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10 UNITED STATES BANKRUPTCY COURT  
11 SOUTHERN DISTRICT OF CALIFORNIA

11 In re:	) Case No. 10-bk-15142-LT11
	)
12 CITIZENS DEVELOPMENT CORP.,	) Chapter 11
	)
13	)
14 Debtor.	) (Substantively Consolidated)
_____	)
15 LSM HOTEL, LLC,	) FIRST AMENDED DISCLOSURE
	) STATEMENT DESCRIBING DEBTOR'S
16	) FIRST AMENDED PLAN OF
17 Member Case No. 10-13024-LT11	) REORGANIZATION (Dated December 6,
	) 2013)
18 LSM COUNTRY CLUB, LLC,	)
	) <u>Disclosure Statement Hearing:</u>
19 (No Member Case Number)	) Date: December 19, 2013
	) Time: 10:00 a.m.
20	)
	) <u>Plan Confirmation Hearing:</u>
21	) Date: [To Be Set]
	) Time: [To Be Set]
22	)
	) Place: Dept. 3
23	)
24	)
_____	

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## I. INTRODUCTION

Citizens Development Corp. (the “Debtor”), the Debtor and Debtor in Possession in the above-referenced Chapter 11 bankruptcy case, is the Debtor in a pending Chapter 11 bankruptcy case. On August 26, 2010 (the “Petition Date”), the Debtor commenced this bankruptcy case by filing a Voluntary Petition under Chapter 11 of the United States Bankruptcy Code, 11 U.S.C. § 101 et seq. (“Bankruptcy Code”). This document is the First Amended Disclosure Statement (“Disclosure Statement”) which describes the Debtor’s First Amended Plan of Reorganization (Dated December 6, 2013) (“Plan”) that is being proposed by the Debtor.

Chapter 11 allows the Debtor, and, under some circumstances, creditors and other parties in interest, to propose a plan of reorganization. The Plan is a plan of reorganization which has been proposed by the Debtor. The effective date of the Plan (the “Effective Date”) will be the first business day which is at least fifteen days following the date of entry of the Court order confirming the Plan (the “Plan Confirmation Order”) when and provided that all of the following conditions to the effectiveness of the Plan have been satisfied or waived by the Debtor: (a) there shall not be any stay in effect with respect to the Plan Confirmation Order; (b) the Plan Confirmation Order shall not be subject to any appeal or rehearing; and (c) the Plan and all documents, instruments and agreements to be executed in connection with the Plan shall have been executed and delivered by all parties to such documents, instruments and agreements. The Debtor following the Effective Date shall be referred to as the “Reorganized Debtor”. The Debtor shall, in its sole and absolute discretion, have the right to waive any or all of the conditions set forth above to the effectiveness of the Plan. If the Debtor does so and accelerates the effectiveness of the Plan, the Debtor shall file a notice with the Court identifying the Effective Date of the Plan.

### A. Purpose of this Disclosure Statement

This Disclosure Statement summarizes what is in the Plan, and tells you certain information relating to the Plan and the process the Court follows in determining whether or not to confirm the Plan. The purpose of this Disclosure Statement is to provide you with adequate

information of a kind, and in sufficient detail, as far as is reasonably practicable in light of the nature and history of the Debtor and the condition of the Debtor's books and records, and to enable a hypothetical reasonable investor typical of the holders of claims or interests in the case to make an informed judgment concerning the Plan.

**READ THIS DISCLOSURE STATEMENT CAREFULLY IF YOU WANT TO KNOW ABOUT:**

- (1) WHO CAN VOTE OR OBJECT,**
- (2) WHAT THE TREATMENT OF YOUR CLAIM IS (i.e., what your claim will receive if the Plan is confirmed) AND HOW THIS TREATMENT COMPARES TO WHAT YOUR CLAIM WOULD RECEIVE IN LIQUIDATION,**
- (3) THE HISTORY OF THE DEBTOR AND SIGNIFICANT EVENTS DURING ITS BANKRUPTCY CASE,**
- (4) WHAT THINGS THE COURT WILL LOOK AT TO DECIDE WHETHER OR NOT TO CONFIRM THE PLAN,**
- (5) WHAT IS THE EFFECT OF CONFIRMATION, AND**
- (6) WHETHER THE PLAN IS FEASIBLE.**

This Disclosure Statement cannot tell you everything about your rights. You should consider consulting your own lawyer to obtain more specific advice on how the Plan will affect you and what is the best course of action for you.

Be sure to read the Plan as well as this Disclosure Statement. If there are any inconsistencies between the Plan and this Disclosure Statement, the Plan provisions will govern.

The Bankruptcy Code requires a Disclosure Statement to contain "adequate information" concerning the Plan. The Bankruptcy Court has approved this document as an adequate Disclosure Statement, containing enough information to enable parties affected by the Plan to make an informed judgment about the Plan. Any party can now solicit votes for or against the Plan.

**B. Deadlines for Voting and Objecting; Date of Plan Confirmation Hearing**

THE COURT HAS NOT YET CONFIRMED THE PLAN DESCRIBED IN THIS DISCLOSURE STATEMENT. IN OTHER WORDS, THE TERMS OF THE PLAN ARE NOT YET BINDING ON ANYONE. HOWEVER, IF THE COURT LATER CONFIRMS THE PLAN, THEN THE PLAN WILL BE BINDING ON ALL CREDITORS AND INTEREST HOLDERS IN THIS CASE.

**1. Time and Place of the Plan Confirmation Hearing**

The initial hearing where the Court will determine whether or not to confirm the Plan (the “Plan Confirmation Hearing”) will commence on \_\_\_\_\_, before the Honorable Laura S. Taylor, United States Bankruptcy Judge for the Southern District of California, in Department 3, located at 325 West F Street, San Diego, California 92101, and be continued from time to time as the Court deems necessary and appropriate.

**2. Deadline For Voting For or Against the Plan**

If you are entitled to vote, it is in your best interest to timely vote on the enclosed ballot and return the ballot in the enclosed envelope to Krikor J. Meshefejian, Esq., Levene, Neale, Bender, Yoo & Brill L.L.P., 10250 Constellation Blvd., Suite 1700, Los Angeles, California 90067.

Your ballot must be received by 5:00 p.m., PST, on \_\_\_\_\_, 2014 or it will not be counted.

**3. Deadline for Objecting to the Confirmation of the Plan**

Objections to the confirmation of the Plan must, by \_\_\_\_\_, 2014, be filed with the Court and served by same day service upon Krikor J. Meshefejian, Esq., Levene, Neale, Bender, Yoo & Brill L.L.P., 10250 Constellation Blvd., Suite 1700, Los Angeles, California 90067, fax: (310) 229-1244, email: kjm@lnbyb.com.

**C. Identity of Persons to Contact for More Information Regarding the Plan**

Any interested party desiring further information about the Plan should contact Krikor J. Meshefejian, Esq., Levene, Neale, Bender, Yoo & Brill L.L.P., 10250 Constellation Blvd., Suite 1700, Los Angeles, California 90067, fax: (310) 229-1244, email: kjm@lnbyb.com.

**D. Disclaimer**

The financial data relied upon in formulating the Plan is based on the Debtor's books and records which, unless otherwise indicated, are unaudited. The information contained in this Disclosure Statement is provided by the Debtor. The Debtor represents that everything stated in this Disclosure Statement is true to the Debtor's best knowledge. The Bankruptcy Court has not yet determined whether or not the Plan is confirmable and makes no recommendation as to whether or not you should support or oppose the Plan.

**II. BACKGROUND**

**A. Description and History of the Debtor's Business**

The Debtor is the owner and operator of Lake San Marcos Resort & Country Club (the "Resort"). The Resort is located on the shores of the 80-acre Lake San Marcos, in San Diego County, approximately 30 miles north of San Diego. The Resort is comprised of approximately 252 acres of land that includes (or included to the extent such assets are no longer a part of the Resort) a 139-room hotel (the "Hotel"), meeting and banquet space, a fitness center, four tennis courts, and two outdoor swimming pools (collectively, the "Recreation Center"), a private 18-hole championship golf course with clubhouse and pro-shop (the "Country Club"), a public 18-hole executive golf course (the "Executive Course"), the Quail Restaurant (the "Restaurant"), and the 80-acre Lake San Marcos (the "Lake").

The various above-described components of the Resort were initially owned separately by various entities affiliated with the Debtor. LSM Hotel, LLC (the "Hotel Entity") owned the Hotel and LSM Country Club, LLC (the "CC Entity") owned the Country Club. Pursuant to the Bankruptcy Court's order entered on January 27, 2011 (the "Substantive Consolidation Order") granting the Debtor's motion to substantively consolidate the Debtor with the Hotel Entity and the CC Entity, the Hotel Entity and CC Entity were substantively consolidated with the Debtor. LSM Executive Course, LLC (the "EC Entity") which owns the Executive Course was not substantively consolidated with the Debtor. The EC Entity was a Chapter 11 debtor and debtor in possession in a separate bankruptcy case pending before the United States Bankruptcy Court

1 for the Southern District of California, Bankruptcy Case No. 10-07480-LT11. The EC Entity has  
2 dismissed its bankruptcy case.

3 **B. The Debtor's Primary Assets and Primary Liabilities**

4 **1. The Hotel**

5 The Hotel was operated by the Debtor as a 139-room limited service hotel located at  
6 1025 La Bonita Drive, San Marcos, California 92078. On the Petition Date, the Hotel Property  
7 was encumbered by a first position deed of trust in favor of Symphony Asset Pool X, LLC which  
8 is an assignee of German American Capital Corporation ("GACC") which is in turn the assignee  
9 of Pacific Western Bank ("PWB") which was the successor in interest to First National Bank  
10 ("FNB" and collectively with PWB, the "Original Lender"). As of June 13, 2006, the Original  
11 Lender lent to the Hotel Entity the principal sum of 11,350,000 (the "Symphony Note").  
12 Pursuant to the Substantive Consolidation Order entered on January 27, 2011, the Hotel became  
13 a direct asset of the Debtor's bankruptcy estate and the Symphony Note became a direct  
14 obligation of the Debtor.

15 Symphony and GACC have alleged that, in February 2010 and continuing thereafter, the  
16 Hotel Entity failed to pay the amounts due under the Symphony Note. GACC then recorded a  
17 Notice of Default on June 30, 2010, and subsequently commenced an action on July 2, 2010  
18 against the Hotel Entity and Matthew C. DiNofia (the former officer, board member and owner  
19 of the Debtor) ("DiNofia") in San Diego Superior Court (Case No. 37-2010-00056979-CU-OR-  
20 NC). That complaint alleges three causes of action: (1) judicial foreclosure, (2) appointment of a  
21 receiver, and (3) breach of guaranty. As of the Petition Date, Symphony alleged that the total  
22 due pursuant to the Symphony Note was \$11,680,082.73.

23 On July 26, 2010, the Hotel Entity filed for bankruptcy in the United States Bankruptcy  
24 Court for the Southern District of California under Chapter 11 of the Bankruptcy Code, Case No.  
25 10-13024-LT11. On September 14, 2010, GACC filed in the Hotel Entity's bankruptcy case a  
26 motion for relief from the automatic stay so that GACC (and subsequently Symphony) may  
27 enforce its foreclosure rights as to the Hotel (the "Symphony Stay Relief Motion"). The Debtor  
28

1 and the Hotel Entity filed oppositions to the Symphony Stay Relief Motion. After evidentiary  
2 hearings which took place in January 20, 21 and 24, 2011, the Court entered the Substantive  
3 Consolidation Order, as well as a separate order on the Symphony Stay Relief Motion (the  
4 “Symphony Stay Relief Order”), conditionally modifying the automatic stay.

5 Subsequent to the entry of the Symphony Stay Relief Order, Symphony and the Debtor  
6 engaged in settlement negotiations and entered into a settlement agreement which resolved the  
7 claims among and between the Debtor, the Debtor’s affiliates and Symphony (the “Symphony  
8 Settlement”).

9 The salient points of the Symphony Settlement are as follows:

- 10 a. Symphony shall be entitled to foreclose upon the Hotel in exchange for a  
11 payment of up to \$200,000 to the Debtor’s estate;
- 12 b. Any appeals and/or cross-appeals of the Substantive Consolidation Order  
13 and Stay Relief Order will be dismissed;
- 14 c. Symphony shall dismiss its state court action pending against DiNofia and  
15 the Hotel Entity with prejudice;
- 16 d. Symphony shall enter into a lease agreement (the “Symphony Lease  
17 Agreement”) with the Debtor whereby Symphony shall pay to the estate  
18 on a monthly basis \$1,000 in exchange for Symphony’s non-exclusive  
19 right to use certain of the Signage Parcels (defined below); and
- 20 e. Symphony will not oppose the Debtor’s Plan provided that the Symphony  
21 Settlement and the Symphony Lease Agreement are reaffirmed in the Plan  
22 and/or Disclosure Statement as a matter of disclosure and as to  
23 effectiveness as to the Symphony Settlement.

24 On April 27, 2011, the Debtor filed a motion for an order approving the Symphony  
25 Settlement (the “Settlement Motion”). On May 31, 2011, the Court entered an order granting the  
26 Settlement Motion and approving the Symphony Settlement. On June 1, 2011, pursuant to the  
27 Symphony Settlement, Symphony conducted a foreclosure auction of the Hotel. The Hotel is no  
28

1 longer property of the Debtor's bankruptcy estate.

2 Prior to the foreclosure, the Hotel was also purportedly encumbered by a second position  
3 deed of trust (the "Serhan Deed of Trust") in favor of Javier Serhan/El Toreador Properties, L.P.  
4 ("Serhan") purportedly securing a loan in the amount of \$4,000,000 (the "Serhan Loan"). The  
5 Debtor has always disputed the validity of the Serhan Deed of Trust, the Serhan Loan, and  
6 guaranty associated with the Serhan Loan (the "Serhan Guaranties", and collectively with the  
7 Serhan Deed of Trust and Serhan Loan, the "Serhan Claims").

8 On December 22, 2010, the Debtor filed an adversary proceeding against Serhan for the  
9 purpose of avoiding the Serhan Guaranty and recovering payments made by the Debtor on  
10 account of the Serhan Loan and Serhan Guaranty (the "First Serhan Action"). On December 23,  
11 2010, the Hotel Entity filed a separate adversary proceeding against Serhan for the purpose of  
12 avoiding the Serhan Loan and the Serhan Deed of Trust (the "Second Serhan Action", and  
13 together with the First Serhan Action, the "Serhan Avoidance Actions").

14 Pursuant to the Substantive Consolidation Order, the Serhan Guaranty has been  
15 extinguished and the Hotel Entity has been merged into the Debtor. Additionally, the Debtor,  
16 Serhan and DiNofia entered into a settlement agreement (the "Serhan Settlement") resolving the  
17 Serhan Avoidance Actions, as well as litigation brought against the Debtor and its affiliates by  
18 Serhan. The Court approved the Serhan Settlement.

19 Pursuant to the Serhan Settlement, Serhan has waived and released any and all claims  
20 that Serhan asserts against the Debtor's estate. The Serhan Avoidance Actions have been  
21 dismissed pursuant to the Serhan Settlement.

## 22 **2. The Country Club**

23 The Country Club consists of a private 18-hole championship golf course with clubhouse  
24 and pro-shop, and Gordon's on the Green which is a restaurant. The Country Club was  
25 encumbered by a first position deed of trust in favor of California Credit Union ("CCU") which  
26 secures a loan in the original principal amount of \$6 million, with interest on the unpaid principal  
27 balance at an annual rate of 6.875% (the "CCU Note"). The CCU Note was purchased by LSM  
28

1 Golf Course Partners LLC (“Golf Course Partners”). The CCU Note was made directly to the  
2 CC Entity and not the Debtor. The Debtor guarantied the CCU Note (the “CCU Guaranty”).  
3 However, pursuant to the Substantive Consolidation Order, the CCU Guaranty has been  
4 extinguished, and the obligations pursuant to the CCU Note were deemed to be the direct  
5 obligations of the Debtor. During the course of this case, the Debtor and CCU entered into a  
6 cash collateral stipulation, approved by the Court, which authorized the Debtor to use CCU’s  
7 cash collateral to pay all of its ordinary expenses, and which modified the CCU Note. The  
8 Debtor requested a further modification of the CCU Note and a further modification of the  
9 Debtor’s cash collateral stipulation with CCU. The Debtor was unable to comply with the  
10 financial terms of the modified CCU Note. CCU declined to further modify the CCU Note and  
11 instead sold the CCU Note to Golf Course Partners. Golf Course Partners obtained relief from  
12 the automatic stay based on the Debtor’s inability to comply with the terms of the modified CCU  
13 Note. Golf Course Partners foreclosed upon the Country Club. The Debtor does not believe that  
14 Golf Course Partners has any remaining claims against the Debtor.

15 Additionally, the Country Club was previously encumbered by a second position lien  
16 which the Debtor did not believe to be a valid lien, held in favor of Serhan (the “Serhan Country  
17 Club Lien”), which purportedly secured the Debtor’s obligations under the Serhan Loan, and  
18 Serhan Guaranty (which has been extinguished). Pursuant to the Serhan Settlement, the Serhan  
19 Country Club Lien has been removed and Serhan has waived its claims against the Debtor’s  
20 consolidated estate.

### 21 **3. The Restaurant**

22 The Debtor owned the Quail Restaurant (the “Restaurant”) which is located at 1035 La  
23 Bonita Drive, Lake San Marcos, California. The Restaurant, which is not operating and has not  
24 operated for years, is a 150-seat full service lakefront restaurant with dramatic 20-foot floor-to-  
25 ceiling windows showcasing the Lake. Due to lack of business, the Restaurant ceased operations  
26 in January, 2009. The Debtor attempted to find a tenant to lease the Restaurant space and pay  
27 rent to the Debtor, but was unable to obtain a tenant willing to occupy, and pay rent for, the  
28

1 Restaurant property, despite listing the Restaurant property with multiple commercial brokers in  
2 the area who specialize in the leasing of restaurant space. The Restaurant was utilized to host  
3 events, and Hotel guests and other parties utilize the Restaurant for events and ceremonies. The  
4 Restaurant generated minimal revenue from hosting such events.

5 The Restaurant was encumbered by a deed of trust in favor of D&A Semi Annual  
6 Mortgage Fund III, LC ("D&A"), securing a claim in the approximate amount of \$1.6 million,  
7 pursuant to a loan which the Debtor obtained from D&A in the original principal sum of \$1.55  
8 million (the "Current D&A Note"). The Current D&A Note matured in March, 2009. The  
9 Debtor and D&A entered into a cash collateral stipulation, approved by the Court, which  
10 included a modification of the Current D&A Note. The Restaurant did not generate sufficient  
11 cash to allow the Debtor to meet its obligations under the modifications. Therefore, the Debtor  
12 proposed to further modify the Current D&A Note. D&A did not accept the Debtor's proposed  
13 treatment of D&A's claim, and the Debtor sought to abandon the Restaurant to D&A. D & A  
14 obtained relief from the automatic stay and has foreclosed upon the Restaurant. The Debtor does  
15 not believe that D&A has any remaining claims against the Debtor.

#### 16 **4. The Recreation Center Property**

17 The Recreation Center includes a 3,388 square foot conference center with 15-foot  
18 ceilings that can accommodate up to 400 guests. The Recreation Center also provides amenities  
19 for surrounding homeowners and hotel guests, including swimming pools, tennis, boat rentals,  
20 and fishing. The Debtor generates income from: (1) payments of assessments by homeowners  
21 and homeowners associations which enter into contracts with the Debtor for the use of the Lake  
22 and Recreation Center facilities (there are currently between 800-900 such contracts, and they  
23 are referred to in this document as the "HOA Agreements"); and (2) payments of fees from  
24 groups and other parties that lease conference space for conferences and various other types of  
25 events. Assessments are the primary source of revenue for the Recreation Center.

26 The Recreation Center was encumbered by a first deed of trust in favor of Telesis  
27 Community Credit Union ("Telesis"), securing a claim in the approximate amount of \$4,800,000  
28

pursuant to a loan which the Debtor obtained from Telesis in the original principal sum of \$4,740,000 (the “Telesis Loan”). The Telesis Loan matured in August, 2009. In April, 2010, Telesis filed a lawsuit against the Debtor seeking to collect on the alleged debts owed by the Debtor (the “Telesis Action”). The Telesis Action was filed in the Superior Court for the State of California, County of San Diego, Case No. 37-2010-00090427-CU-BC-CDL. The filing of the Debtor’s bankruptcy case stayed the Telesis Action. Post-petition, Telesis filed a relief from stay motion (the “First Telesis Stay Relief Motion”) which was resolved pursuant to a settlement agreement entered into between Telesis and the Debtor (the “Telesis Settlement”). The Court approved the Telesis Settlement.

On or about May 31, 2012, Telesis was placed into involuntary liquidation by the National Credit Union Administration Board (“NCUA”) and NCUA was appointed as the liquidating agent for Telesis. By operation of law and pursuant to 12 U.S.C. § 1787(b), NCUA as liquidating agent for Telesis succeeded to all rights, titles, powers and privileges of Telesis. On or about May 28, 2013, NCUA as liquidating agent for Telesis assigned all of its rights in and to the Telesis Loan and all related documents to LSM Lender LLC (“LSM Lender”). The Debtor’s disputes with NCUA, and the resolution of such disputes with LSM Lender, are discussed below.

## **5. The Signage Parcels**

The Signage Parcels consist of two approximate 5,000 square feet each pieces of real property located on the corner of Rancho Santa Fe Road and Lake San Marcos Road. The Signage Parcels provide major-thoroughfare exposure and signage for the Resort. The Signage Parcels are purportedly encumbered by a first deed of trust in favor of Chris DiNofia (“Chris DiNofia”), securing a claim in the approximate amount of \$250,000 pursuant to a loan agreement which authorizes the Debtor to borrow up to \$2,000,000 from Chris DiNofia (the “Chris DiNofia Loan”). Chris DiNofia and Matthew DiNofia (the prior owner of the Debtor) are brothers, and therefore, Chris DiNofia is an insider of Matthew DiNofia. Chris DiNofia is not an insider of the Debtor. This loan purportedly matured in August, 2012.

1 The Debtor investigated the validity of the Chris DiNofia Loan and the liens purportedly  
2 securing the Chris DiNofia Loan, and determined that the Chris DiNofia Loan and the liens  
3 securing the Chris DiNofia Loan are avoidable transfers/obligations pursuant to sections 544 and  
4 548 of the Bankruptcy Code. The Debtor filed a complaint to avoid the Chris DiNofia Loan and  
5 the liens related to the Chris DiNofia Loan, and disallow Chris DiNofia's scheduled claims. The  
6 Debtor has entered into a settlement agreement with Chris DiNofia (the "Chris DiNofia  
7 Settlement Agreement") whereby the Chris DiNofia Loan and liens have been extinguished and  
8 are deemed of no further force or affect, and whereby Chris DiNofia is not entitled to any claim  
9 against the Debtor. On September 30, 2013, the Court entered an order approving the Chris  
10 DiNofia Settlement Agreement.

11 **6. The Lake and Lakefront Land**

12 The Lake and Lakefront Land comprise of approximately 110 acres, with the Lakefront  
13 Land comprising approximately 30 acres of that total amount. The Lakefront Land is currently  
14 undeveloped. The Lake offers various recreational activities such as boating, where resort guests  
15 can rent boats. Such rentals generate income for the Debtor. The Lake and Lakefront Land are  
16 purportedly encumbered by a deed of trust (the "Pac West Lien") in favor of Pacific West TD  
17 Fund II, LP ("Pac West"), purportedly securing \$875,000 of loans totaling the approximate  
18 amount of \$2,800,000 which has been made by Pac West to other entities, but not the Debtor (the  
19 "Pac West Loans"), which the Debtor has purportedly guaranteed to a limited extent (the "Pac  
20 West Guaranty"). The Pac West Loans purportedly matured in October 2011, and are also cross-  
21 collateralized against other assets owned by prior affiliates of the Debtor to which the Pac West  
22 Loans were made. The Debtor investigated the validity of the Pac West Lien and the Pac West  
23 Guaranty, and determined that the Pac West Lien and the Pac West Guaranty are avoidable  
24 transfers/obligations pursuant to sections 544 and 548 of the Bankruptcy Code. The Debtor filed  
25 a complaint to avoid the Pac West Lien and the Pac West Guaranty, and disallow Pac West's  
26 claims. The Debtor and Pac West entered into a settlement agreement (the "Pac West Settlement  
27 Agreement") pursuant to which Pac West has released its claims and liens against the Debtor, in  
28

1 exchange for a \$100,000 payment to Pac West. On September 30, 2013, the Court entered an  
2 order approving the Pac West Settlement Agreement. The Pac West Settlement Agreement is  
3 funded pursuant to a post-petition loan that the Debtor has obtained from LSM Lender which has  
4 been approved by the Court (the "LSM Lender Settlement Loan"). The LSM Lender Settlement  
5 Loan is secured by a deed of trust that encumbers the Lake and Lakefront land.

6 **7. Park Land**

7 The Debtor owns approximately 8,000 square feet of Park Land adjacent to the Lake  
8 which is unencumbered land. The Debtor believes that the fair market value of the Park Land is  
9 negligible, as it is essentially undevelopable land.

10 **8. Water Rights**

11 The Debtor has been the long-time owner of various water rights which permit the Debtor  
12 to pump water from the Lake. The Debtor has received a Water Right Compliance Investigation  
13 Report from the State Water Resources Control Board (the "State Water Board"), which provides  
14 the Debtor with a number of recommendations in connection with compliance with the Debtor's  
15 water rights' license. The State Water Board has *recommended* that:

16 1. The Debtor file a petition to change the place of use and purpose of use  
17 authorized under License 7224 to (i) include all the irrigated portions of the Country Club; (ii)  
18 remove all non-irrigated acreage from the place of use; and (iii) add recreation as a purpose of  
19 use;

20 2. The Debtor file a new application to directly divert, year-round, water from San  
21 Marcos Creek to irrigate the Country Club;

22 3. The Debtor sufficiently measure, monitor and record all inflow, outflow, and  
23 bypass over and through the Lake's dam;

24 4. The Debtor install an adequate flow bypass device in order to ensure that no water  
25 is stored outside the season of diversion, and accurately measure all water withdrawn from  
26 storage for irrigation;

27 5. To the extent the Debtor wishes to classify any water entering the Lake as non-  
28

jurisdictional, to provide evidence to support such a position; and

6. Standard water right license terms concerning the continuing authority of the State Water Board and for the protection of threatened or endangered species should be added to License 7244 if it is ever amended.

The State Water Board has stated that if the Debtor does not file a petition to amend License 7244 and/or a new application to directly divert water from San Marcos Creek within a “specified period of time” the Division of Water Rights of the State Water Board may initiate enforcement action against the Debtor.

The State Water Board has not initiated any action against the Debtor. The Debtor is currently working with the State Water Board to amend/renew the Debtor’s water license on the Lake in a process that started several years ago.

The Debtor has obtained approval of various portions of the renewed water license application and does not anticipate any substantial difficulties and/or out-of-pocket expenses would need to be incurred to complete license requirements. The Debtor anticipates that its licensing efforts will be completed within the next six months. The Debtor will take all reasonably necessary steps on a going forward basis, to comply with its water rights license in the manner provided by the State Water Board and the Regional Water Quality Control Board (“RWQCB”).

**C. Summary of the Circumstances that Led to the Filing of the Debtor's Chapter 11 Case**

The Debtor’s business is based upon the hospitality and leisure activity industries, which experienced a major decline in revenues beginning in mid to late 2008. The Debtor was forced to shut down its Restaurant operations, and was unable to find a tenant to replace the Debtor’s operations at the Restaurant. During that time, while the Debtor’s revenues decreased, the Debtor’s secured debt obligations came due. Coupled with financial problems, the Debtor faced significant competition from multiple new golf courses and hotels in an extremely competitive industry. As financial pressure mounted against the Debtor, it, along with the EC Entity and the

Hotel Entity, filed for Chapter 11 protection.

**D. Significant Events During The Chapter 11 Bankruptcy Case**

The following is a list of significant events which have occurred during the Debtor's Chapter 11 case:

**1. Operational Issues**

**i. Use of Cash Collateral**

The Debtor would not have been able to continue to operate, or maintain the going concern value of its business without the ability to use its revenues which secured creditors could argue constitute their cash collateral.

On September 1, 2010, the Debtor filed that certain "Debtor's Emergency First Day Motion For Order Authorizing Use Of Cash Collateral" (the "First Cash Collateral Motion"). The First Cash Collateral Motion was not opposed by any party asserting an interest in the Debtor's cash collateral. At a hearing held on September 9, 2010, the Court granted the First Cash Collateral Motion subject to minor revisions to the budget discussed on the record per the Office of the United States Trustee's comments on the First Cash Collateral Motion. On September 22, 2010, the Court entered its order granting the First Cash Collateral Motion, authorizing the Debtor to use cash collateral through and including November 30, 2010.

On October 21, 2010, the Debtor filed that certain "Debtor's Motion For Order Authorizing Further Use of Cash Collateral" (the "Second Cash Collateral Motion"). The Second Cash Collateral Motion was not opposed. At a hearing held on November 18, 2010, the Court granted the Second Cash Collateral Motion. On December 6, 2010, the Court entered its order granting the Second Cash Collateral Motion, authorizing the Debtor to use cash collateral through and including February 28, 2011. Pursuant to the Court's order approving the First Cash Collateral Motion, the Debtor was authorized to use cash collateral through and including November 30, 2010. Prior to the expiration of the Debtor's authorization to use cash collateral, the Debtor filed a second motion for authority to use cash collateral (the "Second Cash Collateral Motion"). The Court granted the Second Cash Collateral Motion and the Debtor was authorized

1 to use cash collateral through and including February 28, 2011.

2 On February 15, 2011, the Debtor filed that certain "Debtor's Motion For Order  
3 Authorizing Further Use Of Cash Collateral (the "Third Cash Collateral Motion"). An expedited  
4 hearing on the Third Cash Collateral Motion was set for March 1, 2011. Telesis and the Lake  
5 San Marcos Community Association ("LSMCA") filed oppositions to the Third Cash Collateral  
6 Motion. The Debtor and LSMCA were able to resolve their issues with respect to the Third Cash  
7 Collateral Motion in connection with their temporary resolution of the issues related to the  
8 motion for adequate protection filed by LSMCA (which is discussed in detail hereinbelow). The  
9 Court approved the Third Cash Collateral Motion to the extent that the Third Cash Collateral  
10 Motion did not relate to Telesis' cash collateral. At the hearing held on March 1, 2011, the  
11 Debtor and Telesis preliminarily agreed upon terms for the use of cash collateral in which  
12 Telesis alleged an interest. A further hearing on Telesis' objection was set for March 7, 2011,  
13 which hearing was subsequently continued to March 17, 2011, pursuant to a stipulation entered  
14 between the Debtor and Telesis. Prior to that continued hearing, on March 16, 2011, the Debtor  
15 and Telesis entered into that certain "Stipulation Authorizing Debtor To Use On An Interim  
16 Basis Cash Collateral Of Telesis Business Partners And Further Continuing Hearing On Debtor's  
17 Motion To Use Cash Collateral" (the "Telesis Cash Collateral Stipulation"). On March 16,  
18 2011, the Court entered an order approving the Telesis Cash Collateral Stipulation, authorizing  
19 the Debtor to use cash collateral not related to Telesis through and including August 31, 2011,  
20 and authorizing the Debtor to use cash collateral in which Telesis asserts a security interest  
21 through and including May 31, 2011, upon the terms and conditions outlined in the Telesis Cash  
22 Collateral Stipulation.

23 A further hearing on the Third Cash Collateral Motion with respect to Telesis's cash  
24 collateral was held on May 25, 2011. On May 26, 2011, the Court entered a further order  
25 authorizing the Debtor to use cash collateral in which Telesis asserts a security interest through  
26 and including June 30, 2011, upon the terms and conditions outlined in the Telesis Cash  
27 Collateral Stipulation. The Telesis Settlement Agreement governed the terms of the use of cash  
28

1 collateral subsequent to the Court's approval of the Telesis Settlement Agreement. Pursuant to  
2 stipulations entered into between and among the Debtor under current management, NCUA, and  
3 Pac West, the Debtor was authorized to use cash collateral through and including May 31, 2013.

