

UNITED STATES BANKRUPTCY COURT
MIDDLE DISTRICT OF PENNSYLVANIA

In re VMF, INC.,
Debtor

:
:
:

Case No. 5-17-01128

Chapter 11

DISCLOSURE STATEMENT OF VMF, INC
DATED JUNE 19, 2017

Table of Contents

I. Introduction	2
II. Background.....	3
III. Summary of Plan.....	4
A. Purpose of Plan.....	4
B. Unclassified Claims	4
1. Administrative Expenses	5
2. Priority taxes.....	5
C. Classes of Claims	5
1. Secured Claims.....	5
2. General Unsecured Claims	6
3. Equity Interests.....	7
D. Means of Implementing the Plan	7
E. Risks of the Plan	7
F. Executory Contracts	7
G. Tax Consequences	7
IV. Confirmation Requirements and Procedure.....	8
V. Effect of Confirmation	10

- EXHIBITS: A. Most recent Postpetition Operating Reports
 B. Liquidation Analysis

A copy of the proposed PLAN OF REORGANIZATION relating to this Disclosure statement is included as a separate attachment.

I. INTRODUCTION

This is the disclosure statement (the “Disclosure Statement”) in the Chapter 11 case of VMF, INC (the “Debtor”). This Disclosure Statement contains information about the Debtor and describes the Plan of Reorganization (the “Plan”) filed by the Debtor on June 19, 2017. A full copy of the Plan is included with this Disclosure Statement. ***Your rights may be affected. You should read the Plan and this Disclosure Statement carefully and discuss them with your attorney. If you do not have an attorney, you may wish to consult one.***

The proposed distributions under the Plan are discussed at pages 4-7 of this Disclosure Statement. General unsecured creditors are classified in Class 5, and will receive a distribution of 100% of their allowed claims.

A. Purpose of This Document

This Disclosure Statement describes:

- The Debtor and significant events during the bankruptcy case,
- How the Plan proposes to treat claims or equity interests of the type you hold (*i.e.*, what you will receive on your claim or equity interest if the plan is confirmed),
- Who can vote on or object to the Plan,
- What factors the Bankruptcy Court (the “Court”) will consider when deciding whether to confirm the Plan,
- Why the Debtor believes the Plan is feasible, and how the treatment of your claim or equity interest under the Plan compares to what you would receive on your claim or equity interest in liquidation, and
- The effect of confirmation of the Plan.

Be sure to read the Plan as well as the Disclosure Statement. This Disclosure Statement describes the Plan, but it is the Plan itself that will, if confirmed, establish your rights.

B. Deadlines for Voting and Objecting; Date of Plan Confirmation Hearing

The Court has not yet confirmed the Plan described in this Disclosure Statement. This section describes the procedures pursuant to which the Plan will or will not be confirmed. Please refer to the Orders of the Bankruptcy Court setting the deadlines and procedures related to the approval of the Disclosure Statement and Plan.

1. *Time and Place of the Hearing to Confirm the Plan*

The hearing at which the Court will determine whether to confirm the Plan will be set by Orders of the Bankruptcy Court and sent to creditors as required.

2. *Deadline for Voting to Accept or Reject the Plan*

If you are entitled to vote to accept or reject the plan, vote on the enclosed ballot and return the ballot to counsel for the Debtor-in-Possession as indicated on the ballot form. See section IV.A. below for a discussion of voting eligibility requirements.

Your ballot must be received by the deadline set by Order of the Bankruptcy Court or it will not be counted. The deadline is indicated on the ballot form.

3. *Deadline for Objecting to the Adequacy of Disclosure and Confirmation of the Plan*

Objections to this Disclosure Statement or to the confirmation of the Plan must be filed with the Court by the deadline set in the Order of the Bankruptcy Court.

4. *Identity of Person to Contact for More Information*

If you want additional information about the Plan, you should contact Debtor's counsel: Lisa M. Doran, Esq, 69 Public Square, STE 700, Wilkes-Barre, PA 18701, telephone 570-823-9111.

