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SARKIS INVESTMENTS COMPANY, LLC

UNITED STATES BANKRUPTCY COURT
CENTRAL DISTRICT OF CALIFORNIA
LOS ANGELES DIVISION

In re
SARKIS INVESTMENTS COMPANY, LLC,
Debtor.

Case No.: 2:13-bk-29180-RK

Chapter 11

FIRST AMENDED DISCLOSURE
STATEMENT DESCRIBING DEBTOR'S
FIRST AMENDED CHAPTER 11 PLAN
OF REORGANIZATION

Hearing:

Date: ~~{TBD}~~ April 9, 2014

Time: ~~{TBD}~~ 11:00 a.m.

Place: Courtroom 1675

U.S. Bankruptcy Court

255 E. Temple Street

Los Angeles, CA 90012

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I. INTRODUCTION

On or about July 29, 2013 (the "Petition Date"), Sarkis Investments Company, LLC ("Sarkis" or the "Company" or the "Debtor") commenced the above-captioned bankruptcy case (the "Bankruptcy Case") by filing a voluntary petition for relief under chapter 11 of Title 11 of the United States Code (the "Bankruptcy Code"). The Debtor owns and leases several parcels of commercial real property (collectively, the "Properties") commonly known as 3550 Porsche Way, Ontario, CA 91764 ("3550 Porsche Way"); 3640 Porsche Way, Ontario, CA 91764 ("3640 Porsche Way"); 3660 Porsche Way, Ontario, CA 91764 ("3660 Porsche Way"); 3700 Inland Empire Boulevard, Ontario, CA 91764 ("3700 Inland Empire"); and 3760 Inland Empire Boulevard, Ontario, CA 91764 ("3760 Inland Empire").

Prior to the commencement of the Bankruptcy Case (also known as "pre-petition"), MSCI 2007-IQ13 Ontario Retail Limited Partnership (the "Lender" or "MSCI") commenced an action (the "Receivership Action") in the California Superior Court (the "State Court") to appoint a receiver to collect the rents, issues, and profits from the Debtor's business operations. The State Court in the Receivership Action appointed Patrick Galentine of Coreland Companies (the "Receiver") as receiver.

Following the commencement of the Bankruptcy Case (also known as "post-petition"), MSCI, the Debtor and the United States Trustee (the "UST") entered into a stipulation temporarily excusing the receiver from turnover pursuant to § 543 of the Bankruptcy Code, which, among other things, permitted the Receiver to remain in place and collect the rents, issues, and profits from the Debtor's business operations.

The Debtor continues to operate its business and manage its affairs as a debtor-in-possession pursuant to sections 1107(a) and 1108 of the Bankruptcy Code. No trustee or examiner has been appointed in the Bankruptcy Case.

The Debtor is the proponent of ~~this~~ the First Amended Chapter 11 Plan of Reorganization (the "Plan").¹ **THE DOCUMENT YOU ARE READING IS THE DISCLOSURE**

¹ The Plan involves a Primary Plan, which calls for the repayment of Allowed Claims over a 10-year term, and an Alternate Plan, which calls for the repayment of Allowed Claims of a 3-year term. The Primary Plan and Alternate Plan may be referred to herein collectively as the "Plans."

1 **STATEMENT FOR THE ENCLOSED PLAN.** Capitalized terms used and not otherwise
2 defined herein shall have the meanings ascribed to them in the Plan.

3 The Plan is a reorganization plan and seeks to vest all assets of the Debtor in the
4 Reorganized Debtor (following confirmation of the Plan, the Debtor shall be known as the
5 "Reorganized Debtor"). The Debtor seeks to accomplish payments under the Plan by paying
creditors on account of their Allowed Claims (defined hereinafter) in full over time from cash
flows generated from future operations or the proceeds from the sale of the Company and/or the
Properties.

The Plan contemplates that the Reorganized Debtor will initially continue operating its
business, and will use revenues generated from such operation to fund the payments required
under the Plan. Simultaneously, the Debtor will market the Properties and, ~~if deemed to be in the
best interests of the estate,~~ may sell the Properties to pay all Allowed Claims in full. The
Reorganized Debtor will make payments under this Plan to the holders of Allowed Claims.
Under the Plan, the Reorganized Debtor shall be vested with standing to object to any claim(s)
and to pursue any causes of action reserved under the Plan. The ~~expected~~ Effective Date (defined
hereinafter) of the Plan will be the first Business Day immediately following the date on which all
of the conditions precedent to the occurrence of the Effective Date defined herein have been
satisfied or waived.

Upon confirmation of the Plan, the treatment of Allowed Claims and Allowed Interests
(defined hereinafter) pursuant to the Plan supersedes any agreements or rights the holders of those
claims or interest may have with, in or against the Debtor or its assets except to the extent the
Plan expressly provides otherwise, and is in full satisfaction of the legal, equitable, and
contractual rights of the holders of the claims or interests. Unless the Plan provides otherwise, no
distributions will be made and no rights will be retained on account of any claim or interest that is
not an Allowed Claim or Allowed Interest.

As is required by the Bankruptcy Code, the Plan classifies Claims and Interests into
various classes according to their right to priority under the Bankruptcy Code. The Plan states

1 whether each Class of Claims or Interests is impaired and provides the treatment that the Holders
2 of each Allowed Claim or Allowed Interest within each Class shall receive.

3 **A. Purpose of the Disclosure Statement**

4 The purpose of this Disclosure Statement is to set forth information: (1) about the history
5 of the Debtor, its business, and the Bankruptcy Case; (2) concerning the Plan and alternatives to
the Plan; (3) advising the holders of Claims and Interests of their rights under the Plan; (4)
assisting the Creditors¹² and Interest Holders who are entitled to vote on the Plan in making an
informed judgment regarding whether they should vote to accept this Plan and to reject any plan
not proposed by the Debtor; and (5) assisting the Bankruptcy Court in determining whether the
Plan complies with the provisions of Chapter 11 of the Bankruptcy Code and should be
confirmed.

This Disclosure Statement cannot tell you everything about your rights. You should
consider consulting your own lawyer and other advisors to obtain more specific advice on how the
Plan could affect you and what is the best course of action for you. Baker & Hostetler, LLP
("Baker"), general insolvency counsel for the Debtor, does not represent you.

Be sure to read the Plan as well as the Disclosure Statement. If there are any
inconsistencies between the Plan and the Disclosure Statement, the Plan provisions will govern.

By order dated _____, 2014, INSERT DATE, the Bankruptcy Court approved this
Disclosure Statement as containing "adequate information" concerning the Plan, meaning that it
contains sufficient information to enable Creditors and Interest Holders to make an informed
judgment in exercising their rights to vote to accept or reject the Plan. Any party may now solicit
votes for or against the Plan.

The only Creditors or Interest Holders who may vote for or against the Plan are those who
have a Claim that is both (1) allowed or allowed for voting purposes and (2) classified in an
impaired Class. A Class is impaired if the legal, equitable, or contractual rights of the Claim or

¹² A Creditor shall mean 1) any entity that has a Claim against the Debtor that arose at the time of or before the order
for relief concerning the Debtor; 2) any entity that has a Claim against the estate of a kind specified in Section
348(d), 502(f), 502(g), 502(h) or 502(i) of Title 11; or 3) an entity that has a community claim. 11 U.S.C.
§101(10). The term entity includes persons, estates, trusts, governmental units, and the United States Trustee. 11
U.S.C. §101(15).

1 Equity Interests in the Class are altered. Classes of Claims or Equity Interests that are not
2 impaired are conclusively presumed to have voted to accept the Plan and therefore are not entitled
3 to vote on the Plan.

4 **B. Deadlines for Voting and Objecting; Date of Plan Confirmation Hearing**
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The Court has not yet confirmed the Plan described in this Disclosure Statement. In other words, the terms of the Plan are not yet binding on anyone. However, if the Court later confirms the Plan, then the Plan will be binding on the Debtor, all Creditors and Interest Holders in this Case.

1. Time and Place of the Confirmation Hearing

The hearing during which the Bankruptcy Court will determine whether or not to confirm the Plan will take place on **[INSERT DATE]** in Courtroom 1675 of the United States Bankruptcy Court located at 255 E. Temple Street, Los Angeles, California 90012.

2. Deadline for Voting for or Against the Plan

If you are entitled to vote, it is in your best interest to vote in a timely manner on the enclosed ballot and return the ballot in the enclosed envelope to Baker & Hostetler LLP, Attn: Ashley M. McDow, 11601 Wilshire Boulevard, Suite 1400, Los Angeles, California 90025-0509.

YOUR BALLOT MUST BE RECEIVED BY 5:00 P.M. ON [INSERT DATE] OR IT WILL NOT BE COUNTED.

The Debtor shall file a summary of tabulated ballots on or before **[INSERT DATE]**.

3. Deadline for Objecting to the Confirmation of the Plan

Objections to the confirmation of the Plan must be filed with the Bankruptcy Court and served upon the counsel for the Debtor not later than **[INSERT DATE]**.

4. Person to Contact for Further Information Regarding the Plan

Any interested party desiring further information about the Plan should contact Ashley M. McDow of Baker & Hostetler LLP by phone at (310) 442-8846 or by email at amcdow@bakerlaw.com.

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C. Disclaimer

The financial data relied upon in formulating the Plan, the Disclosure Statement, and the documents in support thereof is based on the financial records provided by the Receiver from which Adam Meislik, financial consultant for the Debtor, prepared the cash flow projections, which are the basis for the Plan and Disclosure Statement. The professionals employed by the Debtor drafted the Plan and the Disclosure Statement based on this information and have no independent knowledge regarding the accuracy or the completeness of the data or information contained therein or herein.

The discussion in this Disclosure Statement regarding the Debtor contains projections that are necessarily speculative. Although the projections attempt to anticipate and account for possible risks and uncertainties that may affect the future operations of the Debtor, no projections can account for all such risks. Accordingly, there are certain risks and uncertainties that could cause actual events or results to differ materially from those referred to in the projections. The liquidation analysis, projections of financial performance, and other information contained herein are estimates only, and the timing, amount, and value of actual distributions to Creditors may be affected by many factors that cannot be predicted. Therefore, any analyses, estimates, or projections may or may not prove to be accurate.

Unless specifically set forth herein to the contrary, the information contained or referred to in this Disclosure Statement has not been subject to an audit. ~~Records kept by the Debtor rely for their accuracy on~~The Debtor's records are based upon bookkeeping performed internally by the Debtor ~~or the Receiver, as applicable.~~ The Debtor believes that every reasonable effort has been made to present financial information as accurately as reasonably practicable given the nature and condition of the ~~Debtor~~Receiver's books and records. However, the records kept by the Debtor are neither warranted nor represented to be free of inaccuracy nor consistent with any accounting standards.

The contents of this Disclosure Statement should not be construed as legal, business, or tax advice. Any tax disclosure that may be contained in the Disclosure Statement is not intended

1 to be used and cannot be used for the purpose of avoiding any tax penalties that may be imposed
2 on any person. All Creditors and Interest Holders should consult their own legal counsel,
3 accountants and other advisors as to legal, tax, and other matters concerning their Claims or
4 Interests.

5 The Bankruptcy Court has not yet determined whether the Plan is confirmable, and makes
no recommendation as to whether or not you should support the Plan.

II. BACKGROUND OF THE DEBTOR

A. Pre-petition Ownership and Management of the Debtor; Description and History of Debtor's Business

1. Loan History and Acquisition of Properties

On or about February 1, 2007, IXIS Real Estate Capital Inc., as lender (the "Original Lender"), made a \$21,000,000 loan (the "Loan")—as evidenced by (among other things) a Loan Agreement (the "Loan Agreement")—to the following entities, Ontario DP, LLC, Ontario SP, LLC, Ontario MM, LLC, Ontario AT, LLC, Ontario KG, LLC and Ontario GME, LLC (the "Original Borrowers"), as tenants in common, in connection with the Properties.

In conjunction with the Loan Agreement, the Original Borrowers executed a Promissory Note dated February 1, 2007 (the "Note") and, as security for the Note, a Deed of Trust, Assignment of Leases and Rents, Security Agreement and Fixture Filing dated as of February 1, 2007 (the "Deed of Trust"), in favor of the Original Lender's nominee, Mortgage Electronic Registration Systems, Inc. ("MERS"). Original Borrowers also executed an Assignment of Leases and Rents dated as of February 1, 2007 (the "Assignment of Rents"), in favor of Original Lender's assignee, MERS. Collectively, the Loan Agreement, the Note, the Deed of Trust and the Assignment of Rents are referred to herein as the "Loan Documents."

On or about July 17, 2007, Sarkis acquired the Property from the Original Borrowers and, in connection therewith, agreed to assume the Loan, pursuant to an Assumption Agreement (the "Assumption Agreement") entered into by (among others) Sarkis, MERS, the Original Borrowers and U.S. Bank National Association, as Trustee for Morgan Stanley Capital 1, Inc., Commercial

1 Mortgage Pass Through Certificates, Series 2007-IQ10 as assignee of the Original Lender (the
2 "Assigned Lender"). On or about February 8, 2011, the Assigned Lender transferred its interest in
3 the Loan to MSCI.
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5 **2. Ownership of the Debtor**

The Debtor is a limited liability company formed under the law of the State of Delaware. The sole member of the Debtor is and has always been Sarkis Investments, LLC, a Delaware limited liability company ("Sarkis Investments"). The sole member of Sarkis Investments is and has always been The Sarkis Sarkissian Trust, dated May 29, 1994 (as amended, the "Trust"). At the inception of the Trust and through and including the date of the Assumption Agreement, Sarkis Sarkissian ("Mr. Sarkissian") was the trustor, the primary beneficiary, and the sole trustee of the Trust. On June 16, 2010, Mr. Sarkissian died and, subsequently, the Trust (as well as Mr. Sarkissian's other assets) passed into probate.

Pamela Muir ("Ms. Muir") was appointed as the Temporary Trustee for the Trust on or about November 1, 2010 and has served in that capacity since. Subsequently, Ms. Muir was confirmed as the permanent trustee for the Trust and as the manager of the Debtor. As trustee ~~for~~ manager of the Trust Debtor, Ms. Muir ~~exercised~~ exercises control over the Debtor ~~through the Trust and Sarkis Investment~~.

B. Events Precipitating and Preceding the Sarkis Chapter 11 Filing

1. Allegations of Default under the Loan Documents

On or about September 28, 2010, the Assigned Lender issued a letter alleging certain non-monetary defaults under the Loan (the "2010 Default Letter"). Therein, the Assigned Lender claimed that: (a) Mr. Sarkissian's death resulted in the "Transfer of his indirect interest in Borrower" and that "[s]uch Transfer is not a Permitted Transfer and therefore is a default under Section 8.1(d) of the Loan Agreement" and that such default was a "'Springing Recourse Event' under Section 10.1 of the Loan Agreement which causes the Loan to be fully Recourse to the Borrower and to the Guarantors"; (b) that purported loans (the "Invalid Loans") purportedly made by Borrower to Sarkis Investments II, LLC ("Investments II"), a company also owned by the

1 Trust, to support a property located on Avenue I in Redondo Beach, California (the “Redondo
2 Beach Property”) and related distributions constituted a default; and (c) there was a breach of the
3 Loan based upon an alleged “amendment to the Operating Agreement of Borrower on or about
4 October 26, 2009” (the “Purported Amendment”). The 2010 Default Letter claimed that the Loan
5 Agreement provides that Plaintiff “shall not, among other things . . . without the prior consent of
Lender, amend, modify, terminate or fail to comply with the provisions of Borrower’s
organization documents.” The 2010 Default Letter further claimed that the Purported
Amendment constituted a default because the Purported Amendment does not contain certain
special purpose entity language required by the Assigned Lender and that the manager purportedly
appointed under the Purported Amendment (Lucy Ulikhanova (“Ms. Ulikhanova”)) did not
qualify as an “Independent Manager” under Section 9 of the Debtor’s Operating Agreement (the
“Operating Agreement”).

