IN THE UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF DELAWARE

In re	Chapter 11
PACE INDUSTRIES, LLC, *et al.*,[1]	Case No. 20-10927 (___)
Debtors.	(Joint Administration Requested)

DECLARATION OF CRAIG POTTER IN SUPPORT OF FIRST DAY RELIEF

I, Craig Potter, hereby declare under penalty of perjury:

1. I serve as Chief Financial Officer of Pace Industries, LLC. I am generally familiar with the day-to-day operations, business affairs, and books and records of the above-captioned debtors and debtors in possession (collectively, the "Debtors" or "Pace," and together with their non-debtor affiliates, the "Company"), as well as the Debtors' restructuring efforts. I submit this declaration (this "Declaration") to assist this Court and parties in interest in understanding the circumstances that compelled the commencement of the chapter 11 cases and in support of: (a) the Debtors' petitions for relief under chapter 11 of title 11 of the United States Code (the "Bankruptcy Code"); and (b) the emergency relief that the Debtors have requested from the Court pursuant to the motions and applications described herein (collectively, the "First Day Pleadings").

2. On the date hereof (the "Petition Date"), each Debtor filed a voluntary petition for relief under the Bankruptcy Code. The Debtors commenced these chapter 11 cases to

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[1] The Debtors in these chapter 11 cases, along with the last four digits of each Debtor's federal tax identification number, are: KPI Holdings, LLC (5032); KPI Capital Holdings, Inc. (6489); KPI Holdings, Inc. (6913); KPI Intermediate Holdings, Inc. (4492); Pace Industries, LLC (6490); Pace Industries, Inc. (6822); Pace FQE, LLC (3611); Port City Group, Inc. (6598); Muskegon Castings, LLC (6858); Alloy Resources, LLC (0283); and Pace Industries of Mexico, L.L.C. (5764). The Debtors' headquarters are located at 481 South Shiloh Drive, Fayetteville, Arkansas 72704.

implement the terms of a comprehensive financial restructuring that has been agreed to by all lenders under the Debtors' Prepetition Notes Agreement (as defined herein) (the "Proposed Restructuring Transaction"). The Proposed Restructuring Transaction, described in further detail herein, contemplates a deleveraging of the Debtors' balance sheet whereby the Prepetition Noteholders (as defined herein) will own the reorganized Debtors.

3. To effectuate the Proposed Restructuring Transaction, the Debtors and certain of their prepetition lenders extensively negotiated the *Joint Prepackaged Chapter 11 Plan for Pace Industries, LLC and its Affiliated Debtors* (as amended, modified, or supplemented from time to time, the "Prepackaged Plan")[2] prior to the Petition Date, which is being filed concurrently herewith. Pursuant to the terms of the Prepackaged Plan, the Prepetition Noteholders (as defined herein) will receive 100% of the equity in a new limited liability company created to own all of the outstanding equity interests of reorganized Pace Industries, LLC as of the Effective Date, subject to dilution by new warrants to be issued to certain of the Debtors' postpetition lenders and equity that may be issued in connection with a management incentive plan following the Effective Date. Claims outstanding under the Debtors' Prepetition ABL Credit Agreement shall be refinanced and paid in full (during the cases, and subject to court approval, pursuant to the terms of the DIP ABL Credit Agreement, and upon the Effective Date, pursuant to the terms of the New ABL Credit Agreement). All General Unsecured Claims will be unimpaired and either paid in full in cash on the Effective Date (or as they come due in the ordinary course of the Debtors' business) or otherwise reinstated.

[2] Capitalized terms used but not otherwise defined in this paragraph shall have the meanings given to them in the Prepackaged Plan.

4. Prior to the Petition Date, the Debtors solicited and received votes from all creditors entitled to vote on the Prepackaged Plan—specifically, their Prepetition Noteholders, the only creditors impaired by the terms of the Prepackaged Plan. The Prepackaged Plan was accepted by Prepetition Noteholders representing 100% in principal amount and holders of obligations under the Prepetition Notes Agreement. The Debtors have commenced these chapter 11 cases to obtain confirmation and consummation of the Prepackaged Plan, and the Prepackaged Plan and a related Disclosure Statement are each being filed concurrently herewith.

5. The First Day Pleadings seek relief necessary to avoid immediate and irreparable harm to the Debtors as they pursue consummation of the Proposed Restructuring Transaction by allowing them to continue their operations and minimize disruptions to their business. Specifically, the First Day Pleadings seek, among other things, relief allowing the Debtors to: (a) stabilize and maintain their business operations through the use of postpetition financing and cash collateral; (b) limit disruption to the Debtors' business by continuing the use of their prepetition cash management system; and (c) establish certain administrative procedures to facilitate an orderly transition into, and uninterrupted operations throughout, the chapter 11 process, including a motion seeking to have the Debtors' chapter 11 cases consolidated for procedural purposes only and jointly administered.

6. Except as otherwise indicated, all facts set forth in this Declaration are based upon my personal knowledge and experience, my discussions with other members of the Debtors' management team and the Debtors' advisors, and my review of relevant documents and information concerning the Debtors' operations, financial affairs and restructuring initiatives. If called as a witness, I could and would testify competently to the facts set forth in this Declaration. I am authorized to submit this Declaration on behalf of the Debtors.

7. To familiarize the Court with Pace, its business, the circumstances leading to these chapter 11 cases, and the relief it is seeking in the First Day Motions, I have organized this Declaration as follows:

- **Part I** provides a general overview of the Debtors' corporate history and operations;
- **Part II** describes the Debtors' corporate and capital structure;
- **Part III** describes the events leading to these chapter 11 cases; and
- **Part IV** summarizes the relief requested herein and the legal and factual basis supporting the Debtors' First Day Motions.

I. THE DEBTORS' CORPORATE HISTORY AND OPERATIONS

A. History

8. Founded in 1970 as a single facility in Harrison, Arkansas, Pace is one of the largest fully-integrated suppliers of aluminum, zinc, and magnesium die cast and finished products in North America. Following its founding and through the 1980s, the Company experienced considerable growth, building a national reputation serving the lighting and barbecue grill industries. The Company's success prompted its expansion (both geographically and with respect to its product offerings) beginning in the late 1980s, when the Company acquired a tool and die shop located in Muscle Shoals, AL, to offer tool and die fabrication and expertise to its growing customer base.

9. In 1993, Pace's founding family sold the business through a private equity-sponsored management buyout assembled by Kenner & Company, Inc., a New York-based private equity firm ("Kenner"). Pace's current Chief Executive Officer, J. Scott Bull, was a management participant in the buyout. Under Kenner's ownership, Pace continued its geographic and product offering expansion. The Company established its first international die casting manufacturing plant in 1994 in Saltillo, Mexico (the "Saltillo Plant"), which was built as a joint venture with

Emerson Electric Company ("Emerson"), supporting Emerson's production of die cast components for its electric appliance motor assembly operations in Mexico. The Company also significantly expanded its tool die manufacturing capabilities, acquiring a second tool and die shop in St. Louis, Missouri in 1995.

