

UNITED STATES BANKRUPTCY COURT  
DISTRICT OF MINNESOTA  
FOURTH DIVISION

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In re:

Bky. No. 04-42532 (RJK)

Chapter 11

Rels Manufacturing Corporation,

Debtor.

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**DEBTOR'S PLAN OF REORGANIZATION  
SEPTEMBER 30, 2004**

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Rels Manufacturing Corporation, debtor and debtor in possession in the above-referenced chapter 11 case ("Debtor" or "Rels") proposes the following plan of reorganization pursuant to chapter 11 of the United States Bankruptcy Code.

**ARTICLE 1**

**DEFINITIONS AND INTERPRETATION**

**1.1 Definitions.** The capitalized terms used herein shall have the respective meanings set forth below and in the United States Bankruptcy Code.

(a) "Administrative Claim" means a claim for a cost or expense of administration of the Chapter 11 Case allowed under Section 503(b) of the Bankruptcy Code.

(b) "Administrative Convenience Claim" means an allowed general unsecured claim otherwise contained in Class 3A or 3B which is \$300 or less; provided, however, that any holder of an allowed general unsecured claim of more than \$300 may elect to have its claim treated as an Administrative Convenience Claim by electing to reduce its claim to \$300 and by so specifying on its ballot.

(c) "Bar Date" means the date fixed by order of the Bankruptcy Court by which a proof of claim must be filed against Debtor; to wit, August 2, 2004.

(d) "Confirmation Date" means the date on which the Confirmation Order becomes a Final Order.

(e) "Distribution Date," when used with respect to each claim, means as soon as practicable after the later of (i) the Effective Date or (ii) the first business day of the next calendar month after the date upon which the claim becomes an allowed claim.

(f) "Effective Date" means, and shall occur on, the first (1st) business day immediately following the date that is fifteen (15) calendar days after the Confirmation Date.

(g) "Final Order" means an order of the Court which has not been timely appealed or, if appealed, no stay of the order's effectiveness has been entered.

(h) "Petition Date" means March 24, 2004.

(i) "Pro Rata Share" means the proportion that the amount of an allowed claim in a particular class bears to the aggregate amount of all allowed claims in such class under the Plan as calculated by Debtor on the Distribution Date.

(j) "Reorganized Debtor" means the Debtor as of the Effective Date after confirmation of the Plan.

**1.2 Interpretation.** Unless otherwise specified, all section, article and exhibit references in the Plan are to the respective section in, article of, or exhibit to, the Plan, as the same may be amended, waived or modified from time to time. The headings in the Plan are for convenience of reference only and shall not limit or otherwise affect the provisions hereof. Words denoting the singular number shall include the plural number and vice versa, and words denoting one gender shall include the other gender.

**1.3 Application of Definitions and Rules of Construction Contained in the Bankruptcy Code.** Words and terms defined in Section 101 of the Bankruptcy Code shall have the same meaning when used in the Plan. The rules of construction in Section 102 of the Bankruptcy Code apply to construction of the Plan.

## ARTICLE 2

### CLASSIFICATION OF CLAIMS AND EQUITY INTERESTS

**2.1 Claims and Equity Interests Classified.** For purposes of organization, voting, and all Plan confirmation matters, except as otherwise provided herein, all claims (except for Administrative Claims and Priority Tax Claims) and all equity interests shall be classified as set forth in Section 2.3 of the Plan.

**2.2 Administrative Claims and Priority Tax Claims.** As provided by Section 1123(a)(1) of the Bankruptcy Code, Administrative Claims and Priority Tax Claims against Debtor or its bankruptcy estate shall not be classified for purposes of voting or receiving distributions under the Plan. Rather, all such claims shall be treated separately as unclassified claims on the terms set forth in Article 5 of the Plan.

**2.3 Claims and Equity Interests.** The Plan classifies the claims and the equity interests as follows:

- (a) Class 1 -- Priority Non-Tax Claims;
- (b) Class 2 -- Secured Claim of Associated Commercial Finance, Inc.
- (c) Class 3 A -- General Unsecured Claims not entitled to priority and not otherwise classified in this Plan;
- (d) Class 3B – General Unsecured Claims held by trade creditors;
- (e) Class 4 -- Administrative Convenience Claims; and
- (f) Class 5 -- Equity Interests in Debtor.

### ARTICLE 3

#### **IDENTIFICATION OF IMPAIRED CLASSES OF CLAIMS AND EQUITY INTERESTS**

**3.1 Unimpaired Classes of Claims and Equity Interests.** The Class 5 Equity Interests are not impaired under the Plan.

**3.2 Impaired Classes of Claims and Equity Interests.** With the exception of the unimpaired classes specified in Section 3.1, all classes of claims and equity interests are impaired under the Plan.

