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ATTORNEY FOR DEBTOR

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

CAPROCK OIL TOOLS, INC.	§	**CASE NO. 17-80109**
	§	**Chapter 11**
Debtor.	§	
	§	
	§	

DISCLOSURE STATEMENT FOR DEBTOR'S PLAN OF REORGANIZATION

October 6, 2017

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DISCLOSURE STATEMENT FOR
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I.

PRELIMINARY STATEMENT

INTRODUCTION AND PLAN OVERVIEW

A. PURPOSE OF DISCLOSURE STATEMENT

Debtor CapRock Oil Tools, Inc. (***"Debtor"*** or ***"CapRock"***) hereby submits this Disclosure Statement for Debtor's Plan of Reorganization ***("Disclosure Statement"***) pursuant to §1125 of the Bankruptcy Reform Act of 1978, 11 U.S.C. §§ 101, et seq., as amended (the ***"Bankruptcy Code"***), to all known creditors or persons claiming interests in property of the Debtor, as well as interest holders of Debtor. The purpose of the Disclosure Statement is to disclose that information which the Bankruptcy Court (as defined below) has determined is material, important and necessary for creditors of, and interest holders in, the Debtor to arrive at a reasonably informed decision regarding

whether they should vote for acceptance or rejection of the Debtor's Plan of Reorganization dated _____ __, 2017, as from time to time amended or modified (the ***"Plan"***), attached hereto and incorporated herein by reference, on file with the United States Bankruptcy Court for the Southern District of Texas, Galveston Division (the ***"Bankruptcy Court***").

After notice and a hearing on _____, 2017, the Court approved the Disclosure Statement as containing "adequate information" (as defined in § 1125 of the Bankruptcy Code) of a kind, and in sufficient detail, to enable a hypothetical reasonable investor typical of the holders of claims against, or interests in, the Debtor to make an informed judgment in voting to accept or reject the Plan. Approval of this Disclosure Statement by the Court, however, does not constitute a recommendation to accept or reject the Plan.

This Disclosure Statement describes various transactions contemplated under the Plan which is attached hereto and incorporated by this reference for all purposes. You are urged to study the Plan in full and to consult with your counsel about the Plan and its impact upon your legal rights. Please read this Disclosure Statement and the accompanying Plan in their entirety carefully before voting on the Plan.

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.

B. EXPLANATION OF CHAPTER 11 CASE

Chapter 11 is the principal reorganization chapter of the Bankruptcy Code. Pursuant to Chapter 11, a debtor is authorized to reorganize its business for its own benefit and that of its creditors and interest holders. On April 10, 2017, Debtor filed a voluntary Chapter 11 petition

commencing her Chapter 11 case. Since the Petition, Debtor has remained a debtor-in-possession of its assets in accordance with the provisions of §§ 1107 and 1108 of the Bankruptcy Code.

Formulation of a plan of reorganization is the principal purpose of a Chapter 11 reorganization case. A plan of reorganization sets forth the means for satisfying claims against, and interests in, the debtor. After a plan of reorganization has been filed, it may be accepted by holders of claims against, or interests in, the debtor. Section 1125 of the Bankruptcy Code requires full disclosure before solicitation of acceptances of a plan of reorganization. This Disclosure Statement is presented to claimants and interest holders to satisfy the disclosure requirements of §1125 of the Bankruptcy Code.

C. CONFIRMATION PROCEDURES

The Plan cannot be consummated unless it is confirmed by the Court. Confirmation of a Chapter 11 plan does not require that each holder of a claim against, or interest in, the debtor vote in favor of a plan of reorganization. A plan of reorganization, however, must be accepted by at least (i) the holders of one class of impaired claims by a majority in number and two-thirds in amount of those claims of such class that actually voting, and (ii) the holders of one class of interests by two-thirds in amount of the allowed interests of such class actually voting.

Even if all classes of claims and interests accept a plan of reorganization, the Bankruptcy Court must find that the plan meets the legal requirements of the Bankruptcy Code. Section 1129 of the Bankruptcy Code sets forth the requirements for confirmation and, among other things, requires that a plan of reorganization be in the best interests of claimants and interest holders. The "best interests" test generally requires that the value to be distributed to claimants and interest holders may not be less than such parties would receive if the debtor were liquidated under Chapter 7 of the Bankruptcy Code.

The Bankruptcy Court may confirm a plan of reorganization even though less than all of the classes of claims and interests accept it. Confirmation of a plan of reorganization over the objection of one or more classes of claims or interests is generally referred to as a "cram-down." Pursuant to § 1129(b), a plan of reorganization may be confirmed by the Court over the objection of one or more classes of claims or interests if the plan does not discriminate unfairly and it is "fair and equitable" with respect to the non-accepting class. Confirmation of a plan of reorganization discharges the Debtor from all of its pre-confirmation debts and liabilities except as provided in the plan, the order of the Bankruptcy Court confirming the Plan, or § 1141(d) of the Bankruptcy Code. Confirmation makes the plan binding upon the Debtor, all claimants (including holders of claims or rights) and interest holders and other parties in interest, regardless of whether or not it has been accepted by them.

D. PROCEDURE FOR FILING PROOFS OF CLAIMS AND PROOFS OF INTEREST

On or about April 19, 2017, the Bankruptcy Clerk sent all creditors of the Debtor notice of the entry of the order for relief under Chapter 11 of the Bankruptcy Code, the day and time of the first meeting of creditors[1] and the deadline for filing proofs of claims (August 21, 2017) for all creditors that are not governmental units. A creditor need not file a proof of claim if its claim is correctly set forth in the Debtor's schedules and not listed as contingent, unliquidated or disputed. In all other cases, a proof of claim must have been filed on or prior to August 21, 2017 for all non-governmental units. The Schedules are on file at the Bankruptcy Court and are open for inspection during regular court hours or through PACER access.