4 On June 3, 2011, the Debtor filed that certain "Debtor's Motion For Order Approving: (1)  
5 Stipulation For Order Authorizing Use of Cash Collateral Regarding Lake San Marcos Country  
6 Club; and (2) Stipulation Between Debtor and D&A Semi-Annual Mortgage Fund III, L.P. Re:  
7 Cash Collateral, Adequate Protection, Modification of Secured Note, and Stipulation of Value of  
8 Secured Claim" (the "CCU/D&A Cash Collateral Motion"). The CCU/D&A Cash Collateral  
9 Motion sought Court approval of a cash collateral stipulation with CCU (the "CCU Cash  
10 Collateral Stipulation") and a cash collateral stipulation with D&A (the "D&A Cash Collateral  
11 Stipulation"). At a hearing held on July 1, 2011, the Court approved the CCU/D&A Cash  
12 Collateral Motion. An order on the CCU/D&A Cash Collateral Motion was entered on August  
13 3, 2011.

14 On July 15, 2013, the Debtor filed a motion for an order authorizing the use of cash  
15 collateral and authorizing the payment of cash collateral to LSM Lender (the "LSM Lender Cash  
16 Collateral Motion"). On August 1, 2013, the Court entered an order approving the LSM Cash  
17 Collateral Motion. That order authorized the Debtor to use cash collateral pursuant to the terms  
18 of the order, authorized the Debtor to make payments of \$20,562.50 per month to LSM Lender  
19 only from cash collateral in which LSM Lender has an interest, and approved the contractual  
20 agreement between the Debtor and LSM Lender prohibiting LSM Lender from taking any action  
21 whatsoever in furtherance of foreclosure of LSM Lender's collateral, through and including  
22 September 30, 2013. That order also authorized the Debtor to extend the terms of this  
23 arrangement in the future via stipulation with LSM Lender, subject to the Debtor filing a notice  
24 of extension of the terms of this arrangement with a proposed budget attached to the notice. The  
25 Debtor and LSM Lender have stipulated to extend the terms of this arrangement through and  
26 including December 31, 2013 (the "LSM Lender Cash Collateral Stipulation").

1                   **ii.       Cash Management Motion**

2           On September 1, 2010, the Debtor filed that certain “Debtor’s Emergency First Day  
3 Motion For Entry Of An Order Authorizing (A) The Continued Use Of Debtor’s Cash  
4 Management System; (B) Authorizing The Maintenance Of Certain Of The Debtor’s Existing  
5 Bank Accounts; and (C) Ordering Banks To Release Any Administrative Holds And/Or Freezes  
6 On The Debtor’s Prepetition Accounts” (the “Cash Management Motion”). The Office of the  
7 United States Trustee filed a limited objection to the Cash Management Motion. At a hearing  
8 held on September 9, 2010, the limited objection filed by the OUST was resolved on the Court’s  
9 record, and on September 22, 2010, the Court entered an order approving the Cash Management  
10 Motion as modified at the hearing held on September 1, 2010, authorizing the Debtor to  
11 maintain its existing merchant accounts and directing financial institutions to release any  
12 administrative holds or freezes placed on the Debtor’s bank accounts.

13                   **iii.       Utilities Motion**

14           On September 1, 2010, the Debtor filed that certain “Emergency First Day Motion For  
15 Continuation Of Utility Service And Approval Of Adequate Assurance Of Payment To Utility  
16 Company Under Section 366(b)” (the “Utilities Motion”). On September 8, 2010, in response to  
17 the Utilities Motion, San Diego Gas & Electric Company (“SDG&E”) filed that certain “Motion  
18 For Additional Adequate Assurance Pursuant To Bankruptcy Code Section 366” (the “SDG&E  
19 Motion”). On September 8, 2010 the Debtor filed its response to the SDG&E Motion. At a  
20 hearing held on September 9, 2010, the Court granted the Utilities Motion with respect to all  
21 utility providers other than SDG&E, and approved the Utilities Motion as to SDG&E pursuant to  
22 the terms and conditions provided in the order entered on September 22, 2010 and continued the  
23 hearing on the Utilities Motion as it related to SDG&E to October 14, 2010. At that continued  
24 hearing, the Court approved the Utilities Motion on a final basis as to SDG&E.

25                   **iv.       Employee Priority Wage Motion**

26           On September 1, 2010, the Debtor filed that certain “Debtor’s Emergency First Day  
27 Motion For Order Authorizing Debtor To (1) Pay Pre-petition Priority Wages; And (2) Honor  
28

1 Accrued Vacation And Leave Benefits” (the “Wage Motion”). On September 2, 2010, the Court  
2 entered an order granting the Wage motion in its entirety.

3 **2. Administrative Matters**

4 The Debtor has addressed the various administrative matters attendant to the  
5 commencement of this bankruptcy case. These matters included the preparation of the Debtor’s  
6 Schedules of Assets and Liabilities and Statement of Financial Affairs, and the preparation of the  
7 materials required by the OUST, including, without limitation, the 7-Day Package. The Debtor’s  
8 current management has made every effort to comply with its duties under 11 U.S.C. Sections  
9 521, 1106 and 1107 and all applicable OUST guidelines, including the filing of the Debtor’s  
10 monthly operating reports with the OUST. The Debtor (under former management) also  
11 attended its initial interview with the OUST, and completed its meeting of creditors required  
12 under 11 U.S.C. § 341(a). The Debtor is current with all OUST quarterly payments.

13 **3. Employment of Professionals**

14 The Debtor has employed Levene, Neale, Bender, Yoo & Brill L.L.P. (“LNBYB”) as its  
15 bankruptcy counsel. The Debtor has employed Foley & Lardner (“Foley”) as special counsel for  
16 the purpose of addressing environmental liability issues. The Court has approved the employment  
17 of LNBYB and Foley. However, Foley has withdrawn as special counsel for the Debtor. Barker,  
18 Olmsted & Barnier APLC, (“Olmsted”) was retained as bankruptcy counsel for LSM Hotel, LLC  
19 prior to the substantive consolidation of that entity with the Debtor. Pursuant to the substantive  
20 consolidation of the Hotel Entity with the Debtor, LNBYB has assumed the role of representing  
21 the consolidated Debtor. The Debtor has also employed Caufield & James LLP (“Caufield”) as  
22 special counsel to the Debtor in connection with environmental issues related to the Lake.  
23 Caufield’s application for employment has been approved by the Court. Caufield has replaced  
24 Foley as special counsel.

25 **4. The Substantive Consolidation Motion**

26 On September 16, 2010, the Debtor filed its Substantive Consolidation Motion. On  
27 October 4, 2010, GACC (predecessor in interest to Symphony), Ronald Frazar, Trustee of the  
28

1 Ronald Frazar 1999 Trust (“Frazar”), and D&A filed oppositions to the Substantive  
2 Consolidation Motion. The Office of the United States Trustee, CCU, and the City of San  
3 Marcos filed responses to/statements of position regarding the Substantive Consolidation  
4 Motion. On October 12, 2010, the Debtor filed its Omnibus Reply to oppositions to the  
5 Substantive Consolidation Motion.

6 On October 14, 2010, the Court held a hearing on the Substantive Consolidation Motion,  
7 and the Symphony Stay Relief Motion. After substantial argument on the Substantive  
8 Consolidation Motion, pursuant to an order entered on November 3, 2010, the Court scheduled  
9 evidentiary hearings on the Substantive Consolidation Motion and Symphony Stay Relief  
10 Motion for December 6, 7 and 10, 2010.

11 On November 15, 2010, the Debtor filed an emergency motion to continue the  
12 evidentiary hearings on the Substantive Consolidation Motion and Symphony Stay Relief  
13 Motion in order to allow the Debtor additional time to perform discovery. At a hearing held on  
14 November 18, 2010, the Court granted the emergency motion to continue the evidentiary  
15 hearings to January 20, 21 and 24, 2011. By January 24, 2011, the only party opposing the  
16 Substantive Consolidation Motion was Symphony, as all other objecting parties had either  
17 withdrawn their oppositions, or decided to support the Substantive Consolidation Motion.

18 After three days of trial, at a hearing held on January 27, 2011 for the purpose of issuing  
19 a ruling on the Substantive Consolidation Motion and the Symphony Stay Relief Motion, the  
20 Court granted the Debtor’s Substantive Consolidation Motion (the Substantive Consolidation  
21 Order was entered on February 17, 2011) and conditionally granted the Symphony Stay Relief  
22 Motion (order entered on March 4, 2011). The Debtor and Symphony subsequently entered into  
23 the Symphony Settlement Agreement.

## 24 **5. Insider Compensation**

25 On October 8, 2010, the Debtor filed that certain “Ex Parte Motion For Interim Order  
26 Authorizing Insider Compensation” (the “CDC Insider Compensation Motion”). The Office of  
27 the United States Trustee and City of San Marcos filed oppositions to the CDC Insider  
28

1 Compensation Motion, and a hearing on the CDC Insider Compensation Motion was scheduled  
2 by the City of San Marcos for December 9, 2010. Pursuant to a stipulated order agreed upon by  
3 the Debtor, Office of the United States Trustee and City of San Marcos, and entered by the Court  
4 on October 26, 2010, the CDC Insider Compensation Motion was granted on an interim basis  
5 pursuant to the terms and conditions outlined in the stipulated order.

6 On December 3, 2010, the Debtor filed that certain "Stipulation Resolving Debtor's  
7 Motion For Order Authorizing Insider Compensation" (the "CDC Insider Compensation  
8 Stipulation") by and between the Debtor, Office of the United States Trustee and City of San  
9 Marcos which resolved the CDC Insider Compensation Motion on a final basis. On December 6,  
10 2010, the Court entered an order granting the CDC Insider Compensation Stipulation, and  
11 authorizing payments pursuant to the terms of the CDC Insider Compensation Stipulation.

12 Additionally, in the Hotel Entity's bankruptcy case prior to the substantive consolidation  
13 of the Hotel Entity with the Debtor, the Hotel Entity had filed a motion for an order authorizing  
14 the payment of insiders. That motion was continued to May 25, 2010, and pursuant to approval  
15 of the Symphony Settlement, was withdrawn by the Debtor.

16 The Debtor, under current ownership and management, has investigated the Debtor's  
17 payments of compensation to former insiders, and provided to the United States Trustee a  
18 detailed analysis of payments to insiders. The Debtor's potential claims and causes of action  
19 against former insiders are described below. The Debtor, with the involvement and approval of  
20 the United States Trustee, has entered into a settlement agreement with former insiders, in full  
21 resolution of its disputes with former insiders. The settlement is described below and has been  
22 approved by the Court.

23 The Debtor's current ownership and management do not receive any compensation from  
24 the Debtor.

25 **6. Motions To Stay Litigation As To DiNofia**

26 On October 21, 2010, the debtor filed that certain "Debtor's Motion To Extend The  
27 Automatic Stay For Limited Period To March 31, 2011, As To Actions Against Debtor's  
28

1 President Matthew C. DiNofia” (the “Stay Extension Motion”). The Stay Motion was opposed  
2 by GACC, Bank of the West, and Serhan, and the City of San Marcos filed a responsive pleading  
3 to the Stay Extension Motion. On November 11, 2010, the Debtor filed a reply to the  
4 oppositions to the Stay Extension Motion.

5 On November 18, 2010, the Court held a hearing on the Stay Extension Motion. The  
6 Court’s tentative ruling on the Stay Motion recognized that the Stay Motion had merit, but after  
7 significant oral argument, the Court denied the Stay Motion without prejudice, on the grounds  
8 that the Debtor is required to bring an adversary proceeding in connection with the stay  
9 extension request. The Debtor ultimately determined to forgo filing another stay extension  
10 motion. The Hotel Entity, however, prior to substantive consolidation, filed a similar motion via  
11 adversary proceeding in connection with litigation commenced against the Debtor’s principal by  
12 Serhan. A hearing was held on February 4, 2011, in front of the Honorable Peter Bowie, United  
13 States Bankruptcy Judge, regarding the Hotel Entity’s stay extension motion. On February 9,  
14 2011, the Court entered an order denying the Hotel Entity’s stay extension motion.

15 **7. Exclusivity Motions**

16 On November 12, 2010, the Debtor filed that certain “Debtor’s Motion For Order  
17 Extending Exclusivity Periods for Filing plan Of Reorganization And Obtaining Acceptance  
18 Thereof” (the “First Exclusivity Motion”). No party opposed the First Exclusivity Motion, and  
19 at a hearing held on December 10, 2010, the Court granted the First Exclusivity Motion, thereby  
20 extending the Debtor’s exclusivity period to file a plan to and including March 24, 2011, and the  
21 Debtor’s exclusivity period to obtain acceptance of its plan to and including May 23, 2011. On  
22 February 15, 2011, the Debtor filed that certain “Motion For Order Extending Exclusivity Period  
23 By Seven Days For Filing Plan Of Reorganization” (the “Second Exclusivity Motion”). No  
24 party opposed the Second Exclusivity Motion. At an expedited hearing held on March 1, 2011,  
25 the Court granted the Second Exclusivity Motion, thereby extending the Debtor’s exclusivity  
26 period to file a plan to and including March 31, 2011.

1 The Debtor subsequently, and voluntarily, allowed its exclusivity period to file a plan to  
2 expire. The Debtor opted not to request a further extension of its exclusivity periods. No other  
3 party in interest has filed a plan in this case.

4 **8. LSMCA's Motion For Adequate Protection**

5 On January 21, 2011, Lake San Marcos Community Association ("LSMCA") filed that  
6 certain "Motion For Adequate Protection By Segregation Of Funds And For Accounting" (the  
7 "Adequate Protection Motion"), requests "imposition of a mandate upon the Debtor that the  
8 payments made under [certain contracts with the Debtor] be segregated and applied in a  
9 sufficient amount for repair and maintenance of the [Recreation Center] and that an accounting  
10 for the use of paid assessments be provided to the Court and to the moving party." (See Adequate  
11 Protection Motion, page 9.) LSMCA represents a number of homeowners' associations (the  
12 "HOA's") and individual residents who have contracts with the Debtor for the use of the  
13 Debtor's Recreation Center, and access to docks on the Lake, in exchange for assessment  
14 payments to the Debtor.

15 On March 1, 2011, the Court held a hearing on the Adequate Protection Motion, and,  
16 pursuant to the Debtor's and LSMCA's agreement, set potential evidentiary hearing dates on the  
17 Adequate Protection Motion. On March 12, 2011, the Debtor and LSMCA entered into that  
18 certain "Stipulation For Order Re: Adequate Protection And To Vacate Trial Date On Motion  
19 For Adequate Protection" (the "LSMCA Stipulation"), whereby the potential evidentiary hearing  
20 dates on the Adequate Protection Motion would be vacated, and a status conference on the  
21 Adequate Protection Motion would be held on April 14, 2011. Residents and HOA's would  
22 continue to enjoy use of the Recreation Center in exchange for assurances to the Debtor that  
23 annual assessments would be paid on a pro rata monthly basis through and including May 25,  
24 2011. On March 14, 2011, the Court entered an order approving the LSMCA Stipulation. At a  
25 status conference held on January 19, 2012, the Court scheduled an evidentiary hearing on the  
26 Adequate Protection Motion, for March 1, 2012. On February 8, 2012, the Debtor and LSMCA

1 entered into a stipulation taking the evidentiary hearing off calendar. On February 8, 2012, the  
2 Court entered an order approving that stipulation.

3 Status conferences on the Adequate Protection Motion were held and continued from  
4 time to time. LSMCA has taken the Adequate Protection Motion off calendar. The Debtor  
5 intends to assume all of its contracts with HOA's and residents (the "HOA Agreements"), with  
6 the consent of LSMCA, and the Debtor intends to invest approximately \$2 million in capital  
7 improvements of the Debtor's facilities.

### 8 **9. Environmental Issues Related To The Lake**

9 Since its creation in 1946, the Lake has been an impoundment of the creek upstream of  
10 the dam structure adjoining the Lake. The dam is licensed as a diversion structure for the  
11 impoundment of appropriated waters by the State Water Resources Control Board. The  
12 appropriation license is held by the Debtor with the beneficial use being designated as irrigation  
13 on associated golf courses. The Lake is listed under the Clean Water Act (CWA) Section 303(d)  
14 as an impaired water body for ammonia as nitrogen, nutrients, and phosphorus. The San Marcos  
15 Creek is also listed as impaired for phosphorous, DDE, toxicity, sediment toxicity, and  
16 selenium. In 2009, the RWQCB began a voluntary process to bring the lake owner, surrounding  
17 property owners, municipalities, the County and various other public agencies together to  
18 develop and fund a remediation process. The Debtor believes that while the Debtor may own the  
19 Lake, the dischargers causing the impairments are the surrounding property owners and upstream  
20 municipalities. Foley, a professional employed by the Debtor's estate, previously represented  
21 the Debtor's interest in these negotiations to insure that the magnitude of any remedial program  
22 is appropriate and that the cost of funding any such program is fairly distributed among the  
23 dischargers rather than the lake owner(s). Additionally, as a result of the Lake's status as an  
24 impaired water body, the Debtor's water rights license has been under scrutiny by the RWQCB  
25 and several of the upstream municipalities which would like to see the dam removed.

26 Various potentially responsible parties including, but not limited to, the City of San  
27 Marcos, the Vallecitos Water District, the San Marcos Unified School District, the California  
28

1 Department of Transportation, the City of Escondido, and the County of San Diego (the  
2 “PRP’s”) have been in negotiations to develop a plan to analyze the conditions of the Lake and  
3 the sources of pollution, develop a remediation plan and implement the plan. The Debtor intends  
4 to work with the PRP’s and the RWQCB to resolve issues related to Lake remediation and to  
5 participate in a remediation plan, and the Debtor has participated in mediation efforts, which are  
6 ongoing. The City of San Marcos, the County of San Diego, the Vallecitos Water District, and  
7 the City of Escondido (the “Municipal Agencies”) have agreed to support the Plan.

8 On June 28, 2011, the RWQCB filed a proof of claim in the Debtor’s case, asserting a  
9 protective claim in the amount of \$459,000, based upon the estimated present value (at the time  
10 that the proof of claim was filed) of the tasks required by the Debtor to investigate and  
11 characterize the condition of the water and sediment in the Lake. The Debtor has classified this  
12 protective claim as an administrative claim. The Debtor intends to work closely with the  
13 RWQCB to address all of the RWQCB’s concerns and requirements regarding the protective  
14 claim filed by the RWQCB. Under the Plan, the RWQCB shall retain its ongoing statutory  
15 responsibility and regulatory police powers to require additional environmental remediation or  
16 any other remedy against the Debtor or any successors in interest that is not subject to the  
17 jurisdiction of the Bankruptcy Court. The Plan expressly provides that any pre-petition or post-  
18 petition environmental liability of the Debtor for compliance with either State or Federal  
19 environmental obligations to the RWQCB, or the Municipal Agencies, are non-dischargeable  
20 obligations of the Debtor to those parties.

21 On August 25, 2011, the RWQCB issued Tentative Investigative Order No. R9-2011-  
22 0033 (the “Tentative Investigative Order”) against the Debtor. At a hearing held on September  
23 14, 2011 over the Debtor’s objections, the RWQCB ruled that the Tentative Investigative Order  
24 would become a final order (the “Investigative Order”). The Investigative Order is the basis for  
25 the protective claim filed by the RWQCB.

26 The Investigative Order requires the Debtor to:

- 27 1. Prepare, by December 1, 2011, a workplan that describes the sampling program,  
28

1 data collection effort, and analyses the Debtor will take to investigate nutrient impairments in the  
2 Lake. On December 1, 2011, the Debtor submitted its workplan to RWQCB.

3 2. Prepare a nutrient impairment investigative report that describes the results of a  
4 work performed in accordance with the workplan. This report was due on December 1, 2012.  
5 The Debtor hired a consultant, Nautilus Environmental, LLC, to assist the Debtor in connection  
6 with the preparation of the report, and the Debtor's current consultant is Great Ecology.

7 The Debtor estimates that total costs of compliance with the Investigative Order going  
8 forward will not exceed \$172,500.

9 On November 6, 2013, the Debtor and the Municipal Agencies conducted a settlement  
10 meeting, pursuant to which the Debtor and the Municipal Agencies agreed to the following terms  
11 and conditions for a Plan supported by the Municipal Agencies.

12 Prior to the entry of the Plan Confirmation Order, the Debtor will obtain an irrevocable  
13 Letter of Credit in the amount of \$500,000 (the "Letter of Credit") or other mutually acceptable  
14 (to the Debtor and the Municipal Agencies) mechanism for making certain the availability, if  
15 necessary, of the equivalent protection of the Letter of Credit, which shall evidence the Debtor's  
16 remediation fund (the "Remediation Fund"). The Remediation Fund will only be used for  
17 remediation costs and not for diagnostic costs, for liability, if any, imposed on the Debtor for  
18 environmental remediation of the Lake in that certain action styled *CDC v. County of San Diego*  
19 *et al.*, pending in the United States District Court, Southern District of California, Case No. 12-  
20 CV-003334-GPC ("Debtor Remediation Liability"). The City of San Marcos, and/or City of  
21 Escondido, and/or County of San Diego, and/or Vallecitos Water District (collectively, the  
22 "Remediation Fund Drawees") shall be the only parties authorized to draw on the Letter of  
23 Credit.

24 A reasonable time prior to finalizing the Letter of Credit and the instructions related  
25 thereto, a draft of the same will be distributed to the Municipal Agencies for review and  
26 approval. The instructions/terms for the Letter of Credit shall provide that the Letter of Credit  
27 may be drawn upon by the Remediation Fund Drawees, if but only if, satisfactory evidence is  
28

provided to the issuing bank that the earliest of one of the following triggering events (each a “Triggering Event” and collectively, the “Triggering Events”) has occurred:

i. A stipulated allocation of the Debtor Remediation Liability setting forth a certain monetary amount of the Debtor’s Remediation Liability has existed for 180 days, and such amount of the Debtor’s Remediation Liability established by stipulation has not been paid by insurance proceeds or otherwise satisfied;

ii. The entry of any court order or judgment (whether it is appealable or not) ascribing any certain monetary amount of Debtor Remediation Liability has existed for 180 days, and such amount of the Debtor’s Remediation Liability established by such court order or judgment has not been paid by insurance proceeds or otherwise satisfied; and

iii. An enforcement order is issued to the Debtor by the RWQCB or the State Water Board that has existed for 180 days and such amount of the Debtor’s Remediation Liability established by such enforcement order has not been paid by insurance proceeds or otherwise satisfied.

Any funds drawn upon by the Remediation Fund Drawees from the Letter of Credit shall be used to pay only Debtor Remediation Liability and not for any other purpose. The Remediation Fund Drawees may partially draw upon the Letter of Credit, in an amount less than \$500,000. Any amount drawn under the Letter of Credit shall reduce the total amount available under the Letter of Credit. For example, if a Triggering Event occurs which imposes Debtor Remediation Liability in the amount of \$50,000, the Remediation Fund Drawees may partially draw upon the Letter of Credit in the amount of \$50,000. Upon doing so, the total amount available under the Letter of Credit shall be reduced to \$450,000. In the case of multiple Triggering Events, each Triggering Event shall separately entitle the Remediation Fund Drawees to make draws upon the Letter of Credit.

The Debtor does not believe that drawing on the Letter of Credit will be necessary, because the Debtor believes that its insurance coverage is more than sufficient to cover the costs of compliance with the Debtor Remediation Liability imposed upon the Debtor, if any. The

1 Letter of Credit may only be drawn upon in the amount established by a Triggering Event up to  
2 the limit of the Letter of Credit.

3 Under any Triggering Event set forth above, the Remediation Fund Drawees shall be  
4 entitled to draw down upon the Letter of Credit. The Letter of Credit shall not terminate unless  
5 either the amount established by Triggering Event i or ii has been satisfied, or there has been a  
6 draw down by the Remediation Fund Drawees in an amount which is the lesser of the amount  
7 sufficient to fulfill the Debtor Remediation Liability under either Triggering Event i or ii (but not  
8 Triggering Event iii) or \$500,000. Thereafter, the Letter of Credit will terminate and be of no  
9 force and effect (since the Debtor Remediation Liability will have been satisfied or the Letter of  
10 Credit will have already been drawn down upon up to the maximum Debtor Remediation  
11 Liability subject to the amount of funds available under the Letter of Credit).

12 The Debtor's agreement to obtain the Letter of Credit is not in any way an admission of  
13 the Debtor's liability – it is solely meant to serve as additional assurance that, to the extent that  
14 the Debtor's insurance carriers refuse or are not timely in providing coverage to fund any Debtor  
15 Remediation Liability subsequent to a Triggering Event, or to the extent that any Debtor  
16 Remediation Liability is not otherwise satisfied, funds up to the amount of the Letter of Credit  
17 will be available to satisfy the Debtor Remediation Liability pursuant to the terms of the Letter of  
18 Credit. To the extent that the Debtor's insurance carriers refuse to provide coverage to the  
19 Debtor for the Debtor Remediation Liability, if any, the Debtor believes that the insurance  
20 carriers would be doing so in bad faith and that as a result the insurance carriers would be  
21 exposed to substantial liability.

22 **Neither the amount of the Letter of Credit, nor any other provision of the Plan, limit**  
23 **the amount of potential liability that may later be ascribed to the Debtor, and the Letter of**  
24 **Credit is not meant to limit in any way the source of cash available from the Debtor to pay**  
25 **for any liability or obligation ascribed to the Debtor.**

26 To the extent that the Debtor receives any proceeds from insurance carriers in connection  
27 with the tasks of characterization of the Lake that are also costs of compliance with the  
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Investigative Order not spent in compliance with the Investigative Order, or the cost of remediation, any such proceeds shall be used solely for the purpose of funding compliance with the Investigative Order and/or funding the Debtor's Remediation Liability. The existence and availability of the Letter of Credit, and any use of the Letter of Credit, shall not jeopardize or affect in any manner whatsoever any of the Debtor's insurance coverage, and shall not be deemed to constitute any admission or assumption by the Debtor of any liability whatsoever.

Completion of the Debtor's "Revised Workplan" which addresses compliance with the Investigative Order, which has been approved by the Regional Board, is imminent. A summary of the status of the Debtor's compliance with the Investigative Order is attached hereto as Exhibit "6" (the "Investigative Order Status Report"). The Investigative Order Status Report has been prepared by the Debtor's consultant, Great Ecology.

As discussed above, the RWQCB identified multiple parties with potential liability for the cleanup of the San Marcos Creek (upstream of the lake) and the Lake. It is the Debtor's analysis that the Debtor does not have any liability for cleanup of San Marcos Creek upstream of the Lake as there is no possibility that the Debtor could have caused and/or contributed to the contamination found upstream of the Debtor. In lieu of being ordered to conduct certain testing work various public agencies entered into an agreement with the RWQCB to conduct certain testing and characterization work, including later agreements to test and sample the Lake. The Investigative Order Status Report attached hereto as Exhibit "6" sets forth the estimate of the cost to complete the work remaining under the Investigative Order and a detailed listing of the tasks already completed. As noted in the Investigative Order Status Report, the substantial portion of the work necessary to meet the Investigative Order requirements has been completed and there only remain a few items left to be completed.

Pursuant to the request of the Municipal Agencies, during the summer of 2013, the Debtor entered into the Site Access Agreement attached hereto as Exhibit "7" with SCS Engineers which is the Municipal Agencies' environmental consultant. SCS Engineers requested access to the Lake "for the sole purpose of implementing watershed and lake model

1 collection needs within, around, and at, the Property to implement the attached Scope of Work  
2 ('Exhibit A'). [SCS Engineers] will *assist the public agency parties to the CDC v. County of*  
3 *San Diego, U.S. District Court, Southern District of California, Case No. 12-cv-00334-GPC in*  
4 *their effort to conduct discovery, to comply with their obligations pursuant to Early Neutral*  
5 *Evaluation procedures and with Rule 34 of the Federal Rules of Civil Procedure.*" (Emphasis  
6 added.) The Debtor also independently collected data and samples. The parties agreed to share  
7 the data and samples collected by each respective party.

8 The Municipal Agencies will provide Debtor copies of invoices and evidence of charges  
9 incurred for Investigative Order work completed by the Municipal Agencies under the  
10 Investigative Order to date prior to Plan confirmation (the "Investigative Order Reimbursement  
11 Evidence"). Within 60 days of receiving the Investigative Order Reimbursement Evidence, or  
12 the Effective Date, whichever is earlier, the Debtor to the extent valid and to the extent that the  
13 Debtor's insurance carriers have not already reimbursed the Municipal Agencies will pay the  
14 Municipal Agencies the lesser of \$60,000 or 20% of the costs evidenced by the Investigative  
15 Order Reimbursement Evidence as an administrative expense for the costs that the Municipal  
16 Agencies have incurred in performing Investigative Order Work in connection with the "Scope  
17 of Work" defined in the Site Access Agreement ("Pre-Plan Confirmation Municipal Agencies  
18 Investigative Order Cost Reimbursement"). The payment of the Pre-Plan Confirmation  
19 Municipal Agencies Investigative Order Cost Reimbursement shall not reduce the amount of, or  
20 be funded by, the Letter of Credit.

21 Additionally, under the Plan, the Debtor will within 90 days of receiving additional valid  
22 Investigative Order Reimbursement Evidence of any Investigative Order work or authorized  
23 Lake diagnostic work conducted after the entry of the Confirmation Order by the Municipal  
24 Agencies, pay the Municipal Agencies 20% of such costs to the extent that the Debtor's  
25 insurance carriers have not already reimbursed the Municipal Agencies such sums. Any such  
26 payment by the Debtor will not be drawn from the Letter of Credit. Any payments that the  
27 Municipal Agencies, Debtor, or Reorganized Debtor make, as the case may be, are subject to a  
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1 final allocation of responsibility (the “True-Up”), which True-Up shall either be agreed upon by  
2 the Debtor and the Municipal Agencies, or determined by the District Court. Such True-Up of  
3 liability by either agreement or order of the District Court is non-dischargeable under 11 U.S.C.  
4 § 1141. Any payments made by Debtor pursuant to the foregoing and the percentages utilized  
5 shall not be construed as an admission of any fact or limitation or fixing of liability for the  
6 environmental liabilities relating to the Lake of the Debtor, the Municipal Agencies or any other  
7 party.

8 The Debtor has received insurance carrier approval to fund additional testing on and  
9 investigation of the Lake as a cost reasonable and necessary to the defense of the CERCLA  
10 litigation and as part of the mediation process. In connection with testing and investigation work  
11 being funded by various insurance carriers and being conducted in connection with the  
12 mediation and litigation, the remaining items outstanding under the Investigative Order will be  
13 completed.

14 The Debtor has not been ordered by the RWQCB to undertake any particular cleanup at  
15 this time nor has there been any judicial determination that the Debtor has liability for the  
16 cleanup of the Lake. The cleanup costs and allocation of liability issues are anticipated to be  
17 resolved by mid-2014 in the District Court. The Debtor anticipates that the amount of types of  
18 insurance coverage that the Debtor has available to it in combination with the insurance  
19 coverage available to the public agencies and private parties in the underlying suit would be  
20 substantially more than what would be necessary to fully fund the cleanup of the Lake.  
21 Accordingly, the Debtor does not believe that it will be required to incur any “out-of-pocket”  
22 expenses to fund the Debtor’s Remediation Liability if any.

23 As part of the Plan, the Debtor has budgeted for ongoing operation and maintenance  
24 costs, inclusive of those costs would be future operation and maintenance costs associated with  
25 the Lake. At this time, there has been no estimate by the Debtor that future operation and  
26 maintenance costs would exceed the current budgeted amount. However, there could be  
27 potential future costs associated with the implementation of future best management practices to  
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1 control and mitigate sediment and nutrients entering the Lake. The cost of ongoing maintenance  
2 will be more certain after cleanup costs and allocation of liability issues are resolved in mid-  
3 2014, and the Debtor will allocate in its budget the amount necessary to fund ongoing  
4 maintenance costs of the Lake associated with the remediation of the Lake, which the Debtor  
5 believes will be covered by the Debtor's insurance carriers and/or contributed to by other third-  
6 parties. To the extent future maintenance and operational practices may need to change from  
7 historical operations in connection with the remediation of the Lake, the Debtor anticipates that  
8 those costs would likely be funded as part of the resolution of the action pending in the District  
9 Court and/or not result in future additional operational costs to the Debtor.

10 Caufield has been hired as special counsel to represent the Debtor in connection with  
11 proceedings against named defendants in the action pending in the District Court. Caufield has  
12 investigated and analyzed the Debtor's insurance policies. The Debtor believes that its umbrella  
13 policy with Century Indemnity directly insures the Debtor's costs of compliance with the  
14 Investigative Order (above and beyond covering solely the Debtor's litigation and defense costs  
15 which happen to coincide with the tasks required to be performed under the Investigative Order).  
16 The insurance policies of the Debtor shall remain active and in effect and shall inure to the  
17 benefit of the Reorganized Debtor.

