

MLH DS Final

**IN THE UNITED STATES BANKRUPTCY COURT
FOR THE WESTERN DISTRICT OF PENNSYLVANIA**

IN RE:) **Case No. 16-22568 CMB**
McELRATH LEGAL HOLDINGS, LLC,) **Chapter 11**
Debtor.) **Docket No.**

**DISCLOSURE STATEMENT
TO ACCOMPANY PLAN DATED MARCH 18, 2017**
(The Debtor is Chapter 11 small business debtor)

Section 1 - Executive Summary of Plan

Reasons for Chapter 11: The Debtor was obligated on ten long term real property leases which it could not afford. Collection actions on most of these leases were initiated in state court. The primary reasons for the Chapter 11 filing were to reject (terminate) any of the leases which remained in effect and limit the damages arising from the Debtor’s default on these leases.

Business Changes: As a result of the lease rejections, the Debtor’s monthly rent expense was reduced from approximately \$18,000 to \$5,300.

Secured Claim: The Debtor’s only secured claim (Class 1) will be paid in full payment with interest in six monthly payments.

General Unsecured Claims: There are two classes of general unsecured claims: Class 2 (any claim of \$600 or less) and Class 3 (any claim exceeding \$600).

Class 2: Paid in full on the **Plan Distribution Date**, estimated to be August 1, 2017 (“PDD”).

Class 3: Two options are available - Primary (100%) and Alternative (90% with early payment of a partial, lump sum estimated to be 28%).

100% Primary Treatment - 100% with interest at 3.75% in 84 monthly payments commencing on the PDD **UNLESS** such claimant elects the alternative treatment.

90% Alternative Treatment - 90% by (a) an initial lump sum payment on the PDD and (b) the balance with interest at 3.00% in 84 equal monthly payments; if the claimant releases its claims against Paul W. McElrath, Jr., the sole owner of the Debtor. **The lump sum payment** will be a pro rata share of a Class 3 pool of funds of not less than \$60,000 and not more than \$100,000 among all claimants who make the election. The Debtor’s best **estimate** of the amount of the **lump sum distribution** is a **28% distribution** (see Section 10, para. A).

Equity Security Interests: Retained by Paul W. McElrath, the sole owner of the Debtor.

Chapter 7 Liquidation Alternative - Estimated 6% Distribution for Classes 2 and 3: The Debtor estimates that general unsecured claimants (Classes 2 and 3) will receive a distribution of approximately 6% at least 18 months after conversion to a chapter 7 if (a) the Debtor cannot obtain approval of any plan and (b) the Debtor’s case is converted to a chapter 7 case.

Section 2 - Definitions

The following terms, when used in this Disclosure Statement and related Plan of Reorganization, shall, unless the context otherwise indicates, have the following meanings, respectively:

- 2.01 **“Administrative Expense Claim”** means any right to payment constituting a cost or expense of administration of the Chapter 11 case allowed under Section 503(b) and 507(a)(1) of the Bankruptcy Code.
- 2.02 **“Allowed Claim”** means a claim to the extent such claim is (a) not subject to a pending objection, (b) scheduled by the Debtor in a liquidated amount and not listed as contingent, unliquidated or disputed or (c) otherwise has been allowed by a final order or pursuant to the Plan.
- 2.03 **“Bankruptcy Court”** or **“Court”** means the United States Bankruptcy Court for the Western District of Pennsylvania.
- 2.04 **“Claim”** has the meaning set forth in Section 101 of the Bankruptcy Code.
- 2.05 **“Class 3 Pool”** means the balance in the Debtor’s DIP bank account at Citizens Bank, account no. xxxxxxx402-6 (“DIP Account”) on the Plan Distribution Date, less \$58,000, but the Class 3 Pool shall not be less than \$60,000 nor more than \$100,000 (“Pool Calculation”). If the Pool Calculation yields a number less than \$60,000, the \$58,000 figure shall be reduced until the Pool Calculation yields \$60,000. If the Pool Calculation yields a number more than \$100,000 the \$58,000 figure shall be increased until the Pool Calculation yields \$100,000. An itemization of the DIP Account month end balances from July 31, 2016, to February 28, 2017 is set forth in Exhibit “A”.
- 2.06 **“Code”** or **“Bankruptcy Code”** means Title 11 of the United States Code, 11 U.S.C §101, et seq. as amended. as applicable to this Chapter 11 case.
- 2.07 **“Confirmation Order Date”** means the day the order confirming the Plan is docketed.
- 2.08 **“Contested Claim”** means a claim which is not finally allowed.
- 2.09 **“Counsel”** means the Debtor’s counsel, Gary W. Short.
- 2.10 **“Debtor”** means McElrath Legal Holdings, LLC
- 2.11 **“Disclosure Statement”** means the Disclosure Statement related to the Plan filed on March 18, 2017.
- 2.12 **“Disputed”** means that portion or all of a claim that is not an allowed claim.
- 2.13 **“Final Court Approval”** means when appeals relating to an Order entered by the Court are finally resolved.
- 2.14 **“General Unsecured Claim”** means a claim that it not an Administrative, Priority, or Secured Claim.

