UNITED STATES BANKRUPTCY COURT
EASTERN DISTRICT OF NORTH CAROLINA
RALEIGH DIVISION

In re:

SURTRONICS, INC.

Debtor.
_____/

Case No: 13-05672-8-SWH
Chapter 11 case

DISCLOSURE STATEMENT IN SUPPORT OF SURTRONICS, LLC'S CHAPTER 11 PLAN OF REORGANIZATION, DATED AS OF OCTOBER 8, 2013

I. INTRODUCTION

This is the Disclosure Statement (the "Disclosure Statement") in the Chapter 11 case of Surtronics, LLC ("Surtronics," "Debtor," "Debtor-in-Possession," or "Reorganized Debtor," as appropriate). This Disclosure Statement contains information about the Debtor and describes Surtronics, LLC's Chapter 11 Plan of Reorganization, dated as of October 8, 2013 (the "Plan").

YOUR RIGHTS MAY BE AFFECTED. YOU SHOULD READ THE PLAN AND THIS DISCLOSURE STATEMENT CAREFULLY AND DISCUSS THEM WITH YOUR ATTORNEY. IF YOU DO NOT HAVE AN ATTORNEY, YOU MAY WISH TO CONSULT ONE.

A. Purpose of this Document

This Disclosure Statement describes:

- The Debtor and significant events during the bankruptcy case;
- How the Plan proposes to treat claims or equity interests of the type you hold (*i.e.*, what you will receive on your claim or equity interest if the plan is confirmed);
- Who can vote on or object to the Plan;
- What factors the United States Bankruptcy Court for the Eastern District of North Carolina (the "Bankruptcy Court") will consider when deciding whether to confirm the Plan;

- Why the Debtor believes the Plan is feasible, and how the treatment of your claim or equity interest under the Plan compares to what you would receive on your claim or equity interest in liquidation; and

- The effect of confirmation of the Plan.

Be sure to read the Plan as well as this Disclosure Statement. This Disclosure Statement describes the Plan, but it is the Plan itself that will, if confirmed, establish your rights. All terms used herein shall have the meaning set forth herein or, if not defined herein, shall have the meaning set forth in the definitions section of the Plan. A copy of the Plan is attached hereto as **Exhibit A.**

B. Deadlines for Voting and Objecting; Date of Plan Confirmation Hearing

The Bankruptcy Court has not yet confirmed the Plan described in this Disclosure Statement. This section describes the procedures pursuant to which the Plan will or will not be confirmed.

1. *Time and Place of the Hearing to Approve This Disclosure Statement and Confirm the Plan*

The hearing at which the Bankruptcy Court will determine whether to approve this Disclosure Statement and confirm the Plan will take place on _____**, 2013 at** ____ **a.m./p.m.** in the Second Floor Bankruptcy Courtroom at the United States Bankruptcy Courthouse, 300 Fayetteville Street Mall, Raleigh, N.C. 27601.

2. *Deadline For Voting to Accept or Reject the Plan*

If you are entitled to vote to accept or reject the plan, vote on the enclosed ballot and return the ballot to the Clerk of the Bankruptcy Court at the above address, with a copy to Seth P. Traub, Esq., 101 E. Kennedy Blvd., Suite 2800, Tampa, Florida, 33602. *See* section IV.A. below for a discussion of voting eligibility requirements.

Your ballot must be received by _____, 2013 or it will not be counted.

3. *Deadline For Objecting to the Adequacy of the Disclosure Statement and Confirmation of the Plan*

Objections to this Disclosure Statement or to the confirmation of the Plan must be filed with the Bankruptcy Court at the above address, with a copy to Seth P. Traub, Esq., 101 E. Kennedy Blvd., Suite 2800, Tampa, Florida, 33602 and no later than _____, 2013.

4. *Identity of Person to Contact for More Information*

If you want additional information about the Plan, you should contact Steven M. Berman or Seth P. Traub, Esq., at Shumaker, Loop & Kendrick, LLP, 101 E. Kennedy Blvd., Suite 2800, Tampa, Florida, 33602; Tel.: 813-229-7600; Email: straub@slk-law.com and sberman@slk-law.com.

C. **Disclaimer**

The Bankruptcy Court has not yet approved this Disclosure Statement as containing adequate information to enable parties affected by the Plan to make an informed judgment about its terms. The Bankruptcy Court has not yet determined whether the Plan meets the legal requirements for confirmation, and the fact that the Bankruptcy Court may approve this Disclosure Statement does not constitute an endorsement of the Plan by the Bankruptcy Court, or a recommendation that it be accepted. This Disclosure Statement is subject to final approval at the hearing on confirmation of the Plan.