On or about February 10, 2011, two days after the Assigned Lender transferred its interests
in the Loan to MSCI, the Assigned Lender issued another default letter (the “2011 Default
Letter”). Therein, the Assigned Lender (which no longer held any interest under the Loan
Documents as a result of the aforementioned assignment to MSCI) once again claimed that Mr.
Sarkissian’s death—an individual that was several steps removed from Plaintiff, the borrower in
this matter—constituted an “ongoing Event of Default” and that “the Rents now belong to Lender
as described in the Deed of Trust.” As such, pursuant to the 2011 Default Letter, the Assigned
Lender purported to revoke the Debtor’s license to collect rents on the Property.

2. Appointment of State Court Receiver

On or about November 14, 2011, MSCI filed suit against the Debtor, seeking to appoint a
receiver based on the alleged non-monetary defaults under the Loan Documents, San Bernardino
County Superior Court, Case No. CIVRS1109905 (the “Receiver Action”). On or about
November 18, 2011, MSCI applied *ex parte* for appointment of a rents and profits receiver, which
application was granted and Patrick Galentine was appointed the receiver (the “Receiver”) of the
Properties. On January 5, 2012, the court in the Receiver Action issued a preliminary injunction

1 and ordered the permanent appointment of a receiver. The court in the Receiver Action
2 authorized the Receiver to use funds available to pay the monthly debt service payments owed on
3 the Loan.

4 The Receiver has been in possession of the Properties since November 2011, collecting
5 substantial rents from and managing the Properties. ~~In or about July~~ As of September 2012, the
Receiver ceased making the requisite monthly payments due on the Loan despite available rental
proceeds to do so, which triggered a monetary default on the Loan—an occurrence that had never
happened while the Debtor was in possession and control of the Properties.

3. Cure of the Alleged Defaults

With the exception of the alleged default caused by the death of Mr. Sarkissian, the
Debtor, by and through Ms. Muir ~~as trustee for the Trust~~, has cured all alleged non-monetary
defaults (or will do so before the Effective Date). On or about November 19, 2010, Ms. Muir
filed a Certificate of Correction with the Secretary of State of Delaware (the “Certificate of
Correction”) stating Ms. Ulikhanova was not authorized to execute the Certificate of Amendment
(regarding the Purported Amendment) and that the “sole member of the Limited Liability
Company [(i.e., Sarkis Investments)] did not approve or ratify the addition of a new member
[(Ms. Ulikhanova)] or the giving of officer titles to any person.” The Certificate of Correction
further confirmed that the “sole equity member of the [Debtor] is Sarkis Investments, LLC” and
that the Debtor “has no officers.”

On or about April 2, 2012, the Invalid Loans were repaid to the Debtor. Further, the deeds
of trust in favor of Ms. Ulikhanova (the “Ulikhanova Deeds of Trust”) purporting to encumber the
Redondo Beach Property and/or the Properties have been either discharged or released.²³

The alleged monetary default caused by the Receiver’s failure to pay the amounts due
under the Loan in or about ~~July~~ September 2012 remains uncured. Despite the fact that the

²³ The Debtor believes that these defaults are hypothetical and were asserted by MSCI and/or the Assigned
~~Lender~~ Lender due to the fact that the Purported Amendment and the Ulikhanova Deeds of Trust are void *ab initio*
under the Resolution Adopted by Unanimous Written Consent by the Sole Member of Sarkis Investments Company
, LLC, dated November 4, 2010 (the “2010 Resolution”) and paragraph 4(a) of the Deed of Trust. Additionally,
the Debtor also believes these defaults are hypothetical as Ms. Ulikhanova and, prior to his death, Mr. Sarkissian,
individually as opposed to in his capacity as trustee for the Trust, lacked the authority to execute any of the
documents purportedly causing the alleged non-monetary defaults.¹

1 Receiver and/or MSCI was the cause of the monetary default, the Debtor intends to cure this
2 default in order to eliminate the default interest that was improperly imposed. The payment of the
3 cure amount shall not in any way impact the ability of the Debtor to later challenge the validity of
4 the default charges which were imposed or seek reimbursement for the amount paid to cure the
5 same.

4. MSCI Foreclosure Efforts

On or about September 5, 2012, MSCI issued a “Bring Current Statement” (the
“September 2012 Bring Current Statement”) wherein MSCI demanded payment of \$3,692,755.77
in order to cure the alleged default, which amount included \$3,046,497.35 of alleged default
interest accruing from October 26, 2009—the date of the alleged non-monetary default caused by
the death of Mr. Sarkissian Purported Amendment.

On or about October 3, 2012, First American Title Insurance Company (“First
American”), as foreclosure trustee for MSCI, commenced the process for a non-judicial
foreclosure of the Properties by recording a Notice of Default and Election to Sell under Deed of
Trust (the “Notice of Default”). The Notice of Default states that Plaintiff is “behind in its
payments” and that it “may have the legal right to bring [its] account in good standing by paying
\$3,596,407.77 as of August 5, 2012. . . .” ~~The demand included the claim to over \$3,000,000.00
in previously undisclosed default interest.~~

On or about January 15, 2013, First American Title Insurance Company, as foreclosure
trustee for MSCI, issued a Notice of Trustee’s Sale (the “Trustee’s Sale Notice”) for the Property.
The Trustee’s Sale Notice stated that the total due and owing under the Loan was \$29,106,754.84.

On or about July 10, 2013, Sarkis filed suit against MSCI in the California Superior Court
for the County of San Bernardino, CIVRS1304780 (the “Sarkis Action”), alleging claims for
breach of contract, declaratory relief, predatory lending/unfair business practices, and slander of
title. The Sarkis Action sought injunctive relief and monetary damages arising out of MSCI’s
erroneous default claims and wrongful efforts to foreclose on the Properties. In the Sarkis Action,

1 the Debtor moved for a ~~preliminary injunction~~ temporary restraining order to prevent the
2 scheduled foreclosure, which the court denied.

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4 **5. Sarkis Bankruptcy Petition**

5 On ~~or about July 29, 2013~~ (the “Petition Date”), the Debtor commenced the Bankruptcy
Case by filing a voluntary petition for relief under chapter 11 of the Bankruptcy Code.

C. Pre-petition Legal Proceedings Pending as of the Petition Date

In addition to the Sarkis Action and the Receiver Action, the Debtor was also named a
defendant in pre-petition litigation commenced by the City of Ontario (the “City”), styled *City of
Ontario v. Sarkis Investments Company, LLC, et al.*, CIVRS1200784, in the California Superior
Court for the County of San Bernardino (the “City Action”). Therein, the City alleged that one of
the Properties—namely, the 3660 Porsche Way property—was in disrepair and, as such,
constituted a public nuisance. The City Action also sought the appointment of a receiver;
however, that request was rendered moot by the appointment of a receiver in the Receiver Action.

Post-petition, the Debtor removed Sarkis Action, Receiver Action, and City Action
(collectively, the “State Court Actions”) to the Bankruptcy Court. Although MSCI moved to
remand the State Court Actions, the Court found that they are core and, thus, retained jurisdiction
over them. At present, the State Court Actions have been essentially dormant while the Debtor
focuses on reorganizing its affairs. Under the Plan, the Debtor reserves all claims and defenses
with respect to the Sarkis Action (also referred to herein as the Sarkis AP).

Under the Plan, the Debtor shall also request that the Court dismiss the City Action and
the Receiver Action as moot. The City Action seeks to compel the remediation of a nuisance and
appoint a receiver if necessary to do so. Similarly, the Receiver Action seeks to appoint a receiver
and obtain an injunction to enforce the assignment of rents agreement by compelling the Debtor
to turn over the rents to the appointed receiver. As to the City Action, the nuisance has been
remediated by the Receiver; thus, this claim is moot. As to the claims seeking appointment of the
Receiver, the Debtor resumes control of the business as Reorganized Debtor under the Plan; as a
result, these claims are also moot. Finally, the Debtor has or will cure the defaults triggering the

1 assignment of rents to MSCI; accordingly, the claim for an injunction is moot and/or improper.
2 For these reasons, the City Action and the Receiver Action are moot and the relief sought therein
3 is now improper. Under these circumstances, dismissal of the City Action and the Receiver
4 Action is warranted.

5 **D. Pre-petition Sale Efforts**

Following the appointment of ~~Mr.~~Ms. Muir, Mr. Zehnaly submitted an unsolicited offer to purchase the Properties. The Debtor and Mr. Zehnaly entered into a purchase agreement for the Properties, pursuant to which Mr. Zehnaly was required to use his best efforts to assume the Loan obligations and consummate the acquisition, and Mr. Zehnaly paid a \$500,000.00 deposit, which was non-refundable unless the agreement was cancelled due to the inability to satisfy certain conditions. In contravention of this duty, Mr. Zehnaly failed to ~~provide MSCI necessary information and/or documentation and, as a result, MSCI deemed the assumption application withdrawn. Such determination rendered use his best efforts to assume the Loan.~~ Mr. Zehnaly was ultimately unable to consummate assume the transaction Loan or terminate the agreement and obtain. Therefore, Mr. Zehnaly is not entitled to a refund of the deposit.

Notwithstanding, Mr. Zehnaly filed proof of claim 7-1 in the Bankruptcy Case seeking reimbursement of the \$500,000.00 non-refundable deposit paid in the course of the proposed salepurchase of the Properties (the "Zehnaly Claim"). The Debtor did not cause the failure of the proposed sale transaction. Indeed, all of Mr. Zehnaly's contingencies upon to the consummation the salepurchase were waived at the time Mr. Zehnaly refused to ~~finalize the acquisition and, as such, Mr. Zehnaly has no right to payment upon the Zehnaly Claim.~~ Accordingly, the Plan classifies the Zehnaly Claim in Class 3 (general unsecured creditors) but proposes a Distribution of \$0.00. Nonetheless, in the unlikely event that the Zehnaly Claim is allowed (either in full or in part), the Debtor will have sufficient funds to pay amount of the Zehnaly Claim that is allowed.³⁴

Other than the failed transaction with Mr. Zehnaly, the Debtor did not attempt to sell the Properties or the Company pre-petition.

³⁴ ~~The 10-year Cash Flow Statement includes~~ Statements include the Zehnaly Claim in full to demonstrate that the Debtor is capable of paying the full amount potentially owed for Class 3-4.

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III. SIGNIFICANT EVENTS DURING THE CHAPTER 11 CASE

A. Retention of Debtor’s Professionals and Agents

On or about August 12, 2013, the Debtor filed an application to employ Baker & Hostetler LLP (“Baker”) as general bankruptcy counsel (the “Baker Application”). On or about September 25, 2013, the Bankruptcy Court entered an order approving the Baker Application.

On or about November 22, 2013, the Debtor filed an application to employ Hahn Fife & Company, LLP as accountant for the bankruptcy estate (the “Hahn Application”). On or about December 12, 2013, the Bankruptcy Court entered an order approving the Hahn Application.

On or about January 28, 2013, the Debtor filed an application to employ GA Keen Realty Advisors, LLC (“GA Keen”) as real estate broker for the bankruptcy estate (the “GA Keen Application”). MSCI filed an objection to the GA Keen Application. The Debtor, MSCI and GA Keen subsequently stipulated to the employment of GA Keen subject to certain modifications to the terms of GA Keen’s employment. The Debtor lodged a proposed stipulated order to approve the GA Keen Application subject to such modifications on or about February 27, 2014.

In or about February 2014, Baker retained GlassRatner Advisory & Capital Group LLC (“GlassRatner”) as financial advisors and Colliers International Valuation & Advisory Services, LLC (“Colliers”) as valuation advisors for the estate.

B. Stipulations to Keep Receiver in Place

On or about October 28, 2013, the Debtor, MSCI and the Receiver entered into a stipulation to excuse the Receiver ~~of~~from turning over property of the bankruptcy estate in accordance with § 543(d)(1) of the Bankruptcy Code (the “Receiver Stipulation”). Among other things, the Receiver Stipulation permitted the Receiver to continue to collect rents derived from the Properties and operate the Company. In exchange, MSCI authorized the Debtor to utilize MSCI’s alleged cash collateral⁴⁵ without the payment of adequate protection or any amounts due under the Loan. The Receiver Stipulation currently expires on or about March 2, 2014; however,

⁴⁵ “Cash collateral” is defined under § 363 of the Bankruptcy Code. In sum, the proceeds from any collateral (e.g., rent) may be deemed the collateral of the creditor holding a secured claim against the income producing property under certain circumstances. Under the Receiver Stipulation, the Debtor reserved its right to later contest the characterization of rents derived from the Properties as “cash collateral” and the Bankruptcy Court has not determined that the rents constitute the “cash collateral” of MSCI.

1 the parties to the Receiver Stipulation have tentatively agreed to extend the Receiver Stipulation
2 for an additional period of approximately sixty (60) days.

3 **C. Establishment of Claims Bar Date**

4 On or about September 16, 2013, the Debtor filed a notice of claims bar date ("Claims Bar
5 Notice"). According to the Claims Bar Notice, the deadline to file non-governmental claims was
November 15, 2013, and the deadline to file governmental claims was January 27, 2014. The
deadlines for filing claims resulting from the rejection of an executory contract or unexpired lease
and administrative claims are established under the Plan.

D. Exclusivity

Pursuant to § 1121 of the Bankruptcy Code, a debtor has the exclusive right to proposed a
plan of reorganization within the first 120 days and solicit votes on a plan within the first 180
days of a bankruptcy case. On or about October 28, 2013, the Debtor filed a timely motion for an
extension of the exclusivity period. On or about January 27, 2014, the Court entered an order
extending the exclusivity period to February 27, 2014.

On or about February 4, 2014, the Debtor filed a second timely motion for an extension of
the exclusivity period. MSCI filed an opposition to this second motion. During a hearing on the
second motion to extend the exclusivity period held on February 25, 2014, the Court extended the
exclusivity period to February 28, 2014—the deadline previously set by the Court for the Debtor
to file the Plan. On February 28, 2014, the Debtor filed its Plan of Reorganization and Disclosure
Statement, which are amended by this Disclosure Statement and the associated First Amended
Plan of Reorganization.

The Debtor and MSCI have further stipulated to an extension of the exclusivity period ~~in~~
~~which the Debtor shall have the exclusive right to file a plan up to and including April 30, 2014~~
~~assuming the Debtor obtains acceptance of the Plan by such date.~~ 2014. If necessary, the Debtor
shall seek a further extension of the exclusivity period ~~to allow additional time for the Debtor to~~
~~solicit votes on the plan.~~

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E. Use of Cash Collateral and Cash Collateral Proceedings

As previously discussed, MSCI authorized the Debtor to use cash collateral during the pendency of the Bankruptcy Case pursuant to the Receiver Stipulation.

