

IN THE UNITED STATES BANKRUPTCY COURT
FOR THE WESTERN DISTRICT OF PENNSYLVANIA

In Re: Kono Co.

Bankruptcy No. 16-10643-TPA

**DISCLOSURE STATEMENT
TO ACCOMPANY SMALL BUSINESS PLAN DATED MAY 1, 2017**

Chapter 11 Small Business X (Check box only if debtor has elected to be considered a small business under 11 U.S.C. §1121(e))

Debtor furnishes this disclosure statement to creditors in the above-captioned matter pursuant to Bankruptcy Code §1125 to assist them in evaluating debtor's proposed Chapter 11 plan, a copy of which is attached hereto. Creditors may vote for or against the plan of reorganization. Creditors who wish to vote must complete their ballots and return them to the following address before the deadline noted in the order approving the disclosure statement and fixing time. The Court will schedule a hearing on the plan pursuant to 11 U.S.C. §1129.

Address for return of ballots: John F. Kroto, Esquire
Knox, McLaughlin, Gornall & Sennett, P.C.
120 West Tenth Street
Erie, Pennsylvania 16501
Tel. (814) 459-2800

I. Background

1. Name of Debtor

Kono Co.

2. Type of Debtor (individual, partnership, corporation)

Corporation

3. Debtor's Business or Employment

Design of custom work holding projects for manufacturing facilities.

4. Date of Chapter 11 Petition

July 5, 2016

5. Events that Caused the Filing:

A downturn in the market as well as a prolonged illness of the principal of the business are the primary reasons for the filing.

6. Anticipated Future of the Company & Source of this Information and Opinion:

The company intends to reorganize pursuant to Chapter 11 and continue providing the same services as it had provided prior to filing for Chapter 11.

The information and opinions contained herein are provided by that of the principal, John Rushlander

7. Summarize all Significant Features of the Plan Including When and How Each Class of Creditors will Be Paid and What, If Any, Liens Will Be Retained By Secured Creditors or Granted to Any Creditor Under the Plan:

8. Are All Monthly Operating Statements Current and on File With The Clerk of Court?

Yes No

If Not, Explain:

9. Does the plan provide for releases of non-debtor parties? Specify which parties and terms of release.

No

10. Identify all executory contracts that are to be assumed or assumed and assigned.

Mears Tool & Die, Inc.

11. Has a bar date been set?

Yes No

(If not, a motion to set the bar date has been filed simultaneously with the filing of this disclosure statement.)

12. Has an election under 11 U.S.C. §1121(e) has been filed with the Court to be treated as a small business?

Yes X No _____

13. Specify property that will be transferred subject to 11 U.S.C. §1146(c).

II. Creditors

A. Secured Claims

SECURED CLAIMS

Creditor	Total Amount Owed	Arrearages	Type of Collateral Priority of Lien (1, 2, 3)	Disputed (D) Liquidated (L) Unliquidated (U)	Will Liens Be Retained Under the Plan? (Y) or (N)
APZB Industries	\$0		UCC-1 filed on 7/1/13 at financing statement no. 2013070106057		
Mercer County State Bank	\$175,000.00		UCC-1 filed on 11/20/12 at financing statement no. 2012112101664 and UCC-1 filed on 9/22/05 and continued on 5/29/15 at financing statement no. 2015052906346		
Mercer County State Bank	\$30,000.00		UCC-1 filed on 11/20/12 at financing statement no. 2012112101664 and UCC-1 filed on 9/22/05 and continued on 5/29/15 at financing statement no. 2015052906346		
TOTAL	\$205,000.00				

B. Priority Claims

PRIORITY CLAIMS

Creditor	Total Amount Owed	Type of Collateral	(D) (L) (U) *
Berkheimer	\$500.00		
Daniel Parello	\$1,056.00		
Internal Revenue Service	\$25,000.00		
Internal Revenue Service	\$60,000.00		
PA Department of Revenue	\$5,500.00		
PA Department of Revenue	\$5,000.00		
Tim Whitfield	\$972.00		
Tom Stewart	\$2,188.80		
TOTAL	\$100,216.80		

*Disputed (D), Liquidated (L), or Unliquidated (U)

C. Unsecured Claims

1.	Amount Debtor Scheduled (Disputed and Undisputed)	\$ 88,946.93
2.	Amount of Unscheduled Unsecured Claims ¹	\$ 9,803.97
3.	Total Claims Scheduled or Filed	\$ 98,750.90
4.	Amount Debtor Disputes	\$ 9,803.97
5.	Estimated Allowable Unsecured Claims	\$ 88,946.93

