UNITED STATES BANKRUPTCY COURT
NORTHERN DISTRICT OF ILLINOIS
EASTERN DIVISION

In re:	Chapter 11
The Harrington & King Perforating Co., Inc., and **Harrington & King South, Inc.,**	Bankruptcy No. 16-bk-15650 (Jointly administered)
Debtors.	Honorable Deborah L. Thorne

DEBTORS' DISCLOSURE STATEMENT FOR PLAN OF REORGANIZATION, DATED APRIL 6, 2017

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I. INTRODUCTION

For reasons discussed below, The Harrington & King Perforating Co., Inc. ("***H&K Chicago***") and Harrington & King South, Inc. ("***H&K South***" and together with H&K Chicago, the "***Debtors***") believe that the Debtors' Consolidated Plan of Reorganization, dated April 6, 2017 (the "***Plan***") is in the best interests of Creditors and urge Creditors to vote for the Plan. If Creditors vote for the Plan and the Plan is confirmed, the Debtors anticipate that all Secured Claims will be paid in full over a 5-year period; Creditors holding Allowed Unsecured Claims may receive as much as 25% of the amount owed to them (or possibly more) over a 5-year period, and the Debtors' employees will continue to have jobs in the Chicago and Tennessee Plants.[1]

Conversely, if Creditors do not vote for the Plan and the Plan is not confirmed, the Debtors' assets will likely be liquidated in an inefficient manner. In that case, the Debtors do not believe that there will be any proceeds remaining to pay anything to Unsecured Creditors, secured Creditors will probably not receive the total amount the Debtors owe, and the Debtors' workers will be unemployed.

A. Overview of the Disclosure Statement.

This is the disclosure statement (the "***Disclosure Statement***") in the Debtors' chapter 11 cases. This Disclosure Statement contains information about the Debtors and describes the Debtors' Plan. A full copy of the Plan is attached to this Disclosure Statement as Exhibit A.

On _____, the Court entered an order approving this Disclosure Statement as containing adequate information. Thus, the Debtors are authorized to disseminate this Disclosure Statement, along with the Plan, and to solicit votes in favor of the Plan.

Your rights may be affected. You should read the Plan and this Disclosure Statement carefully and discuss them with your attorney. If you do not have an attorney, you may wish to consult one.

B. Purpose of this Disclosure Statement.

This Disclosure Statement describes:

- The Debtors and their background;
- How the Plan proposes to treat Claims or Equity Interests of the type you hold (that is, what you will receive on your Claim or Equity Interest if the Plan is confirmed);

[1] All capitalized terms not otherwise defined herein have the meaning ascribed to that terms in the Plan.

- Who can vote on or object to the Plan;
- What factors the Court will consider when deciding whether to confirm the Plan;
- Why the Debtors believe the Plan is feasible, and how the treatment of your Claim or Equity Interest under the Plan compares to what you would receive on your Claim or Equity Interest in liquidation; and
- The effect of confirmation of the Plan.

C. Narrative of the Plan.

Rule 3016-1 of the Local Rules of Bankruptcy Procedure for the United States Bankruptcy Court for the Northern District of Illinois requires a chapter 11 disclosure statement to contain an initial narrative describing the Plan of reorganization, as well as certain other information. The following is a narrative summary of the Plan. The other information required by Rule 3016-1 is set forth below.

1. Overview of the Plan.

The Plan provides for the substantive consolidation of the Debtors for voting and distributional purposes only, as further discussed below. Substantive consolidation accomplishes a pooling of the assets and the liabilities of H&K Chicago and H&K South such that the combined cash flow from the Debtors will be used to make the payments to the combined pool of Creditors.

Following confirmation, the Reorganized Debtors (a term used to describe the Debtors after they emerge from bankruptcy protection) will continue to operate their businesses as separate legal entities. The Reorganized Debtors will contribute Annual Cash Flow to an Unsecured Creditor Escrow Account and the funds in that account will be paid to Unsecured Creditors holding Allowed Claims over the 5 years following the Effective Date. The Reorganized Debtors will likewise pay the Secured Claims of Inland Bank within the 5 years following the Effective Date. The Secured Claim of Southern Heritage Bank will be paid in full by August of 2017 under the terms of the pre-petition loan documents. The Plan also provides that the Debtors' equity Holders, i.e., their owners, will retain their Interests in the Debtors.

As part of their strategy for repaying Creditors holding Allowed Claims, the Debtors have classified the Claims held by Creditors into separate classes depending on the nature of the Claims. For example, a Claim is in the general Unsecured Creditor Class (Class 3) if it is a *pre-bankruptcy* Claim for goods or services provided to the Debtors or for obligations, including pension obligations, that are not entitled to priority treatment, but only if the Debtors' obligation to repay is not secured by a lien or mortgage on the Debtors' Assets. In contrast, amounts owed to an Unsecured Creditor for goods or services provided to the

Debtors after the bankruptcy filing are generally considered administrative expenses. Consistent with the Bankruptcy Code, administrative expenses are not placed in a Class of Claims.

In this case, the Plan contains 5 classes of Claims: (a) Class 1, consists of the Secured Claim of Inland Bank and Trust Company, which is secured by substantially all of the Debtors' assets; (b) Class 2 consists of the Secured Claim of Southern Heritage Bank, which is secured by certain equipment and which should be paid in full in August of 2017; (c) Class 3 consists general Unsecured Claims, which are trade Creditors, the Pension Benefit Guaranty Corp. ("PBGC"), and other Unsecured obligations not entitled to priority; (d) Class 4 consists of Unsecured Creditors with Claims of less than $1,000 or Claims greater than $1,000, that make the Convenience Class Election on their Plan ballot; and (e) Class 5 consists of Allowed Claims entitled to priority under § 507 of the Bankruptcy Code, other than certain priority Tax Claims and administrative Claims. There is also one Class of Equity Interests, Class 6. These Classes of Claims and interests are explained below.

