

**UNITED STATES BANKRUPTCY COURT
FOR THE EASTERN DISTRICT OF PENNSYLVANIA**

In re:	:	CHAPTER 11
	:	
DEVAL CORPORATION,	:	Case No. 16-17922 (AMC)
	:	
Debtor.	:	

**DEBTOR'S SECOND AMENDED DISCLOSURE STATEMENT
SUBMITTED PURSUANT TO 11 U.S.C. SECTION 1125**

June 16, 2017

NOTICE TO CREDITORS AND PARTIES IN INTEREST:

THIS SECOND AMENDED DISCLOSURE STATEMENT IS BEING SUBMITTED TO ALL CREDITORS AND PARTIES IN INTEREST. THIS SECOND AMENDED DISCLOSURE STATEMENT CONTAINS INFORMATION THAT MAY AFFECT YOUR DECISION TO ACCEPT OR REJECT THE SECOND AMENDED CHAPTER 11 PLAN FILED BY THE ABOVE-CAPTIONED DEBTOR DATED AS OF THE DATE HEREOF, AS IT MAY BE MODIFIED OR AMENDED FROM TIME TO TIME. ALL CREDITORS AND PARTIES IN INTEREST ARE URGED TO READ THIS SECOND AMENDED DISCLOSURE STATEMENT CAREFULLY.

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DeVal Corporation (the “Debtor”), submits as proponent, this Second Amended Disclosure Statement (the “Disclosure Statement”) in connection with its Second Amended Chapter 11 Plan (the “Plan”), pursuant to Chapter 11 of the United States Bankruptcy Code (the “Code”). A copy of the Plan was filed on June 16, 2017 (any capitalized terms not defined herein shall have the meaning ascribed to such terms in Article I of the Plan).

I. INTRODUCTION

The Debtor filed a voluntary petition for relief under chapter 11 of the United States Bankruptcy Code on November 11, 2016 (the “Petition Date”), and has continued as a debtor-in-possession pursuant to Sections 1107 and 1108 of the Code. On June 16, 2017, the Debtor filed the Plan seeking to provide a basis for resolving outstanding claims against the Debtor through the following mechanism: the sale of substantially all of the Debtor’s assets to the assignee of Parts Life, Inc. (i.e. NewCo) pursuant to the terms and conditions of an Amended Asset Purchase Agreement dated as of June 15, 2017 between the parties and the utilization of the Sale proceeds to fund Plan payment to holders of Allowed Claims. On June 16, 2017, the Debtor filed this Disclosure Statement as containing adequate information as required by the provisions of the Code.

II. PRELIMINARY STATEMENT AND SOLICITATION

As a creditor involved in the Debtor’s bankruptcy case, you should take the time to vote on the proposed Plan, which, if confirmed, will affect your economic interest in the case. Before casting your ballot, it is important that you be properly informed about the nature of the case and the workings of the proposed Plan and its consequences. The Disclosure Statement has been approved by the United States Bankruptcy Court as containing adequate information to enable you to make an informed judgment about the Plan. The Debtor urges you to review the Disclosure Statement and the Plan, consult with your own legal counsel or other advisors if you think it is appropriate and, for the reasons that follow, vote in favor of the Plan. The Plan will accomplish its objectives through the repayment of certain of the Debtor’s obligations mainly through the proceeds from the sale of substantially all of the Debtor’s assets. The Debtor believes that creditors will receive a higher overall return under the provisions of the Plan than other alternatives, particularly liquidation of all of the Debtor’s assets.

III. PURPOSE OF THE DISCLOSURE STATEMENT AND PROVISIONS FOR VOTING AND CONFIRMATION

A. PURPOSE

The Debtor provides this Disclosure Statement, pursuant to the requirements of Section 1125 of the Code, in order to provide to the holders of all Claims against the Debtor adequate information about the Debtor and the Plan, so that they may make an informed judgment with respect to the merits of the Plan.

This Disclosure Statement does not purport to be a complete description of the Plan, the financial status of the Debtor, the applicable provisions of the Code, or other

matters that may be deemed significant by certain creditors, and parties-in-interest. This Disclosure Statement is an attempt to set forth, in reasonable detail, information that will enable a creditor to make an informed judgment with respect to the Plan. The Disclosure Statement necessarily involves a series of compromises between “raw data,” the legal language in documents or statutes, and the considerations of readability and usefulness. For further information, you may desire to examine the Plan directly (a copy of which accompanies this Disclosure Statement), and/or consult with your legal and financial advisors. The description of the Plan herein is provided only as a summary and it is recommended that all creditors and parties-in-interest review the Plan, the balance of this Disclosure Statement, and the other documents and information referenced herein, in order to obtain more complete information. Approval by the Bankruptcy Court of the Disclosure Statement is not an approval of the Plan.

Except as set forth in this Disclosure Statement, no representations concerning the Debtor or its assets or the Plan are authorized, and any such representations are not to be relied upon in arriving at a decision with respect to the Plan. Any representation made to secure the acceptance or rejection of the Plan other than as contained in this Disclosure Statement should be reported to Debtor’s counsel.

IN ACCORDANCE WITH UNITED STATES TREASURY CIRCULAR 230, BE ADVISED THAT: (A) ANY DISCUSSION OF TAX MATTERS IN THIS DOCUMENT IS NOT TAX ADVICE AND IS NOT INTENDED TO BE USED, AND CANNOT BE USED, FOR PURPOSES OF AVOIDING PENALTIES IMPOSED UNDER THE UNITED STATES INTERNAL REVENUE CODE; (B) SUCH DISCUSSION IS WRITTEN IN CONNECTION WITH THE PROMOTION OR MARKETING OF THE TRANSACTIONS OR MATTERS ADDRESSED IN THIS DOCUMENT; AND (C) A TAXPAYER SHOULD SEEK ADVICE BASED ON THE TAXPAYER’S PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.