II. BACKGROUND

A. History and Description of the Debtor's Business

Surtronics is a North Carolina corporation. Surtronics was founded in 1965 by Mssrs. William H. Wade, Jr. ("Wade") and Terry Smith, III ("Smith") to provide metal plating and surface finishing to the electronics industry and other commercial and industrial customers. By 1970, Surtronics expanded and moved to its current location at Beryl Road, in Raleigh, North Carolina, starting with only a 10,000-square-foot facility.

B. Company Growth

As the demand for electroplating grew, so did Surtronics. Over the next 20 years, Surtronics expanded to its current size of approximately 40,000-square-feet and 44 full-time employees. Surtronics now provides 18 different processes to several hundred customers throughout the United States and Mexico. Surtronics is currently one of the largest platers/anodizers in the Southeast United States.

Surtronics provides services for the following industries:

- Aerospace, Defense, and Aircraft (the second largest industry in the State)
- Pharmaceutical and Medical
- Research and Development for Duke University, North Carolina State University, and the University of North Carolina
- Power and Energy
- Telecommunications
- Electronics
- Commercial/Industrial
- Outdoor Recreational

Surtronics meets all customer, military, automotive, and ASTM specifications. Surtronics is AS 9100C, ISO 9001:2008, and ITAR compliant and is very proud to be a second-generation, woman-owned business continuously providing jobs and support to the local area and surrounding states for nearly 50 years.

C. Angela Stanley Called Upon to Takeover Surtronics

Surtronics was always a family business. The founders' wives helped with bookkeeping and paperwork, and the children were always around—whether it was for holiday parties, "pig pickins", or to help rack parts if a babysitter was unavailable. Mr. Smith's daughter, Angela (Smith) Stanley ("Stanley") grew up in the business. In September of 1998, a tragic accident claimed the life of Mr. Smith's wife, Nina Smith. Shortly thereafter, Mr. Smith was diagnosed with prostate cancer and wanted to hurry along his estate planning, including making immediate arrangements for the transfer of his 50% ownership of Surtronics to his daughter, Angela.

Ms. Stanley was very reluctant to rush into this change, more than 15 years ago. Ms. Stanley was 28 years old and lived in California with her husband, who had just started a new job as a Pediatric Anesthesiologist. Ms. Stanley was nevertheless assured by Surtronics' corporate attorney, its accountant, and her father that "everything would be fine, and that the landowners would be responsible for any old issues with the land and buildings."

From 1973 until 1992, Wade and Smith owned the property and buildings housing the Debtor's operations (the "Property"). In 1992, Wade and Smith conveyed title to the Property to their partnership, Smith and Wade, a North Carolina general partnership ("Smith/Wade"), in which they each owned a 50% interest through family-owned entities. Ms. Stanley's siblings own one-half interest in Smith/Wade. To date, Smith/Wade has remained the owner of the Property, which has been leased to Surtronics pursuant to a series of leases and lease addenda.

In April of 1999, Ms. Stanley became the owner of the Smith side of Surtronics. In September of 2007, Ms. Stanley then purchased the Wade family's 50% interest, becoming the sole owner of Surtronics. She immediately expanded the business with a $2 Million anodizing line. Today, anodizing makes up over half of Surtronics' business.

Smith/Wade's two partners are Willvick, LLC and Smith Family Investments, LLC. Willvick, LLC is owned by Mr. Wade. Smith Family Investments, LLC is owned by Ms. Stanley's two sisters, Monica Derrenbacher and Lisa Hardin.

D. Additional Challenges Facing Surtronics

Just as the new anodizing line was completed in 2008, the economy began to slow, and Surtronics lost almost 40% of its business. With some very careful in-house reorganization and a focus on cost savings, Surtronics survived, and has been on the upswing during the last 3 years. But on June 17, 2013, Surtronics suffered a massive fire that destroyed the original 10,000 square-feet of the Property. This included nine production lines, the lab and Quality Control room, silver room, oven room, break room, locker room, and front offices. In addition to the visibly destroyed property, smoke (filled with three types of acids used in the anodizing process) travelled throughout the Property, settling on all of the Debtor's property. Unfortunately, the acid damage remains ongoing and will take months to fully assess. However, Surtronics was fortunate to contain all of the hazardous chemicals and waste to within the Property itself.

