MESCH, CLARK & ROTHSCHILD, P.C.
259 North Meyer Avenue
Tucson, Arizona 85701
Phone: (520) 624-8886
Fax: (520) 798-1037
Email: ecfbk@mcrazlaw.com
mmcgrath@mcrazlaw.com
irothschild@mcrazlaw.com

By: Michael McGrath, #6019
Isaac D. Rothschild, #25726
91220-1/idr

Attorneys for Tri-City Investment & Development, L.L.C.

UNITED STATES BANKRUPTCY COURT

DISTRICT OF ARIZONA

In re: GRANITE DELLS RANCH HOLDINGS, LLC, Debtor.	Chapter 11 Proceeding No. 2:12-bk-04962-RTBP **TRI-CITY'S AMENDED CONSOLIDATED SUPPLEMENTAL DISCLOSURE IN SUPPORT OF TRI-CITY'S PLAN AS AMENDED**

Tri-City Investment & Development, LLC ("Tri-City") is a 39.25% equity holder in the Debtor, Granite Dells Ranch Holdings, LLC ("GDRH"). Tri-City filed a proposed Plan of Reorganization on August 3, 2012 (Docket No. 220). Tri-City provides this Consolidated Disclosure Statement in support of its proposed Plan of Reorganization as amended filed concurrently herewith. The Consolidated Disclosure Statement supplants the supplemental disclosure statements filed with the Court on August 3, 2012 (Docket No. 221), August 24, 2012 (Docket No. 248) and September 17, 2012 (Docket No. 296). Tri-City's Consolidated Disclosure Statement incorporates and restates all material terms of the Tri-City's previous disclosure statements.

Tri-City provides that this consolidated disclosure is to alert all interested parties to the agreement that was reached at mediation on August 20, 2012, which terms are being incorporated into the Amended Plan between Arizona ECO Development, L.L.C. ("Arizona Eco") and Tri-City. The Amended Plan provides a path for confirmation that avoids prolonged litigation, foreclosure of the Debtor's real property, and mitigates tax consequences.

I. EXECUTIVE SUMMARY

The Debtor's Property consists of nearly 15,000 acres of property in the Prescott, Prescott Valley, and Chino Valley areas. The Debtor's property is secured by a deed of trust held by Arizona Eco of approximately $130,000,000. The Debtor's last appraisal valued the property at less than $30,000,000. If a Plan is not confirmed, only the secured creditors will receive any distribution.

Tri-City's proposed plan of reorganization provides a path to recovery for all creditors by settling potential claims, but does not require any cash contributions. Tri-City's Plan of Reorganization proposes to retain a portion of the Debtor's property in Chino Valley and also a controlling interest in the Bright Star Development in Chino Valley. *See* the Map attached as Exhibit A. This provides the Reorganized Debtor with both an interest in immediate developable land to create cash flow and an interest in property that has longer term growth possibilities. Additionally, Tri-City will receive a note payable to cover development and the future administrative expenses of the Reorganized Debtor.

The Tri-City Plan is proposed to avoid future litigation and it is Tri-City's hope that this will be a consensual Plan of Reorganization. However, if it is not consensual, the Reorganized Debtor will retain the causes of actions listed below against those that do not support the confirmed Plan.

In an attempt to provide all creditors with all at least a partial recovery and avoid future litigation, Tri-City proposes that creditors receive the following treatment for their allowed claims (a more substantial treatment is described below and in the Plan):

- Administrative Claims – those that are allowed will be paid in full on the effective date or the date of allowance.
- Arizona Eco – shall receive the property identified on the land map attached as Exhibit A.
- City of Prescott – paid in full with statutory interest on or before the second anniversary of the Effective Date by either Arizona Eco or the Reorganized Debtor. This creditor's secured status shall remain in effect until paid in full.
- Yavapai County Treasurer – paid in full with statutory interest on or before the second anniversary of the Effective Date by either Arizona Eco or the Reorganized Debtor. This creditor's secured status shall remain in effect until paid in full.
- Arizona Department of Revenue – paid in full with statutory interest on or before the second anniversary of the Effective Date by either Arizona Eco or the Reorganized Debtor.
- Internal Revenue Service – paid in full with statutory interest on or before the second anniversary of the Effective Date by either Arizona Eco or the Reorganized Debtor.
- General Unsecured Claims – paid in full with interest at the Wall Street Journal Prime Rate on or before the fifth anniversary of the Effective Date by either Arizona Eco or the Reorganized Debtor. Arizona Eco's unsecured claim shall receive $0.
- Unsecured Promissory Convertible Note Holders:
    - Option A – Receive a pro-rata share of 35% of the equity of the Reorganized Debtor.
    - Option B – 10% of their claim. The amount to be paid over time shall be

paid with interest only for three years at the Wall Street Journal Prime Rate. Beginning in month 37 after the Effective Date 10% of the claim shall be amortized over 25 years with a balloon payment paid on the tenth anniversary of the Effective Date.

