

UNITED STATES BANKRUPTCY COURT
EASTERN DISTRICT OF NORTH CAROLINA
RALEIGH DIVISION

In re:

SURTRONICS, INC.

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

Debtor.

**SURTRONICS, LLC'S CLARIFIED AND CORRECTED CHAPTER 11
PLAN OF REORGANIZATION, DATED AS OF JANUARY 15, 2014**

**ARTICLE I
SUMMARY**

Surtronics, LLC's Clarified and Corrected Chapter 11 Plan of Reorganization, dated as of January 15, 2014 (the "Plan"), filed pursuant to Chapter 11 of Title 11 of the United States Code ("Bankruptcy Code"), proposes to pay creditors and make distributions to the equity security holders of Surtronics, LLC ("Surtronics", "Debtor," "Debtor-In-Possession" or "Reorganized Debtor," as appropriate) over a period of time beginning on the Effective Date (as defined herein), from funds generated by ongoing operations of the Debtor through the use of income from its primary business operations, payment of insurance proceeds, and contribution/setoff claims arising from a certain asserted environmental claim, collectively constituting the operations and assets of Surtronics.

The legal description for the real property the Debtor believes it owns (the "Property") is provided in Exhibit B to the Disclosure Statement filed in support of the Plan (Doc. 88).¹

This Plan provides for:

- one (1) class of Administrative Expense claims,
- one (1) class of Priority Claims,
- one (1) class of Secured Claims,
- one (1) class of Unsecured Claims of Trade Creditors,
- one (1) class of "Lease" or Retail Installment Claims,
- one (1) class of Unsecured Claims of insiders and other affiliates of the Debtor, and
- one (1) class of Equity Security Holders.

¹ The Property that the Debtor asserts it owns is currently the subject of litigation between the Debtor and Smith & Wade General Partnership ("Smith/Wade"). In the litigation, the Debtor seeks a declaration that the "Lease" between it and Smith/Wade is a disguised financing transaction in the form of a retail installment sales contract. Smith/Wade asserts that the "Lease" is a true lease. Smith/Wade is the record owner of the real property located at 4001 Beryl Drive, 4025 Beryl Drive, and 508 Method Road, Raleigh, NC pursuant to deeds recorded at Book 6761, Page 32 and Book 7296, Page 891, Wake County Register of Deeds. The ultimate characterization of the legal relationship between Smith/Wade and the Debtor has not been determined by this Court and is the subject of pending litigation.

All Creditors and Equity Security Holders should refer to the remainder of this Plan and the related Disclosure Statement for information regarding the precise treatment of their claim or interest. The Disclosure Statement, which provides more detailed information regarding this Plan and the rights of Creditors and Equity Security Holders, will be circulated with this Plan.

**Your rights may be affected.
You should read these papers
carefully and discuss them with
your attorney, if you have one.
If you do not have an attorney,
you may wish to consult one.**

[The Remainder of this Page Intentionally Left Blank]

ARTICLE II
CLASSIFICATION OF CLAIMS AND INTERESTS

- 2.01 Class 1. Administrative Expense Claims.
(Employed Professionals of the Debtor, potential Debtor-in-Possession lender, and possibly others)
- 2.02 Class 2. Priority Claims.
(Potential outstanding employee claims, taxing authorities, other statutory claims, and possibly others)
- 2.03 Class 3. The Secured Claim of the Secured Lender, to the extent allowed as a Secured Claim under § 506 of the Code.
(First Citizens Bank & Trust Co. (“First Citizens Bank”))
- 2.04 Class 4. The Claims of Unsecured Creditors.
(Various Trade Creditors)
- 2.05 Class 5. The Claims of “Lease” / Retail Installment Creditors.
(Smith & Wade, a North Carolina general partnership (“Smith/Wade”))
- 2.06 Class 6. The Unsecured Claims of Insiders and other Affiliates of the Debtor.
(Angela D. Stanley)
- 2.07 Class 7. Potential Employee Health Claims
(Various As Yet Unidentified Current and Former Employees)
- 2.08 Class 8. Equity Security Holders of the Debtor
(Angela D. Stanley Family Trust (“Stanley Trust”))

ARTICLE III
TREATMENT OF BANKRUPTCY ADMINISTRATOR'S FEES

3.01 Bankruptcy Administrator Fees. All fees required to be paid by 28 U.S.C. §1930(a)(7) ("Bankruptcy Administrator's Fees") will accrue and be timely paid until the case is closed, dismissed, or converted to another Chapter of the Code. Any Bankruptcy Administrator Fees owed on or before the Effective Date of this Plan will be paid on the Effective Date and paid thereafter until the case is closed.

ARTICLE IV
TREATMENT OF ADMINISTRATIVE EXPENSE CLAIMS

4.01 Administrative Claims. All Allowed Administrative Expense Claims are required to be paid on or before the Effective Date pursuant to 11 U.S.C. §§503, 507 and 1129. Any Allowed Administrative Expense Claims which are not paid before the Effective Date of this Plan will be paid on the Effective Date.

[The Remainder of this Page Intentionally Left Blank]

ARTICLE V
TREATMENT OF CLAIMS AND INTERESTS UNDER THE PLAN

5.01 Claims and interests shall be treated as follows under this Plan:

Class	Impairment	Treatment
Class 1 – Administrative Expense Claimants	Unimpaired	Administrative Expense Claimants will be paid in full from the Reorganized Debtor’s operations at the later of: (i) the Effective Date of the Plan or as agreed between the parties, and (ii) when allowed by this Court.
Class 2 – Priority Creditors	Unimpaired	Priority Creditors will be paid in full from the Reorganized Debtor’s operations at the later of: (i) the Effective Date of this Plan or as agreed between the parties, and (ii) when allowed by this Court.
Class 3 – Claim of Secured Lender.	Unimpaired	The Secured Claim of the Secured Lender will be paid in full from the Reorganized Debtor’s operations in accord with the terms and provisions of the pre-petition Promissory Note and Security Agreement the Debtor executed in favor of First Citizens Bank.
Class 4 – Unsecured Creditors	Unimpaired	The Unsecured Claims, consisting primarily of trade and operational claims, will be paid in full from the Reorganized Debtor’s operations, in accord with the terms and provisions of such creditors’ pre-petition agreements with the Debtor at the later of: (i) the Effective Date of this Plan or as agreed between the parties, and (ii) when allowed by this Court.