Classes 1, 3 and 4 are "Impaired" and thus entitled to vote for or against the Plan by casting the ballot included with this Disclosure Statement, provided that the Claims are Allowed Claims. A Claim is "Impaired" under the definition of that term in the Bankruptcy Code, if a reorganization Plan modifies the rights of Creditors in that class to receive payment. If a Creditor's Claim is not an Allowed Claim, then the Creditor is not entitled to vote and on the Plan. A Claim is not an Allowed Claim if the Debtors have objected to the Claim. The Debtors' owners are not entitled to vote on the Plan because the Plan leaves their legal rights as Interest Holders unaltered.

Ballots must be returned on or before the voting deadline of _____, 2016, to the Clerk of the United States Bankruptcy Court, 219 South Dearborn Street, 7th Floor, Chicago, Illinois 60604. If you need another ballot, one can be obtained by contacting the attorneys for the Debtors listed on the first page of this Disclosure Statement.

2. Overview and explanation of distributions.

Administrative expenses are amounts owed to entities that provided goods or services to the Debtors from the time the Reorganization Cases were filed (May 7, 2017) through the Effective Date. The Debtors have been paying most Administrative Expense Claims in the ordinary course of business, but to the extent such a Claim has not been paid as of the Plan's Effective Date, the Bankruptcy Code provides priority treatment for such Claims. The Plan provides that the cash available to the Debtors on the Plan's Effective Date will be used to pay administrative expenses in full, unless the Holder thereof agrees to a different treatment or the administrative expense has not yet been Allowed, in which case

the administrative expense will be paid when Allowed. Requests for the payment of administrative expenses must be filed by the 30th day after the Effective Date. The Debtors estimate that on the Effective Date they will have cash of approximately $181,000, which includes approximately $30,000 being held in a trust account for the benefit of the Debtors, although the precise amount depends on the actual timing of the Effective Date. The Debtors also estimate that Administrative Expense Claims will consist largely of amounts owed to professionals and that the total could be approximately $400,000.

Allowed priority Tax Claims will be paid in full satisfaction through 48 equal monthly cash payments commencing on the Effective Date, with interest at the rate of 3% per annum. Holders of other priority Claims (Class 5) will either be paid in full within 30 days of the Effective Date, or to the extent the Claims are based on employees' unused vacation time, satisfied during the Holder's employment consistent with the Debtors' policies and practices. The bulk of the other priority Claims are such vacation time Claims.

Holders of Class 1 and 2 Claims will be paid in full. Holders of Unsecured Claims (Class 3) will receive their pro rata share of the amounts deposited into the Unsecured Creditor Escrow Account unless they qualify for and make the Convenience Class Election (Class 4) in which case they will receive payment of $1,000 (or any lesser amount owed) within fifteen (15) days of the Effective Date.

The following chart sets forth the treatment accorded to each Class of Claims. Parties in interest should consult this information, as well as the Plan itself, for further information about how Creditors will fare under the Plan.

Table 1. Distribution Summary Chart.

Description	Treatment and Estimated Amount Owed	Estimated Recovery
Unclassified Claims		
Administrative expenses. An administrative expense is a Claim arising after the petition date for goods or services provided to the bankruptcy estate.	Ordinary course administrative expenses are being paid in full as and when due. Other administrative expenses, including those owed to professionals retained in the Debtors' Reorganization Cases, will be paid in full within on the Plan's Effective Date or the date such Claims are Allowed, if later, or according to any agreement between the Debtors and such entity. The Debtors estimate they will owe approximately $400,000	100%

Description	Treatment and Estimated Amount Owed	Estimated Recovery
Priority Tax Claims. A priority Tax Claim is an Unsecured Claim arising in favor of a taxing authority that is entitled to priority treatment under § 507(a)(8) of the Bankruptcy Code.	Each Holder of an Allowed Priority Tax Claim will receive 48 equal monthly cash payments commencing on the Effective Date, with total payments equaling 100% of the amount of their Allowed Claims, with interest at 3% per annum. The Debtors estimate that there are approximately $60,000 in priority Tax Claims.	100%
Impaired Classes: Classes 1, 3 and 4.		
Class 1	Reorganized Debtors will issue amended loan documents to Inland Bank that will provide for: (1) payment of the Class 1 Claim over a 5-year period with payments of (a) $30,000 per month during 2017, commencing on the Effective Date, (b) $40,000 per month during 2018, (c) $60,000 per month during 2019, (d) $60,000 per month during 2020, and (e) $70,000 per month through July of 2021; (2) a balloon payment at the end of the five-year period; (3) payment of the post-petition legal fees owed to counsel for Inland Bank over a six-month period subsequent to the Effective Date; (4) an interest rate of 5% per annum; (5) first priority liens and security interests on all of the Assets; and (5) any other terms reasonably acceptable to the Reorganized Debtors and Inland Bank that implement the treatment set forth in the Plan.	100%

Description	Treatment and Estimated Amount Owed	Estimated Recovery
Class 3	Claims in Class 3 will receive a pro rata portion of the funds in the Unsecured Creditor Escrow Account. That account will be funded with the Reorganized Debtors' "Annual Cash Flow", which means earnings before interest, taxes, depreciation, and amortization ("EBITDA") for a Measurement Period less: (a) payments to Creditors other than Class 3 Unsecured Claims; (b) payments of Termination Premiums to the PBGC; (c) any non-cash items recognized as income; and (d) income sufficient to ensure that the Debtors' working capital and capital expenditure reserves remain at $300,000. The amount Holders of Class 3 Claims will receive under the Plan will depend on the total amount of Allowed Claims and the Debtors' available cash in the five years following the Effective Date for deposit into the Unsecured Creditor Escrow Account. The Debtors estimate that Allowed Unsecured Claims will be approximately $7.7 million. Based on the Projections, the Reorganized Debtors estimate they will deposit approximately $2 million into the Unsecured Creditor Escrow Account. Based on these estimates, Holders of Allowed Unsecured Claims could receive as much as 25% of their Claims.	25%
Class 4	Within 15 days of the Effective Date, each Holder of an Allowed Convenience Class Claim or that has made a Convenience Class Election and is eligible to make such election will be paid $1,000, or such lesser amount as is owed to such Creditor, in satisfaction of such Claims.	100%

The classification of Claims must be consistent with the Bankruptcy Code. Creditors are entitled to object to the classification of Claims and to the treatment of Claims. Notwithstanding anything herein or in the Plan to the contrary, no

distributions will be made and no rights will be retained on account of any Claim that is not an Allowed Claim. The treatment in the Plan is in full and complete satisfaction of the legal, contractual, and equitable rights (including any liens) that each entity holding an Allowed Claim or Allowed interest may have in or against the Debtors, their bankruptcy estates, or their respective property. This treatment supersedes and replaces any agreements or rights those entities may have in or against the Debtors, their bankruptcy estate, or their respective property.

