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8
9 IN THE UNITED STATES BANKRUPTCY COURT
10 FOR THE DISTRICT OF ARIZONA

11
12 In re:
13 **STANFORD LERCH and**
14 **SUSAN LERCH,**
15 Debtors.

Chapter 11 Proceedings
Case No.: 2:14-bk-16376-BKM

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18 FIRST AMENDED
19 DISCLOSURE STATEMENT
20 OF
21 STANFORD LERCH and
22 SUSAN LERCH

23 Dated: May 31, 2016

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26 Filed by: The Debtors,
27 **STANFORD LERCH and**
28 **SUSAN LERCH**
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ARTICLE I

INTRODUCTION

A. GENERAL INFORMATION

STANFORD LERCH and SUSAN LERCH (collectively “Lerch” or “Debtors”) hereinafter referred to as the Debtors, provides this First Amended Disclosure Statement (“Disclosure Statement”) pursuant to 11 U.S.C. Section 1125 to all of their known Creditors and parties-in-interest in order to disclose that information deemed by the Debtors to be material, important and necessary for their creditors and parties-in-interest to arrive at a reasonable, informed decision in exercising their right to vote for acceptance of the Debtors’ First Amended Plan of Reorganization (hereinafter referred to as the “Plan”), dated May 31, 2016 and presently on file with the United States Bankruptcy Court for the District of Arizona (“Court”) and attached hereto as Exhibit “A”.

The Court determined that this Disclosure Statement contains information of a kind and in sufficient detail for holders of claims and interests to make an informed judgment concerning the Plan. The Court further determined that this Disclosure Statement may be used in connection with the solicitation of acceptances of the Plan.

A copy of the Debtors’ Plan and a ballot for voting accompanies this Disclosure Statement. The definitions found in Article I of the Plan are incorporated herein by reference and should be referred to in reading and analyzing the Plan and Disclosure Statement.

Unless otherwise noted, this Disclosure Statement was prepared from information provided by the Debtors. The Debtors have utilized all information available to them in preparing this Disclosure Statement and the Plan. They have utilized their best efforts in preparing and submitting this information for your consideration. You are urged to carefully read the contents of this Disclosure Statement before making your decision to accept or reject the Plan. This Disclosure Statement and the Plan Classifies all creditors into classes. The specific treatment of each class of creditors will be set forth in this Disclosure Statement and the Plan. You should carefully examine the treatment of the class or classes to which your claim will be assigned.

1 This Disclosure Statement contains information that may influence your decision to
2 accept or reject the Debtors' proposed Plan of Reorganization. Please read this document
3 with care. The only representations that are authorized by the Debtors concerning the value
4 of the Debtors' assets, or the value of the reorganized company, are the representations
5 contained in this Disclosure Statement. The financial information contained in this
6 Disclosure Statement has not been subject to an audit by an independent certified public
7 accountant. For that reason, as well as the complexity of the Debtors' financial affairs, the
8 Debtors are not able to warrant or represent that the information contained in this Disclosure
9 Statement is without any inaccuracy. To the extent practicable, the information has been
10 prepared from the Debtors' financial books and records and great effort has been made to
11 ensure that all such information is fairly representative.

12 The Court has not verified the accuracy of the information contained herein, and the
13 Court's approval of this Disclosure Statement does not imply that the Court endorses or
14 approves the Plan. Rather, the approval of this Disclosure Statement by the Court indicates
15 that if the information contained herein is accurate, it is sufficient to provide an adequate
16 basis for creditors and parties-in-interest to make an informed decision with respect to voting
17 on the plan.

18 **B. REPRESENTATIONS**

19 Certain materials contained in this Disclosure Statement are taken directly from
20 other, readily accessible instruments or are digests of other instruments. While every effort
21 has been made to retain the meaning of such instruments, you are urged to rely upon the
22 contents of such instruments only, and only upon a thorough review of the instruments
23 themselves.

24 **NO REPRESENTATIONS OR ASSURANCES CONCERNING THE**
25 **DEBTORS INCLUDING, WITHOUT LIMITATION, THE VALUE OF PROPERTY,**
26 **ARE AUTHORIZED BY THE DEBTORS, OTHER THAN AS SET FORTH IN THIS**
27 **DISCLOSURE STATEMENT. ANY REPRESENTATIONS OR INDUCEMENTS**
28 **MADE TO SECURE YOUR ACCEPTANCE WHICH ARE OTHER THAN THOSE**
29

1 CONTAINED IN THIS DISCLOSURE STATEMENT SHOULD NOT BE RELIED
2 UPON BY YOU IN ARRIVING AT YOUR DECISION, AND SUCH ADDITIONAL
3 REPRESENTATIONS OR INDUCEMENTS SHOULD BE REPORTED TO
4 COUNSEL FOR THE DEBTORS, WHO IN TURN, SHALL DELIVER SUCH
5 INFORMATION TO THE COURT FOR SUCH ACTION AS MAY BE
6 APPROPRIATE.

7 THIS IS A SOLICITATION BY THE DEBTORS ONLY AND IS NOT A
8 SOLICITATION BY THE DEBTORS' ATTORNEYS OR ACCOUNTANTS, AND
9 THE REPRESENTATIONS MADE HEREIN ARE THOSE OF THE DEBTORS
10 AND NOT OF THE DEBTORS' ATTORNEYS OR ACCOUNTANTS, EXCEPT AS
11 OTHERWISE INDICATED. REASONABLE EFFORTS HAVE BEEN MADE TO
12 PREPARE ALL UNAUDITED FINANCIAL INFORMATION WHICH MAY BE
13 CONTAINED IN THIS DISCLOSURE STATEMENT IN ACCORDANCE WITH
14 GENERALLY ACCEPTED ACCOUNTING PRINCIPALS; HOWEVER, AS TO
15 ALL FINANCIAL INFORMATION, THE DEBTORS ARE UNABLE TO
16 WARRANT OR REPRESENT THE ACCURACY OF THE INFORMATION
17 CONTAINED THEREIN TO BE WITHOUT ERROR.

18 THE LIQUIDATION ANALYSIS CONTAINED HEREIN HAS NOT BEEN
19 SUBJECT TO AN AUDIT OR EXAMINATION BY INDEPENDENT CERTIFIED
20 PUBLIC ACCOUNTANTS. RECORDS SUBSEQUENT TO THE FILING OF THE
21 PETITION FOR REORGANIZATION HAVE BEEN KEPT BY THE DEBTORS
22 AND MONTHLY FINANCIAL REPORTS HAVE BEEN SUBMITTED BY THE
23 DEBTORS TO THE COURT SINCE THE FILING OF THE PETITION.

24 THE STATEMENTS CONTAINED HEREIN ARE MADE AS OF THE DATE
25 HEREOF UNLESS ANOTHER TIME IS SPECIFIED HEREIN. NEITHER
26 DELIVERY OF THIS DISCLOSURE STATEMENT NOR ANY EXCHANGE OF
27 RIGHTS MADE IN CONNECTION WITH THE PLAN SHALL UNDER ANY
28 CIRCUMSTANCES CREATE AN IMPLICATION THAT THERE HAS BEEN NO
29 CHANGE IN THE INFORMATION SET FORTH HEREIN SINCE THE DATE OF
THE DISCLOSURE STATEMENT AND THE MATERIAL RELIED UPON IN

1 **PREPARATION OF THIS DISCLOSURE STATEMENT WERE COMPILED.**
2 **DEBTORS ASSUME NO DUTY TO UPDATE OR SUPPLEMENT THE**
3 **DISCLOSURES CONTAINED HEREIN AND DO NOT INTEND TO UPDATE OR**
4 **SUPPLEMENT THE DISCLOSURES.**

5 **C. FILING OF REORGANIZATION CASE**

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7 On October 30, 2014, the Debtors filed a voluntary petition for relief under Chapter 11
8 of the Bankruptcy Code.

