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11 UNITED STATES BANKRUPTCY COURT

12 DISTRICT OF ARIZONA

13 In re:

Chapter 11 Proceeding

14 GRANITE DELLS RANCH  
15 HOLDINGS, LLC,

No. 2:12-bk-04962-RTBP

16 Debtor.

**TRI-CITY'S SUPPLEMENTAL  
DISCLOSURE IN SUPPORT OF TRI-  
CITY'S PLAN FILED AUGUST 2012**

18 Tri-City Investment & Development, LLC ("Tri-City"), provides this Supplemental  
19 Disclosure Statement in support of its proposed Plan of Reorganization filed with this Court  
20 on August 2012.

21 **I. FACTUAL HISTORY**

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

24 Granite Dells Ranch Holdings, L.L.C. ("GDRH" and/or "Debtor") filed a Plan of  
25 Reorganization on June 11, 2012 (the "Debtor's and/or GDRH's Plan") (DE 139). On June  
26 18, 2012, GDRH filed a Disclosure Statement in support of its June 11, 2012 Plan (DE 149).

1 Tri-City files its plan (the “Tri-City Plan”) because it believes its Plan offers a more  
2 realistic and attractive reorganization proposal than the Debtor’s Plan. The Debtor’s Plan is  
3 facially unacceptable to Arizona Eco Development, LLC (“Arizona Eco”) the Debtor’s  
4 largest secured creditor holding a claim contested by the Debtor worth potentially  
5 \$130,000,000. The Debtor’s Plan which requires litigation with Arizona Eco threatens to tax  
6 the Estate with administrative expense depleting the recovery for all creditors. If the  
7 litigation with Arizona Eco (which is inherently speculative) fails, the Debtor’s Plan is not  
8 confirmable. Tri-City’s Plan seeks the support of Arizona Eco, eliminating the need for  
9 litigation between the Debtor and Arizona Eco and exponentially increasing the possibility  
10 of a feasible and confirmable Plan.

11 Tri-City refers all interested parties to the Debtor’s Disclosure Statement for the  
12 factual history of the Debtor (DE 149). Tri-City has not had access to the books and records  
13 of the Debtor nor was Tri-City involved in negotiations referred to in the Debtor’s  
14 Disclosure Statement between the Debtor, Arizona ECO Development, LLC (“Arizona  
15 Eco”), and the original note-holder. Accordingly, Tri-City cannot attest to the  
16 representations in the Debtor’s Disclosure Statement. Tri-City also refers interested parties  
17 to Arizona Eco’s Objection to the Disclosure Statement, as it provides a thorough  
18 description of potential disputed facts (DE 191).

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

## 22 **II. SUMMARY OF TRI-CITY’S PLAN OF REORGANIZATION**

23 Tri-City’s Plan proposes to pay creditors, more than they would receive in a  
24 liquidation (see Liquidation Analysis below), or alternatively, provides creditors with the  
25 ability to participate in equity in the Reorganized Debtor. The Plan provides for the  
26 preservation of the assets, allowing long-term development and the repayment of creditors.

1 The map of the property attached as Exhibit A, shows the proposed partition of the  
2 property between, Arizona Eco and the Reorganized Debtor. The property identified as GD  
3 Estates is property that is already owned by Granite Dells Estates, LLC. Tri-City believes  
4 that this partition provides Arizona Eco fair value for its debt without extensive litigation  
5 and leaves the Reorganized Debtor an equitable remainder.

6 Arizona Eco will be responsible for those debts associated with the land it receives.  
7 The Reorganized Debtor will be responsible for those debts associated with the land it  
8 retains and remains liable for the debts for which Arizona Eco shall be primarily  
9 responsible.

10 While the Debtor's Plan is contingent upon litigation to accomplish a successful  
11 reorganization, Tri-City's Plan seeks to reorganize through the mutual release of litigation  
12 claims. Any litigation necessary in Tri-City's Plan is also necessary in the Debtor's Plan  
13 even if not necessarily explicit in Debtor's Plan or Disclosure Statement.

14 While the Debtor's Plan is contingent upon the Reorganized Debtor raising  
15 \$20,000,000 of new investment in order to service the secured debt, the Tri-City Plan will  
16 resolve the secured debt with a dirt for debt swap with Arizona Eco, provide unsecured  
17 promissory note holders with either partial payment or participation in equity, pay  
18 remaining creditors through either land sales or compromising the Reorganized Debtor's  
19 other assets. The Tri-City Plan relies upon capital calls post-confirmation only as needed,  
20 and such anticipated needs should be modest.

21 Creditors are encouraged to review Tri-City's Plan of Reorganization to determine  
22 the exact treatment of their claim.

