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7 Attorneys for Debtor

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9 IN THE UNITED STATES BANKRUPTCY COURT
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11 IN AND FOR THE DISTRICT OF ARIZONA

12 In re

13 DEER VALLEY MEDICAL CENTER,
14 LLC,

15 Debtor.

No. 2-10-10726-RJH

CHAPTER 11

DISCLOSURE STATEMENT

16 THE DEBTOR PROVIDES THIS DISCLOSURE STATEMENT TO
17 CREDITORS OF SUCH DEBTOR AND OTHER INTERESTED PARTIES. THE
18 PURPOSE OF THIS DISCLOSURE STATEMENT IS TO GIVE INFORMATION
19 WHICH THE DEBTOR BELIEVES TO BE MATERIAL, IMPORTANT AND
20 ADEQUATE FOR MAKING AN INFORMED DECISION IN VOTING ON THE
21 REORGANIZATION PLAN PROPOSED BY THE DEBTOR AND ON FILE WITH
22 THIS COURT. A CLASS OF CREDITORS HAS ACCEPTED THE PLAN, IF
23 AMONG THOSE CREDITORS, WITHIN SUCH CLASS, WHO VOTE ON THE
24 PLAN AT LEAST TWO-THIRDS IN AMOUNT AND MORE THAN ONE-HALF IN
25 NUMBER OF THE ALLOWED CLAIMS IN SUCH CLASS VOTE FAVORABLY
26 FOR THE PLAN.

27 IF, HOWEVER, THE REQUISITE ACCEPTANCES ARE NOT
OBTAINED, THE COURT MAY NEVERTHELESS CONFIRM THE PLAN OF

1 REORGANIZATION IF THE COURT FINDS THAT SUCH PLAN OF
2 REORGANIZATION ACCORDS FAIR AND EQUITABLE TREATMENT TO THE
3 CLASS REJECTING IT. IF SUCH REQUISITE ACCEPTANCES ARE NOT
4 OBTAINED, THE DEBTOR WILL URGE THE COURT TO NEVERTHELESS
5 CONFIRM THE PLAN OF REORGANIZATION.

6 NO REPRESENTATIONS CONCERNING THE DEBTOR ARE
7 AUTHORIZED BY THE DEBTOR OTHER THAN AS SET FORTH IN THIS
8 STATEMENT. ANY REPRESENTATION OR INDUCEMENT MADE TO
9 SECURE ACCEPTANCES WHICH IS OTHER THAN AS CONTAINED IN THIS
10 STATEMENT SHOULD NOT BE RELIED UPON IN ARRIVING AT A DECISION,
11 AND SUCH REPRESENTATIONS AND INDUCEMENTS SHOULD BE
12 REPORTED TO COUNSEL FOR THE DEBTOR, WHO, IN TURN, SHALL
13 DELIVER SUCH INFORMATION TO THE BANKRUPTCY COURT FOR SUCH
14 ACTION AS MAY BE DEEMED APPROPRIATE.

15 PLEASE BE AWARE THAT THE UNITED STATES BANKRUPTCY
16 COURT HAS NOT APPROVED OR VERIFIED THE ACCURACY OF THE
17 STATEMENTS SET FORTH IN THIS DISCLOSURE STATEMENT.

18 I. History of Debtor.

19 The Debtor is an Arizona limited liability company. The owner of
20 the Debtor is ROBERT KEY; he is the authorized agent of the Debtor to act as
21 the person to perform the duties of the Debtor-In-Possession. The Debtor was
22 formed in 2005 to purchase real property at 20414 North 27th Avenue, Phoenix,
23 Arizona, wherein a medical center and office facility of approximately 85,000
24 square feet was ultimately constructed ("real property"). ROBERT KEY
25 contributed the funds to purchase the undeveloped land and all costs necessary
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1 to develop the site. In 2007 construction began on the medical center and
2 office facility, with construction having been completed in 2008.

3 II. Bankruptcy History.

4 The Chapter 11 proceeding was filed on April 13, 2010. On April
5 22, 2010, the law firm of CARMICHAEL & POWELL, P.C., was appointed by the
6 Bankruptcy Court as the attorneys for the Debtor. When the Chapter 11
7 proceeding was filed, INLAND MORTGAGE CAPITAL CORP. ("INLAND"), the first
8 lien holder on the real property, had filed a Complaint for Appointment of
9 Receiver in Maricopa County Superior Court Case Number CV2010-004763.
10 Pursuant thereto, HANNAY INVESTMENT PROPERTIES, INC., was appointed
11 as the Receiver ("Receiver"). On April 16, 2010, INLAND filed a Motion to
12 Excuse the Turnover of Assets by Receiver; the Debtor did not object. On April
13 23, 2010, an Order was entered granting the Motion to Excuse the Turnover of
14 Assets by Receiver.
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17 III. Incidents Precipitating Chapter 11.

