IN THE UNITED STATES BANKRUPTCY COURT FOR THE EASTERN DISTRICT OF PENNSYLVANIA

In Re: NORMAN EDWARD McMAHON,	**:**	**CHAPTER 11**
Debtor	**:**	**BANKRUPTCY NO. 16-11874'**

DEBTOR'S DISCLOSURE STATEMENT IN REFERENCE HIS PLAN OF REORGANIZATION

A. INTRODUCTION

On March 18, 2016, Norman Edward McMahon ("the Debtor") filed an individual voluntary bankruptcy case under Chapter 13 of the Bankruptcy Code ("Code") in the United States Bankruptcy Court for the Eastern District of Pennsylvania ("Court") pro se. The undersigned entered his appearance for the Debtor on April 9, 2016, and filed an Application for appointment as the Debtor's counsel that day which was granted by the Court on May 4, 2016. Since the filing of this case the Debtor has functioned as a debtor-in-possession pursuant to the requirements of Chapter 11 of the Code.

Section 1125 of the Code requires that Chapter 11 debtors prepare and file a proposed disclosure statement ("DS") for Court approval prior to circulating a proposed plan with an accompanying approved DS to provide certain information about the Plan to holders of all claims filed and other interested parties. On April 22, 2016, in the course of a hearing granting the Debtor's motion to extend the automatic stay beyond the initial 30-day period pursuant to 11 U.S.C. section 362(c)(3) in light of the dismissal of a prior case of the Debtor within one year, the Court ordered the Debtor to file a plan by July 8, 2016. The Plan was filed on July 6, 2016. The Order of April 22, 2016, did not expressly address the filing of a DS, but, since a filing of a proposed DS must normally accompany the filing of a plan, the court made clear at a hearing on the Motion to approve the modification of the loan from National Capital Management ("NCM") on August 3, 2016, that a DS was to be filed. The court allowed the Debtor until

August 10, 2016, to file a DS.

. After approval of a DS, it is transmitted to all parties entitled to vote on the Plan with the Plan itself and a Ballot on which all parties entitled to vote indicate whether they accept or reject the Plan, the form of which must be approved by the Court. Ballots cast are then sent to counsel for the Debtor in pre-addressed envelopes within 25 days. Creditors voting are informed of the dates by which completed Ballots must be sent and/or Objections to confirmation of the Plan must be filed. A hearing to determine whether the Plan can and should be confirmed is then scheduled. If each impaired class of creditors designated in the Plan accepts the Plan by majority of number and two-thirds of the amount of all claims in that class, and there are no Objections found by the Court to be valid, the Plan will likely be confirmed at that hearing. As long as one impaired class accepts the Plan, it may nevertheless be confirmed if it is found to be fair and equitable to all classes.

B. THE DEBTOR

The Debtor was born on February 13, 1948, and is therefore 68 years old at present. He has been married to Laura McMahon, his wife, since September 23, 1978. The couple has three adult children, none of whom presently live with the Debtor and his wife in their home at 801 Lawrence Lane, Newtown Square, PA. 19073 (“the Home”).

The Debtor’s highest educational attainment is a bachelor’s degree from Villanova University in 1972. The Debtor was employed as a trainee at Central Penn National Bank from 1973 through 1978. Thereafter, the Debtor was employed as a Human Resources Manager at Price Waterhouse from 1978 through 1981; as a Partner in Romac & Associates, a recruiting and placement firm from 1981 through 1991; as owner and President of The McMahon Company, an executive search business, from 1991 through 2003; and from 2003 to the present as owner and President of Payall Solutions, LLC ("Payall"), a payroll processing firm. From 1995 to the end of the Spring, 2016 semester, at which time she retired, Laura had been a teacher at Notre Dame Academy in Villanova, PA. Upon her retirement, she received a retirement package worth $47,000.

C. **EVENTS LEADING TO BANKRUPTCY**

The Debtor and his wife had been a highly successful professional couple until the Spring of 2010. The Debtor's business, Payall Solutions, was a commercial account client of Eagle National Bank ("Eagle"). The Debtor and his wife had a commercial loan and mortgage that totaled approximately $1.1 Million. Their monthly payments totaled just under $10,000, and they were able to maintain those payments for several years. Two events led to their current situation:

1. Payall was part of a joint venture ("JV") with another payroll company, Innovative Pay roll Sevvices ("IPS"). The Debtor owned 50% and the IPS partners owned 50%. The JV was called IPS/Payall Solutions. At the Debtor's request, the JV's accounts were opened at Eagle. The JV was successful and its accounts reflected this. However, in 2010, the partners of the JV decided to cut the Debtor out of any payments from the JV, which would have been $120,000 to 130,000 annually. The IPS partners moved all funds to a different bank in Georgia, and the Debtor initiated a law suit against IPS.
2. At the same time, the Management of Eagle changed, and, even though the loan was current and not in default, Eagle took the position that the Debtor was in "technical de fault" because payments on the first mortgage on the Home had fallen behind schedule, due to non-payment to the Debtor from the JV. The Debtor was told that he had to "move his loans," but, in every discussion that the Debtor had with Eagle Management, they said they would be willing to "take a haircut" on part of the loan, because the only finance company to which the Debtor could "move," Frankel Financial, was charging an interest rate of 13.9%, and the fees to move the loan totaled around $300,000. The Debtor knew

that he could not support the remaining balance at Eagle with the enormous new debt payment schedule into which he was forced: the Debtor's monthly loan payment went from approximately $9,500 to $18,000. When Frank Devine, Eagle's loan officer, arrived at the settlement table in May of 2010, there was no "haircut" offered, and Frank Devine told the Debtor and his wife that they had to sign the loan papers from Eagle. The Debtor told Mr. Devine that he would not be able to sustain the payment schedule, but was nevertheless told in response that he had no choice. With limited funds available, and significantly larger monthly payments, the Debtor was advised by Andy Gibbs, CPA, his financial advisor at the time, that he could either use his money litigating with Eagle for unfair treatment, or to bring a lawsuit against IPS to get the money due to him on those contracts. He opted to sue IPS, and that suit is finally hopefully heading to a successful conclusion. The Debtor's attorney in this matter is Joseph Cronin, Esquire, who despite repeated contacts, has not yet responded to requests for information which would allow an application for appointment as the Debtor's special counsel to be filed.

Adding to the Debtor's problems was the fact that the attorney to whom he was originally referred for the lawsuit against IPS, Kahiga Tiagha, Esquire, caused additional problems. Mr. Tiagha took the case, advised the Debtor to sue both Eagle and IPS, but then missed deadline after deadline imposed in the cases. Upon the Debtor's confrontation, Mr. Kahiga assured that he would "be on top of everything," but then left the country to pursue business opportunities in Africa. When the Debtor arrived at Mr. Kahiga's office in December, 2013, to prepare for a court hearing on the next day, he was told that Mr. Kahiga was out of the country, and that a young, inexperienced attorney, William Ravennell, would be representing the Debtor at the next day's hearing. The Debtor then discovered that night that the court had already issued a judgment against him and in favor of Eagle.

Thereafter, the Debtor retained Mr. Cronin in the summer of 2014, and he moved the IPS lawsuit from the Philadelphia courts to the New Jersey Superior Court, where it appears that it should have been all along. Mr. Cronin also indicated that he would be filing a malpractice lawsuit against Kahiga Tiagha.

During the time period from November, 2010, until October, 2014, the Debtor's parents moved into the Home because their savings had been depleted during the 2008 financial crisis. Further, the McMahons' daughter, Megan, also moved in with her four-year-old son because of her marital difficulties. Due to his circumstances, the Debtor was not able to take any salary from Payall, and the couple lived on Laura's salary.

The Debtor filed a previous bankruptcy case, at Bankr. No. 14-18302, on October 17, 2014. That case was dismissed on July 15, 2015, without a plan's ever having been filed. The intention of the Debtor in that case was to obtain a reverse mortgage loan which would be the cornerstone of a resolution with his first mortgagee on the Home Wells Fargo Home Mortgage ("Wells"), and the second mortgagee on the Home, ESSA Bank & Trust ("ESSA"), the successor to Eagle.

The Debtor notes that, in May, 2015, he was within 12 hours of settling with Eagle/ESSA through a combination of a reverse mortgage and a loan from a friend. Due to some administrative problems beyond the Debtor's control, he and his wife were not able to settle. According to the reverse mortgage lender used, the regulations changed, and the loan could not be closed. The Debtor has consulted a new reverse mortgage lender, which has tentatively approved a reverse mortgage loan, but which now must be reconsidered because the necessary cooperation of all mortgagees and other lienholders does not appear to be forthcoming.

The Debtor's domestic problems have been lessened by the death of the Debtor's parents in 2014, and the departure of their daughter Megan, who has obtained her own apartment. Also, the Debtor began accepting social security benefits in 2015. Although Laura retired from her teaching position, she is entitled to a separation package of $47,000 from Notre Dame Academy and her own social security benefits.