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10 **D. VOTING**

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12 1. Time and Manner of Voting. All creditors or parties-in-interest entitled to
13 vote on the plan may cast their votes for or against the Plan by completing, dating, signing,
14 and mailing the original ballot to the attorneys for the Debtors. The Court has issued its
15 Order requiring that all votes for the acceptance or rejection of the Plan be received by
16 _____ p.m. on _____, 2016. The ballots should be sent as follows:

17 Adam E. Hauf, Esq.,
18 HAUF LAW PLC
19 4225 W. Glendale Ave., Suite A104
20 Phoenix, AZ 85051

21 2. Return of Ballot. Mail or deliver your ballot so that it will reach the attorneys
22 for the Debtors before the deadline. A vote received by the attorneys for the Debtors after
23 the deadline may not be counted.

24 3. Parties Bound. Whether a creditor votes on the Plan or not, such creditor will
25 be bound by the terms and treatment set forth in the Plan, if the Plan is accepted by the
26 requisite majorities of classes of creditors and/or is confirmed by the Court.

27 4. Ballots. Each creditor and party-in-interest is urged to fill in, date, sign and
28 promptly mail the enclosed ballots. Be sure to properly complete the form and legibly
29 identify the name of the claimant.

1 5. Multiple Claims. If you have a claim in more than one class, you may
2 receive separate ballots for each claim.

3 6. Voting and Impairment. The Plan and Disclosure Statement identifying
4 Debtors' judgment as to whether each Class of Claims or Interests is "Impaired" under the
5 Code, but the Court ultimately determines whether a Class is Impaired. The Code provides
6 that Claims or Interests in a Class that is not Impaired shall be conclusively presumed to
7 accept the Plan, accordingly, if you disagree with Debtors' judgment that your Class is not
8 Impaired, you should submit a Ballot and seek a determination by the Court of your right to
9 vote on the Plan.

10 PLEASE VOTE AND RETURN EACH OF THE BALLOTS YOU RECEIVE.
11 SINCE MAIL DELAYS MAY OCCUR, IT IS IMPORTANT THE BALLOT OR
12 BALLOTS BE MAILED OR DELIVERED WELL IN ADVANCE OF THE DATE
13 SPECIFIED. ANY BALLOT RECEIVED AFTER _____ MAY NOT BE
14 INCLUDED IN ANY CALCULATION TO DETERMINE WHETHER THE DEBTOR'S
15 CREDITORS AND INTEREST HOLDERS HAVE VOTED TO ACCEPT OR REJECT
16 THE PLAN.

17 **E. CONFIRMATION OF THE PLAN**

18 1. Solicitation of Votes. This Disclosure Statement has been approved by the
19 Court in accordance with 11 U.S.C. Section 1125 and is provided to each creditor whose
20 claim has been scheduled by the Debtors or who has filed a proof of claim against the
21 Debtors. This Disclosure Statement is intended to assist creditors in evaluating the Plan and
22 in determining whether to accept the Plan. Under the Bankruptcy Code, your vote for
23 acceptance or rejection may not be solicited unless you receive a copy of this Disclosure
24 Statement prior to or concurrently with such solicitation. The solicitation of votes on the
25 Plan is governed by the provisions of 11 U.S.C. Section 1125(b), the violation of which may
26 result in sanctions by the Court, including disallowance of the solicited vote.

27 2. Persons Entitled to Vote on the Plan. A creditor, in order to vote on the Plan,
28 must have either filed a Proof of Claim with the Court or been scheduled by the Debtors as
29 not being disputed, contingent or unliquidated. Any creditor scheduled as not being

1 disputed, contingent, or unliquidated is, to the amount listed in the schedules, deemed to
2 have filed a Proof of Claim, and, absent an objection to the claim, such claim is deemed
3 allowed. However, only the votes of claimants that are Impaired under the Plan are counted
4 in connection with confirmation of the Plan. Pursuant to the provisions of 11 U.S.C. Section
5 1124, a claimant is deemed to be Impaired under the Plan unless the legal and contractual
6 rights of the claimants are left unaltered.

7 3. Hearing on Confirmation of the Plan. The Court will hold a hearing to
8 determine whether or not the Plan should be confirmed on _____, 2016 at __:___ .m at
9 the United States Bankruptcy Court, 230 N. 1st Avenue, Suite 101, Phoenix, Arizona,
10 Courtroom 701. You may attend that hearing and present to the Court your arguments in
11 favor of or in opposition to the confirmation of the Plan.

12 4. Acceptances Necessary to Confirm Plan. At the scheduled confirmation
13 hearing, the Bankruptcy Court must determine, among other things, whether the Plan has
14 been accepted by each “impaired” class (e.g., a claim that will not be paid in full or payment
15 other than as contracted upon final confirmation or an interest that is adversely affected, is
16 considered impaired). Under 11 U.S.C. Section 1126, an impaired class is deemed to have
17 accepted the Plan if at least two thirds in amount and more than one half in numbers of
18 claims of class members who have voted to accept or reject the Plan have voted for
19 acceptance of the Plan. A class of interest holders is deemed to have accepted the Plan if
20 two thirds of the amount of the allowed interests are voted in favor of the Plan.

21 5. Confirmation of Plan Without Necessary Acceptances – Cramdown. The
22 Plan may be confirmed if it is not accepted by all of the impaired classes, if the Court finds
23 that the Plan does not discriminate unfairly against, and is fair and equitable to, such non-
24 accepting class or classes. This provision is set forth in 11 U.S.C. Section 1129(b), The
25 Debtors may choose to rely upon this provision to seek confirmation of the Plan if it is not
26 accepted by all impaired classes of creditors.

27 **ARTICLE II**

28 **BRIEF SUMMARY OF THE PLAN**

29 The Debtors presently own a parcel of real property which is used by them as their
primary residence. Title to said parcel is in the name of Susan Lerch as her sole and separate

1 property. Debtors previously owned a parcel of real property in Jerome, Arizona which was
2 non judicially foreclosed upon during this Chapter 11 case. The Jerome property was
3 previously used as a vacation home but pursuant to the Debtors' initial Plan it would have
4 been used as a rental property or sold as authorized by the Code.

5 After reviewing their financial condition, the pervading economic condition and their
6 inability to obtain new financing or modifications, the Debtors concluded that it was in their
7 best interests and the best interests of creditors to reorganize pursuant to Chapter 11 of the
8 Code. Based upon such belief, the Debtors have proposed a Plan that will treat their creditors
9 and interest holders as follows:

10 Administrative claims and other priority claimants will be paid one hundred percent
11 (100%) of their Allowed Claim which includes payment of unpaid taxes, if any; in accordance
12 with the provisions of the Code or in such other manner as such claimants may otherwise
13 agree. The Attorneys and Accountants who may have administrative claims have agreed to
14 accept payments for their approved fees after the Effective Date of the Plan.

15 Although the value of the Debtors' real property may be in dispute, Debtors have
16 equity in such real property which equity is protected by the homestead exemption available to
17 Debtors herein. The creditor holding the first lien on the residential real property has agreed
18 to certain modifications which are more fully discussed in Article V. The first lien holder on
19 the Jerome parcel commenced a contested matter to lift the automatic stay and although the
20 Debtors opposed such motion, the motion was granted and ultimately, as previously set forth,
21 resulted in a non judicial foreclosure of the Jerome property.

