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9 **UNITED STATES BANKRUPTCY COURT**
10 **CENTRAL DISTRICT OF CALIFORNIA**

11 In re

12 LAX Royal Airport Center, LP

13 Debtor
14

Bk. No.11-12333 (BB)

In a Case Under Chapter
11 of the Bankruptcy Code
(11 U.S.C. § 1101 et seq.)

15 **DEBTOR'S CHAPTER 11 DISCLOSURE**
16 **STATEMENT**
17

18
19 **DEBTOR'S DISCLOSURE STATEMENT**

20 **THIS DISCLOSURE STATEMENT HAS NOT BEEN APPROVED BY THE UNITED**
21 **STATES BANKRUPTCY COURT FOR THE CENTRAL DISTRICT OF CALIFORNIA**
22 **ASCONTAINING ADEQUATE INFORMATION FOR SOLICITATION OF**
23 **ACCEPTANCES OFTHE DEBTOR'S PLAN OF REORGANIZATION (APRIL 18, 2011).**
24 **THE COURT HAS NOT AUTHORIZED DISTRIBUTION OF THIS DISCLOSURE**
25 **STATEMENT TO CREDITORS.**

26 **I. INTRODUCTION.**

27 **A. Plan Summary:**

28 The Plan provides for extension of the obligations currently due to Morgan Stanley

1 Mortgage Capital (or its successor in interest) for 36 months each after the Effective Date
2 (unless repaid paid sooner) with payments deferred under the contract or other agreed rates of
3 interest. Unsecured claimants are to receive the Center's net profits for three years with a
4 minimum dividend paid of \$72,000 which will provide a dividend of 6.24% .¹ Priority and
5 administrative claims, if any, will be paid in full at the Effective Date unless they agree to
6 another treatment.

7
8 **B. The Purpose Of A Disclosure Statement:**

9 Debtor and debtor in possession LAX Royal Airport Center, LP prepared this Debtor's
10 Disclosure Statement (April 18, 2011). It is too be distributed to creditors to solicit acceptances
11 of the Debtor's Plan of Reorganization (April 18, 2011) upon Bankruptcy Court approval. The
12 Plan is served with the Disclosure Statement. The Disclosure Statement's purpose is to provide
13 all persons who hold claims against the Debtor with information adequate to enable them to
14 make informed judgments about the Plan in voting to accept or reject it.

15
16 **C. Definitions:**

17 The Disclosure Statement uses terms which are defined in the Plan. A term used in the
18 Disclosure Statement or the Plan that is defined in the Bankruptcy Code has the meaning given
19 to that term in the Bankruptcy Code. The rules of construction contained in the Bankruptcy
20 Code and the Federal Rules of Bankruptcy Procedure apply in this Disclosure Statement. To the
21 extent that terms defined in the Plan or Disclosure Statement are inconsistent with definitions or
22 meanings provided by the Bankruptcy Code or Rules, the Bankruptcy Code and Rules shall
23 control.

24
25 **D. How to Vote.**

26 Upon Bankruptcy Court approval of this Disclosure Statement, the Court will issue an

27
28 ¹ This dividend does not include the claims of Insiders.

1 order describing the method for accepting or objecting to the Plan. Unless the Court's order
2 provides otherwise, a vote for acceptance or rejection of the Plan may be cast by completing and
3 signing the ballot which will accompany the Plan and mailing it to Michael N. Sofris, Action
4 Legal Team, 468 N. Camden Drive, Suite 200, Beverly Hills, California 90210 to the attention of
5 Michael N. Sofris in an envelope marked "LAX Ballot" in the lower left hand corner. Only the
6 Ballot should be mailed. For your vote to be counted, your completed Ballot must be received no
7 later than _____ (date to be filled in by the Court), by 5:00 p.m. Pacific Standard Time.
8 Upon its Confirmation, the Plan will be binding on all creditors regardless of whether a creditor
9 has voted in favor of or rejected the Plan.

10
11 **E. Enclosures.**

12 Enclosed with this Disclosure Statement is a copy of the Plan, a ballot (if your claim is to
13 be impaired under the Plan) and a copy of the Court's order approving this Disclosure Statement
14 .

15 **II. GENERAL BACKGROUND**

16 **A. Property and Value**

17 The Center is a high rise commercial office building consisting 219,645 gross and
18 213,727 net square leasable footage. It is situated upon 1.683 acres of land in Los Angeles,
19 California.. The Debtor leases the land upon which the Center is situated from Koar under a
20 Ground Lease from Koar who own the underlying land. The Ground Lease commenced on
21 November 17, 1986 and runs through the year 2028.

22 The Debtor in its Schedules of Assets and Liabilities listed total personal property assets
23 of \$427,407.09. The Debtor listed its leasehold interest in the Center plus the improvements that
24 secure the Secured Creditors' respective debts as having a value of \$14 million. The Debtor's
25 appraiser has completed an appraisal which shows that the total value of the Center is \$16.5
26 million.

