

**IN THE UNITED STATES BANKRUPTCY COURT  
FOR THE SOUTHERN DISTRICT OF TEXAS  
HOUSTON DIVISION**

<b>IN RE:</b>	§	<b>(Chapter 11)</b>
	§	
<b>PETROLEUM PRODUCTS &amp; SERVICES, INC.</b>	§	<b>CASE NO. 16-31201-H1-11</b>
	§	
<b>Debtor.</b>	§	<b>Judge Marvin Isgur</b>
	§	

**DEBTOR'S PROPOSED SECOND AMENDED DISCLOSURE STATEMENT IN  
SUPPORT OF PLAN OF REORGANIZATION PURSUANT TO SECTION 1125  
OF THE BANKRUPTCY CODE**

**IMPORTANT: THIS DISCLOSURE STATEMENT HAS NOT YET BEEN APPROVED BY THE BANKRUPTCY COURT. IT IS NOT BEING PROVIDED TO YOU WITH THE INTENT TO SOLICIT YOUR VOTE TO ACCEPT ANY PLAN OF LIQUIDATION. THE DISCLOSURE STATEMENT IS MERELY BEING PROVIDED TO YOU AS A PART OF THE DISCLOSURE STATEMENT APPROVAL PROCESS PURSUANT TO FEDERAL RULES OF BANKRUPTCY PROCEDURE 3016 & 3017.**

[PAGE TO BE REMOVED AFTER DISCLOSURE STATEMENT APPROVED.]

**Hoover Slovacek LLP  
Galleria Tower II  
5051 Westheimer, Suite 1200  
Houston, Texas 77056  
Tel: 713-977-8696**

**IN THE UNITED STATES BANKRUPTCY COURT  
FOR THE SOUTHERN DISTRICT OF TEXAS  
HOUSTON DIVISION**

<b>IN RE:</b>	§	<b>(Chapter 11)</b>
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<b>PETROLEUM PRODUCTS &amp; SERVICES, INC.</b>	§	<b>CASE NO. 16-31201-H1-11</b>
	§	
<b>Debtor.</b>	§	<b>Judge Marvin Isgur</b>
	§	

**SECOND AMENDED DISCLOSURE STATEMENT UNDER  
11 U.S.C. § 1125 AND BANKRUPTCY RULE 3016 IN  
SUPPORT OF SECOND AMENDED PLAN OF REORGANIZATION OF DEBTOR**

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**THIS DISCLOSURE STATEMENT IS SUBMITTED TO ALL CREDITORS OF THE DEBTOR ENTITLED TO VOTE ON THE PLAN OF REORGANIZATION HEREIN DESCRIBED AND CONTAINS INFORMATION THAT MAY AFFECT YOUR DECISION TO ACCEPT OR REJECT THE DEBTOR'S PLAN OF REORGANIZATION UNDER CHAPTER 11 OF THE UNITED STATES BANKRUPTCY CODE. THIS DISCLOSURE STATEMENT IS INTENDED TO PROVIDE ADEQUATE INFORMATION AS REQUIRED BY THE BANKRUPTCY CODE AS TO THE DEBTOR'S PLAN OF REORGANIZATION. ALL CREDITORS ARE URGED TO READ THE DISCLOSURE STATEMENT AND ATTACHMENTS WITH CARE AND IN THEIR ENTIRETY.**

**ON DECEMBER \_\_\_\_, 2016, THE BANKRUPTCY COURT APPROVED THIS DISCLOSURE STATEMENT AS CONTAINING ADEQUATE INFORMATION UNDER SECTION 1125(b) OF THE BANKRUPTCY CODE. SOLICITATION OF ACCEPTANCE OR REJECTION OF THE PLAN OF REORGANIZATION HEREIN DESCRIBED AND ATTACHED AS EXHIBIT A, IS BEING SOUGHT FROM CREDITORS WHOSE CLAIMS AGAINST THE DEBTOR ARE IMPAIRED UNDER THE PLAN OF REORGANIZATION. CREDITORS ENTITLED TO VOTE ON THE PLAN OF REORGANIZATION ARE URGED TO VOTE IN FAVOR OF THE PLAN AND TO RETURN THE BALLOT INCLUDED WITH THIS DISCLOSURE STATEMENT UPON COMPLETION IN THE ENVELOPE ADDRESSED TO HOOVER SLOVACEK LLP, ATTENTION: EDWARD L. ROTHBERG, 5051 WESTHEIMER, SUITE 1200, HOUSTON, TEXAS 77056, NOT LATER THAN JANUARY 26, 2017.**

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## **DISCLOSURE STATEMENT**

**PETROLEUM PRODUCTS & SERVICES, INC. dba Wellhead Distributors International**, debtor and debtor-in-possession herein (the "Debtor" or "WDi"), submits this Second Amended Disclosure Statement ("Disclosure Statement") under section 1125 of the Bankruptcy Code and Bankruptcy Rule 3016 in Support of Plan of Reorganization to all of its known Creditors.

### **I. INTRODUCTORY STATEMENT**

Debtor submits this Disclosure Statement Under 11 U.S.C. § 1125 in support of its Chapter 11 Plan of Reorganization under Chapter 11 of the United States Bankruptcy Code (the "Disclosure Statement") in connection with its solicitation of acceptances of the Second Amended Plan of Reorganization under Chapter 11 of the United States Bankruptcy Code filed by the Debtor (the "Plan"). A copy of the Plan is attached as Exhibit A for your review. All terms used in this Disclosure Statement but not otherwise defined herein have the meanings ascribed to such terms in the Plan.

The Debtor filed a petition under Chapter 11 of the Bankruptcy Code with the United States Bankruptcy Court for the Southern District of Texas, Houston Division, on March 4, 2016 and has retained Edward L. Rothberg and Hoover Slovacek LLP as its current bankruptcy counsel. The Debtor has prepared this Disclosure Statement to disclose that information which, in its opinion, is material, important, and necessary to an evaluation of the Plan. Pursuant to the terms of the United States Bankruptcy Code, this Disclosure Statement must be presented to and approved by the Bankruptcy Court. Such approval is that required by statute and does not constitute a judgment by the Court as to the desirability of the Plan or as to the value or suitability of any consideration offered thereby.

The material herein contained is intended solely for the use of known creditors and interest holders of the Debtor, and may not be relied upon for any purpose other than a determination by them of how to vote on the Plan. As to Contested Matters, Adversary Proceedings and other actions or threatened actions, this disclosure statement shall not constitute or be construed as an admission of any fact or liability, stipulation or waiver, but rather as a statement made in settlement negotiations under Rule 408 of the Federal Rules of Evidence. This disclosure statement shall not be admissible in any non-bankruptcy proceeding nor shall it be construed as to be advice on the tax, securities or other legal effects of the plan as to the holders of claims against or equity interests in the Debtor.

To ensure compliance with Treasury department circular 230, each holder of a claim or interest is hereby notified that: (a) any discussion of U.S. Federal Tax issues in this disclosure statement is not intended or written to be relied upon, and cannot be relied upon, by any holder for the purpose of avoiding penalties that may be imposed upon a holder under the Tax Code; (b) such discussion is included hereby by the Debtor in connection with the promotion or marketing (within the meaning of Circular 230) by the Debtor of the transactions or matters addressed herein; and (c) each holder should seek advice based upon its particular circumstances from an independent tax advisor.

Certain of the materials contained in this Disclosure Statement are taken directly from other, readily accessible instruments or are digests of other instruments. While the Debtor has made every effort to retain the meaning of such other instruments or the portions transposed, it urges that any reliance on the contents of such other instruments should depend on a thorough review of the instruments themselves.

No representations concerning the Debtor or the Plan are authorized other than those that are set forth in this Disclosure Statement. Any representations or inducements made by any person to secure your vote which are other than those contained herein should not be relied upon, and such representations or inducements should be reported to counsel for the Debtor who shall deliver such information to the Bankruptcy Court. Finally, all terms not otherwise defined in this Disclosure Statement shall have the meanings assigned to them under the Plan.

Creditors should read this Disclosure Statement in its entirety prior to voting on the Plan. No solicitation of votes on the Plan may be made, except pursuant to this Disclosure Statement and Section 1125 of the Bankruptcy Code. No other party has been authorized to utilize any information concerning the Debtor or its affairs, other than the information contained in this Disclosure Statement, to solicit votes on the Plan. Creditors and holders of equity interest should not rely on any information relating to the Debtor, other than that contained in this Disclosure Statement and the exhibits attached hereto.

**EXCEPT AS SET FORTH IN THIS DISCLOSURE STATEMENT AND THE ATTACHMENTS, NO REPRESENTATIONS CONCERNING THE DEBTOR, THE ASSETS, THE PAST OPERATIONS OF THE DEBTOR, OR THE PLAN ARE AUTHORIZED, NOR ARE ANY SUCH REPRESENTATIONS TO BE RELIED UPON IN ARRIVING AT A DECISION WITH RESPECT TO THE PLAN. ANY REPRESENTATIONS MADE TO SECURE ACCEPTANCE OR REJECTION OF THE PLAN OTHER THAN AS CONTAINED IN THIS DISCLOSURE STATEMENT SHOULD BE REPORTED TO COUNSEL FOR THE DEBTOR.**

**EXCEPT AS SPECIFICALLY NOTED, THERE HAS BEEN NO INDEPENDENT AUDIT OF THE FINANCIAL INFORMATION CONTAINED IN THIS DISCLOSURE STATEMENT. THE DEBTOR IS NOT ABLE TO WARRANT OR REPRESENT THAT THE INFORMATION CONTAINED HEREIN IS WITHOUT ANY INACCURACY. THE FACTUAL INFORMATION REGARDING THE DEBTOR, INCLUDING THE ASSETS AND LIABILITIES OF THE DEBTOR, HAS BEEN DERIVED FROM NUMEROUS SOURCES, INCLUDING, BUT NOT LIMITED TO, DEBTOR'S BOOKS AND RECORDS, SCHEDULES AND DOCUMENTS SPECIFICALLY IDENTIFIED HEREIN.**

**THE DEBTOR ALSO COMPILED THE INFORMATION CONTAINED IN THIS DISCLOSURE STATEMENT FROM RECORDS AVAILABLE TO IT, INCLUDING, BUT NOT LIMITED TO, PLEADINGS AND REPORTS ON FILE WITH THE BANKRUPTCY COURT, LOAN AGREEMENTS AND BUSINESS RECORDS.**

**THE APPROVAL BY THE BANKRUPTCY COURT OF THE DISCLOSURE STATEMENT DOES NOT CONSTITUTE AN ENDORSEMENT BY THE**

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**BANKRUPTCY COURT OF THE PLAN OR A GUARANTY OF THE ACCURACY AND COMPLETENESS OF THE INFORMATION CONTAINED HEREIN.**

**THIS DISCLOSURE STATEMENT HAS NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION, NOR HAS THE COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THE STATEMENTS CONTAINED HEREIN.**

**NEITHER THE DEBTOR NOR COUNSEL FOR THE DEBTOR CAN WARRANT NOR REPRESENT THAT THE INFORMATION CONTAINED IN THIS DISCLOSURE STATEMENT IS WITHOUT INACCURACIES. NEITHER THE DEBTOR NOR ITS COUNSEL HAS VERIFIED THE INFORMATION CONTAINED IN THIS DISCLOSURE STATEMENT, ALTHOUGH THEY DO NOT HAVE ACTUAL KNOWLEDGE OF ANY INACCURACIES.**

**IF THE REQUISITE VOTE IS ACHIEVED FOR EACH CLASS OF IMPAIRED CLAIMS, THE PLAN IS SUBSEQUENTLY CONFIRMED BY THE BANKRUPTCY COURT AND THE EFFECTIVE DATE OCCURS, ALL HOLDERS OF CLAIMS AGAINST THE DEBTOR (INCLUDING, WITHOUT LIMITATION, THOSE HOLDERS OF CLAIMS WHO DO NOT SUBMIT BALLOTS TO ACCEPT OR REJECT THE PLAN), WILL BE BOUND BY THE TERMS OF THE PLAN AND THE TRANSACTIONS CONTEMPLATED THEREBY.**

## **II. VOTING PROCEDURES**

Any creditor of the Debtor whose claim is IMPAIRED under the Plan is entitled to vote, if either (1) the claim has been scheduled by the Debtor and such claim is not scheduled as disputed, contingent or unliquidated, or (2) the creditor has filed a proof of claim on or before the last date set by the Bankruptcy Court for such filings, *provided, however*, any claim as to which an objection has been filed (and such objection is still pending) is not entitled to vote, unless the Bankruptcy Court temporarily allows the creditor to vote upon motion by the creditor. Such motion must be heard and determined by the Bankruptcy Court prior to the date established by the Bankruptcy Court to confirm the Plan. In addition, a creditor's vote may be disregarded if the Bankruptcy Court determines that the creditor's acceptance or rejection was not solicited or procured in good faith or in accordance with the provisions of the Bankruptcy Code.

Holders of impaired claims who are entitled to vote and fail to do so will not be counted as either accepting or rejecting the Plan. Nevertheless, if the requisite vote is achieved for your class of impaired claims, you will be bound by the terms of the Plan.

A ballot to be used for voting to accept or reject the Plan is enclosed with this Disclosure Statement and mailed to creditors entitled to vote. A creditor must (1) carefully review the ballot and the instructions thereon, (2) execute the ballot, and (3) return it to the address indicated thereon by the deadline to enable the ballot to be considered for voting proposes.

**THE DEADLINE FOR RETURNING YOUR BALLOT  
ON JANUARY 26, 2017**

**(THE "VOTING DEADLINE").**

After completion of the ballot, creditors should return the executed ballot in the self-addressed envelope to:

**PETROLEUM PRODUCTS & SERVICES, INC.  
dba Wellhead Distributors International.  
c/o EDWARD L. ROTHBERG/MELISSA A. HASELDEN  
HOOVER SLOVACEK LLP  
5051 WESTHEIMER, SUITE 1200  
HOUSTON, TX 77056**

**VOTING INFORMATION AND INSTRUCTION FOR COMPLETING THE BALLOT:**

**FOR YOUR VOTE TO BE COUNTED YOU MUST COMPLETE THE BALLOT, INDICATE ACCEPTANCE OR REJECTION OF THE PLAN IN THE BOXES INDICATED ON THE BALLOT AND SIGN AND RETURN THE BALLOT TO THE ADDRESS SET FORTH ON THE PRE-ADDRESSED ENVELOPE. IF A BALLOT IS RECEIVED AFTER THE VOTING DEADLINE, IT WILL NOT BE COUNTED.**

**IF YOU HOLD CLAIMS IN MORE THAN ONE CLASS UNDER THE PLAN, YOU MAY RECEIVE MORE THAN ONE BALLOT. EACH BALLOT YOU RECEIVE VOTES ONLY YOUR CLAIMS FOR THAT CLASS. PLEASE COMPLETE AND RETURN EACH BALLOT YOU RECEIVE. YOU MUST VOTE ALL OF YOUR CLAIMS WITHIN A SINGLE CLASS UNDER THE PLAN TO EITHER ACCEPT OR REJECT THE PLAN. ACCORDINGLY, A BALLOT (OR MULTIPLE BALLOTS WITH RESPECT TO MULTIPLE CLAIMS WITHIN A SINGLE CLASS) THAT PARTIALLY REJECTS AND PARTIALLY ACCEPTS THE PLAN WILL NOT BE COUNTED.**

**THE BALLOT IS FOR VOTING PURPOSES ONLY AND DOES NOT CONSTITUTE AND SHALL NOT BE DEEMED A PROOF OF CLAIM OR INTEREST OR AN ASSERTION OF A CLAIM.**

**III. IMPAIRMENT OF CLAIMS**

A class is "impaired" if the legal, equitable or contractual rights attaching to the claims or interest of that class are modified under a plan. Modification for purposes of determining impairment however, does not include curing defaults and reinstating maturity or cash payment in full. Classes of claims or interests that are not "impaired" under a plan are conclusively presumed to have accepted the plan and are thus not entitled to vote. Classes of claims or interests receiving no distribution under a plan are conclusively presumed to have rejected the plan and thus are not entitled to vote. Acceptances of the Plan are being solicited only from those persons who hold claims in an impaired class entitled to receive a distribution under the Plan.

