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11 **IN THE UNITED STATES BANKRUPTCY COURT**  
12 **FOR THE DISTRICT OF ARIZONA**

13 In re:	In Chapter 11 Proceedings
14 ARIZONA ACADEMY OF SCIENCE 15 AND TECHNOLOGY, INC.,	Case No.: 2:16-bk-09573-SHG
16 Debtor.	<b>SECOND AMENDED DISCLOSURE 17 STATEMENT DATED APRIL 7, 2017</b>

18 I. INTRODUCTION TO DISCLOSURE STATEMENT

19 1.1 Purpose of This Disclosure Statement.

20 This Disclosure Statement has been conditionally approved by order of the Bankruptcy  
21 Court, dated \_\_\_\_\_, as containing information of a kind and in sufficient detail to  
22 enable a hypothetical reasonable investor typical of the holders of claims against or interests in  
23 the debtor to make an informed judgment about Debtor's Plan. The Court's approval of this  
24 Disclosure Statement, however, does not constitute a recommendation by the Bankruptcy  
25 Court either for or against the Plan. The purpose of this Disclosure Statement is to provide the  
26 holders of claims against Debtor with adequate information about Debtor and the Plan to make  
27 an informed judgment about the merits of approving the Plan.

1 1.2 Debtor's Plan.

2 **DEBTOR'S PLAN ACCOMPANIES THIS DISCLOSURE STATEMENT AS**  
3 **EXHIBIT A. THE READER IS URGED TO REVIEW DEBTOR'S PLAN**  
4 **CAREFULLY IN CONJUNCTION WITH THIS DISCLOSURE STATEMENT. IF**  
5 **THERE IS ANY CONFLICT BETWEEN THE PROVISIONS OF THIS**  
6 **DISCLOSURE STATEMENT AND THOSE OF DEBTOR'S PLAN, THE**  
7 **PROVISIONS OF THE PLAN SHALL CONTROL.**  
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10 1.3 The Voting Process and Deadline.

11 A ballot accompanies this Disclosure Statement for use in voting on Debtor's Plan. **To**  
12 **vote to accept or to reject the Plan, creditors and interest holders of Debtor in any of the**  
13 **impaired classes should indicate their acceptance or rejection of the Plan and otherwise**  
14 **complete the Ballot which pertains to the Plan.** See the "Summary of Plan" contained  
15 herein and the Classification and Treatment of Claims and Interests" contained in the copy of  
16 the Plan attached hereto to determine whether you are a member of an impaired class. **Any**  
17 **creditor or equity holder holding claims in more than one impaired class must file**  
18 **separate Ballots for each such class.** Additional Ballots may be obtained by written request  
19 to Debtor's lawyer, Pernell McGuire of Davis Miles McGuire Gardner, PLLC, 40 E. Rio  
20 Salado Pkwy., Suite 425, Tempe, AZ 85281. (480) 733-3748.  
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23

24 You are urged to fill in, date, sign, and promptly process your Ballot or Ballots. **Please**  
25 **be sure to properly complete the form and to legibly identify the name of the claimant or**  
26

1 **interest holder.** The holders of claims and interests may vote on the Plan by filling out and  
2 returning the accompanying Ballot for Accepting or Rejecting Debtor's Plan to:

3  
4 Davis Miles McGuire Gardner, PLLC  
5 Attn: Pernell McGuire  
6 40 E. Rio Salado Pkwy., Suite 425  
7 Tempe, AZ 85281

8 **SIGNED AND COMPLETED BALLOTS MUST BE RECEIVED AND FILED,**  
9 **NOT MERELY MAILED, ON OR BEFORE 4:00 P.M. ON MAY 22, 2017.** SINCE  
10 MAIL DELAYS MAY OCCUR, IT IS IMPORTANT THAT THE BALLOT OR BALLOTS  
11 BE MAILED OR DELIVERED WELL IN ADVANCE OF THE DATE SPECIFIED. ANY  
12 BALLOTS RECEIVED OR FILED AFTER THAT DATE MAY BE EXCLUDED FROM  
13 THE CALCULATION TO DETERMINE WHETHER THE CREDITORS AND INTEREST  
14 HOLDERS OF A PARTICULAR CLASS HAVE VOTED TO ACCEPT OR TO REJECT  
15 DEBTOR'S PLAN.

17 1.4 The Importance of Your Vote

18 As a creditor or interest holder your vote is important. The Plan can be confirmed by  
19 the Court if it is accepted by the holders of *two-thirds in amount* and more than *one-half in*  
20 *number* of claims in each impaired class of claims voting on the Plan, and if it is accepted by  
21 the holders of two-thirds in amount of interests in each impaired class of equity interests voting  
22 on the Plan. In the event the requisite acceptances are not obtained, the Court may  
23 nevertheless confirm the Plan if the Court finds that it accords fair and equitable treatment to  
24 the class or classes rejecting it.

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1.5 The Confirmation Process

After the votes are tallied, the Court will hold a hearing on the confirmation of the Plan and may enter a Confirmation Order if it finds that the requirements for confirmation have been met.

If the required acceptance of one or more impaired classes of claims or interests is not obtained, § 1129(b)(1) of the Bankruptcy Code nevertheless permits the Bankruptcy Court to confirm the Plan upon request of Debtor, if the Court finds that the Plan does not discriminate unfairly against and accords fair and equitable treatment to the impaired class or classes rejecting it and that the Plan otherwise meets the requirements for confirmation.

At the hearing on confirmation of the Plan, the Bankruptcy Court will hear any timely filed objections from a party in interest to confirmation of the Plan.

1.6 Confirmation Hearing

**The Bankruptcy Court has set May 30, 2017, at 1:30 o'clock pm for a hearing on confirmation of Debtor's Plan.**

1.7 Binding Effect of Plan

If the Court confirms the Plan, each creditor will be bound by the terms of and the treatment set forth in the Plan.

II. DEFINITIONS

2.1 Defined Terms. In addition to any terms defined elsewhere in the Disclosure Statement or Plan the following terms have the indicated meanings:

1            Allowed Claim. A claim that (i) is liquidated and has been scheduled as  
2            undisputed, or (ii) for which a proof of claim has been filed that has not been  
3            objected to or that has been objected to but has been allowed by the Court.