- Insider Claims
  - Option A - $0 on their claims in exchange for a release of all claims against the insider parties.
  - Option B - 10% of their claim. All insider claims will be objected to by the Reorganized Debtor. The amount to be paid over time after the claim is allowed shall be paid with interest only for three years at the Wall Street Journal Prime Rate. Beginning in month 37 after the Effective Date 10% of the claim shall be amortized over 25 years with a balloon payment paid on the tenth anniversary of the Effective Date.
- Equity
  - GDEG shall own 6% of the Reorganized Debtor
  - GDI shall own 15.5% of the Reorganized Debtor
  - Unsecured Convertible Promissory Note Holders shall own 35% of the Reorganized Debtor
  - CMS or any party that now owns CMS's interest in the Debtor shall have 3.5% of the Reorganized Debtor
  - Tri-City shall own 40% of the Reorganized Debtor.

Any party accepting the Plan shall compromise its claims against the Reorganized Debtor and any other party accepting this Plan as to claims that derive from the Debtor unless specifically reserved for in the Plan. The Reorganized Debtor shall compromise its claims against any party accepting this Plan of Reorganization unless that cause of action is specifically reserved.

II. <u>FACTUAL HISTORY</u>

Tri-City is a member holding a 39.25% of the equity in the Debtor, equal to the amount held by Cavan Management Services as disclosed in the Debtor's schedules.

GDRH filed a Plan of Reorganization on June 11, 2012 (the "Debtor's and/or GDRH's Plan") (Docket No. 139). On June 18, 2012, GDRH filed a Disclosure Statement in support of its June 11, 2012 Plan (Docket No. 149).

Tri-City files its Plan because it believes its Plan offers a more realistic and attractive reorganization proposal than the Debtor's Plan. The Debtor's Plan is facially unacceptable to Arizona Eco Development, LLC ("Arizona Eco") the Debtor's largest secured creditor holding a claim contested by the Debtor worth potentially $130,000,000. The Debtor's Plan, which requires litigation with Arizona Eco, threatens to tax the Estate with administrative expense, thereby depleting the recovery for all creditors. If the litigation with Arizona Eco (which is inherently speculative) fails, Tri-City believes that the Debtor's Plan is not confirmable. Tri-City's Plan seeks the support of Arizona Eco, eliminating the need for litigation between the Debtor and Arizona Eco and exponentially increasing the possibility of a feasible and confirmable Plan.

Tri-City refers all interested parties to the Debtor's Disclosure Statement for the factual history of the Debtor. Tri-City has not had access to the books and records of the Debtor nor was Tri-City involved in negotiations referred to in the Debtor's Disclosure Statement between the Debtor, Arizona Eco, and the original note-holder. Accordingly, Tri-City cannot attest to the representations in the Debtor's Disclosure Statement. Tri-City also refers interested parties to Arizona Eco's Objection to the Disclosure Statement, as it provides a thorough description of potential disputed facts (Docket No. 191).

Tri-City believes that, when the information contained in this Consolidated Disclosure is considered with the Debtor's Disclosure Statement and the Arizona Eco's Objection, parties have sufficient information on which to vote on the Tri-City Plan.

III. MEDIATION

At the hearing held by the Court on August 7, 2012, the Court ordered the parties to attend mediation. Tri-City, the Debtor through its manager Cavan Management Services ("CMS"), and Arizona Eco the Debtor's secured creditor with a lien on all of the Debtor's real estate and assets, agreed on Mr. Gary Birnbaum as a mediator. Mr. Birnbaum mediated this matter on August 20, 2012. Present at the mediation were Tri-City, the Debtor, Arizona Eco, Mr. Gregory Stanford, principal of the Stanford Family Trust a member of Granite Dells Investors ("GDI") (GDI owns 15.5% of the Debtor), and a convertible promissory note-holder, and Mr. Wade Bonine a member of GDI. Tri-City has reached an agreement with Arizona Eco as set forth below. While the Agreement has not been reduced to a definitive written agreement, Tri-City believes the terms below represent the agreed upon material points. Tri-City's Plan is based on these points.

IV. TRI-CITY'S AMENDED PLAN

A. The Reorganized Debtor shall retain the following assets of the Estate:

i. Parcels identified as CV 22, CV 25-27, and CV 33-34 on the map attached as Exhibit A. These properties shall be retained free and clear of Arizona Eco's lien. Tri-City believes the value of this property to be $5,500,000, and the Debtor believes the value of this property to be less than $2,000,000.

ii. The Promissory Note from Granite Dells Estates I, LLC and Granite Dells Estates II, LLC listed in the Debtor's schedules with a value of $2,199,490 secured by property in Yavapai County. The note is currently in default.

