

**UNITED STATES BANKRUPTCY COURT
EASTERN DISTRICT OF KENTUCKY
LEXINGTON DIVISION**

In re
Lexington Blue, Inc.
Debtor

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Case No. 25-50863
Chapter 11
Small business case

Hon. Gregory R. Schaaf
United States Bankruptcy Judge

**DEBTOR’S RESPONSE TO: (1) U.S. TRUSTEE’S MOTION TO CONVERT [ECF 144];
and (2) KENTUCKY ATTORNEY GENERAL’S MOTION TO DISMISS [ECF No. 187]**

Comes now, Lexington Blue Inc, debtor and debtor in possession (the “Debtor”, “LB”), by and through the undersigned counsel, and for its response to the U.S. Trustee’s motion to Convert [ECF No. 144], and the Kentucky Attorney General’s Motion to Dismiss [ECF No. 187], states as follows:

Background.

1. Debtor was in the business of marketing to and contracting with, residential property owners for roof and restoration services. The company primarily focused on remediating insurance claims. Homeowners paid Lexington Blue with insurance proceeds.
2. Lexington Blue did not perform the work. Rather, the company developed the scope of work to be performed, purchased necessary materials, and contracted with third party subcontractors to complete the work according to specifications.
3. By 2023, the company was grossing \$6.2M in annual revenues.
4. On April 26, 2025, Debtor ceased all operations as a result of a significant liquidity crisis.
5. A number of lawsuits have been filed against LB. The KY Attorney General has launched a civil investigation into LB and filed a consumer protection action in Fayette County Circuit Court.

6. Debtor filed for relief under chapter 11 of the bankruptcy code on June 16, 2025. (the “Petition Date”).

The LB Customers and Customer Claims.

7. Since filing the petition, Debtor identified about 263 customers who made deposits for work not yet performed or completed, (the “LB Customers”) under contracts for residential services, including roofing, siding and related restorative work. (The “Customer Contracts”).
8. The LB Customers are listed: (a) as counterparties to executory contracts on Schedule G; and (b) as general unsecured creditors on Schedule F. The amount of the claims filed on behalf of the LB customers in Schedule F is equal to the estimated aggregate amount of deposits made by the LB Customers (“Customer Claims”).
9. Excluding any claims for pecuniary losses or other damages, Debtor presently estimates that the value of the Customer Claims to be about \$1.6M, or just about 50% of the \$3,212,441.43 in estimated total liabilities listed in Debtor’s schedules.
10. LB did not have the means, resources, or the capital to answer for the losses incurred by the LB Customers, or the other creditors’ claims arising out of the failure.
11. LB elected to file under chapter 11 as an attempt to mitigate the losses that its former customers would incur because of LB’s inability to fulfill the Customer Contracts.
12. LB intended to assume and simultaneously assign the Customer Contracts to qualified third party contractors who could fulfill LB’s obligations according to specifications. The goal was to organize the Customer Contracts into 6 to 10 groups of 20 to 30 Customer Contracts (“Bundle(s)”), and to assign each Bundle under a separate omnibus motion.

Bundle No. 1; Assignments are not a viable path to reorganization.

13. In preparation for the first omnibus motion, Debtor carefully audited and developed a Bundle of 22 Customer Contracts (“Bundle No. 1”).

14. Debtor furthermore developed a procurement process pursuant to which it could identify and select qualified subcontractors ready, willing, and able to assume one or more Bundles.
15. Debtor started with a list of 66 subcontractors that it had worked with in the past. Debtor began by sending a series of mass text messages to gather complete contact information, such as emails, company names, etc., which it did not have when the process began.
16. Of the 66 subcontractors, 10 provided their complete contact information, which allowed the Debtor to send a series of emails about the opportunity and Bundle No. 1.
17. The 10 subcontractors were asked to fill out additional forms and submit documents to confirm their qualifications. Four of the ten subcontractors responded with additional information. (The “Bidders”).
18. Only one (1) Bidder signed a non-disclosure agreement, which was required before Lexington Blue agreed to share an unredacted list of customers and related contract documents.
19. After reviewing Bundle No. 1 and pricing the materials to complete the work, the sole Bidder, who happened to be a general roofing contractor, declined to assume the Customer Contracts.
20. The problem faced by Lexington Blue is twofold: (1) general roofing contractors cannot afford to work within the margins offered by the Customer Contracts; and (2) subcontractors that would be willing to work within those margins would not likely participate in a procurement process or be able to provide the type of assurances that §365(f) requires.

Status Report; Conversion is in the best interests of the creditors and the estate.

21. Subject to Court approval, Debtor will withdraw its motion to file the Customer List under Seal [ECF No. 8], because the estate cannot presently benefit from the value of the Customer Contracts even though the related information is protected commercial information.

22. Debtor has or shall withdraw its motion to abandon estate property [ECF No. 147], so that the Chapter 7 Trustee can administer those assets.
23. Since the commencement of the case, Debtor discovered that its most valuable asset is the approximately \$543,513.46 to \$1.6M in aging receivables due on work orders that in many cases had been mostly completed. No mechanics' liens are in force, and recovering receivables would have to be pursued under other theories of liability.
24. Debtor filed a number of motions for 2004 Examination to obtain other information necessary to amend its schedules and identify company assets, including preference and other avoidance actions. [ECF Nos. 104 to 111]. Debtor has regained control of its QuickBooks Online account but is still waiting for additional information to complete the schedules.
25. Debtor filed a preference action against JP Morgan Chase for the recovery of \$25,014.09 in prepetition transfers. [ECF No. 143]. A response is due by the end of August 2025.
26. Debtor demanded and recovered \$128,868.00 in estate property from Commercial Credit Services, LLC ("CCS"), on account of pre-petition payments made to CCS to resolve merchant cash advances that were in default.
27. The U.S. Trustee filed a motion to convert the case to a chapter 7 [ECF No. 144], partly on the grounds that Debtor cannot show a reasonable likelihood of rehabilitation as required under 11 U.S.C. § 1112(b)(4)(A).
28. The Debtor agrees that there is no likelihood of rehabilitation and that conversion under § 112(b) is in the best interest of the creditors and the estate.
29. The Office of the Kentucky Attorney General (the "KYOAG") filed a motion to dismiss the case. [ECF No. 187] on the grounds that pursuing its consumer protection action in a state forum would allow the Attorney General to prosecute "both restitution and accountability."
30. Yet, the KYOAG does not have standing to recover the company's accounts receivable. Nor could it pursue any turnover or avoidance actions for the benefit of the estate. As things

stand, the KYOAG can only pursue its enforcement powers under the KY Consumer Protection Act – Here, a dismissal is simply not in the best interest of all of the creditors.

Based on the foregoing, Debtor believes that the conversion of this case to a chapter 7 is in the best interest of the creditors and the estate. Accordingly, Debtor requests: (1) that Debtor be allowed until August 25, 2025, to file its first application for compensation, and (2) for the entry of an order converting the case to chapter 7 on or after the date of the entry of a final order on the application.

Respectfully,

/s/ J. Christian Dennery

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