

**IN THE UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF MARYLAND
(Baltimore Division)**

IN RE:

**Case No. 16-25294 NVA
(Chapter 11)**

EXPERIMENTAL MACHINE, INC.

Debtor.

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**DISCLOSURE STATEMENT
IN SUPPORT OF THE PLAN OF REORGANIZATION
PROPOSED BY THE DEBTOR**

May 26, 2017

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**THIS DISCLOSURE STATEMENT CONTAINS INFORMATION THAT MAY HELP
YOU DECIDE WHETHER TO ACCEPT OR REJECT THE DEBTOR'S PLAN OF
REORGANIZATION. PLEASE READ THIS DOCUMENT WITH CARE.**

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1. List of the Debtor's Machinery and Equipment
2. Schedule of Claims
3. Plan Payments Amortization Schedule
4. Chapter 7/Chapter Comparison Analysis

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DISCLOSURE STATEMENT

On November 18, 2016, Experimental Machine, Inc. (“Debtor”), a Maryland Corporation, filed a Voluntary Petition under Chapter 11 of the Bankruptcy Code with the United States Bankruptcy Court for the District of Maryland (the “Court”). As required by the Bankruptcy Code, the Debtor has filed with the Bankruptcy Court a Plan of Reorganization (the “Plan”).

The Bankruptcy Code requires that the Debtor prepare and file a Disclosure Statement for the Court’s approval and for submission to the Debtor’s creditors. The purpose of the Disclosure Statement is to disclose to the creditors and those parties-in-interest that information deemed to be material, important, and necessary for its creditors to arrive at an informed judgment about the Plan filed by the Debtor with the Court. A copy of the Plan accompanies this Disclosure Statement.

Disclaimer

THIS DISCLOSURE STATEMENT IS NOT TO BE CONSIDERED A SOLICITATION FOR ACCEPTANCES OR REJECTIONS OF THE PLAN, RATHER IT IS BEING FORWARDED TO YOU, AT THIS TIME, SO THAT YOU MAY CONSIDER IT IN THE LIGHT OF ITS INTENDED PURPOSE. THIS PROPOSED DISCLOSURE STATEMENT

MAY ONLY BE APPROVED BY THE COURT AFTER IT HAS BEEN DETERMINED THAT IT CONTAINS ADEQUATE INFORMATION.

NO REPRESENTATIONS CONCERNING THE DEBTOR (PARTICULARLY AS TO ITS BUSINESS OPERATIONS, VALUE OF PROPERTY, OR VALUE OF ANY NOTES, OR PAYMENTS TO BE ISSUED UNDER THE PLAN) ARE AUTHORIZED BY THE DEBTOR OTHER THAN AS SET FORTH IN THIS STATEMENT. ANY REPRESENTATIONS, OTHER THAN AS CONTAINED IN THIS STATEMENT SHOULD NOT BE RELIED UPON BY YOU IN YOUR CONSIDERATION OF THE PLAN.

THE INFORMATION CONTAINED HEREIN HAS NOT BEEN SUBJECT TO A CERTIFIED AUDIT. THEREFORE, THE DEBTOR IS UNABLE TO WARRANT THAT THE BOOKS AND RECORDS, FROM WHICH SOME INFORMATION HEREIN IS DERIVED, ARE WITHOUT ANY INACURACY. HOWEVER, THE DEBTOR BELIEVES ALL INFORMATION PROVIDED IN THIS DISCLOSURE STATEMENT IS COMPLETELY ACCURATE.

Brief Overview of Plan to Pay Creditors

The Debtor's Plan allocates payments to creditors over 48 months from proceeds of operations and from the sale of equipment. For the first 6 months of the Plan, the Debtor pays secured creditors and leasehold creditors 55%-75% of their regular, pre-petition monthly amount. The Plan then increases the monthly payments to secured creditors and leasehold creditors to their full pre-petition payments for the remainder of the term of the obligation. The Debtor begins making monthly payments to unsecured claims on a *pro rata* basis in January, 2019 as secured and

leasehold claims become satisfied. All claims will be paid in full (100%) by the conclusion of the Debtor's Plan.

General Information about the Debtor

In 1975, the Debtor opened its doors to provide commercial precision machining services and high-end commercial mold and die work. Beginning in 2009, the Debtor experienced significant growth and expanded into military defense work. Around this time, Kirk Schmidt became the Debtor's sole owner and officer.

In 2010, the Debtor relocated to a facility on McCormick Road in Hunt Valley, Maryland, and continued to enjoy growth of its commercial and military orders. The Company's capabilities expanded to include production of high-end composite products, painting, and finishing. For example, the Company was one of the prime contractors in providing rocket fins produced for NASA and for the Missile Defense Agency.

Through 2014, the Company's growth was constant and demand was heavy; however, there was an unexpected sales down-turn. This reduction in work caused the Company to experience an annual sales reduction from \$4.3 million to \$2.3 million, and caused the Debtor to reduce its employees from over 40 to about 20. This down-turn in work was a result of the military sequester of the federal budget. The Debtor believes that military spending will soon resume to pre-sequester levels with the new incoming Administration and Congress.

