IN THE UNITED STATES BANKRUPTCY COURT
FOR THE SOUTHERN DISTRICT OF TEXAS
HOUSTON DIVISION

IN RE:	§	
	§	
GALP GRAYRIDGE	§	**CASE NO. 10-40007**
LIMITED PARTNERSHIP,	§	
	§	
DEBTOR-IN-POSSESSION	§	**[CHAPTER 11]**
	§	

DEBTOR'S FIRST AMENDED DISCLOSURE STATEMENT FOR DEBTOR'S FIRST MODIFIED PLAN OF REORGANIZATION

TO THE HONORABLE UNITED STATES BANKRUPTCY JUDGE:

Pursuant to Section 1125 of Chapter 11 of Title 11 of the United States Code, GALP Grayridge Limited Partnership, Debtor-in-Possession, (hereinafter the "Debtor" or "Grayridge") hereby submits this its First Amended Disclosure Statement for Debtor's First Modified Plan of Reorganization for approval by the Court and distribution to its creditors.

Respectfully submitted this the 8th day of March, 2011.

By: *_/s/ Gary M. Gray_*
Gary M. Gray, President of General Partner,
Grayridge-1 GP, Inc., General Partner of
Grayridge GP, L.P., General Partner of
GALP Grayridge Limited Partnership

By: *_/s/ Matthew Hoffman_*
Matthew Hoffman
State Bar No. 09779500
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James C. Lee
State Bar No. 24060153
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2777 Allen Parkway, Suite 1000
Houston, Texas 77019
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ATTORNEYS FOR GALP GRAYRIDGE LIMITED PARTNERSHIP, DEBTOR-IN-POSSESSION

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I.

INTRODUCTION

GALP Grayridge Limited Partnership, (hereinafter referred to as "Debtor" or "Grayridge") filed a voluntary petition for reorganization under Chapter 11 of the United States Bankruptcy Code, 11 U.S.C. Section 101 et. seq. in the United States Bankruptcy Court for the Southern District of Texas on November 1, 2010 (the "Petition Date"). The Chapter 11 case commenced thereby was assigned to the Honorable Jeff Bohm, United States Bankruptcy Judge, under Case Number 10-40007. The Debtor has operated its business as Debtor-in-Possession pursuant to Section 1108 of the Bankruptcy Code since the date of filing.

This First Amended Disclosure Statement ("Disclosure Statement") is provided pursuant to Section 1125 of the Bankruptcy Code to all of Debtor's known creditors, holders of interest and other parties in interest, including the United States Trustee. The purpose of this Disclosure Statement is to provide such information as will enable a hypothetical reasonable investor, typical of holders of claims or interests to make an informed judgment in exercising his, her or its rights either to accept or reject the Plan. A copy of the Plan is attached to this Disclosure Statement as Exhibit "A".

This Disclosure Statement will be submitted to the Court after notice to all creditors. After a hearing, of which each creditor and party-in-interest will be notified, the Court may approve this Disclosure Statement as containing information of a kind and in sufficient detail as to enable a hypothetical creditor or party-in-interest typical of the classes being solicited to make an informed judgment about the Plan. Because of the unavoidable time lapse between this mailing and the conclusion of the hearing, the information and analysis set forth herein is as current as possible as of the date of filing of this Disclosure Statement, but may not be current on the date of a hearing on this Disclosure Statement.

The Debtor provides this Disclosure Statement to all of its known creditors and parties-in-interest in order to disclose information deemed to be material, important and necessary for any creditor or party-in-interest to make a reasonably informed decision in exercising the right to vote for acceptance of the Plan of Reorganization.

In addition to this Disclosure Statement and a copy of the Plan, each creditor or party-in-interest affected by the Plan will be provided with a ballot for acceptance or rejection of the Plan. The form should be completed and returned to counsel for the Debtor prior to a hearing before the Court regarding the approval of the Plan. The time and date of the hearing will be set forth in a notice that each party will also receive.

YOUR ACCEPTANCE OF THE PLAN IS IMPORTANT. In order for the Plan to be deemed "accepted" by creditors, at least 66-2/3% in dollar amount of the holders of claims or interests in the class actually voting, and more than 50% in number of the holders of claims or interests in the class actually voting, must accept the Plan. IN THE EVENT THE REQUISITE ACCEPTANCES ARE NOT OBTAINED, THE COURT MAY NEVERTHELESS CONFIRM THE PLAN PURSUANT TO SECTION 1129 OF THE BANKRUPTCY CODE IF THE COURT FINDS THE PLAN ACCORDS FAIR AND EQUITABLE TREATMENT TO ANY CLASS REJECTING IT. Whether or not you expect to be present at the hearing on acceptance of the Plan, each creditor is urged to fill in, date, sign and promptly mail the ballot form to the United States Bankruptcy Court, 515 Rusk Avenue, Houston, Texas 77002, with copies to the

Law Offices of Matthew Hoffman, p.c., Attorney for Debtor, 2777 Allen Parkway, Suite 1000, Houston, Texas 77019.

II.

REPRESENTATIONS

THIS DISCLOSURE STATEMENT HAS BEEN PREPARED SOLELY FOR THE BENEFIT OF CREDITORS AND INTEREST HOLDERS OF THE DEBTOR. NO REPRESENTATIONS CONCERNING THE DEBTOR ARE AUTHORIZED BY THE DEBTOR OTHER THAN THOSE SET FORTH IN THIS STATEMENT. THE DEBTOR RECOMMENDS THAT ANY REPRESENTATION OR INDUCEMENT MADE TO SECURE YOUR ACCEPTANCE OF THE PLAN WHICH IS NOT CONTAINED IN THIS STATEMENT NOT BE RELIED UPON BY YOU IN REACHING YOUR DECISION ON HOW TO VOTE ON THE PLAN. ANY REPRESENTATION OR INDUCEMENT MADE TO YOU NOT CONTAINED HEREIN SHOULD BE REPORTED TO THE ATTORNEY FOR DEBTOR OR THE DEBTOR WHO SHALL DELIVER SUCH INFORMATION TO THE BANKRUPTCY COURT FOR SUCH ACTION AS MAY BE APPROPRIATE.

THE FINANCIAL INFORMATION CONTAINED IN THIS DISCLOSURE STATEMENT HAS BEEN OBTAINED FROM THE RECORDS OF THE DEBTOR, UNLESS SPECIFICALLY STATED TO BE FROM OTHER SOURCES. DEBTOR DOES NOT WARRANT OR REPRESENT THAT THE INFORMATION CONTAINED HEREIN IS CORRECT ALTHOUGH GREAT EFFORT HAS BEEN MADE TO BE ACCURATE.

THE INFORMATION CONTAINED HEREIN HAS NOT BEEN INDEPENDENTLY AUDITED. TO A GREAT EXTENT, THE ACCURACY OF DEBTOR'S RECORDS ARE

DEPENDENT UPON PARTIES OVER WHOM THE DEBTOR HAS NO CONTROL. FOR THE FOREGOING REASONS, THE DEBTOR IS UNABLE TO WARRANT OR REPRESENT THAT THE INFORMATION CONTAINED HEREIN IS WITHOUT ANY INACCURACY AND ONLY THAT EVERY REASONABLE EFFORT HAS BEEN MADE TO BE ACCURATE. THE FINANCIAL INFORMATION PROVIDED HEREIN IS CURRENT AS OF THE DATE OF THE FILING OF THIS DISCLOSURE STATEMENT.

