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8

9 **UNITED STATES BANKRUPTCY COURT**
10 **CENTRAL DISTRICT OF CALIFORNIA**
11 **SANTA ANA DIVISION**

12 In re

13 **PEOPLE'S CHOICE HOME LOAN,**
14 **INC., et al.,¹**

15 Debtors.

16 Fed. Tax I.D. No.: 94-3348277
17
18
19

Case No.: 8:07-10765-RK
Chapter 11

(Jointly Administered with Case Nos.
8:07-10767-RK and 8:07-10772-RK)

**DISCLOSURE STATEMENT FOR
COMMITTEE'S FIRST AMENDED
LIQUIDATING PLAN UNDER
CHAPTER 11 OF THE BANKRUPTCY
CODE DATED MAY 28, 2008**

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27 ¹ The Debtors are People's Choice Home Loan, Inc., a Wyoming corporation, Fed. Tax I.D. No.: 94-3348277; People's
28 Choice Funding, Inc., a Delaware corporation, Fed. Tax I.D. No.: 20-1156865; and People's Choice Financial
Corporation, a Maryland corporation, Fed. Tax I.D. No.: 20-1157100.



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IMPORTANT DATES

- 6 Date by which Ballots must be received: **July 2, 2008, at 5:00 p.m. (Pacific Time).**
 - 7 Date by which objections to Confirmation of the Plan must be filed and served: **July 3, 2008,**
 - 8 **at 5:00 p.m. (Pacific Time).**
 - 9 Hearing on Confirmation of the Plan: **July 23 - 25, 2008, at 9:00 a.m. (Pacific Time).**
-

10 **11 U.S.C. § 1125(b) PROHIBITS SOLICITATION OF AN ACCEPTANCE OR**

11 **REJECTION OF THE PLAN UNLESS A COPY OF THE PLAN, OR A SUMMARY**

12 **THEREOF, IS ACCOMPANIED OR PRECEDED BY A COPY OF A DISCLOSURE**

13 **STATEMENT APPROVED BY THE BANKRUPTCY COURT. THIS PROPOSED**

14 **DISCLOSURE STATEMENT HAS NOT YET BEEN APPROVED BY THE BANKRUPTCY**

15 **COURT, AND, THEREFORE, THE FILING AND DISSEMINATION OF THIS PROPOSED**

16 **DISCLOSURE STATEMENT IS NOT INTENDED TO BE, NOR SHOULD IT BE**

17 **CONSTRUED AS, AN AUTHORIZED SOLICITATION PURSUANT TO 11 U.S.C. § 1125**

18 **AND RULE 3017 OF THE FEDERAL RULES OF BANKRUPTCY PROCEDURE. NO**

19 **SUCH SOLICITATION WILL BE MADE EXCEPT AS AUTHORIZED PURSUANT TO**

20 **SUCH LAW AND RULES.**

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Dated: June 5, 2008

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| 19 | I.R.C. § 858 | 39, 100 |
| 20 | I.R.C. § 860E | 100, 128 |
| 21 | I.R.C. § 4981 | 39, 100 |
| 22 | The IRS, in Revenue Procedure 94-45, 1994-2 C.B. 684 | 130 |
| 23 | Treasury Regulation § 301.7701-4(d) | 91 |
| 24 | Fla. Stat. § 501.201 | 52 |
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| 27 | | |
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5 OTHER AUTHORITIES

6 5 Collier on Bankruptcy ¶ 1100.06 at 1100 33 (15th ed. 1984) 57

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8 Cal. Civ. Code § 3439.04(a)(1)..... 65

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1 **ARTICLE I.**

2 **INTRODUCTION**

3 The Official Committee of Unsecured Creditors (the “Committee”) of People’s Choice Home
4 Loan, Inc. (“PCHLI”), a Wyoming corporation, People’s Choice Funding, Inc. (“Funding”), a
5 Delaware Corporation, and People’s Choice Financial Corporation (“PCFC”), a Maryland
6 Corporation, the above-captioned debtors and debtors in possession (the “Debtors”), submit this
7 Disclosure Statement for Committee’s First Amended Liquidating Plan under Chapter 11 of the
8 Bankruptcy Code Dated May 28, 2008 (the “Disclosure Statement”) in connection with the
9 solicitation of acceptances and rejections with respect to the Committee’s First Amended
10 Liquidating Plan under Chapter 11 of the Bankruptcy Code Dated May 28, 2008 (as may be
11 supplemented, modified or amended, the “Plan”). A copy of the Plan is attached as Exhibit “A” to
12 this Disclosure Statement. Capitalized terms used and not otherwise defined herein will have the
13 same meanings as ascribed to them in the Plan.

14 The purpose of this Disclosure Statement is to set forth information (a) regarding the history
15 of the Debtors, their business, and their chapter 11 cases (the “Cases”), (b) concerning the Plan and
16 alternatives to the Plan, (c) advising the Creditors and Interest Holders of their rights under the Plan,
17 (d) assisting Creditors who are entitled to vote on the Plan in making an informed judgment
18 regarding whether they should vote to accept or reject the Plan, and (e) assisting the Bankruptcy
19 Court in determining whether the Plan complies with the provisions of chapter 11 of the Bankruptcy
20 Code and should be confirmed.

21 By Order dated May 2, 2008 (the “Disclosure Statement Order”), the Bankruptcy
22 Court, after notice and a hearing, approved this Disclosure Statement as containing “adequate
23 information” to permit affected Creditors and Interest Holders to make an informed judgment in
24 exercising their rights to vote to accept or reject the Plan and authorized its use in connection with
25 the solicitation of votes with respect to the Plan. **THE BANKRUPTCY COURT’S APPROVAL
26 OF THIS DISCLOSURE STATEMENT DOES NOT MEAN THAT THE BANKRUPTCY
27 COURT RECOMMENDS EITHER ACCEPTANCE OR REJECTION OF THE PLAN.**

28 No solicitation of votes may be made except pursuant to this Disclosure Statement and section 1125

1 of the Bankruptcy Code. In voting on the Plan, Creditors and Interest Holders should not rely on any
2 information relating to the Debtors, other than that contained in this Disclosure Statement, the Plan,
3 and all exhibits to either.

4 The Plan that is described in this Disclosure Statement is a liquidating plan. The Plan
5 provides that on the Effective Date of the Plan, each of the Debtors will transfer all of its Assets to a
6 Liquidating Trust (other than specified amounts retained by Reorganized PCFC), including but not
7 limited to cash proceeds from the previous sale of each Debtor's Assets, Causes of Action, and all
8 remaining Assets that have not previously been sold or abandoned by the Debtor. Prior to the
9 Effective Date, the Debtors liquidated substantially all of their Assets and after the Effective Date of
10 the Plan the Liquidating Trusts will liquidate (including prosecuting or otherwise resolving any
11 Causes of Action), abandon or dispose of, as appropriate, any remaining Assets that were not
12 liquidated or abandoned prior to the Effective Date.

13 The Plan divides Claims and Interests into Classes based on their respective legal priority and
14 provides that the cash holdings of each Liquidating Trust resulting from the liquidation of its assets
15 (including any amounts recovered from the prosecution of the Causes of Action), less amounts
16 necessary to pay its expenses, will be used to satisfy, to the extent possible, Allowed Claims or
17 Allowed Interests held by Creditors or Holders of Interests of that Liquidating Trust, according to
18 their priority. The Interest Holders in the Debtors are not expected to receive or retain anything on
19 account of their Interests in the Debtors.

20 Only Holders of Claims Allowed under section 502 of the Bankruptcy Code, or temporarily
21 allowed for voting purposes under Bankruptcy Rule 3018, whose Claims are in those Classes of
22 Claims that are Impaired under the Plan are entitled to vote to accept or reject the Plan. A Class is
23 Impaired if the legal, equitable, or contractual rights of the Claims or Interests in the Class are
24 altered. Classes of Impaired Claims or Interests that are not entitled to receive or retain any property
25 under the Plan, however, are deemed to have rejected the Plan pursuant to section 1126(g) of the
26 Bankruptcy Code and, therefore, are not entitled to vote on the Plan. Classes of Claims that are
27 Unimpaired (i.e., those Classes whose legal, equitable, or contractual rights are not altered) are
28 conclusively presumed to have voted to accept the Plan pursuant to section 1126(f) of the

1 Bankruptcy Code and, therefore, are not entitled to vote on the Plan. The following chart
 2 summarizes which Classes of Claims and Interests are Impaired and which Classes of Claims are
 3 Unimpaired under the Plan.

| <u>CLASS DESCRIPTION</u> | <u>DESCRIPTION OF CLAIMS OR INTERESTS IN CLASS</u> | <u>IMPAIRED/ UNIMPAIRED</u> | <u>VOTING STATUS</u> |
|---|--|-----------------------------|------------------------------|
| Class 1A Secured Claims against PCHLI | All claims to the extent secured by a lien on PCHLI's interest in Collateral | Unimpaired | Deemed to Accept Plan |
| Class 1B Secured Claims against Funding | All claims to the extent secured by a lien on Funding's interest in Collateral | Unimpaired | Deemed to Accept Plan |
| Class 1C Secured Claims against PCFC | All claims to the extent secured by a lien on PCFC's interest in Collateral | Unimpaired | Deemed to Accept Plan |
| Class 2A Priority Non-Tax Claims against PCHLI | All Claims against PCHLI entitled to priority under section 507(a)(3), (4), (5), (6) or (7) of the Bankruptcy Code | Unimpaired | Deemed to Accept Plan |
| Class 2B Priority Non-Tax Claims against Funding | All Claims against Funding entitled to priority under section 507(a)(3), (4), (5), (6) or (7) of the Bankruptcy Code | Unimpaired | Deemed to Accept Plan |
| Class 2C Priority Non-Tax Claim against PCFC | All Claims against PCFC entitled to priority under section 507(a)(3), (4), (5), (6) or (7) of the Bankruptcy Code | Unimpaired | Deemed to Accept Plan |
| Class 3A WARN Act Claims against PCHLI | Claims against PCHLI based on alleged violations of the WARN Act | Impaired | Entitled to Vote on the Plan |

| | | | | |
|----|------------------------|---|----------|------------------------------|
| 1 | Class 3B | Claims against Funding based on alleged violations of the WARN Act | Impaired | Entitled to Vote on the Plan |
| 2 | WARN Act | | | |
| 3 | Claims against Funding | | | |
| 4 | Class 3C | Claims against PCFC based on alleged violations of the WARN Act | Impaired | Entitled to Vote on the Plan |
| 5 | WARN Act | | | |
| 6 | Claims against PCFC | | | |
| 7 | Class 4A | All Claims against PCHLI that are not Secured Claims, Administrative Claims, Priority Tax Claims, Priority Non-Tax Claims or Claims or Interests in another Class herein | Impaired | Entitled to Vote on the Plan |
| 8 | General | | | |
| 9 | Unsecured | | | |
| 10 | Claims against PCHLI | | | |
| 11 | Class 4B | All Claims against Funding that are not Secured Claims, Administrative Claims, Priority Tax Claims, Priority Non-Tax Claims or Claims or Interests in another Class herein | Impaired | Entitled to Vote on the Plan |
| 12 | General | | | |
| 13 | Unsecured | | | |
| 14 | Claims against Funding | | | |
| 15 | Class 4C | All Claims against PCFC that are not Secured Claims, Administrative Claims, Priority Tax Claims, Priority Non-Tax Claims or Claims or Interests in another Class herein | Impaired | Entitled to Vote on the Plan |
| 16 | General | | | |
| 17 | Unsecured | | | |
| 18 | Claims against PCFC | | | |
| 19 | Class 5A | All Intercompany Non-Administrative Claims against PCHLI shall be treated in accordance with the Intercompany Settlement. All Holders of Intercompany Non-Administrative Claims shall not receive a distribution. | Impaired | Deemed to Reject the Plan |
| 20 | Intercompany | | | |
| 21 | Non-Administrative | | | |
| 22 | Claims against PCHLI | | | |
| 23 | | | | |
| 24 | | | | |
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| 28 | | | | |

| | | | | |
|----|----------------|--|----------|--------------|
| 1 | Class 5B | All Intercompany Non-Administrative Claims against | Impaired | PCHLI Is |
| 2 | Intercompany | Funding shall be treated in | | Entitled to |
| 3 | Non- | accordance with the | | Vote on the |
| 4 | Administrative | Intercompany Settlement. | | Plan and All |
| 5 | Claims against | Under the settlement, PCHLI | | Others |
| 6 | Funding | will hold a Claim in the amount | | Deemed to |
| 7 | | of \$18,844,703.54 that will be | | Reject the |
| 8 | | treated the same as Class 4B | | Plan |
| 9 | | Claims and all other Holders of | | |
| 10 | | Intercompany Non- | | |
| 11 | | Administrative Claims against | | |
| 12 | | Funding shall not receive a | | |
| 13 | | distribution. | | |
| 14 | Class 5C | All Intercompany Non- | Impaired | Deemed to |
| 15 | Intercompany | Administrative Claims against | | Reject the |
| 16 | Non- | PCFC shall be treated in | | Plan |
| 17 | Administrative | accordance with the | | |
| 18 | Claims against | Intercompany Settlement. All | | |
| 19 | PCFC | Holders of Intercompany Non- | | |
| 20 | | Administrative Claims against | | |
| 21 | | PCFC shall not receive a | | |
| 22 | | distribution. | | |
| 23 | Class 6A | All existing Interests in PCHLI | Impaired | Deemed to |
| 24 | Interests in | shall be cancelled on the | | Rejected the |
| 25 | PCHLI | Effective Date. | | Plan |
| 26 | Class 6B | All existing Interests in Funding | Impaired | Deemed to |
| 27 | Interests in | shall be cancelled on the | | Reject the |
| 28 | Funding | Effective Date. | | Plan |
| 29 | Class 6C | All existing Interests in PCFC | Impaired | Deemed to |
| 30 | Interests in | shall be cancelled on the | | Reject the |
| 31 | PCFC | Effective Date. | | Plan |

If you are a Holder of a Claim in Classes 3A-3C, 4A-4C, or PCHLI's Claim in Class 5B, accompanying this Disclosure Statement is a Ballot for casting your vote(s) on the Plan and a pre-addressed envelope for the return of the Ballot. **BALLOTS FOR ACCEPTANCE OR REJECTION OF THE PLAN ARE BEING PROVIDED ONLY TO HOLDERS OF CLAIMS AND INTERESTS IN CLASSES LISTED IN THE ABOVE CHART THAT ARE ENTITLED TO VOTE TO ACCEPT OR REJECT THE PLAN.** If you are the holder of a Claim in one or more of the said

1 Classes and (a) did not receive a Ballot, (b) received a damaged or illegible Ballot, or (c) lost your
2 Ballot, or if you are a party in interest and have any questions concerning the Disclosure Statement,
3 any of the Exhibits hereto, the Plan, or the voting procedures in respect thereof, please contact
4 (y) People's Choice Balloting Processing c/o XRoads Case Management Services, PO Box 8901,
5 Marina Del Rey, CA 90295, Telephone: (888) 781-6224 or (z) Winston & Strawn LLP, Attn: David
6 L. Wilson, 333 South Grand Avenue, 38th Floor, Los Angeles, California 90071; Telephone:
7 (213) 615-1700; E-mail: dwilson@winston.com.

8 THE COMMITTEE, AS PROPONENT OF THE PLAN, RECOMMENDS THAT THE
9 HOLDERS OF CLAIMS ENTITLED TO VOTE SUBMIT A BALLOT TO ACCEPT THE PLAN.

10 VOTING ON THE PLAN BY EACH HOLDER OF A CLAIM ENTITLED TO VOTE IS
11 IMPORTANT. EACH SUCH CREDITOR SHOULD READ THIS DISCLOSURE STATEMENT
12 WITH ITS EXHIBITS, INCLUDING THE PLAN, WHICH IS EXHIBIT "A" HERETO, IN ITS
13 ENTIRETY. AFTER CAREFULLY REVIEWING THESE DOCUMENTS, PLEASE FOLLOW
14 THE DIRECTIONS FOR VOTING CONTAINED ON THE BALLOT, AND RETURN THE
15 BALLOT IN THE ENVELOPE PROVIDED. TO BE COUNTED, YOUR BALLOT MUST BE
16 RECEIVED BY **JULY 2, 2008, AT 5:00 P.M.** (PACIFIC TIME) (THE "BALLOTING
17 DEADLINE") AT THE ADDRESS SET FORTH ON THE PRE-ADDRESSED ENVELOPE
18 ENCLOSED WITH YOUR BALLOT.

19 Votes cannot be transmitted orally or by facsimile or e-mail. Accordingly, you are urged to
20 return your signed and completed Ballot promptly. Ballots not received by the Balloting Deadline
21 and unsigned Ballots will not be counted. Any executed Ballots that are timely received, but which
22 do not indicate either an acceptance or rejection of the Plan, will be deemed to constitute an
23 acceptance of the Plan.

24 The Bankruptcy Court has scheduled a hearing on confirmation of the Plan for **July 23 - 25,**
25 **2008 at 9:00 a.m.** (Pacific Time) at the United States Bankruptcy Court for the Central District of
26 California, Santa Ana Division, Courtroom 5D, 411 West Fourth Street, Santa Ana, California
27 92701-4593. Any objections to confirmation of the Plan must be in writing and filed with the
28 Bankruptcy Court, and served so as to be received by 5:00 p.m. (Pacific Time) on **July 3, 2008,**

1 upon the following: (1) counsel to the Debtors, Pachulski Stang Ziehl & Jones LLP, 10100 Santa
2 Monica Boulevard, 11th Floor, Los Angeles, California 90067, Attn: Jeffrey Dulberg; (2) Office of
3 the United States Trustee, Ronald Reagan Federal Building & United States Courthouse, 411 W.
4 Fourth Street, Suite 9041, Santa Ana, California 92701, Attn: Nancy Goldberg, Esq., and (3) counsel
5 to the Official Committee of Unsecured Creditors (the "Committee"), Winston & Strawn LLP,
6 333 South Grand Avenue, Los Angeles, California 90071-1543, Attn: Eric Sagerman, Esq. and
7 Justin E. Rawlins, Esq.

8 **ARTICLE II.**

9 **DISCLAIMER**

10 **THIS DISCLOSURE STATEMENT CONTAINS INFORMATION THAT MAY**
11 **BEAR UPON YOUR DECISION TO ACCEPT OR REJECT THE PLAN. PLEASE READ**
12 **THIS DOCUMENT WITH CARE. THE PURPOSE OF THE DISCLOSURE STATEMENT**
13 **IS TO PROVIDE "ADEQUATE INFORMATION" OF A KIND, AND IN SUFFICIENT**
14 **DETAIL, AS FAR AS IS REASONABLY PRACTICABLE IN LIGHT OF THE NATURE**
15 **AND HISTORY OF THE DEBTORS AND THE CONDITION OF THE DEBTORS' BOOKS**
16 **AND RECORDS, THAT WOULD ENABLE A HYPOTHETICAL REASONABLE**
17 **INVESTOR, TYPICAL OF HOLDERS OF CLAIMS OR INTERESTS OF THE RELEVANT**
18 **CLASS, TO MAKE AN INFORMED JUDGMENT CONCERNING THE PLAN. SEE**
19 **11 U.S.C. § 1125(a). UNLESS OTHERWISE INDICATED, THE DATE OF ALL OF THE**
20 **FINANCIAL INFORMATION PROVIDED IN THIS DISCLOSURE STATEMENT IS AS**
21 **OF APRIL 21, 2008.**

22 **FOR THE CONVENIENCE OF CREDITORS AND INTEREST HOLDERS, THIS**
23 **DISCLOSURE STATEMENT SUMMARIZES THE TERMS OF THE PLAN, BUT THE**
24 **PLAN ITSELF QUALIFIES ANY SUMMARY. IF ANY INCONSISTENCY EXISTS**
25 **BETWEEN THE PLAN AND THE DISCLOSURE STATEMENT, THE TERMS OF THE**
26 **PLAN ARE CONTROLLING.**

27 **NO REPRESENTATIONS CONCERNING THE DEBTORS, THEIR FINANCIAL**
28 **CONDITION, OR ANY ASPECT OF THE PLAN ARE AUTHORIZED OTHER THAN AS**

1 SET FORTH IN THIS DISCLOSURE STATEMENT. ANY REPRESENTATIONS OR
2 INDUCEMENTS MADE TO SECURE YOUR ACCEPTANCE OR REJECTION OF THE
3 PLAN, WHICH ARE OTHER THAN AS CONTAINED IN OR INCLUDED WITH THIS
4 DISCLOSURE STATEMENT, SHOULD NOT BE RELIED UPON BY YOU IN ARRIVING
5 AT YOUR DECISION.

6 THE FINANCIAL INFORMATION CONTAINED HEREIN, UNLESS OTHERWISE
7 INDICATED, IS UNAUDITED. THE COMMITTEE IS UNABLE TO WARRANT OR
8 REPRESENT THAT THE INFORMATION CONTAINED HEREIN IS WITHOUT
9 INACCURACIES. GREAT EFFORT, HOWEVER, HAS BEEN MADE TO ENSURE THAT
10 ALL SUCH INFORMATION IS PRESENTED FAIRLY. IN PARTICULAR, THE
11 COMMITTEE HAS RELIED ON CERTAIN STATEMENTS, REPRESENTATIONS AND
12 INFORMATION PROVIDED BY THE DEBTORS AND THE DEBTORS'
13 PROFESSIONALS BECAUSE THE COMMITTEE DOES NOT CONTROL OR HAVE
14 POSSESSION OF ALL DOCUMENTS AND MATERIALS OF THE DEBTORS OR
15 HISTORICAL KNOWLEDGE CONCERNING THE DEBTORS AND THEIR AFFAIRS.
16 THE INFORMATION CONTAINED IN THIS DISCLOSURE STATEMENT IS INCLUDED
17 HEREIN SOLELY PURPOSES OF SOLICITING ACCEPTANCES OF THE
18 COMMITTEE'S PLAN AND MAY NOT BE RELIED UPON FOR ANY PURPOSE OTHER
19 THAN TO DETERMINE HOW TO VOTE ON THE PLAN.

20 PACHULSKI STANG ZIEHL & JONES LLP, ("PSZJ") COMMENCED
21 REPRESENTING THE DEBTORS IN FEBRUARY 2007 AS INSOLVENCY COUNSEL.
22 WINSTON & STRAWN LLP ("W&S") COMMENCED REPRESENTING THE
23 COMMITTEE IN MARCH 2007 AS COMMITTEE COUNSEL. PSZJ, W&S, AND THE
24 PROFESSIONALS WHO HAVE ASSISTED IN PREPARATION OF THIS DISCLOSURE
25 STATEMENT HAVE RELIED UPON INFORMATION PROVIDED BY THE DEBTORS'
26 MANAGEMENT, EMPLOYEES AND OTHER PROFESSIONALS IN CONNECTION
27 WITH PREPARATION OF THIS DISCLOSURE STATEMENT. ALTHOUGH PSZJ, W&S
28 AND THE OTHER PROFESSIONALS WHO HAVE ASSISTED IN PREPARATION OF

1 THIS DISCLOSURE STATEMENT HAVE PERFORMED CERTAIN LIMITED DUE
2 DILIGENCE IN CONNECTION WITH THE PREPARATION OF THIS DISCLOSURE
3 STATEMENT, THEY HAVE NOT, EITHER INDEPENDENTLY OR COLLECTIVELY,
4 VERIFIED ALL OF THE INFORMATION CONTAINED HEREIN.

5 ALTHOUGH A COPY OF THE DISCLOSURE STATEMENT HAS BEEN SERVED
6 ON THE SECURITIES AND EXCHANGE COMMISSION ("SEC") AND THE SEC HAS
7 BEEN GIVEN AN OPPORTUNITY TO OBJECT TO THE ADEQUACY OF THE
8 DISCLOSURE STATEMENT, THIS DISCLOSURE STATEMENT HAS NOT BEEN
9 REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE
10 "SECURITIES ACT"), OR APPLICABLE STATE SECURITIES LAWS. NEITHER THE
11 SEC NOR ANY STATE REGULATORY AUTHORITY HAS PASSED UPON THE
12 ACCURACY OR ADEQUACY OF THIS DISCLOSURE STATEMENT, THE EXHIBITS
13 HERETO, OR THE STATEMENTS CONTAINED HEREIN.

14 THE CONTENTS OF THIS DISCLOSURE STATEMENT SHOULD NOT BE
15 CONSTRUED AS LEGAL, BUSINESS, OR TAX ADVICE. TO ENSURE COMPLIANCE
16 WITH REQUIREMENTS IMPOSED BY THE INTERNAL REVENUE SERVICE, WE
17 INFORM YOU THAT (A) ANY UNITED STATES FEDERAL TAX ADVICE CONTAINED
18 HEREIN WAS NOT INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED,
19 FOR THE PURPOSE OF AVOIDING UNITED STATES FEDERAL TAX PENALTIES,
20 (B) ANY SUCH ADVICE WAS WRITTEN TO SUPPORT THE PROMOTION OR
21 MARKETING OF THE TRANSACTION OR MATTER ADDRESSED HEREIN AND
22 (C) ALL CREDITORS AND/OR INTEREST HOLDERS SHOULD SEEK ADVISE BASED
23 ON THEIR PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX
24 ADVISOR. THERE IS NO LIMITATION IMPOSED ON ANYONE READING THIS
25 DISCLOSURE STATEMENT ON DISCLOSURE OF THE TAX TREATMENT OR TAX
26 STRUCTURE OF ANY TRANSACTION. NOTHING IN THIS DISCLOSURE
27 STATEMENT MAY BE USED OR REFERRED TO IN PROMOTING, MARKETING OR
28 RECOMMENDING A PARTNERSHIP OR OTHER ENTITY, INVESTMENT PLAN, OR

1 ARRANGEMENT TO ANY PERSON. ALL CREDITORS AND/OR INTEREST HOLDERS
2 SHOULD CONSULT THEIR OWN LEGAL COUNSEL AND/OR ACCOUNTANT(S) AS TO
3 LEGAL, TAX, AND OTHER MATTERS CONCERNING THEIR CLAIMS OR
4 INTERESTS.

5 THE UTILIZATION OF THE LIQUIDATING TRUSTS AND THE PAYMENT OF
6 THE PROPOSED DIVIDEND WITH RESPECT TO THE NEW COMMON STOCK, AS
7 PROVIDED FOR IN THIS PLAN, MAY RESULT IN ADVERSE TAX CONSEQUENCES
8 TO CREDITORS. IN PARTICULAR, THE RECEIPT OF AN INTEREST IN ONE OR
9 MORE LIQUIDATING TRUSTS BY A CREDITOR WILL RESULT IN AN IMMEDIATE
10 GAIN OR LOSS RECOGNITION EVENT FOR TAX PURPOSES AS OF THE EFFECTIVE
11 DATE OF THE PLAN. EACH CREDITOR IS ADVISED TO OBTAIN INDEPENDENT
12 TAX ADVICE PRIOR TO VOTING ON THIS PLAN.

13 ARTICLE III.

14 OVERVIEW OF THE CHAPTER 11 PROCESS AND THE PLAN

15 A. The Chapter 11 Process

16 Chapter 11 of the Bankruptcy Code contains numerous provisions, the general effect of
17 which is to provide debtors with “breathing space” within which to propose a plan to address their
18 obligations to third parties. The filing of a chapter 11 bankruptcy petition creates a bankruptcy
19 “estate” comprising all of the property interests of the debtor. Unless a trustee is appointed by the
20 Bankruptcy Court (no trustee has been appointed in these Cases), a debtor remains in possession and
21 control of all its assets as a “debtor in possession.” The debtor may continue to operate its business
22 in the ordinary course on a day-to-day basis without Bankruptcy Court approval. Bankruptcy Court
23 approval is only required for various enumerated kinds of transactions (such as certain financing
24 transactions) and transactions out of the ordinary course of a debtor’s business (such as the sale of
25 the Debtors’ assets). The filing of the bankruptcy petition gives rise to what is known as the
26 “automatic stay” that, generally, enjoins creditors from taking any action to collect or recover
27 obligations owed by a debtor prior to the commencement of a chapter 11 case. The Bankruptcy
28

1 Court can, however, grant relief from the automatic stay under certain specified conditions or for
2 cause.

3 A chapter 11 plan may provide for the reorganization of the debtors or, as the Committee's
4 Plan contemplates, the orderly liquidation and administration of the assets of the debtors' estates.
5 A plan provides, among other things, for the treatment of the allowed claims against and allowed
6 equity interests in the debtors.

7 A plan may be either consensual or non-consensual. It is consensual if all impaired classes
8 vote to accept the plan and non-consensual if even one of those classed votes to reject the plan.
9 A non-consensual plan nevertheless may be confirmed by the Bankruptcy Court and the Bankruptcy
10 Court may refuse to confirm a consensual plan under certain circumstances as further discussed
11 below in Article XIII.B.

12 **B. Overview of the Committee's Proposed Plan**

13 The following is a brief overview of the material provisions of the Plan and is qualified in its
14 entirety by reference to the full text of the Plan. For a more detailed description of the terms and
15 provisions of the Plan, see Article VIII below, entitled "The Plan of Liquidation."

16 Under the terms of the Plan, three Liquidating Trusts, the PCHLI Liquidating Trust, the
17 Funding Liquidating Trust and the PCFC Liquidating Trust, will be established for the benefit of
18 Holders of Allowed Claims against and, to the extent that all Allowed Claims are paid in full with
19 interest, the Allowed Interests in PCHLI, Funding and PCFC, respectively. The Plan's objective is
20 to ultimately transfer all Assets of each Debtor, including but not limited to all Causes of Action, to
21 the respective Liquidating Trust. Ronald F. Greenspan of FTI Consulting, Inc. is proposed to serve
22 as the Liquidating Trustee for each Liquidating Trust, and will serve at his customary hourly rates
23 and subject to other typical market terms. A form of Liquidating Trust Agreement substantially in
24 final form and a proposed engagement letter for the Liquidating Trustee will be included in the Plan
25 Supplement, which shall be filed with the Court and served upon parties entitled to receive service at
26 least ten (10) days prior to the Balloting Deadline. A draft of the Liquidating Trust Agreement,
27 which is subject to revision, is attached hereto as **Exhibit "B."** Mr. Greenspan is proposed by the
28 Committee. FTI Consulting, Inc. is currently serving as financial advisor to the Committee. The

1 Liquidating Trustee will act as a liquidator and will liquidate the Debtors' Assets transferred to each
2 of the Liquidating Trusts, including prosecuting or otherwise resolving any Causes of Action,
3 resolving all of the Disputed Claims filed against the respective Debtor, paying Post-Effective Date
4 Expenses and satisfying the Claims that are Allowed against the respective Debtor pursuant to the
5 provisions of the Plan as set forth in the below table and otherwise wind-down these Cases and the
6 Debtors' Estates.

7 The Plan designates a series of Classes of Claims and Interests for each Debtor. These
8 Classes take into account the differing nature and priority under the Bankruptcy Code of the various
9 Claims and Interests.

10 The following table (the "Plan Summary Table") summarizes the classification and treatment
11 of the Claims and Interests under the Plan, as well as an estimate of the percentage range of recovery
12 for Holders of Claims and Interests in each Class. THE TABLE IS INTENDED FOR
13 ILLUSTRATIVE PURPOSES ONLY AND DOES NOT ADDRESS ALL ISSUES REGARDING
14 CLASSIFICATION, TREATMENT, AND ULTIMATE RECOVERIES AND IS NOT A
15 SUBSTITUTE FOR A FULL REVIEW OF THIS DISCLOSURE STATEMENT AND THE PLAN
16 (ATTACHED HERETO AS EXHIBIT "A") IN THEIR ENTIRETY.

17 The Plan Summary Table lists a range of estimated percentages of recovery for each Class.
18 The estimated percentage range of recovery for each Class is based on a good faith estimate of the
19 amounts of the claims that will ultimately be allowed² and the cash that will be available for
20 distributions to Holders of Allowed Claims and Allowed Interests upon the completion of the
21 liquidation of all Assets by the Liquidating Trusts, based on all currently known information. The
22 actual amount of proceeds available for distribution from the liquidation of all of the Debtors' Assets
23 could vary materially from the estimates.³ The estimates of the percentage range of recoveries may

24 _____
25 ² The estimated recoveries to Holders of Allowed Claims could vary materially from the estimates and do not constitute
26 an admission by the Committee, the Debtors or any party as to the validity or amount of any particular Claim or Interest.
27 The Debtors and the Committee, on behalf of themselves and the Liquidating Trustee, reserve the right to dispute the
28 validity or amount of any Claim or Interest that has not already been Allowed by the Bankruptcy Court or by agreement
of the parties.

³ The estimates in the Plan Summary Table exclude any recoveries that may be realized by the Liquidating Trusts from
the prosecution of the Causes of Action to be transferred to the Liquidating Trusts, including the D&O and Shareholder
Claims.

1 be adversely or favorably affected by the aggregate amount of Claims, including Administrative
 2 Claims, Priority Claims, Secured Claims, WARN Act Claims and General Unsecured Claims
 3 ultimately Allowed, the recoveries from litigation pursued by the Liquidating Trusts, and the amount
 4 realized from the liquidation of any other assets and the expenses of the Liquidating Trusts.
 5 Therefore, the actual recoveries also could vary materially from those shown on the Plan Summary
 6 Table.

7 For all of the reasons stated above, no representation can be, or is being, made with respect to
 8 whether the estimated percentage range of recoveries shown on the table below actually will be
 9 realized by the holder of an Allowed Claim or Allowed Interest in any particular Class. THERE IS
 10 NO GUARANTEED RECOVERY AND THERE ARE NO GUARANTEED AMOUNTS OF
 11 RECOVERY FOR ANY HOLDER OF A CLAIM OR INTEREST.

12 In addition, the Plan provides for the establishment of the Disputed Claims Reserve with
 13 respect to Disputed Claims. Interim distributions on the Allowed Claims will be made with
 14 appropriate amounts being held in the reserve to cover the Disputed Claims. As a result, the process
 15 of distributing all of the Cash to be distributed to Holders of Allowed Claims under the Plan will be
 16 completed over time.

17 **SUMMARY OF CLAIMS AND INTERESTS UNDER THE PLAN**

| 18 CLASS | 19 CLAIM/INTEREST | TREATMENT | ESTIMATED RANGE OF THE AMOUNT OF ALLOWED CLAIMS ⁴ | ESTIMATED PERCENTAGE RECOVERY OF ALLOWED CLAIMS OR INTERESTS |
|----------|--|---|--|--|
| 21 n/a | 22 Administrative Claims against PCHLI, PCFC, and Funding including Administrative Intercompany Claims | 23 Except to the extent that any entity entitled to payment of an Allowed Administrative Claim agrees to a less favorable treatment or unless otherwise ordered by the Court, each Holder of an Allowed Administrative Claim will receive in full satisfaction, discharge, exchange and release thereof, Cash in an amount equal to such Allowed Administrative Claim on the later of (i) the Effective Date, and (ii) the fifteenth (15 th) Business Day after such Administrative | 24 \$2,900,000 to \$3,500,000 | 25 100% |

27 ⁴ The actual face amount of the proofs of Claim as filed were in amounts materially greater than the estimated ranges
 28 included in this table and, subject to the ultimate resolution of the Claims, the actual amount of the Allowed Claims may be materially different (including materially greater) than the ranges presented.

| CLASS | CLAIM/INTEREST | TREATMENT | ESTIMATED RANGE OF THE AMOUNT OF ALLOWED CLAIMS ⁴ | ESTIMATED PERCENTAGE RECOVERY OF ALLOWED CLAIMS OR INTERESTS |
|-------|---|---|--|--|
| | | <p>Claim becomes an Allowed Administrative Claim, or, in either case, as soon thereafter as is practicable.</p> <p>Each Holder of a Professional Fee Claim seeking an award of compensation for services rendered or reimbursement of expenses incurred through and including the Effective Date will (i) file their respective interim (if applicable) and final fee applications by no later than the sixtieth (60th) day after the Effective Date or such other date as may be fixed by the Court or (ii) if granted such an award, be paid Cash in such amounts as are Allowed by the Court on the date such Professional Fee Claim becomes an Allowed Claim, or as soon thereafter as is practicable.</p> | | |
| n/a | Priority Tax Claims against PCHLI, Funding and PCFC | Except to the extent that a Holder of an Allowed Priority Tax Claim has been paid by the Debtors before the Effective Date or agrees to a less favorable treatment, each Holder of an Allowed Priority Tax Claim will receive in full satisfaction, discharge, exchange and release thereof, Cash in an amount equal to such Allowed Priority Tax Claim on the later of (i) the Effective Date or (ii) the fifteenth (15 th) Business Day after such Priority Tax Claim becomes an Allowed Priority Tax Claim, or as soon thereafter as is practicable. . | \$1,300,000 to \$1,800,000 | 100% |
| 1A | Secured Claims against PCHLI | To the extent any Secured Claims exist against PCHLI, each Holder of an Allowed Class 1A Secured Claim shall on the later of (i) the Effective Date, or as soon thereafter as practicable, or (ii) the date such Secured Claim becomes an Allowed Secured Claim pursuant to a Final Order, or as soon thereafter as is practicable, (a) receive the Cash Collateral that secures such Secured Claim in full and complete satisfaction of such Secured Claim, (b) retain a lien or security interests on the Assets securing the Allowed Secured Claim, or (c) receive the indubitable equivalent of such Claim. A Claim is a Secured Claim only to the extent of the value of the Holder's interest in the Debtors' interest in the Collateral securing the Claim or to the extent of the amount subject to recoupment or setoff, as applicable, as determined by the | \$4,100,000 to \$4,700,000 | 100% |

| CLASS | CLAIM/INTEREST | TREATMENT | ESTIMATED RANGE OF THE AMOUNT OF ALLOWED CLAIMS ⁴ | ESTIMATED PERCENTAGE RECOVERY OF ALLOWED CLAIMS OR INTERESTS |
|-------|--------------------------------|--|--|--|
| | | Bankruptcy Court under section 506(a), 553, and/or 1129(b)(2)(A)(i)(II) of the Bankruptcy Code, as applicable. | | |
| 1B | Secured Claims against Funding | To the extent any Secured Claims exist against Funding, each Holder of an Allowed Class 1B Secured Claim shall on the later of (i) the Effective Date, or as soon thereafter as practicable, or (ii) the date such Secured Claim becomes an Allowed Secured Claim pursuant to a Final Order, or as soon thereafter as is practicable, (a) receive the Cash Collateral that secures such Secured Claim in full and complete satisfaction of such Secured Claim, (b) retain a lien or security interests on the Assets securing the Allowed Secured Claim, or (c) receive the indubitable equivalent of such Claim. A Claim is a Secured Claim only to the extent of the value of the Holder's interest in the Debtors' interest in the Collateral securing the Claim or to the extent of the amount subject to recoupment or setoff, as applicable, as determined by the Bankruptcy Court under section 506(a), 553, and/or 1129(b)(2)(A)(i)(II) of the Bankruptcy Code, as applicable. | \$0 | 100% |
| 1C | Secured Claims against PCFC | To the extent any Secured Claims exist against PCFC, each Holder of an Allowed Class 1C Secured Claim shall on the later of (i) the Effective Date, or as soon thereafter as practicable, or (ii) the date such Secured Claim becomes an Allowed Secured Claim pursuant to a Final Order, or as soon thereafter as is practicable, (a) receive the Cash Collateral that secures such Secured Claim in full and complete satisfaction of such Secured Claim, (b) retain a lien or security interests on the Assets securing the Allowed Secured Claim, or (c) receive the indubitable equivalent of such Claim. A Claim is a Secured Claim only to the extent of the value of the Holder's interest in the Debtors' interest in the Collateral securing the Claim or to the extent of the amount subject to recoupment or setoff, as applicable, as determined by the Bankruptcy Court under section 506(a), 553, and/or 1129(b)(2)(A)(i)(II) of the Bankruptcy Code, as applicable. | \$0 | 100% |

| CLASS | CLAIM/INTEREST | TREATMENT | ESTIMATED RANGE OF THE AMOUNT OF ALLOWED CLAIMS ⁴ | ESTIMATED PERCENTAGE RECOVERY OF ALLOWED CLAIMS OR INTERESTS |
|-------|---|---|--|--|
| 2A | Priority Non-Tax Claims against PCHLI | Each Holder of an Allowed Class 2A Priority Non-Tax Claim, unless otherwise mutually agreed upon by the Holder of such Claim and PCHLI, will receive Cash in an amount equal to such Class 2A Allowed Priority Non-Tax Claim on the later of (a) the Effective Date, or as soon as practicable thereafter, or (b) the date such Priority Non-Tax Claim becomes an Allowed Priority Non-Tax Claim pursuant to a Final Order, or as soon thereafter as is practicable. | \$700,000 to \$800,000 | 100% |
| 2B | Priority Non-Tax Claims against Funding | Each Holder of an Allowed Class 2B Priority Non-Tax Claim, unless otherwise mutually agreed upon by the Holder of such Claim and Funding, will receive Cash in an amount equal to such Class 2B Allowed Priority Non-Tax Claim on the later of (a) the Effective Date, or as soon as practicable thereafter, or (b) the date such Priority Non-Tax Claim becomes an Allowed Priority Non-Tax Claim pursuant to a Final Order, or as soon thereafter as is practicable. | \$7,000 to \$9,000 | 100% |
| 2C | Priority Non-Tax Claims against PCFC | Each Holder of an Allowed Class 2C Priority Non-Tax Claim, unless otherwise mutually agreed upon by the Holder of such Claim and PCFC, will receive Cash in an amount equal to such Class 2B Allowed Priority Non-Tax Claim on the later of (a) the Effective Date, or as soon as practicable thereafter, or (b) the date such Priority Non-Tax Claim becomes an Allowed Priority Non-Tax Claim pursuant to a Final Order, or as soon thereafter as is practicable. | \$155,000 to \$175,000 | 100% |
| 3A | WARN Act Claims against PCHLI | To the extent not constituting Administrative Claims or Priority Non-Tax Claims, Allowed WARN Act Claims against PCHLI will be satisfied (i) pursuant to the terms of any settlement agreement between PCHLI or the PCHLI Liquidating Trust and the Holders of the WARN Act Claims that is approved by the Bankruptcy Court or (ii) to the extent they are Allowed WARN Act Claims, as determined by the Final Order of the Bankruptcy Court, in the same manner as all other Claims of the same priority or Class pursuant to the terms of the Plan. | \$0 to \$1,500,000 | 10% to 14% |

| CLASS | CLAIM/INTEREST | TREATMENT | ESTIMATED RANGE OF THE AMOUNT OF ALLOWED CLAIMS ⁴ | ESTIMATED PERCENTAGE RECOVERY OF ALLOWED CLAIMS OR INTERESTS |
|-------|---|---|--|--|
| 3B | WARN Act Claims against Funding | To the extent not constituting Administrative Claims or Priority Non-Tax Claims, Allowed WARN Act Claims against Funding will be satisfied (i) pursuant to the terms of any settlement agreement between Funding or the Funding Liquidating Trust and the Holders of the WARN Act Claims that is approved by the Bankruptcy Court or (ii) to the extent they are Allowed WARN Act Claims, as determined by the Final Order of the Bankruptcy Court, in the same manner as all other Claims of the same priority or Class pursuant to the terms of the Plan. | \$0 | 9% to 13% |
| 3C | WARN Act Claims against PCFC | To the extent not constituting Administrative Claims or Priority Non-Tax Claims, Allowed WARN Act Claims against PCFC will be satisfied (i) pursuant to the terms of any settlement agreement between PCFC or the PCFC Liquidating Trust and the Holders of the WARN Act Claims that is approved by the Bankruptcy Court or (ii) to the extent they are Allowed WARN Act Claims, as determined by the Final Order of the Bankruptcy Court, in the same manner as all other Claims of the same priority or Class pursuant to the terms of the Plan.. | \$0 to \$500,000 | 0% to 1% |
| 4A | General Unsecured Claims against PCHLI, including EPD/Breach Claims and Deficiency Claims | Except to the extent that a Holder of an Allowed Class 4A Claim agrees to a less favorable treatment, each Holder of an Allowed Class 4A Unsecured Claim will receive its <i>Pro Rata</i> share of Available Cash on account of its Liquidating Trust Interest from the PCHLI Liquidating Trust on the Distribution Dates selected in accordance with the below provision, or as soon after such dates as is practicable. The Distribution Dates for the distribution of Available Cash by the PCHLI Liquidating Trust shall be selected by the Liquidating Trustee for the PCHLI Liquidating Trust after consultation with the PCHLI Post-Effective Date Committee. The Distribution Dates for the various Liquidating Trusts may be different dates. No Cash payment shall be made on account of Allowed Class 4A Unsecured Claims by | \$168,500,000 to \$273,800,000 | 10% to 14% ⁵ |

⁵ This estimate does not include potential proceeds of the D&O and Shareholder Claims.

| CLASS | CLAIM/INTEREST | TREATMENT | ESTIMATED RANGE OF THE AMOUNT OF ALLOWED CLAIMS ⁴ | ESTIMATED PERCENTAGE RECOVERY OF ALLOWED CLAIMS OR INTERESTS |
|-------|---|--|--|--|
| | | <p>the PCHLI Liquidating Trust until (i)(aa) all senior Claims against PCHLI have been satisfied or reserved for in full, including but not limited to: Allowed Administrative Claims, including Allowed Professional Fee Claims and U.S. Trustee Fees; Allowed Priority Tax Claims; Allowed Priority Non-Tax Claims; Allowed Secured Claims; and Allowed WARN Act Claims that are determined to be Administrative Claims or Priority Non-Tax Claims or (bb) Cash to pay all the Disputed Claims in any senior Classes or categories has been deposited into the PCHLI Disputed Claims Reserve and (ii) all then existing and outstanding Post-Effective Date Expenses of the PCHLI Liquidating Trust have been paid in full or cash sufficient to satisfy such expenses has been reserved by the Liquidating Trustee.</p> | | |
| 4B | General Unsecured Claims against Funding, including Deficiency Claims | <p>Except to the extent that a Holder of an Allowed Class 4B Claim agrees to a less favorable treatment, each Holder of a Class 4B Allowed Unsecured Claim will receive its <i>Pro Rata</i> share of Available Cash on account of its Liquidating Trust Interest from the Funding Liquidating Trust on the Distribution Dates selected in accordance with the below provision, or as soon after such dates as is practicable. The Distribution Dates for the distribution of Available Cash by the Funding Liquidating Trust shall be selected by the Liquidating Trustee for the Funding Liquidating Trust after consultation with the Funding Post-Effective Date Committee. The Distribution Dates for the various Liquidating Trusts may be different dates. No Cash payment shall be made on account of Allowed Class 4B Unsecured Claims by the Funding Liquidating Trust until (i)(aa) all senior Claims against Funding have been satisfied or reserved for in full, including but not limited to: Allowed Administrative Claims, including Allowed Professional Fee Claims and U.S. Trustee Fees; Allowed Priority Tax Claims; Allowed Priority Non-Tax Claims; Allowed Secured Claims; and</p> | \$54,900,000 to \$87,000,000 | 10% to 14% |

| CLASS | CLAIM/INTEREST | TREATMENT | ESTIMATED RANGE OF THE AMOUNT OF ALLOWED CLAIMS ⁴ | ESTIMATED PERCENTAGE RECOVERY OF ALLOWED CLAIMS OR INTERESTS |
|-------|--|---|--|--|
| | | <p>Allowed WARN Act Claims that are determined to be Administrative Claims or Priority Non-Tax Claims or (bb) Cash to pay all the Disputed Claims in any senior Classes or categories has been deposited into the Funding Disputed Claims Reserve and (ii) all then existing and outstanding Post-Effective Date Expenses of the Funding Liquidating Trust have been paid in full or cash sufficient to satisfy such expenses has been reserved by the Liquidating Trustee.</p> | | |
| 4C | General Unsecured Claims against PCFC, including Deficiency Claims | <p>Except to the extent that a Holder of an Allowed Class 4C Claim agrees to a less favorable treatment, each Holder of an Allowed Class 4C Unsecured Claim will receive its <i>Pro Rata</i> share of Available Cash on account of its Liquidating Trust Interest from the PCFC Liquidating Trust on the Distribution Dates selected in accordance with the below provision, or as soon after such dates as is practicable. The Distribution Dates for the distribution of Available Cash by the PCFC Liquidating Trust shall be selected by the Liquidating Trustee for the PCFC Liquidating Trust after consultation with the PCFC Post-Effective Date Committee. The Distribution Dates for the various Liquidating Trusts may be different dates. No Cash payment shall be made on account of Allowed Class 4C Unsecured Claims by the PCFC Liquidating Trust until (i) the New Common Stock Dividend has been paid to the PCHLI and Funding Liquidating Trusts, (ii) (aa) all senior Claims against PCFC shall have been satisfied or reserved for in full, including but not limited to: Allowed Administrative Claims, including Allowed Professional Fee Claims and U.S. Trustee Fees; Allowed Priority Tax Claims; Allowed Priority Non-Tax Claims; Allowed Secured Claims; and Allowed WARN Act Claims that are determined to be Administrative Claims or Priority Non-Tax Claims or (bb) Cash to pay all the Disputed Claims in any senior Classes or categories has been deposited into the PCFC Disputed Claims Reserve and (iii) all then existing and outstanding Post-Effective Date Expenses</p> | \$53,300,000 to \$87,600,000 | 0%-1% |

| CLASS | CLAIM/INTEREST | TREATMENT | ESTIMATED RANGE OF THE AMOUNT OF ALLOWED CLAIMS ⁴ | ESTIMATED PERCENTAGE RECOVERY OF ALLOWED CLAIMS OR INTERESTS |
|-------|--|---|--|--|
| | | of the PCFC Liquidating Trust have been paid in full or cash sufficient to satisfy such expenses has been reserved by the Liquidating Trustee. | | |
| 5A | Intercompany Non-Administrative Claims against PCHLI | All Intercompany Non-Administrative Claims against PCHLI shall be treated in accordance with the Intercompany Settlement. In effect, all Intercompany Non-Administrative Claims against PCHLI shall receive no distribution. | | 0% |
| 5B | Intercompany Non-Administrative Claims against Funding | All Intercompany Non-Administrative Claims against Funding shall be treated in accordance with the Intercompany Settlement. Under the settlement, PCHLI will hold a Claim in the amount of \$18,844,703.54 that will be treated the same as Class 4B Claims and all other Intercompany Non-Administrative Claims shall receive no distribution. | \$18,844,703.54 | 10% to 14% |
| 5C | Intercompany Non-Administrative Claims against PCFC | All Intercompany Non-Administrative Claims against PCFC shall be treated in accordance with the Intercompany Settlement. In effect, all Intercompany Non-Administrative Claims against PCFC shall receive no distribution. | | 0% |
| 6A | Interests in PCHLI | Class 6A Interests will receive and retain no value under the Plan, and all Class 6A Interests will be cancelled on the Effective Date. | | 0% |
| 6B | Interests in Funding | Class 6B Interests will receive and retain no value under the Plan, and all Class 6B Interests will be cancelled on the Effective Date. | | 0% |
| 6C | Interests in PCFC | Class 6C Interests will receive and retain no value under the Plan, and all Class 6C Interests will be cancelled on the Effective Date. | | 0% |

THE TREATMENT AND DISTRIBUTIONS PROVIDED TO HOLDERS OF ALLOWED CLAIMS AND INTERESTS PURSUANT TO THE PLAN ARE IN FULL AND COMPLETE SATISFACTION OF THE ALLOWED CLAIMS AND INTERESTS ON ACCOUNT OF WHICH SUCH TREATMENT IS GIVEN AND DISTRIBUTIONS ARE MADE.

1 **ARTICLE IV.**

2 **COMPANY HISTORY**

3 **A. Description of the Debtors' Business**

4 1. Corporate Structure

5 PCHLI was originally formed as a C corporation in 1999 by Neil Kornswiet and began
6 originating loans in 2000. PCFC and Funding were formed in May 2004, with Funding being a
7 wholly-owned subsidiary of PCFC. On December 28, 2004, the business was reorganized (the
8 "December 2004 Restructuring") into its current structure to qualify as a real estate investment trust
9 ("REIT"). At that time, PCFC became PCHLI's parent company through a restructuring transaction
10 where PCFC completed a private placement of stock and another wholly-owned subsidiary of PCFC
11 merged with PCHLI, with PCHLI being the surviving entity. PCFC elected REIT status, capitalized
12 Funding with nearly \$300 million in proceeds from the transaction, and directed PCHLI's
13 origination business. PCFC is privately held and has approximately 200 shareholders. PCFC is the
14 parent and sole shareholder of Funding and PCHLI.

15 PCHLI is the parent company of non-debtor People's Choice Home Loan Securities Corp.
16 ("PCHLSC"), a Delaware corporation and special purpose bankruptcy remote entity ("SPE") which
17 served as the depositor for certain real estate mortgage investment conduit ("REMIC")
18 securitizations⁶ and for certain REIT securitizations.⁷

19 Funding is the parent company of non-debtor People's Choice PCFI III, LLC ("PCFI III"), a
20 Delaware limited liability company and also an SPE, which held certain residual interests arising
21 from the REIT securitizations.

22
23 ⁶ A REMIC securitization permits a taxable entity to create mortgage-backed securities in which the trust certificates
24 issued to investors are treated as debt held by the investors. These transactions were effected through PCHLI, a taxable
25 entity, and its SPE subsidiary PCHLSC. The securitization debt was reflected on the consolidated financial statements of
26 PCFC. In addition to certain REMIC income required to be included annually (regardless of whether the REMIC
27 actually made any cash distributions), PCHLSC and PCHLI would also be taxed on any gain realized on a disposition of
28 the REMIC residual interests to the extent sale proceeds exceeded the amount of basis in the residuals.

⁷ A REIT securitization permits a qualified REIT subsidiary that is disregarded as a separate entity from the REIT to
create mortgage-backed securities in a securitization in which the notes issued to investors are treated as debt held by the
investors. These transactions were effected through Funding, a disregarded qualified REIT subsidiary, PCHLSC and
Funding's SPE subsidiary PCFI III. The debt was reflected on the consolidated financial statements of PCFC, but
generally no income would be taxable to PCFC or Funding on account of the transaction.

1 2. Business Operations

2 After the December 2004 Restructuring, PCFC was for all intents and purposes a holding
3 company with few assets or liabilities other than its interest in its subsidiaries. For most periods
4 prior to the Petition Date, PCFC employed personnel who provided certain management,
5 administrative, legal, accounting, asset management and other professional administrative services
6 for the benefit of the overall business of the Debtors. Shortly before the commencement of the
7 Cases, certain employees of PCFC were purportedly transferred to PCHLI.

8 After the December 2004 Restructuring, the significant majority of the Debtors' operations
9 continued to be conducted through PCHLI. PCHLI originated, funded, sold, and serviced loans.
10 Before the separation of employment for certain employees that occurred just prior to the Petition
11 Date, PCHLI had approximately 1,150 employees (some of whom were originally employed by
12 PCFC and purportedly transferred to PCHLI just prior to the Petition Date).

13 Funding's primary function was to implement the REIT securitizations. PCHLI was
14 responsible for originating the mortgage loans that were aggregated for the securitizations and
15 transferred such loans to Funding. Funding had no employees or office space, relying on PCHLI and
16 PCFC employees to accomplish the securitizations and maintain its books and records.

17 3. Loan Originations

18 PCHLI originated loans through wholesale and retail channels. The wholesale lending
19 division, which utilized brokers rather than individual borrowers, accounted for over eighty percent
20 of the total loan originations for the years 2005 and 2006. PCHLI operated its wholesale origination
21 channel through 15 branch offices and its Irvine, California headquarters. The wholesale lending
22 division serviced approximately 12,000 mortgage brokers in more than 44 states by acting as a
23 lender for loans originated by such brokers. The retail lending division worked directly with
24 individual borrowers and accounted for the balance of the loan originations by PCHLI. PCHLI
25 generated retail loans in 41 states through seven branches located in five states.

26 4. Financing Loan Originations

27 In order to finance the origination of loans, PCHLI and Funding entered into multiple
28 warehouse lending arrangements consisting of traditional warehouse facilities and repurchase

1 facilities. Warehouse participants and repurchase parties included Arlington Funding, Bear Stearns,
2 CSFB, Deutsche Bank, CDC/IXIS, Lehman Brothers, RFC, Wachovia, Washington Mutual, and
3 Wells Fargo. The warehouse participants and parties to repurchase facilities are collectively referred
4 to herein as the “Warehouse Participants.”

5 The Warehouse Participants financed the origination of mortgage loans and the originated
6 loans served as collateral along with a “haircut” (i.e., funds advanced by the Debtors). If the value
7 of the loans declined, the Warehouse Participants were generally entitled to mark-to-market the
8 value of the loans funded by the underlying warehouse arrangement, make margin calls and demand
9 additional security to cover a deficiency in the collateral supporting the financial accommodations.
10 The rights and remedies of each Warehouse Participant are defined by the applicable agreements and
11 nothing herein shall be deemed to be an admission or position with respect thereto.

12 Warehouse Participants have asserted claims totaling approximately \$84,000,000. This
13 number represents the losses asserted by creditors and does not reflect any assumptions for
14 disallowance or reduction. In addition, as of the Petition Date, the Debtors have asserted the
15 Warehouse Participants held approximately \$26.5 million on deposit in margin call accounts. If
16 PCHLI failed to meet a margin call of a Warehouse Participant, the participant could generally
17 declare an event of default, cease providing financing, and accelerate the repayment obligations.
18 When warehoused loans were ultimately sold for a profit, PCHLI would repay the Warehouse
19 Participants from the proceeds of the sale and the haircut contributed by PCHLI would be repaid to
20 PCHLI.

21 Funding was typically a co-obligor with PCHLI on each of the facilities in favor of the
22 Warehouse Participants. PCFC was occasionally a co-obligor. When PCHLI transferred loans to
23 Funding in anticipation of a REIT securitization, it appears that Funding paid the interest on those
24 loans for the related warehouse or repo facility.

25 5. Whole Loan Sales

26 PCHLI also sold portions of its loan portfolio in “whole loan” sales to third-parties (the
27 “Loan Purchasers”), which were not for the purpose of securitization. The Loan Purchasers included
28 Citigroup Global Markets, Credit Based Asset Servicing, DB Structured Products, DLJ, EMC,

1 Franklin Credit, Goldman Sachs, Homecomings Financial, HSBC, Merrill Lynch, Neuwest Equity,
2 Nomura, RFC, Saxon Mortgage, SN Capital Markets, Suntrust, Terwin Advisors, UBS, and
3 Washington Mutual. The loans were sold on a “servicing released” basis and PCHLI serviced the
4 sold loans for an interim period. In these transactions, PCHLI made certain representations and
5 warranties related to the loans. In the event a Loan Purchaser discovered a violation of a
6 representation or warranty, or to the extent the borrower under a respective loan failed to make a
7 payment when due within a specified period after the loan was made (typically the first one to three
8 months), the Loan Purchaser could compel PCHLI to repurchase the loan. Based on actual proofs of
9 claim filed, the Committee has been informed that the Debtors conservatively estimate claims of
10 Loan Purchasers against PCHLI at \$79 million. Unlike the Warehouse Participants, the Loan
11 Purchasers hold claims only against PCHLI and do not hold claims against Funding or PCFC.

12 6. Securizations

13 In anticipation of completing certain REIT securitizations, PCHLI sold loans from time to
14 time to Funding under a standing intercompany purchase and sale agreement to accumulate a
15 portfolio at Funding sufficient in size for subsequent securitization. Such loan sales were on a
16 “servicing released” basis and resulted in four securitizations by Funding in 2005 (i.e., the 2005-1,
17 2005-2, 2005-3 and 2005-4 securitizations). The REIT transactions were accomplished as follows:
18 Funding would sell its portfolio (accumulated from purchases from PCHLI) to its non-debtor
19 subsidiary PCHLSC. PCHLSC would, in turn, sell the loans to a Delaware statutory trust in
20 exchange for a series of notes issued by the trust under an indenture and a certificate of beneficial
21 interest in the trust. The beneficial interest in the trust, along with any other retained securities, was
22 transferred to Funding or PCFI III. The notes were sold by PCHLSC to the underwriters, who in
23 turn sold them in the public market pursuant to a registration statement and prospectus. The net
24 proceeds of these note sales also were transferred to Funding and PCFI III. Approximately
25 \$4 billion in mortgage-backed securities were issued under the four REIT transactions. Prior to the
26 consummation of a particular REIT securitization, PCHLI serviced the loans purchased by Funding
27 under a standing interim servicing agreement with Funding.

1 PCHLI also sold certain loans to PCHLSC to consummate REMIC securitizations (i.e., the
2 2004-1, 2004-2, and 2006-1 securitizations). Under the REMIC transactions, loans were transferred
3 by PCHSLC to a New York grantor or common law trust established under a “pooling and servicing
4 agreement” in exchange for various classes of trust certificates. PCHLSC sold the certificates, other
5 than the Class C, P and R certificates, to the underwriters, who in turn sold the certificates in the
6 public market under a registration statement and prospectus. The Class R certificates were the
7 residual interests in the trust. Approximately \$3 billion in mortgage-backed securities were issued
8 under the three REMIC transactions. At the time such transfers occurred incident to the closing of a
9 REMIC securitization, PCHLI would cease to function as an interim servicer of such mortgage
10 loans.

11 7. Loan Servicing

12 PCHLI provided a number of servicing roles, including the collection, consolidation and
13 remittance of monthly principal, interest and impound payments for taxes and insurance on
14 mortgaged properties. As a general matter, PCHLI serviced mortgage loans on an interim basis from
15 the origination date until it sold them and transferred its servicing responsibilities. In addition to
16 interim servicing, PCHLI served as the subservicer of the securitized loans following consummation
17 of the 2005-1, 2005-2, 2005-3 and 2005-4, and 2006-1 securitizations and earned a fee for its
18 services. Third-parties serviced the 2004-1 and 2004-2 securitizations.

19 **B. The Debtors’ Management**

20 As of the Petition Date, Neil Kornswiet, Robert Harris and David Cronenbold served on the
21 Board of Directors of PCFC, the parent company of the other two Debtors. Mr. Kornswiet was the
22 sole member of the Boards of Directors of Funding and PCHLI from approximately December 2004
23 to March 19, 2007. Since March 19, 2007, Mr. Kornswiet and Mr. Harris served as directors for
24 PCHLI and Funding. Mr. Kornswiet also served as President and Chief Executive Officer of all
25 three Debtors. Other members of the management team included Brad Plantiko, Executive Vice
26 President of Finance and Strategic Planning and Dan Sussman, Executive Vice President and Chief
27 Operations Officer, each serving in his respective capacity for all three Debtors. On June 26, 2007,
28 the Debtors’ filed a notice of the immediate rejection of the employment agreement with Mr.

1 Sussman and the employment agreements with Mr. Kornswiet and Mr. Plantiko were rejected at the
2 end of July 2007.

3 On August 27, 2007, the Boards of Directors of the three Debtors approved the Debtors'
4 employment of Matthew E. Kvarda as their Chief Restructuring Officer and Sven Johnson as their
5 Assistant Chief Restructuring Officer. Kvarda and Johnson are currently two of the employees of
6 Alvarez & Marsal North America, LLC ("A&M") who have been and are actively working with the
7 Debtors on behalf of A&M in its capacity as financial advisor to the Debtors. Kvarda is the
8 Managing Director of A&M in charge of A&M's efforts in these Cases, and Johnson is a Director of
9 A&M who is working under Kvarda's direction and supervision in these Cases. The Bankruptcy
10 Court approved the employment by the Debtors of Kvarda and Johnson as officers of the Debtors
11 effective September 10, 2007. Unless terminated earlier, their employment as officers of the
12 Debtors will be deemed terminated as of the Effective Date; provided however that Kvarda will
13 serve as the CEO of Reorganized PCFC until it is dissolved.

14 Kvarda and Johnson, as officers of the Debtors, are authorized to perform and direct all of the
15 day-to-day functions of the Debtors including, without limitation, performing services in furtherance
16 of the Debtors' wind down and plan process, signing checks on behalf of the Debtors and making
17 business decisions on behalf of the Debtors. As officers, they are also subject to the oversight and
18 direction of the Board of each of the Debtors.

19 **C. Selected Financial Information**

20 Attached hereto as Exhibit "E", for general informational purposes, are the Debtors' audited
21 income statements and balance sheets for 2004 and 2005.

22 **ARTICLE V.**

23 **THE CHAPTER 11 CASES**

24 **A. Events Leading to the Bankruptcy Filing**

25 In 2006 and 2007, the Debtors assert that they experienced warehouse line liquidity issues,
26 repurchase requests from Loan Purchasers, margin calls from Warehouse Participants and reduced
27 pricing for their nonprime loans in the secondary market. In early 2007, the Debtors assert that the
28

1 Warehouse Participants terminated funding such that the Debtors were unable to fund new mortgage
2 loans or operate their business in the normal course. Meanwhile, PCHLI, as a sub-servicer,
3 reportedly faced a shortfall of approximately \$9.1 million with respect to its March 2007 remittance
4 obligations to the securitization trusts. In order to protect the value of the Debtors' interests in the
5 sub-servicing agreements and due to the other above factors, the Debtors have stated that they
6 believed it was necessary to file for protection under chapter 11 of the Bankruptcy Code and did so
7 on March 20, 2007, the Petition Date.

8 **B. Significant Events During the Chapter 11 Cases**

9 1. Retention of Debtors' Professionals and Agents

10 Prior to the commencement of the Cases, the Debtors retained the law firm, Pachulski Stang
11 Ziehl & Jones LLP f/k/a Pachulski Stang Ziehl Young Jones & Weintraub LLP as bankruptcy
12 counsel and Alvarez & Marsal, North America LLC as their financial advisors. The Bankruptcy
13 Court approved the retention of those professionals effective as of the Petition Date, pursuant to
14 orders entered on April 25, 2007 and June 6, 2007, respectively.

15 The Debtors have also retained (i) Friedman Billings & Ramsey as Investment Bankers to
16 represent the Debtors in the sale of a majority of their assets, approved by Order of the Bankruptcy
17 Court entered April 4, 2007; (ii) Hunton & Williams LLP as special corporate counsel, effective as
18 of the Petition Date, approved by Order of the Bankruptcy Court entered June 6, 2007; (iii) Pillsbury
19 Winthrop Shaw Pittman LLP as special litigation counsel, approved by Order of the Bankruptcy
20 Court entered June 6, 2007; (iv) Grant Thornton, LLP as tax accountants and consultants, effective
21 May 8, 2007, approved by Order of the Bankruptcy Court entered July 12, 2007; (v) XRoads Case
22 Management Services as bankruptcy administrative services agent to act, among other things, as
23 claims and noticing agent, effective as of March 30, 2007, approved by Order to the Bankruptcy
24 Court entered July 23, 2007; and (vi) Rutan & Tucker, LLP as special litigation counsel to handle
25 one adversary proceeding filed against the Debtors by Patrick and Desiree Cabana, discussed below.

26 The Debtors also employed dozens of professionals in the ordinary course of their business
27 operations. The majority of these professionals were largely responsible for ensuring the Debtors'
28 compliance with their servicing obligations under their valuable mortgage servicing agreements,

1 which were ultimately sold to Equity One and yielded substantial cash for the benefit of Debtors'
2 Estates and their creditors (as detailed below). In addition, the Debtors employed several other
3 professionals in the ordinary course that provided accounting, consulting, and legal services that
4 were unrelated to their servicing obligations.

5 2. Appointment of the Committee and Retention of Committee Professionals

6 On March 28, 2007, the United States Trustee formed the Committee to represent the interest
7 of the general unsecured creditors of the Estates, and appointed five (5) members thereto: (i) FIS
8 Tax Services (f/k/a LSI Tax Services, Inc.), (ii) DLJ Mortgage Capital, Inc., (iii) eMortgage Logic,
9 LLC, (iv) iDirect Marketing, Inc., and (v) Residential Funding Corporation. Since the formation of
10 the Committee, the Debtors have extensively consulted and cooperated with the Committee
11 concerning various aspects of the Cases. The Committee has employed Winston & Strawn LLP as
12 its bankruptcy counsel, effective as of March 28, 2007, approved by the Bankruptcy Court by Order
13 entered May 16, 2007 and FTI Consulting, Inc. as its financial advisors effective March 29, 2007,
14 approved by an Order entered June 20, 2007.

15 3. Commingled Cash Disputes

16 On April 26, 2007, the Bankruptcy Court approved, and on April 30, 2007 entered, a
17 stipulation (the "Commingled Cash Stipulation") between the Debtors and certain Adequate
18 Protection Parties (defined in the Commingled Cash Stipulation) (which included certain of the
19 Debtors' Warehouse Participants) that, among other things, provided adequate protection of the
20 Adequate Protection Parties' asserted interest in over \$4.9 million of purportedly commingled cash.

21 The Debtors assert that the claimed cash of each of the Adequate Protection Parties had been
22 commingled prepetition with the claimed cash of each of the other Adequate Protection Parties,
23 along with cash of the Debtors, in certain of the Debtors' prepetition bank accounts. The
24 Commingled Cash Stipulation provided, in pertinent part, that "[t]he Debtors, the Committee and the
25 Adequate Protection Parties shall use commercially reasonable efforts to reach an agreement on
26 proposed tracing procedures to determine what portion, if any, of the Funds constitute Cash
27 [Collateral]."
28

1 The Commingled Cash Stipulation also provides: "If the Debtors and the Adequate
2 Protection Parties are unable to reach agreement on such [tracing] procedures by May 8, 2007, then
3 the Debtors shall within 10 days thereafter, file a motion and schedule a hearing seeking approval of
4 proposed procedures for the Court to determine what portion of the Funds constitute Cash." The
5 Debtors and the Adequate Protection Parties extended this deadline by agreement through September
6 28, 2007. In light of ongoing negotiations at the time with the Adequate Protection Parties, on
7 October 3, 2007 and October 12, 2007, the Debtors filed, respectively, their first and second status
8 reports in lieu of filing a motion for an order approving the Debtors' tracing procedures.

9 The three Adequate Protection Parties with the largest asserted interests in commingled cash
10 under the Commingled Cash Stipulation are Washington Mutual Bank ("WaMu"), Residual Funding
11 Company ("RFC") and Credit Suisse First Boston ("CSFB"). The Debtors (in consultation with the
12 counsel for the Committee) negotiated with counsel to WaMu regarding, among other things, its
13 claimed security interest in PCHLI's prepetition tax refund proceeds, which WaMu asserted are most
14 of the funds at issue under the Commingled Cash Stipulation. These negotiations reached an
15 impasse, and on November 28, 2007, the Debtors filed their complaint against WaMu for: (a) the
16 recovery of avoidable preferential transfers; (b) the recovery of an avoidable fraudulent transfer;
17 (c) damages for breach of contract; (d) damages for conversion; and (e) objection to claims. Among
18 other things, the complaint sought an order of the Bankruptcy Court avoiding WaMu's asserted
19 security interest in the tax refund proceeds, which was granted by the Debtors to WaMu
20 approximately five weeks before the Petition Date. WaMu filed its answer to the complaint on
21 February 6, 2008. The parties stipulated to dismiss the action in March 2008. The Debtors have
22 reached a settlement with RFC, which was approved by Order of the Court on March 24, 2008
23 [Docket No. 992], and the Debtors are currently in settlement negotiations with CSFB to resolve its
24 asserted interest in the commingled cash.

25 The Adequate Protection Parties' respective interests in the Commingled Cash, if any, will
26 not be compromised by confirmation of the Plan and any such interest that is allowed will be paid in
27 accordance with any applicable settlement agreement or pursuant to class treatment consistent with
28 the nature and priority of such claims.

1 4. Sales of Assets

2 As a result of the highly coordinated efforts of the Debtors and the Committee, the Debtors
3 have consummated three major asset transactions, yielding approximately \$47.5 million in gross
4 proceeds to the Estates, and other smaller asset sales, as follows:

5 a. Sale of Residual Interests in Securitization Trusts

6 On March 27, 2007, just seven days after the Petition Date, the Debtors filed their *Motion*
7 *For Order (A) Approving Sale Procedures And Bid Protections, Including Break-Up Fee, In*
8 *Connection With Sale Of Certain Assets; (B) Scheduling An Auction For And Hearing To Approve*
9 *The Sale; (C) Authorizing Sale Of Certain Assets Free And Clear Of Liens, Claims, Encumbrances*
10 *And Interests, (D) Authorizing Assumption And Assignment of Executory Contracts; (E) Approving*
11 *Employment Of Friedman, Billings, Ramsey & Co. Inc. As Investment Advisor In Connection*
12 *Therewith And (F) Granting Related Relief; Memorandum of Points and Authorities In Support*
13 *Thereof* (the “Bulk Sale Motion”) (Docket No. 59). The Bulk Sale Motion sought Court authority to
14 auction the Estates’ interests in (1) contractual loan servicing rights, including reimbursement of
15 certain servicing advances (the “Servicing Rights”) held pursuant to certain agreements with Bear
16 Stearns, Inc. / EMC Mortgage Company (collectively “EMC”); and (2) Residual Interests in seven
17 securitized trusts, to highest and best bidders in accordance with prescribed auction procedures.

18 On April 4, 2007, the Court entered an order (Docket No. 127) establishing auction and
19 related procedures applicable to the proposed sale of the Servicing Rights and the Residual Interests.
20 The Debtors conducted an auction on April 19, 2007 and on April 20, 2007. PC Asset Acquisition,
21 Inc. was eventually designated by the Court as the highest bidder for the Residual Interests.
22 The Court entered an order (Docket No. 256) approving the sale of certain Residual Interests of the
23 Debtors in securitization trusts to PC Asset Acquisition, Inc. for \$21,000,000.00, all of which
24 consideration has been received by the Debtors’ Estates.

25 b. Sale of the Debtors’ Interests as Subservicer under the Subservicing
26 Agreements

27 The Bulk Sale Motion also sought authority for the Debtors to sell their interests as
28 subservicer under the Subservicing Agreements dated April 1, 2005, June 1, 2005, October 1, 2005

1 and July 1, 2006 (the “Subservicing Agreements”) with EMC Mortgage Corporation (“EMC”).
2 On April 17 and 18, 2007, the Debtors conducted an auction of the Debtors’ interests in the
3 Subservicing Agreements and selected Equity One, Inc. (“Equity One”) as the highest and best
4 bidder for those interests. EMC opposed the transfer of the Servicing Rights on a variety of grounds.
5 The Debtors and the Committee worked diligently to address EMC’s objection to the transaction.
6 Ultimately, the parties reached a settlement which paved the way for the Debtors’ Estates to obtain
7 roughly \$24 million in gross proceeds from the sale of the Servicing Rights to Equity One, Inc.
8 The terms of settlement and of the transition of the Debtors’ servicing operations to Equity One are
9 set forth in (a) that certain Settlement Agreement dated as of May 14, 2007 by and among Equity
10 One, PCHLI, Funding, EMC, Bear, Stearns & Co., Inc. and Wells Fargo Bank, N.A. (the
11 “Settlement Agreement”) and (b) that certain Transition Services Agreement dated as of May 14,
12 2007 by and among Equity One, PCHLI and Funding (the “Transition Services Agreement”).
13 On May 14, 2007, the Court entered the *Order Approving Sale of Debtors’ Interests in Certain*
14 *Subservicing Agreements* (Docket No. 352). On June 28, 2007, the Court entered the *Order*
15 *Implementing Sale of Debtors’ Rights under 2005-2 Subservicing Agreement to Equity One, Inc.*
16 (Docket No. 463), the *Order Implementing Sale of Debtors’ Rights under 2005-3 Subservicing*
17 *Agreement to Equity One, Inc.* (Docket No. 464), the *Order Implementing Sale of Debtors’ Rights*
18 *under Subservicing Agreement Dated July 1, 2006 by an between EMC, as Servicer, and PCHLI, as*
19 *Subservicer to Equity One, Inc.* (Docket No. 466) and the *Order Implementing Sale of Debtors’*
20 *Rights under 2005-4 Subservicing Agreement to Equity One, Inc.* (Docket No. 467), thus completing
21 the Courts approval of the sale of the Subservicing Agreements.

22 Under the Settlement Agreement and the related Transition Services Agreement, certain
23 orders, and certain other agreements (collectively, the “Sale Documents”), Equity One was to pay
24 cash consideration, pay all cure amounts owing, assume all accruing liabilities and obligations, and
25 reimburse the Debtors for certain advances to the extent such amounts had not previously been
26 reimbursed from another source. The Debtors assert Equity One continues to owe the Debtors
27 \$1,501,734.79, which amount is composed of earned, but unpaid, fees and \$82,523.33 on account of
28 insurance premiums paid on Equity One’s behalf. Equity One asserts that only \$1,010,470.17 of that

1 amount is due. The Debtors are presently seeking to informally resolve these disputes with Equity
2 One. In the event such disputes cannot be resolved, litigation may be necessary and all such matters
3 are preserved.

4 c. Sale of Loan Servicing and Origination Platforms

5 Following the closing of the sale of the Servicing Rights, the Debtors turned their attention to
6 selling their loan servicing and origination platforms (together, the "Platforms"). The Debtors had
7 held out their Platforms for sale at the auction conducted on April 17 and 18, 2007, but did not
8 accept any bids with respect thereto. The Debtors, with the cooperation of the Committee, continued
9 marketing the Platforms for sale to third parties. The Debtors, after consultation with the
10 Committee, determined that the offer of UBS AG, a Swiss banking corporation, acting through its
11 Tampa, Florida branch, of \$2,500,000.00 for the Platforms was the highest and best value for those
12 assets and on July 3, 2007, filed a motion (the "Platforms Sale Motion") (Docket No. 481) with the
13 Court seeking approval of such sale. On July 9, 2007, the Court entered an order (Docket No. 494)
14 approving the sale.

15 Following the consummation of the sale, there have been issues between UBS and the
16 Estates with regard to UBS's preservation of estate data and UBS's allowing the Estates to access
17 such data. The parties are attempting to work through these issues. If a resolution cannot be
18 reached, litigation may become necessary and the Estates' rights and Causes of Action with respect
19 to all such matters shall be reserved hereby and transferred to the Liquidating Trustee.