4            Allowed Interest. An interest that (i) has been scheduled as undisputed, or (ii)  
5            for which a proof in interest has been filed that has not been objected to or that  
6            has been objected to but has been allowed by the Court.

7            Bankruptcy Code. Title 11 of the United States Code.

8            Bankruptcy Court. The United State Bankruptcy Court for the District of  
9            Arizona.

10           Confirmation Date. The date on which the Court enters the Confirmation Order.

11           Confirmation Order. The order of the Court confirming the Plan.

12           Debtor. Arizona Academy of Science and Technology, Inc.

13           Distribution. The cash to be distributed under the Plan to the holder of Allowed  
14           Claims and Allowed Interests.

15           Disbursing Agent. Debtor, or any other entity designated by Debtor to act in  
16           such capacity.

17           Effective Date. The first business day following the date upon which the  
18           Confirmation Order has become final and non-appealable with no appeal then  
19           pending, except that Debtor will have the right to treat this date as having  
20           occurred under any circumstances which would moot any such appeal.

21           Excess Cash Flow. Ten percent of Debtor's monthly state equalization  
22           receivables less payments to Classes one through four.

23           Insider. Any person or entity defined as an insider in Section 101 of the  
24           Bankruptcy Code.

25           Plan. Debtor's Plan of Reorganization, together with any modifications thereto  
26           as may be filed by the proponent of the Plan.

1            Pro-Rata. Proportionately so that the ratio of the amount of consideration  
2 distributed on account of an Allowed Claim in a particular class to the amount of  
3 consideration distributed on all Allowed Claims in the same class, is the same as  
4 the ratio of the amount of that Allowed Claim to all Allowed Claims in the same  
5 class.

6            Reorganized Debtor. Debtor following confirmation, as reorganized by this  
7 Plan.

8            2.2    Undefined Terms. A term used but not defined herein, but that is defined in the  
9 Bankruptcy Code, has the meaning given to that term in the Bankruptcy Code.

10            III.    HISTORY AND EVENTS LEADING TO THE CHAPTER 11 FILING

11            3.1    Events Precipitating this Case.

12            Debtor is a K-8, Title I, Arizona charter school serving students from across greater  
13 Phoenix since 1998. Debtor's charter has been renewed and runs through 2033. Debtor is  
14 dedicated to inquiry-based and STEM (Science, Technology, Engineering, and Math)  
15 instruction, from robotics to the school's community garden.

16            Debtor fulfills a very specific need in our community. Over 70% of the students are at  
17 poverty levels as per free and reduced lunch with NSLP. The school has an 80% minority  
18 based population, many of whom are coming from single parent/single earner households.  
19 Debtor offers students a safe environment with small classroom sizes (often averaging fewer  
20 than 20 students per classroom), with instruction that targets student's individual learning  
21 needs. Debtor also provides enrichment programs, transportation, and meal free & reduced  
22 meal programs to include breakfast and lunch. As a small school, there is a focus on parent  
23 and family engagement to include family science, literacy, and math events and parent  
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1 volunteerism opportunities. Faculty, parents, guardians, and school stakeholders to include  
2 members of the community have been and are extraordinarily committed to ensuring that the  
3 school succeeds moving forward in continuing to educate an underserved population of  
4 students in greater Phoenix that deserve such an opportunity.  
5

6 In exchange for providing educational services to Arizona students, the Arizona State  
7 Treasurer (the "State") pays Debtor for those services, in accordance with Arizona state law.  
8 A.R.S. § 15-181 *et seq.* This is Debtor's primary and most-substantial source of funding.  
9 Several years prior to initiating this case, Debtor wanted to grow the school enrollment and  
10 pay for new recruiting and other programs. Debtor borrowed to fund those expansions.  
11 Ultimately, Debtor entered into certain loan agreements with various lenders at extremely  
12 high interest rates. The cost of this type of financing was exorbitant and put Debtor in a  
13 very difficult financial position. Due to this financing transaction, Debtor got itself into a  
14 downward spiral in which it always had to borrow against future receivables to pay current  
15 operating expenses.  
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19 Debtor filed this case to reorganize its liabilities so that it can continue to operate and  
20 offer very deserving students a high-quality education.  
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### 22 3.2 Actions Taken by Debtor Post-Petition.

23 Debtor continues to operate a charter school. Debtor is actively looking for a new  
24 location as its current lease has expired and the landlord does not wish to extend the lease past  
25 the 2016-2017 school year. Debtor is also actively recruiting new students. The proposed plan  
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1 of reorganization will pay claims from state receivables that Debtor receives through operation  
2 of its charter school.

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4 3.3 Litigation.

5 Debtor is not currently subject to any litigation. Debtor intends to initiate an adversary  
6 proceeding against Charter Asset Management ("CAM") to recover certain preferential  
7 transfers of funds totaling \$131,393.84.

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9 3.4 Retention of Professionals.

10 Debtor has applied to the Court for approval of the employment of the following  
11 professionals:

12  
13 Davis Miles McGuire Gardner, PLLC (the "Firm") has applied to act as the attorney for  
14 the estate. An order approving the Firm's employment beginning on August 18, 2016 was  
15 entered by the Court on August 19, 2016.

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17 IV. FINANCIAL INFORMATION

18 4.1 Assets.

19 Debtor owns no real property. Debtor has personal property, consisting primarily of  
20 school equipment and supplies. Debtor's property is listed in Schedules A/B of its Schedules, a  
21 copy of which is attached hereto as **Exhibit "B."** The values listed on Schedules A/B are  
22 based on Debtor's opinion and Debtor has not obtained an appraisal of the personal property.  
23 Debtor will cooperate with any creditor seeking to appraise the personal property and verify its  
24 liquidation value.  
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1           4.2    Claims.

