

UNITED STATES BANKRUPTCY COURT  
SOUTHERN DISTRICT OF TEXAS  
GALVESTON DIVISION

IN RE

SONRISA PROPERTIES, LTD.

DEBTOR

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CASE NO. 10-80012-G3-11

CHAPTER 11

DISCLOSURE STATEMENT REGARDING THE PLAN  
OF REORGANIZATION FOR  
SONRISA PROPERTIES LTD.

Date: April 2 , 2010

Karen R. Emmott  
4615 Southwest Frwy.  
Suite 500  
Houston, TX 77027  
(713) 739-0008 (Telephone)  
(713) 481-6262 (Telecopier)

ATTORNEY FOR  
SONRISA PROPERTIES, LTD.  
DEBTOR

**IMPORTANT**

**THIS DISCLOSURE STATEMENT IS SUBMITTED TO ALL CREDITORS OF THE DEBTOR ENTITLED TO VOTE ON THE PLAN OF REORGANIZATION HEREIN DESCRIBED AND CONTAINS INFORMATION THAT MAY AFFECT YOUR DECISION TO ACCEPT OR REJECT THE DEBTOR'S PLAN UNDER CHAPTER 11 OF THE UNITED STATES BANKRUPTCY CODE. THIS DISCLOSURE STATEMENT IS INTENDED TO PROVIDE ADEQUATE INFORMATION AS REQUIRED BY THE BANKRUPTCY CODE AS TO THE DEBTOR'S PLAN OF REORGANIZATION. ALL CREDITORS AND INTEREST HOLDERS ARE URGED TO READ THE DISCLOSURE STATEMENT AND ATTACHMENTS WITH CARE AND IN THEIR ENTIRETY.**

**ON \_\_\_\_\_, 2010, THE BANKRUPTCY COURT APPROVED THIS DISCLOSURE STATEMENT AS CONTAINING ADEQUATE INFORMATION UNDER SECTION 1125(b) OF THE BANKRUPTCY CODE. SOLICITATION OF ACCEPTANCE OR REJECTION OF THE PLAN OF REORGANIZATION HEREIN DESCRIBED AND ATTACHED AS EXHIBIT A, IS BEING SOUGHT FROM CREDITORS AND INTEREST HOLDERS WHOSE CLAIMS AGAINST, AND INTERESTS IN THE DEBTOR ARE IMPAIRED UNDER THE PLAN OF REORGANIZATION. CREDITORS AND INTEREST HOLDERS ENTITLED TO VOTE ON THE PLAN OF REORGANIZATION ARE URGED TO VOTE IN FAVOR OF THE PLAN AND TO RETURN THE BALLOT INCLUDED WITH THIS DISCLOSURE STATEMENT UPON COMPLETION ADDRESSED TO KAREN R. EMMOTT, 4615 SOUTHWEST FREEWAY, STE 500, HOUSTON, TX 77027, NOT LATER THAN \_\_\_\_\_, 2010.**

**1.  
INTRODUCTION**

**A. General Information Concerning Disclosure Statement and Plan.**

Sonrisa Properties, Ltd. (the "Debtor" or "Debtor-in-Possession") submits this Disclosure Statement under Section 1125 of the Bankruptcy Code and Bankruptcy Rule 3016 to all of its known Creditors and Interest Holders. The purpose of this Disclosure Statement is to disclose information adequate to enable Creditors and Interest Holders who are entitled to vote to arrive at a reasonably informed decision in exercising their rights to vote on the Plan of Reorganization (the "Plan"). A summary of the Plan is incorporated herein. Capitalized terms used but not defined in this Disclosure Statement shall have the meanings assigned to them in the Plan or in the Bankruptcy Code and Bankruptcy Rules. All section references in this Disclosure Statement are to the Bankruptcy Code unless otherwise indicated.

\_\_\_\_\_The Debtor has promulgated the Plan consistent with the provisions of the Bankruptcy Code. The purpose of the Plan is to provide the maximum recovery to each class of Claims and Equity Interests considering the assets and anticipated funds available for distribution to Creditors and Equity Interest Holders. The Debtor believes that the Plan permits the maximum recovery for all classes of Claims and Equity Interests.

This Disclosure Statement is not intended to replace a careful review and analysis of the Plan, including the specific treatment of Claims and Equity Interests under the Plan. It is submitted as an aid and supplement to your review of the Plan to explain the terms of the Plan. Every effort has been made to explain fully various aspects of the Plan as they affect the Creditors and Equity Interest Holders. If any questions arise, the Debtor urges you to contact the Debtor's counsel and she will attempt to resolve your questions. You may, of course, wish to consult with your own counsel.