22 General Unsecured Creditors shall receive or retain under the Plan on account of their
23 respective claims, property of a value as of the Effective Date of the Plan, that is not less than
24 the amount that such creditor would receive or retain if the Debtors were liquidated under
25 Chapter 7 of the Code.

26 Debtors as the Interest holders will, pursuant to §1129(a)(15) and (b)(2)(B)(ii) of
27 the Code, retain their interest in all estate property in consideration of their funding of
28 Allowed Claims and shall receive all exempt property.

29 **THE FOREGOING DISCUSSION IS ONLY A BRIEF SUMMARY OF THE
PLAN AND ALL PARTIES SHOULD REVIEW THE FULL TEXT OF THE PLAN.**

ARTICLE III
HISTORY AND ORGANIZATION OF THE DEBTORS

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3 1. History of the Debtors

4 The Debtors are individuals who are husband and wife and who presently own a
5 parcel of real property in Phoenix, Arizona. Mr. Lerch, who practiced law for over 50 years
6 in Arizona, was suspended from the practice of law as of February 16, 2012. Mr. Lerch
7 consented to an interim suspension while the matter was being considered by the State Bar of
8 Arizona. After the matter was heard Mr. Lerch's was suspended for 20 months, the
9 suspension commencing on February 16, 2012. During the time from the 16th of February
10 2012 to present Mr. Lerch has been working as a paralegal for several attorneys. During the
11 time Mr. Lerch was serving as a paralegal a complaint was filed with the State Bar of Arizona
12 against Mr. Lerch by a Dr. Collins who alleged that Mr. Lerch was practicing law while on
13 suspension. The complaint also named several attorneys including an attorney for whom Mr.
14 Lerch performed paralegal services. It was determined, based upon the recommendation of
15 Mr. Lerch's bar counsel, Mr. Mark Harrison, that until that matter was resolved Mr. Lerch
16 should not request reinstatement. The matter was resolved on February 4, 2015 by the State
17 Bar of Arizona's dismissal of the complaint; however, such dismissal was appealed by the
18 Complainant. Although the State Bar of Arizona upheld it's dismissal of the Collins'
19 Complaint, a subsequent Complaint alleging Mr. Lerch practiced law while under suspension
20 was filed. This matter has not been ruled upon. It is apparent that although Mr. Lerch will
21 continue to earn income as a paralegal it will be some time before he can practice law.
22 Therefore, Mr. Lerch is supplementing his income by accepting part time employment from
23 Elvie International Corporation and an associate company EPR-Technologies, Inc. He will
24 commence performing services in September of 2016 at the base rate of \$6,000 per month.
25 Attached hereto as Exhibit "B" is the proposal made by Elvie International Corporation.
26 Based upon the foregoing Debtors, as set forth in the financial statements filed herein, will
27 have sufficient income; derived from Mr. Lerch's services together with funds derived from
28 social security payments to Mr. and Mrs. Lerch; necessary to propose a feasible Plan of
29 Reorganization as provided by Chapter 11 of the Code.

1 Mrs. Lerch is originally from Minnesota and is presently drawing social security. She
2 was previously employed as a legal secretary and a paralegal. Mrs. Lerch came to Arizona in
3 the 1980's and the Debtors were married in 1999. Mr. Lerch's first wife is deceased.

4 2. Events leading to the Chapter 11 Filing.

5 The Debtors had a judgment granted against them arising from attorneys fees
6 incurred by Mr. Lerch in litigation with Jon and Elizabeth Tucker. The judgment creditor
7 was undertaking garnishment and other collection procedures to collect the amount due on
8 the judgment. In addition, prior to filing herein, Mrs. Lerch suffered a broken hip and due to
9 problems related to insurance coverage a dispute arose as to the payment of substantial
10 medical costs.

11 In addition to the events described above Debtors' real property located in Jerome,
12 Arizona and described elsewhere herein was also subject to a continued Trustee's Sale.
13 Although the Debtors had hoped to retain the Jerome real property as previously set forth
14 herein the said property was ultimately lost in a non judicial trustee foreclosure sale.

15 The Debtors determined that a period of time was necessary to determine how best to
16 reorganize their affairs and therefore filed their voluntary petition for relief under the
17 provisions of Chapter 11 of the United States Bankruptcy Code (the "Code").

18 3. Events Subsequent to Filing this Case.

19 A - VOLUNTARY PETITION: On October 30, 2014 the Debtors filed their
20 petition for relief pursuant to Chapter 11 of the United States Bankruptcy Code (the "Code").

21 B. APPOINTMENT OF COUNSEL: Debtors originally filed without counsel.
22 Subsequent to the Petition Date, on November 4, 2014 Adam E. Hauf of The Law Office of
23 Adam Hauf ("Hauf") filed a Notice of Appearance on behalf of the Debtors. On November
24 24, 2014 Hauf filed an Application for Appointment together with a Disclosure of
25 Compensation under Rule 2016, a Verified Statement of Professional under Rule 2014, and a
26 Proposed Order for Appointment. On November 24, 2014, the Court approved the
27 appointment of Hauf as counsel for Lerch as Debtors and Debtors-in-Possession.

28 C. APPEARANCE OF U.S. TRUSTEE: On October 30, 2014 a Notice of
29 Appearance was filed by Patty Chan of the Office of The United States Trustee ("U.S.
Trustee") on behalf of the U. S. Trustee.

1 D. JACKIM LAW GROUP APPEARANCE: A Notice of Appearance on
2 November 4, 2014 by Roger S. Owens, Esq. was filed by Janet E. Jackim of Walker &
3 Peskind, PLLC on behalf of Jackim Law Group, LLC.

4 E. FILING SCHEDULES AND STATEMENT OF FINANCIAL AFFAIRS:
5 Debtors filed their original Schedules and their original Statement of Financial Affairs
6 (“SOFA”) on November 20, 2014, by and through their counsel, Hauf. Debtors on November
7 11, 2014 timely filed their Motion to Extend Time to File Schedules and SOFA to November
8 20, 2014, which Motion was signed by the Court on November 14, 2014 and entered on
9 November 17, 2014.

10 F. AMENDMENT TO SCHEDULE B: Debtors filed an Amendment to Schedule
11 B on December 1, 2014.

12 G. FIRST MEETING OF CREDITORS: The First Meeting of Creditors was held
13 and concluded on the 2nd day of December, 2014 before Patty Chan of the Office of the U.S.
14 Trustee.

15 H. STATUS HEARING: A Status Hearing as provided in the Notice entered by
16 the Court on November 6, 2014 was held before the Honorable Judge Brenda K. Martin on
17 December 16, 2014 at 11:00a.m. in Courtroom 701 of the Federal Building located at 230
18 North 1st Avenue, Phoenix, AZ. At said hearing the Court was advised that Debtors intended
19 to timely file their Plan of Reorganization and that Mr. Lerch, who is presently a lawyer on
20 suspension with the State Bar of Arizona, intended to request reinstatement. A continued
21 hearing was scheduled and was set for the 3rd day of March, 2015 at 11:00a.m. at 230 North
22 1st Avenue, 7th Floor, Courtroom 701, Phoenix, AZ. on March 3, 2015. At said continued
23 hearing the Court was advised of the status of the pending matters and set a continued hearing
24 for May 12, 2015. The status hearing was concluded at the May 12, 2015 hearing.

25 I. CREDITORS’ COMMITTEE: On December 23, 2014 the United States
26 Trustee filed its Statement concerning the inability to appoint a Committee of Unsecured
27 Creditors.

