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Attorney for Debtor

IN THE UNITED STATES BANKRUPTCY COURT  
FOR THE DISTRICT OF ARIZONA

Rancho Palomita Advisors, LLC, (hereinafter “the Debtor”), by and through its counsel undersigned, submits this proposed First Disclosure Statement attached hereto and by reference incorporated herein (hereinafter “the Disclosure Statement”) in connection with the “Debtor’s First Plan of Reorganization” attached as Exhibit “A” hereto July 13, 2016 (hereinafter “the Plan”). The Disclosure Statement is submitted in compliance with 11 U.S.C. Section 1125 and Bankruptcy Rule 3017. It has not been approved by the Bankruptcy Court and is filed solely to enable the Court and parties in interest to evaluate the adequacy of the information contained herein as required of the Bankruptcy Code. Moreover, the Disclosure Statement refers to information contained herein as required by the Bankruptcy Code. The Disclosure Statement refers to information and facts that the Debtor anticipates will be accurate or will occur on or prior to the date of the hearing to consider the Disclosure Statement. Therefore, certain information and facts contained in the Disclosure Statement may not be completely accurate as of the date hereof.

26 The Debtor believes that this form of Disclosure Statement is substantially the form which

1 contains information of a kind, and in sufficient detail, as far as is reasonably practical in light of the  
2 nature and history of the Debtor, that would enable a reasonable investor, typical of the holders of claims  
3 and interests in each class of claims and interest in the Plan, to make an informed judgment about this  
4 Plan. Nevertheless, all readers are cautioned that the Debtor may file further modifications of the Plan  
5 and of the Disclosure Statement prior to the hearing to consider the Disclosure Statement.

6

7 *THE FILING AND ANY DISSEMINATION OF THE DISCLOSURE STATEMENT  
IS NOT A SOLICITATION OF VOTES ACCEPTING OR REJECTING  
THE PLAN DESCRIBED THEREIN.*

8

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DATED: July 13, 2016

10

11

LAW OFFICES OF  
ERIC SLOCUM SPARKS, P.C.

12

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14

/s/ Sparks #11726  
Eric Slocum Sparks  
Attorney for Debtor

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1 TABLE OF CONTENTS

2 FOR  
3 DISCLOSURE STATEMENT DATED  
3 July 13, 2016

5 SECTION I	INTRODUCTION	1
6 1.1	Purpose of This Disclosure Statement	1
7 1.2	Debtor's Exclusive Period to Propose its Plan of Reorganization	3
8 1.3	Confirmation Hearing and Voting Instructions	3
9 1.4	Voting and Confirmation Process	4
10	Votes are Important	5
11	Value of Assets and Accounting	7
12 SECTION II	HISTORY OF DEBTOR AND FACTORS LEADING TO THE 13 FILING OF THE CHAPTER 11	9
14 2.1	Circumstances that Gave Rise to the Filing of the Bankruptcy Petition	9
15 2.2	Current Management	11
16 2.3	Location of Debtor's Major Assets	11
17 2.4	Real Properties of the Debtor/Assets of the Estate	11
18 2.5	Valuation Hearings	11
19 2.6	Significant Event Prior to the Commencement of the Debtor's Reorganization	11
20 2.7	The Accounting and Valuation Methods Used to Produce the Financial Information in the Disclosure Statement	11
21 2.8	Causes of Action	11
22 2.9	Plan of Reorganization	11
23 2.10	Obligations as of Date of Filing	12
24 2.11	The Condition and Performance of the Debtor while in Chapter 11	12
25 2.12	Adequate Protection Payments	12
26 2.13	The Existence, Likelihood and Possible Success of Non-bankruptcy Litigation	12
27 SECTION III	INCOME PROJECTIONS OF THE PROPERTY	13
28 SECTION IV	SUMMARY OF PLAN OF REORGANIZATION	13
	4.1 Plan	13

1	4.2	Segregation of Classes	13
2	4.3	Value of Secured Claims	14
3	4.4	Cash Collateral Litigation	14
4	4.5	Description of Assets - Values	14
5	4.6	Anticipated Future of Debtor	14
6	4.7	Source of Information	14
7	4.8	Condition and Performance of Debtor in Chapter 11	14
8	4.9	Information Regarding Claims Against Estate	14
9	4.10	Liquidation Analysis	14
10	4.11	Future Management of Debtor	14
11	4.12	Non-Bankruptcy Litigation	
12	4.13	Avoidable Transfers	15
13	4.14	Accounts Receivable	15
14	4.15	Presence of Affiliates	15
15	4.16	New Capital Contribution	15
16	SECTION V	CLASSIFICATION AND TREATMENT OF CLAIMS AND INTERESTS	15
17	5.1	Class 1 - Administrative Claims	16
18	5.2	Class 2 - Claims of Governmental Units	16
19	5.3	Class 3 - Secured Ad Valorem Real Property Tax Claims	17
20	5.4	Class 4 - Secured Claim of Western Alliance Bank	17
21	5.5	Class 5 - Secured Claim of Sage Tax Group	19
22	5.6	Class 6 - Unsecured Deficiency Claims and Unsecured Claims	19
23	5.7	Class 7 - Contingent, Unliquidated and Disputed Claims	19
24	5.8	Class 8 - Claims of Participating Investors	19
25	5.9	Class 9 - Interest of Equity Holders	20
26	SECTION VI	POST-CONFIRMATION MANAGEMENT	20
27	SECTION VII	INCOME TAX CONSEQUENCES OF REORGANIZATION	20
28	7.1	Disclaimer	20
	7.2	Consummation	20
SECTION VIII	FEASIBILITY		21
SECTION IX	LIQUIDATION ANALYSIS		22

1	SECTION X	ACCEPTANCE AND CONFIRMATION	22
2	10.1	What is Necessary for Court Approval of a Plan	22
3	10.2	Alternatives to the Plan	24
4	10.3	Specific Consideration in Voting	24
5	10.4	Risk Factors	25
6	10.5	Disclosure Required by the Code	25
7	SECTION XI	OTHER PROVISIONS OF THE PLAN	25
8	11.1	Retention of Jurisdiction	25
9	11.2	Retention of Causes of Action	26
10	11.3	Retention or Rejection of Executory Contracts and Leases	26
11	11.4	Amendments to Plan	26
12	11.5	Offer, Issuance and Resale of Plan Securities	26
13	11.6	Provisions for Filing Reports and Payments of Fees to US Trustee	27
14	SECTION XII	RECOMMENDATION OF THE DEBTOR	27
15	SECTION XIII	CONCLUSION	28

## 17 LIST OF EXHIBITS 18

19	EXHIBIT A	First Plan of Reorganization Dated July 13, 2016 and filed as a separate document
20	EXHIBIT B	Ballot
21	EXHIBIT C	Liquidation Analysis
22	EXHIBIT D	Anticipated Income and Expense/Sources and Uses of Cash
23	EXHIBIT E	Resume of Richard Sgross
24	EXHIBIT F	Resume of Raul Piña

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Attorney for Debtor

IN THE UNITED STATES BANKRUPTCY COURT  
FOR THE DISTRICT OF ARIZONA

In re: ) No. 4:16-bk-04036-SHG  
RANCHO PALOMITA ADVISORS, LLC ) (Chapter 11)  
 ) DEBTOR'S FIRST DISCLOSURE  
 ) STATEMENT DATED July 13, 2016  
 ) FOR ITS FIRST PLAN OF  
 ) REORGANIZATION  
 ) DATED July 13, 2016

Rancho Palomita Advisors, LLC, (hereinafter “the Debtor”), through its undersigned attorney, hereby submits its First Disclosure Statement dated July 13, 2016 for its First Plan of Reorganization dated July 13, 2016.

## *SECTION I*

## *Introduction*

1.1. Purpose of this Disclosure Statement: the Debtor commenced reorganization proceedings with the filing of a Voluntary Petition on April 14, 2016 under Chapter 11 of the United States Bankruptcy Code, as amended (the “Bankruptcy Code”).

A DISCLOSURE STATEMENT FOR THE PLAN OF REORGANIZATION FOR THE DEBTOR WAS FILED BY THE DEBTOR, WHICH DESCRIBES THE TERMS AND PROVISIONS OF THE PLAN OF REORGANIZATION OF THE DEBTOR DATED July 1, 2016.

