

UNITED STATES BANKRUPTCY COURT
MIDDLE DISTRICT OF NORTH CAROLINA

In re: Banowsky Brothers)	
Furniture, Inc.)	Case No. 18-CH11-XXXX
)	
Debtor)	Chapter 11
)	

DISCLOSURE STATEMENT FOR DEBTOR'S PLAN OF REORGANIZATION
UNDER CHAPTER 11 OF THE BANKRUPTCY CODE

The Debtor-in-Possession, Banowsky Brothers Furniture, Inc., (the "Debtor") submits this Disclosure Statement pursuant to section 1125 of the Bankruptcy Code (the "Code") in connection with the solicitation of acceptances of the Plan of Reorganization filed by the Debtor with the United States Bankruptcy Court for the Middle District of North Carolina (the "Plan"), the hearing to consider the adequacy of this Disclosure Statement scheduled for August 15, 2018 and the hearing on confirmation of the Plan (the "Confirmation Hearing") scheduled for September 20, 2018. Unless otherwise defined herein, all capitalized terms contained herein have the meanings ascribed to them in the Plan.

1. HISTORY OF BANOWSKY BROTHERS FURNITURE, INC.

In 1933, as the Great Depression tightened its grip on America, Philip Banowsky, the grandfather of Charles and Timothy Banowsky, lost his job as local manager of an insurance company in Charlotte, North Carolina and turned to the only other thing he knew: furniture making. He started his business, Banowsky & Son Fine Furniture, in the garage of his Charlotte home and the handmade wooden furniture he produced not only kept his family fed but also gained a reputation for being very well made and sturdy. When Philip passed away in 1962, his son, Richard, took over the business and relocated to High Point, North Carolina, known as "the furniture capital of the world." Richard built a small factory building in High Point where the company both made and sold furniture directly to the public. During the years that he operated the business, Richard incorporated the business, expanded the manufacturing facility, and opened three regional stores in leased locations, selling Banowsky furniture exclusively. It was while Richard operated the business that Banowsky furniture came to be known for its intricate hand carving. Richard himself was a noted woodcarver, and by the time he retired in 2000, the company employed three other Master Carvers. Over the years, the company has focused on solid wood furniture made from pine, oak, or cherry in natural, stained, or colored finishes. It specializes in sets of furniture for the dining room, bedroom, and study, including entertainment centers, bookcases, and corner pieces.

When Richard's two sons, Charles and Timothy, took over the business in 2000, they changed the name to Banowsky Brothers Furniture, Inc. and expanded the family business further by negotiating contracts with two chain department stores, Sherman Department Store and Maddens Home Furnishings, to carry BBF furniture in their stores. In 2014 the brothers undertook a major modernization of their factory by doubling the size of the facility and by purchasing computer-operated robot systems for material handling and product finishing. They went to computer-aided design/computer-aided manufacturing (CAD/CAM) systems to operate all new routers, panel

saws, and other production equipment. The brothers also leased two new regional store locations, for a total of five, in addition to the showroom that is part of the furniture factory building. This 2014 expansion was funded by a master loan from Capital City Bank (CCB), which already held a mortgage in the factory property, and the balance owing was refinanced as part of the master loan. The amount of the master loan was \$2 million, to be repaid over 25 years. In addition to the mortgage, CCB took a security interest in BBF's inventory, including furniture in process, accounts receivable, and cash, to secure repayment of the loan, the current balance of which is \$1.5 million. Both Charles and Timothy have personally guaranteed the debt owed by the business to CCB.

The new computerized systems were purchased from New Century Automation (NCA), which also financed BBF's purchase of new production equipment, including routers, panel saws, and so forth. The total purchase price was \$500,000 to be paid over a 12-year term. NCA retained a security interest in the CAD/CAM systems as well as the production equipment to assure repayment. The current balance owed to NCA is \$425,000.

All of BBF's other assets—six vehicles, office furniture, fixtures, supplies, and nonproduction equipment—are subject to a security interest in favor of Columbiana Federal Savings & Loan, which is owed \$175,000.

