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**COUNSEL FOR THE DEBTOR**

**IN THE UNITED STATES BANKRUPTCY COURT  
FOR THE NORTHERN DISTRICT OF TEXAS  
DALLAS DIVISION**

<b>In re:</b>	§	
	§	<b>CASE NO. 10-30475-HDH-11</b>
<b>MALUHIA DEVELOPMENT GROUP,</b>	§	
<b>LLC,</b>	§	<b>CHAPTER 11</b>
	§	
<b>Debtor.</b>	§	

**DISCLOSURE STATEMENT**

**TO: Creditors and Equity Owners of Maluhia Development Group, LLC (“MDG” or “Debtor”)**

Contained in the packet of documents that has been sent to you by MDG is the Disclosure Statement (the “Disclosure Statement”), the Plan of Reorganization (the “Plan”), the Ballot for Voting on the Plan of Reorganization (the “Ballot”) and the Order Approving Disclosure Statement and Fixing Time for Filing Acceptance or Rejection of Plan, Combined with Notice Thereof. Please read all of these materials carefully. Please note that in order for your vote to be counted, you must 1) include your name and address, 2) fill in, date, and sign the enclosed Ballot and 3) return it to the attorney for Debtor by the date and time specified on the Ballot.

## **ARTICLE I - INTRODUCTORY STATEMENT**

MDG has filed contemporaneous hereto with the United States Bankruptcy Court for the Northern District of Texas, Dallas Division (the "Bankruptcy Court") its Plan in the above-captioned case (the "Bankruptcy Case"). Pursuant to the terms of the United States Bankruptcy Code, 11 U.S.C. § 101, *et seq.* (the "Bankruptcy Code") this Disclosure Statement has been approved by the Bankruptcy Court. Such approval is required by statute and will not constitute a judgment by the Bankruptcy Court as to the desirability of the Plan or as to the value or suitability of any consideration offered thereby.

Any terms not defined herein shall have the meaning set forth in the Plan.

### **A. DISCLAIMERS**

ONLY THOSE REPRESENTATIONS SET FORTH IN THIS DISCLOSURE STATEMENT ARE AUTHORIZED BY DEBTOR. ANY REPRESENTATIONS OR INDUCEMENTS MADE TO SECURE YOUR ACCEPTANCE OR REJECTION OF THE PLAN OTHER THAN AS SET FORTH IN THIS DISCLOSURE STATEMENT SHOULD NOT BE RELIED UPON BY YOU IN ARRIVING AT YOUR DECISION.

THE STATEMENTS CONTAINED HEREIN ARE MADE AS OF THE DATE OF THIS DISCLOSURE STATEMENT UNLESS ANOTHER DATE IS SPECIFIED. THE DELIVERY OF THIS DISCLOSURE STATEMENT SHALL NOT UNDER ANY CIRCUMSTANCES CREATE AN IMPLICATION THAT THERE HAS BEEN NO CHANGE IN THE FACTS SET FORTH HEREIN SINCE THE DATE HEREOF. DEBTOR IS UNABLE TO GUARANTEE THAT THE INFORMATION CONTAINED IN THE PLAN AND THIS DISCLOSURE STATEMENT IS ENTIRELY WITHOUT ERROR, BUT ALL REASONABLE EFFORTS HAVE BEEN MADE TO ENSURE THAT ALL REPRESENTATIONS ARE AS ACCURATE AS POSSIBLE.

THE SOURCE OF INFORMATION CONTAINED IN THIS DISCLOSURE STATEMENT IS THE DEBTOR OR ITS AGENTS AND EMPLOYEES AND HAS NOT BEEN SUBJECT TO AN AUDIT UNLESS OTHERWISE SPECIFICALLY NOTED. THE STATEMENTS MADE HEREIN LIKEWISE HAVE NOT BEEN VERIFIED BY DEBTOR'S COUNSEL, ALTHOUGH AN ATTEMPT HAS BEEN MADE TO BE CONSERVATIVE AND REALISTIC. NEITHER DEBTOR NOR ITS COUNSEL REPRESENT OR WARRANT THE ACCURACY OF DISCUSSIONS CONTAINED HEREIN REGARDING EVENTS.

AS STATED PREVIOUSLY, YOU ARE URGED TO REVIEW THE PLAN AND THIS DISCLOSURE STATEMENT IN THEIR ENTIRETY PRIOR TO VOTING TO ACCEPT OR REJECT THE PLAN TO ENSURE A COMPLETE UNDERSTANDING OF THE TRANSACTIONS CONTEMPLATED UNDER THE PLAN AND HOW THOSE TRANSACTIONS WILL AFFECT YOUR CLAIM AGAINST, OR INTEREST IN THE DEBTOR.

IF ANY IMPAIRED CLASS VOTES TO ACCEPT THE PLAN, BUT NOT ALL CLASSES ACCEPT THE PLAN, DEBTOR WILL SEEK CONFIRMATION UNDER THE CRAM DOWN PROVISION OF § 1129(B) OF THE BANKRUPTCY CODE AND HEREBY GIVES NOTICE OF INTENT TO INVOKE THE CRAM DOWN PROVISIONS OF § 1129(B) IN THAT EVENT.

## **B. BRIEF EXPLANATION OF CHAPTER 11**

Chapter 11 is the principal reorganization chapter of the Bankruptcy Code. Upon the commencement of a Chapter 11 case, § 362 of the Bankruptcy Code provides for an automatic stay of all attempts to collect from a debtor any claims which arose prior to the bankruptcy filing or otherwise to interfere with a debtor's property or business.

Under Chapter 11, a debtor attempts to reorganize its business for the benefit of the debtor, its creditors, and equity security holders in the formulation of a plan of reorganization. For the first 120 days after the filing of a Chapter 11 bankruptcy petition, the debtor is the only party who may file a plan of reorganization in the bankruptcy case, which is generally referred to as "exclusivity." Once exclusivity ends, any party in interest may file a plan of reorganization. The legal requirements for court approval, called "confirmation," of a plan are discussed on Pages 4-5 of this Disclosure Statement.

