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

11 In re:

12 DAVID JOHN VIDAD and  
13 ELIZABETH ANNE VIDAD,

14 Debtors.

Chapter 11 Proceeding

Case No. 0:16-bk-08002-PS

**DISCLOSURE STATEMENT**

15 The following Disclosure Statement of David John Vidad and Elizabeth Anne  
16 Vidad (“Debtors”) is submitted in Debtors’ Chapter 11 Bankruptcy Reorganization case  
17 filed July 13, 2016, under the provisions of the Bankruptcy Code of 1978, as amended.  
18 Debtors’ proposed Chapter 11 Plan of Reorganization (“Plan”) is attached hereto as  
19 **Exhibit "A"** for your careful review. The Plan is intended to resolve, compromise and  
20 settle all claims, disputes and causes of action between and among all participants and as  
21 to all matters relating to these proceedings, except as expressly provided in the Plan.  
22 Therefore, approval of the Plan shall affect the discharge and release of the Debtors, settle  
23 all claims of creditors, and resolve all claims, except as expressly provided for in the Plan.

24 You should not construe the contents of this Disclosure Statement as legal,  
25 business, or tax advice. Each party in interest should consult his or her own attorney,  
26 business advisor, and/or tax advisor concerning the legal, business, tax, and related  
27

1 aspects under Debtors' proposed Plan.

2  
3 **INTRODUCTION**

4 This Disclosure Statement is intended to summarize and analyze the proposed Plan  
5 of the Debtors. The Disclosure Statement attempts to make factual disclosures relevant to  
6 your decision to accept or reject the Plan. To the extent any statement made in this  
7 Disclosure Statement is inconsistent with any provision in the actual Plan, the terms and  
8 provisions of the Plan shall control. In particular, the definitions of the Plan are  
9 incorporated herein.

10 Any representations or inducements made to secure acceptance of the Plan other  
11 than those made or referred to in this Disclosure Statement should not be relied on by any  
12 party in interest. Although every effort has been made by the Debtors to be accurate in  
13 her statements included in this Disclosure Statement, the Debtors' records have not been  
14 audited, and are not warranted to be without inaccuracies.

15 **NO REPRESENTATIONS CONCERNING THE BANKRUPTCY ESTATE,**  
16 **THE DEBTORS, OR THE PLAN ARE AUTHORIZED OTHER THAN AS SET**  
17 **FORTH IN THIS DISCLOSURE STATEMENT. YOU SHOULD NOT RELY ON**  
18 **ANY REPRESENTATIONS OR INDUCEMENTS MADE TO SECURE YOUR**  
19 **ACCEPTANCE OF THE PLAN OTHER THAN THOSE CONTAINED IN THIS**  
20 **DISCLOSURE STATEMENT ONCE APPROVED BY THE BANKRUPTCY**  
21 **COURT.**

22 **MOREOVER, THE COURT HAS NOT VERIFIED THE ACCURACY OF**  
23 **THE INFORMATION CONTAINED IN THIS DISCLOSURE STATEMENT.**  
24 **THE COURT'S APPROVAL ONLY SIGNIFIES, IF THE INFORMATION**  
25 **CONTAINED HEREIN IS ACCURATE, THEN IT IS SUFFICIENT TO PROVIDE**  
26 **CREDITORS AND INTERESTED PARTIES AN ADEQUATE BASIS TO**

1 **DECIDE WHETHER TO ACCEPT OR REJECT THE DEBTORS' PLAN.**

2 **COURT APPROVAL IS NOT A JUDICIAL ENDORSEMENT OF THE PLAN.**

3 **PLAN APPROVAL PROCESS**

4 The Disclosure Statement and Plan classify all creditors' claims into separate  
5 classes and set forth the treatment of each class of claims. You should examine the  
6 treatment of the class under which your particular claim(s) may fall. The Debtors believe  
7 that treatment of each class of claims complies with the requirements under Bankruptcy  
8 Code § 1129. After the Bankruptcy Court approves the Disclosure Statement, the Debtors  
9 will send a ballot to each creditor holding an allowed claim so that each creditor may vote  
10 to accept or reject the Plan. After notice and hearing, the Bankruptcy Court may approve  
11 or confirm the Plan upon the affirmative vote of the necessary classes of claims and  
12 interests. Holders of allowed claims and interests may vote to accept or reject the  
13 accompanying Plan. A class of creditors will be deemed to have accepted the Plan if a  
14 majority of such creditors holding at least two-thirds in amount and more than one-half in  
15 number of allowed claims of that class voting accept the Plan. A class of interest holders  
16 will be deemed to have accepted the Plan if the holders of two-thirds of the amount of  
17 allowed interests voting accept the Plan. **Thus, if you do not vote on the Plan, the wishes**  
18 **of other creditors or interested parties may govern the treatment of your Claims or**  
19 **interests. In other words, failing to participate in the confirmation process, including**  
20 **the timely casting of ballots, may result in having your particular claim treatment**  
21 **controlled by the votes and participation of others who may not share the same**  
22 **interests. Accordingly, the Debtors highly recommends that you participate in the**  
23 **voting process by timely providing the Debtors with your Ballot accepting or rejecting**  
24 **the Plan, at the appropriate time, as set forth herein.**

25  
26 Confirmation Despite Rejection (Cramdown): Pursuant to § 1129 of the Bankruptcy  
27 Code, the Court is hereby requested to confirm the Plan as to any class of claims or interests

1 that does not vote to accept it. To do so, the Court must first find that the requirements  
2 contained in section 1129(a) have been met. If all requirements of section 1129(a) are met  
3 except 1129(a)(8) then the Court may still confirm the Plan as long as it is fair and equitable  
4 with respect to each class of claims or interests that is impaired and has not accepted the Plan,  
5 and that each holder of an allowed claim or interest shall receive property of a value, as of the  
6 Effective Date of the Plan, that is not less than the amount that would be received or retained  
7 if the Debtors' property were liquidated under Chapter 7 of the Bankruptcy Code.