2. FINANCIAL CIRCUMSTANCES GIVING RISE TO CHAPTER 11 FILING

As a review of Debtor's fixed monthly obligations and gross annual income for the five-year preceding its Chapter 11 filing set out below will show, Debtor's gross income has been in steady decline over that 5-year period. The reasons for that decline have to do with increased domestic competition from furniture makers located outside the United States who benefit from lower labor and material costs. Those competitors are consequently able to offer products of somewhat comparable quality and functionality at consistently lower cost than Debtor. It is in fact a tribute to the high quality of Debtor's products, its hard-earned reputation for durable quality furniture work and its unique hand-carved pieces that it has been able to remain competitive in the American furniture market when so many domestic furniture manufacturers have failed.

Management of the Debtor has struggled over the five years in question to turn the tide of profitability by cost-cutting. At the beginning of 2013 Debtor had 28 full-time employees. As of the date the petition was filed On June 6, 2018 it had 24. A major renovation and updating of production equipment and systems that Debtor went through in 2014 as described in Section 1 of this Disclosure Statement was intended to enable Debtor to make even more dramatic cuts in its labor force. Management also hoped that the 2014 renovation would increase the company's cash flow by shortening the production period accompanied by an expansion of sales outlets for Debtor's products. That is now what happened, however. The transition from labor intensive material handling and furniture production did not go well due to poor training and problems with the systems that kept them offline for long periods. Additionally, the cost of raw materials began to soar, compounding Debtor's financial problems.

As a consequence of these combined events, Debtor slowly sank into more and more debt that it could not manage with its traditional business plan. A review of the Debtor's condensed balance sheet set out below demonstrates that Debtor is technically insolvent. A comparison of its fixed monthly obligations with its gross annual income reveals that it is unable to pay its debts as they arise in the ordinary course of business, much less to reduce the growing backlog of unpaid debt. Debtor currently needs income of \$138,000 per month in order to pay its fixed monthly obligations only. The gross income figure discloses it is falling ever shorter of that mark.

Two trade creditors of Debtor, Billings Roofing, LLC and Perfect Packaging, Inc. have filed suit in the last six months to collect unpaid bills. Billings Roofing has caused a mechanic's lien to attach to Debtor's plant. Two critical suppliers of Debtor, North State Paint & Polymer Supply and Hardwood Specialty, Inc. have both refused to do any further business with Debtor based on credit and have begun demanding cash on delivery. Debtor can only expect these types of claims and disadvantageous business arrangements to continue without a major change of direction. Working through counsel, Debtor has attempted to negotiate a private workout with its creditors but those efforts proved unsuccessful.

A. Balance sheet

As of the date the petition was filed on June 6, 2018, the condensed balance sheet of debtor was as follows:

Assets:

Plant	1,200,000
Production equipment.	350,000
Accounts receivable.....	45,000
Cash.....	75,700
Inventory.....	175,000
Inventory-in-process.....	50,000
Vehicles (6).....	100,000
Furniture, fixtures, office machines, non-production equipment and supplies.....	50,000
Total assets.....	\$2,045,000

Liabilities:

Capital City Bank.....	1,528,270
New Century Automation.....	435,482
Columbiana Federal Savings & Loan.....	175,000
Billings Roofing, LLC (mechanic's lien).....	15,000
Unpaid trade debt.....	358,150
Unpaid taxes.....	28,423
Unpaid wages and withholding.....	8,574
Total liabilities.....	\$2,548,899

B. Fixed obligations

As of the date the petition was filed, June 6, 2018, the fixed monthly obligations of debtor were as follows:

Capitol City Bank note.....	14,135
New Century Automation note.....	5,141
Columbiana Federal	
Savings & Loan note.....	1,572
Columbiana Leasing Co lease.....	750
New material & supplies.....	25,000
Wages.....	44,000
Withholding.....	11,000
Health insurance.....	3,000
Premises insurance	2,000
Vehicle insurance.....	500
Worker's Comp insurance.....	500
Advertising/Web site.....	5,000
Utilities.....	3,000
Gas & transportation	10,000
State & federal tax reserve.....	12,000

Total fixed monthly expenses.....\$137,598

C. Annual gross income

The debtor's annual gross income for the five years preceding the filing of the petition on June 6, 2018 as follows:

2013.....	2,166,213
2014.....	1,998,098
2015.....	1,802,876
2016.....	1,655,970
2017.....	1,544,803
2018 (6 months).....	719,382

As Debtor's gross income has fallen, the cash shortage problem has grown. Debtor has reached the point that continued operations under the traditional business plan are no longer feasible. Three lawsuits have been filed against debtor in the six months preceding the filing of the petition by unpaid creditors. Debtor is in default on two secured notes that threatens its ability to maintain control of critical assets including its plant, production equipment and related computer systems.

