

1 CYNTHIA L. JOHNSON, (Bar No. 014492)
2 Law Office of Cynthia L. Johnson
3 11640 East Caron Street
4 Scottsdale, AZ 85259
5 Phone: (480) 381-7929
6 Fax: (480) 614-9414

7 Email: cynthia@jsk-law.com

8 *Attorney for Secured Creditor*

9 **IN THE UNITED STATES BANKRUPTCY COURT**
10 **FOR THE DISTRICT OF ARIZONA**

11 **In Re:**

12 **OSBORN RESTAURANT HOLDINGS, LLC,**

13 **Debtor.**

14 **Chapter 11**

15 **Case No. 2:17-bk-00612**

16 **NOTICE OF NON-CONSENT TO**
17 **DEBTORS' USE OF CASH**
18 **COLLATERAL**

19 Capital Fund I, LLC and Capital Fund II, LLC, both Arizona Limited Liability
20 Companies (collectively "Capital Fund"), by and through undersigned counsel,
21 provides notice of its claim against and of its non-consent to the use of its cash
22 collateral by Debtor, Osborn Restaurant Holdings, LLC ("Debtor"). Capital Fund
23 requests that the Court enter an Order conditioning, restricting or prohibiting the
24 Debtor's use of Capital Fund's collateral and moves this Court for an Order of requiring
25 Debtor to place all moneys in a restricted account.
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MEMORANDUM OF POINTS AND AUTHORITIES

1. This matter is a core proceeding under 28 U.S.C. §157(b) (2) (M) and may be a contested matter pursuant to Rule 9014 of the Federal Rules of Bankruptcy Procedure.

2. Debtor filed a petition for Chapter 11 bankruptcy protection on January 23, 2017 (the "Petition Date").

3. On February 5, 2015, Debtor borrowed \$1,300,000.00 from Capital Fund. Debtor's member, Ronald Pacioni, executed and delivered to Capital Fund a Promissory Note (the "1.3M Note") reflecting the agreement to pay back the loan. A copy of the Note is attached as Exhibit A and is incorporated by this reference.

4. As security for the Note, Debtor granted Capital Fund I a Deed of Trust which was recorded in the Official Records of Maricopa County, Arizona on February 6, 2015 at Recorder Nos. 2015-079981. A Copy of the Deed of Trust is attached as Exhibit B and incorporated by this reference. The Deed of Trust encumbers real property located at 1655 and 1725 E. Osborn Rd., Phoenix, AZ 85016.

On February 12, 2015 the Note and Deed of Trust were endorsed and assigned to Capital Fund II, LLC, respectively, which was recorded in the Official Records of Maricopa County, Arizona on at Recorder No. 2015-0091138. A copy of the Assignment is attached as Exhibit C and incorporated by this reference.

5. As additional security for the Note, Debtor agreed to an Assignment of Rents with Security Agreement and Financing Statement ("Assignment of Rents" and

1 “Fixture Filing”) that was made a part of, and incorporated, into the Deed of Trust as
2 recorded. *See*, Exhibit B.

3 6. Debtor owns and operates an income producing restaurant Coup Des
4 Tartes and therefore, Capital Fund believes there is income from collection of
5 prepetition accounts receivable, prepetition rents (if so structured), funds in its
6 accounts, and any and all other income and monies in its possession or to which it is
7 entitled or may become entitled which is cash collateral of Capital Fund within the
8 meaning of 11 U.S.C. §363(a) (“Cash Collateral”) and thus, are subject to the
9 restrictions of 11 U.S.C. §363(c) .

12 7. Debtor has failed to pay its monthly mortgage payment since August 1,
13 2016. As of January 10, 2017 the total amount due to bring the loan current was
14 \$227,423.52.

16 8. On October 10, 2016, Capital Fund, through its successor trustee,
17 recorded a Notice of Trustee Sale on its First Lien with the Maricopa County
18 Recorder’s Office at Recorder Nos. 2016-0757446, giving notice that the Real property
19 would be sold pursuant to the power of sale under the Maricopa Deed of Trust at
20 public auction (the “Trustee’s Sale”) on January 17, 2017 at 11:00 a.m. and was
21 continued thereafter as the parties were attempting to work through the default.
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23 9. The Debtor’s bankruptcy filing on January 23, 2017 stayed the Trustee
24 Sale which is being continued from time to time while this case is pending.

26 10. The Deed of Trust with Assignment of Rents and Fixture Filing clauses
27 grant and perfect liens and secured interests in favor of Capital Fund and encumber
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1 the Real Property and all present and future leases, rents, prepetition accounts
2 receivable, funds in all accounts and any and all other income and moneys in Debtor's
3 possession or arising therefrom.

4 11. Debtor is the present title record holder of the Real Property.

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6 12. As of the Petition Date, Debtor owes to Capital Fund an amount totaling
7 over \$227,423.52, exclusive of interest, late charges, trustee fees, attorneys' fees and
8 costs that continue to accrue, pursuant to the Loan Documents.

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10 13. Capital Fund has not consented nor does it consent, to Debtor's use of the
11 cash collateral. Based on information and belief provided by Debtor previously, the
12 business revenue covers the loan payments owed to Capital Fund by the Debtor.

13 14. Despite Capital Fund's interest in the cash collateral, Debtor has not
14 attempted to contact nor made any arrangement with Capital Fund to account for the
15 cash collateral or to sufficiently segregate the cash collateral which is the property of
16 Capital Fund.

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18 15. Pursuant to 11 U.S.C. §546(b) and otherwise, Capital Fund hereby asserts
19 and notices Debtor of Capital Fund's perfected security interest in the cash collateral.
20 Any use thereof without an Order of this Court or Capital Fund's consent has been and
21 will be in violation of 11 U.S.C. §363(c)(2); and any such unauthorized use shall result
22 in direct liability to the responsible party. Capital Fund reserves its rights and
23 remedies in the event of such a violation.
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*Mr. James F. Kahn
Bankruptcy Legal Center
301 E. Bethany Home Rd.
Suite C-195
Phoenix, AZ 85012
james.kahn@azbar.org

By: /s/Cynthia Johnson