E. VOTING

(1) Procedures

1 The Section 341 meeting was originally set for May 23, 2017, but subsequently reset for June 5, 2017, at 3:30 p.m.

(a) Unimpaired Classes. The Debtor is not soliciting acceptances of the Plan by claimants in Classes 1-2 since the claims of such claimants are not impaired under the Plan, such classes are deemed to have accepted the Plan.

(b) Impaired Classes. The Debtor is seeking the acceptances of the Plan by claimants in Classes 3, 4, 5, and 6. Class 7 shall receive no distribution on account of the existing equity interests and is deemed to reject the Plan under Section 1126(g).

Each holder of a claim may vote on the Plan by completing, dating and signing the corresponding class ballot sent to him, her or it and filing the ballot as set forth below. If you are a holder of a disputed, contingent or unliquidated claim, you may petition the Bankruptcy Court to allow your claim for voting purposes only by making timely application to the Bankruptcy Court pursuant to Rule 3018 of the Bankruptcy Rules. You should seek the advice of your own counsel as to how to accomplish this. Each holder of a claim in Classes 3-6, may vote on the Plan by completing, dating, signing and filing the Ballot as set forth below. Allowance of a claim for voting purposes does not necessarily mean that all or a portion of the claim will be allowed or disallowed for distribution purposes.

Ballots are enclosed with the Disclosure Statement sent to each claimant or interest holder eligible to vote on the Plan. For all Classes, Ballots must be filed by mail with:

Peter C. Lewis, Esq.
Scheef & Stone, LLP
500 N. Akard, 27th Floor
Dallas, Texas 75201

In order to be counted, Ballots must be RECEIVED at the foregoing address no later than 5:00 p.m., Central Daylight time, on _____, 2017.

(2) Acceptance

In order for there to be an acceptance of the Plan by the class (es) of claimants who will be voting on the Plan, the Plan must be accepted by:

(a) Of those claimants in Class(es) 3-6, claimants who (i) hold at least two-thirds in dollar amount of the claims as to which votes are cast, and (ii) constitute more than one-half in number of holders of such claims voting; and

Ballots that are signed and returned, but not expressly voted either for acceptance or rejection, will be counted as acceptances.

(3) Objections to Confirmation

The Court has set _____, 2017, as the last day for filing objections to the Plan.

(4) Confirmation Hearing

The Court has set a hearing on acceptance and confirmation of the Plan for _: __ _. m. on _____, 2017 at 515 Rusk, Courtroom 404, Houston, Texas 77002.

II.

REPRESENTATIONS

PLEASE READ THIS DISCLOSURE STATEMENT AND THE PLAN IN THEIR ENTIRETY. FOR THE CONVENIENCE OF CREDITORS, THIS DISCLOSURE STATEMENT SUMMARIZES CERTAIN PROVISIONS OF THE PLAN. THIS SUMMARY DOES NOT PURPORT TO BE COMPLETE AND CREDITORS AND INTEREST HOLDERS ARE URGED TO READ THE PLAN IN ITS ENTIRETY. THE PLAN SHOULD BE READ CAREFULLY IN CONJUNCTION WITH THIS DISCLOSURE STATEMENT IN ORDER FOR CREDITORS TO FORMULATE AN OPINION AS TO THE IMPLICATIONS AND EFFECT OF THE PLAN ON EACH CREDITOR'S RIGHTS AND IN ORDER TO FORMULATE AN OPINION AS TO WHETHER TO ACCEPT THE PLAN. TO THE

EXTENT THERE IS INCONSISTENCY BETWEEN THE PLAN AND THIS DISCLOSURE STATEMENT, THE PLAN CONTROLS.

UNLESS EXPRESSLY STATED, NONE OF THE DATA INCLUDED HEREIN OR APPENDED HERETO OR TO THE PLAN, IF ANY, HAS BEEN SUBJECT TO AUDIT. ALL INFORMATION HEREIN HAS BEEN SUPPLIED BY THE DEBTOR OR OBTAINED FROM PUBLIC RECORDS. DEBTOR IS UNABLE TO WARRANT OR REPRESENT THAT THE INFORMATION CONTAINED HEREIN IS WITHOUT INACCURACY.

THE MATERIALS PROVIDED IN THE DISCLOSURE STATEMENT ARE 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.

THIS IS A SOLICITATION BY THE DEBTOR ONLY AND IS NOT A SOLICITATION BY THE ATTORNEYS OR OTHER PROFESSIONALS FOR THE DEBTOR, AND THE REPRESENTATIONS MADE HEREIN ARE THOSE OF THE DEBTOR AND NOT OF SUCH ATTORNEYS OR PROFESSIONALS EXCEPT AS MAY BE OTHERWISE INDICATED.

THE DEBTOR OR OTHERS MAY SOLICIT YOUR VOTE. THE COST OF ANY SOLICITATION BY THE DEBTOR WILL BE BORNE BY THE DEBTOR. NO OTHER ADDITIONAL COMPENSATION SHALL BE RECEIVED BY ANY PARTY FOR ANY SOLICITATION OTHER THAN AS DISCLOSED TO AND APPROVED BY THE BANKRUPTCY COURT AFTER NOTICE AFTER HEARING.