B. Arizona Eco will cause Prescott Holdings, LLC, a company related to Arizona Eco, to transfer a 51% interest in such entity, which owns the real property known as Bright Star, to the Reorganized Debtor. Bright Star is identified on

Exhibit A. Bright Star is a multi-phase Master Plan Community in Chino Valley. The Bright Star development is currently managed by Mr. Charles Arnold, a member of Tri-City. Mr. Arnold will continue to manage the development after it is transferred to the Reorganized Debtor. He describes the subdivision as follows:

i. Bright Star is a master planned community of approximately 350 acres. It is the largest existing master planned community in Chino Valley.

ii. The community is serviced by municipal water and sewer, Arizona Public Service, Uni-Source Gas, Cable One, and Century Link.

iii. The development is planned for 1,200 homes; approximately 200 residences were built between 2005 and 2007, during Phase 1 & 2 of the project.

- With the collapse of the homebuilding market in 2008, the Bright Star project discontinued construction of new units and the third phase was delayed.

iv. The development includes 16 acres of Commercial Property, approximately 60 finished lots, 90 improved lots yet to be constructed, and an additional 700-800 lots that are approved but not engineered. Charles Arnold, a principal of Tri-City and the manager of the Bright Star subdivision, charged with marketing, describes and estimates the value of the project as follows:

- 10 acres of the Commercial Property is valued at $100,000.
- 6 acres of the Commercial Property is valued at $90,000.
- The 60 finished lots are valued at between $30,000 - $60,000 per lot depending on size and location.
- The 90 approved, engineered, and watered lots are valued at

- The 250 acres, consisting of 700-800 approved but not engineered lots, are valued at $13,000 per acre.

v. The project possesses or is contractually entitled to additional water credit valued at approximately $1,200,000.

vi. All major obligations to the Town of Chino Valley for offsite infrastructure have been satisfied.

vii. In the 4th quarter of 2012, a new building program will be commenced beginning with new models and spec homes being constructed, and a new clubhouse in the central park of the complex.

viii. Prescott Holdings has maintained a relationship with the town of Chino Valley so as to preserve all development rights and entitlements for the Bright Star Project.

ix. Anticipating a return of demand for finished lots and home building, Prescott Holdings has assembled a new marketing plan and designed new models and elevations of the lots for phase 2 of the development.

C. History of the Bright Star Development and Prescott Holdings:

i. The former titleholder of the Bright Star development, Granite Investment and Development, went into default on a promissory note with its Lender, M&I Bank. M&I Bank scheduled a foreclosure sale.

ii. Prior to the scheduled foreclosure sale, Prescott Holdings acquired the promissory note from M&I Bank. Prescott Holdings voluntarily restructured the promissory note with Granite Investment and Development and entered a long-term forbearance agreement.

iii. Granite Investment and Development was given two years to recommence development of the subdivision. As the housing market did not recover, Granite Investment and Development was unable to meet its restructured obligation and on September 28, 2011the development known as Bright Star was transferred from Granite & Investment & Development, LLC to Prescott Holdings, LLC through a foreclosure sale. As reflected on the attached Exhibit B, the Bright Star development experienced a loss of $131,502.77 in 2010 and an additional loss of $20,991.38 through September 28, 2011. As reflected on Exhibit C, Prescott Holdings, LLC suffered an additional $48,046.59 loss attributable to Bright Star from September to December 2011. Tri-City anticipates that Prescott Holdings, LLC will experience positive net income within three years of the Effective Date.

iv. Upon foreclosure, Prescott Holdings retained Charles Arnold to manage the Bright Star development. Mr. Arnold had been involved in the management of Bright Star with Granite Investment and Development.

v. Certain Tri-City Investors have been constant throughout the development of Bright Star.

vi. Many of the members of Tri-City were members and investors in Granite Investment and Development.

vii. Four builders built the 200 residences: North Sky Home; Poulsen Development; Page One Construction; and Homestead America.

viii. All 200 residences have been sold.

ix. No insider of Bright Star or Tri-City owns any of the residences that were built and sold.

x. From 2008-2012, Prescott Holdings has been in a maintenance and preservation mode. Staffing has been reduced from 5 full-time employees to 1.5 full-time employees. The Homeowner’s Association has been properly maintained and administered, and architectural review and permitting has been properly overseen.

xi. The 2010 and 2011 profit and loss statements for the Bright Star Development are attached Exhibit B to this disclosure.

- Profit and Loss statements through the 3rd Quarter of 2012 will be filed with the Court upon their completion and prior to the Confirmation Hearing.

xii. The Balance Sheet for Prescott Holding, LLC, as of December 31, 2011, is attached as Exhibit C to this disclosure.

- A balance sheet through the 3rd Quarter of 2012 will be filed with the Court upon its completion and prior to the Confirmation Hearing

D. Bright Star/Prescott Holdings Moving Forward:

i. Bright Star will continue to be managed by Charles Arnold through his company, Southwest Development Consultants, LLC ("SWDC"). SWDC will sign a management contract to manage the Bright Star development and Bright Star will compensate SWDC at market rates. Mr. Arnold's Resume is attached as Exhibit D.

ii. The current operating agreement for Prescott Holdings is attached as Exhibit E.