THIS STATEMENT CONTAINS ONLY A SUMMARY OF THE PLAN. EACH CREDITOR IS URGED TO REVIEW THE PLAN PRIOR TO VOTING ON IT. CONFIRMATION MAKES THE PLAN BINDING UPON THE REORGANIZED DEBTOR AND ALL CREDITORS, HOLDERS OF INTERESTS AND OTHER PARTIES-IN-INTEREST, REGARDLESS OF WHETHER THEY HAVE ACCEPTED THE PLAN.

THE PLAN PROPONENT MAKES NO REPRESENTATIONS WITH RESPECT TO THE EFFECTS OF TAXATION (STATE OR FEDERAL) ON THE CREDITORS WITH RESPECT TO THE TREATMENT OF THEIR CLAIMS UNDER THE PLAN, AND NO SUCH REPRESENTATIONS ARE AUTHORIZED. PARTIES-IN-INTEREST ARE URGED TO SEEK THE ADVICE OF THEIR OWN PROFESSIONAL ADVISORS SHOULD THEY HAVE ANY QUESTIONS WITH RESPECT TO ANY TAXATION ISSUES.

III.

EXPLANATION OF CHAPTER 11

Chapter 11 is the principal reorganization chapter of the Bankruptcy Code. Upon filing of a Chapter 11 petition, section 362(a) of the Bankruptcy Code provides for a temporary automatic stay of all attempts to collect claims that arose prior to the Petition Date, or otherwise to interfere with the Debtor's property or business, in order to permit the debtor to attempt to reorganize.

Formulation of a plan of reorganization is the primary purpose of a Chapter 11 reorganization case. A plan of reorganization sets forth the means for satisfying the holders of claims against, and interest in, a Debtor. A Debtor's Disclosure Statement must provide adequate information as required by 11 U.S.C. § 1125(a) for a hypothetical reasonable investor typical of holders of claims or interests of the relevant classes to make an informed judgment about the Debtor's proposed plan, including the following:

a. Source of information for the Disclosure Statement.

b. Incidents that led to the filing of the Chapter 11.

c. Present condition of the Debtor while in Chapter 11.

d. Description of the available assets and their value.

e. Estimated return to the creditors if the estate were to be liquidated.

f. Anticipated future of the Debtor.

g. Identity and experience of the proposed management of the Debtor's business.

h. Accounting process used and the identity of the person who furnished the information.

i. The plan.

j. Description of all pending litigation involving the Debtor.

k. Tax information.

Confirmation of a Chapter 11 plan of reorganization requires that either (i) all classes of claims and interests entitled to vote accept the plan or (ii) that the plan be accepted by the holders of at least one impaired class of claims not held by "insiders" within the meaning of the Bankruptcy Code and that the plan be confirmed as to each objecting class pursuant to section 1129(b) of the Bankruptcy Code.

In addition to the acceptance requirements, section 1129 of the Bankruptcy Code contains additional criteria that must be satisfied before a bankruptcy court may confirm a plan of reorganization. Among other things, section 1129 requires that a plan of reorganization be in the best interests of creditors and interest holders, which means that the cash or other property to be distributed to creditors and interest holders may not be less that the creditors would receive if all the Debtor's assets were liquidated under Chapter 7 of the Bankruptcy Code.

Acceptance of a plan of reorganization by a class requires that, of the holders of claims or interests in the class actually voting, more than one-half in number and at least two-thirds in amount of the total allowed claims vote in favor of the plan. Section 1125 of the Bankruptcy Code requires full disclosure of all relevant material information relating to a debtor and a plan of reorganization before acceptance or rejection of the plan may be solicited from any party-in-interest.

So long as one class of non-insider impaired claims or interests accepts a plan, it need not be accepted by all classes. A plan proponent may request that the Bankruptcy Court confirm a plan pursuant to its "cramdown" powers under section 1129(b) of the Bankruptcy Code. A plan may be "crammed down" if it does not "discriminate unfairly" and is "fair and equitable" with respect to each impaired, dissenting class.

The Claims of Creditors in Classes 7 and 8 are impaired under the Plan and their votes are hereby solicited.

Confirmation makes the Plan binding upon the Debtor and all creditors, whether or not they have accepted the Plan. Section 1141(d) of the Bankruptcy Code provides, in pertinent part, as follows:

1) Except as otherwise provided in this subsection, in the plan, or in the order confirming the plan, the confirmation of a plan –
   A) discharges the debtor from any debt that arose before the date of such confirmation, and any debt of a kind specified in section 502(g), 502(h), or 502(i) of this title, whether or not –
      (i) a proof of the claim based on such debt is filed or deemed filed under section 501 of this title;
      (ii) such claim is allowed under section 502 of this title; or
      (iii) the holder of such claim has accepted the plan; and
   B) terminates all rights and interests of equity security holders and general partners provided for by the plan.

2) ….

3) The confirmation of a plan does not discharge a debtor if –
   A) the plan provides for the liquidation of all or substantially all of the property of the estate;
   B) the debtor does not engage in business after consummation of the plan; and
   C) the debtor would be denied a discharge under section 727(a) of this title if the case were a case under chapter 7 of this title.

4) The court may approve a written waiver of discharge executed by the debtor after the order for relief under this chapter.

5) ….

6) Notwithstanding paragraph (1), the confirmation of a plan does not discharge a debtor that is a corporation from any debt –
   A) of a kind specified in paragraph (2)(A) or (2)(B) of section 523(a) that is owed to a domestic governmental unit, or owed to a person as the result of an action filed under subchapter III of chapter 37 of title 31 or any similar State statute; or
   B) for a tax or customs duty with respect to which the debtor –
      (i) made a fraudulent return; or
      (ii) willfully attempted in any manner to evade or to defeat such tax or such customs duty.

A. Procedure for Filing Proofs of Claim

To participate in the payments and other distributions under the Plan, a Creditor must have an Allowed Claim against the Debtor. The first step in obtaining an allowed claim or an allowed interest is generally filing a Proof of Claim.

A Proof of Claim is deemed filed for any Claim that appears in the Schedules which were filed in the Chapter 11 Case, except a Claim that is scheduled as disputed, contingent, unliquidated or in an unknown amount. In other words, if a Creditor agrees with the amount of the Claim as scheduled by the Debtor, and that Claim is not listed in the Schedules as being disputed, contingent or unliquidated, it is not necessary that a separate Proof of Claim be filed.

Claims that are unscheduled, or which are scheduled as disputed, contingent or unliquidated, or which are scheduled in an amount that varies from the amount claimed by the Creditor holder shall be recognized and allowed only if a Proof of Claim was timely filed. The deadline for the filing of Claims against the Debtor has been set by the Court as April 13, 2011 (the "Bar Date").