II. **BACKGROUND**

A. **Description and History of the Debtor's Business**

The Debtor is a Pennsylvania corporation which was incorporated on April 29, 1983 and conducted a powder coating business along with some metal fabrication. In 2013, James T. Ritko II, a shareholder of VMF, Inc, purchased a majority interest the stock and subsequently became the sole shareholder. After acquiring the stock, Mr. Ritko continued to operate a powder coating business as a sole proprietorship in the building owned by VMF, Inc.

B. **Insiders and Managers of the Debtor**

Since April of 2013, the sole shareholder, officer, and manager of VMF, Inc is James T. Ritko, II. Mr. Ritko will continue in this capacity after the plan is confirmed

C. **Events Leading to Chapter 11 Filing**

Because of cash flow difficulties with the sole proprietorship which was the tenant in the VMF, Inc building at 415 Walnut St, Scranton, Pa, VMF was unable to pay building expenses, including real estate taxes. The bankruptcy was filed to preserve the value of this asset and set up a payment schedule for creditors of VMF.

D. **Significant Events During the Bankruptcy Case**

- The Debtor employed counsel to assist in the reorganization.
- A plan has been formulated to allow the Debtor to repay creditors.

E. **Projected Recovery of Avoidable Transfers**

The Debtor does not intend to pursue preference, fraudulent conveyance, or other avoidance actions.

F. **Claim Objections**

Except to the extent that a claim is already allowed pursuant to a final non-appealable order, the Debtor reserves the right to object to claims. Even if your claim is allowed for voting purposes, you may not be entitled to a distribution if an objection to your claim is filed and upheld. The procedures for resolving disputed claims are set forth in Article V of the Plan.

G. Current and Historical Financial Conditions

The identity and fair market value of the estate’s assets as listed on the Schedules filed in this case:

<u>ASSET</u>	<u>PETITION VALUE</u>	<u>BASIS FOR VALUATION</u>
Real Property 415 Walnut St, Scranton, PA	800,000.00*	2013 financing appraisal
2004 Sterling 24ft box truck	8,000.00	estimate
2 Forklifts	10,000.00	estimate
Powder Coating Line	40,000.00	estimate
Misc. supplies and tools	5,000.00	estimate
Batch oven	15,000.00	estimate
Burn off oven	5,000.00	estimate
Office equipment	500.00	estimate

*NOTE: The mortgagee PNC Bank has valued the property at \$370,000 on its recent proof of claim

The most recent post-petition operating report filed since the commencement of the Debtor’s bankruptcy case is set forth in Exhibit A.

III. SUMMARY OF THE PLAN OF REORGANIZATION AND TREATMENT OF CLAIMS AND EQUITY INTERESTS

A. What is the Purpose of the Plan of Reorganization?

The Plan places claims and equity interests into classes and describes the treatment each class will receive. The Plan states whether each class is impaired or unimpaired. If the Plan is confirmed, your recovery will be limited to the amount provided by the Plan.

B. Unclassified Claims

Certain types of claims are automatically entitled to specific treatment under the Code. They are not considered impaired, and holders of such claims do not vote on the Plan. They may, however, object if, in their view, their treatment under the Plan does not comply with that required by the Code. As such, the Plan Proponent has *not* placed the following claims in any class:

1. Administrative Expenses

Administrative expenses are costs or expenses of administering the Debtor’s chapter 11 case which are allowed under § 507(a)(2) of the Code. The Code requires that all administrative expenses be paid on the Effective Date of the Plan, unless a particular claimant agrees to a different treatment.

The following chart lists the estimated administrative expenses, and their proposed treatment:

Type of Administrative Expense	Est. Amt Owed	Proposed Treatment
Expenses Arising in the Ordinary Course of Business After the Petition Date	\$0	There are no known expenses in this category—any will be paid from cash flow.
Professional Fees	to be determined	Paid from cash flow after fees are approved by the Court.
Office of the U.S. Trustee Fees	\$0	Paid in full from cash flow when due.

2. **Priority Tax Claims**

Priority tax claims are unsecured income, employment, and other taxes defined in §507(a)(8) of the Code. Unless the holder of a priority tax claim agrees otherwise, it must receive the present value of such claim, in regular installments paid over a period not exceeding 5 years from the order of relief.

