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9 UNITED STATES BANKRUPTCY COURT
10 EASTERN DISTRICT OF WASHINGTON AT SPOKANE

11 In re

12 **CENTURION PROPERTIES III,**
13 **LLC,**

14 Debtor.

No. 10-04024-FLK 11

Chapter 11

**SECOND AMENDED DISCLOSURE
STATEMENT TO ACCOMPANY
DEBTOR'S SECOND AMENDED
PLAN OF REORGANIZATION**

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1 **I. OVERVIEW AND IDENTIFICATION OF PROPONENT**

2 Centurion Properties III, LLC, a Washington limited liability company and the
3 debtor and debtor-in-possession in the above-captioned case (“CPIII” or the “Debtor”)
4 submits this *Second Amended Disclosure Statement to Accompany the Debtor’s*
5 *Second Amended Plan of Reorganization* of even date (this “Disclosure Statement”),
6 describing the Debtor’s concurrently filed Second Amended Plan of Reorganization
7 (the “Plan”). The Debtor is the proponent of the Plan. A copy of the Plan will be
8 served with the Disclosure Statement. Capitalized terms in this Disclosure Statement
9 not otherwise defined herein have the meanings given to them in the Plan, the
10 Bankruptcy Code and the Bankruptcy Rules.

11 The Disclosure Statement and Plan are submitted pursuant to Chapter 11 of Title
12 11, United States Code, codified at 11 U.S.C. § 101, *et seq.* (the “Bankruptcy Code”).
13 The Debtor submits this Disclosure Statement to all of its Creditors and Interest
14 holders in order to comply with provisions of the Bankruptcy Code requiring the
15 submission of information necessary to enable Creditors and Interest holders to arrive
16 at an informed decision in exercising their right to vote for acceptance or rejection of
17 the Plan.

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1 **PLAN AND CODE PROVISIONS FOR VOTING**

2 A. **Relationship of Disclosure Statement to the Plan**

3 This Disclosure Statement provides relevant information about the Debtor, its
4 financial condition, and the Plan. This Disclosure Statement contains a detailed
5 discussion of the Plan and its implementation; however, the discussion of the Plan in
6 this Disclosure Statement is only a summary of the Plan and should be read in
7 conjunction with the Plan, which is a legal document and which, upon Confirmation,
8 will become binding upon the parties. Accordingly, this Disclosure Statement is
9 qualified by the Plan. If there is any inconsistency between the Plan and this
10 Disclosure Statement, the Plan is controlling.

11 The Debtor urges Creditors, Interest holders and other parties-in-interest to
12 consult with independent counsel in connection the Plan and their decision to accept or
13 reject the Plan, if applicable. As used herein:

- 14 • “Claim” means any right to payment from the Debtor, whether or not such
15 right is reduced to judgment, liquidated, unliquidated, fixed, contingent,
16 matured, unmatured, disputed, undisputed, legal, equitable, secured,
17 unsecured, or any other right to an equitable remedy for breach of
18 performance if such breach gives rise to a right to payment from Debtor,
19 whether or not such right is reduced to judgment, liquidated, unliquidated,
20 fixed, contingent, matured, unmatured, disputed, undisputed, legal,
21 equitable, secured, unsecured, arising by virtue of the rejection of an
22 Executory Contract under the Plan, or otherwise. The term “Claim”
23 includes all “claims” as defined in section 101(5) of the Bankruptcy Code.
- 24 • “Creditor” means every holder of a Claim (whether or not such Claim is
25 or becomes an Allowed Claim) and includes all “creditors” as defined in
26 section 101(10) of the Bankruptcy Code.
- 27 • “Interest” means all membership interests and other ownership rights in
28 the Debtor, including all “equity securities” of the Debtor as defined in
29 section 101(16) of the Bankruptcy Code, whether known or unknown,
30 recognized or unrecognized, disputed or undisputed.

31 Your Claim or Interest will be assigned to a Class of Claims or Interests, and the
32 treatment of each Class is set forth in this Disclosure Statement and in the Plan. The
33 Debtor has used its best efforts to comply with 11 U.S.C. § 1129 for this treatment.

1 The only representations the Debtor is authorized to make concerning the value of its
2 assets or potential distributions are contained in this Disclosure Statement.

3 The Debtor may not solicit acceptance or rejection of the Plan until (i) the
4 United States Bankruptcy Court for the Eastern District of Washington at Spokane
5 (the “Court”) conducts a hearing on the Disclosure Statement, with notice of the
6 hearing given to all Creditors and parties-in-interest, and (ii) the Court approves the
7 Disclosure Statement as containing adequate information to enable holders of Claims
8 and Interests to make an informed decision as to whether to vote to accept or reject the
9 Plan.

10 B. Parties Allowed to Vote; Deadline

11 Creditors holding Allowed Claims are entitled to vote to accept or reject the
12 Plan, unless the Plan lists such Claims as Unimpaired. The Court will fix a date that
13 will be the last date by which Ballots upon the proposed Plan must be filed with the
14 Court. Interest holders will not receive anything under the Plan, are deemed to reject
15 the Plan under section 1126(g) of the Bankruptcy Code, and are therefore not entitled
16 to vote.

17 C. Voting and Confirmation Procedures

18 Accompanying this Disclosure Statement are copies of the following documents:
19 (1) the Plan (with Exhibits, including the GECC Settlement); (2) a Notice to Voting
20 Classes; and (3) an applicable Ballot. This Disclosure Statement, the form of Ballot,
21 and the related materials delivered together herewith (collectively,
22 the “Solicitation Package”), are being furnished to Holders of Claims for the purposes
23 of soliciting votes on the Plan. If you did not receive a Ballot in your Solicitation
24 Package, and believe that you should have received a Ballot, please contact John D.
25 Munding at Crumb & Munding, P.S., The Davenport Tower, 111 S. Post Street, PH
26

1 2290, Spokane, Washington 99201; or by telephone at (509) 624-6464.

2 *1. Who May Vote*

3 Pursuant to the provisions of the Bankruptcy Code, only Classes of Claims or
4 Interests that (i) are “Impaired” and (ii) are not deemed, as a matter of law, to have
5 rejected a plan of organization under section 1126(g) of the Bankruptcy Code are
6 entitled to vote to accept or reject the Plan. Under section 1126(g) of the Bankruptcy
7 Code, Classes which are to receive nothing under the Plan are deemed to reject it. Any
8 class that is “Unimpaired” is not entitled to vote to accept or reject the Plan of
9 Reorganization and is conclusively presumed to have accepted the Plan. As set forth in
10 section 1124 of the Bankruptcy Code, a Class is “Impaired” if legal, equitable, or
11 contractual rights attaching to the Claims or Interests of that Class are modified or
12 altered. For purposes of the Plan only, holders of Impaired Claims are entitled to vote
13 on the Plan.

14 A Claim must be “Allowed” for purposes of voting in order for the creditor
15 holding such Claim to have the right to vote. Generally, for voting purposes, a Claim
16 is deemed Allowed absent an objection to the Claim if (i) a Proof of Claim was timely
17 filed, or (ii) if no Proof of Claim was filed, but the Claim is identified in the Debtor’s
18 Schedules as other than “disputed,” “contingent,” or “unliquidated,” and an amount of
19 the Claim is specified in the Schedules, in which case the Claim will be deemed
20 Allowed for the specified amount for voting purposes. When an objection to a Claim
21 is filed, the creditor holding the Claim cannot vote unless the Court, after notice and
22 hearing, overrules the objection or allows the Claim for voting purpose. The Debtor
23 reserves the right, through the Claim reconciliation process, to object to, or seek to
24 disallow, any Claim for distribution under the Plan, including Claims previously
25 Allowed for voting purposes, other than Claims that are expressly Allowed in the Plan.
26

1 2. *Voting Instructions and Voting Deadline*

2 All votes to accept or reject the Plan must be cast by using the Ballot enclosed
3 with this Disclosure Statement. No votes other than ones using such Ballots will be
4 counted, except to the extent the Court orders otherwise. After carefully reviewing the
5 Plan and this Disclosure Statement, including the exhibits, please indicate your
6 acceptance or rejection of the Plan on the Ballot and return such Ballot in the enclosed
7 envelope by the deadline set forth in the Notice served herewith

8 To: U.S. Bankruptcy Court
9 Eastern District of Washington
10 904 W. Riverside Ave., Ste. 304
11 Spokane, WA 99201

12 Mailing Address
13 U.S. Bankruptcy Court
14 Eastern District of Washington
15 P.O. Box 2164
16 Spokane, WA 99210-2164

17 With a copy to the undersigned counsel at:

18 John D. Munding
19 Crumb & Munding, P.S.
20 The Davenport Tower
21 111 South Post Street, PH 2290
22 Spokane, WA 99201

23 Ballots must be completed and received by the date specified in the Notice
24 served with the Solicitation Package (the "Voting Deadline"). Any Ballot that is not
25 executed by a duly authorized person shall not be counted. Any Ballot that is executed
26 by the holder of an Allowed Claim, but that does not indicate an acceptance or
rejection of the Plan will be deemed to have accepted the Plan.

27 3. *Whom to Contact for More Information*

28 If you wish to obtain additional copies of the Plan, Disclosure Statement, or
29 exhibits, at your own expense, unless otherwise specifically required by Bankruptcy

1 Rule 3017(d), please contact John D. Munding at the address indicated above or by
2 telephone at (509) 624-6464.

3 *4. Acceptance or Rejection of the Plan*

4 The Bankruptcy Code defines “acceptance” of a plan by a Class of Claims as
5 acceptance by holders of Impaired Claims holding at least two-thirds (2/3) in dollar
6 amount and more than one-half (1/2) in number of the Allowed Claims in that Class
7 that cast Ballots for acceptance or rejection of the Plan. The Code further defines
8 “acceptance” of the Plan by a Class of Interests as acceptance by holders of at least
9 two-thirds (2/3) in dollar amount of the Allowed Interests in that Class that cast Ballots
10 for acceptance or rejection of the Plan. Assuming that at least one Impaired Class
11 votes to accept the Plan, the Plan proponent will seek to confirm the Plan under section
12 1129(b) of the Bankruptcy Code, which permits the Confirmation of a plan of
13 reorganization, notwithstanding the non-acceptance by one (1) or more Impaired
14 Classes of Claims or Interests. Under section 1129(b) of the Bankruptcy Code, the
15 Plan may be confirmed if (i) the Plan has been accepted by at least one (1) Impaired
16 Class of Claims that is entitled to vote, and (ii) the Court determines that the Plan does
17 not discriminate unfairly and is “fair and equitable” with respect to the non-accepting
18 Classes.

19 *5. Time and Place of the Confirmation Hearing*

20 Section 1128(a) of the Bankruptcy Code requires the Court, after notice, to hold
21 a Confirmation Hearing. Section 1128(b) of the Bankruptcy Code provides that any
22 party-in-interest may object to confirmation of the Plan. Pursuant to section 1128 of
23 the Bankruptcy Code and Bankruptcy Rule 3017(c), the Court has scheduled the
24 Confirmation Hearing to commence before the Honorable Frank Kurtz on December 9,
25 2011, at 9:00 a.m., at the following address: United States Bankruptcy Court, 402 East
26

1 Yakima Avenue, Suite 200, Yakima, WA 98901. The Confirmation Hearing may be
2 adjourned from time to time by the Court or the Plan proponent without further notice.

3 6. *Objections to the Plan*

4 Any objection to Confirmation of the Plan must be in writing, must comply with
5 the Bankruptcy Code, Bankruptcy Rules, and the Local Rules of the Court, must be
6 filed with the Court, and must be served as described in the Notice presented herewith.

7 D. Representations Limited

8 No representations concerning the Debtor, particularly regarding future business
9 operations or the value of the Debtor's assets, have been authorized by the Debtor
10 except as set forth in this Disclosure Statement. You should not rely on any other
11 representations or inducements proffered to secure your acceptance or rejection of the
12 Plan. Any person making representations or inducements concerning acceptance or
13 rejection of the Plan should be reported to counsel for the Debtor at the address above
14 and to the United States Trustee.

15 While every effort has been made to provide the most accurate information
16 available, the Debtor is unable to warrant or represent that all information is without
17 inaccuracy, although no known inaccuracies are present in this Disclosure Statement or
18 the Plan. Further, some of the information contained herein consists of projections of
19 future performance in an uncertain business. While every effort has been made to
20 ensure that the assumptions are valid and the projections are as accurate as possible,
21 under the circumstances, the Debtor does not undertake to certify or warrant the
22 absolute accuracy of the projections and other information contained herein.

23 The Court has not verified the accuracy of the information contained herein.
24 The Court's approval of the Disclosure Statement does not imply that the Court
25 endorses or approves the Plan, but only that, if the information is accurate, it is
26

1 sufficient to provide adequate information for Creditors and Interest holders to make
2 an informed decision to approve or reject the Plan.

3 **III. THE DEBTOR**

4 **A. History of the Debtor**

5 The Debtor is a Washington limited liability company formed and owned by its
6 “Members” on August 1, 2006. The sole purpose of the Debtor was and is “the
7 acquisition, ownership, operation, and management of the real estate project known as
8 the Battelle Leaseholds located in Richland, Washington, and such activities that are
9 necessary, incidental or appropriate in connection therewith.” The Debtor’s primary
10 Asset is its leasehold interests in the Battelle Memorial Institute Campus and its
11 ownership of the improvements (i.e. buildings and common areas) located thereon.

12 As of September 25, 2009, the Debtor’s business records reflected ownership
13 Interests in CPIII as being held by the following “Members”:

| 14 <u>Members/holders of Percentage Interests in CPIII</u> | <u>Percentage Interests</u> |
|--|-----------------------------|
| 15 Nicole M. Kelly | 10% |
| 16 Centurion Management III, LLC | 63% |
| 17 SMI Group XIV, LLC | 25% |
| 18 Barclays North, Inc. | 1% |
| 19 Patrick L. McCourt | 1% |

20 The one percent (1%) interests held by Barclay’s North, Inc. and Patrick L.
21 McCourt were assigned to SMI Group XIV, LLC by Order of the Benton County
22 Superior Court in Case No. 10-2-00301-8. That Order was never appealed. As such,
23 CPIII’s ownership structure is:

| 24 <u>Members/holders of Percentage Interests in CPIII</u> | <u>Percentage Interests</u> |
|--|-----------------------------|
| 25 Nicole M. Kelly | 10% |

1 Centurion Management III, LLC 63%
2 SMI Group XIV, LLC 27%

3 B. Ownership Interests Subject to Dispute

4 Other individuals such as Thomas R. Hazelrigg III (“Thomas Hazelrigg”),
5 Daniel Kirby, and Lori Rhodes have, at one time or another, asserted ownership
6 interests in CPIII. Recently, Daniel Kirby, through companies known as National Elite
7 Financial Services, LLC and L&D Financial Services, LLC, asserts an ownership
8 Interest in CPIII through Centurion Management III, LLC, allegedly resulting from the
9 assignment of a contested ownership Interest claimed by Thomas Hazelrigg. These
10 Interests were allegedly acquired by Mr. Kirby’s companies through a series of
11 transaction involving Thomas Hazelrigg sometime during the April/May 2011
12 timeframe. On April 14, 2011, CPIII filed its First Amended Complaint (ECF No.
13 221) in the action captioned *Centurion Properties III, LLC and SMI Group XIV, LLC v.*
14 *Thomas R. Hazelrigg III, et al*, Case No. 10-80118-FLK, pending in the Court. The
15 First Amended Complaint filed in this proceeding seeks, among other relief, to resolve
16 all disputes concerning ownership of CPIII, including those advanced by Mr. Kirby.

17 C. Management of the Debtor

18 The Debtor is a Washington limited liability company, the operations of which
19 are governed by the Limited Liability Company Agreement, dated as of August 1,
20 2006, as amended by subsequent documents dated as of September 24 and September
21 25, 2009 (collectively, the “Operating Agreement”). Pursuant to the Operating
22 Agreement, the Debtor is managed by a “Manager.” The Manager of the Debtor was
23 initially Centurion Management III, LLC, the Debtor’s majority Interest holder.
24 Centurion Management III, LLC was operated under the direction of Aaron Hazelrigg
25 and/or Thomas Hazelrigg at various times. On September 24, 2009, by Company
26

1 Resolution, Centurion Management III, LLC was replaced as Manager by SMI Group
2 XIV, LLC. SMI Group XIV, LLC's role as Manager of the Debtor was confirmed
3 both by Aaron Hazelrigg and Thomas Hazelrigg, and more recently by the Benton
4 County Superior Court in its Order dated May 28, 2010. Accordingly, the Debtor is
5 presently managed solely by SMI Group XIV, LLC. Michael E. Henry owns 100% of
6 SMI Group XIV, LLC.

7 The "Manager" of the Debtor is different from the property manager hired by the
8 Debtor to manage the Battelle Property. As described below, the actual manager of the
9 Battelle Property is Sigma Management, Inc. ("Sigma Management").

10 D. The Battelle Property and Battelle Leaseholds

11 The "Battelle Property" is the campus-style property located at 3200-3350 Q
12 Ave. and 620 Battelle Blvd. in Richland Washington, which is occupied by Battelle
13 Memorial Institute, an Ohio not for profit corporation ("Battelle"). There are five
14 buildings and related improvements and common areas located on the Battelle Property
15 (the "Facilities"). While Battelle owns the underlying real estate comprising the
16 Battelle Property, the Debtor owns the Facilities. The Debtor leases the underlying
17 real estate from Battelle under five separate ground leases that expire between 2051
18 and 2060 (the "Ground Leases"). The Debtor leases the Facilities to Battelle under
19 five separate leases (as supplemented and amended from time to time) that currently
20 expire between 2017 and 2018 (the "Facilities Leases"). The Facilities consist of four
21 (4) buildings used as office space and computer server/data centers. The fifth building
22 is an 84-bed facility for residential housing, used by the tenant to accommodate both
23 short and long-term stay on the campus. Originally, the Battelle Property was bare
24 ground and was leased to Sigma Financial Group VI - X, L.P.(s) ("Sigma Financial")
25 under the Ground Leases. Sigma Financial then constructed the Facilities and leased
26

1 them back to Battelle under the Facilities Leases. As used herein,
 2 “Battelle Leaseholds” means all of the Debtor’s right, title and interest in and to the
 3 Battelle Property, the improvements located thereon, and the right to receive revenue
 4 therefrom, including the Ground Leases, the Facilities Leases, and the Facilities
 5 themselves.