Under Section 1124 of the Bankruptcy Code, a class of claims or interests is impaired under a plan, unless, with respect to each claim or interest of such class, the plan:

1. Leaves unaltered the legal, equitable, and contractual rights of the holder of such claim or interest; or

2. Notwithstanding any contractual provision or applicable law that entitles the holder of a claim or interest to receive accelerated payment of its claim or interest after the occurrence of a default:

(a) Cures any such default that occurred before or after the commencement of the case under the Bankruptcy Code, other than a default of a kind specified in Section 365(b)(2) of the Bankruptcy Code;

(b) Reinstates the maturity of such claim or interest as it existed before the default;

(c) Compensates the holder of such claim or interest for damages incurred as a result of reasonable reliance on such contractual provision or applicable law; and

(d) Does not otherwise alter the legal, equitable or contractual rights to which such claim or equity interest entitles the holder of such claim or interest; or

3. Provides that, on the Effective Date the holder of such claim or interest receives, on account of such claim or interest, cash, equal to:

(a) With respect to a claim, the allowed amount of such claim; or

(b) With respect to an interest, if applicable, the greater of:

(i) Any applicable fixed liquidation preference; or

(ii) Any fixed preference at which the Debtor, under the terms of the security, may redeem the security.

4. In Article 4 of the Plan, the Debtor has identified the impaired classes of creditors under the Plan. In the event there are questions regarding whether a person is in an impaired class, the person should assume that his or her claim is impaired and vote. If the claim is determined to be impaired, the vote will be considered by the Bankruptcy Court. The Class 2, 3, 4, 5 and 6 holders of claims and the Class 7 interest holders of the Debtor are impaired under the Plan.

**IMPAIRED CREDITORS ANTICIPATED TO RECEIVE A DISTRIBUTION UNDER THE PLAN ARE BEING SOLICITED TO VOTE. IF YOU HOLD AN**



**ADMINISTRATIVE CLAIM OR UNIMPAIRED CLAIM, THE DEBTOR IS NOT SEEKING YOUR VOTE.**

#### **IV. NATURE AND HISTORY OF BUSINESS**

##### **A. Source of Information and Accounting Method**

The Debtor's books are maintained under the supervision of Alejandro Kiss, the President and a director of the Debtor. Accounting is on the accrual basis. The historical financial information contained in this disclosure statement as well as the bankruptcy schedules and statement of affairs was derived from the Debtor's books and records. **THE DEBTOR'S BOOKS WERE AUDITED MOST RECENTLY FOR THE YEARS 2013 AND 2014 BY THE ACCOUNTING FIRM OF DOEREN MAYHEW, AN INDEPENDENT PUBLIC ACCOUNTANT. THE DEBTOR HAS ATTEMPTED TO ACCURATELY REFLECT ITS BUSINESS OPERATIONS FOR ALL TAX YEARS REFLECTED HEREIN.**

##### **B. General Information**

###### **1. History of The Debtor**

WDi is an oilfield services company whose core business is selling a full suite of wellhead equipment, gate valves, mud valves, chokes and multi-bowl wellhead systems. WDi maintains its four strategic locations in Texas and Louisiana to serve its customers, with its largest location and corporate offices based in Houston, Texas. WDi has been in business since 1995 and was founded by Alejandro Kiss, who is its largest shareholder. WDi currently has fifteen (15) full-time employees and four contract employees.

The Debtor began its business as a single location in Houston, Texas as the first wholesale distributor of API-6A wellhead equipment and valves in North America. The API-6A is an international standard that specifies requirements and gives recommendations for the performance, dimensional and functional interchangeability, design, materials, testing, inspection, welding, marking, handling, storing, shipment, purchasing, repair and remanufacture of wellhead and christmas tree equipment used in the petroleum and natural gas industries. To satisfy wider range of customer needs, WDi expanded its product line to include high pressure, engineered wellhead systems and specialty valves and its services to include manufacturing, assembly, design and aftermarket repair capabilities.

WDi offers a full suite of wellhead equipment, gate valves, mud valves, chokes and multi-bowl wellhead systems. WDi serves independent wellhead service companies and original equipment manufacturers ("OEMs") operating in the upstream oil and gas industry through its multiple stocking locations in the United States.

###### **2. Source of Financial Difficulties**

This bankruptcy case was filed primarily as a result of the collapse in oil prices and the resulting depression in the oil field service industry. The failure of the oil economy also impaired WDi's ability to litigate pending litigation, most significantly 3 related lawsuits involving former board members and co-shareholders competing against the business and asserting a claim in excess of \$22 million. Prior to the bankruptcy filing, WDi spent more than \$2 million in legal



fees and expenses in connection with this related litigation. The following is a summary of material litigation impacting WDi:

*a. CPTDC Litigation*

WDi provides a wide variety of products and services in the oil and gas exploration and production industry. The core offering of its business, however, is American Petroleum Institute Specification 6A ("API-6A") products. WDi is the premier wholesale distributor of API-6A wellhead equipment and valves in North America. Jiangsu Jinshi Machinery Group Co., Ltd ("JMP") is a Chinese corporation that manufactures API-6A wellhead equipment valves. CPTDC, a wholly-owned subsidiary of China National Petroleum Corporation ("CPNC"), is a Chinese corporation that exports petroleum equipment and materials for CNPC's overseas projects-including API-6A wellhead equipment and valves. JMP and CPTDC are "strategic partners" and CPI is the American subsidiary of CPTDC. CP International, Inc. ("CPI") is the agent and alter ego of CPTDC for the purpose of performing the agreements between CPTDC and WDi.

In 2006, WDi entered into that various agreements with JMP and CPTDC pursuant to which JMP and CPTDC each agreed to exclusively supply WDi with API-6A products for North America, and to establish an exclusive relationship for the sale of API-6A products in the United States, Canada and Mexico ("WDi Exclusive Territory"). WDi, JMP and CPTDC also entered into a Stockholders' Agreement which provided that JMP and CPTDC together acquired sufficient corporate shares of WDi to and at one time owned 19% of the outstanding shares of WDi and become members of WDi's Board of Directors. Subsequently, WDi learned that these trading partners and board members were selling API-6A merchandise in the protected territories assigned to WDi in violation of the agreements between the parties. WDi also learned that JMP and CPTDC were doing business with a direct competitor, Kana.

On March 24, 2014, WDi filed suit against CPTDC, JMP, and CPI to recover damages for these improper sales and for the significant breaches of fiduciary duty. The case was styled *Alejandro & Mary Katherine Kiss Revocable Living Trust, Petroleum Products & Services, Inc., dba Wellhead Distributors International, Inc. and Wellhead Distributors Int'l Ltd. vs. Jiangsu Jinshi Machinery Group Co., Ltd, China Petroleum Technology & Development Corporation and CP International, Inc.*, in the 151st District Court of Harris County, Texas, Cause No. 2014-15734 (the "CPTDC Litigation"). CPTDC and JMP have denied these allegations and asserted various counterclaims against WDi in the litigation.

After WDi filed the CPTDC Litigation, on March 24, 2014, CPTDC later filed a lawsuit in the United States District Court for the Southern District of Texas, Houston Division, against WDi alleging that it owed CPTDC debt in the amount of \$14.6 million for equipment, in a case styled *China Petroleum Technology & Development Corporation v. Petroleum Products Services, Inc. dba Wellhead Distributors International*, Civil Action No. 4:14-cv-00744 (the "Federal Court Litigation"). WDi denied the allegations in the Federal Court Litigation and filed a counterclaim against CPTDC in that case. Prosecuting and defending these lawsuits resulted in the Debtor's expenditure of more than \$2 million in attorneys' fees and expenses which significantly impacted WDi's cash flow and was a precipitating factor in the bankruptcy filing.

WDi removed the CPTDC Litigation to the Bankruptcy Court on March 8, 2016 under Adversary No. 16-3052 (“CPTDC Adversary”). The Federal Court Litigation has been stayed due to WDi’s bankruptcy filing. CPTDC subsequently filed a proof of claim in WDi’s Bankruptcy Case claim in the amount of \$22 million. WDi disputed this amount and requested that the Bankruptcy Court estimate CPTDC’s claim pursuant to the provisions of 11 U.S.C. §502(c) so it could file a meaningful plan (Docket #109). During the first two months of this case, CPTDC opposed many of Debtor’s reorganizational efforts, resulting in the Debtor’s expenditure of attorneys’ fees and expenses to litigate these matters. On June 6, 2016, the Bankruptcy Court entered an order requiring that the parties attend mediation prior to continued litigation. The Official Committee of Unsecured Creditors participated in this mediation. The parties subsequently successfully mediated the dispute whereby CPTDC will be paid \$5 million pursuant to the terms of the Settlement Agreement which is incorporated into the Debtor’s Plan. The adversary proceeding is currently abated.

In accordance with Article 4.5 of the Plan, CPTDC will be paid a total of \$5 million in full satisfaction of all claims held by CPTDC, JMP and CPI. \$2.75 million of the settlement will be paid from non-Debtor sources - \$1 million from the Cash Infusion provided by Alejandro Kiss and \$1.75 million from the proceeds of the sale of Kiss Real Estate that is not property of WDi. The remaining payment of \$2.25 million will be paid by WDi thirty-six (36) months after entry of the Confirmation Order. The parties to the settlement shall mutually release all claims, including the cancellation of any equity interest held by CPTDC, JMP and/or CPI. As a result of this cancellation of equity interest, the total outstanding shares in the company will be reduced, which conversely increases the percentage of equity held by existing shareholders.

The Debtor believes that settlement of the CPTDC Litigation is in the best interests of the Debtor and its estate because it resolves litigation that would continue to be a significant drain on cash flow of the company and could stretch out for years, which would likely result in a lower return and distribution to other creditors.

Additionally, under the terms of the Plan, \$2.75 million of the CPTDC settlement will be paid by Alejandro Kiss or from other non-Debtor assets and entities, **NOT** by WDi. This allows the Debtor to utilize \$2.75 million of its cash to pay claims of other creditors. Further, under the terms of the Plan, WDi is not required to pay the remaining balance owed to CPTDC until up to 36 months from confirmation of the plan. Thus, this allows the Debtor to use its cash for operations and to satisfy other claims.

Further, unsecured creditors also benefit from the CPTDC settlement in that CPTDC’s claim is not included in the Class 4 General Unsecured Claim pool and accordingly, does not share in the distributions to Allowed Class 4 General Unsecured Claims. To recap, CPTDC has asserted a general unsecured claim of approximately \$22 million, based upon invoices totaling \$14.6 million, with the balance related to other damages. As discussed above, WDi disputed the claim in full and asserted claims against CPTDC for damages. Absent settlement, if CPTDC’s claim were ultimately allowed as a general unsecured claim, it would significantly increase the total amount of unsecured claims by up to \$22 million and substantially dilute the return to all general unsecured creditors to a small fraction of what is contemplated under the Plan. Further, continued litigation costs would dilute returns to all creditors. The Committee, which

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participated in the mediation of CPTDC's claim, disagrees with the disclosure, and evaluation of, the CPTDC/CPI and JMP litigation and the resulting claims. However, the Debtor asserts that the payment of the CPTDC on the terms described in the Plan provides a greater benefit and return to other creditors than would otherwise be received.

*b. KANA Litigation*

The first lawsuit filed related to the CPTDC Litigation was WDi's request for a temporary restraining order and petition against Kana Energy Services, Inc. ("Kana") and Surface Supply, LLC ("Surface"), which was filed on February 17, 2014 under Cause No. 2014-07416 and styled as *Petroleum Products & Services, Inc. dba Wellhead Distributors International v. Kana Energy Services, Inc. and Surface Supply, Inc.*, in the 133rd District Court of Harris County, Texas (the "Kana Litigation"). Kana and Surface are competitors of WDi. In the Kana Litigation, WDi sought and obtained an injunction preventing Kana and Surface from selling product purchased from CPTDC in the WDi Exclusive Territory. In the lawsuit, WDi alleged that Kana and Surface both tortuously interfered with WDi's contracts with CPTDC by purchasing and distributing in WDi's Exclusive Territory the same equipment WDi purchased from CPTDC and that is subject to WDi's exclusivity agreement with CPTDC. WDi asserted that Kana and Surface knowingly sold product from CPTDC in WDi's Exclusive Territory, despite being aware of WDi's exclusivity agreement with CPTDC. WDi is also seeking damages in excess of \$1 million in this litigation. Kana and Surface denied the allegations.

On May 25, 2016, Kana removed the Kana Litigation to the Bankruptcy Court under Adversary Proceeding 16-03113 where it is currently pending. Since the removal of this litigation, WDi has filed an amended complaint to add additional causes of action and Kana has filed a motion for summary judgment. Kana recently filed additional claims and has sought to add additional parties. On October 4, 2016, the parties settled the Kana Litigation, for \$350,000, which is payable in three consecutive monthly installments beginning October 15, 2016. On November 29, 2016, the Court entered an order approving the Kana settlement (Docket #331) and payments which have become due under the terms of the settlement have been paid. These funds are currently being held in trust pending confirmation of the Plan. The Debtor has expended substantial legal fees and expenses in connection with the Kana Litigation including approximately \$140,000 in post-petition fee and expenses which remain unpaid.

*c. Deocampo Litigation*

A former employee, Hernani Deocampo filed a lawsuit in state court for breach of his employment agreement. The claim relates to an obligation to continue to pay Deocampo certain amounts and to provide him housing. WDi has denied the allegations in the Complaint and continues to defend that litigation. WDi has also filed an objection to the Proof of Claim filed by Deocampo. The parties have reached a settlement of this litigation which results in payment to Deocampo of \$21,000 in cash by Mr. Kiss or a non-Debtor entity owned by him. This entity will acquire Deocampo's general unsecured claim which shall be allowed in the amount of \$21,000 as a Class 4 general unsecured claim. The Committee has no opposition to this settlement. On December 20, 2016, the Court entered an order approving this agreement (Docket #355).