Class	Impairment	Treatment
<p>Class 5 – Claims of “Lease” / Retail Installment Creditors</p>	<p>Unimpaired</p>	<p>The Claims of the “Lease” / Retail Installment Creditors consist of the obligations owed to Smith/Wade. Such amounts consist of monthly payments putatively denominated as “Rent” payments for the sixty months commencing October 1, 2013 in the approximate amount of \$12,000.00 (adjusting on an annual basis) and concluding with a purchase option in the amount of \$700,000.00 balloon payment at the conclusion of the sixty month term. Such payments will be paid pursuant to the terms of the current pre-petition Real Estate Documents, without modification by this Plan, subject only to other non-Plan legal obligations arising under Title 11 of the United States Code, applicable state and federal environmental law, and other applicable law. Such payments to Smith/Wade will continue to be paid by the Reorganized Debtor uninterrupted up until such time as this Court (or such other court of competent jurisdiction) rules, if at all, that the Reorganized Debtor is entitled to a setoff of any contribution right Smith/Wade owes to the Reorganized Debtor against the payment obligations owing by the Reorganized Debtor to Smith/Wade. This Plan will not act to modify the rights either party has against each other and such rights will be determined pursuant to otherwise applicable non-bankruptcy law as preserved by 11 U.S.C. 502, 541, 553, 558 and other applicable law.</p>
<p>Class 6 – The Unsecured Claims of Insiders and other Affiliates of the Debtor</p>	<p>Impaired</p>	<p>Unsecured Claims of Insiders and Affiliates of the Debtor will have their Allowed Claims paid in full from the Reorganized Debtor’s operations in equal annual installments over a period of three (3) years beginning on the Effective Date.</p>

Class	Impairment	Treatment
Class 7 – Potential Employee Health Claims	Impaired	<p>Although, there are no known claims in this Class, it has been created, and will be funded, in the unlikely event that future claims (in this Class) arise following the Bar Date. The Debtor has requested the establishment of an extended bar date for the filing of claims within this Class. Current and former employees of the Debtor, who have either manifested or un-manifested health claims arising from or associated with their pre-petition work for the Debtor, shall have their claims channeled to a Tort Claims Trust, into which all available insurance (other than coverage from The Cincinnati Insurance Company, policy no. EPP-017-34-76, and Lloyd’s London, policy no. PGIARK01451-01, implicated by the June 2013 fire and the environmental cleanup, respectively) (the “Available Insurance”) will be placed under the supervision of a Tort Claims Trustee. The Available Insurance shall, pursuant to this Plan, be assigned to the Tort Claims Trust for prosecution of claims, liquidation of policy rights and review and allowance of Class 7 claims. Such claims, although channeled to the Tort Claims Trust, shall be paid as and when allowed from the Available Insurance and not by the Reorganized Debtor.</p>
Class 8 – Equity Security Holders of the Debtor	Unimpaired	<p>Equity Security Holders shall receive, on account of their equity ownership interests in the Debtor, a like ownership interest in the Reorganized Debtor.</p>

ARTICLE VI
ALLOWANCE AND DISALLOWANCE OF CLAIMS

6.01 Disputed Claim.

A disputed claim is a claim that has not been allowed or disallowed by a final, non-appealable order, and as to which either: (i) a proof of claim has been filed or deemed filed, and the Debtor or another party in interest has filed an objection; or (ii) no proof of claim has been filed, and the Debtor has scheduled such claim as disputed, contingent, or unliquidated.

6.02 Delay of Distribution on a Disputed Claim.

No distribution will be made on account of a disputed claim unless such claim is allowed by a final, non-appealable order. However, if a Claim is a Disputed Claim at the time a distribution would be made pursuant to the provisions of this Plan but-for the existence of an objection to a Claim, a distribution shall be made into a segregated account pending resolution of the objection to the Claim, the same as if the Claim were not a Disputed Claim.

6.03 Settlement of Disputed Claims.

The Debtor will have the power and authority to settle and compromise a disputed claim with court approval and compliance with Rule 9019 of the Federal Rules of Bankruptcy Procedure.

6.04 Reservation of Rights Between Debtor and Smith/Wade.

The Debtor and Smith/Wade are currently litigating issues surrounding both: (i) the character of the Debtor's pre-petition "Lease," coupled with purchase options, to determine whether the relationship is effectively a retail installment sales contract executed as a means of financing the sale of the Property to the Debtor or a true lease, and (ii) the rights by and between the Debtor and Smith/Wade with respect to the allocation of responsibility for environmental damage and clean up. Both the Debtor and Smith/Wade will reserve all such rights between them with respect to such issues and this Plan is not intended to, nor will it, alter such rights. Such rights will be determined solely by and through such litigation, outside of the intended scope of this Plan.

ARTICLE VII
PROVISIONS FOR EXECUTORY CONTRACTS AND UNEXPIRED LEASES

7.01 Rejection of Executory Contracts and Unexpired Leases.

On or before seven (7) days prior to the final hearing scheduled on confirmation of this Plan, the Debtor may file and serve its Notice of Rejection with respect to any Executory Contract or Unexpired Leases. A proof of a claim arising from the rejection of an executory contract or unexpired lease under this section must be filed no later than thirty (30) days after the date of the Order confirming this Plan.