The information contained in this Disclosure Statement has been supplied by the Debtor. Based on the information made available, Debtor’s counsel has no information to indicate that the information disclosed in this Disclosure Statement is inaccurate. While every effort has been made to provide the most accurate information available, neither the Debtor nor Debtor’s counsel are able to state definitely that there is no inaccuracy in this Disclosure Statement or that future events may not render the information contained in this Disclosure Statement inaccurate. No known inaccuracies are included, however, at this juncture a closing on the sale of the Debtor’s assets is subject to conditions precedent and subsequent, including, but not limited to, the buyer’s financing contingency and a governmental consent to the novation of Debtor’s government contracts. The Debtor strongly believes that all sale contingencies will be satisfied and that the sale will close in a timely manner.

Please be advised that the Debtor has attempted to provide only a general overview regarding its background and financial difficulties, and not to provide a detailed account of all events, actions, and circumstances that have contributed to those difficulties.

The terms and definitions contained in the Plan also apply to the Disclosure Statement, and Claimants are urged to read the Plan in its entirety in conjunction with the review of the Disclosure Statement.

B. VOTING PROVISIONS

1. General

Except for Claimants holding Administrative Claims, Priority Tax Claims or a Claim in an unimpaired class, every holder of a Claim is entitled to vote to accept or reject the Plan, provided that either: (a) its Claim has been scheduled by the Debtor and such Claim is not scheduled as a disputed, contingent or unliquidated claim; or (b) it has filed a timely Proof of Claim, unless its Claim has been disallowed for voting purposes by the Bankruptcy Court. All Creditors who hold a Claim against the Debtor, except as indicated below, may vote on the Plan by filling out the enclosed ballot and mailing it in the enclosed, self-addressed envelope or transmitting it to counsel for the Debtor.

2. Claimants Not Entitled to Vote

a. Administrative Claims and Priority Tax Claims

Claimants holding only Administrative Claims are not entitled to vote on the Plan because Section 1123(a)(1) of the Code does not require that such Claims be designated in a Class and because the Plan provides for the payment of such Claimants under terms which satisfy such Claimants pursuant to Sections 1129(a)(9)(A) and (C) of the Code. Sections 1122(a) and 1123(a)(1) of the Code require that a Plan proponent designate Classes of Claims, other than Administrative Claims and Priority Tax Claims, and that each Class consists of substantially similar Claims.

b. Unimpaired Claims

Claimants holding Claims in a Class which is not impaired (as discussed below) are not entitled to vote on the Plan because pursuant to Section 1126(f) of the Code, a Class that is not impaired under the Plan, and each Claimant in such Class, is conclusively presumed to have accepted the Plan. As a general matter, under Section 1124 of the Code, a Class of Claims is impaired unless the rights of the Claimants in such Class are not altered by the Plan (with exception of certain rights of Claimants to receive accelerated payment of their Claims and certain rights of debtors to cure defaults) or unless the Plan provides, that, on the Effective Date, each Claimant in such Class shall receive, on account of its Claim, cash equal to the Allowed amount of such Claim. Classes 1, 2 and 3 are unimpaired Classes under the Plan.

3. Claimants Entitled to Vote: Impaired Claims

Claimants in Classes 4, 5, and 6 (as described below) are impaired under the Plan and Claimants in such Classes, therefore, are entitled to vote on the Plan. Claimants/Interest Holders in Classes 7 and 8 are also impaired under the Plan, but are deemed to have rejected the Plan under Section 1126(g) of the Bankruptcy Code and, thus, are not entitled to vote.

4. Acceptance of the Plan

Please note that the Plan is deemed accepted by a Class of Creditors when it is approved by creditors who hold at least two-thirds of the dollar amount, and who comprise more than one-half in number of, the Allowed Claims of such Class that are held by Creditors and who in fact vote. An abstention by a Creditor will not count toward either acceptance or rejection of the Plan.

THE DEBTOR RECOMMENDS THAT EACH VOTER ACCEPT THE PLAN. IN ORDER FOR YOUR VOTE TO COUNT, YOUR BALLOT MUST BE COMPLETED AND RECEIVED AT THE ADDRESS STATED ON THE BALLOT (WHICH IS ALSO SET FORTH BELOW) OR TRANSMITTED TO COUNSEL FOR THE DEBTOR ON OR BEFORE THE DATE SET FORTH ON THE BALLOT.

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Even though a Creditor may not choose to vote or may vote against the Plan, the Creditor will be bound by the terms and treatment set forth in the Plan if the Plan is accepted by the requisite majorities in each Class of Claimants and/or is confirmed by the Court. Allowance of a Claim for voting purposes does not necessarily mean that the Claim will be Allowed for purposes of distribution under the terms of the Plan. Any Claim to which an objection has been or shall be made will be Allowed for purposes of distribution only after determination by the Court. Such determination may be made after the Plan is confirmed

C. CONFIRMATION

1. Objections

Should you have an objection to Confirmation of the Plan, it must be filed, in writing, with the Bankruptcy Court and a copy caused to be received by counsel for the Debtor, on or before the date set forth in the Order approving the Disclosure Statement. A hearing to consider confirmation of the Plan will be held on the date and time set forth in the Order approving the Disclosure Statement before the Honorable Ashely M. Chan.

2. Confirmation by Acceptance

The Debtor is seeking Confirmation of the Plan under Section 1129(a) of the Code. Confirmation under Section 1129(a) is dependent upon a finding of the Bankruptcy Court that a number of requirements have been met. One of these requirements is that each Impaired Class of Claims must have accepted the Plan. Accordingly, the Plan cannot be confirmed under Section 1129(a) unless accepted by each Impaired Class of Claims.

3. Confirmation Without Acceptance

While the Debtor intends to seek Confirmation of the Plan under Section 1129(a), the Debtor reserves the right to seek Confirmation of the Plan under Section 1129(b) or otherwise under the Code, notwithstanding non-acceptance by one or more Classes of Impaired Claims.