The Debtor owns no real property. The Debtor owns machinery and equipment used in its facility. Attached hereto as Exhibit 1 is a list of the Debtor's machinery and equipment. This Exhibit was produced based on the Debtor's schedules at the time the Debtor filed bankruptcy,

and are based on the Debtor's estimates of valuation. Valuations are expected to fluctuate over time during the pendency of the Debtor's case.

Financial History of the Debtor – Pre-Petition

Per the Debtor's tax returns, the Debtor's gross annual revenue for 2013 was \$4,671,685.00. In 2014, the Debtor's gross annual revenue was \$3,376,216.00. In 2015, the Debtor's gross revenue was \$3,392,973.00. The Debtor's gross revenue for 2016 through to November 18, 2016 (the date of filing its bankruptcy petition) was \$2,045,427.00.

Financial History of the Debtor- Post-Petition

Monthly gross sales for the Debtor have been increasing since filing bankruptcy. Revenues are as follows:

November, 2016 (13 days)	\$56,617.32
December, 2016	\$182,955.67
January, 2017	\$156,552.00
February, 2017	\$209,861.75
March, 2017	\$325,435.98
April, 2017	\$218,086.91

Additional details of the Debtor's monthly financials can be found in the Debtor's Monthly Operating Reports filed with the Court.

Significant Procedural History of Chapter 11 Case

On the day of the filing of the Debtor's voluntary petition, the Debtor filed an emergency motion to use cash collateral. The Debtor was able to reach a consent agreement with M&T

Bank, the only creditor to hold an interest in cash collateral. The Debtor was also able to budget payments to secured creditors and leasehold creditors. By working with the creditors, the Debtor has been able to obtain consensual use of cash collateral throughout this case.

The Debtor intends to liquidate some assets. Debtor has filed an application to appoint Clark Machinery Sales, LLC (“CMS”) as sales broker to the Debtor for the sale of a Haas VF9/40, SN: 1089021 (“VF-9”) machine. Debtor’s expected net income from the sale of the VF-9 is \$100,000.00 before costs and deductions. The Debtor intends to file such a motion as soon as a buyer is identified.

Debtor has filed a motion to extend time to assume or reject the unexpired lease with Merritt/Bavar-VA-LLC (“Merritt”). Currently, the Debtor’s monthly rent at the property owned by Merritt is approximately \$23,200.00 per month. Since filing the bankruptcy, the Debtor has been paying monthly rent in the full amount to the Landlord as required under the terms of the lease. The Landlord asserts a pre-petition claim for unpaid past due rent in the approximate amount of \$190,000.00. The Debtor is relocating to reduce expenses. The Debtor is entering into a lease with a new landlord to operate at another location. The new lease will have a monthly rent of \$14,250.00 thus saving the Debtor about \$9,000.00 per month in rent. The Debtor has filed a motion to reject its current lease, and a motion to use estate assets to pay rent in the new lease.

There have been no adversary proceedings filed in this case. The Debtor has been working cordially with all creditors and parties in this case in an attempt to resolve problems before they arise before the Court. As such, other than the Debtor, no creditors or parties-in-interest have filed any motions, objections or responses in this case as of the date of this Disclosure Statement.

The Plan of Reorganization

The following is a brief summary of the Debtor's Plan of Reorganization and is provided only to aid the Debtor's creditors in connection with this Disclosure Statement. The Plan itself should be read, in full, before a vote is cast and it is suggested that creditors discuss the Plan with legal counsel to fully understand the Plan and its effects. If there is an inconsistency between this Disclosure Statement and the Plan, the Plan shall govern.

Classes of Claims

The Debtor's Plan of Reorganization provides for the division of the allowed claims and creditors and interest holders into eleven (11) classes; a summary of these classes is set forth below:

Class I. Class I claims consist of the claims for costs and expenses of Administration as defined in Section 503(b) of the Bankruptcy Code. Such claims shall include, but are not limited to, the claims of the Debtor's attorneys and accountants. The Debtor estimates that attorney's fees to be approximately \$80,000.00 and accountant's fees to be approximately \$15,000.00.

Class II. Class II claims shall consist of Priority Claims allowed pursuant to Section 507 of the Bankruptcy Code, including, but not limited to, tax claims of governmental units, including the Internal Revenue Service and the Comptroller of the State of Maryland, but only to such extent that such claims are entitled to priority under Section 507(a)(8). A proof of claim lists the amount owed to the Internal Revenue Service at \$100.00 (Claim #3). Baltimore County Government asserts a claim for \$592.14 for unpaid personal property tax (Claim #7).

Class III. Class III claims shall consist of the secured claims of M&T Bank. M&T Bank holds three claims against the Debtor totaling \$293,592.28 as of May 18, 2017, plus interest on

such claim and reasonable fees, costs, and other charges under TCF's agreements with the Debtor (Claims #15, 16, and 17). M&T Bank's claims against the Debtor are secured by all of Debtor's assets.