The Cincinnati Insurance Company ("Cincinnati Insurance") fully insured the Debtor's property, plant, and equipment, and has begun to evaluate and assess the damage. Although the Debtor and Cincinnati Insurance have not yet reached agreement on the total claim, it is believed there is sufficient insurance to provide for the repair and cleaning of the building, replacement of a substantial amount of equipment, and coverage for personal property owned by others and lost income resulting from the fire loss and the subsequent delay in adjustment of the claim.

Additionally, prior to the fire, Surtronics was informed by the Department of Transportation that, due to potential expansion of the Beltline in Raleigh, the 4025 Beryl Road property had been identified for a possible taking by eminent domain. Before the fire, Ms. Stanley had invited the DOT to tour the Property, showing it that Surtronics' two largest plating lines were located in the building adjacent to the Beltline. Therefore, a taking of that property for expansion of the Beltline would devastate Surtronics.

Between the fire and the possibility of the highway expansion claiming critical portions of the Property, Ms. Stanley decided to explore whether moving Surtronics to a new location was a better option than rebuilding at its current location.

E. Negotiation for Purchase of the Property

In 2013, in lieu of moving Surtronics' operations to a new location, Ms. Stanley began negotiations to purchase the Property from Smith/Wade. Ms. Stanley contacted Surtronics' corporate banker, First Citizens Bank & Trust Co. ("First Citizens"), to procure a loan to either buy the Property or real property elsewhere. In the ordinary course of the loan application process, Ms. Stanley commenced due diligence, including a "Phase I" Environmental Site Assessment ("ESA"),[1] an appraisal, and the usual forms of proof of credit to buy the Property.

[1] A Phase I ESA is a standard research study intended to gather information to assess the environmental condition of real property and to identify actual or potential environmental contamination that may impact the value of the property.

Ms. Stanley then hired Terracon Consultants, Inc. ("Terracon"), an approved vendor of First Citizens, to perform the required ESA. Terracon also explained that a Phase II ESA [2] should also be completed due to the longstanding plating business operating on the property. At the same time, Surtronics hired Morgan Appraisers, Inc. to give an appraisal of the Property prior to the fire. The Property appraised at $1,335,000.

Ms. Stanley continued to negotiate with Smith/Wade, and on August 4, 2013 agreed to a $1,450,000 purchase price. Ms. Stanley flew to Raleigh the next day and called First Citizens and the Debtor's corporate attorney to secure a loan for the $1,450,000 purchase price that could close by September 30, 2013. The next morning, on August 6, 2013, Terracon disclosed its Phase II ESA report findings, which revealed the presence of various compounds and metals that are designated as hazardous substances under the Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA"), in concentrations that exceed the applicable standards set by the federal Environmental Protection Agency ("EPA") or in North Carolina's groundwater quality rules. One of the volatile organic compounds detected was Trichloroethene ("TCE"), a chlorinated hydrocarbon commonly used as an industrial solvent.

TCE was used at Surtronics from 1973 until 1995 as a solvent to wash metal parts. The releases of TCE at the Property occurred prior to 1995, well before Ms. Stanley owned even an interest in Surtronics, at a time when Mssrs. Wade and Smith, or Smith/Wade, owned the Property, and when Mr. Wade headed up operations, safety and hazardous waste disposal. Terracon explained that the contamination was severe enough that no financial institution would provide financing for Surtronics to purchase the Property, and that the contamination should be reported within 90 days of the finding.

Surtronics immediately sought environmental counsel at Poyner & Spruill, LLP, for assistance in developing options for clean-up of the Property, to file a report, and to work with local, state and federal offices, and pursue other procedures for remediation. After reviewing her options, Ms. Stanley informed Smith/Wade of the contamination, and made an offer for Surtronics to use its "rent" payments that would have otherwise been paid to Smith/Wade, up to the $1,450,000 agreed purchase price, to clean-up contamination at the Property and take on the management of the cleanup process, which was estimated to cost between $1,000,000 and $3,000,000 or more.

Smith/Wade rejected Surtronics' offer to voluntarily use the "rent" payments to fund remediation and clean up. Instead, Mr. Wade restructured the purchase of the Property by coupling below-market purchase options at the end of two five–year extensions to the lease—$700,000 at the end of the first extension, or $1.00 at the end of the second. This structure was necessary to effectuate a long-term ownership transfer for the negotiated purchase price without having to resort to traditional, external financing. The parties also disagreed on the duty to report the Phase II ESA results to state and federal officials, and the method for allocating clean-up and remediation costs given the relative roles and culpability of the various parties.