3. LIQUIDATION ANALYSIS

In a liquidation, although all secured creditors are likely to receive the value of the collateral securing their claim, that value is not likely to cover the entire indebtedness owed to secured creditors with the sole possible exception of Capitol city Bank. In a liquidation, nothing is likely to be distributed on any unsecured claim.

Secured debt in a liquidation

Debtor currently has four secured creditors.

a) Capital City Bank (CCB) is owed \$1.5 million and is secured in the Debtor's plant, cash, accounts receivable, inventory and inventory-in-process which has a value of between \$1,512,000 and \$1,427,000. The variation in value of the collateral pledged to CCB is attributable primarily to the inventory of Debtor. That inventory, if sold in the ordinary course of business under ordinary business conditions, should be worth \$175,000. However, if liquidated under non-ordinary "fire-sale" conditions as is likely in a liquidation, that inventory is likely worth only \$90,000. Thus, in a liquidation, assuming administrative costs of 10% CCB is likely to realize only approximately \$1,284,300 from the collateral leaving an unsecured claim of \$215,700.

b) New Century Automation (NCA) is owed \$425,000 and is secured in Debtor's CAD/CAM systems and production equipment having a value of \$350,000. Thus, in a liquidation, assuming administrative costs of 10%, NCA is likely to realize only approximately \$315,000 from the collateral leaving an unsecured claim of \$110,000.

c) Columbiana Federal Savings & Loan (CFSL) is owed \$175,000 and is secured in Debtor's vehicles, office furniture, fixtures, office machines, supplies and other non-production equipment having a total value of \$150,000. Thus in a liquidation, assuming administrative expenses of 10%, CFSL is likely to realize only approximately \$135,000 leaving an unsecured claim of \$40,000.

d) Billings Roofing, LLC (BR) is owed \$15,000 for roof repair work performed in 2017 and has filed a mechanics lien on Debtor's plant in the amount of the indebtedness. BR's line on the plant is junior to the mortgage of CCB. As is clear from the discussion of CCB's mortgage in subsection a), there is no equity in the plant to secure the lien of BR. Thus, in a liquidation, BR's claim will be treated as an unsecured claim in the amount of \$15,000.

The Plan of Reorganization filed by Debtor proposes that each secured creditor receive the equity value of the collateral pledged to them to the same extent it would be received in a liquidation.

Unsecured debt in a liquidation

Debtor has unsecured trade debt totaling \$350,000. Debtor also has a \$27,000 state corporate income tax obligation from 2016 and 2017 which will have priority status under §507(a)(8). (Other tax obligations owing to the United States government and for FICA and PIT withholdings and an obligation to the State of North Carolina for unpaid withholding obligations on the wages of employees under the Unemployment Compensation Act, all of which would have had priority status, were paid post-petition by Order of the Court entered June 8, 2018.) In a liquidation, the four secured creditors of Debtor would have unsecured claims totaling at least \$100,000 and possibly as much as \$380,700 as explained above. Thus the total unsecured debt of Debtor in a liquidation scenario would be between \$472,000 and \$752,700. Since all of the assets of Debtor are pledged to its various secured creditors, there would likely be no distribution at all on unsecured claims in a liquidation by Debtor.

The Plan of Reorganization filed by Debtor proposes a payout on all unsecured claims ranging from 10-50% thus insuring that all creditors receive more under its Plan of Reorganization than they would receive in a liquidation.

4. EXPLANATION OF THE PLAN

The owners and managers of the Debtor have concluded that survival of the company is dependent on a significant change in business direction. Due to the rising cost of domestic materials together with the high labor costs of Debtor's business, there does not appear to be any feasible way to continue utilizing domestic wood products in the manufacture of furniture for sale in the United States.

