

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

In Re: FRONT STREET VENTURES, LLC, : CHAPTER 11
Debtors : BANKRUPTCY NO. 17-17047

DEBTOR’S DISCLOSURE STATEMENT IN REFERENCE TO ITS PLAN OF REORGANIZATION

A. INTRODUCTION

On October 18, 2017, Myles J. Hannigan (“Hannigan”), the Managing Partner of STREET VENTURES, LLC (“the Debtor”) filed a case under Chapter 11 of the Bankruptcy Code (“Code”) in the United States Bankruptcy Court for the Eastern District of Pennsylvania (“Court”) on behalf of the Debtor without counsel. The undersigned counsel entered his appearance for the Debtor on November 4, 2017, and was appointed as the Debtor’s counsel on November 28, 2017. From the filing of the case to the present, the Debtor has functioned as a debtor-in-possession pursuant to the requirements of Chapter 11 of the Bankruptcy Code

Section 1125 of the Code requires that Chapter 11 debtors prepare and file a proposed disclosure statement (“DS”) simultaneously with the filing of a plan for Court approval prior to circulating a proposed plan with an accompanying DS to provide certain information about the debtor and the plan to holders of all claims listed in the debtors’ Schedules or filed by alleged creditors. The proposed DS is filed with the Court and comments on and objections to the DS may be made before the hearing to consider approval of the DS. After approval of the 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. Such Ballots are then sent to counsel for the Debtors in a preaddressed envelope 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, i.e., adversely affected class of creditors designated in the Plan accepts the Plan by majority of number and two-thirds of the dollar 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 the plan is found to be fair and equitable to all classes.

B. THE DEBTOR

The Debtors was incorporated in Pennsylvania as a limited liability corporation by Hannigan, its Managing Member, on May 15, 2007. The Debtor was formed solely to own and operate a multi-story office building at 104-06 West Front Street, Media, PA. 19063 (“the Property”), a location directly across the street from the Delaware County Court House. The Property’s building was built on or about 1960. The Debtor acquired the Property for \$848,000.

Hannigan’s own professional payroll servicing company, Payroll Professionals, Inc. (“PPI”), was one of the original tenants of the Property. PPI has ceased doing business in March, 2017, and the Debtor is preparing to re-let this portion of the Property, consisting of five four offices, for a total of not less than \$3500/month. The Debtor presently has five tenants, which pay the respective monthly rentals: Dennis P. Sheehan, Esquire ((\$925), Donaghue & Labrum, a law firm (\$2400), Donald McKenna Productions (\$590), NCB Law Firm (\$925), and Next Generation Court Reporters (\$1450).

The Property is therefore fully occupied, and all tenants are current in rent. Each of the tenants are listed as unsecured creditors of the Debtor in the amounts of their respective security deposits.

Hannigan, the sole shareholder of the Debtor, is an accountant, although he is not a certified public accountant. His wife of 17 years, Stephanie Hannigan, is a certified public accountant employed for the past two years by RSM McGladney, an accounting firm in Blue Bell, PA., where she supervises tax scheduling, at a salary of \$70,000/year. Hannigan is applying for employment at present, from which he expects to earn approximately \$60,000/year. , Myles and Stephanie are both 46 years of age. They reside at 307 French Road, Newtown Square, PA. 19073, with their three children, aged 14, 13, and nine years, respectively.

The purchase of the Debtor was financed by a loan of December 17, 2007, from PNC Bank, National Association (“PNC”), in the amount of \$848,000, secured by a first mortgage on the Property and a security interest in the Property rents. The interest rate on this loan was 5.0 percent , and the monthly payments are approximately \$5500/month. The Debtor has remained mostly current, being in arrears only two payments. This loan matures in April, 2018.

A second mortgage on the Property is held by Celtic Bank Corporation (“Celtic”),, and is guaranteed by the Small Business Administration. Celtic provided a loan of March 16, 2015, in the amount of \$508,500 to fund the purchase of a business formerly known as Payserve by PPI. The security for this loan was the Debtor’s Property and its rents, the residence of Myles and Stephanie Hannigan, and a property at 762 Forrest Street, Conshohocken, PA. 19428 (“the Conshy property”), owned by 307 MCM Properties, LLC (“MCM”), a

corporate entity also owned by Hannigan. The interest rate on this loan is seven percent, and the monthly payment is \$5647.64/month. This loan is in default since June, 2006.