B. Executory Contracts and Unexpired Leases

Claims allegedly arising from lease rejections made prior to the Bar Date should be filed on or before the Bar Date. The Debtor intends to file Motions to Assume Executory Contract relative to the following entities:

- American Management Services d/b/a Pinnacle Realty Management, as property management company;
- O'Connor & Associates, as ad valorem property tax consultants;
- CLMS Properties, L.P., an asset management company, owned by Mr. and Mrs. Gary Gray. Mr. Gray, an insider of the Debtor, owns 51% of CLMS Properties, L.P.;

- Wave Vision (f/k/a TVMax), as cable TV provider; and
- Coinmach Service Corp., as laundry service provider;

prior to the date of confirmation of the Debtor's Plan of Reorganization, as required by section 365(d)(2) of the Bankruptcy Code. The Plan constitutes a motion by the Debtor to reject, as of the Effective Date, all executory contracts and unexpired leases of the Debtor that were not assumed prior, or were not assumed and assigned to the Purchaser as part of the Plan, or were not the subject of a motion to assume pending on the Confirmation Date.

If the rejection of an executory contract or unexpired lease results in a claim for damages by the other party or parties thereto, a Claim for such damages, if not heretofore evidenced by a filed proof of Claim, shall be forever barred and shall not be enforceable against the Debtor, the Reorganized Debtor or their respective properties or their agents, successors or assigns, unless a Proof of Claim is filed with the Bankruptcy Court and served upon counsel for the Debtor on or before thirty (30) days after the Effective Date.

C. Voting

Persons Entitled to Vote. Classes 7 and 8 may vote to accept or reject the Plan. Claimants in Classes 1, 2, 3, 4, 5, 6 and 9 are unimpaired, are conclusively deemed to accept the Plan, and cannot vote. Any Claim as to which an objection is filed before voting has concluded is not entitled to vote, unless the Court, upon application or motion of the holder whose Claim has been objected to, temporarily allows the Claim in an amount that the Court deems proper for the purpose of voting to accept or reject the Plan. A vote may be disregarded or disallowed if the Court determines that it was not solicited or procured in good faith or in accordance with the provisions of the Bankruptcy Code.

D. Voting Instructions

Ballots. IT IS IMPORTANT THAT CREDITORS EXERCISE THEIR RIGHT TO VOTE TO ACCEPT OR REJECT THE PLAN. All known Creditors entitled to vote on the Plan have been sent a ballot with this Disclosure Statement. Creditors should read the ballot carefully and follow the instructions contained therein. In voting for or against the Plan, use only the ballot or ballots sent with this Disclosure Statement.

Returning Ballots. **THE VOTING DEADLINE IS ___________, 2011, AT 5:00 P.M., CENTRAL TIME. ALL BALLOTS MUST BE RETURNED SO THAT THE PERSON DESIGNATED BY THE COURT (the "BALLOTING AGENT") RECEIVES THEM PRIOR TO THE VOTING DEADLINE.**

THE BALLOTING AGENT'S NAME AND ADDRESS IS PROVIDED ON THE BALLOT. UNLESS OTHERWISE ORDERED, THE CHAPTER 11 TRUSTEE INTENDS TO DESIGNATE ITS COUNSEL TO SERVE AS BALLOTING AGENT.

IN ORDER TO BE COUNTED, BALLOTS MUST BE SIGNED BY A PERSON HAVING AUTHORITY TO ACT ON BEHALF OF THE PERSON OR ENTITY VOTING, AND MUST BE ACTUALLY RECEIVED BY THE BALLOTING AGENT ON OR BEFORE THE VOTING DEADLINE.

Incomplete or Irregular Ballots. Ballots that fail to provide the information to determine the Class to which they apply shall be counted, subject only to contrary determinations by the Court, in the Class determined by the Chapter 11 Debtor. Ballots that are signed and returned but not expressly voted either to accept or reject the Plan will be counted as a vote to accept the Plan.

E. Approval of Disclosure Statement

Final approval of the Disclosure Statement will be considered by the Court at a hearing at 2:30 p.m., Central Time, on April 19, 2011, in the courtroom of the Honorable Jeff Bohm, United States Bankruptcy Judge for the Southern District of Texas, Houston Division, in the United States Bankruptcy Court for the Southern District of Texas, Courtroom 600, 515 Rusk, Sixth Floor, Houston, Texas. The Confirmation Hearing will be held at __:____ __.m., Central Time, on ___________, 2011, also in the courtroom of the Honorable Jeff Bohm, United States Bankruptcy Judge for the Southern District of Texas, Houston Division, in the United States Bankruptcy Court for the Southern District of Texas, Courtroom 600, 515 Rusk, Sixth Floor, Houston, Texas.

F. Confirmation Hearing

The Court has set the Confirmation Hearing for __:____ __.m., Central Time, on ____________, 2011, in the courtroom of the Honorable Jeff Bohm, in the United States Bankruptcy Court for the Southern District of Texas, 515 Rusk, Courtroom 600, Sixth Floor, Houston, Texas. The Court may adjourn the Confirmation Hearing from time to time without further notice except for an announcement made in open court at the Confirmation Hearing or any continued hearing thereon.

G. Objections

Section 1128(b) of the Bankruptcy Code provides that any party in interest may object, in writing, to confirmation of a plan of reorganization. Written objections to confirmation of the Plan, if any, must be filed with the Court and a copy of such written objections must be actually received by counsel for the Debtor at the following address on or before 5:00 p.m., Central Time, on April 12, 2011:

Matthew Hoffman
The Law Offices of Matthew Hoffman, p.c.
2777 Allen Parkway, Suite 1000
Houston, Texas 77019
Attorney for GALP Grayridge Limited Partnership,
Debtor-in-Possession

Objections not timely filed and actually received by either counsel at the above address will not be considered by the Court.

IV.

THE PLAN PROPONENT

This Plan is proposed by the Debtor-in-Possession, GALP Grayridge Limited Partnership.

V.

SOURCE OF INFORMATION

The sources of information for this Disclosure Statement are the books and records of the Debtor, unless specifically stated to be from other sources. The source of information concerning assets is taken from the Debtor's schedules and supplemented with current information available to the Debtor. The valuations stated in the Disclosure Statement are those of GALP Grayridge Limited Partnership.

VI.

THE CHAPTER 11 DEBTOR

A. Background and Events Leading to Chapter 11 Filing

GALP Grayridge Limited Partnership, the Debtor-in-Possession, is a Washington limited partnership formed under the laws of the state of Washington on December 11, 2006. The 1.00% general partner is Grayridge GP, L.P., a Washington limited partnership and the 99.00% limited partner is Graoch Associates #160 Limited Partnership, a Washington limited partnership.

On December 21, 2006, GALP Grayridge Limited Partnership acquired the 512-unit apartment building, Vinings at West Oaks Apartments, located at 15250 Gray Ridge Drive and

15255 Gray Ridge Drive, Houston, Texas from Archon Acquisitions, LLC, for a total purchase price of $16,200,000.00. The building improvements were originally constructed in 1983 and 1985, in two separate phases, on approximately 19.23 total acres of land, and contain a total net rentable area of approximately 397,024 square feet.

The purchase price and associated costs were financed by a new $13,600,000.00 mortgage loan from Countrywide Commercial Finance LLC, along with $3,756,400.00 of equity from the partners of GALP Grayridge Limited Partnership. The original loan term was for two years, with three one-year extensions available, subject to pre-agreed conditions.

