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Honorable Brian D. Lynch
Chapter 11
Confirmation Hearing Date: August 2, 2016
Hearing Time: 9:00 a.m.
Hearing Location: Vancouver, WA
Voting Deadline: July 26, 2016
Confirmation Objection Deadline: July 26, 2016

IN THE UNITED STATES BANKRUPTCY COURT
WESTERN DISTRICT OF WASHINGTON AT TACOMA

In re:	}	Case No. 15-45167-BDL
PRECISION INDUSTRIAL CONTRACTORS, INC.,	}	DISCLOSURE STATEMENT REGARDING DEBTOR'S PLAN OF REORGANIZATION DATED JUNE 3, 2016
Debtor.	}	

THIS DISCLOSURE STATEMENT HAS NOT YET BEEN APPROVED BY THE COURT AS CONTAINING ADEQUATE INFORMATION WITHIN THE MEANING OF SECTION 1125 OF THE BANKRUPTCY CODE. IF YOU HAVE REQUESTED AND RECEIVED A COPY OF THE DISCLOSURE STATEMENT IN CONNECTION WITH THE COURT'S HEARING TO CONSIDER APPROVAL OF THE DISCLOSURE STATEMENT, NOTHING CONTAINED HEREIN IS OR WILL BE DEEMED A SOLICITATION OF ACCEPTANCE OF THE PLAN OF REORGANIZATION.

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1 Precision Industrial Contractors, Inc. ("Debtor") submits this Disclosure
2 Statement in connection with the solicitation of acceptances of the Debtor's Plan of
3 Reorganization Dated June 3, 2016 (the "Plan"). A copy of the Plan accompanies this
4 Disclosure Statement.

5 **I. INTRODUCTION AND STATEMENTS REGARDING REPRESENTATIONS,**
6 **AND PLAN SUMMARY**

7 **A. Definitions.**

8 All terms used in this Disclosure Statement have the same meaning as used in
9 the Plan. In the event of any inconsistency between the Plan and this Disclosure
10 Statement, the Plan will control.

11 **B. Introduction.**

12 On November 5, 2015 (the "Petition Date"), Debtor filed its petition under
13 Chapter 11 of the United States Bankruptcy Code. Since the Petition Date, the Debtor
14 has remained as a debtor-in-possession pursuant to Sections 1107 and 1108 of the
15 Bankruptcy Code.

16 This Disclosure Statement summarizes Debtor's assets and liabilities and
17 explains how creditors will be paid under the proposed Plan. The purpose of the
18 Disclosure Statement is to provide Debtor's creditors with information about the Plan so
19 that creditors and equity interest holders entitled to vote can make an informed decision
20 in voting for or against the Plan. This Disclosure Statement is intended only as an aid to
21 supplement the review of the Plan by creditors and equity interest holders and is
22 qualified in its entirety by reference to the Plan.

23 Pursuant to the terms of the Plan, certain classes of claims are entitled to vote. If
24 you belong to a class that is entitled to vote, enclosed with this Disclosure Statement is
25 a ballot and a pre-addressed envelope for return of the ballot. If you are entitled to vote
26 but did not receive a ballot or if your ballot is lost or damaged, please contact Majesta P.

Racanelli at Sussman Shank LLP, 1000 S.W. Broadway, Suite 1400, Portland, Oregon

1 97205-3089, by telephone at (503) 227-1111, by fax at (503) 243-0130, or by email at
2 mracanelli@sussmanshank.com.

3 Debtor believes that confirmation of the Plan is in the best interests of the Debtor
4 and its creditors and equity interest holders, and that creditors and equity interest
5 holders should vote to accept the Plan. You may vote on the Plan by returning the
6 ballot to the address shown below prior to the voting deadline, which is **5:00 p.m.**
7 **Prevailing Pacific Time on July 26, 2016. Only ballots received by the voting**
8 **deadline can be counted for purposes of plan confirmation.**

9 **II. History of the Debtor and Events Leading to the Filing of Chapter 11.**

10 **A. History.**

11 The Debtor is a Washington corporation based in Woodland, Washington,
12 that is engaged in the industrial construction, dismantling, and moving business,
13 including machinery moving, process piping, equipment installation, concrete plant
14 relocation, steel erection, electrical instrumentation, and demolition. One of its core
15 businesses involves purchasing, dismantling, selling, moving, and installing components
16 from large, no longer operating, paper mills and other industrial facilities. The Debtor
17 was incorporated in 2001 and has grown to a company with annual revenues of
18 \$18,347,043 in 2013 and \$18,478,827 in 2014. In 2015, the Debtor experienced a
19 significant decrease in revenues, with year to date revenues as of November 5, 2015,
20 the date the Debtor filed its Chapter 11 petition, totaling \$8,958,879. The reason for this
21 significant decrease in revenues resulted primarily from the Debtor's purchase of assets
22 in a non-operating paper mill located in Snowflake, Arizona, the seller's breach of its
23 contract with the Debtor that prevented the Debtor from being able to remove and sell a
24 large portion of the assets it purchased, and the time and expense of the litigation
25 resulting therefrom. The chronology of those events is discussed below.

26 //

B. Catalyst Paper Mill Purchase and Resulting Litigation.

On May 16, 2013, the Debtor purchased a large portion of the machinery, piping, wiring, and other salvageable assets in the Catalyst Paper Mill from Snowflake Mill Investors, LLC (“SMI”) and Rabin Worldwide, Inc. (“Rabin”) (collectively, the “Sellers”) for approximately \$3.5 million. Under its purchase agreement with the Sellers (the “Snowflake Asset Purchase Agreement”), the Debtor was given one year of unrestricted access to the site to complete the disassembly and removal of the assets it had purchased. At the end of that year, any of the Debtor’s purchased assets left on site would revert to the Sellers. Upon execution of the Snowflake Asset Purchase Agreement, the Debtor proceeded with the extraction process, disassembling and removing machinery, equipment, wiring, and piping, etc., readying items for transport, delivering items to the Debtor’s buyers, and storing other items on site awaiting sale or shipment to the Debtor’s buyers.

