

**IN THE UNITED STATES BANKRUPTCY COURT  
FOR THE NORTHERN DISTRICT OF GEORGIA  
ATLANTA DIVISION**

IN RE:	*	CASE NO. 15-56723-lrc
	*	
MDI CREATIVE, INC.	*	CHAPTER 11
	*	
Debtor.	*	

**DEBTOR'S AMENDED (SEPTEMBER 6, 2016) DISCLOSURE STATEMENT**

MDI CREATIVE, INC., Chapter 11 Debtor and Debtor-in-Possession, in the above-styled bankruptcy case, hereby submits this Disclosure Statement to all known creditors and other parties in interest, pursuant to 11 U.S.C. § 1125.

**I. INTRODUCTION**

1. On April 10, 2015, Debtor, MDI Creative, Inc., filed a voluntary petition for relief under Chapter 11 of the United States Bankruptcy Code with the United States Bankruptcy Court for the Northern District of Georgia. Since that time, the Debtor has continued its financial affairs in the afore-referenced bankruptcy case, which is currently administered under Case No. 15-56723-lrc.

2. This Disclosure Statement is submitted to all of the known creditors and other parties in interest of Debtor in order to provide information deemed by the Debtor to be material and necessary to enable such persons to make a reasonably informed decision in the exercise of their rights to vote for acceptance or rejection of the Plan of Reorganization (hereinafter referred to as the "Plan").

3. Each impaired creditor is entitled to vote on the Plan. As a condition to confirmation, the Code requires that such impaired class of claims or interests accept the Plan. The Code defines acceptance of a Plan by a class of claims as acceptance by holders of two-

thirds in dollar amount and a majority in number of claims in that class, but, for that purpose, counts only those who actually vote to accept or reject the Plan.

4. Classes of claims or interests that are not “impaired” under a Plan are deemed to have accepted the Plan and are not entitled to vote. Acceptances of the Plan in this case are being solicited only from those who hold claims or interests in an impaired class. A class is impaired if the legal, equitable or contractual rights attaching to the claims or interests of that class are modified other than by curing defaults and reinstating maturity or by payment in full in cash.

Even if a Plan is accepted by each class of creditors in order to confirm a Plan the Court must independently determine that the Plan is in the best interest of all classes of creditors impaired by the Plan. The “best interests” test requires that the Court find either that all members of an impaired class of claims or interests have accepted the Plan or that the Plan will provide such member a recovery that has a value at least equal to the value of the distribution that each such member would receive if the Debtor was liquidated under Chapter 7 of the Code.

5. THE INFORMATION CONTAINED IN THIS DISCLOSURE STATEMENT HAS NOT BEEN SUBJECT TO CERTIFIED AUDIT. EVERY EFFORT HAS BEEN MADE TO INSURE THAT THE INFORMATION CONTAINED HEREIN IS ACCURATE; HOWEVER, THE DEBTOR IS UNABLE TO WARRANT OR REPRESENT THAT THIS INFORMATION IS WITHOUT ANY INACCURACY.

6. NO REPRESENTATION CONCERNING THE DEBTOR, PARTICULARLY AS TO FUTURE BUSINESS OPERATIONS OR THE VALUE OF PROPERTY, IS AUTHORIZED BY THE DEBTOR OTHER THAN AS SET FORTH IN THIS DISCLOSURE STATEMENT.

## II. DESCRIPTION OF DEBTOR AND ASSETS AND LIABILITIES

### A. HISTORY AND PAST OPERATIONS

MDI Creative Inc. was incorporated in 2003 and for the first several years was a one or two person company consulting with museums throughout the Southeast. In 2004, it leased a commercial building and added production of exhibits, millwork, and custom furniture to its product line. In 2006, it leased 26,000 square feet (half of a building) in an industrial park and expanded the product line to include trade show exhibits. MDI's staff grew to about 25 full-time employees and the company was growing at about 25% per year.

In 2007, MDI Creative expanded its lease to include the entire building of 52,000 square feet. Growth appeared to be continuing at about 25% per year but, in 2008, the Great Recession hit and sales began to decline and leveled off at about \$1,250,000 annually, which is slightly below breakeven point. The building lease was for 10 years and the landlord was not willing to release MDI from it because of the large number of vacant buildings in the industrial park due to the recession. As the recession ground on, MDI added products, reduced overhead and did what it could to reduce costs and increase sales. However, the lease was simply too much and MDI began to fall behind in lease payments. The landlord shifted past due lease payments to the end of the lease and allowed MDI to carry a substantial amount of arrears payments. During this period, the company was never able to turn enough profit. During this same period, MDI also fell behind in making withholding tax payments.

