

1 William N. Lobel (State Bar No. 93202)
Evan C. Borges (State Bar No. 128706)
2 Jeffrey M. Reisner (State Bar No. 143715)
Mike D. Neue (State Bar No. 179303)
3 IRELL & MANELLA LLP
840 Newport Center Drive, Suite 400
4 Newport Beach, California 92660-6324

5 [REDACTED]
6 Attorneys for Debtors and
Debtors-in-Possession
7

8 UNITED STATES DISTRICT COURT
9 FOR THE CENTRAL DISTRICT OF CALIFORNIA
10 SOUTHERN DIVISION

11 In re) Case No. SA CV 02-417 DOC
12 FIRST ALLIANCE MORTGAGE COMPANY,) Chapter 11 Cases
13 a California corporation, et al.,)
14 Debtor.)

15 Affects All Debtors.) **DISCLOSURE STATEMENT RE:**
16) **DEBTORS' FIRST AMENDED JOINT**
AND CONSOLIDATED PLAN OF
LIQUIDATION DATED MAY 6, 2002

17 FIRST ALLIANCE MORTGAGE COMPANY,) Hearing:
a California corporation) Date: June 11, 2002
18 Case No. SA 00-12370 LR) Time: 8:30 a.m.
 Affected by this Pleading) Place: Courtroom "9D"
19) 411 W. Fourth Street
Santa Ana, California

20 FIRST ALLIANCE CORPORATION,)
a Delaware corporation)
21 Case No. SA 00-12371 LR)
 Affected by this Pleading)

22 FIRST ALLIANCE MORTGAGE COMPANY,)
23 a Minnesota corporation)
Case No. SA 00-12372 LR)
24 Affected by this Pleading)

25 FIRST ALLIANCE PORTFOLIO)
26 SERVICES, INC., a Nevada)
corporation)
27 Case No. SA 00-12373 LR)
 Affected by this Pleading)
28

TABLE OF CONTENTS

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28

	<u>Page</u>
I. INTRODUCTION	1
A. Background	1
B. Purpose of This Document	2
C. Deadlines for Voting On and Objecting to the Plan; Date of Plan Confirmation Hearing	3
D. Disclaimer	6
E. Plan Overview	8
F. Who May Vote or Object	10
1. Who May Object To Confirmation Of The Plan	10
2. Who May Vote to Accept Or Reject The Plan	11
3. What Is An Allowed Claim/Interest	11
4. What Is An Impaired Class	12
5. Who Is Not Entitled To Vote	13
6. Proposed Ballot Procedures for all Class Members	14
7. Who Can Vote In More Than One Class	15
8. Votes Necessary To Confirm The Plan	15
9. Votes Necessary For A Class To Accept The Plan	15
10. Treatment Of Nonaccepting Classes	15
11. Request For Confirmation Despite Nonacceptance By Impaired Classes	16
II. BACKGROUND	16
A. Description of the Debtors and the Debtors' Businesses	16
1. Summary of Business Operations	16

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28

2. Description of the Debtors' Business Entities 18

3. Historical Financial Data 22

B. Events Leading to the Debtors' Chapter 11 Filings 22

C. Insiders and Affiliates of the Debtors 24

III. SIGNIFICANT EVENTS DURING THE DEBTORS' CHAPTER 11 CASES 24

A. Petition Date And First Week Emergency Matters 24

B. Debtors' Schedules of Assets and Liabilities and Statements of Financial Affairs 25

C. Appointment of Creditors' Committee and Borrowers' Committee. 25

D. Debtors Retain Professionals 27

E. Management of the Debtors After the Chapter 11 Filings 29

F. Sale of Servicing Rights to Ocwen Federal Bank 30

G. Credit Card Agreement with Fidelity National Bank 33

H. Stipulation with Lehman 34

I. Real and Personal Property Transactions 36

1. Efforts to Sell Jamboree Property 36

2. Corporate Headquarters 38

3. Sale of Palm Springs Condominium 39

4. Blanket Sale of Personal Property 39

J. Securities Litigation 40

	<u>Page</u>
1	
2	
3	K. Government Claims Litigation 41
4	1. Federal Trade Commission 41
5	2. Massachusetts 42
6	3. Illinois 43
7	4. Florida 43
8	5. California 44
9	6. Other States 44
10	7. Post-Petition Litigation 45
11	L. Settlement of Borrower and Government
12	Litigation 45
13	1. Summary of Efforts Leading to Settlement 45
14	2. Summary of Settlement Agreement 46
15	3. The FTC's Proposed Distribution of the
16	Redress Fund 50
17	4. Motions to Obtain Approval of Settlement
18	and Related Procedures 52
19	5. Motion to Withdraw Reference of Entire
20	Case 53
21	M. Claims Objections 53
22	N. Recovery of Preferential or Fraudulent
23	Transfers 54
24	1. Recovery Actions Commenced by the
25	Debtors 55
26	2. Recovery Actions Commenced by the
27	Committees 59
28	O. Termination of Pension Plan 61
	P. Status of Current Operations 61
	IV. SUMMARY OF THE PLAN OF REORGANIZATION 62
	A. Introduction 63