### 3. **Financial Situation as of Petition Date**

Excluding its' unsecured trade obligations, WDi's secured indebtedness consists of

claims totaling approximately \$6 million, owed to Chase with respect to RLOC and Equipment Term Loan. WDi also owes approximately \$1 million in secured ad valorem property taxes. WDi has no other secured debt. WDi also has undisputed trade obligations of approximately \$3 million (excluding the debt of CPTDC). These obligations are owed to trade creditors who have provided various goods and services to WDi. Most of WDi's trade creditors commonly provide such goods and services to this industry. WDi also owes approximately \$3.4 million to its affiliates.

Additionally, as discussed more fully herein, CPTDC shall be paid a total of \$5 million on account of its alleged \$22 million claim, with \$2.75 million paid from non-Debtor property. Additionally, WDi estimates undisputed priority claims of approximately \$16,000.

#### **4. Ownership and Management**

WDi SHC, LP is the majority shareholder of WDi and is owned by the Alejandro and Mary Katherine Kiss Revocable Trust. Alejandro Kiss, Gerry Ferguson, Dean Maddell, and Arpad Kiss are directors of WDi ("Directors") and will continue to serve as directors subsequent to confirmation of the Plan. Mr. Kiss controls the Debtor and several entities which either owe obligations to the Debtor or are owed amounts by the Debtor. These entities are WDi Manufacturing, WDi Drilling, and Wdi Canada. Information relative to amounts owed to the Debtor by these entities is further discussed in Section IV (D)(1) herein. Mr. Kiss is contributing substantial private assets to fund the Plan which benefits creditors of the Debtor. Further, in accordance with the CPTDC Settlement, the equity owned CPTDC and JMP was cancelled and directors associated with the entities have resigned their positions.

Alejandro Kiss has more than 20 years' experience in the oil and gas industry, including serving as President of the Debtor since 1995. Arpad Kiss, a sibling of Alejandro Kiss, has extensive experience in procurement and supply chain management in the oil and gas industry since 1998. The remaining Directors also have significant experience in the oil and gas industry. Prior to the bankruptcy, none of the directors were compensated for their services as directors. Post confirmation, the Debtor expects to maintain this policy with respect to director compensation. The Debtor does not have a full-time chief financial officer but employs one on a contract basis as needed.

#### **5. Significant Events During Bankruptcy**

##### ***a. Voluntary Petition filing***

On March 4, 2016, WDi filed this voluntary reorganization case ("Petition Date") under Chapter 11 of the Bankruptcy Code and was assigned Case No. 16-31201-H1-11 in the United States Bankruptcy Court for the Southern District of Texas.

##### ***b. Administration***

Shortly after the filing of the petition, the Debtor filed:

*Application to Employ Hoover Slovacek LLP as counsel for the Debtor:* This pleading was filed on March 16, 2016 and an order authorizing this employment was entered on March 29, 2016 [Docket #73].

*Application to Employ Special Litigation Counsel:* By this pleading, the Debtor sought to employ Hirsch & Westheimer PC as special litigation counsel to assist with the CPTDC Litigation and related litigation. An order authorizing this employment was entered by the Court on April 5, 2016 [Docket #88].

*Designation of Complex Chapter 11 Case:* This pleading was filed to designate WDI's Chapter 11 case as a Complex Chapter 11 bankruptcy case in accordance with established Complex Chapter 11 case procedures in this district. An order granting complex case treatment was entered on March 28, 2016 [Docket #69].

*Emergency Motion to Extend Deadline to File Debtor's Schedules and Statements of Financial Affairs:* By this motion, the Debtor requested an extension of the 14 day deadline to file its schedules and statements of financial affairs. An order extending this deadline through April 8, 2016 was entered on March 7, 2016 [Docket #20].

*Emergency Motion for Entry of an Order Approving Debtor's Payment of Pre-Petition Compensation, Employee Benefits, 401(k) Contributions, Taxes, and Mandatory Support Obligations, and Payroll Processing Fees:* By this motion, the Debtor sought permission to pay accrued, prepetition wages, related taxes, support obligations and benefits and to continue prepetition benefit policies, including the Debtor's 401K plan. An order approving this motion was entered on March 7, 2016 [Docket #21]. Pursuant to the terms of the order, Mr. Kiss was not paid accrued but unpaid prepetition wages or related benefits.

*Emergency Motion for Entry of an Order Authorizing Payment of Certain Sales, Use and Franchise Taxes and Fees:* By this motion, the Debtor requested that it be permitted to remit and pay certain taxes and fees in the ordinary course of business, without regard to whether such obligations accrued or arose before or after the Petition Date. An order authorizing payment of these taxes was entered on March 21, 2016 [Docket #53].

*Emergency Motion (I) for Interim Authority to Use Cash Collateral (II) to Incur Post Petition Indebtedness under 11 U.S.C. Sections 363, 364, 502(b) and 105:* By this motion, the Debtor sought permission to use cash collateral and enter into an unsecured post petition financing. The Court entered an interim order authorizing the interim use of cash collateral on March 7, 2016 [Docket #22] and a second interim order authorizing this use on March 21, 2016 [Docket #54]. A final order authorizing use of cash collateral was entered on April 5, 2016 [Docket #89]. A stipulation extending use of cash collateral through November 30, 2016 was entered in July 21, 2016 [Docket #223].

*Emergency Motion to Maintain Pre-Petition Bank Accounts and Cash Management System:* By this motion, Debtor sought to maintain its prepetition bank accounts and cash management system. An order approving this motion was entered on March 7, 2016 [Docket #23].

*Motion Pursuant to 11 USC § 365 to Reject Certain Executory Contracts, Effective Nunc Pro Tunc to March 4, 2016:* By this motion, Debtor sought authorization to reject certain



executory contracts or unexpired leases described in the motion effective March 4, 2016. An order authorizing this reject was entered on March 29, 2016 [Docket #74].

*Adversary Proceeding No. 16-03052:* On March 8, 2016, the Debtor initiated Adversary Proceeding No. 16-03052 with the removal of Cause No. 2014-15734, previously pending in the 151st District Court of Harris County, Texas, styled as *Alejandro & Mary Katherine Kiss Revocable Living Trust, Petroleum Products & Services, Inc., dba Wellhead Distributors International, Inc. and Wellhead Distributors Int'l Ltd. vs. Jiangsu Jinshi Machinery Group Co., Ltd, China Petroleum Technology & Development Corporation and CP International, Inc.* (“CPTDC Litigation”)[Docket #25]. Detailed information about the CPTDC Litigation is further described in herein in Section IV (B) (2) (a).

*Adversary Proceeding No. 16-03053:* On March 8, 2016, the Debtor initiated Adversary Proceeding No. 16-03052 with the removal of Cause No. 2014-64371; in the case styled *Alejandro Kiss Individually and as Trustee of the Alejandro Kiss and Mary Kathryn Kiss Revocable Living Trust v. Donald Atencio, Wellhead Services, Inc. and Fracmaster, LLC*; previously pending in the 113th Judicial District Court of Harris County, Texas against Donald Atencio, Wellhead Services, Inc., and Fracmaster, LLC [Docket #26]. This lawsuit pertains to claims of breach of contract and breach of fiduciary duty asserted by Alejandro Kiss and certain related entities, against Wellhead Services, Inc., and Fracmaster. Wellhead Services, Inc. asserted counterclaims and joined WDi as a party. In the Adversary Proceeding, Wellhead Services filed a Motion to Abstain, seeking to have the case remanded to state court. On August 8, the Court entered an order granting this motion and remanding the case to state court. However, the automatic stay remains in effect.

*Application to Employ Bennett G. Fisher as Attorney for Committee:* By this pleading, the Official Committee of Unsecured Creditors sought to employ *Bennett G. Fisher and Fisher Associates* as counsel to the committee. An order authorizing this employment was entered by the Court on April 20, 2016 [Docket #107].

*Emergency Motion to Reject Contract with Xiongye Petroleum Machinery:* With this motion, the Debtor sought to reject its contract with Xiongye Petroleum Machinery due to the fact that the Debtor did not have sufficient funds to pay unloading costs. On March 21, 2016, the Court entered an order authorizing Debtor’s affiliate to pay the shipping charge and provided the affiliates a first lien on the inventory [Docket #55].

*Application to Employ Natasha Erskine and Calvetti Ferguson P.C. as Auditor for Debtor's 401(k) Plan:* By this motion, the Debtor sought to employ Natasha Erskine and Calvetti Ferguson P.C as an auditor for its 401(k) Plan. An order authorizing this employment was entered on April 20, 2016 [Docket #108].

*Motion for Order Establishing Procedure for Interim Compensation of Professionals:* With this motion, the Debtor sought to establish procedures for interim compensation of professionals. An order approving these procedures was entered on April 27, 2016 [Docket 114].

*Adversary Proceeding No. 16-03078:* On April 7, 2016, the Debtor initiated Adversary Proceeding No. 16-03078 with the removal of Cause No. 15-2512-C, styled *Nicholas Aberle, Laney Aberle and Paul Aberle, successors-in-interests to The Heinrich J. Aberle Revocable Trusts v. petroleum products and Services, Inc., d/b/a Wellhead Distributors International*, filed in the 241<sup>st</sup> Judicial District of Smith County, Texas [Docket #92]. The underlying lawsuit was initiated by Aberle and with this removal, the Debtor sought to set aside a default judgment. Subsequent to the removal, the parties entered into a stipulation of dismissal of the adversary proceeding which was approved by the Court on May 31, 2016.

*Second Motion Pursuant to 11 USC § 365 to Reject Certain Executory Contracts, Effective Nunc Pro Tunc to March 31, 2016:* By this motion, Debtor sought authorization to reject certain executory contracts or unexpired leases described in the motion effective March 31, 2016. An order authorizing this reject was entered on May 3, 2016 [Docket #127].

*Motion to Estimate Claim of China Petroleum Technology & Development Corporation for Purposes of Allowance, Distribution and Voting:* With this motion, Debtor sought have the Court estimate the claim of CPTDC which is related to the CPTDC Litigation. The Court subsequently referred the CPTDC to mediation and an agreement was reached resolving the allowed claim. Detailed information about this matter is further described in herein in Section IV (B) (2)(a). CPTDC's claim is treated in Class 4.5 of the Plan. An order abating this motion was entered by the Court on June 28, 2016 [Docket #203].

*Application to Employ Doeren Mayhew as Tax Accountant for Debtor:* By this motion, the Debtor sought to employ Doeren Mayhew as tax accountant for Debtor for purposes of completing the Debtor's 2015 tax return. An order authorizing this employment was entered on May 4, 2016 [Docket #131]. The Debtor subsequently sought to expand the scope of the tax accountants' employment to assist with an IRS audit of its 2013 and 2014 federal income tax returns and file any necessary amendments. An order approving the expanded engagement was entered August 23, 2016 [Docket #243].

*Expedited Motion for Order Approving Sales Procedures and Authorizing Non-Ordinary Course Sale of Debtor's Inventory:* In this motion, the Debtor sought to authorization to sell inventory in non-ordinary course, bulk internet sales and auctions. On May 18, 2016, the Court entered an order authorizing these sales [Docket #155]. Although the Court approved this procedure, the Debtor has not conducted an auction. Subsequent to the entry of this order, Debtor's business has increased and the Debtor has limited resources to devote to this project. Additionally, the Debtor has been able to sell some of this inventory in the ordinary course of its business which provides a greater return than an auction.

*Adversary Proceeding No. 16-03113:* On May 25, 2016, Kana Energy Services initiated Adversary Proceeding No. 16-03113 with the removal of Cause No. 2014-07416 and styled as *Petroleum Products & Services, Inc. dba Wellhead Distributors International v. Kana Energy Services, Inc. and Surface Supply, Inc.*, in the 133<sup>rd</sup> District Court of Harris County, Texas ("*Kana Litigation*") [Docket #161]. Detailed information about the Kana Litigation is further described in herein in Section IV (B) (2) (b).



*Application to Employ Stuart Lapp and Stibbs & Co., P.C. as Special Litigation Counsel:* With this pleading, Debtor sought to employ Stibbs & Co, P.C. as special litigation counsel to prosecute various collection lawsuits. The Court entered an order approving this employment on July 25, 2016 [Docket #228].

*Adversary Proceeding No. 16-03121:* On May 31, 2016, Debtor initiated Adversary Proceeding No. 16-03121 with the removal of Cause No. 2015-75812 and styled as *Petroleum Products & Services, LLC d/b/a Wellhead Distributors International and WDI Drilling Equipment Services, LLC v. McClinton Energy Group, L.L.C. and Surf-Frac Wellhead Equipment Company, Inc. d/b/a SWECO*, in the 113th District Court of Harris County, Texas (“*McClinton Energy Litigation*”) [Docket #169]. The underlying litigation involves WDi’s suit on sworn account against McClinton Energy and Surf-Frac Wellhead. Since the removal, *McClinton Energy Group, L.L.C. and Surf-Frac Wellhead Equipment Company, Inc.* filed a motion to remand the litigation to state court and WDi filed a motion for summary judgment. The parties have filed opposition to the other party’s motions. The Court remanded a portion of the litigation involving WDi Drilling Equipment Services, LLC to state court and has taken motions and related responses/objections under advisement.

*Motion to Extend Debtor’s Exclusive Period to File and Confirm a Plan:* By this motion, Debtor sought to extend its exclusive period to file from July 5, 2016 through October 3, 2016 and for sixty days thereafter to confirm the same. On June 28, 2016, the Court entered an order extending the Debtor’s deadline to file a plan until October 3, 2016 and December 2, 2016 to confirm the same [Docket #200].

*Motion to Extend Deadline to Assume or Reject Leases of Nonresidential Real Property:* This pleading was filed by the Debtor seeking to extend the deadline to assume or reject its leases of nonresidential real property. On June 28, 2016, the Court entered an order extending the Debtor’s deadline through October 3, 2016 to assume or reject unexpired leases of nonresidential real property [Docket #201].

*Motion for Relief from Stay filed by McClinton Energy Services, LLC:* McClinton Energy LLC filed the instant motion seeking to terminate the automatic stay in order to prosecute counterclaims that it alleges against WDi with respect to the McClinton Energy Litigation. This matter has been taken under advisement with the McClinton Energy Litigation in Adversary Proceeding No. 16-03121.

*Motion for Entry of Agreed Order Terminating Automatic Stay:* By this motion, Summer Creek Investments, LLC sought to terminate the automatic stay to allow the Summer Creek Investments to take active control of its real property located at 2809 S. Ann Arbor, Oklahoma City, OK. The Debtor previously rejected its lease of this real property effective March 4, 2016 [Docket #237].

*Objection to Claim filed by Hernani Deocampo:* Deocampo filed Claim #30 as a general unsecured claim in the amount of \$540,718.75 related to an employment contract. The Debtor disputes that any amount is owed to Deocampo and filed this objection seeking to disallow this claim in its entirety. The parties have resolved this dispute and Deocampo will be paid cash of

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\$21,000 by Mr. Kiss or a non-Debtor entity. This entity shall be allowed a general unsecured claim of \$21,000.

