UNITED STATES BANKRUPTCY COURT
NORTHERN DISTRICT OF GEORGIA
ATLANTA DIVISION

In re: WELLMADE FLOOR COVERINGS INTERNATIONAL, INC., *et al.*,[1] Debtors.	Chapter 11 Case No. 25-58764 (Jointly Administered)

DEBTORS' SUPPLEMENTAL MEMORANDUM OF LAW IN SUPPORT OF FINAL APPROVAL OF THE DISCLOSURE STATEMENT AND CONFIRMATION OF THE DEBTORS' CHAPTER 11 PLAN

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[1] The Debtors in these chapter 11 cases, along with the last four digits of each Debtor's federal tax identification number, include: Wellmade Industries MFR. N.A LLC (1058) and Wellmade Floor Coverings International, Inc. (8425). The mailing address for the Debtors for purposes of these chapter 11 cases is: 1 Wellmade Drive, Cartersville, GA 30121.

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The above-captioned debtors and debtors in possession (collectively, the "Debtors") submit this supplemental memorandum of law following the August 27, 2026 hearing (the "Confirmation Hearing") on final approval of the Disclosure Statement and confirmation of the *Debtors' Chapter 11 Plan* [Docket No. 385] (the "Plan"). In further support of confirmation of the Plan, and regarding certain issues discussed at the Confirmation Hearing, the Debtors respectfully state as follows:

INTRODUCTION

1. The Court should confirm the Plan with the modifications discussed at the Confirmation Hearing. Based on the arguments and questions from the Court, there appear to be three open issues with the Plan raised by the Office of the United States Trustee (the "UST") and the Court.[2] The Third-Party Release[3] should be approved as it is necessary in these cases, the uncontroverted evidence adduced at the Confirmation Hearing establishes that value was given for the release, and substantially similar releases have been approved by other bankruptcy courts in this district. The plan injunction contained in Article IX.F (the "Injunction") is appropriate as the Debtors will still have operations post-bankruptcy. Finally, the exculpation provision contained in Article IX.E (the "Exculpation") is appropriate given that it applies solely to post-petition matters and should be approved.

BACKGROUND

2. On August 4, 2025 (the "Petition Date"), each of the Debtors filed a voluntary petition for relief under chapter 11 of the Bankruptcy Code with this Court. The Debtors have

[2] The Debtors have addressed the issues raised by the Committee in the *Memorandum of Law in Support of Final Approval of the Disclosure Statement and Confirmation of the Debtors' Chapter 11 Plan* [Docket No. 497].
[3] Capitalized but undefined terms used herein have the meanings ascribed to them in the Plan.

continued in possession of their properties and are operating and managing their businesses as debtors in possession pursuant to sections 1107(a) and 1108 of the Bankruptcy Code.

3. On August 14, 2025, the U.S. Trustee appointed an official committee of unsecured creditors (the "Committee") in these above-captioned chapter 11 cases (the "Cases"). No request has been made for the appointment of a trustee or an examiner.

ARGUMENT

I. The Third-Party Releases Should Be Approved.

4. The Third-Party Release, contained in Article IX.D of the Plan, should be approved as it complies with applicable law. As an initial matter, the provision does not violate *Harrington v. Purdue Pharma L.P.*, 603 U.S. 204, 144 S.Ct. 2071, 219 L. Ed. 2d 721 (2024) (ruling that nonconsensual third-party releases are impermissible but not addressing consensual releases), as the releases are consensual in nature. Parties have been given a chance to opt out and many have done so.[4]

5. In *In re Lavie Care Ctrs.*, 2024 Bankr. LEXIS 2900 at 39-40 (Bankr. N.D. Ga. 2024), Judge Baisier wrote that "third-party releases should not become commonplace, or be reduced to a matter of procedural routine, but instead they should be uncommon, should meet certain procedural requirements, and should be justified under the particular circumstances of the case." In approving the release in *Lavie*, Judge Baisier noted the following factors supported approval:

a) A clear and conspicuous opt out mechanism;

b) A simple and easy to understand opt out mechanism;

c) Creditors and interest holders could file an opt out form;