D. Other Classes of Creditors (Class 1 Administrative Claims)

1.	Amount Debtor Scheduled (Disputed and	\$ 0
2.	Amount of Unscheduled Claims ¹	\$ 0
3.	Total Claims Scheduled or Filed	\$ 0
4.	Amount Debtor Disputes	\$ 0
5.	Estimated Allowable Claims	\$ 0

E. Other Classes of Interest Holders

1.	Amount Debtor Scheduled (Disputed and Undisputed)	\$0
2.	Amount of Unscheduled Claims ¹	\$0
3.	Total Claims Scheduled or Filed	\$0
4.	Amount Debtor Disputes	\$0
5.	Estimated Allowable Claims	\$0

¹ Includes (a.) unsecured claims filed by unscheduled creditors; (b.) that portion of any unsecured claim filed by a scheduled creditor that exceeds the amount debtor scheduled; and (c.) any unsecured portion of any secured debt not previously scheduled.

III. Assets

ASSETS

Assets	Value	Basis for Value Priority of Lien	Name of Lien Holder (if any) (Fair Market Value/ Book Value)	Approximate Amount of Debtor's Equity (Value Minus
Mercer County State Bank Checking Account No. 1844	\$0	Account balance as of July 5, 2016		
PNC Bank Checking Account No. 5158	\$2,099.25	Account balance as of July 5, 2016		
Accounts Receivable	\$27,368.17	Balance as of July 5, 2016		
Misc. Raw Materials	\$15,000.00			
Misc. Office Supplies	\$4,500.00	Value based on comparable sale		
Small Trailer	\$750.00	Value based on comparable sale		
Johnford CNC Mill	\$12,000.00	Value based on comparable sale		

KBC Knee Mill	\$4,500.00	Value based on comparable sale		
Alliant Surface Grinder	\$1,500.00	Value based on comparable sale		
Leadwell CNC Mill	\$25,000.00	Value based on comparable sale		
KIWA CNC Mill	\$12,800.00	Value based on comparable sale		
Takisawa Ecoturn CNC Lathe	\$10,000.00	Value based on comparable sale		
Takisawa TC2 CNC Lathe (leased out)	\$14,500.00	Value based on comparable sale		
Katso Bandsaw (leased out)	\$6,500.00	Value based on comparable sale		
South Bend Lathe	\$5,000.00	Value based on comparable sale		
Roll In Saw	\$1,500.00	Value based on comparable sale		
Fork Truck	\$3,500.00	Value based on comparable sale		
Misc. Tooling	\$35,000.00	Value based on comparable sale		

Shop Air Conditioner	\$8,500.00	Value based on comparable sale		
Air Compressor	\$2,500.00	Value based on comparable sale		
	\$143,550.00			
	TOTAL			TOTAL

1. Are any assets which appear on Schedule A or B of the bankruptcy petition not listed above?

No

2. Are any assets listed above claimed as exempt? No. If so attach a copy of Schedule C and any amendments.

No

IV. SUMMARY OF PLAN

1. Effective Date of Plan: When the Plan Confirmation Order is a Final Order

Will cramdown be sought? Yes No

If Yes, state bar date: _____

2. Treatment of Secured **Non-Tax** Claims

SECURED NON-TAX CLAIMS

Name of Creditor	Class	Amount Owed	Summary of Proposed Treatment
APZB Industries	2	\$0	
Mercer County State Bank	2	\$132,222	\$1,931 per month for 84 months at 6% interest
Mercer County State Bank	2	\$30,000.00	\$438 per month for 84 months at 6% interest
TOTAL		\$205,000.00	

3. Treatment of Secured Tax Claims

SECURED TAX CLAIMS

Name of Creditor	Class	Amount Owed	Summary of Proposed Treatment
TOTAL		\$	

4. Treatment of Administrative **Non-Tax** Claims²

ADMINISTRATIVE NON-TAX CLAIMS

Name of Creditor*	Amount Owed	Type of Debt**	Summary of Proposed Treatment and Date of First Payment
Knox, McLaughlin, Gornall & Sennett, P.C.	Approx \$20,000	P	Administrative claims shall be paid in full on the Effective Date, unless other payment arrangements are made which are acceptable to the administrative claimant(s).
United States Trustee Fee	\$600(est)	A	Paid in full on the Effective Date

5. Treatment of Administrative Tax Claims None

ADMINISTRATIVE TAX CLAIMS

Name of Creditor*	Amount Owed	Type of Debt**	Summary of Proposed Treatment and Date of First Payment

*Identify and Use Separate Line for Each Professional and Estimated Amount of Payment

**Type of Debt (P=Professional, TD=Trade, TX=Taxes)

² Include all §503(b) administrative claims.