F. Debtor's Schedules, Interim Statements and Operating Reports

On or about August 12, 2013, the Debtor filed its Schedules, which describe the Debtor's assets and liabilities. Copies of the Schedules may be obtained through the online PACER system or in the Clerk's office for the Court. The Debtor has subsequently amended Schedule D, which lists Creditors holding Secured Claims, and Schedule F, which lists Creditors holding General Unsecured Claims.

The Debtor has filed all monthly operating reports. Copies of the monthly operating reports may be obtained through the online PACER system or in the Clerk's office for the Court.

G. Leases and Executory Contracts

The Debtor is the lessor on a number of leases for all or portions of the Properties. To facilitate the performance of the Plan, the Debtor intends to assume most if not all of such leases. A list of all the leases the Debtor intends to assume is attached hereto as **Exhibit A**.

H. Adversary Proceedings and Related Litigation

As previously discussed, the Debtor removed the State Court Actions to this Court where they are currently pending as the Sarkis AP, the MSCI AP, and the Ontario AP (collectively, the "Adversary Proceedings").

The Adversary Proceedings involve the same claims and causes of action alleged in the State Court Actions.

Under the Plan, the Debtor shall also request that the Court dismiss the Ontario AP and the MSCI AP as moot. The Ontario AP seeks to compel the remediation of a nuisance and appoint a receiver if necessary to do so. Similarly, the MSCI AP seeks to appoint a receiver and obtain an injunction to enforce the assignment of rents agreement by compelling the Debtor to turn over the rents to the appointed receiver. As to the Ontario AP, the nuisance has been remediated by the Receiver; thus, this claim is moot. As to the claims seeking appointment of the

1 Receiver, the Debtor resumes control of the business as Reorganized Debtor under the Plan; as a
2 result, these claims are also moot. Finally, the Debtor has or will cure the defaults triggering the
3 assignment of rents to MSCI; accordingly, the claim for an injunction is moot and/or improper.
4 For these reasons, the Ontario AP and the MSCI AP are moot and the relief sought therein is now
5 improper. Under these circumstances, dismissal of the Ontario AP and the MSCI AP is
warranted.

Under the Plan, the Debtor reserves all claims and defenses relating to the Sarkis AP and
intends to prosecute the same post-confirmation. The Debtor estimates the value of the claims
therein alleged in excess of \$10,000,000.00. If successful, the Debtor intends to apply any award
obtained in the Sarkis AP as an off-set to the MSCI Claims or utilize the award to fund the Plan,
if necessary.

The Debtor is also investigating potential liability for individuals and entities involved in
the mismanagement of the Properties pre-petition. The Debtor is informed and believes that the
Receiver had sufficient sums to debt service the Loan. The Debtor is further informed and
believes that, instead of keeping the Loan payments current, the Receiver diverted money to
certain maintenance projects. The Debtor is informed and believes that the
~~unnecessary~~ “necessary” maintenance projects ~~caused~~ caused the Receiver to have insufficient funds
to debt service the Loan and, as a result, the Receiver caused the Debtor to commit a monetary
default—an occurrence that never took place under the Debtor’s management. The Debtor is
informed and believes that as a result of the breach, MSCI has ~~imposed~~ purported to impose
default interest under the Loan in excess of \$1,000,000.00 since September 2012 and commenced
foreclosure proceedings—proceedings which forced the Debtor to file the instant Bankruptcy
Case to save the Properties. Based on the foregoing, the Debtor believes that the Receiver may
have ~~breach~~ breached his fiduciary duty to the Debtor and may have engaged in other negligent or
tortious conduct. The Debtor intends to continue to investigate these matters post-petition and, if
adequate grounds are uncovered, may file suit to reimburse the estate for any harm caused by the
Receiver’s apparent mismanagement.

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1 **I. Plan and Disclosure Statement Proceedings**

2 On or about February 28, 2014, the Debtor filed the Debtor's Chapter 11 Plan of
3 Reorganization and associated disclosure statement. On or about March 4, 2014, the Debtor filed
4 this Disclosure Statement and the Plan associated First Amended Chapter 11 Plan of
5 Reorganization. On or about _____, 2014, MSCI filed an opposition to the Disclosure
Statement. The Court held a hearing on the Disclosure Statement on April ____, 2014, during
which the Court approved the Disclosure Statement. On or about _____, 2014, the Court
entered an order approving the Disclosure Statement and establishing a schedule for the
solicitation of votes on the Plan.

J. Cure

 The Debtor intends to "cure" under 11 U.S.C. §1123(a)(5)(G) by paying
\$1,315,799.00 ~~1,489,181.00~~ (the "Cure Amount") on or before the Effective Date, which Cure
Amount consists of all of the ~~principal and simple interest mortgage payment~~ which had accrued
~~prior to~~ after the alleged monetary default(s) (as well as all of the principal and simple interest
~~which had accrued subsequent to the alleged default(s) and as well as attorneys' fees and costs~~
incurred prior to the Petition Date). Once the Cure Amount is paid, *In re Entz-White* and its
progeny will enable the Debtor to eradicate any and all default interest and/or prepayment
penalties/premiums which allegedly had accrued on the Loan. *Great Western Bank & Trust v.*
Entz-White Lumber and Supply, Inc. (In re Entz-White Lumber and Supply, Inc.), 850 F.2d 1338
(9th Cir. 1988) ("In re Entz-White"). In the unlikely event the definition of cure as contemplated
in 11 U.S.C. §1123(a)(5)(G) is deemed by the Court to be the equivalent ~~of the definition~~ of
"unimpairment" under 11 U.S.C. §1124 (even though the Debtor is not seeking to impair the
MSCI Claim) — thus requiring the Debtor to leave all of the terms of the Loan unimpaired in
order to obtain the benefits of "cure" provided for in *In re Entz White* and its progeny – the Debtor
will leave the terms of the Loan unaltered and pay the Cure Amount in order to eradicate any and
all alleged default interest and/or prepayment penalties/premiums. Treatment under the latter
approach shall be referred to herein (and in the Plan) as the Alternate Plan. Attached hereto as

1 Exhibit C is a set of cash flow projections which demonstrate that even under the Alternate Plan,
2 which is based upon an illogical interpretation of the Bankruptcy Code and *In re Entz White* and
3 its progeny, the Plan is still feasible, and will still be able to meet all of the requirements of 11
4 U.S.C. §1129. As demonstrated in Exhibit C, the Alternate Plan will provide for the sale of the
5 Properties on or about the Maturity Date in the event the Debtor is unable to obtain refinancing
sufficient to pay all of the Allowed Claims in full on or before that date.

K. Sale of Assets

Although the Debtor proposes ~~making Distributions on account of Allowed Claims under the Plan~~ an earn-out plan herein, the Debtor has also retained GA Keen to market the Properties for sale. ~~At present, due to the amount of the MSCI Secured Claim as compared to the value of the Properties, the Plan provides a greater benefit for the Creditors as it provides for a meaningful distribution on account of their Allowed Claims. During~~ Over the course of the Plan, the Debtor maintains the exclusive right to sell the Properties and distribute the proceeds from any such sale in accordance with the terms of the Plan if, in its sole and absolute discretion, the Debtor determines that the sale of the Properties serves the best interests of the estate and its creditors. In the event the purchaser of the Properties assumes the Loan (which shall not require the express consent of any party other than the purchaser and MSCI, which shall not unreasonably withhold such consent), there shall be no prepayment premium, penalty, fee or cost associated with the pre-maturity date disposition of the Properties or payment on account of or in relation to the Note, the MSCI Secured Claim, and/or any of the Loan Documents ("Prepayment Premium").

If the Debtor ~~sells~~ chooses to sell the Properties to a purchaser who is unwilling or unable to assume the Loan, such disposition shall not trigger the payment of any Prepayment Premium, irrespective of whether the disposition of the Properties occurs prior to the Maturity Date. In the event MSCI claims that any Prepayment Premium is due as a result, directly or otherwise, of the disposition of the Properties, MSCI shall not ~~have any right~~ be entitled to payment on account of the MSCI Class 1 claim or any right or entitlement created under the Loan Documents at the close of escrow; rather, the Debtor shall hold the sale proceeds in trust subject to a replacement lien in

1 an amount equal to the unpaid portion of MSCI's Class 1 claim at the time of the disposition.
2 The Debtor shall use the sale proceeds to make the Class 1 payments under the Plan. MSCI shall
3 be entitled to immediate turnover of an amount equal to the unpaid portion of MSCI's Class 1
4 claim at the time of turnover if and only if MSCI waives in writing any claim to any ~~prepayment~~
5 ~~premium, Prepayment Premium or other~~ penalty or cost associated with the pre-maturity-
~~date~~ Maturity Date disposition of the Properties or payment ~~on account of or in relation to the~~
~~Note, the MSCI Secured Claim, and/or any of the Loan Documents of MSCI's Class 1 claim,~~
regardless of whether MSCI asserts such penalty, premium, fee or cost against the Debtor or any
third-party.

L. Preferential and Fraudulent Conveyance Actions

On the Effective Date, the Reorganized Debtor will be vested with authority to enforce, file, litigate, prosecute, settle and/or collect any action or proceeding filed pursuant to the provisions of sections 510, 542, 543, 544, 545, 547, 548, 549 or 550 of the Bankruptcy Code, or any similar action or proceeding filed to recover property for or on behalf of the estate or to avoid a lien or transfer ("Avoidance Actions"), although it will not be required to do so.

The Debtor has ~~begun but not completed its analysis regarding the extent of possible~~
~~claims for preferential or fraudulent transfers (the "Avoidance Action(s)").~~ Claims for relief for
all Avoidance Actions under Sections 544 through 550, including but not limited to claims for the
recovery of preferential transfers, are hereby reserved against all entities to the extent not
~~expressly released under the Plan.~~ not made a final determination as to whether any remaining
Avoidance Actions exist, and the investigation will continue after the Effective Date. All parties
are advised that notwithstanding the fact that the existence of any particular Avoidance Action
may not be listed, disclosed, or set forth in the Plan, an Avoidance Action may be filed against
any creditor or other party at any time prior to the expiration of the applicable statute of
limitations. If the Reorganized Debtor elects to pursue any Avoidance Action or any claim, one
hundred percent of any proceeds, net of any and all attorneys' fees and costs incurred in
connection with the Avoidance Action or claims, which are recovered from the prosecution

1 and/or settlement of any Avoidance Action or claims shall be paid to Holders of Allowed Claims
2 in accordance with the treatment set forth in the Plan.

3 **M. Claim Objections**

4 The Debtor has not completed its review of the Claims in the Bankruptcy Case. In the
5 event a determination with respect the validity and/or extent of any Claim is not resolved through
the Plan or otherwise completed until after the Effective Date or a Claim is filed after the
Effective Date, the Reorganized Debtor reserves all rights to object to any Claim to the extent not
inconsistent with the Plan.

As discussed herein, the Debtor intends to challenge certain claims filed against the Estate,
including, but not limited to, the Zehnaly Claim. The Debtor believes that the failed acquisition
of the Properties giving rise to the Zehnaly Claim is attributable to Zehnaly's failure to act in good
faith and/or use his best efforts to assume the Loan. As such, Zehnaly was not entitled to cancel
the acquisition agreement and demand return of the \$500,000.00 deposit, which Zehnaly now
attempts to do via the Zehnaly Claim.

The Debtor is presently investigating the *bona fides* of other claims, including, but not
limited to, the secured claim asserted by the County of San Bernardino (the "SB Claim"). The
Debtor reserves the right to investigate all claims against the Estate and, if cause exists therefor,
seek to disallow such claims by motion or adversary proceeding ("Disallowance Action"). All
parties are advised that notwithstanding the fact that the existence of any particular Disallowance
Action may not be listed, disclosed, or set forth in the Plan, a Disallowance Action may be filed
against any creditor or other party at any time prior to the expiration of the applicable statute of
limitations. If the Reorganized Debtor elects to pursue any Disallowance Action or any claim, the
disallowance of any such claim shall inure to the Class 5 claimants as all other claimants shall be
paid in full under the Plan.

IV. FINANCIAL INFORMATION REGARDING THE DEBTOR

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A. Historical Financial Information

Attached hereto as **Exhibit D** are copies of the Debtor's unaudited income statements for the fiscal year 2013 as well as year-to-date 2014, and the unaudited balance sheets for December 2013 and January 2014. Attached hereto as **Exhibit E** is a copy of the most recent report filed by the Receiver, which contains, among other things, the financial information regarding the Company's current performance.

B. Financial Information Provided During the Case

As set forth above, the Debtor filed Schedules in this Bankruptcy Case that provide substantial financial information regarding its assets and liabilities as of the Petition Date. The Schedules are available on-line through PACER or at the Clerk's Office. In addition to such Schedules, the Debtor has prepared and filed monthly operating reports as required by the OUST, and those are also available for inspection from the same sources as the Schedules. The Receiver has also filed periodic receiver reports containing information about the Debtor's finances and financial performance, and those are also available for inspection from the same sources as the Schedules.

THE DEBTOR CANNOT WARRANT OR REPRESENT THAT THE FINANCIAL INFORMATION CONTAINED IN OR ATTACHED TO OR REFERENCED BY THIS DISCLOSURE STATEMENT IS WITHOUT ANY INACCURACIES OR IS CONSISTENT WITH ANY ACCOUNTING STANDARDS, ALTHOUGH THE DEBTOR BELIEVES THAT IT HAS MADE REASONABLE EFFORTS, UNDER THE CIRCUMSTANCES, TO PRESENT THE FINANCIAL INFORMATION FAIRLY AND ACCURATELY AND IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES.

V. SUMMARY OF THE PLAN OF REORGANIZATION

The following is a summary of the material provisions of the Plan, although it should not replace a review of the Plan in its entirety.

The treatment of Allowed Claims and Allowed Interests under the Plan supersedes any agreements or rights the Holders of those Claims or Interests may have in or against the Debtor or

1 their assets and is in full satisfaction of the legal, equitable, and contractual rights of the holders
2 of the Claims or Interests. Unless the Plan provides otherwise, no distributions will be made and
3 no rights retained on account of any Claim or Interest that has not become an Allowed Claim or
4 Allowed Interest.

5 As is required by the Bankruptcy Code, the Plan classifies Claims and Interests into various Classes according to their right to priority. The Plan states whether each class of Claims or Interests is impaired and provides the treatment that each Class will receive.

Under the Plan, the Debtor intends to cure alleged prepetition defaults claimed by MSCJ, thereby avoiding default interest and prepayment penalties/premiums, and, thereafter, repay the Allowed Claims over a term of 10 years. This plan is referred to herein as the "Primary Plan." In the unlikely event that the Court determines that the Debtor cannot cure if the Debtor alters the terms of the Loan, the Debtor shall cure the alleged prepetition defaults and perform under the terms of the Loan, which will allow the Debtor to avoid the alleged default interest and prepayment penalties/premiums, among other things. The Debtor shall thereafter repay the Allowed Claims over a term of 32 months from the Effective Date. This alternate plan is referred to herein as the "Alternate Plan." Under either the Primary Plan or the Alternate Plan, a portion of the Allowed Claims may be paid through take-out financing, refinancing of the Properties and/or sale of the Properties. Both plans provide for payment of 100% of the Allowed Claims with interest at the legal, market or applicable contractual rate, as appropriate.