[4] *See Declaration of Andres A. Estrada with Respect to Solicitation and the Tabulation of Votes on the Debtors' Chapter 11 Plan* [Docket No. 494] at ¶ 10 & Ex. B.

d) The releases were limited to estate fiduciaries, parties providing substantial consideration under and in support of the plan, or affiliates of such parties;

e) The plan and settlement embodied in it were the product of significant negotiations, including a multi-day mediation;

f) The release is an integral part of the plan and the settlement on which it is based, and the affected creditors are receiving substantial consideration in exchange for the release; and

g) The plan, the associated settlement, and the release are supported by the major constituents in this case, and the Plan was accepted by a majority of voting creditors by number and the vast majority by dollar amount.

While these factors are not binding on the Court, they provide a well-reasoned template for the Court's consideration of the Third-Party Release.

6. ***The opt out mechanism was clear and conspicuous***. Here, the opt-out notice was very clear. The opt out procedures approved by the Court and followed by the Debtors, which were in English, Mandarin Chinese, and Spanish, were clear and unambiguous. The language was specifically requested by and consented to by the UST, and was approved by the Court. In fact, the language was conspicuous enough to alert several disputed claimants of their right to opt out. Accordingly, this factor supports approval.

7. ***The opt out mechanism was simple and easy to understand.*** The opt out mechanism was simple and easy to understand as, in all caps and set into a text box, the notice started with the following language:

CAUTION - IF YOU DO NOTHING, YOUR RIGHTS MAY BE COMPROMISED.

In bold and all caps, the notice further provided:

> **IF YOU HOLD A CLAIM AGAINST THE DEBTORS AND WOULD LIKE TO OPT OUT OF THE THIRD-PARTY RELEASE, YOU MUST ELECT TO DO SO BY CHECKING THE OPT-OUT BOX CONTAINED IN ITEM 3 OF THIS BALLOT. YOU MUST ALSO VOTE TO REJECT THE PLAN OR ABSTAIN FROM VOTING. IF YOU VOTE TO ACCEPT THE PLAN, YOU WILL BE A RELEASING PARTY.**

This language was translated into Mandarin and Spanish. It was therefore simple and easy to understand by all creditors and parties in interest.[5]

8. ***Creditors and interest holders could file an opt out form.*** All creditors and interest holders had the opportunity to opt out (and many did in fact opt out), so this factor has been satisfied.

9. ***The Released Parties are limited in nature.*** The Released Parties in the Third-Party Release are limited to:

> (a) the Debtors; (b) the Creditors Committee and each of its members (solely in their respective capacities as such); (c) the Individual Defendants; ~~(d) the Staffing Agencies~~;[6] (e) the CRO; and (f) the Debtors' Professionals retained in these Cases.

Each of the current proposed Released Parties are either estate fiduciaries (*i.e.*, the Debtors, the Committee and its members, the CRO, and the Debtors' Professionals) or have provided substantial consideration under or in connection with the Plan (*i.e.*, the Individual Defendants). Through their support of the chapter 11 plan process, the filing of cases, and substantial assistance

[5] Substantially similar notices were provided to unimpaired classes of creditors and interest holders. *See* Docket No. 463 at pp. 27-37.

[6] At the Confirmation Hearing, the Debtors agreed to remove the Staffing Agencies from the Released Parties definition.

during the cases, the Released Parties have provided adequate consideration for the Third-Party Release. The *Declaration of David Baker in Support of Confirmation of the Debtors' Chapter 11 Plan* [Docket No. 496] clearly provides that the "consideration includes, without limitation, the service of the Released Parties before and during the Cases to facilitate the implementation of the Plan."

10. The testimony of David Baker at the Confirmation Hearing also establishes that the Released Parties provided consideration for the Third-Party Release. Mr. Baker testified regarding the cooperation provided by the Released Parties in the chapter 11 process, including in searching extensively for records relating to locating former employees of the Debtors. This is particularly important as this extensive searching was against the Individual Defendants' Allen Chen's and George Chen's economic interests given that fewer claimants may have resulted in a higher distribution on their equity interests.