2           Claims against Debtor are set forth in Schedules D, E, and F to Debtor's Schedules a  
3 copy of which is attached as **Exhibit "C."** Debtor provides the following summary of the  
4 estimated balances of all allowed claims in this case:  
5

6                   4.2.1   *Secured Claims.*

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<u>Creditor Name</u>	<u>Amount of Claim</u>	<u>Security Interest</u>
Internal Revenue Service	\$5,362.35	All of Debtor's property in accordance with the recorded tax lien

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11           CAM asserts that it has a secured claim in all of Debtor's fixtures, personal property,  
12 and accounts (including post-petition accounts) based on its security agreement and UCC  
13 financing statement dated March 7, 2016, both of which are attached to Proof of Claim No.  
14 6, and any additional agreements and filed UCC Financing Statements that are attached to  
15 any amended claims filed by CAM. Even if CAM has a valid, perfected secured interest in  
16 the above-described collateral, its interest is clearly subordinate to the secured claim of the  
17 IRS. Debtor further asserts that CAM's security interest does not extend to any post-  
18 petition accounts, pursuant to 11 U.S.C. § 552, but CAM disputes this position and asserts  
19 that it does have an interest in post-petition accounts. Based on those two facts, it is  
20 Debtor's position that CAM is wholly unsecured and is, therefore, classified as such by  
21 Debtor in its plan. However, CAM disputes such classification and will likely assert in any  
22 plan confirmation hearing that it is entitled to a secured claim.  
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1                   4.2.2 *Priority Unsecured Claims.* Debtor owes prepetition priority FICA  
 2 taxes to the IRS for 2014 through 2016 totaling \$70,827.39. Debtor also owes prepetition  
 3 priority withholding taxes for 2015 and 2016 to the Arizona Department of Revenue in the  
 4 amount of \$3,568.14.  
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6                   4.2.3 *General Unsecured Claims.*

<b>Creditor Name</b>	<b>Amount of Allowed Claim</b>
ADOR	\$65.72
Eileen Smith	\$450.00
Kelcka Wilkins & Kelcka	\$500.00
Charter Athletic Association	\$1,000.00
East 2 West Promotions	\$1,014.99
Cox Communications	\$1,111.69
Big Apple Speech	\$1,375.64
Learning Dynamics, LLC	\$1,432.50
Screen Vision	\$2,000.00
Teachers on Call	\$2,056.05
National Cinemedia	\$2,575.00
Subs Any Time	\$2,871.48
Primeview	\$2,997.00
Craig Anderson	\$3,093.35
Vex Robotics	\$3,500.00
Ferrini Education, LLC	\$4,065.00
Smart Toro Consulting	\$6,014.99
Everbank	\$8,995.58
David Seay	\$9,800.00
Robert Patillo	\$18,000.00
L&M Food Management Service	\$22,594.77
Brian Weatherly	\$30,902.61
CAN/New Logic	\$46,548.04
Craig Anderson	\$51,601.47
Strategic Funding	\$52,653.59
IRS	\$54,181.46
Martin Jackolat	\$57,637.50
Bruce Weinstein	\$126,273.33

<b>Creditor Name</b>	<b>Amount of Allowed Claim</b>
ELA Cleveland, LC	\$163,500.00
Central United Methodist Church	\$166,500.00
Charter Asset Management	\$180,605.35
Christina Nguyen	\$220,776.79
Insider claim (Grant Creech)	\$26,596.00
<b>Grand Total</b>	<b>\$1,273,289.90</b>

4.3 Disclaimer as to Amount of Claims.

**FOR PURPOSES OF PLAN COMPUTATION, ALL OBLIGATIONS OF THE VARIOUS CREDITORS LISTED IN THE SCHEDULES AND IN THIS DISCLOSURE STATEMENT AND PLAN SHOULD BE CONSIDERED AS ESTIMATES ONLY AND ALL CLAIMS ARE CONSIDERED DISPUTED AS TO THE AMOUNT UNLESS SUPPORTED BY A TIMELY FILED PROOF OF CLAIM (AND IF OBJECTION THERETO IS FILED BY DEBTOR FOLLOWING RESOLUTION BY THE BANKRUPTCY COURT AS TO AMOUNT OF THE CLAIM), OR IF THE CLAIM HAS BEEN SCHEDULED AS UNDISPUTED, FIXED, AND LIQUIDATED. ALL CREDITORS' CLAIMS NOT SUPPORTED BY TIMELY FILED PROOF OF CLAIM OR SCHEDULED AS UNDISPUTED, FIXED, AND LIQUIDATED, MAY BE EXCLUDED FROM PLAN COMPUTATIONS AND DISTRIBUTIONS UNDER THE PLAN OR AT DEBTOR'S OPTION, INCLUDED AT THE AMOUNTS OR VALUES LISTED HEREIN.**

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1 V. SUMMARY OF PLAN

2 The following description of the plan is for informational purposes only and does not  
3 purport to change or supersede any of the specific contractual language of the plan. THE  
4 PLAN IS CONTROLLING IN THE EVENT OF ANY INCONSISTENCY BETWEEN THE  
5 CONTENTS OF THE PLAN AND THE CONTENTS OF THIS DISCLOSURE  
6 STATEMENT.  
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9 5.1 Classification of Claims

10 The plan divides Claims against Debtor into classes which Debtor believes are in  
11 compliance with the Bankruptcy Code. Their classification and treatment are as follows:

12 5.1.1 Class 1: Administrative Claims. Class 1 claims will consist of all claims  
13 which are allowed claims pursuant to Bankruptcy Code §§ 503(b) and 507(a)(1), including,  
14 without limitation, the Allowed Claims of Debtor's professionals, any other professionals  
15 approved by the Court, any quarterly fees payable to the United States Trustee, and other  
16 claims of creditors holding Administrative Claims, including taxes. There is also a \$6,000.00  
17 administrative claim currently due to Debtor's landlord, Central United Methodist Church.  
18

19 5.1.2 Class 2: Secured Claim. Class 2 consists of the Allowed Secured Claim  
20 of the Internal Revenue Service, secured by an interest in all of Debtor's property.  
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22 5.1.3 Class 3: Priority Claim. Class 3 consists of the Allowed Priority Claim of  
23 the Internal Revenue Service for pre-petition FICA taxes.  
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1                   5.1.4 Class 4: Priority Claim. Class 4 consists of the Allowed Priority Claim of  
2 the Arizona Department of Revenue for pre-petition employment taxes.