1 **B. Secured Debt Borrowings, Security, And Monthly Payments**

2 The Debtor in its Schedules of Assets and Liabilities listed secured debt totaling
3 \$9,129,815.58 and unsecured debt totaling \$7,068,816.31. Morgan Stanley has a lien the Center
4 and claims to be the senior lienholder thereon with an assignment of rents clause that extends to
5 the proceeds of Tenant Leases and the Ground Lease and all sub-leases thereof.

6 On or about April 20, 2005, LAX Royal Airport Center, LP borrowed the principal
7 amount of \$10,000,000.00 from Morgan Stanley. The loan is evidenced by a Promissory Note
8 dated April 25, 2005, executed by the Debtor. The Promissory Note was secured by a Deed of
9 Trust against the Center. As of December 1, 2010, the unpaid principal balance owed to Morgan
10 Stanley was \$6,665,176.14 and default interest and late charges approximated \$791,902.00.
11 These amounts continue to accrue. Morgan Stanley has not filed a claim so the exact amount
12 Morgan Stanley is claiming due and owing is not known.

13
14 **C. Events Leading To Chapter 11 Filing**

15 MSCI, claiming to be Morgan Stanley's successor in interest declined to modify the
16 terms of the loan thereafter began collection activity. On September 2, 2010, MSCI recorded and
17 posted its Notice of Default and Election to Sell under Deed of Trust thereby commencing a
18 non-judicial foreclosure of its lien against the Center. MSCI subsequently noticed a trustees
19 sale for January 20, 2011. The Debtor determined that it had to commence this case prior to the
20 trustee's sale date in order to preserve the equity in the Center for the benefit of all secured and
21 unsecured creditors and for its members.

22
23 **D. Case Commencement**

24 The instant bankruptcy case was filed on January 19, 2011.
25
26
27
28

1 **E. Relevant Events In Case**

2 The Debtor's Section 341 Meeting of Creditors was commenced and concluded on
3 March 3, 2011. Debtor participated in its initial Chapter 11 Status Conference before the
4 Bankruptcy
5 Court on March 9, 2011. At that time the Court set a deadline to file a plan and disclosure
6 statement of April 19, 2011. The Debtor filed its plan on April 19, 2011.

7 The Debtor prosecuted a Motion To Approve Use Of Cash Collateral that was set for its
8 first interim hearing on February 3, 2011. The Motion was conditionally approved and
9 continued over to March 3, 2011. On April 14, 2011, the Court granted the Debtor's Motion To
10 Use Cash Collateral through June 10, 2011. The Court set a hearing for June 9, 2011 to
11 determine whether it should extend and/or modify its order approving use of cash collateral.
12 MSCI opposed the Debtor's Motion To Approve Use of Cash Collateral. The Court has not
13 entered an adequate protection order nor has MSCI or Morgan Stanley sought an adequate
14 protection order. On March 29, 2011, MSCI commenced a lawsuit against the personal
15 guarantors of the Promissory Note secured by the Deed of Trust recorded against the Center.

16
17 **III. PLAN OF REORGANIZATION**

18
19 **A. Classification and Treatment of Claims**

20 **1. Unclassified Claims**

21 Unclassified Claims shall be treated as follows:

22 a. Allowed Administrative Claims. Except to the extent that the holder of a particular
23 Administrative Claim has agreed to a different treatment of such Claim, each holder of an
24 Allowed Administrative Claim shall be paid in cash, in full upon the later of (a) the Effective
25 Date; (b) if such Claim is initially a Disputed Claim or an order of the Court is required prior to
26 any payment, upon the ultimate allowance of such Claim by a Final Order of the Bankruptcy
27 Court; and (c) if such Claim is incurred after the Petition Date in the ordinary course of the
28

1 Debtor's business, within such time as payment is due pursuant to the terms giving
2 rise to such Claim.

3 b. Any request for allowance of an Administrative Claim pursuant to Section 503(a) of the
4 Bankruptcy Code, other than by the Debtor's Professionals, must be filed on or before the
5 Administrative Claims Bar Date, or the holder shall be forever barred from asserting such Claim
6 or receiving any payment on account of such Claim.

7
8 **2. Unsecured Priority Tax Claims.**

9 a. Except to the extent that the holder of a particular Tax Claim has agreed to a different
10 treatment of such Claim, after payment in of all Allowed Priority Claims, each holder of an
11 Allowed Tax Claim shall receive a cash payment equal to the Allowed Amount of such Claim
12 plus interest on such Allowed Claim at the rate of interest determined under applicable
13 non-bankruptcy law pursuant to Bankruptcy Code Section 511, from the Petition Date
14 through the date of payment in full; provided, however, that (a) no such payment shall be made
15 longer than five (5) years from the Petition Date, and (b) no holder of an Allowed Tax Claim
16 shall be treated in a manner less favorable than any general unsecured Allowed Claim.