Physical occupancy at the Vinings at West Oaks Apartments averaged 87.40% in 2007, 91.81% in 2008, and 89.96% in 2009. Unfortunately, during 2009, physical occupancy dropped from 91.69% in January, 2009 to 82.64% in December, 2009. This declining trend continued in 2010, where physical occupancy, through November 1, 2010, averaged 70.42%.

On September 24, 2010, a 24-unit building was substantially destroyed by fire, with a single fatality occurring. Fire investigators determined the cause of the fire to be arson. The insurance adjusters have presented a settlement offer of $1,671,467.00, less recoverable depreciation of $141,156.00 and deductible of $100,000.00, for a possible cash settlement of $1,430,311.00. This outstanding claim remains unsettled at this time.

Fairway Capital LLC holds a second lien on the Debtor’s real property, although the terms of the lien indebtedness held by Redus TX Properties, LLC, a special purpose corporation established by Wells Fargo Bank, N.A., successor by merger to Wachovia Bank, N.A. expressly prohibits the creation of junior liens on the real property.

GALP Grayridge Limited Partnership filed its Chapter 11 bankruptcy petition on November 1, 2010, in order to: (i) prevent foreclosure by its secured creditor, Wells Fargo Bank, N.A. ("Wells Fargo"), successor by merger to Wachovia Bank, N.A. ("Wachovia"), and/or special purpose corporation Redus TX Properties, LLC ("Redus"), or their successors and assigns (collectively, with Wells Fargo, Wachovia, and Redus, "Noteholder") (originally scheduled as a secured creditor in the amount of $12,818,417.00, but reflected as being only $12,784,244.22 on Wells Fargo's January 6, 2011 Proof of Claim), on Debtor's primary real estate asset (valued at $17,347,000.00, historical cost (not depreciated), per audited financial statements); (ii) financially reorganize its affairs; (iii) pay its allowed unsecured (non-insider) creditors pursuant to a plan of reorganization; (iv) protect the value of its business enterprise; and (v) facilitate the implementation of various strategies to reorganize the business and maximize the value of the estate.

B. <u>The Operation and Present Condition of the Debtor While in Chapter 11</u>

The Debtor entered the Bankruptcy Court having debt exposure as follows:

(1)	Secured debt	$15,818,417.00
(2)	Unsecured priority debt	$456,762.96
(3)	Unsecured non-priority debt	$421,248.34

Debtor has filed its Statement of Financial Affairs, Schedules of Assets and Liabilities and Summary of Debts.

At the Debtor's Section 341(a) Meeting of Creditors, which was held on January 13, 2011, no Creditors' Committee was appointed. Accordingly, there has been no Unsecured Creditors' Committee in these proceedings.

Debtor's management has negotiated with several potential DIP lenders, should there be the necessity to finance the November 27, 2010 to November 26, 2011 all risk insurance premiums, with such payment, approximately $295,000.00, being due at the beginning of February, 2011. One of the proposed DIP lenders is a Canadian hedge fund operator. A principal of this hedge fund operator is a limited partner of The Jackalope Fund Limited Partnership, a British Columbia limited partnership which is a limited partner of Graoch Associates #160 Limited Partnership.

Since the Filing Date, Debtor has timely filed Monthly Operating Reports (with the Bankruptcy Court) for operations for the months of November, and December, 2010, thus far. The details of these and all monthly operating reports are made available to creditors each month when the Debtor files its monthly operating reports with the Office of the United States Bankruptcy Clerk at 515 Rusk Ave., Houston, TX 77002.

THE ABOVE COURT PAPERS, IN DEBTOR'S OPINION, REFLECT THE MORE IMPORTANT MATTERS WHICH HAVE BEEN PRESENTED TO THE COURT FOR CONSIDERATION DURING THE COURSE OF DEBTOR'S CHAPTER 11 CASE. YOU MAY REVIEW THE FULL RECORD BETWEEN THE HOURS OF 9:00 A.M. AND 4:30 P.M., MONDAYS THROUGH FRIDAYS, IN THE BANKRUPTCY COURT FILE ROOM ON THE FIFTH (5TH) FLOOR OF THE UNITED STATES COURTHOUSE, 515 RUSK, HOUSTON, TEXAS 77002.

C. Description of Assets and Value

The value of the Debtor's assets is as reflected in the Debtor's Schedules of Assets A and B. As of the filing date (11/1/2010), Schedule A (Real Property) reflected $17,347,000.00, and Schedule B (Personal Property) reflecting $550,603.63, aggregating $17,897,603.63 (approx.).

The Debtor had no cash on hand at the time of Chapter 11 filing, and a total of $183,028.00 in accounts receivable.

Recovery of Preferential or Otherwise Voidable Transfer (11 U.S.C. § 547, 548, 549 and 550 – Avoidable Transfers). The Debtor's review of its pre-petition transactions as reflected in its Statement of Financial Affairs indicates no preferences or fraudulent conveyances which could be recovered for the benefit of its creditors. Similarly, the Debtor is unaware of any avoidable post-petition transfers.

ASSETS AS OF THE PETITION DATE, NOVEMBER 1, 2010

Schedules A and B – Real and Personal Property

Real property: (Historical Cost (not depreciated); Per Audited Financial Statements)	$17,347,000.00
Security Deposits: Centerpoint Energy ($480.63) Harris County MUD #120 ($16,000.00) Reliant Energy ($10,980.00)	$27,460.63
Accounts Receivable: Estimated resident receivables	$183,028.00
Furniture, Fixtures & Equipment:	$340,115.00
TOTAL ASSETS (as of 11/1/2010)	**$17,897,603.63**

D. Estimated Return to the Creditors if the Estate were Liquidated

The alternative to a Chapter 11 Plan of Reorganization would be a Chapter 7 liquidation, whereby the assets of the Debtor would be sold and proceeds distributed to the Debtor's unsecured creditors. There are two (2) known secured creditors, (i) Wells Fargo - $12,818,417.00; and (ii) Fairway Capital LLC - $3,000,000.00.

Liquidation Analysis. The Debtor's schedules of assets and liabilities reflect only the (100%) fee simple interest (in the real property located at 15250 Gray Ridge Drive, Houston, Texas 77073 and 15255 Gray Ridge Drive, Houston, Texas 77073, also known as Vinings at West Oaks Apartments) as the real property assets currently owned by the Debtor. There would, of course, be additional administrative expenses in Chapter 7 liquidation bankruptcy in the form of trustee's fee and trustee's professionals' fees.

The Debtor estimates the total value of its assets in liquidation (conversion to Chapter 7 scenario) at approximately $11,412,175.23. See Exhibit "B" attached hereto for further detail and liquidation analysis.

