PAUL J. COUCHOT – State Bar No. 131934
KAVITA GUPTA – State Bar No. 138505
CHARLES LIU – State Bar No. 190513
WINTHROP COUCHOT P.C.
660 Newport Center Dr., 4th Fl.
Newport Beach, California 92660
pcouchot@winthropcouchot.com
kgupta@winthropcouchot.com

Telephone: (949) 720-4100
Telecopier: (949) 720-4111

[Proposed] Attorneys for Cameo Homes

UNITED STATES BANKRUPTCY COURT

CENTRAL DISTRICT OF CALIFORNIA

SANTA ANA DIVISION

In re CAMEO HOMES, Debtor and Debtor-in-Possession.	Case No. 8:08-bk-13151-RK Chapter 11 Proceeding **MOTION OF CAMEO HOMES FOR ORDER APPROVING THE SALE OF CERTAIN PARTNERSHIP INTERESTS PURSUANT TO 11 U.S.C. § 363; DECLARATIONS OF JAMES C. GIANULIAS AND SHAWN CONERTY IN SUPPORT THEREOF** Date: [Expedited Hearing Requested] Time: [Expedited Hearing Requested] Ctrm: 5D

TO THE HONORABLE ROBERT KWAN, UNITED STATES BANKRUPTCY JUDGE, THE OFFICE OF THE UNITED STATES TRUSTEE, AND OTHER PARTIES-IN-INTEREST IN THIS CHAPTER 11 CASE:

Cameo Homes, the above-captioned debtor ("Cameo"), hereby moves this Court (the "Motion") pursuant to section 363 of 11 U.S.C. § 101 *et seq.* (the "Bankruptcy Code") for an order: (i) approving the *Contribution Agreement* (the "Contribution Agreement"); (ii) authorizing Mr. Gianulias to transfer 49% of his current partnership interests (the "Partnership Interests") in

Murrieta 144 Apartments, LP and Murrieta 492, LP (the "Partnerships")[1] to APW Avenue Group, Ltd. (APW) (the "Purchaser"); and (iii) authorizing Cameo (collectively with Mr. Gianulias, the "Debtors"),[2] as the sole member of 144 Apartments, LLC and 492 Apartments, LLC (the "General Partners"), to consent to the transfer of the General Partners' 1% interest in the Partnerships to the Purchaser, at which time the Purchaser will replace the General Partners as the general partners of the Partnerships.

Mr. Gianulias is an individual currently living in Newport Beach, California. Mr. Gianulias is a limited partner in a number of single asset real estate ventures that purchase and develop real estate assets. Mr. Gianulias owns 100% of Cameo, which is the sole member of the General Partners. As a result of changes in the market and a general decline in the economy, in approximately November 2007, the Debtors and certain other parties-in-interest began actively seeking a purchaser or an investor to make a contribution to the Partnerships, which are currently operating at a deficit. Without an infusion of cash, the Partnerships would be unable to complete construction on the properties owned by the Partnerships and/or to pay outstanding construction costs and, as a result, unable to pay their outstanding secured debt, which the Debtors guaranteed.

After preliminary discussions with several potential investors, the Partnerships determined that the Purchaser's offer was the most favorable, and negotiations have been ongoing since January 2008. The parties have now finalized the Contribution Agreement and anticipate that the Purchaser will provide the required funding as soon as the Court approves this Motion. Pursuant to the Contribution Agreement, the Purchaser has agreed to make a contribution to each of the Partnerships, in exchange for a 49% interest in each of the Partnerships. Although no funds will be paid directly to the Debtors, the contributions made by the Purchaser will allow the Partnerships to complete development of their ongoing real estate projects and to continue to pay their bills in the ordinary course of business. Further, in connection with the Contribution Agreement, the secured lender has agreed to extinguish the Debtors' guarantees of the Partnerships' loans. If the Contribution Agreement is not approved, the Partnerships will likely

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[1] Mr. Gianulias currently owns 74% of Murrieta 492, LP and 74% of Murrieta 144 Apartments, LP.

[2] A substantially identical motion has been filed in Cameo's chapter 11 case.

default on their secured debt, as neither the Debtors nor the other limited partners have the ability to continue to fund the Partnerships and the Debtors will lose both their interests in the Partnerships and the benefits derived through the cancellation of the guarantees. The elimination of the Debtors' guarantees will benefit the Debtors and their estates by reducing the pool of creditors competing for the Debtors' assets.

On June 6, 2008, before the parties could finalize the Contribution Agreement, three creditors commenced an involuntary chapter 7 case against Mr. Gianulias. Concurrently, the same three creditors commenced an involuntary chapter 7 case against Cameo, which is being separately administered by this Court as Case No. 08-13151. On July 2, 2008, this Court entered Orders for Relief and converted Mr. Gianulias' and Cameo's cases to ones under chapter 11.

This Motion is made and based upon the moving papers, the Memorandum of Points and Authorities, the Declarations of James C. Gianulias (the "Gianulias Declaration") and Shawn Conerty (the "Conerty Declaration"), the record in the Debtors' chapter 11 cases, including the pleadings and documents filed on behalf of parties, the arguments and representations of counsel, and any oral or documentary evidence presented at the time of the hearing on this Motion.

Concurrently with the filing of this Motion, counsel for the Debtors served this Motion, via expedited delivery, on the following parties: (1) the Office of the United States Trustee; (2) the twenty (20) largest general unsecured creditors of Cameo; (3) all secured creditors; (4) any party who filed a request for special notice in Cameo's case; and (5) any other party who may be adversely affected by the relief sought in the Motion. Once a hearing on the Motion is scheduled, counsel for the Debtors will serve a notice of the hearing on this Motion, via expedited delivery, on the above-referenced parties.

WHEREFORE, Cameo requests that the Court enter an order: (i) approving the Contribution Agreement; (ii) authorizing Mr. Gianulias to transfer 49% of his current Partnership Interests to the Purchaser; (iii) authorizing Cameo to consent to the transfer of the General Partners' 1% interest in the Partnerships to the Purchaser; (iv) finding that the Purchaser is a good faith purchaser within the meaning of section 363(m) of the Bankruptcy Code; (v) waiving the application of Bankruptcy Rule 6004(h); and (vi) granting such other and further relief as the Court deems just and proper.

DATED: July 17, 2008

WINTHROP COUCHOT PROFESSIONAL CORPORATION

By: [signature]

Paul J. Couchot
Kavita Gupta
Charles Liu
[Proposed] Attorneys for Cameo Homes, Debtor and Debtor in Possession

MEMORANDUM OF POINTS AND AUTHORITIES

I.

STATEMENT OF FACTS

A. Petition Date.

On June 6, 2008, three creditors of Cameo commenced an involuntary case against Cameo under chapter 7 of the Bankruptcy Code. Concurrently, the same three creditors commenced an involuntary chapter 7 case against James C. Gianulias, which is being administered by this Court as Case No. 8:08-13151 RK.

On July 1, 2008, Mr. Gianulias and Cameo filed their respective Consents to the Entry of an Order for Relief and Election to Convert Chapter 7 case to case under chapter 11 of the Bankruptcy Code.

