

1 Mark W. Roth (#010708)
2 Arturo A. Thompson (#025070)
3 **POLSINELLI SHUGHART PC**
4 3636 North Central Avenue, Suite 1200
5 Phoenix, AZ 85012
6 Telephone: (602) 650-2000
7 Facsimile: (602) 264-7033
8 E-Mail: mroth@polsinelli.com
9 E-Mail: athompson@polsinelli.com

10 *Attorneys for the Debtor*

11 **IN THE UNITED STATES BANKRUPTCY COURT**
12 **THE DISTRICT OF ARIZONA**

13 In re:
14 CITRUS 278, LLC,
15 Debtor.
16 Address: 2222 West Pinnacle Peak Rd., #240
17 Phoenix, AZ 85027
18 Tax EIN: xxx-xxxx3942

19 Chapter 11 Proceedings
20 Case No. 2:09-bk-28416-RJH

21 **DEBTOR'S DISCLOSURE**
22 **STATEMENT FOR PLAN OF**
23 **REORGANIZATION**
24 **DATED FEBRUARY 3, 2010**

25 **I. INTRODUCTION.**

26 This document is the Disclosure Statement of Citrus 278, L.L.C., an Arizona limited
27 liability company (the "Debtor"), the debtor in the above-entitled Chapter 11 bankruptcy
28 proceeding. This disclosure statement is submitted by the Debtor pursuant to 11 U.S.C. § 1125.

11 U.S.C. § 1125(b) prohibits the solicitation of acceptances or rejections of a plan of
reorganization unless such plan is accompanied by a copy of the Disclosure Statement which has
been approved by the Bankruptcy Court.

The purpose of this Disclosure Statement is to provide creditors and interested parties in this
bankruptcy proceeding with such information as may reasonably be deemed sufficient to allow
creditors and interested parties to make an informed decision regarding the Debtor's Plan of
Reorganization dated February 3, 2010 (the "Plan").

Unless otherwise noted, those portions of the Plan and this Disclosure Statement providing
factual information concerning the Debtor, its assets and liabilities, have been prepared from

1 information submitted by the Debtor and its retained professionals. The Debtor and other
2 professionals employed by the Debtor have utilized all relevant, non-privileged information
3 provided by the Debtor in preparing this Disclosure Statement and the Plan.

4 This Disclosure Statement contains information that may influence your decision to accept
5 or reject the Debtor's proposed Plan. Please read this document with care.

6 The financial information contained in this Disclosure Statement has not been subjected to
7 an audit by an independent certified public accountant. For that reason, the Debtor is not able to
8 warrant or represent that the information contained in this Disclosure Statement is without any
9 inaccuracy. To the extent practicable, the information has been prepared from the Debtor's
10 financial books and records and great effort has been made to ensure that all such information is
11 fairly represented.

12 This Disclosure Statement and the Plan will classify all creditors into Classes. The
13 treatment of each Class of creditors will be set forth in this Disclosure Statement and in the Plan.
14 You should carefully examine the treatment of the Class to which your Claim will be assigned.

15 This Disclosure Statement requires approval by the Bankruptcy Court after notice and a
16 hearing pursuant to 11 U.S.C. §1125(b). Once approved, the Disclosure Statement will be
17 distributed with the Debtor's proposed Plan for voting. Approval of the Disclosure Statement by
18 the Bankruptcy Court does not constitute either certification or approval of the Debtor's Plan by the
19 Bankruptcy Court or that the Disclosure Statement is without any inaccuracy.

20 The Bankruptcy Court will confirm the Plan if the requirements of §1129 of the Bankruptcy
21 Code are satisfied. The Bankruptcy Court must determine whether the Plan has been accepted by
22 each impaired Class entitled to vote on the Plan. Impaired Classes entitled to vote on the Plan are
23 those Classes of claims whose legal, equitable, or contractual rights are altered, as defined under
24 §1124 of the Bankruptcy Code. An impaired Class of claims is deemed to have accepted the Plan if
25 at least two-thirds (2/3) in amount of those claims who vote and more than one-half (1/2) in number
26 of those claims who vote have accepted the Plan. An impaired Class of interests is deemed to have

1 accepted the Plan if the Plan has been accepted by at least two-thirds (2/3) in amount of the allowed
2 interests who vote on the Plan.

3 Even if each Class of creditors does not accept the Plan, the Plan can be confirmed under
4 §1129(b) of the Bankruptcy Code, so long as one impaired Class of creditors accepts the Plan. This
5 is referred to as the “cram down” provision. The failure of each Class to accept the Plan could very
6 well result in a conversion of this case to a Chapter 7 or dismissal of the Chapter 11, and the
7 secured creditors repossessing their collateral and disposing of it in a commercially reasonable
8 manner with no obligation to unsecured creditors.

9 Only the votes of those creditors or interested parties whose ballots are timely received will
10 be counted in determining whether a Class has accepted the Plan.

11 **II. DEFINITIONS.**

12 The definitions set forth in Article I of the Plan apply in this Disclosure Statement except to
13 the extent other definitions are set forth in this Disclosure Statement.

14 **III. THE DEBTOR, BACKGROUND, AND EVENTS PRECIPITATING THE
15 CHAPTER 11.**

16 **A. Background**

17 On November 5, 2009, the Debtor filed a voluntary petition for relief under Chapter 11 of
18 the Bankruptcy Code in the United States Bankruptcy Court for the District of Arizona.

19 The Debtor is an Arizona limited liability company founded on September 14, 2004, and
20 engaged in the business of developing a residential subdivision located in Maricopa County,
21 Arizona (the “Development”). The Debtor is owned by the SAK Family Limited Partnership
22 (“SAK”), its sole manager and member. The day to day operations of the Debtor are managed by
23 Stephen A. Kohner.

