

IN THE UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF COLUMBIA

In Re: :
PENNGOOD, LLC : CASE NO 16-00051
Debtor : Chapter 11
:

AMENDED DISCLOSURE STATEMENT

COME NOW the debtor, PENNGOOD, LLC, by counsel, and submits the following Amended Disclosure Statement pursuant to 11 U.S.C. 1125.

A. Purpose of the Disclosure Statement

The purpose of this Disclosure Statement is to provide parties asserting claims against the debtors with information regarding the treatment of their claims under the proposed Plan dated November 4, 2016. More particularly, this Disclosure Statement should provide parties whose claims or interests are impaired under the Plan with adequate information to make an informed judgment when evaluating the Plan.

This Disclosure Statement also sets forth certain information regarding the debtors' assets, pre-petition history, significant events that have occurred in the Chapter 11 case, and the debtor's anticipated financial affairs post confirmation.

This Disclosure Statement also describes the Plan, certain alternatives to the Plan, the effects of the Plan's confirmation, and the manner in which distributions shall be made under the Plan.

This Disclosure Statement is not meant to take the place of the Plan. Creditors and other parties in interest are advised to read the Plan carefully and obtain the advice of independent legal counsel if desired.

B. Disclaimer

All creditors are advised and encouraged to read this Disclosure Statement and Plan in their entirety before voting to accept or reject the Plan. Plan summaries and statements made in this Disclosure Statement are qualified entirely by reference to the Plan and other Exhibits served with the Plan.

This Disclosure Statement contains summaries of certain provisions of the Plan, certain statutory provisions, certain valuations and other financial information, and certain events related to the debtor's Chapter 11 case. Although the debtor believes that this information is accurate, such summaries are qualified to the extent that they are summaries and do not set forth the entire text of documents referred to. The factual information contained in this Disclosure has been provided by the

debtor and its agents in good faith after a reasonable investigation of the matters reported on herein, but the debtor is not able to warrant or represent that the information contained herein, including the financial information, is without any inaccuracy or inadvertent omission.

Certain information contained in this Disclosure Statement is, by its very nature, speculative, containing estimates, assumptions and projections that may not be borne out by future events. Except as specifically noted herein, this Disclosure Statement does not reflect any events or conditions that may occur after the date of this statement, nor has the information contained herein been audited by a Certified Public Accountant and may not be in accord with general accounting principles.

The information contained in this Disclosure Statement has been provided by the debtors, their attorneys, and their agents.

HISTORY AND DESCRIPTION OF THE DEBTOR

PENNGOOD, LLC, is a limited liability company organized and chartered under the laws of the District of Columbia Corporation, established on Jan 1, 2013, with it's principal place of business in the District of Columbia. All outstanding shares in the LLC

are owned by Mr. Clyde Penn, who has exclusive management rights and responsibilities for the debtor.

The debtor was a qualified 8(a) bidder on government contracts, until its eligibility expired on August 1, 2014. The debtor has marketed its services primarily as a consultant to other private companies and various state and federal agencies. The debtor specializes in providing advice to its clients on how best to reach targeted groups, and particularly minority communities, through advertising and other means. In the past the debtor's larger clients have included the Center for Disease Control (CDC), the Substance Abuse and Mental health Administration (SAMHSA), the Department of Housing and Urban Development (HUD), and three agencies of the District of Columbia, among others.

Once it lost its 8(a) preference, the debtor suffered several business reversals, including the loss of a \$600,000.00 contract with the CDC due to budget cuts, its ineligibility under 8(a) to rebid for the HUD Healthy Homes contract for \$3,000,000.00 over three years and to rebid for a U.S. Coast Guard contract for \$3,000,000 over five years, and the loss due to budget cuts in January of 2015 of a sub-contract with Universal McCann related to a contract for the Department of the Army which netted the debtor \$20,000.00 per month. In addition, Penngood was notified that it would not have a \$4,000,000.00

contract with SAMHSA renewed because the program had been eliminated.

These reversals along with a failed attempt to renegotiate its lease in 2015 lead the debtor to seek protection from its creditors under Chapter 11.

Since filing this petition, the debtor has reduced overhead by reducing project staffing from six to two full-time employees, and replacing eliminated positions with part-time employees (without fringe benefits) as its projects require. At the same time, the debtor reduced its management staff from four full time employees to two with two other employees working part-time.

The debtor has also relocated to less expensive quarters beginning on March 1, 2017, which reduces its monthly rent payment from \$17,182.33 to \$10,574.67. Its principal, Clyde Penn reduced his compensation from the date the petition was filed from \$20,750.00 per month to \$16,584.00 per month. In addition, Mr. Penn has agreed to remain at that salary level throughout the Chapter 11 Plan.

