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Corporation, Debtor and Debtor in Possession

UNITED STATES BANKRUPTCY COURT
CENTRAL DISTRICT OF CALIFORNIA
[LOS ANGELES DIVISION]

In re

**BAY AREA FINANCIAL
CORPORATION,**

Debtor and Debtor in Possession.

CASE NO.: 2:13-bk-38974-TD

Chapter 11

**BLACKLINE OF SUPPLEMENTAL AND
FINAL REDLINE CHANGES
REQUESTED BY THE US TRUSTEE
AND COMMITTEE TO: FIRST
AMENDED DISCLOSURE
STATEMENT DESCRIBING PLAN OF
REORGANIZATION/LIQUIDATION
PROPOSED BY DEBTOR, BAY AREA
FINANCIAL CORPORATION
[WITHOUT EXHIBITS]**

DATE: June 18, 2014
TIME: 10:00 a.m.
CTRM: 1345

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PREFACE TO DISCLOSURE STATEMENT SUMMARIZING THE PLAN

This document is the Disclosure Statement, which describes the Plan filed by the Debtor. The Disclosure Statement also discusses certain information so that you can make an informed decision as to whether or not to vote to accept or reject the Plan as well as the process that the Bankruptcy Court follows in determining whether or not to confirm the Plan. Due to the length of the Disclosure Statement and the complexities of the Plan, this preface summarizes a few material provisions of the Plan regarding management, and the various classes and their treatment under the Plan, including the treatment of the claims of the Commercial Paper Account Holders.

At the insistence of the Creditors Committee appointed in the Case, management will resign as of confirmation of the Plan. Specifically, Kenneth J. Pingree Jr. shall resign as president and chief executive officer; Vincent Lombardo shall resign as secretary; and, Patricia Pingree shall resign as assistant secretary of the Debtor.

In place of former management, management of the liquidation and distribution under the Plan shall be handled by an Oversight Committee and a Plan Administrator. The Oversight Committee shall have the authority to manage the Liquidation Debtor, cause the Liquidation Debtor to take actions and to direct the Plan Administrator (with a few exception) pursuant to and as limited by the Plan. The Oversight Committee shall effectively exercise the powers and duties once exercised by the board of directors of the Debtor, subject to the Plan. The Oversight Committee shall consist of three members. The initial three members appointed to the Oversight Committee under the Plan shall be two Commercial Paper Account Holders, Todd Fiorentino (who is also a member of the Creditors Committee) and James Prause. The third member of the Oversight Committee shall be a member selected by the Debtor (which may be Kenneth J. Pingree Jr or Vincent Lombardo). The initial Plan Administrator shall be Samuel Biggs, who is a principal in the Debtor's accounting firm, Biggs & Co.

Under the Plan, certain types of claims are not placed into voting Classes; and instead they are referred to as "unclassified". Unclassified Claims are not entitled to vote on the Plan because such claims are automatically entitled to specific treatment provided in the Bankruptcy Code.

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Unclassified Claims include Administrative Claims and Priority Claims. Administrative Claims are claims for costs or expenses of administering the Chapter 11 Case, which include the expenses incurred after the commencement of the Chapter 11 Case, such as for post-petition taxes and professional fees for legal and other services incurred in connection with the Chapter 11 Case. Priority Tax Claims are certain types of pre-petition claims entitled to priority under the Bankruptcy Code, such as for pre-petition taxes, wages and other claims more fully described in the Plan.

Aside from Unclassified Claims, the other claims in the Case are treated in one of eight classes under the Plan. Class 1 consists of secured tax claims, which consists primarily of claims for property taxes on the various real estate parcels owned by the Debtor. Class 2 is a secured claim of Residential Credit Solutions, which holds a senior secured lien against the Ostin Property, which property is now owned by the Debtor. Class 3 is a general Class created for secured claims against any additional real estate that the Debtor acquires through foreclosure prior to confirmation of the Plan. Class 3 is a precautionary class, and there are no known claims in that Class at this time.

The claims asserted by the Commercial Paper Account Holders are treated in one or more of four Classes, i.e. Classes 4, 5, 6 and/or 7. Class 8 is the existing shareholders, who will receive no distribution under the Plan on account of their shares of stock.

A brief summary of the four Classes created for Commercial Paper Account Holders is summarized below.

Commercial Paper Account Holders whose claims are \$200,000 or less are given an option under the Plan. Class 4 is the Early Cash-Out Election Class created for any Commercial Paper Account Holder whose unpaid principal balance and accrued and unpaid interest as of the Petition Date is \$200,000 or less, and who would rather accept a discounted payoff, rather than accepting deferred payments and waiting for the orderly liquidation to be completed. The election into this Class must be made on the Ballot accepting the Plan by the Ballot Deadline. Qualified Commercial Paper Account Holders electing into this Class will receive upon confirmation of the Plan, thirty-

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1 five percent (35%) of the amount of its principal balance and accrued and unpaid interest as of the
2 date of filing of the Chapter 11. The amount of principal and interest is set forth in the Disclosure
3 Statement. For example, assuming a Commercial Paper Account Holder has a claim for \$100,000,
4 such creditor will receive \$35,000 in full and final satisfaction of its claims.

5 In the Disclosure Statement, the Debtor includes a projection of the payout to Class 4 based
6 on certain hypotheticals. However, in reality, until the elections are actually received, the Debtor
7 cannot reasonably project with exactitude the number of Commercial Paper Account Holders (with
8 claims equal to or under \$200,000) who will actually elect into Class 4. Therefore, although the
9 Debtor believes it will have enough cash on hand to distribute the full 35% on confirmation, the
10 Debtor cannot predict with certainty as to whether or not it will have cash on hand as of
11 confirmation of its Plan sufficient to fund the entire thirty-five percent to all creditors electing
12 treatment in Class 4 due to the number of variables involved.

13 Accordingly, because of the number of uncertainties at this time respecting the number of
14 elections and the amount of loan proceeds needed, if any, the Plan gives the Plan Administrator
15 the option of making two payments (instead of just one) if the cash on hand and loan proceeds
16 (after factoring appropriate reserves) as of confirmation are still not sufficient to make the entire
17 35% payment when the Plan is confirmed and all the election to be cashed out are calculated. In
18 the event that the Plan Administrator is required to make two payments, the deferred portion of
19 the cash payout will accrue simple interest at the rate of 5% per annum to compensate for the delay
20 in the second payment.

21 In the absence of timely election and compliance with each of the conditions necessary to
22 elect into Class 4, the Commercial Paper Account Holders will automatically be treated in Classes
23 5, 6 and/or 7, as applicable.

24 In order for a Commercial Paper Account Holder to opt into Class 4 and receive a
25 discounted cash-out, the portion of the Commercial Paper Account Claim for unpaid principal and
26 accrued and unpaid interest as of the Petition Date must be in an amount that is greater than \$0 and
27 less than or equal to \$200,000; the Holder must voluntarily elect on the Ballot (or other written
28

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instrument submitted and satisfactory to the Debtor) to be treated as an Early Cash-Out Election Claim in Class 4; and, the Holder must execute and deliver to the Debtor prior to the Ballot Deadline (i) a Ballot accepting the Plan, and (ii) the Release, whereby the Commercial Paper Account Holder qualifying and electing treatment in Class 4, in exchange for the treatment provided in Class 4, releases, among other things, all other claims and any further right to distribution under the Plan.

In the absence of an election into Class 4, the claims of Commercial Paper Account Claim Holders are automatically treated in Classes 5, 6 and/or 7, as applicable. Class 5 consists of the portion of the claims of the Commercial Paper Account Holders that is for unpaid principal and accrued and unpaid interest through the filing of the Case. Class 6 consists of the portion of the claims of the Commercial Paper Account Holders that is for any penalties, fees costs and any other charges. Class 7 consists of the portion of the claims of the Commercial Paper Account Holders that is for any interest accrued or owing during the Chapter 11 case, after the Petition Date and prior to confirmation.

Although the Debtor anticipates that the distribution to Commercial Paper Account Holders in Class 5 will eventually be greater over time than the 35% being offered to those electing to be cashed-out in Class 4, it is not possible to predict with any degree of certainty the exact amount or percentage of distribution to Class 5 at this time or the amount of time it will take to complete the liquidation, although reasonable efforts have been made by the Debtor to do so, as set forth the exhibits to the Disclosure Statement. Among other reasons, there are too many uncertainties regarding the value of the remaining real estate assets, collectability of the remaining loans in the Debtor's loan portfolio and general unpredictability of the economy to make a completely accurate prediction at this point. With that general disclaimer in mind, the Disclosure Statement projects that the distribution to Class 5 should be between 45% and 70% over a 2 year period, although it is entirely possible it could be materially more or less.

1 The Debtor does not anticipate that there will be any distribution on account of claims in
2 Classes 6 or 7 as it is not likely that Class 5 will receive payment in full. Therefore, Classes 6 and
3 7 are included for merely precautionary purposes only.

4 Although the prefatory summary of the Plan set forth in this preface has been approved by
5 the Court for dissemination to Creditors along with a the Disclosure Statement, the summary is
6 not intended as a substitute for complete and thorough reading of the Disclosure Statement, Plan
7 and Exhibits. Furthermore, this prefatory summary is not intended to supplement, modify, amend
8 or augment the Disclosure Statement and Plan in any way; thus, in the event of a conflict,
9 ambiguity, mistake or inaccuracy, the terms and provisions of the Disclosure Statement and Plan
10 shall control over this summary.

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**DISCLOSURE STATEMENT DESCRIBING PLAN OF
REORGANIZATION/LIQUIDATION PROPOSED BY BAY AREA FINANCIAL
CORPORATION**

I.

DEFINITIONS AND RULES OF CONSTRUCTION

A. DEFINITIONS

In addition to the definitions set forth elsewhere in the Disclosure Statement and in the Plan, the following definitions will apply with respect to the Disclosure Statement:

Administrative Bar Date shall have the meaning set forth in Section IV of the Plan.

Administrative Claim(s) or *Administrative Expense(s)* means Claims for costs or expenses of administering the Debtor's Chapter 11 Case which are Allowed under Bankruptcy Code §§ 503 (b) and 507(a) (1).

Administrative Claims Funding Amount shall have the meaning set forth in Section IV of the Plan.

Administrative Claim Reserve(s) means a Plan Reserve in an amount sufficient to satisfy Allowed Administrative Claims against the Debtor.

Administrative Tax Claim means a Claim that a governmental unit asserts or may assert against the Debtor either for taxes or for related interest, fees, costs or penalties for any tax period.

Allowed means, when used in respect of a Claim or an Interest or group of Claims or Interests, the following as applicable:

(a) if no Proof of Claim or Interest has been timely filed, such amount of the Claim or Interest or group of Claims or Interests which has been scheduled by the Debtor as liquidated in amount and not disputed or contingent and as to which no party in interest has filed an objection within the time required under the Plan or otherwise fixed by the Court and which Claim or Interest is not disallowed under Bankruptcy Code § 502 (d) or (e); or

(b) if a Proof of Claim or Interest has been filed by the applicable bar date or is deemed

1 timely filed by the Court, such amount of the Claim or Interest or group Claims or Interests as to
2 which any party in interest has not filed an objection within the time required under the Plan or
3 otherwise fixed by the Court and which Claim or Interest is not disallowed under Bankruptcy Code
4 § 502 (d) or (e); or

5 (c) such amount of the Claim or Interest or group of Claims or Interests which is
6 allowed by a Final Order of the Court.

7 ***Allowed Administrative Claim*** means an Administrative Claim that is an Allowed Claim.

8 ***Allowed Claim*** or ***Allowed Interest*** means a Claim or Interest that is Allowed.

9 ***Allowed Early Cash-Out Election Claim(s)*** means an Early Cash-Out Election Claim that
10 is Allowed, and qualifies for treatment in Class 4.

11 ***Allowed General Unsecured Claim*** means a General Unsecured Claim that is an Allowed
12 Claim.

13 ***Allowed Commercial Paper Account Claim(s)*** means a Commercial Paper Account Claim
14 that is Allowed.

15 ***Allowed Pingree Setoff Claim(s)*** shall have the meaning set forth in Section IV.A.1 of the
16 Plan.

17 ***Assets*** means (i) any and all real or personal property of the Debtor of any nature, including,
18 without limitation, any Cash, real property, licenses, goods, materials, supplies, furniture, fixtures,
19 equipment, works in process, accounts or loans receivable, tax refunds, chattel paper, deposit
20 accounts, reserves, deposits, contractual rights, intellectual property rights, claims, Rights of
21 Action, and any other general intangibles of any nature whatsoever; and (ii) proceeds, products,
22 rents and profits of any and all of the foregoing.

23 ***Assumed Contract Schedule*** shall have the meaning set forth in Section VI of the Plan.

24 ***Available Cash*** means all Cash held by the Plan Administrator on and after the Effective
25 Date available for distribution after payment of or reserve for Administrative Claims (including,
26 without limitation, Professional Fee Claims), Priority Claims, the Disputed Claims Reserve, Plan
27 Operating Expenses, Liquidation Expenses, the Early Cash-Out Election Claim Payment, the Post-
28

Effective Date Plan Expense Reserve and other Plan Reserves. Available Cash shall not include the Cash in any of the Plan Reserve Accounts, pending the release thereof by the Plan Administrator pursuant to the Plan.

Avoidance Action(s) means all avoiding powers, rights to seek subordination and all rights and remedies under Bankruptcy Code §§ 502(d), 506, 510, 542, 544, 545, 547, 548, 549, 550, 551, 552 or 553 or any fraudulent conveyance, fraudulent transfer, or preference laws under applicable state or other law.

Ballot(s) means the ballot to vote to accept or reject the Plan.

Ballot Deadline means the deadline established by the Court for the delivery of executed Ballots to the Debtor.

Bank Stock Sales Procedures Motion means the *Motion of Debtor and Debtor in Possession, for an Order (1) Approving the Immediate Sale of 1,710 Shares of Stock of the Bank of San Francisco; (2) Subsequent Sales of Additional Stock; and (3) Approving Sales Procedures for All Such Sales of Stock*, filed by the Debtor on February 28, 2014 [Docket No. 70].

Bankruptcy Code means the Bankruptcy Code, as codified in Title 11 of the United States Code, 11 U.S.C. Section 101 et seq., including all amendments thereto, to the extent such amendments are applicable to the Case.

Bay Area means Bay Area Financial Corporation, the Debtor and Debtor in Possession.

Biggs means Samuel R. Biggs of Biggs & Co.

Biggs & Co. means Biggs & Co., accountants and financial advisors to the Debtor.

Business Day means any day other than a Saturday, Sunday or a legal holiday (as defined in the FRBP 9006(a)).

Calle Laguna Property means the real property owned by the Debtor, commonly known as 1840 Calle Laguna, Arroyo Grande, California 93420.

Case means the Chapter 11 proceeding commenced by the Debtor by voluntary petition and entitled *In re Bay Area Financial Corporation*, Case No. 2:13-bk-38974-TD, pending in the

United States Bankruptcy Court, Central District of California.

Cash means cash or cash equivalents, including, but not limited to, bank deposits, checks or other similar items.

Claim means (a) right to payment, whether or not such right is reduced to judgment, liquidated, unliquidated, fixed, contingent, matured, unmatured, disputed, undisputed, legal, equitable, secured or unsecured, or (b) right to an equitable remedy for breach of performance if such breach gives rise to a right to payment, whether or not such right to an equitable remedy is reduced to judgment, fixed, contingent, matured, unmatured, disputed, undisputed, secured, or unsecured.

Class means a class of Claims or Interests described in the Plan.

Class 5 Deferred Plan Payment(s) shall have the meaning set forth in the Treatment of Class 5 under the Plan.

Class 5 Final Plan Payment shall have the meaning set forth in the Treatment of Class 5 under the Plan.

Classified Priority Claim(s) means an Allowed Claim entitled to priority against the Estate under Bankruptcy Code §§ 507(a)(1), 507(a)(4), 507(a)(5) and/or 507(a)(7), excluding any such claims incurred after the Petition Date.

CMKF means Creim Macias Koenig & Frey LLP, Chapter 11 counsel to the Debtor.

Commercial Lease Assumption Motion means the *Motion of Debtor and Debtor in Possession to Assume Nonresidential Lease Agreement*, filed by the Debtor on February 2, 2014 [Docket No. 69}, whereby the Debtor seeks to assume its nonresidential lease as modified by the Fifth Amendment to such lease, between Douglas Emmett Realty Fund 1995 and the Debtor for real property located at 12400 Wilshire Blvd, Suite 350, Los Angeles, California 90025.

Commercial Paper Account Claim(s) means any and all Claims of any kind or nature held by the Commercial Paper Account Holders.

Commercial Paper Account Holder(s) means any Holder of a commercial paper issued by the Debtor in exchange for certain amounts that were paid to the Debtor by such Holder to the

1 extent not paid in full as of the Petition Date.

2 **Committee** means the Official Committee of Unsecured Creditors, appointed in the Case.

3 **Committee Counsel** means SHB.

4 **Confirmation** means the entry of the Confirmation Order.

5 **Confirmation Date** means the date upon which the Court enters the Confirmation Order.

6 **Confirmation Hearing Date** means the date on which the Court held a hearing on
7 Confirmation of the Plan.

8 **Confirmation Order** means the order of the Court confirming the Plan pursuant to
9 Bankruptcy Code § 1129.

10 **Consummation** means the occurrence of the Effective Date.

11 **Contracts** means all agreements and contracts to which the Debtor is a party.

12 **Court** means the United States Bankruptcy Court for the Central District of California, Los
13 Angeles Division, or any other court that exercises jurisdiction over the Case.

14 **Creditor** means the Holder of a Claim against the Debtor.

15 **Cure Obligations** means all (a) amounts (or such lesser amount as may be agreed upon by
16 the parties under an executory contract or unexpired lease) required to cure any monetary defaults
17 and (b) other obligations required to cure any non-monetary defaults, if any, under any executory
18 contract or unexpired lease that is to be assumed and assigned by the Debtor pursuant to Bankruptcy
19 Code §§ 365 and 1123.

20 **DACA** means DACA VI, LLC an entity that purports to be the transferee of a number of
21 Commercial Paper Account Claims.