24 **1. The Old Citrus Loan**

25 The Citrus Real Property was acquired by the Debtor on January 4, 2005 through a special
26 warranty deed, recorded at No. 20050007893, in the office of the Maricopa County Recorder. The
27 funds used to acquire and develop the Citrus Real Property were obtained through a loan arranged
28 by ML, but actually funded by and for the beneficial interest of numerous Direct Investors. The

1 original loan was entered into on November 15, 2004, in the principal amount of \$24,000,000, with
2 an interest rate of 12.25% and a maturity date of January 5, 2007. This loan was later refinanced on
3 June 16, 2006, with a new principal amount of \$26,650,000, with an interest rate of 12.75%, and
4 with a maturity date of December 20, 2007. Certain modifications to the loan were also agreed to
5 in 2008. The refinanced and modified loan is known, herein, as the Old Citrus Loan.

6 Because the Citrus Real Property is adjacent to real property owned by a separate but
7 related entity, Northern 120, both the Debtor and Northern 120 are listed as “Makers” under the
8 Old Citrus Note even though Northern 120 has no interest in the Citrus Real Property that secured
9 Old Citrus Loan.

10 ML and now ML Manager assert a first position lien on the Citrus Real Property, as well as
11 the real estate owned by Northern 120, through various Loan Documents.

12 2. The Old Northern Loan

13 Adjacent to a portion of the Citrus Real Property is a tract of real property owned by a
14 separate entity: Northern 120. Northern 120 is also a debtor in bankruptcy under its own case at
15 Case No. 2:09-bk-28417-GBN. Northern 120’s members are the same as those of the Debtor.

16 As explained above, because of the proximity of the land they each owned and their shared
17 members, Northern 120 was a “Maker” on the Old Citrus Note. And, likewise, the Debtor became
18 a “Maker” on the Old Northern Note.

19 The history of the alleged loan involving Northern 120 and ML essentially mirrors that of
20 the Old Citrus Loan. There was an original alleged loan that was used by Northern 120 to fund the
21 purchase and development of the Northern Real Property. The date of the original loan was March
22 26, 2003, with an available principal amount of \$7,247,000, an interest rate of 12.5%, and a
23 maturity date of March 28, 2006.¹ This loan was then refinanced on November 30, 2004, with an
24 available principal amount of \$8,630,000, an interest rate of 12.5%, and a maturity date of March
25 28, 2006. This loan was then refinanced a second time on May 16, 2006, with an available

26 ¹ The Note indicates that the Northern 120 has a designated loan amount of \$20,000,000.
27 However, this amount was a feature of the loan that, under certain conditions, allowed the loan to
28 be increased to this amount. Thus, the amounts designated in this and in the refinanced loans are
the actual amounts involved.

1 principal amount of \$10,775,000, an interest rate of 12.75%, and a maturity date of November 15,
2 2007. Certain modifications to the loan were also agreed to in 2008. The refinanced and modified
3 loan is known, herein, as the Old Northern Loan.

4 While ML Manager claims to be secured in the Citrus Real Property, because the Debtor
5 has no interests in the Northern Real Property, the debt associated with the Northern Real Property
6 is treated as being fully unsecured with respect to the Debtor.

7 **3. Events That Precipitated the Bankruptcy Filing**

8 Due to the extraordinary financial crisis occurring throughout the United States, the Debtor
9 was unable to realize the potential of the Development within the timeframe originally envisioned,
10 and thereby meet its alleged obligations under the Old Citrus Loan. For over a year before the
11 Petition Date the Debtor recognized that the change in the economy would necessitate a reworking
12 of the Old Citrus Loan and Old Northern Loan so that they would comport with the economic
13 reality of the marketplace. Despite concerted efforts to negotiate with ML, as the alleged
14 representative of the Direct Investors, ML never responded in a constructive and consistent manner,
15 and it proceeded to file a notice of trustee's sale. And it was only on the eve of that trustee's sale
16 that ML did, finally respond, but by this time the pending foreclosure was so imminent that there
17 was insufficient time to negotiate and the Debtor had to file for bankruptcy to protect the estate.

18 Thus, the Debtor's filing was precipitated by a pending trustee's sale. However that
19 exigency was largely a function of ML's inability to respond to the Debtor's attempts to resolve
20 issues between them.

21 **B. Business Plan and Projections**

22 The debtor intends to continue operating the Development, developing and selling the
23 Citrus Real Property as the market recovers. This approach will essentially mirror the original
24 development plans of the Debtor, but will now be adjusted to reflect the present market conditions,
25 including appropriate adjustments to rate at which sales will occur and the pricing thereof. And,
26 importantly, these adjustments will be made while not affecting the value of the Secured Creditor's
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1 Allowed Claims.² And by allowing the Debtor to develop the property to its full potential under the
2 terms of the Plan, Creditors will maximize their return.

3 In the immediate term, the Interest Holders, as described herein, intend to infuse a
4 substantial new value into the Debtor to both ensure that the return to creditors is maximized, and
5 that the Debtor has sufficient funds on hand to deal with its operational needs following
6 confirmation. The Debtor is in negotiations with a variety of sources, one or more of which will
7 fund the Development going forward (the “Funder”). The Funder will fund the Plan through a loan
8 for the benefit of the Interest Holders in the Debtor as set forth in a commitment letter (the
9 ‘Commitment Letter’) the Debtor will file once this issue is finalized. This infusion of New Value
10 will pay the administrative Priority Claims in full, thereby relieving the Debtor of significant debt
11 and bringing it current with any tax claims in those classes.

12 The infusion will also be used to pay the Allowed Secured Claims of the Direct Investors
13 that choose the Payout Option, as described under the Plan. In addition, the infusion will also
14 ensure the payment of interest on the Allowed Secured Claims of the Direct Investors who choose
15 the Participation Option under the Plan through the funding of the Reserve Account. As such, the
16 New Value infused on behalf of the Interest Holders will help give the Debtor the mid-term relief it
17 needs to complete the development and become self sustaining, while also mitigating any concern
18 of the Direct Investors that their Allowed Secured Claims will not be paid in full.

