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Attorneys for Debtor and Debtor in Possession

7 **IN THE UNITED STATES BANKRUPTCY COURT**
8 **FOR THE DISTRICT OF ARIZONA**

9 In re
10 GRANITE DELLS RANCH HOLDINGS, LLC
11 Debtor.

Chapter 11
Case No. 2:12-bk-04962-RTBP

12 **DEBTOR'S SUPPLEMENT TO DISCLOSURE**
13 **STATEMENT DATED AUGUST 3, 2012**

14 **Hearing Date: August 28, 2012**
Hearing Time: 9:00 a.m.
Location: 230 N First Ave, Ctrm 703
Phoenix, Az 85003

15 **GRANITE DELLS RANCH HOLDING, LLC**, Debtor and Debtor in Possession in the
16 above styled proceedings hereby files its Supplement to Disclosure Statement Dated August 28, 2012,
17 supplementing Debtor's Disclosure Statement dated August 3, 2012.

18 On August 3, 2012, Debtor filed its Plan of Reorganization (Dkt # 223) ("**Debtor's Plan**") and
19 its Disclosure Statement (Dkt # 224) (the "**August 3 Disclosure Statement**"). Debtor files this
20 Supplement to Disclosure Statement (this "**Supplement**") to provide additional information regarding
21 developments in the chapter 11 proceedings.

22 **I. AED CLAIM DISPUTE.**

23 Section IV.A (pp.30-33) of the August 3 Disclosure Statement describes a dispute as to the
24 amount of the Allowed Claim and Allowed Secured Claim of AED arising from AED's purchase of the
25 promissory note originally payable to the Original Owners of the Property (the "**Note**"). In addition,
26 Exhibit 3 to the August 3 Disclosure Statement provides a summary of the factual and legal issues with
27 respect to the Claim and explains why Debtor believes that the amount of the Allowed Claim of AED
28

1 should be limited to the amount that AED paid for the Note, which Debtor believes to be \$28.5
2 million.

3 This information is supplemented by the following:

4 1. **Claim Objection.** On August 24, 2012, Debtor filed its Objection to AED's Claim and
5 Complaint for Equitable Subordination. (Adversary 2:12-ap-01515) (the "**Claim Objection**"). The
6 Claim Objection disputes AED's Claim for \$127,337,491.91 and requests that such claim be limited to
7 the amount AED paid to acquire the Claim.
8

9 2. **Complaint Against AED et al.** On August 24, 2012, Debtor filed a complaint against
10 AED, Swanson and other parties (the "**Constructive Trust Complaint**") seeking monetary recovery
11 and equitable relief based upon fraud, breach of fiduciary duty, constructive trust, tortious interference
12 with business expectancy, breach of contract, breach of the implied covenant of good faith and fair
13 dealing, aiding and abetting fraud, aiding and abetting breach of fiduciary duty, and negligent
14 misrepresentation. The Constructive Trust Complaint also seeks a declaration that Swanson acquired
15 the promissory note in constructive trust for Debtor, and also seeks compensatory and punitive
16 damages. The factual basis for Debtor's contentions are summarized in the Claim Objection and in the
17 Constructive Trust Complaint.
18

19 3. **Tri-City Request for Recognition of Constructive Trust.** On August 24, 2012, Tri-
20 City filed a disclosure statement (Dkt # 249) to accompany its amended plan of the same date (Dkt #
21 248). The Disclosure Statement provides, in part, as follows:
22

23 Tri-City's Plan proposes a settlement with Arizona Eco and others, recognizing that
24 Arizona Eco's acquisition of the mortgage note was accomplished as the agent and
constructive trustee of the Debtor. (p. 6)

25 Debtor believes that the settlement proposed by Tri-City would be based on the factual and
26 legal assumptions set forth in the Claims Objection and the Constructive Trust Complaint.
27
28

1 **II. MEDIATION PROCESS.**

2 The August 3 Disclosure Statement (p. 28) indicated that the Bankruptcy Court had inquired of
3 the parties whether mediation should be ordered. This information is supplemented as follows:

4 The Bankruptcy Court entered an order requiring mediation and the mediation took place on
5 August 20, 2012. The parties discussed various possible approaches to a settlement that would be
6 incorporated into a plan of reorganization but were unable to agree on fundamental terms. Pursuant to
7 the Bankruptcy Court's order, pending matters (including AED's motion to dismiss and motions for
8 stay relief and consideration of Debtor's Disclosure Statement and Tri-City's Disclosure Statement)
9 have not been delayed, although AED has requested a continuance in consideration of Debtor's
10 Disclosure Statement.

