**IN THE UNITED STATES BANKRUPTCY COURT**
**FOR THE WESTERN DISTRICT OF OKLAHOMA**

| | | |
|---|---|---|
| In re: | ) | |
| | ) | |
| CRS MANAGEMENT COMPANY, LLC, | ) | Case No. 10-10531-WV |
| a Colorado limited liability company, | ) | Chapter 11 |
| Tax ID No. xx-xx-29971, | ) | |
| | ) | |
| Debtor. | ) | |

# AMENDED DISCLOSURE STATEMENT OF CRS MANAGEMENT COMPANY, LLC

/s/Mark E. Monfort
Timothy D. Kline, OBA #5077
Mark E. Monfort, OBA #6301
KLINE, KLINE, ELLIOTT & BRYANT, P.C.
720 NE 63rd Street
Oklahoma City, OK 73105
(405) 848-4448
(405) 842-4539 (fax)

ATTORNEYS FOR CRS MANAGEMENT COMPANY, LLC

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# AMENDED
# DISCLOSURE STATEMENT
# OF CRS MANAGEMENT COMPANY, LLC

CRS Management Company, LLC, the Debtor, submits this Disclosure Statement pursuant to 11 U.S.C. Section 1125.

**BANKRUPTCY COURT APPROVAL OF THIS DISCLOSURE STATEMENT DOES NOT CONSTITUTE AN ENDORSEMENT OF THE PLAN OF REORGANIZATION OR A GUARANTEE OF THE ACCURACY OR COMPLETENESS OF THE INFORMATION IN THIS DISCLOSURE STATEMENT.**

Capitalized terms in the Disclosure Statement are defined in the Plan of Reorganization filed herewith or in the Bankruptcy Code, 11 U.S.C. Section 101 et seq. ( the "Code").

## I.

## INTRODUCTION

Voting on a Plan of Reorganization is important. To be confirmed under Code Section 1129(a), a plan must be accepted by each impaired class of Claims and interests, if there are any. An impaired class of Claims accepts a plan if a majority in number, and at least two-thirds in dollar amount of the Allowed Claims voted in that class, vote to accept. An impaired class of interests accepts a plan if at least two-thirds in amount of the allowed interests voted in that class, vote to accept. The forms of ballots are attached hereto as Exhibits 2 and 3.

A number of additional requirements must also be satisfied before a bankruptcy court will confirm a plan under Section 1129(a) of the Code. For example, Section 1129(a) of the Code requires that each holder of a Claim or interest in an impaired class must accept a plan or that the plan must be in the best interests of the rejecting Claim or Interest Holder. The "best interests" test requires that the value of property to be distributed under the plan to the rejecting Claim or Interest Holder may not be less than the rejecting Claim or Interest Holder would receive if the debtor were liquidated under Chapter 7 of the Code. See Section 1129(a) for additional confirmation requirements.

A bankruptcy court may confirm a plan even if all impaired classes of Claims and interests do not accept it, although at least one class of impaired Claims must accept the Plan, if there are any. The circumstances under which a bankruptcy court may confirm a plan despite its rejection by one or more classes of Claims or interests are stated in the "cram down" provisions of Section 1129(b) of the Code. Section 1129(b) provides that a bankruptcy court may confirm a plan notwithstanding its rejection by one or more impaired classes if the court finds that the Plan does not discriminate unfairly and the plan is fair and equitable to each rejecting class.

With respect to each class of secured Creditors, the "fair and equitable" test requires that each secured Creditor: (i) retain its liens and receive cash payments with a present value equal to its Allowed Secured Claim; (ii) receive the proceeds from the sale of its Collateral; or (iii) realize the indubitable equivalent of its Claim. With respect to a rejecting class of Unsecured Claims, the "fair and equitable" test requires that either: (i) each Creditor in the rejecting class receive property with a present value equal to the Allowed amount of its Claim; or (ii) no class junior to the rejecting class receive or retain any property under the plan. With respect to a class of interests, the "fair and equitable" test requires a Chapter 11 plan to provide that either: (i) each holder of an interest of such class receive or retain on account of such interest, property of a value, as of the Effective Date of the plan, equal to the greatest of the allowed amount of any fixed liquidation preference to which such holder is entitled, any fixed redemption price to which such holder is entitled, or the value of such interest; or (ii) no class junior to the rejecting class receive or retain any property under the plan.

Confirmation of a plan will make it binding upon the debtor, creditors, and other parties in interest to the bankruptcy case, regardless whether they accepted the plan. The Debtor urges you to carefully read this Disclosure Statement, which was prepared to give you adequate information to decide whether to accept or reject the Plan.

The information in this Disclosure Statement was obtained or derived from the Debtor's records, and the Claimants' filings with the Court.

Other than as set forth in this Disclosure Statement, the Debtor makes no representations about itself, its business operations, the value of its property, or the value of any benefits offered under the Plan. No statements or information concerning the Debtor, the Estate, its assets, or any securities are authorized, other than those set forth in this Disclosure Statement. You should not rely on any representations or inducements made to secure your acceptance of the Plan that are contrary to the information contained in a disclosure statement approved by the Court.