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28

B. Summary of Anticipated Distributions to Creditors and Interest Holders 63

C. Payment of Administrative Expenses and Treatment of Certain Unclassified Claims 66

D. Classification of Claims and Interests 69

 1. Manner of Classification of Claims and Interests 69

 2. Classification. Allowed Claims and Interests are divided into the following Classes: 70

E. Treatment of Claims and Interests 71

 1. Class 1 Claim of Lehman 71

 2. Class 2 Claim of Ohio Life 71

 3. Class 3 Priority Claims 72

 4. Class 4 Unsecured Borrower Claims 72

 5. Class 5 Unsecured Claims 74

 6. Class 6 Subordinated Claims 75

 7. Class 7 Interests 76

 8. Class 8 Interests 76

 9. Class 9 Interests 76

 10. Class 10 Interests 76

F. Implementation of the Plan and Execution of its Terms 77

 1. Implementation of Plan 77

 2. Capital Contribution and Sale of Residual Interest Certificates 77

 3. Distribution of the Debtors' Assets; Liquidation of Assets 78

 4. Winding Up and Dissolution of the Debtors 79

 5. The Liquidating Trust 79

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28

G. Membership in the Post-Confirmation Committee..... 90

H. Objections to Claims 90

I. Executory Contracts and Unexpired Leases 91

 1. Rejection of All Executory Contracts and Leases 91

 2. Proofs of Claim With Respect to Rejection Damages 91

J. Sole Equity Interest of Debtors 92

V. ASSETS AVAILABLE FOR DISTRIBUTION TO CREDITORS 92

 A. Residual Interest Income 93

 B. Real and Personal Property 95

 C. Loan Portfolio 96

 D. Loan Servicing Rights 96

 E. Insurance Policies 97

 1. D&O Insurance 97

 2. E&O Insurance 100

 F. Prepaid Expenses 101

 G. Potential Litigation Claims and/or Pending Litigation 101

 1. Lehman 101

 2. Law Firms and Insurance Brokers 103

 3. Escrow proceeds 103

 4. Pending Litigation 104

VI. CERTAIN FEDERAL INCOME TAX CONSEQUENCES OF PLAN 104

 A. Introduction 104

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28

B. Taxation of the Redress Fund and the Liquidating Trust 106

 1. In General: Qualified Settlement Funds 107

 2. The Redress Fund 108

 3. The Liquidating Trust 109

C. Tax Consequences to Creditors 112

 1. Generally 112

 2. Establishment of the Redress Fund and Liquidating Trust 112

 3. Distributions From the Redress Fund and the Liquidating Trust 113

D. Federal Income Tax Consequences To The Debtors 115

 1. Transfers of Assets to the Liquidating Trust and the Redress Fund 115

 2. Reduction of the Debtors' Indebtedness 116

 3. Liquidation of the Debtors 118

 4. Carryback of the Debtors' Net Operating Losses 119

E. Tax Consequences to the FACO Shareholders 119

F. General Disclaimer 120

VII. CONFIRMATION REQUIREMENTS AND PROCEDURES 120

 A. Liquidation Analysis 120

 B. Feasibility 123

 C. Risks Associated With the Plan 125

VIII. EFFECT OF CONFIRMATION OF PLAN 126

 A. No Discharge 126

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28

Page

B. Modification of the Plan 127
C. Final Decree 127
D. Retention of Jurisdiction 128

Exhibit A
Page 17

I.

INTRODUCTION

A. Background

1
2
3
4 First Alliance Mortgage Company, a California corporation
5 ("FAMCO"), First Alliance Corporation, a Delaware corporation
6 ("FACO"), First Alliance Mortgage Company, a Minnesota
7 corporation ("FAMCO-MN"), and First Alliance Portfolio Services,
8 a Nevada corporation ("FAPS") (collectively, the "Debtors"),
9 filed voluntary petitions under chapter 11 of title 11 of the
10 United States Code (the "Code"), on March 23, 2000 (the "Petition
11 Date"). The Debtors submit this Disclosure Statement pursuant to
12 section 1125 of the Code to all Creditors and equity interest
13 holders of the Debtors who are entitled to vote to accept the
14 "Debtors' First Amended Joint and Consolidated Plan of
15 Liquidation Dated May 6, 2002" (the "Plan")¹ proposed by the
16 Debtors and filed with the Court.² A true and correct copy of the
17 Plan is attached hereto as Exhibit "A."

18 **THE DEBTORS, THE OFFICIAL COMMITTEE OF UNSECURED CREDITORS**
19 **AND THE OFFICIAL JOINT BORROWERS' COMMITTEE BELIEVE THAT THE PLAN**
20 **PROVIDES THE MOST FEASIBLE RECOVERIES TO HOLDERS OF ALLOWED**
21 **CLAIMS AND THAT ACCEPTANCE OF THE PLAN IS IN THE BEST INTERESTS**
22 **OF THE HOLDERS OF ALLOWED CLAIMS. THE DEBTORS AND THE OFFICIAL**
23 **COMMITTEES THEREFORE RECOMMEND THAT YOU VOTE TO ACCEPT THE PLAN.**

24
25 ¹ Unless otherwise defined herein, all capitalized terms
26 contained herein shall have the same meanings ascribed to them in
27 Article I of the Plan.

28 ² For convenience, "District Court" or "Court" as used
herein shall refer to the United States District Court for the
Central District of California, and "Bankruptcy Court" shall
refer to the United States Bankruptcy Court for the Central
District of California.