Under Section 1129(b)(1) of the Code, the Court may confirm the Plan even if it has not been accepted by one or more Impaired Classes of Claims, provided that the Plan does not discriminate unfairly and it is fair and equitable with respect to each Impaired Class of Claims that has not accepted the Plan.

In order for the Plan to be fair and equitable with respect to an Impaired Class of Secured Claims, Section 1129(b)(2)(A) of the Code requires that the Plan provide for each Claimant in such Class: (a) to receive payments over time which, in the aggregate, total at least the allowed amount of such Claimant's Claim, and which have a present value, as of the Effective Date of the Plan, at least equal to the value of such Claimant's interest in the Debtor's Property encumbered by such Claimant's lien(s); and (b) shall retain such lien(s) in order to secure such payments.

In order for the Plan to be fair and equitable with respect to an Impaired Class of Unsecured Claims, Section 1129(b)(2)(B) of the Code requires that the Plan provide either: (a) that each Claimant in such Class shall receive on account of its Claim payments which have a present value, as of the Effective Date of the Plan, equal to the allowed amount of such Claim; or (b) that no Claimant or holder of an interest in the Debtor that is junior to the Claims of such impaired Class will receive or retain under the Plan on account of such junior Claim or interest any Property until the unsecured creditors are paid in full.

While the Debtor intends to seek confirmation of the Plan based on acceptance by each Impaired Class of Claims, if one or more such Classes does not accept the Plan, the Debtor intends to seek confirmation of the Plan under Section 1129(b) of the Code or

otherwise under the Code and believes that the Plan satisfies the requirements of such Section.

IV. INQUIRIES

Inquiries by Creditors may be directed to counsel for the Debtor, SMITH KANE HOLMAN, LLC, Robert M. Greenbaum, Esquire, 112 Moores Road, Suite 300, Malvern, PA 19355, Tel: (610) 407-72176, Fax: (610) 407-7218, rgreenbaum@skhlaw.com.

V. THE DEBTOR

A. The Debtor and the Reasons for Filing

As noted, on the Petition Date, the Debtor filed a voluntary petition for relief under chapter 11 of the Bankruptcy Code. The Debtor is a total industrial consolidated business concern based in the City of Philadelphia and incorporated under the laws of the Commonwealth of Pennsylvania, U.S.A. The Debtor was founded in 1954 with its roots in several manufacturing area, including equipment manufacturing, remanufacturing and turn-key start up, together with long-term logistic and spare part support for, among others, the United States Navy, the United States Marines and the United States Air Force.

The Debtor's customer service orientation, along with its engineering and reverse engineering capabilities has allowed it to stand out in the fleet as the optimum source for support, and has contributed to the Debtor's longevity in the industry. The Debtor's historical and current performance has established it as the sole source supplier of approximately 45 families of legacy Aircraft Support Equipment. These families encompass various types of fuel and transporter adapters, bomb hoists, munitions trailers, dollies, maintenance platforms, cargo loaders, drawbars, tow bars, engine adapters, various weapons skids and hydraulic, self propelled weapons loaders. Some of these units have as many as 300 parts per unit. In addition to the numerous contracts that the Debtor acquires via open bidding, it has sole source contracts for spare and repair parts.

During its long existence, the Debtor developed essential personnel to satisfy contractual obligations concerning accelerated turn around, delivery and surge requirements. The core of its consistent workforce is comprised of people from all ethnic groups who developed a team concept that thrives on their specialized training, skills and experience to complete each manufacturing and remanufacturing requirement. Using state of the art equipment, materials and manufacturing techniques, the Debtor's employees have optimized manufacturing time and quality to keep the Debtor competitive.

The Debtor has ample experience and many years of working with manufacturing, field services, remanufacturing and maintenance in the following areas: military markets around the world (and the Defense Department of the United States of America), equipment for use in civil airports, equipment for use in military airports (on

land), equipment for use on ships and technology in military equipment.

The Debtor has operated successfully for most of its 62 years. However, a failed attempt to acquire the Debtor's business by PDI DeVal Acquisition, LLC ("PDI/D") dating back to 2011 continues to haunt the Debtor and, *inter alia*, led to the Debtor's Chapter 11 bankruptcy filing. Specifically, PDI/D's attempts to execute upon a pre-Petition Date judgment lien and security interests pledged in connection with a working capital loan to the Debtor directly led first to a reduction on its working capital line of credit ("LOC") with Branch Banking and Trust Company ("BB&T"), and then to a complete freeze of its LOC, which caused a two week shut down of business operations in August 2016. Dominic Durinzi and Ronald Penska, the owners of the Debtor, were able to restart Debtor's operations and emerge from the situation created by PDI/D's collection efforts through their solid relationships with customers, hard work, personal pledges and outside funds; but damage was done, specifically to the Debtor's remaining 2016 revenues, as well as its revenues going forward. Following the events of August 2016, the Debtor began actively seeking a buyer for its business.

Meanwhile, because the Debtor was historically profitable and had a good backlog of work, it attempted to negotiate a resolution/settlement with PDI/D to resolve the judgment, but these attempts were unsuccessful. Therefore, to protect its assets, the Debtor filed its pending Chapter 11 proceeding on November 11, 2016. PDI/D still wants to own the Debtor's company, and has filed its own proposed Chapter 11 plan.

B. Assets and Debt Structure

At the Petition Date, the Debtor's primary assets consisted of cash, some in accounts frozen by PDI/D, accounts receivable, machinery, fixtures and equipment used in its business operations and inventory (raw materials, work in progress and finished goods) used in its business operations and real property in Philadelphia, PA from which it operates its business. As of the Petition Date, the Debtor's assets were fully encumbered by mortgage and UCC-1 liens in favor of BB&T, together with a transferred judgment lien held by PDI/D. A true and correct copy of the Debtor's Year-End Financial Report for 2016 is attached hereto and made a part hereof as Exhibit "A."