NO REPRESENTATIONS OR ASSURANCES CONCERNING THE DEBTOR OR THE PLAN ARE AUTHORIZED BY THE DEBTOR OTHER THAN AS SET FORTH IN THE DISCLOSURE STATEMENT. ANY REPRESENTATIONS OR INDUCEMENTS

MADE BY ANY PERSON TO SECURE YOUR VOTE WHICH ARE OTHER THAN HEREIN CONTAINED SHOULD NOT BE RELIED UPON BY YOU IN ARRIVING AT YOUR DECISION, AND SUCH ADDITIONAL REPRESENTATIONS OR INDUCEMENTS SHOULD BE REPORTED TO COUNSEL FOR THE DEBTOR.

III.

BACKGROUND

A. GENERAL

On April 10, 2017 (the ***"Petition Date"***), the Debtor filed its Voluntary Petition for Non-Individuals Filing for Bankruptcy under Chapter 11 of Title 11 of the United States Code (the "Bankruptcy Code") as a small business debtor within the meaning of Section 1121(e) of the Bankruptcy Code (***"Petition"***), along with its Schedules (***"Schedules"***) and Statement of Financial Affairs (***"SOFA"***) [D.E.#1] in the above styled bankruptcy court (the ***"Bankruptcy Court"***). Since the Petition Date, the Debtor has operated its business and managed its property as a "small business' debtor-in -possession pursuant to sections 1107(a), 1108 and 1116 of the Bankruptcy Code. No request for the appointment of a trustee or examiner has been made in this Chapter 11 case and no official committees have been appointed or designated.

The Debtor is a Texas corporation founded in 2004 by Glenn Gault to manufacture and market customized rock drill bits for use in oil and gas drilling and exploration. CapRock represented it founder's effort to continue the "rock drill bit" legacy pioneered by his grandfather, Errol Glenn Gault, who, in the mid-1940s, invented and subsequently patented the first jetted rock bit for oil and gas drilling. Subsequent to the addition of a team of highly accomplished industry leaders, CapRock quickly became respected among drillers in the Permian Basin for delivering a high quality successful product by delivering *Tailor-Made* product and service solutions for specific applications and drilling targets. The Debtor's services also routinely included supplying rock

strength analysis, bit selection, drilling parameter recommendations, reference bit records and drilling history analysis, hydraulic program design, drilling cost analysis, post-well drilling result analysis, comparison case studies and other technical services, on demand, to assist its customers consistently improve drilling performance and achieve superior results.

CapRock began operations in a 4,000-square foot building but outgrew that location and in 2012, moved to its current 13,200 square foot location at 3446 South Main Street in Pearland, Texas. It currently employs nineteen (19) people with fourteen (14) operations and administrative personnel located in its Pearland location and (5) sales personnel located at 1110 Farm to Market 1788, Midland, Texas 79706. CapRock's Pearland location and equipment are leased from an affiliate of the Debtor and Mr. Gault, Rebecca Holdings, Inc. (***"RHI"***). RHI, in turn, is owned by Mr. Gault and Mr. Gault's wife, Rebecca Gault. The Debtor is not current on its (pre-petition) lease obligations to RHI.

The Company grew from $202,992 in annual revenues in its beginning years to as much as $20 million in annual revenue in 2014. In 2015, however, the Company saw its annual revenue decline to a little under $5.4 million due to the dramatic decline in spot oil prices, and thus oil and gas drilling, and then to a little over $2.3 million in 2016. For the January 1, 2017 to April 7, 2017 time period, however, Company revenue approximated $1.6 million as the Company saw recent monthly revenue spike from $82,287 as late as June 2016, to $518,737 as recently as March 2017.

As of the Petition Date, CapRock has one shareholder, Glenn Gault, one former shareholder, Wayne Hall, with a redemption claim for the equity interest he previously held in CapRock, 2 directors, and one secured creditor, Glenn Gault, who asserts a blanket lien on all of the Company's assets, to secure prepetition loans made to CapRock approximating $360,000, and pre-petition claims of vendors and counterparties to executory contracts and unexpired leases of $1,451,677.60.

B. EVENTS LEADING TO BANKRUPTCY

On April 7, 2017, a resolution of the Company's sole shareholder and board of directors was passed authorizing the officers of the Company to file the Petition. The decision to seek Chapter 11 relief was, however, primarily a function of a pending lawsuit filed by a former shareholder of the Company, Wayne Hall (***"Hall"***), to collect amounts he asserts are owed to him by CapRock to redeem a 15% equity stake in CapRock he previously owned. Specifically, on or about January 2010, CapRock and Hall, then an employee and shareholder of CapRock, entered into a shareholder agreement (the ***"Shareholder Agreement"***). Pursuant to the Shareholder Agreement, Hall granted CapRock an option to buy his 177 shares (***"Shares"***) of CapRock in the event his employment with CapRock terminated for any reason. Hall resigned his employment with CapRock on or about January 7, 2015, at which time CapRock informed Hall of its intention to repurchase the Shares pursuant to the terms of the Shareholder Agreement which, in turn, required the purchase price for the Shares, as determined under the Shareholder Agreement, to be paid in equal installments over the course of five (5) years.