On July 2, 2008, this Court entered Orders for Relief and converted Mr. Gianulias' and Cameo's cases to ones under chapter 11.

No request has been made for the appointment of a trustee or examiner in either case.

B. Background of the Debtors.

Mr. Gianulias is an individual debtor who resides in Newport Beach, California. Mr. Gianulias is in the business of real estate development. Mr. Gianulias owns an interest in a number of single asset real estate entities that were formed to purchase and develop real estate. Cameo also owns an interest in a number of single asset real estate ventures that were formed to purchase and develop real estate. Cameo holds an interest in many of the same real estate entities in which Mr. Gianulias holds an interest. Mr. Gianulias owns 100% of Cameo and therefore has an indirect interest in all of Cameo's interest in the various real estate entities. The real estate entities owned in part by Mr. Gianulias and Cameo include both limited liability companies and limited partnerships (collectively, the "Companies"). The Companies represent a substantial portion of the Debtors' assets.

Mr. Gianulias and Cameo established the Companies to own and operate various real estate assets, including, without limitation, condominiums, residential developments, commercial and retail developments, and multi-family apartment complexes (the "Properties"). Of those various real estate assets, approximately nineteen (19) single-family residence projects, four (4) multifamily land development projects, and three (3) multifamily projects remain under construction and are not generating income. Nine (9) multifamily projects and five (5) commercial/retail projects have reached stabilization and are generating income.

While the Debtors' businesses span multiple states, a significant portion of the Debtors' homebuilding operations are located in the state of California. The erosion in the California homebuilding market during the second half of 2007 was unexpected and cataclysmic, and it touched all homebuilding markets in California, including the markets in which the Debtors operate. The result of the market erosion in values and slow down of absorption broadly affected the Debtors' financial position.

Both of the Debtors have guaranteed, in whole or in part, the outstanding secured loans with respect to twenty-six (26) real estate ventures that remain under construction. Both of the Debtors have also guaranteed several unsecured loans. Mr. Gianulias has personally guaranteed loans totaling approximately $218,000,000. Cameo has also guaranteed loans totaling approximately $218,000,000.

C. The Partnerships.

This Motion addresses the following real estate partnerships:

- Murrieta 492, LP is a California limited partnership. 492 Apartments, LLC is the sole general partner of Murrieta 492, LP and Mr. Gianulias, Victor Mahony and David J. Gianulias are limited partners.[3] Cameo is the sole member of 492 Apartments, LLC.
- Murrieta 144 Apartments, LP is a California limited partnership. 144 Apartments, LLC is the sole general partner of Murrieta 144 Apartments, LP and Mr. Gianulias is the sole limited partner.[4] Cameo is the sole member of 144 Apartments, LLC.

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[3] Victor Mahony is a limited partner with a 17% interest in Murrieta 492, LP and David J. Gianulias is a limited partner with an 8% interest in Murrieta 492, LP.

[4] Prior to the Petition Date, Pony Express Land, Property & Investments, LLC ("Pony") was a limited partner with a 25% interest in Murrieta 144 Apartments, LP. In April 2008, Pony, Gianulias and Murrieta 144 Apartments, LP entered into an agreement whereby Pony agreed to withdraw from the partnership, effective upon the transfer of the partnership interests to the Purchaser.

1. Murrieta 492, LP

The principal asset of Murrieta 492, LP is real property located at 2510 Vista Murrieta, Murrieta, California. Murrieta 492, LP is in the process of constructing a 492-unit residential apartment complex on this property known as the Silverado Luxury Apartment Homes (the "Murrieta 492 Project"). 492 Apartments, LLC is the general partner of Murrieta 492, LP and Cameo is the sole member of 492 Apartments, LLC.

PNC Bank ("PNC") is the secured lender on the Murrieta 492 Project. The outstanding balance due to PNC with respect to this project is $80,000,000.[5] The Debtors have each guaranteed payment of 49% of this loan.

At this time, construction on portions of the Murrieta 492 Project is complete and Murrieta 492, LP is in the process of leasing the completed units. However, the Murrieta 492 Project is 60% or less occupied, and is operating at a deficit. Currently, Murrieta 492, LP has outstanding accounts payable of approximately $500,000 and a monthly operating deficit, including debt service, of approximately $300,000.

Further, the City of Murrieta, under an agreement with Murrieta 492, LP regarding conditions of approval for the development of the Murrieta 492 Project, required certain construction improvements to Los Alamos Road as a condition for issuing certificates of occupancy. As a result, currently, fifty-eight (58) completed units do not have certificates of occupancy. These units must be leased in order for the Murrieta 492 Project to reach economic stabilization.

Neither Murrieta 492, LP nor the Debtors have sufficient funds to complete the necessary improvements. As a result, the Debtors have determined that additional financing is necessary in order to pay all outstanding accounts, complete construction of the Murrieta 492 Project, and complete the process of leasing the apartments. If Murrieta 492, LP is unable to obtain financing,

[5] Due to the voluminous nature of the loan documents, copies of the loan documents have not been provided. Any party interested in obtaining copies of the loan documents may do so by making a written request to Debtors' counsel.

and is required to liquidate, the Murrieta 492 Project has a value of approximately $74.26 million,[6] which is insufficient to cover the secured debt of $80,000,000.

2. Murrieta 144 Apartments, LP

The principal asset of Murrieta 144 Apartments, LP is real property located at 40680 Walsh Center Drive, Murrieta, California. Murrieta 144 Apartments, LP has constructed a 144-unit residential apartment complex on the property known as the Vista Pointe Apartment Homes (the "Murrieta 144 Project" and, collectively with the Murrieta 492 Project, the "Projects"). 144 Apartments, LLC is the general partner of Murrieta 144 Apartments, LP and Cameo is the sole member of 144 Apartments, LLC.

PNC is also the secured lender with respect to the Murrieta 144 Project. The outstanding balance due to PNC with respect to the Murrieta 144 Project is $25,850,000. The Debtors have each guaranteed payment of 25% of the loan to Murrieta 144 Apartments, LP.

At this time, construction of the Murrieta 144 Project is complete and Murrieta 144 Apartments, LP is in the process of leasing the completed units. However, the Murrieta 144 Project is 70% or less occupied, and is operating at a deficit. Currently, Murrieta 144 Apartments, LP has outstanding accounts payable of approximately $700,000 and a monthly operating deficit, including debt service, of approximately $100,000.

Neither Murrieta 144 Apartments, LP nor the Debtors have sufficient funds to pay all outstanding accounts on the Murrieta 144 Project. As a result, the Debtors have determined that additional financing is necessary in order to pay all outstanding accounts and complete the process of leasing the apartments. If Murrieta 144 Apartments, LP is unable to obtain financing, and is required to liquidate, the Murrieta 144 Project has a value of approximately $22.4 million, which is insufficient to cover the secured debt of $25,850,000.

[6] The valuations set forth herein do not reflect costs or expenses that would be incurred in connection with the sale of the Projects (as defined below), which would be paid at the time and upon the closing of the sale of the Projects. Additionally, these valuations do not reflect any additional discounts in value that might result if the Partnerships are required to liquidate the properties on a very short timeline.