Under the Code, your vote for acceptance or rejection may not be solicited unless you receive a copy of a disclosure statement approved by the Court before, or concurrently with, the solicitation. The provisions of Section 1125(b) of the Code govern the solicitation of votes on a plan. Violation of those provisions may result in sanctions by the Court, including disallowance of the solicited vote and loss of the "safe harbor" provisions of Section 1125(e) of the Code.

## II.

## THE DEBTOR

The Debtor was established as a limited liability company in the state of Colorado in 2009. It is wholly owned by the Parent. Thereafter, SCS, also wholly owned by the Parent, assigned all of its right, title and interest in the Collateral, to the Debtor on or about May 11, 2009. Subsequently, the Debtor has owned, and, at times, operated two community correction facilities in Colorado - the Phoenix Center and the Villa Center. The Debtor's current income is solely from the Phoenix Center Lease Agreement, under which CEC is the lessee of the Phoenix Center.

The Debtor currently has no employees. Certain management personnel of the Parent are utilized on an as-needed basis and are compensated by the Parent.

The annual gross income related to the Collateral in the three prior calendar years was:

| Year | Annual Income |
|---|---|
| 2006 | $9,318,769 |
| 2007 | $8,933,707 |
| 2008 | $4,587,677 |

As detailed below, the Villa Center was closed in 2008, and its value decreased significantly at that time. Since May 2009, revenue from the Collateral has been limited to monthly payments of

$90,000 under the Phoenix Center Lease Agreement that pre-petition were paid directly to the Trustee Bank. Subsequent to the Petition Date, the funds have been paid to the Debtor.

## III.

## EVENTS LEADING TO BANKRUPTCY

As in many other bankruptcy cases, a combination of events led the Debtor to file for Chapter 11 bankruptcy relief. In early 2008, Weld County decided to seek public bids for the future provision of community corrections services at the Villa Center. At that time, those services were being performed by CEC, as assignee of the WCC Contract. Also, at that time, the county decided to construct a new public correctional facility to house its community corrections program. Subsequently, Weld County replaced CEC, as operator, with another entity, and allowed the WCC Contract to expire, according to its terms. Following this, CEC declined to exercise its option with SCS to purchase the Villa Center, and it went "dark."

Thus, in 2008, the Debtor was left with one of its two facilities vacant, mounting maintenance expense and no readily available, alternative uses for the Villa Center. Through the Wheeler Management Group, both the Debtor and, before it, its predecessor, SCS, have attempted to sell or lease the Villa Center from the time it became vacant; however, to date, their efforts have been unsuccessful.

Given the combination of events described above, and confronting its inability to make upcoming principal and interest payment required under the terms of the Bonds, the Debtor determined that Chapter 11 bankruptcy protection was its best available option, and filed a voluntary Chapter 11 petition under the Code on February 5, 2010.

## IV.

## THE CONDITION AND PERFORMANCE OF THE DEBTOR IN CHAPTER 11

Since filing for bankruptcy relief, the Debtor has continued to operate the Phoenix Center through its lessee, CEC, who pre-petition paid monthly rent directly to the Trustee Bank. Subsequent to the Petition Date, these funds have been paid to Debtor.

The Plan is intended to provide to the Bondholders an alternative to state court foreclosure, in light of the Debtor's inability to service principal and interest payments anticipated by the Bond Indenture.

## V.

## ASSETS AND LIABILITIES

The Estate's assets and liabilities are set out below.

Generally, the Debtor owns two community correction facilities and related personal property.

The Phoenix Center is located on approximately 2.2 acres in Henderson, Adams County, Colorado. The 29,757 square-foot facility has 207 beds and permit authority for a population of 226. The Phoenix Center provides low security housing for three groups of offenders: (1) offenders in the diversion program, who are sentenced directly to the Phoenix Center and receive programming in lieu of being sentenced to a higher security, and more costly, correctional facility; (2) offenders in a transitional living program, who have been transferred from a higher security correctional facility of the Colorado Department of Corrections for purposes of reintegration into the community; and (3) "Private Pay" offenders. Private Pay offenders have received deferred or suspended sentences and have voluntarily agreed to reside at the center for specified periods of time and receive services as specified by the court system.

Private Pay offenders pay in advance directly to the center for all services. Participation in this program can vary in length from nights and weekends only, to full-time incarceration, or may involve work release for periods of 30 days to two years.

On May 31, 2009, the Debtor entered into the Phoenix Center Lease Agreement with CEC. Monthly rent of $90,000, subject to adjustment, was paid pre-petition directly to the Trustee Bank. Subsequently, the rent was paid to the Debtor which has deposited the funds in the Debtor-in-possession account until entry of a court order regarding their disbursement. The lease is for a one year term, which renews annually unless terminated at the election of either party prior to expiration of any annual term.

The Villa Center is a 110,000 square-foot facility, with 307 beds, on approximately five acres in Greeley, Weld County, Colorado. It is comprised of numerous centers: (1) the Restitution Center, a 135-bed, co-ed community corrections program; (2) the Residential Treatment Center; (3) the Transitional Center for Women; (4) the Non-residential Services Center; (5) the Greeley Day Reporting Center; (6) the Residential Treatment Center Outpatient Services; and (7) the Villa Living Center, an assisted-living facility. An initial environmental assessment commissioned by the Trustee Bank has determined that further study is needed to determine whether the property contains asbestos, lead, radon and/or mold.