Priority Tax Creditors	Estimated Amount Owed
INTERNAL REVENUE SERVICE (corporate income tax)	\$31.12

Treatment of Priority Tax Obligations
--IRS filed a proof of claim for corporate income tax for the year 2013 in the amount of \$31.12 which will be paid in full within 30 days of the Effective Date.
-- IRS filed an estimated claim of \$2000 for the 2014 and 2015 taxes because of unfiled tax reports, but the Debtor is now preparing those reports. The Debtor anticipates little or no tax will be owed. Once the reports are filed, the Debtor will pay any priority taxes which are included on an Amended Proof of Claim filed by IRS (subject to the Debtor's rights to object to the claim). The Debtor will either pay the priority taxes as shown on the amended proof of claim in full or file objections to the claim within 30 days after the amended claim is filed.

C. **Classes of Claims and Equity Interests**

The following are the classes set forth in the Plan, and their proposed treatment:

1. **Classes of Secured Claims**

Allowed Secured Claims are claims secured by property of the Debtor's bankruptcy estate to the extent allowed as secured claims under § 506 of the Code.

Class #	Name of Creditor & Description	Impaired?	Treatment of Secured Claim
1	LACKAWANNA COUNTY TAX CLAIM BUREAU claim #3 <u>Nature of Claim:</u> 2013 -2016 County, Library & School real estate tax <u>Collateral:</u> 415 Walnut St, Scranton, PA <u>Allowed secured claim:</u> . \$44,514.58	no	The \$44,514.58 will be amortized over 5 years at the statutory interest rate of 9%, with monthly payments of \$918.00 paid on the 15 th day of each month beginning the first full month following the Effective Date. The Claimant will retain its liens on the collateral until the obligation is paid. The Debtor may refinance this obligation at any time and pay the then-existing balance in full
2	CITY OF SCRANTON TAX OFFICE Claim # 4 <u>Nature of Claim:</u> Municipal real estate tax for 2013-2015 <u>Collateral:</u> real property at 415 Walnut ST, Scranton, PA <u>Allowed secured claim:</u> \$ 17,242.62 <u>Arrears:</u> \$ 17,242.62 (+ 2016 tax est at \$6,500)	no	The Class 2 claim will include the \$17,242.62 as filed, plus \$6,500 for est. 2016 tax, for a total of \$23,742.62. The \$23,742.62 will be amortized over 5 years at the statutory interest rate of 9%, with monthly payments of \$490.00 paid on the 15 th day of each month beginning the first full month following the Effective Date. The Claimant will retain its liens on the collateral until the obligation is paid. The Debtor may refinance this obligation at any time and pay the then-existing balance in full.

Class #	Name of Creditor & Description	Impaired?	Treatment of Secured Claim
3	<p>PNC BANK <i>Claim # 5</i></p> <p>Nature of Claim: note secured by mortgage</p> <p><u>Collateral</u>: Real property at 415 Walnut St, Scranton, PA</p> <p><u>Allowed secured claim</u>: \$154,406.00</p> <p><u>Arrears</u>: \$39,236.00 (<i>plus payments for April & May 2017 for a total of \$41,544.</i>)</p>	no	<p>Debtor or tenant will pay the regular monthly mortgage payment (currently \$1,154.00 per month) directly to PNC Bank beginning June, 2017 and for future months per the contract.</p> <p>The arrears of \$41,544 will be amortized over 60 months at 5.45% interest with a monthly payment of \$ 745.00 paid on the <u>15th day of each month</u> beginning the first full month after the Effective Date.</p> <p>PNC will retain its mortgage lien on the collateral until the obligation is paid. The Debtor may refinance this obligation at any time and pay the then-existing balance in full.</p>
4	<p>PROTECH CHEMICALS</p> <p>Nature of Claim: judgment lien</p> <p><u>Collateral</u>: real property at 415 Walnut St, Scranton, PA</p> <p><u>Allowed secured claim</u> \$5,455.99</p>	no	<p>The Debtor calculates the amount due on the judgment as of the date of the bankruptcy filing was approximately \$6500. The \$6500 will be amortized over 60 months at 6% interest with a monthly payment of \$123.00 paid on the 15th day of each month, beginning the first full month after the Effective Date.</p> <p>Protech will retain its judicial lien on the collateral until the final payment is received at which time Protech shall deliver a release of judgment to the Debtor. The Debtor may settle this obligation at any time or refinance and pay off the then-existing balance in full</p>