LIABILITIES AS OF THE PETITION DATE AND NOW

Secured Claims (as of 11/1/2010) **Secured Claims (as of 1/31/2011)**	$15,818,417.00 $15,784,244.22
Unsecured Priority Claims (as of 11/1/10) Unsecured Priority Claims (as of 1/31/11)	$456,762.96 $456,762.96
Unsecured Nonpriority Claims (as of 11/1/10) Unsecured Nonpriority Claims (as of 1/31/11)	$421,248.34 $421,248.34
TOTAL LIABILITIES (as of 11/1/10) **TOTAL LIABILITIES** (as of 1/31/11)	**$16,696,428.30** **$16,662,255.52**

The liquidation value of the Debtor, at this point in time, would be comprised of proceeds from the sale of the Debtor's property and would be in an amount insufficient to pay the creditors if the Debtor were to be liquidated. (See Exhibit "B")

E. Anticipated Future of the Debtor

The Debtor expects that with the restructuring of its indebtedness, the Debtor will be able to operate profitably in such a manner as to allow the Debtor to pay its creditors in accordance with its Plan of Reorganization. Attached hereto are projections and analyses that the Debtor has made regarding its future income and expenses throughout the term of the Plan.

Projected Income and Expenses After Plan

Monthly operating budget and payment projections for the calendar year 2011 is attached hereto as Exhibit "C". Projected payments to creditors by class under the Plan are set forth in Exhibit "D", also attached hereto.

F. Affiliated Persons and Entities

The Debtor has no subsidiary entities/persons.

The Debtor's list of equity security holders are, as follows:

(i) Grayridge GP, L.P.
General Partner – 1%

(ii) Graoch Associates #160 Limited Partnership
Limited Partner – 99%

VII.

PROFESSIONAL FEES

The Debtor paid (on 11/1/10) $25,000.00 in retainer funds towards contemplated Chapter 11 legal services. This $25,000.00 amount was placed into a Debtor-in-Possession Attorney's

Fee Trust Account by The Law Offices of Matthew Hoffman ("LOMH, p.c."), 2777 Allen Parkway, Suite 1000, Houston, Texas 77019, to be applied to fees subject to approval by the Court, and will be included in any award the Court gives to the Law Offices of Matthew Hoffman, p.c., the attorneys responsible for the Debtor's initial filing, pursuant to LOMH, p.c.'s for its First and Final Fee Application. The Debtor paid an additional $1,039 for its Chapter 11 bankruptcy filing fee. Upon the filing of the Chapter 11 case, Matthew Hoffman and James C. Lee of LOMH, p.c. undertook representation of the Debtor, with the approval of the Bankruptcy Court being received (on November 29, 2010) shortly thereafter. Part of the $25,000.00 retainer amount has been earned and drawn down pursuant to (duly served) monthly Notices of Distribution of Retainer, subject to Court approval, and interim fees have been paid to LOMH, p.c. for all time spent and expenses incurred through January 31, 2010, as follows:

- December 23, 2010: $5,606.48
- January 26, 2011: $1,797.85
- February 25, 2011: $5,084.92

Legal fees for the months of March, April and May, 2011 are projected to be an average of $3,500 for each month for LOMH, p.c., subject to approval by the Bankruptcy Court. The source of funds to pay the projected administrative expenses for fees (beyond fees and retainer already paid) for attorneys and other professionals through May 31, 2011 of at least $10,500 (approx.) is the remaining retainer. Pursuant to §§ 503(b)(2) and 507(a)(2) of the Bankruptcy Code, administrative claims must be paid in full at the time of confirmation, unless other arrangements have been made. At this point in time, no other arrangements have been made.

VIII.

UNITED STATES TRUSTEE FEES

Provision for payment of pre-confirmation and post-confirmation quarterly fees and submission of statements of disbursements to the United States Trustee: The Debtor shall timely pay on the Effective Date all pre-confirmation quarterly fees owed to the United States Trustee. In this connection, the Reorganized Debtor shall timely pay its first quarterly fee to the U.S. Trustee on or before January 31, 2011 for the fourth quarter of 2010, ending December 31, 2010, as well as all post-confirmation quarterly fees assessed pursuant to 28 U.S.C. §1930(a)(6) until such time as the Bankruptcy Court enters a final decree closing this chapter 11 case, or enters an order either converting this case to a case under chapter 7 or dismissing this case. After confirmation, the Reorganized Debtor shall file with the Bankruptcy Court and shall transmit to the United States Trustee a true and correct statement of all disbursements for each quarter, or portion thereof, that this chapter 11 case remains open, in a format prescribed by the United States Trustee.

IX.

ACCOUNTING PROCESS USED

The Debtor's projections contained in this Disclosure Statement and accompanying financial information are based on the accrual method of accounting. The information from which those statements are prepared comes from the Debtor's books and records.

X.

SUMMARY OF THE PLAN OF REORGANIZATION

THE FOLLOWING SUMMARY IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO THE FULL TEXT OF THE PLAN. CREDITORS ARE URGED TO READ THE PLAN IN FULL.

A. Means for Execution of the Plan

The Debtor is in the process of arranging to fund the Plan of Reorganization out of: (i) the proceeds of a new $10,000,000 first mortgage loan (Debtor's second lienholder, Fairway Capital LLC, has agreed to facilitate and support the new first mortgage loan and funds should be available prior to the Confirmation hearing); (ii) expected insurance proceeds[1] in the amount of $1,380,000 from the September 24, 2010 fire damage to 24 units (which units the Debtor does not intend to rebuild) of the Debtor's real property apartment building; and (iii) new equity (in the form of mandatory cash calls on various limited partners). The funds necessary for the satisfaction of the creditors' claims are to be generated, basically, as follows:

Source of Funds:	
New First Mortgage Loan:	$10,000,000.00
Insurance Proceeds:	$ 1,380,000.00
(9/24/10 fire damage to 24 units)	
New Equity (from cash calls):	$ 2,246,818.24
Ch. 11 Prepetition Retainer ($25,000)	$ 17,595.67
	$13,644,413.91
Use of Funds (on the Effective Date):	
Class 1 Creditors (Professionals/Admin. Expenses):	$ 267,500.00
Class 2 (2010 Ad Valorem Taxes/Franchise Taxes):	$ 500,416.76
Class 4 (Repayment of Wells Fargo Loan):	$12,784,244.00
Class 6 Creditors (M&M Liens):	$ 1,963.88
Class 7 Creditors (General Unsecured):	$ 81,872.00
(20% of face)	
Class 8 Creditors ($1,000 or less Unsecured):	$ 8,321.60
(70% of face)	
	$13,644,318.24

[1] As of the time of filing of this Disclosure Statement, the insurance proceeds have not been received by Debtor. Debtor intends to file a Motion for Turnover of Insurance Proceed Funds in order to obtain the settlement funds from the insurance company.

The Debtor may propose amendments or modifications of the Plan at any time prior to Confirmation, upon notice to all parties-in-interest. After Confirmation, the Debtor may, with approval of the Court and so long as it does not materially or adversely affect the interest of creditors, remedy any defect or omission or reconcile any inconsistencies in the Order of Confirmation in such manner as may be necessary to carry out the purposes and effect of this Plan.

B. Classification of Claims

The Plan provides for the division of claims of creditors into nine (9) classes.

Class 1 - Claims of attorneys and other professionals entitled to "priority," as such term is defined 11 U.S.C. § 507, as the same are allowed, approved and ordered paid by the Bankruptcy Court. There are two (2) creditors in this class, as follows: 1) The Law Offices of Matthew Hoffman, p.c., Debtor's Bankruptcy Counsel; and 2) United States Trustee Fees.