Approximately six months after the Debtor purchased the mill assets, SMI began negotiations with Stephen Durkee and his construction company, Interstate Construction Services, Inc. (“ICS”), for the purchase of the mill site real property and associated buildings. In connection therewith, Durkee formed Snowflake Industrial Park, LLC (“SIP”) as a single purpose entity to purchase the real property and buildings from SMI. Unbeknownst to Debtor, on January 27, 2014, SMI and SIP entered into a purchase and sale agreement. In addition to providing for the sale of the real property and buildings to SIP, the purchase and sale agreement contemplated an assignment to SIP of the Seller’s interest in the Snowflake Asset Purchase Agreement under which the Debtor had approximately three months remaining to remove its purchased assets from the mill site. The transaction was scheduled to close on February 15, 2014. No notice of this transaction was provided to the Debtor, and neither SMI nor SIP ever contacted the Debtor to discuss an orderly transition of the real property to SIP, nor the Sellers’

1 and SIP's continuing obligations to the Debtor under the Snowflake Asset Purchase
2 Agreement.

3 On February 3, 2014, the Sellers notified the Debtor that they had
4 "discovered" that the Debtor had failed to provide a performance bond as required by
5 the Snowflake Asset Purchase Agreement, and threatened to throw the Debtor off the
6 site if the bond was not provided by February 5, 2014. This caught the Debtor by
7 surprise. By this time the Debtor had been performing its contractual obligations with
8 the Sellers for over nine months, and the Sellers had never complained about the lack
9 of a bond or the Debtor's performance under the Snowflake Asset Purchase
10 Agreement. By this time, the Debtor had already extracted a portion of the assets it had
11 purchased, had sold them or stored them on site, and was in the process of staging the
12 remaining assets for removal and sale, or for storage off site. Although the Debtor
13 believed a bond was unnecessary and no longer required as the Sellers had waived any
14 bond requirement by their own actions, in order to resolve the issue and move forward,
15 the Debtor agreed with the Sellers on February 13, 2014 to voluntarily remove its
16 personnel from the site until it had secured the performance bond. In exchange, the
17 Sellers assured the Debtor it would be allowed to return to the site once the bond was
18 provided.

19 On Friday, February 21, 2014, the Debtor provided the Sellers with a bond
20 and its personnel returned to the work site. On Saturday, February 22, 2014, a
21 representative of the Sellers notified the Debtor that the bond was unacceptable as
22 potentially not covering all of the Debtor's performance obligations under the contract
23 and again threatened to bar the Debtor from access to the site. On February 25, 2014,
24 the Debtor filed a complaint against the Sellers and Ryan Smith (the representative of
25 the Sellers that had challenged the adequacy of the bond language) in the California
26 Superior Court for the County of San Francisco ("the California Lawsuit"), and sought a

1 temporary restraining order against the Sellers, their agents, and assigns, that would
2 prohibit the Sellers from further obstructing or interfering with the Debtor's "unrestricted
3 access" to the property. Although the Debtor disputed the Sellers' contention that the
4 bond language was deficient, the Debtor nevertheless proceeded to obtain an amended
5 bond to address the Sellers' concerns, which it provided to the Sellers on February 28,
6 2014.

7 At all times while the bond issue was in play, SMI continued with its efforts to
8 close the sale of the real property to SIP. On February 27, 2014, SMI and SIP
9 amended their sale agreement to extend the closing date from February 15, 2014 to
10 February 28, 2014, and on that same day SMI advised its security personnel at the mill
11 site to deny the Debtor access when the Debtor's personnel returned for work the next
12 morning on February 28, 2014. Upon its return to the mill on February 28th, the Debtor
13 was denied access and remained locked out that entire day. At the end of the day (after
14 the sale to SIP had closed), the Sellers notified the Debtor, **for the very first time**, that
15 SMI had entered into a contract to sell the real property to SIP, that the sale had closed
16 escrow that day, and that SIP was the new owner of the property and was in control of
17 access to the site.

18 On March 4, 2014, the court in the California Lawsuit entered the temporary
19 restraining order against the Sellers and their assigns, which the Debtor then sought to
20 enforce by providing it to the Sellers, the security personnel at the mill site, and SIP, the
21 new owner and purported assignee of the Sellers' rights and obligations under the
22 Snowflake Asset Purchase Agreement. SIP refused to honor the restraining order,
23 asserting that the California Superior Court had no jurisdiction over SIP or the real
24 property located in Arizona. This necessitated the Debtor's filing of a lawsuit in Arizona
25 federal district court against SIP for its failure to honor the Sellers' obligations under the
26 Snowflake Asset Purchase Agreement (the "Arizona Lawsuit").

1 During the three months remaining under the contract for the Debtor to
2 remove its purchased assets, SIP continued to deny access, only allowing the Debtor to
3 retrieve some of its employees' personal property and a portion of the Debtor's own
4 construction equipment, but none of the assets the Debtor had purchased from the
5 Sellers that remained on site. SIP has now sold and disposed of all of the Debtor's
6 assets that remained on site and has demolished the buildings and sold them for scrap.

7 In addition to the Debtor being unable to sell and deliver a substantial portion
8 of the mill assets to its buyers, which the Debtor estimates resulted in approximately
9 \$11,736,589 in damages, it has incurred over \$1,000,000 in attorney fees and related
10 litigation expenses in pursuing the litigation in California and Arizona. This negatively
11 impacted the Debtor's financial condition and its banking relationships, caused a
12 considerable cash flow shortage, and has been a major distraction to the Debtor's
13 personnel and its business operations.

14 **C. Regents Bank Seeks the Appointment of a Receiver.**

15 Primarily as a result of the Debtor's inability to realize revenue from selling the
16 Snowflake mill assets in order to satisfy its obligations to Regents Bank, on October 7,
17 2015, Regents filed a lawsuit against the Debtor and two guarantors of the Regents
18 Bank debt, Schultz, and RES, in Clark County Superior Court for breach of contract,
19 breach of guaranties, and for the appointment of a receiver to take possession of the
20 Debtor's assets and sell them to satisfy the obligations owing to Regents. After
21 negotiations with Regents failed and it proceeded with its motion for appointment of a
22 receiver, the Debtor filed Chapter 11 on November 5, 2015.