*Objection to Claim filed by Shanghai Jefa Machinery Co. Ltd:* Shanghai Jefa Machinery filed Claim #17 as a general unsecured claim in the amount of \$1,855,864.60 related to goods sold. The Debtor disputes that any amount is owed to Shanghai Jefa due to the falsely documented product provided to WDi which creates risk to the Debtor. Additionally, Shanghai Jefa failed to document its claim. Accordingly, WDi filed this objection seeking to disallow this claim in its entirety. A hearing on this matter is scheduled for October 31, 2016 at 2:00 p.m. [Docket #260].

*Omnibus Objection to Claims Inconsistent with Debtor's Books & Records.* With this objection, Debtor seeks to disallow or allow in reduced amounts claims which are inconsistent with its books and records. A hearing on this objection is scheduled for October 31, 2016 at 2:00 p.m. [Docket #262].

### ***c. Case Management Going Forward***

#### **1. PLAN NEGOTIATIONS**

The Debtor has an exclusive period within which it may propose a plan of reorganization and is proposing the Plan within that period.

#### **2. ASSUMPTION AND REJECTION**

The bankruptcy law allows the Debtor to assume or reject any pending lease agreements or executory contracts that exist on the date of the order for relief. Additionally, the law provides that the Debtor can assign its interest in lease agreements and executory contracts provided they cure all defaults and provide adequate assurance that the assignee will comply with the terms of the lease or contract. Executory contract and lease assumption and rejection are treated in the Plan. Any contract or lease not specifically assumed in the Plan, or by prior court order, is deemed rejected.

#### **3. CREDITORS COMMITTEE**

The United States Trustee is responsible for soliciting a committee of creditors ("Committee") holding unsecured claims pursuant to 11 U.S.C. §1102(a)(1) and solicited a committee in this case. On March 15, 2016, the US Trustee filed a notice of appointment of a committee [Docket #40].

### **C. Operations During Bankruptcy**

WDi has operated its business affairs as Debtor-in-Possession since the entry of an order for relief under Chapter 11, but has not made any extraordinary disposition or acquisition of assets since that date. The Debtor is in the process of relocating its operating facility approximately one mile from its current location to 23518 Coons Road, Houston, TX. This facility is better suited for Debtor's current reduced operating size and will save approximately \$9,000 monthly in rent. Monthly rental obligations will be reduced from \$36,500 to \$27,500. The Debtor is utilizing internal resources for this move and does not anticipate any extraordinary costs associated with the same. Debtor estimates total costs associated the move will not exceed \$10,000.

**D. The Debtor's Assets and Their Value**

As of the Filing Date Debtor's principal assets consisted of cash, security deposits, accounts, receivable, inventory, advances & notes receivable, and office equipment & furnishings, vehicles, machinery & equipment.

Following is a table summarizing the value of these assets reflected on the schedules as of the Petition Date and values obtained since that date. These assets are listed at book value as reflected in Debtor's books and records and actual market value of the same may vary:

Cash	\$355,299.04
Security Deposits	\$80,087.74
Accounts Receivable (less doubtful A/R of \$1,689,025.86).	\$2,298,324.86
Intercompany Receivable (Book Value)	\$9,863,326.56.
Inventory (Cost Basis – actual value is much lower)	\$31,041,408.32
Fixed Assets - Office Equipment, Furnishings and Supplies, Vehicles, Machinery, Equipment, Leasehold Improvements (Net Book Value)	\$2,029,984.11
Prepaid Expenses	\$908,942.53
Deferred Tax Assets	\$2,051,295.00
Claims against McClinton Energy and Surf-Frac Wellhead Equipment	\$1,460,971.85
Claim against Kana Energy Services, Inc. and Surface Supply, LLC,	unknown
Claim against Donald Atencio, Wellhead Services, Inc., and Fracmaster, LLC	unknown
Claims against Safety First Valve	\$67,720.00
Claims against Wellhead Works, LLC	\$121,244.66
Dividend income withholding	\$13,838.75
Manusin Note Receivable	\$54,667.50
<b>TOTAL SCHEDULED AMOUNTS</b>	<b>\$50,347,110.92</b>

**1. Accounts Receivable**

WDi has continued to collect and create accounts receivable since the filing of the petition under Chapter 11. As of the October 31 2016, accounts receivables were approximately \$12,843,026.92, consisting of intercompany receivables of \$9,533,065.87, doubtful account of \$150,665.67 and a remaining balance of \$3,460,626.72 in estimated collectible accounts. The Debtor has charged off certain doubtful accounts owed by non-related third parties which have been determined to be uncollectible. As of the end of October, Debtor had cash in the amount of \$639,312.59. The Intercompany receivables are owed by WDI Manufacturing (\$3,751,253.99 as of the Petition Date) and WDI Drilling Equipment \$6,112,072.57 (as of the Petition Date). The

Debtor also owes outstanding prepetition obligations to these entities which is reflected in Debtor's Schedule "F" – WDI Manufacturing is owed \$167,293.09; WDI Drilling is owed \$366,693.61 and WDI Canada is owed \$2,094,211.07 (WDI Canada does not owe any prepetition amounts to the Debtor). Balances owed to affiliates are listed on Exhibit "B" attached hereto. A detailed list of intercompany transfers between the Debtor and its affiliates is attached to Debtor's Statement of Financial Affairs.

The Debtor is owed a prepetition balance of approximately \$3.7 million from WDI Manufacturing, a wholly owned subsidiary of WDi. WDI Manufacturing ceased general operations in March 2017 and provides services solely to WDi on an as needed basis per WDI's demand during this slow market. As of October 31, 2016, WDI MFG had \$3,471,510.26 in fixed assets at net book value. These assets secure the debt owed to Chase Bank which is treated in Article IV of the Plan. WDi Manufacturing does not generate any cash flow other than to provide services to WDi where the profit is recognized. Since the Filing Date of the Debtor, WDi Manufacturing has not sold any assets outside of the ordinary course of business.

The Debtor contends that affiliate WDI Drilling Equipment ("WDi Drilling") owes the Debtor a prepetition balance of approximately \$6.1 million. WDi Drilling was originally created to support the Debtor with aftermarket support and machining services require by WDi's business. WDi Drilling operated as a cost center and all products & services provided by WDi Drilling were sold at cost or at a loss to WDi; WDi then resold these products and services to its customers and retained all profits generated at WDi. As a result of these transactions, WDi Drilling believes that it is entitled to a credit of a portion of the debt due to the benefit received by the Debtor. The potential amount of a credit has not been determined.

WDi Drilling continues to provide service to the Debtor, the value of which are credited against the outstanding debt owed. As of November 1, 2016, the Debtor's books and records reflect that the balance owed by WDi Drilling has decreased to approximately \$5.7 million as a result of these credits. In the 1st Qtr 2016, WDi Drilling received investments of approximately \$43,000 in cash, plus certain intangibles, from minority investors who acquired an aggregate 10% interest in the entity. The company also became known as Townsend Well Control ("TWC") and changed its business model to a profit oriented BOP repair and manufacturing facility and changed management. TWC continues to provide products & services to WDi to work off some of the debt in the interim period and does not currently have the cash to make any payments on its debt to WDi. WDi has credited the debt owed TWC for these services. Services are credited at the normal market rates charged to other customers. Rates are proposed by seller affiliate and are checked against other vendors/market price. Every trade is administered by a purchaser order and an associated sales order. Historically, until July 2016, product was sold by WDi at a nominal value of \$1 to TWC and was bought back for \$1+ value added cost with the intention to keep intercompany balance changes at minimum. At the time of equipment sale to TWC, a loss was recorded for WDi, and a gain was recorded at the time WDi sold the equipment to the customer. The bottom line net remains the same and the transactions do not change year-end financial results. Since July 2016, the Debtor has changed this tracking process. The current process is that WDi will sell equipment at cost TWC and TWC will provide equipment at cost + value added cost to WDi. The product is then sold to customer. The margins made on converted product are tracked in SAP. As of October 31, 2016, the total value of services provided and

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credited is approximately \$390,000. As of October 31, 2016, TWC had \$1,779,467.08 in fixed assets at net book value. Substantially all these assets secure the debt owed to Chase Bank which is treated in Article IV of the Plan. To date the business has not made any profit, there is no sufficient cash flow to repay the loan to the debtor, but the cash and net income positions are improving month over month and expected to make a minimal profit by the year end of 2017. At the time of profitability, TWC will start repaying, in cash, the outstanding balance owed to the Debtor and will work with the Debtor to determine the amount of credit, if any, that TWC should be provided against this debt. Until that time, TWC will provide services to WDI at a market rate which will reduce the outstanding debt to debtor.

## **2. Fixed Assets - Office Equipment & Furnishings, Machinery & Equipment, Leasehold Improvements of the Debtor, and Vehicles**

The Debtor has fixed assets consisting of office equipment & furnishings, machinery & equipment, leasehold improvements, and vehicles. A detailed list of fixed assets is attached to Schedule B of the Debtor's schedules and the collective value of these assets as of October 31, 2016 is \$1,742,249.62. This valuation is the net book value of the assets (i.e. cost less depreciation) derived from Debtor's books and records.

### **a. Office Equipment and Furnishings**

The Debtor has various computers, servers, printers and scanners, a copier, file cabinets and other various office furnishings. As of the Petition Date, the Debtor had Office Equipment & Furnishings with an aggregate book value of \$200,931.78. The office equipment and furnishings are in good condition and are maintained well from the perspective of preventive maintenance.

### **b. Machinery & Equipment**

The Debtor has machinery and equipment that is utilized in its operations. As of the Petition Date, the Debtor had Machinery & Equipment with an aggregate book value of \$201,378.60. The machinery and equipment is in good condition and is maintained well from the perspective of preventive maintenance.

### **c. Leasehold Improvements**

The Debtor's books and records also reflect leasehold improvements related to its leases of nonresidential real property which are listed in Schedule G of the Debtor's schedules. As of the Petition Date, the Debtor had leasehold improvements with a book value of \$1,565,500.39. The leasehold improvements are in good condition and are maintained well from the perspective of preventive maintenance.

### **d. Vehicles**

The Debtor has automobiles, trucks and trailers that are utilized in its operations. As of the Petition Date, the Debtor had vehicles with an aggregate book value of \$62,173.33. These assets are in various conditions ranging from poor to good condition and are maintained well from the perspective of preventive maintenance. A list of vehicles is below:

Type	Year	Make	Model	Condition (Poor, Fair, Good, Great)
Trailer	2000	SUP	TRLR	Poor
	2001	FALC	FB	Good
	2003	HMDE	UT	NA
	2003	PARK	UT	Good
	2006	IRHS	Trailer	Great
	2008	Big T	Trailer	Great
	2010	TRMA	Flatbed	Great
	2010	Trailmaster	Trailer	Great
	2010	Liberty	LF14K16LP	NA
	2013	Big Tex	Utility	NA
	2013	Parker	Gooseneck	Great
Truck	2001	Ford	F250	Poor
	2002	Ford	F250	Good
	2002	Ford	F250	Poor
	2006	Ford	F250	Fair
	2006	Ford	F250	Poor
	2006	Ford	F250	Fair
	2007	Ford	F-150	NA
	2007	Ford	F-250	Poor
	2008	GMC	3500	NA
	2008	Ford	F250	Fair
	2009	Chevrolet	2500	Good
	2011	Ford	F250	Great
	2011	Chevrolet	Pickup	Very Good
	2011	Ford	F250	Very Good
	2013	Ford	F350	NA

### 3. Prepaid Expenses

The Debtor's books and records reflect prepaid expenses totaling \$908,942.53, including security deposits totaling \$80,087.74, prepaid insurance in the amount of \$104,260.01 and deposits for materials ordered but not delivered totaling \$724,594.78. A detailed listing of these assets is listed in Debtor's Schedule "B". As of October 31, 2016, these prepaid expenses increased to \$1,247,835.47, primarily related to deposits for materials ordered but not delivered.

### 4. Inventory

The Debtor owns inventory which is used in its business operations. Since the Petition Date, the Debtor has continued to sell inventory. As of the October 31, 2016, the value of Debtor's inventory is \$29,240,680.10. In June, Chase Bank, the Debtor's secured lender, obtained an appraisal reflecting a liquidation value of the inventory of approximately \$3.7 million, which is much less than the amount owed on the secured debt. The appraisal also reflects that the most efficient way to maximize the value of the inventory for the Debtor to continue operations as opposed to liquidation. The Debtor has not obtained an independent appraisal and reserves the right to dispute the values asserted in the appraisal obtained by Chase.

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## 5. Other Assets

The Debtor had other assets as of the Petition Date which are listed on Schedule B and include Deferred Tax Assets, various Litigation Claims and Dividend Income Withholding. As of the end of October, there has been no significant change in the scheduled value of these assets. No balance is currently owed with respect to the Mausin Note. The IRS has recently indicated that it will not process the Tax Refund until the conclusion of its audit. The Debtor intends to file an adversary proceeding in the bankruptcy to compel the IRS to process and turnover the Tax Refund and file an objection to the Proof of Claim filed by the IRS, possibly including sanctions for filing a baseless claim of \$48 million.

**E. Liabilities.** An analysis of claims is attached hereto as Exhibit B. Following is a brief summary:

### 1. Pre-Petition Claims

a. *Ad Valorem Tax Claims (Class 1)*: Total scheduled and filed secured ad valorem Claims were \$1,123,001.53 related to 2015 and 2016 ad valorem property taxes. The Debtor disputes approximately \$100,000 of these claims related to (i) 2016 ad valorem property taxes for locations closed in 2015 and (ii) duplicate claims. The Debtor is not aware of any additional ad valorem property tax claims.

b. *Secured Claims (Class 2)*: JPMorgan Chase Bank holds secured claims with a total collective principal balance of \$6,028,461.93, secured by liens on substantially all the Debtor's assets and related to the RLOC and Equipment Term Note. The Debtor is unaware of the existence of any other secured claims.

c. *General Unsecured Claims (Class 3 and Class 4)*: Scheduled and filed general unsecured claims were \$5,904,735.42, excluding claims of affiliates and CPTDC. Debtor has filed objections to and seeks disallowance and/or allowance in a reduced amount of various claims totaling \$2,537,098.43. WDi anticipates additional objections and reserves the right to object to other filed claims filed and anticipates Class 4 claims to approximate \$3 million. Class 3 Claims of \$1000 or less are estimated at approximately \$23,000.

d. *Claim of CPTDC (Class 5)*: CPTDC filed a claim in the amount of \$22,745,660.60 related to the CPTDC Litigation. The parties mediated a resolution of the dispute whereby CPTDC shall receive \$5 million on account of its claim.

e. *Claims of Affiliates (Class 6)*: The Debtor has scheduled claims of affiliates in the total amount of \$3,440,005.91.

f. *Allowed Equity Interests (Class 7)*: unknown.