[2] A Phase II ESA is an "intrusive" investigation where actual physical environmental samples of soil, groundwater or building materials are collected and analyzed to characterize the type, distribution, and extend of hazardous substances in the environment.

F. Reasons for Chapter 11 Filing

Between the possible highway expansion, the massive fire, the insurance negotiations, and the issues associated with the acquisition of the Property, Surtronics decided to file for Chapter 11 relief. Notwithstanding Surtronics' unquestioned operational income and ability to meet its operational obligations, Surtronics filed for relief so that the Bankruptcy Court can assist, as needed, with (i) resolution of any issues related to its remediation and clean-up plans with local, state and federal officials, (ii) a determination of the relative and respective ownership rights to the Property, (iii) resolution of the relative and respective obligations for the funding of the clean-up of the environmental conditions at the Property as between the Debtor and others bearing causal and legal liability, (iv) resolution of any disputes with Surtronics' insurers with respect to the adjustment of the fire claim, and (v) providing access to available insurance for any as yet unknown health claims that may be brought by current or former employees in the future.

G. Current Financial Structure

Surtronics is generally able to pay ordinary course obligations from income in its ordinary operations. Surtronics' only secured debt is owed to First Citizens. First Citizens will be paid in the regular course of business, which will likely result in payment in full within two years of the Petition Date. The Debtor also has a monthly obligation to Smith/Wade in the amount of $12,846.19 for the purchase of the Property.[3] Pursuant to the Real Estate Documents, Surtronics has the option of monthly payments over five years, followed by a balloon payment of $700,000.00, or monthly payments over ten years, followed by a payment of $1.00. This financing arrangement was crafted as a way to avoid traditional bank financing, which would not have been available in advance of resolving the environmental contamination issues revealed by the Phase II ESA. Surtronics, Smith/Wade, and Mr. Smith have not yet resolved the allocation of responsibility for the environmental clean-up obligations.

Long-term repair, cleaning, construction, and replacement of equipment following the June 2013 fire will occur as funds are released by Surtronics' insurer as its fire claim is resolved. It is expected that once the fire-damage repair, cleaning, reconstruction, and equipment replacement are complete, and the environmental clean-up plan is finalized, and implementation of the environmental remediation begins, Surtronics will again operate a state-of-the-art facility leading the metal plating and surface finishing industry, with Surtronics regaining market share and customers for whom services had to be suspended following the fire.

Surtronics found a way to make their business work notwithstanding the fire loss, and its post-confirmation operations are expected to be even stronger, allowing Surtronics to provide service to customers and employment to its workers for years to come.

[3] On October 3, 2013, Surtronics filed an adversary proceeding against Smith/Wade to recharacterize the Real Estate Documents as an installment land sales contract rather than a true lease.

H. Insiders of the Debtor

The Debtor has one equity security holder—the Angela D. Stanley Trust (the "Stanley Trust"). Angela Stanley, the Settlor of the Trust, acts as the Chief Executive Officer of the Debtor.

Although the Stanley Trust will receive a one hundred percent (100%) stake in the Reorganized Debtor, the Stanley Trust will not receive any distribution on account of any asserted claim it holds against the Debtor or its Estate until all other classes of creditors are paid pursuant to the Plan.

I. Management of the Debtor Before, During and After the Bankruptcy

During the two years prior to the Petition Date, and during the pendency of this Chapter 11 case, the Debtor has been managed by Ms. Stanley and her management team, including Surtronics' general manager, Lee Bradshaw. This team will remain in place post-confirmation.

J. Claims Objections

Except to the extent that a claim is already allowed pursuant to a final, non-appealable order, the Debtor reserves the right to object to claims. Therefore, even if your claim is allowed for voting purposes, you may not be entitled to a distribution if an objection to your claim is later upheld. The procedures for resolving disputed claims are set forth in Article VI of the Plan.

K. Current and Historical Financial Conditions

The identity and fair market value of the estate's assets are as follows:

- Real Property described on **Exhibit B** and located in Wake County, North Carolina. The property has a current fair market value, exclusive of environmental clean-up liability, of approximately $1,450,000, which is nearly identical to the scheduled payments being made to Smith/Wade, as *de facto* purchase-money seller.

- The Debtor has more than $16,300,000.00 in assets, consisting of both real and personal property along with substantial other claims for contribution on account of environmental claims, the insurance claim for its fire loss, and other insurance claims that may come to be used for potential future losses.