- The Operating Agreement of Prescott Holdings shall be amended in the following material terms: The Reorganized Debtor shall be a 51% equity holder, the Reorganized Debtor or a Single Purpose Entity created by the Reorganized Debtor will manage Prescott Holdings, and the current owners shall become minority members of Prescott Holdings.

iii. Tri-City believes that Bright Star has potential revenues of $59,400,000, with development costs of $49,300,000.

iv. On the day prior to the Effective Date the books of Prescott Holdings will be closed and all then existing profits and losses will be allocated to the capital accounts of the current Members. All profits and losses of Prescott Holdings occurring after the Effective Date shall be allocated to the Members capital accounts in accordance with their respective percentage interest.

v. Currently Tri-City believes that full development and sale of the Bright Star property can occur in 8 years. However, as Bright Star and the Reorganized Debtor will have minimal debt under the Tri-City Plan of Reorganization, development of Bright Star can wait without the Reorganized Debtor suffering a foreclosure similar to Granite Investment and Development.

E. Prescott Holdings, LLC may also grant Debtor an option to purchase an additional 20% of Prescott Holdings, LLC for $2,500,000, exercisable in three years, or Arizona Eco may alternatively provide Prescott Holdings with a $2,500,000 line of credit to allow development of the Bright Star project.

i. As of the date of this disclosure statement terms of the line of credit are still being negotiated, however, the following material terms of the line of credit have been agreed to:

- To be used for development expenses;
- No guarantees required; and
- Conventional lending terms will be applicable:
  - Interest between 4-5% per annum;
  - Interest only debt service;
  - Repayment of the line of credit through lot sales;

- Line of Credit renewable annually upon parties' agreement.

ii. If the line of credit is not finalized through Arizona Eco, Prescott holdings will rely on external financing and will delay development of the property until it can be financed.

F. Tri-City proposes that allowed Administrative Claims of the Estate Professionals, not to exceed $500,000 and allowed by the Court as reasonable and necessary, may be paid from the mining revenue received quarterly by the Estate and which is Arizona Eco's collateral, not to exceed $500,000.Tri-City will suggest to the Court that fees incurred by the Debtor's approved professionals be allowed only through the date of the mediation. Tri-City believes that $500,000 will be sufficient to pay the administrative expenses allowed by the Court.

G. The Reorganized Debtor shall be owned:

i. 40% by Tri-City, which will serve as the Manager of the Reorganized Debtor;

ii. 35% by the Convertible Promissory Note Holders;

iii. 15.5% by GDI;

iv. 6% by Granite Dells Equity Group ("GDEG") (GDEG owned 6% of the Debtor pre-petition); and

v. 3.5% by the entities to which CMS hypothecated its profits in the Debtor to prior to bankruptcy filing.

H. The parties, through their tax professionals, will work to structure the transactions contemplated by the Plan, so as to avoid or mitigate adverse tax consequences occasioned by the Plan's implementation.

I. Upon confirmation, Parties voting in favor of the Tri-City Plan will receive a release of both filed claims and those held but not yet filed or asserted claims of the Estate against interested parties and from all other Parties who have voted in favor of the Tri-City Plan.

J. The settlements and releases referenced above and tax treatment, are an integral part of Tri-City's Plan and will be presented to the Court for approval at the confirmation hearing as required by Federal Rule of Bankruptcy Procedure 9019.

K. Also, attached to this Disclosure Statement as Exhibit F is the Debtor's Objection to this Disclosure Statement (Docket No. 339).

V. FUNDING FOR THE PLAN OF REORGANIZATION

Tri-City's primary source of funding for the Plan is a dirt for debt swap with Arizona Eco. Additional funding for the Plan shall come from:

- Notes payable from Granite Dells Estates I, LLC & Granite Dells Estates II, LLC
    - The Debtor's schedules list the amount owed as $2,199,490.00. Tri-City understands this amount to be disputed.
- The portion of the grazing lease retained by the Reorganized Debtor
    - The grazing lease currently produces revenue of approximately $63,763 per year, the property retained by the Reorganized Debtor and the property transferred to Arizona Eco are subject to the grazing lease and the Reorganized Debtor will receive a pro-rata share of the grazing revenue post-petition.
- Equity contributions if necessary, but not anticipated or projected.
- Dividends from Prescott Holdings, generated by sales within the Bright Star subdivision.
- Future Real Estate sales of the Reorganized Debtor.