### ARTICLE 4

#### **PROVISIONS FOR TREATMENT OF CLASSES OF CLAIMS AND EQUITY INTERESTS**

**4.1 Claims and Equity Interests.** The classes of claims against and equity interests in Debtor shall be treated as follows:

(a) **Class 1 -- Priority Non-Tax Claims.** The Priority Non-Tax Claims total \$9,647.80. Each holder of a Priority Non-Tax Claim against Debtor shall receive on the Distribution Date (i) the amount of such holder's Allowed Claim in one cash payment, not to exceed \$4,650 in the case of wages, salaries and commissions; or (ii) such other treatment as may be agreed upon in writing by Debtor and such holder.

(b) **Class 2 – Secured Claim of Associated Commercial Finance.** The Class 2 claim is in the present amount of \$692,233.82, consisting of a revolving line of credit in the sum of \$576,537.24 (the “Line of Credit”), and a term note in the sum of \$70,058.46 (the “Term Note”). In addition, the Class 2 claim includes attorney fees and expenses incurred before and after the Petition Date in the sum of \$45,638.12 (the “Fees and Expenses”). The Class 2 claim is secured by a security interest in all of the Debtor’s assets.

The holder of the Class 2 claim will receive the following in payment of that claim:

(i) The Class 2 claim will continue to be secured by a security interest in Debtor's assets having the same priority as that security interest had on the Petition Date;

(ii) The Debtor reaffirms the loan documents pertaining to the Line of Credit with the following modifications:

- a. The term of the agreement between the parties shall be extended to the third anniversary of the Effective Date.
- b. The rate of interest on the Line of Credit shall float at a rate equal to the prime rate as publicly announced in the **Wall Street Journal** plus 3% per annum, with the initial rate determined as of the Effective Date.
- c. All defaults under those documents are waived.
- d. All covenants with which the Debtor does not comply on the Effective Date are waived.

(iii) The Debtor reaffirms the loan documents pertaining to the Term Loan with the following modifications:

- a. The Fees and Expenses as of the Confirmation Date shall be added to the principal balance of the Term Loan.
- b. The rate of interest on the Term Loan shall be fixed at the prime rate as announced in the **Wall Street Journal** as of the Effective Date plus 3% per annum.
- c. On the 1st day of each month after the Confirmation Date, Debtor will make payments of principal in the sum of \$5,000 plus accrued interest on the Term Loan until the Term Loan is paid in full.
- d. All defaults under those documents are waived.
- e. All covenants with which the Debtor does not comply on the Effective Date are waived.

(c) **Class 3A -- General Unsecured Claims.** In full satisfaction of its claim, each holder of a general unsecured claim against Debtor not entitled to priority and not otherwise classified shall receive twenty (20) quarterly payments totaling 50% of the allowed amount of its claim. Such payments will commence on the first day of the third full month following the Effective Date and continuing on the first day of each consecutive calendar quarter thereafter until a total of 20 payments have been made.

(d) **Class 3B – General Unsecured Claims of Trade Creditors.** This class consists of claims held by creditors who sold goods or services to Debtor during the year prior to the Petition Date on a regular or periodic basis in the ordinary course of Debtor’s business. Members of Class 3B may elect to be paid according to the terms of one of the two following alternatives:

(i) Option 1 -- Quarterly Payments. In full satisfaction of its claim, each holder of a General Unsecured Claim against Debtor not entitled to priority and not otherwise classified shall receive twenty (20) quarterly payments totaling 50% of the allowed amount of its claim. Such payments will commence on the first day of the third full month following the Effective Date and continuing on the first day of each consecutive calendar quarter thereafter until a total of 20 payments have been made.

(ii) Option 2 -- Invoice Plus Percentage. Class 3B members choosing Option 2 ("Option 2 Creditors") shall receive payment on their allowed claims under this Option conditioned on the following:

- a. Any Option 2 Creditor must continue doing business with the Debtor after the date of confirmation of the Plan on credit terms;
- b. the credit terms shall be as mutually agreeable to the Debtor and the creditor, but said credit terms shall be on not less than net thirty (30) days payment, unless other terms are required under any applicable law or regulations;
- c. payment pursuant to this option shall continue until the date on which the allowed claim of the Option 2 Creditor is paid according to this Plan;
- d. Debtor shall be required to purchase goods and services from each electing Option 2 Creditor on terms no less favorable than Debtor is able to obtain from any other party dealing in goods or services of the type at issue. In the event that Debtor contends that it is able to obtain terms more favorable than those offered by any Option 2 Creditor, then Debtor shall disclose the terms to such Option 2 Creditor and such creditor shall have the right to match such terms. In the event such terms are matched, Debtor shall purchase from such creditor until a payment of its claim is completed as provided herein. Those creditors electing treatment under Option 2 shall, in no event, be able to receive more than the following percentages of their allowed claims, and such claims shall not bear interest:

