

Solicitation Version

**IN THE UNITED STATES BANKRUPTCY COURT
FOR THE NORTHERN DISTRICT OF TEXAS
DALLAS DIVISION**

In re:

COTTONWOOD FINANCIAL LTD., *et al.*,¹

Debtors.

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Chapter 11

Case No. 24-80035 (SWE)

(Jointly Administered)

DISCLOSURE STATEMENT REGARDING DEBTORS' JOINT CHAPTER 11 PLAN

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¹ The Debtors in these chapter 11 cases and the last four digits of each Debtors' federal tax identification number are as follows: Cottonwood Financial Ltd. (1001); Cottonwood Financial Administrative Services, LLC (7228); Cottonwood Financial Texas, LLC (9059); Cottonwood Financial Idaho, LLC (5651); Cottonwood Financial Wisconsin, LLC (7075). The Debtors' principal offices are located at 2100 W Walnut Hill Lane, Suite 300, Irving, TX 75038.

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All capitalized terms used but not otherwise defined herein shall have the meanings ascribed to those terms in the Plan.

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I. General Information

A. Purpose of this Disclosure Statement

This Disclosure Statement has been prepared by the Debtors to provide information to enable holders of Claims and Equity Interests, who are entitled to vote on the Plan, to make an informed judgment about the Plan. Confirmation of the Plan pursuant to Chapter 11 of the Bankruptcy Code depends, in part, upon the receipt of a sufficient number of votes in favor of the Plan. However, holders of Claims and Equity Interests whose claims are unimpaired are deemed to have conclusively accepted the Plan and are not entitled to vote thereon. As set forth in this Disclosure Statement, holders of Claims in Class 1 are unimpaired and deemed to have accepted the Plan. Holders of Claims in Class 2 and Class 3 (if any) are impaired and entitled to vote to accept or reject the Plan. Holders of Claims and Equity Interests in all other Classes are impaired and deemed to reject the Plan because they are not entitled to receive or retain anything on account of their Claims or Equity Interests under the Plan.

On July 1, 2024, after notice and a hearing, the Bankruptcy Court entered an order (the “Conditional Approval Order”), pursuant to section 1125 of the Bankruptcy Code, approving this Disclosure Statement as containing “adequate information.” “Adequate information” is information of a kind, and in sufficient detail, to enable a person typical to make an informed judgment about the Plan.

B. General Information Concerning Chapter 11

Chapter 11 is the principal reorganization chapter of the Bankruptcy Code, pursuant to which a debtor in possession attempts to reorganize, or liquidate, its business for the benefit of itself, its creditors and equity interest holders.

The commencement of a chapter 11 case creates an estate, comprised of all legal and equitable interests of the debtor in property as of the date the petition is filed, wherever located and by whomever held. Sections 1101, 1107, and 1108 of the Bankruptcy Code provide that a debtor may continue to operate its business and remain in possession of its property as a “debtor in possession” unless the bankruptcy court orders the appointment of a trustee. The Debtors are operating as a debtor in possession.

The filing of a chapter 11 petition also triggers the automatic stay provisions of the Bankruptcy Code. Section 362(a) of the Bankruptcy Code provides for, among other things, an automatic stay of all attempts to collect prepetition debts against the debtor or to otherwise interfere with the debtor’s property or business. Except as otherwise ordered by the bankruptcy court, the automatic stay remains in full force and effect until the time a plan of reorganization is confirmed.

The formulation of a plan of reorganization is the principal purpose of a chapter 11 case. A plan sets forth the means for satisfying the claims against and equity interests in the debtor. Generally, unless a trustee is appointed, only the debtor may file a plan during the first 120 days of a chapter 11 case. A debtor is generally then given 60 additional days during which it may solicit acceptance of its plan. The deadlines may be extended or reduced by the court upon a showing of “cause.” In this case, the Debtors have filed this Plan within their initial 120-day exclusive period.

C. General Information Concerning Treatment of Claims and Equity Interests

A chapter 11 plan may provide for anything from a complex restructuring of a debtor’s business and its related obligations to a simple liquidation of a debtor’s assets. After a chapter 11 plan has been filed, certain holders of claims against or equity interests in a debtor are permitted to vote to accept or reject the plan.

Section 1123 of the Bankruptcy Code provides that a plan of reorganization must classify the claims of a debtor’s creditors and equity interest holders. In compliance therewith, the Plan divides claims and equity interests into classes and sets forth the treatment for each class. In accordance with section 1123(a) of the Bankruptcy Code, Administrative Claims have not been classified in the Plan. A debtor is also required, under section 1122 of the Bankruptcy Code, to classify claims and equity interests into classes that contain claims and equity interests that are

substantially similar to the other claims and equity interests in such class. The Debtors believe that the Plan has classified all Claims and Equity Interests in compliance with the provisions of Bankruptcy Code section 1122.

The table below provides a summary of the classification, description, and treatment of Claims and Equity Interests under the Plan. This information is provided in summary form below for illustrative purposes only and is qualified in its entirety by reference to the provisions of the Plan. For a more detailed description of the treatment of Claims and Equity Interests under the Plan and the sources of satisfaction for Claims and Equity Interests, see Section IV.B of this Disclosure Statement.

Class	Designation	Impairment	Entitled to Vote
Class 1	Priority Non-Tax Claims	Unimpaired	No (deemed to accept)
<i>Class 2</i>	<i>Prepetition Secured Lender Claim</i>	<i>Impaired</i>	<i>Yes</i>
<i>Class 3</i>	<i>Other Secured Claims</i>	<i>Impaired</i>	<i>Yes</i>
Class 4	General Unsecured Claims	Impaired	No (deemed to reject)
Class 5	Intercompany Claims	Impaired	No (deemed to reject)
Class 6	Equity Interests	Impaired	No (deemed to reject)

D. Classes Impaired under a Plan

Only classes of impaired claims or equity interests may vote to accept or reject a plan. A class is “impaired” if the legal, equitable, or contractual rights relating to the claims or equity interests in that class are modified by the plan. Modification for purposes of determining impairment, however, does not include curing defaults or reinstating maturity. Classes of claims or equity interests that are not “impaired” under a plan of reorganization, and each member of such class, are conclusively deemed to have accepted the plan and thus are not entitled to vote. Similarly, classes of claims or equity interests that will neither receive nor retain any property under a plan are deemed to not have accepted the plan and are thus not entitled to vote. Accordingly, acceptances of a plan will only be solicited from holders of claims and/or equity interests in impaired classes that may receive distributions under a plan.

As set forth in section 1124 of the Bankruptcy Code, a class of claims or interests is impaired under a plan of reorganization unless, with respect to such class, the plan: (1) leaves unaltered the legal, equitable, and contractual rights of the holder of such claim or interest; or (2) notwithstanding any contractual provision or applicable law that entitles the holder of a claim or interest to demand or receive accelerated payment of such claim or interest after the occurrence of a default: (a) cures any such default that occurred before or after the commencement of the case, other than a default of a kind specified in section 365(b)(2) of the Bankruptcy Code or of a kind that section 365(b)(2) expressly does not require to be cured; (b) reinstates the maturity of such claim or interest as it existed before such default; (c) compensates the holder of such claim or interest for any damages incurred as a result of any reasonable reliance on such contractual provision or such applicable law; (d) if the claim or interest arises from a failure to perform a non-monetary obligation (other than a default from failure to operate a nonresidential real property lease subject to section 365(b)(1)(A)), compensates the holder (other than the debtor or an insider) for any actual pecuniary loss incurred by the holder as a result of such failure; and (e) does not otherwise alter the legal, equitable or contractual rights to which such claim or interest entitles the holder of such claim or interest.

All holders of Claims in Class 1 are unimpaired, as they will be paid in full. As a result, all holders of Claims in Class 1 are conclusively deemed to have accepted the Plan. Holders of Claims and Equity Interests in Classes 4, 5, and 6 are impaired, and they are not entitled to receive or retain any property on account of their Claims and Equity Interests under the Plan. As a result, such holders of Claims and Equity Interests in Classes 4, 5, and 6 are conclusively deemed to have rejected the Plan. The Debtors are only soliciting the vote of its Prepetition Secured Lender in Class

2, and, to the extent there are any creditors holding Other Secured Claims, the votes of such potential holders of Other Secured Claims in Class 3.

E. Voting

Holders of Claims in Class 2 and (if applicable) Class 3 are impaired under the Plan and entitled to vote to accept or reject the Plan. A Ballot casting a vote on the Plan may be disregarded if the Bankruptcy Court determines, after notice and a hearing, that such Ballot was not solicited or procured in good faith or in accordance with the provisions of the Bankruptcy Code.

F. Confirmation and Consummation

There are two methods by which a plan may be confirmed: (i) the “acceptance” method, pursuant to which all impaired classes of claims and interests have voted in the requisite amounts to accept the plan and the plan otherwise complies with section 1129(a) of the Bankruptcy Code; and (ii) the “cram-down” method under section 1129(b) of the Bankruptcy Code, which is available even if classes of claims vote against the Plan.

1. Acceptance of the Plan

A plan is accepted by an impaired class of claims if the holders of at least two-thirds ($\frac{2}{3}$) in amount and more than one-half ($\frac{1}{2}$) in number of the allowed claims in such class actually voting vote to accept the plan. A plan is accepted by an impaired class of equity interests if holders of at least two-thirds ($\frac{2}{3}$) in amount of allowed equity interests in such class actually voting vote to accept the plan.

BALLOTS THAT ARE SIGNED BUT THAT DO NOT EXPRESSLY INDICATE EITHER AN ACCEPTANCE OR REJECTION OF THE PLAN, OR INDICATE BOTH AN ACCEPTANCE AND A REJECTION OF THE PLAN, WILL BE DISREGARDED.

In addition to this voting requirement, section 1129 of the Bankruptcy Code requires that a plan be accepted by each holder of a claim or equity interest in an impaired class entitled to vote or that the plan otherwise be found by the bankruptcy court to be in the best interests of each holder of a claim or equity interest in such class (*see* discussion of “Best Interests Test” below).

2. Confirmation Without Acceptance by All Impaired Classes

Under section 1129 of the Bankruptcy Code, the Debtors have the right to seek confirmation of the Plan notwithstanding the “deemed rejection” of the Plan by a class of Claims.

A plan may be confirmed notwithstanding its rejection by one or more classes of claims or equity interests if, in addition to satisfying the applicable requirements of section 1129(a) of the Bankruptcy Code, the plan (1) is “fair and equitable” with respect to each class of claims or equity interests that is impaired under, and has not accepted, the plan and (2) does not “discriminate unfairly.”

A plan is “fair and equitable” under the Bankruptcy Code with respect to a dissenting class of unsecured claims if, with respect to such dissenting class either (a) the plan provides that each holder of a claim of such class receive or retain property of a value equal to the allowed amount of such claim, or (b) no holders of junior claims or equity interests receive or retain any property under the plan on account of such junior claims or interests.

This fair and equitable standard, also known as the “absolute priority rule,” requires, among other things, that unless a dissenting unsecured class of claims or equity interests receives full compensation for its allowed claims or allowed interests, no holder of claims or interests in any junior class may receive or retain any property under the plan on account of such claims or interests. The Debtors believe that if a non-consensual confirmation is necessary, the requirements for non-consensual confirmation will be met and the Plan will be confirmed despite its rejection by any impaired dissenting Class of Claims.

The requirement that a plan not “discriminate unfairly” means, among other things, that a dissenting class must be treated substantially equally with respect to other classes of equal rank. The Debtors believe that the Plan meets this requirement with respect to any Class of Claims that might reject the Plan, because classes of equal rank are treated equally under the Plan.

3. Best Interests Test

Notwithstanding acceptance of the Plan by each impaired Class, in order for the Plan to be confirmed, the Bankruptcy Court must determine that the Plan is in the best interests of each holder of a Claim or Equity Interest in an impaired Class who has not voted to accept the Plan. Accordingly, if an impaired Class does not unanimously accept the Plan or is deemed to reject the Plan, the best interests test requires the Bankruptcy Court to find that the Plan provides for each holder of a Claim or Equity Interest in such Class to receive or retain on account of such Claim or Equity Interest property of a value, as of the Effective Date of the Plan, that is not less than the amount each such holder would receive if the Debtor was liquidated under chapter 7 of the Bankruptcy Code on such date.

In this case, the Debtors are selling substantially all of their assets to a third-party, which will operate the business outside of bankruptcy, and the Debtors will liquidate their remaining non-operating assets through the Plan. As a result, and by implication, constituents will receive under the Plan at least what they would otherwise receive if the chapter 11 cases were converted, and the Debtors were liquidated in chapter 7. To demonstrate compliance with the best interests test, the Debtors, with the assistance of their Chief Restructuring Officer, prepared the liquidation analysis attached hereto as **Schedule 1**. The liquidation analysis shows that the value of the distributions to holders of Allowed Claims under the Plan would be the same or greater than the value received under a hypothetical chapter 7 liquidation. Accordingly, the Debtors believe that the Plan is in the best interests of creditors.

II. Background and Events Leading Up to Chapter 11¹

A. About the Debtors

At the time of their bankruptcy filings on February 25, 2024, Cottonwood was one of the largest privately held retail consumer finance companies in the United States. Operating under the name Cash Store®, Cottonwood offered an innovative mix of solutions to its customers. These solutions were made available through the Debtors’ 181 brick-and-mortar retail locations across Texas, Idaho, and Wisconsin. Additionally, customer account management services were made available via Cottonwood’s online consumer portal.

Cottonwood’s customers comprised a diverse mix of consumers who typically had a temporary need for financing to cover unexpected expenses, *e.g.*, medical bills, auto repairs, or home repairs. Cottonwood provided access to small, convenient, short-term loans.

Small dollar lending in the United States dates to the early 1900s. With the banking deregulation and consolidation in the early 1990s, many traditional banking institutions (commercial banks and credit unions) stopped offering short-term, small dollar loans. Some also reduced or eliminated their short-term, small dollar lending programs because of the costs associated with originating these loans and the negative impact of these loans cannibalizing their more profitable overdraft protection and bounced check fee products.

The demand for these short-term, small dollar loans was still present, so individual states began passing legislation allowing for the formation of alternative financial products. With the entrance of retail consumer finance companies to fill the void left by the exit of traditional banking institutions, the U.S. consumer finance industry has grown to annual revenue of greater than \$150 billion. The U.S. consumer credit regulatory environment is dynamic, multilayered, and complex, in particular for nonbank-issued personal loans. States have full flexibility to write, adopt, and repeal legislation and regulations.

¹ The descriptions below are derived from the [Corrected] Declaration of Karen Nicolaou, Chief Restructuring Officer, in Support of Chapter 11 Petitions and First Day Motions [Docket No. 19] (the “**First Day Declaration**”).

The industry is homogenous: storefronts of different companies may be clustered within a specific region or location and different lenders may have common borrowers. As with many other retail businesses, lenders depend on repeat business from their many loyal customers.

The Texas Finance Code Chapter 393 allows for the operation of a credit services organization (“CSO”), under Subchapter B, and a licensed credit access business (“CAB”), under Subchapter G.

CSOs assist consumers in obtaining small denomination, short-term loans from a third-party lender that are not “deferred presentment transactions.” In addition to brokering, the CSO accomplishes this by enhancing the consumers’ credit to the lender. CSOs assess fees for their services: processing the loan application, providing the credit enhancement on the consumer’s account, and brokering the loan from the lender the consumer might not otherwise qualify to receive.

CSOs broker small denomination, short-term consumer loans from a third-party lender for consumers. CABs are a subset of CSOs, and broker small denomination, short-term unsecured consumer loans that are in the form of deferred presentment transactions, as well as motor vehicle title loans. In addition to brokering, the CSO/CAB also assists consumers in obtaining these loans from the lender by enhancing the consumers’ credit to the lender. CSOs and CABs assess fees for their services: processing the loan application, providing credit enhancement on the consumer’s account for the benefit of the lender, and brokering a loan from the lender that the consumer might not otherwise qualify to receive. Applicable law requires independence between CSOs/CABs and the lenders that ultimately extend credit to consumers.

In 2022, CABs assisted over 1.4 million Texas consumers in obtaining an extension of consumer credit. The average principal amount of cash advance loans was \$624, and the average principal amount of title secured loans was \$1,634. While store-front originated small consumer loans in Texas have continued to decline since COVID, demand for short-term, smaller loans persists as 37% of consumers in Texas are unable to cover a \$400 emergency with current savings.²

B. The Debtors’ Corporate History and Structure

Cottonwood Financial Ltd. is a Texas limited partnership founded in 1996. Cottonwood Financial Management, Inc. (the “General Partner”) owns approximately 1% of Cottonwood Financial Ltd. as the sole general partner. Certain entities owned or controlled, directly or indirectly, by Trevor Lee Ahlberg and related family trusts own (a) 100% of the General Partner and (b) approximately 95.5% of the shares of Cottonwood Financial Ltd. as limited partners. Outside investors make up the remaining 3.5% of Cottonwood Financial Ltd.’s ownership as limited partners.

At its height, Cottonwood operated retail locations in nine states. As of 2020, the Debtors operated in seven states: Texas, Idaho, Wisconsin, Utah, Michigan, Illinois, and New Mexico. Between 2020 and 2022, the Debtors ceased operating in Utah, Michigan, Illinois, and New Mexico. The Debtors closed their Utah and Michigan stores as a result of the COVID-19 pandemic. The Debtors closed their Illinois and New Mexico locations in light of a change in state-passed legislation that made continued operations unprofitable. At the time of the Petition Date, the Debtors maintained brick-and-mortar stores in three states: Texas, Idaho, and Wisconsin.

There were three separate operating companies within the Debtors’ organization (collectively, the “Operating Companies”): Cottonwood Financial Texas, LLC (“Cottonwood Texas”), Cottonwood Financial Idaho, LLC (“Cottonwood Idaho”), and Cottonwood Financial Wisconsin, LLC (“Cottonwood Wisconsin”). As the names indicate, Cottonwood Texas conducted the Debtors’ day-to-day operations in Texas, Cottonwood Idaho conducted the Debtors’ day-to-day operations in Idaho, and Cottonwood Wisconsin conducted the Debtors’ day-to-day operations in Wisconsin.

² TX Office of Consumer Credit Commissioner 2023 Report on Availability, Quality and Pricing of Certain Financial Services and Consumer Loan Products, available at https://occc.texas.gov/sites/default/files/2023-12/study_consumer_loan_products_12-01-2023_0.pdf.