- 2.15 **“Lien”** has the meaning set forth in Section 101 of the Bankruptcy Code.
- 2.16 **“Petition Date”** means July 11, 2016.
- 2.17 **“Plan”** means the Plan of Reorganization filed by the Debtor on March 18, 2017, and any modifications and amendments.
- 2.18 **“Plan Confirmation Date”** means the date the order confirming the Plan becomes final and not subject to appeal.
- 2.19 **“Plan Distribution Date”** means the 90th day after the Plan Confirmation Date.
- 2.20 **“Plan Effective Date”** means the 30th day after the Plan Confirmation Date.
- 2.21 **“Pro Rata Share”** means, subject to sub-paragraphs (a)-(e) below, a pro rata share of the **Class 3 Pool** (defined in §1.05 of the Plan) of those Class 3 claimants who elect the treatment set forth in Plan §4.03(b). The Debtor shall have the right to elect to treat any untimely election as timely.
- (a) **Contested Claim.** If any Class 3 claim is not finally allowed by the Plan Distribution Date, such claim shall be deemed a “Contested Claim”.
- (b) **Estimates of Allowed Class 3 Claims.** Debtor’s estimates of the allowed amount of all Class 3 claims including Contested Claims for the purpose of determining such claimant’s pro rata share of the Class 3 Pool is set forth Exhibit “B”.
- (c) **Plan Vote by Holder of Contested Class 3 Claim.** If a holder of a Contested Class 3 claim votes in favor of the Plan by electing to be paid under §4.03(b) of the Plan, such vote, subject to court approval, shall be effective for the purposes of such claimant electing to be paid its final allowed claim according to §4.03(b) of the Plan but shall not be counted for the purposes of determining whether such class has accepted or rejected the Plan
- (d) **Escrow.** The distribution which would have been made to the holder of a Contested Claim on the Plan Distribution Date based upon the Debtor’s estimate of the Contested Claim amount, if such claim has been finally allowed in such amount, shall be held in escrow by Debtor’s counsel (“Escrow”).
- (e) **Distribution.** Within 30 days after final allowance of all Contested Claims such claimants shall be paid its pro rata share of the Class 3 Pool as follows:
- (I) If the final allowed of any Contested Claim is greater than the Debtor’s estimate of the allowed amount of such claim, the excess shall added to claimant’s Discounted Claim and be paid according to §4.03(b) of the Plan; or
- (ii) If the final allowed amount of any Contested Claim is less than the Debtor’s estimate of the allowed amount of such claim , the excess held in escrow on account of such claim shall be distributed on a pro rata basis to all Class 3 claimants who are to be paid under §4.03(b) of the Plan by a supplemental distribution.
- 2.22 **“Priority Claim”** means any claim that is entitled to priority in accordance with section 507(a) of the Bankruptcy Code, other than an administrative expense claim.
- 2.23 **“Secured Claim”** means any claim that is secured by a valid lien on the Debtor’s property.

Section 3 - Disclosures

The Debtor, McElrath Legal Holdings, LLC, furnishes this disclosure statement to creditors in the above-captioned matter pursuant to Bankruptcy Code 11 U.S.C. §1125 to assist them in evaluating Debtor's proposed Chapter 11 plan. Creditors may vote for or against the plan of reorganization. Creditors who wish to vote must complete their ballots and return them to the following address before the deadline noted in the order approving the disclosure statement and fixing the time for balloting. The Court will schedule a hearing on the Plan pursuant to 11 U.S.C. §1129.