8 ***PLEASE READ THIS DISCLOSURE STATEMENT CAREFULLY.*** It is  
9 designed to assist you in ultimately deciding how to vote on the Plan. Before you can vote on  
10 the Plan, however, this Court must first approve this Disclosure Statement as being in  
11 compliance with the mandates of the Bankruptcy Code. Once the Court approves this  
12 Disclosure Statement, the Debtors may commence solicitation of votes from creditors and  
13 interested parties holding allowed claims and/or interests. Accordingly, you should rely upon  
14 this Disclosure Statement for your decision to accept or reject the accompanying Plan only  
15 after it has been approved by the Court, unless the Court has ordered otherwise.

## 16 17 **DEFINITIONS**

18 Unless otherwise defined herein, terms defined in the Plan shall have the same  
19 meaning when used in this Disclosure Statement. In addition, unless otherwise defined  
20 herein or in the Plan, terms used in this Disclosure Statement shall have the same meaning as  
21 in the Bankruptcy Code (the "Code") or the Federal Rules of Bankruptcy Procedure (the  
22 "Bankruptcy Rules"). In reviewing this Disclosure Statement the following definitions will be  
23 used:

- 24
- 25 1. "*Claims Bar Date*" shall mean, a date set by the Court by which any creditor  
26 wishing to participate in the bankruptcy reorganization had to file a proof of  
27 claim.

- 1           2.     "*Code*" shall mean Title 11 of the United States Code as amended.
- 2           3.     "*Court*" shall mean the United States Bankruptcy Court for the District of
- 3                 Arizona in which this case is pending.
- 4           4.     "*Creditors*" shall mean all creditors of the Debtors holding claims for debts,
- 5                 liabilities, demands or claims of any character whatsoever.
- 6           5.     "*Confirmation of the Plan*" shall mean the entry by the Court of an Order
- 7                 confirming the Plan in accordance with Chapter 11.
- 8           6.     "*Consummation of the Plan*" shall mean the accomplishment of all things
- 9                 contained or provided for in the Plan, and the entry of an Order finally
- 10                 dismissing/closing this case.
- 11           7.     "*Debtors*" or "*Vidads*" shall mean David John Vidad and
- 12                 Elizabeth Anne Vidad listed in the caption of the Disclosure Statement and
- 13                 Plan.
- 14           8.     "*Department of Revenue*" or "*ADOR*" is the Arizona taxing authority
- 15                 empowered to assess and collect income taxes, employment, sales and other
- 16                 taxes imposed by law.
- 17           9.     "*Disbursing Agent*" shall mean the person or entity that will be responsible for
- 18                 making the payments to creditors called for in the Plan.
- 19           10.    "*Effective Date*" shall mean thirty (30) days after the date on which the Order
- 20                 confirming the Plan becomes final and non-appealable.
- 21           11.    "*General Unsecured Claims*" shall mean all claims held by creditors of the
- 22                 Debtors, other than Secured Claims and shall include claims of secured
- 23                 creditors to the extent that the same are unsecured in part and claims arising out
- 24                 of the rejection of executory contracts and/or unexpired leases.
- 25           12.    "*Government Units*" shall mean the Internal Revenue Service, Arizona
- 26                 Department of Revenue and various other municipal taxing authorities.
- 27
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- 1 13. "Insider" includes, but is not limited to, a relative or general partner of  
2 Debtors, a partnership in which the Debtors is a general partner or a  
3 corporation in which the Debtors is an officer, director or person in control, as  
4 defined by 11 U.S.C. 101(31).
- 5 14. "IRS" shall mean the Internal Revenue Service.
- 6 15. "Lien" shall mean a mortgage, pledge, judgment lien, security interest,  
7 charging order, or other charge or encumbrance on the Debtors's property  
8 effective under applicable law as of the date of the Debtors' petition for  
9 reorganization.
- 10 16. "Periodic Payment" shall mean the monthly or quarterly payments to be made  
11 by Debtors after the Effective Date to fund their Plan.
- 12 17. "Plan" shall mean the Debtors' Chapter 11 Plan of Reorganization in its  
13 present form or as it may be subsequently amended or supplemented.
- 14 18. "Priority Claim" shall mean the claim of any creditor entitled to a certain  
15 priority status under Section 507 of the Code.
- 16 19. "Secured Claim" shall mean all claims secured by liens on the real and/or  
17 personal property of the Debtors, which liens are valid, perfected, and  
18 enforceable under applicable law, are not subject to avoidance under the  
19 Bankruptcy Code or other applicable non-bankruptcy law, and are duly  
20 established in this case.

