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8
9 UNITED STATES BANKRUPTCY COURT
10 NORTHERN DISTRICT OF CALIFORNIA
11 SAN FRANCISCO DIVISION

12
13 In Re
14 ECO2 PLASTICS, INC.,
a Delaware corporation
15 Tax ID No. 31-1705310,
16 Debtor,

Case No. 09-33702-DM
Chapter 11

**DISCLOSURE STATEMENT FOR ECO2
PLASTICS, INC. CHAPTER 11 PLAN
DATED APRIL 21, 2010**

Date: May 28, 2010
Time: 11:00 a.m.
Dept: Courtroom 22
235 Pine Street
San Francisco, CA
Judge: The Hon. Dennis Montali

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1 THIS DISCLOSURE STATEMENT, DATED APRIL 21, 2010 (“DISCLOSURE
2 STATEMENT”), HAS BEEN APPROVED BY THE UNITED STATES BANKRUPTCY
3 COURT FOR THE NORTHERN DISTRICT OF CALIFORNIA AS CONTAINING
4 ADEQUATE INFORMATION AS REQUIRED BY THE BANKRUPTCY CODE FOR
5 SOLICITATION OF ACCEPTANCES OF THE ECO2 PLASTICS, INC., CHAPTER 11 PLAN
6 DATED APRIL 21, 2010 (THE “PLAN”). DISTRIBUTION OF THIS DISCLOSURE
7 STATEMENT TO CREDITORS, SHAREHOLDERS AND OTHER PARTIES IN INTEREST
8 WERE AUTHORIZED BY AN ORDER OF THE UNITED STATES BANKRUPTCY COURT
9 ON APRIL 23, 2010. PLEASE TAKE NOTICE THAT THE BANKRUPTCY COURT HAS
10 MADE NO INDEPENDENT INVESTIGATION OR DETERMINATION OF ANY FACTUAL
11 STATEMENT OR DOLLAR VALUE SET FORTH IN THE PLAN OR THE DISCLOSURE
12 STATEMENT.

13 All holders of claims are encouraged to read this Disclosure Statement and the Plan in
14 their respective entireties. The capitalized terms used in this Disclosure Statement are defined in
15 the Plan or the Bankruptcy Code. The Bankruptcy Court has authorized the Debtor to provide the
16 Equity Holders with a copy of this Disclosure Statement without serving the Plan and a Ballot.
17 However, a copy of the Plan may be obtained by going to the Bankruptcy Court website
18 (<https://ecf.canb.uscourts.gov/>); going to the ECO2 website (<http://eco2plastics.com/press.html>),
19 or contacting the undersigned at the following email address, telephone and/or fax numbers:

20 ECO2
21 Attn: Pam Joakimson/Secretary
22 Wendel, Rosen, Black & Dean LLP
23 1111 Broadway, 24th Floor, Oakland, CA 94607
24 Tel: (510) 834-6600
25 Fax: (510) 834-1928
26 Email: pjoakimson@wendel.com

27 A summary of the Plan terms is included in the Disclosure Statement. Summaries of the
28 Plan and statements made in this Disclosure Statement are qualified in their entirety by reference
to the Plan, the exhibits attached hereto, exhibits to the Plan, and other documents referenced as
filed with the United States Bankruptcy Court for the Northern District of California, San
Francisco Division, prior to or concurrent with the filing of this Disclosure Statement or prior to

1 the confirmation hearing.

2 ECO2 believes that confirmation of the plan proposed is in the best interests of all of its
3 creditors and recommends that all creditors vote to accept the plan.

4 This Disclosure Statement is the only document authorized by the Court to be used in
5 connection with the solicitation of votes accepting or rejecting the Plan. No representations
6 concerning the Debtor, its business operations, the value of its assets, or the value of any
7 securities to be issued or benefits offered pursuant to the Plan are authorized by the court except
8 as explicitly set forth in this Disclosure Statement or in any other document approved for
9 distribution by the court.

10 This Disclosure Statement has neither been approved nor disapproved by the Securities
11 and Exchange Commission (the "SEC"), any state securities commission, or any other regulatory
12 authority, nor has the sec or any such other commission or authority passed upon the accuracy or
13 adequacy of the statements contained herein.

14 ECO2 does not warrant or represent that all information contained in this Disclosure
15 Statement or in exhibits attached hereto is without error, although all reasonable efforts under the
16 circumstances have been made to be accurate.

17 The securities described in this Disclosure Statement will be issued without registration
18 under the Securities Act of 1933, as amended (the "Securities Act"), or similar federal, state, local
19 or foreign laws, in reliance on the exemption set forth in section 1145 of the Bankruptcy Code.