Address for return of ballots:

**Gary W. Short, Esquire
212 Windgap Road
Pittsburgh, Pa 15237**

Section 4 - Background

- A. Name of Debtor: McElrath Legal Holdings, LLC
- B. Type of Debtor: limited liability company.
- C. Debtor's Business or Employment: law firm doing primarily chapter 13 debtor work.
- D. Date of Chapter 11 Petition: July 11, 2016.
- E. Events that Caused the Filing: the Debtor was obligated on ten long term real property leases which the Debtor could not afford. Collection actions on nine of these leases had been initiated in state court.
- F. Anticipated Future of the Debtor and Source of this Information and Opinion: Will continue in operations under a confirmed plan. Source of opinion: Paul W. McElrath, Jr.
- G. Are All Monthly Operating Statements Current and on File With The Clerk of Court? Yes X No ___
- H. Does the plan provide for release of non-debtor parties? Yes. Class 3 claimants have the option to elect to be paid 90% by (a) an initial lump sum payment and (b) the balance in 84 equal monthly payments; if the claimant releases all claims against Paul W. McElrath, Jr., the sole owner of the Debtor.
- I. Identify all executory contracts that are to be assumed or assumed. Pre-petition leases from Craig R. Davey, Coleman Rentals, David G. Winans, and Holliday Real Estate, LLC.
- J. Has a bar date been set? Yes.
- K. Specify property that will be transferred subject to 11 U.S.C. §1146: none.

Section 5

Summary of Significant Plan Terms as to How Each Class of Creditors and Interests Will Be Paid and What Liens Will Be Retained or Granted.

A. The Plan creates the following classification of impaired claims:

Class 1 - Secured claim of Anthony Moody

Class 2 - General unsecured claims of not more than \$600.

Class 3 - General unsecured claims which exceed \$600

B. The Plan provides the following treatment of impaired claims:

1. Class 1 - The holder of allowed Class 1 secured claim, Anthony Moody, shall retain the lien which secures such claim and shall be paid one hundred percent (100%) of the allowed amount of such claim with interest an annual rate of 3.75% in six (6) equal consecutive monthly payments commencing on the Plan Effective Date.

2. Class 2 - Each holder of an allowed Class 2 claim shall be paid 100% of such claim without interest on the Plan Distribution Date.

3. Class 3 - Each holder of an allowed Class 3 claim shall receive two different Class 3 ballots - a Class 3 "A" Primary Treatment Ballot and a Class 3 "B" Alternative Treatment Ballot. Each holder of an allowed Class 3 claim who votes shall elect one of the two ballots.

(a) (Class 3 "A" Ballot) Primary Treatment. Each Class 3 claimant will be paid 100% of the allowed amount of their claim as of the Petition Date with interest at 3.75% in eighty four (84) equal consecutive monthly payments commencing on the Plan Effective Date unless the claimant elects the Alternative Treatment.

(b) (Class "B" Ballot) Alternative Treatment. Subject to the allowed claim estimation procedure in §1.20 of the Plan and the release provisions in §4.03(b)(3) of the Plan, a Class 3 claimant who timely submits a Class 3 "B" Ballot shall be paid ninety percent (90%) of their claim as of the Petition Date (hereinafter the "Discounted Claim") with simple interest at 3.00% per annum (with interest accruing from the Plan Distribution Date) as follows:

(1) Lump Sum Payment: On the Plan Distribution Date (defined in §2.18) such claimant shall (i) be paid a pro rata share (defined in §2.21) of the Class 3 Pool (defined in §2.05); (ii) be provided a Statement of Class §4.03(b) Distributions with verification of the DIP account balance on the Plan Distribution Date; and (iii) if §1.21 (a)-(e) of the Plan applies because there is a Class 3 claimant which submitted a Class 3 "B" ballot for a claim which is not finally allowed on the Plan Distribution Date, such claimant shall receive a distribution as set forth in §1.21(e) of the Plan.

(2) Deferred Payments: The unpaid balance of the Discounted Claim, after a deduction of their payment of claimant's share of the Class 3 Pool, shall be paid in eighty-four (84) equal consecutive monthly payments commencing thirty days after the Plan Distribution Date.