7.02 Assumption of Executory Contracts and Unexpired Leases.

Upon the entry of the Order confirming this Plan, the Debtor will be conclusively deemed to have assumed all executory contracts and/or unexpired leases not expressly rejected either pursuant to section 7.01 above or before the date of the Order confirming this Plan by separate Motion to Assume or Reject Executory Contract.

7.03 Treatment of Smith/Wade "Lease" / Retail Installment Contract.

As indicated above, upon the entry of the Order confirming this Plan, the Debtor will be conclusively deemed to have assumed all executory contracts and/or unexpired leases not expressly rejected either pursuant to section 7.01 above or before the date of the Order confirming this Plan by separate Motion to Assume or Reject Executory Contract. To avoid any confusion, the Debtor's "Lease" / Retail Installment Contract with Smith/Wade will be treated as if it is an executory contract pursuant to these Plan provisions, whether ultimately denominated as a Lease or Retail Installment Contract, and upon entry of the Order confirming this Plan, will be assumed pursuant to the deadlines set forth in 11 U.S.C. §365(d)(4)(A), as enlarged pursuant to 11 U.S.C. §365(d)(4)(B). Both the Reorganized Debtor and Smith/Wade shall timely perform all obligations, presently due and outstanding or arising in the future, pursuant to the "Lease"/Retail Installment Contract.

Such obligations include, but are not limited to, due, monthly payments putatively denominated as "Rent" payments for the sixty months commencing October 1, 2013 in the amount of \$12,846.19 (adjusting on an annual basis) and concluding with a purchase option in the amount of \$700,000.00 balloon payment at the conclusion of the sixty month term. Upon confirmation of this Plan and the occurrence of the Effective Date, such payments will continue to be paid pursuant to the terms of the current pre-petition Real Estate Documents, without modification by this Plan, subject only to other non-Plan legal obligations arising under Title 11 of the United States Code, applicable state and federal environmental law, and other applicable law.

Such payments to Smith/Wade will continue to be paid by the Reorganized Debtor uninterrupted up until such time as this Court (or some other court of competent jurisdiction) rules, if at all, that the Reorganized Debtor is entitled to a setoff of any contribution right Smith/Wade owes to the Reorganized Debtor against the payment obligations owing by the Reorganized Debtor to Smith/Wade. This Plan will not act to modify the rights either party has against each other and such rights will be determined pursuant to otherwise applicable non-bankruptcy law as preserved by 11 U.S.C. 553, 558 and other applicable law.

ARTICLE VIII
MEANS FOR IMPLEMENTATION OF THE PLAN

8.01 Operations.

The Reorganized Debtor will continue to operate Surtronics and will fund all distributions to creditors and equity security holders required under this Plan from such operations.

8.02 Environmental Clean-Up.

The Reorganized Debtor, in conjunction with its environmental engineering and legal professionals, will continue testing the Property to complete its environmental clean-up plan pursuant to its Environmental Clean-Up Agreement between Terracon Consultants, Inc. and the North Carolina Department of Environment and Natural Resources. Pursuant to the Environmental Clean-Up Agreement and the environmental clean-up plan being developed, the Reorganized Debtor will clean-up and remediate the Property in accord therewith and with the rules and regulation of federal, state and local authorities. Angela Stanley, along with her current management staff, will be responsible for management of Surtronics and the Property. This Court shall retain jurisdiction for purposes of resolving any disputes regarding such clean-up plans and obligations, interpreting any federal, state or local clean-up obligations, and to determine the appropriate allocation of clean-up obligations

8.03 Environmental Contribution Claim.

The Debtor filed Adversary Proceeding No. 13-00163-8-SWH against Smith/Wade and William Wade, Jr., individually, for purposes of equitably allocating the relative and respective obligations between such parties and the Debtor with respect to environmental claims existing under federal, state and local law. This Court shall retain jurisdiction for purposes of adjudicating the merits of such litigation and affecting the contribution rights by and between the parties.

8.04 Environmental Insurance Claim.

The Debtor, prior to confirmation of this Plan, and the Reorganized Debtor thereafter, will evaluate whether it has potential insurance coverage for any environmental claims. If it does, the Debtor or Reorganized Debtor will pursue such claims as a means of funding the Debtor or Reorganized Debtor's relative and respective portion of the total environmental claims facing the Debtor. This Court shall retain jurisdiction for purposes of pursuit of such coverage.

8.05 "Lease" / Retail Installment Sales Contract Determination.

The Debtor filed Adversary Proceeding No. 13-00157-8-SWH against Smith/Wade for purposes of determining whether the Debtor's pre-petition "Lease," coupled with purchase options, is effectively a retail installment sales contract executed as a means of financing the sale of the Property to the Debtor. This Court shall retain jurisdiction for purposes of adjudicating the merits of such litigation. To be clear, the Debtor does not take the position that Smith/Wade's interest in the Property is unperfected, nor will the Debtor seek to avoid any perfected security interest Smith/Wade holds in the Property pursuant to Chapter 5 of Title 11 of the United States Code.

8.06 Fire Damage Insurance Claim.

The Debtor sustained substantial damage to the Property, to its personal property, to property of others, and loss of business as a consequence of the interruption and reduction of its business as a result of a fire at the Property in June, 2013. The Debtor, both pre-petition and post-petition, made demand on The Cincinnati Insurance Company ("CIC") with respect to Policy No. EPP-017-34-76. Although a small portion of the damages claim has been paid, the majority of the claim has not been adjusted or paid. The Debtor is finalizing its complete claim, will make demand on CIC for the entirety of the claim, and, if need be, will commence litigation to recover proceeds due on the claim. This Court shall retain jurisdiction for purposes of resolving the merits of this claim through litigation to be brought or otherwise.