D. Sale of the Partnership Interests.

As set forth above, as a result of changes in the market and a general decline in the economy, in approximately November 2007, the partners of the Partnerships determined that the Partnerships required additional capital to complete the development of the Projects. Neither of the Debtors, or any of the other partners of the Partnerships, was capable of providing the cash necessary to service the debt and continue construction of the Projects and ancillary requirements, including the improvements to Los Alamos Road. If the Partnerships default on their secured loans to PNC, the Debtors could be liable on the guarantees in the amount of several million dollars.

1. Marketing the Projects

After determining that the Partnerships needed additional capital, the partners of the Partnerships began actively seeking an investor to make a contribution to the Partnerships, or an investor that was interested in purchasing the Partnerships or their assets. Among other things, in December 2007, the partners of the Partnerships listed the Partnerships and the Projects with Marcus and Millichap ("M&M"), a broker specializing in investment real estate, for several months. M&M prepared an offering memorandum for each of the Projects (the "Offering Memoranda") which set forth general information regarding the properties, including a project description, a property analysis and overview of the City of Murrieta. Originally, the Partnerships sought a purchaser for Murrieta 144 Apartments, LP at an offering price of $38,250,000 and the Murrieta 492, LP at an offering price of $218,000,000.[7] The Offering Memoranda are attached to the Gianulias Declaration as Exhibit A.[8]

Other than the Purchaser, three parties expressed an interest in purchasing Murrieta 492, LP. Each of these offers was materially lower than the offering price set forth in the Offering Memorandum, ranging from approximately $60.3 million to $86 million (subject to a number of

[7] No formal appraisals were prepared or reviewed by the Debtors or PNC in the preparation of the Offering Memoranda or during the marketing of the Partnerships.

[8] Due to the voluminous size of the exhibits, not all parties were served with a copy of the exhibits. Any party interested in obtaining a copy of the exhibits may do so by making a written request to Debtors' counsel.

contingencies that might have led to reductions in the purchase price to reflect the cost to complete the Murrieta 492 Project, including operational shortfalls and outstanding construction costs). Although three parties originally expressed an interest in Murrieta 492, LP, following discussions among the parties, only one of these parties entered into a letter of intent offering to purchase Murrieta 492, LP for approximately $65 million, subject to a due diligence period. This offer was insufficient to cover the secured debt on the property of $80 million.

With respect to Murrieta 144 Apartments, LP, in addition to the Purchaser, four parties expressed an interest in purchasing Murrieta 144 Apartments, LP. Each of these offers was materially lower than the offering price set forth in the Offering Memorandum, ranging from approximately $17.6 million to $28 million. Although originally four parties expressed an interest in Murrieta 144 Apartments, LP, following discussions among the parties, only two of these parties entered into a letter of intent offering to purchase Murrieta 144 Apartments, LP. One offer was for $20 million, which was insufficient to cover the secured debt on the property of $25.8 million. The other offer was for $28 million, but was subject to a number of contingencies that might have led to reductions in the purchase price to reflect the cost to complete the Murrieta 144 Project, including operational shortfalls and outstanding construction costs. After considering this offer, the partners of Murrieta 144 Apartments, LP determined that the Purchaser's offer was more favorable, as it set forth fewer contingencies, provided for a release of the Debtors' guarantees, and might result in value to the partners.[9]

After discussions with the foregoing parties, the partners of the Partnerships determined that the Purchaser's offer was the most favorable based, in part, on the fact that the Purchaser was interested in investing in both of the Partnerships. Additionally, the Purchaser was able to make a more favorable offer because the Purchaser will be able to utilize the Partnerships' losses to offset taxable gains on the Purchaser's portfolio. Information regarding the Purchaser, including a balance sheet as of February 28, 2008, and a biographical summary of the Purchaser's management company, Realty Center Management, Inc. ("RCMI"), as well as a list of properties

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[9] Copies of the letters of intent received by the Debtors are attached to the Gianulias Declaration as Exhibit B.

which RCMI manages, are attached to the Gianulias Declaration as Exhibit C.

2. Sale of the Projects to the Purchaser

The Debtors, the Purchaser and other interested parties have finalized the Contribution Agreement, which is attached to the Gianulias Declaration as Exhibit D.[10] Under the terms of the Contribution Agreement, Mr. Gianulias will sell 49% of his current partnership interest in each of the Partnerships to the Purchaser and Cameo will authorize the General Partners to transfer their 1% interest in the Partnerships to the Purchaser, at which time the Purchaser will replace the General Partners as the general partners of the Partnerships.[11]

[10] Although the Contribution Agreement has been finalized, PNC has requested an order approving the Contribution Agreement prior to executing the Contribution Agreement.

[11] As noted above, Victor Mahony and David J. Gianulias are limited partners in Murrieta 492, LP. Neither Victor Mahony nor David Gianulias are capable of providing the cash necessary to service the debt and continue construction of the Murrieta 492 Project. However, unlike the Debtors, neither Victor Mahony nor David Gianulias guaranteed any of Murrieta 492, LP's outstanding debt. As a result of the transaction set forth in the Contribution Agreement, both Victor Mahony and David Gianulias will transfer 49% of their interest in Murrieta 492, LP to the Purchaser. Neither Victor Mahony nor David Gianulias will receive any compensation as a result of this transfer.

Similarly, as a result of the April 2008 agreement, Pony agreed to withdraw as a member of Murrieta 144 Apartments, LP, effective upon the transfer of the partnership interests to the Purchaser.

As a result, the partnership interests in the Partnerships will be modified as follows:

Murrieta 492, LP

Partner	Current Ownership Interest	Revised Ownership Interest
James C. Gianulias	74.00%	38.12%
Victor J. Mahony	18.00%	09.27%
David Gianulias	07.00%	03.61%
492 Apartments, LLC	01.00%	00.00%
APW	00.00%	48.00%
APW, LLC	00.00%	01.00%
Total	100.00%	100.00%

Murrieta 144 Apartments, LP

Partner	Current Ownership Interest	Revised Ownership Interest
James C. Gianulias	74.00%	51.00%
Pony Express	25.00%	00.00%
144 Apartments, LLC	01.00%	00.00%
APW	00.00%	47.00%
APW, LLC	00.00%	01.00%
Total	100.00%	100.00%

This transaction has received approval from PNC, the other limited partners, and the City of Murrieta. The Debtors believe that approval of the Contribution Agreement is in the best interests of the Debtors and their creditors, as elimination of the Debtors' guarantee liability to PNC will significantly reduce the pool of creditors competing for the Debtors' assets.

Generally, the terms of the transaction are as follows:

- The Purchaser will provide 100% of the cash to fund the liability for all outstanding accounts payable, including all subcontractor debt, all costs to complete construction, and all operating deficits, including debt service to PNC.
- The Purchaser will replace the General Partners as the general partners of the Partnerships, and as a result take over control of the Partnerships.
- The guarantees provided by the Debtors to PNC will be extinguished as of the effective date of the Contribution Agreement.
- The parties will enter into a new partnership agreement.
- There will be no cash proceeds paid to either the Debtors, any affiliate thereof, or any minority partner at the time the Contribution Agreement is finalized.