22 **Debtor** means Bay Area Financial Corporation, the Debtor in this Case.

23 **Debtor's Accountants** means Biggs & Co.

24 **Debtor's Counsel** means CMKF.

25 **Disallowed Claim** means a Claim, or any portion thereof, that: (a) is not listed on the
26 Debtor's Schedules, or is listed therein as contingent, unliquidated, disputed, in an unknown
27 amount, or in an amount equal to zero, and whose Holder has failed to timely File a Proof of Claim;
28

or (b) the Court has disallowed pursuant to order of the Court.

Disbursing Agent means the Plan Administrator, who is the Person responsible for making all Distributions to Claimants provided under the Plan.

Disclosure Statement means the *First Amended Disclosure Statement Describing First Amended Plan of Reorganization/Liquidation Proposed by Debtor, Bay Area Financial Corporation*, and any and all amendments, modifications and exhibits thereto.

Disputed Claim or **Disputed Interest** means a Claim or Interest as to which a Proof of Claim is filed or is deemed filed under FRBP 3003(b)(1) or a Proof of Interest was filed or deemed filed under FRBP 3003(b)(2); and

1. An objection: (a) has been timely filed; and (b) has not been denied by a Final Order or withdrawn; or,
2. The Claim or Interest is listed on the Debtor's Schedules as disputed, contingent or unliquidated.

Disputed Claim Reserve means, for any Disputed Claim, the amount as estimated pursuant to (a) agreement among the Debtor, the Plan Administrator and the Holder of the Disputed Claim; (b) determination made by the Debtor and the Plan Administrator, in their absolute and sole discretion; (c) determination made after the Effective Date by the Oversight Committee and the Plan Administrator, in their absolute and sole discretion; or (d) determination of the Court.

Distribution means any transfer under the Plan of Cash or other property to a Holder of an Allowed Administrative Claim, a Holder of an Allowed Claim (including, without limitation, a Holder of an Allowed Commercial Paper Account Claim), or a Holder of an Interest.

Early Cash-Out Election Claim means any Claim against the Debtor that would otherwise be an Allowed Commercial Paper Account Claim or Allowed General Unsecured Claim, so long as (a) the portion of such Holders' Allowed Commercial Paper Account Claim or Allowed General Unsecured Claim that represents the unpaid principal balance and accrued and unpaid interest as of the Petition Date, that would otherwise qualify for treatment in Class 5, is in an amount that is greater than \$0 and less than or equal to \$200,000 (or for which the Creditor elects (pursuant to

1 the appropriate election on the Ballot for Class 4 or other written instrument submitted and
2 satisfactory to the Debtor) to reduce such Allowed Claim to \$200,000); (b) the Holder of such
3 Allowed Claim elects on the Ballot to be treated in the Early Cash-Out Election Class in Class 4;
4 and (c) waives any and all other Claims, including, those in Classes 5, 6 and 7, and any right to
5 any further Distribution under the Plan; and, (d) *provided, however*, that each such Holder executes
6 and delivers to the Debtor prior to the Ballot Deadline (i) a Ballot accepting the Plan, and (ii) the
7 Release.

8 ***Early Cash-Out Election Class*** shall have the meaning set forth in Section V.D., Class 4
9 of the Plan.

10 ***Early Cash-Out Election Class Payment*** means the aggregate amount required to pay all
11 Holders of the Early Cash-Out Election Claims, who timely and properly elect treatment in the
12 Class 4, an amount equal to thirty-Five percent (35%) of their Early Cash-Out Election Claim on
13 the Effective Date, pursuant to the provisions of Section V.D., Class 4 of the Plan.

14 ***Effective Date*** means a date set by the Plan Administrator, which date shall be within sixty
15 (60) days after the Confirmation Order becomes a Final Order.

16 ***Effective Date Available Cash*** means cash held by the Debtor on the Effective Date which
17 the Plan Administrator determines in his, hers or its discretion is reasonably available for
18 distribution to Class 4, remaining after payment of, or reserve for, Administrative Claims
19 (including, without limitation, Professional Fee Claims), Priority Claims, any other Effective Date
20 Payments, Claims in Classes 1, 2 and 3, the Disputed Claims Reserve, the Post-Effective Date Plan
21 Expense Reserve, reserves for Plan Operating Expenses and Liquidation Expenses, other Plan
22 Reserves, and any other amount that the Plan Administrator determines in his, hers or its discretion
23 to be prudent, necessary or reasonable to hold back or reserve for.

24 ***Effective Date Notice*** means a notice to be served on creditors by the Liquidation Debtor
25 upon the occurrence of the Effective Date.

26 ***Enjoined Claim*** shall have the meaning set forth in Section VII of the Plan.

27 ***Estate*** means the estate in the Debtor's Case created pursuant to Bankruptcy Code § 541(a).
28

1 **Exculpated Parties** means, collectively, the Debtor, the Committee, CMKF, SHB, Biggs
2 & Co., Biggs, Lombardo, the Pingrees and each of their respective predecessors, successors and
3 assigns, shareholders, affiliates and Insiders (determined as if such Entity were a debtor under the
4 Bankruptcy Code), subsidiaries, principals, employees, agents, officers, directors, trustees,
5 members, partners, professionals, consultants and advisors.

6 **Exculpation** shall have the meaning set forth in Section VIII of the Plan.

7 **Exhibit Filing Date** means the date that is at least 10 days prior to the date of the
8 Confirmation Hearing.

9 **Fiorentino** means Todd Fiorentino.

10 **Final Order** means an order or judgment of a court of competent jurisdiction entered on
11 such court's official docket the operation or effect of which (a) has not been reversed, rescinded,
12 stayed, modified, or amended; (b) is in full force and effect; and (c) with respect to which: (i) the
13 time to appeal or to seek review, remand, rehearing, or a *writ of certiorari* has expired and as to
14 which no timely filed appeal or petition for review, rehearing, remand, or *writ of certiorari* is
15 pending, or (ii) any such appeal or petition has been dismissed or resolved by the highest court to
16 which the order or judgment was appealed or from which review, rehearing, remand, or a *writ of*
17 *certiorari* was sought.

18 **FRBP** means the Federal Rules of Bankruptcy Procedure as now in effect or hereafter
19 amended and applicable to the Case.

20 **General Unsecured Claims** means a Claim that is not an Administrative Claim, a Priority
21 Claim, an Administrative Tax Claim, a Secured Claim, a Secured Tax Claim, an Early Cash-Out
22 Election Claim or a Commercial Paper Account Claim.

23 **General Unsecured Creditor** or **General Unsecured Claimant** means the Holder of a
24 General Unsecured Claim.

25 **Governmental Unit** means United States; State; Commonwealth; District; Territory;
26 municipality; foreign state; department, agency, or instrumentality of the United States, a State, a
27 Commonwealth, a District, a Territory, a municipality, or a foreign state, or other foreign or
28

domestic government.

Holder means the holder of a Claim against or Interest in the Debtor.

Insider means all Persons who are "insiders" as that term is defined in Bankruptcy Code § 101 (31).

Interest means any equity security holder of the Debtor as defined in Bankruptcy Code § 101(16).

IRS means the Internal Revenue Service.

LBR means the Local Bankruptcy Rules of the United States Bankruptcy Court for the Central District of California, including all amendments thereto, to the extent such amendments are applicable to the Case.

Lien means any charge against or interest in property to secure payment or performance of a Claim, debt or obligation.

Liquidation Agreement means the liquidation documents to be filed with the Bankruptcy Court on or before the Effective Date.

Liquidation Analysis means the Liquidation Analysis prepared by the Debtor attached to the Disclosure Statement as Exhibit 78.

~~**Liquidation Analysis Detail** means the Liquidation Analysis referred to as Exhibit 9 to the Disclosure Statement, with includes additional detail not contained in Exhibit 8, because the Debtor believes that it is not in the best interest of the Estate and Creditors to include such confidential information in the public record, but which exhibit is available to qualifying Creditors as part of the Supplemental Disclosure Package.~~

Liquidation Debtor means the Debtor on and after the Effective Date, after giving effect to the Plan.

Liquidation Expense(s) means any and all fees, costs and/or expenses incurred or required to be paid in connection with the collection, preservation, liquidation, sale, transfer, abandonment or disposition of any and all Assets, including, without limitation, (a) any and all secured claims against any of the Assets; (b) any and all usual and customary fees and expenses respecting the

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collection, preservation, liquidation, sale, transfer, abandonment or disposition of any of Assets, including, without limitation, escrow fees, title fees, title insurance fees, document preparation fees, legal fees and costs, financial advisory fees and costs, accounting fees and costs, fees for other services and any other fees and costs; (b) any and all broker's commission or other fees in connection with, or related to, the collection, preservation, liquidation sale, transfer, abandonment or disposition of any of Assets; (c) any and all other reasonable and customary costs respecting the collection, preservation, liquidation, sale, transfer, abandonment or disposition of any of Assets. (d) any and all property taxes, transfer taxes, uses taxes or other applicable tax due and owing to the applicable Governmental Unit in connection, or related to, collection, preservation, liquidation, sale, transfer, abandonment or disposition of any of Assets; (e) any and all other tax owed to the applicable Governmental Unit resulting from or in connection with the collection, preservation, liquidation, sale, transfer, abandonment or disposition of any of Assets; and, (d) any and all other charges, fees, costs and/or expenses of any kind or nature which the Plan Administrator and/or Liquidation Debtor determines in their discretion, is necessary or appropriate to be paid in connection, or related to, collection, preservation, liquidation, sale, transfer, abandonment or disposition of any of Assets or in order to conclude the sale and/or close escrow for any of the Assets.

Liquidation Value means the aggregate dollar amount found by the Court (calculated without consideration of Rights of Action), which is equal to the lowest dollar amount necessary to fund payment to a Class in the manner provided under the Plan so that each Holder of an Allowed Claim would receive or retain property with a value as of the Effective Date at least equal to the amount such Holder would receive if the Debtor were liquidated under chapter 7 of the Bankruptcy Code on the Effective Date.

Loan Procedures Motion means the *First Day Emergency Motion of Debtor and Debtor in Possession for Order (1) Approving Payoff of Promissory Note at Compromised Amount; (2) Establishing Procedures for Compromise and Settlement of Promissory Notes in the Ordinary Course of Business*, filed by the Debtor, which was approved on an interim basis by the Bankruptcy

1 Court by Order entered on December 20, 2013 [Docket No. 27] and on a final basis by Order
2 entered on February 26, 2014 [Docket No.68].

3 ***Lombardo*** means Vincent J. Lombardo of Lombardo & Safford, special counsel to the
4 Debtor.

5 ***McCauley Borrower*** shall have the meaning set forth in Section III.D.4 of the Disclosure
6 Statement.

7 ***McCauley Borrower Properties*** shall have the meaning set forth in Section III.D.4 of the
8 Disclosure Statement.

9 ***Ocean Drive Property*** means the real property owned by the Debtor, commonly known as
10 4145 Ocean Drive, Oxnard, CA 93035.

11 ***Ostin Property*** means the real property owned by the Debtor, commonly known as 5734
12 Ostin Drive, Woodland Hills, CA 91367.

13 ***Other Secured Claim*** means any Secured Claims that are not otherwise expressly classified
14 under the Plan.

15 ***Oversight Committee*** means a committee of Persons established pursuant to Section VI.I
16 of the Plan to oversee the Plan Administrator/Liquidation Debtor's performance of their duties and
17 otherwise serve the functions described in the Plan.

18 ***Oversight Committee Conference Requirement*** means the requirement of the Plan
19 Administrator/Liquidation Debtor to advise, confer, consult and obtain the consent of the
20 Oversight Committee on the matter specified in the applicable Plan provision reasonably prior to
21 the subject action of the Plan Administrator/Liquidation Debtor, and if the Oversight Committee
22 objects or fails to consent to the particular action to be taken, the Plan Administrator shall have a
23 reasonable opportunity (no less than three Business Days) to seek authorization from the
24 Bankruptcy Court.

25 ***PBCG*** means the Pension Benefit Guaranty Corporation, the independent government
26 agency initially created by the Employee Retirement Income Security Act of 1974.

27 ***Person*** means any individual or entity.
28

1 **Personal Property** means all property owned by the Debtor now or hereafter which under
2 applicable law is not real property, and includes all tangible and intangible personal property.

3 **Petition Date** means December 9, 2013.

4 **Pingrees** means collectively Kenneth J. Pingree Jr. and Patricia Pingree.

5 **Plan** means the *First Amended Plan of Reorganization/Liquidation Proposed by the*
6 *Debtor, Bay Area Financial Corporation*, as it may be amended or modified from time to time,
7 and all exhibits thereto.

8 **Plan Administrator** means Biggs for purposes of administering the Plan, liquidating the
9 Assets, and representing and appearing in all proceedings (including, without limitation, any
10 proceedings before any federal court, bankruptcy court and/or state court) on and after the
11 Effective Date in accordance with the terms of the Plan.

12 **Plan Operating Expense(s)** means any and all fees, costs and/or expenses incurred by the
13 Plan Administrator and/or Liquidation Debtor following the Effective Date (including the fees and
14 costs of the Plan Administrator, attorneys, advisors, other professionals and agents) for, in
15 connection with, or related to, (i) operating expenses incurred by the Liquidation Debtor and/or
16 Plan Administrator, including, without limitation, rent, offices expenses, salaries, parking
17 expenses, taxes, insurance and any and all other expenses incurred after the Effective Date; (ii)
18 prosecuting or otherwise attempting to collect or realize upon the Assets and/or Rights of Action;
19 (iii) liquidating, selling, abandoning or collecting upon any of the Assets or otherwise incurred
20 following the Effective Date in connection with generating Available Cash; (iv) resolving
21 Disputed Claims and effectuating distributions to Creditors under the Plan; (v) prosecuting,
22 litigating and/or otherwise participating in any court proceedings; or (vi) otherwise implementing
23 the Plan, including, but not limited to post-Effective Date taxes (such as for income in the Plan
24 Reserve Accounts) and wind-down expenses (such as records maintenance).

25 **Plan Participants** has the meaning set forth in Section VIII of the Plan.

26 **Plan Proponent** means the Debtor.

27 **Plan Reserve Account(s)** means the segregated accounts to be established by the Plan
28

Administrator to hold each of the various Plan Reserves as the Plan Administrator reasonably deems appropriate, subject to the terms of the Plan.

Plan Release(s) means the general release of the Debtor and the Exculpated Parties set forth in the Plan.

Plan Reserves means all reserves of the Assets to be established by the Plan Administrator on the Effective Date (or as soon as reasonably practicable thereafter), including, but not limited to, the Post-Effective Date Plan Expense Reserve, the Administrative Claim Reserve, the Indemnification Reserve, and separate reserves for payment of Disputed Administrative Claims and Disputed General Unsecured Claims as of the date of any contemplated distribution. Each Plan Reserve shall be in an amount determined in the discretion of the Plan Administrator, and such amount(s) can be reduced, increased and/or replenished after the Effective Date by the Plan Administrator subject to the terms of the Plan.

Plan Supplement means the compilation of documents and forms of documents, schedules, and exhibits to the Plan, to be Filed before the Confirmation Hearing (to the extent such document is in existence as of the time thereof), as amended, supplemented, or modified from time to time in accordance with the terms hereof, the Bankruptcy Code, and the FRBP.

POC means Proof of Claim filed in the Case.

POI means Proof of Interest filed in the Case.

Post-Effective Date Litigation means all claims reserved under Section VII of the Plan, including, but not limited to: (a) Rights of Action; (b) any rights to object to, settle, compromise, or resolve Claims and (c) any rights of equitable subordination or disallowance.

Post-Effective Date Plan Expense Reserve means a reserve of the Liquidation Debtor's Cash on hand in the initial amount(s) scheduled in the Reserve Notice, established and used by the Plan Administrator in its discretion to pay any and all Plan Operating Expenses including, without limitation, the fees and expenses of the Plan Administrator and its attorneys, advisors and other agents, and other expenses relating to the implementation of the Plan expected to arise after the Effective Date.

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1 **Prause** means James Prause, trustee for the James Prause Trust.

2 **Pre-Approved Loan Compromise Procedures** shall have the meaning set forth in Section
3 III.D.4 of the Disclosure Statement.

4 **Priority Claim(s)** means an Allowed Claim entitled to priority against the Estate under
5 Bankruptcy Code §§ 507(a)(1) through 507(a)(8), excluding any such claims incurred after the
6 Petition Date.

7 **Priority Tax Claim(s)** means certain unsecured tax claims based on income, employment
8 and other taxes described by Bankruptcy Code § 507(a)(8), excluding any such claims incurred
9 after the Petition Date.

10 **Priority Tax Claims Funding Amount** shall have the meaning set forth in Section IV of
11 the Plan.

12 **Priority Tax Claim Motion** means the *Motion of Bay Area Financial Corporation the*
13 *Debtor and Debtor in Possession for an Order from this Court Authorizing the Debtor to Pay*
14 *Past-Due and Delinquent real Property Taxes*, filed by the Debtor on March 4, 2014 [Docket No.
15 74].

16 **Pro Rata** means with respect to a particular Class of Claims or Interests, the ratio that the
17 amount of a particular Allowed Claim or Allowed Interest in the Class bears to the total amount
18 of Allowed Claims or Allowed Interests in the Class.

19 **Professionals** means the professionals (including, without limitation, attorneys,
20 accountants, and other advisors and agents) employed by the Debtor and the Committee.

21 **Professional Fee Claim** means a claim under Bankruptcy Code §§ 327, 328, 330, 331,
22 503, or 1103 for compensation for professional services rendered or expenses incurred for which
23 the Estate is liable for payment.

24 **PWMC** means Properties West Management Company, acting property manager for the
25 San Pedro Property in accordance with the PWMC Property Management Agreement.

26 **PWMC Property Management Agreement** means that certain property management
27 agreement between the Debtor and PWMC, and any and all amendments and modifications
28

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thereto, pursuant to which PWMC acts as property manager for the San Pedro Property.

RCS means Residential Credit Solutions, holder of the senior secured lien against the Ostin Property.