### 23 **III. FUNDING FOR THE PLAN OF REORGANIZATION**

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

- 26 • Notes payable from Granite Dells Estates I, LLC & Granite Dells Estates II, LLC

- The Debtor's schedules list the amount owed as \$2,199,490.00. Tri-City understands this amount to be disputed
- The sale or financing of unencumbered real property
  - The Debtor has received a formal offer on the parcels identified as SP4 and SP9 on the Property Map attached as Exhibit A. Tri-City will provide more information on the offer when disclosed.
- The portion of the grazing lease retained by the Reorganized Debtor
  - The grazing lease currently produces revenue of approximately \$63,763 a year, the property retained by the Reorganized Debtor and the property transferred to Arizona Eco are subject to the grazing lease and the Reorganized Debtor will receive a pro-rata share of the grazing revenue post-petition
- Equity contributions if necessary, but not anticipated

#### **IV. CAUSES OF ACTIONS RETAINED**

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

- Claims alleged by the Debtor against Arizona Eco
- Avoidance actions against promissory note-holders
- Avoidance actions against insiders for payments made in violation of the Debtor's Operating Agreement or without fair consideration
  - Includes, but not limited to claims against Cavan Management Company ("CMC") and Cavan Management Services ("CMS") for breach of contract, conversion, use of funds not for the benefit of the Debtor, and standing and authority to manage the Debtor
- An accounting of the Debtor's finances

#### **V. FUTURE MANAGEMENT OF THE DEBTOR**

Tri-City will select the future management of the Debtor, which will be presented at the confirmation hearing. Mr. Charles Arnold is the chair of Tri-City's executive committee. Tri-City will hire a new property and entity manager, who may be a third party professional

1 or Mr. Arnold's management company, Southwestern Development Consultants. The  
2 manager will be paid market rates; it is expected that management will be less expensive  
3 than pre-petition. Mr. Arnold's resume is attached as Exhibit B.

4 **VI. TAX CONSEQUENCES FOR EQUITY**

5 Tri-City has retained Mr. Steven Phillips of Phillips, Moeller & Conway, PLLC to  
6 provide a tax opinion for the tax consequences of Tri-City's plan. Mr. Phillips's resume is  
7 attached as Exhibit C.

8 **VII. LIQUIDATION ANALYSIS**

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

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

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

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

Assets	Liquidation Value	Secured Creditor Amount	Unencumbered Value
<b>Real Property:</b> 15,000 acres of Real Estate located between Prescott, Prescott Valley, and Chino Valley	Uncertain due to vagaries of foreclosure market.	\$120,000,000	The current value of the land is uncertain.
Avoidance Actions against Promissory Note-Holders	Uncertain. Upon information and belief certain funds were transferred to Promissory Note-Holders within the statutory time of recovery, the Debtor is in exclusive possession of this information.		Amount unknown. The prosecution of Avoidance Actions is likely to incur significant administrative expense.
Avoidance Actions against Insiders	Uncertain. Upon information and belief CMS and CMC received payments in violation of the Debtor's Operating Agreement. The Debtor has exclusive possession of this information. Additionally, CMS or CMC may have taken actions not		Amount unknown. The prosecution of Avoidance Actions or other claims is likely to incur significant administrative expense and the solvency of CMS or CMC is unknown.

	authorized by the Operating Agreement that harmed the Debtor.		
Notes payable from Granite Dells Estates I, LLC & Granite Dells Estates II, LLC	\$2,199,490.00 listed by the Debtor, but disputed by Granite Dells Estates I, LLC & Granite Dells Estates II, LLC		Amount unknown. The collection of the notes is likely to incur significant administrative expense and the solvency of Granite Dells Estates I, LLC & Granite Dells Estates II, LLC are unknown.

#### COMPARATIVE TREATMENT OF CLAIMS UNDER PLAN

Claim	Chapter 7 Distribution	Plan Treatment
Class 1 Administrative Claims	Allowed claims not fully paid; assets returned to secured creditors, allowed claims paid pro rata, after payment of liquidation expenses	Allowed claims paid in full on Effective Date.
Class 2 – Secured Claim of Arizona Eco	Litigation regarding amount of claim. Secured portion of claim is satisfied by looking to collateral and attendant foreclosure and attorney costs and expenses; return is uncertain due to vagaries of foreclosure market	Receive dirt for debt and mutual release of any potential claims from the Debtor or equity members.
Class 3 – Secured Claim of City of Prescott	Secured portion of claim is satisfied by looking to collateral and attendant foreclosure and attorney costs and expenses; return	Pay secured portion in full by either Arizona Eco or the Reorganized Debtor. Avoid excessive fees for attorneys.