20 d. Mortgage Loan Sales ("Scratch & Dent Loans")

21 Prior to the Petition Date, the Debtors' business relied primarily on PCHLI's ability to
22 originate mortgage loans and sell or securitize those loans in the secondary mortgage market.
23 PCHLI was required to repurchase certain of the loans that it previously had sold, based on
24 repurchase demands and early payment defaults asserted by various Warehouse Participants and/or
25 securitization trusts. PCHLI then owned those loans outright. In the ordinary course of its pre-
26 petition business, PCHLI sold these loans (commonly referred to as "scratch and dent loans") to
27 third parties on the secondary mortgage market. To maximize the value of these scratch and dent
28 loans for the benefit of all creditors, the Debtors, on March 27, 2007, filed the *Motion for Order*

1 (a) Authorizing Bulk Sale of Mortgage Loans Owned by the Debtors in the Ordinary Course of
2 Business; and (b) Authorizing Debtors to Sell Loans Held for Third Party Warehouse Participants
3 upon Terms and Conditions to Be Negotiated, Subject to the Interests of the Warehouse Participants
4 in Said Loans (Docket No. 55),⁸ which motion was approved by order of this Court entered
5 April 19, 2007.

6 Throughout the pendency of these Cases, the Debtors have worked closely with the
7 Committee and its professionals to analyze the market value of the scratch and dent loans and
8 subsequently sell them to interested third parties in order to maximize their value. The Debtors have
9 sold all of the scratch and dent loans and such ordinary course sales have yielded more than
10 \$1.7 million.

11 e. REO Sales

12 Prior to the Petition Date, in the ordinary course of business, PCHLI foreclosed on or
13 otherwise obtained various real properties securing the mortgage loans that it had originated, after
14 defaults by the applicable borrowers. PCHLI listed such Real Estate Owned (“REO”) properties that it
15 owned as of the Petition Date in its Schedules. The Debtors retained a third party administrator to
16 oversee the sales of the REO properties and local real estate agents to represent PCHLI, who owned
17 the REO properties, in these sales. At the beginning of these Cases, PCHLI owned twenty-one (21)
18 REO properties and the principal loan balance outstanding against them was \$21 million. During
19 these Cases, with the consent of the Committee, eight (8) of the REO properties have been sold for
20 an aggregate consideration of \$850,000.

21 f. Sale or Abandonment of De Minimis Assets

22 As the Debtors were vacating their branch offices and rejecting the leases associated
23 therewith, they contacted liquidators and other potential purchasers of the personal property for each
24 location. The Debtors received several offers to purchase some of the property for minimal
25 amounts. On April 17, 2007, the Debtors filed a motion (the “De Minimis Asset Motion”) (Docket
26 No. 214) seeking approval of procedures for the abandonment or sale of personal property of the

27 _____
28 ⁸ The Debtors ultimately dropped the request for authority to sell in their discretion loans held by or financed by Warehouse Participants.

1 Debtors of *de minimis* value and the approval of the sale of certain office furniture and equipment of
2 *de minimis* value. On May 2, 2007, the Court entered an order (the “De Minimis Asset Order”)
3 (Docket No. 328) approving the *De Minimis* Asset Motion. Pursuant to the *De Minimis* Asset Order,
4 the Debtors have sold or abandoned substantially all of their office furniture, fixtures and equipment.

5 5. Debtors’ Rejection of Their Office Leases and Sale/Abandonment of Personal
6 Property Related Thereto

7 Immediately after the Petition Date, the Debtors vacated substantially all of their branch
8 office locations throughout the United States and on March 30, 2007, filed a motion (the “Rejection
9 Motion”) (Docket No. 95) seeking approval of the rejection, effective as of March 31, 2007, of the
10 leases and subleases of those vacated locations. The Debtors, during the process of vacating these
11 locations, identified certain office furnishings and other miscellaneous personal property that was
12 burdensome to the Estates in that it would cost the Debtors more to move or sell the property than it
13 was worth. Therefore, in the Rejection Motion, the Debtors also sought approval of their
14 abandonment of the burdensome property. On May 16, 2007 the Bankruptcy Court entered the
15 Order (Docket No. 364) granting the Rejection Motion. By two separate Orders (Docket Nos. 364
16 and 552), the Bankruptcy Court approved the rejection of the remaining branch office leases and the
17 abandonment of related burdensome personal property.

18 The Debtors leased space in four separate buildings in Irvine, California that it utilized as its
19 headquarters, which leased space was not subject to the Rejection Motion. On May 11, 2007, the
20 Bankruptcy Court entered an Order (Docket No. 346) authorizing and approving the amendment of
21 the lease of the headquarters buildings (the “Headquarters Lease”) whereby the space in two of the
22 buildings was returned to the landlord and certain furniture, fixtures and equipment were sold to the
23 landlord. After the sale of substantially all of the Debtors’ assets was completed as described above,
24 the Bankruptcy Court, on July 11, 2007, approved the Debtors’ rejection of the remaining, amended
25 Headquarters Lease (Docket No. 518). With the rejection of the amended Headquarters Lease, the
26 Debtors had rejected all of their nonresidential real property leases.

27 After the rejection of the amended Headquarters Lease, however, the Debtors, pursuant to an
28 agreement with UBS (the purchaser of the Platforms), remained in the space previously covered by

1 the amended Headquarters Lease, without cost, until January 15, 2008. At that time, the Debtors'
2 official address became the offices of A&M, at 2967 Michelson Drive, Suite G 611, Irvine,
3 California.

4 6. Rejection of Other Contracts and Leases

5 On May 18, 2007, the Debtors filed the Motion of the Debtors for Order Authorizing and
6 Approving Procedures for the Rejection of Executory Contracts and Unexpired Leases (the
7 "Rejection Procedures Motion") (Docket No. 369) and on June 6, 2007, the Court entered an Order
8 (Docket No. 406) approving the Rejection Procedures Motion. Utilizing the approved procedures,
9 the Debtors rejected substantially all of their remaining executory contracts and unexpired leases of
10 personal property that were not assumed by the purchasers of the Debtors' primary assets, with the
11 bulk of the contracts and leases being rejected pursuant to the Notice of Rejection filed on July 27,
12 2007 (Docket No. 558).

13 7. Debtors' Tax Issues⁹

14 a. Determination of REIT Tax Issues

15 PCFC qualified as a REIT under sections 856 through 860 of the Internal Revenue Code of
16 1986, as amended (the "IRC") for all taxable years through 2006. To qualify as a REIT for federal
17 tax purposes, PCFC generally must distribute at least 90% of its REIT taxable income to its
18 shareholders each taxable year. To the extent that PCFC distributes at least 90% but less than 100%
19 of its REIT taxable income for a year, PCFC would pay corporate level income tax on its
20 undistributed REIT taxable income. If PCFC were to fail to satisfy the 90% distribution requirement
21 with respect to its 2007 taxable year, then PCFC's federal tax status as a REIT would be revoked
22 retroactively, effective as of January 1, 2007, and PCFC would instead be taxed as a regular
23 corporation under the IRC for its 2007 taxable year. In addition, if PCFC were to fail to qualify as a
24 REIT for its 2007 taxable year, four mortgage securitization trusts (the "Owner Trusts") in which
25 PCHLI owned the Residual Interests during the 2007 taxable year could potentially cease to be
26 treated as disregarded entities for federal tax purposes, and could potentially be treated as separate
27 corporations that are subject to corporate income tax on their taxable income for the short taxable

28 ⁹ The information provided in this section 7(a) and (b) was provided by the Debtors' corporate counsel.

1 year that began January 1, 2007 and ended on the date on which those Residual Interests were sold
2 (April 17, 2007).¹⁰ There may be other consequences of failing to qualify as a REIT for the
3 purchaser of the residuals as well as for the securitized trusts and investors in those trusts.

4 PCFC retained EmphaSys Technologies Inc. (“ETI”), an independent consulting firm that
5 provides bond administration and related analytical services to major trustees, underwriters,
6 servicers, and issuers of mortgage- and asset-backed securities, to determine the amount of PCFC’s
7 REIT taxable income for the 2007 taxable year. As a result of the operating losses, PCFC has no
8 taxable income for 2007 except for certain “excess inclusion” income. PCFC’s REIT taxable
9 income for 2007 (prior to reflecting any dividends paid deduction) cannot be less than its excess
10 inclusion income for 2007. According to the calculations of ETI, PCFC’s excess inclusion income
11 for 2007, and, therefore, its taxable income for 2007 is estimated to be approximately
12 \$2,282,449.69.¹¹

13 In order to enable PCFC to satisfy the REIT distribution requirement for 2007, the Plan
14 provides that, on the Effective Date, all of the outstanding stock of PCFC will be cancelled and
15 Reorganized PCFC will issue 31 shares of the New Common Stock to the Liquidating Trustee in its
16 capacity as Trustee of the PCHLI Liquidating Trust and 69 shares of the New Common Stock to the
17 Liquidating Trustee in its capacity as trustee of the Funding Liquidating Trust. Within two business
18 days after the Effective Date, Reorganized PCFC will declare the New Common Stock Dividend.
19 The record date for such dividend will be its declaration date. The payment date for the dividend
20 will be determined by the Liquidating Trustee, but will be as soon after the declaration and the
21 record date as is feasible (an in no event later than December 31, 2008). In order for the dividend to
22 be treated as paid by PCFC in 2007, Reorganized PCFC must declare the dividend prior to the due
23

24 _____
25 ¹⁰ The Owner Trusts are taxable mortgage pools, which generally are taxable as regular corporations unless the entire
26 residual interest in the taxable mortgage pool is owned by a REIT or a qualified REIT subsidiary. As long as PCFC
27 qualifies as a REIT, the Owner Trusts will be treated as qualified REIT subsidiaries, and therefore as disregarded entities
28 that are not subject to federal income tax. PCFC’s failure to qualify as a REIT for 2007 could cause the Owner Trusts to
be treated as taxable mortgage pools that are taxable as regular corporations for the portion of 2007 during which PCFC
owned the Residuals.

¹¹ The final determination of the amount of PCFC’s taxable income for 2007 will be made by the Debtors, the
Liquidating Trustee or the Bankruptcy Court.

1 date for its 2007 federal income tax return, pay the dividend in 2008, and elect on its 2007 tax return
2 to treat the dividend as paid in 2007.

3 Assuming that the dividend is paid with respect to the New Common Stock in accordance
4 with the Plan, it will relate back to PCFC's taxable year ended December 31, 2007, pursuant to
5 Internal Revenue Code section 858 and, therefore, will allow PCFC to meet the distribution
6 requirement applicable to REITs pursuant to Internal Revenue code section 857(a)(1) for its 2007
7 year. It is PCFC's position that, after such payment, PCFC's REIT taxable income for 2007, taking
8 into account its dividends paid deduction, will be equal to zero. As a result, because PCFC has
9 satisfied the other requirements and tests for qualifying as a REIT for its taxable year ended
10 December 31, 2007, PCFC believes that it will qualify as a REIT for such year.

11 Because Reorganized PCFC will pay the dividend with respect to the New Common Stock in
12 2008 rather than 2007, PCFC will incur an excise tax for 2007. IRC section 4981 imposes an excise
13 tax on REITs in an amount equal to 4% of the excess of the sum of 85% of a REIT's ordinary
14 income and 95% of its capital gain net income for a year (plus any shortfall from prior years) over
15 the actual distributions for the year. Distributions made pursuant to IRC section 858 are not treated
16 as paid during the prior taxable year for purposes of the excise tax. PCFC's excise tax liability for
17 2007 is estimated to be approximately \$82,822.

18 b. Resolution of IRS Proof of Claim

19 On or about April 30, 2007, the Department of the Treasury—Internal Revenue Service (the
20 “IRS”) filed a protective proof of claim for \$151,683,907.32 against PCHLI comprised of FUTA,
21 FICA and income tax not yet assessed for tax periods ending from 2002 through 2007. The IRS
22 alleged that \$151,654,690.96 was a priority claim and the balance a general unsecured claim.
23 The Debtors and the IRS had discussions regarding this claim and the IRS finalized its audit. As a
24 result of the audit, the IRS has filed an amended claim in the amount of \$1,029,216.36.

25 8. Document Retention/Discarding and Related Matters

26 The Debtors' customer files were primarily maintained on a central server in the Debtors'
27 headquarters in Irvine, California. UBS acquired the related hardware that housed this information
28 as part of its purchase of the loan and origination platforms and subsequently copied the data onto

1 servers that are now in possession of the Committee. UBS has expressed its intention to delete the
2 information from its servers. The Debtors and Committee have objected and cautioned UBS that the
3 deletion of such information would constitute destruction of estate property. The parties are in
4 discussions to resolve this matter. To the extent hard copies of the files existed, those copies were
5 scanned and/or shredded, sent to storage, transferred to investors who purchased loans or transferred
6 to Equity One, the purchaser of the Debtors' servicing business, as appropriate.

7 9. Employee Compensation and Benefits Matters

8 a. General Relief and Non-Insiders

9 Because of the asserted critical need of the Debtors to retain sufficient personnel to preserve
10 the Debtors' businesses and other assets for sale, on March 31, 2007, as one of their "First Day"
11 emergency motions, the Debtors filed a motion (the "Wage Motion") (Docket No. 13) for authority
12 to pay the unpaid prepetition wages, other compensation, benefits and reimbursable expenses of the
13 Debtors' workforce, including those that had been terminated immediately prior to the Petition Date.
14 The Bankruptcy Court granted the Wage Motion on a preliminary basis on March 22, 2007 (Docket
15 No. 33) and entered an Order finally approving the Wage Motion on March 23, 2007 (Docket
16 No. 49).

17 The Debtors also sought and obtained Bankruptcy Court approval of a retention pay plan for
18 a few selected non-insider employees in order to give certain of those employees an incentive to
19 remain with the Debtors until the completion of the transfer of the Debtors' contractual loan
20 servicing rights to Equity One and others to stay to assist the Debtors with the wind down process.
21 By an order entered June 18, 2007 (Docket No. 443), the Bankruptcy Court approved an incentive
22 plan providing for a maximum cash outlay of \$200,000 in incentive payments to approximately
23 83 employees and the Debtors disbursed \$150,000 in bonuses to employees pursuant to this order.

24 b. Consulting Agreements with Plantiko, Graeler and Bostwick

25 After the sale of substantially all of the Debtors' assets, in furtherance of their liquidation
26 efforts, on or about August 1, 2007, the Debtor's rejected employment agreements with Brad
27 Plantiko, Executive Vice President, Finance, and Darren Graeler, Senior Vice President, Finance.
28 Thereafter, the Debtors elected to enter into short term Independent Contractor Agreements (the

1 “Initial Agreements”) with them. Pursuant to the Initial Agreements, Messrs. Plantiko and Graeler
2 were to perform various duties for the Debtors, including the reconciliation and resolution of certain
3 mortgage loan accounts, resolution of various tax matters, and liquidation of remaining
4 miscellaneous assets. In return for those services, Messrs. Plantiko and Graeler, among other things,
5 were to be paid a specified hourly fee and would be reimbursed for certain health care benefits.
6 The term of the Initial Agreements expired on August 23, 2007. The Bankruptcy Court approved the
7 Initial Agreements on August 22, 2007.

8 Following termination of the Initial Agreements, the Debtors and Graeler entered into a
9 further Independent Contractor Agreement (the “Second Independent Contractor Agreement”) dated
10 September 12, 2007, pursuant to which the Debtors continued receiving services from Graeler.
11 As part of the Second Independent Contractor Agreement, the parties exchanged general mutual
12 releases between the Estates and Graeler, subject to the satisfaction of certain conditions. The term
13 of the Second Independent Contractor Agreement is six (6) months and the Bankruptcy Court
14 approved it on September 27, 2007.

15 On January 9, 2008, the Bankruptcy Court approved Amendment No. 1 to the Second
16 Independent Contractor Agreement with Graeler. The Amendment, among other things, provides
17 that the Second Independent Contractor Agreement will terminate June 30, 2008. The Debtors have
18 agreed to a further amendment to the Second Independent Contractor Agreement extending it until
19 October 31, 2008.

20 PCHLI also entered into a letter agreement (the “Initial Bostwick Agreement”) with Angie
21 Bostwick, a former underwriting manager, dated October 5, 2007, pursuant to which Ms. Bostwick
22 served as a consultant to PCHLI. The Initial Bostwick Agreement provided for compensation at an
23 hourly rate of \$50/hr, reimbursement of expenses and certain incentive payments if she served as a
24 consultant in good standing through November 30, 2007. At the end of the term of the Initial
25 Bostwick Agreement, PCHLI entered into a second letter agreement, effective as of December 1,
26 2007, pursuant to which Ms. Bostwick continued to serve as a consultant to PCHLI through
27 March 31, 2008 on essentially the same terms as the Initial Bostwick Agreement. PCHLI has now
28

1 entered into another extension agreement with Ms. Bostwick, extending the time Ms. Bostwick will
 2 serve as a consultant to PCHLI through July 31, 2008.

3 10. Establishment of General Bar Date and Filing of Claims

4 Upon motion by the Debtors, and pursuant to an order entered on June 20, 2007 (Docket
 5 No. 442), the Bankruptcy Court established, among other things, (1) August 31, 2007 as the deadline
 6 for all Persons other than governmental units to file proofs of Claim or Interest arising prior to the
 7 Petition Date, pursuant to section 501 of the Bankruptcy Code, and (2) October 1, 2007 as the claims
 8 bar date for governmental units to file proofs of pre-petition Claims, or be forever barred from
 9 asserting such Claims and Interests, as applicable.

10 According to the Debtors' financial advisor, proofs of Claim were filed against the Debtors
 11 asserting (i) approximately \$4,106,177.15 in administrative priority Claims¹²; (ii) approximately
 12 \$161,470,866.20 in Claims asserted to be entitled to priority under Bankruptcy Code section 507;
 13 (iii) approximately \$98,657,677.45 in allegedly Secured Claims; and (iv) approximately
 14 \$505,925,873.08 in asserted General Unsecured Claims. There were also 74 proofs of Claims filed
 15 as unliquidated Claims or in undetermined amounts. In addition to the proofs of Claims filed, the
 16 Debtors, in their Schedules, have scheduled \$561,651.37 in Priority Non-Tax Claims and
 17 \$9,127,953.14 in General Unsecured Claims.¹³

| <u>DEBTOR</u> | <u>PRIORITY OF CLAIMS</u> | <u>AMOUNT OF LIQUIDATED CLAIMS</u> | <u>NUMBER OF UNLIQUIDATED CLAIMS</u> |
|---------------|---------------------------|------------------------------------|--------------------------------------|
| PCHLI | Administrative | \$100,625.10 | 4 |

22 ¹² No Court Order has yet been entered establishing the First Administrative Claim Bar Date. Upon the entry of any such
 23 order and notice thereof to parties in interest, the Committee expects that additional Administrative Claims may be filed.

24 ¹³ The amounts of Claims set forth above and in the chart that follows are based upon the face amounts of the proofs of
 25 Claims filed and the priorities assigned to the Claims are the priorities stated on the face the proof of Claims. All Claims
 26 filed, except those Claims that have been specifically replaced or amended by the Claimant so noting on the later proof
 27 of Claim filed, have been included, including, but not limited to, duplicate Claims, Claims filed against more than one
 28 Debtor, Claims that the Debtors or Committee will dispute and contingent Claims. If a Claim was filed stating a range of
 possible amounts, the highest amount was utilized. The Debtors or Committee may, prior to the Confirmation Hearing,
 file a motion to estimate for voting purposes with respect to certain Claims that they believe were filed alleging an
 incorrect priority or classification or are otherwise objectionable, such as certain Claims that were filed as secured but
 should be unsecured or with respect to other Claims the Debtors or Committee believes to be invalid or misclassified. It
 is further anticipated that the Liquidating Trustee will object to the amounts, priority and classification of many of the
 claims.

| <u>DEBTOR</u> | <u>PRIORITY OF CLAIMS</u> | <u>AMOUNT OF LIQUIDATED CLAIMS</u> | <u>NUMBER OF UNLIQUIDATED CLAIMS</u> |
|---------------|---------------------------|---|--------------------------------------|
| PCHLI | Priority | \$156,927,405.70 + \$561,651.37 in Scheduled Amounts | 8 |
| PCHLI | Secured | \$39,988,337.96 ¹⁰ | 8 |
| PCHLI | General Unsecured | \$410,648,784.99 + \$8,729,196.07 in Scheduled Amounts | 26 |
| Funding | Administrative | \$4,002,250.00 | 2 |
| Funding | Priority | \$539,908.23 | 4 |
| Funding | Secured | \$3,734,747.75 ¹⁰ | 5 |
| Funding | General Unsecured | \$76,181,759.65 | 9 |
| PCFC | Administrative | \$3,302.05 | 1 |
| PCFC | Priority | \$4,003,522.27 | 2 |
| PCFC | Secured | \$54,934,591.74 ¹⁰ | 1 |
| PCFC | General Unsecured | \$19,095,328.44 +\$398,757.07 in Scheduled Amounts | 4 |

Certain of the Warehouse Participants have filed Deficiency Claims totaling approximately \$83,937,018.¹⁴ The face value of the claims generally breaks down as follows:¹⁵

| | |
|--------------|-----------------|
| Bear Stearns | \$838,783 |
| CSFB | \$1,384,095 |
| RFC | \$48,086,878.67 |

¹⁴ This figure represents the losses asserted by creditors and does not reflect any assumptions for disallowance or reduction. This figure and its components remains subject to reevaluation by the Liquidating Trustee.

¹⁵ Note that in some instances the same claims have been filed by these lenders against more than one of the Debtors because the lenders allege that multiple Debtors are liable on such Claims. If the lenders prevail and a Claim is Allowed against more than one Debtor, the Holder of such Claim will be entitled to receive distributions under the Plan from all Debtors found to be liable on the Claim until the Holder has recovered 100% of the Allowed amount of the Claim.

1 Wachovia Bank \$642,027

2 WaMu \$28,918,312

3 Based on their preliminary review, the Debtors have advised that many of the Claims,
4 including those of the Warehouse Participants, filed in these cases are subject to offsets and/or
5 defenses.

6 11. Motions for Relief from Stay Regarding Real Property

7 During the pendency of these Cases, a number of parties have sought relief from the
8 automatic stay. The overwhelming majority of those motions have been brought by lienholders (or
9 agents of lienholders) with respect to real property to which the Debtors hold or held junior or senior
10 mortgage-liens (i.e. for loans they originated). There have been over 60 such motions for relief from
11 stay filed with the court regarding foreclosure related issues, since the inception of these Cases.

12 The Debtors have elected not to oppose these motions requesting relief from the stay because
13 the Debtors, as part of the sale of the loan servicing and origination platforms, have either sold their
14 interests in and to the subject properties or hold junior liens in the subject properties where the senior
15 lien holder/movant will not be paid in full.

16 Until the Liquidating Trustee is appointed and assumes responsibility for the affairs of the
17 Estates, the Committee understands that the Debtors will continue to perform due diligence with
18 respect to motions for relief from the automatic stay as they are filed, and will make determinations
19 on whether to oppose those motions on a case by case basis.

20 12. Investment in ARPS

21 In early to mid-January, the Debtors determined to invest a portion of the Estates' cash (the
22 "Funds") in closed end mutual funds issuing Auction Rate Preferred Securities ("ARPS"). The
23 Debtors have stated that they were informed that (a) the Funds are regulated pursuant to the
24 Investment Company Act of 1940 and the ARPS are rated Aaa/AAA by Moody's and Fitch (credit
25 rating agencies); and (b) the market value of the assets in the funds is at least 200% greater than the
26 outstanding liquidation preference of the ARPS and is generally between 250% and 300% in excess
27 of the liquidation preference of the ARPS. The Debtors have also stated that, at the time, the
28

1 Debtors believed that the ARPS offered a more attractive rate of return than the Debtors' prior
2 investments with little to no risk to the underlying principal invested. The Debtors invested
3 approximately \$15.3 million of the Funds in ARPS and hold these investments in an account with
4 Comerica Securities, Inc.

5 The ARPS are designed to provide liquidity via a "Dutch auction" conducted every seven
6 days. Investors are ordinarily allowed to tender their ARPS for sale at these weekly auctions, and,
7 until the week of February 18, 2008, these auctions had a 24-year history of clearing, providing
8 investors with the short term liquidity critical to the investment's attractiveness. However, during
9 the week of February 18, 2008, several auctions did not clear (meaning that there were fewer buyers
10 for the ARPS than there were sellers, which under the rules of a Dutch auction means that no sales
11 may occur). These failed auctions received substantial publicity in so much as, according to various
12 financial publications, approximately \$330 billion is tied up in these investments. The Debtors have
13 stated that, since that week, the Debtors have had a standing order with Comerica Securities, Inc. to
14 sell the ARPS. On February 25, 2008, the Debtors notified the United States Trustee and the
15 Committee that the Estates had not yet been able to liquidate the investment in the ARPS. The
16 Debtors continue to have a standing order with Comerica Securities, Inc. to sell the ARPS through
17 normal broker transactions.

18 In order to ensure that safe and prudent investments are made going forward, the Debtors and
19 Committee filed a *Joint Motion for Order (i) Authorizing the Debtors to Implement Investment*
20 *Policies and Notice Protocols and (ii) Authorizing Sale of Investment Securities* [Docket No. 963]
21 (the "Investments Motion"). On April 7, 2008, the Court approved the Investments Motion. To the
22 extent that the ARPS are not sold by the date any order approving the Investments Motion becomes
23 final, the Debtors' financial advisor has agreed to purchase the ARPS at par plus any accrued but
24 unpaid dividends or interest, subject to reaching agreement with the Committee on final
25 documentation.

26 13. Miscellaneous Matters

27 During the Case, pursuant to various motions or requests of the Debtors and/or the
28 Committee, the Court granted various other relief, including:

1 (i) affirming that the Committee was not required to provide access to confidential and
2 privileged information relating to the Debtors to the general creditor body pursuant to Bankruptcy
3 Code sections 1102(b)(3) and 1103(c);

4 (ii) approving procedures for the interim compensation and reimbursement of the
5 Debtors' and Committee's professionals;

6 (iii) approving procedures to be followed by the Debtors in the employment and payment
7 of professionals employed in the ordinary course of the Debtors' business;

8 (iv) authorizing the Committee to pursue claims; and

9 (v) authorizing the Debtors to use funds supplied by Mr. Kornswiet, to purchase run-off
10 coverage with respect to certain insurance policies, subject to the terms and conditions of the Court's
11 Order regarding the same.

12 **C. Committee's Investigation of Claims Against Directors, Officers, and Shareholders and**
13 **Settlement Demand**

14 During the pendency of the cases, the Committee's professionals investigated specific
15 transactions identified in the Debtors' board minutes and financial records and interviewed some of
16 the Debtors' officers and their general counsel about the Debtors' business affairs and the selected
17 transactions in order to evaluate whether the Debtors had potential claims against their officers and
18 directors arising out of their management or oversight of the companies. On September 14, 2007,
19 the Court entered an Order in the bankruptcy cases granting and vesting the Committee with
20 standing to pursue and prosecute the Debtors' Causes of Action against their respective officers,
21 directors and shareholders (the "Standing Order"). On September 27, 2007, the Committee's
22 counsel sent the September 27 Letter to the Debtors, certain insurance carriers, former CEO
23 Kornswiet, former CFO Plantiko, and others that explained the Committee's contention that the
24 Debtors had potential Causes of Action against Mr. Kornswiet and Mr. Plantiko and other officers,
25 directors and shareholders of the Debtors, and offered to settle such claims for the amount of
26 coverage that the Committee contended was available under the relevant insurance policies that
27 covered such Causes of Action against the directors and officers, which the Committee was
28 informed equaled approximately \$90 million. The Committee and the Debtors sent notice of such

1 Causes of Action to the relevant insurance carriers. Mr. Kornswiet and Mr. Plantiko have not
2 responded to the Committee's settlement demand. The carriers have not responded either, other than
3 acknowledging receipt of the letter or in some cases asking follow up questions.

4 The Committee described the following potential alleged Causes of Action in its settlement
5 demand upon the officers and directors:

6 1. PCHLI may have potential Causes of Action against Kornswiet for allegedly
7 breaching fiduciary duties of care and loyalty as the director, CEO and President of PCHLI by
8 authorizing the company to pay him allegedly excessive compensation in the amount of \$15.814
9 million, and for avoiding such transfers under applicable fraudulent conveyance laws and state and
10 federal laws relating to compensation, pension funds and Rabbi Trusts.

11 2. PCHLI and PCFC may have potential Causes of Action against the members of their
12 boards of directors and certain officers related to the foregoing payments under state and federal
13 laws.

14 3. PCFC, PCHLI and Funding may have potential Causes of Action against their
15 respective board members and some of their officers for damages the companies allegedly suffered
16 based on their payment of dividends in the amount of \$77 million or more that were potentially
17 improper under applicable corporate law or fraudulent conveyance laws.

18 4. PCFC, PCHLI and Funding may have potential Causes of Action against their
19 respective board members and some of their officers for allegedly arranging intercompany transfers
20 in breach of their fiduciary duties, and that such damages exceed \$76 million.

21 5. PCFC and PCHLI may have potential Causes of Action against their respective
22 boards and some of their officers for allegedly arranging unsafe and imprudent lending practices,
23 failing to implement sufficient quality controls, and failing to exercise adequate oversight in
24 connection therewith, in breach of their fiduciary duties, and that such damages exceed \$20 million,
25 and could exceed \$76 million or more.

26 6. PCFC may have potential Causes of Action against its directors for allegedly
27 improperly approving the company's repurchase of two officers' stock for a payment of \$5.4 million
28 to permit them to pay their taxes.

1 7. PCFC, PCHLI and Funding may have potential Causes of Action against their
2 directors and officers for allegedly failing to act prudently and within the applicable business
3 judgment rules with respect to several matters outlined in the September 27 Letter, including
4 transactions that caused the Debtors to lose money and file a bankruptcy case, potential Causes of
5 Action alleging that the directors and officers have responsibility or are liable for the Debtors'
6 liability for Claims filed against the Debtors' Estates in the bankruptcy cases (which claims now
7 exceed \$500 million), potential Causes of Action based upon insider transactions, and other matters
8 that the Committee was investigating at the time the Committee sent the September 27 Letter.

9 The Committee has discovered additional information with respect to damages sustained
10 under certain of the Causes of Action identified in the September 27 Letter, which are based, in part,
11 on underwriting. They are described in sections 10, 11, and 12, and subparagraphs (1) through (5) of
12 section 14 of the September 27 Letter. The Committee currently estimates that PCHLI has suffered
13 over \$86 million in losses caused by faulty underwriting. The underwriting resulted in repurchase
14 requests made by investors who had purchased loans originated by PCHLI. The Committee also
15 currently estimates that PCHLI has suffered an additional \$84 million in losses caused by faulty
16 underwriting, which resulted in Warehouse Lenders taking possession of the financed loans and
17 subsequently selling the loans at a loss. The Committee estimates that Funding also has a similar
18 Cause of Action for loss of the \$84 million, or more.

19 Since sending the September 27 Letter, the Committee has also discovered additional
20 potential Causes of Action. PCHLI and PCFC may have Causes of Action against Kornswiet based
21 upon his use of an airplane that PCHLI owned through its affiliate People's Choice Consulting LLC
22 ("PCC") and based upon PCHLI's sale of its interest in PCC and the airplane to Kornswiet on the
23 eve of the Debtors' chapter 11 bankruptcy filings for less than fair consideration.

24 In order to further its investigation of potential Causes of Action, the Committee sent a letter
25 to Kornswiet's counsel on February 29, 2008 asking Kornswiet to confirm that he received the
26 following cash payments from the Debtors or their predecessors during the 2000-2006 time period,
27 as they are recorded in the Debtors' books, or to correct and clarify the calculations:
28

- 1 • \$3,050,000 in salary (of which \$150,000 was earned in 2000, but was deferred and
2 paid out of a Rabbi Trust in January 2006);
- 3 • \$1,750,000 of monthly bonuses fixed by employment agreement (of which \$350,000
4 was earned in 2000, but was deferred and paid out of a Rabbi Trust in January 2006);
- 5 • \$15,020,585.46 of bonuses allegedly calculated each year based on after net tax
6 income (consisting of (a) \$12,632,897.96 earned from 2002 to 2004 and paid out of a
7 Rabbi Trust in January 2006 and (b) \$2,387,687.50 earned in the second half of 2004
8 and paid in 2005);
- 9 • \$294,166.72 in interest earned on funds held in a Rabbi Trust (and paid out in January
10 2006);
- 11 • \$39,273,877 from a sale of stock in connection with the private offering of stock in
12 PCFC in December 2004;
- 13 • \$3,480,000 in consideration of PCHLI's repurchase of its preferred stock;
- 14 • \$15,227,455 in dividends paid by PCHLI in March 2005 in connection with a merger
15 that was part of the December 2004 private offering of stock in PCFC;
- 16 • \$1,348,465 in interest payments on Kornswiet's preferred stock in PCHLI; and
- 17 • \$22,030,751 in dividends paid by PCFC after the December 2004 private offering.

18 On April 2, 2008, Kornswiet advised the Committee that he received the \$39,273,877
19 discussed above from third-parties. The Committee contends that PCFC and PCHLI may have
20 Causes of Action against Kornswiet with respect to his receipt of the foregoing cash from PCFC and
21 PCHLI, and their predecessors in interest, other than the \$39,273,877 payment identified in this
22 paragraph and the \$15,227,455 payment by PCHLI in March of 2005. The Committee's
23 investigation with respect to Causes of Action related to the to the \$39,273,877 payment and the
24 \$15,227,455 payment remains ongoing, and any potential Causes of Action related to these
25 payments or any additional payments received by Kornswiet shall be assigned and transferred to the
26 Liquidating Trustee.

27 The Debtors may have additional claims against Kornswiet and the other directors, officers
28 and shareholders that are not described in the September 27 Letter and that are not described above.

1 Kornswiet, who is currently a director of PCFC, PCHLI, and Funding, has a duty to advise the
2 Debtors and the Committee of all known Causes of Action. To the extent Mr. Kornswiet has not so
3 advised, the Debtors hold additional potential Causes of Action which shall be assigned and
4 transferred to the Liquidating Trustee.

5 The Plan provides that the Liquidating Trustee for each estate will investigate, prosecute,
6 settle, or otherwise resolve all Causes of Action against the Debtors' respective officers, directors
7 and shareholders, including the foregoing Causes of Action, as a liquidator for the benefit of the
8 Holders of Allowed Claims, and to the extent the Allowed Claims are paid in full, the Allowed
9 Interests, and that the Liquidating Trustee is deemed an assignee and transferee of the Committee's
10 rights of standing with respect to such Causes of Action.

11 **D. Investigation and Analysis of Avoidance Actions**

12 Pursuant to the terms of the Plan, all potential Avoidance Actions are being transferred to the
13 Liquidating Trusts. Each Liquidating Trust will investigate the prepetition actions of its respective
14 Debtor for potential preference and fraudulent conveyance actions that might exist and will, in its
15 discretion, pursue those actions that it deems appropriate. Any recoveries from such Avoidance
16 Actions will become assets of the Liquidating Trust that pursues the actions. A list of known
17 Avoidance Actions will be submitted with the Plan Supplement. As more fully set forth herein or in
18 the Plan, the failure to list an Avoidance Action shall not provide a defense to the pursuit thereof.

19 **E. Objections to Claims**

20 Neither the Debtors nor the Committee has completed the review, analysis and investigation
21 of Claims. The Liquidating Trustee will analyze Claims filed against each of the Debtors and it is
22 anticipated that the Liquidating Trustee will file objections to various Claims.

23 **ARTICLE VI.**

24 **LITIGATION AND CAUSES OF ACTION**

25 **A. Litigation Commenced Pre-Petition**

26 As of the Petition Date, the Debtors were involved in certain litigation as set forth in the
27 Debtors' Schedules, the most material of which are as follows:
28

1 1. *Rhonda L. Torres v. PCHLI, United States District Court, C.D. Cal., Case No.*
2 *SACV05-1231 CJC (RNBx).*

3 This case is a purported class action alleging claims on a virtually nationwide basis
4 (excluding claimants in Cook County, IL). It arises from alleged mailings prior to the Petition Date
5 in 2005 to approximately 4.5 million households of "firm offers of credit" by PCHLI. The plaintiff
6 alleges that the mailings were sent in violation of the federal Fair Credit Reporting Act. Discovery
7 has not commenced because the parties agreed to an informal stay early in the District Court
8 proceedings while they engaged in settlement discussions, which resulted in a tentative settlement in
9 late 2006. That settlement was preliminarily approved by the United States District Court in Santa
10 Ana, California, on January 5, 2007, and the court conditionally certified an opt-out class in
11 connection with the settlement. It was anticipated that notice of the settlement would be sent to all
12 members of the conditionally certified class, with a hearing on final approval of the settlement
13 scheduled for April 23, 2007. However, the filing of the Cases resulted in a stay of this litigation.
14 The plaintiff later filed a purported class proof of claim based on the allegations made in the
15 amended complaint in this action.

16 2. *Ronald Poole vs. PCHLI, United States District Court, Middle District of Florida*
17 *Case No.: 3:06-cv-00327-J-33TEM*

18 Ronald Poole ("Poole") sued PCHLI in Duval County, Florida circuit court on March 6,
19 2006. PCHLI was served March 9, 2006. Poole brought the case individually and as representative
20 for a putative class of "similarly situated" borrowers. Poole's individual claims arise from four
21 purchase money mortgage loan transactions closed between December 2003 and January 2004.
22 Poole alleges PCHLI should not have qualified him for the loans and failed to provide him with
23 disclosures required by the federal Real Estate Settlement Procedures Act, 12 U.S.C. § 2601, *et seq.*
24 (RESPA).

25 The class allegations in Poole's complaint center on fees PCHLI charged for loan processing.
26 Poole alleges the fees were either not incurred or not reasonably related to the services provided.
27 The putative class includes borrowers who received mortgage loans from PCHLI to purchase
28 property in the State of Florida, who were charged certain fees during the applicable four year
period.

1 The core issues underlying Poole's allegations of unincurred or unearned loan charges are
2 regulated by federal law — primarily 12 U.S.C. § 2607 (RESPA, § 8). His state law claims include:
3 (1) violations of the Florida Deceptive and Unfair Trade Practices Act, FLA. STAT. § 501.201, *et seq.*
4 (FDUTPA); (2) violations of Florida Statutes, Chapter 494, *et seq.* (which is essentially an unfair
5 business practices statute applicable to mortgage lenders); (3) unjust enrichment;
6 (4) "unconscionability" (though incorrectly named, this count essentially seeks rescission and
7 reimbursement of various allegedly improper closing fees; (5) negligence; and (6) rescission.
8 Attorneys' fees are available under FDUTPA.

9 PCHLI removed the case to federal court based upon diversity jurisdiction under the federal
10 Class Action Fairness Act of 2005, 28 U.S.C. § 1332(d)(2) (CAFA). Removal was also based on
11 federal question jurisdiction because Poole's state law claims implicate and arise under RESPA.
12 Poole moved to remand the case back to state court. His motion was denied.

13 If the request to certify a class is denied, Poole's individual claims are relatively small,
14 arising from four loans with original principal balances ranging from \$58,650 to \$63,000.
15 The potential class, most broadly defined, includes approximately 15,400 loans funded to more than
16 20,000 borrowers who used the funds to purchase or refinance real property in Florida. Narrowly
17 defined, the class consists of less than 200 loans originated in Duval County, Florida, and involving
18 a specific settlement agent, realtor and mortgage broker.

19 The Committee has been informed that PCHLI has defended and intends to continue
20 defending Poole's lawsuit vigorously.

21 3. Lillie Asbury v PCHLI, Case No. 05 CV 5483 (USDC N.D. Ill.)

22 On September 22, 2005, Lillie Asbury on behalf of herself and a putative class of all Illinois
23 persons who received prescreened "firm offer" mailings from PCHLI during the period
24 September 22, 2003 to October 8, 2005 filed a class action complaint alleging PCHLI violated the
25 Fair Credit Reporting Act. On June 2, 2006 Plaintiff filed an amended complaint. The amended
26 complaint makes the same allegations as the original complaint and amended the putative class
27 definition to be all persons in Cook County, Illinois. PCHLI has answered the amended complaint
28 and denied that it has violated the Fair Credit Reporting Act. Plaintiff has moved for class

1 certification and that matter has been fully briefed. Prior to the Petition Date, PCHLI was
2 aggressively defending this case. During the pendency of these Cases, the Court entered an order
3 lifting the automatic stay to allow the plaintiffs to pursue recovery against the insurer only.

4 4. Patrick and Desiree Cabana v. Rodriguez, et al., Case No. BC 351551 (Superior
5 Court of the State of California, County of Los Angeles)

6 Patrick and Desiree Cabana filed an action against PCHLI, among others, alleging that
7 PCHLI participated in a scheme to deprive them of the equity in their home and seeking to avoid
8 liens held by PCHLI against their home (the “Cabana Action”). On May 24, 2007, the Cabanas filed
9 a motion for relief from stay (the “MFRS”) asking for the stay to be lifted to allow them to proceed
10 with the suit in state court. The Debtors opposed the MFRS and removed the case to the federal
11 district court (which automatically transferred it to the Bankruptcy Court) on June 18, 2007. On
12 July 17, 2007, the Cabanas filed a motion seeking a remand (the “Remand Motion”) of the case to
13 state court. On November 14, 2007, the Bankruptcy Court entered an order granting the Remand
14 Motion and the MFRS, in part, allowing the state court to determine liability in the Cabana Action
15 but not to enforce any judgment entered against PCHLI. The LA Superior Court has set a final
16 status conference for the case on August 6, 2008 and the matter is set for trial on August 18, 2008.

17 5. Sylvana Nogueira v. PCHLI, et al., Case No. 06-12608 (Miami-Dade County Circuit
18 Court, Florida)

19 Nogueira’s claims arise from a purchase money first and second mortgage loan transactions
20 in the amounts of \$357,600 and \$89,400, respectively. The allegations made are that Nogueira was
21 fraudulently induced to purchase her Miami-Dade County condominium that was part of a
22 condominium conversion. The seller, broker, and appraiser are co-defendants. Nogueira’s claims
23 against PCHLI are based upon an allegation of an inflated appraisal. The Committee has been
24 informed that PCHLI has various defenses.

25 6. Bennett v. PCHLI, et al., USDC Case No. SACV06-1074 AG (MLGx)

26 The Bennetts filed a lawsuit for rescission on November 8, 2006, against PCHLI (the loan
27 originator), Wilshire Credit Corporation (the current servicer) and MC Funding, Inc. (the loan
28 broker) in response to foreclosure proceedings initiated by Wilshire Credit. The complaint alleges

1 that PCHLI failed to provide the borrowers with a completed Notice of Right to Cancel, among other
2 things. PCHLI answered the complaint and also filed a declaratory relief counterclaim against
3 plaintiffs seeking a declaration that plaintiffs have no right of rescission or that, alternatively, if
4 rescission is granted, that an escrow account be established for deposit of the returned principal loan
5 funds and request for reconveyance. The Committee has been informed that PCHLI no longer owns
6 the loan and, based upon PCHLI's review of the facts, PCHLI believes it has good defenses.

7 The Bennets filed a proof of claim in the amount of \$1,700,000 alleging Truth in Lending
8 Act/RESPA violations in a \$695,000 loan transaction with PCHLI in July, 2005. No objection has
9 yet been filed to the Claim, but it is anticipated that the Liquidating Trustee will file such an
10 objection on behalf of the Creditors of PCHLI.

11 **B. WARN Act Litigation**

12 On April 6, 2007, certain former employees (the "Salvador Group") of PCHLI and PCFC
13 filed a putative class action complaint (the "WARN Act Adversary") with the Bankruptcy Court
14 alleging that PCHLI and PCFC violated the WARN Act (29 U.S.C. §§ 2101 et seq.) and California
15 Labor Code §§ 1400 et seq. (collectively, hereinafter referred to as the "WARN Act") when PCHLI
16 and PCFC allegedly terminated employees purportedly without providing the requisite written
17 notice. Prior to that time, another group of former employees (the "Bakhtlari Group" and together
18 with the Salvador Group, the "WARN Act Plaintiffs") had filed two class proofs of Claim (the
19 "WARN Act Proofs of Claim") based on, among other things, the same alleged violations of the
20 WARN Act by PCHLI and PCFC. The Salvador Group and the Bakhtlari Group each filed motions
21 with the Bankruptcy Court for class certification (the "Class Certification Motions").

22 Prior to the hearing on the Class Certification Motions, the WARN Act Plaintiffs agreed to
23 consolidate the WARN Act Proofs of Claim with the WARN Act Adversary and to pursue recovery
24 by means of the WARN Act Adversary. As a result of this agreement, the WARN Act Plaintiffs
25 filed an amended complaint on October 8, 2007, adding the Bakhtlari Group as plaintiffs seeking an
26 unspecified amount of damages. On December 4, 2007, the Bankruptcy Court approved the parties
27 Stipulated Order Granting Class Certification in the WARN Act Adversary. The class is comprised
28 of two subclasses of employees who worked in the Irvine location: (1) subclass A is approximately

1 200 employees terminated without cause in March, 2007, as a result of a mass lay-off or plant
2 closing at the defendant Debtors' Irvine facilities subject to WARN Act notification requirements;
3 and (2) subclass B is approximately 120 employees terminated without cause in April and May,
4 2007, as a result of a mass lay-off or plant closing at the defendant Debtors' Irvine facilities subject
5 to WARN Act notification requirements. The WARN Act Plaintiffs seek the award of an
6 Administrative Claim for their respective wages, salary, commissions, bonuses, accrued holiday,
7 accrued vacation, pension contributions, and 401K contributions. PCHLI and PCFC dispute that any
8 amounts are owned to the WARN Act Plaintiffs. Among other things, PCHLI and PCFC assert that
9 they were liquidating fiduciaries at the times of the reductions in force and accordingly their actions
10 are not subject to the WARN Act and that to the extent the WARN Act is applicable, the
11 unforeseeable business circumstance and faltering company exceptions provide complete defenses to
12 the liability. Further, PCHLI and PCFC allege that members of subclass B received a WARN Act
13 notice. The WARN Act Plaintiffs distributed the "opt-out" notice to the class members on January
14 8, 2008. The number of employees who will chose to opt-out of the class is not known at this time.
15 No trial date has been set as of the filing of this Disclosure Statement.

16 **C. Debtors' Post-Petition and Other Potential Causes of Action**

- 17 1. *People's Choice Home Loan, Inc. et al. v. Washington Mutual Bank*, Case No. 8:07-
18 *ap-01408-RK* (United States Bankruptcy Court for the Central District of California,
Santa Ana Division)

19 The Debtors (in consultation with the counsel for the Committee) attempted to negotiate with
20 Washington Mutual Bank, a Federal association ("WaMu") regarding, among other things, its
21 claimed security interest in PCHLI's prepetition tax refund proceeds and rights under the Court's
22 Order dated April 26, 2007 approving the Stipulation re Adequate Protection pursuant to Sections
23 361 and 363 of the Bankruptcy Code. These negotiations reached an impasse, and on November 28,
24 2007, the Debtors filed their Complaint against WaMu for: (a) the recovery of avoidable preferential
25 transfers; (b) the recovery of an avoidable fraudulent transfer; (c) damages for breach of contract;
26 (d) damages for conversion; and (e) objection to claims. Among other things, the Complaint seeks an
27 order of the Bankruptcy Court avoiding WaMu's asserted security interest in the tax refund
28 proceeds, which was granted by the Debtors to WaMu approximately five weeks before the Petition

1 Date. WaMu filed its Answer to the Complaint on February 6, 2008. The parties are beginning to
2 conduct discovery and the next status conference in the proceeding is scheduled for July 8, 2008.

3 2. D&O Claims

4 The Committee has notified the Debtors' insurance carrier of certain Causes of Action,
5 including the Causes of Action referenced in the September 27 Letter (defined in Article VII below)
6 attached hereto as Exhibit "D." See Section V.C. of this Disclosure Statement for a greater
7 discussion.

8 3. Wachovia Claim

9 The Debtors have asserted and continue to assert claims against Wachovia from events which
10 occurred prior to the bankruptcy filing, relating to Wachovia's declaration of default under the
11 parties' warehouse loan repurchase agreement. In particular, the Debtors contend that Wachovia
12 foreclosed on collateral and refused to allow the sale of certain warehouse loans to a third party
13 purchaser which, if timely consummated, would have generated sales at par value and resulted in
14 approximately \$8.0 million in cash returned to PCHLI. Instead, Wachovia retained the assets and
15 valued them at approximately 80% of par. Wachovia disputes the Debtors' contentions and believes
16 there is no factual or legal basis for asserting any claims against it in connection with the parties'
17 warehouse loan repurchase agreement. Wachovia has advised the Debtors that it intends to
18 vigorously defend against any claims asserted against it. The Liquidating Trustee will determine
19 whether to pursue such claims post-confirmation.

20 **ARTICLE VII.**

21 **INTERCOMPANY SETTLEMENT**

22 In a bankruptcy case where there are multiple debtors with varying creditor constituencies,
23 questions may arise as to whether a chapter plan should "pool" assets or consolidate debtors for
24 making distributions or whether each creditor should look to its particular debtor for a recovery.
25 The result of consolidating or not consolidating debtors may have a significant impact on ultimate
26 recoveries to individual creditors depending upon the circumstances. In addition, in a bankruptcy
27 case involving multiple debtors, if the Estates are not consolidated, the various debtors may hold
28 intercompany claims against each other. As a general matter, consolidation is not the norm and

1 requires a substantial and factually intensive showing in order to justify a plan that does not propose
2 to respect the separate identity of multiple debtors.

3 In these Cases, there are multiple debtors with varying creditor constituencies, as well as
4 possible intercompany claims. The Committee and Debtors both evaluated whether or not it was
5 appropriate to consolidate the Estates or pool assets for recoveries under a chapter 11 plan.
6 In addition, the parties considered the existence and validity of possible Intercompany Non-
7 Administrative Claims and Administrative Intercompany Claims. As a result of the evaluation of the
8 merits of substantive consolidation and identification of Intercompany Non-Administrative Claims
9 and Administrative Intercompany Claims, the Committee is seeking approval, as part of the Plan, of
10 a global settlement among the Estates, all as set forth below.

11 **A. Substantive Consolidation.**

12 There is no specific provision of the Bankruptcy Code that governs substantive
13 consolidation. Instead, the law on the subject has developed through the decisions of the courts.
14 As a result, it has been said that “substantive consolidation cases are to a great degree sui generis.”
15 *In re Tureaud*, 59 B.R. 973, 975 (N.D. Okla. 1986) (quoting 5 Collier on Bankruptcy ¶ 1100.06 at
16 1100 33 (15th ed. 1984)). Another court stated the matter more bluntly: “as to substantive
17 consolidation, precedents are of little value, thereby making each analysis on a case by case basis.”
18 *In re Crown Machine & Welding*, 100 B.R. 25, 27-28 (Bankr. D. Mont. 1989).

19 There are three competing methods of determining whether substantive consolidation is
20 warranted. They are represented by the decisions of (a) the Court of Appeals for the Second Circuit
21 in *In re Augie/Restivo Baking Co.*, 860 F.2d 515 (2d Cir. 1988) (hereinafter referred to as
22 “Augie/Restivo”), (b) the Court of Appeals for the Eleventh Circuit in *Eastgroup Properties v.*
23 *Southern Motel Assoc., Ltd.*, 935 F.2d 245 (11th Cir. 1991) (hereinafter referred to as “Eastgroup
24 Properties”), and (c) the Court of Appeals of the Third Circuit in *In re Owens Corning*, 419 F.3d 195
25 (3d Cir. 2005) (hereinafter referred to as “Owens Corning”).

26 In *Augie/Restivo*, the Second Circuit concluded that while “[n]umerous considerations have
27 been mentioned as relevant” in deciding whether two entities should be substantively consolidated, a
28 close analysis “reveals that these considerations are merely variants on two critical factors:

1 (i) whether creditors dealt with the entities as a single economic unit and did not rely on their
2 separate identity in extending credit [citations omitted] or (ii) whether the affairs of the debtors are
3 so entangled that consolidation will benefit all creditors [citations omitted].” Augie/Restivo, 860
4 F.2d at 518. Only one of the factors in this test need be satisfied. *In re Bonham*, 229 F.3d 750, 766
5 (9th Cir. 2000) (“[t]he presence of either factor is a sufficient basis to order substantive
6 consolidation”); *In re Standard Brands Paint Co.*, 154 B.R. 563, 572 (Bankr. C.D. Cal. 1993) (“the
7 two prongs of the Augie/Restivo test are in the alternative”); *Reider v. FDIC (In re Reider)*, 31 F.3d
8 1102, 1108 (11th Cir. 1994)(“presence of either factor justifies substantive consolidation”).

9 In establishing its two-prong, alternative test, the Augie/Restivo court further held that it was
10 impermissible for the bankruptcy court to substantively consolidate two entities solely on the basis
11 that substantive consolidation would benefit the creditors of both debtors: “a proposed
12 reorganization plan alone can [not] justify substantive consolidation.” 860 F.2d at 520.

13 The Second Circuit noted that:

14 With regard to the first factor, creditors who make loans on the basis of
15 the financial status of a separate entity expect to be able to look to the
16 assets of their particular borrower for satisfaction of that loan. Such
17 lenders structure their loans according to their expectations regarding
18 that borrower and do not anticipate either having the assets of a more
19 sound company available in the case of insolvency or having the
20 creditors of a less sound debtor compete for the borrower’s assets.
Such expectations create significant equities. Moreover, lenders’
expectations are central to the calculation of interest rates and other
terms of loans, and fulfilling those expectations is therefore important
to the efficiency of credit markets. Such efficiency will be undermined
by imposing substantive consolidation in circumstances in which
creditors believed they were dealing with separate entities.

21 860 F.2d at 518 19.

22 With respect to the second factor, the court held that:

23 Commingling, therefore, can justify substantive consolidation only
24 where the time and expense necessary even to attempt to unscramble
25 them is so substantial as to threaten the realization of any net assets for
26 all the creditors [citations omitted], or where no accurate identification
27 and allocation of assets is possible. In such circumstances, all creditors
28 are better off with substantive consolidation.

860 F.2d at 519.

The Court of Appeals for the Ninth Circuit in *In re Bonham, supra*, essentially adopted the

1 Augustie/Restivo test of the Second Circuit. The Debtors' cases are pending in the Ninth Circuit and
2 the law of the Ninth Circuit applies. Under *In re Bonham*, there are two basic factors that are
3 applied to determine whether substantive consolidation is appropriate: "(i) whether creditors dealt
4 with the entities as a single economic unit and did not rely on their separate identity in extending
5 credit" (the "Single Economic Unit Test"); or (ii) "whether the affairs of the Debtor are so entangled
6 that consolidation will benefit all creditors." *In re Bonham*, 229 F.3d at 766. Both factors do not
7 have to be present to implement the remedy. Either factor will suffice. Id.

8 In these Cases, the following factors may weigh against the finding of a single economic unit
9 and would militate against a finding of substantive consolidation:

10 1. Funding had a separate business purpose – to qualify securitization
11 transactions for REIT tax treatment.

12 2. Each Debtor prepared detailed income statements and balance sheets for itself.

13 3. PCHLI and Funding entered into a standing purchase agreement for the sale
14 by PCHLI to Funding from time to time of mortgage loans originated by PCHLI, thus formalizing
15 the relationship between them for such sales.

16 4. All mortgage loans appear to have been transferred to Funding by PCHLI
17 using standardized transfer documentation, further evidencing attention to the separateness of these
18 entities.

19 5. PCHLI and Funding entered into servicing agreements for the servicing by
20 PCHLI of the mortgage loans sold from time to time to Funding, thus formalizing the relationship
21 between them for such services.

22 6. Funding was the holder of the residual interests for the REIT securitizations,
23 and PCHLI was the holder of the residual interests for the REMIC transactions, as would be
24 expected for their respective roles.

25 7. PCHLI creditors, other than the Warehouse Participants, dealt only with
26 PCHLI, thus creating no expectation of recourse to Funding or PCFC.

27 8. In contrast to other PCHLI creditors, Funding was expressly made a co-
28 obligor of the warehouse and repurchase facilities and PCFC was made a co-obligor in some

1 instances. PCFC was expressly made a guarantor. These facts evidence an intention of the
2 Warehouse Participants to have recourse against each of the Debtors. It also appears that Funding
3 paid interest on such facilities for that portion of the warehoused loans transferred to it.

4 9. The entities entered into overhead sharing arrangements that purported to
5 provide for equitable sharing of overhead expenses, further evidencing attention to the formalities of
6 separateness.

7 10. PCHLI was a separate taxable entity filing its own tax returns, as would be
8 expected for a taxable REIT subsidiary, whereas Funding's tax attributes were passed through to
9 PCFC, as would be expected for a qualified REIT subsidiary.

10 11. Each debtor maintained its own bank accounts, there was no consolidated cash
11 management system, and there does not appear to be unusual commingling of funds in the accounts.

12 12. The Debtors generally appear to have observed corporate formalities, although
13 exceptions may exist.

14 The following factors may weigh in favor of finding a single economic unit and would
15 militate in favor of a finding of substantive consolidation in these Cases:

16 1. The purpose for establishing Funding was not to conduct a separate business
17 operation. The purpose was solely a tax purpose – to create a vehicle to effect securitizations that
18 qualified for REIT tax treatment.

19 2. Each Debtor did not prepare individual Statements of Cash Flow and liquidity
20 appears to have been managed on a consolidated basis.

21 3. Funding had no employees or facilities and relied entirely on PCHLI and
22 PCFC for its overhead requirements. While the parties had a formal cost sharing agreement for
23 overhead, the Debtors in many instances did not follow the terms of these arrangements.

24 4. All of Funding's earnings were derived from the securitization of loans
25 originated by PCHLI and sold to Funding at below market prices. Funding's earnings were
26 distributed to PCFC by way of dividend and returns of capital contributions. Over \$234 million
27 flowed up from Funding to PCFC. Over \$158 million also flowed down from PCFC to PCHLI.

28

1 5. PCHLI, Funding and PCFC share common officers and directors. Each of the
2 Debtors have the same officers and they share two common directors – Messrs. Kornswiet and
3 Harris. Certain employees of PCHLI also held senior positions with PCFC. For a substantial period
4 of time, Neil Kornswiet, a director of PCFC, was the sole director of PCHLI and Funding.

5 6. It may be the case that creditors of PCHLI who requested copies of financial
6 statements received consolidated PCFC financial statements.

7 7. There appears to have been some commingling of accounts given the current
8 dispute over the commingled cash between the Estates and certain financial institutions.

9 8. It appears that loan sales between PCHLI and Funding may not have been
10 conducted at arms-length.

11 9. The servicing arrangements entered into between PCHLI and Funding
12 whereby PCHLI “rebated” a portion of its servicing fees to Funding may not have been at arms-
13 length.

14 10. Shortly before filing their bankruptcy petitions, the employment arrangements
15 of certain officers and employees of PCFC were apparently transferred by PCFC to PCHLI.

16 The second basis upon which substantive consolidation may be ordered under the Ninth
17 Circuit test is that the Debtors’ business and financial affairs are hopelessly entangled. The Debtors
18 maintained clear financial records and separate bank accounts, and they entered into formal
19 agreements governing intercompany transactions. While a variety of intercompany transactions
20 occurred, the records regarding these transactions can be reconciled – in short, the assets and
21 liabilities of the Debtors are identifiable and traceable. Nor is there any reason to believe the
22 consolidating statements of the various Debtors are fraudulent or that assets have been hidden among
23 the entities.

24 If the Cases were substantively consolidated, all Holders of Allowed General Unsecured
25 Claims would receive approximately 16.3% on account of their Allowed General Unsecured Claims
26 (exclusive of any proceeds of the D&O and Shareholder Claims litigation). According to
27 Exhibit “F” hereof, under the Plan’s non-consolidating approach, holders of Allowed General
28 Unsecured Claims will receive the following approximate distributions on claims using a mid-point

1 calculation of the total amount of claims against each of the Debtors:

- 2 1. PCHLI – 12.4% (plus the proceeds of D&O and Shareholder Claims);
- 3 2. Funding – 12.5%; and
- 4 3. PCFC – 0.1%

5 Under the Plan’s non-consolidating approach, holders of Allowed General Unsecured Claims
6 against all three estates – i.e., most of the Warehouse Participants or financial institutions providing
7 financing under various facilities – will receive a distribution of 25.1% of the allowed amount of
8 their Claims since they will receive a distribution from each estate in a non-consolidated scenario
9 until their Allowed Claims are paid in full. Warehouse Participants may receive a distribution from
10 each Estate to the extent they negotiated, prepetition, for separate contractual rights against each
11 Estate.

12 After extensive analysis, the Debtors determined that substantive consolidation is not
13 warranted under the facts of these cases. However, certain members of the Committee questioned
14 that conclusion. Any dispute over the appropriateness of substantive consolidation was settled in
15 favor of a non-consolidating approach as part of the Intercompany Settlement described below. As
16 discussed below, the parties ultimately agreed that the expense of litigating this issue could impair
17 recoveries to unsecured creditors and jeopardize the Debtors ability to obtain timely confirmation of
18 the Plan in order to preserve its REIT status. The failure of the Debtors to preserve their REIT status
19 could result in the incurrence of substantial additional Claims. The foregoing analysis was
20 concluded to evaluate issues regarding substantive consolidation and shall not bind any person or
21 entity as a finding or otherwise.

22 **B. Intercompany Transactions, Claims and other Arrangements.**

23 Intercompany Loan Sales and Servicing. The Funding and PCHLI relationship centered on
24 the origination, aggregation, securitization and ultimate servicing for REIT securitizations. The loan
25 sales and servicing transactions appear to have been priced in a manner that shifted earnings from
26 PCHLI to Funding. The mortgage loans originated by PCHLI were sold to Funding under that
27 certain Flow Mortgage Loan Purchase and Warranties Agreement dated December 28, 2004 at prices
28 that appears to have been below market prices. It appears that Funding underpaid PCHLI for loans

1 purchased by Funding by not less than approximately \$46.7 million, which represents a Claim of the
2 PCHLI estate against Funding. As explained above, PCHLI continued to service, on an interim
3 basis, loans sold to Funding pursuant to that certain Flow Interim Servicing Agreement, dated
4 December 28, 2004 pending the securitization of such loans and thereafter. The fee payable for
5 interim servicing of the loans was \$20 per calendar month per loan pending Funding's ultimate
6 securitization of such loans. After the loans were securitized, PCHLI served as subservicer.
7 Although PCHLI performed all of the subservicing functions under the 2005-1, 2005-2, 2005-3 and
8 2005-4 Funding securitizations, PCHLI agreed to "rebate" over half of its 0.47% per annum
9 subservicing fee to Funding. If the servicing arrangement was an arms-length transaction, the
10 servicing fee payable to PCHLI may have instead approached the 0.47% subservicing fee (i.e., little
11 or no part of the subservicing fee would have been rebated to Funding under normal circumstances).
12 Thus, the compensation received by PCHLI for post-securitization servicing of loans appears to be
13 below market. PCHLI appears to have improperly rebated to Funding not less than approximately
14 \$10 million in servicing fees that it would have otherwise retained had the arrangements between
15 PCHLI and Funding been at arms-length. This represents a further Claim of PCHLI against
16 Funding.

17 Other Intercompany Transfers. The private placement of PCFC stock that was accomplished
18 in connection with the December 2004 Restructuring generated substantial net proceeds. Nearly all
19 of those net proceeds were initially contributed to Funding. Over time, a portion of these proceeds
20 were returned to PCFC as a "return of capital." Substantially all of the net income of Funding was
21 generated from securitization of the mortgage loans transferred to it by PCHLI. Such transfers from
22 PCHLI to Funding may have been accomplished at below market prices. Funding in turn transferred
23 nearly all the income it earned upon the securitization of the PCHLI originated mortgage loans to
24 PCFC through the making of corporate dividends. Funding also transferred over \$150 million to
25 PCFC as returns of capital. Up to \$234 million may have flowed from Funding to PCFC as
26 dividends or returns of capital. PCFC transferred a portion of that income to PCFC's shareholders as
27 dividends (it is estimated that approximately \$76 million was so transferred). It is also estimated
28 that approximately \$158 million was transferred by PCFC to PCHLI. In addition, the debt in respect

1 of the working capital loans from PCFC to PCHLI was ultimately converted into equity prior to the
2 Petition Date. These various transfers between PCHLI, Funding and PCFC may give rise to
3 intercompany litigation claims among the various Estates, particularly on behalf of PCHLI as well as
4 give rise to claims against third parties. Some of these claims are detailed in the September 27
5 Letter from Winston & Strawn LLP, on behalf of the Committee, to the Debtors and the Debtors'
6 various D&O insurers. The following are excerpts of certain of these claims for illustrative purposes
7 from the September 27 Letter:

8 *PCHLI v. PCFC.* The Committee alleges the following: On August
9 12, 2005, PCHLI paid \$13 million in dividends to the Parent Company,
10 PCFC, without any advance approval by the PCHLI board, under the
11 direction of CEO Kornswiet and/or CFO Plantiko, and their actions
12 were therefore not protected by any business judgment rule. The
13 Committee also alleges that PCHLI, and CEO Kornswiet and CFO
14 Plantiko arranged the dividends to PCFC in part so that PCFC could
15 make a dividend payment to its shareholders, who included CEO
16 Kornswiet and CFO Plantiko. Consequently, the Committee alleges
17 that CEO Kornswiet and CFO Plantiko had a conflict in the matter and
18 bear the burden of establishing that the dividend transactions were
19 intrinsically fair to the company and that there is an issue as to whether
20 they would be able to establish such fairness.

21 The Committee also alleges that on December 29, 2005, PCHLI paid
22 \$6 million to the Parent Company, PCFC, in part in order to permit
23 PCFC to make a dividend payment to its shareholders, who included
24 CEO and sole PCHLI director Kornswiet and CFO Plantiko, pursuant
25 to a board resolution by sole PCHLI director Kornswiet and with the
26 assistance of CFO Plantiko. The Committee alleges that PCHLI was
27 insolvent at the time on adequate capital and asset and/or cash flow
28 tests. The Committee also alleges that CEO and Director Kornswiet
and CFO Plantiko had a conflict and were not disinterested in the
matter and bear the burden of establishing that the dividend
transactions were intrinsically fair to the company and that they should
be unable to establish such fairness (the Committee contends Officer
Plantiko had such a burden if he contends that he is entitled to a
business judgment defense under applicable law, including the
Wyoming Statutes).

The Committee alleges the total amount in controversy on this claim is
\$19 million.

September 27 Letter, pp. 9-10.

PCHLI v. Funding and PCFC. The Committee alleges that, during
2004 and 2005, PCHLI employed all or substantially all of the
employees who worked within the consolidated group of PCFC
companies that originated and sold their loans to the market; PCHLI
originated and transferred some of its prime loans to its sister
subsidiary, the REIT Subsidiary Funding, for inadequate consideration,

1 at a fraction of their value (the Committee's consultants believe the
2 intercompany loan sales are summarized on the loan sale summary
3 enclosed with this letter); the REIT Subsidiary resold the loans in a flip
4 sale for full market value and received substantially all of the profit
5 derived from the loans that PCHLI originated; PCHLI ended up saddled
6 with substantially all of the expense necessary to originate and sell the
7 loans, but did not receive all of the profits that were necessary to cover
8 such expenses; the REIT Subsidiary upstreamed the profits that the
9 REIT Subsidiary generated from such resales to the Parent Company
10 for distribution to its shareholders, who included Neil Kornswiet; these
11 intercompany transactions rendered PCHLI unable to pay its debts as
12 they arose in the foreseeable future in the ordinary course of business,
13 and/or the company had unreasonably small assets or capital for its
14 business; and Mr. Kornswiet (and possibly other shareholders) received
15 the dividends with knowledge that they constituted the proceeds of the
16 resale profits under these circumstances.

17 Accordingly, the Committee alleges that PCHLI's transfers of its loans
18 to the REIT Subsidiary are avoidable under Bankruptcy Code section
19 548(a)(1)(A) and (B), and California Code of Civil Procedure section
20 3439.04(a)(1) and (2) (either or both constructive fraud with no
21 intentional misconduct or intentional fraudulent transfers). In that
22 regard, the Committee alleges that the transfers included the factors set
23 forth in subparts (1), (2), (5) (8) and (9) of Code of Civil Procedure
24 section 3439.04(b). Finally, the Committee alleges that Mr. Kornswiet
25 and other shareholders (who are unknown to the Committee) were not
26 good faith transferees who received the proceeds for value within the
27 meaning of Code of Civil Procedure section 3439.08 and Bankruptcy
28 Code section 550(b).

September 27 Letter, p. 10.

17 Cost-Sharing Arrangements. In order to allocate the cost of shared employees, lease space
18 and overhead, the Debtors entered into an Overhead Sharing Agreement dated December 28, 2004,
19 and later an Intercompany Services Agreement dated December 1, 2006. Under those agreements,
20 each respective Debtor was to repay amounts advanced by another Debtor. For example, (a) PCFC
21 was to directly employ all persons that provided services for more than one debtor (only PCFC and
22 PCHLI had employees), (b) PCFC and Funding were to compensate PCHLI "to the extent that some
23 employees performing services for multiple [Debtors] remained employed and compensated by
24 PCHLI", (c) PCFC was to provide "management, administrative, legal, accounting, asset
25 management and other professional administrative services" that PCHLI and Funding required, and
26 (d) PCHLI was to be reimbursed for the other Debtor's use of office space, office equipment and
27 services, and payroll and compensation services. Intercompany Services Agreement §§ 1-3.
28 As these payments were deemed repayments of advances, they were not included in any Debtor's

1 gross income for federal tax purposes. Despite the formal documentation, there does not appear to
2 be evidence that these agreements, particularly the Overhead Sharing Agreement, were closely
3 followed in practice. For example, Funding does not appear to have regularly (a) reimbursed PCHLI
4 for overhead allocable to Funding, including payment of rent for use of the facilities or FF&E or
5 (b) reimbursed PCFC for use of its back office personnel. In practice, significant costs were
6 allocated to PCHLI under the agreements, but not the other Debtors.

7 Since the recapitalization of the company in December 2004, it is estimated that the Debtors
8 incurred approximately \$125 million in allocable overhead charges. In practice, the Debtors
9 allocated the approximately \$125 million among the Debtors as follows: (A) 16% to PCFC; (b) 1%
10 to Funding; and (c) 83% to PCHLI. It thus appears that PCHLI bore the overwhelming amount of
11 the overhead. While PCHLI may hold reimbursement claims against the other Debtors for a portion
12 of the overhead, it would be impracticable and costly, if not impossible, to determine those claims
13 with precision.

14 The Overhead Sharing Agreement and Intercompany Services Agreement will be rejected by
15 operation of the Plan and all claims relating thereto will be extinguished as part of the Intercompany
16 Settlement described below.

17 Allocation of Post-Petition Expenses. During the pendency of the Cases, various Debtors
18 have paid fees and expenses of the professionals employed in the cases as well as other
19 administrative expenses of these Cases irrespective of the benefit conferred upon the respective
20 Estates. For convenience and as a mechanical matter, PCHLI has substantially borne the
21 administrative expenses of these Cases. As a result, PCHLI holds a post-petition claim for
22 reimbursement of the portion of the administrative expenses incurred by PCHLI on behalf of the
23 Estates of PCFC and Funding.

24
25
26
27
28

1 Summary.

2 **Summary of Estimated Intercompany Claims**
 3 (Excluding substantive consolidation claims)

| PLAINTIFFS | DEFENDANTS | | |
|-------------------|--|---|--|
| | PCHLI | PCFC | Funding |
| PCHLI | | A. Not less than \$19 MM General Unsecured Claim – Fraudulent Transfers (dividends) B. <u>Unquantified</u> General Unsecured Claim – Reimbursement right in respect of the proper allocation of \$125MM in overhead among the three Debtors under Prepetition Cost Sharing Arrangements C. Not less than \$0.4 MM Administrative Claim – Reimbursement for Post-Petition Advances | A. Not less than \$46.7 MM – Fraudulent Transfer (loan sales) B. Not less than \$10 MM Fraudulent Transfer (servicing fee rebates) C. <u>Unquantified</u> General Unsecured Claim – Reimbursement right in respect of the proper allocation of \$125MM in overhead among the three Debtors under Prepetition Cost Sharing Arrangements D. Not less than \$14.7 MM Administrative Claim – Reimbursement for Post-Petition Advances |
| Funding | | <u>Unquantified</u> General Unsecured Claim – Reimbursement right in respect of the proper allocation of \$125MM in overhead among the three Debtors under Prepetition Cost Sharing Arrangements | Not less than \$234 MM – Fraudulent Transfer (dividends/return of capital) |
| PCFC | A. <u>Unquantified</u> General Unsecured Claim – Reimbursement right in respect of \$125MM allocated under Prepetition Cost Sharing Arrangements B. See note* | | N/A |

24 * Approximately \$158 million in transfers occurred from PCFC to PCHLI. As a downstream transfer to a subsidiary of PCFC, such transfers are not considered to be recoverable as fraudulent transfers.

1 The foregoing chart summarizes estimates of claims in conjunction with evaluation of the
2 Intercompany Settlement. The actual dollar amount of intercompany claims may be higher or lower.
3 In some instances, it is impossible to accurately quantify a claim without excessive expense or with
4 any certainty given the state of the Debtors' records on certain issues (i.e., the allocation of
5 overhead). Additional intercompany claims may exist that the parties are not aware of at this time,
6 and the identified claims were so identified in an attempt to avoid the cost and uncertainty of
7 litigation and with a view towards a negotiated settlement. If litigation were to ensue instead of
8 settlement it is possible other theories of claims would or would not be advanced.

9 **C. Compromise of Claims.**

10 In late August 2007, the Debtors provided the Committee with a draft plan term sheet and a
11 memorandum evaluating the possible substantive consolidation of the Estates. The Committee
12 reviewed the materials provided by the Debtors and produced its own comprehensive analysis of the
13 merits of substantive consolidation, Claims by and among the Estates and general considerations of
14 plan confirmation.

15 The Committee is composed of Creditors with varying interests. Three members of the
16 Committee are trade creditors holding Claims against PCHLI. These Creditors do not hold Claims
17 against the other two Debtors and are representative of Creditors who would benefit from
18 substantive consolidation. The other two members of the Committee are financial institutions that
19 hold Claims against all three of the Debtors and are representative of Creditors who would not
20 benefit from substantive consolidation. The Committee does not include any creditor who has a
21 claim solely against Funding or solely against PCFC.

22 The Committee recognized that the recovery to trade creditors and financial institutions
23 under a chapter 11 plan would vary depending upon certain factors, primarily whether the Estates
24 were substantively consolidated and the relative merits of intercompany claims by and among the
25 Debtors. In general, the trade creditors of PCHLI would stand to receive a higher recovery if the
26 estates were substantively consolidated or intercompany claims of PHCLI were allowed against the
27 other Debtors. Conversely, the financial institutions would receive a higher recovery if the Estates
28 remained separate and intercompany claims of PCHLI were defeated.

1 Given these disparate interests, the Committee could not readily agree on the terms of an
2 acceptable plan. The Committee met in person for two days in November 2007 and engaged in
3 intensive negotiations between the different constituent groups, taking into account the merits of
4 substantive consolidation, intercompany claims, and general plan confirmation issues (such as the
5 ability to obtain the requisite vote to confirm a plan absent a consensual resolution of these issues).
6 The members of the Committee recognized that litigation over these issues could drain the Estates of
7 resources and deplete recoveries, would not necessarily produce a particular result give the inherent
8 uncertainty posed by litigation, and would jeopardize the Debtors' ability to obtain confirmation in a
9 timely manner in order to permit the company to maintain its status as a real estate investment trust.

10 The intra-Committee negotiations were difficult, lengthy and hard fought, and the different
11 constituent groups included members who were represented throughout the negotiations by
12 experienced insolvency counsel. Committee counsel facilitated the exchange of positions and
13 arguments. The negotiations produced a preliminary compromise which was augmented upon
14 further discussion and negotiation with the Debtors and eventually memorialized in the Plan.

15 In significant part, the Committee constituent groups arrived at the Intercompany Settlement
16 in order to avoid the attendant cost and inherent uncertainty of litigating issues between the Estates
17 regarding (a) the applicability of substantive consolidation, and (b) the validity, extent and
18 enforceability of Intercompany Non-Administrative Claims and Administrative Intercompany
19 Claims. In the absence of such a settlement, the Estates could be required to litigate matters of
20 substantive consolidation with creditors and litigate intercompany claims among themselves. This
21 litigation could consume significant assets of the Estates and, in the end, substantially impair
22 recoveries for creditors in these Cases as well as jeopardize the ability of the Debtors to timely
23 confirm a chapter 11 plan in order to preserve their REIT status and avoid the incurrence of
24 significant liabilities resulting from their failure to do so. Neither the Debtors nor the Committee
25 express a conclusion as to the likely outcome of litigation or possible effect on creditors of each
26 Debtor if the intercompany claims and causes of action were litigated.

27 In connection with that analysis, the following factors are relevant:
28

1 1. PCHLI's Claims against Funding.

2 a. Relating to Under Market Servicing Fee "Rebates". Although PCHLI

3 performed all of the subservicing functions under the 2005-1, 2005-2, 2005-3 and 2005-4 Funding
4 securitizations, PCHLI agreed to "rebate" over half of its 0.47% per annum subservicing fee to
5 Funding. The Committee's financial advisors advise that, if the servicing arrangement was an arms-
6 length transaction, the servicing fee payable to PCHLI should have approached the 0.47%
7 subservicing fee (i.e., little or no part of the subservicing fee would have been rebated to Funding
8 under normal circumstances). Based on such advice, the Committee considered the rebate to
9 potentially be a transaction that was not made at arms-length, giving rise to potentially recoverable
10 Claims of PCHLI against Funding in the range of \$0.00 to not less than approximately \$10 million
11 as either a constructively fraudulent or intentionally fraudulent transfer under 11 U.S.C. §548 and
12 other applicable law. Further, the relative ease in calculating damages, and the relatively
13 straightforward nature of the cause of action are positive factors in assessing the likelihood of
14 success on the merits. In addition, the potential defendant, Funding, possesses funds to partially
15 satisfy a judgment. On the other hand, Funding could argue that the rebate was part of an integrated
16 business and tax strategy, that PCHLI was solvent at the time a rebate was paid, and that reasonably
17 equivalent value was provided to PCHLI. Also, PCHLI had received significant downstream funds
18 from PCFC, and Funding could raise arguments that the rebate was reasonable in light of PCFC's
19 allocation of other funds to PCHLI. Litigating this issue could result in delay and attendant expense.