18 To date, four separate insurance carriers have accepted the defense of CDC in the  
19 environmental litigation matter under reservation of rights, including: (1) Great American  
20 Insurance Company; (2) Century Indemnity Company; (3) The Netherlands Insurance Company;  
21 and (4) Fireman's Fund. To date, as the Debtor has predicted, several of the Debtor's insurance  
22 carriers have commenced payments for the Debtor's litigation and defense costs related to the  
23 Lake and environmental issues related to the Lake. During the past six months, the Debtor has  
24 directly received reimbursements totaling \$32,000 for investigative work conducted on the Lake  
25 (spent in 2012), and an additional \$16,000 reimbursement has been approved to be paid to the  
26 Debtor. Additionally, during the past three months, more than \$100,000 has been paid by the  
27 Debtor's insurance carriers directly to the Debtor's consultant Great Ecology for work performed  
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1 in 2013, and the Debtor's insurance carriers have agreed to pay an approximate additional  
2 \$100,000 which will cover the cost of additional investigative work. Because the work  
3 performed by Great Ecology as a litigation and defense cost would also include and extend  
4 potentially beyond the work that the Debtor is required to perform under the Investigative Order,  
5 the insurance payments have allowed and will continue to allow the Debtor to fulfill its  
6 obligations under the Investigative Order and implement its Revised Work Plan as approved by  
7 the RWQCB. Moreover, the parties, in connection with the litigation and mediation, have  
8 tentatively reached agreements, subject to carrier/party approval, to share certain costs moving  
9 forward that would be inclusive of the remaining work required under the Investigative Order.

10 Attached as Exhibit "8" is an insurance coverage chart prepared by Caufield tracking  
11 each carrier that has accepted the defense thus far, the policies they issued to the Debtor, and  
12 information about each policy including the type (*e.g.*, CGL, excess, umbrella), policy number,  
13 and policy limits. The Debtor submits that its insurance policies entitle the Debtor to not only  
14 reimbursement for any and all litigation and defense costs (indeed, insurance carriers have  
15 already commenced payments for litigation and defense costs, including the costs of  
16 investigative work which coincides with the Debtor's obligations under the Investigative Order),  
17 but indemnity as well for any and all environmental liability imposed upon the Debtor.

#### 18 **10. Avoidance Actions Against Serhan**

19 On December 22, 2010, the Debtor filed that certain "Complaint To Avoid And Recover  
20 Fraudulent Transfers And Obligations And To Preserve Recovered Transfers For Benefit Of The  
21 Estate" (the "First Serhan Action"), Adversary Proceeding No. 10-90623-LT11. The First  
22 Serhan Action seeks to avoid the Serhan Guaranty and seeks to recover approximately  
23 \$758,283.60 of payments made by the Debtor on account of the Serhan Loan and Serhan  
24 Guaranty. On February 1, 2011, Serhan filed an answer to the First Serhan Action, and on  
25 February 14, 2011, Serhan filed a third-party cross complaint against various affiliates of the  
26 Debtor.

27 On December 23, 2010, the Hotel Entity filed a separate adversary proceeding against  
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1 Serhan for the purpose of avoiding the Serhan Loan and the Serhan Deed of Trust (the “Second  
2 Serhan Action”, and together with the First Serhan Action, the “Serhan Avoidance Actions”).  
3 The Serhan Avoidance Actions have been resolved pursuant to the above-referenced Serhan  
4 Settlement and Serhan has waived any and all claims against the Debtor’s estate.

5 **11. The General Electric Motion To Compel Assumption/Rejection Of Pre-**  
6 **Petition Agreements**

7 On February 28, 2011, General Electric Capital Corporation and GE Capital Commercial  
8 Inc. (collectively, “GE”) filed that certain “Motion To Compel Assumption Or Rejection Of  
9 Executory Contract/Unexpired Lease And For Full Lease Payments Prior To Formal Assumption  
10 Or Rejection Or, In The Alternative, For Relief From The Automatic Stay” (the “GE Motion”).  
11 The Debtor opposed the GE Motion, and the Debtor and GE entered into an adequate protection  
12 agreement pending further negotiations between GE and the Debtor regarding the GE Motion.  
13 The Debtor and GE have resolved the GE Motion, and the treatment of GE’s claims, to the  
14 extent that those claims have not already been paid or otherwise resolved, is included in the  
15 Debtor’s Plan and discussed below.

16 **12. Adversary Proceeding Commenced Against Bank Of The West**

17 On December 8, 2011, the Debtor filed an adversary proceeding (the “BOTW Avoidance  
18 Action”), Adversary No. 11-90563-LT11, against Bank of the West (“BOTW”), seeking the  
19 avoidance of a purported guaranty and the recovery of cash transferred to BOTW as a  
20 preferential payment subject to recovery, among other causes of action. On January 6, 2012,  
21 BOTW filed a motion to dismiss the complaint and a hearing on the motion to dismiss is  
22 presently scheduled for April 11, 2012. The Debtor and BOTW, along with other parties related  
23 to the Debtor, commenced settlement discussions in resolution of the BOTW Avoidance Action  
24 and BOTW’s claims against the Debtor’s estate. On February 13, 2012, the Debtor and BOTW  
25 entered into a settlement agreement resolving their claims and causes of action (the “BOTW  
26 Settlement Agreement”). The Court approved the BOTW Settlement Agreement. Pursuant to  
27 the BOTW Settlement Agreement, BOTW has waived in excess of \$3 million of general  
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1 unsecured claims against the Debtor.

2 **13. The Telesis/NCUA Relief From Stay Motions**

3 On June 3, 2011, Telesis filed the Telesis Stay Relief Motion seeking stay relief to  
4 exercise its state court remedies with respect to the Recreation Center. The Telesis Settlement  
5 Agreement resolved the Telesis Stay Relief Motion.

6 On December 17, 2012, NCUA as liquidating agent for Telesis filed a motion or relief  
7 from stay (the "NCUA Stay Relief Motion"). The Debtor opposed the NCUA Stay Relief  
8 Motion. On January 24, 2013, the Court entered an order on the NCUA Stay Relief Motion,  
9 granting relief from the automatic stay to NCUA, but prohibiting NCUA from foreclosing upon  
10 the Recreation Center until 120 days after the entry of that order.

11 On or about May 28, 2013, NCUA as liquidating agent for Telesis assigned all its rights  
12 in and to the Telesis Loan and all related documents to LSM Lender. LSM Lender is related by  
13 way of common ownership/control to Pacifica Enterprises, Inc. As set forth above in connection  
14 with the LSM Lender Cash Collateral Stipulation, LSM Lender has agreed not to take any action  
15 on its security including the Recreation Center prior to December 31, 2013, and if the Plan is  
16 approved, the Additional Financing would modify the Loan documents to provide an extended  
17 term as provided below.

18 **14. Change In Ownership Of The Debtor**

19 On or about October 22, 2012, 100% of the equity interests in the Debtor were purchased  
20 by LSM Resort Holdings LLC, a Delaware limited liability company ("LSM"). The purchase  
21 agreement in connection with that transaction has been submitted to the Court.

22 On October 25, 2012, the Municipal Agencies and LSMCA were advised of the  
23 transaction by counsel for LSM. The Debtor is not a party to that transaction. In connection  
24 with the transfer of stock interests in the Debtor, the Debtor filed an amended list of equity  
25 security holders and an amended corporate ownership statement. The Debtor is unaware of any  
26 further notifications that are required to be provided in connection with the above-described  
27 change in ownership.

1 On October 31, 2012, counsel for LSM participated in a conference call with counsel to  
2 LSMCA and counsel to the Municipal Agencies. The conference call was designed to inform  
3 and advise LSMCA and the Municipal Agencies of the purchase of the Debtor's equity interests,  
4 and attempt to lay the foundation for continued dialogue and collaboration in connection with the  
5 Debtor's reorganization efforts and the resolution of the parties' disputes.

6 The October 31, 2012 conference call took place less than ten days after new ownership  
7 commenced its management of the Debtor. At that time, the Debtor's long-time controller,  
8 September Benavides, was not working for the Debtor (as her employment with the Debtor  
9 ended in approximately July 2012). She has subsequently been re-hired by new management.  
10 At the time of the conference call, new ownership had commenced the process of accounting for  
11 all of the Debtor's books and records, but was nowhere near completing this process. New  
12 ownership had already closed all existing debtor in possession bank accounts (it had done so on  
13 October 22, 2012) and had already opened new debtor in possession bank accounts (it had done  
14 so on October 22, 2012). New ownership was doing everything in its power to ensure a smooth  
15 operational and administrative transition, and had sought to conference with LSMCA and the  
16 Municipal Agencies in order keep them apprised of developments and establish a foundation for  
17 settlement discussions.

18 On November 6, 2012, the "Municipal Agencies" filed an ex parte motion for an  
19 expedited hearing on the motion for the appointment of a trustee which had been filed by the  
20 Lake San Marcos Community Association ("LSMCA"). Although the LSMCA and the Debtor  
21 had agreed to continue that motion to February 2013 (in order to facilitate settlement  
22 discussions), and although the Court had entered an order to that effect, it appeared that the  
23 Municipal Agencies were seeking to litigate that motion.

24 On November 7, 2012, the Municipal Agencies filed an ex parte application (the  
25 "Municipal Ex Parte Application") for an emergency hearing on the LSMCA Trustee Motion,  
26 which was not even the Municipal Agencies' motion to prosecute.

27 On November 8, 2012, the Debtor opposed the Municipal Ex Parte Application. On  
28

1 November 9, 2012, the Court entered an order denying the Municipal Ex Parte Application and  
2 setting a status conference in this case (the order was amended on November 12 to provide for a  
3 modified status conference date).

4 **15. The Court's Order To Show Cause**

5 On December 4, 2012, subsequent to the Court's status conference held on November 29,  
6 2012, the Court issued its "Order (1) To Show Cause Re: Dismissal, Conversion, Or  
7 Appointment Of A Trustee; and (2) Allowing Expedited Consideration Of These Issues If Debtor  
8 Fails To Meet Certain Benchmarks" (the "OSC"). The Debtor and other parties responded to the  
9 OSC. On January 14, 2013, a hearing on the OSC was held by the Court in conjunction with the  
10 hearing on the NCUA Stay Relief Motion. On January 16, 2013, the Court entered the "Interim  
11 Order Continuing Hearing On Court's Order To Show Cause Re: Dismissal, Conversion, Or  
12 Appointment Of Trustee" (the "First Interim OSC Order"). The January 2013 Interim Order  
13 provides that in the absence of a further Court order, the Debtor's chapter 11 case will be  
14 converted to a case under chapter 7 on or before the earlier of: (a) the date that is 120 days after  
15 the entry of the Interim Order (May 18, 2013); or (b) the consummation of foreclosure sale of the  
16 Recreation Center. A continued hearing on the OSC was scheduled for March 28, 2013.

17 On April 4, 2013, the Court entered the "Order On Court's Order to Show Cause Re:  
18 Dismissal, Conversion, Appointment Of Chapter 11 Trustee" (the "Second Interim OSC Order").  
19 The Second Interim OSC Order modified the First Interim OSC Order by extending the date that  
20 the case would be converted to a case under chapter 7 to July 24, 2013 absent further court order.

21 On June 24, 2013, pursuant to the motion filed by Pac West TD Fund II, L.P., the Court  
22 entered the "Order On Motion For Order: Postponing Hearing On Approval Of Disclosure  
23 Statement, Etc." (the "Third Interim Order"). The Third Interim Order modified the Second  
24 Interim Order, providing that "the provision in the [Second Interim Order] entered on April 4,  
25 2013 which provides for the automatic conversion of CDC's Chapter 11 case to a case under  
26 chapter 7 on July 24, 2013 absent confirmation of a plan or further order of the court is hereby  
27 VACATED, though any other basis for conversion set forth in the [Second Interim Order] is  
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1 unaffected, absent further Court order.” The Third Interim Order continued the Court’s Order to  
2 Show Cause hearing and the hearing on approval of the Disclosure Statement to August 21,  
3 2013. At a hearing held on August 21, 2013, the Court’s Order to Show Cause hearing was  
4 continued to November 13, 2013. The Debtor anticipates that the Court’s Order to Show Cause  
5 hearing will be continued from time to time.

6 The remaining basis for automatic conversion of this case to a case under Chapter 7,  
7 under the Third Interim Order, is a foreclosure sale of the Recreation Center. A foreclosure sale  
8 of the Recreation Center has not been consummated, and LSM Lender has agreed with the  
9 Debtor that it will not take any action whatsoever in advancement of a foreclosure of the  
10 Recreation Center at least through and including December 31, 2013.

11 Throughout this time, the Debtor has complied with its duties and obligations as a  
12 Chapter 11 debtor in possession, including by remaining current on its reporting and quarterly  
13 fee payment obligations to the United States Trustee; complying with this Court’s orders; timely  
14 filing the Plan which includes substantial funding to effectuate the Plan; and undertaking actions  
15 to ensure that the Debtor’s Plan is confirmable.

#### 16 **16. Information Regarding New Ownership**

17 LSM purchased all of the equity interests in the Debtor. LSM’s manager is Atlantica,  
18 Inc., a California corporation (“Atlantica”). The sole owner and President of Atlantica is Pino  
19 Vitti. Mr. Vitti is presently serving as President of the Debtor. He is not receiving any  
20 compensation from the Debtor but he is working around the clock on behalf of the Debtor and on  
21 behalf of the Debtor’s estate. The Debtor continues to operate in the ordinary course of business  
22 as a Chapter 11 debtor in possession.

23 Neither LSM, nor Atlantica, nor Mr. Vitti are related to, or insiders of, prior management  
24 or ownership. LSM, Atlantica, and Mr. Vitti, are all independent third parties that negotiated  
25 with prior ownership a sale of the stock interests in the Debtor. The Debtor intends to continue  
26 operating the Debtor’s business and hopes to work closely with the primary constituents in this  
27 case in connection with reaching a consensual resolution.  
28

1 Mr. Vitti is also Chief Financial Officer of Pacifica Enterprises, Inc. ("Pacifica"). As  
2 Chief Financial Officer of Pacifica, he is responsible for financial reporting, investments, pro-  
3 forma analyses, and income and estate tax planning. He is also in charge of human resources,  
4 payroll, and is the coordinator of several operational departments, with ten years of hands-on  
5 experience in management, business relations with financial institutions, attorneys, and CPA's.  
6 At Pacifica, Mr. Vitti handles risk management and insurance, investor relations, strategic  
7 planning, and capital markets, manages the accounting and finance department, and convenes  
8 with tax and audit consultants.

9 Entities related to Pacifica have been involved in the Debtor's bankruptcy case.

10 a. First, in the early stages of this bankruptcy case, Symphony purchased  
11 secured debt against the Hotel. Symphony and the Debtor entered into the Symphony  
12 Settlement Agreement which was approved by the Bankruptcy Court. Pursuant to the  
13 terms of the Symphony Settlement Agreement, Symphony foreclosed upon the Hotel.  
14 Symphony has filed a contingent general unsecured claim against the Debtor related to  
15 indemnification claims against the Debtor.

16 b. Second, Golf Course Partners purchased secured debt against the Country  
17 Club. On June 1, 2012, Golf Course Partners obtained relief from the automatic stay to  
18 exercise its rights in connection with the Country Club. On or about October 22, 2012,  
19 Golf Course Partners foreclosed upon the Country Club.

20 c. Third, LSM Lender has provided the LSM Lender Settlement Loan and is  
21 proposed to provide the Additional Financing described herein.

22 The Debtor is unaware of any claims against the estate held by Pacifica or Mr. Vitti. The  
23 only party related to Pacifica which appears to have filed a claim against the Debtor is  
24 Symphony (a contingent, unliquidated indemnity claim). The Debtor does not believe that the  
25 existence of this contingent, unliquidated indemnification claim renders Mr. Vitti incapable of  
26 serving in a fiduciary capacity for the Debtor's estate. Mr. Vitti has demonstrated that he is  
27 wholly capable of serving as President for the Debtor, and has every incentive to maximize the  
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1 value of the Debtor's estate, comply with all applicable rules and regulations, provide unbiased  
2 and accurate reporting to the Court, respond to creditor queries, administer the Debtor's estate,  
3 and direct the Debtor toward a successful reorganization.

4 Under new ownership, the Debtor is current with all of its reporting requirements. The  
5 Debtor has also paid for and is current with, any and all quarterly fees due to the Office of the  
6 United States Trustee.

7 The Debtor's new ownership investigated the status of payroll taxes and learned, through  
8 its investigation of the Debtor's books and records, that payroll taxes for the period of August  
9 2012 through October 2012, totaling approximately \$34,000, had not been paid as they typically  
10 would have been paid. The Debtor paid past-due payroll taxes, and the Debtor is current with all  
11 payroll tax returns.

12 The Debtor's new ownership has access to all of the Debtor's books and records, bank  
13 statements, and transaction records, and the Debtor does not believe that any books and records  
14 are missing. The Debtor's controller's return to the Debtor has substantially assisted the Debtor  
15 with the reconciliation process and the Debtor does not believe that there will be any issue in  
16 connection its books and records and accounting for all transactions, the status of funds, and the  
17 Debtor's reporting obligations going forward.

18 In connection with the OSC, the Debtor's current management reviewed the Debtor's  
19 books and records, and the Debtor's current management evaluated the action and inaction of the  
20 Debtor's prior management.

21 Current management identified the following potential legal actions as to prior  
22 management, but reserves the right to supplement or modify this list, and this list is not meant to  
23 limit the Debtor, or any other party that may obtain standing, to prosecute any valid actions  
24 against any party:

25 (a) In October 2012, the Debtor, under former management, transferred  
26 approximately \$36,817.66 of funds to La Jolla Development Group, LLC. These  
27 transfers were apparently characterized as "loans" to La Jolla Development Group, LLC  
28

1 which is owned by prior management. After learning of these transfers and evaluating  
2 the nature of these transfers, the Debtor's current management demanded the return of  
3 such funds. La Jolla Development Group, LLC has subsequently returned all of these  
4 funds to the Debtor. These transactions are reported in the Debtor's October 2012 and  
5 November 2012 monthly operating reports prepared by current management. The Debtor  
6 reserves the right to bring claims for the reimbursement of expenses related to the  
7 recovery of such funds.

8 (b) Because the Debtor shared expenses and employees with entities related to  
9 the Debtor (such as Escondido Country Club, Stoneridge Country Club, and La Jolla  
10 Development Group, LLC), which provided services and amenities similar to those  
11 provided by the Debtor, the Debtor charged such parties with the costs of providing  
12 employees and paying shared expenses. At times these charges were reimbursed, and at  
13 other times these charges were recorded in the Debtor's books as receivables and have  
14 not been reimbursed. By way of example, the Debtor's Schedules of Assets and  
15 Liabilities (Schedule B) discloses approximately \$214,426.12 as a note receivable from  
16 Stoneridge Country Club, \$306,346.29 as a note receivable from Escondido Country  
17 Club, and \$154,162.23 as a note receivable from La Jolla Development Group, LLC. It  
18 appears that when the Debtor charged a related entity with an expense or with the  
19 provision of employees, the money the Debtor claimed to be due was logged as a "note"  
20 obligation. The Debtor has submitted to the United States Trustee an analysis of post-  
21 petition expense allocations to previously related entities, which allocations total  
22 approximately \$327,362.48.

23 (c) The Debtor's current management believes that prior management may  
24 have received payment of salaries in excess of the amounts that the Debtor was able to  
25 afford and in excess of the amounts prior management should have received. In  
26 particular, in July 2012 it appears that approximately 65% of salaries and wages were  
27 paid from Recreation Center funds, and from August 2012 through October 2012,  
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1 approximately 54% of salaries and wages were paid from Recreation Center funds (when  
2 the allocation to the Recreation Center should have been 10%). This practice appears to  
3 have commenced after Lake San Marcos Country Club was placed into receivership by  
4 LSM Golf Course Partners LLC. Additionally, while there appears to be book entry  
5 allocation of salaries and wages to non-debtor entities (as discussed in subparagraph (b)  
6 above), the Debtor has not been reimbursed for all such allocations, and is presently  
7 entitled to reimbursements from those entities for such amounts.

8 (d) The Debtor believes that prior ownership is personally responsible for any  
9 unpaid payroll taxes. Taxing agencies are capable of seeking recoveries from ownership  
10 of unpaid payroll taxes. However, the payroll taxes are direct obligations of the Debtor,  
11 and personal liability is secondary to the Debtor's direct obligation. The Debtor is  
12 completely current with all of its payroll tax obligations and intends to remain completely  
13 current. The Debtor reserves the right to bring claims for reimbursement of expenses  
14 related to becoming completely current on its payroll tax obligations.

15 (e) The Debtor and its counsel have incurred expenses responding to the OSC,  
16 and also responding to the multiple emergency filings of the Municipal Agencies. The  
17 Debtor believes that the expenses associated with the emergency filings of the Municipal  
18 Agencies could have been avoided had all parties taken a moment to evaluate the  
19 circumstances of this case, realize that hearings on the appointment of a Chapter 11  
20 trustee had already been scheduled, and realize that a status conference to address this  
21 case's issues had already been set. The Debtor believes that the Municipal Agencies'  
22 emergency filings were not necessary, because the Debtor and LSMCA had already  
23 agreed in their stipulation to hold a status conference to bring to the forefront of the  
24 Court's attention the matters that gave rise to the OSC.

25 However, the Debtor believes that prior management should reimburse the Debtor  
26 for the expenses it has incurred in addressing the OSC (at least in part, to account for the  
27 expenses the Debtor has incurred in reconciling books and records, preparing monthly  
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1 operating reports, and coordinating payroll tax payments). The Debtor believes that it  
2 may have valid claims for reimbursement of fees and expenses in connection with  
3 responding to the OSC and reserves the right to bring such claims.

4 (f) The Debtor is evaluating whether it may hold claims against former  
5 management in connection with the Debtor's obligations related to the environmental  
6 remediation of the Lake. The Debtor has not been fined or otherwise penalized by the  
7 RWQCB and it appears, preliminarily, that the RWQCB is willing to collaborate with the  
8 Debtor and afford the Debtor additional time to comply with its obligations.

9 (g) The Debtor has considered whether former ownership's negotiation of a  
10 sale of equity interests and acquisition of consulting contracts gives rise to any claims.  
11 The Debtor notes that its current ownership is a party to that transaction and the Debtor  
12 obviously believes that such transaction substantially benefited the Debtor's estate, as it  
13 placed into management ownership that is completely independent of prior ownership,  
14 and that has already demonstrated the ability to fund a plan of reorganization and manage  
15 the expectations of the LSMCA. The Debtor is not a party to that transaction and has not  
16 funded that transaction. Current ownership made a financial and strategic decision to pay  
17 former ownership for its ownership shares and compliance/non-interference with the  
18 Debtor's operations and bankruptcy case. The Debtor did not provide any release to any  
19 party in connection with the sale of the Debtor's equity interests and reserved all rights  
20 and claims.

21 The Debtor worked closely with the United States Trustee and former ownership in  
22 determining whether a global settlement agreement to resolve claims by and against the Debtor  
23 can be achieved. The Debtor and DiNofia, with the consent of the United States Trustee, entered  
24 into a settlement agreement (the "Matthew DiNofia Settlement Agreement").

25 The Matthew DiNofia Settlement Agreement provides the Debtor with \$100,000 of cash,  
26 \$55,000 of which has already been paid. The remaining \$45,000 will be paid over a period of  
27 the remaining nine months, at \$5,000 per month. After all such payments have been received by  
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1 the Debtor, the Debtor's general release of claims against DiNofia, entities owned by DiNofia,  
2 and former insiders of the Debtor, and insider of DiNofia, shall be applicable.

3 The Matthew DiNofia Settlement Agreement was reached after many months of  
4 settlement negotiations with DiNofia and the United States Trustee, including meetings,  
5 telephone conversations, and correspondence with DiNofia and his counsel and the United States  
6 Trustee. The United States Trustee and the Debtor exhaustively analyzed the Debtor's claims  
7 and DiNofia's claims, and collectively reached the conclusion that the terms of the Matthew  
8 DiNofia Settlement Agreement are fair and reasonable and appropriate. On September 24, 2013,  
9 the Court entered an order approving the MD Settlement.

10 **E. The Debtor's Current Financial Condition**

11 The Debtor's most recent profit and loss statement is attached hereto as Exhibit "1" and  
12 most recent balance sheet is attached hereto as Exhibit "2."

13 **F. Proposed Exit Financing**

14 LSM Lender will advance additional funds under a modification of the Telesis Loan  
15 documents. The additional funds proposed to be advanced will be up to the amount of  
16 \$2,500,000 in addition to the existing balance of the Telesis Loan secured by a first position lien  
17 against all of the Debtor's assets (the "Additional Financing"), with the exception that the  
18 Additional Financing would be in second position as to the deed of trust securing the LSM  
19 Lender Settlement Loan. The terms and conditions of the Additional Financing and the  
20 repayment of the Telesis Loan are described in detail below (in the description of the treatment  
21 of class 1 claims).

22 **III. PLAN SUMMARY**

23 The funding for the Plan will come from: (1) the Additional Financing in an amount up  
24 to \$2,500,000; (2) a new value contribution in the amount of \$400,000 (the "New Value  
25 Contribution") to be made to the Reorganized Debtor by Atlantica (the "New Investor"); (3) the  
26 Debtor's cash on hand which is estimated to be approximately \$25,000 as of the Effective Date -  
27 which collectively equates to \$2,925,000 (the "Exit Cash"); and in addition (4) the revenue  
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1 generated from continued business operations; (5) insurance proceeds and/or (6) the Letter of  
2 Credit (to the extent necessary).

3 LSM Lender is required to provide to the Debtor the Additional Financing in principal  
4 advances, upon the Debtor's compliance with the procedures and conditions described herein, as  
5 more fully set forth in the "Third Loan Modification Agreement" attached hereto as Exhibit "9."

6 Pursuant to the Third Loan Modification Agreement, the Debtor is required to submit  
7 evidence to LSM Lender, acceptable to LSM Lender in its sole discretion, of the Debtor's use of  
8 funds for one of the following purposes:

9 (a) Funding of capital improvements to the Debtor's facilities located at 1105-1121  
10 La Bonita Drive, San Marcos, California 92078 in an amount not to exceed \$2,000,000 in total;

11 (b) In the event not otherwise paid as of the Effective Date of the Plan and if the  
12 Municipal Agencies support the Plan, payment of the Pre-Plan Confirmation Municipal  
13 Agencies Investigative Order Cost Reimbursement;

14 (c) To the extent not covered by the New Value Contribution, funding the payment  
15 of administrative claims of the Debtor pursuant to the Plan in an amount not to exceed \$450,000;  
16 and

17 (d) To the extent not covered by the New Value Contribution, funding the  
18 distribution to holders of allowed class 7 claims (general unsecured creditors) in an amount not  
19 to exceed \$100,000.

20 Not all of the Exit Cash is required to be spent on or near the Effective Date of the Plan.  
21 For example, the Debtor intends to invest funds in capital improvements over a short period of  
22 time, as opposed to immediately upon confirmation of the Plan.

23 The Debtor's secured creditors are referred to below as the class 1 through class 5 claim  
24 holders. Their respective secured claims will be treated in the manner provided below.

25 Class 6 claim holders are comprised of any non-tax priority claims. The Debtor believes  
26 that if there are any remaining class 6 claims, they would be on account of still unpaid pre-  
27 petition employee priority claims and would not be substantial in amount.

1 Class 7 claim holders (general unsecured creditors) will receive within sixty (60) days  
2 following the Effective Date a pro rata distribution of cash totaling 10% of the amount of their  
3 allowed class 7 claims, with the total distribution of cash to all creditors collectively not to  
4 exceed \$100,000. Class 7 claim holders will also be entitled to recoveries, less expenses,  
5 obtained from any avoidance actions or other causes of action existing prior to the Effective  
6 Date and hereinafter brought by the Debtor, or the Reorganized Debtor, as the case may be,  
7 subject to the priority provisions of section 507 of the Bankruptcy Code.

8 Class 8 is comprised of equity interest holders in the Debtor. On the Effective Date, all  
9 of the existing equity interests in the Debtor shall be deemed cancelled and extinguished and of  
10 no further force or effect. Equity holders in the Debtor will not receive any distribution or retain  
11 any property on account of such equity interests.

12 In exchange for the New Value Contribution by the New Investor, the New Investor will  
13 receive 100% of the equity interests in the Reorganized Debtor.

#### 14 **IV. CLASSIFICATION AND TREATMENT OF CLAIMS AND INTERESTS**

##### 15 **A. What Creditors and Interest Holders Will Receive Under the Plan**

16 As required by the Bankruptcy Code, the Plan classifies claims and interests in various  
17 classes according to their right to priority. The Plan states whether each class of claims  
18 or interests is impaired or unimpaired. The Plan provides the treatment each class will  
19 receive.

##### 20 **B. Unclassified Claims**

21 Certain types of claims are not placed into voting classes; instead they are unclassified.  
22 They are not considered impaired and they do not vote on the Plan because they are  
23 automatically entitled to specific treatment provided for them in the Bankruptcy Code.

24 As such, the Debtor has not placed the following claims in a class.

##### 25 **1. Administrative Expenses**

26 Administrative expenses are claims for costs or expenses of administering the Debtor's  
27 Chapter 11 case which are allowed under Bankruptcy Code Section 507(a)(2). The Bankruptcy  
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Code requires that all administrative claims be paid on the Effective Date unless a particular claimant agrees to a different treatment.

The following chart lists all of the Debtor's § 507(a)(2) estimated administrative claims as of the Effective Date and their treatment under the Plan.

<b><u>Name</u></b>	<b><u>Amount Owed</u></b>	<b><u>Treatment</u></b>
Clerk's Office Fees	\$0	Paid in full on the Effective Date out of the Exit Cash and/or unrestricted cash on hand
Office of the United States Trustee ("OUST") Fees	\$0	Paid in full on the Effective Date out of the Exit Cash and/or unrestricted cash on hand
Levene, Neale, Bender, Yoo & Brill L.L.P. ("LNBYB"), bankruptcy counsel to the Debtor	\$250,000 (est. as of Effective Date), which would be in addition to any payments made to LNBYB to date and which includes a reduction of fees	Paid upon terms and conditions agreed upon by and between the Debtor and LNBYB.
Foley & Lardner LLP ("Foley")	\$30,000, which would be in addition to any payments made to Foley to date and which includes a reduction of fees	Paid upon terms and conditions agreed upon by and between the Debtor and Foley.
Barker Olmsted & Barnier, APLC	\$0 (est. as of Effective Date)	Paid in full out of the Exit Cash and/or cash on hand on the later of the Effective Date and the date the Court enters an order allowing such fees and expenses
Caufield & James LLP	\$0 (est. as of Effective Date)	Paid in full out of the Exit Cash and/or cash on hand on the later of the Effective Date and the date the Court enters an order allowing such fees

		and expenses.
Post-petition non-professional administrative claims	\$175,000 (est. as of Effective Date) <sup>1</sup>	Paid in full out of the Exit Cash and in the ordinary course of business from the Debtor's revenues. To the extent that the Debtor disputes any ordinary course administrative claim, such claim will only be paid to the extent that the claim is deemed an allowed administrative expense claim pursuant to Section 507(a)(2).
Debtor's Administrative Obligations In Connection with compliance with the Investigative Order	\$172,500 (est.)	The Debtor's obligations under the Investigative Order are post-petition, administrative obligations, and any costs that the Debtor is required to bear in connection with compliance with the Investigative Order are costs that are entitled to administrative priority. Such costs will be paid from the proceeds from insurance carriers directly to vendors and consultants, and the Debtor's cash on hand to the extent that the insurance carriers refuse to cover such costs (in which case the Debtor reserves its rights to pursue its insurance carriers)

<sup>1</sup> This amount includes the post-petition claims of the California State Board of Equalization and any other post-petition non-professional administrative claims. The Debtor is in the process of resolving and reconciling non-professional administrative claims with the respective claimants. The actual amount of allowed post-petition non-professional administrative claims may differ from the estimated amount herein.