Class IV. The Class IV claim consists of a leasehold/secured claim by Wells Fargo in the amount of \$85,305.89 (Claim #20). This claim is secured by the Haas VF-9/40 Milling Machine (valued at \$70,000.00).

Class V. The Class V claim consists of the leasehold/secured claim held by Trinity Bank of the West ("Trinity") in the amount of \$40,989.00 (Claim #23). Trinity is secured by the Haas VF-2SS Milling Machine (valued at \$20,000.00), and the Haas VF9 Milling Machine (valued at \$70,000.00).

Class VI. Class VI claims shall consist of the leasehold/secured claim of TCF Equipment Finance, a division of TCF National Bank ("TCF"). TCF has a claim for \$80,480.45, plus interest on such claim and reasonable fees, costs, and other charges under TCF's agreements with the Debtor (Claim #21). This claim is secured by a Haas DS-30Y Lathe Machine (valued at \$60,000.00) and 2 Haas VF-2SS Milling Machines (valued at \$40,000.00).

Class VII. Class VII claims shall consist of the two secured claims by Ford Motor Credit Claims (#4 and 5). These claims together amount to a total of \$59,499.15. These claims are secured by a Ford F150 (valued at \$27,000.00) and a Ford Expedition (valued at \$26,000.00).

Class VIII. Class VIII claims shall consist of the leasehold/secured claims of Siemens. These claims together total \$176,196.96 (Claim #18). This claim is secured by a Haas VF6 CNC Milling Machine (valued at \$70,000.00) and a Haas DS-30SSY CNC Lathe Machine (valued at \$60,000.00).

Class IX. The Class IX claim shall consist of the leasehold/secured claim of U.S. Bank. U.S. Bank has a claim against Debtor in the amount of \$30,456.96 (Claim #13). The claim is secured by a Haas VF-6SS Milling Machine (valued at \$40,000.00).

Class X. Class X claims shall consist of all general unsecured claims. The total amount of unsecured claims is estimated to be approximately \$630,000.00. A large portion of the unsecured claims is the claim of Merritt Properties, the Debtor's landlord, for \$196,742.53. The Debtor is also projecting Merritt Properties will have a lease rejection claim of \$250,000.00. Attached hereto as Exhibit 2 is an analysis of claims of all unsecured creditors. This exhibit is based on information as it is currently available. Claims may increase or decrease as allowable under law. Only claims allowable by the Court shall be payable under this Plan.

Class XI. Class XI claims shall consist of all the legal, equitable and beneficial interests of the stockholder of the Debtor, Kirk Schmidt.

Treatment of Claims

The Plan provides that the aforesaid creditors shall be treated and paid as follows:

Class I. Unimpaired – Administrative Class I creditors shall be paid, on the Effective Date of the Plan, in full, and in cash, the allowed amount of their claims by Order of this Court or in accordance with such agreements or arrangements as may be made between the Debtor and holders of Class I claims. Pursuant to Section 1123(a)(2) of the Bankruptcy Code, Class I creditors are not a class of claims which are impaired under this Plan within the meaning of Section 1124 and are deemed to accept the Plan pursuant to Section 1126(f). After confirmation of the Plan, the Debtor shall pay the reasonable fees and expenses incurred by its administrative creditors, including, but not limited to, its professionals and attorneys in connection with the consummation of the Plan and the performance of any duties or obligations necessary or appropriate in connection

with this Chapter 11 proceeding in the ordinary course of business without further order of the Court. Notwithstanding the foregoing, the Court shall retain jurisdiction to resolve any dispute regarding post Effective Date administrative claims incurred prior to the closing of this case. The Debtor shall also pay to the United States Trustee all fees owed and allowed under 28 U.S.C. § 1930 during this Chapter 11 proceeding at the time such payments are due.

Class II. Unimpaired – The indebtedness of the Debtor's Class II creditors shall be paid their allowed priority claims in full and in cash on the effective date of the plan.

Class III. Impaired - The indebtedness of the Debtor's Class III creditor, being M&T Bank, shall be modified as follows:

a. The Debtor shall pay the Class III holder \$7,500.00 per month for the first six (6) months after the Effective Date of the Plan beginning on the fifteenth (15th) day of July, 2017. Thereafter, the Debtor shall make equal monthly payments of its normal pre-petition amount of \$10,419.39 per month until the claim is satisfied, estimated to be for thirty-two (32) months (for a total of 38 payments). Payments shall be applied to both principal and interest.

b. The holder of the Class III claim shall retain its lien in the property of the Debtor, pursuant to its security agreement with the Debtor.

c. Payments shall be applied to principal on all loans on a *pro rata* basis. The Debtor may prepay the loan to the Class III creditor, at any time, without penalty or cost to the Debtor.