20 b. Relating to Under-Market Intercompany Loan Sales. In addition, PCHLI

21 holds potential constructively fraudulent or intentionally fraudulent transfer Claims against Funding
22 with respect to PCHLI's sale of mortgage loans to Funding. The Committee's financial advisors
23 advise that the sale of mortgage loans by PCHLI to Funding was accomplished at below market
24 rates. Based on such advice, the loan sales were considered by the Committee as potentially
25 constituting not arms-length transactions, giving rise to a potentially recoverable Claim of PCHLI
26 against Funding in the range of \$0.00 to not less than approximately \$46.7 million as either a
27 constructively fraudulent or intentionally fraudulent transfer under 11 U.S.C. §548 and other
28 applicable law. Although the theory underlying the Claims is relatively straightforward, the

1 complexity of the financial and historical data – more than \$4 billion of loans were generated and
2 sold by PCHLI to Funding over less than two years – is a countervailing factor inasmuch as it
3 implicates the ability of PCHLI to prove up such Claims and could result in delay and attendant
4 expense. In addition, Funding could raise defenses to the alleged fraudulent transfers along the lines
5 of the defense discussed in 1(a) above. Again, it is noted that the potential defendant, Funding,
6 possesses funds to partially satisfy a judgment.

7 c. Relating to Cost-Sharing Arrangements. As discussed above, in actual
8 practice, on a prepetition basis, the Debtors allocated approximately 83% of the Debtors'
9 approximately \$125 million in total overhead charges to PCHLI, 16% to PCFC and 1% to Funding.
10 Based upon the significant allocations to PCHLI, it is possible that PCHLI holds Claims against
11 Funding to re-allocate the overhead in accordance with the parties pre-petition cost-sharing
12 agreements. The agreements allocated various expenses based on, among other things, cost centers
13 and worker surveys. While in practice the Debtors did allocate costs between and among
14 themselves, it is far from clear whether they were allocated in accordance with the cost-sharing
15 agreements or whether the cost-sharing agreements themselves were reasonable. The Debtors'
16 records relating to the allocation of overhead among the Estates constitute thousands of pages of
17 paper. The records are also extremely complex and in many cases either difficult to understand or
18 entirely indecipherable. To reallocate expenses would require a very time consuming and expensive
19 process of examining each expense and the back up therefor and determining what portion of such
20 expense belongs to each Estate. The process is very uncertain and much of the institutional
21 knowledge of the companies necessary to accomplish the task has been lost due to staff attrition.
22 Thus, it would be impracticable, if not impossible, and unreasonably costly to determine those
23 Claims with precision, if at all. In light of these considerations, the resulting expense related to
24 reallocation could be substantial relative to the potential benefit.

25 Thus, as set forth above, PCHLI potentially holds Claims against Funding with an estimated
26 range of recovery of \$0.00 to not less than approximately \$56.7 million and a possible unliquidated
27 Claim against Funding for the reallocation of overhead. In addition, Funding does not have any
28 material, offsetting Claims against PCHLI, as described below in paragraph 3, although Funding

1 may have defenses to PCHLI's Claims as set forth above.

2 2. PCHLI's Claims against PCFC.

3 a. Relating to Dividends. PCHLI made dividends to PCFC totaling
4 approximately \$19 million in 2005. The Committee's financial advisor advises that PCHLI was
5 undercapitalized or insolvent at the time it made these dividends. It is alleged that Mr. Kornswiet
6 approved such dividends as a Board Member of PCHLI, although he stood to receive proceeds of
7 such dividends as a shareholder of PCFC. Based on the foregoing, the dividends were considered by
8 the Committee as giving rise to Claims of PCHLI against PCFC in the range of \$0.00 to not less than
9 approximately \$19 million as either a constructively or intentionally fraudulent transfer under
10 11 U.S.C. §548 or other applicable law, or as an illegal dividend. PCFC has minimal funds and is
11 not in a position to satisfy a judgment in favor of PCHLI at all or at least in a material manner.
12 PCFC might assert as a defense that it transferred approximately \$158 million to PCHLI and that
13 such downstream transfer was consideration for the dividends. The downstream transfers may be
14 characterized as equity infusions of a parent to a poorly capitalized subsidiary and not subject to
15 avoidance as a downstream transfer. Thus, the existence of such transfers by PCFC to PCHLI are
16 discounted as constituting a viable defense to PCHLI's Claim against PCFC.

17 b. Relating to Cost-Sharing Arrangements. As discussed above, in actual
18 practice, on a prepetition basis, the Debtors allocated approximately 83% of the Debtors'
19 approximately \$125 million in total overhead charges to PCHLI, 16% to PCFC and 1% to Funding.
20 It is possible that PCHLI holds Claims against PCFC to re-allocate the overhead in accordance with
21 the parties' pre-petition cost-sharing agreements. The Debtors' records relating to the allocation of
22 overhead among the Estates, however, constitute thousands of pages of paper. Those records are
23 also extremely complex and, in many cases, either difficult to understand or indecipherable. It
24 would be impracticable, if not impossible, and unreasonably costly to determine those Claims with
25 precision, if at all. In light of these considerations, the resulting fees related to reallocation could be
26 substantial relative to the potential benefit. In addition, PCFC possesses minimal funds in order to
27 satisfy any judgment in favor of PCHLI on a Claim for reallocation.

1 Thus, PCHLI potentially holds Claims in the range of \$0.00 to not less than approximately
2 \$19 million against PCFC – which PCFC does not have funds to satisfy in any material manner –
3 and a possible unliquidated Claim against PCFC for the reallocation of overhead. In addition, PCFC
4 does not have any material, offsetting Claims against PCHLI, as described below in paragraph 6,
5 although PCFC may have defenses to PCHLI’s Claims.

6 3. Funding’s Claims against PCHLI. After extensive investigation, the Committee did
7 not identify any significant Claims of Funding against PCHLI, except that it did identify the
8 potential unliquidated Claim set forth below.

9 a. Relating to Cost-Sharing Arrangements. As discussed above, in actual
10 practice, on a prepetition basis, the Debtors allocated approximately 83% of the Debtors’
11 approximately \$125 million in total overhead charges to PCHLI, 16% to PCFC and 1% to Funding.
12 It is possible that Funding holds Claims against PCHLI to re-allocate the overhead in accordance
13 with the parties’ pre-petition cost-sharing agreements. However, given that Funding was allocated
14 1% of such overhead, it would appear that any Claim would of necessity be limited. The Debtors’
15 records relating to the allocation of overhead among the Estates, however, constitute thousands of
16 pages of paper. Those records are also extremely complex and, in many cases, either difficult to
17 understand or indecipherable. It would be impracticable, if not impossible, and unreasonably costly
18 to determine those Claims with precision, if at all. In light of these considerations, the resulting
19 expenses of reallocation could be substantial relative to the potential benefit.

20 4. Funding’s Claims against PCFC.

21 a. Relating to Fraudulent Transfer. As discussed above, the Committee’s
22 financial advisors identified \$234 million that flowed from Funding to PCFC. The transfers were
23 labeled as either dividends or returns of capital. As stated above, PCFC has minimal dollars on
24 hand, and the Committee discounted the ability of PCFC to satisfy any judgment in favor of
25 Funding. In addition, as described in paragraph 9 below, to the extent that Funding could recover
26 from PCFC with respect to these transfers, Funding could nonetheless be liable to PCHLI for the
27 same amount.

1 b. Relating to Cost-Sharing Arrangements. As discussed above, in actual
2 practice, on a prepetition basis, the Debtors allocated approximately 83% of the Debtors'
3 approximately \$125 million in total overhead charges to PCHLI, 16% to PCFC and 1% to Funding.
4 It is possible that Funding holds Claims against PCFC to re-allocate the overhead in accordance with
5 the parties' pre-petition cost-sharing agreements. However, given that Funding was allocated 1% of
6 such overhead, it would appear that any Claim would of necessity be limited. In addition, the
7 Debtors' records relating to the allocation of overhead among the Estates constitute thousands of
8 pages of paper. Those records are also extremely complex and, in many cases, either difficult to
9 understand or indecipherable. It would be impracticable, if not impossible, and unreasonably costly
10 to determine those Claims with precision, if at all. In light of these considerations, the resulting
11 expenses of reallocation could be substantial relative to the potential benefit.

12 5. PCFC's Claims against Funding. After extensive investigation, the Committee did
13 not identify any significant Claims of PCFC against Funding, except that it did identify the potential
14 unliquidated Claim set forth below.

15 a. Relating to Cost-Sharing Arrangements. As discussed above, in actual
16 practice, on a prepetition basis, the Debtors allocated approximately 83% of the Debtors'
17 approximately \$125 million in total overhead charges to PCHLI, 16% to PCFC and 1% to Funding.
18 It is possible that PCFC holds Claims against PCHLI to re-allocate the overhead in accordance with
19 the parties' pre-petition cost-sharing agreements. The Debtors' records relating to the allocation of
20 overhead among the Estates, however, constitute thousands of pages of paper. Those records are
21 also extremely complex and, in many cases, either difficult to understand or indecipherable. It
22 would be impracticable, if not impossible, and unreasonably costly to determine those Claims with
23 precision, if at all. In light of these considerations, the resulting fees related to reallocation could be
24 substantial relative to the potential benefit.

25 6. PCFC's Claims against PCHLI.

26 a. Relating to Downstream Transfers. PCFC appears to have downstreamed
27 approximately \$158 million to PCHLI. These transfers would probably not be recoverable as
28 fraudulent transfers because PCFC captured the value of such transfers through the enhanced value

1 of its equity interest in PCHLI.

2 b. Relating to Cost-Sharing Arrangements. As discussed above, in actual practice, on a
3 prepetition basis, the Debtors allocated approximately 83% of the Debtors' approximately
4 \$125 million in total overhead charges to PCHLI, 16% to PCFC and 1% to Funding. It is possible
5 that PCFC holds Claims against PCHLI to re-allocate the overhead in accordance with the parties'
6 pre-petition cost-sharing agreements, although it was noted that PCHLI appears to have already
7 borne the substantial portion of such overhead. The Debtors' records relating to the allocation of
8 overhead among the Estates, however, constitute thousands of pages of paper. Those records are
9 also extremely complex and, in many cases, either difficult to understand or indecipherable. It
10 would be impracticable, if not impossible, and unreasonably costly to determine those Claims with
11 precision, if at all. In light of these considerations, the resulting expenses of reallocation could be
12 substantial relative to the potential benefit.

13 7. Relative Claims of the Estates. Thus, in arriving at the settlement, the Committee
14 considered (a) the existence of quantifiable and significant Claims held by PCHLI against Funding
15 and PCFC in the range of \$0.00 to not less than \$75.7 million, (b) the lack of any significant
16 quantifiable Claims of Funding or PCFC against PCHLI, and (c) the defenses that could be raised to
17 such Claims.

18 8. D&O and Shareholder Litigation. The Intercompany Settlement transfers the rights
19 of PCFC and Funding in the D&O and Shareholder Claims to PCHLI. The transfer of such causes
20 of action to PCHLI is the result of a comprehensive and integrated settlement and is not the result of
21 a single consideration. In providing for such transfer, the Committee considered all other elements
22 of the integrated settlement and the factors set forth in paragraphs 1-11 hereof. Without limiting the
23 generality of the foregoing, it is noted that PCHLI already directly holds substantial D&O and
24 Shareholder Claims against the prospective defendants and the assignment of the D&O and
25 Shareholder Claims may be of modest economic benefit to PCHLI or detriment to the Debtors
26 making the assignment because: (i) PCHLI holds the alleged Claims of not less than approximately
27 \$15 million against Mr. Kornswiet relating to excessive compensation paid to Mr. Kornswiet;
28 (ii) PCHLI holds the alleged Claims of not less than approximately \$170 million against its directors

1 and officers relating to imprudent underwriting practices; (iii) to the extent the \$76 million in
2 dividends paid by PCFC to its shareholders were transfers of monies originally transferred by
3 PCHLI to PCFC directly or through Funding, PCHLI holds direct Claims against the shareholders
4 under Section 550 of the Bankruptcy Code as “mediate” or “immediate” transferees. With respect to
5 this latter cause of action, the Debtors’ books and records indicate that the dividends from PCHLI to
6 PCFC were made in connection with PCFC’s dividends to shareholders. As a result of the
7 foregoing, it appears that PCHLI is the ultimate beneficiary of most, if not all, of the significant
8 D&O and Shareholder Causes of Action. In light of this, the Intercompany Settlement resolves this
9 issue in favor of PCHLI and avoids a potentially costly and lengthy fight over the right to proceeds
10 of such Claims.

11 9. Allowed Claim of PCHLI against Funding. PCHLI will hold an allowed general
12 unsecured Claim against Funding in the amount of \$18,844,703.54 under the Intercompany
13 Settlement. The allowance of such Claim is the result of a comprehensive and integrated settlement
14 and is not the result of a single consideration. In arriving at the amount of the Allowed Claim, the
15 Committee considered all other elements of the integrated settlement and the factors set forth in
16 paragraphs 1-11 hereof, including that , (a) PCHLI holds potentially cognizable Claims against
17 Funding in the range of \$0.00 to not less than approximately \$56.7 million, (b) Funding does not
18 appear to hold any offsetting Claims against PCHLI, and (c) Funding may have potential defenses to
19 Claims of PCHLI. The result of the allowance of the Claim is to accord PCHLI an estimated
20 distribution from the Estate of Funding of approximately \$2.4 million, which represents a 2%
21 increase in the estimated distribution to creditors of PCHLI and a 3.4% decrease in the estimated
22 distribution to creditors of Funding. Finally, the approximately \$18 million Allowed Claim of
23 PCHLI against Funding has not been allocated. Such an allocation is not required at this time, and
24 the Committee reserves the right to seek to allocate the approximately \$18 million Claim at a future
25 date.

26 10. Substantive Consolidation. The Debtors conducted a legal analysis and informed the
27 Committee that the facts and circumstances of these cases did not satisfy the legal standards for
28 substantively consolidating the Debtors’ Estates. The Committee separately analyzed the issue. The

1 Committee considered legal authorities relevant to substantive consolidation, the facts of these cases,
2 potential costs in litigating such matters, the inherently uncertain nature of litigation, possible delay
3 in the plan confirmation process, and expected difficulties in confirming a substantively
4 consolidating plan. As to the last point, it was not at all clear that the Debtors could obtain the
5 requisite vote to accept a plan given the magnitude of holders of Claims that would likely vote “no”
6 on a substantively consolidating plan (because such holders would receive less under a substantively
7 consolidating plan) or that the Debtors could obtain confirmation of the plan despite the rejection of
8 the plan by such holders under Section 1129(b) of the Bankruptcy Code. If the Estates were
9 consolidated, the result would be to increase the distribution to creditors of PCHLI by 3.9% and to
10 reduce the distribution to creditors with Claims against all three entities by 8.8%.¹⁶

11 11. REIT Status. The Debtors must file a tax return and declare a dividend by September
12 15, 2008 to preserve their REIT status, all as described herein. In the event such status is not
13 preserved, the Debtors may face exposure for Claims projected by the Debtors to be approximately
14 \$8 million. See Exhibit F. Entering into the Intercompany Settlement is calculated to facilitate the
15 preservation of REIT status by permitting plan confirmation to proceed expeditiously to meet the
16 deadline for the filing of the return and the making of the dividend.

17 Based upon the foregoing, the Committee believes the Intercompany Settlement described
18 below falls well within the range of reasonableness under the totality of the circumstances:

19 1. The Debtors’ Estates shall remain separate and shall not be substantively
20 consolidated.

21 2. Subject to the proviso hereto, and except as otherwise specifically set forth herein or
22 in the Plan, no Debtor or its respective Estate shall receive a distribution from any other Debtor or
23 Debtor’s Estate under the Plan on account of Intercompany Non-Administrative Claims or

24 _____
25 ¹⁶ See Dzikowski v. Northern Trust Bank (In re Prudential of Florida Leasing, Inc.), 478 F.3d 1291, 1302 (11th Cir.
26 2007). “Requiring an up front allocation, either by the parties or by the court, needlessly increases the transaction costs
27 of a settlement. It makes much more sense to wait and see if future litigation requires the allocation. An allocation by
28 the bankruptcy court will be necessary only when collateral litigation implicates the rule of single satisfaction and, in
most cases, only after liability has been ascertained.” Id.; see also Sims v. DeArmond (In re Lendvest Mortgage, Inc.),
42 F.3d 1181, 1184 (9th Cir. 1994) (“To require that the allocation be made at the time of settlement would require that
every potentially jointly liable party must defend his interest at that time, or suffer the consequences . . . no violence is
done to the system by postponing the determination”).

1 Administrative Intercompany Claims or otherwise; provided, the Estate of PCHLI shall hold an
2 allowed general unsecured claim against the Estate of Funding in the amount of \$18,844,703.54 and
3 shall receive a distribution thereon as a general unsecured creditor of Funding.

4 3. The Estates of Funding and PCFC will transfer to the Estate of PCHLI the beneficial
5 interest, control and right to proceeds of all D&O and Shareholder Claims owned in whole or in part
6 by the Estates of Funding or PCFC, including all matters referenced in or relating to the subject
7 matter of the September 27 Letter and the Liquidating Trustee of the PCHLI Liquidating Trust shall
8 have the right to prosecute such claims on behalf of each of the three Debtor Estates; provided, in the
9 event an assignment is prohibited or would otherwise impair such claims, Funding and PCFC will
10 not be deemed to have assigned the D&O and Shareholder Claims and the Liquidating Trusts of the
11 respective Debtors shall instead hold such claims and proceeds thereof in trust for the beneficiaries
12 of the PCHLI Liquidating Trust. In the event that a separate Liquidating Trustee is appointed
13 Liquidating Trustee of either the PCFC Liquidating Trust or the Funding Liquidating Trust or both
14 such trusts, the separate Liquidating Trustee(s) shall cooperate with, take direction from, and
15 otherwise take all actions reasonably requested by the PCHLI Liquidating Trustee in prosecution of
16 the D&O and Shareholder Claims. The PCHLI Liquidating Trust shall pay to the Funding
17 Liquidating Trust or the PCFC Liquidating Trust, respectively, all amounts necessary to compensate
18 such respective Trust for any dilution in distributions to the Holders of General Unsecured Claims
19 from such Trust that would be caused by distributions on any Claims against Funding or PCFC,
20 respectively, for indemnification, reimbursement or similar Claims by any parties against whom any
21 D&O and Shareholder Claims have been or may be asserted; and the PCHLI Liquidating Trust (and
22 not the Funding Liquidating Trust or PCFC Liquidating Trust) shall reserve sufficient Cash for this
23 purpose.

24 4. Subject to the proviso hereto, the chapter 11 plan shall provide for the allocation of
25 Administrative Claims, in full and final satisfaction of Administrative Intercompany Claims,
26 representing expenses of the chapter 11 cases among the Estates as follows: (a) 30.1% to the estate
27 of PCHLI; (b) 68% to the estate of Funding; and (c) 1.9% to the estate of PCFC; provided, 100% of
28 past and future costs and expenses, including legal fees and expenses, of the Estates incurred directly

1 and primarily on account of the Committee's and Liquidating Trustee's investigation and
2 prosecution of D&O and Shareholder Claims and 100% of past and future costs and expenses,
3 including legal fees and expenses, of the Estates incurred directly and primarily on account of the
4 investigation of, objection to, or defense against Claims for indemnification, reimbursement or other
5 Claims arising from the D&O and Shareholder Claims shall be allocated to the estate of PCHLI.
6 Notwithstanding the foregoing, to the extent the unencumbered assets of PCFC are insufficient,
7 PCHLI and Funding shall deliver to PCFC the Intercompany Estate Amount in the following
8 proportion: (a) 30.7% by the estate of PCHLI and (b) 69.3% by the estate of Funding.

9 5. The Intercompany Estate Amount shall be delivered by PCHLI and Funding.

10 6. The chapter 11 plan shall provide for the allocation of assets of the Estates in
11 accordance with Exhibit "C" hereto.

12 The foregoing global resolution shall be referred to as the Intercompany Settlement. The
13 foregoing is intended only as a resolution of issues of substantive consolidation and intercompany
14 claims as between the Estates and as to no other person or entity and only for purposes of
15 confirmation of and distributions under the Plan. Nothing contained herein shall be or be deemed to
16 be an admission in any pending or subsequently commenced litigation or to give rise to a defense in
17 or to limit the scope of any damages, rights or remedies of the Committee, Estates or successor
18 Liquidating Trustee in respect of any such litigation.

19 **ARTICLE VIII.**

20 **THE PLAN OF LIQUIDATION**

21 **A. Overview of the Plan**

22 The following is only a brief summary of the material terms of the Plan. Creditors, Interest
23 Holders and other parties in interest are urged to review the Plan, which is attached hereto as
24 **Exhibit "A"**, in its entirety.

25 **B. Classification and Treatment of Claims and Interests Under the Plan**

26 The categories of Claims and Interests listed below and in the Plan classify Claims and
27 Interests for all purposes, including voting, Confirmation and distribution pursuant to the Plan and
28 pursuant to Sections 1122 and 1123(a)(1) of the Bankruptcy Code. A Claim or Interest shall be

1 deemed classified in a particular Class only to the extent that the Claim or Interest qualifies within
2 the description of that Class and shall be deemed classified in a different Class to the extent that any
3 remainder of such Claim or Interest qualifies within the description of such different Class.

4 A Claim or Interest is in a particular Class only to the extent that such Claim or Interest is an
5 Allowed Claim and has not been paid or otherwise settled prior to the Effective Date.

6 The treatment under the Plan of Allowed Claims and Allowed Interests is in full and
7 complete satisfaction of the legal, contractual, and equitable rights that each entity holding an
8 Allowed Claim or an Allowed Interest may have in or against the Debtors or their property.

9 This treatment supersedes and replaces any agreements or rights those entities have in or against the
10 Debtors or their property. All Distributions under the Plan will be tendered to the Person holding
11 the Allowed Claim. **NO DISTRIBUTIONS WILL BE MADE AND NO RIGHTS WILL BE
12 RETAINED ON ACCOUNT OF ANY CLAIM THAT IS NOT AN ALLOWED CLAIM.**

13 1. Allowance and Treatment of Unclassified Claims (Administrative Claims and Priority
14 Tax Claims)

15 Certain types of Claims are not placed into Classes that are entitled to vote to accept or
16 reject the Plan; instead, such Claims are Unclassified Claims. Such Unclassified Claims are not
17 considered impaired and they do not vote on the Plan because they are automatically entitled to
18 specific treatment provided for them in the Bankruptcy Code. As such, the Debtors have not placed
19 the following Claims in a Class. The respective treatments for these Claims are provided below.

20 a. Administrative Claims; Administrative Intercompany Claims

21 Administrative Claims are Claims for administrative costs or expenses that are allowable
22 under Bankruptcy Code section 503(b) and 507(a)(2) or 28 U.S.C. § 1930, including, without
23 limitation: (a) Ordinary Course Administrative Claims; (b) Professional Fee Claims;
24 (c) Administrative Intercompany Claims (Administrative Intercompany Claims shall be allocated
25 among the Debtors in accordance with the Intercompany Settlement); (d) Administrative Tax
26 Claims; and (e) U.S. Trustee Fees. Except to the extent that any entity entitled to payment of an
27 Allowed Administrative Claim agrees to a less favorable treatment or unless otherwise ordered by
28 the Bankruptcy Court, each Holder of an Allowed Administrative Claim will receive in full

1 satisfaction, discharge, exchange and release thereof, Cash in an amount equal to such Allowed
2 Administrative Claim on the later of (i) the Effective Date, and (ii) the fifteenth (15th) Business Day
3 after such Administrative Claim becomes an Allowed Administrative Claim, or, in either case, as
4 soon thereafter as is practicable; provided, however, that Ordinary Course Administrative Claims
5 (i.e., claims for administrative costs or expenses that are allowable under Bankruptcy Code
6 section 503(b) that are incurred in the ordinary course of the Debtors' operations or the Cases) will
7 be paid in full in accordance with the terms and conditions of the particular transactions and any
8 applicable agreements or as otherwise authorized by the Bankruptcy Court following ten (10)
9 business days' notice to the Post-Effective Date Committee and opportunity to object.

10 (1) General Administrative Claim Bar Date

11 The Plan provides that requests for payment of Administrative Claims must be filed and
12 served on the Liquidating Trustee, counsel for the Liquidating Trustee, and the Office of the United
13 States Trustee no later than thirty (30) days following the Effective Date. Excluded from this
14 requirement are (i) Professional Fee Claims (except for Professional Fee Claims falling under clause
15 (b) of the definition of Professional Fee Claim, which are not excluded), (ii) U.S. Trustee Fees, and
16 (iii) Administrative Intercompany Claims which are allowed pursuant to the Intercompany
17 Settlement. Holders of Administrative Claims that are subject to the General Administrative Claim
18 Bar Date that do not file such requests by this bar date will be forever barred from asserting such
19 Claims against the Debtors, the Debtors' Estates, the Liquidating Trusts or the property of the
20 Liquidating Trusts.

21 (2) Deadline for Objections

22 All objections to allowance of Administrative Claims (excluding Professional Fee Claims
23 under clause (a) of the definition of Professional Fee Claim) must be filed by any parties in interest
24 no later than sixty (60) days after the Administrative Claims Bar Date. The Administrative Claims
25 Objection Deadline may be initially extended for sixty (60) days by the Liquidating Trustee upon the
26 filing of a notice of the extended Administrative Claim Objection Deadline with the Bankruptcy
27 Court. Thereafter, the Administrative Claim Objection Deadline may be further extended only by an
28 order of the Bankruptcy Court. If no objection to the applicable Administrative Claim is filed on or

1 before the applicable date, such Administrative Claim will be deemed Allowed, subject to the
2 Court's equitable discretion to retroactively extend such bar date.

3 (3) Professional Fees Bar Date

4 Each Holder of a Professional Fee Claim (except for Professional Fee claims falling under
5 clause (b) of the definition of Professional Fee Claim, which claims are subject to the Administrative
6 Claims Bar Date) seeking an award by the Bankruptcy Court of compensation for services rendered
7 or reimbursement of expenses incurred through and including the Effective Date must (i) file its final
8 application for allowances of compensation for services rendered and reimbursement of expenses
9 incurred through the Effective Date by no later than the sixtieth (60th) day following the Effective
10 Date. Any objection to such Professionals Fee Claims shall be filed on or before the date specified
11 in the application for final compensation. All such requests for payment of such Professional Fee
12 Claims will be subject to the authorization and approval of the Bankruptcy Court. Such Professional
13 Fee Claims, to the extent approved by the Bankruptcy Court, are to be paid, in full satisfaction,
14 discharge, exchange and release thereof, Cash in such amounts as are Allowed by the Bankruptcy
15 Court on the date such Professional Fee Claim becomes an Allowed Claim, or as soon thereafter as
16 is practicable.

17 (4) U.S. Trustee Fees

18 Quarterly fees owed to the Office of the U.S. Trustee that accrue prior to the Effective Date
19 will be paid by the Debtors and U.S. Trustee Fees that accrue after the Effective Date will be paid
20 for each Debtor from the assets of the respective Liquidating Trust when due in accordance with
21 applicable law. The Debtors will continue to file the Post-Confirmation Quarterly Reports as
22 required until the Effective Date and the Liquidating Trustee will file the reports after the Effective
23 Date until each Case is closed under Bankruptcy Code section 350.

24 b. Priority Tax Claims

25 Priority Tax Claims are Claims entitled to priority against the Estates under Bankruptcy
26 Code section 507(a)(8). Except to the extent that a Holder of an Allowed Priority Tax Claim has
27 been paid by the Debtors before the Effective Date or agrees to a less favorable treatment, each
28 Holder of an Allowed Priority Tax Claim will receive in full satisfaction, discharge, exchange and

1 release thereof, Cash in an amount equal to such Allowed Priority Tax Claim on the later of (i) the
2 Effective Date, or as soon thereafter as is practicable or (ii) the fifteenth (15th) Business Day after
3 such Priority Tax Claim becomes an Allowed Priority Tax Claim, or as soon thereafter as is
4 practicable.

5 2. Classified Claims and Interests

6 Claims against, and the Interests in, the Debtor are classified into the following Classes:

7 a. Secured Claims (Classes 1A-1C) – Unimpaired

8 (1) Classification

9 Classes 1A, 1B and 1C consist of all Secured Claims, if any, against PCHLI, Funding and
10 PCFC, respectively. Secured Claims are those Claims that are secured by liens against certain
11 assets of the Debtors, including Cash Collateral.

12 (2) Treatment

13 To the extent any Secured Claims exist, each Holder of an Allowed Class 1A, 1B or 1C
14 Secured Claim shall, on the later of (i) the Effective Date or as soon thereafter as practicable or
15 (ii) the date such Secured Claim becomes an Allowed Secured Claim pursuant to a Final Order or as
16 soon thereafter as is practicable, (a) receive the Cash Collateral that secures such Secured Claim in
17 full and complete satisfaction of such Secured Claim, (b) retain a lien or security interests on the
18 Assets securing the Allowed Secured Claim, or (c) receive the indubitable equivalent of such
19 Claim.¹⁷

20 b. Priority Non-Tax Claims (Classes 2A-2C) – Unimpaired

21 (1) Classification

22 Classes 2A, 2B and 2C consist of all Priority Non-Tax Claims against PCHLI, Funding and
23 PCFC, respectively. Priority Non-Tax Claims are Unsecured Claims which are entitled to priority
24 in payment pursuant to section 507(a) of the Bankruptcy Code other than Priority Tax Claims.

25 (2) Treatment

26 ¹⁷ Regardless of any Holder's recovery on account of an asserted Secured Claim during the pendency of these cases, the
27 Debtors, Committee, and the Liquidating Trustee shall retain any and all rights to contest the validity and priority status
28 of any asserted Secured Claim and any and all rights to seek to avoid and recover any asserted collateral (or the value of
such collateral) that was transferred to the respective Holder of the Secured Claim or liquidated by the Holder of the
Secured Claim on account of an asserted Claim.

1 Each Holder of a Priority Non-Tax Claim, unless otherwise agreed upon by the Holder of
2 such Claim, will receive Cash in an amount equal to such Allowed Priority Non-Tax Claim on the
3 later of the Effective Date, or as soon as practicable thereafter, and the date such Priority Non-Tax
4 Claim becomes an Allowed Priority Non-Tax Claim pursuant to a Final Order, or as soon thereafter
5 as is practicable.

6 c. WARN Act Claims (Classes 3A-3C)

7 (1) Classification

8 Classes 3A through 3C consist of all Allowed Claims against PCHLI, Funding and PCFC,
9 respectively, of former employees of PCHLI and PCFC for alleged violations of the WARN Act.
10 Certain WARN Act Claims are currently the subject of litigation between the Holders of the Claims
11 and the Debtors. After the Effective Date of the Plan, unless the WARN Act Claims have been
12 resolved by that date, the Liquidating Trustee will seek to resolve such claims through litigation,
13 settlement or otherwise.

14 (2) Treatment

15 The WARN Act Claims will be satisfied pursuant to the terms of a settlement or, if a
16 judgment or order of the Bankruptcy Court is entered that determines the valid amount of the
17 WARN Act Claims and the priority of those Claims, the WARN Act Claims as so determined will
18 be satisfied in the same manner as all other Claims of the same priority pursuant to the terms of the
19 Plan.

20 d. General Unsecured Claims (Classes 4A-4C)

21 (1) Classification

22 Classes 4A, 4B and 4C consist of all General Unsecured Claims against PCHLI, Funding
23 and PCFC, respectively, including EPD/Breach Claims and Deficiency Claims.

24 (2) Treatment

25 Upon allowance of their General Unsecured Claims, Holders of Allowed General Unsecured
26 Claims in Classes 4A, 4B and 4C shall receive, on a *Pro Rata* basis, a Liquidating Trust Interest in
27 the PCHLI, Funding or PCFC Liquidating Trust, respectively. Each Holder of an Allowed General
28 Unsecured Claim shall receive a Liquidating Trust Interest on account of its Allowed General

1 Unsecured Claim, in full satisfaction, discharge, exchange and release thereof, as a distribution
2 under the Plan, the treatment provided for herein. Except to the extent that a Holder of an Allowed
3 Class 4A, 4B or 4C Claim agrees to a less favorable treatment, each Holder of an Allowed General
4 Unsecured Claim will receive its *Pro Rata* share of Cash available for distribution to Holders of
5 Allowed General Unsecured Claims in that Class (as available on each Distribution Date (defined
6 below)) on account of its Liquidating Trust Interest from the PCHLI, Funding or PCFC Liquidating
7 Trust, respectively, on the later of (i) the distribution date(s) selected in accordance with this
8 provision (the “Distribution Date(s)”) and (ii) the fifteenth (15th) Business Day after such date that
9 the Claim becomes an Allowed Unsecured Claim, or as soon after such dates as is practicable. The
10 Distribution Dates for the distribution of Available Cash by the PCHLI, Funding and PCFC
11 Liquidating Trusts shall be selected by the Liquidating Trustee after consultation with the
12 appropriate Post-Effective Date Committee charged with oversight of that Liquidating Trust.
13 The Distribution Dates for the various Liquidating Trusts may be different dates.

14 Notwithstanding any other provision in the Plan, no Cash payment shall be made on account
15 of an Allowed Unsecured Claim against a particular Debtor until all senior Claims against that
16 Debtor have been satisfied or reserved for in full. Allowed Class 4A, 4B and 4C Claims will not
17 include interest from and after the Petition Date nor any penalty unless and until all senior Claims
18 against PCHLI, Funding or PCFC, respectively, are paid in full and the principal amount all General
19 Unsecured Claims in the respective Class have been satisfied in full.

20 The Liquidating Trustee shall make Distributions to the holders of the Liquidating Trust
21 Interests in accordance with the provisions of the Liquidating Trust Agreements, and as provided for
22 in this Plan and the Confirmation Order. Upon payment by the Liquidating Trust of amounts due, if
23 any, to a Holder of a Liquidating Trust Interest, such interest shall terminate and be of no further
24 force and effect.

25 If the Bankruptcy Court determines by Final Order that the Holder of a General Unsecured
26 Claim does not have an Allowed General Unsecured Claim, then such Holder’s Liquidating Trust
27 Interest shall terminate and be of no further force and effect.
28

1 Classes 4A, 4B and 4C are Impaired, and the Holders of Claims in those Classes are entitled
2 to vote to accept or reject the Plan.

3 e. Intercompany Non-Administrative Claims (Classes 5A-5C)

4 (1) Classification

5 Classes 5A, 6B and 5C consist of all Intercompany Non-Administrative Claims against
6 PCHLI, Funding and PCFC, respectively, the Holders of which are one or more of the other
7 Debtors

8 (2) Treatment

9 Intercompany Non-Administrative Claims will be treated in accordance with the
10 Intercompany Settlement. Specifically, PCHLI will hold a Claim against Funding in the Amount of
11 \$18,844,703.54 which claim will be treated the same as a Class 4B Claim. All other Intercompany
12 Non-Administrative Claims shall receive no distribution.

13 f. Interests (Classes 6A-6C)

14 (1) Classification

15 Classes 6A, 6B and 6C are the Interests held in PCHLI, Funding and PCFC, respectively.

16 (2) Treatment

17 Class 6A, 6B and 6C Interests will receive and retain no value under the Plan, and all Class
18 6A, 6B and 6C Interests will be cancelled on the Effective Date. Such class may be reinstated upon
19 motion to amend the Plan by the Liquidating Trustee in the event distributable funds are sufficient
20 to pay all senior classes in full with interest.

21 **C. Executory Contracts and Unexpired Leases**

22 1. Rejection of Executory Contracts and Unexpired Leases

23 Effective upon the Effective Date, the Debtors will reject all executory contracts and
24 unexpired leases that exist between the Debtors or any of them and any other Person that have not
25 previously been assumed, assumed and assigned or rejected in these Cases pursuant to an order of
26 the Bankruptcy Court. Notwithstanding the foregoing, any insurance policy or coverage that is
27 determined to be executory shall neither be automatically rejected nor assumed by the Plan, and
28 shall be the subject of a specific motion to assume or reject, which power the Liquidating Trustee

1 shall retain following the Effective Date.

2 All Allowed Claims arising from the rejection of executory contracts or unexpired leases,
3 whether under the Plan or by separate proceeding, will be treated as General Unsecured Claims
4 against PCHLI, Funding or PCFC, as appropriate, in Classes 4A, 4B or 4C, respectively.

5 2. Bar Date for Rejection Damage Claims

6 If the rejection of an executory contract or unexpired lease by the Debtors or any of them
7 pursuant to the preceding provision results in damages to the counterparty to such contract or lease,
8 then a Claim for damages or any other amounts related in any way to such contract or lease shall be
9 forever barred and shall not be enforceable against the Debtors, the Estates, the Liquidating Trusts
10 or their property, unless a proof of claim is filed with the Bankruptcy Court and served on the
11 Liquidating Trustee within thirty (30) days after the Effective Date. The rejection claim bar date for
12 leases and contracts that were rejected prior to the Effective Date or otherwise not as a result of
13 confirmation of the Plan is the later of (i) thirty (30) days after the date the order authorizing the
14 rejection of the contract or lease is entered, or (ii) the Claims Bar Date.

15 3. Insurance Policies

16 For the avoidance of doubt, the Debtors' rights with respect to all insurance policies,
17 including but not limited to those listed on Exhibit "2" to the Plan Supplement and rights under any
18 other insurance policies under which the Debtors may be beneficiaries (including all insurance
19 policies that may have expired prior to the Petition Date, all insurance policies in existence on the
20 Petition Date, all insurance policies entered into by the Debtors after the Petition Date, and all
21 insurance policies under which the Debtors hold rights to make, amend, prosecute and benefit from
22 claims), are retained and will be transferred or assigned to the applicable Liquidating Trust pursuant
23 to this Plan. Notwithstanding any provision providing for the rejection of executory contracts, any
24 insurance policy that is deemed to be an executory contract shall neither be rejected nor assumed by
25 operation of this Plan and shall be the subject of a specific motion by the Liquidating Trustee who
26 shall retain the right to assume or reject any such executory contracts pursuant to and subject to the
27 provisions of Section 365 of the Bankruptcy Code following the Effective Date.

28

1 **D. Provisions Governing Plan Implementation**

2 1. Implementing Actions In General; Conditions to Plan Effectiveness

3 As a condition to effectiveness of the Plan, prior to or on the Effective Date, the following
4 must occur in implementation of the Plan:

5 (i) all actions, documents and agreements necessary to implement the Plan will have
6 been effected or executed;

7 (ii) the Debtors or Committee, as applicable, will have received all authorizations,
8 consents, rulings, opinions or other documents that are determined by the Committee to be
9 necessary to implement the Plan;

10 (iii) the Liquidating Trust Agreements are final and approved by the Court, the
11 Liquidating Trustee is appointed, the Post-Effective Date Committees are selected and the
12 Liquidating Trusts are funded in accordance with the Plan;

13 (iv) the Committee and the Liquidating Trustee have determined in their reasonable
14 discretion that sufficient Cash exists to satisfy all Administrative Claims, Professional Fee Claims,
15 Priority Tax Claims, Priority Non-Tax Claims and Secured Claims, which are Allowed Claims;

16 (v) to the extent required by the Plan, each Liquidating Trust will make all Distributions
17 required to be made by such Liquidating Trust on the Effective Date to Holders of Allowed Claims
18 pursuant to the Plan or as soon thereafter as practical;

19 (vi) outstanding shares of the stock of PCFC shall have been cancelled and the New
20 Common Stock shall have been issued to the PCHLI and Funding Liquidating Trusts;

21 (vii) subsequent to the issuance of the New Common Stock, which shall be the sole class
22 of securities, the Reorganized PCFC charter shall be amended to prohibit the issuance of nonvoting
23 equity securities; and

24 (viii) the Intercompany Settlement shall have been approved without material modification
25 by the Confirmation Order and shall be binding and enforceable against all Holders of Claims and
26 Interests under the terms of this Plan.

27 The Plan will not be consummated or become binding unless and until the Effective Date
28 occurs. The Effective Date will be the first Business Day, as determined by the Committee in its

1 reasonable discretion, on which all of the following conditions have been satisfied:

2 (1) the Confirmation Order shall have become a Final Order; and

3 (2) all of the matters in (i) through (viii) above have been satisfied.

4 In no event shall the Effective Date occur more than thirty (30) calendar days following entry
5 of the Confirmation Order unless the Confirmation Order is stayed or the Plan is modified pursuant
6 to an order of the Court extending the Effective Date for good cause shown.

7 The Committee may in its reasonable discretion waive any of the conditions set forth above
8 without notice and a hearing. The failure to satisfy any condition may be asserted by the Committee
9 as a basis to allege that the Effective Date has not occurred regardless of the circumstances giving
10 rise to the failure of such condition to be satisfied (including, without limitation, any act, action,
11 failure to act, or inaction by the Debtors or Committee). If the Committee fails to assert the non-
12 satisfaction of any such conditions, such failure will not be deemed a waiver of any other rights
13 thereunder.

14 2. Corporate Action

15 Upon the Effective Date, all transactions and applicable matters provided for under the Plan
16 will be deemed to be authorized and approved by the Debtors without any requirement of further
17 action by the Debtors, the Debtors' shareholders, or the Debtors' board of directors.

18 3. Vesting of Assets

19 Unless otherwise expressly provided under the Plan, on the Effective Date, the Debtors'
20 Assets (other than a specified amount of Cash transferred to PCFC and retained by Reorganized
21 PCFC to make the New Common Stock Dividend as described herein), including all Causes of
22 Action (including the D&O and Shareholder Claims) as provided in Exhibit "3" to the Plan
23 Supplement will vest in the respective Liquidating Trusts as set forth on **Exhibit "C"** hereto free and
24 clear of all claims, liens, encumbrances, charges and other interests, subject to the provisions of the
25 Plan. On and after the Effective Date, the transfer of the Debtors' Assets from the Estates to the
26 Liquidating Trusts will be deemed final and irrevocable and distributions may be made from the
27 Liquidating Trusts. Further, Reorganized PCFC will issue 31 shares of New Common Stock to the
28 Liquidating Trustee in its capacity as Liquidating Trustee of the PCHLI Liquidating Trust and 69

1 shares of New Common Stock to the Liquidating Trustee in its capacity as Liquidating Trustee of the
2 Funding Liquidating Trust. The Liquidating Trustee will receive the New Common Stock Dividend
3 in its capacity as Liquidating Trustee of the PCHLI Liquidating Trust and the Funding Liquidating
4 Trust, respectively, as more fully set forth in the Plan and will utilize such Funds in accordance with
5 this Plan.

6 In connection with the foregoing:

7 (i) On the Effective Date, the Liquidating Trustee's appointment shall become effective
8 and thereafter the Liquidating Trustee shall administer the PCHLI, Funding and PCFC Liquidating
9 Trusts pursuant to the terms of the respective Liquidating Trust Agreements and the Plan and may
10 use, acquire and dispose of property of the Liquidating Trusts free of any restrictions imposed under
11 the Bankruptcy Code.

12 (ii) The Confirmation Order will provide the Liquidating Trustee with express authority
13 to convey, transfer and assign any and all of the Liquidating Trusts' Assets and to take all actions
14 necessary to effectuate same and prosecute any and all Causes of Action.

15 (iii) As of the Effective Date, the Liquidating Trusts' Assets will be free and clear of all
16 liens, claims and interests of holders of Claims and Interests, except as otherwise provided in the
17 Plan.

18 4. Dissolution of the Debtors and Termination of Current Officers, Directors,
19 Employees and Professionals

20 From and after the Effective Date, PCHLI and Funding shall be dissolved and Reorganized
21 PCFC shall be authorized to take all action necessary to dissolve PCHLI and Funding. Reorganized
22 PCFC shall continue in existence as a holding company with no activities or operations until the
23 New Common Stock Dividend has occurred and its charter shall be amended to prohibit the
24 issuance of nonvoting equity securities. There shall be only one class of securities, which securities
25 shall be held by the Liquidating Trustee for the PCHLI and Funding Liquidating Trusts. After the
26 New Common Stock Dividend has occurred, the Liquidating Trustee for the PCHLI and Funding
27 Liquidating Trusts, as the shareholder of Reorganized PCFC, shall dissolve Reorganized PCFC.
28

1 On the Effective Date, the employment, retention, appointment and authority of all Officers,
2 Directors, Employees and Professionals of the Debtors and the Committee shall be deemed to
3 terminate, provided, however, Matt Kvarda, with Alvarez & Marsal North America, LLC (“A&M”)
4 and currently serving as the CRO of the Debtors, shall serve as the CEO of Reorganized PCFC
5 along with such directors or estate representative that then exist until Reorganized PCFC’s
6 dissolution.

7 5. Liquidating Trusts

8 a. Effectiveness of the Liquidating Trusts

9 On the Effective Date: (i) the Liquidating Trust Agreements will become effective, and, if
10 not previously signed, the Debtors and the Liquidating Trustee will execute the Liquidating Trust
11 Agreements. The Liquidating Trusts are organized and established as trusts for the benefit of the
12 Beneficiaries, as defined below, and are intended to qualify as a liquidating trust within the meaning
13 of Treasury Regulation Section 301.7701-4(d).

14 b. Beneficiaries

15 In accordance with Treasury Regulation Section 301.7701-4(d), the beneficiaries
16 (“Beneficiaries”) of each of the Liquidating Trusts will be the Holders of all Allowed Claims and
17 Interests against the appropriate Debtor. The Holders of Allowed Claims will receive an allocation
18 of the respective Liquidating Trust Interests as provided for in the Plan and the Liquidating Trust
19 Agreements. The holders of Liquidating Trust Interests of a particular Liquidating Trust will
20 receive distributions from that Liquidating Trust as provided for in the Plan and the Liquidating
21 Trust Agreements. The Beneficiaries of each Liquidating Trust shall be treated as grantors and
22 owners of such beneficiaries’ respective portion of the applicable Liquidating Trust.

23 c. Implementation of the Liquidating Trusts

24 On the Effective Date, the Debtors, on behalf of the Estates, and the Liquidating Trustee
25 will be authorized and directed to, and will execute each respective Liquidating Trust Agreement in
26 substantially the draft form attached as Exhibit “B” hereto (individual Liquidating Trust
27 Agreements for each Liquidating Trust will be submitted as Exhibit “1” to the Plan Supplement),
28 take all such actions as required to transfer from the Debtors and the Estates the Debtors’ Assets

1 (except as specifically set forth herein) to the appropriate Liquidating Trust as set forth in
2 **Exhibit “C”** hereto and to cause the issuance of the New Common Stock. The powers of the
3 Liquidating Trustee shall, without any further Bankruptcy Court approval (except as specifically
4 required in each respective Liquidating Trust Agreement) and subject in all respects to the other
5 terms and conditions of the Agreement, include:

- 6 (i) the power to invest funds in, and withdraw, make distributions and pay taxes
7 and other obligations owed by the applicable Liquidating Trust from funds
8 held by the Liquidating Trustee in accordance with the Plan,
- 9 (ii) the power to deal with the Liquidating Trust Assets,
- 10 (iii) the power to engage employees and professional persons to assist the
11 Liquidating Trustee with respect to its responsibilities,
- 12 (iv) the power to litigate, compromise and settle Claims and Causes of Action on
13 behalf of or against the Liquidating Trust,
- 14 (v) the power to file pleadings and papers and seek relief before the Bankruptcy
15 Court or other courts of competent jurisdiction, where appropriate, and
- 16 (vi) such other powers as may be vested in or assumed by the Liquidating Trust
17 or the Liquidating Trustee pursuant to the Plan, Bankruptcy Court order or
18 not inconsistent therewith or as may be necessary and proper to carry out the
19 provisions of the Plan.

20 Except as expressly set forth in each applicable Liquidating Trust Agreement, the Liquidating
21 Trustee shall have absolute discretion to pursue or not to pursue any and all Claims, Causes of
22 Action, or other matters, activities or things as it determines is in the best interests of the
23 Beneficiaries and consistent with the purposes of the respective Liquidating Trust, and shall have no
24 liability for the outcome of its decision, except as such decision may constitute an act of gross
25 negligence, willful misconduct, or fraud. The Liquidating Trustee may incur reasonable and
26 necessary expenses in liquidating and converting Liquidating Trust Assets to cash, which shall be
27 payable from the corpus of the respective Liquidating Trust. The Liquidating Trustee, in
28 consultation with the appropriate Post-Effective Date Committee, shall have the authority to hire for

1 each of the Liquidating Trusts attorneys, accountants and other professionals as it deems reasonable
2 and necessary. The Liquidating Trustee may be removed by the Post-Effective Date Committee
3 (i) by a majority vote of the Post-Effective Date Committee if the Liquidating Trustee is removed
4 for cause or (ii) by a unanimous vote of the Post-Effective Date Committee if the Liquidating
5 Trustee is removed for any other reason.

6 d. Transfer of Debtors' Assets

7 On the Effective Date, pursuant to the Plan and **Exhibit "C"** attached hereto and sections
8 1123, 1141 and 1146(a) of the Bankruptcy Code, each Debtor is authorized and directed to transfer,
9 grant, assign, convey, set over, and deliver to the Liquidating Trustee all of that Debtor's and its
10 Estate's right, title and interest in and to its Assets (other than the specified amount of Cash retained
11 by Reorganized PCFC as described below in this Section), including all Causes of Action
12 (including but not limited to the D&O and Shareholder Claims) as set forth in Exhibit "3" to the
13 Plan Supplement, free and clear of all liens, Claims, encumbrances or interests of any kind in such
14 property, except as otherwise expressly provided in the Plan; provided, however, that PCHLI and
15 Funding shall deliver the Intercompany Estate Amount to PCFC. To the extent required to
16 implement the transfer of the Debtors' Assets from the Debtors and their Estates to the Liquidating
17 Trusts as provided for in **Exhibit "C"** attached and herein, all Persons will cooperate with the
18 Debtors and the Estates to assist the Debtors and the Estates to implement said transfers.

19 e. Representative of the Estates

20 The Liquidating Trustee will be appointed as the representative of each of the Estates
21 pursuant to sections 1123(a)(5), (a)(7) and (b)(3)(B) of the Bankruptcy Code and as such will be
22 vested with the authority and power (subject to the Liquidating Trust Agreements) to: (i) object to
23 Claims against and Interests in the Debtors; (ii) administer, investigate, prosecute, settle and
24 abandon any Causes of Action assigned to the Liquidating Trusts, including but not limited to the
25 D&O and Shareholder Claims; (iii) make Distributions provided for in the Plan, including, but not
26 limited to, on account of Allowed Claims; and (iv) take such action as required to administer, wind-
27 down, and close the Cases. As the representative of the Estates, the Liquidating Trustee will
28 succeed to all of the rights and powers of the Debtors and the Estates (including the Committee

1 under the Standing Order) with respect to any and all Causes of Action assigned and transferred to
2 the Liquidating Trusts, and the Liquidating Trustee will be substituted and will replace the Debtors,
3 the Estates and the Committee, as applicable, as the party in interest in all such litigation pending as
4 of the Effective Date.

5 f. No Liability of Liquidating Trustee or Post-Effective Date Committees

6 To the maximum extent permitted by law, the Liquidating Trustee, its employees,
7 officers, directors, agents, members, or representatives, or professionals employed or retained
8 by the Liquidating Trustee (the "Liquidating Trustee's Agents") , the members of the Post-
9 Effective Date Committees (as defined below), and their employees, officers, directors, agents,
10 members, or representatives, or professionals employed or retained will not have or incur
11 liability to any Person for an act taken or omission made in good faith in connection with or
12 related to the administration of the Liquidating Trust Assets, the implementation of the Plan
13 and the Distributions made thereunder or Distributions made under the Liquidating Trust
14 Agreements. The Liquidating Trustee, the Liquidating Trustee's Agents, the members of the
15 Post-Effective Date Committees, and their employees, officers, directors, agents, members, or
16 representatives, or professionals employed or retained will in all respects be entitled to
17 reasonably rely on the advice of counsel with respect to their duties and responsibilities under
18 the Plan and the Liquidating Trust Agreements. Entry of the Confirmation Order constitutes
19 a judicial determination that the exculpation provision contained in Section VI.6 of the Plan is
20 necessary to, *inter alia*, facilitate Confirmation and feasibility and to minimize potential
21 claims arising after the Effective Date for indemnity, reimbursement or contribution from the
22 Estates, or the Liquidating Trusts, or their respective property. The Confirmation Order's
23 approval of the Plan will also constitutes a *res judicata* determination of the matters included
24 in the exculpation provisions of the Plan. Notwithstanding the foregoing, nothing herein or in
25 Section VI.6 of the Plan will alter any provision in the Liquidating Trust Agreements that
26 provides for the potential liability of the Liquidating Trustee to any Person.

27 g. Post-Effective Date Committees

28 As provided for in the Plan and the Liquidating Trust Agreements, there will be formed a

1 committee for each Liquidating Trust (collectively, the three committees are referred to herein as
2 the “Post-Effective Date Committees”) that will have consultation, approval and information rights
3 with respect to the Liquidating Trust to which it relates as set forth in the Liquidating Trust
4 Agreements. The members of each Post-Effective Date Committee will be those members of the
5 Committee who wish to continue to serve. Ten days prior to the Balloting Deadline, the Committee
6 shall file with the Bankruptcy Court a notice of selection of the Post-Effective Date Committees’
7 members, which notice will name the members of each Post-Effective Date Committee.

8 The Post-Effective Date Committees will prescribe their own rules of procedure and bylaws;
9 provided, however, that such rules of procedure and bylaws will not be inconsistent with the terms
10 of the Plan or the Liquidating Trust Agreements. If a Post-Effective Date Committee member
11 assigns its Claim in full or releases the Debtor or Liquidating Trust from payment of the balance of
12 its Claim, such act will constitute a resignation from the Post-Effective Date Committee. Until a
13 vacancy on the Post-Effective Date Committee is filled, the Post-Effective Date Committee will
14 function in its reduced number. The Post-Effective Date Committees’ rules of procedure may
15 provide that, in the event any member of any of the Post-Effective Date Committees resigns or is
16 otherwise unable to serve subsequent to the Effective Date, the affected Post-Effective Date
17 Committee may appoint a replacement that holds, to the greatest extent, an Allowed Claim of the
18 same type and nature and against the same Debtors and has the capacity and competency to serve in
19 place of the resigned or deceased member without approval by the Bankruptcy Court.

20 Except for the reimbursement of reasonable actual costs and expenses in connection with
21 their duties as members of the Post-Effective Date Committees, the members of the Post-Effective
22 Date Committees will serve without compensation. Reasonable expenses incurred by members of
23 the Post-Effective Date Committees may be paid by the Liquidating Trusts, as appropriate, without
24 need for Bankruptcy Court approval. Reasonable expense may include reimbursement of the fees
25 and costs of attorneys to each member, subject to such parameters as determined by the Post-
26 Effective Date Committee, and agreed to by the Liquidating Trustee.

27 The Post-Effective Date Committees will have no authority to employ, at the expense of the
28 appropriate Liquidating Trust, counsel or any other professionals, except upon petition to and

1 approval by the Bankruptcy Court for cause shown.

2 The Post-Effective Date Committees and their members will not be liable for any act any
3 member may do or fail to do as a member of the Post-Effective Date Committees while acting in
4 good faith and in the exercise of the member's best judgment. No member of the Post-Effective
5 Date Committees will be liable in any event for claims, liabilities or damages unless they arise from
6 such member's personal gross negligence or willful misconduct.

7 Each Post-Effective Date Committee will dissolve upon the completion of all distributions
8 to Beneficiaries of the particular Liquidating Trust and the termination of that Liquidating Trust in
9 accordance with the terms of the Plan and the Liquidating Trust Agreement.

10 6. Funding of Post-Effective Date Expenses

11 All expenses related to implementation of the Plan incurred from and after the Effective
12 Date will be expenses of the Liquidating Trusts, and the Liquidating Trustee will disburse funds
13 from the Liquidating Trust Assets of each Liquidating Trust, as appropriate, for purposes of paying
14 the Post-Effective Date Expenses of that Liquidating Trust without need for any further Order of the
15 Court.

16 7. The Committee

17 Until the Effective Date, the Committee will continue in existence. As of Effective Date,
18 the Committee will terminate and disband and the members of the Committee and the Committee
19 will be released and discharged of and from all further authority, duties, responsibilities and
20 obligations related to and arising from their service as Committee members. As of the Effective
21 Date, the Committee will be replaced by the Post-Effective Date Committees.

22 8. Provisions Governing Distributions under the Plan

23 a. Disbursing Agent

24 The Liquidating Trustee will serve as the Disbursing Agent under the Plan or, after
25 consultation with the appropriate Post-Effective Date Committee, shall select another entity to serve
26 as Disbursing Agent. Any entity other than the Liquidating Trustee that acts as a Disbursing Agent
27 for the Liquidating Trusts will be an agent of the Liquidating Trustee and not a separate taxable
28 entity with respect to, for example, the assets held, income received or disbursements or

1 distributions made for the Liquidating Trustee. The Liquidating Trustee will provide a bond as the
2 Bankruptcy Court may order, if any, in connection with the making of any distributions pursuant to
3 the Plan.

4 The Disbursing Agent shall make all Distributions required under the Plan. The Disbursing
5 Agent, if not the Liquidating Trustee, shall be authorized, after consultation with the Liquidating
6 Trustee, to implement such procedures as it deems necessary to make Distributions pursuant to the
7 Plan so as to efficiently and economically assure prompt and proportionate Distributions.

8 b. The Source of Distributions

9 The sources of all Distributions and payments under the Plan and the Liquidating Trust
10 Agreements will be the Available Cash, which will be cash transferred to the Liquidating Trusts as
11 of the Effective Date of the Plan, the dividend paid with respect to the New Common Stock, and
12 proceeds from the liquidation by the Liquidating Trusts of the remainder of the Debtors' assets
13 (including the prosecution of Causes of Action) that were transferred to any particular Liquidating
14 Trust less the Post-Effective Date Expenses for each particular Liquidating Trust.

15 c. Distribution Dates

16 The Distribution Dates for the distribution of Available Cash by the Liquidating Trusts shall
17 be selected by the Liquidating Trustee, after consultation with the Post-Effective Date Committees.
18 The Distribution Dates for the various Liquidating Trusts may be different dates.

19 d. Distribution of Property under the Plan

20 (1) Manner of Cash Payments

21 Cash Distributions made pursuant to the Plan will be in United States funds, by check drawn
22 on a domestic bank, or, if a Liquidating Trustee so elects in its discretion for Distributions to certain
23 large claimants, by wire transfer from a domestic bank.

24 (2) Setoff and Recoupment

25 **NOTWITHSTANDING ANYTHING TO THE CONTRARY IN THE PLAN, THE**
26 **LIQUIDATING TRUSTEE MAY SET OFF, RECOUP, OR WITHHOLD AGAINST THE**
27 **DISTRIBUTIONS TO BE MADE ON ACCOUNT OF ANY ALLOWED CLAIM OR**
28 **CAUSE OF ACTION ANY CLAIMS OR CAUSES OF ACTION THAT THE DEBTORS OR**

1 THE ESTATES MAY HAVE AGAINST THE ENTITY HOLDING THE ALLOWED
2 CLAIM OR CAUSE OF ACTION. THE DEBTORS, THE ESTATES, AND THE
3 LIQUIDATING TRUSTS WILL NOT WAIVE OR RELEASE ANY CLAIM OR CAUSE OF
4 ACTION AGAINST THOSE ENTITIES BY FAILING TO EFFECT SUCH A SETOFF OR
5 RECOUPMENT, BY FAILING TO ASSERT ANY SUCH MATTER PRIOR TO
6 CONFIRMATION OR THE EFFECTIVE DATE, BY ALLOWING ANY CLAIM OR
7 CAUSE OF ACTION AGAINST THE DEBTORS OR THE ESTATES, OR BY MAKING A
8 DISTRIBUTION ON ACCOUNT OF AN ALLOWED CLAIM OR CAUSE OF ACTION.

9 e. No De Minimis Distributions

10 Notwithstanding anything to the contrary in the Plan, no Distribution of less than \$10.00
11 will be made to any Holder of an Allowed Claim on account thereof. No consideration will be
12 provided in lieu of the *de minimis* Distributions that are not made hereunder.

13 f. Fractional Cents

14 When any payment of a fraction of a cent would otherwise be called for, the actual payment
15 will reflect a rounding of such fraction to the nearest whole cent (rounding down in the case of less
16 than \$0.005 and rounding up in the case of \$0.005 or more); provided, however, that, in no event,
17 will a Distribution of less than \$10.00 will be made to any Holder of an Allowed Claim on account
18 thereof as set forth above.

19 g. No Distributions with Respect to Disputed Claims and Interests

20 Distributions will be made on account of a Disputed Claim only after, and only to the extent
21 that, the Disputed Claim either becomes or is deemed to be an Allowed Claim for purposes of
22 Distributions.

23 h. Undeliverable or Unclaimed Distributions

24 Distributions to entities holding Allowed Claims will initially be made by mail as follows:

25 (1) Distributions will be sent to the address, if any, set forth on a filed proof of
26 claim as amended by any written notice of address change received by the Debtors prior to the
27 Effective Date or Liquidating Trustee no later than ten (10) Business Days prior to the date of any
28 Distribution; or

1 (2) If no such address is available, Distributions will be sent to the address set
2 forth on the Schedules or address otherwise readily obtainable by a cursory review of the Debtors'
3 other books and records.

4 If no address is available either on a proof of claim or on the Schedules or on the Debtors'
5 other books and records after a cursory review, the Distribution will be deemed to be undeliverable.
6 If a Distribution is returned to a Liquidating Trustee as an undeliverable Distribution or is deemed
7 to be an undeliverable Distribution, a Liquidating Trustee will make no further Distribution to the
8 Holder of the Claim on which the Distribution is being made.

9 Any entity that is otherwise entitled to an undeliverable Distribution and that does not,
10 within forty-five (45) days after a Distribution is returned as undeliverable, provide the Liquidating
11 Trustee with a written notice asserting its claim to or interest in that undeliverable Distribution and
12 setting forth a current, deliverable address will be deemed to waive any claim to or interest in that
13 undeliverable Distribution and will be forever barred from receiving that undeliverable Distribution
14 or asserting any Claim against the Debtors, the Estates, the Liquidating Trusts or their property.
15 Any undeliverable Distributions that are not claimed hereunder will be distributed *Pro Rata* to other
16 Holders of Allowed Claims, as appropriate. Nothing in the Plan requires a Liquidating Trustee to
17 attempt to locate any entity holding an Allowed Claim whose distribution is undeliverable.

18 i. Record Date

19 The record date for purposes of Distributions under the Plan will be the date the Bankruptcy
20 Court enters the Confirmation Order. The Liquidating Trustee will rely on the register of proofs of
21 claim filed in the Cases except to the extent a notice of transfer of Claim or Interest has been filed
22 with the Court prior to the record date pursuant to Bankruptcy Rule 3001.

23 j. Issuance of New Common Stock

24 On the Effective Date, all of the outstanding stock of PCFC will be cancelled, and
25 Reorganized PCFC will issue 100 shares of New Common Stock as follows: 69 shares of the New
26 Common Stock to the Liquidating Trustee in its capacity as the Liquidating Trustee of the Funding
27 Liquidating Trust and 31 shares of the New Common Stock to the Liquidating Trustee in its capacity
28 as Liquidating Trustee of the PCHLI Liquidating Trust (i.e., in accordance with the percentage of

1 funds contributed to PCFC by Funding and PCHLI). Within two business days of the Effective
2 Date, Reorganized PCFC will declare the New Common Stock Dividend. The record date for such
3 dividend will be its declaration date. The payment date for the dividend will be determined by the
4 Liquidating Trustee, but will be as soon after the declaration and record date as is feasible.

5 The dividend paid with respect to the New Common Stock will relate back to PCFC's
6 taxable year ended December 31, 2007, pursuant to Internal Revenue Code section 858 and,
7 therefore, will allow PCFC to meet the distribution requirement applicable to REITs pursuant to
8 Internal Revenue Code section 857(a)(1) for such year. Because the dividend with respect to the
9 New Common Stock will be paid after December 31, 2007, beneficiaries of the PCFC Liquidating
10 Trust will be liable for federal excise tax under Internal Revenue Code section 4981 for 2007 in the
11 amount of \$82,822.00 (or such other amount as is finally determined by the Debtors, Liquidating
12 Trustee or Court).

13 The dividend paid with respect to the New Common Stock will constitute "excess inclusion"
14 income within the meaning of Internal Revenue Code section 860E and will be reported as such by
15 the Liquidating Trustee. Such income will be distributed in accordance with the Plan.

16 k. Disputed Claim Reserve

17 On the Effective Date, the Liquidating Trustee will establish a Disputed Claim Reserve for
18 each Liquidating Trust from that Liquidating Trust's Property on account of Disputed Claims. The
19 Disputed Claim Reserve will initially include cash in amounts sufficient to distribute to each holder
20 of a Disputed Claim the full amount that it would receive under the Plan if its Claim should
21 ultimately become an Allowed Claim in its full face amount. The Liquidating Trustee may
22 subsequently move the Court for an Order setting reduced reserves upon Disputed Claims.

23 Notwithstanding the foregoing, the Liquidating Trustee may move for a Bankruptcy Court
24 order determining, before allowance of the Claim, the maximum allowable amount of any Disputed
25 Claim and, if the Bankruptcy Court enters such an order, will adjust the amount held in the
26 Disputed Claim Reserve on account of that Disputed Claim in accordance therewith. The
27 maximum allowable amount of any Disputed Claim so determined by the Bankruptcy Court will
28 constitute the maximum amount upon which the maximum distribution shall be calculated that the

1 Holder thereof may recover after the allowance of its Disputed Claim.

2 After any Disputed Claim becomes an Allowed Claim in the full face amount or a reduced
3 amount, the Liquidating Trustee will, on the next Distribution Date, make the distributions based
4 upon the full face amount or reduced, allowed amount of the Allowed Claim, as applicable, as if the
5 Disputed Claim had been an Allowed Claim in the full face amount or the reduced amount, as
6 applicable, on or before the Effective Date.

7 If a Disputed Claim becomes (i) a Disallowed Claim, (ii) an Allowed Claim in an amount
8 less than the amount held in the Disputed Claim Reserve on account thereof, or (iii) a Subordinated
9 Claim, the amount attributable to the Claim's disallowed or subordinated portion will constitute
10 reserve surplus ("Reserve Surplus") to be held by the Liquidating Trust to which the Claim relates.
11 Should the amount on account of an Allowed Claim exceed the amount held in the Disputed Claim
12 Reserve on account thereof, the Holder will be entitled to receive any shortfall in the distribution
13 that it would otherwise be entitled to receive solely from the Reserve Surplus, but in no event will
14 such Holder have recourse to any payments or distributions theretofore made to or for the benefit of
15 any Holder from the Disputed Claim Reserve or Reserve Surplus. If more than one Holder has a
16 right to receive distributions from the Reserve Surplus, then they will receive their pro rata share of
17 the Reserve Surplus.

18 After Final Orders have been entered, or other final resolutions have been reached, with
19 respect to all Disputed Claims or the applicable Liquidating Trust has obtained an Order of the
20 Court setting a reduced dollar amount of required reserves, any remaining cash or other property
21 held in the Disputed Claim Reserve or the Reserve Surplus will be distributed in accordance with
22 the Liquidating Trust Agreement.

23 9. Preservation of Causes of Action

24 As of the Effective Date, the Liquidating Trustee will retain all rights on behalf of the
25 Liquidating Trusts to commence, pursue and settle, as appropriate, any and all Causes of Action
26 (including any and all Avoidance Actions and any and all D&O and Shareholder Claims) assigned
27 to the particular Litigation Trust, whether arising before or after the Petition Date, in any court or
28 other tribunal, including, without limitation, a bankruptcy court adversary proceeding filed in the

1 Cases.

2 The Liquidating Trustee shall also be deemed the successor to, assignee of and transferee of
3 the Committee under the Standing Order, authorizing the Committee to pursue and prosecute to the
4 fullest extent any and all Causes of Action against the Debtors' present and former directors, officer
5 and shareholders and shall have all of the rights of the Committee under such Order, including the
6 Committee's rights of standing with respect to such Causes of Action. The failure to explicitly list
7 any Causes of Action and other potential or existing Causes of Action of the Debtors or Estates is
8 not intended to limit the rights of the Liquidating Trusts, through the Liquidating Trustee, to pursue
9 any Causes of Action, including Causes of Action not so identified. The Debtors and the
10 Committee will file a non-exhaustive list of Causes of Action with the Plan Supplement at least ten
11 (10) Business Days prior to the Balloting Deadline that sets forth Causes of Action as part of the
12 Plan Supplement; provided, however, notwithstanding any otherwise applicable principle of law or
13 equity, including, without limitation, any principles of judicial estoppel, *res judicata*, collateral
14 estoppel, issue preclusion, or any similar doctrine, the failure to list, disclose, describe, identify,
15 analyze or refer to any Cause of Action, or potential Cause of Action, in the Plan, this Disclosure
16 Statement, or any other document filed with the Bankruptcy Court will in no manner waive,
17 eliminate, modify, release, or alter the Debtors' or the respective Liquidating Trustee's right to
18 commence, prosecute, defend against, settle, and realize upon any Cause of Action that the Debtors
19 or the Estates have or may have as of the Effective Date. Subject to any limitations expressly set
20 forth in the Liquidating Trust Agreements, the Liquidating Trustee may commence, prosecute,
21 defend against, recover on account of, and settle any and all Causes of Action assigned to the any of
22 the Liquidating Trusts in accordance with the best interests, and for the benefit, of the respective
23 Liquidating Trust, subject to the terms of any applicable Liquidating Trust Agreement.

24 Unless a Cause of Action against a Person is expressly waived, relinquished, released,
25 compromised in writing, or settled in the Plan or any Final Order, the Debtors and their Estates, for
26 the benefit of the Beneficiaries of the Liquidating Trust in which such Causes of Action shall vest,
27 expressly reserve such Causes of Action for later adjudication (including, without limitation,
28 Causes of Action of which the Debtors, the Committee or any party in interest may presently be

1 unaware, or which may arise or exist by reason of additional facts or circumstances unknown to the
2 Debtors, the Committee or any party in interest at this time, or facts or circumstances which may
3 change or be different from those which the Debtors, the Committee or any party in interest now
4 believe to exist) and, therefore, no preclusion doctrine, including, without limitation, the doctrines
5 of *res judicata*, collateral estoppel, issue preclusion, claim preclusion, waiver, estoppel (judicial,
6 equitable, or otherwise), or laches will apply to Causes of Action upon, or after, the Confirmation or
7 consummation of the Plan based on their description or lack of identification or description in the
8 Disclosure Statement, the Plan, or the Confirmation Order, except where such Causes of Action
9 have been expressly released by virtue of the Plan or other Final Order.

10 As of the Effective Date, subject to the Liquidating Trust Agreements, the Liquidating
11 Trustee, on behalf of the Liquidating Trusts, will be authorized to exercise and perform the rights,
12 powers and duties held by the Debtors' Estates (and Committee under the Committee Standing
13 Order) with respect to the Causes of Action, including, without limitation, the authority under
14 Bankruptcy Code section 1123(b)(3) to provide for the settlement, adjustment, retention and
15 enforcement of claims and interests of the Estate, without the consent or approval of any third party,
16 and without any further order of the Bankruptcy Court, except as otherwise provided in the Plan.

17 Any Person with respect to whom any Debtor has incurred an obligation (whether on
18 account of services, purchase or sale of property, or otherwise), or who has received services from
19 any of the Debtors or a transfer of money or property of any of the Debtors, or who has transacted
20 business with any of the Debtors, or leased equipment or property from any of the Debtors should
21 assume that such obligation, transfer, or transaction may be reviewed by the Liquidating Trustee, on
22 behalf of the appropriate Liquidating Trust, subsequent to the Effective Date, and may, if
23 appropriate, be the subject of an action after the Effective Date, whether or not (i) such Person has
24 filed a proof of Claim against any of the Debtors; (ii) such Person's proof of Claim has been
25 objected to; (iii) such Person's Claim was included in the Schedules; (iv) such Person's scheduled
26 Claims have been objected to or has been identified by the Debtors as disputed, contingent, or
27 unliquidated; or (v) such Person has previously been notified that the Debtors or Committee
28 believes the estate holds Causes of Action against such Person.

1 implementation of the Plan, will be deemed fully waived, barred, released and discharged in all
2 respects, except as to rights, obligations, duties, claims and responsibilities preserved, created or
3 established by terms of the Plan. For the avoidance of doubt, the foregoing exculpation shall not
4 apply to the Debtors, including (i) any current or former directors or officers of the Debtors or their
5 affiliates, or (ii) any current or former employees of the Debtors; provided, notwithstanding the
6 foregoing, A&M and Messrs. Matthew Kvarda and Sven Johnson shall be entitled to the exculpation
7 and release set forth in this paragraph.

8 Pursuant to section 1125(e) of the Bankruptcy Code, the Committee and its members, and
9 each of its respective affiliates, officers, directors, employees, agents, advisors, representatives,
10 successors or assigns, and any Professionals employed by any of the foregoing entities will neither
11 have nor incur any liability to any Person for their role in soliciting acceptance of the Plan or
12 preparation of this Disclosure Statement.

13 **B. Exemption from Stamp, Transfer and Other Taxes**

14 Pursuant to section 1146(c) of the Bankruptcy Code, the issuance, transfer, or exchange of
15 assets under the Plan by the Debtors, the creation of any mortgage, deed of trust, or other security
16 interest, the making or assignment of any lease or sublease, or the making or delivery of any deed
17 or instrument of transfer under, in furtherance of, or in connection with the Plan, will not be subject
18 to any stamp, real estate transfer, mortgage recording, or other similar tax. The sale of the Debtors'
19 residual interests, servicing rights, platform, scratch and dent loans, REO and all other property are
20 deemed to be sales under the Plan and therefore no such taxes of the kind set forth in section
21 1146(c) are payable with respect thereto.

22 **C. Injunction Enjoining Holders of Claims Against Debtors**

23 **The Plan is the sole means for resolving, paying or otherwise dealing with Claims and**
24 **Interests. To that end, except as expressly provided in the Plan, at all times on and after the**
25 **Effective Date, all Persons who have been, are, or may be holders of Claims against or**
26 **Interests in any of the Debtors arising prior to the Effective Date, will be permanently**
27 **enjoined from taking any of the following actions, on account of any such Claim or Interest,**
28 **against any of the Debtors, their Estates, Reorganized PCFC, the Liquidating Trusts or their**

1 property (other than actions brought to enforce any rights or obligations under the Plan):

2 (i) commencing, conducting or continuing in any manner, directly or
3 indirectly any suit, action, or other proceeding of any kind against any of the Debtors,
4 their Estates, any of the Liquidating Trusts, or the Liquidating Trustee, their
5 successors, or their respective property or assets (including, without limitation, all
6 suits, actions, and proceedings that are pending as of the Effective Date which will be
7 deemed to be withdrawn or dismissed with prejudice);

8 (ii) enforcing, levying, attaching, executing, collecting, or otherwise
9 recovering by any manner or means whether directly or indirectly any judgment,
10 award, decree, or order against any of the Debtors, their Estates, any of the
11 Liquidating Trusts, or the Liquidating Trustee, their successors, or their respective
12 property or assets;

13 (iii) creating, perfecting, or otherwise enforcing in any manner, directly or
14 indirectly, any lien, security interest or encumbrance against any of the Debtors, their
15 Estates, any of the Liquidating Trusts, or the Liquidating Trustee, their successors, or
16 their respective property or assets; and

17 (iv) proceeding in any manner in any place whatsoever against any of the
18 Debtors, their Estates, any of the Liquidating Trusts, or any of the Liquidating
19 Trustee, their successors, or their respective property or assets, that does not conform
20 to or comply with the provisions of the Plan.

21 **D. Nondischarge of the Debtors**

22 In accordance with Bankruptcy Code section 1141(a)(3), the Confirmation Order will not
23 discharge Claims. However, no Holder of a Claim may receive any payment from, or seek recourse
24 against, any assets that are to be distributed under the Plan other than assets required to be
25 distributed to that Holder pursuant to the Plan. **As of the Confirmation Date, all Persons are**
26 **enjoined from asserting against any property that is to be distributed under the Plan any**
27 **Claims, rights, causes of action, liabilities, or Interests based upon any act, omission,**
28 **transaction, or other activity that occurred before the Confirmation Date except as expressly**

1 **provided in the Plan or the Confirmation Order.**

2 **E. Entry of a Final Decree**

3 Promptly following the liquidation or other disposition of all remaining Assets, including
4 the Causes of Action, and distribution of all Available Cash of any one Liquidating Trust pursuant
5 to the Plan and respective Liquidating Trust Agreement, after consultation with the respective Post-
6 Effective Date Committee, the Liquidating Trustee will file a motion with the Bankruptcy Court to
7 obtain entry of a final decree closing the respective Debtor's Case. Upon the entry of the final
8 decree, the Liquidating Trustee, on behalf of the Liquidating Trust, will be authorized in its sole and
9 absolute discretion to discard or destroy any and all pre-Effective Date books and records of the
10 Debtor in said parties' custody or control. The Liquidating Trustee will continue to preserve the
11 respective post-Effective Date books and records, subject to further Court order. The Liquidating
12 Trustee may gift amounts remaining in any trust to the charity of its choosing to the extent the value
13 of the assets remaining in the respective trust is less than the cost of preparing a distribution
14 (including the costs associated with preparation and processing checks), the cost of postage and
15 mailing for a distribution, the expense associated with seeking Court authority for a distribution and
16 the expense of holding the estate open.

17 **F. Post-Effective Date Quarterly Fees**

18 After the Effective Date, the Liquidating Trustee, on behalf of the Liquidating Trusts, will
19 pay all U.S. Trustee Fees.

20 **G. Post-Effective Date Status Reports**

21 The Liquidating Trustee, on behalf of each Liquidating Trust, will file status reports
22 regarding the status of implementation of the Plan every 120 days following the entry of the
23 Confirmation Order through entry of a final decree closing the Case of the Debtor for which the
24 Liquidating Trust is being administered, or as otherwise ordered by the Bankruptcy Court.

