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

11 In re:
12 RCC SOUTH, LLC,
13
14 Debtor.

Chapter 11 Proceedings
Case No. 2:10-bk-23475-SSC
**DISCLOSURE STATEMENT
RELATING TO PLAN OF
REORGANIZATION**

15
16
17 **I. INTRODUCTION**

18 Debtor RCC South, L.L.C., debtor and debtor-in-possession in the above captioned
19 bankruptcy case (“RCC South” or “Debtor”), hereby submits to the Court and creditors of the
20 Debtor’s estate the following “Disclosure Statement Relating to Plan of Reorganization” (the
21 “Disclosure Statement”). This Disclosure Statement is submitted pursuant to 11 U.S.C. § 1125.

22 11 U.S.C. § 1125(b) prohibits the solicitation of acceptances or rejections of a Plan of
23 Reorganization unless such Plan is accompanied by a copy of the Disclosure Statement which has
24 been approved by the Bankruptcy Court.

25 The purpose of this Disclosure Statement is to provide creditors and interested parties in this
26 bankruptcy proceeding with such information as may reasonably be deemed sufficient to allow
27 creditors and interested parties to make an informed decision regarding the Debtor’s “Amended
28 Plan of Reorganization Dated” (the “Plan”).

1 Unless otherwise noted, those portions of the Plan and this Disclosure Statement providing
2 factual information concerning the Debtor, its assets and liabilities, have been prepared from
3 information submitted by the Debtor and its retained professionals.

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

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

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

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

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

1 Even if each Class of creditors does not accept the Plan, the Plan can be confirmed under
2 §1129(b) of the Bankruptcy Code, so long as one impaired Class of creditors accepts the Plan. This
3 is referred to as the “cram down” provision of the Bankruptcy Code. The failure of each Class to
4 accept the Plan could very well result in a conversion of this case to Chapter 7 or dismissal of the
5 Chapter 11.

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

8 **II. DEFINITIONS**

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

11 **III. THE DEBTOR, BACKGROUND, AND EVENTS PRECIPITATING THE 12 CHAPTER 11**

13 **A. Background**

14 The Debtor is a Delaware limited liability company that was formed in February 2006. The
15 Debtor is authorized to do business in Arizona. The Debtor’s sole member is Raintree Corporate
16 Center Holdings, LLC (“RCCH”). The Debtor’s manager is Cavan Management Services, LLC
17 (“CMS”). CMS is also RCCH’s sole manager.

18 The Debtor owns and operates two Class “A” office buildings and the related corporate
19 campuses known as Phase III and Phase IV of the Raintree Corporate Center located north of the
20 northeast corner of Loop 101 (Pima Freeway) and Raintree Drive, at 8800 East Raintree Drive and
21 8888 East Raintree Drive, respectively, in Scottsdale, Arizona (the “Property”). Phase III of the
22 Property consists of approximately 168,067 square feet and Phase IV of the Property consists of
23 approximately 176,823 square feet. The Property is managed by CMS, a well-respected,
24 established manager of commercial real estate throughout the Valley.

25 Phase III of the Property is currently occupied by 23 tenants in approximately 122,974
26 square feet of the building. Thus, Phase III of the Property is approximately 73% occupied.¹ Phase

27
28 ¹ These figures do not include a new lease currently being negotiated with Navistar, Inc. for
approximately 4,760 square feet of space in Phase III of the Property.

1 IV of the Property is currently occupied by 4 tenants in approximately 95,502 square feet of the
2 building. Thus, Phase IV of the Property is approximately 54% occupied.

3 iStar FM Loans, LLC (“iStar”) has asserted a claim against the Debtor, secured by the
4 Property, in the principal amount of approximately \$76,708,398, which amount includes nearly \$7
5 million in alleged “late charges.” The Debtor disputes that any such late charges are owed to iStar.

6 The Debtor has obtained an appraisal of the Property indicating a value of the Property, as
7 of April 2010, of approximately \$47.2 million. The Debtor believes the value of the Property to be
8 between \$38 million and \$47.2 million as of the Petition Date.

9 Prior to the Debtor’s bankruptcy filing, iStar sought to collect rents from the Debtor’s
10 tenants. The Debtor filed its voluntary bankruptcy petition in order to stay any such enforcement
11 action.

12 **B. Operations**

13 The Debtor has operated, and intends to continue operating, the Property as a Class “A”
14 office building. The Debtor continues to receive income from tenants to pay for the ordinary and
15 necessary operating expenses of the Property, as well as any necessary repairs, from such income.
16 In fact, the Debtor and iStar have entered into a stipulation for the Debtor’s use of iStar’s asserted
17 cash collateral pursuant to a budget, which has been approved the Court (the “Budget”). The
18 Budget reflects the current anticipated revenues and expenses relating to the Property. The Debtor
19 continues to market and lease vacant space in the Property and to renew existing leases when
20 appropriate.

21 In order to provide for efficient and productive operations, and to keep the Debtor’s
22 business competitive, the Debtor intends to retain the same management team and structure that
23 existed pre-petition. The issues confronted by the Debtor that led to the bankruptcy filing were the
24 product of market changes, not the Debtor’s management or its structure. Thus, a change in
25 management structure is not in the best interests of the Debtor or its creditors because the existing
26 structure is appropriate to meet the needs of the Debtor.

27 By maintaining its current management and operational structure, the Debtor will avoid the
28 transactional costs associated with significant and unnecessary change. In addition, the institutional

1 knowledge of the management team will be preserved.

2 Attached hereto as Exhibit “A” are the Debtor’s projections of cash flow reflecting the
3 Debtor’s sources and uses of cash (including (a) the Debtor’s anticipated revenues, and the infusion
4 of cash from the New Value contribution necessary to fund the Reserve Account, as discussed
5 below, and (b) the Debtor’s anticipated operating, tenant improvement, leasing commission and
6 capital costs and expenses) for the approximately eight (8) year period following confirmation of
7 the Plan. Exhibit “A” consists of two sets of projections—one reflecting an Allowed Secured
8 Claim in favor of iStar in the amount of \$38 million and the other reflecting an Allowed Secured
9 Claim in favor of iStar in the amount of \$47.2 million. The final projections by the Debtor will
10 depend upon the Court’s ultimate determination of the allowed amount of iStar’s secured claim.

11 **C. Preferences and Fraudulent Conveyances**

12 To the extent that a preference or fraudulent conveyance occurred before the bankruptcy
13 filing, such transfer may be recoverable by the bankruptcy estate for the benefit of the estate under
14 §§ 544, 547, or 548 of the Bankruptcy Code. To date, no complaints have been filed under any of
15 these theories, and the Debtor is not currently aware of any causes of action for the recovery of
16 preferences or fraudulent conveyances. To the extent any such claims exist, they will be analyzed
17 for their potential value to the estate. These potential claims are specifically preserved for the
18 benefit of the bankruptcy estate. Any recovery that is obtained will be obtained for the benefit of
19 the estate.

20 **IV. SIGNIFICANT EVENTS DURING THE CHAPTER 11 CASE**

21 **A. Administrative Proceedings**

22 The Debtor filed its Petition for Relief under Chapter 11 on July 27, 2010, and a first
23 meeting of creditors was held on August 31, 2010.

24 **B. Retention of Professionals**

25 The Debtor retained Polsinelli Shughart, P.C. (“PS”) to act as its original bankruptcy
26 counsel. The Court signed an Order approving the retention of PS on September 17, 2010.

27 The Debtor retained Highland Financial Consulting, LLC (“CRO”) to act as its Chief
28 Restructuring Officer. The Court approved the retention of the CRO on November 9, 2010.

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

2 The United States Trustee’s Office filed a statement stating that, despite its efforts to contact
3 unsecured creditors, it was unable to appoint a Committee of Unsecured Creditors.

