

United States Bankruptcy Court  
Eastern District of Pennsylvania

In re Sandford and Son,  
Debtor

Address: 3900 Ford Rd., Apt 4A  
Philadelphia, PA 19131

EIN No: 23-2102588

Case No. 14-18330

Chapter 11

Judge: Hon. Jean K. FitzSimon

(Jointly Administered)

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In re Sandford, Jay,  
Debtor

Address: 3054 Limekiln Pike  
Glenside, PA 19038

Case No. 14-18364

Chapter 11

Judge: Hon. Jean K. FitzSimon

(Jointly Administered)  
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**JOINT DISCLOSURE STATEMENT REGARDING CHAPTER 11 PLAN FOR  
SANDFORD AND SON AND JAY SANDFORD, DATED JULY 16, 2016**

**I. INTRODUCTION**

Debtors, Sandford and Son—a Pennsylvania general partnership—and Jay Sandford—an individual—have prepared and are disseminating this Disclosure Statement to holders of claims against and interests in Debtors for the purpose of soliciting acceptance of its Plan of Reorganization (the “Plan”). Debtors believe this Disclosure Statement contains the information that is material, important, and necessary for its creditors and interest holders to arrive at an informed decision in exercising their right to vote for acceptance of the Plan. A copy of the Plan

accompanies this Disclosure Statement as **Exhibit A**. As holder of a claim or interest in Debtors, your acceptance is important. For a class of claims to accept the Plan, acceptances must be filed by at least two-thirds in amount and more than one-half in number of allowed claims for such class that actually vote on the Plan. A failure to vote on the Plan does not constitute either an acceptance or rejection of the Plan. Debtors urge parties in interest to read this Disclosure Statement and the Plan carefully prior to casting votes for or against the Plan.

## **II. REPRESENTATIONS**

NO REPRESENTATIONS CONCERNING THE DEBTORS OR THE PLAN ARE AUTHORIZED OTHER THAN AS SET FORTH HEREIN. ANY REPRESENTATIONS OR INDUCEMENTS TO SECURE YOUR ACCEPTANCE OF THE PLAN OTHER THAN AS CONTAINED HEREIN SHOULD NOT BE RELIED UPON BY YOU IN ARRIVING AT A DECISION. THE INFORMATION CONTAINED HEREIN HAS NOT BEEN REVIEWED OR PASSED UPON BY AN ACCOUNTANT. THE DEBTORS ARE UNABLE TO WARRANT OR REPRESENT THAT THE INFORMATION CONTAINED HEREIN IS WITHOUT ANY INACCURACY ALTHOUGH ALL SUCH INFORMATION IS ACCURATE TO THE DEBTORS' BEST KNOWLEDGE, INFORMATION, AND BELIEF. THE COURT HAS NOT VERIFIED THE ACCURACY OF THE INFORMATION CONTAINED HEREIN, AND THE COURT'S APPROVAL OF THIS DISCLOSURE STATEMENT DOES NOT IMPLY THAT THE COURT ENDORSES OR APPROVES THE PLAN, BUT ONLY THAT IF THE INFORMATION IS ACCURATE, IT IS SUFFICIENT TO PROVIDE AN ADEQUATE BASIS FOR CREDITORS AND INTEREST HOLDERS TO MAKE INFORMED DECISIONS WHETHER TO APPROVE OR REJECT THE PLAN. THE INFORMATION CONTAINED HEREIN IS PROVIDED AS OF THE DATE OF THIS DISCLOSURE STATEMENT UNLESS CLEARLY INDICATED TO THE CONTRARY.

## **III. DEFINED TERMS**

Most words or phrases used in this Disclosure Statement shall have their usual and customary meanings. Some words or phrases when used in the context of the Plan and Disclosure Statement with initial capital letters shall have the definitions set forth in the Plan. Unless otherwise defined, the terms used in this Disclosure Statement shall have the same meaning as in the Bankruptcy Code or Rules.

## **IV. BACKGROUND OF DEBTORS**

Individual Debtor Jay Sandford began buying investment properties in Philadelphia in the 1970s with his late father, Walter Sandford (former jointly administered debtor in this case), which they rented out to tenants. Most of the tenants are residential, but some are commercial. The pair operated their general partnership, Sandford and Son, for several decades with Walter taking primary responsibility for the financial aspects of the business including investments and making sure the bills were paid. Jay primarily maintained the properties and collected the rent.