25 **H. Withholding and Reporting Requirements**

26 In connection with the consummation of the Plan, the Liquidating Trustee will comply with
27 all withholding and reporting requirements imposed by any federal, state, local or foreign taxing
28 authority and all Distributions hereunder will be subject to any such withholding and reporting

1 requirements. The Liquidating Trustee may reasonably request tax reporting information from
2 persons entitled to receive Distributions under the Plan and may withhold the payment of such
3 Distributions pending the receipt of such tax reporting information.

4 **I. Evidence of Claims**

5 As of the Effective Date, notes and any other evidence of Claims will represent only the
6 right to receive the Distributions contemplated under the Plan, provided, however, the Liquidating
7 Trustee shall be entitled to use such Claims in any litigation subject to any applicable rules of
8 evidence and procedure.

9 **J. Cancellation of Interests**

10 On the Effective Date, all Interests (other than the New Common Stock) will be cancelled,
11 annulled, and extinguished, and any issued and outstanding shares of common stock, preferred
12 stock, stock options, warrants, membership interests, or other evidence of Interests in securities of
13 the Debtors will be deemed to be cancelled and of no further force or effect without any further
14 action by the Debtors or any other entity. Holders of Allowed Interests will retain no rights and
15 receive no consideration on account of these Interests, and entities holding any evidence of Interests
16 in the Debtors will have no rights arising from or relating to such evidence of their Interests or their
17 cancellation.

18 **K. Injunctions or Stays**

19 Unless otherwise provided, all injunctions or stays arising under or entered during the Cases
20 under section 105 or section 362 of the Bankruptcy Code, or otherwise, and in existence on the
21 Confirmation Date, will remain in full force and effect until the Effective Date at which time the
22 injunctions and stays contained in Article VIII.C shall become effective.

23 **L. No Admissions**

24 Except as specifically provided in the Plan, nothing contained in the Plan will be deemed or
25 construed in any way as an admission by the Committee with respect to any matter set forth in the
26 Plan, including the amount or allowability of any Claim, or the value of any property of the Estates.

27 Notwithstanding anything to the contrary in the Plan, if the Plan is not confirmed or the
28 Effective Date does not occur, the Plan will be null and void, and nothing contained in the Plan

1 will: (a) be deemed to be an admission by the Committee with respect to any matter discussed in the
2 Plan, including liability on any Claim or the propriety of any Claim's classification; (b) constitute a
3 waiver, acknowledgement, or release of any Claims or Interests held by the Committee or the
4 Debtors; or (c) prejudice in any manner the rights of the Committee in any further proceedings.

5 **M. Modification or Withdrawal of the Plan**

6 In accordance with section 1127 of the Bankruptcy Code, the Committee reserves the right
7 to alter, amend, modify, revoke or withdraw the Plan or any Plan exhibit or schedule, including
8 amending or modifying it to satisfy the requirements of the Bankruptcy Code. The Committee
9 reserves the right to withdraw the Plan before the Confirmation Date.

10 **N. Severability of Plan Provisions**

11 If, before Confirmation, the Court holds that any Plan term or provision is invalid, void, or
12 unenforceable, the Court may alter or interpret that term or provision so that it is valid and
13 enforceable to the maximum extent possible consistent with the original purpose of that term or
14 provision. That term or provision will then be applicable as altered or interpreted. Notwithstanding
15 any such holding, alteration, or interpretation, the Plan's remaining terms and provisions will
16 remain in full force and effect and will in no way be affected, impaired, or invalidated. The
17 Confirmation Order will constitute a judicial determination providing that each Plan term and
18 provision, as it may have been altered or interpreted in accordance with this Section, is valid and
19 enforceable under its terms.

20 **O. Governing Law**

21 The rights and obligations arising under the Plan and any agreements, contracts, documents,
22 or instruments executed in connection with the Plan will be governed by, and construed and
23 enforced in accordance with, California law without giving effect to California law's conflict of law
24 principles, unless a rule of law or procedure is supplied by: (a) federal law (including the
25 Bankruptcy Code and the Bankruptcy Rules); or (b) an express choice-of-law provision in any
26 document provided for, or executed under or in connection with, the Plan.

27 **P. Retention of Jurisdiction**

28 The Plan shall not in any way limit the Court's post-confirmation jurisdiction. The

1 Bankruptcy Court will retain and have exclusive jurisdiction to the fullest extent permissible over
2 any proceeding arising under the Bankruptcy Code, arising in or related to the Cases or the Plan,
3 including but not limited to, the proceedings set forth in Article VIII.P of the Plan.

4 **Q. Successors and Assigns**

5 The rights, benefits, and obligations of any entity referred to in the Plan will be binding on,
6 and will inure to the benefit of, any heir, executor, administrator, successor, or assign of that entity.

7 **R. Nonconsensual Confirmation**

8 In the event that the Classes entitled to vote to accept or reject the Plan fail to accept the
9 Plan in accordance with Bankruptcy Code section 1129(a)(8), the Committee reserves the right to
10 seek Confirmation of the Plan pursuant to Bankruptcy Code section 1129(b).

11 **S. Saturday, Sunday, or Legal Holiday**

12 If any payment or act under the Plan should be made or performed on a day that is not a
13 Business Day, then the payment or act may be completed on the next succeeding day that is a
14 Business Day, in which event the payment or act will be deemed to have been completed on the
15 required day.

16 **T. No Waiver**

17 Neither the failure to list a Claim in the Schedules filed by the Debtors, the failure of any
18 Person to object to any Claim for purposes of voting, the failure of any Person to object to a Claim
19 (including an Administrative Claim) prior to Confirmation or the Effective Date, the failure of any
20 Person to assert a Cause of Action prior to Confirmation or the Effective Date, the absence of a
21 proof of Claim having been Filed with respect to a Claim, nor any action or inaction of any Person
22 with respect to a Claim or Cause of Action other than a legally effective express waiver or release
23 by the party with the power to give such waiver (subject to Court approval) will be deemed a
24 waiver or release of the right of the Committee, the Debtors, the Liquidating Trusts or their
25 successors or representatives, before or after solicitation of votes on the Plan or before or after
26 Confirmation or the Effective Date to (a) object to or examine such Claim, in whole or in part or
27 (b) retain and either assign or exclusively assert, pursue, prosecute, utilize, otherwise act or
28 otherwise enforce any Cause of Action.

1 **U. Post-Effective Date Notice**

2 From and after the Effective Date, any Person who desires notice of any pleading or
3 document filed in the Cases, or of any hearing in the Court, or of any matter as to which the
4 Bankruptcy Code requires notice to be provided, will file a request for post-confirmation notice and
5 will serve the request on the Liquidating Trustee; provided however, the U.S. Trustee and the
6 Liquidating Trustee, will be deemed to have requested post-confirmation notice.

7 **ARTICLE X.**

8 **APPROVAL OF THE INTERCOMPANY SETTLEMENT**

9 As part of the Plan, the Committee is proposing the Intercompany Settlement. The
10 Committee believes that the Intercompany Settlement, an integral part of the Plan, is a fair and
11 reasonable settlement of issues such as substantive consolidation and inter-debtor claims.

12 Compromises are a normal part of the bankruptcy process. *Protective Comm. for Indep.*
13 *Stockholders of TMT Trailer Ferry, Inc. v. Anderson*, 390 U.S. 414, 88 S. Ct. 1157, 20 L. Ed. 2d 1
14 (1968), reh'g denied, 391 U.S. 909, 88 S. Ct. 1649, 20 L. Ed. 2d 425 (1968) (compromises a normal
15 part of reorganizations) (citing *Case v. Los Angeles Lumber Prods. Co., Ltd.*, 308 U.S. 106 (1939),
16 reh'g denied, 308 U.S. 637, 60 S. Ct. 258, 84 L. Ed. 529 (1939)).

17 The law favors and encourages compromises. *Ahern Central Freight Lines*, 846 F.2d 47, 48
18 (9th Cir. 1988). It is well established that settlements are favored over litigation. *See In re A & C*
19 *Properties*, 784 F.2d 1377 (9th Cir. 1986); *In re Blair*, 538 F.2d 849, 851 (9th Cir. 1976); *In re*
20 *Heissenger Resources, Ltd.*, 67 B.R. 378 (C.D. Ill. 1986). "The decision of whether to approve a
21 particular compromise lies within the discretion of the Bankruptcy Judge and pursuant to
22 Bankruptcy Rule 9019(a)." *In re Texaco, Inc.*, 84 B.R. 893, 901 (Bankr. S.D.N.Y. 1988), appeal
23 dismissed, *Trans World Airlines, Inc. v. Texaco, Inc. (In re Texaco, Inc.)*, 92 B.R. 38 (S.D.N.Y.
24 1988). *See also U.S. v. AWECO, Inc. (In re AWECO, Inc.)*, 725 F.2d 293, 297 (5th Cir. 1984),
25 reh'g denied, 732 F.2d 941 (5th Cir. 1984), *cert. denied*, 469 U.S. 880, 105 S. Ct. 244, 83 L. Ed. 2d
26 182 (1984); *In re Carson*, 82 B.R. 847, 852 (Bankr. S.D. Ohio 1987).

27 Further, a plan of reorganization may provide for a compromise. *See* 11 U.S.C.
28 § 1123(b)(3)(A); *In re Best Prods. Co.*, 168 B.R. 35, 50 (Bankr. S.D.N.Y. 1994).

1 In examining the efficacy and appropriateness of a settlement, the responsibility of the Court
2 is "not to decide the numerous questions of law and fact raised by appellants but rather to canvass
3 the issues and see whether the settlement 'falls[s] below the lowest point in the range of
4 reasonableness[.]'" *Cosoff v. Rodman (In re W.T. Grant Co.)*, 699 F.2d 599, 608 (2d Cir. 1983),
5 *cert. denied*, 464 U.S. 822, 104 S. Ct. 89, 78 L. Ed. 2d 97 (1983) (quoting *Newman v. Stein*, 464
6 F.2d 689, 693 (2d Cir. 1972), *cert. denied*, 409 U.S. 1039, 93 S. Ct. 521, 34 L. Ed. 2d 528 (1972)).
7 *See also Securities and Ex. Comm. v. Drexel Burnham Lambert, Inc.*, 130 B.R. 910, 927 (S.D.N.Y.
8 1991), *aff'd*, 960 F.2d 285 (2d Cir. 1992).

9 The Ninth Circuit in *In re A&C Properties* enunciated factors that bankruptcy courts should
10 consider in determining whether to approve a compromise of controversy:

- 11 (a) [t]he probability of success in the litigation;
- 12 (b) the difficulties, if any, to be encountered in the matter of collection;
- 13 (c) the complexity of the litigation involved, and the expense, inconvenience and delay
14 necessarily attending it;
- 15 (d) the paramount interest of the creditors and a proper deference to their reasonable
16 views in the premises.

17 *Martin v. Kane (In re A&C Properties)*, 784 F.2d 1377, 1380-81 (9th Cir. 1986), *cert. denied*, 479
18 U.S. 854, 107 S. Ct. 189, 93 L. Ed. 2d 182 (1986) (citing *Drexel Burnham Lambert, Inc. v. Flight*
19 *Transp. Corp. (In re Flight Transp. Corp. Sec. Litig.)*, 730 F.2d 1128, 1135 (8th Cir. 1984), *cert.*
20 *denied*, 469 U.S. 1207, 105 S. Ct. 1169, 84 L. Ed. 2d 320 (1985)); *Port O'Call Inv. Co. v. Blair (In*
21 *re Blair)*, 538 F.2d 849, 851 (9th Cir. 1976); *In re Planned Protective Services, Inc.*, 130 B.R. 94,
22 96-97 (Bankr. C.D. Cal. 1991). *Accord TMT Trailer Ferry, Inc. v. Anderson*, 390 U.S. at 425 (the
23 court must "compare the terms of the compromise with the likely rewards of litigation").

24 The Committee submits that when the Court considers the Intercompany Settlement it will
25 conclude that the settlement is a reasonable compromise and should be approved as part of the Plan
26 in light of the factors enunciated by the Ninth Circuit in *In re A&C Properties*. A comprehensive
27 discussion of the Intercompany Settlement is included at Article VII hereof.
28

1 **ARTICLE XI.**

2 **CERTAIN RISK FACTORS TO BE CONSIDERED**

3 Holders of Impaired Claims and Impaired Interests entitled to vote on the Plan should read
4 and consider carefully the factors set forth below, as well as other information set forth in this
5 Disclosure Statement and the documents delivered together herewith and/or incorporated by
6 reference herein, prior to voting to accept or reject the Plan.

7 **A. Risk that the Debtors Will Have Insufficient Cash for the Plan to Become Effective**

8 The Plan cannot be confirmed by the Bankruptcy Court unless the Debtors have sufficient
9 funds by the Effective Date to pay or reserve for all Allowed Administrative Claims, Allowed
10 Priority Tax Claims, Allowed Secured Claims and Allowed Priority Non-Tax Claims, unless
11 particular Holders of such Claims agree to a deferred payment of their Claims or applicable law
12 permits deferred payment.

13 **B. Risk Regarding the Distributions to Be Made to Creditors and Interest Holders**

14 While the Committee has endeavored, including by working with the Debtors
15 representatives, to project what they believe are likely Distributions, if any, to be made to parties
16 holding Allowed Claims and Allowed Interests, there can be no certainty that the projections will be
17 accurate, and that Creditors will receive the distributions described in the Plan. The projections will
18 necessarily be affected by, among other things: (1) recoveries that the Liquidating Trustee generates
19 from the Causes of Action; (2) recoveries that the Liquidating Trustee generates in connection with
20 the liquidation of all other assets; (3) the outcome of objections to Claims; and (4) the cost and
21 expenses of such actions and generally administering the Liquidating Trust.

22 **C. Bankruptcy Risks**

23 Section 1122 of the Bankruptcy Code provides that a plan may place a claim or an interest in
24 a particular class only if such claim or interest is substantially similar to the other claims or interests
25 of such class. The Committee believes that the classification of Claims and Interests under the Plan
26 complies with the requirements set forth in the Bankruptcy Code. However, there can be no
27 assurance that the Bankruptcy Court would reach the same conclusion.
28

1 Even if all Classes of Claims and Interests that are entitled to vote accept the Plan, the Plan
2 might not be confirmed by the Bankruptcy Court. Section 1129 of the Bankruptcy Code sets forth
3 the requirements for confirmation and requires, among other things, that the value of distributions to
4 dissenting creditors and equity security holders not be less than the value of distributions such
5 creditors and equity security holders would receive if the debtor were liquidated under chapter 7 of
6 the Bankruptcy Code. The Committee believes that the Plan satisfies all of the requirements for
7 confirmation of a plan under section 1129.

8 **ARTICLE XII.**

9 **VOTING PROCEDURES AND REQUIREMENTS**

10 IT IS IMPORTANT THAT HOLDERS OF CLAIMS AND INTERESTS EXERCISE
11 THEIR RIGHT TO VOTE TO ACCEPT OR REJECT THE PLAN. On May 2, 2008, the Court
12 entered the Order Approving Debtors' Disclosure Statement, Fixing Various Deadlines Relating to
13 Plan Confirmation, Approving Form of Ballot, Solicitation Letter, and Notice, and Approving
14 Manner of Service (the "Solicitation Procedures Order"). Any Creditor entitled to vote on the Plan
15 should review the procedures approved by the Court.

16 As more fully set forth in the Solicitation Procedures Order, all known Holders of Claims and
17 Interest Holders entitled to vote on the Plan have been sent a Ballot together with this Disclosure
18 Statement. Such Persons should read the Ballot carefully and follow the instructions contained
19 therein. Please use only the Ballot (or Ballots) that accompanies this Disclosure Statement.
20
21
22
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26
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28

1 FOR YOUR VOTE TO COUNT, YOUR BALLOT MUST BE ACTUALLY RECEIVED
2 BY THE BALLOTING AGENT NO LATER THAN 5:00 P.M., PACIFIC TIME, ON **JULY 2,**
3 **2008.** BALLOTS SHOULD BE SENT AS FOLLOWS:

| | |
|---|---|
| <p><i>By Mail:</i> People's Choice Balloting Processing c/o XRoads Case Management Services P.O. Box 8901 Marina Del Rey, CA 90295</p> | <p><i>By Overnight or Hand Delivery:</i> People's Choice Balloting Processing c/o XRoads Case Management Services 1821 E. Dyer Road, Suite 225 Santa Ana, CA 92705</p> |
|---|---|

4
5
6
7
8 ANY BALLOT THAT IS EXECUTED AND RETURNED BUT WHICH DOES NOT INDICATE
9 AN ACCEPTANCE OR REJECTION OF THE PLAN WILL BE DEEMED AN ACCEPTANCE
10 OF THE PLAN. IF YOU HAVE ANY QUESTIONS CONCERNING VOTING PROCEDURES
11 OR IF A BALLOT IS DAMAGED OR LOST, YOU MAY CONTACT PEOPLE'S CHOICE
12 BALLOTING PROCESSING C/O XROADS CASE MANAGEMENT SERVICES, PO BOX 8901,
13 MARINA DEL REY, CA 90295, TELEPHONE: (888) 781-6224.

14
15 **A. Parties in Interest Entitled to Vote**

16 Subject to the provisions of the Disclosure Statement Order, any Holder of a Claim against
17 the Debtors as of the Petition Date, which Claim has not been objected to or disallowed by order of
18 the Bankruptcy Court, is entitled to vote to accept or reject the Plan if (1) such Claim is Impaired
19 under the Plan and is not of a Class that is deemed to have accepted or rejected the Plan pursuant to
20 sections 1126(f) and 1126(g) of the Bankruptcy Code, and (2) either (a) such Holder's Claim has
21 been scheduled by the Debtors (and such Claim is not scheduled as disputed, contingent, or
22 unliquidated), or (b) such Holder has filed a proof of claim on or before the Claims Bar Date.
23 Unless otherwise permitted in the Plan, the Holder of any Claim that has been objected to is not
24 entitled to vote on the Plan on account of such Claim unless the Bankruptcy Court, upon application
25 by such Holder, temporarily allows such Claim for the limited purpose of voting to accept or reject
26 the Plan. A vote on the Plan may be disregarded if the Bankruptcy Court determines, after notice
27 and a hearing, that such vote was not solicited or procured in good faith or in accordance with the
28 provisions of the Bankruptcy Code. 11 U.S.C. § 1126(e).

1 **B. Classes Impaired and Entitled to Vote under the Plan**

2 The following chart summarizes which Classes of Claims and Interests are Impaired and
3 which Classes of Claims are Unimpaired under the Plan.

| <u>CLASS</u> | <u>DESCRIPTION</u> | <u>IMPAIRED/ UNIMPAIRED</u> | <u>VOTING STATUS</u> |
|--------------|---|---------------------------------|------------------------------------|
| 4 Class 1A | Secured Claims against PCHLI | Unimpaired | Deemed to Accept Plan |
| 5 | | | |
| 6 Class 1B | Secured Claims against Funding | Unimpaired | Deemed to Accept Plan |
| 7 | | | |
| 8 Class 1C | Secured Claims against PCFC | Unimpaired | Deemed to Accept Plan |
| 9 | | | |
| 10 Class 2A | Priority Non-Tax Claims against PCHLI | Unimpaired | Deemed to Accept Plan |
| 11 | | | |
| 12 Class 2B | Priority Non-Tax Claims against Funding | Unimpaired | Deemed to Accept Plan |
| 13 | | | |
| 14 Class 2C | Priority Non-Tax Claim against PCFC | Unimpaired | Deemed to Accept Plan |
| 15 | | | |
| 16 Class 3A | WARN Act Claims against PCHLI | Impaired | Entitled to Vote on the Plan |
| 17 | | | |
| 18 Class 3B | WARN Act Claims against Funding | Impaired | Entitled to Vote on the Plan |
| 19 | | | |
| 20 Class 3C | WARN Act Claims against PCFC | Impaired | Entitled to Vote on the Plan |
| 21 | | | |
| 22 Class 4A | General Unsecured Claims against PCHLI | Impaired | Entitled to Vote on the Plan |
| 23 | | | |
| 24 Class 4B | General Unsecured Claims against Funding | Impaired | Entitled to Vote on the Plan |
| 25 | | | |
| 26 Class 4C | General Unsecured Claims against PCFC | Impaired | Entitled to Vote on the Plan |
| 27 | | | |
| 28 Class 5A | Intercompany Non- Administrative Claims against PCHLI | Impaired | Deemed to Rejected the Plan |

| <u>CLASS</u> | <u>DESCRIPTION</u> | <u>IMPAIRED/ UNIMPAIRED</u> | <u>VOTING STATUS</u> |
|--------------|--|---------------------------------|---|
| Class 5B | Intercompany Non-Administrative Claims against Funding | Impaired | PCHLI Is Entitled to Vote and All Other Holders Are Deemed to Rejected the Plan |
| Class 5C | Intercompany Non-Administrative Claims against PCFC | Impaired | Deemed to Rejected the Plan |
| Class 6A | Interests in PCHLI | Impaired | Deemed to Rejected the Plan |
| Class 6B | Interests in Funding | Impaired | Deemed to Reject the Plan |
| Class 6C | Interests in PCFC | Impaired | Deemed to Reject the Plan |

The Bankruptcy Code defines acceptance of a Plan by a class of claims as acceptance by holders of at least two-thirds in dollar amount and more than one-half in number of the claims of that class that actually cast ballots for acceptance or rejection of the Plan. Thus, acceptance by a Class of Claims occurs only if at least two-thirds in dollar amount and a majority in number of the Holders of such Claims that vote cast their Ballots in favor of acceptance.

CREDITORS, INTEREST HOLDERS AND OTHER PARTIES IN INTEREST ARE CAUTIONED TO REVIEW THE SOLICITATION PROCEDURES ORDER FOR A FULL UNDERSTANDING OF VOTING REQUIREMENTS, INCLUDING, WITHOUT LIMITATION, COMPLETION AND SUBMISSION OF BALLOTS.

ARTICLE XIII.

CONFIRMATION OF THE PLAN

Under the Bankruptcy Code, the following steps must be taken to confirm the Plan.

1 **A. Confirmation Hearing**

2 Section 1128(a) of the Bankruptcy Code requires the Bankruptcy Court, after notice, to hold
3 a hearing on confirmation of a Plan. By order of the Bankruptcy Court, the Confirmation Hearing
4 has been scheduled for **July 23 - 25, 2008 at 9:00 a.m.** (Pacific Time) at the United States
5 Bankruptcy Court for the Central District of California, Courtroom 5D, 411 West Fourth Street,
6 Suite 2030, Santa Ana, California, 92701-4593. The Confirmation Hearing may be adjourned from
7 time to time by the Bankruptcy Court without further notice except for an announcement made at the
8 Confirmation Hearing or any adjournment thereof.

9 Section 1128(b) of the Bankruptcy Code provides that any party in interest may object to
10 confirmation of the Plan. Any objection to confirmation of the Plan must be in writing, conform to
11 the Federal Rules of Bankruptcy Procedure and the Local Rules of the Bankruptcy Court, set forth
12 the name of the objecting party, the nature and amount of the Claim or Interest held or asserted by
13 the objecting party against the Debtors' Estates, the basis for the objection, and the specific grounds
14 therefor. The objection, together with proof of service thereof, must then be filed with the
15 Bankruptcy Court, with a copy to chambers, and served upon: (1) counsel to the Debtors, Pachulski
16 Stang Ziehl & Jones LLP, 10100 Santa Monica Boulevard, 11th Floor, Los Angeles, California
17 90067, Attn: Jeremy Richards and Jeffrey Dulberg; (2) Office of the United States Trustee, Ronald
18 Reagan Federal Building & United States Courthouse, 411 W. Fourth Street, Suite 9041, Santa Ana,
19 California 92701, Attn: Nancy Goldberg, Esq., and (3) counsel to the Official Committee of
20 Unsecured Creditors, Winston & Strawn LLP, 333 South Grand Avenue, Los Angeles, California
21 90071-1543, Attn: Eric Sagerman, Esq. and Justin Rawlins, Esq..

22 Objections to confirmation of the Plan are governed by Rule 9014 of the Federal Rules of
23 Bankruptcy Procedure. **UNLESS AN OBJECTION TO CONFIRMATION IS TIMELY AND**
24 **PROPERLY SERVED AND FILED, IT MAY NOT BE CONSIDERED BY THE BANKRUPTCY**
25 **COURT.**

26 **B. Requirements for Confirmation of the Plan**

27 At the Confirmation Hearing, the Bankruptcy Court will confirm the Plan only if all of the
28 requirements of section 1129 of the Bankruptcy Code are met. Among the requirements for

1 confirmation are that the Plan (1) is accepted by all Impaired Classes of Claims and Interests or, if
2 rejected by an Impaired Class, that the Plan “does not discriminate unfairly” and is “fair and
3 equitable” as to such Class, (2) is feasible, and (3) is in the “best interests” of holders of Claims and
4 Interests Impaired under the Plan.

5 1. Acceptance

6 Claims in Classes 3A-3C, 4A-4C, and the Claim of PCHLI in Class 5B are Impaired and the
7 holders of such Claims are entitled to vote on the Plan. Therefore, these Classes must accept the
8 Plan in order for the Plan to be confirmed without application of the “fair and equitable test,”
9 described below, to such Class. As stated above, a Class of Claims will have accepted the Plan if the
10 Plan is accepted by at least two-thirds in dollar amount, and a majority in number of the Claims of
11 each such Class (other than any Claims of creditors designated under section 1126(e) of the
12 Bankruptcy Code) that have voted to accept or reject the Plan.

13 Claims in Classes 1A-1C and 2A-2C are Unimpaired by the Plan, and the holders thereof are
14 conclusively presumed to have accepted the Plan. Holders of Claims in Classes 5A and 5C, Holders
15 of Claims in Class 5B (other than PCHLI) and Interest Holders in Classes 6A-6C are Impaired under
16 the Plan but are to retain and receive no property under the Plan and are, therefore, deemed to have
17 rejected the Plan.

18 2. Fair and Equitable Test

19 The Committee will seek to have the Plan confirmed notwithstanding the rejection or deemed
20 rejection of the Plan by any Impaired Class of Claims or Interests. To obtain such confirmation, it
21 must be demonstrated to the Bankruptcy Court that the Plan “does not discriminate unfairly” and is
22 “fair and equitable” with respect to such dissenting Impaired Class. A plan does not discriminate
23 unfairly if the legal rights of a dissenting class are treated in a manner consistent with the treatment
24 of other classes whose legal rights are substantially similar to those of the dissenting class, and if no
25 class receives more than it is entitled to for its claims or interests. The Committee believes that the
26 Plan satisfies this requirement.

27 The Bankruptcy Code establishes different “fair and equitable” tests for secured claims,
28 unsecured claims and interests, as follows:

1 a. Secured Claims

2 Either the Plan must provide (i) that the Holders of such Claims retain the liens securing such
3 claims, whether the property subject to such liens is retained by the Debtors or transferred to another
4 entity, to the extent of the Allowed amount of such Claims, and each Holder of a Claim receives
5 deferred cash payments totaling at least the Allowed amount of such Claim, of a value, as of the
6 Effective Date of the Plan, of at least the value of such Holder's interest in the Estates' interest in
7 such property; (ii) for the sale of any property that is subject to the liens securing such Claims, free
8 and clear of such liens, with such liens to attach to the proceeds of such sale; or (iii) for the
9 realization by such Holders of the indubitable equivalent of such Claims. 11 U.S.C. §
10 1129(b)(2)(A).

11 b. Unsecured Claims

12 Either (i) each Holder of an Impaired Unsecured Claim receives or retains under the Plan
13 property of a value equal to the amount of its Allowed Claim, or (ii) the holders of Claims and
14 Interests that are junior to the Claims of the dissenting Class will not receive any property under the
15 Plan. 11 U.S.C. § 1129(b)(2)(B).

16 c. Interests

17 Either (i) each Interest Holder will receive or retain under the Plan property of a value equal
18 to the greater of (y) the fixed liquidation preference or redemption price, if any, of such Interests and
19 (z) the value of the Interests, or (ii) the holders of Interests that are junior to the Interests will not
20 receive any property under the Plan. 11 U.S.C. § 1129(b)(2)(C).

21 THE COMMITTEE BELIEVES THAT THE PLAN MAY BE CONFIRMED ON A
22 NONCONSENSUAL BASIS (PROVIDED AT LEAST ONE IMPAIRED CLASS OF CLAIMS
23 VOTES TO ACCEPT THE PLAN). ACCORDINGLY, THE COMMITTEE WILL
24 DEMONSTRATE AT THE CONFIRMATION HEARING THAT THE PLAN SATISFIES THE
25 REQUIREMENTS OF SECTION 1129(b) OF THE BANKRUPTCY CODE AS TO ANY NON-
26 ACCEPTING CLASS.

1 3. Feasibility

2 The Bankruptcy Code requires that confirmation of a plan is not likely to be followed by the
3 liquidation, or the need for further financial reorganization of a debtor, unless such liquidation or
4 reorganization is proposed in the plan. The Plan contemplates that all Assets of the Debtors
5 ultimately will be liquidated, sold, transferred, abandoned, or otherwise disposed of, and all proceeds
6 of the Assets will be distributed to the Holders of Claims pursuant to the terms of the Plan. Since no
7 further financial reorganization of the Debtors will be possible or is contemplated, the Committee
8 believes that the Plan meets the feasibility requirement. In addition, subject to the discussion of
9 “Risk Factors” set forth in Article XI, the Committee believes that sufficient funds will exist at the
10 Effective Date to make all payments required to be made on said date under the Plan.

11 4. “Best Interests” Test

12 The Committee believes that the Plan is in the best interests of all creditors and satisfies the
13 provisions of Section 1129(a)(7) of the Bankruptcy Code. Under Section 1129(a)(7), each holder of
14 a Claim or Interest in an impaired class must either (i) accept the Plan or (ii) receive or retain under
15 the Plan Cash or property of a value, as of the Effective Date of the Plan, that is not less than the
16 value such Holder would receive or retain if the Debtors were liquidated under Chapter 7 of the
17 Bankruptcy Code. The Bankruptcy Court will determine whether the Cash and property issued
18 under the Plan to each Class equals or exceeds the value that would be allocated to the Holders in a
19 liquidation under Chapter 7 of the Bankruptcy Code (the “Best Interests Test”).

20 For a variety of reasons, holders of Allowed Claims will receive more under the chapter 11
21 Plan of liquidation than they would receive if the cases were converted to chapter 7 of the
22 Bankruptcy Code. Chapter 7 comes with attendant expenses that chapter 11 will not; the Plan
23 eliminates intercompany litigation and the associated cost through the Intercompany Settlement,
24 which is not necessarily the case in chapter 7; the Debtors will be able to preserve their REIT status
25 in chapter 11, which they will lose in chapter 7, potentially avoiding significant claims against the
26 Estates, and chapter 7 would likely result in significant delays in payments made to creditors.

27 As an initial matter, conversion to chapter 7 will necessitate the appointment of a chapter 7
28 trustee and counsel to such trustee. Both the chapter 7 trustee and its counsel will be required to

1 expend additional sums familiarizing themselves with the proceedings and the status of the cases.
2 which cost will be avoided should the cases remain in chapter 11. Under the Plan, there will be a
3 single liquidating trustee who is likely to be a financial advisor that is already involved in the cases.
4 Thus, there will be no "learning curve" time for a trustee in chapter 11. In addition, a chapter 7
5 trustee will be entitled to a statutory fee, which is calculated on a sliding scale from which the
6 maximum compensation is determined based on the total amount of moneys disbursed or turned over
7 by the chapter 7 trustee. Bankruptcy Code § 326(a) permits reasonable compensation not to exceed
8 3% of the proceeds in excess of \$1 million distributable to creditors.

9 Secondly, the Committee has proposed the Intercompany Settlement which is a chief
10 component of the Plan and will enable the three Estates to avoid the cost of litigating claims, asset
11 allocation and expense allocation issues between them. Under chapter 7, three separate chapter 7
12 trustees could be required to be appointed in order to administer Estates with adverse interests with
13 the attendant cost of that adversarial process. The appointment of a trustee for each Debtor and the
14 employment of associated professionals could severely deplete the assets of each estate. The
15 Intercompany Settlement avoids this result by resolving adverse interests among the Estates and
16 permitting a single liquidating trustee to administer the Estates.

17 Further, the Debtors filed a motion under Section 505 of the Bankruptcy Code in order to fix
18 the amount of the Debtors' income tax liabilities for 2007 and ensure that the Debtors continued to
19 qualify for REIT status. In order to qualify as a REIT, the Debtors must dividend 90% of their
20 taxable income to shareholders each year. Once the tax liability is fixed pursuant to the 505 motion,
21 the Plan will provide for the issuance of New Common Stock to the trustees of the Funding and
22 PCHLI Liquidating Trusts and for the making of a dividend of not less than 90% of the taxable
23 income to the trusts in order to permit the company to continue to qualify as a REIT. There is no
24 similar mechanism available in chapter 7 in order to issue new stock and make a dividend. Thus, if
25 the cases are converted to chapter 7, the Debtors will fail to qualify as a REIT. This could result in
26 greater claims against the Estates in chapter 7. The securitization trustee, holders of certificates in
27 the securitization trusts and purchasers of the residual interests from the Debtors could all suffer
28 adverse tax consequences should the Debtors fail to preserve their REIT status. The Debtors may

1 have made representations and warranties to some or all of such parties. If the cases are converted to
2 chapter 7 and REIT status is compromised, some or all of those parties could attempt to assert claims
3 against the Estates. It is the intent of the Debtors to avoid the incurrence of these types of claim
4 through the Plan mechanics described above. This issue is described in greater detail in the 505
5 motion.

6 Finally, it is also anticipated that a chapter 7 liquidation would result in a significant delay in
7 payments being made to Creditors. Bankruptcy Rule 1019 provides that conversion of chapter 11
8 cases to chapter 7 will trigger a new bar date for filing claims against the Estates, and that the new
9 bar date will be more than 90 days after the chapter 11 cases convert. Not only would a chapter 7
10 liquidation delay distribution to Creditors, but it is possible that additional Claims that were not
11 asserted in the Chapter 11 Cases, or were late-filed, could be filed against the Estates. Reopening the
12 Bar Dates in connection with conversion to chapter 7 would provide these and other claimants an
13 additional opportunity to timely file Claims against the Estates.

14 For the foregoing reasons, the Committee submits that the recovery to creditors in chapter 11
15 will be greater than the recovery in chapter 7. A liquidation analysis is attached hereto as

16 **Exhibit "F"** supporting the Committee's analysis

17 **ARTICLE XIV.**

18 **ALTERNATIVES TO CONFIRMATION OF THE PLAN**

19 The Committee has evaluated alternatives to the Plan. A liquidation is the only real prospect.
20 A reorganization is not possible. The operating platforms have been sold, employees have separated
21 from the company, substantially all other assets and locations have been liquidated, and there is no
22 going concern.

23 After studying these alternatives, the Committee has concluded that the Plan is the best
24 alternative, and will maximize recoveries by parties in interest, assuming confirmation of the Plan.
25 Among other things, the administrative costs associated with converting the Cases to a chapter 7
26 liquidation would be higher than if the Debtors' Assets were liquidated pursuant to the Plan. See
27 Section XIII.B.4. The Committee believes that the Plan fairly adjusts the rights of various Classes of
28

1 Creditors and Interest Holders consistent with the distribution scheme embodied in the Bankruptcy
2 Code and enables such Persons to realize the most recovery under the circumstances.

3 **ARTICLE XV.**

4 **CERTAIN U.S. FEDERAL TAX CONSEQUENCES OF THE PLAN**¹⁸

5 **A. Introduction**

6 The following discussion summarizes certain federal income tax consequences of the
7 implementation of the Plan to the Holders of General Unsecured Claims. The following summary
8 does not address the federal income tax consequences to Holders of any other Claims and Claims
9 that are not Impaired by the Plan, or to Interest Holders. The following summary is based on the
10 Internal Revenue Code of 1986, as amended (the "Code"), Treasury regulations promulgated and
11 proposed thereunder, judicial decisions and published administrative rules and pronouncements of
12 the Internal Revenue Service ("IRS") as in effect on the date hereof. Changes in such rules or new
13 interpretations thereof may have retroactive effect and could significantly affect the federal income
14 tax consequences described below. Further, any discussion of the Liquidating Trusts and the
15 powers, obligations and/or actions of the Litigating Trustee that may be set forth below is subject to
16 the applicable provisions of the Plan and the Liquidating Trust Agreements; if and to the extent that
17 there is any inconsistency between such discussion on the one hand and the Plan and the Liquidating
18 Trust Agreements on the other hand, the terms of the latter documents shall control. Creditors and
19 Interest Holders should read the Plan and the Liquidating Trust Agreements in their entirety.

20 The federal income tax consequences of the Plan are complex and are subject to significant
21 uncertainties. The Debtors have not requested a ruling from the IRS or an opinion of counsel with
22 respect to any of the tax aspects of the Plan. Thus, no assurance can be given as to the interpretation
23 that the IRS or a reviewing court might adopt. In addition, this summary does not address foreign,
24 state or local tax consequences of the Plan, nor does it purport to address the federal income tax
25 consequences of the Plan to special classes of taxpayers (such as foreign taxpayers, broker-dealers,
26 banks, mutual funds, insurance companies, financial institutions, small business investment

27 _____
28 ¹⁸ The information in Article XV is based upon the information provided by the Debtors' corporate counsel and has been reviewed and approved by such counsel.

1 companies, regulated investment companies, tax-exempt organizations, investors in pass-through
2 entities, Holders that hold Claims as part of a hedge, straddle or conversion transaction, Holders who
3 acquired their Claims as compensation, and Holders who do not hold their Claims as capital assets).

4 ACCORDINGLY, THE FOLLOWING SUMMARY OF CERTAIN FEDERAL INCOME
5 TAX CONSEQUENCES IS FOR INFORMATIONAL PURPOSES ONLY AND IS NOT A
6 SUBSTITUTE FOR CAREFUL TAX PLANNING AND ADVICE BASED UPON THE
7 INDIVIDUAL CIRCUMSTANCES PERTAINING TO A HOLDER OF A CLAIM OR
8 INTEREST. ALL HOLDERS OF CLAIMS OR INTERESTS ARE URGED TO CONSULT
9 THEIR OWN TAX ADVISORS FOR THE FEDERAL, STATE, LOCAL AND OTHER TAX
10 CONSEQUENCES APPLICABLE UNDER THE PLAN.

11 **TO ENSURE COMPLIANCE WITH REQUIREMENTS IMPOSED BY THE IRS,**
12 **WE INFORM YOU THAT (A) ANY WRITTEN UNITED STATES FEDERAL TAX**
13 **ADVICE CONTAINED IN THIS DISCLOSURE STATEMENT (INCLUDING ANY**
14 **ATTACHMENT) IS NOT INTENDED AND WAS NOT WRITTEN TO BE USED, AND**
15 **CANNOT BE USED, FOR THE PURPOSE OF AVOIDING UNITED STATES FEDERAL**
16 **TAX PENALTIES, (B) ANY SUCH ADVICE WAS WRITTEN TO SUPPORT THE**
17 **PROMOTION OR MARKETING OF THE TRANSACTION OR MATTER ADDRESSED**
18 **HEREIN AND (C) ALL CREDITORS AND/OR INTEREST HOLDERS SHOULD SEEK**
19 **ADVICE BASED ON THEIR PARTICULAR CIRCUMSTANCES FROM AN**
20 **INDEPENDENT TAX ADVISOR.**

21 **B. Consequences to the Debtor**

22 In general, the Code provides that a debtor is not taxable on cancellation of debt ("COD")
23 income arising from the discharge of the related debt in a chapter 11 bankruptcy case, but instead
24 must reduce certain of its tax attributes (such as its net operating loss ("NOL") and NOL
25 carryforwards, its net capital loss and capital loss carryforwards, and its tax basis in its assets, by the
26 amount of COD income. COD income results when the amount of debt discharged exceeds the
27 consideration given in exchange therefor, and is equal to such excess amount. It is likely that a
28 cancellation of debt will be deemed to have occurred on the Effective Date. Any reduction in tax

1 attributes does not occur, however, until the end of the taxable year or, in the case of asset basis
2 reduction, the first day of the taxable year following the taxable year in which the COD income is
3 recognized.

4 As discussed below, under the Plan, the Debtor will be treated for U.S. federal income tax
5 purposes as transferring the Assets directly to the Holders of Allowed General Unsecured Claims,
6 who will then be treated as transferring such assets to the Liquidating Trusts. Accordingly, the
7 Debtors' transfer of Assets may result in the Debtors recognizing gain or income, depending in part
8 on the value of such assets on the Effective Date and the adjusted basis of such assets on the
9 Effective Date.

10 C. Consequences to Holders of General Unsecured Claims

11 1. Recognition of Gain or Loss Generally

12 Pursuant to the Plan, on the Effective Date, each Holder of a General Unsecured Claim
13 (Classes 3A through 3C (to the extent they are determined to be General Unsecured Claims), 4A-4C,
14 and 5B (to the extent of the Allowed Claim held by PCHLI)) will receive an allocated PCHLI,
15 Funding or PCFC Liquidating Trust Interest, as the case may be, which is a beneficial interest in the
16 PCHLI, Funding or PCFC Liquidating Trust, entitling the holder thereof to distributions from the
17 PCHLI, Funding or PCFC Liquidating Trust as provided for in the Plan and in the Liquidating Trust
18 Agreements. Except to the extent that the holder of a General Unsecured Claim or beneficial interest
19 agrees to a different treatment, said Persons will receive on account of their Allowed General
20 Unsecured Claims a PCHLI, Funding or PCFC Liquidating Trust Interest, in full and complete
21 satisfaction thereof, from the appropriate Liquidating Trust, one or more *Pro Rata* Distributions of
22 the Available Cash of the appropriate Liquidating Trust based upon the amount of the respective
23 Holder's Allowed General Unsecured Claim. In general, each holder of an Allowed Claim will
24 recognize gain or loss in an amount equal to the difference between (i) the sum of the amount of any
25 Cash and the fair market value of any other property (including, as discussed below, its undivided
26 interest in the Liquidating Trust Assets) that such holder receives in satisfaction of its Claim (other
27 than in respect of any Claim for accrued but unpaid interest, and excluding any portion required to
28 be treated as imputed interest due to the post-Effective Date Distribution of such consideration upon

1 the resolution of Disputed Claims), and (ii) such Holder's adjusted tax basis in its Claim (other than
2 any Claim for accrued but unpaid interest). For a discussion of the U.S. federal income tax
3 consequences of any Claim for accrued interest, see Section 2 below.

4 As discussed below, the Liquidating Trusts have been structured to qualify as "grantor trusts"
5 for U.S. federal income tax purposes. Accordingly, each holder of an Allowed Claim receiving a
6 beneficial interest in one of the Liquidating Trusts will be treated for U.S. federal income tax
7 purposes as directly receiving and as a direct owner of its allocable percentage of that Liquidating
8 Trust's Assets (see section 3 below). As set forth in the Liquidating Trust Agreements, as soon as
9 practicable after the Effective Date, and thereafter as may be required, the Liquidating Trustee (if
10 reasonably deemed necessary or desirable by the Liquidating Trustee) will make or have caused to
11 be made a good faith valuation of the Liquidating Trust Assets of each Liquidating Trust, and all
12 parties, including the Holders of General Unsecured Claims, must consistently use such valuation for
13 all federal income tax purposes.

14 Due to the possibility that a holder of a Liquidating Trust Interest may receive more than one
15 Distribution subsequent to the Effective Date (due to the subsequent disallowance of certain
16 Disputed Claims or unclaimed Distributions), the imputed interest provisions of the IRC may apply
17 to treat a portion of such later Distributions to such holders as imputed interest. In addition, it is
18 possible that any loss realized by a Holder in satisfaction of an Allowed General Unsecured Claim
19 may be deferred until all subsequent Distributions relating to Disputed Claims are determinable, and
20 that a portion of any gain realized may be deferred under the "installment method" of reporting.
21 Holders are urged to consult their tax advisors regarding the possibility for deferral, and the potential
22 ability to elect out of the installment method of reporting any gain realized in respect of their Claims.

23 After the Effective Date, any amount that a Holder receives as a Distribution from a
24 Liquidating Trust in respect of its beneficial interest therein (other than as a result of the subsequent
25 disallowance of Disputed Claims) should not be included for federal income tax purposes in the
26 Holder's amount realized in respect of its Allowed Claim, but should be separately treated as a
27 distribution received in respect of such Holder's beneficial (ownership) interest in the Liquidating
28 Trust.

1 Where a Holder recognizes gain or loss in respect of its Claim, the character of such gain or
2 loss as long-term or short-term capital gain or loss or as ordinary income or loss will be determined
3 by a number of factors, including the tax status of the Holder, whether the Claim constitutes a capital
4 asset in the hands of the Holder and how long it has been so held, whether the Holder had acquired
5 the Claim at a market discount, and whether and to what extent the Holder had previously claimed a
6 bad debt deduction. A Holder that purchased its Claim from a prior Holder at a market discount may
7 be subject to the market discount rules of the IRC. Under those rules, assuming that the Holder has
8 made no election to amortize the market discount into income on a current basis with respect to any
9 market discount instrument, any gain recognized on the exchange of such Claim (subject to a *de*
10 *minimis* rule) generally would be characterized as ordinary income to the extent of the accrued
11 market discount on such Claim as of the date of the exchange.

12 In general, a Holder's tax basis in any beneficial interest received (and undivided interest in
13 the Liquidation Trust Assets deemed owned) will equal the fair market value of its proportionate
14 share of the Liquidating Trust Assets on the Effective Date. The holding period for such assets
15 generally will begin the day following the Effective Date.

16 Among their other assets, the PCHLI Liquidating Trust and the Funding Liquidating Trust
17 will hold the New Common Stock issued by Reorganized PCFC and will receive a cash dividend
18 with respect to the New Common Stock in the amount of \$2,282,449.69 (or such other amount as is
19 finally determined by the Debtors, Liquidating Trustee or Court). The dividend paid with respect to
20 the New Common Stock will constitute "excess inclusion income" within the meaning of the IRC
21 section 860E and will be reported as such by the Liquidating Trustee. Such income is taxable as
22 ordinary income and will flow through to the beneficial owners of the PCHLI Liquidating Trust
23 and/or the Funding Liquidating Trust in accordance with their respective interests in each respective
24 trust. A recipient's share of excess inclusion income (1) will not be allowed to be offset by any net
25 operating losses or other deductions otherwise available to the recipient, (2) will be subject to tax as
26 unrelated business taxable income in the hands of any recipient that is otherwise generally exempt
27 from federal income tax, and (3) will result in the application of U. S. federal income tax
28 withholding at the maximum rate (30%), without reduction for any otherwise applicable income tax

1 treaty, to the extent allocable to a foreign recipient. Moreover, a holder of a beneficial interest in the
2 PCHLI Liquidating Trust or the Funding Liquidating Trust may recognize a capital loss in an
3 amount equal to its tax basis in its share of the New Common Stock, because no amounts are
4 expected to be paid with respect to such stock other than the \$2,282,449.69 excess inclusion income
5 (or such other amount as is finally determined by the Debtors, Liquidating Trustee or Court to be
6 excess inclusion income) dividend that will be paid pursuant to the Plan. Holders of beneficial
7 interests in the PCHLI Liquidating Trust or the Funding Liquidating Trust should consult their tax
8 advisors with respect to the tax consequences of receiving excess inclusion income and owning an
9 interest in the New Common Stock.

10 2. Distributions in Payment of Accrued but Unpaid Interest

11 Distributions to any Holder of an Allowed Claim will be allocated first to the original
12 principal portion of such Claim as determined for federal income tax purposes, and then, to the
13 extent the consideration exceeds such amount, to the portion of such Claim representing accrued but
14 unpaid interest. However, there is no assurance that the IRS would respect such allocation for
15 federal income tax purposes.

16 To the extent a Holder of debt receives an amount of Cash or property in satisfaction of
17 interest accrued during its holding period, such Holder generally recognizes taxable interest income
18 in such amount (if not previously included in the Holder's gross income). Conversely, a Holder
19 generally recognizes a deductible loss to the extent any accrued interest claimed was previously
20 included in its gross income and is not paid in full. Each Holder is urged to consult its tax advisor
21 regarding the allocation of consideration and the deductibility of unpaid interest for U.S. federal
22 income tax purposes.

23 3. Tax Treatment of the Liquidating Trusts and Holders of Beneficial Interests Therein

24 On the Effective Date, the Liquidating Trusts will be established for the benefit of Holders of
25 all Allowed Claims and, to the extent all Allowed Claims are paid in full with interest, Allowed
26 Interests. The Liquidating Trusts are intended to qualify as liquidating trusts for federal income tax
27 purposes. In general, a liquidating trust is not a separate taxable entity but rather is treated for
28 federal income tax purposes as a "grantor" trust (i.e., a pass-through entity). However, merely

1 establishing a trust as a liquidating trust does not ensure that it will be treated as a grantor trust for
2 U.S. federal income tax purposes. The IRS, in Revenue Procedure 94-45, 1994-2 C.B. 684, set forth
3 the general criteria for obtaining an IRS ruling as to the grantor trust status of a liquidating trust
4 under a chapter 11 plan. The Liquidating Trusts have been structured with the intention of
5 complying with such general criteria. Pursuant to the Plan, and in conformity with Revenue
6 Procedure 94-45, all parties (including the Debtor, the Liquidating Trustee, and the Beneficiaries of
7 the Liquidating Trusts) are required for federal income tax purposes to treat the Liquidating Trusts as
8 grantor trusts of which the Persons receiving interests therein are the owners and grantors. The
9 following discussion assumes that the Liquidating Trusts will be so respected for U.S. federal
10 income tax purposes. However, no ruling has been requested from the IRS and no opinion of
11 counsel has been requested concerning the tax status of the Liquidating Trusts as grantor trusts.
12 Accordingly, there can be no assurance that the IRS would not take a contrary position. If the IRS
13 were to challenge successfully such classification, the federal income tax consequences to the
14 Liquidating Trusts and the Beneficiaries could vary from those discussed herein.

15 For all U.S. federal income tax purposes, all parties (including the Debtor, the Liquidating
16 Trustee, and the Beneficiaries) must treat the transfer of the Liquidating Trusts Assets to the
17 Liquidating Trusts, in accordance with the terms of the Plan and the Liquidating Trusts Agreement,
18 as a transfer of such Liquidating Trusts Assets directly to the Beneficiaries, followed by such
19 Beneficiaries' transfer of the Liquidating Trusts Assets to the Liquidating Trusts. Consistent
20 therewith, all parties must treat the Liquidating Trusts as a grantor trust of which the Beneficiaries
21 are the owners and grantors. Thus, such Beneficiaries will be treated as the direct owners of their
22 respective undivided interests in the Liquidating Trusts Assets for all U.S. federal income tax
23 purposes. Each such Person will have a tax basis in its proportionate share of the Liquidating Trusts
24 Assets deemed owned equal to the fair market value thereof on the Effective Date. As set forth in
25 the Liquidating Trusts Agreement, as soon as practicable after the Effective Date, and thereafter as
26 may be required, the Liquidating Trustee will (if reasonably deemed necessary or desirable by the
27 Liquidating Trustee) make or have caused to be made a good faith valuation of the Liquidating
28 Trusts Assets, and all parties, including the Beneficiaries, must consistently use such valuation for

1 all federal income tax purposes.

2 Accordingly, except as discussed below (in connection with pending Disputed Claims), each
3 holder of a General Unsecured Claim receiving a beneficial interest in the Liquidating Trusts will be
4 required to report on its U.S. federal income tax return its allocable share of any income, gain, loss,
5 deduction, or credit recognized or incurred by the Liquidating Trusts, in accordance with its relative
6 beneficial interest.¹⁹ The character of items of income, deduction, and credit to any holder and the
7 ability of such holder to benefit from any deduction or losses may depend on the particular situation
8 of such holder.

9 The U.S. federal income tax reporting obligations of a Holder are not dependent upon the
10 Liquidating Trusts distributing any Cash or other proceeds. Therefore, a Holder may incur a federal
11 income tax liability with respect to its allocable share of the income of the Liquidating Trusts
12 regardless of the fact that the Holder has not received any prior or concurrent Distribution. Other
13 than in respect of Cash retained on account of Disputed Claims and subsequently distributed, the
14 Liquidating Trusts' Distribution of Cash to Beneficiaries generally will not be taxable to said
15 Beneficiaries because they already are regarded for federal income tax purposes as owning the
16 underlying Liquidating Trusts Assets.

17 Subject to the Liquidating Trust Agreements, absent definitive guidance from the IRS or a
18 court of competent jurisdiction to the contrary (including the issuance of applicable Treasury
19 Regulations, the receipt by the Liquidating Trustee of a private letter ruling if the Liquidating
20 Trustee so requests one, or the receipt of an adverse determination by the IRS upon audit if not
21 contested by the Liquidating Trustee), the Liquidating Trustee will:

22 (i) treat all Liquidating Trusts Assets of each Liquidating Trust allocable to, or
23 retained on account of, Disputed Claims, as a discrete trust for federal income tax purposes,
24 consisting of separate and independent shares to be established in respect of each Disputed Claim, in

25 _____
26 ¹⁹ Among other notices and information that may be provided by the Liquidating Trustee in accordance with the Plan and
27 Liquidating Trust Agreements, pursuant to the Liquidating Trust Agreements, following the end of each calendar year,
28 the Liquidating Trustee will promptly submit to each Beneficiary appearing in its records during such year a separate
statement setting forth the information necessary for such Beneficiary to determine its share of items of income, gain,
loss, deduction, or credit and will instruct each Beneficiary to report such items on its federal income tax returns (and
state and local tax returns, as applicable).

1 accordance with the trust provisions of the Code (sections 641 *et seq.* of the Code);

2 (ii) treat as taxable income or loss of these separate trusts with respect to any
3 given taxable year the portion of the taxable income or loss of the Liquidating Trusts that would
4 have been allocated to the holders of such Disputed Claims had such Claims been Allowed on the
5 Effective Date (but only for the portion of the taxable year with respect to which such Claims are
6 unresolved);

7 (iii) treat as a distribution from these separate trusts any increased amounts
8 distributed by the Liquidating Trusts as a result of any Disputed Claim resolved earlier in the taxable
9 year, to the extent such distribution relates to taxable income or loss of these separate trusts
10 determined in accordance with the provisions hereof, and

11 (iv) to the extent permitted by applicable law, report consistently for state and
12 local income tax purposes.

13 In addition, pursuant to the Liquidating Trust Agreements, all Beneficiaries are required to
14 report consistently with such treatment. Accordingly, subject to issuance of definitive guidance, the
15 Liquidating Trustee will report on the basis that any amounts earned by these separate trusts and any
16 taxable income of the Liquidating Trusts allocable to them are subject to a separate entity level tax,
17 except to the extent such earnings are distributed during the same taxable year. Any amounts earned
18 by or attributable to the separate trusts and distributed to a Beneficiary during the same taxable year
19 will be includible in such Beneficiary's gross income.

20 4. Withholding

21 All Distributions to Holders of Allowed General Unsecured Claims are subject to any
22 applicable tax withholding, including employment tax withholding. Under federal income tax law,
23 interest, dividends, and other reportable payments may, under certain circumstances, be subject to
24 "backup withholding" at the then applicable withholding rate (currently 28%). Backup withholding
25 generally applies if the Holder (a) fails to furnish its social security number or other taxpayer
26 identification number ("TIN"), (b) furnishes an incorrect TIN, (c) fails properly to report interest or
27 dividends, or (d) under certain circumstances, fails to provide a certified statement, signed under
28 penalty of perjury, that the TIN provided is its correct number and that it is not subject to backup

1 withholding. Backup withholding is not an additional tax but merely an advance payment, which
2 may be refunded to the extent it results in an overpayment of tax. Certain persons are exempt from
3 backup withholding, including, in certain circumstances, corporations and financial institutions.

4 THE FOREGOING SUMMARY HAS BEEN PROVIDED FOR INFORMATIONAL
5 PURPOSES ONLY. ALL HOLDERS OF CLAIMS OR INTERESTS ARE URGED TO
6 CONSULT THEIR OWN TAX ADVISORS CONCERNING THE FEDERAL, STATE, LOCAL
7 AND OTHER TAX CONSEQUENCES APPLICABLE UNDER THE PLAN.

8 ARTICLE XVI.

9 SECURITIES LAW MATTERS²⁰

10 A. In General

11 The Plan provides for the establishment of the PCHLI, Funding and PCFC Liquidating Trusts
12 and for the issuance of beneficial interests therein. Beneficial interests in trusts may be deemed to be
13 “securities” under applicable federal and state securities laws. However, as discussed herein, the
14 Liquidating Trust Interests (“Trust Interests”) should not constitute “securities” for purposes of
15 applicable nonbankruptcy law. Alternatively, even if the Trust Interests constitute “securities,” they
16 should be exempt from registration pursuant to Bankruptcy Code section 1145(a)(1). Finally, the
17 Investment Company Act of 1940, as amended (the “Investment Company Act”) is applicable in that
18 the Liquidating Trusts will not be, and are not controlled by, an “investment company” for purposes
19 of that Act. In addition, Reorganized PCFC will issue the New Common Stock.

20 B. Initial Issuance

21 Unless an exemption is available, the offer and sale of a security generally is subject to
22 registration with the SEC under Section 5 of the Securities Act.

23 THE NEW COMMON STOCK WILL NOT BE REGISTERED UNDER THE
24 SECURITIES ACT OF 1933, AS AMENDED, OR ANY APPLICABLE STATE SECURITIES
25 LAW. PCFC WILL SEEK REPRESENTATIONS FROM THE LIQUIDATING TRUSTEE THAT
26 IT ACQUIRED THE NEW COMMON STOCK FOR INVESTMENT AND NOT WITH A VIEW

27 _____
28 ²⁰ The information in Article XVI has been provided by the Debtors’ corporate counsel and has been reviewed and approved by such counsel.

1 TO DISTRIBUTION OR RESALE, AND AN ACKNOWLEDGEMENT FROM THE
2 LIQUIDATING TRUSTEE THAT THE LIQUIDATING TRUSTEE MAY NOT MORTGAGE,
3 PLEDGE, HYPOTHECATE OR OTHERWISE TRANSFER THE NEW COMMON STOCK
4 WITHOUT AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT
5 OF 1933, AS AMENDED, AND ANY APPLICABLE STATE SECURITIES LAW, OR AN
6 OPINION OF COUNSEL SATISFACTORY TO PCFC THAT REGISTRATION IS NOT
7 REQUIRED UNDER SUCH ACT OR STATE LAW.

8 The Trust Interests do not constitute “securities” within the definition of Section 2(11) of the
9 Securities Act and corresponding definitions under state securities laws and regulations (“Blue Sky
10 Laws”) because generally they are non-transferable. Accordingly, the Trust Interests should be
11 issuable in accordance with the Plan without registration under the Securities Act or any Blue Sky
12 Law.

13 Alternatively, in the event that the Trust Interests are deemed to constitute securities, section
14 1145(a)(1) of the Bankruptcy Code exempts the offer and sale of securities under a plan of
15 reorganization from registration under the Securities Act and Blue Sky Laws if three principal
16 requirements are satisfied:

- 17 1. The securities are offered and sold under a plan of reorganization and are securities of
18 the debtor, of an affiliate of the debtor participating in a plan with the debtor, or of a
19 successor to the debtor under the plan;
- 20 2. The recipients of the securities hold a pre-petition or administrative claim against the
21 debtor or an interest in the debtor; and
- 22 3. The securities are issued entirely in exchange for recipient’s claim against or interest
23 in the debtor, or principally in such exchange and partly for cash or property.

24 If and to the extent that the Trust Interests may constitute securities, these beneficial interests
25 issued in respect of Allowed General Unsecured Claims should qualify as securities “of the debtor
26 ... or of a successor to the debtor” pursuant to section 1145(a)(1). In addition, the Trust Interests
27 will be issued entirely in exchange for Claims. Thus, the issuance of the Trust Interests pursuant to
28 the Plan will satisfy the applicable requirements of section 1145(a)(1) of the Bankruptcy Code, and

1 such issuance should be exempt from registration under the Securities Act and any applicable Blue
2 Sky Law.

3 Reliance upon the foregoing exemptions in respect of the issuance of the Trust Interests is
4 consistent with positions taken by the SEC with respect to similar transactions and arrangements by
5 other chapter 11 debtors in possession. However, neither the Debtors nor the Committee has sought
6 a “no-action” letter by the SEC with respect to any such matters, and therefore no assurance can be
7 given regarding the availability of any exemptions from registration with respect to any securities, if
8 any, issued pursuant to the Plan.

9 **C. Resales**

10 The Trust Interests are subject to transfer restrictions under the terms of the Liquidating Trust
11 Agreements. The Trust Interests cannot be assigned or transferred other than by death, by operation
12 of law or otherwise in compliance with the securities laws (as more specifically set forth in the
13 Liquidating Trust Agreements), and will not be represented by certificates.

14 1. Exchange Act Compliance

15 Section 12(g) of the Exchange Act applies only to a company that has both (A) total assets in
16 excess of \$10 million and (B) a class of equity securities held by more than 500 persons as of the end
17 of its fiscal year. The section therefore does not apply to Reorganized PCFC. Although one or more
18 of the Liquidating Trusts may be deemed to have both total assets in excess of \$10 million and a
19 class of equity securities held by more than 500 persons, the Liquidating Trusts should not be
20 required to register under Section 12(g) of the Exchange Act. The staff of the SEC has issued no-
21 action letters with respect to the non-necessity of Exchange Act registration of a bankruptcy plan
22 trust when the following are true:

23 A. the beneficial interests in the trust are not represented by certificates or, if they are,
24 the certificates bear a legend stating that the certificates are transferable only upon death or by
25 operation of law;

26 B. the trust exists only to effect a liquidation and will terminate within a reasonable
27 period of time; and

28 C. the trust will issue annual unaudited financial information to all beneficiaries.

1 Based on the foregoing, the Liquidating Trusts should not be subject to registration under the
2 Exchange Act. However, the views of the SEC on the matter have not been sought and, therefore,
3 no assurance can be given regarding this matter.

4 2. Investment Company Act

5 As the assets of the Liquidating Trusts do not consist of securities issued by the Debtors or
6 any other person, and the Liquidating Trusts are organized as a liquidating Persons in the process of
7 liquidation, the Liquidating Trusts should not fall within the definition of “investment company” in
8 any manner requiring such entity to register under the Investment Company Act.

9 **D. Compliance if Required**

10 Notwithstanding the preceding discussion, if the Bankruptcy Court determines that the
11 Liquidating Trusts are required to comply with the registration and reporting requirements of the
12 Exchange Act and/or the Investment Company Act of 1940, then the Liquidating Trustee will take
13 any and all action necessary to comply with such reporting requirements and file periodic reports
14 with the SEC.

1 **ARTICLE XVII.**

2 **RECOMMENDATION**

3 The Committee recommends that all Creditors receiving a Ballot vote in favor of the Plan.
4 The Committee believes that the Plan maximizes recoveries to all Creditors and, thus, is in their best
5 interests. The Plan as structured, among other things, allows said parties to participate in
6 distributions in excess of those that would be available if the Debtors' Estates were liquidated under
7 chapter 7 of the Bankruptcy Code, and minimizes delays in recoveries to all Creditors.

8 Dated: May 28, 2008

9 OFFICIAL COMMITTEE OF UNSECURED
10 CREDITORS OF PEOPLE'S CHOICE HOME
11 LOAN, INC., PEOPLE'S CHOICE FUNDING,
12 INC. AND PEOPLE'S CHOICE FINANCIAL
13 CORPORATION

14 By: /s/ William McCreary
15 William McCreary
16 Committee Chair

17 Dated: May 28, 2008

18 Submitted by:
19 WINSTON & STRAWN LLP

20 By /s/ Eric E. Sagerman
21 Eric E. Sagerman
22 Justin E. Rawlins
23 David L. Wilson
24 Counsel to Official Committee of
25 Unsecured Creditors of People's Choice
26 Home Loan, Inc. et al.
27
28

EXHIBIT A

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8
9 **UNITED STATES BANKRUPTCY COURT**
10 **CENTRAL DISTRICT OF CALIFORNIA**
11 **SANTA ANA DIVISION**

12 In re
13 PEOPLE'S CHOICE HOME LOAN, INC.,
et al.,¹
14 Debtors

Case No.: 8:07-10765-RK

Chapter 11

(Jointly Administered with Case Nos.
8:07-10767-RK and 8:07-10772-RK)

**COMMITTEE'S FIRST AMENDED
LIQUIDATING PLAN UNDER
CHAPTER 11 OF THE
BANKRUPTCY CODE DATED
MAY 28, 2008**

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27 ¹ The Debtors are People's Choice Home Loan, Inc., a Wyoming corporation, Fed. Tax I.D. No.: 94-3348277; People's
Choice Funding, Inc., a Delaware corporation, Fed. Tax I.D. No.: 20-1156865; and People's Choice Financial
28 Corporation, a Maryland corporation, Fed. Tax I.D. No.: 20-1157100.

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1 I.

2 DEFINITIONS

3 The following terms (which appear in this Plan as capitalized terms), when used in this Plan,
4 have the meanings set forth below:

5 "**Administrative Claim**" means a Claim for administrative costs or expenses that is
6 allowable under Bankruptcy Code §§ 503(b) and 507(a)(2) or 28 U.S.C. § 1930, including, without
7 limitation, (a) Ordinary Course Administrative Claims; (b) Professional Fee Claims;
8 (c) Administrative Tax Claims; (d) Administrative Intercompany Claims; and (d) U.S. Trustee Fees.

9 "**Administrative Intercompany Claims**" means an Administrative Claim held by a Debtor
10 against another Debtor allocated in accordance with the Intercompany Settlement.

11 "**Administrative Claim Bar Date**" means, with respect to Administrative Claims other than
12 Ordinary Course Administrative Claims, Professional Fee Claims and U.S. Trustee Fees, the date
13 that is thirty (30) days after the Effective Date.

14 "**Administrative Claim Objection Deadline**" means the date that is sixty (60) days after
15 the Administrative Claim Bar Date; provided however, the Administrative Claims Objection
16 Deadline may be initially extended for sixty (60) days by the Liquidating Trustee filing a notice of
17 the extended Administrative Claim Objection Deadline with the Bankruptcy Court, subject to further
18 extension. Thereafter, the Administrative Claim Objection Deadline may be further extended only
19 by an order of the Bankruptcy Court.

20 "**Administrative Tax Claim**" means a Claim other than an Allowed Secured Claim that a
21 government unit asserts against any of the Debtors for taxes or related interest or penalties, which
22 Claim is entitled to priority and allowable under Bankruptcy Code section 503(b).

23 "**Allowed Administrative Claim**" means an Allowed Claim that is an Administrative
24 Claim.

25 "**Allowed Claim**" or "**Allowed Interest**" means (a) a Claim, as to which no proof of claim
26 has been filed, that is (i) listed in the Schedules in an amount greater than zero and (ii) not listed as
27 disputed, contingent or unliquidated; (b) a Claim or Interest as to which a timely proof of claim or
28 interest has been filed in a sum certain and (i) no objection or motion to estimate, equitably

1 subordinate, reclassify, set off, or otherwise limit the recovery thereon has been asserted before the
2 expiration of the time period to object to such claim as set forth in this Plan or order of the
3 Bankruptcy Court or (ii) any objection or motion to estimate, equitably subordinate, reclassify, set
4 off or otherwise the recovery thereon has been resolved by agreement between the Claimant and the
5 Liquidating Trustee or by Final Order of the Bankruptcy Court; or (c) a Claim or Interest that has
6 been allowed by agreement between the Claimant and the Liquidating Trustee or by Final Order.

7 **"Allowed Class '***' Claim"** means an Allowed Claim classified in the specified Class.

8 **"Allowed Priority Tax Claim"** means an Allowed Claim that is a Priority Tax Claim.

9 **"Allowed Unclassified Claim"** means an allowed Administrative Claim or Allowed Priority
10 Tax Claim.

11 **"Assets"** means all assets of the Debtors' Estates and each of them including "property of
12 the estate" as described in section 541 of the Bankruptcy Code and shall, without limitation, include
13 Cash, Causes of Action, securities, proceeds of insurance and insurance policies, all rights and
14 interests, all real and personal property, and all files, books and records of the Estates.

15 **"Available Cash"** means the Cash in each of the Liquidating Trusts that is not otherwise
16 designated by the Liquidating Trustee as Cash to be used to satisfy Allowed Administrative Claims,
17 Allowed Priority Tax Claims, Allowed Secured Claims, Allowed Priority Non-Tax Claims, and
18 expenses of the respective Liquidating Trust or otherwise subject to a reserve established by the
19 Liquidating Trustee.

20 **"Avoidance Action"** means an adversary proceeding, lawsuit or other proceeding with
21 respect to Causes of Action arising under, relating to, or similar to Bankruptcy Code sections 502(d),
22 506, 510, 542, 543, 544, 545, 547, 548, 549, 550, 551, 552 or 553, or any fraudulent conveyance,
23 fraudulent transfer or preference laws, or any Cause of Action arising under, or relating to, any
24 similar state law or federal law that constitutes property of the Estate under Bankruptcy Code section
25 541, whether or not an action is initiated before or after the Effective Date.

26 **"Ballot"** means the Ballot for accepting or rejecting the Plan.

27 **"Balloting Agent"** means XRoads Case Management Services.

28 **"Balloting Deadline"** means the date set by the Bankruptcy Court by which all Ballots with

1 respect to the Plan must be received.

2 **"Bankruptcy Code"** means the Bankruptcy Reform Act of 1978, as codified in Title 11 of
3 the United States Code, §§ 101 et seq., as now or hereafter amended

4 **"Bankruptcy Court"** means the United States Bankruptcy Court for the Central District of
5 California, Santa Ana Division.

6 **"Bankruptcy Rules"** means, collectively, (a) the Federal Rules of Bankruptcy Procedure, as
7 amended from time to time, and (b) the Local Bankruptcy Rules applicable to cases pending before
8 the Bankruptcy Court, as now in effect or hereafter amended.

9 **"Beneficiaries"** means the Holders of Claims or Interests who are the beneficiaries of the
10 Liquidating Trusts.

11 **"Business Day"** means any day other than a Saturday, Sunday or a "legal holiday" (as
12 defined in Bankruptcy Rule 9006(a)).

13 **"Cases"** means the cases under chapter 11 of the Bankruptcy Code commenced by the
14 Debtors and bearing Case Numbers SA-07-10765, SA-07-10767, and SA-07-10772, being jointly
15 administered under Case Number SA-07-10765.

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

18 **"Cash Collateral"** means Cash that secures an Allowed Secured Claim.

19 **"Causes of Action"** means any and all Claims, demands, rights, actions, suits, causes of
20 action, third-party claims, counterclaims and crossclaims (including, but not limited to, those matters
21 described herein and in the Disclosure Statement) of, or liabilities or obligations owing to, any of the
22 Debtors or any of the Estates, of any kind or character whatsoever, known or unknown, suspected or
23 unsuspected, whether arising prior to, on or after the Petition Date, in contract or in tort or otherwise,
24 at law or in equity or under any other theory, that any of the Debtors or any of the Estates have or
25 assert or may have or assert, whether or not brought as of the Effective Date, and which have not
26 been settled or otherwise resolved by Final Order as of the Effective Date, including but not limited
27 to (1) rights of setoff, counterclaim or recoupment, and claims on contracts or for breaches of duties
28 imposed by law, (2) the right to object to claims or interests, (3) such claims and defenses as fraud,

1 mistake, duress and usury, (4) Avoidance Actions, (5) claims for tax refunds, (6) claims to recover
2 outstanding accounts receivable, (7) such claims and defenses as alter ego, (8) D&O and Shareholder
3 Claims and (9) any other claims which may be asserted against other persons or entities.

4 **"Claim"** means a "claim" as defined in Bankruptcy Code section 101(5).

5 **"Claims Bar Date"** means August 31, 2007, the date set pursuant to an order entered by the
6 Bankruptcy Court on June 20, 2007, as the deadline for all Persons other than governmental units to
7 file proofs of Claim or Interest arising prior to the Petition Date, except that counterparties to
8 executory contracts or unexpired leases rejected upon the Effective Date or prior to the Effective
9 Date shall have until the later of (a) the date(s) set forth in the applicable Order(s) rejecting such
10 lease or contract, (b) the Claims Bar Date, or (c) thirty (30) days from the Effective Date.

11 **"Claims Objection Deadline"** means the deadline for the Liquidating Trustee and parties in
12 interest to file objections to Claims as set forth in Section VII.B.2 hereof.

13 **"Class"** means a group of Claims or Interests as classified in Article IV.

14 **"Collateral"** means any property or interest in property of any of the Estates subject to a lien
15 or security interest that is not subject to avoidance under the Bankruptcy Code or otherwise invalid
16 or unenforceable under the Bankruptcy Code or applicable federal and/or state law.

17 **"Committee"** means the Official Committee of Unsecured Creditors appointed in the Cases
18 by the Office of the U.S. Trustee for the Central District of California.

19 **"Committee Standing Order"** means the Court's order dated September 14, 2007
20 authorizing the Committee to pursue and prosecute claims and causes of action against the Debtors'
21 directors, officers and shareholders.

22 **"Confirmation"** means the entry of the Order by the Bankruptcy Court confirming the Plan
23 pursuant to section 1129 of the Bankruptcy Code.

24 **"Confirmation Date"** means the date on which the Bankruptcy Court enters the
25 Confirmation Order on its docket.

26 **"Confirmation Hearing"** means the hearing before the Court to consider the confirmation
27 of the Plan pursuant to Bankruptcy Code section 1128(a), as such hearing may be continued from
28 time to time.

1 **"Confirmation Hearing Date"** means the first date on which the Bankruptcy Court holds
2 the Confirmation Hearing.

3 **"Confirmation Order"** means the order of the Bankruptcy Court confirming this Plan under
4 Bankruptcy Code section 1129.

5 **"Court"** means the United States Bankruptcy Court for the Central District of California,
6 Santa Ana Division or any other court that exercises proper jurisdiction over the Case.

7 **"Creditor"** means "creditor," as the term is defined in Bankruptcy Code § 101(10).

8 **"Debtors"** means People's Choice Home Loan, Inc., a Wyoming corporation, People's
9 Choice Funding, Inc., a Delaware corporation, and People's Choice Financial Corporation, a
10 Maryland corporation.

11 **"Deficiency Claim"** means the portion of a Claim (or so much thereof as remains unsatisfied
12 after any Collateral has been liquidated or otherwise disposed of, as such unsatisfied amount is
13 determined in accordance with applicable law) arising under a master repurchase agreement
14 governing the sale and repurchase of mortgage loans or other facility for the financing of the
15 origination or warehousing of mortgage loans to the extent the Claim exceeds the value of the
16 Holder's interest in the respective Estate's interest in the Collateral (or remaining Collateral, if any,
17 that has not been liquidated or otherwise disposed of) as such value is determined by the Court in
18 accordance with applicable law. Nothing in this definition shall conclusively determine that a claim
19 under a master repurchase agreement constitutes a secured claim. For the avoidance of doubt,
20 nothing in this definition is intended to limit, waive or otherwise reduce or modify any party's ability
21 to assert that the disposition of Collateral was or was not commercially reasonable or otherwise in
22 compliance with applicable law or to assert any other matter relative to the computation of a
23 Deficiency Claim.

24 **"Disallowed Claim"** means a Claim or any portion thereof that (i) has been disallowed by
25 agreement between the Claimant and the Liquidating Trustee or by Final Order, (ii) is Scheduled as
26 zero or as contingent, disputed, or unliquidated and as to which no Proof of Claim or Administrative
27 Claim has been timely filed or deemed timely filed with the Bankruptcy Court pursuant to either the
28 Bankruptcy Code or any Final Order of the Bankruptcy Court or otherwise deemed timely filed

1 under applicable law or this Plan, (iii) is not Scheduled and as to which no Proof of Claim or
2 Administrative Claim has been timely filed or deemed timely filed with the Bankruptcy Court
3 pursuant to either the Bankruptcy Code or any order of the Bankruptcy Court or otherwise deemed
4 timely filed under applicable law or this Plan, (iv) has been withdrawn by agreement of the Debtors
5 and the Holder thereof, or (v) has been withdrawn by the Holder thereof, subject to a determination
6 of the right to withdraw such claim unilaterally.

7 **"Disbursing Agent"** means the Liquidating Trustee or any entity selected by the Liquidating
8 Trustee to act as its agent in conducting the disbursements to Holders of Allowed Claims pursuant to
9 the Liquidating Trusts Agreements.

10 **"Disclosure Statement"** means the disclosure statement relating to the Plan, including,
11 without limitation, all exhibits thereto, as approved by the Bankruptcy Court pursuant to Bankruptcy
12 Code section 1125, as such Disclosure Statement may be amended, modified, or supplemented from
13 time to time.

14 **"Disclosure Statement Order"** means the Order entered by the Bankruptcy Court approving
15 the Disclosure Statement.

16 **"Disputed Claim"** means any Claim that is not an Allowed Claim or a Disallowed Claim.

17 **"Disputed Claim Reserve"** means the Cash reserves, established pursuant to Section VII.B.1
18 of the Plan, for each Liquidating Trust by the Liquidating Trustee in the estimated amount necessary
19 to satisfy all distributions under the Plan on account of Disputed Claims that will be obligations of
20 the particular Liquidating Trust, if such Disputed Claims become Allowed Claims.

21 **"Distribution(s)"** means any transfer under the Plan of Cash or other property or
22 instruments to a Holder of an Allowed Claim.

23 **"Distribution Date(s)"** means the date(s) selected by the Liquidating Trustee for making
24 Distributions to Holders of Allowed Unsecured Claims in accordance with Section VI.G.3 hereof.

25 **"D&O and Shareholder Claims"** means any and all Causes of Action or Claims, whether
26 known or unknown, liquidated or unliquidated, disputed or undisputed, fixed or contingent, against
27 present and/or former officers, directors and shareholders of the Debtors or affiliates of the Debtors
28 relating to any matter, fact, circumstance, act, omission or other thing including but not limited to all

1 such items raised by the Committee in the September 27 Letter.

2 **"Effective Date"** means the first Business Day after the date when all of the following have
3 occurred: (i) the Confirmation Order shall have become a Final Order; (ii) the Debtors, Committee
4 and the Liquidating Agent have executed the Trust Agreements; and (iii) all other actions, including
5 the establishment of the Trusts and all accounts thereof, and documents necessary to implement the
6 Plan shall have been executed or have become effective. In no event shall the Effective Date occur
7 more than thirty (30) calendar days following entry of the Confirmation Order, unless the Plan is
8 modified pursuant to Order of the Court extending such date for good cause shown. However, at the
9 option of the Committee, a Confirmation Order that is subject to a pending appeal or certiorari
10 proceeding may be considered a Final Order provided no court of competent jurisdiction has entered
11 an order staying the effect of the Confirmation Order.