VI. CAUSES OF ACTIONS RETAINED

Tri-City believes it may confirm a consensual plan of reorganization, and if a consensual plan of reorganization is confirmed, all causes of actions shall be settled. However, if Tri-City is unable to confirm a consensual plan of reorganization, the Reorganized Debtor retains the following causes of action:

- Claims against parties voting against or objecting to confirmation, which may include:
  - Claims alleged by the Debtor against Arizona Eco;
  - Avoidance actions against promissory note-holders; and
  - Avoidance actions against insiders for payments made in violation of the Debtor's Operating Agreement or without fair consideration: includes, but not limited to claims against Cavan Management Company ("CMC") and Cavan Management Services ("CMS") for breach of contract, conversion, use of funds not for the benefit of the Debtor, and standing and authority to manage the Debtor
- An accounting of the Debtor's finances.
- This list of retained claims is non-exclusive

VII. ADDITIONAL DISCLOSURE FOR PARTIES, INCLUDING PROMISSORY NOTE HOLDERS AND INVESTORS

For a greater understanding of the facts that led to the bankruptcy filing and Tri-City's perceived need to file this Plan, see the following documents attached to this disclosure. These documents are to provide background information only. Tri-City emphasizes that the Debtor's Disclosure Statement may or may not have been approved by the Court:

- The Debtor's Disclosure Statement filed on June 18, 2012 (Docket No. 149).
- Arizona Eco's Objection to the Debtor's Disclosure Statement filed on July 20,

2012 (Docket No. 191).

- Arizona Eco and the promissory-note holders' committee filed a Joint Plan and supporting disclosure statement on December 4, 2012.

Additionally, Tri-City as a proponent of the Plan intends to hold two meetings, one for the Convertible Promissory Note-Holders and one for the investors of GDI and GDEG. These meetings shall take place in Phoenix, Arizona prior to the Ballot Deadline at a location and date to be arranged. The purpose of these meetings will be to provide these classes with additional detailed information about the Reorganized Debtor's assets, the post-confirmation of the Debtor, and its business plan moving forward. Additionally, representatives of Tri-City will be present to answer any questions raised by the constituents. The meetings will be recorded and such recording will be available to any creditor requesting a copy of the recording. The recordings will be made a part of the Court's record for confirmation.

- A draft of the revised Operating Agreement for the Reorganized Debtor will not be formally prepared if and until the Tri-City Plan is confirmed. However, Tri-City represents that the Operating Agreement will include the following:
    - A. The Operating Agreement will be based on the Debtor's current operating agreement;
    - B. Tri-City, or a single purpose entity it forms, will supplant CMS as the manager of the Reorganized Debtor, with the rights and obligations provided under the current Operating Agreement, except as noted below;
    - C. The Manager of the Reorganized Debtor shall receive a market rate management fee not to exceed $10,000 a month (approximately 1/3 of what Tri-City believes the former management appears to have charged);

D. The manager shall be responsible for accounting, administration, providing additional part-time development and entitlement expertise;

E. The Reorganized Debtor shall have an Executive Committee: Tri-City shall appoint four voting members of the Executive Committee, the Promissory Note-Holders shall select one voting member, GDI shall select one voting member, and GDEG shall select one voting member;

F. At this time Tri-City does not project that capital contributions will be sought from those electing to participate in equity in the Reorganized Debtor. However, the Operating Agreement will include typical language permitting future capital calls, upon agreement of two-thirds (66%) of the Equity holders; and

G. The manager of the Reorganized Debtor can be replaced upon a vote of two-thirds (66%) of the Equity holders.

VIII. <u>TAX DISCLOSURES</u>

11 U.S.C. §1125(a)(1) requires that a plan proponent provide a "discussion of the potential material Federal tax consequences of the plan to the debtor, any successor to the debtor, and a hypothetical investor." This section addresses this topic primarily for the potential federal tax consequences to the Convertible Note Holders and the Debtor's current equity holders.

If confirmed, the Tri-City Plan would avoid a taxable event occasioned by a compromise of Arizona Eco's promissory note that might otherwise generate cancellation of indebtedness income to the Debtor which would be passed through ultimately to its members or those otherwise construed as having an equity interest in the Debtor.

The Tri-City Plan seeks resolution of the dispute with Arizona Eco to obtain the benefits of §108(e)(5) of the Internal Revenue Code of 1986 (the "IRC"). Tri-City's Plan proposes a settlement with Arizona Eco and others, in a manner that recognizes Arizona

Eco's acquisition of the mortgage note was accomplished as the agent for and the constructive trustee of the Debtor. The result would be that the original purchase price of the property (and the Debtor's basis in the property) would be reduced pursuant to Section 108(e)(5) of the IRC.

Next, the Tri-City Plan provides an option for Convertible Promissory Note Holders to either elect a partial payout over time or to retain an equity interest in the Reorganized Debtor. The Tri-City Plan seeks to have the Convertible Note Holders classified as equity interest holders because the notes were convertible when issued and certain factors delineated by the Courts and the IRS suggest the investment is equity (e.g. the financial position of the Debtor at the time the investments by the Convertible Note Holders were made). If a Convertible Note Holder elects the partial payout over time option, and the investment is classified as equity, this may result in a capital-loss to the investor but not cancellation of indebtedness income to the Reorganized Debtor.