3. Best-interests test and the liquidation analysis.

To confirm a reorganization Plan, a chapter 11 debtor must establish that all Creditors will receive at least as much under the Plan as they would receive if the debtor were liquidated under chapter 7 of the Bankruptcy Code—that is, that the Plan is in the best interests of Creditors. This is known as the "best-interests test." To show that a Plan meets the best-interests test, a disclosure statement must contain a liquidation analysis that shows the likely recovery to Unsecured Creditors in the event the debtor was liquidated under chapter 7.

Below is an analysis of the amount the Debtors expect Creditors would recover if the Debtors were liquidated under chapter 7 of the Bankruptcy Code. In brief, the Debtors believe that Unsecured Creditors will fare much better under the Plan than they would in a chapter 7 because the Plan proposes to pay Unsecured Creditors as approximately 25% of their Claims, whereas the Debtors believe the amount realized from the liquidation of their property would be less than the amount owed to secured Creditors and priority Creditors, thereby leaving nothing for Unsecured Creditors in a chapter 7 liquidation.

Table 2. Liquidation Analysis for H&K Chicago as of February 28, 2017:

Asset	Estimated Liquidation Value[2]
Real property	$1,470,000
Cash and equivalents	$81,104
Equipment and other personal property	$767,050
Total assets at liquidation value:	*$2,318,154*
Less:	
Secured Claims	*(4,057,787.59)*
Priority Claims (scheduled and filed)	*(160,199.09)*
Chapter 11 Administrative Claims	*(115,000)*
Chapter 7 Administrative Claims	*(92,700)*
Subtotal:	*(4,435,687)*
Balance for Unsecured Creditors:	*$0*
Total dollar amount of scheduled and filed Unsecured Claims (does not include any deficiency Claim)	$7,330,873.18
Percentage of Claims Unsecured Creditors would receive in a chapter 7 liquidation	**0%**

[2] Analysis for both H&K Chicago and H&K South assume 50% discounted rate for liquidation values of real property and personal property. *See infra* for further discussions.

Table 3. Liquidation Analysis for H&K South as of February 28, 2017:

Asset	Estimated Liquidation Value
Real property	$800,000
Cash and equivalents	$46,761
Equipment and other personal property	$454,400
Total assets at liquidation value:	*$1,301,161*
Less:	
Secured Claims[3]	*(1,806,933.59)*
Priority Claims (scheduled and filed)	*(62,912.78)*
Chapter 11 administrative Claims	*(115,000)*
Chapter 7 Administrative Expense Claims	*(62,284)*
Subtotal:	*(2,047,130)*
Balance for Unsecured Creditors:	*$0*
Total dollar amount of scheduled and filed Unsecured Claims (does not include any deficiency Claim)	$4,818,875.17
Percentage of Claims Unsecured Creditors would receive in a chapter 7 liquidation	**0%**

The liquidation values listed above are the Debtors' best estimate based on the information currently available to them. Other parties in interest may have different opinions about the value of certain assets.

The estimated liquidation value of the Debtors' property is the Debtors' estimation of what could be obtained for such property in a distressed and forced sale, without proper marketing. The Debtors obtained appraisals on their real

[3] This figures assumes that H&K Chicago's assets are liquidated by a chapter 7 trustee and that the value of H&K Chicago's assets, less the chapter 7 trustee's administrative expenses, will be approximately $1,832,333.60, is paid to Inland Bank and reduces Inland Bank's Claim against H&K South accordingly. It also estimates the Secured Claim of Southern Heritage at $160,000.

property and equipment in earl 2015, which indicated the following fair market values:

Asset	Appraised value
H&K Chicago Real Estate	$2,940,000
H&K South Chicago	$1,600.000
Equipment (H&K Chicago)	$1,534,100
Equipment (H&K South)	$908,800

The Debtors believe the liquidation value of the Debtors' property would be about 50% of the appraised values.

D. Deadlines for voting on the Plan and objecting to the Plan, and date of Plan confirmation hearing.

The Bankruptcy Court has not yet confirmed the Plan described in this Disclosure Statement. This section describes the procedures under which the Plan will or will not be confirmed and identifies certain dates for voting on the Plan and objecting to the Plan.

1. Time and place of hearing to confirm the Plan.

The hearing at which the Court will determine whether to confirm the Plan will take place on _____, 2017, at _____ a.m., in Courtroom 619 at the Everett McKinley Dirksen Federal Courthouse, 219 S. Dearborn Street, Chicago, IL 60604.

2. Deadline for voting to accept or reject the Plan.

If you are entitled to vote to accept or reject the Plan, vote on the enclosed ballot and return the ballot to the Clerk of the United States Bankruptcy Court, 219 South Dearborn Street, 7th Floor, Chicago, Illinois 60604. Section IV.A below contains a discussion of voting eligibility requirements.

Your ballot must be received by _____, 2017, or it will not be counted.

3. Deadline for objecting to confirmation of the Plan.

Objections to the confirmation of the Plan must be filed with the Court and served on the Debtors by _____, 2017.

4. Identify of person to contact for more information.

If you want additional information about the Plan, you should contact counsel for the Debtors:

James Liu
FactorLaw
105 W. Madison, Suite 1500
Chicago, IL 60602
E-mail: jliu@wfactorlaw.com
Tel: 312-470-1284

II. BACKGROUND.

A. Events leading to the chapter 11 filings.

After extensive discussions with Inland Bank, and exploration of alternatives to bankruptcy, the Debtors determined that filing for chapter 11 protection would be the best course of action for the companies, the Creditors and their employees.