Class 2 - Claims of taxing authorities entitled to "priority," as such term is defined in 11 U.S.C. § 507, as the same are allowed, approved and ordered paid by the Bankruptcy Court. There are two (2) known creditors in this class, as follows: 1) Harris County, et al. Tax Assessor - $436,538.00 (disputed claim, covering ad valorem property taxes for Y/E 2010); and 2) State of Texas Comptroller's Office - $20,224.96.

Class 3 - Claims of governmental units enforcing its police and regulatory power, including the enforcement of a judgment other than a money judgment, obtained in an action or proceeding by the governmental unit to enforce such governmental unit's police or regulatory power. There are no known governmental units seeking to enforce their police and regulatory power obtained in an action or proceeding by the governmental unit or units in this case or in this class.

Class 4 - The Claim of Wells Fargo secured by a first lien on property owned by Debtor or its estate in the amount of $12,784,244.22.

Class 5 - The Claim of Fairway Capital LLC secured by a second lien on property owned by Debtor or its estate in the amount of $3,000,000.00.

Class 6 - Claims secured by a mechanic's and materialmen's lien in property owned by the Debtor or its estate. There is one (1) known creditor in this class, as follows: AAA Plumbers - $1,963.88.

Class 7 - Claims not secured by a lien, security interest, encumbrance or right of set-off, as the same are allowed, approved and ordered paid by the Bankruptcy Court. There are twenty-three (23) known creditors in this class, exclusive of those (smaller) Class 6 creditors holding unsecured claims of $1,000 or less.

Class 8 - Allowed, Unsecured Claims of $1,000.00 or less, and those Allowed Unsecured Claims in excess of $1,000.00 which are voluntarily reduced by the holders thereof to $1,000.00 with the amount in excess of $1,000.00 being waived, as the same are allowed, approved and ordered paid by the Bankruptcy Court. There are at least thirty (30) known creditors in this class.

Class 9 - Allowed Equity Interest Holders. There are two (2) equity interest holders in this class, as follows:

(i) Grayridge GP, L.P.
General Partner – 1%

(ii) Graoch Associates #160 Limited Partnership
Limited Partner – 99%

C. Treatment of Classes

CLASS 1 (Claims of Attorneys and Other Professionals)

Each creditor holding an allowed Class 1 Claim shall be paid in cash in full (unless such Claimant has agreed to other treatment) on the Effective Date or when such claim is allowed or ordered paid by Final Order of the Court, whichever date is later. **Class 1 claims are not impaired.**

CLASS 2 (Claims of Taxing Authorities)

Each creditor holding an allowed Class 2 Claim (the "Taxing Authorities") are ad valorem tax creditors of Debtor and Debtor's Estate, holding prior perfected liens against property of Debtor's Estate. The Taxing Authorities' claims are secured pursuant to Texas Property Tax Code §§ 32.01 and 32.07, et seq. The Taxing Authorities are secured by the various pieces of real and personal property owned by the Debtor. Each creditor holding an allowed Class 2 Claim shall be paid in cash and in full on the Effective Date or when such claim is allowed or ordered paid by Final Order of the Court, whichever date is later. **Class 2 claims are not impaired.**

CLASS 3 (Claims of Governmental Units)

Each creditor holding a Class 3 Claim shall be paid 100% of such Allowed Claim and shall be paid in cash and in full on the Effective Date or when such claim is allowed or ordered paid by Final Order of the Court, whichever date is later. **Class 3 claims are not impaired.**

CLASS 4 (Claims Secured by a First Lien or Security Interest)

Each creditor holding a Class 4 Claim shall be paid in full, on the Effective Date or when such claim is allowed or ordered paid by Final Order of the Court, whichever date is later. **Class 4 claims are not impaired.**

CLASS 5 (Claims Secured by a Second Lien or Security Interest)

Each creditor holding a Class 5 Claim shall retain its second lien position in accordance with the Second Lien Deed of Trust, Assignment of Leases and Rents, Security Agreement and Fixture Filing, filed amongst the Harris County, Texas Real Property Records no. 20100024558. **Class 5 claims are not impaired.**

CLASS 6 (Claims Secured by a Mechanic's and Materialmen's Lien)

Each creditor holding a Class 6 Claim shall be paid in full, on the Effective Date, in consideration of the releases of their liens (i.e., Release of Lien filed amongst the Harris County, Texas Real Property Records) or when such claim is allowed or ordered paid by Final Order of the Court, whichever date is later. **Class 6 claims are not impaired.**

CLASS 7 (Claims Not Secured by a Lien or Security Interest)

Each creditor holding a Class 7 Claim shall be paid 20% of its allowed claim, in cash, on the Effective Date or when such claim is allowed or ordered paid by Final Order of the Court, whichever date is later. **Class 7 claims are impaired.**

CLASS 8 (Allowed, Unsecured Claims of $1,000 or less, and in Excess of $1,000)

Each creditor holding an Allowed Class 8 Claim shall receive 70% of the amount of its claim, in cash, on the Effective Date or when such claim is allowed or ordered paid by Final Order of the Court, whichever date is later. **Class 8 claims are impaired.**

CLASS 9 (Allowed Equity Interest Holders)

Each equity interest holder in Class 9 shall be allowed to retain such interest held. Upon confirmation of the Plan, the property of the estate will be free and clear of any and all claims and interests of all entities, except as provided in the Plan, and shall re-vest in the Reorganized Debtor. **Class 9 interests are not impaired.**

XI.

PENDING LITIGATION

As of November 1, 2010, the Debtor is not aware of any pending litigation in which it is a party, except, as follows:

- Cause No. 2010-25468; *Patrick O'Connor and Associates, LP vs. GALP Highcross, LP, et al.*; In the 129th Judicial District Court of Harris County, Texas.

XII.

FEDERAL INCOME TAX CONSEQUENCES OF THE PLAN

A. Statutory Overview

The purpose of this provision to provide a discussion of the potential material Federal income tax consequences of the plan to Debtor and a hypothetical of the holders of claims or interests in the case that would enable such a hypothetical investor to make an informed judgment about the Plan, as contemplated in 11 U.S.C. § 1125(a)(1). The Federal income tax consequences discussed herein are those arising under the Internal Revenue Code of 1986, as amended (the "Tax Code") and the income tax regulations promulgated thereunder (the "Regulations"), and case law, revenue rulings, revenue procedure and other authority interpreting the relevant sections of the Tax Code and the Regulations.

This summary does not address foreign, state or local tax law, or any estate or gift tax consequences of the Plan, nor does it purport to address the federal income tax consequences of the Plan to special classes of taxpayers (such as taxpayers who are not United States domestic corporations or citizens or residents of the United States, S corporations, banks, mutual funds, insurance companies, financial institutions, regulated investment companies, broker-dealers, non-profit entities or foundations, small business investment companies, persons that hold Claims or Equity Interests as part of a straddle or conversion transaction and tax-exempt organizations).

No administrative rulings will be sought from the Internal Revenue Service ("IRS") with respect to any of the federal income tax aspects of the Plan. Consequently, there can be no assurance that the treatment described in this Disclosure Statement will be accepted by the IRS. No opinion of counsel has either been sought or obtained with respect to the federal income tax aspects of the Plan.