28 J. NOTICE OF APPEARANCE: On December 16, 2014 Lori A. Lewis of the
29 Maricopa County Attorney’s Office filed a Notice of Appearance and Request for Notice and
Service of Papers on behalf of the Maricopa County Treasurer’s Office.

1 K. STANFORD LERCH HOSPITALIZATION: Debtor Stanford E. Lerch has,
2 apparently, for quite some time, been suffering from anemia and certain spinal lesions related
3 to his prostate cancer operation on February 16, 2012. Subsequent to the filing of the Petition
4 herein, Mr. Lerch was under doctor's care, hospitalized, or instructed not to undertake regular
5 work activities for portions of November and December of 2014 and January of 2015. Mr.
6 Lerch, although still under doctor's care, is once again performing his work as a paralegal. In
7 addition to the foregoing Mr. Lerch is presently receiving radiation treatments related to his
8 prostate cancer.

9 L. MOTION FOR EXTENSION OF DISCHARGABILITY DEADLINE: On
10 January 28, 2015 a Motion to Extend the Deadline for Filing Section 523 Complaint to
11 Determine Dischargability of a Debt was filed by Janet E. Jackim on behalf of Jackim Law
12 Group, LLC. Debtors had no objection to and consented to a 90 day continuance of said
13 deadline in order to allow the subject creditor to conduct discovery. Debtors did not object
14 and the Court allowed the creditor until May 3, 2015 to file its objection. Creditor did not file
15 an objection to discharge in the period granted, but as hereinafter described on December 18,
16 2015 filed a Motion to Dismiss this chapter 11 case.

17 M. LIFT STAY MOTION: On February 2, 2015 David L. Knapper of the Law
18 Offices of David L. Knapper filed a Notice of Appearance and Request to be Placed on
19 Master Mailing List on behalf of Dove Financial Investments ("Dove Financial"), the holder
20 of the First Deed of Trust on the Real Property in Jerome, Arizona located at 715 Clark
21 Street. Dove Financial filed its Motion for Relief From the Automatic Stay on February 2,
22 2015 which was objected and responded to by the Debtors on the 17th day of February 2015.
23 In addition, a Supplemental Motion relating to insurance on said Property was filed on the 4th
24 day of February 2015. A Preliminary Hearing was scheduled on the "Motion for Relief From
25 the Automatic Stay" for March 18, 2015 at 11:00a.m. to be conducted by the Honorable
26 Judge Brenda K. Martin in Courtroom No. 701, of the United States Bankruptcy Court,
27 District of Arizona, Phoenix Division, located at 230 North 1st Avenue, Phoenix, Arizona
28 85003. At the Preliminary Hearing, the Court set the Trial/Evidentiary Hearing for May 21,
29 2015, however, Debtors through negotiation agreed to withdraw their Objection to the
Motion for Relief From the Automatic Stay and the Court entered its Order granting the

1 Motion on May 20, 2015. The Jerome real property was subsequently sold at a non judicial
2 Trustees' Sale.

3 N. PLAN AND DISCLOSURE STATEMENT: Debtors filed their Disclosure
4 Statement and Plan of Reorganization on the 26th day of February 2015. The Court set the
5 30th day of June, 2015 at 11:00 a.m. as the hearing date for approval of the Disclosure
6 Statement. At the June 30th hearing it was determined by Debtors that an amended Plan and
7 Disclosure Statement needed to be filed because of the loss of the Jerome property.

8 O. LERCH SUSPENSION: As more fully discussed in Article II hereof, Mr.
9 Lerch was suspended by the State Bar of Arizona for a period of 20 months which
10 commenced on the 16th day of February 2012. During said twenty month period a bar
11 complaint was filed against Mr. Lerch and several attorneys by a Dr. Collins. It was
12 determined by Mr. Lerch's bar counsel that the matter should be resolved prior to Mr. Lerch
13 filing his application for reinstatement. The State Bar of Arizona dismissed the Complaint
14 filed by Dr. Collins against Mr. Lerch on February 4, 2015. An Appeal of the State Bar's
15 decision was made and the State Bar as expected upheld its dismissal. Subsequently, another
16 person filed claiming that Mr. Lerch was practicing law while under suspension and no ruling
17 has been made at the date hereof.

18 P. MOTION TO DISMISS: On December 18, 2015, Janet Jackim of Sacks
19 Tierney on behalf of Jackim Law Group LLC filed a Motion to Dismiss this Chapter 11 case
20 and the Debtors filed their objection and response to such motion on the 4th day of January,
21 2016. The matter has been dismissed.

22 Q. AMENDED PLAN AND DISCLOSURE STATEMENT: On May 31, 2016
23 the Debtors filed their First Amended Plan and First Amended Disclosure Statement. A
24 hearing on the approval of the Disclosure Statement was set for the ____ day of _____,
25 2016, at which the Disclosure Statement was approved and a hearing for Confirmation of the
26 Plan of Reorganization was scheduled for the ____ day of _____, 2016.
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ARTICLE IV

CLASSIFICATION OF CLAIMS AND INTERESTS

The Plan provides for the separate classification of all claims against and interests as follows.

1. Priority Claims

Section 507 of the Bankruptcy Code identifies certain types of Claims entitled to payment with priority over all other unsecured claims. Certain of the priority claims must be paid in full on the Effective Date of the Plan, pursuant to section 1129(a)(9)(A) and (B) of the Bankruptcy Code, or consent to an alternative payment schedule, in order for a plan to be confirmed. The Plan defines the following classes of such claims and provides for the manner of payment.

Class 1A – Administrative Expenses Fees and Charges Specified in Section 507(a) (2) and Section 507(a) (3).

Class 1B – Allowed Wage Claims Entitled to Priority under Section 507 (a)(4).

Class 1C – Allowed Claims Entitled to Priority under Section 507(a) (5) and (6).

Class 1D – Allowed Claims Entitled to Priority under Section 507(a) (7).

Class 1E – Allowed Claims Entitled to Priority under Section 507(a) (8).

Class 1F – Allowed Claims Entitled to Priority under Section 507(a) (9) and (10).

2. Secured Claims: Class 2

Class 2A – Allowed Secured Claim of Gordon Family Revocable Trust (“Gordon”) 1st lien of 5th Avenue Property.

3. Unsecured Claims: Class 3

Class 3A –General Unsecured Creditors.

Class 3B- Allowed Unsecured Claim of 7th Evolution, LLC.

Class 3C-Allowed Unsecured Claim of Jackim Law Group.

4. Debtor’s Interest: Class 4

Class 4A – Debtor’s Interest.

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ARTICLE V

TREATMENT OF ALLOWED CLAIMS

1. Class 1A – Administrative Claims.

The Plan classifies all Administrative Claims and expenses allowed under 11 U.S.C. §503(b) and entitled to priority under 11 U.S.C. §507(a)(2) and (a)(3) as Class 1A Administrative Claims, as defined in 11 U.S.C. §503 of the Code. These claims consist of the actual, necessary costs and expenses of preserving the Estate, including taxes incurred, salaries or commissions for services rendered after the commencement of the case, fees of professionals employed by Debtors, and fees and charges assessed against the Estate under Chapter 123 of Title 28 of the United States Code.

Under 11 U.S.C. §1129(a) (9) (A), Administrative Claims must be paid in full on the Effective Date in order for a Plan to be confirmed. The Plan complies with this requirement by providing that Class 1A claims will be paid in full on the Effective Date of the Plan, or upon allowance, whichever occurs first, except to the extent a holder of an Administrative Claim otherwise agrees. Amounts due to holders of Class 1A Claims will be funded from the monies being provided by the Debtors' post petition earnings.