4 **D. Motion and Stipulation and Use Cash Collateral**

5 The Debtor filed a motion to use the revenues generated by the Property, which iStar asserts
6 constitute its cash collateral, on July 29, 2010. Although iStar initially filed a limited objection to
7 the use of its asserted cash collateral, the Debtor and iStar resolved iStar’s objections and entered
8 into a stipulated order for the use of cash collateral which the Court entered on October 1, 2010.
9 The Debtor and iStar have further agreed to the Debtor’s use of asserted cash collateral through
10 January 31, 2011.

11 **E. Operating Reports**

12 The Debtor’s monthly operating reports are current and copies can be obtained from the
13 Court’s electronic docket

14 **V. DESCRIPTION OF ASSETS AND LIABILITIES OF THE DEBTORS**

15 **A. Assets**

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

18 **1. Real Property** – Between approximately \$38 million and \$47.2 million.

19 **2. Bank Accounts** – Approximately \$274,202 as of the Petition Date. The
20 Debtor has accumulated, and continues to accumulate, net cash from operations of the Property
21 since the Petition Date. The current amount of cash held by the Debtor is reflected in the most
22 recent Monthly Operating Report filed by the Debtor.

23 **3. Other Accounts and Deposits** – The Debtor owns certain security deposits,
24 in the amount of \$25,000 each, held by two of the Debtor’s pre-petition professionals, Larsen
25 Allen, LLP and Fennemore Craig, LLP.

26 **4. Accounts Receivable** – The Debtor owns certain accounts receivable from
27 tenants for unpaid rent in the amount of approximately \$52,452.46.

1 **5. Personal Property** – The Debtor owns certain personal property, consisting
2 primarily of office equipment, model unit furniture, fixtures and computer software with an
3 estimated book value of approximately \$1,786,894.41. iStar asserts that this personal property
4 constitutes part of its collateral. The Debtor asserts that the fair market value of the personal
5 property is, in context, negligible but will be determined by the Court as part of the confirmation
6 hearing.

7 **B. Liabilities**

8 The following is an overview of the Debtor’s known liabilities.

9 **1. Priority Claims**

10 The Debtor is not aware of the existence of any pre-petition priority claims.

11 **2. Secured Claims**

12 a. The Debtor’s schedules list iStar as a secured creditor with a first
13 position lien on the Property in the amount of approximately \$68,507,872.31. In
14 the stipulated cash collateral order, iStar asserts that the amount owing on its
15 secured claim is approximately \$76,708,398.75 including late charges of nearly \$7
16 million, as of the Petition Date. The Debtor disputes iStar’s asserted late charges.

17 b. The Debtor’s schedules list the law firm of Fennemore Craig as a
18 secured creditor with a claim of approximately \$2,600 secured by a cash retainer
19 held by Fennemore Craig in the amount of \$25,000.

20 c. The Debtor’s schedules list the accounting firm of Larson Allen as a
21 secured creditor with a claim of approximately \$2,940.00 secured by a cash retainer
22 held by Larson Allen in the amount of \$25,000.

23 d. The Debtor’s schedules list Sonoran Pacific Resources, LLP as a
24 secured creditor with a claim of approximately \$7,200, secured by certain furniture
25 owned by the Debtor.

26 **3. Unsecured Claims**

27 According to the Debtor’s Schedules of Assets and Liabilities, the total amount of
28 unsecured claims, not including any deficiency claims of secured creditors, is \$605,204.28. This

1 amount includes tenant security deposits in the amount of approximately \$219,354.04 claims owing
2 to CMS in the total amount of \$4,837.37, and a claim for reimbursement of tenant improvement
3 costs, held by Laser Spine Institute in the amount of approximately \$357,300.

4 **C. Administrative Expenses**

5 The Debtor's administrative expenses consist of the fees and costs of attorneys and other
6 professionals necessary to the Debtor's operations, bankruptcy case, and plan of reorganization.
7 The fees and costs of these professionals will not be precisely known until the Bankruptcy Case is
8 completed. However, as set forth below, the Debtor's professionals anticipate that either (a) the
9 retainers they presently have will be sufficient to cover the services they have rendered, and will
10 render, in the Bankruptcy Case, or (b) for those professionals that do not have retainers and will be
11 paid by some other manner, their projected anticipated fees and costs for their services will be
12 commensurate with their historical fees and costs incurred by the Debtor.

13 The Debtor's bankruptcy counsel is PS. PS is currently in possession of a retainer in the
14 amount of \$100,000. PS anticipates its fees will be less than the amount of the retainer. However,
15 to the extent that PS's fees and costs exceed the amount of the retainer, PS's fees and costs will
16 constitute administrative claims against the Debtor's Estate.

17 **VI. PLAN SUMMARY**

18 The following statements concerning the Plan are merely a summary of the Plan and are not
19 complete. The statements are qualified entirely by express reference to the Plan. Creditors are
20 urged to consult with counsel or each other in order to understand the Plan fully. The Plan is
21 complete, inasmuch as it proposes a legally binding agreement by the debtor, and an intelligent
22 judgment cannot be made without reading it in full. With the exception of the Classes 1-A through
23 1-C (the "Priority Claims"), all the creditors of the Debtor are impaired under the terms of the Plan.
24 The Secured Creditors are impaired because they will be subjected to different treatment than they
25 had originally contracted for with the Debtor. The Unsecured Creditors will be impaired because
26 they will be subject to different treatment than they originally contracted for. Thus, the Debtor will
27 have numerous classes with the right to vote on its Plan of reorganization, as set forth herein.
28

1 **VII. CLASSIFICATION OF CLAIMS AND INTERESTS.**

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

3 1. Class 1-A consists of Allowed Priority Claims under 11 U.S.C. § 503 and
4 § 507(a)(2) (Administrative Claims).

5 2. Class 1-B consists of Allowed Priority Claims under 11 U.S.C. § 507(a)(3)
6 (Wage Claims).

7 3. Class 1-C consists of Allowed Priority Claims under 11 U.S.C. §507(a)(8)
8 (Tax Claims).

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

10 1. Class 2-A consists of the Allowed Secured Claim of iStar.

11 2. Class 2-B consists of the Allowed Secured Claim of Maricopa County for
12 real property taxes.

13 3. Class 2-C consists of the Allowed Secured Claim of Fennemore Craig.

14 4. Class 2-D consists of the Allowed Secured Claim of Larson Allen.

15 5. Class 2-E consists of the Allowed Secured Claim of Sonoran Pacific.

16 **C. Class 3: Allowed Claim of Laser Spine**

17 Class 3 consists of the Allowed Claim of Laser Spine relating to the Debtor's
18 obligation to reimburse Laser Spine for tenant improvements made to Laser Spine's leased
19 premises.

20 **D. Class 4: Tenant Security Deposits**

21 Class 4 consists of Allowed Claims by tenants for the return of tenant security deposits held
22 by the Debtor.

23 **E. Class 5: Unsecured Claims**

24 Class 5 consists of the Allowed Unsecured Claims of Creditors not otherwise
25 treated in the Plan.

26 **F. Class 6: Interest Holders**

27 Class 6 consists of all Allowed Interests of Interest Holders.
28

1 **VIII. IMPAIRMENT OF CLASSES.**

2 Classes 1-A, 1-B, and 1-C are unimpaired under the Plan. All other Classes are Impaired,
3 as that term is defined in 11 U.S.C. § 1124.

4 **IX. TREATMENT OF CLASSES.**

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

6 **1. Class 1-A: Administrative Claims**

7 This Class consists of Allowed Priority Claims under 11 U.S.C. §§ 503 and 507(a)(2) –
8 administrative priority claims. Unless Claimants holding Claims in this Class agree to an
9 alternative form of treatment, the Allowed Claims of Class 1-A shall be paid in full, in cash, on or
10 before the Effective Date or as the same are Allowed and ordered paid by the Court. Any Class 1-
11 A Claim not allowed as of the Effective Date shall be paid as soon thereafter as it is allowed by the
12 Court according to the terms of this Class. This Class is not impaired.