23 **D. Post-Petition Operations.**

24 The Debtor has resolved many of its operational issues during Chapter 11, and is
25 now experiencing an increase in both business activity and revenues. Since the filing of
26 its Chapter 11 petition, the Debtor has collected many of its older accounts receivable,

1 has generated and continues to generate substantial new business and accounts, and
2 has increased its cash position from a balance of \$96,932.21 as of the petition date, to
3 over \$600,000 as of May 27, 2016. During that same time period, the Debtor has made
4 significant adequate protection payments to Regents, reducing the principal balance on
5 the Regents loans by over \$1 million since filing Chapter 11 on November 5, 2015.

6 In addition to business revenues from its construction projects, the Debtor is
7 proceeding with its efforts to recover damages from SMI, Rabin, Smith, and Hackman
8 Capital Partners, LLC, the managing member of SMI and Smith's employer, for breach
9 of contract, breach of the implied covenant of good faith and fair dealing, intentional
10 interference with contract, intentional, and negligent interference with prospective
11 economic advantage, misrepresentation, and conversion. On April 15, 2016, the
12 Bankruptcy Court approved the employment of Sussman Shank LLP and Allen Matkins
13 Leck Gamble Mallory & Natsis, LLP, as special litigation counsel for the Debtor to
14 pursue the California Lawsuit on a contingency fee basis. The attorneys will be paid
15 40% of any recoveries in such litigation, and the Debtor will receive 60%. The California
16 Lawsuit is currently scheduled to go to trial on July 11, 2016, in San Francisco.

17 SIP, ICS, and Stephen and Alyssa Durkee (the "Arizona Defendants") have filed
18 proofs of claim in this Chapter 11 case totaling \$5,027,736. The Debtor intends to file
19 objections to those claims and assert the Debtor's own affirmative claims against the
20 Arizona Defendants. The Arizona Defendants' claims are allegedly based on the
21 Debtor's breach of the Snowflake Asset Purchase Agreement, and for damage caused
22 by the Debtor to the real property purchased by SIP. The Debtor believes those claims
23 are legally and factually unsupportable, are grossly inflated, and will be disallowed.

24 The defendants in the California Lawsuit have filed counterclaims against the
25 Debtor in the California Lawsuit. The defendants are stayed from affirmatively asserting
26 those counterclaims by Section 362 of the Bankruptcy Code, other than as a defense to

1 the Debtor's claims. Furthermore, the defendants did not file a proof of claim in this
2 bankruptcy case asserting any claims against the Debtor, and absent the Court
3 authorizing the late filing and allowance of claims by the defendants, the defendants will
4 not be entitled to share in any distribution under the Plan.

5 **E. Limited Representations.**

6 This Disclosure Statement is submitted in accordance with Bankruptcy Code
7 § 1125 for the purpose of soliciting acceptances of the Plan from holders of certain
8 claims. The Court has approved this Disclosure Statement as containing information of
9 a kind, and in sufficient detail, that is adequate to enable you to make an informed
10 judgment whether to vote to accept or reject the Plan.

11 THIS DISCLOSURE STATEMENT IS NOT THE PLAN. THIS
12 DISCLOSURE STATEMENT, TOGETHER WITH THE PLAN WHICH
13 ACCOMPANIES THIS DISCLOSURE STATEMENT, SHOULD BE READ
14 COMPLETELY. FOR THE CONVENIENCE OF CREDITORS, THE PLAN
15 IS SUMMARIZED IN THIS DISCLOSURE STATEMENT, BUT ALL
16 SUMMARIES AND OTHER STATEMENTS REGARDING THE PLAN
17 ARE QUALIFIED IN THEIR ENTIRETY BY THE PLAN ITSELF, WHICH
18 IS CONTROLLING IN THE EVENT OF ANY INCONSISTENCY.

19 NO REPRESENTATIONS OR ASSURANCES CONCERNING THE
20 DEBTOR, INCLUDING, WITHOUT LIMITATION, THE VALUE OF ITS
21 ASSETS, ARE AUTHORIZED BY THE PROPONENT OTHER THAN AS
22 SET FORTH IN THIS DISCLOSURE STATEMENT. THIS IS A
23 SOLICITATION BY THE DEBTOR ONLY AND IT IS NOT A
24 SOLICITATION BY THE DEBTOR'S ATTORNEYS OR ANY OTHER
25 PROFESSIONALS EMPLOYED BY THE DEBTOR. THE
26 REPRESENTATIONS MADE HEREIN ARE THOSE OF THE DEBTOR
AND NOT OF THE DEBTOR'S ATTORNEYS OR ANY OTHER
PROFESSIONAL.

UNLESS OTHERWISE EXPRESSLY STATED, PORTIONS OF THIS
DISCLOSURE STATEMENT DESCRIBING THE DEBTOR'S FINANCIAL
CONDITION HAVE NOT BEEN SUBJECTED TO AN INDEPENDENT
AUDIT, BUT PREPARED FROM INFORMATION COMPILED BY THE
DEBTOR FROM RECORDS MAINTAINED IN THE ORDINARY COURSE
OF ITS OPERATIONS. REASONABLE EFFORTS HAVE BEEN MADE
TO ACCURATELY PREPARE ALL FINANCIAL INFORMATION WHICH
MAY BE CONTAINED IN THIS DISCLOSURE STATEMENT FROM THE

1 INFORMATION AVAILABLE TO THE DEBTOR. HOWEVER, AS TO ALL
2 SUCH FINANCIAL INFORMATION, THE PROPONENT IS UNABLE TO
3 WARRANT OR REPRESENT THAT THE INFORMATION CONTAINED
HEREIN IS WITHOUT ERROR.