3                   5.1.5 Class 5: Unsecured Claims. Class 5 consists of the Allowed Unsecured  
4 Claims for amounts less than \$5,000.00. The following represents the general unsecured  
5 creditors included in Class 5 and the amounts of their claim:  
6

<b>Creditor Name</b>	<b>Amount of Allowed Claim</b>
ADOR	\$65.72
Eileen Smith	\$450.00
Kelcka Wilkins & Kelcka	\$500.00
Charter Athletic Association	\$1,000.00
East 2 West Promotions	\$1,014.99
Cox Communications	\$1,111.69
Big Apple Speech	\$1,375.64
Learning Dynamics, LLC	\$1,432.50
Screen Vision	\$2,000.00
Teachers on Call	\$2,056.05
National Cinemedia	\$2,575.00
Subs Any Time	\$2,871.48
Primeview	\$2,997.00
Craig Anderson	\$3,093.35
Vex Robotics	\$3,500.00
Ferrini Education, LLC	\$4,065.00
<b>Total</b>	<b>\$30,108.42</b>

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20                   5.1.6 Class 6: Unsecured Claims. Class 6 consists of the Allowed Unsecured  
21 Claims for amounts greater than \$5,000.00. The following represents the general unsecured  
22 creditors included in Class 6 and the amounts of their claim:  
23

<b>Creditor Name</b>	<b>Amount of Allowed Claim</b>
Smart Toro Consulting	\$6,014.99
Everbank	\$8,995.58
David Seay	\$9,800.00
Robert Patillo	\$18,000.00

<b>Creditor Name</b>	<b>Amount of Allowed Claim</b>
L&M Food Management Service	\$22,594.77
Brian Weatherly	\$30,902.61
CAN/New Logic	\$46,548.04
Craig Anderson	\$51,601.47
Strategic Funding	\$52,653.59
IRS	\$54,181.46
Martin Jackolat	\$57,637.50
Bruce Weinstein	\$126,273.33
ELA Cleveland, LC	\$163,500.00
Central United Methodist Church	\$166,500.00
Charter Asset Management	\$180,605.35
Christina Nguyen	\$220,776.79
<b>Total</b>	<b>\$1,216,585.48</b>

5.1.7 Class 7: Insider General Unsecured Claim. Class 7 consists of the general unsecured claim of Grant Creech for a total of \$26,596.00. Because Mr. Creech is on the board of directors for Debtor, his claim is separately classified.

5.1.8 Impaired Classes. Classes 3, 5, 6, and 7 are impaired.

5.1.9 Option to Change Classification. Pursuant to 11 U.S.C. § 1123(a)(4), general unsecured creditors that are part of Class 6 have the right to discount their claim to an amount of \$5,000.00 or less and be included in Class 5 for purposes of plan treatment. A creditor must make this election prior to the final plan confirmation hearing and, by doing so, will waive any right to additional payment in excess of \$5,000.00 on account of such unsecured claim or to receive the proposed treatment that is provided to creditors as part of Class 6. Any such election made by a Class 6 creditor shall be filed with the Bankruptcy Court, with notice being provided to Debtor's counsel.

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1           5.2    Operation of Plan and Treatment of Classes.

2           Debtor intends pay the Class 1 claims on the Effective Date; pay the Allowed Secured  
3 Claims over time as set forth below; pay the Allowed Priority Claims consistently with 11  
4 U.S.C. §1129(a)(9)(C)(ii); and pay the general unsecured creditors an amount sufficient to  
5 meet the best interest of creditors test.  
6

7                       5.2.1   Treatment of Class 1

8           This Class consists of allowed Administrative Claims under §§ 503(b) and 507(a)(2)  
9 related to the Debtor. The Allowed Claims of Class 1 shall be paid in full, in cash, by the  
10 earlier of the Effective Date or the date that such are allowed and ordered paid by the Court.  
11 Pending Court approval, Debtor shall set aside enough funds to pay all administrative claims  
12 until Court approval is obtained. Monthly administrative expense payments shall be made  
13 before distributions to other classes due on a monthly basis.  
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16           Currently, Debtor owes approximately \$43,000.00 to the law firm of Davis Miles  
17 McGuire Gardner, PLLC (the “Firm”). The Firm holds no funds in its trust account on behalf  
18 of Debtor. Debtor anticipates incurring another \$50,000.00 in attorneys’ fees through plan  
19 confirmation and litigation of the adversary proceeding with CAM. The Firm has agreed to  
20 receipt of regular monthly payments of \$1,500.00 per month, beginning the first of the month  
21 following the effective date of the plan until the fees are paid in full. If Debtor recovers any  
22 funds on its preference action against CAM, the Firm shall be paid in full from those funds  
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1 before funds are distributed to any other claim, except Central United Methodist Church  
2 (“CUMC”).

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4 Debtor also owes its landlord, CUMC, an administrative claim of \$6,000.00. That  
5 amount is subject to change pursuant to the March 3, 2017 Stipulation of the parties (docket  
6 no. 95) approved by Court Order on March 21, 2017 (docket no. 107). CUMC has agreed to  
7 be paid the total amount of its administrative claim in six (6) equal monthly payments,  
8 estimated at this time to be \$1,000.00 per month, beginning on the fifteenth of the month  
9 following the effective date of the plan until the fees are paid in full. If Debtor recovers any  
10 funds on its preference action against CAM, CUMC shall be paid from those funds *pro rata*  
11 with the Firm until both are paid in full. Payment from a CAM recovery will not diminish or  
12 delay monthly payments if the amount is insufficient to pay CUMC in full. Debtor reserves  
13 the right to object to any additional administrative claim CUMC may assert in the future.  
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#### 16 5.2.2 Treatment of Class 2

17  
18 Debtor proposes to pay the Class 2 claim holder, the Internal Revenue Service  
19 (“IRS”), the full amount of its secured claim, \$5,362.35, in 48 equal monthly payments of  
20 \$121.08, with interest at four percent (4%) per annum, beginning the 15<sup>th</sup> of the first full month  
21 after the Effective Date of the Plan and continuing on the 15<sup>th</sup> of every month thereafter until  
22 paid in full.  
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1                                   5.2.3 Treatment of Class 3