6 Under the Ground Leases, the Debtor pays Battelle relatively minimal ground
 7 rent. Under the Facilities Leases, Battelle pays the Debtor a “Base Rent” amount, as
 8 well as “Service Rent” and “Task Order Payments.” Through the Service Rent, the
 9 Debtor recovers the costs of operating the Battelle Property, and also recovers the
 10 ground rent paid by the Debtor to Battelle, such that the Debtor does not actually bear
 11 any cost under the Ground Leases. The Base Rent is established by the Facilities
 12 Leases. The Chart below shows the Base Rent for each of the Facilities:

| 13 Building | Physical Address | Designation | Former Designation | Tenant | Square Feet | Lease End Date | Monthly NNN Base Rent | Annual Base Rate/sf |
|--------------------------------------|----------------------------------|-------------|--------------------|----------|----------------|----------------|-----------------------|---------------------|
| 15 Information Sciences Building I | 3350 Q. Avenue, Richland, WA | ISB I | SIGMA VI | Battelle | 50,200 | 30-Sep-17 | \$82,620.83 | \$19.75 |
| 17 Information Sciences Building II | 3320 Q. Avenue, Richland, WA | ISB II | SIGMA VII | Battelle | 60,080 | 30-Sep-17 | \$98,881.67 | \$19.75 |
| 19 National Security Building | 3230 Q. Avenue, Richland, WA | NSB | SIGMA VIII | Battelle | 100,358 | 30-Sep-18 | \$172,699.39 | \$20.65 |
| 21 Environmental Technology Building | 3200 Q. Avenue, Richland, WA | ETB | SIGMA IX | Battelle | 100,358 | 30-Sep-18 | \$172,699.39 | \$20.65 |
| 23 User Housing Facility | 620 Battelle Blvd., Richland, WA | UHF | SIGMA X | Battelle | 29,108 | 30-Sep-18 | \$29,108.00 | \$12.00 |
| 24 Total Square Feet | | | | | 340,104 | | | |

25 The monthly Base Rent totals approximately \$556,009.28.

1 In addition to Base Rent, Battelle pays all the actual operating expenses for the
2 Facilities through a Service Rent, which is paid by Battelle on a monthly basis pursuant
3 to the Facilities Leases. Components of the Service Rent include utilities,
4 maintenance, taxes, insurance, ground rent, and management fees, including
5 administrative overhead. Monthly Service Rent budgets are established annually
6 through negotiations with Battelle. On an annual basis, the actual costs of the
7 operation of the Facilities are compared to the monthly Service Rents received during
8 the prior year, and Battelle either makes a payment or receives a credit to adjust for any
9 difference between the negotiated monthly Service Rent and the actual expenses.
10 When the Debtor purchased Sigma Financial's interest in the Battelle Property, it
11 reaffirmed the original Management Agreement and Management Agreement
12 Supplement with Sigma Management. Sigma Management maintains this long-term
13 service and management contract with the Debtor.

14 E. Management by Sigma Management

15 Sigma Management, Inc. is a Washington corporation whose shares are owned
16 90% by Michael E. Henry. The remaining 10% is owned by Patrick M. Roberts.
17 Sigma Financial entered into Management Agreements with Sigma Management on
18 December 17, 2001 related to each of the Facilities (as amended and supplemented,
19 the "Management Agreements"). Pursuant to the terms of the Management
20 Agreements, Sigma Management is the exclusive property manager of the Battelle
21 Property and provides complete operational services with respect to the Battelle
22 Property as well as handling all lease negotiations, accounting, recordkeeping, and
23 administrative requirements of the Debtor related to the Battelle Leaseholds. The
24 management fees received by Sigma Management from the Debtor are paid to the
25 Debtor by Battelle as part of the Service Rent, such that Battelle actually bears the cost
26

1 of Sigma Management's fee.

2 When the Debtor purchased the Battelle Leaseholds from Sigma Financial, the
3 Debtor reaffirmed the Management Agreements with Sigma Management (as
4 amended). On September 10, 2010, the Debtor sought assumption of the Management
5 Agreements (EFC No. 61), which was approved (EFC No. 84). Sigma Management
6 continues to provide management services to the Debtor during this Chapter 11
7 proceeding.

8 F. GECC Financing

9 On November 28, 2006, the newly formed Debtor entered into a Loan
10 Agreement with GECC (the "Loan Agreement") governing the terms of the Loan made
11 by GECC to the Debtor in the original principal amount of \$70,866,000 (the "Loan"),
12 which was used to finance the Debtor's acquisition of the Battelle Leaseholds from
13 Sigma Financial. The Loan is secured, among other things, by a Deed of Trust,
14 Assignment of Rents and Leases, Security Agreement and Fixture Filing (Leasehold
15 Estates) dated as of November 28, 2006, and recorded November 29, 2006, in the
16 Official Records of Benton County, Washington as Document No. 2006-039335
17 (the "Deed of Trust"). The Deed of Trust encumbers the Battelle Leaseholds.

18 Pursuant to the terms of the Loan Agreement, the Debtor was required to make
19 monthly payments to GECC based upon an interest rate of six point three-six percent
20 (6.36%), which is roughly \$330,000.00 per month. The Loan matured by its terms on
21 November 30, 2009. The Debtor did not repay the loan on November 30, 2009, which
22 constituted an Event of Default (as defined in the Loan Agreement). Under the terms
23 of the Loan Agreement, upon the occurrence and during the existence of an Event of
24 Default, "Default Interest" is owed, consisting of an additional 5% per annum.

1 G. Factors Precipitating Chapter 11

2 1. *GECC Default*

3 On September 23, 2008, GECC served a Default Notice on the Debtor. GECC
4 also demanded all rents be deposited into a “lockbox;” GECC thereby perfected its
5 security interest in all of the Debtor’s cash, including all cash received from the
6 Battelle Leaseholds, such as Base Rent, Service Rent and Task Order Payments.
7 Pursuant to the terms of the lockbox agreement, GECC, in its sole discretion and upon
8 proper application, had the ability to disburse the Service Rent and Task Order
9 Payments to CPIII and Sigma Management. This arrangement ceased during the
10 bankruptcy proceedings by operation of the Cash Collateral Orders, which enabled the
11 Debtor to use funds based on budgets pre-approved by GECC.

12 GECC posted the Default Notice on the Battelle Leaseholds on January 8, 2010,
13 as a first step in foreclosing the Deed of Trust. On February 11, 2010, GECC filed a
14 Complaint in Benton County Superior Court (Case No.10-2-00372-7) against the
15 Debtor seeking appointment of a receiver. After continued negotiations with GECC,
16 the Debtor was able to avoid the appointment of a receiver, continue the pending
17 trustee’s sale, and continue negotiations for forbearance of the Loan.

18 2. *Disputed Secured Loan/Litigation*

19 At the closing of the GECC Loan, Centurion Management III, LLC, acting as
20 the Manager of the Debtor through its representative Aaron Hazelrigg, confirmed that,
21 in consideration of the Loan, both the “Loan Documents” (as defined in the Loan
22 Agreement) and the Operating Agreement of the Debtor would prohibit the Debtor
23 from further encumbering the Battelle Leaseholds without unanimous consent from
24 other Members of the Debtor and GECC. Despite knowledge of the prohibitions
25 against further encumbrance of the Battelle Leaseholds, Aaron Hazelrigg and Thomas
26

1 Hazelrigg, in conjunction with Equity Funding, LLC (“Equity Funding”), Centrum
2 Financial Services, Inc. (“Centrum”), and Trident Investments, Inc. (“Trident”), placed
3 unauthorized encumbrances/liens against the Battelle Leaseholds in the form of four
4 (4) deeds of trust and a right to sale proceeds instruments. The Debtor’s records
5 indicate that such transactions were neither authorized nor ratified by the Debtor or its
6 Members. GECC did not consent to the unauthorized liens or encumbrances.
7 Furthermore, the Debtor did not receive any consideration in exchange for this
8 unauthorized pledge of security. Equity Funding, Centrum, and Trident dispute the
9 Debtor’s contentions and take the position that all liens and encumbrances against the
10 Debtor’s property are valid and enforceable.

11 After Equity Funding initiated a foreclosure action seeking to foreclose on one
12 of the unauthorized liens, SMI Group XIV, LLC, as Manager of the Debtor,
13 commenced litigation in Benton County Superior Court, State of Washington, Case
14 No. 10-00301-8. This case has been removed and is pending before the Court
15 (Adversary Case No. 10-80118-FLK). The parties to this litigation have engaged in
16 extensive discovery and motion practice, with a trial date presently set for December
17 12, 2011. The parties have also engaged in settlement negotiations and formal
18 mediation in an effort to resolve their disputes, but have not yet reached any
19 agreement.

20 *3. Court Enjoins Equity Funding, Centrum, and GECC from Foreclosing*
21 *on Debtor’s Property*

22 On February 19, 2010, the Benton County Court granted the Debtor’s Motion
23 enjoining Equity Funding from foreclosing on its purported deeds of trust. Although
24 Equity Funding was enjoined from foreclosing, GECC continued with its Trustee’s
25 Sale. Subsequently, Equity Funding moved to stay GECC’s proposed Trustee’s Sale.
26

1 After briefing and a hearing, the Benton County Court stayed GECC's proposed June
2 25, 2010 Trustee's Sale until further court order. Although the pending Trustee's Sale
3 of the Battelle Leaseholds has been enjoined, the Debtor's financial issues were not
4 resolved, necessitating the filing of this Chapter 11 bankruptcy proceeding.

5 H. Events Since the Petition Date

6 No trustee or examiner has been appointed in the case, nor has any official
7 committee of creditors been appointed. On July 13, 2010, CPIII filed a motion seeking
8 the use of cash collateral. (EFC No. 3). CPIII and GECC later agreed to the terms of a
9 Cash Collateral Order and on September 19, 2010, the Court entered a stipulated order
10 that authorized the use of cash collateral through December 31, 2010. (EFC No. 76).
11 The Cash Collateral Order included a budget, which detailed the use of GECC's cash
12 collateral. Among other things, the Cash Collateral Order permitted continued day-to-
13 day management and operations of the Battelle Property. The Cash Collateral Order
14 also provided for monthly adequate assurance payments to GECC of \$330,000.00, as
15 well as replacement liens, superpriority claims and other rights and protections.

16 Prior to the expiration of the Cash Collateral Order on December 31, 2010, CPIII
17 requested that GECC agree to extend the Order another three (3) months subject to a
18 proposed second budget. Subsequently, the Debtor and GECC agreed to a Second
19 Cash Collateral Order, entered by the Court on December 30, 2010, extending the use
20 of cash collateral through March 31, 2011, subject to the proposed second budget.
21 (EFC No. 147). The Debtor and GECC agreed to the entry of a Third Cash Collateral
22 Order, entered by the Court on March 31, 2011, extending the use of cash collateral
23 through June 30, 2011, subject to the proposed third budget. (EFC No. 215). The
24 Debtor and GECC agreed to the entry of a Fourth Cash Collateral Order, entered by the
25 Court on July 1, 2011, extending the use of cash collateral through September 30,
26

1 2011, subject to the proposed fourth budget (EFC No. 371). The Debtor and GECC
2 agreed to the entry of a Fifth Cash Collateral Order, entered by the Court on September
3 30, 2011, extending the use of cash collateral through December 31, 2011, subject to
4 the proposed fifth budget (EFC No. 521).

5 In addition to the foregoing events, the following events and/or relief have been
6 sought or granted post-petition:

- 7 • Claims Bar Date of November 24, 2010
- 8 • Order Approving Crumb & Munding, P.S. as counsel for the Estate
9 (EFC No. 44)
- 10 • Order Approving/Assuming Management Contract with Sigma
11 Management, Inc. (EFC No. 84)
- 12 • Motion to Assume Leases with Battelle (EFC No. 81)
- 13 • Order Approving Special Litigation Counsel for Jeff Sperline (EFC
14 No. 107)
- 15 • Order Approving Accountants Marple & Marple, P.S. (EFC No. 108)
- 16 • Order Determining Single Asset Real Estate Status (EFC No. 133)
- 17 • Order Approving Special Finance Counsel Randall Stamper (EFC No.
18 157)
- 19 • Order Approving Appraiser Anthony Gibbons (EFC No. 299)
- 20 • Motion to Appoint Trustee (EFC No. 386)
- 21 • Order Approving Financial Specialist Savills LLC (EFC No. 487)

22 CPIII anticipates relatively few other post-petition motions or events during the
23 remaining course of this Chapter 11 proceeding. Objections to various Creditor Claims
24 have been filed and will be resolved through the pending litigation or the Plan.
25 Disputes concerning Interests in the Debtor will also be resolved through the Plan.

26 I. GECC Lift Stay Motion/Settlement

On April 14, 2011, GECC moved the Court for relief from the automatic stay for

1 cause, including lack of adequate protection and the Debtor's inability to effectively
2 reorganize. (EFC No. 219). GECC submitted an appraisal prepared by Peter Shorett,
3 MAI, CRE, FRICS of Kidder Mathews concluding that the Battelle Leaseholds had a
4 net-market value of \$64,000,000.00 (ECF No. 223). GECC asserted it would be
5 undersecured by June 4, 2011. CPIII disputed GECC's assertions and opposed
6 GECC's Motion. (EFC No. 300). The Debtor submitted a competing appraisal of the
7 Battelle Leaseholds prepared by Gary Chamberlin, MAI of Chamberlin & Associates,
8 Inc., who concluded that the value of the Battelle Leaseholds was \$87,886,000. (EFC
9 Nos. 303, 304, 305). Anthony Gibbons also conducted a Review of both the
10 Chamberlin Appraisal (EFC No. 314) and GECC Appraisal (EFC No. 301, Ex. C).
11 Subsequently, GECC filed a Rebuttal Report of Peter Shorett, who concluded that,
12 based on information provided after his original appraisal, the fair market value of the
13 Battelle Leaseholds was \$67 million (ECF No. 429).

14 GECC's motion was scheduled for a week long evidentiary hearing, set to
15 commence October 3, 2011. In an effort to mitigate cost, expense, and uncertainty
16 associated with a week-long evidentiary hearing, the Court ordered GECC and the
17 Debtor to participate in mediation under the direction of mediator Ford Elsaesser. After
18 several days of mediation, GECC and the Debtor were able to achieve settlement.

19 *1. Summary of the GECC Settlement Agreement*

20 The settlement between GECC is set forth in the Settlement Agreement dated as
21 of August 3, 2011 (the "GECC Settlement"), which was filed with the Court on
22 September 26, 2011 (Docket No. 515) approved by the Court on October 11, 2011
23 (ECF No. 526). A copy of the GECC Settlement is included as Exhibit [1] of the Plan.
24 The GECC Settlement was contingent upon, among other things, approval by GECC's
25 credit committee, which approval was obtained on August 23, 2011. In addition, the
26

1 Settlement Agreement is dependent upon (1) approval by the Court, which was
2 obtained on October 11, 2011 (ECF No. 526); and (2) Confirmation of a Chapter 11
3 plan or reorganization by the Court, which must become effective no later than
4 December 30, 2011 and the terms of which must be consistent with the Settlement
5 Agreement and otherwise acceptable to the Debtor and GECC. As filed, the Plan is
6 consistent with (and subject to) the GECC Settlement and is otherwise acceptable to
7 GECC. The principal terms of the settlement are set forth below.

8 (a) Allowed Claim

9 GECC's Claim is Allowed under the Plan in the amount of \$60,182,140.00
10 (consisting of (a) outstanding principal of \$58,827,810.81, (b) the Exit Fee of
11 \$354,330.00, and (c) \$1,000,000 in legal fees and costs) plus all unpaid interest
12 (including unpaid default interest) owing as of the Confirmation Date under the terms
13 of the Loan Documents, which is estimated to be approximately \$4,191,365.00 as of
14 December 9, 2011. Further, all post-Confirmation Date interest (including unpaid
15 default interest) owing under the Loan Documents until such time as GECC's Claim is
16 satisfied is also Allowed.

17 (b) Compromised Payoff Amounts

18 Under the Settlement Agreement, the Debtor may obtain a discount on GECC's
19 Claim for "Default Interest," the "Exit Fee", and attorneys' fees and costs (as discussed
20 and defined in the GECC Settlement) if it can sell or refinance the Battelle Leaseholds
21 and pay the following amounts to GECC by wire transfer of immediately available
22 funds in accordance with the deadlines established below:

23 **i. If Paid on or Before the Earlier of (a) the Plan's**
24 **Effective Date and (b) December 31, 2011**

25 If paid on or before the Effective Date of the Plan (but no later than December
26

1 31, 2011 in any case), GECC will accept, in full satisfaction of its Claim: (i) the
2 Agreed Prepetition Claim (\$58,827,810.81); (ii) the sum of \$1.3 million on account of
3 accrued postpetition Default Interest; and (iii) attorneys' fees totaling \$250,000.

4 **ii. If Paid Between January 1, 2012 and March 31,**
5 **2012**

6 If paid on or between January 1, 2012 and March 31, 2012, GECC will accept,
7 in full satisfaction of its Claim: (i) the Agreed Prepetition Claim (\$58,827,810.81); (ii)
8 50% of the Exit Fee owing under the Loan Agreement (50% * \$354,330.00 =
9 \$177,165.00); (iii) the sum of \$1.3 million on account of accrued postpetition Default
10 Interest (which, for avoidance of doubt, shall include any amounts previously paid to
11 GECC, as discussed below); and (iv) attorneys' fees totaling \$350,000 (which amount
12 is in place of the amount that would have been paid as provided above).

13 **iii. If Paid Between April 1, 2012 and July 1, 2012**

14 If paid on or between April 1, 2012 and July 1, 2012, GECC will accept, in full
15 satisfaction of its Claim: (i) the Agreed Prepetition Claim (\$58,827,810.81); (ii) 75%
16 of the Exit Fee owing under the Loan Agreement (75% * \$354,330.00 = \$265,747.50);
17 (iii) the sum of \$1.8 million on account of accrued postpetition Default Interest (which,
18 for avoidance of doubt, shall include any amounts previously paid to GECC as
19 discussed in below, but shall not include any additional Default Interest payment which
20 becomes due on July 1, 2012); and (iv) attorneys' fees totaling \$350,000 (which
21 amount is in place of the amount that would have been paid as provided above).