In an effort to finalize the repurchase of Hall's shares, CapRock sent Hall various proposals and documentation outlining terms and conditions for the repurchase. Hall failed to respond to CapRock's proposals regarding the terms of the repurchase. Notwithstanding his failure to execute CapRock documents tendered to Hall to memorialize the repurchase of the Shares, CapRock paid Hall approximately $356,645.60 in January of 2015 which Hall accepted as the first installment toward the purchase price for the redemption of the Shares. When Hall did not get paid a redemption payment in January 2016, Hall filed his Plaintiff's Original Petition (the ***"State Court Petition"***) initiating a lawsuit (the ***"Lawsuit"***) styled *Wayne Hall vs. CapRock Oil Tools, Inc.*, Cause No. CV52517 in the 238th Judicial District Court for Midland County, Texas (the ***"State Court"***).

In the State Court Petition, Hall alleged a claim for breach of an alleged "promissory note" relating to CapRock's alleged failure to make its annual payment of $356,645.60 in January of 2016. *See*

State Court Petition, p.1. Hall specifically alleged that "he is a former stockholder in CapRock (and that) in accordance with a shareholder agreement, CapRock notified Hall that it was redeeming his shares for $1,426,582.40 to be paid in five installments, CapRock (thereafter) failed to make the initial installment and such payment is now due and payable." *See* State Court Petition, pages 1-2. CapRock timely filed a general answer/denial of the allegations set forth in the State Court Petition.

Hall subsequently filed a motion for summary judgment which he amended on February 6, 2017, with his Wayne Hall's First Amended Motion for Summary Judgment Against CapRock Oil Tools, Inc. (***"MSJ"***). In the MSJ, Hall sought a summary judgment from the State Court in his favor and against CapRock in the amount of $713,291.20, plus costs, interest and fees. Specifically, Hall alleged in his MSJ:

(a) that he owned the Shares;

(b) pursuant to the terms of the Shareholder Agreement, CapRock was obligated to redeem the Shares if Hall terminated his employment with CapRock at any time after July 1, 2013;

(c) the redemption or purchase price for the Shares in that situation would be based on a valuation of the Shares as determined pursuant to Section 9(d) of the Shareholder Agreement;

(d) Hall tendered his resignation from CapRock on January 7, 2015;

(e) the Company determined that the Shares had a valuation of $1,783,228.00 (***"Redemption Price"***) which pursuant to Section 9(d) of the Shareholder Agreement;

(f) CapRock was obligated to pay said amount to Hall in five (5) equal annual installments;

(g) On or about February 13, 2015, CapRock paid Hall an initial installment against the Redemption Price via check in the amount of $356,645.60; and

(h) CapRock failed to pay Hall the January 2016 and January 2017 Redemption Price installments, totaling $713,291.20.

See MSJ, pgs. 1-2.

A hearing on the MSJ was subsequently set for April 20, 2017 in the State Court which ultimately forced the Debtor to seek Chapter 11 relief.

IV.

MAJOR EVENTS IN THE REORGANIZATION CASE

A. FIRST DAY PLEADINGS

On April 11, 2017, the Debtor filed three "first day" pleadings as follows:

(a) Emergency Motion Application for Interim and Final Authority to Use Cash Collateral and to Provide Adequate Protection {D.E. #3} (***"Emergency Cash Collateral Motion"***);

(b) Emergency Motion Application for Authority to Pay Pre-Petition Payroll, Wages, Etc. {D.E. #4} (***"Emergency Wage Motion"***); and

(c) Emergency Motion for Entry of Interim and Final Orders (1) Prohibiting Utility Companies from Altering, Refusing, or Discontinuing Services; (2) Approving the Debtors Proposed Adequate Assurance of Utility Payments Pursuant to 11 U.S.C. § 366(b); and (3) Establishing Procedures for Resolving Requests for Additional Assurance of Payment [D.E.#5].

.

Pursuant to the Emergency Cash Collateral Motion, the Debtor sought a Bankruptcy Court order authorizing the use of the cash collateral of its sole secured creditor, Glenn Gault, to conduct its post-petition business operations. Pursuant to the Emergency Wage Motion, the Debtor sought Bankruptcy Court authority to pay prepetition wages, salaries, other compensation and related benefits due its employees as detailed therein. Pursuant to the Emergency Utilities Motion, the Debtor sought Bankruptcy Court approval of a proposed adequate assurance escrow deposit, and related adequate assurance procedures as required by Section 366 of the Bankruptcy Code.

On April 13, 2017, the Bankruptcy Court conducted an emergency hearing on the Emergency Cash Collateral Motion, Emergency Wage Motion and Emergency Utility Motion (collectively, the ***"First Day Pleadings"***). Immediately after the emergency hearing, the Bankruptcy Court entered its

(a) Order Approving Interim Use of Cash Collateral and Providing Adequate Protection [D.E. #14] (***"Interim Cash Collateral Order"***) authorizing the use of Mr. Gault's cash collateral as set forth therein and setting a final hearing on the Emergency Cash Collateral Motion for May 2, 2017; (b) Order Authorizing Payment of Prepetition Wages and Other Employee Obligations [D.E.# 15] (*"Interim Wage Order"*) authorizing the payment of the prepetition wages, benefits, etc. as set forth therein; and (c) Interim Order Providing Adequate Assurance of Utility Payments [D.E.# 16] (***"Interim Utility Order"***) directing the establishment of a utility adequate protection escrow account in the amount of $3,328.00 on or before April 21, 2017 and providing for related adequate protection procedures for the City of Pearland and Hudson Energy.