## **C. THIS DISCLOSURE STATEMENT**

Why You Have Received This Disclosure Statement. You have received this Disclosure Statement because Debtor has proposed a Plan with the Bankruptcy Court in order to satisfy its debts and provide for a reorganization of Debtor's business. The Bankruptcy Court held a hearing and approved this Disclosure Statement on \_\_\_\_\_. A copy of the Plan is enclosed with the materials that you have received. This Disclosure Statement, as required by 11 U.S.C. § 1125, is being provided to all known Creditors<sup>1</sup> and other parties-in-interest whose claims are impaired in connection with the solicitation and acceptance of the Plan proposed by Debtor.

Purpose of this Disclosure Statement. The purpose of this Disclosure Statement is to provide such information as will enable a hypothetical, reasonable investor typical of the holders of Claims against Debtor to make an informed judgment in exercising its right either to accept or reject the Plan.

Purpose of the Plan. The purpose of Debtor's Plan is to provide a mechanism for the reorganization of Debtor's assets and for the payment of Debtor's Creditors' Claims. The Plan was developed by Debtor. Debtor believes that the Plan is more attractive than other alternatives, such as conversion to Chapter 7 liquidation or dismissal of the Chapter 11 Case. EACH CREDITOR IS URGED TO READ THE PLAN PRIOR TO VOTING.

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<sup>1</sup> Terms used in this Disclosure Statement are defined in Article II of the Plan, and the terms should be read together with those definitions.

Bankruptcy Court Approval of this Disclosure Statement. After a hearing on notice, the Bankruptcy Court approved this Disclosure Statement as containing information of a kind in sufficient detail, adequate to enable a hypothetical, reasonable investor typical of the Classes being solicited to make an informed judgment about the Plan.

Sources of Information. The information contained in this Disclosure Statement has been submitted by Debtor unless specifically stated to be from other sources. Certain of the materials contained in this Disclosure Statement are taken directly from other, readily accessible instruments or are digests of other instruments. While Debtor has made every effort to retain the meaning of such other instruments or the portions transposed, Debtor urges that any reliance on the contents of such other instrument should depend on a thorough review of the instruments themselves.

Only Authorized Disclosure. No representations concerning the Plan are authorized by Debtor or the Bankruptcy Court other than as set forth in this Disclosure Statement. Any representations or inducements made by any person to secure your vote which are other than herein contained should not be relied upon, and such representations or inducements should be reported to counsel for Debtor, who shall deliver such information to the Bankruptcy Court.

Voting on the Plan. **YOUR ACCEPTANCE OF THE PLAN IS IMPORTANT.** In order to vote on the Plan, a Creditor or Interest holder must have filed a proof of Claim or Interest on or before the Bar Date, unless scheduled by Debtor as not disputed, liquidated or contingent. Any Creditor scheduled as not disputed, liquidated and not contingent is, to the extent scheduled, deemed to have filed a Claim and, absent objection, such Claim is deemed allowed. A Creditor or Interest holder may vote to accept or reject the Plan by filling out and mailing to counsel for Debtor the Ballot which has been provided in this package of information.

In order for the Plan to be accepted by a class of Creditors, more than one half in number and at least two-thirds in amount of such class of Claims must vote to accept the Plan. Only those Claim holders that actually vote are considered in the calculations. In order for the Plan to be accepted by interest holders, at least two-thirds in amount of interests must vote to accept the plan. Again, only voting interest holders are considered in the calculation. You are, therefore, urged to fill in, date, sign and promptly mail and/or fax the enclosed Ballot, which has been furnished to you, to counsel for Debtor as follows:

**Rakhee Patel**  
**Pronske & Patel, P.C.**  
**2200 Ross Avenue, Suite 5350**  
**Dallas, TX 75201**  
**FAX 214.658.6509**  
**email: [smeiners@pronskepatel.com](mailto:smeiners@pronskepatel.com)**

**Please be sure to complete properly the form and identify legibly the name of the claimant or interest holder.**

The Bankruptcy Court has fixed \_\_\_\_\_ as the last date by which Ballots must be served on counsel for Debtor. Except to the extent allowed by the Bankruptcy Court, Ballots that are received after such time will not be counted. Ballots of holders of impaired Claims received pursuant to this solicitation and which are signed but are not expressly voted for acceptance or rejection of the Plan will be not counted. A Ballot accepting the Plan may not be revoked, except by a Final Order of the Bankruptcy Court.

## **ARTICLE II – BANKRUPTCY SUMMARY**

### **A. HISTORY OF THE DEBTOR**

Debtor is a Hawaii limited liability company formed in March 2010 for the purpose of managing the construction of a 14-unit, detached, condominium development called Maluhia at Wailea and located in Maui, Hawaii. Peter R. Morris, a chapter 11 debtor in possession before this Court, is the majority, controlling owner of the Debtor and I2H Management Company, Inc., is its and manager.

### **B. EVENTS LEADING UP BANKRUPTCY**

#### **Huang Litigation**

On or about February 29, 2004, Debtor and Jen-Hsun Huang and Lori Huang (the “Huang”) executed a Development Management Agreement (“DMA”) for the construction of a home to be located on the homesite commonly referred to as Lot 10 in the Maluhia at Wailea project (“House 10”).

On or about August 29, 2007, Debtor filed a Demand for Arbitration with Dispute Prevention and Resolution, LLC in Honolulu, Hawaii, seeking payment of the unpaid contract amounts owed by the Huangs under the DMA, plus lost profits, liquidated damages, delay damages, attorneys’ fees, interest and costs, among others (“Huang Arbitration”). The Debtor seeks damages in the amount of \$5,955,026. The Huangs have asserted a number of counterclaims seeking damages in the approximate amount of \$10,428,017. The Debtor maintains that the Huangs’ claims are wholly without merit. To date, the parties have undergone eleven (11) days of arbitration proceedings.

On January 29, 2010, following the Petition Date, the Huang Arbitration was stayed pending further order of the Bankruptcy Court or agreement by the parties.

#### **Maui Builders Litigation**

On or about October 18, 2004, Debtor contracted with Maui Builders, Inc. (“Maui Builders”) to provide general construction services for the construction of House 10.