Cottonwood Financial Administrative Services, LLC (“CFAS”) managed the administrative functions for the Debtors, including but not limited to, the Cash Management System. The Debtors’ administrative offices are located in Irving, Texas. As of the Petition Date, retail locations were divided into districts (29), then grouped into regions (9), areas (3), and rolled up into a single territory.

C. Loan Products and Transactions with the Debtors’ CSO Lender³

The Debtors offered three types of loan products: single payment cash advances, installment cash advances, and title loans. Cottonwood Idaho and Cottonwood Wisconsin made and serviced loans directly to consumers as first-party lenders under applicable state law. Cottonwood Texas operated as a CSO and CAB under Texas law.

Prior to the Petition Date, TreeMac Funding Group, LLC (“TreeMac”) was the exclusive third-party lender for loans brokered by Cottonwood Texas. TreeMac and Cottonwood Texas are independent and separate legal entities. There is no overlap in management, board representation, ownership, or control. TreeMac does not own or exercise any control over Cottonwood Texas, its operations, policies and procedures, stores, or employees. Cottonwood Texas does not own or exercise any control over TreeMac, its operations, policies and procedures, stores or employees.

As of the Petition Date, Cottonwood Texas and TreeMac were parties to that certain Amended and Restated Brokering and Servicing Agreement (the “BSA”). The BSA set forth the terms and conditions that govern the services provided by Cottonwood to TreeMac in connection with the brokering and servicing of loans made by TreeMac to borrowers. As of the Petition Date, the amount of TreeMac’s loan portfolio brokered and serviced by Cottonwood exceeded \$31 million.

Cottonwood Texas and TreeMac were also party to that certain Amended and Restated Master Letter of Credit Agreement dated December 8, 2016 (the “Master LOC Agreement”). The Master LOC Agreement provided that if Cottonwood Texas fails to fully pay or perform under the individual letters of credit issued to TreeMac for each loan arranged pursuant to the BSA, TreeMac could draw on a letter of credit issued by BOK Financial Corporation (the “BOK Letter of Credit”) to satisfy any defaulted obligation. TreeMac could also draw on the BOK Letter of Credit in an amount not to exceed the total balance of outstanding loans if TreeMac, “in its reasonable good faith belief, has doubts, given rise to by objective indications, regarding Cottonwood’s ability to perform its obligations under [the Master LOC Agreement] and the [BSA].” Master LOC Agreement ¶ 3(b). The BOK Letter of Credit was secured by a \$10 million deposit (the “TreeMac Deposit”) held in a separate Cottonwood Texas account at Bank of Texas that was not subject to the deposit account control agreement between the Debtors and their Prepetition Secured Lender.

Maintenance of the BSA and the relationship with TreeMac was critical to the Debtors’ business. As such, as discussed below, the Debtors sought and obtained authority to assume the BSA during these Chapter 11 Cases. As a result of the sale approved by the Bankruptcy Court, the Debtors negotiated a release of the Master LOC Agreement and termination of the BOK Letter of Credit, which will make the TreeMac Deposit available for distribution to creditors under the Plan.

D. Prepetition Capital Structure

1. Main Street Loan

For the first 24 years of its history, the Company had no significant long-term debt of any kind. However, as discussed below, by the end of 2020, the Company needed outside financing in order to maintain its operations.

³ Additional information about the Debtors and their prepetition activities is contained within the First Day Declaration but is omitted from this Disclosure Statement.

On December 9, 2020, Cottonwood entered into that certain Loan Agreement (the “Loan Agreement”) with Third Coast Bank, SSB (“Third Coast”) in the aggregate principal amount of \$25 million (the “Main Street Loan”).⁴ Ninety-five percent (95%) of the Main Street Loan (\$23,750,000) is held by MS Facilities LLC (together with Third Coast, the “Prepetition Secured Lender”), a special purpose vehicle established by the Federal Reserve Bank of Boston. The remaining five percent (5%) of the Main Street Loan (\$1,250,000) is held by Third Coast. Before the Petition Date, Cottonwood Texas and CFAS were guarantors of the Main Street Loan. The obligations under the Main Street Loan are secured by first priority liens on substantially all of the assets of Cottonwood, Cottonwood Texas, and CFAS.⁵ As of the Petition Date, the aggregate amount outstanding under the Main Street Loan was approximately \$26.7 million.

Prior to the event of default discussed in the First Day Declaration, the maturity date under the Main Street Loan was December 9, 2025. As discussed more fully below, Cottonwood failed to make the scheduled principal and interest payment due on December 9, 2023, and the Prepetition Secured Lenders subsequently accelerated the debt.

2. Subordinated Loan

On July 5, 2022, Cottonwood Financial Ltd. executed that certain Subordinated Debt Note in the amount of \$25 million (the “Subordinated Loan”). Bomani Business Lending, LLC is the current holder of the Subordinated Loan. The Subordinated Loan is in all respects junior to the Main Street Loan. Third Coast consented to the Subordinated Loan. On July 5, 2023, an amendment to the Subordinated Loan was entered into which increased the borrowing capacity to \$37,150,000, plus any accrued and unpaid interest. The outstanding balance on the Subordinated Loan, including capitalized interest, is \$38,162,527.97 as of the Petition Date. The Subordinated Loan will be treated under the Plan as a Class 4 General Unsecured Claim, which will neither receive nor retain any property under the Plan on account of such Claim.

3. Unsecured Debt

As of the Petition Date, the Debtors were approximately 60 days in arrears with several of their vendors. As discussed below, the Debtors believe they have caught up with many of their critical vendors, and much of their trade debt is likely to be assumed and paid pursuant to the sale transaction approved by the Bankruptcy Court, as discussed below. While there remain unsecured debts arising from rejection of leases, the Debtors do not anticipate that there will be sufficient sale proceeds available to make distributions to general unsecured claim holders.

E. Circumstances Leading to the Commencement of the Chapter 11 Cases

As set forth in the First Day Declaration, a series of factors led to Debtors’ financial difficulties and ultimate bankruptcy filing.

First, the COVID-19 pandemic resulted in changes in consumer behavior that have adversely impacted the Company’s business. Economic impact payments, stimulus payments, and advances on child tax credits made by the federal government in 2020 and 2021 increased the cash available to consumers, thereby decreasing demand for the Company’s loan products.

Second, there has been significant regulation in major markets in the state of Texas that have made it unprofitable for the Company to operate in those areas. This is primarily due to city ordinances limiting the terms on which consumer finance companies like Cottonwood can broker loans. For example, the City of Dallas enacted an ordinance prohibiting CSOs and CABs from brokering a loan for a consumer that exceeded twenty percent of the consumer’s gross monthly income, required repayment of the principal, interest, and all fees in four or fewer payments, and required each payment to reduce by at least twenty-five percent the total amount of the transaction. Under this ordinance, CSOs and CABs are also prohibited from refinancing or renewing the consumer’s loan more than three

⁴ The Main Street Loan was issued under the Main Street Lending Program, established by the Federal Reserve to support lending to small and medium-sized businesses that were in sound financial condition before the onset of the COVID-19 pandemic.

⁵ The Prepetition Secured Lenders do not have liens on the assets of Cottonwood Wisconsin or Cottonwood Idaho.

times and required the consumer to pay down the total amount of the transaction by at least twenty-five percent in order to refinance or renew the loan.

Third, to keep pace with consumer behavior and demand for its services, the Company's underwriting practices are in a near constant state of transformation. Even though the Company's underwriting practices have been historically attuned to consumer habits, the Company was unable to quickly adapt its brick-and-mortar underwriting model to the sudden and dramatic shift in consumer behavior precipitated by the COVID-19 pandemic. This resulted in a higher percentage of bad debt than the Company had previously experienced. Bad debt as a percentage of operating revenues increased from 19% in 2020 to 43% in 2023.

Fourth, over the course of its operating history, the Company has closed stores as a result of (a) changes in regulations or legislation that made operating in certain jurisdictions unprofitable and (b) internal analysis identifying unprofitable branches. Since the beginning of the COVID-19 pandemic, the Company has closed 168 stores and ceased all operations in four (4) states.

Finally, as detailed more fully in the First Day Declaration, the Debtors missed a required payment to its Prepetition Secured Lender, triggering a notice of default and acceleration.

In response to these events, the Debtors retained professionals to plan for a reduction to the Debtors' footprint to help stabilize operations, while marketing the company for a potential transaction to maximize recoveries for creditors.

III. The Debtors' Chapter 11 Cases

The Debtors commenced these Chapter 11 Cases by filing voluntary chapter 11 petitions on February 25, 2024 (the "Petition Date"). The Chapter 11 Cases are pending before the Honorable Scott W. Everett in the United States Bankruptcy Court for the Northern District of Texas. The United States Trustee did not form an official committee in these cases, but it has remained active throughout these cases.

A. Post-Filing Activities

1. First Day Motions and DIP Order

The Debtors filed a number of first day motions on and after the Petition Date. A complete list of such first day matters can be found on the website managed by Epiq, the Debtor's Claims and Notice Agent. *See* <https://dm.epiq11.com/case/cottonwoodfinancial/documents>. Such relief included motions to pay taxes, maintain wages and benefits for employees, maintain insurance programs, provide adequate assurance deposits for utilities, maintain cash management systems, and similar typical relief.

In addition to these motions, the Debtors also obtained entry of a DIP Order,⁶ which, among other things, authorized the Debtors to borrow funds from their DIP Lender on a priming basis. Under the terms of the DIP Order, the Debtors stipulated to the amount of the Prepetition Secured Lender Claim in the amount of \$26,653,286.61. In addition to this stipulation, the Debtors: (i) agreed to pay adequate protection payments to the Prepetition Secured Lender; (ii) allowed a \$750,000 "Cash Collateral Diminution in Value Claim" to the Prepetition Secured Lender secured by adequate protection liens in all assets of the Debtors; (iii) allowed the Prepetition Secured Lender to file a "Non-Cash Collateral Diminution in Value Claim" secured by adequate protection liens in all assets of the Debtors, subordinate to the DIP Lender's liens.

2. Retention of Professionals

During these cases, the Bankruptcy Court authorized the Debtors' retention of Gray Reed, as bankruptcy counsel; Harney Partners, to provide the Chief Restructuring Officer and additional support staff; Oppenheimer &

⁶ *See* Docket No. 153.

Co., as the Debtors' investment bankers; Alston Bird, as the Debtors' special counsel for regulatory matters, and several other ordinary course professionals.⁷

3. Assumption of Key Contracts and Rejection of Certain Retail Leases

The Debtors also sought and obtained authority to assume contracts with two key counterparties: TreeMac, the Debtors' CSO lender, and REPAY, the Debtors' credit and debit card processor.⁸ Pursuant to the TreeMac assumption order, the Debtors agreed to pay TreeMac a cure claim of approximately \$2.1 million and proposed a resolution to address the outstanding \$771,00746 accounting dispute. Such dispute was subsequently resolved pursuant to the TreeMac Stipulation,⁹ through which the Debtors agreed to pay TreeMac \$221,007.46 upon closing of the sale (discussed below), and the Debtors agreed to utilize the remaining \$550,000 toward the Prepetition Secured Lender Claim upon closing of the sale.

Under the REPAY assumption order, the Debtors agreed (among other things) to establish a reserve account for the benefit of REPAY during the course of these cases. The Sale Order (discussed below) provides for an agreed split of the proceeds held in the REPAY Reserve Account.¹⁰

As part of the Debtors' efforts to downsize their operations and stabilize costs, the Debtors sought and obtained two separate orders rejecting several retail leases in locations that the Debtors determined were not profitable or necessary to the effective reorganization and sale process.¹¹

4. The Sale and KEIP/KERP Orders

On or about the Petition Date, the Debtors also sought and obtained approval of bidding procedures to sell some or all of the Debtors' assets.¹² Pursuant to the bidding procedures, the Debtors received three qualifying bids for some or all of their assets. After extensive negotiations, the Debtors designated Axxess Financial Holdings, LLC (the "Purchaser") as the successful bidder,¹³ and obtained authority to sell substantially all assets to the Purchaser.¹⁴ The Sale is scheduled to close on or about July 1, 2024.

As part of the sale process, the Debtors sought and obtained authority to pay bonuses to seven (7) key employees. After an evidentiary hearing held on May 13, 2024, and subsequent entry of the TreeMac Stipulation on May 17, 2024, the Court approved payment of \$750,000 to the seven (7) designated employees pursuant to the Debtors' proposed KEIP and KERP programs.¹⁵

B. Bar Date

The general Bar Date for all creditors, other than Governmental Units, to file proofs of claim against the Debtors is July 5, 2024. The Bar Date for Governmental Units is August 23, 2024. Any references in the Plan or Disclosure Statement to any Claims or Equity Interests shall not constitute an admission of the existence, nature, extent or enforceability thereof.

⁷ See Docket Nos. 238, 239, 240, 253, and 278.

⁸ See Docket Nos. 150, 183.

⁹ See Docket No. 316.

¹⁰ See Docket No. 301, ¶ 13.

¹¹ See Docket Nos. 109, 317.

¹² See Docket No. 151.

¹³ See Docket No. 246.

¹⁴ See Docket No. 316.

¹⁵ See Docket No. 318.

Notices of the Bar Date was served on all known creditors and interested parties on or about May 6, 2023.¹⁶ Under the circumstances, the Debtors believe they have complied with applicable due process requirements for providing notice to all known creditors in these Chapter 11 Cases.

C. Claims Against the Debtor

1. In General

A summary of Claims against the Debtors, as set forth in the Proofs of Claim on file, are as follows:¹⁷

- Class 1 – Priority Non-Tax Claims: \$0.00
- Class 2 – Prepetition Secured Lender Claim: \$26,653,286.61
- Class 3 – Other Secured Claims: Unknown
- Class 4 – General Unsecured Claims: Unknown
- Class 5 – Intercompany Claims: Unknown

Other than Class 1 and Class 2, the Debtors have not reviewed the actual Proofs of Claim filed, given that the Debtors do not expect to have the funds to make any cash distributions beyond Class 1 and Class 2.

2. DIP Facility Claims

Under the Sale Order, the DIP Facility Claims will be paid at closing of the sale. The Plan provides for a discharge and mutual release of claims and obligations arising from the DIP Facility and DIP Order upon payment of the outstanding balance due at closing of the sale.

3. Administrative Claims (other than Professional Fee Claims)

Allowed Administrative Claims must be filed on or before the Administrative Claim Bar Date (which is defined to be 28 days after the Effective Date). The Debtors expect to have paid most, if not all, Administrative Claims in the ordinary course of business on and after closing of the sale, and before the Effective Date. To the extent there remain any outstanding Allowed Administrative Claims, the Debtors will pay such claims once allowed from the Administrative Claim Reserve. To the extent the funds remaining in the Administrative Claim Reserve are insufficient to pay the Allowed Administrative Claims in full, the Debtors shall provide written notice to the Prepetition Secured Lender, and the Prepetition Secured Lender shall have five (5) business days to raise objection to the proposed payment out of the Debtors' remaining Cash.

4. Professional Fee Claims

As discussed above, the Debtors have retained Gray Reed, as bankruptcy counsel, Harney Partners, to provide a Chief Restructuring Officer and additional support staff, Oppenheimer & Co., as investment bankers, and various other ordinary course professionals. Professionals must file their final fee applications on or before the Administrative Claim Bar Date. Allowed fee awards will be paid from the Administrative Claim Reserve. To the extent the funds remaining in the Administrative Claim Reserve are insufficient to pay the Allowed Professional Fee Claims in full,

¹⁶ See Docket Nos. 273.

¹⁷ Since neither Bar Date has passed as of the date of this Disclosure Statement, the total Priority Tax Claims and General Unsecured Claims may change. Because the Debtors do not anticipate making distributions to Class 4 General Unsecured Claims, and holders of such claims will be deemed to reject the Plan, the Debtors do not intend to solicit votes of Class 4.

the Debtors shall provide written notice to the Prepetition Secured Lender, and the Prepetition Secured Lender shall have five (5) business days to raise objection to the proposed payment out of the Debtors' remaining Cash.

5. Priority Tax Claims

The Debtors are presently aware of approximately \$29,000 owing in respect of Priority Tax Claims. The applicable Bar Date for Governmental Units to file additional Priority Tax Claims is August 23, 2024. Allowed Priority Tax Claims shall be paid from the Priority Claim Reserve, and to the extent amounts remaining in the Priority Claim Reserve are insufficient to pay the Allowed Priority Tax Claims in full, the Debtors shall provide written notice to the Prepetition Secured Lender, and the Prepetition Secured Lender shall have five (5) business days to raise objection to the proposed payment out of the Debtors' remaining Cash.

IV. The Plan

Section IV of this Disclosure Statement is intended only to provide a summary of the key terms, structure, classification, treatment, and implementation of the Plan. **Although the statements contained in this Disclosure Statement include summaries of the provisions of the Plan and in documents referred to therein, this Disclosure Statement does not purport to be a complete statement of all related terms and provisions and should not be relied upon for a comprehensive discussion of the Plan.** Instead, reference is made to the Plan, the Plan Supplement and any attachments to the Plan for the full and complete statements of such terms and provisions. The Plan itself, in addition to the Plan Supplement and any attachments to the Plan will control in all respects. To the extent there are any inconsistencies between this Section IV and the Plan, the Plan Supplement and any attachments to the Plan, the Plan, Plan Supplement and the attachments to the Plan, as applicable, shall govern.

A. Summary of Key Plan Provisions

Article	Plan Pages	Summary
I	1–7	Definitions and Rules of Interpretation. This article contains the definitions used throughout the Plan, as well as conventions for computing time and determining the governing law that will apply to various provisions in the Plan.
II	7–9	Administrative and Priority Claims. This article details the treatment for certain Priority and Administrative Claims, such as state and federal taxes, post-bankruptcy loans and compensation of bankruptcy professionals. These types of claims are afforded higher payment priority under the Bankruptcy Code and, thus, the Debtors must ensure that they are paid or otherwise dealt with before the Plan can provide payments to other claims.
III	9–10	Classification of Claims. This article summarizes the different categories of claims. Creditors who disagree with the classification may seek an order from the Bankruptcy Court allowing Claims for voting purposes.
IV	10–11	Treatment of Claims. This details the varying treatments for each class of Claims. A more detailed description of the Plan treatment is set forth immediately below in Article IV.B of this Disclosure Statement.
V	11–12	Impairment; Acceptance or Rejection of the Plan. This article explains which classes are entitled to vote for or against the Plan.
VI	12–14	Means of Implementation. This article contains the various provisions that are critical to the implementation of the Plan, such as the limited substantive consolidation for distribution purposes to Classes 1 and 2.
VII	14–16	Conditions Precedent. This article lists the various conditions precedent to the Effective Date of the Plan. As set forth in Article VII.C any of these conditions may be waived by joint agreement of the Debtors and the Prepetition Secured Lender.