The Purchaser will make a total contribution of $15,000,000, including $8,300,000 to be paid at closing into an escrow account controlled by PNC. The City of Murrieta has agreed to issue certificates of occupancy with respect to the fifty-eight (58) completed units upon funding of an escrow account to cover the cost of construction of the improvements (approximately $5,033,500), which will occur upon execution of the Contribution Agreement.

The sale of 49% of the Partnerships to the Purchaser will allow the Projects to reach economic stabilization and therefore provide the potential for future value as completed projects. Further, the potential deficiencies will be eliminated and the Debtors' guarantees will be extinguished, thus improving the overall position of the Debtors' creditors.

II.

RELIEF REQUESTED

Subject to the approval of this Court, the Debtors have finalized the Contribution Agreement, pursuant to which Mr. Gianulias has agreed to sell to the Purchaser 49% of his current

Partnership Interests and Cameo has agreed to authorize the General Partners to transfer their 1% interest in the Partnerships to the Purchaser, at which time the Purchaser will replace the General Partners as the general partners of the Partnerships. In the event the transaction set forth above is consummated, the Purchaser will make a substantial contribution to the Partnerships and the Debtors' guarantees of the secured loans to PNC will be extinguished. If the Contribution Agreement is not approved, the Partnerships will likely default on their secured debt, as neither the Debtors, the other partners, or the Partnerships have the funds necessary to achieve stabilization of the Projects. Therefore, if the Partnerships default, the Debtors will lose both their interests in the Partnerships and the benefits derived through the cancellation of the guarantees.

The Debtors submit that, based upon the current economic market, at this time, the consideration offered by the Purchaser constitutes the highest and best value achievable for the Partnership Interests. The Debtors' entry into the Contribution Agreement is fully supported by the other limited partners, the secured lender, and the City of Murrieta. The relief requested by this Motion is in the best interest of the Debtors' estates as it will provide an opportunity for the Debtors to reduce the potential claim pools against the estates, for the benefit of the Debtors' creditors.

III.

ARGUMENT

A. The Court Has The Authority To Grant The Relief Requested And Authorize The Sale Of The Partnership Interests.

Section 363(b)(1) of the Bankruptcy Code permits a debtor-in-possession, after notice and a hearing, to "use, sell or lease, other than in the ordinary course of business, property of the estate." 11 U.S.C. § 363(b)(1) (2006). Although the Bankruptcy Code does not explicitly provide a standard for determining whether a proposed sale transaction should be approved, courts have examined whether the proposed transaction has (i) a valid business justification or good business reason, (ii) whether the sale is the result of good faith negotiations, and (iii) whether the proposed purchase price is fair and reasonable. See, e.g., 240 North Brand Partners, Ltd. v. Colony GFP Partners, L.P., (In re 240 North Brand Partners, Ltd.), 200 B.R. 653, 659 (B.A.P. 9th Cir. 1996); In re Abbotts Dairies of Pa., Inc., 788 F.2d 143 (3rd Cir. 1986); In the Matter of Plaza Family Partnership v. Plaza Family Partnership, 95 B.R. 166 (Bankr. E.D. Cal 1989). All three of these factors are satisfied here.

1. Valid Business Justifications and Good Business Reasons Support the Proposed Sale.

In Walter v. Sunwest Bank (In re Walter), 83 B.R. 14, 19 (B.A.P. 9th Cir. 1988), the Bankruptcy Appellate Panel for the Ninth Circuit adopted a similarly flexible, case-by-case test to determine whether the business purpose for a proposed sale justifies the disposition of property of the estate under section 363(b). Adopting the reasoning of the Fifth Circuit in In re Continental Air Lines, 780 F.2d 1223, 1226 (5th Cir. 1986) and the Second Circuit in In re Lionel Corp., 722 F.2d 1063 (2d Cir. 1983), the Bankruptcy Appellate Panel set forth the following considerations with respect to a transaction under section 363(b):

> Whether the proffered business justification is sufficient depends on the case. As the Second Circuit held in Lionel, the bankruptcy judge should consider all salient factors pertaining to the proceeding and, accordingly, act to further the diverse interests of the debtor, creditors and equity holders, alike. He might for example, look to such relevant factors as the proportionate value of the asset to the estate as a whole, the amount of elapsed time since the filing, the likelihood that a plan of reorganization will be proposed and confirmed in the near future, the effect of the proposed disposition on future plans of reorganization, the proceeds to be obtained from the disposition vis-a-vis any appraisals of the property, which of the alternatives of use, sale or lease the proposal envisions and, most importantly perhaps, whether the asset is increasing or decreasing in value. This list is not intended to be exclusive, but merely to provide guidance to the bankruptcy judge.

Walter, 83 B.R. at 19-20. The Debtors believe that the proposed sale of the Partnership Interests satisfies the requirements for a sale under Section 363(b).

The Debtors submit that the sale of the Partnership Interests will provide the estates with fair and reasonable consideration. Although no funds will be paid directly to the Debtors in connection with the sale of the Partnership Interests, PNC has agreed to extinguish the Debtors' guarantees of the secured loans. If the Partnerships defaulted on their secured loans to PNC, the Debtors could be liable on the guarantees in the amount of several million dollars. Through the elimination of these guarantees, the Debtors are reducing the potential claim pools against their estates, for the benefit of the Debtors' creditors.

Consequently, the proposed sale satisfies the requirement of a sound business purpose.

2. <u>The Proposed Sale Is In Good Faith</u>

Section 363(m) of the Bankruptcy Code provides:

> The reversal or modification on appeal of an authorization under subsection (b) or (c) of this section of a sale or lease of property does not affect the validity of a sale or lease under such authorization to any entity that purchased or leased such property in good faith, whether or not such entity knew of the pendency of the appeal, unless such authorization and such sale or lease were stayed pending appeal.

11 U.S.C. § 363(m) (2006).

Although the Bankruptcy Code does not define "good faith," courts have found that the good faith requirement focuses principally on the disclosure of all material sale terms and the absence of fraud or collusion. <u>See, e.g.</u>, <u>In re Abbott Dairies</u>, 788 F.2d at 143; <u>see also In re Apex Oil Co.</u>, 92 B.R. 847, 869-71 (Bankr. E.D. Mo. 1988).

Here, the Debtors, the Purchaser and all other parties-in-interest have, at all times, acted in good faith. As set forth in the Gianulias Declaration, prior to the negotiations between the parties concerning the transaction regarding the Partnerships, there was no relationship between the Debtors and the Purchaser. Specifically, the Contribution Agreement is the product of arms-length negotiations between the Debtors, the other partners, and the Purchaser. The Contribution Agreement does not confer any special treatment on any insider and the Purchaser is neither a creditor, an insider (as defined in Bankruptcy Code § 101(31)), nor an affiliate (as defined in Bankruptcy Code § 101(2)) of the Debtors. Finally, full disclosure of the terms of the proposed sale transaction has been provided to creditors. Therefore, the Debtors submit that the Purchaser is a good faith purchaser and the proposed sale of the Partnership Interests is in good faith.

3. <u>The Purchase Price Is Fair And Reasonable</u>

The Debtors believe that the purchase price for the Partnership Interests is fair and reasonable.