17
18 **2. Classified Claims**

19 **a. Class 1**

20 Morgan Stanley shall receive full payment on its Class 2 Secured Claim as follows:
21 Morgan Stanley shall retain its lien against the Center, related common areas, and the Land
22 Lease; Morgan Stanley shall receive deferred cash payments equal to the amount of its Allowed
23 Secured Claim of a value, as of the Effective Date, of its interest in the estate's interest in its
24 collateral. The loan to the Debtor from Morgan Stanley is modified by this Plan such
25 that (a) any pre-payment penalty for sale of its collateral prior to expiration of the loan term is
26 waived, and (b) the term of the obligation is extended for a period of 36 months following the
27

1 Effective Date, Except as specifically modified by this Plan, all other terms of the applicable
2 loan and security agreements between the Debtor and FHB shall remain in full force and effect;
3 Debtor may, at its option, pay Morgan Stanley all principal, contract rate interest, charges
4 compensating Morgan Stanley for economic detriment and attorneys' fees by the Effective Date
5 and thereby cure all defaults as to Morgan Stanley, decelerate the debt, and reinstate all
6 obligations to Morgan Stanley. All default rate interest, late charges, and interest thereon
7 claimed by Morgan Stanley shall, upon such payment, no longer be due, owing, or payable to
8 Morgan Stanley.

9
10 **b. Class 2**

11 Holders of Allowed Timely Filed Unsecured Claims shall receive payments of the
12 remainder of the Debtor's net income after payment of all higher priority claims under the Plan
13 for 3 years following the Effective Date. Distributions to Class 5 claimants shall be made
14 semiannually and paid to holders of Allowed Claims pro rata. Class 5 claimants shall receive at
15 least the Minimum Dividend under the Plan.

16 **c. Class 3**

17 The general and limited partners of the Debtor shall retain their Interests in the Debtor.

18 Holders of Allowed Timely Filed Unsecured Claims shall receive payments of the
19 remainder of the Debtor's net income after payment of all higher priority claims under the Plan
20 for 3 years following the Effective Date. Distributions to Class 3 claimants shall be made
21 semiannually and paid to holders of Allowed Claims pro rata. Class 3 claimants shall receive at
22 least the Minimum Dividend under the Plan.

23
24 **B. List of Impaired and Unimpaired Classes.**

25 Class 1 and Class 2 are impaired under the Plan and thereby entitled to vote. Class 3 is
26 unimpaired under the Plan.

1 **C. Means For Implementation Of The Plan.**

2 **1. Sources of Funding.**

3 The Debtor shall, as set forth below, utilize rents from the Center to operate it and make
4 all required payments under the Plan. To the extent that such funds are inadequate the Debtor
5 shall borrow or its members shall contribute adequate sums to perform the Plan.

6
7 **2. Distribution Account.**

8 Prior to the Effective Date the Debtor shall establish the Claims Trust Account. On or
9 before the Effective Date, the Debtor shall fund said Claims Trust Account with monies adequate
10 to make all payments due on the Effective Date. Thereafter the Debtor shall deposit sufficient
11 funds into the Claims Trust Account to make all other payments owing under the Plan. At a
12 minimum the Debtor shall deposit \$2,000 per month into the Claims Trust Account for the
13 Plan's term which shall comprise the Minimum Dividend. The amount deposited to pay the
14 Minimum Dividend shall not be available to pay any expense or claim other than the Allowed
15 Claims held by Class 3 claimants.

16
17 **3. Effective Date Payments.**

18 On the Effective Date, the Debtor shall pay any all Allowed Administrative Claims for
19 professional fees and costs allowed by order of the Court unless the claimant agrees to another
20 treatment, from the Claims Trust Account. Professional fees and costs incurred after
21 Confirmation shall be paid from the sums reserved for professional fees in accordance with the
22 procedures set forth below.

23
24 **4. Payment Of Unclassified Claims.**

25 The Debtor shall pay any State and Federal tax claims which may exist on the later of the
26 Effective Date of when they are due.

1 **5. Plan Payments.**

2 The Debtor shall issue and transmit payments to all holders of Secured Claims under the
3 Plan such that payment is received not later than the fifteenth (15th) day of each calendar month
4 in which a payment is due. The Debtor shall pay the holders of Class 2 general unsecured
5 Allowed Claims twice each year, commencing six months after the Effective Date and
6 continuing for a period of 3 years after Confirmation.

7
8 **6. Refinancing, Asset Sales, Joint Venture Authorization**

9 The Debtor may sell or refinance any portion of or all of the Center without limitation
10 after the Effective Date in order to perform its obligations under the Plan. The Debtor may also
11 enter into a joint venture or any other form of cooperative business venture for the same purpose.
12 All sales of assets shall be approved by the Bankruptcy Court after a hearing on notice to
13 creditors. Such motions may be brought at any time before or after Confirmation. The Debtor
14 may but is not required to seek approval for refinancing or entry into a joint venture or
15 cooperative business venture from the Bankruptcy Court.