There were multiple factors that ultimately contributed to the Debtors' need for chapter 11 protection, including legacy obligations, the recession of 2008-09, and the lack of appropriate succession management when John Mons Lovaas, who had been at the helm of the Debtors' businesses for many years, passed away in 2011.

The Debtors' operations continued to deteriorate through 2015, when new management was appointed. Under new management, the Debtors implemented many strategies geared to returning to profitability.

As of the first quarter of 2016, the Debtors regained modest profitability from a going-forward, operational point of view. However, the legacy obligations remain, and by February of 2016, certain trade Creditors had reduced Claims to judgment, and served citations to discover assets on the Debtors and their banks. Through service of such citations, these Creditors obtained judicial liens on the Debtors' personal property.

Because of the citations, the Debtors' banks froze the Debtors' accounts, and to obtain use of their cash, the Debtors were forced to make preferential payments to these Creditors to satisfy their judgments. The Debtors' Reorganization Cases were filed on an emergency basis to preserve bankruptcy avoidance Claims against these Creditors (i.e., Claims to force the Creditors to return the payments they received back to the Debtors' estates). and in in furtherance of the Debtors' Plan to restructure their operations and debts, including H&K Chicago's legacy pension obligations.

B. Distressed Termination of the Pension Plan

A condition precedent to the confirmation of the Plan is the entry of a final order by the Bankruptcy Court finding that the financial requirements for a distressed termination under the reorganization test contained in 29 U.S.C. § 1341(c)(2)(B)(ii)(IV) are satisfied with regard to the Harrington & King Perforating

Co., Inc. Bargaining Unit Employees Pension Plan (the "Pension Plan"), and the PBGC's approval of a distressed termination of the Pension Plan under 29 U.S.C. §§ 1341(c)(2)(B)(ii) or (iii).

The Debtors believe the Pension Plan qualifies for a distressed termination, and H&K Chicago has begun the process of distressed termination, including (a) the Plan administrator has issued a notice of intent to terminate to affected parties, including PBGC, (b) the Plan administrator has issued a subsequent termination notice to PBGC, which includes data concerning the number of participants and the Plan's assets and liabilities. The next step is for the Debtors to file a motion seeking the order of the Bankruptcy Court discussed above.

C. Claim objections.

Except to the extent a Claim is already Allowed pursuant to a final non-appealable order, the Debtors reserves the right to object to Claims. Even if your Claim is Allowed for voting purposes, you may not be entitled to a distribution if an objection to your Claim is later upheld. Casting your ballot in favor of the Plan will not guarantee that your Claim will receive any distribution or that your Claim will not be subject to an objection before the confirmation hearing or the Claim objection deadline.

The Debtors intend on objecting to multiple Claims that are duplicative or inconsistent with the Debtors' books and records, or that were filed as the wrong type of Claim. The largest Claims that the Debtors believe are subject to objection are the Unsecured Claims for approximately $3.4 million filed by the PBGC against both Debtors for unfunded pension plan benefit liabilities under 29 U.S.C. § 1362. There are multiple methods for calculating unfunded benefit liabilities, and the Debtors believe that their actual liability is closer to $2.5 million. If the Debtors are not successful on their objections, this will reduce the overall percentage that Holders of Allowed Class 3 Unsecured Claims receive under the Plan.

D. Projected recovery of avoidable transfers.

The transfers that might be subject to avoidance are listed in Questions 3(a) and (b) of the Debtors' Statement of Financial Affairs. Except for the two avoidance actions already filed, the Reorganized Debtors do not intend to file avoidance actions due to their belief that such recoveries would be minimal and the costs of filing such Claims could exceed any recovery.

E. Sale of Fillmore Property.

H&K Chicago owns two commercial warehouses and is currently operating out of only one of the spaces. The Debtors sought and obtained Court authority to sell the unused property at 5658 Fillmore Avenue, Chicago, Illinois (the "Fillmore Property"). The Debtors are in discussion with a potential purchaser and are

considering other options for the sale of the property, including conducting an auction under 11 U.S.C. § 363. If the Fillmore Property is not sold before confirmation of the Plan, the H&K Chicago will continue to market the property for sale following confirmation. The net proceeds from the sale of the Fillmore Property will be paid to Inland Bank on account of its Class 1 Claim.

F. The Debtors' financial condition.

The Debtors' 2016 financial statements are attached as **Exhibit B**. The identity of the Debtors' assets, and the Debtors' estimates of values based on its knowledge and experience with the assets, are contained on their Schedules A and B, which are attached as **Exhibits C and D**, respectively. The Debtors' most recently-filed Summaries of Cash Receipts and Disbursements are attached as **Exhibits E and F**, respectively, and the Debtor's future cash flow projections attached as **Exhibit G**.

III. SUMMARY OF THE PLAN AND TREATMENT OF CLAIMS AND EQUITY INTERESTS.

A. The purpose of the Plan.

As required by the Bankruptcy Code, the Plan places Claims and Equity Interests in various classes and describes the treatment each Class will receive (that is, how each Claim will be paid under the Plan). The Plan also states whether each Class of Claims or Equity Interests is Impaired or Unimpaired. If the Plan is confirmed, your recovery will be limited to the amount provided by the Plan. This Disclosure Statement contains a chart in Section I describing the distributions to each Class of Claims. The following describes in a narrative form how each Class of Claims fares under the Plan.

B. Substantive consolidation.

This Disclosure Statement and the Plan shall serve as a motion requesting that the Bankruptcy Court to approve the substantive consolidation of the Debtors for voting and distribution purposes only.

The effect of substantive consolidation is to combine both the assets and liabilities of the Debtors and to treat them as if they belonged to a single merged entity. The nature and effect of substantive consolidation closely resembles a corporate merger and usually results in pooling of the assets of, and Claims against, the consolidating entities; satisfying liabilities from the common fund; eliminating intercompany Claims and interests; and combining the Creditors of the consolidating entities for purposes of voting on a Plan.