1 THE COURT HAS NOT AUTHORIZED ANY PERSON TO GIVE ANY
2 INFORMATION OR MAKE ANY REPRESENTATIONS REGARDING THE PLAN OR THE
3 SOLICITATION OF ITS ACCEPTANCE, OTHER THAN THE INFORMATION AND
4 REPRESENTATIONS CONTAINED IN THIS DISCLOSURE STATEMENT. IN
5 ADDITION, THE COURT HAS NOT YET DETERMINED WHETHER OR NOT THE
6 PLAN IS CONFIRMABLE AND THE COURT MAKES NO RECOMMENDATION AS TO
7 WHETHER OR NOT YOU SHOULD SUPPORT OR OPPOSE THE PLAN.

8 B. Purpose of This Document

9 The Code requires that the party or parties proposing a
10 chapter 11 plan of reorganization prepare and file with the Court
11 a document called a "disclosure statement." THE DOCUMENT YOU ARE
12 READING, INCLUDING ITS EXHIBITS, IS THE DISCLOSURE STATEMENT (THE
13 "DISCLOSURE STATEMENT") FOR THE PLAN.

14 This Disclosure Statement summarizes the contents of the
15 Plan, and describes certain information relating to the Plan and
16 the process the Court follows in determining whether or not to
17 confirm the Plan. This Disclosure Statement describes the
18 Debtors, their business, their operations, assets, liabilities
19 and financial performance, and provides a summary and analysis of
20 the Plan.

21 The Code requires that a disclosure statement contain
22 "adequate information" concerning the Plan. In other words, a
23 disclosure statement must contain information of a kind, and in
24 sufficient detail, to enable the parties who are affected by the
25 plan to vote intelligently for or against the plan or object to
26 the plan. The Court has reviewed this Disclosure Statement. The
27 Court has determined that this Disclosure Statement contains
28 adequate information to enable parties affected by the Plan to

1 make an informed judgment about the Plan, and may be sent to you
2 to solicit your vote to accept the Plan.

3 All Creditors should review this Disclosure Statement and
4 the Plan before voting to accept or reject the Plan. Be sure to
5 read the Plan as well as this Disclosure Statement. If there are
6 any inconsistencies between the Plan and this Disclosure
7 Statement, the Plan provisions will govern.

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

- 10 1. WHO CAN VOTE ON OR OBJECT TO THE PLAN,
- 11 2. THE TREATMENT OF YOUR CLAIM, (i.e., WHAT YOUR CLAIM
12 WILL RECEIVE IF THE PLAN IS CONFIRMED) AND HOW THIS
13 TREATMENT COMPARES TO WHAT YOUR CLAIM WOULD RECEIVE IN
14 LIQUIDATION,
- 15 3. THE HISTORY OF THE DEBTORS AND SIGNIFICANT EVENTS
16 DURING THE BANKRUPTCY,
- 17 4. THE THINGS THE COURT WILL CONSIDER WHEN DECIDING
18 WHETHER TO CONFIRM THE PLAN,
- 19 5. THE EFFECT OF CONFIRMATION, AND
- 20 6. WHETHER THE PLAN IS FEASIBLE.

21 THIS DISCLOSURE STATEMENT CANNOT ADVISE YOU ABOUT YOUR
22 RIGHTS. YOU SHOULD CONSULT YOUR OWN ATTORNEY TO OBTAIN MORE
23 SPECIFIC ADVICE ON HOW THE PLAN WILL AFFECT YOU AND WHAT IS THE
24 BEST COURSE OF ACTION FOR YOU TO TAKE.

25 C. Deadlines for Voting On and Objecting to the Plan; Date
26 of Plan Confirmation Hearing

27 THE COURT HAS NOT YET CONFIRMED THE PLAN DESCRIBED IN THIS
28 DISCLOSURE STATEMENT. IN OTHER WORDS, THE TERMS OF THE PLAN ARE

1 NOT YET BINDING ON ANYONE. HOWEVER, IF THE COURT CONFIRMS THE
2 PLAN, THEN THE PLAN WILL BE BINDING ON ALL CREDITORS AND INTEREST
3 HOLDERS IN THESE CASES.

4 YOU MAY VOTE FOR OR AGAINST THE PLAN, REGARDLESS OF WHETHER
5 YOU HAVE ANY OBJECTIONS TO THE PLAN. IF YOU DO WISH TO FILE AN
6 OBJECTION, THAT MUST BE FILED SEPARATELY IN ADDITION TO VOTING
7 AGAINST THE PLAN. THE DATES FOR VOTING ON THE PLAN OR OBJECTING
8 TO THE PLAN ARE SET FORTH BELOW.

9 1. Time And Place Of The Confirmation Hearing. The
10 hearing at which the Court will determine whether or not to
11 confirm the Plan will take place on September 10, 2002, at 8:30
12 a.m. in Courtroom 9D, 411 W. Fourth Street, Santa Ana,
13 California.