(3) **Releases:** If a claimant has a claim against Paul W. McElrath, Jr., individually (attached as Exhibit “C” is a current asset list of Paul W. McElrath):

- (I) Upon confirmation of the Plan, the claimant shall be stayed from initiating or continuing any legal or equitable action against Paul W. McElrath, Jr. except the claimant may act to protect its claim in any bankruptcy proceeding of Paul W. McElrath, Jr.;
- (ii) Upon receipt of its pro rata share of the Class 3 Pool, the claimant is deemed to have irrevocably waived any and all legal and equitable claims against Paul W. McElrath, Jr.;
- (iii) Within 20 days receipt of its pro rata share of the Class 3 Pool, the claimant shall:
 - (a) dismiss with prejudice, any action pending in any court against Debtor and/or Paul W. McElrath, Jr.,
 - (b) satisfy any judgments which the claimant has against the Debtor and/or Paul W. McElrath, Jr., and
 - (c) withdraw any claim or action in any bankruptcy proceeding of Paul J. McElrath, Jr. and cease participation in said case; and
- (iv) the claimant shall be subject to sanctions including reasonable attorney fees, costs, and actual damages in an enforcement action in the Bankruptcy Court if the claimant does not timely comply with the provisions of this sub-section.

Section 6 - Creditors

A. Secured Claims

Creditor (Class)	Collateral	Claim	Arrearage	D L U	Lien Retained Yes No
Anthony Moody	Office furniture	1,000	0	L	Yes
Total		1,000	0		

* “D” means disputed, “L” means liquidated, and “U” means unliquidated .

B. Priority Claims

Creditor	Total Amount Owed	Basis of Claim	Status
Gary W. Short	30,000	Professional fees (est.)	Unliquidated
Office of the U. S. Trustee	1,250	Statutory fees (est.)	Unliquidated
TOTAL	31,250		

C. Unsecured Claims

- 1. Amount Debtor Scheduled (Disputed and Undisputed) 1,656,899

2.	Amount of Unsecured Unsecured Claims*	3,500
3.	Total Claims Scheduled or Filed	1,660,399
4.	Amount Debtor Disputes	1,263,114
5.	Estimated Allowable Unsecured Claims	<u>397,285</u>

*Includes a.) unsecured claims filed by unsecured creditors; b.) that portion of any unsecured claims filed by a scheduled creditor that exceeds the amount debtor scheduled; c.) any unsecured portion of any secured debt not previously scheduled; and d.) that portion of any secured claims filed or scheduled which the value of such claimant's collateral.

Section 7 - Assets (values as of February 28, 2017)

Assets	Value	Value Basis	Lien Holder, Claim, Lien Position*	Equity
Bank deposits (non-IOLTA)	96,038		None.	96,038
Accounts receivable *	213,369		None	213,369
Office equipment	1,000		Anthony Moody	1,000
Other office equipment	2,500		None	2,500
	<u>312,907</u>			<u>312,907</u>

* See Exhibit "D" which is an explanation of the current status of the Debtor's accounts receivable.

A. Are any assets which appear on Schedule A or B of the petition not listed above? No.

B. Are any assets listed above claimed as exempt? No.

Section 8 - Summary of Plan

A. **Effective Date of Plan:** thirty days after the plan confirmation date.

B. **Distribution Date of Plan:** ninety after the plan confirmation date.

C. **Treatment of Claims Under the Plan:**

Class 1 Secured Claim(s)

Creditor	CL.	Claim	Summary of Proposed Treatment
Anthony Moody	1	1,000	100% in deferred payments.
		1,000	

2. Class 2 General Unsecured Claims (\$600 or less)

Creditor	Claim Source	Claim Amount Non-Insider	Claim Amount Insider	Amount of Distribution (100%)
Name	Source	Amount	Amount of Distribution	Percentage Dividend
AT&T	S	440.01	440.01	100%