RCS Loan means that certain obligation in favor of RCS secured by a senior deed of trust in favor of RCS in the approximate amount of \$371,902.17.

Real Estate Assets means any and all real estate owned or acquired by the Debtor and/or Liquidation Debtor before, on or after the Effective Date.

Real Estate Assets Estimated Value means the projected fair market value as of the Effective Date of the Real Estate Assets, which have not been sold as of the Effective Date, as estimated by the Liquidation Debtor or the Plan Administrator.

Rejection Damage Claim means a Claim for any obligations or damages arising under an unexpired real-property or personal-property lease or executory contract that the Debtor rejects or is deemed rejected pursuant to the terms of the Plan.

Rejection Schedule shall have the meaning set forth in Section VI of the Plan.

Related Parties means with respect to any person or entity, all of such person's or entity's direct or indirect subsidiaries, partnerships, management companies, current or former corporations or trusts, staff, shareholders, legal representatives, attorneys, accountants, financial advisors, insurers, heirs, executors, administrators, partners, guarantors, investors, trustees, parents, successors, assigns, managers, affiliates, employees, members, contractors, consultants, agents, officers and directors, all and each in their respective personal and corporate capacities.

Release(s) means the separate general release of the Debtor, the Pingrees and their Related Parties to be executed and delivered by the Holder of a Claim in order to qualify and be treated as an Early Cash-Out Election Claim in Class 4, and which will become effective only upon full payment of the distribution owed to such Holder of an Early Cash-Out Election Claim in Class 4.

Remaining Loan Portfolio means the Debtor's remaining Loan Portfolio as described ~~generally in the Schedule of Loans Receivable as of February 28, 2014 referred to as Exhibit I to~~ the Disclosure Statement, and the proceeds, product and offspring thereof as of the Effective Date.

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1 **REO(s)** means any and all property owned by the Debtor as of the Petition Date, acquired
2 by the Debtor after the Petition Date or acquired by the Liquidation Debtor after the Effective Date
3 by means of a successful sale at a foreclosure auction.

4 **Rights of Action** means any and all claims, demands, rights, actions, causes of action and
5 suits of, held by or which could be asserted on behalf of the Estate, of any kind, nature or character
6 whatsoever, known or unknown, suspected or unsuspected, whether arising prior to, on or after the
7 Petition Date, in contract or in tort, at law or in equity or under any other theory of law, including,
8 but not limited to (1) rights of setoff, counterclaim or recoupment, and claims on contracts or for
9 breaches of duties imposed by law, (2) the right to object to Claims or Interests, (3) claims pursuant
10 to Bankruptcy Code § 362, (4) such claims and defenses as fraud, mistake, duress, usury, (5)
11 Avoidance Actions and, (6) errors and omissions claims involving officers and directors.

12 **Schedules** means, collectively, the schedules of assets and liabilities, schedules of
13 Executory Contracts and Unexpired Leases, and statement of financial affairs filed by the Debtor
14 pursuant to Bankruptcy Code § 521, as the same may have been amended, modified, or
15 supplemented from time to time.

16 **Secured Claim** means a Claim, including a Secured Tax Claim, which is secured by a lien
17 on the Debtor's property, including any REO. A claim is a Secured Claim only to the extent of
18 the value of the claimholder's interest in the collateral or to the extent of the amount subject to
19 setoff, whichever is applicable, and as determined under Bankruptcy Code §506(a).

20 **Secured Tax Claim** mean a governmental unit's Secured Claim for unpaid taxes arising
21 before the Petition Date.

22 **SHB** means Shulman Hodges & Bastian LLP, Chapter 11 counsel for the Committee.

23 **Suite 350 Lease** means Bay Area Financial corporate headquarters, located at 12400
24 Wilshire Blvd, Suite 350, Los Angeles, California 90025, pursuant that certain lease agreement
25 between the Debtor, as lessee, and Douglas Emmett Realty Fund 1995, as lessor, and that certain
26 Fifth Amendment to lease effective October 11, 2013, extending the lease term for an additional
27 one year period, which was assumed by the Estate pursuant to the Commercial Lease Assumption
28

1 Motion.

2 ~~Supplemental Disclosure Package means the supplemental disclosure exhibits prepared~~
3 ~~by the Debtor in support of the Disclosure Statement (including the Schedule of Loans Receivable~~
4 ~~and supporting analysis, and the Liquidation Analysis Detail), which is available to any Holder of~~
5 ~~an Allowed Commercial Paper Account Claim (which is not a Disputed Claims) upon written~~
6 ~~request made to the Debtor by such Holder prior to the Balloting Deadline.~~

7 **Unclassified Priority Claim(s)** means an Allowed Claim entitled to priority against the
8 Estate under Bankruptcy Code §§ 507(a)(2), 507(a)(3) and/or 507(a)(8), excluding any such claims
9 incurred after the Petition Date.

10 **UST** means the Office of the United States Trustee for the Central District of California.

11 **UST Fees** means fees or charges assessed against the Estate pursuant to 28 U.S.C. § 1930.

12 **Voting Deadline** means the deadline established by the Debtor for receipt of Ballots voting
13 to accept or reject the Plan and Plan Releases.

14 **West 8th Property** means the real property owned by the Debtor, commonly known as 623-
15 627 West 8th Street, Units 1-6, San Pedro, CA 90731.

16 **B. RULES OF CONSTRUCTION.**

17 The rules of construction in Bankruptcy Code §102 apply to the Disclosure Statement to
18 the extent not inconsistent herewith.

19 The rules of construction in Bankruptcy Code §102 apply to the Plan to the extent not
20 inconsistent herewith.

21 FRBP 9006(a) applies when computing any time period under the Plan.

22 A term that is used in the Plan and that is not defined in the Plan has the meaning attributed
23 to that term, if any, in the Bankruptcy Code or the FRBP.

24 The definition given to any term or provision in the Plan supersedes and controls any
25 different meaning that may be given to that term or provision in the Disclosure Statement.

26 Whenever it is appropriate from the context, each term, whether stated in singular or the
27 plural, includes both the singular and the plural.

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Any reference to a document or instrument being in a particular form or on particular terms means that the document or instrument will be substantially in that form or on those terms. No material change to the form or terms may be made after the Confirmation Date without the consent of any party materially negatively affected.

Any reference to an existing document means the document as it may be, amended or supplemented.

Unless otherwise indicated, the phrase "under the Plan" and similar words or phrases refer to the Plan in its entirety rather than to only a portion of the Plan.

Unless otherwise specified, all references to Sections are references to the Plan's sections.

Unless otherwise specified, all references to Exhibits are references to the Exhibits to the Plan.

The words "herein," "hereto," "hereunder," and other words of similar import refer to the Plan in its entirety rather than to only a particular portion hereof.

II.

INTRODUCTION

The Debtor commenced its Case by filing in the Bankruptcy Court a voluntary petition for relief under Chapter 11 of the Bankruptcy Code on the Petition Date.

THIS DOCUMENT IS THE DISCLOSURE STATEMENT DESCRIBING THE PLAN FILED BY THE DEBTOR.

On January 8, 2014, the UST filed its *Notice of Appointment and Appointment of Committee of Creditors Holding Unsecured Claims* [Docket No. 35] appointing the Committee as the Official Committee of Unsecured Creditors in the Case pursuant to Bankruptcy Code § 1102(a).

The Debtor believes that the Plan provides, under the circumstances, the best possible recoveries to creditors; that acceptance of the Plan is in the best interests of all parties in interest; and that any alternatives would result in unnecessary delay, uncertainty and expense to the Estate. The Debtor, therefore, recommends that all eligible creditors entitled to vote on the Plan cast their

1 Ballot to accept the Plan.

2 **A. PURPOSE OF THIS DOCUMENT**

3 This document is the Disclosure Statement filed by the Debtor. The Disclosure Statement
4 describes the Plan filed by the Debtor. The Disclosure Statement also discusses certain
5 information relating to the Plan and the process that the Bankruptcy Court follows in determining
6 whether or not to confirm the Plan. The Plan sets forth the manner in which the Claims against
7 and Interests in the Debtor will be treated following the Debtor's emergence from Chapter 11. The
8 Disclosure Statement further describes certain aspects of the Debtor's current and future business
9 operations, and other related matters.

10 Chapter 11 allows a debtor, and under some circumstances creditors and others parties in
11 interest, to propose a plan of reorganization. The plan may provide for a debtor to reorganize by
12 continuing to operate, to liquidate by selling assets of the estate, or a combination of both. Here,
13 the Debtor is proposing a plan that provides for an orderly liquidation of the Assets in a manner
14 that will maximize distributions to creditors.

15 The Plan of the Debtor in this Case is included in the same envelope as the Disclosure
16 Statement. By and through the Plan, the Debtor will resolve all Claims against the Estate. Plan
17 Distributions shall be funded primarily from the Debtor's post-confirmation liquidation of its
18 Assets, discussed in more detail later in this Disclosure Statement.

19 **READ THE DISCLOSURE STATEMENT AND PLAN CAREFULLY, AS THEY**
20 **CONTAIN INFORMATION RESPECTING, AMONG OTHER THINGS:**

- 21 (1) THE TERMS OF THE PLAN;
22 (2) PARTIES ENTITLED TO VOTE ON, AND/OR OBJECT TO, THE
23 PLAN;
24 (3) THE TREATMENT OF CLAIMS (i.e., what Creditors will receive if
25 the Plan is confirmed),
26 (4) HOW TREATMENT UNDER THE PLAN COMPARES TO
27 LIQUIDATION;
28 (5) THE HISTORY OF THE DEBTOR AND SIGNIFICANT EVENTS
DURING THE BANKRUPTCY;
(6) REQUIREMENTS FOR CONFIRMATION OF THE PLAN;
(7) THE EFFECT OF CONFIRMATION; AND
(8) WHETHER THE PLAN IS FEASIBLE.

**FOR A COMPLETE UNDERSTANDING OF THE PLAN, READ THE
DISCLOSURE STATEMENT, THE PLAN, AND THE EXHIBITS IN THEIR
ENTIRETY.**

The Disclosure Statement does not explain all aspects of creditors' rights and claims. Parties in interest are urged to consider consulting their own lawyer to obtain more specific advice on how the Plan will affect the rights and claims of interested parties as well as the best course of action.

Among other things, the Disclosure Statement sets forth the assumptions underlying the Plan, describes the process that the Bankruptcy Court will follow when determining whether to confirm the Plan, and describes how the Plan will be implemented if it is confirmed by the Bankruptcy Court.

The provisions of the Plan govern in the event there are any inconsistencies between the language of the Disclosure Statement and the provisions of the Plan. Please see, ~~Article~~ Section I, Section B (Rules of Construction) for additional "Rules of Construction."

The Bankruptcy Code requires that a Disclosure Statement 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 in interest can now solicit votes in favor of, or against, the Plan based on the information contained in the Disclosure Statement.

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

B. DEADLINES FOR VOTING AND OBJECTING; DATE OF PLAN CONFIRMATION HEARING;

BALLOT TABULATION PROCEDURES

1. Time and Place of the Confirmation Hearing

The hearing at which the Bankruptcy Court will determine whether or not to confirm the Plan filed by the Debtor will take place on the date set forth in the Disclosure Statement Order, in **Courtroom "1345"**, located at the **Edward R. Roybal Federal Building and Courthouse, 255 E. Temple Street, Los Angeles, California 90012** before the **Honorable Thomas B. Donovan**, United States Bankruptcy Judge.

2. Deadline for Voting For or Against the Plan

If a the Holder of an Allowed Claim is entitled to vote, it is in such Claimant's best interest to timely vote on the enclosed Ballot and return the Ballot in the enclosed envelope to:

**Kelli Nielsen,
Creim Macias Koenig & Frey LLP;
633 W. Fifth Street, 51st Floor;
Los Angeles, California 90071;
Facsimile - (213) 614-1961;
Email address - knielsen@cmkllp.com.**

**ALL BALLOTS MUST BE RECEIVED BY THE DATE AND TIME SET FORTH
IN THE DISCLOSURE STATEMENT ORDER IN ORDER TO BE COUNTED.**

3. Parties Entitled to Vote or Object

a. Parties entitled to Object to Confirmation of the Plan

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. Parties entitled to Vote to Accept/Reject the Plan

The Holder of an Allowed Claim has a right to vote for or against the Plan if such Claimant has a Claim which is both (1) Allowed or estimated for voting purposes and (2) classified in an impaired Class.

(i) General description of an Allowed Claim/Interest

As noted above, a Holder of Claim must have an Allowed Claim to have the right to vote.

The definitions of "Allowed" and "Allowed Claim" are set forth in ~~Article~~Section I, Section A (Definitions) located at the beginning of this document, which provisions supersede the general description below in the event of a conflict or ambiguity.

Without limiting the generality of the foregoing definition, a proof of claim will generally be deemed Allowed, unless a party in interest files an objection to the Claim. When an objection to a Claim is filed, the creditor holding the Claim cannot vote unless the Bankruptcy Court, after notice and hearing, either overrules the objection or Allows the Claim for voting purposes.

A creditor may have an Allowed Claim even if a proof of claim or interest was not timely filed. Generally, 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.

(ii) General description of an Impaired Claim

As noted above, an Allowed Claim only has the right to vote if it is in a Class that is impaired under the Plan. A Class is generally considered impaired if the Plan alters the legal, equitable, or contractual rights of the members of that Class. For example, a Class comprised of General Unsecured Claims is impaired if the Plan fails to pay the members of that Class 100% of their Allowed Claims.

In this Case, the Debtor believes that Classes **4, 5, 6, 7 and 8** are **impaired** under the Plan and that Holders of Claims in each of these Classes in the Plan are, therefore, entitled to vote to accept or reject the Plan. Classes 1, 2 and 3 are not impaired under the Plan and are, therefore, not entitled to vote. Parties who dispute the Debtor's characterization of their Claim as being impaired or unimpaired may file an objection to the Plan contending that the Debtor has incorrectly characterized the Class.

c. Parties Not Entitled to Vote

Set forth below are the **Ballot Tabulation Procedures** which govern voting on the Plan, which provisions supersede the general description below in the event of a conflict or ambiguity.

Generally, the following types of Claims are not entitled to vote: (1) Claims that are subject

1 to a pending objection and that have not been estimated for voting purposes; (2) Claim that are
2 Scheduled as disputed, contingent and/or unliquidated and for which no proof of claim has been
3 timely filed; (3) Claim that have been disallowed or estimated at zero for voting or distribution;
4 (4) Claims in unimpaired Classes; (5) Priority Claims; and (6) Claims in Classes that do not receive
5 or retain any value under the Plan.

6
7 **NOTWITHSTANDING ANYTHING TO THE CONTRARY IN THE**
8 **DISCLOSURE STATEMENT OR PLAN, NO DISTRIBUTION WILL BE**
9 **MADE AND NO RIGHTS WILL BE RETAINED ON ACCOUNT OF ANY**
10 **CLAIM OR INTEREST THAT IS NOT AN ALLOWED CLAIM OR**
11 **INTEREST.**

12 Claims in categories (1), (2) and (3) are not entitled to vote because such Claims are not
13 Allowed or deemed Allowed. Claims in unimpaired Classes are not entitled to vote because such
14 Classes are deemed to have accepted the Plan. Priority Claims are not entitled to vote because
15 such claims are not placed in Classes and they are required to receive certain treatment specified
16 by the Bankruptcy Code. Claims in Classes that do not receive or retain any value under the Plan
17 do not vote because such Classes are deemed to have rejected the Plan.

18 **EVEN IF THE HOLDER OF A CLAIM IS OF THE TYPE DESCRIBED**
19 **ABOVE AND NOT ENTITLED TO VOTE ON THE PLAN, SUCH**
20 **CLAIMANT MAY NEVERTHELESS STILL HAVE A RIGHT TO OBJECT**
21 **TO THE CONFIRMATION OF THE PLAN.**

22 **d. Parties entitled to Vote in More Than One Class**

23 The Holder of a Claim that has been Allowed in part as a Secured Claim and in part as a
24 General Unsecured Claim is entitled to accept or reject the Plan in both capacities by casting one
25 Ballot in the Class containing the Secured Claim and another Ballot in the Class containing the
26 General Unsecured Claim, subject to the **Ballot Tabulation Procedures** below.

27 **e. Votes Necessary to Confirm the Plan**

28 If impaired Classes exist, the Bankruptcy Court cannot confirm the Plan unless (1) at least
one impaired Class has accepted the Plan without counting the votes of any insiders within that

Class, and (2) all impaired Classes have voted to accept the Plan, unless the Plan is eligible to be confirmed by “cramdown” on non-accepting Classes, as discussed below.

f. Votes Necessary for a Class to Accept the Plan

A Class of Claims is considered to have accepted the Plan when more than one-half ($\frac{1}{2}$) in number and at least two-thirds ($\frac{2}{3}$) in dollar amount of the Allowed Claims which actually voted and are entitled to vote, have voted in favor of the Plan. A Class of Interests is considered to have accepted the Plan when at least two-thirds ($\frac{2}{3}$) in amount of the Interest-Holders of such Class which actually voted, voted to accept the Plan.

g. Treatment of Non-Accepting Classes

As noted above, even if all impaired Classes do not accept the Plan, the Bankruptcy Court may nonetheless confirm the Plan if the non-accepting Classes are treated in the manner required by the Bankruptcy Code. The process by which non-accepting Classes are forced to be bound by the terms of the Plan is commonly referred to as *cramdown*. The Bankruptcy Code allows the Plan to be “crammed down” on non-accepting Classes of Claims or Interests if it meets all consensual requirements except the voting requirements of Bankruptcy Code § 1129(a)(8), and if the Plan does not *discriminate unfairly* and is *fair and equitable* toward each impaired Class that has not voted to accept the Plan as referred to in Bankruptcy Code § 1129(b) and applicable case law.