**B. Disclaimer.**

**NO SOLICITATION OF VOTES HAS BEEN OR MAY BE MADE EXCEPT PURSUANT TO THIS DISCLOSURE STATEMENT AND SECTION 1125 OF THE BANKRUPTCY CODE, AND NO PERSON HAS BEEN AUTHORIZED TO USE ANY INFORMATION CONCERNING THE DEBTOR TO SOLICIT ACCEPTANCES OR REJECTIONS OF THE PLAN OTHER THAN THE INFORMATION CONTAINED IN THIS DISCLOSURE STATEMENT. CREDITORS AND EQUITY INTEREST HOLDERS SHOULD NOT RELY ON ANY INFORMATION RELATING TO THE DEBTOR OTHER THAN THAT CONTAINED IN THIS DISCLOSURE STATEMENT AND THE EXHIBITS AND SCHEDULES ATTACHED.**

**EXCEPT AS SET FORTH IN THIS DISCLOSURE STATEMENT AND THE EXHIBITS, NO REPRESENTATION CONCERNING THE DEBTOR, ITS ASSETS, PAST OR FUTURE OPERATIONS, OR CONCERNING THE PLAN IS AUTHORIZED, NOR ARE ANY SUCH REPRESENTATIONS TO BE RELIED UPON IN ARRIVING AT THE DECISION WITH RESPECT TO THE PLAN. ANY REPRESENTATIONS MADE TO SECURE ACCEPTANCE OR REJECTION OF THE PLAN OTHER THAN AS CONTAINED IN THIS DISCLOSURE STATEMENT SHOULD BE REPORTED TO COUNSEL TO THE DEBTOR.**

**UNLESS ANOTHER TIME IS SPECIFIED, THE STATEMENTS CONTAINED IN THIS DISCLOSURE STATEMENT ARE MADE AS OF THE DATE HEREOF. NEITHER DELIVERY OF THIS DISCLOSURE STATEMENT NOR ANY EXCHANGE OF RIGHTS MADE CONCERNING THE DISCLOSURE STATEMENT AND THE PLAN SHALL UNDER ANY CIRCUMSTANCES IMPLY THAT THERE HAS BEEN NO CHANGE IN THE FACTS SET FORTH HEREIN SINCE THE DATE OF THE DISCLOSURE STATEMENT AND THE MATERIALS RELIED UPON IN PREPARATION OF THE DISCLOSURE STATEMENT WERE COMPILED.**

**WHILE THE INFORMATION PROVIDED HEREIN IS BELIEVED RELIABLE, THE DEBTOR HAS NOT UNDERTAKEN TO VERIFY OR INVESTIGATE SUCH INFORMATION, AND MAKES NO REPRESENTATIONS AS TO THE ACCURACY OR COMPLETENESS OF THE INFORMATION.**

**DISTRIBUTION OF THIS DISCLOSURE STATEMENT SHOULD NOT BE CONSTRUED AS ANY REPRESENTATION OR WARRANTY AT ALL, EITHER EXPRESS OR IMPLIED, BY THE DEBTOR OR ITS RESPECTIVE PROFESSIONAL CONSULTANTS THAT THE PLAN IS FREE FROM RISK, THAT THE APPROVAL BY THE BANKRUPTCY COURT OF THIS DISCLOSURE STATEMENT DOES NOT CONSTITUTE AN ENDORSEMENT BY THE BANKRUPTCY COURT OF THE PLAN OR A GUARANTEE OF THE ACCURACY OF THE COMPLETENESS OF THE INFORMATION CONTAINED HEREIN.**

**THIS DISCLOSURE STATEMENT AND THE PLAN ATTACHED SHOULD BE READ IN THEIR ENTIRETY BEFORE VOTING ON THE PLAN. FOR THE CONVENIENCE OF HOLDERS OF CLAIMS AND EQUITY INTERESTS, THE TERMS OF THE PLAN ARE SUMMARIZED IN THIS DISCLOSURE STATEMENT, BUT ALL SUMMARIES ARE QUALIFIED IN THEIR ENTIRETY BY THE PLAN, WHICH CONTROLS IN CASE OF ANY INCONSISTENCY.**

**C. Answers to Commonly Asked Questions.**

As part of the Debtor's effort to inform Creditors and Interest Holders regarding the Plan and the Plan confirmation process, the following summary provides answers to questions which parties who receive a disclosure statement often ask.

**Who is the Debtor?**

The Debtor is Sonrisa Properties, Ltd., a Texas Limited Partnership. The Debtor was formed for the purpose of owning, developing, and selling unimproved real property. The Debtor owns approximately 22.97 acres ( 17.849 acres are subject to a court approved sale to Galveston County and closing scheduled to occur on or about April 6, 2010) of unimproved real property in League City, Galveston County, Texas located near the Gulf Freeway at the FM 646 intersection.

**When did the Debtor file bankruptcy?**

The Debtor filed a voluntary petition for relief under Chapter 11 of Title 11 of the Bankruptcy Code on January 4, 2010 (the "Petition Date").

**Why did the Debtor file bankruptcy?**

The bankruptcy was filed because its largest secured creditor, Compass Bank, posted the 22.97 acres for a January 2010 foreclosure sale.

