

1 THE SEC, OR (C) OTHERWISE MAKE SUCH UPDATED INFORMATION PUBLICLY
2 AVAILABLE.

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

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

24 **1. Scope of Financial Projections**

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

1 The financial information and projections appended to the Disclosure Statement include
2 for the Projection Period: Pro forma projected statements of cash flow for the years 2010 through
3 2024.

4 The financial information and projections are based on the assumptions that the Plan would
5 be confirmed by the Court and, for projection purposes, that the Effective Date under the Plan
6 would occur in the first quarter of 2010. Although the projections and information are based upon
7 an Effective Date in the first quarter of 2010, the Debtors believe that an actual Effective Date any
8 time during 2010 would not have any material effect on the Financial Projections. However,
9 creditors should realize that projections extending out over a fifteen year period are inherently
10 unreliable as small changes in the early years could have a significant impact in the later years.

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

14 **2. Summary of Significant Assumptions**

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

21 **The Financial Projections are based on assumptions that are inherently uncertain**
22 **and unpredictable.** The operating and financial information contained in the Reorganized
23 Debtors' projected financial data have been prepared by the Debtors and their financial advisors
24 and reflect current estimates of the Reorganized Debtors' future performance. The projected
25 results are dependent on the successful implementation of the Debtors' business strategies and are
26 based on assumptions and events over which, in many cases, the Reorganized Debtors will have
27 only partial or no control. The selection of assumptions underlying such projected information
28 require the exercise of judgment, and the projections are subject to uncertainty due to the effects

1 that economic, business, competitive, legislative, political or other changes may have on future
2 events. Changes in the facts or circumstances underlying such assumptions could materially affect
3 the Financial Projections. To the extent that assumed events do not materialize, actual results may
4 vary substantially from the projected results. As a result, no assurance can be made that the
5 Reorganized Debtors will achieve the operating or financial results set forth in the Financial
6 Projections, nor can there be any assurance that results will not vary, perhaps materially and/or
7 adversely.

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

19 **B. Valuation of the Debtors**

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

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

23 HOLDERS OF CLAIMS AGAINST THE DEBTORS SHOULD READ AND
24 CONSIDER CAREFULLY THE FACTORS SET FORTH BELOW AS WELL AS THE OTHER
25 INFORMATION SET FORTH IN THIS DISCLOSURE STATEMENT (AND THE
26 DOCUMENTS DELIVERED TOGETHER HERewith AND/OR INCORPORATED HEREIN
27 BY REFERENCE), PRIOR TO VOTING TO ACCEPT OR REJECT THE PLAN. THESE RISK
28

1 FACTORS SHOULD NOT, HOWEVER, BE REGARDED AS CONSTITUTING THE ONLY
2 RISKS INVOLVED IN CONNECTION WITH THE PLAN AND ITS IMPLEMENTATION.

3 **A. Projected Financial Information**

4 The Financial Projections included in this Disclosure Statement are dependent upon the
5 successful implementation of the Reorganized Debtors' business plan and the validity of the
6 assumptions contained therein. The Financial Projections reflect numerous assumptions,
7 including, without limitation, confirmation and consummation of the Plan in accordance with its
8 terms, the Reorganized Debtors' anticipated future performance, the future performance of the real
9 estate market, certain assumptions with respect to the Reorganized Debtors' competitors, general
10 business and economic conditions and other matters, many of which are beyond the control of the
11 Reorganized Debtors. In addition, unanticipated events and circumstances occurring subsequent
12 to the preparation of the Financial Projections may affect the Reorganized Debtors' actual
13 financial results. Although the Debtors believe that the Financial Projections are reasonably
14 attainable, variations between the actual financial results and those projected may occur and be
15 material.

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

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

1 **C. Certain Bankruptcy Law Considerations**

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

3 Although the Debtors believe that the Plan satisfies all of the requirements necessary for
4 confirmation by the Court, there can be no assurance that the Court will reach the same
5 conclusion. Moreover, there can be no assurance that modifications of the Plan will not be
6 required for confirmation or that such modifications would not necessitate the resolicitation of
7 votes to accept the Plan, as modified.