10. In 1996, Kenner sold Pace to Leggett & Platt Incorporated ("L&P"), a diversified product manufacturer based in Carthage, Missouri. L&P combined its die casting operations with Pace to form the Leggett & Platt Aluminum Group ("LPAG"). Between 1996 and 2005, LPAG expanded its geographic footprint and customer offerings significantly by completing several acquisitions of die cast businesses, including: Pennsylvania-based Airo Die Casting, specializing in components for, among others, the telecommunications industry; Massachusetts-based Cambridge Tool & Manufacturing, specializing in components for, among others, the military, high-tech, and medical industries; Minnesota-based Product Technologies, specializing in both the manufacture of die cast tooling for magnesium die cast part production, as well as magnesium die cast part production itself for, among others, the appliance and medical industries, Arkansas-based B&C Die Cast, specializing in miniature zinc die castings for, among others, the key-lock and appliance industries; in-house die-casting operations owned by Black and Decker Corporation and Acuity Lighting Brands; and Emerson's 49% joint venture interest in the Saltillo Plant (with Pace becoming sole owner). In light of the success and profitability of its Saltillo Plant, the Company also built a second international die cast plant in Chihuahua, Mexico.[3]

11. In 2008, L&P began to look for potential buyers to divest the LPAG. Pace's management team reached out to Kenner, which understood the business well due to its previous

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[3] The Company's Saltillo and Chihuahua plants are owned by Pace Industries de Mexico, S.A. de C.V., and Pace Industries de Chihuahua II, S.A. de C.V., respectively (the "Foreign Subsidiaries"). The Foreign Subsidiaries, which are wholly-owned subsidiaries of the Debtors, are not debtors in these chapter 11 cases.

ownership of Pace during the 1990s. In July 2008, Kenner led a private equity-sponsored buyout of the Company. Between 2008 and 2012, Pace's strategy focused on organic growth through expansion of its core businesses and entry into new industry end-market segments. Between 2012 and 2014, the Company began to expand its product offerings to serve the automotive industry in particular, finding the market attractive due to its substantial size and compatibility with the Company's core competencies. By 2014, Pace's sales to customers in the automotive industry totaled $91 million, representing approximately 17% of the Company's revenue.

12. In June 2015, Pace acquired Port City Group ("PCG"), a Michigan-based manufacturer of aluminum die castings and other parts for the automotive industry, to further accelerate the Company's expansion into the automotive industry.[4] PCG's existing operations and geographic footprint provided Pace a critical mass of facilities and expertise it needed to directly serve original equipment manufacturer ("OEM") customers in the automotive industry, as well as the largest Tier 1 automotive suppliers, which supply parts to OEMs. Indeed, following its acquisition of PCG, Pace's sales to customers in the automotive industry jumped to $185 million in 2016, representing approximately 34% of the Company's total revenue.

B. Business Operations

13. Headquartered in Fayetteville, Arkansas, Pace conducts business through nine die casting manufacturing plants (seven in the United States and two in Mexico), two tool and die shops, and two painting and finishing shops. Pace's die cast plants manufacture complex engineered aluminum, zinc, and magnesium die cast and finished products according to customer-supplied proprietary engineering, design, and measurement specifications. Similarly, through their tool and die shops, the Debtors sell custom-made steel die cast dies and tooling used to

[4] Pace's acquisition of PCG resulted in the Debtors' current organizational structure, attached hereto as **Exhibit A**.

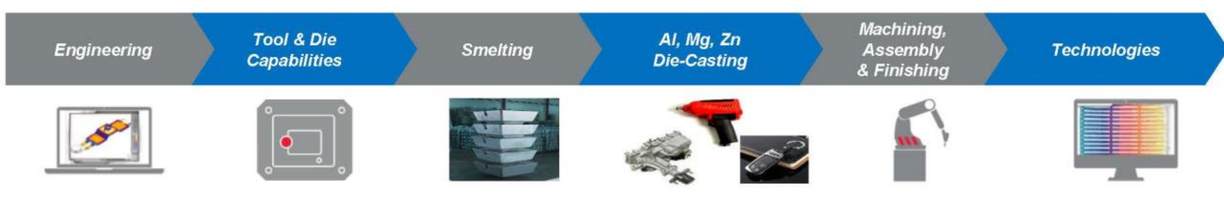
manufacture die castings. Finally, through their painting and finishing facilities, the Debtors offer custom painting and finishing services for both die cast parts and parts manufactured through other processes according to customer-provided specifications. Pace also operates a number of plastic injection molding machines to produce parts for customers of its Port City Group Division.

14. Pace's business is highly diversified, selling over 3,000 SKUs to more than 400 long-standing blue chip customers. The vast majority of parts that Pace produces are sold to customers for whom Pace is a sole-source supplier. In the fiscal year ended 2019, Pace reported revenue of $560 million and adjusted EBITDA of $61 million.

Long-Tenure Blue Chip Customer Base

15. Pace is the only vertically integrated major die casting supplier in North America providing customers one-stop-shop services on a mass scale. Pace's production of die-castings is fully vertically integrated: Pace purchases aluminum and other materials, alloys metals to customers' specifications, casts net shape components, and provides machining, finishing and sub-assembly of products. Pace also operates the largest number, and the broadest range, of clamping force die-casting machines in North America, which has positioned Pace uniquely to offer die-cast products for practically any end-market requirement.

Vertically Integrated Services From Engineering Through Machining, Finishing, and Assembling



C. Product Lines

16. Pace sells products in six primary end-markets: Automotive, Powersports, Lawn & Garden, Lighting & Electric, Appliances & Industrial Motors, and Other Markets, Tooling & Smelting.

i. *Automotive*. Through its Automotive Segment, Pace manufactures, among other things, transmission and engine components, powertrain systems, axles and hybrid technology Pace's customers include, among others, Toyota, Fiat Chrysler, Allison Transmission, BorgWarner, Cooper-Standard Automotive, Dana Limited, Tesla, Delphi Technologies, Linamar Corporation, Magna Powertrain, Detroit Diesel and Caterpillar. Pace's automotive operations include five die cast plants certified by the International Automotive Task Force as meeting the international standard for technical specifications for automotive sector quality management systems. The automotive segment accounted for 32% of Pace's revenue in fiscal year 2019.

ii. *Powersports*. Through its Powersports Segment, Pace manufactures cosmetic parts, crank case parts, RV chassis, and cylinders for powersports vehicles. Pace's customers include, among others, Harley Davidson and Polaris. The Powersports Segment accounted for 16% of Pace's revenue in fiscal year 2019.

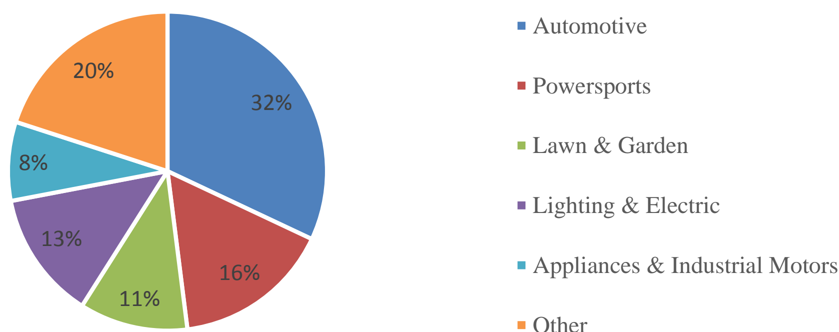
iii. *Lawn & Garden*. Through its Lawn & Garden Segment, Pace manufactures parts for gas barbecue grills, lawn mowers and riding mowers. Pace's customers, among others, include Kohler, Hydro-Gear, Weber-Stephens and Tuff Torq. The Lawn & Garden Segment accounted for 11% of Pace's revenue in fiscal year 2019.

iv. *Lighting & Electric*. Through its Lighting & Electric Segment, Pace manufactures parts for roadway lights, factory LED lights, parking lot rights, and heat sinks. Pace's customers, among others, include, Acuity Brands, Cree, Signify/Cooper Lighting Solutions and GE Lighting. The Lighting Segment accounted for 13% of Pace's revenue in fiscal year 2019.

v. *Appliances & Industrial Motors.* Through its Appliances & Industrial Motors Segment, Pace manufactures parts for small motor shields, power tools, and fluid pumps. Pace's customers, among others, include Nidec and Whirlpool. The Appliances & Industrial Motors Segment accounted for 8% of Pace's revenue in fiscal year 2019.

vi. *Other Markets, Tooling & Smelting.* Pace also manufactures parts used in diverse industries and applications, including, among others, medical, military, telecommunications, instrumentation and industrial controls. The Other Markets, Tooling & Smelting Segment accounted for 20% of Pace's revenue in fiscal year 2019.