Pursuant to the Contribution Agreement, the Purchaser has agreed to make contributions to the Partnerships in the total amount of $15 million. Although no funds will be paid directly to the Debtors, the Purchaser will assume the secured debt and advance substantially all of the funds necessary to complete construction of the Projects and/or to pay outstanding construction costs. Additionally, upon assumption of the secured debt by the Purchaser, PNC has agreed to extinguish the Debtors' guarantees of the secured debt, which will reduce the pool of potential claims against their estates. As set forth in the Conerty Declaration, the Debtors have no current equity in the Projects and lack the funds necessary to potentially create any equity.

Based on the foregoing, the Debtors believe that the sale of the Partnership Interests to the Purchaser is in the best interests of the Debtors, their creditors and their estates. The elimination of the Debtors' guarantees will benefit the Debtors and their estates by eliminating the Debtors' potential guarantee liability of several million dollars, thereby reducing the pool of potential creditors competing for the Debtors' assets.

B. Waiver of the Provision of Bankruptcy Rule 6004(h) is Appropriate.

Bankruptcy Rule 6004(h) provides that an order approving the sale of estate property is "stayed until the expiration of 10 days after the entry of the order, unless the court orders otherwise." FED. R. BANKR. P. 6004(h). Here, setting aside this stay provision is necessary because the expeditious closing of the sale of the Partnership Interests is in the best interests of the bankruptcy estates. Among other things, the City of Murrieta has required the Partnerships to provide funding for certain road improvements prior to August 1, 2008, or else the City of Murrieta will not approve the transaction set forth in the Contribution Agreement. The parties anticipate that the Purchaser will provide the required funding to satisfy the secured lender and the City of Murrieta as soon as the Court approves this Motion. Therefore, the Debtors are now seeking a waiver of Bankruptcy Rule 6004(h) to allow the parties to proceed quickly to a closing immediately after the entry of the Order.

IV.

CONCLUSION

Based on the foregoing, Cameo requests that the Court enter an order: (i) approving the Contribution Agreement; (ii) authorizing Mr. Gianulias to transfer 49% of his current Partnership Interests to the Purchaser; (iii) authorizing Cameo to consent to the transfer of the General Partners' 1% interest in the Partnerships to the Purchaser; (iv) finding that the Purchaser is a good faith purchaser within the meaning of section 363(m) of the Bankruptcy Code; (v) waiving the application of Bankruptcy Rule 6004(h); and (vi) granting such other and further relief as the Court deems just and proper.

DATED: July 17, 2008

WINTHROP COUCHOT PROFESSIONAL CORPORATION

By: /s/ Paul J. Couchot
Paul J. Couchot
Kavita Gupta
Charles Liu
[Proposed] Attorneys for Cameo Homes, Debtor and Debtor in Possession

DECLARATION OF JAMES C. GIANULIAS

I, James C. Gianulias, hereby declare and state as follows:

1. I am the debtor in this chapter 11 case. I am a limited partner of Murrieta 492, LP and Murrieta 144 Apartments, LP (the "Partnerships"). I own 100% of Cameo Homes, a California corporation ("Cameo"), which is the debtor in a separate chapter 11 proceeding before this Court.

2. As to the following facts, I know them to be true of my own knowledge, or I have gained such knowledge from the business records of a business in which I have an ownership interest which were made at or near the time of the acts, conditions or events to which they relate. Any such document or record was prepared in the ordinary course of business by a person who had personal knowledge of the event being recorded and had a business duty to accurately record such event.

3. I submit this declaration in support of the motion (the "Motion") pursuant to section 363 of 11 U.S.C. § 101 *et seq.* (the "Bankruptcy Code") for an order: (i) approving the *Contribution Agreement* (the "Contribution Agreement"); (ii) authorizing me to transfer 49% of my current partnership interests (the "Partnership Interests") in the Partnerships to APW Avenue Group, Ltd. (APW) (the "Purchaser");[1] and (iii) authorizing Cameo, as the sole member of 144 Apartments, LLC and 492 Apartments, LLC (the "General Partners"), to consent to the transfer of the General Partners' 1% interest in the Partnerships to the Purchaser, at which time the Purchaser will replace the General Partners as the general partners of the Partnerships. I submit this declaration in my individual capacity, as well as my capacity as 100% owner of Cameo.

4. On June 6, 2008, three creditors commenced an involuntary chapter 7 case against me. Concurrently, the same three creditors commenced an involuntary chapter 7 case against Cameo, which is being separately administered as Case No. 08-13151. On July 1, 2008, Cameo and I filed Consents to the Entry of an Order for Relief and Election to Convert Chapter 7 case to

[1] I currently own 74% of Murrieta 492, LP and 74% of Murrieta 144 Apartments, LP.

case under chapter 11 of the Bankruptcy Code. On July 2, 2008, this Court entered Orders for Relief and converted my and Cameo's cases to ones under chapter 11.

5. I am an individual currently living in Newport Beach, California. I am in the business of real estate development. I own an interest in a number of single asset real estate entities that were formed to purchase and develop real estate. Cameo also owns an interest in a number of single asset real estate ventures that were formed to purchase and develop real estate. Cameo holds an interest in many of the same real estate entities in which I hold an interest. I own 100% of Cameo and therefore have an indirect interest in all of Cameo's interest in the various real estate entities. The real estate entities owned in part by me and Cameo include both limited liability companies and limited partnerships (collectively, the "Companies"). The Companies represent a substantial portion of my assets and Cameo's assets.

6. Cameo and I established the Companies to own and operate various real estate assets, including, without limitation, condominiums, residential developments, commercial and retail developments, and multi-family apartment complexes (the "Properties"). Of those various real estate assets, approximately nineteen (19) single-family residence projects, four (4) multifamily land development projects, and three (3) multifamily projects remain under construction and are not generating income. Nine (9) multifamily projects and five (5) commercial/retail projects have reached stabilization and are generating income.

7. While Cameo and my businesses span multiple states, a significant portion of our homebuilding operations are located in the state of California. The erosion in the California homebuilding market during the second half of 2007 was unexpected and cataclysmic, and it touched all homebuilding markets in California, including the markets in which we operate. The result of the market erosion in values and slow down of absorption broadly affected both Cameo and my financial position.

A. The Partnerships.

8. The Motion addresses the following real estate partnerships:

- Murrieta 492, LP is a California limited partnership. 492 Apartments, LLC is the sole general partner of Murrieta 492, LP and me, Victor Mahony and David J.

Gianulias are limited partners.[2] Cameo is the sole member of 492 Apartments, LLC.

- Murrieta 144 Apartments, LP is a California limited partnership. 144 Apartments, LLC is the sole general partner of Murrieta 144 Apartments, LP and I am the sole limited partner.[3] Cameo is the sole member of 144 Apartments, LLC.

Murrieta 492, LP

9. The principal asset of Murrieta 492, LP is real property located at 2510 Vista Murrieta, Murrieta, California. Murrieta 492, LP is in the process of constructing a 492-unit residential apartment complex on this property known as the Silverado Luxury Apartment Homes (the "Murrieta 492 Project"). 492 Apartments, LLC is the general partner of Murrieta 492, LP and Cameo is the sole member of 492 Apartments, LLC.