Article	Plan Pages	Summary
VIII	16–18	Effect of Consummation. This article details the effect confirmation and consummation of the Plan will have on creditors. As summarized further in Section IV.C of this Disclosure Statement, Article VIII of the Plan contains Debtor Releases (Article VIII.C). This article also includes Exculpations (Article VIII.B) and injunctions (Article VIII.D).
IX	19	Retention of Jurisdiction. All plans contain provisions regarding the items over which the Bankruptcy Court retains jurisdiction after confirmation and the effective date. Article IX of the Plan enumerates a list of (a)-(n) of matters over which the Bankruptcy Court shall retain jurisdiction to decide, should they become issues in the future.
X	20–22	Miscellaneous Provisions. The last few pages of the Plan contain various miscellaneous provisions, such as where to send notice and how to find the Plan Supplement and other documents.

B. Treatment of Classes of Claims and Equity Interests

To the extent a Class contains Allowed Claims or Equity Interests, the classification of Allowed Claims and Equity Interests is specified below.

1. Class 1 — Priority Non-Tax Claims

The Debtors and the Prepetition Secured Lender may object to any Priority Non-Tax Claims on or before thirty (30) days after the Effective Date, unless such deadline is extended by an order of the Bankruptcy Court or agreement with the holder of the applicable Priority Non-Tax Claim. Except to the extent that a holder of an Allowed Priority Non-Tax Claim against a Debtor agrees to a less favorable treatment, each such holder shall receive, in full satisfaction of such Claim, payment in full in Cash from the Priority Claim Reserve on (or as soon as reasonably practicable after) the later of (A) the Effective Date or (B) fifteen (15) days after such Priority Non-Tax Claim becomes Allowed. To the extent amounts remaining in the Priority Claim Reserve are insufficient to pay the Allowed Priority Non-Tax Claims in full, the Debtors shall provide written notice to the Prepetition Secured Lender, and the Prepetition Secured Lender shall have five (5) business days to raise objection to the proposed payment out of the Debtors' remaining Cash.

Class 1 is unimpaired and deemed to accept the Plan. The Debtors will **not** solicit votes from holders of Class 1 Priority Non-Tax Claims.

2. Class 2 — Prepetition Secured Lender's Secured Claims

In final satisfaction of the Prepetition Secured Lender Claim, the Prepetition Secured Lender shall receive: (i) on the closing date of the Sale, all amounts required under the Sale Order and TreeMac Stipulation, including a one-time Cash payment in the amount of \$1,300,000.00; (ii) on or as soon as practicable following the Effective Date, (a) a one-time Cash payment of the total amount of Cash held by the Debtors on the Effective Date, minus the amounts necessary and agreed upon by the Prepetition Secured Lender to establish and fund the Administrative Claim Reserve and the Priority Claim Reserve as required in Article II of the Plan, and (b) the assignment and transfer of the Debtors' Retained Causes of Action pursuant to section 363(b) of the Bankruptcy Code in a form of assignment approved by the Prepetition Secured Lender and included in a Plan Supplement; and (iii) upon entry of a Final Decree in these Chapter 11 Cases, all remaining Cash owned or held by the Debtors, wherever located, in all of the Debtors' bank accounts (including money, coins or notes held in foreign bank accounts in non-U.S. currency or tender), including the net proceeds realized and any funds held back from the sale of the Debtors' assets from the Petition Date through the entry of a Final Decree. All rights of setoff and recoupment are reserved by the Prepetition Secured Lender.

The Debtors shall provide the Prepetition Secured Lender with reasonable access to the books and records of the Debtors concerning the Retained Causes of Action.

Class 2 is impaired and will receive distributions under the Plan. The Debtors will solicit votes from the holder of the Class 2 Prepetition Secured Lender Claim.

3. *Class 3 – Other Secured Claims*

For each holder of an Allowed Other Secured Claim that holds a first priority Lien on any Collateral as of the Effective Date, such holder shall receive the Collateral on the Effective Date or as soon as practicable thereafter. To the extent the value of the Collateral securing an Allowed Other Secured Claim is insufficient to satisfy the Allowed Other Secured Claim, such holder of such Allowed Other Secured Claim will receive a Class 4 General Unsecured Claim for the remaining portion of its Other Secured Claim, which amount shall be treated as an Allowed General Unsecured Claim pursuant in Article IV.D of the Plan (summarized below).

The Debtors do not believe there exist any creditors that would fall within this Class 3. To the extent any such creditors exist, Class 3 is impaired and will receive non-monetary property (i.e., its Collateral) under the Plan. The Debtors will solicit votes from any such holders of Class 3 Other Secured Claims.

4. *Class 4 – General Unsecured Claims*

Holders of General Unsecured Claims shall receive and retain nothing under the Plan on account of such General Unsecured Claims. Holders of General Unsecured Claims are conclusively deemed to have rejected the Plan.

Class 4 Claim holders are impaired and will neither receive nor retain any property under the Plan on account of such Claims. As such, holders of Class 4 General Unsecured Claims are deemed to reject the Plan and will **not** receive ballots.

5. *Class 5 – Intercompany Claims*

On the Effective Date, all Intercompany Claims against a Debtor shall be settled, cancelled, released, and discharged without payment or distribution of any Cash or other property. Holders of Intercompany Claims are conclusively deemed to have rejected the Plan.

Class 5 Claim holders are impaired and will neither receive nor retain any property under the Plan on account of such Claims. As such, holders of Class 5 Intercompany Claims are deemed to reject the Plan and will **not** receive ballots.

6. *Class 6 – Equity Interests in the Debtor*

On the Effective Date, all Equity Interests in each Debtor shall be cancelled and of no further force or effect. Holders of Equity Interests shall neither retain nor receive any property under the Plan on account of such Equity Interests.

Class 6 Interest holders are impaired and will neither receive nor retain any property under the Plan on account of such Equity Interests. As such, holders of Class 6 Equity Interests are deemed to reject the Plan and will **not** receive ballots.

C. *Release, Exculpation and Injunction Provisions*

Article VIII of the Plan provides for standard “debtor” releases, exculpations, and injunctions to ensure the enforceability of the Plan and prior orders of the Bankruptcy Court. The Plan does not contain third-party releases or releases of any direct causes of action held by any person or entity against any non-debtor person or entity.

The Debtors believe that the releases, exculpations, and injunctions set forth in the Plan are appropriate and in accordance with applicable law because, among other things, the releases are narrowly tailored to the Debtors and

the Chapter 11 Cases, and the Exculpated Parties have contributed value to the Debtors, which facilitated the Debtors' ability to sell substantially all their assets and to propose and pursue confirmation of the Plan. The Debtors further believe that such releases, exculpations, and injunctions are a necessary part of the Plan. The Debtors will be prepared to meet their burden to establish the basis for the releases, exculpations, and injunctions for each of the relevant parties and each Exculpated Party as part of confirmation of the Plan.

1. Exculpatory Provisions

The Exculpated Parties under the Plan are limited to: (1) the Debtors, (2) Trevor L. Ahlberg, solely in his capacities as (i) the Chief Executive Officer (ii) principal of the Debtors and their general partner Cottonwood Financial Management, Inc., and (3) Karen G. Nicolaou, solely in her capacity as the Debtors' Chief Restructuring Officer.

Article VIII.B of the Plan proposes to exculpate the Exculpated Parties from liabilities arising from any acts or omissions occurring during the Chapter 11 Cases. Specifically, Article VIII.B provides as follows:

Upon the Effective Date, to the fullest extent permissible under applicable law, no Exculpated Party shall have or incur, and each Exculpated Party is released and exculpated from, any liability to any holder of a Claim or Equity Interest, or any other party in interest, for any claim or cause of action arising from, relating to, or connected with the administration of the Chapter 11 Cases, the Sale, the Disclosure Statement, the preparation of the Plan, the solicitation of acceptances of the Plan, the pursuit of confirmation of the Plan, the occurrence of the Effective Date, or the administration of the Plan or property to be distributed under the Plan, except for claims related to any act or omission that is determined in a Final Order of a court of competent jurisdiction to have constituted actual fraud, willful misconduct, or gross negligence. The Exculpated Parties shall be deemed to have, participated in good faith in connection with the above and entitled to the protection of section 1125(e) of the Bankruptcy Code. Each Exculpated Party shall be entitled to reasonably rely upon the advice of counsel with respect to their duties and responsibilities pursuant to the Plan.

2. Releases by the Debtors

Article VIII.C of the Plan provides for releases of certain claims and Causes of Action the Debtors or their bankruptcy estates may hold against third parties, including derivative claims. The Debtors do not intend to pursue litigation after the Effective Date. Certain Retained Causes of Action will be transferred to the Prepetition Secured Lender in satisfaction of its Allowed Prepetition Secured Claim. Any Causes of Action that is not enumerated as a Retained Cause of Action will be released on the Effective Date of the Plan. To be clear, the releases set forth in Article VIII.C of the Plan do not release any claims owned by a third-party.

3. Injunction and Gate Keeping

Article VIII.D and Article VIII.E of the Plan propose to permanently enjoin persons from pursuing Claims or Causes of Action that are released, exculpated, or otherwise dealt with under the Plan. Any Claims or Causes of Action that a person may attempt to assert against Exculpated Parties must be filed before the Bankruptcy Court to determine whether such claim or cause of action was released under the Plan. The Debtors do not intend for these provisions to cover, include, or affect any direct claim or cause of action owned by a non-Debtor Person against any other non-Debtor Person.

Specifically, Article VIII.D provides as follows:

- (a) From and after the Effective Date, and except as otherwise expressly provided in this Plan, all Persons who have held, hold, or may hold Claims against or Equity Interests in any Debtor are permanently enjoined from (i) commencing or continuing in any manner any action or other proceeding of any kind on any such Claim or Equity Interest against the Estates, or other entity released, discharged or exculpated hereunder, (ii) the enforcement, attachment, collection or recovery by any manner or means of any judgment, award, decree or order against any of the Debtors' Estates with respect to any such Claim or Equity Interest, (iii) creating, perfecting or**

- enforcing any encumbrance of any kind against any of the Debtors' Estates, or against the property or interests in property of any of the Debtors' Estates, as applicable with respect to any such Claim or Equity Interest, except as to any liens or security interests held by the Prepetition Secured Lender which existed as of the Petition Date or granted after the Petition Date, (iv) asserting any right of setoff, subrogation or recoupment of any kind against any obligation due from any of the Debtors' Estates, or against the property or interests in property of any of the Debtors' Estates with respect to any such Claim or Equity Interest, except as provided in the Plan, or (v) pursuing any Claim released or exculpated under the Plan. For the avoidance of doubt, nothing in this Article VIII.C shall enjoin or stay any direct claim or cause of action held by the Prepetition Secured Lender.
- (b) Each holder of a Claim or Equity Interest shall be bound by the injunction provisions set forth in this Section. The Debtors or the Exculpated Parties shall be entitled to seek sanctions by motion for contempt or other appropriate proceeding for any violations of the Confirmation Order or this Plan, including the Exculpation, Injunction and Stay, and Gate Keeping provisions set forth in this Plan.
- (c) Unless otherwise provided, all injunctions or stays arising under or entered during the Debtors' Chapter 11 Cases under sections 105 or 362 of the Bankruptcy Code, or otherwise, and in existence on the Confirmation Date, shall remain in full force and effect until the Effective Date.

Moreover, Article VIII.E contains the following gatekeeping provision:

No Person or Entity may commence or pursue a claim or cause of action of any kind against the Debtors, any Exculpated Party or Cottonwood Financial Management, Inc. that relates to or is reasonably likely to relate to any act or omission in connection with, relating to, or arising out of a claim or cause of action subject to the Sections B, C, and D of this Article VIII, including any claim or cause of action that was asserted or assertable on behalf of the Debtor, including any derivative, alter ego, successor liability, or similar claims and Causes of Action based on general harm to the Debtor, holders of Claims and Equity Interests, or any other party in interest, or a theory of lack of separation between the Debtors, an Exculpated Party, and Cottonwood Financial Management, Inc., without the Bankruptcy Court (i) first determining, upon motion that attaches a copy of the proposed complaint or petition, and after notice and a hearing, that such claim or cause of action represents a direct (as opposed to derivative) and colorable claim of any kind and (ii) specifically authorizing such Person to bring such claim or cause of action against the Debtors, any Exculpated Party, or Cottonwood Financial Management, Inc. At the hearing on such motion, the Bankruptcy Court shall have sole and exclusive jurisdiction to assess whether the proposed complaint or petition satisfies the applicable Federal Rules of Civil Procedure (or other applicable rules of procedure) and to determine whether such claim or cause of action represents a colorable claim of any kind. For the avoidance of doubt, any party that obtains such determination and authorization and subsequently wishes to amend the authorized complaint or petition to add any claims or Causes of Action not explicitly included in the authorized complaint or petition must obtain authorization from the Bankruptcy Court before filing any such amendment in the court where such complaint or petition is pending. The Bankruptcy Court reserves jurisdiction to adjudicate any such claims to the maximum extent provided by applicable law. For the avoidance of doubt, the provision of this Article VIII.E shall not apply to the commencement or filing of any direct claim or cause of action against any non-Debtor, entity or person by the Prepetition Secured Lender.

4. No Third-Party Releases

While Article VIII of the Plan contains "Debtor Releases," the only claims being released under such provisions are Causes of Action that belong to the Debtors and their bankruptcy estates. The Plan does not propose to release claims or causes of action that belong to third-party creditors.

D. Retained Causes of Action

Article VI.E of the Plan preserves Retained Causes of Action to be transferred to (and vested in) the Prepetition Secured Lender in partial satisfaction of its Prepetition Secured Claim.

Except as otherwise provided in this Plan, an agreement or document entered into in connection with the Plan, or in a Final Order of the Bankruptcy Court (including, but not limited to, the Sale Order, the TreeMac Stipulation, or DIP Order), pursuant to sections 363(b) and 1123(b)(3) of the Bankruptcy Code, the Debtors reserve and, as of the Effective Date, assign to the Prepetition Secured Lender, consistent with Article IV.B of the Plan, the Retained Causes of Action. On and after the Effective Date, the Prepetition Secured Lender or its designee may pursue Retained Causes of Action in satisfaction of the Prepetition Secured Lender Claim.

No Entity may rely on the absence of a specific reference in the Plan, the Plan Supplement, or the Disclosure Statement to any Retained Cause of Action against it as any indication that the Prepetition Secured Lender will not pursue any and all available Retained Causes of Action against it. Unless any Retained Cause of Action against an Entity is expressly waived, relinquished, exculpated, released, compromised, or settled in the Plan or a Final Order of the Bankruptcy Court, the Debtors expressly reserve all Retained Causes of Action for later adjudication by the Prepetition Secured Lender, and, therefore no preclusion doctrine, including the doctrines of res judicata, collateral estoppel, issue preclusion, claim preclusion (judicial, equitable, or otherwise), or laches, shall apply to such Retained Causes of Action upon, after, or as a consequence of Plan confirmation or occurrence of the Effective Date.

V. Risk Factors

BEFORE TAKING ANY ACTION WITH RESPECT TO THE PLAN, HOLDERS OF CLAIMS AGAINST THE DEBTOR WHO ARE ENTITLED TO VOTE TO ACCEPT OR REJECT THE PLAN SHOULD READ AND CONSIDER CAREFULLY THE RISK FACTORS SET FORTH BELOW, AS WELL AS THE OTHER INFORMATION SET FORTH IN THIS DISCLOSURE STATEMENT, THE PLAN, AND THE PLAN SUPPLEMENT AND THE OTHER DOCUMENTS REFERRED TO, OR INCORPORATED BY REFERENCE INTO THIS DISCLOSURE STATEMENT, INCLUDING OTHER DOCUMENTS FILED WITH THE BANKRUPTCY COURT IN THE CHAPTER 11 CASES. THE RISK FACTORS SET FORTH BELOW SHOULD NOT BE REGARDED AS THE ONLY RISKS PRESENT IN CONNECTION WITH THE DEBTORS' RESTRUCTURING AND CONSUMMATION OF THE PLAN.

A. Bankruptcy Law Considerations

1. The Debtors Will Consider All Available Alternatives if the Plan Transactions Are Not Implemented, and Such Alternatives May Result in Lower Recoveries for Holders of Claims Against and Equity Interests in the Debtor.

If the Plan is not confirmed and implemented, the Debtors will consider all available alternatives, including an alternative chapter 11 plan, conversion to chapter 7, or a structured dismissal. The terms of any alternative may be less favorable to holders of Claims against and Equity Interests in the Debtors than the terms of the Plan as described in this Disclosure Statement.

Any material delay in the confirmation of the Plan, the Chapter 11 Cases, or the threat of rejection of the Plan by the Bankruptcy Court, would add substantial expense and uncertainty to the process, without providing for any greater recoveries than what is already proposed in the Plan.

2. Risks Related to Confirmation and Consummation of the Plan.

(a) Conditions Precedent to Confirmation May Not Occur.

As more fully set forth in Article VII of the Plan, the occurrence of confirmation and the Effective Date are each subject to a number of conditions precedent. If each condition precedent to confirmation is not met or waived, the Plan may not be confirmed, and if each condition precedent to the Effective Date is not met or waived, the Effective

Date will not take place. In the event that the Plan is not confirmed or does not become effective, the Chapter 11 Cases will likely convert to a case under chapter 7 of the Bankruptcy Code or be dismissed.

(b) Parties in Interest May Object to the Plan's Classification of Claims and Equity Interests.

Section 1122 of the Bankruptcy Code provides that a plan may place a Claim or an Equity Interest in a particular Class only if such Claim or Equity Interest is substantially similar to the other Claims or Equity Interests in such Class. The Debtors believe the classification of Claims and Equity Interests under the Plan complies with the requirements of the Bankruptcy Code because the Debtor created Classes of Claims and Equity Interests, each encompassing Claims or Equity Interests, as applicable, that are substantially similar to the other Claims or Equity Interests, as applicable, in each such Class. Nevertheless, there can be no assurance that the Bankruptcy Court will reach the same conclusion, and the Debtors may need to modify the Plan. Such modification could require a resolicitation of votes on the Plan. The Plan may not be confirmed if the Bankruptcy Court determines that the Plan's classifications of Claims and Equity Interests is not appropriate.