20 **I. INTRODUCTION**

21 ECO2 Plastics, Inc (the "Debtor" or "ECO2"), has prepared this Disclosure Statement
22 dated April 21, 2010, (the "Disclosure Statement"). The Disclosure Statement is being
23 distributed to creditors, shareholders and other parties in interest for the purpose of soliciting
24 acceptances of the Chapter 11 Plan dated April 21, 2010 (the "Plan"). The purpose of this
25 Disclosure Statement is to provide holders of Claims and Interests against ECO2 with adequate
26 information to enable them to make informed judgments about the Plan before exercising their
27 right to vote for acceptance or rejection of the Plan. An acceptance or rejection of the Plan must
28 be in writing, and may only be made by completing the Ballot that accompanies the Plan and

1 mailing Ballot to Wendel, Rosen, Black & Dean LLP, 1111 Broadway, 24th Floor, Oakland, CA
2 94607, Attn: ECO2-C11 Plan. In order for your vote to be counted, your completed Ballot must
3 be received no later than May 20, 2010.

4 This Disclosure Statement describes the business background and operating history of
5 ECO2 before the filing of the Chapter 11 Case. It also summarizes certain significant events that
6 have taken place during the Chapter 11 Case and describes the terms of the Plan, which divides
7 creditor Claims and the interests of shareholders into classes and provides for the treatment of
8 Allowed Claims and interests.

9 The Plan proposes the satisfaction of general unsecured creditor claims included in Class
10 F by a cash payment equal to 5% of such claims to be funded from the proceeds of a
11 recapitalization of ECO2, and existing secured creditors are to receive stock in the Reorganized
12 Debtor. The Plan, which is described in greater detail starting at page 12 of this Disclosure
13 Statement, calls for all current ECO2 shareholders to receive and retain nothing on account of
14 their interest as shareholders. The objective of the Plan is to recapitalize the Company through
15 the cancellation of all equity interests as of the Effective Date, the satisfaction of secured claims
16 by the issuance of new Series A Preferred Stock, or Common Stock, and the creation of
17 additional working capital by the issuance of additional shares of new Series B Preferred Stock.
18 The terms of the new Series A Preferred Stock are more fully described in the Term Sheet to be
19 attached as an Exhibit to the Plan Supplement. Buff Investment Limited Partnership (“BILP”),
20 has agreed to provide Exit Financing in an amount sufficient to fund a Plan Fund, which will be
21 used to make cash distributions to Creditors under the Plan. A copy of the BILP Commitment
22 Letter is attached hereto as **Exhibit A**.

23 **II. PLAN CONFIRMATION PROCESS**

24 **A. Voting:**

25 **1. Right to Vote on Plan.**

26 Pursuant to Bankruptcy Code § 1126, only holders of Allowed Claims that are impaired
27 under the Plan are entitled to vote to accept or reject the Plan. Holders of Allowed Claims in
28 Classes of Claims that are unimpaired are conclusively presumed to have accepted the Plan, and

1 are not entitled to vote on the Plan. Holders of Interests are not receiving any distribution and are
2 conclusively presumed to not vote in favor of the Plan.

3 Only the signed Ballot should be returned to Wendel, Rosen, Black & Dean LLP, Attn:
4 ECO2, 1111 Broadway, Oakland, California 94607, Fax: (510) 834-1938, Email:
5 pjoakimson@wendel.com. All Ballots must be received by 5:00 p.m., Pacific Daylight Time on
6 the date set forth on the Ballot. Unsigned Ballots and Ballots that do not designate acceptance or
7 rejection will not be counted.

8 The Debtor believes that (i) holders of Claims in Classes D-1, D-2, D-3, D-4, D-5, and F,
9 are impaired under the Plan, and are thus entitled to vote to accept or reject the Plan. Holders of
10 Claims in Class D-6 of the Plan are impaired as a secured creditor, but unimpaired as an
11 unsecured creditor, and are thus, conclusively presumed to have accepted the Plan, and do not
12 have the right to vote on the Plan. Holders of Interests in classes G-1, G-2, G-3 and G-4 are not
13 receiving or retaining anything under the Plan, and thus are deemed to reject the Plan and do not
14 need to vote.

15 If approved by the Court, the Plan is binding on all creditors and shareholders regardless
16 of whether an individual creditor or shareholder voted in favor of the Plan. ECO2 URGES YOU
17 TO READ THIS DISCLOSURE STATEMENT AND THE PLAN CAREFULLY AND TO
18 CONSULT WITH LEGAL COUNSEL IF YOU NEED GUIDANCE.

19 **2. Acceptance of the Plan.**

20 Bankruptcy Code § 1126(c) defines “acceptance” of a plan by a class of claims as
21 acceptance by creditors in such class that hold at least two-thirds in dollar amount and more than
22 one-half in number of claims in such class which cast ballots for acceptance or rejection of the
23 Plan.

24 **3. Non-Consensual Plan Confirmation (the “Cram-Down”).**

25 If a class of Claims rejects the Plan or is deemed to reject the Plan, ECO2 has the right,
26 and intends, to request confirmation of the Plan pursuant to Bankruptcy Code § 1129(b). Section
27 1129(b), sometimes known as the “cram-down” provision, permits the confirmation of a plan
28 notwithstanding the non-acceptance of such plan by one (1) or more impaired classes of claims or

1 interests if the proponent thereof complies with the provisions of that section. Under that section,
2 a plan may be confirmed by a Bankruptcy Court if it does not “discriminate unfairly” and is “fair
3 and equitable” with respect to each non-accepting class.