12 **"EPD/Breach Claim"** means a Claim arising under a master purchase and warranty
13 agreement or similar agreement for (i) breach of a representation and/or warranty under such
14 agreement by one or more of the Debtors and/or (ii) a right under such an agreement to cause one or
15 more of the Debtors to repurchase a loan based on a payment default by the borrower on such loan.

16 **"Estate"** means, with respect to each of the Cases, the estate created under Bankruptcy Code
17 § 541.

18 **"Final Order"** means an order or judgment of the Court or other applicable court, as entered
19 on the applicable docket, that has not been reversed, stayed, modified or amended, and as to which
20 the time to appeal, petition for certiorari, or move for reargument or rehearing has expired and as to
21 which no appeal, petition for certiorari, or other proceedings for reargument or rehearing shall then
22 be pending or as to which any right to appeal, petition for certiorari, reargue, or rehear shall have
23 been waived in writing in form and substance satisfactory to the Committee prior to the Effective
24 Date, or the Liquidating Trustee after the Effective Date, as applicable, or, in the event that an
25 appeal, writ of certiorari, or reargument or rehearing thereof has been sought, such order or judgment
26 of the Court or other applicable court shall have been affirmed by the highest court to which such
27 order or judgment was appealed, or certiorari has been denied, or from which reargument or
28 rehearing was sought, and the time to take any further appeal, petition for certiorari or move for

1 reargument or rehearing shall have expired.

2 **“Funding”** means People’s Choice Funding, Inc., a Delaware corporation.

3 **“Funding Liquidating Trust”** means the Liquidating Trust established for the benefit of the
4 Holders of Allowed Claims against and, to the extent that all Allowed Claims are paid in full with
5 interest, all Allowed Interests in Funding.

6 **“General Unsecured Claim”** or **“Unsecured Claim”** means any Claim that is not an
7 Administrative Claim, a Priority Tax Claim, a Priority Non-Tax Claim, or a Secured Claim, provided
8 that the definition of Unsecured Claim shall include, without limitation (a) any and all Deficiency
9 Claims and (b) any and all EPD/Breach Claims.

10 **“Holder”** means the owner of a Claim or Interest against any of the Debtors.

11 **“Impaired”** means the legal, equitable, and contractual rights to which a Claim or Interest
12 entitles the holder of such Claim or Interest is altered pursuant to the Plan.

13 **“Intercompany Settlement”** shall have the meaning ascribed to it in the Disclosure
14 Statement.

15 **“Intercompany Estate Amount”** means the amount equal to (a) the New Common Stock
16 Dividend, (b) PCFC’s obligations under 11 U.S.C. § 1129(a)(9), if any, and (c) the Minimum PCFC
17 Recovery.

18 **“Intercompany Non-Administrative Claim”** means a Claim held by a Debtor against
19 another Debtor, excluding Administrative Intercompany Claims.

20 **“Interest”** means, with respect to any Debtor, any “equity interest,” as such term is defined
21 in Bankruptcy Code § 101(16) and shall include, without limitation, all stock, partnership,
22 membership interest, warrants, options, or other rights to purchase or acquire any shares of stock or
23 evidence of equity or interests in the Debtors.

24 **“Interest Holder(s)”** means the record holder of an Interest.

25 **“Late Filed Claim”** means any Claim (including without limitation any Administrative
26 Claim, Priority Tax Claim, Priority Non-Tax Claim, Secured Claim or Unsecured Claim) that is not
27 filed by the applicable Administrative Bar Date, Claims Bar Date or any other applicable date as
28 specified by order of the Bankruptcy Court or other court of competent jurisdiction.

1 **"Liquidating Trustee"** means Ronald F. Greenspan of FTI Consulting, Inc. in his capacity
2 as trustee of the Liquidating Trusts, or any other person approved by the Court as Liquidating
3 Trustee, and any successor trustee(s) appointed pursuant to the Liquidating Trust Agreements, that
4 has the powers and responsibilities set forth in the Plan, the Confirmation Order and the Liquidating
5 Trust Agreements and in such capacity shall act as a liquidator of the Debtors and their assets for the
6 benefit of Holders of Allowed Claims and Allowed Interests. Whenever the Liquidating Trustee is
7 referred to herein, all such references are qualified by the Liquidating Trustee's powers, rights and
8 obligations as set forth in the applicable Liquidating Trust Agreement.

9 **"Liquidating Trustee Disclosure"** means a written disclosure, to be filed with the
10 Bankruptcy Court at least ten (10) Business Days prior to the Balloting Deadline, disclosing the
11 Liquidating Trustee's credentials, any and all relevant affiliations, connections or actual or potential
12 conflicts of interest and an engagement letter setting forth the terms of the Liquidating Trustee's
13 retention.

14 **"Liquidating Trusts"** means the certain trusts, one each for PCHLI, Funding and PCFC, as
15 described in Section VI. F of the Plan, created pursuant to the Plan, Confirmation Order, and
16 Liquidating Trust Agreements, and created for the benefit of Holders of all Allowed Claims, and to
17 the extent that all Allowed Claims are paid in full with interest, all Allowed Interests against each of
18 the respective Debtors under the Plan. Except as otherwise expressly provided in the Plan, all of the
19 Assets of each of the Debtors will be transferred to the respective Liquidating Trust on the Effective
20 Date of the Plan. The Liquidating Trusts will continue and conclude the liquidation of such assets
21 and Debtors, including the resolution of all Causes of Action, and make Distributions to the Holders
22 of Allowed Claims and pay the expenses of the Liquidating Trusts, all as provided in the Plan.

23 **"Liquidating Trust Agreements"** means those certain liquidating trust agreements by and
24 between each of the Debtors and the Liquidating Trustee to be entered into pursuant to the Plan and
25 the Confirmation Order, substantially in the form included in the Plan Supplement as Exhibit "1", as
26 may be amended from time to time.

27 **"Liquidating Trust Assets"** means any and all Assets of each of the Debtors' Estates,
28 including Cash, Causes of Action, in the case of PCHLI and Funding Liquidating Trusts certain

1 newly issued stock of PCFC as described herein, and other personal and real property, all of which
2 shall be transferred or assigned to each respective Liquidating Trust on the Effective Date of the
3 Plan, free and clear of any liens or claims that might otherwise have existed in favor of any party;
4 provided, however, that, in the case of the PCHLI and Funding Liquidating Trusts, their Liquidating
5 Trust Assets shall exclude PCHLI and Funding's respective share of the Intercompany Estate
6 Amount.

7 **"Liquidating Trust Interest"** means a beneficial interest in any of the Liquidating Trusts
8 entitling the holder thereof to the distribution from that Liquidating Trust as provided for in the Plan
9 and in the applicable Liquidating Trust Agreement.

10 **"Liquidating Trust Proceeds"** means any and all Cash, property and other rents, profits
11 and/or proceeds derived from the Liquidating Trust Assets, including reducing Causes of Action to
12 Cash.

13 **"Local Bankruptcy Rules"** means the Local Bankruptcy Rules for the United States
14 Bankruptcy Court for the Central District of California, effective as of January 22, 2008, as now in
15 effect or hereafter amended.

16 **"Minimum PCFC Recovery"** means \$100,000 of the Intercompany Estate Amount to be
17 funded to the estate of PCFC and transferred to the PCFC Liquidating Trust to distribute to Holders
18 of Allowed Class 4C Claims.

19 **"New Common Stock"** means the 31 shares of voting common stock of Reorganized PCFC
20 to be issued by Reorganized PCFC to the Liquidating Trustee in its capacity as Liquidating Trustee
21 of the PCHLI Liquidating Trust and the 69 shares of voting common stock of Reorganized PCFC to
22 be issued by Reorganized PCFC to the Liquidating Trustee in its capacity as Liquidating Trustee of
23 the Funding Liquidating Trust on the Effective Date.

24 **"New Common Stock Dividend"** means the dividend in the amount of \$2,282,499.69 (or
25 such other amount as is finally determined by the Debtors, Liquidating Trustee or the Court) to be
26 paid by Reorganized PCFC to the Liquidating Trustee in its capacity as the Liquidating Trustee of
27 the PCHLI Liquidating Trust and the Funding Liquidating Trust on account of the 31 shares of New
28 Common Stock issued to the Liquidating Trustee in its capacity as Liquidating Trustee of the PCHLI

1 Liquidating Trust and the 69 shares of New Common Stock issued to the Liquidating Trustee in its
2 capacity as Liquidating Trustee of the Funding Liquidating Trust.

3 **"Ordinary Course Administrative Claim"** means a claim for administrative costs or
4 expenses that are allowable under Bankruptcy Code section 503(b) that are incurred in the ordinary
5 course of any of the Debtor's operations.

6 **"PCFC"** means People's Choice Financial Corporation, a Maryland Corporation and the
7 parent of PCHLI and Funding.

8 **"PCFC Liquidating Trust"** means the Liquidating Trust created for the benefit of Holders
9 of Allowed Claims against and, to the extent all Allowed Claims are paid in full with interest,
10 Allowed Interests in PCFC.

11 **"PCHLI"** means People's Choice Home Loan, Inc., a Wyoming corporation.

12 **"PCHLI Liquidating Trust"** means the Liquidating Trust created for the benefit of Holders
13 of Allowed Claims against and, to the extent all Allowed Claims are paid in full with interest,
14 Allowed Interests in PCHLI.

15 **"Penalty"** means any Claim for any fine, penalty, or forfeiture, or for multiple, exemplary,
16 or punitive damages, arising before the Petition Date, to the extent that such fine, penalty, forfeiture,
17 or damages are not compensation for actual pecuniary loss suffered by the holder of such claim as
18 set forth in Bankruptcy Code section 726(a)(4).

19 **"Person"** means any natural person or entity.

20 **"Petition Date"** means March 20, 2007, the date on which each Debtor filed its voluntary
21 petition for relief commencing its Case.

22 **"Plan"** means this liquidating plan under chapter 11 of the Bankruptcy Code, including,
23 without limitation, all exhibits, supplements, appendices, and schedules hereto, either in its present
24 form or as it may be altered, amended, or modified from time to time.

25 **"Plan Supplement"** means the supplement to the Plan, in form and substance satisfactory to
26 the Committee, to be filed with the Bankruptcy Court not later than 10 days prior to the Balloting
27 Deadline, which shall contain forms of final documents described in the Plan.

28 **"Post-Effective Date Committees"** means the committees of Creditors of PCHLI, Funding

1 and PCFC as they shall be constituted and function after the Effective Date in accordance with
2 Section VI.F.7 hereof.

3 **"Post-Effective Date Expense(s)"** means all voluntary and involuntary, costs, expenses,
4 charges, obligations, or liabilities of any kind or nature, whether unmatured, contingent, or
5 unliquidated (collectively, the **"Expenses"**) incurred by the Liquidating Trusts or the Liquidating
6 Trustee after the Effective Date of or related to the implementation of the Plan, the administration of
7 the post-confirmation estates, and the implementation of the Liquidating Trusts, including, but not
8 limited to: (i) the Expenses of the Liquidating Trustee in connection with administering and
9 implementing the Plan, including any taxes incurred by the Liquidating Trusts or on the Liquidating
10 Trust Assets and accrued on or after the Effective Date; (ii) all fees which accrue after the Effective
11 Date which are payable to the U.S. Trustee under 28 U.S.C. § 1930(a)(6); (iii) the Expenses of the
12 Liquidating Trustee in making the Distributions required by the Plan, including paying taxes and
13 filing tax returns; (iv) any Expenses incurred by the Liquidating Trusts, the Liquidating Trustee, and
14 the members of the Post-Effective Date Committees (in the latter case to the extent permitted by the
15 applicable Liquidating Trust Agreement); (v) the Expenses of independent contractors and
16 professionals (including, without limitation, attorneys, advisors, accountants, brokers, consultants,
17 experts, professionals and other Persons) providing services to the Liquidating Trustee; and (vi) the
18 fees and expenses of any Disbursing Agent selected by the Liquidating Trustee to act as its agent in
19 making the disbursements under the Plan; provided, however, the Expenses of each of the
20 Liquidating Trusts shall be paid from the Liquidating Trust Assets of that particular Liquidating
21 Trust.

22 **"Post-Effective Date Notice List"** means the list of Persons who have requested notice in
23 accordance with Article VIII.V of the Plan, from and after the Effective Date, of Court filings,
24 hearings and other matters as to which the Bankruptcy Code requires that notice be given.

25 **"Postpetition"** means the time from and after the filing of the voluntary chapter 11 petitions
26 in the Debtors' Cases on March 20, 2007.

27 **"Priority Non-Tax Claim"** means a Claim, other than an Administrative Claim or Priority
28 Tax Claim, entitled to priority in right of payment under section 507(a) of the Bankruptcy Code.

1 **"Priority Tax Claim"** means a Claim entitled to priority against the Estate under
2 Bankruptcy Code section 507(a)(8).

3 **"Professionals"** means those Persons providing advisory or consulting services (i) retained
4 pursuant to an order of the Bankruptcy Court in accordance with sections 327, 1103 and/or 1106 of
5 the Bankruptcy Code and to be compensated for services rendered prior to the Effective Date
6 pursuant to sections 327, 328, 329, 330 and 331 of the Bankruptcy Code or (ii) for which
7 compensation and reimbursement has been allowed by the Bankruptcy Court pursuant to sections
8 330 and 503(b)(2) of the Bankruptcy Code.

9 **"Professional Fee Claim"** means:

- 10 (a) A claim under Bankruptcy Code sections 327, 328, 330, 331, 503(b), 1103 or
11 1106 for compensation for professional services rendered or expenses
12 incurred after the Petition Date and prior to the Effective Date on the
13 applicable Estate's behalf by a Professional duly employed and authorized by
14 an Order of the Bankruptcy Court; or
15 (b) A claim under Bankruptcy Code section 503(b)(4) for reasonable
16 compensation for professional services rendered by an attorney or accountant
17 of an entity whose expense is allowable under Section 503(b)(3)(D) for
18 making a substantial contribution to the Estate.

19 **"Pro Rata"** means proportionate so that the ratio of (a) the amount of consideration
20 distributed on account of an Allowed Claim to (b) the amount of the Allowed Claim is the same as
21 the ratio of (x) the amount of consideration available for distribution on account of all Allowed
22 Claims in the Class in which that Allowed Claim is included (plus Disputed Claims in that Class
23 until such Claims are no longer disputed) to (y) the amount of all Allowed Claims in that Class
24 (plus Disputed Claims in that Class until such claims are no longer disputed).

1 The Pro Rata ratio or formula is illustrated as follows:

| | | |
|---|---|--|
| 2 (a) Amount of consideration distributed to Holder of Allowed Claim = \$10 | = | (x) Total consideration available for distribution to Holders of Allowed Claims, as applicable, of that Class = \$10,000 |
| 3 (b) Amount of such Allowed Claim = \$100 | | (y) Amount of all Allowed Claims, as applicable, in that Class or group of Classes = \$100,000 |

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8 **"Reorganized PCFC"** means PCFC on and after the Effective Date of the Plan.

9 **"Schedules"** means the Schedules of Assets and Liabilities and the Statement of Financial
10 Affairs filed by the Debtors with the Bankruptcy Court, pursuant to section 521(a) of the Bankruptcy
11 Code, Bankruptcy Rule 1007(b), and the Official Bankruptcy Forms, as may be amended from time
12 to time.

13 **"Secured Claim"** means an Allowed Claim of a creditor secured by a valid, enforceable and
14 unavoidable lien against property in which at least one of the Estates has an interest, or that is
15 subject to setoff under the Bankruptcy Code, to the extent of the value of such creditor's interest in
16 the applicable Estate's or Estates' interest in such property, or to the extent of the amount subject to
17 setoff, as the case may be.

18 **"September 27 Letter"** means the letter dated September 27, 2007 from Winston & Strawn
19 LLP, on behalf of the Committee, to the Debtors and the Debtors' various D&O insurers, a copy of
20 which is attached to the Disclosure Statement as Exhibit "D."

21 **"Unclassified Claim"** means any Claim which is not part of any Class, including
22 Administrative Claims and Priority Tax Claims.

23 **"Unimpaired"** means, when used with reference to a Claim or Interest, a Claim or Interest
24 that is not Impaired within the meaning of section 1124 of the Bankruptcy Code.

25 **"U.S. Trustee"** means the Office of the United States Trustee for the Central District of
26 California.

27 **"U.S. Trustee Fees"** means all fees and charges assessed against the applicable Estate by the
28 U.S. Trustee and due pursuant to section 1930 of title 28 of the United States Code.

1 **“Warehouse Participants”** means parties to warehouse lending arrangements consisting of
2 traditional warehouse facilities and repurchase facilities, including but not limited to Arlington
3 Funding, Bear Stearns, CSFB, Deutsche Bank, CDC/IXIS, Lehman Brothers, RFC, Wachovia,
4 Washington Mutual, and Wells Fargo.

5 **“WARN Act Claims”** means any Claims of the former employees of the Debtors alleging
6 violations of the federal Workers Adjustment and Retraining Notification Act, 29 U.S.C. §§2101 *et*
7 *seq.* and its California counterpart, California Labor Code §§ 1400 *et seq.* (both the federal and the
8 state acts referred to herein jointly as the **“WARN Act”**).

9 II.

10 **RULES OF INTERPRETATION**

11 The rules of construction in Bankruptcy Code section 102 apply to this Plan.

12 (i) Except as otherwise provided in the Plan, Bankruptcy Rule 9006(a) applies when
13 computing any time period under the Plan.

14 (ii) A term that is used in this Plan and that is not defined in this Plan has the meaning
15 attributed to that term, if any, in the Bankruptcy Code or the Bankruptcy Rules.

16 (iii) The definition given to any term or provision in the Plan supersedes and controls any
17 different meaning that may be given to that term or provision in the Disclosure Statement.

18 (iv) Whenever it is appropriate from the context, each term, whether stated in the singular
19 or the plural, includes both the singular and the plural.

20 (v) Any reference to the “appropriate,” “applicable,” or to the “respective” Liquidating
21 Trust means the PCHLI Liquidating Trust, the Funding Liquidating Trust or the PCFC Liquidating
22 Trust, whichever is appropriate in the context.

23 (vi) Any reference to the “PCHLI, Funding or PCFC Liquidating Trust” refers to the
24 PCHLI Liquidating Trust, the PCFC Liquidating Trust or the Funding Liquidating Trust.

25 (vii) Any reference to an existing document means the document as it has been, or may be,
26 amended or supplemented.

27 (viii) Unless otherwise indicated, the phrase “under the Plan” and similar words or phrases
28 refer to this Plan in its entirety rather than to only a portion of the Plan.

1 (ix) Unless otherwise specified, all references to Sections or Exhibits are references to this
2 Plan's Sections or Exhibits.

3 (x) Section captions and headings are used only as convenient references and do not
4 affect this Plan's meaning.

5 **III.**
6 **PLAN OBJECTIVES**

7 The Plan's objective is to reorganize PCFC to permit it to make the New Common Stock
8 Dividend, and to transfer all remaining Assets of the Debtors, including the Causes of Action, to the
9 PCHLI, Funding or PCFC Liquidating Trusts in accordance with Exhibit "C" to the Disclosure
10 Statement. The Liquidating Trustee will administer the Liquidating Trusts and liquidate such
11 Assets, including the resolution of any Causes of Action held by the Liquidating Trusts. The Plan
12 divides Creditors and Holders of Interests into Classes based on their legal rights and interests and
13 the Liquidating Trustee will distribute the proceeds of the Debtors' Assets to Holders of Allowed
14 Claims and Allowed Unclassified Claims in satisfaction of the Debtors' obligations as provided in
15 this Plan. The Holders of Interests will not receive or retain anything on account of their Interests.

16 **IV.**
17 **CLASSIFICATION AND TREATMENT OF CLAIMS AND INTERESTS**

18 This Section classifies Claims—except for Administrative Claims and Priority Tax Claims,
19 which are not classified—for all purposes, including voting, Confirmation, and distribution under the
20 Plan. A Claim or Interest is classified in a particular Class only to the extent that the Claim or
21 Interest falls within the Class description. To the extent that part of the Claim or Interest falls within
22 a different Class description, that part of the Claim or Interest is classified in that different Class.

23 The following table summarizes the Classes of Claims and Interests under this Plan:

| <u>CLASS DESCRIPTION</u> | <u>DESCRIPTION OF CLAIMS OR INTERESTS IN CLASS</u> | <u>IMPAIRED/ UNIMPAIRED</u> | <u>VOTING STATUS</u> |
|---|--|-----------------------------|--------------------------|
| Class 1A Secured Claims against PCHLI | All claims to the extent secured by a lien on PCHLI's interest in Collateral | Unimpaired | Deemed to Accept Plan |

| <u>CLASS DESCRIPTION</u> | <u>DESCRIPTION OF CLAIMS OR INTERESTS IN CLASS</u> | <u>IMPAIRED/ UNIMPAIRED</u> | <u>VOTING STATUS</u> |
|---|--|-----------------------------|------------------------------|
| Class 1B Secured Claims against Funding | All claims to the extent secured by a lien on PCHLI's interest in Collateral | Unimpaired | Deemed to Accept Plan |
| Class 1C Secured Claims against PCFC | All claims to the extent secured by a lien on PCHLI's interest in Collateral | Unimpaired | Deemed to Accept Plan |
| Class 2A Priority Non-Tax Claims against PCHLI | All Claims against PCHLI entitled to priority under section 507(a)(3), (4), (5), (6) or (7) of the Bankruptcy Code | Unimpaired | Deemed to Accept Plan |
| Class 2B Priority Non-Tax Claims against Funding | All Claims against Funding entitled to priority under section 507(a)(3), (4), (5), (6) or (7) of the Bankruptcy Code | Unimpaired | Deemed to Accept Plan |
| Class 2C Priority Non-Tax Claim against PCFC | All Claims against PCFC entitled to priority under section 507(a)(3), (4), (5), (6) or (7) of the Bankruptcy Code | Unimpaired | Deemed to Accept Plan |
| Class 3A WARN Act Claims against PCHLI | Claims against PCHLI based on alleged violations of the WARN Act | Impaired | Entitled to Vote on the Plan |
| Class 3B WARN Act Claims against Funding | Claims against Funding based on alleged violations of the WARN Act | Impaired | Entitled to Vote on the Plan |
| Class 3C WARN Act Claims against PCFC | Claims against PCFC based on alleged violations of the WARN Act | Impaired | Entitled to Vote on the Plan |

| <u>CLASS DESCRIPTION</u> | <u>DESCRIPTION OF CLAIMS OR INTERESTS IN CLASS</u> | <u>IMPAIRED/ UNIMPAIRED</u> | <u>VOTING STATUS</u> |
|---|---|-----------------------------|--|
| Class 4A General Unsecured Claims against PCHLI | All Claims against PCHLI that are not Secured Claims, Administrative Claims, Priority Tax Claims, Priority Non-Tax Claims or Claims or Interests in another Class herein | Impaired | Entitled to Vote on the Plan |
| Class 4B General Unsecured Claims against Funding | All Claims against Funding that are not Secured Claims, Administrative Claims, Priority Tax Claims, Priority Non-Tax Claims or Claims or Interests in another Class herein | Impaired | Entitled to Vote on the Plan |
| Class 4C General Unsecured Claims against PCFC | All Claims against PCFC that are not Secured Claims, Administrative Claims, Priority Tax Claims, Priority Non-Tax Claims or Claims or Interests in another Class herein | Impaired | Entitled to Vote on the Plan |
| Class 5A Intercompany Non- Administrative Claims against PCHLI | All Intercompany Non-Administrative Claims against PCHLI shall be treated in accordance with the Intercompany Settlement. All Holders of Intercompany Non-Administrative Claims against PCHLI shall not receive a distribution. | Impaired | Deemed to Reject the Plan |
| Class 5B Intercompany Non- Administrative Claims against Funding | All Intercompany Non-Administrative Claims against Funding shall be treated in accordance with the Intercompany Settlement. Under the settlement, PCHLI will hold a Claim in the amount of \$18,844,703.54 that will be treated the same as Class 4B Claims and all other Holders of Intercompany Non-Administrative Claims against Funding shall not receive a distribution. | Impaired | PCHLI Is Entitled to Vote and PCFC is Deemed to Reject the Plan |
| Class 5C Intercompany | All Intercompany Non-Administrative Claims against | Impaired | Deemed to Reject the Plan |

| <u>CLASS DESCRIPTION</u> | <u>DESCRIPTION OF CLAIMS OR INTERESTS IN CLASS</u> | <u>IMPAIRED/ UNIMPAIRED</u> | <u>VOTING STATUS</u> |
|--|--|-----------------------------|---------------------------|
| Non-Administrative Claims against PCFC | PCFC shall be treated in accordance with the Intercompany Settlement. All Holders of Intercompany Non-Administrative Claims against PCFC shall not receive a distribution. | | |
| Class 6A Interests in PCHLI | All existing Interests in PCHLI shall be cancelled on the Effective Date. | Impaired | Deemed to Reject the Plan |
| Class 6B Interests in Funding | All existing Interests in Funding shall be cancelled on the Effective Date. | Impaired | Deemed to Reject the Plan |
| Class 6C Interests in PCFC | All existing Interests in PCFC shall be cancelled on the Effective Date. | Impaired | Deemed to Reject the Plan |

As set forth above, Classes 1A-1C and 2A-2C are Unimpaired by the Plan and Holders of Claims in these Classes are conclusively presumed to have accepted the Plan. Classes 3A-3C, 4A-4C, and the Claim of PCHLI in Class 5B are Impaired by the Plan and Holders of Claims in these Classes shall be entitled to vote to accept or reject this Plan. Classes 5A, 5C, and 6A-6C are Impaired by the Plan as Holders of Claims and Interests in these Classes are not expected to retain or receive any property under the Plan on account of these Claims and Interests and, therefore, are conclusively presumed to have rejected the Plan.

The treatment in this Plan is in full and complete satisfaction of the legal, contractual, and equitable rights that each entity holding an Allowed Claim or an Allowed Interest may have in or against the applicable Debtor or its property. This treatment supersedes and replaces any agreements or rights those entities have in or against the applicable Debtor or its property. All Distributions under the Plan will be tendered to the Person holding the Allowed Claim or Allowed Interest. **EXCEPT AS SPECIFICALLY SET FORTH IN THIS PLAN, NO**

1 **DISTRIBUTIONS WILL BE MADE AND NO RIGHTS WILL BE RETAINED ON**
2 **ACCOUNT OF ANY CLAIM OR INTEREST THAT IS NOT AN ALLOWED CLAIM OR**
3 **ALLOWED INTEREST.**

4 **A. Allowance and Treatment of Unclassified Claims (Administrative Claims and Priority**
5 **Tax Claims).**

6 Certain types of Claims are not placed into Classes; instead, such Claims are Unclassified
7 Claims. Such Unclassified Claims are not considered impaired and they do not vote on the Plan
8 because they are automatically entitled to specific treatment provided for them in the Bankruptcy
9 Code. As such, the Committee has not placed the following Claims in a Class. The respective
10 treatments for these Claims are provided below.

11 1. Administrative Claims.

12 Administrative Claims are Claims for administrative costs or expenses that are allowable
13 under Bankruptcy Code §§ 503(b) and 507(a)(2) or 28 U.S.C. § 1930, including, without limitation,
14 (a) Ordinary Course Administrative Claims; (b) Professional Fee Claims; (c) Administrative Tax
15 Claims; (d) Administrative Intercompany Claims; and (e) U.S. Trustee Fees. Except to the extent
16 that any entity entitled to payment of an Allowed Administrative Claim agrees to a less favorable
17 treatment or unless otherwise ordered by the Bankruptcy Court, each Holder of an Allowed
18 Administrative Claim will receive in full satisfaction, discharge, exchange and release thereof, Cash
19 in an amount equal to such Allowed Administrative Claim on the later of (i) the Effective Date, and
20 (ii) the fifteenth (15th) Business Day after such Administrative Claim becomes an Allowed
21 Administrative Claim, or, in either case, as soon thereafter as is practicable; provided, however, that
22 Allowed Ordinary Course Administrative Claims (i.e., claims for administrative costs or expenses
23 that are allowable under Bankruptcy Code section 503(b) that are incurred in the ordinary course of
24 the Debtors' operations or the Cases, or are provided for in an order of the Bankruptcy Court) will
25 be paid in full in accordance with the terms and conditions of the particular transactions and any
26 applicable agreements or as otherwise authorized by the Bankruptcy Court following ten (10)
27 business days' notice to the Post-Effective Date Committee and opportunity to object.

28 a. Administrative Claim Bar Date

1 The Plan provides that requests for payment of Administrative Claims must be filed and
2 served on the Liquidating Trustee, counsel for the Liquidating Trustee, and the Office of the United
3 States Trustee no later than thirty (30) days following the Effective Date. Excluded from this
4 requirement are (i) Professional Fee Claims (except for Professional Fee Claims falling under clause
5 (b) of the definition of Professional Fee Claim, which are not excluded), (ii) U.S. Trustee Fees, and
6 (iii) Administrative Intercompany Claims (the latter of which is allowed pursuant to the
7 Intercompany Settlement). Holders of Administrative Claims that are subject to the Administrative
8 Claim Bar Date that do not file such requests by this bar date will be forever barred from asserting
9 such Claims against the Debtors, the Debtors' Estates, the Liquidating Trusts or the property of the
10 Liquidating Trusts.

11 b. Deadline for Objections

12 All objections to allowance of Administrative Claims (excluding Professional Fee Claims
13 under clause (a) of the definition of Professional Fee Claim) must be filed by any parties in interest
14 no later than sixty (60) days after the Administrative Claims Bar Date. The Administrative Claims
15 Objection Deadline may be initially extended for sixty (60) days by the Liquidating Trustee upon the
16 filing of a notice of the extended Administrative Claim Objection Deadline with the Bankruptcy
17 Court. Thereafter, the Administrative Claim Objection Deadline may be further extended only by an
18 order of the Bankruptcy Court. If no objection to the applicable Administrative Claim is filed on or
19 before the applicable date, such Administrative Claim will be deemed Allowed, subject to the
20 Court's equitable discretion to retroactively extend such bar date.

21 c. Professional Fees Bar Date

22 Each Holder of a Professional Fee Claim (except for Professional Fee claims falling under
23 clause (b) of the definition of Professional Fee Claim, which claims are subject to the Administrative
24 Claims Bar Date) seeking an award by the Bankruptcy Court of compensation for services rendered
25 or reimbursement of expenses incurred through and including the Effective Date must (i) file its final
26 application for allowances of compensation for services rendered and reimbursement of expenses
27 incurred through the Effective Date by no later than the sixtieth (60th) day following the Effective
28

1 Date. Any objection to such Professionals Fee Claims shall be filed on or before the date specified
2 in the application for final compensation. All such requests for payment of such Professional Fee
3 Claims will be subject to the authorization and approval of the Bankruptcy Court. Such Professional
4 Fee Claims, to the extent approved by the Bankruptcy Court, are to be paid, in full satisfaction,
5 discharge, exchange and release thereof, Cash in such amounts as are Allowed by the Bankruptcy
6 Court on the date such Professional Fee Claim becomes an Allowed Claim, or as soon thereafter as
7 is practicable.

8 d. U.S. Trustee Fees

9 Quarterly fees owed to the Office of the U.S. Trustee that accrue prior to the Effective Date
10 will be paid by the Debtors and U.S. Trustee Fees that accrue after the Effective Date will be paid
11 for each Debtor from the assets of the respective Liquidating Trust when due in accordance with
12 applicable law. The Debtors will continue to file the Post-Confirmation Quarterly Reports as
13 required until the Effective Date and the Liquidating Trustee will file such reports from the
14 Effective Date until each Case is closed under Bankruptcy Code section 350.

15 2. Priority Tax Claims.

16 Priority Tax Claims are Claims entitled to priority against the Estates under Bankruptcy
17 Code section 507(a)(8). Except to the extent that a Holder of an Allowed Priority Tax Claim has
18 been paid by the Debtors before the Effective Date or agrees to a less favorable treatment, each
19 Holder of an Allowed Priority Tax Claim will receive in full satisfaction, discharge, exchange and
20 release thereof, Cash in an amount equal to such Allowed Priority Tax Claim on the later of (i) the
21 Effective Date, or as soon thereafter as is practicable or (ii) the fifteenth (15th) Business Day after
22 such Priority Tax Claim becomes an Allowed Priority Tax Claim.

23 **B. Classification and Treatment of Secured Claims (Classes 1A-1C) – Unimpaired.**

24 **Classification:** Classes 1A, 1B and 1C consist of all Secured Claims, if any, against
25 PCHLI, Funding and PCFC, respectively. Secured Claims are those Claims that are secured by
26 liens against certain assets of the Debtors, including Cash Collateral.

27 **Treatment:** To the extent any Secured Claims exist, each Holder of an Allowed Class 1A,
28

1 1B or 1C Secured Claim shall, on the later of (i) the Effective Date or as soon thereafter as
2 practicable or (ii) the date such Secured Claim becomes an Allowed Secured Claim pursuant to a
3 Final Order or as soon thereafter as is practicable, (a) receive the Cash Collateral that secures such
4 Secured Claim in full and complete satisfaction of such Secured Claim, (b) retain a lien or security
5 interests on the Assets securing the Allowed Secured Claim, or (c) receive the indubitable
6 equivalent of such Claim.²

7 Class 1 is unimpaired, and the Holders of Claims in Class 1 are presumed to have accepted
8 the Plan.

9 **C. Classification and Treatment of Priority Non-Tax Claims (Classes 2A-2C) –
10 Unimpaired.**

11 **Classification:** Classes 2A, 2B and 2C consist of all Priority Non-Tax Claims against
12 PCHLI, Funding and PCFC, respectively. Priority Non-Tax Claims are Unsecured Claims which are
13 entitled to priority in payment pursuant to section 507(a) of the Bankruptcy Code other than Priority
14 Tax Claims.

15 **Treatment:** Each Holder of a Priority Non-Tax Claim, unless otherwise agreed upon by the
16 Holder of such Claim, will receive Cash in an amount equal to such Allowed Priority Non-Tax
17 Claim on the later of the Effective Date, or as soon as practicable thereafter, and the date such
18 Priority Non-Tax Claim becomes an Allowed Priority Non-Tax Claim pursuant to a Final Order, or
19 as soon thereafter as is practicable.

20 Class 2 is unimpaired, and the Holders of Claims in Class 2 are presumed to have accepted
21 the Plan.

22 **D. Classification and Treatment of WARN Act Claims (Classes 3A-3C) – Impaired.**

23 **Classification:** Classes 3A, 3B and 3C consist of all Allowed Claims against PCHLI,
24 Funding and PCFC, respectively, of former employees of PCHLI and PCFC for alleged violations
25 of the WARN Act. Certain WARN Act Claims are currently the subject of litigation between the

26 ² Regardless of any Holder's recovery on account of an asserted Secured Claim during the pendency of these cases, the
27 Committee, the Debtors and the Liquidating Trustee shall retain any and all rights to contest the validity and priority
28 status of any asserted Secured Claim and any and all rights to seek to avoid and recover any asserted collateral (or the
value of such collateral) that was transferred to the respective Holder of the Secured Claim or liquidated by the Holder of
the Secured Claim on account of an asserted Claim.

1 Holders of the Claims and the Debtors. After the Effective Date of the Plan, unless the WARN Act
2 Claims have been resolved by that date, the Liquidating Trustee will seek to resolve such claims
3 through litigation.

4 **Treatment:** The WARN Act Claims will be satisfied pursuant to the terms of a settlement
5 or, if a judgment or order of the Bankruptcy Court is entered that determines the valid amount of the
6 WARN Act Claims and the priority of those Claims, the WARN Act Claims as so determined will
7 be satisfied in the same manner as all other Claims of the same priority pursuant to the terms of the
8 Plan.

9 Classes 3A-3C are Impaired, and the Holders of Claims in those Classes are entitled to vote
10 to accept or reject the Plan.

11 **E. Classification and Treatment of General Unsecured Claims (Classes 4A-4C) – Impaired**

12 **Classification:** Classes 4A, 4B and 4C consist of all General Unsecured Claims other than
13 Intercompany Non-Administrative Claims against PCHLI, Funding and PCFC, respectively,
14 including any Deficiency Claim or EPD/Breach Claim.

15 **Treatment:** Upon allowance of their General Unsecured Claims, Holders of Allowed
16 General Unsecured Claims in Classes 4A, 4B and 4C shall receive, on a *Pro Rata* basis, a
17 Liquidating Trust Interest in the PCHLI, Funding or PCFC Liquidating Trust, respectively. Each
18 Holder of an Allowed General Unsecured Claim shall receive a Liquidating Trust Interest on account
19 of its Allowed General Unsecured Claim, in full satisfaction, discharge, exchange and release
20 thereof, as a distribution under the Plan, the treatment provided for herein. Except to the extent that
21 a Holder of an Allowed Class 4A, 4B or 4C Claim agrees to a less favorable treatment, each Holder
22 of an Allowed General Unsecured Claim will receive its *Pro Rata* share of Cash available for
23 distribution to Holders of Allowed General Unsecured Claims in that Class (as available on each
24 Distribution Date (defined below)) on account of its Liquidating Trust Interest from the PCHLI,
25 Funding or PCFC Liquidating Trust, respectively, on the later of (i) the distribution date(s) selected
26 in accordance with this provision (the “Distribution Date(s)”) and (ii) the fifteenth (15th) Business
27 Day after such date that the Claim becomes an Allowed Unsecured Claim, or as soon after such
28 dates as is practicable. The Distribution Dates for the distribution of Available Cash by the PCHLI,

1 Funding and PCFC Liquidating Trusts shall be selected by the Liquidating Trustee after consultation
2 with the appropriate Post-Effective Date Committee charged with oversight of that Liquidating
3 Trust. The Distribution Dates for the various Liquidating Trusts may be different dates.

4 Notwithstanding any other provision in the Plan, no Cash payment shall be made on account
5 of an Allowed Unsecured Claim against a particular Debtor until all senior Claims against that
6 Debtor have been satisfied or reserved for in full. Allowed Class 4A, 4B and 4C Claims will not
7 include interest from and after the Petition Date nor any penalty unless and until all senior Claims
8 against PCHLI, Funding or PCFC, respectively, are paid in full and the principal amount all General
9 Unsecured Claims in the respective Class have been satisfied in full.

10 The Liquidating Trustee shall make Distributions to the holders of the Liquidating Trust
11 Interests in accordance with the provisions of the Liquidating Trust Agreements, and as provided for
12 in this Plan and the Confirmation Order. Upon payment by the Liquidating Trust of amounts due, if
13 any, to a Holder of a Liquidating Trust Interest, such interest shall terminate and be of no further
14 force and effect.

15 If the Bankruptcy Court determines by Final Order that the Holder of a General Unsecured
16 Claim does not have an Allowed General Unsecured Claim, then such Holder's Liquidating Trust
17 Interest shall terminate and be of no further force and effect.

18 Classes 4A, 4B and 4C are Impaired, and the Holders of Claims in those Classes are entitled
19 to vote to accept or reject the Plan.

20 **F. Classification and Treatment of Intercompany Non-Administrative Claims (Class 5A-
21 5C) -- Impaired.**

22 **Classification:** Classes 5A, 5B and 5C consist of all Intercompany Non-Administrative
23 Claims against PCHLI, Funding and PCFC, respectively, the Holders of which are one or more of
24 the other Debtors.

25 **Treatment:** All as more fully described in the Disclosure Statement, Intercompany Non-
26 Administrative Claims will be treated in accordance with the Intercompany Settlement. Specifically,
27 PCHLI will hold a Claim against Funding in the Amount of \$18,844,703.54, which Claim will be
28 treated the same as a Class 4B Claim. All other Intercompany Non-Administrative Claims shall not

1 receive a distribution in accordance with the Intercompany Settlement.

2 **G. Classification and Treatment of Interests (Class 6A-6C) -- Impaired.**

3 **Classification:** Classes 6A, 6B and 6C are the Interests held in PCHLI, Funding and PCFC,
4 respectively.

5 **Treatment:** Class 6A, 6B and 6C Interests will receive and retain no value under the Plan,
6 and all Class 6A, 6B and 6C Interests will be cancelled on the Effective Date. Should all senior
7 Claims recover payment in full with interest, the Trustee may seek to modify the Plan to reinstate
8 Interests.

9 Classes 6A-6C are Impaired, and the Holders of Allowed Interests in those Classes will not
10 receive or retain any property under the Plan and are conclusively presumed to have rejected the
11 Plan.

12 **V.**

13 **EXECUTORY CONTRACTS AND UNEXPIRED LEASES**

14 **A. Rejection of Executory Contracts and Unexpired Leases**

15 Upon the Effective Date, the Debtors hereby reject all executory contracts and unexpired
16 leases that exist between the Debtors or any of them and any other Person that have not previously
17 been assumed, assumed and assigned or rejected in these Cases pursuant to order of the Bankruptcy
18 Court. Notwithstanding the foregoing, any insurance policy or coverage that is determined to be an
19 executory contract shall neither be automatically rejected nor assumed hereby, and shall be the
20 subject of a specific motion to assume or reject.

21 All Allowed Claims arising from the rejection of executory contracts or unexpired leases,
22 whether under the Plan or by separate proceeding, will be treated as General Unsecured Claims
23 against PCHLI, Funding or PCFC, as appropriate, in Classes 4A, 4B or 4C, respectively.

24 **B. Bar Date for Rejection Damage Claims**

25 If the rejection of an executory contract or unexpired lease by the Debtors or any of them
26 pursuant to the preceding Section V.A results in damages to the counterparty to such contract or
27 lease, then a Claim for damages or any other amounts related in any way to such contract or lease
28 shall be forever barred and shall not be enforceable against the Debtors, the Estates, the Liquidating

1 Trusts or their property, unless a proof of claim is filed with the Bankruptcy Court and served on the
2 Liquidating Trustee within thirty (30) days after the Effective Date. The rejection claim bar date for
3 leases and contracts rejected prior to the Effective Date, or otherwise not as a result of confirmation
4 of the Plan is the later of (i) thirty (30) days after the date the order authorizing rejection of the
5 contract or lease is entered or (ii) the Claims Bar Date.

6 **C. Insurance Policies**

7 For the avoidance of doubt, the Debtors' rights with respect to all insurance policies,
8 including but not limited to those listed on Exhibit "2" to the Plan Supplement and rights under any
9 other insurance policies under which the Debtors may be beneficiaries (including all insurance
10 policies that may have expired prior to the Petition Date, all insurance policies in existence on the
11 Petition Date, all insurance policies entered into by the Debtors after the Petition Date, and all
12 insurance policies under which the Debtors hold rights to make, amend, prosecute and benefit from
13 claims), are retained and will be transferred or assigned to the applicable Liquidating Trust pursuant
14 to this Plan. Notwithstanding any provision providing for the rejection of executory contracts, any
15 insurance policy that is deemed to be an executory contract shall neither be rejected nor assumed by
16 operation of this Plan and shall be the subject of a specific motion by the Liquidating Trustee who
17 shall retain the right to assume or reject any such executory contracts pursuant to and subject to the
18 provisions of Section 365 of the Bankruptcy Code following the Effective Date.

19 **VI.**

20 **PLAN IMPLEMENTATION**

21 **A. Implementing Actions In General; Conditions to Plan Effectiveness**

22 As a condition to effectiveness of the Plan, on or prior to the Effective Date, the following
23 must occur:

24 (i) all actions, documents and agreements necessary to implement the Plan will
25 have been effected or executed;

26 (ii) the Debtors or Committee, as applicable, will have received all
27 authorizations, consents, rulings, opinions or other documents that are determined by the
28 Committee to be necessary to implement the Plan;

1 (iii) the Liquidating Trust Agreements are final and approved, the Liquidating
2 Trustee is appointed, the Post-Effective Date Committees are selected and the Liquidating
3 Trusts are funded in accordance with the Plan;

4 (iv) the Committee and the Liquidating Trustee have determined in their
5 reasonable discretion that sufficient Cash exists to satisfy all Administrative Claims,
6 Professional Fee Claims, Priority Tax Claims, Priority Non-Tax Claims and Secured
7 Claims, which are Allowed Claims;

8 (v) to the extent required by the Plan, each Liquidating Trust will make all
9 Distributions required to be made by such Liquidating Trust on the Effective Date to
10 Holders of Allowed Claims pursuant to the Plan or as soon thereafter as practicable;

11 (vi) outstanding shares of the stock of PCFC shall have been cancelled and the
12 New Common Stock shall have been issued to the PCHLI and Funding Liquidating Trusts;

13 (vii) subsequent to the issuance of the New Common Stock, which shall be the sole
14 class of securities, the Reorganized PCFC charter shall be amended to prohibit the issuance
15 of nonvoting equity securities; and

16 (viii) the Intercompany Settlement shall have been approved without material
17 modification by the Confirmation Order and shall be binding and enforceable against all
18 Holders of Claims and Interests under the terms of this Plan.

19 The Plan will not be consummated or become binding unless and until the Effective Date
20 occurs, which shall in all events occur prior to the date that is thirty (30) days following entry of the
21 Confirmation Order, unless such date is extended by Order of the Court for good cause shown. The
22 Effective Date will be the first Business Day, as determined by the Committee in its reasonable
23 discretion, on which the following conditions have been satisfied:

24 (1) the Confirmation Order shall have become a Final Order; and

25 (2) all of the matters in (i) through (viii) above have been satisfied.

26 In no event shall the Effective Date occur more than thirty (30) calendar days following entry
27 of the Confirmation Order unless the Confirmation Order is stayed or the Plan is modified pursuant
28 to an order of the Court extending the Effective Date for good cause shown.

1 The Committee may in its reasonable discretion waive any of the conditions set forth above
2 without notice and a hearing. The failure to satisfy any condition may be asserted by the Committee
3 as a basis to allege that the Effective Date has not occurred regardless of the circumstances giving
4 rise to the failure of such condition to be satisfied (including, without limitation, any act, action,
5 failure to act, or inaction by the Debtors). If the Committee fails to assert the non-satisfaction of any
6 such conditions, such failure will not be deemed a waiver of any other rights thereunder.

7 **B. Corporate Action.**

8 Upon the Effective Date, all transactions and applicable matters provided for under the Plan
9 will be deemed to be authorized and approved by the Debtors without any requirement of further
10 action by the Debtors, the Debtors' shareholders, or the Debtors' board of directors.

11 **C. Vesting of Assets.**

12 Unless otherwise expressly provided under this Plan, on the Effective Date, the Debtors'
13 Assets (other than a specified amount of Cash transferred to PCFC and retained by Reorganized
14 PCFC to make the New Common Stock Dividend as described herein), including all of the Causes of
15 Action (including the D&O and Shareholder Claims), will vest in the respective Liquidating Trusts
16 free and clear of all claims, liens, encumbrances, charges and other interests, subject to the
17 provisions of the Plan. On and after the Effective Date, the transfer of the Debtors' Assets from the
18 Estates to the Liquidating Trusts will be deemed final and irrevocable and distributions may be made
19 from the Liquidating Trusts. Further, Reorganized PCFC will issue 31 shares of New Common
20 Stock to the Liquidating Trustee in its capacity as Liquidating Trustee of the PCHLI Liquidating
21 Trust and 69 shares of New Common Stock to the Liquidating Trustee in its capacity as Liquidating
22 Trustee of the Funding Liquidating Trust. The Liquidating Trustee will receive the New Common
23 Stock Dividend in its capacity as Liquidating Trustee of the PCHLI Liquidating Trust and Funding
24 Liquidating Trust, respectively, as more fully set forth in this Plan and will utilize such Funds in
25 accordance with this Plan.

26 In connection with the foregoing:

- 27 (i) On the Effective Date, the appointment of the Liquidating Trustee shall
28 become effective and the Liquidating Trustee shall begin to administer the PCHLI, Funding

1 and PCFC Liquidating Trusts pursuant to the terms of the respective Liquidating Trust
2 Agreements and the Plan and may use, acquire and dispose of property of the Liquidating
3 Trusts free of any restrictions imposed under the Bankruptcy Code.

4 (ii) The Confirmation Order will provide the Liquidating Trustee with express
5 authority to convey, transfer and assign any and all of the Liquidating Trusts' Assets and to
6 take all actions necessary to effectuate same and to prosecute any and all Causes of Action.

7 (iii) As of the Effective Date, the Liquidating Trusts' Assets will be free and clear
8 of all liens, claims and interests of holders of Claims and Interests, except as otherwise
9 provided in the Plan.

10 **D. Approval of Intercompany Settlement; Transfer of Claims to PCHLI in Accordance**
11 **with Intercompany Settlement; Allocation of Intercompany Administrative Expenses**

12 The Committee requests that the Intercompany Settlement be approved as part of this Plan by
13 the Confirmation Order and become effective on the Effective Date. On the Effective Date, pursuant
14 to the Intercompany Settlement, the following shall occur:

15 1. The Debtors' Estates shall remain separate and shall not be substantively
16 consolidated.

17 2. Subject to the proviso hereto and except as otherwise specifically set forth herein, no
18 Debtor or its respective estate shall receive a distribution from any other Debtor or Debtor's estate
19 under this Plan on account of Intercompany Non-Administrative Claims or Administrative
20 Intercompany Claims or otherwise; provided, the estate of PCHLI shall hold an allowed general
21 unsecured claim against the estate of Funding in the amount of \$18,844,703.54 and shall receive a
22 distribution thereon as a general unsecured creditor of Funding.

23 3. The Estates of Funding and PCFC will transfer to the Estate of PCHLI the beneficial
24 interest, control and right to proceeds of all D&O and Shareholder Claims owned in whole or in part
25 by the Estates of Funding or PCFC, including all matters referenced in or relating to the subject
26 matter of the September 27 Letter. The Liquidating Trustee of the PCHLI Liquidating Trust shall
27 have the right to prosecute such claims on behalf of each of the three Debtors' Estates; provided, in
28 the event an assignment is prohibited or would otherwise impair such claims, Funding and PCFC

1 will not be deemed to have assigned the D&O and Shareholder Claims and shall instead hold such
2 claims and proceeds thereof in trust for PCHLI. In the event that a separate Liquidating Trustee is
3 appointed Liquidating Trustee of either the PCFC Liquidating Trust or Funding Liquidating Trust or
4 both such trusts, any separate Liquidating Trustee shall cooperate with, take direction from, and
5 otherwise take all actions reasonably requested by the PCHLI Liquidating Trustee in prosecution of
6 the D&O and Shareholder Claims. The PCHLI Liquidating Trust shall pay to the Funding
7 Liquidating Trust or the PCFC Liquidating Trust, respectively, all amounts necessary to compensate
8 such respective Trust for any dilution in distributions to the Holders of General Unsecured Claims
9 from such Trust that would be caused by distributions on any Claims against Funding or PCFC,
10 respectively, for indemnification, reimbursement or similar Claims by any parties against whom any
11 D&O and Shareholder Claims have been or may be asserted; and the PCHLI Liquidating Trust (and
12 not the Funding Liquidating Trust or PCFC Liquidating Trust) shall reserve sufficient Cash for this
13 purpose.

14 4. Administrative Claims of the Estates, in full and final satisfaction of Administrative
15 Intercompany Claims, shall be allocated among the Estates as follows: (a) 30.1% to the estate of
16 PCHLI; (b) 68% to the estate of Funding; and (c) 1.9% to the estate of PCFC; provided, 100% of
17 past and future costs and expenses, including legal fees and expenses, of the Estates incurred directly
18 and primarily on account of the Committee's and Liquidating Trustee's investigation and
19 prosecution of D&O and Shareholder Claims and 100% of past and future costs and expenses,
20 including legal fees and expenses, of the Estates incurred directly and primarily on account of the
21 investigation of, objection to, or defense against Claims for indemnification, reimbursement or other
22 Claims arising from the D&O and Shareholder Claims shall be allocated to the estate of PCHLI.
23 Notwithstanding the foregoing, to the extent the unencumbered assets of PCFC are insufficient,
24 PCHLI and Funding shall deliver to PCFC the Intercompany Estate Amount in the following
25 proportion: (a) 30.7% by the estate of PCHLI and (b) 69.3% by the estate of Funding.

26 5. The Intercompany Estate Amount shall be delivered by PCHLI and Funding.

27 6. Assets of the Estates shall be allocated in accordance with Exhibit "C" to the

28 Disclosure Statement

1 The foregoing is intended only as a resolution of issues of substantive consolidation and
2 intercompany claims as between the Estates and as to no other person or entity and only for purposes
3 of confirmation of and distributions under the Plan. Nothing contained herein shall be or be deemed
4 to be an admission in any pending or subsequently commenced litigation or to give rise to a defense
5 in or to limit the scope of any damages, rights or remedies of the Committee, the Debtors, the Estates
6 or any successor Liquidating Trustee in respect of any such litigation.

7 **E. Dissolution of the Debtors and Termination of Current Officers, Directors, Employees**
8 **and Counsel.**

9 From and after the Effective Date, PCHLI and Funding shall be dissolved and Reorganized
10 PCFC shall be authorized to take all action necessary to dissolve PCHLI and Funding. Reorganized
11 PCFC shall continue in existence as a holding company with no activities or operations until the
12 New Common Stock Dividend has occurred and its charter shall be amended to prohibit the issuance
13 of nonvoting equity securities. There shall be only one class of securities, which securities shall be
14 held by the Liquidating Trustee of the PCHLI and Funding Liquidating Trusts. After the New
15 Common Stock Dividend has occurred, the Liquidating Trustee for the PCHLI and Funding
16 Liquidating Trusts, as the shareholder of Reorganized PCFC, shall dissolve Reorganized PCFC.

17 On the Effective Date, the employment, retention, appointment and authority of all Officers,
18 Directors, Employees and Professionals of the Debtors and the Committee shall be deemed to
19 terminate, provided, however, Matthew Kvarda, of Alvarez & Marsal North America, LLC
20 (“A&M”), currently serving as the Chief Restructuring Officer of the Debtors, shall serve as director
21 and Chief Executive Officer of Reorganized PCFC along with such directors or estate representative
22 that then exist until Reorganized PCFC’s dissolution.

23 **F. Liquidating Trusts.**

24 1. Effectiveness of the Liquidating Trusts.

25 On the Effective Date: (i) the Liquidating Trust Agreements will become effective, and, if
26 not previously signed, the Debtors and the Liquidating Trustee will execute the Liquidating Trust
27 Agreements. The Liquidating Trusts are organized and established as trusts for the benefit of the
28 Beneficiaries, as defined below, and are intended to qualify as a liquidating trust within the meaning

1 of Treasury Regulation Section 301.7701-4(d).

2 2. Beneficiaries

3 In accordance with Treasury Regulation Section 301.7701-4(d), the beneficiaries
4 (“Beneficiaries”) of each of the Liquidating Trusts will be the Holders of all Allowed Claims against
5 and, to the extent Allowed Claims are paid in full with interest, Allowed Interests in the appropriate
6 Debtor. The Holders of Allowed Claims will receive an allocation of the respective Liquidating
7 Trust Interests as provided for in the Plan and the Liquidating Trust Agreements. The holders of
8 Liquidating Trust Interests of a particular Liquidating Trust will receive distributions from that
9 Liquidating Trust as provided for in the Plan and the Liquidating Trust Agreements. The
10 Beneficiaries of each Liquidating Trust shall be treated as the grantors and owners of such
11 beneficiaries’ respective portion of the applicable Liquidating Trust.

12 3. Implementation of the Liquidating Trusts.

13 On the Effective Date, the Debtors, on behalf of the Estates, and the Liquidating Trustee will
14 be authorized and directed to, and will execute the Liquidating Trust Agreements in substantially the
15 form attached as Exhibit “1” to the Plan Supplement, take all such actions as required to transfer
16 from the Debtors and the Estates the Debtors’ Assets (except as specifically set forth herein) to the
17 appropriate Liquidating Trust as set forth in Exhibit “C” to the Disclosure Statement and to cause the
18 issuance of the New Common Stock. From and after the Effective Date, the Liquidating Trustee will
19 be authorized to, and will take all such actions as required to implement the Liquidating Trust
20 Agreements and the provisions of the Plan as are contemplated to be implemented by the
21 Liquidating Trustee, including, without limitation, directing Distributions to Holders of Allowed
22 Claims, objecting to Claims, prosecuting or otherwise resolving Causes of Action, and causing
23 Distributions from the Liquidating Trusts to be made to the Beneficiaries of each Liquidating Trust.

24 4. Transfer of Debtors’ Assets.

25 On the Effective Date, pursuant to the Plan and sections 1123, 1141 and 1146(a) of the
26 Bankruptcy Code, each Debtor is authorized and directed to transfer, grant, assign, convey, set over,
27 and deliver to the Liquidating Trustee all of that Debtor’s and its Estate’s right, title and interest in
28 and to its Assets (other than the specified amount of Cash retained by Reorganized PCFC as

1 described below in this Section), including all Causes of Action (including but not limited to the
2 D&O and Shareholder Claims), including those set forth on the non-exhaustive list under Exhibit
3 “3” of the Plan Supplement, free and clear of all liens, Claims, encumbrances or interests of any kind
4 in such property, except as otherwise expressly provided in the Plan; provided, however, that PCHLI
5 and Funding shall deliver the Intercompany Estate Amount to PCFC. To the extent required to
6 implement the transfer of the Debtors’ Assets from the Debtors and their Estates to the Liquidating
7 Trusts as provided for in Exhibit “C” to the Disclosure Statement and herein, all Persons will
8 cooperate with the Debtors and the Estates to assist the Debtors and the Estates to implement said
9 transfers.

10 5. Representative of the Estate.

11 The Liquidating Trustee will be appointed as the representative of each of the Estates
12 pursuant to sections 1123(a)(5), (a)(7) and (b)(3)(B) of the Bankruptcy Code and as such will be
13 vested with the authority and power (subject to the Liquidating Trust Agreements) to inter alia:
14 (i) object to Claims against and Interests in the Debtors; (ii) administer, investigate, prosecute, settle
15 and abandon all Causes of Action assigned to the Liquidating Trusts, including but not limited to the
16 D&O and Shareholder Claims; (iii) make Distributions provided for in the Plan, including, but not
17 limited to, on account of Allowed Claims; and (iv) take such action as required to administer, wind-
18 down, and close the Cases. As the representative of the Estates, the Liquidating Trustee will succeed
19 to all of the rights and powers of the Debtors and the Estates (including the Committee under the
20 Standing Order) with respect to all Causes of Action assigned and transferred to the Liquidating
21 Trusts, and the Liquidating Trustee will be substituted and will replace the Debtors, the Estates and
22 the Committee, as applicable, as the party in interest in all such litigation pending as of the Effective
23 Date.

24 6. No Liability of Liquidating Trustee or Post-Effective Date Committees.

25 **To the maximum extent permitted by law, the Liquidating Trustee, its employees,**
26 **officers, directors, agents, members, or representatives, or professionals employed or retained**
27 **by the Liquidating Trustee (the “Liquidating Trustee’s Agents”), the members of the Post-**
28 **Effective Date Committees (as defined below), and their employees, officers, directors, agents,**

1 members, or representatives, or professionals employed or retained, will not have or incur
2 liability to any Person for an act taken or omission made in good faith in connection with or
3 related to the administration of the Liquidating Trust Assets, the implementation of the Plan
4 and the Distributions made thereunder or Distributions made under the Liquidating Trust
5 Agreements. The Liquidating Trustee, the Liquidating Trustee's Agents, the members of the
6 Post-Effective Date Committees, and their employees, officers, directors, agents, members, or
7 representatives, or professionals employed or retained will in all respects be entitled to
8 reasonably rely on the advice of counsel with respect to their duties and responsibilities under
9 the Plan and the Liquidating Trust Agreements. Entry of the Confirmation Order constitutes
10 a judicial determination that the exculpation provision contained in Section VIII.A of the Plan
11 is necessary to, *inter alia*, facilitate Confirmation and feasibility and to minimize potential
12 claims arising after the Effective Date for indemnity, reimbursement or contribution from the
13 Estates, or the Liquidating Trusts, or their respective property. The Confirmation Order's
14 approval of the Plan will also constitutes a *res judicata* determination of the matters included
15 in the exculpation provisions of the Plan. Notwithstanding the foregoing, nothing herein or in
16 Section VIII.A of the Plan will alter any provision in the Liquidating Trust Agreements that
17 provides for the potential liability of the Liquidating Trustee to any Person.

18 7. The Committee and the Post-Effective Date Committees.

19 Until the Effective Date, the Committee shall continue in existence. As of Effective Date,
20 the Committee shall terminate and disband and the members of the Committee and the Committee
21 shall be released and discharged of and from all further authority, duties, responsibilities and
22 obligations related to and arising from their service as Committee members.

23 As provided herein and in the Liquidating Trust Agreements, as of the Effective Date, there
24 will be formed a committee for each Liquidating Trust (collectively, the three committees are
25 referred to herein as the "Post-Effective Date Committees") that will have consultation, approval and
26 information rights with respect to the Liquidating Trust to which it relates as set forth in the
27 Liquidating Trust Agreements. The members of each Post-Effective Date Committee will be those
28 members of the Committee who wish to continue to serve. Ten days prior to the Balloting Deadline,

1 the Committee shall file with the Bankruptcy Court a notice of the selection of the Post-Effective
2 Date Committees' members, which notice will name the members of each Post-Effective Date
3 Committee.

4 The Post-Effective Date Committees will prescribe their own rules of procedure and bylaws;
5 provided, however, that such rules of procedure and bylaws will not be inconsistent with the terms of
6 the Plan or the Liquidating Trust Agreements. If a Post-Effective Date Committee member assigns
7 its Claim in full or releases the Debtor or Liquidating Trust from payment of the balance of its
8 Claim, such act will constitute a resignation from the Post-Effective Date Committee. Until a
9 vacancy on the Post-Effective Date Committee is filled, the Post-Effective Date Committee will
10 function in its reduced number. The Post-Effective Date Committees rules of procedure may
11 provide that, in the event any member of any of the Post-Effective Date Committees resigns or
12 otherwise is unable to serve subsequent to the Effective Date, the affected Post-Effective Date
13 Committee may appoint a replacement that holds, to the greatest extent practicable, an Allowed
14 Claim of the same type and nature and against the same Debtors and has the capacity and
15 competency to serve in place of the resigned or deceased member without approval by the
16 Bankruptcy Court.

17 Except for the reimbursement of reasonable actual costs and expenses in connection with
18 their duties as members of the Post-Effective Date Committees, the members of the Post-Effective
19 Date Committees will serve without compensation. Reasonable expenses incurred by members of
20 the Post-Effective Date Committees may be paid by the Liquidating Trusts, as appropriate, without
21 need for Bankruptcy Court approval. Reasonable expense may include reimbursement of the fees
22 and costs of attorneys to each member, subject to such parameters as determined by the Post-
23 Effective Date Committees and which parameters are agreed to by the Liquidating Trustee.

24 The Post-Effective Date Committees will have no authority to employ, at the expense of the
25 appropriate Liquidating Trust, counsel or any other professionals, except upon petition to and
26 approval by the Bankruptcy Court for cause shown..

27 The Post-Effective Date Committees and their members will not be liable for any act any
28 member may do or fail to do as a member of the Post-Effective Date Committees while acting in

1 good faith and in the exercise of the member's best judgment. No member of the Post-Effective
2 Date Committees will be liable in any event for claims, liabilities or damages unless they arise from
3 such member's personal gross negligence or willful misconduct.

4 Each Post-Effective Date Committee will dissolve upon the completion of all distributions to
5 Beneficiaries of the particular Liquidating Trust and the termination of that Liquidating Trust in
6 accordance with the terms of the Plan and the Liquidating Trust Agreement.

7 8. Funding of Post-Effective Date Expenses.

8 All expenses related to implementation of the Plan incurred from and after the Effective Date
9 will be expenses of the Liquidating Trusts, and the Liquidating Trustee will disburse funds from the
10 Liquidating Trust Assets of each Liquidating Trust, as appropriate, for purposes of paying the Post-
11 Effective Date Expenses of that Liquidating Trust without the need for any further Order of the
12 Court.

13 9. Provisions Relating to Federal Income Tax Compliance.

14 A transfer to the Liquidating Trusts shall be treated for all purposes of the Internal Revenue
15 Code of 1986, as amended (the "Internal Revenue Code"), as a transfer to creditors to the extent
16 creditors are beneficiaries of the Liquidating Trusts. For example, such treatment shall apply for
17 purposes of Internal Revenue Code sections 61(a)(12), 483, 1001, 1012 and 1274. Any such transfer
18 shall be treated for federal income tax purposes as a deemed transfer to the beneficiary-creditors
19 followed by a deemed transfer by the beneficiary-creditors to the Liquidating Trusts. The
20 beneficiaries of the Liquidating Trusts shall be treated for federal income tax purposes as the
21 grantors and deemed owners of the Liquidating Trusts.

22 **G. Provisions Governing Distributions.**

23 1. Disbursing Agent

24 The Liquidating Trustee will serve as the Disbursing Agent under the Plan or, after
25 consultation with the appropriate Post-Effective Date Committee, shall select another entity to serve
26 as the Disbursing Agent. Any entity other than the Liquidating Trustee that acts as a Disbursing
27 Agent for the Liquidating Trusts will be an agent of the Liquidating Trustee and not a separate
28 taxable entity with respect to, for example, the assets held, income received or disbursements or

1 distributions made for the Liquidating Trustee. The Liquidating Trustee will provide a bond as the
2 Bankruptcy Court may order, if any, in connection with the making of any distributions pursuant to
3 the Plan.

4 The Disbursing Agent will make all Distributions required under this Plan. The Disbursing
5 Agent, if not the Liquidating Trustee, shall be authorized, after consultation with the Liquidating
6 Trustee, to implement such procedures as it deems necessary to make Distributions pursuant to this
7 Plan so as to efficiently and economically assure prompt and proportionate Distributions.

8 2. The Source of Distributions.

9 The sources of all Distributions and payments under the Plan and the Liquidating Trust
10 Agreements will be Cash, which will be cash transferred to the Liquidating Trusts as of the Effective
11 Date of the Plan, the New Common Stock Dividend with respect to PCHLI and Funding, and
12 proceeds from the liquidation by the Liquidating Trusts of the remainder of the Debtors' Assets
13 (including the prosecution of Causes of Action) that were transferred to any particular Liquidating
14 Trust less the Post-Effective Date Expenses for each particular Liquidating Trust.

15 3. Distribution Dates

16 The Distribution Dates for the distribution of Cash by the Liquidating Trusts shall be selected
17 by the Liquidating Trustee, after consultation with the Post-Effective Date Committees. The
18 Distribution Dates for the various Liquidating Trusts may be different dates.

19 4. Manner of Cash Payments.

20 Cash Distributions made pursuant to the Plan will be in United States funds, by check drawn
21 on a domestic bank, or, if a Liquidating Trustee so elects in its discretion for Distributions to certain
22 large claimants, by wire transfer from a domestic bank.

23 5. Setoff and Recoupment.

24 **NOTWITHSTANDING ANYTHING TO THE CONTRARY IN THE PLAN, THE**
25 **LIQUIDATING TRUSTEE MAY SET OFF, RECOUP, OR WITHHOLD AGAINST THE**
26 **DISTRIBUTIONS TO BE MADE ON ACCOUNT OF ANY ALLOWED CLAIM OR CAUSE**
27 **OF ACTION ANY CLAIMS OR CAUSES OF ACTION THAT THE DEBTORS OR THE**
28 **ESTATES MAY HAVE AGAINST THE ENTITY HOLDING THE ALLOWED CLAIM OR**

1 CAUSE OF ACTION. THE DEBTORS, THE ESTATES, AND THE LIQUIDATING
2 TRUSTS WILL NOT WAIVE OR RELEASE ANY CLAIM OR CAUSE OF ACTION
3 AGAINST THOSE ENTITIES BY FAILING TO EFFECT SUCH A SETOFF OR
4 RECOUPMENT, BY FAILING TO ASSERT ANY SUCH MATTER PRIOR TO
5 CONFIRMATION OR THE EFFECTIVE DATE, BY ALLOWING ANY CLAIM OR
6 CAUSE OF ACTION AGAINST THE DEBTORS OR THE ESTATES, OR BY MAKING A
7 DISTRIBUTION ON ACCOUNT OF AN ALLOWED CLAIM OR CAUSE OF ACTION.

8 6. No De Minimis Distributions.

9 Notwithstanding anything to the contrary in this Plan, no Distribution of less than \$10.00 will
10 be made to any Holder of an Allowed Claim on account thereof. No consideration will be provided
11 in lieu of the *de minimis* Distributions that are not made under this Section.

12 7. Fractional Cents

13 When any payment of a fraction of a cent would otherwise be called for, the actual payment
14 will reflect a rounding of such fraction to the nearest whole cent (rounding down in the case of less
15 than \$0.005 and rounding up in the case of \$0.005 or more); provided, however, that, in no event,
16 will a Distribution of less than \$10.00 will be made to any Holder of an Allowed Claim on account
17 thereof as set forth above.

18 8. No Distributions with Respect to Disputed Claims and Interests.

19 Notwithstanding any other Plan provision, Distributions will be made on account of a
20 Disputed Claim only after, and only to the extent that, the Disputed Claim either becomes or is
21 deemed to be an Allowed Claim for purposes of Distributions.

22 9. Undeliverable or Unclaimed Distributions.

23 Distributions to entities holding Allowed Claims will initially be made by mail as follows:

24 (a) Distributions will be sent to the address, if any, set forth on a filed proof of claim as
25 amended by any written notice of address change received by the Debtors prior to the Effective Date
26 or Liquidating Trustee no later than ten (10) Business Days prior to the date of any Distribution; or

27 (b) If no such address is available, Distributions will be sent to the address set forth on
28 the Schedules or address otherwise readily obtainable by a cursory review of the Debtors' other

1 books and records.

2 If no address is available either on a proof of claim or on the Schedules or on the Debtors'
3 other books and records after a cursory review, the Distribution will be deemed to be undeliverable.
4 If a Distribution is returned to a Liquidating Trustee as an undeliverable Distribution or is deemed to
5 be an undeliverable Distribution, a Liquidating Trustee will make no further Distribution to the
6 Holder of the Claim on which the Distribution is being made.

7 Any entity that is otherwise entitled to an undeliverable Distribution and that does not, within
8 forty-five (45) days after a Distribution is returned as undeliverable, provide the Liquidating Trustee
9 with a written notice asserting its claim to or interest in that undeliverable Distribution and setting
10 forth a current, deliverable address will be deemed to waive any claim to or interest in that
11 undeliverable Distribution and will be forever barred from receiving that undeliverable Distribution
12 or asserting any Claim against the Debtors, the Estates, the Liquidating Trusts or their property. Any
13 undeliverable Distributions that are not claimed hereunder will be distributed Pro Rata to other
14 Holders of Allowed Claims in the same respective Class, as appropriate. Nothing herein requires a
15 Liquidating Trustee to attempt to locate any entity holding an Allowed Claim whose distribution is
16 undeliverable.

17 10. Record Date.

18 The record date for purposes of Distributions under this Plan shall be the date the Bankruptcy
19 Court enters the Confirmation Order. The Disbursing Agent will rely on the register of proofs of
20 claim filed in the Case except to the extent a notice of transfer of Claim or Interest has been filed
21 with the Court prior to the record date pursuant to Bankruptcy Rule 3001.

22 **H. Issuance of New Common Stock.**

23 On the Effective Date, all of the outstanding stock of PCFC will be cancelled, and
24 Reorganized PCFC will issue 69 shares of the New Common Stock to the Liquidating Trustee in his
25 capacity as Liquidating Trustee of the Funding Liquidating Trust and 31 shares of the New Common
26 Stock to the Liquidating Trustee in his capacity as Liquidating Trustee of the PCHLI Liquidating
27 Trust. Within two business days of the Effective Date, Reorganized PCFC will declare the New
28 Common Stock Dividend. The record date for such dividend will be its declaration date. The

1 payment date for the dividend will be determined by the Liquidating Trustee, but will be as soon
2 after the declaration and record date as is feasible.

3 The dividend paid with respect to the New Common Stock will relate back to PCFC's
4 taxable year ended December 31, 2007, pursuant to Internal Revenue Code section 858 and,
5 therefore, will allow Reorganized PCFC to meet the distribution requirement applicable to REITs
6 pursuant to Internal Revenue Code section 857(a)(1) for such year. Because the dividend with
7 respect to the New Common Stock will be paid after December 31, 2007, beneficiaries of the PCFC
8 Liquidating Trust will be liable for federal excise tax under Internal Revenue Code section 4981 for
9 2007 in the amount of \$82,822.00 (or such other amount as is finally determined by the Debtors,
10 Liquidating Trustee or Court).

11 The dividend paid with respect to the New Common Stock constitutes "excess inclusion"
12 income with the meaning of Internal Revenue Code section 860E and will be reported as such by the
13 Liquidating Trustee. Such income will be distributed in accordance with this Plan.

14 VII.

15 LITIGATION AND CLAIMS OBJECTIONS

16 A. Preservation of Causes of Action.

17 As of the Effective Date, the Liquidating Trustee will retain all rights on behalf of the
18 Liquidating Trusts to commence, pursue and settle, as appropriate, any and all Causes of Action
19 (including any and all Avoidance Actions and any and all D&O and Shareholder Claims) assigned to
20 the particular Litigation Trust, whether arising before or after the Petition Date, in any court or other
21 tribunal, including, without limitation, a bankruptcy court adversary proceeding filed in the Cases.

22 The Liquidating Trustee shall also be deemed the successor to, assignee of and transferee of
23 the Committee under the Committee Standing Order authorizing the Committee to pursue and
24 prosecute to the fullest extent any and all Causes of Action against the Debtors' directors, officers
25 and shareholders and shall have all of the rights of the Committee under such Order, including the
26 Committee's rights of standing with respect to such Causes of Action. The failure to explicitly list
27 any Causes of Action and other potential or existing Causes of Action of the Debtors or Estates is
28 not intended to limit the rights of the Liquidating Trusts, through the Liquidating Trustee, to pursue

1 any and all Causes of Action, including Causes of Action not so identified. The Committee will file
2 a non-exhaustive list of Causes of Action as Exhibit "3" to the Plan Supplement at least ten (10)
3 Business Days prior to the Balloting Deadline that sets forth the Liquidating Trust to which each
4 such Cause of Action will be assigned; provided, however, notwithstanding any otherwise applicable
5 principle of law or equity, including, without limitation, any principles of judicial estoppel, *res*
6 *judicata*, collateral estoppel, issue preclusion, or any similar doctrine, the failure to list, disclose,
7 describe, identify, analyze or refer to any Cause of Action, or potential Cause of Action, in this Plan,
8 this Disclosure Statement, or any other document filed with the Bankruptcy Court will in no manner
9 waive, eliminate, modify, release, or alter the Debtors' or the respective Liquidating Trustee's right
10 to commence, prosecute, defend against, settle, and realize upon any Cause of Action that the
11 Debtors or the Estates have or may have as of the Effective Date. Subject to any limitations
12 expressly set forth in the Liquidating Trust Agreements, the Liquidating Trustee may commence,
13 prosecute, defend against, recover on account of, and settle all Causes of Action assigned to the any
14 of the Liquidating Trusts in accordance with the best interests, and for the benefit, of the respective
15 Liquidating Trust, subject to the terms of any applicable Liquidating Trust Agreement.

16 Unless a Cause of Action against a Person is expressly waived, relinquished, released,
17 compromised in writing, or settled in the Plan or any Final Order, the Debtors and their Estates, for
18 the benefit of beneficiaries of the Liquidating Trust in which such Causes of Action shall vest,
19 expressly reserve such Causes of Action for later adjudication (including, without limitation, Causes
20 of Action of which the Debtors, the Committee or any party in interest may presently be unaware, or
21 which may arise or exist by reason of additional facts or circumstances unknown to the Debtors, the
22 Committee or any party in interest at this time, or facts or circumstances which may change or be
23 different from those which the Debtors, the Committee or any party in interest now believe to exist)
24 and, therefore, no preclusion doctrine, including, without limitation, the doctrines of *res judicata*,
25 collateral estoppel, issue preclusion, claim preclusion, waiver, estoppel (judicial, equitable, or
26 otherwise), or laches will apply to Causes of Action upon, or after, the Confirmation or
27 consummation of the Plan based on their description or lack of identification or description in the
28 Disclosure Statement, the Plan, or the Confirmation Order, except where such Causes of Action have

1 been expressly released by virtue of the Plan or other Final Order.

2 As of the Effective Date, subject to the Liquidating Trust Agreements, the Liquidating
3 Trustee, on behalf of the Liquidating Trusts, will be authorized to exercise and perform the rights,
4 powers and duties held by the Debtors' Estates and Committee under the Causes of Action covered
5 by the Committee Standing Order with respect to the Causes of Action, including, without
6 limitation, the authority under Bankruptcy Code section 1123(b)(3) to provide for the settlement,
7 adjustment, retention and enforcement of claims and interests of the Estate, without the consent or
8 approval of any third party, and without any further order of the Bankruptcy Court, except as
9 otherwise provided in the Plan.

10 Any Person with respect to whom any Debtor has incurred an obligation (whether on account
11 of services, purchase or sale of property, or otherwise), or who has received services from any of the
12 Debtors or a transfer of money or property of any of the Debtors, or who has transacted business
13 with any of the Debtors, or leased equipment or property from any of the Debtors should assume that
14 such obligation, transfer, or transaction may be reviewed by the Liquidating Trustee, on behalf of the
15 appropriate Liquidating Trust, subsequent to the Effective Date, and may, if appropriate, be the
16 subject of an action after the Effective Date, whether or not (i) such Person has filed a proof of
17 Claim against any of the Debtors; (ii) such Person's proof of Claim has been objected to; (iii) such
18 Person's Claim was included in the Schedules; (iv) such Person's scheduled Claims have been
19 objected to or has been identified by the Debtors as disputed, contingent, or unliquidated, or (v) such
20 Person has been notified that the estate holds Causes of Action against such Person.

21 **SUBJECT TO THE LIQUIDATING TRUST AGREEMENTS, THE LIQUIDATING**
22 **TRUSTEE WILL MAKE THE DECISION OF WHETHER OR NOT TO PURSUE CAUSES**
23 **OF ACTION.**

24 **B. Disputed Claims.**

25 1. Disputed Claims Reserve.