22 **iv. If Paid Between July 1, 2012 and October 1, 2012**

23 If paid on or between July 1, 2012 and October 1, 2012, GECC will accept, in
24 full satisfaction of its Claim: (i) the Agreed Prepetition Claim (\$58,827,810.81); (ii)
25 100% of the Exit Fee owing under the Loan Agreement (\$354,330.00); (iii) the sum of
26

1 \$2.8 million on account of accrued postpetition Default Interest (which, for avoidance
2 of doubt, shall include any amounts previously paid to GECC as discussed below); and
3 (iv) attorneys' fees totaling \$350,000 (which amount is in place of the amount that
4 would have been paid as provided above).

5 **v. If Paid Between October 2, 2012 and December 9,**
6 **2012**

7 If paid on or between October 2, 2012 and December 9, 2012, GECC will
8 accept, in full satisfaction of its Claim: (i) the Agreed Prepetition Claim
9 (\$58,827,810.81); (ii) 100% of the Exit Fee owing under the Loan Agreement
10 (\$354,330.00); (iii) all unpaid Default Interest owing under the terms of the Loan
11 Agreement (which, for avoidance of doubt, shall include any amounts previously paid
12 to GECC as discussed below); and (iv) attorneys' fees totaling \$350,000 (which
13 amount is in place of the amount that would have been paid as provided above).

14 **vi. Contract Interest Continues to Accrue and be Paid**
15 **Through the Payoff**

16 The Debtor shall continue to perform under the terms of the Cash Collateral
17 Orders, even after the Effective Date, which includes the requirement that the Debtor
18 continue to pay \$330,000 on the first day of each month on account of non-Default
19 Interest. If full payment of GECC's Claim in the amounts set forth above is made
20 "between" regular monthly payment dates, the payoff to GECC shall also include any
21 accrued, unpaid non-Default Interest accruing on a day-to-day basis until the payoff
22 payment is received by GECC by wire transfer of immediately available funds.

23 (c) Refinance/Sale Deadline

24 If, on or before October 1, 2012, the Battelle Leaseholds have not been sold or
25 refinanced and a payoff of GECC has not occurred in the amounts and by the deadlines
26

1 set forth in the GECC Settlement, then the Debtor shall engage a qualified bankruptcy
2 professional selected by the Debtor who will commence a sale and marketing process
3 that will conclude with a sale of the Battelle Leaseholds on December 10, 2012, on
4 which date the Court shall hold a hearing at which the Battelle Leaseholds shall be sold
5 to the highest bidder free and clear of all liens, claims, interests and encumbrances
6 pursuant to section 363 of the Bankruptcy Code.

7 At the sale hearing, GECC or its assignee shall be deemed to have made a
8 “credit” bid pursuant to section 363(k) of the Bankruptcy Code to acquire the Battelle
9 Leaseholds, consisting of the following amounts, which shall be treated as cash
10 equivalents: (1) \$58,827,810.81 (representing prepetition principal and other charges);
11 (2) all accrued unpaid default interest provided for in the Loan Agreement owing
12 through the closing of the sale; (3) the Exit Fee provided for in the Loan Agreement in
13 the amount of \$354,330.00; (4) all accrued unpaid non-default interest owing through
14 the closing of the sale; and (5) \$1,000,000 in legal fees, less the amount of all
15 remaining Cash Collateral held by the Debtor and turned over to GECC prior to the
16 sale, which cash shall be certified by the Debtor on December 7, 2012 and paid to
17 GECC (together with any additional amounts collected between December 7 and
18 December 10, 2012). The amount of GECC’s credit bid will be further reduced by the
19 amount of any funds held by GECC in its suspense account (as further described in the
20 GECC Settlement). Any funds received at closing in excess of GECC’s Claim and the
21 costs of sale shall be used to fund the Plan.

22 If for any reason a closing of a sale or refinancing has not occurred by December
23 10, 2012 and a payoff has not occurred as set forth in the GECC Settlement, GECC or
24 its assignee shall become the purchaser of the Battelle Leaseholds, vested with all of
25 the Debtor’s right, title and interest in the Battelle Leaseholds, free and clear of all
26

1 liens and encumbrances, consistent with the provisions of the Bankruptcy Code,
2 effective on December 10, 2012, and the Debtor shall immediately turn over
3 possession to GECC in full satisfaction of GECC's Allowed Class 2 Claim.

4 In the event of any sale or transfer of the Battelle Leaseholds in accordance with
5 the Plan and/or the GECC Settlement (which satisfied GECC's Allowed Class 2 Claim
6 under the terms of the GECC Settlement and the Plan), the Debtor or Reorganized
7 Debtor, and any holder of a Claim or Interest, shall be required to execute and deliver
8 such documents and instruments as are necessary, appropriate or reasonably requested
9 in order to effectuate the transfer of clean, insurable and marketable title to the
10 purchaser of the Battelle Leaseholds, free and clear of claims, interests, liens and
11 encumbrances. The foregoing shall include cooperating with reasonable requests that
12 may receive from an escrow or title insurance company that is required for such
13 escrow or title insurance company to provide clean, insurable and marketable title to
14 the Battelle Leaseholds to any purchaser.

15 From and after May 1, 2012, if the Debtor has not refinanced or sold the Battelle
16 Leaseholds and the payoff has not occurred, the Debtor and Sigma Management, Inc.
17 (the Debtor's property management company), Sigma Group IV, LLC, which is the
18 Manager of the Debtor, and all of their principals, agents, owners, employees and
19 affiliates (collectively, "Sigma") shall cooperate in all reasonable respects with GECC
20 to allow GECC and its agents to inspect, evaluate, and otherwise conduct real estate,
21 environmental and other due diligence with regard to the Battelle Leaseholds
22 (including, without limitation, the Facilities and Battelle Property) as GECC
23 determines to be appropriate, with the understanding that GECC may become owner of
24 the Battelle Leaseholds. Pursuant to the Settlement Agreement all GECC's due
25 diligence under this paragraph shall be done at GECC's sole expense, notwithstanding
26

1 anything to the contrary in the Loan Documents.

2 If GECC or its assignee becomes the owner of the Battelle Leaseholds, GECC,
3 or its assignee, shall pay Sigma Management, Inc.'s monthly management fee under
4 the current management contracts assumed in this bankruptcy proceeding and
5 approved by this Court (Order EFC No. 84) between Debtor and Sigma to assist a
6 newly appointed property management company selected by GECC for 90 days
7 commencing on December 10, 2012, and Sigma shall cooperate fully to effectuate a
8 smooth transition to ownership by GECC and management by GECC's designated
9 property manager.

10 (d) Use of Cash Collateral/Periodic Payments

11 Prior to the first day of each calendar month, the Debtor shall make a monthly
12 payment to GECC in the amount of \$330,000 on account of the non-Default Interest
13 accruing on the outstanding principal balance of the Loan, which shall continue to
14 accrue unless and until the date a payoff is received by GECC in the amounts set forth
15 above. In addition, the Debtor shall make the following payments to GECC by wire
16 transfer of immediately available funds towards accrued Default Interest, unless GECC
17 receives a full payoff in the amounts set forth above prior to (and not including) the
18 dates below:

19 (i) \$1,300,000.00 on or before the earlier to occur of (a)
20 the Effective Date of the Plan or (b) December 31, 2011;

21 (ii) \$500,000.00 on April 1, 2012 (in addition to the \$1.3
22 million of Default Interest previously due);

23 (iii) \$1,000,000.00 on July 1, 2012 (in addition to the
24 \$1.8 million of Default Interest previously due);

25 (iv) \$1,500,000.00 on October 2, 2012 (in addition to the
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1 \$2.8 million of Default Interest previously due).

2 (e) Releases

3 In addition, the Settlement Agreement provides for broad mutual releases of
4 claims, upon the conditions set forth therein.

5 The approval of the GECC Settlement was the subject of a Bankruptcy Rule
6 9019 Motion filed on September 26, 2011 (EFC No. 513). No oppositions or
7 objections were received to the proposed settlement. After hearing on October 11,
8 2011, the Court approved the GECC Settlement (EFC No. 530). The GECC
9 Settlement serves as the cornerstone of the Plan, as it establishes secured claim
10 amounts and specific time frames for performance by the Debtor. In the event that any
11 conflict arises between the terms of the Plan and the GECC Settlement, the GECC
12 Settlement will govern.

13 J. Litigation: *Centurion Properties III, LLC v. Thomas Hazelrigg III, Case*
14 *No. 10-80118-FLK, United States Bankruptcy Court for the Eastern*
15 *District of Washington*

16 On February 4, 2010, CPIII, in conjunction with SMI Group XIV, LLC,
17 commenced litigation in Benton County Superior Court, State of Washington. The
18 Complaint¹ named alleged secured claimants, Creditors and Interest holders as
19 defendants, including Thomas Hazelrigg, Aaron Hazelrigg, Barclay's North, Inc.,
20 Centrum Financial Services, Jim Denton, Equity Funding, EvergreenBank, John/Jane
21 Does, Nicole Kelly, Daniel Kirby, Patrick McCourt, Derek Edmonds, Lori Rhodes,
22 Centurion Management III, LLC, Centurion Southwest, LLC, Centrum Pacific, LLC,
23 Umpqua Bank, Chicago Title Insurance Company, and Trident Investments. The suit
24 pleads and seeks relief on ten (10) separate Causes of Action. The underlying factual
25

26 ¹ On April 14, 2011, the Debtor filed its First Amended Complaint in this matter. (EFC No. 221)

1 premise for the Complaint is based upon the improper, unauthorized, and illegal
2 activities surrounding the encumbrance of the Debtor's interest in the Battelle Property
3 and resolving disputes concerning the ownership of CPIII and related issues arising
4 therefrom. This case was removed and is now being pursued in the Court for the
5 benefit of the Estate. The defendants dispute many of the allegations and claims raised
6 by the First Amended Complaint filed in this proceeding. Most of the defendants have
7 asserted counterclaims and cross-claims. The pending litigation is scheduled for trial
8 on December 12, 2011.

9 *1. Discovery/Dispositive Motions*

10 Discovery in the above referenced litigation has now substantially concluded.
11 The parties, pursuant to prior Scheduling Order, filed a series of motions and cross-
12 motions for summary judgment. The memoranda in support of the motions outline the
13 parties' respective positions concerning the nature, extent, and validity of various liens,
14 claims, and encumbrances. (*See* Adv. Proc. No. 10-80118-FLK, EFC Nos. 417, 419,
15 422, 424, 431, and 434). The prior summary judgment hearing set for November 10,
16 2011 has been stricken and all motion practice has been stayed by order of the Court.
17 The parties are attempting to resolve their disputes through mediation.

18 *2. Settlement Between Plaintiffs and Aaron Hazelrigg, Nicole Kelly,*
19 *and Centurion Southwest, LLC.*

20 The Debtor, together with SMI Group XIV, LLC and Michael E. Henry entered
21 into settlement negotiations with Aaron Hazelrigg, Nicole Kelly, and Centurion
22 Southwest, LLC. The settlement achieved between the parties provides, in summary,
23 for a mutual release between these settling parties of all claims asserted between them
24 in the Adversary Proceeding and the main Chapter 11 proceeding. Other material
25 provisions include:
26

- 1 • ***Settlement Amount/Purchase Price.*** As consideration for mutual releases
2 and the transfer of Interests and Claims discussed below, SMI Group XIV,
3 LLC (the Debtor's Manager) will pay \$950,000.00 collectively to Aaron
4 Hazelrigg, Nicole Kelly, and Centurion Southwest, LLC upon satisfaction
5 of five (5) contingencies. First, Centurion Southwest, LLC's proof of
6 claim must be assigned to SMI Group XIV, LLC. Second, the sale and/or
7 refinance of the Battelle Leaseholds must be in an amount sufficient to
8 either (1) pay off the GECC Loan or (2) resolve the GECC Loan in a
9 manner sufficient to generate proceeds available for distribution to other
10 Creditors. Third, Aaron Hazelrigg and Nicole Kelly must perform certain
11 obligations set forth at Section 6 of the Settlement Agreement. Fourth, CM
12 III and Nicole Kelly must transfer their Interest in the Debtor to SMI
13 Group XIV, LLC. Fifth, the Court must confirm the Plan or otherwise
14 enter an order authorizing the transfer of Claims and Interests to SMI
15 Group XIV, LLC.

9 The Settlement Agreement is the subject of a pending Motion seeking Court
10 approval (*see* EFC No. 437). Several parties have objected to the proposed settlement
11 (*see* EFC Nos. 464, 465, 470, and 471). For greater detail concerning this Settlement
12 Agreement, parties-in-interest are encouraged to consult the foregoing pleadings,
13 which are available on PACER. A hearing on this matter will be set in the near future.

14 K. Litigation: *Centurion Properties III, LLC v. Equity Funding, LLC et al,*
15 *Case No. 10-80137-FLK, United States Bankruptcy Court for the Eastern*
16 *District of Washington*

17 Post-petition, the Debtor was informed that certain entities, individuals, and
18 disputed Creditors were engaging in misconduct, including attempts to market, convey,
19 and sell the Battelle Leaseholds without the Debtor's consent. As such, the Debtor
20 commenced litigation for a declaratory judgment against Equity Funding, Daniel
21 Kirby, Thomas Hazelrigg, and John/Jane Does, alleging violations of the automatic
22 stay and seeking to enjoin further violations. The defendants deny that they violated
23 the automatic stay.

24 An agreed Order Approving Stipulation to Agree to Injunctive Relief and
25 Declaratory Judgment as to Automatic Stay Violation was entered on January 11,
26

2011. (Adv. Proc. No. 10-80137-FLK, EFC No. 14). The Order prohibits the defendants from engaging in any activity related to marketing, conveying, encumbering, or selling the Battelle Leaseholds without the Court's permission. The Debtor continues to pursue this Cause of Action to prevent further harm to the Estate. CPIII believes that certain defendants have recently reengaged in impermissible conduct.

IV. SUMMARY OF THE DEBTOR'S FINANCIAL STATUS

The Debtor's financial status is summarized as follows:

A. Operations

The Debtor continues to operate its business affairs and is compliant with U.S. Trustee Reporting requirements. The post-petition operating reports reflect:

Centurion Operating Report Net Profit Summary

| Month | Dates | EFC # | Net Profit/(Loss) |
|-----------|---------------------|-------|-------------------|
| July | 7/01/10 – 7/31/10 | 45 | \$ 853,314.33 |
| August | 8/01/10 – 8/31/10 | 73 | \$ 532,811.39 |
| September | 9/01/10 – 9/31/10 | 83 | \$ (936,212.20) |
| October | 10/01/10 – 10/31/10 | 106 | \$ 372,061.11 |
| November | 11/01/10 – 11/31/10 | 128 | \$ (506,650.08) |
| December | 12/01/10 – 12/31/10 | 158 | \$ 1,046,386.75 |
| January | 1/01/11 – 1/30/11 | 172 | \$ 648,191.17 |
| February | 2/01/11 – 2/28/11 | 198 | \$ 319,740.40 |
| March | 3/01/11 – 3/31/11 | 231 | \$ 250,998.84 |
| April | 4/01/11 – 4/30/11 | 275 | \$ 111,518.95 |
| May | 5/01/11 – 5/31/11 | 334 | \$ 172,181.40 |
| June | 6/01/11- 6/30/11 | 426 | \$ (1,111,278.10) |
| July | 7/01/11 – 7/31/11 | 463 | \$ 1,328,970.75 |
| August | 8/01/11 – 8/31/11 | 501 | \$ 97,464.22 |

| | | | |
|-----------|-------------------|-----|---------------|
| September | 9/01/11 – 9/30/11 | 528 | \$ 267,283.66 |
|-----------|-------------------|-----|---------------|

| | |
|--------------|------------------------|
| TOTAL | \$ 3,450,781.59 |
|--------------|------------------------|

CPIII continues to be cash flow positive, amassing cash reserves in excess of \$3.4 million.

B. Assets

The Debtor's assets consist of the Battelle Leaseholds, the cash discussed above which is subject to GECC's security interest and represents GECC's cash collateral, and various Causes of Action. The Debtor's assets are described as:

1. Real Property Leasehold Interests

The Battelle Leaseholds, which have been valued between \$64,000,000 and \$87,886,000.00.

2. Cash Collateral

As of October 1, 2011, the Debtor's personal property is identified as:

- Estimated Cash Reserves: \$3.5 million.

3. Contingent Claims/Litigation

- *Centurion Properties III, LLC, et al., v. Thomas Hazelrigg III, et al.*, Adversary No. 10-80118-FLK. Estimated value in excess of \$7.5 million.
- *Centurion Properties III, LLC v. Equity Funding, et al.*, Adversary No. 10-80137-FLK. Estimated value unknown.

C. Liabilities

The Debtors liabilities consist of the cost and expense associated with administration of this bankruptcy proceeding, the secured debt obligation owed to GECC, prepetition general unsecured debt obligations, and a series of disputed Claims. In general, the Debtor's liabilities are described as:

1. Administrative Expenses

1 “Administrative Expenses” are those costs and expenses associated with
2 operation of the Estate, including U.S. Trustee fees, professional fees, and additional
3 management fees. Administrative Expenses are not classified for purposes of the Plan.
4

| Administrative Claims | Estimated Amount |
|------------------------------|---|
| Crumb & Munding, P.S. | \$515,574.38 (through 10/31/11) estimated, subject to Court approval |
| Marple & Marple, P.S. | \$7,670.00 (through 10/31/11) estimated and subject to Court approval |
| Sperline Raekes, PLLC | \$11,824.74 (through 10/31/11) estimated and subject to Court approval |
| Stamper Rubens, P.S. | \$14,727.50 (through 10/31/11) estimated and subject to Court approval |
| Gibbons & Riely, PLLC | \$16,939.50 (through 10/31/11) estimated and subject to Court approval |
| | Total: \$566,736.12 |

13
14 In addition to the foregoing, as this reorganization process proceeds towards
15 Confirmation, the Administrative Expenses will increase. Between the expenses of the
16 Confirmation process and continued litigation of the Adversary Proceedings discussed
17 above, additional Administrative Expenses could be as high as \$500,000.

18 2. *Benton County, Washington*

19 Benton County, Washington has filed a Claim for real and personal property
20 taxes owed. The Claim is identified by Claim No. 1. The Benton County Claim is in
21 the amount of \$221,850.88. Benton County also filed a Claim in the amount of
22 \$446,545.24 on substantially the same basis (Claim No. 10). The Debtor pays all real
23 and personal property taxes owed and Benton County in the ordinary course of
24 business on a current basis. It is believed Benton County’s Claims have been paid in
25 full.