On May 2, 2017, the Bankruptcy Court conducted a final hearing on the Emergency Cash Collateral Motion and entered that certain Agreed Final Order for Use of Cash Collateral Pursuant to Sections 361, 363 and 364 of the Bankruptcy Code and Providing Adequate Protection, Granting Liens and Security Interests [D.E. #27] (***"Final Cash Collateral Order"***) as well as a docket entry making the Interim Final Order a final order on the Emergency Utility Motion.

B. APPLICATION TO EMPLOY COUNSEL

On April 12, 2017, the Debtor filed its Application of CapRock Oil Tools, Inc. for Approval of Employment of Attorneys [D.E.# 13] ("Employment Application") seeking court approval, pursuant to Section 327 of the Bankruptcy Code, of Peter C. Lewis, Kelly Crawford and the law firm of Scheef & Stone, LLP as counsel for the Debtor. On May 16, 2017, the Bankruptcy Court entered its Order Authorizing Employment of Scheef & Stone, LLP as Counsel for the Debtor [D.E. # 31].

C. MONTHLY OPERATING REPORTS

On May 20, 2017, June 20, 2017, July 20, 2017 and August 20, 2017 (as amended on 9/15/17), the Debtor filed the Monthly Operating Report due for the preceding month. A review of

the Debtor's monthly operating reports as filed reflects that the Debtor has averaged a positive cash flow, during the pendency of the Chapter 11 case, of $ 19,483.00 and that as of August 31, 2017, had a cash balance of $ 105,938.00.

D. CAR ACCIDENT LAWSUIT

On May 9, 2017, a lawsuit was filed against the Debtor in the County Court at Law Number 4 of Nueces County, Texas styled "*Courtney Collie-Keel, Individually and on behalf of The Estate of Dallas Matthew Keel v. CapRock Oil Tools, Inc. and Logan Douglas Screws"*, Cause No. 2017 CCV-60873-4 (the ***"Car Accident Lawsuit"***). The Car Accident Lawsuit arose out of a fatal automobile accident involving the defendant Logan Douglas Screws (***"Screws"***), who is an employee of the Debtor. Without notice to the Debtor and prior to the Debtor being served with the original petition initiating the Car Accident Lawsuit, the plaintiff in the Car Accident Lawsuit (***"Plaintiff"***) obtained an *Ex Parte Restraining Order* against the Debtor and Screws in the Car Accident Lawsuit prohibiting the use or destruction of certain vehicles and evidence. Upon learning of the filing of the Car Accident Lawsuit and issuance of the Temporary Restraining Order, Debtor's counsel contacted Plaintiff's counsel and immediately informed Plaintiff's counsel of the pending bankruptcy of the Debtor. In addition, Debtor's counsel provided Plaintiff's counsel with a copy of the registration of the vehicle involved in the accident, which showed that the vehicle was not owned by the Debtor, but instead was owned by the Defendant Screws. In addition, counsel for the Debtor informed Plaintiff's counsel that the accident occurred late at night when Defendant Screws was not working for the Debtor. Debtor's counsel informed Plaintiff's counsel there was no good faith basis for including Debtor as a defendant in the Car Accident Lawsuit and made demand for Plaintiff's counsel to dismiss Debtor from the Car Accident Lawsuit or face sanctions. Plaintiff's counsel ignored Debtor's counsel's demand for dismissal of the Debtor from the Car Accident Lawsuit. As the hearing for

the temporary injunction approached, Debtor's counsel found it necessary to file a Motion to Transfer Venue since none of the parties were residents in Nueces County and the accident did not occur in Nueces County.2 Hours before the temporary injunction hearing, the Plaintiff's counsel informed Debtor's counsel that the Plaintiff would nonsuit its claims against the Debtor. A notice of nonsuit of the Debtor was filed by the Plaintiff in the Car Accident Lawsuit on May 25, 2017.

E. EXTENSION OF SECTION 365(D) (4) DEADLINE

On August 8, 2016, the Debtor filed its Motion to Extend Deadline to Assume or Reject Non-Residential Real Property Under 11 U.S.C. § 365 (d) (4) [D.E. #37] ("***§ 365 Motion***"). Pursuant to the § 365 Motion, the Debtor sought to extend the deadline to assume or reject its non-residential real property leases from August 8, 2017 to November 6, 2017 pursuant to § 365 (d)(4). According to the Debtor's schedules, there are at least two non-residential real property leases the Debtor has- i.e., the oral and/or written, non- residential property lease with RHI for its main business location (and related equipment therein) at 3446, S. Main Street, Pearland, Texas and the oral and/or written non- residential real property lease with Absolute Investments, Inc. of rentable warehouse/storage space located at 1110 South FM 1788, Units 81 & 83, Midland, Texas 79706. No objection to the § 365 Motion was timely filed and on September 18, 2017, an order [D.E. # 43] granting the § 365 Motion was entered by the Bankruptcy Court on September 18, 2017. It is further anticipated that all non-residential real property leases, including the Pearland Lease, will be assumed3 under the Plan per the terms of the existing lease

2 In addition, Debtor's counsel determined it necessary to identify potential local counsel in Corpus Christi, Texas to appear at the temporary injunction hearing and attempt to persuade the judge to dismiss the Debtor from the Car Accident Lawsuit or transfer venue of the Car Accident Lawsuit. Ultimately, Debtor did not retain the proposed local counsel.