13 **2. Class 1-B: Wage Claims**

14 This Class consists of Allowed Priority Claims under 11 U.S.C. § 507(a)(4) – wage claims.
15 As provided in 11 U.S.C. § 1129(a)(9)(B), unless Claimants holding Claims in this Class agree to
16 an alternative form of treatment, the Allowed Priority Claims of Class 1-B shall be paid in full, in
17 cash, on or before the Effective Date. The Debtor does not believe that any claims exist under this
18 Class. Any Class 1-B Claim not allowed as of the Effective Date shall be paid as soon thereafter as
19 they are allowed by the Court according to the terms of this Class. This Class is not impaired.

20 **3. Class 1-C: Tax Claims**

21 This Class consists of Allowed Priority Claims under 11 U.S.C. § 507(a)(8) – tax Claims
22 which are not otherwise treated as secured claims herein. As provided in 11 U.S.C. §
23 1129(a)(9)(C), unless Claimants holding Claims in this Class agree to an alternative form of
24 treatment, the Allowed Priority Claims of Class 1-C shall be paid in full, in cash, on or before the
25 Effective Date, or, at the Debtor’s option, such Allowed Claims shall be paid, on account of such
26 Allowed Claim, deferred cash payments, over a period not exceeding six years after the date of
27 assessment of such Claim, of a value, as of the Effective Date of the Plan, equal to the allowed
28 amount of such Claim. Any Class 1-C Claims not allowed as of the Effective Date shall be paid as

1 soon thereafter as they are allowed by the Court according to the terms of this Class. This Class is
2 not impaired.

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

4 **1. Class 2-A – Allowed Secured Claims of iStar**

5 This Class consists of the Allowed Secured Claim of iStar. This Class is impaired.

6 Pursuant to § 506(a)(1) of the Bankruptcy Code, the amount of iStar’s Allowed Secured
7 Claim shall be limited to the value of its collateral, which the Debtor believes to be in the range of
8 between approximately \$38 million and \$47 million. The remainder of iStar’s Allowed Claim
9 shall be treated as a general unsecured claim in Class 5. The Debtor intends to pay iStar’s
10 Allowed Secured Claim in full, with interest at the Plan Rate, over a period of seven (7) years.

11 Specifically, the Debtor will execute and deliver to iStar a promissory note (the “New iStar
12 Note”) in the principal face amount of iStar’s Allowed Secured Claim. The New iStar Note will
13 mature and become fully due and payable on the 7th anniversary of the Effective Date (the “New
14 iStar Note Maturity Date”). During the term of the New iStar Note, the Debtor will make monthly
15 principal and interest payments to iStar based upon a 25 year amortization schedule with interest at
16 the Plan Rate. On the New iStar Note Maturity Date, all remaining amounts of principal and
17 interest due under the New iStar Note will be immediately due and payable, and will be paid by
18 the Debtor to iStar either through a sale of the Real Property or through refinancing of the Real
19 Property. The first payment of principal and interest will be made on the Effective Date, and each
20 monthly payment thereafter will be made on the first business day of each month during the term
21 of the New iStar Note.

22 iStar will retain its existing lien on the property that served as collateral for iStar’s Claim
23 pre-petition until the New iStar Note has been satisfied in full. At any time prior to the end of the
24 term, the Debtor may pay the balance of the New iStar Note without penalty.

25 The Debtor anticipates that, during the first approximately 36 months following the
26 Effective Date of the Plan, before the occupancy of the Real Property becomes stabilized, the Real
27 Property may not generate sufficient net cash flow, after paying operating expenses, to make the
28 full amount of monthly principal and interest payments payable under the New iStar Note (the

1 “Monthly Note Payments”). Accordingly, on the Effective Date of the Plan, and as discussed
2 below, RCCH or the Successful Bidder will deposit the New Value into an interest bearing reserve
3 account (the “Reserve Account”) which can be used to, among other things, pay any cash flow
4 deficiency between the monthly net cash flow generated by the Real Property and the Monthly
5 Note Payments during the term of the New iStar Note (a “Cash Flow Deficiency”), if any. To the
6 extent that the use of the funds in the Reserve Accounts will result in the amount of funds in the
7 Reserve Account being reduced to an amount below \$200,000, at any time during the term of the
8 New iStar Note, the Reorganized Debtor (from any retained excess cash flow) or RCCH, or the
9 Successful Bidder, if any, (from an additional contribution of capital) will replenish the Reserve
10 Account such that the Reserve Account shall always be maintained in the total amount of \$200,000
11 until the New iStar Note matures.

12 The failure to maintain the Reserve Account in the total amount of at least \$200,000 will
13 constitute a default under the New iStar Note and the lien in the collateral securing the New iStar
14 Note.

15 Immediately upon payment, in full, of the New iStar Note, iStar’s Allowed Secured Claim,
16 and its secured interest in the Real Property, will be deemed satisfied, extinguished, released and
17 discharged, in full.

18 **2. Class 2-B –Allowed Secured Claim of Maricopa County**

19 This Class consists of the Allowed Secured Claim of Maricopa County, Arizona
20 (“Maricopa County”), if any, that is secured by a tax lien on the Real Property. This Class is
21 impaired.

22 Commencing on the Effective Date, the Allowed Secured Claim of Maricopa County, if
23 any, will be paid in equal quarterly payments of principal and interest over a term of 1 year.
24 Interest will accrue and will be paid at the statutory rate plus 2%. The County will retain its
25 existing secured interest in the Real Property until this claim has been satisfied in full.

26 If funds generated from the normal operations of the Real Property are insufficient to pay
27 the secured real property tax claims as provided herein, the payments required herein to Maricopa
28 County will be made from the New Value contributed by RCCH or the Successful Bidder, if any.

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3. Class 2-C –Allowed Secured Claim of Fennemore Craig

This Class consists of the Allowed Secured Claim of Fennemore Craig in the amount of approximately \$2,600. This Class is impaired.

Although the retention agreement between Fennemore Craig and the Debtor does not provide for the payment of interest on Fennemore Craig’s claim, Fennemore Craig’s Allowed Secured Claim shall include interest at the Plan Rate from the date that the amount due and owing to Fennemore Craig first became 60 days past due until the Effective Date of the Plan. On the Effective Date of the Plan, Fennemore Craig will be entitled to apply its collateral (consisting of a cash retainer) to the principal amount of Fennemore Craig’s claim plus any such accrued interest. Regardless of the total amount of Fennemore Craig’s claim, Fennemore Craig’s application of its retainer to the principal amount of the claim and any accrued interest shall be deemed to be in full and final satisfaction of Fennemore Craig’s claims against the Debtor. To the extent that the amount of the retainer is greater than the amount of Fennemore Craig’s claim, including accrued interest, Fennemore Craig shall deliver any excess funds to the Debtor after application of the retainer to Fennemore Craig’s claim.

4. Class 2-D –Allowed Secured Claim of Larson Allen

This Class consists of the Allowed Secured Claim of Larson Allen in the amount of approximately \$2,940.00. This Class is impaired.

Although the retention agreement between Larson Allen and the Debtor provides for the payment of interest on Larson Allen’s claim at the rate of 1.5% per month, Larson Allen’s Allowed Secured Claim shall include interest at the Plan Rate from the date that the amount due and owing to Larson Allen first became 60 days past due until the Effective Date of the Plan. On the Effective Date of the Plan, Larson Allen will be entitled to apply its collateral (consisting of a cash retainer) to the principal amount of Larson Allen’s claim plus any such accrued interest. Regardless of the total amount of Larson Allen’s claim, Larson Allen’s application of its retainer to the principal amount of the claim and any accrued interest shall be deemed to be in full and final satisfaction of Larson Allen’s claims against the Debtor. To the extent that the amount of the retainer is greater than the amount of Larson Allen’s claim, including accrued interest, Larson

1 Allen shall deliver any excess funds to the Debtor after application of the retainer to Larson
2 Allen's claim.

3 **5. Class 2-E -Allowed Secured Claim of Sonoran Pacific**

4 This Class consists of the Allowed Secured Claim of Sonoran Pacific in the amount of
5 approximately \$7,200.00. This Class is impaired.