On March 3, 2010 [Doc. 23] the Debtor filed a motion to sell Villa for $1,700,000 which motion was approved on April 12, 2010 [Doc. 44]; however prior to the close of the buyer's due diligence period it sent notice of withdrawal from the agreement. Subsequently, a number of buyers have viewed the property but no agreement has been concluded. After the WCC Contract on the Villa Center with Weld County expired, the premises were closed in 2008 and the facility has remained vacant since then. Upon closing, the Villa Center was initially marketed for $8,000,000, and later for $3,900,000. However, no acceptable offer has been received as of the date of this Disclosure Statement. The most recent offer under consideration was for $430,000 but the Debtor and potential buyer could not come to an agreement as to the earnest money amount and the closing date.

In order to maintain the Villa Center on the market a significant expenditure of funds would be required: (a) to perform additional environmental assessment; (b) if any environmental conditions are identified that require remediation, to remediate such conditions; (c) to secure the property, as well as repair; and (d) maintain the property throughout the marketing process. Certain of these expenditures would need to be made before the onset of winter. Other expenditures would need to be retained from funds that would otherwise be available for distribution to the Bondholders. Consequently, while there is the potential for a greater sale price if the property continues to be marketed, there are also significant costs to keeping the property on the market.

Based upon the lack of success to date in selling the Villa Center, the age of the buildings, the potential environmental concerns, the cost of future repairs, security and maintenance, and the limited uses for the Villa Center, the better course is to preserve the collected funds and auction the property prior to winter. Towards such end, the Debtor has contacted a Denver auctioneer experienced with sales of commercial properties in the relevant geographical area. As yet, no agreement has been reached, but the general intent is to conduct an auction sale of the property without reserve prior to the end of October 2010. After the payment of the costs of sale, estate administration expense, and fees and costs of the New Bonds, the net proceeds would be paid to the Trustee Bank for distribution to the Bondholders.

It is the Debtor's belief that as of July 2004, the value of its two facilities on a going concern basis was: $11,000,000 for the Villa Center and $11,500,000 for the Phoenix Center. These values were dependent upon continued operations, as demonstrated by the fact that the Villa Center, assessed by the Debtor, when operating, at a going concern value of $11,000,000, has had one bona fide offer in the amount of $1,700,000. Further, both of the facilities fall into the category of "single purpose use," meaning that the space does not readily lend itself to any use other than as an incarceration-related facility; hence, the facilities have a very limited number of potential buyers. The Debtor estimates that the current fair-market value of the two facilities combined is likely between $13,000,000 and $15,000,000.

Part of the Collateral, the personal property at the Debtors facilities, is not deemed by the Debtor to be of material value.

However, assets of relevance to the Bondholders are a Bond Reserve Fund in the amount of $995,000 and a Major Maintenance Reserve Fund of $120,000. These are in the possession of the Trustee Bank , and under the Bond Indenture were respectively created to be applied to satisfy any deficiencies in regular principal and interest payments and to pay for repairs in excess of $20,000.

The Debtor has neither general unsecured debt nor other secured debt; its sole liability is the Note. The principal and accrued interest on the Note as of the Petition Date was $18,645,362.24, and the Debtor is not presently in default on its payments under the Note. The current semi-annual payments of principal and interest on the Bonds are approximately $1,100,000.

In July of 2004 when the Bonds were issued, the Phoenix Center and the Greeley Facility were operated by SCS. At that same time SCS owned and operated four other separate correctional facilities:

1. Avalon Correctional Center in Tulsa, Oklahoma;
2. Carver Correctional Center in Oklahoma City, Oklahoma;
3. Turley Correctional Center in Tulsa, Oklahoma;
4. El Paso Multi-use Facility in El Paso, Texas

In addition to operating the Collateral and the other four above-described operations, SCS had various other contractual obligations at the same time.

In the summer of 2007, the Parent of SCS undertook a reorganization of the corporate structure of its subsidiaries and their operations. As pertinent to this proceeding, the restructure resulted in:

1. The transfer of collateral and associated debt on the Greeley and Phoenix facilities to CRS; and,

2. The transfer of collateral and associated debt on the Avalon facility to Avalon Tulsa, L.L.C. and ACCP, L.L.C., in exchange for assumption of approximately $8,000,000 of secured indebtedness; and,

3. The transfer of collateral and associated debt on the Carver facility to Mission Realty, L.L.C., and Carver Transitional Center, L.L.C., in exchange for assumption of approximately $13,000,000 of indebtedness; and,

4. The sale of El Paso MUF to a third party buyer with the proceeds assigned to Avalon Correctional Services, Inc., to satisfy indebtedness owing to Avalon from SCS; and,

5. The transfer of Turley to Avalon Family Services of Oklahoma, L.L.C., and Turley Residential Center, L.L.C., in satisfaction of indebtedness owing to Avalon for operating losses incurred by the facility over the period of its operation; and

6. The assignment of the respective contracts of operation in exchange for assumption of the corresponding liabilities.

7. The formal Dissolution of SCS.

It is the belief of Debtor's management that the restructure of the Phoenix Center and Greeley Facility operation was done in accordance with the requirement of §503 (a) of the Loan Agreement between SCS and Adams County, which provided the conditions and terms pursuant to which SCS could transfer assets.