**What is a chapter 11 bankruptcy?**

Chapter 11 is the principal reorganization chapter of the Bankruptcy Code that allows financially distressed businesses to reorganize their debts. The commencement of a chapter 11 case creates an estate containing all the legal and equitable interests of the Debtor in property as of the date the petition is filed. Sections 1101, 1107 and 1108 of the Bankruptcy Code provide that a debtor may continue to operate the debtor's business as a debtor-in-possession. The Debtor remains in possession of its properties and assets. When a chapter 11 bankruptcy case is filed, creditors are prohibited from attempting to collect debts or enforce liens against the Debtor or its assets without first obtaining approval from the Bankruptcy Court.

**Has a Creditors' Committee been formed?**

No. The United States Trustee has been unable to solicit sufficient interest to appoint a proper Committee as contemplated by 11 U.S.C. Section 1102. On February 10, 2010, the United States Trustee filed its Notice of Inability to Appoint a Creditors' Committee.

**If the Plan governs how my claim is treated, what is this Disclosure Statement?**

The Bankruptcy Code requires that a plan proponent, the Debtor in this case, solicit acceptances and rejections of a proposed plan from creditors and shareholders whose claims and interests are impaired before the plan can be confirmed by the bankruptcy court. Before a plan proponent may solicit acceptances of a plan however, the bankruptcy court must approve a disclosure statement and determine that the disclosure statement contains information adequate to allow creditors and shareholders to make an informed judgment about the plan. The disclosure statement and plan are formally distributed after the bankruptcy court approves the disclosure statement. At that time, creditors and shareholders also receive a voting ballot with the disclosure statement and plan.

**Has this Disclosure Statement been approved by the Bankruptcy Court?**

Yes. On \_\_\_\_\_, 2010, the Bankruptcy Court approved this Disclosure Statement as containing adequate information. "Adequate information" means information of a kind, and in sufficient detail, as far as is practicable considering the nature and history of the Debtor and the condition of the Debtor's books and records to enable a hypothetical reasonable investor typical of holders of claims or interest of the relevant classes to make an informed judgment whether to vote to accept or reject the Plan. The Bankruptcy Court's approval of this Disclosure Statement does not constitute an endorsement by the Court of any of the representations contained in either the Disclosure Statement or the Plan.

**Do I have to attend the hearing on the Disclosure Statement and Plan?**

If you do not believe that the Disclosure Statement contains adequate information or if you believe that there is a problem with the Debtor's Plan and you want to either get additional information from the Debtor or object to the plan, you need to file a written objection stating your position on or before the deadlines imposed by the Court and come to the hearing. Debtor's counsel can discuss your concerns from the Debtor's perspective, but cannot give you legal advice and you may wish to consult your own counsel.

**How do I determine how my Claim or Interest is classified?**

To determine the classification of your Claim, you must first determine the nature of that claim or interest. Under the Plan, claims and interests are classified into a series of Classes. The pertinent sections of the Disclosure Statement and Plan disclose, among other things, the members of each particular Class, the size of each Class, what you will receive for your Claim or Equity Interest if the Plan is confirmed, and when you will receive such consideration if the Plan is confirmed.

**Why is confirmation of the Plan important?**

The Bankruptcy Court's confirmation of the Plan is a condition to the Debtor's right to carry out the treatment of creditors and shareholders under the Plan. Unless the Plan is confirmed, and any other conditions to confirmation or to the effectiveness of the Plan are satisfied, the Debtor is legally prohibited from satisfying Claims or Equity Interests as provided in the Plan.

**What is necessary to confirm the Plan?**

Under applicable provisions of the Bankruptcy Code, confirmation of the Plan requires among other things, that at least one class of impaired Claims or Interests vote to accept the Plan.

Acceptances by a class of claims means that at least two-thirds in the total dollar amount and more than one-half in number of the allowed claims actually voting in the class vote in favor of the Plan. Because only those claims or interest who vote on a Plan will be counted for purposes of determining acceptance or rejection of Plan by an impaired class, a Plan can be approved with the affirmative vote of members of an impaired class who own less than two-thirds in amount and one-half in number of the claims. Besides acceptance of the Plan by each class of impaired creditors or interests, a Bankruptcy Court also must find that a Plan meets a number of statutory tests before it may confirm the Plan. The requirements and statutory tests generally are designed to protect the interests of holders of impaired claims or interests who do not vote to accept a plan but who will nonetheless be bound by the Plan's provisions if a Bankruptcy Court confirms a Plan. If one or more classes vote to reject a Plan, a Debtor may still request that the Bankruptcy Court confirm a plan under Section 1129(b) of the Bankruptcy Code. In this case, a Debtor must demonstrate that the Plan does not discriminate unfairly, and is fair and equitable with respect to each class of Claims or Interests that are impaired under and have not accepted the Plan. This method of confirming a Plan, is called a "cramdown". In addition to the statutory requirements imposed by the Bankruptcy Code, the Plan itself also provides for certain conditions that must be satisfied as conditions to confirmation.