2. ***Class 5: Class of General Unsecured Claims***

General unsecured claims are not secured by property of the estate and are not entitled to priority under § 507(a) of the Code. The following is a list of general unsecured creditors:

Name of Creditor	Claim #	Allowed proof of claim
Internal Revenue Service	#1	851.32

Treatment of General Unsecured Creditors

Allowed general unsecured claims will be paid in full in a lump sum payment within 60 days of the Effective Date. If the IRS amends its unsecured claim after the Debtor files additional corporate tax reports, any additional tax due will be paid within 60 days of the amended claim (unless the Debtor files a claim objection).

3. ***Class 6 --Class of Equity Interest Holder***

Equity interest holders are parties who hold an ownership interest (*i.e.*, equity interest) in the Debtor. In a corporation, entities holding preferred or common stock are equity interest holders.

The common stock of the Debtor is owned by James T. Ritko II. The existing equity holder will retain his interest in the Debtor. This plan may violate the absolute priority rule.

John Van Fleet has indicated a claim to 20 shares of stock assigned to him in 2015, but the Debtor's records show that those same 20 shares had been assigned to James T. Ritko II in April, 2013. The Debtor's position is that James T. Ritko II is the sole owner of all the common stock of VMF, Inc.

D. Means of Implementing the Plan

Source of Payments: Payments under the Plan will be funded by lease payments. James T. Ritko II t/a Custom Powder Coating is entering into a lease with the Debtor for monthly lease payments of \$5,000 for the premises at 415 Walnut St, Scranton, PA. The \$5000 will be sufficient to pay the existing PNC mortgage, ongoing real estate taxes, and the Plan payment. The tenant will pay other building expenses.

E. Risk Factors

The proposed Plan has the following risks: unsecured and priority creditors have little risk, since they will be paid in full in a lump sum within 60 days after the Effective Date, so the only risk would be the funds not being in place by that date. For secured creditors, funding of the plan depends on lease payments from the Lessee. However, the secured creditors remain protected by the value of the VMF building, and the risk decreases as their claims are reduced through monthly payments.

Creditors would have significant risks if the plan is not approved. If the case is converted, a Trustee might not administer the case because of the nominal amount of unsecured claims. In such event, the secured mortgagee would have to foreclose, and incur the expenses and uncertainty of a forced sale. The judgment creditor would be unlikely to recover anything if the bank foreclosed. If the Trustee did agree to sell the property for a carveout of his expenses, there is a risk that the net proceeds would not be enough to pay all creditors in full. In addition, any distribution to unsecured creditors would likely be delayed by more than a year until the estate is fully administered

2. Post-confirmation Management

The Post-Confirmation Managers of the Debtor, and their compensation, shall be as follows:

Name	Affiliations	Insider?	Compensation
James T. Ritko, II	Vice President /shareholder	yes	No compensation paid by Debtor.

F. Executory Contracts and Unexpired Leases

There were no Executory Contracts or unexpired leases as of filing date. James T. Ritko dba Custom Powder Coatings will lease the business premises from the Debtor as described in III D above.

G. Tax Consequences of Plan

Creditors and Equity Interest Holders Concerned with How the Plan May Affect Their Tax Liability Should Consult with Their Own Accountants, Attorneys, and/or Advisors.

IV. CONFIRMATION REQUIREMENTS AND PROCEDURES

To be confirmable, the Plan must meet the requirements listed in §§ 1129(a) or (b) of the Code, including that the Plan must be proposed in good faith; at least one impaired class of claims must accept the plan, without counting votes of insiders; the Plan must distribute to each creditor and equity holder at least as much as they would receive in a chapter 7 liquidation, unless the creditor or equity holder votes to accept the Plan; and the Plan must be feasible. These requirements are not the only requirements in § 1129, and they are not the only requirements for confirmation.

A. **Who May Vote or Object**

Any party in interest may object to the confirmation of the Plan if the party believes that the requirements for confirmation are not met.