26 On the Effective Date, the Liquidating Trustee will establish a Disputed Claim Reserve for
27 each Liquidating Trust from that Liquidating Trust's Assets on account of Disputed Claims. The
28 Disputed Claim Reserve will initially include cash in amounts sufficient to distribute to each holder

1 of a Disputed Claim the full amount that it would receive under the Plan if its Claim should
2 ultimately become an Allowed Claim in its full face amount. The Liquidating Trustee may
3 subsequently move the Court for an Order setting reduced reserves upon Disputed Claims.

4 Notwithstanding the foregoing, the Liquidating Trustee may move for a Bankruptcy Court
5 order determining, before allowance of the Claim, the maximum allowable amount of any Disputed
6 Claim and, if the Bankruptcy Court enters such an order, will adjust the amount held in the Disputed
7 Claim Reserve on account of that Disputed Claim in accordance therewith. The maximum allowable
8 amount of any Disputed Claim so determined by the Bankruptcy Court will constitute the maximum
9 potential Allowed Claim.

10 After any Disputed Claim becomes an Allowed Claim in the full face amount or a reduced
11 amount, the Liquidating Trustee will, on the next Distribution Date, make the distributions based
12 upon the full face amount or reduced, allowed amount of the Allowed Claim, as applicable, as if the
13 Disputed Claim had been an Allowed Claim in the full face amount or the reduced amount, as
14 applicable, on or before the Effective Date.

15 If a Disputed Claim (i) is disallowed or expunged or (ii) becomes an Allowed Claim in an
16 amount that would result in such Allowed Claim receiving less than the amount held in the Disputed
17 Claim Reserve on account thereof, the excess attributable to the Claim's disallowed or expunged
18 portion will constitute reserve surplus ("Reserve Surplus") to be held by the Liquidating Trust to
19 which that Claim relates. Should the distributable amount on account of an Allowed Claim exceed
20 the amount held in the Disputed Claim Reserve on account thereof, the Holder will be entitled to
21 receive any shortfall in the distribution that it would otherwise be entitled to receive solely from the
22 Reserve Surplus held by the Liquidating Trustee to which the Claim relates, but in no event will such
23 Holder have recourse to any payments or distributions theretofore made to or for the benefit of any
24 Holder from the Disputed Claim Reserve or Reserve Surplus. If more than one Holder has a right to
25 receive distributions from the Reserve Surplus held by a particular Liquidating Trust, then they will
26 receive their pro rata share of the Reserve Surplus held by that Liquidating Trust.

27 After Final Orders have been entered, or other final resolutions have been reached, with
28 respect to all Disputed Claims or the Liquidating Trust has obtained an Order of the Court setting a

1 reduced dollar amount of required reserves, any remaining cash or other property held in the
2 Disputed Claim Reserve or the Reserve Surplus will be distributed in accordance with the
3 Liquidating Trust Agreement.

4 2. Objections to and Resolution of Disputed Claims.

5 On and after the Effective Date, the Liquidating Trustee will have the right to make and file
6 objections to any Claim of any nature and to prosecute, settle and/or withdraw such objections. The
7 Liquidating Trustee will have the authority to compromise, settle, withdraw or otherwise resolve any
8 objections to a Claim without approval of the Bankruptcy Court; provided, however, that the
9 Liquidating Trustee may in its discretion seek relief before the Bankruptcy Court with respect to any
10 Disputed Claim. The Liquidating Trustee will file and serve all objections to Claims upon the
11 Holder of the Claim as to which the objection is made no later than 180 days after the later of (i) the
12 Effective Date or (ii) the date on which a proof of claim or request for payment is filed with the
13 Bankruptcy Court (the "Claims Objection Deadline"), provided, however, that nothing herein will
14 reduce the time permitted under applicable statutes of limitation for bringing any affirmative Causes
15 of Action that the Liquidating Trustee may assert against any third party. Thereafter, the deadline
16 may be further extended only by an order of the Bankruptcy Court. The Claims Objection Deadline
17 set forth herein does not apply to Administrative Claims.

18 **VIII.**

19 **OTHER PLAN PROVISIONS**

20 **A. Exculpation and Release of Committee and Professionals.**

21 Except to the extent arising from willful misconduct or gross negligence, any and all Claims,
22 liabilities, causes of action, rights, damages, costs and obligations held by any party against the
23 Committee, the members of the Committee (and their respective officers, directors, employees,
24 affiliates and agents), A&M, and/or each of their respective affiliates, employees, attorneys,
25 accountants, agents and other professionals, whether known or unknown, matured or contingent,
26 liquidated or unliquidated, existing, arising or accruing, whether or not yet due in any manner related
27 to the post-Petition Date administration of the Cases, any post-Petition act or omission in connection
28 with, arising out of, or related to the Cases, or the formulation, negotiation, prosecution or

1 implementation of the Plan, will be deemed fully waived, barred, released and discharged in all
2 respects, except as to rights, obligations, duties, claims and responsibilities preserved, created or
3 established by terms of this Plan. For the avoidance of doubt, the foregoing exculpation shall not
4 apply to the Debtors, including (i) any current or former directors or officers of the Debtors or their
5 affiliates, or (ii) any current or former employees of the Debtors; provided, notwithstanding the
6 foregoing, A&M and Messrs. Matthew Kvarda and Sven Johnson shall be entitled to the exculpation
7 and release set forth in this paragraph.

8 Pursuant to section 1125(e) of the Bankruptcy Code, the Committee and each of its present
9 and former members, and each of their respective affiliates, officers, directors, employees, agents,
10 advisors, representatives, successors or assigns, and any Professionals employed by any of the
11 foregoing entities will neither have nor incur any liability to any Person for their role in soliciting
12 acceptance of this Plan or preparation of the Disclosure Statement.

13 **B. Exemption from Stamp, Transfer and Other Taxes.**

14 Pursuant to section 1146(c) of the Bankruptcy Code, the issuance, transfer, or exchange of
15 assets under the Plan by the Debtors, the creation of any mortgage, deed of trust, or other security
16 interest, the making or assignment of any lease or sublease, or the making or delivery of any deed or
17 instrument of transfer under, in furtherance of, or in connection with the Plan, will not be subject to
18 any stamp, real estate transfer, mortgage recording, or other similar tax. The sale of the Debtors'
19 residual interests, servicing rights, platform, scratch and dent loans, REO and all other property are
20 deemed to be sales under the Plan and therefore no such taxes of the kind set forth in section 1146(c)
21 are payable with respect thereto.

22 **C. Injunction Enjoining Holders of Claims against Debtor.**

23 **The Plan is the sole means for resolving, paying or otherwise dealing with Claims and**
24 **Interests. To that end, except as expressly provided in the Plan, at all times on and after the**
25 **Effective Date, all Persons who have been, are, or may be holders of Claims against or**
26 **Interests in any of the Debtors arising prior to the Effective Date, will be permanently enjoined**
27 **from taking any of the following actions, on account of any such Claim or Interest, against any**
28 **of the Debtors, their Estates, Reorganized PCFC, the Liquidating Trusts or their property**

1 (other than actions brought to enforce any rights or obligations under the Plan):

2 (i) commencing, conducting or continuing in any manner, directly or
3 indirectly any suit, action, or other proceeding of any kind against any of the Debtors,
4 their Estates, any of the Liquidating Trusts, or the Liquidating Trustee, their
5 successors, or their respective property or assets (including, without limitation, all suits,
6 actions, and proceedings that are pending as of the Effective Date which will be deemed
7 to be withdrawn or dismissed with prejudice);

8 (ii) Enforcing, levying, attaching, executing, collecting, or otherwise
9 recovering by any manner or means whether directly or indirectly any judgment,
10 award, decree, or order against any of the Debtors, their Estates, any of the Liquidating
11 Trusts, or the Liquidating Trustee, their successors, or their respective property or
12 assets;

13 (iii) creating, perfecting, or otherwise enforcing in any manner, directly or
14 indirectly, any lien, security interest or encumbrance against any of the Debtors, their
15 Estates, any of the Liquidating Trusts, or the Liquidating Trustee, their successors, or
16 their respective property or assets; and

17 (iv) proceeding in any manner in any place whatsoever against any of the
18 Debtors, their Estates, any of the Liquidating Trusts, or any of the Liquidating Trustee,
19 their successors, or their respective property or assets, that does not conform to or
20 comply with the provisions of the Plan.

21 **D. Nondischarge of the Debtors.**

22 In accordance with Bankruptcy Code section 1141(d)(3), the Confirmation Order will not
23 discharge Claims. However, no Holder of a Claim may receive any payment from, or seek recourse
24 against, any assets that are to be distributed under the Plan other than assets required to be
25 distributed to that Holder pursuant to the Plan. **As of the Confirmation Date, all Persons are**
26 **enjoined from asserting against any property that is to be distributed under the Plan**
27 **(including, but not limited to, property to be retained by Reorganized PCFC) any Claims,**
28 **rights, causes of action, liabilities, or Interests based upon any act, omission, transaction, or**

1 **other activity that occurred before the Confirmation Date except as expressly provided in the**
2 **Plan or the Confirmation Order.**

3 **E. Entry of a Final Decree.**

4 Promptly following the liquidation or other disposition of all remaining Assets, including the
5 Causes of Action, and distribution of all Available Cash of any one Liquidating Trust pursuant to the
6 Plan and respective Liquidating Trust Agreement, after consultation with the respective Post-
7 Effective Date Committee, the Liquidating Trustee will file a motion with the Bankruptcy Court to
8 obtain entry of a final decree closing the respective Debtor's Case. Upon the entry of the final
9 decree, the Liquidating Trustee, on behalf of the Liquidating Trust, will be authorized in its sole and
10 absolute discretion to discard or destroy any and all pre-Effective Date books and records of the
11 Debtor in said parties' custody or control. The Liquidating Trustee will continue to preserve the
12 respective post-Effective Date books and records, subject to further Court order. The Liquidating
13 Trustee may gift amounts remaining in any trust to the charity of its choosing to the extent the value
14 of the assets remaining in the respective trust is less than the cost of preparing a distribution
15 (including the costs associated with preparation and processing checks), the cost of postage and
16 mailing for a distribution, the expense associated with seeking Court authority for a distribution and
17 the expense of holding the estate open.

18 **F. Post-Effective Date Quarterly Fees.**

19 After the Effective Date, the Liquidating Trustee, on behalf of the Liquidating Trusts, shall
20 pay all U.S. Trustee Fees.

21 **G. Post-Effective Date Status Reports.**

22 The Liquidating Trustee, on behalf of each Liquidating Trust, will file status reports
23 regarding the status of implementation of the Plan every 120 days following the entry of the
24 Confirmation Order through entry of a final decree closing the Case of the Debtor for which the
25 Liquidating Trust is being administered, or as otherwise ordered by the Bankruptcy Court.

26 **H. Withholding and Reporting Requirements.**

27 In connection with the consummation of the Plan, the Liquidating Trustee will comply with
28 all withholding and reporting requirements imposed by any federal, state, local or foreign taxing

1 authority and all Distributions hereunder will be subject to any such withholding and reporting
2 requirements. The Liquidating Trustee may reasonably request tax reporting information from
3 persons entitled to receive Distributions under the Plan and may withhold the payment of such
4 Distributions pending the receipt of such tax reporting information.

5 **I. Evidence of Claims.**

6 As of the Effective Date, notes and any other evidence of Claims will represent only the right
7 to receive the Distributions contemplated under the Plan, provided, however, the Liquidating Trustee
8 shall be entitled to use such Claims in any litigation subject to any applicable rules of evidence and
9 procedure.

10 **J. Cancellation of Interests.**

11 On the Effective Date, all Interests will be cancelled, annulled, and extinguished, and any
12 issued and outstanding shares of common stock, preferred stock, stock options, warrants,
13 membership interests, or other evidence of Interests in securities of the Debtors will be deemed to be
14 cancelled and of no further force or effect without any further action by the Debtors or any other
15 entity, except for the New Common Stock. Holders of Allowed Interests will retain no rights and
16 receive no consideration on account of these Interests, and entities holding any evidence of Interests
17 in the Debtors will have no rights arising from or relating to such evidence of their Interests or their
18 cancellation.

19 **K. Injunctions or Stays.**

20 Unless otherwise provided, all injunctions or stays arising under or entered during the Cases
21 under section 105 or section 362 of the Bankruptcy Code, or otherwise, and in existence on the
22 Confirmation Date, will remain in full force and effect until the Effective Date at which time the
23 injunctions and stays contained in Section VIII.C shall become effective.

24 **L. No Admissions.**

25 Except as specifically provided in the Plan, nothing contained in the Plan will be deemed or
26 construed in any way as an admission by the Committee with respect to any matter set forth in the
27 Plan, including the amount or allowability of any Claim, or the value of any property of the Estates.

28 Notwithstanding anything to the contrary in the Plan, if the Plan is not confirmed or the

1 Effective Date does not occur, the Plan will be null and void, and nothing contained in the Plan will:
2 (a) be deemed to be an admission by the Committee with respect to any matter discussed in the Plan,
3 including liability on any Claim or the propriety of any Claim's classification; (b) constitute a
4 waiver, acknowledgement, or release of any Claims, Interests, or any claims held by the Committee
5 or the Debtors; or (c) prejudice in any manner the rights of the Committee in any further
6 proceedings.

7 **M. Modification or Withdrawal of the Plan.**

8 In accordance with section 1127 of the Bankruptcy Code, the Committee reserves the right to
9 alter, amend, modify, revoke or withdraw the Plan or any Plan exhibit or schedule, including
10 amending or modifying it to satisfy the requirements of the Bankruptcy Code. The Committee
11 reserves the right to withdraw the Plan before the Confirmation Date.

12 **N. Severability of Plan Provisions.**

13 If, before Confirmation, the Court holds that any Plan term or provision is invalid, void, or
14 unenforceable, the Court may alter or interpret that term or provision so that it is valid and
15 enforceable to the maximum extent possible consistent with the original purpose of that term or
16 provision, so long as such alternative interpretation does not materially alter the rights, remedies and
17 distributions under the Plan of parties in interest in those Cases. That term or provision will then be
18 applicable as altered or interpreted. Notwithstanding any such holding, alteration, or interpretation,
19 the Plan's remaining terms and provisions will remain in full force and effect and will in no way be
20 affected, impaired, or invalidated. The Confirmation Order will constitute a judicial determination
21 providing that each Plan term and provision, as it may have been altered or interpreted in accordance
22 with this Section, is valid and enforceable under its terms.

23 **O. Governing Law.**

24 The rights and obligations arising under the Plan and any agreements, contracts, documents,
25 or instruments executed in connection with the Plan will be governed by, and construed and enforced
26 in accordance with, California law without giving effect to California law's conflict of law
27 principles, unless a rule of law or procedure is supplied by: (a) federal law (including the Bankruptcy
28 Code and the Bankruptcy Rules); or (b) an express choice-of-law provision in any document

1 provided for, or executed under or in connection with, the Plan.

2 **P. Retention of Jurisdiction.**

3 This Plan shall not in any way limit the Court's post-confirmation jurisdiction as provided
4 under the Bankruptcy Code. The Bankruptcy Court will retain and have exclusive jurisdiction to the
5 fullest extent permissible over any proceeding (i) arising under the Bankruptcy Code or (ii) arising in
6 or related to the Case or the Plan, including but not limited to the following:

7 (1) resolution of any matters related to the assumption, assumption and
8 assignment, or rejection of any executory contract or unexpired lease to which any of the Debtors is
9 a party or with respect to which the Debtor may be liable, and to hear, determine and, if necessary,
10 liquidate, any Claims arising therefrom;

11 (2) entry of such orders as may be necessary or appropriate to implement or
12 consummate the provisions of the Plan and all contracts, instruments, releases, and other
13 agreements or documents created in connection with the Plan;

14 (3) determination of any and all motions, adversary proceedings, applications,
15 and contested or litigated matters that may be pending on the Effective Date or that, pursuant to the
16 Plan, may be instituted by the Liquidating Trustee after the Effective Date, including, without
17 limitation, any related to the Causes of Action;

18 (4) ensuring that Distributions to Holders of Allowed Claims are accomplished
19 as provided in the Plan;

20 (5) hearing and determining motions regarding the administration of claims,
21 setting or reducing reserves, authorizing distributions, estimating Claims, or otherwise relating to
22 the applicable Liquidating Trustee's review of Claims of Interests.

23 (6) hearing and determining any objections to Administrative Claims or proofs
24 of Claim, both before and after the Confirmation Date, including any objections to the classification
25 of any Claim and to allow, disallow, determine, liquidate, classify, estimate, or establish the priority
26 of secured or unsecured status of any Claim, in whole or in part;

27 (7) entry and implementation of such orders as may be appropriate in the event
28 that the Confirmation Order is, for any reason, stayed, revoked, modified, reversed, or vacated;

1 (8) issuance of such orders in aid of execution, implementation or consummation
2 of the Plan, to the extent authorized by section 1142 of the Bankruptcy Code;

3 (9) consideration of any modifications of the Plan, to cure any defect or
4 omission, or reconcile any inconsistency in any order of the Bankruptcy Court, including the
5 Confirmation Order;

6 (10) hearing and determining all applications for awards of compensation for
7 services rendered and reimbursement of expenses incurred prior to the Effective Date;

8 (11) hearing and determining disputes arising in connection with, or relating to,
9 the Plan or the interpretation, implementation, or enforcement of the Plan, or the extent of any
10 Person's obligations incurred in connection with or released or exculpated under the Plan;

11 (12) the recovery of all Assets of the Debtors and property of the Estates,
12 wherever located;

13 (13) to the extent any such continue to exist, the administration and orderly
14 liquidation of mortgage loans held by the Liquidating Trusts including foreclosure proceedings or
15 other Causes of Action relating to the mortgage loans or the collateral securing the mortgage loans;

16 (14) issuance of injunctions or other orders or enforcement of the injunctions
17 contained herein as may be necessary or appropriate to restrain interference by any Person with
18 consummation or enforcement of the Plan;

19 (15) determination of any other matters that may arise in connection with, or are
20 related to, the Plan, the Disclosure Statement, the Confirmation Order, or any contract, instrument
21 release, or other agreement or document created in connection with the Plan or the Disclosure
22 Statement, including, without limitation, the Liquidating Trust Agreements;

23 (16) hearing and determining matters concerning state, local, and federal taxes in
24 accordance with sections 346, 505, and 1146 of the Bankruptcy Code;

25 (17) hearing any other matter or for any purpose specified in the Confirmation
26 Order that is not inconsistent with the Bankruptcy Code;

27 (18) entry of a final decrees closing the Cases;

28

1 (19) hearing and determining, to the fullest extent authorized by applicable law,
2 any issue or dispute directly or indirectly arising from or related to Reorganized PCFC or its assets,
3 the Liquidating Trusts, the Liquidating Trusts Assets, the Liquidating Trust Agreements, the
4 Liquidating Trustee or the composition or actions of the Post-Effective Date Committees;

5 (20) hearing and determining any other matter deemed relevant to the
6 consummation of the Plan and the administration of the Case; and

7 (21) interpreting and enforcing Orders entered by the Bankruptcy Court; provided
8 that if the Bankruptcy Court abstains from exercising jurisdiction, or is without jurisdiction, over
9 any matter, this Section will not effect, control, prohibit, or limit the exercise of jurisdiction by any
10 other court that has jurisdiction over that matter.

11 **Q. Successors and Assigns.**

12 The rights, benefits, and obligations of any entity referred to in this Plan will be binding on,
13 and will inure to the benefit of, any heir, executor, administrator, successor, or assign of that entity.

14 **R. Nonconsensual Confirmation.**

15 In the event that the Classes entitled to vote to accept or reject the Plan fail to accept the Plan
16 in accordance with Bankruptcy Code section 1129(a)(8), the Committee reserves the right to seek
17 Confirmation of the Plan pursuant to Bankruptcy Code section 1129(b).

18 **S. Saturday, Sunday, or Legal Holiday.**

19 If any payment or act under the Plan should be made or performed on a day that is not a
20 Business Day, then the payment or act may be completed on the next succeeding day that is a
21 Business Day, in which event the payment or act will be deemed to have been completed on the
22 required day.

23 **T. No Waiver.**

24 Neither the failure to list a Claim in the Schedules filed by the Debtors, the failure of any
25 Person to object to any Claim for purposes of voting, the failure of any Person to object to a Claim
26 (including an Administrative Claim) prior to Confirmation or the Effective Date, the failure of any
27 Person to assert a Cause of Action prior to Confirmation or the Effective Date, the absence of a
28 proof of Claim having been filed with respect to a Claim, nor any action or inaction of any Person

1 with respect to a Claim or Cause of Action other than a legally effective express waiver or release by
2 the Committee or the Debtors (subject to Bankruptcy Court approval) will be deemed a waiver or
3 release of the right of the Committee, the Debtors, the Liquidating Trusts or their successors or
4 representatives, before or after solicitation of votes on the Plan or before or after Confirmation or the
5 Effective Date to (a) object to or examine such Claim, in whole or in part or (b) retain and either
6 assign or exclusively assert, pursue, prosecute, utilize, otherwise act or otherwise enforce any Cause
7 of Action.

8 **U. Plan Modification.**

9 Subject to the restrictions set forth in Bankruptcy Code section 1127, the Committee reserves
10 the right to alter, amend, or modify the Plan before it is substantially consummated.

11 **V. Post-Effective Date Notice.**

12 From and after the Effective Date, any Person who desires notice of any pleading or
13 document filed in the Cases, or of any hearing in the Court, or of any matter as to which the
14 Bankruptcy Code requires notice to be provided, will file a request for post-effective date notice and
15 will serve the request on the Liquidating Trustee; provided however, the U.S. Trustee, the members
16 of the Post-Effective Date Committees and the Liquidating Trustee, will be deemed to have
17 requested post-effective date notice and will be placed on the Post-Effective Date Notice List
18 without taking any further action.

19 **IX.**

20 **REQUEST FOR APPROVAL OF COMPROMISE**

21 The Committee hereby requests approval of all compromises and settlements included in this
22 Plan, including, without limitation, the Intercompany Settlement.

23 **X.**

24 **RECOMMENDATIONS AND CONCLUSION**

25 The Committee believes that confirmation and implementation of this Plan are preferable to
26 any other alternative because, in their view, the Plan will provide Holders of Allowed Claims and
27 Allowed Interests with the maximum recovery. Accordingly, the Committee urges Creditors and
28 Interest Holders to vote to accept the Plan.

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Dated: May 28, 2008

OFFICIAL COMMITTEE OF UNSECURED
CREDITORS OF PEOPLE'S CHOICE HOME
LOAN, INC., PEOPLE'S CHOICE FUNDING,
INC. AND PEOPLE'S CHOICE FINANCIAL
CORPORATION

By: /s/ William McCreary
William McCreary
Committee Chair

Dated: May 28, 2008

Submitted by:

WINSTON & STRAWN LLP

By /s/ Eric E. Sagerman
Eric E. Sagerman
Justin E. Rawlins
David L. Wilson
Counsel to Official Committee of
Unsecured Creditors of People's Choice
Home Loan, Inc. et al.

EXHIBIT B

DRAFT

LIQUIDATING TRUST AGREEMENT

By and Between

[_____],

as Debtor and Debtor-in-possession

and

RONALD F. GREENSPAN OF FTI CONSULTING, INC.,

as Trustee

Dated: July __, 2008

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LIQUIDATING TRUST AGREEMENT

THIS AGREEMENT is made this ___ day of July 2008, by and between [_____] (the “Debtor”) and (ii) Ronald F. Greenspan of FTI Consulting, Inc. (“Greenspan,” and together with any successors, the “Trustee”)¹ under the Plan (as defined below).

RECITALS:

A. On March 20, 2007, the Debtor and its affiliates [_____] (collectively, the “PC Debtors”) each filed a voluntary petition for relief under chapter 11 of title 11 of the United States Code (the “Bankruptcy Code”) in the United States Bankruptcy Court for the Central District of California.

B. By order, dated July __, 2008, the Bankruptcy Court confirmed the PC Debtors’ Joint Liquidating Plan of Reorganization Under Chapter 11 of the Bankruptcy Code (as same may have been or may be amended, the “Plan”).

C. The Liquidating Trust is created on behalf of, and for the benefit of, the Holders of Allowed WARN Act Claims, Allowed Unsecured Claims, and Allowed Interests (in the latter case, only to the extent Holders of senior Claims in all other Classes are paid in full with interest) and Holders of Allowed Administrative Claims, Allowed Priority Tax Claims, Allowed Secured Claims, and Allowed Priority Non-Tax Claims to the extent not paid on the Effective Date (collectively, the “Beneficiaries”).

D. The Liquidating Trust is created pursuant to, and to effectuate, the Plan for the primary purpose of liquidating the assets transferred to it (the “Liquidating Trust Assets”) and otherwise administering the post-confirmation estate of the Debtor for the benefit of the Beneficiaries as a liquidating trust, in accordance with Treasury Regulation Section 301.7701-4(d), with no objective to continue or engage in the conduct of a trade or business except to the extent reasonably necessary to, and consistent with, the liquidating purpose of the Liquidating Trust. The Trustee shall act as the liquidator of assets of the Liquidating Trust under this agreement.

E. The Liquidating Trust provides that the Beneficiaries of the Liquidating Trust will be treated as the grantors of the Liquidating Trust and deemed owners of the Liquidating Trust Assets. This Liquidating Trust requires the Trustee to file returns for the Liquidating Trust as a grantor trust pursuant to Treasury Regulation §1.671-4(a).

F. The Liquidating Trust is intended to qualify as a “grantor trust” for federal income tax purposes with the Beneficiaries treated as the grantors and owners of the trust.

¹ As used in this Agreement, the term “Trustee” shall have the same meaning as the term “Liquidating Trustee” used in the Plan.

G. This Liquidating Trust provides for consistent valuations of the transferred property by the Trustee and Beneficiaries, and those valuations must be used for all federal income tax purposes.

H. All of the Liquidating Trust's income and/or recoveries are to be treated as subject to tax on a current basis to the Beneficiaries who will be responsible for payment of any tax due.

I. Subject to Section II(E) hereof, this Liquidating Trust contains a fixed determinable termination date that is not more than five years from the date of creation of the Liquidating Trust and that is reasonable based on all of the facts and circumstances.

J. The investment powers of the Trustee, other than those reasonably necessary to maintain the value of the Liquidating Trust Assets and to further the liquidating purpose of the Liquidating Trust, are limited to powers to invest in demand and time deposits, such as short-term certificates of deposit, in banks or other savings institutions, or other temporary, liquid investments backed by the full faith and credit of the United States, such as Treasury bills, except as may otherwise be authorized by the Post-Effective Date Committee.

K. Unless otherwise extended by the Post-Effective Date Committee, the Trustee is required to distribute at least annually to the Beneficiaries its net income plus net proceeds from the sale of assets, except that the Liquidating Trust may retain an amount of net proceeds or net income reasonably necessary to maintain the value of the Liquidating Trust Assets or to meet claims and contingent liabilities (including disputed claims) and to fund the operations of and pay the expenses of administration of the Liquidating Trust.

L. Capitalized terms used herein without definition shall have the respective meanings assigned to such terms in the Plan.

NOW, THEREFORE, in consideration of the premises and the mutual covenants and agreements contained herein and in the Plan, the Debtor and the Trustee agree as follows:

SECTION I TRUSTEE

A. Appointment. The Official Committee of Unsecured Creditors (the "Creditors' Committee"), with the consent of the Debtor, has appointed Greenspan of FTI Consulting, Inc. to serve as the Trustee under the Plan, and Greenspan hereby accepts such appointment and agrees to serve in such capacity, effective upon the Effective Date of the Plan. A successor Trustee may be appointed by the Post-Effective Date Committee (as defined in Section II.F. below) in the event that the Trustee is removed or resigns pursuant to this Agreement or the Trustee becomes incapacitated or otherwise vacates the position, and if not so appointed within thirty (30) days, shall be appointed by the Bankruptcy Court.

B. Generally. The Trustee's powers are exercisable solely in a fiduciary capacity consistent with, and in furtherance of, the purposes of the Liquidating Trust and not otherwise. The Trustee may deal with the Liquidating Trust Assets as permitted by the provisions of

Section I.D hereof. The Trustee shall have the authority to bind the Liquidating Trust and for all purposes hereunder shall be acting in the capacity as Trustee and not individually.

C. Scope of Authority. The responsibilities and authority of the Trustee shall include: (a) liquidating the Liquidating Trust Assets, (b) liquidating and resolving Causes of Action, (c) facilitating the prosecution or settlement of objections to and estimations of Claims, (d) calculating and implementing all distributions in accordance with the Plan, (e) filing all required tax returns and paying taxes and all other obligations on behalf of the Liquidating Trust from funds held by the Liquidating Trust, (f) periodic reporting to the Bankruptcy Court and parties in interest of the status of the Claims resolution process, distributions on Allowed Claims, and prosecution of Causes of Action, (g) managing the wind-down of the Debtor's operations, if any, and (h) such other responsibilities and powers as may be vested in the Trustee pursuant to the Plan or Bankruptcy Court order or not inconsistent therewith or as may be necessary and proper to carry out the provisions of the Plan. The Trustee shall use reasonable best efforts to consult with the Post-Effective Date Committee.

D. Powers.

1. The powers of the Trustee shall, without any further Bankruptcy Court approval (except as specifically required herein) and subject in all respects to the other terms and conditions of this Agreement, include (i) the power to invest funds in, and withdraw, make distributions and pay taxes and other obligations owed by the Liquidating Trust from funds held by the Trustee in accordance with the Plan, (ii) the power to deal with the Liquidating Trust Assets, (iii) the power to engage employees and professional persons to assist the Trustee with respect to its responsibilities, (iv) the power to litigate, compromise and settle Claims and Causes of Action on behalf of or against the Liquidating Trust, (v) the power to file pleadings and papers and seek relief before the Bankruptcy Court or other courts of competent jurisdiction, where appropriate, and (vi) such other powers as may be vested in or assumed by the Liquidating Trust or the Trustee pursuant to the Plan, Bankruptcy Court order or not inconsistent therewith or as may be necessary and proper to carry out the provisions of the Plan. Except as expressly set forth in this Agreement, the Trustee shall have absolute discretion to pursue or not to pursue any and all Claims, Causes of Action, or other matters, activities or things as it determines is in the best interests of the Beneficiaries and consistent with the purposes of the Liquidating Trust, and shall have no liability for the outcome of its decision, except as such decision may constitute an act of gross negligence, willful misconduct, or fraud. The Trustee may incur reasonable and necessary expenses in liquidating and converting the Liquidating Trust Assets to cash, which shall be payable from the corpus of the Liquidating Trust.

2. In connection with the administration of the Liquidating Trust, except as otherwise set forth in this Agreement or the Plan, the Trustee is authorized to perform any and all acts necessary and reasonable to accomplish the purposes of the Liquidating Trust. Without limiting, but subject to the foregoing, and subject in all respects to the other terms and conditions of this Agreement, the Trustee shall be expressly authorized, but shall not be required, to:

- (1) hold legal title to the Liquidating Trust Assets, any and all rights of the Beneficiaries in or arising from the Liquidating Trust Assets,

including, but not limited to, the right to vote any claim or interest held by the Liquidating Trust Assets in a case under the Bankruptcy Code and receive any distribution therein;

- (2) protect and enforce the rights to the Liquidating Trust Assets vested in the Trustee by this Agreement by any method deemed appropriate including, without limitation, by judicial proceedings or pursuant to any applicable law and general principles of equity;
- (3) file objections, contest, settle, compromise, withdraw, litigate to judgment, adjust, arbitrate, sue on or defend, abandon, or otherwise deal with, in accordance with the terms set forth in Section IV.B hereof, the Causes of Action and any other claims in favor of or against the Liquidating Trust as the Trustee shall deem advisable;
- (4) establish and maintain accounts at banks and other financial institutions, in a clearly specified fiduciary capacity, in which the Liquidating Trust Assets or other cash and property of the Liquidating Trust may be deposited, and draw checks or make withdrawals from such accounts;
- (5) determine and satisfy any and all liabilities created, incurred or assumed by the Liquidating Trust;
- (6) pay all fees and expenses and make all other payments relating to the administration, management, maintenance, operation, preservation or liquidation of the Liquidating Trust Assets or pursuit of Causes of Action in accordance with the provisions of Section I.I hereof;
- (7) file, if necessary, any and all tax and information returns with respect to the Liquidating Trust and pay taxes properly payable by the Liquidating Trust, if any;
- (8) obtain insurance coverage with respect to the liabilities and obligations of the Trustee and the Liquidating Trust (in the form of an errors and omissions policy, fiduciary policy or otherwise); provided, however, the Liquidating Trust is a successor of the Debtor for the purposes of continuing to receive benefits under insurance policies entered into by the Debtor;
- (9) obtain insurance coverage with respect to real and personal property which may be or may become Liquidating Trust Assets, if any;
- (10) retain and pay such law firms to aid the Trustee in the prosecution of any claims that constitute the Liquidating Trust Assets, and to

perform such other functions as may be appropriate, including advising or assisting the Trustee in the discharge of its duty as Trustee. The Trustee may commit the Liquidating Trust to and shall pay such law firms compensation for services rendered and expenses incurred;

- (11) retain and pay a public accounting firm to perform such reviews and/or audits of the financial books and records of the Liquidating Trust and to prepare and file any tax returns or informational returns for the Liquidating Trust as may be required. The Trustee may commit the Liquidating Trust to and shall pay such accounting firm reasonable compensation for services rendered and expenses incurred;
- (12) retain and pay such third parties as necessary or appropriate to assist the Trustee in carrying out its powers and duties under this Agreement. The Trustee may commit the Liquidating Trust to and shall pay all such persons or entities compensation for services rendered and expenses incurred, as well as commit the Liquidating Trust to indemnify any such parties in connection with the performance of services on market terms, including an exception for such parties' losses occasioned or based upon such parties' gross negligence, willful misconduct, or fraud;
- (13) invest any moneys held as part of the Liquidating Trust Assets in accordance with the terms of Section I.F.2 hereof;
- (14) represent the interests of the Beneficiaries with respect to any matters relating to the Plan, this Agreement or the Liquidating Trust affecting the rights of such Beneficiaries;
- (15) take any and all actions necessary to dissolve Reorganized PCFC; and
- (16) engage in any transaction necessary or appropriate to the foregoing, including but not limited to, entering into, performing and exercising rights under contracts and leases on behalf of the Liquidating Trust.

E. Additional Powers. Except as otherwise set forth in this Agreement or in the Plan, and subject to the retained jurisdiction of the Bankruptcy Court as provided for in the Plan, but without prior or further authorization, the Trustee may control and exercise authority over the Liquidating Trust Assets and over the protection, conservation and disposition thereof. No person dealing with the Liquidating Trust shall be obligated to inquire into the authority of the Trustee in connection with the protection, conservation or disposition of Liquidating Trust Assets. It is intended that a signed copy of this Agreement serve as adequate proof of the Trustee's authority to act if such proof is required for any reason by any third party.

F. Limitation of Trustee's Authority.

1. No Trade or Business. The Trustee shall not and shall not be authorized to engage in any trade or business with respect to the Liquidating Trust Assets or any proceeds therefrom except to the extent reasonably necessary to, and consistent with, the liquidating purpose of the Liquidating Trust and shall take such actions consistent with the prompt and orderly liquidation of the Liquidating Trust Assets as required by applicable law and consistent with the treatment of the Liquidating Trust as a liquidating trust under Treasury Regulation Section 301.7701-4(d).

2. Investment and Safekeeping of Liquidating Trust Assets. All moneys and other assets received by the Liquidating Trust shall, until distributed or paid over as herein provided, be held in trust for the benefit of the Beneficiaries, but need not be segregated from other Liquidating Trust Assets, unless and to the extent required by law or by the Plan. The Trustee shall be under no liability for interest or producing income on any moneys received by the Liquidating Trust hereunder and held for distribution or payment to the Beneficiaries, except as such interest shall actually be received by the Trustee. Investments of any moneys held by the Liquidating Trust shall be administered in view of the manner in which individuals of ordinary prudence, discretion and judgment would act in the management of their own affairs; provided, however, that the right and power of the Trustee to invest the Liquidating Trust Assets, the proceeds thereof, or any income earned by the Liquidating Trust, shall be limited to the right and power to invest such assets (pending periodic distributions in accordance with Section IV.E hereof) in demand and time deposits, such as short-term certificates of deposit, in banks or other savings institutions, or other temporary liquid investments, such as Treasury bills, except for such other investments as may be authorized by the Post-Effective Date Committee; and, provided, further, that the scope of any such permissible investments shall be limited to include only those investments (a) that are consistent with the provisions of section 345 of the Bankruptcy Code and (b) that a liquidating trust, within the meaning of Treasury Regulation Section 301.7701-4(d), may be permitted to hold, pursuant to the Treasury Regulations, or any modification in the IRS guidelines, whether set forth in IRS rulings, other IRS pronouncements or otherwise.

G. Liability of Trustee. In no event shall the Trustee, the Trustee's employees, or any of the Trustee's professionals or representatives be held personally liable for any claim asserted against the Liquidating Trust, the Trustee, the Trustee's employees, or any of the Trustee's professionals or representatives, except to the extent occasioned by or based upon willful misconduct, gross negligence or fraud. Specifically, the Trustee, the Trustee's employees, and any of the Trustee's professionals or representatives shall not be liable for any negligence or any error of judgment in either case made in good faith, or with respect to any action taken or omitted to be taken in good faith, except to the extent that the action taken or omitted to be taken by the Trustee, the Trustee's employees, or any of the Trustee's professionals or representatives are determined by a Final Order to be due to their own respective gross negligence, willful misconduct, or fraud.

H. Reliance by Trustee. Except as otherwise provided in Section I.F hereof:

1. the Trustee may rely, and shall be protected in acting upon, any resolution, certificate, statement, instrument, opinion, report, notice, request, consent, order, or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties;

2. the Trustee may consult with legal counsel, financial or accounting advisors and other professionals to be selected by it, and the Trustee shall not be liable for any action taken or omitted to be taken by it in accordance with the advice thereof; and

3. persons dealing with the Trustee shall look only to the Liquidating Trust Assets to satisfy any liability incurred by the Trustee to such person in carrying out the terms of this Agreement, and the Trustee shall have no personal obligation to satisfy any such liability, except to the extent such liability or obligation arises as a result of the gross negligence, willful misconduct, or fraud of the Trustee in which case the Liquidating Trust Assets shall not be subject to such claims or liabilities.

I. Authorization to Expend Liquidating Trust Assets. Subject to the restrictions imposed by the Post-Effective Date Committee, the Trustee may expend the assets of the Liquidating Trust (i) to pay expenses of administration of the Liquidating Trust (including, but not limited to, the fees and expenses of the Trustee and the Post-Effective Date Committee members, any taxes imposed on the Liquidating Trust or in respect of the assets of the Liquidating Trust, and fees and expenses in connection with litigation), and (ii) to satisfy other liabilities incurred or assumed by the Liquidating Trust (or to which the assets are otherwise subject) in accordance with this Agreement or the Plan.

J. Compensation of the Trustee.

1. The Liquidating Trust shall reimburse the Trustee for the actual reasonable out-of-pocket expenses incurred by the Trustee, including, without limitation, necessary travel, lodging, postage, telephone and facsimile charges upon receipt of periodic billings.

2. Subject to such adjustments as may be agreed to from time to time by the Post-Effective Date Committee and the Trustee, the Trustee and employees of the Trustee shall be entitled to receive compensation pursuant to that certain engagement letter attached hereto as Exhibit A for services rendered on behalf of Liquidating Trust. Any change in compensation must first be approved by the Post-Effective Date Committee or be pursuant to an Order of the Court following notice and opportunity to be heard.

3. The Liquidating Trust Assets shall be subject to the claims of the Trustee, and the Trustee shall be entitled to reimburse itself out of any available cash in the Liquidating Trust, for its actual out-of-pocket expenses and against and from any and all loss, liability, expense, or damage which the Trustee may sustain in good faith and without willful misconduct, gross negligence, or fraud in the exercise and performance of any of the powers and duties of the Trustee.

4. All compensation and other amounts payable to the Trustee shall be paid from the assets of the Liquidating Trust. If the cash in the Liquidating Trust shall be insufficient to compensate and reimburse the Trustee, as the case may be, for any amounts to which it is entitled hereunder, then the Trustee is hereby authorized to reduce to cash in a commercially reasonable manner that portion of the Liquidating Trust Assets necessary so as to effect such compensation and reimbursement.

K. Exculpation; Indemnification. From and after the Effective Date, the Trustee, the Trustee's employees and each of their professionals and representatives (or their designees) shall be and hereby are exculpated by all Entities, including, without limitation, Holders of Claims and other parties in interest, from any and all claims, causes of action and other assertions of liability arising out of the discharge of the powers and duties conferred upon such Trustee by the Plan or any order of the Bankruptcy Court entered pursuant to or in furtherance of the Plan, or applicable law or otherwise, except only for actions or omissions to act only to the extent determined by a Final Order to be due to their own respective gross negligence, willful misconduct, or fraud after the Effective Date. No Holder of a Claim or other party in interest will have or be permitted to pursue any claim or cause of action against the Trustee, the Liquidating Trust or the employees, professionals or representatives of the Trustee for making payments in accordance with the Plan or for implementing the provisions of the Plan except in cases of gross negligence, willful misconduct, or fraud. The Liquidating Trust shall indemnify, defend and hold harmless the Trustee, the Trustee's employees and any of their professionals or representatives from and against any and all claims, causes of action, liabilities, obligations, losses, damages or expenses (including attorneys' fees) (other than only to the extent determined by a Final Order to be due to their own respective gross negligence, willful misconduct, or fraud after the Effective Date) to the fullest extent permitted by applicable law and any obligations, liabilities or expenses incurred by any such persons or entities shall be payable from the Liquidating Trust Assets. Any action taken or omitted to be taken with the approval of the Bankruptcy Court or the Post-Effective Date Committee will conclusively be deemed not to constitute gross negligence, willful misconduct, or fraud.

L. Bond. If the Bankruptcy Court so orders, the Trustee shall serve with bond.

M. Confidentiality. The Trustee shall, and shall cause its agents and representatives to, hold strictly confidential and not use for personal gain any material, non-public information of or pertaining to any entity or matter to which any of the Liquidating Trust Assets relates or of which he has become aware in its capacity as Trustee.

N. Final Decree. It shall be the duty of the Trustee to seek and obtain a final decree or decrees from the Bankruptcy Court upon full administration of the Liquidating Trust.

O. Termination. The duties, responsibilities and powers of the Trustee will terminate on the date the Liquidating Trust is dissolved under applicable law in accordance with the Plan, or by an Order of the Bankruptcy Court or by entry of a final decree closing the Chapter 11 Cases.

SECTION II THE LIQUIDATING TRUST

A. Transfer of Assets to Liquidating Trust. Pursuant to the Plan, the Debtor and the Trustee hereby establish, on behalf of the Beneficiaries, and the Debtor hereby transfers, assigns, and delivers to the Liquidating Trust, on behalf of the Beneficiaries, all right, title and interest in the Debtor's assets, including (a) all rights under the Asset Purchase Agreement, dated April 18, 2007, by and among Equity One, Inc. ("Equity One") as buyer, and People's Choice Home Loan, Inc. and People's Choice Funding, Inc. as sellers, the related Transition Services Agreement, dated May 14, 2007, by and among Equity One, People's Choice Home Loan, Inc. and People's Choice Funding, Inc., and other related orders and agreements, (b) all rights under the Asset Purchase Agreement, dated July 13, 2007, by and between UBS AG, the Debtor and People's Choice Financial Corporation, and (c) all claims and Causes of Action of the bankruptcy estate, including the Claims and Causes of Action that the Committee has been vested with authority to pursue and prosecute to the fullest extent by the Court's "Order Authorizing Official Committee of Unsecured Creditors to Pursue Claims and Granting Standing" entered on September 14, 2007. The Trustee agrees to accept and hold the Liquidating Trust Assets for the Beneficiaries, subject to the terms of the Plan and this Agreement.

B. Title to Assets.

1. The transfer of the Debtor's assets to the Liquidating Trust (after taking into account any payment by the Debtor on the Effective Date to and/or full funding of the Allowed and projected Administrative Claims, Allowed Secured, Priority Tax and Priority Non-Tax Claims as well as postpetition fees and expenses) shall be made for the benefit of the holders of Allowed Unsecured Claims and Allowed Interests (in the latter case, solely to the extent all senior Claims are paid in full with interest) in accordance with the Plan. The Payment of Distributions and the utilization of all Liquidating Trust Assets shall be made in accordance with the Plan.

2. For all federal income tax purposes, all parties (including, without limitation, the Debtor, the Trustee, and the Beneficiaries) shall treat the transfer of the Debtor's assets to the Liquidating Trust, as set forth in this Section II.B, as a transfer of such assets to the Beneficiaries followed by a transfer of such assets by the Beneficiaries to the Liquidating Trust. Thus, the Beneficiaries shall be treated as the grantors and owners of a grantor trust for federal income tax purposes.

C. Funding of Liquidating Trust. The Debtor shall, on the Effective Date, transfer to the Liquidating Trust on behalf of the Beneficiaries (in accordance with Section II.B hereof) any and all of the Debtor's real and personal property to form the Liquidating Trust Assets. The Debtor shall have no further obligation to provide any funding with respect to the Liquidating Trust.

D. Valuation of Assets. As soon as practicable after the Effective Date, the Trustee shall apprise each of the Beneficiaries in writing of the value of the Liquidating Trust Assets by

filing such valuation with the Bankruptcy Court. The valuation shall be used consistently by all parties (including the Debtors, the Trustee and the Beneficiaries) for all federal income tax purposes.

E. Termination of Liquidating Trust. The Liquidating Trust will terminate no later than the fifth (5th) anniversary of the Effective Date; provided, however, the Bankruptcy Court, upon motion by a party in interest, may extend the term of the Liquidating Trust for a finite period if it is necessary to the liquidating purpose thereof. Multiple extensions can be obtained. The Trustee shall not unduly prolong the duration of the Liquidating Trust and shall at all times endeavor to resolve, settle or otherwise dispose of all Claims and Causes of Action that constitute Liquidating Trust Assets and to effect the distribution of the Liquidating Trust Assets to the Beneficiaries in accordance with the terms hereof and terminate the Liquidating Trust as soon as practicable. Prior to and upon termination of the Liquidating Trust, the Liquidating Trust Assets will be distributed to the Beneficiaries in accordance with their distribution rights under the Plan, subject to the provisions set forth herein. If any distributions of the Liquidating Trust are not duly claimed then such distributions will be disposed of in accordance with the Plan. Notwithstanding anything contained herein to the contrary, if the value of the Liquidating Trust Assets is less than the cost of postage and mailing for a distribution, the expense associated with seeking Court authority for a distribution and the expense of holding the estates open, the Trustee may contribute such assets to the charity of its choosing.

F. Post-Effective Date Committee.

1. Post-Effective Date Committee Members. The members of the Post-Effective Date Committee shall be comprised of the five members of the Creditors' Committee as of the Effective Date, who are willing to serve in such capacity. If a member of the Post-Effective Date Committee shall resign or be unable to serve, the remaining members shall be entitled, but not required, to select a replacement. Any replacement shall hold Claims of a type and against the same estates as the member being replaced.

2. Consultation with the Post-Effective Date Committee. The Trustee shall consult with the Post-Effective Date Committee on all material matters, including but not limited to the following:

(a) the investment of cash and cash equivalents constituting Liquidating Trust Assets that do not comply with Section 345 of the Bankruptcy Code;

(b) the purchase of proposed policies of insurance insuring the Liquidating Trust Assets or providing insurance coverage for the Trustee, Post-Effective Date Committee and their respective agents and representatives against claims and losses;

(c) settlements of Claims or Causes of Action where the amount in controversy equals or exceeds \$250,000;

(d) the employment of professionals to assist the Trustee with respect to its responsibilities;

(e) expenditures or the incurrence of liabilities or expenses by the Trustee or Liquidating Trust to any one vendor other than the Trustee's professionals exceeding \$250,000 in a single transaction or \$500,000 in a series of related transactions;

(f) the abandonment of material assets by the Trustee; and

(g) Claims and the pursuit of Causes of Action.

3. Rights of the Post-Effective Date Committee. The Post-Effective Date Committee shall have the absolute right and power to determine the following:

(a) to negotiate all modifications to the terms of the employment of the Trustee;

(b) to require, at its discretion, the Trustee to post a bond or provide evidence of adequate insurance to ensure the faithful performance of the Trustee's obligations hereunder; and

(c) to select a successor Trustee when a successor is required hereunder; and

(d) to approve amendments to or waivers of any provisions of this Agreement.

If the Trustee in good faith perceives a conflict between a provision of this Agreement and a direction by the Post-Effective Date Committee, the Trustee may promptly deliver a notice to the Post-Effective Date Committee requesting clarification and proposing a course of action to be taken by the Trustee. If the Trustee does not receive a written response within three (3) business days after receipt of such notice by the Post-Effective Date Committee, the Trustee may take such actions as it deems advisable and consistent with the terms of the Plan and this Agreement. In the event a response to such notice is timely received and a disagreement among the parties as to the correct course of action persists, the Trustee shall promptly seek resolution of such matter by the Bankruptcy Court. In the event emergency action is required by the Trustee, and the Trustee is unable to provide three (3) business days prior written notice of a conflict, the Trustee is authorized to act notwithstanding the perceived conflict in order to avoid irreparable injury or harm to the Liquidating Trust Assets and its Beneficiaries and shall give such notice, if any, as may be practicable under the circumstances.

4. Bylaws. The Post-Effective Date Committee shall adopt its own bylaws.

5. Reporting. The Trustee shall submit such reports as it deems reasonable to the Post-Effective Date Committee (but at a minimum monthly), including, without limitation, reports on the commencement and prosecution of Causes of Action and the proceeds of liquidation of the Liquidating Trust Assets. The Trustee shall also report to the Post-Effective Date Committee, at the request of any member of the Post-Effective Date Committee, on any matter that reasonably relates to the Liquidating Trust Assets; provided, however, that in providing such reports the Trustee shall take no action that will in any way infringe on attorney-

client privilege or jeopardize the viability of on-going litigation by reporting on Causes of Action directly or indirectly to any interested parties that may be on the Post-Effective Date Committee.

6. Reimbursement of Committee Members. The Liquidating Trust may reimburse each member of the Post-Effective Date Committee for reasonable expenses, including out-of-pocket expenses relating to postage, telephone and facsimile charges for work performed on behalf of, or relating to the administration of, the Liquidating Trust or the Post-Effective Date Committee, the reasonable fees and expenses (not to exceed \$2,500 per month) of counsel to any Member to the extent such fees are incurred in assisting the Member in performing its duties hereunder, and other necessary expenses. All amounts payable pursuant to this paragraph 6 shall be paid from the Liquidating Trust Assets. If the cash in the Liquidating Trust shall be insufficient to effect such reimbursement, then the Trustee is hereby authorized to reduce to cash in a commercially reasonable manner that portion of the Liquidating Trust Assets necessary to effect such reimbursement. Any Member of the Post-Effective Date Committee may engage counsel to assist the Member in performing the Member's duties hereunder. The Post-Effective Date Committee shall not retain counsel for the Post-Effective Date Committee at the expense of the Trust.

7. Exculpation; Indemnification. From and after the Effective Date, the Post-Effective Date Committee members shall be and hereby are exculpated for acts in such capacity by all entities, including, without limitation, holders of Claims and other parties in interest, from any and all claims, causes of action and other assertions of liability arising out of the discharge of the powers and duties conferred upon such members by the Plan, this Agreement or any Order of the Bankruptcy Court entered pursuant to or in furtherance of the Plan, or applicable law or otherwise, except only for actions or omissions to act only to the extent determined by a Final Order to be due to their own respective gross negligence, willful misconduct, or fraud after the Effective Date. No holder of a Claim or other party in interest will have or be permitted to pursue any claim or cause of action against the Post-Effective Date Committee members for making a decision or casting a vote in implementing the provisions of the Plan or this Agreement. The Liquidating Trust shall indemnify, defend and hold harmless the Post-Effective Date Committee members from and against any and all claims, causes of action, liabilities, obligations, losses, damages or expenses (including attorneys' fees) (other than only to the extent determined by a Final Order to be due to their own respective gross negligence, willful misconduct, or fraud after the Effective Date) to the fullest extent permitted by applicable law and any obligations or liabilities incurred by any Post-Effective Date Committee member shall be paid from the Litigation Trust Assets.

SECTION III BENEFICIARIES

A. Identification of Beneficiaries. In order to determine the actual names, addresses and tax identification numbers of the Beneficiaries, the Trustee shall be entitled to conclusively rely on the names, addresses and tax identification numbers set forth in the Debtor's (1) Schedules, (2) filed proofs of claim, or (3) books and records. Each Beneficiary's right to distribution from the Liquidating Trust, which is dependent upon such Beneficiary's classification under the Plan, shall be that accorded to such Beneficiary under the Plan. Each

distribution by the Trustee to the Beneficiaries shall be made in accordance with the terms set forth herein.

B. Withholding. The Trustee shall withhold from the amounts distributable to the Beneficiaries from the Liquidating Trust Assets at any time such sum or sums as may be required to be withheld under the income tax laws of the United States or of any state or political subdivision thereof.

C. Tax Identification Numbers. The Trustee shall require any Beneficiary to furnish to the Trustee its Employer or Taxpayer Identification Number as assigned by the IRS and the Trustee may condition any distribution to any Beneficiary upon receipt of such identification number. For the avoidance of doubt, the Trustee may request Bankruptcy Court authority to release funds set aside for distribution to Beneficiaries who have not provided proper tax identification numbers and make those funds available to remaining Beneficiaries.

SECTION IV PURPOSE, AUTHORITY, LIMITATIONS, AND DISTRIBUTIONS

A. Purpose of the Liquidating Trust. The Liquidating Trust shall be established for the primary purpose of liquidating its assets, in accordance with Treasury Regulation Section 301.7701-4(d), with no objective to continue or engage in the conduct of a trade or business except to the extent reasonably necessary to, and consistent with, the liquidating purpose of the Liquidating Trust. Accordingly, the Liquidating Trust shall, in an expeditious but orderly manner, liquidate and convert to cash the Liquidating Trust Assets, make timely distributions and not unduly prolong the duration of the Liquidating Trust. The liquidation of the Liquidating Trust Assets may be accomplished either through the prosecution, compromise and settlement, abandonment or dismissal of any or all claims, rights or causes of action, or otherwise.

B. Resolution of Liquidating Trust Assets by the Trustee

1. The Trustee shall be empowered to and, in its discretion (subject to the provisions hereof, including the requirement to consult with the Post-Effective Date Committee), may take all appropriate action with respect to the prosecution, settlement or other resolution of claims and Causes of Action constituting the Liquidating Trust Assets. The Trustee shall deal with all collections and settlements within the normal course of its duties.

2. Notwithstanding anything contained in this Agreement to the contrary, the Liquidating Trust may, but is not required to, submit a proposed settlement of claims or Causes of Action to the Bankruptcy Court or such other court of competent jurisdiction for its approval.

C. Books and Records. On behalf of the Liquidating Trust, the Trustee shall maintain, in respect of the Liquidating Trust and the Beneficiaries, books and records relating to the assets and income of the Liquidating Trust and the payment of expenses of, and liabilities of, claims against or assumed by, the Liquidating Trust in such detail and for such period of time as may be necessary to enable it to make full and proper accounting in respect thereof in accordance with Section VI hereof and to comply with applicable provisions of law. Except as provided in

Section VI.A hereof, nothing in this Agreement requires the Liquidating Trust or the Trustee to file any accounting or seek approval of any court with respect to the administration of the Liquidating Trust, or as a condition for making any payment or distribution out of the Liquidating Trust Assets. Beneficiaries shall have the right upon thirty (30) days' prior written notice delivered to the Trustee to inspect such books and records, provided that, if so requested, such Beneficiary shall have entered into a confidentiality agreement satisfactory in form and substance to the Trustee.

D. Disputed Claim Reserve. The Trustee shall maintain, in accordance with the Trustee's powers and responsibilities under the Plan and this Agreement, a reserve for any distributable amounts to be set aside on account of Disputed Claims. Such amounts (net of any expenses, including any taxes, of the escrow relating thereto) shall be distributed, as provided herein and in the Plan, as such Disputed Claims are resolved.

E. Application of Liquidating Trust Assets. Assuming Holders of Allowed Administrative Claims, Allowed Priority Tax Claims, Allowed Secured Claims, and Allowed Priority Non-Tax Claims have been paid or adequate reserves have been established to pay such claims, the Trustee shall apply all Liquidating Trust Assets, and any proceeds therefrom, as follows:

1. Following the Effective Date, subject in all respects to the terms of the Plan, the Liquidating Trust shall apply all cash constituting Liquidating Trust Assets and any proceeds therefrom in the order and reflecting the priorities set forth below:

FIRST, to pay all the costs and expenses of the Liquidating Trust including, without limitation, the post-confirmation fees and expenses and any and all costs, expenses and liabilities incurred by the Trustee (including its professionals and advisors) in connection with the performance of duties under this Liquidating Trust Agreement as well as the costs, expenses and liabilities of the members of the Post-Effective Date Committee as permitted herein.

SECOND, to the Beneficiaries in accordance with the Plan.

Notwithstanding anything to the contrary in this Section IV, prior to making any distribution pursuant to Paragraph SECOND hereof, the Trustee may retain such amounts (i) to pay estimated expenses of administration (including, but not limited to, the fees and expenses of the Trustee and Post-Effective Date Committee, any taxes imposed on the Liquidating Trust or in respect of the assets of the Liquidating Trust, and fees and expenses in connection with litigation), (ii) to satisfy other liabilities incurred or assumed by the Liquidating Trust (or to which the assets are otherwise subject), all for the term of the Liquidating Trust and in accordance with this Agreement or the Plan, and (iii) to satisfy the post-confirmation fees and expenses detailed in the Plan; provided, however, that, from the net amount distributable, the Trustee may reserve, in accordance with the provisions of Section IV.E hereof, such amounts as would be distributable in respect of Disputed Claims (treating such Claims for this purpose, as if they were Allowed Claims).

The Liquidating Trust hereby grants to the Trustee and the Post-Effective Date Committee a first-priority lien on and security interest in the Liquidating Trust Assets to secure the payment of all amounts owed to, accrued or reserved on account of the Trustee or the Post-Effective Date Committee or to be retained by the Trustee hereunder or otherwise due hereunder. The Liquidating Trust agrees to take such actions and execute such documents as the Trustee and the Post-Effective Date Committee deem appropriate to perfect the Trustee's and the Post-Effective Date Committee's liens and security interests hereunder. The Trustee is authorized to execute and deliver all documents on behalf of the Liquidating Trust and the Trustee to accomplish the purposes of this Agreement and the Plan.

2. Distribution. Subject to the provisions of Section IV.D hereof, the Liquidating Trust shall distribute to the holders of Allowed Claims all net cash recoveries plus all net cash proceeds from the liquidation of the Liquidating Trust Assets (including as cash for this purpose, all cash equivalents) at such time intervals as decided by the Liquidating Trust in accordance with the terms of the Plan, provided that the Liquidating Trust shall make distributions no less frequently than on an annual basis unless otherwise agreed by the Post-Effective Date Committee.

F. Compliance with Laws. Any and all distributions of Liquidating Trust Assets shall be in compliance with applicable laws, including, but not limited to, applicable federal and state securities laws.

SECTION V SUCCESSOR TRUSTEE

A. Removal. The Trustee may be removed by the Post-Effective Date Committee (i) by a majority vote of the Post-Effective Date Committee if the Trustee is removed for cause or (ii) by a unanimous vote of the Post-Effective Date Committee if the Trustee is removed for any other reason.

B. Resignation. The Trustee may resign by giving not less than thirty (30) days' prior written notice thereof to the Bankruptcy Court. Such resignation shall become effective on the later to occur of (i) the date specified in such notice and (ii) the selection of a successor and the acceptance by such successor of such appointment.

C. Acceptance of Appointment by Successor Trustee. Any successor Trustee shall be chosen by the Post-Effective Date Committee. Any successor Trustee appointed hereunder shall execute an instrument accepting such appointment hereunder and shall file such acceptance with the Liquidating Trust records. If required, a successor should post a bond or provide evidence of insurance adequate to ensure the performance of the obligations of the successor hereunder. Thereupon, such successor Trustee shall, without any further act, become vested with all the estates, properties, rights, powers, trusts and duties of its predecessor in the Liquidating Trust with like effect as if originally named herein; provided, however, that a removed or resigning Trustee shall, nevertheless, when requested in writing by the successor Trustee, execute and deliver an instrument or instruments conveying and transferring to such

successor Trustee under the Liquidating Trust all the estates, properties, rights, powers, and trusts of such predecessor Trustee.

SECTION VI REPORTING

A. Tax and Other Reports. As soon as practicable after the end of each calendar year or as reasonably requested by the Post-Effective Date Committee, and as soon as practicable upon termination of the Liquidating Trust, the Trustee shall submit to the Bankruptcy Court and Post-Effective Date Committee a written report including: (i) financial statements of the Liquidating Trust at the end of such calendar year or period and the receipts and disbursements of the Liquidating Trust for such period; (ii) a description of any action taken by the Trustee in the performance of its duties which materially and adversely affects the Liquidating Trust and of which notice has not previously been given to the Beneficiaries, and (iii) subject to Section VI.B, a separate statement for each Beneficiary setting forth the holder's share of items of income, gain, loss, deduction or credit and will instruct all such holders to report such items on their federal income tax returns. The Trustee shall promptly submit additional reports to the Bankruptcy Court and Post-Effective Date Committee whenever an adverse material event or change occurs which affects either the Liquidating Trust or the rights of the Beneficiaries hereunder.

B. Federal Income Tax.

1. Grantor Trust Status. Subject to definitive guidance from the IRS or a court of competent jurisdiction to the contrary (including the issuance of applicable Treasury Regulations, the receipt by the Trustee of a private letter ruling if the Trustee so requests one, or the receipt of an adverse determination by the IRS upon audit if not contested by the Trustee), the Trustee shall file returns for the Liquidating Trust as a grantor trust pursuant to Treasury Regulation Section 1.671-4(a).

2. Allocations of Liquidating Trust Taxable Income. Subject to the provisions of Section VI.B.1 hereof, allocations of Liquidating Trust taxable income shall be determined by reference to the manner in which an amount of cash equal to such taxable income would be distributed (without regard to any restriction on distributions described herein) if, immediately prior to such deemed distribution, the Liquidating Trust had distributed all of its other assets (valued for this purpose at their tax book value) to Beneficiaries (treating to the extent determined by the Trustee in its sole discretion, any holder of a Disputed Claim, for this purpose, as a current Beneficiary entitled to distributions), taking into account all prior and concurrent distributions from the Liquidating Trust (including all distributions held in reserve pending the resolution of Disputed Claims). Similarly, taxable losses of the Liquidating Trust will be allocated by reference to the manner in which an economic loss would be borne immediately after a liquidating distribution of the remaining Liquidating Trust Assets. The tax book value of the Liquidating Trust Assets for this purpose shall equal their fair market value on the Effective Date or, if later, the date such assets were acquired by the Liquidating Trust, adjusted in either case in accordance with tax accounting principles prescribed by the Internal

Revenue Code, the regulations and other applicable administrative and judicial authorities and pronouncements.

C. Other. The Trustee shall also file (or cause to be filed) any other statements, returns or disclosures relating to the Liquidating Trust, that are required to be filed by any governmental unit or under applicable law, guidelines, rules and regulations.

SECTION VII TRANSFER OF BENEFICIARY'S INTERESTS

A. Transfer of Beneficial Interests. The interests of the Beneficiaries in the Liquidating Trust, which are reflected only on the records of the Liquidating Trust maintained by the Trustee, are not negotiable and shall be transferable after written notice to the Trustee only: (a) pursuant to applicable laws of descent and distribution (in the case of a deceased individual Beneficiary); or (b) by operation of law. The Trustee shall not be required to record any transfer in favor of any transferee which, in the sole discretion of the Trustee, is or might be construed to be ambiguous or to create uncertainty as to the holder of the interest in the Liquidating Trust. Until a transfer is in fact recorded on the books and records maintained by the Trustee for the purpose of identifying Beneficiaries, the Trustee, whether or not in receipt of documents of transfer or other documents relating to the transfer, may nevertheless make distributions and send communications to Beneficiaries, as though it has no notice of any such transfer, and in so doing the Trustee shall be fully protected and incur no liability to any purported transferee or any other Entity.

SECTION VIII MISCELLANEOUS PROVISIONS

A. Amendment; Waiver. This Agreement cannot be amended or waived in a material manner without a majority vote of the Post-Effective Date Committee (with the Trustee breaking the vote in case of a tie, as applicable) provided, however, that no change shall be made to this Agreement that would adversely affect the federal income tax status of the Liquidating Trust as a "grantor trust" in accordance with Section VI.B.

B. Intention of Parties to Establish Grantor Trust. This Agreement is intended to create a grantor trust for United States federal income tax purposes and, to the extent provided by law, shall be governed and construed in all respects as a grantor trust.

C. Preservation of Privilege. In connection with the rights, claims, and causes of action that constitute the Liquidating Trust Assets, any attorney-client privilege, work-product privilege, or other privilege or immunity attaching to any documents or communications (whether written or oral) transferred to the Liquidating Trust shall vest in the Liquidating Trust and its representatives, and the Debtor and the Trustee are authorized to take all necessary actions to effectuate the transfer of such privileges.

D. Cooperation. The Debtor shall provide the Trustee with copies of such of their books and records as the Trustee shall reasonably require for the purpose of performing its duties and exercising its powers hereunder.

E. Laws as to Construction. This Agreement shall be governed by and construed in accordance with the laws of the State of California, without giving effect to rules governing the conflict of law. In the case of a conflict between the Plan and this Agreement, the Plan shall control.

F. Severability. If any provision of this Agreement or the application thereof to any person or circumstance shall be finally determined by a court of competent jurisdiction to be invalid or unenforceable to any extent, the remainder of this Agreement, or the application of such provision to persons or circumstances other than those as to which it is held invalid or unenforceable, shall not be affected thereby, and such provision of this Agreement shall be valid and enforced to the fullest extent permitted by law unless the Agreement, as modified, will no longer effectuate the intent of the parties hereto in all material respects.

G. Notices. Any notice or other communication hereunder shall be in writing and shall be deemed to have been sufficiently given, for all purposes, if deposited, postage prepaid, in a post office or letter box addressed to the person for whom such notice is intended at such address as set forth below or such other address as filed with the Bankruptcy Court:

If to the Debtor:

ALVAREZ & MARSAL, LLC
633 West Fifth Street
Suite 2560
Los Angeles, CA 90071
Attn: Matt Kvarda
Sven Johnson
Tel: (213) 330-2390
Fax: (415) 837-1684
Email: mkvarda@alvarezandmarsal.com
sjohnson@alvarezandmarsal.com

With a copy to:

PACHULSKI STANG ZIEHL & JONES LLP
10100 Santa Monica Blvd, Suite 1100
Los Angeles, California 90067
Attn: Jeremy Richards, Esq.
Jeffrey Dulberg, Esq.
Tel: (310) 277-6910
Fax: (310) 201-0760
Email: jrichards@pszj.com
jdulberg@pszj.com

If to the Post-Effective Date Committee, Liquidating Trust or Trustee:

Ronald F. Greenspan
FTI CONSULTING, INC.
633 West 5th Street, Suite 1600
Los Angeles, CA 90071-2027
Tel: (213) 689-1200
Fax: (213) 689-1220
Email: ron.greenspan@fticonsulting.com

With a copy to:

[INSERT]

H. Notices if to a Beneficiary. Any notice or other communication hereunder shall be in writing and shall be deemed to have been sufficiently given, for all purposes, if deposited, postage prepaid, in a post office or letter box addressed to the person for whom such notice is intended to the name and address set forth on the Debtor's Schedules or such Beneficiary's proof of claim, such other notice filed with the Bankruptcy Court and the Liquidating Trust or such other means reasonably calculated to apprise the Beneficiary.

I. Third-Party Beneficiary. There shall be no third-party beneficiaries of this Liquidating Trust except as expressly set forth herein. The Post-Effective Date Committee shall be an express third-party beneficiary hereof.

J. Headings. The section headings contained in this Liquidating Trust Agreement are solely for convenience of reference and shall not affect the meaning or interpretation of this Agreement or of any term or provision hereof.

K. Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original but all of which taken together shall constitute one and the same instrument. A facsimile copy of a signature page is the equivalent of an original signature page.

IN WITNESS WHEREOF, the parties hereto have either executed and acknowledged this Agreement, or caused it to be executed and acknowledged on their behalf by their duly authorized officers all as of the date first above written.

DEBTOR:

[_____]

By:

Matt Kvarda
Chief Restructuring Officer

TRUSTEE:

By:

Ronald F. Greenspan
FTI Consulting, Inc.

EXHIBIT C

People's Choice
Asset Allocation as of 2/29/08

On the Effective Date, each Debtor will transfer all of its Assets, including all Causes of Action, to its respective liquidating trust except as provided in the Intercompany Settlement. For the avoidance of doubt the following assets will be transferred to the following estates. Allocation of Assets to Estates is by title or beneficial ownership.

| | PCHL | PCFC | Funding |
|------------------------------------|-------------------|--------------|---------------|
| Residual Purchase Price Allocation | (A) \$ 1,675,837 | \$ - | \$ 19,324,163 |
| Subservicing Rights Proceeds | (B) 5,166,659 | - | 7,710,354 |
| Scratch and Dent Loans | (C) 1,754,726 | - | - |
| Servicing & Origination Platform | (D) 1,661,400 | 738,600 | - |
| REO Property | (E) 1,700,000 | - | - |
| Subtotal | 11,958,622 | 738,600 | 27,034,517 |
| Administrative Expense Allocation | (N) 30.1% | 1.9% | 68.0% |
| Beginning Cash as of 3/20/07 | (F) 3,998,318 | 270,035 | 132,978 |
| Other Post-Petition Income | (G) 8,295,629 | 32,917 | 3,473,196 |
| Preference Action Recoveries | TBD | | |
| D&O Litigation Recoveries | TBD | | |
| Other Litigation | TBD | | |
| Inter-Company Allocations | (H) TBD | | |
| Sale Proceeds True Up | (I) 15,118,186 | (402,054) | (14,716,132) |
| Intercompany Estate Payment | (J) (322,847) | 17,331 | (433,085) |
| Other Post-Petition Expenses | (K) (814,847) | 2,656,950 | (1,842,102) |
| Total | (L) (6,660,927) | | |
| | (M) \$ 31,572,135 | \$ 3,313,779 | \$ 13,649,371 |

Footnotes:

- [A] Allocation based on owner of security residuals per Debtor's valuation at 5/3/07.
- [B] Net Proceeds allocated to owners of servicing rights based on APA values assigned.
- [C] Actual proceeds received on sale of under-performing loans held by PCHL.
- [D] Allocation of proceeds net of cures for executory contracts required; Allocation among Estates based on a combination of fixed assets software and personnel.
- [E] Represents estimate for REO liquidated held by PCHL (over \$1.2 million received as of 2/29/08 and approximately \$300 thousand in escrow; 4 properties remain to be sold).
- [F] Per March 2007 Monthly Operating Reports.
- [G] PCHL income includes servicing advance reimbursement in excess of \$9MM from the sale of the subservicing rights. Funding received income from residuals prior to the sale of the assets, plus interest income. PCFC received interest income.
- [H] Various broker fraud and fraudulent transfer actions.
- [I] Reimbursement of PCHL for post-petition expenses allocated to Funding and PCFC (excludes litigation professional fees related to D&O claims). Allocation method based on pro rata share of sale proceeds.
- [J] Funding amount represents repayment to PCHL for overpayment of the proceeds from the sale of the Subservicing Rights. PCHL amount represents transfer to PCFC of its share of proceeds from the sale of the Servicing and Origination Platforms, net of a refund from Funding for overpayment in connection with proceeds received on account of the sale of Subservicing Rights. PCFC amount represents interest earned on proceeds received on account of the sale of the Servicing and Origination Platform, but held by PCHL.
- [K] As defined in the Plan, PCHL and Funding will deliver the Interstate Payment to PCFC.
- [L] PCHL's share of post-petition administrative expenses incurred based on the pro rata allocation determined by asset sales described in the Plan of Reorganization.
- [M] The total presented here is an estimate as of 2/29/08 and does not take into consideration all expenses that may be incurred prior to the Effective Date. Excludes potential litigation recoveries, some of which will be realized post-Effective Date. The actual amount distributed will vary from the amount shown here.
- [N] Since the case is largely a liquidating 11, the proceeds of sales realized for each Estate is deemed to be proportionate to the benefit received by such Estate as a result of the Chapter 11 process. Such proportion was then used in allocating administrative expenses among the Estates in accordance with the relative benefits conferred upon each Estate.

EXHIBIT D

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35 WEST WACKER DRIVE
CHICAGO, ILLINOIS 60601-9703

43 RUE DU RHONE
1204 GENEVA, SWITZERLAND

99 GRESHAM STREET
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WASHINGTON, D.C. 20008-3817

WRITER'S DIRECT DIAL
415-591-1404
rjulian@winston.com

CONFIDENTIAL AND PRIVILEGED SETTLEMENT COMMUNICATION

September 27, 2007

VIA EMAIL AND FEDERAL EXPRESS

Jeremy V. Richards, Esq.
Pachulski Stang Ziehl & Jones LLP
10100 Santa Monica Boulevard, Suite 1100
Los Angeles, CA 90067

Chip Rawlings, Esq.
Quinn Emanuel
865 S. Figueroa St., 10th Floor
Los Angeles, California 90017

Frank Merola, Esq.
Stutman Treister & Glatt
1901 Avenue of the Stars, 12th Floor
Los Angeles, CA 90067

Re: Proof of Claim of Neil B. Kornswiet (POC No. 437); Proof of Claim of Brad Plantiko (POC No. 344); The Official Committee of Unsecured Creditors of People's Choice Financial Corporation and Affiliated Debtors v. Neil Kornswiet and other Officers, Directors, and Shareholders of the Debtors, United States Bankruptcy Court, Central District of California, Case Nos. SA 07-10772-RK, SA 07-10765-RK, and SA 07-10767-RK

Gentlemen:

This firm represents the Official Committee of Unsecured Creditors ("the Committee") of People's Choice Financial Corporation ("PCFC" or the "Parent Company") and its two wholly owned subsidiaries, People's Choice Home Loan, Inc. ("PCHLI" or the "Operating Subsidiary") and People's Choice Funding, Inc. ("PCFI" or the "REIT Subsidiary"), that are debtors (collectively, "the Debtors") in bankruptcy cases pending in the United States Bankruptcy Court for the Central District of California ("the Court") as case numbers SA 07-

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Frank Merola, Esq.
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10772-RK, SA 07-10765-RK, SA 07-10767-RK, respectively. We are sending this letter to Mr. Richards in his capacity as counsel for the Debtors, Mr. Rawlings as counsel for director and former officer Neil Kornswiet, and Mr. Merola as counsel for former officer Brad Plantiko, with respect to the directors' and officers' pending claims against the Debtors' estates and the Debtors' responsive claims against the directors and officers.

On September 14, 2007, the Court entered an order in the bankruptcy cases granting and vesting the Committee with standing to pursue and prosecute the Debtors' claims against their respective officers, directors and shareholders. A copy of the Order is enclosed. The purpose of this letter is to notify you that the Committee intends to prosecute claims against the Debtors' former officers, directors and shareholders as described in this letter, so that the Debtors, the Board, Mr. Kornswiet and Mr. Plantiko may notify their insurance carriers of such claims under any policies that might cover such claims.

We note that one such policy which insures the Debtors' directors and officers, issued by American International Specialty Insurance Lines Insurance Company ("AISLIC"), AIG Policy Number 965-01-39, states that it expires October 3, 2007. (According to JP Tech Insurance Services, Inc.'s Binder of Insurance for the Parent Company's Directors & Officers Liability insurance program for the period October 3, 2006 to October 3, 2007, the AIG Policy is a primary policy below five excess layers of insurance (at \$10 million per layer) and a Side A DIC \$10 million Program of Insurance with a Primary Policy issued by Federal Insurance Company (affiliated with Chubb Group of Insurance Companies, aka "Chubb"), Policy Number 6802-9038, in the amount of \$10 million, plus two excess layers in the amount of \$10 million each, for a total of \$90 million of coverage.)

Accordingly, on behalf of the Committee, we request that you immediately forward this letter to AISLIC, Chubb, and the other insurers, as listed on the enclosed List of Insurers, and any other applicable insurers, whether or not identified herein, as notice of the claims set forth in this letter under the terms of the policies. (We derived the list from the names of the insurers and their addresses as listed in the policies the Debtors' counsel produced in discovery in the bankruptcy cases.) We also request that you send a copy of this letter to JP Tech Insurance Services, Inc. (reportedly the Debtors' insurance broker), 445 South Figueroa Street, 27th Floor, Los Angeles, CA 90071, for tender to all insurers for the Debtors and their officers, directors and shareholders.

The Committee intends to defend the claims that the directors and officers have filed against the Debtors' estates and to prosecute the Debtors' claims against their former directors and officers as described in this letter. In settlement of such litigation, the Committee demands payment in the full amount of the coverage available under the AIG and Chubb policies and all excess policies thereto (which we understand to be \$90 million). This is a confidential settlement communication regarding disputed claims, and a policy limits demand, with respect to

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such litigation under state and federal law. This offer shall remain open until November 1, 2007, unless the Committee extends the date in writing.

1. PCHLI's potential claims against Neil B. Kornswiet for allegedly breaching fiduciary duties of care and loyalty as the sole director, CEO and President of PCHLI by authorizing the company to pay to him allegedly excessive compensation:

According to the board minutes, on April 11, 2000, the PCHLI board of directors approved an employment agreement and bonus agreement for its CEO, President and Chairman Neil Kornswiet; and on May 10, 2002, the PCHLI board approved an amendment to Kornswiet's employment agreement. The PCHLI board minutes state that Mr. Kornswiet approved the agreements on behalf of the board as its sole director. Hence, the Committee contends that, as the sole director who approved his own compensation agreements, Mr. Kornswiet had a conflict and was not disinterested, and bears the burden of establishing that the agreements were fair and reasonable to the corporation.