A. Allowance and Treatment of Unclassified Claims

Certain types of Claims are not placed into voting classes but are instead unclassified. They are not considered to be impaired, and they do not vote on the Plan because they are automatically entitled to certain treatment under the Bankruptcy Code. The following Claims have not been put into a Class:

1. Administrative Claims

Administrative Claims are for costs or expenses incurred in the administration of the Bankruptcy Case that are allowable under 11 U.S.C. § 503(b) ~~of the Bankruptcy Code~~ or 28

1 U.S.C. §1930 (“Administrative Claims”), and include claims incurred post-petition in the
2 ordinary course of the Debtor’s business, fees and expenses of professionals, and fees due to the
3 Office of the United States Trustee (the “OUST”). The following chart lists all of Debtor’s
4 unpaid Administrative Claims and their treatment under the Plan:
5

Description	Estimated Amount Required to Be Paid On The Effective Date ⁵⁶	Treatment
Clerk’s Office Fees	TBD	Paid in full on or before the Effective Date.
Office of the U.S. Trustee	TBD	In accordance with 28 U.S.C. §1930(a)(6), prior to the Effective Date, the Debtor will timely pay any and all quarterly fees as they become due and, after the Effective Date, the Reorganized Debtor will timely pay any and all quarterly fees when due.
Baker & Hostetler LLP, General Insolvency Counsel to Debtor	<u>Total Amount of Claim:</u> \$700,000.00 <u>Amount Due on Effective Date:</u> \$225,000.00	Upon the Effective Date or entry of an order approving the payment of fees, whichever is later, Baker & Hostetler shall be paid the sum of \$225,000.00 on account of its administrative claim. The remainder of the claim shall be paid in monthly installments in the amount of \$15,000.00 per month for months 1-12 and \$50,000.00 per month thereafter until paid in full commencing the first full month following the Effective Date or entry of an order approving such fees, whichever is later.
GlassRatner, Financial Consultant to Debtor	<u>Total Amount of Claim:</u> \$170,000.00 <u>Amount Due on Effective Date:</u> \$80,000.00	GlassRatner shall be paid the sum of \$80,000.00 on account of its administrative claim on the Effective Date. The remainder of the claim shall be paid in monthly installments in the amount of \$8,750.00 per month until paid in full.
GA Keen Realty Advisory LLC, Real Estate Broker to Debtor	<u>Total Amount of Claim:</u> [TBD] <u>Amount Due on Effective Date:</u> \$0.00	GA Keen shall be paid a commission in the amount of 1.25% of the gross sale amount or such other amount approved by the Court (the “GA Keen Commission”) from the sale of the Properties upon entry of an order approving the sale of the Properties or the GA Keen Commission. If the Properties are not sold, GA Keen shall not receive any Distribution under the Plan.
Hahn & Fife, Accountant to Debtor	<u>Total Amount of Claim:</u> \$2,000.00	Paid in full on the Effective Date.

⁵⁶ These amounts are only estimates and are subject to change. The unpaid amount of allowed final fees and costs for some professionals may be higher and others may be lower.

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	<u>Amount Due on Effective Date:</u> \$2,000.00	
Patrick Galentine of Coreland Companies, State Court receiver	<u>Total Amount of Claim:</u> \$3,835.00	Paid in full on the Effective Date.
	<u>Amount Due on Effective Date:</u> \$3,835.00	
Franchise Tax Board	Unknown	Taxes which accrue after the Petition Date and prior to the Effective Date will be paid in full on or before the Effective Date.
Internal Revenue Service	Unknown	Taxes which accrue after the Petition Date and prior to the Effective Date will be paid in full on or before the Effective Date.
County of San Bernardino	Unknown	Taxes which accrue after the Petition Date and prior to the Effective Date will be paid in full on or before the Effective Date.

a. Ordinary Course Administrative Claims

Ordinary course Administrative Claims generally include debt the Debtor incurs in the ordinary course of operating its business (“Ordinary Course Administrative Claims”) as well as taxes accrued after the Petition Date and prior to the Effective Date. Ordinary Course Administrative Claims do not include claims for professional fees (“Professional Fee Claims”).

b. Professional Fee Claims

Professional Fee Claims are Administrative Claims incurred by professionals of the estate. The Bankruptcy Code requires that all Professional Fee Claims be paid in full on the Effective Date unless the professional agrees to different treatment. Prior to being paid, the payment of such professional fees must be approved by the Court.

c. Administrative Claims Bar Date

All requests for payment of an Administrative Claim that accrued between the Petition Date and the Effective Date (other than the Professional Fee Claims) and that have not otherwise been paid by the Debtor or specifically treated under the Plan must be filed with the Bankruptcy Court no later than forty-five (45) days after entry of the order confirming the Plan (the “Confirmation Order”) or shall be forever barred (the “Administrative Claims Bar Date”). Within

1 ten (10) days after entry of the Confirmation Order, the Reorganized Debtor will serve notice of
2 the Administrative Claims Bar Date on all creditors and parties in interest.

3 d. Deadline for Objections to Administrative Claims

4 All objections to the allowance of any Administrative Claim (other than Professional Fee
5 Claims) must be filed no later than ninety (90) days after the Administrative Claims Bar Date (the
“Administrative Claims Objection Deadline”). The Administrative Claims Objection Deadline
may be extended for one additional ninety (90) day period by the filing by the Reorganized Debtor
of a notice of extension of the Administrative Claims Objection Deadline. Any further extensions
may only be obtained by an order of the Bankruptcy Court for cause. If no objection is filed to an
Administrative Claim on or before the Administrative Claim Objection Deadline, such
Administrative Claim will be deemed allowed as of the Administrative Claim Objection Deadline
unless the Administrative Claim Objection Deadline is extended. Except as otherwise agreed or
provided under the Plan, an Administrative Claim will be paid in full within sixty (60) days after
the date that it becomes an Allowed Claim.

2. Priority Tax Claims

Priority tax claims include certain unsecured income, employment, and other taxes
described by § 507(a)(8) of the Bankruptcy Code (“Priority Tax Claims”). The Bankruptcy Code
requires that each holder of a § 507(a)(8) Priority Tax Claim receive the present value of such
Claim in deferred cash payments, over a period of time not exceeding five (5) years from the
order for relief. The Internal Revenue Service and the California Franchise Tax Board hold
priority tax claims. The treatment of such claims is set forth in Class 2 below.

B. Allowance and Treatment of Classified Claims and Interests

As required by the Bankruptcy Code, the Plan places Claims and Interests into various
classes according to their right to priority and other relative rights. The charts below list each class
of Claims and Interests established under the Plan and indicates whether the class is impaired or
unimpaired by the Plan. A class is unimpaired if the Plan leaves unaltered the legal, equitable,

1 and contractual rights to which the holders of Claims or Interests in the class are entitled, with
 2 limited exceptions.

3 **1. Classes of Secured Claims**

4 Secured claims are Claims secured by valid and properly perfected liens on property in
 5 which the Debtor has an interest ("Secured Claims"). The holders of Secured Claims may be referred to herein as "Secured Creditors". ~~The Plan proposes to pay allowed Secured Claims over a period of 10 years from the Effective Date.~~ The allowed Secured Claims may be prepaid without the payment of any Prepayment Premium or other prepayment penalty, fee, premium or cost(s). The following chart lists the Secured Claims and their treatment under the Plan:

Class	Description	Insiders? ⁶⁷	Impaired?	Treatment
1A	<p>Claimant: County of San Bernardino</p> <p><u>Collateral Description:</u> <u>The Properties</u></p> <p><u>Collateral Value:</u> <u>\$23,580,000.00</u></p> <p><u>Claim Amount:</u> <u>\$312,026.57</u></p>	No	Yes	<p>Although the Debtor may dispute the San Bernardino claim, the following treatment assumes that such claim is valid.</p> <p><u>Primary Plan Treatment:</u> Under the primary proposed plan treatment, San Bernardino shall receive a first priority lien on the Properties securing indebtedness in the amount of \$312,026.57 (the "SB Claim"). The SB Claim shall be paid \$100,000.00 on the Effective Date. During the first year of the Plan, the SB Claim shall receive 12 equal monthly payments of \$11,513.75. In years 2 through 10, San Bernardino shall receive 108 in 36 equal monthly payments in the amount of \$2,169.50. 5,785.00 commencing on the Effective Date with the remainder paid in a lump-sum in the 37th month of the Plan. <u>Under this plan, an interest rate of 18% per annum shall apply to the SB Claim.</u></p> <p><u>Alternate Plan Treatment:</u> Under the alternate proposed plan treatment, San Bernardino shall receive a first priority lien on the Properties securing indebtedness in the amount of \$312,026.57 (the "SB Claim"). The SB Claim shall be paid \$100,000.00 on the Effective Date. During</p>

⁶⁷ As defined in 11 U.S.C. §101(31), the term Insider includes, the (i) director of the Debtor; (ii) officer of the Debtor; (iii) person in control of the Debtor; (iv) partnership in which the Debtor is a general partner; (v) general partner of the debtor; or (vi) relative of a general partner, director, officer, or person in control of the Debtor.¹

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			<p>the first year of the Plan, the SB Claim shall receive 12as follows: (a) 32 equal monthly payments of \$11,513.75. In years 2, San Bernardino shall receive 12 equal monthly payments in the amount of \$6,525.08. In years 3, San Bernardino shall receive 8 equal monthly payments in the amount of \$7,544.63. <u>4,680.00 commencing on the Effective Date and, thereafter. (b) a lump sum payment of \$312,027.00 upon the sale or refinancing of the Properties on or before the Maturity Date (February 5, 2017). Under this plan, an interest rate of 18% per annum shall apply to the SB Claim.</u></p>
1B	<p><u>Claimant:</u> MSCI 2007-IQ13 Ontario Retail Limited Partnership</p> <p><u>Collateral Description:</u> The Properties</p> <p><u>Basis for Perfection:</u> First-Priority Deed of Trust</p> <p><u>Collateral Value:</u> \$23,580,000.00</p> <p><u>Claim Amount:</u> \$22,252,784.79<u>20,906,833.00</u></p>	No	<p>Yes</p> <p>The Plan envisions two potential plan treatments for the MSCI Class 1 claim. Under each plan, the Debtor intends to cure the pre-confirmation<u>prepetition</u> default on the Effective Date with a lump-sum payment in the amount of \$1,315,799.00. Due to the cur of the pre-confirmation default, the<u>1,489,181.00</u>. The Plan shall not pay any accrued default interest. Additionally, as the Debtor is not prepaying any amounts due under the Loan, the<u>The</u> Plan shall not pay any portion of the asserted "Prepayment Premium" (as defined herein and in the Loan Documents).</p> <p><u>Primary Plan Treatment:</u> Under the primary proposed plan treatment, MSCI shall receive a first priority <u>lien subject only to the San Bernardino</u> lien on the Properties securing indebtedness in the amount of \$22,252,784.79<u>20,906,833.00</u> (the "MSCI Claim"). The MSCI Claim shall be paid based on a 30-year amortization with a balloon payment in<u>on or before</u> the 120th month of the Plan. Under this plan, the new maturity date of the imputed loan will be Jun 31, 2024. During the pendency of the Plan, MSCI shall receive 120 equal monthly payments in the amount of \$104,286.75<u>105,931.85</u> with an interest rate of 4.5% <i>per annum</i>. The residual amount owed on account of the MSCI Claim will be paid in<u>on or before</u> the 120th month of the Plan through take-out financing or the sale of the Properties.</p> <p><u>Alternate Plan Treatment:</u></p>

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			<p>3. The Debtor shall no longer require the consent or approval of MSCI to make any "Alterations" or "Material Leases" (as those terms are defined in the Loan Documents) after the Effective Date.</p> <p>4. The Assumption of the Loan or any obligations under the Loan Documents by a purchaser of the Properties shall not be affected or otherwise limited in any way by any prior or currently-existing default under any of the Loan Documents.</p> <p>5. The Debtor and/or the Reorganized Debtor shall not be liable for or obliged to reimburse any loan servicer or special loan servicer for any expenses incurred by such entity relating to the Debtor, the Reorganized Debtor, or the Loan Documents (or any of them).</p> <p>6. All "Barrower<u>Borrower</u>'s Recourse Liabilities" and "Springing Recourse Events" (as those terms are defined in the Loan Documents) shall be stricken from the Loan Documents and any provision purporting to impose any fee, cost or liability, or otherwise affect the rights of the Debtor or Reorganized Debtor on account of any "Barrower<u>Borrower</u>'s Recourse Liabilities" or "Springing Recourse Events" shall be null and void.</p> <p>7. Paragraph 10.5 of the Loan (or Loan Agreement) shall no longer be in the sole and absolute discretion <u>of MSCI</u>; rather, MSCI's actions under this provision must be carried out in a reasonable manner.</p> <p>8. The Default provisions of the Loan Documents are null and void. Any alleged default under the Loan Documents (or any of them) <u>or the Plan</u> shall be governed by the following Default and Cure provisions <u>provided in the Plan</u>.</p> <p>Default and Cure: The failure to remit payment to MSCI on or before the date due shall constitute an event of default. Upon the occurrence of an event of default, MSCI shall notify the Debtor of the alleged default within five (5) calendar days of the alleged default. Failure to timely notify the Debtor of the</p>
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			<p>alleged default shall constitute a waiver of the default (but not a waiver of the entitlement to the payment due) and such default shall not constitute an event of default for purposes of this paragraph. The Debtor shall have ten (10) calendar after receipt of notice of the alleged default to cure or contest the default. If the Debtor (i) fails to cure or contest the alleged default by filing a motion in the Bankruptcy Court or (ii) defaults for the third time within any 12-month period, the Debtor shall be in material breach of the Plan. Upon the occurrence of a material breach under the plan, MSCI may thereafter move to enforce the Plan or move for relief from the automatic stay.</p> <p>Based upon the actions taken by MSCI, the Debtor may seek to recharacterize the debt of MSCI as equity.</p> <p><u>Remaining Loan Provisions:</u> All provisions of the Loan Documents not inconsistent with or revised or superseded by the terms of the Plan shall remain in full force and effect.</p> <p><u>Debt Recharacterization:</u> <u>If permitted under applicable law, the Debtor may seek to recharacterize the debt of MSCI as equity in the Reorganized Debtor. If recharacterized, MSCI would no longer hold Class 1B claim and would receive distributions as an Equity Interest Holder in Class 5.</u></p>
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2. Classes of Priority Unsecured Tax Claims

Certain Priority Claims that are referred to in Bankruptcy Code sections 507(a)(8) (collectively, the “Priority Tax Claims” and, individually, a “Priority Tax Claim”) are required to be placed in classes. The holders of Priority Tax Claims may be referred to herein as “Priority Unsecured Creditors”. The Bankruptcy Code requires that each holder of such a Priority Claim receive cash payments under the Plan equal to the total value of its claim as of the Effective Date of the Plan. Priority Tax Claims must receive treatment equal to or more favorable than the treatment of general unsecured claims and the term of repayment may not exceed 5 years from the Petition Date.

