

1 MAY NOT BE REALIZED, AND ARE INHERENTLY SUBJECT TO SIGNIFICANT
2 BUSINESS, ECONOMIC AND COMPETITIVE UNCERTAINTIES AND CONTINGENCIES,
3 MANY OF WHICH ARE BEYOND THE DEBTORS' CONTROL. THE DEBTORS CAUTION
4 THAT NO REPRESENTATIONS CAN BE MADE AS TO THE ACCURACY OF THESE
5 FINANCIAL PROJECTIONS OR TO THE DEBTORS' ABILITY TO ACHIEVE THE
6 PROJECTED RESULTS. SOME ASSUMPTIONS INEVITABLY WILL NOT MATERIALIZE.
7 FURTHER, EVENTS AND CIRCUMSTANCES OCCURRING SUBSEQUENT TO THE DATE
8 ON WHICH THESE FINANCIAL PROJECTIONS WERE PREPARED MAY BE DIFFERENT
9 FROM THOSE ASSUMED OR, ALTERNATIVELY, MAY HAVE BEEN UNANTICIPATED
10 AND, THUS, THE OCCURRENCE OF THESE EVENTS MAY AFFECT FINANCIAL
11 RESULTS IN A MATERIAL AND POSSIBLY ADVERSE MANNER.

12 FINALLY, THE FINANCIAL PROJECTIONS MAY INCLUDE ASSUMPTIONS AS
13 TO THE VALUE OF THE DEBTORS, THE FAIR VALUE OF THEIR ASSETS, AND THEIR
14 ACTUAL LIABILITIES AS OF THE EFFECTIVE DATE. THE REORGANIZED DEBTORS
15 WILL BE REQUIRED TO MAKE SUCH ESTIMATIONS AS OF THE EFFECTIVE DATE.
16 SUCH DETERMINATION WILL BE BASED UPON THE FAIR VALUES AS OF THAT
17 DATE, WHICH COULD BE MATERIALLY GREATER OR LOWER THAN THE VALUES
18 ASSUMED IN THE FOREGOING ESTIMATES.

19 **1. Scope of Financial Projections**

20 As part of this analysis, the Debtors have prepared projections of their financial
21 performance for a fifteen-year period ending in 2024 (the "Projection Period"). These projections
22 and the assumptions upon which they are based are included in the Financial Projections that are
23 annexed hereto as Exhibit "2."

24 The financial information and projections appended to the Disclosure Statement include
25 for the Projection Period: Pro forma projected statements of cash flow for the years 2010 through
26 2024.

27 The financial information and projections are based on the assumptions that the Plan would
28 be confirmed by the Court and, for projection purposes, that the Effective Date under the Plan

1 would occur in the first quarter of 2010. Although the projections and information are based upon
2 an Effective Date in the first quarter of 2010, the Debtors believe that an actual Effective Date any
3 time during 2010 would not have any material effect on the Financial Projections. However,
4 creditors should realize that projections extending out over a fifteen year period are inherently
5 unreliable as small changes in the early years could have a significant impact in the later years.

6 As demonstrated by the Financial Projections, the Reorganized Debtors believe that they
7 will have sufficient cash flow from the Companies' operations to make all required payments to
8 Creditors under the Plan.

9 **2. Summary of Significant Assumptions**

10 The Financial Projections summarize the Debtors' projected revenues, expenses, capital
11 expenditures and financing needs of the Debtors for the period from the estimated Effective Date
12 in the first quarter of 2010 through 2024 (the "Projection Period"). The Financial Projections are
13 based on a number of assumptions, including the expectation that the Reorganized Debtors have
14 ample liquidity to achieve these projections through the generation of free cash flow. Additional
15 assumptions are specified in the Financial Projections attached as Exhibit "2."

16 **The Financial Projections are based on assumptions that are inherently uncertain**
17 **and unpredictable.** The operating and financial information contained in the Reorganized
18 Debtors' projected financial data have been prepared by the Debtors and their financial advisors
19 and reflect current estimates of the Reorganized Debtors' future performance. The projected
20 results are dependent on the successful implementation of the Debtors' business strategies and are
21 based on assumptions and events over which, in many cases, the Reorganized Debtors will have
22 only partial or no control. The selection of assumptions underlying such projected information
23 require the exercise of judgment, and the projections are subject to uncertainty due to the effects
24 that economic, business, competitive, legislative, political or other changes may have on future
25 events. Changes in the facts or circumstances underlying such assumptions could materially affect
26 the Financial Projections. To the extent that assumed events do not materialize, actual results may
27 vary substantially from the projected results. As a result, no assurance can be made that the
28 Reorganized Debtors will achieve the operating or financial results set forth in the Financial

1 Projections, nor can there be any assurance that results will not vary, perhaps materially and/or
2 adversely.

3 Any statements included in the Plan or Disclosure Statement regarding plans, objectives,
4 goals, strategies, future events or performance of the Reorganized Debtors, including the Financial
5 Projections, are based on various assumptions, many of which in turn are based on other
6 assumptions that the Debtors believe to be reasonable but which are inherently uncertain and
7 unpredictable. The assumptions underlying projections may be incomplete and inaccurate, and
8 unanticipated events and circumstances are likely to occur. For these reasons, actual results
9 achieved during periods covered may vary from the projections, and such variations may be
10 material or adverse. The Financial Projections are included solely to provide holders of Claims
11 information concerning estimates of future operating results based on the assumptions, and no
12 representation is intended that such results will be achieved. The Reorganized Debtors make no
13 representation or warranty as to the accuracy or completeness of any of the foregoing information.

14 **B. Valuation of the Debtors**

15 Information regarding the valuation of the Debtors' assets is set forth in the liquidation
16 analysis attached as Exhibit "3" and is discussed in section VI.C.4 below.

17 **V. CERTAIN RISK FACTORS TO BE CONSIDERED**

18 HOLDERS OF CLAIMS AGAINST THE DEBTORS SHOULD READ AND
19 CONSIDER CAREFULLY THE FACTORS SET FORTH BELOW AS WELL AS THE OTHER
20 INFORMATION SET FORTH IN THIS DISCLOSURE STATEMENT (AND THE
21 DOCUMENTS DELIVERED TOGETHER HERewith AND/OR INCORPORATED HEREIN
22 BY REFERENCE), PRIOR TO VOTING TO ACCEPT OR REJECT THE PLAN. THESE RISK
23 FACTORS SHOULD NOT, HOWEVER, BE REGARDED AS CONSTITUTING THE ONLY
24 RISKS INVOLVED IN CONNECTION WITH THE PLAN AND ITS IMPLEMENTATION.

25 **A. Projected Financial Information**

26 The Financial Projections included in this Disclosure Statement are dependent upon the
27 successful implementation of the Reorganized Debtors' business plan and the validity of the
28 assumptions contained therein. The Financial Projections reflect numerous assumptions,

1 including, without limitation, confirmation and consummation of the Plan in accordance with its
2 terms, the Reorganized Debtors' anticipated future performance, the future performance of the real
3 estate market, certain assumptions with respect to the Reorganized Debtors' competitors, general
4 business and economic conditions and other matters, many of which are beyond the control of the
5 Reorganized Debtors. In addition, unanticipated events and circumstances occurring subsequent
6 to the preparation of the Financial Projections may affect the Reorganized Debtors' actual
7 financial results. Although the Debtors believe that the Financial Projections are reasonably
8 attainable, variations between the actual financial results and those projected may occur and be
9 material.

10 **B. Risks Related to the Debtors' Business and Operations**

11 The market value of multi-family and commercial properties can vary and fluctuate as a
12 result of changing market conditions. In the past 18 months, the market value of property held by
13 the Debtors and their affiliates has declined appreciably. These conditions have had an adverse
14 impact on the business and financial condition of the Debtors and their affiliates. In addition to
15 the risks posed by declining values, carrying costs can be significant and can result in losses in a
16 poorly performing project or market. Even if the Plan is consummated, if these economic and
17 market conditions do not significantly improve, the Debtors and their affiliates may be unable to
18 generate sufficient cash flow to continue operating their respective businesses or to repay their
19 indebtedness. As a result, there is a risk that the operations of the Companies will fail, or will not
20 produce the results anticipated in terms of completion of projects.

