Creditor Trustee shall then be appointed under the Creditor Trust Agreement and shall be vested with all of the properties, rights, powers, trusts, and duties of his or her predecessor.

In addition, the Creditor Trustee may be removed for cause. Any beneficiary of the Creditor Trust shall be entitled to request by motion, for cause shown, that the Bankruptcy Court terminate the employment of the Creditor Trustee and replace it with another Person, who if appointed by Final Order of the Bankruptcy Court, will have all of the rights, powers and duties provided to the Creditor Trustee by the Plan, the Creditor Trust Agreement, the Confirmation

Order and by the provisions of the Final Order of the Bankruptcy Court appointing such replacement Creditor Trustee.

8. Compensation and Funding of Post-Effective Date Plan Expenses

The Creditor Trustee's compensation shall be as provided in the Creditor Trust Agreement. In addition, the Creditor Trust shall be entitled to incur, and to be reimbursed for, Post-Effective Plan Expenses in performing its duties and obligations under the Plan and Creditor Trust Agreement. All Post-Effective Date Plan Expenses shall be expenses of the Creditor Trust. The Creditor Trustee shall have no personal liability for any Post-Effective Date Plan Expenses. The Creditor Trustee shall disburse funds from the Creditor Trust Assets for the purpose of funding the Post-Effective Date Plan Expenses.

9. Approval for Disposition of Assets

From and after the Effective Date, the Creditor Trustee shall be entitled to sell, transfer, assign, encumber or otherwise dispose of any interest in any of the Creditor Trust Assets, without any need to give notice to Holders of Claims or parties-in-interest or to obtain any approval or order of the Bankruptcy Court for the disposition of any Asset for any amount, regardless of estimated value. Notwithstanding the foregoing, the Creditor Trustee shall be entitled to seek, from the Bankruptcy Court, an order authorizing the sale of any Creditor Trust Asset free and clear of liens pursuant to the provisions of section 363(f) of the Bankruptcy Code.

10. Compromise of Controversies / Bankruptcy Court Approval

From and after the Effective Date, the Creditor Trustee shall be entitled to compromise any objections to a Disputed Claim, or any controversies relating to Estate Causes of Action or other litigation pending after the Confirmation Date, without any need to give notice to creditors or parties-in-interest or to obtain any approval or order of the Bankruptcy Court, regardless of demand or estimated claim value. Nothing contained in the Plan shall be deemed to impair in any manner the right of the Creditor Trustee to seek at any time after the Effective Date orders of the Bankruptcy Court approving actions to be taken, or granting relief, consistent with the Plan as may be necessary or desirable to effectuate the provisions of the Plan.

11. Resolution of Disputes

In the event that a dispute should arise between the Creditor Trustee and any party-in-interest in the Chapter 11 Cases regarding any matters pertaining to the Plan, the Creditor Trust Agreement or pertaining to the Creditor Trustee's performance of its duties and exercise of its rights, powers and remedies under the Plan, either of them may request, pursuant to the provisions of the Bankruptcy Rules, that the Bankruptcy Court resolve the merits of such dispute.

12. Final Decree

When the Creditor Trustee determines, in the exercise of its sole and absolute discretion, that all Estate Causes of Action and objections to Disputed Claims have been resolved by Final Order, that all other Creditor Trust Assets have been liquidated or otherwise disposed of, and that all Distributions required to be made under the Plan have been made or that arrangements to make final Distributions are being made, the Creditor Trustee shall file with the Bankruptcy Court and serve, in accordance with Rule 3022 of the Chapter 11 Bankruptcy Rules, an application with the Bankruptcy Court to obtain a final decree to close the Case.

12. Other Rights, Powers and Duties of Creditor Trustee

In addition to the rights, powers and duties granted expressly to the Creditor Trustee pursuant to the Plan, the Creditor Trustee shall have such other rights, powers and duties that are appropriate to implement and to carry out the provisions of the Plan for the benefit of Holders of Claims that are not inconsistent with the provisions of the Plan.

F. Distributions Under the Plan

Section IV.E. of the Plan provides the terms by which Distributions will be made under the Plan and Creditor Trust Agreement.

1. In General

Except as otherwise provided herein, or as may be ordered by the Bankruptcy Court, Distributions to be made on account of Unclassified Claims and Allowed Claims, other than Allowed Class 5 Claims, shall be made on or soon as reasonably practicable after the Effective Date. The date(s) for Distributions to be made on account of Allowed Class 5 Claims shall be selected by the Creditor Trustee in accordance with the Creditor Trust Agreement, provided,

however, that the date(s) selected shall be made as soon as reasonably practicable after the Effective Date, subject to the terms of the Creditor Trust Agreement.

2. Manner of Payment Under the Plan

Any payment of Cash made by the Creditor Trustee pursuant to the Plan may be made either by check drawn on a domestic bank or by wire transfer from a domestic bank, at the option of the Creditor Trustee.

3. Manner of Distribution of Other Property

Any Distribution under the Plan of property other than Cash, if any, shall be made by the Creditor Trustee (or its agent) in accordance with the terms of the Plan.

4. Set-Offs

The Creditor Trustee may set off against any Claim and the payments to be made pursuant to the Plan in respect of such Claim, any claims of any nature whatsoever that the Debtor, Estate or the Creditor Trust may have against the Holder of such Claim; provided that neither the failure to effect such set-off nor the allowance of any Claim that otherwise would be subject to setoff, shall constitute a waiver or release by the Debtor, Estate or Creditor Trust of any such claim that the Debtor, Estate or Creditor Trust may have against such Holder.

5. Distribution of Unclaimed Property

Except as otherwise provided in the Plan, any Distribution of property (Cash or otherwise) under the Plan which is unclaimed after the later of (i) one hundred eighty (180) days following the Effective Date or (ii) ninety (90) days after such Distribution has been remitted to the Holder of the Allowed Claim, shall be deemed Available Cash and distributed as provided for under the Plan.