### **When is the deadline for returning my ballot?**

The Bankruptcy Court will direct that, to be counted for voting purposes, your ballot must be received by a date set at a later time. This date will be set forth in the Order Approving Disclosure Statement which will be sent to you.

**IT IS IMPORTANT THAT ALL IMPAIRED CREDITORS AND INTEREST HOLDERS VOTE ON THE PLAN. THE DEBTOR BELIEVES THAT THE PLAN PROVIDES THE BEST POSSIBLE RECOVERY TO CREDITORS. THE DEBTOR THEREFORE BELIEVES THAT ACCEPTANCE OF THE PLAN IS IN THE BEST INTERESTS OF CREDITORS AND RECOMMENDS THAT ALL IMPAIRED CREDITORS AND INTEREST HOLDERS VOTE TO ACCEPT THE PLAN.**

## **II. OVERVIEW OF THE PLAN**

An overview of the Plan is set forth below. This overview is qualified in its entirety by reference to the Plan. If the Court confirms the Plan, and in the absence of any applicable stay, and all other conditions set forth in the Plan are satisfied, the Plan will take effect on the Effective Date, i.e., on the first business day fourteen (14) days after the date on which the Confirmation Order becomes a Final Order (unless a stay of the Confirmation Order pending appeal is granted, in which case the Effective Date will be the first business day after the stay is terminated).

At its core, the Plan represents (1) sale agreements to develop and sell the unimproved real property owned by the Debtor consisting of approximately 22.97 acres (less 17.849 acres subject to a court approved sale and closing scheduled on or about April 6, 2010) located on/near the Gulf Freeway near the FM 646 intersection in League City, TX and (2) a restructuring of the indebtedness to Compass Bank through funds advanced by a third party, Briar Capital Group. The Debtor and the Debtor, Sonrisa Realty Partners, Ltd., are joint makers of an \$8.2 million note to Texas State Bank. Compass Bank purports to be the successor to Texas State Bank and the owner and holder of the note. The note is cross-collateralized with property owned by both Debtors which at the time the note and deed of trust were executed, consisted of approximately 120 acres of unimproved real property.



Compass Bank is fully secured and over-secured. An appraisal obtained by Compass in November 2009 sets forth that the property has a market value of \$19,700,000.00. Compass is owed a principal balance of approximately \$8,065,000.00, subject to a \$750,000.00 principal reduction pursuant to the court approved sale to Galveston County.

The Debtor will restructure its indebtedness to Compass. The Debtor will obtain third party financing from the Briar Capital Group in the amount of \$4,750,000.00. These funds will be used toward an initial pay down payment to Compass, interest carry on the restructured note, and development costs.

Briar Capital Group will be granted a valid, binding, continuing, enforceable, fully-perfected first priority senior priming security interest in and a lien on all property that is subject to any pre-petition lien, which security interest and lien shall be senior in all respects to Compass Bank's pre-petition liens. The Debtor is proposing a 60 month payout plan to Compass and a payout to holders of undisputed and allowed unsecured claims after Compass and Briar Capital are paid in full.

### **III. SOURCE OF INFORMATION**

The financial information contained in this Disclosure was compiled primarily from information provided from the accounting and business records of the Debtor and from Randal M. Hall, the President of the Debtor's General Partner.

### **IV THE DEBTOR**

#### **A. Description of the Debtor and Events Leading to the Bankruptcy.**

The Debtor is a Texas limited partnership created under the laws of the State of Texas on or about November 1, 2001 pursuant to a Certificate of Limited Partnership. The general partner is Sonrisa Properties Management, Inc. The Debtor was formed for the purpose of owning, developing, and selling unimproved real property. The Debtor owns approximately 22.97 acres (17.849 acres are subject to a court approved sale to Galveston County and closing scheduled to occur April 6, 2010) of unimproved real property in League City, Galveston County, Texas located on/near the Gulf Freeway at the FM 646 intersection.

On February 15, 2007, the Debtor and the Debtor, Sonrisa Realty Partners, Ltd., jointly and severally executed a promissory note in the amount of \$8,200,000.00 payable to Texas State Bank (purportedly assigned to Compass Bank). The note was an interest bearing note, with interest due monthly, and a balloon payment at the expiration of two years. The note was secured by a first lien deed of trust with the Debtor and a first lien deed of trust with the Debtor Sonrisa Realty Partners, Ltd., covering property located in Galveston County, Texas along with assignment of contracts executed by both Debtors. The Deeds of Trust were cross-collateralized with property consisting of approximately 22.97 acres owned by the Debtor and approximately 97.5 acres owned by the Debtor Sonrisa Realty Partners, Ltd.