Substantive consolidation is an equitable remedy that courts will employ under certain circumstances to promote fairness to all Creditors as a group. The

substantive consolidation of two or more entities typically affects the rights of Creditors as they relate to individual debtors and debtor groups. For instance, substantively consolidating a debtor having substantial assets with a debtor having little or no assets will substantially benefit Creditors of the latter entity, but at the expense of the Creditors of the former entity. Another potential impact on Creditors from the substantive consolidation of affiliated entities is the likely elimination of any intercompany obligations or liabilities among the consolidated entities. Similarly, a Creditor holding a guaranty Claim against an entity that is substantively consolidated with the primary obligor on the guaranteed debt would likely lose the guaranty Claim in favor of a single Claim against the consolidated entity.

In this case, the substantive consolidation of the liabilities and properties of the Debtors, will result in the following: (i) the separate Reorganization Cases of the Debtors will be consolidated into Case No. 16-15650 as a single consolidated case (the "Consolidated Case"); (ii) all property of both of the Debtors' Estates will be deemed the property of the consolidated Estates; (iii) all Claims against each Estate will be deemed to be Claims against the consolidated Estates, including any Proof of Claim filed against one or more of the Debtors will be deemed to be a single claim filed against the consolidated Estates, and all duplicate Proofs of Claim for the same claim filed against more than one Debtors will be deemed expunged; (iv) no distributions under this Plan will be made on account of any Intercompany Claims; (v) all Claims based upon pre-petition unsecured guarantees by one Debtor in favor of the other the Debtor (other than guarantees existing under any assumed executory contracts or unexpired leases) will be eliminated, and no distributions under this Plan will be made on account of Claims based upon such guarantees; (vi) for purposes of the right of setoff under 11 U.S.C. § 553, the Debtors will be treated as one consolidated entity so that, subject to the other provisions of Section 553, pre-petition debts due to either Debtor may be set off against the pre-petition debts of the other Debtor; and (vii) Holders of Allowed Claims in each Class will be entitled to their share of assets available for distribution to such Class without regard to which Debtor was originally liable for such Claim.

Substantive consolidation in the Reorganization Case shall not merge or otherwise affect the separate legal existence of each Debtor, other than with respect to distribution rights under the Plan; substantive consolidation shall have no effect on valid, enforceable and unavoidable liens, except for liens that secure a Claim that is eliminated by virtue of substantive consolidation and liens against collateral that are extinguished by virtue of substantive consolidation; and substantive consolidation shall not have the effect of creating a Claim in a Class different from the Class in which a Claim would have been placed in the absence of substantive consolidation. Substantive consolidation shall not affect the obligation of each of the Debtors or the Reorganized Debtors, under Section 1930 of Title 28 of the United

States Code, to pay quarterly fees to the Office of the United States Trustee until the Reorganization Case is closed, dismissed or converted.

Substantive consolidation of the Debtors' estates is critical to the Debtors' successful reorganization and effectiveness of the Plans. The Debtors have historically operated as a single economic enterprise. The Debtors' financial management, structure, and corporate governance procedures fit within the multitude of criteria cited by courts for decades to justify substantive consolidation. No prejudice will result from substantively consolidating the Debtors' estates, since few Creditors relied on the individual assets of either Debtor in extending credit. Even if there was some prejudice to a Creditor, that prejudice would be outweighed by the benefit substantive consolidation will provide to most Creditors.

Accordingly, the Debtors will ask the Bankruptcy Court to approve substantive consolidation as a condition to confirmation of each Plan.

C. Unclassified Claims.

Certain types of Claims are automatically entitled to specific treatment under the Bankruptcy Code, and a debtor generally lacks any meaningful discretion in how to pay those Claims. The Holders of those Claims do not vote on the Plan. The Holders, however, may object if in their view their treatment under the Plan does not comply with that required by the Bankruptcy Code. As such, the Debtors have *not* placed administrative expenses or priority Tax Claims in any class, and instead these are handled separately, as described below.

1. Administrative expenses.

Administrative expenses are costs or expenses of administering the Debtors' chapter 11 case that are Allowed under § 507(a)(2) of the Bankruptcy Code as actual and necessary costs of administration. Administrative expenses also include the value of any goods sold to the Debtors in the ordinary course of business and received within 20 days before the date of the bankruptcy petition. The Bankruptcy Code requires that all administrative expenses be paid on the Effective Date of the Plan or when Allowed, unless the Claimant agrees to a different treatment.

In this case, the primary administrative expenses relate to the fees and expenses of the professionals retained in the case by the Debtors and Committee. The Debtors estimate that such Claims will be approximately $400,000. through confirmation of the Plan. This amount is an estimate only and may increase or decrease based on variables that remain uncertain.

2. Priority Tax Claims.

Priority Tax Claims are income, employment and other taxes described by § 507(a)(8) of the Bankruptcy Code. Unless the Holder of a priority Tax Claim

agrees otherwise, the Holder must receive the present value of its Claim, in regular installments paid over a period not exceeding five years from the petition date.

The Debtors estimate that there are approximately $60,000 in priority Tax Claims. Holders of such Claims will receive 48 equal monthly payments, plus interest at a rate of 3% per annum in full satisfaction of their Claims.

D. Classes of Claims and Equity Interests.

The following are the classes set forth in the Plan and the proposed treatment that each will receive under the Plan.

1. Class 1: Inland Bank Secured Claim.

Under the Bankruptcy Code, a Secured Claim arises when a Creditor has a lien on the debtor's property to secure the debtor's repayment obligations, but only to the extent of the Creditor's interest in the property.

In this case, Class 1 contains the Inland Bank Secured Claim in the approximate amount of $4.3 million, which includes the pre-petition debt, Inland Bank's post-petition legal fees of approximately $100,000, and the post-petition line of credit. The Class 1 Claim is Impaired because the Reorganized Debtors are changing the contractual rights to which Inland Bank is entitled under the existing loan documents. The Plan contemplates that the Reorganized Debtors will issue amended loan documents to Inland Bank that will provide for (a) payment of the Class 1 Claim over a 5-year period with payments of (i) $30,000 per month during 2017, commencing on the Effective Date, (ii) $40,000 per month during 2018, (iii) $60,000 per month during 2019, (iv) $60,000 per month during 2020, and (v) $70,000 per month through July of 2021; (b) a balloon payment at the end of the five-year period; (c) payment of the post-petition legal fees owed to counsel for Inland Bank over a six-month period subsequent to the Effective Date; (d) an interest rate of 5% per annum; (e) first priority liens and security interests on all of the Assets; and (f) any other terms reasonably acceptable to the Reorganized Debtors and Inland Bank that implement the treatment set forth in the Plan.