III. SUMMARY OF THE CHAPTER 11 PLAN AND TREATMENT OF CLAIMS AND EQUITY INTERESTS

A. What is the Purpose of the Chapter 11 Plan?

As required by Chapter 11 of Title 11 of the United States Code (the "Code"), the Plan places Creditors and Equity Security Holders in various classes and describes the treatment each class will receive on account of their allowed claim amounts. The Plan also provides whether each class of Claims or Equity Security Holders is impaired or unimpaired. Pursuant to the Plan, unimpaired classes will receive payment in full on their allowed claim amounts, subject to non-Plan obligations arising by statute, contract or other legal basis. Impaired classes will receive either payment in full under circumstances less advantageous than previously agreed upon between the claim holder and the Debtor, or pro rata payment of allowed claim amounts. If the Plan is confirmed, your recovery will be limited to the amount provided by the Plan and will be paid on terms set forth in the Plan, as confirmed.

B. Unclassified Claims

Certain types of claims are automatically entitled to specific treatment under the Code. They are not considered impaired, and holders of such claims do not vote on the Plan. They may, however, object if, in their view, their treatment under the Plan does not comply with that required by the Code.

Administrative Expenses and Priority Claims

Administrative expenses are costs or expenses of administering the Debtor's Chapter 11 case which are allowed pursuant to § 507(a)(2) of the Code. Administrative expenses also include the value of any goods sold to the Debtor in the ordinary course of business and received within 20 days before the petition date of September 9, 2013 ("Petition Date"). The Bankruptcy Code requires that all administrative expenses be paid on the Effective Date of the Plan, unless a particular claimant agrees to a different treatment.

The following chart lists the Debtor's estimated administrative expenses and their proposed treatment under the Plan:

Type	**Estimated Amount Owed**	**Proposed Treatment**
Expenses Arising in the Ordinary Course of Business After the Petition Date	Unknown	Paid in full on the Effective Date of the Plan, or according to terms of obligation, if later.
Professional Fees, not yet approved by the Bankruptcy Court. **Shumaker, Loop & Kendrick, LLP** (General counsel for the Debtor) **Poyner & Spruill, LLP** (Special counsel for the Debtor) **Carr Riggs & Ingram** (Accountant) **Terracon Consultants, Inc.** (Environmental Engineering and Consulting)	Approx. $125,000.00 $75,000.00 $10,000.00 $55,000.00	Paid in full on the Effective Date of the Plan, or according to separate written agreement, or according to Bankruptcy Court Order if such fees have not been approved by the Bankruptcy Court on the effective date of the Plan.
Clerk's Office Fees	Unknown	Paid in full on the Effective Date of the Plan
Other administrative expenses	Unknown	Paid in full on the Effective Date of the Plan or according to separate written agreement
Office of the Bankruptcy Administrator Fees	Unknown	Paid in full on the Effective Date of the Plan
TOTAL	Approx. $265,000.00	

C. **Classes of Claims and Equity Interests**

The following are the classes set forth in the Plan, and the proposed treatment that they will receive under the Plan:

Class	Impairment	Treatment
Class 1 – Administrative Expense Claimants	Unimpaired	Administrative Expense Claimants will be paid in full from the Reorganized Debtor's operations at the later of: (i) the Effective Date of the Plan or as agreed between the parties, and (ii) when allowed by this Court.
Class 2 – Priority Creditors	Unimpaired	Priority Creditors will be paid in full from the Reorganized Debtor's operations at the later of: (i) the Effective Date of this Plan or as agreed between the parties, and (ii) when allowed by this Court.
Class 3 – Claim of Secured Lender.	Unimpaired	The Secured Claim of the Secured Lender will be paid in full from the Reorganized Debtor's operations in accord with the terms and provisions of the pre-petition Promissory Note and Security Agreement the Debtor executed in favor of First Citizens Bank.
Class 4 – Unsecured Creditors	Unimpaired	The Unsecured Claims, consisting primarily of trade and operational claims, will be paid in full from the Reorganized Debtor's operations, in accord with the terms and provisions of such creditors' pre-petition agreements with the Debtor at the later of: (i) the Effective Date of this Plan or as agreed between the parties, and (ii) when allowed by this Court.
Class 5 – Claims of "Lease" / Retail Installment Creditors	Unimpaired	The Claims of the "Lease" / Retail Installment Creditors consist of the obligations owed to Smith/Wade. Such amounts consist of monthly payments putatively denominated as "Rent" payments for the sixty months commencing October 1, 2013 in the approximate amount of $12,846.19, adjusting on an annual basis) and concluding with a below-market purchase option in the amount of $700,000.00 balloon payment at the conclusion of the sixty month term. Such payments will be paid pursuant to the terms of the current pre-petition Real Estate Documents or as directed by this Court. All such contractual payment obligations are subject to other non-Plan legal obligations arising under Title 11 of the United States Code, applicable state and federal environmental law, and other applicable law.