Finally, in 2014/2015, as the economy began to improve, the landlord began putting more pressure on MDI to pay the back lease payments. Eventually, Landlord proceeded with dispossessory litigation and, on the eve of filing bankruptcy, was about to evict MDI. MDI filed

for Chapter 11 bankruptcy protection so that it could find a new facility and continue the quest for increased sales that would allow it to pay off the debt it had accumulated.

In the last twelve months, sales have been irregular but, recently, sales have begun to climb. MDI's new facility is less than half of the former building and the reduction in overhead has made MDI Creative slightly profitable. It is necessary to now pay off back debt and MDI is growing sales to accomplish this. Debt, however, continues to impact the company's ability to grow, and selling off the millwork and furniture lines will resolve this issue. The Debtor also will entertain a sale of its museum design and build contracts, which are potentially of particularly high value.

B. DESCRIPTION OF DEBTOR'S BUSINESS

The company is a full service design and build millwork firm for commercial and museum uses. It has provided services and product to such entities as Chickamauga National Battlefield, National Infantry Museum, Greater Atlanta Christian Academy, Life University, Caribou Coffee, Martin Luther King Museum, Suntrust Bank, Nationsbank, Lucent Technologies, Cox Communications and the University of Georgia.

C. DESCRIPTION OF ASSETS AND LIABILITIES OF DEBTOR.

1. Assets of Debtor.

Upon the filing of Debtor's Chapter 11 case, the assets of the Debtor consisted primarily of bank accounts (about \$108,000.00), receivables of about \$205,000.00 and a truck, furniture, computers and office equipment of a value of about \$45,000.00.

Currently, asset values have increased to the following:

MDI Creative Assets	Total Below	\$6,297,024.00
Equipment		\$249,975
Inventory		\$63,050
Furniture		\$102,625
Office equipment		\$55,650
Vehicles		\$7,500
Web Site, MDIC		\$5,000
Web site, Furniture		\$3,500
Data base/mailling list/Client list		\$20,000
Furniture Designs	125      \$750	\$93,750
Work in Process--Total WIP = \$14,239,935.00. Shown here is 40% or the		\$5,695,974.00
OH and Profit on the work only. Direct cost of labor and materials are not shown in the total to the right		

2. Liabilities of Debtor.

The chief liabilities of the Debtor, as of the filing of the Chapter 11 petition, consisted of tax liabilities held by the IRS and State of Georgia (Department of Revenue and Department of Labor), in the total amount of approximately \$850,000.00, employee wage priority claims of about \$89,000.00 and general unsecured claims of about \$600,000.00. Currently, the debts owed by the Debtor may be listed as follows using the classifications employed in this Plan:

**CLASS**

1.	Administrative Claims (attorney) (\$12,000.00 retainer paid)	\$15,000.00
2.	Priority and Secured Tax Claims (IRS, \$503,000.00 and State of Georgia Labor Department \$2,700.00)	\$ 505,700.00
3.	Priority Employee Back Wages	\$ 89,406.55
4.	Unsecured IRS and State of Georgia Tax Claims	\$ 293,000.00
5.	All Other General Unsecured Claims	\$ 600,000.00
6.	Equity Interests	\$ 0.00

C. Recent Income to Debtor.

Currently, the Debtor's income is generated entirely through the business of designing and building custom furniture, millwork and exhibits for various businesses, commercial ventures and museums. Debtor's net operating income will be necessary to fund the Plan in this case. The Plan is expected to last for a period of twelve (12) months. At twelve months, the millwork and furniture division and/or the museum contracts of Debtor will be sold and all net proceeds for the sale shall be used to fund the Plan. These sale(s), in either event, are anticipated to net sufficient funds to pay all Allowed Claims in full.

III. REASONS FOR FILING CHAPTER 11

The primary factors which led to the filing of the Debtor's Chapter 11 case were threatened levy proceedings to be brought by the Internal Revenue Service and State of Georgia tax authorities. Also, Debtor's landlord, Gwinnett Park SPE, LLC had obtained a writ of possession just prior to filing and was scheduled to evict Debtor from its former premises. This Chapter 11 was filed with a view towards reorganizing the Debtor's financial affairs so as to enable it to address its substantial debts in an orderly manner. The petition operated to stay all proceedings against the Debtor.