LSM Lender Settlement Loan	\$100,000 (not including monthly interest payments)	To be paid pursuant to the terms of the LSM Lender Settlement Loan, as approved by the Bankruptcy Court
Municipal Agencies' Administrative Expense	The lesser of \$60,000 or 20% of the costs evidenced by the Investigative Order Reimbursement Evidence	To be paid from the Exit Cash if not previously paid on or before the Effective Date of the Plan
<b>TOTAL PROJECTED EFFECTIVE DATE PAYMENTS</b>	\$515,000	Paid in the manners described above

Court Approval of Fees Required:

The Court must approve all professional fees and expenses listed in this chart before they may be paid. For all professional fees and expenses except fees owing to the Clerk of the Bankruptcy Court and fees owing to the OUST, the professional in question must file and serve a properly noticed fee application and the Court must rule on the application. Only the amount of fees and expenses allowed by the Court will be required to be paid under the Plan. The administrative claim amounts set forth above simply represent the Debtor's best estimates as to the amount of allowed administrative claims in this case. The actual administrative claims may be higher or lower. Whether the estimated administrative claims described above for LNBYB are ultimately the actual administrative claims for LNBYB will be substantially dependent upon whether the Debtor is required to engage in any substantial litigation regarding the confirmation of the Plan and/or objecting to claims. To the extent the Debtor is required to engage in any such substantial litigation, LNBYB is likely to incur professional fees and expenses in excess (and possibly substantially in excess) of the figures set forth above. By voting to accept the Plan, creditors are not acknowledging the validity of, or consenting to the amount of, any of these administrative claims, and creditors are not waiving any of their rights to object to the allowance of any of these administrative claims. Similarly, professionals who have been employed in this case are not being deemed to have agreed that the figures contained herein represent any ceiling

1 on the amount of fees and expenses that they have incurred or are entitled to seek to be paid  
2 pursuant to Court order as such fees and expenses are just estimates provided at the time of the  
3 preparation of the Plan.

4 To the extent allowed administrative claims are allowed prior to the Effective Date, such  
5 allowed administrative claims may be paid by the Debtor out of the Debtor's funds. To the  
6 extent allowed administrative claims are allowed after the Effective Date, such allowed  
7 administrative claims will be paid by the Reorganized Debtor out of the New Value Contribution  
8 and cash on hand.

9 **2. Priority Tax Claims**

10 Priority tax claims include certain unsecured income, employment and other taxes  
11 described by Section 507(a)(8) of the Bankruptcy Code. Section 1129(a)(9)(C) of the  
12 Bankruptcy Code requires that each holder of such a Section 507(a)(8) priority tax claim receive  
13 regular installment payments of a total value, as of the Effective Date, equal to the allowed  
14 amount of such allowed tax claims, over a period ending not later than five years after the  
15 Petition Date. Section 1129(a)(9)(C) of the Bankruptcy Code requires that each holder of such a  
16 Section 507(a)(8) priority tax claim receive regular installment payments of a total value, as of  
17 the Effective Date, equal to the allowed amount of such allowed tax claims, over a period ending  
18 not later than five years after the Petition Date. All allowed Section 507(a)(8) priority tax claims  
19 will be paid the full amount of such claims over a period of six calendar quarters (with the  
20 payments to be made by March 30, 2014; June 30, 2014; September 30, 2014; December 31,  
21 2014; March 31, 2015; and June 30, 2015) in equal quarterly payments with interest to accrue  
22 from the Effective Date at the rate of 3% per annum, except that, the allowed claims of the  
23 California State Board of Equalization shall accrue interest from the Effective Date at the rate of  
24 6% per annum. The chart below indicates all priority tax claims which were either scheduled by  
25 the Debtor or LSM Hotel, LLC with known priority amounts or asserted by the taxing agencies  
26 in filed proofs of claim. The Debtor and Reorganized Debtor, whichever the case may be,  
27 reserve the right to dispute the validity of these claims, and the actual claim amounts may  
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ultimately differ from the amounts listed below, either because the Debtor or Reorganized Debtor successfully objected to such claims; the taxing agencies filed amended claims that set forth either greater or lesser claim amounts, or the taxing agencies agreed to claim amounts different than set forth below. Assuming all such claims are allowed at the amounts set forth below (which are the amounts either scheduled or claimed pursuant to proofs of claim), amortization schedules for the repayment of such claims are attached hereto as Exhibit "3".

Claimant	Claim No.	Amount Scheduled/Claimed	Amount Anticipated To Be Allowed
California State Board of Equalization	37	\$61,420.33 (proof of claim) (Scheduled on Citizens Development Corp. Schedule E at \$58,892.23)	\$61,420.33
Franchise Tax Board	23	\$829.28 (proof of claim)	\$29.00
Franchise Tax Board	54	\$13,515.46 (proof of claim) (Scheduled on LSM Hotel, LLC Schedule E at \$6,000)	\$13,515.46
San Diego County Treasurer-Tax Collector	N/A	\$25,219.69 (Scheduled on Citizens Development Corp. Schedule E)	\$8,115.00
San Diego County Treasurer-Tax Collector	N/A	\$31,664.32 (Scheduled on Citizens Development Corp. Schedule E)	\$29,828.00
San Diego County Treasurer-Tax Collector	N/A	\$28,142.84 (Scheduled on Citizens Development Corp. Schedule E but not included in total because this is a real property tax obligation which has been satisfied)	\$0.00  (classified below as class 4 secured claim in the total amount of \$17,402)
San Diego County Treasurer-Tax Collector	N/A	\$80,894 (scheduled on LSM Hotel, LLC Schedule E)	\$0.00  (real property tax obligation which has been

			satisfied)
San Diego County Treasurer-Tax Collector	N/A	\$135.00 (scheduled on LSM Hotel, LLC Schedule E)	\$211.00
San Diego County Treasurer-Tax Collector	N/A	\$9,791.00 (scheduled on LSM Hotel, LLC Schedule E)	\$13,292.00
Department of Water Resources	67	\$21,937.50	\$21,937.50
<b>TOTAL</b>			<b>\$148,348.29</b>

### C. Classified Claims and Interests

#### 1. Classes of Secured Claims

Secured claims are claims secured by liens on property of the Debtor's estate. The following charts set forth the description and treatment of each of the Debtor's secured claims.

CLASS #	DESCRIPTION	IMPAIRED? (Yes/No)	TREATMENT
1	All claims assigned to LSM Lender LLC ("LSM Lender") by National Credit Union Administration Board ("NCUA") as liquidating agent for Telesis pursuant to the Telesis Loan.	Yes, impaired; allowed claims in this class are entitled to vote on the Plan.	<p>In full settlement and satisfaction of LSM Lender's claims against the Debtor, the Debtor will repay the class 1 claim upon terms and conditions acceptable to LSM Lender, as summarized below. Additionally, LSM Lender will advance up to an additional \$2,500,000 (the Additional Financing) pursuant to the terms of the modified Telesis Loan giving rise to the class 1 claim.</p> <p>The class 1 claim, including the Additional Financing, and all advances to the Debtor made thereunder, will be secured by a first priority lien on all of the Debtor's assets subsequent to substantive consolidation (with the exception that the Additional Deed of Trust attached as Exhibit "D" to the Third Loan Modification Agreement shall be junior in priority only to the security interests previously granted LSM Lender by the Debtor pursuant to the Deed of Trust dated September 24, 2013 and recorded as Document No. 2013-0584063 with the San Diego County Recorder and approved by order of the Court entered September 24, 2013 and recorded with the San Diego County Recorder as Document No. 2013-0586873), including the existing Telesis Loan first priority lien and in addition pursuant to new separate deeds of trust encumbering all real property and a new security agreement encumbering all personal property ("LSM Lender Collateral") and</p>

			<p>other documentation executed in favor of LSM Lender. The LSM Lender Collateral shall be free and clear of all other liens, claims, encumbrances and adverse interests. Including Additional Financing, the class 1 claim of LSM Lender totals approximately \$7,814,722.01.</p> <p>The basic terms of repayment of the class 1 claim, subject to final documentation, are as follows:</p> <p><u>Total Claim Amount (which includes the Additional Financing):</u> Approx. \$7,814,722.01</p> <p><u>Interest Rate:</u> 5% per annum.</p> <p><u>Term:</u> All due and payable within five years of the Effective Date.</p> <p><u>Repayment:</u> The Debtor will be required to make monthly interest only payments, which, assuming all of the Additional Financing is funded, will equal monthly payments of approximately \$32,561.34.</p> <p><u>Personal Guarantor:</u> Pino Vitti (the "Guarantor")</p> <p><u>Default Interest Rate:</u> 10% per annum.</p> <p><u>Late Charge:</u> 5% after ten (10) days.</p> <p><u>Acceleration:</u> On default or any transfer or further encumbrance of any of the Debtor's assets.</p>
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			<p><u>Prepayment:</u> No restriction or premium on prepayment.</p> <p><u>Loan Collateral:</u> First priority liens (with the exception that the Additional Deed of Trust attached as Exhibit “D” to the Third Loan Modification Agreement shall be junior in priority only to the security interests previously granted LSM Lender by the Debtor pursuant to the Deed of Trust dated September 24, 2013 and recorded as Document No. 2013-0584063 with the San Diego County Recorder and approved by order of the Court entered September 24, 2013 and recorded with the San Diego County Recorder as Document No. 2013-0586873) against all real and personal property of the Debtor subsequent to substantive consolidation, free and clear of all other liens, claims, encumbrances and adverse interests, except as set forth in the Plan and consented to by LSM Lender.</p> <p><u>Disbursement of Additional Financing:</u> Additional Financing will be disbursed as needed subject to LSM Lender’s approval.</p> <p>Additional Financing will only occur subsequent to the Effective Date, and will be subject to customary conditions and the following: (1) Execution and delivery by the Debtor and the Guarantor of all loan documents required by LSM Lender, including without limitation a modified loan agreement, promissory notes, new deeds of</p>
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			<p>trust, new security agreements, guaranties and other customary documents, all on terms and in forms satisfactory to LSM Lender; (2) Receipt by LSM Lender of an ALTA Loan Policy of Title Insurance, insuring the lien and priority of each deed of trust in favor of LSM Lender encumbering real property collateral, subject only to exceptions approved by the LSM Lender; (3) receipt by the Debtor of the New Value Contribution; and (4) confirmation of a plan of reorganization that is acceptable to LSM Lender that provides in addition to customary terms (including a discharge) that the claim of any individual or entity that claims a debt secured by a lien or security interest of any type or nature is satisfied and that all such liens or security interests are either discharged or reconveyed to the Debtor and that LSM Lender holds valid first priority liens and security interests in all of the Debtor's assets.</p> <p><u>Court Order.</u> Entry of an Order(s) of the Court approving the Plan and providing that the Debtor's property and assets are free and clear of all liens, claims, encumbrances, and adverse interests other than the security interests of LSM Lender and that the Modification of Deed of Trust, the Modification of Assignment, the Additional Deeds of Trust, the Security Agreement and UCC-1 Financing Statements shall be valid perfected enforceable first priority</p>
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			liens on all property and assets of the Debtor superior to any and all other creditors, with the exception that the Additional Deed of Trust attached as Exhibit "D" to the Third Loan Modification Agreement shall be junior in priority only to the security interests previously granted LSM Lender by the Debtor pursuant to the Deed of Trust dated September 24, 2013 and recorded as Document No._2013-0584063 with the San Diego County Recorder and approved by order of the Court entered September 24, 2013 and recorded with the San Diego County Recorder as Document No. 2013-0586873.
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CLASS #	DESCRIPTION	IMPAIRED? (Yes/No)	TREATMENT
2	All secured tax claims of the San Diego County Treasurer-Tax Collector. The Debtor estimates that the secured tax claims of the San Diego County Treasurer-Tax Collector equal approximately \$17,402.	Yes, impaired; allowed claims in this class are entitled to vote on the Plan.	<p>The class 2 claims will accrue interest following the Effective Date at an annual rate of interest of three percent (3%) or such other rate of interest as determined by the Court.</p> <p>By the tenth (10<sup>th</sup>) day of each of the first thirty six (36) calendar months following the Effective Date (with the first such month to include the calendar month of the Effective Date if the Effective Date occurs before the 10<sup>th</sup> day of the month, and the first such month to include the calendar month after the month of the Effective Date if the Effective Date occurs after the 10<sup>th</sup> day of the month), the Reorganized Debtor will make an aggregate monthly payment to the holder of the class 2 claim in an amount that will satisfy the provisions of Section 1129(b)(2)(A)(i) of the Bankruptcy Code. The Debtor estimates that monthly payments computed at an annual rate of interest of three percent (3%) per annum based upon a three year amortization would satisfy the provisions of Section 1129(b)(2)(A)(i) of the Bankruptcy Code.</p> <p>All outstanding principal and interest owing on the class 2 claims will be fully due and owing to the holders of the class 2 claims on the date which is five years after the Effective Date.</p> <p>The obligations of the Reorganized Debtor under this</p>

			<p>Plan to the holder of the class 2 claims will be secured by the same collateral which secured the Debtor's obligations to the holders of the class 2 claims on the Petition Date, with such collateral to have the same lien priority which existed on the Petition Date.</p> <p>The Reorganized Debtor shall have the right, but not the obligation, to prepay any portion of the outstanding balance owing on account of the class 2 claims at any time with no prepayment penalty (with the amount of the remaining monthly payments to be made to the holder of the class 2 claims to be reduced accordingly).</p>
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CLASS #	DESCRIPTION	IMPAIRED? (Yes/No)	TREATMENT
3	Any and all claims asserted by GE Capital Commercial Inc. in connection with Contract Nos. 5473281-001 and 5473282-001 and amendments thereto. See Proof of Claim No. 35. GE asserts that the total outstanding class 3 claim amount is approximately \$3,300.	Yes, impaired; allowed claims in this class are entitled to vote on the Plan.	<p>1. On the Effective Date, the Master Lease Agreement shall be deemed to be a purchase/financing agreement and not a lease pursuant to California law.</p> <p>2. Contract No. 5473281-001 has been paid off and no further payments are due and owing under Contract No. 5473281-001.</p> <p>3. In connection with Contract No. 5473282-001, in addition to post-petition payments the Debtor has already made, the Debtor shall make additional payments at \$1,650 per month for the remaining term of Contract No. 5473282-001, until all post-petition payments total \$26,400, in full satisfaction of the class 3 claim as it relates to Contract No. 5473281-001.</p> <p>4. Payments shall be due on the due dates referenced in Contract No. 5473282-001.</p>

CLASS #	DESCRIPTION	IMPAIRED? (Yes/No)	TREATMENT
4	Any and all claims asserted by General Electric Capital Corporation ("GE") in connection with Contract No. 4442259-001 and amendments thereto. See Proof of Claim No. 33. GE asserts that the total outstanding class 4 claim amount is approximately \$14,025.	Yes, impaired; allowed claims in this class are entitled to vote on the Plan.	<p>1. On the Effective Date, the Master Lease Agreement shall be deemed to be a purchase/financing agreement and not a lease pursuant to California law.</p> <p>2. In connection with Contract No. 4442259-001, in addition to post-petition payments that the Debtor has already made, the Debtor shall make additional payments at \$1,100 per month, with an additional \$3,025 payment due as the final payment, until all payments made post-petition total \$29,425, in full satisfaction of the class 4 claim.</p> <p>3. Payments shall be due on the due dates referenced in Contract No. 4442259-001.</p>

CLASS #	DESCRIPTION	IMPAIRED? (Yes/No)	TREATMENT
5	Any and all claims asserted by Ally Financial, Inc. FKA GMAC, Inc., asserted in the total amount of \$4,384.66, and secured by the Debtor's 2006 Chevrolet Silverado, Vehicle Identification No. 1GCEC14X06G15831 9.	Yes, impaired; allowed claims in this class are entitled to vote on the Plan.	1. On the Effective Date, in full settlement and satisfaction of the Class 5 claim, the Reorganized Debtor will pay the Class 5 claim holder the amount of \$4,384.66, but the Reorganized Debtor will not pay any interest, late fees, charges, or any other penalties to which the Class 5 claimant may be entitled.

1           **2.       Classes of Priority Unsecured Claims**

2           Certain priority claims that are referred to in Bankruptcy Code Sections 507(a)(3), (4),  
3 (5), (6), and (7) are required to be placed in classes. These types of claims are entitled to priority  
4 treatment as follows: the Bankruptcy Code requires that each holder of such a claim receive cash  
5 on the Effective Date equal to the allowed amount of such claim. However, a class of unsecured  
6 priority claim holders may vote to accept deferred cash payments of a value, as of the Effective  
7 Date, equal to the allowed amount of such claim.

8           The Debtor believes that there are no Section 507(a)(3), (4), (5), (6), or (7) priority  
9 unsecured claims. To the extent the Debtor does have any such allowed priority unsecured  
10 claims (which the Debtor does not believe will be the case), such claims will be considered to be  
11 class 6 allowed claims paid in full out of the Exit Cash on the later of the Effective Date and the  
12 date the Court enters an order allowing such priority claims unless such class 6 allowed claims  
13 can be satisfied in an alternative manner acceptable to the holders of the class 6 allowed claims  
14 (such as by permitting employees to take accrued vacation).

15           **3.       Class of General Unsecured Claims**

16           General unsecured claims are unsecured claims not entitled to priority under Bankruptcy  
17 Code Section 507(a). The following chart identifies the Plan's treatment of the class containing  
18 all of the Debtor's non-priority general unsecured claims (see Exhibit "4" to this Disclosure  
19 Statement for detailed information about each general unsecured claim):  
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<u>CLASS #</u>	<u>DESCRIPTION</u>	<u>IMPAIRED?</u> <u>(Yes/No)</u>	<u>TREATMENT</u>
7	<p>All general unsecured claims</p> <p>The Debtor is aware of a total of between \$672,256.20 - \$886,975.67 of potential class 7 claims. This total does not include the protective claim filed by the RWQCB. This total also does not include the indemnification claim filed by Symphony.</p> <p>A detailed claims chart showing all claims which were scheduled by the Debtor and all proofs of claim which have been filed against the Debtor is attached as Exhibit "4" to this Disclosure Statement (the "Claims Chart"). It is the Debtor's intention to update the Claims Chart prior to the Disclosure Statement hearing to indicate which claims in the Claims Chart are objectionable to the Debtor, even if the Debtor has not yet filed formal objections to those claims.</p>	Yes, impaired; allowed claims in this class are entitled to vote on the Plan.	<p>Within sixty days of the Effective Date, holders of allowed class 7 claims shall receive a cash distribution equal to 10% of their allowed claims, with the total distribution to class 7 not to exceed \$100,000.</p> <p>The Debtor is aware of a total of between \$672,256.20 - \$886,975.67 of potential class 7 claims, so the Debtor expects that the distribution to class 7 will total between \$67,225.62 and \$88,697.57.</p> <p><b>The actual amount of class 7 claims may differ from these estimations, and any difference will affect the total amount of distribution that the Debtor is required to make, not to exceed \$100,000.</b></p> <p>In addition, holders of class 7 allowed claims will also share pro rata in any net recovery obtained (after the payment of fees and expenses) by the Debtor, or Reorganized Debtor, resulting from the pursuit of any causes of action which exist prior to the Effective Date, subject to the priority provisions of section 507 of the Bankruptcy Code.</p> <p>The foregoing treatment of class 7 claims shall be in full settlement and satisfaction of all class 7 claims. Holders of class 7 allowed claims will not receive any other property or distribution from the Debtor or the Reorganized Debtor on account</p>

of their class 7 claims.

#### 4. Class of Interest Holders

Interest holders are the parties who hold an ownership interest (i.e., equity interest) in the Debtor. The following chart identifies the Plan's treatment of the class of interest holders:

<u>CLASS #</u>	<u>DESCRIPTION</u>	<u>IMPAIRED (Y/N)</u>	<u>TREATMENT</u>
8	All equity holders, including holders of membership interests, partnership interests, common stock, preferred stock, stock options, warrants, etc.	Impaired; holders of class 8 interests are not entitled to vote on the Plan because they are deemed to have rejected the Plan pursuant to Section 1126(g) of the Bankruptcy Code.	On the Effective Date, all class 8 interests will be deemed cancelled, terminated and extinguished and of no further force and effect and will no longer constitute an equity interest in the Debtor without the need for either the Debtor or the class 8 interest holders to take any further action. Interest holders will not receive any distribution or retain any property under the Plan on account of their equity interests in the Debtor.  In exchange for the New Value Investment by the New Investor, the New Investor shall receive 100% of the equity interests in the Debtor.

#### D. Other Plan Terms

1. Prior to the entry of the Plan Confirmation Order, the Debtor will obtain an irrevocable Letter of Credit in the amount of \$500,000 (the "Letter of Credit") or other mutually acceptable (to the Debtor and the Municipal Agencies) mechanism for making certain the

1 availability, if necessary, of the equivalent protection of the Letter of Credit, which shall  
2 evidence the Debtor's remediation fund (the "Remediation Fund"). The Remediation Fund will  
3 only be used for remediation costs and not for diagnostic costs, for liability, if any, imposed on  
4 the Debtor for environmental remediation of the Lake in that certain action styled *CDC v. County*  
5 *of San Diego et al.*, pending in the United States District Court, Southern District of California,  
6 Case No. 12-CV-003334-GPC ("Debtor Remediation Liability"). The City of San Marcos,  
7 and/or City of Escondido, and/or County of San Diego, and/or Vallecitos Water District  
8 (collectively, the "Remediation Fund Drawees") shall be the only parties authorized to draw on  
9 the Letter of Credit.

10 A reasonable time prior to finalizing the Letter of Credit and the instructions related  
11 thereto, a draft of the same will be distributed to the Municipal Agencies for review and  
12 approval. The instructions/terms for the Letter of Credit shall provide that the Letter of Credit  
13 may be drawn upon by the Remediation Fund Drawees, if but only if, satisfactory evidence is  
14 provided to the issuing bank that the earliest of one of the following triggering events (each a  
15 "Triggering Event" and collectively, the "Triggering Events") has occurred:

16 i. A stipulated allocation of the Debtor Remediation Liability setting forth a  
17 certain monetary amount of the Debtor's Remediation Liability has existed for 180 days, and  
18 such amount of the Debtor's Remediation Liability established by stipulation has not been paid  
19 by insurance proceeds or otherwise satisfied;

20 ii. The entry of any court order or judgment (whether it is appealable or not)  
21 ascribing any certain monetary amount of Debtor Remediation Liability has existed for 180 days,  
22 and such amount of the Debtor's Remediation Liability established by such court order or  
23 judgment has not been paid by insurance proceeds or otherwise satisfied; and

24 iii. An enforcement order is issued to the Debtor by the RWQCB or the State  
25 Water Board that has existed for 180 days and such amount of the Debtor's Remediation  
26 Liability established by such enforcement order has not been paid by insurance proceeds or  
27 otherwise satisfied.

Any funds drawn upon by the Remediation Fund Drawees from the Letter of Credit shall be used to pay only Debtor Remediation Liability and not for any other purpose. The Remediation Fund Drawees may partially draw upon the Letter of Credit, in an amount less than \$500,000. Any amount drawn under the Letter of Credit shall reduce the total amount available under the Letter of Credit. For example, if a Triggering Event occurs which imposes Debtor Remediation Liability in the amount of \$50,000, the Remediation Fund Drawees may partially draw upon the Letter of Credit in the amount of \$50,000. Upon doing so, the total amount available under the Letter of Credit shall be reduced to \$450,000. In the case of multiple Triggering Events, each Triggering Event shall separately entitle the Remediation Fund Drawees to make draws upon the Letter of Credit.

The Debtor does not believe that drawing on the Letter of Credit will be necessary, because the Debtor believes that its insurance coverage is more than sufficient to cover the costs of compliance with the Debtor Remediation Liability imposed upon the Debtor, if any. The Letter of Credit may only be drawn upon in the amount established by a Triggering Event up to the limit of the Letter of Credit.

Under any Triggering Event set forth above, the Remediation Fund Drawees shall be entitled to draw down upon the Letter of Credit. The Letter of Credit shall not terminate unless either the amount established by Triggering Event i or ii has been satisfied, or there has been a draw down by the Remediation Fund Drawees in an amount which is the lesser of the amount sufficient to fulfill the Debtor Remediation Liability under either Triggering Event i or ii (but not Triggering Event iii) or \$500,000. Thereafter, the Letter of Credit will terminate and be of no force and effect (since the Debtor Remediation Liability will have been satisfied or the Letter of Credit will have already been drawn down upon up to the maximum Debtor Remediation Liability subject to the amount of funds available under the Letter of Credit).

The Debtor's agreement to obtain the Letter of Credit is not in any way an admission of the Debtor's liability – it is solely meant to serve as additional assurance that, to the extent that the Debtor's insurance carriers refuse or are not timely in providing coverage to fund any Debtor

1 Remediation Liability subsequent to a Triggering Event, or to the extent that any Debtor  
2 Remediation Liability is not otherwise satisfied, funds up to the amount of the Letter of Credit  
3 will be available to satisfy the Debtor Remediation Liability pursuant to the terms of the Letter of  
4 Credit. To the extent that the Debtor's insurance carriers refuse to provide coverage to the  
5 Debtor for the Debtor Remediation Liability, if any, the Debtor believes that the insurance  
6 carriers would be doing so in bad faith and that as a result the insurance carriers would be  
7 exposed to substantial liability.

8 **Neither the amount of the Letter of Credit, nor any other provision of the Plan, limit**  
9 **the amount of potential liability that may later be ascribed to the Debtor, and the Letter of**  
10 **Credit is not meant to limit in any way the source of cash available from the Debtor to pay**  
11 **for any liability or obligation ascribed to the Debtor.**

12 To the extent that the Debtor receives any proceeds from insurance carriers in connection  
13 with the tasks of characterization of the Lake that are also costs of compliance with the  
14 Investigative Order not spent in compliance with the Investigative Order, or the cost of  
15 remediation, any such proceeds shall be used solely for the purpose of funding compliance with  
16 the Investigative Order and/or funding the Debtor's Remediation Liability. The existence and  
17 availability of the Letter of Credit, and any use of the Letter of Credit, shall not jeopardize or  
18 affect in any manner whatsoever any of the Debtor's insurance coverage, and shall not be  
19 deemed to constitute any admission or assumption by the Debtor of any liability whatsoever.

20 The Municipal Agencies will provide the Debtor copies of invoices and evidence of  
21 charges incurred for Investigative Order work completed by the Municipal Agencies under the  
22 Investigative Order to date prior to Plan confirmation ("Investigative Order Reimbursement  
23 Evidence"). Within 60 days of receiving the Investigative Order Reimbursement Evidence, or the  
24 Effective Date, whichever is earlier, the Debtor to the extent valid and to the extent that the  
25 Debtor's insurance carriers have not already reimbursed the Municipal Agencies will, pay the  
26 Municipal Agencies the lesser of \$60,000 or 20% of the costs evidenced by the Investigative  
27 Order Reimbursement Evidence as an administrative expense for the costs that the Municipal  
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1 Agencies have incurred in performing Investigative Order Work in connection with the “Scope  
2 of Work” defined in the Site Access Agreement (“Pre-Plan Confirmation Municipal Agencies  
3 Investigative Order Cost Reimbursement”). The payment of the Pre-Plan Confirmation  
4 Municipal Agencies Investigative Order Cost Reimbursement shall not reduce the amount of, or  
5 be funded by, the Letter of Credit.

6 Additionally, under the Plan, the Debtor will within 90 days of receiving additional valid  
7 Investigative Order Reimbursement Evidence of any Investigative Order work or authorized  
8 Lake diagnostic work conducted after the entry of the Confirmation Order by the Municipal  
9 Agencies, pay the Municipal Agencies 20% of such costs to the extent that the Debtor’s  
10 insurance carriers have not already reimbursed the Municipal Agencies such sums. Any such  
11 payment by the Debtor will not be drawn from the Letter of Credit. Any payments that the  
12 Debtor, or Reorganized Debtor make, as the case may be, are subject to a final allocation of  
13 responsibility, which final allocation shall either be agreement upon by the Debtor and the  
14 Municipal Agencies, or determined by the District Court. Such final adjustment of liability by  
15 either agreement or order of the District Court is non-dischargeable under 11 U.S.C. § 1141. Any  
16 payments made by Debtor pursuant to the foregoing and the percentages utilized shall not be  
17 construed as an admission of any fact or limitation or fixing of liability for the environmental  
18 liabilities relating to the Lake of the Debtor, the Municipal Agencies or any other party.

19 **2.** The Debtor will complete the “Revised Workplan” approved by the RWQCB.

20 **3.** The discharge pursuant to Section 1141 shall not apply to any environmental  
21 liability imposed upon the Debtor by a Court of competent jurisdiction in connection with the  
22 Lake. This shall not constitute an admission that the Debtor has any environmental liability  
23 whatsoever in connection with the Lake.

24 **4.** The Debtor will take all reasonably necessary steps on a going forward basis, to  
25 comply with its water rights license in the manner provided by the State Water Board and the  
26 RWQCB. Should the Debtor disagree with a decision made by the State Water Board and/or the  
27 RWQCB it may seek appropriate administrative relief or relief in the District Court.

1           **5.**       The Debtor will take all reasonably necessary steps on a going forward basis to  
2 comply with any maintenance obligations imposed upon the Debtor related to the Lake.

3           **6.**       The RWQCB shall retain its ongoing statutory responsibility and regulatory  
4 police powers to require additional environmental remediation or any other remedy against the  
5 Debtor or any successors in interest that is not subject to the jurisdiction of the Bankruptcy  
6 Court.

7 **E.       Means of Effectuating the Plan and Implementation of the Plan**

8           **1.       Funding for the Plan**

9           The funding for the Plan will come from the Exit Cash, insurance proceeds and revenue  
10 generated from continued business operations.

11           **2.       Composition of the Reorganized Debtor**

12           In exchange for the New Value Investment by the New Investor, the New Investor will  
13 receive 100% of the equity interests in the Debtor.

14           **3.       Post-Confirmation Management**

15           Post-confirmation management of the Reorganized Debtor will remain the same as pre-  
16 confirmation management of the Debtor. Vitti will continue to serve as President of the Debtor.  
17 Vitti will be in charge of the Reorganized Debtor's overall business operations, finances and  
18 strategic planning. Vitti will not receive compensation from the Reorganized Debtor unless and  
19 until a final decree is entered and this case has been closed.

20           **4.       Disbursing Agent**

21           The Reorganized Debtor shall serve as the disbursing agent for purposes of making all  
22 distributions required to be made under the Plan. The Reorganized Debtor will not charge any  
23 disbursing agent fee for making such distributions.

24           **5.       Objections to Claims**

25           The Debtor or the Reorganized Debtor, as the case may be, will file objections to all  
26 claims which are inconsistent with the Debtor's books and records unless the Debtor deems the  
27 inconsistency to be insignificant. All objections to claims must be filed within one hundred  
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1 twenty (120) days following the Effective Date. With respect to disputed claims which are not  
2 resolved prior to the Effective Date, the Reorganized Debtor will have the authority, in its sole  
3 and absolute discretion, in the reasonable exercise of its business judgment, to settle or  
4 compromise any disputed claim without further notice or Court approval. As provided by  
5 Section 502(c) of the Bankruptcy Code, the Court may estimate any contingent or unliquidated  
6 disputed claim for purposes of confirmation of the Plan. The Reorganized Debtor will have the  
7 authority to file any objections to claims following the confirmation of the Plan, and the Court  
8 shall retain jurisdiction over the Debtor, the Reorganized Debtor and this case to resolve such  
9 objections to claims following the confirmation of the Plan. Nothing contained in the Plan shall  
10 constitute a waiver or release by the Debtor or the Reorganized Debtor of any rights of setoff or  
11 recoupment, or of any defense, the Debtor or the Reorganized Debtor may have with respect to  
12 any claim.

#### 13 **6. Avoidance Actions**

14 All claims, causes of action and avoidance actions of the Debtor and its estate are  
15 preserved by the Plan, and the Reorganized Debtor shall have full power and authority to settle,  
16 adjust, retain, enforce or abandon any claim, cause of action or avoidance actions as the  
17 representative of the Debtor's estate under section 1123(b) of the Bankruptcy Code or otherwise,  
18 regardless of whether such claims, causes of action or avoidance actions were commenced prior  
19 or subsequent to the Effective Date. The Court shall retain jurisdiction over the Debtor, the  
20 Reorganized Debtor and this case to resolve any such avoidance causes of action (whether filed  
21 by the Debtor, the Reorganized Debtor or any other party that has standing to pursue such  
22 claims), whether they are filed before or after the Effective Date. Nothing in the Plan shall affect  
23 or alter the right of a subsequent trustee, if any, to file claims or causes of actions against any  
24 former insiders of the Debtor.

#### 25 **7. Exemption from Transfer Taxes**

26 Pursuant to section 1146(c) of the Bankruptcy Code, the issuance, transfer or exchange of  
27 a security, or the making or delivery of an instrument of transfer under a plan confirmed under  
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1 section 1129 of the Bankruptcy Code, may not be taxed under any law imposing a stamp tax or  
2 similar tax. The taxes from which such transfers are exempt include stamp taxes, recording  
3 taxes, sales and use taxes, transfer taxes, and other similar taxes.

4 **8. Employment of Professionals By the Reorganized Debtor and Payment of**  
5 **Professional Fees and Expenses Incurred after the Effective Date**

6 The Reorganized Debtor shall have the authority to employ professionals as the  
7 Reorganized Debtor deems appropriate and to pay the fees and expenses incurred by such  
8 professionals without any further order of the Court.