Debtors anticipate that the following administrative expenses will accrue during these proceedings and will be payable on the Effective Date of the Plan. In the event the proceeds from the Debtors' operations are insufficient to pay these expenses the Debtors' shall pay any shortfall.

- a. Professional Fees of Lawyers and Accountants of \$20,000.00.

Because the Plan provides for payment in full of Class 1A Claims as of the Effective Date, or as otherwise provided above, the Class 1A Claims are not impaired. The lawyers and accountants representing Debtors have agreed to accept payment from the Debtors over an extended period of time and have waived their rights to be paid on the Effective Date of the Plan.

2. Class 1B. Wage Claims

The Plan classifies Claims for wages entitled to priority under §507(a) (4) as Class 1B Claims. Such Claims include Claims for wages, salaries, and commissions, including severance, sick pay and vacation leave, to the extent the Claims were incurred within the 180-

1 day period immediately prior to the bankruptcy filing. The amount of each such Claims
2 entitled to priority is limited to \$10,000 per Claimant. Claims for wages outside the 180 day
3 period or in excess of the dollar amount limitation are classified as General Unsecured Claims,
4 in Class 3.

5 Under Section 1129(a)(9)(B) of the Bankruptcy Code, Claims for wages entitled to
6 priority must be paid in full in order to confirm a Plan. Debtors do not believe there are any
7 wage Priority Claims. In the event any such claims are allowed, they shall be paid by the
8 Debtors from post petition income.

9 3. Class 1C. Allowed Claims Entitled to Priority Under Section 507(a) (5) and
10 (6).

11 After payment of Allowed Secured Claims and Allowed Administrative Claims
12 specified in §507(a)(2), §507(a)(3) and 507(a)(4) of the Bankruptcy Code, Allowed Claims
13 entitled to priority under Sections 507(a), (5) and (6) of the Bankruptcy Code, if any, shall be
14 paid in full and in cash on the Effective Date. The Debtors do not believe there are any
15 Class 1C Claims. In the event any such claims are allowed, they shall be paid by the Debtors
16 from post petition income.

17 4. Class 1D. Deposit Claims

18 The Plan classifies Claims for consumer deposits entitled to priority under §507(a)
19 (7) as Class 1D Claims. Under this provision of the Bankruptcy Code, a Claim is entitled to
20 priority treatment if it arises from the deposit of money by the Claimant with a Debtor in
21 connection with the purchase of property or services for the use of the Claimant. The amount
22 entitled to priority is limited to \$1,800 per Claim. Claims for customer deposits outside the
23 Code definition or in excess of the dollar limitation are classified in the Plan as General
24 Unsecured Claims, in Class 3.

25 Under §1129(a)(9)(B) of the Bankruptcy Code, Claims for consumer deposits
26 entitled to priority must be paid in full on the Effective Date as a condition to confirmation.
27 The Debtors do not believe there are any Class 1E claims. In the event any such claims are
28 approved, the Debtors shall pay such claims from post petition income.
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5. Class 1E. Tax Claims

The Plan classifies Claims for taxes entitled to priority under §507(a) (8) as Class 1E Claims. Under Section 1129(a)(9)(C), Claims for taxes entitled to priority must be paid in full in regular installment payments in cash over a period not later than 5 years after the date of the order for relief in order to confirm a Plan.

The allowed Priority Tax Claims, together with interest thereon at the Tax Claim rate, shall be paid in equal quarterly installments, the first to be made 90 days after the Effective Date, for the period ending 5 years following the date of assessment of such claim. The Debtors shall pay such claim from post petition income.

Because the Plan provides for payment in full of Class 1E Claims and complies with the requirements of §1129(a) (9) (C), holders of Class 1F Claims are not considered a voting class pursuant to §1123(a) (1).

6. Class 1F - §507(a) (9) and (10) Claims.

The Debtors believe there are no §507 (a) (9) and (10) Priority Claims, however if any such claims should be allowed, the Debtors or Interest Holders will pay such claim, as provided in the Code from his business operations or other post petition income.

7. Class 2A – Allowed Secured Claim Gordon Family Trust (“Gordon”).

This Class consists of the Allowed Secured Claim held by Gordon as to its 1st position in the property located at 4330 North 5th Ave. #216, Phoenix, AZ 85013 (“5th Ave.”). Gordon shall retain its lien on the 5th Ave. property. Debtors assert that Gordon’s Class 2A Claim is in first position on the 5th Ave. property. Debtors and Gordon have agreed that the Gordon claim is \$102,000 plus accrued interest. This obligation will be paid in equal monthly interest payments of \$1,600.00, for a period of five years at which time the entire interest plus any unpaid accrued interest shall be paid in full. The Debtors may prepay this obligation without penalty. The Debtors may sell the 5th Ave. property at any time without penalty so long as the balance owing Gordon is satisfied out of the sale proceeds.

9. Class 3A – Allowed General Unsecured Claims.

With respect to the Allowed Unsecured Claims of Non-Priority Creditors not otherwise dealt with herein, Debtors shall pay a sum in excess of the amount they would receive in the event the Debtors’ estate were liquidated under the provisions of Chapter 7 of

1 the United States Bankruptcy Code (the “Code”). The sum will be paid in 60 equal monthly
2 installments without interest commencing the 1st day of the month following the Effective
3 Date of the Plan.

4 10. Class 3B – Allowed Secured Claim 7th Evolution, LLC #6 (“Evolution”).

5 This Class consists of the Allowed Unsecured Claim held by Evolution, a former
6 secured creditor who held a second lien on real property located at 715 Clark St., Jerome,
7 AZ (“Jerome”). Evolution had a Claim as of the Petition Date of approximately \$57,000.
8 Based upon the non judicial sale held by the first lien holder, Evolution’s secured interest
9 was lost, however Debtors intend to pay Evolution the sum of \$57,000, without interest in
10 120 equal monthly payments of \$475.00 commencing on the 1st day of the month following
the Effective Date of the Plan.

11 11. Class 3C – Allowed Unsecured Claim of Jackim Law Group (“Jackim”).

12 This Class consists of the Allowed Unsecured Claim held by Jackim in an
13 amount depending on allowed accrued interest from the Petition Date, but in all events less
14 than \$100,000. Jackim alleged it was a secured creditor against the Jerome property based
15 upon its Judgment Lien. Debtors as previously provided herein lost the Jerome property and
16 therefore Jackim is an unsecured creditor. Notwithstanding such loss Debtors are of the
17 opinion that there would have been some payments made to Jackim but for the loss of the
18 real property. Debtors agree and intend to pay to Jackim the sum of \$25000 without interest
19 in 120 equal monthly payments of 208.33 commencing on the 1st day of the month following
20 the Effective Date of the Plan.

21 12. Class 4A – Pursuant to §1129(a)(15) and (b)(2)(B)(ii) of the Bankruptcy
22 Code, the Debtors shall retain their interest in all estate property in consideration of their
23 funding of Allowed Claims and shall receive all exempt property.

24 CREDITORS AND INTEREST HOLDERS ARE URGED TO READ THE
25 PLAN IN FULL. CREDITORS AND INTEREST HOLDERS ARE FURTHER URGED
26 TO CONSULT WITH COUNSEL IN ORDER TO FULLY UNDERSTAND THE PLAN
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ARTICLE VI
POST PETITION OPERATIONS

Funding pursuant to §1123(a)(8) of the Code shall be provided by the Debtors from the proceeds generated by the Properties and all of the earnings from personal services performed by the Debtors and future income of the Debtors as is necessary. The Debtors shall have authority to retain such professionals as necessary to liquidate assets as necessary. Any post confirmation sales shall not require approval of the Bankruptcy Court. In addition the Debtors shall act as the Disbursing Agent under the Plan.