4. Ballot Tabulation Procedures

The following procedures will apply with respect to balloting and the tabulation of Ballots with respect to the Plan:

A. The amount of a Claim or Interest for purposes of Ballot tabulation will be:

i. For a Claim or Interest identified in the Schedules as not contingent, not unliquidated, and not disputed, and that has not been disallowed, waived, or withdrawn by order of the Bankruptcy Court, stipulation, or otherwise, prior to the Balloting Deadline (as defined in the Disclosure Statement Order), and for which no proof of claim has been timely filed, the Claim or Interest amount, as identified in the Schedules (“**Scheduled Amount**”);

ii. For a timely proof of claim or proof of interest that is filed in

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a specified liquidated amount and that is not the subject of an objection filed before the Balloting Deadline, or that has not been disallowed, waived, or withdrawn by order of the Bankruptcy Court, stipulation, or otherwise prior to the Balloting Deadline, the specified liquidated amount in such proof of claim or proof of interest ("**POC Amount**");

iii. For a Claim or Interest that is the subject of an objection in whole or in part before the Confirmation Hearing, only the undisputed amount, if any, of such Claim or Interest, unless such Claim or Interest is temporarily Allowed under FRBP 3018(a) ("**Disputed/Estimated Amount**");

iv. For a Claim that is offered an option under the Plan to have its Claim Allowed for voting purposes upon the timely election of certain options, and which claimant is in compliance with the procedures set forth in the Plan for such election, the stipulated amount specified in the Plan ("**Stipulated Amount**");

B. If an entity submits a Ballot for a Claim or Interest (i) for which there is no timely proof of claim or proof of interest filed and, for which there is no corresponding Scheduled Amount, or (ii) which is the subject of an unresolved objection filed prior to the Confirmation Hearing, such Ballot will not be counted, unless ordered by the Bankruptcy Court;

C. Creditors that have Claims in more than one voting Class under the Plan must submit a separate Ballot for voting their Claims in each such Class; any creditor that requires additional copies of a Ballot may either photocopy the original Ballot or obtain an additional Ballot pursuant to the instructions set forth in the Confirmation Hearing Notice and the proposed Ballot. **If a creditor uses the same Ballot to vote Claims in more than one class, such combined Ballot will NOT be counted unless the Court order's otherwise;**

D. If an entity casts more than one eligible Ballot with respect to the same Claim or Interest before the Balloting Deadline, the last Ballot received prior such deadline shall supersede any prior Ballot(s) by such entity with respect to such Claim or Interest in the Class in which the Ballot is submitted; and,

E. Any Ballot that is incomplete or that is not received by the applicable deadline shall NOT be counted.

5. Deadline for Objecting to Confirmation of the Plan

Objections to Confirmation of the Plan must be filed with the Bankruptcy Court and served upon **Sandford L. Frey, Esq., Creim Macias Koenig & Frey LLP; 633 W. Fifth Street, 51st**

Floor; Los Angeles, California 90071; Facsimile - (213) 614-1961; Email address: sfrey@cmkllp.com by the date and time set forth in the Disclosure Statement Order.

Any objection must be in writing; specify the name and address of the party objecting; set forth the amount of the objecting party's Claim(s) and any other grounds giving the objector standing to object; set forth grounds for the objection; and be accompanied by the objecting party's evidentiary support for its objection, including declarations made under penalty of perjury and other admissible documentary evidence.

6. Identity of Person to Contact for More Information Regarding the Plan

Any interested party desiring further information about the Plan should contact Sandford L. Frey, Esq., or Marta Wade of Creim Macias Koenig & Frey LLP; 633 W. Fifth Street, 51st Floor, Los Angeles, California 90071; Telephone - (213) 614-1944; Facsimile - (213) 614-1961; Email address: sfrey@cmkllp.com or mwade@cmkllp.com.

C. DISCLAIMER

The financial data relied upon in formulating the Plan is based on the information provided by the Debtor; the Debtor's books and records; the Schedules of Assets filed by the Debtor; and the opinion of the Debtor. The Debtor has represented that everything stated in the Disclosure Statement is true to the best of the Debtor's knowledge. The Debtor urges you to vote to accept the Plan.

The Bankruptcy Court has not yet determined whether the Plan is confirmable, and makes no recommendation as to whether Claimants entitled to vote should support or oppose the Plan.

The Debtor's professionals have prepared the Plan and Disclosure Statement at the direction of, and with the review, input, and assistance of, the Debtor. The Debtor's professionals have not independently verified the information contained herein or used to formulate the Plan or prepare the Plan and/or Disclosure Statement.

The statements and information that concern the Debtor that are set forth in this document constitute the only statements and information that the Bankruptcy Court has approved for the purpose of soliciting votes to accept or reject the Plan. Therefore, no statements or information

inconsistent with anything contained in the Disclosure Statement are authorized unless otherwise ordered by the Bankruptcy Court.

You may not rely on the Plan and Disclosure Statement for any purpose other than to determine whether to vote to accept or reject the Plan. Nothing contained in the Plan or Disclosure Statement constitutes an admission of any fact or liability by any party or may be deemed to constitute evidence of the tax or other legal effects that the reorganization set forth in the Plan may have on entities holding Claims or Interests.

Unless another time is expressly specified in the Disclosure Statement, all statements contained in this document are made as of the date set forth on the last page of the Disclosure Statement. Under no circumstances will the delivery of the Disclosure Statement or the exchange of any rights made in connection with the Plan create an implication or representation that there has been no subsequent change in information included in this document. The Debtor assumes no duty to update or supplement any of the information contained in this document, and it presently does not intend to undertake any such update or supplement.

Any and all statements or projections contained in the Disclosure Statement regarding the amount or timeliness of Distributions to be made under the Plan to Creditors are only estimates based upon information reasonably available as of the date set forth on the last page of the Disclosure Statement, and are not a guaranty as the amount or timeliness of the projected Distributions.

The statements and information contained in the Plan and Disclosure Statement do not constitute financial or legal advice. Parties in interest are strongly urged to consult with their own advisors, including respecting any questions about the impact of the Plan on any Claims or Interests.

D. BAR DATE

A Bar Date for filing Proofs of Claim in the Case was set for **March 31, 2014** pursuant to motion filed by the Debtor [Docket No. 54]. Notice of the Bar Date was sent on February 13, 2014. [Docket No. 59].

THE BAR DATE IN THE CASE WAS MARCH 31, 2014

Pursuant to the Plan, the Administrative Claim Bar Date shall be fixed as a date set forth

in the Confirmation Order. See further discussion below in Section ~~Article~~ IV.

E. EXHIBIT LIST

The Exhibits listed in the following table are intended to be a part of the Disclosure Statement and Plan. These Exhibits are deemed to be incorporated into the Disclosure Statement and Plan when filed.

EXHIBIT NO.	DESCRIPTION
1	Schedule of Loans Receivable as of February 28, 2014, intentionally omitted, included as part of the Supplement Disclosure Package
21	Notice from the Committee of Potential Errors and Omissions Claims
32	Balance Sheets as of June 30, 2012 & 2013, and February 28, 2014
43	Profit & Loss, June 30, 2012 through June 30, 2016
54	Cash Flow Projections, June 30, 2012 through June 30, 2016
65	Profit & Loss Statement for the Year Ending June 30, 2014 and Forecasted Profit & Loss for the Year Ending June 30, 2015
76	Cash Flow Projections for the Year Ending June 30, 2014 and Cash Flow Projections for the Year Ending June 30, 2015
87	Liquidation Analysis
9	Liquidation Analysis Detail, intentionally omitted, included as part of the Supplement Disclosure Package

III.

BACKGROUND

A. DESCRIPTION AND HISTORY OF THE DEBTOR

The Debtor is a California corporation. The Debtor began business in 1960 as a consumer

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1 finance company. The company made and collected loans through six offices in Southern
2 California. In the late 1970's, the Debtor concentrated its lending on secured real estate loans. A
3 loan origination office was opened in San Francisco to service Northern California. The primary
4 source of new loan customers was typically referrals from commercial banks.

5 At the height of the real estate downturn in 2008, the Debtor ceased making loans and
6 closed the San Francisco office. Thereafter, the Debtor continued to manage its portfolio of loans.
7 Prior to October 2008, it was the Debtor's policy to pay Commercial Paper Account Holders who
8 made demands on the Debtor for payment under their notes.

9 At the time of the real estate downturn, an extraordinary number of Commercial Paper
10 Account Holders made demand on the Debtor for payment under their demand notes. Although
11 the Debtor made best efforts to satisfy these demands, the demands unfortunately exceeded the
12 Debtor's available liquidity, placing an enormous financial strain on the Debtor's cash resources.
13 At the height of the recession, demands escalated substantially due to the panic. During this period,
14 many of the Commercial Paper Account Holders having larger claims also started making demands
15 for payment. The Debtor was confronted with enormous demands for payment and did not have
16 the liquidity to meet such demands.

17 In October 2008, the Debtor was compelled to institute a 13 month notice policy due to the
18 heavy demands. In February 2009 and June 2009, the Debtor distributed a payment of
19 approximately 20% of principal to any Commercial Paper Account Holders who had made
20 demand. In addition, the Debtor continued to pay interest to Commercial Paper Account Holders
21 through June 30, 2013. Thereafter, the Debtor declared a moratorium on interest payments, while
22 it considered its financial options.

23 After thorough analysis of the Debtor's financial situation (including its asset/debt
24 structure) and weighing the various alternatives, the Debtor concluded that it is in the best interest
25 of creditors for it to start the process of an orderly liquidation of all loans and all real estate owned
26 by it. Thereafter, the Debtor commenced and continues the process of an orderly liquidation of its
27 remaining loans and real estate owned and acquired for the benefit of creditors.
28

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1 For several months prior to the Petition date, the Debtor was engaged in efforts to negotiate
2 consensual out of court workout plan with Commercial Paper Account Holders and several
3 attorneys representing them. To that end, the Debtor had already formulated and circulated an
4 initial draft of a proposed liquidation plan. In order to conserve expenses, the Debtor had hoped
5 to avoid a chapter 11 filing entirely, or to at least defer such filing long enough to get comments
6 to the structure of the plan so that the Debtor was reasonably confident before filing that the
7 majority of Commercial Paper Account Holders would support the plan after filing. However,
8 several factors necessitated the decision to file for chapter 11 as discussed below.

9 The Debtor's primary assets consist of Loans made to Borrowers, REOs (owned as a result
10 of foreclosure), one investment real estate property and 20,000 shares of stock in the Bank of San
11 Francisco. As of the date of the Disclosure Statement, the Debtor currently has three REO's and
12 one investment property.

13 The Debtor has no secured creditors, except that inasmuch as REOs may be encumbered
14 by senior secured creditors. As of the Petition Date, one of the REOs, the Ostin Property, is secured
15 by a senior deed of trust in favor of RCS securing the RCS Loan in the approximate amount of
16 \$371,902.17. Prior to the Petition Date, the Debtor brought current the RCS Loan and delinquent
17 real estate taxes, and the Debtor continues to service the debt..

18 In addition, there are priority tax claims in the aggregate amount of approximately
19 \$141,000 in connection with the one of the other REO's and the investment property, although the
20 Debtor is seeking authority of the Bankruptcy Court to bring current real estate taxes prior to
21 confirmation of the Plan pursuant to motion discussed below.

22 Apart from those few claims mentioned above and ongoing operating expenses and costs
23 to be incurred in connection with administration and liquidation, the primary claims are unsecured
24 and held by the Debtor's Commercial Paper Account Holders. There are approximately 175
25 distinct Commercial Paper Account Claims. There are approximately 150 Commercial Paper
26 Account Claims equal to and under \$200,000. The aggregate amount of the Commercial Paper
27 Account Claims is approximately \$20,537,264 (inclusive of interest through the Petition Date.
28

The aggregate amount of the Commercial Paper Account Claims equal to and under \$200,000 is approximately \$7,978,487.

1. **Debtor's Management/Interest Holder**

a. **Interest Holder**

The Debtor's sole shareholder is Kenneth J. Pingree Jr.

b. **Management of the Debtor Before and After the Bankruptcy**

(i) **Pre-Petition and Pre-Effective Date Management**

Prior to the Petition Date and during the Chapter 11 Case, the Debtor's day to day operations were managed by Kenneth J. Pingree Jr., who is the President and Chief Executive Officer. Mr. Pingree has been associated with the Debtor since 1960. He was formally acting Vice President for approximately thirty years, and became president and a director in 1996. Immediately prior to filing Chapter 11, Mr. Pingree's salary was \$4,166.67 paid semi-monthly. Mr. Pingree's last salary increase was approximately 2003. However, Mr. Pingree agreed to periodic decreases in his compensation since 2009. In addition, Mr. Pingree's compensation has been accrued and deferred since April 30, 2013. After the Petition Date, a *Notice of Setting/Increasing Insider Compensation* was filed on behalf of Kenneth J. Pingree Jr. requesting accrual of insider compensation in the amount of \$4,166.67, but deferring payment until further Court Order.

Patricia Pingree is the spouse of Kenneth J. Pingree Jr. Prior to the Petition Date and during the Chapter 11 Case, Ms. Pingree was the assistant secretary of the Debtor. Ms. Pingree was an employee of the Debtor from 1980 through 1985. Thereafter, Ms. Pingree returned to the Debtor in 1995. In 2004, Ms. Pingree became and a director and assistant secretary, and remained in that capacity through the Petition Date. Ms. Pingree is also the office manager and the supervisor of the Commercial Paper Department. She is involved in the day to day management, general office management and involved with issues concerning and inquiries from, the Commercial Paper Account Holders. Immediately prior to filing Chapter 11, Ms. Pingree's salary was \$3,125.00 paid semi-monthly. Ms. Pingree's last salary increase was approximately 2004. However, Ms.

1 Pingree's salary has periodically decreased since 2009. In addition, Ms. Pingree's compensation
2 has been accrued and deferred since April 30, 2013. After the Petition Date, a *Notice of*
3 *Setting/Increasing Insider Compensation* was filed on behalf of Patricia Pingree requesting accrual
4 of insider compensation in the amount of \$3,125, but deferring payment until further Court Order.

5 With respect to the *Notices of Setting/Increasing Insider Compensation* filed on behalf of
6 the Pingrees, the Committee requested an order memorializing that, among other things, the
7 Committee reserved the right to object to such compensation at a later date. The Debtor and the
8 Pingrees agree to the Committee's request for a reservation of rights. Pursuant to that agreement,
9 the Debtor and the Committee agreed upon a proposed form of order. However, Commercial
10 Paper Account Holders, Larry and Linda Sacks, served an objection to the requested
11 compensation. As a result, the Committee and Objecting Parties, Larry and Linda Sacks,
12 unilaterally negotiated modifications to the proposed form of order, which was then presented to
13 the Debtor for approval. Unfortunately, the Debtor did not believe that the unilateral changes were
14 in the best interest of the Estate and creditors. Among other modifications, the unilateral changes
15 proposed by Objecting Parties, Larry and Linda Sacks, to the previous form of order for
16 compensation agreed to by the Debtor and the Committee, provided that the Estate and the Pingrees
17 agree in the order that any deferred compensation awarded is limited to a setoff and yet was still
18 subject to the Sacks' objection, rather than deferring the issue to Plan confirmation. It had always
19 been the Pingrees' intention to accrue the compensation for purposes of a setoff against any claims
20 asserted against them, and the Pingrees communicated that they were prepared to memorialize the
21 limitation in the order. With the prospective objection right in the hands of the Committee, the
22 Debtor was prepared to sign-off on an order memorializing that the accrued compensation is
23 limited to setoff (despite the intrinsic one-sidedness of the proposed order), because the Debtor
24 had the assurance that the Committee and the Committee Counsel would act reasonably and in the
25 best interest of the Estate and its Creditors. The Debtor was concerned that this was not necessarily
26 the case with Objecting Parties, Larry and Linda Sacks, who owed a duty to no other constituency
27 in the Case than themselves (particularly inasmuch as Larry Sacks had declined the opportunity to
28

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1 seek to serve on the Committee for the benefit of all creditors of the Estate). Therefore, the
2 Debtor's apprehension about the Sacks' proposed changes to the order was that the new form of
3 proposed order provided Objecting Parties, Larry and Linda Sacks, with little, if any, disincentive
4 to the filing of an objection in the future; thereby potentially embroiling the Estate in a costly
5 contested proceeding for the purpose of eliminating a relatively minimal setoff right of the
6 Pingrees in connection with any future damage award against them (particularly when it is entirely
7 possible that no lawsuit may ever be filed against them by the Estate). Inasmuch as the Debtor's
8 primary motivation was to maintain continuity of management during the Chapter 11 case, the
9 modified Plan was on the verge of being filed within the initial exclusivity period and taking into
10 account the amount of progress that the Debtor and the Committee had made toward a consensual
11 plan, the Debtor was concerned that the Case would last long enough to result in setoff right high
12 enough to justify the expenditure of fees it would take to deal with a prospective Sacks' objection,
13 particularly when nothing in the proposed form of order prevented any such objection from being
14 filed immediately after the order was entered (i.e. the day after the Estate and Pingrees had
15 voluntarily limited their rights by virtue of the order). The Debtor proposed a number of alternative
16 to rectify the concern, such as a provision providing for an award of attorney's fees to the Estate
17 in the event that any objection was filed by Objecting Parties, Larry and Linda Sacks, which was
18 overruled or failed to result in a material reduction of the requested setoff claim or, alternatively,
19 providing that any prospective objection right was limited to the Committee. However, before the
20 issues could be resolved, the Debtor and the Committee learned that Objecting Parties, Larry and
21 Linda Sacks, transferred their claim to an entity know to DACA [*See*, Docket Nos. 95, 96. and
22 101].

23 In any event, as originally contemplated, the Pingrees are agreeing as part of the Plan, to
24 forego payment under the Plan on account of their pre and post-petition accrued and unpaid salary,
25 and that such claims shall only be preserved and asserted by way of setoff against any damages
26 sought in any litigation initiated against them by the Debtor, the Estate, the Liquidation Debtor,
27 the Committee and/or any Creditor.
28

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Prior to the Petition Date and during the Chapter 11 Case, Lombardo served as secretary to the Debtor. Lombardo was also the Debtor's general business lawyer.

In addition to Kenneth J. Pingree Jr. and Patricia Pingree, the Debtor had two other employees, Kimberly Wizer and Elsa Raigoza.

(ii) Liquidation Debtor's Post Effective Date Management.