16
17 **7. Objections to Claims.**

18 Within 90 days after the Effective Date the Debtor shall bring objections to the claims
19 which they disputes and bring any actions to recover preferential transfers and fraudulent
20 conveyances under the avoiding powers under the Bankruptcy Code, or such other actions as it
21 deems appropriate.

22
23 **8. Treatment of Executory Contracts and Unexpired Leases.**

24 The Debtor reserves the right to move the Bankruptcy Court prior to Confirmation for
25 authority to assume, assume and assign, or reject, pursuant to Bankruptcy Code Section 365, any
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27
28

1 and all contracts that are executory and leases that are unexpired and to enter into any new
2 contracts or leases they may require to operate their businesses.

3 All executory contracts and unexpired leases assumed prior to Confirmation or pursuant
4 to the Plan and not otherwise rejected pursuant to the Plan shall remain in full force and effect,
5 be unimpaired by the Plan except as specifically modified by the Plan and the Order of
6 Confirmation, and be binding on the parties thereto.

7 Unless other treatment is agreed to between the parties to each assumed contract or lease,
8 if there has been a default in an assumed executory contract or unexpired lease other than the
9 kind specified in Section 365(b)(2) of the Bankruptcy Code, the Debtor shall, on or before the
10 Effective Date: (a) cure, or provide adequate assurance that they will promptly cure, any such
11 default; (b) compensate, or provide adequate assurance that they will promptly compensate, the
12 other party to such contract or lease, for any actual pecuniary loss to such party resulting from
13 such default; and (c) provide adequate assurance of future performance under such contract or
14 lease.

15 Without admitting the validity of any other executory contracts and unexpired leases, all
16 executory contracts and unexpired leases of the Debtor that are not: (a) assumed or rejected prior
17 to Confirmation; (b) the subject of a pending motion to assume filed prior to Confirmation; or (c)
18 assumed pursuant to the Plan, shall be rejected by the Debtor as of the Effective Date.
19 Confirmation of the Plan shall be deemed to constitute Bankruptcy Court approval of such
20 rejection.

21 Rejection Claims shall be classified as Class 3 general unsecured Claims. The holder of a
22 Rejection Claim shall file with the Bankruptcy Court, and serve on counsel for the Reorganized
23 Debtor, a Proof of Claim relative to such Rejection Claim on or before the Rejection Claims Bar
24 Date or be forever barred from asserting any such Claim or receiving any payment or other
25 Distribution on account of such Claim.

26 The Debtor by operation of the Plan assumes the terms of the Ground Lease with the
27 Koar.

1 **9. Preservation of Retained Claims**

2 Confirmation of the Plan effects no settlement, compromise, waiver or release of any
3 Retained Claim unless the Plan or Order of Confirmation specifically and unambiguously so
4 provides. The failure of the Plan to refer to any particular Retained Claim is not and shall not be
5 construed as a settlement, compromise, waiver, or release of any such Retained Claim. All
6 Retained Claims are hereby preserved and shall continue to remain valid after the Effective
7 Date.

8 Retained Claims include, without limitation, (a) all claims and defenses arising from a
9 Tenant Lease; (b) all claims and defenses arising from the Ground Lease, (c) all claims and
10 defenses arising from MSCI's contention that it is a successor in interest to and/or assignee of
11 Morgan Stanley's secured claim; (d) claims against any lender on grounds of lender liability or
12 other claims and defenses to Secured Claims, (e) claims and defenses arising between the Debtor
13 and any member of the Chang family, including preferential transfer claims and (f) Avoidance
14 Actions defined in the Plan to mean causes of action of the Debtor under Chapter 5 of the
15 Bankruptcy Code.

16
17 **10. Plan Conclusion.**

18 The Plan will conclude 3 years after the Effective Date, when all objections to claims
19 have been determined by final order, all adversary proceedings have been resolved with a final
20 judgment or order of dismissal, applications for all professional fees have been heard and all
21 amounts allowed paid, and any final reserves and monies owing have been collected and
22 distributed to creditors.

1 **VII. ALTERNATIVES TO THE PLAN.**

2
3 **A. General.**

4 The Debtor believes that the Plan provides creditors with the greatest value that can
5 likely be obtained on their respective claims. The alternative to Confirmation of the Plan is
6 liquidation of the estate under Chapter 7 of the Bankruptcy Code.

7
8 **B. Best Interests Test**

9 The “best interest” test of Bankruptcy Code section 1129(a)(7)(A)(ii) requires that a
10 plan provide to each dissenting member of each impaired class a recovery that has a present
11 value at least equal to the present value of the distribution which each such Creditor would
12 receive if the Debtor’s estate were liquidated under chapter 7 of the Bankruptcy Code. In
13 performing this analysis, the Bankruptcy Court must determine the amount that would be
14 generated from a chapter 7 liquidation of the Debtor’s assets after deducting the cost of
15 liquidation. The cost of liquidation would include the Trustee’s commissions, the Trustee’s
16 expenses, fees for counsel and other professionals retained by the Trustee, and Administrative
17 Claims. Generally, no distribution is made in a chapter 7 case until all assets of the Bankruptcy
18 Estate and all claims have been liquidated, a process that often can take many months and
19 sometimes years.