Furthermore, under Tri-City's Plan, the election of Convertible Note Holder to convert to a membership interest in the Reorganized Debtor would not result in a taxable event to either the investor or the Reorganized Debtor. Parties should consult their own tax advisors to determine the potential tax consequences of such an election.

Tri-City's Plan does not require members to make capital contributions or face the consequence of forfeiture of their interest in the Debtor. The Debtor's Plan does require capital contributions, and if not made, the forfeiture of their interest in the Debtor. All Parties should consult the Debtor's tax disclosures and their own tax advisors to determine the potential tax consequences.

If a plan of reorganization is not confirmed, Tri-City believes a foreclosure of Arizona Eco's security interest in the real estate is likely. Tri-City asserts that the tax consequences of its Plan are significantly more beneficial than the tax consequences resulting from such a foreclosure. Parties should consult their own tax advisors to make this determination.

Tri-City does not have all of the documents necessary to evaluate properly the income tax consequences for each creditor, the Debtor and each of its equity owners. The above discussion is meant merely to disclose potential tax issues to Parties. Tri-City has not obtained a tax opinion regarding the issues discussed above and does not express any opinion as to the income or other tax consequences to the creditors, the Debtor or any of its equity owners. Each Party is encouraged to obtain its own tax advisor to determine the tax consequences of the Plan to them in their particular circumstance.

BECAUSE TRI-CITY IS NOT EXPRESSING ANY TAX ADVICE, IN NO EVENT WILL TRI-CITY OR ITS PROFESSIONAL ADVISORS BE LIABLE OR RESPONSIBLE FOR ANY TAX CONSEQUENCES OF THE PLAN. CREDITORS, THE DEBTOR AND ITS EQUITY OWNERS MUST LOOK SOLELY TO AND RELY SOLELY UPON THEIR OWN ADVISORS AS TO THE TAX CONSEQUENCES OF TRI-CITY'S PLAN.

IX. LIQUIDATION ANALYSIS

The Bankruptcy laws require that a Plan of Reorganization must provide that creditors not accepting the Plan will receive at least as much under the Plan as they would receive in a liquidation of the Debtor under Chapter 7 of the Bankruptcy Code. The Tri-City Plan contemplates income from the settlement in collection of receivables as well as proceeds to be produced from the property over time, and most significantly, provides the Reorganized Debtor with unencumbered real estate. Tri-City believes that the Plan satisfies the requirement that payments exceed the recoveries which creditors would receive in a Chapter 7 liquidation of the estate. Any liquidation likely results in no recovery for unsecured creditors or administrative claimants, as Arizona Eco would likely simply foreclose the estate's real property. The liquidation would be undertaken in future circumstances that cannot presently be predicted. Accordingly, the actual liquidation proceeds could vary if the Debtor's assets were liquidated.

In addition to the principal assumptions set forth above, significant areas of uncertainty exist in the event of liquidation. Some of these uncertainties, which could have a material effect upon the payment of creditors' claims, are summarized below:

- Liquidation assumes that the Debtor would liquidate its holdings in order to satisfy its creditors only from the proceeds of liquidation. There is a risk that recoveries could be affected by market conditions in a liquidation.

- Upon liquidation, actual liabilities could vary significantly from those reflected in this liquidation analysis. It is not possible to predict with any certainty the increase in liabilities that would occur in a liquidation or any contingent and/or unliquidated claims which could arise in the event of the discontinuance of the Debtor's operations.

Assets	**Liquidation Value**	**Secured Creditor Amount**	**Unencumbered Value**
Real Property: 15,000 acres of Real Estate located between Prescott, Prescott Valley, and Chino Valley	Uncertain due to vagaries of foreclosure market, but significantly less than the debt against it.	$120,000,000	The current value of the land is uncertain.
Avoidance Actions against Promissory Note-Holders	Uncertain. Upon information and belief, certain funds were transferred to Promissory Note-Holders within the statutory time of recovery, the Debtor is in exclusive possession of this information.		Amount unknown. The prosecution of Avoidance Actions is likely to incur significant administrative expense.
Avoidance Actions against Insiders	Uncertain. Upon information and belief, CMS and CMC received payments in		Amount unknown. The prosecution of Avoidance Actions or other

	violation of the Debtor's Operating Agreement. The Debtor has exclusive possession of this information. Additionally, CMS or CMC may have taken actions not authorized by the Operating Agreement that harmed the Debtor.		claims is likely to incur significant administrative expense and the solvency of CMS or CMC is unknown.
Assets	**Liquidation Value**	**Secured Creditor Amount**	**Unencumbered Value**
Notes payable from Granite Dells Estates I, LLC & Granite Dells Estates II, LLC	$2,199,490.00 listed by the Debtor, but disputed by Granite Dells Estates I, LLC & Granite Dells Estates II, LLC.		Amount unknown, but of some significant value. The collection of the notes is likely to incur significant administrative expense and the solvency of Granite Dells Estates I, LLC & Granite Dells Estates II, LLC are unknown.