6. Treatment of Priority Non-Tax

PRIORITY NON-TAX CLAIMS

Name of Creditor	Class	Amount Owed	Date of Assessment	Summary of Proposed Treatment
Daniel Parello	3	\$1,056.00		Paid in full on the Effective Date
Tim Whitfield	3	\$972.00		Paid in full on the Effective Date
Tom Stewart	3	\$2,188.80		Paid in full on the Effective Date

7. Treatment of Priority Tax Claims³

PRIORITY TAX CLAIMS

Name of Creditor	Class	Amount Owed	Date of Assessment	Summary of Proposed Treatment
Berkheimer	3	\$500.00		Paid in full within 5 years of the Effective Date
Internal Revenue Service	3	\$25,000.00		Paid in full within 5 years of the Effective Date
Internal Revenue Service	3	\$60,000.00		Paid in full within 5 years of the Effective Date
PA Department of Revenue	3	\$5,500.00		Paid in full within 5 years of the Effective Date
PA Department of Revenue	3	\$5,000.00		Paid in full within 5 years of the Effective Date

³ Include dates when any §507(a)(7) taxes were assessed.

8. Treatment of General Unsecured Non-Tax Claims

GENERAL UNSECURED NON-TAX CLAIMS

Creditor	Class	Total Amount Owed	Percent of Dividend
Absorbtech	4	(Disputed) \$339.81	Unsecured creditors will be paid 5% under the plan as payment in full.
Allied	4	\$1,582.16	Unsecured creditors will be paid 5% under the plan as payment in full.
Bohler Uddeholm	4	(Disputed) \$2,738.08	Unsecured creditors will be paid 5% under the plan as payment in full.
Cann Capital	4	\$12,982.32	Unsecured creditors will be paid 5% under the plan as payment in full.
D&L Industrial	4	\$1,231.98	Unsecured creditors will be paid 5% under the plan as payment in full.
Economic Progress Alliance of Crawford County	4	\$7,254.75	Unsecured creditors will be paid 5% under the plan as payment in full.
Econsteel	4	\$2,000.00	Unsecured creditors will be paid 5% under the plan as payment in full.
Erie Concrete & Steel Supply Co.	4	(Disputed) \$4,325.00	Unsecured creditors will be paid 5% under the plan as payment in full.
Essentra	4	\$482.27	Unsecured creditors will be paid 5% under the plan as payment in full.
Frank Miloszewski	4	\$2,400.00	Unsecured creditors will be paid 5% under the plan as payment in full.
Future Technologies	4	\$6,000.00	Unsecured creditors will be paid 5% under the plan as payment in full.
Haas	4	\$5,382.00	Unsecured creditors will be paid 5% under the plan as payment in full.

Hugg-Her	4	\$20,000.00	Unsecured creditors will be paid 5% under the plan as payment in full.
McMaster-Carr	4	\$3,774.75	Unsecured creditors will be paid 5% under the plan as payment in full.
Meadville Tool Grinding	4	\$668.66	Unsecured creditors will be paid 5% under the plan as payment in full.
Meadville Area Sewer Authority	4	(Disputed) \$48.20	Unsecured creditors will be paid 5% under the plan as payment in full.
National Fuel	4	\$826.92	Unsecured creditors will be paid 5% under the plan as payment in full.
Osky	4	(Disputed) \$10,000.00	Unsecured creditors will be paid 5% under the plan as payment in full.
PFI	4	\$450.00	Unsecured creditors will be paid 5% under the plan as payment in full.
Steadman T&D	4	\$12,000.00	Unsecured creditors will be paid 5% under the plan as payment in full.
Susini	4	\$1,414.00	Unsecured creditors will be paid 5% under the plan as payment in full.
UPMC	4	\$2,850.00	Unsecured creditors will be paid 5% under the plan as payment in full.
TOTAL		\$98,750.90	\$ 5,000 (approx.)= 5%

9. Treatment of General Unsecured Tax Claims

GENERAL UNSECURED TAX CLAIMS

Creditor	Class	Total Amount Owed	Percent of Dividend
TOTAL		\$	

10. Will periodic payments be made to unsecured creditors?

Yes X No _____ First payment to begin Effective Date

If so:

Amount of each payment (aggregate to all unsecured claimants): \$/qtr.
 Estimated date of first payment: Effective Date
 Time period between payments: Monthly
 Estimated date of last payment: 5 years from the Effective Date
 Contingencies, if any:

State source of funds for planned payments, including funds necessary for capital replacement, repairs, or improvements:

1. Profits from business operations
2. New equity from contributions
3. Confirmation deposit fund

Other significant features of the plan:

V. Comparison of Plan with Chapter 7 Liquidation

If debtor's proposed plan is not confirmed, the potential alternatives would include proposal of a different plan, dismissal of the case or conversion of the case to Chapter 7. If this case is converted to Chapter 7, a trustee will be appointed to liquidate the debtor's non-exempt assets. In this event, all secured claims and priority claims, including all expenses of administration, must be paid in full before any distribution is made to unsecured claimants.

Total value of Chapter 7 estate (See Section III)	\$143,550
1. Less secured claims (See Section IV-3 and 4)	\$205,000
2. Less administrative expenses (See Section IV-5 and include approximate Chapter 7 expenses)	\$
3. Less other priority claims (See Section IV-8)	\$
 Total Amount Available for Distribution to Unsecured Creditors	 \$ -0-
 Divided by total allowable unsecured claims of (See Section II C)	 \$ -0-
 Percentage of Dividend to Unsecured Creditors:	 -0-

Will the creditors fare better under the plan than they would in a Chapter 7 liquidation?

Yes X No _____

Explain: In a Chapter 7 case, there would be no distribution to the general creditors.

VI. Feasibility

- A. Attach Income Statement for Prior 12 Months.
- B. Attach Cash Flow Statement for Prior 12 Months.
- C. Attach Cash Flow Projections for Next 12 Months.

Estimated amount to be paid on effective date of plan, including administrative expenses.

\$ 2,000

Show how this amount was calculated.

\$ <u> 1400 </u>	Administrative Class
<u> </u>	Taxes
<u> </u>	Unsecured Creditors
<u> 600 </u>	UST Fees
\$ <u> 2000 </u>	TOTAL

What assumptions are made to justify the increase in cash available for the funding of the plan?

Will funds be available in the full amount for administrative expenses on the effective date of the plan? From what source? If not available, why not and when will payments be made?

Yes. From funds produced by the debtor's continuing business.

If this amount is less than the amount necessary at confirmation, how will debtor make up the shortfall?

VII. Management Salaries

MANAGEMENT SALARIES

Position/Name of Person Holding Position	Salary at Time of Filing	Proposed Salary (Post-Confirmation)
John Rushlander	0	Unknown – dependent on the success of the business

VIII. Identify the Effect on Plan Payments and Specify Each of the Following:

1. What, if any, litigation is pending?
2. What, if any, litigation is proposed or contemplated?

IX. Additional Information and Comments

X. Certification

The undersigned hereby certifies that the information herein is true and correct to the best of my knowledge and belief formed after reasonable inquiry.

If Debtor is a corporation, attach a copy of corporate resolution authorizing the filing of this Disclosure Statement and Plan.

If Debtor is a general partnership, attach a copy of the consent agreement of all general partners to the filing of the bankruptcy.

<u>/s/ John Rushlander</u>	<u>May 1, 2017</u>
Signature of Debtor or Authorized Representative	Date

<u>/s/ John F. Kroto, Esq.</u>	<u>May 1, 2017</u>
Debtor's Counsel	Date

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OPTIONAL TABLE

6. Treatment of Other Claims

N/A

OTHER CLASSES OF CREDITORS

Creditor	Class	Total Amount Owed	Percent of Dividend

A. Will periodic payments be made?

Yes _____ No _____

If so:

Amount of each payment (aggregate to all claimants) \$ _____
 Estimated date of first payment _____
 Time period between payments _____
 Estimated date of last payment _____
 Contingencies, if any: _____

OPTIONAL TABLE

7. Treatment of Interest Holders (Other Than Equity Holders)

OTHER CLASSES OF INTEREST HOLDERS

Creditor	Class	Total Amount Owed	Percent of Dividend

8. Treatment of Equity Holders (Specify how the market test of *Bank of America National Trust and Savings Association v. 203 North LaSalle Street Partnership*, 526 U.S. 434, 110 S.Ct. 1411 (1999), is met)

OTHER CLASSES OF INTEREST HOLDERS

Creditor	Class	Total Amount Owed	Required New Value to Retain Stock

A. Will periodic payments be made?

Yes _____ No _____

If so:

Amount of each payment (aggregate to all claimants) \$ _____

Estimated date of first payment
Time period between payments
Estimated date of last payment
Contingencies, if any:

HISTORIC SUMMARY

POST PETITION PERIODS	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16	Dec-16	Jan-17	Feb-17	Mar-17
1. TOTAL CASH FLOW FROM OPERATIONS:	\$3,065.00	\$3,885.00	\$5,631.84	\$5,536.66	\$6,300.00	\$2,065.00	\$2,292.75	\$300.00	\$300.00
2. LESS TOTAL DISBURSEMENTS EXCLUDING PAYMENTS TO CREDITORS IN A PLAN:	\$3,110.98	\$3,681.00	\$4,081.00	\$2,454.18	\$5,592.51	\$4,889.16	\$1,930.00	\$2,200.46	\$2,527.98
3. TOTAL NET CASH FLOW:	(\$45.98)	\$204.00	\$1,550.84	\$3,082.48	\$707.49	(\$2,824.16)	\$362.75	(\$1,900.46)	(\$2,227.98)

DEFINITIONS

TOTAL CASH FLOW FROM OPERATIONS:	THE TOTAL AMOUNT OF FUNDS COLLECTED IN A SPECIFIC PERIOD FROM CASH SALES, COLLECTION OF ACCOUNTS RECEIVABLE, AND OTHER INCOME, EXCLUDING LOANS PROCEEDS, CASH CONTRIBUTIONS FROM INSIDERS, AND SALES TAXES COLLECTED.
TOTAL DISBURSEMENTS EXCLUDING PAYMENTS TO CREDITORS IN A PLAN:	THE TOTAL DISBURSEMENTS IN A SPECIFIC PERIOD FOR PRODUCTION COSTS, GENERAL AND ADMINISTRATIVE COSTS, EXCLUDING PAYMENTS TO CREDITORS TO BE PAID UNDER THE TERMS OF

PROJECTED SUMMARY

POST PETITION PERIODS	MONTH ONE	MONTH TWO	MONTH THREE	MONTH FOUR	MONTH FIVE	MONTH SIX	MONTH SEVEN	MONTH EIGHT	MONTH NINE	MONTH TENTH	MONTH ELEVEN	MONTH TWELVE
4. TOTAL PROJECTED CASH FLOW FROM OPERATIONS:	5,500	5,500	5,500	5,500	5,500	5,500	5,500	5,500	5,500	5,500	5,500	5,500
5. LESS TOTAL PROJECTED DISBURSEMENTS EXCLUDING PAYMENTS TO CREDITORS IN A PLAN:	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500
6. ANTICIPATED CASH FLOW AVAILABLE FOR PLAN:	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000
DEFINITIONS												
TOTAL PROJECTED CASH FLOW FROM OPERATIONS:	TOTAL AMOUNT OF PROJECTED FUNDS COLLECTED IN A SPECIFIC PERIOD FROM CASH SALES, COLLECTION OF ACCOUNTS RECEIVABLE, AND OTHER INCOME, EXCLUDING LOANS PROCEEDS, CASH CONTRIBUTIONS FROM INSIDERS, AND SALES TAXES COLLECTED.											
TOTAL DISBURSEMENTS EXCLUDING PAYMENTS TO CREDITORS IN A PLAN:	TOTAL PROJECTED DISBURSEMENTS IN A SPECIFIC PERIOD FOR PRODUCTION COSTS, GENERAL AND ADMINISTRATIVE COSTS, EXCLUDING PAYMENTS TO CREDITORS TO BE PAID UNDER THE TERMS OF THE PROPOSED PLAN.											

PLAN FEASIBILITY

POST PETITION PERIODS	MONTH ONE	MONTH TWO	MONTH THREE	MONTH FOUR	MONTH FIVE	MONTH SIX	MONTH SEVEN	MONTH EIGHT	MONTH NINE	MONTH TENTH	MONTH ELEVEN	MONTH TWELVE
ANTICIPATED RECEIPTS AVAILABLE FOR PLAN (SEE LINE 6, ABOVE):	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000
LESS PROPOSED PLAN PAYMENTS (SEE SECTION IV):	2,369	2,369	2,369	2,369	2,369	2,369	2,369	2,369	2,369	2,369	2,369	2,369
OVERAGE/(SHORTAGE) OF CASH FLOW AVAILABLE TO FUND PLAN:	631	631	631	631	631	631	631	631	631	631	631	631

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