6 Upon information and belief, the value of the furniture that serves as collateral for Sonoran
7 Pacific's claim exceeds the amount of Sonoran Pacific's claim. Accordingly, Sonoran Pacific's
8 claim is Oversecured. The Debtor intends to pay Sonoran Pacific's Allowed Secured Claim in full,
9 with interest at the Plan Rate, over a period of twelve (12) months beginning on the Effective Date.
10 Specifically, the Debtor shall make monthly principal and interest payments of \$619.68 per month
11 to Sonoran Pacific for a period of twelve (12) months until Sonoran Pacific's Allowed Secured
12 Claim, plus interest, is paid in full. Sonoran Pacific shall retain its lien on the collateral that
13 secured its claim pre-petition.

14 Immediately upon payment, in full, of Sonoran Pacific's Allowed Secured Claim, Sonoran
15 Pacific's Allowed Secured Claim, and its secured interest in the furniture serving as its collateral,
16 will be deemed satisfied, extinguished, released and discharged, in full.

17 **C. Class 3: Allowed Claim of Laser Spine**

18 This Class consists of the Allowed Claim of Laser Spine for unreimbursed tenant
19 improvement costs and expenses owing by the Debtor to Laser Spine in the amount of
20 approximately \$357,300 ("Laser Spine's Reimbursement Claim"). This Class is impaired.

21 Laser Spine's Reimbursement Claim shall not accrue interest. Laser Spine's
22 Reimbursement Claim shall be satisfied and paid in full by Laser Spine setting off against the
23 monthly rent owing by Laser Spine to the Debtor pursuant to the following schedule until Laser
24 Spine's Reimbursement Claim is paid in full:

25	Months 1-3	\$34,063.96 per month
26	Month 4	\$41,546.95
27	Month 5	\$42,656.30
28	Months 6-9	\$43,385.65 per month

1 Month 10 \$21,875.35

2 Once Laser Spine's Reimbursement Claim is paid in full, Laser Spine will no longer receive
3 a rental credit on the rent due to the Reorganized Debtor.

4 **D. Class 4: Tenant Security Deposits**

5 This Class consists of all Allowed Unsecured Claims of tenants for pre-petition security
6 deposits held by the Debtor in the total aggregate amount of approximately \$219,354.04. This
7 Class is impaired.

8 The Reorganized Debtor shall retain its right and ability to determine whether and what
9 extent a tenant is entitled to the return of its security deposit pursuant to the terms of the lease
10 between the Debtor and the tenant and applicable state law. However, notwithstanding anything to
11 the contrary in the lease between the Debtor and its tenants or in applicable law, valid and
12 enforceable tenant security deposits will be paid to tenants within 90 days of the later of either (a)
13 the date that the Debtor determines the appropriate amount of the security deposit to be returned or
14 (b) the date the tenant vacates its premises. This 90 day delay is necessary in order to ensure that
15 the Debtor has sufficient funds on hand to return the security deposit to the tenant, either from the
16 cash flow of the Real Property or from an infusion of cash from one or more of the New Interest
17 Holders.

18 **E. Class 5: Unsecured Claims**

19 This Class consists of all Allowed Unsecured Claims of Creditors that are not specifically
20 treated elsewhere in the Plan (*e.g.*, this Class does not include the Allowed Claim of Laser Spine,
21 claims of tenants for security deposits, or any administrative or priority claims). iStar's unsecured
22 deficiency claim—*i.e.*, the difference between the amount of iStar's Allowed Claim and the value
23 of the Real Property—will be included in this Class. This Class is impaired.

24 Allowed Unsecured Claims will be treated as follows:

25 • If RCCH is the successful bidder at the auction discussed below, RCCH and/or any
26 other affiliates of the Debtor holding Unsecured Claims, including Cavan Management Services
27 (the manager of RCCH) ("CMS"), will waive their Unsecured Claims against the Debtor and the
28 Debtor's Estate, and will not participate in any distribution to Class 5 Claimants. However, if

1 RCCH is not the successful bidder at the auction, then RCCH and/or any other affiliates of the
2 Debtor holding Allowed Unsecured Claims against the Debtor, including CMS, shall participate in
3 the distributions to this Class.

- 4 • The Allowed Unsecured Claims in this Class will be treated as follows:

5 (i) First, Allowed Unsecured Claims will share, pro-rata, in a distribution of the
6 sum of \$500,000 in cash (the “Unsecured Distribution Amount”) paid by the Reorganized Debtor,
7 from the New Value contribution, on the 90th day following the Effective Date of the Plan.

8 (ii) Second, the Reorganized Debtor will issue to each holder of an Allowed
9 Unsecured Claim its pro rata portion of a \$3 million subordinated debenture payable to holders of
10 Allowed Unsecured Claims (the “Subordinated Debenture”). The Subordinated Debenture will not
11 accrue interest. The Subordinated Debenture will be secured by a second position lien in and to
12 the Real Property, subject only to real property taxes and the Allowed Secured Claim of iStar. The
13 Reorganized Debtor shall not be required to make periodic payments to the holders of the
14 Subordinated Debenture. However, the Subordinated Debenture will be fully due and payable on
15 the 7th anniversary of the Effective Date of the Plan or upon the sale or refinancing of the Real
16 Property.

17 • RCCH, or the Successful Bidder, if any, will contribute the Unsecured Distribution
18 Amount, as part of the New Value contribution, into an account created by the Reorganized Debtor
19 for the receipt of such funds (the “Unsecured Reserve Account”).

20 • Upon their receipt of (a) their respective pro rata portions of the Unsecured
21 Distribution Amount and (b) their pro rata distributions from the payment of the Subordinated
22 Debenture, all Allowed Unsecured Claims in this Class shall be deemed paid and discharged in
23 full.

24 **F. Class 6: Interest Holders**

25 Class 6 consists of all Allowed Interests of the Interest Holder in the Debtor. The Debtor’s
26 Interest Holder is RCCH. RCCH will purchase the equity interests in the Reorganized Debtor by
27 the contribution of cash to the Reorganized Debtor, on the Effective Date, in the amount of
28

1 \$5,500,000.00² (*i.e.*, the New Value). The New Value will be used to:

2 (a) pay the amount necessary to pay all Class 1 Allowed Priority Claims as set forth above;

3 (b) pay the amounts to Maricopa County as set forth above, to the extent that cash flow
4 from the Real Property is insufficient to pay the taxes;

5 (c) pay the Unsecured Distribution Amount of \$500,000; and

6 (d) fund the Reserve Account to pay, as necessary, among other things, (1) debt service
7 payments to iStar, to the extent that cash flow is insufficient to make debt service payments, (2)
8 tenant improvements, (3) broker's commissions, and (4) other necessary and appropriate capital
9 expenses of the Real Property to ensure that the value of the Real Property is maintained.

10 If the Court determines that, under the circumstances, the New Value to be contributed by
11 RCCH is insufficient, or that other parties-in-interest should be allowed to bid for the equity
12 interests in the Reorganized Debtor, then other interested parties may bid for the equity interests in
13 the Reorganized Debtor by meeting all of the terms and conditions identified below. Such bids
14 shall be made pursuant to the following auction procedures and terms:

15 a. The auction of the equity interests in the Reorganized Debtor will be held at the
16 time of the Confirmation Hearing in the courtroom, with the Court presiding over the bidding.

17 b. Any party wishing to bid on the equity interests of the Reorganized Debtor must
18 satisfy the following requirements to be a "Qualified Bidder":

19 i. The bidder must be a current Creditor or Interest Holder of the Debtor. This
20 requirement is necessary to avoid any potential registration or like requirements of any
21 applicable securities laws or regulations.