20 **C. Analytical Comparison To Chapter 7**

21 Determining what unsecured claimants would receive in a liquidation requires an
22 analysis of each of the Debtor’s real property to determine (1) the price, if any, at which the
23 Chapter 7 trustee would be able to sell it, (2) what the net proceeds would be in the event of a
24 sale, and (3) what the deductions would be for Chapter 11 administrative and priority claims
25 and Chapter 7 fees and expenses.

1. Real Property Valuation

The Debtor’s appraiser, Mark A. Justmann, has determined that the Center has a value, when combined with the fee interest in its underlying real estate, of \$16.5 million. The Debtor holds only an interest under the Ground Lease and is not an owner. The Chapter 7 Trustee therefore has no right to sell the underlying real estate on which the Center is situated.²

Given a 90-150 days period for marketing and sale which a Chapter 7 trustee typically has, the following conclusions may be drawn:

- The Debtor recently received a written offer to purchase the Center for \$6.5 million which reflects the value of the Center if sold under distress.

Based on the foregoing a sale of the Center based on the highest, most recent offer the Debtor has received for the Property would be \$6.5 million less trustees fees and real estate professional fees. There would be no money left for the unsecured creditors.³

3. Chapter 11 and Chapter 7 Priority Obligations

The following is an analysis of the assets of the Debtor and result in a Chapter 7 derived from the analysis set forth above:

Estate Asset	Amount	Chapter 7 & Chapter 11 Priority Obligations	Amount
Center Real Estate Value	\$0.00	Chapter 7 Trustees Fees	<\$0.00>

² Morgan Stanley claims a first priority lien against the Center, its rental income, and the Land Lease

³ The fees and expenses of a Chapter 7 trustee are set by statute. 28 U.S.C. section 326(a) permits a trustee compensation of 25% of the first \$5,000 administered, 10% of the next \$45,000, 5% of the next \$950,000, and 3% of any amounts in excess of \$1 million. Application of that formula to this case would yield a Chapter 7 trustee’s fee of Added to that total would be (a) fees and costs associated with a Chapter 7 trustee hiring his own professionals, (b) the costs associated with noticing new claims bar dates, and (c) the debt burden of new claims or different claims filed after such a new bar date.

1		Chapter 7 Trustee	<\$20,000>
2	Cash Collateral Value	Professionals Fees	
3		Chapter 11	<\$100,000>
4		Reorganization Fees	
5		(Michael N. Sofris	
6		Property	<\$50,000>
7		Management Fees	
8	Total	Total	<\$170,000>
9	\$0.00		

12 **4. Application Of Assets To Priority Liabilities/Comparison To Plan**

13 The projected Chapter 7 and Chapter 11 priority liabilities total \$170,000.00. No assets
14 would be available were this case converted to Chapter 7 to pay any of those sums or anything
15 to holders of unsecured claims. By contrast holders of Class 3 Allowed Claims, who have
16 claims totaling \$7,068,816.31 (from a review of both the Claims Register and Schedule F) will
17 receive an 6.24% distribution under the Plan.

19 **X. FEASIBILITY**

20 The Bankruptcy Code requires a finding that confirmation of the Plan is not likely to be
21 followed by either liquidation or the need for further reorganization. The Debtor's ability to
22 perform this Plan and avoid Plan failure and a Chapter 7 conversion requires them to prove their
23 ability to provide (a) the payments that will be required of them at the Effective Date, (b) the
24 payments that are required of them under the Plan, particularly at the end of the second full year
25 after the Effective Date, and (c) the payments required to complete the Plan.

26 The evidence that the Debtor will be able to meet each of the aforementioned obligations
27 is found in four sources: first, the value in the Debtor real estate such that, if sold over time, will
28 yield adequate net proceeds to meet obligations in the Plan; second, the ability of

1 their real estate holdings to generate adequate rent to pay expenses and service debt obligations
2 over the Plan's term based upon current occupancy and expected tenant move-ins; and, third,
3 the ability of the Debtor to acquire either through loans or capital contributions the sums
4 required to perform the Plan.

6 **A. Projected Operations Over Plan Term**

7 The Debtor commences its projections with rental revenues of \$5,882,000.00 for the
8 duration of the Plan. Total expenses for the duration of the Plan amount to \$4,860,000.00. Net
9 profit for the duration of the plan is \$1,022,000.00.⁴

10 The Debtor believes these projections to be very conservative. Should the increased
11 rents in year two and three not be available for some reason the Debtor is able to make all plan
12 payments during the Plan term from the current levels of rent. All other assumptions are stated
13 within the margins of the projections themselves.