It is further the opinion of Debtor's management that the Bondholders' collateral position was not impaired or diminished by any of the above-describe restructuring transactions because: Avalon and Carver each had their own associated bonded indebtedness and there was no equity in either operation; El Paso MUF was sold to a third party and the net proceeds were used to satisfy indebtedness of SCS to Avalon for construction and operation of the facility; Turley, which had and continues to have, net losses subsidized by Avalon was transferred to satisfy the accumulated indebtedness; and the other miscellaneous operations and obligations were all unprofitable without the personnel and capital of the Parent company. In summary, nothing with a positive net value was transferred and assigned.

The Debtor believes that the Claim filed by the Trustee Bank on behalf of all Bondholders on April 9, 2010 [Claims Docket No. 6] (the "Trustee Claim") accurately reflects the actual amount, type and priority of Claims enforceable against the Estate. The Debtor is aware of no actual or potential pre-petition claims against the Estate, other than those set forth in the Schedules.

Unless Claims are filed at variance in type and/or amount to those in the Schedules other than the Trustee Bank's Claim, the Debtor does not anticipate filing claim objections. The Trustee Claim will be allowed in the amount of $18,645,362.24.

Estimated Priority Claims are based on the information given in the Debtor's records. Estimated administrative expenses are based upon communications with the Claimants, unless otherwise noted.

## VI.

## BALANCE SHEET, INCOME STATEMENT, AND PRO FORMA PROJECTIONS

The Debtor's balance sheet and income statement as of June 30, 2010, are collectively attached as Exhibit 1 to this Disclosure Statement.

As shown by Exhibit 1, the Debtor projects that, after the Effective Date, there would be $1,080,000 available a year for Debt service under the Plan, which would be sufficient to make the payments proposed under the Plan.

## VII.

## THE PLAN

Under the Plan, Unsecured Claims will receive nothing. As to Secured Claims, the Bonds in the aggregate principal amount of $17,745,000 will be exchanged for New Bonds in the aggregate principal amount $13,000,000, following which the Bonds will be cancelled on the Effective Date except for the following purposes: (1) allowing Bondholders to receive distributions under the Plan, and (2) preserving the rights of the Bond Trustee to (a) make distributions (b) exercise its charging lien against any such distributions, and (c) obtaining compensation and reimbursement for fees, expenses and indemnities.

In addition to the New Bonds, holders of Secured Claims will receive, after payment of certain expenses described below, proceeds from the sale of the Villa Project, rents received with respect to the Phoenix Center during the pendency of the bankruptcy proceeding, and funds held by the Trustee Bank pursuant to the terms of the Bond Indenture.

On the Effective Date, the Debtor will convey all of its right, title and interest in the Phoenix Center to Phoenix Services Center LLC, the sole member of which is a Section 501(c)(3) organization, and CEC will be engaged to operate the Phoenix Center. Income generated from the Phoenix Center will be used to pay the semi-annual principal and interest payments on the New Loan Agreement and, after payment of debt service on the New Loan Agreement, fees and expenses of CEC.

On the Effective Date, the Debtor will first pay all reasonable costs, fees and expenses of operations of the Villa Project and Phoenix Center and approved administrative claims from the cash proceeds from the sale of the Villa Center, if any, and cash rents on the Phoenix Center. Thereafter, in the following order of priority, the Debtor will utilize the remaining cash proceeds from the sale of the Villa Center, if any, remaining cash rents on the Phoenix Center, and/or the cash held in the Debt Service and Maintenance Reserve Funds established by the Bond Indenture for payment of the approved administrative claim. Fees, costs, reserves and expenses in connection with the issuance of the New Bonds (described below) shall be paid from the same sources. The Trustee Bank shall distribute the remaining funds to holders of Bonds pursuant to the terms of the Indenture, after establishing appropriate reserves and exercising its charging lien in accordance with the terms of the Indenture. The Bonds and New Bonds will have different obligors, debt service schedule, reserves and tax treatment; however, in other respects, such as default terms and remedies, they will be substantially similar.

The fees, costs, reserves and expenses related to the issuance of the New Bonds shall be as follows, unless the Court approves higher amounts:

| | |
|---|---:|
| Issuer Fees | $48,750.00 |
| Issuer Counsel Fees | 55,000.00 |
| Bond and Underwriters Counsel Fees | 90,000.00 |
| Trustee Fees[1] | 10,000.00 |
| 501(c)(3) Counsel Fees | 26,000.00 |
| HJ Sims Fees | 35,000.00 |
| Conduit Fees | 30,000.00 |
| Printing and Other Costs | 10,000.00 |
| Title Insurance Costs | 23,000.00 |
| Reserve Funds | 540,000.00 |
| Total | $867,750.00 |

In the event that a sale of the Villa Center is pending but has not closed on the Effective Date, the Debtor shall remain in operation so long as required to conclude the sale, pay the authorized costs and expenses and distribute the net proceeds to the Trustee Bank for subsequent distribution to the Bondholders.