4 THE CONTENTS OF THIS DISCLOSURE STATEMENT SHOULD NOT
5 BE CONSTRUED AS LEGAL, BUSINESS OR TAX ADVICE TO
6 CREDITORS. CREDITORS SHOULD CONSULT THEIR OWN LEGAL
7 COUNSEL OR TAX ADVISOR ON ANY QUESTIONS OR CONCERNS
8 ABOUT TAX OR OTHER LEGAL EFFECTS OF THE PLAN ON
9 CREDITORS.

8 **F. Voting.**

9 Under the Bankruptcy Code, only holders of claims and equity interests in
10 "impaired" Classes and whose claims or interests have been allowed (or have been
11 temporarily allowed by the Bankruptcy Court pursuant to an order), are entitled to vote
12 on the Plan. The specific treatment of each class under the Plan is set forth in the Plan
13 and is summarized in this Disclosure Statement. In general, a claim is "allowed," as
14 that term is used in the Bankruptcy Code; if (i) the claim is listed in the Debtor's
15 schedules of liabilities filed with the Bankruptcy Court as not disputed, contingent, or
16 unliquidated; (ii) a proof of claim has been timely filed with the Bankruptcy Court by the
17 holder of the claim, and no objection to the claim has been filed; or (iii) the Bankruptcy
18 Court has entered an order allowing the claim. If a claim is not allowed, but the holder
19 thereof wishes to vote on the Plan, the holder must timely file a motion with the
20 Bankruptcy Court requesting that the claim be temporarily allowed.

21 In order for a class of claims to vote to accept the Plan, votes representing at
22 least two-thirds in amount and more than one-half in number of the claims actually
23 voting in that class must be cast in favor of acceptance of the Plan.

24 Section 1129(b) of the Bankruptcy Code provides that, if the Plan is rejected by
25 one or more impaired classes of claims, the Plan nevertheless may be confirmed by the
26 Court if: (i) the Court determines that the Plan does not discriminate unfairly and is fair
and equitable with respect to the rejecting class(es) of claims that are impaired under

1 the Plan; and (ii) at least one class of impaired claims has voted to accept the Plan.
2 These requirements are described in further detail in Section VII of this Disclosure
3 Statement.

4 A VOTE FOR ACCEPTANCE OF THE PLAN BY THOSE HOLDERS OF
5 CLAIMS WHO ARE ENTITLED TO VOTE IS IMPORTANT. THE
6 DEBTOR RECOMMENDS THAT THE HOLDERS OF ALLOWED CLAIMS
VOTE IN FAVOR OF THE PLAN.

7 IN ORDER FOR A VOTE TO BE COUNTED, A BALLOT MUST BE
8 PROPERLY FILLED OUT AND ACTUALLY RECEIVED ON OR BEFORE
9 5:00 P.M. PREVAILING PACIFIC TIME ON JULY 26, 2016 BY THE
DEBTOR'S ATTORNEYS AS SET FORTH IN THE BALLOT.

10 The Debtor believes that confirmation of the Plan is in the best interests of
11 the holders of claims and urges you to accept the Plan.

12 **III. THE DEBTOR'S ASSETS AND LIABILITIES**

13 A balance sheet (UST-12, Comparative Balance Sheet) from the Debtor's
14 April Rule 2015 monthly operating report [ECF Document No. 213] is attached hereto as
15 Exhibit B, which shows the Debtor's assets and liabilities for the months of February,
16 March, and April 2016. The projected estimated liquidation value of the Debtor's assets
17 and its estimated liabilities as of the August 2, 2016 hearing on confirmation of the Plan
18 are set forth on the Liquidation Analysis attached hereto as Exhibit C.

19 **IV. GENERAL DESCRIPTION OF THE PLAN**

20 The following general description of the Plan is for informational purposes only
21 and does not contain all provisions of the Plan. Creditors should not rely on this
22 description for voting purposes but should read the Plan in its entirety. All summaries
23 contained in this Disclosure Statement regarding the Plan do not purport to be
24 complete.

25 THE PLAN IS CONTROLLING IN THE EVENT OF ANY
26 INCONSISTENCY BETWEEN THE CONTENTS OF THE PLAN AND
THIS DISCLOSURE STATEMENT.

1 **A. Introduction.**

2 The following sections of the Disclosure Statement describe the classification
3 and treatment of claims and Interests. Debtor reserves the right to modify the Plan in
4 accordance with Section 1127 of the Bankruptcy Code, both prior to and after the
5 Effective Date.

6 **B. Classification and Treatment of Claims.**

7 The Plan provides for payment in full of all allowed Administrative Expenses on
8 the Effective Date, and payment of priority tax claims in installments in accordance with
9 Section 1129(a)(9)(C) of the Bankruptcy Code. The Plan then establishes 10 classes of
10 claims and interests and sets out the Debtor's proposed treatment of each class. The
11 treatment of each class of claims and interests is described in the Plan. Classes 2, 5, 6,
12 7, 8, and 9 are impaired and the holders of allowed claims in such classes are entitled
13 to vote. Classes 1, 3, 4, and 10 are unimpaired and those classes are deemed to have
14 accepted the Plan.

15 1. Administrative Expenses. These unclassified expenses include the
16 Debtor's and the Unsecured Creditors' Committee's unpaid professional fees accrued
17 during the case, accrued post-petition payroll and employee benefits, and post-petition
18 taxes and trade payables incurred by the Debtor in the ordinary course of business,
19 which together are anticipated to total approximately \$850,000 as of the hearing on
20 confirmation of the Plan. All allowed Administrative Expenses will be paid in full on the
21 later of the Effective Date, when such expenses are allowed, or when such expenses
22 are due pursuant to the Debtor's agreements with its employees, taxing authorities, and
23 trade creditors.

24 2. Priority Tax Claims. These unclassified claims of state and federal
25 taxing authorities are estimated to total approximately \$564,797 after application by the
26 IRS of approximately \$600,000 in tax refunds against the Debtor's pre-petition tax

1 obligations. Such claims will be paid in full in equal monthly installments of principal
2 and interest at the Plan Interest Rate, with the final payment due on or before
3 November 5, 2020.