14 2. Deadline For Voting For Or Against The Plan. If you
15 are entitled to vote, it is in your best interest to vote timely
16 using the enclosed ballot (the "Ballot") by returning the Ballot
17 to:

18 CPT Group, Inc.
19 Attn: FAMCO Ballots
20 16630 Aston Street
Irvine, California 92606

21 Your ballot must be received by August 13, 2002, or it will
22 not be counted. At the Debtors' request, the Court has
23 established certain procedures for the solicitation and
24 tabulation of votes on the Plan. They are described in the
25 "Order: (1) Approving Disclosure Statement; (2) Approving
26 Solicitation and Notice Procedures; (3) Approving Form of
27 Ballots; (4) Establishing Confirmation Procedures and Deadlines;
28 and (5) Establishing Certain Bar Dates" (the "Disclosure

1 Statement Order") and the "Notice of (1) Hearing on Plan
2 Confirmation; and (2) Manner and Timing for Voting on and Filing
3 Objections to Confirmation of Plan" (the "Confirmation Hearing
4 Notice") that accompany this Disclosure Statement.

5 3. Deadline For Objecting To The Confirmation Of The Plan.
6 Objections to the confirmation of the Plan must be filed on or
7 before August 13, 2002, at 4:00 p.m., Pacific Daylight Time, with
8 the Court and delivered to (a) Reorganization Counsel for the
9 Debtors: William N. Lobel, Esq., Irell & Manella LLP, 840 Newport
10 Center Drive, Suite 400, Newport Beach, California 92660-6324;
11 (b) Counsel for the Official Committee of Unsecured Creditors
12 Holding Unsecured Claims: David Stern, Esq., Klee, Tuchin,
13 Bogdanoff & Stern LLP, 1880 Century Park East, Suite 200, Los
14 Angeles, California 90067; (c) Counsel for the Official
15 Borrowers' Committee: Larry W. Gabriel, Esq., Pachulski, Stang,
16 Ziehl, Young & Jones, 10100 Santa Monica Blvd., Ste. 1100, Los
17 Angeles, California 90067; (d) the Office of the United States
18 Trustee, 221 N. Figueroa St., Los Angeles, California 90012, and
19 (e) the FTC: Anne M. McCormick, Esq., 600 Pennsylvania Ave NW,
20 Room 4429, Washington, DC 20580.

21 4. Identity Of Persons To Contact For More Information
22 Regarding The Plan. Any interested party desiring further
23 information about the Plan should contact: Reorganization Counsel
24 for the Debtors: Patty Naegely, Paralegal, Irell & Manella LLP,
25 840 Newport Center Drive, Suite 400, Newport Beach, California
26 92660-6324.

27
28

1 D. Disclaimer

2 NO REPRESENTATIONS CONCERNING THE PLAN ARE AUTHORIZED BY THE
3 DEBTORS OTHER THAN THOSE SET FORTH IN THIS DISCLOSURE STATEMENT.
4 THE INFORMATION CONTAINED IN THIS DISCLOSURE STATEMENT HAS BEEN
5 PROVIDED BY THE DEBTORS AND FROM OTHER SOURCES. IN REACHING YOUR
6 DECISION ON HOW TO VOTE ON THE PLAN, THE DEBTORS RECOMMEND THAT
7 YOU NOT RELY ON ANY REPRESENTATION OR INDUCEMENT MADE TO SECURE
8 YOUR ACCEPTANCE OR REJECTION OF THE PLAN WHICH IS NOT CONTAINED
9 IN THIS DISCLOSURE STATEMENT OR IN THE PLAN ITSELF.

10 CERTAIN DIRECTORS, OFFICERS, ATTORNEYS, ACCOUNTANTS,
11 FINANCIAL ADVISORS AND OTHER PROFESSIONALS EMPLOYED BY THE
12 DEBTORS HAVE ASSISTED IN THE PREPARATION OF THIS DISCLOSURE
13 STATEMENT BASED UPON FACTUAL INFORMATION AND ASSUMPTIONS
14 RESPECTING FINANCIAL, BUSINESS, AND ACCOUNTING DATA PROVIDED BY
15 THE DEBTORS AND THIRD PARTIES. WHILE THOSE DIRECTORS, OFFICERS
16 AND THIRD PARTIES WHO HAVE CONTRIBUTED TO THIS DISCLOSURE
17 STATEMENT HAVE USED THEIR BEST EFFORTS TO ENSURE THE ACCURACY OF
18 THE DISCLOSURE STATEMENT AND THE DATA PRESENTED HEREIN, THEY HAVE
19 NOT INDEPENDENTLY VERIFIED SUCH INFORMATION AND MAKE NO
20 REPRESENTATIONS AS TO THE ACCURACY THEREOF. THE OFFICERS,
21 ATTORNEYS, ACCOUNTANTS, FINANCIAL ADVISORS AND OTHER
22 PROFESSIONALS EMPLOYED BY THE DEBTORS SHALL HAVE NO LIABILITY FOR
23 THE INFORMATION IN THIS DISCLOSURE STATEMENT OR ITS ATTACHMENTS.

24 THIS DISCLOSURE STATEMENT HAS BEEN PREPARED IN ACCORDANCE
25 WITH SECTION 1125 OF THE CODE AND NOT IN ACCORDANCE WITH FEDERAL
26 OR STATE SECURITIES LAWS OR OTHER APPLICABLE NON-BANKRUPTCY LAW.
27 PERSONS HOLDING OR TRADING IN OR OTHERWISE PURCHASING, SELLING,
28 OR TRANSFERRING CLAIMS AGAINST, OR INTERESTS IN, THE DEBTOR

1 SHOULD EVALUATE THIS DISCLOSURE STATEMENT IN LIGHT OF THE PURPOSE
2 FOR WHICH IT WAS PREPARED. THIS DISCLOSURE STATEMENT HAS NOT
3 BEEN SUBMITTED TO THE SECURITIES AND EXCHANGE COMMISSION ("SEC")
4 FOR APPROVAL, NOR HAS THE SEC PASSED UPON THE ACCURACY OR
5 ADEQUACY OF THE STATEMENTS CONTAINED HEREIN.