Class	Impairment	Treatment
Class 6 – The Unsecured Claims of Insiders and other Affiliates of the Debtor	Impaired	Unsecured Claims of Insiders and Affiliates of the Debtor will have their Allowed Claims paid in full from the Reorganized Debtor's operations in equal annual installments over a period of three (3) years beginning on the Effective Date.
Class 7 – Potential Employee Health Claims	Unimpaired	Although there are no known claims in this Class, it has been created, and will be funded, in the unlikely event that future claims arise following the Bar Date. Current and former employees of the Debtor, who have either manifested or un-manifested health claims arising from or associated with their pre-petition work for the Debtor, shall have their claims channeled to a Tort Claims Trust, into which all available insurance (other than coverage from The Cincinnati Insurance Company, policy no. EPP-017-34-76, and Lloyd's London, policy no. PGIARK01451-01, implicated by the June 2013 fire and the environmental cleanup, respectively) (the "Available Insurance") will be placed under the supervision of a Tort Claims Trustee. The Available Insurance shall, pursuant to this Plan, be assigned to the Tort Claims Trust for prosecution of claims, liquidation of policy rights and review and allowance of Class 7 claims. Such claims, although channeled to the Tort Claims Trust, shall be paid as and when allowed from the Available Insurance.
Class 8 – Equity Security Holders of the Debtor	Unimpaired	Equity Security Holders shall receive, on account of their equity ownership interests in the Debtor, a like ownership interest in the Reorganized Debtor.

D. Means of Implementing the Plan

1. *Source of Payments*

The Reorganized Debtor will continue to operate its business and will fund all distributions required under this Plan from such operations. The Reorganized Debtor will also pursue resolution of its fire loss insurance claim and its environmental clean-up contribution claims against liable parties. If amicable arrangements are not reached, the Debtor or Reorganized Debtor will pursue litigation remedies to resolve such claims.

2. *Post-confirmation Management*

The Reorganized Debtor, led by Angela Stanley and her management team, will continue to be responsible for management of the company. The Reorganized Debtor will pay all expenses from operating revenue. A projected budget and pro forma for the Reorganized Debtor will be filed with the Court under separate cover.

3. Additional Means

The Debtor will assign all Available Insurance, as that term is defined in the Plan, to a Tort Claims Trust for purposes of satisfying as yet unknown potential future claims of current and former employees of the Debtor, who have either manifested or un-manifested health claims arising from or associated with their pre-petition work for the Debtor. The assignment of the Available Insurance is specifically for the prosecution of claims, liquidation of policy rights, and review and allowance of Class 7 claims. Such claims, although channeled to the Tort Claims Trust, shall be paid as and when allowed from the Available Insurance. Pursuant to the terms of the Plan, the Debtor shall forever be relieved from such obligations.

E. Risk Factors

Assuming that the Plan is confirmed, the Plan's success going forward depends almost entirely on the Reorganized Debtor's ability to continue generating revenue through its operations. The Debtor has historically met all operating obligations in the ordinary course of its business without fail, and does not expect any challenges in doing so well into the future. While the environmental issues and the fire loss claims described herein will affect the Debtor on an ongoing basis until completed, the Debtor has in place procedures and bases for funding any extraordinary cash needs, which should allow the Debtor's to continue to meet its ordinary payment obligations.

F. **Executory Contracts and Unexpired Leases**

The Plan provides a means by which all executory contracts and unexpired leases will be assumed or rejected by the Debtor under the Plan. Assumption means that the Debtor has elected to continue to perform the obligations under such contracts and unexpired leases, and to cure defaults of the type that must be cured under the Code, if any.

If you object to the assumption of your unexpired lease or executory contract, you must file and serve your objection to the Plan within the deadline for objecting to the confirmation of the Plan, unless the Bankruptcy Court has set an earlier time.