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Class	Description	Insiders?	Impaired?	Treatment
2A	<p>Claimant: California Franchise Tax Board</p> <p>Claim Amount: \$30,241.71</p>	No	No	Regardless of which of the proposed plans the Court confirms, the Class 2A claim shall be paid in monthly installment commencing on the Effective Date of the plan in the amount of \$946.78 for months 1-24 and the amount of \$1,180.59 for months 25-32.
2B	<p>Claimant: Internal Revenue Service</p> <p>Claim Amount: \$1,700.00</p>	No	Yes	Regardless of which of the proposed plans the Court confirms, the Class 2B claim shall be paid in monthly installment commencing on the Effective Date of the plan in the amount of \$53.22 for months 1-24 and the amount of \$66.37 for months 25-32.

3. Classes of General Unsecured Claims

General unsecured Claims are unsecured Claims not entitled to priority under § 507(a) of the Bankruptcy Code (“General Unsecured Claims”). The holders of General Unsecured Claims may be referred to herein as “General Unsecured Creditors”. The following chart identifies the Plan’s treatment of the Debtor’s General Unsecured Claims.

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Class	Description	Insiders?	Impaired?	Treatment
3	<p>Judgment Creditors</p> <p>Claimants: (1) Tri-West Mechanical, Inc. (\$156,255.61) and (2) City of Ontario (\$14,688.32)</p> <p>Total Claims: \$170,943.93</p>	No	Yes	<p>Primary Plan Treatment: Under the Primary Plan, Class 3 claimants shall receive 84 equal monthly payments (to be divided <i>pro rata</i>) commencing in the 37th month of the Plan in the amount of \$2,052.16. The 2,052.20 until the claim is paid in full. Class 3 Primary Plan treatment incorporates <u>claims shall accrue interest at the federal default interest rate as of the Effective Date (0.12%).</u></p> <p>Alternate Plan Treatment: Under the Alternate Plan, Class 3 claimants shall receive <u>84 lump sum payment</u> equal monthly payments (to be divided <i>pro rata</i>) commencing in the 25th month of the Plan in the amount of \$21,436.50. The to the allowed claims upon the sale or refinancing of the Properties on or before the Maturity Date (February 5, 2017). Class 3 Alternate Plan treatment incorporates <u>claims shall accrue interest at the federal default interest rate as of the Effective Date (0.12%).</u></p>
4	<p>Remaining General Unsecured Claims</p>	No	Yes	<p>Primary Plan Treatment: Under the Primary Plan, Class 4 claimants shall receive 84 equal monthly payments</p>

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	<p><u>Claimants:</u> (1) Southern California Edison (\$4,956.47), (2) Donald Scoggins (\$48,280.00), (3) Ghazer Zehnaly (\$0.00), ⁷⁸ (4) Southern California Edison (\$4,833.80), (5) Coreland Companies (\$1,531.52), (65) TSP Roof Systems, Inc. (\$1,828.00), (76) Fire Safety First (\$350.00), (87) AAA Property Services (\$81.46), (98) Dial Security (\$700.00), (109) Quality Septic Services (\$1,940.00), (1110) Ram Plumbing Heating (\$139.00), (1211) Critical Environments, Inc. (\$4,522.00), (1312) Verizon California (\$117.61), (1413) M3 Mechanical (\$28,485.66), (1514) Marquis Construction (\$21,539.00), (1615) Golden Eagle Insurance (\$6,125.03), and (1716) BB&T Insurance (\$5,700.00)</p> <p><u>Total Claims:</u> \$157,952.83 <u>149,284.03</u></p>			<p>(to be divided <i>pro rata</i>) commencing in the 37th month of the Plan in the amount of \$1,834,747,729.57. No interest shall be paid on the Class 4 claims under the Primary Plan. <u>Class 4 claims shall accrue interest at the federal default interest rate (0.10%).</u></p> <p><u>Alternate Plan Treatment:</u> Under the Alternate Plan, Class 34 claimants shall receive a lump sum payment equal monthly payments (to be divided <i>pro rata</i>) commencing in the 25th month of the Plan in the amount of \$19,264.75. No interest shall be paid on the Class 4 claims under the Primary Plan to the allowed claims upon the sale or refinancing of the Properties on or before the Maturity Date (February 5, 2017). <u>Class 4 claims shall accrue interest at the federal default interest rate (0.10%).</u></p>
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4. Class of Interest Holders

Interest holders are the parties who hold an ownership interest (i.e. equity interest) in the Debtor (the “Interest Holders”). The Debtor is a limited liability company and, therefore, its

⁷⁸ As discussed herein, the Debtor disputes the Zehnaly Claim and proposes no payments on account of the Zehnaly Claim under Class 4.

1 ~~members are~~ member is an Interest Holders~~Holder~~. The following chart lists the treatment under
2 the Plan of the Debtor's Interest Holders:
3

4 Class	Description	Impaired?	Treatment
5 5	Claimant: Sarkis Investments, LLC	No	As of the Effective Date, each of the Interest Holders Holder shall receive an interest in the Reorganized Debtor equal to the interest the Interest Holder held in the Company pre-petition.

VI. MEANS OF EFFECTUATING THE PLAN

This section is intended to explain how the Debtor intends to effectuate the reorganization contemplated by the Plan, and how the Debtor intends to fund the Distributions and other obligations to creditors undertaken in the Plan. This section also provides information regarding prospective corporate governance of the Reorganized Debtor, funding sources for Plan obligations, and other material issues bearing upon performance of the Plan.

A. Funding for the Plan

1. Cash from Operations

The Plan will be funded with (a) available cash on the Effective Date (currently projected at approximately \$2,977,643), consisting primarily of pre-petition and pre-confirmation revenues generated from business operations and funds held in reserve by MSCI, (b) a non-refundable deposit forfeited by the previous purchaser, and (c) cash flow generated from the continuing operation of the Debtor's business.

The financial projections attached to the ~~Disclosure Statement~~ thereto (the "Financial Projections") as **Exhibits B** and **C** assume a growth rate of 3% based upon historical growth and current and proposed lease agreements.

2. Continued Effort to Sell the Properties and/or the Company

Although both Plans provide for distributions to creditors and Interest holders on account of their Allowed Claims and allowed Interests over a period of time, the Reorganized Debtor will engage in efforts to sell the Properties and, in the case of the Alternate Plan, intends on selling the Properties on or ~~about~~ before February 5, ~~2017~~ 2017 (the Maturity Date). In the event that the Reorganized Debtor enters into a transaction for the sale of the Properties, the Reorganized

1 Debtor, upon closing of such transaction and Bankruptcy Court approval of the same, shall
2 immediately pay the allowed portion of the Allowed Claims, if necessary or otherwise provided
3 for in this Plan.

4 The Reorganized Debtor shall retain the sole right to continue to market the Properties for
5 sale and, with the assistance of its professionals, shall be responsible for investigating, negotiation
and effectuating any such sale. The Reorganized Debtor shall also retain the right to seek
approval of the sale from the Bankruptcy Court and avail itself of any relief available under the
Bankruptcy Code (including, but not limited to, all subsections of 11 U.S.C. § 363), Federal Rules
of Bankruptcy Procedure and/or other applicable law, if it so chooses, relating to the sale, transfer
or disposition of property.

Notwithstanding any provision of the Plan, the Debtor expressly reserves the right to sell
the Properties at any point in time after confirmation of the Plan. Except as expressly provided
herein, the Debtor shall pay all Allowed Claim upon sale of the Properties.

3. Refinancing of the Properties

Although the ~~Plan provides~~ Plans provide for distributions to creditors and Interest holders
on account of their Allowed Claims and allowed Interests over a period of time, the Reorganized
Debtor reserves the right to investigate, negotiate and enter into a transaction to refinance and/or
restructure the debt secured on the Properties. ~~In the event the Reorganized Debtor refinances the
Properties, the Reorganized Debtor shall pay the MSCI Claim in full at the time of refinancing,
unless MSCI agrees to alternate treatment on account of its claim or is the lender on the
refinancing of the Properties.~~ If the Reorganized Debtor refinances the Properties, the Reorganized
Debtor will continue to operate the business and pay any and all ~~unsecured claims~~ Allowed Claims
in accordance with the terms of the Plan.

B. Composition of the Reorganized Debtor and Post-Confirmation Management

From and after the Effective Date, the management shall consist of the Debtor's
pre-petition management.

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C. Corporate Actions

On the Effective Date, all actions contemplated by the Plan, including matters involving the corporate structure of the Debtor or Reorganized Debtor, shall be deemed authorized and approved in all respects, subject to the provisions of the Plan, by virtue of the entry of the Confirmation Order, in accordance with the Bankruptcy Code and applicable state law and without any requirement of further action by the partners, officers, or directors of the Debtor or the Reorganized Debtor. On the Effective Date, the officers and directors of the Reorganized Debtor will be authorized and directed to implement the provisions of the Plan and any other agreements, documents, and instruments contemplated by the Plan in the name of and on behalf of the Reorganized Debtor.

D. Changes in Rate Subject to Regulatory Commission Approval

The Debtor is not subject to governmental regulatory commission approval of its rates.

E. Exemption from Certain Transfer Taxes

Pursuant to §1146(a) of the Bankruptcy Code, the issuance, transfer or exchange of any Security or the making or delivery of any instrument of transfer under this Plan may not be taxed under any law imposing a stamp tax, use tax, sales tax or similar tax. Any sale of any asset of the Debtor occurring after or upon the Effective Date shall be deemed to be in furtherance of this Plan.

F. Post-Confirmation Litigation

Except as set forth below, on the Effective Date, the Reorganized Debtor will be vested with authority to enforce, file, litigate, prosecute, settle and/or collect any action, adversary proceeding ~~and/or~~ judgment, and/or claims or causes of action. All parties are advised that notwithstanding the fact that the existence of any particular action, claim for relief, or cause of action may not be listed, disclosed, or set forth in the Plan, the Reorganized Debtor may commence litigation against any party, whether such party is a creditor of the estate, at any time prior to the expiration of the applicable statute of limitations. If the Primary Plan or Alternate Plan is confirmed, the ~~MSCI AP and Ontario AP~~ adversary proceeding styled *MSCI 2007-IQ13*

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1 Ontario Retail Limited Partnership v. Sarkis Investments Company, LLC bearing adversary
2 proceeding number 2:13-ap-01859-RK (the "MSCI AP") and the adversary proceeding styled City
3 of Ontario v. Sarkis Investments Company, LLC bearing adversary proceeding number
4 2:13-ap-01860-RK (the "Ontario AP") shall be dismissed upon the Effective Date unless the
5 Court orders otherwise.

Possible claims the Debtor intends to file, prosecute and/or defend against post-confirmation include without limitation (1) the adversary proceeding styled *Sarkis Investments Company, LLC v. MSCI 2007-IQ13 Ontario Retail Limited Partnership* bearing adversary proceeding number 2:13-ap-01938-RK (the "Sarkis AP"), and (2) the adversary proceeding styled *MSCI 2007-IQ13 Ontario Retail Limited Partnership v. Sarkis Investments Company, LLC* bearing adversary proceeding number 2:13-ap-01859-RK (the "MSCI AP"), and (3) the adversary proceeding styled *City of Ontario v. Sarkis Investments Company, LLC* bearing adversary proceeding number 2:13-ap-01860-RK (the "Ontario AP") potential adversary proceeding against the Receiver for failing to pay all payments to MSCI when due, which caused the monetary default under the Loan Document and, eventually, the commencement of the foreclosure proceeding leading to the instant Bankruptcy Case.

1. The Sarkis AP

The Sarkis AP involves claims alleged against MSCI arising out of a loan issued in or about February 2007 with an initial principal amount of \$21,000,000 \$21,000,000.00 loan secured on the Properties (the "MSCI Loan"), including, but not limited to, breach of contract, slander of title, predatory lending, unfair business practices, interference with prospective economic advantage, interference with contractual relations, and declaratory relief. Under the Plan, the Debtor reserves all claims and defenses relating to the Sarkis AP and intends to prosecute the same post-confirmation. The Debtor estimates the value of the claims therein alleged in excess of \$10,000,000.00. If successful, the Debtor intends to apply any award obtained in the Sarkis AP as an off-set to the MSCI Claims or utilize the award to fund the Plan.

2. The MSCI AP and Ontario AP

1 Under the Plan, the Debtor shall also request that the Court dismiss the Ontario AP and
2 the MSCI AP as moot. The Ontario AP seeks to compel the remediation of a nuisance and
3 appoint a receiver if necessary to do so. Similarly, the MSCI AP seeks to appoint a receiver and
4 obtain an injunction to enforce the assignment of rents agreement by compelling the Debtor to
5 turn over the rents to the appointed receiver. As to the Ontario AP, the nuisance has been
remediated by the Receiver; thus, this claim is moot. As to the claims seeking appointment of the
Receiver, the Debtor resumes control of the business as Reorganized Debtor under the Plan; as a
result, these claims are also moot. Finally, the Debtor has or will cure the defaults triggering the
assignment of rents to MSCI; accordingly, the claim for an injunction is moot and/or improper.
For these reasons, the Ontario AP and the MSCI AP are moot and the relief sought therein is now
improper. Under these circumstances, dismissal of the Ontario AP and the MSCI AP is
warranted.

3. Fraudulent/Preferential Transfer Claims

On the Effective Date, the Reorganized Debtor will be vested with authority to enforce, file, litigate, prosecute, settle and/or collect any action or proceeding filed pursuant to the provisions of sections 510, 542, 543, 544, 545, 547, 548, 549 or 550 of the Bankruptcy Code, or any similar action or proceeding filed to recover property for or on behalf of the estate or to avoid a lien or transfer ("Avoidance Actions"), although it will not be required to do so.

The Debtor has not made a final determination as to whether any remaining Avoidance Actions exist, and the investigation will continue after the Effective Date. All parties are advised that notwithstanding the fact that the existence of any particular Avoidance Action may not be listed, disclosed, or set forth in the Plan, an Avoidance Action may be filed against any creditor or other party at any time prior to the expiration of the applicable statute of limitations. If the Reorganized Debtor elects to pursue any Avoidance Action or any claim, one hundred percent of any proceeds, net of any and all attorneys' fees and costs incurred in connection with the Avoidance Action or claims, which are recovered from the prosecution and/or settlement of any

1 Avoidance Action or claims shall be paid to Holders of Allowed Claims in accordance with the
2 treatment set forth in the Plan.

3 **4. Claim Disallowance Litigation**

4 As discussed herein, the Debtor intends to challenge certain claims filed against the Estate,
5 including, but not limited to, the Zehnaly Claim. The Debtor believes that the failed acquisition
of the Properties giving rise to the Zehnaly Claim is attributable to Zehnaly's failure to act in good
faith and/or use his best efforts to assume the Loan. As a result of his failure to use his best efforts,
Zehnaly was ultimately unable to assume the Loan. As such, Zehnaly was not entitled to cancel
the acquisition agreement or demand return of the \$500,000.00 deposit, which Zehnaly now
attempts to do via the Zehnaly Claim.

The Debtor is presently investigating the *bona fides* of other claims, including, but not
limited to, the secured claim asserted by the County of San Bernardino (the "SB Claim"). The
Debtor reserves the right to investigate all claims against the Estate and, if cause exists therefor,
seek to disallow such claims by motion or adversary proceeding ("Disallowance Action"). All
parties are advised that notwithstanding the fact that the existence of any particular Disallowance
Action may not be listed, disclosed, or set forth in the Plan, a Disallowance Action may be filed
against any creditor or other party at any time prior to the expiration of the applicable statute of
limitations. If the Reorganized Debtor elects to pursue any Disallowance Action or any claim, the
disallowance of any such claim shall inure to the Class 5 claimants as all other claimants shall be
paid in full under the Plan.