8.07 Development of Tort Claims Trust and Channeling of Claims.

Although there are no known claims brought by current or former employees of the Debtor, and the Debtor takes extraordinary care to ensure a safe working environment for all of its employees, the Debtor recognizes its operations involve the handling and use of caustic and toxic substances. The Debtor has identified a number of insurance policies in place during historic periods of the Debtor's operations issued by various insurers, including but not limited to, USF&G, Great American Insurance, Travelers Insurance Co., First Citizens Insurance Co., Yancey Insurance, and Downing & Gayle Insurance that may provide coverage for current and former employees of the Debtor who have either manifested or un-

manifested health claims arising from or associated with their pre-petition work for the Debtor (the "Available Insurance"). Specifically excluded for coverage of potential claims are The Cincinnati Insurance Company, policy no. EPP-017-34-76, and Lloyd's London, policy no. PGIARK01451-01, which coverage has been implicated by the June 2013 fire and the environmental cleanup, respectively. The Debtor will continue to investigate its Available Insurance and expects to have a comprehensive list of Available Insurance prior to confirmation of this Plan.

The Available Insurance will be transferred to a Tort Claims Trust that will be authorized by this Court to pursue recovery of the Available Insurance for the exclusive purpose of satisfying post-Bar Date claims of current and former employees of the Debtor, who have either manifested or unmanifested health claims arising from or associated with their pre-petition work for the Debtor ("Future Tort Claims"). Future Tort Claims shall be channeled to the Tort Claims Trust and the holders of Future Tort Claims shall have, as their exclusive remedy and recourse, the right to file their Future Tort Claims as against the Tort Claims Trust to be satisfied by the Available Insurance. Such remedy and relief afforded to the holders of Future Tort Claims herein shall be their exclusive remedy and shall be forever barred from asserting or pursuing their Future Tort Claims against the Debtor, Reorganized Debtor, any of its employees, officers, directors, agents or owners. The Tort Claims Trust shall be settled by a Tort Claims Trustee to be appointed by this Court pursuant to separately filed motion to be considered in connection with confirmation of this Plan. This Court shall retain jurisdiction for purposes of implementing and administering this provision.

[The Remainder of this Page Intentionally Left Blank]

ARTICLE IX
GENERAL PROVISIONS

9.01 Definitions and Rules of Construction. The following definitions shall apply and supplement those set forth elsewhere in this Plan. Terms which are not defined herein shall have the same meaning as defined in the Bankruptcy Code:

Administrative Expense Claim: “Administrative Expense Claim” means any Allowed Claim of the kind described in § 507 of the Bankruptcy Code, or the costs and expenses of administration of this Chapter 11 Case which are allowed pursuant to Bankruptcy Code § 503(b), to the extent the holder of such Administrative Expense Claim asserts such claim in this Chapter 11 Case within the time fixed by any applicable administrative bar date set by the Bankruptcy Court, including, without limitation, any actual, necessary costs and expenses of preserving or operating the Debtor’s estate, any indebtedness or obligation incurred or assumed by the Debtor post-petition, all allowances of compensation and reimbursement of expenses relating to this Chapter 11 Case which are allowed pursuant to an order of the Bankruptcy Court under Bankruptcy Code §§ 330 or 503, any fees or charges assessed against the Debtor’s estate, or any other post-petition Claim arising against the Debtor. This term “Administrative Expense Claim” shall include any Claim which falls within this definition, including, without limitation, the anticipated or potential claims of the following persons:

- a. Shumaker, Loop & Kendrick, LLP;
- b. Poyner and Spruill, LLP;
- c. Carr Riggs & Ingram, PLLC; and
- d. Terracon Consultants, Inc.

Administrative Expense Claimant: “Administrative Expense Claimant” means any Person holding an Allowed Administrative Expense Claim.

Administrative Expense Bar Date: “Administrative Expense Bar Date” means the last date for filing Administrative Expense Applications, that date being either at least seven (7) days prior to the hearing on Confirmation, or any continued hearing on Confirmation, or no more than thirty (30) days after the occurrence of the last event giving rise to the Administrative Expense Claim.

Affiliate: “Affiliate” shall have the same meaning as set forth in the Bankruptcy Code.

Allowed: “Allowed” means and includes, with respect to any Claim or Interest, (a) any Claim (other than a Disputed Claim) or Interest, proof of which was timely filed with the Clerk of the Bankruptcy Court on or before the Bar Date (or, by Order of the Bankruptcy Court was, after notice and a hearing, not required to be filed) or (b) any Claim (other than a Disputed Claim) or Interest that has been listed by the Debtor in the Schedules as liquidated in amount and not disputed or contingent and, in either case, (1) for which no objection to the allowance thereof has been interposed within the

applicable period of limitation fixed in this Plan, in the Bankruptcy Code, in the Bankruptcy Rules, or in a Final Order of the Bankruptcy Court, or (2) an objection has been interposed and such Claim or Interest, or portion thereof, has been allowed by a Final Order of the Bankruptcy Court.

Allowed Amount, Allowed Claim or Allowed Interest: “Allowed Amount”, “Allowed Claim” or “Allowed Interest” means the dollar amount in which a Claim or Interest is Allowed; provided however, that the Allowed Amount of a Claim or Interest shall not exceed the Estimated Amount of such Claim or Interest as determined pursuant to an Estimation Order. No amount shall be Allowed for or on account of: (1) punitive damages, (2) attorney’s fees or other court costs, (3) penalties, (4) default rates of interest with respect to secured claims, (5) late fees, charges or other assessments in addition to the principal amount of the indebtedness or (6) post-petition interest with respect to unsecured or undersecured claims, on account of any Claim or Interest except as otherwise expressly specified in this Plan or provided by Final Order of the Bankruptcy Court.