[After notice and hearing, the Disclosure Statement was approved by the Bankruptcy Court as containing adequate information and sufficient detail to enable the holders of claims against or interest in the debtor to make an informed judgment about the merits of approving the Plan.]

28 The purpose of this Disclosure Statement is to provide holders of claims against or interest in

1 the Debtor with sufficient information about the Debtor and the Plan to enable holders of claims against  
2 or interest in the Debtor to make an informed judgment on the merits of the Plan and a decision whether  
3 to approve or reject the Plan.

4 Certain materials contained in this Disclosure Statement are taken directly from other readily  
5 accessible instruments or are digests of other instruments. While the Debtor has made every effort to  
6 retain the meaning of such other instruments or the portions transposed, you are urged that any reliance  
7 on the contents of such other instruments should be predicated on a thorough review of the instruments  
8 themselves.

9 THE PLAN ACCOMPANIES THIS DISCLOSURE STATEMENT AS "**EXHIBITA**". THE  
10 DEFINITIONS CONTAINED IN THE PLAN APPLY TO THIS DISCLOSURE STATEMENT AND  
11 EACH RECIPIENT THEREOF IS URGED TO REVIEW THE PROVISIONS OF THE PLAN FULLY  
12 PRIOR TO REVIEWING THIS STATEMENT.

13 The Debtor believes the contents of this Disclosure Statement satisfies the requirements adopted  
14 by this Court *In re A.C. Williams Co.*, 25 B.R. 173 (Bankr N.D. Ohio, 1982), *In re Cardinal Congregate*  
15 *I*, 121 B.R. 760 (Bankr S.D. Ohio, 1982). Those elements are as follows:

- 16 1. The circumstances that gave rise to the filing of the bankruptcy petition;
- 17 2. A complete description of the available assets and their value;
- 18 3. The anticipated future of the Debtor;
- 19 4. The source of the information provided in the Disclosure Statement;
- 20 5. A disclaimer, which typically indicates that no statements or information concerning the  
debtor or its assets or securities are authorized, other than those set forth in the disclosure statement;
- 21 6. The condition and performance of the debtor while in Chapter 11;
- 22 7. Information regarding claims against the estate;
- 23 8. A liquidation analysis setting forth the estimated return that creditors would receive under  
Chapter 7;
- 24 9. The accounting and valuation methods used to produce the financial information in the  
disclosure statement;

10. Information regarding the future management of the debtor, including the amount of compensation to be paid to any insiders, directors, and/or officers of the debtor;
  11. A summary of the plan of reorganization;
  12. An estimate of all administrative expenses, including attorneys fees and accountant's fees;
  13. The collectibility of any accounts receivable;
  14. Any financial information, valuations or pro forma projections that would be relevant to creditors' determinations of whether to accept or reject the plan;
  15. Information relevant to the risks being taken by the creditors and interest holders;
  16. The actual or projected value that can be obtained from avoidable transfers;
  17. The existence , likelihood and possible success of non-bankruptcy litigation;
  18. The tax consequences of the plan; and
  19. The relationship of the debtor with affiliates.

1.2 Debtor's Exclusive Period to Propose its Plan of Reorganization: DEBTOR, AS A GENERAL RULE, HAS 120 DAYS AFTER THE DATE OF THE ORDER FOR RELIEF (FILING DATE) WITHIN WHICH TO PROPOSE ITS PLAN OF REORGANIZATION, KNOWN AS THE EXCLUSIVE PERIOD. THE EXCLUSIVE PERIOD, UNLESS SHORTENED OR CHANGED BY ORDER OF THE COURT, ALLOWS ONLY THE DEBTOR TO PROPOSE ITS PLAN OF REORGANIZATION WITHIN THE EXCLUSIVE PERIOD.

1.3 Confirmation Hearing and Voting Instructions: The Bankruptcy Court will set/has set \_\_\_\_\_ for a hearing on the confirmation of the Plan. Claimants and interest holders may vote on the Plan by filling out and mailing the accompanying Ballot for Accepting or Rejecting the Plan to:

## Clerk of the United States Bankruptcy Court

38 S. Scott Avenue

Tucson, Arizona 85701

with a copy to:

Eric Slocum Sparks, Esq.  
ERIC SLOCUM SPARKS, P.C.  
110 South Church Avenue, #2270  
Tucson, Arizona 85701.

The Bankruptcy Court may confirm only one plan in this case. The plan confirmed in the Bankruptcy Court must meet the requirements contained in the Bankruptcy Code.

Unless authorized by the Court, only the Debtor or the Debtor's representatives may solicit your vote. The cost of any solicitation by the Debtor will be borne by the Debtor. No other additional compensation shall be received by any party for any solicitation other than as disclosed to the Bankruptcy Court. CREDITORS ARE URGED TO CAST A BALLOT FOR OR AGAINST DEBTOR'S PLAN OF REORGANIZATION.

1.4 Voting and Confirmation Process. If you are in one of the classes of creditors or investors whose interests are affected by the Plan (see “Summary of the Plan” below), it is important that you vote. If you fail to do so, your rights may be jeopardized.

To vote to accept or reject the Plan, creditors and investors of the Reorganized Debtor in any of the impaired classes (see the "Summary of the Plan" contained herein and the copy of the Plan attached hereto) should indicate their acceptance or rejection on the appropriate Ballot. A sample ballot is attached as **Exhibit B**. Any creditors or investors holding claims in more than one impaired class must file one Ballot for each such class. Additional Ballots may be obtained by proper written request to:

Eric Slocum Sparks, Esq.  
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110 South Church Avenue, #2270  
Tucson, Arizona 85701  
(520) 623-8330  
Fax: (520) 623-9157  
email: [eric@ericslocumsparkspc.com](mailto:eric@ericslocumsparkspc.com)

1 attorney for the Debtor.

2

3 You are, therefore, urged to fill in, date, sign and promptly mail the enclosed Ballot furnished  
4 to you. PLEASE BE SURE TO PROPERLY COMPLETE THE FORM AND LEGIBLY IDENTIFY  
5 THE NAME OF THE CLAIMANT OR INTEREST HOLDER.

6 EXECUTED BALLOTS MUST BE RECEIVED ON OR BEFORE THE RETURN DATE SET  
7 FORTH IN THE BALLOT.

8 SINCE MAIL DELAYS MAY OCCUR, IT IS IMPORTANT THAT THE BALLOT OR  
9 BALLOTS BE MAILED OR DELIVERED WELL IN ADVANCE OF THE DATE SPECIFIED. ANY  
10 BALLOTS RECEIVED AFTER THAT DATE MAY NOT BE INCLUDED IN ANY CALCULATION  
11 TO DETERMINE WHETHER THE CREDITORS AND INTEREST HOLDERS HAVE VOTED TO  
12 ACCEPT OR REJECT THE PLAN.

13 THIS IS A SOLICITATION BY THE DEBTOR ONLY AND IS NOT A SOLICITATION BY  
14 THE ATTORNEYS OR ACCOUNTANTS FOR THE DEBTOR, AND THE REPRESENTATIONS  
15 MADE HEREIN ARE THOSE OF THE DEBTOR AND NOT OF SUCH ATTORNEYS OR  
16 ACCOUNTANTS, EXCEPT AS MAY BE OTHERWISE INDICATED.

17 VOTES ARE IMPORTANT

18 As a claimant or interest holder, your vote is important. The Bankruptcy Court cannot consider  
19 Confirmation of the Plan until acceptance thereof has been obtained pursuant to the affirmative vote if  
20 impaired claimants by classes who hold at least two-thirds (2/3) in dollar amount and more than one-half  
21 (½) in number of the allowed claims by class voting on the Plan. If an impaired claimant or interest  
22 holder who is entitled to vote does not, such failure to vote will bear upon the outcome.

23 Whether a creditor or interest holder votes on the Plan or not, or whether the creditor or interest  
24 holder votes at all, such party will be bound by the terms and treatment set forth in the Plan if the Plan  
25 is accepted by the requisite majorities of creditors and interest holders and is confirmed by the  
26 Bankruptcy Court. Allowance of a claim or interest for voting purposes does not necessarily mean that  
27 all or a portion of the claim or interest will be allowed or disallowed for distribution purposes.