*g. Priority Claims:* Scheduled and filed priority claims total \$48,589,272.06, including a claim filed by the IRS with estimated liability of \$48,507,774.82. Approximately \$48 million of this estimated liability relates to Debtor's 2013 and 2014 corporate tax returns which are currently under audit. As discussed more fully in Article V herein, the Debtor had a \$6.7 million net operating loss related to its 2015 federal income tax return which has been utilized to offset income for 2013 and 2014, resulting in the Debtor's eligibility for the \$2.2 million Tax Refund. The Debtor is cooperating with the IRS audit and does not expect any significant liability to be assessed as a result of this audit. In fact, to date, the IRS has indicated proposed changes to the audited returns which will result a total tax liability of less than \$30,000. The balance of the IRS claim reflects estimated unassessed liability for Debtor's 2016 federal corporate tax return which is not yet due. The Debtor expects to have sufficient net operating losses from prior years to offset any unpaid tax liability which may be owed with respect to its 2016 federal tax return. The Debtor disputes the claim filed by the IRS in its entirety and will object to the same if it is not withdrawn. The Debtor also disputes various other priority claims and anticipates allowed nontax priority claims of approximately \$5,625.00 and priority tax claims of approximately \$16,628.00.

As previously discussed, the Debtor was authorized by the Court to continue its 401(k) Savings Plan for its employees. The plan provides that after six months of employment, employees are eligible to participate in the 401K savings plan (the "401(k) Plan"). The 401(k) Plan is administered by Mass Mutual. The Debtor matches employee contributions up to 3%, with matching contributions vesting with employees over a period of 6 years. Employee contributions are processed with each payroll, deducted from participating employees' paychecks, and submitted to Mass Mutual by Paycom. Paycom calculates the Debtor's matching contribution based upon employee contributions. During the pendency of the case, no matching contribution will be paid on behalf of Mr. Kiss. A contribution for prepetition 401K employer matching in the aggregate amount of approximately \$50,000 will be paid on behalf of employees, including three other officers of the Debtor, up to the statutory limit for prepetition compensation imposed by 11 USC §507(a)(4). Prepetition balances which exceed this cap will be treated as general unsecured claims.

#### **F. Administrative Claims**

The Debtor's November 2016 Monthly Operating Report reflect approximately \$1,526,438.01 in post-petition liabilities owed which will be paid in the ordinary course of business. These liabilities include trade accounts payable of \$727,481.84<sup>1</sup>, accrued sales and ad valorem taxes of \$586,733.54<sup>2</sup>, accrued professional fees of \$439,139.22, \$98,715.52 in non-

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<sup>1</sup> Approximately \$300,000 of the trade accounts payable is owed to affiliate TWC which will not be paid in cash, but will be credited against the outstanding balance owed by TWC to the Debtor.

<sup>2</sup> Ad valorem property taxes reflect accrued amounts for 2016 tax liability which will be paid from the Tax Refund as provide in article 4.1 of the Plan.

trade payables<sup>3</sup>, and accrued Employee Benefits payable of \$43,359.65. A copy of Debtor's November 2016 Operating Report is attached hereto as Exhibit "1". No further administrative expenses are known other than accrued, unpaid professional fees. Counsel for the Debtor estimates that additional fees and expenses related to its services, along with those of other professionals employed in this case should not collectively exceed more than an additional \$400,000.00. In summary, the Debtor has sufficient funds to satisfy ordinary course post-petition payables and attorneys' fees. Based on the foregoing, the Debtor believes that it will have sufficient funds to pay all administrative expense claims which will come due on the Effective Date.

## V. DESCRIPTION OF PLAN

### SUMMARY OF THE PLAN OF REORGANIZATION

**THIS SECTION PROVIDES A SUMMARY OF THE STRUCTURE AND IMPLEMENTATION OF THE PLAN AND THE CLASSIFICATION AND TREATMENT OF CLAIMS AND INTERESTS UNDER THE PLAN AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO THE PLAN, WHICH ACCOMPANIES THIS DISCLOSURE STATEMENT, AND TO THE EXHIBITS ATTACHED THERETO. THE STATEMENTS CONTAINED IN THIS DISCLOSURE STATEMENT INCLUDE SUMMARIES OF THE PROVISIONS CONTAINED IN THE PLAN AND IN DOCUMENTS REFERRED TO THEREIN. THE STATEMENTS CONTAINED IN THIS DISCLOSURE STATEMENT DO NOT PURPORT TO BE PRECISE OR COMPLETE STATEMENTS OF ALL THE TERMS AND PROVISIONS OF THE PLAN OR DOCUMENTS REFERRED TO THEREIN, AND REFERENCE IS MADE TO THE PLAN AND TO SUCH DOCUMENTS FOR THE FULL AND COMPLETE STATEMENTS OF SUCH TERMS AND PROVISIONS. THE PLAN ITSELF AND THE DOCUMENTS REFERRED TO THEREIN WILL CONTROL THE TREATMENT OF CLAIMS AGAINST, AND INTERESTS IN, THE DEBTOR UNDER THE PLAN AND WILL, UPON THE EFFECTIVE DATE, BE BINDING UPON HOLDERS OF CLAIMS AGAINST, OR INTERESTS IN, THE DEBTOR, THE REORGANIZED DEBTOR, AND OTHER PARTIES IN INTEREST. IN THE EVENT OF ANY CONFLICT BETWEEN THIS DISCLOSURE STATEMENT AND THE PLAN OR ANY OTHER OPERATIVE DOCUMENT, THE TERMS OF THE PLAN AND/OR SUCH OTHER OPERATIVE DOCUMENT WILL CONTROL.**

#### **A. Overall Structure of the Plan**

Chapter 11 is the principal business reorganization chapter of the Bankruptcy Code. Under Chapter 11, a debtor is authorized to reorganize its business for the benefit of its creditors and shareholders. Upon the filing of a petition for relief under Chapter 11, Section 362 of the Bankruptcy Code provides for an automatic stay of substantially all acts and proceedings against

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<sup>3</sup> The operating report also reflects accrued payable for NDemand Term Note \$25,387.89 related debt for network maintenance fees that was accrued prior to the filing date. NDemand previously was an affiliated entity of Mr. Kiss.

the debtor and its property, including all attempts to collect claims or enforce liens that arose prior to the commencement of the Chapter 11 Case.

The consummation of a plan of reorganization is the principal objective of a Chapter 11 case. A plan of reorganization sets forth the means for satisfying claims against and interests in a debtor. Confirmation of a plan of reorganization by the Bankruptcy Court makes the plan binding upon the debtor, any issuer of securities under the plan, any person acquiring property under the plan, and any creditor of, or equity security holder in the debtor, whether or not such creditor or equity security holder (i) is impaired under or has accepted the plan or (ii) receives or retains any property under the plan. Subject to certain limited exceptions, and other than as provided in the plan itself or the confirmation order, the confirmation order discharges the debtor from any debt that arose prior to the date of confirmation of the plan and substitutes for such debt the obligations specified under the confirmed plan, and terminates all rights and interests of equity security holders.

The Plan should be read carefully and independently of this Disclosure Statement. The following analysis of the Plan is intended to provide a context for understanding the remainder of this Disclosure Statement and to assist in an understanding of the Plan and the proposed treatment of the Creditors.

The Debtor expects to implement its plan and continue in its business restructuring which should provide growth and full compliance with the plan. The Debtor has a strong core business and intends to reorganize around that business, which, together with certain other operational improvements, is expected to be the basis for a viable reorganization plan.

The terms of the Debtor's Plan are based upon, among other things, the Debtor's assessment of its ability to achieve the goals of its business plan, make the distributions contemplated under the Plan, and pay its continuing obligations in the ordinary course of business. Under the Plan, Claims against and Interests in the Debtor are divided into Classes according to their relative seniority and other criteria.

A copy of the Plan is attached as Exhibit A. Generally, if the Plan is confirmed by the Bankruptcy Court and consummated, (1) Administrative Claims will be paid in cash in full; (2) Priority Claims will be paid in full in cash when due; (3) Allowed Claims of Ad Valorem taxing authorities shall be paid in full with thirty (30) days of Debtor's receipt of the Tax Refund; (4) Allowed Secured Claim of JPMorgan Chase Bank will be paid in full in accordance with the modified maturity dates and terms outlined in Class 2 of the Plan, including a payment on the principal balance of the RLOC from Chase's 50% of the remaining balance of the Tax Refund after payment of Allowed Class 1 Claims and the \$200,000 payment to the Debtor for use in operations, 25% of certain Net Litigation Proceeds; (5) Allowed Class 3 General Unsecured Claims of \$1000 or Less shall have the option to receive 70% of the Allowed Claim or be treated as an Allowed General Unsecured Class 4 Claim; (6) Allowed Class 4 General Unsecured Claims shall receive a pro rata share of: (i) 50% of the remaining balance of the Tax Refund after payment of Allowed Class 1 Claims and the \$200,000 payment to the Debtor for use in operations; (ii) Class 4 Quarterly Distributions; (iii) 25% of Net Litigation Proceeds, (iv) 50% of excess tax escrow after payment

of taxes; (7) Allowed Claims of CPTDC shall receive an initial payment \$1 million paid from the Cash Infusion, \$4 million to be paid 36 months from the Effective Date from cash and/or proceeds of the sale of Kiss Real Estate more particularly described in Art IV of the Plan; (8) Allowed Claims of Affiliates shall be allowed to offset to offset any amounts owed to the Debtor but shall otherwise receive no payment until the allowed Class 1-4 claims are paid in accordance with the plan; and (9) Allowed Interests of Equity holders shall retain the Equity Interests held on the date of the filing of the bankruptcy case, with the prohibition of payment of dividends until Classes 1, 2, 3, 4, 5 and 6. Total distributions shall not exceed the amount of any Allowed Claim, with interest. The Effective Date of the Plan is the date on which the Confirmation Order becomes a Final Order.

### **B. Administrative Expenses and Priority Tax Claims and Timing of Payment**

The Holders of Administrative Expense Claims against the estate and Tax Claims are treated as generally described below.

Payment of Administrative Claims. Each Holder of an unpaid Allowed Administrative Claim shall be paid in Cash in full on the later of thirty (30) days after the Effective Date or the date such Claim becomes an Allowed Administrative Claim, unless the Holder of such Claim agrees to a different treatment.

Payment of Post-Petition-Tax Administrative Expense Claims. Each Holder of an unpaid Allowed Administrative Claim for post-petition taxes shall be paid in Cash in full on the later of the statutory due date under applicable law or within thirty (30) days after the Effective Date, unless the Holder of such Claim agrees to a different treatment.

Payment of Non-Tax Priority Claims. Each Holder of an unpaid Allowed Non-Tax Priority Claim shall be paid in Cash in full on the later of thirty (30) days after the Effective Date or the date such Claim becomes an Allowed Non-Tax Priority Claim, unless the Holder of such Claim agrees to a different treatment.

Payment of Unsecured Priority Tax Claims. Allowed Priority Tax Claims shall be paid in Cash in full in Cash on the later of when due, thirty (30) days after the Effective Date or the date such Claim becomes an Allowed Unsecured Priority Claim, unless the Holder of such Claim agrees to a different treatment. In computing the present value of such Claims, the interest rate applied shall be the interest rate, which is currently 4.25%, as determined by Texas Tax Code Section 111.060(b) from the Effective Date until paid.

Payment to Professionals. All payments to professionals for actual, necessary services and costs advanced in behalf of the bankruptcy up until the Confirmation Date shall be pursuant to Bankruptcy Court order and subject to the restrictions of 11 U.S.C. §330. Professional fees incurred for services rendered and costs advanced subsequent to the Effective Date shall be the liability of the Reorganized Petroleum Products & Services, Inc.

Payment of United States Trustee Fees Incurred Prior to Confirmation. All fees incurred pursuant to 28 U.S.C. §1930(a)(6) for time periods prior to entry of Order Confirming Plan shall be paid by the Debtor on or before the Effective Date.

Payment of United States Trustee Fees Subsequent to Confirmation. The Reorganized Debtor shall be responsible for timely payment of fees incurred pursuant to 28 U.S.C. §1930(a) (6) entry of Order Confirming Plan. After confirmation, the Reorganized Debtor shall file with the Bankruptcy Court and serve on the United States Trustee a monthly financial report for each month (or portion thereof) the case remains open in a format prescribed by the United States Trustee and provided to WDi by the United States Trustee.

### **C. Classes of Secured and Unsecured Claims and Treatment of Interests**

The Classes of Claims against and Interests in the Debtor created under the Plan, the treatment of those Classes under the Plan, and the other property to be distributed under the Plan, are generally described below:

#### **Class 1. Allowed Secured Claim of Taxing Authorities.**

Class 1 consists of the Allowed Secured Claims of Ad Valorem taxing authorities for the year 2015 and 2016 secured by liens on the assets of the Debtor. The Class 1 claims are unimpaired.

Treatment. Allowed Secured Class 1 Claims shall be paid by the Reorganized Debtor from the proceeds of the Tax Refund within fourteen (14) days of Debtor's receipt of the Tax Refund. If payment to the holders of Allowed Class 1 Claims is made within thirty (30) days of the Effective Date, no post petition interest shall be paid. If payment to holders of Allowed Class 1 Claims is made more than thirty (30) days from the Effective Date, statutory interest shall be paid at the interest rate as determined by the Texas Tax Code Section 111.060 (b) until the date distributions are made to holders of Allowed Class 1 claims. No post petition penalties will be paid.

#### **Class 2. Allowed Secured Claims of JPMorgan Chase Bank, N.A.**

Class 2A consists of the Allowed Secured Claims of JPMorgan Chase Bank, N.A. with respect to the RLOC Note and Loan Agreement. The Class 2A Claim is impaired.

Treatment. The Allowed Class 2A Claim shall be paid as follows:

(a) the RLOC Maturity Date shall be extended to June 30, 2020. To the extent cash from operations is insufficient to pay the balance of the RLOC in full on the new maturity date, it shall be funded from new capital investment or refinancing of loans. No further advances shall be made against the RLOC.

(b) After payment in full of Allowed Class 1 Claims as provided in Article 4.1 above and the \$200,000 payment allocated to the Debtor for use in operations, 50% of the remaining balance of the Tax Refund, less an additional \$225,000 (above the \$200,000 described above) which shall be retained by the Debtor, shall be paid to the holder of the Allowed Class 2A Claim. This payment shall be applied against the principal balance of the Class 2A RLOC Note. This payment shall be made within fourteen (14) days of Debtor's receipt of the Tax Refund.

(c) Regular payments of interest shall continue in accordance with pre-petition contractual terms.

(d) Principal payment of \$100,000 to be made by the Reorganized Debtor no later than January 31, 2018 against the RLOC.

(e) JPMorgan Chase shall receive 25% of Net Litigation Proceeds.

(f) Principal payment of \$100,000 to be made by the Reorganized Debtor no later than January 31, 2019 against Loan # ending in 0057. To the extent the outstanding balance on Loan #8840 is less than \$100,000, excess funds shall then be applied against the RLOC.

(g) On the earlier of (i) fourteen (14) days after the date either parcel of the Kiss Real Estate is sold and closes or (ii) December 29, 2017, the Reorganized Debtor, Mr. Kiss or an affiliated entity, shall pay JPMorgan Chase a payment of \$500,000 which shall be applied against the principal balance of the RLOC.

(h) On or before December 1, 2018, the Reorganized Debtor, Mr. Kiss or an affiliated entity, shall pay JPMorgan Chase a payment of \$75,000 to be applied first against the principal balance of the RLOC.