4 3. Class 1: Non-Tax Priority Claims. These claims are estimated to
5 total approximately \$45,000 as of the Effective Date, consisting primarily of employee
6 wage and benefit claims that were due on the Petition Date but were not paid at the
7 commencement of the Chapter 11 case. All allowed Non-Tax Priority Claims will be
8 paid in full on the Effective Date. This class is unimpaired and is deemed to have
9 accepted the Plan.

10 4. Class 2: Regents Bank Secured Claims. Regents Bank's secured
11 claims, which are estimated to total approximately \$2,600,000 as of the Effective Date
12 will be divided into two loans, an equipment term loan with a balance of \$2,000,000 and
13 an operating line of credit with a balance of approximately \$600,000. The equipment
14 term loan will be paid in equal monthly installments of principal and interest at 5.5% per
15 annum over a period of five years. The operating line of credit will provide for future
16 advances in accordance with customary collateral value requirements and borrowing
17 ratios to be agreed to between the Debtor and Regents and will be for a term of two
18 years. Interest at USD LIBOR (1 month) floating + 3% will accrue and be paid monthly.
19 If not paid in full or renewed at the end of two years, the remaining balance will be
20 converted to a three year term loan and paid in equal monthly installments with interest
21 at the rate in effect at the time of conversion. This class is impaired.

22 5. Class 3: Ally Financial Secured Claims. Ally's claims consist of
23 motor vehicle installment sale contracts for approximately eight of the Debtor's vehicles.
24 Those contracts are not in default. Ally Financial will retain its liens on the vehicles and
25 the Reorganized Debtor will continue to make the monthly payments required under the
26 contracts. This class is unimpaired and is deemed to have accepted the Plan.

1 6. Class 4: Chrysler Capital Secured Claims. Chrysler Capital's
2 secured claims consists of an installment sale contract for one vehicle. Chrysler Capital
3 will retain its lien on the vehicle and the Reorganized Debtor will continue to make the
4 monthly payments required under the contract. This class is unimpaired and is deemed
5 to have accepted the Plan.

6 7. Class 5: Michelman & Robinson Secured Claim. Michelman &
7 Robinson LLP ("M&R") is a law firm that represented the Debtor prior to the Chapter 11
8 filing in both the Arizona Lawsuit and California Lawsuit, and on various other matters.
9 M&R filed a proof of claim for \$376,423.55 for unpaid fees and expenses. M&R's
10 engagement agreement with the Debtor provided it with an attorney's lien under
11 California law in the claims it was pursuing on behalf of the Debtor to secure its fees
12 and expenses. M&R has agreed to subordinate its lien to payment of the Debtor's
13 contingent attorney fees payable to Sussman Shank and Allen Matkins from any
14 recoveries in the California Lawsuit. Any amounts recovered in the California Lawsuit
15 over and above the amount necessary to pay the attorneys' contingent fees and
16 expenses, will first be used to pay M&R's allowed secured claim and the remainder
17 distributed pursuant to the Plan. If the California Lawsuit recoveries and any additional
18 Snowflake Recoveries are insufficient to pay M&R's claim in full, the deficiency will be
19 treated as a Class 7 General Unsecured Claim and included in the distribution to
20 Class 7 General Unsecured Claims. This class is impaired.

21 8. Class 6: Administrative Convenience Claims. This class consists
22 of unsecured claims of \$5,000 or less, and any unsecured claims of more than \$5,000
23 that are voluntarily reduced to \$5,000. Such claims will be paid in full without interest in
24 twelve equal monthly installments. This class is impaired.

25 9. Class 7: General Unsecured Claims. This class consists of non-
26 priority unsecured claims such as trade debt and other unsecured claims that are not

1 otherwise classified in the Plan. Based on the Debtor's schedules and proofs of claim
2 filed in the Case, it appears there are approximately \$1,800,000 in undisputed claims in
3 this class. This class will receive a total of up to \$1,800,000, to be paid in equal monthly
4 installments without interest over five years. This should result in payment in full of all
5 general unsecured claims if none of the disputed claims in Classes 7 or 8 are allowed,
6 and if M&R's claims are paid in full from the Snowflake Recoveries. Claims in this class
7 will receive a portion of the California Lawsuit recoveries if funds remain after paying the
8 Debtor's attorney fees and expenses, the secured claim of Michelman & Robinson, up
9 to \$1,000,000 to Regents Bank, and certain priority claims as provided in the Plan. If
10 the allowed claims in this class are less than \$1,800,000, or if there is a distribution to
11 unsecured creditors from the California Lawsuit, payment in full to unsecured creditors
12 could occur in less than five years. This class is impaired.

13 10. Class 8: Snowflake Defendants' Claims. This class consists of the
14 claims filed by SIP, ICS, and the Durkees totaling \$5,027,736 based on the
15 counterclaims asserted against the Debtor in the Arizona Lawsuit. The Debtor intends
16 to object to those claims and assert affirmative claims against SIP, ICS, and the
17 Durkees, including, but not limited to, claims for tortious interference, conversion, civil
18 conspiracy, piercing the corporate veil/alter ego, aiding and abetting, breach of contract,
19 and breach of the implied covenant of good faith and fair dealing, seeking damages
20 likely in excess of \$10 million. SMI, Rabin, Smith, and Hackman Capital Partners, LLC,
21 the defendants in the California Lawsuit, did not file proofs of claim in this Chapter 11
22 case, and unless the Court were to permit them to file their claims late, and to ultimately
23 allow such claims, they will not be entitled to share in any distribution under the Plan.
24 The Debtor will continue to pursue its claims against SMI, Rabin, Smith, and Hackman
25 in the California Lawsuit following confirmation. This class is impaired.