5. ~~3-~~ Other Potential Claims

The Debtor has not made a final determination as to whether to commence or prosecute any other lawsuits or adversary proceedings. In the event the Debtor is unable to reach a consensual resolution with MSCI, which resolves all claims between the Debtor and MSCI, the Debtor intends to file a first amended complaint, which shall include claims of relief for breach of contract, predatory lending/unfair business practices, slander of title, rescission (pre-loan assumption letter agreement), intentional interference with prospective economic advantage,

1 negligent interference with prospective economic advantage , intentional interference with
2 contractual relations, and declaratory relief.

3 In the event that the Debtor is held responsible for all of any portion of the default interest
4 alleged by MSCI for the period commencing June 5, 2012 through and including the Effective
5 Date, the Debtor will seek to recover all such amounts from the Receiver. The Receiver was
appointed in November, 2011. In every month that the Receiver has controlled the Properties, the
gross revenue from the Properties exceeded the amount of the monthly mortgage payment. From
the time that the Receiver assumed control of the Properties until June, 2012, the Receiver made
the monthly mortgage payments. On or about June, 2012, the Receiver elected to make Capital
Expenditure improvements (the "CapEx") to the Properties at the expense of making the
mortgage payments. For every month that such mortgage payments were not made, MSCI alleges
that over \$85,000 in default interest accrued. Based upon information and belief, the Receiver did
not attempt to borrow the amounts expended on CapEx (approximately \$1,000,000) by way of a
Receiver's Certificate(s). Had the Receiver issued a Receiver's Certificate(s) for such amounts,
the Receiver could have made the monthly mortgage payments (thereby avoiding the alleged
\$85,000 of default interest) instead paying interest (based upon an assumed interest rate of 12%)
of approximately \$10,000 per month, thereby saving the debtor over \$75,000 per month or over
\$900,000 per year.

G. Compromise of Controversies

From and after the Effective Date, the Reorganized Debtor shall be entitled to compromise
all or any part of a Disputed Claim without any need for notice to Creditors or approval from the
Bankruptcy Court, ~~other than the compromise of controversies between the Reorganized Debtor,~~
~~on the one hand, and any insiders of affiliates on the other hand (the "Insider Compromises").~~ A
Disputed Claim shall mean a claim (1) for which no proof of claim was filed and which the
Debtor listed in its schedules as unliquidated, disputed, contingent or unknown; or (2) which is
the subject of a timely objection or request for estimation which was filed on or before the claims
objection deadline, which objection has not been withdrawn or determined by a final order. The

1 ~~Insider Compromises shall be subject to Bankruptcy Court approval, after notice to, and an~~
2 ~~opportunity to be heard from, the twenty (20) largest unsecured creditors, the secured creditors,~~
3 ~~and the OUST-Reorganized Debtor. however, may seek approval of any compromise under Rule~~
4 ~~9019 of the Federal Rules of Bankruptcy Procedure or avail itself of any relief available under the~~
5 ~~Bankruptcy Code, Federal Rules of Bankruptcy Procedure and/or other applicable law, if it so~~
~~chooses, relating to the settlement of any dispute or other compromise.~~

H. Right to Setoff

Pursuant to section 553 of the Bankruptcy Code or applicable non-bankruptcy law, the Reorganized Debtor may setoff against any Allowed Claim and Distribution to be made pursuant to the Plan on account of such Allowed Claim any account stated, claim, right, or Cause of Action which the Debtor, the Reorganized Debtor and/or the bankruptcy estate possesses against the Holder of such Allowed Claim; provided, however, that neither the failure to effect such a setoff nor the allowance of any Claim shall constitute a waiver or release by the Debtor and/or the Reorganized Debtor of any such account, claim, right, and cause of action that they may possess against the Holder of such Allowed Claim.

I. Distributions

The Reorganized Debtor will distribute any and all funds that are required to be distributed under this Plan ("Distributions"). In the event that any Claims are disallowed or the amount thereof are reduced, any and all funds that otherwise would have been paid on account of those Claims shall be distributed to Holders of Allowed Claims in accordance with the terms provided herein and in the Plan.

1. Timing of Distributions

Except as otherwise provided by the Plan, any Distributions required to be made on the Effective Date shall be deemed timely made as soon as practicable after such date and, in any event, no later than fifteen (15) Business Days after such date.

2. Manner of Distribution

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At the option of the Reorganized Debtor, Distributions may be made in cash, wire transfer, or by a check drawn on a domestic bank approved by the OUST.

3. Undeliverable Distributions

Distributions to Holders of Allowed Claims will be sent to the last known address set forth on such holder's proof of claim filed with the Bankruptcy Court or on the Schedules, if no proof of claim was filed. Holders of Claims may change the address to which Distributions will be sent by filing a written change of address with the Bankruptcy Court and serving a copy of the change of address on counsel for the Reorganized Debtor and the Reorganized Debtor. If a Distribution is returned as undeliverable, the Reorganized Debtor shall hold the Distribution and shall not be required to take any further action with respect to the delivery of the Distribution unless and until the Reorganized Debtor is notified in writing of the then-current address of the person or entity entitled to receive the Distribution. Unless and until the Reorganized Debtor is so notified, such Distribution shall be deemed to be "Unclaimed Property" and shall be dealt with in accordance with the provision below for Distribution of Unclaimed Property.

4. Rounding of Payments

Whenever payment of a fraction of a cent would otherwise be called for, the actual payment shall reflect a rounding down of such fraction to the nearest whole cent.

5. Compliance with Tax Requirements

The Reorganized Debtor shall comply with all withholding and reporting requirements imposed by federal, state, or local taxing authorities in connection with making Distributions under the Plan.

In connection with each Distribution with respect to which the filing of an information return (such as an Internal Revenue Service Form 1099 or 1042) or withholding is required, the Reorganized Debtor shall file such information return with the Internal Revenue Service and provide any required statements in connection therewith to the recipients of such Distribution and effect any such withholding and deposit all moneys so withheld to the extent required by law. With respect to any person or entity from whom a tax identification number, certified tax

1 identification number, or other tax information is required by law to avoid withholding has not
2 been received by the Reorganized Debtor, then the Reorganized Debtor may, at its sole option,
3 withhold the amount required and distribute the balance to such person or entity or decline to
4 make such a Distribution until the information is received.
5

6. Distribution of Unclaimed Property

If any Distributions are returned to the Reorganized Debtor as undeliverable, then such Distributions shall be deemed to be "Unclaimed Property." Nothing contained in the Plan shall require the Reorganized Debtor, or anyone else, to attempt to locate such person or entity. The Unclaimed Property shall be set aside and, in the case of cash, held in a segregated interest-bearing account to be maintained by the Reorganized Debtor. If such person or entity presents itself within six (6) months of the date the payment was returned as undeliverable, then the Unclaimed Property shall be distributed to such person or entity, together with any interest or dividends earned thereon. If such person or entity does not present itself within six (6) months of the date the payment was returned as undeliverable, then any such Unclaimed Property and accrued interest or dividends earned thereon shall become the property of the Reorganized Debtor and shall be distributed in accordance with the priority distribution scheme set forth in the Plan.

7. Limitation on Liability

Neither the Debtor or the Reorganized Debtor, their respective affiliates, or any of their respective employees, members, officers, directors, shareholders, agents, or Professionals shall be liable for (i) any acts or omissions, except for willful misconduct, in connection with implementing the Distribution provisions of the Plan and the making or withholding of Distributions under the Plan, or (ii) any change in the value of Distributions made under the Plan resulting from any delays in making such Distributions in accordance with the terms of the Plan (including, but not limited to, any delays caused by the resolution of Disputed Claims).

8. *De Minimis* Distribution

If any single Distribution required by the Plan would be for an amount of \$5.00 or less, then the Reorganized Debtor shall not be required to process the Distribution and may, at its sole

1 option, either add the Distribution to the next Distribution if the collective amount would be
2 greater than \$5.00 or may be treat it as an undeliverable Distribution.

3 **J. Claims Objections and Disputed Claims**

4 **1. Standing**

5 From and after the Effective Date, the Debtor or the Reorganized Debtor, as the case may
be, shall have the sole and exclusive right to review all Claims filed or deemed filed and may
object to or seek subordination of any Claim filed or scheduled in this Bankruptcy Case, except
where prohibited under an operative settlement with the Holder of such Claim.

2. Claims Objection Deadline

Unless extended by the Bankruptcy Court, any objection to a Claim must be filed with the
Bankruptcy Court and served on the Holder of the Claim within one hundred twenty (120) days of
the Effective Date (the "Claims Objection Deadline"). Any further extension of the Claims
Objection Deadline must be obtained from the Bankruptcy Court for cause and must be requested
prior to the expiration of the time to object after service upon the Reorganized Debtor and the
OUST.

3. Treatment of Disputed Claims

a. Distribution on Account of Disputed Claims Pending Allowance

If any portion of a Claim is a Disputed Claim, then pending allowance of the disputed
portion of the Claim, a Distribution shall only be made on account of the undisputed portion(s) of
the Claim.

b. Reserve for Disputed Claims

In the event that Disputed Claims are pending at the time of a Distribution under the Plan,
the Reorganized Debtor shall maintain a reasonable reserve for such Disputed Claims. No
Distribution shall be made from that reserve until such Disputed Claim has been determined by
entry of a final order of the Bankruptcy Court. If a Disputed Claim is ultimately disallowed by the
Bankruptcy Court, the amount reserved for that Disputed Claim shall become property of the

1 Reorganized Debtor and shall be distributed in accordance with the priority distribution scheme
2 set forth in the Plan.

3 **K. Amendment of the Corporate Charter**

4 On the Effective Date, the Debtor's corporate charter shall, if necessary, be deemed
5 amended to prohibit the issuance of nonvoting equity securities as required by § 1123(a)(6) of the
Bankruptcy Code.

L. Conditions to the Effective Date

The Plan shall not become effective until the Effective Date. The Effective Date shall
occur 15 days after entry of the Confirmation Order unless there is a notice of appeal and a stay
pending appeal.

VII. EXECUTORY CONTRACTS AND UNEXPIRED LEASES

A. Executory Contracts and Unexpired Leases Being Assumed

Effective as of and conditioned on the occurrence of the Effective Date, the Debtor will
assume all of the executory contracts and unexpired leases of the Debtor identified on **Exhibit A**
and incorporated herein by reference, and assign them to the Reorganized Debtor. Any executory
contract or unexpired lease not specifically identified on ~~Schedule~~ **Exhibit A** will be deemed
rejected as of the Effective Date.

The Debtor may amend Exhibit A to add or delete any executory contract or unexpired
lease, up to and including the Confirmation Date. However, if any such amendments are made to
Exhibit A less than twenty-one (21) days before the Confirmation Date, then the affected contract
or lease party shall have fourteen (14) days from service of the notice of amendment in which to
serve on the Debtor a written objection to the same. Upon receipt of the objection, the Debtor
shall promptly set a hearing on the same, and the assumption or rejection of the affected contract
or lease shall be delayed until the Bankruptcy Court makes a determination on this issue (such
determination may be made after the Effective Date without delaying the Confirmation of the
Plan).

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If an executory contract or unexpired lease has been assumed by the Debtor prior to confirmation of the Plan pursuant to an order of the Bankruptcy Court, such assumption shall not be affected by the Plan even if such executor contract or unexpired lease is omitted from Exhibit A. The assumption of any contract or lease by and through the provisions of the Plan shall only be to the extent that such assumed contract or lease constitutes an executory contract or unexpired lease within the meaning of § 365 of the Bankruptcy Code. The assumption of any executory contract or unexpired lease does not constitute an admission by the Debtor or Reorganized Debtor. Any contract or lease assumed by and through the Plan shall be assumed as previously amended or modified, whether before or after the Petition Date.

Except as otherwise noted on Exhibit A, the Debtor is not aware of any cure payments that must be made to assume the executory contracts and/or unexpired leases identified on Exhibit A. If a party identified on Exhibit A believes that there is a cure amount owing, then such party must object to the assumption of its executory contract or unexpired leases no later than fourteen (14) days prior to the hearing on confirmation of the Plan. Failure to file a timely objection to the assumption of an executory contract and/or unexpired lease on the grounds that the Debtor must cure a default prior to the assumption of the executory contract and/or unexpired lease shall constitute a waiver of the alleged default and release of the Debtor from the obligation to cure such default. In the event that no objection to the assumption of an executory contract and/or unexpired lease is made timely and no cure payment is provided for in the Plan and/or ~~Schedule~~Exhibit A, the entry of the Confirmation Order shall act as a judicial determination that no cure amount is due or owing on any of the executory contracts and/or expired leases identified in the Plan and/or ~~Schedule~~Exhibit A as of the Effective Date. If there is a dispute regarding the cure amount that the Debtor cannot timely resolve prior to the hearing on confirmation of the Plan, the Debtor may either (1) elect to reject the executory contract or unexpired lease at the hearing on confirmation of the Plan or (2) have the Bankruptcy Court adjudicate the amount of the cure claim without delaying confirmation of the Plan.

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1 **B. Executory Contracts and Unexpired Leases Being Rejected**

2 Effective as of and conditioned on the occurrence of the Effective Date, the Debtor rejects
3 all of the executory contracts and unexpired leases not specifically identified on Schedule A to the
4 Plan unless such executory contract or unexpired lease was already assumed. If an executory
5 contract or unexpired lease was rejected by the Debtor prior to the Effective Date pursuant to an
order of the Bankruptcy Court, the rejection shall not be affected by the Plan.

C. Bar Date for Rejection Damages

 Any Claim arising out of the rejection of an executory contract or unexpired lease (a
“Rejection Claim”) shall be forever barred and shall not be enforceable against the Debtor or the
Reorganized Debtor or entitled to a Distribution under the Plan unless a proof of claim for such
Rejection Claim is filed and served on the Debtor or the Reorganized Debtor within the later of
(a) thirty (30) days after the date of entry of the order authorizing the rejection, or (b) thirty (30)
days from the date of service of the Notice of Claims Bar Date. Failure to file a proof of claim in
a timely manner may result in disallowance of any alleged damages resulting from the rejection of
any executory contract or unexpired lease.

VIII. TAX CONSEQUENCES OF THE PLAN

A. Introduction

 The implementation of the Plan may have federal, state, and local tax consequences to the
Debtor, Creditors, and/or Interest Holders. The Debtor has not obtained a tax opinion about the
effect of the Plan on Creditors or Interest Holders. This Disclosure Statement does not constitute,
and is not intended to constitute, either a tax opinion or tax advice to any person, and the
summary contained in the Plan is provided for informational purposes only. **CREDITORS AND
INTEREST HOLDERS CONCERNED WITH HOW THE PLAN MAY AFFECT THEIR
TAX LIABILITY SHOULD CONSULT WITH THEIR OWN ACCOUNTANTS,
ATTORNEYS, OR ADVISORS.**

 The discussion below summarizes only certain of the federal income tax consequences
associated with implementation of the Plan. It does not cover all aspects of federal income

1 taxation that may be relevant to the Debtor or the Holders of Claims or Interests, nor does the
2 discussion deal with tax issues peculiar to certain types of taxpayers. No aspect of foreign, state,
3 local, or estate and gift taxation is addressed.