On May 1, 2008, based on information obtained from discovery in the Huang Arbitration, Debtor filed a complaint in the Circuit Court for the Second Circuit, State of Hawaii, against Maui Builders and its principal, John Bews (“Maui Builders Complaint”). In the Maui Builders

Complaint, Debtor claims tortious interference with contractual relations, defamation and seeks damages in excess of \$1,170,000, plus attorney's fees and costs, interest and punitive damages.

On September 27, 2010, the parties executed a Tolling Agreement and the Maui Builders Complaint was dismissed without prejudice to refiling by stipulation shortly thereafter.

#### Puritan Finance Corporation

On November 1, 2004, Debtor borrowed \$1,250,000 from Puritan Finance Corporation ("Puritan") pursuant to a Revolving Note and secured by a Security Agreement, Assignment of Contract and Collateral Assignment of Second Mortgage, Security Agreement and Financing Statement ("Puritan Loan").

The Security Agreement gives Puritan a "collateral assignment of and security interest in all of Debtor's right, title and interest in and to that certain Development Management Agreement dated as of February \_\_, 2004 (such agreement, as amended or restated from time to time, the 'Contract') between Debtor and JEN-HSUN HUANG and LORI HUANG, husband and wife (collectively, the 'Account Debtor'), including, without limitation, any and all payments due and to become due from Account Debtor under the Contract of every kind and description, and all cash and non-cash proceeds of the foregoing. The Contract, all payments due and to become due thereunder, and all cash and non-cash proceeds of the foregoing shall be referred to collectively hereinafter as the 'Collateral'."

The Puritan Loan was modified on May 1, 2006, May 1, 2007, May 1, 2008, and May 15, 2009 and the principal balance was increased to \$1,289,418.15

#### Petition Date

On January 21, 2010 (the "Petition Date"), Debtor filed its Voluntary Petition for protection under Chapter 11 of the Bankruptcy Code in order to use the tools and procedures provided in bankruptcy to reorganize its business.

#### **C. ASSETS AND LIABILITIES AT THE TIME OF THE FILING**

Attached hereto as **Exhibit A** is a Summary of Debtor's Schedules reflecting Debtor's estimation of its assets and liabilities as of January 21, 2010. Complete copies of Debtor's Schedules are available upon written request submitted to legal counsel for the Debtor via either facsimile at (214) 658-6509 or via email at [smeiners@pronskepatel.com](mailto:smeiners@pronskepatel.com).

#### **D. SIGNIFICANT EVENTS IN CHAPTER 11**

Initial § 341 Meeting of Creditors. On March 1, 2010, the initial meeting of creditors was held and concluded pursuant to 11 U.S.C. § 341.

Employment of Legal Counsel. On June 18, 2010, the Court entered its order approving Debtor's application to employ the law firm of Pronske & Patel, P.C. as counsel for Debtor after

a hearing conducted on the application on May 27, 2010.

Post-Petition Operations of Debtor. Each of the Debtor's Monthly Operating Reports reflecting post-petition operations through May 31 2010, are attached hereto as **Exhibit B** and incorporated by reference herein.

Dispute Regarding Personal Property. On April 11, 2012, Maui Self Storage, LLC ("Maui Self Storage") filed its Application for Administrative Expenses pursuant to 11 U.S.C. §503 [Document No. 90] and Motion for Relief from Stay pursuant to 11 U.S.C. §362(a) [Document No. 92] regarding a collection of furniture, fixtures and artwork procured by Debtor as part of the construction of the House 10 ("House 10 FF&E").

On May 27, 2012, the Court entered an Order granting Maui Self Storage's Application for Administrative Expenses allowing "a Chapter 11 Administrative Expense Claim pursuant to 11 U. S. C. §503(a) in the amount of \$88,958.79 for use and occupation of seven (7) storage units located at 115 Lipoa Street, Kihei, Hawaii, from February 1, 2010 through April 30, 2012 [Document No. 108].

On June 15, 2012, the Court entered an Order granting Maui Self Storage's Motion for Relief from effective July 31, 2012. The Court also ordered that

- Maui Self Storage be paid the sum of \$8,676.23 for the use and occupancy of seven (7) storage units from April 11, 2012 through June 29, 2012 on or before June 29, 2012 and if payment in the amount of \$8,676.23 is not received by Maui Self Storage on or before June 29, 2012, Maui Self Storage is granted relief from the Automatic Stay effective June 30, 2012 without further order of the Court;
- Maui Self Storage be paid the sum of \$3,294.77 for the use and occupancy of seven (7) storage units from July 1, 2012 through July 31, 2012 on or before July 2, 2012 and if payment in the amount of \$3,294.77 is not received by Maui Self Storage on or before July 2, 2012, Maui Self Storage is granted relief from the Automatic Stay effective July 3, 2012 without further order of the Court;
- Debtor shall file its Disclosure Statement on or before July 6, 2012 and failing to do so this case shall be converted to Chapter 7;
- Debtor shall file its Plan of Reorganization or Liquidation on or before August 6, 2012 and failing to do so this case shall be converted to Chapter 7;
- Debtor shall obtain confirmation of its Plan or before September 6, 2012 and failing to do so this case shall be converted to Chapter 7.

**ARTICLE III - SUMMARY OF THE PLAN**

**A. OVERVIEW OF THE PLAN**

THE FOLLOWING DISCUSSION IS A GENERAL OVERVIEW OF THE PLAN ONLY. IT IS NOT INTENDED TO MODIFY THE TERMS OF THE PLAN IN ANY WAY. THE PLAN IS ENCLOSED WITH THIS DISCLOSURE STATEMENT. CREDITORS ARE URGED TO READ THE PLAN IN ITS ENTIRETY IN DECIDING WHETHER TO VOTE FOR OR AGAINST THE PLAN.

The Plan provides for a reorganization of all liabilities owed by Debtor, as described herein.