The Debtor scheduled total claims of \$4,100,896.51, of which \$2,815,977.13 were scheduled as secured claims. The Debtor moved for a claims bar date in the case which was established as March 3, 2017. As such, filed claims in the case total \$3,497,597.52, including secured claims of \$3,186,188.67, as amended to date. A true and correct copy of the Debtor's Proof of Claim Register as of June 11, 2017 is attached hereto and made a part hereof as Exhibit "B."

C. Retention of Professionals

The Debtor retained (i) Smith Kane Holman, LLC as counsel, whose retention order was approved by this Court on December 19, 2016 and (ii) Michael C. Lingeran, CPA, LLL as accountant, whose retention order was approved by this Court on January 24, 2017.

D. Chapter 11 Operations and Sale of Assets

During its Chapter 11 proceeding, through a series of consensual cash collateral stipulations, the Debtor has been able to operate without its line of credit and on its own cash flow which has been sufficient to purchase inventory, commence production, ship product and collect accounts receivable on its contracts, including, but not limited to, its two five-year contracts with the United States Navy for the manufacture of components for the Navy's MHU-191 munitions transporters ("MHU-191 Contracts"). Indeed, the Debtor has even received additional orders or releases from the Navy under the MHU-191 Contracts during its Chapter 11 proceeding. Its backlog has increased and its revenues are trending up. Notwithstanding the foregoing, the Debtor continued its search for a strategic buyer as method to insure continued operations for its loyal customers, continued business partnership with its long-time vendors, and continued employment for its family of employees, as well as to maximize the return to its creditors.

Through its efforts, the Debtor has located a strategic buyer and negotiated an Amended Asset Purchase Agreement dated as of June 15, 2017 with Parts Life, Inc. ("Asset Purchase Agreement"). A true and correct copy of the Asset Purchase Agreement is attached hereto and made a part hereof as Exhibit "C." Pursuant to the Asset Purchase Agreement, the Debtor shall sell substantially all of the Assets to the assignee of Parts Life, Inc. (i.e. NewCo) and utilize the Sale proceeds to help fund Plan payments to holders of Allowed Claims. The Plan (summarized below) is based upon the sale of the Debtor's Assets which, the Debtor firmly believes, will maximize the return to its creditors, and leave its 62 year old business alive and well and operating in Philadelphia, PA. Through this sale and NewCo's subsequent operation of the company, the Debtor and/or NewCo will pay in full Administrative Claims, Allowed Secured Claims of BB&T (with applicable interest), Allowed Secured Claim of PDI/D (with applicable interest), Priority Tax Claims (with applicable interest), Priority Non-Tax Claims and Cure Claims, as well as fund a meaningful distribution to Allowed Unsecured Claims. As set forth in the Asset Purchase Agreement and discussed below, NewCo has a financing contingency which must be satisfied before the commencement of the Bankruptcy Court hearing on the confirmation of the Plan. Without the requisite commitment for financing in place by the Confirmation Hearing, NewCo will be unable to proceed under the Asset Purchase Agreement and the Debtor will be required to withdraw the Plan, leaving PDI/D the opportunity to seek confirmation of its competing plan before the Debtor can move forward with any alternative plan.

Per negotiations with PDI/D, and per Court approval, the Debtor is engaging Herbert McDonald of The Fulcrum Group as Chief Restructuring Officer ("CRO") to, among other things, facilitate communications with interested parties, including the Court, and assist in the preservation of the going concern value of the Debtor's business.

VI. THE CHAPTER 11 PLAN

A. SUMMARY OF THE PLAN

The Plan provides for varied and customized treatment to the various Classes of Claims against the Debtor. The Debtor believes the Plan provides consideration to all Classes of creditors that reflects an appropriate resolution of their claims against the Debtor. The Debtor also believes the Plan will provide each Class of creditors with consideration of equal or greater value than that which the Class members would receive upon liquidation of the Debtor's assets. The Bankruptcy Court must find, however, that a number of statutory tests are met before it may confirm the Plan. Many of these tests are designed to protect the interests of holders of Claims that do not vote to accept the Plan, but who will be bound by the provisions of the Plan if it is confirmed by the Bankruptcy Court.

The provisions below summarize the Plan. Reference should be made to the Plan for a full statement of its terms. The following summary is qualified in its entirety by reference to the Plan.

PLEASE NOTE THAT THIS DISCLOSURE STATEMENT CONTAINS ONLY A SUMMARY OF THE PLAN. THIS DISCLOSURE STATEMENT IS NOT INTENDED TO REPLACE A CAREFUL AND DETAILED REVIEW AND ANALYSIS OF THE PLAN BY EACH HOLDER OF A CLAIM ENTITLED TO VOTE THEREON; IT IS INTENDED ONLY TO AID AND SUPPLEMENT SUCH REVIEW. HOLDERS OF CLAIMS ARE URGED TO REVIEW THE DETAILED DESCRIPTION OF THE PLAN SET FORTH HEREIN AND THE PLAN ITSELF FOR A FULL UNDERSTANDING OF THE PLAN. THIS DISCLOSURE STATEMENT IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO THE PLAN.

In the Debtor's opinion, the Plan as proposed provides maximum value to its Creditors. The Debtor believes that the Plan will enable Claimants to receive a greater recovery than would be possible under other alternatives and will provide the only realistic available means for funding a distribution to unsecured creditors.

The Plan divides Claimants into 8 Classes. The nature of the Claims within each class and their treatment under the Plan are summarized below. It should be noted, however, that the following summary of the Plan does not propose to be a full analysis of its provisions and should not be relied on as such. All Claimants are encouraged to review the Plan in its entirety in conjunction with the review of the Disclosure Statement and to consult with counsel, as necessary.