22 ii. The bidder must deposit \$1,000,000 in cash ("Deposit") with the Debtor's
23 counsel at least twenty-five days prior to the Confirmation Hearing. Any Deposits will be
24 returned to any unsuccessful bidder on the day following the Confirmation Hearing. The
25 Deposit, plus any additional amounts bid by the Successful Bidder at the auction for the
26 equity interests in the Reorganized Debtor, will be delivered to the Reorganized Debtor on
27

28 ² The amount of the New Value may be adjusted, as and if necessary, depending upon the ultimate determination of the amount of iStar's Allowed Secured Claim.

1 the Effective Date of the Plan.

2 iii. At least twenty-five days prior to the Confirmation Hearing, all bidders must
3 provide satisfactory evidence to the Debtor of their ability to make a cash payment to the
4 Debtor, on the Effective Date of the Plan, in the amount of no less than \$5,750,000. To the
5 extent that the Debtor contests the sufficiency of the evidence submitted regarding a
6 bidder's ability to pay such amount, the evidence will be presented to the Court at the
7 Confirmation Hearing, prior to bidding, and the Court will make a determination as to the
8 sufficiency of the evidence and whether the bidder should be deemed to be a Qualified
9 Bidder.

10 iv. At least twenty-five days prior to the Confirmation Hearing, all bidders must
11 provide satisfactory evidence to the Debtor of their ability to operate the Reorganized
12 Debtor in such a manner as to satisfy the requirements of this Plan, including payments to
13 administrative claimants, secured creditors and unsecured creditors, on the terms and
14 conditions set forth herein. To the extent that the Debtor contests the sufficiency of the
15 evidence submitted regarding a bidder's ability to make payments as required by the Plan,
16 the evidence will be presented to the Court at the Confirmation Hearing, prior to bidding,
17 and the Court will make a determination as to the sufficiency of the evidence and whether
18 the bidder should be deemed to be a Qualified Bidder.

19 v. At least twenty-five days prior to the Confirmation Hearing, all bidders must
20 provide satisfactory evidence to the Debtor that they are authorized to do business in the
21 State of Arizona, and have, or have the ability to obtain, any and all necessary permits
22 and/or licenses to operate the Real Property. To the extent that the Debtor contests the
23 sufficiency of such evidence, the evidence will be presented to the Court at the
24 Confirmation Hearing, prior to bidding, and the Court will make a determination as to the
25 sufficiency of the evidence and whether the bidder should be deemed to be a Qualified
26 Bidder.

27 c. All bids for the interests in the Reorganized Debtor shall be in increments of no less
28 than \$250,000.

1 d. In order for a Qualified Bidder's bid to be determined to be higher and better than
2 the New Value to be contributed by RCCH as set forth above, the Qualified Bidder's bid must:

3 i. Exceed, by at least \$250,000, RCCH's bid; and

4 ii. Provide that the Qualified Bidder will comply with and perform under the
5 terms of this Plan, including the payments to creditors (including tenant security deposits)
6 as provided herein.

7 e. RCCH shall have the right and ability to bid at the auction.

8 Competing bids will be assessed by the Court for their relative merits including, but not
9 limited to, the amount of the bid and the expertise of the would-be New Interest Holder to manage
10 and guide the Reorganized Debtor after the Effective Date and to satisfy the requirements of this
11 Plan, including its ability to make the payments to creditors required herein and to satisfy the
12 assumed obligations as required herein.

13 On the Effective Date, if RCCH is not the successful bidder at the auction, then the
14 Successful Bidder at the auction must deliver its cash bid to the Reorganized Debtor and, upon
15 such delivery, the Successful Bidder will be deemed to hold the equity interests in the Reorganized
16 Debtor, subject to all terms and conditions of this Plan, including the obligations to other creditors
17 as provided herein and the assumption of liabilities as provided herein.

18 **X. MEANS FOR EXECUTING THE PLAN.**

19 **A. Funding**

20 The Plan will be funded by operations of the Real Property and a capital infusion in the
21 amount of the New Value by RCCH or the Successful Bidder, if an auction as described above is
22 held. As a showing of good faith and commitment to the Plan, RCCH will place \$250,000 in
23 "escrow" in the trust account of the Debtor's bankruptcy counsel on or before the Confirmation
24 Date. These funds will become a part of the Estate and will fund the New Value contribution
25 obligations set forth herein at confirmation ***only in the event that*** RCCH is the successful bidder
26 for the equity interests in the Reorganized Debtor. Additionally, these funds will only be available
27 to, and become a part of, the Estate if a Confirmation Order confirming this Plan is entered and
28 becomes a Final Order.

1 **B. Liquidation of Estate Property**

2 The Debtor shall have the authority to retain such brokers, agents, counsel, or
3 representatives as it deems necessary to market, lease and/or sell assets of the Reorganized Debtor.

4 **C. Management**

5 The Plan will be implemented by the retention of the Debtor's existing management, CMS.
6 This implementation will also include the management and disbursement of the funds infused by
7 RCCH, or the Successful Bidder, if any, as set forth above and in accordance with the terms of this
8 Plan.

9 **D. Disbursing Agent**

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

11 **E. Documentation of Plan Implementation**

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

20 **F. New Obligations**

21 Any Allowed Claims which are otherwise impaired herein, and which are paid in deferred
22 payments, shall be a New Obligation of the Reorganized Debtor under the terms described herein
23 and completely replace any pre-confirmation obligations of the Debtor.

24 **XI. EFFECT OF CONFIRMATION.**

25 Except as otherwise provided in the Plan or the Confirmation Order, Confirmation acts as a
26 Discharge, effective as of Confirmation, of any and all debts of the Debtor that arose any time
27 before the entry of the Confirmation Order including, but not limited to, all principal and all interest
28 accrued thereon, pursuant to §1141(d)(1) of the Bankruptcy Code. The Discharge shall be effective

1 as to each Claim, regardless of whether a Proof of Claim thereon was filed, whether the Claim is an
2 Allowed Claim, or whether the Holder thereof votes to accept the Plan.

3 In addition, any pre-confirmation obligations of the Debtor dealt with in the Plan shall be
4 considered New Obligations of the Debtor, and these New Obligations shall not be considered in
5 default unless and until the Reorganized Debtor defaults on the New Obligations pursuant to the
6 terms of the Plan. The New Obligations provided for in the Plan shall be in the place of, and
7 completely substitute for, any pre-Confirmation obligations of the Debtor. Once the Plan is
8 confirmed, the only obligations of the Debtor shall be such New Obligations as provided for under
9 the Plan.

10 **XII. LIQUIDATION ANALYSIS**

11 If the Plan is not confirmed, and the Debtor's assets were liquidated instead, it is likely that
12 only iStar would recover anything from such liquidation, and all other creditors (other than
13 Fennemore Craig, Larson Allen and Sonoran Pacific) will not recover anything from the Debtor or
14 the Debtor's Estate. Indeed, the value of the Debtor's Property is less than the total amount of
15 iStar's second claim. Furthermore, the Debtor's personal property is virtually worthless, and is
16 likely covered by iStar's security interest in the Debtor's assets.

17 The Debtor's Plan provides a better recovery than such a liquidation. Indeed, as opposed to
18 recovering nothing in the event of a liquidation, under the Plan, Allowed Unsecured Creditors will
19 share in a pro rata distribution of \$500,000 on the Effective Date, and a pro rata interest in the
20 Subordinated Debenture. Also, under the Plan, iStar will recover the value of its collateral, plus a
21 market rate of interest, plus its share of the Unsecured Distribution Amount and Subordinated
22 Debenture. This treatment will result in a better recovery to iStar than if the Property were
23 liquidated.