11 **III. TRI-CITY AMENDED PLAN AND DISCLOSURE STATEMENT.**

12 On August 24, 2012, Tri-City filed an amended plan and accompanying disclosure statement.
13 The Disclosure Statement is similar in structure to Tri-City's previous plan and provides for AED to
14 receive a portion of Debtor's property in satisfaction of its debt, for Debtor to retain the balance of the
15 Property, and for Tri-City to become the manager of Debtor. The revised plan, however, provides for
16 Debtor to retain substantially less property, consisting only of parcels that are distant from Prescott and
17 Prescott Valley or other development. Tri-City's revised plan provides that a partial interest in a
18 nearby development owned indirectly by Messrs. Swanson and Fann would be transferred to Debtor
19 and provides that operations of the combined properties would be funded, in part, from capital calls
20 determined in the sole discretion of Tri-City. The revised plan proposes that Investors (holders of
21 convertible notes issued by Debtor) would be permitted to obtain an equity interest subject to capital
22 calls in the sole discretion of Tri-City.

23 Debtor intends to object to the adequacy of the Tri-City plan and disclosure statement. Debtor
24 is hopeful, however, that the disclosure statement can be supplemented quickly and that Debtor's plan
25 and the Tri-City plan can be submitted to parties in interest simultaneously.

1 **IV. CASH CONTRIBUTIONS UNDER DEBTOR'S PLAN.**

2 The August 3 Disclosure Statement indicated that up to \$20 million of additional capital could
3 be required over three years to adequately fund operations under Debtor's plan. The August 3
4 Disclosure Statement also indicated that the required capital contributions would be reduced to \$7
5 million or less based upon the proposed sale of 900 acres in a single transaction (discussed in the
6 August 3 Disclosure Statement on page 43). Debtor has prepared a comprehensive analysis of cash
7 needs, and confirmed its belief that \$7 million or less would be sufficient. A summary of the analysis
8 is attached hereto as Exhibit Supp 1.

9
10 **V. REORGANIZED DEBTOR MANAGEMENT.**

11 Debtor is currently seeking an agreement with Avion Holdings to become manager of the
12 Reorganized Debtor to replace Cavan Management Services, LLC.

13 **VI. LIQUIDATION ANALYSIS.**

14 Debtor has completed its estimate of the results of a liquidation of Debtor under chapter 7 of
15 the Bankruptcy Code as contemplated in § 1129(a)(7). The analysis is based upon the following
16 assumptions, which Debtor believes are reasonable:

17 1. A Chapter 7 trustee would likely sell the Property in bulk or consent to a foreclosure of
18 the property by AED. The sale would not result in realization of the market value of the property and
19 would not produce proceeds in excess of the claim of AED, even if such claim were limited as
20 described in the August 3 Disclosure Statement.

21 2. The Chapter 7 trustee would retain Debtor's claims against AED and Swanson,
22 including the claims described in the Constructive Trust Complaint referred to above. While the
23 results of such litigation are difficult to predict at this stage, based on the best information and
24 estimates available, Debtor estimates for illustrative purposes that such litigation would result in a
25 recovery by the Chapter 7 estate of \$15 million less legal costs.

26 3. The proceeds of such litigation would constitute the only material asset of the estate and
27 would be sufficient to pay all administrative and other priority expenses and make distributions to all
28

1 unsecured creditors in the approximate amount of \$9,500,000. Such a distribution would result in a
2 dividend to unsecured creditors of approximately 31%.