Beaver County Times	S	530.00	530.00	100%
Black Mountain, Inc.	S	600.00	600.00	100%
Tarentum Boro.	S	26.33	26.33	100%
CE Bortz Realty	S	550.00	550.00	100%
Coleman Rental	S	200.00	200.00	100%
Comcast	S	113.76	113.76	100%
Daily American	S	300.00	300.00	100%
David Winans	S	574.00	574.00	100%
Holliday Real Estate	S	125.00	125.00	100%
Joseph F. Biddle Pub.	S	304.43	304.43	100%
Keith Peer	S	350.00	350.00	100%
MetLife	S	169.00	169.00	100%
Moshannon V.E.D.P.	S	600.00	600.00	100%
Newfield Properties	S	200.00	200.0	100%
North Hills Magazine	S	400.00	400.00	100%
Penelec	S	343.50	343.50	100%
Pennsylvania Am. Water	P	185.84	185.84	100%
Peoples Township	P	369.99	369.99	100%
PGH2O	S	280.65	280.65	100%
PPL Electric	S	210.98	210.98	100%
RCM Properties	S	500.00	500.00	100%
UGI Energy	S	42.20	42.20	100%
VRB Assocaites	S	200.00	200.00	100%
Westmoreland C. Trust	S	60.00	60.00	100%
Williamsport Properties	S	180.00	180.00	100%
		7,855.69		

3. Class 3 General Unsecured Claims (Greater than \$600)

Creditor	Claim Source	Claim Amount Non-Insider	Amount of Distribution (primary) (100%)	Amount of Distribution (alterative) (90%)	Amount of Distribution	
Name	Source	Amount	Amount of Distribution (100%)	Amount of Distribution (90%)	Treatment	
Clearfield C. of Commerce	P	3,500.00	3,500.00	3,150	90% or 100%*	
David G. Winans	S	1,125.00	1,125.00	1,013	90% or 100%*	
Dex Media	S	6,560.24	6,560.24	5,904	90% or 100%*	
EZToUse.Com	S	20,165.34	20,165.34	18,149	90% or 100%*	
Forever Media	S	6,040.00	6,040.00	5,436	90% or 100%*	
Full Service Network	P	1,666.16	1,666.16	1,500	90% or 100%*	
JOEJ, LLC**	P	16,737.30	16,737.30	15,064	90% or 100%*	
Jason and Susan Mazzei**	E	176,341.00	176,341.00	158,707	90% or 100%*	
TCJ Partners, LLC**	P	155,720.00	155,720.00	140,149	90% or 100%*	
YP Billings	S	1,574.48	1,574.48	1,417	90% or 100%*	
		389,429.52	389,429.52	350,489	90% or 100%*	

* Each Class 3 claimant will be paid 100% with interest at 3.75% in 84 monthly payments commencing on the Plan Effective Date unless such claimant elects to be paid 90% of such claim with interest at 3.00% per annum as follows: on the Plan Distribution Date such claimant shall be paid a pro rata share of the Class 3 Pool and the unpaid balance of the reduced claim, after a deduction for claimant’s share of the Class 3 Pool, shall be paid in 84 monthly payments commencing thirty days after the Plan Distribution Date provided the claimant releases all claims it has against Paul W. McElrath, Jr. ** Claimants who do or who may hold claims against Paul W. McElrath, Jr.

4. Priority Claims

Name of Creditor *	Amount Owed	Type of Debt	Summary of Proposed Treatment
Gary W. Short	30,000	Legal fees (est.)	100% upon Court approval
UST Fees	1,250	Statutory fees	100% by Plan Effective Date
TOTAL	31,250		

F. **Will periodic payments be made to unsecured creditors?** Yes. Class 3 claimants will choose between two alternative treatments. The primary treatment is that they will be paid 100% with interest at 3.75% in 84 monthly payments **unless** such claimant elects the to be paid 90% of its claim by (a) an initial lump sum payment and (b) the balance with interest at 3.00% in 84 equal monthly payments; provided, such claimant releases all claims against

Paul W. McElrath, Jr., the sole owner of the Debtor. The lump sum payment will be a pro rata share a Class 3 Pool of funds which will be not less than \$60,000 and not more than \$100,000. The Debtor's best estimate of the amount of the lump sum distribution is 28% but it could be as low as 17% (Class 3 Pool \$60,000) and as high as 28% (Class 3 Pool \$100,000).

- G. **State source of funds for plan payments:** Current bank deposits and future earnings.
- H. **Other significant features of the plan:** The plan provides Class 3 claimants the option to release Paul W. McElrath, Jr. from any claims the claimant has against Mr. McElrath in exchange for an initial lump sum payment of between 17% and 28% of 90% of such claim on the Plan Distribution Date and the payment of the balance of the discounted claim in 84 monthly payments.