24 Thus, the Plan provides for a better recovery to creditors than a liquidation.

25 **XIII. TAX CONSEQUENCES**

26 Pursuant to §1125(a)(1) of the Bankruptcy Code, the Debtor is to provide a discussion of
27 the potential material tax consequences of the Plan to the Debtor, any successor to the Debtor, and a
28 hypothetical investor typical of the holders of claims or interests in the case, that would enable such

1 a hypothetical investor of the relevant Class to make an informed judgment about the Plan.
2 However, the Debtor need not include such information about any other possible or proposed plan.
3 In determining whether the Disclosure Statement provides adequate information, the Court shall
4 consider the complexity of the case, the benefit of additional information to creditors and other
5 parties in interest, and the cost of providing additional information. The following discussion
6 summarizes certain considerations that may affect the anticipated federal income tax consequences
7 of the Plan's implementation to Creditors and to the Debtor. It does not address all federal income
8 tax consequences of the Plan nor does it address the state or local income tax or other state or local
9 tax consequences of the Plan's implementation to Creditors or to the Debtor.

10 This description of the federal income tax consequences of implementing the Plan is based
11 on Debtor's interpretation of the applicable provisions of the Internal Revenue Code of 1986, as
12 amended (the "IRC"), the regulations promulgated thereunder, and other relevant authority.
13 Debtor's interpretation, however, is not binding on the IRS or any court. The Debtor has not
14 obtained, nor does it intend to obtain, a private letter ruling from the IRS, nor has the Debtor
15 obtained an opinion of counsel with respect to any of these matters. The discussion below is
16 general in nature and is not directed to the specific tax situation of any particular interested
17 taxpayer. **For these reasons, all Creditors and the Interest Holder should consult with their**
18 **own tax advisors as to the tax consequences of implementation of the Plan to them under**
19 **applicable federal, state, and local tax laws.**

20 **A. Tax Consequences to the Debtor**

21 In general, pursuant to IRC Section 108, the amount of any debt of a corporation that is
22 partially or totally discharged pursuant to a Title 11 bankruptcy case is excluded from gross
23 income. According to IRC Section 108(b), the amount of debt discharge income ("DDI") that is
24 excluded from gross income must be applied to reduce the tax attributes of the Debtor. The
25 Debtor's tax attributes are reduced in the following order: (1) net operating losses ("NOLs"); (2)
26 general business credits; (3) minimum tax credit; (4) capital loss carryovers; (5) reduction in tax
27 basis of the Debtor's property; (6) passive activity loss and credit carryovers; and (7) foreign tax
28 credit carryovers. The Debtor may elect to apply the debt discharge exclusion first to depreciable

1 property and thereafter to the tax attributes in the above-prescribed order.

2 **B. Tax Consequences to the Secured and Unsecured Creditors**

3 Both the Secured Claimants and/or the Unsecured Claimants may be required to report
4 income or be entitled to a deduction as a result of implementation of the Plan. The exact tax
5 treatment depends on, among other things, each Claimant's method of accounting, the nature of
6 each Claimant's claim, and whether and to what extent such Claimant has taken a bad debt
7 deduction in prior taxable years with respect to the particular debt owed to it by one of the Debtors.

8 **Each Holder of a secured claim or an unsecured claim is urged to consult with his, her, or its**
9 **own tax advisor regarding the particular tax consequences of the treatment of his, her, or its**
10 **claim under the Plan.**

11 **XIV. OBJECTIONS TO AND ESTIMATIONS OF CLAIMS.**

12 **A. Objections and Bar Date for Filing Objections.**

13 As soon as practicable, but in no event later than 45 days after the Effective Date, objections
14 to Claims shall be filed with the Bankruptcy Court and served upon the holders of each of the
15 Claims to which objections are made pursuant to the Bankruptcy Code and the Bankruptcy Rules.
16 Objections filed after such date will be barred.

17 **B. Settlement of Claims.**

18 Settlement of any objection to a Claim not exceeding \$10,000 shall be permitted on the
19 eleventh (11th) day after notice of the settlement has been provided to the Debtor, the Creditors, the
20 settling party, and other persons specifically requesting such notice, and if on such date there is no
21 written objection filed, such settlement shall be deemed approved. In the event of a written
22 objection to the settlement, the settlement must be approved by the Court on notice to the objecting
23 party.

24 **C. Estimation of Claims.**

25 For purposes of making distributions provided for under the Plan, all Claims objected to
26 shall be estimated by the Disbursing Agent at an amount equal to (i) the amount, if any, determined
27 by the Court pursuant to §502(c) of the Bankruptcy Code as an estimate for distribution purposes;
28 (ii) an amount agreed to between the Debtor and the Claimant; or, (iii) that amount set forth as an

1 estimate in the Plan or Disclosure Statement. Notwithstanding anything herein to the contrary, no
2 distributions shall be made on account of any Claim until such Claim is an Allowed Claim.

3 **D. Unclaimed Funds and Interest.**

4 Distribution to Claimants shall be mailed by the Reorganized Debtor to the Claimants at the
5 address appearing on the master mailing matrix unless the Claimant provides the Reorganized
6 Debtor with an alternative address. For a period of one year from the date that a distribution was to
7 be made by the disbursing agent but has gone uncollected by the Claimant, the disbursing agent
8 shall retain any distributions otherwise distributable hereunder which remain unclaimed or as to
9 which the disbursing agent has not received documents required pursuant to the Plan. Thereafter,
10 the unclaimed funds shall be deposited in the appropriate distribution account for distribution to
11 other Claimants entitled to participate in such respective fund.

12 **XV. NON-ALLOWANCE OF PENALTIES AND FINES.**

13 No distribution shall be made under the Plan on account of, and no Allowed Claim, whether
14 Secured, Unsecured, Administrative, or Priority, shall include any fine, penalty, exemplary or
15 punitive damages, late charges, default interest or other monetary charges relating to or arising
16 from any default or breach by the Debtor, and any Claim on account thereof shall be deemed
17 Disallowed, whether or not an objection was filed to it.

18 **XVI. CLOSING OF CASE.**

19 Until these cases are officially closed, the Reorganized Debtor will be responsible for filing
20 pre- and post-confirmation reports required by the United States Trustee and paying the quarterly
21 post-confirmation fees of the United States Trustee, in cash, pursuant to 28 U.S.C. §1930, as
22 amended. Pursuant to 11 U.S.C. §1129(a)(12), all fees payable under §1930 of Title 28, as
23 determined by the Court at the hearing on confirmation of the Plan, will be paid, in cash, on the
24 Effective Date.

25 **XVII. MODIFICATION OF THE PLAN.**

26 In addition to its modification rights under §1127 of the Bankruptcy Code, the Debtor may
27 amend or modify the Plan at any time prior to Confirmation without leave of the Court. The Debtor
28 may propose amendments and/or modifications of the Plan at any time subsequent to Confirmation

1 with leave of the Court and upon notice to Creditors. After Confirmation of the Plan, the Debtor
2 may, with approval of the Court, as long as it does not materially or adversely affect the interests of
3 Creditors, remedy any defect or omission or reconcile any inconsistencies of the Plan, or in the
4 Confirmation Order, if any may be necessary to carry out the purposes and intent of the Plan.

5 **XVIII. JURISDICTION OF THE COURT.**

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

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

13 2. To determine any Claims which are disputed by the Debtor, whether such
14 objections are filed before or after Confirmation, to estimate any Un-liquidated or
15 Contingent Claims pursuant to 11 U.S.C. § 502(c)(1) upon request of the Debtor or any
16 holder of a Contingent or Un-liquidated Claim, and to make determination on any objection
17 to such Claim.

18 3. To determine all questions and disputes regarding title to the assets of the
19 Estate, and determination of all causes of action, controversies, disputes or conflicts,
20 whether or not subject to action pending as of the date of Confirmation, between the Debtor
21 and any other party, including but not limited to, any rights of the Debtor to recover assets
22 pursuant to the provisions of the Bankruptcy Code.