26 11. Class 9: Capitol Indemnity Corporation Claims. This class consists

1 of the contingent claims of Capitol Indemnity Corporation that provided a performance
2 bond to SMI and Rabin to secure the Debtor's performance under the Snowflake Asset
3 Purchase Agreement. Pursuant to Section 502(3)(1), Capitol Indemnity's claim will be
4 disallowed and Capitol Indemnity will receive no distribution under the plan because:
5 (1) the Snowflake Defendants' claims are disputed and have not been allowed, and
6 (2) Capitol Indemnity's claim is contingent, and will remain so, until the underlying
7 claims of the Snowflake Defendants have been allowed and Capitol Indemnity has paid
8 the Snowflake Defendants on account of their allowed claims. In the event the
9 Snowflake Defendants' claims are allowed and they receive a distribution under the
10 Plan, Capitol Indemnity's rights to receive all or any portion of such distribution paid to
11 the Snowflake Defendants will be governed by any agreements between the Snowflake
12 Defendants and Capitol Indemnity, and applicable non-bankruptcy law. This class is
13 impaired.

14 12. Class 10: Equity Interests. This class consists of the equity
15 interests in the Debtor which are owned 100% by Rodney E. Schultz. Schultz will retain
16 his equity interest in the Debtor and will remain the president and 100% equity interest
17 owner of the Reorganized Debtor following confirmation of the Plan. Schultz will be
18 paid a salary of \$300,000 per year. This class is unimpaired and is deemed to have
19 accepted the Plan.

20 **V. APPROVAL OF PLAN.**

21 Under the Bankruptcy Code, creditors holding allowed impaired claims have an
22 opportunity to vote on the Plan prior to its confirmation. The Plan is deemed to be
23 approved by creditors if each class of claims impaired under the Plan votes to approve
24 the Plan by a majority in number and two-thirds in amount of the claims in that class
25 which are entitled to vote on the Plan. The Bankruptcy Court must also make certain
26 findings to permit confirmation of the Plan. The Bankruptcy Court can confirm the Plan

1 even if some classes do not accept it, so long as at least one impaired class votes in
2 favor of the Plan and the Bankruptcy Court finds that the Plan does not discriminate
3 unfairly and provides fair and equitable treatment to the class or classes rejecting it.
4 The Debtor will request that the Bankruptcy Court approve such a “cram down”
5 confirmation of the Plan if all classes entitled to vote do not vote in favor of the Plan.

6 **VI. TAX CONSEQUENCES**

7 THE FEDERAL, STATE, LOCAL, AND FOREIGN TAX CONSEQUENCES OF
8 THE PLAN ARE COMPLEX AND, IN MANY AREAS, UNCERTAIN. ACCORDINGLY,
9 ALL HOLDERS OF CLAIMS ARE STRONGLY URGED TO CONSULT THEIR TAX
10 ADVISORS WITH SPECIFIC REFERENCE TO THE FEDERAL, STATE, AND LOCAL
11 TAX CONSEQUENCES OF THE PLAN WITH RESPECT TO SUCH HOLDER.
12 NEITHER THE PROPONENT NOR ITS COUNSEL MAKE ANY REPRESENTATIONS
13 REGARDING THE PARTICULAR TAX CONSEQUENCES OF CONFIRMATION AND
14 CONSUMMATION OF THE PLAN AS TO ANY CREDITOR OR EQUITY SECURITY
15 HOLDER.

16 Under the Internal Revenue Code of 1986, as amended, there may be significant
17 federal income tax issues arising under the Plan described in this Disclosure Statement
18 that affect creditors and equity security holders in the case. It is not practicable to
19 present a detailed explanation of every possible federal and state income tax
20 ramification of the Plan.

21 **VII. ACCEPTANCE AND CONFIRMATION**

22 **A. Voting Procedures.**

23 1. Generally.

24 Only those creditors whose Claims fall within one or more classes that are
25 impaired under the Plan are eligible to vote to accept or reject the Plan. Ballots will be
26 sent to the known holders of impaired claims whether or not such claims are disputed.

1 However, only the holders of allowed claims (or claims that have been temporarily
2 allowed or have been estimated by the Bankruptcy Court) in one or more impaired
3 classes are entitled to vote on the Plan. A claim to which an objection has been filed is
4 not an allowed claim unless and until the Bankruptcy Court rules on the objection and
5 enters an order allowing the claim. The holder of a disputed claim is not entitled to vote
6 on the Plan unless the holder of such claim requests that the Bankruptcy Court,
7 pursuant to Bankruptcy Rule 3018, temporarily allow the claim in an appropriate amount
8 solely for the purpose of enabling the holder of such disputed claim to vote on the Plan.

9 2. Incomplete Ballots.

10 Ballots which are signed, dated, and timely received, but on which a vote
11 to accept or reject the Plan has not been indicated, will be counted as a vote to accept
12 the Plan.

13 3. Submission Of Ballots.

14 The form of ballot for each of the classes entitled to vote on the Plan will
15 be sent to all creditors along with a copy of the Court approved Disclosure Statement
16 and a copy of the Plan. Creditors should read the Disclosure Statement, Plan, and
17 ballot carefully. If any Creditor has any questions concerning voting procedures, it may
18 contact Debtor's attorneys at:

19 SUSSMAN SHANK LLP
20 Attn: Majesta P. Racanelli
21 1000 S.W. Broadway, Suite 1400
22 Portland, OR 97205
Telephone: 503-227-1111
Facsimile: 503-248-0130

23 Ballot(s) or withdrawals/revocations must be returned to Sussman Shank LLP by
24 **5:00 p.m. Prevailing Pacific Time on July 26, 2016. Only ballots received by the**
25 **voting deadline can be counted for purposes of Plan confirmation.**
26

1 4. Confirmation Hearing and Plan Objection Deadline.