d. From and after the Effective Date, the Reorganized Debtor may apply to the Bankruptcy Court for an order directing any necessary party to execute or deliver or to join in the execution or delivery of any instrument required to affect a transfer of property required under the Plan, and to perform any other act, including the satisfaction of any lien, that is necessary for the consummation of the Plan, pursuant to Bankruptcy Code § 1142(b).

e. The modification of the debt due the Class III creditor shall not affect the liability of any guarantor, endorser or surety for such debt; however, as long as the Debtor remains in compliance with the provisions set forth in this Plan, and any order confirming this Plan as those provisions deal with the repayment of the claim owed by the Debtor to the Class III creditor, the Class III creditor shall not be permitted to proceed and is enjoined from proceeding against any guarantor, endorser or surety for debt owed by the Debtor.

f. If there is a default under this Plan in the payments to the Class III secured creditor, then, after Notice and after a ten (10) day period to cure provided for under the loan

documents, the Class III secured creditor may liquidate the collateral it maintains to secure its debt.

g. Except as modified herein, the present terms of the promissory note, security agreement and other loan documents shall remain effective and the reorganized Debtor shall execute such other modifications and agreements to effectuate the terms of this Plan as the Class III creditor may reasonably request.

Class IV. Impaired - The indebtedness of the Debtor's Class IV creditor, being Wells Fargo shall be modified as follows:

a. The Debtor shall pay the Class IV holder \$2,200.00 per month for the first six (6) months after the Effective Date of the Plan beginning on the fifteenth (15th) day of July, 2017. Thereafter, the Debtor shall make equal monthly payments of its normal pre-petition amount estimated to be \$3,300.00 per month until the claim is satisfied, estimated to be for twenty-three (23) months (for a total of 29 payments).

b. The holder of the Class IV claim shall retain its lien/leasehold interest in the property of the Debtor, pursuant to its security agreement/lease with the Debtor.

c. Payments shall be applied to principal on all loans on a *pro rata* basis. The Debtor may prepay the claim of the Class IV creditor, at any time, without penalty or cost to the Debtor.

d. From and after the Effective Date, the Reorganized Debtor may apply to the Bankruptcy Court for an order directing any necessary party to execute or deliver or to join in the execution or delivery of any instrument required to affect a transfer of property required under the Plan, and to perform any other act, including the satisfaction of any lien, that is necessary for the consummation of the Plan, pursuant to Bankruptcy Code § 1142(b).

e. The modification of the debt due the Class IV creditor shall not affect the liability of any guarantor, endorser or surety for such debt; however, as long as the Debtor remains in compliance with the provisions set forth in this Plan, and any order confirming this Plan as those provisions deal with the repayment of the claim owed by the Debtor to the Class IV creditor, the Class IV creditor shall not be permitted to proceed and is enjoined from proceeding against any guarantor, endorser or surety for debt owed by the Debtor.

f. If there is a default under this Plan in the payments to the Class IV secured/leasehold creditor, then, after all periods of cure provided for under the loan documents, and after the Class IV secured/leasehold creditor has obtained the appropriate permission from the Bankruptcy Court, the Class IV secured/leasehold creditor may repossess or liquidate the its collateral or property.

g. Except as modified herein, the present terms of the promissory note, security agreement, lease, which is hereby assumed by the Debtor, and other loan documents

shall remain effective and the reorganized Debtor shall execute such other modifications and agreements to effectuate the terms of this Plan as the Class IV creditor may reasonably request.

Class V. Impaired - The indebtedness of the Debtor's Class V creditor, being Trinity, Bank of the West, shall be modified as follows:

a. The Debtor shall pay the Class V holder \$2,000.00 per month through June, 2017 on the fifteenth (15th) day of the month. Beginning in July, 2017, the Debtor will increase payments to \$3,000.00 per month until the claim is paid in full.

The Debtor is in the process of selling a piece of equipment known as a VF-9. From the proceeds of this sale, the Debtor will satisfy the secured/leasehold claim of Trinity relating to the VF-9.

b. The holder of the Class V claim shall retain its lien/leasehold interest in the property of the Debtor, pursuant to its security agreement/lease with the Debtor.

c. Payments shall be applied to principal on all loans on a *pro rata* basis. The Debtor may prepay the claim of the Class V creditor, at any time, without penalty or cost to the Debtor.

d. From and after the Effective Date, the Reorganized Debtor may apply to the Bankruptcy Court for an order directing any necessary party to execute or deliver or to join in the execution or delivery of any instrument required to affect a transfer of property required under the Plan, and to perform any other act, including the satisfaction of any lien, that is necessary for the consummation of the Plan, pursuant to Bankruptcy Code § 1142(b).

e. The modification of the debt due the Class V creditor shall not affect the liability of any guarantor, endorser or surety for such debt; however, as long as the Debtor remains in compliance with the provisions set forth in this Plan, and any order confirming this Plan as those provisions deal with the repayment of the claim owed by the Debtor to the Class V creditor, the Class V creditor shall not be permitted to proceed and is enjoined from proceeding against any guarantor, endorser or surety for debt owed by the Debtor.

f. If there is a default under this Plan in the payments to the Class V secured/leasehold creditor, then, after all periods of cure provided for under the loan documents, and after the Class V secured/leasehold creditor has obtained the appropriate permission from the Bankruptcy Court, the Class V secured/leasehold creditor may repossess or liquidate the its collateral or property.

g. Except as modified herein, the present terms of the promissory note, security agreement, lease, which is hereby assumed by the Debtor, and other loan documents shall remain effective and the reorganized Debtor shall execute such other modifications and agreements to effectuate the terms of this Plan as the Class V creditor may reasonably request.