**B. CLASSIFICATION AND TREATMENT OF CLAIMS AND INTERESTS**

Debtor reserves all rights to object to any and all claims, Liens, and Interests filed or asserted against Debtor or Debtor's Property or property interests notwithstanding any discussion or treatment herein or in the Plan. Debtor estimates that the aggregate allowed claims against Debtor's estate will be as follows:

<b><u>Class</u></b>	<b><u>Claims</u></b>	<b><u>Number</u></b>	<b><u>Estimated Allowed Amount</u></b>
1	Administrative Claims (other than ordinary course)	1	\$88,958.78
2	Priority Tax Claims	0	\$0
3	Secured Claim of Maui Self Storage	1	\$13,918.50
4	Secured Claim of Puritan	1	\$1,522,538.02
5	General Unsecured Claims	28	\$827,736.61
6	Equity Interests	2	Unknown

The Plan classifies and treats various classes of Creditors of Debtor's Estate. The following is a summary of classification and treatment of Creditors' Claims under the Plan:

For the purpose of satisfaction of all Claims against and Interests in Debtor, the Claims and Equity Interests are divided into the following classes:

**CLASS 1: ADMINISTRATIVE CLAIMS**

Class 1 Administrative Claims consist of any claim for payment of any cost or expense of administration of the Bankruptcy Case entitled to priority in accordance with §§ 503(b) and 507(a)(1) of the Bankruptcy Code, including, without limitation, any actual and necessary expenses of preserving Debtor's Estate and operating its business from and after the Petition Date to and including the Confirmation Date and all allowances of compensation and

reimbursement approved by the Bankruptcy Court in accordance with the Bankruptcy Code and any fees or charges assessed against Debtor's Estate under the Bankruptcy Code. Except to the extent that the Holder of an Administrative Claim may otherwise agree in writing, Administrative Claims that are Allowed Claims prior to the Effective Date of the Plan shall be paid in full from the proceeds of the House 10 FF&E. Administrative Claims that become Allowed Claims after the Effective Date of the Plan shall be paid in full within five (5) years of the Effective Date from the proceeds of the sale of the House 10 FF&E and/or the proceeds from the Huang Arbitration and/or the Maui Builders Litigation. For purposes of payment of Administrative Claims, any administrative claimant desiring to be paid under the Plan must file an application for allowance of Administrative Claim on or before thirty (30) days after the entry of an Order confirming the Plan or such Claimant shall be barred from asserting an Administrative Claim.

The following chart lists Debtor's estimated administrative expenses and proposed treatment under the Plan:

<b>Type</b>	<b>Estimated Allowed Amount</b>	<b>Proposed Treatment</b>
Expenses arising in the ordinary course of business after the Petition Date	\$0	Paid in full on the Effective Date or according to terms of obligation, if later
Professional Fees of Counsel for the Debtor (subject to Court approval)	\$6,303.69 Estimated through May 31, 2012, not including \$10,622.50 previously approved on an interim basis	Paid on full on the Effective Date or according to separate written agreement
Office of the United States Trustee Fees	\$0	Paid in full on the Effective Date

**CLASS 2: PRIORITY TAX CLAIMS**

Class 2 Priority Tax Claims consist of any claim that is entitled to priority in payment under § 507(a)(8) of the Bankruptcy Code. Priority Tax Claims shall be paid by the Reorganized Debtor, up to the Allowed amount of such Claim, plus interest at the rate of 4.5% per annum accrued thereon on a quarterly basis on October 1, January 1, April 1 and July 1 of each year over a period not exceeding six (5) years after the date of assessment of the Claims, as provided in § 1129(a)(9)(C) of the Bankruptcy Code, commencing after the first full quarter following the Effective Date.

**CLASS 3: SECURED CLAIM OF MAUI SELF STORAGE, LLC**

The Class 3 Claim of Maui Self Storage shall be paid by the Reorganized Debtor, up to the Allowed amount of such Claim, plus interest at the rate of 4.5% per annum accrued thereon within five (5) years of the Effective Date from the proceeds from the sale of House 10 FF&E and/or the proceeds of the Huang Arbitration and/or the Maui Builders Litigation, after payment of the Class 1 and Class 2 Claims.

CLASS 4: SECURED CLAIM OF PURITAN FINANCE CORPORATION

The Class 4 Claim of Puritan shall be treated as a fully Secured Claim in an amount to be determined by the Bankruptcy Court pursuant to 11 U.S.C. § 506(b) at the Confirmation Hearing, or as otherwise agreed to prior to such hearing by the Debtor and Puritan. The Class 4 Claim of Puritan shall be treated as follows: The existing loan documents between the Debtor and Puritan shall be assumed fully by the Reorganized Debtor with the following exceptions: a) the maturity date of the loan shall be five (5) years from the Effective Date; b) interest shall accrue at the rate of six percent (17%) per annum and paid on the maturity date from the proceeds from the sale of House 10 FF&E and/or the proceeds of the Huang Arbitration and/or the Maui Builders Litigation, after payment of the Class 1, Class 2 and Class 3 Claims. The Claim, plus any accrued but unpaid interest on such Claim, shall be due and payable in full on the maturity date.

(i) Payment of Lender Accrued Fees and Costs. Puritan's reasonably accrued fees and costs, including attorney's fees shall be added to the balance of the Revolving Note and paid on the maturity date; provided, however, that Puritan's attorney fees shall be subject to the fee approval process under § 330 of the Bankruptcy Code in the event Puritan and Debtor cannot agree to the amount of such fees.

(ii) Defaults. All defaults and events of default existing as of the Petition Date and as of the Effective Date shall be waived, and any defaults and events of default resulting from the confirmation of the Plan, the occurrence of the Effective Date, and/or the actions and transactions contemplated by the Plan, including the payments to be made under the Plan and changes in ownership and control effectuated by the Plan, shall also be waived.

(iii) Default Interest/Penalties/Charges. Except as provided herein, no default interest, late charges, or other penalties or monetary compensation or fees shall be required to be paid to Puritan in connection with the Reorganized Debtor's assumption of Puritan's loan, the treatment provided under this Plan for Allowed Class 4 Claims, or the reorganization of Debtor and/or any change of control and ownership effectuated by the Plan.