(c) The Voting Requirements May Not Be Satisfied.

If votes are received in number and amount sufficient to enable the Bankruptcy Court to confirm the Plan, the Debtors intend to seek, as promptly as practicable thereafter, confirmation of the Plan. In the event that sufficient votes are not received, the Debtors may need to seek to confirm an alternative chapter 11 plan or transaction. There can be no assurance that the terms of any such alternative chapter 11 plan or other transaction would be similar or as favorable to the holders of Allowed Claims as those proposed in the Plan. The Debtors do not believe that any such transaction exists or is likely to exist that would be more beneficial than the Plan.

(d) The Debtors May Not Be Able to Secure Confirmation.

Section 1129 of the Bankruptcy Code sets forth the requirements for confirmation of a chapter 11 plan, and requires, among other things, a finding by the bankruptcy court that: (i) the plan "does not unfairly discriminate" and is "fair and equitable" with respect to any non-accepting Classes; (ii) the plan is not likely to be followed by a liquidation or a need for further financial reorganization unless liquidation or reorganization is contemplated by the plan; and (iii) the value of distributions to non-accepting holders of Claims and Equity Interests within a particular Class under the plan will not be less than the value of distributions such holders would receive if the debtor was liquidated under chapter 7 of the Bankruptcy Code.

There can be no assurance that the requisite acceptances to confirm the Plan will be received. Even if the requisite acceptances are received, there can be no assurance that the Bankruptcy Court will confirm the Plan. A non-accepting holder of an Allowed Claim might challenge whether the voting results satisfy the requirements of the Bankruptcy Code or Bankruptcy Rules. Even if the Bankruptcy Court determines that the voting results are appropriate, the Bankruptcy Court can decline to confirm the Plan if it finds that any of the statutory requirements for confirmation have not been met. If the Plan is not confirmed, it is unclear what distributions, if any, holders of Allowed Claims would receive with respect to their Allowed Claims.

Subject to the limitations contained in the Plan, the Debtors reserve the right to modify the Plan and seek confirmation consistent with the Bankruptcy Code and, as appropriate, not resolicit votes on such modified Plan. Any modifications could result in a less favorable treatment of any Class than the treatment currently provided in the Plan, such as a distribution of property to the Class affected by the modification of a lesser value than currently provided in the Plan or no distribution whatsoever under the Plan.

(e) Releases, Injunctions, and Exculpations Provisions May Not Be Approved.

Article VIII of the Plan provides for certain releases, injunctions, and exculpations. The releases, injunctions, and exculpations provided in the Plan are subject to objection by parties in interest and, therefore, may not be approved. If the releases are not approved, certain parties may withdraw their support for the Plan. The releases by the Debtors and the exculpation provided to the Exculpated Parties are necessary to the success of the Plan because the Exculpated Parties have made significant contributions to the Debtors' proposed exit from Chapter 11 with the expectation of

receiving the full benefit of the Plan's release and exculpation provisions. The Plan's release and exculpation provisions are inextricable components of Plan.

(f) The Debtors May Not Be Able to Pursue Nonconsensual Confirmation Over Certain Impaired Non-Accepting Classes.

In the event that any impaired class of claims or interests does not accept a chapter 11 plan, the Bankruptcy Court may nevertheless confirm a plan at the proponent's request if at least one impaired class (as defined under section 1124 of the Bankruptcy Code) has accepted the plan (with such acceptance being determined without including the vote of any "insider" in such class), and, as to each impaired class that has not accepted the plan, the bankruptcy court determines that the plan "does not discriminate unfairly" and is "fair and equitable" with respect to the dissenting impaired class(es). The Debtors believe that the Plan satisfies these requirements, and the Debtors may request such nonconsensual confirmation in accordance with subsection 1129(b) of the Bankruptcy Code. Nevertheless, there can be no assurance that the Bankruptcy Court will reach this conclusion. In addition, the pursuit of nonconsensual confirmation or Consummation of the Plan may result in, among other things, increased professional fees.

(g) The Chapter 11 Cases May Be Converted.

If the Bankruptcy Court finds that it would be in the best interest of creditors and/or the debtor in a chapter 11 case, the Bankruptcy Court may convert the bankruptcy cases to cases under chapter 7 of the Bankruptcy Code. In such event, one or more chapter 7 trustees would be appointed, or elected, to liquidate the Debtors' remaining assets for distribution in accordance with the priorities established by the Bankruptcy Code. The Debtors believe that liquidation under chapter 7 would reduce and delay distributions being made to creditors than those provided for in the Plan because: (a) a trustee would require more time to reach the same conclusions already reached by the Debtors and their professionals, (b) significant additional administrative expenses would result from the appointment of a chapter 7 trustee, and (c) a chapter 7 trustee might institute litigation that could take years to advance and conclude before holders of Allowed Claims would see any recovery.

(h) The Chapter 11 Case May Be Dismissed.

If the Bankruptcy Court finds that the Debtors have incurred substantial or continuing loss or diminution to the Estates and lack the ability to effectuate substantial consummation of a confirmed plan, or otherwise determines that cause exists, the Bankruptcy Court may dismiss the Chapter 11 Cases. In such event, the Debtors would be unable to confirm the Plan, which may ultimately result in significantly decreased distributions than those provided for in the Plan.

(i) Risk of Non-Occurrence of the Plan Effective Date.

Although the Debtors believe the Effective Date may occur quickly after the Confirmation Date, there can be no assurance as to such timing or as to whether the Effective Date will, in fact, occur. As more fully set forth in Article VII of the Plan, the Effective Date is subject to a number of conditions precedent. If such conditions precedent are not satisfied or waived by the Debtors and the Prepetition Secured Lender, the Effective Date will not take place.

B. Risks Related to Recoveries Under the Plan

The distributions proposed for the Class 2 Prepetition Secured Lender's Claim can be affected by a variety of contingencies. The estimated recoveries are based on numerous assumptions (the realization of many of which will be beyond the control of the Debtors), including: (a) the successful confirmation of the Plan; (b) an assumed date for the occurrence of the Effective Date; and (c) the final amount of Administrative Claims and Priority Claims, respectively.

C. Miscellaneous Risk Factors and Disclaimers

1. The Financial Information is Based on the Debtor's Books and Records and, Unless Otherwise Stated, No Audit Was Performed.

In preparing this Disclosure Statement, the Debtors relied on financial data derived from the Debtors' books and records. While the Debtors believe that such financial information fairly reflects the Debtors' financial condition, the Debtors are unable to warrant or represent that the financial information contained in this Disclosure Statement (or any information in any of the exhibits to this Disclosure Statement) is without inaccuracies. The Debtors' books and records have not been audited since before the Petition Date.

2. No Legal or Tax Advice Is Provided by This Disclosure Statement.

This Disclosure Statement is not legal advice to any person or Entity. The contents of this Disclosure Statement should not be construed as legal, business, or tax advice. Each reader should consult its own legal and financial advisor(s) with regard to any legal, tax, and other matters concerning its Claim. This Disclosure Statement may not be relied upon for any purpose other than to determine how to vote to accept or reject the Plan or whether to object to confirmation.

3. No Admissions Made.

The information and statements contained in this Disclosure Statement will neither (a) constitute an admission of any fact or liability by any Entity (including the Debtors) nor (b) be deemed evidence of the tax or other legal effects of the Plan on the Debtors, holders of Allowed Claims or Equity Interests, or any other parties in interest.

4. Failure to Identify Litigation Claims or Projected Objections.

No reliance should be placed on the fact that a particular litigation claim or projected objection to a particular Claim is, or is not, identified in this Disclosure Statement. Subject to the release provisions of the Plan, the Prepetition Secured Lender may seek to investigate, file, and prosecute Causes of Action.

5. Information Provided by the Debtors and Relied Upon by Debtors' Advisors.

The Debtors and their professionals have relied upon information provided to them in connection with the preparation of this Disclosure Statement. Although counsel to and other advisors retained by the Debtors have performed certain due diligence in connection with the preparation of this Disclosure Statement and the exhibits to this Disclosure Statement, they have not independently verified the information contained in this Disclosure Statement or the information in the exhibits to this Disclosure Statement.

6. No Representations Outside This Disclosure Statement are Authorized.

No representations concerning or relating to the Debtors, the Chapter 11 Cases, or the Plan are authorized by the Bankruptcy Court or the Bankruptcy Code, other than as set forth in this Disclosure Statement. Any representations or inducements made to secure your acceptance or rejection of the Plan that are other than as contained in, or included with, this Disclosure Statement, should not be relied upon by you in arriving at your decision. Those who are entitled to vote to accept or reject the Plan should promptly report unauthorized representations or inducements to counsel to the Debtors, and the Office of the United States Trustee for the Northern District of Texas.

7. No Duty to Update.

The statements contained in this Disclosure Statement are made by the Debtors as of the date hereof, unless otherwise specified herein, and the delivery of this Disclosure Statement after that date does not imply that there has been no change in the information set forth herein since that date. The Debtors have no duty to update this Disclosure Statement unless otherwise ordered to do so by the Bankruptcy Court.

VI. Certain U.S. Federal Tax Consequences of the Plan

A. Introduction

The following discussion summarizes certain U.S. federal income tax consequences of the implementation of the Plan to the Debtors and certain holders of Claims. This summary is based on the Internal Revenue Code of 1986, as amended (the “Tax Code”), the U.S. Treasury regulations promulgated thereunder (the “Treasury Regulations”), judicial decisions and published administrative rules and pronouncements of the Internal Revenue Service (the “IRS”), all as in effect on the date hereof (collectively, “Applicable Tax Law”). Changes in the rules or new interpretations of the rules may have retroactive effect and could significantly affect the U.S. federal income tax consequences described below. The Debtors have not requested, and will not request, any ruling or determination from the IRS or any other taxing authority with respect to the tax consequences discussed herein, and the discussion below is not binding upon the IRS or the courts. Additionally, no legal opinions have been requested or obtained from counsel with respect to any of the tax aspects of the Plan, and no such opinion shall be requested or obtained. No assurance can be given that the IRS would not assert, or that a court would not sustain, a different position than any position discussed herein.

This summary does not address non-U.S., state, or local tax consequences of the Plan, nor does it purport to address all aspects of U.S. federal income taxation that may be relevant to a Claim or Equity Interest holder in light of such holder’s individual circumstances or to a holder that may be subject to special tax rules (such as Persons who are related to the Debtor within the meaning of the Tax Code, persons subject to the alternative minimum tax or the “Medicare” tax on net investment income, or the base erosion and anti-abuse tax, non-U.S. taxpayers, broker-dealers, banks, mutual funds, insurance companies, financial institutions, small business investment companies, regulated investment companies, tax exempt organizations, pass-through entities, beneficial owners of pass-through entities, subchapter S corporations, persons using a mark-to-market method of accounting, holders of Claims who are themselves in bankruptcy, U.S. holders whose functional currency is not the U.S. dollar, U.S. expatriates, and passive foreign investment companies). Further, this summary assumes that each holder holds only Claims in a single Class and holds each Claim only as a “capital asset” (within the meaning of section 1221 of the Tax Code). This summary also assumes that the various debt and other arrangements to which the Debtors are a party will be respected for U.S. federal income tax purposes in accordance with their form. This summary does not discuss differences in tax consequences to holders of Claims that act or receive consideration in a capacity other than any other holder of a Claim of the same Class or Classes, and the tax consequences for such holders may differ materially from those described below. This summary does not address the U.S. federal income tax consequences to (1) holders that have Claims that are Unimpaired or otherwise entitled to payment in full in Cash under the Plan (Class 1), or (2) holders that are deemed to reject the Plan (Classes 4, 5, and 6).

For purposes of this discussion, a “U.S. holder” is a holder of a Claim that is: (1) an individual citizen or resident of the United States for U.S. federal income tax purposes; (2) a corporation (or other Entity treated as a corporation for U.S. federal income tax purposes) created or organized under the laws of the United States, any state thereof or the District of Columbia; (3) an estate the income of which is subject to U.S. federal income taxation regardless of the source of such income; or (4) a trust (a) if a court within the United States is able to exercise primary jurisdiction over the trust’s administration and one or more United States persons have authority to control all substantial decisions of the trust or (b) that has a valid election in effect under applicable Treasury Regulations to be treated as a United States person (within the meaning of section 7701(a)(30) of the Tax Code). For purposes of this discussion, a “non-U.S. holder” is any holder of a Claim that is not a U.S. holder other than any partnership (or other Entity treated as a partnership or other pass-through Entity for U.S. federal income tax purposes).

If a partnership (or other Entity treated as a partnership or other pass-through Entity for U.S. federal income tax purposes) is a holder of a Claim, the tax treatment of a partner (or other beneficial owner) generally will depend upon the status of the partner (or other beneficial owner) and the activities of the Entity. Partners (or other beneficial owners) of partnerships (or other pass-through entities) that are holders of Claims should consult their respective tax advisors regarding the U.S. federal income tax consequences of the Plan.

B. Certain U.S. Federal Income Tax Consequences to the Debtors

In general, absent an exception, a debtor will realize and recognize cancellation of debt income (“CODI”), for U.S. federal income tax purposes, upon satisfaction of its outstanding indebtedness for total consideration less than the amount of such indebtedness. The amount of CODI incurred is generally the amount by which the indebtedness discharged exceeds the value of any consideration given in exchange therefor. Certain statutory or judicial exceptions may apply to limit the amount of CODI incurred for U.S. federal income tax purposes.

Under section 108 of the Tax Code, a debtor is not required to include CODI in gross income if the debtor is under the jurisdiction of a court in a case under chapter 11 of the Bankruptcy Code and the discharge of debt occurs pursuant to that proceeding. Instead, as a consequence of such exclusion, a debtor must reduce its tax attributes by the amount of CODI that it excluded from gross income pursuant to the rule discussed in the preceding sentence. Such reduction in tax attributes occurs only after the tax for the year of the debt discharge has been determined. In general, tax attributes will be reduced in the following order: (a) net operating losses (“NOLs”) and NOL carryforwards; (b) general business credit carryovers; (c) minimum tax credit carryovers; (d) capital loss carryovers; (e) tax basis in assets (but not below the amount of liabilities to which the debtor remains subject); (f) passive activity loss and credit carryovers; and (g) foreign tax credit carryovers. Alternatively, a debtor with CODI may elect first to reduce the basis of its depreciable assets pursuant to section 108(b)(5) of the Tax Code. Any excess CODI over the amount of available tax attributes is not subject to U.S. federal income tax and has no other U.S. federal income tax impact.

In the case of entities taxed for U.S. federal income tax purposes as partnerships, many provisions of section 108 of the Tax Code are applied at the partner level, including the gain exclusion and tax attribute reduction rules generally described above. As a result of the transactions contemplated by the Plan, the Debtors may realize CODI. The exact amount of any CODI that will be realized by each Debtor, and the amount of any tax attributes required to be reduced, cannot be known with certainty at this time.

In some cases the IRS will treat the amount of liabilities from which a debtor is discharged as amount realized from a sale or disposition of property instead of CODI. In such cases a Debtor may recognize gain for the difference between the amount of liabilities discharged plus the fair market value of other consideration received in excess of the Debtor’s adjusted tax basis in the property transferred. The exact amount of any sale proceeds or treatment thereof cannot be known with certainty at this time.

C. Withholding and Information Reporting

Generally, information reporting requirements will apply to all payments or distributions under the Plan, unless the recipient is exempt, such as a corporation. Additionally, a holder may be subject to backup withholding at applicable rates, unless the holder (i) is a corporation or other person exempt from backup withholding and, when required, demonstrates this or (ii) is a United States Person (as defined by section 7701(a)(30) of the Tax Code) that provides a correct taxpayer identification number (“TIN”) on Internal Revenue Service Form W-9 (or a suitable substitute form) and provides the other information and makes the representations required by such form and complies with the other requirements of the backup withholding rules. A holder may become subject to backup withholding if, among other things, the holder (i) fails to properly report interest and dividends for U.S. federal income tax purposes or (ii) in certain circumstances, fails to certify, under penalty of perjury, that it has furnished a correct TIN. A holder that does not provide a correct TIN also may be subject to penalties imposed by the IRS.

Backup withholding is not an additional tax. The U.S. federal income tax liability of a person subject to backup withholding is reduced by the amount of tax withheld as backup withholding. If backup withholding results in an overpayment of U.S. federal income tax, the holder may obtain a refund of the overpayment by properly and timely filing a claim for refund with the IRS.

THE U.S. FEDERAL INCOME TAX CONSEQUENCES OF THE PLAN ARE COMPLEX. THE FOREGOING SUMMARY DOES NOT DISCUSS ALL ASPECTS OF U.S. FEDERAL INCOME TAXATION THAT MAY BE RELEVANT TO A PARTICULAR CLAIM HOLDER IN LIGHT OF SUCH CLAIM HOLDER’S CIRCUMSTANCES AND INCOME TAX SITUATION. HOLDERS OF ALLOWED CLAIMS AND EQUITY INTERESTS ARE URGED TO CONSULT THEIR OWN TAX ADVISORS CONCERNING THE U.S. FEDERAL, STATE, LOCAL AND OTHER TAX CONSEQUENCES OF THE

PLAN, INCLUDING THE APPLICABILITY AND EFFECT OF ANY STATE, LOCAL OR FOREIGN TAX LAWS AND OF ANY CHANGE IN APPLICABLE TAX LAWS.

VII. Conclusion and Recommendation

For all of the reasons set forth in this Disclosure Statement, the Debtors believe confirmation and consummation of the Plan is preferable to other available alternatives. Consequently, the Debtors urge all holders of Claims who are entitled to vote to **ACCEPT** the Plan, and to duly complete and return their Ballots in accordance with the instructions on the Ballots. The Voting Deadline is 5:00 p.m. prevailing Central Time on **July 26, 2024**. To be counted, your Ballot must be fully completed, executed and actually received by the Claims Agent by the Voting Deadline.

Dated: July 2, 2024
Dallas, Texas

COTTONWOOD FINANCIAL LTD.