6. De Minimis Distributions/Unclaimed Funds

No cash payment of less than twenty dollars ($20.00) shall be made by the Creditor Trustee to any Holder of an Allowed Claim, except for an Allowed Claim for pre-Petition Date wages less than twenty dollars ($20.00), unless a request therefor is made in writing to the Creditor Trustee. Notwithstanding anything to the contrary herein, the Creditor Trustee shall not be required to make a Distribution to any Creditor if the dollar amount of the Distribution is so small that the cost of

making that Distribution exceeds the dollar amount of such Distribution. At the Final Distribution Date, if, in the reasonable judgment of the Creditor Trustee, the cost of calculating and making the final Distribution of the remaining funds is excessive in relation to the benefits to the Creditors who would otherwise be entitled to such Distributions, the Creditor Trustee shall deposit such funds with the Clerk of the Bankruptcy Court as unclaimed funds pursuant to Bankruptcy Rule 3011.

7. Rounding

Whenever a payment of a fraction of a cent would otherwise be called for, the actual distribution shall represent a rounding of such fraction down to the nearest cent.

8. Saturday, Sunday or Legal Holiday

If any payment or act under the Plan is required to be made or performed on a date that is not a Business Day, then the making of such payment or the performance of such act may be completed on the next succeeding Business Day but shall be deemed to have been completed as of the required date.

9. Delivery of Distributions / Address of Holder

For purposes of all notices and Distributions under the Plan, the Creditor Trustee shall be entitled to rely on, and Distributions to Holders of Unclassified Claims and Holders of Allowed Claims in Classes 1 through 6 shall be made by regular U.S. first class mail to, the following name and address for the Holder of each such Claim: (i) the address set forth in the proof of Claim Filed by such Holder; or (ii) the address set forth in any written notice of address change delivered by the Holder to the Debtors or the Creditor Trustee after the date on which any related proof of Claim was Filed. In the event that a Distribution is returned undeliverable or otherwise unclaimed, the Creditor Trustee shall undertake a reasonable search and inquiry to attempt to locate the party entitled to such unclaimed Distribution.

10. Creditors' Payment Obligations / Turnover of Property to Creditor Trustee

As a condition to obtaining Distributions under the Plan, any Holder of a Claim from which property is recoverable pursuant to a Final Order of the Bankruptcy Court under sections 542, 543, 550 or 553 of the Bankruptcy Code, or otherwise, or that is a transferee of a transfer avoidable

pursuant to a Final Order of the Bankruptcy Court under sections 522, 542, 544, 545, 547, 548 or 549 of the Bankruptcy Code or otherwise, shall pay to the Creditor Trustee the amount, or turn over to the Creditor Trustee any such property, for which such Holder of a Claim is liable to the Debtors.

11. Creditor Trustee Claim Objection Deadline

The Creditor Trustee shall have standing to file objections to Administrative Expenses and Claims even if such Administrative Expenses or Claims were scheduled by the Debtors as undisputed, liquidated and non-contingent. Notwithstanding any prior order of the Bankruptcy Court to the contrary, the Creditor Trustee shall have until one hundred eighty (180) days after the Effective Date (unless extended by an order of the Bankruptcy Court or by stipulation between the parties) to file objections to Claims and the time period set forth in Section VIII.B. of the Plan to file objections to Administrative Expenses, Class 1 Priority Claims or Class 2 Priority Claims. If the Creditor Trustee has objected to an Administrative Expense or Claim, payment will be withheld only with respect to the amount actually in dispute, and such objection shall not affect payments or Distributions under the Plan on the undisputed portion of the Administrative Expense or Claim. Notwithstanding the deadline to file objections to Claims provided under the Plan, the Creditor Trustee may file objections to Claims within ninety (90) days of the filing of an amended Claim.

12. No Distribution on Late-Filed Claims. Except as otherwise provided in a Final Order of the Bankruptcy Court or by agreement between the Debtors or the Creditor Trustee, and the affected Holder of such Claim, any Claim as to which a proof of claim was first Filed after the applicable Bar Date shall be a Disputed Claim, and the Creditor Trustee shall not make any Distribution to a Holder of such a Claim; provided, however, that to the extent such Claim was listed in the Schedules (other than as contingent, disputed, or unliquidated) and would be an Allowed Claim but for the lack of a timely proof of Claim, the Creditor Trustee shall treat such Claim as an Allowed Claim in the amount in which it was so listed.

13. United States Trustee Fees

All outstanding amounts due under 28 U.S.C. § 1930 that have not been paid shall be paid by the Debtors on or before the Effective Date. Thereafter, the Creditor Trustee shall pay any

statutory fees due pursuant to 28 U.S.C. § 1930(a)(6) and such fees shall be paid until entry of a Final Order or decree converting, dismissing, or closing the Chapter 11 Cases.

G. Release and Exculpation of Certain Professionals and Persons

Article V. of the Plan provides for certain releases and exculpations by the Debtors and the Estates for professionals and certain other parties that rendered services to the Debtors and the Estates during the Bankruptcy Cases, and are limited to the services provided by such parties to the Debtors and their Estates and matters related to these Cases. The released and exculpated parties under the Plan included (i) the Debtors' chief restructuring officer, Michael Goldman, (ii) counsel to the Debtors, Sugar Felsenthal Grais & Helsinger LLP, (iii) financial advisor to the Debtors, KCP Advisory Group, LLC, (iv) claims and notice agent to the Debtors, BMC Group, Inc., (v) investment banker to the Debtors, Fuel Break Capital Partners LLC, and (vi) counsel to the Committee, Freeborn & Peters LLP.

Entry of the Confirmation Order constitutes a judicial determination that the release and exculpation provisions contained in the Plan are necessary to facilitate Confirmation and feasibility and to minimize potential claims arising after the Effective Date from such professionals for indemnity, reimbursement or contribution from the Estates, or the Creditor Trust, or their respective property. The entry of the Confirmation Order confirming the Plan will also constitute a *res judicata* determination of the matters included in the release and exculpation provisions of the Plan. The release and exculpation provisions in the Plan do not alter any provision in the Creditor Trust Agreement that provides for the potential liability of the Creditor Trustee or any other person to any Person.