THE DISCUSSION SET FORTH IN THIS DISCLOSURE STATEMENT IS INCLUDED FOR GENERAL INFORMATION ONLY. ALL CREDITORS AND EQUITY HOLDERS SHOULD CONSULT THEIR OWN TAX ADVISORS REGARDING THE FEDERAL INCOME TAX CONSEQUENCES CONTEMPLATED UNDER OR IN CONNECTION WITH THE PLAN, AS WELL AS STATE AND LOCAL TAX CONSEQUENCES AND FEDERAL ESTATE AND GIFT TAXES.

B. Federal Income Tax Consequences to Debtor

The Plan contemplates that all known creditors of Debtor will be paid at least in part, if not in full. Therefore, the federal income tax issues associated with the cancellation of debt are subject to the provisions of the 1980 Bankruptcy Tax Act as set forth in Section 108 of the Internal Revenue Code.

Debtor files Form 1065 (U.S. Return of Partnership Income) for Federal income tax purposes. This means each partner of the Debtor receives a Schedule K-1. Debtor files returns of income, but is not liable for federal income tax. Instead, the equity owners report all items of income, gain, loss, deduction and credit on their individual returns and that Debtor has no federal income tax.

Coastal did not incur any tax liability for taxable income. Net Income or Loss is passed through to the partners of the Debtor on a Schedule K.

C. Federal Income Tax Consequences to Creditors

General. As to all debts being paid in full and in cash and since none of the Creditors, in its or their capacity as a Creditor are receiving any security in Debtor, a Creditor who receives cash in full satisfaction of a Claim will classify the payment in the same way it would have classified that payment had it been made by Debtor if it were not in bankruptcy. Therefore, each Creditor should consult its own tax advisor.

Backup Withholding. Under current tax law, interest, dividends and other "reportable payments" may, under certain circumstances, be subject to "backup withholding" taxes. Withholding generally applies if the holder: (i) fails to furnish his social security number or other taxpayer identification number (hereinafter "TIN"), (ii) furnishes an incorrect TIN, (iii) fails properly to report interest or dividends, or (iv) under certain circumstances, fails to provide a certified statement, signed under penalty of perjury, that the TIN provided is his correct number and that he is not subject to backup withholding.

XIII.

RISK FACTORS

Certain substantial risk factors are inherent in most Chapter 11 cases. There are risks, which all creditors should be aware of with respect to this Plan.

First, there is a risk that the market in which the Debtor operates will decline, thereby increasing Debtor's inability to pay its creditors pursuant to the confirmed Plan of Reorganization. While the Debtor does not believe that its market will decline, this possibility must be recognized.

All creditors should be aware that the inability to confirm this Plan might be detrimental to all creditors of the Debtor's estate. If this Plan is not confirmed, and the case is converted to Chapter 7, it is highly likely that the unsecured creditors would receive no distributions out of the Debtor's estate. The Debtor's assets consisted of only $17,347,000.00, as of November 1, 2010, while the Debtor's liabilities were at least $16,696,428.30, as of November 1, 2010, but, in the event of conversion to Chapter 7, the assets would be significantly diminished ($11,412,175.23) and there would be additional Trustee's fees (unknown amount), plus Trustee's professionals' fees (unknown amount).

XIV.

FINANCIAL INFORMATION

Debtor has filed monthly operating reports with the Clerk of the Bankruptcy Court, which have been incorporated herein by reference.

XV.

CRAMDOWN

Upon rejection of this Plan by any impaired class of claims, the Plan Proponent intends to, and hereby does, invoke the cramdown provisions of section 1129(b) of the Bankruptcy Code to obtain confirmation of the Plan.

XVI.

EFFECT OF CONFIRMATION

If the Plan is confirmed, its provisions will bind the Debtor and each creditor, whether or not the claim is impaired under the Plan and whether or not the creditor has accepted the Plan. Upon confirmation of the Plan, the property of the estate will be free and clear of any and all claims and interests of all entities, except as provided in the Plan, and shall re-vest in the Reorganized Debtor.

XVII.

CONFIRMATION PROCEDURES AND STANDARDS

In order for the Plan to be confirmed, various statutory conditions must be satisfied, including (i) a finding by the Court that the Plan is feasible, (ii) the acceptance of the Plan by at least one impaired class entitled to vote on the Plan and (iii) provision for payment or distribution under the Plan to each claimant of money and/or other property equal in value to at least what the claimant would have received in liquidation or, with respect to each Class, either acceptance by that Class or a finding by the Court that the Plan is "fair and equitable" and does not “discriminate unfairly” against the Class.

A. Who May Vote

Only classes that are impaired under the Plan are entitled to vote on acceptance or rejection of the Plan. Generally, section 1124 of the Bankruptcy Code provides that a class of claims or interests is considered impaired unless a plan does not alter the legal, equitable, and contractual rights of the holder of the claims or interest. In addition, these classes are impaired unless all outstanding defaults, other than defaults relating to the insolvency or financial condition of the Debtor or the commencement of the Chapter 11 case, have been cured and the holders of the claims or interests in these classes have been compensated for any damages incurred as a result of any reasonable reliance on any contractual provisions or applicable law to demand accelerated payment.

Any claim that is subject to an unresolved objection may not vote unless an order is obtained from the Court temporarily allowing the Claim for the purpose of voting.

Class 1, 2, 3, 4, 5 and 6 are not impaired under the Plan and, pursuant to section 1126(f) of the Bankruptcy Code, are deemed to have accepted the Plan without voting. All other Classes, except Class 9, are impaired under the Plan and are entitled to vote to accept or reject the Plan.

B. Confirmation of the Plan

Under the Bankruptcy Code, the following steps must be taken to confirm the Plan:

Confirmation Hearing. Section 1128(a) of the Bankruptcy Code requires the Court, after notice, to hold a hearing on confirmation of the Plan (the "Confirmation Hearing"). The Court will schedule the Confirmation Hearing, set deadlines and require notice to all creditors. Section 1128(b) of the Bankruptcy Code provides that any party in interest may object to confirmation of the Plan, regardless of whether it is entitled to vote. If the Plan is not confirmed, however, the theoretical alternatives include: (a) alternative plans of reorganization; or (b) liquidation of the Debtor under Chapter 7 of the Bankruptcy Code.

Alternative Plans of Reorganization. If the Plan is not confirmed, the Debtor or some other party in interest in the Bankruptcy case could attempt to formulate and propose a different plan or plans. After a thorough review and analysis of the course of action set forth in the proposed Plan, the Debtor has concluded that the Plan as proposed provides the Holders of impaired claims and equity interests with the optimal opportunity for the maximum recovery such that the interests of each will thereby be best served.

Objections to Confirmation. The Court will schedule a hearing to consider objections by parties in interest to confirmation of the Plan. The hearing may be adjourned from time to time by the Court without further notice except for an announcement made at the hearing. While the Plan Proponent expects that any hearing to consider objections to the confirmation of the Plan will be held in conjunction with the Confirmation Hearing, there can be no assurance that such will be the case.

Objections to confirmation of the Plan are governed by Bankruptcy Rule 9014. UNLESS AN OBJECTION TO CONFIRMATION IS TIMELY MADE IT MAY NOT BE CONSIDERED BY THE COURT.