(iv) Collateral. Puritan shall retain all of its liens and security interests in Debtor's assets granted to it pursuant to the Puritan loan documents, with the same validity, enforceability, attachment, perfection, priority, and legal rights that existed on the Petition Date.

(v) Waivers/Consents. Puritan shall be deemed to consent to and approve the transactions and changes contemplated by the Plan, including, without limitation, the payments to the holders of Allowed Claims and Allowed Administrative Claims pursuant to the Plan.

The Class 4 Claim of Puritan is impaired under the Plan.

CLASS 5: GENERAL UNSECURED CLAIMS

Class 5 Allowed General Unsecured Claims consist of all other Allowed Claims not placed in any other Class, specifically Class 5. Creditors holding Allowed Class 5 General Unsecured Claims shall receive 100% of their Allowed Claims from the proceeds from the sale of House 10 FF&E and/or the proceeds of the Huang Arbitration and/or the Maui Builders Litigation, after payment of the Class 1, Class 2, Class 3 and Class 4 Claims.

Class 5 General Unsecured Claims are impaired under the Plan.

CLASS 5: EQUITY INTERESTS

The Class 5 Equity Owner Peter Morris shall retain his interest in Debtor, in exchange for providing for funding of the Plan and his commitment to use his skill, effort, and experience to prosecute the Huang Arbitration and the Maui Builders Litigation. All other Class 5 Equity Interests shall be deemed to be terminated and canceled upon the Effective Date.

Class 5 Equity Interests are impaired under the Plan.

**C. IMPLEMENTATION OF THE PLAN**

Debtor shall operate its business following the Effective Date and shall dedicate sufficient revenues to fund all obligations contained herein.

Prosecution of the Huang Arbitration and Maui Builders Litigation. The Reorganized Debtor shall prosecute the Huang Arbitration and Maui Builders Litigation from proceeds to be received by PRM Realty Group, LLC and Peter R. Morris as exit financing for their plans of reorganization.

Reorganized Debtor. Upon the Confirmation Date of the Plan, the Reorganized Debtor shall be the survivor of Debtor and shall be vested with the property of Debtor's Estate. Upon the Confirmation Date of the Plan, Debtor shall be managed by PRM Realty Group, LLC, a chapter 11 debtor in possession before this Court.

Cramdown. If any impaired class votes to accept the Plan, but not all classes accept the Plan, the Debtor will seek confirmation under the cram down provision of § 1129(b) of the Bankruptcy Code.

**D. DISPOSITION OF CAUSES OF ACTION**

Debtor has investigated and is unaware of any avoidance causes of action and therefore does not identify any herein or anticipate bringing any such causes of action post-Confirmation. All Claims and Causes of Action owned by the Debtor, Causes of Action that could have been brought by a Creditor on behalf of Debtor, and all Causes of Action created by the Bankruptcy Code not expressly waived or released under the Plan may be pursued by the Reorganized Debtor for the benefit of the Creditors, as provided herein, including, but not limited to Causes of

Action arising in and under Chapter 5 of the Bankruptcy Code. As discussed previously, Debtor intends to prosecute the currently pending arbitration and associated proceedings against Jen-Hsun Huang and Lori Huang as well as the litigation against Maui Builders and John Bews that is the subject of a Tolling Agreement.

The Reorganized Debtor shall have the exclusive right to settle or compromise all such Causes of Action subject to Bankruptcy Court approval. Bankruptcy Court approval is not required to settle or compromise any collection activities relating to any and all accounts receivable.

#### **E. EXECUTORY CONTRACTS AND LEASES**

Rejection of Executory Contracts. Debtor will be conclusively deemed to have rejected all executory contracts and/or unexpired leases not expressly assumed herein upon the Effective Date of the Plan. A proof of claim arising from the rejection of an executory contract or unexpired lease under this Section must be filed no later than thirty (30) days after the date of the Order confirming the Plan.

#### **F. RESOLUTION OF DISPUTED CLAIMS**

Only Allowed Claims will be paid by Debtor according to the Plan. An Allowed Claim is any claim against Debtor for which a proof of claim was timely and properly filed or is deemed to have been timely and properly filed because Debtor has or hereafter do list such claim on its schedules as liquidated and not disputed or contingent.

Within sixty (60) days from the Effective Date, unless such date is extended by Order of the Bankruptcy Court after notice and hearing, the Reorganized Debtor may file with the Bankruptcy Court objections to Claims and Interests.

If the Reorganized Debtor files an objection to a proof of claim ("Undetermined Claim"), then an Allowed Claim shall be the amount of the claim allowed by order of the Bankruptcy Court. Thereafter, only upon entry of an order determining the amount of the Allowed Claim and to the extent that an Undetermined Claim becomes an Allowed Claim, such Allowed Claim shall be entitled to such distributions as provided under the Plan. Such distributions shall be made in the manner provided for by the Plan and the terms of any Final Order of the Bankruptcy Court with respect to such Allowed Claim. In the event that Debtor makes any distributions to creditors at any time prior to a determination of allowance of an Undetermined Claim, payments on such Undetermined Claim will commence and be due and payable on the first quarterly payment date following the date of the order allowing such claim, and shall be re-amortized to equal an amount sufficient to fully pay the Allowed Claim.

Unless and until an Undetermined Claim becomes an Allowed Claim, no creditor holding such a claim shall have any claim against the distribution held by Debtor and/or Reorganized Debtor with respect to such claim.

#### **ARTICLE IV - CONDITIONS PRECEDENT TO CONFIRMATION OF THE PLAN**

Conditions to Confirmation. Confirmation of the Plan cannot occur unless each of the following conditions precedent has occurred:

1. The Bankruptcy Court shall have approved the Disclosure Statement; and
2. The Confirmation Order is entered by the Bankruptcy Court.

#### **ARTICLE V - MODIFICATION OF THE PLAN**

Section 1127(a) of the Bankruptcy Code permits Debtor to amend or modify the Plan at any time prior to confirmation. Post-confirmation modifications of the Plan are allowed under § 1127(b) of the Bankruptcy Code, if the proposed modification is offered before the Plan has been substantially consummated or pursuant to an article of the confirmed Plan authorizing the intended modification. Debtor reserves the right to amend or modify the Plan at any time at which such modification is permitted under the Bankruptcy Code.