However, Debtor does have significant assets that Debtor believes can be successfully utilized in an alternative business plan. Those assets include 1) more than 70 years of experience in the furniture making industry as a consequence of which the management of Debtor is intimately familiar with all aspects of that business; 2) state of the art equipment and operational systems already in place; and 3) extensive expertise and established reputation for fine hand-carved furniture.

With the assistance of New Era Capital Alliance based in Montreal, Canada (NECA), Debtor has put together a feasible plan to make the best use of its assets to restore the fortunes of the company. NECA is a venture capital company formed in 2002 that has, to date, invested more than \$50 million in new and reorganized ventures, primarily in the business technology sector. The four partners of NECA, all of whom have been with the company since its inception, have compiled an impressive record of successful ventures as described in the NECA statement of purpose attached to this Disclosure Statement.

With the assistance of NECA, the Debtor has entered into a conditional agreement with Furniture Internationale SE, an Italian company based in Milan, Italy (FI), pursuant to which it will import teakwood and rubberwood from Hong Kong Distributors, a supplier located in Hong Kong, China (HKD), and begin to manufacture various home and office furniture for sale in primarily Asian markets through FI. FI has been in existence for 12 years and distributes various lines of furniture featuring unique national emblems and characteristics through a network of dealers located in the urban areas of China, Japan and Korea and other Asian locations. HKD is a publicly traded company whose stock is traded on the Hong Kong Stock Exchange and is listed on the blue-chip Hang Seng index of Hong Kong-based companies. FI has an established record of working with HKD and to date has achieved an impressive record of profits with its other national lines of furniture based to date on Italian, English, French and Mexican characteristics.

The selling point of the various lines of FI furniture is that they are made of materials preferred by the customers in the targeted markets but reflect the character of foreign exotic places for targeted customers. The urban markets targeted by FI reflect the explosion of middle class wealth in those markets, particularly China. Reorganized Debtor will supply FI with what will be called the American Patriot Line of furniture for distribution in these markets. Furniture made by Reorganized Debtor will take advantage of its established reputation for high quality hand carving which will feature American emblems recognized worldwide such as the stars and stripes of the American flag, the American eagle, the Statue of Liberty, the White House, Mount Vernon, Monticello, the Alamo, etc.

As part of its plan Reorganized Debtor will pursue preferential transfer claims against four trade creditors totaling \$39,000.

To effectuate its plan, Debtor will no longer use any significant quantity of domestic wood. It will no longer distribute or sell its furniture products domestically. Consequently, as part of the Plan of Reorganization, Debtor will reject all executory contracts and unexpired leases. By pre-plan motion and Order entered June 8, 2018, Debtor has rejected its shopping center lease agreement with Columbiana Leasing Company (CLC) pursuant to which Debtor has sold its furniture products domestically. The post-petition claim of CLC entitled to priority status is dealt with in Claims Class 1 of Debtor's Plan. Pursuant to its Plan, Debtor will also reject its executory agreements with Sherman Department Store (SDS) and Maddens Home Furnishings (MHF) pursuant to which it has included its furniture in the inventory of those chain department stores. Both SDS and MHF have indicated their post-petition claim arising from the rejection of either contract is expected. To liquidate its current inventory to maximize the estimated value of \$175,000, Reorganized Debtor will continue to offer that inventory for sale through the sales location located within its plant and over its Web site, www.banbrofurniture.com. Reorganized Debtor will also complete the manufacture of its furniture-in- process valued at \$50,000 and liquidate the completed

furniture in the same way. In order to complete the manufacture of its inventory-in-process, the Reorganized Debtor must continue to do business with two trade creditors against whom Reorganized Debtor has preferential transfer claims totaling \$25,000, Western Chemical Supply (WCS) and Specialty Gum & Sap (SGS). Reorganized Debtor anticipates being able to recover the preferential transfers from WCS and SGS without the need for litigation. The claims of WCS and SGS arise from the expected recovery of the preferential transfers have been combined in Class 9 of the Plan and, though impaired, will be paid in full in cash six months following the Effective Date. Preferential transfer actions will be pursued by Reorganized Debtor against two other creditors, Cradden's Paint Place and American Hardwoods totaling \$14,000 and the Allowed Unsecured Claims of those non-critical trade creditors will be treated in Class 7 of the Plan.