Many parties in interest, however, are not entitled to vote to accept or reject the Plan. A creditor or equity interest holder has a right to vote for or against the Plan only if that creditor or equity interest holder has a claim or equity interest that is both allowed and impaired.

In this case, the Plan Proponent believes that no class is impaired. The Plan Proponent believes that classes 1 through 6 are unimpaired and that holders of claims in each of these classes, therefore, do not have the right to vote to accept or reject the Plan.

1. *What Is an Allowed Claim or an Allowed Equity Interest?*

Only a creditor or equity interest holder with an allowed claim has the right to vote on the Plan. Generally, a claim is allowed if either (1) the Debtor has scheduled the claim on the Debtor's schedules, unless the claim has been scheduled as disputed, contingent, or unliquidated, or (2) the creditor has filed a proof of claim or equity interest, unless an objection has been filed to such proof of claim or equity interest. When a claim or equity interest is not allowed, the creditor holding the claim cannot vote unless the Court, after notice and hearing, either overrules the objection or allows the claim for voting purposes pursuant to Rule 3018(a) of the Federal Rules of Bankruptcy Procedure.

The deadline for filing a proof of claim in this case is June 30, 2017.

2. *What Is an Impaired Claim or Impaired Equity Interest?*

As noted above, the holder of an allowed claim or equity interest has the right to vote only if it is in a class that is *impaired* under the Plan. As provided in § 1124 of the Code, a class is considered impaired if the Plan alters the legal, equitable, or contractual rights of the members of that class.

3. *Who is Not Entitled to Vote*

The holders of the following five types of claims and equity interests are *not* entitled to vote:

- holders of claims and equity interests that are disallowed by order of the Court;
- holders of other claims or equity interests that are not "allowed claims" (as discussed above), unless they have been "allowed" for voting purposes.
- holders of claims entitled to priority under §507(a)(2) and (a)(8) of the Code;
- holders of claims or equity interests in unimpaired classes; and
- administrative expenses.

Even If You Are Not Entitled to Vote on the Plan, You Have a Right to Object to the Confirmation of the Plan.

4. *Who Can Vote in More Than One Class*

A creditor whose claim has been allowed in part as a secured claim and in part as an unsecured claim, or who otherwise hold claims in multiple classes, is entitled to accept or reject a Plan in each capacity, and should cast one ballot for each claim.

B. Votes Necessary to Confirm the Plan

If impaired classes exist, the Court cannot confirm the Plan unless (1) at least one impaired class of creditors has accepted the Plan without counting the votes of any insiders in that class, and (2) all impaired classes have voted to accept the Plan, unless the Plan is eligible to be confirmed by a “cram down” on non-accepting classes, as discussed later in Section B.2.

1. *Votes Necessary for a Class to Accept the Plan*

A class accepts the Plan if both (1) the holders of more than one-half (1/2) of the allowed claims in the class who vote, cast their votes to accept the Plan, and (2) holders of at least two-thirds (2/3) in dollar amount of the allowed claims in the class, who vote, cast their votes to accept the Plan.

A class of equity interests accepts the Plan if the holders of at least two-thirds (2/3) in amount of the allowed equity interests in the class, who vote, cast their votes to accept the Plan.

2. *Treatment of Nonaccepting Classes*

Even if one or more impaired classes reject the Plan, the Court may confirm the Plan if the nonaccepting classes are treated as prescribed by § 1129(b) of the Code. A plan that binds nonaccepting classes is commonly referred to as a “cram down” plan. The Code allows the Plan to bind nonaccepting classes of claims or equity interests if it meets all the requirements for consensual confirmation except the voting requirements of § 1129(a)(8) of the Code, does not “discriminate unfairly” and is “fair and equitable” toward each impaired class that has not voted to accept the Plan.

You should consult your own attorney if a “cramdown” confirmation will affect your claim or equity interest, as the variations on this general rule are numerous and complex.

C. Liquidation Analysis

To confirm the Plan, the Court must find that all creditors and equity interest holders who do not accept the Plan will receive at least as much under the Plan as they would receive in a chapter 7 liquidation. A liquidation analysis is attached to this Disclosure Statement as Exhibit B.