3 As of October 1, 2017, the total amount the Debtor estimates is needed to cure arrearages under the Pearland Lease is no less than $1,613,142.60.

agreement or a new written lease, in the event the original lease cannot be located, which will incorporate terms that include rental payments of $7610 per week, or, on average $32,976.66 per month, with additional percentage rent due of 15% of sales over $300,000, an initial lease term of 1year with one (1)automatic 1 year renewal option and CapRock being responsible for routine maintenance or repairs and RHI being responsible for major repairs, overhauls and overhauls on the leased premises and equipment.

F. WAYNE HALL PROOF OF CLAIM

On August 15, 2017, Hall filed a Proof of Claim ("***Hall POC***") wherein he asserted an unsecured claim in the amount of $1, 479, 870.94 and identified the basis of the Hall Claim as the "2015 Stock Redemption". See Hall POC, p. 2. According to the Hall POC, on February 13, 2015, the Debtor " exercised its right to repurchase the shares Wayne Hall owned pursuant to Section 4 of the Shareholder Agreement" and the " shares Wayne Hall owned in the Debtor were subsequently redeemed by the Debtor…". See Hall POC, Ex. 1, Section 510(b) of the Bankruptcy Code provides that"claim[s] arising from . . . a purchase or sale of a security of the debtor or of an affiliate of the debtor, or for reimbursement or contribution . . . on account of such claim, shall be subordinated to all claims or interests that are senior to or equal the claim[s] or interest[s] represented by such security except that if such security is common stock, such claim has the same priority as common stock." Under the Plan, and pursuant to Section 510 of the Bankruptcy Code, the claims asserted by Hall in the Hall POC will be subordinated to the claims of, at minimum, all senior interests including, but not limited to, all allowed secured and unsecured claims. Contemporaneous with, or shortly after, the filing of this Disclosure Statement, the Debtor will file an objection to the Hall POC.

V.

DESCRIPTION OF THE PLAN AND INFORMATION REGARDING CLAIMS

A. TREATMENT OF CLAIMS

The Plan contemplates that the Debtor will use of all post-petition and post-Confirmation income/revenue of the Debtor and Reorganized Debtor (as defined in the Plan), proceeds from the collection of the Debtor's accounts receivables, proceeds from recovery of Voidable Transfers (as defined in the Plan), and New Value Contribution(s) (as defined in the Plan) (collectively, the "Proceeds") to pay, in full, holders of Allowed Claims (as defined in the Plan), in the following classes:

(a) Tax Claims (as defined in the Plan), to be paid in full within the later of (a) sixty (60) days of the Effective Date or (b) such Tax Claims become Allowed Claims;

(b) Secured Claims (as defined in the Plan), to be paid, at the holder's option (i) in accordance with the applicable pre-petition loan agreement(s), or (ii) as may be agreed between the holder of the Secured Claim and the Debtor;

(c) Non-Insider Unsecured Claims (as defined in the Plan), to be paid within one hundred eighty (180) days of (i) the Effective Date of the Plan, or (ii) the date such claims become Allowed Claims, whichever is later; and

(d) Insider Unsecured Claims (as defined in the Plan), to be paid within one hundred eighty (180) days after the date Allowed Non-Insider Unsecured Claims have been satisfied.

The Plan further provides that the Hall Stock Redemption Claim (as defined in the Plan) is to be subordinated pursuant to 11 U.S.C. § 510(b)4 and Equity Interests (as defined in the Plan) are to be cancelled with no distribution on account of same. In addition, the Reorganized Debtor will also

4 On or about August 15, 2017, Hall filed a Proof of Claim in the Debtor's bankruptcy case which asserted a "2015

retain all Estate (as defined in the Plan) property, including all property of the Debtor as defined in 11 U.S.C. §541, to the extent same are assets of the Debtor's bankruptcy estate, as well as all Avoidance Actions. Finally, all of the equity in the Reorganized Debtor will be owned by the party or parties providing the New Value Contribution. The New Value Contribution, in turn, will be used to fund amounts due under the Plan that the Reorganized Debtor is unable to timely fund and is currently anticipated to approximate no less than $1,986,653.31 to be funded (it is currently anticipated by the Debtor's sole shareholder, Glenn Gault) in quarterly installments of approximately $400,000.00-500,000.00 by the party or parties providing the New Value Contribution5. See Pro Forma Analysis attached hereto as Exhibit 'B"

PLEASE REFER TO THE FULL TEXT OF THE PLAN, A COPY OF WHICH IS ATTACHED HERETO AS EXHIBIT "A" OR ON FILE WITH THE BANKRUPTCY COURT, IN CONNECTION WITH THE FOLLOWING PARAGRAPHS AND DEFINED TERMS. THIS SUMMARY OF THE PLAN IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO THE PLAN ITSELF. IF ANY INCONSISTENCY EXISTS BETWEEN THIS SUMMARY AND THE PLAN, THE TERMS OF THE PLAN CONTROL. Claims and Interests in the following classes will receive the following treatment unless the holder of an Allowed Claim6 consents to a different treatment.

Class 1. Administrative Claims. All Administrative Claims that are unpaid on the Confirmation Date will be paid in full, in cash on the Effective Date, unless the holder thereof agrees to a different treatment or. The current estimated amount of Administrative Claims in this

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Stock Redemption" claim.

5 In the event Gault makes the New Value Contribution, the New Value Contribution will be in the form of a total cash infusion of approximately $600,000 and forgiveness, deferral and/or conversion of some or all of insider indebtedness owed Gault and/or RHI totaling approximately $1,869,430.48 .

class is $ 30,000.00.