#### IV. PLAN OF REORGANIZATION

##### A. Classification of Claims and Interests

It is the Debtor's belief that the Plan of Reorganization is feasible and is in the best interests of creditors of its Estate. If the Debtor's Chapter 11 proceedings are converted to a liquidation case under Chapter 7 of the Bankruptcy Code, it is the belief of the Debtor that all creditors, with the sole exception of some wage priority claimants would not receive any payment of any amount upon their claims. This Plan of Reorganization provides for meaningful, indeed full, payment on all claims of creditors.

The Plan of Reorganization divides creditors and parties in interest into six (6) classes, the classification and treatment of which are as follows:

Class 1. Administrative Claims in the reorganization case of the Debtor as allowed and ordered paid by the Bankruptcy Court, including, without limitation, compensation and reimbursement for professional services rendered and expenses incurred by attorneys so entitled under 11 U.S.C. § 503, ad valorem taxes, and other expenses and obligations incurred by the Debtor in this reorganization case.

Class 2. The Allowed Priority Tax Claims (Pre-Petition) of the Internal Revenue Service and State of Georgia Labor Department against the Estate of the Debtor.

Class 3. All employee back wages entitled to priority under 11 U.S.C. § 507(a)(4); up to \$12,475.00 per employee incurred within 180 days of the Petition.

Class 4. General Unsecured Tax Claims.

Class 5. All allowed General Unsecured Claims against the Debtor's Estate.

Class 6. The equity interests of stockholders of Debtor.

B. CLAIMS AND INTERESTS NOT IMPAIRED UNDER THE PLAN

(a) Class 1. Administrative Claims.

(b) ALL OTHER CLAIMS AND INTERESTS ARE IMPAIRED UNDER THIS PLAN.

C. TREATMENT OF CLAIMS AND INTERESTS THAT ARE NOT IMPAIRED UNDER THIS PLAN

(a) The full amount of all unsecured claims for administrative expenses allowed under code Section 503(b) shall be paid in cash or its commercial equivalent by the Disbursing Agent either upon confirmation, or within twenty (20) days following the entry of an Order approving such expense claims, whichever is later, and except to the extent that the holders of such administrative claims agree to a less favorable treatment of said claims.

(b) Debtor will pay pre-confirmation fees owed to the United States Trustee on or before the Effective Date of the Plan. After confirmation, the reorganized Debtor will file with the Court and serve on the United States trustee quarterly financial reports in a format prescribed by the United States Trustee, and Debtor will pay post-confirmation quarterly fees to the United States Trustee until a final decree is entered or the case is converted or dismissed.

(c) Any and all allowed administrative tax claims in favor of the Internal Revenue Service and State of Georgia (total estimate of \$13,000.00) will be paid in full on or before the Effective Date of the Plan pursuant to 11 U.S.C. § 1129(a)(9)(A).

(d) The Debtor anticipates administrative claims of professionals will be paid under the terms of the Plan and in accordance with the Bankruptcy Code as Administrative Expenses, which are given priority treatment over General Unsecured Creditors under the Bankruptcy Code. It is anticipated that George M. Geeslin, appointed by the Court as bankruptcy counsel for the Debtor and Debtor-in-Possession, will have a total administrative expense claim for services



rendered in the approximate amount of \$15,000.00 by the time of the confirmation hearing. Mr. Geeslin has on hand a retainer of \$12,000.00, which may be applied to such claim. The Debtor's accountants are current on their invoices.

(e) The Debtor does not believe any special Court charges have been assessed the Estate that are unpaid. In the event any such fees and charges are due and unpaid by the Debtor, the same shall be satisfied in full on the Effective Date of the Plan.

D. TREATMENT OF CLAIMS AND INTERESTS THAT ARE IMPAIRED UNDER THE PLAN

(a) The Class 2 Priority Tax Creditors, being the Internal Revenue Service and the State of Georgia (Department of Labor), shall be paid in full twelve (12) months after the Confirmation Date from the sale of some or all of Debtor's assets. At or before the conclusion of the 12-month period, the millwork and furniture division of MDI or the entirety of business assets including museum contracts will be sold and the balance of Class 2 Priority Tax Claims will be paid in full. In lieu of payment in full of Allowed Priority Tax claims on the Effective Date, Reorganized Debtor shall make Cash payments respecting Allowed Priority Tax Claims deferred to the extent permitted by Section 1129(a)(9) of the Bankruptcy Code and interest shall be paid on the unpaid portion of such Allowed Priority Tax Claim at the rate provided by applicable non-bankruptcy law.