Diversification Across End Markets (FY19 Revenue)



17. As noted above, Pace conducts business through thirteen primary divisions: its nine die casting plants (respectively, the PCG Division, the Airo Division, the Cambridge Division, the Grafton Division, the Harrison Division, the B&C Division, the Product Tech Division, the Saltillo Division, and the Chihuahua Division); two tool and die shops (the Patterson Tool & Die Division and the Mangas Tool & Die Division); and two painting and finishing shops (under the Airo and Cambridge Divisions).[5]

[5] As explained above, the Foreign Subsidiaries own the Company's facilities in Mexico and operate the Saltillo and Chihuahua Divisions. Since its opening in 1994, the Saltillo Division has grown rapidly and completed two major facility expansions totaling 180,000 square feet. The Saltillo Division specializes in serving customers in the lighting & electrical, appliance and utilities industries. The Chihuahua Division opened in 1998 primarily to serve customers in Juarez, Mexico and has since grown to service customers throughout Mexico and the U.S. The Chihuahua Division's capabilities include, among other things, die casting, complex machining operations, and finishing operations. As explained in further detail herein and in the Cash Management Motion (as defined herein), all revenues generated by the Foreign Subsidiaries are directly transferred to the Debtors. The Debtors, in turn, fund the Foreign Subsidiaries' operating expenses.

18. *PCG Division*. Located in Muskegon, Michigan and comprised of four plants, the PCG Division is a fully integrated manufacturer of aluminum die castings, plastic injected molded parts and custom special purpose production finishing equipment. Pace created the PCG Division, which primarily manufactures products serving the automotive industry, in 2015, following its acquisition of PCG.

19. *Harrison Division*. Located in Harrison, Arkansas, the Harrison Division operates a die casting facility with more than 600,000 square feet of manufacturing and warehouse space. The Harrison Division primarily serves the automotive, gas barbecue and lighting industries.

20. *Airo Division*. Located in Loyalhanna, Pennsylvania, the Airo Division operates a 155,400 square foot manufacturing facility which produces aluminum die castings for customers primarily in the powersports and recreational vehicle industries. Airo routinely produces complex parts sensitive to specific porosity and cosmetic requirements, providing on-the-ground engineering support in its customers' plants to ensure accurate product design and manufacturing.

21. *Cambridge Division*. Located in North Billerica, Massachusetts, the Cambridge Division operates a 300,000 square foot facility which produces aluminum and zinc die castings primarily for customers in the medical, aerospace, instrumentation and defense industries.

22. *Grafton Division*. Located in Grafton, Wisconsin, the Grafton Division operates a 400,000 square foot manufacturing plant and 100,000 square feet of warehouse space. Pace's Grafton Division is a leader in producing complex high pressure die castings primarily for customers in the automotive, industrial, large and small engine, and lighting industries.

23. *B&C Division*. Located in Harrison, Arkansas, the B&C Division specializes in selling miniature and conventional zinc die castings to automotive, electronics, lighting, personal grooming, and lawn and garden industry customers.

24. *Product Tech Division*. Located in Maple Lake, Minnesota, the Product Tech Division is one of North America's largest integrated magnesium die casting companies, offering magnesium die cast and finished products, in-house tooling fabrication and repair, and in-house rapid prototyping.

25. *Patterson Division*. Located in St. Charles, Missouri, the Patterson Division is a full-service tool and die shop specializing in the fabrication of medium to large size steel die cast dies and tooling. It has served the die cast industry for more than 30 years. In 2008, the Patterson Division's quality system received the AS9100 standard certification, which allowed the Patterson Division to provide, among other things, machining, welding and finish work to the aerospace industry.

26. *Mangas Tool & Die Division*. Located in Muscle Shoals, Alabama, the Mangas Tool & Die Division for 65 years has specialized in the fabrication of large steel die cast dies and tooling. It primarily serves customers in the automotive, consumer, electrical and lawn and garden industries.

27. *Cambridge Division: Jel Finishing*. Located in Chelmsford, Massachusetts, Jel Finishing specializes in powder coat, wet and electrostatic painting, silk screening, pad printing and coatings, including chromating and phosphating. It primarily serves customers in the aerospace, military and medical industries.

28. *Airo Division: Power Drive.* Located in Loyalhanna, Pennsylvania, the Airo Division's painting shop specializes in powder coat, wet and electrostatic painting. It primarily serves customers in the powersports industry.

E. Employees

29. As of the Petition Date, the Debtors employ approximately 730 employees, approximately 252 of which are full-time salaried employees and approximately 478 of which are either full-time or part-time hourly employees. The Debtors also utilize the services of temporary employees, the number of which fluctuates depending upon the Debtors' needs. As of the Petition Date, the Debtors employ 2 temporary employees.

30. The Debtors typically employ significantly more employees: approximately 370 full-time salaried employees, 2,065 full-time or part-time hourly employees, and 125 temporary employees. However, due to the recent global outbreak of COVID-19, the Debtors have temporarily shut down five of their die-casting facilities in the United States in response to supply chain disruptions caused by COVID-19 and mandatory stay-at-home orders issued by governments in certain states in which the Debtors operate. As a result, the Debtors have temporarily laid off approximately 70% of their employees who normally work at their temporarily closed facilities.

F. Production Challenges at the Harrison and PCG Facilities

31. Between 2016 and 2017, Pace won significant new business to replace "end-of-life" programs with automotive customers[6] of PCG that existed at the time Pace acquired

[6] The term "end-of-life" is used to refer to products approaching the end of their commercial production phase before entering a phase as service products. This occurs when the customer introduces new vehicle model designs and new technologies. At the inception of an automotive program, manufacturers like Pace are provided with an estimate of the length of the commercial production phase, and must then seek to obtain the next generation of the program or seek new and unrelated replacement business to maintain existing sales levels (and grow sales)

PCG. Specifically, the PCG Division won new contracts for the manufacture of engine and transmission components from Dana Limited, Fiat Chrysler Automobiles, and Magna Powertrain. Additionally, as part of its growth strategy to enter the automotive market, the Harrison Division won new automotive parts manufacturing contracts from American Axle, Borg Warner, FCC North America, and Linamar Corporation, principally for the manufacture of clutch housings.