2                   Debtor proposes to pay the Class 3 claim holder, the IRS, the full amount of its priority  
3 claim, \$70,827.39, in 96 equal monthly payments of \$863.33, with interest at four percent  
4 (4%) per annum, beginning the 15<sup>th</sup> of the first full month after the Effective Date of the Plan  
5 and continuing on the 15<sup>th</sup> of every month thereafter until paid in full. If, however, Debtor  
6 recovers funds from CAM on account of the adversary proceeding and after payment in full of  
7 all administrative claims, Debtor will pay the remaining balance due the IRS in full, within 60  
8 days of receipt of any funds recovered in that action not used to pay the Firm and CUMC.  
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11                                   5.2.4 Treatment of Class 4

12                   Debtor proposes to pay the Class 4 claim holder, the Arizona Department of Revenue  
13 (“ADOR”), the full amount of its priority claim, \$3,568.14, in 48 equal monthly payments of  
14 \$80.57 with interest at four percent (4%) per annum, beginning the 15<sup>th</sup> of the first full month  
15 after the Effective Date of the Plan and continuing on the 15<sup>th</sup> of every month thereafter until  
16 paid in full.  
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19                                   5.2.5 Treatment of Class 5

20                   Class 5 consists of the Allowed Unsecured Claims of Creditors in an amount less than  
21 \$5,000.00. Class 5 creditors shall be paid a *pro rata* share from the Debtors' Excess Cash  
22 Flow, as calculated in Article VI below, on a quarterly basis for the four fiscal quarters of  
23 Debtor’s plan, beginning the first fiscal quarter after the Effective Date of this Plan.  
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25 Additionally, if Debtor recovers funds from CAM on account of the adversary proceeding and  
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1 after payment in full of all administrative claims and the IRS Class 3 claim, Debtor will pay  
2 any remaining funds to the Class 5 claim holders *pro rata*, within 60 days of receipt of any  
3 funds recovered in that action. If claims are paid in full, payment to this class shall cease  
4 immediately.  
5

#### 6                   5.2.6 Treatment of Class 6

7                   Class 6 consists of the Allowed Unsecured Claims of Creditors in an amount greater  
8 than \$5,000.00. Class 6 creditors shall be paid a *pro rata* share from the Debtors' Excess Cash  
9 Flow, as calculated in Article VI below, on a quarterly basis for a four year period, beginning  
10 the first fiscal quarter after payment to Class 5 is completed. Additionally, if Debtor recovers  
11 funds from CAM on account of the adversary proceeding and after payment in full of all  
12 administrative claims, IRS Class 3 claim, and Class 5 claims, Debtor will pay any remaining  
13 funds to the Class 6 claim holders *pro rata*, within 60 days of receipt of any funds recovered in  
14 that action. If claims are paid in full, payment to this class shall cease immediately.  
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#### 18                   5.2.7 Treatment of Class 7

19                   Class 7 consists of the unsecured claim of Grant Creech. Debtor shall not make any  
20 distribution to Grant Creech on account of his general unsecured claim unless all other  
21 claims are paid in full.  
22

23                   5.3       The holder of any claim to which an objection has been made prior to or on  
24 the date on which the first payment to the holder of such a claim is made, shall not be  
25 entitled to receive any distribution otherwise attributable to that claim until the objection has  
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1 been resolved by order of the Court. Any distribution which would otherwise accrue to the  
2 benefit of the holder of an Allowed Claim prior to resolution of an objection shall be held  
3 by Debtor in a segregated account and upon resolution of the objection either paid to the  
4 claimholder or returned to the estate, as appropriate, in light of the Court's resolution of the  
5 objection. In the event a claim is reduced voluntarily by the claim holder or by ruling of the  
6 Court following objection by the Debtor or any other party in interest or conditioned upon  
7 any objection being deemed settled, Debtor may, at its option, continue to make payments  
8 in the monthly amounts specified in this Disclosure Statement and the Plan of  
9 Reorganization until the reduced claim holder has received all amounts to which it is  
10 entitled, or alternatively, reduce the monthly amount payable on behalf of the reduced claim  
11 (and all claims of the same class) so that the claims are paid within the time specified in the  
12 Disclosure Statement and Plan of Reorganization. This option to decrease the monthly  
13 payment but pay for the full term specified in the Plan or maintain the monthly payment and  
14 reduce the term over which such payments must be paid, shall be within in the sole  
15 discretion of Debtor and the exercise of its reasonable business judgment.

20           5.4 All undisputed taxes generated by any step of the operation of this Plan, or  
21 accruing during the operation of this Plan, will be considered administrative expenses to be  
22 satisfied as they accrue.  
23

24           **DEBTOR BELIEVES THAT THE PLAN DESCRIBED HEREIN PROVIDES**  
25 **THE GREATEST AND EARLIEST POSSIBLE RECOVERIES TO CREDITORS.**  
26

1 **DEBTOR THEREFORE BELIEVES THAT ACCEPTANCE OF THE PLAN IS IN**  
2 **THE BEST INTEREST OF EACH AND EVERY CLASS OF CREDITOR AND**  
3 **INTEREST HOLDER, AND RECOMMENDS THAT EACH CLASS VOTE TO**  
4 **ACCEPT THE PLAN.**

6 VI. IMPLEMENTATION OF THE PLAN

7 6.1 Introduction.

8  
9 Debtor's plan of reorganization is structured to allow for the greatest likelihood that its  
10 creditors receive a maximum repayment over the course of the plan. The repayment to  
11 creditors is based on a percentage basis of Debtor's equalization from the state, which in turn is  
12 based on student enrollment. Therefore, as the school's enrollment increases, so do Debtor's  
13 payments to its creditors.  
14

15 In setting out projections for the plan detailed below, Debtor projected enrollment and  
16 income are, in its opinion, conservatively reasonable, but far from what is possible. Under  
17 Debtor's current charter, Debtor is allowed to have up to 450 students. Whereas that number  
18 is not reflected in the projections below, Debtor will pursue student enrollment growth  
19 with diligence, enthusiasm, and a pulse on maximizing growth while not compromising the  
20 quality of the educational environment. Debtor intends the projections to serve as a useful  
21 outline in estimating payments and creating a baseline expectation for its creditors. Debtor's  
22 plan, however, mandates payment on a percentage basis as an element of hopeful expectation  
23 that repayment can certainly exceed the projections provided herein.  
24  
25  
26