2. Class 2: Southern Heritage Secured Claim.

Class 2 contains the Allowed Secured Claim held by Southern Heritage Bank. The Class 2 Claim is not Impaired and Southern Heritage Bank will continue to receive the treatment required by the relevant agreements. The Reorganized Debtors anticipate that the Class 2 Claim will be paid in full in August of 2017.

3. Class 3: Unsecured Claims.

Class 3 contains Unsecured Claims, other than Claims that are entitled to priority treatment under § 507 of the Bankruptcy Code and Class 4 Convenience Claim. The bulk of Class 3 Claims are comprised of the Claims asserted by (i) the

PBGC relating to the underfunded Pension Plan, (ii) trade Creditors, and (iii) the Unsecured Claim of Judith Lovaas for $638,000, and (iv) Claims for unpaid medical bills incurred by the employees of H&K Chicago. The Reorganized Debtors estimate that total Unsecured Claims will be approximately $7.7 million, although the total could be as high as $8.6 million, depending on the outcome of the analysis of the Claims filed by the PBGC. Assuming total contributions to the Unsecured Creditor Escrow Account of approximately $2 million, Holders of Allowed Class 3 Claims could recover as much as 25% of the amount owed to them by 2022.

4. Class 4: Convenience Class Claims.

Class 4 consists (a) Allowed Unsecured Claims that are less than $1,000 and (b) the Allowed Class 3 Claims that have made a Convenience Class Election on their ballot. By making such an election, the Claim Holders are agreeing to reduce their Claims to $1,000, in exchange for receiving payment within 30 days of the Effective Date. Class 4 is an Impaired class.

5. Class 5: Other priority Claims.

Class 5 consists of other priority Claims, which are Claims entitled to priority under § 507(a) of the Bankruptcy Code, except for Claims entitled to priority under §§ 507(a)(2) and (8). Class 5 is not Impaired.

The Holders of Allowed Class 5 Claims will receive, as applicable, (i) payment in full within 30 days of the later of the Effective Date or the date such Claims are Allowed, but only to the extent they such Holders were not employed by the Debtors on the Petition Date, or (ii) the benefits to which they are entitled at the time and manner required under any applicable agreement with the Debtors.

6. Class 6: Equity interests.

Class 6 contains the Equity Interests of the owners of H&K Chicago, as well as H&K Chicago's ownership interest in H&K South. The Holders of interests in H&K Chicago will retain those interests and thus Class 6 is not Impaired.

E. Means of implementing the Plan.

1. Vesting of assets.

The Plan provides that all the Debtors' assets will vest in the Reorganized Debtors, free and clear of all liens, Claims, interests, and encumbrances, except as otherwise provided in the Plan or confirmation order.

2. Re-vesting of Assets.

At any time after the Effective Date, and in furtherance of the Plan or to otherwise maximize the value of assets for the benefit of Creditors, the Reorganized

Debtors have the right to re-vest any asset into the consolidated estates so that such asset may be sold under 11 U.S.C. § 363 for the benefit of Creditors.

3. Authorization.

From and after the Plan's Effective Date, the Reorganized Debtors will take steps and execute all documents necessary to effectuate and implement the Plan.

4. Sources of payment: The Debtors' Cash Flow.

After the Effective Date, the Reorganized Debtors shall establish and administer the Unsecured Creditor Escrow Account for the benefit of Class 3 Claim Holders. Each Holder of an Allowed Class 3 Claim will be a beneficiary of the Unsecured Creditor Escrow Account and, as such, shall receive a pro rata share of the funds in the Unsecured Creditor Escrow Account. On the 30th day after the end of one-year anniversary of the Effective Date (the 2018 Annual Deposit Date) and on the same day for each of the next 4 years (i.e., in 2019, 2020, 2021, and 2022), the Reorganized Debtors will deposit their Annual Cash Flow for the preceding Measurement Period into the Unsecured Creditor Escrow Account.

"Annual Cash Flow" means earnings before interest, taxes, depreciation, and amortization ("EBITDA") for each Measurement Period less: (a) payments to Creditors under this Plan other than Class 3 Unsecured Claims; (b) payments of termination premiums to the PBGC; (c) any non-cash items recognized as income; and (d) income sufficient to ensure that the Debtors' working capital and capital expenditure reserves remain at $300,000.

The Reorganized Debtors will make the distributions to Holders of Class 3 Claims on or before 30 days after the applicable Annual Deposit Dates in 2018, 2019, 2020, 2021 and 2022.

5. Additional source of payment: sale of the Fillmore Property.

As noted, to the extent not sold before the confirmation of the Plan, the Debtors will sell the Fillmore Property post-confirmation and pay the net proceeds from the sale to Inland Bank on account of its Class 1 Claim.

F. The Debtors will not pursue potential recovery of transfers made within 90 days before bankruptcy.

As disclosed in the Debtors' statement of financial affairs, the Debtors made transfers to several entities prior in the 90 days before filing for bankruptcy. Payments made within this time are sometimes recoverable under § 547 of the Bankruptcy Code. The Debtors have determined that these transfers either are not avoidable preferences under § 547 of the Bankruptcy Code, or that a Claim under § 547 is not economically feasible to pursue given the relatively small amounts involved. The Debtors will not pursue avoidance of these transfers.