(b) The Class 3 Creditors shall be paid for a period of twelve (12) months after the Confirmation Date at the rate of \$1,000.00 per month to be pro-rated among said creditors. Such payments shall commence on the 1<sup>st</sup> day of the month after the Confirmation Date and shall continue on the 1<sup>st</sup> day of each subsequent month for twelve months. At the end of the 12-month period, the millwork and furniture division or the entirety of business assets of

MDI will be sold and the remaining balance of Class 3 claims shall be paid in full out of the net sales proceeds. Class 3 Creditors are those individuals who can be paid up to \$12,475.00 as a priority claim; with any balance above \$12,475.00 to be paid on a Class 5 Creditor general unsecured basis. See attached list of Class 3 creditors.

(c) Class 4 Creditors (Unsecured Tax Claims) and Class 5 Creditors (all allowed General Unsecured Claims) will be paid in full out of the closing proceeds of sale of the millwork and furniture division and/or museum contracts at the end of the twelve month period described hereinabove.

(d) Class 6, the stockholders of the company, John Patrick Malone and Bryan Malone, shall retain their stock interest in MDI Creative, Inc. but shall receive nothing else under this Plan, unless there is a remaining surplus after payment of all creditors in full from the sale of assets described above.

E. THE BUSINESS PLAN

MDI Creative has a reorganization plan based on selling the millwork and furniture division of its business and possibly the museum division. In either event, this will generate sufficient capital to completely retire MDI's debt, which is the reason for the Chapter 11 filing.

Payment under the Debtor's Plan is based on two assumptions or, rather, informed opinions of management:

1) a certain minimum level, if not increase, of sales will occur, enabling not simply the payments scheduled for the interim 12-month period but also the maintaining of the ongoing market value of the Debtor's business to;

2) Allow the sale of the millwork and furniture division and possibly museum contracts for sufficient recovery to retire the balance of the debt in accordance with the Plan.

It is reasonably anticipated that the sale of the millwork/furniture aspect of MDI's business will be in the range of \$2,000,000.00 to \$2,500,000.00. It is reasonably anticipated that the sale of museum contracts will generate sales proceeds in the range of \$10,000,000.00.

These assumptions are based upon MDI's best estimate of future circumstances and are necessarily conservative so that the Plan can be taken to completion and debt retired in accordance with the Plan. MDI is currently engaged in negotiations with two different parties and these values are within the range of such discussions.

NOTE: In the event the Debtor is unable to sell its assets and pay off creditors in full by the end of the twelve-month period, Debtor will cease operations and auction or otherwise sell off all its assets that can be sold (tangible personal property such as equipment and inventory) and net proceeds will be paid over to IRS and Georgia Labor Department on a pro rata basis.

#### VALUE AND SALE OF MILLWORK AND FURNITURE DIVISION:

The millwork and furniture division represented 100% of the company's revenue in 2015 and about 99% in the several years prior to that time. Museum revenue during this period was virtually zero due to decline in funding for museums nationwide. The value of the millwork and furniture division is estimated to be less than the actual sum of the assets because the sale is certainly going to be an "asset" sale where the name and goodwill of MDI Creative cannot be carried forward by the buyer due to the tax and other debt associated with the name and legal status.

Total value of \$6,297,024.00 (including work in process) suggests that a selling price of about \$2,500,000.00 is a reasonable expectation given the circumstances surrounding the sale,

broker commission, and other costs associated with the sale. The interim period \$1,000.00 per month payout to wage claimants during the 12- month period before a sale is a feasible projection based on existing sales and projects anticipated in the near future.

Sales are projected to be consistent with 2015, due to the slowdown in the world economy. The direct impact this has had on MDI Creative is that owners who are considering investing in a new buildings, restaurants, or furnishings are delaying investment until the world economy settles down and the volatility of stock markets is reduced. Over the past year, MDI has had numerous projects that would otherwise have been awarded based on MDI Creative being the low bid that were delayed or cancelled when the world economy was unsettled. Gross sales in 2016 are expected to be about the same as 2015, or about \$1,500,000. Revenue in 2015 was comprised entirely of millwork and furniture sales.

Museum revenue in 2015 was zero and, for the past several years, this division has contributed less than 1% of Debtor's revenue. However, MDI still considers this its core business due to volume of work this segment has contributed over the past 13 years. The value today of the museum business at MDI Creative is actually negative with no assets that are exclusively related to museum work and no employees dedicated to museum work. Notwithstanding that, and despite museum contracts in some sense being difficult to value, the museum contracts offer a very lucrative asset to a ready, willing and able buyer. And, recently, MDI has been in discussions with at least two entities in the range of \$2,500,000.00 to \$10,000,000.00. These are Gielissen Interiors and Exhibitions, the Hatteras Group and Technical Innovations.