4 In addition, for confirmation under section 1129(b) of the Bankruptcy Code, the
5 Bankruptcy Court must find that no senior class will receive more than 100% on account of its
6 Allowed Claims. ECO2 expects that all classes of creditors will accept the Plan, but believes the
7 Plan will satisfy the requirements for Confirmation, if necessary, under section 1129(b) of the
8 Bankruptcy Code.

9 **4. Vote Recommendation.**

10 ECO2 believes that the Plan (i) provides the greatest and earliest possible recoveries to
11 holders of Allowed Claims; (ii) that holders of Allowed Claims will obtain a substantially greater
12 recovery upon their Claims than if the assets of the Debtor were liquidated under Chapter 7 of the
13 Bankruptcy Code; (iii) that acceptance of the Plan is in the best interests of all holders of Allowed
14 Claims; and (iv) that any available alternative would result in substantial delay, uncertainty,
15 expense, and no distribution to most holders of Allowed Claims.

16 **5. Voting Instructions.**

17 If you are entitled to vote to accept or reject the Plan, a Ballot is enclosed for the purpose
18 of voting on the Plan. If you hold a Claim in more than one (1) Class you are entitled to vote
19 Claims in more than one (1) Class, you may submit separate ballots to be used for each separate
20 Class of Claims. Ballots returned by facsimile or email will be treated as Ballots with original
21 signatures.

22 **B. Modification of Plan:**

23 ECO2 may modify the Plan at any time before Confirmation. In the event of a
24 modification to the Plan, ECO2 may be required to provide additional disclosure to Creditors and
25 other parties in interest with respect to the Plan as modified. Any holder of a Claim that has
26 accepted or rejected the Plan will be deemed to have accepted or rejected, as the case may be, the
27 Plan as modified, unless, within the time fixed by the Bankruptcy Court, such holder changes his
28 or her previous acceptance or rejection.

1 **C. The Confirmation Process:**

2 Section 1128(a) of the Bankruptcy Code requires the Bankruptcy Court to hold a hearing
3 on confirmation of the Plan. Section 1128(b) of the Bankruptcy Code provides that any party in
4 interest may object to confirmation of the Plan.

5 The Bankruptcy Court has scheduled the confirmation hearing for May 28, 2010, at 11:00
6 a.m. before the Honorable Dennis Montali, United States Bankruptcy Judge, in the United States
7 Bankruptcy Court for the Northern District of California, located at 235 Pine Street, Courtroom
8 22, San Francisco, California 94120-7341. The confirmation hearing may be adjourned from
9 time to time without further notice except for an announcement of the adjourned date made at the
10 confirmation hearing or any adjournment of the hearing.

11 Objections to Confirmation of the Plan must be filed and served on ECO2, its Counsel
12 Wendel, Rosen Black & Dean LLP, the Office of the U.S. Trustee and Counsel for the Creditors
13 Committee, by no later than May 20, 2010, at 5:00 p.m. in accordance with the notice of the
14 confirmation hearing that accompanies this Disclosure Statement. If an objection to Confirmation
15 of the Plan **is not timely filed and served** in accordance with the Notice of the Confirmation
16 Hearing, it may not be considered by the Bankruptcy Court.

17 **D. The Role of the Bankruptcy Court After the Confirmation Hearing:**

18 After the Plan is confirmed, the Bankruptcy Court will retain exclusive jurisdiction over
19 all matters arising out of, or related to, the Chapter 11 Case and the Plan, including disputes over
20 any Claims arising under the Chapter 11 Case. In addition, the Bankruptcy Court will have
21 jurisdiction to ensure that distributions are accomplished pursuant to the Plan.

22 **III. BUSINESS AND OPERATIONS PRIOR TO NOVEMBER 24, 2009**

23 ECO2 is a publicly traded company whose stock was traded under the symbol “EOPI.OB”
24 and is now traded under the symbol “EOPIE.OB” with SEC file number 033-31067. As of
25 November 24, 2009, the Debtor had 560,401,057 shares of its common stock outstanding, held by
26 approximately 1,004 stockholders. Since the suspension of pilot plant operations in Riverbank,
27 California the business office for ECO2 has been located at 1143 Crane Street, Suite 203, Menlo
28 Park, CA 94025.

1 The Debtor was formerly known as Itec Environmental Group, Inc., and was founded in
2 Oakdale, California, and incorporated under the laws of the State of Delaware in 2000, for
3 purposes of developing, constructing and operating a plastics recycling method. In 2007 the
4 Debtor changed its name to ECO2 Plastics, Inc. ECO2 is engaged in the development of
5 recycling technology and processing equipment which cleans post-consumer plastics within a
6 proprietary, closed-loop system for plastic materials including high density polyethylene and
7 polyethylene terephthalate. This ECO2 Environmental System (the “ECO2 Environmental
8 System”) cleans post-consumer plastics, without the use of water, at a cost savings versus
9 traditional methods (the “Process”). The Process is both patented and patent-pending and is
10 based in part on technology licensed from Honeywell Federal Manufacturing & Technologies,
11 LLC (“Honeywell”) and the Department of Energy on an exclusive basis for the patent life.