32. Launching production of new automotive parts typically takes 18 to 24 months from inception to release for commercial production. The primary reason for this timeline is that a manufacturer must complete advanced product quality planning, which includes: (a) the design and optimization of systems and manufacturing processes, (b) training employees to implement, control, and manage each step of such processes, (c) establishing process capability and repeatability, and (d) obtaining production part approval ("PPAP") from the customer. Creating a production process is critical for the Company to reliably and consistently manufacture products tailored to customers' specifications.

33. In the case of the clutch housing business, Pace's plan was to phase in PPAP approval and commercial production of the clutch housings, beginning in late 2018 with American Axle, followed by FCC in the second quarter of 2020, and ending in late 2020 with Borg Warner. However, the Company had never previously manufactured clutch housings, which are highly complex parts that must be produced with minimal variation and require very "tight tolerancing" to ensure that they will function correctly in the final assembled customer product. Developing a process to properly cast clutch housings was much more costly than the Company expected. Additionally, at the PCG Division, the Company struggled with the competing demands associated

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once the program reaches end-of-life. The replacement of programs reaching the end of their lives with new business is common for parts suppliers like Pace.

with winding down the production of parts reaching end-of-life while simultaneously launching new products. The Harrison Division was ultimately able to begin commercial production and commence sales of its new products in late 2019 and early 2020, though the costs and delays associated with doing so were higher than anticipated.

34. The PCG Division and Harrison Division, which are the facilities primarily responsible for Pace's new automotive products, are now temporarily shut down due to the COVID-19 pandemic. The Company is confident that it will resolve any remaining operational challenges and capture the economic potential of the associated new contracts by the end of 2020 (if not sooner, depending on when the PCG Division and Harrison Division are able to reopen).

II. THE DEBTORS' PREPETITION CAPITAL STRUCTURE

35. As of the Petition Date, the Debtors' capital structure includes over $324.2 million in outstanding debt, consisting of (a) approximately $92.1 million in aggregate principal amount outstanding under the Prepetition ABL Facility (as defined below), together with any accrued and unpaid interest, fees, costs and expenses, and (b) approximately $232.1 million in aggregate principal amount outstanding under the Prepetition Notes Agreement (each as defined below), together with any accrued and unpaid interest, fees, costs and expenses.

36. The Prepetition ABL Facility and the Prepetition Senior Secured Notes are secured by liens on substantially all of the Debtors' assets. The relative contractual rights and priorities of the lenders on the Prepetition ABL Facility and the Prepetition Senior Secured Notes are governed by the intercreditor agreement, dated June 30, 2015 (as amended, restated, supplemented, or otherwise modified from time to time, the "Intercreditor Agreement"), by and between the Revolver Agent and the Term Agent (each as defined below).

A. Prepetition ABL Facility

37. On June 30, 2015, Debtors Pace Industries, LLC, Pace Industries, Inc., Pace Industries de Mexico, L.L.C., Muskegon Castings, LLC and Alloy Resources, LLC entered into that certain Amended and Restated Credit Agreement (as amended, amended and restated, supplemented, or otherwise modified, refinanced or replaced from time to time, the "Prepetition ABL Credit Agreement"), pursuant to which a syndicate of lenders (each, a "Prepetition ABL Lender") provided an asset-backed line of credit (the "Prepetition ABL Facility"). Bank of Montreal is the administrative agent (the "Prepetition ABL Agent"), and all other Debtors (except KPI Holdings, LLC) are guarantors under the Prepetition ABL Facility. The Prepetition ABL Facility has a total facility size of $125 million subject to borrowing base availability, and a maturity date of April 10, 2020. The Prepetition ABL Facility bears interest at rate of LIBOR plus 3%. As of the Petition Date, there is approximately $92.1 million in aggregate principal amount outstanding under the Prepetition ABL Facility.

38. The borrowing capacity under the Prepetition ABL Facility is based on a borrowing base calculation of eligible inventory and cash held in a collateral deposit account subject to a first priority lien in favor of the ABL Agent. The Prepetition ABL Facility is secured by (a) first priority liens on all Accounts, Inventory, Revolver Extraordinary Receipts, Deposit Accounts, Money on Deposit in Security Accounts (each as defined in the Prepetition ABL Facility), and all proceeds and products of this property (the "Prepetition ABL Priority Collateral") and (b) second priority liens on all Prepetition Notes Priority Collateral (as defined below).

B. The Prepetition Senior Secured Notes

39. On June 30, 2015, Debtors Pace Industries, LLC, Pace Industries, Inc., Muskegon Castings, LLC and Alloy Resources, LLC entered into a senior note agreement (as amended, amended and restated, supplemented, or otherwise modified, refinanced or replaced

from time to time, "Prepetition Notes Agreement") with TCW Asset Management Company, as administrative and collateral agent (the "Prepetition Notes Agent" and, together with the Prepetition ABL Agent, the "Prepetition Agents") and the lenders party thereto (each, a "Prepetition Noteholder"). All other Debtors (except KPI Holdings, LLC and KPI Capital Holdings, Inc.) are guarantors under the Prepetition Notes Agreement. Pursuant to the Prepetition Notes Agreement, as amended from time to time, the Prepetition Noteholders purchased a total of $240 million in original aggregate principal amount of senior secured notes due 2020 (the "Prepetition Senior Secured Notes" and, together with the Prepetition ABL Facility, the "Prepetition Credit Facilities"). The Prepetition Notes Agreement matures on July 10, 2020 and bears a base interest rate of LIBOR plus 8.25%, plus additional PIK interest of 2.5%. As of the Petition Date, there is approximately $232.1 million in aggregate principal amount outstanding under the Prepetition Senior Secured Notes.

40. The Debtors' obligations under the Prepetition Notes Agreement are secured by (a) first priority liens on goodwill, intellectual property, and any other property not constituting Prepetition ABL Priority Collateral (the "Prepetition Notes Priority Collateral") and (b) second priority liens on Prepetition ABL Priority Collateral.

C. Other Obligations

41. In addition to their obligations outstanding under the Prepetition Credit Facilities, the Debtors owe (a) approximately $13.5 million in obligations outstanding under certain equipment and capital leases related to leased machinery and other products used in their die-casting facilities and tool shops and (b) approximately $62 million in unpaid trade and other ordinary course obligations.

D. Equity Interests

42. The Debtors' equity interests are as follows:

i. Debtor KPI Holdings, LLC, has (a) 143,572 common units; (b) 20,511 preferred units; (c) 15,206 management units; and (d) 5,650 "Macquarie Units" outstanding. Kenner Equities IV, LP holds 67,150 common units (46.8% or all outstanding common units)[7] and 11,536 preferred units (56.2% of all outstanding preferred units) outstanding.[8] Kenner Pace Partners, LLC holds 3,282 management units (21.6% of all outstanding management units) and certain members of the Debtors' management team hold 11,924 management units (78.4% of all outstanding management units). Macquarie Septa (US), I, LLC ("Macquarie") holds 3,531.25 Macquarie Units (62.5% of all outstanding Macquarie Units) and Freedom 3 Investments III LP ("Freedom 3") holds the remaining 2,118.75 Macquarie Units (37.5% of all outstanding Macquarie Units).

ii. Debtor KPI Capital Holdings, Inc. has (a) 100 shares of common stock; (b) 15,000 shares of Series B redeemable preferred stock; and (c) 15,000 shares of Series C convertible redeemable preferred stock outstanding. KPI Holdings, LLC holds 100% of the common shares outstanding, Leggett & Platt, Inc. holds 100% of the Series B preferred shares outstanding, and KPI Holdings, LLC holds 100% of the Series C preferred shares outstanding.