Since the inception of the loan, the Debtor endeavored to develop the property and to negotiate necessary infrastructure improvements to make the property marketable. This involved extensive negotiations with mud districts, Galveston County, and Texas Department of Transportation (TXDOT). The development plan included TXDOT approval of a ramp reversal project, ring

road/utility construction to facilitate retail/hotel/restaurant development along I-45 feeder, and to construct Brookport Drive from Big League Dreams Drive South to FM 646/I-45 intersection. It was understood by the Debtor that Texas State Bank would agree to renew, extend, and modify the \$8.2 million note once TXDOT approved the ramp project. In 2008, Texas State Bank became part of Compass Bank. At that time, the Debtor was informed that Compass Bank ceased all real estate lending. Compass refused to honor the verbal loan modification agreement. The Debtor made numerous proposals to Compass to renew the loan. However, Compass initiated foreclosure proceedings in June 2009. The Debtor continued its attempts to restructure/modify the loan but was unsuccessful in its efforts. Compass Bank posted the property for foreclosure during 2009 but passed its posting. In January 2010 the property was once again posted for foreclosure. At that time, because the Debtor was unable to renegotiate its note with Compass, a chapter 11 bankruptcy case was filed to protect the Debtor's assets.

**B. Debtor's Financial Information.**

The Debtor is preparing its monthly operating reports to be filed with the Bankruptcy Court. The source of the financial information provided therein will be from Randal M. Hall, the resident of the Debtor's General Partner. The accounting process used by the Debtor is the accrual basis. The reports will be available for inspection at the Office of the Clerk of the Bankruptcy Court.

The Debtor's tax returns are current through the tax year ending 2008. During the year 2008, the Debtor had minimum income.

The Debtor will supplement this Disclosure Statement with a Statement of Projected Sales once more information is available.

**C. Debtor's Assets.**

The Debtor filed its Schedules of Assets and Liabilities ("Schedules") on January 14, 2010. Schedules "A" and "B" contain a listing of the Debtor's assets together with the estimated fair market value of those assets. The Debtor amended Schedule "B" on February 25, 2010. The Debtor scheduled and valued its real property (Schedule "A") at \$21,000,000.00 and its personal property at \$98,818.90 (Amended Schedule "B"). A copy of the real and personal property owned by the Debtor is fully described in Exhibit "A" attached hereto.

During the course of its bankruptcy case, the Court has approved a sale of property to Galveston County which is set to close April 6, 2010. Pursuant to the terms of the sale, the Debtor is selling 17.849 acres along with 0.7675 acres owned by the Debtor Sonrisa Realty Partners, Ltd.

**D. Liabilities and Claims Against the Debtor.**

The Debtor's Schedules "D" and "E" filed on January 14, 2010 and Schedule "F" amended on February 5, 2010, attached hereto as Exhibit "B" contain a detailed listing of creditors, together with the estimated amount of claims. The Schedules organize creditors into three groupings: Schedule D-Secured Claims; Schedule E-Unsecured Priority Claims; and Schedule F-Unsecured Nonpriority General Claims. A listing, or in certain cases, a summary estimate of the claims in each class under the Plan is set forth below in connection with the description of the treatment of those claims under the Plan.



**E. Management of the Debtor.**

The Debtor is managed by Randal M. Hall, the President of the General Partner, Sonrisa Properties Management, Inc.

**G. Significant Events During the Bankruptcy Case.**

On March 24, 2010, the Debtor filed its emergency motion seeking authority from the Court to authorize the Debtor to sell free and clear of liens, claims, and encumbrances 17.849 acres out of 18.615 acres to Galveston County for \$2,250,000.00. The Court held a hearing on March 31, 2010 and authorized the sale. An order was entered authorizing the Debtor to pay taxes and MUD claims to Galveston County, assessments to Bay Colony West HOA, taxes to Dickinson ISD, closing costs, and a commission to the broker. The order further provided that \$750,000,000 of the sale proceeds be paid to Compass Bank and applied as a principal reduction to its indebtedness. The remaining net sale proceeds are to be placed in the debtor-in-possession bank account to be used for the development of the property. A closing is scheduled for April 6, 2010.

On February 25, 2010, the Debtor filed a Notice of Change of General Partner Interest to a Limited Partner Interest. Thereafter, on March 24, 2010, the Debtor filed a Motion for Authority to Convert 1% General Partner Interest to a 15% Limited Partner Interest in order to receive court approval for the requested change. On the date of the bankruptcy filing, the Debtor was a 1% General Partner and a 15% Limited Partner in HSM/Sonrisa, Ltd. The bankruptcy filing was an event which triggered the dissolution and termination of HSM/Sonrisa, Ltd. Therefore, the Debtor determined to withdraw as General Partner and convert its interest to a Limited Partner. The Debtor will have a 16% Limited Partner in HSM/Sonrisa, Ltd. following the change.

**H. Pending Litigation.**

Affinity Bayview I, Ltd. filed a lawsuit against the Debtor in the Tenth District Court of Galveston County, TX alleging a breach of contract claim. The matter has been stayed because of the bankruptcy filing.