The Committee questions whether Mr. Kornswiet would be able to establish that the agreements were fair, reasonable and not excessive for several reasons, including but not limited to the following: We have not yet located any board minutes that contain an indication that the board conducted a survey of reasonable compensation for executives in similar circumstances, or conducted other industry-standard due diligence for setting executive compensation. The agreements appear to provide for a base compensation of \$33,333 salary per month, a monthly bonus of \$29,166.67, and another bonus equal to 25% of the company's after tax net income multiplied essentially by Mr. Kornswiet's percentage equity interest in the company. The Committee believes there is an issue as to whether the first bonus constituted a bonus or fixed salary. The Committee also contends there is an issue as to whether the latter bonus arrangement operated as *de facto* dividend outside of the laws that apply to dividends, and there is an issue whether the bonus arrangements were based upon compensation criteria that applied to a company's determination of reasonable compensation in the relevant industry and under applicable law.

According to PCHLI's December 27, 2004 board minutes, Mr. Kornswiet claimed \$13,132,897.96 in accrued compensation for the period 2000 through June 2004. However, in the company's December 21, 2004 Offering Memorandum, the company stated that it owed \$4.9 million in accrued compensation to Mr. Kornswiet; the Committee contends the Offering Memorandum description calls into question the amount reasonably owed to Mr. Kornswiet either as to the amount or on the basis of the non-disclosure of other amounts Mr. Kornswiet contended he was owed. Finally, the Committee alleges that the company's records indicate that the company never paid such compensation to Kornswiet during the accrual period, and that there is therefore an issue as to whether the company's executives believed that Mr. Kornswiet's services had created the type of results that would have permitted the company to pay the bonuses which Mr. Kornswiet contends he earned from the operations.

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The Committee alleges that the company paid \$13.427 million of compensation to Mr. Kornswiet on or about January 11, 2006, and an additional bonus of \$2.387 million in 2005, and that the amount in controversy on this claim would thereby be \$15.814 million plus interest from the dates of the payments.

2. PCHLI's potential claims against Mr. Kornswiet for recovery of \$13.427 million of deferred compensation that he withdrew from the company's Rabbi Trust allegedly in breach of his fiduciary duties of care and loyalty as PCHLI's CEO, President and director:

According to the Parent Company's consolidated financial statements for the period ending as of December 31, 2004 and 2005, at Note 18, the company established a retirement plan or deferred compensation arrangement that was subject to ERISA, for its employees pursuant to a "Rabbi Trust" that contained \$13.427 million on December 31, 2005. PCHLI's Amended Statement of Financial Affairs states that the company distributed \$13,469,034 from the Rabbi Trust to Neil Kornswiet.

The Committee alleges that a retirement plan or deferred compensation plan that is subject to ERISA is a deferred compensation plan under the law. The Committee also alleges that, pursuant to Internal Revenue Code section 409A(a)(2) and IRS Revenue Procedure 92-64, 1992-2 C.B. 428, Mr. Kornswiet could not withdraw money from a deferred compensation plan except pursuant to a fixed schedule of withdrawal dates. The Committee also alleges that the company's Trust document followed the model form Rabbi Trust approved by the IRS in that regard, in IRS Revenue Procedure 92-64, which requires such a fixed schedule of withdrawal dates.

The Committee alleges that on or about January 11, 2006, Mr. Kornswiet withdrew \$13.427 million from the plan before the company authorized the fixed schedule of withdrawal dates that the Committee contends was required by such federal law for such Trusts and plans, and, that, accordingly, there is an issue as to whether Mr. Kornswiet must return the cash based upon such a withdrawal under federal law, principles of unjust enrichment and specific performance, and other legal theories. By the terms of the subject Trust, the cash in the Trust must be available for creditors in the event the company is unable to pay its debts as they become due or is a debtor under the United States Bankruptcy Code. The Committee alleges that, if the company and Mr. Kornswiet had kept the money in the Trust until the company adopted the fixed schedule, the money would still be in the trust today and available for creditors of the company, thereby establishing damage to the estate and its creditor constituency.

The Committee alleges that Mr. Kornswiet had a conflict and was not disinterested in the matter, that there are issues as to whether he can prove the intrinsic fairness of the transactions to the company and whether he breached his duties of care and loyalty as a director and officer of PCHLI with respect to the matter, whether the damage to the company

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was \$13.427 million plus interest from the date of the withdrawal, and whether the company is entitled to specific performance whereby the funds would be returned to the Trust.

3. PCHLI's potential claims against Neil Kornswiet for avoidance of \$13.427 million transfer of compensation and of \$2.387 million transfer of bonus amounts under the Bankruptcy Code and state fraudulent conveyance laws:

The Committee alleges that PCHLI's payments of \$13.427 million and \$2.387 million of compensation and bonus amounts to Neil Kornswiet are subject to recovery under Bankruptcy Code section 548 and the applicable state Uniform Fraudulent Transfer Act (applicable via Bankruptcy Code section 544) to the extent the company received less than reasonably equivalent value for the transfers and the company's remaining capital and assets were unreasonably small for its business and/or the company believed (or should have reasonably believed) that it would incur debts beyond its ability to pay as the debts matured, and/or that the company or Mr. Kornswiet (acting on behalf of himself and the company) made the transfers with the intent to sequester the money from the company's creditors (thereby allegedly qualifying as an act to "hinder, delay or defraud creditors").

The Committee also alleges that both the \$13.427 million transfer and the \$2.387 million transfer of bonus amounts on or about April 15, 2005, are avoidable transfers under Bankruptcy Code section 548(a)(1)(B) to the extent the company did not receive reasonably equivalent value and made the transfers to or for the benefit of an insider, Mr. Kornswiet, or incurred such obligation to or for the benefit of Mr. Kornswiet under an employment contract and not in the ordinary course of business.

4. PCHLI's and PCFC's potential claims against the 2003 PCHLI Board of Directors (Neil Kornswiet and Robert L. Harris), 2004 PCHLI Board of Directors (Neil Kornswiet), 2004 PCFC Board of Directors (Neil Kornswiet), 2006 PCHLI Board of Directors (Neil Kornswiet), 2006 PCFC Board of Directors (Neil Kornswiet, Robert L. Harris, David F. Cronenbold, and Victor J. Coleman), PCHLI and PCFC CFO and Executive Vice President of Finance Brad Plantiko, and PCHLI and PCFC CFO and Senior Vice President Howard Weitzman for allegedly authorizing the establishment of a deferred compensation plan and withdrawals therefrom in a manner that allegedly did not comply with federal law, in breach of their duties of care and loyalty (and similar claims):

The Committee alleges that on or about December 30, 2003, PCHLI Board members Kornswiet and Harris and PCHLI CFO Plantiko took the following actions; during December of 2004, PCHLI and PCFC director Kornswiet and CFO Plantiko took the following actions; and during January of 2006, PCHLI director Kornswiet and PCFC directors Kornswiet, Harris, Cronenbold and Coleman and PCFC and/or PCHLI officers Kornswiet, Plantiko and Weitzman approved or acquiesced in PCHLI's establishment of the Rabbi Trust for Neil Kornswiet and a \$13.427 million withdrawal from the plan.

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The Committee alleges that there is an issue whether the approval and/or withdrawal complied with federal law, as described above, and that there is an issue whether the directors and officers exercised their business judgment in approving the plan and/or withdrawal (or acquiesced in the approval or withdrawal) for several reasons, including the following: The board minutes do not state that the company and its officers and directors received or evaluated a written opinion of counsel or other qualified professional in a form that could be considered by directors and officers in the exercise of their business judgment explaining the rationale as to why the establishment of the plan and withdrawal, in the form the company and Mr. Kornswiet established, complied with applicable federal law; according to the August 29, 2005 PCFC Board minutes, the Board required Neil Kornswiet to include all bonus amounts received in his 2004 personal tax return or provide satisfactory documentation that the tax treatment he followed was appropriate; we have not located any minutes that explain what proof Mr. Kornswiet provided to the Board.

The Committee alleges that: In May of 2007, after the fact, Mr. Kornswiet obtained a letter from Tim Roth, CEO of KeySoft Consulting Group, LLC, which stated that Mr. Kornswiet's withdrawal was permissible under federal law on the basis that the compensation was "not deferred compensation"; however, the company's audited financial statements certify that the plan was a retirement plan or deferred compensation arrangement that was subject to ERISA (and hence, there is an issue whether the Trust was subject to the Internal Revenue Code section and rulings described above).

The Committee alleges that there is an issue whether the PCFC and PCHLI boards acted in good faith regarding the matter and evaluated whether the company had sufficient cash to pay its debts as they matured without continual infusions of equity from the Parent Company at the time that they permitted Mr. Kornswiet to withdraw the money, and that there is an issue whether the directors and officers were entitled to any business judgment rule protections.

The Committee also alleges that Mr. Kornswiet, as the sole director acting on behalf of one or more of the companies with respect to a portion of these transactions, had a conflict and was not disinterested in the matter, and there is an issue as to whether he could prove the intrinsic fairness of the transactions to the company, and that, in that event, the damage to the company was \$13.427 million plus interest from the date of the withdrawal. The Committee contends that the same directors and officers also may have liability for approving or acquiescing in the company's payment of the \$2.387 million bonus to Mr. Kornswiet in 2005.

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5. PCHLI's and PCFC's potential claims against the 2006 PCFC Board of Directors (Neil Kornswiet, Robert Harris, and David F. Cronenbold), and PCHLI Board of Directors (Neil Kornswiet) for alleged breach of fiduciary duty to perfect PCHLI's preference recovery of the company's January 11, 2006 \$13.427 million transfer under the Bankruptcy Code, and against Executive VP Plantiko for alleged breach of duty associated therewith:

The Committee's consultants have reported that PCHLI started to lose money in June of 2005 and that its losses increased throughout the year and continued throughout 2006. According to the board minutes, during the June 2006 PCFC board meeting, Chairman Harris requested Executive VP Plantiko to report to the board within the next month with a plan to make PCHLI profitable. We have not yet located any PCFC or PCHLI board minutes that contain such a report (although one may exist that we have not yet located).

The Committee alleges the board minutes and related board packages indicate PCHLI's financial condition deteriorated after Chairman Harris requested the plan in June of 2006, and that the company's quarterly losses increased from a \$55 million loss for the second quarter of 2006 to an \$86 million loss for the third quarter of 2006. Following the third quarter loss, PCFC's December 4, 2006 board minutes state that Board Chairman Harris said that in view of the likelihood of the continued operating losses and given both the company's recent history and a broken subprime business model, the company should liquidate itself via a sale and pay the net proceeds to its shareholders.

Based upon its consultants' evaluation of the matter, the Committee alleges that: the company was insolvent on December 4, 2006, and that the directors did not evaluate a bankruptcy liquidation at the time in order to benefit the company and its creditors by filing a bankruptcy case before January 11, 2007 so that the company could preserve its assets and recover the \$13.427 million that Mr. Kornswiet withdrew from the Rabbi Trust for the company's creditors under Bankruptcy Code section 547's one-year preference period claim for insider transactions (and that the directors did not evaluate such a bankruptcy option at other times when they should have done so); and that there is an issue as to whether the directors can claim business judgment rule protection or that they acted in good faith if they did not evaluate the matter or consider the company's and the creditors' interests in that regard.

The Committee also alleges that Director and CEO Kornswiet had a conflict and was not disinterested in making such decisions, and there is an issue as to whether Mr. Kornswiet can establish the fairness of his decision not to file a bankruptcy case for PCHLI, of which he was the sole director at the time, so that the company might try to recover the alleged preference from himself. The Committee believes that there may also be an issue as to whether Executive VP Plantiko performed his responsibilities as directed by the Board; and whether all of such actions or non-actions contributed to PCHLI and PCFC incurring damages in the amount of \$13.427 million.

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6. PCFC's potential claims against its directors, Kornswiet, Harris, Cronenbold, Coleman and Andrew Sobel, and CFO and EVP of Finance Plantiko and CFO and Senior VP Weitzman, for alleged breach of fiduciary duty for authorizing allegedly improper dividend payments in violation of Maryland Corporations Code section 2-311(a) and/or for other actionable conduct in connection with such decisions:

The Committee alleges that PCFC's board of directors approved the company's payment of the following dividends and the company thereafter paid the following dividends to its shareholders on the respectively stated dates: \$23,711,623 on August 12, 2005; \$19,265,694 on November 28, 2005; \$17,847,147 on January 13, 2006; \$10,771,889 on May 16, 2006; and \$5,997,936 on August 14, 2006. Based upon its consultants' evaluation of the matter, the Committee also alleges that: PCFC did not have sufficient cash to pay its indebtedness as it became due as a result of the dividend payments; the directors did not have a safe harbor for approving the payments under Maryland Corporations Code section 2-311 because they did not rely upon liquidity analyses (on the basis that the board minutes do not identify such reliance, with the exception of the May 16, 2006 payment considered by the board on April 27, 2006) or, if they did, such reliance was not reasonable under the circumstances given the company's financial status, which was known to the directors and the officers who reported to the directors; and the directors are liable for such dividend payments under section 2-311 for the amount by which the payments exceeded the capability of the company to make such payments and pay its debts in the foreseeable future.

Based upon its consultants' evaluation of the matter, the Committee alleges that the company lacked sufficient cash and capital on the basis of several facts discovered by the Committee's consultants, including but not limited to the following: PCFC was a shell holding company that accounted for its assets, liabilities and operations on a consolidated basis; the Operating Subsidiary, PCHLI, started losing money in June of 2005; in July or August of 2005, PCHLI's warehouse lender asserted claims against PCHLI for \$90 million of loans (some of which PCHLI denied) that PCHLI had sold to Bear Stearns on the basis that the loans either had defaulted immediately after PCHLI had sold them to Bear Stearns or violated the representations and warranties asserted by PCHLI in connection with the sales of the loans; on August 16, 2005, CFO Plantiko informed the PCFC Board that the company would be required to undertake whole loan sales rather than securitizations, after the quarter due to the delay in the Company's initial public offering of stock; PCHLI was dependent upon repeated infusions of capital from the Parent Company in order to stay in business; in the 4th Quarter of 2005 PCHLI defaulted on all of its warehouse lender lines of credit and PCFC guaranteed some or all of these liabilities; and PCHLI's debts exceeded the value of its assets. (The Committee alleges there may also be an issue whether the company was insolvent on a balance sheet basis at some point in 2006.)

The Committee alleges that Executive VP and CFO Plantiko and CFO Weitzman may have breached their duties of care and loyalty to the company in connection with the dividend payments because they allegedly had the responsibility to provide the necessary

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liquidity analyses and/or other financial documents to the board so that the board could evaluate the matter and may have failed to do so completely or competently, and may therefore be liable for a portion of the company's loss on the same basis for allegedly breaching their duties of care in the process.

The Committee also alleges that Messrs. Kornswiet, Harris, Cronenbold, and Plantiko received some of the dividends and therefore had a financial interest in the dividend decisions, and that fact should be taken into account in determining the fairness of the dividends and whether those individuals breached their duties.

The Committee also alleges that, with respect to the period of time during which PCHLI was insolvent, the directors and the officers had a conflict, preferring their interests as shareholders over the interests of creditors, and therefore they were not disinterested in the matter and should have the burden of establishing that the dividend payments they recommended or approved were fair to the company and its creditors (the Committee also contends Officer Plantiko had such a burden, as an officer, if he contends that he is entitled to a business judgment defense under applicable law, including the Wyoming Statutes).

The Committee alleges the amount in controversy on this claim is a maximum of \$77,594,289.

7. PCHLI's potential claims against its sole director Kornswiet and CFO Plantiko for allegedly making dividend payments in violation of Wyoming Statutes section 17-16-640:

The Committee alleges the following: On August 12, 2005, PCHLI paid \$13 million in dividends to the Parent Company, PCFC, without any advance approval by the PCHLI board, under the direction of CEO Kornswiet and/or CFO Plantiko, and their actions were therefore not protected by any business judgment rule. The Committee also alleges that PCHLI, and CEO Kornswiet and CFO Plantiko arranged the dividends to PCFC in part so that PCFC could make a dividend payment to its shareholders, who included CEO Kornswiet and CFO Plantiko. Consequently, the Committee alleges that CEO Kornswiet and CFO Plantiko had a conflict in the matter and bear the burden of establishing that the dividend transactions were intrinsically fair to the company and that there is an issue as to whether they would be able to establish such fairness.

The Committee also alleges that on December 29, 2005, PCHLI paid \$6 million to the Parent Company, PCFC, in part in order to permit PCFC to make a dividend payment to its shareholders, who included CEO and sole PCHLI director Kornswiet and CFO Plantiko, pursuant to a board resolution by sole PCHLI director Kornswiet and with the assistance of CFO Plantiko. The Committee alleges that PCHLI was insolvent at the time on adequate capital and asset and/or cash flow tests. The Committee also alleges that CEO and Director Kornswiet and CFO Plantiko had a conflict and were not disinterested in the matter and bear the burden of

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establishing that the dividend transactions were intrinsically fair to the company and that they should be unable to establish such fairness (the Committee contends Officer Plantiko had such a burden if he contends that he is entitled to a business judgment defense under applicable law, including the Wyoming Statutes).

The Committee alleges the total amount in controversy on this claim is \$19 million.

8. PCHLI's potential claims against CEO, Director and Shareholder Neil Kornswiet and other shareholders for recovery of intercompany transfers under the Bankruptcy Code and Uniform Fraudulent Transfer Act:

The Committee alleges that, during 2004 and 2005, PCHLI employed all or substantially all of the employees who worked within the consolidated group of PCFC companies that originated and sold their loans to the market; PCHLI originated and transferred some of its prime loans to its sister subsidiary, the REIT Subsidiary PCFI, for inadequate consideration, at a fraction of their value (the Committee's consultants believe the intercompany loan sales are summarized on the loan sale summary enclosed with this letter); the REIT Subsidiary resold the loans in a flip sale for full market value and received substantially all of the profit derived from the loans that PCHLI originated; PCHLI ended up saddled with substantially all of the expense necessary to originate and sell the loans, but did not receive all of the profits that were necessary to cover such expenses; the REIT Subsidiary upstreamed the profits that the REIT Subsidiary generated from such resales to the Parent Company for distribution to its shareholders, who included Neil Kornswiet; these intercompany transactions rendered PCHLI unable to pay its debts as they arose in the foreseeable future in the ordinary course of business, and/or the company had unreasonably small assets or capital for its business; and Mr. Kornswiet (and possibly other shareholders) received the dividends with knowledge that they constituted the proceeds of the resale profits under these circumstances.

Accordingly, the Committee alleges that PCHLI's transfers of its loans to the REIT Subsidiary are avoidable under Bankruptcy Code section 548(a)(1)(A) and (B), and California Code of Civil Procedure section 3439.04(a)(1) and (2) (either or both constructive fraud with no intentional misconduct or intentional fraudulent transfers). In that regard, the Committee alleges that the transfers included the factors set forth in subparts (1), (2), (5) (8) and (9) of Code of Civil Procedure section 3439.04(b). Finally, the Committee alleges that Mr. Kornswiet and other shareholders (who are unknown to the Committee) were not good faith transferees who received the proceeds for value within the meaning of Code of Civil Procedure section 3439.08 and Bankruptcy Code section 550(b).

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9. PCHLI's, PCFI's and PCFC's potential claims against their respective directors Kornswiet, Harris, Coleman, and Cronenbold, CFO and Executive VP of Finance Plantiko and CFO and Senior VP Weitzman for allegedly arranging intercompany transfers in breach of their fiduciary duty:

The Committee alleges that there is an issue whether PCFC directors Kornswiet, Harris, Coleman and Cronenbold, PCFC CEO Kornswiet, PCFC CFO and Executive VP of Finance Plantiko, PCFC CFO Weitzman, PCFI CEO and director Kornswiet, PCFI CFO and Executive VP of Finance Plantiko, PCFI CFO Weitzman, PCHLI CEO and director Kornswiet, PCHLI CFO and Executive VP of Finance Plantiko, and PCHLI CFO Weitzman arranged or authorized the intercompany transactions described above in breach of their fiduciary duties. The Committee alleges there is an issue whether those individuals took such actions without exercising their business judgment sufficiently by, among other things, considering PCHLI's financial ability to pay its debts as they matured in the foreseeable future and by failing to obtain and consider written opinions of counsel or other professionals about the propriety of such transfers and their fairness to creditors of PCHLI during the period of the company's financial distress (among other reasons that would be relevant to addressing business judgment); that PCFI generated in excess of \$76 million of profit by reason of such transfers that PCHLI would have received had it not engaged in such transfers; that PCHLI has been damaged by such transfers and may not be able to recover such transfers from the transferees; and that such damages exceed \$76 million.

10. PCHLI's and PCFC's potential claims against their respective directors Kornswiet, Harris, Coleman, Cronenbold and Sobel, CFO and Executive VP of Finance Plantiko and CFO Weitzman, PCHLI EVP Co-Chief Production Officer Kathleen Lipps, PCHLI EVP Co-Chief Production Officer Dwayne Barfell and Executive Vice President Asset Management David Zimmer, and other Officers not presently known by the Creditors Committee, for allegedly arranging unsafe and imprudent lending practices, failing to arrange safe and prudent lending practices, failing to implement sufficient quality controls, and failing to exercise adequate oversight in connection therewith, in breach of their fiduciary duty:

The Committee alleges the following: Prior to January of 2006, PCFC oversaw the lending practices of PCHLI and, allegedly in order to create safe lending practices, directed PCHLI's underwriting department to report to the company's Chief Credit Officer and to place emphasis on the collateral for the loans. In late 2005, the directors and senior officers of PCFC and PCHLI recognized that the company was losing money by originating unsafe loans and tightened the company's credit requirements, and these new underwriting requirements produced a reduced volume of loans.

The Committee alleges that, in response to this situation, during a February 27, 2006 PCFC board meeting, the PCFC directors and officers Kornswiet, Plantiko and Lipps

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approved and implemented a new strategy designed to increase monthly loan production from \$284 million in January of 2006 to \$1 billion just nine months later, by approving loans based upon the borrower's credit history and less emphasis upon the value of the collateral for the loan, among other things, and by placing responsibility for underwriting approvals in all cases or in close or questionable credit cases with five Regional Divisional (Sales) Managers instead of under the Chief Credit Officer as it had been in the past (according to a former employee). The February 27, 2006, Board of Directors Presentation on the subject identified each Manager's "Career History" in sales, and did not state expressly that any of the five Managers had underwriting experience. One of the employment agreements for one of the Managers provided bonus compensation linked in some way to the company's post tax profits, and the Committee's consultants have reason to believe that the other Managers had similar employment agreements. Accordingly, the Committee alleges there is an issue whether the Managers were disinterested in the sales transactions that generated such profits.

At the time, the market was tightening and loan purchases were declining and competitive on pricing. The Committee alleges that there is an issue whether the directors and officers approved and implemented the new strategy without giving consideration to the conflict inherent in the Regional Divisional Managers' responsibilities, and without requiring a study on how the company was going to increase its loan production so rapidly in a declining market without unreasonably loosening its credit criteria.

Based upon due diligence conducted by the Committee's consultants, the Committee alleges that, after the directors and officers approved the new plan to increase production by threefold, the companies had a failure of quality control over new loan originations, and that there is thus an issue of whether the directors and officers conducted adequate oversight in the matter, given the changes in the industry, the risks involved, and the directors' and officers' attempt to triple loan production during such risky times. The Committee alleges that the board minutes do not indicate the directors exercised adequate oversight and follow-up over implementation of the new plan.

The Committee alleges that there is an issue whether the directors and officers adequately exercised their business judgment on such matters and acted in good faith or were reckless, grossly negligent, or negligent in approving the new program, and whether the directors and officers exercised sufficient oversight over PCHLI's Credit Committee and officers who were responsible for increasing production, underwriting, and ensuring quality control. Finally, the Committee alleges that there is an issue whether, as a result of such actions, defaults on the loan portfolio quadrupled in the summer months, and the company was damaged as a result. The Committee's consultants have not been able to quantify the total damages related to underwriting and/or quality control losses the company has suffered to date, but estimate such damages will exceed \$20 million, and could be \$76 million or more. The Committee is informed and believes that PCHLI officers Dwayne Barfell and David Zimmer had some responsibility in these matters, and may have some liability in connection therewith.

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11. PCHLI's potential claims against its Credit Committee Officers for breach of duty.

According to PCHLI's Credit Committee minutes, the Credit Committee appeared to meet each month or virtually each month to protect the company's interests in its loan originations. During the Debtors' bankruptcy cases, the Debtors produced documents to the Committee. These documents do not include Credit Committee minutes for January and February of 2006. To the extent the Credit Committee did not meet during the critical time period of January and February of 2006, or to the extent the Credit Committee met and did not create or lost or destroyed its minutes, the Debtors would have potential claims against the Credit Committee members for breach of their duties of care and loyalty. According to the Credit Committee minutes of December 13, 2005, and March 14, 2006, the Credit Committee members during this time period included Neil Kornswiet, Brad Plantiko, David Zimmer, Irwin Grubman, Craig Timmins, Mark Kittle, Dwayne Barfell and Kathleen Lipps. The Committee also alleges that, given the findings by the Committee's consultants regarding the company's quality control, and the other allegations and issues set forth in the foregoing paragraph, there is thus an issue as to whether the Credit Committee members are liable for breach of duty concerning the same matters.

12. PCHLI's potential claims against its Senior Vice Presidents and Regional Divisional Managers, Scott Gerrity, Steve Cutter, Calvin Perry, David Toci, and Tim Millins, and other officers for underwriting losses allegedly in breach of their fiduciary duties of care and loyalty:

Based upon its consultants' evaluation of the matter, and the allegations set forth in the foregoing paragraphs, the Committee alleges that PCHLI's employees did not follow the company's underwriting guidelines on a widespread basis during 2006 and that the company will lose over \$20 million as a result (based upon a review of defaulted loans and projections thereon by the Committee's consultants). The Committee also alleges that the Regional Divisional Managers and other officers were responsible for underwriting, that the Regional Divisional Managers knew that prior to their assuming responsibility for such underwriting the company's Chief Credit Officer had such responsibility, the Chief Credit Officer was in charge of safety and not production, that the Regional Divisional Managers' compensation was linked to profits that were a product of fees and other income generated by closing loans, and that the Regional Divisional Managers had a financial interest in closing the loans for which they were responsible and were therefore not disinterested in the transactions. If the Officers contend that they are entitled to business judgment protections under the Wyoming Statutes or other law, the Committee contends that the Officers have the burden to establish the fairness of the transactions to the company. The Committee alleges that the amount in controversy on this claim exceeds \$20 million.

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13. PCFC's potential claims against PCFC directors Kornswiet, Harris, Coleman and Cronenbold, for approving the company's repurchase of Executive Officers' stock to permit them to pay their taxes.

The company's financial statements state that the company paid \$2.9 million to an Executive Officer to repurchase his stock to allow for payment on the executive's behalf of taxes due. The PCFC board minutes of April 14, 2005 state that the executive was Dwayne Barfell. The financial statements also state that the company made a similar payment of \$2.5 million in November of 2005 for the benefit of an executive. The Committee has not located any board minutes that explain that payment. The Committee contends there is an issue whether the payments were appropriate and subject to business judgment, considering the company's financial condition in late 2005, and whether the directors and officers have liability for such payments.

14. PCFC's, PCHLI's and PCFI's potential claims against their directors and officers for breach of fiduciary duties of care and loyalty regarding additional claims the Committee is investigating:

The Committee's counsel and consultants have not concluded their investigations of the Debtors' business affairs, director and management decisions, underwriting and loan losses, and insider transactions, or the claims filed by creditors in the bankruptcy cases. The Committee believes it is likely that the results of this investigation will identify potential claims against the Debtors' directors and officers, including but not limited to the directors and officers identified in this letter, and their Chief Operating Officers and Chief Credit Officers, for breach of their duties of care and loyalty involving any matter, including but not limited to, alleged mismanagement, waste, lack of corporate oversight, failure to perform responsibilities, and actions taken without the exercise of business judgment that contributed to the Debtors' losses, missed corporate opportunities, improper intercompany transactions, and claims filed against the Debtors' estates, and that such claims should be taken into account in connection with the Court's allowance, disallowance or subordination of the directors' and officers' proofs of claims against the Debtors' estates, and/or in such other litigation that involves the parties.

Accordingly, the Committee hereby provides notice to the Debtors and Mr. Kornswiet and Mr. Plantiko, of the existence of these additional claims, so that the Debtors and Mr. Kornswiet and Mr. Plantiko may notify the appropriate carriers of such claims. These claims include, but are not limited to, the following: (1) potential claims based upon the directors' and officers' alleged failures during the 2005 and 2006 board meetings of each of the Debtors to create and implement a plan to determine the defaults and loan losses the company would or could suffer in a failing subprime lending industry; (2) potential claims based on the directors' and officers' alleged failures during the 2005 and 2006 board meetings of each of the Debtors to implement procedures to protect the company from adverse market forces produced by a downturn in the economy; (3) potential claims based on failures to downsize the company

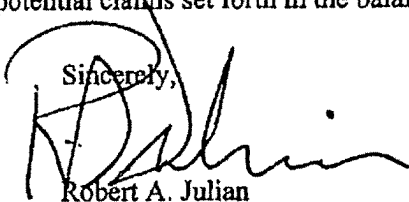
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and provide appropriate termination notices; (4) potential claims based upon the directors' and the officers' alleged failures during the 2005 and 2006 board meetings of each of the Debtors to adopt safe and sound underwriting guidelines or to implement such guidelines or existing guidelines; (5) potential claims alleging the directors and officers have responsibility or are liable for the Debtors' liability for claims filed against the Debtors' estates in the bankruptcy cases; (6) potential claims based upon dividends that the Debtors paid that are not the subject of the balance of this letter; (7) potential claims based upon intercompany transactions; and (8) potential claims based upon insider transactions.

Such potential claims may or may not relate to or arise from the same nucleus of operative facts that are involved in the potential claims set forth in the balance of this letter.

Sincerely,

A handwritten signature in black ink, appearing to read "R. Julian", written over the word "Sincerely,".

Robert A. Julian

RAJ:hlh

Enclosures

cc: Creditors' Committee members
Eric Sagerman, Esq.
Debtors' Insurers listed on the attached list

ORIGINAL

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kmccconnell@winston.com

Counsel for Official Committee of Unsecured Creditors

UNITED STATES BANKRUPTCY COURT
CENTRAL DISTRICT OF CALIFORNIA
SANTA ANA DIVISION

In re:
PEOPLE'S CHOICE HOME LOAN, INC.,
et al.

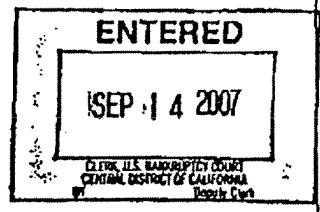
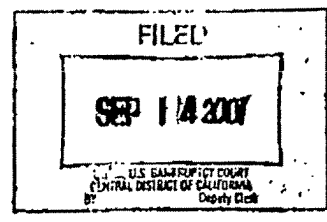
Debtors.

Case No. SA 07-10765-RK
Chapter 11
(Jointly administered with Case Nos. SA 07-10767-RK and SA 07-10772-RK)

ORDER AUTHORIZING OFFICIAL COMMITTEE OF UNSECURED CREDITORS TO PURSUE CLAIMS AND GRANTING STANDING

Date: September 13, 2007
Time: 11:00 a.m.
Place: Courtroom 5D
Ronald Reagan Federal Building
411 West Fourth Street
Santa Ana, CA 92701-4593

Upon the Motion (the "Motion") of the Official Committee of Unsecured Creditors (the "Committee") of People's Choice Home Loan, Inc. and affiliated debtors and debtors in possession (collectively, the "Debtors"), for Authority to Pursue Claims on Behalf of



1 the Debtors' Estates, the Court having jurisdiction to consider the Motion and the relief
2 requested therein; due and proper notice of the Motion having been provided; and upon all of the
3 proceedings had before the Court and after due deliberation and sufficient cause appearing
4 therefore, it is

5 HEREBY ORDERED, ADJUDGED, AND DECREED THAT:

- 6 1. The Motion is granted in all respects.
- 7 2. All objections to the Motion not otherwise withdrawn are overruled.
- 8 3. The Committee is hereby granted and vested with standing to pursue and
9 prosecute to the fullest extent, and may pursue and prosecute to the fullest extent, without further
10 Order of the Court, any and all claims, causes of actions, rights, obligations, offsets, setoffs,
11 objections and other liabilities held by the Debtors', their estates and affiliates against their
12 respective officers, directors and shareholders, including but not limited to any "Claims" as
13 defined in the Debtors' D&O insurance policy attached to the Motion (including any
14 modifications, renewals or extensions thereof) or under any related policies for the benefit of
15 creditors, shareholders and other parties in interest.
- 16 4. The Committee is authorized to take all actions necessary and appropriate
17 to exercise the authority granted to the Committee herein to pursue and prosecute the matters set
18 forth in paragraph 2 of this Order.
- 19 5. This Court shall retain jurisdiction to hear and determine all matters
20 arising from or related to the implementation of this Order.
- 21 6. A copy of this Order shall be served upon (i) the Office of the United
22 States Trustee, (ii) the Debtors and their counsel, and (iii) those persons who have requested
23 notice pursuant to Rule 2002 of the Federal Rules of Bankruptcy Procedure.

24
25 Dated: SEP 14 2007


The Honorable Robert N. Kwan
United States Bankruptcy Judge

26 *IN RE PEOPLE'S CHOICE HOME LOAN*
27 *CASE # 8:07-10765-RK*

28 L.A.:196810.1

L.A.:196710.1

NOTE TO USERS OF THIS FORM:
Physically attach this form as the last page of the proposed Order or Judgment.
Do not file this form as a separate document.

| | |
|---|----------------------------|
| In re PEOPLE'S CHOICE HOME LOAN, INC., et al. | CHAPTER <u>11</u> |
| Debtor. | CASE NUMBER SA 07-10765-RK |

NOTICE OF ENTRY OF JUDGMENT OR ORDER
AND CERTIFICATE OF MAILING

TO ALL PARTIES IN INTEREST ON THE ATTACHED SERVICE LIST:

1. You are hereby notified, pursuant to Local Bankruptcy Rule 9021-1(a)(1)(E), that a judgment or order entitled (specify):

ORDER AUTHORIZING OFFICIAL COMMITTEE OF UNSECURED CREDITORS TO PURSUE CLAIMS
AND GRANTING STANDING

was entered on (specify date): 9-14-07

2. I hereby certify that I mailed a copy of this notice and a true copy of the order or judgment to the persons and entities on the attached service list on (specify date): 9-14-07

Dated: 9-14-07

JON D. CERETTO
Clerk of the Bankruptcy Court

By: Elizabeth S. McKinley
Deputy Clerk

SERVICE LIST

Attys. for Official Committee of Unsecured Creditors
Justin E. Rawlins, Esq.
Winston & Strawn LLP
333 South Grand Avenue, 38th Floor
Los Angeles, CA 90071

List of Insurance Companies with Claim Information (Updated):

1. American International Specialty Lines Insurance Company
ATTN: C- Claims Department
AIG
175 Water Street, 9th Floor
New York, NY 10038

Policy No. 965-01-39
Subject: Notice of Claims Made Against Directors and Officers of People's Choice
Financial Corporation and Insured Affiliates

2. Westchester Fire Insurance Company
c/o ACE Westchester Specialty Group
Professional Risk Claims
500 Colonial Center Parkway
Roswell, GA 30076

Policy No. DOX G21940501 004
Subject: Notice of Claims Made Against Directors and Officers of People's Choice
Financial Corporation and Insured Affiliates

3. Navigators Insurance Company
One Penn Plaza, 55th Fl.
New York, NY 10119
Attn: Navigators Pro Claims Department

Policy No. NY06DOL095041NV
Subject: Notice of Claims Made Against Directors and Officers of People's Choice
Financial Corporation and Insured Affiliates

4. RSUI Indemnity Company
c/o Resurgens Specialty Underwriting, Inc.
945 East Paces Ferry Road
Suite 1800
Atlanta, GA 30326-1125

Policy No. HS622996
Subject: Notice of Claims Made Against Directors and Officers of People's Choice
Financial Corporation and Insured Affiliates

5. U.S. Specialty Insurance Company
c/o Director of Claims
Professional Indemnity Agency, Inc.
37 Radio Circle Drive
Mt. Kisco, NY 10549

Policy No. U706-60171
Subject: Notice of Claims Made Against Directors and Officers of People's Choice
Financial Corporation and Insured Affiliates

6. XL Specialty Insurance Company
c/o XL Professional
One Hundred Constitution Plaza, 18th Floor
Hartford, CT 06103
Attn: Claims Department

Policy No. ELU094538-06
Subject: Notice of Claims Made Against Directors and Officers of People's Choice
Financial Corporation and Insured Affiliates

7. Federal Insurance Company
Attn: Claims Department
c/o Chubb Group of Insurance Companies
15 Mountain View Road
Warren, NJ 07059

Policy No. 6802-9038
Subject: Notice of Claims Made Against Directors and Officers of People's Choice
Financial Corporation and Insured Affiliates

8. American International Specialty Lines Insurance Company
c/o A.I. Management and Professional Liability Claims Adjusters
P. O. Box 1000
New York, NY 10268

Policy No. 965-02-98
Subject: Notice of Claims Made Against Directors and Officers of People's Choice
Financial Corporation and Insured Affiliates

9. Axis Reinsurance Company
c/o Axis Financial Insurance Solutions Claims
Connell Corporate Park
Three Connell Drive
P. O. Box 357
Berkeley Heights, NJ 07922-0357

Policy No. RNN 721901/01/2006
Subject: Notice of Claims Made Against Directors and Officers of People's Choice
Financial Corporation and Insured Affiliates

FCHLI: Loan Sale Summary
Sales to PCFI

| Investor | Date | Principal Sold | Units | WAC | Sale Price |
|----------|----------|----------------|-------|-------|------------|
| PCFI | 12/5/05 | 614,276 | 7 | 6.844 | 101,5000 |
| PCFI | 10/11/05 | 194,010,588 | 987 | 7.597 | 101,5000 |
| PCFI | 10/21/05 | 13,785,228 | 77 | 7.895 | 101,5000 |
| PCFI | 8/1/05 | 118,380,248 | 615 | 7.716 | 102,5000 |
| PCFI | 9/23/05 | 163,499,528 | 1,058 | 7.886 | 102,5000 |
| PCFI | 8/11/05 | 200,880,376 | 983 | 7.351 | 101,8380 |
| PCFI | 7/18/05 | 336,887,933 | 1,878 | 7.187 | 101,8000 |
| PCFI | 7/28/05 | 128,548,961 | 681 | 7.146 | 101,8000 |
| PCFI | 8/11/05 | 90,570,358 | 406 | 6.875 | 102,4000 |
| PCFI | 8/27/05 | 5,820,030 | 18 | 6.870 | 102,4000 |
| PCFI | 5/4/05 | 129,400,034 | 731 | 7.324 | 102,6250 |

* Revised Bid Population = Initial Bid Population excluding P/O loans, Defunded loans, loans without issue removed per investor.

PCHLJ: Loan Sale Summary
Sales to PCFI

| | | | | | |
|------|----------|---------------|-------|-------|----------|
| PCFI | 5/1/05 | 185,178,646 | 681 | 7,101 | 102,5430 |
| PCFI | 5/26/05 | 207,659,146 | 1,062 | 7,298 | 102,5000 |
| PCFI | 4/7/05 | 215,598,457 | 1,132 | 7,258 | 102,1876 |
| PCFI | 4/13/05 | 120,000,251 | 682 | 7,401 | 102,1875 |
| PCFI | 4/18/05 | 86,973,533 | 343 | 7,425 | 102,1875 |
| PCFI | 4/27/05 | 181,471,946 | 839 | 7,404 | 102,6750 |
| PCFI | 3/14/05 | 173,306,659 | 1,016 | 7,384 | 102,6750 |
| PCFI | 3/28/05 | 182,895,249 | 969 | 7,219 | 102,5000 |
| PCFI | 2/4/05 | 181,939,814 | 658 | 7,281 | 103,0000 |
| PCFI | 2/24/05 | 84,512,842 | 327 | 7,422 | 102,8130 |
| PCFI | 2/28/05 | 180,820,082 | 823 | 7,111 | 102,8750 |
| PCFI | 1/5/05 | 80,092,460 | 504 | 7,211 | 103,0000 |
| PCFI | 1/6/05 | 19,664,010 | 119 | 7,529 | 103,0000 |
| PCFI | 1/7/05 | 79,844,290 | 482 | 7,247 | 103,0000 |
| PCFI | 1/23/05 | 141,511,186 | 891 | 7,418 | 103,0000 |
| PCFI | 1/31/05 | 101,112,024 | 505 | 7,184 | 103,0000 |
| PCFI | 12/26/04 | 1,016,315,993 | 5,818 | 7,325 | 102,3438 |

*) Revised Bld Population = Initial Bld Population excluding P/O loans, Delinquent loans, loans without issue removed per investor.

EXHIBIT E

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors and Stockholders
People's Choice Financial Corporation and Subsidiaries

We have audited the accompanying consolidated balance sheets of People's Choice Financial Corporation and subsidiaries (the "Company") as of December 31, 2005 and 2004, respectively, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2005. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America as established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of People's Choice Financial Corporation and subsidiaries as of December 31, 2005 and 2004, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2005, in conformity with accounting principles generally accepted in the United States of America.

Grant Thornton LLP

Irvine, California
April 14, 2006

**PEOPLE'S CHOICE FINANCIAL CORPORATION
AND SUBSIDIARIES**

CONSOLIDATED BALANCE SHEETS

| | <u>As of December 31,</u> | |
|---|---------------------------|---------------------|
| | <u>2005</u> | <u>2004</u> |
| | (dollars in thousands) | |
| Assets: | | |
| Cash and cash equivalents | \$ 86,649 | \$ 365,060 |
| Restricted cash | 80,476 | 635 |
| Mortgage loans held for sale, net of valuation allowance of \$12,711 and \$3,731, respectively | 1,231,938 | 158,321 |
| Mortgage loans held for investment, net of allowance for loan losses of \$34,924 and \$7,622, respectively | 4,180,200 | 2,352,295 |
| Accrued interest receivable | 31,153 | 12,129 |
| Derivative instruments, net | 41,464 | 24,230 |
| Fixed assets, net | 13,530 | 10,524 |
| Deferred income taxes | 22,348 | 32,361 |
| Income taxes receivable | 37,172 | 1,066 |
| Other assets | <u>52,791</u> | <u>26,505</u> |
| Total assets | <u>\$ 5,777,721</u> | <u>\$ 2,983,126</u> |
| Liabilities and Stockholders' Equity: | | |
| Warehouse financing facilities | \$ 1,209,216 | \$ 1,343,771 |
| Mortgage-backed securities, net | 4,145,635 | 1,184,753 |
| Other liabilities | <u>88,762</u> | <u>53,066</u> |
| Total liabilities | 5,443,613 | 2,581,590 |
| Commitments and contingencies | | |
| Stockholders' equity: | | |
| Preferred Stock, \$0.01 par value per share; 50,000,000 aggregate shares authorized; 0 shares issued and outstanding at December 31, 2005 and 2004 | — | — |
| Common Stock, \$0.01 par value per share; 450,000,000 aggregate shares authorized; 59,490,491 shares and 57,778,940 shares issued and outstanding at December 31, 2005 and 2004, respectively | 595 | 578 |
| Additional paid-in capital | 340,672 | 340,674 |
| Retained earnings (accumulated deficit) | (7,142) | 60,711 |
| Deferred compensation | <u>(17)</u> | <u>(427)</u> |
| Total stockholders' equity | <u>334,108</u> | <u>401,536</u> |
| Total liabilities and stockholders' equity | <u>\$ 5,777,721</u> | <u>\$ 2,983,126</u> |

The accompanying notes to these consolidated financial statements are an integral part of these consolidated statements.

**PEOPLE'S CHOICE FINANCIAL CORPORATION
AND SUBSIDIARIES**

CONSOLIDATED STATEMENTS OF INCOME

| | <u>For the Years Ended December 31,</u> | | |
|--|---|------------------|------------------|
| | <u>2005</u> | <u>2004</u> | <u>2003</u> |
| | (in thousands, except per share data) | | |
| Revenues: | | | |
| Interest income | \$ 309,747 | \$ 90,946 | \$ 26,287 |
| Interest expense | <u>172,783</u> | <u>33,027</u> | <u>9,328</u> |
| Net interest income | 136,964 | 57,919 | 16,959 |
| Provision for loan losses on loans held for investment | <u>39,734</u> | <u>7,622</u> | <u>—</u> |
| Net interest income after provision for loan losses | <u>97,230</u> | <u>50,297</u> | <u>16,959</u> |
| Other operating income: | | | |
| (Loss) gain on sale of loans, net | (22,408) | 84,510 | 77,093 |
| Servicing income, net | 20,211 | 1,002 | 271 |
| Mark-to-market gain (loss) and realized gains (losses) — derivative instruments | 20,451 | (1,843) | — |
| Other income (expense) | <u>597</u> | <u>(27)</u> | <u>331</u> |
| Total other operating income | <u>18,851</u> | <u>83,642</u> | <u>77,695</u> |
| Total revenues | 116,081 | 133,939 | 94,654 |
| Expenses: | | | |
| Other operating expenses: | | | |
| Personnel expense | 58,281 | 52,405 | 29,644 |
| Occupancy expense | 5,820 | 3,637 | 2,332 |
| Telephone and communication expense | 1,230 | 808 | 620 |
| Data processing expense | 4,673 | 2,706 | 1,287 |
| Professional expense | 14,087 | 2,619 | 1,247 |
| Advertising and promotional expense | 11,248 | 4,017 | 1,769 |
| General and administrative expense | <u>16,256</u> | <u>6,152</u> | <u>3,846</u> |
| Total operating expenses | <u>111,595</u> | <u>72,344</u> | <u>40,745</u> |
| Income before provision for income taxes | 4,486 | 61,595 | 53,909 |
| (Benefit) provision for income taxes | <u>(8,048)</u> | <u>27,251</u> | <u>23,079</u> |
| Net income | <u>\$ 12,534</u> | <u>\$ 34,344</u> | <u>\$ 30,830</u> |
| Earnings per common share: | | | |
| Basic earnings per share | \$ 0.21 | N/A | N/A |
| Diluted earnings per share | 0.20 | N/A | N/A |
| Weighted average shares outstanding: | | | |
| Basic weighted average shares outstanding | 58,901 | N/A | N/A |
| Diluted weighted average shares outstanding | 63,462 | N/A | N/A |

The accompanying notes to these consolidated financial statements are an integral part of these consolidated statements.

**PEOPLE'S CHOICE FINANCIAL CORPORATION
AND SUBSIDIARIES**

**CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
For the Years Ended December 31, 2005, 2004 and 2003**

| | <u>Common Shares Outstanding</u> | <u>Common Stock</u> | <u>Additional Paid-in Capital</u> | <u>Retained Earnings (Accumulated Deficit)</u> | <u>Deferred Compensation</u> | <u>Total Stockholders' Equity</u> |
|--|--|-------------------------|---|--|----------------------------------|---|
| | (in thousands) | | | | | |
| Balance, December 31, 2002 | 70 | \$ — | \$ 4,705 | \$ 10,765 | \$ (2,114) | \$ 13,356 |
| Deferred compensation recognized | — | — | — | — | 832 | 832 |
| Net income, 2003 | — | — | — | 30,830 | — | 30,830 |
| Balance, December 31, 2003 | 70 | — | 4,705 | 41,595 | (1,282) | 45,018 |
| Issuance of common stock, net | 35,318 | 354 | 324,842 | — | — | 325,196 |
| Stock options granted | — | — | 5,409 | — | — | 5,409 |
| Exchange of PCFC common stock | 19,246 | 192 | (192) | — | — | — |
| Exchange of PCHLI common stock | (70) | — | — | — | — | — |
| Exercise of warrants | 1,809 | 18 | — | — | — | 18 |
| Exercise of stock options | 1,406 | 14 | 17 | — | — | 31 |
| Tax benefit from exercise of stock options | — | — | 5,893 | — | — | 5,893 |
| Deferred compensation recognized | — | — | — | — | 855 | 855 |
| Dividends | — | — | — | (15,228) | — | (15,228) |
| Net income, 2004 | — | — | — | 34,344 | — | 34,344 |
| Balance, December 31, 2004 | 57,779 | 578 | 340,674 | 60,711 | (427) | 401,536 |
| Exercise of stock options | 2,409 | 24 | 30 | — | — | 54 |
| Tax benefit from exercise of stock options | — | — | 5,380 | — | — | 5,380 |
| Repurchase of common stock | (698) | (7) | (5,412) | — | — | (5,419) |
| Deferred compensation recognized | — | — | — | — | 410 | 410 |
| Dividends | — | — | — | (80,387) | — | (80,387) |
| Net income, 2005 | — | — | — | 12,534 | — | 12,534 |
| Balance, December 31, 2005 | <u>59,490</u> | <u>\$ 595</u> | <u>\$ 340,672</u> | <u>\$ (7,142)</u> | <u>\$ (17)</u> | <u>\$ 334,108</u> |

The accompanying notes to these consolidated financial statements are an integral part of these consolidated statements.

**PEOPLE'S CHOICE FINANCIAL CORPORATION
AND SUBSIDIARIES**

CONSOLIDATED STATEMENTS OF CASH FLOWS

| | <u>For the Years Ended December 31,</u> | | |
|--|---|--------------------|------------------|
| | <u>2005</u> | <u>2004</u> | <u>2003</u> |
| | (dollars in thousands) | | |
| Cash flows from operating activities: | | | |
| Net income | \$ 12,534 | \$ 34,344 | \$ 30,830 |
| Adjustments to reconcile net income to net cash and cash equivalents (used in) provided by operating activities: | | | |
| Loss (gain) on sale of loans, net | 22,408 | (84,510) | (77,093) |
| Provision for loan losses on loans held for investment | 39,734 | 7,622 | — |
| Depreciation and amortization | 3,366 | 2,070 | 1,015 |
| Loans originated and purchased for sale, net | (5,773,708) | (5,150,142) | (3,050,560) |
| Loan sales and collections | 1,383,805 | 3,084,914 | 2,838,236 |
| Increase in accrued interest | (19,024) | (11,479) | (460) |
| Mark to market -- derivative instruments | (16,239) | 1,843 | — |
| Gain on sale of mortgage servicing rights | (260) | (152) | — |
| Proceeds from sale of mortgage servicing rights | 10,474 | 3,715 | — |
| Amortization of loan discount and net deferred origination costs on mortgage loans held for investment | 7,695 | 1,353 | — |
| Amortization of bond discount and deferred financing costs | 11,983 | 2,698 | — |
| Deferred compensation | 410 | 855 | 832 |
| Issuance of common stock options below market value | — | 5,409 | — |
| Loss on disposal of fixed assets | 297 | 10 | 258 |
| Deferred income taxes | 10,013 | (15,950) | (10,667) |
| Net change in other assets and liabilities | (29,649) | (21,073) | 13,081 |
| Net cash used in operating activities | <u>(4,336,161)</u> | <u>(2,138,473)</u> | <u>(254,528)</u> |
| Cash flows from investing activities: | | | |
| Increase in restricted cash | (79,841) | (335) | — |
| Principal payments received on mortgage loans held for investment, net | 1,406,597 | 116,986 | — |
| Purchase of furniture, fixtures, and equipment | (6,669) | (4,701) | (7,421) |
| Net cash provided by (used in) investing activities | <u>1,320,087</u> | <u>111,950</u> | <u>(7,421)</u> |
| Cash flows from financing activities: | | | |
| Net (reduction in) proceeds from warehouse financing facilities | (134,555) | 893,409 | 263,192 |
| Proceeds from issuance of mortgage-backed securities | 4,338,728 | 1,333,264 | — |
| Debt issuance costs | (10,869) | (4,532) | — |
| Payments of mortgage-backed securities | (1,371,513) | (145,153) | — |
| Purchase of derivative instruments | (996) | (26,073) | — |
| Proceeds from issuance of common stock, net of offering costs | — | 325,196 | — |
| Proceeds from warrants exercised | — | 18 | — |
| Proceeds from common stock options exercised | 54 | 31 | — |
| Payment for redemption of preferred stock | — | (3,480) | — |
| Payment for repurchase of common stock | (5,419) | — | — |
| Payment of dividends to common stockholders | (77,767) | — | — |
| Net cash provided by financing activities | <u>2,737,663</u> | <u>2,372,680</u> | <u>263,192</u> |
| Net (decrease) increase in cash and cash equivalents | (278,411) | 346,157 | 1,243 |
| Cash and cash equivalents at beginning of period | <u>365,060</u> | <u>18,903</u> | <u>17,660</u> |
| Cash and cash equivalents at end of period | <u>\$ 86,649</u> | <u>\$ 365,060</u> | <u>\$ 18,903</u> |
| Supplemental disclosure of cash flow information: | | | |
| Cash paid during the year for: | | | |
| Interest | \$ 163,688 | \$ 31,055 | \$ 8,640 |
| Income taxes | 10,905 | 50,753 | 24,751 |
| Supplemental disclosure of significant non-cash activity: | | | |
| Transfer of loans held for sale to loans held for investment | \$3,310,008 | \$2,481,788 | \$ — |
| Transfer of loans held for sale to real estate owned | 6,228 | 589 | — |
| Transfer of loans held for investment to real estate owned | 19,071 | — | — |

The accompanying notes to these consolidated financial statements are an integral part of these consolidated statements.

**PEOPLE'S CHOICE FINANCIAL CORPORATION
AND SUBSIDIARIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Organization

People's Choice Financial Corporation (the "Company" or "PCFC"), a Maryland corporation, was formed on May 5, 2004. The Company first elected to be taxed as a real estate investment trust ("REIT"), under the Internal Revenue Code, commencing with its taxable year ended December 31, 2004. The Company is engaged in the business of originating, selling, securitizing, and servicing single-family, non-prime residential mortgage loans through its wholly-owned subsidiaries, People's Choice Home Loan, Inc. ("PCHLI"), a Wyoming corporation, formed on December 29, 1999 and People's Choice Funding, Inc. ("PCFI"), a Delaware corporation, formed on May 5, 2004. Prior to December 28, 2004, PCHLI operated as a separate C Corporation. PCHLI began operating as a taxable REIT subsidiary of PCFC on December 28, 2004. PCFI operates as a qualified REIT subsidiary of PCFC.

PCHLI currently has three subsidiaries, two of which were formed to facilitate securitizations and warehouse financing facilities. People's Choice Home Loan Securities Corp. ("PCSC") was formed on December 17, 2003 as a Delaware corporation to facilitate the securitization of mortgage loans. People's Choice Funding II was formed as a statutory trust in Delaware on October 31, 2003. Wilmington Trust Company is the "owner/trustee" of People's Choice Funding II, and through November 2005, PCHLI contributed mortgage loans to this entity for acquisition by DB Structured Products, Inc., pursuant to a repurchase facility. People's Choice Consulting, LLC ("PCC"), was formed as a limited liability company in California on July 25, 2003 for the acquisition and operation of the Company's transportation equipment.

As part of the merger agreement and formation transactions that took place on December 28, 2004, the Company conducted a common stock offering, whereby it sold 35,318,410 shares of common stock at \$10.00 per share, less an initial purchaser's discount, advisor fees and other offering expenses for net proceeds of \$325.2 million. As a result of the merger, all of the outstanding shares of convertible preferred stock of PCHLI were redeemed for \$3.5 million. In accordance with the merger agreement, each share of common stock of PCHLI was exchanged for 271.067 shares of common stock. Furthermore, as a result of the merger, the Company was obligated to pay a common stock cash dividend in an amount equal to the amount, if any, by which PCHLI's total stockholder's equity, including convertible preferred stock, on the date immediately prior to the offering exceeded PCHLI's total stockholder's equity, including convertible preferred stock, on September 30, 2004. The dividend totaled \$15.2 million and was accrued as a dividend payable and a reduction to retained earnings on PCFC's consolidated balance sheet at December 31, 2004. In March 2005, the dividend was paid in full by PCHLI, using PCHLI funds. Holders of options to purchase shares of PCHLI common stock that were outstanding immediately before the merger received in exchange for their PCHLI options, options to purchase 8,945,220 shares of the Company's common stock, based on the merger exchange ratio (with a proportional adjustment in the exercise price per share), with the same vesting rights as their PCHLI options. In addition, warrants to purchase shares of PCHLI common stock, all of which were held by Lehman Commercial Paper, Inc., were converted into warrants to purchase 1,809,002 shares of our common stock, all of which were exercised. Immediately before the closing of the offering, one of the Company's subsidiaries was merged with PCHLI, with PCHLI as the surviving entity and, as a result, PCHLI became a wholly-owned subsidiary of PCFC. As required by Statement of Financial Accounting Standards No. 141 ("SFAS 141"), "Business Combinations", the transaction was accounted for as a transfer of net assets between entities under common control. The financial statements of PCFC recorded the net assets transferred at their carrying values in the accounts of PCHLI, as though the transfer occurred as of January 1, 2004.

The Company focuses on the single-family, non-prime residential mortgage lending market, namely mortgages that do not meet all of the credit, collateral, and documentation requirements necessary to be eligible for sale to Fannie Mae or Freddie Mac. Loans originated by the Company are extended on the basis of the Company's evaluation of the creditworthiness of the borrower and the equity in the borrower's property. PCHLI began interim servicing on all loans funded beginning in August 2002. Since August 2002, PCHLI services all funded loans from the date of origination to the time the investors request transfer of the loan servicing, which is typically up to 90 days from the sale date. The Company services loans held in securitization trusts for longer periods of time under a sub-servicing arrangement which requires the Company to pay a master servicing fee to the master servicer. The aggregate outstanding balance of mortgage loans serviced held in securitization trusts was \$2.8 billion at December 31, 2005. The aggregate outstanding balance of mortgage loans serviced on an interim basis by the Company was \$1.8 billion at December 31, 2005.

PCHLI has been operating as a finance company, primarily engaged in the business of originating, selling and securitizing home mortgages secured by single-family residences. At December 31, 2005, PCHLI operated 20 wholesale branch offices and 10 retail offices throughout the United States. PCHLI originates mortgage loans on a nationwide basis through its broker and retail production channels.

**PEOPLE'S CHOICE FINANCIAL CORPORATION
AND SUBSIDIARIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

In April 2004, PCHLI began securitizing loans and issuing mortgage-backed securities through its wholly-owned subsidiary, PCSC. PCSC completed two securitizations, People's Choice Home Loan Securities Trust Series 2004-1 and 2004-2 in April and August of 2004, respectively. In 2005, PCFI, the Company's qualified REIT subsidiary, began securitizing loans and completed four securitizations, People's Choice Home Loan Securities Trust Series 2005-1, 2005-2, 2005-3, and 2005-4 in January, April, July, and October 2005, respectively. On a go forward basis, the Company expects that most of the securitizations will involve loans held by PCFI, a qualified REIT subsidiary. PCHLI will continue to originate and sell a portion of the mortgage loans originated to outside investors, as well as to the Company's qualified REIT subsidiary, PCFI.

As a REIT, the Company generally is not subject to federal corporate taxes on income produced by the investment portfolio or other REIT income to the extent that income is distributed to the stockholders and other REIT requirements of the Internal Revenue Code are met. The REIT structure allows the Company the flexibility to originate, sell, and securitize mortgage loans through the taxable REIT subsidiary, PCHLI, to provide for future growth in the Company's capital base and operations. PCHLI is subject to federal, state, and local corporate taxes on its income.

The consolidated financial statements hereafter refer to PCFC and its wholly-owned subsidiaries, collectively as the "Company".

2. Summary of Significant Accounting Policies

Principles of Accounting and Consolidation

The Company's policy is to prepare its financial statements on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. The accompanying consolidated financial statements include the consolidated financial statements of the Company's wholly-owned subsidiaries, PCHLI, PCFI and PCC. All material inter-company balances and transactions among PCFC and its wholly-owned subsidiaries are eliminated in consolidation.

Use of Estimates

The preparation of consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although we base our estimates and assumptions on historical experience and on various other factors that management believes to be reasonable under the circumstances, our management exercises significant judgment in the final determination of our estimates. Actual results may differ from these estimates. The areas that require significant judgment by management include: deferred and prepaid taxes, the carrying value of loans held for sale, deferred fees, deferred debt issuance costs, allowance for loan losses on loans held for investment, valuation of derivative instruments and income taxes.

Mortgage Banking Activities

The Company depends on its ability to sell and securitize loans in the secondary markets, as market conditions allow, to generate cash proceeds to pay down its warehouse financing facilities and fund new originations. The ability of the Company to sell and securitize mortgage loans on acceptable terms is essential for the continuation of the Company's mortgage loan origination operations. Prior to April 2004, the Company derived its revenue primarily through the sale of mortgage loans to various third-party purchasers under purchase and sale agreements. Currently, the Company primarily derives its revenue from net interest income from loans held for investment.

In the ordinary course of business, a purchaser of a loan from the Company may request that the Company refund a portion of the premium paid by the purchaser to the Company at the time of sale if the loan is prepaid in full or alleged violations of standard representations and warranties occur within a certain amount of time from the date of sale. The Company records a repurchase allowance to cover potential premium recapture on loans sold, which is charged to the provision for repurchases.

PEOPLE'S CHOICE FINANCIAL CORPORATION
AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

Cash and Cash Equivalents

For purposes of financial statement presentation, the Company considers all liquid investments with an original maturity of three months or less to be cash equivalents.

Restricted Cash

The Company had \$80.5 million and \$635,000 of restricted cash as of December 31, 2005 and 2004, respectively. Restricted cash includes \$225,000 and \$300,000 at December 31, 2005 and 2004, respectively, held as collateral for a standby letter of credit issued in connection with a lease of office space. Restricted cash also includes \$76.3 million and \$335,000 at December 31, 2005 and 2004, respectively, held in separate restricted accounts in the 2004-1, 2004-2, 2005-1, 2005-2, 2005-3, and 2005-4 securitization trusts as collateral. Additionally, as of December 31, 2005, restricted cash includes \$4.0 million in cash held in margin accounts associated with the Company's interest rate risk management activities. In March 2006, restricted cash required as collateral for a standby letter of credit in connection with a lease of office space was reduced to \$150,000.

Mortgage Loans Held for Sale, Net

Mortgage loans held for sale are mortgage loans the Company plans to sell as whole loans and are carried at the lower of aggregate cost, net of deferred loan origination costs and fees, or market calculated on an aggregate pool basis for loans with similar characteristics. Nonrefundable fees and direct costs associated with the origination of mortgage loans held for sale are deferred and recognized when the loans are sold. The fair value of mortgage loans held for sale is determined using current investor commitments or, in the absence of such commitments, fair value is based upon quoted market prices for loans of similar credit quality. The Company maintains a valuation allowance for certain loans held for sale that are severely delinquent, have significant collateral deficiencies or have other attributes that reduce their sale potential such that the cost exceeds market value. The valuation allowance is based upon the Company's estimate of expected losses, generally based on the Company's loss history for similar loans. Changes in the valuation allowance are included in the determination of net income in the period in which the change occurs and included in (loss) gain on sale of loans.

Mortgage Loans Held for Investment, Net

During 2004 and 2005, the Company completed six securitizations totaling \$5.7 billion. The securitizations were treated as financings under SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities—a replacement of FASB Statement No. 125."

Mortgage loans held for investment are carried at cost, net of discounts, deferred origination costs, and an allowance for loan losses. Discounts, nonrefundable fees and direct costs associated with the origination of the loans are deferred and amortized to interest income on a level yield basis over the estimated life of the loans. Mortgage loans held for sale are transferred to mortgage loans held for investment when such loans have been included or identified for inclusion in a securitization transaction. For financial reporting purposes, the transfer is recorded at the carrying value of the loan at the date of transfer.

The Company securitizes its loans held for investment by transferring loans to a trust that issues long term debt. The securitizations are structured legally as sales, but for accounting purposes are treated as financings under SFAS No. 140. The securitizations do not meet the qualifying special purpose entity criteria under SFAS No. 140 and related interpretations because after the loans are securitized, the securitization trusts have the ability to acquire derivatives relating to the beneficial interests retained by the Company and, the servicer, on behalf of the securitization trusts, may also, in its discretion, as an alternative to foreclosure, sell defaulted mortgage loans at fair market value to third-parties, if the servicer reasonably believes that such sale would maximize proceeds with respect to that mortgage loan. Accordingly, the loans remain on the balance sheet, retained interests are not created, and mortgage-backed securities are issued to replace the warehouse financing facility debt originally associated with the mortgage loans.

**PEOPLE'S CHOICE FINANCIAL CORPORATION
AND SUBSIDIARIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

The Company has sold and contracted to sell mortgage servicing rights for the mortgage loans held for investment to unrelated third party sub-servicers. At the date the mortgage servicing rights are sold, the Company allocates a portion of the basis in the mortgage loans to the mortgage serving rights, which results in a discount to the mortgage loans held for investment. That discount is accreted as an adjustment to yield on the mortgage loans held for investment over the life of the mortgage loans. In accordance with AICPA Statement of Position 01-6, "Accounting by Certain Entities (Including entities with Trade Receivables) That Lend to or Finance the Activities with Others", the carrying value of the mortgage loan is allocated between the mortgage loan basis and the mortgage servicing right basis consistent with the relative fair value method prescribed in SFAS No. 140. As a result, only a nominal gain is realized from the sale of the mortgage servicing rights and a discount is recorded on the mortgage loans held for investment. Additionally, loans identified for future securitizations are classified as loans held for investment.

The Company records interest income on mortgage loans held for investment and interest expense on the mortgage-backed securities issued in the securitizations over the life of the securitizations.

Real Estate Owned

When a loan is deemed to be uncollectible and the property is foreclosed, it is transferred to real estate owned at net realizable value. Net realizable value is defined as the property's fair value less estimated costs to sell. Individual real estate owned properties are periodically evaluated, and additional impairments are recorded as required. The majority of the costs of holding this real estate and related gains and losses on disposition are credited or charged to operations as incurred. At December 31, 2005 and 2004, real estate owned amounting to \$16.7 million and \$589,000, respectively, was included in other assets in the accompanying consolidated balance sheets.

Allowance for Loan Losses

Allowances for loan losses have been provided on certain non-performing loans and other loans held for investment. The allowance is based on the Company's estimate of losses inherent and probable as of its balance sheet date. Provisions for losses are charged to operations and credited to the allowance for loan losses. The Company charges off uncollectible loans at the time of liquidation. On an ongoing basis, management monitors and evaluates the adequacy of the allowance for loan losses. In determining the adequacy of the allowance for loan losses, management considers such factors as current performance of the loans, historical loss experience, underlying collateral values, known problem loans, assessment of economic conditions, and other appropriate data to identify the risks in the mortgage loans held for investment. The amount of the allowance for loan losses is based on estimates and ultimate losses may vary from current estimates.

Interest Income

Interest income is recorded as earned. Interest income represents the interest earned on loans held for sale during the period prior to their sale, as well as interest earned on loans held for investment, recorded over the life of the loans. For loans that are 90 days or more delinquent, the Company reverses interest income previously recognized but not collected, and ceases to accrue interest income until all past-due amounts are collected. At December 31, 2005 and 2004, there were loans with an unpaid principal balance of \$156.5 million and \$11.6 million on non-accrual status, respectively.

Loan Origination Costs and Deferred Debt Issuance Costs

Interest income on the mortgage loan portfolio is a combination of the accrual of interest based on the outstanding balance and contractual terms of the mortgage loans, adjusted by the amortization of net deferred origination costs related to originations in the investment portfolio, in accordance with Statement of Financial Accounting Standards No. 91, "Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases" (Statement No. 91). Net deferred origination costs consist primarily of premiums, discounts and other net capitalized fees and costs associated with originating mortgage loans. For loans held for investment, these net deferred costs are amortized as adjustments to interest income over the estimated lives of the loans using the effective yield method. Because the Company holds a large number of similar loans for which prepayments are probable and for which the timing of such prepayments can reasonably be estimated, prepayment estimates are currently factored in determining periodic amortization based on a model that considers actual prepayment experience to-date, as well as forecasted prepayments based on the contractual interest rate on the loans, loan age, loan type, prepayment fee coverage, and a variety of other factors. Mortgage

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prepayments are also affected by the terms and credit grades of the loans, conditions in the housing and financial markets and general economic conditions. Prepayment assumptions are reviewed regularly to ensure that actual Company experience as well as industry data are supportive of prepayment assumptions used in the model. Updates that are required to be made to these estimates are applied as if the revised estimates had been in place since the origination of the loans and result in adjustments to the current period amortization recorded to interest income.

Deferred debt issuance costs and discount related to the mortgage-backed securities are amortized to interest expense using the effective yield method in a manner that anticipates prepayments.

(Loss) Gain on Sale of Loans, Net

Gains or losses resulting from sales of mortgage loans are recognized at the date of settlement and are based on the difference between the selling price and the carrying value of the related loans sold. Also included in (loss) gain on sales of loans are adjustments to the valuation allowance for loans held for sale and repurchase allowance. As part of the sale of the mortgage loans, the Company normally sells the servicing rights. The purchasing company pays the Company a service release premium for that right. This premium is included in "(loss) gain on sale of loans, net" in the accompanying consolidated statements of income.

Loan sales are accounted for as sales when control of the loans is surrendered, to the extent that consideration other than beneficial interest in the loans transferred is received in the exchange.

Repurchase Allowance

The Company records a repurchase allowance for loans sold to investors where there is the potential for repurchase of those loans or indemnification of losses based on alleged violations of representations and warranties which are customary to the mortgage banking industry. Provisions for losses are charged to operations and credited to the repurchase allowance and are determined by management based upon the Company's evaluation of the potential exposure related to the loan sale agreements over the life of the associated loans sold. In determining the adequacy of the repurchase allowance, management considers such factors as historical loss experience, underlying collateral values, assessment of economic conditions and other appropriate data to identify the risks associated with the potential repurchase of loans sold. The repurchase allowance is included in other liabilities in the accompanying consolidated balance sheets. The amount of the repurchase allowance is based on estimates and ultimate losses may vary from current estimates.

Hedging Activities

In connection with the Company's strategy to mitigate interest rate risk, the Company uses derivative financial instruments, such as interest rate cap and interest rate swap contracts. The Company also uses Eurodollar futures to hedge interest rate risk. It is not the Company's policy to use derivatives to speculate on interest rates. These derivative instruments have an active secondary market and are intended to provide income and cash flow to offset potential reduced net interest income and cash flow under certain interest rate environments. In accordance with Statement on Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended and interpreted ("SFAS 133"), the derivative financial instruments and any related margin accounts are reported on the consolidated balance sheets at their fair value. The Company currently accounts for its derivative financial instruments as undesignated derivative instruments. The fair value of the Company's derivative instruments are included in the consolidated balance sheet. Any realized or unrealized changes in the fair value of derivative instruments are reported in the consolidated statements of income in the period in which the changes occur. Prior to 2004, the Company did not use derivative financial instruments. The Company's derivative instruments did not qualify for hedge accounting treatment during the years ended December 31, 2005 and 2004.

Loan Servicing and Other Fees

PCHLI performs interim servicing functions on mortgage loans originated by the Company, prior to the transfer of the servicing to the purchasers of the loans, typically for a period of up to 90 days from origination. Fees for servicing loans are credited to income when earned. Other loan fees, which represent income from the prepayment of loans and delinquent payment charges on loans held for investment are recorded as revenue when collected. Securitization administration

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expenses represent third party costs of servicing loans which are expensed as incurred. Servicing income, net was comprised of the following components for the years ended December 31, 2005, 2004, and 2003:

| | <u>For the Years Ended December 31,</u> | | |
|---------------------------------------|---|-----------------|---------------|
| | <u>2005</u> | <u>2004</u> | <u>2003</u> |
| | (in thousands) | | |
| Prepayment penalty fees | \$ 29,610 | \$ 2,136 | \$ 59 |
| Loan servicing income | 327 | 367 | 184 |
| Delinquent payment charges and other | 950 | 130 | 28 |
| Securitization administration expense | <u>(10,676)</u> | <u>(1,631)</u> | <u>—</u> |
| Servicing income, net | <u>\$ 20,211</u> | <u>\$ 1,002</u> | <u>\$ 271</u> |

Escrow and Fiduciary Funds

The Company maintains segregated bank accounts in trust for purchasers of loans with respect to payments on securitized loans and mortgage loans serviced for investors, as well as for mortgagors with respect to property tax and hazard insurance premium payments escrowed by mortgagors with the Company. These accounts amounted to \$26.1 million and \$28.0 million at December 31, 2005 and 2004, respectively. As these amounts are not owned by the Company, they are not included in the accompanying consolidated financial statements.

Fixed Assets

Premises and equipment are stated at cost, less accumulated depreciation or amortization. Depreciation on premises and equipment is recorded using the straight-line method over the estimated useful lives of individual assets, typically three to thirty years. Leasehold improvements are amortized over the terms of their related leases, which range from three to six years or the estimated useful lives of improvements, whichever is shorter. When assets are disposed of, the applicable costs and accumulated depreciation thereon are removed from the accounts and any resulting gain or loss is included in current operations.

Income Taxes

The Company has elected to be taxed as a REIT for federal income tax purposes, commencing with the taxable year ending December 31, 2004. Qualification as a REIT is dependent upon the Company's ability to meet, on a continuing basis, various complex requirements under the Internal Revenue Code relating to, among other things, the sources of the Company's gross income, the composition and values of the Company's assets, distribution levels and the diversity of ownership of the Company's capital stock.

As a REIT, the Company generally will not be subject to federal and state income tax if it meets the REIT requirements under the Internal Revenue Code. The Company's subsidiary that meets the requirements of the Internal Revenue Code to be a qualified REIT subsidiary is not generally required to pay federal and most state income taxes. However, the Company's wholly-owned subsidiary, PCHLI, is a taxable REIT Subsidiary ("TRS"). As a TRS, PCHLI, is subject to federal and state taxes on its income. Accordingly, the Company must recognize income taxes in accordance with SFAS No. 109 "Accounting for Income Taxes," for its taxable REIT subsidiary, whose conduct of the mortgage banking and other businesses is fully taxable at regular corporate rates. SFAS No. 109 requires that inter-period income tax allocation be based on the asset and liability method. Accordingly, the Company has recognized the tax effects of temporary differences between its tax and financial reporting basis of assets and liabilities that will result in taxable or deductible amounts in future periods.

Under the asset and liability method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on

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deferred tax assets and liabilities from a change in tax rates is recognized in income in the period that includes the enactment date.

The Company records a valuation allowance if, based on the weight of available evidence, it is more likely than not that some portion or all of the deferred tax asset will not be realized, as required by SFAS 109. In determining the possible realization of deferred tax assets, the Company considers future taxable income from the following sources: (i) the reversal of taxable temporary differences, (ii) taxable income from future operations and (iii) tax planning strategies that, if necessary, would be implemented to accelerate taxable income into periods in which net operating losses might otherwise expire.

Loan sales from PCHLI, the Company's TRS, to the REIT are recorded at estimated fair value as of the date of sale and the gain or loss on sale is included in the taxable income of PCHLI and a loan premium is recorded in the Company's separate accounts. This intercompany gain or loss and loan premium are eliminated upon consolidation for financial reporting purposes. The difference between PCFI's tax basis in the acquired loans and the basis in the loans for financial reporting purposes is not considered a temporary difference for which deferred taxes are provided. The amount of tax paid or to be paid by PCHLI in its separate return related to this gain is recorded as prepaid taxes for financial reporting purposes and amortized as tax expense over the estimated life of the related loans using the effective yield method.

Stock Options and Stock-Based Compensation

The Company accounts for stock-based compensation using the intrinsic value method prescribed in Accounting Principles Board Opinion ("APB") No. 25, "Accounting for Stock Issued to Employees," and related interpretations. Accordingly, compensation cost for stock options is measured as the excess, if any, of the fair value of the Company's stock at the date of grant over the exercise price.

SFAS No. 123, "Accounting for Stock-Based Compensation," ("SFAS No. 123") encourages, but does not require, companies to record compensation cost for stock-based employee compensation plans at fair value. The Company has adopted the disclosure only provisions of SFAS No. 123.

At December 31, 2005 and 2004, there were stock options outstanding for the purchase of 5,814,387 and 7,539,470 shares, respectively, of the Company's common stock. Had compensation cost for the Company's stock-based compensation plans been determined based on the fair value at the grant date for awards consistent with the provisions of SFAS No. 123, the Company's net income would have been reduced to the pro forma amounts indicated below:

| | <u>For the Years Ended December 31,</u> | | |
|---|---|------------------|------------------|
| | <u>2005</u> | <u>2004</u> | <u>2003</u> |
| | (in thousands) | | |
| Net income as reported | \$ 12,534 | \$ 34,344 | \$ 30,830 |
| Add: Stock-based employee compensation expense included in reported net income, net of related tax effects | 287 | 513 | 499 |
| Deduct: Stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects | (450) | (559) | (534) |
| Pro forma net income | <u>\$ 12,371</u> | <u>\$ 34,298</u> | <u>\$ 30,795</u> |
| Basic earnings per share: | | | |
| As reported | \$ 0.21 | N/A | N/A |
| Pro forma | 0.21 | N/A | N/A |
| Diluted earnings per share: | | | |
| As reported | \$ 0.20 | N/A | N/A |
| Pro forma | 0.19 | N/A | N/A |
| Basic weighted average shares outstanding: | | | |
| As reported | 58,901 | N/A | N/A |
| Pro forma | 58,901 | N/A | N/A |
| Diluted weighted average shares outstanding: | | | |
| As reported | 63,462 | N/A | N/A |
| Pro forma | 63,462 | N/A | N/A |

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The fair value of stock options granted is estimated at the date of grant using the Black-Scholes option-pricing model. Stock options granted during the year ended December 31, 2004 were recorded as compensation expense using the intrinsic value method. There were no stock options granted during the year ended December 31, 2003 that were required to be valued using the Black-Scholes option pricing model. During 2005, the Company granted 1,030,000 stock options with a weighted average fair value of \$1.20 per option, estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions: dividend yield of 16%; expected volatility of 47.01%; weighted average risk-free interest rate at the date of grant of 3.25%; and an expected life of 3 years.

Advertising Expense

The Company's policy is to charge advertising costs to expense when incurred.