28 The Debtor may, in some circumstances, separately classify the deficiency claims of some

1 secured creditors from the unsecured trade creditors and other creditors, and treats such claims in a  
2 different manner. Debtor is of the opinion that case and current bankruptcy law allows, in some cases,  
3 such separate classification and different treatment of these and other claims. Debtor believes that such  
4 separate classification and different treatment of such claims is proper. See In re Mason Dixon Lines,  
5 Inc., 63 B.R. 176 (Bankr. M.D.N.C. 1986); In re Ag Consultant Grant Division, Inc., 77 B.R. 665 (1987);  
6 In re ZRM-Oklahoma Partnership, 156 B.R. 67 (Bankr. W.D. Okla. 1993); In re Wolff, 22 B.R. 510 (9<sup>th</sup>  
7 Cir. BAP, 1982); In re Johnston, 140 B.R. 526 (9<sup>th</sup> Cir. BAP. 1992). Current decision make the  
8 inclusion of such deficiency claims with other unsecured creditors impermissible. In re D & W Realty  
9 Corporation, 156 B.R. 140 (Bankr. S.D. Fla.) Debtor contents that the different treatment is justified  
10 due to a number of factors. In some cases, unsecured claims and deficiency claims are not placed in the  
11 same class and the Bankruptcy Code may not require equal treatment of different classes. In re Red  
12 Machine Company, Lexis, 1304, \*48 (Bankr. 2011) Some of these considerations are listed below.

- 13 (1) The obligation may be non-recourse obligation and is treated as recourse only as a result  
14 of the Bankruptcy Code and has the opportunity to make an election under Section  
15 1111(b) while unsecured creditors do not;
- 16 (2) Secured creditors may have contracted for a long term obligation as opposed to the  
17 obligation contracted for by unsecured trade creditors which is usually of a shorter  
18 duration;
- 19 (3) Debtor believes that a treatment different than that proposed under the plan would result  
20 in higher operating costs for the Debtor by not continuing the use of existing vendors  
21 which may affect the debtor's ability to reorganize; and
- 22 (4) Because the nature of the secured claim, secured creditors may have a conflict of interest  
23 with the remaining unsecured creditors. See In re James E. Johnson, 140 B.R. 526 (9<sup>th</sup>  
24 Cir. BAP); In re Triple R. Holdings, L.P., 134 B.R. 382 (Bankr. N.D. Cal 1991); In re  
25 Bjolmes Realty Trust, 134 B.R. 1000 (Bankr. D.Mass 1991); In re Creekside Landing,  
26 Ltd., 140 B.R. 713 (Bankr. M.D. Tenn. 1992); In re U.S. Truck Co., Inc., 800 F.2d 581  
27 (6<sup>th</sup> Cir. 1986); In the Matter of Jersey City Medical Center, 817 F.2d 1055 (3<sup>rd</sup> Cir.  
28 1987); Toibb v. Radloff, \_\_\_ U.S. \_\_\_, 111 S. Ct. 2197, \_\_\_ L.Ed.2d. \_\_\_ (1991);

Hanson v. First Bank of South Dakota, 828 F.2d 1310 (1987). See In re Thirtieth Place, Inc., 30 B.R. 503 (Bankr. App. 1983); In re Victory Construction Co., Inc., 37 B.R. 222, 228 (9<sup>th</sup> Cir. B.A.P. 1984); In re Arnold, 806 F.2d 937 (9<sup>th</sup> Cir. 1986); In the Matter of Jersey City Medical Center, 817 F.2d 1055 (3<sup>rd</sup> Cir 1987); In re Foundary of Barrington Partnership, 129 B.R. 550 (1991); In Re Fowler, 903 F.2d 694 (9<sup>th</sup> Cir. 1990); In Re Oaks Partners Ltd., 135 B.R. 440 (Bankr. N.D. Ga. 1991); and In Re Victory Const. Co., Inc., 42 B.R. 145 (Bankr. 1984).

5. Secured creditor may have a personal guarantee from a non-debtor entity and/or principals of debtors and some payments would be made to deficiency creditors.

Following acceptance, the Bankruptcy Court will hold a hearing on the confirmation of the Plan and will enter an Order of Confirmation with respect to the Plan if it finds that, among other things, all payments to be made by the Debtor in connection with the case or Plan have been disclosed to the Bankruptcy Court, the identity and affiliation of post-confirmation management of the Reorganized Debtor has been fully disclosed, each class of claimants and interest holders has accepted the Plan or is not impaired by the provisions thereof, and that confirmation is not likely to be followed by the liquidation or need for further financial reorganization of the Reorganized Debtor.

17        In the event that the requisite acceptance of impaired classes of claims and interests are not  
18 obtained, pursuant to Section 1129 (b)(1) of the Bankruptcy Code, the Bankruptcy Court may  
19 nevertheless confirm the Plan upon the request of the proponent of the Plan if the Bankruptcy Court  
20 finds that the Plan does not discriminate unfairly and accords fair and equitable treatment to the class  
21 rejecting it.

22 At the hearing on confirmation of the Plan, the Bankruptcy Court will hear any timely filed  
23 objections from a claimant or interest holder to confirmation of the Plan.

## VALUE OF ASSETS AND ACCOUNTING

26 THE ONLY REPRESENTATIONS THAT ARE AUTHORIZED OR WHICH MAY BE MADE  
27 CONCERNING THE DEBTOR, THE VALUE OF ITS ASSETS, OR THE REORGANIZED DEBTOR  
28 ARE THE REPRESENTATIONS CONTAINED IN THIS DISCLOSURE STATEMENT. EXCEPT

1 AS NOTED, THE FINANCIAL INFORMATION CONTAINED IN THIS DISCLOSURE  
2 STATEMENT HAS NOT BEEN SUBJECTED TO AN AUDIT BY AN INDEPENDENT CERTIFIED  
3 PUBLIC ACCOUNTANT. ALL FINANCIAL RECORDS OF THE DEBTOR ARE MAINTAINED  
4 ON AN ACCRUAL BASIS. ALL EXPENSES AND INCOME ARE ON A ACCRUAL BASIS.  
5 SOME OF THE ACCOUNTING/FINANCIAL WORK FOR THE DEBTOR IS PERFORMED BY AN  
6 OUTSIDE ACCOUNTANT RETAINED BY THE DEBTOR. FOR THAT REASON, THE DEBTOR  
7 IS NOT ABLE TO WARRANT OR REPRESENT THAT THE INFORMATION CONTAINED IN  
8 THIS DISCLOSURE STATEMENT IS WITHOUT INACCURACY. HOWEVER, GREAT EFFORT  
9 HAS BEEN MADE TO ENSURE THAT ALL SUCH INFORMATION IS FAIRLY PRESENTED.  
10 NO REPRESENTATIONS OR ASSURANCES CONCERNING THE DEBTOR (INCLUDING,  
11 WITHOUT LIMITATION, ITS FUTURE BUSINESS OPERATIONS) OR THE PLAN ARE  
12 AUTHORIZED BY THE DEBTOR OTHER THAN AS SET FORTH IN THIS DISCLOSURE  
13 STATEMENT. ANY REPRESENTATIONS OR INDUCEMENTS MADE BY ANY PERSON TO  
14 SECURE YOUR VOTE WHICH ARE OTHER THAN HEREIN CONTAINED SHOULD NOT BE  
15 RELIED UPON BY YOU IN ARRIVING AT YOUR DECISION, AND SUCH ADDITIONAL  
16 REPRESENTATIONS OR INDUCEMENTS SHOULD BE REPORTED TO COUNSEL FOR THE  
17 DEBTOR, WHO, IN TURN, SHALL DELIVER SUCH INFORMATION TO THE BANKRUPTCY  
18 COURT FOR SUCH ACTION AS MAY BE DEEMED APPROPRIATE.