26 3. *Secured Claim, GECC*

1 The Debtor's largest debt obligation is GECC's secured Claim, which is
2 estimated to total approximately \$65 million as of the Confirmation Date. GECC's
3 secured Claim will increase substantially over time, as set forth above, if not paid in
4 full. Also as set forth above and pursuant to the GECC Settlement, GECC's secured
5 Claim has been affirmed and Allowed in the Plan and may be satisfied through either a
6 payoff or the sale of the Battelle Leaseholds by the deadlines and in the amounts
7 discussed in the GECC Settlement.

8 *4. General Unsecured Claims*

9 Certain General Unsecured Claims were owed to various Creditors as of the
10 Petition Date. Those Claims are believed to be less than \$25,000 in total.

11 *5. Disputed Claims of Umpqua Bank, Equity Funding, and Centrum*
12 *Financial Services*

13 Umpqua Bank, Equity Funding, and Centrum have each filed a Proof of Claim
14 in this Chapter 11 proceeding, which are identified as:

- 15 • Umpqua Bank, \$12,980,918.47, Claim No. 3
- 16 • Centrum, \$10,312,787.00, Claim No. 5
- 17 • Equity Funding, \$5,313,602.00, Claim No. 6

18 The foregoing Claims are disputed, contingent, and unliquidated. The Debtor
19 has objected to these claims, which are also the subject of ongoing litigation in
20 Adversary Proceeding No. 10-80118. At this point the Claims of Umpqua Bank,
21 Equity Funding and Centrum are believed to be intertwined, dependent upon each
22 other's success, and potentially duplicative.

23 *6. Trident Investments, Inc.*

24 Trident was previously scheduled on the Debtor's Schedule D. The debt was
25 scheduled as disputed, contingent, and unliquidated. Trident has not filed a Proof of
26

1 Claim in the Chapter 11 proceeding. All such claims are now barred. Accordingly,
2 Trident's claim is \$0.00.

3 7. *Centurion Pacific, LLC and Centurion Southwest, LLC*

4 Centurion Pacific, LLC and Centurion Southwest, LLC have filed Proofs of
5 Claims in this proceeding, identified as:

- 6 • Centurion Pacific, LLC, \$4,047,771.95, Claim No. 7
- 7 • Centurion Southwest, LLC, \$12,980,918.47, Claim No. 4

8 The Debtor has objected to these Claims (ECF Nos. 349 and 355). The Claims
9 were also the subject of pending litigation in Adversary Proceeding No. 10-80118. An
10 Order of Default has been entered against Centurion Pacific, LLC (Adv. Proc. No. 10-
11 80118, ECF No. 292), which will nullify Centurion Pacific, LLC's Claim.

12 Through the settlement with Aaron Hazelrigg, Nicole Kelly, and Centurion
13 Southwest described herein, the Claim of Centurion Southwest, LLC has been assigned
14 to Sigma Group XIV, LLC and will be assigned to Class 8 in the Plan. This Claim has
15 been consensually subordinated in the Plan.

16 8. *Sigma Management, Inc.*

17 As a result of cost and expense associated with preservation of CPIII's assets
18 pre-petition, Sigma Management holds a prepetition unsecured claim of \$257,133.77.
19 This Claim has been assigned to Class 9 in the Plan and consensually subordinated.

20 **V. PLAN OF REORGANIZATION**

21 The Plan is premised upon the Debtor and/or Reorganized Debtor's ability to
22 obtain replacement financing for GECC's Allowed secured Claim on or before
23 December 9, 2012 or, in the alternative, all of the Debtor's cash will be turned over to
24 GECC and the Battelle Leaseholds will be sold subject to GECC's credit bid by
25 December 10, 2012. The Plan is premised upon funding through New Equity
26

1 Contributions and continued use of GECC's Cash Collateral with GECC's prior
2 consent. The Plan also provides for completion of pending litigation to determine the
3 nature, extent, amount and validity of disputed Claims, as well as the pursuit of
4 affirmative claims against Defendants for purposes of judgments in favor of the
5 Debtor.

6 The GECC Settlement Agreement directly impacts the timing of the
7 consummation of the Plan. As such, the GECC Settlement should be read in detail.
8 The amount and timing of distributions under the Plan are dependent on future events,
9 namely, CPIII's ability to consummate replacement financing for existing debt, which
10 is itself dependent upon market conditions or, in the alternative, the sale of the Battelle
11 Leaseholds subject to GECC's credit bid. The recoveries of Creditors holding
12 Disputed Claims under the Plan are dependent upon the outcome of pending litigation,
13 as well as the foregoing factors.

14 A. Summary of Claims

15 The Court has previously set a Claims Bar Date of November 24, 2010. The
16 Plan contemplates that before a Claim will become an Allowed Claim, unless: (1) such
17 Claim has been listed in the applicable Schedule as disputed, contingent, or
18 unliquidated, in which case such Claim shall be allowed only in such amounts and of
19 such classification as is authorized by a Final Order of the Court; (2) such Claim is
20 Disputed; or (3) such Claim has been paid in full, withdrawn, released, or otherwise
21 deemed satisfied in full.

22 From a review of the filed Claims to date and the Debtor's Schedules, the
23 Debtor's best estimate of the nature and amount of claims asserted are summarized in
24 the chart below.
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| Class | Description | Estimated Amount | Class Treatment | Class Status |
|-------|--|--|---|--------------|
| 1 | Benton County Treasurer | \$446,545.24 Claim Nos. 1 & 10 | Paid in full within 30 days of Effective Date, plus statutory interest and penalties | Unimpaired |
| 2 | General Electric Capital Corporation | \$60,182,140.00, plus all unpaid default and non-default interest owing under the Loan Documents (estimated) | Allowed Claim treated in accordance with the terms of GECC Settlement Agreement Subject to terms and conditions of GECC Settlement Agreement | Impaired |
| 3 | General Unsecured Claims | Less than \$25,000 | Allowed Claims paid in full within the later of 30 days of the Effective Date or when the Claims become Allowed | Unimpaired |
| 4 | Equity Funding, Umpqua Bank, U.S. Bank | \$5,313,602 (disputed) Claim Nos. 3 & 6 | Paid, with interest, to the extent Allowed and funds are available, within 60 days after Class 2 is paid in full. Treated <i>pari passu</i> with Classes 5 and 6 or as otherwise ordered by the Court. If the Battelle Leaseholds are sold to GECC subject to GECC's credit bid, Class 4 will take nothing under the Plan. | Impaired |
| 5 | Centrum Financial Services, Umpqua Bank, U.S. Bank | \$10,312,787.00 (disputed) Claim Nos. 3 & 5 | Paid, with interest, to the extent Allowed and funds are available, within 60 days after Class 2 is paid in full. Treated <i>pari passu</i> with Classes 4 and 6 or as otherwise ordered by the Court. If the Battelle Leaseholds are sold to GECC subject to GECC's credit bid, Class 5 will take | Impaired |

| | | | | |
|----|----|------------------------------|--|--|
| 1 | | | nothing under the Plan. | |
| 2 | 6 | Trident Investments | \$0 No Claim Filed. | Disallowed Impaired |
| 3 | | | | |
| 4 | 7 | Centurion Pacific, LLC | \$4,047,771.95 (disputed) Claim No. 7 | Paid, with interest, to the extent Allowed and funds are available, within 45 days after Classes 4-6 are paid in full, to the extent Allowed. If the Battelle Leaseholds are sold to GECC subject to GECC's credit bid, Class 7 will take nothing under the Plan. |
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| 11 | 8 | Centurion Southwest, LLC | \$12,980,918.47 (disputed) Claim No. 4 | Paid, with interest, to the extent Allowed and funds are available, within 30 days after Class 7 is paid in full, to the extent Allowed. If the Battelle Leaseholds are sold to GECC subject to GECC's credit bid, Class 8 will take nothing under the Plan. |
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| 17 | 9 | Sigma Management, Inc. | \$257,133.77 | Allowed Claim to the extent funds are available after full payment of Class 8, to the extent Allowed. Impaired |
| 18 | | | | |
| 19 | | | | |
| 20 | 10 | CPIII's Membership Interests | Kelly: 10% Centurion Management III, LLC: 63% SMI: 27% <hr/> (disputed) | All Equity Interest Cancelled Impaired |
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26 **B. Classification of Claims and Interests**

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Summary

All Claims and Interests are classified under the Plan as set forth below. At the time of Confirmation Hearing, any class that does not hold or contain an Allowed Claim (or a Claim temporarily or provisionally Allowed by the Court for voting purposes) will be deleted from the Plan with respect to voting on Confirmation of the Plan. A Claim or Interest shall be deemed classified in a particular Class only to the extent the Claim or Interest qualifies within the description of that Class and shall be deemed classified in a different Class to the extent that any remainder of such Claim qualifies within the description of such different Class.

Administrative Claims

Claims for Administrative Expenses are not classified in accordance with section 1123(a)(1) of the Bankruptcy Code. Claims for Administrative Expenses are Unimpaired, are not classified for purposes of voting on the Plan, and holders of Administrative Expense Claims are not entitled to vote on the Plan. Claims for Administrative Expense are Claims for any expense in the Chapter 11 Case of the type defined in section 503(b) of the Bankruptcy Code and entitled to priority in Section 507(a) of the Bankruptcy Code, including all liabilities incurred by the Debtor in the operation of its business during the Chapter 11 Case, the actual and necessary costs and expenses of preserving the Estate, and Claims for professional services and reimbursement of expenses awarded under sections 330 and 331 of the Bankruptcy Code.

Priority Claims

Priority Claims are those Unsecured Claims entitled to priority pursuant to section 507(a)(8) of the Bankruptcy Code. All state and federal tax claims are believed to have been paid. The Debtor does not believe there are any Priority Claims.

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Class 1 – Secured Claim of Benton County Treasurer

Class 1 consists of any Allowed secured Claim for property taxes asserted by Benton County against the Battelle Leaseholds, to the extent unpaid. This Claim is a secured Claim to the extent permitted by applicable state law for unpaid taxes. The amount of the Claim is estimated to be \$446,545.24 (as set forth in Claim No. 10 – note that Benton County also filed Claim No. 1 in the amount of \$221,850.88). Benton County’s Claim is believed to have been paid, but additional taxes may be due and owing in a similar amount by the time of Confirmation.

Class 2 – Secured Claim of GECC

Class 2 is comprised of the Allowed secured Claim of GECC. Pursuant to the Loan Documents, GECC holds a valid, undisputed, perfected, first priority security interest in and lien on all of the Debtor’s assets, including the Battelle Leaseholds, the Debtor’s right to earn future revenue therefrom, and all Cash Collateral. The Class 2 Claim of GECC has been Allowed pursuant to the terms and conditions of the GECC Settlement. Subject to the terms of the GECC Settlement, GECC’s Claim is Allowed as a Class 2 Claim in the amount of \$60,182,140.00 (consisting of (a) outstanding principal of \$58,827,810.81, (b) the Exit Fee of \$354,330.00, and (c) \$1,000,000 in legal fees and costs) plus all unpaid interest (including unpaid default interest) owing as of the Confirmation Date under the terms of the Loan Documents, which is estimated to be approximately \$4,191,365.00 as of December 9, 2011. Further, all post-Confirmation Date interest (including unpaid default interest) owing under the Loan Documents until such time as GECC’s Claim is satisfied is also Allowed.

Class 3 – General Unsecured Claims

Class 3 is comprised of the holders of General Unsecured Claims, to the extent such Claims are Allowed, other than Class 4, 5, 6, 7, 8, and 9 Claims. The Debtor

1 estimates that Allowed Class 3 Claims will total less than \$25,000. General Unsecured
2 Claims are all Claims against the Debtor that are not (a) secured Claims, (b) Claims for
3 Administrative Expenses, (c) Priority Claims, or (d) Equitable Claims.

4 *Class 4 – Claim of Equity Funding, Umpqua Bank, and U.S. Bank*

5 Class 4 is comprised of the Disputed Claims of Equity Funding, LLC, Umpqua
6 Bank, and U.S. Bank, to the extent such Claims are Allowed. The holders of Class 4
7 Claims assert a second priority security interest in and lien on the Battelle Leaseholds.
8 Their Claims are more fully described in the Disclosure Statement. Equity Funding,
9 LLC filed Proof of Claim No. 6, which has been Disputed. Umpqua Bank filed Proof
10 of Claim No. 3, which has been Disputed. The two Claims are believed to assert the
11 same Claim and arise from the same set of facts and circumstances. The nature, extent,
12 and validity of such Claims and security interests asserted therein are Disputed and the
13 subject of litigation in Adversary Proceeding No. 10-80118. Class 4 is believed to be
14 asserting a Claim based upon the same underlying transactions as Classes 5, 6, 7, and
15 8.

- 16 • **Debtor's Disputes re Claim Amount.** The *amount* of the secured
17 Claims (and any Equitable Claims) of Equity Funding, LLC, Umpqua
18 Bank, and U.S. Bank are subject to the defenses, counterclaims, setoffs,
19 recoupment rights and claims of the Debtor asserted or to be asserted in
20 Adversary Proceeding No. 10-80118.
- 21 • **Debtor's Disputes re Extent and Priority.** The *extent and priority* of
22 the Equity Funding, LLC, Umpqua Bank, and U.S. Bank Claims (and
23 any Equitable Claims) as between Equity Funding, LLC, Umpqua Bank,
24 and U.S. Bank and other classes of Creditors and Interest holders is
25 subject to the claims of the Debtor asserted in Adversary Proceeding No.
26 10-80118.
- **Valuation of Claim.** The *amounts* of the Claims of Equity Funding,
LLC, Umpqua Bank, and U.S. Bank (if any) are subject to the provisions

1 of section 506(a) of the Bankruptcy Code in that they are limited to the
2 value of the property of the Debtor in which Equity Funding, LLC,
3 Umpqua Bank, and U.S. Bank are determined to hold a valid lien
4 interest.

- 5 • **Adjudication of Equity Funding, LLC, Umpqua Bank, and U.S.
6 Bank's Claim.** The Equity Funding, LLC, Umpqua Bank, and U.S.
7 Bank Claims will not become Allowed Claims until such time as the
8 Court enters orders that have become a Final Order resolving Adversary
9 Proceeding No. 10-80118, or an agreement between such parties is
10 reached and approved by the Court.

11 It is uncertain whether or not adjudication of the nature, extent, amount, and
12 validity of the Equity Funding, LLC, Umpqua Bank, and U.S. Bank Claims will
13 precede Confirmation of the Debtor's Plan.

- 14 • **Estimation Proceeding.** Given the substantial adverse claims surrounding
15 the Equity Funding, LLC, Umpqua Bank, and U.S. Bank Claims, and the
16 overlap of claims asserted by Classes 5 and 6, the Debtor reserves the
17 right to commence a proceeding under section 502(c) of the Bankruptcy
18 Code for the estimation of the Allowed amount of Class 4 Claims in
19 connection with the Confirmation Hearing to ensure that the
20 administration of the Chapter 11 Case is not unduly delayed on account of
21 the disputes regarding these Claims.

22 Presently, Equity Funding, LLC, Umpqua Bank, and U.S. Bank assert Claims
23 totaling \$5,313,602.00. The Debtor asserts that the amount of Class 4 Claims is zero
24 and, in fact, Equity Funding, LLC, Umpqua Bank, and U.S. Bank owe the Debtor
25 damages in excess of \$7.5 million.

26 *Class 5 – Claim of Centrum, Umpqua Bank, and U.S. Bank*

Class 5 is comprised of the Claims of Centrum Financial Services, Inc., Umpqua
Bank, and U.S. Bank, to the extent such Claims are Allowed. The holders of Class 5
Claims also assert a [second] priority security interest in and lien on the Battelle
Leaseholds. Their Claims are more fully described in the Disclosure Statement.

1 Centrum Financial Services, Inc. filed Proof of Claim No. 5, which has been Disputed.
2 Umpqua Bank filed Proof of Claim No. 3, which has also been Disputed. The two
3 Claims are believed to assert the same Claim and arise from the same set of facts and
4 circumstances. The nature, extent, and validity of such Claims and security interests
5 asserted therein are Disputed and the subject of Adversary Proceeding No. 10-80118.
6 Class 5 is believed to be asserting a Claim based upon the same underlying
7 transactions and money as Classes 4-8.

- 8 • **Debtor's Disputes re Claim Amount.** The *amount* of the secured Claims
9 (and any Equitable Claims) of Centrum Financial Services, Inc., Umpqua
10 Bank, and U.S. Bank are subject to the defenses, counterclaims, setoffs,
11 recoupment rights and claims of the Debtor asserted or to be asserted in
12 Adversary Proceeding No. 10-80118.
- 13 • **Debtor's Disputes re Extent and Priority.** The *extent and priority* of
14 the Centrum Financial Services, Inc., Umpqua Bank, and U.S. Bank
15 Claims (and any Equitable Claims) as between Centrum Financial
16 Services, Inc., Umpqua Bank, and U.S. Bank and other classes of
17 Creditors and Interest holders is subject to the claims of the Debtor
18 asserted in Adversary Proceeding No. 10-80118.
- 19 • **Valuation of Secured Claim.** The *amounts* of the Claims of Centrum
20 Financial Services, Inc., Umpqua Bank, and U.S. Bank (if any) are subject
21 to the provisions of section 506(a) of the Bankruptcy Code in that they are
22 limited to the value of the property of the Debtor in which Centrum
23 Financial Services, Inc., Umpqua Bank, and U.S. Bank are determined to
24 hold a valid lien interest.
- 25 • **Adjudication of Centrum Financial Services, Inc., Umpqua Bank, and
26 U.S. Bank's Claim.** The Centrum Financial Services, Inc., Umpqua
Bank, and U.S. Bank secured Claims will not become Allowed Claims
until such time as the Court enters orders that have become a Final Order
resolving Adversary Proceeding No. 10-80118, or an agreement between
such parties is reached and approved by the Court.

1 It is uncertain whether or not adjudication of the nature, extent, amount, and
2 validity of the Centrum Financial Services, Inc., Umpqua Bank, and U.S. Bank Claims
3 will precede Confirmation of the Debtor's Plan.