21 **C. Certain Bankruptcy Law Considerations**

22 **1. Risk of Non-Confirmation of the Plan**

23 Although the Debtors believe that the Plan satisfies all of the requirements necessary for
24 confirmation by the Court, there can be no assurance that the Court will reach the same
25 conclusion. Moreover, there can be no assurance that modifications of the Plan will not be
26 required for confirmation or that such modifications would not necessitate the resolicitation of
27 votes to accept the Plan, as modified.
28

1 **2. Risk of Non-Occurrence of the Effective Date**

2 Although the Debtors believe that the Effective Date will occur during the third calendar
3 quarter of 2010, there can be no assurance as to such timing or that such conditions to the
4 Effective Date contained in the Plan will ever occur.

5 **VI. CONFIRMATION PROCEDURES**

6 **Because the law with respect to confirmation of a plan of reorganization is very**
7 **complex, creditors concerned with issues regarding confirmation of the Plan should consult**
8 **with their own attorneys.** The following discussion is intended solely for the purpose of
9 providing basic information concerning certain confirmation issues. The Debtors cannot and do
10 not represent that the discussion contained below is a complete summary of the law on this topic.

11 Many requirements must be met before the Bankruptcy Court may confirm the Plan. Some
12 of the requirements discussed in this Disclosure Statement include acceptance of the Plan by the
13 requisite number of holders of Claims, whether the Plan pays such holders at least as much as they
14 would receive in a liquidation of the Debtors under chapter 7 of the Bankruptcy Code, and
15 whether confirmation of the Plan is likely to be followed by the need for further financial
16 reorganization. These requirements, however, are not the only requirements for confirmation, and
17 the Bankruptcy Court will not confirm the Plan unless and until it determines that the Plan
18 satisfies all applicable requirements, including requirements not referenced in this Disclosure
19 Statement.

20 **A. Who May Vote or Object**

21 **1. Who may Support or Object to Confirmation of the Plan**

22 Any party in interest with standing may support or object to the confirmation of the Plan.
23 Even entities that may not have a right to vote may still have a right to support or object to
24 Confirmation of the Plan.

25 **2. Who may Vote to Accept or Reject the Plan**

26 A holder of a Claim generally has a right to vote for or against the Plan if its Claim is both
27 “allowed” for purposes of voting and classified in an impaired Class (the Debtors believe that
28 Classes 1A, 1B-1, 1B-2 1D, 1F and 3 are impaired under the Plan).

1 **3. What is an Allowed Claim or Interest for Voting Purposes**

2 As noted above, a creditor's Claim must be "allowed" for purposes of voting in order for
3 such creditor to have the right to vote on the Plan. Generally, for voting purposes, a Claim is
4 deemed "allowed" if: (i) a proof of Claim was timely filed; or (ii) if no proof of Claim was filed,
5 the Claim is identified in the Schedules as other than "disputed," "contingent," or "unliquidated."
6 In any case, when an objection to a Claim has been filed, the Claim holder cannot vote unless the
7 Bankruptcy Court, after notice and hearing, either overrules the objection or allows the Claim for
8 voting purposes.

9 **4. What is an Impaired Claim**

10 As noted above, a Claim which is allowed for voting purposes only has the right to vote on
11 the Plan if it is in a Class that is impaired under the Plan and if it will receive or retain any
12 consideration under the Plan. A Class is impaired if the Plan alters the legal, equitable, or
13 contractual rights of the members of that Class. The Debtors believe that the following Classes
14 are impaired under the Plan and entitled to vote: Classes 1A, 1B-1, 1B-2, 1D, 1F, 3 and 4.

15 **5. Who is not Entitled to Vote**

16 The holders of the following types of Claims are not entitled to vote on the Plan: (a)
17 Claims that have been disallowed; (b) Claims that are subject to a pending objection and which
18 have not been allowed for voting purposes; (c) Claims entitled to priority pursuant to Bankruptcy
19 Code sections 507(a)(2), (a)(3), and (a)(8); (d) and Claims in Classes that are unimpaired (Classes
20 1C, 1E, 1G, 1H, 2, 5, and 6). Claims entitled to priority pursuant to Bankruptcy Code sections
21 507(a)(2), (a)(3), and (a)(8) are not entitled to vote because such Claims are required to receive
22 certain treatment specified by the Bankruptcy Code and are thus not classified under the Plan.

23 **6. Votes Necessary to Confirm the Plan**

24 The Bankruptcy Court cannot confirm the Plan unless, among other things: (a) at least one
25 impaired Class has accepted the Plan without counting the votes of any insiders within that Class;
26 and (b) either all impaired Classes have voted to accept the Plan, or the Plan is eligible to be
27 confirmed by cramdown with respect to any dissenting impaired Class as discussed in Article
28 VI.C below.

1 **7. Votes Necessary for a Class to Accept the Plan**

2 As to Classes of Claims entitled to vote on the Plan, the Bankruptcy Code defines
3 acceptance of a plan by a class of creditors as acceptance by holders of at least two-thirds in dollar
4 amount and more than one-half in number of the Claims of that class that have timely voted to
5 accept or reject a plan.

6 **8. Treatment of Nonaccepting Classes**

7 As noted above, even if all impaired classes do not accept the proposed Plan, the Court
8 may nonetheless confirm the Plan if the nonaccepting classes are treated in the manner required by
9 the Bankruptcy Code. The process by which nonaccepting classes are forced to be bound by the
10 terms of the Plan is commonly referred to as “cramdown.” The Bankruptcy Code allows the Plan
11 to be “crammed down” on nonaccepting classes of claims or interests if it meets all consensual
12 requirements except the voting requirements of section 1129(a)(8) of the Bankruptcy Code and if
13 the Plan does not “discriminate unfairly” and is “fair and equitable” toward each impaired class
14 that has not voted to accept the Plan as referred to in 11 § U.S.C. 1129(b) and applicable case law.

15 **B. The Confirmation Hearing**

16 The Bankruptcy Code requires the Court, after notice, to hold a confirmation hearing. The
17 Confirmation Hearing in respect of the Plan has been scheduled for July 9, 2010 at 11:45 a.m.
18 prevailing Pacific Time before the Honorable Robert Kwan, United States Bankruptcy Judge for
19 the Central District of California, Santa Ana Division, Courtroom 5D, United States Bankruptcy
20 Court, 411 West Fourth Street, Santa Ana, California. The Confirmation Hearing may be
21 adjourned from time to time by the Court without further notice except for an announcement of the
22 adjourned date made at the Confirmation Hearing. Any objection to confirmation must be made
23 in writing and specify in detail the name and address of the objector, all grounds for the objection
24 and the amount of the Claim(s) or other Interest(s) held by the objector. Any such objection must
25 be filed with the Court and served so that it is received by the Court and the following parties and
26 the other parties requesting notice in these cases on or before July 2, 2010 at 4:00 P.M., prevailing
27 Pacific Time: (a) Irell & Manella LLP, 840 Newport Center Drive, Suite 400, Newport Beach,
28 California 92660, Attention: Alan J. Friedman, Esq.; (b) The Lobel Firm, LLP, 840 Newport

1 Center Drive, Suite 750, Newport Beach, California 92660, Attention: William N. Lobel, Esq. and
2 Mike D. Neue, Esq.; (c) SulmeyerKupetz, 333 South Hope Street, 35th Floor, Los Angeles,
3 California 90071, Attention: Victor A. Sahn, Esq. and Elissa D. Miller, Esq.; and (d) The Office of
4 the United States Trustee, 411 West Fourth Street, Suite 9041, Santa Ana, California 92701,
5 Attention: Michael Hauser.

6 Objections to confirmation of the Plan are governed by Bankruptcy Rule 9014 and orders
7 of the Court.

8 **C. Confirmation**

9 At the Confirmation Hearing, the Court will confirm the Plan only if all of the
10 requirements of section 1129 of the Bankruptcy Code are met. Among the requirements for
11 confirmation of a plan are that the plan is (i) accepted by all impaired classes of Claims and
12 Interests or, if rejected by an impaired class, that the plan “does not discriminate unfairly” and is
13 “fair and equitable” as to such class, (ii) feasible and (iii) in the “best interests” of creditors and
14 equity interest holders that are impaired under the Plan.