Compass Bank has filed a lawsuit against Randal M. Hall, the President of the Debtor's General Partner, in Federal District Court, Houston Division, alleging that Randal M. Hall is personally liable to Compass Bank on the \$8.2 million loan.

**V.**

**SUMMARY OF THE PLAN**

Debtor proposes to (1) obtain financing from a third party (Briar Capital Group) in order to restructure the Compass Bank indebtedness over a five (5) year term, (2) subordinate the first lien position of Compass by granting Briar Capital Group a first lien position in the collateral, and (3) a payout to holders of undisputed and allowed unsecured claims after payment in full to Briar Capital Group and Compass.

In order to fund the Plan, Debtor intends to borrow approximately \$4,750,000.00 from Briar Capital Group ("Briar"). Pursuant to the proposed Plan, Compass Bank will subordinate its first lien position and Briar will receive a first lien deed of trust and security interest. Pursuant to the Plan, Compass will partially release its lien as properties are sold and receive \$1.30 per square foot for any property for which a partial release is requested.

100% of net proceeds remaining from any sale (after payment of Compass release price and escrow of sums required for development work) will be first applied to the Briar Note (principal and accrued interest) until the Briar Note is paid in full.

Randal M. Hall, the President of the Debtor's General Partner, will disburse all plan funds.

The following summary of certain provisions of the Plan does not purport to be complete. The provisions of the Plan, including definitions of certain terms which are incorporated by reference as a part of the summary, are terms which are qualified in their entirety by such reference.

The Bankruptcy Code requires that claims be treated as either impaired or as unimpaired under the Plan. Unimpaired claims are claims that are satisfied in accordance with non-bankruptcy law. Impaired claims are claims that are satisfied in a manner other than in accordance with non-bankruptcy law.

**A. Classification and Treatment of Claims.** The Plan establishes six (6) classes for claims. Such classes of claims and interests are outlined below.

**Class 1 - Administrative Claims - Unimpaired**

Class 1 consists of all Administrative Claims against the Debtor that become Allowed Claims. Allowed Administrative Claims include the following claims:

**U.S. Trustee Fees**

The U.S. Trustee Fees are current, and all fees accruing prior to and after confirmation will be paid in full prior to or on the Effective Date.

**Professional Fees**

a. Claims of Debtor's counsel, Karen R. Emmott, for representing the Debtor in this matter under Section 507(a)(1). Karen R. Emmott has been paid a retainer of \$5,127.00 and estimates that her total fees will be approximately \$20,000.00 which will be subject to Court approval.

The Administrative Claims of the foregoing professional(s) will be paid in cash, in full, on the Effective Date, or as soon as practicable after such claims become Allowed Claims if the date of allowance is later than the Effective Date, or in such amounts and on such other terms as may be agreed on between the holders of such claims and the Debtor.

Any and all requests for allowance of an Administrative Claim (including Professional Fee Claims) must be filed with the Bankruptcy Court and served on the Debtor and the U.S. Trustee within thirty (30) days following the Effective Date. Any Class 1 Claims not filed within such time period will be forever barred and will not be entitled to receive any distribution of payment under the Plan.

**Class 2 - Priority Tax Claims - Unimpaired**

Class 2 consists of all Priority Tax Claims against the Debtor that are or become Allowed Claims. Class 2 is not impaired. Except to the extent that the holder of an Allowed Priority Tax Claim has been paid by the Debtor prior to the Effective Date or agrees to a different treatment, each holder a Class 2 Priority Tax Claim will receive full satisfaction of such Allowed Claim, in cash, equal to the amount of the Allowed Claim.

**Class 3 - Secured Claims - Unimpaired - Ad Valorem Tax Claims**

Class 3 consists of the Secured Claims of the taxing authorities, secured by real property interests. The tax claims for years prior to 2010 will be paid at the closing relating to the sale to Galveston County. Taxes for 2010 will not be assessed until October 2010 and are not yet due.

**Class 4 - Secured Claim of Compass Bank - Impaired**

Class 4 consists of the Secured Claim of Compass Bank in the approximate amount of \$8,065,000.00 (less a \$750,000.00 principal reduction payment upon Galveston County closing). The note will be modified as follows: A cash payment in the amount of \$2,750,000.00 to be made collectively by the Debtor and the Debtor Sonrisa Realty Partners, Ltd., with funds advanced by Briar Capital Group. The Compass restructured note will be in the amount of \$4,565,000.00 and will incur interest at the rate of 4% per annum which will be paid quarterly. The term of the note will be five (5) years. The first lien position of Compass Bank will be subordinated to a first priority lien and security interest in favor of Briar Capital Group for the funds advanced to pay down the indebtedness to Compass, the interest carry, and the development costs and expenses to improve the Debtor's property. The Reorganized Debtor will continue to sell its property and Compass will receive funds for granting a partial release of its lien at 125% of par (i.e., approximately \$1.30 per square foot) for any property for which a partial release is requested.