Reorganized Debtor will not need to purchase or lease substantial amounts of new equipment and machinery or to revamp the computerized systems currently in use. Costs for new equipment and systems are estimated at \$100,000. It will need to keep the 3 Master Carvers it currently employs and add as many as 3 more within the next 12 months. Once the conversion begins, Debtor estimates it will be six months before any significant cash flow is received from the new furniture line.

The planned conversion will enable Reorganized Debtor to dramatically reduce its production costs. Closing its last retail outlet and eliminating the need to sell its products domestically will enable Reorganized Debtor to reduce its full-time employee pool from 24 to 18 with more cuts possible once the newest systems are operational. Reorganized Debtor will no longer engage in domestic advertising other than on its Web site, reducing those costs by a projected 80%. Reorganized Debtor will no longer need all six vehicles for delivery of its furniture to diverse points which will reduce maintenance and repair costs and avoid new capital expenditures in the future. Because of the relatively low cost of wood products to be imported through HKD and used in Reorganized Debtor's new line of furniture, savings on the purchase of new materials and supplies is projected to reach and possibly exceed 50%.

Though Debtor's financial problems over the past several years have left it with a heavy load of secured debt, the Plan will allow Reorganized Debtor sufficient temporary relief or breathing space to manage that debt load if income projections (discussed in Part 5 below) are met. Though Debtor would like to be able to pay a higher percentage of its pre-petition unsecured debt, prudence dictates calling for no more than what is proposed.

In addition to the relatively modest costs needed for new production equipment and systems, Reorganized Debtor will need capital to cover its reduced labor costs and new materials and supplies as well as other costs of business during the conversion. That source of capital will come from NECA which will provide Reorganized Debtor with a first line of credit in the amount of \$500,000 on the Effective Date. Six months later, NECA will make available to the Reorganized Debtor a second line of credit in the amount of \$500,000 if the income projections discussed in Part 5 below are met. The terms of both the first and second line of credit will be the payment of interest only on the outstanding balance at 7% per annum for seven years followed by repayment of the principal balance owed in annual installments together with interest at 7% per annum over 5 years. These terms and rates are typical of those made between NECA and other start-up or reorganized business efforts it has successfully funded over the years of its existence. The interest rates agreed to are fair and reasonable in light of current rates.

In exchange for the extension of both lines of credit to Reorganized Debtor, NECA will receive 10,000 shares of preferred stock in Reorganized Debtor. The charter of Reorganized debtor will be amended and restated as of the Effective Date to authorize the issuance of the 10,000 shares of preferred stock. The first 5,000 shares of the preferred stock will be issued to NECA as of the Effective Date. Upon issuance of the second line of credit, Debtor will issue the second 5,000 shares of preferred stock to NECA.

The preferred stock in the Reorganized Debtor will provide for the right to vote on (i) the merger, sale, liquidation or dissolution of the Reorganized Debtor, (ii) a sale of all or substantially all of the Reorganized Debtor's assets, (iii) any increase in the number of authorized shares of any class or series of the Reorganized Debtor's Equity Securities, (iv) creation of any new class or series of Equity Securities in the Reorganized Debtor, (v) any increase in the number of members of the Board of Directors of the Reorganized Debtor, and (vi) election of one member of the Board of Directors of the Reorganized Debtor. The preferred shares will also enjoy a dividend preference over holders of common shares in Reorganized Debtor including the right, beginning on the 5th anniversary of the Effective Date, to a fixed annual dividend of \$5 per share. The preferred shares will also enjoy a liquidation preference over common shares in Reorganized Debtor. The five current holders of the outstanding common stock in Debtor will retain those interests in the Reorganized Debtor and consent to the dilution of their overall ownership interests and priorities in the Reorganized Debtor.