During this time, the pair acquired a total of 26 rental properties. Although they did business under the name Sandford and Son, the properties are each titled in the individual names of the Jay and Walter Sandford, some as joint tenancies with right of survivorship and some as tenants in common. In the mid-2000s, Walter became too ill to continue his direct role in the company and Jay took over running the business.

In July 2008, Jay took out a blanket balloon mortgage on 24 of the 26 properties with First Cornerstone Bank ("First Cornerstone") in the amount of \$1,660,000. In addition to the Debtors' monthly payments to First Cornerstone in the amount of \$11,308, the entire loan balance was to mature on August 1, 2013. Debtors planned to pay off the loan balance by refinancing the properties again prior to the maturity date.

In October 2008, Jay took out a blanket mortgage on the remaining 2 properties with Hyperion Bank ("Hyperion") in the amount of \$165,000. In addition to the required monthly payments of \$1,232, the entire loan balance was to become due on December 15, 2014.

A lost investment caused Debtors to fall behind on their real estate taxes and water and gas bills on the 26 properties for several years. Lacking a clear plan on how to catch up on the back liens, the Debtors were unable to refinance the properties to pay off the respective first mortgages when they were due to mature.

The Debtors attempted to pay back real estate tax and other liens on properties threatened with imminent sheriff sale, but were unable to keep up with the scheduled sales. Jay and Walter Sandford each filed for Chapter 11 bankruptcy individually and on behalf of Sandford and Son in October 2014 to stave off sheriff sales of the properties. Walter Sandford passed away on May 21, 2015, and his bankruptcy case was dismissed on November 4, 2015.

## **V. ASSETS OF THE ESTATES**

### **Real Property**

The estate of Debtor Sandford and Son consists primarily of the 26 rental properties listed in Sandford and Son's Amended Schedule A, attached to this Disclosure Statement at **Exhibit B**.

Debtor Jay Sandford owns real property located at 3054 Limekiln Pike, Glenside, PA 19038, valued at \$195,000, which has been his primary residence. Jay intends to move out of that property and into Walter Sandford's former residence at 3900 Ford Rd., Unit 4A, Philadelphia, PA 19131, and Jay intends to sell the Limekiln property and use the proceeds to fund the Chapter 11 Plan.

### Personal Property

#### **Miscellaneous Personal Property**

Debtors compile paint and other supplies for use in repairing and maintaining the properties. Aside from that, the estates consist of very little personal property.

#### **Bank Accounts**

Debtor Sandford and Son maintains four (4) Debtor-In-Possession (“DIP”) bank accounts, two (2) for operating the business and two (2) for holding funds to pay taxes and insurance. The bank accounts are funded with rents generated by the properties. First Cornerstone Bank and Hyperion Bank each hold an Assignment of Rents in their favor executed by the Debtors in conjunction with the respective mortgages. The funds in each of the DIP bank accounts are currently restricted by agreements with First Cornerstone and Hyperion for their use in paying taxes, insurance, and other maintenance on the banks’ respective collateral properties. The total funds on hand in the Sandford and Son accounts as of the filing of this Disclosure Statement is **\$2,480.04**. This is a lower than average balance because the Debtors have been paying 2016 real estate taxes.

Debtor Jay Sandford maintains a DIP bank account for his personal expenses. By agreement with First Cornerstone and Hyperion, Jay is paid with excess funds generated by the rental properties after taxes, insurance, and other maintenance is paid or segregated for the collateral properties. The total funds on hand in Jay Sandford’s account as of the filing of this Disclosure Statement is **\$114.32**.

#### **Accounts Receivable**

Debtors show **\$58,401 in accounts receivable** at the time of this filing. These receivables consist entirely of uncollected rents from tenants. It is unclear exactly how much of these receivables may be collected, but it is doubtful anything close to the entire amount can be collected.

## **VI. DEBTORS’ CONDITION AND PERFORMANCE WHILE IN CHAPTER 11 BANKRUPTCY**

### Real Estate Taxes, Water, Gas, and Refuse Bills

The Debtors continued to operate their business after filing this bankruptcy case and coming to agreements with First Cornerstone and Hyperion on the use of rents. The Debtors paid all 2015 real estate taxes on the properties, and have paid about half of the 2016 real estate taxes as of the time of filing of this Disclosure Statements. The Debtors expect to pay off all 2016 real estate taxes within the next month.