In the event Debtor proposes to modify the Plan prior to the Confirmation Order, further disclosures pertaining to the proposed modification will be required only if the Bankruptcy Court finds, after a hearing, that the pre-confirmation modifications adversely change the treatment of any creditor or equity security interest holder who has previously accepted the Plan. If the proposed pre-confirmation modification is material and adverse, or if a post-confirmation modification is sought, Debtor intends to supplement this Disclosure Statement as necessary to describe the changes made in the Plan and the reasons for any proposed modifications.

#### **ARTICLE VI - CONSIDERATIONS IN VOTING ON THE PLAN**

##### **A. ALTERNATIVES TO THE PLAN**

Although the Disclosure Statement is intended to provide information to assist in the formation of a judgment as to whether to vote for or against the Plan and although creditors are not being offered through that vote an opportunity to express an opinion concerning alternatives to the Plan, a brief discussion of alternatives to the Plan may be useful. Debtor believes the proposed Plan to be in the best interests of creditors and Debtor, and do not favor any alternative to the proposed Plan. In arriving at that conclusion, Debtor assesses the alternatives as follows:

Chapter 7 Liquidation Analysis. Debtor could convert its case to Chapter 7 and allow a bankruptcy trustee to be appointed to liquidate and distribute assets. In the event that the Bankruptcy Court does not confirm a plan of reorganization in this case, conversion to Chapter 7 will ultimately result. Debtor believes this alternative to be unsatisfactory for the reasons stated in Article VI. B. below, and that Unsecured Creditors would receive no money or significantly less money than proposed in the Plan in the event that Debtor's assets are liquidated under Chapter 7 of the Bankruptcy Code.

Dismissal of the Case. Dismissal of the Bankruptcy Case would most likely lead to the same unsatisfactory result as Chapter 7 liquidation.

Debtor has attempted to set forth alternatives to the proposed Plan. However, Debtor must caution creditors that a vote must be for or against the Plan. The vote on the Plan does not include a vote on alternatives to the Plan. There is no assurance what turn the proceedings will take if the Plan fails to be accepted. If you believe one of the alternatives referred to is preferable to the Plan and you wish to urge it upon the Bankruptcy Court, you should consult counsel.

## **B. LIQUIDATION ANALYSIS**

The likely result of a conversion of the Bankruptcy Case to Chapter 7 liquidation would be extremely uncertain. It is unlikely that a Chapter 7 trustee would advance the significant funds necessary to prosecute the Huang Arbitration or the Maui Builders Litigation, the Debtor's only remaining assets. It is possible, but uncertain, that Puritan or another creditor would fund the costs of litigation. In the event the Huang Arbitration and the Maui Builders Litigation are not prosecuted, there would be no amounts available for the repayment of any other creditors. When compared to foreclosure of the property and liquidation of Debtor, the Plan is clearly superior to a Chapter 7 Liquidation Scenario. Attached to this Disclosure Statement as **Exhibit C** is a document showing the projected recovery to Debtor's creditors in a liquidation scenario.

## **C. SPECIFIC CONSIDERATIONS IN VOTING**

All of the foregoing give rise in the instant case to the following implications and risks concerning the Plan.

While the Plan provides for certain payments at confirmation, such payments will only apply to Allowed Claims including Claims arising from defaults. Under the Bankruptcy Code, a Claim may not be paid until it is allowed. A Claim will be allowed in the absence of objection.

A Claim, including a Claim arising from default, which has been objected to will be heard by the Bankruptcy Court at a regular, evidentiary hearing and allowed in full or in part or disallowed. While the Debtor bears the principal responsibility for Claim objections, any interested party, including creditors, may file claim objections. Accordingly, payment on some Claims, including Claims arising from defaults, may be delayed until objections to such Claims are ultimately settled.

## **D. RISK FACTORS**

The Plan is subject to a number of material risks, including those enumerated below. Prior to deciding how to vote on the Plan, each Holder of an impaired Claim and holder of an Interest should carefully consider all of the information contained in this Disclosure Statement, especially the factors mentioned in the following paragraphs.

Certain Risks of Non-Confirmation. There can be no assurance that the requisite acceptances to confirm the Plan will be received. Even if the requisite acceptances are received, there can be no assurance that the Court will confirm the Plan. Section 1129 of the Bankruptcy

Code sets forth the requirements for confirmation and requires, among other things, a finding by the Court that the confirmation of the Plan is not likely to be followed by a liquidation or a need for further financial reorganization and that the value of the distributions to non-accepting Holders of Claims and Interests will not be less than the value of the distributions that such Holders would receive if Debtor was liquidated under Chapter 7 of the Bankruptcy Code. Although Debtor believes that these requirements will be satisfied, there can be no assurance that the Court will concur.

If the Plan were not to be confirmed and consummated, it is unclear whether a reorganization comparable to the reorganization contemplated hereby could be implemented in a timely manner, and, if so, what distributions Holders of Claims and Interests would ultimately receive with respect to their Claims and Interests. Moreover, if an alternative reorganization could not be implemented in a timely manner, it is possible that Debtor would have to liquidate their assets under Chapter 7, in which case it is likely that the holders of Claims and Interests would receive substantially less than they would have received pursuant to the Plan.

Potential Effects of a Prolonged Chapter 11 Proceeding. Prolonged Chapter 11 proceedings could have adverse effects on Debtor, including the continuing loss of asset values and the continuing accrual of Administrative Expenses relating to the continuation of bankruptcy proceedings.

Forward-Looking Information May Prove Inaccurate. This Disclosure Statement contains various forward-looking statements and information that are based on management's beliefs as well as assumptions made by and information currently available to management. When used in this document, the words believe, expect, anticipate, and similar expressions are intended to identify forward-looking statements. Such statements are subject to certain risks, uncertainties, and assumptions, including those identified above. Should any one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those anticipated, estimated, or projected.

Market and Economic Factors. This Disclosure Statement assumes that the market and current economic conditions will remain relatively unchanged or will marginally improve within the next five years. Any significant increase in litigation expenses or any changes in applicable law could have a negative (or positive) effect on Debtor and Debtor's current and future operations and collections and could affect the figures and projections presented in this Disclosure Statement.