- 4 • **Estimation Proceeding.** Given the substantial adverse claims surrounding
5 the Centrum Financial Services, Inc., Umpqua Bank, and U.S. Bank
6 Claims, the Debtor reserves the right to commence a proceeding under
7 section 502(c) of the Bankruptcy Code for the estimation of the Allowed
8 amount of Class 5 Claims in connection with the Confirmation Hearing to
9 ensure that the administration of the Chapter 11 Case is not unduly
10 delayed on account of the disputes regarding these Claims.

11 Presently, Centrum Financial Services, Inc., Umpqua Bank, and U.S. Bank
12 assert Claims totaling \$10,312,787.00. The Debtor asserts that the amount of Class 5
13 Claims is zero and, in fact, Centrum Financial Services, Inc., Umpqua Bank, and U.S.
14 Bank owe the Debtor damages in excess of \$7.5 million.

15 *Class 6 – Claim of Trident*

16 Class 6 is comprised of the Claim of Trident Investments, Inc., to the extent such
17 Claim is Allowed. Trident Investments, Inc. has placed clouds against title to the
18 Debtor's Assets. As a precaution, Trident was listed in Schedule D as a contingent,
19 unliquidated, and disputed claim. Trident Investments, Inc. has not filed a proof of
20 claim in this proceeding and is now barred from doing so.

21 In Adversary Proceeding No. 10-80118, the Debtor asserts that Trident
22 Investments, Inc. recorded documents clouding title to the Debtor's Assets. The
23 Debtor will seek a lift of the stay imposed by the Court in Adversary Proceeding No.
24 10-80118, allowing the Debtor to seek to extinguish these clouds on the title to its
25 Assets. The Debtor asserts Trident Investments, Inc. has no Claim against the Debtor
26 or its Assets, and the Debtor intends to seek damages from Trident Investments, Inc. in
excess of \$7.5 million at trial.

Class 7 – Claim of Centurion Pacific

1 Class 7 is comprised of the Claim of Centurion Pacific, LLC, to the extent such
2 Claim is Allowed. Centurion Pacific, LLC has asserted an unsecured claim for money
3 allegedly delivered to the Debtor for purposes of making a loan to the Debtor. The
4 alleged delivery of money is not supported by any documentation. Centurion Pacific,
5 LLC filed Proof of Claim No. 7, which has been Disputed. The Debtor disputes the
6 nature, extent, and validity of such Claim and any security interests asserted therein.
7 An Order of Default has been entered against Centurion Pacific, LLC in Adversary
8 Proceeding No. 10-80118.

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- 10 • **Adjudication of Centurion Pacific, LLC's Claim.** The Centurion
11 Pacific, LLC Claim will not become an Allowed Claim until such time as
12 the Court enters orders that have become a Final Order resolving
13 Adversary Proceeding No. 10-80118.

14 It is anticipated that the adjudication of the nature, extent, amount, and validity
15 of the Centurion Pacific, LLC Allowed Claim will precede Confirmation of the
16 Debtor's Plan because the Debtor plans to seek a lift of the stay imposed by the Court
17 in Adversary Proceeding No. 10-80118, allowing the Debtor to enter a default
18 judgment against Centurion Pacific, LLC eliminating its Claim. Affirmative relief and
19 damages, if any, will be reserved for supplemental judgments.

20 \\

- 21 • **Estimation Proceeding.** In the event the stay is not modified, the Debtor
22 reserves the right to commence a proceeding under section 502(c) of the
23 Bankruptcy Code for the estimation of the Allowed amount of the Class 7
24 Claim in connection with the Confirmation Hearing to ensure that the
25 administration of the Chapter 11 Case is not unduly delayed on account of
26 the disputes regarding this Claim.

Presently, Centurion Pacific, LLC asserts a Claim of \$4,047,771.95, which is
believed to be based upon the same facts, circumstances, and transactions as the

1 Claims in Classes 4 and 5. The Debtor asserts that the amount of Class 7 Claims is
2 zero.

3 *Class 8 – Claim of Centurion Southwest*

4 Class 8 is comprised of the Claim of Centurion Southwest, LLC, to the extent
5 such Claim is Allowed. Centurion Southwest, LLC has alleged an unsecured claim
6 against the Debtor based upon an allegation that it was the owner of certain funds that
7 were delivered to the Debtor for purposes of making a loan. Centurion Southwest, LLC
8 filed Proof of Claim No. 4, which has been Disputed. The nature, extent, and validity
9 of such Claim and the security interests asserted therein are Disputed and the subject of
10 Adversary Proceeding No. 10-80118. The *amount* of the secured Claim (and any
11 Equitable Claims) of Centurion Southwest, LLC is subject to the defenses,
12 counterclaims, setoffs, recoupment rights and claims of the Debtor as asserted or to be
13 asserted in Adversary Proceeding No. 10-80118. The *extent and priority* of the
14 Centurion Southwest, LLC Claim (and any Equitable Claims) as between Centurion
15 Southwest, LLC and other classes of Creditors and Interest holders is also subject to
16 the claims of the Debtor as asserted in Adversary Proceeding No. 10-80118.

17 The Centurion Southwest, LLC Claim will not become an Allowed Claim until
18 such time as the Court enters orders that have become a Final Order resolving
19 Adversary Proceeding No. 10-80118, or the agreement between such parties is
20 approved by the Court. As a material part of the Settlement Agreement between the
21 Debtor, SMI Group XIV, LLC, Michael E. Henry, Aaron Hazelrigg, Nicole Kelly, and
22 Centurion Southwest, LLC, the Centurion Southwest, LLC Claim has been assigned to
23 SMI Group XIV, LLC. (See Section J.2). If necessary, the Debtor reserves the right to
24 commence a proceeding under section 502(c) of the Bankruptcy Code for the
25 estimation of the Allowed amount of the Class 8 Claim in connection with the hearing
26

1 on Confirmation of the Plan, to ensure that the administration of the Chapter 11 Case is
2 not unduly delayed on account of the disputes regarding this Claim. Presently,
3 Centurion Southwest, LLC asserts a Claim of \$12,980,918.47, which is also believed
4 to arise from the same facts, circumstances, and transactions as those Claims identified
5 in Classes 4 and 5.

6 *Class 9 – Claim of Sigma Management (Insider)*

7 Class 9 is comprised of the Allowed pre-petition General Unsecured Claim of
8 Sigma Management, Inc., which was scheduled in the amount of \$257,133.77. To
9 advance this reorganization and conserve cash for distribution to other holders of
10 Allowed Claims, Sigma Management, Inc. has agreed to subordinate its General
11 Unsecured Claim in the Plan. Sigma Management, Inc. has consensually agreed to
12 waive payment of its Allowed Claim, contributing the same as non-cash consideration
13 in exchange for New Equity Interest provided for in the Plan.

14 *Class 10 – Interests*

15 Class 10 is comprised of the existing Interests in the Debtor. The recognized
16 Interest holders of the Debtor are:

- 17 • SMI Group XIV, LLC 27%
- 18 • Centurion Management III, LLC 63%
- 19 • Nicole Kelly 10%

20 In addition to the foregoing recognized Interests in the Debtor, the following
21 individuals or entities have claimed Interests in the Debtor:

- 22 • Thomas R. Hazelrigg, III; Claim No. 9
 - 23 • National Elite Services, LLC; Claim Nos. 11 and 12
 - 24 • L&D Financial Services, LLC; Claim No 13
 - 25 • Other unidentified Judgment Creditors of Thomas R. Hazelrigg, III
- 26

1 The foregoing identified Interests are disputed. Because all Interests, disputed
2 and undisputed, are cancelled pursuant to the Plan as of the date of entry of
3 Confirmation Order, all disputes over existing Interest will be moot upon Plan
4 Confirmation.

5 C. Treatment of Allowed Claims and Interests

6 The following is the description of the treatment proposed for the Claims by
7 each Class of Creditors, Interest holders, and holders of Administrative Expense and
8 Priority Claims against the Estate as classified in the Plan.

9 *Administrative Expense Claims*

10 Allowed Claims for Administrative Expenses shall be paid in full on the later of
11 (1) the Effective Date (or as soon thereafter as reasonably practicable, but in no event
12 later than 30 days after the Effective Date), (2) the date on which such Claim becomes
13 an Allowed Claim (or as soon thereafter as reasonably practicable, but in no event later
14 than 30 days after such Claim is Allowed), (3) the date that payment of such Allowed
15 Claim is due under ordinary business terms, or (4) as agreed between the Debtor and
16 the holder of any Administrative Expense Claim. Any agreements entered into by the
17 Debtor before or after the Effective Date concerning the payment of Administrative
18 Expenses shall require the written consent of GECC if paid from Cash Collateral and
19 shall be disclosed to the Court if entered into prior to the Effective Date.

20 **Administrative Claims are Unimpaired and the holders thereof are not entitled to**
21 **vote on the Plan.**

22 *Priority Claims*

23 The Holders of the Priority Claims shall receive, in full satisfaction, settlement,
24 release, extinguishment and discharge of such Claims: (A) the amount of their unpaid
25 Allowed Priority Claims in cash within thirty (30) days after the later of (i) the
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1 Effective Date, or (ii) the date on which such Claim becomes Allowed, which is a
2 period not exceeding five (5) years after the assessment of the tax on which such
3 Allowed Claim is based, totaling the principle amount of such Claim plus simple
4 interest on any outstanding balance from the Effective Date calculated pursuant to 11
5 U.S.C. § 511; or (B) such other treatment on such other terms and conditions as may be
6 agreed upon in writing by the holder of any such Allowed Claim and the Debtor or the
7 Reorganized Debtor, as the case may be, or as the Court may order. Notwithstanding
8 anything to the contrary, any agreement concerning the payment of Priority Claims that
9 will be paid with Cash Collateral shall require the written consent of GECC. The
10 Debtor or the Reorganized Debtor, as the case may be, shall have the right, in their sole
11 discretion (with GECC consent if paid with Cash Collateral), to prepay in full or in
12 part, at any time, any Allowed Priority Claim without premium or penalty. **Priority**
13 **Claims are Unimpaired and are not entitled to vote on the Plan.**

14 *Treatment of Class 1 – Benton County*

15 Benton County is the sole holder of the Allowed Class 1 Claim. Benton
16 County shall receive, in full satisfaction, settlement, release, extinguish and discharge
17 of such Claim, the amount of such unpaid Allowed Claim in cash, plus statutory
18 interest and penalties, if any. **The Allowed Class 1 Claim is Unimpaired and is**
19 **conclusively deemed to have accepted the Plan pursuant to section 1129(f) of the**
20 **Bankruptcy Code; therefore this Class is not entitled to vote on the Plan.**

21 *Treatment of Class 2 – Claim of GECC*

22 GECC is the sole Holder of the Allowed Class 2 Claim. GECC shall receive, in
23 full satisfaction, settlement, release, extinguishment and discharge of its Claim against
24 the Debtor, the treatment specified in the GECC Settlement, and all rights, powers, and
25 privileges afforded to GECC under the GECC Settlement. In the event there is any
26

1 conflict between the terms of the Plan and the GECC Settlement, the provisions of the
2 GECC Settlement shall govern in all instances.

3 Unless and until the Class 2 Claim is satisfied in accordance with the GECC
4 Settlement, no payments shall be made to the holders of any Claims or Interests
5 without GECC's written consent out of Cash Collateral, except for Allowed
6 Administrative Expense Claims, Allowed Priority Claims, and Allowed Class 1 Claims
7 previously approved by GECC in writing. Further, without GECC's consent, neither
8 the Debtor nor the Reorganized Debtor, as applicable, shall be entitled to use Cash
9 Collateral without GECC's consent until such time as GECC's Claim is satisfied in
10 accordance with the terms of the GECC Settlement.

11 In the event the Debtor or Reorganized Debtor, as applicable, is able to obtain
12 replacement financing in an amount sufficient to fully pay GECC's Allowed Class 2
13 Claim in the amounts owing and as of the dates specified in the GECC Settlement, the
14 Debtor shall then be authorized, to the extent funds are available, to use Cash
15 Collateral and other funds to pay the holders of Claims and Interests set forth in
16 Classes 3-10 to the extent such Claims and Interests are Allowed. In the event that the
17 Battelle Leaseholds are sold subject to GECC's credit bid pursuant to the GECC
18 Settlement Agreement (including a sale to GECC), then: (i) all Cash Collateral shall be
19 turned over to GECC; (ii) the purchaser shall take the Battelle Leaseholds free and
20 clear of all liens, claims, and interests; (iii) the holders of Claims and Interests in
21 Classes 3-10 shall not receive any distribution (other than any distribution made out of
22 the New Equity Contribution); and (iv) all such holders of liens, claims and interests,
23 including the holders of Claims and Interests in Classes 3-10, shall be enjoined and
24 forever barred from asserting liens, claims or interests in or to the Cash Collateral, the
25 Battelle Leaseholds or against the purchaser thereof.
26

1 Until such time as GECC's Claim is satisfied in accordance with the terms and
2 deadlines set forth in the GECC Settlement, GECC shall be entitled to the periodic
3 default and non-default interest payments specified in the GECC Settlement, which
4 may be paid from Cash Collateral.

5 The Debtor and Reorganized Debtor, as applicable, shall remain bound to all of the
6 terms and obligations set forth in the Loan Documents, as modified by the Loan
7 Modification Agreement and GECC Settlement. In order to implement the terms of
8 the GECC Settlement, without limitation to the other requirements thereof, SMI Group
9 XIV, LLC is authorized and directed, on behalf of the Debtor and Reorganized Debtor,
10 as applicable, to execute and deliver the Loan Modification Agreement and bind the
11 Debtor and Reorganized Debtor, as applicable, to its terms. The Debtor shall
12 undertake all steps as are necessary to or as may be reasonably requested by GECC to
13 ensure and confirm the continuing perfection and priority of GECC's security interest
14 in and lien on all of the Debtor's assets, including the Battelle Leaseholds and Cash
15 Collateral, including all future cash received by the Debtor on account of or related to
16 the Battelle Leaseholds.

17 The Allowed Class 2 Claim is Impaired and GECC is entitled to vote to accept
18 or reject the Plan.

19 *Treatment of Class 3 – General Unsecured Claims*

20 The Holders of all Allowed Class 3 Claims shall receive, on account of their
21 Allowed Class 3 Claims, in full satisfaction, release and discharge of such Claims, the
22 full amount of such unpaid Allowed Claim. Payment of such Claims shall be made (1)
23 on the Effective Date (or as soon thereafter as reasonably practicable, but in no event
24 later than 30 days after the Effective Date), (2) on the date on which such Claim
25 becomes an Allowed Claim (or as soon thereafter as reasonably practicable, but in no
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1 event later than 30 days after such Claim is Allowed), (3) the date that payment of such
2 Allowed Claim is due under ordinary business terms, or (4) as agreed between the
3 Debtor and the holder of any General Unsecured Claims. Distributions to holders of
4 Class 3 Claims shall be made solely from the cash contributed as part of the New
5 Equity Contributions. The holders of Class 3 Claims shall not be entitled to receive
6 any Cash Collateral or proceeds of the Battelle Leaseholds unless and until all Claims
7 determined by Final Order to be secured by such assets are fully satisfied. **Class 3**
8 **Claims are Unimpaired and are conclusively deemed to have accepted the Plan**
9 **pursuant to section 1129(f) of the Bankruptcy Code; therefore this Class is not**
10 **entitled to vote on the Plan.**

11 *Treatment of Class 4 – Claim of Equity Funding, Umpqua Bank, and U.S.*
12 *Bank*

13 The holders of the Allowed Class 4 Claim shall receive, in full satisfaction,
14 settlement, release, extinguishment and discharge of such Claims, the full amount of
15 such Allowed Claims, with interest as determined as part of the Claims allowance
16 process and in accordance with the Bankruptcy Code, in cash, to the extent funds are
17 available after the Class 2 Claim has been paid in full, and *pari passu* with the holders
18 of Allowed Class 5 and 6 Claims or in accordance with the priorities determined by the
19 Court in the Claims allowance process. In the event that the Battelle Leaseholds are
20 sold pursuant to the GECC Settlement and as provided in the Plan, the holders of Class
21 4 Claims shall not receive any distribution on account of their Claims, and the holders
22 of Class 4 Claims shall be enjoined and forever barred from asserting liens, claims or
23 interests in or to the Cash Collateral, the Battelle Leaseholds or against the purchaser
24 thereof. If payments to holders of Class 4 Claims are made, payment shall be made not
25 later than 60 days after the Class 2 Allowed Claim is paid in full as provided under the
26

1 Plan and the GECC Settlement. **Class 4 Claims are Impaired and are entitled to**
2 **vote to accept or reject the Plan.**

3 *Treatment of Class 5 – Claim of Centrum, Umpqua Bank, and U.S. Bank*

4 The holders of Allowed Class 5 Claims shall receive, in full satisfaction,
5 settlement, release, extinguishment and discharge of such Claims, the full amount of
6 such Allowed Claims, with interest as determined as part of the Claims allowance
7 process and in accordance with the Bankruptcy Code, in cash, to the extent funds are
8 available after the Class 2 Claim has been paid in full, and *pari passu* with the holders
9 of Allowed Class 4 and 6 Claims or in accordance with the priorities determined by the
10 Court in the Claims allowance process. In the event that the Battelle Leaseholds are
11 sold pursuant to the GECC Settlement and as provided in the Plan, the holders of Class
12 5 Claims shall not receive any distribution on account of their Claims, and the holders
13 of Class 5 Claims shall be enjoined and forever barred from asserting liens, claims or
14 interests in or to the Cash Collateral, the Battelle Leaseholds or against the purchaser
15 thereof. If payments to holders of Class 5 Claims are made, payment shall be made not
16 later than 60 days after the Class 2 Allowed Claim is paid in full as provided under the
17 Plan and the GECC Settlement. **Class 5 Claims are Impaired and are entitled to**
18 **vote to accept or reject the Plan.**