On the Effective Date, Kenneth J. Pingree Jr. shall resign as president and chief executive officer of the Liquidation Debtor; Lombardo shall resign as secretary; and, Patricia Pingree shall resign as assistant secretary of the Debtor.

The Plan Administrator shall assume the powers and duties previously exercised by the president, subject to the powers and duties of the Oversight Committee as set forth in the Plan.

On and after the Effective Date, as more fully discussed later in the Disclosure Statement, the Oversight Committee shall exercise the powers and duties of the board of directors of the Liquidation Debtor, subject to, as limited by, and to extent not inconsistent with, the terms of the Plan. On and after the Effective Date, the Plan Administrator shall serve exercise the powers and duties of the president of the Liquidation Debtor, subject to, as limited by, and to extent not inconsistent with, the terms of the Plan.

(iii) Schedule of Payments made to Commercial Paper Account within one year of Petition Date.

Set forth below is a list consisting of the payments made to Commercial Paper Account Holders within one year of the Petition Date.

REF	Payoff Demand Date	Ck Date	Ck#	Investor Name	Amount	Balance at 12/9/13
1	11/8/2011	12/10/2012	83681	Betty Cockerill	\$ 10,000	\$ 86,992
2	12/14/2012*	12/14/2012	83682	Dean Rouiller Trustee	5,000	54,276
3	12/3/2012**	1/3/2013	83746	Pingree Family Trust (2nd Cousin to Ken Pingree)	5,000	285,761
4	12/13/2012**	1/14/2013	83747	Pingree Family Trust (2nd Cousin to Ken Pingree)	5,000	285,761
5	1/3/2012	2/1/2013	83809	Internal Revenue Service fbo Blaise D'Angelo	5,873	-
6	1/10/2012	2/13/2013	83811	George Ryu	37,012	-
7	1/12/2012	2/13/2013	83813	Hiroshi Nakatani	80,000	79,656
8	2/27/2013*	2/27/2013	83814	The Blackburn Foundation	7,500	16,958
9	2/17/2013**	3/19/2013	83876	Pingree Family Trust (2nd Cousin to	5,000	285,761

1	10	7/21/2011	3/25/2013	83877	Ken Pingree)	171,218	-
2	11	8/22/2011	3/25/2013	83879	Jason Dietz	116,467	-
3	12	2/27/2012	3/28/2013	83881	Sonja Biele	9,500	27,723
4	13	3/6/2012	4/5/2013	83942	Verna Voght	17,083	-
5	14	3/21/2012	4/26/2013	83944	Paul Horvitz – SEP	187,105	-
6	15	3/29/2012	5/1/2013	84005	Carol Taugher	15,000	54,040
7	16	7/7/2010	6/14/2013	84067	Robert R. Fontana	100,000	485,964
8	17	5/28/2013**	6/28/2013	84068	Barbara Bidwell Hillman	5,000.00	285,761
9					Pingree Family Trust (2nd Cousin to Ken Pingree)		
10					TOTAL	\$ 781,758	

*Demand note with no provision for deferred payment

**Pursuant to agreement of 4/20/2011

B. APPOINTMENT OF THE COMMITTEE

On January 8, 2014, the UST filed its Notice of Appointment and Appointment of Committee of Creditors Holding Unsecured Claims [Docket No. 35] appointing the Committee as the Official Committee of Unsecured Creditors pursuant to Bankruptcy Code § 1102(a). The members of the Committee are as follows:

Juliana Westervelt
James Malkmus, Trustee for the William H. Malkmus Revocable Trust
Todd Fiorentino, Trustee for the Valerie Cantwell Life Insurance Trust dated 2/3/2011
Arthur Beavens and Grace Beavens, Trustees for the Beavens Living Trust dated 8/21/1991
Mary Kravitsky, Trustee for the Kravitsky Family Trust

The Committee selected James Bastian and Melissa Davis Lowe of SHB to serve as its attorneys. The Order employing SHB to serve as Committee Counsel was entered on February 19, 2014 [Docket No. 62].

C. EVENTS LEADING TO CHAPTER 11 FILING

A brief summary of the circumstances that led to the filing of the Debtor's Case is set forth below. The Debtor filed its voluntary petition under Chapter 11 of the Bankruptcy Code on the Petition Date -- December 9, 2013.

The Debtor initially attempted to avoid filing chapter 11 out of concern for the potential costs

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1 associated with chapter 11, which it was concerned might significantly reduce the distribution to
2 Commercial Paper Account Holders. However, the Debtor eventually concluded that filing
3 Chapter 11 may inevitably be less costly than the burden placed on the Debtor from having to
4 respond to, and negotiate with, so many Commercial Paper Account Holders on an individual
5 basis, particularly after weighing a number of other impediments to the out-of-court process and
6 disclosure of information.

7 Specifically, an overwhelming majority of the Commercial Paper Account Holders
8 understandably sought additional information respecting the assets and liabilities as well as an
9 answer to the important question of the anticipated distribution. Although the Debtor appreciated
10 the desire and necessity of providing more detailed financial information in order for Commercial
11 Paper Account Holders to properly evaluate what to expect from the liquidation, the Debtor
12 ultimately concluded that dissemination of confidential financial information about the Debtor in
13 response to the overwhelming inquiries was not feasible, practical or prudent without some degree
14 of control over the process. Similarly, it was not practical or economically feasible to respond to
15 inquiries made by so many Commercial Paper Account Holders, individually.

16 After weighing the best and most efficient means to disseminate the backup information,
17 balancing the Commercial Paper Account Holders' need for such information against the necessity
18 of complying with disclosure laws, avoiding unintentionally misleading or inconsistent
19 information being distributed, and maintaining the need for some level of confidentiality, it was
20 decided the chapter 11 was the best and most efficient means of accomplishing and managing the
21 dissemination of information.

22 There were several additional reasons for the decision to file a chapter 11. First, as stated,
23 there is the concern respecting disclosure of financial information without the procedural
24 protection afforded by the Bankruptcy Code. Second, there is the issue of soliciting votes for a
25 plan and binding non-consenting Commercial Paper Account Holders. Third, there is the practical
26 issue of ensuring equal treatment of Commercial Paper Account Holders.

27 The timing of the filing was unfortunately expedited by an event outside the Debtor's control.
28

The Debtor is aware of only one lawsuit filed against it prior to the Petition Date, entitled *Candace Pingree vs. Bay Area Financial Corporation*, which was pending in the Los Angeles County Superior Court. The Debtor unequivocally communicated its position that it was unwilling to permit any Commercial Paper Account Holder (particularly one related to the principals) to receive priority treatment to the detriment of other Commercial Paper Account Holders who cooperatively participated in the out-of-court restructuring efforts, because to permit that to occur would impair the integrity of the entire out-of-court restructuring process. Despite the Debtor's clearly expressed position, the plaintiff in the pending *Pingree vs. Bay Area Financial Corporation* action noticed a hearing for December 10, 2013 seeking a writ of attachment. In order to ensure equality of distribution among the Commercial Paper Account Holders, and for the other reasons articulated above, the Debtor elected to file for Chapter 11 protection.

D. SIGNIFICANT EVENTS DURING THE BANKRUPTCY

The Debtor filed its Case on December 9, 2014. Thereafter, the Debtor timely filed its Schedules on December 23, 2014 [Docket No. 29].

1. Employment of Professionals

The Debtor employed CMKF, as reorganization counsel for the Debtor, pursuant to application filed January 8, 2014 [Docket No. 36], although the employment order did not get entered until March 2014 due to a noticing issue requiring additional notice. The Debtor also employed Biggs & Co as its accountants and financial advisors pursuant to application filed on December 13, 2013 [Docket No. 17] and order entered January 9, 2014 [Docket No. 37].

The Debtor employed Keller Williams Estate Properties, Calabasas as brokers to market and sell the Ostin Property, pursuant to application filed January 21, 2014 [Docket No. 42], as amended pursuant to application filed January 28, 2014 [Docket No. 48].

The Debtor employed PWMC to act as property manager for the San Pedro Property in accordance with the PWMC Property Management Agreement, pursuant to application filed January 29, 2014 [Docket No. 49].

SHB was employed as Committee Counsel in the Case pursuant application filed on January 23, 2014 [Docket No. 45] and order entered February 19, 2014 [Docket No. 62].

The Debtor ~~also intends to~~ retained special counsel to handle certain business and loan issues. On April 7, 2014, the Debtor filed an application to employ Lombardo & Safford LLP as special counsel [Docket No. 109], which application was later amended [Docket Nos. 137], and a supplemental notice of the amended application was filed on June 6, 2014 [Docket No. 177]. The time period for objection pursuant to the notice has not yet passed as of the date of the Disclosure Statement, and no order has yet been entered.

On April 7, 2014, the Debtor filed an application to employ Hendricks Berkadia as real estate brokers to market the West 8th Street Property [Docket No. 110]. The time period for objection had not yet passed as of the date of the Disclosure Statement, and no order has yet been entered.

2. 341(a) Hearing

The Debtor appeared at its Initial Debtor Interview (“IDI”) scheduled by the UST on January 7, 2014. The Debtor appeared at the statutory meeting of creditors held pursuant to Bankruptcy Code § 341(a) (“**341(a) Hearing**”) on January 14, 2014.

3. Cash Collateral Motions

There are no cash collateral issues in the Case.

4. First Day Motions

Loan Procedures Motion. After the Petition Date, the Debtor filed its Loan Procedures Motion, which was approved on an interim basis by the Bankruptcy Court by Order entered on December 20, 2013 [Docket No. 27] and on a final basis by Order entered on February 26, 2014 [Docket No. 68]. The Loan Procedures Motion sought, among other things, approval of a compromise of an existing loan between Michael C. McCauley (“**McCauley Borrower**”) and the

1 Debtor, and approval of procedures to permit the Debtor to compromise other loans without further
2 Court approval.

3 With respect to the loan with the McCauley Borrower, the Debtor entered into an
4 agreement with the McCauley Borrower in January 2008, in the ordinary course of the Debtor's
5 business, to loan up to \$650,000 to the McCauley Borrower, secured by a second deed of trust on
6 real property owned by the McCauley Borrower, commonly known as 117 W. Channel Rd, Santa
7 Monica, California and a third deed of trust on real property owned by the McCauley Borrower
8 commonly known as 107 W. Channel Rd, Santa Monica, California (collectively referred to as the
9 "**McCauley Borrower Properties**"). The McCauley Borrower note originally had a term of six
10 months, with a variable interest rate. Over the course of the succeeding three years, the McCauley
11 Borrower entered into extension agreements with the Debtor extending the term of the note in one
12 year increments. However, in August 2011, the McCauley Borrower refused to execute another
13 extension agreement, but continued to make principal and interest reduction payments. At that
14 time, and up through the filing of the Loan Procedures Motion, the McCauley Borrower had an
15 outstanding balance of unpaid interest.

16 Thereafter, the Debtor learned that the McCauley Borrower had accrued delinquent real
17 property taxes against the McCauley Borrower Properties in the approximate amount of \$275,000.
18 On or about October 31, 2013, the McCauley Borrower advised the Debtor that he had entered
19 into an agreement to sell the collateral but that the sale proceeds would not be sufficient to pay off
20 both the principal and interest due to the Debtor.

21 Accordingly, the Debtor agreed, subject to the approval of the Bankruptcy Court, to accept
22 a reduction of approximately \$28,554.51 in accrued and unpaid interest on the McCauley
23 Borrower's note, which would result in a net payment to the Estate of approximately \$678,659.51,
24 plus per diem interest of \$147.38 for each day the loan remained unpaid after December 16, 2013.

25 Although the compromise discussed above arguably did not require Bankruptcy Court
26 approval as being in the ordinary course of the Debtor's business, the Debtor nevertheless sought
27 that approval by filing the Loan Procedures Motion, so that creditors would have adequate notice
28

1 of the intended compromise. As stated above, the Bankruptcy Court approved the compromise of
2 the McCauley note. Although closing of escrow for the sale of the McCauley Borrower Properties
3 was delayed, the sale eventually closed in January 2014, and the Estate received \$685,586.37 on
4 or about January 28, 2014.

5 In an effort to minimize additional fees and costs to the Estate, the Loan Procedures
6 Motion also sought a Bankruptcy Court order adopting the procedures to be implemented with
7 respect to the compromise or settlement of loans without further order of the Bankruptcy Court
8 so as to promote and facilitate a resolution of troubled loans, and streamline the process for
9 compromising any troubled loans in an expeditious manner.

10 In connection with the approval of the Loan Procedures Motion, the Debtor also has the
11 authority to compromise and settle those loans that meet the criteria set forth below, in its sole
12 discretion, without further notice to creditors (except to the Committee) and without further
13 approval from the Bankruptcy Court, as follows:

- 14 • For those loans where the borrower is seeking a reduction in the outstanding payoff
15 amount, a reduction of the loan amount by no more than 20% including principal and
16 interest.
- 17 • For those loans that are to remain in place, and the borrower cannot make the payments
18 required under the terms of the loan agreement, a reduction in the interest rate of not
19 more than 4% .
- 20 • For the those loans that are due and the term has expired, the right to enter into a
21 forbearance agreement pursuant to which the Debtor agrees not to commence foreclosure
22 proceedings against the borrower for a period not to exceed 18 months, so long as the
23 borrower agrees to continue to make the interest and principal payments required under
24 the terms of the loan.

25 (collectively referred to as the “**Pre-Approved Loan Compromise Procedures**”)

26 With respect to the foregoing procedures, the Debtor and the Committee agreed that the
27 Debtor would provide the Committee with ten (10) days notice to its intent to implement With
28 respect to any compromise or settlement of loans outside of the terms set forth above, the Debtor
may still seek Bankruptcy Court approval under FRBP 9019(a).

1 Utility Motion. After the Petition Date, the Debtor also filed its *First Day Emergency*
2 *Motion by Debtor for Order Prohibiting Utility Providers from Altering, Refusing or*
3 *Discontinuing Service, (B) Deeming Utility Companies Adequately Assured of Future*
4 *Performance, and (C) Establishing Procedures for Determining Adequate Assurance of Payment,*
5 which was approved by the Bankruptcy Court by Order entered on January 7, 2014 [Docket No.
6 34] after hearing held on December 11, 2013.

7 **5. Plan Deadline/Exclusivity**

8 Pursuant to Bankruptcy Code §1121, the 120 day exclusive period in which only the Debtor
9 may file a plan of reorganization ~~was scheduled to expire~~ on April 9, 2014, and, the 180 exclusive
10 period in which only the Debtor may solicit acceptance of a plan ~~was scheduled to expires~~ on June
11 9, 2014. ~~The Debtor timely filed its Plan and Disclosure Statement prior to the April 9 deadline.~~
12 ~~On May 6, 2014, The Debtor intends to filed a motion requesting an extension of the exclusive~~
13 ~~period in which only the Debtor may file a plan through June 9, 2014; and, for purposes of~~
14 maintaining the exclusive right to file its plan, an extension of the exclusive period in which only
15 the Debtor may solicit acceptance of a plan through August 11, 2014 [Docket No. 141]. ~~The Order~~
16 ~~granting the requested extension of the exclusive period in which only the Debtor may solicit~~
17 ~~acceptance of a plan through August 11, 2014 was entered on June 6, 2014 [Docket No. 176].~~

18 **6. Commercial Lease Assumption Motion**

19 On February 2, 2014, the Debtor filed the Commercial Lease Assumption Motion, whereby
20 the Debtor seeks to assume its nonresidential lease as modified by the Fifth Amendment to such
21 lease, between Douglas Emmett Realty Fund 1995 and the Debtor for real property located at
22 12400 Wilshire Blvd, Suite 350, Los Angeles, California 90025.

23 On September 21, 2000, the Debtor entered into the original lease for space at its current
24 location, but on the second floor of the building, with Douglas Emmett Realty Fund 1995.
25 Thereafter, on July 14, 2010, the Debtor entered into the Second Amendment to the Lease,
26 pursuant to which the Debtor moved to its current location on the third floor, Suite 350. Thereafter,
27 the Lease was extended by subsequent amendments. Pursuant to the Fourth Amendment, the
28

1 Lease expired in or about October 2013.

2 Prior to the Petition Date, on October 11, 2013, the Debtor entered into a Fifth Amendment
3 to the Lease extending the Lease for one additional year. Before doing so, the Debtor considered
4 moving and weighed a number of factors, such as moving and related expenses. For example, the
5 Debtor's took into consideration the age of its telephone and computer systems, and the probability
6 either or both would not survive the move, requiring replacement. Accordingly, the Debtor
7 considered the cost of new telephones and computers and the cost of installation if it were to
8 relocate. Similarly, the Debtor considered the costs of moving, and boxing loan files. The Debtor
9 also factored in the cost for storage of loan files and documents required for it to relocate to a
10 smaller facility. The Debtor also took into consideration the deposits that would likely be required
11 by a new landlord. The Debtor compared the legal fees required for reviewing and negotiating the
12 terms of the new lease documentation as opposed to an amendment to the existing lease.

13 In reaching its decision to extend its Lease for its existing space, the Debtor weighed a
14 number of factors. The Debtor was able to obtain the agreement of its Landlord, Douglas Emmett
15 Realty Fund 1995, for a short term extension, due to its many years of occupancy. The rent for
16 Suite 350 is \$4,505.84 per month under the terms of the Fifth Amendment, which is the same rate
17 as called for under the Fourth Amendment to the Lease. In other words, the Landlord did not raise
18 the rent for the additional year or impose any additional charges. The Debtor believes that the rent
19 provided for under the Lease is fair and reasonable and within the market rate for the area, the
20 building and space. In addition, the Debtor general business counsel, Lombardo & Safford,
21 subleases space in the current location, paying approximately 1/3 of the rent obligation.

22 Pursuant to Bankruptcy Code § 365(d)(4), the Debtor has 120 days from the Petition Date
23 to assume or reject the Lease for Suite 350, which period expires on April 8, 2014. As of the date
24 of the Disclosure Statement, the Debtor is current on its monetary obligations under the Lease.
25 After considering the factors discussed above, among others, and the rejection damage claim which
26 Douglas Emmett Realty Fund 1995 would be entitled were the Lease rejected, the Debtor elected,
27 in the exercise of its business judgment, to assume the Lease through the filing its Commercial
28

1 Lease Assumption Motion. As of the date of the Disclosure Statement, the statutory notice period
2 for entry of an order had not yet expired.