In addition to the issuance of the preferred stock, the Reorganized Debtor will grant to NECA a secured position in all of the Reorganized Debtor's real and personal property to secure repayment of the amounts owed under the first and second line of credit. Additionally, Insiders Charles Banowsky and Timothy Banowsky will grant NECA a mortgage in the real property used by said Insiders as their primary residences as of the Effective Date to secure repayment of the amounts advanced by NECA to the Reorganized Debtor in the first and second line of credit.

The Plan of Reorganization proposes to treat the various Claims of Secured and Unsecured Creditors and Equity Security holders in nine (9) different Classes all but one of which is impaired. The following table briefly summarizes the classification and treatment of Administrative Expense Claims, Claims and Equity Interests under the Plan:

Class	Type of Claim or Equity Interest	Treatment	Approximate Allowed Amount	Percentage Recovery
1	Administrative Expenses, professional fees, taxes and other §507(a) Priority Claims	Paid in full, in Cash, on the later of the Effective Date or when such Claim becomes Allowed; Professional fees when approved; §507(a)(8) tax claim in installments over 6 years; Post-petition Claims incurred in the ordinary course of business will be paid when due in the ordinary course of business.	\$50,000	100%

2	Allowed Secured Claim of Capital City Bank	Pre-petition arrearage of \$28,270 to be paid in full in installments over six months with 7% interest beginning six months from Effective Date. Interest only at 7% on balance of \$1.5 million for 9 months following Effective Date. Monthly payments at contract rate to resume thereafter with term extended as necessary to complete payments.	\$28,270 arrearage and balance of \$1.5 million	100%
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3	Allowed Secured Claim of New Century Automation	Pre-petition arrearage of \$10,282 to be paid in full in installments over six months with 7% interest beginning six months from Effective Date. Secured Claim Allowed on \$350,000, extent of value of collateral in which NCA will retain its security interest. Excess indebtedness of \$75,000 to be treated as non-priority Unsecured Claim within Class 7. Interest only at 7% on balance of \$350,000 for 9 months following Effective Date. Monthly payments at contract rate to resume thereafter with term extended as necessary to complete payments.	\$10,282 arrearage and balance of \$350,000	100%
4	Allowed Secured Claim of Columbiana Federal Savings & Loan	Two vehicles in which CFSL is secured worth \$40,000 to be surrendered to CFSL. Secured Claim allowed on \$110,000, value of remaining collateral in which CFSL will retain its security interest. Excess indebtedness of \$25,000 to be treated as non-priority Unsecured Claim within Class 7. Interest only at 7% on balance of \$110,000 for 9 months following Effective Date. Monthly payments at contract rate to resume thereafter with term extended as necessary to complete payments.	\$110,000	100%
5	Allowed Unsecured Claim of Billings Roofing, LLC	Secured claim of BR based on mechanics lien will be reduced to -0-, the equity available in the Debtor's plant to which the mechanics lien attaches. Excess indebtedness of \$15,000 to be treated as non-priority Unsecured Claim within Class 6.	-0- as secured Allowed as Unsecured in Class 6	0%
6	Trade Debt: All non-priority Allowed Unsecured Claims other than the Undersecured Claims of Claimants in Classes 3-4 and Small Trade Debt Claims in Class 8 and critical Trade Debt Claims in	10% of Allowed Unsecured Claim paid in cash on Effective Date or 25% of Allowed Claim in Pro Rata annual installments over 10 years beginning on the third anniversary of the Effective Date.	\$362,500	10-25%

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7	All non-priority Allowed Unsecured Claims arising out of the Undersecured Claims of Claimants in Classes 3-4.	50% of Allowed Claim payable in Pro Rata annual installments over 10 years beginning on the third anniversary of the Effective Date.	\$100,000 (\$114,000 following recovery of preferential transfers from 2 class members)	50%
8	Non-priority Allowed Unsecured Small Trade Debt Claims (6) less than \$500 each.	Combined for administrative convenience. To be paid in full in cash six months following the Effective Date.	\$2,500	100%
9	Non-priority Allowed Unsecured Critical Trade Debt Claims (2).	Combined because both creditors represent critical trade creditors of Reorganized Debtor without whose continued cooperation Debtor cannot complete manufacture of furniture-in-process. To be paid in full six months following the Effective Date.	\$25,000 (following recovery of preferential transfers from both class members)	100%
10	Equity Security Interests in Debtor	10,000 shares of common stock in Debtor to be retained by current holders but diluted by issuance of 10,000 shares of preferred stock to be authorized and issued to New Era Capital Alliance as of the Effective Date. There will be no distribution to the current holders of Equity Security Interests in Debtor despite the diminution in their ownership interest of Reorganized Debtor.	\$10,000	Interest retained but diluted