(i) On or before July 1, 2019, the Reorganized Debtor, Mr. Kiss or an affiliated entity, shall pay JPMorgan Chase a \$25,000 payment to be applied first against the principal balance of the RLOC.

(j) If the ad valorem personal property taxes for each year that Reorganized Debtor owes an outstanding balance under the RLOC are less than the \$1 million projected amount, then 50% of the difference between the amount of taxes paid and the \$1 million forecast will be paid to JPMorgan Chase and applied first to the principal balance of the RLOC.

(k) Beginning with the 3<sup>rd</sup> calendar quarter of 2017, JPMorgan Chase shall receive quarterly payments equal to the lesser of \$41,250 or 50% of the Class 4 Quarterly Distribution, with the first payment to be made beginning with the third quarter of 2017 for a period of 20 quarters or until such claims are paid in full as provided herein. Payments shall be made by the last day of the calendar



quarter when due, with the first payment to be made to holders of Allowed Class 2 claim no later than September 30, 2017.

(l) The Reorganized Debtor shall provide monthly financial statements and monthly borrowing base calculations and related back-up to JPMorgan Chase. Included in the monthly financial statement shall be a certification of the status of any outstanding litigation and whether any distributions are to be made from any proceeds of any litigation; and certification of the status of the sale of the Kiss Real Estate.

(m) The Reorganized Debtors shall pay ad valorem personal property taxes when due.

(n) No later than January 31 or when ad valorem personal property taxes are paid of each year, the Reorganized Debtor shall provide annual reporting to JPMorgan Chase reflecting these payments;

(o) Within thirty (30) days after payment of the same, the Reorganized Debtor shall provide JPMorgan Chase with a certification of payment of the quarterly Class 4 Distribution described in Article 4.4 below.

(p) Subject to the terms and conditions of this Plan, JPMorgan Chase shall not pursue or enforce the personal guaranty so long as the Reorganized Debtor and Mr. Kiss are current with respect to their obligations under the Plan.

Class 2B consists of the Allowed Secured Claims of JPMorgan Chase Bank, N.A. with respect to the Equipment Term Note. The Class 2B Claim is unimpaired.

Treatment. The Allowed Class 2B Claim shall be paid as follows:

(a) beginning on the next contractual due date following the Effective Date, regular monthly contractual principal payments and interest of shall resume until paid in full under the terms of this Plan Once the Equipment Term Note is paid in full, the Reorganized Debtor shall continue these monthly payments and JPMorgan Chase shall apply the same to the principal balance of the RLOC until paid in full under the terms of this Plan.

(a) JPMorgan shall retain its lien and security interests as provided under its pre-Filing Date loan documents and/or applicable law.

### **Class 3. Allowed General Unsecured Claims of \$1,000 or Less.**

Class 3 consists of the Allowed Unsecured Claims of \$1,000 or Less. The Class 3 Claims are impaired.

Treatment: The Holders of Allowed Unsecured Class 3 Claims shall have the option to (i) receive a distribution of 70% of the Allowed Claim, without interest,



on the later of fourteen (14) days after the Effective Date or the date such Claims become Allowed Claims or (ii) be treated as a Class 4 creditor and receive distributions in accordance with Article 4.4 herein. Class 3 creditors shall make an election as to the requested treatment on the ballot when voting. If the holder of Allowed Class 3 Claims fails to vote its ballot, it shall be paid in accordance with provisions described in (i) above and 4.3.2 of the Plan.

**Class 4. Allowed General Unsecured Claims Greater Than \$1,000 and Allowed Class 3 Claims Electing to be Treated as an Allowed Class 4 Claim.**

Class 4 consists of the Allowed Unsecured Claims Greater Than \$1,000 and Allowed Class 3 Claims Electing to be Treated as Allowed Class 4 Claims. The Class 4 Claims are impaired.

Treatment: The Holders of Allowed Unsecured Class 4 Claims shall be paid as follows:

(a) After payment in full of Allowed Class 1 Claims as provided in Article 4.1 of the Plan and the \$200,000 payment allocated to the Debtor for operations, 50% of the remaining balance of the Tax Refund shall be paid, on a Pro Rata basis, to the holders of Allowed Class 4 Claims. This payment shall be made within fourteen (14) days of Debtor's receipt of the Tax Refund.

(b) Beginning with the 3<sup>rd</sup> calendar quarter of 2017, each holder of an Allowed Class 4 claim shall receive a pro rata share of the Class 4 Quarterly Distribution until such Allowed Class 4 Claims are paid in full, without interest. Payments shall be made by the last day of the calendar quarter when due, with the first payment to be made to holders of Allowed Class 4 claims no later than September 30, 2017.

(c) Each holder of an Allowed Class 4 claim shall receive a Pro Rata portion of 25% of the Net Litigation Proceeds until such claims are paid in full without interest.

(d) If the ad valorem personal property taxes for each year that Reorganized Debtor owes an outstanding balance under the RLOC are less than the \$1 million projected amount, then 50% of the difference between the amount of taxes paid and the \$1 million forecast will be paid pro rata to holders of Allowed Class 4 Claims.

Allowed Class 4 Claims are expected to receive 100% of the Allowed Claim on the terms provided above.

**Class -5. Allowed General Unsecured Claim of CPTDC.**

Class 5 consists of Allowed General Unsecured Claim of CPTDC. The Class 5 claim is impaired.

Treatment. Allowed Class 5 Claim of CPTDC shall be paid in accordance with the CPTDC Settlement subject to the following terms as follows:

(a) CPTDC has asserted a general unsecured claim in the amount of \$22,745,660.60. The Debtor has disputed this claim. The parties have reached a mediated settlement of CPTDC's claim which provides that CPTDC shall receive the CPTDC Settlement Payment of \$5 million over time as payment in full of its claim ("CPTDC Payment") in accordance with the following terms:

(i) \$1 million of the CPTDC Payment shall be paid from the Cash Infusion within three days of entry of the Confirmation Order;

(ii) the remaining balance of \$4 million of the CPTDC Payment shall be paid within thirty-six (36) months after the Effective Date and subject to the terms in the Plan Up to \$1.75 million of the proceeds from the sale of the Kiss Real Estate may be used to fund a portion of the CPTDC payment. To the extent that the Kiss Real Estate does not sell within this thirty-six (36) month period, Alejandro Kiss and/or his related non-Debtor entities shall pay \$1.75 million of the remaining \$4 million balance owed to CPTDC and the Debtor shall pay the remaining \$2.75 million. However, the Debtor shall remain liable for the full balance of the CPTDC Payment.

(iii) \$1.75 million of the CPTDC Payment shall be secured by a deed of trust on the parcel of Kiss Real Estate located at 23518 Coons Road, Houston, TX.

(iv) Alejandro Kiss shall execute a personal guarantee of \$1.75 million of the CPTDC Payment.

(v) CPTDC, CP International, Inc., Jiangsu Jinshi Machinery Group Co., Ltd. shall release all claims against the Debtor, including release and cancellation of any equity interests in the Debtor asserted by any of these entities. The Debtor shall release all claims against CPTDC, CP International, Inc., and Jiangsu Jinshi Machinery Group Co., Ltd.

**Class 6. Allowed Claims of Affiliates of WDi.**

Class 6 consists of Allowed Claims of Affiliates of WDi. The Class 6 Claims are impaired.

Treatment. The Holders of Allowed Unsecured Class 6 Claims shall – shall be allowed to offset any amounts owed to the Debtor but shall otherwise receive no payment until the allowed Class 1--5 claims are paid in accordance with the terms of the Plan.

**Class 7. Allowed Interests of Equity Holders.**

Class 7 consists of the Allowed Equity Interests in PETROLEUM PRODUCTS & SERVICES, INC. dba Wellhead Distributors International. Any equity held by CPTDC or JMP is canceled under the terms of the CPTDC Settlement and not treated as an Allowed Class 7 Claim. The Class 7 Interests are impaired.

Treatment. The Holders of Class 7 Equity Interests shall retain the Equity Interests held on the date of the filing of the bankruptcy case, with the prohibition of payment of dividends until Classes 1, 2, 3, 4, 5 and 6 are paid as provided for in the Plan.

**D. Means of Execution of Plan**

1. Vesting of Property of the Estate in Reorganized Debtor. On the Effective Date of the Plan, all property of the Debtor and of its Estate shall vest in the Reorganized Debtor free and clear of liens, claims and encumbrances, except as otherwise provided by the terms of the Plan.

2. Continuation of Business Operations. From and after the Effective Date of the Plan, the Reorganized Debtor shall be authorized to continue its normal business operations. Reorganized Debtor shall enter into such transactions as it deems advisable, free of any restriction or limitation imposed under any provision of the Bankruptcy Code, except to the extent otherwise provided in the Plan.

3. Source of funds for Payments due on the Effective Date. Current cash flow derived from operations will be used to pay Allowed Claims as required by the Plan, together with the Cash Infusion, the Tax Refund, and Net Litigation Proceeds in accordance with Articles III and IV of the Plan.

4. Tax Refund. The Debtor has applied for and is eligible to receive the Tax Refund in the amount of \$2,240,140, resulting from a net operating loss ("NOL") in the amount of \$6.7 million related to Debtor's 2015 federal corporate income tax return. The Debtor utilized a portion of this NOL to offset income for 2013 and 2014 which has resulted in the Debtor's eligibility to receive the Tax Refund. The Debtor filed its application for the Tax Refund on August 26, 2016. Refunds of this nature are generally received the same within 8-10 weeks after the filing. However, the IRS has recently indicated that although it has received the request, it will not process the Tax Refund until the audit is concluded. The Debtor has filed Adversary Proceeding No. 16-03273 in the Bankruptcy Court against the IRS to compel payment of the Tax Refund objecting to the \$48 million Proof of Claim filed by the IRS, including seeking sanctions for a bad faith filing of the claim. The Tax Refund is one source of funding for payments due under the Plan.

5. CPTDC Settlement. As discussed in Article 4.5 of the Plan, the Debtor has reached a settlement of the CPTDC claim, which has been incorporated into the provisions of the Plan. CTPDC has asserted a general unsecured claim in the amount of \$22,745,660.60. The Debtor has disputed this claim. The parties have reached a mediated settlement of CTPDC's claim which provides for payment of the CPTDC Settlement Payment in the amount of \$5

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million to CPTDC as payment in full of its claim subject to the terms of Article 4.5 of the Plan. The initial \$1 million of the CPTDC Settlement Payment shall be funded from the Cash Infusion provided by Mr. Kiss and/or his related entities, not the Debtor. The remaining \$4 million shall be paid 36 months after the Effective Date from cash and/or proceeds of the sale of Kiss Real Estate as further described in Article 4.5 of the Plan

Payment of the CPTDC Settlement Payment under the Plan shall be in full and final satisfaction of any and all Claims (including its proofs of claim) or causes of action that CPTDC, JMP and CPI has or may have against the Debtor. **Confirmation of the Plan shall constitute approval of this compromise with the CPTDC under Rule 9019 of the Bankruptcy Rules without the need for a separate motion seeking such approval.**

6. Net Litigation Proceeds. In addition to payments described in Article 4.2 and 4.4 herein, Allowed Class 4 Claims shall be receive a pro rata share of 25% of the Net Litigation Proceeds received from the prosecution or settlement of Reserved Litigation Claims until such time as the Allowed Class 4 Claims are paid in full without interest in accordance with Article 4.4 of the Plan. Allowed Class 2 Claims shall also receive 25% of the Net Litigation Proceeds received from the prosecution or settlement of Reserved Litigation Claims until such time as the allowed claims are paid in full. The Reorganized Debtor shall retain 50% of the Net Litigation Proceeds for operations. The Disbursing Agent shall make periodic distributions to holders of Allowed Class 2 and 4 Claims at any time in which the collective Net Litigation Proceeds received exceed \$10,000.

7. Directors and Officers of Reorganized Debtor. The Directors and Officers of the Debtor are authorized to continue as Directors and Officers of the Reorganized Debtor from and after the Effective Date of the Plan.

8. Disbursing Agent. Reorganized Debtor shall act as the Disbursing Agent. If Reorganized WDi chooses not to act as the Disbursing Agent, then it shall designate a substitute.

**E. Administrative Claims Bar Date.** Any holder of an Administrative Claim against the Debtor, except for expenses incurred in the ordinary course of operating the Debtor's business and Claims of governmental units as provided in 11 USC Section 503(b)(1)(D), shall file proof of such Claim or application for payment of such Administrative Claim on or within sixty (60) days after the Confirmation Date, with actual service upon counsel for the Debtor or such Holder's Administrative Claim will be forever barred and extinguished and such Holder shall, with respect to any such Administrative Claim be entitled to no distribution and no further notices. To the extent, if any, post-petition taxes are due to the Comptroller on or before the Effective Date, they shall be paid in full on the Effective Date in accordance with § 1129(a)(9)(A). To the extent, if any, post-petition taxes have been incurred by Debtor but are not yet due as of the Effective Date, those taxes shall be paid when due under and in accordance with state law.

**F. Unsecured Claims Bar Date.** The bar date for all parties to file a proof of claim, except for claims related to rejection of an executory contract or lease, has elapsed. The deadline for filing a proof of claim for unsecured claims (other than a claim for damages

stemming from the rejection of an executory contract or lease) was July 11, 2016 and September 6, 2016 for governmental entities.

**G. Rejection Damage Claim Bar Date.** An Unsecured Claim arising from the rejection of an executory contract or unexpired lease must be filed no later than twenty (20) days after the Effective Date of the Plan.

**H. Summary of Financial Projections.** Attached hereto as Exhibit “C” are financial projections prepared by management. These projections include the monthly forecast for calendar year 2017 and annual forecasts for 2018 and 2021. The statements include projected cash flow forecasts and assumptions based upon Debtor’s continued operations at the consolidated facility that maximize revenue while reducing historical costs. Debtor’s revenue during the past four months (between August and November 2016) has average \$1.32 million per month and is upward trending compared to earlier months of the year. WDi had three low revenue months (March thru May 2016) due primarily to the bankruptcy filing and also to adverse market conditions (low rig count). WDi’s average revenue projection for 2017 is \$1.58 million per month, which is a 16% increase compared to current monthly revenue of the Debtor. WDi believes that the improving market conditions, such as increased rig count month over month, recent decision on OPEC reducing production output (increasing barrel price), and the new enormous oil-field discovery in the Permian basin (where WDI has high reputation and presence), can reasonably justify this revenue increase. WDi is also putting high effort on being the leader in providing MBS systems to the oil and gas sector. This product line is becoming WDi’s largest revenue generator which was predominantly manufactured in the US at a high cost prior the bankruptcy filing. Due to the competitive nature of the market, WDi shifted this production overseas which helps significantly WDi’s improve margins while reducing COGS. Therefore, the increased line item for COGS in the projection is mainly related to this product line and associated supporting equipment. The projections are moderate and establish that the Reorganized Debtor will be able to make the payments provided for in the Plan.