By: /s/ Karen Nicolaou
Karen Nicolaou, Chief Restructuring Officer

COTTONWOOD FINANCIAL ADMINISTRATIVE SERVICES, LLC

By: /s/ Karen Nicolaou
Karen Nicolaou, Chief Restructuring Officer

COTTONWOOD FINANCIAL TEXAS, LLC

By: /s/ Karen Nicolaou
Karen Nicolaou, Chief Restructuring Officer

COTTONWOOD FINANCIAL IDAHO, LLC

By: /s/ Karen Nicolaou
Karen Nicolaou, Chief Restructuring Officer

COTTONWOOD FINANCIAL WISCONSIN, LLC

By: /s/ Karen Nicolaou
Karen Nicolaou, Chief Restructuring Officer

Schedule 1

Liquidation Analysis

Liquidation Analysis¹

As a condition to confirmation, section 1129(a)(7) of the Bankruptcy Code requires the Bankruptcy Court to find that each person in an impaired class of creditors or interest holders (*i.e.*, Classes 2–6 under the Plan) has either accepted the Plan or will receive or retain, on the Effective Date of the Plan, property on account of such claim or interest in an amount not less than the claimant or interest holder would receive in a hypothetical chapter 7 liquidation.

Below is a hypothetical liquidation analysis (the “Liquidation Analysis”), illustrating what creditors would likely receive were the Debtors’ chapter 11 cases converted to a chapter 7 liquidation on the Effective Date of the Plan.

This Liquidation Analysis compares recoveries under the Plan to hypothetical creditor recoveries were the Debtors’ assets to be disposed of under the direction of a chapter 7 trustee, without the benefit of the orderly liquidation and wind-down of the Debtors’ estates, which is the foundation of the Plan.

On the whole, as illustrated in this Liquidation Analysis, without an orderly wind-down of the Debtors’ estates, distributions would be delayed and administrative costs could be higher, reducing the net distributable proceeds available to creditors than what is being proposed under the Plan. For this reason, the Debtors believe that the Prepetition Secured Lender, as the primary beneficiary of distributions proposed under the Plan, will achieve higher recoveries under the Plan than if the Debtors converted the cases and liquidated their remaining assets through chapter 7. Similarly, because the Debtors do not anticipate paying the Prepetition Secured Lender Claim in full, and because the DIP Order granted the Prepetition Secured Lender liens on substantially all assets, including chapter 5 avoidance actions and other replacement collateral, the Debtors will not be in a position to make cash distributions to junior lien holders or general unsecured creditors under any hypothetical scenario. As such, all creditors and interest holders shall receive the same or better treatment under the Plan than they would receive under a hypothetical liquidation under chapter 7.

I. Limitations and Key Assumptions Underlying the Hypothetical Liquidation

THE LIQUIDATION ANALYSIS PRESENTED HEREIN HAS BEEN PREPARED SOLELY FOR THE PURPOSES DESCRIBED ABOVE AND MAY NOT BE USED FOR ANY OTHER PURPOSE.

This Liquidation Analysis was prepared by the Debtors and their respective financial advisors and counsel. The Liquidation Analysis contains numerous estimates, based upon a review of the Debtors’ records and other documentation. The claims that could be asserted and allowed in a chapter 7 liquidation, including unpaid chapter 11 administrative claims (including professional fees allowed prior to the Conversion Date (defined below)), and additional post-

¹ Capitalized terms used but not otherwise defined herein shall have the meanings ascribed to them in the Disclosure Statement to which this Liquidation Analysis is attached.

Conversion Date administrative claims that will be incurred by a chapter 7 trustee and the trustee's new professionals have been estimated.

Because the Debtors do not project distributions to classes with claims junior to those of the Prepetition Secured Lender, the Liquidation Analysis does not include any estimates of the aggregate value of claims, by claim class.

Because the final amounts of the chapter 11 administrative claims are not known at the time of the filing of this Liquidation Analysis, the assumptions utilized in developing this Liquidation Analysis are inherently subject to uncertainties and contingencies, many of which are beyond the control of the Debtors or a hypothetical chapter 7 trustee at the present time. For example, in a hypothetical chapter 7 liquidation, it is unknown whether a chapter 7 trustee will attempt to make interim distributions to the Prepetition Secured Lender and, if so, in what amounts. It is also unknown whether a chapter 7 trustee will attempt to pursue chapter 5 avoidance actions, and, if so, how and how much a chapter 7 trustee would compensate professionals for pursuing such Causes of Action. Accordingly, there can be no assurance that the values assumed in the Liquidation Analysis will be realized if the Debtors' remaining assets were actually liquidated under chapter 7 of the Bankruptcy Code. In addition, any liquidation would take place in the future, at which time circumstances may exist which cannot presently be predicted.

The Debtors recognize that there are other potential liquidation alternatives that are not presented in the Liquidation Analysis, including alternatives that would give rise to further reduced and delayed creditor recoveries.

THE DEBTORS RESERVES THE RIGHT TO SUPPLEMENT, MODIFY, OR ADJUST ANY PART OF THIS LIQUIDATION ANALYSIS, INCLUDING A CHANGE TO THE UNDERLYING ASSUMPTIONS AND ANALYSIS.

General Assumptions

The following general assumptions were considered by the Debtors and their advisors as assumptions that would be applicable in any hypothetical chapter 7 liquidation.

1. Timing Considerations of Chapter 7 Case

The Liquidation Analysis assumes that, under the Plan, an initial distribution will be made to the Prepetition Secured Lender on the Effective Date of the Plan, and that the orderly wind down of the Debtors will be completed over a 3-4 month period commencing on or around the Effective Date. For purposes of comparison, the Debtors assume that a hypothetical chapter 7 liquidation would commence on or around the same date as the Plan Effective Date, which is likely to occur on or before August 9, 2024 (the "Conversion Date"). Both timelines assume that the Sale has already been consummated, and that substantially all of the Debtors' assets have been transferred to the Purchaser on or about July 1, 2024, leaving only the net sale proceeds and certain Retained Causes of action to be administered as of the Conversion Date.

2. Professionals Involved in the Chapter 7 Case

As part of a hypothetical chapter 7 case, the Debtors assume a chapter 7 trustee would choose to retain certain professionals to provide expertise and assistance in the Debtors' liquidation. The Liquidation Analysis assumes that the chapter 7 trustee would replace the Debtors' existing professionals with new professionals who do not have the same level of background knowledge as the Debtors' existing professionals.

It is possible that the chapter 7 trustee would retain the same accountants and financial advisory professionals to assist in preparation of final tax returns to avoid duplication of effort and expense.

3. Trustee Fees for Chapter 7 Administration

Under section 326(a) of the Bankruptcy Code, the Bankruptcy Court may allow reasonable compensation for the chapter 7 trustee's services not to exceed three percent (3%) of the moneys disbursed or turned over in the case by the chapter 7 trustee to parties in interest in excess of \$1 million, excluding the Debtors, but including holders of secured claims. Because the Debtors project a significant distribution will be made to the Prepetition Secured Lender under a hypothetical chapter 7 liquidation, the Debtors assume that the Bankruptcy Court would allow the hypothetical chapter 7 trustee to receive its statutory fees for making the projected distribution.

4. Basis of Presentation

The hypothetical Liquidation Analysis is based on the Debtors' financial statements prepared during the course of the chapter 11 cases, with certain adjustments to reflect anticipated activity through the Conversion Date.

II. Consummation of the Plan Will Provide Greater Value to Creditors than a Chapter 7 Liquidation

Because distributions to creditors in a hypothetical chapter 7 liquidation, as reflected in the Liquidation Analysis, will be the same or lower relative to the forecasted recoveries under the Plan, the Debtors believe that consummation of the Joint Plan will provide greater value to such holders than would a liquidation under chapter 7 of the Bankruptcy Code.

Cottonwood Financial, Ltd, et al.

Case #24-80035

LIQUIDATION ANALYSIS

HYPOTHETICAL CHAPTER 7

PLAN

\$ in thousands	Notes	Book Value	Recovery %		Proceeds (\$)		Proceeds (\$)	
			Low	High	Low	High	Low	High
Cash & Equivalents		4,335	100 %	100 %	4,335	4,335	4,335	4,335
Net Proceeds from Causes of Action	A	-	n/a	n/a	-	-	-	-
Total Assets		\$ 4,335			\$ 4,335	\$ 4,335	\$ 4,335	\$ 4,335
<u>Administrative Expenses & Liquidation Costs</u>								
Chapter 11 Administrative Claims	B				2,450	2,100	2,450	2,100
Chapter 7 Trustee Fees	C				130	130		
Chapter 7 Professional Fees	D				510	410		
Other Administrative Expenses	E						510	410
US Trustee Fees	F						120	105
Total Liquidation Costs					3,090	2,640	3,080	2,615
Funds Available to Distribute to Creditors					\$ 1,245	\$ 1,695	\$ 1,255	\$ 1,720
			Estimated Recovery %		Estimated Recovery \$		Estimated Recovery \$	
	Notes	Estimated Allowed Claim	Low	High	Low	High	Low	High
<u>Priority & Secured Creditors</u>								
Unclassified - Priority Tax Claims	G	100	100 %	100 %	100	100	100	100
Class 1 Priority Non-Tax Claims	H	-	n/a	n/a	-	-	-	-
Class 2 Prepetition Secured Lender	I	25,353	5 %	6 %	1,145	1,595	1,155	1,620
Class 3 Other Secured Claims	J							
Total		\$ 25,353			\$ 1,245	\$ 1,695	\$ 1,255	\$ 1,720
Funds Available to Distribute to Unsecured Creditors					\$ -	\$ -	\$ -	\$ -
<u>Unsecured Creditors</u>								
Class 4 - General Unsecured Claims	K		- %	- %	-	-	-	-
Class 5 - Intercompany Claims	L		- %	- %	-	-	-	-
Class 6 - Equity Interests			- %	- %	-	-	-	-
Total		\$ -			\$ -	\$ -	\$ -	\$ -

III. Notes to Liquidation Analysis

Assets

A. Net Proceeds from Causes of Action

Potential recoveries in this line represent potential recoveries on Causes of Action owned by the Estates and not otherwise released under the Plan or prior orders of the Bankruptcy Court. As noted in the Plan and Disclosure Statement, many Estate Causes of Action were released or assigned to the purchaser under prior Bankruptcy Court orders. Because the remaining Causes of Action will not result in a full payment of the Prepetition Secured Lender Claim, the Plan proposes to assign these remaining Causes of Action to the Prepetition Secured Lender. In a hypothetical chapter 7 scenario, a trustee may pursue these Causes of Action for the estate. Because these Causes of Action are too speculative in nature to assign a specific value, no estimates are given in this Liquidation Analysis.

B. Chapter 11 Administrative Claims

This presentation assumes that most (if not all) Allowed Administrative Claims (other than Professional Fees) have been paid prior to the Effective Date. The Debtors have estimated that \$1 million of the sale proceeds will be used to pay ordinary course trailing accounts payable and cure costs not otherwise paid by the Purchaser at closing. To the extent these payments are less than the \$1 million estimate, the amount of Cash & Equivalents will be increased accordingly.

The ranges for Professional Fees presented in the Liquidation Analysis are comprised of the following estimated amounts of actual amounts incurred to date and further amounts anticipated to be incurred through the Effective Date: (i) up to \$800,000 for Gray Reed, as counsel for the Debtors; (ii) up to \$250,000 for Harney Partners, as CRO and financial advisors to the Debtors; and (iii) \$1.1 million for the estimated Transaction Fee to Oppenheimer & Co., Inc., as investment bankers to the Debtors, and its related expenses; and (iv) approximately \$300,000 in other ordinary course Professional Fees and other unpaid Administrative Claims that may be or have been incurred prior to the anticipated Effective Date. These amounts include any unpaid fees and expenses due to the DIP Lender and the Prepetition Secured Lender under the DIP Order. The Plan proposes to establish an Administrative Claim Reserve, which will include these amounts, and the post-Effective Date Debtors will use such funds to pay the Allowed Professional Fees on and after the Effective Date.

The chapter 7 scenario assumes no such reserves, but as otherwise reflected in the Liquidation Analysis and as explained further in subsequent Notes below, the ultimate costs of the chapter 11 case cannot be avoided by converting to chapter 7. In chapter 7, chapter 11 administrative claims are junior to chapter 7 administrative claims, but the Prepetition Secured Lender Claim is subject

to the Carve Out under the DIP Order. As a result, all chapter 11 Administrative Claims (including Professional Fees) must be paid or otherwise reserved for before the chapter 7 trustee can make distributions to the Prepetition Secured Lender.

C. Chapter 7 Trustee Fees

The Liquidation Analysis assumes hypothetical chapter 7 trustee fees would be as set forth in section 326(a) of the Bankruptcy Code. The Debtors assume that chapter 7 trustee fees will be approximately 3% of the Cash & Equivalents that will be available to the hypothetical chapter 7 trustee. The expense is more than the projected U.S. Trustee Fees that would be paid under the Plan.

D. Chapter 7 Professional Fees

In addition to the Chapter 7 Professional Fees described in Note C above, the chapter 7 trustee will need to retain financial advisors, attorneys, accountants, and other professionals to perform much of the same work the Debtors' professionals have already completed or will complete shortly after the Effective Date. In the Liquidation Analysis, chapter 7 Professional Fees are estimated to be the same as, or greater than, the Post-Confirmation Wind Down Costs (see Note E below) because a chapter 7 trustee would be required to complete the same final accounting work that the Debtors intend to do under the Plan. This line does not include potential contingency fees or other litigation costs that a chapter 7 trustee might incur to pursue Causes of Action.

E. Other Administrative Expenses – Post-Confirmation Wind Down Costs

This line estimates the projected expenses associated with winding down the Estates after confirmation of the Plan. As set forth above in Note D, these costs are projected to be the same for a chapter 7 trustee, because either scenario will require quarterly reporting, final tax returns, corporate dissolutions for the Debtor entities, closing of bank accounts and final resolutions to close the cases. While the Debtors are presenting comparable costs for Lines D and E, the Debtors believe the chapter 11 Plan scenario will result in quicker distributions to creditors and minimal costs. The Debtors intend to seek entry of a Final Decree as quickly as they can complete these tasks, most likely by the end of 2024. The amounts included in this Line E are comprised of: (i) up to \$225,000 for post-confirmation legal and professional work; (ii) \$140,000 to complete and file final tax returns; and (iii) an estimated fund of \$145,000 to pay any other administrative expenses that may be incurred post-Effective Date.

F. U.S. Trustee Fees

These fees represent the statutory fees payable to the US Trustee in the chapter 11 scenario. No UST fees will be required in the chapter 7 liquidation scenario. Instead, the chapter 7 trustee will be entitled to a fee of up to 3% for all distributions made from the estate, as set forth in Note C above.

G. Unclassified – Priority Tax Claims

The Debtors are aware of \$29,000 in outstanding tax claims entitled to priority and potentially secured treatment under the Bankruptcy Code. The applicable Bar Date for such Priority Tax Claims is August 23, 2024. The Debtors will include \$100,000 in the Priority Claim Reserve to ensure that all Priority Tax Claims receive 100% recovery under the Plan scenario. To the extent all or a portion of the Priority Claim Reserve is not used for these claims, the unused portion of such reserve will be available for distribution to the Prepetition Secured Lender.

H. Class 1 – Priority Non-Tax Claims

This category includes proofs of claim filed as “priority claims.” The Debtors do not believe there are many such Claims, if any. The Bar Date for such Claims is July 5, 2024, which is before the expected Confirmation Hearing. The Debtors will review any such Claims, if filed, and update this Liquidation Analysis as necessary. The Plan proposes to pay these Priority Non-Tax Claims in full, to the extent they exist. In a chapter 7 scenario, any Priority Non-Tax Claims may not be entitled to a recovery absent the Prepetition Secured Lenders’ consent. No amounts are listed in the Liquidation Analysis, because the Debtors do not believe any such Claims exist.

I. Class 2 – Prepetition Secured Lender Claim

This category includes the Prepetition Secured Lender’s remaining Prepetition Secured Lender Claim. Under the DIP Order, such Claim was Allowed in the amount of \$26,653,286.61. Under the Sale Order, the Debtors will have paid an additional \$1.3 million toward this amount, leaving a balance reflected in the Liquidation Analysis of approximately \$25.35 million. Under the Plan, the Debtors will pay an additional \$1.38 million to the Prepetition Secured Lender on the Effective Date, with one or more additional distribution(s) to be paid prior to the entry of the Final Decree, depending on the final amounts of Allowed Professional Fee Claims and Post-Confirmation Wind Down Costs. Under a hypothetical chapter 7 liquidation, it is unclear when a chapter 7 trustee will make similar distributions to the Prepetition Secured Lender. It is also unclear if the distribution will be the same amounts.

J. Class 3 – Other Secured Claims

This category includes proofs of claims filed as “secured claims.” The Debtors do not believe that any valid “Other Secured Claim” holders exist in these cases. To the extent the Debtors still possess any equipment or collateral securing such Other Secured Creditors, the Debtors propose to convey such Collateral back to such creditors, which is effectively the same treatment that these creditors would receive in a hypothetical chapter 7 scenario where a chapter 7 trustee would be likely to abandon any encumbered collateral with little or no value to the Estates. Under both scenarios, holders of Other Secured Claims would not be entitled to receive cash distributions from the Estates. Accordingly, no cash distributions are reflected in the Liquidation Analysis for either scenario.

K. Class 4 – General Unsecured Claims

As reflected in the Liquidation Analysis, the Debtors do not project any funds will be available for distribution to unsecured creditors following distributions to the Prepetition Secured Lender. Accordingly, the Debtors do not expect to have any unencumbered cash or assets with which to make distributions to General Unsecured Creditors. No distributions are projected under either scenario.

L. Class 5 – Intercompany Claims

As reflected in the Liquidation Analysis, the Debtors do not project any funds will be available for distribution to unsecured creditors following distributions to the Prepetition Secured Lender. Accordingly, the Debtors do not expect to have any unencumbered cash or assets with which to make distributions to Intercompany Claim holders. No distributions are projected under either scenario.

Exhibit A

Joint Chapter 11 Plan

Solicitation Version

**IN THE UNITED STATES BANKRUPTCY COURT
FOR THE NORTHERN DISTRICT OF TEXAS
DALLAS DIVISION**

In re:	§	
	§	Chapter 11
	§	
COTTONWOOD FINANCIAL LTD., <i>et al.</i> , ¹	§	Case No. 24-80035 (SWE)
	§	
Debtors.	§	(Jointly Administered)
	§	

DEBTORS' JOINT CHAPTER 11 PLAN OF LIQUIDATION

Jason S. Brookner (TX Bar No. 24033684)
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*Counsel to the Debtors
and Debtors in Possession*

¹ The Debtors in these chapter 11 cases and the last four digits of each Debtors' federal tax identification number are as follows: Cottonwood Financial Ltd. (1001); Cottonwood Financial Administrative Services, LLC (7228); Cottonwood Financial Texas, LLC (9059); Cottonwood Financial Idaho, LLC (5651); Cottonwood Financial Wisconsin, LLC (7075). The Debtors' principal offices are located at 2100 W Walnut Hill Lane, Suite 300, Irving, TX 75038.