12 Since its inception, ECO2 has invested in the development of the Process technology and
13 equipment by building several scaled up versions of the Prototype ECO2 Environmental System
14 (the “Prototype”), testing of the Prototypes, building a pilot plant, evaluating the product
15 produced by the Prototype and real-time testing. The second ECO2 pilot plant was constructed at
16 5300 Claus Road, Riverbank, California. As a result of new production technology beginning to
17 come online in 2008, and to reduce plant operating costs and use of cash during the ramp-up
18 period, ECO2 decided to direct most production to its new technology equipment and accordingly
19 reduced operations of its prior technology production equipment.

20 During 2009, ECO2 expanded production and increased its workforce. While ECO2
21 made significant progress in refining its production processes and moved closer to volume and
22 quality goals, management and the Board concluded that ECO2 would not likely achieve its goals
23 utilizing the Riverbank facility. The Debtor lost \$9,624,000.00 from operations on revenue of
24 \$1,423,000.00 in the quarter year ending September 30, 2009. ECO2 determined that the size and
25 layout of the existing facility was not suitable for the efficient flow of production processes. In
26 addition, management and the Board determined that ECO2 must upgrade its primary plastic
27 flake wash line in order to enable production at a higher volume and at a more competitive cost
28 structure to be competitive. Equipment to be utilized for most efficient production will require a

1 production footprint for which the existing plant is not suitable.

2 In September 2009, the Board of Directors of ECO2 approved a plan to relocate and
3 upgrade production facilities to a new location in Northern California, and in connection with this
4 plan, ECO2 closed its Riverbank facility and laid off approximately fifty (50) employees. In
5 September 2009 ECO2 reduced its workforce to four (4) employees, and it now has three (3)
6 employees who are dismantling and staging equipment for relocation to a yet to be determined
7 location and planning the construction and installation of a new processing line.

8 ECO2 filed its Chapter 11 Voluntary Petition on November 24, 2009 and became a
9 Chapter 11 Debtor in Possession to recapitalize and to obtain new financing to build and equip a
10 new plant facility so that it can utilize its unique waterless plastic recycling technology and
11 reopen in the Modesto area. Once reopened, the plant is expected to provide 50 jobs and will add
12 an additional 50 jobs by the end of 2011. Company management projects development of the
13 new plant and installation of new equipment will require approximately six (6) to nine (9) months
14 and approximately \$12,000,000.00 in additional cash and/financing, plus a working capital line of
15 credit.

16 **IV. SIGNIFICANT CHAPTER 11 EVENTS**

17 As a Chapter 11 Debtor in Possession, ECO2 is authorized to conduct business in the
18 ordinary course without further or specific Order of the Bankruptcy Court. However, specific
19 Court authorization is required for transactions outside the ordinary course of business and
20 transactions specified by the Bankruptcy Code. The following discussion summarizes some of
21 the major events of the Chapter 11 case to date.

22 **A. Initial Matters**

23 Rodney S. Rougelot, Chief Executive Office of ECO2, was designated as the individual
24 responsible for the duties and obligations of the Debtor in Possession. ECO2 retained Wendel,
25 Rosen, Black & Dean LLP, (“Wendel Rosen”) as counsel for the Chapter 11 Debtor and agreed to
26 pay Wendel Rosen a post petition retainer in the sum of \$100,000.00 which was approved by the
27 Court by Order dated December 29, 2009. ECO2 also retained Law Offices of James W. Rose as
28 Special Counsel pursuant to Bankruptcy Code Section 327(e) to assist ECO2 with services related

1 to intellectual property matters, including the perfection of certain patent interests, the application
2 for new patents, the use of license agreements, and the negotiations for matters related to the use
3 of intellectual property. ECO2 agreed to pay James Rose a post-petition retainer in the sum of
4 \$25,000.00.

5 Shortly after the commencement of the Case, the Debtor obtained approval from the Court
6 to authorize the Debtor to make certain payments to allow the Debtor to continue to operate in the
7 normal course of business. On December 1, 2009, ECO2 filed its Motion for Order Authorizing
8 the Debtor to (I) Honor Prepetition Employee Wages, Obligations and Contributions to Employee
9 Benefit Plans; and (II) for the Debtor and Banks and Other Financial Institutions to Company
10 with Producers Relating to Authorized Prepetition Employee Payments, which motion was
11 granted by the Court, and employees were paid their wages. Additionally, the Debtor sought
12 authority to continue to pay its utility services on an uninterrupted basis essential to the ECO2
13 ongoing operations, and to provide adequate protection payments for deposits should such be
14 necessary. The Court approved the motion, and operations were not interrupted by a disruption in
15 utilities services.

16 **B. Use of Cash Collateral**

17 At the time ECO2 commenced its Case, it was not operating and had no operating income.
18 The only assets that it had were its equipment, some of which it planned to sell, and a large
19 account receivable that it anticipated it would receive during the Case. Since all assets were
20 secured by various liens, the proceeds of such assets were the Secured Creditors' cash collateral,
21 and the Debtor had to obtain Court authority to use the secured creditors' cash collateral. On
22 December 1, 2009, pursuant to 11 U.S.C. §§ 361, 362 and 363 the Debtor filed a motion for
23 interim and final authority to use cash collateral and providing additional adequate protection for
24 such use. The Court approved both the emergency interim and final use of the cash collateral
25 pursuant to a budget which limited the use of the proceeds by Orders dated December 4, 2009,
26 and December 22, 2009.