The Debtors are current on all post-petition water, gas, and refuse bills.

#### Income Taxes

The Debtors have filed all federal, state, and local income tax returns due through 2013 as of the time of this filing. They intend to file 2014 federal, state, and local tax returns within the next two weeks. Debtors will have paid all post-petition income taxes by the time of confirmation of the Plan. Debtors have obtained an extension to file 2015 federal, state, and local tax returns and will complete and file them as soon as their 2014 filings are complete.

#### Income and Expenses

The Debtors bring in an average of \$25,280 per month in rents. This figure includes an average of \$17,764 in rents paid directly by tenants and an average of \$7,516 paid by the Philadelphia Housing Authority for Section 8 rents.

Debtor Sandford and Son averaged \$23,096 in monthly expenses during the last two quarters of 2015, and Debtor Jay Sandford has averaged \$2,292 in monthly expenses during the same time period, for a total of \$25,388 in monthly expenses. However, Jay began making regular monthly payments on the Hyperion mortgage because the two Hyperion properties have not been generating rents. These payments in the amount of \$1,232 per month will cease upon the sale of those two properties as called for in the Plan. Jay also had to pay the 2015 real estate taxes on the Broad Street property during this time period, which was an extraordinary expense. Without Jay's payments on those expenses, his average monthly expenses over the last two quarters of 2015 were \$1,505 for a total of \$24,601 for both Debtors.

The Debtors intent to adhere to the Reorganization Budget (Schedule 1 to the Chapter 11 Plan), and Jay also intends to apply for Social Security to increase the estates' income.

### **VII. PLAN OF REORGANIZATION**

THE DISCUSSION OF THE PLAN SET FORTH BELOW IS A SUMMARY ONLY AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO THE MORE DETAILED PROVISIONS SET FORTH IN THE PLAN AND ITS SCHEDULES, THE TERMS OF WHICH ARE CONTROLLING. HOLDERS OF CLAIMS AND EQUITY INTERESTS AND OTHER INTERESTED PARTIES ARE URGED TO READ THE PLAN IN ITS ENTIRETY SO THAT THEY MAY MAKE AN INFORMED JUDGMENT CONCERNING THE PLAN.

#### Claims Against the Estates

##### **Administrative Claims**

Administrative expenses at the Confirmation Date for Debtors' attorney, John M. Keating, are presently unknown. However, Debtors anticipate that they will be asserted in at least the very approximate amount of \$55,000 to \$60,000.

In addition, the Debtors must pay a quarterly fee to the U.S. Trustee of \$325 each for each quarter in which disbursements were less than \$15,000, \$650 for each quarter in which disbursements were \$15,000 or more but less than \$75,000, and \$975 for each quarter in which disbursements were \$75,000 or more but less than \$150,000.

All Administrative Claims are subject to allowance by the Bankruptcy Court and its determination of the reasonableness of the amounts; any party in interest can object to any claim for administrative fees and expenses.

The holders of allowed claims which are Administrative Claims shall receive, on account of such claims, cash in the amount of such claims (i) as soon as practical on or after the Effective Date or (ii) at the option of the Debtors, in accordance with the ordinary business terms of payment of such claims.

Professionals employed at the expenses of the estates of the Debtors and entities who may be entitled to reimbursement or the allowance of fees and expenses from the estates of the Debtors pursuant to subparagraphs (2) through (6) of § 503(b) of the Bankruptcy Code, shall receive cash in the amount awarded to such professionals and entities at such times and only in accordance with a final order entered pursuant to § 330 or § 503(b)(2) to (6) of the Bankruptcy Code.

### **All Other Claims Against the Estates**

The other claims against the estates besides administrative claims are listed in **Schedule 2** to the Plan. The Debtors intend to pay the allowed claims against the estates using a combination of the monthly budget surplus of at least \$1,097 and the sale of property as stated in **Exhibit C**, attached to this Disclosure Statement. Under Section 7.1 of the Plan, the payment percentages within each class shall be determined by the amounts of the allowed claims as of the Effective Date of the Plan.

