of Dallas, Texas v. The Travelers Corp. and The Travelers Insurance Co., (Civil No. CA-3-90-1558-C, USDC ND Tex.) (referred to below as "the Texas Litigation"). Subsequently, Travelers Corp., Travelers, and two affiliates filed a defendant class action seeking to resolve issues connected to SAR's liquidation in The Travelers Insurance Company v. Allied-Signal Inc. Master Pension Trust, et al. (Civil No. H-90-870-AHN, USDC D Conn) (referred to below as the "Allied-Signal Litigation"). The Texas Litigation was dismissed and the plaintiffs reasserted their claims as counterclaims in the Allied-Signal Litigation. In 1993, the court granted final approval of settlements in the Allied-Signal Litigation which set forth procedures to distribute amounts held in the equity and mortgage components of SAR. The settlement agreements require Travelers to use its best efforts to liquidate all of SAR's equity investments, including the Building, by April 1995.

4. The Building is a four story, 116,919 square foot office building located at 240 Cedar Knolls, Cedar Knolls, New Jersey. Travelers entered into an agreement with SAR on December 22, 1993, to lease office space in the Building pursuant to the terms of the Lease. The Lease allowed Travelers to occupy approximately 52,400 rentable square feet (RSF) in the Building.3 Prior to the Lease, the Building had approximately 55% of its office space occupied, all by parties unrelated to Travelers and its affiliates. As a result of the Lease, the Building was over 98% occupied once Travelers moved into all of the office space it planned to use. Thus, the applicant states that the Lease made the Building more marketable for sale to a third party and was in the best interests of the plans that were contractholders in SAR at the time of the transaction.

5. Under the terms of the Lease, Travelers agreed to lease the office space for five years, six months. Travelers pays \$15.00 per square foot per annum, adjusted up to \$16.86 per square foot per annum to account for additional tenant improvements, under the base rent schedule specified in the Lease.⁴ All rents under the Lease are payable monthly upon the first business day of the month. The Lease also provides 205 parking spaces for use by Travelers at no additional cost.

The Lease allocates a number of non-rent expenses to Travelers. Tenant-electric is submetered and paid for by Travelers. In addition, Travelers agreed to pay a proportionate share of increases in actual operating expenses incurred by the landlord under the Lease. However, the annual increase in operating expenses for which Travelers is liable as tenant, other than energy, taxes and insurance, may not exceed the annual percentage increase in the consumer price index (CPI). Travelers also agreed to pay its proportionate share of increases in real estate taxes.

With respect to tenant improvements, the Lease provided Travelers with new building installations in accordance with Travelers' plans and specifications at a one-time cost not to exceed \$27.00 per square foot, which will be paid for by Travelers through the base rents described above. SAR spent \$1,363,581 under the tenant improvement allowance for the office space leased to Travelers.

6. On June 24, 1994, SAR sold the **Building to Koll Investment** Management, Inc. (Koll), for \$4,000,000. The applicant states that Koll is a California corporation, d/b/a KB Realty Advisors, which is unrelated to Travelers and its affiliates. The proceeds from the sale were distributed in July 1994 to the contractholders of SAR in accordance with the settlement agreement arising from the Allied-Signal Litigation (the Settlement Agreement). In this regard, the applicant states that the Settlement Agreement requires Travelers to distribute to all of SAR's equity contractholders, over the course of liquidating the remaining assets, returns that are at least equal to the value of the equity components of SAR as of December 31, 1992 (the Target Amount). Under the Settlement Agreement, Travelers must make "differential compensation" payments over and above distributions from SAR

if the amounts distributed to the contractholders fail to meet the Target Amount. Specifically, the "differential compensation" payments will constitute the difference between the Target Amount (i.e. \$75,160,003) and the total amount of cash distributions to contractholders from that date forward. The applicant states that a "differential compensation" payment of approximately \$7,375,997 would be due to SAR's contractholders to meet the Target Amount, based on the distributions made to the contractholders (i.e. \$48,226,355) and the value of the assets remaining in SAR as of September 30, 1994 (i.e. \$19,557,651). As a result, the existing assets would have to be sold for in excess of \$26,933,648, to extinguish Travelers' obligation to make a differential compensation payment. SAR is in the final phases of its liquidation process and expects to complete liquidation of its equity portfolio within the next few months.

Travelers represents that the deficiency of \$7,375,997 as of September 30, 1994, was comprised of shortfall amounts from the sale of assets at less than their appraised value as of December 31, 1992, and unrecovered expenditures of SAR assets. With respect to the Building, the applicant indicates that this asset had a fair market value of \$4,150,000 as of December 31, 1992. Had the Building been sold for more than that amount, the differential compensation amount would have been reduced. However, the sale of the Building to Koll for \$4,000,000 increased the amount of differential compensation owed by Travelers by \$150,000. Similarly, the tenant improvements made to the Building prior to the sale totalling \$1,363,581 were paid from SAR funds. As such, the total amount of tenant improvement expenditures was unavailable for distribution to SAR investors. Each dollar spent on the improvements therefore has increased the magnitude of the differential compensation payment owed by Travelers under the Settlement Agreement. Since the sale of the remaining assets will not be sufficient to reduce already incurred deficiencies, Travelers will be responsible for these amounts out of its general assets. Thus, the size of the differential compensation payment will reflect all amounts spent by SAR for tenant improvements to the space in the Building leased to Travelers (i.e. \$1,363,581) prior to the sale of the Building. Travelers must pay such amounts to SAR's contractholders after

³The Lease contains three units with different rentable areas and commencement dates. Unit A includes 9464 RSF on the first and second floors which was occupied by Travelers as of January 1, 1994. Unit B includes 34,400 RSF on the first, second and fourth floors which was occupied by Travelers as of July 1, 1994. Unit C includes 8536 RSF on the second floor which was occupied by Travelers as of May 1, 1994. The Lease allowed Travelers to adjust the area of Unit B, subject to the Travelers' design plan for various improvements.

⁴From the commencement date applicable to Unit A through June 30, 1994, the base rent was

^{\$147,705} per annum (i.e. approximately \$12,308per month). Commencing July 1, 1994 and continuing until the expiration date of the Lease, the base rent for Unit A will be \$166,020 per annum (i.e. approximately \$13,835 per month). From the commencement date applicable to Unit C through June 30, 1994, the base rent was \$128,040 per annum (i.e. approximately \$10,670 per month). Commencing July 1, 1994 and continuing until the expiration date of the Lease, the base rent for Unit C will be \$143,916 per annum (i.e. approximately \$11,993 per month). The annual base rent for Unit B will be based upon the final RSF of Unit B, as determined in accordance with the terms of the Lease multiplied by \$16.86 per square foot based on tenant specified improvements.