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ARTICLE VII
SATISFACTION OF CLAIMS

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1. Satisfaction of Claims:

All Creditors, Equity Security Holders and other parties in interest who have or assert Claims in any class shall, upon Confirmation of the Plan, be deemed to have acknowledged that their respective Claims are fully satisfied by the distribution provided herein, each of which Claims, whether known or unknown, scheduled or unscheduled, filed or unfiled, asserted or assertable, is declared and shall be, for all purposes, upon the entry of the Order confirming the Plan, satisfied in full.

ARTICLE VIII
UNEXPIRED LEASES AND EXECUTORY CONTRACTS

1. Assumption: All leases, wherein the Debtors are the lessees or the lessors and not otherwise rejected or assumed, are hereby assumed, however, the assumption of such leases shall not act as a bar to the assertion by the Debtors of a breach of any such lease by the lessor or lessee.

2. Cure of Defaults: Upon Confirmation, the Court shall provide that any contract assumed pursuant to this Article VII or previously assumed pursuant to Section 365 of the Code, will be in force upon cure of any defaults requiring cure under Section 365 of the Code.

1 informational purposes only, given that the Debtors' Plan does not contemplate a liquidation
2 in this fashion. The importance of the analysis is to illustrate that even if the Debtors' estate
3 was liquidated, values would lessen significantly and unsecured creditors would not be paid
4 a lesser distribution if liquidation occurred. The Debtors' Plan calls for the commencement
5 of payments to unsecured creditors under the Plan on the 1st day of the month after the
6 Effective Date of the Plan.

7 **ARTICLE XI**

8 **MEANS TEST AND DISPOSABLE INCOME ANALYSIS AS OF THE**
9 **PETITION DATE AND CURRENT INCOME EXPENSE ANALYSIS**

10 Pursuant to §1129(a)(15) of the Bankruptcy Code, the Court shall confirm the Plan
11 only if: in a case in which the Debtor is an individual and in which the holder of an Allowed
12 Unsecured Claim objects to the confirmation of the Plan, what the holder of such Allowed
13 Unsecured Claim shall receive under the Plan is either (A) the value, as of the Effective Date
14 of the Plan, of the property to be distributed under the Plan on account of such Allowed
15 Unsecured Claim is not less than the amount of such Allowed Unsecured Claim, or (B) the
16 value of the property to be distributed under the Plan is not less than the projected disposable
17 income of the Debtor (as defined in section 1325(b)(2) to be received during the 5-year
18 period beginning on the date that the first payment is due under the Plan, or during the
19 period for which the Plan provides payments, whichever is longer.

20 Section 1325(b)(2) defines disposable income as current monthly income received by
21 the Debtor (other than child support payments, foster care payments, or disability payments
22 for a dependent child made in accordance with applicable non-bankruptcy law to the extent
23 reasonably necessary to be expended for such child) less amounts reasonably to be expended
24 (A)(i) for the maintenance or support of the Debtor or a dependent of the Debtor, or for a
25 domestic support obligation, that first becomes payable after the date the petition is filed;
26 and (ii) for charitable contributions (that meet the definition of "charitable contribution"
27 under section 548(d)(3) to a qualified religious or charitable entity or organization (as
28 defined in section 548(d)(4)) in an amount not to exceed 15 percent of gross income of the
29 debtor for the year in which the contributions are made; and (B) if the Debtor is engaged in

1 business, for the payment of expenditures necessary for the continuation, preservation, and
2 operation of such business.

3 Because the Debtors are individuals, and assuming a holder of an allowed unsecured
4 claim objects to the confirmation of the Plan, the value of the property to be distributed
5 under the Plan cannot be less than the projected disposable income of the Debtors (as
6 defined in section 1325(b)(2)) to be received during the 5-year period beginning on the date
7 that the first payment is due under the Plan, or during the period for which the Plan provides
8 payments, whichever is longer.

9 The Debtors' adjusted disposable income after confirmation of the Plan shall be
10 sufficient to meet Debtors obligations under the Plan. **While the Debtors' liquidation**
11 **Analysis shows that there is minimal required distribution to the Debtors' general**
12 **unsecured creditors, the Debtors are nonetheless committing to fund sums greater than**
13 **an amount in excess of their Liquidation Equity after adjustments for Administrative**
14 **claims and taxes on a pro-rata basis to Allowed Unsecured Claims so that they can**
15 **receive a distribution from the bankruptcy estate which will be greater than creditors**
16 **would receive if Debtors had filed Chapter 7. The Debtors will fund their secured,**
17 **administrative, and priority claims in full, and will pay the return to their general**
18 **unsecured creditors set forth herein through their future income.**

19 ARTICLE XII

20 EFFECT OF CONFIRMATION

21 Because the Debtors are individuals, pursuant to §1141(d)(5) of the Bankruptcy Code,
22 Confirmation of the Plan does not provide the discharge for the Debtors. The Debtors will
23 move for the entry of a final decree after the Debtors have provided for the implementation of
24 the Plan, and the final decree will contain the language providing the Debtors their discharge
25 and such final decree will discharge any and all debts of the Debtors, that arose any time
26 before the entry of the confirmation Order, including, but not limited to, all principal and all
27 interest accrued thereon, pursuant to §1141(d) of the Bankruptcy Code. The discharge shall be
28 effective as to each Claim, regardless of whether a proof of claim thereon was filed, whether
29 the Claim is an Allowed Claim, or whether the holder thereof votes to accept the Plan.

1 In addition, any pre-confirmation obligations of the Debtors dealt with in the Plan shall
2 be considered New Obligations of the debtors, and these New Obligations shall not be
3 considered in default unless and until the Reorganized Debtors defaults on the New
4 Obligations pursuant to the terms of the Plan. The New Obligations provided for in the Plan
5 shall be in the place of, and completely substitute for, any pre-Confirmation obligations of the
6 Debtors and, once the Plan is confirmed, the only obligations of the Debtors shall be such
7 New Obligations as provided for under the Plan.

8 **ARTICLE XIII**
9 **TAX CONSEQUENCES**

10 Pursuant to §1125(a)(1) of the Bankruptcy Code, the Debtors are to provide a discussion
11 of the potential material federal tax consequences of the Plan to the Debtors, any successor to
12 the Debtors, and a hypothetical investor typical of the holders of claims or interests in the case,
13 that would enable such a hypothetical investor of the relevant class to make an informed
14 judgment about the Plan, but adequate information need not include such information about
15 any other possible or proposed plan and in determining whether the Disclosure Statement
16 provides adequate information, the Court shall consider the complexity of the case, the benefit
17 of additional information to creditors and other parties in interest, and the cost of providing
18 additional information.

19 Neither the Debtors nor their lawyers or accountants can make any statements with
20 regard to the tax consequences of the Plan on any of the creditors. Although they would note
21 that to the extent the creditor is not paid in full their allowed Claim, they should consult with
22 their tax advisor concerning the possibility of writhing off for tax purposes that portion of
23 their Allowed claim that is not paid. Each creditor in this case, when analyzing the Plan,
24 should consult with its own professional advisor to determine whether or not acceptance of the
25 Plan by the creditor will result in any adverse tax consequences to the creditor.