11. Moreover, the efforts of the Debtors, their principals (including the Individual Defendants), and the Debtors' professionals led to this being a successful case. The Individual Defendants materially assisted in this result by approving the filing of these cases, assisting in the sale, assisting in locating claimants, and participating in a multi-day mediation resulting in a major settlement with the Labor Plaintiffs. Given that this is projected to be a 100% case, there is not anything more the Released Parties could have done to ensure a successful outcome.[7]

[7] The UST has made the unsupported argument that the Released Parties are getting "something for nothing." This is incorrect, but if the UST is looking for a monetary contribution, there would be no reason for the Released Parties to provide a capital contribution or other consideration, as no more money is needed to make creditors whole. Moreover, agreeing to a settlement with the disputed Labor Plaintiffs that resolved a major issue in this case – when the claims at issue are and were disputed – is an economic contribution because it was against the economic interests of Allen Chen and George Chen.

12. ***The Third-Party Release is an integral part of the Plan and creditors are receiving significant consideration for the Third-Party Release.*** This factor has also been satisfied. The Third-Party Release is a material aspect of the Plan. Creditors are being paid in full with interest as this is projected to be a surplus case, so the Third-Party Release is appropriate. While one can speculate that a tort claimant whose claim against the Debtors is being paid in full may have additional, related claims against one of the Released Parties, that prospect is unlikely. And given that the Debtors – as opposed to the Released Parties – were the employers alleged to have been involved in wrongful acts, any additional claims must necessarily have been asserted against the Debtors themselves.[8]

13. Moreover, affected creditors in Class 4 of the Plan will receive interest on their claims at a rate determined by the Court and have been given the opportunity to opt out of the Third-Party Release. The payment in full of claims is more than adequate consideration for the release. Accordingly, Class 4 creditors are not prejudiced given that they have either been paid in full and/or have decided not to opt out.[9] All other interested parties, including those in Class 5, have also been given an opportunity to opt out.

14. ***The Plan and Third-Party Release are supported by all major parties holding economic stakes in the Debtors.*** Finally, the Plan satisfies this factor as the Plan and Third-Party Release enjoy broad support from the Debtors' creditor body. The Labor Plaintiffs have agreed to it as part of their settlement. While the Committee filed a Limited Objection [Docket No. 487] on discrete issues relating to the interest rate and retention of Avoidance Actions, it has not challenged

[8] Under the single satisfaction rule, if a claimant is paid in full its claim by one tortfeasor its claims against additional tortfeasors are satisfied. *See, e.g., UC Int'l Corp. v. Int'l Yacht Council, Ltd.,* 517 F.3d 1271, 1276 (11th Cir. 2008).

[9] Class 3 claimants (Labor Plaintiffs) have agreed to release claims against the Debtors' Ds&Os via their settlement previously approved by the Court.

the Third-Party Release. And while some creditors have opted-out, that simply demonstrates that the opt-out mechanism is functioning as contemplated and those creditors will suffer no harm by the release.

15. In summary, the particular circumstances of this case strongly support the Court's approval of the Third-Party Release. Given that creditors will very likely be paid in full, the Third-Party Release is appropriate and should be approved.

II. The Injunction Should Be Approved.

16. The Court should also approve the Injunction as it is not prohibited by section 1141(d)(3) of the Bankruptcy Code and other applicable law. To further address the Court's questions regarding the difference between the Injunction and a discharge, the Debtors will assume *arguendo* that these are substantially similar. Section 1141(d)(3) provides as follows:

> (3) The confirmation of a plan does not discharge a debtor if—
>
> > (A) the plan provides for the liquidation of all or substantially all of the property of the estate;
> >
> > (B) the debtor does not engage in business after consummation of the plan; and
> >
> > (C) the debtor would be denied a discharge under section 727(a) of this title if the case were a case under chapter 7 of this title.