**Class 5 - General Unsecured Non-Priority Claims - Impaired**

The Debtor has the following unsecured creditors:

Affinity Bayview I, Ltd.	Disputed	Unknown
E. John Justema		\$24,542.50
Greer, Herz & Adams, LLP		\$87,639.81
Half Associates, Inc.		\$3,240.00
HSM/Sonrisa, Ltd.		\$97,828.54
IntereDirect USA, Ltd.		\$3,187.50
OE Development Partners, Ltd.		\$2,872.50

The Debtor proposes to pay holders of allowed claims in Class 5 after payment in full to Classes 1-4. No interest will be paid. The holders of allowed claims in Class 5 will participate pro rata in quarterly distributions from sale proceeds after payment in full to Classes 1-4.

**Class 6 - Equity Interests - Impaired**

The equity interest holders will not receive any payments under this Plan unless creditors in Classes 1 through 5 are paid in full the allowed amounts of their claims.

**B. Treatment of Executory Contracts and Unexpired Leases.**

On the Effective Date, the Debtor shall be empowered to assume or reject, within thirty days, any and all executory contracts and leases not previously assumed. The Debtor will notify all parties affected by such a rejection by filing a written notice of rejection and serving such notice on those parties.

All parties to any contract rejected will have thirty (30) days from the rejection of their executory contract in which to file a Proof of Claim for damages, if any, resulting from rejection of the contract. Such claim will be subject to the limitation imposed by the Bankruptcy Code and all other applicable laws, rules and regulations.

The Debtor shall be permitted to negotiate the repayment of arrearages owed on any of the executory contracts that are assumed, provided the payment of same does not jeopardize the payments of any claims set forth herein.

The Debtor is a party to an executory contract with Lexus Financial Services for a 2007 LS46OL. The lease terminates December 2010. The Debtor intends to assume the contract.

**C. Absolute Priority Rule.**

Simply characterized, the absolute priority rule set forth in Section 1129 (b)(2)(B) of the Bankruptcy Code requires that confirmation obtained by "cramdown" meet an either/or test. Either (1) the members of each dissenting impaired class of unsecured claims must receive property of a value, as of the Effective Date of the Plan, equal in amount to such class members allowed claim; or (2) the holders of claims and interest that are junior to each dissenting impaired class of claims must not receive any property under the Plan of Reorganization on account of such junior interest. The absolute priority rule applies only in cases where a class of claims is both impaired and does not accept the Plan. Thus, the absolute priority rule does not apply to all classes of claims but only to the dissenting class and classes junior to the dissenting class.

**D. Cramdown.**

In the event that any impaired class of Claims and Equity Interests does not accept the Plan, the Bankruptcy Court may still confirm the Plan if, as to each impaired class which has not accepted the Plan, the Plan does not discriminate unfairly and is "fair and equitable." A plan of reorganization does not discriminate unfairly within the meaning of the Bankruptcy Code if no class receives more that it is legally entitled to receive for its claims or equity interests.

**E. Compromise of Claims.**

Any claim in any of the Classes may be paid in accordance with any agreement for waiver, deferral, installment payment or otherwise as agreed between the hold of any such claim and the Debtor. Any such agreement made prior to the Effective Date will be made the subject of a motion in compromised filed with the Court and notice to the creditors and all other parties in interest who have filed with the Court requests for notices, without the necessity of modification of the Plan.

## **VI. LIQUIDATION ANALYSIS**

The Plan affords holders of claims the potential for the greatest realization on the Debtor's assets and, therefore, is in the best interests of such holders. If the Plan is not confirmed it is very likely that this case will convert to a case under Chapter 7.

The Debtor does not believe that the case should be converted to Chapter 7. It is the Debtor's belief that the unsecured creditors would receive nothing in a chapter 7 liquidation because the secured creditor would foreclose on its lien and there would be nothing available for the creditors.

The Debtor believes that the value of distributions under the Plan will exceed the value of distributions that would be available after the liquidation of the Debtor under chapter 7 of the Bankruptcy Code. A liquidation under chapter 7 would require the Bankruptcy Court to appoint a trustee to conduct the liquidation of the Debtor's remaining assets. Such a trustee would have limited historical experience or knowledge of this chapter 11 case or the Debtor's records, assets or business. The fees charged by a chapter 7 trustee and any professionals retained by the trustee will impose substantial administrative costs on the Debtor's estate that would not be incurred under the Plan. Further, there is no assurance as to when distributions would occur in a chapter 7 liquidation.

Thus, the Debtor believes that confirmation of the Plan is preferable to the alternatives because the Plan should maximize value, ensure resolution of this chapter 11 case and provide for equitable distributions to the Debtor's Creditors.