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

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

12 **VI. CONFIRMATION PROCEDURES**

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

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

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

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

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

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

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

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

11 As noted above, a creditor’s Claim must be “allowed” for purposes of voting in order for
12 such creditor to have the right to vote on the Plan. Generally, for voting purposes, a Claim is
13 deemed “allowed” if: (i) a proof of Claim was timely filed; or (ii) if no proof of Claim was filed,
14 the Claim is identified in the Schedules as other than “disputed,” “contingent,” or “unliquidated.”
15 In any case, when an objection to a Claim has been filed, the Claim holder cannot vote unless the
16 Bankruptcy Court, after notice and hearing, either overrules the objection or allows the Claim for
17 voting purposes.

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

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

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

25 The holders of the following types of Claims are not entitled to vote on the Plan: (a)
26 Claims that have been disallowed; (b) Claims that are subject to a pending objection and which
27 have not been allowed for voting purposes; (c) Claims entitled to priority pursuant to Bankruptcy
28 Code sections 507(a)(2), (a)(3), and (a)(8); (d) and Claims in Classes that are unimpaired (Classes

1 1C, 1E, 1G, 1H, 2, 5, and 6). Claims entitled to priority pursuant to Bankruptcy Code sections
2 507(a)(2), (a)(3), and (a)(8) are not entitled to vote because such Claims are required to receive
3 certain treatment specified by the Bankruptcy Code and are thus not classified under the Plan.

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

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

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

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

15 **8. Treatment of Nonaccepting Classes**

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

24 **B. The Confirmation Hearing**

25 The Bankruptcy Code requires the Court, after notice, to hold a confirmation hearing. The
26 Confirmation Hearing in respect of the Plan has been scheduled for _____, **July 9, 2010**
27 at _____ **11:45 a.m.** prevailing Pacific Time before the Honorable Robert Kwan,
28 United States Bankruptcy Judge for the Central District of California, Santa Ana Division,

1 Courtroom 5D, United States Bankruptcy Court, 411 West Fourth Street, Santa Ana, California.
2 The Confirmation Hearing may be adjourned from time to time by the Court without further notice
3 except for an announcement of the adjourned date made at the Confirmation Hearing. Any
4 objection to confirmation must be made in writing and specify in detail the name and address of
5 the objector, all grounds for the objection and the amount of the Claim(s) or other Interest(s) held
6 by the objector. Any such objection must be filed with the Court and served so that it is received
7 by the Court and the following parties and the other parties requesting notice in these cases on or
8 before _____, July 2, 2010 at 4:00 P.M., prevailing Pacific Time: (a) Irell & Manella
9 LLP, 840 Newport Center Drive, Suite 400, Newport Beach, California 92660, Attention: Alan J.
10 Friedman, Esq.; (b) The Lobel Firm, LLP, 840 Newport Center Drive, Suite 750, Newport Beach,
11 California 92660, Attention: William N. Lobel, Esq. and Mike D. Neue, Esq.; (c)
12 SulmeyerKupetz, 333 South Hope Street, 35th Floor, Los Angeles, California 90071, Attention:
13 Victor A. Sahn, Esq. and Elissa D. Miller, Esq.; and (d) The Office of the United States Trustee,
14 411 West Fourth Street, Suite 9041, Santa Ana, California 92701, Attention: Michael Hauser.

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

17 **C. Confirmation**

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

24 **1. Acceptance**

25 Classes 1A, 1B-1, 1B-2, 1D, 3 and 4 of the Plan are Impaired under the Plan. Classes 1C,
26 1E, 1G, 1H, 2, 5, and 6 of the Plan are unimpaired and, therefore, are conclusively presumed to
27 have voted to accept the Plan. Thus, only Classes 1A, 1B-1, 1B-2, 1D, 1F, 3 and 4 are entitled to
28 vote to accept or reject the Plan. To the extent any Impaired Class(es) entitled to vote on the Plan

1 reject(s) the Plan, the Debtors may seek the nonconsensual confirmation of the Plan under Section
2 1129(b) of the Bankruptcy Code with respect to such rejecting Class(es). In addition, the Debtors
3 reserve their rights to amend the Plan in accordance with Article XIII.C of the Plan with respect to
4 any such rejecting Class(es).