27 **C. Sales of Assets**

28 As set forth above, having obtained authority to use cash collateral, ECO2 proceeded to

1 sell excess equipment that it knew that it did not need when it moved to its new facility. Initially
2 ECO2 sought authority to sell its equipment free and clear of the liens that encumbered the
3 equipment pursuant to Bankruptcy Code Section 365(f). The Secured Creditors consented to the
4 sale of the equipment free and clear of liens, and thus the Court approved Debtor's motion. ECO2
5 sought approval for and obtained approval to sell equipment worth less than \$20,000 to non
6 insiders without further Court Order.

7 Thereafter, after marketing its excess equipment both before and after the commencement
8 of the Case, ECO2 was able to sell equipment to the following buyers for the amounts indicated:
9 Peninsula Plastics Recycling, Inc. (\$150,000.00); Allan Company (\$125,000.00); C&M Fiber, Inc
10 (\$135,000.00 less a portion that was paid to Carter Day International for the sale of its share of
11 certain leased equipment). In addition, ECO2 sold small amounts of supplies or scrap metal to
12 five non-insiders for the sum of \$18,903.90. In total, ECO2 sold over \$410,000.00 worth of
13 excess equipment, and used the proceeds of that cash collateral to operate during the Case.

14 **D. Debtor in Possession Loans**

15 From the outset of the Case, it was anticipated that the Debtor would need additional
16 funds to operate during the Case. The Debtor obtained authority to borrow up to \$600,000.00
17 from Trident Capital Fund-VI, LP, Trident Capital Fund-VI Principal Fund, LLC and PPC
18 Holdings, LLC successor in interest to Buff Investment Limited Partnership (collectively "DIP
19 Lenders"), and agreed to provide the DIP Lenders with a superpriority administrative claim and
20 priority lien, subordinating the existing first secured lien to 75% of the principal amount of funds
21 advanced under the DIP Loans. The Secured Creditors consented to the DIP Loan and the
22 Subordination, and the Court approved the DIP Loan by order entered on February 12, 2010.

23 **E. Financial Filings**

24 During the Case, ECO2 filed certain documents which allowed the creditors and other
25 interested parties to follow its operations during the case. Initially it filed its Statement of
26 Financial Affairs, Schedules and other information (the "SOFAS"), setting forth detailed
27 information regarding its assets, liabilities, recent transactions and other financial information as
28 they existed on the date of the Petition. Throughout the Case, ECO2 filed Monthly Operating

1 Reports with the Bankruptcy Court, which enabled creditors to review the Debtor's operations on
2 a monthly basis. Additionally, as is required, within fifteen (15) days of filing its Monthly
3 Operating Report with the Bankruptcy Court, ECO2 filed a modified Form 8(k) with the Security
4 and Exchange Commission, attaching copies of the Monthly Operating Reports. A copy of the
5 March, 2010 monthly operating report is attached to this Disclosure Statement as **Exhibit B**.

6 **F. Executory Contracts/Leases**

7 NI Industries ("NI") is the ECO2 landlord at its primary facility and former plant site in
8 Riverbank, California. ECO2 filed a motion to (i) reject the NI Riverbank Lease effective January
9 15, 2010; (ii) to obtain authority to continue to pay NI \$8,000.00 a month to store equipment at
10 the premises; and (iii) to establish a bar date for the NI rejection claim. Subsequently ECO2 and
11 NI entered into a Stipulation allowing ECO2 to reject the NI lease, but to remain in the facility
12 using a portion of space for the balance of the term for the sum of \$8,600.00 a month.

13 On February 16, 2010, ECO2 filed a Motion for an Order authorizing and approving the
14 post-petition payments under a pre-petition Settlement Agreement to Cool Clean Technologies,
15 Inc. ("Cool Clean") and on March 12, 2010, the Court authorized ECO2 to make payments to
16 Cool Clean on a pre-petition Settlement Agreement to ensure that the benefits of the Settlement
17 Agreement survive the Chapter 11 case.

18 **G. Creditors Committee**

19 On December 8, 2009, Official Unsecured Creditors' Committee ("Committee") was
20 appointed, and the Committee has been represented by Clifford Stevens of Neumiller &
21 Beardslee whose contact information is as follows:

22 Unsecured Creditors' Committee
23 c/o Clifford Stevens
24 Neumiller & Beardsley
25 509 W. Weber Ave.
26 Stockton, CA 95203
27 Tel: (209) 948-8200
28 Fax: (209) 948-4910
cstevens@neumiller.com

1 The members of the Committee are as follows:

2 L&M Sharpening Titus Maintenance & Installation Services, Inc.
3 Attn: James Rohner, President Attn: Michael C. Centers
4 2817 Cherryland, No. 7 1430 Willow Pass Rd., Ste. 250
5 Stockton, CA 95215 Concord, CA 94520

6 Geiger Mfg. Plastic Recycling Corp. of CA
7 Attn: Roger Attn: John Herrick
8 11 East Scotts Ave. POB 1327
9 POB 1449 Sonoma, CA 95476
10 Stockton, CA 95201

11 F&H Construction
12 Attn: Harold Jones
13 4945 Waterloo Rd.
14 Stockton, CA 95215

15 ECO2 has met and conferred with the Committee on various motions and matters during
16 the Chapter 11 case, including the terms of the Chapter 11 Plan. Under the terms of the Plan, the
17 Committee will be disbanded on the Effective Date.