1           6.2    Projection of Operation. Debtor continues to be engaged in the business of  
2 operating a charter school. Attached hereto as **Exhibit "D"** is Debtor's 2016 year end  
3 financial statements. As stated before, Debtor's income is almost entirely dependent upon the  
4 number of students that attend the school. Prior to filing bankruptcy, Debtor had  
5 approximately 80 students enrolled. Upon filing bankruptcy, many of Debtor's students  
6 became aware of the bankruptcy case and, as a result, Debtor lost nearly half of its enrolled  
7 students. Debtor's 100<sup>th</sup> day student count was 46 students.  
8

9  
10           Debtor anticipates that, if it successfully reorganizes, its student count will rebound to at  
11 least 75 students beginning August 2017. Based on that assumption, Debtor has drafted  
12 projections showing anticipated student counts and resulting income, which is attached hereto  
13 as **Exhibit "E."** Debtor anticipates that it can afford to contribute ten percent (10%) of its  
14 annual anticipate state equalization income to the Plan. Debtor also anticipates that student  
15 counts will continue to increase over the next five years. Thus, the projections list the  
16 anticipated student count, the anticipated total income for state equalization payments, and the  
17 anticipated 10% that would be set aside for payment of claims in this case.  
18

19  
20           As for Debtor's expenses moving forward, certain expenses will coordinate with the  
21 number of students in attendance. Thus, as student enrollment increases, state funds will  
22 increase, and student-related costs will increase correspondingly. Other fixed costs, such as  
23 rent, are difficult to project because Debtor anticipates relocating the school operations after  
24 the end of this school year. That said, Debtor anticipates that its rent and other fixed expenses,  
25  
26  
27  
28

1 like bookkeeping and audit costs, will be similar to those expenses in prior years. Thus,  
2 creditors can refer to the financial statements attached hereto as Exhibit "D" to examine  
3 Debtor's historical expenses for a better understanding of what future expenses for Debtor may  
4 be. Based on Debtor's historical expenses, Debtor believes that it should have sufficient funds,  
5 after payment of all expenses, to dedicate 10% of its income to the payment of claims under  
6 this Plan.  
7

8  
9 A summary of the plan and proposed payments under the plan is attached hereto as  
10 **Exhibit "F"** and an estimate of the amounts to be distributed to each general unsecured  
11 creditor is attached hereto as **Exhibit "G."** As shown on Exhibit E, Debtor's Excess Cash  
12 Flow can be calculated as follows: (1) ten percent of Debtor's state receivables, (2) less the  
13 monthly payments to Classes 1 through 4. Debtor will set aside the Excess Cash Flow each  
14 month and then distribute it on a quarterly basis to Classes 5 and 6.  
15

16  
17 6.3 Assumptions. In addition to the economic assumptions set forth in the  
18 projections attached as Exhibits to the Disclosure Statements, there are a number of other  
19 assumptions upon which this Plan is based:

20  
21 6.3.1 State Funding. It is assumed that the state of Arizona will continue to  
22 fund charter schools on a similar basis as it has done so in the past.

23  
24 6.3.2 Enrollment. It is assumed that Debtor's student enrollment will continue  
25 to grow.  
26  
27  
28

1           6.3.3 Location. It is assumed that Debtor will be able to find a suitable location  
2 to continue school operations by August 2017 with rental not materially greater than the rent  
3 charged by CUMC.  
4

5           6.3.4 Preference Action Against CAM. It is assumed that Debtor will obtain  
6 some recovery from CAM on Debtor's preference action. The funding of the Plan is based, in  
7 part, on the Debtor prevailing in its litigation with CAM, and if the Debtor is unsuccessful, it  
8 would decrease the amount paid to Classes 5 and 6, and possibly impact the feasibility of the  
9 Plan.  
10

11           6.4 Risk Factors. Just as in any business, the business in which Debtor is engaged  
12 involves certain risks, including the following:  
13

14           6.4.1 Competition. There can be no assurance that new competition will not  
15 enter the market, with the effect of decreasing the profit margins and/or amount of new  
16 business.  
17

18           6.4.2 State Law. There can be no assurance that state laws will not impact the  
19 ability of Debtor to continue operating or decrease its income.  
20

## 21 VII. LIQUIDATION ANALYSIS

22           In order to arrive at a judgment on whether or not to vote for or against the Plan, a  
23 creditor or other party in interest needs to have an understanding of the consequences that  
24 would be realized if Debtor's estate were liquidated pursuant to Chapter 7 of the Bankruptcy  
25 Code.  
26

1 In the instant case, it is anticipated if Debtor's estate was liquidated and the assets sold  
 2 pursuant to a Chapter 7 liquidation, there would be little to no distribution to general unsecured  
 3 creditors. Specifically, while Schedule A/B reflects a \$24,000.00 security deposit held by  
 4 Debtor's landlord, it was applied prepetition by the landlord to the outstanding balance due to  
 5 the landlord. Therefore, Debtor has assets totaling only \$5,362.35, which could be liquidated  
 6 to pay claims. Such assets would likely have little to no liquidation value. Any value would  
 7 be applied to the secured claim owed to the IRS.  
 8  
 9

10 The only other asset of value in a Chapter 7 case would be Debtor's preference claim  
 11 against CAM. Debtor believes its preference claim is worth \$131,393.84. In both Chapter 7  
 12 and under this Plan, any recovery on the preference claim would be distributed to first pay  
 13 administrative claims, then the priority tax debt, and then, finally, to general unsecured  
 14 creditors. However, under the Plan, general unsecured creditors would also receive  
 15 approximately another \$378,000.00 towards payment of their claims, in addition to any  
 16 recover through the preference action.  
 17  
 18

<u>Comparison of Percentage Recovery</u>	<u>Chapter 7</u>	<u>Chapter 11</u>
Class 1 Administrative Fees		
\$9,819.69 (Chapter 7 Trustee Fees)	100%	n/a
\$93,000.00 (Approx. attorney's fees) <sup>1</sup>		
and \$6,000 to landlord CUMC	100%	100%

23 /// /// ///

25 \_\_\_\_\_  
 26 <sup>1</sup> As set forth above, Debtor currently owes approximately \$43,000.00 and anticipates  
 27 incurring another \$50,000.00 in fees through plan confirmation, for a grand total of  
 28 \$93,000.00.