## V. OTHER INFORMATION

### A. Relevant Financial Information

Schedules of Debtor's assets and liabilities have been filed with the Bankruptcy Court, which show the Debtor's assets and liabilities as of April 10, 2015. These Schedules of assets and liabilities and other information are on file with the Bankruptcy Court and may be inspected by any creditor or party in interest. Copies of same will be provided by the Debtor's attorney upon request. Also, the Clerk's Office or the United States Trustee's Office will have available monthly operating reports, copies of which will be provided by Debtor's attorney upon request.

A sample museum contract is attached for the benefit of creditors' understanding. And, a listing of the work in process is also attached.

B. The Procedure with Respect to Filing of Objections to Claims.

All claims set forth in the Schedules and Liabilities and Assets as undisputed need not be filed with the Bankruptcy Court. However, it is the responsibility of each claimant to determine if its claim is set forth accurately in the Schedules of Liabilities and Assets. In the event no proof of claim is filed, the amount of the claim set forth in the Schedule of Liabilities and Assets will control for purposes of voting on the Plan unless the claim is disputed.

C. Cramdown

In the event that any impaired class of Creditors with Claims against the Debtor's Estate shall fail to accept the Plan in accordance with Section 1129(a) of the Bankruptcy Code, the Debtor shall request the Bankruptcy Court to confirm the Plan in accordance with Section 1129(b) of the Bankruptcy Code.

D. Disbursing Agent

The Disbursing Agent, John Patrick Malone, will be responsible for making all payments to be made by Debtor called for under this Plan.

E. Officers and Directors

John Patrick Malone and A. Bryan Malone, the current officers and directors of Debtor shall remain so during the full term of this Plan. It is not anticipated that any other person will become an officer or director. Both shall also retain their salaries at current level through the full term of the Plan with only modest annual raises commensurate with other employee raises.

F. Executory Contracts

The Debtor currently operates its business premises at one location, 2200 Norcross Parkway, Suite 245, Norcross, GA 30071, which premises are leased to Debtor by Landlord, Ackerman Norcross, LLC. Pursuant to the Plan, the Debtor will assume the unexpired lease of these premises. The Debtor does not believe there are any other leases or executory contracts at issue in this case. The previous Landlord (Gwinnett Park SPC, LLC) terminated the lease prepetition on Debtor's former space and now has a general unsecured claim of \$400,000.00. Any other executory contracts would be rejected under the Plan.

VI. ALTERNATIVE TO THE PROPOSED PLAN

If the Plan is not approved, the alternative may be the conversion of the Debtor's Chapter 11 case to a Chapter 7 case, which will require the liquidation of assets by a bankruptcy trustee. More specifically, it is believed by the Debtor that the value of Debtor's assets in a liquidation setting, per a trustee sale, would generate no more than \$50,000.00 and, with net costs of administration at 10%, leave nothing for the benefit of creditors other than the tax claimants. The best informed opinion of Debtor's principals is that the liquidation value of Debtor's tangible assets is no more than \$50,000.00 based on their knowledge of the industry and equipment. No amounts would be available for distribution to other creditors upon the liquidation of the Debtor's assets. On the other hand, the Plan proposed by the Debtor in this case will generate sufficient funds to make substantial, meaningful payment on all claims. It is firmly believed that

in a liquidation the value of work in process would become zero (\$0.00) and the value of hard assets and other assets would be no more than \$50,000.00.

For this reason, the Debtor believes that the Plan of Reorganization is in the best interests of creditors since they will receive substantially more under the Plan of Reorganization than if the estate were liquidated under Chapter 7 of the Bankruptcy Code. The confirmation of this Plan of Reorganization is not likely to be followed by the liquidation or need for further financial reorganization of the Debtor.

This 6<sup>th</sup> day of September, 2016.

Respectfully submitted,

/s/George M. Geeslin  
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/s/John Patrick Malone  
John Patrick Malone  
President, MDI Creative, Inc.

**IN THE UNITED STATES BANKRUPTCY COURT  
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MDI CREATIVE, INC.	*	CHAPTER 11
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**CERTIFICATE OF SERVICE**

This is to certify that I have this day served the following person in the foregoing matter with a copy of the foregoing **DEBTOR'S AMENDED DISCLOSURE STATEMENT** by depositing a copy of same in the United States First Class Mail in a properly addressed envelope with adequate postage affixed thereon addressed to:

United States Trustee's Office  
362 Richard B. Russell Bldg.  
75 Ted Turner Drive, S.W.  
Atlanta, Georgia 30303

This 6<sup>th</sup> day of September, 2016.

/s/George M. Geeslin  
George M. Geeslin  
Georgia Bar No. 288725  
Attorney for Debtor

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