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The Debtors Cottonwood Financial Ltd., Cottonwood Financial Administrative Services, LLC, Cottonwood Financial Texas, LLC, Cottonwood Financial Idaho, LLC, and Cottonwood Financial Wisconsin, LLC jointly propose this *Debtors' Joint Chapter 11 Plan of Liquidation* pursuant to section 1121(a) of the Bankruptcy Code.

ARTICLE I

DEFINITIONS AND INTERPRETATION

A. *Definitions.*

For the purpose of this Plan, the following terms shall have the respective meanings set forth below:

1. *Administrative Claim* means any right to payment constituting a cost or expense of administration of the Chapter 11 Case pursuant to sections 503(b) or 507 of the Bankruptcy Code.
2. *Administrative Claim Bar Date* means the deadline for the filing of any and all Administrative Claims, which shall be the first Business Day that is at least twenty-eight (28) days after the Effective Date.
3. *Administrative Claim Reserve* means the reserve established on or before the Effective Date by the Debtors, with the Prepetition Secured Lender's written consent, from any and all available sources to be used solely for payment of Administrative Claims once such Administrative Claims become Allowed.
4. *Allowed* means, with reference to any Claim or Equity Interest, any Claim or Equity Interest (i) for which a proof of claim or proof of interest has been filed and as to which no objection has been made or such other applicable period of limitation fixed by this Plan, the Bankruptcy Code, the Bankruptcy Rules, or the Bankruptcy Court, (ii) which appears in the Debtors' Schedules and is not listed as contingent, liquidated or disputed, (iii) which is allowed by Final Order of the Bankruptcy Court, or (iv) which is expressly allowed under this Plan.
5. *APA* means that certain Asset Purchase Agreement by and among Axxess Financial Holdings, Inc. and the Debtors dated May 1, 2024, as amended or supplemented and approved pursuant to the Sale Order.
6. *Assets* means property of the Debtors' Estates and proceeds thereof.
7. *Avoidance Actions* means any and all actual or potential avoidance, recovery, subordination or other claims, causes of action or remedies that may be brought by or on behalf of the Debtors or their Estates or other authorized parties in interest under the Bankruptcy Code or applicable non-bankruptcy law, including claims, causes of action, or remedies under sections 502, 510, 542, 544, 545, 547 through 553, and 724(a) of the Bankruptcy Code, or under similar or related local, state, federal, or foreign statutes or common law, including preference and fraudulent transfer and conveyance laws, in each case whether or not litigation to prosecute such claim(s), cause(s) of action or remedy(ies) were commenced prior to the Effective Date.

8. *Ballot* means the ballot provided to holders of Claims to indicate their votes to accept or reject the Plan.
9. *Bankruptcy Code* means title 11 of the United States Code, as amended from time to time.
10. *Bankruptcy Court* means the United States Bankruptcy Court for the Northern District of Texas, Dallas Division, or any other court of the United States having jurisdiction over the Chapter 11 Cases.
11. *Bankruptcy Rules* means the Federal Rules of Bankruptcy Procedure as promulgated by the United States Supreme Court under section 2075 of title 28 of the United States Code, as amended and in effect from time to time.
12. *Bar Date* means the last date to file proofs of claim against the Debtors, which is July 5, 2024 for all creditors except Governmental Units, and August 23, 2024 for Governmental Units.
13. *Business Day* means any day other than a Saturday, Sunday, or “legal holiday” as defined in Bankruptcy Rule 9006(a).
14. *Cash* means legal tender of the United States of America.
15. *Causes of Action* means any claims, causes of action, interests, damages, remedies, demands, rights, actions (including Avoidance Actions), suits, debts, sums of money, obligations, judgments, liabilities, accounts, defenses, offsets, counterclaims, crossclaims, powers, privileges, licenses, liens, indemnities, guaranties, and franchises of any kind or character whatsoever, whether known or unknown, foreseen or unforeseen, now existing or hereafter arising, contingent or non-contingent, liquidated or unliquidated, choate or inchoate, secured or unsecured, assertable, directly or derivatively, matured or unmatured, suspected or unsuspected, in contract, tort, law, equity, or otherwise, owned by or otherwise accruing to the Debtors and their Estates, whether arising before, on, or after the Petition Date.
16. *Chapter 11 Cases* means the above-captioned jointly administered chapter 11 bankruptcy cases of the Debtors.
17. *Claim* means a claim against a Debtor within the meaning of section 101(5) of the Bankruptcy Code.
18. *Class* means any group of Claims or Equity Interests classified by this Plan pursuant to sections 1122 and 1123(a)(1) of the Bankruptcy Code.
19. *Collateral* means any property or interest in property of the Estates of the Debtors subject to a Lien, charge, or other encumbrance to secure the payment or performance of a Claim, which Lien, charge or other encumbrance is not subject to avoidance or otherwise invalid under the Bankruptcy Code or applicable state or federal law.

20. *Conditional Approval Order* means the Bankruptcy Court's *Order (I) Conditionally Approving the Disclosure Statement, (II) Scheduling a Combined Confirmation Hearing to Consider Final Approval of the Disclosure Statement and Confirmation of the Debtors' Plan, (III) Approving the Solicitation Procedures and Dates, Deadlines, and Notices Related Thereto, and (IV) Granting Related Relief.*

21. *Confirmation Date* means the date on which the clerk of the Bankruptcy Court enters the Confirmation Order on the docket.

22. *Confirmation Hearing* means the hearing conducted by the Bankruptcy Court pursuant to sections 1128(a) and 1129 of the Bankruptcy Code to consider confirmation of the Plan, as such hearing may be adjourned or continued from time to time.

23. *Confirmation Order* means the order of the Bankruptcy Court confirming this Plan pursuant to section 1129 of the Bankruptcy Code.

24. *CRO* means Karen Nicolaou, the duly appointed Chief Restructuring Officer in these Chapter 11 Cases.

25. *Debtor* means any one of the Debtors, as the context may require.

26. *Debtors* means Cottonwood Financial Ltd., Cottonwood Financial Administrative Services, LLC, Cottonwood Financial Texas, LLC, Cottonwood Financial Idaho, LLC, and Cottonwood Financial Wisconsin, LLC, collectively, in their capacities as debtors and debtors in possession under sections 1107 and 1108 of the Bankruptcy Code.

27. *DIP Facility* means the senior secured postpetition financing facility approved by the DIP Order and as amended by the Sale Order.

28. *DIP Facility Claim* means the Claim of the DIP Lender under the DIP Facility and the DIP Order, including all amounts in principal, interest, and fees owed under the DIP Facility, Claims related to adequate protection, and all reasonable and documented out-of-pocket fees, costs, disbursements, and expenses of the DIP Lender and of the DIP Lender's counsel.

29. *DIP Lender* means Nehimba Holdings, LLC, in its capacity as DIP Lender (as that term is defined in the DIP Order).

30. *DIP Order* means the *Final Order (I) Authorizing the Debtors to (A) Obtain Postpetition Financing and (B) Utilize Cash Collateral, (II) Granting Liens and Superpriority Administrative Expense Claims, (III) Granting Adequate Protection, (IV) Modifying the Automatic Stay, and (V) Granting Related Relief* [Docket Nos. 153 and 157] entered by on March 22, 2024.

31. *Disclosure Statement* means that certain disclosure statement relating to the Plan, including all exhibits and schedules thereto, as the same may be amended, supplemented, or otherwise modified from time to time, as approved by the Bankruptcy Court pursuant to sections 1125 and 1126 of the Bankruptcy Code.

32. *Effective Date* means the first Business Day on which all the conditions precedent to the effectiveness of the Plan specified in ARTICLE VII.B hereof shall have been satisfied or waived as provided in ARTICLE VII.C hereof; *provided, however*, that if a stay, injunction or similar prohibition of the Confirmation Order is in effect, the Effective Date shall be the first Business Day after such stay, injunction or similar prohibition is no longer in effect.

33. *Equity Interest* means any “equity security,” as that term is defined in section 101(16) of the Bankruptcy Code in respect of the Debtors, including the general partnership interest of Cottonwood Financial Management, Inc. in Debtor Cottonwood Financial Ltd.

34. *Estates* means the estates of the Debtors as created under section 541 of the Bankruptcy Code.

35. *Exculpated Parties* means (1) the Debtors, (2) Trevor L. Ahlberg, solely in his capacities as (i) the Chief Executive Officer (ii) principal of the Debtors and their general partner Cottonwood Financial Management, Inc., and (3) Karen G. Nicolaou, solely in her capacity as the Debtors’ Chief Restructuring Officer.

36. *Final Decree* means the decree contemplated by Bankruptcy Rule 3022.

37. *Final Order* means an order or judgment of a court of competent jurisdiction that has been entered on the docket maintained by the clerk of such court and has not been reversed, vacated or stayed and as to which (a) the time to appeal, petition for *certiorari*, or move for a stay, new trial, reargument, or rehearing has expired and as to which no appeal, petition for *certiorari* or other proceedings for a stay, new trial, reargument or rehearing shall then be pending or (b) if an appeal, writ of *certiorari*, stay, new trial, reargument or rehearing thereof has been sought, (i) such order or judgment shall have been affirmed by the highest court to which such order was appealed, *certiorari* shall have been denied or a stay, new trial, reargument or rehearing shall have been denied or resulted in no modification of such order and (ii) the time to take any further appeal, petition for *certiorari*, or move for a stay, new trial, reargument or rehearing shall have expired; *provided, however*, that no order or judgment shall fail to be a “Final Order” solely because of the possibility that a motion pursuant to section 502(j) or 1144 of the Bankruptcy Code or under Rule 60 of the Federal Rules of Civil Procedure, or Bankruptcy Rule 9024 has been or may be filed with respect to such order or judgment.

38. *General Unsecured Claim* means any Claim against a Debtor that is not an Administrative Claim, a Priority Tax Claim, a DIP Facility Claim, a Priority Non-Tax Claim, a Prepetition Lender Secured Claim, a Professional Fee Claim, an Other Secured Claim, or an Equity Interest.

39. *Governmental Unit* has the meaning ascribed to such term in section 101(27) of the Bankruptcy Code.

40. *Intercompany Claim* means a claim held by one Debtor against another Debtor.

41. *Local Rules* means the Bankruptcy Local Rules of the United States Bankruptcy Court for the Northern District of Texas, as the same may be amended or modified from time to time.

42. *Other Secured Claim* means a Secured Claim that is not a Prepetition Lender Secured Claim.

43. *Petition Date* means February 25, 2024.

44. *Permitted Lien(s)* has the meaning as defined in Article I of the APA.

45. *Person* means an individual, partnership, corporation, limited liability company, cooperative, trust, unincorporated organization, association, joint venture, government or agency or political subdivision thereof or any other form of legal entity.

46. *Plan* means this Chapter 11 Plan, as the same may be amended, supplemented or otherwise modified from time to time, including any exhibits and schedules hereto.

47. *Plan Supplement* means the compilation of documents and forms of documents, schedules and exhibits to be filed as set forth in the Conditional Approval Order and as may be amended, supplemented or otherwise modified from time to time in accordance with the terms hereof and in accordance with the Bankruptcy Code and the Bankruptcy Rules, containing, without limitation any documents necessary for the execution and implementation of the Plan.

48. *Prepetition Secured Lender* means Third Coast Bank, SSB, in its capacity as lender pursuant to that certain loan agreement with Debtor Cottonwood Financial Ltd, dated as of December 9, 2020, with Debtors Cottonwood Financial Texas, LLC and Cottonwood Financial Administrative Services, LLC as guarantors of such loan.

49. *Prepetition Secured Lender Claim* means the Secured Claim held by the Prepetition Secured Lender arising pursuant to the Prepetition Loan Documents which, as of the First Petition Date, aggregate \$26,653,286.61, which was stipulated and allowed under the terms of the DIP Order and includes the Diminution in Value Claims for Cash Collateral and Non-Cash Collateral as provided and defined under the DIP Order. For the avoidance of doubt, such amount shall be deemed an Allowed Claim under this Plan.

50. *Priority Claim Reserve* means the reserve established on or before the Effective Date by the Debtors, with the Prepetition Secured Lender's written consent, from any and all available sources to be used solely for payment of Priority Non-Tax Claims and Priority Tax Claims once such Claims become Allowed.

51. *Priority Non-Tax Claim* means any Claim that is entitled to priority in payment pursuant to sections 507(a)(4) or (5) of the Bankruptcy Code and that is not a Claim or a Priority Tax Claim.

52. *Priority Tax Claim* means any Claim of a Governmental Unit of the kind entitled to priority in payment as specified in sections 502(i) and 507(a)(8) of the Bankruptcy Code.

53. *Professional Fee Claim* means any Claim by a Professional Person under sections 330, 331 or 503 of the Bankruptcy Code for allowance of compensation and/or reimbursement of expenses in the Chapter 11 Cases.

54. *Professional Person* means any Person retained or to be compensated by the Debtors pursuant to sections 327, 328, 330, 331, 503(b) or 1103 of the Bankruptcy Code.

55. *Purchaser* shall mean Axxess Financial Holdings, Inc.

56. *Retained Causes of Action* means Causes of Action identified in the Plan Supplement to be reserved, retained and assigned pursuant to this Plan.

57. *Sale* means the transaction or transactions contemplated under the APA and approved by the Bankruptcy Court pursuant to the Sale Order.

58. *Sale Order* means the Bankruptcy Court's *Order (I) Approving the Sale of Substantially All of the Debtors' Assets Free and Clear of Liens, Claims and Interests; and (II) Granting Related Relief* [Docket No. 301].

59. *Schedules* means, collectively, Schedules A through J and the Statement of Financial Affairs, as filed by each Debtor in the Chapter 11 Cases, as the same may be amended from time to time.

60. *Secured Claim* means a Claim, other than a Prepetition Secured Lender Claim, secured by a Lien that is valid, perfected and enforceable, and not avoidable, upon property in which a Debtor has an interest, to the extent of the value, as of the Effective Date, of such interest or Lien as determined by a Final Order of the Bankruptcy Court pursuant to section 506 of the Bankruptcy Code, or as otherwise agreed to in writing by the Debtor in question and the holder of such Claim.

61. *TreeMac Stipulation* means the *Stipulation and Agreed Order Among the Debtors, TreeMac Funding Group, LLC, and Third Coast Bank* [Docket No. 316].

62. *Voting Deadline* means the date by which Ballots for accepting or rejecting the Plan must be received, as set forth under the Conditional Approval Order.

63. *Wind Down Officer* shall be the Debtors' CRO who shall have the full and final authority to administer the terms of the Plan.

B. *Rules of Interpretation and Construction.*

(a) Interpretation. Unless otherwise specified herein, all section, article, and exhibit references in the Plan are to the respective Section in, Article of, and Exhibit to, the Plan, as the same may be amended, waived or modified from time to time. All headings in this Plan are for convenience of reference only and shall not limit or otherwise affect the provisions of the Plan.

(b) Construction and Application of Bankruptcy Code Definitions. Unless otherwise defined herein, words and terms defined in section 101 of the Bankruptcy Code shall have the

same meanings when used in the Plan. Words or terms used but not defined herein shall have the meanings ascribed to such terms or words, if any, in the Bankruptcy Code. The rules of construction contained in section 102 of the Bankruptcy Code shall apply to the construction of the Plan.

(c) Other Terms. The words “herein,” “hereof,” “hereto,” “hereunder,” and other words of similar import refer to the Plan as a whole and not to any particular Article, Section, Subsection, or Clause contained in the Plan.

(d) Time. In computing any period of time prescribed or allowed by the Plan, the provisions of Bankruptcy Rule 9006(a) shall apply.

ARTICLE II

TREATMENT OF UNCLASSIFIED CLAIMS

A. DIP Facility Claim.

The DIP Facility Claim shall be paid in accordance with the terms of the Sale Order. To the extent any amounts remain unpaid under the DIP Facility and DIP Order, the Debtors shall pay any such remaining amounts due on or before the Effective Date. For the avoidance of doubt, the releases set forth in Paragraph 30 of the DIP Order shall remain in full effect and will not be modified, altered, or abridged in any way as a result of this Plan or the Confirmation Order. In addition to such releases previously approved under the DIP Order, upon the closing of the Sale and payment of the DIP Facility Claim, the Debtors and the DIP Lender shall be deemed to have released and discharged all rights, obligations, and defenses against one another arising from or related to the DIP Order and the DIP Facility Claim from and after the Petition Date.

B. Administrative Claims.

All Administrative Claims against the Debtors, other than Professional Fee Claims and the DIP Facility Claim, shall be treated as follows:

(a) Time for Filing. All holders of Administrative Claims, other than the DIP Lender or Professional Persons holding Professional Fee Claims, shall file with the Bankruptcy Court a request for payment of such Claims on or before the Administrative Claim Bar Date. Any such request must be served on the Debtors, their counsel, and counsel to the Prepetition Secured Lender, and must, at a minimum, set forth (i) the name of the holder of the Administrative Claim; (ii) the amount of the Administrative Claim; and (iii) the legal and factual bases for the Administrative Claim. A failure to file any such request in a timely fashion will result in the Administrative Claim in question being discharged and its holder forever barred from asserting such Administrative Claim against the Debtors or any other Person.

(b) Objection and Allowance. An Administrative Claim (other than the DIP Facility Claim or Professional Fee Claims) for which a request for payment has been properly filed shall become an Allowed Administrative Claim unless an objection is filed by the date that is thirty (30) days after a request for payment of such Administrative Claim is filed in accordance with subsection (a) above. If an objection is timely filed, the Administrative Claim in question shall

become an Allowed Administrative Claim only to the extent so Allowed by Final Order of the Bankruptcy Court.