19 The Plan and accompanying infusion from the Interest Holders will also give the variety of
20 unsecured creditors a maximum return on their Allowed Unsecured Claims. Maximizing these
21 payments is integral to the Plan because it will help preserve the relationship of the Debtor to key
22 vendors and service providers necessary to the future of the Development. It will also ease the
23 ability of the Debtor to obtain favorable terms on trade credit going forward as it will demonstrate
24 the good faith interest of the Debtor in mitigating the risk to trade vendors.

25 Finally, no later than 15 days prior to the Effective Date, the Interest Holders will place
26 \$200,000 of the funds to be infused into the Debtor as a part of this Plan into the trust account of its

27 ² The Debtor is in the process of obtaining an appraisal of the Development, and will submit
28 the relevant portion to the Court once it is available.

1 bankruptcy counsel. These “escrowed” funds will demonstrate the financial commitment of the
2 Interest Holders and their funding source to the Plan. These funds will only become part of the
3 Estate when the Plan is confirmed. If the Plan is not confirmed these funds will be remitted to the
4 funding source.

5 In sum, under the Plan all creditors will be paid in full on their Allowed Secured Claims,
6 whereas, under a liquidation under Chapter 7 of the Bankruptcy Code, the Secured Creditors would
7 receive less, and Unsecured Creditors would receive nothing.

8 **C. Operations**

9 In order to provide for efficient and productive operations and to keep the Debtor’s business
10 competitive, the Debtor intends to retain the same management structure that existed pre-petition.
11 The issues confronted by the Debtor that lead to the petition were the product of market changes,
12 not the management of the Debtor or its structure. Thus, a change in management structure is not
13 in the interests of the Debtor or its creditors because the existing structure is appropriate to the
14 needs of the Debtor.

15 **D. Preferences and Fraudulent Conveyances**

16 To the extent that a preference or fraudulent conveyance occurred before the bankruptcy
17 filings, such transfer may be recoverable by the bankruptcy estate for the benefit of the estate under
18 Sections 544, 547, or 548 of the Bankruptcy Code. To date, no complaints have been filed under
19 any of these theories. To the extent any such claims exist, they are specifically preserved for the
20 benefit of the bankruptcy estate. Any recovery that is obtained will be obtained for the benefit of
21 the estate.

22 **E. Conclusion**

23 The Debtor filed its Bankruptcy case to stop a pending foreclosure that was an attempt by
24 ML Manager to wrest control of the Development from the Debtor. The foreclosure and resulting
25 filing may have been avoided if ML Manager had responded to and negotiated with the Debtor in
26 the year preceding the Petition Date.

1 Under the Plan, the Debtor proposes to pay the Priority Claims in full. It also proposes to
2 give Secured Creditors with an interest in the Citrus Real Property the opportunity to be paid in full
3 on their Allowed Secured Claims immediately, or to remain as investors under new notes, and with
4 an opportunity to share in the potential upside of the development. In addition, the Plan will result
5 in the unsecured creditors receiving a substantial payout.

6 In a Chapter 7 Liquidation, conversely, the value of the Debtor and its assets would be
7 substantially less because a liquidation sale would result in an immense discount in the price paid
8 for the Debtor's assets. Thus, Secured Creditors would receive far less and Unsecured Creditors
9 would receive nothing in a liquidation scenario.

10 **IV. SIGNIFICANT EVENTS DURING THE CHAPTER 11.**

11 **A. Administrative Proceedings**

12 The Debtor filed its Petition for Relief under Chapter 11 on November 5, 2009, and a first
13 meeting of creditors was held on December 17, 2009.

14 **B. Status Conference**

15 On December 8, 2009, the Court held a status conference regarding the Debtor, and was
16 informed at that time that the Plan would be filed within 90 days of the petition date.

17 **C. Appointment of Unsecured Creditors Committee**

18 On December 10, 2009, the United States Trustee's Office filed a statement stating that,
19 despite its efforts to contact unsecured creditors, it was unable to appoint a Committee of
20 Unsecured Creditors.

21 **D. Motion to Lift Stay**

22 On December 23, 2009, ML Manager filed a motion to lift the automatic stay with respect
23 to the Citrus Real Property. The Debtor filed its objection to the motion on January 14, 2010. The
24 lift stay motion and objection are now pending before the Court, and a preliminary hearing on them
25 has been set for February 17, 2010.

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E. Retention of Professionals

On February 2, 2010, the Debtor’s bankruptcy counsel, Polsinelli & Shughart, P.C. (“PS”), filed its petition to be retained as bankruptcy counsel nunc pro tunc and on a going forward basis. Proposed orders approving PS as bankruptcy counsel were filed with the Court and these orders are currently pending before the Court.

V. DESCRIPTION OF ASSETS AND LIABILITIES OF THE DEBTOR.

The values ascribed to the assets below are based on the Debtor’s best estimate and other factors such as the purchase price, comparable sales, and tax assessments.

A. Assets

1. **Real Property** – The Citrus Real Property is comprised of approximately 278 acres of land. According to the Debtor’s bankruptcy schedules, the alleged value of the secured claims on this property is \$27,782,222.78. The Debtor is in the midst of obtaining an appraisal of the Citrus Real Property, and will supplement its Plan with this appraisal once available.

2. **Bank Accounts** – At the time of the filing of the petition for relief herein, the Debtor had the following bank accounts:

- a. National Bank of Arizona, Checking Sweep Account - \$2.00

3. **Equipment and other Property** – \$8,000.

B. Liabilities

1. Priority

a. **Arizona Department of Revenue** – The Debtor was current on taxes owed to the Arizona Department of Revenue (“ADOR”) and does not expect ADOR to have a claim.