4 **B. Federal Tax Consequences to the Debtor**

5 In the event the Debtor does not ~~resell~~ the Properties the Debtor will continue to pay taxes in the ordinary course. If the Debtor chooses to ~~resell~~ the Properties, there will not likely be any federal tax consequences to the Debtor. As the basis was \$21 ~~million~~, 31,000,000.00, and, even if the Properties are sold for \$23 23,000,000.00 or \$24 ~~million~~, 24,000,000.00, the losses which can be offset by and through the Estate on account of their sale will offset any capital gain which may otherwise be realized.

C. Tax Consequences to Creditors

Holders of a Claim who receive Cash in payment of their Claims will recognize gain or loss equal to the difference, if any, between the amount of the Cash payment(s) received that is/are not attributable to interest and their respective adjusted tax bases in their Claims.

The character of any gain or loss recognized by a holder of a Claim as capital or ordinary and, if capital, as long-term or short-term, will depend on the holder's status, the nature of the Claim, and the holder's holding period. The character of such gain or loss may also be affected by special rules under the Internal Revenue Code. Any portion of a Claim payment that is attributable to accrued unpaid interest that the holder has not already included in income will result in the recognition of ordinary income. Holders of Claims should consult with their own tax advisors as to the character and timing of recognition of gain or loss.

IX. CONFIRMATION REQUIREMENTS AND PROCEDURES

PERSONS OR ENTITIES CONCERNED WITH CONFIRMATION OF THIS PLAN SHOULD CONSULT WITH THEIR OWN ATTORNEYS BECAUSE THE LAW ON CONFIRMING A PLAN OF REORGANIZATION IS VERY COMPLEX. The following discussion is intended solely for the purpose of alerting readers about basic confirmation issues,

1 which they may wish to consider as well as certain deadlines for filing Claims. The Plan
2 Proponents CANNOT and DO NOT represent that the discussion contained below is a complete
3 summary of the law on this topic or on those issues that affect Creditors, the Claims or the Interest
4 Holders.
5

Many requirements must be met before the Bankruptcy Court can confirm the Plan. Some of the requirements include that the Plan must be proposed in good faith, acceptance of the Plan, whether the Plan pays creditors at least as much as creditors would receive in a chapter 7 liquidation, and whether the Plan is feasible. These requirements are not the only requirements for confirmation.

A. Who May Vote or Object

1. Who May Object to Confirmation of the Plan

Any party in interest may object to the confirmation of the Plan, but as explained below, not everyone is entitled to vote to accept or reject the Plan.

2. Who May Vote to Accept/Reject the Plan

A Creditor or Interest Holder has a right to vote for or against the Plan if that Creditor or Interest Holder has a Claim which is both (1) Allowed or Allowed for voting purposes and (2) classified in an impaired Class.

3. What is an Allowed Claim/Interest

As noted above, a Creditor or Interest holder must first have an Allowed Claim or Interest to have the right to vote. Generally, any proof of claim or Interest will be deemed Allowed unless there is objection to the Claim or Interest. When an objection to a Claim or Interest is filed, the Creditor or Interest holder holding the Claim or Interest cannot vote unless the Bankruptcy Court, after notice and hearing, either overrules the objection or allows the Claim or Interest for voting purposes.

THE BAR DATES FOR FILING VARIOUS PROOFS OF CLAIM OR INTERESTS IN THIS CASE ARE SET FORTH ABOVE. A Creditor or Interest Holder may have an Allowed Claim or Interest even if a Proof of Claim or Interest was not timely filed, but only if the Claim

1 (1) is scheduled on the Debtor's Schedules and such Claim is not scheduled as disputed,
2 contingent, or unliquidated, and (2) no party in interest has objected to the Claim. An Interest is
3 deemed allowed if it is scheduled and no party in interest has objected to the Interest.

4 **4. What is an Impaired Claim/Interest**

5 As noted above, an Allowed Claim or Interest only has the right to vote if it is in a Class that is impaired under the Plan. A Class is impaired if the Plan alters the legal, equitable, or contractual rights of the members of that Class. For example, a Class comprised of general unsecured claims is impaired if the Plan fails to pay the members of that Class 100% of what they are owed.

In this case, the Debtor believes that all Classes of Creditors are impaired and are entitled to vote to accept or reject the Plan. The only class which is not impaired is Class 5, which is a class of Interest Holders, who are not entitled to vote to accept or reject the Plan. Parties who dispute the Debtor's characterization of their Claim or Interest as being impaired or unimpaired may file an objection to the Plan contending that the Debtor has incorrectly characterized the Class.

5. Who is Not Entitled to Vote

The following four types of Claims are not entitled to vote: (1) Claims that have been disallowed; (2) Claims in unimpaired Classes; (3) Claims entitled to priority pursuant to Section 507(a)(1), (a)(2), (a)(8), or (b); and (4) Claims or Interests in classes that do not receive or retain any value under the Plan. Claims in unimpaired classes are not entitled to vote because such classes are deemed to have accepted the Plan. Claims entitled to priority pursuant to Section 507(a)(2), (a)(3), and (a)(8) are not entitled to vote because such Claims are not placed in classes and they are required to receive certain treatment specified by the Bankruptcy Code. Claims or Interests in classes that do not receive or retain any value under the Plan do not vote because such classes are deemed to have rejected the Plan. **EVEN IF YOUR CLAIM OR INTEREST IS THE TYPE DESCRIBED ABOVE, YOU MAY STILL HAVE A RIGHT TO OBJECT TO THE CONFIRMATION OF THE PLAN.**

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6. Votes Necessary to Confirm the Plan

If impaired Classes exist, the Bankruptcy Court cannot confirm the Plan unless: (1) at least one impaired class of Claims has accepted the Plan without counting the votes of any Insiders within that Class; and (2) all impaired Classes have voted to accept the Plan, unless the Plan is eligible to be confirmed by “cramdown” on non-accepting Classes, as discussed later in item 9 below.

7. Votes Necessary for a Class to Accept the Plan

A Class of Claims is considered to have accepted the Plan when more than one-half (1/2) in number and at least two-thirds (2/3) in dollar amount of the Claims which actually voted, voted in favor of the Plan. A Class of Interests is considered to have “accepted” the Plan when at least two-thirds (2/3) in amount of the Interest Holders of such Class which actually voted, voted to accept the Plan.

8. Treatment of Non-Accepting Classes

As noted above, even if not all of the impaired Classes vote to accept the proposed Plan, the Bankruptcy Court may nonetheless confirm the Plan if the non-accepting Classes are treated in the manner required by the Code. The process by which non-accepting Classes are forced to be bound by the terms of a Plan is commonly referred to as “cramdown.” The Code allows the Plan to be “crammed down” on non-accepting Classes of Claims or Interests if it meets all consensual requirements, except the voting requirements of Section 1129(a)(8), and if the Plan does not “discriminate unfairly” and is “fair and equitable” toward each impaired Class that has not voted to accept the Plan as referred to in Section 1129(b) and applicable case law.

9. Request for Confirmation Despite Non-acceptance by Impaired Class(es)

The Debtor will ask the Bankruptcy Court to confirm this Plan by cramdown on all impaired Classes if any of these Classes do not vote to accept the Plan.

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B. Liquidation Analysis

Another confirmation requirement is the “Best Interest Test,” which requires a liquidation analysis. Under the Best Interest Test, if a Claimant or Interest holder is in an impaired class and that Claimant or Interest holder does not vote to accept the Plan, then that Claimant or Interest holder must receive or retain under the Plan property of a value not less than the amount that such holder would receive or retain if the Debtor were liquidated under chapter 7 of the Bankruptcy Code.

In a chapter 7 case, the debtor’s assets are usually sold by a chapter 7 trustee and generally distributed in the following order: (1) to creditors whose interest was secured by property of the estate; (2) to administrative claim holders; (3) pro-rata to creditors whose interest was not secured by property of the estate; and (4) Interest Holders.

For the Bankruptcy Court to be able to confirm the Plan, the Bankruptcy Court must find that all Creditors and Interest Holders who do not accept the Plan will receive at least as much under the Plan as such holders would receive under a chapter 7 liquidation. The Debtor maintains that this requirement is met here because Creditors receive as much if not more under the Plan as they would if the Debtor’s assets were liquidated in a chapter 7, ~~the Debtor does not believe that the secured claims would be paid in full or that any of the unsecured claims would be paid. In contrast, the Plan proposes to pay all of the allowed unsecured claimants in full.~~7.

In its liquidation analysis, the Debtor has assigned a value to the assets that it believes would be realized upon an orderly liquidation of those assets. The Debtor’s business relates to the operation of the Properties. The liquidation of the Properties by a chapter 7 trustee in the current market would likely realize less than the Secured Claim asserted by MSCI.

Attached to this Disclosure Statement as **Exhibit F** is a liquidation analysis which demonstrates that unsecured creditors in a hypothetical chapter 7 liquidation would receive zero percent (0%) on account of their Allowed Claims. Although there are inherent assumptions made in preparing a liquidation analysis and estimating the potential recoveries that Creditors would

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1 receive in a chapter 7 liquidation scenario, the Debtor believes that the comprehensive liquidation
2 analysis provides an accurate representation of the results that would likely occur.

3 **C. Risk Factors**

4 HOLDERS OF CLAIMS OR INTERESTS AGAINST THE DEBTOR SHOULD READ
5 AND CONSIDER CAREFULLY THE FACTORS SET FORTH BELOW. THESE RISK
FACTORS SHOULD NOT, HOWEVER, BE REGARDED AS THE ONLY RISKS INVOLVED
IN CONNECTION WITH THE PLAN AND ITS IMPLEMENTATION.

The principal risks associated with the Plan are as follows:

1. The Debtor's ability to make Distributions is, in substantial part, dependent on cash flow from operations. The Debtor's business involves the leasing of multiple parcels of commercial real property to a variety of businesses. Accordingly, the Debtor's cash flow is affected by occupancy and the lease value of rentals in the market. If the Debtor's occupancy or the rental value of the Properties decreases by a significant margin, the Debtor's ability to perform under the Plan may be affected.

2. While the Bar Date for the filing of Claims has passed, there is a possibility that the Debtor could be subject to as-yet-unknown late-filed Claims or Interests. Although such Claims or Interest may be entitled to Distributions under the Plan, the Debtor believes that such claims would be subordinated to any and all timely-filed Claims and Interests and, thus, would not affect any Creditor's Distribution under the Plan.

3. There are conditions to the confirmation of the Plan and its consummation that are more particularly described herein and in the Plan. If the Debtors are unable to satisfy those conditions, the Plan may not be confirmed.

4. Even if all classes of Claims that are entitled to vote accept the Plan, the Plan might not be confirmed by the Bankruptcy Court. The Debtor believes that the Plan satisfies all the requirements for confirmation of a plan of reorganization under the Bankruptcy Code, including under section 1129, but there can be no assurance that the Bankruptcy Court will also conclude that the requirements of confirmation have been satisfied.

1 5. ~~The primary Distribution scheme under the Plan assumes that the Debtor will~~
2 ~~succeed in the Sarkis AP and, by virtue of an award of damages therein, reduce the amount of the~~
3 ~~MSCI Secured Claim.~~ Although the Debtor believes the claims in the Sarkis AP are meritorious
4 and the estimated value of such claims reasonable, litigation is never certain. The Court may
5 enter a judgment in favor of MSCI or award less than the estimated value of the claims alleged in
 the Sarkis AP. The Plan, however, accounts for this potential by proposing alternate treatment for
 each class of Creditors which clearly demonstrates that the Plan is confirmable is not dependent on
 success in the Sarkis AP; rather, the Plan is feasible whether or not the Debtor prevails in the
 Sarkis AP and/or Reorganized Debtor succeed in any of the pending or potential litigation.

D. Feasibility

Another requirement for confirmation involves the feasibility of the Plan, which means that confirmation of the Plan is not likely to be followed by the liquidation or the need for further financial reorganization of the Debtor or any successor to the Debtor under the Plan, unless such liquidation or reorganization is proposed in the Plan.

THE FINANCIAL PROJECTIONS SET FORTH IN THIS DISCLOSURE STATEMENT REPRESENT AN ESTIMATE OF FUTURE PERFORMANCE BASED UPON CERTAIN ASSUMPTIONS SET FORTH WITH SUCH FINANCIAL PROJECTIONS. THESE FUTURE EVENTS MAY OR MAY NOT OCCUR, AND THE FINANCIAL PROJECTIONS MAY NOT BE RELIED UPON AS A GUARANTEE OR OTHER ASSURANCE OF THE ACTUAL RESULTS WHICH WILL OCCUR. BECAUSE OF THE UNCERTAINTIES INHERENT IN PREDICTIONS OF FUTURE EVENTS AND EVENTS OUTSIDE OF THE DEBTOR'S CONTROL, THE REORGANIZED DEBTOR'S ACTUAL CASH FLOW MAY BE DIFFERENT FROM THAT PREDICTED, AND SUCH DIFFERENCE MAY BE MATERIAL AND ADVERSE TO THE INTERESTS OF CREDITORS.

The Plan and the Financial Projections are based on a conservative growth scenario. The Financial Projections are the result of a concerted effort by GlassRatner to use the past performance of the Debtor and real estate market trends to predict the future performance of the

1 Reorganized Debtor. The Financial Projections are conservative and not predicated on
2 momentous increases in revenues, net income, or cash flows. The Financial Projections reveal the
3 simple fact of this case: the Debtor is a healthy company that is more than capable of
4 restructuring. The Financial Projections set forth the Debtor's estimate of the anticipated cash
5 flow of the Reorganized Debtor to fund the Plan ~~(in the event the Company is not sold). The~~
~~financial projections. The projected cash flow is primarily premised on existing lease agreements~~
~~and the increases provided under these agreements. As such, the increases are not assumption;~~
~~rather, they are provided for in existing contracts. The Financial Projections are based on the~~
~~classification and treatment of Creditors are included in Exhibits. See Exs. B and C.~~

The provisions regarding the sale of the Properties and/or refinancing and/or restructuring of the debt secured on the Properties ensure the Plan is feasible. If at any point in time during the Plan the Reorganized Debtor is unable to perform, the Debtor has the authority to sell the Properties or enter into a transaction to refinance and/or restructure the debt secured by the Properties. These provisions ensure that the Plan will not be followed by subsequent reorganization or liquidation. Based on the projected increased revenue from the Properties, the Debtor's experts opine that the value of the Properties will increase over time as the Reorganized Debtor pays the obligations secured upon the Properties.