23 4. The correction of any defect, the curing of any omission or any
24 reconciliation of any inconsistencies in the Plan, or the Confirmation Order, as may be
25 necessary to carry out the purposes and intent of the Plan.

26 5. The modification of the Plan after Confirmation, pursuant to the Bankruptcy
27 Rules and the Bankruptcy Code.

28 6. To enforce and interpret the terms and conditions of the Plan.

1 7. The entry of an order, including injunctions, necessary to enforce the title,
2 rights and powers of the Debtor, and to impose such limitations, restrictions, terms and
3 conditions of such title, right and power that this Court may deem necessary.

4 8. The entry of an order concluding and terminating this case.

5 **XIX. RETENTION AND ENFORCEMENT OF CLAIMS.**

6 Pursuant to §1123(b)(3) of the Bankruptcy Code, the Reorganized Debtors shall retain and
7 may enforce any and all claims of the Debtor, except those claims specifically waived herein. Any
8 retained causes of action include, but are not limited to, all avoidance actions, fraudulent
9 conveyance actions, preference actions, and other claims and causes of action of every kind and
10 nature whatsoever, arising before the Effective Date which have not been resolved or disposed of
11 prior to the Effective Date, whether or not such claims or causes of action are specifically identified
12 in the Disclosure Statement.

13 Any recovery obtained from retained causes of action shall become an additional asset of
14 the Debtor, unless otherwise ordered by the Court, and shall be available for distribution in
15 accordance with the terms of the Plan.

16 **XX. EXECUTORY CONTRACTS.**

17 The Debtor hereby expressly assumes any and all tenant leases in existence as of the
18 Confirmation Date and all executory contracts listed in the Debtor's Schedules of Assets and
19 Liabilities. Every other executory contract and/or unexpired lease of the Debtor not expressly
20 assumed by this Plan is hereby rejected.

21 Claims under § 502(g) of the Code arising as a result of the rejection of executory contracts
22 or unexpired leases shall be filed no later than 30 days after the Confirmation Date. Any such
23 Claims not timely filed and served shall be Disallowed.

24 **XXI. REVESTING.**

25 Except as provided for in the Plan or in the Confirmation Order, on the Effective Date the
26 Reorganized Debtor shall be vested with all the property of the Estate free and clear of all claims,
27 liens, charges, and other interests of Creditors, arising prior to the Effective Date. Upon the
28 Effective Date, the Reorganized Debtor shall operate their business free of any restrictions.

1 **XXII. DISCLAIMER.**

2 Court approval of this Disclosure Statement and the accompanying Plan of Reorganization,
3 is not a certification of the accuracy of the contents thereof. Furthermore, Court approval of these
4 documents does not constitute the Court's opinion as to whether the Plan should be approved or
5 disapproved.

6 **XXIII. RISKS.**

7 The risk of the Plan lies with the Debtor's ability to fund the Plan and ultimately to
8 refinance or sell the Property to pay off its creditors. If the funds to be infused by the Interest
9 Holder are infused, this will lessen the risk accordingly. However, the success of the Debtor
10 depends in large part on the recovery of the national economy over the next several years following
11 confirmation.

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

13 The Debtor recommends that all creditors entitled to vote for the Plan do so. The Debtor's
14 Plan will pay iStar the full amount of its secured claim and provide funds to pay unsecured
15 creditors. The alternatives to confirmation of the Plan would be either conversion of this case to a
16 case under Chapter 7 of the Bankruptcy Code or its dismissal.

17 Dismissal of this case would result in the foreclosure of the Property by iStar. In such a
18 case, Unsecured Creditors will receive nothing on account of their claims.

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

25 The most likely effect of conversion of the case to a Chapter 7 would be a foreclosure on
26 the Property by iStar, and, as a result, Unsecured Creditors would receive nothing.

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

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DATED: November 24, 2010.

POLSINELLI SHUGHART PC

By: 