iii. Debtor KPI Intermediate Holdings, Inc. has (a) 100 shares of common stock and (b) 400 shares of Series A preferred stock outstanding. KPI Holdings, Inc. holds 100% of the common shares outstanding, Macquarie holds 250 shares of Series A preferred stock (62.5% of all outstanding Series A preferred shares outstanding) and Freedom 3 holds the remaining 150 shares of Series A preferred stock (37.5% of all outstanding Series A preferred shares outstanding).

iv. Debtor Pace Industries, LLC has 1,000 common units outstanding, all of which are held by KPI Intermediate Holdings, Inc.

v. The remaining Debtors are each directly or indirectly owned by Pace Industries, LLC, which holds 100% of the equity interests of Pace FQE, LLC and Pace Industries, Inc. Pace Industries, Inc. holds 100% of the

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[7] The remaining 76,422 common units are held as follows: KEIV Pace Co-Investment, L.P. (7%); PPM America (10.4%); Barings Corporate (0.5%); Barings Participation (0.2%); Tower Square Capital Partners III (4.4%); Two Square Capital Partners III-A (4.7%); Two Square Capital Partners III-B (0.6%); Chase Capital Corporate (11.6%); David T. Brown (0.1%); Stephan P. Zelnack (0.2%); Antares Capital 2LP (1.7%); GMAM Group (0.4%); EPPI Investments (1.2%); and Essex (10.6%).

[8] The remaining 8,975 preferred units are held as follows: Pacific Street Fund L.P. (8.3%); PPM America (12.5%); Baring Corporate (0.4%); Barings Participation (0.2%); Two Square Capital Partners III (3.5%); Two Square Capital Partners III-A (3.8%); Two Square Capital Partners III-B (0.5%); Chase Capital Corporation (12.5%); Antares Capital 2 LP (2.1%).

equity interests of Pace Industries of Mexico, L.L.C. and Port City Group, Inc. Port City Group, Inc. owns 100% of the equity interests of Muskegon Castings, LLC and Allow Resources, LLC.

III. EVENTS LEADING UP TO THE CHAPTER 11 CASES

43. In the summer of 2018, Pace engaged an investment banking firm to raise new equity. The Company sought additional liquidity primarily to meet its commitments to launch its new automotive programs and fund associated working capital needs.

44. By the spring of 2019, efforts to complete the equity raise were unsuccessful, and Pace began considering other options to address its liquidity needs, its increased debt load, and upcoming maturities under its Prepetition ABL Facility and Prepetition Term Loan Agreement. The Company ultimately determined that a sale or complete recapitalization presented the best path to maximize value for all of its creditors and other stakeholders. Accordingly, the Company engaged another investment banking firm to commence a marketing process. The investment banking firm reached out to 37 potential buyers and provided confidential evaluation materials to 20 of those parties.[9] Four potential buyers submitted indications of interest to acquire the Company.

45. In January 2020, however, following disappointing sales in the last quarter of 2019, the Company postponed the sale process. The decrease in sales was driven by softened demand in the lighting, barbecue grill and appliance markets and lower automotive industry sales due to a 40-day strike by 48,000 General Motors employees. Additionally, the Company's profitability was negatively impacted by production inefficiencies associated with the launch of its new clutch housings and other automotive parts to meet the timelines under its new contracts.

[9] In August 2019, while the sale process was ongoing, the Prepetition Term Lenders provided the Company with additional capital pursuant to the terms of the Prepetition Notes Agreement in the amount of $20 million.

46. In the same month, Pace engaged restructuring counsel and financial advisors to analyze the Company's business plan, evaluate its future potential in light of its capabilities and opportunities, and negotiate a transaction with the Company's lenders which would allow Pace to address its production inefficiencies and capture the growth prospects of its recently acquired business, as well as to improve its liquidity and deleverage its balance sheet. Following months of hard-fought, arm's length negotiations between the Debtors and their core lender constituencies, the parties reached agreement on the framework for the Proposed Restructuring Transaction, which the Debtors have determined is the most value-maximizing transaction available to the Company.

47. In March 2020, as the parties were negotiating the terms of the Proposed Restructuring Transaction, the Company's liquidity situation became dire due to the COVID-19 pandemic in the United States, which resulted in, among other things, the issuance of stay-at-home orders by the governments of certain states in which the Company operates. The Company has had to temporarily close down its Harrison, PCG, Airo and Grafton Divisions after determining that these divisions constituted non-essential businesses under the applicable government orders. Given the negative effects of the Company's temporary partial shutdown on its revenues, implementing the Proposed Restructuring Transaction, which will allow the Company to maximize its value for the benefit of its creditors and other stakeholders is now more urgent than ever.

48. As set forth above, the Debtors intend to implement the Proposed Restructuring Transaction through the confirmation and consummation of the Prepackaged Plan, filed concurrently herewith. Among other things, the Prepackaged Plan provides that (a) the Prepetition ABL Lenders, who are anticipated to be paid in full shortly after the commencement

of these chapter 11 cases with the proceeds of a debtor-in-possession ABL facility (subject to court approval), will be refinanced and paid in full through the proceeds of a new ABL exit facility, and (b) the Prepetition Noteholders will each receive their pro rata share of (i) 100% of the equity issued by a new limited liability company created to own all of the outstanding equity interests of reorganized Pace Industries, LLC as of the Effective Date ("New Pace Holdco"), subject to dilution by new warrants to be issued to the Debtors' postpetition lenders and equity that may be issued in connection with a management incentive plan following the Effective Date and (ii) a new junior term loan facility. The Prepackaged Plan also contemplates that the Debtors' postpetition term loan financing facility (which, like the postpetition ABL facility, remains subject to court approval) will be refinanced and paid in full through the proceeds of a new term loan exit facility and the issuance of new warrants to purchase, in the aggregate, 51% of the equity interests of New Pace Holdco.

49. In addition to distributions to the Debtors' pre- and postpetition secured lenders, the Prepackaged Plan provides for the reinstatement or payment in full of the Debtors' General Unsecured Claims, as well as the following (each such term as defined in the Prepackaged Plan): Allowed (i) Administrative Expense Claims, (ii) Priority Tax Claims, (iii) Fee Claims, (iv) Priority Non-Tax Claims, and (v) Other Secured Claims.

50. On April 11, 2020, the Debtors solicited votes to accept or reject the Prepackaged Plan from their Prepetition Noteholders, who are the holders of claims in Class 3 (Senior Notes Claims), the only class entitled to vote under the Prepackaged Plan. The holders of claims in Class 1 (Priority Non-Tax Claims), Class 2 (Other Secured Claims), and Class 4 (General Unsecured Claims) were deemed to accept the Prepackaged Plan and were not entitled to vote.

Additionally, the holders of claims in Class 5 (Existing Securities Law Claims) and Class 6 (Existing Interests) were deemed to reject the Prepackaged Plan and were not entitled to vote.

51. The Debtors, with the assistance of their solicitation agent, Kurtzman Carson Consultations ("KCC"), prepared and emailed the ballots to the appropriate entities in each voting class and received and tabulated the votes prior to the Petition Date. KCC has informed me that the Prepackaged Plan was accepted by 100% of holders of claims in Class 3 (Senior Notes Claims). After receiving these votes, the Debtors commenced the chapter 11 cases.