2 The Bankruptcy Court will hold a hearing on confirmation of the Plan
3 commencing on August 2, 2016 at 9:00 a.m. Prevailing Pacific Time, in the Bankruptcy
4 Courtroom, United States Federal Building, 500 W. 12th St., Vancouver, Washington.
5 All objections, if any, to the confirmation of the Plan must be in writing, must state with
6 specificity the grounds for any such objections, and must be filed with the Bankruptcy
7 Court and served upon counsel for Debtor at the following addresses on or before
8 July 26, 2016:

9 SUSSMAN SHANK LLP
10 Attn: Thomas W. Stilley
11 1000 S.W. Broadway, Suite 1400
 Portland, OR 97205

12 5. Feasibility.

13 The Bankruptcy Code requires, as a condition to confirmation, that the
14 Bankruptcy Court find that liquidation of the Reorganized Debtor or the need for future
15 reorganization is not likely to follow after confirmation. For the purpose of determining
16 whether the Plan meets this requirement, the Debtor has prepared projections attached
17 to this Disclosure Statement as Exhibit A, which show that the payment of claims from
18 projected income and other sources as provided in the Plan will be sufficient to make all
19 payments required of the Reorganized Debtor under the Plan without the need for
20 further reorganization.

21 **B. Best Interests Of Creditors.**

22 In the event any creditor objects to confirmation of the Plan, Section 1129(a)(7)
23 of the Bankruptcy Code requires that the Plan provide such creditor with as much as it
24 would receive if the Debtor's assets were liquidated in a case under Chapter 7. The
25 Plan is anticipated to pay all allowed claims in full, therefore the Debtor believes the
26 "best interests of creditors" test of Section 1129(a)(7) of the Bankruptcy Code is

1 satisfied. See Chapter 7 liquidation analysis attached hereto as Exhibit C.

2 **C. Confirmation Over Dissenting Class.**

3 In the event that any impaired class of claims does not accept the Plan, the
4 Bankruptcy Court may nevertheless confirm the Plan at Debtor's request if all other
5 requirements under Section 1129(a) of the Bankruptcy Code, except for
6 Section 1129(a)(8), are satisfied, and if, as to each impaired class which has not
7 accepted the Plan, the Bankruptcy Court determines that the Plan "does not
8 discriminate unfairly" and is "fair and equitable" with respect to such non-accepting
9 class.

10 **VIII. CONCLUSION**

11 The Debtor believes that confirmation of the Plan is in the best interests of the
12 Debtor and its creditors. Accordingly, the Debtor asks that creditors entitled to vote do
13 so in favor of the Plan on the enclosed ballot and timely return the ballot as described
14 above.

15 DATED: June 3, 2016.

16 DEBTOR:

17 PRECISIONS INDUSTRIAL CONTRACTORS, INC.

18 */s/ Rodney E. Schultz*

19 _____
Rodney E. Schultz
20 President

21 SUSSMAN SHANK LLP

22 */s/ Thomas W. Stilley*

23 _____
Thomas W. Stilley, WSBA # 21718
24 Timothy A. Solomon, WSBA #
Attorneys for Debtor

25

26 *23327-002DISCLOSURE STATEMENT (02223176);4

Debtor Precision Industrial Contractors, Inc.

Case Number ⇨ 15-45167-BDL
 Report Mo/Yr ⇨ April 2016

UST-12, COMPARATIVE BALANCE SHEET

As of month ending ⇨	2/29/2016	3/31/2016	4/30/2016
ASSETS			
Current Assets			
Cash	1,055,743.01	1,378,129.78	1,121,034.69
Cash - Held by Others (Escrow & Attorney Trust Accounts)	27,985.93	27,985.93	27,985.93
Accounts Receivable (net)	3,853,129.18	3,936,819.51	3,303,233.84
Notes Receivable	-	-	-
Inventory	-	-	-
Prepaid Expenses	67,142.15	52,823.30	64,536.56
Other (See Exhibit 1)	2,836,177.51	3,061,569.40	2,879,382.69
Total Current Assets	7,840,177.78	8,457,327.92	7,396,173.71
Fixed Assets			
Real Property/Buildings	-	-	-
Equipment	5,308,166.27	4,758,853.81	4,524,131.73
Other Depreciable Assets	34,641.39	34,641.39	34,641.39
Accumulated Depreciation	(4,905,796.38)	(4,449,274.59)	(4,252,614.87)
Total Fixed Assets	437,011.28	344,220.61	306,158.25
Other Assets (attach list)	-	-	-
TOTAL ASSETS	8,277,189.06	8,801,548.53	7,702,331.96
LIABILITIES			
Post-Petition Liabilities			
Taxes Payable	103,796.67	118,643.90	72,842.64
Other Accounts Payables	286,221.14	387,241.24	363,221.29
Notes Payable	-	-	-
Rents, Leases & Mortgages Payable	-	-	-
Accrued Interest	-	-	-
Accrued Professional Fees	294,146.27	367,354.23	418,477.36
Other (See Exhibit 1)	1,586,545.85	1,682,548.68	1,245,927.68
Total Post-Petition Liabilities	2,270,709.93	2,555,788.05	2,100,468.97

(contd. on next page)

UST-12, COMPARATIVE BALANCE SHEET (contd.)

As of month ending ⇨	2/29/2016	3/31/2016	4/30/2016
Pre-Petition Liabilities			
Unsecured Debt	2,073,180.91	2,073,180.91	2,073,180.91
Priority Debt:			
Taxes (TBD)	857,124.36	846,719.73	839,794.22
Wages	-	-	-
Deposits	-	-	-
Other	-	-	-
Notes Payable (Secured Debt)	3,768,751.91	3,669,337.89	3,028,425.43
Total Pre-Petition Liabilities	6,699,057.18	6,589,238.53	5,941,400.56
TOTAL LIABILITIES	8,969,767.11	9,145,026.58	8,041,869.53
EQUITY			
Stockholders' Equity (Or Deficit)			
Capital Stock	25,000.00	25,000.00	25,000.00
Paid-In Capital	429,951.06	429,951.06	429,951.06
Retained Earnings	(1,147,529.11)	(798,429.11)	(794,488.63)
Total Stockholders' Equity (Or Deficit)	(692,578.05)	(343,478.05)	(339,537.57)
Partners' Investment (Or Deficit) (N/A)	-	-	-
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY OR PARTNERS' INVESTMENT	8,277,189.06	8,801,548.53	7,702,331.96

Footnotes to balance sheet:

The ending balances for all balance sheet accounts were calculated from information provided by the debtor. Some account balances may be adjusted when information is available. All non-cash account balances are subject to adjustments as information becomes available.