21 **PART I**

22 **STATEMENT OF THE CASE**

23  
24 **I. BACKGROUND OF THE DEBTORS AND EVENTS UNDERLYING**  
25 **THE FILING OF THE CASE**

26 David and Elizabeth "Liz" Vidad have been married almost 26 years. David  
27

1 has lived in Lake Havasu City since 1989 and Liz, since 1975. Before they were  
2 married, on November 24, 1990, David started his accounting practice, Vidad &  
3 Associates, after leaving S&H Homes, where he was hired as the controller, in June  
4 1989. Liz was the Public Education Specialist for the Lake Havasu City Fire  
5 Department. She was responsible for implementing a fire safety program, from  
6 kindergarten to high school, and teaching community businesses CPR, OSHA, first  
7 aid, etc. In Nov. 2006, Liz left her position with the FD, because of a hostile  
8 environment created by her senior staff at the FD. Her primary health care provider  
9 informed her, if she continued to work there, she would most likely die in 6 months  
10 due to the stress, which created Post Traumatic Stress Disorder (PTSD). In 2007, Liz  
11 started her own business, A.I.M. High, where she taught CPR and first aid. She  
12 continued with her business until August 2014, when she was to be employed by the  
13 State of Arizona, as a Park Ranger, at Buckskin State Park, which did not work out.  
14 She was hired by Telesis Preparatory Academy, in January 2015, as the  
15 Disciplinarian/Mentor. She left in April 2015. She was hired by the State of Arizona,  
16 as a Park Ranger, at Buckskin State Park, in June 2015. She was let go in January  
17 2016, due to State wide budget cuts. She became a volunteer teacher's assistant in  
18 February 2016 and eventually was hired as a teacher's assistant in April 2016, at  
19 Smoketree Elementary for the Lake Havasu Unified School District. She is now a full  
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1 time Para-Pro/Title One Educational Assistant for Thunderbolt Middle School for the  
2 2016-2017 school year.

3  
4 David's accounting practice changed from a sole proprietor to an S-Corp,  
5 Vidad & Associates, Inc. (VAI) in May 1999. In September 2009, he started Aloha  
6 Acquisitions, LLC (AA), to flip homes in the Lake Havasu City area. That project  
7 didn't quite work out, so he purchased a commercial building on 3509 McCulloch  
8 Blvd N, on February 28, 2011. AA received rental income from VAI and J.W.  
9 Wallace Electric, Inc. AA had accumulated loans of \$500,000 at this point in time. In  
10 May 2013, David started a Farmers Insurance Agency, to increase revenue in order to  
11 help pay the monthly bills. VAI took a \$100,000 loan in August 2014. With VAI,  
12 AA, Farmers and the commercial rental, David was working 24/7, even in his sleep  
13 thinking of ways to make ends meet. He planned to work for another 10-15 years, or  
14 whatever it took to repay everyone back. On May 27, 2015, David suffered a  
15 Hemorrhagic stroke. He was flown, by helicopter, from LHC to Sunrise Hospital in  
16 Las Vegas. After going through a battery of tests, David's doctor said to he had to cut  
17 down on the hypertension, or stress in his life. At that point, David made a decision to  
18 sell the commercial building and the Farmers Insurance Agency. The building was  
19 sold back to J.R. Wallace in July 2015 and the Farmers Insurance Agency was sold to  
20 Cassie Sotelo on 1/1/2016.  
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1 David met with Harold Campbell in December 2015 to review his options.  
2 After a couple of meetings, Chapter 11 seemed the best way to proceed in order to  
3 reorganize his debts and pay his creditors. Since tax season was physically  
4 demanding on David, he was unable to compile the information needed to file until  
5 finally on July 13, 2016, the Chapter 11 was filed.  
6  
7

## 8 **II. ACTIONS AFTER FILING THE CHAPTER 11 CASE.**

### 9 **A. Actions in Bankruptcy Court**

10 While more detailed information related to the events in this Bankruptcy Case  
11 can be obtained by accessing the Bankruptcy Court's CM/ECF filing system and  
12 reviewing the pleadings filed in Case No.: 0:16-bk-08002-PS, the following is a  
13 summary of certain key bankruptcy-related proceedings and events associated with  
14 this Bankruptcy Case.  
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18 The Debtors retained the law firm Campbell & Coombs, P.C. as their counsel  
19 at the outset of this bankruptcy proceeding and their employment has been approved  
20 by the Court. Campbell & Coombs, P.C. was paid an initial retainer of \$12,000.00 to  
21 assist the Debtors with their Chapter 11 reorganization. Since retaining Campbell &  
22 Coombs PC, the Debtors have continued to operate their affairs in the ordinary course.  
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26 The Debtors have abided by the operating guidelines administered by the United  
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1 States Trustee, including the filing of requested documents, monthly operating reports  
2 and payment of post petition quarterly fees as they become due. The most recent post  
3 petition operating report is attached to this Disclosure Statement as **Exhibit "D"**.

4 Debtors have filed all their Schedules and have complied with the operating  
5 guidelines of the United States Trustee. The Debtors' Section 341 hearing has been  
6 completed.  
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### 8 **III. DEBTORS' ASSETS AND LIABILITIES.**

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10 **Assets.** The Debtors' assets are listed on Schedule A and Schedule B of their  
11 Schedules, which is attached hereto as **Exhibit "B"**.