H. Risk Factors

Holders of Impaired Claims should read and consider carefully the factors set forth below, as well as other information set forth in this Disclosure Statement and the documents delivered together herewith and/or incorporated by reference herein, prior to voting to accept or reject the Plan.

1. Risks Regarding the Distributions to be Made to Creditors

While the Debtors have endeavored to project what they believe is likely to be the amount distributed to parties holding Allowed Claims, there can be no certainty that the Debtors' projections will be accurate, and that creditors will receive the distributions described in the Disclosure Statement and Plan. The Debtors' projections will necessarily be affected by, among other things: (1) recoveries (if any) that the Creditor Trustee may generate from Estate Causes of Action; (2) the outcome of objections to Claims; and (3) the cost and expenses of such actions.

2. Bankruptcy Risks

Section 1129 of the Bankruptcy Code sets forth the requirements for confirmation and requires, among other things, that the confirmation of a plan is not likely to be followed by the liquidation or the need for further financial reorganization, and that the value of distributions to dissenting creditors and equity security holders not be less than the value of distributions such creditors and equity security holders would receive if the Debtors were liquidated under chapter 7 of the Bankruptcy Code. The Debtors believe that the Plan satisfies all the requirements for confirmation of a plan as discussed below and that the Bankruptcy Court would also conclude that the requirements for Confirmation of the Plan have been satisfied. However, the Bankruptcy Court might disagree and might not confirm the Plan.

I. Other Provisions of the Plan

1. Executory Contracts and Unexpired Leases

a. *Assumptions / Rejections*

On the Effective Date, any and all agreements executed by the Debtors before the Effective Date, other than agreements that were previously either assumed and assigned or rejected either by a Final Order or under Bankruptcy Code section 365, to the extent that these agreements constitute executory contracts or unexpired leases under Bankruptcy Code section 365, shall be rejected. The Confirmation Order shall constitute a Final Order approving this rejection. All Allowed Rejection Damage Claims shall be treated as Class 3 Claims under the Plan.

b. *Bar Date for Rejection Damages*

Any Rejection Damage Claims arising from rejection under the Plan of an executory contract or unexpired lease must be filed with the Bankruptcy Court and served on the Creditor

Trustee and its counsel within thirty (30) days after the Effective Date. Any Rejection Damage Claims that are not timely filed and served will be forever barred and unenforceable against the Debtors, the Estates, the Creditor Trust, the Creditor Trustee, and their property, and the entities holding these Claims will be barred from receiving any Distributions under the Plan on account of their Rejection Damage Claims. The Creditor Trustee shall have the right to object to any such Rejection Damage Claims; provided, however, that any such objections must be served and filed not later than one hundred eighty (180) days after the Effective Date.

c. *Insurance Policies*

For the avoidance of doubt, all of the Debtors' rights with respect to all insurance policies under which the Debtors may be a beneficiary (including all insurance policies that may have expired prior to the Petition Date, all insurance policies in existence on the Petition Date, all insurance policies entered into by the Debtors after the Petition Date, and all insurance policies under which the Debtors hold rights to make, amend, prosecute and benefit from claims) are retained according to their respective terms and will be transferred or assigned to the Creditor Trust pursuant to the Plan. Furthermore, all of the Debtors' rights with respect to insurance policies owed by the Debtors in which a third party is a beneficiary (including all insurance policies related to the liability of directors and officers) are retained according to their respective terms and will be transferred or assigned to the Creditor Trust pursuant to the Plan, so long as such transfer and assignment does not impair such policies, with the Creditor Trustee having authority to settle any such claims.

2. Retention of Jurisdiction

The Plan shall not in any way limit the Bankruptcy Court's post-confirmation jurisdiction as provided under the Bankruptcy Code. The Bankruptcy Court will retain and have exclusive jurisdiction to the fullest extent permissible over any proceeding (i) arising under the Bankruptcy Code or (ii) arising in or related to the Chapter 11 Case or the Plan, including but not limited to the following:

a. To hear and determine pending motions for the assumption, assumption and assignment, or rejection of executory contracts or unexpired leases, if any are pending as of the Effective Date, the determination of any cure payments related thereto, and the allowance or disallowance of Claims resulting therefrom;

b. To determine any and all adversary proceedings, applications, motions, and contested matters instituted prior to the closing of the Chapter 11 Case;

c. To ensure that Distributions to holders of Allowed Claims are accomplished as provided in the Plan;

d. To hear and determine any objections to Administrative Expenses and to proofs of Claims filed both before and after the Effective Date (including, without limitation, whether all or any part of any Claim set forth in any such proof of Claim or Administrative Expense is subject to partial or complete subordination pursuant to applicable law), and to allow or disallow any Disputed Claim in whole or in part, provided, however, that, for the avoidance of doubt, the Creditor Trustee may settle or compromise (including by set-off) any Disputed Claim without further Order of the Court;

e. To hear and determine all applications for compensation and reimbursement of expenses of Professional Persons under sections 330, 331, and 503(b) of the Bankruptcy Code;

f. To hear and determine any disputes arising in connection with the interpretation, implementation, execution, or enforcement of the Plan, the Creditor Trust Agreement, the Confirmation Order, or any other order of the Bankruptcy Court;

g. To hear or determine any action to recover assets of the Estate, wherever located;

h. To hear and determine any actions or matters related to Estate Causes of Action, whether or not such actions or matters are pending on the Effective Date;

i. To hear and determine any matters concerning state, local, and federal taxes in accordance with sections 346, 505, and 1146 of the Bankruptcy Code;

j. To hear and determine any objections to the allowance of Claims or Administrative Claims, whether filed before or after the Confirmation Date, including any

objections to the classification of any Claim, and any proceedings to allow, disallow, determine, liquidate, estimate, or establish the priority or the secured or unsecured status of any Claim, or to establish reserves pending the resolution of Disputed Claims;

k. To hear and determine any proceeding to modify the Plan, after confirmation of the Plan, and, if in the best interests of Holders of Claims, modification of the Plan even after the Plan has been substantially consummated;

l. To consider the issuance of injunctions or other orders as may be necessary or appropriate to aid in the implementation of the Plan or to restrain interference by any entity with the consummation or the enforcement of the Plan;

m. To hear any other matter not inconsistent with the Bankruptcy Code;

n. To hear any other matter deemed relevant by the Bankruptcy Court; and

o. To enter a final decree closing the Chapter 11 Case.