19 *Treatment of Class 6 – Claim of Trident*

20 The holder of the Allowed Class 6 Claim shall receive, in full satisfaction,
21 settlement, release, extinguishment and discharge of such Claim, the full amount of
22 such Allowed Claim, with interest as determined as part of the Claims allowance
23 process and in accordance with the Bankruptcy Code, in cash, to the extent funds are
24 available after the Class 2 Claim has been paid in full, and *pari passu* with the holders
25 of Allowed Class 4 and 5 Claims or in accordance with the priorities determined by the
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1 Court in the Claims allowance process. In the event that the Battelle Leaseholds are
2 sold pursuant to the GECC Settlement and as provided in the Plan, the holder of the
3 Class 6 Claim shall not receive any distribution on account of its Claim, and the holder
4 of the Class 6 Claim shall be enjoined and forever barred from asserting liens, claims
5 or interests in or to the Cash Collateral, the Battelle Leaseholds or against the
6 purchaser thereof. If payment to the holder of the Class 6 Claim is made, payment
7 shall be made not later than 60 days after the Class 2 Allowed Claim is paid in full as
8 provided under the Plan and the GECC Settlement. **The Class 6 Claim is Impaired
9 and is entitled to vote to accept or reject the Plan.**

10 *Treatment of Class 7 – Claim of Centurion Pacific*

11 The holder of the Class 7 Claim, if any, shall receive on account of its Allowed
12 Claim, in full satisfaction, release, and discharge of such Claim, the full amount of
13 such Allowed Claim, with interest as determined as part of the Claim allowance
14 process and in accordance with the Bankruptcy Code, in cash, to the extent funds are
15 available after the Claims in Classes 2, 4, 5 and 6 have been paid in full. In the event
16 that the Battelle Leaseholds are sold pursuant to the GECC Settlement and as provided
17 in the Plan, the holder of the Class 7 Claim shall not receive any distribution on
18 account of its Claim, and the holder of the Class 7 Claim shall be enjoined and forever
19 barred from asserting liens, claims or interests in or to the Cash Collateral, the Battelle
20 Leaseholds or against the purchaser thereof. If payment to the holder of the Class 7
21 Claim is made, payment shall be made not later than 45 days after payment in full of
22 all Allowed Claims in Classes 4, 5 and 6 (and only after the Class 2 Claim has been
23 satisfied in full as provided in the Plan and the GECC Settlement). **The Class 7 Claim
24 is Impaired and is entitled to vote to accept or reject the Plan.**

25 *Treatment of Class 8 – Claim of Centurion Southwest*

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1 The holder of the Class 8 Claim shall receive on account of its Allowed Claim,
2 in full satisfaction, release, and discharge of such Claims, the full amount of such
3 Allowed Claim, with interest as determined as part of the Claim allowance process and
4 in accordance with the Bankruptcy Code, in cash, to the extent funds are available after
5 the Claims in Classes 2, 4, 5, 6 and 7 have been paid in full. In the event that the
6 Battelle Leaseholds are sold pursuant to the GECC Settlement and as provided in the
7 Plan, the holder of the Class 8 Claim shall not receive any distribution on account of its
8 Claim, and the holder of the Class 8 Claim shall be enjoined and forever barred from
9 asserting liens, claims or interests in or to the Cash Collateral, the Battelle Leaseholds
10 or against the purchaser thereof. If payment to the holder of the Class 8 Claim is made,
11 payment shall be made not later than 30 days after payment in full of all Allowed
12 Claims in Class 7 (and only after the Class 2, 4, 5, and 6 Claims have been satisfied in
13 full as provided in the Plan and the GECC Settlement). **The Class 8 Claim is**
14 **Impaired and is entitled to vote to accept or reject the Plan.**

15 *Treatment of Class 9 – Claim of Sigma Management*

16 The Holder of a Class 9 Claim shall receive on account of the Allowed Claim, in
17 full satisfaction, release, and discharge of such Claim. Sigma Management, Inc. has
18 consensually agreed to waive payment of its Allowed Claim, contributing the same as
19 non-cash consideration in exchange for New Equity Interest provided for in the Plan.
20 In the event that the Battelle Leaseholds are sold pursuant to the GECC Settlement and
21 as provided in the Plan, the holder of the Class 9 Claim shall not receive any
22 distribution on account of its Claim, and the holder of the Class 9 Claim shall be
23 enjoined and forever barred from asserting liens, claims or interests in or to the Cash
24 Collateral, the Battelle Leaseholds or against the purchaser thereof. **The Class 9**
25 **Claim is Impaired and is entitled to vote to accept or reject the Plan.**

1 *Treatment of Class 10 – Equity Interests*

2 Class 10 consists of all Interest in the Debtor, whether disputed or undisputed,
3 contingent or non-contingent, in existence prior to the entry of the Confirmation Order.
4 All pre-petition and pre-Confirmation Interests of the Debtor will be cancelled and
5 extinguished as of the Confirmation Date. In the event that the Battelle Leaseholds are
6 sold pursuant to the GECC Settlement and as provided in the Plan, Interest holders
7 shall not receive any distribution on account of their Interests, and the holder of the
8 Interests shall be enjoined and forever barred from asserting liens, claims or interests in
9 or to the Cash Collateral, the Battelle Leaseholds or against the purchaser thereof. **All**
10 **Class 10 Interests held are claimed by Insiders of the Debtor and are not entitled**
11 **to vote to accept or reject the Plan. In the event any Interest holder is determined**
12 **not to be an Insider, such Interest holder is deemed to have rejected the Plan**
13 **pursuant to section 1126(g) of the Bankruptcy Code.**

14 D. Confirmation Pursuant to Section 1129(b) of the Bankruptcy Code

15 The Debtor will request Confirmation of the Plan, as it may be modified from
16 time to time, under section 1129(b) of the Bankruptcy Code with respect to any Class
17 of Claims or Interests that rejects, or is deemed to have rejected, the Plan. This
18 includes a request for Confirmation of the Plan over the deemed rejection by Class 10.

19 E. Effective Date of the Plan

20 **The Effective Date of the Plan**, means December 30, 2011 or such date prior to
21 December 30, 2011 and after the Confirmation Date as may be designated by the
22 Debtor.

23 F. Administration of the Plan

24 The Plan provides for the appointment of the Debtor as the “Plan Disbursing
25 Agent” to collect, administer, and distribute assets in accordance with the terms of the
26

1 Plan. The Debtor will receive no compensation for acting as the Plan Disbursing
2 Agent. The Plan Disbursing Agent will be authorized to employ legal and accounting
3 professionals necessary to carry out the provisions of the Plan; provided, however, that
4 prior to substantial consummation, any such employment shall be subject to Court
5 approval. Unless terminated sooner, the Plan Disbursing Agent shall serve until the
6 Plan is fully consummated.

7 G. Delivery of Distributions

8 The distribution to any holder of an Allowed Claim shall be made by the
9 Disbursement Agent: (i) at the address set forth on the proof of claim filed by such
10 holder; (ii) at the address set forth in any written notices of address change delivered to
11 the Debtor or Reorganized Debtor after the date of any related proof of claim; (iii) at
12 the address reflected in the Schedules if no proof of claim has been filed and the
13 Debtor or Reorganized Debtor has not received a written notice of change of address;
14 (iv) if the holder's address is not listed in the Schedules, at the last known address of
15 such holder according to the Debtor's books and records; or (v) if any holder's
16 distribution is returned as undeliverable, no further distributions to such holder shall be
17 made unless and until the Reorganized Debtor is notified of such holder's current
18 address, at which time all missed distributions will be made to such holder without
19 interest. All distributions returned to the Reorganized Debtor and not claimed within
20 six (6) months of return shall be irrevocably retained by the Reorganized Debtor
21 notwithstanding any federal or state escheat laws to the contrary. Upon such reversion,
22 the Claim of any holder or such holder's successors, with respect to such property,
23 shall be discharged and forever barred notwithstanding any federal or state escheat
24 laws to the contrary.

25 H. Unclaimed Funds and Interests

26

1 For a period of two (2) months from the date of the disbursement, the Plan
2 Disbursing Agent shall retain any distribution hereunder which remains unclaimed.
3 Thereafter, the Claims giving rise to the right to distribution of such unclaimed funds
4 will be deemed disallowed and any unclaimed funds, net of expenses, will be
5 redistributed pro rata to the remaining Creditors, except that (i) no redistribution will
6 be made to any creditor whose pro rata share of the funds to be distributed does not
7 exceed \$50, and (ii) no further distribution shall be made if the total amount of
8 unclaimed funds does not exceed \$500 plus the costs of distribution. If the amount of
9 unclaimed funds does not exceed \$500 plus the costs of distribution, such funds will be
10 retained by the Plan Disbursing Agent as reimbursement for expenses in administering
11 such unclaimed funds.

12 I. Disputed Claims

13 The Reorganized Debtor shall be entitled to object to Claims, provided however,
14 that the Debtor and Reorganized Debtor shall not be entitled to object to claims (i) that
15 have been Allowed by a Final Order entered by the Court prior to the Effective Date,
16 or (ii) that are Allowed by the express terms of the Plan (including, for avoidance of
17 doubt, GECC's Class 2 Claim). Any objections to Claims must be filed by the
18 Effective Date, unless such deadline is extended by the Court for cause (the "Claims
19 Objection Deadline").

20 The Debtor has already objected to the following Claims:

- 21 • Umpqua Bank; Claim No. 3;
- 22 • Centurion Southwest, LLC; Claim No. 4;
- 23 • Centrum Financial Services, Inc.; Claim No. 5;
- 24 • Equity Funding, LLC; Claim No. 6;
- 25 • Centurion Pacific, LLC; Claim No. 7;
- 26

- Centurion Management III, LLC; Claim No. 8; and
- Thomas R. Hazelrigg III; Claim No. 9.

The foregoing Claims Objections are pending and will be resolved through settlement or Final Order/judgment in Adversary Proceeding No. 10-80118. No distributions will be made with respect to any portion of a Claim unless and until (i) the Claims Objection Deadline has passed and no objection to such Claim has been filed, or (ii) any objection to such Claim has been settled, withdrawn, or overruled, pursuant to a Final Order of the Court.

J. Administrative Claims Bar Date

Unless otherwise agreed by the Debtor, all requests for payment of Administrative Expense Claims other than current obligations must be served and filed with the Court no later than thirty (30) days after the Effective Date. Except as otherwise allowed by the Court, any Administrative Expense Claim that is not served and filed by such date will be forever barred. After approval of the final fee application of the Chapter 11 professionals by the Court for services provided and costs incurred during the course of administration of the Chapter 11 Case, the Chapter 11 professionals will be required to submit further fee applications to the Court pending final consummation of the Plan.

K. Vesting of Property

Except as otherwise expressly provided in the Plan, on the Effective Date the Reorganized Debtor will be vested with all of the property of the Estate, subject to the Allowed Claims of Creditors determined by agreement or Final Order to hold secured Claims against Assets, which includes, for avoidance of doubt, GECC. As of the Effective Date, the Reorganized Debtor may hold, use, dispose, and otherwise deal with such property and conduct its affairs, subject to restrictions imposed by the GECC

1 Settlement, the Bankruptcy Code, the Court, the Plan, the Confirmation Order, or the
2 other documents entered into in connection with the Plan; provided that, for avoidance
3 of doubt, any new financing or sale of the Battelle Leaseholds must require that
4 GECC's Claim be satisfied in accordance with the terms of the GECC Settlement at
5 the time of the refinancing or sale and before GECC's security interest in and lien on
6 the Battelle Leaseholds are released or deemed satisfied.

7 L. Transfer Tax Exemption

8 Pursuant to Bankruptcy Code section 1146(a), the Plan provides that any transfer
9 or sale of real or personal property, and any transfer of an Interest in CPIII, shall not be
10 taxed under applicable state or local law. This shall include, but not be limited to, any
11 refinance or sale of the Battelle Leaseholds.

12 M. Discharge

13 In accordance with section 1141(d)(1) of the Bankruptcy Code, entry of the
14 Confirmation Order shall provide the Reorganized Debtor with a discharge of any
15 Claim against the Debtor, including: (i) any Claim of any kind that arose at any time
16 before the entry of the Confirmation Order; and (ii) any Claim of any kind described in
17 section 502(g) of the Bankruptcy Code. Following entry of the Confirmation Order,
18 every holder of a Claim or Interest shall be precluded from asserting against the
19 Debtor, the Reorganized Debtor, and/or any of the Debtor's assets, any further Claim
20 or Interest based upon any document, instrument, act, omission, transaction, or other
21 activity of any kind or nature that occurred prior to the Confirmation Date, except as
22 provided in the Plan.

23 N. Executory Contracts and Unexpired Leases

24 1. *Pre-Petition Contracts and Unexpired Leases*

25 Prior to Confirmation, the following leases and Executory Contracts have been
26

1 or will be assumed:

- 2 • Sigma Management, Inc., Management Contract Order (EFC No. 84)
- 3 • Battelle Ground and Property Leases, Motion pending (EFC No. 81)

4 These contracts and leases are assumed on the Effective Date as part of this Plan
5 to the extent they are not assumed by prior order. All of the Loan Documents, as
6 modified by the GECC Settlement and Loan Modification Agreement, shall be
7 **deemed assumed** by the Reorganized Debtor. The Debtor does not believe it has any
8 other leases or Executory Contracts. Any Claims filed pursuant to a rejected pre-
9 petition Executory Contract shall be subject to objection by the Debtor and to
10 consideration by the Court. If any such Claim becomes an Allowed Claim, it shall be a
11 General Unsecured Claim.

12 2. *Post-Petition Contracts and Unexpired Leases*

13 All post-petition leases and Executory Contracts are assumed as of the
14 Effective Date.

15 O. Causes of Action

16 The Debtor or Reorganized Debtor retains its Causes of Action to be
17 enforced post-Confirmation, including but not limited to:

- 18 1. Any avoidance recovery action, preferential transfer
19 action, or fraudulent transaction action for the benefit of
20 the Estate.
- 21 2. Those Claims and Causes of Action as plead in Adversary
22 Case No. 10-80118-FLK.
- 23 3. Those Claims and causes of Action as plead in Adversary
24 Case No. 10-80137-FLK.
- 25 4. Those potential claims against Joseph Edmonds arising
26 from recent testimony, received in Adversary Case No. 10-
80118-FLK.
5. Certain Claims and demands have recently been made
upon CPIII to commence legal action against SMI Group

1 XIV, LLC and Michael Henry. The allegations surround
2 improper management activities and self-dealing. The
3 allegations are presently disputed.

4 **VI. CONFIRMATION OF THE PLAN**

5 **A. Implementation of the Plan**

6 As a direct result of the GECC Settlement, the Debtor has already commenced
7 efforts to implement the Plan pending conformation. The Debtor has employed Savills
8 LLC to assist with refinancing efforts in an expedited manner. This Disclosure
9 Statement will be supplemented from time to time prior to confirmation with respect to
10 Savills LLC's progress. In addition to the refinancing efforts, both the Debtor and SMI
11 Group continue to pursue litigation identified in this Disclosure Statement. The
12 litigation serves two (2) primary objectives: (1) a determination of all Disputed Claims
13 as of validity, nature, extent, and amount; and (2) recovery of damages for the benefit
14 of the Estate. The Debtor and SMI have actively engaged all defendants in good faith
15 settlement negotiations. While some settlements have been achieved with some
16 defendants, the plaintiffs and remaining defendants appear to be polarized in their
17 positions.

18 In conjunction with the foregoing, The Debtor's Plan will be funded and
19 Implemented as described below and as more fully set forth in the GECC Settlement.

20 *1. New Equity Contribution / Cash Contribution*

21 On the Effective Date, SMI Group XIV, LLC shall contribute the following to
22 the reorganized Debtor in the form of cash and non-cash consideration in exchange for
23 the New Equity Interests:

- 24
- 25 • Cash in the amount of \$50,000, or such greater amount as is
26 required to fully satisfy all Class 3 Claims in the amount set forth
in their respective proofs of claim or as listed on the Debtor's
Schedules.

- Waiver of Administrative Claim of SMI Group XIV, LLC in the estimated amount of no less than \$750,000.
- Waiver of payment of the General Unsecured Claim of Sigma Management, Inc. estimated in the amount of \$257,133.77.

The foregoing contributions shall be in exchange for 100% of the New Equity Interests of the Reorganized Debtor such that on the Effective Date, SMI Group XIV, LLC shall own 100% of the equity securities (as such term is defined in section 101(16) of the Bankruptcy Code). The Debtor and SMI Group XIV, LLC are informed and believe that the New Equity Contributions represent a premium over the value of the Reorganized Debtor. Accordingly, the Debtor submits that the New Equity Contributions are meaningful and not *de minimis*. The issuance of New Equity Interests in the Reorganized Debtor shall be exempt from any transfer taxes and other excise taxes, as described in Section 6.3 of the Plan.

2. *Refinancing*

For almost one (1) year prior to the Petition Date, and in the time that has passed since the Petition Date, the Debtor has actively pursued and solicited third party financing in order to refinance and payoff the Loan. Such efforts have been hampered by contested liens, encumbrances and clouds against title and Debtor's property interests, as well as disputes over ownership Interests of the Debtor. These disputes will be resolved through Confirmation of the Plan, enhancing the Debtor's ability to obtain new financing secured by the Battelle Leaseholds. The Debtor submits that obtaining new financing is a viable and meaningful alternative to a sale of the Battelle Leaseholds. To assist in and expedite refinancing efforts, the Debtor has engaged the services of Savills LLC, a recognized world leader in brokerage of commercial loans of the nature.

Under the terms and conditions of the GECC Settlement, the Debtor has until

1 December 9, 2012 to consummate refinancing of the GECC Loan. With the assistance
2 of Savills LLC, the Debtor anticipates a commitment for refinancing the property
3 within the next 180 days, if not sooner. The anticipated amount of the new loan is
4 estimated to be in the range of \$62 million to \$68 million.

5 *3. Sale Deadline/Sale of Property*

6 If, on or before October 1, 2012, the Battelle Leaseholds have not been sold or
7 refinanced and a payoff of GECC has not occurred in the amounts and by the deadlines
8 set forth in the GECC Settlement, then the Debtor shall engage a qualified bankruptcy
9 professional selected by the Debtor who will commence a sale and marketing process
10 that will conclude with a sale of the Battelle Leaseholds on December 10, 2012, on
11 which date the Court shall hold a hearing at which the Battelle Leaseholds shall be sold
12 to the highest bidder free and clear of all liens, claims, interests and encumbrances
13 pursuant to section 363 of the Bankruptcy Code.