15 **B. Projected Increases In Income From Incoming Tenants**

16 The Debtor has received a Letter Of Intent from International Trade Development Center
17 to lease 37,000 square feet of office space for \$1.25 per square foot with an annual rental
18 increase of 7%. In year one, this lease agreement would generate rental income of \$555,000.00.
19 In year two, rental income of \$593,850.00. In year three, rental income of \$635,419.00.

21 **C. Efforts At Sale Of Center**

22 The Debtor is proceeding simultaneously with its efforts to sell the Center. The Debtor hopes to
23 sell the Center and dismiss this Chapter 11 case concurrently with the closing of escrow of either
24 sale as both sales provide sufficient net proceeds to pay the secured claim.

26 ⁴ These projections are based upon the occurrence of two events: (1) The
27 employment of an outside management company (The Debtor has already received an estimate
28 from Grubb & Ellis to manage the Center for \$180,000.00 per year) and (2) Execution of the
proposed lease agreement between International Trade Development Center and the Debtor for
37,000 square feet of leasable space for \$1.25 a square foot with a 7% per annum rental increase.

1 **i. 6.5 Million Dollar Offer.** The Debtor has received an all cash offer to purchase the Center for
2 \$6.5 million from A.G. Investment Group. The offer is subject to the following conditions:
3 Buyer shall have Thirty (30) days to inspect the property and conduct all due diligence it
4 reasonably desires, at Buyer's sole cost and expense. Due Diligence may include, but is not
5 limited to environmental studies, financial analysis, market conditions, feasibility studies, etc.
6 During the Due Diligence Period, Buyer may give written notice to Seller to terminate its
7 obligation to purchase this Property interest for any reason.

8
9 **ii. Plan to Solicit Higher Offers.** The Debtor is in negotiations to retain both Grubb & Ellis and
10 Cushman and Wakefield to market and sell the Center on the open market subject to Court
11 Approval of their employment. After the Solicitation period, the Court will set a hearing to
12 obtain overbids to the \$6.5 million.

14 **XI. FEDERAL INCOME TAX CONSEQUENCES OF THE PLAN**

15 **THE FOLLOWING IS A SUMMARY OF CERTAIN UNITED STATES**
16 **FEDERAL INCOME TAX CONSEQUENCES OF THE PLAN THAT MAY BE**
17 **MATERIAL TO CREDITORS (EACH A "HOLDER" AS REFERRED TO IN THIS**
18 **ARTICLE). THIS DISCUSSION IS INCLUDED FOR GENERAL INFORMATION**
19 **PURPOSES ONLY AND IS NOT INTENDED TO BE, AND IS NOT, LEGAL OR TAX**
20 **ADVICE TO ANY PARTICULAR HOLDER. THIS SUMMARY IS BASED ON THE**
21 **CURRENT PROVISIONS OF THE INTERNAL REVENUE CODE OF 1986, AS**
22 **AMENDED (THE "CODE" AS REFERRED TO IN THIS ARTICLE), THE INCOME**
23 **TAX REGULATIONS (THE "REGULATIONS") AND OTHER LEGAL**
24 **AUTHORITIES, ALL OF WHICH ARE SUBJECT TO CHANGE, POSSIBLY WITH**
25 **RETROACTIVE EFFECT. NO RULINGS FROM THE INTERNAL REVENUE**
26 **SERVICE (THE "IRS") OR OPINIONS OF COUNSEL HAVE BEEN OR WILL BE**
27 **REQUESTED CONCERNING THE MATTERS DISCUSSED BELOW. THE TAX**
28 **CONSEQUENCES SET FORTH IN THE FOLLOWING DISCUSSION ARE NOT**
BINDING ON THE IRS OR THE COURTS, AND NO ASSURANCE CAN BE GIVEN
THAT CONTRARY POSITIONS WILL NOT BE SUCCESSFULLY ASSERTED BY
THE IRS OR ADOPTED BY A COURT.

THIS SUMMARY DOES NOT ADDRESS STATE OR FEDERAL INCOME TAX
CONSEQUENCES TO INTEREST HOLDERS.

THE FOLLOWING DISCUSSION DOES NOT APPLY TO CERTAIN HOLDERS
WHO, DUE TO THEIR PARTICULAR CIRCUMSTANCES, MAY BE SUBJECT TO
SPECIAL RULES.