I. Tax Consequences of the Plan

THE FOLLOWING IS INTENDED TO BE ONLY A SUMMARY OF SELECTED FEDERAL AND STATE INCOME TAX CONSEQUENCES OF THE PLAN AND IS NOT A SUBSTITUTE FOR CAREFUL TAX PLANNING WITH, AND RECEIPT OF TAX ADVICE FROM, A TAX PROFESSIONAL. THE SELECTED FEDERAL AND STATE TAX CONSEQUENCES THAT ARE DESCRIBED HEREIN AND OTHER FEDERAL, STATE AND LOCAL TAX CONSEQUENCES THAT ARE NOT ADDRESSED HEREIN ARE COMPLEX AND, IN SOME CASES, UNCERTAIN. SUCH TAX CONSEQUENCES MAY ALSO VARY BASED ON THE INDIVIDUAL CIRCUMSTANCES OF EACH HOLDER OF AN ALLOWED CLAIM OR EQUITY INTEREST. ACCORDINGLY, EACH HOLDER OF AN ALLOWED CLAIM OR EQUITY INTEREST IS STRONGLY ADVISED TO CONSULT WITH ITS OWN TAX ADVISOR REGARDING THE FEDERAL, STATE AND LOCAL TAX CONSEQUENCES OF THE PLAN. THE BELOW SUMMARY OF TAX CONSEQUENCES IS NOT INTENDED TO BE AND IS NOT TAX ADVICE.

THE DEBTORS DO NOT INTEND TO REQUEST A TAX RULING FROM THE INTERNAL REVENUE SERVICE OR ANY OTHER TAXING AUTHORITY WITH RESPECT

TO ANY OF THE TAX CONSEQUENCES OF THE PLAN. CONSEQUENTLY, THE INTERNAL REVENUE SERVICE OR ANOTHER TAXING AUTHORITY MAY DISAGREE WITH AND MAY CONTEST ONE OR MORE OF THE TAX CONSEQUENCES DESCRIBED HEREIN TO THE DEBTOR, HOLDERS OF CLAIMS AND HOLDERS OF INTERESTS.

1. Federal Income Tax Consequences to Certain Creditors

a. *In General*

Generally, a holder of a Claim should in most, but not all circumstances, recognize gain or loss equal to the difference between the "amount realized" by such holder in exchange for its Claim and such holder's adjusted tax basis in the Claim. The "amount realized" is equal to the sum of the cash and the fair market value of any other consideration received under a plan of reorganization in respect of a holder's Claim. The tax basis of a holder in a Claim will generally be equal to the holder's cost therefor. To the extent applicable, the character of any recognized gain or loss (e.g., ordinary income, or short-term or long-term capital gain or loss) will depend upon the status of the holder, the nature of the Claim in the holder's hands, the purpose and circumstances of its acquisition, the holder's holding period of the Claim, and the extent to which the holder previously claimed a deduction for the worthlessness of all or a portion of the Claim. Generally, if the Claim is a capital asset in the holder's hands, any gain or loss realized will generally be characterized as capital gain or loss, and will constitute long-term capital gain or loss if the holder has held such Claim for more than one year.

A creditor who received Cash in satisfaction of its Claims may recognize ordinary income or loss to the extent that any portion of such consideration is characterized as accrued interest. A creditor who did not previously include in income accrued but unpaid interest attributable to its Claim, and who receives a distribution on account of its Claim pursuant to the Plan, will be treated as having received interest income to the extent that any consideration received is characterized for U.S. federal income tax purposes as interest, regardless of whether such creditor realizes an overall gain or loss as a result of surrendering its Claim. A creditor who previously included in its income accrued but unpaid interest attributable to its Claim should recognize an ordinary loss to the extent that such accrued but unpaid interest is not satisfied, regardless of whether such creditor

realizes an overall gain or loss as a result of the distribution it may receive under the Plan on account of its Claim.

Under the Plan, the holders of certain Claims will likely receive only a partial distribution of their Allowed Claims. As discussed herein, members of Class 3 Claims will receive respective Class 3 Trust Interests, which is discussed further below. Whether the applicable holder of such Claims will recognize a loss or any other tax treatment will depend upon facts and circumstances that are specific to the nature of the holder and its Claims. Creditors should consult their own tax advisors.

2. Non-United States Persons

A holder of a Claim that is a Non-U.S. Person generally will not be subject to U.S. federal income tax with respect to property (including money) received in exchange for such Claim pursuant to the Plan, unless (i) such holder is engaged in a trade or business in the United States to which income, gain or loss from the exchange is "effectively connected" for United States federal income tax purposes, or (ii) if such holder is an individual, such holder is present in the United States for 183 days or more during the taxable year of the exchange and certain other requirements are met.

3. Tax Consequences in Relation to Creditor Trust

As of the Effective Date, the Creditor Trust will be established for the benefit of the holders of Allowed Claims in Class 3. The tax consequences of the Plan in relation to the Creditor Trust and the beneficiaries thereof are subject to uncertainties due to the complexity of the Plan and the lack of interpretative authority regarding certain changes in the tax law.