12  
13 **Financial Obligations of Debtors.** Debtors have various creditor claims  
14 against them, both secured and unsecured. Schedule D and Schedule F are attached  
15 hereto as **Exhibit "C"**, shows the debt.  
16

### 17 **IV. CURRENT FINANCIAL INFORMATION OF DEBTORS AND** 18 **FUTURE PLANS**

19  
20 Attached hereto as **Exhibit "D"** is the Debtors' most recently filed monthly  
21 operating statement. Attached hereto as **Exhibit "F"** are the Income Projections for  
22 the Debtors which shows that Debtors will continue to receive the income needed to  
23 fund the Plan. As can be seen, Debtors will have an anticipated future income of  
24 \$1,667.00 per month initially to fund the Plan.  
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1       **V.     PREPARATION OF DISCLOSURE STATEMENT.**

2               The information contained in this Disclosure Statement has been prepared by  
3  
4       Campbell & Coombs, P.C., counsel to Debtors in this proceeding, based upon  
5       information provided primarily by the Debtors. No warranty is made as to the  
6       accuracy of such information.  
7

8       **VI.    LIQUIDATION ANALYSIS.**

9               Section 1129(a)(7) of the Bankruptcy Code requires that as to each impaired  
10       class of claims or interests each non-accepting holder or class must receive or retain  
11       under the Plan property of value not less than the amount that such holder would  
12       receive or retain if the Debtors' assets were liquidated under Chapter 7 on the  
13       effective date of their Plan. This is commonly known as the liquidation test. An  
14       alternative to confirmation of Debtors' Plan would be a distress liquidation. In a  
15       Chapter 7 liquidation, Debtors' assets would be sold for cash, most likely at an auction  
16       sale.  
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21              Based on the above, the Debtors anticipate a liquidation value of the estate of  
22       \$84,392.00. Attached hereto as **Exhibit "G"** is a Liquidation Analysis Spreadsheet  
23       listing all of the Debtors' assets along with each asset's fair market value and secured  
24       claims and/or exemptions, where applicable. The value of Debtors' business, Vidad  
25       & Associates, Inc. is based on an appraisal which is attached hereto as **Exhibit "E"**.  
26  
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1 The value of the unsecured Sotelo note for the purchase of the Farmer's Insurance  
2 business is based on the liquidation value. In an attempt to raise cash to pay creditors  
3 before the filing of this case, David tried to sell the Sotelo note to Nationwide Secured  
4 Capital and Note Buyers of America at a discount and was turned down. Because  
5 it was unsecured, no one would even make an offer. Therefore, Debtors have  
6 discounted this to 25% or \$25,000, a number that is probably much too high.  
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8 If the Debtors were in a Chapter 7 liquidation bankruptcy instead of this Chapter  
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If the Debtors were in a Chapter 7 liquidation bankruptcy instead of this Chapter 11 proceeding, the Chapter 7 Trustee would have a total of \$75,150.00 to distribute to all creditors (Liquidation value minus the Chapter 7 Trustee commission of \$9,242<sup>1</sup>). This would also likely be reduced by Trustee attorney's fees. However, the Debtors' Plan proposes to pay out \$100,000.00, as discussed below, to their unsecured creditors including the guaranteed secured debts of Cindy Miller and Wayne Maxon. Thus, unsecured creditors of the Estate will receive a higher return under the Debtors' Chapter 11 Plan than they would if the bankruptcy was converted to a Chapter 7.

## **VII. DISPOSABLE INCOME ANALYSIS FOR THE DEBTORS**

Pursuant to § 1129(a)(15) of the Bankruptcy Code, the Court shall confirm the Plan only if: in a case in which the Debtor is an individual and in which the holder of

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<sup>1</sup> A Chapter 7 trustee's commission rate is 25% of the first \$5000 collected, 10% for amounts collected between \$5001 and \$50,000, 5% for amounts collected between \$50,001 and \$1 Million, and 3% for all amounts collected in excess of \$1 Million.

1 an Allowed Unsecured Claim objects to the confirmation of the Plan, what the  
2 holder of such Allowed Unsecured Claim shall receive under the Plan is either: (A)  
3 the value, as of the Effective Date of the Plan, of the property to be distributed under  
4 the Plan on account of such Allowed Unsecured Claim is not less than the amount of  
5 such Allowed Unsecured Claim, or (B) the value of the property to be distributed  
6 under the Plan is not less than the projected disposable income of the Debtors (as  
7 defined in section 1325(b)(2)) to be received during the 5-year period beginning on  
8 the date that the first payment is due under the Plan, or during the period for which the  
9 Plan provides payments, whichever is longer.  
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14 Section 1325(b)(2) defines disposable income as current monthly income  
15 received by the Debtors (other than child support payments, foster care payments, or  
16 disability payments for a dependent child made in accordance with applicable  
17 non-bankruptcy law to the extent reasonably necessary to be expended for such child)  
18 less amounts reasonably necessary to be expended for the maintenance or support of  
19 the Debtors or a dependent of the Debtors, or for a domestic support obligation, that  
20 first becomes payable after the date the petition is filed; and (ii) for charitable  
21 contributions (that meet the definition of “charitable contribution” under section  
22 548(d)(3) to a qualified religious or charitable entity or organization (as defined in  
23 section 548(d)(4)) in an amount not to exceed fifteen percent (15%) of gross income  
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1 of the Debtors for the year in which the contributions are made; and (B) if the Debtors  
2 are engaged in business, for the payment of expenditures necessary for the  
3 continuation, preservation, and operation of such business. This definition is  
4 calculated by using the six (6) month period prior to the Debtors' bankruptcy filing.  
5

6  
7 As required by statute, Debtors provided a Chapter 11 Statement of Current  
8 Monthly Income when they filed their bankruptcy (Form 122B). Pursuant to this  
9 Statement, Debtors' current monthly income as shown on Form 122B was \$3,255.48.  
10 Form 122B does not deal with expenses. Therefore, a mock Section 1325(b)(2) Form  
11 122C has been prepared showing what the expenses were under Section 1325(b)(2).  
12 This is attached hereto as **Exhibit "H"**. According to **Exhibit "H"** at line 42,  
13 Debtors had allowable deductions under Section 707(b)(2) of \$5,205.83. Thus  
14 Debtors have negative disposable income of <\$1,950.35> (Income of \$3,255.48 -  
15 Expenses of \$5,205.83). The amount to be disbursed to satisfy § 1129(a)(15) of the  
16 Bankruptcy Code would be \$0.00, (\$-1,950.83 X 60). However, Debtors are  
17 committing to fund a total of \$100,000.00 of Allowed Non Priority Unsecured Claims  
18 so that they may receive a distribution from the bankruptcy estate in excess of what is  
19 required by statute.  
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## 25 **VIII. IMPLEMENTATION AND FUNDING OF DEBTORS' PLAN**