Thirty-day terms	--	65% of allowed claim
Sixty-day terms	--	80% of allowed claim
Ninety-day terms	--	95% of allowed claim

Payments pursuant to Option 2 shall commence upon the due date for payment of the first invoice for goods or services provided after the Effective Date. In the ordinary course of business between the Option 2 Creditor and the Debtor, the Debtor shall pay all invoices pursuant to the applicable credit terms, and shall, contemporaneously with each such payment, make an additional payment of 10% of such invoice amount to be applied to payment of the allowed pre-petition claim of the Option 2 Creditor (each, an "Option 2 Payment").

(e) **Class 4 -- Administrative Convenience Claims.** Each holder of an Administrative Convenience Claim shall receive on the Distribution Date, in cash, in full satisfaction of its allowed claim, which claim shall not exceed \$300, an amount equal to 40% of its allowed claim.

(f) **Class 5 – Equity Interests.** The holder of the Equity Interests shall continue to hold those interests. The interests shall not be affected by this Plan.

## ARTICLE 5

### **PROVISIONS FOR TREATMENT OF UNCLASSIFIED CLAIMS**

**5.1 Administrative Claims.** Each holder of an allowed Administrative Claim (except any such holder that agrees to different treatment) shall receive the full amount of such claim, in cash, on the Distribution Date; provided, however, that allowed Administrative Claims representing (a) postpetition liabilities incurred in the ordinary course of business by the Debtor and (b) postpetition contractual liabilities arising under loans or advances to the Debtor, whether or not incurred in the ordinary course of business, shall be paid by the Reorganized Debtor in accordance with the terms and conditions of the particular transactions relating to such liabilities and any agreements relating thereto.

**5.2 Treatment of Priority Tax Claims.** The Minnesota Department of Revenue holds a priority tax claim for income taxes in the sum of \$14,422.49. In full satisfaction of its claim, the Minnesota Department of Revenue shall receive payment of that claim in 24 equal quarterly installments of \$624.90 (representing payment of the claim plus interest at the applicable federal rate of 3.78% per annum) commencing on the first day of the third full month following the Effective Date and continuing on the first day of each consecutive calendar quarter thereafter until a total of 24 payments have been made.

**5.3 United States Trustee Fees.** Fees payable by Debtor under 28 U.S.C. § 1930 will be paid in full on the Effective Date. In addition, following confirmation, the Debtor will timely pay all fees incurred pursuant to 28 U.S.C. §§1930(a)(6) and will file with the Court and serve on the U.S. Trustee a monthly financial report in the prescribed format, for each month or part thereof that the Case remains open.

## ARTICLE 6

### **ACCEPTANCE OR REJECTION OF PLAN; EFFECT OF REJECTION BY ONE OR MORE CLASSES OF CLAIMS**

**6.1 Classes Entitled to Vote.** Each impaired class of claims shall be entitled to vote to accept or reject the Plan. All unimpaired classes shall not be entitled to vote to accept or to reject the Plan.

**6.2 Class Acceptance Requirement.** A class of Claims shall have accepted the Plan if it is accepted by at least two-thirds (2/3) in amount and more than one-half (1/2) in number of the Allowed Claims of such class that vote on the Plan.

**6.3 Cramdown.** The Debtor requests that the Bankruptcy Court confirm the Plan in accordance with Section 1129(b) of the Bankruptcy Code.

## ARTICLE 7

### **MEANS FOR EXECUTION OF THE PLAN**

**7.1 Articles.** The Articles of the Reorganized Debtor shall be created or amended as necessary to satisfy the provisions of this Plan and to the extent necessary to prohibit the issuance of nonvoting equity securities as required by Section 1123(a)(6) of the Bankruptcy Code, subject to further amendment of the Articles as permitted by applicable law.

**7.2 Continuation of Debtor's Business.** Debtor will continue to operate its business in the ordinary course. Payments required by this Plan will be made from the cash flow generated by the operation of that business.