G. Risk factors.

Although the Debtors believe the Reorganized Debtors will be able to generate sufficient revenue after the Effective Date to make payments under the Plan, there is a risk that the Reorganized Debtors' business will not achieve the revenue necessary to enable it to do so. If the Reorganized Debtors fail to achieve the anticipated financial performance, the distributions under the Plan could be materially less than

H. Executory contracts and unexpired leases.

As of the Effective Date, all executory contracts and unexpired leases are deemed assumed by the Debtors unless such contract or lease is (i) expressly rejected by the Debtors with Bankruptcy Court approval on or before the Effective Date, (ii) is the subject of a motion to reject pending on the Effective Date, or (iii) is identified on a list to be filed with the Bankruptcy Court, on or before the Confirmation Order Date, as to be rejected.

If a party objects to the assumption of an unexpired lease or executory contract, the proposed cure of any defaults, or the adequacy of assurance of performance, it must file and serve its objection to the Plan within the deadline for objecting to the confirmation of the Plan, unless the Court has set an earlier time.

The deadline to file a proof of Claim based on a Claim arising from the rejection of a lease or contract is 45 days after the date of rejection. Any Claim based on the rejection of a contract or lease will be barred if the proof of Claim is not timely filed, unless the Court orders otherwise.

I. Conditions to confirmation and of the Plan and its Effective Date.

Unless the conditions precedent are waived by the Debtors, the Plan will not be confirmed unless the following have occurred: (a) entry of a Confirmation Order in a form and substance reasonably acceptable to the Debtors; (b) entry of a Final Order by the Bankruptcy Court finding that the financial requirements for a distressed termination under the reorganization test contained in 29 U.S.C. § 1341(c)(2)(B)(ii)(IV) are satisfied with regard to the Harrington & King Perforating Co., Inc. Bargaining Unit Employees Pension Plan (the "Pension Plan"), and (c) the PBGC has approved a distressed termination of the Pension Plan under 29 U.S.C. §§ 1341(c)(2)(B)(ii) or (iii)..

Once confirmed, unless the conditions precedent are waived by the Debtors, the Plan's Effective Date will not occur unless (i) the confirmation order becomes a final order and (ii) all actions, documents, and agreements necessary to implement the provisions of the Plan are reasonably satisfactory to the Debtors and have been effectuated or executed and delivered.

J. Tax consequences of the Plan.

Creditors and Equity Interest Holders concerned with how the Plan may affect their tax liability should consult with their own accountants, attorneys, or advisors.

IV. CONFIRMATION REQUIREMENTS AND PROCEDURES.

To be confirmed, the Plan must, among other things, meet the requirements listed in §§ 1129(a) and (b) of the Bankruptcy Code. Thus: (i) the Plan must be proposed in good faith; (ii) at least one Impaired Class of Claims must accept the Plan, without counting votes of insiders; (iii) the Plan must distribute to each Creditor and Equity Interest Holder at least as much as the Creditor or Equity Interest Holder would receive in a chapter 7 liquidation case, unless the Creditor or Equity Interest Holder votes to accept the Plan; and (iv) the Plan must be feasible. These requirements are *not* the only requirements listed in § 1129, and they are not the only requirements for confirmation of the Plan.

A. Who may vote or object.

Any party in interest may object to the confirmation of the Plan. Not all parties in interest, however, are entitled to vote to accept or reject the Plan.

A Creditor or Equity Interest Holder has a right to vote for or against the Plan only if that Creditor or Equity Interest Holder has a Claim or Equity Interest that is both (1) Allowed generally or for voting purposes only and (2) Impaired. If an objection has been filed to the Claim of a Creditor or to the interest of an Equity Interest Holder, that Creditor or Equity Interest Holder is not entitled to vote on the Plan until the objection has been resolved, or until the Bankruptcy Court enters an order temporarily allowing the Claim or interest for voting purposes.

In this case, the Debtors believe that Classes 1, 3, and 4 are Impaired and that Holder of Allowed Claims in each of these classes are therefore entitled to vote to accept or reject the Plan unless their Claims are subject to an objection.

In sum, Holders of the following six types of Claims and Equity Interests are *not* entitled to vote:

- Holders of Claims and Equity Interests that have been disallowed by an order of the Court or that are subject to a pending objection;
- Holders of other Claims or Equity Interest that are not Allowed unless they have been "Allowed" for voting purposes;
- Holders of Claims or Equity Interests in Unimpaired Classes;
- Holders of Claims entitled to priority under §§ 507(a)(2), (a)(3), and (a)(8) of the Bankruptcy Code;

- Holders of Claims or Equity Interests in Classes that do not receive or retain any value under the Plan; and
- Holders of Administrative Expense Claims.

B. Allowed Claims or Allowed Equity Interests.

As noted above, only a Creditor with an "Allowed" Claim has the right to vote on the Plan. Generally, a Claim is Allowed if either (1) the Debtors scheduled the Claim on their bankruptcy schedules, unless the Claim was scheduled as disputed, contingent, or unliquidated, or (2) the Creditor has filed a proof of Claim, unless an objection has been filed to that proof of Claim.

The Debtors reserve the right to object to any Claim before the confirmation hearing and the deadline for submitting ballots. When a Claim is not allowed, or is subject to an objection, the Creditor cannot vote unless the Court, after notice and a hearing, either overrules the objection or allows the Claim for voting purposes under Rule 3018(a) of the Federal Rules of Bankruptcy Procedure.

The deadline for filing a proof of Claim in this case was October 10, 2016. The Debtors are evaluating the proofs of Claim that have been filed, as well as determining the Claims that will be subject to objection.

C. Impaired Claims or Impaired Equity Interests.

As noted elsewhere, the Holder of an Allowed Claim or Equity Interest has the right to vote for or against the Debtors' Plan only if it in a Class that is "Impaired." As provided in § 1124 of the Bankruptcy Code, a Class is Impaired if the Plan alters the legal, equitable, or contractual rights of the members of that class. In this case, Classes 1, 3, and 4 are Impaired.

D. Who can vote in more than one class.

A Creditor having a Claim that has been Allowed in part as a Secured Claim and in part as an Unsecured Claim, or that otherwise holds Claims in multiple classes, is entitled to accept or reject the Plan in each capacity, and should cast one ballot for each Claim.

