



WALSTEAD MERTSCHING
— ATTORNEYS AT LAW —

August 5, 2014

VIA E-MAIL AND U.S. MAIL

Joseph Willis
President
Waste Control, Inc.
PO Box 148
Kelso, WA 98632

Re: Explanation/Clarification of Waste Control, Inc., and Affiliate Entities

Dear Mr. Willis:

You have asked that our law firm, as corporate counsel to Waste Control, Inc., and its affiliates, clarify for the Commission's information the legal structuring of Waste Control, Inc., and its affiliates in response to the WUTC Staff testimony of July 18, 2014.

As you know, we represent Waste Control, Inc., Waste Control Recycling, Inc., Waste Control Equipment Inc., Heirborne Investments LLC, West Coast Paper Fibres, Inc., and Heirborne Investments II LLC. Our law firm has represented each of these entities since the time of their formation.

We helped incorporate Waste Control, Inc., back in late 1988. From its inception, this corporation has been owned by Stan and Shirley Willis, husband and wife, Kevin and Melinda Willis, husband and wife, and Joe and Terri Willis, husband and wife. Following a series of gifts and a sale of stock, the shares of stock are wholly owned by Kevin and Melinda Willis (50%) and Joe and Terri Willis (50%).

In fact, for each of the entities listed above, Kevin and Melinda Willis, as husband and wife, and Joe and Terri Willis, as husband and wife, individually own all of the stock of the incorporated entities and all of the units of each of the limited liability companies. None of the entities have an ownership in any of the other entities. Each is a sister company of the others, and none is a parent/subsidiary of the other.

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Matthew J. Andersen*
Chelsea C. Baldwin
Mark S. Brumbaugh
Michael A. Claxton*
Barry J. Dahl

Civic Center Building • Third Floor • 1700 Hudson Street • PO Box 1549 • Longview, Washington 98632-7934
Longview (360) 423-5220 • Woodland (360) 225-6339 • Vancouver (360) 694-0606 • Fax (360) 423-1478

Email: info@walstead.com • Website: www.walstead.com

FOUNDING PARTNERS: Howard J. Atwell (1880-1962), Ronald Moore (1897-1968), Jerome Walstead (1913-1981)

Norman C. Dick
Frank E. Randolph
Nicole M. Tideman
Of Counsel
John A. Barlow

*Also licensed in Oregon

A parent company under IRS definition is an enterprise owning 50% or more of a subsidiary. A limited liability company is not allowed by law to own an S corporation entity; hence, Heirborne Investments LLC could not legally own Waste Control, Inc., and structuring the companies with Heirborne Investments LLC in any form of parent company would automatically invalidate and jeopardize the legal and tax status of all Waste Control, Inc., affiliates and the regulated company.

Heirborne Investments was initially formed as a partnership to act as landlord to the various commercial properties owned by Kevin and Melinda Willis and Joe and Terri Willis, which included Waste Control, Waste Control Recycling, Waste Control Equipment and West Coast Paper Fibres properties. This was converted from a partnership to a limited liability company in 2003.

When the bond issuance came up, the bond counsel for the various entities listed above suggested spinning off the non-waste related commercial real property owned by Heirborne Investments LLC into its own entity. Thus, Heirborne Investments II LLC was born. Consequently, Heirborne Investments LLC is the lessor to the various waste-related entities, while Heirborne Investments II LLC is the lessor/vendor to the non-waste-related properties.

First, it is important to understand that the borrowing from Union Bank was to make substantial improvements to land owned by Heirborne Investments, as well as to purchase equipment for the various other entities. Heirborne Investments acted as the coordinator of these borrowings, but each entity was legally bound to pay the entire debt back to Union Bank. (If it helps, there are also personal guaranties issued by Joe/Terri Willis and Kevin/Melinda Willis each promising to pay the entire balance back if the entities fail to do so.) Each of the entities are obligors, and the only significance to the order of listing the entities is the date in which they were formed with the Washington Secretary of State. Thus, we have no quarrel with what page 1 of Exhibit MC-3 shows, only with the conclusion drawn.

Second, pages 2 and 3 of Exhibit MC-3 are similarly correct in what they depict, even if the conclusion drawn is inaccurate. As mentioned above, Heirborne Investments coordinated the funds received from and paid to Union Bank as the funds were used to make improvements to the real property or were used by the various waste-related entities to purchase equipment. The lower part of the diagram does accurately depict that Columbia Bank was the lender to Heirborne Investments II, which is the entity owning the non-waste-related real property.

Again, each of the entities and each of the owners are guarantors to Union Bank, as well as guarantors to Columbia Bank. There are also deeds of trust against the properties (in which the beneficiary is either Union Bank in the case of the waste-related real property and Columbia Bank for the non-waste-related real property) and financing statements with regard to the waste-related entities (both with Heirborne Investments and each of the incorporated entities). Finally, Joe/Terri Willis and Kevin/Melinda Willis have personally guaranteed each of these debts.

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That is sort of how cross-collateralization works: If the lender cannot find the money in one pocket, it has the right to keep looking in other pockets until it gets paid in full. The other obligors/debtors/guarantors then have a common law right of contribution against the others either for full reimbursement or a pro-rate reimbursement for sums each has had to pay against the primary obligor.

As for Exhibit MC-5, yes, it is true that paragraph 4.(b) does state that Heirborne Investments LLC holds the permit to transport solid waste when, in fact, it is Waste Control, Inc., that holds that permit. However, the purpose of the nonarbitrage certificate was to ensure that the funds were being used for a tax-exempt purpose, not to establish who owned the solid waste transportation certificate. At the end of the day, it does not change the fact that Joe/Terri Willis and Kevin/Melinda Willis own Heirborne Investments LLC which leases space to Waste Control, Inc. (owned by Joe/Terri Willis and Kevin/Melinda Willis), as well as the fact that Heirborne Investments LLC loans funds (derived from the bond issuance and funds from Union Bank) to Waste Control, Inc., and expects to be repaid by Waste Control, Inc.

Very truly yours,



Michael A. Claxton
E-Mail: claxton@walstead.com

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