52. The Prepackaged Plan contemplates a comprehensive financial restructuring that will allow the Debtors to deleverage their balance sheet through a consensual restructuring and chapter 11 cases that the Debtors expect to be brief. The Prepackaged Plan will also give the Debtors the opportunity to revitalize their businesses under new ownership. Accordingly, I believe the commencement of these chapter 11 cases is in the best interests of the Debtors, their creditors, and all other parties in interest.

IV. SUMMARY OF FIRST DAY MOTIONS

53. To enable the Debtors to operate effectively and avoid immediate and irreparable harm to the estates as the Debtors pursue their overall financial restructuring, the Debtors have filed, or will file in the near term, the motions and applications described below.

54. In connection with the preparation for these bankruptcy cases, I have reviewed each of the First Day Motions referenced below. The First Day Motions were prepared with my input and assistance, or the input and assistance of employees working under my supervision. I believe the information contained in the First Day Motions is accurate and correct. As set forth more fully below, I believe that the entry of orders granting the relief requested in these motions and applications is critical to the Debtors' ability to preserve the value of their estates and will assist in their restructuring efforts.

A. Motions Related to Case Management

i. Joint Administration Motion

55. The Debtors seek the joint administration of their chapter 11 cases for procedural purposes only. I believe that it would be far more practical and expedient for the administration of these chapter 11 cases if the Court were to authorize their joint administration. Many of the motions, hearings, and other matters involved in these chapter 11 cases will affect all of the Debtors, and given the nature of the Debtors' operations, the treatment of certain contracts and business relationships of a single Debtor may impact the assets and operations of other Debtors. I understand that joint administration will reduce costs and facilitate the administrative process by avoiding the need for duplicative hearings, notices, applications and orders. It is my understanding that no prejudice will befall any party by the joint administration of the Debtors' cases, as the relief sought is solely procedural and is not intended to affect substantive rights.

ii. Motion to Approve Solicitation Procedures and Schedule a Combined Hearing

56. The Debtors have filed a motion seeking an order scheduling a combined hearing with respect to the approval of their plan solicitation procedures, their Disclosure Statement (which describes the Proposed Restructuring Transaction in detail and its effects on holders of claims against and interests in the Debtors), and confirmation of the Prepackaged Plan.

B. Applications Related to the Retention of Professionals

i. Application to Employ and Retain KCC as Claims and Noticing Agent

57. Concurrently herewith, the Debtors filed an application to retain KCC as this Court's claims and noticing agent for the Debtors' chapter 11 cases and all materials related to the Recognition Proceeding. I believe that the retention of KCC is critical because of the large number of creditors identified in these cases.

58. I understand that KCC is a data processing firm with extensive experience in noticing, claims processing and other administrative tasks in chapter 11 cases. The Debtors solicited bids from three prominent bankruptcy claims and noticing agents prior to selecting KCC and believe KCC's rates are reasonable given the quality of KCC's services and prior bankruptcy experience. Given the need for the services described above and KCC's expertise in providing such services, I believe that retaining KCC will expedite service of notices, streamline the claims administration process, and permit the Debtors to focus on their restructuring efforts.

59. The Debtors also intend to file a separate application to retain KCC as administrative agent to provide, among other things, certain solicitation-related services.

ii. Other Retention Applications

60. The Debtors intend to file certain applications, upon the scheduling of a further hearing by the Court, to retain professionals who will assist in the administration of these chapter 11 cases. Among certain other professionals, the Debtors will seek to retain Willkie Farr & Gallagher LLP and Young Conaway Stargatt & Taylor, LLP as bankruptcy co-counsel with respect to the filing and prosecution of these chapter 11 cases, Hughes Hubbard and Reed LLP, as special counsel with respect to certain finance matters, and FTI Consulting, Inc. as financial advisor and Chief Restructuring Officer.

C. <u>Motion to Approve Debtor-in-Possession Financing and Use of Cash Collateral (the "DIP Motion")</u>

61. Concurrently herewith, the Debtors are seeking authority to enter into that certain Senior Secured, Super-Priority Multi-Draw Term Loan Facility and that certain Senior Secured, Super-Priority Debtor-In-Possession Revolving Credit Agreement (the "<u>DIP Credit Agreements</u>," and the facilities thereunder, the "<u>DIP Facilities</u>"). Pursuant to the DIP Credit Agreements, the respective lenders thereunder shall (a) provide postpetition debtor-in-possession

financing facilities on a priming, superpriority basis; (b) consent to the Debtors' use of cash collateral; and (c) provide "adequate protection" to the Debtors' prepetition secured lenders, all as more fully described in the DIP Motion.

62. As described in more detail in the DIP Motion, the Debtors determined that the DIP Lenders, who are comprised of certain of the Prepetition Noteholders and the Prepetition ABL Lenders, offered the most cost-effective and beneficial debtor-in-possession financing. In connection therewith, the Debtors conducted several arm's length discussions with the DIP Lenders to ensure they received the best terms possible. In light of the terms generally required in the market for loans of the size and nature of the DIP Facilities, and after considering the expense, time, and risks associated with finding alternative lenders—particularly given the Debtors' liquidity situation and the prepackaged nature of these chapter 11 cases and the Proposed Restructuring Transaction—the Debtors determined that the DIP Lenders' final proposed terms for the DIP Facilities were the best terms available to the Debtors for such financing.

63. The DIP Facilities consist of (a) an asset-based revolving credit facility in the aggregate principal amount of $125 million and (b) a multi-draw term loan facility in the aggregate principal amount of $50 million. I understand that all of the Debtors' prepetition secured lenders, who have liens that will be primed by liens granted to secure the DIP Facilities, have explicitly consented to the DIP Credit Agreement.

D. Motion to Authorize Continued Use of the Debtors' Cash Management System and Bank Accounts

64. In the ordinary course of their business prior to the Petition Date, and as is typical with business organizations of similar size and scope, the Debtors maintained a centralized cash management system to collect, transfer, and disburse funds generated through their operations efficiently and to record such transactions accurately.

65. It is my understanding that the Operating Guidelines for Chapter 11 Cases promulgated by the United States Trustee for the District of Delaware require chapter 11 debtors to, among other things, close all existing bank accounts and open new accounts (which must be designated debtor in possession bank accounts) and obtain, establish and maintain separate debtor in possession accounts. The Debtors are requesting a modification of such requirements to allow them to maintain their existing cash management system. I believe that the Debtors' existing cash management and intercompany accounting procedures are essential to the orderly operation of the Debtors' business. Creating a new cash management system could cause confusion, disrupt payroll, introduce inefficiency into the Debtors' operations when efficiency is most essential, and strain the Debtors' relationships with critical third parties, each of which could diminish the prospects for a successful restructuring.

66. In addition, I understand that section 345(b) of the Bankruptcy Code contains certain deposit, investment and reporting requirements. The Debtors believe that the accounts in their current cash management system either meet those requirements or, to the extent that certain accounts do not, that such requirements should be modified as set forth in the motion given the security of the Debtors' deposits and the expedited nature of these chapter 11 cases.

67. Finally, the Debtors request authority to continue performing, in their discretion, their prepetition practices with respect to ordinary course intercompany transactions, including with respect to their Foreign Subsidiaries (the "Intercompany Transactions"). These Intercompany Transactions, which are common among businesses of the Debtors' size, promote efficiency and ensure that the Debtors operate in an orderly fashion. The Intercompany Transactions are an integral component of the Debtors' day-to-day business operations and Cash Management System. Indeed, the manufacturing plants operated by the Foreign Subsidiaries are

among the Debtors' most profitable facilities. If the Debtors are not permitted to fund the Foreign Subsidiaries through the Intercompany Transactions during these chapter 11 cases, the Debtors will lose a source of substantial cash inflows, to the detriment of their estates and creditors.