#### **E. DISCLOSURES REQUIRED BY THE BANKRUPTCY CODE**

The Bankruptcy Code requires disclosure of certain facts:

- 1) There are no payments made or promises of the kind specified in § 1129(a)(4) of the Bankruptcy Code which have not been disclosed to the Bankruptcy Court.
- 2) Counsel to Debtor has advised Debtor that Debtor will require legal services in connection with this case after confirmation which will require reimbursement. Debtor may

continue to use Pronske & Patel, P.C. as counsel after confirmation.

**F. DESCRIPTION OF MANAGEMENT AND CONTROL PERSONS OF DEBTOR**

PRM Realty Group, LLC will manage the Debtor upon the Confirmation Date of the Plan. PRM Realty Group, LLC, is an Illinois limited liability company formed on April 19, 2000. PRM is a privately held real estate firm specializing in financing, developing, and managing world-class real estate assets and ventures both in the United States and internationally. PRM Realty's expertise includes all fields vital to successful real estate transactions, including finance, theoretical and practical appraisals and valuations, acquisitions, urban and development planning, marketing, architecture and design, engineering, construction, leasing and property management, strategic planning, risk analysis, law, litigation and capital market movements.

**G. CERTAIN UNITED STATES FEDERAL INCOME TAX CONSEQUENCES OF THE PLAN**

CREDITORS AND EQUITY INTEREST HOLDERS CONCERNED WITH HOW THE PLAN MAY AFFECT THEIR TAX LIABILITY SHOULD CONSULT WITH THEIR OWN ACCOUNTANTS, ATTORNEYS, AND/OR ADVISORS.

**ARTICLE VII - PROVISIONS GOVERNING DISTRIBUTION**

Claims. Claims are defined in the Plan. The Plan is intended to deal with all Claims against Debtor's Estate of whatever character, whether or not contingent or liquidated, and whether or not allowed by the Bankruptcy Court pursuant to § 502(a) of the Bankruptcy Code; however, only those Claims Allowed pursuant to § 502(a) of the Bankruptcy Code will be entitled to and receive payment under the Plan.

Compliance with Plan. Any Person, including a Creditor, which has not, within the time provided in the Plan, performed any act required in the Plan or in the Confirmation Order, shall not be entitled to participate in any distribution under the Plan.

Provisions Covering Distributions. All payments required by the Plan shall be made by the Reorganized Debtor, its successor, assign or designee. Payments to be made in cash pursuant to the Plan shall be made by check drawn on a domestic bank or by wire transfer from a domestic bank, such mode of payment to be at the sole discretion of Reorganized Debtor.

Distributions and deliveries to holders of an Allowed Claim shall be made to the holder at the address set forth on the latest-filed proof of claim filed by such holder or at the address listed on Debtor's Schedules of such holder if no proof of claim is filed. If any holder's distribution is returned as undeliverable, Reorganized Debtor shall hold the distribution until notified of such holder's new address or the first anniversary of the Effective Date occurs, at which time the undelivered distribution shall revert and become the property of the Reorganized Debtor and the Claim shall be discharged and forever barred.

Checks issued in respect of Allowed Claims shall be null and void if not cashed within ninety (90) days of the date of issuance thereof. Requests for re-issuance shall be made directly to Reorganized Debtor at the Notice Address(es) listed herein in Article XI by the Holder of the Allowed Claim with respect to which such check originally was issued. Any Claim in respect of such voided check shall be made on or before the later of the first anniversary of the Effective Date or ninety (90) days after the date of issuance of such check. After such date, all Claims in respect of such checks shall be discharged and forever barred.

### **ARTICLE VIII - RETENTION OF JURISDICTION**

Purposes. Notwithstanding entry of the Confirmation Order, the Bankruptcy Court shall retain jurisdiction in the following matters after confirmation of the Plan:

- i. to determine any and all objections to the allowance of Claims or Interests, both before and after the Confirmation Date, including any objections to the classification of any claim or interest;
- ii. to determine any and all applications for fees and expenses authorized to be paid or reimbursed in accordance with § 503(b) of the Bankruptcy Code or the Plan;
- iii. to determine any and all pending applications for the assumption or rejection of executory contracts or for the rejection or assumption and assignment, as the case may be, of unexpired leases to which Debtor is a party or with respect to which it may be liable; to hear and determine any actions to void or terminate unexpired contracts or leases; and to hear and determine and, if need be, to liquidate any and all claims arising therefrom;
- iv. to hear and determine any and all actions initiated by Debtor and/or Reorganized Debtor, whether by motion, complaint or otherwise;
- v. to determine any and all applications, motions, adversary proceedings and contested matters pending before the Bankruptcy Court on the Confirmation Date or filed or instituted after the Confirmation Date;
- vi. to modify the Plan, the Disclosure Statement or any document created in connection with the Plan or remedy any defect or omission or reconcile any inconsistency in any Order of the Bankruptcy Court, the Plan, the Disclosure Statement or any document created in connection with the Plan, in such manner as may be necessary to carry out the purposes and effects of the Plan to the extent authorized by the Bankruptcy Code;

- vii. to ensure that the distribution is accomplished in accordance with the provisions of the Plan;
- viii. to allow, disallow, determine, liquidate or estimate any claim or interest and to enter or enforce any order requiring the filing of any such claim or interest before a particular date;
- ix. to enter such orders as may be necessary to interpret, enforce, administer, consummate, implement and effectuate the operative provisions of the Plan, the Confirmation Order and all documents and agreements provided for herein or therein or executed pursuant hereto or thereto including, without limitation, entering appropriate orders to protect Debtor from creditor actions;
- x. to hear any other matter not inconsistent with Chapter 11 of the Bankruptcy Code and/or applicable bankruptcy law;
- xi. to enter and implement such orders as may be appropriate in the event the Confirmation Order is for any reason stayed, reversed, revoked or vacated;
- xii. to determine such other matters as may arise in connection with the Plan, this Disclosure Statement or the Confirmation Order;
- xiii. to enforce all orders, judgments, injunctions, and rulings entered in connection with the Chapter 11 Case;
- xiv. to determine all issues relating to the Claims of any taxing authorities, state or federal;
- xv. to determine any avoidance actions brought pursuant to the provisions of the Bankruptcy Code; and
- xvi. to enter a Final Order and final decree closing the Chapter 11 Case.