3 **7. Priority Tax Claim Motion**

4 On March 4, 2014 [Docket No. 74], the Debtor filed its Priority Tax Claim Motion seeking
5 authorization to pay pre-petition real property taxes (excluding interest, penalties and/or other
6 costs) due on various parcels of real estate owned by the Debtor. After reasonable consultation
7 with the Committee, the Debtor determined, in the exercise of its business judgment that paying
8 the pre-petition property taxes prior to Confirmation of the Plan was in the best interest of the
9 Estate and creditors. At the time of the filing of the Priority Tax Claim Motion, the Debtor had
10 sufficient funds on hand to pay the real estate taxes. The payment of real estate taxes prior to
11 Confirmation of the Plan was intended to avoid further deterioration in the value of the Estate's
12 interest in the real estate properties owned by the Debtor resulting from the ongoing accrual of
13 interest, penalties and other charges at the expenses of the Estate.

14 Specifically, the Priority Tax Claim Motion seeks authorization to pay the following
15 amounts:

16		
17	<i>West 8th Property</i>	<i>\$33,450.83</i>
18	<i>Ostin Avenue Property</i>	<i>\$7,222.78</i>
19	<i>Calle Laguna Property</i>	<i>\$52,888.60</i>
20	<i>Ocean Drive Property</i>	<i>\$72,403.54</i>
21		
22	Total	\$165,965.75

23 The Priority Tax Claim Motion was initially set for hearing on April 2, 2014 and has not
24 yet been heard as of the date of this Disclosure Statement.

25 **8. Bank Stock Sales Procedures Motion**

26 As of the Petition Date, the Debtor was holding 20,000 shares of stock of Bank of San
27 Francisco, which the Debtor estimated to have a value of approximately \$200,000 in Schedule B
28 of its Schedules filed in this Case. The Bank of San Francisco is a state-chartered bank, with its
corporate office located at 575 Market Street, Suite 900, San Francisco, California. Shares of the

Bank of San Francisco stock are not traded on any national or regional stock exchanges or over-the counter. Sales of the Bank of San Francisco's shares of stock are generally sold through private transactions between the Bank's registered shareholders and prospective purchasers. The Debtor is informed and believes that once a price for the Bank of San Francisco's shares of stock has been negotiated and a final price has been agreed to by the parties, the private sales transaction is coordinated by the Bank of San Francisco's transfer agent, RTCO (Registrar and Transfer Company), 10 Commerce Drive, Cranford, NJ 07016. RTCO does not charge any commission to the Bank of San Francisco's registered shareholder for the transfer of the Bank's stock.

On February 28, 2014 [Docket No. 70], the Debtor filed its Bank Stock Sales Procedures Motion. By its Bank Stock Sales Procedures Motion, the Debtor requested authorization to sell 1,710 shares of the Bank of San Francisco's stock to a proposed purchaser pursuant to private sale, and to establish procedures for the Debtor to sell the remaining 18,290 shares of Bank stock, upon notice to the Committee, without the necessity and expense of filing separate motions for each such sale. The Debtor requested approval of sales procedures to avoid burdening the Estate with the unnecessary and wasteful professional fee expenses resulting from having to file separate motions for each proposed sale of the Bank of San Francisco stock. The Debtor proposed the following procedures be established for future sales of the Bank of San Francisco's stock.

- The Debtor may sell, by one or more private sales, all or a portion of the remaining 18,290 shares of the Bank of San Francisco's stock without further Court order, at a price of not less than \$10 per share, after providing the Committee with five (5) days written notice of the proposed sale, with opportunity to object;
- The Debtor may sell, by one or more private sales, all or a portion of the remaining 18,290 shares of the Bank of San Francisco's stock without further order of the Court, at a price below \$10 per share, upon written consent of the Committee;
- No overbid procedures for the subsequent private sales of Bank of San Francisco's stock will be required pursuant to LBR Rule 6004-1(c)(2)(B);
- Any and all subsequent private sales of the Bank of San Francisco's stock pursuant to the pre-authorized procedure is on an all cash basis with no conditions, terms, or contingencies;

- 1 • Any and all subsequent private sales of the Bank of San Francisco's stock pursuant to
2 the pre-authorized procedure is "as is" and without "warranties;"
- 3 • Any and all subsequent private sales of the Bank of San Francisco's stock pursuant to
4 the pre-authorized procedure will be free and clear of all claims, liens, interests and
5 encumbrances;
- 6 • Any and all subsequent purchaser(s) of the remaining 18,290 shares of the Bank of
7 San Francisco's stock will be entitled to the protection afforded by Bankruptcy Code
8 § 363(m) with respect to any subsequent sale and transfer of any of the remaining
9 18,290 shares of the Bank of San Francisco's stock, upon the filing of a declaration
10 by the Debtor and/or such purchaser establishing that such purchaser is not an
11 "insider" within the definition of Bankruptcy Code § 101(31), and that the price for
12 the subsequent shares of the Bank of San Francisco's stock was negotiated at arm's
13 length;
- 14 • The Bank of San Francisco's transfer agent RTCO will be authorized to provide the
15 stock transfer services for the Debtor and any and all of the other subsequent
16 transactions for the remaining 18,290 shares of the Bank of San Francisco's stock.

17 The Committee has opposed the Bank Stock Sales Procedures Motion primarily on the
18 basis that the Committee requires additional information respecting the Bank of San Francisco's
19 short term business plan and how that plan may impact the value of the shares. For example, the
20 Committee would like to know whether the Bank of San Francisco intends to merge with another
21 bank or plans any public offering. The Debtor is using best efforts to obtain the information
22 requested by the Committee and hopes to resolve the objection prior to the hearing on the Bank
23 Stock Sales Procedures Motion. As of the date of the Disclosure Statement, the Bank Stock Sales
24 Procedures Motion has not yet been ruled upon by the Bankruptcy Court.

25 **E. DESCRIPTION OF THE DEBTOR'S ASSET**

26 The Debtor's assets consist primarily of cash, 4 parcels of real estate, three of which are
27 REOs, Loans and the Bank of San Francisco's stock. The projected values below are based on
28 gross values as of February 28, 2014.

1. **Cash**

As of February 28, 2014, the Debtor has approximately \$2,044,722.64 on deposit in its
Debtor in Possession accounts (which includes the proceeds of the McCauley Borrower loan).

1 **2. Real Estate**

2 Currently, the Debtor has four parcels of real estate, three of which are REOs. Based on
3 the best information currently available as of the date of the Disclosure Statement, the projected
4 aggregate gross sales price for the real estate assets owned by the Debtor (without deduction for
5 costs of sale, commissions and the RCS Loan) is approximately \$5,394,000.

6 a. **Ostin Property**

7 The Ostin Property is residential real estate, located on the Westside of Valley Circle
8 Boulevard in Woodland Hills, California. The house was built in or around 1963. The structure
9 on the Ostin Property is approximately 3,250 permitted square feet. There is an additional 400
10 square feet which does not appear permitted. The house located on the Ostin Property has 5
11 bedrooms and 3 bathrooms. There is a two car garage and additional carport parking. The Ostin
12 Property has a pool in working condition.

13 The Ostin Property is encumbered by a first deed of trust in favor of RCS, securing the
14 RCS Loan, which has an unpaid principal balance of approximately \$371,902.17. The property
15 taxes are current.

16 The Ostin Property currently generates no income and is vacant. The expenses (excluding
17 utilities) consists of, among other expenses, the monthly debt service to RCS in the approximate
18 amount of \$3,728.96, insurance of \$236.83 per month and pool service of approximately \$90 per
19 month.
20 month.

21 The Debtor scheduled its interest in the Ostin Property in Schedule A as having a value of
22 approximately \$875,000. The Debtor initially estimated the value based on a 2005 appraisal for
23 \$1,050,000, and the current market value in the area. The area in the San Fernando where the
24 Ostin Property is located is a desirable area, with comparables in the areas selling for as much as
25 \$800,000 to \$900,000. Unfortunately, the Ostin Property has considerable deferred maintenance.
26 In addition, the former owners who the Debtor evicted after foreclosure have removed a number
27 of kitchen and bathroom appliances.
28

1 The Ostin Property is currently listed for sale with Keller Williams Estate Properties,
2 Calabasas. The Debtor has recently received and accepted an offer for approximately \$670,000,
3 which is in the due diligence period as of the date of the Disclosure Statement. Assuming escrow
4 closes and no higher and better bid is received for the property, the net proceeds to the estate
5 resulting from such sale is estimated to be approximately \$243,970.05. This projection was arrived
6 at by deducting the following amounts from the purchase price: the outstanding balance due to the
7 senior lienholder, RCS (Class 2), the Secured Tax Claim of approximately \$7,227.78 and projected
8 costs of sale, including brokers' commissions, in the approximate amount of \$46,900 (based on an
9 estimated 7%).

10 b. **Ocean Drive Property**

11 The Ocean Drive Property is residential real estate, located on the sand side of Ocean Drive
12 known as Hollywood Beach in Oxnard, California. Hollywood Beach is an extremely desirable
13 beach area in Ventura County for the ocean views and sand conditions. The house was built in or
14 around 1953. The structure on the Ocean Drive Property is approximately 1,377 square feet on an
15 approximately 2,625 square foot lot. The house has 3 bedrooms and 1 ½ bathrooms.

16
17 The Ocean Drive Property has no Secured Claim against it, except the Secured Tax Claim
18 for unpaid property tax in the approximate amount of \$90,760.16 of which approximately
19 \$72,403.54 consists of past due delinquent taxes.

20 The Debtor currently receives \$2,600 per month in rental income. The property tax
21 expense allocated on a monthly basis is approximately \$1,072.68 per month, and insurance
22 expense allocated per month is approximately \$75.71 monthly.

23 The Debtor scheduled its interest in the Ocean Drive Property in Schedule A as having a
24 value of approximately \$1,895,000, which appears fairly consistent with the recent estimate of
25 Beachfront Realtors, which estimates the fair market value to be approximately \$1,824,525, based
26 on a price of approximately \$1,325 per square foot.

27 c. **West 8th Property**

1 The West 8th Property is a six unit building located in San Pedro, California. The structure
2 was built in 1987. However, the interior units were remodeled in 2008 with the intention to convert
3 the units to condominiums. The total square footage of the structure is approximately 5,787.

4 Five of the units are approximately 887 square feet, consisting of two bedrooms and 1 ¾
5 bathrooms. One of the units is approximately 1,350 square feet, consisting of 3 bedrooms and 3
6 bathrooms. Each unit has a private access to the garage.

7 The West 8th Property has no Secured Claim against it, except the Secured Tax Claim for
8 unpaid property tax in the approximate amount of \$39,249.97 of which \$33,450.83 consists of past
9 due delinquent taxes.

10 The Debtor currently receives \$8,400 per month in rental income. The West 8th Property
11 is not under rent control. The property tax expense allocated on a monthly basis is approximately
12 \$943 per month, and insurance expense allocated per month is approximately \$75.71 monthly.

13 The Debtor scheduled its interest in the West 8th Property in Schedule A as having a value
14 of approximately \$1,185,000, which is based on an appraisal dated December 9, 2013, prepared
15 by Cornerstone Realty Analysts, Inc., based on a price of approximately \$204.77 per square foot.

16
17 **d. Calle Laguna Property**

18 The Calle Laguna Property is located in the rural area of Arroyo Grande, and the lot
19 exceeds two acres and is zoned for horses and farming. The Debtor completed the structure in
20 2008 after its borrower abandoned the property and stripped the fixtures and appliances. The
21 structure on the Calle Laguna Property is approximately 5,078 square feet on an approximately
22 110,206 square foot lot (2.53 acres). The house has 5 bedrooms and 4 bathrooms.

23 The Calle Laguna Property has no Secured Claim against it, except the Secured Tax Claim
24 for unpaid property tax in the approximate amount of \$68,382.13 of which approximately
25 \$52,888.60 consists of past due delinquent taxes.

26 The Debtor currently receives \$2,250 per month in rental income. The property tax
27 expense allocated on a monthly basis is approximately \$1,064 per month, and insurance expense
28

1 allocated per month is approximately \$209 monthly.

2 The Debtor scheduled its interest in the Calle Laguna Property in Schedule A as having a
3 value of approximately \$1,675,000, which appears to be a fairly conservative estimate of value.
4 The Calle Laguna Property had an appraised value in 2006 of approximately \$2,800,000. The best
5 estimate of value as of the date of the Disclosure Statement is approximately \$1,715,449, based on
6 a price of approximately \$337.82 per square foot.

7 **3. Principal Due the Debtor on Remaining Loans**

8 Currently, the Debtor has 18 remaining Loans (after payment of the McCauley Loan
9 discussed in Section III.D.4 of the Disclosure Statement). ~~Exhibit 1 referred to in the Disclosure~~
10 ~~Statement is a Schedule of Loans Receivable as of February 28, 2014, which was prepared by the~~
11 ~~Debtor.~~ The aggregate principal balance of the remaining Loans (excluding accrued and unpaid
12 interest and prospective interest) is approximately \$6,566,610. The aggregate interest due is
13 \$831,621 for a total due the Debtor of \$7,396,231. ~~Exhibit 81 contains~~ includes a projection of
14 amounts that the Debtor reasonably anticipates collecting based on best information currently
15 available as of the date of the Disclosure Statement.

16 ~~Exhibit 1 has been intentionally omitted from the Disclosure Statement to avoid placing in~~
17 ~~the public record confidential information concerning the borrowers as well to avoid placing~~
18 ~~information in the public record that may potentially harm the value of the assets. However, the~~
19 ~~Debtor has prepared the Supplemental Disclosure Package which contains Exhibit 1 as well as~~
20 ~~other exhibits prepared by the Debtor.~~

21
22 ~~Any Holder of an Allowed Commercial Paper Account Claim (which is not a Disputed~~
23 ~~Claim) wishing to obtain the Supplemental Disclosure Package may do so upon~~
24 ~~written request made prior to the Balloting Deadline to Marta Wade of Creim Macias~~
25 ~~Koenig & Frey LLP, 633 W. Fifth Street, 51st Floor, Los Angeles, California 90071;~~
26 ~~Telephone (213) 614-1944; Facsimile (213) 614-1961; Email address~~
27 ~~mwade@cmklp.com~~

28 Set forth below is a general description and general information about some of the exiting
loans and collateral for such loans, which is supplemented by the more specific description
contained in the ~~Schedule of Loans Receivable as of February 28, 2014~~. However, information

1 about the identity of the borrowers and specific financial information about them has been
2 intentionally omitted so as to maintain confidentiality. Therefore, the loans are described only by
3 number, ~~which coincides with the numbers assigned to such loan in the Schedule of Loans~~
4 ~~Receivable as of February 28, 2014.~~

5 **a. Loan Numbers 1 and 2.**

6 Loan Numbers 1 and 2 are secured by real property, which consists of a 7 unit apartment
7 building located at 1140 Chestnut, San Francisco, California ("**Chestnut Property**"). The
8 estimated value of the Chestnut Property is approximately \$4,600,000. The approximate senior
9 lien balance is \$1,500,000.¹ In addition to the senior loan balance, the Chestnut Property is secured
10 by the Debtor's second deed of trust with the principal loan balance on the Debtor's Note of
11 \$1,547,072 and past due interest as of February 28, 2014 in the amount of \$230,147 for a total
12 amount due of \$1,777,219 under the Debtor's Note secured by the second deed of trust. The
13
14 interest rate of the Debtor's Note under the second deed of trust is 8.25%, and the loan matured on
15 May 7, 2009.

16 The Chestnut Property is further secured by the Debtor's third deed of trust with the
17 principal loan balance on the Debtor's Note of \$703,015 and past due interest as of February 28,
18 2014 in the amount of \$75,337 for a total balance of under the Debtor's Note of \$778,352. As
19 with the Debtor's loan secured by a second deed of trust, the interest rate is also 8.25%, and the
20 loan secured by the Debtor's third deed of trust also matured on May 7, 2009.

21 **b. Loan Numbers 3, 4 & 5.**

22 Loan Numbers 3, 4 and 5 are unsecured loans. The security for these loans was sold prior
23 to the Petition Date. The Debtor is still investigating the circumstances respecting the background. ~~In~~
24 ~~the meantime, please review the Schedule of Loans Receivable as of February 28, 2014 for more~~
25 ~~detail respecting these loans and their potential value.~~

26
27
28 ¹ With respect to the Loan Receivables, all of the senior lien balances are approximations and may consist of more than one loan.

c. **Loan Number 6.**

Loan number 6 is secured by real property, which consists of a single family residence located at 2904 Broad St. Newport Beach, California ("**Broad Street Property**"). The estimated value of the Broad Street Property is approximately \$1,800,000. The senior lien balance is \$1,250,000. In addition to the senior loan balance, there is a second deed of trust and note on the Broad Street Property, and the amount of the note is unknown. The Broad Street is also secured by the Debtor's third deed of trust with the principal loan balance of \$34,849 and past due interest as of February 28, 2014 in the amount of \$10,962 for a total balance of \$45,811 on the Debtor's Note. The interest rate is 8.25%, and the loan matured on June 29, 2010.

d. **Loan Number 7.**

Loan number 7 is secured by real property, which consists of a single family residence located at 220 Santa Rosa Avenue, Sausalito, California ("**Santa Rosa Avenue Property**"). The estimated value of the Santa Rosa Avenue Property is approximately \$1,550,000. The senior lien balance is \$1,060,000. In addition to the senior loan balance, the Santa Rosa Avenue Property is secured by the Debtor's second deed of trust with the principal loan balance of \$92,486 and past due interest as of February 28, 2014 in the amount of \$23,841 for a total balance of \$116,327 on the Debtor's Note. The interest rate is 8.25%, and the loan matured on January 25, 2011.

e. **Loan Number 8.**

Loan number 8 was paid off after the Petition Date. See, discussion in Section III.D.4 of the Disclosure Statement and the further discussion respecting the Loan Procedures Motion.

f. **Loan Number 9.**

Loan number 9 is secured by real property, which consists of a single family residence located at 117 Mystic Place, Alamo, California ("**Mystic Place Property**"). The estimated value of the Mystic Place Property is approximately \$2,275,000. The approximate senior lien balance is \$1,458,991, which consists of first, second and third deed of trusts. In addition to the senior loan balance, the Mystic Place Property is secured by the Debtor's fourth deed of trust with the principal loan balance of \$62,554 on the Debtor's Note and past due interest as of February 28,

2014 in the amount of \$2,520 for a total amount due under the Debtor's Note of \$65,074. The interest rate of the Debtor's Note secured by the fourth deed of trust is 10%, and the loan matured on December 31, 2013.

g. Loan Numbers 10 and 11.