19 THE STATEMENTS CONTAINED IN THIS DISCLOSURE STATEMENT ARE MADE AS  
20 OF THE DATE HEREOF, UNLESS ANOTHER TIME IS SPECIFIED HEREIN. NEITHER  
21 DELIVERY OF THIS DISCLOSURE STATEMENT NOR ANY EXCHANGE OF RIGHTS MADE  
22 IN CONNECTION WITH THIS DISCLOSURE STATEMENT SHALL, UNDER ANY  
23 CIRCUMSTANCES, CREATE ANY IMPLICATION THAT THERE HAS BEEN NO CHANGE IN  
24 THE FACTS SET FORTH HEREIN SINCE THE DATE THIS DISCLOSURE STATEMENT AND  
25 THE MATERIALS RELIED UPON IN PREPARATION OF THIS DISCLOSURE STATEMENT  
26 WERE COMPILED. THIS DISCLOSURE STATEMENT MAY NOT BE RELIED ON FOR ANY  
27 PURPOSE OTHER THAN TO DETERMINE HOW TO VOTE ON THE PLAN, AND NOTHING  
28 CONTAINED IN IT SHALL CONSTITUTE, OR BE DEEMED CONCLUSIVE ADVICE ON, THE

1 TAX OR OTHER LEGAL EFFECTS OF ANY REORGANIZATION ON HOLDERS OF CLAIMS OR  
2 INTERESTS IN CONNECTION WITH SUCH REORGANIZATION.

3 THIS DISCLOSURE STATEMENT HAS BEEN APPROVED BY ORDER OF THE  
4 BANKRUPTCY COURT, DATED \_\_\_\_\_ AS CONTAINING INFORMATION OF A KIND AND  
5 IN SUFFICIENT DETAIL TO ENABLE A REASONABLE, HYPOTHETICAL INVESTOR TO  
6 MAKE AN INFORMED JUDGMENT CONCERNING THE PLAN. THE BANKRUPTCY COURT'S  
7 APPROVAL OF THIS DISCLOSURE STATEMENT, HOWEVER, DOES NOT CONSTITUTE A  
8 RECOMMENDATION BY THE BANKRUPTCY COURT EITHER FOR OR AGAINST THE PLAN.

9 IN ORDER TO BE CONSIDERED FOR PURPOSES OF SATISFYING THE BANKRUPTCY  
10 CODE REQUIREMENTS, YOUR BALLOT MUST BE RECEIVED AT THE ADDRESS INDICATED  
11 ON THE BALLOT NO LATER THAN 5:00 P.M. ON THE \_\_\_\_\_ OR WITHIN 5 DAYS OF  
12 ANY CONTINUED HEARING ON CONFIRMATION OF THE PLAN.

13 A BALLOT ACCOMPANIES THIS DISCLOSURE STATEMENT FOR USE IN VOTING OF  
14 THE PLAN.

15 ***SECTION II***

16 *History of Debtor and Factors Leading*  
17 *to the Filing of the Chapter 11*

18 2.1 Circumstances that Gave Rise to the Filing of the Bankruptcy Petition: Rancho Palomita  
19 Advisors was founded in 2007 by CPE Development Company, Richard A. Spross and Vonda K. Spross.  
20 Rancho Palomita Advisors sole capital asset is 80 acres of real property located in Pima County,  
21 Arizona. The purpose for which the company was organized is the entitlement and holding for  
22 investment and eventual sale. Rancho Palomita Advisors has no current employees.

23 Stonehaven Development

24 In June of 2005 Stonehaven Development, LLC, an Arizona limited liability company purchased  
25 approximately 80 acres at 7702 W. Tangerine Rd. "Tangerine Business Park", Tucson, AZ, Pima 216-07-  
26 001A. Stonehaven Development LLC was owned by Richard Spross and Vonda Spross. Stonehaven  
27 Development LLC had previously purchased and sold unimproved land in Pima County, Arizona.  
28 Stonehaven Development LLC began the entitlement process for this lot and was at that time approached

1 by CPE Development to further entitle and develop the property and create Rancho Palomita Advisors  
2 LLC. At this time the original debt was with National Bank of Arizona in the amount of \$2,150,000.00.  
3 To further promote the entitlement of the project, Rancho Palomita Advisors refinanced the debt with  
4 Alliance Bank.

5 Downturn of Economy

6 Shortly after the entitlement of the property to R-80 the overall real estate market across the  
7 country, and in particular Pima County, Arizona, took a major downturn. The residential housing market  
8 was the most affected by this recession. At this point the members of Rancho Palomita Advisors were  
9 consistently investing more capital to the company to continue to make its obligations with all creditors  
10 and in particular Alliance Bank. For over 48 months the members continued to act in good faith with  
11 Alliance Bank adhering to our obligations, even though the value of the land plummeted approximately  
12 \$3,000,000.00. There were no lot sales until 2012 when Rancho Palomita Advisors sold approximately  
13 12.91 acres to Republic Services, Inc. for \$1,650,000.00. The terms and conditions of the sale were for  
14 Rancho Palomita Advisors to create a cash assurance account of \$813,312.00 to further develop the  
15 property for Republic Services, Inc. and their use of the property. Rancho Palomita Advisors also  
16 provided Alliance Bank \$365,645.00 as a release payment, and agreed to pay approximately \$100,000.00  
17 in unpaid taxes. Rancho Palomita Advisors has also provided large additional sums of capital in addition  
18 to the \$813,312.00 to complete Phase I development to accommodate Republic Services, Inc. and the  
19 Town of Marana for developing the water infrastructure for this property and assistance to the  
20 surrounding area. RPA entered into a "Public Water Infrastructure Participation Agreement" August  
21 14,2014 which was approved at the August 5, 2104 Marana Town Council Meeting pursuant to Town  
22 Of Marana resolution No. 2014-074. The TOM committed to design and build improvements necessary  
23 to serve Tangerine Business Park.. RPA has fully performed to the terms and conditions of the  
24 agreement and the Town acknowledges timely receipt in the amount of \$171,612.00 from RPA. In the  
25 agreement the Town agreed to complete construction by January 1, 2015. On April 14, 2015 RPA served  
26 a notice of claim on the Town for the delay in completion . The Town had not even started construction  
27 at this point in time and Town paid in consideration for the delay 12,250.00 to Waterfall Economides  
28 Hanshaw Villmana P.C. and 128,034.11 to Western Alliance Bank and further agreed to complete the

1 infrastructure improvements no later than December 1, 2015. The Town finally delivered in February  
2 2016.

3       2.2    Current Management: The Debtor is currently managed by Richard Spross. The  
4 professional experience of Richard Spross is attached hereto as **Exhibit E**.

5       2.3    Location of Debtor's Major Assets: The debtor's assets are located at approximately 7702  
6 W. Tangerine Road "Tangerine Business Park", Marana, AZ. All assets are set forth in the schedules on  
7 file with the Court.

8       2.4    Real Properties of the Debtor/Assets of the Estate:

<b>Property Address:</b>	<b>Estimated Value:</b>
7702 W. Tangerine Road "Tangerine Business Park", Marana, AZ	\$3,500,000.00

12       2.5    Valuation Hearings: A valuation hearing is not necessary in this matter as a sustainable  
13 equity cushion exists in the property.

14       2.6    Significant Events Prior to the Commencement of the Debtor's Reorganization:  
15           The economic recession has had a significant impact on the ability to sale industrial lots. Since  
16 2009 up to the first quarter of 2016, these specific vacant lots have been the victim of an overbuilt  
17 market, coupled by vacant industrial existing buildings throughout Pima Count, AZ. Potential buyers  
18 have been finding value in vacant industrial buildings in lieu of acquiring vacant industrial land and  
19 building to suit. As the market absorption occurs with vacant buildings, then that will lead to vacant lot  
20 sales becoming more attractive to potential buyers.

21       2.7    The Accounting and Valuation Methods Used to Produce the Financial Information in  
22 the Disclosure Statement: The accounting process is conducted using generally accepted accounting  
23 principles. Accounting information is furnished by Richard Spross managing member of the debtor and  
24 is presented on a cash basis.

25       2.8    Causes of Action: Debtor believes it may have a cause of action against Town of Marana  
26 in regards to the breach of the "Public Water Infrastructure Agreement".

27       2.9    Plan of Reorganization: The Debtor has filed a Plan which will allow it to retain its  
28

1 property and pay creditors more money than creditors would receive from a liquidation of the property.  
2 See liquidation analysis attached hereto as **Exhibit “C”**.