	<u>Chapter 7</u>	<u>Chapter 11</u>
1		
2	Class 2 (IRS- secured)	100%
3		100%
4	Class 3 (IRS- priority tax)	100%
5		100%
6	Class 4 (ADOR- priority tax)	100%
7		100%
8	Class 5 (general unsecured creditors)	2%
9		100%
10	Class 6 (general unsecured creditors)	2%
11		35.82%
12	Class 7 (insider)	0%
13		0%

10 The liquidation analysis assumes Chapter 7 trustee's fees based upon the fees  
11 recoverable under 11 U.S.C. § 326. The liquidation analysis further assumes chapter 11  
12 attorneys' fees incurred throughout the case would be paid from the chapter 7 estate.

13  
14 Importantly, a Chapter 7 Trustee would incur significant legal costs in pursuing the preference  
15 action against CAM. Also, the liquidation analysis assumes that Debtor would fully recover  
16 from CAM the entire value of its preference action in both the chapter 7 and chapter 11  
17 contexts. If a chapter 7 trustee would settle with CAM for less than the reorganized debtor is  
18 inclined to do, then priority tax claims might not be paid in full in a chapter 7. Finally, the  
19 claims for each creditor are estimates provided by Debtor. Certain of the secured and  
20 unsecured claims may be disputed. The general unsecured creditors would receive  
21 approximately \$25,000.00 (or 2% of their claims) in a Chapter 7 liquidation (assuming a  
22 complete recovery in the CAM litigation), while the Plan proposes to pay general unsecured  
23 creditors approximately \$449,000.00. Because plan payments are based on a percentage of  
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1 Debtor's income, if Debtor is more successful than projected, general unsecured creditors will  
2 benefit.

3  
4 VIII. COMPLIANCE WITH BANKRUPTCY CODE.

5 In order to confirm the Plan, the Bankruptcy Court must make a series of  
6 determinations concerning the Plan, including those set forth, *infra*. Debtor believes that each  
7 of these conditions has been met and will seek rulings of the Bankruptcy Court to this effect at  
8 the confirmation hearing.

9  
10 In addition, the Bankruptcy Code also requires that the Plan be accepted by requisite  
11 votes of holders of claims and interest. If any member of an impaired class does not accept the  
12 Plan, the Bankruptcy Court must find that confirmation of the Plan is in the "best interests" of  
13 such entities.

14  
15 8.1 Classification of Claims and Interest. The Bankruptcy Code requires that a plan  
16 of reorganization place each creditor's claim and each holder of an interest in a class with other  
17 claims or interest that are "substantially similar." Debtor believes that the Plan's classification  
18 system meets the Bankruptcy Code standard.

19  
20 8.2 Section 1111(b) Election. Section 1111(b) of the Bankruptcy Code provides  
21 that, as a general rule, a secured claim is to be accorded a treatment in the Chapter 11 Plan that  
22 is the same as would be received if it were a recourse claim, regardless of whether or not the  
23 claim is non-recourse by agreement or applicable law. Section 1111 also provides an  
24 opportunity for a partially secured creditor whose claim is treated by the proposed Plan of  
25  
26

1 Reorganization as partially secured and partially unsecured to acquiesce in such bifurcation of  
2 their claim or, alternatively, to elect to treat the claim as fully secured. There is no creditor that  
3 is partially secured in this case.  
4

5 8.3 Technical Requirements. To be confirmed, the contents of a plan must comply  
6 with the technical requirements of Chapter 11 of the Bankruptcy Code, which Debtor believes  
7 has been done.  
8

9 8.4 Good Faith. To be confirmed the Bankruptcy Court must find that Debtor has  
10 proposed the Plan in good faith. In this case, that requirement is met because the Plan  
11 contemplates a bona fide reorganization in which the creditors will be paid more than what  
12 would be received through conversion to a Chapter 7 proceeding.  
13

14 8.5 Disclosure. The Bankruptcy Court must find that Debtor's disclosures  
15 concerning the Plan have been adequate and have included information concerning all  
16 payments made or promised in connection with the Plan and the bankruptcy case, as well as  
17 the identity, affiliations, and compensation to be paid to all officers, directors, and other  
18 insiders. Debtor believes that that requirement has been met by this Disclosure Statement.  
19

20 8.6 Feasibility. The Plan may not be confirmed if the Bankruptcy Court finds that  
21 confirmation is likely to be followed by the liquidation of the Reorganized Debtor or the need  
22 for further financial reorganization. Debtor believes that it will be able to perform its  
23 obligations under the Plan and that no further proceedings will be required as the Plan  
24 proposed will result in the liquidation of all of Debtor's assets.  
25  
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28

1           8.7    Best Interests. Notwithstanding acceptance of the Plan by creditors and interest  
2 holders impaired under the Plan, if a claimant or interest holder does not accept the Plan, then  
3 the Bankruptcy Court must independently determine that the Plan is in the best interests of that  
4 claimant's or interest holder's class. To meet that test, the Bankruptcy Court must determine  
5 that each claim or interest in the impaired class will receive under the Plan, as of the Effective  
6 Date, property of a value at least equal to the value that each such holder would receive if  
7 Debtor were liquidated under Chapter 7 of the Bankruptcy Code. A liquidation analysis is  
8 contained in Section VII of this Plan, from which it can be seen that the foregoing condition is  
9 met.