Exclusive Jurisdiction. The Bankruptcy Court shall have exclusive jurisdiction to resolve all controversies, suits and disputes that may arise in connection with the interpretation, enforcement, consummation, implementation or administration of the Plan, the Confirmation Order or the Disclosure Statement and all entities shall be enjoined from commencing any legal or equitable action or proceeding with respect to such matters in any other court or administrative or regulatory body.

Abstention. If the Bankruptcy Court abstains from exercising jurisdiction or is otherwise without jurisdiction over any matter arising out of the Chapter 11 Case, including the matters set forth in this Article VII, Article IX of the Plan shall have no effect upon and shall not control,

prohibit or limit the exercise of jurisdiction by any other court having competent jurisdiction with respect to such matter.

Closing of Case. The Reorganized Debtor shall file an application for final decree and to close the Bankruptcy Case and promptly set a hearing no later than twelve (12) months after the Effective Date, or show cause to the Bankruptcy Court within such period why the Bankruptcy Court should not enter a final decree. Any adversary proceeding that is a Cause of Action shall survive the entry of a final decree and closing of the Chapter 11 Case, and jurisdiction shall be retained over such proceeding.

## **ARTICLE IX - MISCELLANEOUS PROVISIONS**

Certain Rights Unaffected. Except as otherwise provided in the Plan, any rights or obligations which Debtor's Creditors may have amongst them as to their respective claims or the relative priority or subordination thereof are unaffected.

Binding Effect. As of the Effective Date, the Plan shall be binding upon and inure to the benefit of Debtor, the Reorganized Debtor, the holders of the Claims, and their respective successors and assigns.

Discharge of Claims. Except as otherwise provided in the Plan or in the Confirmation Order, the rights afforded in the Plan and the payments and distributions to be made hereunder shall discharge all existing debts and Claims of any kind, nature, or description whatsoever against the Debtor or any of its assets or property to the extent permitted by § 1141 of the Bankruptcy Code. Upon the Effective Date, all existing Claims against the Debtor shall be deemed to be discharged and all holders of Claims shall be precluded from asserting against the Debtor's assets or property, any other or further Claim based upon any act or omission, transaction or other activity of any kind or nature that occurred prior to the Effective Date, whether or not such holder filed a proof of claim.

Discharge of Debtor. Any consideration distributed under the Plan shall be in exchange for and in complete satisfaction, discharge, and release of all Claims of any nature whatsoever against the Debtor or any of its assets or property. Upon the Effective Date, Debtor shall be deemed discharged and released to the extent permitted by § 1141 of the Bankruptcy Code from any and all Claims, including but not limited to demands and liabilities that arose before the Effective Date, whether or not (a) a proof of claim based upon such debt is filed or deemed filed under § 501 of the Bankruptcy Code; (b) a claim based upon such debt is allowed under § 502 of the Bankruptcy Code; or (c) the holder of the claim based upon such debt has accepted the Plan. The Confirmation Order shall be a judicial determination of discharge of all liabilities of Debtor. Pursuant to § 524 of the Bankruptcy Code, such discharge shall void any judgment against Debtor at any time obtained to the extent it relates to a claim discharged, and operates as an injunction against the prosecution of any action against Debtor or the property of Debtor, to the extent it relates to a claim discharged.

Exculpations. Debtor's Professional Persons shall not have or incur any liability to any Holder of a Claim for any act, event, or omission in connection with, or arising out of, the

confirmation of the Plan, the consummation of the Plan, or the administration of the Plan or the property to be distributed under the Plan, except for willful misconduct or gross negligence.

Injunctive Relief. Except as provided herein, on and after the Confirmation Date, all Creditors and persons acting in concert with them are enjoined and restrained pursuant to § 105 of the Bankruptcy Code from taking any action to correct or enforce any Claim directly or indirectly against Debtor's assets or property in any manner inconsistent with the terms contained in the Plan. The discharge granted by this Plan voids any judgment at any time obtained with respect to any debt discharged.

Notices. All notices, requests or demands in connection with the Plan shall be in writing and shall be deemed to have been given when received or, if mailed, five (5) days after the date of mailing, provided such writing shall have been sent by registered or certified mail, postage prepaid, return receipt requested, and sent to the following parties, addressed to:

**Debtor:**

Maluhia Development Group, LLC  
118 N. Clinton St., Ste LL366  
Chicago, Illinois 60661

**Debtor's Counsel:**

Rakhee Patel  
Pronske & Patel, P.C.  
2200 Ross Avenue, Suite 5350  
Dallas, TX 75201  
Tel: 214.658.6500  
Fax: 214.658.6509

All notices and request to Holders of Claims and Interests shall be sent to them at the address listed on the last-filed proof of claim and if no proof of claim is filed, at the address listed in Debtor's Schedules.

**ARTICLE X - CONCLUSION**

The Debtor respectfully submits that the Plan satisfies all of the statutory requirements of Chapter 11 of the Bankruptcy Code, including the "best interest of creditors" and "feasibility" requirements, and that it should be confirmed even in the event a class of claims does not vote for acceptance of the Plan. Debtor believes that the Plan "is fair and equitable" and "does not discriminate unfairly." Additionally, Debtor believes that the Plan has been proposed in good faith.

Debtor respectfully requests that this Disclosure Statement be approved for circulation to the creditors of Debtor and that it be permitted to solicit votes for acceptance of the Plan.

Dated: July 6, 2012.

**Maluhia Development Group, LLC**

By: I2H Management Company, Inc.,  
its Manager

By: Peter R. Morris  
Peter R. Morris, its Authorized  
Signatory

OF COUNSEL:

By: /s/ Melanie P. Goolsby  
Rakhee V. Patel  
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**COUNSEL FOR THE DEBTOR**