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5. FINANCIAL PROJECTIONS UNDER THE PLAN

Working in conjunction with NECA, the Debtor has developed the following 5-year income projections based on assumed confirmation of the proposed Plan of Reorganization at the Confirmation Hearing scheduled for September 20, 2018. Each time period referenced reflects the stated period following plan confirmation.

1-3 months: \$225,000 representing sale of remaining inventory and inventory-in-process
4-6 months: \$250,000

7-12 months: \$750,000
13-24 months: \$2,000,000
25-36 months: \$2,500,000
37-48 months: \$3,000,000
49-60 months: \$3,000,000
YR+6 and beyond: \$3,000,000 +

Debtor considers these projections to be fair and reasonable and neither overly optimistic nor pessimistic. They are based on Debtor's knowledge of its business, the capacity of its business, and the capacity of the new markets in which its products will be sold. As always with projections of future income, such projections must be subject to unexpected or unforeseeable natural or man-made events that could impact negatively or positively on the underlying assumptions and considered capacities.

6. POTENTIAL MATERIAL FEDERAL TAX CONSEQUENCES TO THE DEBTOR AND HYPOTHETICAL HOLDERS OF CLAIMS AND INTERESTS

[Text excluded from this Illustration]

7. THE BALLOTING PROCEDURE AND CONFIRMATION HEARING

A hearing will be held by the Bankruptcy Court on August 15, 2018 to determine the adequacy of this Disclosure Statement. If the disclosure Statement is approved, balloting on the Debtor's proposed Plan of Reorganization will proceed as follows:

Pursuant to the provisions of the Bankruptcy Code, only holders of allowed claims or equity interests in classes of claims or equity interests that are impaired and that are not deemed to have rejected the proposed plan are entitled to vote to accept or reject a proposed plan. Classes of Claims or Equity Interests in which the holders of Claims or Equity Interests are unimpaired under a Chapter 11 plan are deemed to have accepted the plan and are not entitled to vote to accept or reject the plan.

If you are entitled to vote to accept or reject the Plan, a Ballot is enclosed for the purpose of voting on the Plan. If you hold Claims in more than one Class and you are entitled to vote Claims in more than one Class, you will receive separate Ballots, which must be used for each separate Class of Claims. Ballots should be returned to: Banowsky Brothers Furniture, Inc., c/o Financial Balloting Service, Ltd., 757 Third Avenue, Raleigh, North Carolina 27601.

If the return envelope provided with your Ballot was addressed to your bank or brokerage firm, please allow sufficient time for that firm to process your vote on a Master Ballot before the Voting Deadline (4:00 p.m., September 15, 2018).

Do not return your notes or securities with your Ballot.

TO BE COUNTED, YOUR BALLOT INDICATING ACCEPTANCE OR REJECTION OF THE PLAN MUST BE RECEIVED BY NO LATER THAN 4:00 P.M. ON SEPTEMBER 15, 2018. ANY EXECUTED BALLOT RECEIVED THAT DOES NOT INDICATE EITHER AN ACCEPTANCE OR A REJECTION OF THE PLAN SHALL NOT BE COUNTED.

Any Claim in an impaired Class as to which an objection or request for estimation is pending or which is listed on the Schedules as unliquidated, disputed or contingent is not entitled to vote unless the holder of such Claim has obtained an order of the Bankruptcy Court temporarily allowing such Claim for the purpose of voting on the Plan.

If you are a holder of a Claim entitled to vote on the Plan and you did not receive a Ballot, received a damaged Ballot or lost your Ballot or if you have any questions concerning the Disclosure Statement, the Plan or the procedures for voting on the Plan, please call Financial Balloting Service, Ltd at (919) 555-1800.