3 The liquidation analysis is summarized on Supp Exhibit 2 attached hereto.

4 DATED this August 27, 2012.

5 **STINSON MORRISON HECKER LLP**

6
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Exhibit Supp 1

EXHIBIT SUPP 1 TO SUPPLEMENTAL DISCLOSURE STATEMENT

CASH FLOW 10 YEARS (ASSUMING SALE OF 1200 ACRES)

	1	2	3	4	5	6	7	8	9	10	Total	
	Effective Date											
REVENUES												
930 acres												
Residential lots	0	0	0	1,620,000	3,240,000	6,480,000	6,480,000	3,240,000	1,620,000	2,632,500	25,312,500	
Commercial	0	0	0	1,089,000	1,089,000	0	0	0	0	0	2,178,000	
Resort	0	0	0	0	0	10,890,000	0	0	0	0	10,890,000	
Total 930 Proceeds	0	0	0	2,709,000	4,329,000	17,370,000	6,480,000	3,240,000	1,620,000	2,632,500	38,380,500	
Expenses												
Net 930 Income	0	0	0	2,709,000	4,329,000	17,370,000	6,480,000	3,240,000	1,620,000	2,632,500	38,380,500	
89A Commercial Property												
North Proceeds	0	0	0	3,049,200	8,712,000	15,681,600	24,393,600	26,136,000	13,068,000	0	91,040,400	
South Proceeds	0	0	0	3,049,200	8,712,000	20,908,800	24,393,600	26,136,000	13,068,000	0	96,267,600	
Total 89A Commercial Proceeds	0	0	0	6,098,400	17,424,000	36,590,400	48,787,200	52,272,000	26,136,000	0	187,308,000	
North costs	0	0	0	(1,454,545)	(1,454,545)	(1,939,394)	(1,454,545)	(969,697)	(727,273)	(727,273)	(8,727,273)	
South costs	0	0	0	(1,545,455)	(1,545,455)	(2,060,606)	(1,545,455)	(1,030,303)	(772,727)	(772,727)	(9,272,727)	
Total 89A costs	0	0	0	(3,000,000)	(3,000,000)	(4,000,000)	(3,000,000)	(2,000,000)	(1,500,000)	(1,500,000)	(18,000,000)	
Net 89A Income	0	0	0	3,098,400	14,424,000	32,590,400	45,787,200	50,272,000	24,636,000	(1,500,000)	169,308,000	
Industrial Near Interchange												
Revenues	0	0	0	0	0	0	0	11,586,960	0	0	11,586,960	
Costs	0	0	0	0	0	0	(3,000,000)	0	0	0	(3,000,000)	
Net	0	0	0	0	0	0	(3,000,000)	11,586,960	0	0	8,586,960	
1200 Residential Property												
Bulk Sale	12,000,000											
Partial Release Payment	(5,000,000)											
Net Cash	7,000,000											
ADOT						9,496,080						
2600 Residential Land												
Revenues	0	0	0	0	0	0	0	15,000,000	15,000,000	15,000,000	30,000,000	
Infrastructure	0	0	0	0	0	0	(10,500,000)	(6,750,000)	(5,000,000)	(3,750,000)	(22,250,000)	
Net	0	0	0	0	0	0	(10,500,000)	8,250,000	10,000,000	11,250,000	7,750,000	
Mining Net Revenue												
Net Cash	8,218,000	1,218,000	1,218,000	7,025,400	19,971,000	59,456,480	38,767,200	73,348,960	36,256,000	12,382,500	245,479,040	

Exhibit Supp 2

SUPP EXHIBIT 2
LIQUIDATION ANALYSIS

REVENUES

Sale of Real Property (trustee sale)	28,500,000
Net Recovery from AED Litigation	<u>15,000,000</u>
 Total revenues	 43,500,000

EXPENDITURES

Recovery by AED from trustee sale	28,500,000	
Chapter 7 Trustee fees	1,305,000	3.00%
Litigation fees and expenses	3,000,000	
Chapter 11 Professional Fees	750,000	
Other Chapter 11 Administrative Expenses	350,000	
Priority Expenses and Property Taxes	<u>100,000</u>	

Total Admin and Priority Expenses 34,005,000

Net available for Unsecured Claims 9,495,000

	<u>Total Claims</u>	<u>%</u>	<u>Amount</u>
General Unsecured Claims	65,000	31%	20,292
Noteholders	16,350,000	31%	5,104,167
Insider Claims	<u>14,000,000</u>	31%	<u>4,370,541</u>
Total Unsecured Claims	<u>30,415,000</u>		<u>9,495,000</u>