## **VII. PREFERENCES**

Under the Bankruptcy Code, a Debtor may recover certain preferential transfers of property, including cash, made while insolvent during the 90 days immediately prior to the filing of its bankruptcy petition with respect to pre-existing debts, to the extent the transferee received more than it would have in respect of the pre-existing debt had the Debtor been liquidated under chapter 7 of the Bankruptcy Code. In the case of "insiders", the Bankruptcy Code provides for a one year preference period. There are certain defenses to such recoveries. Transfers made in the ordinary course of the Debtor's and transferee's business according to the ordinary business terms in respect of debts less than 90 days before the filing of a bankruptcy are not recoverable. Additionally, if the transferee extended credit subsequent to the transfer (and prior to the commencement of the bankruptcy case), such extension of credit may constitute a defense to recovery, to the extent of any new value, against an otherwise recoverable transfer of property. If a transfer is recovered by the Debtor, the transferee has an Unsecured Claim against the Debtor to the extent of the recovery. In this case, and after careful review of its books and records, the Debtor is not aware of any payment outside the ordinary course of business during the preference periods. Therefore, the Debtor does not have a basis to pursue preference actions.

## **VIII. FRAUDULENT TRANSFERS**

Under the Bankruptcy Code and various state laws, the Debtor may recover certain transfers of property, including the granting of a security interest in property, made while insolvent or which rendered the Debtor insolvent. After review of its books and records, the Debtor does not believe that any fraudulent conveyances occurred. Therefore, there is no basis to pursue a fraudulent conveyance action.

**IX.  
FEASIBILITY OF PLAN AND RISK**

The Plan is to be implemented, if accepted and approved by the Bankruptcy Court, from the sales of real property and through the funds provided by the Briar Capital Group. The feasibility of the Plan is dependent on the Debtor receiving outside financing. This financing will enable the Debtor to restructure the indebtedness to Compass and to continue marketing, selling, and developing its property. The risk to creditors, if any, is dependent upon the Debtor's ability to market, develop, and sell its property.

**X.  
ALTERNATIVES TO PLAN**

The alternatives to the Plan are conversion, as discussed above, or dismissal.

**XI.  
EFFECT OF CONFIRMATION**

Upon the date of the final order confirming the Plan:

1. The provisions of the Plan shall bind the Debtor and any creditor, whether or not they have accepted the Plan.
2. Except as otherwise provided in the Plan, Debtor's property shall vest in the Debtor. All creditors will be paid as proposed in the Plan.

**X11.  
BAR DATE FOR FILING PROOFS OF CLAIM**

Pursuant to Bankruptcy Local Rule 3003, any creditor desiring to receive a distribution under provisions of this Plan, whose claim is not evidenced by a Court-authorized order or the Debtor's schedules, must file a proof of claim or request for compensation with the Bankruptcy Court within ninety (90) days after the date set for the meeting of the creditors. Unless a claim is listed as disputed, contingent or unliquidated, each secured creditor's claim will be allowed in the absence of filing of a proof of claim in a different amount or status on or before the last day fixed for filing claims. Claims listed as disputed, contingent or unliquidated will not be allowed unless a proof of claim with all supporting documents was filed or the claim was scheduled by the Debtor. In the event a creditor has filed a proof of claim in these proceedings with which the Debtor disagrees, the Debtor shall file an objection to said claim not later than thirty (30) days after confirmation of the Plan.

Any proof of claim which is not or has not been timely filed or scheduled shall be of no force and effect. No distribution will be made to any creditor that has not timely complied with this provision.

The failure of Debtor to object to any claim filed herein does not prejudice the Debtor's rights to proceed against any part regarding any causes of action that it may have had at the time this case was filed or that may have accrued during the pendency of this against any creditor.



**XIII.**

**MODIFICATION OF DISCLOSURE STATEMENT**

The Debtor may propose amendments to or modification of this Disclosure statement at any time prior to confirmation, without leave of the court. After confirmation, proponent may, with approval of the Court, so long as it does not materially or adversely affect the interest of the creditors or other parties-in-interest as set forth herein, remedy any defect or omission, reconcile any inconsistencies in this Disclosure Statement, or in the order approving this Disclosure Statement, in such a manner as may be necessary to carry out the purposes and intent of this Disclosure Statement.

**XIV.**

**PAYMENT OF UNITED STATES TRUSTEE QUARTERLY FEES**

The Debtor will pay on or before the Effective Date of the Plan, all of the payments due the United States Trustee pursuant to 11 U.S.C. Section 1930(a)(6).

**XV.**

**CONCLUSION**

The Debtor believes that approval of the Plan will provide an opportunity for creditors to receive more in payment on account of their claims that would be received in a liquidation by a Chapter 7 Trustee.

This Disclosure Statement is subject to the approval of the Bankruptcy Court after notice and hearing.

Respectfully submitted this 2nd day of April, 2010.

Sonrisa Properties, Ltd.

By: /s/ Randal M. Hall  
Randal M. Hall, President  
Sonrisa Properties Management, Inc.  
Its General Partner

Of Counsel:

Karen R. Emmott  
4615 Southwest Frwy.  
Suite 500  
Houston, TX 77027  
(713) 739-0008 Telephone  
(713) 481-6262 Telecopy  
Attorney for Debtor