Allocations of taxable income of the Creditor Trust (other than taxable income allocable to the Creditor Trust's claims reserves) among holders of Claims will be determined by reference to the manner in which an amount of cash equal to such taxable income would be distributed (were such cash permitted to be distributed at such time) if, immediately prior to such deemed distribution, the Creditor Trust had distributed all of its assets (valued at their tax book value) to the holders of the beneficial interests in the Creditor Trust, adjusted for prior taxable income and loss and taking into account all prior and concurrent distributions from the Creditor Trust.

Similarly, taxable loss of the Creditor Trust will be allocated by reference to the manner in which an economic loss would be borne immediately after a liquidating distribution of the remaining trust assets.

The tax book value of the trust assets for this purpose will equal their fair market value on the Effective Date, adjusted in accordance with tax accounting principles prescribed by the Tax Code, applicable Treasury Regulations, and other applicable administrative and judicial authorities and pronouncements. Uncertainties with regard to federal income tax consequences of the Plan may arise due to the inherent nature of estimates of value that will impact tax liability determinations.

Subject to definitive guidance from the IRS or a court of competent jurisdiction to the contrary (including the receipt of an IRS private letter ruling if the Creditor Trustee so requests one, or the receipt of an adverse determination by the IRS upon audit if not contested by the Creditor Trustee), the Creditor Trustee may (a) elect to treat any trust assets allocable to, or retained on account of, Disputed Claims (the "**Trust Claims Reserve**") as a "disputed ownership fund" governed by Treasury Regulation Section 1.468B-9, and (b) to the extent permitted by applicable law, report consistently with the foregoing for state and local income tax purposes. Accordingly, any Trust Claims Reserve will be subject to tax annually on a separate entity basis on any net income earned with respect to the trust assets in such reserves, and all distributions from such reserves will be treated as received by holders in respect of their Claims as if distributed by the Debtors. All parties (including, without limitation, the Creditor Trustee and the holders of beneficial interests in the Creditor Trust) will be required to report for tax purposes consistently with the foregoing.

The Creditor Trust is intended to qualify as a liquidating trust for federal income tax purposes. In general, a liquidating trust is not a separate taxable entity but rather is treated for federal income tax purposes as a "grantor" trust (i.e., a pass-through entity). The IRS, in Revenue Procedure 94-45, 1994.28 I.R.B. 124, set forth the general criteria for obtaining an IRS ruling as to the grantor trust status of a Creditor Trust under a chapter 11 plan. The Creditor Trust has been structured with the intention of complying with such general criteria. Pursuant to the Plan and

Creditor Trust Agreement, and in conformity with Revenue Procedure 94-45, supra, all parties (including the Creditor Trustee and the holders of beneficial interests in the Creditor Trust) are required to treat for federal income tax purposes, the Creditor Trust as a grantor trust of which the holders of the applicable Allowed Claims are the owners and grantors. While the following discussion assumes that the Creditor Trust would be so treated for federal income tax purposes, no ruling has been requested from the IRS concerning the tax status of the Creditor Trust as a grantor trust. Accordingly, there can be no assurance that the IRS would not take a contrary position to the classification of the Creditor Trust as a grantor trust. If the IRS were to challenge successfully such classification, the federal income tax consequences to the Creditor Trust and the beneficiaries thereof could materially vary from those discussed herein.

In general, each creditor who is a beneficiary of the Creditor Trust will recognize gain or loss in an amount equal to the difference between (i) the "amount realized" by such beneficiary in satisfaction of its applicable Allowed Claim, and (ii) such beneficiary's adjusted tax basis in such Claim. The "amount realized" by a beneficiary will equal the sum of cash and the aggregate fair market value of the property received by such party pursuant to the Plan (such as a beneficiary's undivided beneficial interest in the assets transferred to the Creditor Trust). Where gain or loss is recognized by a beneficiary in respect of its Allowed Claim, the character of such gain or loss (i.e., long-term or short-term capital, or ordinary income) will be determined by a number of factors including the tax status of the party, whether the Claim constituted a capital asset in the hands of the party and how long it had been held, whether the Claim was originally issued at a discount or acquired at a market discount and whether and to what extent the party had previously claimed a bad debt deduction in respect of the Claim.

After the Effective Date, any amount that a creditor receives as a distribution from the Creditor Trust in respect of its beneficial interest in the Creditor Trust should not be included, for federal income tax purposes, in the party's amount realized in respect of its Allowed Claim, but should be separately treated as a distribution received in respect of such party's beneficial interest in the Creditor Trust.

In general, a beneficiary's aggregate tax basis in its undivided beneficial interest in the assets transferred to the Creditor Trust will equal the fair market value of such undivided beneficial interest as of the Effective Date and the beneficiary's holding period in such assets will begin the day following the Effective Date. Distributions to any beneficiary will be allocated first to the original principal portion of the beneficiary's Allowed Claim as determined for federal tax purposes, and then, to the extent the consideration exceeds such amount, to the remainder of such Claim. However, there is no assurance that the IRS will respect such allocation for federal income tax purposes.

For all federal income tax purposes, all parties (including the Creditor Trustee and the holders of beneficial interests in the Creditor Trust) will treat the transfer of assets to the Creditor Trust, in accordance with the terms of the Plan and Creditor Trust Agreement, as a transfer of those assets directly to the holders of the applicable Allowed Claims followed by the transfer of such assets by such holders to the Creditor Trust. Consistent therewith, all parties will treat the Creditor Trust as a grantor trust of which such holders are to be owners and grantors. Thus, such holders (and any subsequent holders of interests in the Creditor Trust) will be treated as the direct owners of an undivided beneficial interest in the assets of the Creditor Trust for all federal income tax purposes. Accordingly, each holder of a beneficial interest in the Creditor Trust will be required to report on its federal income tax return(s) the holder's allocable share of all income, gain, loss, deduction or credit recognized or incurred by the Creditor Trust.

The Creditor Trust's taxable income will be allocated to the holders of beneficial interests in the Creditor Trust in accordance with each such holder's pro rata share. The character of items of income, deduction and credit to any holder and the ability of such holder to benefit from any deductions or losses may depend on the particular situation of such holder.