6 THIS DISCLOSURE STATEMENT MAY NOT BE RELIED UPON FOR ANY
7 PURPOSE OTHER THAN TO DETERMINE HOW TO VOTE ON THE PLAN. NOTHING
8 CONTAINED IN THIS DISCLOSURE STATEMENT IS OR SHALL BE DEEMED TO
9 BE AN ADMISSION OR STATEMENT AGAINST INTEREST BY THE DEBTORS FOR
10 PURPOSES OF ANY PENDING OR FUTURE MATTER OR PROCEEDING, NOR SHALL
11 IT BE DEEMED ADVICE ON THE TAX, SECURITIES, OR OTHER LEGAL
12 EFFECTS OF THE REORGANIZATION ON HOLDERS OF CLAIMS OR INTERESTS.

13 HOLDERS OF CLAIMS OR INTERESTS SHOULD CONSULT THEIR PERSONAL
14 COUNSEL OR TAX ADVISOR ON ANY QUESTIONS OR CONCERNS RESPECTING
15 TAX, SECURITIES, OR OTHER LEGAL CONSEQUENCES OF THE PLAN.

16 The financial data relied upon in formulating the Plan is
17 based on the Debtors' books and records. The Debtors represent
18 that everything stated in this Disclosure Statement is true to
19 their best knowledge. They do not represent, however, that
20 everything stated in this Disclosure Statement is without any
21 inaccuracy.

22 The discussion in this Disclosure Statement regarding the
23 Debtors may contain "forward looking statements" within the
24 meaning of the Securities Act of 1933, as amended, and the
25 Securities Exchange Act of 1934, as amended. Such statements
26 consist of any statement other than a recitation of historical
27 fact and can be identified by the use of forward-looking
28 terminology such as "may," "expect," "anticipate," "estimate" or

1 "continue" or the negative thereof or other variations thereon or
2 comparable terminology. The reader is cautioned that all forward
3 looking statements are necessarily speculative and there are
4 certain risks and uncertainties that could cause actual events or
5 results to differ materially from those referred to in such
6 forward looking statements. The liquidation analysis,
7 distribution projections, and other information are estimates
8 only, and the timing and amount of actual distributions to
9 Creditors may be affected by many factors that cannot be
10 predicted. The information presented and the projections made
11 are set forth to the best of the Debtors' abilities. The Debtors
12 do not have control over all future events and therefore, cannot
13 guarantee that the information presented herein will be
14 unaffected by future results.

15 **E. Plan Overview**

16 ALL HOLDERS OF CLAIMS AND INTERESTS ARE ADVISED AND
17 ENCOURAGED TO READ THIS DISCLOSURE STATEMENT AND THE PLAN
18 CAREFULLY BEFORE VOTING TO ACCEPT OR REJECT THE PLAN. ALL
19 SUMMARIES CONTAINED IN AND STATEMENTS MADE IN THIS DISCLOSURE
20 STATEMENT ARE QUALIFIED BY REFERENCE TO SUCH DOCUMENTS, OTHER
21 EXHIBITS HERETO AND OTHER DOCUMENTS REFERENCED AS FILED WITH THE
22 COURT. THIS DISCLOSURE STATEMENT WILL NOT BE UPDATED AFTER COURT
23 APPROVAL AND, SUBSEQUENT TO THE DATE HEREOF, THERE CAN BE NO
24 ASSURANCE THAT: (A) THE INFORMATION AND REPRESENTATIONS CONTAINED
25 HEREIN REMAINS MATERIALLY ACCURATE; OR (B) THIS DISCLOSURE
26 STATEMENT CONTAINS ALL MATERIAL INFORMATION THAT MAY BECOME
27 RELEVANT FOLLOWING COURT APPROVAL.

28

1 1. Liquidating Plan. The Plan provides for the orderly
2 liquidation of all remaining property of the Debtors and their
3 Estates. Cash on hand and the Cash generated from the sale,
4 disposition or collection of the property of the Estates and
5 Recovery Rights will be used to pay Allowed Claims against the
6 Debtors. In order to effectuate the Plan, a Liquidating Trust
7 will be established to hold, manage, and liquidate the assets and
8 property of the Estates in accordance with the Plan, the
9 Settlement Agreement, and the Liquidating Trust Agreement. Other
10 property of the Debtors' Estates will be transferred to the
11 Redress Fund pursuant to the terms of the Settlement Agreement
12 for the payment of Allowed Settlement Claims. The beneficiaries
13 of the Liquidating Trust are all Creditors holding Allowed Claims
14 against the Estates. Neither the Debtors, nor their Estates
15 shall retain any interest in any property after the Effective
16 Date (other than the Debtors' retention of Insurance Policies).

17 2. Administration of the Liquidating Trust

18 The Liquidating Trust will be administered by an independent
19 Trustee to be approved by the Court prior to the Confirmation
20 Hearing date. The rights, duties, and powers of the Liquidating
21 Trust Trustee are set out in detail in the Liquidating Trust
22 Agreement and section V.E of the Plan.