18 Besides filing the Complaint for Appointment of Receiver, INLAND
19 instituted a Deed of Trust foreclosure sale on the real property. ROBERT KEY
20 had invested \$3,488,000.00 of his personal funds into the Debtor and believed
21 the real property could be sold to satisfy claims of creditors. To avoid the loss
22 of the real property through foreclosure, the Chapter 11 Petition was filed.
23

24 IV. Assets and Liquidation Analysis.

25 It is the opinion of the Debtor that the fair market value of the real
26 property is \$11,000,000.00. A liquidation value is applicable of approximately
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1 \$8,500,000.00. The Debtor additionally owns 100 air conditioning units with a
2 fair market value of approximately \$300,000.00 and a liquidation value
3 approximating \$200,000.00. The fair market value referenced herein
4 represents what such real property would bring pursuant to sale with substantial
5 efforts in a normal course of sale efforts utilized. The liquidation value represents
6 a forced sale of the real property without reasonable and normal business
7 marketing efforts applicable.

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9 V. Valuation of Claims.

10 The Debtor possesses administrative expenses to CARMICHAEL
11 & POWELL, P.C., in an amount approximating \$10,000.00; a prepetition retainer
12 is in trust of \$4,461.00. Such administrative expenses are for legal services and
13 costs rendered on behalf of the Debtor in the Chapter 11 proceedings. The
14 Debtor believes all fees due the United States Trustee for quarterly fees are
15 current.

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17 The amount due INLAND approximates \$18,000,000.00. ARIES
18 REAL ESTATE FUND ("ARIES") possesses the second lien on the real property
19 in an amount of approximately \$983,000.00. Claims of unsecured creditors,
20 excluding those of ROBERT KEY, approximate \$350,000.00.

21 VI. Preparation and Accounting Information.

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23 The books and records of the Debtor have been prepared on a
24 regular basis under the direction of ROBERT KEY. The financial information
25 contained in this Disclosure Statement was prepared and supplied by ROBERT
26 KEY. Normal accounting procedures were utilized at all times in determining
27 valuation of assets, liquidation values, and amounts of claims.

1 VII. Post-Petition Matters.

2 As previously set forth herein, the law firm of CARMICHAEL &
3 POWELL, P.C., was appointed by the Bankruptcy Court as the attorneys for the
4 Debtor. Additionally, the Receiver appointed prepetition remains in place.

5 INLAND and the Debtor filed a Joint Motion to approve a lease with
6 UNITED HEALTHCARE SERVICES, INC. ("UNITED") and to modify a lease of the
7 Debtor with SMI IMAGING, LLC ("SMI"). The lease with UNITED would result in
8 an additional Fifty-Five Percent (55%) of the real property being occupied. An
9 Order to procure the lease with UNITED, a modification of the existing lease
10 between SMI and the Debtor needed to occur. Further, UNITED required
11 significant improvements to the real property, which INLAND agreed to provide
12 pursuant to Debtor-In-Possession financing. On May 5, 2010, the Bankruptcy
13 Court approved all such Motions.

14 An Application to Employ CASSIDY TURLEY BRE COMMERCIAL
15 to be the real estate broker for the Receiver and an Application to Employ
16 FENNEMORE CRAIG, P.C., as the attorneys for the Receiver were approved in
17 May, 2010. On July 7, 2010, a Motion for Relief from the Automatic Stay was
18 filed by the first lien holder of the real property. A timely Objection will be filed by
19 the Debtor.

20 VIII. Business Expectations.

21 During construction, the Debtor received commitments from various
22 entities for leases for approximately Sixty Percent (60%) of the real property.
23 However, the Debtor was only able to enter into leases with SMI for 5,109 square
24 feet and with SONORA QUEST LABS for 2,300 square feet, which leases
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1 represented approximately Ten Percent (10%) of the real property. As indicated,
2 the postpetition lease with UNITED is for approximately Fifty-Five Percent (55%)
3 of the real property. Accordingly, leases will be in effect for approximately Sixty-
4 Five Percent (65%) of the real property.

5 IX. Executory Contracts.

6 Nonresidential real property leases exist with SMI, SONORA
7 QUEST LABS and UNITED. All such leases are assumed by the Debtor.

8 X. Tax Consequences of Confirmation of the Plan.

9 The confirmation and consummation of the Plan may result in
10 Federal income tax consequences to holders of claims. Tax consequences to a
11 particular creditor will depend on the particular circumstances regarding the claim
12 of that creditor. It is recommended that holders of claims consult their own tax
13 advisors as to the consequences to them of the Plan under Federal and
14 applicable State and local tax laws.
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16 XI. Alternatives to the Plan.