3        2.10 Obligations as of Date of Filing: The following is an estimate by the Debtor of the  
4        outstanding secured obligations owed by the Debtor as of the date of the Petition.

5	Secured Creditors	Type of Encumbrance	Amount Due at Filing	Property
6	Pima County	Property taxes	\$74,921.84	7702 W. Tangerine Road "Tangerine Business Park", Marana, AZ
7	Western Alliance Bank	First Deed of Trust & UCC Filing	\$1,474,801.21	7702 W. Tangerine Road "Tangerine Business Park", Marana, AZ
8	Sage Tax Group	Judgment	\$8,244.52	
9				
10				
11				
12				
13				
14				
15				
16				

18        2.11    The Condition and Performance of the Debtor While in Chapter 11: Debtor has retained  
19        Pat Welchert of Picor as a realtor to market the industrial lots.

20        2.12 Adequate Protection Payments: The Debtor has not commenced adequate protection  
21        payments as debtor believes secured creditors are fully secured and an equity cushion exists in the  
22        property.

23        2.13 The Existence, Likelihood and Possible Success of Non-bankruptcy Litigation: Debtor  
24        believes that it has a successful cause of action against the Town of Marana in regards to the breach of  
25        the “Public Water Infrastructure Agreement”.

### **SECTION III**

### *Income Projections of the Property*

A proforma statement of the **Anticipated Income and Expenses and Schedule of Sources and Uses of Cash** relating to payments to creditors under the plan are attached hereto, as **Exhibit "D"**.

The Debtor has derived this information from the principal of the debtor, Richard Spross.

## **SECTION IV**

### *Summary of Plan of Reorganization*

THE FOLLOWING IS A BRIEF SUMMARY OF CERTAIN PROVISIONS OF THE PLAN AND SHOULD NOT BE RELIED ON FOR VOTING PURPOSES. THE SUMMARY DOES NOT PURPORT TO BE COMPLETE. CREDITORS AND INTEREST HOLDERS ARE URGED TO READ THE PLAN ATTACHED HERETO AS EXHIBIT "A". CREDITORS AND INTEREST HOLDERS ARE FURTHER URGED TO CONSULT WITH COUNSEL, OR WITH EACH OTHER, IN ORDER TO UNDERSTAND THE PLAN MORE FULLY.

4.1     Summary of Plan: The Plan contemplates that secured creditors will be paid the full amount of their allowed claims. The infusion of monies into the reorganized Debtor through capital contributions is required in order for principals of debtor to retain their interest in the debtor. Members will make a capital contribution at confirmation of the plan.

POTENTIAL INVESTORS MAY BE ALLOWED TO ACQUIRE A PERCENTAGE OF INTEREST OR A PERCENTAGE THEREOF, IN THE REORGANIZED DEBTOR.

These proceeds, in conjunction with the Property's revenues and inherent future appreciation, will provide the necessary funds to Debtor to pay creditors under the Plan.

4.2 Segregation of Classes: The Plan further proposes to segregate the creditors and interest holders of the Debtor into separate classes. Of these classes, allowed administrative and priority claimants including priority tax claimants, but exclusive of those referenced in 11 U.S.C. Section 507(a)(8) will receive payments of 100% of their respective claims, in cash over time, with a market rate of interest, as set forth in the Plan.

1           The Debtor may propose to separately classify some unsecured creditors from deficiency claims  
2 of other creditors.

3           Generally, all Administrative Claims will be paid in full in cash as stated in the Plan. The Debtor  
4 shall retain the property and the creditors shall be paid in accordance with modifications of their  
5 applicable loan and security documents as set forth herein and in the Plan of Reorganization.

6           4.3 Value of Secured Claims: Under the Plan, the Debtor proposes to allow the secured creditors  
7 to retain their liens in the amount equal to the full amount of their claim on the Petition Date. The Debtor  
8 believes that the property securing the claim of Western Alliance Bank is fully secured.

9           The Debtor shall commence payments to all creditors as set forth in the Plan 30 days after the  
10 Effective Date, or earlier if the Debtor and creditors have so provided in a stipulation approved by the  
11 Court or ordered by the Court.

12           ANY STIPULATION ENTERED INTO BETWEEN THE SECURED CREDITORS AND THE  
13 DEBTOR SHALL SUPERSEDE ANY TREATMENT OF CREDITORS THAT MAY BE SET FORTH  
14 IN THE DEBTOR'S PLAN.

15           4.4 Cash Collateral Litigation: There is no pending cash collateral litigation.

16           4.5 Description of Assets - Values: The major assets of the debtor is the real property located  
17 at 7702 W. Tangerine Road "Tangerine Business Park", Marana, AZ.

18           4.6 Anticipated Future of Debtor: The debtor's principals intend to restructure its obligations  
19 with creditors in order to allow time to complete development, market and sale remaining lots.

20           4.7 Source of Information: The source of the information presented is from Richard Spross,  
21 managing member of the Debtor.

22           4.8 Condition and Performance of the Debtor in Chapter 11: Debtor maintains the assets  
23 necessary to continue to operate.

24           4.9 Information Regarding Claims Against Estate: Debtor believes there are currently no claims  
25 against the estate.

26           4.10 Liquidation Analysis: A liquidation analysis valuing assets of the debtor in a Chapter 7  
27 is attached as **Exhibit "C"**. This liquidation analysis will include any uncollected account receivables.

28           4.11 Future Management of the Debtor: The Debtor will be managed by Richard Spross Oetting,

post-confirmation.

4.12 Non-Bankruptcy Litigation: Debtor believes that it has a successful cause of action against the Town of Marana in regards to the breach of the “Public Water Infrastructure Agreement”.

4.13 Avoidable Transfers: Debtor is unaware of any transfers of property of this estate which would allow an avoidable transfer action.

4.14 Accounts Receivable: Debtor will collect accounts receivable as a regular ordinary course of business when new sales are completed.

4.15 Presence of Affiliates: There are no affiliates of the debtor.

4.16 New Capital Contribution: Debtor will receive new capital contributions each year for four years to be utilized in its business at confirmation.

## **SECTION V**

1. *Claim Amounts:* Because certain claims against the Debtor may be unknown or of undetermined amounts, the amounts of claims specified in this Disclosure Statement reflect only the Debtor's best estimate at this time of the amount due. In addition, the amounts of the claims specified in this Disclosure Statement do not include, for example, claims arising from the rejection of certain executory contracts and other contingent or unliquidated claims arising against the debtor.

2. *Effective Date of the Plan:* The “Effective Date” of the Plan is important in determining when performance of many of the Debtor’s obligations under the Plan is due. The Effective Date is defined in the Plan as the first business day following the later of the following day:

(i) the date on which the Order confirming the Plan (the “Confirmation Order”) becomes final and non-appealable with no appeal then pending.

3. *Classification:* The Plan divides claims against the Debtor into multiple separate classes that the Debtor asserts are in accordance with the Bankruptcy Code. Unless otherwise expressly stated in the Plan, distributions to holders of allowed claims are in full satisfaction of their allowed claims. All claims against the Debtor arising prior to confirmation will be discharged by performance of the Plan on the Effective Date to the extent that such claims are dischargeable under the Bankruptcy Code Section 1141(d). For the purposes of the Plan, claims are classified and treated as follows:

1           5.1    Class One - Administrative Claims.

2           A.    Classification: Class One consists of all claims for the cost of administration of  
3 the Debtor's bankruptcy estate. Included in this class are all claims for administrative expenses  
4 entitled to priority under Bankruptcy Code §507(A)(1), such as professional fees and costs, as approved  
5 by the Bankruptcy Court of the attorneys, accountants, and other professional persons employed by the  
6 Debtor, and all actual and necessary expenses of operating the Debtor's business  
7 pursuant to Bankruptcy Code §503(b), including without limitation, all fees charged against the Debtor's  
8 business pursuant to Chapter 123 of Title 28, United States Code. Debtor believes claims in this class  
9 will exceed \$35,000.00.