All executory contracts and unexpired leases that are not otherwise accepted or rejected pursuant to a separately filed Motion to Assume or Reject, will be assumed under the Plan. Consult your adviser or attorney for more specific information about particular contracts or leases.

If you object to the rejection of your contract or lease, you must file and serve your objection to the Plan within the deadline for objecting to the confirmation of the Plan.

The Deadline for Filing a Proof of Claim Based on a Claim Arising from the Rejection of a Lease or Contract is thirty (30) days after the rejection of any Lease or Contract, notwithstanding the Bar Date. Any claim based on the rejection of a contract or lease will be barred if a proof of claim is not timely filed, unless the Bankruptcy Court orders otherwise.

G. **Tax Consequences of Plan**

CREDITORS AND EQUITY INTEREST HOLDERS CONCERNED WITH HOW THE PLAN MAY AFFECT THEIR TAX LIABILITY SHOULD CONSULT WITH THEIR OWN ACCOUNTANTS, ATTORNEYS, AND/OR ADVISORS.

IV. CONFIRMATION REQUIREMENTS AND PROCEDURES

To be confirmed, the Plan must meet the requirements listed in §§ 1129(a) or (b) of the Code. These include the requirements that: the Plan be proposed in good faith; at least one impaired class of claims must accept the plan, without counting votes of insiders; the Plan must distribute to each creditor and equity security interest holder at least as much as the creditor or equity security interest holder would receive in a Chapter 7 liquidation case, unless the creditor or equity interest holder votes to accept the Plan; and the Plan must be feasible. These requirements are not the only requirements listed in § 1129, and they are not the only requirements for confirmation.

A. Who May Vote or Object

Any party in interest may object to confirmation of the Plan if the party believes that requirements for confirmation are not met.

Many parties in interest, however, are not entitled to vote to accept or reject the Plan. A creditor or equity interest holder has a right to vote for or against the Plan only if that creditor or equity interest holder has a claim or equity interest that is both (1) allowed or allowed for voting purposes and (2) impaired.

In this case, the Debtor, as the Plan Proponent, believes that only Class 6 is impaired, and therefore only holders of claims in Class 6 are entitled to vote to accept or reject the Plan. The Debtor believes the other classes of claims are unimpaired, and therefore holders of claims in all other classes do not have the right to vote to accept or reject the Plan.

1. *What Is an Allowed Claim or an Allowed Equity Interest?*

Only a creditor or equity interest holder with an allowed claim or an allowed equity interest has the right to vote on the Plan. Generally, a claim or equity interest is allowed if either (i) the Debtor has scheduled the claim on the Debtor's schedules, unless the claim has been scheduled as disputed, contingent, or unliquidated, or (ii) the creditor has filed a proof of claim or equity interest, unless an objection has been filed to such proof of claim or equity interest. When a claim or equity interest is not allowed, the creditor or equity interest holder holding the claim or equity interest cannot vote unless the Bankruptcy Court, after notice and hearing, either overrules the objection or allows the claim or equity interest for voting purposes pursuant to Rule 3018(a) of the Federal Rules of Bankruptcy Procedure.

***The deadline set by the Bankruptcy Court for filing a proof of claim is* January 21, 2014.**

The deadline for filing objections to claims has not been set.

2. *What Is an Impaired Claim or Impaired Equity Interest?*

As noted above, the holder of an allowed claim or equity security interest has the right to vote only if it is in a class which is *impaired* under the Plan. As provided in § 1124 of the Code, a class is considered impaired if the Plan alters the legal, equitable, or contractual rights of the members of that class.

3. *Who is **Not** Entitled to Vote*

The holders of the following five types of claims and equity interests are *not* entitled to vote:

- holders of claims and equity interests that have been disallowed by an order of the Bankruptcy Court;
- holders of other claims or equity interests that are not "allowed claims" or "allowed equity security interests" (as discussed above), unless they have been "allowed" for voting purposes.
- holders of claims or equity interests in unimpaired classes;
- holders of claims entitled to priority pursuant to §§ 507(a)(2), (a)(3), and (a)(8) of the Code; and
- holders of claims or equity interests in classes that do not receive or retain any value under the Plan.

Even if you are not entitled to vote on the Plan, you have a right to object to confirmation of the Plan and adequacy of this Disclosure Statement.

4. *Who Can Vote in More Than One Class*

A creditor whose claim has been allowed in part as a secured claim and in part as an unsecured claim, or who otherwise holds claims in multiple classes, is entitled to accept or reject a Plan in each capacity, and should cast one ballot for their claim in each different class.