10. PNC Bank ("PNC") is the secured lender on the Murrieta 492 Project. I have personally guaranteed, and Cameo has guaranteed, payment of 49% of this loan.

11. At this time, construction on portions of the Murrieta 492 Project is complete and Murrieta 492, LP is in the process of leasing the completed units. However, the Murrieta 492 Project is 60% or less occupied, and is operating at a deficit. Further, the City of Murrieta, under an agreement with Murrieta 492, LP regarding conditions of approval for the development of the Murrieta 492 Project, required certain construction improvements to Los Alamos Road as a condition for issuing certificates of occupancy. As a result, currently, fifty-eight (58) completed units do not have certificates of occupancy. These units must be leased in order for the Murrieta 492 Project to reach economic stabilization.

12. Neither I nor Cameo have sufficient funds to complete the necessary improvements. As a result, I believe that additional financing is necessary in order to pay all

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[2] Victor Mahony is a limited partner with a 17% interest in Murrieta 492, LP and David J. Gianulias is a limited partner with an 8% interest in Murrieta 492, LP.

[3] Prior to the Petition Date, Pony Express Land, Property & Investments, LLC ("Pony") was a limited partner with a 25% interest in Murrieta 144 Apartments, LP. In April 2008, Pony, myself and Murrieta 144 Apartments, LP entered into an agreement whereby Pony agreed to withdraw from the partnership, effective upon the transfer of the partnership interests to the Purchaser.

outstanding accounts, complete construction of the Murrieta 492 Project, and complete the process of leasing the apartments.

Murrieta 144 Apartments, LP

13. The principal asset of Murrieta 144 Apartments, LP is real property located at 40680 Walsh Center Drive, Murrieta, California. Murrieta 144 Apartments, LP has constructed a 144-unit residential apartment complex on the property known as the Vista Pointe Apartment Homes (the "Murrieta 144 Project" and, collectively with the Murrieta 492 Project, the "Projects"). 144 Apartments, LLC is the general partner of Murrieta 144 Apartments, LP and Cameo is the sole member of 144 Apartments, LLC.

14. PNC is also the secured lender with respect to the Murrieta 144 Project. I have personally guaranteed, and Cameo has guaranteed, payment of 25% of the loan to Murrieta 144 Apartments, LP.

15. At this time, construction of the Murrieta 144 Project is complete and Murrieta 144 Apartments, LP is in the process of leasing the completed units. However, the Murrieta 144 Project is 70% or less occupied and is operating at a deficit.

16. Neither I nor Cameo have sufficient funds to pay all outstanding accounts on the Murrieta 144 Project. As a result, I believe that additional financing is necessary in order to pay all outstanding accounts of the Murrieta 144 Project, and complete the process of leasing the apartments.

B. Sale of the Partnership Interests.

17. As a result of changes in the market and a general decline in the economy, in approximately November 2007, I, along with the other partners of the Partnerships, determined that the Partnerships required additional capital to complete the development of the Projects. To the best of my knowledge, neither I, nor Cameo, nor any of the other partners of the Partnerships are capable of providing the cash necessary to service the debt and continue construction of the Projects and ancillary requirements, including the improvements to Los Alamos Road. If the Partnerships default on their secured loans to PNC, Cameo and I could be liable on the guarantees in the amount of several million dollars.

Marketing the Projects

18. After determining that the Partnerships needed additional capital, I, along with the other partners of the Partnerships, began actively seeking an investor to make a contribution to the Partnerships, or an investor that was interested in purchasing the Partnerships or their assets. Among other things, in December 2007, we listed the Partnerships and the Projects with Marcus and Millichap ("M&M"), a broker specializing in investment real estate, for several months. M&M prepared an offering memorandum for each of the Projects (the "Offering Memoranda") which set forth general information regarding the properties, including a project description, a property analysis and overview of the City of Murrieta. Originally, we sought a purchaser for Murrieta 144 Apartments, LP at an offering price of $38,250,000 and the Murrieta 492, LP at an offering price of $218,000,000. The Offering Memoranda are attached hereto as Exhibit A.[4]

19. Other than the Purchaser, three parties expressed an interest in purchasing Murrieta 492, LP. Each of these offers was materially lower than the offering price set forth in the Offering Memorandum, ranging from approximately $60.3 million to $86 million (subject to a number of contingencies that might have led to reductions in the purchase price to reflect the cost to complete the Murrieta 492 Project, including operational shortfalls and outstanding construction costs). Although three parties originally expressed an interest in Murrieta 492, LP, following discussions among the parties, only one of these parties entered into a letter of intent offering to purchase Murrieta 492, LP for approximately $65 million, subject to a due diligence period. This offer was insufficient to cover the secured debt on the property of $80 million.

20. With respect to Murrieta 144 Apartments, LP, in addition to the Purchaser, four parties expressed an interest in purchasing Murrieta 144 Apartments, LP. Each of these offers was materially lower than the offering price set forth in the Offering Memorandum, ranging from approximately $17.6 million to $28 million. Although originally four parties expressed an interest in Murrieta 144 Apartments, LP, following discussions between me, the other partners of the Partnerships, and the potential purchasers, only two of these parties entered into a letter of intent

[4] To the best of my knowledge, no formal appraisals were prepared or reviewed by myself, Cameo or PNC in the preparation of the Offering Memoranda or during the marketing of the Partnerships.

offering to purchase Murrieta 144 Apartments, LP. One offer was for $20 million, which was insufficient to cover the secured debt on the property of $25.8 million. The other offer was for $28 million, but subject to a number of contingencies that might have led to reductions in the purchase price to reflect the cost to complete the Murrieta 144 Project, including operational shortfalls and outstanding construction costs. After considering this offer, I, along with the other partners of Murrieta 144 Apartments, LP, determined that the Purchaser's offer was more favorable, as it set forth fewer contingencies, provided for a release of the Debtors' guarantees, and might result in value to the partners.[5]

21. After discussions with the foregoing parties, we determined that the Purchaser's offer was the most favorable based, in part, on the fact that the Purchaser was interested in investing in both of the Partnerships. Additionally, the Purchaser was able to make a more favorable offer because the Purchaser will be able to utilize the Partnerships' losses to offset taxable gains on the Purchaser's portfolio. Information regarding the Purchaser, including a balance sheet as of February 28, 2008, and a biographical summary of the Purchaser's management company, Realty Center Management, Inc. ("RCMI"), as well as a list of properties which RCMI manages, are attached hereto as Exhibit C.

Sale of the Projects to the Purchaser

22. Negotiations with the Purchaser have been ongoing since January 2008. We have finalized the Contribution Agreement and I anticipate that the Purchaser will provide the required funding as soon as the Court approves this Motion. A true and correct copy of the Contribution Agreement is attached hereto as Exhibit D.[6] Under the terms of the Contribution Agreement, I agree to sell 49% of my current ownership interest in each of the Partnerships to the Purchaser and Cameo agrees to consent to the transfer of the General Partners' 1% interest in the Partnerships to

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[5] Copies of the letters of intent received by the partners of the Partnerships are attached hereto as Exhibit B.