10  
11  
12  
13   IX.    TAX CONSEQUENCES OF PLAN

14           **CLAIMANTS ARE ADVISED TO CONSULT WITH THEIR TAX ADVISORS**  
15 **CONCERNING THE INDIVIDUAL TAX CONSEQUENCES OF THE**  
16 **TRANSACTIONS CONTEMPLATED IN THIS PLAN, INCLUDING STATE AND**  
17 **LOCAL TAX CONSEQUENCES.**

18  
19   X.    VOTING/CONFIRMATION/ALTERNATIVES

20           10.1   Voting. A creditor may vote either to accept the Plan or to reject the Plan. Only  
21 the votes of impaired classes will be counted in connection with confirmation of the Plan,  
22 because classes of claims and interests which are not impaired are deemed to have accepted the  
23 Plan. In determining acceptance of the Plan, votes will be counted only if submitted by a party  
24 with an Allowed claim or an Allowed Interest, and the ballot for voting on the Plan does not  
25  
26

1 constitute a proof of claim for this purpose. A claim to which an objection has been filed is not  
2 an Allowed Claim unless and until the Bankruptcy Court has ruled on the objection, and,  
3 although holders of disputed claims will receive ballots, those votes will not be counted unless  
4 the Bankruptcy Court temporarily allows such claim for purposes of voting on the Plan.  
5

6 10.2 Confirmation. In order for the Plan to be approved, it must either (i) be accepted  
7 by at least two-third in amount and more than one-half in number of the creditors of each  
8 impaired class, or (ii) be approved by the Court as being in the best interest of all parties in  
9 spite of failure to receive the required votes of creditors in any particular class (*i.e.* "cram-  
10 down").  
11

12 The Bankruptcy Code defines acceptance of a plan by a class of claims as acceptance  
13 by holders of two-thirds in dollar amount and a majority in number of claims of that class,  
14 counting only those members of the class who actually vote. The Bankruptcy Code defines  
15 acceptance of a plan by a class of interests (equity securities) as acceptance by two-thirds of  
16 the number of shares, counting only those shares actually voted.  
17  
18

19 Classes of claims and interests that are unimpaired under the Plan are conclusively  
20 deemed to have accepted the Plan. A class of creditors or interest holders is unimpaired if the  
21 Plan (i) does not alter the legal, equitable, or contractual rights between the debtor and the  
22 creditor or interest holder (with the exception of reinstating the claim by curing any defaults),  
23 or (ii) pays the claimant the full amount of the claim or interest by cash payment on the  
24 Effective Date. Classes of claims and interests that receive no distribution under the Plan are  
25  
26  
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28

1 deemed to have rejected the Plan. Consequently, ballots are being sent only to those classes  
2 which are impaired but are to receive a distribution under the Plan.

3  
4 The Plan may be confirmed by the Bankruptcy court even if it is not accepted by all  
5 classes of impaired claim, as long as at least one impaired class of claims has accepted.

6 10.3 Alternative To Confirmation. In the event this Plan is not confirmed, the  
7 Chapter 11 proceeding can be (i) continued for the submission of other plans, (ii) converted to  
8 Chapter 7, or (iii) dismissed. In the event the Plan is not confirmed through acceptance of the  
9 claimholders, it is Debtor's intention to seek confirmation through cram-down.  
10

11 XI. INFORMATION/REPRESENTATIONS

12 11.1 Source of Information. Unless otherwise stated, all of the information contained  
13 herein is based on information supplied by Debtor or its agents, and no representations  
14 concerning Debtor are authorized by Debtor other than as set forth in this Disclosure  
15 Statement.  
16

17 11.2 Conflicts. To the extent any information set forth in this Disclosure Statement  
18 conflicts with any information set forth in Debtor's schedules or statement of financial affairs,  
19 this Disclosure Statement will govern and will, to the extent necessary, constitute an  
20 amendment to the affected schedules or statement of financial affairs.  
21

22 11.3 Unauthorized Representations. Any representations or inducements made to  
23 secure acceptance other than as contained in this Disclosure Statement should not be relied  
24 upon arriving at a decision, and such representations and inducements should be reported to  
25  
26

1 counsel for Debtor, who, in turn, shall deliver such information to the Court for appropriate  
2 action.

3 11.4 Disclaimer.

4  
5 **NO REPRESENTATIONS CONCERNING DEBTOR OR THE PLAN ARE**  
6 **AUTHORIZED OTHER THAN AS SET FORTH HEREIN. YOU SHOULD NOT**  
7 **RELY ON ANY REPRESENTATIONS OR INDUCEMENTS TO ACCEPT THE**  
8 **PLAN OTHER THAN THOSE CONTAINED HEREIN.**

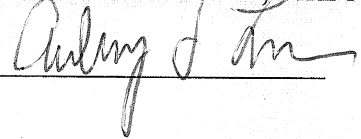
9  
10 **AN ACCOUNTANT HAS NOT REVIEWED OR APPROVED THE**  
11 **INFORMATION CONTAINED HEREIN. MUCH OF THE INFORMATION**  
12 **CONTAINED HEREIN WAS DERIVED FROM DEBTOR OR DEBTOR'S RECORDS**  
13 **AND HAS NOT BEEN VERIFIED FROM INDEPENDENT SOURCES. DEBTOR IS**  
14 **UNABLE TO WARRANT OR REPRESENT THAT THE INFORMATION**  
15 **CONTAINED HEREIN IS WITHOUT ANY INACCURACY ALTHOUGH ALL**  
16 **SUCH INFORMATION IS ACCURATE TO DEBTOR'S BEST KNOWLEDGE,**  
17 **INFORMATION, AND BELIEF.**

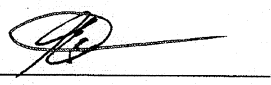
18  
19  
20 **THE COURT HAS NOT VERIFIED THE ACCURACY OF THE**  
21 **INFORMATION CONTAINED HEREIN. THE COURT'S APPROVAL OF THE**  
22 **DISCLOSURE STATEMENT DOES NOT IMPLY THAT THE COURT ENDORSES**  
23 **OR APPROVES THE PLAN, BUT ONLY THAT, IF THE INFORMATION IS**  
24 **ACCURATE, IT IS SUFFICIENT TO PROVIDE AN ADEQUATE BASIS FOR**  
25  
26

1 **CREDITORS AND INTEREST HOLDERS TO MAKE INFORMED DECISIONS**  
2 **WHETHER TO APPROVE OR REJECT THE PLAN.**

3 Dated this 7 day of April 2017.  
4

5 **DAVIS MILES, MCGUIRE GARDNER, PLLC**

6 /s/ Aubrey L. Thomas   
7 Pernell W. McGuire  
8 Aubrey L. Thomas

9 /s/ Grant Creech   
10 President, Board of Directors

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