15 **1. Acceptance**

16 Classes 1A, 1B-1, 1B-2, 1D, 3 and 4 of the Plan are Impaired under the Plan. Classes 1C,
17 1E, 1G, 1H, 2, 5, and 6 of the Plan are unimpaired and, therefore, are conclusively presumed to
18 have voted to accept the Plan. Thus, only Classes 1A, 1B-1, 1B-2, 1D, 1F, 3 and 4 are entitled to
19 vote to accept or reject the Plan. To the extent any Impaired Class(es) entitled to vote on the Plan
20 reject(s) the Plan, the Debtors may seek the nonconsensual confirmation of the Plan under Section
21 1129(b) of the Bankruptcy Code with respect to such rejecting Class(es). In addition, the Debtors
22 reserve their rights to amend the Plan in accordance with Article XIII.C of the Plan with respect to
23 any such rejecting Class(es).

24 **2. Unfair Discrimination and Fair and Equitable Tests**

25 To obtain nonconsensual confirmation of the Plan, also referred to as a “cramdown,” it
26 must be demonstrated to the Court that the Plan “does not discriminate unfairly” and is “fair and
27 equitable” with respect to each Impaired, nonaccepting Class. The Bankruptcy Code provides a
28

1 non-exclusive definition of the phrase “fair and equitable.” The Bankruptcy Code provides that a
2 plan is “fair and equitable” with respect to a class of creditors or equity holders if:

3 Secured Creditors. Either (i) each Impaired creditor retains its liens securing its secured
4 claim and receives on account of its secured claim deferred cash payments having a present value
5 equal to the amount of its Allowed Secured Claim, (ii) each Impaired secured creditor realizes the
6 “indubitable equivalent” of its Allowed Secured Claim or (iii) the property securing the claim is
7 sold free and clear of liens with such liens to attach to the proceeds of the sale and the treatment of
8 such liens on proceeds to be as provided in clause (i) or (ii) of this subparagraph.

9 Unsecured Creditors. Either (i) each Impaired unsecured creditor receives or retains under
10 the Plan property of a value equal to the amount of its Allowed Claim or (ii) the holders of Claims
11 and Interests that are junior to the Claims or Interests of the nonaccepting class will not receive
12 any property under the Plan, except that in a case in which the debtor is an individual, the debtor
13 may retain property included in the estate under section 1115 of the Bankruptcy Code, subject to
14 the requirements of subsection (a)(14) of section 1129 of the Bankruptcy Code.

15 **3. Feasibility**

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

20 There are at least two important aspects of a feasibility analysis. The first aspect considers
21 whether the Debtors will have enough cash on hand on the Effective Date of the Plan to pay all the
22 claims and expenses which are entitled to be paid on such date. The Debtors maintain that this
23 aspect of feasibility is satisfied as illustrated here:

1	Estimated Cash Debtors will have on hand prior to or by the Effective Date	\$250,000
2		
3	Needed:	
3	To Pay: Administrative Claims to be paid on Effective Date ¹⁰	\$144,060
4	To Pay: Statutory costs & charges	\$0
4	To Pay: Gap Claims to be paid on Effective Date	\$34,426
5	To Pay: Priority Claims if paid on Effective Date (may be paid over five years from Effective Date)	\$30,254
6	Balance after paying these amounts	\$41,260

7

8 The second aspect of feasibility considers whether the Debtors will have enough cash over

9 the term of the Plan to make the required payments thereunder. Based on the Financial

10 Projections attached hereto as Exhibit "2" and the assumptions set forth therein, the Debtors

11 believe they will have adequate cash flow during the next fifteen years to make all required Plan

12 payments. It is speculative to forecast, with any degree of specificity, the cash flow figures more

13 than five years in the future. However, the Debtors estimate that the net cash flow from the

14 Companies will remain relatively stable over time and that they will be able to fund their

15 operations going forward and, therefore, that confirmation of the Plan is not likely to be followed

16 by liquidation or the need for further reorganization. Furthermore, the Cash Flow Note is a cash

17 flow note, and as such the monthly payments are calculated based on Available Cash Flow. As a

18 result, feasibility is virtually guaranteed since the payments on the Cash Flow Note are, with the

19 exception of the payment due at maturity, purely a function of Available Cash Flow. However,

20 the Debtors caution that the Financial Projections are intended as a guide only and nothing in the

21 Financial Projections should be interpreted as a guarantee of any specific payment stream.

22 **4. Best Interests Test**

23 With respect to each Impaired Class of Claims, confirmation of the Plan requires that each

24 holder of an Allowed Claim either (i) accept the Plan or (ii) receive or retain under the Plan

25 property of a value, as of the Effective Date, that is not less than the value such holder would

26 _____

27 ¹⁰ The Administrative Claims of Professionals shall not be paid on the Effective Date.

28 Instead, the Administrative Claims of Professionals will be paid, Pro Rata, from the cash generated by the Portfolio, subject to the payment of \$1.8 million annually to the Reorganized Debtors in the first and second year following the Effective Date and the payments to be made to Robbins on account of her Secured Claim as set forth in the Plan.

1 receive or retain if the Debtors were liquidated under chapter 7 of the Bankruptcy Code. To
2 determine what holders of Claims in each Impaired Class would receive if the Debtors were
3 liquidated under chapter 7, the Court must determine the dollar amount that would be generated
4 from the liquidation of the Debtors' assets and properties in the context of a chapter 7 liquidation
5 case. The Cash amount that would be available for satisfaction of Claims would consist of the
6 proceeds resulting from the disposition of the unencumbered assets and properties of the Debtors,
7 augmented by the unencumbered Cash, if any, held by the Debtors at the time of the
8 commencement of the liquidation case. Such Cash amount would be reduced by the amount of the
9 costs and expenses of the liquidation and by such additional administrative and priority Claims
10 that might result from the termination of the Debtors' business and the use of chapter 7 for the
11 purposes of liquidation.

12 The Debtors' costs of liquidation under chapter 7 would include the fees payable to a
13 chapter 7 trustee, as well as those fees that might be payable to attorneys and other professionals
14 that such a trustee might engage. In addition, Claims would arise by reason of the breach or
15 rejection of obligations incurred and leases and executory contracts assumed or entered into by the
16 Debtors during the pendency of the Cases. The foregoing types of Claims and other Claims that
17 might arise in a liquidation case or result from the pending Cases, including any unpaid expenses
18 incurred by the Debtors and the Committee during the Cases such as compensation for attorneys,
19 financial advisors and accountants, would be paid in full from the liquidation proceeds before the
20 balance of those proceeds would be made available to pay prepetition Allowed Unsecured Claims.

21 To determine if the Plan is in the best interests of each Impaired Class, the value of the
22 distributions from the proceeds of a liquidation of the Debtors' unencumbered assets and
23 properties, after subtracting the amounts attributable to the foregoing Claims, are then compared
24 with the value of the property offered to such Classes of Claims under the Plan.

25 After considering the effects that a chapter 7 liquidation would have on the ultimate
26 proceeds available for distribution to Creditors, including (i) the increased costs and expenses of a
27 liquidation under chapter 7 arising from fees payable to a trustee in bankruptcy and professional
28 advisors to such trustee and (ii) the likely erosion in value of assets in a chapter 7 case in the

1 context of an expeditious liquidation and the “forced sale” atmosphere that would prevail under
2 chapter 7, the Debtors have determined that confirmation of the Plan will provide each holder of
3 an Allowed Claim with a recovery that is not less than such holder would receive pursuant to a
4 liquidation of the Debtors under chapter 7.

5 The Debtors’ Liquidation Analysis is attached hereto as Exhibit “3.” The information set
6 forth in Exhibit “3” provides a summary of the liquidation values of the Debtors’ assets, assuming
7 a chapter 7 liquidation in which a trustee appointed by the Court would liquidate the assets of the
8 Debtors’ estates. The Liquidation Analysis was prepared by the Debtors with the assistance of
9 their financial advisor, FTI.