E. Votes necessary to confirm the Plan.

The Court cannot confirm the Plan unless (i) at least one Impaired Class of Creditors has accepted the Plan without counting the votes of any insiders within the Class and (ii) all Impaired classes have voted to accept the Plan, unless the Plan is eligible to be confirmed by "cram down" on non-accepting classes, as discussed later.

F. Votes necessary for a Class to accept the Plan.

A Class of Claims accepts the Plan if (1) the Holders of more than one-half of the Allowed Claims in the class, who vote, cast their votes to accept the Plan *and* (2) the Holders of at least two-thirds in dollar amount of the Allowed Claims in the class, who vote, cast their votes to accept the Plan.

G. Treatment of nonaccepting classes.

Even if one or more Impaired classes rejects the Plan or does not accept it, the Court may nonetheless confirm the Plan if the non-accepting classes are treated in the manner prescribed by § 1129(b) of the Bankruptcy Code. A Plan that binds non-accepting classes is commonly referred to as a "cram down" Plan.

The Bankruptcy Code allows a Plan to bind non-accepting classes of Claims or Equity Interests if the Plan: (1) meets all the requirements for consensual confirmation except the voting requirements of § 1129(a)(8); (2) does not "discriminate unfairly;" and (3) is "fair and equitable" toward each Impaired Class that has not voted to accept the Plan.

To the extent one or more classes of Claims does not accept the Debtors' Plan, the Debtors reserve the right to confirm the Plan over the objection of the class. The Debtors believe that a cramdown is possible because the Plan is fair and equitable and does not discriminate unfairly.

You should consult your own attorney if a cramdown confirmation will affect your Claim, as the variations on this general rule are numerous and complex.

H. Liquidation analysis and best-interests test.

To confirm the Plan, the Court must find that all Creditors and Equity Interest Holders who do not accept the Plan will receive at least as much under the Plan as they would receive in a hypothetical chapter 7 liquidation of the Debtors. Once again, this is known as the best-interests test.

As set forth above in the narrative section of this Disclosure Statement, the Debtors believe that Unsecured Creditors would not receive any recovery on their Claims if the Debtors were liquidated in cases under chapter 7 of the Bankruptcy Code. That position is predicated on the Debtors' belief that the value of the Debtors' assets in a liquidation would not be sufficient to cover the amount owed to Secured Creditors. Additionally, the costs and expenses of liquidating the Debtors' assets would be substantial and those expenses would be deducted from the proceeds from the liquidation of the Debtors' assets, making it even more unlikely that Unsecured Creditors would recover anything if the Debtors' assets were liquidated under chapter 7 of the Bankruptcy Code.

I. Feasibility analysis.

The Court must find that confirmation of the Plan is not likely to be followed by the liquidation, or the need for further financial reorganization, of the Debtors or any successors to the Debtors, unless such liquidation or reorganization is proposed in the Plan. The Debtors believe the Plan is feasible.

The Debtors must also show they will have enough cash over the life of the Plan to make the required Plan payments. The cash flow projections are attached as Exhibit F. Over the next 5 years, the Debtors expect to generate sufficient revenue to pay up to 25% of the amount owed to Unsecured Creditors and to perform their other obligations under the Plan.

You should consult with your accountant or other financial advisor if you have any questions about these projections.

J. Modification of the Plan.

The Debtors may modify the Plan at any time before confirmation of the Plan. The Reorganized Debtors may also seek to modify the Plan at any time after confirmation only under certain circumstances set forth in 11 U.S.C. § 1127(e) and the Court authorizes the proposed modifications after notice and a hearing.

K. Final decree.

As promptly as appropriate, the Reorganized Debtors will file a motion with the Court to obtain a final decree to close the Reorganization Case.

V. DISCHARGES AND RELEASES.

A. Exculpation.

On the Effective Date, to the fullest extent permissible under applicable law, and except as otherwise specifically provided in the Plan, each Debtor, Reorganized Debtor, each Estate, the consolidated Estate, and each of the foregoing's employees, agents, and professionals (including attorneys and advisors), is hereby released and exculpated from any Claim, obligation, Cause of Action, or liability for any actions taken or omitted to be taken in connection with, or related to, formulating, negotiating, soliciting, preparing, disseminating, confirming, administering, or implementing the Plan, or consuming the Plan, the Disclosure Statement, the Reorganization Cases, the Consolidated Case, or any contract, instrument, release, other agreement or document created or entered into in connection with the Plan, or other postpetition act taken or omitted to be taken in connection with or in contemplation of the restructuring of the Debtors except for actual fraud, willful misconduct or gross negligence in connection with the Plan or Reorganization Cases, each solely to the extent as determined by a Final Order of a court of

competent jurisdiction; provided, however, that in all respects such entities shall be entitled to reasonably rely on the advice of counsel with respect to their duties and responsibilities under the Plan.

B. Injunction.

On the Effective Date, under section 524(g) of the Bankruptcy Code, to the fullest extent permissible under applicable law, and except as otherwise expressly provided in the Plan or for obligations issued or required to be paid under the Plan or Confirmation Order, or any documents, instruments, or agreements executed to implement the Plan or Confirmation Order, all Persons who have held, hold, or may hold Claims, Interest, or liens that have been discharged pursuant to the Plan or subject to exculpation pursuant to the Plan are permanently enjoined, restrained and precluded, from asserting, commencing or continuing in any manner any action, encumbrance, lien, setoff, Claim, or right of recoupment, against the Debtors, the Reorganized Debtors, or any property of the foregoing, related in any manner to any matter occurring before the Effective Date of the Plan.

C. Binding effect of the Plan.

On the Effective Date, the provisions of the Plan shall bind all persons to the fullest extent permitted under applicable law, expressly including, without limitation, all Holders of Claims and all Holders of administrative expenses, priority Claims, or priority Tax Claims, whether or not they accept the Plan or have filed a proof of Claim, and, except as expressly provided in the Plan, the provisions of the Plan discharge the Debtors and the Reorganized Debtors from all such obligations arising prior to the Effective Date.

Dated: April 11, 2017

Respectfully submitted,

The Harrington & King Perforating Co., Inc. and Harrington & King South, Inc.

By: /s/ Sara E. Lorber
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