Section 9 - Comparison of Plan with Chapter 7 Liquidation

If Debtor's proposed plan is not confirmed, the potential alternatives would include a proposal of a different plan, if the Court so permitted, a dismissal of the case, or conversion of the case to Chapter 7. If this case is converted to Chapter 7, a trustee will be appointed to liquidate the debtor's non-exempt assets. In this event, all secured claims and priority claims, including all expenses of administration, must be paid in full before any distribution is made to unsecured claimants.

1.	Total value of Chapter 7 estate*	48,000
2.	Less abandoned over-encumbered property	<u>1,000</u>
3.	Property to be Administered by Ch. 7 Trustee	<u>47,000</u>
	Less secured claims	0
	Less administrative expenses (ch. 7 and ch. 11)	23,000
	Less other priority claims	<u>0</u>
	Subtotal	
4.	Total Amount Available for Distribution to Unsecured Creditors	<u>24,000</u>
5.	Divided by total (estimated) allowable unsecured claims of :	<u>397,285</u>
6.	Percentage of Dividend to Unsecured Creditors:	<u>6.0%</u>

Will the creditors fare better under the plan than they would in a Chapter 7 liquidation? Yes.

Under the Plan Class 2 claimants will be paid 100% and Class 3 claimants will be paid either 100% or 90% of their claims. In a Chapter 7 it is unlikely that Class 2 and 3 unsecured claimants will receive a distribution in excess of 6% of their claims which would be made approximately eighteen months after the case were converted to a chapter 7.

If this case were converted to a chapter 7 case, a chapter 7 trustee would take title to the Debtor's assets including the cash and accounts receivables. The receivables, however, include the obligation of the legal representations which generated the receivables. The chapter 13 bankruptcy cases which generated the accounts receivable are ongoing and will generally require the services of chapter 13 debtor's lawyer for one to four years. It is unrealistic for a chapter 7 trustee to hire a Chapter 13 debtor's lawyer to service the cases for the three years or more it would take to collect most of the receivables. The existing cash would be depleted in a few months and the cost of paying the attorney and his staff would largely deplete the receivables as they are collected.

The only realistic scenario for a chapter 7 trustee is to try to sell the receivables in bulk to a chapter 13 debtor's attorney(s) who would service the bankruptcy clients in the future in exchange for getting the receivables, some portion of it and/or some of the chapter 7 trustee's cash. There are several problems with this type of a "sale", including the time to conduct the sale, the client's right to chose his attorney, the unknown nature of future legal representation a buyer would be undertaking and the likely competition from Paul McElrath, Jr. or a corporation in which he is a minority owner ("McElrath").

To find a buyer(s) and conduct such a sale would take at least two months and the Chapter 7 trustee would have to incur costs representing clients until the sale took place which would deplete a significant portion of the trustee's cash. Any buying attorney(s) would have leverage over the chapter 7 trustee because he knows the trustee could not incur such "representation costs" for long. The Court would be concerned that the Debtor's clients were properly represented while the sale process occurred and the Chapter 7 trustee was providing or paying for competent representation.

Since the \$213,369 in receivables is split among approximately 734 chapter 13 cases of which 292 were acquired from Mazzei and Associates (30 of which continue to pay), the average receivable per case is \$291. A "new" buying attorney would spend at least one hour in time, or roughly \$250, just getting familiar with the new case, in effect, reducing the value of the receivable to him to \$41.00 per case. The buying attorney(s) would not know if he was getting a collectible receivable, a problem client and/or time consuming case for several years. A time consuming case or problem client for several years has negative value. Any particular receivable is high risk and low reward.

Clients have a right to chose their own attorney so any lawyer who bought the receivables would have to factor in that a client may not agree to have the buying attorney now represent him. Upon appointment of a chapter 7 trustee, McElrath would leave the Debtor's law firm and he could compete for these clients. Since these clients know McElrath, many, if not most, may ask him to continue to represent them. A buying attorney, other than McElrath, would have no guaranty the client would consent to his representation so these attorneys would only offer a modest percentage or price for receivable(s). All of these uncertainties would also cause a buying attorney, other than McElrath, to further reduce his sale offer or simply walk away from the sale. Any sale offer would, most likely, have to compete with an offer from McElrath. McElrath competing in the sale process would have substantial chilling effect on other buyers.