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b. **Internal Revenue Service** – The Debtor was current on taxes owed to the Internal Revenue Service (“IRS”) and does not expect IRS to have a claim.

2. Secured

a. **Direct Investors** - The Debtor’s statements and schedules list numerous Direct Investors with alleged Allowed Secured Claims secured by the Citrus Real Property. The aggregate value of these claims, according to the Debtor’s schedules, is \$27,782,222.78.

b. **Patrick LaVoie** - The Debtor’s statements and schedules list Patrick LaVoie as a Secured Creditor with a claim in the approximate amount of \$8,000 related to a purchase money security interest in a Panasonic DP-6030 copier, SN # AEG3ZK00138 purchased by the Debtor. The Debtor believes that the Secured claim of LaVoie is equal to the value of the printer: \$8,000.

c. **Maricopa County** - The Debtor’s statements and schedules list the Maricopa County Treasurer as a secured creditor with a Claim in the approximate amount of \$13,777.86, related to property taxes and secured by statute on the Citrus Real Property. The Debtor believes that this Claim is fully secured.

3. Unsecured – The Debtors statements and schedules list unsecured claims totaling \$3,118,740.08.

1 **C. Financial Reports**

2 The Debtor’s monthly operating reports are current and copies can be obtained from the
3 Court’s electronic docket.

4 **D. Administrative Expenses**

5 The Debtor anticipates its administrative expenses will consist primarily of attorneys’ fees
6 for PS. PS is currently in possession of a pre-petition retainer in the amount of \$25,000, and the
7 Debtor anticipates that the attorneys’ fees will be less than \$100,000. There may be additional
8 administrative expenses for related costs such as accountants, management companies, experts and
9 appraisal fees.

10 **VI. PLAN SUMMARY.**

11 The following statements concerning the plan are merely a summary of the Plan and are not
12 complete. The statements are qualified entirely by express reference to the Plan. Creditors are
13 urged to consult with counsel or each other in order to understand the Plan fully. The Plan is
14 complete, inasmuch as it proposes a legally binding agreement by the debtor, and an intelligent
15 judgment cannot be made without reading it in full.

16 **VII. TREATMENT OF CLASSES UNDER THE PLAN**

17 **A. Priority Claims: Class 1**

18 **1. Administrative Claims: 1-A**

19 Unless they agree to an alternative form of treatment, the Allowed Claims of Class 1-A
20 shall be paid in full, in cash, on or before the Effective Date or as the same are Allowed and
21 ordered paid by the Court. Any Class 1-A Claim not allowed as of the Effective Date shall be paid
22 as soon thereafter as it is allowed by the Court according to the terms of this Class.

23 This Class is not impaired.

24 **2. Tax Claims: 1-B**

25 This Class consists of Allowed Priority Claims under 11 U.S.C. §507(a)(8) – Tax Claims
26 which are not otherwise treated as Secured Claims herein. As provided in 11 U.S.C.
27 §1129(a)(9)(C), unless they agree to an alternative form of treatment, the Allowed Priority Claims

1 of Class 1-B shall be paid in full, in cash, on or before the Effective Date, or, at the Debtor's option,
2 such Allowed Claims shall be paid, on account of such Allowed Claim, deferred cash payments,
3 over a period not exceeding six years after the date of assessment of such Claim, of a value, as of
4 the Effective Date of the Plan, equal to the allowed amount of such Claim. Any Class 1-B Claims
5 not allowed as of the Effective Date shall be paid as soon thereafter as they are allowed by the
6 Court according to the terms of this Class.

7 This Class is not impaired.

8 **B. Secured Claims: Class 2**

9 **1. Direct Lenders: Classes 2-A through 2-JJJJ – Allowed Secured Claims of the**
10 **Direct Investors in Debtor's Bankruptcy Case.**

11 These Classes are comprised of the Allowed Secured Claims of the Direct Investors whose
12 Allowed Secured Claims are secured in the Citrus Real Property, and whose alleged interests
13 emanate from the Old Citrus Loan. Each of these Classes is, individually, a separate Impaired
14 Class.

15 The Direct Investors will elect between one of two treatment options as a part of the Plan:
16 an option that will pay the Direct Investor's allowed secured claim in full on the Effective Date, or
17 an option that will allow the Direct Investors to participate in any future profitability of the
18 Development.

19 **Payout Option:** If a Direct Investor elects the first option (the "Payout Option"), it
20 will be paid in full on its Allowed Secured Claim as of the Effective Date. This will result
21 in the extinguishment of the Direct Investor's corresponding individual interest in the Old
22 Citrus Loan, including, for example, any related promissory note and collateral. As such,
23 any extinguished interests will, in turn, create corresponding equity for the Debtor in the
24 collateral that secured the extinguished interest.

25 **Participation Option:** Direct Investors may also elect to be paid over time, and
26 thereby participate in the potential for returns from the Development ("Participation
27 Option"). A Direct Investor electing the Participation Option will receive a New Citrus
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1 Note in a principal amount equal to its Allowed Secured Claim. Direct Investors holding
2 the New Citrus Notes will receive monthly interest-only payments at the Plan Rate, or such
3 other interest rate as the Court may approve, over the term of 7 years.

4 Apart from the interest-only payments, these Direct Investors will also participate in
5 any future profitability of the Development. By electing the Participation Option, Direct
6 Investors will each receive their pro-rata share in 35% of the Development Profits. Their
7 pro rata share will be calculated as being equal to their proportional share in the Old Citrus
8 Loan. Put another way, for purposes of the calculation it will be assumed that all the Direct
9 Investors in the Old Citrus Loan had elected the Participation Option, and any payment that
10 would have gone to a Direct Investor who in reality chose the Payout Option will remain
11 vested in the Debtor. Each Direct Investor's share of the Development Profits will be paid
12 in a lump payment at the end of the 7-year term along with any other principal and interest
13 then owing under the New Citrus Note.