Requirements for Confirmation of the Plan. At the Confirmation Hearing, the Court will determine whether the requirements of section 1129 of the Bankruptcy Code have been satisfied, in which event the Court will enter an order confirming the Plan. These requirements are as follows:

Feasibility of the Plan. In order for the Plan to be confirmed, the Court must determine that a further reorganization or subsequent liquidation of the Debtor is not likely to result following confirmation of the Plan. The Plan Proponent believes that the Plan is feasible.

Best Interests Test. With respect to each impaired class contemplated by section 1129(a)(7)(A), each member either (a) has accepted the Plan or (b) will receive or retain under the Plan, on account of its Claim or Interest, property of a value, as of the Effective Date of the Plan, that is not less than the amount the holder would receive or retain if the Debtor were liquidated under Chapter 7 of the Bankruptcy Code. Only Classes 7 and 8 are affected by the best interest test, since all other classes are receiving payment in full under the Plan. Of course, no class may receive more than payment in full in either Chapter 7 or Chapter 11.

To determine what the holders in Classes 7 and 8 would receive if the Debtor was liquidated, the Bankruptcy Court must determine that the dollar amount which would be generated from the liquidation of the assets in the context of Chapter 7 liquidation is not more than the present value of the funds to be distributed under the Plan. The cash amount that would be available would consist of the proceeds resulting from the disposition of the unencumbered assets of the Debtor, reduced by the costs and expenses of the liquidation and by such additional administrative and priority expenses that may result.

The costs of liquidation under Chapter 7 would include the fees payable to the trustee appointed in the Chapter 7 case, as well as those that might be payable to additional attorneys and other professionals that the trustee might engage. Costs of liquidation would also include any unpaid expenses incurred by the Debtor during the Chapter 11 case, such as compensation for attorneys, appraisers, and accountants and costs and expenses of operations, which remained unpaid. In addition, Claims may arise by reason of the rejection of obligations incurred and contracts entered into by the Debtor in Possession during the pendency of the Chapter 11 case.

To determine if the Plan is in the best interests of the members of Classes 7 and 8 the present value of the distributions from the proceeds of the liquidation of all the Debtor's assets and properties (after subtracting the amounts attributable to the claims described above) are then compared with the present value offered to each of the members of Classes 7 and 8 under the Plan. It is the Debtor's opinion that if a Chapter 7 liquidation were to occur, no allowed unsecured creditor or interest holder would receive any distribution nor would the (priority) taxing entities' allowed, undisputed claims be paid in full.

<u>Acceptance by Impaired Classes.</u> Section 1129(a)(8) of the Bankruptcy Code requires that, subject to the "cram-down" exception contained in section 1129(b), each impaired class must accept the Plan by the requisite votes for confirmation to occur. A class of impaired claims will have accepted the Plan if at least two-thirds in amount and more than on-half in number of Allowed Claims in the class voting to accept or reject the Plan have voted in favor of acceptance. In addition, regardless of whether recourse is had to the cram-down provisions of section 1129(b), at least one impaired class must accept the Plan, without counting the votes of any "insiders" contained in the class, as defined in section 101(31) of the Bankruptcy Code.

<u>Fair and Equitable Test</u>. If any impaired class of claims does not accept the Plan, the Bankruptcy Court may still confirm the Plan at the request of the Proponent pursuant to the cram-down provisions of section 1129(b) if, as to such impaired class, the Plan "does not discriminate unfairly" and is "fair and equitable" with respect to that class. A plan does not discriminate unfairly if no class receives more than it is legally entitled to receive for its claims

or equity interests. "Fair and equitable" has different meanings for secured claims, unsecured claims and interests.

With respect to a secured claim, "fair and equitable" means that either (i) the impaired secured creditor retains its liens to the extent of its allowed secured claims and receives deferred cash payments at least equal to the allowed amount of its claim with a present value as of the Effective Date of the plan at least equal to the value of the creditor's interest in the property securing its liens, (ii) property subject to the lien of an impaired secured creditor is sold free and clear of the lien, with the lien attaching to the proceeds of the sale, or (iii) the impaired secured creditor realizes the "indubitable equivalent" of its claims under the Plan.

With respect to an unsecured claim, "fair and equitable" means that either (i) each impaired unsecured creditor receives or retains property of a value equal to the amount of its Allowed Claim or (ii) the holders of claims and interests that are junior to the claims of the dissenting class will not receive any property under the Plan in exchange for such claims or interest held prior to the filing.

The Bankruptcy Court must determine at the Confirmation Hearing whether the Plan is fair and equitable and does not discriminate unfairly against any impaired class of Claims.

The Debtor believes that each holder of a Claim impaired under the Plan will receive payments under the plan having a present value as of the Effective Date of an amount not less than the amount likely to be received if the Debtor was liquidated in a case under Chapter 7 of the Bankruptcy Code. The Debtor believes that each holder of a Claim impaired under the Plan will receive substantially greater payments under the proposed Plan of Reorganization.

Absolute Priority Rule. Section 1129(b)(2)(B)(ii) controls the payment of senior and junior classes of claims or interests in the event that all of the applicable requirements of Section

1129(a), other than paragraph (8), are met with respect to a plan. Under the Debtor's Plan, no junior classes of claims or interests are to receive more than senior classes of claims. Moreover, since creditors are entitled to be paid in full before junior classes of claims or interests receive any payments, the Debtor's Plan provides that no holder of any claim or equity interest that is junior to the claims of such senior claimants shall receive any payment on account of such junior claim or interest.

New Value Exception. In the event that any impaired class (that is not an "insider", as defined in 11 U.S.C. § 101(31)) rejects the Plan, the equity interest holders (or other interests junior to unsecured creditors) may retain their interest in the reorganized Debtor in return for capital contributions infused into the reorganized Debtor so long as the contribution is: (1) new; (2) substantial; (3) reasonably equivalent to the value received by the equity interest holder; (4) necessary to the effective reorganization of the Debtor; and (5) in the form of money or money's worth. *Bank of Am. Nat. Trust & Sav. Ass'n v. 203 N. LaSalle St. P'ship*, 526 U.S. 434, 445 (1999). The assessment of the required capital contribution amounts for the equity interest holders (or other interests junior to unsecured creditors) is to be made in the event that any impaired class (that is not an "insider") rejects the Plan.

C. Voting Procedures

Counting Votes. In order to be counted a ballot must be RECEIVED at the following address no later than the date set by the Bankruptcy Court:

The Law Offices of Matthew Hoffman, p.c.
2777 Allen Parkway, Suite 1000
Houston, Texas 77019
Attorneys for GALP Grayridge Limited Partnership,
Debtor-in-Possession

Solicitation of Votes. The Ballot included herewith will serve as the ballot for indicating acceptance of the Plan pursuant to the requirements of sections 1125 and 1126 of the Bankruptcy Code and Bankruptcy Rule 3018(c). Section 1125(b) of the Bankruptcy Code and Bankruptcy Rule 3018 govern the solicitation and the binding effect of acceptances. Any holder of a contested Claim may ask the Bankruptcy Court pursuant to Bankruptcy Rule 3018, to have its Claims allowed for the purpose of accepting or rejecting the Plan.

Respectfully submitted this the 8th day of March, 2011.

GALP Grayridge Limited Partnership,
Debtor-in-Possession

By: *__/s/ Matthew Hoffman__*

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