10           B.    Impairment: Not impaired.

11           C.    Treatment: The Plan provides for the payment in cash, in full, of all allowed  
12 Administrative Claims on the later of the Effective Date or the date upon which such Claims become  
13 Allowed Claims, or as otherwise ordered by the Bankruptcy Court or agreed to by Claimant and Debtor.  
14 Class 1 claims will be paid from assets of the estate or from principals of the debtor. The Debtor  
15 currently estimates that the Class 1 claims will exceed \$35,000.00 and may include post-petition  
16 administrative expenses. Such payments will reduce the amount of administrative expenses due on the  
17 Effective Date of the Plan unless otherwise provided for.

18           5.2    Class Two - Claims of Governmental Units

19           A.    Classification: Class Two claims consists of all allowed claims of the United  
20 States Internal Revenue Service ("IRS") and/or State of Arizona, Department of Revenue ("DOR")  
21 and/or the Department of Economic Security ("DES"), City of Tucson or other government agency  
22 which are entitled to priority pursuant to Section 507(a)(8) of the Bankruptcy Code except ad  
23 valorem taxes. Debtor is aware of a Proof of Claim filed by Internal Revenue Service in the amount  
24 of \$100.00.

25           B.    Impairment: Class 2 is impaired.

26           C.    Treatment: Each holder of a Class Two allowed claim shall retain its lien or claim,  
27 in accordance with Section 1129 of the Bankruptcy Code. The claim shall bear simple interest at a fixed  
28 rate equal to that rate which would be required to be paid as of the Effective Date under Section 6621

1 and/or 6622 of the Internal Revenue Code, or such other interest rate as the Bankruptcy Court determines  
2 is sufficient to confer upon the tax claim a value as of the Effective Date equal to the principal amount  
3 of such claim. The allowed claim shall be payable in 60 equal monthly installments of principal, along  
4 with accrued interest, in deferred cash payments over a period not to exceed five years from date of  
5 petition. The first payment shall commence on the first day of the month immediately following the  
6 month of the Effective Date. The claim is subject to prepayment at any time without penalty or premium  
7 and shall have such other terms as are usual and customary.

8           5.3     Class Three - Secured Ad Valorem Real Property Tax Claims

9           A.     Classification: Class Three shall consist of pre-petition allowed Ad Valorem Real  
10 Property Tax Claims of Pima County, AZ which are secured by liens on real property. Debtor is aware  
11 of Proof of Claims filed by Pima County in the amounts of \$9,928.64, \$8,259.75, \$76.42, \$13,237.68,  
12 \$4,945.16, \$3,105.31, \$76.42, \$3,105.31, \$6,718.47, \$12,905.08, \$14,370.92, and estimated claims in  
13 the amounts of \$2,493.00, \$2,072.00, \$17.00, \$3,327.00, \$1,223.00, \$774.00, \$16.00, \$774.00,  
14 \$1,685.00, \$2,978.00, \$3,612.00.

15           B.     Impairment: Class 3 is impaired.

16           C.     Treatment: Each holder of a Class Three allowed claim shall retain its lien having  
17 an aggregate principal amount sufficient to satisfy, in accordance with Section 1129 of the Bankruptcy  
18 Code, the allowed claim. Such claim shall bear simple interest at a statutory rate  
19 required to be paid as of the Effective Date, or such other interest rate as the Bankruptcy Court  
20 determines is sufficient to confer upon the tax claim a value as of the Effective Date equal to the  
21 principal amount of such claim charged by Pima County or the statutory rate of interest. Payments  
22 shall be made in equal monthly installments of principal, along with accrued interest, in deferred  
23 cash payments over a period not to exceed five years from date of petition. The claim is subject to  
24 prepayment at any time without penalty or premium and shall have such other terms as are usual and  
25 customary for promissory notes.

26           5.4     Class 4 - Secured Claim of Western Alliance Bank ("Western Alliance")

27           A.     Classification: Class 4 shall consist of the allowed secured claim of Western  
28 Alliance to the extent of the value of the secured creditor's interest in the Debtors' interest in the real

1 property with a secured lien on 7702 W. Tangerine Road "Tangerine Business Park", Marana, AZ.  
2 This claim is evidenced by a promissory note and deed of trust. Western Alliance has filed a claim in  
3 the amount of \$1,474,801.21.

4 B. Impairment: Class 4 is impaired.

5 C. Treatment: IN THE EVENT THE DEBTOR IS ABLE TO REACH A  
6 STIPULATION WITH WESTERN ALLIANCE AS TO ITS TREATMENT, THE TERMS AND  
7 CONDITIONS THEREIN WILL SUPERCEDE THE TREATMENT SET FORTH HEREIN.

8 1. The allowed secured claim shall accrue interest from the Effective Date of the Plan  
9 at the rate of 4.50 % per annum, or the rate on the existing note, whichever is less.

10 2. The note shall be payable in equal monthly installments of interest only payments  
11 amortized over thirty (30) years. The first monthly installment shall be due thirty (30) days after the  
12 Effective Date of the Plan and subsequent monthly installments shall be due on the same day of each  
13 subsequent month. The debtor will contribute funds from the sale of each lot which is to be applied as  
14 a payment on the principal balance of the note. On the thirtieth anniversary of the Effective Date of the  
15 Plan the outstanding principal balance of the note and all accrued and unpaid interest thereon shall be  
16 due and payable in full. The final payment shall be made either from proceeds of the sale or refinancing  
17 of the property or contributions of the owners of the property at the time the final payment is due. Unless  
18 modified herein tax and insurance escrows, if any, will continue to be paid pursuant to the terms of the  
19 Note and Deed of Trust.

20 3. The note of the Class 4 creditor shall continue to be secured by its first position deed  
21 of trust on the property but the note and any obligation due the Class 4 creditor, which is secured by the  
22 above deed of trust, shall be non-recourse to the Debtors. Any security for payment of the allowed claim  
23 which Western Alliance had at the petition date other than the deed of trust above described which  
24 encumbers the property Western Alliance shall retain post-confirmation.

25 4. The Debtors and the Class 4 creditor shall agree to execute such modifications to  
26 the existing note and deed of trust as are reasonably necessary to reflect the provisions of the Plan  
27 treatment for this creditor.

28

1           5.5    Class Five - Secured Claim of Sage Tax Group (“Sage”).

2           A.     Classification: Class 5 consists of the allowed secured claim of Sage to the extent  
3 of the judgment entered in regards to Case No. CCV14-000675. This claim is evidenced by a Judgment  
4 Order. Debtor estimates this claim in the amount of \$8,244.52.

5           B.     Impairment: Class 5 is impaired.

6           C.     Treatment: The Class 5 creditor will be paid its allowed secured claim in thirty-six  
7 (36) equal monthly installments at 4.0 % interest, or the rate on the existing note, whichever is less,  
8 beginning 30 days after the Effective Date.

9           5.6    Class Six - Unsecured Deficiency Claims and Unsecured Claims.

10          A.     Classification: Class 6 consists of all unsecured deficiency claims and  
11 unsecured claims against the debtor. Debtor estimated unsecured claims in this class in the amount of  
12 \$7,294.00, which does not include any deficiency amounts for secured creditors.

13          B.     Impairment: Class 6 is impaired.

14          C.     Treatment: The Plan provides that each and every holder of a Class 6 Allowed  
15 Claim shall be paid 100% of the allowed amount of their claims at 3.0 % interest on the unpaid balance  
16 in sixty (60) equal monthly installments with the first payment due 60 days from the Effective Date. Any  
17 liens held by the Class 6 creditors shall be null and void and removed as of the Effective Date

18          5.7    Class Seven - Contingent, Unliquidated and Disputed Claims.

19          A.     Classification: Class 7 consists of all contingent, unliquidated and disputed  
20 claims.

21          B.     Impairment: Class 7 is impaired.

22          C.     Treatment: Class 7 creditors shall receive no distribution under the Plan.

23          5.8    Class Eight - Claims of Participating Investors.

24          A.     Classification: Class 8 consists of the claims of participating investors.

25          B.     Impairment: Class 8 is impaired.

26          C.     Treatment: Unless participating investors contribute substantial capital required  
27 to fund this Plan and/or make capital improvements to the subject property they will receive no  
28 percentage of the equity interest of the debtor and no distribution under the Plan.

## 5.9 Class Nine - Interest of Equity Holders.

A. Classification: Class 9 consists of the interest of the debtor.

**B. Impairment: Class 9 is not impaired.**

C. Treatment: The debtor shall be allowed to retain its current percentage of interest or a percentage thereof unless participating investors are required to contribute substantial capital required to fund this Plan and/or make capital improvements to the subject property.