**7.3 Management.** Management of the Reorganized Debtor as of the Effective Date will be as follows:

David Carroll—President

## ARTICLE 8

### **PROVISIONS GOVERNING DISTRIBUTIONS**

**8.1 Date of Distributions.** Any distributions and deliveries to be made under the Plan shall be made on the Distribution Date, except as otherwise provided for herein, or as may be ordered by the Bankruptcy Court. Distributions and deliveries to be made on a Distribution Date shall be deemed made on the Distribution Date if made on the Distribution Date or within ten days after the Distribution Date, except as otherwise provided for herein or as may be ordered by the Bankruptcy Court.

**8.2 Means of Cash Payment.** Cash payments made pursuant to the Plan by check drawn on a domestic bank, or by wire transfer from a domestic bank.

**8.3 Delivery of Distributions**. Subject to Bankruptcy Rule 9010, distributions and deliveries to holders of Allowed Claims shall be made at the address of each such holder as set forth on the proofs of claim filed by such holders (or at the last known addresses of such holders if no proof of claim is filed or if Debtor has been notified of a change of address). If any holder's distribution is returned as undeliverable no further distribution to such holder shall be made unless and until the Reorganized Debtor is notified of such holder's then current address, at which time all missed distributions shall be made to such holder without interest.

## ARTICLE 9

### **TREATMENT OF EXECUTORY CONTRACTS AND UNEXPIRED LEASES**

**9.1 Rejected If Not Assumed**. The Plan constitutes and incorporates a motion by Debtor to reject all executory contracts and unexpired leases to which Debtor is a party, except for any contract or lease that (a) has been assumed or rejected pursuant to Final Order of the Bankruptcy Court, (b) is specifically designated on the attached **Exhibit 9.1** as a contract to be assumed under the Plan with the amount to be paid to cure any defaults under those contracts and leases as set forth on **Exhibit 9.1**, or (c) is the subject of a motion to assume or reject that is filed with the Bankruptcy Court not later than five (5) business days before the date when the Ballot is due. The Confirmation Order shall represent and reflect an order of the Bankruptcy Court approving such assumptions and rejections as of the Effective Date and further approving the cure amounts listed on **Exhibit 9.1** as the sums sufficient to cure all defaults under those contracts and leases.

**9.2 Bar to Rejection Damages**. If the rejection of an executory contract or unexpired lease by Debtor results in damages to the other party or parties to such contract or lease, the Claim for such damages, if not heretofore evidenced by a filed proof of claim, shall be forever barred and shall not be enforceable against Reorganized Debtor or its properties unless a proof of claim is filed with the Bankruptcy Court and served upon counsel for Debtor within thirty (30) days after entry of the Confirmation Order.

## ARTICLE 10

### **PROCEDURES FOR RESOLVING AND TREATING CONTESTED CLAIMS**

**10.1 Objection Deadline**. As soon as practicable, but in no event later than the deadline established by the Bankruptcy Court in the Confirmation Order, objections to claims shall be filed with the Bankruptcy Court and served upon the holders of each of the claims to which objections are made.

**10.2 Prosecution of Objections**. After the date of entry of the Confirmation Order, only Reorganized Debtor shall have the authority to file, litigate, settle, or withdraw objections to claims to which objections are filed (the "Contested Claims").

**10.3 No Distributions Pending Allowance.** Notwithstanding any other provision of the Plan, no payment or distribution shall be made with respect to any Contested Claim unless and until such Contested Claim becomes an allowed claim.

**10.4 Administrative Claims Bar Date.** Confirmation of the Plan establishes a bar date for Administrative Claims, which bar date shall be thirty (30) calendar days after the Effective Date. Holders of Administrative Claims that are not paid on the Effective Date may file a motion for payment of administrative expense on or before such bar date. The Reorganized Debtor and any other party in interest will have sixty (60) days after the Administrative Claims bar date to review and object to such Administrative Claims before a hearing for determination of such claims is held by the Bankruptcy Court.

## ARTICLE 11

### MISCELLANEOUS PROVISIONS

**11.1 Prepayment.** Unless the Plan shall otherwise provide, the Reorganized Debtor shall have the right to prepay, without penalty, all or any portion of an allowed claim at any time.

**11.2 Compliance with Tax Requirements.** In connection with the Plan, the Reorganized Debtor shall comply with all withholding and reporting requirements imposed by federal, state, local, and foreign taxing authorities and all distributions hereunder shall be subject to such withholding and reporting requirements.