9 **9. Distributions to be Made Pursuant to the Plan**

10 Except as otherwise agreed to by the Reorganized Debtor in writing, distributions to be  
11 made to holders of allowed claims pursuant to the Plan may be delivered by regular mail,  
12 postage prepaid, to the address shown in the Debtor's schedules, as they may from time to time  
13 be amended in accordance with Bankruptcy Rule 1000, or, if a different address is stated in a  
14 proof of claim duly filed with the Bankruptcy Court, to such address. Checks issued to pay  
15 allowed claims shall be null and void if not negotiated within sixty (60) days after the date of  
16 issuance thereof.

17 **10. Exculpations and Releases**

18 To the maximum extent permitted by 11 U.S.C. § 1125(e) and any other applicable law,  
19 neither the Debtor, nor the Reorganized Debtor, nor any of their employees, officers, directors,  
20 shareholders, agents, members, representatives, or professionals employed or retained by any of  
21 them, whether or not by Bankruptcy Court order, shall have or incur liability to any person or  
22 entity for any act taken or omission made in good faith in connection with or related to the  
23 formulation and implementation of the Plan, or a contract, instrument, release, or other  
24 agreement or document created in connection therewith, the solicitation of acceptances for or  
25 confirmation of the Plan, or the consummation and implementation of the Plan and the  
26 transactions contemplated therein.

1           **11. Injunctions**

2           The Confirmation Order shall enjoin the prosecution, whether directly, derivatively or  
3 otherwise, of any claim, obligation, suit, judgment, damage, demand, debt, right, cause of action,  
4 liability or interest released, discharged or terminated pursuant to the Plan. Except as provided  
5 in the Plan or the Plan Confirmation Order, as of the Effective Date, all entities that have held,  
6 currently hold or may hold a claim or other debt or liability that is discharged or an interest or  
7 other right of an equity security holder that is extinguished pursuant to the terms of the Plan are  
8 permanently enjoined from taking any of the following actions against the Debtor, the  
9 Reorganized Debtor, or their property on account of any such discharged claims, debts or  
10 liabilities or extinguished interests or rights: (i) commencing or continuing, in any manner or in  
11 any place, any action or other proceeding; (ii) enforcing, attaching, collecting or recovering in  
12 any manner any judgment, award, decree or order; (iii) creating, perfecting or enforcing any lien  
13 or encumbrance; (iv) asserting a setoff, right of subrogation or recoupment of any kind against  
14 any debt, liability or obligation due to the Debtor; and (v) commencing or continuing any action  
15 in any manner, in any place, that does not comply with or is inconsistent with the provisions of  
16 the Plan. By accepting distribution pursuant to the Plan, each holder of an allowed claim  
17 receiving distributions pursuant to the Plan shall be deemed to have specifically consented to the  
18 injunctions set forth in this Section.

19           THIS PARAGRAPH DOES NOT APPLY TO ANY CLAIM, CROSS-CLAIM OR  
20 COUNTERCLAIM TO DETERMINE LIABILITY FOR AND THE COST OF LAKE  
21 REMEDIATION AND/OR COMPLIANCE WITH INVESTIGATIVE ORDERS AND THE  
22 OBLIGATION OF ANY PARTY TO COMPLY WITH APPLICABLE STATE OR FEDERAL  
23 LAW IN THE DISTRICT COURT ACTION.

24           **12. Executory Contracts and Unexpired Leases**

25           On the Effective Date, all of the Debtor's remaining executory contracts and unexpired  
26 leases which have not previously been assumed or rejected by the Debtor shall be deemed to be  
27 assumed by the Debtor and to become valid and binding executory contracts and unexpired  
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1 leases of the Reorganized Debtor (the “Debtor’s Assumed Contracts and Leases”). By 5:00 p.m.  
2 PST on the day prior to the date of the Plan confirmation hearing, the Debtor shall file a pleading  
3 with the Court identifying all of the Debtor’s Assumed Contracts and Leases. All of the  
4 Debtor’s remaining executory contracts and unexpired leases which have not previously been  
5 assumed or rejected by the Debtor and which are not included among the Debtor’s Assumed  
6 Contracts and Leases shall be deemed rejected effective as of 11:59 PST on the Effective Date.  
7 With respect to all of the Debtor’s Assumed Contracts and Lease for which a default exists on  
8 the Effective Date, the Debtor will be required to (a) cure or provide adequate assurance that the  
9 Reorganized Debtor will promptly cure any default existing under any such executory contracts  
10 and unexpired leases, (b) compensate or provide adequate assurance that the Reorganized Debtor  
11 will promptly compensate any other party to such executory contracts and unexpired leases for  
12 any actual pecuniary loss to such parties resulting from any default existing under any such  
13 executory contracts and unexpired leases, and (c) provide adequate assurance of future  
14 performance under such executory contracts and unexpired leases. **THE BAR DATE FOR**  
15 **FILING A PROOF OF CLAIM BASED ON A CLAIM ARISING FROM THE**  
16 **REJECTION OF AN UNEXPIRED LEASE OR EXECUTORY CONTRACT WHICH IS**  
17 **REJECTED ON THE EFFECTIVE DATE WILL BE THIRTY DAYS AFTER THE**  
18 **EFFECTIVE DATE.** Any claim based on the rejection of an unexpired lease or executory  
19 contract will be barred if the proof of claim is not timely filed, unless the Court orders otherwise.

20 **13. Changes in Rates Subject to Regulatory Commission Approval**

21 The Debtor is not subject to governmental regulatory commission approval of its rates.

22 **14. Retention of Jurisdiction**

23 After confirmation of the Plan and occurrence of the Effective Date, and expressly  
24 subject to the Bankruptcy Court’s more limited post-confirmation jurisdiction under 28 U.S.C.  
25 §§ 157 and 1334, in addition to jurisdiction which exists in any other court, the Court will retain  
26 such jurisdiction as is legally permissible including for the following purposes:  
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1 i. To resolve any and all disputes regarding the operation and interpretation  
2 of the Plan and the Plan Confirmation Order;

3 ii. To determine the allowability, classification, or priority of claims and  
4 interests upon objection by the Debtor, the Reorganized Debtor, or by other parties in interest  
5 with standing to bring such objection or proceeding and to consider any objection to claim or  
6 interest whether such objection is filed before or after the Effective Date;

7 iii. To determine the extent, validity and priority of any lien asserted against  
8 property of the Debtor or property of the Debtor's estate;

9 iv. To construe and take any action to enforce the Plan, the Plan Confirmation  
10 Order, and any other order of the Court, issue such orders as may be necessary for the  
11 implementation, execution, performance, and consummation of the Plan, the Plan Confirmation  
12 Order, and all matters referred to in the Plan and the Plan Confirmation Order, and to determine  
13 all matters that may be pending before the Court in this case on or before the Effective Date with  
14 respect to any person or entity related thereto, not otherwise subject to the jurisdiction of the  
15 District Court in the District Court Action;

16 v. To determine (to the extent necessary) any and all applications for  
17 allowance of compensation and reimbursement of expenses of professionals for the period on or  
18 before the Effective Date;

19 vi. To determine any request for payment of administrative expenses;

20 vii. To determine motions for the rejection, assumption, or assignment of  
21 executory contracts or unexpired leases filed before the Effective Date and the allowance of any  
22 claims resulting therefrom;

23 viii. To determine all applications, motions, adversary proceedings, contested  
24 matters, and any other litigated matters instituted during the pendency of this case whether  
25 before, on, or after the Effective Date including avoidance causes of action, not otherwise subject  
26 to the jurisdiction of the District Court in the District Court action;

ix. To adjudicate any avoidance causes of action filed by the Debtor or Reorganized Debtor, whether such avoidance cause of action is filed before or after the Effective Date;

x. To determine such other matters and for such other purposes as may be provided in the Plan Confirmation Order;

xi. To modify the Plan under Section 1127 of the Bankruptcy Code in order to remedy any apparent defect or omission in the Plan or to reconcile any inconsistency in the Plan so as to carry out its intent and purpose;

xii. Except as otherwise provided in the Plan or the Plan Confirmation Order, to issue injunctions, to take such other actions or make such other orders as may be necessary or appropriate to restrain interference with the Plan or the Plan Confirmation Order, or the execution or implementation by any person or entity of the Plan or the Plan Confirmation Order, not otherwise subject to the jurisdiction of the District Court in the District Court Action;

xiii. To issue such orders in aid of consummation of the Plan and the Plan Confirmation Order, not otherwise subject to the jurisdiction of the District Court in the District Court Action; and

xiv. To enter a final decree closing this Chapter 11 case.

#### **V. TAX CONSEQUENCES OF THE PLAN**

PERSONS OR ENTITIES CONCERNED WITH CONFIRMATION OF THE PLAN SHOULD CONSULT WITH THEIR OWN ATTORNEYS. THIS DISCUSSION DOES NOT ADDRESS FOREIGN, STATE OR LOCAL INCOME TAX CONSEQUENCES, ESTATE OR GIFT TAX CONSEQUENCES OF THE PLAN. THE DEBTOR HAS NOT CONSULTED WITH TAX COUNSEL WITH RESPECT TO THE CONSEQUENCES OF THE PLAN. LEVENE, NEALE, BENDER, YOO & BRILL L.L.P. HAS NOT PROVIDED ANY TAX ADVICE WITH RESPECT TO THE PLAN.

1           **1.       FEDERAL INCOME TAX CONSEQUENCES TO DEBTOR**

2           This summary is based on the Internal Revenue Code of 1986, as amended (the “IRC”),  
3 the Treasury Regulations promulgated and proposed thereunder (the “Regulations”), judicial  
4 decisions, and published administrative rulings and pronouncements of the Internal Revenue  
5 Service (the “IRS”) currently in effect. These authorities are all subject to change, possibly  
6 with retroactive effect, and any such change could alter or modify the federal income tax  
7 consequences described below.

8           In general, based upon the information available to it, the Debtor does not expect to  
9 incur any substantial tax liability as a result of implementation of the Plan.

10          The IRC provides that a debtor in a Chapter 11 bankruptcy case must reduce certain of  
11 its tax attributes by the amount of any cancellation of indebtedness (“COD”) income that is  
12 realized as a result of the bankruptcy plan, instead of recognizing the income. COD income is  
13 the excess of the amount of a taxpayer’s indebtedness that is discharged over the amount or  
14 value of the consideration exchanged therefor. As a result of the discharge and satisfaction of  
15 claims pursuant to the Plan, the Debtor may realize some COD income, and, accordingly, the  
16 Debtor will reduce certain tax attributes by the amount of unrecognized COD income.

17          Tax attributes that are subject to reduction include net operating losses, capital losses,  
18 loss carryovers, certain tax credits and, subject to certain limitations, the tax basis of property.  
19 The reduction of tax attributes occurs after the determination of the Debtor’s tax for the taxable  
20 year in which the COD income is realized. The Debtor believes that this will only occur once  
21 the Debtor obtains a discharge.

22          Payments of interest, dividends, and certain other payments are generally subject to  
23 withholding unless the payee of such payment furnishes such payee’s correct taxpayer  
24 identification number (social security number or employer identification number) to the payor.  
25 The Reorganized Debtor may be required to withhold the applicable percentage of any  
26 payments made to a holder who does not provide its taxpayer identification number. Backup  
27  
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1 withholding is not an additional tax, but an advance payment that may be refunded to the extent  
2 it results in an overpayment of tax.

3 **2. FEDERAL INCOME TAX CONSEQUENCES TO CREDITORS**

4 In general, each holder of an allowed claim will recognize gain or loss in an amount  
5 equal to the difference between (i) the sum of the amount of any cash and the fair market value  
6 of any other property that such holder receives under the Plan in satisfaction of its claim (other  
7 than in respect of any claim for accrued but unpaid interest), and (ii) such holder's adjusted tax  
8 basis in its claim (other than any claim for accrued but unpaid interest).

9 The character, amount and timing of income, gain or loss the holders of allowed claims  
10 recognize as a consequence of the distributions under the Plan will depend upon, among other  
11 things, (i) the manner in which the claim was acquired, (ii) the length of time the claim was  
12 held, (iii) whether the claim was acquired at a discount, (iv) whether the holder of an allowed  
13 claim has taken a bad debt deduction for the claim, (v) whether the holder has previously  
14 included accrued but unpaid interest with respect to the claim, (vi) the holder's method of tax  
15 accounting, (vii) whether the claim is an installment obligation under the tax laws, and (viii) the  
16 type of consideration received or deemed received by the holder in exchange for its claim. In  
17 addition, in the event interest is paid on the claim, the holder may have interest income.  
18 Therefore, holders of allowed claims should consult their tax advisors for information that may  
19 be relevant to their particular situations and circumstances and the particular tax consequences  
20 to such holders as a result thereof.

21 Depending on the nature of the claim, the Debtor may be required to file information  
22 returns with the appropriate taxing agencies to report payments to the holders of allowed claims.  
23 In order to make distributions, the holders of allowed claims may be required to provide certain  
24 federal income taxpayer information, such as the holder's taxpayer identification number.

25 **THE TAX CONSEQUENCES TO CREDITORS OR INTEREST HOLDERS**  
26 **MAY VARY BASED UPON THE INDIVIDUAL CIRCUMSTANCES OF EACH SUCH**  
27 **HOLDER. CREDITORS MAY RECOGNIZE INCOME OR LOSS AS A RESULT OF**  
28

1 THE PLAN. THIS DISCUSSION DOES NOT CONSTITUTE TAX ADVICE OR A TAX  
2 OPINION CONCERNING THE MATTERS DESCRIBED. THERE CAN BE NO  
3 ASSURANCE THAT THE INTERNAL REVENUE SERVICE WILL NOT  
4 CHALLENGE ANY OR ALL OF THE TAX CONSEQUENCES DESCRIBED HEREIN,  
5 OR THAT SUCH A CHALLENGE, IF ASSERTED, WOULD NOT BE SUSTAINED.  
6 ACCORDINGLY, EACH CREDITOR IS STRONGLY URGED TO CONSULT WITH  
7 ITS OWN TAX ADVISOR REGARDING THE FEDERAL, STATE, LOCAL, FOREIGN  
8 OR OTHER TAX CONSEQUENCES OF THE PLAN.

9 THE FOREGOING IS INTENDED TO BE ONLY A SUMMARY OF CERTAIN  
10 UNITED STATES FEDERAL INCOME TAX CONSEQUENCES OF THE PLAN, AND  
11 IS NOT A SUBSTITUTE FOR CAREFUL TAX PLANNING WITH A TAX  
12 PROFESSIONAL. THE FEDERAL, STATE AND LOCAL INCOME AND OTHER  
13 TAX CONSEQUENCES OF THE PLAN ARE COMPLEX AND, IN SOME CASES,  
14 UNCERTAIN. SUCH CONSEQUENCES MAY ALSO VARY BASED ON THE  
15 INDIVIDUAL CIRCUMSTANCES OF EACH CREDITOR OR INTEREST HOLDER.  
16 ACCORDINGLY, EACH CREDITOR IS STRONGLY URGED TO CONSULT WITH  
17 HIS, HER OR ITS OWN TAX ADVISOR REGARDING THE FEDERAL, STATE AND  
18 LOCAL INCOME AND OTHER TAX CONSEQUENCES UNDER THE PLAN.

#### 19 VI. CONFIRMATION REQUIREMENTS AND PROCEDURES

20 PERSONS OR ENTITIES CONCERNED WITH CONFIRMATION OF THE PLAN  
21 SHOULD CONSULT WITH THEIR OWN ATTORNEYS BECAUSE THE LAW ON  
22 CONFIRMING A PLAN OF REORGANIZATION IS VERY COMPLEX. The following  
23 discussion is intended solely for the purpose of alerting readers about basic confirmation issues,  
24 which they may wish to consider, as well as certain deadlines for filing claims. The Debtor  
25 CANNOT and DOES NOT represent that the discussion contained below is a complete summary  
26 of the law on this topic.

Many requirements must be met before the Court can confirm a plan. Some of the requirements include that the plan must be proposed in good faith, acceptance of the plan, whether the plan pays creditors at least as much as creditors would receive in a Chapter 7 liquidation, and whether the plan is feasible. These requirements are not the only requirements for confirmation.

**A. Who May Vote or Object**

Any party in interest may object to the confirmation of the Plan, but, as explained below, not everyone is entitled to vote to accept or reject the Plan.

**B. Who May Vote to Accept/Reject the Plan**

A creditor or interest holder has a right to vote for or against the Plan if that creditor or interest holder has a claim or interest which is both (1) allowed or allowed for voting purposes and (2) classified in an impaired class.

**C. What Is an Allowed Claim/Interest**

As noted above, a creditor or interest holder must first have an allowed claim or interest to have the right to vote. Generally, any proof of claim or interest will be allowed, unless a party in interest files an objection to the claim or interest. When an objection to a claim or interest is filed, the creditor or interest holder holding the claim or interest cannot vote unless the Court, after notice and hearing, either overrules the objection or allows the claim or interest for voting purposes.

The claims bar date in this case was September 30, 2011. A claim is deemed allowed if (1) it is scheduled on the Debtor's schedules and such claim is not scheduled as disputed, contingent, or unliquidated, and (2) no party in interest has objected to the claim. An interest is deemed allowed if it is scheduled and no party in interest has objected to the interest.

A detailed claims chart is attached hereto as Exhibit "4". The claims chart identifies all claims which were scheduled by the Debtor, including the amounts and priorities of the claims and whether the Debtor contends that the claims are disputed, contingent or unliquidated. The claims chart also identifies all proofs of claim which were filed by creditors asserting claims

1 against the Debtor, including the amounts and priorities of the claims asserted. Finally, the  
2 claims chart indicates whether the Debtor has disputed or presently disputes any portion of the  
3 claims. The Debtor reserves the right to update and modify the claims chart at any time and to  
4 file objections to claims even if the claims chart does not identify any dispute relating to a  
5 particular claim.

6 **D. What Is an Impaired Claim/Interest.**

7 As noted above, an allowed claim or interest has the right to vote only if it is in a class  
8 that is impaired under the Plan. A class is impaired if the Plan alters the legal, equitable, or  
9 contractual rights of the members of that class. For example, a class comprised of general  
10 unsecured claims is impaired if the Plan fails to pay the members of that class 100% of what they  
11 are owed.

12 In this case, the Debtor believes that members of classes 1, 2, 3, 4, 5 and 7 are impaired.  
13 Members of these impaired classes are entitled to vote to accept or reject the Plan. Members of  
14 class 6 (if any) are not impaired and therefore are not entitled to vote on the Plan. Members of  
15 class 8 are deemed to reject the Plan because they receive no distribution under the Plan, and,  
16 therefore, are not entitled to vote on the Plan. Parties who dispute the Debtor's characterization  
17 of their claim or interest as being impaired or unimpaired may file an objection to the Plan  
18 contending that the Debtor has incorrectly characterized the class.

19 **E. Who Is Not Entitled to Vote.**

20 The following four types of claims are not entitled to vote: (1) claims that have been  
21 disallowed; (2) claims in unimpaired classes; (3) claims entitled to priority pursuant to  
22 Bankruptcy Code Sections 507(a)(2), (a)(3), and (a)(8); and (4) claims in classes that do not  
23 receive or retain any value under the Plan. Claims in unimpaired classes are not entitled to vote  
24 because such classes are deemed to have accepted the Plan. Claims entitled to priority pursuant  
25 to Bankruptcy Code Sections 507(a)(2), (a)(3), and (a)(8) are not entitled to vote because such  
26 claims are not placed in classes and they are required to receive certain treatment specified by the  
27 Bankruptcy Code. Claims in classes that do not receive or retain any value under the Plan do not  
28

1 vote because such classes are deemed to have rejected the Plan. EVEN IF YOUR CLAIM IS OF  
2 THE TYPE DESCRIBED ABOVE, YOU MAY STILL HAVE A RIGHT TO OBJECT TO THE  
3 CONFIRMATION OF THE PLAN.

4 **F. Who Can Vote in More Than One Class.**

5 A creditor whose claim has been allowed in part as a secured claim and in part as an  
6 unsecured claim is entitled to accept or reject the Plan in both capacities by casting one ballot for  
7 the secured part of the claim and another ballot for the unsecured claim.

8 **G. Votes Necessary to Confirm the Plan.**

9 If impaired classes exist, the Court cannot confirm the Plan unless (1) at least one  
10 impaired class has accepted the Plan without counting the votes of any insiders within that class,  
11 and (2) all impaired classes have voted to accept the Plan, unless the Plan is eligible to be  
12 confirmed by “cramdown” on non-accepting classes, as discussed below.

13 **H. Votes Necessary for a Class to Accept the Plan.**

14 A class of claims is considered to have accepted the Plan when more than one-half (1/2)  
15 in number and at least two-thirds (2/3) in dollar amount of the claims which actually voted on the  
16 plan, voted in favor of the plan. A class of interests is considered to have “accepted” a plan  
17 when at least two-thirds (2/3) in amount of the interest-holders of such class which actually  
18 voted on the plan, voted to accept the plan.

19 **I. Treatment of Non-accepting Classes.**

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

**J. Request for Confirmation Despite Nonacceptance by Impaired Class(es).**

The Debtor will ask the Court to confirm the Plan by cramdown on any and all impaired classes that do not vote to accept the Plan.

**K. Liquidation Analysis.**

Another confirmation requirement is the “Best Interest Test”, which requires a liquidation analysis. Under the Best Interest Test, if a claimant or interest holder is in an impaired class and that claimant or interest holder does not vote to accept the Plan, then that claimant or interest holder must receive or retain under the Plan property of a value not less than the amount that such holder would receive or retain if the Debtor were liquidated under Chapter 7 of the Bankruptcy Code.

In a Chapter 7 case, the debtor’s assets are usually sold by a Chapter 7 trustee. Secured creditors are paid first from the sales proceeds of properties on which the secured creditor has a lien. Administrative claims are paid next. Next, unsecured creditors are paid from any remaining sales proceeds, according to their rights to priority. Unsecured creditors with the same priority share in proportion to the amount of their allowed claim in relationship to the amount of total allowed unsecured claims. Finally, interest holders receive the balance that remains after all creditors are paid, if any.

For the Court to be able to confirm the Plan, the Court must find that all creditors and interest holders who do not accept the Plan will receive at least as much under the Plan as such holders would receive under a Chapter 7 liquidation of the Debtor. The Debtor maintains that this requirement is clearly met.

The impaired classes under the Plan consist of class 1, class 2, class 3, class 4, class 5 (collectively secured creditors), and class 7 (general unsecured creditors) and class 8(interests). The Debtor must therefore satisfy the “best interest of creditors test” with respect to members of these classes who do not vote to accept the Plan and with respect to class 8 (which is deemed to have rejected the Plan).

1 The Debtor believes that in a Chapter 7 of the Debtor, all of the secured creditors with  
2 allowed secured claims would foreclose upon their collateral, which does not have any equity.  
3 The only unencumbered real property holding of the Debtor is the Park Land. The Trustee  
4 would likely abandon this property because the Park Land is of negligible value and the costs  
5 associated with marketing and selling the Park Land would outweigh any benefit to the estate.  
6 Taking into consideration the statutory fees to which the Chapter 7 Trustee would be entitled to  
7 pursuant to Section 326 of the Bankruptcy Code, as well as the fees and expenses of the Chapter  
8 7 Trustee's professionals, the estate would obtain no benefit from the sale of the Park Land.

9 With the foregoing assumptions, the Debtor estimates that there would be no proceeds of  
10 the sale of the Park Land which is the only unencumbered piece of real property owned by the  
11 Debtor available to be distributed to general unsecured creditors (class 7). Additionally, any  
12 recoveries from the sale of the Debtor's inventory or collection of accounts receivable would be  
13 negligible in comparison to the administrative costs associated with such sales and collections,  
14 and clearly, any such benefit would still not net any recovery to general unsecured creditors. The  
15 total projected distribution to class 7 claim holders in a Chapter 7 liquidation of the Debtor is  
16 therefore \$0. This is clearly less than the estimated 10% distribution which is to be distributed to  
17 general unsecured creditors (class 7) under the Plan. There can be no question that the recovery  
18 for class 9 claim holders under the Plan will be greater than their recovery would be in a Chapter  
19 7 liquidation of the Debtor because under the Plan, there is an actual distribution being provided  
20 to general unsecured creditors whereas in a Chapter 7 liquidation, general unsecured creditors  
21 would receive no distribution whatsoever.

22 Using the same assumed total of between \$672,256.20 - \$886,975.67 of potential class 7  
23 claims used above, the Debtor projects that each holder of a class 7 allowed claim would receive  
24 a cash distribution equal to 0% in a Chapter 7 liquidation of the Debtor (as compared to the  
25 estimated 10% distribution under the Plan).

26 The Debtor believes that a chapter 7 trustee would handle avoidance actions in the  
27 identical manner as they are being handled under the Debtor's Plan.  
28

1 As a result of the foregoing, the Debtor believes that holders of class 9 allowed claims  
2 will receive more under the Plan than they would receive in a chapter 7 liquidation of the Debtor.

3 In a chapter 7 liquidation of the Debtor, holders of class 2 and class 3 claims, which the  
4 Debtor believes are avoidable claims not entitled to any recovery under any circumstance would  
5 receive no distribution. Under the Plan, holders of class 2 and class 3 claims, assuming that the  
6 Debtor successfully avoids those claims and liens associated with those claims, also will not  
7 receive any distribution. Holders of class 2 and class 3 claims will therefore receive *not less*  
8 under the Plan than they would receive in a Chapter 7 liquidation of the Debtor.

9 In a chapter 7 liquidation of the Debtor, holders of class 8 interests would receive no  
10 distribution. Under the Plan, holders of class 8 interests also will not receive any distribution.  
11 Holders of class 8 interests will therefore receive *not less* under the Plan than they would receive  
12 in a Chapter 7 liquidation of the Debtor.

13 The Debtor has therefore satisfied the “best interests of creditors test” with respect to any  
14 claim holder who votes against the Plan, and with respect to class 8 interests. The Debtor  
15 contends that the Plan provides fair and equitable treatment of all classes of creditors and the  
16 greatest feasible recovery to all creditors.

17 **L. Feasibility.**

18 Another requirement for confirmation involves the feasibility of the Plan, which means  
19 that confirmation of the Plan is not likely to be followed by the liquidation, or the need for  
20 further financial reorganization, of the Reorganized Debtor.

21 There are at least two important aspects of a feasibility analysis. The first aspect  
22 considers whether the Debtor will have enough cash on hand on the Effective Date to pay all of  
23 the claims and expenses which are entitled to be paid on such date. Prior to the Plan  
24 confirmation hearing, the New Investor will deposit the entire amount of the New Value  
25 Contribution into a segregated trust account maintained by LNBYB which will eliminate any  
26 doubt whatsoever as to the first aspect of Plan feasibility. The Debtor’s estimated cash on hand  
27 can be easily evidenced by the Debtor’s bank statements and operating reports. Additionally, the  
28

1 Debtor will submit documentation, to the extent necessary, evidencing the ability of the Debtor  
2 and the LSM Lender to close the Additional Financing transaction.

3 The second aspect considers whether the Reorganized Debtor will have enough cash over  
4 the life of the Plan to make the required Plan payments. Attached as Exhibit "5" to this  
5 Disclosure Statement is a preliminary cash flow projection prepared for the five-year period  
6 following the Effective Date for the Debtor's operations. The Debtor believes that it will have  
7 enough cash over the life of the Plan to make the required Plan payments.

## 8 **VII. RISK FACTORS REGARDING THE PLAN**

9 As described above, there is no risk to the Debtor's ability to satisfy the first aspect of  
10 Plan feasibility because the New Value Contribution will have already been deposited into a  
11 segregated trust account maintained by LNBYB prior to the Plan confirmation hearing, and  
12 because the Debtor will demonstrate at the Plan Confirmation Hearing that the Additional  
13 Financing will be available. The Debtor also believes that it will be able to meet its obligations  
14 under the terms of the Plan, assuming that the Debtor does not incur substantial additional  
15 expenses in connection with confirming the Plan, and assuming that the Debtor will be able to  
16 effectively control the costs of environmental analysis and clean-up efforts. There is the risk that  
17 the Debtor's projections do not materialize, that expenses increase, and that the Debtor's industry  
18 suffers further economic setbacks in the future, all of which could affect the feasibility of the  
19 Plan. There is also the risk that the Debtor will be unable to repay LSM Lender the full amount  
20 of LSM Lender's class 1 claim at the end of the five-year term for the repayment of LSM  
21 Lender's class 1 claim. However, that risk is mitigated by the fact that approximately \$2 million  
22 of Additional Financing will be used to improve the Debtor's assets; that LSM Lender and the  
23 New Investor have a strong relationship; that the New Investor expects that it will be able to  
24 refinance the class 1 claim within five years of the Effective Date and obtain financing terms  
25 even more favorable than presently available financing terms.

**VIII. EFFECT OF CONFIRMATION OF THE PLAN**

**A. Discharge.**

The Debtor will receive a discharge under the Plan pursuant to and in accordance with the provisions of Section 1141 of the Bankruptcy Code because there has not been a liquidation of all or substantially all of the property of the Debtor's estate and because the Reorganized Debtor will be continuing with the Debtor's current business operations. The discharge pursuant to Section 1141 shall not apply to any environmental liability imposed upon the Debtor by a Court of competent jurisdiction in connection with the Lake as to any claim, counterclaim and/or cross-claim between and among the parties to the District Court Action. This shall not constitute an admission that the Debtor has any environmental liability whatsoever in connection with the Lake. The RWQCB shall retain its ongoing statutory responsibility and regulatory police powers to require additional environmental remediation or any other remedy against the Debtor or any successors in interest that is not subject to the jurisdiction of the Bankruptcy Court.

**B. Modification of the Plan.**

The Debtor may modify the Plan at any time before confirmation. However, the Court may require a new disclosure statement and/or re-voting on the Plan if the Debtor modifies the Plan before confirmation. The Debtor may also seek to modify the Plan at any time after confirmation of the Plan so long as (1) the Plan has not been substantially consummated and (2) the Court authorizes the proposed modifications after notice and a hearing.

**C. Post-Confirmation Status Reports and Quarterly Fees.**

Until a final decree closing the Debtor's Chapter 11 case is entered, the Reorganized Debtor shall file a status report with the Court approximately every one hundred and twenty (120) days explaining what progress has been made toward consummation of the confirmed Plan. In addition, the Reorganized Debtor shall submit quarterly status reports to the Office of the United States Trustee and, to the extent required by law, pay post-confirmation quarterly fees to the Office of the United States Trustee until the case is closed. The Reorganized Debtor shall be authorized to file a motion for a final decree irrespective of whether avoidance causes of

1 action remain pending, so long as the Court otherwise finds that the requirements for entry of  
2 final decree have been met.

3 **D. Post-Confirmation Conversion/Dismissal And Default Provisions.**

4 A creditor or any other party in interest may bring a motion to convert or dismiss the case  
5 under Section 1112(b) of the Bankruptcy Code after the Plan is confirmed if there is a default in  
6 performing the Plan. If the Court orders the case converted to Chapter 7 after the Plan is  
7 confirmed, then all property that had been property of the Debtor's Chapter 11 estate, and that  
8 has not been disbursed pursuant to the Plan, will revert in the Chapter 7 estate, and the automatic  
9 stay will be reimposed upon the reverted property, but only to the extent that relief from stay was  
10 not previously authorized by the Court during this case. The Plan Confirmation Order may also  
11 be revoked under very limited circumstances. The Court may revoke the Plan Confirmation  
12 Order if it was procured by fraud and if a party in interest brings an adversary proceeding to  
13 revoke confirmation within 180 days after the entry of the Plan Confirmation Order.

14 **E. Final Decree.**

15 Once this estate has been fully administered as referred to in Bankruptcy Rule 3022, the  
16 Reorganized Debtor shall file a motion with the Court to obtain a final decree to close this case.  
17 The Reorganized Debtor shall be responsible for the timely payment of all fees incurred pursuant  
18 to 28 U.S.C. Section 1930(a)(6).