Payall has begun to grow and the Debtor has been negotiating with several prospective lenders about making an investment in this company.

D. **EVENTS IN THIS BANKRUPTCY CASE**

The Debtor successfully moved to extend the automatic stay in this case beyond the 30-day period due to a prior dismissed case within the past year, per the Court's Order of April 22, 2016.

On April 21, 2016, the Court signed an Order establishing June 1, 2016, as the Bar Date for the filing of all but governmental claims, for which the Bar Date is statutorily established as September 14, 2016. Only ten claim have been filed, all of which are secured except for two small unsecured claims totaling less than $2000 and a late-filed, disputed claim of the Debtor's counsel in his first case of about $20,000. It is not anticipated that any additional governmental claims will be filed in addition to a small state tax claim totaling about $3700.

On June 21, 2016, the United States Trustee filed a motion to dismiss this case, principally because requisite Reports were not filed. On July 2, 2016, the Debtor filed his Initial Response to this Motion. A hearing was initially scheduled on the Motion on August 3, 2016, but it has been continued until August 31, 2016.

On June 22, 2016, the Debtor filed a Motion Seeking Permission to Enter into a Note Modification Agreement with his largest creditor, NCM. Basically, this Agreement would extend the maturity of the Debtor's loan from NCM for a year, until May 5, 2017, in consideration for an addition of approximately $75,000 to the loan balance. An untimely Objection to this Motion (and to confirmation of the Plan) was filed by ESSA on July 20, 2016. The Motion was also initially scheduled for a hearing on August 3, 2016. The Debtor requested a continuance of this hearing until August 31, 2016, and he has now been advised that ESSA will withdraw its Objection to the Motion.

E. THE PLAN

The Debtor's Plan of Reorganization contains eight classes. Class 1 is all priority Claims. Classes Two through Six are classes which each contain a separate secured claim, namely the respective secured claims of NCM; Wells Fargo Home Mortgage ("Wells"); ESSA; US Bank, as Custodian for PFS Financial I, LLC ("USB") and Benjamin Burrows ("Burrows"). Class 7 is the priority portion of the claim of the Pennsylvania Department of Revenue. Class 8 is the residual class of unsecured creditors. The treatment of each of the respective classes is as follows:

Class 1-Unimpaired	Class 1 is unimpaired by this Plan, and each holder of a Class 1 Priority Claim will be paid in full, in cash, upon the later of the effective date of this Plan as defined in Article VII, or the date on which such claim is allowed by a final non-appealable order.
Class 2-Impaired	Will extend the date of maturity of the obligation in exchange for additional amounts of the obligation.
Class 3-Impaired	Will pay off in full with proceeds of a reverse mortgage

Class 4-Impaired	Will pay off in agreed amount with proceeds of a reverse mortgage.
Class 5-Impaired	Paid in full from proceeds of sale of business property.
Class 6-Impaired	Will pay in full from proceeds of sale of Business Property and Litigation
Class 7-Impaired	Pay in full on effective date from proceeds from operation of business.
Class 8-	Pay 50 % on effective date from proceeds from operation of business.

; The Debtors believe that all classes except the Class One administrative attorneys' fee claims are impaired, and they will solicit ballots for all but Class One claims. They are giving serious consideration to withdrawing and amending the Plan, and to proceed to sell the Home instead of attempting to obtain a reverse mortgage against it, since several creditors have not provided seemingly necessary dispensations to the Debtor to consummate the reverse mortgage, and several have suggested that a plan featuring a sale of the Home may in fact be acceptable.

F. **LIQUIDATION ANALYSIS**

The only bankruptcy alternative to Chapter 11 is a Chapter 7 liquidation. The Debtor observes that he has very few unsecured claims, the total amount of which is approximately $25,000, including the approximately $20,000 contested claim of the Debtor's prior bankruptcy. counsel. Therefore, for this reason alone, if this case were in Chapter 7, it would not fit the mold of a Chapter 7 asset case.

The Debtor's plan consists mainly of restructuring the Debtor's substantial secured claims. Such activities would not appear to be compensable to a Chapter 7 trustee, as there would be no distributions which would be the basis for computing any commission payable to a Chapter 7 trustee for such activities.

Therefore, it is submitted that there is no practical bankruptcy alternative available to the Debtor other than Chapter 11.

The Debtor therefore urges all creditors eligible to vote to accept the Plan.

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