Class VI. Impaired - The indebtedness of the Debtor's Class VI creditor, being TCF, shall be modified as follows:

a. The Debtor shall pay the Class VI creditor \$4,000.00 per month for the first six (6) months after the Effective Date of the Plan, beginning on the fifteenth (15th) day of July, 2017. Thereafter, the Debtor shall make equal monthly payments to the Class VI creditor of \$3,008.80 per month for twenty-one (21) months and a final payment to the Class VI creditor of \$1,500.00 (for a total of 28 payments) until the Class VI creditor's claim is satisfied.

b. The holder of the Class VI claim shall retain its lien/leasehold interest in the property of the Debtor, pursuant to its lease agreement with the Debtor, until such time as the claim is satisfied. Upon full payment of the Class VI creditor's claims, its liens will be released.

c. Payments shall be applied on all leases on a *pro rata* basis. The Debtor may prepay the claim of the Class VI creditor, at any time, without penalty or cost to the Debtor.

d. From and after the Effective Date, the Reorganized Debtor may apply to the Bankruptcy Court for an order directing any necessary party to execute or deliver or to join in the execution or delivery of any instrument required to affect a transfer of property required under the Plan, and to perform any other act, including the satisfaction of any lien, that is necessary for the consummation of the Plan, pursuant to Bankruptcy Code § 1142(b).

e. The modification of the debt due the Class VI creditor shall not affect the liability of any guarantor, endorser or surety for such debt; however, as long as the Debtor remains in compliance with the provisions set forth in this Plan, and any order confirming this Plan as those provisions deal with the repayment of the claim owed by the Debtor to the Class VI creditor, the Class VI creditor shall not be permitted to proceed and is enjoined from proceeding against any guarantor, endorser or surety for debt owed by the Debtor.

f. If there is a default under this Plan in the payments to the Class VI creditor, then, after all periods of cure provided for under the lease documents, and after the Class VI creditor has obtained the appropriate permission from the Bankruptcy Court, the Class VI creditor may repossess or liquidate its collateral or property.

g. Except as modified herein, the present terms of any promissory note, security agreement, lease, which is hereby assumed by the Debtor, and other loan documents shall remain effective and the reorganized Debtor shall execute such other modifications and agreements to effectuate the terms of this Plan as the Class VI creditor may reasonably request.

Class VII. Impaired - The indebtedness of the Debtor's Class VII creditor, being Ford Motor Credit shall be modified as follows:

a. The Debtor shall pay the Class VII holder \$900.00 per month for the first six (6) months after the Effective Date of the Plan beginning on the fifteenth (15th) day of July, 2017. Thereafter, the Debtor shall make equal monthly payments of its normal pre-petition

amount estimated to be \$1,400.00 per month until the claim is satisfied, estimated to be for forty-two (42) months (for a total of 48 payments).

b. The holder of the Class VII claim shall retain its lien/leasehold interest in the property of the Debtor, pursuant to its security agreement/lease with the Debtor.

c. Payments shall be applied to principal on all loans on a *pro rata* basis. The Debtor may prepay the claim of the Class VII creditor, at any time, without penalty or cost to the Debtor.

d. From and after the Effective Date, the Reorganized Debtor may apply to the Bankruptcy Court for an order directing any necessary party to execute or deliver or to join in the execution or delivery of any instrument required to affect a transfer of property required under the Plan, and to perform any other act, including the satisfaction of any lien, that is necessary for the consummation of the Plan, pursuant to Bankruptcy Code § 1142(b).

e. The modification of the debt due the Class VII creditor shall not affect the liability of any guarantor, endorser or surety for such debt; however, as long as the Debtor remains in compliance with the provisions set forth in this Plan, and any order confirming this Plan as those provisions deal with the repayment of the claim owed by the Debtor to the Class VII creditor, the Class VII creditor shall not be permitted to proceed and is enjoined from proceeding against any guarantor, endorser or surety for debt owed by the Debtor.

f. If there is a default under this Plan in the payments to the Class VII secured/leasehold creditor, then, after all periods of cure provided for under the loan documents, and after the Class VII secured/leasehold creditor has obtained the appropriate permission from the Bankruptcy Court, the Class VII secured/leasehold creditor may repossess or liquidate the its collateral or property.

g. Except as modified herein, the present terms of the promissory note, security agreement and other loan documents shall remain effective and the reorganized Debtor shall execute such other modifications and agreements to effectuate the terms of this Plan as the Class VII creditor may reasonably request.