19  
20 Dated: December 6, 2013

21 Presented By:

22 LEVENE, NEALE, BENDER, YOO & BRILL L.L.P.

23 By: /s/ Krikor J. Meshefejian  
24 RON BENDER  
25 KRIKOR J. MESHEFEJIAN  
26 Attorneys for Chapter 11  
27 Debtor and Plan Proponent  
28

1 CITIZENS DEVELOPMENT CORP.,  
2 a California corporation

3 By:   
4 PINO VITTI  
5 Authorized Representative  
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**EXHIBIT “1”**

# CITIZENS DEVELOPMENT CORP

October 2013

## Combined Income Statement

### MONTH

### YEAR TO DATE

#### RECREATION CENTER

Income	\$ 72,863.65	\$ 781,574.90
Expenses	\$ (67,175.21)	\$ (653,741.88)
NET INCOME (LOSS)	\$ 5,688.44	\$ 127,833.02

#### LSM RESORT HOTEL

Income	\$ -	\$ 16,802.81
Expenses	\$ -	\$ -
NET INCOME (LOSS)	\$ -	\$ 16,802.81

#### CORPORATE OFFICE

Income	\$ 152.00	\$ (230,543.55)
Expenses	\$ (1,254.56)	\$ (15,459,252.52)
NET INCOME (LOSS)	\$ (1,102.56)	\$ (15,689,796.07)

#### TOTAL INCOME (LOSS)

\$ 4,585.88	\$ (15,545,160.24)
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# CITIZENS DEVELOPMENT CORP

October 2013

## Recreation Center Profit & Loss Statement

	MONTH	YEAR TO DATE
<b>REVENUE</b>		
Assessments	60,180.86	603,126.99
Boat Rental	-	-
Dock Rental	8,831.31	90,260.41
Escrow Transfer Fees	500.00	4,500.00
Event Revenue	2,648.00	37,587.90
Social Dues	309.95	3,261.55
Coke Machine Sales (Net)	119.06	1,188.47
Newsletter Advertising	-	-
Other Revenue	-	400.00
Ramp/Dry Dock Fees	-	750.00
Tennis Commission	160.20	1,084.20
DiNofia Settlement	-	-
Insurance Reimbursements	-	38,387.33
<b>TOTAL REVENUE</b>	<b>72,749.38</b>	<b>780,546.85</b>
<b>EXPENSES</b>		
<b>Payroll Expenses</b>		
Wages - Boat Maintenance	223.00	3,932.00
Wages - Boat Rental	-	-
Wages - Supervisory	4,122.00	41,220.00
Wages - Dock Repair	2,783.00	22,102.00
Wages - Lake	963.00	5,859.00
Wages - Lodge	-	-
Wages - Maintenance	2,900.00	27,475.00
Wages - Meeting Room	-	2,112.00
Wages - Office	6,179.38	62,133.56
Wages - Pool Repair & Maintenance	107.00	3,952.00
Wages - Vac/Hol/Sick/Bonus	840.00	8,850.22
Salaries - Management	-	-
Payroll Costs	4,652.13	48,995.88
<b>Total Payroll Expenses</b>	<b>22,769.51</b>	<b>226,631.66</b>
<b>Operational Expenses</b>		
Advertising & Promotion	370.55	4,310.75
Bad Debt Expense	-	36,926.72
Auto & Fuel Expense	343.49	5,301.97
Boat Maintenance	384.21	1,164.06
Computer Expense	200.00	2,113.37
Consulting / Purchased Services	-	-
Dock Repair	3.85	4,947.83
Employee Meals / Relations	-	15.49
Equipment Rental	-	58.93
Event Expense	-	353.93
Gardening & Landscaping	1,933.33	25,390.67

Lake Expense	-	6,314.20
Laundry Expense	-	-
Labor Screening Services	-	-
Minor Equipment	61.50	770.53
Newsletter Expense	-	-
Office Expense	1,384.98	14,841.11
Other Expenses	179.00	3,188.98
Repair & Maintenance - General	1,343.86	23,488.10
Repair & Maintenance - Pool	451.03	5,496.46
Supplies	458.01	3,508.62
Telephone	311.62	3,185.64
Uniforms Expense	-	-
Utilities	10,429.08	71,249.20
<b>Total Operational Expenses</b>	<b>17,854.51</b>	<b>212,626.56</b>

<b>TOTAL EXPENSES</b>	<b>40,624.02</b>	<b>439,258.22</b>
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<b>OPERATING MARGIN</b>	<b>32,125.36</b>	<b>341,288.63</b>
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<b>FIXED COSTS</b>		
Amortization & Depreciation	1,317.90	18,233.52
Corporate Office Expense	-	-
Expense Reserve	-	-
Insurance - General & Auto	(982.40)	12,202.50
Mortgage Interest	21,145.83	144,520.83
Legal & Accounting	-	-
Management Fees	-	-
Property Taxes	2,127.04	17,042.93
Taxes & Licenses	2,178.55	13,330.83
U.S. Trustee Fees	650.00	8,125.00
<b>TOTAL FIXED COSTS</b>	<b>26,436.92</b>	<b>213,455.61</b>

<b>TOTAL NOI</b>	<b>5,688.44</b>	<b>127,833.02</b>
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## October 2013

<b>LSM Resort Hotel</b>		
Profit & Loss Statement		
	MONTH	YEAR TO DATE
<b>REVENUE</b>		
Rooms, Transient	-	-
Rooms, Meeting	-	-
Room Revenue, Long Term Stay	-	-
Meeting Room Equipment	-	-
Other Hotel Revenue	-	-
Telephone Revenue	-	-
Prior Period Adjustment	-	16,802.81
Gain (Loss) on Disposal of Asset	-	-
<b>TOTAL REVENUE</b>	<b>-</b>	<b>16,802.81</b>
<b>EXPENSES</b>		
<b>Payroll Expenses</b>		
Wages - Meeting Room	-	-
Wages - Office	-	-
Wages - Management	-	-
Wages - Gardening & Landscape	-	-
Wages - Maintenance & Engineering	-	-
Wages - Sales & Marketing	-	-
Payroll Costs	-	-
<b>Total Payroll Expenses</b>	<b>-</b>	<b>-</b>
<b>Operational Expenses</b>		
Advertising	-	-
Auto Expense	-	-
Bank / Merchant Fees	-	-
Casual Labor	-	-
Commissions	-	-
Computer Expense	-	-
Consulting / Purchased Services	-	-
Dues & Subscriptions	-	-
Employee Meals / Relations	-	-
Equipment Expense	-	-
Gardening/Landscaping	-	-
Guest Laundry Expense	-	-
Housekeeping Service	-	-
Labor Screening Services	-	-
Linen	-	-
Long Term Stay Expense	-	-
Meeting Room Expense	-	-
Office Expense	-	-
Other Expenses	-	-
Promotional Expense	-	-
Repair & Maintenance - General	-	-
Repair & Maintenance - Laundry	-	-
Repair & Maintenance - Pool	-	-
Supplies - Cleaning	-	-
Supplies - General	-	-
Supplies - Guest	-	-
Supplies - Laundry	-	-
Telephone Expense	-	-
TV Cable Expense	-	-
Utilities	-	-
<b>Total Operational Expenses</b>	<b>-</b>	<b>-</b>
<b>TOTAL EXPENSES</b>	<b>-</b>	<b>-</b>
<b>OPERATING MARGIN</b>	<b>-</b>	<b>16,802.81</b>
<b>FIXED COSTS</b>		
Amortization & Depreciation	-	-
Corporate Office Expense	-	-
Insurance - General & Auto	-	-
Interest/Adequate Protection	-	-
Legal & Accounting	-	-
Property Taxes	-	-
Taxes & Licenses	-	-
U.S. Trustee Fees	-	-
<b>TOTAL FIXED COSTS</b>	<b>-</b>	<b>-</b>
<b>TOTAL NOI</b>	<b>-</b>	<b>16,802.81</b>

**CITIZENS DEVELOPMENT CORP**

October 2013

**Corporate Office  
Profit & Loss Statement**

	MONTH	YEAR TO DATE
<b>REVENUE</b>		
Gain on Sale of Easement	-	-
Interest	-	-
LSM Exec Course Revenue	-	-
Management Income	-	-
Miscellaneous Income	152.00	88,121.86
Prior Year Adjustment	-	(318,665.41)
<b>TOTAL REVENUE</b>	<b>152.00</b>	<b>(230,543.55)</b>
<b>EXPENSES</b>		
401K Expenses	-	-
Advertising & Promo	-	-
Auto Expense	-	-
Bank Charges	-	-
Casual Labor	-	-
Computer Expense	-	150.00
Consulting / Purchased Services	-	-
Contributions/Subscriptions	-	-
Depreciation	113.15	2,138.51
Employee Meals / Relations	-	-
Equipment Rental	-	-
Insurance - General	-	-
Insurance - Medical	-	240.12
Interest & Finance Charges	-	296.21
Legal & Accounting	-	-
LSM Development Expenses	-	-
LDG Management Fees	-	-
Miscellaneous Expense	-	15,374,142.96
Office Expense	-	1,557.61
Payroll Service Fees	-	-
Payroll Taxes	-	-
Postage/Shipping/Travel	-	58.93
Property Tax Expense	-	4,465.98
Repairs & Maintenance	4.29	(227.66)
Salaries - Executive	-	-
Salaries - Office	-	-
Security	-	28.00
Suspense	-	-
Taxes & Licenses	1,137.12	76,401.86
Telephone	-	-
Travel, Education, & Seminars	-	-
U.S. Trustee Fees	-	-
Utilities - SDG&E	-	-
Utilities - Water	-	-
Workers Comp Insurance	-	-
Allocated Shared Expenses	-	-
<b>TOTAL EXPENSES</b>	<b>1,254.56</b>	<b>15,459,252.52</b>
<b>TOTAL REVENUE</b>	<b>(1,102.56)</b>	<b>(15,689,796.07)</b>

**EXHIBIT “2”**

## CITIZENS DEVELOPMENT CORP

October 2013

### Balance Sheet

<b>ASSETS</b>	
<b>CURRENT ASSETS</b>	
<b>Cash</b>	
Bank Accounts	9,268.40
House Banks	1,021.25
Accounts Receivable	186,095.49
Dinofia Settlement Receivable	45,000.00
Inventories	141.83
Prepaid Expense	5,226.17
Deposits	
Refundable Deposits	3,294.00
BK Utility Deposits	7,256.97
LNBYB - In Trust	30,000.00
<b>TOTAL CURRENT ASSETS</b>	<b>287,304.11</b>
<b>PROPERTY AND EQUIPMENT</b>	
Construction in Progress	545.42
Land	708,653.38
Commercial Buildings, etc	1,081,685.00
Equipment, Auto, etc	68,369.48
Data Processing	6,010.12
<b>TOTAL PROPERTY AND EQUIPMENT</b>	<b>1,865,263.40</b>
Less Accumulated Deprecia	(1,156,211.13)
<b>NET PROPERTY &amp; EQUIPMENT</b>	<b>709,052.27</b>
<b>OTHER ASSETS</b>	
Liquor License	48,570.00
<b>TOTAL OTHER ASSETS</b>	<b>48,570.00</b>
<b>DEFERRED CHARGES</b>	
Deferred Charges	70,184.90
<b>TOTAL DEFERRED CHARGES</b>	<b>70,184.90</b>
Less Accumulated Amortization	(48,860.36)
<b>NET DEFERRED CHARGES</b>	<b>21,324.54</b>

<b>TOTAL ASSETS</b>	<b>1,066,250.92</b>
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<b>LIABILITIES / OWNER'S EQUITY</b>	
<b>CURRENT LIABILITIES</b>	
<b>Accounts Payable</b>	
AP - Pre-Petition	(848,819.88)
AP - Post-Petition	(241,059.16)
<b>Other Current Liabilities</b>	
Sales/Use Tax Payable	(85,025.02)
TOT Payable	(65,317.69)
Secured Prop Tax Payable	-
Auto/Equip Lease Payable	(21,516.22)
Unsecured Prop Tax Payable	(31,207.50)
Interest Payable - LSM Lender	(390,813.69)
FTB Payable	(14,344.74)
Other Current Liabilities	(9,123.58)
<b>TOTAL CURRENT LIABILITIES</b>	<b>(1,707,227.48)</b>
<b>PRE-PETITION LIABILITIES</b>	
(Pre) Secured Prop Tax Payable	(18,331.60)
(Pre) Unsecured Prop Tax Payable	(22,431.93)
(Pre) Sales/Use Tax Payable	(79,242.54)
<b>TOTAL PRE-PETITION LIABILITIES</b>	<b>(120,006.07)</b>
<b>LONG TERM DEBT</b>	
Notes Payable	(4,798,188.71)
<b>TOTAL LONG TERM DEBT</b>	<b>(4,798,188.71)</b>
<b>DEFERRED CREDITS</b>	
Deferred Credits	(212,760.22)
<b>TOTAL DEFERRED CREDITS</b>	<b>(212,760.22)</b>
<b>OWNER'S EQUITY</b>	
Capital Stock	(1,708.00)
Stock Redemption	5,772,708.00
Retained Earnings	(15,544,228.68)
Net Income Current Year	15,545,160.24
<b>TOTAL STOCKHOLDERS EQUITY</b>	<b>5,771,931.56</b>
<b>TOTAL LIABILITIES &amp; OWNER'S EQUITY</b>	<b>(1,066,250.92)</b>

**EXHIBIT “3”**

**Claims other than California State Board of Equalization's claims**

\$ 86,927.96

3%

		Principal	Balance	Interest	Payment
1	3/30/2014	\$ (14,487.99)	\$ 72,439.97	(\$651.96)	\$ (15,139.95)
2	6/30/2014	\$ (14,487.99)	\$ 57,951.97	(\$508.94)	\$ (14,996.94)
3	9/30/2014	\$ (14,487.99)	\$ 43,463.98	(\$379.46)	\$ (14,867.46)
4	12/31/2014	\$ (14,487.99)	\$ 28,975.99	(\$263.67)	\$ (14,751.67)
5	3/31/2015	\$ (14,487.99)	\$ 14,487.99	(\$161.73)	\$ (14,649.72)
6	6/30/2015	\$ (14,487.99)	\$ -	(\$73.78)	\$ (14,561.78)

**California State Board of Equalization's claims**

\$61,420.33

6%

		Principal	Balance	Interest	Payment
1	3/30/2014	\$ (10,236.72)	\$ 51,183.61	(\$921.30)	\$ (11,158.03)
2	6/30/2014	\$ (10,236.72)	\$ 40,946.89	(\$721.73)	\$ (10,958.45)
3	9/30/2014	\$ (10,236.72)	\$ 30,710.17	(\$540.01)	\$ (10,776.74)
4	12/31/2014	\$ (10,236.72)	\$ 20,473.44	(\$376.56)	\$ (10,613.28)
5	3/31/2015	\$ (10,236.72)	\$ 10,236.72	(\$231.79)	\$ (10,468.51)
6	6/30/2015	\$ (10,236.72)	\$ -	(\$106.13)	\$ (10,342.85)

**EXHIBIT “4”**

Creditor	Sched. in Subs cases?	FILED CLAIM					SCHEDULED CLAIM				BEST CASE SCENARIO		WORST CASE SCENARIO
		Claim No.	Date Claim Filed	Secured	Priority	General Unsecured	Schedule "D"	Schedule	Schedule "F"	C/ U/ D	Best - Unsecured	Worst - Unsecured	
							Secured	"E" Priority	Unsecured				
1-2-1 MARKETING, INC									\$472.88		\$472.88		\$472.88
24 HOUR FIRE PROTECTION, INC.									\$350.00		\$350.00		\$350.00
3E COMPANY, INC.		13	9/15/10			\$809.87			\$850.00		\$809.87		\$850.00
6.2.6 EQUIPMENT RENTALS									\$60.50		\$60.50		\$60.50
A T & T									\$434.64		\$434.64		\$434.64
A T & T ADVERTISING & PUBLISHING									\$4,099.98		\$4,099.98		\$4,099.98
ACCOUNTemps									\$2,462.60		\$2,462.60		\$2,462.60
Acushnet Company		32	11/1/10			\$30,758.59			\$15,880.76		\$15,880.76		\$30,758.59
AHEAD		6	9/9/10			\$948.94			\$2,268.30		\$948.94		\$948.94
AIRGAS WEST									\$1,042.60		\$1,042.60		\$1,042.60
ALLIANCE RESERVATION NETWORK									\$93.80		\$93.80		\$93.80
Ally Financial Inc. f/k/a GMAC Inc.		1	9/3/10	\$4,384.66									
AM&E									\$23.75		\$23.75		\$23.75
AMERICAN BATTERY SUPPLY									\$63.47		\$63.47		\$63.47
AMERICAN EXPRESS									\$1.62		\$1.62		\$1.62
AMERICAN EXPRESS CONSUMER									\$43.60		\$43.60		\$43.60
American Express Travel Related Services		40	12/21/10			\$400.10					\$400.10		\$400.10
American Express Travel Related Services		39	12/16/10			\$2,676.94					\$2,676.94		\$2,676.94
American Hotel Register		55	11/23/10			\$9,452.44			\$6,500.00		\$6,500.00		\$9,452.44
AMERICA'S FINEST BAR SUPPLY									\$285.21		\$285.21		\$285.21
ANAR PARTY RENTAL, INC									\$290.00		\$290.00		\$290.00
ANDMORE CORPORATION									\$211.00		\$211.00		\$211.00
ANGELO GABRIELE									\$692.57		\$692.57		\$692.57
ARROW PIPELINE REPAIR, INC									\$560.00		\$560.00		\$560.00
ARROWHEAD MT. SPRING WATER									\$138.88		\$138.88		\$138.88
ASCAP									\$22.05		\$22.05		\$22.05
ASH CITY USA									\$1,153.82		\$1,153.82		\$1,153.82
AT&T Inc.		24	9/30/10			\$209.49					\$209.49		\$209.49
ATCO INTERNATIONAL		18	9/22/10	\$130.00					\$130.00		\$130.00		\$130.00
ATEL COMMUNICATIONS, INC									\$465.67		\$465.67		\$465.67
ATLAS PEN AND PENCIL CORP.									\$693.54		\$693.54		\$693.54
AUTO CLUB OF SO CALIF/SANTA AN									\$1,575.00		\$1,575.00		\$1,575.00
AUTO CLUB OF SOUTHERN CA/DOWNE									\$67.00		\$67.00		\$67.00
AUTO-CHLOR SYSTEM									\$1,983.24		\$1,983.24		\$1,983.24
AZUMANO TRAVEL SERVICE/OR									\$115.36		\$115.36		\$115.36
BALBOA CAPITAL CORPORATION									\$437.36		\$437.36		\$437.36
BANDWIDTH.COM INC.									\$1,516.29		\$1,516.29		\$1,516.29
BANK OF AMERICA									\$13,030.90		\$13,030.90		\$13,030.90
Bank of the West		25	10/5/10			\$3,172,992.35			\$3,000,000.00		\$0.00		\$0.00
BARKER, OLMSTED & BARNIER									\$3,936.76		\$3,936.76		\$3,936.76
BCD TRAVEL									\$395.13		\$395.13		\$395.13
BERNARDO HEIGHTS COUNTRY CLUB									\$538.00		\$538.00		\$538.00
BESTWAY LAUNDRY SOLUTIONS		45	11/15/10			\$344.91			\$344.91		\$344.91		\$344.91
BOYD COFFEE COMPANY									\$261.48		\$261.48		\$261.48
BRIDGESTONE SPORTS (USA), INC.		8	9/13/10			\$405.00			\$405.00		\$405.00		\$405.00
BRIGGS TREE COMPANY INC.									\$148.54		\$148.54		\$148.54
BUSINESS MUSIC & COMMUNICATIONS									\$203.70		\$203.70		\$203.70
CALI-FAME OF LOS ANGELES, INC									\$61.89		\$61.89		\$61.89
CALIFORNIA BAKING CO									\$304.25		\$304.25		\$304.25
CALIFORNIA CREDIT UNION		76	9/29/11	\$6,387,171.72					\$5,922,568.00		\$0.00		\$0.00
California Regional Water Quality Control		58	6/28/11			\$459,000.00					\$0.00		\$0.00
California State Board of Equalization		37	11/5/10		\$61,420.33			\$58,892.23	\$56,291.25		\$0.00		\$56,291.25
CALIFORNIA TREE SERVICE, INC									\$4,075.00		\$4,075.00		\$4,075.00
CALLAWAY GOLF									\$5,487.82		\$5,487.82		\$5,487.82
CAL-WEST AIR CONDITIONING, INC									\$224.50		\$224.50		\$224.50
Campos/Furber Enterprises LTD		46	8/10/10			\$102.04			\$102.04		\$102.04		\$102.04
Campos/Furber Enterprises LTD dba		3	9/8/10			\$102.04					\$0.00		\$0.00
CANNON PACIFIC SERVICES, INC									\$2,105.64		\$2,105.64		\$2,105.64

Creditor	Sched. in Subs cases?	FILED CLAIM					SCHEDULED CLAIM				BEST CASE SCENARIO		WORST CASE SCENARIO
		Claim No.	Date Claim Filed	Secured	Priority	General Unsecured	Schedule "D"	Schedule	Schedule "F"	C/ U/ D	Best - Unsecured	Worst - Unsecured	
							Secured	"E" Priority	Unsecured				
CARQUEST SAN MARCOS									\$265.87		\$265.87	\$265.87	
CATER-EASE									\$750.00		\$750.00	\$750.00	
CHRISTOPHERSON ANDAVO TRAVEL									\$39.60		\$39.60	\$39.60	
CINTAS FIRST AID & SAFETY									\$532.65		\$532.65	\$532.65	
CIT Technology Financing Services, Inc.		51	8/23/10			\$5,621.29			\$1,075.31		\$1,075.31	\$5,621.29	
CIT Technology Financing Services, Inc.		52	8/23/10			\$36,687.68					\$36,687.68	\$36,687.68	
Citicapital Commercial Leasing Corp.		N/A					\$0.00			C/U/D	\$0.00	\$0.00	
CLUB HATS									\$356.00		\$356.00	\$356.00	
COAST PAPER & RIBBON PRODUCTS, INC									\$120.48		\$120.48	\$120.48	
COLLECTION AT LAW									\$3,527.16		\$3,527.16	\$3,527.16	
COLONIAL SUPPLEMENTAL INS CO.									\$257.96		\$257.96	\$257.96	
COLORS ENTERPRISES, INC.		7	9/13/10			\$236.36			\$236.36		\$236.36	\$236.36	
COMMUNITY PRESS									\$335.50		\$335.50	\$335.50	
CORAL POOL SUPPLY, INC.									\$1,577.58		\$1,577.58	\$1,577.58	
COUNTY OF SAN DIEGO/DEH									\$870.00		\$870.00	\$870.00	
CREDIT SOURCE LLC.									\$380.08		\$380.08	\$380.08	
CREST BEVERAGE CO									\$398.40		\$398.40	\$398.40	
CROSPETE SPORTS									\$1,767.00		\$1,767.00	\$1,767.00	
CUBE-AIRE		47	8/19/10	\$2,160.00					\$3,440.00		\$3,440.00	\$3,440.00	
CUTTER & BUCK		36	10/22/10			\$1,500.00			\$1,500.00		\$1,500.00	\$1,500.00	
D&A Semi-Annual Mortgage Fund III		74	9/30/11	\$1,609,375.00			\$1,550,000.00				\$0.00	\$0.00	
DE LAGE LANDEN FINANCIAL SVCS		70	9/20/11			\$10,863.10			\$246.24		\$246.24	\$10,863.10	
DELL FINANCIAL SERVICES									\$437.21		\$437.21	\$437.21	
DEPT OF WATER RESOURCES		67	9/14/11		\$21,937.50				\$12,500.00		\$12,500.00	\$21,937.50	
DIGITAL IMAGING SYSTEMS									\$1,596.45		\$1,596.45	\$1,596.45	
DIRECTV									\$1,817.39		\$1,817.39	\$1,817.39	
DISCOVER NETWORK									\$3.59		\$3.59	\$3.59	
DMV RENEWAL									\$284.00		\$284.00	\$284.00	
EL TOREADOR PROP GRP/J SERHAN									\$4,000,000.00		\$0.00	\$0.00	
ELITE SHOW SERVICES INC									\$187.50		\$187.50	\$187.50	
Employment Development Department							\$0.00	\$0.00	\$0.00		\$0.00	\$0.00	
ESCONDIDO COUNTRY CLUB									\$74.87		\$74.87	\$74.87	
ETONIC WORLDWIDE LLC									\$673.82		\$673.82	\$673.82	
ETS CORPORATION									\$9.44		\$9.44	\$9.44	
EXPEDIA INC									\$17.80		\$17.80	\$17.80	
FARMER BROS. CO.									\$287.07		\$287.07	\$287.07	
FCC, LLC									\$745.59		\$745.59	\$745.59	
FLUEGGE EGG RANCH									\$135.30		\$135.30	\$135.30	
FOLEY & LARDNER LLP		14	9/20/10			\$44,861.04			\$36,637.04		\$36,637.04	\$44,861.04	
FOOT-JOY									\$6,402.72		\$6,402.72	\$6,402.72	
FORE-PAR GROUP									\$973.64		\$973.64	\$973.64	
Franchise Tax Board		23	9/28/10		\$829.28						\$0.00	\$0.00	
Franchise Tax Board		54	10/19/10		\$13,515.46	\$2,572.83		\$6,000.00			\$2,572.83	\$2,572.83	
General Electric Capital Corporation		33	11/11/10	\$70,940.61					\$3,647.60		\$3,647.60	\$3,647.60	
General Electric Capital Corporation		34	11/11/10	\$1,934.76					\$542.10		\$542.10	\$542.10	
General Electric Capital Corporation		35	11/11/10	\$26,486.53					\$2,330.23		\$2,330.23	\$2,330.23	
GERMAN AMERICAN CAPITAL CORP.									\$0.00		\$0.00	\$0.00	
GLOBAL TOUR GOLF, INC.									\$962.53		\$962.53	\$962.53	
GMAC									\$1,160.03		\$1,160.03	\$1,160.03	
GOLDEN STATE POOLS		44	8/27/10			\$5,307.53			\$3,841.53		\$3,841.53	\$5,307.53	
GOLDEN STATE TIRE									\$27.90		\$27.90	\$27.90	
GOLF SCORECARDS, INC		2	9/14/10			\$1,555.60			\$1,329.50		\$1,329.50	\$1,555.60	
GOLF SCORECARDS, INC		62	8/30/11			\$1,555.60					\$0.00	\$1,555.60	
GOLF VENTURES WEST									\$849.17		\$849.17	\$849.17	
GRANGETTO'S FARM/GARDEN SUPPLY									\$0.00		\$0.00	\$0.00	
GROUP TRAVEL PLANET, LLC									\$100.00		\$100.00	\$100.00	
GUEST DIRECT									\$876.40		\$876.40	\$876.40	
HAINESLAW									\$24,871.47		\$24,871.47	\$24,871.47	

Creditor	Sched. in Subs cases?	FILED CLAIM					SCHEDULED CLAIM				BEST CASE SCENARIO		WORST CASE SCENARIO
		Claim No.	Date Claim Filed	Secured	Priority	General Unsecured	Schedule "D"	Schedule "E" Priority	Schedule "F" Unsecured	C/ U/ D	Best - Unsecured	Worst - Unsecured	
							Secured						
HAMILTON MEATS & PROVISIONS,INC									\$1,370.02		\$1,370.02	\$1,370.02	
HARRY VARDON GOLF									\$1,314.09		\$1,314.09	\$1,314.09	
HORNUNG'S PRO GOLF SALES INC.									\$219.16		\$219.16	\$219.16	
HOSPITALITY SOFTNET									\$1,983.90		\$1,983.90	\$1,983.90	
IGCC		26	9/30/10			\$0.00					\$0.00	\$0.00	
IGCC		38	11/8/10			\$2,000.00			\$3,750.00		\$2,000.00	\$2,000.00	
ILD TELECOMMUNICATIONS, INC.									\$105.68		\$105.68	\$105.68	
IMPACT PAPER & INK LTD.									\$764.71		\$764.71	\$764.71	
Internal Revenue Service							\$0.00	\$0.00	\$0.00		\$0.00	\$0.00	
JAM FIRE PROTECTION INC									\$518.50		\$518.50	\$518.50	
JANI-KING OF CALIF, INC.-SDO		70				\$84,078.11			\$77,761.38		\$77,761.38	\$84,078.11	
Javier Serhan/EI Toreador	Yes (LSM Hotel, LLC)						\$4,000,000.00			C/U/D	\$0.00	\$0.00	
JOBING.COM									\$4,329.00		\$4,329.00	\$4,329.00	
JONAS SOFTWARE USA, INC									\$1,886.94		\$1,886.94	\$1,886.94	
J-R-S LANDSCAPE MAINTENANCE									\$400.00		\$400.00	\$400.00	
KEF CONSULTING									\$4,900.00		\$4,900.00	\$4,900.00	
KIMBALL, TIREY & ST. JOHN, LLP									\$570.04		\$570.04	\$570.04	
KITABAYASHI DESIGN STUDIO									\$19,427.50		\$19,427.50	\$19,427.50	
KLEEN & GREEN									\$5,558.92		\$5,558.92	\$5,558.92	
Kone, Inc		30	10/19/10			\$6,598.46			\$6,967.00		\$6,598.46	\$6,598.46	
Konica Minolta Business Solutions		27	10/4/10			\$963.21			\$429.59		\$429.59	\$963.21	
KUSHNER,SMITH,JOANOU &		10	9/14/10			\$3,000.00			\$3,000.00		\$3,000.00	\$3,000.00	
LARRY W. BROWN									\$120.00		\$120.00	\$120.00	
LEGENDARY HOLDINGS, INC									\$641.49		\$641.49	\$641.49	
LEGOLAND CALIFORNIA									\$3,247.50		\$3,247.50	\$3,247.50	
LIFESAFE SERVICES - SAN DIEGO									\$1,010.29		\$1,010.29	\$1,010.29	
LLOYD PEST CONTROL									\$495.00		\$495.00	\$495.00	
LOGO GOLF CHIPS, INC.									\$267.00		\$267.00	\$267.00	
LOWELL AND ROBIN									\$460.00		\$460.00	\$460.00	
LOYALTY TRAVEL									\$26.70		\$26.70	\$26.70	
LSM COMMUNITY ASSOCIATION									\$270.00		\$270.00	\$270.00	
LSM SECURITY PATROL		16	9/17/10			\$2,420.00			\$605.00		\$605.00	\$605.00	
LUBEMASTER CONSTRUCTION									\$849.91		\$849.91	\$849.91	
Lyon Financial c/o IC System Commercial							\$0.00			C/U/D			
M H W, LTD/SHERBROOKE CELLARS									\$252.00		\$252.00	\$252.00	
Magnifund Group/Chris DiNofia							\$250,000.00						
MAINTEX									\$281.64		\$281.64	\$281.64	
MANIFEST FUNDING SERVICES									\$8,235.45		\$8,235.45	\$8,235.45	
MARKSTEIN BEVERAGE CO									\$2,719.87		\$2,719.87	\$2,719.87	
MARLIN LEASING									\$905.91		\$905.91	\$905.91	
McDANNALD SYSTEMS, INC.									\$1,000.43		\$1,000.43	\$1,000.43	
Michaels Court Maintenance		17	9/20/10			\$8,255.03					\$8,255.03	\$8,255.03	
MINTZ, LEVIN									\$256.05		\$256.05	\$256.05	
MORTON, HAROLD W.		59	7/6/11			\$6,671.57					\$0.00	\$6,671.57	
MISSION IRON WORKS CO.									\$5,920.00		\$5,920.00	\$5,920.00	
MISSION LINEN SERVICE									\$1,497.53		\$1,497.53	\$1,497.53	
MIWA LOCK COMPANY LTD		48	9/3/10			\$0.00			\$450.00		\$450.00	\$450.00	
MOCERI PRODUCE									\$2,939.24		\$2,939.24	\$2,939.24	
MUZAK									\$135.80		\$135.80	\$135.80	
MWB BUSINESS SYSTEMS									\$1,021.56		\$1,021.56	\$1,021.56	
NATIONAL CITY GOLF FINANCE		64	9/13/11			\$6,031.94			\$6,487.77		\$6,031.94	\$6,031.94	
NATIONAL GOLF FOUNDATION									\$398.00		\$398.00	\$398.00	
NEC FINANCIAL SERVICES, LLC		73 (amends 14)	9/27/11	\$0.00		\$55,223.83			\$4,915.94		\$4,915.94	\$55,223.83	
NISH LANDSCAPE, INC									\$5,199.70		\$5,199.70	\$5,199.70	
NORTH COUNTY TIMES									\$5,375.44		\$5,375.44	\$5,375.44	
NORTH COUNTY TIMES DELIVERY		42	12/7/10			\$7,139.64			\$1,056.96		\$1,056.96	\$7,139.64	
OAKWOOD CORPORATE HOUSING									\$33.82		\$33.82	\$33.82	
OFFICE DEPOT									\$32.41		\$32.41	\$32.41	