Claimants should note that the amount to be paid on account of Claims under the various provisions of the Plan will be calculated on the basis of the allowed amount of the Claims, determined in accordance with the Code. Claimants that were not listed in the Debtor's schedules as liquidated, undisputed and not contingent and who have not filed Proofs of Claim within the times set by the Court will receive no distribution. Those Claimants who are listed on the Debtor's schedules as liquidated, undisputed and not contingent will be paid based on the amount set forth in the schedules, unless the Claimant has filed a Proof of Claim for an amount different from that amount listed on the schedules. Those Claimants who have filed Proofs of Claims will be paid based on the amounts set forth in a properly filed Proof of Claim, unless the Debtor objects to the

Proof of Claim. Claimants who have filed Proofs of Claim to which the Debtor objects will receive payment based on such amount as the Court determines to be allowed, and distribution on account of such Claims will be effected in the majority of instances, thirty (30) days after the entry of the Final Order allowing such disputed claim, or on the date for payment set forth in the Plan, whichever is later.

It should also be noted that the actual distribution to a particular Claimant may be less than that proposed under the Plan, if the Claimant agrees to accept such different treatment.

B. CLASSIFICATION AND TREATMENT OF CLAIMS

1. Administrative Expenses.

Administrative Claims consist of the actual and necessary expenses incurred during the Debtor's chapter 11 case (i.e., post-bankruptcy obligations), including the actual, reasonable fees and expenses of professionals retained in the Case. The Plan provides that Administrative Claims of the kinds specified in Section 507(a)(2) of the Code will be paid in full, except to the extent that any Claimant agrees to different treatment, (i) in Cash on the Effective Date, or (ii) in accordance with the credit terms extended by the creditor of such obligations, or (iii) as required by law.

The Plan also provides that fees and expenses of professionals will be paid in full upon approval by the Bankruptcy Court or as otherwise permitted under the Plan. In this Case, the professional fees and expenses consist of the Debtor's counsel and accountant. As of the filing of this Disclosure Statement, Debtor's counsel has an Order approving its first interim fee application in the aggregate amount of \$86,834.53, and Debtor has incurred unbilled fees and expenses in the approximate amount of \$50,000; Debtor's accountant has unbilled fees and expenses in the amount of \$12,400. Debtor's counsel has agreed to accept \$10,000 towards its approved, but unpaid fees on the Effective Date with the balance of approved fees to be paid by NewCo on terms agreed to by Debtor's and NewCo's counsel. The estimated percentage recovery for Administrative Claims is 100%.

2. Priority Tax Claims.

The Code enables the Debtor to pay Allowed Priority Tax Claims (estimated at \$31,592) over a five-year period from the Petition Date (i.e., five years from November 11, 2016). Accordingly, the Plan provides that, except to the extent that a holder of an Allowed Priority Tax Claim has been paid by the Debtor prior to the Effective Date or agrees to a different treatment, each holder of an Allowed Priority Tax Claim shall be paid by NewCo, in cash, in an amount equal to such Allowed Priority Tax Claim plus interest at the rate of 4% per annum, in equal monthly payments commencing on the first day of the first calendar month after the Effective Date, with the last monthly payment due on November 1, 2021 pursuant to Section 1129(a)(9)(C). The estimated percentage recovery for Priority Tax Claims is 100%.

3. Priority Non-Tax Claims (Class 1).

Class 1 consists of Priority Non-Tax Claims (\$55,233.79 per the Debtor's Schedules). Each holder of a Class 1 Priority Non-Tax Claim shall be paid the full amount of its Allowed Claim, without interest, in cash, as soon as practicable following the later of (i) the Effective Date; or (ii) the first Business Day on which such Class 1 Claim becomes an Allowed Claim. Notwithstanding anything herein to the contrary, the holder of a Class 1 Claim may be paid on such other date and upon such other terms as may be mutually agreed upon by the holder of such Class 1 Claim and the Reorganized Debtor. The Debtor believes that all scheduled Class 1 Claims have either been paid pursuant to Bankruptcy Court Order or waived. The estimated percentage recovery for Class 1 Claims is 100%.

The Class 1 Claim is unimpaired and consequently the holder of the Class 1 Claim is not entitled to vote on the Plan.

4. Secured Claims of Branch Bank & Trust Co (Class 2).

Class 2 consists of the Secured Claims of Branch Bank & Trust Co. (\$1,840,035.01 as of May 25, 2017 per Amended Proof of Claim No. 20 filed June 9, 2017). Except to the extent that BB&T has been paid by the Debtor prior to the Effective Date or agrees to a different treatment, BB&T's Class 2 Allowed Secured Claims shall be paid by the Debtor, in cash, in an amount equal to such Allowed Secured Claims plus post-petition interest on, or as soon as practicable after the later of (i) the Effective Date or (ii) the date such Claims become Allowed Secured Claims; such payment shall be in full satisfaction, settlement and release of, and in exchange for BB&T's Allowed Class 2 Secured Claims; BB&T shall retain its liens on the Debtor's assets to the same extent, priority and validity as it held as of the Petition Date until said Allowed Secured Claims are paid in full, at which time BB&T shall discharge from the public records all mortgages held by BB&T, all financing statements presently on record for the benefit of BB&T, and any other BB&T lien document with respect to the Debtor recorded in any public record. The estimated percentage recovery for Class 2 Claims is 100%.

The Class 2 Claim is unimpaired and consequently the holder of the Class 2 Claim is not entitled to vote on the Plan.

5. Secured Claim of PDI DeVal Acquisition, LLC (Class 3).

Class 3 consists of the Secured Claim of PDI DeVal Acquisition, LLC (\$1,048,358.09 per Proof of Claim No. 29 filed March 3, 2017). Except to the extent that PDI/D agrees to a different treatment, PDI/D's Class 3 Allowed Secured Claim shall be paid by the Debtor, in cash, in an amount equal to such Allowed Secured Claim plus post-petition interest on, or as soon as practicable after the later of (i) the Effective Date or (ii) the date such Claim becomes an Allowed Secured Claim; such payment shall be in full satisfaction, settlement and release of, and in exchange for PDI/D's Allowed Class 3 Secured Claim; PDI/D shall retain its lien on the Debtor's assets to the same extent,

priority and validity as it held as of the Petition Date until said Allowed Secured Claim is paid in full, at which time PDI/D shall discharge from the public records all mortgages held by PDI/D, all financing statements presently on record for the benefit of PDI/D, the PDI/D judgments recorded in Ohio and Pennsylvania (and any other state), and any other PDI/D lien document with respect to the Debtor recorded in any public record. The estimated percentage recovery for Class 3 Claims is 100%

The Class 3 Claim is unimpaired and consequently the holder of the Class 3 Claim is not entitled to vote on the Plan.