Class VIII. Impaired - The indebtedness of the Debtor's Class VIII creditor, being Siemens Financial Services ("SFS") shall be modified as follows:

a. The Debtor shall pay the Class VIII holder \$4,500.00 per month for the first six (6) months after the Effective Date of the Plan beginning on the fifteenth (15th) day of July, 2017. Thereafter, the Debtor shall make equal monthly payments of its normal pre-petition amount estimated to be \$6,500.00 per month until the claim is satisfied, estimated to be for twenty-two (22) months (for a total of 28 payments).

b. The holder of the Class VIII claim shall retain its lien/leasehold interest in the property of the Debtor, pursuant to its security agreement/lease with the Debtor.

c. Payments shall be applied to principal on all loans on a *pro rata* basis. The Debtor may prepay the claim of the Class VIII creditor, at any time, without penalty or cost to the Debtor.

d. From and after the Effective Date, the Reorganized Debtor may apply to the Bankruptcy Court for an order directing any necessary party to execute or deliver or to join in the execution or delivery of any instrument required to affect a transfer of property required under the Plan, and to perform any other act, including the satisfaction of any lien, that is necessary for the consummation of the Plan, pursuant to Bankruptcy Code § 1142(b).

e. The modification of the debt due the Class VIII creditor shall not affect the liability of any guarantor, endorser or surety for such debt; however, as long as the Debtor remains in compliance with the provisions set forth in this Plan, and any order confirming this Plan as those provisions deal with the repayment of the claim owed by the Debtor to the Class VIII creditor, the Class VIII creditor shall not be permitted to proceed and is enjoined from proceeding against any guarantor, endorser or surety for debt owed by the Debtor.

f. If there is a default under this Plan in the payments to the Class VIII secured/leasehold creditor, then, after all periods of cure provided for under the loan documents, and after the Class VIII secured/leasehold creditor has obtained the appropriate permission from the Bankruptcy Court, the Class VIII secured/leasehold creditor may repossess or liquidate the its collateral or property.

g. Except as modified herein, the present terms of the promissory note, security agreement, lease, which is hereby assumed by the Debtor, and other loan documents shall remain effective and the reorganized Debtor shall execute such other modifications and agreements to effectuate the terms of this Plan as the Class VIII creditor may reasonably request.

Class IX. Impaired - The indebtedness of the Debtor's Class IX creditor, being U.S. Bank, shall be modified as follows:

a. The Debtor shall pay the Class IX holder \$1,500.00 per month for the first six (6) months after the Effective Date of the Plan beginning on the fifteenth (15th) day of July, 2017. Thereafter, the Debtor shall make equal monthly payments of its normal pre-petition amount estimated to be \$2,200.00 per month until the claim is satisfied, estimated to be for fourteen (14) months (for a total of 20 payments).

b. The holder of the Class IX claim shall retain its lien/leasehold interest in the property of the Debtor, pursuant to its security agreement/lease with the Debtor.

c. Payments shall be applied to principal on all loans on a *pro rata* basis. The Debtor may prepay the claim of the Class IX creditor, at any time, without penalty or cost to the Debtor.

d. From and after the Effective Date, the Reorganized Debtor may apply to the Bankruptcy Court for an order directing any necessary party to execute or deliver or to join in the execution or delivery of any instrument required to affect a transfer of property required under the Plan, and to perform any other act, including the satisfaction of any lien, that is necessary for the consummation of the Plan, pursuant to Bankruptcy Code § 1142(b).

e. The modification of the debt due the Class IX creditor shall not affect the liability of any guarantor, endorser or surety for such debt; however, as long as the Debtor remains in compliance with the provisions set forth in this Plan, and any order confirming this Plan as those provisions deal with the repayment of the claim owed by the Debtor to the Class IX creditor, the Class IX creditor shall not be permitted to proceed and is enjoined from proceeding against any guarantor, endorser or surety for debt owed by the Debtor.

f. If there is a default under this Plan in the payments to the Class IX secured/leasehold creditor, then, after all periods of cure provided for under the loan documents, and after the Class IX secured/leasehold creditor has obtained the appropriate permission from the Bankruptcy Court, the Class IX secured/leasehold creditor may repossess or liquidate the its collateral or property.

g. Except as modified herein, the present terms of the promissory note, security agreement, lease, which is hereby assumed by the Debtor, and other loan documents shall remain effective and the reorganized Debtor shall execute such other modifications and agreements to effectuate the terms of this Plan as the Class IX creditor may reasonably request.

Class X. Impaired - Class X General Unsecured Creditors shall be paid on a *pro rata* basis from operation revenues as follows:

- a. \$5,000.00 per month from January, 2019 until June, 2019 (6 months),
- b. \$10,000.00 per month from July, 2019 until October, 2019 (4 months),
- c. \$20,000.00 per month from November, 2019 until August, 2020 (10 months),
- d. \$37,000.00 per month from September, 2020 until all unsecured claims are paid in full (estimated to be 10 months).