Creditor	Sched. in Subs cases?	FILED CLAIM					SCHEDULED CLAIM				BEST CASE SCENARIO		WORST CASE SCENARIO
		Claim No.	Date Claim Filed	Secured	Priority	General Unsecured	Schedule "D"	Schedule	Schedule "F"	C/ U/ D	Best - Unsecured	Worst - Unsecured	
							Secured	"E" Priority	Unsecured				
OFFICE DEPOT CREDIT PLAN									\$94.06		\$94.06	\$94.06	
ORBIT ENTERPRISES, INC.									\$1,500.00		\$1,500.00	\$1,500.00	
OUTSIDE LABS, INC									\$50.00		\$50.00	\$50.00	
PACIFIC DRAIN SERVICE		49	8/25/10			\$1,075.00			\$1,075.00		\$1,075.00	\$1,075.00	
Pacific West Realty Fund		72		\$875,000.00			\$2,800,000.00				\$0.00	\$0.00	
PAETEC									\$796.79		\$796.79	\$796.79	
PAHR FAIRWAY ESSENTIALS									\$2,868.00		\$2,868.00	\$2,868.00	
PALOMAR BACKFLOW									\$190.00		\$190.00	\$190.00	
PALOMAR PEN & OFFICE SUPPLY									\$30.19		\$30.19	\$30.19	
PAYNE-MASON, INC									\$383.25		\$383.25	\$383.25	
PEGASUS SOLUTIONS		20	9/28/10		\$3,209.52				\$1,703.04		\$1,703.04	\$1,703.04	
Pitney Bowes Global Financial Services		57	3/1/11			\$9,237.87			\$169.83		\$169.83	\$9,237.87	
Pitney Bowes Inc		28	10/13/10			\$1,090.02					\$1,090.02	\$1,090.02	
PNC EQUIPMENT FINANCE									\$981.79		\$981.79	\$981.79	
POS SUPPLIES									\$549.00		\$549.00	\$549.00	
PRICELINE.COM/TRAVELWEB.COM									\$333.65		\$333.65	\$333.65	
PRIVATE CLUB NETWORK LLC									\$1,750.00		\$1,750.00	\$1,750.00	
PROGRESSIVE GROWERS INC.									\$4.89		\$4.89	\$4.89	
PROGRESSIVE TECHNOLOGY									\$300.00		\$300.00	\$300.00	
PROHYGIENE, INC									\$1,681.44		\$1,681.44	\$1,681.44	
PURCHASE POWER									\$562.94		\$562.94	\$562.94	
R & R PRODUCTS, INC.									\$6.39		\$6.39	\$6.39	
RCMA									\$100.00		\$100.00	\$100.00	
REGIONAL WATER QUALITY CONTROL		58	6/28/11						\$0.00		\$0.00	\$0.00	
RESORT DATA PROCESSING, INC									\$1,100.00		\$1,100.00	\$1,100.00	
RMB ASSOCIATES INC.									\$375.87		\$375.87	\$375.87	
RON FRAZAR		77	9/30/11			\$1,500,000.00			\$6,000,000.00		\$0.00	\$0.00	
RSF SECURITY SYSTEMS, INC									\$94.04		\$94.04	\$94.04	
S.S. FUNDRAISING									\$300.00		\$300.00	\$300.00	
SAFEGUARD DENTAL & VISION		19	9/23/10			\$3,172.82			\$888.19		\$888.19	\$888.19	
SAFETY-KLEEN SYSTEMS, INC									\$130.00		\$130.00	\$130.00	
SAN DIEGO CANDLE		65	9/13/11			\$131.59			\$860.82		\$131.59	\$131.59	
SAN DIEGO CONV & VISITORS BUREAU									\$1,470.00		\$1,470.00	\$1,470.00	
SAN DIEGO COUNTY DISTRICT ATTY									\$0.00		\$0.00	\$0.00	
San Diego County Tax Collector		56	12/15/10	\$123,866.84					\$237,637.27		\$0.00	\$0.00	
San Diego County Treasurer- Tax Collector	Yes (LSM Hotel, LLC)	15	3/4/11	\$64,728.09							\$0.00	\$0.00	
San Diego County Treasurer							\$0.00	\$25,219.69	unknown		\$0.00	\$0.00	
San Diego County Treasurer							\$0.00	\$31,664.32	unknown		\$0.00	\$0.00	
San Diego County Treasurer							\$0.00	\$28,142.84	unknown		\$0.00	\$0.00	
San Diego County Treasurer	Yes (LSM Hotel, LLC)							\$80,894.00			\$0.00	\$0.00	
San Diego County Treasurer	Yes (LSM Hotel, LLC)							\$135.00			\$0.00	\$0.00	
San Diego County Treasurer	Yes (LSM Hotel, LLC)							\$9,791.00			\$0.00	\$0.00	
San Diego County Treasurer-Tax Collector		43	2/16/11	\$48,836.51							\$0.00	\$0.00	
SAN DIEGO DESSERTS									\$388.47		\$388.47	\$388.47	
SAN DIEGO GAS & ELECTRIC									\$31,075.06		\$31,075.06	\$31,075.06	
SAN DIEGO GOLF RESERVATIONS									\$2,250.00		\$2,250.00	\$2,250.00	
SAN DIEGO NORTH CVB									\$3,100.00		\$3,100.00	\$3,100.00	
SAN MARCOS BAKERY									\$100.00		\$100.00	\$100.00	
SAN MARCOS GLASS									\$155.67		\$155.67	\$155.67	
SCHOLASTIC SPORTS, LTD.									\$199.00		\$199.00	\$199.00	
Sesac, Inc		11	9/14/10			\$598.73			\$1,583.30		\$598.73	\$598.73	
SESAC, INC.		50	8/10/10			\$756.31					\$756.31	\$756.31	
SHELL FLEET PLUS									\$2,532.82		\$2,532.82	\$2,532.82	
SMART HOSPITALITY CORPORATION		22	9/24/10			\$634.13			\$767.13		\$634.13	\$634.13	
SMITH TRAVEL RESEARCH									\$650.00		\$650.00	\$650.00	
SO. CAL TREE CARE, INC.									\$5,850.00		\$5,850.00	\$5,850.00	
SouthCoast Heating Air Conditioning, LP		53	8/27/10			\$1,497.00			\$1,497.00		\$1,497.00	\$1,497.00	
SOUTHERN WINE & SPIRITS									\$716.82		\$716.82	\$716.82	

Case 10-15142-L-11 Filed 12/06/13 Entered 12/06/13 12:51:44 Doc 805 Pg. 106

Creditor	Sched. in Subs  cases?	Claim No.	Date Claim Filed	FILED CLAIM			SCHEDULED CLAIM				BEST CASE SCENARIO	WORST CASE SCENARIO
				Secured	Priority	General  Unsecured	Schedule "D"	Schedule	Schedule "F"	C/ U/ D	Best - Unsecured	Worst - Unsecured
							Secured	"E" Priority	Unsecured			
Southern Wine & Spirits of America, Inc		9	9/13/10			\$381.94					\$381.94	\$381.94
SPANISH SHOPPER									\$103.00		\$103.00	\$103.00
SPANKY'S PORTABLE SERVICES									\$392.47		\$392.47	\$392.47
SPORTSTURF IRRIGATION SALES		4	9/9/10			\$404.03			\$404.03		\$404.03	\$404.03
ST. TROPEZ CALIFORNIA									\$160.24		\$160.24	\$160.24
STAR BUILDERS SUPPLY									\$568.48		\$568.48	\$568.48
STATE WATER RESOURCES									\$125.23		\$125.23	\$125.23
STEVE I. KASTNER, ESQ.									\$17,570.71		\$17,570.71	\$17,570.71
STONE BREWING CO.									\$0.00		\$0.00	\$0.00
STUART SCHNEIDER									\$360.00		\$360.00	\$360.00
SUN GRAPHICS, INC									\$1,960.72		\$1,960.72	\$1,960.72
SUNSET MARINE, INC									\$377.74		\$377.74	\$377.74
SUPERIOR ONSITE SERVICE, INC									\$133.29		\$133.29	\$133.29
Symphony Asset Pool X, LLC	Yes (LSM Hotel, LLC)	68	9/20/11				\$12,000,000.00				\$0.00	\$0.00
T I S SPEEDY									\$126.16		\$126.16	\$126.16
TELEPACIFIC COMMUNICATIONS									\$1,828.46		\$1,828.46	\$1,828.46
Telesis Business Partners		75	9/29/11	\$5,026,677.88			\$4,691,902.00				\$0.00	\$0.00
THE CAWLEY COMPANY		15	9/17/10			\$524.24			\$524.24		\$524.24	\$524.24
THE COUNTRY CLUB OF RANCHO SAN									\$0.00		\$0.00	\$0.00
THE HOME DEPOT SUPPLY									\$4,428.50		\$4,428.50	\$4,428.50
THE HOME DEPOT, INC									\$2,942.22		\$2,942.22	\$2,942.22
THE MAX COMPANY									\$1,615.00		\$1,615.00	\$1,615.00
THE PEPSI BOTTLING GROUP									\$1,319.26		\$1,319.26	\$1,319.26
THE POOL SUPPLY STORE									\$532.83		\$532.83	\$532.83
THE SAN DIEGO UNION TRIBUNE		66	9/13/11			\$2,689.95			\$2,685.93		\$2,685.93	\$2,689.95
TIG GLOBAL LLC		61	8/24/11			\$16,666.67			\$9,999.99		\$9,999.99	\$16,666.67
TIME WARNER CABLE									\$204.21		\$204.21	\$204.21
TRAVEL & TRANSPORT INC./OMAHA									\$18.00		\$18.00	\$18.00
TRAVELCLICK, INC.									\$1,501.25		\$1,501.25	\$1,501.25
TRAVELNOW.COM									\$17.80		\$17.80	\$17.80
Turf Star, Inc.		21	9/27/10			\$1,943.91			\$1,943.91		\$1,943.91	\$1,943.91
U S MAILING HOUSE, INC									\$185.85		\$185.85	\$185.85
U.S. ENVIRONMENTAL PROTECTION									\$0.00		\$0.00	\$0.00
U.S. FOODSERVICE INC.									\$2,839.66		\$2,839.66	\$2,839.66
UAP Distribution, Inc.		31	11/2/10			\$8,853.66			\$3,942.79		\$3,942.79	\$8,853.66
ULTRA CHEM, INC									\$127.10		\$127.10	\$127.10
ULTRAMAX CHEMICAL COMPANY									\$3,382.80		\$3,382.80	\$3,382.80
UNI IMPORTS									\$994.75		\$994.75	\$994.75
UNITED PARCEL SERVICE									\$6.30		\$6.30	\$6.30
URBAN TREE CARE, INC									\$200.00		\$200.00	\$200.00
US Bancorp Manifest Funding Services		29	10/18/10			\$13,923.68	\$0.00				\$0.00	\$13,923.68
UTELL									\$1,580.98		\$1,580.98	\$1,580.98
VALLECITOS WATER DISTRICT									\$31,133.44		\$31,133.44	\$31,133.44
VANORSDALE INSURANCE SERVICES									\$25,519.50		\$25,519.50	\$25,519.50
VB MANAGEMENT MARKETING SVCS									\$367.59		\$367.59	\$367.59
Verizon Wireless		41	12/27/10			\$521.56					\$521.56	\$521.56
VERTICAL COMMUNICATION									\$2,500.00		\$2,500.00	\$2,500.00
VIZIO									\$2,827.69		\$2,827.69	\$2,827.69
WEDDING COMPASS, INC.									\$550.00		\$550.00	\$550.00
WELLS FARGO TRADE CAPITAL									\$1,582.61		\$1,582.61	\$1,582.61
WESTAIR GASES & EQUIP INC		12	9/15/10			\$242.46			\$326.49		\$242.46	\$242.46
WESTERN FARM SERVICE									\$3,396.12		\$3,396.12	\$3,396.12
WESTERN GOLF, INC.		62	8/29/11			\$759.60			\$759.60		\$759.60	\$759.60
WILBUR-ELLIS COMPANY									\$4,602.29		\$4,602.29	\$4,602.29
WINE WAREHOUSE									\$3,755.00		\$3,755.00	\$3,755.00
Wooggee World		5	9/9/10			\$394.72			\$394.72		\$394.72	\$394.72
WORLDWIDE PAYMENT SYSTEMS S.A.									\$10,597.09		\$10,597.09	\$10,597.09
YOUNG'S MARKET COMPANY									\$1,964.53		\$1,964.53	\$1,964.53

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Creditor	Sched. in Subs cases?	FILED CLAIM					SCHEDULED CLAIM				BEST CASE SCENARIO	WORST CASE SCENARIO
		Claim No.	Date Claim Filed	Secured	Priority	General	Schedule "D"	Schedule	Schedule "F"	C/ U/ D	Best - Unsecured	Worst - Unsecured
				Unsecured			Secured	"E" Priority	Unsecured			
ZOOLOGICAL SOCIETY SAN DIEGO									\$8,000.00		\$8,000.00	\$8,000.00
TOTAL				\$14,241,692.60	\$100,912.09	\$5,536,845.42	\$25,291,902.00	\$240,739.08	\$19,841,065.51		\$672,256.20	\$886,975.67

**EXHIBIT “5”**

	Year 1	Year 2	Year 3	Year 4	Year 5	Total
<b>Starting Cash Balance</b>	<b>25,000</b>	<b>208,981</b>	<b>165,998</b>	<b>193,695</b>	<b>150,199</b>	<b>25,000</b>
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>						
<b>Revenues</b>						
Convention Center	65,000	160,000	168,000	176,400	185,220	754,620
Assessments (HOA, individuals, lakefront)	723,000	751,920	781,997	813,277	845,808	3,916,001
Dock Rental	126,000	131,040	136,282	141,733	147,402	682,457
Other Revenue	42,000	42,000	42,000	42,000	42,000	210,000
<b>Total Revenue</b>	<b>956,000</b>	<b>1,084,960</b>	<b>1,128,278</b>	<b>1,173,410</b>	<b>1,220,430</b>	<b>5,563,078</b>
<b>Expenses</b>						
Management Fee	-	54,248	56,414	58,670	61,021	230,354
Payroll Costs	264,000	277,200	291,060	305,613	320,894	1,458,767
Advertising & Promotion	6,000	6,120	6,242	6,367	6,495	31,224
Auto & Gasoline Expense	6,000	6,120	6,242	6,367	6,495	31,224
Boat Maintenance	2,000	2,040	2,081	2,122	2,165	10,408
Computer Expense	2,000	2,040	2,081	2,122	2,165	10,408
Consulting / Purchased Services	2,000	2,040	2,081	2,122	2,165	10,408
Dock Repair & Maintenance	30,000	30,600	31,212	31,836	32,473	156,121
Event Expense	3,000	3,060	3,121	3,184	3,247	15,612
Gardening & Landscaping	30,000	30,600	31,212	31,836	32,473	156,121
Insurance - General & Auto	17,640	17,993	18,353	18,720	19,094	91,799
Office Expense	9,000	9,180	9,364	9,551	9,742	46,836
Lake monitoring and other costs	30,000	30,600	31,212	31,836	32,473	156,121
Property Taxes	25,600	26,112	26,634	27,167	27,710	133,223
Repair & Maintenance - General	36,000	36,720	37,454	38,203	38,968	187,345
Repair & Maintenance - Pool	12,000	12,240	12,485	12,734	12,989	62,448
Supplies	5,000	5,100	5,202	5,306	5,412	26,020
Taxes & Licenses	12,000	12,240	12,485	12,734	12,989	62,448
Telephone	3,000	3,060	3,121	3,184	3,247	15,612
Utilities	78,000	79,560	81,151	82,774	84,430	405,915
Bad Debt	19,120	21,699	22,566	23,468	24,409	111,262
<b>Total Operating Expenses</b>	<b>(592,360)</b>	<b>(668,572)</b>	<b>(691,773)</b>	<b>(715,920)</b>	<b>(741,055)</b>	<b>(3,409,679)</b>
<b>Total Operating Activities Cash Flow</b>	<b>363,640</b>	<b>416,388</b>	<b>436,506</b>	<b>457,490</b>	<b>479,375</b>	<b>2,153,398</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>						
Admin cost payouts at plan confirmation	(394,869)	-	-	-	-	(394,869)
Prepetition Priority Tax Claims	(105,574)	(50,562)	-	-	-	(156,136)
Class 1 Payments	(390,736)	(390,736)	(390,736)	(390,736)	(390,736)	(1,953,681)
Class 2 Payments	(6,073)	(6,073)	(6,073)	-	-	(18,219)
Class 3 Payments	(3,300)	-	-	-	-	(3,300)
Class 4 Payments	(14,025)	-	-	-	-	(14,025)
Class 5 Payments	(4,385)	-	-	-	-	(4,385)
Class 7 Payments	(88,697)	-	-	-	-	(88,697)
Pac West settlement loan payments	(7,000)	(7,000)	(7,000)	(105,250)	-	(126,250)
Municipal Agency Admin Claim	(60,000)	-	-	-	-	(60,000)
Capital Improvements	(2,000,000)	-	-	-	-	(2,000,000)
Other Admin. Expenses	(5,000)	(5,000)	(5,000)	(5,000)	(5,000)	(25,000)
<b>Total Debt Service &amp; Extraordinary Exp.</b>	<b>(3,079,659)</b>	<b>(459,371)</b>	<b>(408,809)</b>	<b>(500,986)</b>	<b>(395,736)</b>	<b>(4,844,561)</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>						
Equity Contribution	400,000	-	-	-	-	400,000
Lender Proceeds	2,500,000	-	-	-	-	2,500,000
<b>Total Financing Activities Cash Flow</b>	<b>2,900,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,900,000</b>
<b>Annual Cash Flow</b>	<b>183,981</b>	<b>(42,983)</b>	<b>27,697</b>	<b>(43,496)</b>	<b>83,639</b>	<b>208,838</b>
<b>Ending Cash Balance</b>	<b>208,981</b>	<b>165,998</b>	<b>193,695</b>	<b>150,199</b>	<b>233,838</b>	<b>233,838</b>

**EXHIBIT “6”**



1020 Prospect St, Suite 310  
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## MEMORANDUM

October 7, 2013

To: Mr. Pino Vitti, CDC

From: Mr. Nick Buhbe, Great Ecology

### RE: Summary Status of Progress toward Completion of the Lake San Marcos Nutrient Impairments Investigation Workplan

## STATUS REPORT

The following table includes a summary of the current status of the *Lake San Marcos Nutrient Impairments Investigation Workplan* (Workplan) (June 2012). The status of each Workplan element is summarized below.

Workplan Section	Workplan Element	Monitoring Element	Status
1.0	Introduction		Complete
2.0	Summary of Prev. Investigations		Complete
3.0	Conceptual Site Model		Complete
4.0	Bathymetry		Completed; The scope was augmented with additional scanning to assess fish and sediment type.
5.0	Lake Water Budget Components		
5.2.1	Lake Water Level	Lake level	Data has been collected on a weekly (or more frequent) basis since April 2012
5.2.2–5.2.4	Precipitation, Temperature, and Evaporation	Meteorological station	Electronically monitored at the Lake since April 2012
5.2.5	Stream Inflow	Data to be provided by PAWG or modeled	CDC is undertaking this process through participation in the Mediation Process (Technical Group, Lake Model element; RFP due to be issued)
5.2.6	Storm Drainage	Wet weather monitoring	Planning for 2013/2014 season is underway through the Mediation Process (Technical Group)
5.2.7	Other Surface Water Discharges	Dry/Wet weather monitoring	Monitoring undertaken on 23 August 2013 and 4 October 2013
5.2.8	Groundwater	Review of local data and/or net water balance assessment	CDC has elected to calculate a net water balance, data collection is underway and in the planning stages to support this assessment. In addition, the Mediation Lake Model Process will include this component.
5.2.9	Pumping	Obtain information regarding Golf Course Well usage	CDC staff have participated in informal discussions regarding current management activities; it is anticipated additional information will be fully incorporated into the Investigation Report



Workplan Section	Workplan Element	Monitoring Element	Status
5.2.10	Lake Management Activities	Query staff regarding management activities	CDC staff have participated in informal discussions regarding current management activities; it is anticipated that this and additional information will be fully incorporated into the Investigation Report
5.3	GIS Map	Data collection and mapping	Location data have been collected during monitoring activities to date and a GIS mapping exercise begun
6.0	Nutrient Budget	Nutrient data collection to mirror water budget assessment	See Section 7.0 (below); collaboration with Lakefront Property Owners is ongoing
<b>7.0</b>	<b>In-Lake Processes</b>		
7.1-7.2	Water Quality	Water quality monitoring	8 of the 10 events have been completed; 5 events have been reported to the Regional Board
7.3	Sediment	Sediment core collection	Not initiated
7.4	Sediment Flux	Sediment flux studies	1 of the 3 events have been completed and reported to the Regional Board; the second event has been completed and data will be available by mid-October
7.5	Biological Resource Data		Data concerning ambient biological function has been collected as part of ongoing monitoring activities (and will continue).
7.5.1	Phytoplankton	Phytoplankton tows	3 of the 4 planned monitoring events have been completed, 1 of the 4 events has been reported to the Regional Board
7.5.2	Pigment Analysis	SPATT deployment in collaboration with Regional Board	Two cycles of SPATT exposures were undertaken in collaboration with the Regional Board (per the Workplan) (Task Completed)
7.5.3	Vegetation	Survey of vegetation	Vegetation has been photo-documented during field activities to date (8 events)
7.5.4	Fish/Waterfowl	Observational Data	Qualitative data has been collected as referenced in the Workplan
<b>8.0</b>	<b>Analysis &amp; Reporting</b>		
8.2	Data Evaluation	Data Evaluation	Data evaluation has been begun
8.3	Schedule	Schedule of Reporting	CDC has produced three status reports summarizing monitoring activities and data collection efforts undertaken. A large proportion of the data collected (including water quality, station location, photodocumentation, and analytical data associated with the Workplan effort) has been transmitted to the Regional Board as of August 8, 2013. The next report is anticipated to be delivered by October 31, 2013.
8.4	Reporting	Annual Report	This effort is premature at the current time, though constituent elements are being collected as referenced above.



### CORRESPONDENCE WITH REGIONAL BOARD

As you know, CDC has received feedback from the Regional Board that communication of information has been below what is desired. We have endeavored to maintain and increase communication of compliance status in the following contexts: (1) submittal of data and reports to the Regional Board (August 2 and 8, 2013, Quarterly Status Report); (2) participation by CDC in public stakeholder meetings (August 20, 2013); (3) monthly status teleconference calls (September 4, 2013, October 2, 2013); and (4) assorted email and phone conversations.

### BUDGET STATUS AND OUTSTANDING TASK ESTIMATES

The following information is a summary of the budget extended by CDC to date and a summary of payments received by Great Ecology. As you know, the three insurance carriers have agreed to defend CDC in the matter entitled Citizens Dev. Corp., Inc. v. County of San Diego, et al., Case No. 12cv0334-GPC-KSC, and are currently reimbursing Great Ecology's costs.

#### Budget Summary:

Amount Invoiced to 8/31/13:	\$179,003
Work in Progress to 9/30/13 (estimated):	\$48,129
Amount Paid to date:	\$116,186

In addition, I have listed approximate budgets for outstanding work related to the Investigative Order. Note that these budget projections anticipate that additional efforts will be undertaken in relation to the ongoing litigation; costs below reflect efforts to comply with terms of the Investigative Order Workplan.

#### Outstanding Investigative Order Work

Task:	Estimated Budget
2 Water Quality Events	\$12,300
1 Sediment Flux Event	\$22,800
Sediment Coring Study	\$49,000
Hydrology Surveys and Monitoring	\$18,400
Lake Model (20% Share) (estimate)	\$25,000
Ongoing Reporting & Compliance	\$45,000
<b>Total Outstanding Effort</b>	<b>\$172,500</b>

**EXHIBIT “7”**

### SITE ACCESS AGREEMENT

The Citizens Development Corporation ("CDC"), LSM Golf Course Partners LLC, a Delaware limited liability company, dba, The St. Mark Golf Club ("St. Mark") and the LSM Executive Course ("LSMEC") ("Grantor") hereby grant, to the fullest extent of their ownership and control of land and access rights, (collectively, the "Grantor") authorization to SCS Engineers ("Grantee") to enter upon their property located on, under and around Lake San Marcos (the "Lake"), as more fully described below in Paragraph 1, for the purposes and pursuant to the conditions set forth herein:

1. **Description of Property:** CDC property consists of the Lake and, if any, adjoining lands under the ownership or control of CDC, the Lake is located in San Marcos, California and includes the docks adjacent to the Barn Burner Restaurant, the Dam and the spillway located at the south end of the Lake. St. Mark property consist of an eighteen (18) hole championship golf course located adjacent and east of the Lake. LSMEC property consists of an eighteen (18) hole executive course located adjacent to and west of the Lake. Collectively the three above-described properties are referred to as the "Property". Each Grantor executes this access agreement on behalf of and only to the extent of their respective ownership interest or access rights to the Property. Access is limited to performing the Scope of Work, and Grantee shall not perform any work on the Property not included in the Scope of Work without the written permission of Grantor. The Scope of Work shall be limited to the work required and or authorized by the Regional Board in the work plan to be submitted to the Regional Board. This Access Agreement shall expire on July 31, unless extended by the written agreement of the parties.
2. **Purpose of Entry:** Grantee is requesting access to the Grantor's Property for the sole purpose of implementing watershed and lake model data collection needs within, around, and at the Property to implement the attached Scope of Work ("Exhibit A"). Grantee access will assist the public agency parties to the *CDC v. County of San Diego*, U.S. District Court, Southern District of California, Case No. 12-cv-00334-GPC in their effort to conduct discovery, to comply with their obligations pursuant to Early Neutral Evaluation procedures and with Rule 34 of the Federal Rules of Civil Procedure.
3. **Notice:** Grantee shall provide seventy-two (72) hours advance written notice to Grantor's designated representative prior to entry, advising of the date of entry and what activity will be undertaken on that date. Access on shorter notice may be granted when it is necessary to conduct time-sensitive data collection. Grantor's consultant and counsel may be present at all times to observe, take pictures, their own samples, and to create field notes. Counsel for the public agency defendants may also be present whenever Grantor's counsel is observing Grantee activities. Counsel for Grantor shall provide forty-eight (48) hour advanced written notice to Grantee of its intention to observe Grantee field activities, except when entry occurs on less than seventy-two (72) hour notice. In such case, Grantor's counsel shall give Grantee reasonable notice appropriate under the circumstance as to when Grantor's counsel intends to be present.
4. **Split Samples:** Grantee will make reasonable accommodations to provide Grantor's consultant split samples upon the following conditions: that written request is received by Grantee forty-eight (48) hours in advance of the sampling activities if such notice is practical under the circumstances when the sampling method and means reasonably allow Grantee to provide such samples and, when Grantor provides appropriate and a sufficient number of collection jars or other containers. Grantee will not be able to provide sediment samples as the nutrient flux sample collection method is elaborate and will not allow Grantee to reasonably split the sample. If Grantor wants to have one (1) person observe sample collection or other field activities, Grantee will make reasonable accommodations to accommodate that person in its vehicle or boat. However, if such accommodations cannot reasonably be made, or if Grantor desires to have more than one person observe or participate in data gathering activities, Grantor will have to provide its own vehicle or boat to accommodate that person or those people.

5. **Grantee Data:** The data produced as a result of Grantee field activities at the Property will be made available to Grantor by Grantee as soon as reasonably practical. Grantee field notes will be made available when and if they are made public by submission to the San Diego Regional Water Quality Control Board or as a result of activities in the CDC litigation.
6. **Obligation of Care:** All work performed on the Property by Grantee shall be performed in accordance with the usual and customary standards of professional practice.
7. **Safety:** Grantee shall conduct its activities in a safe manner, and shall be responsible for the safety of its employees and subconsultants with respect to the activities it performs on the Property. In conducting the work, Grantee shall observe all reasonable safety restrictions imposed by Grantor. Grantee will conduct its work in a reasonable manner so that it will not interfere with the business operations of Grantor or prevent adjoining property owners' use and enjoyment of the Property when conducting its activities.
8. **Indemnification:** Grantee agrees to indemnify and hold harmless Grantor from and against claims, liabilities, costs, and causes of action which Grantor may suffer as a result of negligent acts, errors, or omissions by Grantee or its subconsultants in the performance of its activities on the Property.
9. **Insurance:** Grantee shall, during its period of entry upon the Property, keep in force worker's compensation insurance, including employer's liability insurance for its employees; commercial general liability insurance covering bodily injury and property damage with a combined minimum limit of \$1,000,000 in the aggregate; and professional environmental liability insurance with a minimum aggregate limit of \$1,000,000.
10. **Existing Hazardous Substances:** It is understood that the assignment which requires access to the Property, may involve the presence or potential presence, or release or potential release to the environment of hazardous substances or contaminants. Grantee will not be responsible for liability caused by the presence or release of hazardous substances or contaminants at the Property, unless the release results from the sole negligence of Grantee or its subconsultants. At no time shall title to hazardous substances, solid wastes, petroleum contaminated soil or other regulated substances pass to Grantee, nor shall any provision of this agreement be interpreted to permit or obligate Grantee to assume the status of "generator," "owner," "operator," "transporter," "arranger," or "treatment, storage or disposal facility" under state or federal law.

11. Site Information: Grantee shall be entitled to rely on information provided by the Grantor, if any.

**GRANTOR**

CITIZENS DEVELOPMENT CORPORATION

By: [Signature]  
Name: PINO VITTI  
Title: PRESIDENT  
Date: 5/09/2013

**GRANTEE**

SCS ENGINEERS

By: [Signature]  
Name: Chuck Pryatel  
Title: Vice President  
Date: 5-10-2013

LSM GOLF COURSE PARTNERS LLC DBA

THE ST. MARK GOLF CLUB

By its manager Pacific Enterprises, Inc.

By: [Signature]  
Name: Darin De Luca  
Title: President  
Date: 5/09/2013

LSM EXECUTIVE COURSE

By its manager

By: [Signature]  
Name: PINO VITTI  
Title: PRESIDENT, Atlantic City, Inc.  
Date: 5/09/2013

**EXHIBIT A**

**SCOPE OF WORK FOR SITE ACCESS AGREEMENT**

Tasks to Complete By July	Est. Time Required for Completion
<b>Golf Course and Lake Surface Flow Estimate</b> Estimate and field verify surface irrigation runoff to Lake from various sources (i.e., both golf courses and common areas) Estimate, field verify and sample various private sump pump discharges for input volume to Lake Estimate, field verify and sample agricultural runoff to Lake Field measure volume flowing into Lake from various sources Field measure of water quality into Lake from storm drains (public and private) Field identify minor streams/other water quality and volume inputs	45 days
<b>Golf Course Well Pumping Volume</b> Estimate discharge from St. Mark Golf Course well into Lake and other pumps Conduct 15-year estimate (per Tetra Tech data request to match rainfall model data set) for St. Mark Golf Course well use, ET rates, irrigation, etc.	21 days
<b>Historical Lake Level</b> Conduct field work consisting of 14-borings (hydropunches) around Lake - public roads Collect water quality samples Survey wells, water level elevations and the Lake Desktop survey of results	21 days
<b>Contribution of Lake Operations and Management</b> Estimate and field verify monthly recreational use of the Lake (boat counts, boat type, fishing) Use aerial photographs to identify land management trends including land use types that generate pollutants entering the Lake Assess, field verify and estimate Lake water bypass and retention levels Field verify and estimate seepage amount from dam face flowing downstream and provide analysis Collect samples, field verify and estimate released sediment quality	14 days
<b>Contribution of Dam Operations and Seepage</b> Identify and field verify dam operations Identify and field verify dam maintenance Evaluate dam properties - field verify the dam structure	14 days
<b>Lake Sediment Samples</b> Conduct 10-15 sediment core samples at the Lake, lab analyze where surface land use changes and geologic changes occur, and measure nutrient loading rate	60 days
<b>Lake Hydrogeology Mapping</b> Map hydrogeology around Lake and Lake watershed Map field identified and estimated nutrient input locations and sources Map field identified and estimated nutrient output locations and sources	14 days

**EXHIBIT “8”**

Insurance Coverage Chart

**Citizens Dev. Corp, Inc. v. County of San Diego, et al.**

Case No. 12CV0334-GPC-KSC

<u>Ins. Carrier (Issued by)</u>	<u>Policy Term</u>	<u>Policy Type</u>	<u>Policy No.</u>	<u>Each Occurrence Limit</u>	<u>Aggregate Limit</u>
Fireman's Fund	01/01/1975 - 01/01/1976	CGL	MXP2656209	\$300,000	\$300,000
Fireman's Fund	01/01/1976 - 01/01/1977	CGL	MXP2656209	\$300,000	\$300,000
Fireman's Fund	01/01/1977 - 01/01/1978	CGL	MXP2656209	\$300,000	\$300,000
Fireman's Fund	01/01/1978 - 03/02/1978	CGL	MXP3058979	\$500,000	\$500,000
Century Indemnity (Ins. Co. of North America)	03/01/1983 - 03/01/1984	CGL	INA # D07372668	\$500,000	\$500,000
Century Indemnity	03/01/1983 - 03/01/1984	Excess/Umbrella	CIU429117	\$2,000,000	\$2,000,000
Great American (American Alliance Ins. Co.)	03/01/1984 - 03/01/1985	CGL	BP6216923	\$500,000	\$500,000
Great American (American Nat'l Fire Ins. Co.)	03/01/1984 - 03/01/1985	Umbrella	PRO6216925	\$5,000,000	\$5,000,000
Great American (American Alliance Ins. Co.)	03/01/1985 - 03/01/1986	CGL	BP6216923	\$500,000	\$500,000
Great American (American Nat'l Fire Ins. Co.)	03/01/1985 - 03/01/1986	Umbrella	PRO6216925	\$5,000,000	\$5,000,000
Century Indemnity	11/04/1994 - 11/04/1995*	CGL	SVP D3190769-A	\$1,000,000	\$2,000,000
Century Indemnity	11/04/1994 - 11/04/1995*	CGL	SVP D3193476-A	\$1,000,000	\$2,000,000
Century Indemnity (CIGNA Fire Underwriters Ins. Co.)	11/04/1995 - 11/04/1996*	CGL	SVP D3193476-A	\$1,000,000	\$2,000,000
Century Indemnity (CIGNA Fire Underwriters Ins. Co.)	11/04/1996 - 11/04/1997*	CGL	SVP D3193476-A	\$1,000,000	\$2,000,000
Century Indemnity (CIGNA Fire Underwriters Ins. Co.)	11/04/1997 - 11/04/1998*	CGL	SVP D3193476-A	\$1,000,000	\$2,000,000
Century Indemnity (CIGNA Fire Underwriters Ins. Co.)	11/04/1998 - 11/04/1999*	CGL	SVP D3193476-A	\$1,000,000	\$2,000,000
Century Indemnity (ACE Fire)	11/04/1999 - 11/04/2000*	CGL	SVP D3193476-A	\$1,000,000	\$2,000,000
The Netherlands	12/06/2007 - 12/06/2008	CGL	CBP 8359592	\$1,000,000	\$1,000,000
The Netherlands	12/06/2008 - 12/06/2009	CGL	CBP 8359592	\$1,000,000	\$1,000,000
The Netherlands	12/06/2009 - 12/06/2010	CGL	CBP 8359592	\$1,000,000	\$1,000,000
The Netherlands	12/06/2010 - 12/06/2011	CGL	CBP 8359592	\$1,000,000	\$1,000,000

\* - Coverage determination outstanding.