17 The alternatives to confirmation of the Plan of Reorganization of the
18 Debtor are the continuation of the Chapter 11 proceedings, conversion to
19 Chapter 7 bankruptcy, or dismissal of this matter. The Debtor does not believe
20 the continuation of these matters without a confirmed Plan of Reorganization is
21 beneficial to any of the interested parties. Likewise, the Debtor does not believe
22 that dismissal will be of benefit to the interested parties. The other consideration
23 is conversion to Chapter 7. In a Chapter 7 liquidation, a Trustee will be
24 appointed, and the Trustee will require the services of an attorney and the
25 services of an accountant. The Debtor believes unsecured creditors will receive
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1 significantly more under the Plan of Reorganization of the Debtor as opposed to
2 Chapter 7 liquidation.

3 XII. Summary of Plan of Reorganization.

4 Set forth below is the Plan of Reorganization of the Debtor.

5 Classification of Creditors.

6 The classes of creditors are divided as follows:

- 7 Class 1 Expenses of Administration.
8 Class 2 INLAND.
9 Class 3 ARIES.
10 Class 4 Unsecured creditors.
11 Class 5. Owner.

12 Treatment Provisions for Claims of Creditors.

13 The claims of creditors will be satisfied and treated as below set
14 forth:

15 Class 1. The Debtor has certain administrative claimants. The
16 law firm of CARMICHAEL & POWELL, P.C., the Court appointed attorneys for
17 the Debtor, is due sums for legal services and expenses. The Debtor will pay
18 any approved sums to said claimant within thirty (30) days of the applicable Court
19 Order. Any sums due the United States Trustee are within this Class; it is
20 believed the Debtor is current with quarterly payments due the United States
21 Trustee, and will so remain current. This Class is not impaired by the Plan.
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23 Class 2. INLAND possesses the first lien on the real property
24 owned by the Debtor consisting of a medical center and office facility of
25 approximately 85,000 square feet located at 20414 North 27th Avenue, Phoenix,
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1 Arizona ('real property'). The lien of INLAND will be retained. The Debtor will
2 consummate a sale of the real property by December 31, 2010, with the approval
3 of INLAND. If such does not occur, INLAND will have stay relief to conduct a
4 Deed of Trust foreclosure sale effective the first business day of January, 2011.
5 Any amount unpaid to INLAND as a result of such sale shall be treated under
6 Class 4. The obligation to INLAND was possibly sold to WRT-DV, LLC, in June,
7 2010. This Class is impaired by the Plan.
8

9 Class 3. ARIES possesses the second lien on the real
10 property. No value exists in the real property to satisfy the secured claim of
11 ARIES. The amount due ARIES will be treated as an unsecured creditor under
12 Class 4. This Class is impaired by the Plan.
13

14 Class 4: Unsecured creditors with valid and proven claims will
15 be paid Ten Percent (10%) of such claims within two (2) years from the date of
16 confirmation. No interest will be paid to unsecured creditors. This Class is
17 impaired by the Plan.

18 Class 5. The Owner of the Debtor will contribute the funds
19 necessary to satisfy the valid and proven claims of Class 1 and Class 4. In
20 addition, the owner, ROBERT KEY, will not receive a distribution under the Plan
21 of his claim of \$3,488,000.00. It is the belief of the Owner that if a Chapter 7
22 liquidation occurs, there will be absolutely no funds left for the Owner of the
23 Debtor. Due to the amounts of the claims of INLAND, ARIES, administrative
24 claimants, and unsecured creditors, the Owner is of the opinion no net value will
25 be applicable for the Debtor for an extensive period of time. Hence, the
26 proposed sums to be contributed by the Owner are at least an equivalent value
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1 of his interest in the Debtor. Such amount will be contributed when required by
2 the terms of the Plan. Competing Plan proposals shall be allowed under
3 applicable bankruptcy laws, and creditors shall have the opportunity to participate
4 in and bid on the equity rights being retained by the Owner. Any non-
5 compliance with 11 U.S.C. § 1129(b)(2)(B)(I), which provides that each holder of
6 an unsecured claim in a Class receive or retain on account of such claim
7 property of a value, as of the effective date of the Plan, equal to the allowed
8 amount of such claim, shall be resolved by the new money which is being
9 contributed to the Debtor, thereby satisfying the "new value exception" to the
10 absolute priority rule of the Bankruptcy Code. This Class is impaired by the
11 Plan.
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13 RESPECTFULLY SUBMITTED this 12th day of July, 2010.

14 CARMICHAEL & POWELL, P.C.

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16 By 

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