The Debtor will pay interest on unsecured claims at the Treasury rate being .45%. The Debtor estimates total payouts to general unsecured claims will be \$640,000.00 which will pay all claims in full.

Class XI. Unimpaired - The Class XI claimholder, being Kirk Schmitt, shall retain his 100% ownership interest in the Reorganized Debtor.

Means of Execution of Plan and Payment of Creditors

The Reorganized Debtor will make payments directly to the holders of the Class III through Class X claims. The Effective Date shall be the 15th day after entry of the Confirmation Order. Payments shall be made on the fifteenth (15th) day of each month beginning on the same month as the Effective Date of the Plan or July, 2017, whichever is later. The payments to the creditors shall be derived from operational revenues. Attached hereto as Exhibit 3 is a 4-year *pro forma* that sets forth payments to the classes of creditors. The pro forma exhibit is for information purposes only and is intended to illustrate the Plan payments. If there is any inconsistency between the payments set forth in the Exhibit and the terms set forth above in the Plan, the Plan controls. The *pro forma* is based on recent operational expenses and projects modest annual increases in revenue over the term of the Plan.

The Debtor-in-Possession has been making adequate protection payments throughout this case to all the secured/leasehold creditors described above. The Debtor-in-Possession has established credibility and responsibility in making consistent monthly payments.

Acceptance of Plan

ACCEPTANCE AND CONFIRMATION OF THE PLAN MAY ALTER THE LEGAL RELATIONSHIP OF CREDITORS WITH THE DEBTOR. CREDITORS ARE URGED, THEREFORE, TO READ AND UNDERSTAND THE PLAN AND TO CONSULT WITH LEGAL COUNSEL BEFORE ACCEPTING IT AND TO QUESTION THE DEBTOR AND ITS

ATTORNEYS, IF THE DEBTOR'S CREDITORS OR THEIR COUNSEL FEEL THAT FURTHER INFORMATION IS NEEDED.

For the Debtor's Plan of Reorganization to be deemed accepted, it must be accepted by each class of claims that are impaired under the Plan. A class of claims has accepted the Plan if it has been accepted by creditors within a class that hold at least two-thirds (2/3rds) in the amount, and more than one half (1/2) of the allowed claims of such creditors that have accepted or rejected the Plan. If the class of claims does not accept the Plan, the Court, on request by the Debtor, may confirm the Plan if the Plan does not discriminate unfairly, and is fair and equitable with respect to the class of claims which has not accepted the Plan. A Plan is fair and equitable with respect to a class of unsecured claims if the class and all below it in priority are treated according to the absolute priority rules set forth in the Bankruptcy Code. The non-accepting class must be paid in full, before any junior class may share under the Plan.

As an additional requirement of Plan confirmation, the Debtor must show that at least one impaired class of creditors votes to accept the Plan.

A class of creditors that is not impaired under the Plan is conclusively presumed to have accepted the Plan, and solicitation of acceptances with respect to such class from the holders of claims or interests of such class is not required. When the time for voting on the Plan has passed, the Bankruptcy Court will hold a hearing and rule on the confirmation of the Plan in accordance with the Bankruptcy Code.

The Debtor projects all of the secured/leasehold creditors will vote to accept the Plan. It should be noted that the unsecured class is being paid in full the value of their claims, therefore, issues regarding compliance with the "absolute priority rule" is a not a concern with this plan.

Alternatives to Plan

There are several alternatives to the Plan as briefly described below:

1. Dismissal of Case.

If the case were dismissed, the Debtor would be immediately liable for all the pre-petition claims of the unsecured creditors class. Also, all of the negotiations for payment of secured creditors would be void, and the Debtor would immediately return to paying pre-petition monthly payments. The Debtor would not be able to make payments to secured creditors under the pre-petition terms. Dismissal of the Case would result in the Debtor having a negative cash flow. And creditors in the case would be vying against each other for payment of their claims.

2. Conversion to Chapter 7 Liquidation.

As previously stated, all unsecured creditors will be paid 100% of their claims plus interest under the Debtor's Plan. The advantage of liquidation to creditors is that secured and unsecured creditors would be paid sooner than over the Plan's 4-year term. However, the liquidation of the Debtor will cause the Debtor to lose the value of the going-concern. All the employees would lose their jobs. Many of the holders of unsecured claims are trade vendors that do business with the Debtor. If the Debtor is liquidated, the trade vendors would lose that stream of business.

The Bankruptcy Law requires that any holder of a claim in a Chapter 11 would not receive less than they would receive if the case were converted to a case under Chapter 7. In this case, the creditors will receive more in this Chapter 11 Plan.

Attached as Exhibit 4 is a comparison between the Debtor's Chapter 11 Plan with distributions under a Chapter 7 liquidation. The values of the assets are derived from the value of assets listed in the Debtor's Schedule B.