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By: /s/ Cathie Bernales

EXHIBIT A

	Year 1 Dec-2011	Year 2 Dec-2012	Year 3 Dec-2013	Year 4 Dec-2014	Year 5 Dec-2015	Year 6 Dec-2016	Year 7 Dec-2017	Year 8 Dec-2018
Potential Gross Revenue	\$ 6,072,770	\$ 7,064,378	\$ 8,232,556	\$ 8,473,966	\$ 8,439,204	\$ 8,529,052	\$ 8,896,236	\$ 9,301,798
Base Rental Revenue	-	\$ (105,875)	\$ (152,052)	\$ (404,448)	\$ (75,442)	\$ (131,772)	\$ (347,423)	\$ (362,159)
Absorption & Turnover Vacancy	\$ (344,510)	\$ (527,189)	\$ (777,333)	\$ (582,825)	\$ (656,902)	\$ (81,528)	\$ (685,648)	\$ (688,252)
Base Rent Abatements	\$ 5,728,260	\$ 6,431,366	\$ 7,303,171	\$ 7,466,693	\$ 7,506,860	\$ 8,215,652	\$ 7,863,165	\$ 8,271,387
Scheduled Base Rental Revenue	\$ 155,407	\$ 580,500	\$ 689,226	\$ 573,898	\$ 583,118	\$ 700,290	\$ 608,297	\$ 558,781
Expense Reimbursement Revenue	\$ 33,704	\$ 48,711	\$ 65,865	\$ 51,271	\$ 54,482	\$ 67,521	\$ 52,327	\$ 53,270
Real Estate Taxes	\$ 2,767	\$ 4,322	\$ 6,008	\$ 5,439	\$ 6,008	\$ 7,173	\$ 5,419	\$ 5,300
Insurance	\$ 14,351	\$ 23,237	\$ 33,294	\$ 32,597	\$ 35,374	\$ 43,120	\$ 32,051	\$ 30,753
Utilities	\$ 6,051	\$ 9,369	\$ 13,146	\$ 11,900	\$ 12,929	\$ 15,811	\$ 11,829	\$ 11,582
Janitorial	\$ 4,498	\$ 7,094	\$ 10,019	\$ 9,222	\$ 10,082	\$ 12,467	\$ 9,448	\$ 9,316
Repairs and Maintenance	\$ 1,064	\$ 1,637	\$ 2,333	\$ 2,098	\$ 2,280	\$ 2,634	\$ 2,160	\$ 2,138
HVAC	\$ 1,510	\$ 2,357	\$ 3,278	\$ 2,971	\$ 3,189	\$ 3,812	\$ 2,956	\$ 2,889
Landscaping	\$ 250	\$ 384	\$ 529	\$ 451	\$ 487	\$ 601	\$ 458	\$ 453
Refuse Removal	\$ 2,097	\$ 3,320	\$ 4,668	\$ 4,365	\$ 4,703	\$ 5,749	\$ 4,325	\$ 4,194
Security and Fire	\$ 670	\$ 1,048	\$ 1,454	\$ 1,319	\$ 1,412	\$ 1,736	\$ 1,313	\$ 1,283
Exterminator	\$ 63	\$ 98	\$ 136	\$ 121	\$ 136	\$ 159	\$ 123	\$ 120
Other	\$ 125	\$ 182	\$ 234	\$ 166	\$ 175	\$ 220	\$ 173	\$ 178
Parking Lot	\$ 5,296	\$ 8,857	\$ 13,251	\$ 11,682	\$ 13,026	\$ 16,424	\$ 11,455	\$ 11,373
Property Management	\$ 568	\$ 882	\$ 1,238	\$ 1,133	\$ 1,230	\$ 1,507	\$ 1,121	\$ 1,103
Miscellaneous	\$ 303	\$ 786	\$ 1,093	\$ 981	\$ 1,090	\$ 1,303	\$ 965	\$ 984
Association Fees	\$ 3,402	\$ 5,278	\$ 7,304	\$ 6,480	\$ 6,960	\$ 8,575	\$ 6,497	\$ 6,378
Parking Garage	\$ 76,847	\$ 118,714	\$ 163,951	\$ 142,196	\$ 153,424	\$ 189,112	\$ 142,638	\$ 141,306
Total Reimbursement Revenue	\$ 98,256	\$ 104,056	\$ 110,659	\$ 114,610	\$ 116,717	\$ 119,097	\$ 120,689	\$ 123,063
Utility Reimb.	\$ 77,208	\$ 77,208	\$ 77,208	\$ 77,208	\$ 77,208	\$ 77,208	\$ 77,208	\$ 77,208
TI Reimbursement	\$ 9,000	\$ 9,160	\$ 9,564	\$ 9,551	\$ 9,742	\$ 9,697	\$ 10,135	\$ 10,338
Other	\$ 202,219	\$ 240,594	\$ 288,722	\$ 297,519	\$ 316,955	\$ 320,545	\$ 319,802	\$ 326,285
Parking Revenue	\$ 386,683	\$ 437,438	\$ 485,963	\$ 488,888	\$ 519,720	\$ 526,787	\$ 527,844	\$ 538,924
Total	\$ 6,347,297	\$ 7,562,047	\$ 8,622,611	\$ 8,701,675	\$ 9,163,122	\$ 9,631,841	\$ 9,141,944	\$ 9,508,398
General Vacancy	\$ 0	\$ 0	\$ (10,371)	\$ (226,412)	\$ (328,665)	\$ (298,439)	\$ (112,500)	\$ (118,741)
Effective Gross Revenue	\$ 6,347,297	\$ 7,562,047	\$ 8,612,240	\$ 8,475,264	\$ 8,834,457	\$ 9,332,402	\$ 9,029,444	\$ 9,389,657
Operating Expenses	\$ 1,094,560	\$ 1,076,009	\$ 1,088,345	\$ 1,120,311	\$ 1,142,718	\$ 1,165,572	\$ 1,188,883	\$ 1,212,662
Real estate taxes	\$ 113,814	\$ 116,080	\$ 118,412	\$ 120,780	\$ 123,196	\$ 125,860	\$ 128,172	\$ 130,737
Insurance	\$ 602,031	\$ 648,157	\$ 702,835	\$ 721,964	\$ 746,496	\$ 759,978	\$ 788,172	\$ 793,578
Utilities	\$ 186,491	\$ 215,466	\$ 250,885	\$ 258,939	\$ 272,332	\$ 276,589	\$ 276,924	\$ 282,508
Janitorial	\$ 159,998	\$ 176,078	\$ 195,435	\$ 202,280	\$ 212,583	\$ 218,335	\$ 222,446	\$ 228,149
Repairs & maintenance	\$ 36,408	\$ 40,025	\$ 44,381	\$ 45,878	\$ 48,264	\$ 49,562	\$ 50,503	\$ 52,028
HVAC	\$ 62,080	\$ 63,322	\$ 64,588	\$ 65,880	\$ 67,188	\$ 68,542	\$ 69,913	\$ 71,311
Grounds & landscapes	\$ 9,463	\$ 9,652	\$ 9,845	\$ 10,042	\$ 10,243	\$ 10,446	\$ 10,656	\$ 10,870
Refuse Removal	\$ 27,591	\$ 28,143	\$ 28,706	\$ 29,280	\$ 29,868	\$ 30,463	\$ 31,073	\$ 31,693
Elevator	\$ 2,597	\$ 2,639	\$ 2,691	\$ 2,745	\$ 2,799	\$ 2,856	\$ 2,913	\$ 2,971
Security and Fire	\$ 91,527	\$ 93,358	\$ 95,225	\$ 97,130	\$ 99,072	\$ 101,054	\$ 103,075	\$ 105,136
Parking Lot	\$ 3,405	\$ 3,473	\$ 3,543	\$ 3,613	\$ 3,686	\$ 3,759	\$ 3,835	\$ 3,912
Property Management	\$ 190,419	\$ 226,862	\$ 258,679	\$ 261,090	\$ 274,895	\$ 288,955	\$ 274,258	\$ 285,252
Parking Garage	\$ 133,134	\$ 136,611	\$ 140,982	\$ 142,982	\$ 147,169	\$ 149,907	\$ 152,681	\$ 155,764
Association Fees	\$ 20,693	\$ 21,108	\$ 21,529	\$ 21,960	\$ 22,389	\$ 22,848	\$ 23,304	\$ 23,770
Misc. expenses	\$ 18,474	\$ 20,376	\$ 24,030	\$ 24,693	\$ 25,364	\$ 26,070	\$ 26,459	\$ 26,993
Total Operating Expenses	\$ 2,692,695	\$ 2,878,988	\$ 3,060,153	\$ 3,128,528	\$ 3,228,860	\$ 3,300,898	\$ 3,333,277	\$ 3,408,332
Net Operating Income	\$ 3,654,602	\$ 4,683,058	\$ 5,552,087	\$ 5,345,736	\$ 5,605,577	\$ 6,031,504	\$ 5,696,167	\$ 5,980,325
Real Service (\$47.2 Million, 6%, 25 Year Amort)	\$ 3,692,301	\$ 3,692,301	\$ 3,692,301	\$ 3,692,301	\$ 3,692,301	\$ 3,692,301	\$ 3,692,301	\$ 3,692,301
Leasing & Capital Costs	\$ 1,948,200	\$ 1,695,430	\$ 2,551,651	\$ 766,460	\$ 581,503	\$ 407,627	\$ 1,142,672	\$ 468,297
Tenant Improvements	\$ 397,432	\$ 474,234	\$ 650,309	\$ 437,521	\$ 254,451	\$ 171,111	\$ 468,297	\$ 300,000
Leasing Commissions	\$ 300,000	\$ 300,000	\$ 300,000	\$ 300,000	\$ 300,000	\$ 300,000	\$ 300,000	\$ 300,000
Asset Management Fees	\$ 30,000	\$ 37,500	\$ 56,250	\$ 84,375	\$ 126,563	\$ 154,154	\$ 158,778	\$ 158,778
Capital Improvements	\$ 2,675,632	\$ 2,507,164	\$ 3,558,210	\$ 1,606,376	\$ 1,262,517	\$ 1,032,892	\$ 2,069,747	\$ 2,069,747
Total Leasing & Capital Costs	\$ (2,713,331)	\$ (1,516,407)	\$ (1,698,424)	\$ 45,058	\$ 650,759	\$ 1,306,310	\$ (65,881)	\$ (65,881)
Unsecured Claims	\$ 500,000	\$ 500,000	\$ 500,000	\$ 500,000	\$ 500,000	\$ 500,000	\$ 500,000	\$ 500,000
Secured Claims	\$ 3,536,669	\$ 2,020,262	\$ 3,218,337	\$ 3,666,896	\$ 1,017,655	\$ 2,323,965	\$ 2,258,084	\$ 2,258,084
Building Value At 8% Cap Rate	\$ 45,682,525	\$ 58,530,225	\$ 69,401,083	\$ 66,821,694	\$ 70,069,716	\$ 75,393,794	\$ 71,202,084	\$ 74,754,067
Beginning Balance	\$ 47,200,000	\$ 46,339,689	\$ 45,427,780	\$ 44,461,145	\$ 43,436,513	\$ 42,350,403	\$ 41,199,128	\$ 39,978,772
Principal Paydown	\$ 860,301	\$ 911,919	\$ 966,634	\$ 1,024,632	\$ 1,086,110	\$ 1,151,277	\$ 1,220,354	\$ 1,290,354
Interest Payment	\$ 2,832,000	\$ 2,760,382	\$ 2,725,967	\$ 2,687,669	\$ 2,646,191	\$ 2,599,652	\$ 2,547,946	\$ 2,491,946
Ending Balance	\$ 46,339,689	\$ 45,427,780	\$ 44,461,145	\$ 43,436,513	\$ 42,350,403	\$ 41,199,128	\$ 39,978,772	\$ 38,758,418

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