FINANCIAL INFORMATION

On the day its petition was filed, the debtor held approximately \$1,195,150.00 in its account which was promptly transferred to a Debtor in Possession Account at Capital One

Bank. The debtor relies on contracts which are typically bid in mid-Summer and awarded in the Fall and toward the end of the calendar year, and the debtor invests time and expense into preparing its proposals and bids in the Spring and early Summer. Thus, there is at least a six to nine month delay between the expenses it incurs related to the preparation of bids, and when it sees a return on its investment if its bid is successful. In February of 2016, when the petition was filed, the debtor was preparing bid packages for several potential clients, as it continued to do throughout the Spring and Summer months, and those contracts would be awarded from late July through November.

A review of the debtor's monthly operating reports reveals a slow decline in its cash reserve from the month of filing to September of 2016 when it showed its first post-petition profit of \$3,043.00 as the result of income it received from newly awarded contracts. See Form SB-6 in the monthly operating report for September of 2016, attached.

The debtor had only one secured creditor, the Internal Revenue Service, which claimed a tax lien on all of the debtor's assets in the amount of \$358,179.63. On May 20, 2016 the debtor received permission from the Court to surrender its cash collateral and pay the IRS its secured claim (see Docket Item No. 42). A check for the full amount of the secured claim was promptly sent to the IRS and subsequently cashed. As a result,

it is the debtor's position that the secured claim of the IRS has been paid in full, although the IRS has not yet amended its Proof of Claim to reflect receipt of the payment.

The debtor has no claims beyond receivables against any party aside from Universal McCann for approximately \$227,000.00 which are far beyond 180 days past due and considered by the debtor at this time to be uncollectible or subject to offset.

The debtor is actively pursuing additional accounts with Federal agencies and is reasonably hopeful of obtaining contracts from the following sources:

D.C Government, \$1.5 million over five years,
OPM/Combined Federal Campaign, \$2.5 million over five years,
D.C. Government/Events D.C., \$100,000 over five years,
SAMHSA/Campaign Support, \$2.5 million over five years,
HUD/Marketing Support, \$900,000 over three years,
CDC/NPIN IT Communications Support, \$8 million over five years,
Ginnie Mae/Strategic Communications, \$2 million over five years.

Based on its past performance, and taking into account the expiration of its existing contracts, and the likelihood of its being awarded extensions and the new contracts listed above, the debtor has prepared a projection of its yearly income for the proposed five-year duration of its Plan, which is attached to

this Statement as an Exhibit. The projection forms the basis for the debtor's Plan and sets forth the monthly income and expenses anticipated over the Plan term.

PRESENT AND PROJECTED EARNINGS

The debtor's projections of its monthly income and expenses are reflected in the attached Exhibit "Projections".

FILED AND SCHEDULED CLAIMS

The debtor is current with all payments due to the Office of the United States Trustee, and does not owe any post-petition taxes, wages, or other post-petition priority claims.

The only priority claims currently scheduled or filed are held by the Internal Revenue Service in the amount of \$1,074.75 and the State of Maryland in the amount of \$41,597.92. The debtor anticipates priority administrative claims, including Quarterly fees assessed by the U.S. Trustee, the fees of its counsel, its special counsel, and accountant to be \$66,500.00 through the Plan term.

As noted above, the debtor has no secured creditors.

There are unsecured claims scheduled and filed in the following amounts:

TV One,	\$1,208,806.25
Reach Media,	441,100.00
Aspire Channel, LLC	437,558.75
BET	1,792,317.65
Getting Hired, Inc	3,500.00
Global Business Coalition	2,500.00
GrafMarc Marketing & Design	645.00
Garrick R. Goode	2,385.00
Michigan Chronical	4,000.00
NNPA Media Service	5,763.18
PAETEC	11,823.45
Progressive Nat. Baptist Convention	500.00
Specialist Marketing Services, Inc	3,750.00
Unity Media	53,094.49
IRS	67,712.77
Total	<u>\$4,035,456.54</u>

PENDING CLAIMS AND LITIGATION

There is no pending or anticipated litigation.

LIQUIDATION ANALYSIS

If the debtor were liquidated by a trustee in a case under chapter 7 at the time of this Disclosure Statement, the debtor anticipates that the estate would include the Debtor in Possession account of approximately \$615,000.00. Accounts receivable (current) of approximately \$50,000.00 balanced against the current (post-petition) accounts payable at \$44,538.00 produce a \$5,462 surplus. The debtor's fixtures, equipment, furniture, although scheduled in amounts (retail value) approaching \$50,000.00 have little if any liquidation value as used office furniture and used computer equipment. The total a Chapter 7 estate would hold as of the time of this statement would thus be \$620,462.00.

After payment of the priority claims outlines above, the amount left would be \$511,290.08. Assuming the cost of administering a Chapter 7 estate would be no less than 10%, the amount distributable to unsecured creditors would be no more than \$460,161.07.