10 The information set forth on Exhibit “7” provides an analysis of distributions to be made to
11 Creditors under the Plan. The payments to be made by the Reorganized Debtors to the Creditors’
12 Trust pursuant to the Cash Flow Note (including the proceeds of any recovery with respect to the
13 Recovery Rights to the extent not otherwise utilized to pay Allowed Administrative Claims) and
14 the Secondary Note shall be the sole source of distributions to holders of Allowed Claims in Class
15 3. Each Creditor holding an Allowed Claim in Class 3 is entitled to a Pro Rata share of the Cash
16 Flow Note and the Secondary Note. The amount to be paid to a Creditor holding an Allowed
17 Claim in Class 3 may depend upon which of the following categories of Claims applies to a
18 particular Creditor’s Claim: (1) the Creditor’s Allowed Claim is asserted solely against the estate
19 of Gianulias; (2) the Creditor’s Allowed Claim is asserted solely against the estate of Cameo; or
20 (3) the Creditor has valid, non-duplicative Allowed Claims against both the Gianulias and Cameo
21 estates (for example, a Creditor with enforceable guarantees issued by both Debtors). The
22 Creditors’ Trust Trustee will determine the appropriate Pro Rata distributions for Creditors
23 holding Allowed Claims in each of the foregoing three categories of claims, and shall ensure that
24 each distribution is not less than the amount such a Creditor would have received absent the
25 substantive consolidation of the Debtors’ estates.

26 Underlying the Liquidation Analysis are a number of estimates and assumptions that,
27 although developed and considered reasonable by the Debtors, are inherently subject to significant
28 economic and competitive uncertainties and contingencies beyond the control of the Debtors. The

1 Liquidation Analysis is also based on assumptions with regard to liquidation decisions that are
2 subject to change. Accordingly, the values reflected might not be realized if the Debtors were, in
3 fact, to undergo such a liquidation. The chapter 7 liquidation period is assumed to be a period in
4 excess of one year, allowing for, among other things, the (i) discontinuation of the Debtors'
5 operations, (ii) sale of assets and (iii) collection of receivables.

6 Below is a demonstration, in balance sheet format, that all creditors will receive at least as
7 much under the Plan as such creditor would receive under a chapter 7 liquidation. This
8 information is provided by the Debtors.

9 **ASSETS VALUED AT LIQUIDATION VALUES:**

10	- Cash on hand at liquidation commencement (approx.)	\$250,000
11	- Membership Interests in Multi-Family Properties	\$9,791,632
12	- Membership Interests in Office/Retail Properties	\$2,807,932
13	- Membership Interests in Land Parcels	\$543,066
14	- Membership Interests in Other Businesses	\$943,658
	- Private Residences/Land	\$5,886,850
	- Investments/Other	\$1,123,753
	- Non-Exempt personal property	\$200,000
15	TOTAL ASSETS AT LIQUIDATION VALUE	\$21,546,892
16		=====
17	Less: Secured creditor's recovery	(\$11,360,148)
18	Less: Estimated capital gains tax on sale of assets	(\$2,770,745)
19	Less: Net Operating Cash Flow/(Loss) Through Liquidation Period	\$999,552
20	Less: Chapter 7 trustee fees and expenses (approx.)	(\$662,157)
21	Less: Chapter 11 administrative expenses (approx.)	(\$5,644,060)
22	Less: Priority claims (incl. property tax), excluding administrative expense claims	(\$64,680)
23		=====
24	BALANCE FOR UNSECURED CLAIMS	\$2,044,654
25		
26	ESTIMATED AMT. OF UNSECURED CLAIMS	
27	IN CHAPTER 7 CASE	\$252,780,507
28		

1 Below is a demonstration, in tabular format, that all creditors and interest holders will
2 receive at least as much under the Plan as such creditor or holder would receive under a chapter 7
3 liquidation.

<u>CLAIMS & CLASSES</u>	<u>ESTIMATED PAYOUT PERCENTAGE UNDER THE PLAN¹¹</u>	<u>EST. PAYOUT PERCENTAGE IN CHAPTER 7 LIQUIDATION¹²</u>
Administrative Claims	100%	100%
Priority Tax Claims	100%	100%
Class 1A: Secured Claims of Pacific Mercantile	100%	100%
Class 1B-1: Secured Claim of Wells Fargo on Account of the Colorado Note	100%	100%
Class 1B-2: Secured Claim of Wells Fargo on Account of the Hawaii Note	100%	100%
Class 1C: Secured Claims of National Bank	100%	100%
Class 1D: Secured Claims of Robbins	100%	100%
Class 1E: Secured Claims of Gus Gianulias	100%	100%
Class 1F: Secured Claims of Countrywide	100%	100%
Class 1G: Secured Claims of Chase	100%	100%

22 ¹¹ For secured claims, Estimated Payout Percentage Under the Plan is calculated using the
23 estimated collateral value for the secured claim as the secured claim amount, which may be less
24 than the claim amount at the petition date. Any shortfall between collateral value and secured
25 claim amount will result in the deficiency being treated as a general unsecured claim. The payout
26 of the claim may take the form of either cash paid to the claimholder over time, or the collateral
27 being surrendered to the secured claim holder in satisfaction of the secured claim (if applicable).

28 ¹² For secured claims, Estimated Payout Percentage In Chapter 7 Liquidation is calculated
using the estimated recovery value for the secured claim in a Chapter 7 liquidation as the secured
claim amount, which may be less than the claim amount at the petition date. Any shortfall
between recovery value and secured claim amount will result in the deficiency being treated as a
general unsecured claim. The payout of the claim may take the form of either cash or the
collateral being surrendered to the secured claim holder in satisfaction of the secured claim (if
applicable).

<u>CLAIMS & CLASSES</u>	<u>ESTIMATED PAYOUT PERCENTAGE UNDER THE PLAN¹¹</u>	<u>EST. PAYOUT PERCENTAGE IN CHAPTER 7 LIQUIDATION¹²</u>
Class 1H: Other Secured Claims	100%	100%
Class 2: Priority Claims	100%	100%
Class 3: General Unsecured Claims ¹³	25.9% (51.8% for those creditors with dual claims)	0.8%
Class 4: Inter-Debtor Claims ¹⁴	0%	0%
Class 5: Subordinated Claims*	100%	100%

* There are no known claims in these classes.

VII. ALTERNATIVES TO CONFIRMATION AND CONSUMMATION OF THE PLAN

If the Plan is not confirmed and consummated, the alternatives to the Plan include (i) liquidation of the Debtors under chapter 7 of the Bankruptcy Code and (ii) an alternative plan of reorganization or a plan of liquidation.

¹³ There are three categories of claims in Class 3: (1) Creditors whose Allowed Claims are asserted solely against the estate of Gianulias; (2) Creditors whose Allowed Claims are asserted solely against the estate of Cameo; and (3) Creditors with valid, non-duplicative Allowed Claims against both the Gianulias and Cameo estates (for example, a Creditor with enforceable guarantees issued by both Debtors). As shown in the Plan Distribution Analysis attached as Exhibit "7," creditors with Allowed Claims in the first category (Gianulias only) and second category (Cameo only) are projected to receive distributions of approximately 25.9% of their Allowed Claims; and creditors with Allowed Claims in the third category (dual claims) are projected to receive distributions of approximately 51.8% of their Allowed Claims (payout percentage for dual claims of 25.9% is calculated using \$209,884,853 -- double the estimated claim amount of \$104,942,426 -- as the denominator; alternatively the recovery percentage can be presented as 51.8% if calculated using \$104,942,426 as the denominator). (As shown in the Liquidation Analysis attached as Exhibit "3," the corresponding distributions are estimated to be 0.8% for all categories of claims in Class 3.) **These estimates are based on the application of current state and federal tax law, which potentially affects the amount of cash from operations that is available to make Plan payments. The tax laws are currently in flux due to changes in the economy, and may be changed in a way which negatively impacts the amount of cash available to make Plan payments.**

¹⁴ This consists of a claim of Gianulias against the Cameo estate of approximately \$10 million. The estimated percentage distribution is calculated to be the same as for the other creditors of Cameo (as if the two Debtors were not consolidated). Any payout of the Inter-Debtor Claim from the Cameo estate to the Gianulias estate would be distributed to creditors of Gianulias.

1 **A. Alternative Plan of Reorganization or Plan of Liquidation**

2 If the Plan is not confirmed, the Court could confirm a different plan. The Plan is, in
3 essence, a reorganization of the Debtors' business and a different plan might involve either a
4 reorganization and continuation of the Debtors' business or an orderly liquidation of the Debtors'
5 assets. The Debtors believe that the Plan, as described herein, enables creditors and interests
6 holders to realize the highest and best value under the circumstances. The Debtors believe that
7 any liquidation of the Debtors' assets or alternative form of chapter 11 plan is a much less
8 attractive alternative to creditors than the Plan because of the far greater returns and certainty
9 provided by the Plan. Other alternatives could involve diminished recoveries, significant delay,
10 uncertainty, and substantial additional administrative costs.