14 At the sale hearing, GECC or its assignee shall be deemed to have made a
15 “credit” bid pursuant to section 363(k) of the Bankruptcy Code to acquire the Battelle
16 Leaseholds, consisting of the following amounts, which shall be treated as cash
17 equivalents: (1) \$58,827,810.81 (representing prepetition principal and other charges);
18 (2) all accrued unpaid default interest provided for in the Loan Agreement owing
19 through the closing of the sale; (3) the Exit Fee provided for in the Loan Agreement in
20 the amount of \$354,330.00; (4) all accrued unpaid non-default interest owing through
21 the closing of the sale; and (5) \$1,000,000 in legal fees, less the amount of all
22 remaining Cash Collateral held by the Debtor and turned over to GECC prior to the
23 sale, which cash shall be certified by the Debtor on December 7, 2012 and paid to
24 GECC (together with any additional amounts collected between December 7 and
25 December 10, 2012). The amount of GECC’s credit bid will be further reduced by the
26

1 amount of any funds held by GECC in its suspense account (as further described in the
2 GECC Settlement). Any funds received at closing in excess of GECC's Claim and the
3 costs of sale shall be used to fund the Plan.

4 If for any reason a closing of a sale or refinancing has not occurred by December
5 10, 2012 and a payoff has not occurred as set forth in the GECC Settlement, GECC or
6 its assignee shall become the purchaser of the Battelle Leaseholds, vested with all of
7 the Debtor's right, title and interest in the Battelle Leaseholds, free and clear of all
8 liens and encumbrances, consistent with the provisions of the Bankruptcy Code,
9 effective on December 10, 2012, and the Debtor shall immediately turn over
10 possession to GECC in full satisfaction of GECC's Allowed Class 2 Claim.

11 In the event of any sale or transfer of the Battelle Leaseholds in accordance with
12 the Plan and/or the GECC Settlement (which satisfied GECC's Allowed Class 2 Claim
13 under the terms of the GECC Settlement and the Plan), the Debtor or Reorganized
14 Debtor, and any holder of a Claim or Interest, shall be required to execute and deliver
15 such documents and instruments as are necessary, appropriate or reasonably requested
16 in order to effectuate the transfer of clean, insurable and marketable title to the
17 purchaser of the Battelle Leaseholds, free and clear of claims, interests, liens and
18 encumbrances. The foregoing shall include cooperating with reasonable requests that
19 may receive from an escrow or title insurance company that is required for such
20 escrow or title insurance company to provide clean, insurable and marketable title to
21 the Battelle Leaseholds to any purchaser.

22 4. *Cash Reserves/Business Operations*

23 As of October 1, 2011, the Debtor holds the sum in excess of \$3.5 million on
24 deposit with Washington Trust Bank. The money referenced above has been derived
25 through ongoing business operations and is GECC's Cash Collateral, and may be used
26

1 only with GECC's consent. Although the funds will be reduced by interim
2 Administrative Expense payments and interest payments to GECC under the GECC
3 Settlement, the Debtor believes, with GECC's consent, the Cash Collateral fund shall
4 be sufficient to fund the ongoing operations of the Reorganized Debtor and will be
5 replenished with future revenue from the Battelle Leaseholds (which will be Cash
6 Collateral once received).

7 The foregoing cash collateral will be used to pay down GECC's Claim, and with
8 GECC's consent, may be used to pay closing costs and other expenses related to the
9 replacement financing (if any) and the ongoing operations of the Reorganized Debtor.
10 After such expenses have been paid and GECC's Allowed Class 2 Claim has been paid
11 in full, any funds remaining shall be dedicated to funding the Plan.

12 5. *Prosecution of Litigation*

13 Presently, the Debtor, in conjunction with co-Plaintiff, SMI Group XIV, LLC,
14 is pursuing claims and Causes of Action identified as:

- 15 • Adversary Case No. 10-80118, *Centurion Properties III, LLC; SMI*
16 *Group XIV, LLC v. Thomas R. Hazelrigg III, et al.*
- 17 • Adversary Case No. 10-80137, *Centurion Properties III, LLC; SMI*
18 *Group XIV, LLC v. Equity Funding, LLC, et al.*

19 The plaintiffs have asserted significant claims against the defendants in the
20 foregoing cases seeking damages in excess of \$7.5 million. Any and all sums
21 recovered by CPIII through the above referenced litigation, net all attorney fees and
22 costs associated with bringing the respective actions, shall be used to fund the Plan. In
23 the event all payments required by the Plan have been made at the time of recovery,
24 those sums recovered shall inure to the benefit of the Reorganized Debtor.

25 B. Feasibility of the Plan and Best Interests Test

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1 The Bankruptcy Code requires that, for the Plan to be confirmed that does not
2 provide for the liquidation of the Debtor's assets, the Debtor must demonstrate that
3 consummation of the Plan is not likely to be followed by liquidation or the need for
4 further financial reorganization of the Debtor. Here, the Plan meets this test because
5 (1) it allows the Debtor the opportunity to reorganize by obtaining replacement
6 financing to satisfy GECC's secured Claim, but (2) in the alternative, provides that the
7 Debtor's assets will be sold and distributed in accordance with the priorities
8 established in the Bankruptcy Code, after a marketing and sale process run by a
9 qualified professional selected by the Debtor and subject to GECC's credit bidding
10 rights afforded by section 363(k) of the Bankruptcy Code. The Debtor believes that it
11 will be able to obtain new financing and to facilitate this has engaged the services of
12 Anthony Gibbons and Savills LLC. The Debtor, Mr. Gibbons and Savills LLC believe
13 that the Battelle Leaseholds are financeable. However, whether or not the Debtor
14 timely performs its obligations, the Plan is feasible because it established an automatic
15 fall-back whereby the Battelle Leaseholds will be sold (either to GECC or a higher
16 bidder) on or before December 10, 2012, without further action by any party. Thus,
17 the Plan is, by its terms, clearly feasible.

18 The Plan is also in the best interests of Creditors because it allows the Debtor a
19 reasonable amount of time in which to find financing and seek to preserve the value of
20 the Battelle Leaseholds for the benefit of Creditors; the alternative is a liquidation in
21 which only GECC is likely to recover anything.

22 C. Alternatives to Reorganization – Liquidation Analysis

23 The Bankruptcy Code requires that each holder of an Impaired Claim either (i)
24 accept the Plan or (ii) receive/retain property with a value, as of the Effective Date, that
25 is not less than the value such holder would receive/retain if the Debtor was liquidated
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1 under Chapter 7 of the Bankruptcy Code on the Effective Date.

2 The Plan meets this test it either (i) provides creditors payment in full (such as
3 Class 3 General Unsecured Creditors) from sources of funds that are outside any
4 secured or purportedly secured Creditor's security interest, or (ii) provides secured or
5 Disputed, purportedly secured Creditors payment in full from their collateral in order
6 of priority to the extent their Claims are Allowed (and in fact offers the Debtor the
7 ability to obtain a discount on the senior most secured Claim). Thus, GECC's Claim
8 will be satisfied in full prior to any distribution from the Battelle Leaseholds or Cash
9 Collateral being made to the holders of Disputed secured Claims (Classes 4-6), subject
10 to the discounted payoff terms set forth in the GECC Settlement. After GECC is paid,
11 to the extent funds are available and Disputed Claims are Allowed, the holders of these
12 Claims will be paid whatever remains in accordance with the priorities determined by
13 the Court.

14 In conducting a liquidation analysis, the first step in meeting this test is to
15 determine the dollar amount that would be generated from the liquidation of the
16 Debtor's Assets in the context of a Chapter 7 liquidation case. The gross amount of
17 cash available would be the sum of the proceeds from the disposition of the Debtor's
18 Assets and the cash held by the Debtor at the time of the commencement of the
19 Chapter 7 case. The next step is to reduce that total amount by the amount of any
20 Claims secured by such Assets, the costs and expenses of liquidation, and such
21 additional administrative expenses and Priority Claims that may result from the
22 termination of the Debtor's business and the use of Chapter 7 for the purposes of
23 liquidation. Any remaining net cash would be allocated to creditors in strict priority in
24 accordance with section 726 of the Bankruptcy Code. Finally, the present value of
25 such allocations (taking into account the time necessary to accomplish the liquidation)
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1 is compared to the value of the property that is proposed to be distributed under the
2 Plan on the Effective Date.

3 The value of the Battelle Leaseholds has been the subject of considerable
4 distribute, with values ranging from between \$64 million to approximately \$87.8
5 million. In the event of a forced sale or a bankruptcy liquidation sale, negative market
6 forces would drive down any ultimate sale price. Such negative market factors are
7 expressed within the Declaration of Peter Shorett (EFC No. 225). Under such a
8 liquidation scenario, the Debtor believes the sale would achieve less than \$65,000,000.
9 Under such a scenario, it is doubtful that funds would be available to pay any Allowed
10 Claims, other than GECC.

11 In contrast, the Plan enables the Debtor adequate time to try to finance the
12 Battelle Leaseholds and preserve their value, which the Debtor contends, based on
13 appraisal evidence before the Court, is approximately \$87 million. The holders of
14 Disputed secured Claims would be entitled to recover, in order of priority, out of any
15 surplus funds available after GECC is paid. The Plan also enables the Debtor to obtain
16 a discount on GECC's Allowed Claim in the event GECC is paid in full by certain
17 deadlines, thereby increasing the potential recovery of all other creditors. Finally,
18 while the Plan provides for a sale of the Battelle Leaseholds subject to GECC's right to
19 credit bid, if the Court does not approve the Plan, GECC is likely to recover the
20 Battelle Leaseholds immediately, and there will be no additional opportunity provided
21 to the Debtor to try to maximize the value of the Battelle Leaseholds for the benefit of
22 Creditors. Accordingly, all Creditors (other than GECC, who consents to its treatment
23 under the Plan) would recover the same or more than they would under a Chapter 7
24 liquidation.

25 D. Risk Factors
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1 The Plan, and payments to Creditors thereunder, is based on a number of
2 assumptions. Included in those assumptions is CPIII's ability to obtain replacement
3 financing in an expeditious matter. CPIII's ability to do so is based, in part, upon the
4 commercial credit market. This market could change over time due to external factors
5 and global economic pressures. Additional assumptions are based upon appraisal
6 values of the Battelle Leaseholds. In addition, the GECC Settlement provides for
7 certain financial bench marks and incentives for the Debtor to complete financing
8 sooner rather than later. There is a risk the Debtor may not be able to meet these bench
9 marks, forcing a sale of the Battelle Leaseholds. In such an event, GECC's first priority
10 secured Claim will have increased substantially. If the Battelle Leaseholds must be
11 sold on or before December 10, 2012, the value achieved may not be sufficient to meet
12 distributions proposed under this Plan (in which case GECC will likely recover the
13 Battelle Leaseholds and all Cash Collateral and other Creditors will not receive
14 anything, other than the payments previously made).

15 E. Confirmation Over Dissenting Classes

16 In the event that any Impaired Class of Claims does not accept the Plan, the
17 Court may nevertheless confirm the Plan at the request of the proponent if all other
18 requirements under section 1129(a) of the Bankruptcy Code are satisfied, and if, as to
19 each Impaired Class that has not accepted the Plan, the Court determines that the Plan
20 "does not discriminate unfairly" and is "fair and equitable" with respect to such non-
21 accepting Class. Each of these requirements is discussed below.

22 1. *No Unfair Discrimination*

23 The Plan "does not discriminate unfairly" if: (i) the legal rights of a dissenting
24 Class are treated in a manner that is consistent with the treatment of other Classes
25 whose legal rights are similar to those of the dissenting Class, and (ii) no Class
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1 receives payment in excess of that which it is legally entitled to receive for its Claims.
2 The Debtor believes the Plan does not discriminate unfairly as to any Impaired Class of
3 Claims.

4 2. *Fair and Equitable Test*

5 The Bankruptcy Code establishes different “fair and equitable” tests for
6 secured Claims and unsecured Claims, as follows:

7 a. Secured Claims

8 To satisfy the “fair and equitable” requirements as to a class of Secured
9 Claims, the Plan must, at a minimum, provide that: (i) each Impaired secured Creditor
10 retain its secured lien and receive deferred cash payments having a present value equal
11 to the amount of its Allowed secured Claim; (ii) each Impaired secured Creditor
12 realizes the “indubitable equivalent” of its Allowed secured Claim; or (iii) the property
13 securing the Claim is sold free and clear of liens with such liens to attach to the
14 proceeds, and the liens against such proceeds are treated in accordance with clause (i)
15 or (ii) of this paragraph. The Plan provides for payment of all secured Claims in full,
16 in order of priority, to the extent funds are available and to the extent such secured
17 Claims are Allowed.

18 \\

19 b. Unsecured Claims

20 To satisfy the “fair and equitable” requirement, to the extent it applies to a
21 Class of unsecured Claims, the Plan must, at a minimum, provide that: (i) each
22 Impaired unsecured Creditor receive or retain property of a value equal to the amount
23 of its Allowed Claim; or (ii) the holders of Claims and interests that are junior to the
24 Claims of the non-accepting Class do not receive or retain any property under the Plan
25 on account of such Claims and Interests. Here, Class 3 Creditors are being paid in full
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1 out of the New Equity Contributions. Interests are being cancelled and will not receive
2 anything. Insider Claims have been voluntarily subordinated. Creditors in Classes 4-7
3 are purportedly secured; consequently, this test is inapplicable to such Classes of
4 Claims. Thus, the Plan satisfies this requirement.

5 **VII. POST-PETITION MANAGEMENT, PROFESSIONALS,**
6 **AND OTHER MATTERS**

7 **A. Management**

8 The Debtor will continue to operate and conduct its business affairs pending its
9 reorganization as the Debtor-in-Possession. The Debtor shall have the full and
10 complete authority to implement and consummate the provisions of this Plan.

11 Except as otherwise expressly provided in the Plan, in the Confirmation Order,
12 or in the GECC Settlement, on the Effective Date, the Reorganized Debtor will be
13 vested with all of the property of the Estate free and clear of all Claims, liens,
14 encumbrances, charges, and other interests of Creditors and claimants. As of the
15 Effective Date, the Reorganized Debtor may hold, use, dispose, and otherwise deal
16 with such property and conduct its affairs, free of any restrictions imposed by the
17 Bankruptcy Code or by the Court, other than those restrictions expressly imposed by
18 the Plan, the Confirmation Order, GECC Settlement, or the documents necessary or
19 required as part of the implementation of the Plan. On and after the Effective Date, the
20 Reorganized Debtor shall be free to operate without supervision by the Court or the
21 consent of any person or entity, provided that the Debtor may not use Cash Collateral
22 or in any way seek to modify the terms of the Plan, the GECC Settlement or the Loan
23 Modification Agreement without GECC's prior written consent.

24 Sigma Management, Inc., an insider of the Debtor, will continue to manage the
25 Battelle Property on behalf of the Reorganized Debtor. Sigma Management, Inc.'s
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1 compensation will be the same as it has received in the past, pursuant to the terms of its
2 agreements with the Debtor and GECC, which will be deemed assumed by the
3 Reorganized Debtor.

4 B. Professionals

5 The Reorganized Debtor shall retain the following professionals post-
6 Confirmation:

- 7 • Crumb & Munding, P.S. – Attorneys
- 8 • Marple & Marple, P.S. – Accountants
- 9 • Sigma Management, Inc. – Property Manager

10 To the extent professionals are required to sell the Debtor’s real or personal
11 property, the Debtor may employ such persons or entities without further Court
12 approval, provided that expenses for such employment may only be paid out of the
13 proceeds of the Battelle Leaseholds or Cash Collateral with GECC’s prior written
14 consent. If the Battelle Leaseholds are to be sold, the employment of professionals to
15 market and sell the Battelle Leaseholds is anticipated.

16 Pre-Effective Date professional fees and expenses shall be paid based upon their
17 Allowed Claims or fees approved by Court Order. Post-Effective Date professional
18 fees and expenses shall be paid directly by the Reorganized Debtor from available
19 Assets, provided that such expenses may only be paid out of proceeds of the Battelle
20 Leaseholds or Cash Collateral with GECC’s prior written consent.

21 As of the date of filing of the Plan, the Estate has paid the following professional
22 fees and expenses:

- 23 • Crumb & Munding, P.S. - \$277,703.93
- 24 • Randy Stamper - \$27,023.70
- 25 • Ford Elsaesser - \$10,589.21

1 As of the date of filing of the Plan, the Debtor anticipates or has accrued the
2 following professional fees and expenses for which authorization for payment will be
3 sought:

- 4 • Crumb & Munding, P.S. - \$515,574.38
- 5 • Randy Stamper - \$14,727.50
- 6 • Anthony Gibbons - \$16,939.50
- 7 • Marple & Marple - \$7,670.00
- 8 • Lukins & Annis - \$11,189.23
- 9 • Sperline Raekes - \$11,824.74
- 10 • Savills LLC – (To Be Determined)

11 Sigma Management, Inc. shall continue to manage the Battelle Property on
12 behalf of the Reorganized Debtor and be compensated in the ordinary course of
13 business, under current management contracts assumed in the Chapter 11 Case. Terms
14 and conditions shall be subject to those provisions in the GECC Settlement Agreement
15 which provides that if GECC or its assignee becomes the owner of the Battelle
16 Leaseholds, GECC, or its assignee, shall pay Sigma Management, Inc.'s monthly
17 management fee under the current management contracts assumed in this bankruptcy
18 proceeding and approved by the Court (EFC No. 84) between Debtor and Sigma to
19 assist a newly appointed property management company selected by GECC for 90
20 days commencing on December 10, 2012, and Sigma shall cooperate fully to effectuate
21 a smooth transition to ownership by GECC and management by GECC's designated
22 property manager. All such contracts shall be subject to the terms of the Loan
23 Documents.

24 C. Creditors Committee

25 No Unsecured Creditors Committee was appointed in this case.
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D. Continuation of Business

CPIII will continue to hold, operate, and manage its real and personal property interests as an ongoing business, subject to GECC’s pre-petition liens and the liens of other Creditors, to the extent such liens are determined to be valid.

E. Insider Transactions/Avoidance Actions

CPIII has not yet completed investigation of the insider transactions subject to avoidance under Code sections 547, 548, and 550. Post-Confirmation, the reorganized Debtor shall continue to prosecute any such claims.