23 Except as specified in the Plan and subject to the
24 conditions of the Liquidating Trust Agreement and the approval of
25 the Court, if required, the Liquidating Trust Trustee may employ
26 any officers, employees, agents, representatives, attorneys or
27 other professionals the Liquidating Trust Trustee deems necessary
28 to carry out the liquidating purposes of the Liquidating Trust.

1 A more detailed discussion of the Liquidating Trust and related
2 provisions of the Plan, the Liquidating Trust Agreement, and the
3 powers of the Trustees is set forth in section IV.E.4 of this
4 Disclosure Statement.

5 3. Substantive Consolidation. On or before the Effective
6 Date, the Debtors and their Estates shall be substantively
7 consolidated pursuant to section 105(a) of the Code. As a result
8 of the substantive consolidation, on the Effective Date, all
9 property, rights and Claims of the Debtors and their Estates
10 shall be deemed to be consolidated for purposes of allowance,
11 treatment and distributions under the Plan. Substantive
12 consolidation shall not affect the rights of secured Creditors to
13 look to their collateral for satisfaction of their Allowed
14 Secured Claims.

15 Substantive consolidation will eliminate all inter-company
16 claims of each Debtor against one or more related Debtors. In
17 addition, the Plan provides that each Creditor of a Debtor shall
18 be deemed to hold a Claim of equal validity, priority and
19 enforceability against each other Debtor. A Creditor with an
20 Allowed Claim shall be entitled only to a single recovery against
21 all of the Debtors, collectively.

22 **F. Who May Vote or Object**

23 1. Who May Object To Confirmation Of The Plan

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

27
28

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28

2. Who May Vote to Accept Or Reject The Plan

A Creditor or interest holder has a right to vote for or against the Plan if that Creditor or interest holder has a Claim which is

- (a) an Allowed Claim or allowed for voting purposes only,
- (b) classified in an impaired Class, and
- (c) will receive or retain some money or property under the Plan.

In this case, Classes 1 and 2 are not impaired and are not entitled to vote. Classes 3, 4, and 5 are impaired and entitled to vote. Classes 6, 7, 8, 9, and 10 do not receive or retain any money or property under the Plan, are deemed to reject the Plan under section 1126(g) of the Code and, therefore, are not entitled to vote on the Plan.

3. What Is An Allowed Claim/Interest

As noted above, a Creditor or interest holder must first have an Allowed Claim or Allowed Interest to have the right to vote on the Plan. Generally, any proof of Claim or Interest will be allowed, unless a party in interest brings an objection to the Claim or Interest. When an objection to a Claim or Interest is filed, the Creditor or Interest holder holding the Claim or Interest cannot vote unless the Court, after notice and hearing, either overrules the objection or allows the Claim or Interest for voting purposes, and provided that Class can even vote, which some cannot in this case.

THE BAR DATE FOR FILING A PROOF OF CLAIM OR INTEREST IN THESE CASES WAS JULY 5, 2000 FOR ALL CREDITORS AND INTEREST HOLDERS, INCLUDING BORROWERS WHOSE CLAIMS RELATED TO THE MANNER

1 IN WHICH THEIR LOANS WERE SERVICED; AUGUST 16, 2000 FOR ALL
2 BORROWER PROOFS OF CLAIM, EXCEPT THOSE RELATING TO LOAN
3 SERVICING; SEPTEMBER 19, 2000 FOR ALL GOVERNMENTAL UNITS; AND
4 JULY 5, 2002 FOR THOSE CREDITORS WHO TIMELY OPT-OUT OF THE
5 SETTLEMENT CLASS.

6 A Creditor or Interest holder may have an Allowed Claim or
7 Allowed Interest even if a proof of Claim or Interest was not
8 timely filed. A Claim is deemed allowed if (1) it is scheduled
9 on the Debtors' schedules and such Claim is not scheduled as
10 disputed, contingent, or unliquidated, and (2) no party in
11 interest has objected to the Claim. An interest is deemed
12 allowed if it is scheduled and no party in interest has objected
13 to the Interest.

14 Settlement Class Members may be deemed to individually hold
15 Allowed Claims and may be entitled to vote. As the authorized
16 agents for Settlement Class Members, the Representative
17 Plaintiffs shall be entitled to cast ballots on behalf of all
18 Settlement Class Members that do not vote on the Plan. In
19 addition, the Representative Plaintiffs may vote their separate
20 individual and representative Claims.

21 4. What Is An Impaired Class

22 As noted above, an Allowed Claim or Allowed Interest only
23 has the right to vote if it is in a Class that is impaired under
24 the Plan, and receives some consideration under the Plan. A
25 Class is impaired if the Plan alters the legal, equitable, or
26 contractual rights of the members of that class. For example, a
27 class comprised of general unsecured claims is impaired if the
28

1 Plan fails to pay the members of that class 100% of what they are
2 owed including post-petition interest through the effective date
3 of a plan.