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

6 To obtain nonconsensual confirmation of the Plan, also referred to as a “cramdown,” it
7 must be demonstrated to the Court that the Plan “does not discriminate unfairly” and is “fair and
8 equitable” with respect to each Impaired, nonaccepting Class. The Bankruptcy Code provides a
9 non-exclusive definition of the phrase “fair and equitable.” The Bankruptcy Code provides that a
10 plan is “fair and equitable” with respect to a class of creditors or equity holders if:

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

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

23 **3. Feasibility**

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

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

Estimated Cash Debtors will have on hand prior
to or by the Effective Date \$250,000

Needed:

To Pay: Administrative Claims to be paid on Effective Date⁹¹⁰ \$144,060

To Pay: Statutory costs & charges \$0

To Pay: Gap Claims to be paid on Effective Date \$34,426

To Pay: Priority Claims if paid on Effective Date \$30,254
(may be paid over five years from Effective Date)

Balance after paying these amounts \$41,260

The second aspect of feasibility considers whether the Debtors will have enough cash over the term of the Plan to make the required payments thereunder. Based on the Financial Projections attached hereto as Exhibit "2" and the assumptions set forth therein, the Debtors believe they will have adequate cash flow during the next fifteen years to make all required Plan payments. It is speculative to forecast, with any degree of specificity, the cash flow figures more than five years in the future. However, the Debtors estimate that the net cash flow from the Companies will remain relatively stable over time and that they will be able to fund their operations going forward and, therefore, that confirmation of the Plan is not likely to be followed by liquidation or the need for further reorganization. Furthermore, the Cash Flow Note is a cash flow note, and as such the monthly payments are calculated based on Available Cash Flow. As a result, feasibility is virtually guaranteed since the payments on the Cash Flow Note are, with the exception of the payment due at maturity, purely a function of Available Cash Flow. However, the Debtors caution that the Financial Projections are intended as a guide only and nothing in the Financial Projections should be interpreted as a guarantee of any specific payment stream.

4. Best Interests Test

With respect to each Impaired Class of Claims, confirmation of the Plan requires that each holder of an Allowed Claim either (i) accept the Plan or (ii) receive or retain under the Plan property of a value, as of the Effective Date, that is not less than the value such holder would

⁹¹⁰ The Administrative Claims of Professionals shall not be paid on the Effective Date. 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

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

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

ASSETS VALUED AT LIQUIDATION VALUES:

- Cash on hand at liquidation commencement (approx.)	\$250,000
- Membership Interests in Multi-Family Properties	\$9,791,632
- Membership Interests in Office/Retail Properties	\$2,807,932
- Membership Interests in Land Parcels	\$543,066
- Membership Interests in Other Businesses	\$943,658
- Private Residences/Land	\$5,886,850
- Investments/Other	\$1,123,753
- Non-Exempt personal property	\$200,000

TOTAL ASSETS AT LIQUIDATION VALUE \$21,546,892

Less:

Secured creditor's recovery (~~\$11,141,621~~11,360,148)

Less:

Estimated capital gains tax on sale of assets (\$2,770,745)

Less:

Net Operating Cash Flow/(Loss) Through Liquidation Period \$999,552

Less:

Chapter 7 trustee fees and expenses (approx.) (\$662,157)

Less:

Chapter 11 administrative expenses (approx.) (\$5,644,060)

Less:

Priority claims (incl. property tax),
excluding administrative expense claims (\$64,680)

BALANCE FOR UNSECURED CLAIMS \$2,263,1812,044,654

ESTIMATED AMT. OF UNSECURED CLAIMS

IN CHAPTER 7 CASE \$245,981,882252,780,507

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

<u>CLAIMS & CLASSES</u>	<u>ESTIMATED PAYOUT PERCENTAGE UNDER THE PLAN¹⁰¹¹</u>	<u>EST. PAYOUT PERCENTAGE IN CHAPTER 7 LIQUIDATION¹¹¹²</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%

¹⁰¹¹ For secured claims, Estimated Payout Percentage Under the Plan is calculated using the estimated collateral value for the secured claim as the secured claim amount, which may be less than the claim amount at the petition date. Any shortfall between collateral 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 paid to the claimholder over time, or the collateral being surrendered to the secured claim holder in satisfaction of the secured claim (if applicable).

¹¹¹² 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 PLAN¹⁰¹¹</u>	<u>EST. PAYOUT PERCENTAGE IN CHAPTER 7 LIQUIDATION¹¹¹²</u>
Class 1H: Other Secured Claims	100%	100%
Class 2: Priority Claims	100%	100%
Class 3: General Unsecured Claims ¹²¹³	25.9% (51.8% for those creditors with dual claims)	0.90.8%
Class 4: Inter-Debtor Claims ¹³¹⁴	0%	0%
Class 5: Subordinated Claims*	100%	100%

* There are no known claims in these classes.