26 The Debtors' Plan will be funded by their post-petition salaries from Vidad &  
27

1 Associates, Thunderbolt Middle School and payments from the Sotelo Note. The  
2 Debtors shall act as the Disbursing Agent under the Plan. Payments will be made  
3 monthly under the Plan of not less than \$1,667.00 for the 60 months. Once the  
4 amount of \$100,000.00 is paid, Debtors' Plan will be complete and they will be  
5 eligible for their discharge at that time. Debtors may prepay this amount before month  
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8 60.

9  
10 In the event any entity which possesses an Allowed Secured Claim, or any  
11 other lien in any of the Debtors' property for which the Plan requires the execution of  
12 any documents to incorporate the terms of the Plan, fails to provide a release of its lien  
13 or execute the necessary documents to satisfy the requirements of the Plan, the  
14 Debtors may record a copy of the Plan and the Confirmation Order with the  
15 appropriate governmental agency and such recordation shall constitute the lien release  
16 and creation of the necessary new liens to satisfy the terms of the Plan. If the Debtors  
17 deem advisable, they may obtain a further Order from the Court which may be  
18 recorded in order to implement the terms of the Plan. Debtors may pay greater  
19 amounts than the monthly payments referenced above if their income warrants it, in  
20 which case they may be eligible for their discharge earlier than 60 months.  
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25 **IX. VALUATION ISSUES AND FEASIBILITY.**

26 Correct valuation of Debtors' assets is crucial to the Plan confirmation process.  
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1 Valuation is a flexible concept, which varies both as the market changes and as the  
2 purpose of the valuation changes, as provided in 11 U.S.C. Section 506(a). Different  
3 valuation methods may be appropriate depending upon the time and reason for  
4 valuing interests. Valuation in a complex case such as this is quite difficult and raises  
5 issues upon which reasonable minds can differ.  
6

7  
8 Valuation of assets is necessary to determine whether a cramdown plan meets  
9 the "fair and equitable" test and to determine whether the Plan meets the "best  
10 interests of creditors" test embodied in Section 1129(a)(7).  
11

12 The precise valuation of Debtors' assets is a difficult and time-consuming  
13 endeavor. Valuation is a flexible concept which varies with market changes and the  
14 purposes for which the valuation is requested. Different valuation methods may be  
15 appropriate depending on the nature of the asset. Valuation of such complex  
16 and varied assets raises difficult issues upon which reasonable minds can differ.  
17

18 The values described for Debtors' assets in this Disclosure Statement were  
19 derived from information prepared and/or compiled by the Debtors. To the extent that  
20 Debtors had in her possession current third party appraisals for the various assets, such  
21 valuations were utilized. To the extent third party appraisals were not available,  
22 Debtors utilized information gathered from market data, industry trends, management  
23 personnel, current financial information, real estate brokers and a variety of other  
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1 sources to arrive at figures which Debtors believes represent the closest  
2 approximation to current market values available. Equipment and furniture are valued  
3 at an estimation of bankruptcy liquidation (forced sale auction) value.  
4

5 Debtors make no representations or assurances that the values described for  
6 assets within this Disclosure Statement are correct or can be achieved. Specifically, it  
7 is entirely possible that the values actually obtained from liquidation and sale of the  
8 assets may be higher or lower than the values described herein.  
9  
10

11 **PART II**  
12 **DESCRIPTION OF THE PLAN**

13 **I. GENERAL**

14 Debtors are individuals filing for Chapter 11 relief. Pursuant to 11 U.S.C.  
15 1123(a)(8), Debtors will be providing to their general non-priority unsecured creditors  
16 \$100,000.00 within sixty (60) months of the Plan's Effective Date regardless of the  
17 applicability of § 1129(a)(15). As indicated below, Debtors will continue their  
18 employment and will make an anticipated payment each month of not less than  
19 \$1,667.00 for the 60 months. At the end of the 60 month plan, or upon early  
20 payment of all amounts called for under Debtors' Plan of Reorganization, as  
21 confirmed, Debtors will return to this Court and receive a discharge of their debts.  
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1 **II. CLASSIFICATION OF CLAIMS AND TREATMENT OF CLASSES:**

2 Claims are classified as follows:

3  
4 **Class 1: Costs of Administration of this Case**

5 **a. Nature of Claim**

6  
7 These claims consist of attorney's fees owed to Campbell & Coombs, P.C.  
8 estimated at time of confirmation to be no more than \$25,000.00. All fees due  
9 to Campbell & Coombs, P.C. will be paid pursuant to an Application for  
10 Attorney's Fees and Costs that will be submitted to the Court. However,  
11 Campbell & Coombs, P.C. is working off of the \$6,724.50 retainer being held  
12 in its trust account. Any fees owed to the United States Trustee are also in this  
13 class as well as any other allowed administrative expenses as defined and  
14 described in 11 U.S.C. §503. These claims are priority claims under 11 U.S.C.  
15 507 (a)(1). These claims are currently being calculated.