Loan Numbers 10 and 11 are secured by real property, which consists of a single family residence located at 1615 Lawrence Road, Danville, California ("**Lawrence Road Property**"). The estimated value of the Lawrence Road Property is approximately \$2,750,000. The senior lien balance is \$2,160,000. There is non-Debtor third deed of trust on the Lawrence Road Property with a loan balance of \$750,000. The Lawrence Road Property is secured by the Debtor's second and fourth deed of trust with the principal loan balances of \$159,748 (second deed of trust) and \$46,087 (fourth deed of trust) on the Debtor's Notes for a total of \$205,835. There is no past due interest. The interest rate of the Debtor's Notes secured by the second and fourth deed of trust is 5%, and the loans will mature on November 29, 2014.

h. Loan Number 12.

Loan number 12 is secured by real property, which consists of a commercial building with an auto shop located at 1213-15 Fell Street, San Francisco, California ("**Fell Street Property**"). The estimated value of the Fell Street Property is \$4,100,000. The senior lien balance is \$2,090,000. In addition to the senior loan balance, the Fell Street Property is secured by the Debtor's second deed of trust with the principal loan balance of \$165,618 on the Debtor's Note with no past due interest. The interest rate of the Debtor's Note secured by the second deed of trust is 8.25%, and the loan matured on September 15, 2012. Even though the Debtor's Note matured, the borrower is current on its payments of principal and interest.

i. Loan Number 13.

Loan #13 is secured by real property, which consists of a cabin located in El Dorado County, Echo Lake, California ("**Echo Lake Property**"). The estimated value of the Echo Lake Property is \$1,900,000. The senior lien balance is \$500,000. In addition to the senior loan balance,

the Echo Lake Property is secured by the Debtor's second deed of trust with the principal loan balance of \$836,816 and past due interest as of February 28, 2014 in the amount of \$41,160 for a total amount due under the Debtor's Note of \$877,976. The interest rate of the Debtor's Note secured by the second deed of trust is 8.25%, and the loan matured on January 3, 2014.

j. Loan Number 14.

Loan number 14 is secured by real property, which consists of a single family residence located at 22447 Charlene Way, Castro Valley, California ("Charlene Way Property"). The estimated value of the Charlene Way Property is \$350,000. The senior lien balance is \$565,000. In addition to the senior loan balance, there is a second deed of trust and the amount of the note is unknown. The Charlene Way Property is secured by the Debtor's third deed of trust with the principal loan balance of \$189,108 and past due interest as of February 28, 2014 in the amount of \$73,690 for a total amount due under the Debtor's Note of \$262,798. The interest rate of the Debtor's Note secured by the third deed of trust is 8.25%, and the loan will mature on May 15, 2014.

k. Loan Number 15.

Loan number 15 is secured by real property, which consists of a single family residence (rental property) located at 1851 26th Avenue, San Francisco, California ("26th Avenue Property"). The estimated value of the 26th Avenue Property is \$900,000. The senior lien balance is \$620,000. In addition to the senior loan balance, the 26th Avenue Property is secured by Debtor's second deed of trust with the principal loan balance of \$43,132. There is no past due interest. The interest rate of the Debtor's Note secured by the second deed of trust is 8.25%, and the loan will mature on June 14, 2014.

l. Loan Number 16.

Loan number 16 is secured by real property, which consists of a duplex (primary residence and rental) located at 1357-59 Vienna Way, Venice, California ("Vienna Way Property"). The estimated value of the Vienna Way Property is \$1,500,000. The senior lien balance is \$1,171,000. In addition to the senior loan balance, the Vienna Way Property is secured by a second deed of

1 trust and the principal balance is unknown. The Debtor's third deed of trust has a principal loan
2 balance of 235,795. There is no past due interest. The interest rate of the Debtor's Note secured
3 by the third deed of trust is 4.50 %, and the loan will mature on January 1, 2015.

4 **m. Loan Numbers 17 and 18.**

5 Loan numbers 17 and 18 are secured by real property, which consists of a beachfront single
6 family residence located at 162 Seadrift, Stinson Beach, California ("**Seadrift Property**"). The
7 estimated value of the Seadrift Property is \$4,500,000. The senior lien balance is \$1,945,000. In
8 addition to the senior loan balance, the Seadrift Property is secured by the Debtor's second deed
9 of trust with the principal loan balance on the Debtor's Note of \$839,000 and past due interest as
10 of February 28, 2014 in the amount of \$122,816 for a total amount due of \$961,186 under the
11 Debtor's Note secured by the second deed of trust. The interest rate of the Debtor's Note under
12 the second deed of trust is 6.75%, and the loan will mature on July 1, 2015.

13 The Seadrift Property is also secured by the Debtor's third deed of trust with the principal
14 loan balance on the Debtor's Note of \$530,869 and past due interest as of February 28, 2014 in the
15 amount of \$73,243 for a total amount due of \$604,112 under the Debtor's Note secured by the
16 third deed of trust. The interest rate of the Debtor's Note under the third deed of trust is 6.75%,
17 and the loan will mature on July 1, 2015.

18 **4. Accrued and Unpaid Interest Due the Debtor on Remaining Loans**

19 The forgoing forecast for the 17 remaining Loans does not include accrued and unpaid
20 interests due to the Debtor in connection with the 17 remaining Loans. The aggregate projected
21 amount of accrued and unpaid interests currently due the Debtor in connection with the 17
22 remaining Loans (excluding prospective interest) is approximately \$817,300.

23 **5. Bank of San Francisco Stock**

24 As of the Petition Date, the Debtor was holding 20,000 shares of stock of Bank of San
25 Francisco, which the Debtor estimated to have a value of approximately \$200,000 in Schedule B
26 of its Schedules filed in this Case.

27 The Bank of San Francisco is a state-chartered bank, with its corporate office located at
28

1 575 Market Street, Suite 900, San Francisco, California. Shares of the Bank of San Francisco
2 stock are not traded on any national or regional stock exchanges or over-the counter. Sales of the
3 Bank of San Francisco's shares of stock are generally sold through private transactions between
4 the Bank's registered shareholders and prospective purchasers. The Debtor is informed and
5 believes that once a price for the Bank of San Francisco's shares of stock has been negotiated and
6 a final price has been agreed to by the parties, the private sales transaction is coordinated by the
7 Bank of San Francisco's transfer agent, RTCO (Registrar and Transfer Company), 10 Commerce
8 Drive, Cranford, NJ 07016. RTCO does not charge any commission to the Bank of San
9 Francisco's registered shareholder for the transfer of the Bank's stock.

10 The Debtor has received one offer to purchase 1,710 shares of the Bank of San Francisco's
11 stock by a proposed purchaser pursuant to private sale for \$12.95 per share for a total purchase
12 price of \$22,144.50. Assuming a price of \$12.95 per share were applied to all 20,000 shares held
13 by the Debtor, it would place the value of the Bank of San Francisco's shares of stock at
14 approximately \$259,000.

15 **6. Ostin Insurance Claim**

16 The Debtor has submitted a claim to the insurance carrier in connection with the damage
17 to the Ostin Property. Thus far, the insurance carrier has only offered approximately \$15,000. The
18 Debtor expressly reserves and preserves the right to pursue any and all claims against Farmers
19 Insurance.

20 **7. Rights of Action/Errors and Omissions Claims**

21 The Debtor also has an interest in Rights of Action. However, the Debtor does not believe
22 that these have significant value.

23 Rights of Action would include any errors and omissions claims involving officers and
24 directors. Although the Debtor does not believe any such claims exist, the Debtor and the
25 Committee continue to investigate those claims with are expressly reserved and preserved in the
26 Disclosure Statement.

27 In connection with the errors and omissions claims, the Debtor maintains insurance
28

1 coverage through Lloyd's of London. On January 30, 2014 and February 14, 2014, the Committee
2 notified the Debtor of claims asserted against the Debtor and/or its officers and directors, which it
3 contends are covered by insurance. *Exhibit 12* attached the Disclosure Statement is the notice sent
4 on behalf of the Committee, consisting of a letter dated February 14, 2014 and an email
5 correspondence dated January 30, 2014 describing the nature of the claim for errors and omissions.

6
7 **IV.**

8 **SUMMARY OF THE PLAN OF REORGANIZATION**

9 **A. GENERAL STATEMENT ABOUT CLASSIFICATION UNDER THE PLAN**

10 The Plan classifies Claims and Interests in various Classes according to their right to
11 priority. The Plan states whether each Class of Claims or Interests is impaired or unimpaired. The
12 Plan provides the treatment that each Class will receive. A Claim is classified in a particular Class
13 only to the extent that the Claim falls within the Class description.

14 **B. UNCLASSIFIED CLAIMS**

15 Certain types of Claims are not placed into voting Classes; and instead they are referred to
16 as "unclassified". Unclassified Claims are not considered impaired and are not entitled to vote on
17 the Plan because such Claims are automatically entitled to specific treatment provided in the
18 Bankruptcy Code. As such, the Debtor has not placed the following Claims into a Class.

19
20 **1. Administrative Expenses**

21 Administrative Expenses are Claims for costs or expenses of administering the Debtor's
22 Chapter 11 Case which are Allowed under Bankruptcy Code §§503(b) and 507(a)(1), including,
23 without limitation, (i) the actual, necessary costs and expenses incurred after the commencement
24 of the Debtor's Chapter 11 Case, including unpaid property tax and other tax Claims, and (ii)
25 Professional Fee Claims, consisting of compensation for legal and other services and
26 reimbursement of expenses awarded pursuant to Bankruptcy Code §§ 330(a), 331 or 1103.

The extent and amount of Administrative Claims listed below are a projection of amounts reasonably expected to be unpaid as of the Effective Date, and will be supplemented based upon fee applications filed by the professionals, and actual Tax Claims, if any. The chart below lists all of the Debtor's projected unpaid balances for the Bankruptcy Code §§ 503(b) and 507(a)(1) Administrative Claims and their treatment under the Plan:

<u>CLAIMANT</u>	<u>ESTIMATED UNPAID BLANCE OF FEES OWED FROM THE PETITION DATE THROUGH MARCH 31, 2014 (AFER APPLICATION OF RETAINERS)</u>	<u>ESTIMATE OF ADDITIONAL FEES FROM APRIL 1, 2014 THROUGH THE EFFECTIVE DATE².</u>	<u>TOTAL FEES PROJECTED THROUGH CONFIRMATION.</u>	<u>TREATMENT</u>
CMKF (Debtor's Counsel) Professional fees	\$210,000	\$100,000	\$310,000	On the later of the Effective Date or the date Allowed by the Bankruptcy Court, the Allowed Claim shall be paid in full in Cash as required under Bankruptcy Code §1129(a)(9)(A).
SHB (Committee Counsel) Professional fees	\$46,000	\$100,000	\$146,000	On the later of the Effective Date or the date Allowed by the Bankruptcy Court, the Allowed Claim shall be paid in full in Cash as required under Bankruptcy Code §1129(a)(9)(A).
Lombardo (Debtor's Special Counsel)		\$9,000		

² For purposes of the estimates of Administrative Claims provided in this Section, the Plan assumes a hypothetical Effective Date of September 30, 2014.

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<u>CLAIMANT</u>	<u>ESTIMATED UNPAID BLANCE OF FEES OWED FROM THE PETITION DATE THROUGH MARCH 31, 2014 (AFER APPLICATION OF RETAINERS)</u>	<u>ESTIMATE OF ADDITIONAL FEES FROM APRIL 1, 2014 THROUGH THE EFFECTIVE DATE².</u>	<u>TOTAL FEES PROJECTED THROUGH CONFIRMATION.</u>	<u>TREATMENT</u>
Professional fees				
Biggs & Co. (Debtor's Accountants and Financial Advisors)	\$55,000	\$100,000	\$155,000	On the later of the Effective Date or the date Allowed by the Bankruptcy Court, the Allowed Claim shall be paid in full in Cash as required under Bankruptcy Code §1129(a)(9)(A).
Professional fees				
Professional fee Expenses	\$25,000	\$25,000	\$50,000	On the later of the Effective Date or the date Allowed by the Bankruptcy Court, the Allowed Claim shall be paid in full in Cash as required under Bankruptcy Code §1129(a)(9)(A).
Committee Expenses		\$5,000	\$5,000	On the later of the Effective Date or the date Allowed by the Bankruptcy Court, the Allowed Claim shall be paid in full in Cash as required under Bankruptcy Code §1129(a)(9)(A).
Clerk's Office Fees	\$0	\$0	\$0	Any fees remaining unpaid as of the Effective Date shall be paid in full on the later of the Effective Date or as soon as practical after the Debtor is notified of any balance

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Office of the U.S. Trustee Fees	\$0	\$0	\$0	due. Any fees remaining unpaid as of the Effective Date shall be paid in full on the later of the Effective Date or as soon as practical after the Debtor is notified of any balance due..
Kenneth J. Pingree Jr. (Insider Compensati on Claim)	\$29,166.69 [Estimated for the period January 1 through April 1, 2014]	\$33,333.36 [Estimated from the period April 15, 2014 through the Effective Date of the Plan (assuming a hypothetical Effective Date of August 1, 2014)]	\$62,500.05 [Total Estimated Administrative Insider Compensation Claim]	On the Effective Date, the right to payment from the Estate on account of the Allowed Claims of Kenneth J. Pingree Jr. for Insider Compensation shall be waived; and, in exchange for such waiver, Kenneth J. Pingree Jr. shall receive be entitled to an <u>Allowed Pingree Setoff Claim</u> in an amount that is equal to his Allowed Claims for Insider Compensation for the period commencing on the Petition Date through the Effective Date, <u>calculated at the</u> <u>rate of \$4,166.67 semi-</u> <u>monthly, which</u> <u>Allowed Pingree Setoff</u> Claim may be asserted by him against any damage claim against him resulting from, in connection with, or

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<u>CLAIMANT</u>	<u>ESTIMATED UNPAID BLANCE OF FEES OWED FROM THE PETITION DATE THROUGH MARCH 31, 2014 (AFER APPLICATION OF RETAINERS)</u>	<u>ESTIMATE OF ADDITIONAL FEES FROM APRIL 1, 2014 THROUGH THE EFFECTIVE DATE².</u>	<u>TOTAL FEES PROJECTED THROUGH CONFIRMATION.</u>	<u>TREATMENT</u>
				related to, any Right of Action or other litigation initiated against him by, or on behalf of, the Debtor, the Estate, the Liquidation Debtor, the Committee and/or any Creditor in the Case.
Patricia Pingree (Insider Compensation Claim)	\$21,877.94 [Estimated for the period January 1 through April 1, 2014]	\$25,003.36 [Estimated from the period April 15, 2014 through the Effective Date of the Plan (assuming a hypothetical Effective Date of August 1, 2014)]	\$46,881.30 [Total Estimated Administrative Insider Compensation Claim]	On the Effective Date, the right to payment from the Estate on account of the Allowed Claims of Patricia Pingree for Insider Compensation shall be waived; and, in exchange for such waiver, Patricia Pingree shall receive be entitled to an Allowed <u>Pingree Setoff Claim</u> in an amount that is equal to her Allowed Claims for Insider Compensation for the period commencing on the Petition Date through the Effective Date, ² <u>calculated at the rate of \$3,125.00 semi-monthly, which</u> Allowed Setoff Claim may be asserted by her against any damage claim against her resulting from, in connection with, or related to, any Right of Action or other litigation

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<u>CLAIMANT</u>	<u>ESTIMATED UNPAID BLANCE OF FEES OWED FROM THE PETITION DATE THROUGH MARCH 31, 2014 (AFER APPLICATION OF RETAINERS)</u>	<u>ESTIMATE OF ADDITIONAL FEES FROM APRIL 1, 2014 THROUGH THE EFFECTIVE DATE².</u>	<u>TOTAL FEES PROJECTED THROUGH CONFIRMATION.</u>	<u>TREATMENT</u>
				initiated against her by, or on behalf of, the Debtor, the Estate, the Liquidation Debtor, the Committee and/or any Creditor in the Case.
TOTAL PROJECTED ADMINISTRATIVE EXPENSES			\$675,000 (excluding the Allowed <u>Pingree</u> Setoff Claims of the Pingrees)	

The aggregate amount of Cash required to pay in full all of the foregoing Administrative Claims (excluding the Allowed Pingrees sSetoff eClaims) is referred to hereinafter collectively as the “**Administrative Claims Funding Amount**”. The aggregate amount of Cash required to pay in full the Administrative Claims Funding Amount is approximately \$675,000, which will be paid from Cash on hand. The projection of fees and expenses set forth above are estimates of fees and expenses projected to be incurred from the Petition Date through a hypothetical Effective Date of September 30, 2014, and are based upon the best information available at the time of the preparation of the Disclosure Statement. Although reasonable efforts have been made to estimate such fees and expenses as accurately as reasonably possible under the circumstances, the actual fees and expenses may vary from the projected amount, and actual results may end up to be less or more than the amounts projected.

a. Bankruptcy Court Approval of Fees Required

The Bankruptcy Court must rule on all fees listed in the above chart before the fees will be Allowed. All requests for professional compensation for professionals employed pursuant to Bankruptcy Code § 327 must be requested by applications for final allowance of compensation and reimbursement of expenses. Only the amount of fees approved by the Bankruptcy Court will be Allowed and required to be paid under the Plan. Any objection to Administrative Claims for professional compensation for professionals employed pursuant to Bankruptcy Code § 327 shall be filed on or before the date specified in the application for final compensation and reimbursement of expenses.