**11.3 Compliance with All Applicable Laws.** If notified by any governmental authority that the Reorganized Debtor is in violation of any applicable law, rule, regulation, or order of such governmental authority relating to its businesses, the Reorganized Debtor shall comply with such law, rule, regulation, or order; provided, however, that nothing contained herein shall require such compliance by the Reorganized Debtor where the legality or applicability of any such requirement is being contested in good faith in appropriate proceedings by the Reorganized Debtor, and, if appropriate, for which an adequate reserve has been set aside on the books of the Reorganized Debtor.

**11.4 Setoffs.** The Reorganized Debtor, may, but shall not be required to, set off against any claim, and the payments or other distributions to be made pursuant to the Plan in respect of such claim, claims of any nature whatsoever that Debtor or Reorganized Debtor may have against the holder of such claim, but neither the failure to do so nor the allowance of any claim hereunder shall constitute a waiver or release by Debtor of any such claim that Debtor or the Reorganized Debtor may have against such holder.

**11.5 Recognition of Guarantee Rights.** The classification of and manner of satisfying all Claims under the Plan take into consideration (a) the existence of guarantees by Debtor of the obligations of other Persons and (b) the fact that Debtor may be a joint obligor with another Person or Persons with respect to one or more obligations. All Claims against Debtor based upon any such guarantees or joint obligations shall be discharged in the manner provided in the Plan.

## ARTICLE 12

### CONSUMMATION OF THE PLAN

#### **12.1 Retention of Jurisdiction.**

(a) The Bankruptcy Court shall retain and have exclusive jurisdiction over the Chapter 11 Case for purposes (i) through (xi) below:

(i) To determine any and all objections to and proceedings involving the allowance, estimation, classification, and subordination of claims;

(ii) To determine any and all applications for allowances of compensation and reimbursement of expenses and any other fees and expenses authorized to be paid or reimbursed under the Bankruptcy Code or the Plan;

(iii) To determine any applications pending on the Effective Date for the rejection or assumption of executory contracts or unexpired leases or for the assumption and assignment, as the case may be, of executory contracts or unexpired leases to which Debtor is a party or with respect to which Debtor may be liable, and to hear and determine, and if need be to liquidate, any and all claims arising therefrom;

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

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

(vi) To determine all controversies, suits, and disputes that may arise in connection with the interpretation, enforcement, or consummation of the Plan or any person's obligations hereunder;

(vii) To consider and act on the compromise and settlement of any claim against or cause of action by or against Debtor's estate;

(viii) To issue such orders in aid of execution of the Plan to the extent authorized by Section 1142 of the Bankruptcy Code; or

(ix) To determine such other matters as may be set forth in the Confirmation Order or which may arise in connection with the Plan, the Confirmation Order, the Effective Date or the Distribution Date.

(x) To determine all adversary proceedings commenced by Debtor or Reorganized Debtor to recover money or property under Chapter 5 of the Bankruptcy Code.

(b) If the Bankruptcy Court abstains from exercising, or declines to exercise, jurisdiction or is otherwise without jurisdiction over any matter arising out of or relating to this Chapter 11 Case, this section shall have no effect upon and shall not control, prohibit or limit the exercise of jurisdiction by any other court having competent jurisdiction with respect to such matter.

**12.2 Modification of Plan.** Modifications of the Plan may be proposed in writing by Debtor at any time before confirmation, provided that (a) the Plan, as modified, meets the requirements of Sections 1122 and 1123 of the Bankruptcy Code; and (b) Debtor shall have complied with Section 1125 of the Bankruptcy Code. The Plan may be modified at any time after confirmation and before its substantial consummation only by Debtor provided that (a) the Plan, as modified, meets the requirements of Sections 1122 and 1123 of the Bankruptcy Code; (b) the Bankruptcy Court, after notice and a hearing confirms the Plan as modified under Section 1129 of the Bankruptcy Code; and (c) the circumstances warrant such modification. A holder of a claim or equity interest that has accepted or rejected the Plan shall be deemed to have accepted or rejected, as the case may be, such Plan as modified unless, within the time fixed by the Bankruptcy Court, such holder changes its previous acceptance or rejection.

Dated: September 30, 2004

Respectfully submitted,

RELS MANUFACTURING CORPORATION

By 

David Carroll, Its President

RAVICH MEYER KIRKMAN  
MCGRATH & NAUMAN,  
A PROFESSIONAL ASSOCIATION

By /e/ Michael L. Meyer  
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ATTORNEYS FOR DEBTOR

**EXHIBIT 9.1  
TO  
PLAN OF REORGANIZATION**

**EXECUTORY CONTRACTS AND UNEXPIRED LEASES**

1. Licensing and Royalty Agreement dated November 1, 1996 between Charles H. Rimlinger, Jr. and RELS Manufacturing Inc.