The Debtor intends to conduct an auction sale "without reserve" of the Villa Facility on or before October 31, 2010. A third party associated with Debtor's parent, Cedar Run Properties, L.L.C., will make an opening bid of $100 to ensure the receipt of at least one bid. After payment of the costs of sale and cost and expenses for the issuance of New Bonds, the net proceeds will be paid

[1] These are the fees of the Trustee for the New Bonds. The fees of the Trustee Bank will be paid pursuant to the terms of the Bond Indenture.

to the Trustee Bank, which in turn will make distributions pursuant to the terms of the Bond Indenture.

In the event the Plan is not confirmed, the Debtor will move to dismiss this proceeding upon the payment of administrative expense. After the dismissal, each holder of a claim or interest shall be free to pursue their state-court remedies.

## VIII.

## MANAGEMENT OF THE DEBTOR

The Parent will lend services of such personnel as are deemed necessary by Parent to effectuate the terms of the Plan.

The Debtor will maintain business operations after the Confirmation Date for as long as necessary to carry out the terms of the Plan. Upon the Plan's implementation, the Debtor anticipates that it will cease all activity and become dormant.

## IX.

## THE RELATIONSHIP OF THE DEBTOR WITH AFFILIATES

The Debtor is a wholly-owned subsidiary of the Parent, Avalon Correctional Services, Inc., which has other subsidiaries not connected to the Debtor in any way other than through a common parent; the Debtor has no subsidiaries.

## X.

## LITIGATION

The Debtor was not a party to any pending litigation Pre-Petition and does not anticipate any litigation Post-Petition or after the Confirmation Date, other than that which might occur in the event that the Bondholders rejected the Plan.

There are no known voidable preferences, fraudulent conveyances or other claims giving rise to actions for the recovery of assets for the benefit of the Estate, under the Code or other applicable law.

## XI.

## TAX CONSEQUENCES OF THE PLAN

The Debtor has not obtained or requested a ruling from the Internal Revenue Service or an opinion of counsel with respect to any tax matters. This general discussion is not intended to present a detailed explanation of the federal income tax consequences of the Plan, which will depend, in substantial part, upon factual matters relating to each particular Claimant.

**THE DEBTOR IN POSSESSION URGES EACH CLAIMANT TO SEEK ADVICE FROM ITS OWN TAX ADVISOR ABOUT THE FEDERAL INCOME TAX CONSEQUENCES OF THE PLAN AND, IF APPLICABLE, STATE AND LOCAL TAX CONSEQUENCES.**

## XII.

## LIQUIDATION

In the event that Bondholders vote to reject the treatment proposed in the Debtor's Plan of Reorganization, the alternatives are conversion of the Case to Chapter 7 liquidation or dismissal of the Case and pursuit by the Trustee Bank of its remedies under the Bond Documents.

As stated above, the Debtor believes that the current fair market value of its assets, including Reserves, is between $13,000,000 and $15,000,000: $13,000,000 for New Bonds; $1,655,314 in trustee cash; and $350,000 estimated net proceeds on sale of Villa Facility.

In liquidation, fully-encumbered Collateral would be abandoned by the bankruptcy estate and the holders of Secured Claims would be allowed to foreclose their security interests. In this Case, it would involve an abandonment of all the Debtor's assets. Were there any unencumbered property, it would be sold and the net proceeds distributed according to the hierarchy of payments set forth in Section 726 of the Code.

Dismissal of the Case would likely vary little in its substantive effect from a Chapter 7 liquidation, in that both would probably result in foreclosure by the Trustee Bank; however, dismissal would eliminate the Chapter 7 trustee and application of provisions and procedures under Chapter 7 of the Code dealing with liquidation.

It is the Debtor's opinion that the proposed Plan treatment affords a better opportunity for a greater recovery for Claimants than would either conversion or dismissal, because it maintains the going-concern value of the Phoenix Center. This is because both conversion and dismissal would entail litigation costs, and the potential for business disruption and loss of going concern value in the liquidation of the Debtor’s assets. These costs and risks are avoided or minimized with the Debtor's proposed Plan.

## XIII.

## RISK FACTORS

*Limited Obligations.* The New Bonds are special, limited obligations of the Issuer payable solely from the funds pledged therefor under the New Bond Indenture and not from any other source. Such funds will consist primarily of the amounts payable by Phoenix Center Services LLC under the New Loan Agreement. The New Bonds do not constitute or give rise to a debt or pecuniary liability of the Issuer, a charge against the general credit or taxing powers of the Issuer, or a pledge of faith on credit of the Issuer.

*Risk of Opposition to Private Correctional and Detention Facilities.* The movement of offenders to a community-based facility, as an alternative to higher security incarceration, or from a higher security facility, can result in resistance from certain groups, including labor unions, local law enforcement, neighbors, private prison contractors and others, for financial reasons or security concerns. The inherent activity of a community correctional facility in reintegrating offenders into society creates certain risks that unanticipated anti-social behavior by facility residents might engender social and political backlash that could adversely affect facility operations. Specifically, facilities' contracts could be adversely affected by criminal actions taken by any offender residing at the facilities owned and operated by Phoenix Center Services LLC. Restrictions could be placed on the number and type of referrals allowed to the facilities or, hypothetically, the facilities' contracts could be canceled or allowed to lapse for non-renewal. In such a case, the ability of Phoenix Center Services LLC to generate revenues to make the loan payments contemplated under the Plan could be materially and adversely impacted.