4 In this case, the Debtors believe that Classes 3, 4 and 5
5 are impaired. The holders of Allowed Claims in Classes 3, 4, and
6 5 are entitled to vote to accept or reject the Plan. Although
7 Classes 6, 7, 8, 9, and 10 are impaired, the holders of Allowed
8 Claims and Allowed Interests in these Classes receive no money or
9 property under the Plan and are deemed to vote to reject the
10 Plan. Therefore, they are not entitled to vote under section
11 1126(g) of the Code. Parties who dispute the Debtors'
12 characterization of their Class as being impaired or unimpaired
13 may file an objection to the Plan contending that the Debtors
14 have incorrectly characterized the Class.

15 5. Who Is Not Entitled To Vote

16 The following four types of Claims are not entitled to vote:
17 (1) Claims that have not been Allowed; (2) Claims in unimpaired
18 Classes; (3) Claims entitled to priority pursuant to sections
19 507(a)(1), (a)(2), and (a)(8) of the Code; and (4) Claims in
20 Classes that do not receive or retain any value under the Plan.
21 Claims in unimpaired Classes are not entitled to vote because
22 such Classes are deemed to have accepted the Plan. Claims
23 entitled to priority pursuant to sections 507(a)(1), (a)(2), and
24 (a)(8) of the Code are not entitled to vote because such Claims
25 are not placed in Classes and they are required to receive
26 certain treatment specified by the Code. Claims in Classes that
27 do not receive or retain any value under the Plan do not vote
28 because such Classes are deemed to have rejected the Plan. If

1 your claim has not been Allowed, you may file a motion with the
2 Court to allow your claim for voting purposes. EVEN IF YOUR
3 CLAIM IS OF THE TYPE DESCRIBED ABOVE, YOU MAY STILL HAVE A RIGHT
4 TO OBJECT TO THE CONFIRMATION OF THE PLAN.

5 6. Proposed Ballot Procedures for all Class Members

6 The Plan provides that Settlement Class Members with Allowed
7 Claims shall be entitled to vote on the Plan. As the authorized
8 agents for Settlement Class Members, the Representative
9 Plaintiffs shall be entitled to cast ballots on behalf of all
10 Settlement Class Members who do not vote on the Plan. In
11 addition, the Representative Plaintiffs may vote their separate
12 individual and representative Claims.

13 The Debtors believe that the foregoing parties are the only
14 parties who should be entitled to cast votes on behalf of Class
15 Members. The Debtors believe that applicable statutory authority
16 and case law provides that votes cast by authorized agents and
17 class representatives should be counted as if each Class Member
18 had voted for or against the Plan for purposes of satisfying the
19 numerosity requirement of 11 U.S.C. § 1126(c). However, out of
20 an abundance of caution, and in the event that the Debtors' legal
21 position is rejected or overturned on appeal, the Debtors have
22 requested Court authorization to send ballots to all Class
23 Members, along with a brief summary of the plan and disclosure
24 statement (the proposed summary and form of ballot will be
25 submitted to the Court for approval prior to the hearing on the
26 Disclosure Statement), so that the Debtors can ensure sufficient
27 votes to confirm the Plan.

28

1 7. Who Can Vote In More Than One Class

2 Subject to the requirements of section VIII.A.5 hereof, a
3 Creditor whose Allowed Claim has been allowed in part as an
4 Allowed Claim in one Class and in part as an Allowed Claim in
5 another Class, if any, both of which Classes are impaired, is
6 entitled to accept or reject a Plan in both capacities by casting
7 two ballots, one for each part of the Allowed Claim.

8 8. Votes Necessary To Confirm The Plan

9 If impaired Classes exist, the Court cannot confirm the
10 Plan unless (1) at least one impaired Class has accepted the Plan
11 without counting the votes of any insiders within that Class, and
12 (2) all impaired Classes have voted to accept the Plan, unless
13 the Plan is eligible to be confirmed by "cramdown" on
14 nonaccepting classes. The Debtor has requested that the Court to
15 confirm the Plan by "cramdown" pursuant to section 1129(b) of the
16 Code, if necessary.

17 9. Votes Necessary For A Class To Accept The Plan

18 A Class of Allowed Claims is considered to have accepted the
19 Plan when more than one-half (1/2) in number and at least two-
20 thirds (2/3) in dollar amount of the Allowed Claims which
21 actually voted, voted to accept the Plan. A Class of Allowed
22 Interests is considered to have accepted the Plan when at least
23 two-thirds (2/3) in amount of the interest-holders of such Class
24 which actually voted, voted to accept the Plan.

25 10. Treatment Of Nonaccepting Classes

26 As noted above, even if some impaired Classes do not accept
27 the proposed Plan, the Court may nonetheless confirm the Plan if
28 at least one Class has accepted the Plan and the nonaccepting

1 Classes are treated in the manner required by the Code. The
2 process by which nonaccepting Classes are forced to be bound by
3 the terms of a Plan is commonly referred to as "cramdown." The
4 Code allows the Plan to be "crammed down" on nonaccepting Classes
5 of Allowed Claims or Allowed Interests if it meets all consensual
6 requirements except the voting requirements of section 1129(a)(8)
7 of the Code and if the Plan does not "discriminate unfairly" and
8 is "fair and equitable" toward each impaired Class that has not
9 voted to accept the Plan as referred to in section 1129(b) of the
10 Code and applicable case law.

11 11. Request For Confirmation Despite Nonacceptance By
12 Impaired Classes

13 The Debtors have asked the Court to confirm the Plan by
14 cramdown on impaired Classes 3, 4, 5, 6, 7, 8, 9, and 10 if any
15 of these impaired Classes do not vote to accept the Plan or are
16 deemed to reject the Plan.

