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United States of America
Small Business Administration

IN THE UNITED STATES BANKRUPTCY COURT
FOR THE NORTHERN DISTRICT OF TEXAS
FORT WORTH DIVISION

In re:	
VISION2SYSTEMS LLC,	CASE NO. 25-40583-MXM-11 CHAPTER 11
Debtor.	

UNITED STATES' (SBA) OBJECTION TO
DEBTORS' AMENDED PLAN OF LIQUIDATION

The United States of America, on behalf of its agency the Small Business Administration, objects to the Debtor's Amended Plan of Liquidation (Dkt. #142) (the "Plan") on the grounds that it fails to recognize the amount of the SBA's claim of $515,959.88, or the SBA's lien position in the Debtor business personal property and any associated deficiency claim, it favors the treatment of certain general unsecured creditors through its treatment, and the Debtor's Plan at Section 11.7 imposes impermissible non-debtor third-party releases thus allowing the Debtor's principals Paul Baldwin and Carl Tierney to be released from their guarantee to the SBA. Such release in Section 11.7 of the Plan violates the Supreme Court's decision in *Harrington v. Purdue Pharma L.P.*, 603 U.S. 204 (2024) that bankruptcy courts cannot involuntarily alter relationships between non-debtors by imposing nonconsensual releases or, or injunctions barring, claims between them. The SBA has filed a Notice of the Small Business Administration

Electing Not to Grant the Release Contained in Section 11.7 of the Plan, thereby electing not to grant the release set forth in Section 11.7 of the Plan.

Because the Debtor's Plan does not comply with the Bankruptcy Code, the Court should deny confirmation of the Debtor's Plan, and the Court should convert the case to a case under chapter 7 as set forth in the U.S. Trustee's Motion to Convert to Chapter 7 Under 11 U.S.C. § 1112(b). or in the Alternative, for Appointment of a Chapter 11 Trustee Under 11 U.S.C. § 1104(a). The United States, on behalf of the SBA, filed a Joinder to the U.S. Trustee's Motion to Convert to Chapter 7, at Dkt. # 137.

SBA Proof of Claim

The SBA filed its proof of claim against the Debtor on May 19, 2025 in the amount of $515,959.88, which is evidenced by a loan agreement dated June 6, 2020, and a security agreement also executed on June 26, 2020 by the Debtor's officer Paul Baldwin, granting the SBA a security interest in assets of the Debtor. The SBA filed UCC-1 Financing Statement on July 5, 2020 with the Texas Secretary of State, which perfected the SBA's security interest in the Debtor's business personal property, including deposit accounts, accounts receivable, inventory, equipment, and other tangible and intangible personal property of the Debtor. *See* SBA Claim 9-1. In April 2022, the Debtor obtained a First Modification of its loan by increasing the amount borrowed to $500,000.00, and executing an amended security agreement. *See* SBA Claim 9-1. Paul Baldwin and Carl Tierney executed an Unconditional Guarantee of the SBA loan. *See* SBA Claim 9-1. The Debtor's last payment on its SBA loan was in August 2024.

SBA's Objection to the Debtor's Plan

1. The SBA objects to the Debtor's Plan because it fails to recognize the amount of the SBA's claim against the Debtor's estate of $515,959.88 (as of the Petition Date) and it fails to state what the general unsecured creditors will receive on account of their general unsecured

claims. According to the Debtor's liquidation analysis set forth in the Debtor's disclosure statement at Article VIII., the Debtor has cash and equivalents of $139,000.00, and will receive additional funds for distribution to unsecured creditors. Per the Plan, after the initial payment of $100,000 to CGC, the remaining unsecured creditors are to share in distributions. The SBA will have a deficiency claim in this case and thus is entitled to its pro rata share of the funds available to all the general unsecured creditors regardless of vote status.

2. The Debtor's Plan improperly gerrymanders the general unsecured class by segregating the general unsecured claims that are all the same into two different general unsecured classes, the Initial GUC Distribution Class and the GUC Settlement Class, and thus favoring certain general unsecured creditors. The Debtor's Plan is thus unfair to all general unsecured creditor. According to the Fifth Circuit, although § 1122(a) by its terms "only governs permissible *inclusions* of claims in a class rather than requiring that all similar claims be grouped together," *In re Greystone III Joint Venture,* 995 F.2d 1274, 1278 (5th Cir.1991) (emphasis in original), it is nevertheless settled law in this Circuit and elsewhere that "ordinarily 'substantially similar claims,' those which share common priority and rights against the debtor's estate, should be placed in the same class." *Id.; In re Premiere Network Svcs., Inc.,* 333 B.R. 130, 133 (Bankr.N.D.Tex.2005). Moreover, substantially similar claims – as is the case here - must be classified together unless some reason, other than gerrymandering, exists for separating them. *In re Greystone III Joint Venture,* 995 F.2d 1274, 1277 (5th Cir.1991). "A debtor's motives must be scrutinized to prevent the possibility of vote manipulation." *One Times Square Assocs. Ltd. Partnership v. Banque Nationale de Paris,* 165 B.R. 773, 778 (S.D.N.Y.1996). Whether the motive for separate classification is gerrymandering is a question of fact. *In re Northwest Timberline Enters., Inc.,* 348 B.R. 412, 438 (Bankr.N.D.Tex.2006). The Debtor has

shown no basis in its Plan to segregate the general unsecured class, other than to coerce creditors to vote to release Paul Baldwin and Carl Tierney, and such coercion is improper under Fifth Circuit law.