	is uncertain due to vagaries of foreclosure market	
Class 4 – Secured Claim of Sonoran Pacific Resources	Must look to collateral; return is uncertain due to vagaries of foreclosure market	Paid in full on the Effective Date.
Class 5 – Secured Claim of Yavapai County Treasurer	Secured portion of claim is satisfied by looking to collateral and attendant foreclosure and attorney costs and expenses; return is uncertain due to vagaries of foreclosure market	Receive full secured value plus statutory rate of interest over time.
Class 6 – Arizona Department of Revenue	May receive a distribution after administrative expenses and foreclosure depending on value of Notes payable from Granite Dells Estates I, LLC & Granite Dells Estates II, LLC and success of avoidance actions.	Paid in full with interest at the WSJ prime rate on or before the second anniversary of the Effective Date by either the Reorganized Debtor or Arizona Eco.
Class 7 – Internal Revenue Service	May receive a distribution after administrative expenses and foreclosure depending on value of Notes payable from Granite Dells Estates I, LLC & Granite Dells Estates II, LLC and success of avoidance actions.	Paid in full with interest at the WSJ prime rate on or before the second anniversary of the Effective Date by either the Reorganized Debtor or Arizona Eco.
Class 8 – General Unsecured Claims	No likely distribution after administrative expenses and foreclosure depending on value of Notes payable from	Paid in full with interest at the WSJ prime rate on or before the fifth anniversary of the Effective Date by either the Reorganized



	Granite Dells Estates I, LLC & Granite Dells Estates II, LLC and success of avoidance actions.	Debtor or Arizona Eco.
Class 9- Unsecured Promissory Convertible Note Holders	No likely distribution after administrative expenses and foreclosure depending on value of Notes payable from Granite Dells Estates I, LLC & Granite Dells Estates II, LLC and success of avoidance actions. Subject to set-offs based on avoidance actions.	Entitled to 1% of Equity for every \$1,000,000 and retain all causes of actions against non-Debtors and the dismissal of any potential adversary action or receive 10% of the claim paid by the 10 <sup>th</sup> anniversary and retain all claims against non-debtors.
Class 10- Insider Claims	No distribution after administrative expenses and foreclosure.	Mutual releases of claims against the Debtor, Granite Dells Estates I and Granite Dells Estates II, Arizona Eco, and Tri-City.
Class 11 Equity	Nothing. Maintain claims against non-debtor entities.	Retain equity with changed management.

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

#### **VIII. OBJECTION DEADLINE AND EFFECTIVE DATE**

The Effective Date of the Tri-City Plan shall be 30 days after confirmation. Any party that remains liable for a debt post-confirmation shall have until the Effective Date to object to the validity or amount of a creditor’s claim.

#### **IX. CONFIRMATION IN SPITE OF REJECTION OF PLAN**

The Court will be asked to confirm the Plan as to any class of claims or interest that does not accept the Plan. To do so, the Court must find that the Plan is (1) fair and equitable

1 to each class of claims or interests that is impaired and has not accepted the Plan, and that  
2 classification of claims is not discriminatory; and (2) that each claim or interest holder  
3 receives, under the Plan, property of a value as of the Effective Date, that is not less than  
4 what would be received or retained if the property was liquidated under Chapter 7 of the  
5 Code.

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

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

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

21 **X. EXECUTORY CONTRACTS AND UNEXPIRED LEASES**

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

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

1 **XI. RETENTION OF JURISDICTION**

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

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

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

13 **XII. VOTING INSTRUCTIONS**

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

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

22 Deborah Elkins  
23 Mesch, Clark, & Rothschild P.C.  
24 259 N. Meyer Ave.  
Tucson, Arizona 85701

25 **XIII. CONCLUSION**

26 Tri-City believes it is in the best interest of the Estate and all the Creditors to reach a

1 consensual Plan with Arizona Eco. This will allow the Reorganized Debtor to execute a  
2 Plan without secured debt other than property taxes and future management expense.

3 The Plan proposed by GDRH is contingent on speculative litigation. If unsuccessful,  
4 the Plan is destined to fail resulting in a likely foreclosure of the Debtor's property, and any  
5 remaining assets of the Estate being consumed by administrative expenses. Even if  
6 successful, the litigation may cause such a significant burden in administrative expenses that  
7 will not be feasible. Additionally, the Debtor's Plan is only feasible if it raises \$20,000,000  
8 of new equity, this is highly questionable in the current market.

9 Tri-City's Plan is likely to garner the support of Arizona Eco and other classes of  
10 creditors. It removes the uncertainty from the recovery for creditors as the threat of  
11 foreclosure is gone. Litigation is eliminated or greatly reduced as opposed to the Debtor's  
12 Plan which will result in significant administrative expenses in the pursuit of litigation. The  
13 Tri-City Plan provides the most efficient and feasible plan for recovery for creditors of the  
14 Debtor's estate.

15 DATED: August 3, 2012.

MESCH, CLARK & ROTHSCCHILD, P.C.

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