X. EFFECT OF CONFIRMATION OF THE PLAN

A. Discharge

Except as otherwise specifically provided in the Plan or the Confirmation Order, pursuant to § 1141 of the Bankruptcy Code, the rights under the Plan and the treatment of Claims and Interests under the Plan will be in exchange for and in complete satisfaction, discharge, and release of all Claims and Interests of any nature whatsoever against the Debtor, the Reorganized Debtor, their property, and/or the estate and/or property of the estate. Except as otherwise provided in the Plan or the Confirmation Order, discharge shall have the following effects, among others:

1 1. On the Effective Date, the Debtor, the bankruptcy estate, the Reorganized Debtor,
2 and their/its property will be deemed discharged and released from any and all Claims and
3 Interests, including without limitation, all liens, demands, liabilities, Claims, and Interests that
4 arose before the Effective Date or that are based upon or otherwise relate to acts, events,
5 omissions, transactions or other activities of any kind that occurred before the Effective Date, and
all debts of the kind specified in Bankruptcy Code §§ 502(g), 502(h), or 502(i) regardless of
whether: (a) a proof of claim or proof of interest based on such debt or interest is filed or deemed
filed; (b) a Claim or Interest based on such debt or Interest is allowable under Bankruptcy Code §
502; or (c) the person holding the Claim or Interest based on such a debt or Interest has accepted
the Plan;

2. All Persons will be precluded from asserting against the Debtor, the bankruptcy
estate, the Reorganized Debtor, or its property, any other or further Claims or Interests based on,
arising from, or in connection with any act, event, omission, transaction, or other activity of any
kind that occurred before the Effective Date;

3. Any debt of the Debtor, whether secured or unsecured, which was in default prior
to the Effective Date, will no longer be deemed in default;

4. As set forth in §§ 524 and 1141 of the Bankruptcy Code, except as otherwise
provided in the Plan or the Confirmation Order, the Confirmation Order constitutes a discharge of
any and all Claims against and all debts and liabilities of the Debtor. The Reorganized Debtor
and its property will, to the fullest extent permitted by § 1141 of the Bankruptcy Code, be deemed
discharged and released from any and all Claims and Interests, including, without limitation, all
demands, liabilities, liens, Claims and Interests that arose before the Confirmation Date or that are
based on or otherwise relate to acts, events, transactions, or other activities of any kind that
occurred before the Effective Date (the "Discharge"); and

5. Subject to the limitations and conditions imposed under § 1125(e) of the
Bankruptcy Code, persons who, in good faith and in compliance with applicable provisions of the
Bankruptcy Code, either solicit Plan acceptances or rejections or participate in the offer, issuance,

1 sale, or purchase of securities under the Plan will not be liable on account of their solicitation or
2 participation for violation of any applicable law, rule, or regulation governing the solicitation of
3 Plan acceptances or rejections or the offer, issuance, sale, or purchase of such securities.

4 **B. Injunction**

5 Except as otherwise specifically provided in the Plan or the Confirmation Order, on and after the Effective Date, all creditors who have held, hold, or who may hold a Claim or Interest Holders who have held, hold, or who may hold any Interest discharged pursuant to the terms of the Plan, shall be permanently enjoined from the following: (1) taking any of the following actions on account of any discharged Claim or Interest: (a) except as expressly contemplated herein, commencing or continuing in any manner any action or other proceeding against any shareholders, officers or directors of the shareholders, officers or directors of the Debtor, the Reorganized Debtor, their successors, or their property; (b) enforcing, attaching, executing, collecting, or recovering in any manner any judgment, award, decree, or order against any shareholders, officers or directors of the Debtor, the Reorganized Debtor, their successors, or their property; (c) creating, perfecting, or enforcing any lien against any shareholders, officers or directors of the Debtor, the Reorganized Debtor, their successors, or their property; (d) asserting any set off, right of subrogation, or recoupment of any kind against any obligation due to the shareholders, officers or directors of the Debtor, the Reorganized Debtor, their successors, or their property; and (e) commencing or continuing any action, in any manner, in any place that does not comply with or is inconsistent with the provisions of the Plan; and (2) taking any such action on account of any Claims or rights of action that are vested in or transferred to the Reorganized Debtor as of the Effective Date or under the Plan. Any person or entity injured by a willful violation of such injunction will recover its actual damages, including costs and attorney's fees, and, in appropriate circumstances, may recover punitive damages from the violator as provided by applicable law.

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C. Limitation of Liability

Effective as of the Effective Date, except as expressly contemplated herein, neither the Debtor nor the Reorganized Debtor nor any of their respective officers, directors, shareholders, employees, and other agents, advisors, and Professionals will be liable to any claim or Interest holder or to any other person for any act or omission, except the Reorganized Debtor, in connection with or arising out of the negotiation, preparation, and pursuit of confirmation of the Plan, the approval of this disclosure statement, the consummation of the Plan, the administration of the Plan, the Case, or the property to be distributed under the Plan, to the extent permitted by applicable statutes and case law, except that the Reorganized Debtor will be liable for the performance of obligations assumed by it or imposed upon it by or through the Plan.

Notwithstanding the foregoing, nothing contained herein shall release any claims that may be asserted against the Debtor's officers, directors, shareholders, employees, and other agents, advisors or Professionals that relate to the period prior to the Petition Date to the extent any such claims exist and are not inconsistent with an operative settlement agreement.

D. Vesting of Property of the Estate in the Reorganized Debtor

~~Except as otherwise specifically provided for in the Plan, on~~On the Effective Date, all property and rights of the estate of the Debtor shall be transferred to the Reorganized Debtor free and clear of all claims, liens, and rights of creditors and interests of Interest Holders. The Reorganized Debtor may operate its business and use, acquire, and dispose of property and settle and compromise claims or interests without the supervision of or any authorization from the Bankruptcy Court or the United States Trustee, and free of any restriction from the Bankruptcy Code or the Bankruptcy Rules, ~~except as specifically provided in the Plan or the Confirmation Order.~~ Notwithstanding, the Reorganized Debtor expressly reserves the right to avail itself of any of the rights and/or benefits provided under the Bankruptcy Code (e.g., the sale provisions of 11 U.S.C. § 363), Federal Rules of Bankruptcy Procedure (e.g., the compromise provisions of Fed.R.Bankr.P. 9019), and other applicable law, if and only if the Reorganized Debtor so chooses.

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E. Plan Supplement

Any and all exhibits, lists or schedules referred to herein but not filed with this Plan shall be contained in the Plan Supplement to be filed with the Clerk of the Court prior to the Confirmation Hearing. Claimants may obtain a copy of the Plan Supplement, once filed, from the Debtor by written request to the Debtor's counsel at the notice address set forth above.

Each of the schedules and exhibits to the Plan (whether annexed hereto or included in the Plan Supplement), the Disclosure Statement, and the schedules and exhibits to the Disclosure Statement are an integral parts of the Plan, and are hereby incorporated by reference and made a part of the Plan.

F. Modification of the Plan

The Debtor may modify the Plan, including the Plan Documents, at any time before the Confirmation Order is entered; provided, however, that any modifications to the Plan Documents shall be subject to third-party approvals to the extent required under the terms of the Plan Documents. However, the Bankruptcy Court may require a new disclosure statement and/or re-voting on the Plan. The Reorganized Debtor may seek to modify the Plan at any time after entry of the Confirmation Order only if (1) the Plan has not been substantially consummated and (2) the Bankruptcy Court authorizes the proposed modifications after notice and a hearing. Substantial Consummation, as defined in 11 U.S.C. §1101(2), shall mean: (1) a transfer of all or substantially all of the property proposed by the plan to be transferred; (2) assumption by the debtor or by the successor to the debtor under the plan of the business or of the management of all or substantially all of the property dealt with by the plan; and (3) commencement of Distributions under the Plan.

XI. POST-CONFIRMATION MATTERS

A. Post-Confirmation Status Report

Within 120 days of the entry of the Confirmation Order, the Reorganized Debtor shall file a status report explaining what progress has been made toward consummation of the Plan. The initial report shall be served on the OUST, the 20 largest unsecured creditors, and those parties

1 who have requested special notice. Further reports shall be filed every 180 days thereafter and
2 served on the same entities, unless otherwise ordered. The status report shall include the
3 following information: (1) a schedule listing for each debt and each class of Claims: the total
4 amount required to be paid under the Plan, the amount required to be paid as of the date of the
5 report, the amount actually paid as of the date of the report, and the deficiency, if any, in required
payments; (2) a schedule of any and all post-confirmation tax liabilities that have accrued or come
due and a detailed explanation of payments thereon; (3) projections as to the continuing ability of
the Reorganized Debtor to comply with the terms of the Plan; (4) an estimate of the date for Plan
consummation and application for final decree; and (5) any other pertinent information needed to
explain the progress toward consummation of the Plan.

B. Post-Confirmation Fees to the Office of the United States Trustee

Pursuant to 28 U.S.C. § 1930(a)(6), quarterly fees to the OUST will continue to be due
until the Bankruptcy Case is closed, dismissed, or converted to Chapter 7. Such fees shall be paid
by the Reorganized Debtor from the funds dedicated to the OUST under the Plan.

C. Conversion

If the Court orders the Bankruptcy Case converted to chapter 7 after the Plan is confirmed,
then all property that had been property of the bankruptcy estate, and that has not been disbursed
pursuant to the Plan, will vest in the chapter 7 estate. The automatic stay will be reimposed upon
the vested property, but only to the extent that the Court did not authorize relief from stay during
the Bankruptcy Case. The Debtor and the Reorganized Debtor reserve any and all rights and
defenses to any motion to dismiss or convert the Bankruptcy Case.

D. Post-Confirmation Plan Default

1. Monetary Default

The failure to remit payment to MSCI any Claimant under the Plan on or before the date
due shall constitute an event of default. Upon the occurrence of an event of default, MSCI the
relevant Claimant shall notify the Debtor of the alleged default within five (5) calendar days of
the alleged default. Failure to timely notify the Debtor of the alleged default shall constitute a

1 waiver of the default (but not a waiver of the entitlement to the payment due) and such default
2 shall not constitute an event of default for purposes of this paragraph. The Debtor shall have ten
3 (10) calendar days after receipt of notice of the alleged default to cure or contest the default. If
4 the Debtor (i) fails to cure or contest the alleged default by filing a motion in the Bankruptcy
5 Court within ten (10) calendar days after receiver of notice of the alleged default or (ii) defaults
for the third time within any 12-month period, the Debtor shall be in material breach of the Plan.
Upon the occurrence of a material breach under the plan, ~~MSC~~ the affected Claimant may
thereafter move to enforce the Plan or, if applicable, move for relief from the automatic stay.

2. Non-Monetary Default

Upon the occurrence of a non-monetary default, the affected Claimant shall notify the Debtor of the alleged default within five (5) calendar days of the alleged default. Failure to timely notify the Debtor of the alleged default shall constitute a waiver of the default. The Debtor shall have thirty (30) calendar days after receipt of notice of the alleged default to cure or contest the default. If the Debtor (i) fails to cure or contest the alleged default by filing a motion in the Bankruptcy Court within thirty (30) calendar days after receipt of notice of the alleged default, the Debtor shall be in material breach of the Plan. Upon the occurrence of a material breach under the plan, the affected Claimant may thereafter avail itself of the remedies available under the Bankruptcy Code.

E. Final Decree

Once the bankruptcy estate has been fully administered as referred to in Rule 3022 of the Federal Rules of Bankruptcy Procedure, the Reorganized Debtor shall file a motion with the Court to obtain a final decree to close the Bankruptcy Case.

XII. MISCELLANEOUS PROVISIONS

A. Retention of Jurisdiction

The Bankruptcy Court will retain jurisdiction of all matters arising in or related to the Plan to the fullest extent provided by law until the entry of a final decree, including, without limitation:

- 1 1. The adjudication of the validity, scope, classification, allowance, and disallowance
- 2 of any Claim, including but not limited to administrative claims, tax claims;
- 3 2. To hear and determine any action or adversary proceeding pending or filed which
- 4 relates to the Bankruptcy Case and/or ~~this~~the Plan;
- 5 3. To hear and determine any issue relating to the assumption or rejection of
executory contracts and unexpired leases;
4. To hear and determine any modification to the Plan in accordance with the
Bankruptcy Rules and the Bankruptcy Code;
5. To enforce and interpret terms of the Plan;
6. To correct any defects, cure any omissions, or reconcile any inconsistency in the
Plan or the Confirmation Order as may be necessary to carry out the purpose and intent of the
Plan;
7. To hear and determine such matters and make such orders as are consistent with
the Plan as may be necessary to carry out the provisions thereof and to adjudicate any disputes
arising under or related to any order entered by the Bankruptcy Court in this Case;
8. The entry of an order concluding and terminating this case; and
9. In the sole and absolute discretion of the Debtor, to preside over and enter a final
order in the Sarkis ~~Action~~AP.

B. Governing Law

Unless a rule of law or procedure is supplied by federal law, including the Bankruptcy Code and the Bankruptcy Rules, the laws of the State of California (without reference to its conflict of law rules) will govern the construction and implementation of the Plan and any agreements, documents, and instruments executed in connection with the Plan, including but not limited to the Plan Documents, unless otherwise specifically provided in such agreements, documents, or instruments.

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C. Successors and Assigns

The rights, benefits, and obligations of any entity named or referred to in the Plan will be binding on, and will inure to the benefit of, the heirs, executors, administrators, successors, and assigns of each entity.

D. Inconsistencies

To the extent the Plan is inconsistent with the Disclosure Statement or other Plan Documents, the provisions of the Plan shall be controlling. To the extent the Plan is inconsistent with the Confirmation Order, the provisions of the Confirmation Order shall be controlling.

E. Rules of Construction

For the purpose of this Plan, unless otherwise provided in this Plan, (i) whenever from the context it is appropriate, each term, whether stated in the singular or the plural, shall include both the singular and the plural; (ii) each pronoun stated in the masculine, feminine or neuter shall include the masculine, feminine and neuter; (iii) any reference in this Plan to an existing document, exhibit or schedule filed or to be filed means such document or schedule as it may have been or may be amended, modified or supplemented pursuant to this Plan; (iv) any reference to a person or entity as a holder of a Claim or Interest includes that person or entity's successors and assigns; (v) except as otherwise stated herein, all references in this Plan to sections, articles and exhibits are references to Sections, articles and exhibits of or to this Plan; (vi) the words "herein," "hereunder" and "hereto" refer to this Plan in its entirety rather than to a particular portion of this Plan; (vii) unless otherwise provided in this Plan, any reference in this Plan to a contract, instrument, release, indenture, agreement, or other document being in a particular form or on particular terms and conditions means that such document shall be substantially and materially in such form or substantially and materially on such terms and conditions or as amended or as modified; and (viii) the rules of construction set forth in Section 102 of the Bankruptcy Code shall apply to the extent such rules are not inconsistent with the express terms of this Plan or any other provision in this Section.

BAKER & HOSTETLER LLP
ATTORNEYS AT LAW
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F. Rules of Interpretation

1. Except as otherwise provided in the Plan, Bankruptcy Rule 9006(a) applies when computing any time period under the Plan.

2. Any term used in the Plan that is not a defined term, but that is used in the Bankruptcy Code or Bankruptcy Rules has the meaning assigned to such term in the Bankruptcy Code or Bankruptcy Rules, as applicable.

3. Any reference to an existing document means the document as it has been, or may be, amended or supplemented.

4. Unless otherwise specified, all references to sections or exhibits are references to this Disclosure Statement's sections or exhibits.

5. Section captions and headings are used only as convenient references and do not affect the meaning or effect of the Disclosure Statement or Plan.

Dated: ~~September 28,~~March 4, 2014

BAKER & HOSTETLER LLP

By: _____

Ashley M. McDow
Michael T. Delaney

Attorneys for Debtor and Debtor-in-Possession
SARKIS INVESTMENTS COMPANY, LLC

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