18 **V. DESCRIPTION OF THE CHAPTER 11 PLAN**

19 **A. Plan Summary**

20 The treatment of creditors and interest holders in Plan can summarized as follows:

21 **1. Class D – Claims Secured by Liens on Property of ECO2**

22 **a. Class D-1: (First Seniority).** Claims secured by a lien on
23 substantially all personal property of ECO2 under a UCC-1 filing on in July 28, 2005 originally
24 in the name of the California Integrated Waste Management Board (“CIWMB”) securing that
25 loan to predecessor to ECO2 the sum of \$2,000,000.00 by way of a secured promissory note
26 dated May 13, 2005, with interest accruing at the rate of 4.25%. On January 1, 2010, CIWMB
27 merged with the Division of Recycling and is now known as the California Department of
28 Resources Recycling and Recovery (“CalRecycle”). CalRecycle is impaired under the Plan
because its new or amended Note in the sum of \$1,351,900.12.00, includes all prepetition
defaults, plus accrued but unpaid post-petition interest. Said Note will be due on May 1, 2015.

1 **b. Class D-2: (Bridge Notes - Second Seniority).** Claims of
2 William & Michelle Whittaker Trust and Whittaker Family Interests, LLC, successor to
3 Whittaker Capital Partners, LLC, Charles Buff, PPC Holdings, LLC, successor to Peninsula
4 Packaging, LLC, Trident Capital Fund-VI, LP, Trident Capital Fund-VI Principals Fund, LLC,
5 and Trident Capital, Inc., as Collateral Agent for other secured parties, are secured by a lien on
6 substantially all personal property of ECO2 in the sum of \$1,381,000. The Holders of Allowed
7 Class D-2 Claims are impaired, because Holders shall receive one share of New Series A
8 Preferred Stock for each dollar of the amount equal to 50% their Allowed Claim, rounded to the
9 nearest dollar.

10 **c. Class D-3: (Preferred D-3rd Seniority).** The claims of PPC
11 Holdings, LLC, successor to Peninsula Packaging, LLC, Trident Capital Fund-VI, LP, Trident
12 Capital Fund-VI Principals Fund, LLC, Hutton Living Trust (Dated 12-10-96), Whittaker Family
13 Interests, LLC as successor to Whittaker Capital Partners, LLC, and Trident Capital, Inc., as
14 Collateral Agent for other secured creditors in the sum of \$2,157,865.88. The Holders of
15 Allowed Class D-3 Claims are impaired, because Holders shall receive one share New Common
16 Stock for each dollar of the amount equal to 5% their Allowed Claims, rounded to the nearest
17 dollar.

18 **d. Class D-4: (Preferred C – December: 4th Seniority).** The
19 claims of PPC Holdings, LLC, successor to Peninsula Packaging, LLC, Trident Capital Fund-VI
20 Principals Fund, LLC, Trident Capital Fund-VI, LP, Trident Capital, Inc., as Collateral Agent for
21 other secured creditors, and the Hutton Family Living Trust (dated December 10, 1996) secured
22 by a lien on substantially all personal property of ECO2 in the sum of \$3,449,089.71. The
23 Holders of Allowed Class D-4 Claims are impaired, because Holders shall receive one share of
24 New Common Stock for each dollar of the amount equal to 5% their Allowed Claims, rounded to
25 the nearest dollar.

26 **e. Class D-5: (Preferred C – September: 5th Seniority).** The
27 claims of Trident Capital Fund-VI Principals Fund, LLC, Trident Capital Fund-VI, LP, Trident
28 Capital, Inc., as Collateral Agent for other secured creditors, and the Hutton Family Living Trust

1 (dated December 10, 1996) secured by a lien on substantially all personal property of ECO2 in
2 the sum of \$4,015,144.35. Holders of Allowed Class D-5 Claims are impaired, because Holders
3 shall receive one share of New Common Stock for each dollar of the amount equal to 5% their
4 Allowed Claims, rounded to the nearest dollar.

5 **f. Class D-6: (Unperfected Security Interest of Cool Clean**
6 **Technologies, Inc.).** The Class D-6 Claim is impaired, because it shall be disallowed in its
7 entirety as a secured claim, and be paid in accordance with the Court Order of March 22, 2010
8 (Docket #158).

9 **2. Class E – Classified Priority Claims (Schedule E).**

10 The Priority portion of claims scheduled or filed as priority employee wage claims under
11 507(a)(3) of the Bankruptcy Code totaling about \$36,750.00 are not impaired and shall be paid in
12 full on Plan Effective Date.