26 The Bankruptcy Tax Act generally provides that the Debtors do not have to recognize
27 income from the discharge of indebtedness. The Plan contemplates significant discharge of
28 indebtedness; however, because the Debtors are in bankruptcy, they will not have to recognize
29

1 the discharge of indebtedness as income for tax purposes. The Debtors do not believe the Plan
2 will cause any adverse tax consequences.

3 **ARTICLE XIV**

4 **NON-ALLOWANCE OF PENALTIES AND FINES**

5 No distribution shall be made under this Plan on account of, and no allowed
6 claim, whether secured, unsecured, property, or administrative, shall include any fine,
7 penalty, exemplary or punitive damages, late charges or other monetary charge relating to or
8 arising from any default or breach by the Debtors, and any claim on account thereof shall be
9 deemed disallowed whether or not an objection to it is filed.

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11 **ARTICLE XV**

12 **MODIFICATION OF PLAN**

13 In addition to his modification rights under §1127 of the Bankruptcy Code, the Debtors
14 may amend or modify their Plan at any time prior to Confirmation without leave of the
15 Court. The Debtors or the Reorganized Debtors may propose amendments and/or
16 modifications of their Plan at any time subsequent to Confirmation with leave of the Court
17 and upon notice to Creditors. After Confirmation of the Plan, the Debtors or the reorganized
18 Debtors may, with approval of the Court, as long as it does not materially or adversely affect
19 the interests of Creditors, remedy any defect or omission or reconcile any inconsistencies of
20 the Plan, or in the Confirmation Order, if any may be necessary to carry out the purposes and
21 intent of their Plan.

22 **ARTICLE XVI**

23 **GENERAL PROVISIONS**

24 1. Remedies to Cure Defects After Confirmation, the Debtors may, with the
25 approval of the Court, and so long as it does not materially or adversely affect the interest of
26 Creditors, remedy any defect or omission, or reconcile any inconsistencies in the Plan, or in
27 the Confirmation of the Plan, in such a manner as may be necessary to carry out the purpose
28 and the intent of the Plan.

1 2. Release of Liens and Interests. Unless otherwise provided in the Plan or in
2 the Order confirming the Plan, all creditors possessing Allowed Secured Claims shall retain
3 their liens on any of their collateral the Reorganized Debtors acquires as the result of
4 confirmation of the Plan to secure payment of all cash or other property to be distributed to
5 them on account of those liens pursuant to the terms of the Plan. Such liens on the
6 Reorganized Debtors' property shall be deemed relinquished and reconveyed to the
7 Reorganized Debtors upon the payment to the holders of such liens of all money or property
8 due them in satisfaction of their Allowed Secured Claims according to the terms of the Plan.

9 3. Stay and Enforcement of the Plan. The automatic stay of § 362(a) of the
10 Bankruptcy Code shall terminate when all orders necessary to the confirmation of the Plan
11 become Final Orders. Although confirmation of the Plan may not discharge the Debtors
12 pursuant to Section 1141 of the Bankruptcy Code, the Reorganized Debtors are only
13 assuming the obligations set forth in this Plan in the amounts so specified herein and the
14 Reorganized Debtors are only obligated and liable to make payment of such amounts in the
15 manner set forth by and pursuant to the terms of the Plan. The Reorganized Debtors are not
16 liable to any holders of Allowed Claims and Allowed Interests except as specifically
17 provided for by the terms of the Plan when confirmed by Order of the Bankruptcy Court. If
18 and only if the Reorganized Debtors fail to comply with the provisions of the Plan, the
19 Holders of Claims in any class may proceed against the Reorganized Debtors and their
20 property in order to enforce the Plan under Federal or State Law, in Bankruptcy Court, or
21 any other Court of competent jurisdiction, and in the case of Secured Creditors in accordance
22 with any applicable and existing mortgage, deed of trust, security agreement, or other lien
23 instrument.

24 4. Disputed Claims and Appeals. Where timely objections are made to any
25 Claim in any Class, to any Priority Claim, or to any Claim for administrative expenses, or
26 any motions or proceedings are filed in regard to any lien, claim or privilege, any cash
27 payments due such Claimant shall be held by the Reorganized Debtors in a separately
28 segregated interest bearing bank account, subject to the Bankruptcy Court's jurisdiction. For
29 purposes of distribution to creditors, calculations shall be made as if a Disputed Claim
becomes an Allowed Claim. Distributions shall be made to the holder of such claim to the

1 extent such distributions have already been made to Holders of Allowed Claims generally, if
2 the objection to the Claim is overruled and the Disputed Claim becomes an Allowed Claim.

3 5. Headings: Paragraph headings have been inserted in the Plan for the
4 convenience of the reader. Such headings shall not serve in any way to limit or modify the
5 provisions of the paragraph.

6 **ARTICLE XVII**

7 **EXHIBITS**

- 8 A. First Amended Plan of Reorganization
9 B. Letter for Services
10 C. Liquidation Analysis
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12 **ARTICLE XVIII**

13 **JURISDICTION OF THE COURT**

14 1. Reinvestment of Title and Retention of Jurisdiction: On Confirmation, the
15 Debtors shall be reinvested with his assets, subject only to the terms of the Plan and the liens
16 of the Secured Creditors described herein. The Debtors shall be entitled to manage their
17 affairs, subject to the limitations set forth herein, without further order of the Court. Subject
18 to such limitations, the Court will retain jurisdiction until the Plan has been fully
19 consummated for certain purposes, including, but not limited to:

20 2. The Classification of a Claim of any Creditor, the re-examination of any
21 Claim which has been allowed for the purposes of voting and the determination of such
22 objections as may be filed to any Claim: The failure by the Debtors to object to or to
23 examine any Claim for the purposes of voting, shall not be deemed a waiver of the Debtors'
24 right to object to or reexamine the Claim in whole or in part. If a Creditor does not file a
25 Claim in these proceedings, the Debtors may object to the amount scheduled as owing to that
26 Creditor, in whole or in part. If any objection to a Claim is filed, no payment will be made
27 with respect to such Claim until a determination on such objection has been made by the
28 Court.
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1 the proceedings, unless certain special conditions (appointment of a trustee or reduction of
2 the one hundred twenty (120) day period), not present in this case are met. After the one
3 hundred twenty (120) day period (unless the Court extends it), any party in interest may
4 propose a Plan of Reorganization. Once a Plan has been filed by Debtors, no other Plan may
5 be submitted to Creditors until additional time has expired without acceptance of that Plan.

6 2. The Court may confirm a Plan where there is a negative class vote “if the Plan
7 does not discriminate unfairly, and is fair and equitable, with respect to each class of claims
8 or interest that is impaired under, and has not accepted the Plan “pursuant to Section 1129(1)
9 of the Code.

10 3. Before the Court can confirm a Plan, the requirements of Chapter 11 must be
11 met. There are certain formalities a Plan must adhere to under the Code. Among others, the
12 Plan must designate classes and specify whether or not classes are impaired, and their
13 treatment if they are impaired. The Plan must also provide adequate means for its execution.

14 4. The Court can confirm a Plan under section 1129 of the Code; assuming all other
15 requirements are met, if two-thirds (2/3) in amount and more than one-half (1/2) in number
16 of the allowed interests of each impaired class of claims and two-thirds (2/3) in amount of
17 the allowed interests of each impaired class of interests accept. In the alternative, if there is
18 a dissenting class or classes of claims or interests, the Court can confirm a Plan if the
19 proponent of the Plan so requests and the Court finds that all requirements other than all
20 classes consenting are met and the Plan does not discriminate unfairly, and is fair and
21 equitable, with respect to each class of claims or interests impaired under, and who has not
22 accepted the Plan.