11 **B. Liquidation Under Chapter 7**

12 If no plan is confirmed, the Chapter 11 Cases may be converted to cases under chapter 7 of
13 the Bankruptcy Code, pursuant to which a trustee would be elected to liquidate the Debtors' assets
14 for distribution in accordance with the priorities established by chapter 7 of the Bankruptcy Code.
15 A discussion of the effects that a chapter 7 liquidation would have on the recoveries of holders of
16 Claims and Interests is set forth in the Liquidation Analysis attached as Exhibit "3" to this
17 Disclosure Statement. For the reasons articulated in section VI above, the Debtors believe that a
18 liquidation under chapter 7 would result in smaller distributions being made to creditors and
19 Interest holders than those provided for in the Plan.

20 **VIII. CERTAIN FEDERAL INCOME TAX CONSEQUENCES OF THE PLAN**

21 INTERNAL REVENUE SERVICE ("IRS") CIRCULAR 230 DISCLOSURE: TO
22 ENSURE COMPLIANCE WITH REQUIREMENTS IMPOSED BY THE IRS, CREDITORS
23 ARE HEREBY NOTIFIED THAT: (A) ANY DISCUSSION OF U.S. FEDERAL INCOME
24 TAX CONTAINED OR REFERRED TO IN THIS CONFIDENTIAL MEMORANDUM IS
25 NOT INTENDED OR WRITTEN TO BE RELIED UPON, AND CANNOT BE RELIED
26 UPON, FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED
27 UNDER THE INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE "TAX
CODE"); (B) SUCH DISCUSSION IS WRITTEN IN CONNECTION WITH THE
PROMOTION OR MARKETING (WITHIN THE MEANING OF CIRCULAR 230) OF THE
TRANSACTIONS OR MATTERS ADDRESSED HEREIN; AND (C) CREDITORS SHOULD
SEEK ADVICE BASED ON THEIR PARTICULAR CIRCUMSTANCES FROM AN
INDEPENDENT TAX ADVISOR.

1 The following disclosure (the "Tax Disclosure") summarizes certain federal income tax
2 consequences of the implementation of the Plan to holders of Claims in impaired Classes. It does
3 not address the federal income tax consequences to holders whose secured or priority Claims are
4 entitled to reinstatement or payment in full (in Cash or with property) under the Plan, or to holders
5 of Claims who agree to treatment different from that generally provided for in the Plan. Because
6 of the remaining uncertainty regarding the resolution of Famille's claims and the unique tax
7 position of the remaining debt obligations of non-Debtor subsidiaries of the Debtors to Famille,
8 the Tax Disclosure does not address the federal income tax consequences of such resolution, to
9 Famille or to the Debtors.

10 Moreover, the Tax Disclosure summarizes only certain of the federal income tax
11 consequences associated with the Plan's implementation, and does not attempt to comment on all
12 such aspects of the Plan's implementation. Certain of the federal income tax consequences
13 described in the Tax Disclosure are complex and are subject to uncertainties. The Debtors have
14 not requested a ruling from the IRS or an opinion of counsel with respect to any of the tax aspects
15 of the Plan. Thus, no assurance can be given as to the interpretation that the IRS will adopt.

16 In addition, the Tax Disclosure does not attempt to consider any facts or limitations
17 applicable to any particular Creditor which may modify or alter the consequences described
18 below. Examples of particular taxpayers who might have special tax treatment include but are not
19 limited to those who do not hold a Claim as a capital asset (unless otherwise specified), foreign
20 taxpayers, former spouses, broker-dealers, banks, mutual funds, insurance companies, financial
21 institutions, small business investment companies, regulated investment companies, tax-exempt
22 organizations, and investors in pass-through entities. The Tax Disclosure also does not address
23 state, local, or foreign tax consequences or the consequences of any federal tax other than the
24 federal income tax.

25 The following summary is based on the Tax Code, Treasury Regulations promulgated
26 thereunder, judicial decisions, and published administrative rules and pronouncements of the IRS
27 in effect on the date hereof. Changes in, or new interpretations of, such rules may have retroactive
28 effect and could significantly affect the federal income tax consequences described below.

1 **ACCORDINGLY, THE FOLLOWING SUMMARY OF CERTAIN FEDERAL**
2 **INCOME TAX CONSEQUENCES IS FOR INFORMATIONAL PURPOSES ONLY AND**
3 **IS NOT A SUBSTITUTE FOR CAREFUL TAX PLANNING AND ADVICE BASED UPON**
4 **THE INDIVIDUAL CIRCUMSTANCES OF A HOLDER OF A CLAIM. EACH HOLDER**
5 **OF A CLAIM IS URGED TO CONSULT ITS OWN TAX ADVISOR FOR THE**
6 **FEDERAL, STATE, LOCAL, AND OTHER TAX CONSEQUENCES APPLICABLE**
7 **UNDER THE PLAN.**

8 **A. Tax Consequences to Holders of Secured Claims**

9 Under the Plan, holders of Class 1A, 1B-1, 1B-2, 1D and 1F Allowed Claims shall receive
10 a new indebtedness owed by the applicable Debtor, with terms as specified by the Plan, in
11 exchange for the Creditor's Allowed Claim. Such a Creditor should generally recognize capital
12 gain or loss equal to the difference between the principal amount of the new indebtedness (except
13 to the extent that amounts are allocated to Accrued Interest, as discussed in "Distributions in
14 Discharge of Accrued Interest, Section C.1 of this Tax Disclosure), and such Creditor's tax basis
15 in its Claim. Capital gains are taxed at a favorable rate if held for more than one year. Capital
16 losses generally are limited to offsetting only capital gains. The Creditor's holding period for the
17 new indebtedness should begin the day after the Effective Date.

18 **B. Tax Consequences to Holders of General Unsecured Claims**

19 Pursuant to the Plan, the holders of General Unsecured Claims will receive, in satisfaction
20 and discharge of such Claims, all the beneficial interests in the Creditors' Trust. With respect to
21 General Unsecured Claims that remain Disputed as of the Effective Date, the portion of the assets
22 held by the Creditors' Trust and allocable to, or retained on account of, such Claims should be
23 treated pursuant to the Plan as held in a separate taxable fund for federal income tax purposes (as
24 discussed below) pending the resolution of such Claims. Accordingly, holders of Allowed
25 General Unsecured Claims should be treated as receiving additional distributions after the
26 Effective Date in respect of their Claims in the event any Disputed General Unsecured Claims are
27 subsequently disallowed.

28

1 **1. Gain or Loss – Generally**

2 As discussed below (see Section B2, “Tax Treatment of the Creditors’ Trust and Holders
3 of Beneficial Interests”), the Creditors’ Trust has been structured to qualify as a “grantor trust” for
4 federal income tax purposes. Accordingly, each holder of an Allowed General Unsecured Claim
5 should be treated for federal income tax purposes as directly receiving, and as the direct owner of,
6 its allocable percentage of the assets held by the Creditors’ Trust.

7 In general, a holder of an Allowed General Unsecured Claim should recognize gain or loss
8 in an amount equal to the difference between the amount realized and the holder’s tax basis in its
9 claim (other than any Claim representing accrued but unpaid interest), where the amount realized
10 should equal the sum of the aggregate fair market value of the holder’s undivided interest in the
11 Recovery Rights received by the Creditors’ Trust and the holder’s Pro Rata portion of the issue
12 price of the Cash Flow Note and the Secondary Note (except to the extent that amounts are
13 allocated to Accrued Interest), determined without taking into account the portion of the Recovery
14 Rights, the Cash Flow Note, and the Secondary Note allocable to, or retained on account of,
15 General Unsecured Claims that remain Disputed. For a discussion of the federal income tax
16 treatment of any Claim for accrued but unpaid interest, see “Distributions in Discharge of Accrued
17 Interest,” Section C.1 of this Tax Disclosure. For a discussion of the issue price of the Cash Flow
18 Note and the Secondary Note, see “Original Issue Discount,” Section B.2.d of this Tax Disclosure.