## SECTION VI

## *Post-Confirmation Management*

The managing member of the Debtor post-confirmation will be Richard Spross.

## *SECTION VII*

## *Income Tax Consequences of Reorganization*

The Debtor has been advised by Eric Slocum Sparks, Esq. to obtain independent tax advice to determine the consequences of going forward under the Plan and retaining the Property hereunder. The Debtor has advised Eric Slocum Sparks, Esq. that outside tax counsel has been/or will be retained and/or consulted to assist in drafting, amending or revising the Plan as proposed. The debtor and Eric Slocum Sparks, P.C. have been advised that the debtor can retain the property without significant adverse tax consequences.

7.1 Disclaimer: *The income tax consequences of the reorganization of the Debtor pursuant to this Plan will be different and will depend upon the Debtor's tax situation. Eric Slocum Sparks, P.C. is not advising the Debtor regarding the tax consequences of the reorganization of the Debtor and the Debtor will consult with its own tax advisor regarding the tax consequences of the reorganization of the Debtor according to the Plan.*

*ANY POTENTIAL PARTICIPATING INVESTORS ARE URGED TO CONSULT THEIR OWN ADVISORS AS TO THE OVERALL TAX IMPLICATIONS OF PARTICIPATION OR NON-PARTICIPATION UNDER THE PLAN.*

7.2 Consummation: For purposes of Local Bankruptcy Rule 2015, and consistent with

1 Bankruptcy Code Section 1001(2), consummation of the Plan shall occur upon the ① funding of the  
2 contributions due from participating investors hereunder if required ; and ② commencement of  
3 disbursements to Impaired creditors as provided in the Plan.

4

## 5 SECTION VIII

6 *Feasibility*

7 As a condition to confirmation of a plan of reorganization, Section 1129(a)(11) of the Bankruptcy  
8 Code requires that the confirmation is not likely to be followed by a liquidation or the need for further  
9 financial reorganization, except as proposed in such plan.

10 The debtor sets out as **Exhibit D** its Anticipated Income and Expense and the Schedule of  
11 Sources and Uses of Cash.

12 THE FINANCIAL PROJECTIONS SET FORTH IN THIS DISCLOSURE STATEMENT  
13 REPRESENT A PREDICTION OF FUTURE EVENTS BASED ON CERTAIN ASSUMPTIONS OF  
14 THE DEBTOR. ANTICIPATED FUTURE EVENTS MAY OR MAY NOT OCCUR AND THE  
15 PROJECTIONS MAY NOT BE RELIED UPON AS A GUARANTY OR OTHER ASSURANCE OF  
16 THE ACTUAL RESULTS WHICH WILL OCCUR. BECAUSE OF THE

17 UNCERTAINTIES INHERENT IN PREDICTIONS OF FUTURE EVENTS, THE ACTUAL  
18 RESULTS OF OPERATIONS MAY WELL BE DIFFERENT FROM THOSE PREDICTED AND  
19 SUCH DIFFERENCES MAY BE MATERIAL AND ADVERSE.

20 THE FINANCIAL PROJECTIONS ARE INTENDED TO ASSESS THE FUTURE  
21 ASSETS, LIABILITIES, INCOME AND CASH FLOW AVAILABLE FOR DEBT SERVICING AND  
22 ARE NOT DESIGNED OR INTENDED TO BE USED FOR PURPOSES OF PROJECTING THE  
23 FUTURE VALUE OF THE DEBTOR'S INTERESTS OR DEBENTURES ISSUED BY OR ON  
24 BEHALF OF THE REORGANIZED DEBTOR.

25 The Debtor has made a variety of assumptions which have been the basis of its Plan of  
26 Reorganization. Those assumptions include (1) that by reamortizing obligations the debtor can remain  
27 current on its payments; (2) reamortization of its debt will allow its revenues from lot sales to pay all  
28 obligations of debtor; and (3) that the economy in Marana is slowly continue to improve which will

1 allow the debtor to market and sale the lots. These assumptions will be available to make debt service  
2 payments as proposed under the Plan. Based on the cash flow projections prepared by the debtor, the  
3 debtor believes that the Plan satisfies the feasibility requirements of the Bankruptcy Code.

4

## 5 **SECTION IX**

6 *7 Liquidation Analysis*

7 The primary assets and only significant income-producing asset of the Debtor's estate is the  
8 industrial lots located at 7702 W. Tangerine Road "Tangerine Business Park", Marana, AZ. The  
9 property is subject to and encumbered by the asserted liens and security interests held by the major  
10 secured creditors of the property.

11 In the event this case were converted to a case under Chapter 7 and the assets of the estate  
12 liquidated, these creditors would proceed to foreclose upon their interest in the property. A foreclosure  
13 of the property would eliminate any prospect of any payment to remaining unsecured and priority  
14 creditors. As a result, it is the debtor's opinion that all claimants are best served through implementation  
15 and effectuation of the Plan which provides for a significant, albeit limited, dividend on its claims. If  
16 the Plan of Reorganization is consummated, the Unsecured trade creditors and unsecured deficiency  
17 claims will be paid a substantial sum of monies, on a pro rata basis as set forth in the Plan. Creditors  
18 and other interested parties are urged to review the debtor's schedules and statement of affairs as filed  
19 with the United States Bankruptcy Clerk's Office (and as amended from time to time) for purposes of  
20 confirming the debtor's conclusions contained in this liquidations analysis, attached hereto as **Exhibit**  
21 **"C".**

22 

## **SECTION X**

23 *Acceptance and Confirmation*

24 10.1 What is Necessary for Court Approval of a Plan: Chapter 11 of the Bankruptcy Code  
25 permits the readjustment of secured debt, unsecured debt and equity interests. A Chapter 11 plan may  
26 provide less than full satisfaction of senior indebtedness and payment of junior indebtedness, and may  
27 even provide some return to equity owners absent full satisfaction of indebtedness, so long as no  
28 impaired class votes against the plan (except as provided below).

Even if an impaired class votes against the plan, implementation of the plan is still possible so long as the plan is fair and equitable and that class is afforded certain treatment defined by the Code. That certain treatment may be very broadly defined as giving a claimant the full value of his claim or interest. Such value is determined by the Court and balanced against the treatment afforded the dissenting class of creditors. If the latter is equal to or greater than the former, the Plan may be confirmed over the dissent of that class, depending upon the treatment of junior claims and interests. In particular, senior claims must be satisfied in full prior to payment of junior claims or interests, unless the holders of senior claims agree to different treatment. This principle, commonly known as the "absolute priority rule", applies only in cases when a class of unsecured claims or equity interests is impaired and does not accept the plan. In that event, the absolute priority rule does not apply to all classes of unsecured claims and equity interests, but only to the dissenting class and classes junior to the dissenting class.

The exception to the absolute priority rule is that an existing Debtor can contribute money or property which is (1) new (fresh); (2) substantial; (3) necessary, and (4) not readily available from other sources.

In the event a class is unimpaired, it is automatically deemed to have accepted the plan. In this proposed Plan, Classes 2 through 8 will be impaired, as defined in §1124 of the Code, as the result of the Plan. All other classes will be unimpaired.

The Code states that if there is no dissenting class, the test for approval by the Court of a Chapter 11 plan (i.e., confirmation) is whether the plan is feasible and in the best interests of creditors and interest holders. In simple terms, a plan is in the best interests of creditors and interest holders if the plan will provide a better recovery to the creditors and interest holders than they would obtain if the Debtor were liquidated and the proceeds distributed in accordance with bankruptcy liquidation priorities. The Court, in considering this factor, need not consider any other alternative to the plan but liquidation.

In considering "feasibility", as mentioned earlier, the Bankruptcy Court is only required to determine whether the plan has a reasonable prospect of being accomplished. This entails determining the availability of cash for payments required at the effective date, and any other factor which might

1 make it impossible for the reorganized Debtor to accomplish that which it proposes to accomplish in he  
2 plan.