6. Susquehanna Commercial Finance, Inc. Secured Claim (Class 4).

Class 4 consists of Susquehanna Commercial Finance, Inc. ("Susquehanna") Secured Claims by virtue of its equipment financing agreements. All of the Debtor's obligations under Susquehanna's equipment finance agreements shall be assumed by NewCo in connection with the Sale. Except to the extent that Susquehanna agrees to a different treatment, Susquehanna's Class 4 Allowed Secured Claim shall be paid by NewCo, in cash, in full, including principal, interest and such fees and expenses duly provided for in the equipment finance agreements, in monthly installments commencing on the first day of the calendar month following the Effective Date, with each installment to be in the amount of the regular monthly pre-Petition Date installments required by the agreements, except for the final installment which shall be limited to the outstanding balance due; the maturity dates set forth in the Susquehanna agreements shall be extended as necessary to allow for the foregoing payments to be made. Susquehanna shall retain its security interests on the Debtor's equipment to the same extent, priority and validity as it held as of the Petition Date until said Allowed Secured Claim is paid in full, at which time the Susquehanna shall mark its Lien as satisfied. The estimated percentage recovery for Class 4 Claims is 100%.

Class 4 Claim is impaired and consequently the holder of the Class 4 Claim is entitled to vote on the Plan.

7. Wells Fargo Equipment Finance, Inc. Secured Claim (Class 5).

Class 5 consists of Wells Fargo Equipment Finance, Inc. ("Wells Fargo") Secured Claims by virtue of its equipment financing agreements. All of the Debtor's obligations under Wells Fargo's equipment finance agreements shall be assumed by NewCo in connection with the Sale. Except to the extent that Wells Fargo agrees to a different treatment, Wells Fargo's Class 5 Allowed Secured Claim shall be paid by NewCo, in cash, in full, including principal, interest and such fees and expenses duly provided for in the equipment finance agreements, in monthly installments commencing on the first day of the calendar month following the Effective Date, with each installment to be in the amount of the regular monthly pre-Petition Date installments required by the agreements, except for the final installment which shall be limited to the outstanding balance due; the maturity dates set forth in the Wells Fargo agreements shall be extended as necessary to allow for the foregoing payments to be made. Wells Fargo shall retain its security interests on the Debtor's equipment to the same extent, priority

and validity as it held as of the Petition Date until said Allowed Secured Claim is paid in full, at which time the Wells Fargo shall mark its Lien as satisfied. The estimated percentage recovery for Class 5 Claims is 100%.

Class 5 Claim is impaired and consequently the holder of the Class 5 Claim is entitled to vote on the Plan.

8. General Unsecured Claims (Class 6).

Class 6 consists of General Unsecured Claims. Holders of Class 6 Allowed General Unsecured Claims (estimated at approximately \$730,000) shall be paid, in cash, their Pro Rata share of payments in the total amount of \$260,000 to be made by NewCo as follows: NewCo shall fund an initial payment in the amount of \$160,000 on or promptly after the Effective Date, which funds shall be distributed on a Pro Rata basis; thereafter, NewCo shall fund four (4) additional semi-annual payments each in the amount of \$25,000, which shall also be distributed on a Pro Rata basis on (i) January 2, 2018, (ii) July 1, 2018, (iii) January 2, 2019 and (iv) July 1, 2019. These payments shall be in full satisfaction, settlement and release of, and in exchange for such Allowed Class 6 General Unsecured Claims. The estimated percentage recovery for Class 6 Claims is 35%.

Class 6 Claims are impaired and consequently the holder of a Class 6 Claim is entitled to vote on the Plan.

9. Subordinated Claims (Class 7).

Class 7 consists of Claims that arose out of the redemption of the Debtor's stock or are otherwise subject to subordination pursuant to Section 510(b) of the Bankruptcy Code. The Debtor believes that the claim of Joseph Capozzoli, a former shareholder of the Debtor, and certain Claims of the Debtor's current shareholders, Messrs. Durinzi and Penska arising from their Claims for reimbursement of amounts paid by them personally to Mr. Capozzoli constitute Class 7 Subordinated Claims. The estimated percentage recovery for Class 7 Claims is 0%.

Class 7 is impaired, however, pursuant to Section 1126(g) of the Bankruptcy Code, the holders of the Class 7 Claims are deemed to have rejected the Plan.

10. Interest Holders (Class 8).

Class 8 consists of all Interests in the Debtor. As of the Plan filing, the Debtor is aware of only two Interest Holders with 100% of the Debtor's voting shares: Dominic Durinzi and Ronald Penska.

On the Effective Date, all Interests in the Debtor shall transfer to the Debtor's Representative and become Interests in the Reorganized Debtor for the purpose of fulfilling the obligations of the Reorganized Debtor under the Plan. The estimated percentage recovery for Class 8 Interests is 0%.

Class 8 is impaired, however, pursuant to Section 1126(g) of the Bankruptcy Code, the holders of the Class 8 Interests are deemed to have rejected the Plan.