Recent Accounting Pronouncements

In December 2004, the Financial Accounting Standards Board ("FASB") issued a revision of SFAS No. 123, *Accounting for Stock-Based Compensation*, which also supersedes APB 25, *Accounting for Stock Issued to Employees* ("SFAS 123R"). The revised standard eliminates the alternative to use Opinion 25's intrinsic value method of accounting and eliminates the disclosure only provisions of SFAS No. 123. The revised standard applies to all awards granted after December 31, 2005 and requires the recognition of compensation expense in the financial statements for all share-based payment transactions subsequent to that date. The revised standard also requires the prospective recognition of compensation expense in the financial statements for all unvested options after January 1, 2006. The adoption of SFAS 123R is not expected to be materially different from the pro forma expense disclosed. However, future changes to the various assumptions used to determine the fair-value of awards issued or the amount and type of equity awards granted create uncertainty as to the amount of stock-based compensation expense realized. The Company adopted SFAS 123R on January 1, 2006.

In June 2005, the FASB issued Statement of Financial Accounting Standards No. 154 ("SFAS 154"), *Accounting Changes and Error Corrections a replacement of APB Opinion No. 20 and FASB Statement No. 3*. SFAS 154 applies to all voluntary changes in accounting principle. APB Opinion 20 previously required that most voluntary changes in accounting principle be recognized by including in net income of the period of the change the cumulative effect of changing to the new accounting principle. SFAS 154 replaces APB Opinion 20 and requires retrospective application to prior periods' financial statements of changes in accounting principle, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. SFAS 154 is effective for the fiscal years beginning after December 15, 2005.

In February 2006, the FASB issued Statement of Financial Accounting Standards No. 155 ("SFAS 155"), *Accounting for Certain Hybrid Financial Instruments an amendment of FASB Statements No. 133 and 140*. SFAS 155 permits fair value measurement for certain hybrid instruments, clarifies which interest-only and principal-only strips are subject to SFAS 133, clarifies and establishes requirements related to embedded derivatives, and amends SFAS 140 to eliminate the prohibition on QSPEs holding certain derivative financial instruments. SFAS 155 is effective for fiscal years beginning after September 15, 2006. The Company has not yet determined the impact SFAS 155 will have on its financial statements.

In March 2006, the FASB issued Statement of Financial Accounting Standards No. 156 ("SFAS 156"), *Accounting for Servicing of Financial Assets—an amendment of FASB Statement No. 140*. SFAS 156 requires companies to record a servicing asset or servicing liability each time it undertakes an obligation to service a financial asset from (i) the transfer of financial assets that meet the requirements for sale accounting, (ii) a transfer of financial assets to a QSPE in a guaranteed mortgage securitization in which the transferor retains the securities and accounts for them as available-for-sale or trading, or (iii) an acquisition or assumption of an obligation to service financial assets that does not relate to financial assets of the servicer or its affiliates. In addition, SFAS 156 requires all separately recognized servicing assets and servicing liabilities to be initially measured at fair value, if practicable. SFAS 156 is effective for fiscal years beginning after September 15, 2006. The Company has not yet determined the impact SFAS 156 will have on its financial statements.

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Reclassifications

Certain items in the prior year financial statements have been reclassified to conform to the current year's presentation.

3. Concentrations of Risk

The Company maintains cash accounts in financial institutions that are guaranteed by the Federal Deposit Insurance Corporation ("FDIC") up to \$100,000. At times, cash balances may be in excess of the amounts insured by the FDIC. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

The Company's ability to continue to originate loans is dependent, in part, upon its ability to sell and securitize loans in the secondary market in order to generate cash proceeds for new originations. The value of and market for the Company's loans are dependent upon a number of factors, including general economic conditions, interest rates and governmental regulations. Adverse changes in such factors may affect the Company's ability to sell or securitize loans for acceptable prices within reasonable periods of time.

A prolonged, substantial reduction in the size of the secondary market for loans of the types originated by the Company may adversely affect the Company's ability to sell, securitize and finance loans with a consequent adverse impact on the Company's profitability and ability to fund future originations, which could have a significant effect on the Company's financial position, results of operations, or cash flows.

a) **Significant Customers**

For the year ended December 31, 2005, the Company sold \$956.2 million and \$301.8 million to two separate investors, which represented 71.7% and 22.6% of total loans sold. For the year ended December 31, 2004, the Company sold \$1.4 billion, \$577.1 million, and \$490.3 million to three investors, which represented 48.7%, 19.8%, and 16.8% of total loans sold. For the year ended December 31, 2003, the Company sold \$1.6 billion, \$305.6 million, and \$221.3 million to three investors, which represented 58.3%, 11.3%, and 8.2% of total loans sold.

b) **Market Risk**

The Company regularly reviews the interest rates on its loan products and makes adjustments to the interest rates it offers to reflect current market conditions. The Company, from time to time in the normal course of business, uses forward sale commitments and derivative financial instruments in order to reduce exposure to fluctuations in interest rates and market prices on loans held for sale, and to reduce exposure to changes in the excess cash flows related to its mortgage-backed securities and securitized loans.

c) **Credit Repurchase Risk**

The Company's sales and securitizations of mortgage loans are subject to standard mortgage industry representations and warranties. These representations and warranties relate to certain characteristics of the loans, the borrowers and the underlying properties. If the Company is found to have breached any of these representations and warranties, it may be required to repurchase or substitute those loans or, in the case of securitized loans, replace them with substitute loans or cash, as the case may be. The Company estimates the amount it might be required to repurchase. Any losses related to repurchased loans are charged against the repurchase allowance. The repurchase allowance totaled \$20.4 million and \$5.9 million at December 31, 2005 and 2004, respectively, and is included in other liabilities in the accompanying consolidated balance sheets.

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d) **Geographical Concentration**

The Company originates loans in 43 states, with concentrations of loans in California and Florida. For the years ended December 31, 2005, 2004, and 2003, 45.7%, 48.8%, and 48.2% of originations were in California, and 16.6%, 12.0%, and 11.1% were in Florida. The remaining originations did not exceed 10.0% in any other state during these periods.

e) **Credit Risk**

Certain loans, such as adjustable rate mortgages, interest-only loans, loans with a high loan to value ("LTV"), and similar loans may increase the Company's credit risk. A summary of these loan products originated by the Company during 2005 and in the Company's portfolio of loans held for sale and held for investment as of December 31, 2005 follows:

| | <u>Originations</u> | | <u>Loans Held for Sale</u> | | <u>Loans Held for Investment</u> | |
|--|--------------------------|----------------------|---------------------------------|----------------------|----------------------------------|----------------------|
| | <u>Amount Originated</u> | <u>% Originated*</u> | <u>Balance at December 31st</u> | <u>% of Balance*</u> | <u>Balance at December 31st</u> | <u>% of Balance*</u> |
| | | | (in thousands) | | | |
| Adjustable rate mortgages | \$ 3,701,393 | 65.05% | \$ 768,415 | 61.87% | \$ 2,884,819 | 68.75% |
| Interest-only mortgages | 652,157 | 11.46 | 157,488 | 12.68 | 470,086 | 11.20 |
| Loans with LTV greater than 80% | 2,371,419 | 41.68 | 822,982 | 66.26 | 2,058,552 | 49.06 |
| Second liens with a combined LTV of 100% | 279,987 | 4.91 | 51,008 | 4.11 | 73,592 | 1.75 |

* Total percentage may exceed 100%, as loans may be included in more than one category.

4. **Mortgage Loans Held for Sale, Net**

Mortgage loans held for sale, at the lower of cost or market, consisted of the following at December 31, 2005 and 2004:

| | <u>As of December 31,</u> | |
|---|---------------------------|-------------------|
| | <u>2005</u> | <u>2004</u> |
| | (in thousands) | |
| Mortgage loans held for sale -- principal balance | \$ 1,242,053 | \$ 161,016 |
| Net deferred origination costs | <u>2,596</u> | <u>1,036</u> |
| Mortgage loans held for sale, net of deferred origination costs | 1,244,649 | 162,052 |
| Valuation allowance | <u>(12,711)</u> | <u>(3,731)</u> |
| Mortgage loans held for sale, net | <u>\$ 1,231,938</u> | <u>\$ 158,321</u> |

At December 31, 2005 and 2004 the Company had mortgage loans held for sale of \$16.9 million and \$8.0 million, respectively, on which the accrual of interest had been discontinued. If these mortgage loans had been current throughout their terms, interest income would have increased by \$904,000, \$477,000 and \$89,000 in the years ended December 31, 2005, 2004 and 2003, respectively.

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(Loss) gain on sale of loans, net was comprised of the following components for the years ended December 31, 2005, 2004, and 2003:

| | <u>For the Years Ended December 31,</u> | | |
|--|---|------------------|------------------|
| | <u>2005</u> | <u>2004</u> | <u>2003</u> |
| | (in thousands) | | |
| Gross gain from whole loan sales | \$ 16,349 | \$ 118,450 | \$ 115,907 |
| Realized futures gain from derivatives | 4,742 | — | — |
| Provision for valuation losses | (19,547) | (5,608) | (2,837) |
| Provision for repurchases | (22,359) | (2,760) | (7,773) |
| Origination costs, net | <u>(1,593)</u> | <u>(25,572)</u> | <u>(28,204)</u> |
| (Loss) gain on sale of loans, net | <u>\$ (22,408)</u> | <u>\$ 84,510</u> | <u>\$ 77,093</u> |

5. Valuation Allowance – Mortgage Loans Held for Sale

Activity in the valuation allowance was as follows for the years ended December 31, 2005, 2004 and 2003:

| | <u>For the Years Ended December 31,</u> | | |
|--------------------------------|---|-----------------|-----------------|
| | <u>2005</u> | <u>2004</u> | <u>2003</u> |
| | (dollars in thousands) | | |
| Beginning Balance | \$ 3,731 | \$ 1,399 | \$ 352 |
| Provision for valuation losses | 19,547 | 5,608 | 2,837 |
| Charge-offs, net | <u>(10,567)</u> | <u>(3,276)</u> | <u>(1,790)</u> |
| Ending Balance | <u>\$ 12,711</u> | <u>\$ 3,731</u> | <u>\$ 1,399</u> |

6. Mortgage Loans Held for Investment, Net

Mortgage loans held for investment consisted of the following at December 31, 2005 and 2004:

| | <u>As of December 31,</u> | |
|--|---------------------------|---------------------|
| | <u>2005</u> | <u>2004</u> |
| | (in thousands) | |
| Mortgage loans held for investment – unpaid principal balance | \$ 4,196,068 | \$ 2,340,916 |
| Unamortized discount | (7,268) | (2,725) |
| Net deferred origination costs | <u>26,324</u> | <u>21,726</u> |
| Mortgage loans held for investment, net of discount and deferred origination costs | 4,215,124 | 2,359,917 |
| Allowance for loan losses | <u>(34,924)</u> | <u>(7,622)</u> |
| Mortgage loans held for investment, net | <u>\$ 4,180,200</u> | <u>\$ 2,352,295</u> |

At December 31, 2005 and 2004, the Company had mortgage loans held for investment of \$139.6 million and \$3.6 million, respectively, on which the accrual of interest had been discontinued. If these mortgage loans had been current throughout their terms, interest income would have increased by \$5.9 million and \$22,000 for the years ended December 31, 2005 and 2004, respectively. There were no loans held for investment during the year ended December 31, 2003.

The unamortized discount represents a basis adjustment in the mortgage loans held for investment at the time the related mortgage servicing rights were sold, based on the relative fair value of mortgage servicing rights sold. The discount and deferred origination costs are amortized to interest income on a level yield basis over the life of the loans.

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At December 31, 2005 and 2004, the balance of mortgage loans held for investment included \$0 and \$1.0 billion of mortgage loans held for investment at PCFI that were not yet securitized. The \$1.0 billion in mortgage loans at December 31, 2004 was included in the Company's \$1.1 billion securitization completed in January 2005.

7. Allowance for Loan Losses – Mortgage Loans Held for Investment

Activity in the allowance for loan losses was as follows for the years ended December 31, 2005, 2004 and 2003:

| | <u>For the Years Ended December 31,</u> | | |
|---------------------------|---|-----------------|-------------|
| | <u>2005</u> | <u>2004</u> | <u>2003</u> |
| | (dollars in thousands) | | |
| Beginning Balance | \$ 7,622 | \$ — | \$ — |
| Provision for loan losses | 39,734 | 7,622 | — |
| Charge-offs, net | <u>(12,432)</u> | <u>—</u> | <u>—</u> |
| Ending Balance | <u>\$ 34,924</u> | <u>\$ 7,622</u> | <u>\$ —</u> |

8. Derivative Instruments, Net

In connection with the Company's strategy to mitigate interest rate risk, the Company uses derivative financial instruments, such as interest rate cap and interest rate swap contracts, as well as Eurodollar futures contracts. It is not the Company's policy to use derivatives to speculate on interest rates. These derivative instruments have an active secondary market and are intended to provide income and cash flow to offset potential reduced net interest income and cash flow under certain interest rate environments. In accordance with Statement on Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended and interpreted ("SFAS 133"), the derivative financial instruments and any related margin accounts are reported on the consolidated balance sheets at their fair value. The Company's derivative instruments did not qualify for hedge accounting treatment during the years ended December 31, 2005 and 2004.

At December 31, 2005 and 2004, the fair market value of our derivative instruments was \$41.5 million and \$24.2 million, respectively. There were no such derivative instruments at December 31, 2003. The derivative instruments consist of interest rate caps, interest rate swaps, and Eurodollar futures contracts, which were purchased or entered into to help offset interest rate risk.

The Company began acquiring interest rate caps in April 2004. The interest rate caps are purchased for deposit into certain securitization trusts. The interest rate cap contracts generally have terms of approximately two years with amortizing notional balances. The interest rate cap contracts provide for monthly payments to be made if one-month LIBOR, up to the ceiling rate, exceeds the strike rate. The interest rate caps are marked to market through the consolidated statements of income.

In December 2004, the Company began entering into interest rate swap agreements, for deposit into certain securitization trusts. The interest rate swaps enable the trusts to receive floating rate payments in exchange for fixed rate payments on a monthly basis. The interest rate swap agreements generally have terms of approximately five years, with amortizing notional balances, and a fixed rate obligation to the trusts, based on the notional balances. The counterparties to the interest rate swaps have a one-month LIBOR obligation, based on the notional balances. The interest rate swap agreements will provide for net receipt of payments by the trust if one-month LIBOR exceeds the Company's fixed rate obligation. The interest rate swaps are marked to market through the consolidated statements of income.

In February 2005, the Company began using Eurodollar futures contracts, which upon maturity or dissolution are converted into alternative derivatives (swaps and caps) to be deposited into certain securitization trusts. A portion of the cash requirements to maintain the futures accounts are included in Restricted Cash.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

Activity in derivative instruments, net was as follows for the years ended December 31, 2005 and 2004:

| | As of December 31, 2005 | | | | |
|---------------------|---|--------------------------|--|--|-----------------------------|
| | (in thousands) | | | | |
| | <u>Beginning Balance Fair Value</u> | <u>Premiums Paid</u> | <u>Mark-to- Market (Loss) Gain</u> | <u>Ending Balance Fair Value</u> | <u>Notional Balance</u> |
| Interest Rate Caps | \$ 23,145 | \$ 996 | \$ (12,031) | \$ 12,110 | \$2,131,225 |
| Interest Rate Swaps | 1,085 | — | 26,789 | 27,874 | 3,519,285 |
| Eurodollar Futures | — | — | 1,480 | 1,480 | 1,120 |
| Total | <u>\$ 24,230</u> | <u>\$ 996</u> | <u>\$ 16,238</u> | <u>\$ 41,464</u> | <u>\$5,651,630</u> |

| | As of December 31, 2004 | | | | |
|---------------------|---|--------------------------|--|--|-----------------------------|
| | (in thousands) | | | | |
| | <u>Beginning Balance Fair Value</u> | <u>Premiums Paid</u> | <u>Mark-to- Market (Loss) Gain</u> | <u>Ending Balance Fair Value</u> | <u>Notional Balance</u> |
| Interest Rate Caps | \$ — | \$ 26,073 | \$ (2,928) | \$ 23,145 | \$1,175,000 |
| Interest Rate Swaps | — | — | 1,085 | 1,085 | 1,100,000 |
| Eurodollar Futures | — | — | — | — | — |
| Total | <u>\$ —</u> | <u>\$ 26,073</u> | <u>\$ (1,843)</u> | <u>\$ 24,230</u> | <u>\$2,275,000</u> |

9. Fixed Assets, Net

Fixed assets consisted of the following at December 31, 2005 and 2004:

| | As of December 31, | |
|--|------------------------|------------------|
| | 2005 | 2004 |
| | (dollars in thousands) | |
| Furniture, fixtures and equipment | \$ 11,455 | \$ 7,738 |
| Computer hardware and software | 6,769 | 5,273 |
| Leasehold improvements | <u>2,569</u> | <u>1,683</u> |
| | 20,793 | 14,694 |
| Less accumulated depreciation and amortization | <u>(7,263)</u> | <u>(4,170)</u> |
| | <u>\$ 13,530</u> | <u>\$ 10,524</u> |

Depreciation and amortization expense included in operating expense was \$3.4 million, \$2.1 million, and \$1.0 million for the years ended December 31, 2005, 2004, and 2003, respectively.

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10. Other Assets

Other assets consisted of the following at December 31, 2005 and 2004:

| | <u>As of December 31,</u> | |
|--|---------------------------|------------------|
| | <u>2005</u> | <u>2004</u> |
| | (in thousands) | |
| Prepaid expenses and security deposits | \$ 6,224 | \$ 7,644 |
| Unamortized debt issuance costs | 12,000 | 4,889 |
| Deferred compensation | 13,469 | 13,133 |
| Real estate owned | 16,711 | 589 |
| Other | <u>4,387</u> | <u>250</u> |
| | <u>\$ 52,791</u> | <u>\$ 26,505</u> |

11. Warehouse Financing Facilities

Warehouse financing facilities are secured by mortgage loans held for sale and mortgage loans held for investment, prior to securitization. Amounts outstanding under warehouse financing facilities and repurchase facilities consisted of the following at December 31, 2005 and 2004:

| | <u>As of December 31,</u> | |
|---|---------------------------|---------------------|
| | <u>2005</u> | <u>2004</u> |
| | (in thousands) | |
| \$350 million facility, expires January 2006 | \$ 262,237 | \$ 249,285 |
| \$300 million facility, expires August 2006 | 188,384 | 263,527 |
| \$300 million facility, expires May 2006 | 239,719 | 198,458 |
| \$250 million facility, expires March 2006 | 187,810 | 225,276 |
| \$250 million facility, expired November 2005 | — | 196,330 |
| \$250 million facility, expires August 2006 | 163,225 | 210,895 |
| \$350 million facility, expires December 2006 | <u>167,841</u> | <u>—</u> |
| | <u>\$ 1,209,216</u> | <u>\$ 1,343,771</u> |

The \$350 million warehouse financing facility scheduled to expire in January 2006 has been extended, however, in April 2006, the Company exercised its right to terminate the warehouse financing facility effective May 31, 2006. The \$250 million warehouse financing facility scheduled to expire in March 2006 has been renewed with similar terms to expire in March 2007. The warehouse financing facilities bear interest at a margin over one month LIBOR. At December 31, 2005 and 2004, one month LIBOR was 4.39% and 2.40%, respectively. The weighted average interest rate on the warehouse financing facilities was 5.19% and 3.30% at December 31, 2005 and 2004, respectively.

The Company utilizes warehouse financing facilities and repurchase facilities to finance the origination of mortgage loans prior to sale or securitization. The Company had total committed warehouse financing and repurchase facilities available in the amount of \$1.4 billion at December 31, 2005. Warehouse financing and repurchase facilities typically have a term of less than one year and are designated to fund mortgage loans originated within specified underwriting guidelines. Additionally, some of the Company's warehouse financing and repurchase facilities fund less than 100% of the principal balance of the mortgage loans financed requiring the Company to use working capital to fund the remaining portion of the principal balance of the mortgage loans. The majority of the mortgage loans originated under the warehouse financing and repurchase facilities remain in the facilities for a period generally between 45 and 60 days, at which point they are sold to institutional purchasers or securitized.

All of the Company's revolving warehouse financing and repurchase facilities contain provisions requiring the Company to meet certain periodic financial covenants, including, among other things, minimum liquidity, stockholders' equity, leverage and net income levels. The Company was not in compliance with one of the financial covenants in two

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facilities for the fourth quarter of 2005. In March 2006, the Company received waivers for the one-time breach of financial covenants.

Warrant Agreement

In connection with one of the warehouse financing facilities described above, PCHLI entered into a warrant agreement on May 5, 2000 with the lender pursuant to which the lender was granted warrants to acquire up to 33,333 shares of PCHLI's Class A common stock at \$0.01 per share, subject to adjustment in accordance with the terms of the warrant agreement.

Prior to the completion of the common stock offering and formation transactions in December 2004, all warrants to purchase shares of PCHLI stock were converted into warrants to purchase 1,809,002 shares of common stock at \$0.01 per share, and all warrants were exercised prior to December 31, 2004.

12. Mortgage-Backed Securities, Net

The following is a summary of the outstanding mortgage-backed securities, for series 2004-1, 2004-2, 2005-1, 2005-2, 2005-3, and 2005-4:

| | <u>As of December 31,</u> | | <u>Interest Rate</u> |
|--|---------------------------|---------------------|---------------------------|
| | <u>2005</u> | <u>2004</u> | |
| | (in thousands) | | |
| Adjustable rate certificates | \$ 4,107,465 | \$ 1,091,246 | 1M Libor + 0.11% to 3.75% |
| Fixed rate certificates | 37,264 | 35,264 | 5.00% to 6.50% |
| Net interest margin notes | <u>15,976</u> | <u>68,556</u> | 5.00% to 5.25% |
| Bonds payable | 4,160,705 | 1,195,066 | |
| Unamortized bond discount | <u>(15,070)</u> | <u>(10,313)</u> | |
| Total mortgage-backed securities, net | <u>\$ 4,145,635</u> | <u>\$ 1,184,753</u> | |

The mortgage-backed securities represent senior and subordinated certificates and net interest margin notes issued through a securitization trust. The mortgage-backed securities represent non-recourse debt obligations secured by a pledge of a trust estate consisting of mortgage loans. The mortgage loans held for investment collateral had an aggregate outstanding principal balance of \$4.2 billion and \$1.1 billion as of December 31, 2005 and 2004, respectively. Total unamortized debt issuance costs, included in other assets in the accompanying consolidated balance sheets, was \$12.0 million and \$4.9 million at December 31, 2005 and 2004, respectively.

The mortgage-backed securities debt does not have contractual maturity dates. Amounts collected by the servicer of the mortgage loans held for investment are remitted to the trustee, who in turn distributes such amounts each month to the bondholders, together with other amounts received with respect to the mortgage loans, net of fees payable to the servicer and trustee of the mortgage-backed securities. Interest collected each month on the mortgage loans will generally exceed the amount of interest accrued on the mortgage-backed securities. The excess interest and prepayment penalties collected will initially be distributed as principal and interest to the net interest margin notes until such notes are paid in full. Subsequently, the Company will receive any future excess interest or prepayment penalties collected provided that the required over-collateralization levels are maintained. The securitization agreements provide that if delinquencies or losses on the underlying mortgage loans exceed certain maximums, the required levels of over-collateralization would be maintained or increased. Whenever the level of over-collateralization falls below the required level, excess interest will again be paid as principal to the mortgage-backed securities until the required level has been reached.

Securitized loans held for investment are recorded as assets in the consolidated financial statements, prepared in accordance with GAAP. Such assets, however, (i) are carried on PCFC's consolidated financial statements solely as a result of the consolidation of each of PCFI's and PCSC's financial statements with that of PCFC, (ii) are no longer legally owned by either PCFI or PCSC, and (iii) are not available to satisfy the claims of either PCFI's or PCSC's creditors.

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The costs associated with issuing mortgage-backed securities are capitalized and amortized as a component of interest expense over estimated term of the debt, expecting that the debt will be paid fully from the cash flows from the underlying collateral. Deferred debt issuance costs of \$10.9 million were capitalized during the year ended December 31, 2005. The balance of deferred debt issuance costs at December 31, 2005, net of accumulated amortization, was \$12.0 million and is included in other assets.

The discount on bonds reflects the difference between the proceeds received from the sale of the bonds and the face amount to be repaid over the life of the bonds. The discount is being amortized as an adjustment of interest expense over the estimated life of the bonds.

13. Other Liabilities

Other liabilities consisted of the following at December 31, 2005 and 2004:

| | <u>As of December 31,</u> | |
|--------------------------|---------------------------|------------------|
| | <u>2005</u> | <u>2004</u> |
| | (in thousands) | |
| Accrued compensation | \$ 6,262 | \$ 9,486 |
| Repurchase allowance | 20,411 | 5,939 |
| Trade payables | 17,536 | 5,943 |
| Accrued interest expense | 7,371 | 3,031 |
| Dividends payable | 17,847 | 15,228 |
| Deferred compensation | 13,469 | 13,133 |
| Other | <u>5,866</u> | <u>306</u> |
| Total | <u>\$ 88,762</u> | <u>\$ 53,066</u> |

Activity in the repurchase allowance was as follows for the years ended December 31, 2005, 2004 and 2003:

| | <u>As of December 31,</u> | | |
|---------------------------|---------------------------|-----------------|-----------------|
| | <u>2005</u> | <u>2004</u> | <u>2003</u> |
| | (in thousands) | | |
| Beginning Balance | \$ 5,939 | \$ 8,434 | \$ 3,132 |
| Provision for repurchases | 22,359 | 2,760 | 7,773 |
| Charge-offs, net | <u>(7,887)</u> | <u>(5,255)</u> | <u>(2,471)</u> |
| Ending Balance | <u>\$ 20,411</u> | <u>\$ 5,939</u> | <u>\$ 8,434</u> |

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14. Interest Income

The following table presents the components of interest income for the years ended December 31, 2005, 2004 and 2003:

| | <u>For the Years Ended December 31,</u> | | |
|---|---|------------------|------------------|
| | <u>2005</u> | <u>2004</u> | <u>2003</u> |
| | (in thousands) | | |
| Interest income - loans held for sale | \$ 43,888 | \$ 49,549 | \$ 26,259 |
| Interest income - loans held for investment | 262,667 | 41,227 | — |
| Other interest income | <u>3,192</u> | <u>170</u> | <u>28</u> |
| Ending balance | <u>\$ 309,747</u> | <u>\$ 90,946</u> | <u>\$ 26,287</u> |

15. Interest Expense

The following table presents the components of interest expense for the years ended December 31, 2005, 2004 and 2003:

| | <u>For the Years Ended December 31,</u> | | |
|---|---|------------------|-----------------|
| | <u>2005</u> | <u>2004</u> | <u>2003</u> |
| | (in thousands) | | |
| Interest expense - warehouse lines | \$ 50,408 | \$ 17,164 | \$ 8,878 |
| Interest expense - mortgage-backed securities | 122,339 | 15,288 | — |
| Other interest expense | <u>36</u> | <u>575</u> | <u>450</u> |
| Ending balance | <u>\$ 172,783</u> | <u>\$ 33,027</u> | <u>\$ 9,328</u> |

16. Income Taxes

Effective December 28, 2004, People's Choice Financial Corporation is structured as a REIT and files a separate federal income tax return that does not include the operations of the Company's non-REIT subsidiary companies. As the Company qualifies as a REIT, it is generally not subject to federal income tax on the REIT taxable income that it distributes to its stockholders, but taxable income generated by PCHLI, our taxable REIT subsidiary ("TRS"), is subject to regular corporate income tax.

Components of the Company's provision for income taxes for the years ended December 31, 2005, 2004, and 2003 are as follows:

| | <u>For the Years Ended December 31,</u> | | |
|----------------------|---|------------------|------------------|
| | <u>2005</u> | <u>2004</u> | <u>2003</u> |
| | (in thousands) | | |
| Current: | | | |
| Federal | \$ (16,400) | \$ 34,729 | \$ 25,521 |
| State | <u>(1,661)</u> | <u>8,472</u> | <u>8,225</u> |
| Total current taxes | (18,061) | 43,201 | 33,746 |
| Deferred: | | | |
| Federal | 10,355 | (12,876) | (8,413) |
| State | <u>(342)</u> | <u>(3,074)</u> | <u>(2,254)</u> |
| Total deferred taxes | <u>10,013</u> | <u>(15,950)</u> | <u>(10,667)</u> |
| | <u>\$ (8,048)</u> | <u>\$ 27,251</u> | <u>\$ 23,079</u> |

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Deferred income taxes arise from differences in the timing of recognition of income and expense for tax and financial reporting purposes. The following table shows the primary components of PCHLI's net deferred tax asset at December 31, 2005 and 2004:

| | <u>As of December 31,</u> | |
|--|---------------------------|------------------|
| | <u>2005</u> | <u>2004</u> |
| | (in thousands) | |
| Deferred tax assets: | | |
| Allowances for loan losses | \$ 13,064 | \$ 5,462 |
| Mark-to-market on loans held for sale, net | — | 2,180 |
| Accruals and other reserves | 7,719 | 10,388 |
| Loan securitizations | 303 | 12,918 |
| State taxes | 5 | — |
| Gain on sale of mortgage servicing rights | 1,108 | 1,430 |
| Net operating loss | 2,428 | — |
| Other | <u>—</u> | <u>2,503</u> |
| Total | <u>24,627</u> | <u>34,881</u> |
| Deferred tax liabilities: | | |
| Depreciation and amortization | 1,390 | 1,902 |
| Mark-to-market on loans held for sale, net | 145 | — |
| Prepaid expenses | 102 | 618 |
| Other | <u>642</u> | <u>—</u> |
| Total | <u>2,279</u> | <u>2,520</u> |
| Net deferred tax asset | <u>\$ 22,348</u> | <u>\$ 32,361</u> |

A reconciliation of the statutory Federal corporate income tax rate of 35% to the effective income tax rate on income from continuing operations is as follows:

| | <u>For the Years Ended December 31,</u> | | |
|--|---|--------------|--------------|
| | <u>2005</u> | <u>2004</u> | <u>2003</u> |
| Statutory U.S. federal income tax rate | 35.0% | 35.0% | 35.0% |
| Increase in rate resulting from: | | | |
| State income taxes, net of federal benefit | 5.7 | 6.2 | 7.1 |
| Permanent differences | 8.8 | 0.2 | 0.3 |
| Amortization of tax expense | 48.6 | — | — |
| Exclusion of REIT income | (827.4) | — | — |
| Inter-company gain | 550.0 | — | — |
| Other | <u>—</u> | <u>2.8</u> | <u>—</u> |
| Effective income tax rate | <u>(179.3)%</u> | <u>44.2%</u> | <u>42.4%</u> |

PCHLI's deferred tax assets are initially recognized for differences between the financial statement carrying amount and the tax bases of assets and liabilities which will result in future deductible amounts and operating loss and tax credit carry forwards. A valuation allowance is then established to reduce that deferred tax asset to the level at which it is "more likely than not" that the tax benefits will be realized. Realization of tax benefits of deductible temporary differences and operating loss or tax credit carry forwards depends on having sufficient taxable income of an appropriate character within the carry back and carry forward periods. Sources of taxable income of an appropriate character that may allow for the realization of tax benefits include: (1) taxable income in the current year or prior years that is available through carry back, (2) future taxable income that will result from the reversal of existing taxable temporary differences, (3) future taxable income generated by future operations and (4) tax planning strategies that, if necessary, would be implemented to accelerate taxable income into years in which net operating losses might otherwise expire.

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Based upon the level of historical taxable income, availability of net operating loss carry-backs, and projections for future taxable income over the periods in which the deferred tax assets are deductible, management believes it is more likely than not that the Company will realize deferred tax assets existing at December 31, 2005 and 2004. Therefore, there was no valuation allowance for deferred tax assets at December 31, 2005 and 2004.

The Internal Revenue Service is currently auditing the Company's tax return for 2002. The Franchise Tax Board of the State of California is currently auditing the Company's tax returns for 2002 and 2003. No adjustments have been proposed to date by the examiners.

17. Convertible Preferred Stock

In December 2001, the Company issued 174,000 shares of PCHLI Class A convertible preferred stock to the Company's majority stockholder, at an exchange rate of \$20.00 per share in exchange for a release of PCHLI from indebtedness. As a result of the merger and formation transactions in December 2004, all shares of PCHLI Class A convertible preferred stock were redeemed for \$3.5 million. Dividends were recorded as interest expense at a rate of 12% per annum. At December 31, 2005 and 2004, there was no preferred stock outstanding.

18. Employee Benefit Plans

401(k) Plan

The Company sponsors a 401(k) Retirement Savings Plan (the "Plan"). The Plan, effective April 1, 2001, and amended January 1, 2004, is a defined contribution plan established by the Company for the benefit of eligible employees of the Company. Substantially, all employees are eligible to participate in the Plan after six months of service and having reached the age of 21. The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974, as amended. Participants may elect to make contributions up to 20% of their compensation, as defined by the Plan. The Company may make a discretionary matching contribution at the end of the Plan year equal to a percentage of participant contributions. The matching contribution can change as determined by the Board of Directors. During the years ended December 31, 2005 and 2004, the Company made a matching contribution to the Plan of \$590,546 and \$101,090 respectively, or \$0.50 on the dollar up to the first 4% of eligible earnings. No matching contribution was made for the Plan year ended December 31, 2003.

OBC Plan Trust

Through January 2006, the Company sponsored an option-based compensation plan trust (the "Trust") through PCHLI for the benefit of eligible employees, referred to as a rabbi trust. A rabbi trust is defined by the Internal Revenue Service as an irrevocable trust that functions as a type of retirement plan or deferred compensation arrangement that offers a limited amount of security to the deferring employee. The Trust, effective January 1, 2004, is subject to the provisions of the Employee Retirement Income Security Act of 1974, as amended. The principal of the Trust, and any earnings thereon, has been and will be custodialized through the direction of the Trustee, First Charter Trust Services. The Company, in its sole discretion, may make additional deposits of cash or other property in trust with the Trustee, to augment the principal to be held, administered and disposed of by the Trustee as provided by the Trust Agreement. The plan participants and their beneficiaries have no preferred claim on, or any beneficial ownership interest in, any assets of the Trust. Any rights created under the plan and the trust agreement shall be unsecured contractual rights of the plan participants and their beneficiaries against PCHLI, and any assets held by the Trust will be subject to the claims of PCHLI's general creditors under federal and state law in the event of insolvency. At December 31, 2005 and 2004, the balance of the Trust was \$13.5 million and \$13.1 million, respectively. The assets in the Trust are recorded in other assets, and the corresponding liability to the employees is recorded in other liabilities in the accompanying consolidated balance sheets. In January 2006, the assets in the plan were distributed.

19. Common Stock and Stock Options

In April, July, November, and December of 2005, the Company's board of directors declared quarterly cash dividends on the common stock of \$0.33, \$0.40, \$0.325, and \$0.30 per share, respectively, to shareholders of record on April

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22, August 8, November 18, and December 30, 2005, respectively, which aggregated \$80.4 million for the year ended December 31, 2005.

On January 13, 2006, the Company paid a dividend of \$0.30 per share for the fourth quarter of 2005. The dividend, totaling \$17.8 million, was declared and accrued in December 2005.

In the third quarter of 2002, PCHLI granted nonqualified stock options to certain key executives of PCHLI. A total of 31,000 Class A PCHLI common stock options were issued at an exercise price of \$6.00 per share. The options were structured to vest over a five-year period beginning on each key executive's respective vesting commencement date and expiring ten years from the grant date. During the third quarter of 2002, PCHLI retained the services of a professional advisory firm to provide an opinion of the fair value of stock options granted. The valuation completed in the third quarter of 2002 resulted in a fair value of \$87.57 per option as of July 19, 2002, taking into consideration market conditions, industry competitors, historical data, and other factors. Deferred compensation of \$2.5 million was recorded at PCHLI on the date of the PCHLI option grants representing the difference between fair value and the exercise price on the date of the grants. The deferred compensation is included as a separate component of stockholders' equity in the consolidated balance sheets and is being amortized over the remaining vesting period of the converted options through the consolidated statements of income. The Company recognized compensation costs for these stock options in the consolidated statements of income of \$410,000, \$855,000, and \$832,000 for the years ended December 31, 2005, 2004, and 2003, respectively. Additionally, PCHLI granted 2,000 non-qualified stock options in the fourth quarter of 2004 at an exercise price of \$6.00 per share. These options vested 100% on January 1, 2005. The Company recorded compensation expense of \$5.4 million in the fourth quarter of 2004 representing the difference between the fair market value of common stock and exercise price of these stock options. As a result of the merger agreement and formation transactions in 2004, each outstanding option to purchase shares of common stock of PCHLI, whether or not exercisable, were converted, at an exchange rate of 271.067, into and became an option to purchase shares of PCFC common stock at \$0.02 per share, and is evidenced by a stand alone stock option agreement. In total, the holders of options to purchase shares of PCHLI received options to purchase an aggregate of 8,945,220 shares of the common stock. According to the original PCHLI option grants, the PCHLI options, if not already vested, were automatically vested and exercisable as if 60% vesting had occurred following the vesting commencement date, immediately prior to the specified effective date of the change in control.

The option valuation models require the input of highly subjective input assumptions. The volatility assumption was based on peer analysis of similar public companies in the Company's industry.

2004 Stock Incentive Plan

The Company's board of directors and stockholders approved the 2004 Stock Incentive Plan (the "Stock Plan") prior to the closing of the common stock offering on December 28, 2004. The Stock Plan allows for the grant of stock options, stock appreciation rights, or SARs, stock awards, performance shares and incentive awards. Both incentive stock options, or ISOs, and non-statutory stock options, or NSOs, may be granted under the Stock Plan. Employees and members of the board of directors and consultants are eligible to participate in the Stock Plan.

During the year ended December 31, 2005, there were 1,030,000 stock options granted with exercise prices ranging from \$7.50 to \$10.00 per share, all of which were scheduled to vest over 3 years. The maximum period in which an option may be exercised is 10 years. All of these stock options were issued with an exercise price equal to the fair value of the stock. The Company may issue up to 3,000,000 shares of common stock under the Stock Plan, of which 1,030,000 were granted and outstanding options and 1,970,000 were available for future grants at December 31, 2005.

In February 2006, the Company issued 353,335 shares of restricted stock to key executives and members of the board of directors. The shares of restricted stock had a value of \$1.9 million on the issue date. The restricted stock issued to executives fully vest over a three year period. Restricted stock issued to the Company's directors fully vest over one year.

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A summary of changes in outstanding stock options were as follows:

| | <u>For the Years Ended December 31,</u> | | | | | |
|--|---|--|---------------------------------|--|---------------------------------|--|
| | <u>2005</u> | | <u>2004</u> | | <u>2003</u> | |
| | <u>Number of Shares</u> | <u>Weighted Average Exercise Price</u> | <u>Number of Shares</u> | <u>Weighted Average Exercise Price</u> | <u>Number of Shares</u> | <u>Weighted Average Exercise Price</u> |
| | (shares in thousands) | | | | | |
| PCHLI Options outstanding, January 1 | — | \$ — | 31 | \$ 6.00 | 31 | \$ 6.00 |
| PCFC Options outstanding, January 1 | 7,539 | 0.02 | — | — | — | — |
| PCHLI Options granted | — | — | 2 | 6.00 | — | — |
| PCFC Options granted | 1,030 | 9.82 | — | — | — | — |
| PCHLI Options exchanged ⁽¹⁾ | — | — | (33) | 6.00 | — | — |
| PCFC Options exchanged ⁽¹⁾ | — | — | 8,945 | 0.02 | — | — |
| PCFC Options exercised | (2,409) | 0.02 | (1,406) | 0.02 | — | — |
| PCFC Options cancelled | <u>(346)</u> | 0.02 | — | — | — | — |
| PCFC Options outstanding | <u>5,814</u> | 1.40 | <u>7,539</u> | 0.02 | <u>31</u> | 6.00 |
| PCFC Options exercisable | 4,615 | 0.02 | 4,910 | 0.02 | 17 | 6.00 |

⁽¹⁾ Exchange rate was 271.067

The weighted average exercise price for outstanding and exercisable options was \$1.40 and \$0.02, respectively, at December 31, 2005, and \$0.02 for both outstanding and exercisable options at December 31, 2004. At December 31, 2003, the weighted average exercise price for both outstanding and exercisable options was \$6.00. The weighted average remaining contractual life was 6.9 years, 5.9 years, and 6.6 years at December 31, 2005, 2004 and 2003, respectively.

20. Earnings per Share

Basic earnings per share is computed by dividing net income by the weighted average number of common shares outstanding for the period. Diluted earnings per share reflects the potential dilution that could occur if net income were divided by the weighted average number of common shares and potential common shares from outstanding and unvested stock options, where the effect of those securities is dilutive. At December 31, 2005, stock options outstanding to purchase 745,000 shares of common stock at an exercise price of \$10.00 were outstanding but were not included in the computation of diluted income per share because the options' exercise price was greater than the estimated value of common shares during the period and, therefore, the effect would be anti-dilutive.

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The following table illustrates the computation of basic and diluted earnings per share for the year ended December 31, 2005:

| | <u>For the Year Ended December 31, 2005</u> (in thousands, except per share data) |
|--|---|
| Basic: | |
| Net earnings | \$ 12,534 |
| Weighted average number of common shares outstanding | <u>58,901</u> |
| Basic earnings per share | <u>\$ 0.21</u> |
| Diluted: | |
| Net earnings | \$ 12,534 |
| Weighted average number of common shares outstanding | 58,901 |
| Weighted average number of common shares equivalents: | |
| Weighted average number of options outstanding | <u>4,561</u> |
| Weighted average number of diluted common shares outstanding | <u>63,462</u> |
| Diluted earnings per share | <u>\$ 0.20</u> |

Management believes the earnings per share calculation, prior to 2005, is not meaningful due to the merger agreement and formation of the REIT and common stock offering that took place on December 28, 2004.

21. Commitments and Contingencies

Loan Commitments

The Company is party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its borrowers. These financial instruments primarily represent commitments to fund loans. These instruments involve, to varying degrees, elements of interest rate risk and credit risk in excess of the amount recognized in the balance sheet. The credit risk is mitigated by the Company's evaluation of the creditworthiness of potential mortgage loan borrowers on a case-by-case basis. The Company does not guarantee interest rates to potential borrowers when an application is received. The Company quotes interest rates to borrowers which are subject to change by the Company. Although the Company generally honors such interest rate quotes, the quotes do not constitute interest rate locks, minimizing the potential interest rate risk exposure. The Company commits to originate loans, in many cases dependent on the borrower's ability to satisfy various terms and conditions. The Company had commitments to fund loans of \$376.6 million and \$484.0 million at December 31, 2005 and 2004, respectively.

Commitments to sell loans generally have fixed expiration dates or other termination clauses and may require payment of a commitment or a non-delivery fee. The Company had commitments to sell loans to whole loan investors of \$475.0 million and \$0 at December 31, 2005 and 2004, respectively. These commitments are not considered derivative instruments as defined by SFAS 133 as these commitments do not contain a net settlement provision, nor do the non-delivery fees fluctuate with the overall change in value of the loans during the commitment period.

Lease Commitments

The Company leases office space under non-cancelable operating leases, which expire at various dates through 2010. Total rent expense related to these leases amounted to \$4.2 million, \$2.6 million, and \$1.8 million for the years ended

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2005, 2004 and 2003, respectively. The Company is currently subleasing two offices in Roseville and Salinas, California, where the Company previously operated two retail branches.

Future minimum rental commitments under all non-cancelable operating leases at December 31, 2005 were as follows:

| (in thousands) | |
|----------------|------------------|
| 2006 | \$ 4,574 |
| 2007 | 4,137 |
| 2008 | 3,991 |
| 2009 | 3,379 |
| 2010 | 660 |
| Thereafter | <u> </u> |
| | <u>\$ 16,741</u> |

Contingencies

The Company has entered into loan sale agreements with investors in the normal course of business which include representations and warranties customary to the mortgage banking industry. Violations of these representations and warranties may require the Company to repurchase loans previously sold or to reimburse investors for losses incurred. In the opinion of management, the potential exposure related to the Company's loan sale agreements is adequately provided for in the repurchase allowance, included in other liabilities on the consolidated balance sheets.

At December 31, 2005 and 2004, the Company had \$20.4 million and \$5.9 million, respectively, in repurchase allowance related to possible off-balance sheet recourse and repurchase agreement losses.

Legal Proceedings

On April 6, 2005, People's Choice Home Loan, Inc. ("PCHLI") was served with a purported class action lawsuit, Brenda Ibanez, et al. v. PCHLI, Orange County Superior Court. The suit alleged violations of the California Labor Code and Business and Professions Code with respect to all current and former retail telemarketers and loan officers employed by PCHLI within California. Following mediation, PCHLI and plaintiff's counsel agreed to a proposed settlement of all claims including payment of counsel fees and class administration costs. Plaintiff's counsel chose on December 21, 2005 to dismiss the Ibanez case and refile the case in Alameda County Superior Court, Samie Malik et al. v. PCHLI, for reasons of expeditious court approval of the terms agreed at the mediation. The settlement is pending approval by the court. PCHLI reserved for the full amount of the settlement in 2005.

On March 2, 2006, PCHLI was served with a purported nationwide class action lawsuit, Rhonda L. Torres v. PCHLI, United States District Court, Central District of California. Plaintiff alleges violation of the Fair Credit Reporting Act ("FCRA") by PCHLI's use of credit reports to pre-screen and select consumers to receive offers of credit that did not meet the "firm offer" requirements of the FCRA. A similar case filed on behalf of all Illinois recipients of such mailings was served on PCHLI on September 28, 2005, Asbury v. PCHLI, United States District Court, Northern District of Illinois. The case has been tendered to the Company's insurance carrier. The ultimate outcome of this matter and the amount of liability, if any, which may result, is not presently determinable.

The Company has accrued \$2.3 million for loss contingencies with respect to the foregoing matters to the extent the loss is probable and the amount of loss can be reasonably estimated at the date of the consolidated financial statements. The Company is a party to various legal proceedings arising out of the ordinary course of business. Management believes that any liability with respect to these legal actions, individually or in the aggregate, is not likely to have a material adverse effect on the Company's consolidated financial position and results of operations. However, any claims asserted or legal action in the future may result in expenses which could have a material adverse effect on the Company's consolidated financial position and results of operations.

PEOPLE'S CHOICE FINANCIAL CORPORATION
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

22. Related Party Transactions

As part of the common stock offering that took place on December 28, 2004, certain executive officers participated as selling stockholders. The Company did not receive any proceeds from the sale of common stock by its executive officers; however, PCHLI agreed to pay \$1.6 million, representing one half of the initial purchaser's discount that would have otherwise been payable by the selling stockholders which has been recorded in the consolidated statements of stockholders' equity as offering costs in connection with the net proceeds from the common stock offering.

In April 2005, the Company repurchased and retired 367,297 shares of common stock from an executive officer of the Company for \$2.9 million, which was based on the then current market value. This transaction took place subsequent to the exercise of 867,415 options to purchase common stock of the Company by the executive. This exchange allowed for payment on the executive's behalf of \$2.9 million to the federal and state taxing authorities in connection with taxes due, as a result of the exercise of the executive's options.

In November 2005, the Company repurchased and retired 330,702 shares of common stock from another executive officer of the Company for \$2.5 million, which was based on the then current market value. This transaction took place subsequent to the exercise of 542,135 options to purchase common stock of the Company by the executive. This exchange allowed for payment on the executive's behalf of \$2.5 million to the federal and state taxing authorities in connection with taxes due, as a result of the exercise of the executive's options.

During the years ended December 31, 2004 and 2003, the Company recorded expenses of \$2.0 million and \$1.6 million, respectively, as consideration for services performed by companies wholly-owned and controlled by two executives and one employee of the Company. The Company accounted for these services as compensation expense in the accompanying statements of income.

23. Fair Value of Financial Instruments

SFAS No. 107, *Disclosure about Fair Value of Financial Instruments*, requires disclosure of estimated fair value information for financial instruments, whether or not recognized in the balance sheets. Fair values are based upon estimates using present value or other valuation techniques in cases where quoted market prices are not available. Fair value estimates are based on judgments regarding credit risk, investor expectation of future economic conditions, normal cost of administration and other risk characteristics, including interest rate and prepayment risk. These estimates are subjective in nature and involve uncertainties and matters of judgment, and therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates. In addition, the fair value estimates presented do not include the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments. The estimates presented herein are not necessarily indicative of the amounts that the Company could realize in a current market exchange.

The Company ascribes no value to loan origination commitments, which have no interest rate-lock commitments, because the Company does not charge fees for these commitments. The Company has commitments to sell loans that are short-term, not assignable or transferable. Additionally, the Company does not pay any fees to enter into the commitments. The rates at which the Company has committed to sell loans approximate current market values; accordingly, no value has been ascribed to the forward sale commitments.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate fair value:

Financial Assets

Cash and cash equivalents: The fair value of cash and cash equivalents approximates the carrying value reported in the balance sheet.

Restricted cash: The fair value of restricted cash approximates the carrying value reported in the balance sheet.

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Mortgage loans held for sale, net: The fair value of mortgage loans held for sale is determined using current investor commitments or, in the absence of such commitments, fair value is based upon quoted market prices for loans of similar credit quality.

Mortgage loans held for investment, net: The fair value of mortgage loans held for investment is determined by calculating the net present value of estimated future cash flows using a discount rate commensurate with the risks involved.

Accrued interest receivable: The carrying amount is an estimate of the fair value.

Derivative instruments, net: The fair value is based on quoted market prices.

Financial Liabilities

Warehouse financing facilities: The carrying value reported in the balance sheet approximates fair value, as the warehouse lines of credit and residual financing payable are due upon demand and bear interest at a rate that approximates current market interest rates for similar type lines of credit.

Mortgage-backed securities, net: The fair value of mortgage-backed securities approximates the carrying value reported in the balance sheet as the debt bears interest at a rate that approximates current market interest rates for similar types of credit.

The estimated fair values of our financial instruments at December 31, 2005 and 2004 are as follows:

| | <u>As of December 31,</u> | | | |
|---|---------------------------|-------------------|---------------|-------------------|
| | <u>2005</u> | <u>Estimated</u> | <u>2004</u> | <u>Estimated</u> |
| | <u>Amount</u> | <u>Fair Value</u> | <u>Amount</u> | <u>Fair Value</u> |
| | (in thousands) | | | |
| Financial Assets: | | | | |
| Cash and cash equivalents | \$ 86,649 | \$ 86,649 | \$ 365,060 | \$ 365,060 |
| Restricted cash | 80,476 | 80,476 | 635 | 635 |
| Mortgage loans held for sale, net | 1,231,938 | 1,234,026 | 158,321 | 160,683 |
| Mortgage loans held for investment, net | 4,180,200 | 4,195,912 | 2,352,295 | 2,431,163 |
| Accrued interest receivable | 31,153 | 31,153 | 12,129 | 12,129 |
| Derivative instruments, net | 41,464 | 41,464 | 24,230 | 24,230 |
| Financial Liabilities: | | | | |
| Warehouse financing facilities | \$ 1,209,216 | \$ 1,209,216 | \$ 1,343,771 | \$ 1,343,771 |
| Mortgage-backed securities | 4,145,635 | 4,145,635 | 1,184,753 | 1,184,753 |

**PEOPLE'S CHOICE FINANCIAL CORPORATION
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

24. Financial Information of Parent Company

The following is information as to the financial condition, results of operations, and cash flows of People's Choice Financial Corporation:

| Balance Sheets | <u>As of December 31,</u> | |
|--|---------------------------|-------------------|
| | <u>2005</u> | <u>2004</u> |
| | (in thousands) | |
| Assets: | | |
| Cash and cash equivalents | \$ 15,888 | \$ 5,049 |
| Fixed assets, net | 1,881 | — |
| Investment in subsidiaries | 353,183 | 376,316 |
| Other assets | <u>30,318</u> | 21,550 |
| Total assets | <u>\$ 401,270</u> | <u>\$ 402,915</u> |
| Liabilities and Stockholders' Equity: | | |
| Other liabilities | \$ 17,162 | \$ 1,379 |
| Payable to subsidiary | <u>50,000</u> | — |
| Total liabilities | 67,162 | 1,379 |
| Stockholders' equity: | | |
| Common Stock | 595 | 578 |
| Additional paid-in capital | 340,672 | 340,674 |
| Retained earnings | (7,142) | 60,711 |
| Deferred compensation | <u>(17)</u> | <u>(427)</u> |
| Total stockholders' equity | <u>334,108</u> | <u>401,536</u> |
| Total liabilities and stockholders' equity | <u>\$ 401,270</u> | <u>\$ 402,915</u> |

| Statements of Income | <u>For the Years Ended December 31,</u> | | |
|---|---|------------------|-------------|
| | <u>2005</u> | <u>2004</u> | <u>2003</u> |
| | (in thousands) | | |
| Revenues: | | | |
| Interest income | \$ 621 | \$ — | \$ — |
| Net interest income | <u>621</u> | — | — |
| Total revenues | 621 | — | — |
| Expenses: | | | |
| Other operating expenses: | | | |
| Personnel expense | 8,216 | — | — |
| Occupancy expense | 437 | — | — |
| Telephone and communication expense | 58 | — | — |
| Data processing expense | 1,418 | — | — |
| Professional expense | 8,718 | 7 | — |
| Advertising and promotional expense | 43 | — | — |
| General and administrative (income) expense | <u>(10,314)</u> | <u>27</u> | — |
| Total expenses | <u>8,576</u> | <u>34</u> | — |
| Loss before provision for income taxes | (7,955) | (34) | — |
| Provision for income taxes | — | — | — |
| Net loss | (7,955) | (34) | — |
| Equity in net earnings of subsidiaries | <u>20,489</u> | <u>34,378</u> | — |
| Net income | <u>\$ 12,534</u> | <u>\$ 34,344</u> | <u>\$ —</u> |

**PEOPLE'S CHOICE FINANCIAL CORPORATION
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

| Statements of Cash Flows | <u>For the Years Ended December 31,</u> | | |
|--|---|------------------|-------------|
| | <u>2005</u> | <u>2004</u> | <u>2003</u> |
| | (in thousands) | | |
| Cash flows from operating activities: | | | |
| Net income | \$ 12,534 | \$ 34,344 | \$ — |
| Adjustments to reconcile consolidated net income to net Cash provided by (used in) operating activities: | | | |
| Depreciation and amortization | 493 | — | — |
| Deferred compensation | 410 | 8 | — |
| Net change in other assets and liabilities | 39,171 | (20,170) | — |
| Equity in undistributed earnings of subsidiaries | <u>(20,489)</u> | <u>(34,378)</u> | <u>—</u> |
| Net cash provided by (used in) operating activities | 32,119 | (20,196) | — |
| Cash flows from investing activities: | | | |
| Purchase of furniture, fixtures and equipment | (2,375) | — | — |
| Investment in and receivables from subsidiaries | <u>49,000</u> | <u>(300,000)</u> | <u>—</u> |
| Net cash used in investing activities | 46,625 | (300,000) | — |
| Cash flows from financing activities: | | | |
| Proceeds from issuance of common stock, net of offering costs | — | 325,196 | — |
| Proceeds from warrants exercised | — | 18 | — |
| Proceeds from options exercised | 54 | 31 | — |
| Payment for repurchase of common stock | (5,419) | — | — |
| Dividends paid to common stockholders | <u>(62,540)</u> | <u>—</u> | <u>—</u> |
| Net cash (used in) provided by financing activities | (67,905) | 325,245 | — |
| Net increase in cash and cash equivalents | 10,839 | 5,049 | — |
| Cash and cash equivalents at beginning of period | <u>5,049</u> | <u>—</u> | <u>—</u> |
| Cash and cash equivalents at end of period | <u>\$ 15,888</u> | <u>\$ 5,049</u> | <u>\$ —</u> |

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

25. Segment Reporting

The operating segments reported below are the segments of the Company for which separate financial information is available, and for which revenues and operating income amounts are evaluated regularly by management in deciding how to allocate resources and assess performance. The accounting policies of the business segments are generally the same as those described in note 2, "Summary of Significant Accounting Policies," except for the net gain on sale of loans allocated to the taxable REIT subsidiary, related to loan securitizations. The net gain is eliminated on a consolidated basis, as the securitizations are accounted for as financings.

The operating segments are as follows:

- The investment portfolio segments consist of loans held for investment, related to securitizations structured as financings and loans held for future securitizations in the REIT and qualified REIT subsidiary and Taxable REIT Subsidiary. This segment generates net revenues primarily through net interest income after provision for loan losses and net mark-to-market gains and losses on derivative instruments, related to the portfolio of loans held for investment and corresponding debt to finance the portfolio.
- The mortgage banking segment originates loans through its wholesale and retail channels. Segment net revenues are primarily generated through gain on sale of mortgage loans to third parties and to the investment portfolio segments recording premium on sale of loans, as well as net interest income related to the loans held prior to sale. Gain on sale of loans are net of provisions for repurchases and provisions for valuation adjustments, related to the mortgage loans held for sale.
- The servicing segment services loans in accordance with the terms of the servicing agreements and earns a servicing fee which includes delinquent payment charges on loans held for investment.

Income before taxes for all segments represent segment net revenue, less direct and allocated operating expenses.

Management evaluates mortgage loans at the segment level. As such, the period end balances of mortgage loans for the segments are included herein.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

Segment information for the years ended December 31, 2005, 2004 and 2003:

| | <u>For the Year Ended December 31, 2005</u> | | | | | |
|--|---|---------------------------------|--------------------------------|---------------------------------|---------------------|------------------|
| | <u>REIT & Qualified REIT Subsidiary</u> | <u>Taxable REIT Subsidiary</u> | | | | |
| | <u>Investment Portfolio</u> | <u>Investment Portfolio</u> | <u>Mortgage Banking</u> | <u>Servicing Operations</u> | <u>Eliminations</u> | <u>Total</u> |
| | | | (dollars in thousands) | | | |
| Revenues: | | | | | | |
| Interest income | \$ 185,985 | \$ 57,271 | \$ 45,261 | \$ — | \$ 21,230 | \$ 309,747 |
| Interest (expense) income | <u>(122,297)</u> | <u>(23,846)</u> | <u>(26,899)</u> | <u>5</u> | <u>254</u> | <u>(172,783)</u> |
| Net interest income | 63,688 | 33,425 | 18,362 | 5 | 21,484 | 136,964 |
| Provision for loan losses on loans held for investment | <u>(24,638)</u> | <u>(8,424)</u> | <u>(7,217)</u> | <u>—</u> | <u>545</u> | <u>(39,734)</u> |
| Net interest income after provision for loan losses | 39,050 | 25,001 | 11,145 | 5 | 22,029 | 97,230 |
| Other operating income: | | | | | | |
| Gain (loss) on sale of loans, net | — | — | 32,187 | — | (54,595) | (22,408) |
| Servicing income, net | 9,032 | 6,712 | 1,693 | 2,774 | — | 20,211 |
| Mark-to-market gain (loss) and realized gain (loss) – derivative instruments | 31,022 | (11,811) | 1,240 | — | — | 20,451 |
| Other operating income (expense) | <u>—</u> | <u>—</u> | <u>6,608</u> | <u>—</u> | <u>(6,011)</u> | <u>597</u> |
| Total other operating income (expense) | <u>40,054</u> | <u>(5,099)</u> | <u>41,728</u> | <u>2,774</u> | <u>(60,606)</u> | <u>18,851</u> |
| Total revenues | 79,104 | 19,902 | 52,873 | 2,779 | (38,577) | 116,081 |
| Operating expenses: | | | | | | |
| Total operating expenses | <u>9,928</u> | <u>1,639</u> | <u>94,227</u> | <u>5,801</u> | <u>—</u> | <u>111,595</u> |
| Income (loss) before provision for income taxes | <u>\$ 69,176</u> | <u>\$ 18,263</u> | <u>\$ (41,354)</u> | <u>\$ (3,022)</u> | <u>\$ (38,577)</u> | <u>\$ 4,486</u> |
| | | | <u>As of December 31, 2005</u> | | | |
| Mortgage loans held for sale, net | \$ — | \$ — | \$ 1,231,873 | \$ — | \$ 65 | \$ 1,231,938 |
| Mortgage loans held for investment, net | 3,644,524 | 594,975 | — | — | (59,299) | 4,180,200 |

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For the Year Ended December 31, 2004

| | <u>REIT & Qualified REIT Subsidiary</u> | | <u>Taxable REIT Subsidiary</u> | | | | <u>Total</u> |
|---|---|---------------------------------|--------------------------------|---------------------------------|---------------------|--|------------------|
| | <u>Investment Portfolio</u> | <u>Investment Portfolio</u> | <u>Mortgage Banking</u> | <u>Servicing Operations</u> | <u>Eliminations</u> | | |
| | | | (in thousands) | | | | |
| Revenues: | | | | | | | |
| Interest income | \$ 677 | \$ 40,632 | \$ 49,637 | \$ — | \$ — | | \$ 90,946 |
| Interest expense | <u>(354)</u> | <u>(15,288)</u> | <u>(17,224)</u> | <u>(161)</u> | <u>—</u> | | <u>(33,027)</u> |
| Net interest income (expense) | 323 | 25,344 | 32,413 | (161) | — | | 57,919 |
| Provision for loan losses on loans held for investment | <u>(3,049)</u> | <u>(4,027)</u> | <u>—</u> | <u>—</u> | <u>(546)</u> | | <u>(7,622)</u> |
| Net interest (expense) income after provision for loan losses | (2,726) | 21,317 | 32,413 | (161) | (546) | | 50,297 |
| Other operating income: | | | | | | | |
| Gain (loss) on sale of loans, net | — | — | 95,340 | — | (10,830) | | 84,510 |
| Servicing income (expense) net | — | 344 | (253) | 911 | — | | 1,002 |
| Mark-to-market (loss) gain – derivative instruments | (490) | (2,928) | 1,575 | — | — | | (1,843) |
| Other operating (expense) income | <u>—</u> | <u>(186)</u> | <u>159</u> | <u>—</u> | <u>—</u> | | <u>(27)</u> |
| Total other operating (expense) income | <u>(490)</u> | <u>(2,770)</u> | <u>96,821</u> | <u>911</u> | <u>(10,830)</u> | | <u>83,642</u> |
| Total revenues | (3,216) | 18,547 | 129,234 | 750 | (11,376) | | 133,939 |
| Operating expenses: | | | | | | | |
| Total operating expenses | <u>73</u> | <u>1</u> | <u>68,690</u> | <u>3,580</u> | <u>—</u> | | <u>72,344</u> |
| (Loss) income before provision for income taxes | <u>\$ (3,289)</u> | <u>\$ 18,546</u> | <u>\$ 60,544</u> | <u>\$ (2,830)</u> | <u>\$ (11,376)</u> | | <u>\$ 61,595</u> |

As of December 31, 2004

| | | | | | | | |
|---|-----------|-----------|------------|------|--------------|--|------------|
| Mortgage loans held for sale, net | \$ — | \$ — | \$ 340,612 | \$ — | \$ (182,291) | | \$ 158,321 |
| Mortgage loans held for investment, net | 1,037,087 | 1,147,886 | — | — | 167,322 | | 2,352,295 |

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| | <u>REIT & Qualified REIT Subsidiary</u> | | <u>Taxable REIT Subsidiary</u> | | | <u>Total</u> |
|---|---|---------------------------------|--------------------------------|---------------------------------|---------------------|------------------|
| | <u>Investment Portfolio</u> | <u>Investment Portfolio</u> | <u>Mortgage Banking</u> | <u>Servicing Operations</u> | <u>Eliminations</u> | |
| | | | (In thousands) | | | |
| Revenues: | | | | | | |
| Interest income | \$ — | \$ — | \$ 26,287 | \$ — | \$ — | \$ 26,287 |
| Interest expense | — | — | (9,325) | (3) | — | (9,328) |
| Net interest income (expense) | — | — | 16,962 | (3) | — | 16,959 |
| Provision for loan losses on loans held for investment | — | — | — | — | — | — |
| Net interest income (expense) after provision for loan losses | — | — | 16,962 | (3) | — | 16,959 |
| Other operating income: | | | | | | |
| Gain on sale of loans, net | — | — | 77,093 | — | — | 77,093 |
| Servicing (expense) income, net | — | — | (158) | 429 | — | 271 |
| Other operating income | — | — | 331 | — | — | 331 |
| Total other operating income | — | — | 77,266 | 429 | — | 77,695 |
| Total revenues | — | — | 94,228 | 426 | — | 94,654 |
| Operating expenses: | | | | | | |
| Total operating expense | — | — | 39,236 | 1,509 | — | 40,745 |
| Income (loss) before provision for income taxes | <u>\$ —</u> | <u>\$ —</u> | <u>\$ 54,992</u> | <u>\$ (1,083)</u> | <u>\$ —</u> | <u>\$ 53,909</u> |

EXHIBIT F

Liquidation Analysis

The analysis below sets forth the estimated recovery to each Estate if the proposed Plan of Reorganization and the cases are converted to a Chapter 7 Liquidation

| | PCHLI | PCFC | Funding |
|--|--------------------|-------------------|-------------------|
| ACTUAL CASH (AS OF 2/29/08) | \$ 15,591,643 | \$ 302,952 | \$ 30,640,691 |
| INTERCOMPANY RECEIVABLE (PAYABLE) | 15,118,186 | (402,054) | (14,716,132) |
| SERVICING & ORIGINATION RECEIVABLE (PAYABLE) | (738,600) | 738,600 | |
| Amount Outstanding | (17,331) | 17,331 | |
| Interest | 433,085 | | (433,085) |
| RESIDUAL & SUBSERVICING PROCEEDS TRUE UP | | | |
| ADJUSTED CASH | <u>30,386,982</u> | <u>656,830</u> | <u>15,491,474</u> |
| OTHER ASSETS | | | |
| REO Property | 500,000 | - | - |
| Equity One True Up | 1,500,000 | - | - |
| Litigation Proceeds | 2,500,000 | | |
| ESTIMATED ASSETS AVAILABLE FOR DISTRIBUTION | <u>34,886,982</u> | <u>656,830</u> | <u>15,491,474</u> |
| CHAPTER 7 EXPENSES | | | |
| Additional Chapter 7 Fees | 1,000,000 | 100,000 | 1,000,000 |
| Chapter 7 Trustee Fees | 1,039,859 | 34,091 | 472,994 |
| ADJUSTED ASSETS AVAILABLE FOR DISTRIBUTION | <u>32,847,123</u> | <u>522,738</u> | <u>14,018,480</u> |
| ADMIN, PRIORITY, TAX AND OTHER SECURED CLAIMS | | | |
| Effect of Losing REIT Status | 3,600,000 | 0 | 4,300,000 |
| Trade and Expense Payables | 135,443 | 8,365 | 306,192 |
| Unpaid Professional Fees | 1,019,448 | 62,964 | 2,304,637 |
| Unpaid D&O Litigation Fees | 160,545 | - | - |
| Secured, Priority and Administrative Claims | 8,200,000 | 810,000 | 860,000 |
| SUBTOTAL | <u>13,115,435</u> | <u>881,329</u> | <u>7,770,828</u> |
| ESTIMATED TOTAL AVAILABLE FOR DISTRIBUTION | 19,731,688 | - | 6,247,652 |
| GENERAL UNSECURED CLAIMS | | | |
| General Unsecured Claims | 218,000,000 | 74,000,000 | 71,000,000 |
| Intercompany Claims Payable to PCHLI | - | - | 18,844,704 |
| Estimated Total General Unsecured Claims | <u>218,000,000</u> | <u>74,000,000</u> | <u>89,844,704</u> |
| Initial Estimated Recovery Before Intercompany Distributions | 9.1% | 0.0% | 7.0% |
| Recovery from Intercompany Claims | | | |
| Recovery from Funding | 1,310,429 | | |
| Total Potential Assets for Unsecured Claims | \$ 21,042,117 | \$ - | \$ 6,247,652 |
| Net Estimated Recovery | 9.7% | 0.0% | 7.0% |

Post-petition Administrative Expense Allocation Percentage

30.1%

1.9%

68.0%

Liquidation Analysis

Below are the Notes to the Liquidation Analysis.

Notes

| | |
|---|--|
| ACTUAL CASH (AS OF 2/29/08) | |
| INTERCOMPANY RECEIVABLE (PAYABLE) | |
| SERVICING & ORIGINATION RECEIVABLE (PAYABLE) | |
| Amount Outstanding | |
| Interest | |
| RESIDUAL & SUBSERVICING PROCEEDS TRUE UP | |
| ADJUSTED CASH | |
| OTHER ASSETS | |
| REO Property | |
| Equity One True Up | |
| Litigation Proceeds | |
| ESTIMATED ASSETS AVAILABLE FOR DISTRIBUTION | |
| CHAPTER 7 EXPENSES | |
| Additional Chapter 7 Fees | |
| Chapter 7 Trustee Fees | |
| ADJUSTED ASSETS AVAILABLE FOR DISTRIBUTION | |
| ADMIN. PRIORITY, TAX AND OTHER SECURED CLAIMS | |
| Effect of Losing REIT Status | |
| Trade and Expense Payables | |
| Unpaid Professional Fees | |
| Unpaid D&O Litigation Fees | |
| Secured Priority and Administrative Claims | |
| SUBTOTAL | |
| ESTIMATED TOTAL AVAILABLE FOR DISTRIBUTION | |
| GENERAL UNSECURED CLAIMS | |
| General Unsecured Claims | |
| Intercompany Claims Payable to PCHLI | |

Reimbursement of PCHLI for post-petition expenses allocated to PCFI and PCFC (excludes litigation professional fees related to D&O claims). Allocation method based on pro rata share of sale proceeds. Since the case is largely a liquidating eleven, the proceeds of sales realized for each Estate is deemed to be proportionate to the benefit received by such Estate as a result of the Chapter 11 process. Such proportion was then used in allocating administrative expenses among the Estates in accordance with the relative benefits conferred upon each Estate.

Transfer of funds to PCFC in connection with its share of proceeds from the sale of the Servicing and Origination Platform. Interest accrued from 8/1/07 to 2/29/08 on Servicing and Origination Platform proceeds held by PCHLI.

Actual cash transferred by PCHLI on account of Subservicing sale proceeds exceeded amount owed to Funding. True Up is offset by interest earned on proceeds while held by

Represents estimate for remaining property to be liquidated.
Pending final reconciliation.

Estimate - actual recovery may vary. Represents potential recovery on various avoidance actions and fraud cases. No estimate for recovery on litigation against Directors and

Ch. 7 Trustee fees are anticipated to be greater than the Liquidating Trustee fees because the Ch. 7 Trustee, at a minimum, will need to familiarize himself with the proceedings and status of the case.

Section 326(a) of the Bankruptcy Code provides for compensation to the Ch. 7 Trustee of up to 3% of the assets distributed.

A key feature of the Proposed Plan is to preserve the REIT status of Funding and PCFC. The estimated results reflect potential tax-related liabilities that may arise as a result of the loss of REIT status which could be materially higher than the amounts reflected here. In the opinion of the Debtors' tax advisor, the failure of the Debtors to maintain REIT status could create potential liabilities for the Estates and could have consequences for the owner trusts through which the Debtors' mortgage loans were securitized, the bondholders of such trusts and the current owners of the residuals therein. In addition, a potential excess inclusion tax related liability of not less than \$900,000 was allocated as follows: (a) \$100,000 to PCHLI based upon its ownership of specific owner trusts, and (b) \$800,000 to Funding based on its ownership of specific owner trusts. Other potential exposure of not less than \$7 million was allocated 50% to PCHLI and 50% to Funding as there is partial exposure to both Estates for other liabilities related to the potential loss of REIT status.

Allocation method based on pro rata share of sale proceeds as set forth in the Plan. Since the case is largely a liquidating eleven, the proceeds of sales realized for each Estate is deemed to be proportionate to the benefit received by such Estate as a result of the Chapter 11 process. Such proportion was then used in allocating administrative expenses among the Estates in accordance with the relative benefits conferred upon each Estate.

Allocation method based on pro rata share of sale proceeds as set forth in the Plan. Since the case is largely a liquidating eleven, the proceeds of sales realized for each Estate is deemed to be proportionate to the benefit received by such Estate as a result of the Chapter 11 process. Such proportion was then used in allocating administrative expenses among the Estates in accordance with the relative benefits conferred upon each Estate.

Fees incurred in connection with the pursuit of claims against the directors and officers to be borne by PCHLI Estate.
Includes secured claims, priority tax claims, priority employee claims and WARN claims.

Note that PCFC is administratively insolvent in this scenario, as the total Administrative, Priority, and Secured claims exceed assets available.

Midpoint of Debtors' estimated range of allowed claims.

Allowed claim pursuant to the Intercompany Claims Settlement as described in the Disclosure Statement. Assume result in Ch. 7 is the same as the Intercompany Settlement as it represents a reasonable solution in light of all factors considered in settlement. However, if, for any reason, including those reasons advanced by Kornswiel, the Agreement is not accepted by the Ch. 7 Trustee significant expenses can be expected in the inter-company litigation sure to follow (including the hiring of separate counsel for each entity).

Recovery Analysis per Proposed Plan of Reorganization
 The analysis below sets forth the estimated recovery to each Estate based on the terms set forth in the Proposed Plan of Reorganization.

| | PCHLI | PCFC | Funding | Notes |
|--|---------------|------------|---------------|--|
| ACTUAL CASH (AS OF 2/29/08) | \$ 15,591,643 | \$ 302,952 | \$ 30,640,891 | |
| INTERCOMPANY RECEIVABLE (PAYABLE) | 15,118,186 | (402,054) | (14,716,132) | Reimbursement of PCHLI for post-petition expenses allocated to PCFI and PCFC (excludes litigation professional fees related to D&O claims). Allocation method based on pro rata share of sale proceeds. Since the case is largely a liquidating eleven, the proceeds of sales realized for each Estate is deemed to be proportional to the benefit received by such Estate as a result of the Chapter 11 process. Such proportion was then used in allocating administrative expenses among the Estates in accordance with the relative benefits conferred upon each Estate. |
| SERVICING & ORIGINATION RECEIVABLE (PAYABLE) | (738,600) | 738,600 | | Transfer of funds to PCFC in connection with its share of proceeds from the sale of the Servicing and Origination Platform. |
| Interest | (17,331) | 17,331 | | Interest accrued from 8/1/07 to 2/29/08 on Servicing and Origination Platform proceeds held by PCHLI. |
| RESIDUAL & SUBSERVICING PROCEEDS TRUE UP | 433,085 | (433,085) | | Actual cash transferred by PCHLI on account of Subservicing sale proceeds exceeded amount owed to PCFI. True Up is offset by interest earned on proceeds while held by PCHLI. |
| ADJUSTED CASH | 30,386,882 | 658,830 | 15,491,474 | |
| OTHER ASSETS | | | | |
| REO Property | 500,000 | - | - | Represents estimate for remaining property to be liquidated. |
| Equity Ono True Up | 1,500,000 | - | - | Pending final reconciliation. |
| Litigation Proceeds | 2,500,000 | - | - | Estimate - actual recovery may vary. Represents potential recovery on various avoidance actions and fraud cases. No estimate for recovery on litigation against Directors and Officers. |
| ESTIMATED ASSETS AVAILABLE FOR DISTRIBUTION | 34,886,882 | 658,830 | 15,491,474 | |
| Intercompany Estate Payment | (114,854) | 374,500 | (259,646) | Intercompany Estate Payment as defined in the Plan of Reorganization, excluding the New Common Stock Dividend, which will subsequently be dividend back to PCHLI and Funding as shareholders. |
| ADJUSTED ESTIMATED ASSETS AVAILABLE FOR DISTRIBUTION | 34,772,129 | 1,031,329 | 15,231,828 | |
| ADMIN. PRIORITY, TAX AND OTHER SECURED CLAIMS | 500,000 | 50,000 | 500,000 | Professional fees incurred in the adjudication of claims and Plan administration. Excludes professional fees incurred in connection with litigation (excluding D&O Litigation). |
| Liquidating Trust Professionals | 135,443 | 8,365 | 306,192 | Allocation method based on pro rata share of sale proceeds as set forth in the Plan. Since the case is largely a liquidating eleven, the proceeds of sales realized for each Estate is deemed to be proportional to the benefit received by such Estate as a result of the Chapter 11 process. Such proportion was then used in allocating administrative expenses among the Estates in accordance with the relative benefits conferred upon each Estate. |
| Trade and Expense Payables | | | | Allocation method based on pro rata share of sale proceeds as set forth in the Plan. Since the case is largely a liquidating eleven, the proceeds of sales realized for each Estate is deemed to be proportional to the benefit received by such Estate among the Estates in accordance with the relative benefits conferred upon each Estate. |
| Unpaid Professional Fees | 1,019,448 | 62,964 | 2,304,637 | Allocation method based on pro rata share of sale proceeds as set forth in the Plan. Since the case is largely a liquidating eleven, the proceeds of sales realized for each Estate is deemed to be proportional to the benefit received by such Estate among the Estates in accordance with the relative benefits conferred upon each Estate. |
| Unpaid D&O Litigation Fees | 180,545 | - | - | Fees incurred in connection with the pursuit of claims against the directors and officers to be borne by PCHLI Estate. |
| Secured, Priority and Administrative Claims | 8,200,000 | 810,000 | 860,000 | Includes secured claims, priority tax claims, priority employee claims and WARN claims. |
| SUBTOTAL | 10,015,435 | 931,329 | 3,970,828 | |
| ESTIMATED TOTAL AVAILABLE FOR DISTRIBUTION | 24,756,693 | 100,000 | 11,261,000 | |
| GENERAL UNSECURED CLAIMS | | | | |
| General Unsecured Claims | 218,000,000 | 74,000,000 | 71,000,000 | Midpoint of Debtors' estimated range of allowed claims. |
| Intercompany Claims Payable to PCHLI | | | 18,844,704 | Allowed claim pursuant to the Intercompany Claims Settlement as described in the Disclosure Statement. |
| Estimated Total General Unsecured Claims | 218,000,000 | 74,000,000 | 89,844,704 | |
| Initial Estimated Recovery Before Intercompany Distributions | 11.4% | 0.1% | 12.5% | |
| Recovery from Intercompany Claims | | | | |
| Recovery from Funding | 2,361,967 | | | |
| Total Potential Assets for Unsecured Claims | \$ 27,118,660 | \$ 109,000 | \$ 11,261,000 | |
| Net Estimated Recovery | 12.4% | 0.1% | 12.5% | |
| Post-petition Administrative Expense Allocation Percentage | 30.1% | 1.9% | 68.0% | |