*Reduction in Crime and Incarceration Rates.* Future demand for correctional facilities can be affected by future levels of criminal activity, rates of arrest, and conviction and sentencing practices. Accordingly, the demand for correctional facilities could be adversely affected by the relaxation of enforcement efforts, leniency in conviction and sentencing practices or through the legal decriminalization of certain activities that are currently proscribed by our criminal laws. Similarly, reductions in crime rates could lead to reductions in arrests, convictions and sentences requiring correctional facilities. A reduction in the number of convictions or length of sentences could have a material adverse effect on the ability of the Phoenix Center Services LLC to generate revenues to make the New Bond payments.

*Short Term Contracts with Governmental Agency Payors.* The federal government and most state and local governments are legally limited in their ability to enter into long-term contracts that would bind elected officials responsible for future budgets. Therefore, correction, detention and treatment facility contracts with government agencies typically are either for a very short term or are subject to termination on short notice without cause, or both, and are subject to governmental appropriations, often annually. In addition, occasionally, due to delays in the appropriations process, services may continue to be provided beyond the stated term of the facilities contracts. Recently, the federal government and many state and local governments have encountered, or may in the future encounter, budgetary constraints due to revenue shortfalls. A failure by Governmental Agency Payor to receive adequate appropriations could result in (i) termination of a facilities contract by such Governmental Agency Payor, (ii) difficulty renewing existing facilities contracts on favorable terms, or (iii) a request to reduce existing per-diem contract rates. In addition, even if funds are appropriated, delays in payments may occur. If the facilities contracts are terminated or not renewed, Phoenix Center Services LLC may not be able to obtain replacement facilities contracts from others. Any of the foregoing factors could have a material adverse effect on the ability of Phoenix Center Services LLC to generate revenues to make loan payments that support the payment at of principal and interest to the New Bond.

*Decrease in Facility Occupancy Levels.* Private community correctional facilities are dependent upon government agencies supplying offenders for their facilities. A substantial portion of such revenues is generated under contracts that specify a net rate per day per inmate ("per-diem rate"), often with no minimum guaranteed occupancy levels or minimum payment amounts, even though most correctional facility cost structures are relatively fixed. Under such a per-diem rate structure, a decrease in occupancy levels at a particular facility could have a material adverse effect on the amount of revenues available to Phoenix Center Services LLC to repay the New Bonds.

*Loss of Zoning and Use Permits.* Community correctional facilities are generally operated pursuant to zoning and use permits received from one or more governmental entities. The loss of proper zoning and use permits to operate one or more of the facilities would have a material adverse effect on the ability of Phoenix Center Services LLC to generate revenues to make payments to the New Bond.

*Change in Regulations.* The corrections industry is subject to a variety of federal, state and local regulations, including education, health care and safety regulations, that are administered by various regulatory authorities. The facilities contracts typically include extensive reporting requirements and supervision and on-site monitoring by representatives of contracting governmental agencies. Corrections officers are customarily required to meet certain training standards, and in some instances personnel are required to be licensed and subject to background investigation. Certain jurisdictions also require facilities contracts to be awarded on a competitive basis or to subcontract with businesses owned by members of minority groups. The facilities are also subject to operational and financial audits by the governmental agency payors. The failure to comply with any applicable laws, rules or regulations and the loss of any required license could have a material adverse effect on the amount of revenues to Phoenix Center Services LLC available to make the loan payments. Furthermore, current and future operations of the facilities may be subject to additional regulations as a result of new statutes and regulations and changes in the manner in which existing statutes and regulations are or may be interpreted or applied. Any such additional regulations could have a material adverse effect on the ability of Phoenix Center Services LLC to generate revenues to make payments with respect to the New Bonds.

*Competition.* Every private corrections facility and its operator must compete on the basis of cost, quality and range of services offered, experience in managing facilities, the reputation of its personnel and its ability to design, finance and construct new facilities on a cost-effective competitive basis. Governmental Agency Payors are not precluded from contracting with competitors and may transfer inmates currently housed in one facility to facilities operated by competitors. While there are barriers for companies seeking to enter into the management and operation of correctional or detention facilities, there can be no assurance that these barriers will be sufficient to limit additional competition. The loss of inmates to competitors' facilities could have a material adverse effect on the ability of Phoenix Center Services LLC to make payments with respect to the New Bonds.

*Impact of Disturbances.* A disturbance at a private correctional facility could have a material adverse effect on its financial condition, results of operations and liquidity. Among other things, the adverse publicity generated as a result of any such event could have a material adverse effect on its ability to retain an existing contract or obtain future contracts. If such an event were to occur at the facility, it might increase the resistance to community correctional facilities generally. In addition, if such an event were to occur, the facility where the event occurred might be shut down by the relevant governmental entity. A closure of the Phoenix Center would probably destroy the ability of Phoenix Center Services LLC to make payments to the New Bonds.