Assumed Contracts: “Assumed Contracts” means those executory contracts and/or unexpired leases assumed pursuant to this Plan or other Order of this Court.

Available Insurance: “Available Insurance” means the number of insurance policies in place during historic periods of the Debtor’s operations issued by various insurers, including, but not limited to, USF&G, Great American Insurance, Travelers Insurance Co., First Citizens Insurance Co., Yancey Insurance, Downing & Gayle Insurance. “Available Insurance” specifically excludes The Cincinnati Insurance Company, policy no. EPP-017-34-76 implicated in the Debtor’s June 2013 fire claim described above and the Lloyds’ London Site Pollution Liability Policy no. PGIARK01451-01 implicated by the Debtor’s environmental cleanup claim.

Ballot: “Ballot” means the ballot to be distributed to each holder of a Claim in any impaired Class in connection with solicitation of votes to accept or reject this Plan.

Ballot Date: “Ballot Date” means the date set by the Bankruptcy Court as the last date for timely submission of a Ballot accepting or rejecting this Plan, that date being December 12, 2013.

Bankruptcy Code: “Bankruptcy Code” or “Code” means Title 11 of the United States Code.

Bankruptcy Court: “Bankruptcy Court” or “Court” means the United States Bankruptcy Court for the Eastern District of North Carolina, Raleigh Division, or, to the extent the reference is withdrawn, the United States District Court for the Eastern District of North Carolina, Raleigh Division.

Bankruptcy Rules: “Bankruptcy Rules” means the Federal Rules of Bankruptcy Procedure and the Local Rules of the Bankruptcy Court, as are in effect on the Petition

Date or as hereafter amended to the extent such amendments are applicable to this Chapter 11 case.

Bar Date: “Bar Date” means the last date for filing Proofs of Claim. In its Notice of Chapter 11 Bankruptcy Case, Meeting of Creditors, & Deadlines, the Bankruptcy Court previously set January 21, 2014 as the Bar Date in this case.

Business Day: “Business Day” means any day other than a Saturday, Sunday, or “legal holiday” as such term is defined in Bankruptcy Rule 9006(a).

Cash: “Cash” means lawful currency of the United States of America and its equivalents.

Claim: “Claim” means (a) any right to payment (including, without limitation, a guarantee) from the Debtor, whether or not such right is reduced to judgment, liquidated, unliquidated, fixed, contingent, matured, unmatured, sole, joint, several, joint and several, disputed, undisputed, legal, equitable, secured or unsecured; or (b) any right to an equitable remedy for breach of performance if such breach gives rise to a right of payment from the Debtor, whether or not such right to an equitable remedy to judgment, fixed, contingent, matured, unmatured, disputed, undisputed, secured or unsecured. The term “Claim,” when used with respect to litigation, also includes any claim which has been or could be asserted in the litigation. Notwithstanding anything to the contrary contained herein, for purposes of this Plan, the term “Claim” shall be given the broadest possible meaning permitted by the Bankruptcy Code and applicable law, including, but not limited to, all manner and type of claim, whenever and wherever such claim may arise.

Claimant: “Claimant” means a person or entity that holds a Claim.

Class: “Class” means a group of Claims or Interests classified together pursuant to this Plan.

Confirmation: “Confirmation” means the entry by the Bankruptcy Court of the Confirmation Order approving confirmation of this Plan or any subsequent version of such Plan.

Confirmation Date: “Confirmation Date” means the date the Confirmation Order is entered on the docket of the Bankruptcy Court pursuant to Bankruptcy Rule 5003; provided, however, that if, on motion, the Confirmation Order or consummation of this Plan is stayed pending appeal, and a bond is obtained and posted by the appellant so as to preserve defenses to a mootness argument on appeal, then the Confirmation Date shall be the later of the date of entry of the Final Order vacating such stay, or the date on which such stay expires, or the date upon which such stay is no longer in effect.

Confirmation Hearing: “Confirmation Hearing” means the hearing held by the Bankruptcy Court on confirmation of this Plan pursuant to Section 1129 of the

Bankruptcy Code, originally set for hearing on December 19, 2013 at 11:00 a.m. and now continued to January 27, 2014 at 10:00 a.m. in the Second Floor Bankruptcy Courtroom at the United States Bankruptcy Courthouse, 300 Fayetteville Street Mall, Raleigh, N.C. 27601

Confirmation Order: “Confirmation Order” means the Order of the Bankruptcy Court confirming this Plan or any subsequent version of such Plan, whether or not such order is a Final Order.

Contingent: “Contingent” means a right that has not accrued and that is dependent upon a future event or events that has or has not occurred and may never occur.

Creditor and Claimant: “Creditor” and “Claimant” mean any party or entity having a Claim against the Debtor, including, but not limited to, Priority Claims, Administrative Expense Claims, Secured Lenders, and General Unsecured or Undersecured Creditors.

Debtor, Debtor-In-Possession and Reorganized Debtor: “Debtor,” “Debtor-In-Possession,” and “Reorganized Debtor” mean Surtronics, Inc.

Disclosure Statement: “Disclosure Statement” means the Disclosure Statement filed in support of this Plan.

Distribution: “Distribution” means a distribution of Cash or other non-Cash consideration made by the Reorganized Debtor pursuant to the Plan.

Distribution Date: “Distribution Date” means any date that a Distribution is made under the Plan.

Disputed Claim: Prior to the date that an objection has been and may be timely filed by the Debtor or any other party in interest, a Claim shall be considered a “Disputed Claim” to the extent that:

- a. the amount of the Claim specified in the proof of claim exceeds the amount of the Claim listed by the particular Debtor in the Schedules as not disputed, contingent, or unliquidated; or
- b. the Claim was not listed by the Debtor in the Schedules; or
- c. the Claim was listed by the Debtor in the Schedules as disputed, contingent or unliquidated; or
- d. the Claim is reflected as unliquidated or contingent in the Proof of Claim.