The federal income tax reporting obligation of a holder of a beneficial interest in the Creditor Trust is not dependent upon the Creditor Trust distributing any cash or other proceeds. Therefore, a holder of a beneficial interest in the Creditor Trust may incur a federal income tax liability regardless of the fact that the Creditor Trust has not made, or will not make, any concurrent or subsequent distributions to the holder. If a holder incurs a federal tax liability but does not

receive distributions commensurate with the taxable income allocated to it in respect of its beneficial interests in the Creditor Trust it holds, the holder may be allowed a subsequent or offsetting loss.

The Creditor Trustee will file with the IRS returns for the Creditor Trust as a grantor trust pursuant to Treasury Regulations Section 1.671-4(a). The Creditor Trust will also send to each holder of a beneficial interest in the Creditor Trust a separate statement setting forth the holder's share of items of income, gain, loss, deduction or credit and will instruct the holder to report such items on its federal income tax return. For the avoidance of doubt, the Creditor Trustee shall file with the IRS and other taxing authorities all outstanding and final returns for the Debtors.

Events subsequent to the date of this Disclosure Statement, such as the enactment of additional tax legislation, could also change the federal income tax consequences of the Plan and the transactions contemplated thereunder.

4. Information Reporting and Backup Withholding

Distributions pursuant to the Plan will be subject to any applicable federal income tax reporting and withholding. The IRC imposes "backup withholding" on certain "reportable" payments to certain taxpayers, including payments of interest. Under the IRC's backup withholding rules, a holder of a Claim may be subject to backup withholding with respect to distributions or payments made pursuant to the Plan, unless the holder (a) comes within certain exempt categories (which generally include corporations) and, when required, demonstrates this fact or (b) provides a correct taxpayer identification number and certifies under penalty of perjury that the taxpayer identification number is correct and that the taxpayer is not subject to backup withholding because of a failure to report all dividend and interest income. Backup withholding is not an additional federal income tax, but merely an advance payment that may be refunded to the extent it results in an overpayment of income tax. A holder of a Claim may be required to establish an exemption from backup withholding or to make arrangements with respect to the payment of backup withholding.

THE FOREGOING SUMMARY HAS BEEN PROVIDED FOR INFORMATIONAL PURPOSES ONLY. ALL HOLDERS OF CLAIMS ARE URGED TO

CONSULT THEIR OWN TAX ADVISORS CONCERNING THE FEDERAL, STATE, LOCAL AND OTHER TAX CONSEQUENCES APPLICABLE UNDER THE PLAN

IV. CONFIRMATION REQUIREMENTS AND PROCEDURES

A. Who May Vote or Object

1. Who May Object to Confirmation of the Plan

Any party in interest may object to confirmation of the Plan, but as explained below, not everyone is entitled to vote to accept or reject the Plan.

2. Who May Vote to Accept/Reject the Plan

It requires an Allowed and Impaired Claim or Equity Interest in order for the applicable Holder to vote either to accept or reject the Plan. A Claim is defined by the Bankruptcy Code to include a right to payment from the Debtors. An Equity Interest represents an ownership stake in the Debtors. Sections III.C. of the Plan sets forth which Claims are in which Class.

a. *What Is an Allowed Claim/Interest*

The Plan defines an Allowed Claim as a Claim, proof of which was timely and properly filed and, as to which, no objection to the allowance thereof has been interposed.

b. *What Is an Impaired Claim/Interest*

The Plan defines Impaired as having the meaning set forth in § 1124 of the Bankruptcy Code. As noted above, an Allowed Claim or interest has the right to vote only if it is in a class that is impaired under the Plan. A class is impaired if the Plan alters the legal, equitable, or contractual rights of the members of that class. For example, a class comprised of general unsecured claims is impaired if the Plan fails to pay the members of that class 100% of what they are owed.

The Plan Proponents believe that members of Class 5 are impaired and entitled to vote to accept or reject the Plan. Parties who dispute the Debtors' characterization of their claim or interest as being impaired or unimpaired may file an objection to the Plan contending that the Debtors have incorrectly characterized the class.

3. Who is NOT Entitled to Vote

The following four types of claims are not entitled to vote: (1) claims that have been disallowed; (2) claims in unimpaired classes; (3) claims entitled to priority pursuant to Bankruptcy Code sections 507(a)(2), (a)(3), and (a)(8); and (4) claims in classes that do not receive or retain any value under the Plan. Claims in unimpaired classes are not entitled to vote because such classes are deemed to have accepted the Plan. Claims entitled to priority pursuant to Bankruptcy Code sections 507(a)(2), (a)(3), and (a)(8) are not entitled to vote because such claims are not placed in classes and they are required to receive certain treatment specified by the Bankruptcy Code. Claims in classes that do not receive or retain any value under the Plan do not vote because such classes are deemed to have rejected the Plan. EVEN IF YOUR CLAIM IS OF THE TYPE DESCRIBED ABOVE, YOU MAY STILL HAVE A RIGHT TO OBJECT TO THE CONFIRMATION OF THE PLAN.

4. Who Can Vote in More Than One Class

Secured Claims are placed in separate Classes from unsecured claims. Fed. R. Bankr. P. 3018(d) provides: "A creditor whose claim has been allowed in part as a secured claim and in part as an unsecured claim shall be entitled to accept or reject a plan in both capacities." A creditor whose claims has been allowed in part as a secured claim and in part as a general unsecured claim is entitled to accept or reject the Plan in both capacities by casting one ballot for the secured part of the claim and another ballot for the general unsecured claim.

5. Votes Necessary to Confirm the Plan

Because there is one or more impaired class(es), the Court cannot confirm the Plan unless (1) at least one impaired class has accepted the Plan without counting the votes of any insiders within that class, and (2) all impaired classes have voted to accept the plan, unless the plan is eligible to be confirmed by "cramdown" on non-accepting classes, as discussed below.