*Potential Legal Liability for Operations.* Phoenix Center Services LLC's operation of facilities exposes it to potential third-party claims or litigation by clients or other persons for personal injury or other damages, including damages arising from a "walk away" escape, or from a disturbance at a facility. In addition, Phoenix Center Services LLC's detention and housing contracts generally require it to indemnify the Governmental Payor against any damages to which the Governmental Payor may be subject in connection with such claims or litigation. Phoenix Center Service LLC is obligated in the New Loan Agreement to maintain an insurance program that provides coverage for certain liability risks, including personal injury, bodily injury, death or property damage to a third party where the Phoenix Center Service LLC is found to be negligent. There can be no assurance, however, that such insurance will be adequate to cover potential third-party claims. In addition, it is not commercially possible to secure insurance for some unique business risks including, but not limited to, riot and civil commotion or the acts of an escaped offender.

*Environmental Regulations.* Corrections facilities may be subject to unforeseen environmental risks. The federal Comprehensive Environmental Response, Compensation and Liability Act, as amended ("CERCLA"), imposes strict, as well as joint and several, liability for certain environmental cleanup costs on several classes of potentially responsible parties, including current owners and operators of the property and, in some cases, lenders who did not cause or contribute to the contamination. Furthermore, liability under CERCLA is not limited to the original or unamortized principal balance of a loan or to the value of the property securing a loan. In certain circumstances, other federal and state laws may impose liability for environmental remediation, which costs may be substantial. Moreover, certain federal statutes and certain states by statute impose a lien for any cleanup costs incurred by such state on the property that is the subject of such cleanup costs (an "Environmental Lien"). All subsequent liens on such property generally are subordinated to such an Environmental Lien and, in some states, even prior recorded liens are subordinated to Environmental Liens.

*Enforcement of Remedies Upon Default.* A termination of the New Loan Agreement will give the Trustee Bank the right to take possession of, and to dispose of, or to lease, the project in accordance with the provisions of the New Loan Agreement, the New Indenture and the New Deed of Trust. However, insofar as the project consists of land and improvements designed for a specific use and purpose, prospective investors should not assume that it will be possible to foreclose on and sell, or lease, the project after a termination of the New Loan Agreement for an amount equal to the aggregate principal amount of the New Bonds then outstanding, plus accrued interest thereon, or within a time period that would prevent a default in the timely payment of debt service on the New Bonds.

The enforceability of remedies under the New Loan Agreement and related documents and any other agreements related to this transaction and the projects is also subject to limitations imposed by the valid exercise of the constitutional powers of the State of Colorado, the United States of America and other governmental authorities, including police powers exercised for the benefit of the public health and welfare, by bankruptcy, reorganization, insolvency or other similar laws affecting creditors' rights generally and by general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law), as well as by judicial discretion. Because of the delays inherent in enforcing the remedies upon Phoenix Center Services LLC and the projects through the courts, prospective investors should not anticipate that the remedies available upon the occurrence of an event of default under the New Bond Indenture, the new Loan Agreement and related documents or other documents could be accomplished rapidly. Any delays in resolving the Trustee Bank's claim to possession of, or title to, the projects, may result in delays in the payment of the New Bonds.

*Liquidity; No Public Market.* There is no public market for the New Bonds and no public market is expected to develop. Accordingly, prospective investors should be prepared to hold the New Bonds to maturity or prior redemption, if any.

*Litigation.* As of the date of this Disclosure Statement, there are no lawsuits or claims pending or threatened involving the Issuer or Phoenix Center Services LLC, nor is there any litigation pending or, to the knowledge of the officials of the Issuer and Phoenix Center Services LLC, threatened, which questions the validity or enforceability of the New Bonds, any proceedings of the Issuer or Phoenix Center Services LLC taken with respect thereto, the security or sources of payment of the New Bonds or the transactions contemplated in this Disclosure Statement.

*Tax Matters.* Creditors should consult their own tax advisors concerning the tax implications of acquiring, holding and disposing of the New Bonds under applicable federal, state and local laws. Prospective foreign investors should also consult their own tax advisors regarding the tax consequences unique to investors who are not United States persons.

The Internal Revenue Code of 1986 (the "Tax Code") imposes certain requirements that must be met subsequent to the issuance and delivery of the New Bonds for interest thereon to be excluded from gross income for Federal income tax purposes. Noncompliance with such requirements could cause the interest on the New Bonds to be included in gross income for Federal income tax purposes retroactive to the date of issue of the New Bonds. The Issuer and Phoenix Services Center LLC have covenanted to comply with the applicable requirements of the Tax Code in order to maintain the exclusion of the interest on the New Bonds from gross income for Federal income tax purposes.

In the opinion of Brownstein Hyatt Farber Schreck, LLP, Bond Counsel, under existing law and assuming compliance with the aforementioned covenant, interest on the New Bonds is excluded from gross income for federal income tax purposes. Bond Counsel is also of the opinion that the New Bonds are not "specified private activity bonds" within the meaning of Section 57(a)(5) of the Tax Code and, therefore, the interest on the New Bonds will not be treated as a preference item for purposes of computing the alternative minimum tax imposed by Section 55 of the Tax Code.