19 The character of such gain or loss (as long-term or short-term capital, or ordinary income)
20 will be determined by a number of factors, including the tax status of the holder, whether the
21 Allowed Claim in respect of which any property is received constituted a capital asset in the hands
22 of the holder and how long it has been held, whether such Allowed Claim was originally issued at
23 a discount or acquired at a market discount, and whether and to what extent the holder had
24 previously claimed a bad debt deduction in respect of such Allowed Claim. The holder’s holding
25 period for the undivided interest in the assets of the Creditors’ Trust should begin the day after the
26 Effective Date or, if later, on the day after the day the holder’s General Unsecured Claim is
27 allowed.

28

1 Pursuant to the Plan, the Creditors' Trust Trustee will make a good faith valuation of the
2 Recovery Rights, subject to the approval of the Debtors, which shall not be unreasonably
3 withheld, and all parties (including the holders of Allowed General Unsecured Claims) must
4 consistently use such valuation for all federal income tax purposes. The valuation will be made
5 available as necessary for tax reporting purposes.

6 As and when any Disputed General Unsecured Claims become disallowed, holders of
7 previously Allowed Claims will become entitled to an increased share of the assets held by the
8 Creditors' Trust. For federal income tax purposes, the "receipt" of such increased share should be
9 treated as an additional amount realized in satisfaction of such holder's Allowed Claim, in an
10 amount equal to the fair market value of the holder's increased share of Recovery Rights and of
11 the adjusted issue price (discussed in "Original Issue Discount," Section B.2.d, below) of the Cash
12 Flow Note and the Secondary Note (with the potential for the recognition of gain at such time).
13 Because such amounts may be deemed received for federal income tax purposes after the Effective
14 Date, the imputed interest provisions of the Tax Code may apply to treat a portion of such
15 amounts as imputed interest. In addition, it is also possible that (i) any loss realized by a holder in
16 satisfaction of an Allowed General Unsecured Claim may be deferred until all Disputed Claims
17 are resolved and the holder's beneficial interest in the Creditors' Trust can no longer increase,
18 and/or (ii) any gain realized may be recognized under the "installment method" of reporting.
19 Holders are urged to consult their tax advisors regarding the possible applicability of, and the
20 ability to elect out of, the installment method.

21 Any amount a holder receives following the Effective Date as a distribution in respect of
22 its interest in the Creditors' Trust (other than as discussed in the preceding paragraph as relates to
23 the disallowance of Disputed Claims) should not be included for federal income tax purposes in
24 the holder's amount realized in respect of its Allowed Claim but should be separately treated as a
25 distribution received in respect of such holder's interest in the Creditors' Trust. See Section B.2
26 of this Tax Disclosure, "Tax Treatment of the Creditors' Trust and Holders of Beneficial
27 Interests," below.

28

1 **2. Tax Treatment of the Creditors' Trust and Holders of Beneficial Interests**

2 Upon the Effective Date, the Creditors' Trust shall be established for the benefit of holders
3 of Allowed General Unsecured Claims, whether Allowed on or after the Effective Date.

4 a. Classification of the Creditors' Trust.

5 The Creditors' Trust is intended to qualify as a liquidating trust for federal income tax
6 purposes. In general, a liquidating trust is not a separate taxable entity but rather is treated for
7 federal income tax purposes as a "grantor" trust (i.e., a pass-through entity).

8 However, merely establishing a trust as a liquidating trust does not ensure that it will be
9 treated as a grantor trust for federal income tax purposes. The IRS, in Revenue Procedure 94-45,
10 1994-2 C.B. 684, set forth the general criteria for obtaining an IRS ruling as to the grantor trust
11 status of a liquidating trust under a chapter 11 plan. The Creditors' Trust has been structured with
12 the intention of complying with such general criteria. Pursuant to the Plan, and in conformity with
13 Revenue Procedure 94-45, all parties (including the Debtors, the Creditors' Trust Trustee, and
14 holders of General Unsecured Claims) are required to treat, for federal income tax purposes, the
15 Creditors' Trust as a grantor trust of which the holders are the owners and grantors.

16 b. General Tax Reporting by the Trust and Beneficiaries.

17 For all federal income tax purposes, all parties (including the Debtors, the Creditors' Trust
18 Trustee, and the holders of General Unsecured Claims) must treat the transfer of assets to the
19 Creditors' Trust as a transfer of such assets directly to the holders, followed by the transfer of such
20 assets by the holders to the Creditors' Trust. Consistent therewith, all parties must treat the
21 Creditors' Trust as a grantor trust of which such holders are the owners and grantors. Thus, such
22 holders (and any subsequent holders of interests in the Creditors' Trust) should be treated as the
23 direct owners of an undivided interest in the assets of the Creditors' Trust for all federal income
24 tax purposes. Pursuant to the Plan, the Creditors' Trust Trustee will determine the fair market
25 value of the Recovery Rights as of the Effective Date, and all parties, including the holders, must
26 consistently use such valuation for all federal income tax purposes where the valuation is relevant
27 in determining gain, loss, or tax basis. The valuation will be made available as necessary for tax
28 reporting purposes. Accordingly, except as discussed below (in connection with pending Disputed

1 Claims), each holder should report on its federal income tax return its allocable share of any
2 income, gain, loss, deduction, or credit recognized or incurred by the Creditors' Trust, in
3 accordance with its relative beneficial interest. The character of items of income, deduction, and
4 credit to any holder and the ability of such holder to benefit from any deductions or losses may
5 depend on the particular situation of such holder.

6 The federal income tax reporting obligations of a holder are not dependent upon the
7 Creditors' Trust distributing any Cash or other proceeds. As discussed in section B.2.d of this Tax
8 Disclosure, the Cash Flow Note and the Secondary Note should have "original issue discount."
9 Therefore, a holder may incur a federal income tax liability with respect to its allocable share of
10 the income of the Creditors' Trust even if the Creditors' Trust has not made a concurrent
11 distribution to the holder. For example, assuming that the Creditors' Trust does not begin to
12 receive payments until 2012, that the Effective Date occurs on July 1, 2010, and that the long-term
13 Applicable Federal rate on the Effective Date equals 4.5%, the holders of Allowed Claims and the
14 Disputed Claims Reserve would be allocated an aggregate amount of approximately \$917,000 of
15 interest income in 2010, and approximately \$1.87 million of interest income in 2011. Based on
16 the same assumptions and the Financial Projections provided in Exhibit 2, the Creditors' Trust
17 should receive more Cash in 2012 than the aggregate amount of tax owed for that year by those
18 holding Allowed Claims and the Disputed Claims Reserve.

19 In general, other than in respect of Cash originally retained on account of Disputed Claims
20 and distributions resulting from unclaimed distributions, a distribution of Cash by the Creditors'
21 Trust to the holders should not be taxable to the holder as such holder is regarded for federal
22 income tax purposes as already owning the underlying assets or realizing the income.

23 The Creditors' Trust Trustee will file with the IRS returns for the Creditors' Trust as a
24 grantor trust pursuant to Treasury Regulation section 1.671-4(a) (other than with respect to assets
25 and related income and expenses attributable to the Disputed Claims Reserve). The Creditors'
26 Trust Trustee will also send to each record holder a separate statement setting forth the
27 information necessary for such holder to determine its share of items of income, gain, loss,
28 deduction, or credit and will instruct the holder to report such items on its federal income tax

1 return or to forward the appropriate information to the beneficial holders with instructions to
2 report such items on their federal income tax returns. Such items generally would be reported on
3 the holder's state and/or local tax returns in a similar manner. The Creditors' Trust Trustee will
4 also file, or cause to be filed, all appropriate tax returns with respect to any assets of the Creditors'
5 Trust allocable to Disputed Claims, as discussed below.

6 c. Tax Reporting for the Disputed Claims Reserve.

7 The Creditors' Trust Trustee shall

8 (1) treat all assets of the Creditors' Trust allocable to, or retained on account of, Disputed
9 Claims, as held in a discrete fund (the Disputed Claims Reserve) for federal income tax purposes,
10 consisting of separate and independent shares to be established in respect of each Disputed Claim,
11 in accordance with Treasury Regulations section 1.468B-9;

12 (2) treat as taxable income or loss of the Disputed Claims Reserve with respect to any
13 given taxable year the portion of the taxable income or loss of the Creditors' Trust that would have
14 been allocated to the holders of such Disputed Claims had such Claims been Allowed on the
15 Effective Date (but only for the portion of the taxable year with respect to which such claims are
16 unresolved); and

17 (3) to the extent permitted by applicable law, report consistently for state and local income
18 tax purposes.