6. Votes Necessary for a Class to Accept the Plan

A class of claims is considered to have accepted the Plan when more than one-half (1/2) in number and at least two-thirds (2/3) in dollar amount of the claims which actually voted on the Plan, voted in favor of the Plan. A class of interests is considered to have "accepted" the Plan when

at least two-thirds (2/3) in amount of the interest-holders of such class which actually voted on the Plan, voted to accept the Plan.

7. Treatment of Non-Accepting Classes

As noted above, even if all impaired classes do not accept the proposed Plan, the Court may nonetheless confirm the Plan if the non-accepting classes are treated in the manner required by the Bankruptcy Code. The process by which non-accepting classes are forced to be bound by the terms of the Plan is commonly referred to as "cramdown." The Bankruptcy Code allows the Plan to be "crammed down" on non-accepting classes of claims or interests if it meets all consensual requirements except the voting requirements of section 1129(a)(8) and if the Plan does not "discriminate unfairly" and is "fair and equitable" toward each impaired class that has not voted to accept the Plan as required by section 1129(b) and applicable case law.

8. Request for Confirmation Despite Non-Acceptance by Impaired Classes

The Debtors will ask the Court to confirm the Plan by cramdown on any and all impaired classes that do not vote to accept the Plan.

To obtain nonconsensual confirmation of the Plan, the Debtors must demonstrate to the Court that the Plan "does not discriminate unfairly" and is "fair and equitable" with respect to each impaired, non-accepting class. The Bankruptcy Code provides a non-exclusive definition of the phrase "fair and equitable." The Bankruptcy Code provides that a plan is "fair and equitable" with respect to a class of creditors or equity holders if:

a. *Secured Creditors*. Either (i) each impaired secured creditor retains its liens securing its secured claim and receives on account of its secured claim cash payments having a present value equal to the amount of its allowed claim, (ii) each impaired secured creditor realizes the "indubitable equivalent" of its allowed secured claim, or (iii) the property securing the claim is sold free and clear of liens with such liens to attach to the proceeds of the sale and the treatment of such liens on proceeds to be as provided in clause (i) or (ii) above.

b. *Unsecured Creditors*. Either (i) each impaired unsecured creditor receives or retains under the Plan property of a value equal to the amount of its allowed claim, or (ii) the

holders of claims and equity interests that are junior to the claims or interests of the non-accepting class will not receive any property under the Plan.

B. Liquidation Analysis

With respect to each Impaired Class of Claims and Equity Interests, the Bankruptcy Code requires that each Holder of an Impaired Claim or Equity Interest either (a) accepts the Plan, or (b) receives or retains under the Plan property of a value, as of the Effective Date of the Plan, that is not less than the value such Holder would receive or retain if the Debtors were liquidated under chapter 7 of the Bankruptcy Code. This analysis requires the Bankruptcy Court to determine what the Holders of Allowed Claims or Equity Interests in each Impaired Class would receive from the liquidation of the Debtors' Assets in the context of a chapter 7 liquidation case.

The Plan Proponents' Liquidation Analysis is attached as **Exhibit B**. Among other factors, if the Chapter 11 Cases could be converted to cases under chapter 7, liquidation under chapter 7 would result in the incurrence of administrative costs in excess of those to be incurred under the Plan because a chapter 7 trustee that would be appointed in the case would likely seek to retain counsel and potentially other professionals that are completely unfamiliar with the Debtors, their ongoing responsibilities, remaining assets and liabilities. The appointment of another group of professionals at this stage of the bankruptcy of the Debtors, in addition to the Professionals in these cases who have substantial experience with the issues raised in these Cases, would increase administrative claims including additional professional fees. There is also no certainty as to whether a chapter 7 trustee would vigorously pursue Estate Causes of Action and objections to Claims, as the active pursuit of such litigation is not a precondition to the chapter 7 trustee's appointment, and a chapter 7 trustee could ultimately choose not to challenge Claims or pursue Estate Causes of Action.

Also, a new time period for the filing of claims would commence under Bankruptcy Rule 1019(2), possibly resulting in the filing of additional Claims against the Estates. Conversion of the case to a case under chapter 7 and appointment of a trustee for administration of the Estate could also delay the prosecution of Estate Causes of Action and the distributions to creditors while

the chapter 7 trustee and its new professionals familiarized themselves with the case and Estate Causes of Action.

The Plan Proponents contemplate an orderly administration and winding down of the Estates by parties that are already familiar with the Debtors, their Assets, and their creditors and liabilities. Such familiarity will allow the Creditor Trust to complete liquidation of the Assets, distribute the proceeds to the creditors more efficiently and expeditiously than a chapter 7 trustee, while maximizing the value of the Assets for the benefit of creditors.

In a chapter 7 liquidation, therefore, it is highly likely that there would be less money available for distribution to Holders of Allowed Class 5 Claims than under the Plan. *See* **Liquidation Analysis, Exhibit B.**

C. Feasibility

The Plan cannot be confirmed unless the Court finds that it is "feasible." In general, there are two elements of feasibility. The first element is whether there will be sufficient funds to make distributions required to be made on the Effective Date, or as soon thereafter as is practicable, including to Holders of Allowed Administrative Expenses, Allowed Priority Tax Claims, and the Allowed Priority Claims in Classes 1, 2, and 3.

Based upon the Debtors holding approximately $1.2 million in Cash (the projected balance as of the Effective Date) and the estimated amounts of valid Administrative Expenses Allowed Priority Tax Claims, and Allowed Priority Claims in Classes 1, 2, and 3, the Plan Proponents believe that the Creditor Trust will have sufficient funds to meet this element of feasibility.

Further, the Bankruptcy Code requires that confirmation of a plan is not likely to be followed by the liquidation or the need for further financial reorganization of a debtor, unless such liquidation or reorganization is proposed in such plan. In this case, the Debtors' Assets have already been substantially liquidated, with remaining Assets to be pursued including primarily Causes of Action. The Plan contemplates that all remaining Assets ultimately will be liquidated, sold, transferred, abandoned, or otherwise disposed of, and all remaining Cash and all proceeds of the remaining Assets will be utilized to pay creditors. Since no further financial reorganization

of the Debtors will be possible or is contemplated and the liquidation of the Debtors is provided for in the Plan, the Plan satisfies this element of feasibility as well.