(c) Payment. Except to the extent that a holder of an Allowed Administrative Claim (other than the DIP Facility Claim or Professional Fee Claims) agrees to a different treatment of such Claim, each holder of an Allowed Administrative Claim shall receive, on account of and in full satisfaction of such Claim, Cash from the Administrative Claim Reserve in an amount equal to the Allowed amount of such Administrative Claim on (or as soon as reasonably practicable after) the later of (A) the Effective Date or (B) fifteen (15) days after entry of an order by the Bankruptcy Court allowing such Administrative Claim. Allowed Administrative Claims shall be paid from the Administrative Claim Reserve. To the extent the funds remaining in the Administrative Claim Reserve are insufficient to pay the Allowed Administrative Claims in full, the Debtors shall provide written notice to the Prepetition Secured Lender, and the Prepetition Secured Lender shall have five (5) business days to raise objection to the proposed payment out of the Debtors' remaining Cash.

C. *Professional Fee Claims.*

(a) Time for Filing. Every Professional Person holding a Professional Fee Claim, other than the Professional Fee Claim of the Prepetition Secured Lender (as set forth below), that has not previously been the subject of a final fee application and accompanying Bankruptcy Court order approving the same shall file a final application for payment of fees and reimbursement of expenses no later than Administrative Claim Bar Date. Any such final fee application shall conform to and comply with all applicable provisions of the Bankruptcy Code, the Bankruptcy Rules, and the Local Rules.

(b) Objections and Allowance. The last date to object to any final fee application shall be the twenty-fourth (24th) day after such fee application has been filed with the Bankruptcy Court. All final fee applications shall be set for hearing on the same day, if necessary and as the Bankruptcy Court's calendar permits, after consultation with counsel to the Debtors and the Prepetition Secured Lender.

(c) Payment. Professional Fee Claims shall be paid from the Administrative Claim Reserve, and to the extent amounts remaining in the Administrative Claim Reserve are insufficient to pay the Allowed Professional Fee Claims in full, the Debtors shall provide written notice to the Prepetition Secured Lender, and the Prepetition Secured Lender shall have five (5) business days to raise objection to the proposed payment out of the Debtors' remaining Cash.

(d) Payment of Prepetition Secured Lender's Professional Fees. Any amounts due to the Prepetition Secured Lender's or the DIP Lender's professionals shall be paid from the Administrative Claim Reserve on the Effective Date, or within a reasonable time thereafter, pursuant to the DIP Order and the Sale Order without having to file a final fee application.

D. *U.S. Trustee Fees.*

All fees payable under section 1930 of title 28 of the United States Code shall be paid from the Debtors' available Cash in the Administrative Claim Reserve on or before the Effective Date

or when such amounts are due in the ordinary course. All such fees that arise after the Effective Date but before the closing of the Chapter 11 Cases shall be paid by the Debtors.

E. Priority Tax Claims.

(a) Time for Filing. Holders of Priority Tax Claims shall file such Priority Tax Claims on or before the applicable Bar Date. Nothing in this Plan shall alter or extend such Bar Date.

(b) Objections and Allowance. The last date to object to any timely filed Priority Tax Claim shall be thirty (30) days after the Government Bar Date, unless extended by an order of the Bankruptcy Court or an agreement with the holder of such Priority Tax Claim.

(c) Payment. Allowed Priority Tax Claims shall be paid from the Priority Claim Reserve, and to the extent amounts remaining in the Priority Claim Reserve are insufficient to pay the Allowed Priority Tax Claims in full, the Debtors shall provide written notice to the Prepetition Secured Lender, and the Prepetition Secured Lender shall have five (5) business days to raise objection to the proposed payment out of the Debtors' remaining Cash.

(d) Retention of Liens. Any Allowed Priority Tax Claim that is not a Permitted Lien under the APA shall attach to the portion of the Debtors' available Cash resulting from the Sale attributable to the property against which an applicable lien, in the order of their priority, with the same validity, force, and effect, subject to any claims and defenses the Debtors and Estates may possess with respect thereto.

(e) Interest. To the extent interest is required to be paid on any Priority Tax Claim, the rate of such interest shall be the rate determined under applicable nonbankruptcy law, as set forth in section 511 of the Bankruptcy Code. To the extent the holder of an Allowed Priority Tax Claim has a Lien on a Debtor's property, such Lien shall remain in place until such Allowed Priority Tax Claim has been paid in full.

ARTICLE III
CLASSIFICATION OF CLAIMS AND EQUITY INTERESTS

All Claims against, and Equity Interests in, the Debtors are classified for all purposes, including voting, confirmation, and distribution, as follows:

Class	Designation	Impairment	Entitled to Vote
Class 1	Priority Non-Tax Claims	Unimpaired	No (deemed to accept)
<i>Class 2</i>	<i>Prepetition Secured Lender Claim</i>	<i>Impaired</i>	<i>Yes</i>
<i>Class 3</i>	<i>Other Secured Claims</i>	<i>Impaired</i>	<i>Yes</i>
Class 4	General Unsecured Claims	Impaired	No (deemed to reject)

Class	Designation	Impairment	Entitled to Vote
Class 5	Intercompany Claims	Impaired	No (deemed to reject)
Class 6	Equity Interests	Impaired	No (deemed to reject)

Administrative Claims, Professional Fee Claims, DIP Lender Claims, and Priority Tax Claims are not classified for purposes of voting or receiving distributions under the Plan, pursuant to section 1123(a)(1) of the Bankruptcy Code. Instead, all such Claims shall be treated separately as unclassified claims on the terms previously set forth in Article II of this Plan.

ARTICLE IV **TREATMENT OF CLAIMS AND EQUITY INTERESTS**

A. Class 1 – Priority Non-Tax Claims

The Debtors or the Prepetition Secured Lender may object to any Priority Non-Tax Claims on or before thirty (30) days after the Effective Date, unless such deadline is extended by an order of the Bankruptcy Court or agreement with the holder of the applicable Priority Non-Tax Claim. Except to the extent that a holder of an Allowed Priority Non-Tax Claim against a Debtor agrees to a less favorable treatment, each such holder shall receive, in full satisfaction of such Claim, payment in full in Cash from the Priority Claim Reserve on (or as soon as reasonably practicable after) the later of (A) the Effective Date or (B) fifteen (15) days after such Priority Non-Tax Claim becomes Allowed. To the extent amounts remaining in the Priority Claim Reserve are insufficient to pay the Allowed Priority Non-Tax Claims in full, the Debtors shall provide written notice to the Prepetition Secured Lender, and the Prepetition Secured Lender shall have five (5) business days to raise objection to the proposed payment out of the Debtors' remaining Cash.

B. Class 2 – Prepetition Secured Lender's Secured Claims.

In final satisfaction of the Prepetition Secured Lender Claim, the Prepetition Secured Lender shall receive: (i) on the closing date of the Sale, all amounts required under the Sale Order and TreeMac Stipulation, including a one-time Cash payment in the amount of \$1,300,000.00; (ii) on or as soon as practicable following the Effective Date, (a) a one-time Cash payment of the total amount of Cash held by the Debtors on the Effective Date, minus the amounts necessary and agreed upon by the Prepetition Secured Lender to establish and fund the Administrative Claim Reserve and the Priority Claim Reserve as required in ARTICLE II hereof, and (b) the assignment and transfer of the Debtors' Retained Causes of Action pursuant to section 363(b) of the Bankruptcy Code in a form of assignment approved by the Prepetition Secured Lender and included in a Plan Supplement; and (iii) upon entry of a Final Decree in these Chapter 11 Cases, all remaining Cash owned or held by the Debtors, wherever located, in all of the Debtors' bank accounts (including money, coins or notes held in foreign bank accounts in non-U.S. currency or tender), including the net proceeds realized and any funds held back from the sale of the Debtors'

assets from the Petition Date through the entry of a Final Decree. All rights of setoff and recoupment are reserved by the Prepetition Secured Lender.

The Debtors shall provide the Prepetition Secured Lender with reasonable access to the books and records of the Debtors concerning the Retained Causes of Action.

C. Class 3 – Other Secured Claims.

For each holder of an Allowed Other Secured Claim that holds a first priority Lien on any Collateral as of the Effective Date, such holder shall receive the Collateral on the Effective Date or as soon as practicable thereafter. To the extent the value of the Collateral securing an Allowed Other Secured Claim is insufficient to satisfy the Allowed Other Secured Claim, such holder of such Allowed Other Secured Claim will receive a Class 4 General Unsecured Claim for the remaining portion of its Other Secured Claim, which amount shall be treated as an Allowed General Unsecured Claim pursuant in ARTICLE IV.D of this Plan.

D. Class 4 – General Unsecured Claims.

Holders of General Unsecured Claims shall receive and retain nothing under the Plan on account of such General Unsecured Claims. Holders of General Unsecured Claims are conclusively deemed to have rejected the Plan.

E. Class 5 – Intercompany Claims.

On the Effective Date, all Intercompany Claims against a Debtor shall be settled, cancelled, released, and discharged without payment or distribution of any Cash or other property. Holders of Intercompany Claims are conclusively deemed to have rejected the Plan.

F. Class 6 – Equity Interests.

On the Effective Date, all Equity Interests in each Debtor shall be cancelled and of no further force or effect. Holders of Equity Interests shall neither retain nor receive any property under the Plan on account of such Equity Interests.

ARTICLE V
IMPAIRMENT – ACCEPTANCE OR REJECTION OF THE PLAN

A. Classes Entitled to Vote.

The holders of Claims in Class 1 are unimpaired and are conclusively deemed to have accepted the Plan and are not entitled to vote to accept or reject the Plan. The holders of Claims in Class 2 and Class 3 are impaired and entitled to vote to accept or reject the Plan. The holders of Claims and Equity Interests in Classes 4, 5, and 6 are impaired and will neither receive nor retain any property under the Plan. Accordingly, such holders of Claims and Equity Interests in Classes 4, 5, and 6 are conclusively deemed to reject the Plan and are not entitled to vote to accept or reject the Plan.

B. Class Acceptance Requirement.

A Class of impaired Claims entitled to vote on the Plan shall have accepted the Plan if the holders of at least two-thirds (2/3) in amount and more than one-half (1/2) in number of Claims in such Class who have voted on the Plan have voted to accept the Plan. A Class of impaired Equity Interests shall have accepted the Plan if at least two-thirds (2/3) in amount of Equity Interests in such Class who have voted on the Plan have voted to accept the Plan.

C. Cramdown.

To the extent that any Class is impaired under the Plan and such Class fails to accept the Plan in accordance with section 1126(c) or (d) of the Bankruptcy Code, the Debtors hereby request that the Bankruptcy Court confirm the Plan in accordance with section 1129(b) of the Bankruptcy Code.

D. Elimination of Classes.

Any Class that does not contain any Allowed Claims or any Claims temporarily Allowed for voting purposes under Bankruptcy Rule 3018, as of the date of the commencement of the Confirmation Hearing, shall be deemed not included in this Plan for purposes of (i) voting to accept or reject this Plan and (ii) determining whether such Class has accepted or rejected this Plan under section 1129(a)(8) of the Bankruptcy Code.

ARTICLE VI
MEANS OF IMPLEMENTATION

A. Limited Substantive Consolidation.

(a) As a result of the DIP Order, the Plan provides for recoveries on account of Allowed Claims in Classes 1, 2, and 3 regardless of the Debtor entity against which such Allowed Claims are asserted. The Debtors shall not be consolidated for any other purpose. To the extent necessary, the Plan shall serve as a motion seeking, and entry of the Confirmation Order shall constitute, the approval, pursuant to section 105(a) of the Bankruptcy Code and Bankruptcy Rule 9019, effective as of the Effective Date, of the limited consolidation for voting and distribution on account of Allowed Claims in Classes 1, 2, and 3.

(b) For the avoidance of doubt, the limited consolidation described in this Section shall not affect the legal and corporate structures of the Debtors. In addition, such consolidation shall not constitute a waiver of the mutuality requirement for setoff under section 553 of the Bankruptcy Code.

B. Sources of Consideration for Plan Distributions.

All monetary distributions under this Plan will be made by the Debtors from Cash available from and after the Effective Date.

C. *Cancellation of Existing Securities.*

As soon as practicable after the Effective Date, except as otherwise provided for herein or any other document incorporated in the Plan, all Equity Interests and any other certificate, security, share, note, bond, indenture, purchase right, option, warrant, certificates of designations or other instrument or documents directly or indirectly evidencing or creating any indebtedness or obligation of or ownership interest in the Debtors giving rise to any Claim or Equity Interest, to the extent not already cancelled, shall be deemed cancelled and of no further force or effect, without the requirement for any further action on the part of the Bankruptcy Court or any other Person. As soon as practicable following the Effective Date, the Wind Down Officer, on behalf of the Debtors, shall take any and all steps necessary to complete the corporate dissolution of the Debtors. Pending the completion of the dissolution of the Debtors by the Wind Down Officer, the Debtors and the Equity Interests therein may continue to exist for the sole purpose of allowing the Wind Down Officer to implement the terms and provisions of this Plan. For the avoidance of doubt, and notwithstanding any non-bankruptcy law, the holders of any Equity Interest in the Debtors shall neither receive nor retain any equitable rights or interests whatsoever.

D. *Corporate Action.*

Upon the Effective Date, the Wind Down Officer shall replace all employees, officers, managers, and directors of all governing bodies for all Debtors. Any and all actions contemplated under the Plan shall be deemed authorized and approved in all respects. From and after the Effective Date, the Wind Down Officer shall have sole and absolute authority to perform all matters required under the Plan on behalf of the Debtor, including: (i) distributions to the Prepetition Secured Lender in accordance with the terms of this Plan; (ii) management of any bank accounts to establish, fund, and make payments from, the Administrative Claim Reserve and the Priority Claim Reserve in accordance with the provisions of this Plan; (iii) retention of Armanino LLP to prepare and file final tax returns for the Debtors; (iv) any and all other tasks which the Wind Down Officer determines to be necessary to administer the Plan and the transactions contemplated herein. Any corporate action required by or in connection with the Plan, shall be deemed to have occurred and shall be in effect without any requirement of further action by any Equity Interest holders, directors, officers or managers of the Debtors. The authorizations and approvals contemplated by this Section shall be effective notwithstanding any requirements under non-bankruptcy law.

E. *Retained Causes of Action.*

Except as otherwise provided in this Plan, an agreement or document entered into in connection with the Plan, or in a Final Order of the Bankruptcy Court (including, but not limited to, the Sale Order, the TreeMac Stipulation, or DIP Order), pursuant to sections 363(b) and 1123(b)(3) of the Bankruptcy Code, the Debtors reserve and, as of the Effective Date, assign to the Prepetition Secured Lender, consistent with ARTICLE IV.B of the Plan, the Retained Causes of Action. On and after the Effective Date, the Prepetition Secured Lender or its designee may pursue Retained Causes of Action in satisfaction of the Prepetition Secured Lender Claim.

No Entity may rely on the absence of a specific reference in the Plan, the Plan Supplement, or the Disclosure Statement to any Retained Cause of Action against it as any indication that the

Prepetition Secured Lender will not pursue any and all available Retained Causes of Action against it. Unless any Retained Cause of Action against an Entity is expressly waived, relinquished, exculpated, released, compromised, or settled in the Plan or a Final Order of the Bankruptcy Court, the Debtors expressly reserve all Retained Causes of Action for later adjudication by the Prepetition Secured Lender, and, therefore no preclusion doctrine, including the doctrines of res judicata, collateral estoppel, issue preclusion, claim preclusion (judicial, equitable, or otherwise), or laches, shall apply to such Retained Causes of Action upon, after, or as a consequence of Plan confirmation or occurrence of the Effective Date.

F. Effectuating Documents; Further Transactions.

On and after the Effective Date, the Debtors and the CRO are authorized to and may issue, execute, deliver, file, or record such contracts, securities, instruments, releases, and other agreements or documents and take such actions as may be necessary or appropriate to effectuate, implement, and further evidence the terms and conditions of the Plan in the name of and on behalf of the Debtors, without the need for any approvals, authorization, or consents except for those expressly required pursuant to the Plan.

G. Exemption from Certain Transfer Taxes.

Pursuant to section 1146(a) of the Bankruptcy Code, the following will not be subject to any document recording tax, stamp tax, conveyance fee, intangibles or similar tax, sales or use tax, mortgage tax, real estate transfer tax, mortgage recording tax, or other similar tax or governmental assessment, and upon entry of the Confirmation Order, the appropriate state or local governmental officials or agents shall forego the collection of any such tax or governmental assessment and accept for filing and recordation any of the foregoing instruments or other documents without the payment of any such tax or governmental assessment: (a) the creation of any mortgage, deed of trust, lien or other security interest under or pursuant to this Plan; (b) the release or assignment of liens; (c) the transfer of any assets of the Debtors' Estates to the Prepetition Secured Lender; or (d) the making or delivery of any deed or other instrument of transfer under, in furtherance of, in connection with or pursuant to this Plan, including any restructuring, disposition, liquidation or dissolution, deeds, bills of sale or assignments executed in connection with any of the foregoing.

ARTICLE VII
CONDITIONS PRECEDENT TO CONFIRMATION AND
EFFECTIVENESS OF PLAN

A. Conditions to Confirmation of Plan.

Confirmation of the Plan shall not occur, and the Confirmation Order shall not be entered, until each of the following conditions precedent have been satisfied or waived:

(a) An order, finding that the Disclosure Statement contains adequate information pursuant to section 1125 of the Bankruptcy Code shall have been entered; and

(b) The Confirmation Order shall be in a form and substance reasonably satisfactory to the Debtors and the Prepetition Secured Lender.

B. Conditions to Effective Date of Plan.

The Effective Date of the Plan shall not occur until each of the following conditions precedent have been satisfied or waived:

(a) The clerk of the Bankruptcy Court shall have entered the Confirmation Order in the Chapter 11 Cases and there shall not be a stay or injunction (or similar prohibition) in effect with respect thereto;

(b) Closing of the Sale; and

(c) All other actions and all agreements, instruments or other documents necessary to implement the terms and provisions of the Plan shall have been executed and delivered by the parties thereto, and, in each case, all conditions to their effectiveness shall have been satisfied or waived as provided therein.

Within two (2) Business Days of the Effective Date, the Debtors shall file a notice of the occurrence of the Effective Date and the Administrative Claim Bar Date and serve the same on all creditors and parties in interest.

C. Waiver of Conditions Precedent.

Any of the foregoing conditions (with the exception of the conditions set forth in ARTICLE VII.A(b) and ARTICLE VII.B(a)) may be waived by agreement of the Debtors and the Prepetition Secured Lender without notice to or order of the Bankruptcy Court. The failure to satisfy or waive any condition may be asserted by the Debtors and the Prepetition Secured Lender regardless of the circumstances giving rise to the failure of such condition to be satisfied (including any action or inaction by the Debtors and the Prepetition Secured Lender). The failure of the Debtors and the Prepetition Secured Lender to exercise any of the foregoing rights shall not be deemed a waiver of any other rights and each such right will be deemed an on-going right that may be asserted at any time.