16 **b. Treatment of Class 1 - Unimpaired:**

17  
18 All claims in this class will be paid in full on the effective date. If Debtors are  
19 unable to pay this class in full on the effective date, then Debtors will pay to  
20 this class all payments called for under the Plan until this class is paid in full  
21 unless the parties agree to an alternative treatment. The claims in this class are  
22 unimpaired.  
23

24 **Class 2: Bank of America**

25 **a. Nature of Claim:**

26  
27 This is a secured claim secured by a lien on Debtors' 2009 Ford F-150 truck in  
28

1 the amount of \$15,538.00 as of September 20, 2016.

2 b. Treatment of Claim - Unimpaired:

3  
4 Debtors will continue to make payments direct to this creditor outside the Plan  
5 pursuant to the terms of the original contract between the parties. Bank of  
6 America will retain its lien on the 2009 Ford F-150 truck.

7 **Class 3: Ditech Financial LLC**

8  
9 a. Nature of Claim:

10 This creditor has a secured claim in the approximate amount of \$125,794.00  
11 secured by a first position lien on the house and land located at 3828 Northstar  
12 Drive in Lake Havasu City, Arizona 86406. There are pre-petition arrears in  
13 the amount of \$4,752.00. This is Debtors' homestead.

14  
15 b. Treatment of Claim - Impaired:

16 The principal balance of this claim will continue to be paid pursuant to the  
17 terms and conditions contained in the parties' original loan agreement as it  
18 existed just prior to the filing of this case outside the Plan. The arrearages will  
19 be paid in full without interest to Ditech Financial LLC within 12 months of  
20 the effective date.

21 **Class 4: Estate of Norma Jean Jozsa**

22  
23 a. Nature of Claim:

24 This creditor has a secured claim in the amount of \$71,552.38, which it claims  
25 is secured by a second position lien on the house and land located at 3828  
26 Northstar Drive in Lake Havasu City, Arizona 86406. In research for  
27

1 preparation of their Disclosure Statement, Debtors have discovered that  
2 apparently only \$40,000.00 of this claim is secured, with the remaining  
3 \$31,552.38 being unsecured. Due this recent discovery, Debtors did not  
4 initially dispute this debt on their Schedule D. The Estate of Norma Jean Jozsa  
5 disputes this position and claims that the entire claim is secured.

6 b. Treatment of Class 4 - Impaired:  
7

8 Debtors anticipate that they will refinance their residence at 3828 Northstar  
9 Drive in Lake Havasu City, Arizona 86406 within 15 months of the effective  
10 date. At that time, (or at any other time before the 15 months) this creditor will  
11 be paid the sum of \$50,000 in full and complete satisfaction of its claims. Until  
12 the residence is refinanced, Debtor will pay directly to this creditor the sum of  
13 \$200.00 per month as adequate protection, beginning on the effective date. If  
14 Debtors cannot refinance the house, they will make 4 equal annual payments  
15 beginning 15 months after the effective date. When the payment is made it  
16 will be made in the form of 4 equal payments to the following heirs of this  
17 estate:

18 DAWN WAYT  
19 1550 Via Salerno  
20 Escondido, CA 92026

21 MARIA KOTOULAS  
22 1550 Via Salerno  
23 Escondido, CA 92026

24 GEORGE KOTOULAS  
25 1735 Ruby Lane  
26 Lake Havasu City, AZ 86403  
27  
28

1 CYNTHIA SOUND  
2 38858 Foxholm Drive  
3 Palmdale, CA 93551

4 **Class 5: Farmers Insurance Group Federal Credit Union**

5 a. Nature of Claim:

6 This is a secured claim secured by a lien on Debtors' 2010 Skyline Layton  
7 trailer in the approximate amount of \$10,500.00.

8  
9 b. Treatment of Class 5- Impaired:

10 Debtors will surrender this collateral to this creditor in full satisfaction of its  
11 claim.

12  
13 **Class 6: Anne Hamu**

14 a. Nature of Claim:

15 This is a guaranty claim based on a guaranty of a \$100,000 secured note of  
16 Vidad and Associates Inc.

17  
18 b. Treatment of Class 6 - Impaired:

19 This claim will receive nothing under the Plan and the guarantee claim will  
20 be discharged upon the receipt of Debtors' discharge. The debt of Vidad &  
21 Associates Inc. to this creditor will remain unchanged and in full force and  
22 effect.

23  
24 **Class 7: Cindy Miller**

25 a. Nature of Claim:

26 This is a guaranty claim based on guaranties of three \$100,000 notes of  
27 Aloha Acquisitions LLC. The total of the 3 guaranties is \$300,000.00.  
28

1           b. Treatment of Class 7 - Impaired:

2           The debt of Aloha Acquisitions LLC to this creditor will remain unchanged  
3           and in full force and effect. Cindy Miller will receive the sum of  
4           \$52,640.00 in full satisfaction of the guarantee debt of Debtors. This will  
5           be paid by a payment each month of not less than \$877.34 for the 60  
6           months. At the option of Debtors, these payments may be made quarterly,  
7           and will continue for 60 months or until earlier if the sum of the payments  
8           total \$52,640.00. Once this sum is paid, payments will cease and any  
9           remaining balance on these claims will be discharged.

10  
11       **Class 8:       Wayne Maxon**

12           a. Nature of Claim:

13           This is a guaranty claim based on guaranties of two \$100,000 notes of  
14           Aloha Acquisitions LLC. The total of the 2 guaranties is \$200,000.00

15  
16           b. Treatment of Class 8- Impaired:

17           The debt of Aloha Acquisitions LLC to this creditor will remain unchanged  
18           and in full force and effect. Wayne Maxon will receive the sum of  
19           \$35,090.00 in full satisfaction of the guarantee debt of Debtors. This will  
20           be paid by a payment each month of not less than 584.83 the 60 months.  
21           At the option of Debtors, these payments may be made quarterly, and will  
22           continue for 60 months or until earlier if the sum of the payments total  
23           \$35,090.00. Once this sum is paid, payments will cease and any remaining  
24           balance on these claims will be discharged.