D. Feasibility

The Court must find that confirmation of the Plan is not likely to be followed by the liquidation, or the need for further financial reorganization, of the Debtor or any successor to the Debtor, unless such liquidation or reorganization is proposed in the Plan.

1. *Ability to Initially Fund Plan*

The Plan Proponent believes that the Debtor will have enough cash on hand on the Effective Date of the Plan to pay all the claims and expenses that are entitled to be paid on that date. The claims required to be paid shortly after the Effective Date will not require a significant amount of cash.

2. *Ability to Make Plan Payments And Operate Without Further Reorganization*

The Plan Proponent must show that it will have enough cash over the life of the Plan to make the required Plan payments. Funding for the plan will be from a lease agreement between the Debtor and James T. Ritko II t/a Custom Powdercoating.

The monthly lease payments from Mr. Ritko will be sufficient to pay the payments under the plan. The lease payment will be \$5,000 per month and the monthly payments under the plan are 2,685.00.

V. EFFECT OF CONFIRMATION OF PLAN

A. DISCHARGE OF DEBTOR

Discharge. On the Effective Date of the Plan, the Debtor shall be discharged from any debt that arose before confirmation of the Plan, to the extent specified in § 1141(d)(1)(A) of the Code, except that the Debtor shall not be discharged from any debt (i) imposed by the Plan, (ii) of a kind specified in § 1141(d)(6)(A) if a timely complaint was filed in accordance with Rule 4007(c) of the Federal Rules of Bankruptcy Procedure, or (iii) of a kind specified in § 1141(d)(6)(B). After the Effective Date your claims against the Debtor will be limited to the debts which arise under the Plan.

B. Modification of Plan

The Plan Proponent may modify the Plan at any time before Confirmation, but the Court may require a new disclosure statement and/or re-voting on the Plan.

The Plan Proponent may seek to modify the Plan at any time after confirmation only if (1) the Plan has not been substantially consummated *and* (2) the Court authorizes the proposed modifications after notice and a hearing.


C. Final Decree

Once the estate has been fully administered, as provided in Rule 3022 of the Federal Rules of Bankruptcy Procedure, the Plan Proponent may seek a final decree to close the case. Alternatively, the Court may enter such a final decree on its own motion.

VMF, INC

BY: 
James T. Ritko II, Vice President

Attorneys for VMF, INC

BY: 
Lisa M Doran, Esq
Doran & Doran, PC
69 Public Square STE 700
Wilkes-Barre, PA 18701
570-823-9111

ATTACHED EXHIBITS

- A. Summary of Postpetition Operating Reports
- B. Liquidation Analysis

Exhibit A – Postpetition Operating Reports

The postpetition Operating Report filed to date does not reflect lease payments from the Tenant, as the Lease was not yet in place. The Operating Report is not attached because it shows no income activity.

Exhibit B – Liquidation Analysis

Plan Proponent's Estimated Liquidation Value of Assets

Assets

a. Cash on hand	\$ 100.00
d. Office furniture & equipment	\$ 500.00
e. Machinery & equipment	\$ 15,000.00
f. Vehicles	\$ 4,000.00
g. Building & Land	\$ <u>370,000.00</u>

Total Assets at Liquidation Value \$ 389,600.00

Less:

Secured creditors' recoveries \$ 244,992.00

Less:

Chapter 7 trustee fees and expenses \$ 5,000.00

Less:

Est realtor and auctioneer commission \$ 30,000.00

Less:

Additional 1 year of real estate taxes est. to accrue while real property is marketed and sold \$ 15,000.00

Less:

Chapter 11 administrative expenses \$ 5,000.00

Less:

Priority claims, excluding administrative expenses \$ 31.00

(1) Balance for unsecured claims \$ 89,577.00

(2) Total dollar amount of unsecured claims \$ 851.32

Percentage of Claims Which Unsecured Creditors Would Receive Or Retain in a Chapter 7 Liquidation: 100% (but paid after Trustee has fully administered estate, assuming estate is administered and sufficient funds received)

Percentage of Claims Which Unsecured Creditors Will Receive or Retain under the Plan: 100% (paid within 60 days of Effective Date of Plan)