Professional Retainer has been reclassified from Other Current Assets (Exhibit 1) to Cash - Held by Others.

Debtor Precision Industrial Contractors, Inc.

Case Number ⇨ 15-45167-BDL
Report Mo/Yr ⇨ April 2016

Exhibit 1

Other Current Assets

	<u>4/30/2016</u>
Costs in Excess of Billings	165,665.47
Deposits	22,436.44
Other Receivables*	1,025,201.79
Receivable - Professional Industrial Consultants LLC dba Staffing Solutions*	329,075.08
Receivable - RES Industries LLC	490,921.15
Receivable - Stockholder	846,082.76
	<u>2,879,382.69</u>

Other Post-Petition Liabilities

	<u>4/30/2016</u>
Accrued Payroll	117,634.45
Accrued Other	6,646.23
Billings in Excess of Cost	1,121,647.00
	<u>1,245,927.68</u>

* Receivable from Professional Industrial Consultants LLC dba Staffing Solutions is being separated out from Other Receivables beginning January 2016.

EXHIBIT C TO DEBTOR'S DISCLOSURE STATEMENT DATED JUNE 3, 2016
DEBTORS' PLAN OF REORGANIZATION DATED JUNE 3, 2016
PROJECTED CHAPTER 7 LIQUIDATION ANALYSIS AS OF AUGUST 1, 2016

PRECISION INDUSTRIAL CONTRACTORS, INC.

Assets:	Estimated Value	Bad Debt/ Uncollectable	Liens ¹	Sales & Collection		Trustee's Fee	Net Liquidation Value
				Costs/ Commissions ²	Net Sales Proceeds		
Cash	\$ 150,000	\$ -	\$ -	\$ -	\$ 150,000	\$ -	\$ 150,000
Chapter 11 Professional Fees Carveout	\$ 260,000	\$ -	\$ 260,000	\$ -	\$ -	\$ -	\$ -
Accounts Receivable	\$ 3,257,498	\$ 162,875	\$ 2,475,698	\$ 618,925	\$ -	\$ -	\$ -
Equipment	\$ 2,072,725	\$ -	\$ 124,302	\$ 207,273	\$ 1,741,151	\$ 66,984	\$ 1,674,167
Titled Vehicles	\$ 300,800	\$ -	\$ 143,000	\$ 30,080	\$ 127,720	\$ 3,832	\$ 123,888
RES Industries Loan	\$ 489,943	\$ -	\$ -	\$ -	\$ 489,943	\$ 14,698	\$ 475,245
Rodney E. Schultz Loan (After application of tax refund)	\$ 246,082	\$ -	\$ -	\$ -	\$ 246,082	\$ 7,382	\$ 238,700
Rodney E. Schultz IRS Tax Refund	\$ 600,000	\$ -	\$ 600,000	\$ -	\$ -	\$ -	\$ -
PIC Staffing Solutions Loan	\$ 329,075	\$ 329,075	\$ -	\$ -	\$ -	\$ -	\$ -
Snowflake Claims ³	Unknown						
Totals	\$ 7,706,123	\$ 491,950	\$ 3,603,000	\$ 856,277	\$ 2,754,896	\$ 92,896	\$ 2,661,999

FUNDS AVAILABLE FOR DISTRIBUTION	Claim Amounts	Projected Distribution
		\$ 2,661,999

Priority Claims

Chapter 7 Administrative Expenses	\$ 150,000	\$ 150,000
Chapter 11 Professional Fees (After Carvout is Applied)	\$ 40,000	\$ 40,000
Post-Petition Accrued Payroll & Employee Benefits	\$ 236,677	\$ 236,677
Post-petition Trade Payables	\$ 387,241	\$ 387,241
Post-petition Taxes	\$ 118,643	\$ 118,643
Non-Tax Priority Claims	\$ 45,000	\$ 45,000
Priority Tax Claims (After IRS setoff of tax refund)	\$ 564,797	\$ 564,797
		<u>\$ 1,542,358</u>

NET AVAILABLE FOR DISTRIBUTION TO UNSECURED CREDITORS

Class 6 General Unsecured Creditors ⁴	\$ 2,172,000	\$ 1,046,431
Class 7 Administrative Convenience Claims	\$ 151,956	\$ 73,210
Class 8 Snowflake Defendants	\$ -	\$ -
Total Unsecured Claims	\$ 2,323,956	\$ 1,119,641
Projected Distribution %	48.18%	

¹Regents Bank holds a lien in cash, accounts, equipment, vehicles, and general intangibles, to secure its claims of approximately \$2,600,000. Its liens are only listed in this liquidation analysis against accounts and equipment in order not to overstate the lien amounts, but would apply to the other assets if the accounts and equipment are insufficient to pay the bank's claims in full. There is a carve out from Regents' collateral for professional fees which is estimated to total approximately \$260,000 as of August 1, 2016. Ally Bank and Chrysler Capital hold liens in a portion of the titled vehicles. Rod Schultz's tax refund is estimated at \$600,000 which will be used to off set the Debtor's pre-petition payroll tax obligations to the IRS.

²Accounts receivable collection costs estimated at 20%; equipment and vehicles sales costs estimated at 10%

³These claims are subject to pending litigation (see discussion in Section II.B. of the Disclosure Statement) the liquidation value of which is currently unknown and for that reason no value has been assigned to those claims solely for the purpose of this liquidation analysis. In a Chapter 7 liquidation, it is anticipated that the trustee would continue to pursue such claims for the benefit of the bankruptcy estate, with the value thereof being available to creditors either under the Plan or in a Chapter 7 liquidation.

⁴Includes Michelman & Robinson claim of \$372,000 that is secured by the Snowflake Claims