Class 2. Tax Claims. Holders of Tax Claims that have become Allowed Claims (***"Allowed Tax Claims"***) shall be paid in cash, in full, in equal installments of principal and interest over 6 months with interest at the rate of 6.00% per annum. So long as the Allowed Tax Claims are paid pursuant to the Plan, no holder of an Allowed Tax Claim shall proceed against any other party or entity liable or responsible for said tax obligations. The estimated amount of Tax Claims in this class is approximately $21,000.00.

Class 3. Secured Claims. Holders of Secured Claims, to the extent same become Allowed Claim(s), will be paid in cash, in full, at the holder's option, (A) in accordance with the applicable pre-petition loan agreement or (B) as may be modified pursuant to a written agreement between the Debtor and Secured Creditor. Until the Allowed Claim is paid as provided for herein, the holder of an Allowed Secured Claim will retain all pre or post-petition liens against the Debtor or Reorganized Debtor unless otherwise agreed to, in writing, between the Debtor and the Secured Creditor. The estimated amount of Secured Claims is $360,462.14.

Class 4. Non-Insider Unsecured Claims (including Rejection Claims). Holders of Unsecured Claims and Rejection Claims that become Allowed Claims ("Allowed Unsecured Claims") will be paid in cash, in full, without interest, from Proceeds within one hundred eighty 180 days after the Effective Date, or the date such claim becomes an Allowed Claim, whichever is later. The estimated amount of Non-Insider Allowed Unsecured Claims (including Rejection Claims but excluding the Hall Claim) is approximately $583,000.00.

Class 5. Insider Unsecured Claims. Insider Unsecured Claims shall be paid in cash, in full, without interest, from Proceeds within (180) days after the date Allowed Class 4 Claims are paid in full. . The estimated amount of Insider Allowed Unsecured Claims is approximately

$870,000.00.

Class 6. Hall Stock Redemption Claims. The Hall Stock Redemption Claim will be subordinated pursuant to 11 U.S.C. §510(b). The estimated amount of Hall Stock Redemption Claim is approximately $1,426,582.40.

Class 7. Equity Interests in Debtor. Equity Interests shall be cancelled and released with no distribution on account of any such interests7.

The Debtor will assume all executory contracts and unexpired leases, other than those the Debtor gives notice of intent to reject or files a motion to reject within sixty (60) days of the Confirmation Date or those already rejected8.

The Plan further provides for continuing Bankruptcy Court jurisdiction over the Plan for the following purposes:

(i) Allowed Claims;

(ii) Executory contracts and unexpired lease proceedings;

(iii) Plan interpretation;

(iv) Plan implementation;

(v) Plan modification;

(vi) Adjudication of controversies;

(vii) Injunctive relief;

(viii) Interpleader actions;

(ix) Correction of minor defects;

(x) Authorization of preconfirmation fees and expenses;

(xi) Post-confirmation orders regarding Confirmation; and

7 See discussion of Hall Stock Redemption Claim, *infra*.,

(xii) Final decree.

B. FINANCIAL INFORMATION

1. Current Assets and Liabilities of Debtor.

Copies of the Debtor's Statements of Financial Affairs and Schedules, as amended, and the Debtor's most current operating reports, are on file with the Court.

C. INSIDER, PREFERENCE AND FRAUDULENT CONVEYANCE CLAIMS

The Debtor has investigated its books and records and does not believe that there are any insider preference and/or fraudulent transfer actions under 11 U.S.C. §§ 544, 547 and 548 other than potential preference claims against any creditors who received prepetition payments that are identified in response to Question 3 of the Debtor's Statement of Financial Affairs ("SOFA") filed in this case and a potential avoidance claim under 11 U.S.C. § 544 (constructive fraudulent transfer) against Hall to recover the $356,645.60 share redemption payment made by CapRock to Hall in January of 2015 . The Debtor or Reorganized Debtor intends to further investigate these claims and initiate such legal action deemed meritorious. It is believed, however, that most of the payments made during the preference period that have been identified do not constitute preferential transfers.

D. SUMMARY OF LITIGATION

As of the date of the filing of its Petition, there was no litigation that has been initiated by, or pending against, the Debtor other than the Litigation. Since the filing of the Petition, the only litigation against the Debtor was the Car Accident Lawsuit.

E. ALTERNATIVES TO PLAN

The Plan believes that it is in the best interests of its creditors to accept the Plan because the amount of money to be distributed to creditors under the Plan is more than the creditors would

8 See FN 3, *infra*.

receive if Debtor's assets were liquidated by a Chapter 7 bankruptcy trustee and offers more favorable result to the estate were the case dismissed.

(1) Chapter 7 Liquidation

If Debtor's assets are liquidated by a Chapter 7 trustee, the proceeds would first be used to satisfy secured claims if any, second to satisfy Chapter 7 administrative priority claims, third to satisfy Chapter 11 administrative priority claims and finally to satisfy general unsecured claims. Based on the Debtor's analysis, the liquidation value of Debtor's individual assets would, in no event, be more than $161,000 based on the Liquidation Analysis attached hereto as Exhibit "B" and incorporated herein by reference for all purposes and any recoveries from the prosecution of Voidable Transfers would be insufficient to satisfy Chapter 11 and 7 administrative priority claims, secured claims and unsecured claims against same. Therefore, if a plan is not confirmed and Debtor's assets are liquidated by a Chapter 7 trustee, the only creditors assured of receiving a distribution on their claims are administrative claimants, the holders of tax claims and the holders of secured claims. See Exhibit B.

VI.