14 As set out above, during the term of the New Citrus Notes, the Debtor will make
15 interest-only payments to each holder of a New Citrus Note at the Plan Rate, unless the
16 Bankruptcy Court determines that another rate is more appropriate, in which case the
17 Debtor shall make interest-only payments at the rate determined by the Bankruptcy Court.
18 The first interest payment will be due on the Effective Date, and on the same date every
19 month thereafter for the term of the New Citrus Notes. The remaining principal and any
20 interest owing on the New Citrus Notes will be paid to the respective Direct Investors in
21 balloon payments on the last day of the New Citrus Notes term. The Direct Investors will
22 retain their existing lien on the Citrus Real Property, which served as collateral for their
23 obligation pre-petition until they have been paid as set forth herein.

24 At any time prior to the end of a New Citrus Note's term, the Debtor may pay the
25 balance of any particular New Citrus Note without penalty and without reference or regard
26 to the prepayment of any other New Citrus Note.

1 To ensure that the interest-only payments on the New Citrus Notes are made in a
2 timely manner, the Interest Holders will arrange for the infusion of funds equal to the
3 aggregate value of the first 12 months of interest-only payments due under all the New
4 Citrus Notes. These funds will be deposited into the Debtor's Reserve Account as of the
5 Effective Date of the Plan and will, as necessary, be used to pay interest-only payments due
6 under the New Citrus Notes during the first 12 months following the Effective Date.

7 At the end of the 12th month from the Effective Date, the Interest Holders will
8 infuse sums equal to the next 12 months of aggregate interest owing under the New
9 Northern Notes. This sum shall be held in reserve to make interest-only payments for the
10 subsequent 12 months of the New Citrus Notes. This same procedure for infusing 12
11 months worth of interest into the Reserve Account shall be repeated at the end of the 24th
12 month, 48th month, 60th month, and the final 12 months of interest will be deposited at the
13 end of the 72nd month.

14 If the sums infused into the Reserve Account for interest-only payments under the
15 New Citrus Notes exceed the sum of the interest-only payments due under the New Citrus
16 Notes for any 12 month period, the Debtor, at its discretion, may leave the excess sums in
17 the Reserve Account or direct that the excess sums be made available to the Debtor for any
18 business purpose including, but not limited to, the operations of the Debtor or the reduction
19 of the Debtor's debt obligations.

20 **2. Patrick LaVoie: Class 2-KKKK - The Allowed Secured Claims of Patrick**
21 **LaVoie in the Debtor's Bankruptcy Case.**

22 This Class consists of the Allowed Secured Claim of Patrick LaVoie that is secured by a
23 purchase money security interest in a Panasonic DP-6030 copier, SN # AEG3ZK00138.
24 Commencing on the Effective Date of the Plan, Patrick LaVoie will be repaid in four equal
25 quarterly installments, including interest at the Plan Rate unless the Bankruptcy Court determines
26 that another rate is more appropriate, in which case the Debtor shall make interest-only payments at
27 the rate determined by the Bankruptcy Court.

1 **3. Maricopa County: Class 2-LLLL - The Allowed Secured Claims of Maricopa**
2 **County in the Debtor’s Bankruptcy Case.**

3 This Class consists of the Allowed Secured Claim of the County of Maricopa, Arizona (the
4 “County”), that is secured by a Senior Secured Claim in Citrus Real Property comprising the
5 Development. As set forth herein, this is an impaired class.

6 Commencing on the Effective Date, this Claim will be paid in equal quarterly payments of
7 principal and interest over a term of one (1) year. Interest will be charged at the statutory rate plus
8 2%. The County will retain its existing Secured Interest in the Citrus Real Property until this claim
9 has been satisfied in full.

10 **C. Unsecured Claims: Class 3**

11 This Class consists of all the Allowed Unsecured, Non-Contingent and Liquidated Claims
12 of Unsecured Creditors in this case that are not specifically dealt with elsewhere in this Plan. As
13 set forth herein, this Class is an Impaired Class. The Claims in this Class will share pro-rata in the
14 sum of \$200,000. The Interest Holders will arrange for the infusion of the \$200,000 into the
15 Reserve Account for the payment of this Class.

16 Creditors holding claims in this class that also hold guarantor claims against the Interest
17 Holders may participate in the additional pro rata distribution of \$200,000 if they agree to release
18 the Interest Holders from any liability. The share of this sum a qualifying claimant is entitled to
19 will be the same as that claimant’s proportional interest under the Old Citrus Note.

20 **D. Interest Holders: Class 4**

21 The Interest Holders in the Debtor will retain their interests in consideration of the New
22 Value they contribute to the Plan funding. This New Value includes all the amounts set forth
23 herein to be contributed by or for the benefit of the Interest Holders, including the \$200,000 placed
24 in “escrow” in the trust account of the Debtor’s counsel. If the court determines that under these
25 circumstances, the New Value is insufficient, or that others should be allowed to “bid for the
26 interests in the Reorganized Debtor,” then others may “bid for” the interest in the Reorganized
27 Debtor by meeting all these terms and conditions:
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- 1 1. Any bidder must match the financial commitment of the present Interest
2 Holders;
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- 4 2. Any bidder must post a cash bond equal to the anticipated amount of the
5 allowed administrative claims in the case (estimated at \$100,000).
- 6
- 7 3. Any bidder must assume any guarantee liability of any guarantors under the
8 Old Citrus Loan and related documents; and
- 9
- 10 4. Competing bids will be assessed by the Court for their relative merits
11 including, but not limited to, the amount of the bid and the expertise of the would-be
12 Interest Holder to manage and guide the Debtor after the Effective Date..