68. I believe that allowing the Debtors to maintain their cash management system would be in the best interests of the Debtors' estates, creditors and other parties in interest. Thus, the Debtors seek authorization to continue the management of their cash receipts and disbursements in the manner in which they were handled immediately prior to the Petition Date and to continue intercompany transfers in the ordinary course of business.

E. Motion for Authorization to Pay Certain Prepetition Claims of Employees

69. Concurrently herewith, the Debtors have filed a motion (the "Wage Motion") seeking authority to, among other things, satisfy certain of their prepetition obligations to their employees, pay prepetition payroll-related taxes and withholdings associated with the Debtors' employee wage claims and employee benefit obligations, and other similar tax obligations, continue any employee benefit programs in place as of the Petition Date (including satisfying any prepetition obligations associated with such programs), and reimburse employees for prepetition travel and other business expenses that were incurred on behalf of the Debtors (collectively, the "Employee Obligations").

70. In order to achieve a successful restructuring, it is essential that the Debtors' employees work with the same or greater degree of commitment and diligence as they did prior to the Petition Date. The requested authority to continue to pay their prepetition employee obligations and to maintain their current employee benefits programs is critical to ensure that the Debtors can retain personnel knowledgeable about the Debtors' business, the Debtors' employees continue to provide quality services to the Debtors at a time when they are needed most, and the Debtors remain competitive with comparable employers. The Debtors' employees are especially

critical at this moment given the temporary shutdown of the majority of their plants due to the COVID-19 pandemic and the significantly reduced size of their workforce as a result.

71. As of the Petition Date, the Debtors estimate, based on a thorough review of their books and records, that the total amount of prepetition Employee Obligations owed is approximately $2.73 million. The proposed interim and final orders, if entered, will grant the Debtors the authority to pay the Employee Obligations in accordance with the Debtors' prepetition practices, *provided, however*, that no single Employee shall be entitled to receive more than $13,650 on account of prepetition Employee Obligations, except to the extent required under applicable state law.

72. If this motion were not granted, I believe that it would result in significant deterioration in morale among employees, which undoubtedly would have a devastating impact on the Debtors. The total amount to be paid if the relief sought in the motion is granted is modest compared with the size of the Debtors' estates and the importance of the Employees to the restructuring effort. Prepetition Employee Obligations paid pursuant to the Interim Order will not exceed $13,650 for any individual employee. I believe authorizing the Debtors to pay these obligations in accordance with the Debtors' prepetition business practices is in the best interests of the Debtors, their estates, their creditors and other parties in interest, and will enable the Debtors to continue to operate their business without disruption, in an economic and efficient manner.

73. I believe that the authority to pay the Employee Obligations in accordance with the Debtors' prepetition business practices is in the best interests of the Debtors and their estates.

F. Motion for Authority to Pay Certain Prepetition Sales, Use and Other Taxes and Regulatory Fees

74. The Debtors seek entry of an order authorizing them to pay various prepetition sales and use taxes (collectively, the "Sales and Use Taxes"), property taxes (the "Property Taxes"), franchise taxes (the "Franchise Taxes"), income taxes (the "Income Taxes"), and other miscellaneous taxes (the "Other Taxes"), and certain license and permitting fees and other similar assessments (the "Fees" and together with the Sales and Use Taxes, the Property Taxes, the Franchise Taxes and the Other Taxes, the "Taxes") to various federal, state, and local authorities (collectively, the "Taxing Authorities") on a periodic basis, in each case, as and when such obligations become due.

75. Payment of the prepetition Taxes is critical to the Debtors' continued uninterrupted operations. The Debtors' failure to pay these obligations may cause the Taxing Authorities to take precipitous action, including, but not limited to, seeking to lift the automatic stay and imposing personal liability on the Debtors' officers and directors, which would disrupt the Debtors' day-to-day operations and could potentially impose significant costs on the Debtors' estates. Failure to pay the prepetition Taxes also could have a negative impact on the Debtors' existing permits and licenses. In addition, the Debtors believe that most of the prepetition Taxes are entitled to priority, and thus permitting the Debtors to pay prepetition Taxes would affect only the timing of the payments, and not the amount of the ultimate recovery.

76. As of the Petition Date, the Debtors estimate, based on a thorough review of their books and records, that the total amount of prepetition Taxes is approximately $469,000. The proposed interim and final orders, if entered, will grant the Debtors the authority to pay the Taxes in accordance with the Debtors' prepetition practices.

77. I believe that the authority to pay the Taxes in accordance with the Debtors' prepetition business practices is in the best interest of the Debtors and their estates.

G. Motion for Interim and Final Orders Providing Adequate Assurance to Utilities

78. In connection with the operation of their businesses and management of their properties, the Debtors obtain electricity, natural gas, water, telecommunications, waste disposal and other similar utility products and services (collectively, the "Utility Services") from various utility companies (collectively, the "Utility Providers"). The Debtors seek entry of interim and final orders of this Court prohibiting the Utility Providers from altering or discontinuing the Utility Services and deeming the Utility Providers adequately assured of future performance by virtue of the Debtors' proposed adequate assurance.

79. To provide adequate assurance of payment for future services to the Utility Providers, the Debtors propose to provide a deposit of $359,000, which is equal to the sum of (a) the approximate aggregate cost of two weeks of utility services provided by Utility Providers servicing the Debtors' open die cast plants, tool and paint shops, and warehouses, calculated using the historical average for such payments over the last twelve months and (b) the approximate aggregate cost of two weeks of utility services provided by Utility Providers servicing the Debtors' temporarily closed plants, calculated by projecting the Debtors' expected average monthly cost based on their historical utilities expenditures during prior plant shutdowns (the "Adequate Assurance Deposit").

80. I believe that the Debtors' Adequate Assurance Deposit constitutes sufficient adequate assurance to the Utility Providers. However, in recognition of Utility Providers' right to evaluate the proposed adequate assurance on a case-by-case basis, if any Utility Provider believes additional assurance is needed, the Debtors have proposed procedures for the Utility Providers to request additional adequate assurance. I believe these procedures, as outlined

in the motion, are not only fair and reasonable, but also necessary for the Debtors' stability. Furthermore, the Debtors fully intend to timely comply with their postpetition obligations to Utility Providers.

81. Because the Debtors cannot continue their operations without the continued services of the Utility Providers, the Debtors have requested relief on an interim basis. I believe that interim relief is necessary to avoid the immediate and irreparable harm that would befall the Debtors' estates if the Debtors were unable to pay the Utility Providers prior to the final hearing on this motion. Additionally, I believe that without the final relief requested in the motion, the Debtors could be harmed by having to address numerous requests by Utility Providers in a disorganized manner at a critical period in their restructuring efforts.