F. Plan Modification

With the prior written consent of GECC, the Debtor may modify the Plan pursuant to section 1127 of the Bankruptcy Code and as herein provided, to the extent allowed by law. Subject to the limitations contained herein, the Debtor may modify the Plan in accordance with this paragraph, before or after Confirmation, without notice or hearing, or after such notice and hearing as the Court deems appropriate, if the Court finds that the modification does not materially and adversely affect the rights of any parties-in-interest which have not had notice and an opportunity to be heard with regard thereto, provided that GECC consents to such modification. In the event of any modification on or before Confirmation, any votes to accept or reject the Plan shall be deemed to be votes to accept or reject the Plan as modified, unless the Court finds that the modifications materially and adversely affect the rights of parties-in-interest which have cast said votes. The Debtor reserves the right in accordance with section 1127 of the Bankruptcy Code to modify the Plan at any time before the Confirmation Date with GECC’s consent.

G. Court Jurisdiction

The Court shall retain jurisdiction over this Estate as set forth in the Plan. This

1 jurisdiction includes, but is not limited to, matters involving interpretation, correction,
2 modification, or reconciliation of any inconsistencies in the Plan, entry of any order
3 deemed necessary and appropriate by the Court to implement the Plan, and
4 adjudication of all Causes of Action, including but not limited to all pending adversary
5 proceedings, litigation, and Claim objections. In the event that the Court is found to
6 lack jurisdiction to resolve any matter, then the District Court shall hear and determine
7 such matter. If the District Court does not have jurisdiction, then the matter may be
8 brought before any court having jurisdiction with regard thereto.

9 H. Retention of Documents

10 The Plan Disbursing Agent shall retain records of disbursements under the Plan
11 for such time as attorneys are generally required to maintain records of distributions
12 from their trust accounts, after which time they will be destroyed, unless ordered
13 retained for cause.

14 I. United States Trustee Fees

15 Until the Chapter 11 case is closed, the Debtor must file post-Confirmation
16 reports and pay quarterly fees under 28 U.S.C. § 1930(a)(6), which are paid for with
17 Estate funds. The Debtor will act to close the case as quickly as possible, thereby
18 reducing the amount of such fees, following the payment of GECC's Claim or the sale
19 of the Battelle Leaseholds, as discussed herein.

20 J. Substantial Consummation

21 This Plan shall be deemed substantially consummated upon the filing of a final
22 report and request for final Order by the Reorganized Debtor through counsel
23 certifying that substantially all duties imposed upon the Reorganized Debtor under this
24 Plan have been completed and all payments under the Plan have been completed.

25 K. Final Decree
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1 The Court may, upon application of the Reorganized Debtor, at any time on or
2 after the Effective Date, enter a final decree in this case, provided that GECC's Claim
3 has been paid or the Battelle Leaseholds have been sold in accordance with the terms
4 of the GECC Settlement and the Plan. In such event, the Court may enter an Order
5 closing the Chapter 11 Case pursuant to section 350 of the Bankruptcy Code, provided,
6 however, that: (i) the Reorganized Debtor shall continue to have the rights, powers,
7 and duties set forth in the Plan; (ii) any provision of the Plan requiring the absence of
8 an objection shall no longer be required, except as otherwise ordered by the Court; and
9 (iii) the Court may from time to time reopen the Chapter 11 Case if appropriate for any
10 of the following purposes: (a) administering Assets; (b) entertaining any adversary
11 proceedings, contested matters, or applications the Debtor brought or will bring with
12 regard to the liquidation of Assets and the prosecution of Causes of Action; (c)
13 enforcing or interpreting the Plan or supervising its implementation; or (d) allowing for
14 the entry of an Order of Discharge upon completion of Plan payments.

15 **VIII. TAX CONSEQUENCES**

16 The Plan will impact various Creditors differently, depending on the nature of
17 their Claims, their taxpayer status, their accounting methods, and other variables.
18 Creditors and the Interest holders should consult their own independent tax advisors
19 regarding the tax impacts of the Plan on their individual circumstances. No opinion of
20 counsel has been sought or obtained with respect to any tax consequences of the Plan.
21 No rulings or determinations of the Internal Revenue Service ("IRS") or any other tax
22 authorities have been sought or obtained with respect to any tax consequences of the
23 Plan, and the discussion below is not binding on the IRS or other authorities. No
24 representations are being made to the Debtor or any holder of a Claim or Interest
25 regarding the particular tax consequences of the Confirmation and consummation of
26

1 the Plan. No assurance can be given that the IRS would not assert, or that a court
2 would not sustain, a different position from those discussed here.

3 Holders of Claims and Interests are strongly urged to consult their own tax
4 advisor regarding the federal, state, local, and foreign tax consequences of the
5 transactions described in this Disclosure Statement and the Plan.

6 A. United States Federal Income Tax Consequences to the Debtor

7 Under the Plan, the Debtor's outstanding indebtedness will be satisfied by
8 payment in cash or in kind. The satisfaction of a debt obligation for an amount of cash
9 less than the "adjusted issue price" of the debt obligation generally gives rise to
10 cancellation of indebtedness ("COD") income to the Debtor.

11 A debtor does not, however, recognize COD income if the debt is discharged in
12 a Chapter 11 bankruptcy case. Instead, the debtor reduces its tax attributes in the
13 amount of its COD income in the following order: (1) net operating losses ("NOLs")
14 and NOL carryforwards; (2) general business credit carryforwards; (3) minimum tax
15 credit carryforwards; (4) capital loss carryforwards; (5) the tax basis of the Debtor's
16 depreciable and nondepreciable assets (but not below the amount of their liabilities
17 immediately after the discharge); and (6) foreign tax credit carryforwards.

18 A debtor may elect to alter the preceding order of attribute reduction and,
19 instead, first reduce the tax basis of its depreciable assets. The reduction in tax
20 attributes occurs only after the tax for the year of the debt discharge has been
21 determined (*i.e.*, such attributes may be available to offset taxable income that accrues
22 between the date of discharge and the end of the debtor's tax year). The Debtor has
23 not made such election.

24 B. Federal Income Tax Consequences to Creditors

25 The United States federal income tax consequences of the transactions
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1 contemplated by the Plan to Creditors (including the character, timing, and amount of
2 income, gain, or loss recognized) will depend on, among other things: (1) whether the
3 Claim and the consideration received in respect of it are “securities” for federal income
4 tax purposes; (2) the manner in which a Creditor acquired a Claim; (3) the length of
5 time the Claim has been held; (4) whether the Claim was acquired at a discount; (5)
6 whether the Creditor has taken a bad debt deduction with respect to the Claim (or any
7 portion of it) in the current tax year or any prior tax year; (6) whether the Creditor has
8 previously included in its taxable income accrued by unpaid interest with respect to the
9 Claim; (7) the holder’s method of tax accounting; and (8) whether the Claim is an
10 installment obligation for federal income tax purposes. Creditors, therefore, should
11 consult their own tax advisors regarding the particular tax consequences to them of the
12 transactions contemplated by the Plan.

13 C. Federal Income Tax Consequences to Holders of Interests

14 The Plan contemplates that the Interests in the Debtor will be cancelled under
15 the Plan. The character of the gain or the loss as capital or ordinary will be determined
16 by a number of factors, including whether the Interest constitutes a capital asset in the
17 hands of the holder. Interest holders should consult their own tax advisors to
18 determine tax consequences of this Plan.

19 D. Importance of Obtaining Professional Tax Assistance

20 The foregoing discussion is intended only as a summary of certain United States
21 federal income tax consequences of the Plan and is not a substitute for careful tax
22 planning with a tax professional. The above discussion is for informational purposes
23 only and is not tax advice. The tax consequences are in many cases uncertain and may
24 vary depending on a Creditor’s or Interest holder’s particular circumstances.
25 Accordingly, Creditors and Interest holders are strongly urged to consult their tax
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1 advisors about the federal, state, local, and foreign tax consequences of the Plan,
2 including issues relating to tax reporting and record keeping requirements.

3 **IRS Circular 230 Notice:** to comply with U.S. Treasury Regulations, be
4 advised that any U.S. federal tax advice included in this communication (and it is not
5 intended that any such advice be given in this Disclosure Statement) is not intended or
6 written to be used, and cannot be used, to avoid any U.S. federal tax penalties or to
7 promote, market, or recommend to another party any transaction or matter. Claimants
8 are advised to consult with their tax advisers respecting the individual tax
9 consequences of the transactions contemplated by the Plan, including state and local
10 tax consequences.

11 **IX. DISCLAIMER**

12 Court approval of this Disclosure Statement and accompanying Plan, including
13 exhibits, is not a certification of the accuracy of the contents thereof. Furthermore,
14 Court approval of these documents does not constitute the Court's opinion as to
15 whether the Plan should be approved or disapproved.

16
17 **X. CONCLUSION**

18 CPIII believes the Plan provides for the best solution for resolving and paying
19 all Allowed Claims, while preserving the true value of the Battelle Property. The Plan
20 is fair and equitable and is in the best interest of all Creditors and Equity-Holders.

21
22 Dated this 21st day of October, 2011.

23 **CRUMB & MUNDING, P.S.**

24 /s/ John D. Munding

25 JOHN D. MUNDING, WSBA #21734

Exhibit A
Assets of Centurion Properties III, LLC

Assets of Centurion Properties III, LLC

| | |
|------------------------|---|
| \$87,886,000.00 | Battelle Property interest |
| \$3,332,586.27 | Cash – Washington Trust Account (#..056) encumbered |
| \$543,176.14 | Cash – Washington Trust Account (#..368) encumbered |
| \$0.00 | Accounts Receivable (current to 30 days) |
| \$39,990.47 | Other Assets (EFC No. 528) |
| TBD | Contingent Claims/Litigation (see below). |
| \$91,801,752.88 | TOTAL assets |

Contingent Claims/Litigation:

1. *Centurion Properties III, LLC, et al., v. Thomas Hazelrigg III, et al.*, Adversary No. 10-80118-FLK. The claims asserted by the Debtor in this adversary action primarily concern encumbrances placed on title to the Battelle Property which the Debtor alleges to be unlawful, and claims for alleged fraud, conversion, negligence, civil conspiracy, and breach of fiduciary duties by various defendants. Recovery to the estate may include damages, injunctive relief, a decree quieting title, reallocation of member's interests, attorney fees and costs, and other equitable relief. The value of this action to the estate is to be determined, but estimated in excess of \$7.5 million. Defendants in the above referenced litigation dispute the allegations and contentions of Plaintiffs. In Summary:
 - a. Centrum Financial Services, Inc./Equity Funding, LLC contends that the Debtor: accepted benefits of alleged loans allegedly secured by deeds of trust; ratified loan transactions and related debt and underlying security interests in the subject property; and waived legal or equitable bases upon which to object to foreclosure of the subject deed of trust allegedly in favor of Equity Funding/Centrum. Centrum/Equity also allege that they relied on actual and/or apparent authority of the CPIII Manager to borrow funds.
 - b. Umpqua Bank asserts that it is the holder of an original April 1, 2008 Promissory Note, executed by the Debtor in favor of Equity Funding for \$3,346,000, and that the Note was secured by a Leasehold Deed of Trust on the Battelle Property. Equity Funding subsequently assigned the 2008 DOT to Umpqua pursuant to a Commercial Pledge Agreement as security for a continuing line of credit.
 - c. Daniel Kirby, Lori Rhodes, Elite Financial Services, and L&D Financial Services, Inc. contend that National Elite owns 76% of the membership interests in CM III and that Thomas Hazelrigg III owns 24% of the membership interest in CMIII. Kirby et al. claim that McCourt and Barclays transferred their interest in the Debtor to Thomas Hazelrigg III and that Aaron

1 Hazelrigg allegedly transferred 100% of his interests in CM III to Thomas Hazelrigg III on
2 January 1, 2007, and that Thomas Hazelrigg III allegedly transferred 76% of his interests in
3 CM III to National Elite Financial Services on April 11, 2011. Kirby et al. further claim that
4 on May 24, 2011, Thomas Hazelrigg III executed a pledge agreement giving L&D Financial
5 control over Tom Hazelrigg's alleged 24% interest in CMIII. Accordingly, Kirby et al. argue
6 that Aaron Hazelrigg's transfer of his interest in CM III to SMI on May 27, 2011, was invalid
7 and of no effect.

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- d. Derek Edmonds alleges that the Debtor ratified and accepted benefits of certain alleged loans and alleged security interests in the Battelle Property.. Derek Edmonds also alleges that the Debtor waived all legal or equitable bases upon which to object to Trident's Deed of Trust and that the Debtor is estopped from interfering with or restraining the rights of defendant Centrum and Equity Funding to foreclose their Deed of Trust security interests.
 - e. Trident Investments, Inc. claims an interest in the Battelle Property,, but did not file a proof of claim.

An Order of Default has been entered against Thomas R. Hazelrigg III (EFC No. 291) and Centurion Pacific (EFC No. 292). A settlement has been reached, subject to Court approval, with Aaron Hazelrigg, Nicole Kelly, Centurion Management III, LLC and Centurion Southwest, LLC.

For a more detailed discussion of the parties' position, please refer to First Amended Complaint (EFC No. 221), Answers of the respective Defendants, and pending Motions for summary judgment with supporting pleadings.

2. *Centurion Properties III, LLC v. Equity Funding, et al.*, Adversary No. 10-80137-FLK.

The actions giving rise to this Adversary proceeding including:

- a. Defendants representing to others, including financiers, banks, mortgage brokers, real estate brokers and agents that they own, control, and have authority to sell the Battelle Property;
- b. Defendants soliciting offers to purchase the property of the estate from others through the use of a Confidential Offering Memorandum;
- c. Defendants interfering and impeding the Debtor's ability to reorganize by willful, intentional, and unauthorized solicitation of offers to purchase the Battelle Property.

These actions are in violation of the automatic stay. Recovery to the estate may include injunctive relief and declaratory judgment as to automatic stay violation, an award of damages against Defendants arising from and caused by the violation of the stay, attorney fees and costs, and other relief the Court deems just and proper under the circumstances. The value of this action to the estate is to be determined.

Defendants deny any wrong doing or liability in this proceeding.

Exhibit B
Claims

A. Administrative Claims

| Administrative Claims | Estimated Amount | Class Treatment |
|------------------------------|--|--|
| Crumb & Munding, P.S. | \$515,574.38 (through 10/31/11) estimated, subject to Court approval | Paid as Administrative Expense per Application and Order |
| Marple & Marple, P.S. | \$7,670.00 (through 10/31/11) estimated and subject to Court approval | Paid as Administrative Expense per Application and Order |
| Sperline Raekes, PLLC | \$11,824.74 (through 10/31/11) estimated and subject to Court approval | Paid as Administrative Expense per Application and Order |
| Stamper Rubens, P.S. | \$14,727.50 (through 10/31/11) estimated and subject to Court approval | Paid as Administrative Expense per Application and Order |
| Gibbons & Riely, PLLC | \$16,939.50 (through 10/31/11) estimated and subject to Court approval | Paid as Administrative Expense per Application and Order |
| | Total: \$566,736.12 | |

B. Allowed Claims

| Class | Description | Estimated Amount | Class Treatment | Class Status |
|--------------|--------------------------------------|-----------------------------|---|---------------------|
| 1 | Benton County Treasurer | \$221,850.88 | Paid in full within 30 days of entry of the Plan Confirmation Order, plus statutory interest and penalties | Impaired |
| 2 | General Electric Capital Corporation | \$59,190,636.94 (estimated) | Allowed Claim paid in full within 24 months of the Initial Distribution Date; beginning on the Initial Distribution Date, GECC shall receive monthly payments of principal and interest amortized over 20 years | Impaired |

C. Unsecured Claims

| Class | Description | Estimated Amount | Class Treatment | Class Status |
|-------|--|--|---|--------------|
| 1 | Benton County Treasurer | \$446,545.24 Claim Nos. 1 & 10 | Paid in full within 30 days of Effective Date, plus statutory interest and penalties | Unimpaired |
| 2 | General Electric Capital Corporation | \$60,182,140.00, plus all unpaid default and non-default interest owing under the Loan Documents (estimated) | Allowed Claim treated in accordance with the terms of GECC Settlement Agreement Subject to terms and conditions of GECC Settlement Agreement | Impaired |
| 3 | General Unsecured Claims | Less than \$25,000 | Allowed Claims paid in full within the later of 30 days of the Effective Date or when the Claims become Allowed | Unimpaired |
| 4 | Equity Funding, Umpqua Bank, U.S. Bank | \$5,313,602 (disputed) Claim Nos. 3 & 6 | Paid, with interest, to the extent Allowed and funds are available, within 60 days after Class 2 is paid in full. Treated <i>pari passu</i> with Classes 5 and 6 or as otherwise ordered by the Court. If the Battelle Leaseholds are sold to GECC subject to GECC's credit bid, Class 4 will take nothing under the Plan. | Impaired |
| 5 | Centrum Financial Services, Umpqua Bank, U.S. Bank | \$10,312,787.00 (disputed) Claim Nos. 3 & 5 | Paid, with interest, to the extent Allowed and funds are available, within 60 days after Class 2 is paid in full. Treated <i>pari passu</i> with Classes 4 and 6 or as otherwise ordered by the Court. If the Battelle Leaseholds are sold to GECC subject to GECC's credit bid, Class 5 will take | Impaired |

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|----|----|------------------------------|--|--|----------|
| 1 | | | nothing under the Plan. | | |
| 2 | 6 | Trident Investments | \$0 No Claim Filed. | Disallowed Impaired | |
| 3 | | | | | |
| 4 | 7 | Centurion Pacific, LLC | \$4,047,771.95 (disputed) Claim No. 7 | Paid, with interest, to the extent Allowed and funds are available, within 45 days after Classes 4-6 are paid in full, to the extent Allowed. If the Battelle Leaseholds are sold to GECC subject to GECC's credit bid, Class 7 will take nothing under the Plan. | Impaired |
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| 11 | 8 | Centurion Southwest, LLC | \$12,980,918.47 (disputed) Claim No. 4 | Paid, with interest, to the extent Allowed and funds are available, within 30 days after Class 7 is paid in full, to the extent Allowed. If the Battelle Leaseholds are sold to GECC subject to GECC's credit bid, Class 8 will take nothing under the Plan. | Impaired |
| 12 | | | | | |
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| 17 | 9 | Sigma Management, Inc. | \$257,133.77 | Allowed Claim to the extent funds are available after full payment of Class 8, to the extent Allowed. | Impaired |
| 18 | | | | | |
| 19 | | | | | |
| 20 | 10 | CPIII's Membership Interests | Kelly: 10% Centurion Management III, LLC: 63% SMI: 27% <hr/> (disputed) | All Equity Interest Cancelled | Impaired |
| 21 | | | | | |
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