13 **VIII. Retained Causes of Action.**

14 The Debtor specifically retains all causes of action. Any retained causes of action include,
15 but are not limited to, all avoidance actions, fraudulent conveyance actions, preference actions, and
16 other claims and causes of action of every kind and nature whatsoever, arising before the Effective
17 Date which have not been resolved or disposed of prior to the Effective Date, whether or not such
18 claims or causes of action are specifically identified in the Disclosure Statement.

19 Any recovery obtained from retained causes of action shall become an additional asset of
20 the Debtor, unless otherwise ordered by the Court, and shall be available for distribution on a pro-
21 rata basis in accordance with the terms of this Plan.

22 **IX. Management.**

23 The Debtor will be managed by Stephen A. Kohner, the same manager who managed the
24 Debtor pre-petition. Mr. Kohner's management of the Debtor was not a cause of the Debtor's
25 financial difficulties. The Debtor's difficulties are the result of the present precipitous downturn in
26 the market, a down turn whose depth and severity could not have been predicted. By retaining Mr.

1 Kohner in his management capacity the Debtor will benefit from the specific knowledge Mr.
2 Kohner has of the Debtor and the planned development of the Citrus Real Property.

3 **X. DISBURSING AGENT.**

4 The Reorganized Debtor shall act as the Disbursing Agent under the Plan.

5 **XI. DOCUMENTATION OF PLAN IMPLEMENTATION.**

6 In the event any entity which possesses an Allowed Secured Claim or any other lien in any
7 of the Debtor's property for which the Plan requires the execution of any documents to incorporate
8 the terms of the Plan fails to provide a release of its lien or execute the necessary documents to
9 satisfy the requirements of the Plan, the Debtor may record a copy of this Plan or the Confirmation
10 Order with the appropriate governmental agency and such recordation shall constitute the lien
11 release and creation of any necessary new liens to satisfy the terms of the Plan. If the Debtor
12 deems advisable, it may obtain a further Order from the Court that may be recorded in order to
13 implement the terms of the Plan.

14 **XII. LIQUIDATION ANALYSIS.**

15 The following is a Liquidation Analysis indicating what the Debtor believes its creditors
16 would receive in the event of a liquidation. In the event of a liquidation the Debtor believes that
17 ML Manager would attempt to sell the Citrus Real Estate at a fire sale. The Debtor believes that a
18 fire sale would result in sale values substantially below the amount of those claims secured by the
19 Citrus Real Property. As a result, the Debtor believes that Secured Creditors would receive less on
20 account of their claims that under the Plan, and that Unsecured Creditors would likely receive
21 nothing.

22 Based upon the forging the Debtor does not believe that a liquidation under Chapter 7 of the
23 Code is in the best interests of Creditors as a whole.

24 **XIII. EFFECT OF CONFIRMATION.**

25 Except as otherwise provided in the Plan or the Court's order confirming the Plan, the
26 Confirmation Order acts as a discharge, effective as of the Effective Date, of any and all debts of
27 the Debtor that arose at any time before the entry of the Confirmation Order, including but not
28

1 limited to, all principal and any and all interest accrued thereon, pursuant to §1141(d)(1) of the
2 Bankruptcy Code. The discharge of the Debtor shall be effective as to each claim regardless of
3 whether a proof of claim was filed, whether the claim is an allowed claim, or whether the holder
4 thereof votes to accept the Plan.

5 **XIV. IMPLEMENTATION AND FUNDING OF DEBTOR'S PLAN.**

6 The Plan will be implemented by the retention of its existing management. This
7 implementation will also include the management and disbursement of the funds infused by the
8 Interest Holders as set forth above and in accordance with the terms of this Disclosure Statement,
9 and as more specifically described in the Plan. As a showing of good faith and commitment to the
10 Plan, the Interest Holders, through a payment from their funding source made for their benefit, will
11 place \$200,000 in "escrow" in the trust account of the Debtor's bankruptcy counsel by within 15
12 days prior to the final hearing on confirmation of the Debtor's Plan. These funds will become a
13 part of the estate and fund the obligations set forth herein, including the Reserve Account, at
14 confirmation. These funds will only be available to, and become a part of, the estate as of
15 confirmation.

16 **XV. TAX CONSEQUENCES.**

17 Pursuant to §1125(a)(1) of the Bankruptcy Code, the Debtor is to provide a discussion of
18 the potential material federal tax consequences of the Plan to the Debtor, any successor to the
19 Debtor, and a hypothetical investor typical of the holders of claims or interests in the case, that
20 would enable such a hypothetical investor of the Relevant Class to make an informed judgment
21 about the Plan, but adequate information need not include such information about any other
22 possible or proposed plan, and in determining whether the Disclosure Statement provides adequate
23 information, the Court shall consider the complexity of the case, the benefit of additional
24 information to creditors and other parties in interest, and the cost of providing additional
25 information.

26 Neither the Debtor nor its lawyers can make any statements with regard to the tax
27 consequences of the Plan on any of the creditors. Although they would note that to the extent the
28

1 creditor is not paid in full their Allowed Claim, they should consult with their tax advisor
2 concerning the possibility of writing off for tax purposes that portion of their Allowed Claim that is
3 not paid. Each creditor in this case, when analyzing the Plan, should consult with its own
4 professional advisors to determine whether or not acceptance of the Plan by the creditor will result
5 in any adverse tax consequences to the creditor.

6 The Bankruptcy Tax Act generally provides that the Debtor does not have to recognize
7 income from the discharge of indebtedness. The Plan contemplates significant discharge of
8 indebtedness; however, because the Debtor is in bankruptcy, it will not have to recognize the
9 discharge of indebtedness as income for tax purposes.

10 **XVI. NON-ALLOWANCE OF PENALTIES AND FINES.**

11 No distribution shall be made under this Plan on account of, and no allowed claim, whether
12 secured, unsecured, priority, or administrative, shall include any fine, penalty, exemplary or
13 punitive damages, late charges, or other monetary charge relating to or arising from any default or
14 breach by the Debtor, and any claim on account thereof shall be deemed disallowed whether or not
15 an objection thereto is filed.