A “Disputed Claim” shall remain disputed unless an objection to the claim has been withdrawn, overruled, denied, or granted, in whole or part, by a Final Order

of the Bankruptcy Court. Prior to that date, a “Disputed Claim” means a Claim for which an objection has been or may be timely filed by the Debtor or any other party in interest and which objection, if timely filed, has not been withdrawn, denied, or estimated by an order of the Bankruptcy Court. To the extent an objection relates to the allowance of only a part of a Claim, or to its status (e.g., priority, secured, unsecured), such Claim shall be a Disputed Claim only to the extent of the objection.

Effective Date: “Effective Date” means the date that is fourteen (14) days after the entry of the Confirmation Order on the docket by the Bankruptcy Court, assuming no Motions for Reconsideration or Notices of Appeal have been filed with respect to which a stay pending reconsideration or appeal has been obtained. The filing of a Motion for Reconsideration or Notice of Appeal, in the absence of a stay pending reconsideration or appeal, will not delay the Effective Date.

Environmental Clean-Up Agreement: “Environmental Clean-Up Agreement” means the agreement entered into between the Debtor, Terracon Consultants, Inc. and the North Carolina Department of Environment and Natural Resources. Pursuant to the Environmental Clean-Up Agreement and the environmental clean-up plan being developed, the Reorganized Debtor will clean-up the Property in accord therewith and with the rules and regulation of federal, state and local authorities.

Equitable Subordination: “Equitable Subordination” includes claims by the Debtor or the Trustee to subordinate the claims or interests of any party pursuant to the provisions of 11 U.S.C. § 510(c).

Equity Security Holders: “Equity Security Holders” shall include all Persons who hold a membership interest in the Debtor.

Estate: “Estate” means, as to the Debtor, the estate created for the Debtor by Section 541 of the Bankruptcy Code upon commencement of its Chapter 11 case.

Estate Assets: “Estate Assets” means all of the Debtor’s property, including without limitation, any income, profits and proceeds, along with the assets owned by the Debtor as well as any other entities substantively consolidated into the Debtor, including but not limited to the Debtor’s Equipment, Inventory, available Cash, Accounts Receivable, and the claims arising from the Litigation Claims. Any reference in this Plan to liquidation proceeds, net liquidation proceeds, or proceeds of liquidation or similar language shall contemplate this definition.

Estimated Claim: “Estimated Claim” means the amount at which the Bankruptcy Court or, where required by applicable law, the District Court, estimates any Claim against the Debtor which is contingent, unliquidated or disputed, for the purpose of (a) allowance under Section 502(c) of the Bankruptcy Code or (b) assisting the Bankruptcy Court in making the findings required for Confirmation of this Plan pursuant to Sections

1129(a)(7)(A)(ii) and (a)(11) and, if necessary, Sections 1129(b)(1) and (2) of the Bankruptcy Code.

Executory Contracts: “Executory Contracts” shall mean any contracts which are described as executory contracts within the meaning and effect of 11 U.S.C. 365, which will be either Assumed Contracts or Rejected Contracts under this Plan.

Executory Contract Claims: “Executory Contract Claims” shall mean any Claims, including future rights to payments, which arise from the Debtor’s action in assuming various Executory Contracts.

Executory Contract Creditors: “Executory Contract Creditors” shall mean any Creditors whose Claims, including future rights to payments, arise from the Debtor’s action in assuming or rejecting Executory Contracts.

Final Distribution: “Final Distribution”, when used with respect to an Allowed Claim, means the Distribution to be made on the Final Distribution Date to fully pay all amounts available to be paid to holders of Allowed Claims pursuant to this Plan.

Final Distribution Date: “Final Distribution Date”, when used with respect to an Allowed Claim, means the date on which the final payment is following the Effective Date, as provided herein.

Final Order: “Final Order” means an Order of the Bankruptcy Court, the implementation, operation or effect of which has not been stayed and as to which Order (or any revision, modification or amendment thereof) the time to appeal or seek review or rehearing or *writ of certiorari* has expired and as to which no appeal or petition for review or rehearing or *certiorari* has been taken and is pending.

Future Tort Claims: “Future Tort Claims” means post-Bar Date claims of the Debtor’s current and former employees, who have either manifested or unmanifested health claims arising from or associated with their pre-petition work for the Debtor.

Governmental Unit: “Governmental Unit” means any foreign, provincial, federal, state, local or municipal (a) government, (b) governmental agency, (c) governmental commission, (d) governmental department, (e) governmental bureau, (f) governmental ministry or (g) governmental entity.

Guarantors: “Guarantors” means any person or entity who executed a personal guaranty in favor of the Secured Lender for any money loaned which is secured by the Property.

Initial Distribution Date: The “Initial Distribution Date”, when used with respect to an Allowed Claim, means the date on which the initial payment is following the Effective Date, as provided herein.

Insider: “Insider” shall have the same meaning as set forth in the Bankruptcy Code.

Interest: “Interest” shall mean the rights held in any equity security by any equity security holder as such terms are defined in 11 U.S.C. § 101.

Lease or Real Estate Documents: “Lease” or “Real Estate Documents” means that certain Lease Agreement dated October 1, 2003 between the Debtor and Smith/Wade, as amended by the Addendum to Lease dated September 21, 2007, Addendum to Lease dated May 1, 2010, and Addendum to Lease dated September 6, 2013, including the purchase options with respect to the Property.