D. Effect of Failure of Conditions.

If the foregoing conditions have not been satisfied or waived in the manner provided in ARTICLE VII.B and ARTICLE VII.C hereof, then (i) the Confirmation Order shall be of no further force or effect; (ii) no distributions under the Plan shall be made; (iii) the Debtors and all holders of Claims against and Equity Interests in the Debtors shall be restored to the *status quo ante* as of the day immediately preceding the Confirmation Date as though the Confirmation Date had never occurred; (iv) all of the Debtors' obligations with respect to Claims and Equity Interests shall remain unaffected by the Plan; (v) nothing contained in this Plan shall be deemed to constitute a waiver or release of any Claims by or against the Debtors or any other Person or to prejudice in any manner the rights of the Debtors or any Person in any further proceedings involving the Debtors; and (vi) this Plan shall be deemed withdrawn. Upon such occurrence, the Debtors shall file a written notification with the Bankruptcy Court and serve it on the parties appearing on the master service list maintained in the Chapter 11 Cases.

E. Reservation of Rights.

The Plan shall have no force or effect unless and until the Effective Date occurs. Prior to the Effective Date, neither the filing of the Plan, any statement or provision contained in the Plan, nor action taken by the Debtors with respect to the Plan shall be, or shall be deemed to be, an admission or waiver of any rights of any of the Debtors or any other party with respect to any Claims or Equity Interests or any other matter.

ARTICLE VIII
EFFECT OF CONSUMMATION

A. Revesting of Assets.

(a) On the Effective Date, pursuant to sections 1141(b) and (c) of the Bankruptcy Code, the Estates' Assets (other than the Retained Causes of Action transferred to the Prepetition Secured Lender pursuant to ARTICLE IV.B and ARTICLE VI.E of this Plan) shall vest in the Debtors, free and clear of all Claims, Liens, encumbrances, charges and other interests, except (i) as otherwise provided in this Plan and (ii) the liens and security interests granted to the Prepetition Secured Lender under its loan documents and under the DIP Order.

(b) Notwithstanding the foregoing, on and after the Effective Date, the Debtors (by and through their Wind Down Officer) shall be authorized, but not directed, to abandon any remaining Assets that are not necessary to implement the terms and provisions of this Plan. The Debtors (by and through their Wind Down Officer) shall further be authorized, but not directed, to abandon or destroy, or cause to be abandoned or destroyed, any books and records not taken by the Purchaser under the terms of the APA and Sale Order or otherwise provided to the Prepetition Secured Lender pursuant to this Plan.

B. Exculpation.

Upon the Effective Date, to the fullest extent permissible under applicable law, no Exculpated Party shall have or incur, and each Exculpated Party is released and exculpated from, any liability to any holder of a Claim or Equity Interest, or any other party in interest, for any claim or cause of action arising from, relating to, or connected with the administration of the Chapter 11 Cases, the Sale, the Disclosure Statement, the preparation of the Plan, the solicitation of acceptances of the Plan, the pursuit of confirmation of the Plan, the occurrence of the Effective Date, or the administration of the Plan or property to be distributed under the Plan, except for claims related to any act or omission that is determined in a Final Order of a court of competent jurisdiction to have constituted actual fraud, willful misconduct, or gross negligence. The Exculpated Parties shall be deemed to have, participated in good faith in connection with the above and entitled to the protection of section 1125(e) of the Bankruptcy Code. Each Exculpated Party shall be entitled to reasonably rely upon the advice of counsel with respect to their duties and responsibilities pursuant to the Plan.

C. *Releases by the Debtors.*

On the Effective Date, unless expressly preserved under ARTICLE VI.E of this Plan, the Debtors shall fully and forever release, acquit, discharge and dismiss any and all claims, obligations, suits, judgments, damages, rights, remedies, Causes of Action, and liabilities of any nature, whether known or unknown, foreseen or unforeseen, liquidated or unliquidated, matured or unmatured, contingent or non-contingent, existing or hereafter arising, in law, equity or otherwise, which they have or may have against any of the Exculpated Parties, and each of their respective present or former members, principals, managers, officers, directors, employees, partners, affiliates, funds, advisors, attorneys, agents and representatives and their respective property. As set forth more fully in ARTICLE II.A of this Plan, the Debtors and the DIP Lender shall be deemed to have released one another from any and all rights, obligations, and defenses arising or related in any way to the DIP Order and the DIP Facility Claim and after the Petition Date. For the avoidance of doubt, nothing in this Article VIII.C shall release or effect any direct claim or cause of action held by the Prepetition Secured Lender.

D. *Injunction and Stay.*

(a) From and after the Effective Date, and except as otherwise expressly provided in this Plan, all Persons who have held, hold, or may hold Claims against or Equity Interests in any Debtor are permanently enjoined from (i) commencing or continuing in any manner any action or other proceeding of any kind on any such Claim or Equity Interest against the Estates, or other entity released, discharged or exculpated hereunder, (ii) the enforcement, attachment, collection or recovery by any manner or means of any judgment, award, decree or order against any of the Debtors' Estates with respect to any such Claim or Equity Interest, (iii) creating, perfecting or enforcing any encumbrance of any kind against any of the Debtors' Estates, or against the property or interests in property of any of the Debtors' Estates, as applicable with respect to any such Claim or Equity Interest, except as to any liens or security interests held by the Prepetition Secured Lender which existed as of the Petition Date or granted after the Petition Date, (iv) asserting any right of setoff, subrogation or recoupment of any kind against any obligation due from any of the Debtors' Estates, or against the property or interests in property of any of the Debtors' Estates with respect to any such Claim or Equity Interest except as provided in this Plan, or (v) pursuing any Claim released or exculpated under the Plan. For the avoidance of doubt, nothing in this Article VIII.C shall enjoin or stay any direct claim or cause of action held by the Prepetition Secured Lender.

(b) Each holder of a Claim or Equity Interest shall be bound by the injunction provisions set forth in this Section. The Debtors or the Exculpated Parties shall be entitled to seek sanctions by motion for contempt or other appropriate proceeding for any violations of the Confirmation Order or this Plan, including the Exculpation, Injunction and Stay, and Gate Keeping provisions set forth in this Plan.

(c) Unless otherwise provided, all injunctions or stays arising under or entered during the Debtors' Chapter 11 Cases under sections 105 or 362 of the Bankruptcy Code, or otherwise, and in existence on the Confirmation Date, shall remain in full force and effect until the Effective Date.

E. Gate Keeping.

No Person or Entity may commence or pursue a claim or cause of action of any kind against the Debtors, any Exculpated Party, or Cottonwood Financial Management, Inc. that relates to or is reasonably likely to relate to any act or omission in connection with, relating to, or arising out of a claim or cause of action subject to the Sections B, C, and D of this ARTICLE VIII, including any claim or cause of action that was asserted or assertable on behalf of the Debtor, including any derivative, alter ego, successor liability, or similar claims and Causes of Action based on general harm to the Debtor, holders of Claims and Equity Interests, or any other party in interest, or a theory of lack of separation between the Debtors, an Exculpated Party, and Cottonwood Financial Management, Inc., without the Bankruptcy Court (i) first determining, upon motion that attaches a copy of the proposed complaint or petition, and after notice and a hearing, that such claim or cause of action represents a direct (as opposed to derivative) and colorable claim of any kind and (ii) specifically authorizing such Person to bring such claim or cause of action against the Debtors, any Exculpated Party, or Cottonwood Financial Management, Inc. At the hearing on such motion, the Bankruptcy Court shall have sole and exclusive jurisdiction to assess whether the proposed complaint or petition satisfies the applicable Federal Rules of Civil Procedure (or other applicable rules of procedure) and to determine whether such claim or cause of action represents a colorable claim of any kind. For the avoidance of doubt, any party that obtains such determination and authorization and subsequently wishes to amend the authorized complaint or petition to add any claims or Causes of Action not explicitly included in the authorized complaint or petition must obtain authorization from the Bankruptcy Court before filing any such amendment in the court where such complaint or petition is pending. The Bankruptcy Court reserves jurisdiction to adjudicate any such claims to the maximum extent provided by applicable law. For the avoidance of doubt, the provision of this Article VIII.E shall not apply to the commencement or filing of any direct claim or cause of action against any non-Debtor, entity or person by the Prepetition Secured Lender.

F. Setoffs and Recoupment.

The Debtors may, but shall not be required to, setoff against or recoup from any Claim or Equity Interest any rights to payment that any of the Debtors may have against the holder of such Claim or Equity Interest. Neither the failure of the Debtors to setoff or recoup, nor the Allowance of any Claim or Equity Interest shall constitute a waiver or release by any of the Debtors of any right to payment or right of setoff or recoupment.

G. Compromise of Controversies.

In consideration for the distributions and other benefits provided under the Plan, the provisions of the Plan constitute a good faith compromise and settlement of all Claims and controversies resolved under the Plan, and the entry of the Confirmation Order shall constitute the Bankruptcy Court's approval of such compromise and settlement under Bankruptcy Rule 9019.

H. Rejection of Contracts and Leases.

Except as otherwise provided herein, or in any contract, instrument, release, indenture, or other agreement or document entered into in connection with the Plan, as of the Effective Date, each Debtor shall be deemed to have rejected each executory contract and unexpired lease to which it is a party, unless such contract or lease (i) was previously assumed, assumed and assigned or rejected by the Debtors, (ii) previously expired or terminated pursuant to its own terms, (iii) is the subject of a motion to assume, assume and assign, or reject filed by the Debtors on or before the Effective Date. The Confirmation Order shall constitute an order of the Bankruptcy Court under sections 365 and 1123(b) of the Bankruptcy Code approving the contract and lease rejections described above, as of the Effective Date. The rejections set forth in this Section H shall include rejecting any obligations of the Debtors pursuant to their corporate charters, by-laws, limited liability company agreements, or other organizational documents and agreements to indemnify any officers or directors of the Debtors for any prepetition actions or failures to act.

Unless otherwise specified, each executory contract and unexpired lease shall include any and all modifications, amendments, supplements, restatements or other agreements made directly or indirectly by any agreement, instrument, or other document that in any manner affects such executory contract or unexpired lease.

ARTICLE IX
RETENTION OF JURISDICTION

The Bankruptcy Court shall have exclusive jurisdiction of all matters arising out of, or related to, the Debtors' Chapter 11 Cases and the Plan pursuant to, and for the purposes of, sections 105(a) and 1142 of the Bankruptcy Code and for, among other things, the following purposes:

(a) To hear and determine pending applications for the assumption, assignment or rejection of executory contracts or unexpired leases and the allowance of Claims resulting therefrom;

(b) To determine any and all adversary proceedings, applications, and contested matters in the Chapter 11 Cases and grant or deny any application involving the Debtors that may be pending on the Effective Date or that are retained and preserved by the Debtors herein;

(c) To ensure that distributions to holders of Allowed Claims and Allowed Equity Interests are effected as provided in the Plan;

(d) To hear and determine any timely objections to Administrative Claims or to proofs of Claim and Equity Interests, including any objections to the classification of any Claim or Equity Interest;

(e) To enter and implement such orders as may be appropriate in the event the Confirmation Order is for any reason stayed, revoked, modified, or vacated;

(f) To take any action and issue such orders, after the occurrence of the Effective Date, as may be necessary to construe, enforce, implement, execute, and consummate the Plan or any

prior order of the Bankruptcy, or to maintain the integrity of the Plan, the Sale, or any prior order entered by the Bankruptcy Court during these Chapter 11 Cases;

(g) To consider any amendments to or modifications of the Plan, or to cure any defect or omission, or to reconcile any inconsistency in any order of the Bankruptcy Court, including the Confirmation Order;

(h) To hear and determine all requests for payment of Professional Fee Claims;

(i) To hear and determine disputes arising in connection with the interpretation, implementation, or enforcement of the Plan, the Confirmation Order, the documents that are ancillary to and aid in effectuating the Plan or any agreement, instrument, or other document governing or relating to any of the foregoing;

(j) To hear and determine matters concerning state, local, and federal taxes in accordance with sections 346, 505, and 1146 of the Bankruptcy Code (including the expedited determination of taxes under section 505(b) of the Bankruptcy Code);

(k) To adjudicate, decide, or resolve any and all Retained Causes of Action;

(l) To hear any other matter not inconsistent with the Bankruptcy Code;

(m) To hear and determine all disputes involving the existence, scope, and nature of the exculpations and releases granted hereunder;

(n) To issue injunctions and effect any other actions that may be necessary or desirable to restrain interference by any entity with the consummation or implementation of the Plan; and

(o) To enter a Final Decree closing the Chapter 11 Cases.

ARTICLE X **MISCELLANEOUS**

A. Filing of Additional Documents.

The Debtors or the Wind Down Officer may file such agreements and other documents as may be necessary or appropriate to effectuate and further evidence the terms and conditions of the Plan.

B. Schedules, Exhibits and Plan Supplement Incorporated.

All exhibits and schedules to the Plan, if any, and the documents contained in the Plan Supplement, if any, are incorporated into and are a part of the Plan as if fully set forth herein.

C. Amendment or Modification of the Plan.

Subject to section 1127 of the Bankruptcy Code and, to the extent applicable, sections 1122, 1123, and 1125 of the Bankruptcy Code, alterations, amendments or modifications of the Plan may

be proposed in writing by the Debtors at any time prior to or after the entry of the Confirmation Order. Holders of Claims and Equity Interests that have accepted the Plan shall be deemed to have accepted the Plan, as altered, amended, or modified; *provided, however*, that any holders of Claims and Equity Interests who were deemed to accept the Plan because such Claims and Equity Interests were unimpaired shall continue to be deemed to accept the Plan only if, after giving effect to such amendment or modification, such Claims and Equity Interests continue to be unimpaired.

D. Inconsistency.

In the event of any inconsistency among the Plan, the Disclosure Statement, and any exhibit or schedule to the Disclosure Statement, the provisions of the Plan shall govern. In the event of any inconsistency between the Plan and the Confirmation Order, the Confirmation Order shall govern.

E. Expedited Tax Determination.

The Debtors or the Wind Down Officer may request an expedited determination of taxes under section 505(b) of the Bankruptcy Code for all returns filed for, or on behalf of, the Debtors for any and all taxable periods ending after the Petition Date through, and including, the Effective Date.

F. Binding Effect.

Except as otherwise provided in section 1141(d)(3) of the Bankruptcy Code and subject to the occurrence of the Effective Date, on and after the Confirmation Date, the provisions of the Plan shall bind any holder of a Claim against, or Equity Interest in, the Debtors and such holder's respective successors and assigns, whether or not the Claim or Equity Interest of such holder is impaired under the Plan and whether or not such holder has accepted the Plan.

G. Severability.

If the Bankruptcy Court determines that any provision of this Plan is unenforceable either on its face or as applied to any Claim or Equity Interest, the Debtors may modify this Plan in accordance with ARTICLE XC hereof so that such provision shall not be applicable to the holder of any Claim or Equity Interest. Any determination of unenforceability shall not (i) limit or affect the enforceability and operative effect of any other provisions of this Plan; or (ii) require the rescission of any acceptance or rejection of this Plan unless otherwise ordered by the Bankruptcy Court.

H. No Admissions.

If the Effective Date does not occur, the Plan shall be null and void in all respects, and nothing contained in the Plan shall (a) constitute a waiver or release of any claims by or against, or any interests in, any Debtor, (b) prejudice in any manner the rights of any Debtor or any other party in interest, or (c) constitute an admission of any sort by any Debtor or other party in interest.

I. No Payment of Attorneys' Fees.

Except for the Professional Fee Claims of Professional Persons and the fees and costs of the Prepetition Secured Lender and the DIP Lender, no attorneys' fees shall be paid by the Debtors with respect to any Claim or Equity Interest unless otherwise specified in this Plan or a Final Order of the Bankruptcy Court.

J. Notices.

All notices, requests, and demands to or upon the Debtors to be effective shall be in writing (including by facsimile transmission) and, unless otherwise expressly provided herein, shall be deemed to have been duly given or made when actually delivered or, in the case of notice by facsimile transmission, when received and telephonically confirmed, addressed as follows:

HARNEY PARTNERS
Attention: Karen Nicolaou
Chief Restructuring Officer for *Cottonwood
Financial Ltd., et al.*
3500 Maple Avenue, Suite 350
Dallas, TX 75219
Telephone: (469) 445-1002
Email: knicolaou@harneypartners.com

with a copy to:

GRAY REED
Attention: Jason S. Brookner
Aaron M. Kaufman
Lydia R. Webb
1601 Elm Street, Suite 4600
Dallas, TX 75201
Telephone: (214) 954-4135
Facsimile: (214) 953-1332
Email: jbrookner@grayreed.com,
akaufman@grayreed.com
lwebb@grayreed.com

K. Governing Law.

Except to the extent that the Bankruptcy Code or other federal law is applicable, or to the extent an exhibit to the Plan provides otherwise (in which case the governing law specified therein shall be applicable to such exhibit), the rights, duties and obligations arising under the Plan shall be governed by, and construed and enforced in accordance with, the laws of the State of Texas, without giving effect to the principles of conflict of laws that would require application of the laws of another jurisdiction.

Dated: July 2, 2024
Dallas, Texas

COTTONWOOD FINANCIAL LTD.

By: /s/ Karen Nicolaou
Karen Nicolaou, Chief Restructuring Officer

**COTTONWOOD FINANCIAL
ADMINISTRATIVE SERVICES, LLC**

By: /s/ Karen Nicolaou
Karen Nicolaou, Chief Restructuring Officer

COTTONWOOD FINANCIAL TEXAS, LLC

By: /s/ Karen Nicolaou
Karen Nicolaou, Chief Restructuring Officer

COTTONWOOD FINANCIAL IDAHO, LLC

By: /s/ Karen Nicolaou
Karen Nicolaou, Chief Restructuring Officer

COTTONWOOD FINANCIAL WISCONSIN, LLC

By: /s/ Karen Nicolaou
Karen Nicolaou, Chief Restructuring Officer

Jason S. Brookner (TX Bar No. 24033684)
Aaron M. Kaufman (TX Bar No. 24060067)
Lydia R. Webb (TX Bar No. 24083758)

GRAY REED

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