16 **XVII. EXECUTORY CONTRACTS.**

17 The Debtor rejects all executory contracts and unexpired leases not otherwise assumed
18 herein or assumed by separate order of the Court. *See* Exhibit "A". Claims for any executory
19 contracts or unexpired leases rejected by the Debtor shall be filed no later than ten (10) days after
20 the earlier of Confirmation or the date the executory contract or unexpired lease is specifically
21 rejected. Any such Claims not timely filed and served shall be disallowed.

22 **XVIII. VOTING PROCEDURE.**

23 The Plan divides the claims of creditors and interest-holders into separate classes. All
24 classes of claimants are encouraged to vote; however, only the vote of holders of claims that are
25 impaired by the Plan will have a significant impact on the confirmation process. Generally, this
26 includes creditors who, under the Plan, will receive less than full payment of their claims on the
27 Effective Date of the Plan.

1 All creditors entitled to vote on the Plan must cast their vote by completing, dating, and
2 signing the ballot which has been mailed to them, together with the Disclosure Statement. The
3 ballot contains instructions concerning the deadline for submitting the ballot and to what address
4 the ballot should be mailed.

5 This Disclosure Statement has been approved by the Bankruptcy Court in accordance with
6 §1125 of the Bankruptcy Code, and is provided to each person whose claim or interest has been
7 scheduled by the Debtor, or who has filed a proof of claim or interest with respect to the Debtor or
8 its property, each known equity interest holder and other parties-in-interest known to the Debtor.
9 The Disclosure Statement is intended to assist creditors in evaluating the Plan and in determining
10 whether to accept the Plan. In determining acceptance of the Plan, votes of creditors will only be
11 counted if submitted by a creditor whose claim is duly scheduled by the Debtor as undisputed, non-
12 contingent and liquidated, or who has timely filed with the Court a proof of claim or proof of
13 interest.

14 The Bankruptcy Court will schedule a hearing to determine whether the requirements for
15 confirmation under the Bankruptcy Code have been met and whether the Plan has been accepted by
16 each impaired class and by the requisite number of creditors in such class. Under §1126 of the
17 Code, an impaired class is deemed to have accepted the Plan upon a favorable vote of at least two-
18 thirds (2/3) in dollar amount and more than one-half (1/2) in number of the allowed claims of class
19 members voting on the Plan. Further, unless there is unanimous acceptance of the Plan by an
20 impaired class, the Court must also determine that class members will receive at least as much as
21 they would if the Debtor were liquidated under Chapter 7 of the Code.

22 Even if each class of creditors does not accept the Plan, the Plan can be confirmed under
23 § 1129(b) of the Code, so long as one impaired class of creditors accepts the Plan. The failure of
24 each class to accept the Plan could very well result in a conversion of this case to a Chapter 7 or
25 dismissal of the Chapter 11, and the secured creditors repossessing their collateral and disposing of
26 it in a commercially reasonable manner with no obligation to unsecured creditors.

1 **XIX. MODIFICATION OF PLAN.**

2 In addition to its modification rights under §1127 of the Bankruptcy Code, the Debtor may
3 amend or modify its Plan at any time prior to Confirmation without leave of the Court. The Debtor
4 or the Reorganized Debtor may propose amendments and/or modifications of its Plan at any time
5 subsequent to Confirmation with leave of the Court and upon notice to Creditors. After
6 Confirmation of the Plan, the Debtor or the Reorganized Debtor may, with approval of the Court, as
7 long as it does not materially or adversely affect the interests of Creditors, remedy any defect or
8 omission or reconcile any inconsistencies of the Plan, or in the Confirmation Order, if any may be
9 necessary to carry out the purposes and intent of their Plan.

10 **XX. CLOSING OF THE CASE.**

11 If the Court does not close this case on its own motion, the Reorganized Debtor will move
12 the Court to close this case once the Plan is deemed substantially consummated. Until substantial
13 consummation, the Reorganized Debtor will be responsible for filing pre- and post-confirmation
14 reports required by the United States Trustee and paying the quarterly post-confirmation fees of the
15 United States Trustee, in cash, pursuant to 28 U.S.C. §1930, as amended. Pursuant to 11 U.S.C.
16 §1129(a)(12), all fees payable under Section 1930 of Title 28, as determined by the Court at the
17 hearing on confirmation of the Plan, will be paid, in cash, on the Effective Date.

18 **XXI. RETENTION OF JURISDICTION.**

19 The Court will retain jurisdiction until the Plan has been fully consummated for, including
20 but not limited to, the following purposes:

21 A. The classification of the Claims of any Creditors and the re-examination of any
22 Claims which have been allowed for the purposes of voting, and for the determination of such
23 objections as may be filed to the Creditor's Claims. The failure by the Debtor to object to or
24 examine any Claim for the purpose of voting shall not be deemed to be a waiver of the Debtor's
25 rights to object to or to re-examine the Claim in whole or in part.

26 B. To determine any Claims which are disputed by the Debtor, whether such objections
27 are filed before or after Confirmation, to estimate any Unliquidated or Contingent Claims pursuant
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1 to 11 U.S.C. § 502(c)(1) upon request of the Debtor or any holder of a Contingent or Unliquidated
2 Claim, and to make determinations on any objection to such a Claim.

3 C. To determine all questions and disputes regarding title to the assets of the estate, and
4 determination of all causes of action, controversies, disputes, or conflicts, whether or not subject to
5 action pending as of the date of Confirmation, between the Debtor and any other party, including
6 but not limited to, any rights of the Debtor to recover assets pursuant to the provisions of the
7 Bankruptcy Code.

8 D. The correction of any defect, the curing of any omission or any reconciliation of any
9 inconsistencies in the Plan, or the Confirmation Order, as may be necessary to carry out the
10 purposes and intent of the Plan.