1 **THOSE HOLDERS INCLUDE HOLDERS WHO ARE DEALERS IN**
2 **SECURITIES, FINANCIAL INSTITUTIONS, INSURANCE COMPANIES,**
3 **TAX-EXEMPT ORGANIZATIONS, OR FOREIGN PERSONS.**

4 **A. IRS Circular 230.**

5 **TO ENSURE COMPLIANCE WITH TREASURY DEPARTMENT CIRCULAR**
6 **230, HOLDERS ARE HEREBY NOTIFIED THAT: (A) ANY DISCUSSION OF**
7 **FEDERAL TAX ISSUES IN THIS DISCLOSURE STATEMENT IS NOT INTENDED OR**
8 **WRITTEN TO BE RELIED UPON AND CANNOT BE RELIED UPON BY HOLDERS**
9 **FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED ON**
10 **HOLDERS UNDER THE INTERNAL REVENUE CODE; (B) SUCH DISCUSSION IS**
11 **INCLUDED HEREIN BY DEBTOR IN CONNECTION WITH THE PROMOTION OR**
12 **MARKETING (WITHIN THE MEANING OF CIRCULAR 230) BY DEBTOR OF THE**
13 **TRANSACTIONS OR MATTERS ADDRESSED HEREIN; AND (C) HOLDERS**
14 **SHOULD SEEK ADVICE BASED ON THEIR PARTICULAR CIRCUMSTANCES**
15 **FROM AN INDEPENDENT TAX ADVISOR.**

16 **EACH HOLDER SHOULD CONSULT THE HOLDER'S OWN TAX ADVISOR**
17 **TO DETERMINE THE HOLDER'S PARTICULAR U.S. FEDERAL INCOME TAX**
18 **CONSEQUENCES AND OTHER TAX CONSEQUENCES TO THE HOLDER OF THE**
19 **PLAN, INCLUDING ANY STATE, LOCAL AND FOREIGN TAX LAWS AND THE**
20 **EFFECT OF ANY CHANGES IN SUCH LAWS.**

21 **B. Consequences to Debtor.**

22 In general, the Code provides that a debtor in a bankruptcy case is not taxable on
23 cancellation of debt ("COD") income, but must release certain of its tax attributes (such as its net
24 operating loss ("NOL") carry forwards and its tax basis in its assets) by the amount of COD
25 income. COD income results when the amount of debt discharged exceeds the consideration
26 given in exchange therefore, and is equal to such excess amount. Notwithstanding the absence of
27 a bankruptcy discharge, it is likely that a cancellation of debt will be deemed to have occurred on
28 the Effective Date. Any reduction in tax attributes does not occur, however until the end of the
taxable year or, in the case of asset basis reduction, the first day of the taxable year following the
taxable year in which the COD is incurred.

1 **C. Consequences to Creditors.**

2 Generally, any amount received by a Creditor in satisfaction of an Allowed Claim, to the
3 extent such amount constitutes "gross income" within the meaning of Section 61 of the Code,
4 will be taxable to the Creditor in accordance with the Creditors method of accounting, if not
5 previously included in the Creditor's gross income. This would include, for example, payments
6 of interest, rent or compensation for services. If a Creditor previously reported as taxable
7 income, their respective Allowed Claim then the unpaid portion of the previously reported
8 taxable income would be deductible as a business bad debt. A Creditor may be subject to regular
9 income tax withholding or backup withholding, as described below, with respect to such
10 payments. Creditors should consult with their own tax advisors as to the character and timing of
11 recognition of any gain, loss or deduction they are planning to include in their tax return.

12 Any amount received by a Creditor in satisfaction of accrued interest on a Claim will be
13 taxable to the Creditor as interest income, if not previously included in the Creditors gross
14 income. A Creditor may be subject to backup withholding, as described below, with respect to
15 such interest payments.

16 Each Creditor who receives cash in partial or complete satisfaction of the Creditor's
17 Claim will recognize gain or loss equal to the difference between the amount of cash received
18 and the Creditor's tax basis in the Creditor's Claim. Gain may be recognized, for example, by a
19 Creditor who acquired a Claim at a discount or who previously reported a bad debt deduction or
20 worthless security loss with respect to all or a portion of the Claim. Generally, any gain
21 recognized will be considered capital gain if the Claim is held as a capital asset, and generally
22 will be ordinary income if the Claim is not held as a capital asset. Capital gain will generally be
23 long-term capital gain if the Claim has been held for more than 12 months.

24 Creditors should consult with their own tax advisors as to the character and timing of
25 recognition of any gain, loss or deduction they are planning to include in their tax return. Any
26 loss will generally be a capital loss if the Claim is a capital asset and if the payment is deemed a
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28

1 "retirement" of the Claim within the meaning of Section 1271 of the Code. A Creditor who
2 receives no payment with respect to a Claim (and a Creditor who receives a payment which is
3 not a "retirement" and incurs a loss) should generally be able to claim a bad debt deduction to the
4 extent of the Creditors tax basis in the Claim (or, in the case of a Creditor receiving a payment,
5 the excess of the tax basis in the Claim over the payment received). A Creditor who holds a
6 Claim as a non-business bad debt and who is not a corporate Creditor will generally only be able
7 to claim a short-term capital loss with respect to such Claim. A Creditor who holds a Claim
8 which is a "security" as defined in Section 165(g) of the Code will generally only be able
9 to claim a capital loss rather than a bad debt deduction. Limitations apply to the ability to deduct
10 capital losses. Creditors should consult with their own tax advisors as to the character and timing
11 of recognition of any gain, loss or deduction they are planning to include in their own tax
12 returns.