13 **3. Class F – General Unsecured Claims (Schedule F).**

14 General unsecured claims are impaired, because Holders shall receive, in full satisfaction
15 of their Allowed Claims, cash in an amount equal to 5% of their Allowed Claim, on the first
16 Business Day thirty (30) days after the Effective Date. Notwithstanding any other provisions of
17 the Plan, the minimum distribution to each Holder of an Allowed Class F Claim shall be \$5.00.

18 **4. Class G – Equity Interests of Stock Holders and Warrant Holders**

19 **Class G-1:** The Interests of Holders of ECO2 Pre Petition
20 Series “A” Preferred Stock, because Holders shall have their interests and rights canceled and
21 terminated effective upon the Effective Date.

22 **Class G-2:** The Interests of Holders of ECO2 Pre Petition
23 Series “B-1” Preferred Stock are impaired, because Holders shall have their interests and rights
24 canceled and terminated effective upon the Effective Date.

25 **Class G-3:** The Interests of Holders of ECO2 Pre Petition
26 Common Stock are impaired, because Holders shall have their interests and rights canceled and
27 terminated on the Effective Date.

28

1 **D. Priority Tax Claims**

2 Holders of Allowed Claims entitled to priority under §507(a)(8) of the Code (claims by
3 governmental units) shall receive Cash payments on the Effective Date or on the date such claim
4 is Allowed.

5 **VII. MEANS FOR IMPLEMENTATION OF THE PLAN**

6 ECO2 shall establish the Plan Fund with a cash deposit from cash on hand equal to the
7 total amount of those Allowed Claims payable in cash under the Plan. Attached hereto as **Exhibit**
8 **A** is a copy of the Commitment Letter by BILP indicating that it is willing to provide up to
9 \$500,000 to fund the Plan Fund. The Plan provides that ECO2 will reject, as of the Confirmation,
10 all executory contracts and unexpired leases to which it was a party on the Filing Date except for
11 the following executory contracts which will be assumed: Honeywell Federal Manufacturing &
12 Technologies, LLC, assumed as modified with no cure payment; Haulaway Storage Containers,
13 cure payment of \$305; and Indemnity Agreements of Officers and Directors, no cure payments
14 necessary. The CEO will continue to receive his prepetition salary of \$330,000, but has been
15 advised that he will be replaced. He will not receive any compensation for the \$2,000,000 equity
16 investment he made in the Debtor prior to becoming its CEO.

17 **VIII. TAX ATTRIBUTES OF THE PLAN**

18 ECO2 will not seek a ruling from the Internal Revenue Service with respect to any tax
19 aspect of the Plan. Each holder of a Claim or Interest is urged to consult with a tax advisor
20 regarding the federal, state, local, and foreign tax consequences of the Plan.

21 **IX. TREATMENTS OF AVOIDANCE ACTIONS**

22 The Debtor has reviewed avoidance actions, and has determined that the costs of the
23 litigation, and the minimal recovery that could result if the Debtor was successful, is insufficient
24 to make it worthwhile to pursue such actions. The Debtor has provided additional information
25 with the Creditors' Committee. However, if Debtor pursues any avoidance actions the recovery
26 will be for the benefit of the Reorganized Debtor, and not the creditors. There are some entities
27 who may be the recipient of preferences who also are owed money as creditors, and Debtor may
28 pursue those preferences to reduce the claims.

X. LIQUIDATION ANALYSIS

Section 1129(a)(7)(A)(ii) of the Bankruptcy Code permits the Bankruptcy Court to confirm the Plan only if each member of an impaired class of Claims or interests who has voted to reject the Plan receives or retains at least the amount or value that the person would receive if ECO2 were liquidated in a case under Chapter 7 of the Bankruptcy Code.

ECO2 has estimated the current value of assets at \$1,300,000 after contacting various auctioneers and persons interested in purchasing used equipment. Additionally, ECO2 sold some equipment during this case, and its estimated values were supported by the offers that it received. ECO2 has also priced new equipment, and based its estimates of the used equipment partially on the cost of new equipment.

Current Liabilities

DIP Lender Claims	\$350,000.00	
Secured Claims:	\$12,403,473.00	
Priority Claims:	\$238,000.00	(disputed)
Unsecured Non-priority Claims:	\$2,700,000.00	

Treatment of Creditors and Shareholders under the Plan:

Creditor/Class	Amount Scheduled	Treatment
DIP Lenders	\$350,000.00	Receive Series A Preferred Stock equal to 100% of Claim
Secured D-1	\$1,351,900.12	Receive a Note for 100% of Claim, plus arrearages secured by First Lien on all assets
Secured D-2	\$1,381,000.00	Receive Series A Preferred Stock equal to 50% of Claim
Secured D-3	\$2,157,865.88	Receive Common Stock equal to 5% of Claim
Secured D-4	\$3,449,089.71	Receive Common Stock equal to 5% of Claim
Secured D-5	\$4,015,144.35	Receive Common Stock equal to 5% of Claim
Secured D-6	\$18,750.00	Receive Cash Payment per court order of March 22, 2010