Lien: “Lien” means, with respect to any of the Debtor’s assets or property, along with the other Estate Assets, any mortgage, lien, pledge, charge, security interest, encumbrance or other security device of any kind affecting such asset or property.

Litigation Claims: “Litigation Claims” shall refer to any claim brought by the Debtor, Debtor-in-Possession or the Reorganized Debtor to recover fraudulent, preferential or otherwise avoidable transfers, or any other claim which the Debtor, Debtor-in-Possession or Reorganized Debtor may hold.

Litigation: “Litigation” shall mean shall mean the pursuit of any Litigation Claims by the Debtor, Liquidated Debtor, or Distribution Agent seeking to recover assets, including receivables, and those which were the subject of fraudulent, preferential or otherwise avoidable transfers, or any other pursuit of legal remedies in a court of law that shall be necessitated by this bankruptcy filing or the implementation of this Plan.

Net Principal: “Net Principal” shall mean the amount of principal due to Secured Lender, as of the Petition Date, pursuant to the terms of the Promissory Note and Mortgage executed by the Debtor in favor of Secured Lender as determined by the value of the Property and net of any post-petition payments made to Secured Lender between the Petition Date and the Effective Date, which will reduce the Principal to the net principal.

Non-Insider: A Non-Insider is any creditor or other party in interest who is not an Insider as defined herein.

Order: “Order” means an order or judgment of any court of competent jurisdiction.

Operations: “Operations” includes all revenue-generating functions of the Debtor.

Person: “Person” means any person, individual, partnership, corporation, limited liability company, joint venture company, association or other entity of whatever kind, whether or not for profit, including, but not limited to, any “person” as that term is defined in 11 U.S.C. §101(41), but excluding any Governmental Units.

Petition Date: “Petition Date” means September 9, 2013.

Plan: “Plan” means this Clarified and Corrected Chapter 11 Plan of Reorganization, Dated as of January 15, 2014, filed by the Debtor-in-Possession, and all schedules and other exhibits hereto, as well as any amendments, supplements, or modifications submitted by the Debtor-in-Possession in a manner consistent with the provisions of this Plan and the Bankruptcy Code.

Plan Distribution Period: “Plan Distribution Period” means the period commencing on the Effective Date and continuing until all pre-petition scheduled or timely filed claims are paid in full.

Priority Claim: “Priority Claim” means any Claim entitled to priority pursuant to Bankruptcy Code §§ 507 and 503, or other applicable law.

Principal: “Principal” shall mean the amount of principal due to Secured Lender, as of the Petition Date, pursuant to the terms of the Promissory Note and Security Agreement executed by the Debtor in favor of Secured Lender.

Proof of Claim: “Proof of Claim” means any proof of claim filed with the Bankruptcy Court with respect to the Debtor pursuant to Bankruptcy Rules 3001 and 3002.

Proof of Interest: “Proof of Interest” means any proof of interest filed with the Bankruptcy Court with respect to the Debtor pursuant to Bankruptcy Rule 3002.

Personal Property. “Personal Property” means any assets owned by the Debtor, other than the Property, described below.

Property: “Property” means the real property and improvements located at 4001 and 4025 Beryl Drive, and 508 Method Road, Raleigh, North Carolina, as more particularly described on **Exhibit B** to the Disclosure Statement. Smith/Wade is the record owner of the Property pursuant to deeds recorded at Book 6761, Page 32 and Book 7296, Page 891, Wake County Register of Deeds. Smith/Wade takes the position the Lease Agreement dated October 1, 2003 between the Debtor and Smith/Wade, as amended by the Addendum to Lease dated September 21, 2007, Addendum to Lease dated May 1, 2010, and Addendum to Lease dated September 6, 2013, including the purchase options with respect to the Property, constitutes a true lease and the Debtor takes the position, as set forth in its Schedules, that such documents constitute a disguised financing transaction in the form of a Retail Installment Sales Contract. The ultimate characterization of the legal relationship between Smith/Wade and the Debtor has not been determined by this Court and is the subject of pending litigation.

Rejected Contracts: “Rejected Contracts” means those executory contracts and/or unexpired leases affirmatively rejected prior to confirmation of this Plan.

Schedules: “Schedules” means the schedules and summary of schedules, and any amendments thereto, filed in this Chapter 11 case by the Debtor.

Secured Claim: “Secured Claim” means an Allowed Claim of a Creditor which is secured by a lien on any property of the Debtor’s estate, and with respect to the Allowed Claim of a Creditor which is secured by a lien on any property of the other Estate Assets, to the extent of the value, determined pursuant to Bankruptcy Code § 506(a), of such Creditor’s interest in the estate’s interest in such property, or, in the absence of a Final Order determining secured status, the entire amount of the Allowed Claim as indicated in the corresponding Proof of Claim. Except where the Claim arises from a nonrecourse loan, if the value of such Creditor’s interest in the Debtor’s interest in the subject property is less than the amount of the Allowed Claim, then such deficiency shall constitute an Unsecured Claim. “Secured”, when used as an adjective modifying the term “Claim”, has the same corresponding meaning.

Secured Lender: “Secured Lender” means First Citizens Bank & Trust Co.

Subordinated Claim: “Subordinated Claim” means any Allowed Claim which this Court, by separate Order of this Court, including the Confirmation Order, subordinates pursuant to 11 U.S.C. §510(c).