25  
26       **Class 9:       Navient**

27           a. Nature of Claim:

1 This claim is an unsecured education loan in the amount of \$7,362.57. This  
2 is a parent plus loan for their daughter. Pursuant to 11 U.S.C. 523(a)(8), this  
3 is a non-dischargeable debt.

4 b. Treatment of Class 9- Impaired:

5  
6 This debt will be treated and paid as a Class 10 debt, except that it will not  
7 be discharged by Debtors' discharge. Payments are currently being made  
8 by Debtors' daughter who anticipates continuing making these payments  
9 until the note is satisfied. Payments made under the Plan will be  
10 supplemental to the payments being made by Debtors' daughter.

11 **Class 10: General Non-Priority Unsecured Claims**

12  
13 a. Nature of Claim:

14 This Class consists of the unsecured debts of Debtors listed on Debtors'  
15 Schedule F. The amounts of their claims are the amounts in their proofs of  
16 claim filed in this case, or if they did not file a proof of claim, the amount  
17 Debtors listed on their Schedule F. The total debt in this class is \$69,847.93.

18  
19 b. Treatment of Class 10- Impaired:

20 This class (along with the Class 9 unsecured educational debt) will be paid a  
21 pro-rata portion of their claims by monthly payments of Debtors' disposable  
22 income beginning 30 days after the effective date and continuing through  
23 month 60. The proration will be based on the total of all debts in Classes 7-10.  
24 This will be paid by a payment each month of not less than \$204.50 for the 60  
25 months. At the option of Debtors, these payments may be made quarterly, and  
26 will continue for 60 months or until earlier if the sum of the payments total  
27 \$12,270.00. Once the sum of \$12,270.00 [an amount in excess of the value of  
28

1 the Debtors' Liquidation Equity] is paid, payments will cease and any  
2 remaining balance on these claims will be discharged (except for the Class 9  
3 debt). Attached as **Exhibit "I"** to the Disclosure Statement is a list of  
4 anticipated payments to Class 10 creditors.

5 **EFFECT OF CONFIRMATION**

6  
7 Because the Debtors are individuals, pursuant to §1141(d)(5) of the  
8 Bankruptcy Code, Confirmation of the Plan does not provide the discharge for the  
9 Debtors. The Debtors will move for the entry of a final decree after they has provided  
10 for the implementation of the Plan, and the final decree will contain the language  
11 providing the Debtors their discharge and such final decree will discharge any and all  
12 debts of the Debtors, that arose any time before the entry of the Confirmation Order,  
13 including, but not limited to, all principal and all interest accrued thereon, pursuant  
14 to §1141(d) of the Bankruptcy Code. The discharge shall be effective as to each  
15 Claim (except Class 9), regardless of whether a proof of claim was filed, whether the  
16 Claim is an Allowed Claim, or whether the holder votes to accept or reject the Plan.  
17  
18  
19  
20

21 In addition, any pre-confirmation obligations of the Debtors dealt with in the  
22 Plan shall be considered New Obligations of the Debtors, and these New Obligations  
23 shall not be considered in default unless and until the Debtors default on the New  
24 Obligations pursuant to the terms of the Plan. The New Obligations provided for in  
25 the Plan shall be in the place of, and completely substitute for, any pre-Confirmation  
26  
27  
28



1 obligations of the Debtors and, once the Plan is confirmed, the only obligations of the  
2 Debtors shall be such New Obligations as provided for under the Plan.  
3

#### 4 TAX CONSEQUENCES

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

19 Neither the Debtors nor their lawyers can make any statements with regard  
20 to the tax consequences of the Plan on any of the creditors. Although they would  
21 note that to the extent the creditor is not paid in full their Allowed Claim, they  
22 should consult with own their tax advisor concerning the possibility of writing off  
23 for tax purposes that portion of their Allowed Claim that is not paid. Each creditor  
24 in this case, when analyzing the Plan, should consult with its own professional  
25  
26  
27  
28

1 advisors to determine whether or not acceptance of the Plan by the creditor will  
2 result in any adverse tax consequences to the creditor.  
3

4 The Bankruptcy Tax Act generally provides that the Debtors do not have to  
5 recognize income from the discharge of indebtedness. The Plan contemplates  
6 significant discharge of indebtedness; however, because the Debtors are in  
7 bankruptcy, they will not have to recognize the discharge of indebtedness as  
8 income for tax purposes. The Debtors do not believe the Plan will cause any  
9 adverse tax consequences.  
10  
11

#### 12 **NON-ALLOWANCE OF PENALTIES AND FINES**

13  
14 No distribution shall be made under this Plan on account of, and no allowed  
15 claim, whether secured, unsecured, priority, or administrative, shall include any  
16 fine, penalty, exemplary or punitive damages, late charges or other monetary  
17 charges relating to or arising from any default or breach by Debtors, and any claim  
18 on account thereof shall be deemed disallowed whether or not an objection to it is  
19 filed.  
20  
21

#### 22 **EXECUTORY CONTRACTS**

23  
24 The Debtors hereby assume all executory contracts and unexpired leases not  
25 otherwise rejected herein or by separate order of the Court. Claims for any  
26 executory contracts or unexpired leases rejected by the Debtors shall be filed no  
27 later than ten (10) days after the earlier of Confirmation or the date the executory  
28