The debtor's Plan proposes an immediate distribution to the creditors of \$360,000.00 upon the effective date of the Plan, and a payment of \$216,962.00 from the debtor over the Plan term, in addition to a contribution of \$20,000.00 from the debtor's principal, Clyde Penn. The total to be distributed to the

creditors under the Plan is thus \$596,962.00, and the amount of its cash retained by the debtor after the initial \$360,000.00 disbursement is less than the present value of the monthly distributions at 4.5% interest over the Plan term.

Taking everything into account, the creditors will receive \$136,801.00 more under the debtor's Plan than they would receive in a hypothetical Chapter 7 liquidation. In a Chapter 7 liquidation the unsecured creditors would receive 8% of their claims, whereas under the debtor's Plan they will receive approximately 12%.

MANAGEMENT AND OWNERSHIP

The debtor is managed by its principal, Mr. Clyde Penn. The debtor does not propose or anticipate any change in management or ownership over the Plan term.

STATUS OF THE CASE

The debtor is continuing in business and has filed a Chapter 11 Plan of Reorganization. The debtor has attached the last monthly operating report for September of 2016, a Schedule of projected income and expenses for the next five years, and a Payout Schedule which is a summary of the proposed Plan payments

and a calculation of their present value, as Exhibits to this Statement.

SUMMARY OF PROPOSED PLAN OF REORGANIZATION

The Plan of Reorganization proposed by the debtor has divided the creditors into 4 classes. Only Classes 3 and 4 are impaired.

Class 1: Comprises those creditors who have administrative priority or priority claims against the estate; these creditors shall be paid in full either upon court approval or, in the case of the Quarterly Fees due to the Office of the United States Trustee, as they may become due. This class consists of the debtor's counsel, the Office of the United States Trustee, and any other creditor who may obtain an administrative status pursuant to court approval. These claims are to be paid as they come due, concurrently, apart from all other claims. The two other administrative creditors, the IRS and the State of Maryland, shall receive full payment of their claims from the initial distribution on the Plan's effective date.

Class 2: This class consists of the debtor's Landlords, who will continue to be paid according to their lease terms without modification. The debtor's current lease with OB Associates, a/k/a 1015 18th Street Owner, LLC expires on February 28, 2017,

and the debtor will thereafter lease space from ZG 1020 19th LLC for the remaining term of the Plan.

Class 3: This class includes those creditors who have general unsecured claims against the debtor. The Class 3 claimants shall receive an immediate *pro-rata* distribution of \$318,402.00 upon the effective date of the Plan sent to them directly by the debtor. Thereafter, they will receive a monthly *pro rata* distribution over the following sixty months as follows: \$2,500.00 each month beginning January 1 (or the first month after the effective date of the Plan, whichever is later) for the year 2017, \$3,000.00 each month for the year 2018, \$3,666.67 each month for the year 2019, \$4,250.00 each month for the year 2020, and \$5,000.00 each month for the year 2021, ending on December 31 (or the sixtieth month after the effective date of the Plan, whichever is later). It is estimated that members of this class will receive an amount under the proposed Plan equal to approximately 12% of their claims.

Class 4: This class consists of the equity owner of the debtor, Mr. Clyde Penn, who shall retain his equity in the debtor, but will receive no distributions under the Plan in return for a voluntary salary reduction from \$249,000.00 per year to \$199,000.00 per year, and who will contribute an additional \$20,000.00 to the Class 3 creditors in monthly installments of \$372.86 for sixty months.

Based on his survey of the industry, Mr. Penn believes that in the private sector his capacity, experience, and expertise, would command a salary an estimated 35 percent higher than his pre-petition compensation. This means Mr. Penn could potentially earn an estimated \$336,000.00 if he left the debtor to work for another employer in the same field. The \$199,000.00 *per annum* rate of compensation he is accepting under the Plan equals only 60% of what he could command otherwise.

The debtor has invoked the "cramdown" provisions of 11 U.S.C. 1129(b). That is, as long as the plan does not discriminate unfairly, and is fair and equitable with respect to any class of claims or interest that is impaired and has not accepted the Plan, the plan may be confirmed by the Bankruptcy Court, provided that at least one impaired class has accepted the Plan.

BEST INTEREST OF THE CREDITORS

The debtor believes that the best interest of the creditors are served by the confirmation of it proposed Plan of reorganization. No creditor will receive less than would be received in a chapter 7 proceeding, and the debtor believes that the unsecured creditors in Class 3 will receive more under the

treatment proposed in the Plan than if the debtor were liquidated in a chapter 7 proceeding.

MATERIAL TAX CONSEQUENCES OF THE PLAN

The distributions proposed under Article IV of the Amended Plan will not impose any foreseeable material tax consequences on the debtor.

CONCLUSION

The debtor submits that the Plan complies in all respects with Chapter 11 of the Bankruptcy Code and recommends that it be confirmed.

Dated December 20, 2016.

/s/ Clyde Penn

PENNGOOD, LLC

By Counsel

/s/ Richard G. Hall

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