McElrath would only agree to represent the Debtor's clients if he received the receivable associated with their case and some cash from the Trustee necessary for him to set up a new law office to continue to service these clients. Under these circumstances, the best offer the chapter 7 trustee may receive will probably be from McElrath. McElrath would condition his acceptance of the Debtor's cases on getting the receivables and some portion of the cash held by the Debtor. On February 28, 2017, the Debtor was holding about \$96,000. If 50% of the cash were transferred to McElrath, which is less than one month's operating expenses for the Debtor, roughly \$48,000 would be retained by the trustee. If the chapter 7 and 11 administrative fees were \$23,000, \$24,000 would be left for a distribution for the Debtor's \$397,285 in unsecured claims. This scenario would mean a 6% distribution to creditors in an estimated 18 months, far less than the Debtor is offering in this plan. Even if the trustee received an offer twice this price from another attorney, a 12% distribution in eighteen months to creditors is far below what the Debtor's plan is offering creditors in the first year.

Section 10 - Feasibility

A. **Estimate of Class 3 Lump Sum Distribution.** Debtor estimates that 10 claims will comprise

Class 3 and that these claims will total approximately \$389,429.52. Typically in chapter 11 cases claimants who do not file a claim do not participate in the plan confirmation process; i.e. submit a vote, a requirement to elect the alternative payment treatment. It is reasonable to estimate that: (1) only Clearfield Chamber of Commerce, Full Service Network, JOEJ, LLC, Jason and Susan Mazzei, and TCJ Partners, LLC, all of which have filed proofs of claim, will vote, (2) all of these claimants will elect the alternative treatment (lump sum payment alternative), and (3) due to (a) the growth in the DIP account balance during the chapter 11 (see Exhibit "A") and (b) the next four months being months which generally generate higher income, the account balance will be not less than \$160,000 on Plan Distribution Date.. The Class 3 pool amount would therefore be \$100,000. With an estimated \$353,964.46 in claims participating in the Class 3 Pool, such claimants would be paid a lump sum payment of 28% of their respective claims.

- B. Attached as Exhibit "E" is a plan payment summary and a 12 month profit and loss projection.
- C. Attached as Exhibit "F" is a summary of the Debtor's monthly operating reports from July 11, 2016 to February 28, 2017.
- D. To be paid on the plan distribution date: \$119,589. The basis of this estimate is:

170	Secured Claims
10,000	Administrative Class (on Court approval)
0	Taxes
7,855	Class 2 unsecured claims (\$7,855)
481	Class 3 unsecured claims (\$35,465.06 - primary treatment)
100,000	Class 3 unsecured claims (\$353,964.46 - elective treatment)
<u>1,250</u>	U.S.Trustee Fees
<u>119,756</u>	TOTAL

- F. **What assumptions are made to justify the increase in cash available for the funding of the plan?** The Debtor accumulation of cash during the chapter 11 and the anticipated increase through the Plan Distribution Date and future income thereafter, will be sufficient to service the Debtor's projected monthly plan payment of \$3,371 per month.
- G. **Will funds be available to pay administrative expenses in full on the plan distribution date?** Yes. From what source? Current cash deposits.
- H. **Current Cash on hand:** \$96,038 as of February 28, 2017 (a page from Debtor's checking account is attached as Exhibit "G" to verify current cash). Estimated Cash on date of confirmation \$116,000. Estimated cash on had on plan effective date: \$160,000.

Section 11 - Management Salaries

Position/Name of Person Holding Position	Salary at Time of Filing	Proposed Salary (Post-Confirmation)
Paul W. McElrath	70,000	96,000

Section 12

Identify Effect on Plan Payments and Specify Each of the Following:

- A. What, if any, Litigation is Pending? None.
- B. What, if any, Litigation is Proposed or Contemplated?
1. Objection to the claim of Jason and Susan Mazzei (certain).
 2. Objection to the claim of Clearfield Chamber of Commerce (possible).

Section 13 - Additional Information and Comments

In the case of a conflict between the terms of the Plan and the terms of the Disclosure Statement, the Plan shall control.

Section 14 - Certification

I, Paul W. McElrath, certify that the information herein is true and correct to the best of my knowledge and belief formed after reasonable inquiry. Signature of counsel is required by the Court and is not a certification of the accuracy this document.

/s/ Paul W. McElrath, Jr. Managing and Sole Member March 18, 2017

/s/ Gary W. Short
Gary W. Short, Esquire
(PA Bar I.D. No. 36794)
Counsel for Debtor