19 In addition, pursuant to the Plan, all holders of Claims are required to report consistently
20 with such treatment.

21 Accordingly, the Creditors' Trust Trustee will report on the basis that any amounts earned
22 by the Disputed Claims Reserve and any taxable income of the Creditors' Trust allocable to it are
23 subject to a separate entity level tax, except to the extent and for the period after such earnings are
24 distributed during the same taxable year. Once a Disputed Claim is Allowed, any subsequent
25 earnings on property allocated to or distributed from the Disputed Claims Reserve with respect to
26 the Allowed portion of such Claim should be includible in the income of the holder of such Claim.

27

28

1 d. Original Issue Discount

2 The Cash Flow Note and the Secondary Note should have "original issue discount" that, as
3 described below, should be included each year in the income of holders of Allowed General
4 Unsecured Claims and the Disputed Claims Reserve, even if no cash payments have been made on
5 the note to which such income is attributable.

6 The amount of original issue discount should equal the excess of the "stated redemption
7 price at maturity" over its "issue price." The "stated redemption price at maturity" for each of the
8 Cash Flow Note and the Secondary Note should equal the aggregate payments to be made under
9 the note. The "issue price" for each note should equal the lesser of the note's principal amount or
10 the present value, on the Effective Date, of the payments to be made under the note, using a
11 discount rate equal to the long-term Applicable Federal Rate for the Effective Date.

12 A holder of indebtedness with original issue discount is required to include in gross
13 income an amount equal to the sum of the "daily portions" of such original issue discount for all
14 days during the taxable year on which the holder holds the indebtedness. The daily portions of
15 original issue discount required to be included in such holder's gross income in a taxable year
16 should be determined on a constant yield basis. A pro rata portion of the original issue discount
17 on such indebtedness which is attributable to the "accrual period" in which such day is included
18 should be allocated to each day during the taxable year in which the holder holds the indebtedness.
19 Accrual periods may be of any length and may vary in length over the term of the indebtedness so
20 long as no accrual period is longer than one year and each scheduled payment of interest or
21 principal occurs on either the first or final day of an accrual period. The amount of original issue
22 discount attributable to each accrual period will be equal to the product of:

- 23 (1) the "adjusted issue price" at the beginning of such accrual period, and
24 (2) the Federal long-term rate, stated in a manner appropriately taking into
25 account the length of the accrual period.

26 The "adjusted issue price" at the beginning of an accrual period generally should be the
27 issue price of the indebtedness plus the aggregate amount of original issue discount that accrued in
28 all prior accrual periods, less any cash payments made on the indebtedness on or before the first

1 day of the accrual period. Accordingly, a holder of indebtedness with original issue discount often
2 will be required to include original issue discount thereon in gross income for tax purposes in
3 advance of the receipt of cash attributable to such income. The amount of original issue discount
4 allocable to an initial short accrual period may be computed using any reasonable method if all
5 other accrual periods, other than a final short accrual period, are of equal length. The amount of
6 original issue discount allocable to the final accrual period at maturity is the difference between
7 the amount payable at maturity and the adjusted issue price of the indebtedness as of the beginning
8 of the final accrual period.

9 The application of the foregoing original discount rules to the Cash Flow Note is uncertain
10 if the annual long-term Applicable Federal Rate exceeds approximately 4 percent. In such case,
11 the Debtors intend that the issue price of the Cash Flow Note will be determined by taking the
12 present value of all payments under the Cash Flow Note as if they were all payable at maturity.
13 Due to the uncertainty of the timing of payments under the Cash Flow Note, the amount of
14 original issue discount accrued on the Cash Flow Note will likely have to be adjusted each year to
15 reflect the actual payments made.

16 **C. Tax Considerations for All Holders of Impaired Claims**

17 **1. Distributions in Discharge of Accrued Interest**

18 For purposes of the Tax Disclosure, "Accrued Interest" means interest that accrued but was
19 unpaid while the underlying Claim was held by the Creditor.

20 A Creditor who, under its accounting method, was not previously required to include in
21 income Accrued Interest attributable to an Allowed Claim, and who exchanges such an Allowed
22 Claim for Cash or other property (including new indebtedness) pursuant to the Plan, should be
23 treated as receiving ordinary interest income to the extent of any consideration so received
24 allocable to such Accrued Interest, regardless of whether that Creditor realizes an overall gain or
25 loss as a result of the exchange of its Allowed Claim, and regardless of whether the Creditor's
26 Allowed Claim is a capital asset in its hands. A Creditor generally should be able to recognize a
27 deductible loss (or, possibly, a write-off against a reserve for bad debts) to the extent any Accrued
28 Interest claimed was previously included in its gross income and is not paid in full by the Debtors.

1 The tax basis of any property received in exchange for Allowed Claims for Accrued Interest
2 should be the fair market value of such property. The holding period for such property should
3 begin the day after the exchange.

4 Under the Plan, distributions in respect of Allowed Claims will be allocated first to the
5 stated principal amount of such Claims, with any excess allocated to Accrued Interest. However,
6 there can be no assurance that the IRS or the courts will respect the Plan allocation for federal
7 income tax purposes.

8 **2. Market Discount**

9 Under the "market discount" provisions of sections 1276 through 1278 of the Tax Code,
10 some or all of any gain recognized by a Creditor may be treated as ordinary income (instead of
11 capital gain), to the extent of the amount of accrued market discount on such Allowed Claims. In
12 general, a debt instrument is considered to have been acquired with market discount if both (a) the
13 obligation does not have a fixed maturity date within one year from the date of issue, and (b) its
14 holder's adjusted tax basis in the debt instrument is less than the sum of all remaining payments
15 to be made on the debt instrument (excluding stated interest that is unconditionally payable, or
16 accrued by the holder of the indebtedness, at least annually at a single fixed rate).

17 Any gain recognized by a holder on a taxable disposition of Allowed Claims that were
18 acquired with market discount should be treated as ordinary income to the extent of the market
19 discount that accrued thereon while such Claims were considered to be held by the holder (unless
20 the holder elected to include market discount in income as it accrued).

21 **3. Withholding**

22 All distributions to holders of Allowed Claims under the Plan are subject to applicable
23 withholding (including employment tax withholding). Accordingly, certain holders receiving non-
24 cash consideration under the Plan may be required to pay the required withholding tax.

25 Under federal income tax law, interest and other reportable payments may be subject to
26 "backup withholding," at a rate of 28% currently but scheduled to increase to 31% for tax years
27 beginning after December 31, 2010. Backup withholding generally applies if the holder (a) fails
28 to furnish its social security number or other taxpayer identification number ("TIN"), (b) furnishes

1 an incorrect TIN, (c) fails to report properly interest or dividends, or (d) under certain
2 circumstances, fails to provide a certified statement, signed under penalty of perjury, that the TIN
3 provided is its correct number and that it is not subject to backup withholding. Backup
4 withholding is not an additional tax, but merely an advance payment that may be refunded to the
5 extent it results in an overpayment of tax. Certain persons are exempt from backup withholding.

6 **D. Tax Consequences to the Debtors**

7 **1. Reduction of Indebtedness**

8 Because the Debtors intend to continue business operations following the Confirmation of
9 the Plan, they will receive a discharge with respect to some of their indebtedness. The amount by
10 which a Creditor's actual debt cancellation exceeds the fair market value of consideration received
11 by that Creditor, is the "Debt Discharge Amount" with respect to that Creditor. Debt Discharge
12 Amounts may arise with respect to Creditors who receive, in partial satisfaction of their Claims
13 (including any Accrued Interest that the Debtor has accounted for, for tax purposes) consideration
14 consisting of property or new indebtedness of the applicable Debtor. The fair market value of new
15 indebtedness is generally deemed to equal its "issue price," which in the case of Secured Claims
16 generally should be the principal amount of the new indebtedness.