1 contract or unexpired lease is specifically rejected. Any such Claims not timely  
2 filed and served shall be disallowed.  
3

#### 4 MODIFICATION OF PLAN

5 In addition to its modification rights under § 1127 of the Bankruptcy Code,  
6 the Debtors may amend or modify their Plan at any time prior to Confirmation  
7 without leave of the Court. The Debtors may propose amendments and/or  
8 modifications of his Plan at any time subsequent to Confirmation with leave of the  
9 Court and upon notice to all Creditors. After Confirmation of the Plan, the  
10 Debtors or the Reorganized Debtors may, with approval of the Court, as long as it  
11 does not materially or adversely affect the interests of Creditors, remedy any defect  
12 or omission or reconcile any inconsistencies of the Plan, or in the Confirmation  
13 Order, if any may be necessary to carry out the purpose and intent of her Plan.  
14  
15  
16  
17

#### 18 CLOSING OF THE CASE

19 If the Court does not close this case on its own motion, the Debtors will  
20 move the Court to administratively close this case once the Plan is deemed  
21 substantially consummated. Until substantial consummation, the Debtors will be  
22 responsible for filing pre- and post-confirmation reports required by the United  
23 States Trustee and paying the quarterly post-confirmation fees of the United States  
24 Trustee, by check, pursuant to 28 U.S.C. § 1930, as amended. Pursuant to 11  
25 U.S.C. § 1129(a)(12), all fees payable under section 1930 of title 28, as determined  
26  
27  
28

1 by the Court at the hearing on confirmation of the Plan, will be paid, by cash or  
2 check, on the Effective Date.  
3

#### 4 **DISCLAIMER**

5 Court approval of this Disclosure Statement and the accompanying Plan of  
6 Reorganization, including exhibits, is not certification of the accuracy of the  
7 contents thereof. Furthermore, Court approval of these documents does not  
8 constitute the Court's opinion as to whether the Plan should be approved or  
9 disapproved nor rejected or accepted.  
10  
11

#### 12 **RISKS**

13  
14 The risk of the Plan lies essentially with Debtors' ability to maintain their  
15 salaries from their current employment and the continued timely payments on the  
16 Sotelo Note to make Plan payments. Debtors do not foresee any events which  
17 would negatively affect their ability to comply with all of the terms and conditions  
18 contained herein.  
19  
20

#### 21 **PROPONENTS RECOMMENDATION / ALTERNATIVES TO THE PLAN**

22  
23 The Debtors highly recommend that all creditors entitled to vote for the  
24 Plan do so. The alternatives to confirmation of the Plan would be either  
25 conversion of this case to a case under Chapter 7 of the Bankruptcy Code or its  
26 dismissal.  
27  
28

1 Conversion will result in the appointment of a Chapter 7 trustee and, most  
2 likely, the hiring of an attorney by the trustee. Expenses incurred in administering  
3 of the Chapter 7 case will take priority in the right to payment over allowed,  
4 administrative expenses incurred in the Chapter 11 case. Both Chapter 7 and  
5 Chapter 11 administrative expenses take priority over the payment of unsecured  
6 claims without priority. In other words, conversion would likely decrease the net  
7 amount available to pay currently existing creditors.  
8  
9  
10

11 In addition, conversion could substantially delay any distribution to  
12 creditors beyond the time period for distribution defined in the Plan. A Chapter 7  
13 trustee is not limited to specific deadlines for closing a case and distributing assets  
14 to creditors. It is not unusual for distribution in Chapter 7 cases to be delayed for  
15 years. Moreover, the return on the assets of the Estate a trustee is likely to obtain  
16 through a standard Chapter 7 liquidation could be less than the return the Plan will  
17 generate.  
18  
19  
20

21 Dismissal of this case would leave all creditors holding unsecured claims in  
22 the position of having to institute legal proceedings to collect their debts.  
23 Moreover, outside the context of a bankruptcy case, the first creditor to collect may  
24 collect all non-exempt property, leaving nothing to be paid to remaining creditors.  
25

26 In addition, dismissal of this case would open the door for the Debtors to  
27 file a new bankruptcy case, which could further delay or reduce funds available to  
28

1 pay creditors.

2 For all these reasons, the Debtors urge you to vote to accept the Plan and to  
3  
4 return your ballots in time to be counted.

5  
6 **DATED** this 5<sup>th</sup> day of October, 2016

7  
8 **CAMPBELL & COOMBS, P.C.**

9 By: /s/ Harold E. Campbell  
10 Harold E. Campbell  
11 *Attorneys for Debtors*

12 **LIST OF EXHIBITS**

- 13 **EXHIBIT A PROPOSED PLAN OF REORGANIZATION**
- 14 **EXHIBIT B LIST OF ASSETS (SCHEDULES A AND B)**
- 15
- 16 **EXHIBIT C LIST OF LIABILITIES (SCHEDULES D and F)**
- 17
- 18 **EXHIBIT D RECENT MONTHLY OPERATING REPORT**
- 19
- 20 **EXHIBIT E APPRAISAL FOR VIDAD & ASSOCIATES, INC.**
- 21
- 22 **EXHIBIT F DEBTORS' INCOME PROJECTIONS**
- 23
- 24 **EXHIBIT G LIQUIDATION ANALYSIS SPREADSHEET**
- 25 **EXHIBIT H MOCK FORM 122C**
- 26
- 27 **EXHIBIT I ANTICIPATED PAYMENTS TO UNSECURED CREDITORS**
- 28