## **VI. OTHER PROVISIONS OF PLAN**

### **A. Assumption and Rejection of Executory Contracts.**

The Debtor will reject all Executory Contracts except for those previously assumed by Court Order or those listed on Exhibit A to the Plan. Any Claims arising from rejection of an executory contract or lease must be filed on or before twenty (20) days from the Effective Date. Otherwise, such Claims are forever barred and will not be entitled to share in any distribution under the Plan. Any Allowed Claims arising from rejection of Executory Contracts, if timely filed and allowed, will be paid as a Class 4 General Unsecured Claims.

### **B. Disbursing Agent.**

The Reorganized Debtor shall act as the Disbursing Agent or shall designate a party to act as Disbursing Agent.

### **C. Conditions to Confirmation.**

Confirmation of the Plan shall not occur and the Bankruptcy Court shall not enter the Confirmation Order unless (a) all of the requirements of the Bankruptcy Code for confirmation of the Plan with respect to the Debtor shall have been satisfied. In addition, confirmation shall

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not occur, the Plan shall be null and void and of no force and effect, and the Plan shall be deemed withdrawn unless the Court shall have entered all orders (which may be orders included within the Confirmation Order) required to implement the Plan.

**D. Waiver and Nonfulfillment of Conditions to Confirmation.**

Nonfulfillment of any condition to confirmation of the Plan may be waived only by the Debtor. In the event that the Debtor determines that the conditions to the Plan's confirmation which it may waive cannot be satisfied and should not, in its discretion, be waived, the Debtor may propose a new plan, may modify this Plan as permitted by law, or may request other appropriate relief.

**E. Confirmation Order Provisions for Pre-Effective Date Actions.**

The Confirmation Order shall empower and authorize the Debtor to take or cause to be taken, prior to the Effective Date, all actions which are necessary to enable it to implement the provisions of the Plan and satisfy all other conditions precedent to the effectiveness of the Plan.

**F. Conditions to the Effective Date.**

The following are conditions precedent to the effectiveness of the Plan (i) the Plan is confirmed and the Bankruptcy Court shall have entered the Confirmation Order, which shall have become a Final Order (ii) Debtor does not withdraw the Plan at any time prior to the Effective Date; and (iii) the Debtor shall have sufficient cash on hand to make the payments and distributions required under the Plan.

**G. Waiver and Nonfulfillment of Conditions to Effective Date.** Nonfulfillment of any condition set forth in the immediately foregoing paragraph of the Plan may be waived only by the Debtor. In the event that the Debtor determines that the conditions to the Plan's Effective Date set forth in the immediately foregoing paragraph of this Plan cannot be satisfied and should not, in its sole discretion, be waived, the Debtor may propose a new plan, may modify this Plan as permitted by law, or may request other appropriate relief.

**H. Binding Effect.**

As provided for in Section 1141(d) of the Bankruptcy Code, the provisions of the Plan shall bind the Debtor, any entity acquiring property under the Plan and any Creditor, Interest Holder, or shareholder of the Debtor, whether or not the Claim or Interest of such Creditor or Interest Holder is impaired under the Plan and whether or not such Creditor or Interest Holder has accepted the Plan. After confirmation, the property dealt with by the Plan shall be free and clear of all Claims and Interests of Creditors and Interest Holders, except to the extent as provided for in the Plan as the case may be. The Confirmation Order shall contain an appropriate provision to effectuate the terms of paragraph 13.1 of the Plan.

**I. Satisfaction of Claims and Interests.**

Holders of Claims and Interests shall receive the distributions provided for in the Plan, if any, in full settlement and satisfaction of all such Claims, and any interest accrued thereon, and all such Interests.

**J. Vesting of Property.** Except as otherwise expressly provided in the Plan or the Confirmation Order, pursuant to Section 1141(b) of the Bankruptcy Code, upon the Effective

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Date, all Property of the Bankruptcy Estate shall vest in the Debtor free and clear of all Claims, liens, encumbrances, charges or other Interests of Creditors and Interest Holders. Except as otherwise expressly provided in the Plan or the Confirmation Order, all assets of the WDi Bankruptcy Estate shall vest in the Reorganized Debtor free and clear of all Claims, liens, and encumbrances. Moreover, all licenses and permits held by the Debtor shall continue be held by them.

**K. Discharge.**

Pursuant to Section 1141(d) of the Bankruptcy Code, upon the Effective Date, the Debtor shall be discharged from any debt that arose before the date of such confirmation, and any debt of a kind specified in Section 502(g), 502(h) or 502(i) of the Bankruptcy Code, whether or not a proof of the Claim based on such debt is filed or deemed filed under Section 501 of this title; such Claim is allowed under Section 502 of this title; or the Holder of such Claim has accepted the Plan.

**L. Injunction.**

The Confirmation Order shall include a permanent injunction prohibiting the collection of Claims against the Reorganized Debtor in any manner other than as provided for in the Plan. All Holders of Claims shall be prohibited from asserting against the Debtor, Reorganized Debtor or any of its assets or properties, any other or further Claim based upon any act or omission, transaction or other activity of any kind or nature that occurred prior to the Confirmation Date, whether or not such Holder filed a proof of Claim. Such prohibition shall apply whether or not (a) a proof of Claim based upon such debt is filed or deemed filed under Section 501 of the Bankruptcy Code; (b) a Claim based upon such debt is allowed under Section 502 of the Bankruptcy Code; or (c) the Holder of a Claim based upon such debt has accepted the Plan. This injunction also permits the Reorganized Debtor to enforce 11 U.S.C. §525(a) upon improper revocation or restriction of licenses.

**M. Preservation of Setoff Rights.**

In the event that the Debtor has a Claim of any nature whatsoever against the Holders of Claims, the Debtor may, but is not required to setoff against the Claim (and any payments or other distributions to be made in respect of such Claim hereunder), subject to the provisions of Section 553 of the Bankruptcy Code. Neither the failure to setoff nor the allowance of any Claim under the Plan shall constitute a waiver or release by the Debtor of any Claim that the Debtor has against the Holder of Claims. Neither this provision nor the injunctive provision of the Confirmation Order shall impair the existence of any right of setoff or recoupment that may be held by a Creditor herein; provided that the exercise of such right, shall not be permitted unless the Creditor provides the Debtor with written notice of the intent to affect such setoff or recoupment. If the Debtor or the Disbursing Agent, as applicable, objects in writing within twenty (20) business days following the receipt of such notice, such exercise shall only be allowed upon order of the Bankruptcy Court. In the absence of timely objection, the Creditor may implement the proposed setoff or recoupment against the Claim held by the Bankruptcy Estate.



**N. Releases.**

On the Effective Date and pursuant to Section 1123(b)(3)(A) of the Bankruptcy Code, the Debtor, and to the maximum extent provided by law, its agents release and forever discharge all claims, including acts taken or omitted to be taken in connection with or related to the formulation, preparation, dissemination, implementation, confirmation or consummation of the Plan, the Disclosure Statement or any contract, instrument, release or other agreement or document created or entered into or any other act taken or entitled to be taken in connection with the Plan or this case against the following, whether known or unknown:

Alejandro Kiss, WDi SHC, LP, WDi Manufacturing LLC, Wellhead Distributors International Ltd their employees, directors, agents, affiliates, attorneys and representatives (“Insider Released Parties”), in connection with any and all claims and causes of action arising on or before the Confirmation Date that may be asserted by or on behalf of the Debtor or the Bankruptcy Estate and/or on account of the Debtor’s Case. The release of these Insider Released Parties shall be conditioned upon the occurrence of the Effective Date.

The Debtor’s Professionals will be released from any and all claims and liabilities of the Debtor other than willful misconduct or if the release is otherwise restricted by the Texas Disciplinary Rules of Professional Conduct.

JPMorgan Chase Bank and the Holder of the Class 2 Claims, including their respective Representatives, in connection with any and all claims and causes of action arising on or before the Confirmation Date that may be asserted by or on behalf of the Debtor or the Bankruptcy Estate and/or on account of the Debtor’s Case.

CPTDC and the Holder of the Class 5 Claim, including its respective Representatives, in connection with any and all claims and causes of action arising on or before the Confirmation Date that may be asserted by or on behalf of the Debtor or the Bankruptcy Estate and/or on account of the Debtor’s Case.

Neither the releases contemplated by Article 13.7 of the Plan, nor any provisions of the Plan, shall release claims against non-debtor third parties.

**O. Guarantors.**

Nothing herein shall be deemed to release the liability of any non-debtor guarantor to a Creditor; provided, however, that so long as the Debtor is current with respect to all of its obligations under this Plan and the Confirmation Order Creditors may not pursue collection of their Claims from any guarantor. If the Debtor commits an uncured default in its obligations hereunder, then and only then may Creditors seek relief against guarantors.

**P.Lawsuits.**

On the Effective Date, all lawsuits, litigations, administrative actions or other proceedings, judicial or administrative, in connection with the assertion of Claims against the Debtor and any guarantor except proof of Claim and/or objections thereto pending in the Bankruptcy Court shall be dismissed as to the Debtor. Such dismissal shall be with prejudice to the assertion of such Claim in any manner other than as prescribed by the Plan. All parties to any such action shall be enjoined by the Bankruptcy Court by the Confirmation Order from

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taking any action to impede the immediate and unconditional dismissal of such actions. All lawsuits, litigations, administrative actions or other proceedings, judicial or administrative, in connection with the assertion of a claim(s) by the Debtor or any entity proceeding in the name of or for the benefit of the Debtor against a person shall remain in place only with respect to the claim(s) asserted by the Debtor or such other entity, and shall become property of the Post-Confirmation Reorganized Debtor to prosecute, settle or dismiss as it sees fit.

**Q. Insurance.**

Confirmation and consummation of the Plan shall have no effect on insurance policies of the Debtor in which the Debtor or any of the Debtor's representatives or agents is or was the insured party; the Debtor shall continue as the insured party under any such policies without the need of further documentation other than the Plan and entry of the Confirmation Order. Each insurance company is prohibited from denying, refusing, altering or delaying coverage on any basis regarding or related to the Debtor's bankruptcy, the Plan or any provision within the Plan.

**R. Objections to Claims.**

The Debtor or the Disbursing Agent shall, on and after the Effective Date, have the right to make and file objections to Claims, including Administrative Expense. Unless otherwise ordered by the Bankruptcy Court, all objections to Claims that are the subject of proofs of claim or requests for payment filed with the Bankruptcy Court shall be filed and served upon the holder of the Claim as to which the objection is made no event later than one hundred twenty (120) days after the Effective Date.

**S. Prosecution of Objections.**

On and after the Effective Date, except as the Bankruptcy Court may otherwise order, the filing, litigation, settlement or withdrawal of all objections to Claim and Reserved Avoidance Actions may be made by the Reorganized Debtor and/or Disbursing Agent.

**T. Disallowance of Claims.**

All Claims held by Persons against whom the Debtor or its Estate have asserted a Claim or Cause of Action under Sections 522(f), 522(h), 542, 543, 544, 547, 548, 549, 550, 551, 553, or 724(a) of the Bankruptcy Code, including, without limitation, the Chapter 5 Actions and the Derivative Claims, shall be deemed disallowed pursuant to Section 502(d) of the Bankruptcy Code, and holders of such Claims may not vote to accept or reject the Plan until such time as such Claims or Causes of Action against the Person have been settled or a Final Order entered and all sums due the Debtor by that Person are turned over to the Debtor.

**U. Disputed Claims.**

Except as otherwise provided in the Plan, no payments shall be made with respect to all or any portion of a Disputed claim unless and until any and all objections to such Disputed Claim have been determined by a Final Order. Payments and distributions to each holder of a Disputed Claim, to the extent that the Disputed Claim ultimately becomes an Allowed Claim, shall be made in accordance with the provisions of the Plan. Any payments that would have been made prior to the date on which a Disputed Claim becomes an Allowed Claim shall be made as soon as practicable after the date that the order or judgment of the Court determining such Claim to be an Allowed Claim becomes a Final Order.

For purposes of the Plan, any and all Claims that are subject to disallowance pursuant to Code §§ 502(e) and 509 shall be deemed to be disallowed as of the Confirmation Date, notwithstanding the absence of any objection thereto.

## **VII. LIQUIDATION ANALYSIS**

### **A. Methodology.**

The starting point in determining the amount which members of each impaired class of unsecured claims and interests would receive in a Chapter 7 case is to estimate the dollar amount that would be generated from the liquidation of the Debtor (the "Liquidation Proceeds"). The Liquidation Proceeds of the Debtor would consist of the proceeds from the sale of all of the assets of the Debtor, augmented by the cash held by the Debtor. The present value of the distribution from the Liquidation Proceeds is then compared with the present value offered to each of the classes of unsecured claims and interests of each such class.

### **B. Analysis.**

Attached as Exhibit D is a liquidation analysis (the "Liquidation Analysis"). This Liquidation Analysis indicates that Holders of Allowed General Unsecured Claims would receive significantly less in a Chapter 7 liquidation than under the Plan, which is a far less desirable result than the result to be achieved under the Plan. Under the Plan, holders of anticipated allowed Class 4 claims are estimated to receive a return of **100%** of the anticipated allowed claims, which will be paid from the allocable portion of the Tax Refund and the Class 4 Quarterly Distributions. Additionally, under the Plan, Class 4 creditors shall receive a pro rata share of Net Litigation Proceeds to the extent received and in accordance with Article 6.6 of the Plan. Holders of Allowed Class 3 Claims of \$1,000 or less shall have the option to receive payment of 70% of the allowed claim within 14 days of the Effective Date or be treated in the same manner as an Allowed Class 4 Claim.

However, as discussed below, in liquidation, these creditors would likely not receive any distribution until the assets were fully liquidated by the Chapter 7 Trustee. This process would likely take several months and possibly years before any payment would be made to creditors.

As previously discussed, Debtor's assets have a book value of approximately \$40.4 million. Debtor's cash is estimated at \$2.3 million, which includes receipt of the Tax Refund. This asset would be valued the same in a liquidation. Further, Debtor's estimated collectible accounts receivable is valued at \$4.9 million. However, in a liquidation, these accounts would likely be liquidated at a discount by the Chapter 7 Trustee. Further, in a liquidation, the risk of nonpayment is significantly increased. Debtor estimates that in a liquidation, collectible accounts receivable would yield \$2.47 million, or approximately 50% of the book value. The Debtor's assets also include approximately \$1.8 million in fixed assets. A significant portion of the fixed assets are leasehold improvements which would have no value in the event of liquidation. The liquidation value of other fixed assets is estimated at \$450,908.

Debtor's most significant asset is its inventory, with a book value \$30 million. Due to weakened economic conditions in the oil and gas industry, the liquidation value of this inventory

would be deeply discounted. In June 2016, Debtor's secured lender obtained an appraisal of Debtor's inventory which collateralizes the secured loans. The appraisal provides a liquidation value for Debtor's inventory at 10.6% of its cost. The Debtor has not independently valued these assets and reserves the right to challenge this valuation. Based on this appraised value, the Debtor's current inventory of approximately \$30 million would likely yield a little more than \$3.1 million in a liquidation.