RISK FACTORS

Certain risk factors are inherent in most plans of reorganization. If such plans are accepted, it is usually because the proposal represents a greater return to creditors than would be available in liquidation

VII.

MISCELLANEOUS PROVISIONS

A. MODIFICATIONS OF THE PLAN

The Debtor may propose amendments to or modifications of the Plan at any time prior to the Confirmation Date with the approval of the Court and upon such notice to parties in interest as the

court deems necessary. After the Confirmation Date, the Debtor may, with the approval of the Court and so long as it does not materially or adversely affect the interest of the Claimants, remedy any defects or omissions or reconcile any inconsistencies in the Plan or in the Confirmation Order in such manner as may be necessary to carry out the purposes and intent of the Plan.

B. OBJECTIONS TO CLAIMS

If an objection is not filed to a claim, then the claim is deemed to be an Allowed Claim. However, no distribution shall be made on any claim to which an objection has been filed (e.g., a ***"Contested Claim"***). Instead, the Debtor will reserve a sufficient amount to make a distribution to any Contested Claim that ultimately becomes an Allowed Claim. For Contested claims that become "Allowed Claims," the Debtor shall make a distribution from the reserve as soon as practicable after the date that the claim is allowed.

Although the Debtor has not completed its analysis of the claims filed herein, the Debtor anticipates objecting to those unsecured claims which are filed in amounts that exceed the amounts the Debtor's records or Schedules reflect as owing, as well as to claims that the Debtor believes are meritless. Additionally, the Debtor intends to object to duplicate claims that are included among the claims filed. Finally, the Debtor anticipates objecting to any claims that were filed after the bar date for filing claims.

Contemporaneous with, or shortly after the filing of this Disclosure Statement, the Debtor has filed or will file an objection to the Hall POC seeking the subordination of such claim pursuant to Section 510(b) of the Bankruptcy Code and/or disallowance of some or all of the claim amounts asserted therein.

C. RETENTION OF JURISDICTION

The Plan provides for the retention of jurisdiction by the Court for a variety of matters as may be pending on the Confirmation Date or as may arise subsequent thereto. Article XIII of the Plan sets forth the list of matters over which the Court shall retain jurisdiction.

D. CERTAIN FEDERAL INCOME TAX CONSEQUENCES

(1) Tax Aspects to Creditors Receiving Property Other Than Common Stock

In general, a creditor who receives property (other than common stock) in satisfaction of such creditor's claim generally will recognize a gain or loss on the payment in cancellation of its claim (other than claims for accrued interest as described below) equal to the difference between the amount realized in respect of such claim and the creditor's tax basis in such claim.

(2) Tax Aspects to Creditors Receiving No Distribution

To the extent that a creditor receives no distribution pursuant to the Plan, the creditor may be entitled to deduct as a loss the amount equal to the tax basis of its claim. The availability and timing of any such losses will depend in part upon the creditor's tax accounting method for bad debts.

BECAUSE OF THE LIMITED SCOPE OF THE ABOVE DISCUSSION, EACH CREDITOR SHOULD CONSULT ITS OWN TAX ADVISOR REGARDING THE TAX CONSEQUENCES OF THE PLAN BASED ON HIS, HER OR ITS SPECIFIC FACTS AND CIRCUMSTANCES.

VIII.

INFORMATION PROVIDED HEREIN

Except as noted herein, the information contained in this Disclosure Statement has been provided by Debtor. To a large extent, the information provided herein was obtained from other documents. Although the Debtor believes such information to be substantially accurate and believes that creditors and other parties in interest can reasonably rely on such information (unless otherwise noted), the Debtor is not able to warrant or represent that the information contained herein is accurate. Financial information contained herein has not been subject to an audit.

NO STATEMENTS AS TO THE FINANCIAL CONDITION OR BUSINESS OPERATIONS OF THE DEBTOR ARE AUTHORIZED EXCEPT AS SET FORTH IN THIS DISCLOSURE STATEMENT.

IX.

CONCLUSION

This Disclosure Statement was approved by the Court after notice and a hearing. The Court determined that this Disclosure Statement contains information adequate to permit holders of Claims to make an informed judgment about the Plan. Such approval, however, does not mean that the Court recommends either acceptance or rejection of the Plan.

A. HEARING ON AN OBJECTION TO CONFIRMATION

The Court will hold a hearing on confirmation of the Plan at the time and location set forth in the Order Approving the Disclosure Statement enclosed with this Disclosure Statement. Any objections to Confirmation of the Plan must be in writing, filed with the Clerk of the Court, and served on the parties listed in the Order Approving the Disclosure Statement on or before the dates set forth therein.

B. RECOMMENDATION

THE DEBTOR BELIEVES THAT CONFIRMATION OF THE PLAN IS DESIRABLE AND IN THE BEST INTEREST OF CREDITORS. The Plan provides for an equitable distribution to all Classes of the Debtor's creditors in this case. Any alternative to confirmation of the Plan, such as liquidation or attempts by another party-in-interest to file a plan, would result in significant delays, litigation and expense. Moreover, the Debtor believes that the creditors will receive a greater recovery under the Plan than that which could be achieved in Chapter 7 liquidation.

FOR THESE REASONS, THE DEBTOR URGES YOU TO RETURN YOUR BALLOT ACCEPTING THE PLAN.

DATED: October 6, 2017

Respectfully submitted,

/s/ *CapRock Oil Tools, Inc.*
CAPROCK OIL TOOLS, INC.

OF COUNSEL:

SCHEEF & STONE, L.L.P.

By: /s/ Peter C. Lewis

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