VII. MEANS FOR EXECUTING PLAN

A. PLAN FUNDING

1. **Generally.** The funds necessary for the implementation of the Plan shall be from the proceeds of Sale from the Closing on the Asset Purchase Agreement and revenues generated by the operations of NewCo's business. Pursuant to the terms and conditions of the Asset Purchase Agreement, the Debtor shall sell substantially all of the Assets to the assignee of Parts Life, Inc. (i.e. NewCo) and utilize the Sale proceeds to fund the Plan payments to be made on or within 30 days after the Effective Date, including BB&T's Class 2 Secured Claims, PDI/D's Class 3 Secured Claim, Equipment Loan/Lease late charges and fees, Administrative Claims and the initial payment to Class 6 General Unsecured Claims. Thereafter, the monthly payments on account of Susquehanna Class 4 Claim and Wells Fargo's Class 5 Claim, as well as the semi-annual payments on account of the Class 6 General Unsecured Claims will be funded from operating revenues of NewCo and/or its reserves. See copy of the Asset Purchase Agreement attached hereto and made a part hereof as Exhibit "C."

Sources and Use of Funds: A schedule of NewCo's Sources and Uses of Funds is attached hereto and made a part hereof as Exhibit "D."

NewCo's projections: A copy of NewCo's first year financial projections for the period from the Effective Date of the Plan through the final payment to Class 6 General Unsecured Creditors is attached hereto and made a part hereof as Exhibit "E."

2. **Post-Effective Date Fees and Expenses.** From and after the Effective Date, the Reorganized Debtor shall, in the ordinary course of business and without the necessity of any approval by the Bankruptcy Court, pay the reasonable fees and expenses of professional persons thereafter incurred, including, without limitation, those fees and expenses incurred in connection with the implementation and consummation of the Plan, including the expenses of the Debtor's Representative.

B. DEBTOR'S ASSETS. Unless otherwise stated, on and after the Effective Date, all remaining assets of the Debtor's estate shall vest in the Reorganized Debtor free and clear of any and all liens, mortgages, pledges, security interests, restrictions, prior assignments, liabilities, obligations, encumbrances, charges and claims of every kind whatsoever, subject only to the Liens existing as of the Petition Date.

VIII. ALTERNATIVES TO THE PLAN AND LIQUIDATION ANALYSIS; RISKS

The Plan is proposed by the Debtor in the good faith belief that more will be realized by the Claimants through the implementation of the Plan than would be the case if the Debtor's Assets were liquidated under Chapter 7 of the Code. The Plan

contemplates that Allowed Claims will get paid in full and/or pursuant to a negotiated and consensual distribution/treatment with the exception of Class 6 General Unsecured Creditors and Class 7 Subordinated Creditors and Class 8 Interest Holders. The Debtor's Plan provides that Class 6 General Unsecured Creditors will receive their Pro Rata share of \$260,000 on account of their claims, including their Pro Rata share of \$160,000 upon the Effective Date and the remaining funds in four semi-annual installments on January 2, 2018, July 1, 2018, January 2, 2019 and July 1, 2019. Class 7 Subordinated Claims are paid \$0 and Class 8 Interest Holders lose their equity interest. The Plan allows the Debtor's 62 year business to survive in its Philadelphia neighborhood, maximize the return to all Secured Creditors and provide a reasonable return to Unsecured Creditors while maintaining jobs for its loyal and local workforce. The Debtor asserts that in a chapter 7 liquidation, PDI/D's Class 3 Claim would be rendered undersecured, if not unsecured, and Class 6 Unsecured Creditors would receive nothing from the bankruptcy estate; in fact, any distribution to Class 6 Creditors under the Plan is more than they would receive in a chapter 7 liquidation. Thus, the best interests of the Debtor and its creditors would be served by acceptance of the Plan.

RISKS: Financing: Nevertheless, the Debtor's Plan poses risks. The main funding mechanism is the Debtor's sale of substantially all of its Assets to NewCo. The closing on the sale of the Debtor's assets is subject to conditions precedent, including, but not limited to, a buyer's financing contingency. As set forth in the Asset Purchase Agreement at Section 10, NewCo's obligations to consummate the purchase of the Debtor's Assets is subject to the satisfaction of a financing contingency *before the Confirmation Hearing*. Specifically, NewCo shall have obtained a commitment for financing in the amount of \$3,650,00, on terms acceptable to NewCo in its sole discretion before the Plan goes to confirmation.

As of the filing of the Disclosure Statement, NewCo has received a term sheet from a preferred SBA lender for the requisite funding, however, that term sheet is neither an offer to lend or a binding agreement. Without the requisite commitment for financing in place by the Confirmation Hearing, NewCo will be unable to proceed under the Asset Purchase Agreement and the Debtor will be required to withdraw the Plan, leaving PDI/D the opportunity to seek confirmation of its competing plan before the Debtor can move forward with any alternative plan. However, based on NewCo's communications with the preferred SBA lender, both NewCo and the Debtor believe that NewCo will received its commitment letter in advance of the Confirmation Hearing, and be able to proceed to a sale closing in a timely manner.

Novation of Government Contracts: The Asset Purchase Agreement also calls for the "novation" of the Debtor's government contracts, including, but not limited to, the Debtor's MHU-191 Contracts with the Navy. The Debtor's government contracts are valuable to NewCo, and thus, a key part of the proposed sale transaction.

Technically, Federal law prohibits the transfer or assignment of the U.S. government contracts. The prohibition is designed to prevent brokers from bidding on contracts and then shopping the contract around to the company willing to pay the highest fee. However, there is a process for substituting a new contractor for the

previous one called “novation” as set out in FAR subpart 42.12. The process grants the government the right (but not the obligation) to recognize a successor entity as the contractor on a contract. Generally, the government will consent to the novation since it wants the products or services being acquire under the contract, provided that it can verify that the purchaser has the technical and financial ability to complete the contract.

Novation is accomplished by the signing of a three-way novation agreement in the format set forth in FAR 42.1204, and submitting same with additional documents to the cognizant Administrative Contracting Officer (i.e. the seller’s ACO) for approval. One requirement of the novation process is that the asset purchase must be concluded before the government will agree to the substitution of contractors. In other words, the asset acquisition cannot be dependent on the government approving the novation. In fact, proof that the acquisition has been completed (i.e. bill of sale) must be included in the novation package submitted to the government for approval.