Further, most of the Debtor's prepaid expenses, which are valued at \$1.3 million, are deposits for orders placed but not delivered. In a liquidation, most of these deposits would be forfeited and the liquidation value of all prepaid expenses is estimated at \$261,556. As set forth in Exhibit D, in a liquidation, these assets have a value of at best \$2.4 million. Debtor estimates cash of \$3 million. In a liquidation, the Chapter 7 Trustee, will likely utilize the cash first to pay ongoing expenses associated with the Chapter 7 case and sale of assets, including payments to various professionals such as attorneys, brokers, auctioneers and accountants. These fees would be paid ahead of the prepetition claims in this case.

As set forth in Exhibit D, absent confirmation of the Plan, the Chapter 11 Case would be converted to a case under Chapter 7 of the Bankruptcy Code and the assets would be liquidated for at best \$8.7 million. Chapter 7 administrative fees and expenses, then Chapter 11 administrative expense claims would be paid ahead of all other claims. Additionally, JPMorgan Chase retains liens on substantially all the Debtor's assets. In the event these assets are liquidated, JPMorgan would be paid the value of its claim ahead of other creditors. Additionally, under the plan, a significant portion of CPTDC's allowed claim is not paid by the Debtor. If the case were to convert to a Chapter 7, this payment would not be made to CPTDC from non-Debtor sources and CPTDC's \$22 million claim would potentially be paid *pari passu* with other general unsecured claims, which significantly dilutes the return to other unsecured creditors. The value of Net Litigation Proceeds is not easily ascertained. However, the liquidation of these assets would not be expected to exceed the value received in a Chapter 11 and likely would be much lower in a liquidation.

Further, the conversion of the Case to a case under Chapter 7 would add another layer of administrative expense, including professional fees and trustee commissions that would further impair the timing and potential recovery of Allowed General Unsecured Claims. Thus, the proposed distribution to Allowed Class 3 and Allowed Class 44 General Unsecured Claims under the Plan provides for a much faster and better return to creditors than in a liquidation.

## **VIII. RISKS POSED TO CREDITORS**

The principal risk to the creditors is that the Plan will not be confirmed. Absent confirmation of the Plan, the case would be converted to a Chapter 7 to liquidate the Debtor's assets. In a liquidation, creditors clearly receive a much lower distribution than under the Plan.

## **IX. ALTERNATIVES**

Although the Disclosure Statement is intended to provide information to assist creditors in making a judgment on whether to vote for or against the Plan, and although creditors are not being offered through that vote an opportunity to express an opinion concerning alternatives to

the Plan, a brief discussion of alternatives to the Plan may be useful. These alternatives include conversion to a Chapter 7 or dismissal of the proceedings. The Debtor of course, believes the proposed Plan to be in the best interests of creditors. The Debtor assesses the alternatives as follows:

**A. Conversion to Chapter 7**

The first alternative would be to convert the Chapter 11 case to a Chapter 7 liquidating bankruptcy to liquidate the business. If this occurred, the Bankruptcy Court will appoint a trustee to liquidate the Debtor's assets for the benefit of its creditors. The costs associated with a trustee would then be added to the additional tier of administrative expenses entitled to priority over general unsecured claims upon conversion. Such administrative expenses include the Trustee's commissions, as well as fees for professionals retained by the Trustee to assist in the liquidation. The Trustee's commissions are based on disbursements to creditors. The Trustee receives 25% of the first \$5,000, 10% of the next \$45,000, 5% of the next \$950,000 and 3% on all amount disbursed in excess of \$1 million.

**B. Dismissal**

Dismissal of the proceeding would likely result in the Debtor and the plan proponents defending debt-collection litigation and numerous new lawsuits to collect debts. The Secured Lenders would foreclose on most of the Debtor's assets likely halting operations. Under this scenario, the unsecured creditors would likely receive no payment whatsoever on their claims.

**C. No Assurance of Either**

There are other possibilities which are less likely, such as a competing plan proposed by a different party. The Debtor has attempted to set forth the reasonable alternatives to the proposed Plan. However, the Debtor must caution creditors that a vote must be for or against the Plan. The vote on the Plan does not include a vote on alternatives to the Plan. There is no assurance what course the proceedings will take if the Plan fails acceptance.

**X. CERTAIN FEDERAL INCOME TAX CONSEQUENCES**

**A. Tax Consequences to Creditors**

**1. GENERALLY**

The tax consequence to any particular creditor may vary depending on their own circumstances and they should consult with their own tax professional for advice regarding the impact on them of their acceptance or rejection of the plan.

**2. UNSECURED CLAIMS**

Holders of Class 3, 4 and 5 Unsecured Claims will receive distributions from the Debtor. These Claimholders should either be treated as (i) recognizing ordinary income in an amount equal to cash received and recognizing a loss in an amount equal to the tax basis in the Claim or (ii) recognizing a loss equal to the difference between the amount of cash received and their tax basis in their Claim.

A Claimholder's tax basis in a Claim should generally equal the amount included in income as a result of the provision of goods or services to the Debtor, except to the extent that a

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bad debt loss had previously been claimed. The gain or loss with respect to the Claim should be ordinary to the extent that it arose in the ordinary course of trade or business for services rendered or from the sale of inventory to the Debtor.

**DUE TO THE COMPLEX NATURE OF APPLICABLE TAX LAWS, CLAIMANTS SHOULD CONSULT WITH THEIR TAX PROFESSIONAL CONCERNING COMPLIANCE WITH AND THE AFFECT OF BOTH STATE AND FEDERAL TAX LAWS ON THEIR INTEREST BEFORE THEY CAST A BALLOT TO ACCEPT OR REJECT THE PLAN.**

**THE ACCOUNTANTS, ATTORNEYS, AND THE MANAGEMENT OF THE DEBTOR MAKE NO REPRESENTATIONS HEREIN CONCERNING THE IMPACT OF THE TAX LAW ON ANY INDIVIDUAL TREATED UNDER THE PLAN.**

#### **XI. PREFERENCES AND FRAUDULENT TRANSFERS**

Under the Bankruptcy Code and Texas State Law, the bankruptcy estate may sue to recover assets (or their value) that were transferred by “voidable transfers”, which includes assets transferred:

- (A) in fraud of Creditors,
- (B) in constructive fraud of Creditors – because the asset was transferred without sufficient consideration while the Debtor was insolvent,
- (C) as a preferential transfer - a payment before bankruptcy outside the ordinary course that allows a creditor to receive more than it would receive in liquidation, or
- (D) as an unauthorized post-bankruptcy transfer by the Debtor outside of the ordinary course.

A list of all transfers made during the applicable avoidance periods is attached to Debtor’s Statement of Financial Affairs filed with the Bankruptcy Court on (Docket #19). The Debtor does not believe that many of these transfers are voidable under Sections 550, 547, 548, 544, or similar provision of the Bankruptcy Code and the Plan contemplates a release of certain of these Avoidance Actions.

If the Plan is not confirmed and a liquidating trustee or Chapter 7 trustee is appointed, it is possible that the trustee’s analysis will differ from that of the Debtor and that avoidance actions will be commenced against Creditors of the estate, insiders, or others.

#### **XII. LITIGATION**

A chart of pending litigation is attached hereto as Exhibit E. Otherwise, no litigation is pending or expected against the Debtor. No claim of environmental liability has been made, and no such claims are known or expected.



### **XIII. MANAGEMENT OF THE REORGANIZED DEBTOR**

#### **A. Directors and Officers of the Debtor**

Alejandro Kiss and Balazs Horvath are officers and directors of the Debtor. These Directors and Officers of the Debtor shall continue as the Directors and Officers of the Reorganized Debtor from and after the Effective Date of the Plan.

#### **B. Management Compensation**

As of the Effective Date, the management of the Reorganized Debtor shall continue to receive salaries as follows: Alejandro Kiss - \$200,000 annually and Balazs Horvath - \$152,000 annually. Management reserves the right increase these salaries in accordance with usual and customary practices of the company.

### **XIV. ACCEPTANCE AND CONFIRMATION OF THE PLAN**

#### **A. Acceptance of the Plan**

Confirmation of a Plan under Chapter 11 requires, among other things, that at least one class of creditors or claimants, such as the secured or unsecured creditors in this case, vote in favor of the Plan. This vote is calculated by only counting those creditors who actually send in a ballot on time. If two thirds in total dollar amount and a majority in number of claims actually voting in a class approve the Plan, that class of creditors is considered an accepting class. If the vote is insufficient, the Court can still confirm the Plan, but only upon being provided additional proof regarding the ultimate fairness of the Plan to the creditors. The Debtor believes that the unsecured creditors will support the Plan when they consider the fact that the secured and priority creditors will receive the majority of all of the assets of the Debtor in the event the reorganization is unsuccessful.

The proponent of a Plan also must meet all other applicable requirements of Section 1129(a) of the Bankruptcy code (except Section 1129(a)(8), if the proponent proposes to seek confirmation of a Plan under Section 1129(b) of the Bankruptcy Code). These other requirements include, among other things, that the Plan comply with the applicable provisions of Title 11 and other applicable law, that the Plan be proposed in good faith, and that at least one impaired class of creditors vote to accept the Plan. The Debtor believes that the Plan satisfies all other applicable requirements of Section 1129(a) of the Bankruptcy Code.

#### **B. Confirmation without Acceptance of All Impaired Classes**

The Bankruptcy Court may confirm a plan even if not all impaired classes accept the Plan. For the Plan to be confirmed over the rejection of an impaired class, the proponent must show, among other things, that the plan does not discriminate unfairly and that the plan is fair and equitable with respect to each impaired class that has not accepted the plan.

Under Section 1129(b) of the Bankruptcy Code, a plan is "fair and equitable" as to a class if, among other things, the plan provides: (a) with respect to secured claims, that each holder of a claim included in the rejecting class will receive or retain, on account of its claim, property that has a value as of the Effective Date of the plan, equal to the allowed amount of such claim; and (b) with respect to unsecured claims and interests, that the holder of any claim or interest that is

junior to the claims or interest of such class will not receive or retain, on account of such junior claim or interest, any property unless the senior class is paid in full. The Bankruptcy Court must further find that the economic terms of a plan do not unfairly discriminate as provided in Section 1129(b) of the Bankruptcy Code with respect to the particular objecting class. Under the terms of this plan, the principals of the Debtor shall retain their interest in the Reorganized Debtor. The retention of this interest may prevent the Debtor from seeking relief under 1129(b)(2)(B). However, if the plan is not confirmed, unsecured creditors will likely not receive any distribution in a liquidation.

### **C. Other Requirements for Confirmation**

In order to obtain confirmation of the Plan, the requirements of Section 1129 of the Code must be satisfied. These requirements include but are not limited to findings that the Plan complies with the applicable provisions of Chapter 11 of the Code, that the Debtor has complied with the applicable provisions of Chapter 11 of the Code, that the Plan has been proposed in good faith and not by any means forbidden by law, and at least one class of impaired claims has voted to accept the Plan. The Debtor believes that the Plan satisfies all the statutory requirement of Chapter 11 of the Bankruptcy Code.

#### **1. BEST INTEREST OF CREDITORS**

Before the Plan may be confirmed, the Bankruptcy Court must find (with certain exceptions) that the Plan provides, with respect to each class, that each holder of a claim or interest of such class either (a) has accepted the Plan or (b) will receive or retain under the Plan on account of such claim or interest property of a value, as of the effective date, that is not less than the amount that such person would receive or retain if the Debtor was, on the effective date, liquidated under Chapter 7 of the Bankruptcy Code. As set forth above, the Debtor believes that this test will be satisfied.

#### **2. FINANCIAL FEASIBILITY**

The Bankruptcy Code requires that, in order for the Plan to be confirmed by the bankruptcy court, the bankruptcy court must determine that consummation of the Plan is not likely to be followed by the liquidation or the need for further financial reorganization of the Debtor. The Debtor believes that it will be able to fulfill its obligations under the Plan.

Attached hereto as Exhibit C is the Debtor's projection demonstrating the feasibility of the Plan. Exhibit C was prepared by Debtor's management from historical data and a projection model that assumes that revenue will be produced as projected by use of the current facilities and equipment. The Debtor believes that it is sufficient to support additional business and will continue to increase its revenues. This pro forma indicates that the Debtor will be able to survive on a post-confirmation basis.

### **D. Cram-Down - Confirmation Without Acceptance by All Impaired Classes**

The Bankruptcy Code contains provisions for confirmation of a Plan even if the Plan is not accepted by all impaired classes, provided that at least one impaired class of claims has accepted it (determined without including any acceptance by any insider holding a claim of such class). These "cram-down" provisions, for confirmation of a Plan despite the non-acceptance of

one or more impaired classes of claims or interests, are set forth in Section 1129(b) of the Bankruptcy Code.

In the event that any impaired class of claims does not accept the Plan by the requisite majority set out in the introduction, the Debtor must demonstrate to the Bankruptcy Court, with respect to each impaired class which does not accept the Plan that the Plan does not discriminate unfairly, and is "fair and equitable" with respect to that class. Under the Bankruptcy Code, a Plan is considered "fair and equitable" with respect to secured claims, unsecured claims or interest, as the case may be, if the following conditions are met:

- (a) Secured Claims. The holders of such claims retain their liens, to the extent of the allowed amount of their secured claims, and that each holder of such a claim receive on account of such secured claim deferred cash payments totaling at least the allowed amount of such claim, of a value, as of the effective date of the Plan, of at least the value of such holder's interest in the estate's interest in the collateral.
- (b) Unsecured Claims. Either (i) each impaired unsecured creditor receives or retains under the Plan property of a value as of the effective date of the Plan equal to the amount of its allowed claim, or (ii) the holder of any claim or interest that is junior to the claims of the dissenting class will not receive or retain any property under the Plan.

Absolute Priority Rule. Section 1129(b)(2)(B)(ii) controls the payment of senior and junior classes of claims or interests in the event that all of the applicable requirements of Section 1129(a), other than paragraph (8), are met with respect to a plan. In the event that any impaired class (other than an "insider", as defined in 11 U.S.C. § 101(31)) rejects the Plan, the equity interest holders (or other interests junior to unsecured creditors) may only retain their interest in the Reorganized Debtor in return for new value infused into the Reorganized Debtor in accordance with *Bank of Am. Nat. Trust & Sav. Ass'n v. 203 N. LaSalle St. P'ship*, 526 U.S. 434, 445 (1999). The assessment of the required "new value" for the equity interest holders (or other interests junior to unsecured creditors) is to be made in the event that any impaired class (that is not an "insider") rejects the Plan.

Under the terms of this plan, the principals of the Debtor shall retain their interest in the Reorganized Debtor. The retention of this interest may prevent the Debtor from seeking relief under 1129(b)(2)(B). Unless all impaired classes vote for the Debtor's plan, the retention of this interest will prevent the Debtor's plan from being confirmed and this case will be converted to chapter 7.

## XV. CONCLUSION

The information provided in this Disclosure Statement is intended to assist you in voting on the Plan in an informed fashion. If the Plan is confirmed, you will be bound by its terms. Accordingly, you are urged to make such further inquiries as you may deem appropriate and then cast an informed vote on the Plan.

Respectfully submitted this 29th day of December 2016.

PETROLEUM PRODUCTS, INC. dba Wellhead  
Distributors International

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