17 Pursuant to the Plan, for federal income tax purposes the Debtors should be treated as
18 transferring the Recovery Rights and issuing the Cash Flow Note and the Secondary Note to
19 holders of Allowed General Unsecured Claims (and in respect of any Disputed General Unsecured
20 Claims, the Disputed Claims Reserve), who should then be treated as transferring such assets to
21 the Creditors' Trust. The Debtors' associated Debt Discharge Amount should therefore depend on
22 the issue price of the Cash Flow Note and the Secondary Note, which should be determined as
23 described in section B.2.d above ("Original Issue Discount"). The Debtors should also have Debt
24 Discharge Amounts to the extent that unsecured Creditors holding unscheduled claims fail to
25 timely file a Proof of Claim and have their Claims discharged on the Effective Date pursuant to
26 section 1141 of the Bankruptcy Code.

27 In general, the Tax Code provides that a taxpayer who realizes a cancellation or discharge
28 of indebtedness must generally include the Debt Discharge Amount in its gross income in the

1 taxable year of discharge. No income from the discharge of indebtedness is realized to the extent
2 that payment of the liability being discharged would have given rise to a deduction.

3 If a taxpayer is in a case under the Bankruptcy Code and a cancellation of indebtedness
4 occurs pursuant to a confirmed plan, however, such Debt Discharge Amount is specifically
5 excluded from gross income (the "Bankruptcy Exception"). The Debtors intend to take the
6 position that the Bankruptcy Exception applies to them and to all cancellation of indebtedness
7 incurred during the pendency of these bankruptcy cases. Accordingly, the Debtors believe they
8 should not be required to include in income any Debt Discharge Amount as a result of the Plan.

9 Section 108(b) of the Tax Code, however, requires that certain tax attributes of the Debtors
10 be reduced by the Debt Discharge Amount excluded from income. Tax attributes are reduced in
11 the following order of priority: net operating losses and net operating loss carryovers; general
12 business credits; minimum tax credits; capital loss carryovers; basis of property of the taxpayer;
13 passive activity loss or credit carryovers; and foreign tax credit carryovers. Tax attributes are
14 generally reduced by one dollar for each dollar excluded from gross income, except that general
15 tax credits, minimum tax credits, and foreign tax credits are reduced by 33.3 cents for each dollar
16 excluded from gross income. An election can be made to alter the order of priority of attribute
17 reduction by first applying the reduction against depreciable property held by the taxpayer in an
18 amount not to exceed the aggregate adjusted basis of such property. The Debtors do not presently
19 intend to make such election. If this decision were to change, the deadline for making such
20 election is the due date (including extensions) of their federal income tax returns for the taxable
21 year in which such debt is discharged pursuant to the Plan.

22 Enacted on February 17, 2009, the American Recovery and Reinvestment Act of 2009
23 enacted section 108(i) of the Tax Code, which provides that when a taxpayer's indebtedness was
24 issued in connection with the conduct of a trade or business, and is discharged in 2010, the
25 taxpayer may elect to include income from the cancellation of indebtedness ratably over a five
26 year period beginning with the fourth taxable year following the taxable year in which the
27 cancellation occurred (the "Recognition Period"). Accordingly, with respect to any Claim issued
28 in connection with the conduct of a trade or business, and any Claim arising from amounts owed

1 by Cameo, the applicable Debtor may elect to include the associated income from the discharge of
2 indebtedness ratably over the Recognition Period, instead of having such income excluded under
3 the Bankruptcy Exception. For cancellations occurring in 2010, Gianulias's Recognition Period
4 would range from 2014 through 2018. For cancellations occurring on or before May 31, 2010,
5 Cameo's Recognition Period would range from its tax year ending May 31, 2014, through its tax
6 year ending May 31, 2018. Deferred income would be accelerated, however, if the applicable
7 Debtor dies, liquidates or sells substantially all its assets, ceases business activities, or performs
8 other, similar actions. The taxable year in which such an event occurs is when all deferred income
9 would be taken into account. If such an event were to occur while the applicable Debtor is under
10 the jurisdiction of a court in connection with a federal bankruptcy proceeding, however, the event
11 is deemed to occur the day before the bankruptcy petition was filed.

12 At this time, the Debtors do not plan to make an election under section 108(i) of the Tax
13 Code with respect to any Allowed Claims. If this decision were to change, the deadline for
14 making any such election is the due date (including extensions) of the applicable Debtor's federal
15 income tax return for the tax year in which the debt is cancelled.

16 **2. Net Operating Losses**

17 Based on his federal income tax returns, as filed, Gianulias had approximately \$5.5 million
18 of net operating losses ("NOLs") carried forward into 2009. Gianulias estimates that he could
19 incur additional losses in 2009 and 2010. He intends to take the position that the Bankruptcy
20 Exception applies to indebtedness cancelled during the pendency of his bankruptcy proceedings
21 and pursuant to a confirmed Plan. The associated tax attribute reduction rules of section 108(b) of
22 the Tax Code should reduce his NOLs. Gianulias estimates that he will not have any NOLs to
23 carry forward after such reduction.

24 Based on its federal income tax returns, as filed, and estimates of its tax return position for
25 the tax year ending on May 31, 2009, Cameo had approximately \$25 million of NOLs carried
26 forward into the tax year ending on May 31, 2009, and it expects to have approximately \$84
27 million of NOLs to carry forward to its tax year ending on May 31, 2010. Cameo intends to take
28 the position that the Bankruptcy Exception applies to indebtedness cancelled during the pendency

1 of its bankruptcy proceedings and pursuant to a confirmed Plan. The associated tax attribute
2 reduction rules of section 108(b) of the Tax code should reduce its NOLs, and Cameo estimates
3 that it should have approximately \$51 million of NOLs to carry forward, for federal purposes, to
4 its tax year ending May 31, 2011 (assuming the Effective Date occurs on or before May 31, 2010).

5 The Debtors' income after the Effective Date generally should be subject to tax to the
6 extent that such income exceeds the NOLs remaining after taking into account such attribute
7 reduction. The Debtors estimate that Cameo will not use up its NOLs prior to 2025 and that
8 Gianulias will not have NOLs after taking tax attribute reduction into account as a result of the
9 Plan. NOLs carried forward might not completely offset income, however, due to alternative
10 minimum tax rules, and current and future suspension of NOL carryforwards for state or federal
11 purposes. The NOL amounts provided in tax returns are subject to review and significant
12 adjustment upon audit by the IRS. In addition, estimates of the Debtors' NOLs are subject to legal
13 and factual uncertainty.

14 **E. General Disclaimer**

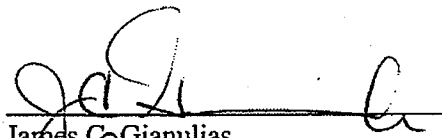
15 THE FOREGOING FEDERAL INCOME TAX SUMMARY HAS BEEN PROVIDED
16 FOR INFORMATIONAL PURPOSES ONLY. ALL CREDITORS ARE URGED TO CONSULT
17 THEIR OWN TAX ADVISORS CONCERNING THE FEDERAL, STATE, LOCAL, AND
18 OTHER TAX CONSEQUENCES OF THE PLAN.

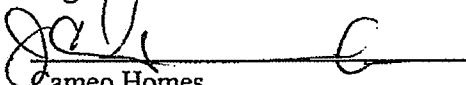
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1 **IX. RECOMMENDATION**

2 The Debtors believe that Plan confirmation and implementation are preferable to any
3 feasible alternative because the Plan will provide holders of Allowed Claims with greater
4 recoveries than the alternatives. The Committee also supports the Plan. Accordingly, the Debtors
5 urge all Persons who hold impaired Claims to vote to accept the Plan by checking the box marked
6 "Accept" on their Ballots and then returning the Ballots to the Ballot Tabulator by the Ballot
7 Deadline, as directed in the Plan and Disclosure Statement.

8 Dated: May 27, 2010

9
10 
James C. Gianulias

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12 
Cameo Homes
By: James C. Gianulias
Its: Chairman

13
14
15 **Presented by:**

16
17 /s/ Alan J. Friedman
William N. Lobel
18 Mike D. Neue
THE LOBEL FIRM, LLP

19
20 Attorneys for Debtors and
Debtors-in-Possession

21 *-and-*

22
23 Alan J. Friedman
Kerri A. Lyman
24 IRELL & MANELLA LLP

25 Attorneys for Debtors and
Debtors-in-Possession

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EXHIBITS

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1. Plan
2. Financial Projections
3. Liquidation Analysis
4. Disclosure Statement Order
5. Schedule of Pre-Bankruptcy Transfers
6. Historical financial statements and recent US Trustee filings
7. Plan distribution analysis
8. The Term Sheet Agreement