These elements are not met, so the Injunction is appropriate. First, the Plan does not provide for the liquidation of all or substantially all of the property of the estates. As evidenced by the proffered testimony of David Baker at the Confirmation Hearing, the Debtors have remaining inventory to sell. Moreover, the Debtors own subsidiaries that continue to conduct operations. *See. e.g., Periodic Report Regarding Value, Operations, and Profitability of Entities in Which the Debtor's Estate Holds a Substantial or Controlling Interest* [Docket No. 347]. These subsidiaries

include BuyIslander.com Technologies, LLC, Globalone Supply LLC, Wellmade Floor Industries Co. LTD, and Afflux, LLC. Moreover, the sale that occurred in this case was not pursuant to the Plan but was instead pursuant to a section 363 sale. Accordingly, section 1141(d)(3)(A) has not been satisfied as the Plan does not provide for the liquidation of all or substantially all of the property of the estate.

17. Section 1141(d)(3)(B) is also not satisfied. The Debtors will engage in business following the consummation of the Plan. As the uncontroverted testimony of David Baker shows, they will continue to sell inventory. Moreover, the Debtors' subsidiaries have significant operations that were not sold in the section 363 sale.

18. The Plan specifically contemplates the continued operation of the Debtors' remaining businesses:

> All Assets not distributed on the Effective Date shall vest in the Debtors and shall be managed and liquidated by the Plan Administrator in accordance with the provisions of the Plan and the Plan Administration Agreement. The Plan Administrator shall consult with the Holders of Interests regarding whether dissolution of the Debtors is appropriate or necessary. **The Holders of Interests may determine, in their discretion, to continue operating the Debtors' remaining businesses, as well as those of the Debtors' non-debtor Affiliates**.

Plan, Art. IV.A [emphasis added]. The undersigned counsel has confirmed with the Holders of Interests that, post-confirmation, they intend to continue operating the Debtors' remaining businesses and those of the Debtors' non-debtor Affiliates.

19. There is no requirement that the Debtors engage in the *same business* post-confirmation under section 1141(d)(3)(A). Courts considering this issue have rejected this interpretation of the statute. *See, e.g., In re Flintkote Co*., 486 B.R. 99, 131 (Bankr. D. Del. 2012),

aff'd *Imperial Tobacco Can. Ltd. v. Flintkote Co. (In re Flintkote Co.)*, 526 B.R. 515 (D. Del. 2014) (holding that § 1141 does not require a debtor to continue to engage in a pre-petition (and possibly unsuccessful) business to the exclusion of any other). *See also In re Hopeman Bros., Inc.,* 2025 Bankr. LEXIS 3324 (Bankr. E.D. Va. 2025) (debtor remaining in business to administer assets to pay asbestos claimants was engaged in business under section 1141(d)(3)(A).

20. Moreover, the Fifth Circuit Court of Appeals has noted that "[e]ven a temporary continuation of business after a plan's confirmation is sufficient to discharge a Chapter 11 debtor's debt. *See In re T-H New Orleans Ltd. P'ship*, 116 F.3d 790, 804 n.15 (5th Cir. 1997) (recognizing a debtor's 'conducting business for two years following Plan confirmation satisfies § 1141(d)(3)(B)'(citation omitted))." *Nexpoint Advisors, L.P. v. Highland Capital Mgmt., L.P. (In re Highland Capital Mgmt., L.P.)*, 48 F.4th 419 (2022).

21. The Debtors' intention is to continue operating their remaining businesses post-confirmation. These businesses may be different than those sold in the section 363 sale but they are operating businesses nonetheless. Accordingly, section 1141(d)(3) does not apply and the Court should approve the Injunction, as modified.[10]

III. The Exculpation Should Be Approved.

22. Finally, the Exculpation contained in Article IX.E of the Plan should be approved. While the Court and the UST seemed to gain comfort from modifications and clarifications made

[10] At the Confirmation Hearing, the Debtors agreed to remove the Released Parties and Exculpated Parties as beneficiaries of the Injunction. However, the Injunction (if approved by the Court) would provide protection to the Debtors. The Debtors do not take the position that the Third-Party Release or the Injunction impact pending criminal proceedings against certain of the Individual Defendants.

by the Debtors at the Confirmation Hearing, the Exculpation should be approved since it applies to matters that have occurred in these Cases.

WHEREFORE, for the reasons set forth herein, the Debtors respectfully request that the Court enter the order approving the Disclosure Statement on a final basis, confirming the Plan (as modified), and granting such other and further relief as the Court deems just and equitable.

Dated: September 3, 2026

Respectfully submitted,

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