3 In addition, in order to confirm a plan, the Court must find that the plan was proposed in good  
4 faith and that the plan and the Debtor are in compliance with the applicable provisions of Chapter 11.  
5 Finally, similar to the requirement that the Court find the plan to be feasible, the Court must find that  
6 liquidation or further reorganization of the reorganized Debtor is not likely to occur after implementation  
7 of the plan.

8 The determination by the Court that a plan is fair, equitable and feasible occurs at the  
9 confirmation hearing after a plan has been accepted. The Court's judgment on these matter does not  
10 constitute an expression of the Court's opinion as to whether the plan is a good one, nor does it  
11 constitute an opinion by the Court regarding any debt or equity interest or securities issued to creditors  
12 under the plan.

13 10.2 Alternatives to the Plan: Although this Disclosure Statement is intended to provide  
14 information to assist in the formation of a judgment as to whether to vote for or against this proposed  
15 Plan, and although creditors are not being offered through that vote an opportunity to express an  
16 opinion concerning alternatives to the Plan, a brief reminder of the alternative to the Plan is in order.  
17 This alternative includes the probable liquidation of the Debtor through conversion of the case to one  
18 under Chapter 7. The Debtor believes the Plan to be in the best interests of the creditors and the interest  
19 holders. Consequently, the unsecured creditors of the debtor would likely receive smaller or no  
20 distributions under a Chapter 7 liquidation. THE DEBTOR HAS ATTEMPTED TO SET FORTH THE  
21 LIKELY LIQUIDATION ALTERNATIVE TO ITS PROPOSED PLAN. THE DEBTOR MUST  
22 CAUTION CREDITORS HOWEVER, THAT A VOTE MUST BE FOR OR AGAINST THE PLAN.  
23 THE VOTE ON THE PLAN DOES NOT INCLUDE A VOTE ON THE LIKELY LIQUIDATION  
24 ALTERNATIVE TO THE PLAN. THERE IS NO ASSURANCE THAT THE LIKELY LIQUIDATION  
25 ALTERNATIVE WILL, IN FACT, FOLLOW IF THE PLAN FAILS ACCEPTANCE. IF YOU  
26 BELIEVE THE LIQUIDATION ALTERNATIVE IS PREFERABLE TO THE PLAN AND YOU WISH  
27 TO URGE IT UPON THE COURT, YOU SHOULD CONSULT COUNSEL.

28 10.3 Specific Consideration in Voting: All of the foregoing gives rise to the following

implications and risks concerning the Plan.

While the Plan provides for certain payments, such payments will apply only to allowed claims and certain interests. Under the Bankruptcy Code, a claim may not be paid until it is "allowed". A claim will be allowed in the absence of an objection. A claim to which an objection has been filed will be heard by the Court at a regular evidentiary hearing and will be allowed in full, in part, or disallowed. While the Debtor will bear the principal responsibility for claim objections, any interested party may file claim objections. Accordingly, payment on all claims may be delayed until objections to such claims are ultimately settled.

10.4 Risk Factors. For classes of claims which do not receive cash on the Effective Date, there are certain risks inherent in accepting the Plan, including the absence of absolute certainty of ultimate payment.

10.5 Disclosure Required by the Code: The Code requires disclosure of certain facts as follows:

- 1) there are no payments or promises made of the kind specified in Section 1129(a)(4)(A) of the Code which have not previously been disclosed to the Court;
  - 2) the ownership of the Reorganized Debtor will not be affected by the Plan.

## SECTION XI

### *Other Provisions of the Plan*

11.1 Retention of Jurisdiction: The Bankruptcy Court shall retain exclusive jurisdiction over this case to supervise the Plan, to hear, if applicable law provides, and to determine, among other things, the following matters:

- 1) any and all objections to the allowance of claims or interests except as provided in the Plan;
  - 2) any and all applications for payment for fees from the Debtor made by attorneys and other professional pursuant to Sections 330 or 503 of the Bankruptcy Code, or for payment of any other fees or expenses authorized to be paid by the Debtor under Section 327 of the Bankruptcy Code, and any objections thereto;
  - 3) any and all pending applications for rejection, the assumption, or assignment as

1 the case may be of unexpired leases and executory contracts;

- 2           4) any and all motions, applications, adversary proceedings and contested or litigated  
3 matters properly before the Bankruptcy Court;
- 4           5) modifications of this Plan;
- 5           6) all matters relating to the implementation or consummation of this Plan;
- 6           7) any and all suits or actions brought for collection or recoupment of debts or other  
7 obligations owed by defaulted partners to the Debtor.

8           11.2 Retention of Causes of Action: The Debtor shall retain all claims or causes of action  
9 which it has as of the Confirmation Date, the powers of the debtor-in-possession for purposes of  
10 prosecuting claims and causes of action arising under the Bankruptcy Code, and full authority to pursue,  
11 compromise, and resolve all such claims and causes of action unless the Court has granted any such right  
12 to a creditor of this estate.

13           11.3 Retention or Rejection of Executory Contracts and Leases: The Plan provides that  
14 pursuant to Section 365 of the Bankruptcy Code, the Debtor assumes all executory contracts and  
15 unexpired leases to which they are a party, including leases specifically provided prior to the hearing on  
16 the Disclosure Statement, if any.

17           11.4 Amendments to Plan: The Plan may be altered, amended, or modified by the proponents  
18 before the Confirmation Date, in the manner provided for by Section 1127 of the Bankruptcy Code or  
19 otherwise provided for by law. The Plan may also be altered, amended, or modified by the proponents  
20 after the Effective Date in accordance with the Bankruptcy Code and applicable law. A holder of a claim  
21 or interest that has accepted or rejected the Plan shall be deemed to have accepted or rejected as the case  
22 may be the Plan as modified unless the modification detrimentally effects the holder of such claim or  
23 interest without the prior consent thereof.

24           11.5 Offer, Issuance and Resale of Plan Securities: The offer and issuance of Plan  
25 Securities by any Debtor which constitutes securities under the Securities Act of 1933, as amended  
26 (the "1933 Act") or applicable state securities laws have not been registered under the 1933 Act or such  
27 state securities laws, pursuant to the exemption therefrom provided by Section 1145 of the Bankruptcy  
28 Code.

1                   The Plan Securities will bear the following legend:

2  
3                   "The offer and sale of this Plan Security has not been registered under the  
4                   Securities Act of 1933, as amended, or qualified under applicable state  
5                   securities laws, and this Plan Security may not be offered, sold or  
6                   transferred in the absence of such registration or an exemption therefrom  
7                   under such laws."

8                   Resale or other transfer of a Plan Security by a creditor who has acquired it pursuant to the Plan,  
9                   may or may not be exempt from the registration requirements of Section 5 of the Securities Act  
10                   of 1933 and any applicable state securities laws or Blue Sky Laws.

11                   BY ITS RECEIPT OF A PLAN SECURITY, EACH RECIPIENT SHALL BE DEEMED TO  
12                   ACKNOWLEDGE THAT IT IS RESPONSIBLE FOR ITS COMPLIANCE WITH ALL APPLICABLE  
13                   SECURITIES LAWS. EACH CREDITOR SHOULD CONSULT HIS OR HER OWN ATTORNEY  
14                   AS TO WHETHER ANY RESALE OF A PLAN SECURITY REQUIRES REGISTRATION OF SUCH  
15                   SECURITY UNDER THE SECURITIES ACT OF 1933 OR AN APPLICABLE STATE SECURITIES  
16                   LAW.

17                   11.6    Provision for Filing Reports and Payments of Fees to the Office of the United States  
18                   Trustee: The Debtor shall timely file all quarterly reports and post-confirmation reports and shall pay  
19                   all fees to the United States Trustee as required by law and will incorporate such language into the order  
20                   confirming the Debtor's Plan of Reorganization.

21  
22                   **SECTION XII**

23                   *Recommendation of Debtor*

24                   The Debtor recommends that the Plan of Reorganization be approved as it is a 100% plan. The  
25                   Debtor is of the opinion that the Plan approval is in the best interest of all creditors.

## CONCLUSION

The materials provided in this Disclosure Statement are intended to assist you in voting on the Plan in an informed fashion. If the Plan is confirmed, you will be bound by its terms. Therefore, you are urged to review this material in order to make an informed vote on the Plan.

DATED: July 13, 2016

LAW OFFICES OF  
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