COMPARATIVE TREATMENT OF CLAIMS UNDER PLAN		
Claim	**Chapter 7 Distribution**	**Plan Treatment**
Class 1 Administrative Claims	Allowed claims not fully paid; assets returned to secured creditors, allowed claims paid pro rata, after payment of liquidation expenses.	Allowed claims need be paid in full on Effective Date, or other payment agreed to by the claim holder.
Class 2 – Secured Claim of	Litigation regarding	Receive dirt for debt and

Arizona Eco	amount of claim. Secured portion of claim and attendant foreclosure and attorney costs and expenses is satisfied by looking to collateral; actual amounts recovered uncertain due to market.	mutual release of any potential claims from the Debtor or equity members.
Class 3 – Secured Claim of City of Prescott	Secured portion of claim and attendant foreclosure and attorney costs and expenses is satisfied by looking to collateral.	Pay secured portion in full over time by either Arizona Eco or the Reorganized Debtor. Avoid excessive fees for attorneys.
Claim	**Chapter 7 Distribution**	**Plan Treatment**
Class 4 – Secured Claim of Sonoran Pacific Resources	Must look to collateral; return is uncertain due to vagaries of foreclosure market.	Allowed Claim paid in full on the Effective Date.
Class 5 – Secured Claim of Yavapai County Treasurer	Secured portion of claim and attendant foreclosure and attorney costs and expenses is satisfied by looking to collateral.	Pay secured portion in full over time by either Arizona Eco or the Reorganized Debtor. Avoid excessive fees for attorneys.
Class 6 – Arizona Department of Revenue	May receive a distribution if unencumbered funds remain after administrative expenses and foreclosure of encumbered property and value of Notes payable from Granite Dells Estates I, LLC & Granite Dells Estates II, LLC and any proceeds of avoidance actions may be a source of recovery.	Paid in full with interest at the WSJ prime rate on or before the second anniversary of the Effective Date by either the Reorganized Debtor or Arizona Eco.
Class 7 – Internal Revenue Service	May receive a distribution after administrative expenses and foreclosure	Paid in full with interest at the WSJ prime rate on or before the second

	depending on value of Notes payable from Granite Dells Estates I, LLC & Granite Dells Estates II, LLC and success of avoidance actions.	anniversary of the Effective Date by either the Reorganized Debtor or Arizona Eco.
Claim	**Chapter 7 Distribution**	**Plan Treatment**
Class 8 – General Unsecured Claims	No likely distribution after administrative expenses and foreclosure depending on value of Notes payable from Granite Dells Estates I, LLC & Granite Dells Estates II, LLC and success of avoidance actions.	Paid in full with interest at the WSJ prime rate on or before the fifth anniversary of the Effective Date by either the Reorganized Debtor or Arizona Eco.
Class 9- Unsecured Promissory Convertible Note Holders	No likely distribution after administrative expenses and foreclosure depending on value of Notes payable from Granite Dells Estates I, LLC & Granite Dells Estates II, LLC and success of avoidance actions. Subject to set-offs based on avoidance actions.	Entitled to 35% of Equity on a pro rata basis and retain all causes of actions against non-Debtors and the dismissal of any potential adversary action or receive 10% of the claim paid by the 10th anniversary and retain all claims against non-debtors.
Class 10- Insider Claims	No distribution after administrative expenses and foreclosure.	Mutual releases of claims against the Debtor, Granite Dells Estates I and Granite Dells Estates II, Arizona Eco, and Tri-City or receive 10% of the allowed claim paid by the 10th anniversary.
Class 11 Equity	Nothing. Maintain claims against non-debtor entities. May be subject to	Retain equity with changed management.

	material tax consequences.	

Based on the foregoing analysis, Tri-City believes that the Plan provides a better return to creditors than they could otherwise receive under Chapter 7 liquidation, and thus, the "best interests of creditors" test has been satisfied.

X. OBJECTION DEADLINE AND EFFECTIVE DATE

The Effective Date of the Tri-City Plan shall be 30 days after confirmation. The deadline to object to the validity or amount of a creditor's claim shall be 90 days after the Effective Date.

XI. CONFIRMATION IN SPITE OF REJECTION OF PLAN

The Court will be asked to confirm the Plan as to any class of claims or interest that does not accept the Plan. To do so, the Court must find that the Plan is (1) fair and equitable to each class of claims or interests that is impaired and has not accepted the Plan, and that classification of claims is not discriminatory; and (2) that each claim or interest holder receives, under the Plan, property of a value as of the Effective Date, that is not less than what would be received or retained if the property was liquidated under Chapter 7 of the Code.

The second requirement may be satisfied as demonstrated by the Liquidation Analysis set forth above. The first requirement may be satisfied with respect to any class that might not accept the Plan.