¹²¹³ 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 ~~0.90.8%~~ 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.**

¹³¹⁴ 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.

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.

A. Alternative Plan of Reorganization or Plan of Liquidation

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

B. Liquidation Under Chapter 7

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

VIII. CERTAIN FEDERAL INCOME TAX CONSEQUENCES OF THE PLAN

INTERNAL REVENUE SERVICE ("IRS") CIRCULAR 230 DISCLOSURE: TO ENSURE COMPLIANCE WITH REQUIREMENTS IMPOSED BY THE IRS, CREDITORS ARE HEREBY NOTIFIED THAT: (A) ANY DISCUSSION OF U.S. FEDERAL INCOME TAX CONTAINED OR REFERRED TO IN THIS CONFIDENTIAL MEMORANDUM IS NOT INTENDED OR WRITTEN TO BE RELIED UPON, AND CANNOT BE RELIED UPON, FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED UNDER THE INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE "TAX

1 CODE"); (B) SUCH DISCUSSION IS WRITTEN IN CONNECTION WITH THE
2 PROMOTION OR MARKETING (WITHIN THE MEANING OF CIRCULAR 230) OF THE
3 TRANSACTIONS OR MATTERS ADDRESSED HEREIN; AND (C) CREDITORS SHOULD
4 SEEK ADVICE BASED ON THEIR PARTICULAR CIRCUMSTANCES FROM AN
5 INDEPENDENT TAX ADVISOR.

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

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

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

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

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

A. Tax Consequences to Holders of Secured Claims

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

B. Tax Consequences to Holders of General Unsecured Claims

Pursuant to the Plan, the holders of General Unsecured Claims will receive, in satisfaction and discharge of such Claims, all the beneficial interests in the Creditors' Trust. With respect to General Unsecured Claims that remain Disputed as of the Effective Date, the portion of the assets held by the Creditors' Trust and allocable to, or retained on account of, such Claims should be treated pursuant to the Plan as held in a separate taxable fund for federal income tax purposes (as discussed below) pending the resolution of such Claims. Accordingly, holders of Allowed

General Unsecured Claims should be treated as receiving additional distributions after the Effective Date in respect of their Claims in the event any Disputed General Unsecured Claims are subsequently disallowed.

1. Gain or Loss – Generally

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

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

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

1 Effective Date or, if later, on the day after the day the holder's General Unsecured Claim is
2 allowed.

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

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

23 Any amount a holder receives following the Effective Date as a distribution in respect of
24 its interest in the Creditors' Trust (other than as discussed in the preceding paragraph as relates to
25 the disallowance of Disputed Claims) should not be included for federal income tax purposes in
26 the holder's amount realized in respect of its Allowed Claim but should be separately treated as a
27 distribution received in respect of such holder's interest in the Creditors' Trust. See Section B.2
28

1 of this Tax Disclosure, "Tax Treatment of the Creditors' Trust and Holders of Beneficial
2 Interests," below.

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

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

6 a. Classification of the Creditors' Trust.

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

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

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

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

1 in determining gain, loss, or tax basis. The valuation will be made available as necessary for tax
2 reporting purposes. Accordingly, except as discussed below (in connection with pending Disputed
3 Claims), each holder should report on its federal income tax return its allocable share of any
4 income, gain, loss, deduction, or credit recognized or incurred by the Creditors' Trust, in
5 accordance with its relative beneficial interest. The character of items of income, deduction, and
6 credit to any holder and the ability of such holder to benefit from any deductions or losses may
7 depend on the particular situation of such holder.

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

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

25 The Creditors' Trust Trustee will file with the IRS returns for the Creditors' Trust as a
26 grantor trust pursuant to Treasury Regulation section 1.671-4(a) (other than with respect to assets
27 and related income and expenses attributable to the Disputed Claims Reserve). The Creditors'
28 Trust Trustee will also send to each record holder a separate statement setting forth the

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

8 c. Tax Reporting for the Disputed Claims Reserve.

9 The Creditors' Trust Trustee shall

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

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

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

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

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

d. Original Issue Discount

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

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

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

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

The “adjusted issue price” at the beginning of an accrual period generally should be the issue price of the indebtedness plus the aggregate amount of original issue discount that accrued in 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.