C. EVENTS LEADING TO BANKRUPTCY

Standing alone, the Debtor is and has been a profitable enterprise. The legal problems of the Debtor arose principally from the business reversals of PPI. The purchase of Payserve turned out to be disastrous. Payserve was involved in payroll servicing of about 25 school districts in New Jersey. Many of the services were specialized, and Payserve could perform only with the continued participation of its former owner, which, though promised, was not forthcoming. As a result, all of the school district clients retained alternative accounting services, resulting in the complete destruction of Payserve's business.

Beginning in 2014, PPI began having difficulties serving its own clientele. Although Hannigan attempted to remediate these problems, these clients resorted to litigation, which the defendants, including the Debtor, failed to defend, even though Hannigan continued to work to resolve their problems. As a result of the persistence of these issues, combined with the failure of Payserve, caused PPI to cease doing business as of March, 2017.

The financial difficulties of PPI/Payserve resulted in the defaults in payments to Celtic. Celtic commenced an action by confessing judgment against the Defendants, which included PPI, the Hannigans, MCM, and the Debtor, on February 3, 2017, in the Court of Common Pleas of Delaware County ("the CCP"). No defenses were advanced by any of the Defendants., and a sheriff's sale of the Debtor's Property was scheduled on October 19, 2017. This sale was halted only by this bankruptcy filing.

Other disgruntled former clients of PPI, namely, River Mechanical, Inc., River

Mechanical Services, Inc., Pro Vision Productions, Inc., Saranolt, Inc. in the CCP, and Zommick McMahon in a Delaware County Magisterial District Court, have also filed lawsuits against PPI, the Hannigans, MCM, and the Debtor. Although the Debtor would not appear to have had any liability to these parties, no defenses were filed by any of the defendants, and default judgments totaling compensatory and punitive damages in excess of \$4 million were entered in favor of all of the respective parties referenced herein.

D. EVENTS IN THIS BANKRUPTCY CASE

The Meeting of Creditors was continued from December 12, 2017, to January 9, 2018, due to health issues of Hannigan. On the Debtor's Application, The court entered an Order of November 30, 2017, setting a Bar Date at January 17, 2018, for disputed, unliquidated, and non-contingent private claims, and April 16, 2018, for governmental claims. The only claims filed to date are those of PNC and Celtic, described above, a secured claim of the Pennsylvania Department of Revenue for \$14,300, and an unsecured claim of the Internal Revenue Service for \$6936.24.

The Debtor filed Motions to avoid the various judicial liens described above on December 10, 2017, but, on December 11, 2017, the court denied those Motions sua sponte on the ground that lien avoidance was not available to a corporation. On December 16, 2017, the Debtor then filed an adversary proceeding under 11 U.S.C. section 506 against Celtic and all of the lienholders in order to avoid all security interests claimed in excess of the value of the Property, alleged to be \$1 million. Responses to the proceeding are due by January 17, 2018. None has been filed by any party defendant to date.

E. THE PLAN

The Debtor's Plan of Reorganization contains five classes. All claims were scheduled as disputed except the claims of the Debtor's tenants in the Property. Priority and administrative claims were not classified. Classes One and Two consist of the claims of the first and second mortgagees against the Property, PNC and Celtic, respectively. Class Three includes only the secured claim of the Pennsylvania Department of Revenue. Class Four contains the creditors secured by judicial liens against the Property, which the Debtor has filed an adversary proceeding to avoid, as well as bifurcate the Celtic claim into secured and unsecured portions. Class Five contains the Debtor's general unsecured claims.

The Class Three claim will be paid in full within five years from the commencement of this case. Mortgage arrears owed to the Class Two and the secured portion of the Class Three claim will be cured within five years from the effective date of the plan, which is one year after confirmation of the plan. The unsecured portion of the Class Two, the Class Four claims, and the Class Five claims will be paid five (5 %) of their claims over a period of ten years.

The Debtor believes that all classified claims are impaired, and they will solicit ballots from all of their creditors which file necessary timely proofs of claim, and the tenants of the Debtor's Property, who are not obliged to file claims.

F. LIQUIDATION ANALYSIS

The only bankruptcy alternative to Chapter 11 is a Chapter 7 liquidation. The Debtor believes that, since the Debtor's Property is totally encumbered by mortgages and judicial Liens, a Chapter 7 trustee would be likely to abandon the Property. Therefore, in Chapter 7, there would be no distribution at all to unsecured creditors. Since the Debtor's plan contemplates

a payment to unsecured creditors, albeit a modest dividend of five (5 %) to all unsecured creditors, the result of this plan would be superior to a Chapter 7 case for the Debtor's unsecured creditors.

Hence, it is submitted that there is no practical bankruptcy alternative available to the Debtor which would provide a larger dividend to unsecured creditors as compared to the Debtor's Chapter 11 plan.

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

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