[6] Although the Contribution Agreement has been finalized, I am informed and believe that PNC has requested an order approving the Contribution Agreement prior to executing the Contribution Agreement.

the Purchaser, at which time the Purchaser will replace the General Partners as the general partners of the Partnerships.[7]

23. The transaction has received approval from PNC, the other limited partners, and the City of Murrieta. I believe that approval of the Contribution Agreement is in the best interests of both my creditors and Cameo's creditors, as elimination of the guarantee liability to PNC will significantly reduce the pool of creditors competing for the remaining assets in our estates.

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[7] Victor Mahony and David J. Gianulias are limited partners in Murrieta 492, LP. Unlike myself and Cameo, neither Victor Mahony nor David Gianulias guaranteed any of Murrieta 492, LP's outstanding debt. As a result of the transaction set forth in the Contribution Agreement, both Victor Mahony and David Gianulias will transfer 49% of their interest in Murrieta 492, LP to the Purchaser. Neither Victor Mahony nor David Gianulias will receive any compensation as a result of this transfer.

Similarly, as a result of the April 2008 agreement, Pony agreed to withdraw as a member of Murrieta 144 Apartments, LP, effective upon the transfer of the partnership interests to the Purchaser.

As a result, the partnership interests in the Partnerships will be modified as follows:

Murrieta 492, LP

Partner	Current Ownership Interest	Revised Ownership Interest
James C. Gianulias	74.00%	38.12%
Victor J. Mahony	18.00%	09.27%
David Gianulias	07.00%	03.61%
492 Apartments, LLC	01.00%	00.00%
APW	00.00%	48.00%
APW, LLC	00.00%	01.00%
Total	100.00%	100.00%

Murrieta 144 Apartments, LP

Partner	Current Ownership Interest	Revised Ownership Interest
James C. Gianulias	74.00%	51.00%
Pony Express	25.00%	00.00%
144 Apartments, LLC	01.00%	00.00%
APW	00.00%	47.00%
APW, LLC	00.00%	01.00%
Total	100.00%	100.00%

24. Generally, the terms of the transaction are as follows:

- The Purchaser will provide 100% of the cash to fund the liability for all outstanding accounts payable, including all subcontractor debt, all costs to complete construction, and all operating deficits, including debt service to PNC.
- The Purchaser will replace the General Partners as the general partners of the Partnerships, and as a result take over control of the Partnerships.
- The guarantees provided by Cameo and I to PNC will be extinguished as of the effective date of the Contribution Agreement.
- I, along with the other parties, will enter into a new partnership agreement.
- There will be no cash proceeds paid to me, Cameo, any affiliate thereof, or any minority partner at the time the Contribution Agreement is finalized.

25. The Purchaser will make a total contribution of $15,000,000, including $8,300,000 to be paid at closing into an escrow account controlled by PNC. The City of Murrieta has agreed to issue certificates of occupancy with respect to the fifty-eight (58) completed units upon funding of an escrow account to cover the cost of construction of the improvements (approximately $5,033,500), which will occur upon execution of the Contribution Agreement.

26. I believe that the sale of 49% of the Partnerships to the Purchaser will allow the Projects to reach economic stabilization and therefore provide the potential for future value as completed projects. Further, the potential deficiencies will be eliminated and the guarantees will be extinguished, which will reduce Cameo and my outstanding debt and improve the position of our existing creditors.

27. I believe that, based upon the current economic market, at this time, the consideration offered by the Purchaser constitutes the highest and best value achievable for the Partnership Interests. The Contribution Agreement is fully supported by the other limited partners, the secured lenders, and the City of Murrieta. I believe that the relief requested in the Motion is in the best interest of my estate as it will reduce the potential claim pools against the estate, for the benefit of my creditors. I also believe that the relief requested in the Motion is in

the best interest of Cameo's estate as it will reduce the potential claim pools against the estate, for the benefit of Cameo's creditors.

28. I believe that the sale of the Partnership Interests will provide the estates with fair and reasonable consideration. Although no funds will be paid directly to me or Cameo in connection with the sale of the Partnership Interests, PNC has agreed to extinguish our guarantees of the secured loans. If the Contribution Agreement is not approved, I believe that the Partnerships will likely default on their secured debt, as neither Cameo, the other partners, the Partnerships or I have the funds necessary to achieve stabilization of the Projects. Therefore, if the Partnerships default, Cameo and I will lose both our interests in the Partnerships and the benefits derived through the cancellation of the guarantees.

29. I believe that the Purchaser and all other parties-in-interest have, at all times, acted in good faith. Specifically, the Contribution Agreement is the product of arms-length negotiations between me, Cameo, the other partners of the Partnerships, and the Purchaser. Prior to the commencement of negotiations regarding the sale of an interest in the Partnerships, there was no relationship between me or Cameo and the Purchaser.

30. Based on the foregoing, I believe that the sale of the Partnership Interests to the Purchaser is in the best interests of my estate and Cameo's estate. The elimination of the guarantees will benefit me, Cameo and both of our estates by eliminating the potential guarantee liability, thereby reducing the pool of potential creditors competing for assets.

31. I also believe that the expeditious closing of the sale of the Partnership Interests is in the best interests of the bankruptcy estates. Among other things, I am informed and believe that the City of Murrieta has required the Partnerships to provide funding for certain road

improvements prior to August 1, 2008, or else the City of Murrieta will not approve the transaction set forth in the Contribution Agreement. I anticipate that the Purchaser will provide the required funding to satisfy the secured lender and the City of Murrieta as soon as the Court approves this Motion.

I declare under penalty of perjury that the foregoing is true and correct.

Executed this ____ day of July, 2008, at Newport Beach, California.

JAMES C. GIANULIAS

DECLARATION OF SHAWN CONERTY

I, Shawn Conerty, hereby declare and state as follows:

1. I am the Director of Finance of G Companies Management, LLC, a California limited liability company, and several affiliates, including Cameo Homes, a California corporation ("Cameo"), owned by James C. Gianulias ("Mr. Gianulias" and, collectively with Cameo, the "Debtors"). In my position as Director of Finance, I oversee all project level capitalization and am responsible for lender relations.

2. As to the following facts, I know them to be true of my own knowledge, or I have gained such knowledge from the business records of Mr. Gianulias or one of his businesses which were made at or near the time of the acts, conditions or events to which they relate. Any such document or record was prepared in the ordinary course of business by a person who had personal knowledge of the event being recorded and had a business duty to accurately record such event.

3. I submit this declaration in support of the motion (the "Motion")[1] filed by Mr. Gianulias pursuant to section 363 of 11 U.S.C. § 101 *et seq.* (the "Bankruptcy Code") for an order: (i) approving the *Contribution Agreement* (the "Contribution Agreement"); (ii) authorizing Mr. Gianulias to transfer 49% of his current partnership interests (the "Partnership Interests") in Murrieta 144 Apartments, LP and Murrieta 492, LP (the "Partnerships") to APW Avenue Group, Ltd. (APW) (the "Purchaser");[2] and (iii) authorizing Cameo, as the sole member of 144 Apartments, LLC and 492 Apartments, LLC (the "General Partners"), to consent to the transfer of the General Partners' 1% interest in the Partnerships to the Purchaser, at which time the Purchaser will replace the General Partners as the general partners of the Partnerships.