23 **ARTICLE XX**

24 **ACCEPTANCE AND CONFIRMATION**

25 **A- FEASIBILITY**

26 **1. Description of Debtors’ Assets**

27 The assets of the Debtors are listed on the Debtors’ Schedules filed with the Court.
28 In addition the assets of the Debtors as of the Date of this Disclosure Statement are
29 contained in the Liquidation Analysis included in Article X of this Disclosure Statement. As

1 demonstrated in the Liquidation Analysis unsecured creditors will receive substantially less
2 on their claims in the event of liquidation of the assets of the Debtors.

3 2. The Debtors believe that the Plan satisfies the requirements of §1129(a)(ii) of the
4 Code and that the Disclosure Statement and its Exhibits demonstrate that Confirmation of
5 the Plan is not likely to be followed by the liquidation of or need for further reorganization
6 of the Reorganized Debtors.

7 B- CONFIRMATION OVER DISSENTING CLASS

8 The Bankruptcy Code contains provisions for confirmation of a plan even if the plan
9 is not accepted by all impaired classes, so long as at least one impaired class of claims has
10 accepted it. These "“cram-down”" provisions for confirmation of a plan, despite the non-
11 acceptance of one or more impaired classes of claims or interests, are set forth in §1129(b)
12 of the Bankruptcy Code.

13 If a Class of secured Claims rejects the Plan, the Plan may still be confirmed so long
14 as the Plan does not discriminate unfairly as to a Class and is “fair and equitable” to such
15 Class under §1129 (b) of the Bankruptcy Code and applicable case law. Section 1129 (b) of
16 the Bankruptcy Code states that the “fair and equitable standard may require, among other
17 things, that the Plan provide (i) that the lien securing the Claims of members of the Class is
18 to be left in place and the holders of the Claim will receive deferred cash payments of a
19 present value equal to the lesser of the amount of such Claims or the value of the collateral
20 securing such Claims; (ii) that the collateral securing the Claims be sold free of the lien with
21 the lien attaching to the proceeds and with the lien on the proceeds being treated under one
22 of the two other standards described in this paragraph; or (iii) a treatment for the Claim that
23 is the “indubitable equivalent” of the Claim. The Debtors believe that the Plan satisfies the
24 test and therefore that the Plan can be confirmed even if it is rejected by holders of Secured
25 Claims. If a Class of unsecured Claims rejects the Plan, the Plan may still be confirmed so
26 long as the Plan is not unfairly discriminatory as to that Class and is “fair and equitable” to
27 such Class. Under §1129 (b) of the Bankruptcy Code, a Plan is “fair and equitable” as to a
28 class if, among other things, the Plan provides that (i) each holder of a Claim included in the
29 rejecting class receive or retain on account of that Claim property which has a value, as of

1 the Effective Date, equal to the allowed amount of such Claim; or that (ii) the holder of any
2 Claim or interest that is junior to the Claim of such Class will not receive or retain on
3 account of such junior Claim or interest any property at all; or (iii) although not included in §
4 1129 (b) but as determined by case law that if a junior Claim receives or retains anything on
5 account, even though the senior holder has not received a one hundred percent (100%)
6 return, that a substantial new contribution, as determined by the Court, shall be made by the
7 junior Claimant. The Debtors believe that the Plan meets this test as to all impaired Classes
8 of unsecured Claims. Therefore the Debtors believe the Plan could be confirmed even if it is
9 rejected by the Classes of unsecured Claims as long as at least one impaired Class accepts
10 the Plan.

11 With respect to a Class of interests, such interest holders may not receive any
12 distribution or retain any value on account of such interests unless all Classes of creditors
13 have been paid in full or that a substantial new contribution, as determined by the Court,
14 shall be made by any interest holder retaining any distribution or value on account of such
15 interests in the event all classes of creditors have not been paid in full.

16 **ARTICLE XXI**

17 **ALTERNATIVES TO THE PLAN**

18 The Debtors expect that the Plan will enable the Reorganized Debtors to continue to
19 operate on a going concern basis. However, if the Plan is not confirmed, the Debtors would
20 continue to seek other rehabilitative alternates. In the event that no suitable alternative could
21 be found, the Debtors might be forced to recommend to the Court the liquidation of the
22 Debtors' estate.

23 The Debtors are of the opinion that liquidation would not be in the best interests of
24 the creditors and interest holders generally. As stated above, liquidation of the Debtors'
25 estate would render little or no distributions to unsecured creditors.
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ARTICLE XXII
CLOSING OF THE CASE

If the Court does not close this case on its own motion, the Reorganized Debtors will move the Court to close this case once the Plan is deemed substantially consummated. Until substantial consummation, the Reorganized Debtors will be responsible for filing pre- and post-confirmation reports required by the United States Trustee and paying the quarterly post-confirmation fees of the United States Trustee, in case, pursuant to 28 U.S.C. §1930, as amended. Pursuant to 11 U.S.C. §1129(a)(12), all fees payable under section 1930 of title 28, as determined by the Court at the hearing on confirmation of the Plan, will be paid, in cash, on the Effective Date.

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ARTICLE XXIII
DISCLAIMER

Court approval of this Disclosure Statement and the accompanying Plan of Reorganization, including exhibits, is not a certification of the accuracy of the contents thereof. Furthermore, Court approval of these documents does not constitute the Court's opinion as to whether the Plan should be approved or disapproved.

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ARTICLE XXIV
RISKS

The risk of the Plan lies essentially with the Debtors' ability to maintain their income which is necessary to make plan payments.

ARTICLE XXV
PROPONENTS' RECOMMENDATION/ALTERNATIVES TO THE PLAN

The Debtors recommend that all creditors entitled to vote for the Plan do so. The alternatives to confirmation of the Plan would be either conversion of this case to a case under Chapter 7 of the Bankruptcy Code or its dismissal.

Conversion will result in the appointment of a Chapter 7 trustee and, most likely, the hiring of an attorney by the trustee. Expenses incurred in administering the Chapter 7 case

1 will take priority in the right to payment over allowed, administrative expenses incurred in
2 the chapter 11 case. Both Chapter 7 and Chapter 11 administrative expenses take priority
3 over the payment of unsecured claims without priority. In other words, conversion would
4 likely decrease the net amount available to pay currently existing creditors. Further, a
5 Chapter 7 proceeding would not provide the Debtors with the means to pay their Priority
6 Claims over time.

7 In addition, conversion would result in unsecured creditors receiving nothing. A
8 chapter 7 trustee is not limited to specific deadlines for closing a case and distributing assets
9 to creditors. It is not unusual for distributions in Chapter 7 cases to be delayed for years.
10 Moreover, the return on the assets of the Estate a trustee is likely to obtain through a
11 standard Chapter 7 liquidation would be nothing as described above.

12 Dismissal of this case would leave all creditors holding unsecured claims in the
13 position of having to institute legal proceedings to collect their debts. Moreover, outside the
14 context of a bankruptcy case, the first creditor to collect may collect all non-exempt
15 property, leaving nothing to be paid to remaining creditors. In addition, dismissal of this
16 case would open the door for the Debtors to file a new bankruptcy case, which could further
17 delay or reduce funds available to pay creditors.

18 For all these reasons, the Debtors urge you to vote to accept the Plan and to return
19 your ballots in time to be counted.

20 **RESPECTFULLY SUBMITTED** this 31st day of May, 2016.

21
22 HAUF LAW PLC

23 /s/ Adam E. Hauf _____

24 Adam E. Hauf

25 Attorney for Debtors
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