If a class of secured claims does not accept the Plan, the Code provides that the fair and equitable requirement is satisfied if the class retains its lien and receives deferred cash payments of a present value equal to the value of the claimant's secured interest in the collateral. This requirement may be satisfied as to each class treated as a secured claim, because the Plan provides for them to receive the value of their interest in their collateral together with interest at a current market rate.

If a class of unsecured claims does not accept the Plan, the fair and equitable rule requires that each claimant be paid the allowed amount of the claim plus interest at a market rate; otherwise, no junior class of claims can receive or retain any property under the Plan. As the Debtor is a limited liability company, the class of equity security holders can retain its interest so long as creditors receive a distribution under the Plan, the value of which will equal what may otherwise be realized from a competing resolution of the case

XII. EXECUTORY CONTRACTS AND UNEXPIRED LEASES

Tri-City will assume the necessary executory contracts for the continued operation of the property.

With regard to any executory contracts or unexpired leases not addressed, the Court shall retain jurisdiction and the Reorganized Debtor shall have the ability to assume or reject an executory contract upon realization of the existence of the contract or lease.

XIII. RETENTION OF JURISDICTION

The Bankruptcy Court will retain jurisdiction of this case for determining the allowance of claims or interests or objections thereto, the adjudication of any pending adversary suits, and for any other purpose regarding the Plan.

The Court will also retain jurisdiction for purposes of determining the allowance and payment of any administrative expenses. The Court shall retain jurisdiction for purposes of determining any dispute arising from the interpretation, implementation, or consummation of the Plan. The Court shall retain jurisdiction to make any modification of the Plan in the best interest of the Estate. It will also retain jurisdiction to address the rejection or assumption of any executory contracts or unexpired leases that are subsequently discovered.

Finally, the Court will retain jurisdiction so as to allow it to enter an order confirming and consummating this Plan and dismissing and concluding said case.

XIV. CRAM-DOWN OF NON-ACCEPTING CLASSES

If any class of creditors or equity security holders for this Debtor fail to accept this Amended Plan by the requisite statutory majorities, Tri-City reserves the right to seek confirmation of this Plan by a "cram-down" of such non-accepting class pursuant to Section 1129(b) of the Bankruptcy Code. In the event the Bankruptcy Court declines to impose a "cram-down" on a non-accepting class unless certain modifications are made to the terms and conditions of such class's treatment under this Amended Plan, Tri-City reserves the right, without re-solicitation to the extent permitted by the Code, to propose such modifications and to confirm this Amended Plan by any required modifications, provided such modifications do not result in total extinguishment of the non-accepting class's claim.

XV. VOTING INSTRUCTIONS

Enclosed with this Supplement is a ballot for Tri-City's Plan. Creditors that approve of their treatment under the Tri-City Plan and believe it to be an acceptable option should identify themselves on the ballot, the amount of their claim, the class to which they belong and check the box for acceptance of the Plan. Any questions regarding Tri-City's Plan or ballot should be directed to Isaac D. Rothschild or Michael McGrath at (520) 624-8886 or irothschild@mcrazlaw.com and mmcgrath@mcrazlaw.com.

All ballots must be returned to Tri-City no later than ten days prior to the Confirmation Hearing set by the Court. Voters may return ballots to:

Isaac D. Rothschild
Mesch, Clark, & Rothschild P.C.
259 N. Meyer Ave.
Tucson, Arizona 85701

XVI. RECOMMENDATION

Tri-City believes it is in the best interest of the Estate and all the Creditors to approve this consensual Plan with Arizona Eco. This will allow the Reorganized Debtor to execute a

Plan without secured debt other than property taxes on the property, provides funds for development, alleviates the possibility of foreclosure, manage the tax consequences, and settles all litigation. This Plan does not require a valuation of the Debtor's property or creditor's claims, both of which would create burdensome administrative expenses.

The Plan proposed by GDRH is contingent on speculative litigation. If unsuccessful, the Plan is destined to fail resulting in a likely foreclosure of the Debtor's property, and any remaining assets of the Estate being consumed by administrative expenses. Even if successful, the litigation may cause such a significant burden in administrative expenses that any plan will not be feasible. Additionally, the Debtor's propose a Plan that requires additional capital contributions from equity holders to retain an interest in the Reorganized Debtor.

XVII. <u>CONCLUSION</u>

Consistent with the agreement between Arizona Eco and Tri-City outlined above, Tri-City requests the Court approve its disclosure documents as complying with Section 1125 of the Bankruptcy Code, which will allow Tri-City to hold a meeting for the Convertible Note-Holders and a separate meeting for the investors of GDI and GDEG to discuss Tri-City's Plan further. Tri-City further seeks the setting of a confirmation hearing on its Amended Plan, and authority to distribute the Plan, disclosure documents and ballots to interested parties.

DATED: December 6, 2012.

MESCH, CLARK & ROTHSCHILD, P.C.

By /s/Isaac D. Rothschild, #25726
Michael McGrath
Isaac D. Rothschild
Attorneys for Tri-City Investment & Development, L.L.C.

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