Based on the foregoing, the Plan Proponents believe that the Plan is feasible.

D. Confirmation Request

In the event that all of the applicable requirements of section 1129(a) are met other than section 1129(a)(8), if applicable, the Debtors request confirmation of the Plan notwithstanding the requirements of such paragraph under section 1129(b). If and to the extent applicable, the Debtors will provide further support for Confirmation of the Plan under the "cram down" provisions of section 1129(b) in its brief to be filed in support of the Plan.

V. EFFECT OF CONFIRMATION

A. Discharge

1. Injunction Enjoining Holders of Claims Against Debtors

The Plan is the sole means for resolving, paying or otherwise dealing with Claims and Equity Interests. To that end, except as expressly provided in the Plan, at all times on and after the Effective Date, all Persons who have been, are, or may be holders of Claims against or Interests in the Debtor, arising prior to the Effective Date, will be permanently enjoined from taking any of the following actions, on account of any such Claim or Equity Interest, against the Debtors, the Estates, the Creditor Trust or its property (other than actions brought to enforce any rights or obligations under the Plan):

a. commencing, conducting or continuing in any manner, directly or indirectly any suit, action, or other proceeding of any kind against the Debtors and/or Estates, the Creditor Trust, or the Creditor Trustee, their successors, or their respective property or assets (including, without limitation, all suits, actions, and proceedings that are pending as of the Effective Date which will be deemed to be withdrawn or dismissed with prejudice);

b. enforcing, levying, attaching, executing, collecting, or otherwise recovering by any manner or means whether directly or indirectly any judgment, award, decree, or order against the Debtors, the Estates, the Creditor Trust, or the Creditor Trustee, their successors, or their respective property or assets;

c. creating, perfecting, or otherwise enforcing in any manner, directly or indirectly, any lien, security interest or encumbrance against the Debtors, the Estates, the Creditor Trust, or the Creditor Trustee, their successors, or their respective property or assets; and

d. proceeding in any manner in any place whatsoever against the Debtors, the Estates, the Creditor Trust, or the Creditor Trustee, their successors, or their respective property or assets that does not conform to or comply with the provisions of the Plan.

2. Non-discharge of the Debtors

In accordance with section 1141(d)(3) of the Bankruptcy Code, the Confirmation Order will not discharge Claims. However, no Holder of a Claim may receive any payment from, or seek recourse against, any assets that are to be distributed under the Plan other than assets required to be distributed to that Holder pursuant to the Plan. As of the Confirmation Date, all Persons are enjoined from asserting against any property that is to be distributed under the Plan, any Claims, rights, causes of action, liabilities, or Equity Interests based upon any act, omission, transaction, or other activity that occurred before the Confirmation Date except as expressly provided in the Plan or the Confirmation Order.

B. Vesting of Property in the Creditor Trust

As set forth above, on the Effective Date, the Debtors' Assets, including, without limitation, all Estate Causes of Action, will vest in the Creditor Trust free and clear of all claims, liens, encumbrances, charges and other interests, subject to the provisions of the Plan. On and after the Effective Date, the transfer of the Debtors' Assets from the Estates to the Creditor Trust will be deemed final and irrevocable and all Distributions to be made under the Plan shall be made from the Creditor Trust.

C. Withdrawal or Modification of Plan

Prior to the Effective Date, the Plan may be withdrawn as to one or more of the Debtors or may be altered, amended, or modified pursuant to section 1127 of the Bankruptcy Code by the Debtors. After the Effective Date, the Creditor Trustee shall have the sole authority and power to alter, amend, or modify the Plan pursuant to section 1127 of the Bankruptcy Code.

D. Quarterly Fees

All quarterly fees due and payable to the Office of the United States Trustee pursuant to section 1930(a)(6) of title 28 of the United States Code shall be duly paid in full on or before the Effective Date, as required by section 1129(a)(12) of the Bankruptcy Code. The Creditor Trust shall be responsible for timely payment of such quarterly fees due and payable after the Effective Date and until the Chapter 11 Case is closed, pursuant to section 1930(a)(6) of title 28 of the United States Code, with respect to cash disbursements made by the Creditor Trustee under the Plan. After the Effective Date and until the Chapter 11 Case is closed, the Creditor Trustee shall file with the Office of the United States Trustee quarterly financial reports specifying all disbursements made pursuant to the Plan and shall make all payments based upon such disbursements as required by applicable law.

E. Final Decree

Pursuant to Bankruptcy Rule 3022, a Final Decree may not be entered until a bankruptcy case is fully administered. The Court may, however, allow a Final Decree to be entered at an earlier date for cause shown.

VI. RECOMMENDATION

The Plan Proponents recommend that all creditors that receive a ballot and are eligible to vote on the Plan vote in favor of the Plan. The Plan Proponents have thoroughly evaluated various alternatives to the Plan. After studying the other alternatives, the Debtors have concluded that the Plan is the best vehicle for liquidating and distributing the Estates' Assets to creditors, and will maximize recoveries to unsecured creditors. Specifically, it allows creditors to obtain distributions likely in excess of those that would be available if the Debtors were eligible to be liquidated under chapter 7 of the Bankruptcy Code and minimizes delays in recoveries to all creditors.

Dated: August 8, 2019

MORGAN ADMINISTRATION, INC., *et al.*,
debtors and debtors in possession

By: /s/ Michael Goldman
Michael Goldman
Chief Restructuring Officer

- and -

THE OFFICIAL COMMITTEE OF UNSECURED CREDITORS OF MORGAN ADMINISTRATION, INC., *et al.*

By: /s/ Devon Eggert
Devon J. Eggert
One of its Attorneys