In rendering its opinion, Bond Counsel will rely on, and will assume the accuracy of, certain representations and certifications, and compliance with certain covenants of the Issuer and Phoenix Services Center LLC. Bond Counsel will not independently verify the accuracy of the certifications and representations made by the Issuer and Phoenix Services Center LLC. In addition, Bond Counsel has not been engaged, and will not undertake, to monitor the Issuer's and Phoenix Services Center LLC's compliance with the covenants or to inform any person as to whether the covenants are being complied with; nor has Bond Counsel undertaken to determine or to inform any person as to whether any actions taken or not taken, or events occurring or not occurring, after the date of the issuance of the New Bonds may affect the federal tax-exempt status of the interest on the New Bonds.

Interest on the New Bonds is subject to information reporting in a manner similar to interest paid on taxable obligations. Backup withholding may be imposed on payments made to any Bondholder who fails to provide certain required information including an accurate taxpayer identification number to any person required to collect such information pursuant to Section 6049 of the Tax Code.

Future legislative proposals, if enacted into law, clarification of the Tax Code or court decisions may cause interest on the New Bonds to be subject, directly or indirectly, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent Bondholders from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such future legislative proposals, clarification of the Tax Code or court decisions may also affect the market price for, or marketability of, the New Bonds. Creditors should consult their own tax advisers regarding any pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel expresses no opinion. Bond Tax Counsel has not undertaken to advise in the future whether any events after the date of issuance of the New Bonds may affect the tax status of interest on the New Bonds. No assurance can be given that future legislation, or amendments to the Tax Code, if enacted into law, will not contain provisions which could directly or indirectly reduce the benefit of the exclusion of the interest on the New Bonds from gross income for Federal income tax purposes. Furthermore, Bond Counsel expresses no opinion as to any federal, state or local tax law consequences with respect to the New Bonds, or the interest thereon, if any action is taken with respect to the New Bonds or the proceeds thereof upon the advice or approval of counsel other than Bond Counsel. Though Bond Counsel has rendered an opinion that interest on the New Bonds is excluded from gross income for federal income tax purposes, a bondholder's federal, State or local tax liability may otherwise be affected by the ownership or disposition of the New Bonds. The nature and extent of these other tax consequences will depend upon the Holder's other items of income or deduction. Without limiting the generality of the foregoing, prospective purchasers of the New

Bonds should be aware that (i) Section 265 of the Tax Code denies a deduction for interest on indebtedness incurred or continued to purchase or carry the New Bonds, (ii) with respect to insurance companies subject to the tax imposed by Section 831 of the Tax Code, Section 832(b)(5)(B)(i) reduces the deduction for loss reserves by 15% of the sum of certain items, including interest on the New Bonds, (iii) interest on the New Bonds earned by certain foreign corporations doing business in the United States could be subject to a branch profits tax imposed by Section 884 of the Tax Code, (iv) passive investment income, including interest on the New Bonds, may be subject to federal income taxation under Section 1375 of the Tax Code for Subchapter S corporations that have Subchapter C earnings and profits at the close of the taxable year if greater than 25% of the gross receipts of such Subchapter S corporation is passive investment income; and (v) Section 86 of the Tax Code requires recipients of certain Social Security and certain Railroad Retirement benefits to take into account, in determining the taxability of such benefits, receipts or accruals of interest on the New Bonds. Bond Counsel has expressed no opinion regarding any such other tax consequences.

Unless separately engaged, Bond Counsel is not obligated to defend the Issuer, Phoenix Services Center LLC or the bondholders regarding the tax-exempt status of the New Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the Issuer and their appointed counsel, including the bondholders, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of the IRS positions with which the Issuer legitimately disagrees, may not be practicable.

Any action of the IRS, including but not limited to selection of the New Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the New Bonds, and may cause the Issuer, Phoenix Services Center LLC or the bondholders to incur significant expense.

The foregoing is not intended to be an exhaustive discussion of collateral tax consequences arising from receipt of interest on the New Bonds. Creditors should consult their tax advisors with respect to collateral tax consequences, including without limitation the calculations of alternative minimum tax, environmental tax or foreign branch profits tax liability, inclusion of Social Security or other retirement payments in taxable income and the state and local tax rules in Colorado and other states.

The foregoing is not intended to be an exhaustive discussion of collateral tax consequences arising from receipt of interest on the New Bonds. Creditors should consult their tax advisors with respect to collateral tax consequences, including without limitation the calculations of alternative minimum tax, environmental tax or foreign branch profits tax liability, inclusion of Social Security or other retirement payments in taxable income and the state and local tax rules in Colorado and other states.

*Changes in Law.* Various federal and state laws and regulations apply to the obligations created by the New Bonds and the agreements referred to herein, and the operations of the parties involved in this financing. There can be no assurance that there will not be changes in interpretation of, or additions to, the applicable laws and provisions that would have a material adverse effect, directly or indirectly, on the New Bonds, such agreements, or the affairs of such parties.

Dated this 3rd day of August, 2010.

CRS MANAGEMENT COMPANY, L.L.C.

By: Eric S Gray V.P.
Eric S. Gray, Vice President