Professional fees and expenses incurred after the Effective Date will not require Bankruptcy Court approval, and may be billed and paid at any time during the course of liquidation.

b. Allowance of Other Administrative Claims

Pursuant to the Plan, the Administrative Claims Bar Date is a date set forth in the Confirmation Order. All Administrative Claims (excluding professional compensation for professionals employed pursuant to Bankruptcy Code § 327) must have been asserted by the filing of a POC (i) designated as a request for payment of Administrative Expenses, (ii) asserting that such claim is allowable pursuant to Bankruptcy Code § 503(b), (iii) stating the amount of such claim, (iv) stating the basis of such claim, and (v) attaching documentation in support of such claim.

Any objection to any Administrative Claim (excluding those to professional compensation for professionals employed pursuant to Bankruptcy Code § 327) must be filed within one-hundred and twenty (120) days from the date such Administrative Claim is filed.

HOLDERS OF ADMINISTRATIVE CLAIMS (INCLUDING, WITHOUT LIMITATION, PROFESSIONALS) REQUESTING COMPENSATION OR REIMBURSEMENT OF EXPENSES THAT DO NOT FILE SUCH REQUESTS BY THE ADMINISTRATIVE CLAIMS BAR DATE SHALL BE FOREVER BARRED FROM ASSERTING SUCH CLAIMS AGAINST THE DEBTOR, THE DEBTOR'S ESTATE, LIQUIDATION DEBTOR OR PROPERTY OF

LIQUIDATION DEBTOR OR ASSETS OR PROCEEDS HELD BY THE PLAN ADMINISTRATOR.

2. Unclassified Priority Claims

Priority Claims are certain types of Claims entitled to priority under the Bankruptcy Code. Certain types of Priority Claims are unclassified. Unclassified Priority Claims are not entitled to vote because such claims are not placed in Classes and they are required to receive certain treatment specified by the Bankruptcy Code.

Unclassified Priority Claims include Priority Tax Claims. Priority Tax Claims are certain unsecured claims of governmental entities for taxes, based on income, employment and other taxes described by Bankruptcy Code § 507(a)(8). The Bankruptcy Code requires that each Holder of such a Section 507(a)(8) Priority Tax Claim receive the present value of such Claim in deferred Cash payments, over a period not exceeding five (5) years from the Petition Date.

The following chart lists all of the Debtor's Unclassified Priority Claims and their treatment under the Plan.

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<u>DESCRIPTION</u>	<u>AMOUNT OWED</u> <u>(Estimated)</u>	<u>TREATMENT</u>
CITY OF LOS ANGELES OFFICE OF FINANCE <i>Type of Claim:</i> Priority Tax Claim [Disputed Claim]	[Total Claim Asserted by such Claimant is \$7,202.48, including interest and penalties pursuant to POC No. 37] Priority Claim asserted by such Claimant is \$5,247.23 per POC No. 37 Debtor's estimate of the amount owed to such Claimant is \$0 Penalties, if any, shall be treated in Class 7	Unless otherwise agreed by the Liquidation Debtor and Plan Administrator and the claimant, the Holder of the Allowed Unclassified Priority Claims shall receive the full amount of its Allowed Claim in Cash on the Effective Date or as soon as practical thereafter.
IRS <i>Type of Claim:</i> Priority Payroll Tax Claim for 4th quarter 2013 pursuant to IRS estimate. [Disputed Claim]	Priority Claim asserted by such Claimant is \$8,802.91 pursuant to POC No. 2-1 Debtor's estimate of the amount owed to such Claimant is \$0 Penalties, if any, shall be treated in Class 7	Unless otherwise agreed by the Liquidation Debtor and Plan Administrator and the claimant, the Holder of the Allowed Unclassified Priority Claims shall receive the full amount of its Allowed Claim in Cash on the Effective Date or as soon as practical thereafter.

The IRS has filed a claim (POC No. 2-1) in the amount of \$8,802.91 for Priority Payroll Tax for the fourth quarter of 2013, which appears to be a precautionary proof of claim. The Debtor believes it is current with payroll tax and that no amount will be owed. Biggs & Co. is working with the IRS to withdraw the claim. Nevertheless, the Plan provides for treatment of such IRS Claim as a precautionary measure. Similarly, the City of Los Angeles Office of Finance has filed a claim (POC No. 37) in the amount of \$7,202.48 of which \$5,247.23 is the Priority Claim and the balance consists of interest and penalties. The Debtor disputes the Claim of the City of Los Angeles Office of Finance, and believes that there is no tax due and owing. Biggs & Co. is working with the City of Los Angeles Office of Finance to voluntarily withdraw the claim. Nevertheless, the Plan also provides for treatment of such claim as a precautionary measure.

C. CLASSIFIED CLAIMS AND INTERESTS

1. Classes of Secured Claims

The following charts identify the Plan's treatment of the Classes containing all of the Debtor's Secured Claims:

CLASS NO.	DESCRIPTION	TREATMENT
<u>CLASS 1</u>	Class 1 consists of Allowed Secured Tax Claims. Each such Allowed Secured Claim shall be deemed and treated as a separate sub-class of Class 1 (e.g. Class 1A, 1B, 1C etc.). Class 1 is unimpaired under the Plan.	
1A	<p><i>Secured Claim of:</i> LOS ANGELES COUNTY TREASURER AND TAX COLLECTOR</p> <p><i>Collateral description =</i> OSTIN PROPERTY AND WEST 8TH PROPERTY</p> <p>Filed Claim Amount= \$48,005.97 per POC No. 7</p> <p>Debtor's Estimate of the Amount of the Claim = \$40,673.61</p> <p>Debtor's Estimate of the Fair Market Value of Collateral = \$1,556,902</p> <p>General Unsecured Claim = \$0</p> <p>Penalties, if any, shall be treated in Class 7</p>	<p>If not paid in full prior to the Effective Date pursuant to the Priority Tax Claim Motion, the Allowed Secured Tax Claim will be paid in respect of such Allowed Secured Tax Claim one of the following:</p> <p>Alternative 1. The full amount thereof, without post-petition interest or penalty, (less any and all amounts paid after the Petition Date and prior to the Effective Date) in Cash, as soon as practicable after the later of (i) the Effective Date or (ii) ten (10) Business Days after the date on which such Secured Tax Claim becomes an Allowed Secured Tax Claim, or</p> <p>Alternative 2. A lesser amount as agreed to by the Holder of an Allowed Secured Tax Claim and the Debtor (after reasonable consultation with the Committee) prior to the Effective Date, or, after the Effective Date, by the Holder of an Allowed Secured Tax Claim, and the Plan Administrator and Liquidation Debtor, or</p> <p>Alternative 3. At the election of the Plan Administrator and Liquidation Debtor, in accordance with Bankruptcy Code § 1129(a)(9)(C), equal quarterly installments paid over a period ending no later than the fifth (5th) year anniversary of the Petition</p>

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CLASS NO.	DESCRIPTION	TREATMENT
		<p>Date (and in such event, interest shall be paid on the unpaid portion of such Allowed Secured Tax Claims at a rate to be agreed to by the Plan Administrator, Liquidation Debtor and the appropriate Governmental Unit (or, if they are unable to agree, as determined by the Bankruptcy Court).</p> <p>Reservation of Defenses, Objections, Counterclaims and Other Rights. Any defenses, objections, counterclaims, rights, rights of offset or recoupment of the Debtor or the Estate with respect to any Allowed Secured Tax Claim shall vest in and inure to the benefit of the Liquidation Debtor. .</p> <p>Further Assurances. The Holders of the Allowed Secured Tax Claims shall promptly execute and deliver any and all documents and take such other or further actions as are reasonably necessary, appropriate or requested by the Plan Administrator and/or Liquidation Debtor to effectuate the provisions of the Plan.</p>
1B	<p>Secured Claim of: COUNTY OF SAN LUIS OBISPO</p> <p><i>Collateral description = CALLE LAGUNA PROPERTY</i></p> <p>Claim Amount= \$68,382.13</p> <p>Debtor's Estimate of the Amount of the Claim = \$52,888.60</p> <p>Debtor's Estimate of the Fair Market Value of Collateral = \$1,715,449</p> <p>General Unsecured Claim = \$0</p> <p>Penalties, if any, shall be treated in Class 7</p>	<p>If not paid in full prior to the Effective Date pursuant to the Priority Tax Claim Motion, the Allowed Secured Tax Claim will be paid in respect of such Allowed Secured Tax Claim one of the following:</p> <p>Alternative 1. The full amount thereof, without post-petition interest or penalty, (less any and all amounts paid after the Petition Date and prior to the Effective Date) in Cash, as soon as practicable after the later of (i) the Effective Date or (ii) ten (10) Business Days after the date on which such Secured Tax Claim becomes an Allowed Secured Tax Claim, or</p> <p>Alternative 2. A lesser amount as agreed to by the Holder of an Allowed Secured Tax Claim and the Debtor (after reasonable consultation with the Committee) prior to the</p>

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CLASS NO.	DESCRIPTION	TREATMENT
		<p>Effective Date, or, after the Effective Date, by the Holder of an Allowed Secured Tax Claim, and the Plan Administrator and Liquidation Debtor, or</p> <p>Alternative 3. At the election of the Plan Administrator and Liquidation Debtor, in accordance with Bankruptcy Code § 1129(a)(9)(C), equal quarterly installments paid over a period ending no later than the fifth (5th) year anniversary of the Petition Date (and in such event, interest shall be paid on the unpaid portion of such Allowed Secured Tax Claims at a rate to be agreed to by the Plan Administrator, Liquidation Debtor and the appropriate Governmental Unit (or, if they are unable to agree, as determined by the Bankruptcy Court).</p> <p>Reservation of Defenses, Objections, Counterclaims and Other Rights. Any defenses, objections, counterclaims, rights, rights of offset or recoupment of the Debtor or the Estate with respect to any Allowed Secured Tax Claim shall vest in and inure to the benefit of the Liquidation Debtor. .</p> <p>Further Assurances. The Holders of the Allowed Secured Tax Claims shall promptly execute and deliver any and all documents and take such other or further actions as are reasonably necessary, appropriate or requested by the Plan Administrator and/or Liquidation Debtor to effectuate the provisions of the Plan.</p>
1C	<p>Secured Claim of: COUNTY OF VENTURA</p> <p><i>Collateral description =</i> OCEAN DRIVE PROPERTY</p> <p>Claim Amount= \$72,403.54</p> <p>Debtor's Estimate of the Amount of the Claim =</p>	<p>If not paid in full prior to the Effective Date pursuant to the Priority Tax Claim Motion, the Allowed Secured Tax Claim will be paid in respect of such Allowed Secured Tax Claim one of the following:</p> <p>Alternative 1. The full amount thereof, without post-petition interest or penalty, (less</p>

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CLASS NO.	DESCRIPTION	TREATMENT
	<p>\$72,403.54</p> <p>Debtor's Estimate of the Fair Market Value of Collateral = \$1,824,525</p> <p>General Unsecured Claim = \$0</p> <p>Penalties, if any, shall be treated in Class 7</p>	<p>any and all amounts paid after the Petition Date and prior to the Effective Date) in Cash, as soon as practicable after the later of (i) the Effective Date or (ii) ten (10) Business Days after the date on which such Secured Tax Claim becomes an Allowed Secured Tax Claim, or</p> <p>Alternative 2. A lesser amount as agreed to by the Holder of an Allowed Secured Tax Claim and the Debtor (after reasonable consultation with the Committee) prior to the Effective Date, or, after the Effective Date, by the Holder of an Allowed Secured Tax Claim, and the Plan Administrator and Liquidation Debtor, or</p> <p>Alternative 3. At the election of the Plan Administrator and Liquidation Debtor, in accordance with Bankruptcy Code § 1129(a)(9)(C), equal quarterly installments paid over a period ending no later than the fifth (5th) year anniversary of the Petition Date (and in such event, interest shall be paid on the unpaid portion of such Allowed Secured Tax Claims at a rate to be agreed to by the Plan Administrator, Liquidation Debtor and the appropriate Governmental Unit (or, if they are unable to agree, as determined by the Bankruptcy Court).</p> <p>Reservation of Defenses, Objections, Counterclaims and Other Rights. Any defenses, objections, counterclaims, rights, rights of offset or recoupment of the Debtor or the Estate with respect to any Allowed Secured Tax Claim shall vest in and inure to the benefit of the Liquidation Debtor. .</p> <p>Further Assurances. The Holders of the Allowed Secured Tax Claims shall promptly execute and deliver any and all documents and take such other or further actions as are reasonably necessary, appropriate or requested by the Plan Administrator and/or Liquidation</p>

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CLASS NO.	DESCRIPTION	TREATMENT
		Debtor to effectuate the provisions of the Plan.

CLASS NO.	DESCRIPTION	TREATMENT
<u>CLASS 2</u>	<p>Secured Claim of: RCS</p> <p><i>Collateral description</i> = OSTIN PROPERTY</p> <p>Filed Claim Amount= None</p> <p>Scheduled Claim = \$370,000</p> <p>Debtor's Estimate of the Amount of the Claim = \$371,902.17</p> <p>Scheduled Value of Ostin Property = \$875,000</p> <p>Debtor's Estimate of the Fair Market Value of Collateral = \$670,000</p> <p>General Unsecured Claim = \$0</p>	<p>Class 2 consists of the Allowed Secured Claim of RCS, the Holder of the first lien against the Ostin Property. Class 2 is <u>unimpaired</u> under the Plan, and the legal, equitable, and contractual rights of the Holder of the Allowed Class 2 Secured Claim is unaltered by the Plan. Except to the extent that the Holder of the Allowed Class 2 Secured Claim agrees to a less favorable treatment to such Holder, on the Effective Date, the Allowed Class 2 Secured Claim shall be treated as follows:</p> <p>Unimpaired Treatment. The Holder of the Allowed Class 2 Secured Claim shall be treated in a manner such that the Allowed Class 2 Secured Claim shall be rendered unimpaired on the later of the Effective Date and the date on which such Class 2 Secured Claim becomes an Allowed Claim or as soon as reasonably practicable thereafter have its Allowed Class 2 Secured Claim be reinstated in accordance with Bankruptcy Code § 1124, which treatment may include the assumption of such Allowed Class 2 Secured Claim by a purchaser of the Ostin Property, provided, however, that such assumption is permitted under the applicable loan documents.</p> <p>Payment in Full. Upon sale of the Ostin Property, the Holder of the Allowed Class 2 Secured Claim shall receive Cash in an amount equal to such Allowed Class 2 Secured Claim as soon as practical following close of escrow for the sale of the Ostin Property.</p>

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CLASS NO.	DESCRIPTION	TREATMENT
		<p>Retention of Lien Rights. The lien to which the Holder of the Allowed Class 2 Secured Claim is entitled shall remain in place and unaltered by the Plan.</p> <p>Reservation of Defenses, Objections, Counterclaims and Other Rights. Any defenses, objections, counterclaims, rights, rights of offset or recoupment of the Debtor or the Estate with respect to such Claim shall vest in and inure to the benefit of the Liquidation Debtor.</p> <p>Further Assurances. The Holder of the Allowed Class 2 Secured Claim shall promptly execute and deliver any and all documents and take such other or further actions as are reasonably necessary, appropriate or requested by the Plan Administrator and/or Liquidation Debtor to effectuate the provisions of the Plan.</p>

The Ostin Property is an REO, now owned by the Debtor. The Ostin Property is residential real estate, located on the Westside of Valley Circle Boulevard in Woodland Hills, California. RCS hold a first deed of trust against the Ostin Property, securing the RCS Loan, which has an unpaid principal balance of approximately \$371,902.17. The property taxes are current. The Debtor acquired title to the Ostin Property by foreclosing on its junior lien. Although the Debtor is not the borrower under the RCS Loan, the Debtor continues to service the RCS Loan since acquiring its interest in foreclosure.

The Ostin Property currently generates no income and is vacant. The prior owners left the property in such a state of disrepair that it would not be in the interest of public safety for it to be lease at this time, without a substantial expenditure of funds by the Debtor. The expenses (excluding utilities) consists of, among other expenses, the monthly debt service to RCS in the approximate amount of \$3,728.96, insurance of \$236.83 per month and pool service of

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approximately \$90 per month. Under the Plan, the Debtor intends to continue to service the debt and expenses until sale of the Ostin Property.

The Debtor scheduled its interest in the Ostin Property in Schedule A as having a value of approximately \$875,000. The Debtor initially estimated the value based on a 2005 appraisal for \$1,050,000, and the current market value in the area. The area in the San Fernando where the Ostin Property is located is a desirable area, with comparables in the areas selling for as much as \$800,000 to \$900,000. Unfortunately, the Ostin Property has considerable deferred maintenance. The former owners left the house with a number of safety issues, such as missing staircase banisters. In addition, the former owners, who the Debtor evicted after foreclosure, have removed a number of kitchen and bathroom appliances.

The Ostin Property is currently listed for sale with Keller Williams Estate Properties, Calabasas. The Debtor has recently received an offer for approximately \$670,000. The Debtor is hopeful that a sale will be closed prior to the Effective Date.

CLASS NO.	DESCRIPTION	TREATMENT
<u>CLASS 3</u>	OTHER SECURED CLAIMS, INCLUDING AGAINST ANY REO'S (EXCLUDING THE SECURED CLAIM IN CLASS 1 AND 2). <i>Collateral description</i> = None <i>Filed Claim Amount</i> = N/A <i>Scheduled Claim</i> = N/A <i>Debtor's Estimate of the Amount of the Claim</i> = N/A <i>General Unsecured Claim</i> = N/A	Class 3 consists of all Other Secured Claims against any of the Assets, excluding those set forth in Classes 1 and 2. Each such Allowed Secured Claim shall be deemed and treated as a separate sub-class of Class 3 (e.g. Class 3A, 3B, 3C etc.). Class 3 is unimpaired under the Plan. Unless the Holder of an Allowed Class 3 Claim in a particular Class 3 subclass agrees to other treatment, on or as reasonably practical after the Effective Date, such Holder shall receive, at the Liquidation Debtor's option: Alternative 1: Cash in the Allowed amount of such Holder's Allowed Class 3 Secured Claim; Alternative 2: The return of the collateral securing such Allowed Class 3 Secured