13 Because a loss is allowed only for the tax year in which it is sustained, a Creditor that claims a
14 loss or deduction in the wrong tax year risks losing the benefit of such loss or deduction in its
15 entirety.

16 Creditors should consult with their own tax advisors as to the character and timing of
17 recognition of any gain, loss or deduction they are planning to include in their own tax returns.

18 19 **XII. DISCLOSURE OF MANAGEMENT COMPENSATION**

20 No insider will receive any direct compensation from the Debtor after Confirmation. The
21 Debtor is seeking to retain an outside Property Management company to manage and operate the
22 Center. The estimated cost for an outside management company is \$15,000 per month. Insiders
23 of Debtor were managing the Property pre-petition for \$12,000.00 per month.

24 25 **XIII. CONFIRMATION STANDARDS.**

26 **A. Voting.**

27 In order to confirm the Plan, two-thirds in amount and a majority in number of Allowed
28

1 Claims in each impaired class of creditors and two-thirds in number of shares in the Allowed
2 Interests must vote in favor of the Plan. The majorities for each are determined by the number
3 and amount of those who actually vote on the Plan and are entitled to vote on the Plan under
4 Bankruptcy Rule 3018.

5 If a class which is impaired under the Plan does not vote in favor of the Plan, the Debtor
6 may seek confirmation under Section 1129(b) of the Code.

7
8 **B. Confirmation Standards.**

9
10 For the Plan to be confirmed and binding on all creditors and shareholders, the Court
11 must determine that the following requirements under Sections 1129(a)(1) through (12) of the
12 Bankruptcy Code has been satisfied:

- 13 1. The Plan complies with the provisions of the Code;
- 14 2. The Plan proponent (the “Debtor”) has complied with the provisions of the
15 Code;
- 16 3. The Plan has been proposed in good faith and not by any means forbidden by
17 law;
- 18 4. Any payment made or to be made by the Debtor for services or costs in connection with the
19 Bankruptcy Case has been or will be subject to approval by the Court as reasonable;
- 20 5. The Debtor has disclosed the identity of any individual to serve after Confirmation as an
21 officer or director;
- 22 6. Any rate change provided for the Plan has been or subject to approval by the regulatory
23 commission with jurisdiction over such rates, if any;
- 24 7. The holder of each claim or interest in each class of impaired claims or interest has accepted
25 the Plan or will receive under the Plan not less than the holder would receive if Debtor’s estate
26 were liquidated under Chapter 7 of the Code;

- 1 8. Each class of claims or interest has accepted or is not impaired by the Plan;
- 2 9. Holders of allowed claims entitled to administrative priority under the Code will receive Cash
3 in the full amount of their claims on the Effective Date, unless the holder thereof agrees to a
4 different treatment;
- 5 10. At least one impaired class of claims is accepting the Plan;
- 6 11. Confirmation is not likely to be followed by liquidation or further reorganization of the
7 Debtor unless such liquidation or reorganization of Debtor's property is proposed
8 in the Plan;
- 9 12. All fees payable to the U.S. Trustee under 11 U.S.C. §1930 have been paid or
10 the Plan provides for the payment of such fees;
- 11 13. The Plan provides after its Effective Date for the continuation of all retiree
12 benefits, as and when required by 11 U.S.C. §1129(a)(13); and
- 13 14. The principal purpose of the Plan is not avoidance of taxes or the avoidance of
14 the security laws of the United States.

15
16 **C. Modification.**

17 Under the Code and the Bankruptcy Rules, the Debtor may, subject to the Code and
18 Bankruptcy Rules and Bankruptcy Court approval, modify the Plan after the Plan has been
19 submitted for acceptance or rejection. In addition, the Plan may be modified after Confirmation
20 and at any time until the Plan has been substantially consummated by the Debtor or any creditor.
21 The manner in which the Plan may be modified is set forth in Section 1127 of the Code and
22 Bankruptcy Rule 3019. In general, the Court may approve a modification of the Plan without a
23 re-solicitation, so long as (a) the Plan, as modified, continues to comply with the applicable
24 provisions of the Bankruptcy Code, and (b) modification does not adversely change the
25 treatment of creditors.

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1 **XIV. CONCLUSION.**

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3 **A. Effect of Confirmation.**

4 If the Plan is confirmed, its terms and conditions will be binding on all creditors and the Debtor.
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6 **B. Recommendation.**

7 This Disclosure Statement has been presented for the purpose of enabling you to make an
8 informed judgment to accept or reject the Plan. You are urged to read the Plan in full and consult
9 with counsel if you have questions. The Debtor believes that acceptance of the Plan is in the best
10 interest of all creditors, and will provide the best recovery in this Bankruptcy Case.
11

12 Dated: April 29, 2011

LAX ROYAL AIRPORT CENTER, LP

13 /s/ Robert Chang

14 By: _____
15 Robert Chang

16 Dated: April 29, 2011

Action Legal Team

17 By: /s/ Michael N. Sofris
18 Michael N. Sofris
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