On its face, the requirement that the asset transfer be completed prior to submission of the request for novation raises the issue of continued performance of the affected contract(s). Indeed, government approval can take several months during which the government evaluates the buyer’s capabilities and conducts a legal review. However, in practice, the government wants and needs the products or services; accordingly, the buyer is permitted to assume performance under the contract(s) under the name of the seller which facilitates continued and uninterrupted performance under the contract(s) during the novation approval process. Specifically, product labels and shipping documents continue to reflect the name of the seller and payments are issued in the name of the seller, but such payments are assigned to the buyer and deposited in accounts in which the buyer has assumed control. Theoretically, even if the government declined to approve the novation request, the buyer could continue to perform in the name of the seller through the completion of the contract(s). The risk, if any, is spread out among many government ACOs (corresponding to the numerous government contracts held by the Debtor).

Notwithstanding the requisite novation approval process for the transfer of Debtor’s government contracts to NewCo, for the reasons outlined above, the preferred SBA lender (and all other lender approached for financing by NewCo) does not require a novation contingency for its loan. Similarly, NewCo is confident that it will receive the requisite government novation approval in a timely fashion because NewCo’s principal is also the principal of Parts Life which operates a similar business that sells exclusively to governmental entities and to other companies that sell to governmental entities. Accordingly, NewCo is ready and willing to proceed to a closing, and to fund Plan payments, pending such approval. **NewCo’s obligation to purchase the Debtor’s assets is not contingent upon obtaining governmental approval of a novation of the Debtor’s contracts with the government.**

IX. TAX CONSEQUENCES

The Debtor believes that if the Plan is confirmed by the Bankruptcy Court, there may be tax consequences that could affect individual creditors. You are urged to consult with your tax advisors regarding such implications and how they may affect you.

X. SUMMARY OF MISCELLANEOUS PROVISIONS

A. EXECUTORY CONTRACTS AND UNEXPIRED LEASES

Pursuant to Section 365 of the Code, the Debtor has the right to reject executory contracts or leases in the Debtor's reasonable business judgment. All executory contracts are rejected pursuant to Sections 365 and 1123(b)(2) of the Code upon the Confirmation Date, unless specifically assumed pursuant to the Plan or by separate motion. Any Claim for damages arising by reason of the rejection of any executory contract or unexpired lease will constitute a Class 6 Claim.

The Debtor shall assume and assign to NewCo the executory contracts and leases listed on Exhibit B to the Plan. NewCo shall pay the amounts required to cure arrears owed on such contracts/leases as set forth therein on or promptly after the Effective Date, except that with the consent of Wells Fargo, after the Effective Date, NewCo shall resume making monthly payments as required by the Debtor's agreements with Wells Fargo, and pay the full amount of Wells Fargo's Allowed Claims (including arrears) in the ordinary course by making those monthly payments. The cure amounts set forth in Exhibit B shall be binding on each counterparty listed therein unless such counterparty files an objection to such amount by the deadline fixed for filing objections to this Plan.

Claims arising out of the rejection of an executory contract or unexpired lease must be filed with the Bankruptcy Court and served upon the Debtor or, on and after the Effective Date, the Reorganized Debtor, by no later than 30 days after the later of (i) notice of the entry of an order approving the rejection of such executory contract or unexpired lease (including, if applicable, the Confirmation Order), and (ii) such other date as may be fixed by order of the Bankruptcy Court. All such Claims not filed within such time will be forever barred from assertion against the Debtor and his estate and the Reorganized Debtor and his property. Nothing herein shall be deemed to extend the deadline to file a proof of claim with respect to any executory contract or unexpired lease previously rejected by the Debtor. Any Rejection Claim for damages arising by reason of the rejection of any executory contract or unexpired lease will constitute a Class 6 Claim.

B. MODIFICATION OF THE PLAN

At any time before the Confirmation Date, the Debtor may modify the Plan, but may not modify the Plan so that the Plan, as modified, fails to meet the requirements of Sections 1122 and 1123 of the Code. In the event there is a modification of the Plan, then the Plan as modified, shall become the Plan. At any time before the Confirmation Date,

the Debtor and Parts Life may modify the Asset Purchase Agreement, provided such modification does not alter the treatment hereunder of any Allowed Claim without the consent of the holder of such Allowed Claim.

At any time after the Confirmation Date of the Plan, but before substantial consummation of the Plan, the Plan may be modified, but it may not be modified so that the Plan, as modified, fails to meet the requirements or Sections 1122 and 1123 of the Code. The Plan as modified under this Section, becomes the Plan only if the Court, after notice and a hearing, confirms such Plan, as modified, under Section 1129 of the Code.

After the Confirmation Date, the Debtor may, with the approval of the Court, and so long as it does not materially or adversely affect the interests of Claimants, remedy any defect or omission, or reconcile any such inconsistencies in the Plan or in the Confirmation Order, in such manner as may be necessary to carry of the purposes, intent and effect of the Plan.

C. BANKRUPTCY COURT JURISDICTION

As more specifically set forth in Article XII of the Plan, the Bankruptcy Court shall retain jurisdiction after the Plan has been confirmed.

D. OBJECTIONS TO CLAIMS

The Plan provides that within sixty (60) days after the Effective Date, objections to Claims may be filed with the Court by the Debtor. Any such objection shall be served upon the United States Trustee and the Claimant holding the Claim to which objection is made. Any objection not timely filed shall be deemed waived by all parties-in-interest.

E. DISCHARGE

Pursuant to 11 U.S.C. Section 1141(d)(1), the Debtor shall be discharged and released of all Claims arising prior to the Effective Date, other than those Claims arising pursuant to and in accordance with the terms of the Plan.

F. FINAL DECREE

The Plan also provides that Debtor shall move for the entry of a final decree closing the within Chapter 11 case following the Effective Date.

Respectfully Submitted,

DeVal Corpoartion

Dated: June 16, 2017

By: /s/ Dominic Durinzi
Dominic Durinzi, President

Counsel to Debtor-In-Possession

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