3 The SBA further objects to the Debtor's Plan on the grounds that it contains impermissible third party releases for the owners of the Debtor, namely Paul Baldwin and Carl Tierney through the Plan releases at Section 11.7. and the Plan states it constitutes a compromise under Bankruptcy Rule 9019 to release Baldwin and Tierney of all claims that creditors may have against them, including the SBA. As the SBA stated in its objections to the Disclosure Statement (Dkt. # 134), the SBA asserts that the Plan's releases for Baldwin and Tierney are impermissible non-debtor third party releases that the U.S. Supreme Court has ruled violates the Bankruptcy Code. *Purdue Pharma*, 603 U.S. 204 (2024), 144 S.Ct. 2071, 2082-88. Here, this defect of granting impermissible releases to Baldwin and Tierney via the Debtor's Plan makes the Debtor's Plan unconfirmable.

Further, the Debtor's Plan fails to inform the creditor body that the nonconsensual non-debtor third party releases and injunctions in the Plan violate the Bankruptcy Code and the Supreme Court's decision in *Harrington v. Purdue Pharma L.P.*, knowing that such disclosure would result in defeat of the Debtor's Plan. The SBA objects to the Plan, at Section 6.2(b), which states that "all holders of a Class 3 Claim shall be deemed to have consented to the provisions of Article XI of the Plan, including the third-party releases described in Section 11.7 of the Plan, regardless of whether a Ballot has been submitted, unless the holder of a Class 3 Claim has specifically checked the box on the Ballot to opt out of the third party release." Plan Art, VI, Section 6.2(b). The Debtor improperly and in violation of the Bankruptcy Code designed its Plan that only if third party creditors do not opt-out of the Plan's releases of the non-debtor third parties will they get to share in the GUC Settlement Distribution Amount. This type of plan arrangement premised on a creditor not voting to opt out of non-debtor releases for third parties is exactly what the Supreme Court in *Purdue Pharma* banned. Third party releases cannot be imposed on those claimants who do not vote and do not opt out. *In re Smallhold, Inc.*, 665 B.R. 704, 709 (Bankr. D. Del. 2024); *In re Chassix Holdings, Inc.*, 533 B.R. 64, 81-82 (Bankr. S.D.N.Y. 2015). *Purdue Pharma* held that bankruptcy courts cannot involuntarily alter relationships between non-debtors (here Balwin and Tierney) and nonconsenting creditors (here SBA by its Notice Electing Not To Grant the Release Contained in Section 11.07 of the Plan) by imposing nonconsensual releases or injunctions baring claims between them. *Purdue Pharma*, 602 U.S. at 209, 227. Likewise, the Fifth Circuit in *Bank of New York Trust Co. v. Off'l Unsecured Creditor's Comm. (In re Pacific Lumber Co.)*, 584 F.3d 229, 252 (5th Cir. 2009) forecloses non-consensual non-debtor releases and permanent injunctions, as they do not exist in the Bankruptcy Code.

The Court cannot grant non-debtor third party releases in a Plan. Allowing the Debtor to impose a third-party non-debtor releases on creditors by using the power of the Court without the claimants' voluntary and affirmative consent would impermissibly alter the relationship between non-debtors because a consensual third-party release does not exist under non-bankruptcy law as the Supreme Court in *Purdue Pharma* noted. Moreover, there is no separate agreement releasing the non-debtor third parties and the SBA, and the Court cannot impose such an agreement via the Debtor's Plan release and injunction provisions. *Purdue Pharma*, 603 U.S. 204 (2024); *In re Pacific Lumber Co.*, 584 F.3d 229 (5th Cir. 2009).

At bottom, the Plan's releases cannot stand and must be struck from the Plan. Because the Debtor's Plan contain nonconsensual non-debtor third party releases that violate the

Bankruptcy Code and the case law cited herein, the Court should deny confirmation.

WHEREFORE, the United States respectfully request that the Court deny approval of the Debtor's Amended Plan of Liquidation on the grounds that (i) the Plan improperly gerrymanders the general unsecured class by favoring certain unsecured creditors, thus preventing all general unsecured creditors from sharing in distributions; (ii) the Plan fails to provide that the SBA deficiency claim as an unsecured claim is entitled to a pro-rata distribution of any distributions to unsecured creditors; and (iii) the Plan violates the Bankruptcy Code's and Supreme Court's ban on nonconsensual non-debtor third party releases.

Date: November 17, 2025.

Respectfully submitted,

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Certificate of Service

I hereby certify that on November 17, 2025, I electronically submitted the foregoing document with the Clerk of the U.S. Bankruptcy Court, Northern District of Texas, using the electronic case filing system. I hereby certify that I have served all parties electronically or by another manner authorized by Federal Rule of Civil Procedure 5(b)(2).

/s/ David G. Adams
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