### Consequences of Default

If Sandford and Son and/or Jay Sandford are unable to perform the terms and conditions of this Plan, including failure to make any payment called for under this Plan at the time due, then they will be in default. The security interests and liens that survive the Plan are enforceable obligations that provide remedies in case of default; in particular, secured creditors could enforce their liens and the Reorganized Debtor(s) would lose their property. Where applicable, secured creditors may look to the prepetition Guaranties of Jay Sandford and the Assignments of Rents for recourse in the case of default. The provisions of this section do not apply to Hyperion and First Cornerstone, the terms of whose loan documents respecting default and notice shall apply.

### Management

The Reorganized Debtors will be managed by Jay Sandford. He shall receive compensation in accordance with the Reorganization Budget, which is **Schedule 1** to the Plan.

### Future of the Debtors

Debtor Jay Sandford's intention is to complete all Plan payments and continue to operate his business post-bankruptcy.

THE FOREGOING IS A SUMMARY OF THE PLAN AND CREDITORS ARE URGED TO READ THE PLAN IN FULL. CREDITORS SHOULD CONSULT WITH COUNSEL IN ORDER TO FULLY UNDERSTAND THE PLAN, WHICH IS A PROPOSED LEGALLY BINDING AGREEMENT BY THE DEBTOR.

## **VIII. TAX CONSEQUENCES**

Debtors have not obtained a tax opinion and express no opinion as to the tax consequences to the holder of any claim or interest caused by the terms of the Plan of Reorganization. Creditors are advised and encouraged to obtain their own tax counsel to determine the tax consequences of this Plan.

NO RULING HAS BEEN SOUGHT OR OBTAINED FROM THE IRS WITH RESPECT TO ANY OF THE TAX ASPECTS OF THE PLAN AND NO OPINION OF COUNSEL HAS BEEN OBTAINED BY THE DEBTOR WITH RESPECT THERETO. NO REPRESENTATION OR ASSURANCE IS BEING MADE WITH RESPECT TO THE FEDERAL INCOME TAX CONSEQUENCES AS DESCRIBED HEREIN. CERTAIN TYPES OF CLAIMANTS AND INTEREST HOLDERS MAY BE SUBJECT TO SPECIAL RULES NOT ADDRESSED HERE. THERE MAY ALSO BE STATE, LOCAL, OR FOREIGN TAX CONSIDERATIONS APPLICABLE TO EACH HOLDER OF A CLAIM OR EQUITY INTEREST WHICH ARE NOT ADDRESSED HEREIN. EACH HOLDER OF A CLAIM OR EQUITY INTEREST AFFECTED BY THE PLAN MUST CONSULT AND RELY UPON SUCH HOLDER'S OWN TAX ADVISOR REGARDING THE SPECIFIC TAX CONSEQUENCES OF THE PLAN WITH RESPECT TO SUCH HOLDER'S CLAIM OR EQUITY INTEREST. THIS INFORMATION MAY NOT BE USED OR QUOTED IN WHOLE OR IN PART IN CONNECTION WITH THE OFFERING FOR SALE OF SECURITIES.

## **IX. LIQUIDATION ANALYSIS**

Debtors estimate the unsecured creditors would receive less distribution in the event of liquidation. The total property of the estates is valued by Debtors at \$1,975,900, and total secured claims made against the estates to date are \$2,281,023. Because the current "as is" market value of the property of the estate is probably insufficient to pay the secured claims, its liquidation would bring no return to the unsecured creditors, and Jay Sandford's interest would be extinguished. Moreover, at a foreclosure sale, the selling price may be less than the current

value of the property. Consequently, Debtors believe the Plan is in the best interest of all creditors.

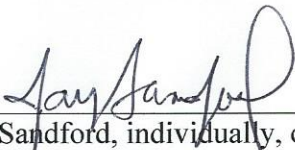
**X. RECOMMENDATION**

Debtors Sandford and Son and Jay Sandford recommend that its Disclosure Statement for its Plan of Reorganization be approved.

Dated: 7/16/16

Respectfully submitted,

Plan Proponent:

  
Jay Sandford, individually, on behalf of  
Sandford and Son, and on behalf of Walter  
Sandford's Estate

/s/ John M. Keating

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