Also, a conversion to Chapter 7 would contradict the stated goal of Chapter 11 bankruptcies which is to provide a Debtor with a “fresh start.”

3. Debt-for-Equity

A “Debt for Equity” plan involves distributing the ownership equity of the business to the holders of unsecured debt. This type of plan is common in large corporate restructuring. The value of the business is unknown but presumed to be very small.

Further, this alternative would have the ultimate effect of having all the unsecured creditors manage the Debtor as a pool of shareholders rather than Kirk Schmidt as the exclusive manager of the Debtor. This is not practical in a case involving a relatively small company. The Debtor is a small owner-operated business where much of the good will of the business resides with Kirk Schmidt

4. Payment of Unsecured Creditors over shorter term.

A payment term less than 4 years would result in a lesser payout to creditors. Or such a Plan would result in a negative cash flow for the Debtor and, thus, is not feasible.

Feasibility

For the Plan to be confirmed, the Court must find that no further reorganization of the Debtor is likely to occur under the Plan. The Debtor’s plan to pay creditors and its *pro forma* are based on recent monthly operating income and expenses. The Debtor has shown a pattern of being able to make these payments. The Debtor believes that it will generate sufficient operating capital to fund payments under this Plan and no further reorganization of the Debtor will be required. The Debtor’s *pro forma* analysis shows the Debtor will be able to make the plan payments. The Debtor had a down year in 2016, but the Debtor is now on sound footing.

Management

The Debtor shall continue to employ the following individuals who are to serve, after confirmation of the Plan, as directors or officers of the Debtor.

<u>Name</u>	<u>Office or Directorship</u>
1. Kirk Schmidt	President and Owner

The appointment or continuance in office of such individual is consistent with the interests of creditors and equity security holders and with public policy.

Potential Recoveries From Voidable Transfers

The Debtor believes there are no voidable transfers that may be recovered. Such recovery would be unnecessary because the Plan entails paying creditors 100%.

Tax Consequences of Plan

To the extent creditors have “written off” any accounts receivable on their tax returns, ordinary income may be recognized from any distributions received under the Plan.

THE DISCUSSION OF FEDERAL INCOME TAX CONSEQUENCES SET OUT HEREIN IS LIMITED TO THE GENERAL TAX CONSEQUENCES AFFECTING CREDITORS AS A RESULT OF THE DISCHARGE OF INDEBTEDNESS WITHOUT PAYMENT UNDER THE PLAN. THE TAX CONSEQUENCES APPLICATION TO AN EQUITY SECURITY HOLDER WILL BE ENTIRELY DEPENDENT UPON THE TAX STATUS OF THAT ENTITY OR INDIVIDUAL. EACH CREDITOR OR EQUITY SECURITY HOLDER SHOULD CONSULT THEIR OWN TAX ADVISOR TO DETERMINE THE

TREATMENT AFFORDED THEIR RESPECTIVE CLAIMS OR INTERESTS BY THE PLAN UNDER FEDERAL TAX LAW, THE TAX LAW OF THE VARIOUS STATES AND LOCAL JURISDICTIONS OF THE UNITED STATES AND THE LAW OF FOREIGN JURISDICTIONS.

AS A RESULT OF CONTINUAL CHANGES BY THE UNITED STATES CONGRESS, THE TREASURY DEPARTMENT, AND THE COURTS WITH RESPECT TO THE TAX LAW, REPRESENTATIONS WITH RESPECT THERETO OR ANY OTHER MATTER ASSOCIATED THEREWITH.

NO STATEMENT IN THIS DISCLOSURE STATEMENT IS TO BE CONSTRUED AS TAX ADVICE OR LEGAL ADVICE TO ANY CREDITOR OR EQUITY SECURITY HOLDER. THE DEBTORS AND THEIR COUNSEL AND ACCOUNTANTS ASSUME NO RESPONSIBILITY OR LIABILITY FOR THE TAX CONSEQUENCES A CREDITOR OR EQUITY SECURITY HOLDER MAY SUSTAIN AS A RESULT OF THE TREATMENT AFFORDED THEIR CLAIM OR INTEREST UNDER THE PLAN.

Conclusion

The Debtor's Plan calls for a reorganization of the company's debt. The Debtor's financial health was significantly weakened by the 2015-16 sequester. The Debtor's plan will allow the debtor to reorganize and continue as a going-concern. The Debtor's Plan is fair and equitable and affords the Debtor with an opportunity for a fresh start.

Experimental Machine, Inc.

Dated: May 26, 2017

By: s/ Kirk Schmidt
Kirk Schmidt, President

Submitted by:

/s/ Michael S. Myers
Michael S. Myers #28450

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Certificate of Service

I HEREBY CERTIFY that on this 26th day of May, 2017, I caused a copy of the foregoing Disclosure Statement to be sent electronically, by ECF Guidelines, pursuant to Local Bankruptcy Rule 9013-4, Federal Bankruptcy Rules 5005(a)(2) and 7005, to:

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