**EXHIBIT “9”**

### THIRD LOAN MODIFICATION AGREEMENT

This THIRD LOAN MODIFICATION AGREEMENT ("Agreement") is entered into effective \_\_\_\_\_, 2013 between by Citizens Development Corp., a California corporation ("Borrower"), and LSM Lender LLC, a Delaware limited liability company ("Lender").

#### 1. UNDERLYING FACTS.

1.1 Note, Deed of Trust and Other Loan Documents. Lender is the current holder of the Promissory Note (the "Note") dated July 29, 2008, in the original principal amount of \$4,740,000, executed by Borrower in favor of Telesis Community Credit Union, a California chartered credit union ("Telesis"). The Note evidences a loan (the "Loan"). The Note is secured by a Deed of Trust, Assignment of Rents, Security Agreement and Fixture Filing (the "Deed of Trust") dated July 29, 2008, executed by Borrower, as trustor, for the benefit of Telesis and encumbering certain real property located in the County of San Diego, State of California. The Deed of Trust was recorded on August 20, 2008, as Document No. 2008-0448226 in the Official Records of the San Diego County Recorder's Office. An Assignment of Leases and Rents was recorded on August 20, 2008, as Document No. 2008-0448227 in the Official Records of the San Diego County Recorder's Office (the "Assignment") and a UCC Financing Statement was recorded in the Office of the County Recorder of San Diego County as Document No. 2008-0448228 (the "UCC Financing"). The Deed of Trust, Assignment and UCC Filing are collectively referred to in this Agreement as the "Security Instruments."

1.2 Guaranty. Matthew C. DiNofia ("DiNofia") executed a Guaranty of Borrower's obligations under the Loan dated July 29, 2008 (the "DiNofia Guaranty").

1.3 Property. The Security Instruments affect the real property common known as 1105-1121 La Bonita Drive, San Marcos, California 92078 (the "LSM Property").

1.4 Lawsuit and Stipulation/First Modification. On or about August 28, 2010, Telesis filed a lawsuit against Borrower and Guarantor in the San Diego Superior Court, Case No. 37-2010-00054239-CU-OR-NC (the "Lawsuit"). In connection with the Lawsuit, Borrower signed a Stipulation re Forbearance Conditioned on Performance for Entry of Preliminary Injunction which was filed with the San Diego Superior Court on September 2, 2010 (the "First Modification").

1.5 Bankruptcy and Second Modification. On August 26, 2010, Borrower filed Chapter 11 Bankruptcy in the United States Bankruptcy Court Southern District of California (the "BK Court") Case Number 10-bk-15142-LT11 (the "Bankruptcy"). In connection with the Bankruptcy, on January 11, 2012, Borrower and Telesis entered into a Second Agreement to Modify Promissory Note and Release modifying the amount of the Loan to \$5,314,722.01 (the "Second Modification").

1.6 Telesis Liquidation. On May 31, 2012, Telesis was placed into involuntary liquidation by the National Credit Union Administration Board ("NCUAB") and NCUAB was appointed as the liquidating agent for Telesis. By operation of law and pursuant to 12 U.S.C. 1787 (b), NCUAB as liquidating agent for Telesis succeeded to all rights, titles, powers and privileges of Telesis.

1.7 Assignment to Lender. The Note was assigned to Lender pursuant to an Allonge dated May 28, 2013, and the Deed of Trust and Assignment were assigned to Lender pursuant to an Assignment of Deed of Trust and Assignment of Leases and Rents dated May 28, 2013 and recorded on May 31, 2013 as Document No. 2013-0341895 in the Official Records of the San Diego County Recorder's Office. NCUAB as liquidating agent for Telesis and Lender also executed an Assignment

and Assumption re Loan and Loan Documents dated May 28, 2013 wherein NCUAB as liquidating agent for Telesis assigned all its rights in and to the Loan and all related documents to Lender.

1.8 Debtor's Plan of Reorganization. In connection with the Bankruptcy, Borrower submitted a Debtor's Plan of Reorganization dated \_\_\_\_\_, 2013 (the "Reorganization Plan") to the BK Court. The Reorganization Plan provides for modification of the Loan.

1.9 Third Modification. Pursuant to the Reorganization Plan, Borrower and Lender desire to modify the Loan on the terms set forth below.

## 2. MODIFICATIONS.

2.1 Restated Note. The Note shall be restated to require Lender to loan to Borrower up to an additional \$2,500,000 in principal advances (the "Additional Advances") for a total principal amount of \$7,814,722.01 (the "Restated Loan Amount"), and such restatement shall be on the terms and in the form of the "Restated Note" attached hereto as Exhibit A. Provided, however, Lender shall have no obligation to make the Additional Advances unless and until the following procedures and conditions are met related to each of the Additional Advances:

2.1.1 Borrower submits evidence to Lender, acceptable to Lender in its sole discretion, of Buyer's use of the funds for one or more of the following purposes:

- (a) Funding of capital improvements to Borrower's facilities located at the LSM Property in an amount not to exceed \$2,000,000 in total;
- (b) To the extent that the Debtor's insurance carriers do not reimburse the Municipal Agencies, funding the Borrower's payment to the Municipal Agencies of Pre-Plan Confirmation Municipal Agencies Investigative Order Cost Reimbursement in an amount up to \$60,000 (the terms Municipal Agencies and Pre-Plan Confirmation Municipal Agencies Investigative Order Cost Reimbursement are defined in the Reorganization Plan) ;
- (c) To the extent not covered by the New Value Contribution (defined below and in the Reorganization Plan), fund the payment of administrative claims of Borrower pursuant to the Reorganization Plan in an amount not to exceed \$450,000;
- (d) To the extent not covered by the New Value Contribution (defined below and in the Reorganization Plan), fund the distribution to general unsecured creditors holding allowed claims against Borrower pursuant to the reorganization Plan in an amount not to exceed \$100,000.

2.2 Modification of Deed of Trust and Assignment. The Deed of Trust and Assignment shall be modified to secure the Restated Note and shall be in the forms attached to this Agreement as Exhibit B and Exhibit C.

2.3 Additional Deeds of Trust. As additional security for the Restated Note, Borrower shall execute and deliver to Lender for recording the two additional Deeds of Trust with Assignment of Rents attached to this Agreement as Exhibit D and Exhibit E (the "Additional Deeds of Trust"). The real property subject to each of the Additional Deeds of Trust and the LSM Property are collectively referred to as the "Property."

2.4 Security Agreement. Borrower shall execute and deliver to Lender the Security Agreement attached to this Agreement as Exhibit F (the “Security Agreement”).

2.5 Guaranty. Borrower shall cause Pino Vitti to execute and deliver to Lender a Guaranty of the Restated Note, in the form attached as Exhibit G (the “Vitti Guaranty”).

2.6 Loan Documents. This Agreement, the Restated Note, the Security Instruments, Modification of Deed of Trust, the Modification of Assignment, the Additional Deeds of Trust, the Security Agreement, the UCC-1 Financing Statements, and the Vitti Guaranty are collectively referred to as the “Loan Documents.”

3. CONDITIONS TO MODIFICATION. Lender’s obligation to enter this Agreement and consummate the modification of the Loan is conditioned on satisfaction of the following conditions:

3.1 New Value Contribution. Atlantica, Inc shall have paid the \$400,000 New Value Contribution to Borrower as defined in the Reorganization Plan (“New Value Contribution”).

3.2 Receipt of Documents. Lender shall have received the following documents:

- (a) this Agreement, executed by Borrower;
- (b) the Restated Note, executed by Borrower;
- (c) the Modification of Deed of Trust, the Modification of Assignment, and the Additional Deeds of Trust executed by Borrower and with signature acknowledged by a notary public;
- (d) the Security Agreement, executed by Borrower;
- (e) UCC-1 Financing Statements to be filed with the California Secretary of State and the Delaware Secretary of State, reflecting Lender’s security interest in any personal property of Borrower (the “Assets”); and
- (f) the Vitti Guaranty, executed by Pino Vitti.

3.3 Recording/filing of Documents. The Modification of Deed of Trust, the Modification of Assignment and the Additional Deeds of Trust shall each have been recorded in the Official Records of the County, and the UCC-1 Financing Statements shall have been filed with the California Secretary of State and the Delaware Secretary of State .

3.4 Court Order. Entry of an Order(s) of the BK Court approving the Reorganization Plan and providing that the Property and Assets are free and clear of all liens, claims, encumbrances, and adverse interests other than the security interests of Lender and that The Modification of Deed of Trust, the Modification of Assignment, the Additional Deeds of Trust, the Security Agreement and UCC-1 Financing Statements shall be valid perfected enforceable first priority liens on all Property and Assets of Borrower superior to any and all other creditors, with the exception that the Additional Deed of Trust attached as Exhibit D shall be junior in priority only to the security interests previously granted Lender by Borrower pursuant to the Deed of Trust dated September 24, 2013 and recorded as Document No. 2013-0584063 with the San Diego County Recorder and approved by Order of the BK Court entered September 24, 2013 and recorded with the San Diego County Recorder as Document No. 2013-0586873.

3.5 Loan Title Policy and Endorsement. Lender, at its election, shall have received, at Borrower's expense, (i) an ALTA Loan Policy of Title Insurance (the "Title Policy"), with a liability equal to the Restated Loan Amount, and with coverage and in form satisfactory to Lender, insuring the Deed of Trust as a valid first priority lien on the real property subject to each of the Additional Deeds of Trust, together with such endorsements to the Title Policy as Lender may require, and containing only such exceptions from its coverage as shall have been approved in writing by Lender (the "Title Policy"), issued by Chicago Title Insurance Company or other title insurance company acceptable to Lender (the "Title Insurer"), and (ii) an endorsement to Lender's policy of title insurance issued by First American Title Company as policy number 1100301P050600 ensuring the modification of the Loan pursuant to this Agreement.

4. REPRESENTATIONS AND WARRANTIES OF BORROWER.

Borrower represents and warrants to Lender as follows:

4.1 Organization. Borrower is a corporation, duly organized and validly existing under the laws of the State of California.

4.2 Power and Authority. Borrower has full power and authority to execute the Loan Documents, to consummate the transactions contemplated by the Loan Documents, and to pay, perform and comply with its obligations under the Loan Documents.

4.3 Due Execution and Enforceability. The Loan Documents have been duly and validly executed by Borrower and constitute the legal, valid and binding obligations of Borrower, enforceable in accordance with their respective terms, except as such enforcement may be qualified or limited by bankruptcy, insolvency or other similar laws affecting creditors' rights generally.

4.4 No Violations or Defaults under Existing Agreements. Borrower is not in violation of any law, regulation or ordinance, or any order of any court or governmental authority. The consummation of the transactions contemplated hereby and the performance by Borrower of its obligations under the Loan Documents will not result in any breach of, or constitute a default under, any agreement or instrument to which is a party, or by which Borrower may be bound or affected.

4.5 Not a Foreign Person. Borrower is not a "foreign person" within the meaning of Section 1445(f)(3) of the Internal Revenue Code of 1986, as amended from time to time.

5. COVENANTS OF BORROWER.

Borrower hereby covenants and agrees as set forth below; such covenants and agreements shall survive repayment of the Loan or any termination of this Agreement.

5.1 General Indemnity. Borrower shall, at Borrower's expense, indemnify, protect, defend (with counsel acceptable to Lender) and hold Lender harmless from and against any and all claims, demands, causes of action (whether legal or equitable in nature), damages, liabilities, losses and expenses (including court costs and reasonable attorneys' fees and expenses), relating to the Loan, the Loan Documents, the Property or the Assets.

5.2 Indemnity for Claims of Contractors. Lender shall not be liable to any Contractor, or to any subcontractors, suppliers, laborers or others for materials or services provided to or for the Property. Borrower is not and shall not be considered to be the agent of Lender for any purpose. Borrower shall, at Borrower's expense, indemnify, protect, defend (with counsel acceptable to Lender) and hold Lender harmless from and against any and all claims, demands, causes of action (whether legal or equitable in nature), damages, liabilities, losses and expenses (including court costs and reasonable attorneys' fees and

expenses), arising in connection with claims of any Contractor, or to any subcontractors, suppliers, laborers or others for materials or services provided to or for the Property.

### 5.3 Environmental Covenants.

5.3.1 Definitions. For purposes of this Agreement, the following capitalized terms shall have the meanings set forth below:

“Environmental Action” shall mean:

(a) any notice of violation, complaint, claim, citation, demand, inquiry, report, action, assertion of potential responsibility, lien, encumbrance, or proceeding regarding the Property, whether formal or informal, absolute or contingent, matured or unmatured, brought or issued by any governmental unit, agency, or body, or any person or entity respecting (i) any Environmental Law; (ii) the environmental condition of the Property, or any portion thereof, or any property near the Property, including actual or alleged damage or injury to humans, public health, wildlife, biota, air, surface or subsurface soil or water, or other natural resources; or (iii) any Hazardous Activity on the Property or off-site;

(b) any violation or claim of violation by Borrower of any Environmental Law whether or not involving the Property;

(c) any lien for damages caused by, or the recovery of any costs incurred by any person or entity, including any governmental entity, for the investigation, remediation or cleanup of any Hazardous Release or threatened Hazardous Release on the Property; or

(d) the destruction or loss of use of property, or the injury, illness or death of any officer, director, employee, agent, representative, tenant or invitee of Borrower or any other person alleged to be or possibly to be arising from or caused by the environmental condition of the Property or any Hazardous Activity on the Property.

“Environmental Laws” shall mean:

(a) any present or future Federal statute, law, code, rule, regulation, ordinance, order, standard, permit, license, guidance document or requirement (including consent decrees, judicial decisions and administrative orders) together with all related amendments, implementing regulations and re-authorizations, pertaining to the protection, preservation, conservation or regulation of the environment, including, but not limited to the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, as amended by the Superfund Amendments and Re-authorization Act, 42 U.S.C. Sections 9601 *et seq.* (respectively, “CERCLA” and “SARA”); the Resource Conservation and Recovery Act of 1976, 42 U.S.C. Sections 6901 *et seq.* (“RCRA”); the Toxic Substances Control Act, 15 U.S.C. Sections 2601 *et seq.* (“TOSCA”); the Clean Air Act, 42 U.S.C. Sections 7401 *et seq.*; the Clean Water Act, 33 U.S.C. Sections 1251 *et seq.*; and the Hazardous Materials Transportation Act, 49 U.S.C. Sections 1801 *et seq.* (“HMTA”);

(b) any present or future state or local statute, law, code, rule, regulation, ordinance, order, standard, permit, license or requirement (including consent decrees, judicial decisions and administrative orders), together with all related amendments, implementing regulations and re-authorizations, pertaining to the protection, preservation, conservation or regulation of the environment.

“Hazardous Activity” shall mean any use, exposure, Hazardous Release, generation, manufacture, sale, transport, handling, storage, treatment, reuse, presence, decontamination, clean-up or recycling of any Hazardous Substance.

“Hazardous Substances” shall mean (i) all substances defined as “hazardous substances”, “hazardous materials”, “toxic substances”, “hazardous wastes” or “solid waste” in CERCLA, SARA, RCRA, TOSCA or HMTA; (ii) those substances listed in the United States Department of Transportation Table (49 C.F.R. 172.101 and amendments thereto) or by the Environmental Protection Agency (or any successor agency) as “hazardous substances” (40 C.F.R. Part 302 and amendments thereto); (iii) those substances defined as “hazardous wastes” in Section 25117 of the *California Health and Safety Code* or as “hazardous substances” in Section 25316 of the *California Health and Safety Code*, and in the regulations adopted and publications promulgated pursuant to such laws or which otherwise are or become regulated by any governmental authority, agency, department, commission, board or instrumentality of the United States of America, the State of California or any political subdivision thereof; (iv) any hazardous, dangerous or toxic chemical, material, waste, pollutant, contaminant or substance (collectively, “Pollutants”) within the meaning of any Environmental Law prohibiting, limiting or otherwise regulating any Hazardous Activity relating to any such Pollutant; (v) any petroleum, crude oil, or fraction or by-product thereof; (vi) any radioactive material, including any source, special nuclear or by-product material as defined at 42 U.S.C. Sections 2011 *et seq.*, as amended or hereafter amended, and in the regulations adopted and publications promulgated pursuant to such law; (vii) asbestos-containing materials in any form or condition; and (viii) polychlorinated biphenyls in any form or condition.

“Hazardous Release” shall mean the release of Hazardous Substances into the environment by any means whatsoever, including but not limited to any spilling, leaking, pumping, pouring, emitting, emptying, discharging, injecting, escaping, leaching, dumping removing or disposing (including the abandonment or discarding of barrels, containers and other receptacles containing any Hazardous Substance).

5.3.2 Compliance with Environmental Laws. Borrower shall comply, and shall cause the Property and all employees, agents, contractors and subcontractors of Borrower and any other persons occupying or present on the Property, to comply with all Environmental Laws. All required Permits shall be obtained and shall remain in effect, and Borrower shall comply therewith. All Hazardous Substances present, handled or generated on the Property shall be disposed of in a lawful manner without giving rise to liability under any Environmental Laws. Borrower shall satisfy all requirements of applicable Environmental Laws for the registration, operation, maintenance, closure and removal of all underground storage tanks on the Property, if any. Without limiting the foregoing, all Hazardous Substances shall be handled, and all Hazardous Activity shall be conducted, in compliance with all applicable Environmental Laws.

5.3.3 Environmental Actions. Borrower shall immediately notify Lender of all Environmental Actions and shall provide copies, within two business days of receipt, of all written notices, complaints, correspondence, or other documents relating thereto. Borrower shall keep Lender informed of all actions Borrower takes in connection with such Environmental Actions. Borrower shall promptly cure and have dismissed with prejudice all Environmental Actions in a manner satisfactory to Lender, and Borrower shall keep the Property free of any encumbrance arising from any judgment, liability or lien imposed pursuant to any Environmental Actions. Notwithstanding the foregoing sentence, Borrower may, diligently, in good faith and by appropriate legal proceedings, contest any Environmental Action, provided (i) Borrower first furnishes to Lender such deposits or other collateral as Lender, in its sole discretion, deems sufficient to fully protect Lender’s interests; (ii) such contest shall have the effect of preventing any threatened or pending sale or forfeiture of all or any portion of the Property arising from such Environmental Action or the loss or impairment of Lender’s lien and security interests in and to the Property; and (iii) such contest shall not cause Lender to incur any liability, in Lender’s sole judgment. Borrower shall permit

Lender, at Lender's option, to appear in and to be represented in any such contest and shall pay upon demand all expenses incurred by Lender in so doing, including attorneys' fees.

5.3.4 Environmental Indemnity.

(a) Borrower shall, at Borrower's expense, indemnify, protect, defend (with counsel acceptable to Lender) and hold harmless Lender and its Affiliates (as defined below) from and against any and all claims, demands, causes of action (whether legal or equitable in nature), damages, liabilities, losses and expenses (including court costs and reasonable attorneys' fees and expenses) arising from or in connection with (i) any Hazardous Substance or Hazardous Activity on, in, under or affecting all or any portion of the Property, or any surrounding areas; (ii) any breach of any covenant or agreement contained or referred to in Section 5.3 hereof; (iii) any claimed or actual violation by Borrower of, or liability of Borrower under, any Environmental Laws; (iv) the imposition of any lien for damages caused by, or the recovery of any costs for the cleanup, release or threatened release of, Hazardous Substances; or (iv) any Environmental Actions.

(b) The foregoing indemnification, defense and hold harmless obligations shall (i) apply to administrative or judicial proceedings or orders, remedial action requirements and enforcement actions of any kind, (ii) include lost profits, consequential damages, exemplary or punitive damages, diminution in value of the Property, damages for the loss or restriction of use of the Property, damages arising from any adverse impact on marketing the Property and sums paid in settlement of claims), fees and expenses of consultants and experts incurred in investigating any claim, (iii) include any entity controlling, controlled by or under common control with Lender, and their members, managers, partners, shareholders, directors, officers, employees and other agents (collectively, "Affiliates"), and (iv) apply to any residual contamination on or under the Property, or affecting any natural resources, and to any contamination of any property or natural resources arising in connection with any Hazardous Activity, and irrespective of whether any of such Hazardous Activities were or will be undertaken in accordance with applicable Environmental Laws.

(c) Borrower, on behalf of itself and its successors and assigns, hereby waives, releases and agrees not to make any claim or bring any cost recovery action against Lender under or with respect to any Environmental Laws. Borrower's obligation to Lender under this indemnity shall likewise be without regard to fault on the part of Borrower or Lender with respect to the violation or conditions which results in liability to Lender.

6. DEFAULT.

The occurrence of any of the following events shall be an event of default (each, an "Event of Default") under this Agreement:

6.1 Failure to Pay Money. Borrower fails to timely pay any monetary payment as required by this Agreement or any other Loan Document (including Borrower's obligation to make payments under the Restated Note), after giving effect to any express notice or cure provisions (if any) set forth in this Agreement or the applicable Loan Document.

6.2 Failure to Perform Other Obligations in this Agreement. Borrower fails to timely and completely perform or comply with any obligation of Borrower in this Agreement (other than any obligation to pay money or any other breach or default described elsewhere in this Section 6), and such failure continues for ten business days after written notice to Borrower from Lender specifying the nature thereof.

6.3 Failure to Perform Other Obligations in Other Loan Documents. Borrower fails to timely and completely perform or comply with any obligation of Borrower in any of the Loan Documents other than

this Agreement (other than any obligation to pay money or any other breach or default described elsewhere in this Section 6), after giving effect to any express notice or cure provisions set forth therein (if any).

6.4 Representation or Warranty. Breach of any representation or warranty by Borrower to Lender in any of the Loan Documents.

6.5 Accelerating Transfer. Borrower sells, conveys or otherwise transfers, or further encumbers, the Property or any part of or interest in it, without the prior written approval of Lender, or the transfer, either individually or on cumulative basis, of 50% or more of the interests in profits or voting power of Borrower, without the prior written approval of Lender (each, an "Accelerating Transfer").

6.6 Dissolution. Borrower dissolves or commences dissolution proceedings.

6.7 Insolvency. Borrower becomes insolvent or unable to pay its debts as they mature.

6.8 Assignment for Benefit of Creditors or Voluntary Petition in Bankruptcy. Borrower makes an assignment for the benefit of creditors, or a receiver is appointed for the Property or Borrower files a petition in bankruptcy or other similar proceeding for relief of debtors.

6.9 Involuntary Petition in Bankruptcy. A petition in bankruptcy or other similar proceeding under law for relief of debtors is filed against Borrower, and such petition is not dismissed within 60 days after the filing thereof.

## 7. REMEDIES.

7.1 Actions on Event of Default. If any Event of Default occurs, Lender may, in addition to any other rights or remedies of Lender under the Loan Documents or applicable law (all of which rights and remedies shall be cumulative), at the option of Lender in its sole discretion and without notice or demand:

7.1.1 Acceleration. Declare the Restated Note immediately due and payable, including the outstanding principal balance, and all accrued but unpaid interest.

7.1.2 Possession. Enter and take possession of all or a portion of the Property and the Assets or any portion thereof, whether in person, by agent or by court-appointed receiver. The exercise by Lender of any of the rights or remedies provided in this Subparagraph 7.1.2 shall not make Lender, or cause Lender to be deemed to be, a partner or joint venturer of Borrower.

7.2 Cross-Default to Restated Note, Deed of Trust and the Modification of Deed of Trust, the Assignment and Modification of Assignment, the Additional Deeds of Trust, the Security Agreement and Other Loan Documents. At the option of Lender, any Event of Default under this Agreement shall constitute a default under the Restated Note, the Deed of Trust and Modification of Deed of Trust, the Assignment and Modification of Assignment, the Additional Deeds of Trust, the Security Agreement and each of the other Loan Documents, to the same extent as though the Restated Note had by its own terms become due and payable at maturity and payment thereof had been refused, and in such event Lender may, without liability to Borrower, assert and exercise any and all rights and remedies provided for herein or in the Restated Note, the Deed of Trust and Modification of Deed of Trust, the Assignment and Modification of Assignment, the Additional Deeds of Trust, the Security Agreement and each of the other Loan Documents or otherwise as may be provided by law. Such rights and remedies may be asserted singularly, concurrently or successively from time to time at Lender's sole option and discretion (either before or after commencement of foreclosure proceedings or before or after the exercise of any other remedy of Lender) until the Restated Note, including interest thereon, and all other indebtedness of Borrower to Lender under this Agreement and the other Loan Documents, have been paid in full.

7.3 Provisional Remedies, Self-Help and Foreclosure. No provision of this Section 7 shall limit the right of any party to this Agreement to exercise self-help remedies such as setoff, foreclosure against or sale of any real or personal property collateral or security (or portion thereof), or to obtain provisional or ancillary remedies from a court of competent jurisdiction before, after, or during the pendency of any arbitration or other proceeding. The exercise of a remedy does not waive the right of either party to resort to arbitration or reference. At Lender's option, foreclosure under a deed of trust or mortgage may be accomplished either by exercise of power of sale under the Deed of Trust or by judicial foreclosure.

8. GENERAL PROVISIONS.

8.1 Notices. All notices, requests, demands and other communications under this Agreement shall be in writing and shall be deemed duly given (i) on the date of delivery if delivered (a) personally, (b) by a recognized overnight delivery service with confirmation of delivery, or (c) by facsimile or electronic mail with a telephone or electronic confirmation of receipt, or (ii) three business days after mailing if mailed by first-class mail, postage prepaid, to the parties at their addresses set forth below, or such other address designated from time to time in writing by such party to all other parties.

Borrower:

Citizens Development Corporation  
Attention: Mr. Pino Vitti  
1105 La Bonita Drive  
San Marcos, CA 92078  
Fax No.: (\_\_\_\_) \_\_\_\_\_

Lender:

LSM Lender, LLC  
Attention: Mr. Dario De Luca  
5505 Cancha de Golf  
Rancho Santa Fe, California 92091  
Fax No.: (858) 755-1212]

8.2 Successors and Assigns. Subject to the restrictions on assignment set forth below, the terms of this Agreement shall be binding on and inure to the benefit of the heirs, legal representatives, successors and assigns of the parties.

8.3 Assignment. Borrower may not assign this Agreement or any Loan funds, or assign or delegate any of its rights or obligations under this Agreement, without the prior written approval of Lender in its sole discretion. Lender may sell or otherwise transfer the Loan without the consent of Borrower, and may sell or otherwise transfer participations or other interests in the Loan without notice to or the consent of Borrower. Lender may disclose to any actual or prospective purchaser or other transferee of the Loan, or any participation or other interest in the Loan, any financial or other information in Lender's possession relating to Borrower, the Loan or the Property.

8.4 Waivers. No delay or omission of Lender in exercising any right or power arising from any Event of Default shall be construed as a waiver of or acquiescence to such default, nor shall any single or partial exercise of any right or power preclude any further exercise thereof or the exercise of any other right or power arising from any Event of Default. No waiver of any breach of this Agreement shall be construed to be a waiver of or acquiescence to any previous or subsequent breach.

8.5 Construction. This Agreement has been negotiated at arm's length and each party has been, or has had the opportunity to be, represented by legal counsel. Accordingly, any rule of law (including

California Civil Code Section 1654) or legal decision that would require interpretation of any ambiguities in this Agreement against the party drafting it is not applicable and is waived.

8.6 Interpretation. As used in this Agreement, (a) “business day” means a day other than a Saturday, Sunday or holiday on which Federal banks are closed, and if any date or time period provided for in this Agreement is or ends on a day other than a business day, then such date shall automatically be extended until the next business day; and (b) the term “includes” or “including” or similar words shall not limit the preceding words or terms and shall be interpreted to include the words “without limitation.” Reference in this Agreement to any statute shall include any successor provisions. The captions of the sections and paragraphs in this Agreement shall not define, limit, extend or describe the scope of this Agreement or the intent of any of its provisions.

8.7 Context. When the context and construction so require, singular nouns and pronouns, when used herein, are deemed to include the plural of such noun or pronoun, and nouns or pronouns of the neuter or one gender or are deemed to include the equivalent pronoun of the other gender or the neuter.

8.8 Attorneys’ Fees. If any lawsuit, arbitration or other legal proceeding (including bankruptcy and insolvency proceedings, such as in connection with seeking relief from stay in a bankruptcy proceeding) is commenced to enforce or interpret any of the terms of this Agreement, the prevailing party shall have the right to recover from the other party reasonable attorneys’ fees and other costs incurred in connection with such proceeding, including any appeal or enforcement of any judgment or decision rendered in such proceeding.

8.9 No Third Party. This Agreement is made for the sole benefit of Borrower and Lender and Lender’s successors and assigns, and no other person or persons shall have any rights or remedies under or by reason of this Agreement or any right to the exercise of any right or power of Lender hereunder or arising from any Event of Default.

8.10 Governing Law and Severability. This Agreement and all of the other Loan Documents (except as otherwise expressly provided therein) shall be governed by and construed in accordance with the laws of the State of California, without regard to its conflicts of law principles. If any provision of this Agreement is invalid or unenforceable, such provision shall (i) be modified to the minimum extent necessary to render it valid and enforceable, or (ii) if it cannot be so modified, be deemed not to be a part of this Agreement and shall not affect the validity or enforceability of the remaining provisions.

8.11 Venue and Jurisdiction. All proceedings to enforce or interpret this Agreement shall be commenced and maintained only in San Diego County, California. Borrower hereby consents to personal jurisdiction in California for purposes of such proceedings.

8.12 Entire Agreement and Amendment. This Agreement and the other Loan Documents constitute the entire understanding between the parties with respect to the Loan, and supersede all prior written or oral understandings, and may not be modified or amended except by a written agreement signed by both Lender and Borrower. Borrower acknowledges that this Agreement and the other Loan Documents accurately reflect the agreements and understandings of the parties with respect to the Loan and waives any claims against Lender which Borrower may now have or may hereafter acquire to the effect that the actual agreements and understandings of the parties with respect to the Loan may not be accurately set forth in this Agreement and the other Loan Documents.

8.13 Counterparts. This Agreement may be executed in any number of counterparts, all of which together shall constitute a one binding agreement, and each counterpart shall be deemed to be an original instrument.

8.14 Time of Essence. Time of the essence under this Agreement and each of its terms and conditions.

Citizens Development Corp.,  
a California corporation

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

LSM Lender LLC,  
a Delaware limited liability company

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_