Pursuant to section 1128 of the Bankruptcy Code, the Confirmation Hearing will be held on September 20, 2018 at 9:00 a.m. The Bankruptcy Court has directed that objections, if any, to confirmation of the Plan must be served and filed so that they are received on or before September 16, 2018 at 4:00 p.m. The Confirmation Hearing may be adjourned from time to time without further notice except for the announcement of the adjournment date made at the Confirmation Hearing or at any subsequent adjourned Confirmation Hearing.

THE STATEMENTS CONTAINED IN THIS DISCLOSURE STATEMENT ARE MADE AS OF THE DATE HEREOF UNLESS ANOTHER TIME IS SPECIFIED HEREIN, AND THE DELIVERY OF THIS DISCLOSURE STATEMENT SHALL NOT CREATE AN IMPLICATION THAT THERE HAS BEEN NO CHANGE IN THE INFORMATION STATED SINCE THE DATE HEREOF. HOLDERS OF CLAIMS SHOULD CAREFULLY READ THIS DISCLOSURE STATEMENT IN ITS ENTIRETY, INCLUDING THE PLAN, PRIOR TO VOTING ON THE PLAN.

FOR THE CONVENIENCE OF HOLDERS OF CLAIMS AND EQUITY INTERESTS, THIS DISCLOSURE STATEMENT SUMMARIZES THE TERMS OF THE PLAN. IF ANY INCONSISTENCY EXISTS BETWEEN THE PLAN AND THE DISCLOSURE STATEMENT, THE TERMS OF THE PLAN ARE CONTROLLING. THE DISCLOSURE STATEMENT MAY NOT BE RELIED ON FOR ANY PURPOSE OTHER THAN TO DETERMINE WHETHER TO VOTE TO ACCEPT OR REJECT THE PLAN, AND NOTHING STATED HEREIN SHALL CONSTITUTE AN ADMISSION OF ANY FACT OR LIABILITY BY ANY PARTY, OR BE ADMISSIBLE IN ANY PROCEEDING INVOLVING THE DEBTORS OR ANY OTHER PARTY, OR BE DEEMED CONCLUSIVE EVIDENCE OF THE TAX OR OTHER LEGAL EFFECTS OF THE PLAN ON THE DEBTORS OR HOLDERS OF CLAIMS OR EQUITY INTERESTS. CERTAIN OF THE STATEMENTS CONTAINED IN THIS DISCLOSURE STATEMENT, BY NATURE, ARE FORWARD-LOOKING AND CONTAIN ESTIMATES AND ASSUMPTIONS. THERE CAN BE NO ASSURANCE THAT SUCH STATEMENTS WILL BE REFLECTIVE OF ACTUAL OUTCOMES. ALL HOLDERS OF CLAIMS SHOULD CAREFULLY READ AND CONSIDER FULLY THE RISK FACTORS SET FORTH IN THIS DISCLOSURE STATEMENT BEFORE VOTING TO ACCEPT OR REJECT THE PLAN.

SUMMARIES OF CERTAIN PROVISIONS OF AGREEMENTS REFERRED TO IN THIS DISCLOSURE STATEMENT DO NOT PURPORT TO BE COMPLETE AND ARE SUBJECT TO, AND ARE QUALIFIED IN THEIR ENTIRETY BY REFERENCE TO, THE FULL TEXT OF THE APPLICABLE AGREEMENT, INCLUDING THE DEFINITIONS OF TERMS CONTAINED IN SUCH AGREEMENT.

THE DEBTOR BELIEVES THAT THE PLAN WILL ENABLE IT TO REORGANIZE SUCCESSFULLY AND ACCOMPLISH THE OBJECTIVES OF CHAPTER 11 AND THAT ACCEPTANCE OF THE PLAN IS IN THE BEST INTERESTS OF THE DEBTOR, ITS CREDITORS AND THE HOLDERS OF EQUITY SECURITY INTERESTS.

Date: July 16, 2018

Banowsky Brothers Furniture, Inc.,
a North Carolina Corporation

By: /s/ Charles A. Banowsky
Charles A. Banowsky, President

/s/ Lisa M. Forsyth

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