Tort Claims Trust: “Tort Claims Trust” means the trust to be established to take an assignment of Available Insurance and authorized by this Court to pursue recovery of the Available Insurance for the exclusive purpose of satisfying post - Bar Date claims of current and former employees of the Debtor, who have either manifested or unmanifested health claims arising from or associated with their pre-petition work for the Debtor constituting Future Tort Claims. The Debtor has requested the establishment of an extended bar date for the filing of claims constituting Future Tort Claims. Future Tort Claims shall be channeled to the Tort Claims Trust and the holders of Future Tort Claims shall have, as their exclusive remedy and recourse, the right to file their Future Tort Claims as against the Tort Claims Trust to be satisfied by the Available Insurance. Such remedy and relief afforded to the holders of Future Tort Claims herein shall be their exclusive remedy and shall be forever barred from asserting or pursuing their Future Tort Claims against the Debtor, Reorganized Debtor, any of its employees, officers, directors, agents or owners. The Tort Claims Trust shall be settled by a Tort Claims Trustee to be appointed by this Court pursuant to separately filed motion to be considered in connection with confirmation of this Plan.

Tort Claims Trustee: “Tort Claims Trustee” means the Person appointed by the Bankruptcy Court to establish the Tort Claims Trust, which will receive an assignment of the Available Insurance. The Tort Claims Trustee will establish procedures for administering any Future Tort Claims, pursuing Available Insurance and paying allowed Future Tort Claims.

Trade Creditor: “Trade Creditor” means any person or entity which holds a Claim by virtue of amounts owed by the Debtor for products or services supplied or rendered in furtherance of Operations.

Unexpired Leases: “Unexpired Leases” means any leases of real or personal property described as unexpired leases within the meaning and effect of 11 U.S.C. § 365 which will be either Assumed Contracts or Rejected Contracts under this Plan.

Unsecured Claim: “Unsecured Claim” means any Claim, held by the Non-Insider Creditors of the Debtor, other than an Administrative Expense Claim, Priority Claim, Secured Claim, or Tax Claim, and includes (a) the deficiency portion of an undersecured Claim, (b) the Claims of Insiders (as that term is defined above), and (c) any Claims for contract or lease rejection damages.

Unsecured Creditor: “Unsecured Creditor” means any Creditor holding an Unsecured Claim.

9.03 Severability. If any provision in this Plan is determined to be unenforceable, the determination will in no way limit or affect the enforceability and operative effect of any other provision of this Plan.

9.04 Binding Effect. The rights and obligations of any entity named or referred to in this Plan will be binding upon, and will inure to the benefit of the successors or assigns of such entity.

9.05 Captions. The headings contained in this Plan are for convenience of reference only and do not affect the meaning or interpretation of this Plan.

9.06 Controlling Effect. Unless a rule of law or procedure is supplied by federal law (including the Code or the Federal Rules of Bankruptcy Procedure), the laws of the State of North Carolina and those of the United States govern this Plan and any agreements, documents, and instruments executed in connection with this Plan, except as otherwise provided in this Plan.

[The Remainder of this Page Intentionally Left Blank]

ARTICLE X
EFFECT OF CONFIRMATION

10.01 Binding Effect of Confirmation.

In accordance with § 1141(a) of the Bankruptcy Code, the provisions of a confirmed plan bind the Debtor, any entity issuing securities under the Plan, any entity acquiring property under the Plan, and any Creditor (including the holders of Future Tort Claims), equity security holder, or general partner in the Debtor, whether or not the Claim or Interest of such Creditor, equity security holder or general partner is impaired under the Plan and whether or not such Creditor, equity security holder or general partner has accepted the Plan.

[The Remainder of this Page Intentionally Left Blank]

ARTICLE XI
OTHER PROVISIONS

11.1 Confirmation Order.

The Confirmation Order shall contain all injunctions, including those set forth in Articles V and X above, and other orders that may be necessary to implement the Plan. To the extent necessary, the Confirmation Order shall contain any such provisions as may be necessary to provide for the substantial consummation of the Plan on the Effective Date.

11.2 No Admissions.

This Plan provides for the resolution, settlement, and compromise of all Claims against the Debtor, including those claims against third parties derived from Claims against the Debtor. No proposed course of conduct contemplated herein shall be construed as legally or equitably binding upon the Debtor, or any other party, prior to the Confirmation Date.

11.3 Amendments.

The Debtor retains the right to amend, modify, or supplement this Plan at any time prior to or after the Confirmation Hearing, to the full extent that this is authorized by law. Notice of any such amendment which materially adversely affects any Creditors or Equity Security Holders shall be sent to such parties as the Bankruptcy Court may direct.

11.4 Notices.

All notices, motions, objections, or affidavits required by this Plan to be served on the Debtor, Debtor-In-Possession or Reorganized Debtor shall be in writing, addressed as follows:

Steven M Berman, Esq. and
Seth P. Traub, Esq.
Shumaker, Loop & Kendrick, LLP
101 E. Kennedy Blvd, Suite 2800
Tampa, FL 33602

and shall be sent by United States first class mail or overnight delivery service or shall be made by hand delivery. Service by facsimile or e-mail alone shall not suffice as valid notice pursuant to this Plan.

11.5 Construction.

Where not inconsistent or in conflict with the provisions of this Plan, the words and phrases used herein shall have the meanings ascribed thereto in the Bankruptcy Code and in the Bankruptcy Rules.

11.6 Dates.

Rule 9006 of the Federal Rules of Bankruptcy Procedure shall govern the calculation of any dates or deadlines referenced in the Plan.

11.7 Substantial Consummation.

The Plan shall be deemed substantially consummated immediately upon the occurrence of the Effective Date and the Initial Distribution to the Unsecured Creditors and the Secured Lender. Upon such substantial consummation, the Debtor may request the Bankruptcy Court to enter a Final Decree closing the case and for such other orders that may be necessary and appropriate.

11.8 Surcharge.

The Debtor retains the right to bring any appropriate claims to surcharge the collateral of any Secured Creditor pursuant to 11 U.S.C. §506 and other applicable law.

Dated: January 15, 2014

Respectfully submitted,

SURTRONICS, INC.

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

SHUMAKER LOOP & KENDRICK, LLP

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

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

Attorneys for the Debtor