H. Motion for Interim and Final Orders Establishing Notice and Hearing Procedures for Trading In Equity Securities in the Debtors

82. The Debtors seek entry of an order establishing notice and hearing procedures that must be satisfied before certain transfers of or declarations of worthlessness with respect to equity securities in KPI Holdings, LLC, KPI Capital Holdings, Inc., KPI Holdings, Inc., and KPI Intermediate Holdings, LLC (the "Pace Stock"), or of any beneficial interest therein, are deemed effective. Such procedures are necessary to protect and preserve the value of the Debtors' U.S. federal and state tax attributes, including, but not limited to, approximately $183.4 million of federal and $54.2 million of state net operating loss carryforwards ("NOLs" and, collectively with any capital losses, unrealized built-in losses, and certain other tax and business credits and other tax attributes, the "Tax Attributes").

83. If the Debtors' requested notice procedures with respect to trading and declarations of worthlessness are imposed by this Court, such actions could severely limit or even eliminate the Debtors' ability to use their Tax Attributes, which could lead to significant negative

consequences for the Debtors, their estates, creditors, stakeholders and other parties in interest. Accordingly, I believe it is in the it is in the best interests of the Debtors and their estates to obtain the requested relief so as to prevent an ownership change prior to consummation of a chapter 11 plan in these cases and the Debtors' amendment of their organizational documents to restrict equity transfers that would cause an ownership change.

I. Motion for Order Authorizing the Debtors to Honor Prepetition Obligations Related to Customer Warranty Programs

84. The success and viability of the Debtors' business depends in large part upon the loyalty of their customers, which the Debtors encourage by offering a standard warranty on (a) all products manufactured in their die casting facilities (the "Parts Warranty"), (b) custom-made steel die cast dies and tooling manufactured in their tool and die shops (the "Tooling Warranty"), and (c) products custom-painted in the Debtors' finishing and painting facilities (the "Paint Warranty") and together with the Parts Warranty and Tooling Warranty, the "Warranty Programs"). In the ordinary course of their business, the Debtors refund or credit the purchase price of, repair, and/or replace non-conforming or defective parts (and, less commonly, honor chargebacks related to such parts) through the Warranty Programs. The Debtors seek entry of a final order authorizing, but not directing, the Debtors to honor prepetition obligations arising under the Warranty Programs in the ordinary course of business and in the manner consistent with past practice. The Debtors do not believe there are any amounts currently owed on account of prepetition refunds or chargebacks related to the Warranty Programs.

85. The proposed order, if entered, will grant the Debtors the authority to continue to honor the Warranty Programs in the ordinary course of business. The Debtors' ability to honor the terms of the Warranty Programs is essential to maintaining customer relationships and generating sales, which are critical to the Debtors' business operations. I believe that the

failure to honor the Warranty Programs would thus adversely impact the Debtors' ability to conduct business and generate sales and, accordingly, their ability to maximize the value of their assets for the benefit of all stakeholders.

J. Motion for an Order Authorizing the Debtors to Continue their Insurance Programs

86. In connection with the operation of their business, the Debtors maintain various insurance programs (collectively, the "Insurance Programs") for liabilities relating to, among other things, general liability, workers' compensation, directors' and officers' liability (including excess liability), foreign general liability, fiduciary liability, commercial property liability, commercial auto liability and various other property-related liability and general liabilities. The Debtors also maintain workers' compensation coverage in each state in which they have employees to cover claims arising from or related to such employment (the "Workers' Compensation Program"). The Debtors are required to pay premiums under the Insurance Programs and the Workers Compensation Programs based upon rates established by the applicable insurance carrier, as well as various deductibles and retentions for claims asserted under certain Insurance Programs (collectively, the "Insurance Obligations"). The Debtors finance certain of these premiums pursuant to a commercial premium financing agreement by and between Pace Industries, Inc. and McGriff Insurance Services Inc., dated as of September 23, 2019.

87. The nature of the Debtors' businesses and the extent of their operations make it essential for the Debtors to maintain their Insurance Programs on an ongoing and uninterrupted basis. The nonpayment of any premiums, deductibles or related fees under the Insurance Programs could result in one or more of the insurance carriers terminating the Debtors' existing policies, declining to renew the Debtors' policies or refusing to enter into new insurance agreements with the Debtors in the future. If the Insurance Programs are allowed to lapse without renewal, the Debtors could be exposed to substantial liability for damages resulting to persons and

property of the Debtors and others, which could have deleterious effects on the value of the Debtors' assets and on the Debtors' efforts to maximize recoveries for their stakeholders.

88. As of the Petition Date, the Debtors owe approximately $1,842,000 in prepetition amounts with respect to the prepetition Insurance Obligations. The proposed interim and final orders, if entered, will grant the Debtors the authority, in their sole discretion, to pay all Insurance Obligations and to maintain their Insurance Programs and the Premium Finance Agreement. I believe that continuation of the Insurance Programs and Workers Compensation Programs and the ability to pay the Debtors' Insurance Obligations is integral to the continued operation of the Debtors' businesses.

K. Motion for Entry of Interim and Final Orders Authorizing the Debtors to Pay All Prepetition Trade and Other Unimpaired Claims and Confirming Administrative Priority of Undisputed And Outstanding Prepetition Orders

89. In the ordinary course of business, the Debtors rely on various entities to provide goods and services related to their business operations (collectively, the "Ordinary Course Creditors"). The Ordinary Course Creditors include, without limitation, (i) suppliers of metal alloys that the Debtors use to make custom die castings, and other metal products according to customers' engineering, design, measurement, and other specifications, (ii) suppliers of component parts who have been certified as approved vendors by the Debtors and have been qualified by the Debtors' customers, (iii) sole-source suppliers of replacement parts for equipment used in the die casting and value-add manufacturing processes, and (iv) providers whose services are necessary to create finished products for the Debtors' customers, such as metal coating or painting, (v) non-merchandise service providers that provide technical support for maintenance of the Debtors' facilities, and other essential services, (vi) landlords, and (vii) common carriers, expeditors, consolidators, transportation service providers and other related parties. Prior to the Petition Date, the Debtors placed orders with certain of these creditors that will not be delivered

until on or after the Petition Date. The Debtors request that these vendors' claims receive administrative expense priority under section 503(b)(9) for all undisputed obligations of the Debtors and that the Debtors are authorized to satisfy such claims in the ordinary course of their business.

90. The goods, services and facilities provided by the Ordinary Course Creditors are necessary for the continued, uninterrupted operations of the Debtors' business. I believe that the failure to pay the Ordinary Course Claims as they become due could result in many Ordinary Course Creditors refusing to provide essential goods and services or conditioning the delivery of such goods and services on compliance with commercially unreasonable terms. In order to avoid such result, and to ensure the continued timely supply of critical merchandise and services to the Debtors, I believe it is necessary to pay the Ordinary Course Creditors in the ordinary course of business. Moreover, as the Ordinary Course Creditors will all be paid in full or otherwise have their claims reinstated pursuant to the terms of the Prepackaged Plan, the relief requested only affects the timing of their payments and does not prejudice any party in interest.

91. As of the Petition Date, the Debtors estimate that the total amount of prepetition Ordinary Course Claims outstanding is approximately $62,000,000. The proposed interim and final orders, if entered, would authorize the Debtors to pay the claims of all Ordinary Course Creditors in the ordinary course of business in accordance with prepetition practices. I believe that the requested relief inures to the benefit of all parties in interest.

CONCLUSION

In furtherance of their restructuring efforts, the Debtors respectfully request that orders granting the relief requested in the First Day Motions be entered.

Dated: April 12, 2020

Pace Industries LLC, et al.,
as Debtors and Debtors in Possession

/s/ Craig Potter
Craig Potter

Exhibit A

Organizational Chart

PACE GROUP
Corporate Structure