11 E. The modification of the Plan after Confirmation, pursuant to the Bankruptcy Rules
12 and the Bankruptcy Code.

13 F. To enforce and interpret the terms and conditions of the Plan.

14 G. To enter orders, including injunctions, necessary to enforce the title, rights, and
15 powers of the Debtor, and to impose such limitations, restrictions, terms, and conditions of such
16 title, right, and power as this Court may deem necessary.

17 H. To enter an order concluding and terminating this case.

18 **XXII. DISCLAIMER.**

19 Court approval of this Disclosure Statement and the accompanying Plan of Reorganization,
20 including the exhibit attached hereto, is not a certification of the accuracy of the contents thereof.
21 Furthermore, Court approval of these documents does not constitute the Court's opinion as to
22 whether the Plan should be approved or disapproved.

23 **XXIII. RISKS.**

24 The risk of the Plan lies with the Debtor's ability to fund the Plan and ultimately to
25 refinance or sell the Citrus Real Property to pay off its creditors. If the funds to be infused by the
26 Interest Holders are infused, this will lessen the risk accordingly. However, as explained herein
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1 and in the Plan, the success of the Debtor depends in large part on the recovery of the national
2 economy over the 12 to 24 months following confirmation.

3 **XXIV. PROPONENTS RECOMMENDATION/ALTERNATIVES TO THE PLAN.**

4 The Debtor recommends that all creditors entitled to vote for the Plan do so. The Debtor's
5 Plan would pay Direct Investors the full amount of their secured claims and provide funds to pay
6 unsecured creditors. The alternatives to confirmation of the Plan would be either conversion of this
7 case to a case under Chapter 7 of the Bankruptcy Code or its dismissal.

8 Dismissal of this case would result in the foreclosure of the Citrus Real Property by ML
9 Manager.

10 Conversion will result in the appointment of a Chapter 7 trustee and, most likely, the hiring
11 of an attorney by the trustee. Expenses incurred in administering the Chapter 7 case would take
12 priority in the right to payment over allowed, administrative expenses incurred in the Chapter 11
13 case. Both Chapter 7 and Chapter 11 administrative expenses take priority over the payment of
14 unsecured claims without priority. In other words, conversion would likely decrease the net
15 amount available to pay currently existing creditors.

16 The most likely effect of conversion of the case to a Chapter 7 would be a foreclosure on
17 the Development by ML Manger, and, as a result, Unsecured Creditors would receive nothing.

18 For all these reasons, the Debtor urges you to vote to accept the Plan and to return your
19 ballots in time to be counted.

20 DATED: February 3, 2010.

21 POLSINELLI SHUGHART PC

22 

23 By: _____

24 Mark W. Roth
25 Arturo A. Thompson
26 Security Title Plaza
27 3636 North Central Avenue, Suite 1200
28 Phoenix, AZ 85012

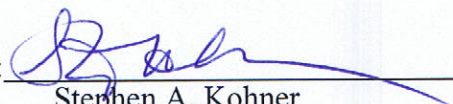
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Attorneys for the Debtor

CITRUS 278, LLC

By: SAK FAMILY LIMITED PARTNERSHIP
Its: Member/Manager

By: SAK INVESTMENTS, LLC
Its: General Partner

By: 
Stephen A. Kohner
Its: Manager



FARM LEASE EXTENSION

THIS LEASE EXTENSION (the "Agreement") is made this 29 day of December, 2009 by and between **NORTHERN 120, LLC** (the "Lessor") and **PIONEER RANCHES, an Arizona general partnership** (the "Lessee").

RECITALS

A. Lessor and Lessee entered into a written Farm Lease dated November 17, 2008 (the "Lease") for the lease of real property located in Maricopa County, Arizona.

B. Lessor and Lessee desire by this Agreement to extend the Lease as hereinafter provided.

TERMS

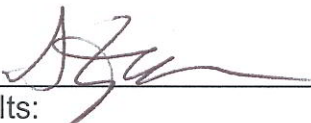
In consideration of the mutual agreements herein contained, the parties hereby agree as follows:

The term of the Lease is extended for one (1) year, and shall expire December 31, 2010 subject to all of the terms, covenants and conditions contained in the Lease. The new annual rent shall be \$10,800.

IN WITNESS WHEREOF, The parties have executed this Agreement as of day and year first hereinabove written.

Lessor:

NORTHERN 120, LLC

By: 
Its: _____

Lessee:

PIONEER RANCHES

By: 
Its: General Partner

Exhibit "A"



FARM LEASE EXTENSION

THIS LEASE EXTENSION (the "Agreement") is made this 29 day of December, 2009 by and between **CITRUS 278, LLC** (the "Lessor") and **PIONEER RANCHES, an Arizona general partnership** (the "Lessee").

RECITALS

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B. Lessor and Lessee desire by this Agreement to extend the Lease as hereinafter provided.

TERMS

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IN WITNESS WHEREOF, The parties have executed this Agreement as of day and year first hereinabove written.

Lessor:

CITRUS 278, LLC

By: 

Its:

Lessee:

PIONEER RANCHES

By: 

Its: General Partner

Exhibit "A"



FARM LEASE EXTENSION

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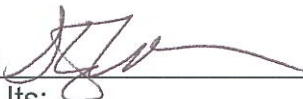
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Lessor:

NORTHERN 120, LLC

By: 
Its: _____

Lessee:

PIONEER RANCHES

By: 
Its: General Partner

Exhibit "A"



FARM LEASE EXTENSION

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IN WITNESS WHEREOF, The parties have executed this Agreement as of day and year first hereinabove written.

Lessor:

CITRUS 278, LLC

By: 

Its: _____

Lessee:

PIONEER RANCHES

By: 

Its: General Partner

Exhibit "A"