

Dated: November 9, 2012



Eileen W. Hollowell

Eileen W. Hollowell, Bankruptcy Judge

UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF ARIZONA

In re:)	Chapter 11
)	
TRAILS END LODGE, LLC,)	Case No. 4:11-bk-16190-EWH
)	
Debtor.)	
)	MEMORANDUM DECISION ON PLAN
)	CONFIRMATION

Trails End Lodge, LLC ("Debtor") filed a Chapter 11 voluntary petition on June 3, 2011. Debtor owns the La Posada Lodge & Casitas in Tucson, Arizona ("the Hotel"). Debtor is primarily owned by NCH Corporation and the HF Saunders Company, LLC, both of which are owned and controlled by Michael Hanson ("Hanson") and Randall Dix ("Dix"). The Hotel is managed by Transwest Properties, Inc., which is also owned by Hanson (45%) and Dix (35%). (Unless stated otherwise, the Hanson and Dix entities will be referred to collectively as "Transwest.") To finance the purchase of the Hotel, Debtor took out a loan in the amount of \$4,120,000 ("the Loan") from a predecessor of WBCMT 2006-C27 5900 Lodging, LLC ("Lender"), which holds the promissory note ("the Note") evidencing the Loan. The Note is secured by the Hotel and all of its rents, proceeds, and profits pursuant to a deed of trust ("the DOT") and an assignment of rents.

1 On March 2, 2012, Debtor filed its First Amended Plan, and on July 20, 2012,
2 Debtor submitted a version with Non-Material and Non-Adverse Modifications. Debtor
3 submitted additional modifications on July 31 and September 21, 2012. (All
4 modifications will be referred to collectively as “the Modifications,” and the First
5 Amended Plan and the Modifications will be referred to collectively as “Debtor’s Plan.”)
6 Among twelve classes of claimants, Lender was the only creditor that rejected Debtor’s
7 Plan. However, Lender is the largest creditor by an overwhelming amount; its claim
8 represents 98% of the total claims in this case. The Court held a confirmation hearing
9 on Debtor’s Plan on July 30 and 31, 2012.
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11 The key provisions of Debtor’s Plan provide that: (a) HSL Properties, Inc. (“HSL”)
12 will invest \$425,000 of new capital (“the New Capital”) into Debtor in exchange for 100%
13 ownership of the Reorganized Debtor; (b) HSL will receive a 12% return on the New
14 Capital for so long as payments to Lender and other creditors are made; (c) Lender will
15 receive payments on the secured portion of its claim over a 23-year period at 5%
16 interest amortized over 30 years, with the first three years of payments interest only;
17 (d) other secured creditors with liens on property with residual value will receive the
18 current market value of their claims in 60 equal monthly installments at 5% interest;
19 (e) Transwest will be retained to manage the Hotel and receive a management fee
20 subordinate to the return on the New Capital; and (f) unsecured creditors will receive
21 pro-rata distributions from a pool of \$25,000, 5% of the Reorganized Debtor’s net cash
22 for 10 years, and any estate representative distributions.
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1 Debtor failed to file and confirm a reorganization plan during the exclusivity
2 period provided by § 1121(b).¹ As a result, Lender filed a competing plan on July 25,
3 2012 and Non-Adverse Modifications on October 3, 2012 (collectively “Lender’s Plan”).
4 Debtor filed an objection to Lender’s Plan on September 19, 2012. The Court held a
5 confirmation hearing on Lender’s Plan on September 26, 2012 and took the matter
6 under submission.
7

8 Lender’s Plan is a 100% plan which will pay all creditors in full with interest.
9 Lender will satisfy its own claim by transferring title of the Hotel and its encumbered
10 assets to Lender or a designated transferee and retaining a different hotel-management
11 company than Transwest to operate the Hotel. Lender’s Plan anticipates that the new
12 hotel-management company will retain most of the current Hotel employees other than
13 the top managers.
14

15 When evaluating competing confirmation plans, “the court shall consider the
16 preferences of creditors and equity security holders in determining which plan to
17 confirm.” 11 U.S.C. § 1129(c). Under both Debtor’s and Lender’s Plans, the existing
18 equity holders would be replaced. As a result, only creditors’ preferences need to be
19 considered when choosing between the competing plans. Accordingly, Lender’s Plan
20 should be confirmed because it satisfies all of the required elements of § 1129 and
21 provides for the best interests of creditors. Lender’s proposed 100% payment with
22 interest offers better treatment to all creditors than Debtor’s proposal, which offers
23 extended payment terms and exposes Lender (the largest creditor) to an unacceptable
24 level of risk.
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28 ¹Unless otherwise indicated, all chapter and section references are to the Bankruptcy Code, 11 U.S.C. §§ 101-1532. All “Rule” references are to the Federal Rules of Bankruptcy Procedure, Rules 1001-9037.

1 A separate order denying confirmation of Debtor's Plan and granting confirmation
2 of Lender's Plan will be entered on this date.

3 Dated and signed above.

4 Notice to be sent through the
5 Bankruptcy Noticing Center
6 to the following:

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