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 ~~12~~27, 2010

9

10

James C. Gianulias

11

12

13

Cameo Homes
By: James C. Gianulias
Its: Chairman

14

15 **Presented by:**

16

17 /s/ Alan J. Friedman

William N. Lobel

18 Mike D. Neue

19 THE LOBEL FIRM, LLP

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

26

27

28

EXHIBITS

- 1.
- 2.
3. Plan
4. Financial Projections
5. Liquidation Analysis
6. Disclosure Statement Order
7. Schedule of Pre-Bankruptcy Transfers
8. Historical financial statements and recent US Trustee filings
9. Plan distribution analysis
- 10.
11. 8. The Term Sheet Agreement

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Padding cell	

Statistics:	
	Count
Insertions	108
Deletions	96
Moved from	0
Moved to	0
Style change	0
Format changed	0
Total changes	204

In re:
James C. Gianulias and Cameo Homes

CHAPTER 11

Debtor(s). CASE NUMBER 8:08-bk-13150-RK

PROOF OF SERVICE OF DOCUMENT

I am over the age of 18 and not a party to this bankruptcy case or adversary proceeding. My business address is:
840 Newport Center Drive, Suite 400, Newport Beach, CA 92660-6324

The foregoing document described as **FOURTH AMENDED DISCLOSURE STATEMENT FOR DEBTORS' FOURTH AMENDED PLAN OF REORGANIZATION (DATED: MAY 27, 2010) [REDLINED VERSION]** will be served or was served **(a)** on the judge in chambers in the form and manner required by LBR 5005-2(d); and **(b)** in the manner indicated below:

I. TO BE SERVED BY THE COURT VIA NOTICE OF ELECTRONIC FILING ("NEF") – Pursuant to controlling General Order(s) and Local Bankruptcy Rule(s) ("LBR"), the foregoing document will be served by the court via NEF and hyperlink to the document. On May 27, 2010, I checked the CM/ECF docket for this bankruptcy case or adversary proceeding and determined that the following person(s) are on the Electronic Mail Notice List to receive NEF transmission at the email address(es) indicated below:

☒ Service information continued on attached page

II. SERVED BY U.S. MAIL OR OVERNIGHT MAIL(indicate method for each person or entity served):

On _____, I served the following person(s) and/or entity(ies) at the last known address(es) in this bankruptcy case or adversary proceeding by placing a true and correct copy thereof in a sealed envelope in the United States Mail, first class, postage prepaid, and/or with an overnight mail service addressed as follows. *Listing the judge here constitutes a declaration that mailing to the judge will be completed no later than 24 hours after the document is filed.*

☐ Service information continued on attached page

III. SERVED BY PERSONAL DELIVERY, FACSIMILE TRANSMISSION OR EMAIL (indicate method for each person or entity served): Pursuant to F.R.Civ.P. 5 and/or controlling LBR, on May 27, 2010, I served the following person(s) and/or entity(ies) by personal delivery, or (for those who consented in writing to such service method), by facsimile transmission and/or email as follows. *Listing the judge here constitutes a declaration that personal delivery on the judge will be completed no later than 24 hours after the document is filed.*

SERVED VIA PERSONAL DELIVERY

Chambers of Honorable Robert W. Kwan
United States Bankruptcy Court
411 W. Fourth Street
Santa Ana, CA 92701

Office of the United States Trustee
Attn: Michael Hauser, Esq.
411 W. Fourth Street, #9041
Santa Ana, CA 92701-4593

☐ Service information continued on attached page

I declare under penalty of perjury under the laws of the United States of America that the foregoing is true and correct.

5/27/2010
Date

Lori Gauthier
Type Name

/s/ Lori Gauthier
Signature

In re:
James C. Gianulias and Cameo Homes

CHAPTER 11

Debtor(s). CASE NUMBER 8:08-bk-13150-RK

SERVED VIA NOTICE OF ELECTRONIC FILING ("NEF")

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This form is mandatory. It has been approved for use by the United States Bankruptcy Court for the Central District of California.

January 2009

F 9013-3.1

In re:
James C. Gianulias and Cameo Homes

CHAPTER 11

Debtor(s).

CASE NUMBER 8:08-bk-13150-RK

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