1	Priority Employee Claims	\$36,750.00	Receive Cash Payment, in full of the Allowed Claims, within thirty (30) days of the Effective Date
2			
3	Priority Tax Claims	\$238,000	Receive Cash Payment, in full of the Allowed Claim. (Disputed)
4			
5	Unsecured Creditors	\$2,700,000+/-	Receive cash payment equal to 5% of Allowed Claim thirty (30) days after the Effective Date
6			
7	Executory Contracts:		
8	• Honeywell	\$450,000.00	Contract to be Assumed, as modified with no cure payment
9			
10	• Haulaway Storage Containers	\$305.00	Contract to be Assumed, Cure Payment to be paid on Effective Date
11			
12	• Officer and Director Indemnity Agreements	-0-	Contract to be Assumed. No cure payment necessary
13			
14	Existing Shareholders (Preferred, Common and Warrant Holders)	560,401,057 shares	Will retain no interest in Reorganized Debtor
15			

Treatment of Creditors Under Chapter 7 Liquidation

The following Chapter 7 liquidation analysis is based on the scheduled amount of the secured and priority claims and the scheduled value of the assets, assuming that the value of the assets could be realized as scheduled and, that the secured and priority claims were allowed as scheduled.

In a Chapter 7 Liquidation, the assets of ECO2 would be liquidated and a Chapter 7 Trustee would evaluate possible avoidance actions. ECO2 estimates the assets originally scheduled as being worth \$1,719,576.00 are now worth approximately \$1,300,000.00 as a result of the sales of assets conducted during the Chapter 11 Case and the use of sale proceeds for operations. ECO2 believes that a Chapter 7 Trustee would conclude that there would be no significant net benefit from bringing avoidance actions. As summarized in the chart below if the Debtor's assets were liquidated, and assuming no costs of sale, rent, insurance or other costs for

1 purposes of this Chapter 7 analysis, it appears that no creditors, other than the DIP Lenders and
2 CalRecycle would receive any distribution. Therefore, to the extent any creditor class
3 commencing with Class D-2 receives any distribution under the Plan, such distribution is more
4 than the creditor class would receive in a liquidation under Chapter 7.

Name	Amount Scheduled	Recovery
DIP Loan	\$350,000.00	Paid in Full
Secured D-1	\$1,351,900.12.00	Paid in Part
Secured D-2	\$1,381,000.00	Zero
Secured D-3	\$2,157,865.88	Zero
Secured D-4	\$3,449,089.71	Zero
Secured D-5	\$4,015,144.35	Zero
Secured D-6	\$18,750.00	Zero
Priority Employees Claims	\$36,750.00	Zero
Priority Tax Claims	\$238,000.00	Zero
Unsecured Creditors	\$2,700,000.00+/-	Zero
Existing Shareholders (Preferred, Common and Warrant Holders)		Zero

18 Under the Plan as proposed Creditors in every Class, other than equity holders, are
19 receiving a distribution, and are receiving more than they would receive in the event of a Chapter
20 7 liquidation.

21 **XI. EFFECT OF CONFIRMATION**

22 On Confirmation, to the fullest extent permitted pursuant to Section 1141 of the
23 Bankruptcy Code, the provisions of the Plan shall bind ECO2 and all of its creditors and equity
24 security holders, whether or not the claim or interest of such creditor or equity security holder is
25 impaired under the Plan and whether or not such creditor or equity security holder accepted the
26 plan. Confirmation shall discharge ECO2 from any debt that arose before the date of
27 Confirmation, whether or not,
28

1 (i) A proof of the claim based on such debt is filed or deemed filed under Section 501 of
2 the Bankruptcy Code;

3 (ii) Such claim is allowed under Section 502 of the Bankruptcy Code; or

4 (iii) The holder of such claim has accepted the Plan.

5 Confirmation of the Plan shall terminate all rights and interests of equity security holders
6 as provided for by the Plan. On the Effective Date, to the fullest extent permitted pursuant to
7 Section 1141 of the Bankruptcy Code, ECO2 shall be vested with all of the property of the ECO2
8 estate, free and clear of all Claims, liens, charges, and other interests of creditors, asserted or
9 assertable, and free and clear of all interests of equity security holders arising prior to the
10 Effective Date. From and after the Effective Date, all entities are permanently enjoined from
11 commencing or continuing in any manner, any claims against the Debtor that arose before
12 Confirmation.

13 **XII. CONCLUSION**

14 This Disclosure Statement has been presented for the purpose of enabling creditors to
15 make an informed judgment to accept or reject the Plan. Creditors are urged to read the Plan in
16 full and consult with their counsel if questions arise.

17 Dated: April 21, 2010

ECO2 PLASTICS, INC.

18

19

By: /s/ Rodney S. Rougelot

20

Rodney S. Rougelot
Chief Executive Officer

21

22 Dated: April 21, 2010

WENDEL, ROSEN, BLACK & DEAN LLP

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24

By: /s/ Penn Ayers Butler

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Penn Ayers Butler
Attorneys for Debtor
ECO2 Plastics, Inc.

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