4. The valuations provided in the Motion were determined by taking the estimated net operating income of each Project at full economic stabilization, accounting for a 5% vacancy rate and certain market concessions currently being offered at the Projects, and applying a 6.5% capitalization rate. This capitalization rate was determined based on a study of the Murrieta

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[1] All terms not defined herein have the meaning set forth in the Motion.

[2] Mr. Gianulias currently owns 74% of Murrieta 492, LP and 74% of Murrieta 144 Apartments, LP.

market comparing other projects at similar stages of construction and with similar rates of lease exposure. Once this value was calculated, additional deductions were made for outstanding construction and operating costs (in addition to the anticipated cost of completion of the Projects), that would likely result in a decrease in the sales price of the Projects. Finally, based on the current market conditions and my communications with brokers and potential investors, a discount rate of 20% was applied to reflect the preferred return that investors are currently demanding.

5. The valuations set forth herein do not reflect costs or expenses that would be incurred in connection with the sale of the Projects, which would be paid at the time and upon the closing of the sale of the Projects. Additionally, these valuations do not reflect any additional discounts in value that might result if the Partnerships are required to liquidate the Projects on a very short timeline.

<u>Murrieta 492, LP</u>

6. The principal asset of Murrieta 492, LP is real property located at 2510 Vista Murrieta, Murrieta, California. Murrieta 492, LP is in the process of constructing a 492-unit residential apartment complex known as the Silverado Luxury Apartment Homes (the "Murrieta 492 Project"). 492 Apartments, LLC is the general partner of Murrieta 492, LP and Cameo is the sole member of 492 Apartments, LLC.

7. PNC Bank ("PNC") is the secured lender on the Murrieta 492 Project. The outstanding balance due to PNC with respect to this project is $80,000,000. The Debtors have each guaranteed payment of 49% of this loan.

8. At this time, construction on the Murrieta 492 Project is substantially complete and Murrieta 492, LP is in the process of leasing the completed units. However, the Murrieta 492 Project is 60% or less occupied, and is operating at a deficit. Currently, Murrieta 492, LP has outstanding accounts payable of approximately $500,000 and a monthly operating deficit, including debt service, of approximately $300,000.

9. Further, the City of Murrieta, under an agreement with Murrieta 492, LP regarding conditions of approval for the development of the Murrieta 492 Project, required certain construction improvements to Los Alamos Road as a condition for issuing certificates of

occupancy. As a result, currently, fifty-eight (58) completed units do not have certificates of occupancy. These units must be leased in order for the Murrieta 492 Project to reach economic stabilization.

10. At the time the Murrieta 492 Project was commenced, it was estimated that, upon completion of construction and stabilization of the rental units, the Murrieta 492 Project would have a net operating income of approximately $6,152,771. However, due to the current market for rental properties, Murrieta 492, LP has been required to make substantial rent concessions, in the amount of approximately $350,000 annually, in order to rent the apartment units. The original net operating income projections did not include these concessions, which will continue to impact net operating income for approximately 18 to 24 months. As a result of these concessions, as well as anticipated increases in property taxes, the actual net operating income of the Murrieta 492 Project upon economic stabilization has been reduced to approximately $5,405,096. Based on this net operating income, the value of the property upon stabilization, applying a capitalization rate of 6.5%, is approximately $83,155,328.

11. However, any purchaser of the Murrieta 492 Project will also be required to fund certain costs, including outstanding construction costs and lease shortfalls of approximately $7.4 million, which will further depress the sale value of the property to approximately $75.7 million. Finally, based on current market conditions, any purchaser is likely to require an additional 20% cushion with respect to the outstanding costs in order to guarantee a return on their investment. I therefore have reduced the sale value of the property by an additional $1.48 million, which is 20% of the estimated $7.4 million in outstanding construction costs and lease shortfalls.

12. Based on the foregoing, I have determined that the Murrieta 492 Project has a value of approximately $74.26 million, which is insufficient to pay the secured debt on the property in the amount of $80,000,000.

Murrieta 144 Apartments, LP

13. The principal asset of Murrieta 144 Apartments, LP is real property located at 40680 Walsh Center Drive, Murrieta, California. Murrieta 144 Apartments, LP is in the process of constructing a 144-unit residential apartment complex on the property known as the Vista

Pointe Apartment Homes (the "Murrieta 144 Project" and, collectively with the Murrieta 492 Project, the "Projects"). 144 Apartments, LLC is the general partner of Murrieta 144 Apartments, LP and Cameo is the sole member of 144 Apartments, LLC.

14. PNC is also the secured lender with respect to the Murrieta 144 Project. The outstanding balance due to PNC with respect to this project is $25,850,000. The Debtors have each guaranteed payment of 25% of the loan to Murrieta 144 Apartments, LP.

15. At this time, construction on portions of the Murrieta 144 Project is complete and Murrieta 144 Apartments, LP is in the process of leasing the completed units. However, the Murrieta 144 Project is 70% or less occupied, and is operating at a deficit. Currently, Murrieta 144 Apartments, LP has outstanding accounts payable of approximately $700,000 and a monthly operating deficit, including debt service, of approximately $100,000.

16. At the time the Murrieta 144 Project was commenced, it was estimated that, upon completion of construction and stabilization of the rental units, the Murrieta 144 Project would have a net operating income of approximately $1,724,818. However, due to the current market for rental properties, Murrieta 144 Apartments, LP has been required to make substantial rent concessions, in the amount of approximately $120,515 annually, in order to rent the apartment units. The original net operating income projections did not include these concessions, which will continue to impact net operating income for approximately 18 to 24 months. As a result of these concessions, as well as anticipated increases in property taxes, the actual net operating income of the Murrieta 144 Project upon stabilization has been reduced to approximately $1,577,053. Based on this net operating income, the value of the property upon stabilization, applying a capitalization rate of 6.5%, is approximately $24,262,351.

17. However, any purchaser of the Murrieta 144 Project will also be required to fund certain costs, including outstanding construction costs and lease shortfalls of approximately $1.5 million, which will further depress the sale value of the property to approximately $22.7 million. Finally, based on current market conditions, any purchaser is likely to require an additional 20% cushion with respect to the outstanding costs in order to guarantee a return on their investment. I

million, which will further depress the sale value of the property to approximately $22.7 million. Finally, based on current market conditions, any purchaser is likely to require an additional 20% cushion with respect to the outstanding costs in order to guarantee a return on their investment. I therefore have reduced the sale value of the property by an additional $300,000, which is 20% of the estimated $1.5 million in outstanding construction costs and lease shortfalls.

18. Based on the foregoing, I have determined that the Murrieta 144 Project has a value of approximately $22.4 million, which is insufficient to pay the secured debt on the property in the amount of $25,850,000.

19. If the Partnerships default on their secured loans to PNC, the Debtors could be liable on the guarantees in the amount of several million dollars.

I declare under penalty of perjury that the foregoing is true and correct.

Executed this 17 day of July, 2008, at Newport Beach, California.

S. M. Conerty

Shawn Conerty