B. Votes Necessary to Confirm the Plan

If impaired classes exist, the Bankruptcy Court cannot confirm the Plan unless (1) at least one impaired class of creditors has accepted the Plan without counting the votes of any insiders within that class, and (2) all impaired classes have voted to accept the Plan, unless the Plan is eligible to be confirmed by cram down on non-accepting classes.

1. *Votes Necessary for a Class to Accept the Plan*

A class of claims accepts the Plan if both of the following occur: (1) the holders of more than one-half (1/2) of the allowed claims in the class, who vote, cast their votes to accept the Plan, and (2) the holders of at least two-thirds (2/3) in dollar amount of the allowed claims in the class, who vote, cast their votes to accept the Plan.

A class of equity interests accepts the Plan if the holders of at least two-thirds (2/3) in amount of the allowed equity interests in the class, who vote, cast their votes to accept the Plan.

2. *Treatment of Non-Accepting Classes*

Even if one or more impaired classes reject the Plan, the Bankruptcy Court may nonetheless confirm the Plan if the non-accepting classes are treated in the manner prescribed by § 1129(b) of the Code. A plan that binds non-accepting classes is commonly referred to as a cram-down plan. The Code allows the Plan to bind non-accepting classes of claims or equity interests if it meets all the requirements for consensual confirmation except the voting requirements of § 1129(a)(8) of the Code, does not discriminate unfairly, and is fair and equitable toward each impaired class that has not voted to accept the Plan.

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

C. Liquidation Analysis

To confirm the Plan, the Bankruptcy Court must find that all Creditors and Equity Interest Holders who do not accept the Plan will receive at least as much under the Plan as such Creditors and Equity Interest Holders would receive in a Chapter 7 liquidation. A liquidation analysis will be filed with the Court under separate cover.

D. Feasibility

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

1. *Ability to Fund the Plan*

The Debtor believes that it will have enough cash on hand on the Effective Date of the Plan to pay all the claims and expenses that are entitled to be paid on that date and, further, that the Reorganized Debtor will generate sufficient cash through operations to fund the Plan during the Plan Distribution Period without having to utilize its additional cash on hand following the Effective Date. A projected budget and pro forma for the Reorganized Debtor in support of these assertions will be filed under separate cover.

You should consult with your Accountant or other financial advisor if you have any questions pertaining to these projections.

V. EFFECT OF CONFIRMATION OF PLAN

A. Binding Effect of Confirmation

In accordance with § 1141(a) of the Code, the provisions of a confirmed plan bind the Debtor, any entity issuing securities under the Plan, any entity acquiring property under the Plan, and any Creditor, equity security holder, or general partner in the Debtor, including current and former employees of the Debtor who have either manifested or un-manifested health claims arising from or associated with their pre-petition work for the Debtor, whether or not the Claim or Interest of such Creditor, equity security holder or general partner is impaired under the Plan and whether or not such Creditor, equity security holder or general partner has accepted the Plan.

B. Modification of Plan

The Debtor may modify the Plan at any time before confirmation of the Plan. However, if the Plan is modified, the Bankruptcy Court may require a new disclosure statement and/or re-voting on the Plan.

The Debtor may also seek to modify the Plan at any time after confirmation only if (1) the Plan has not been substantially consummated *and* (2) the Bankruptcy Court authorizes the proposed modifications after notice and a hearing.

C. **Final Decree**

Once the Estate has been fully administered, as provided in Rule 3022 of the Federal Rules of Bankruptcy Procedure, the Reorganized Debtor, or such other party as the Bankruptcy Court shall designate in the Plan Confirmation Order, shall file a motion with the Bankruptcy Court to obtain a final decree to close the case. Alternatively, the Bankruptcy Court may enter such a final decree on its own motion.

Date: October 8, 2013.

Respectfully submitted,

SURTRONICS, INC.

By: /s/ Angela D. Stanley
Angela D. Stanley
President and Chief Executive Officer

SHUMAKER LOOP & KENDRICK, LLP

By: /s/ David A. Matthews
David A. Matthews, Esq.
N.C. Bar No. 28306
dmatthews@slk-law.com
128 South Tryon Street, Suite 1800
Charlotte, North Carolina 28202

Steven M. Berman, Esq.
Fla. Bar No.: 856290
via pro hac vice admission
sberman@slk-law.com
101 E. Kennedy Blvd., Suite 2800
Tampa, Florida 33602
Phone (813) 229-7600

Attorneys for the Debtor