17 II.

18 BACKGROUND

19 A. Description of the Debtors and the Debtors' Businesses

20 1. Summary of Business Operations

21 For over 25 years, prior to filing these cases, the Debtors
22 were engaged in the mortgage loan origination, purchase, sales,
23 and servicing businesses. The Debtors' loan origination
24 operations were traditionally conducted through their retail
25 branch operations located in 18 states and the District of
26 Columbia. The loans originated by the Debtors primarily
27 consisted of fixed and adjustable rate loans secured by first
28 mortgages on single family residences. It is the Debtors'

1 contention that the Debtors' borrowers were individuals who would
2 not otherwise qualify for conventional loans because of impaired
3 or unsubstantiated credit characteristics and/or unverifiable
4 income, or whose borrowing needs were not met by conventional
5 lending institutions.

6 Periodically, after a certain number of loans had been
7 originated, the Debtors would pool a number of loans into a
8 "Mortgage Loan Trust" and sell the package to wholesale
9 purchasers, a process known as "securitizing" the loans. After
10 the Debtors' loans were securitized, the Debtors retained the
11 right to service the loans. In exchange for servicing the loans,
12 the Debtors were entitled to collect a monthly servicing fee,
13 plus to retain late charges, pre-payment fees, and other
14 ancillary servicing fees. Although the Debtors are no longer
15 originating mortgage loans or servicing loans securitized under a
16 Mortgage Loan Trust, the Debtors continue to service
17 approximately 300 existing notes that were never placed into a
18 Mortgage Loan Trust.

19 Whenever the loans originated by the Debtors were pooled and
20 assigned to a Mortgage Loan Trust, those assets were used as
21 collateral to back up securities that were issued and sold to
22 various institutions. Because of a variety of factors, the
23 interest paid to the holders of the interests in the Mortgage
24 Loan Trust is lower than the rate of interest collected by the
25 servicer of the loans (including FAMCO) from the individual
26 borrowers. This interest differential, or "residual," held in
27 the form of certificated interests in the Mortgage Loan Trusts

28

1 (the "Residual Interest Certificates"), provided a substantial
2 amount of income to the Debtors.

3 2. Description of the Debtors' Business Entities

4 a. First Alliance Corporation (original
5 bankruptcy case no. SA 00-12371)

6 FACO is the publicly held "holding company" of the Debtors,
7 organized under the laws of the State of Delaware. FACO was
8 incorporated in June 1996, and owns 100% of the stock of FAMCO,
9 First Alliance Services, Inc. ("FAS"), Electroloan.com, Coast
10 Security Mortgage, First Alliance Company, Ltd., and First
11 Alliance Acceptance Corporation.

12 b. First Alliance Mortgage Company, a California
13 corporation (original bankruptcy case no. SA 00-12370)

14 FAMCO is a wholly owned subsidiary of FACO. FAMCO is the
15 Debtors' principal operating subsidiary, headquartered in Irvine,
16 California.

17 c. First Alliance Services, Inc. (non-Debtor)

18 FAS was a wholly owned subsidiary of FACO. FAS was
19 incorporated in March 1996 for the specific purpose of reducing
20 the net cost associated with the Debtors' banking needs. Due to
21 certain banking regulations, the Debtors were required to create
22 a separate entity with its own employees that would provide
23 services that could be considered "banking-related." In addition
24 to providing banking-related services that directly and
25 exclusively benefited FAMCO, FAS also provided payroll and
26 accounting services to FAMCO. FAMCO paid FAS for the services
27 rendered to FAMCO in the ordinary course of business. FAS'
28 operations were taken over by FAMCO, and FAS was dissolved in

1 December 2000 in accordance with an order of the Bankruptcy Court
2 entered on or about November 30, 2000.

3 d. First Alliance Mortgage Company, a Minnesota
4 corporation (original bankruptcy case no. SA 00-12372)

5 FAMCO-MN was incorporated in May 1997, and is a wholly owned
6 subsidiary of FAMCO. FAMCO-MN operated as a mortgage lender and
7 mortgage servicer in the State of Minnesota, and was separately
8 formed due to state licensing requirements unique to Minnesota.

9 e. First Alliance Portfolio Services, Inc.
10 (original bankruptcy case no. SA 00-12373)

11 FAPS, a Nevada corporation, is a wholly owned subsidiary of
12 FAMCO. FAPS was formed in January 1998 to provide loan servicing
13 functions for Mortgage Loan Trust transactions and third party
14 investors. FAPS was not used for loan servicing operations, but
15 was used to hold the Residual Interest Certificates and collect
16 the residual interest differential. The primary reason for this
17 was to obtain the income tax benefits available to Nevada-based
18 businesses. Prior to the Petition Date, the funds flowing from
19 the Residual Interest Certificates were provided to FACO for
20 distribution to FAMCO as necessary to pay operating expenses.
21 Following the Petition Date, the Debtors continued this pre-
22 petition cash flow structure in accordance with the Bankruptcy
23 Court's order of April 7, 2000.

24 f. Electroloan.com, Inc. (non-Debtor)

25 Electroloan.com, Inc., a California corporation, was a
26 wholly owned subsidiary of FACO. This subsidiary was formed to
27 obtain sale "leads" for FAMCO by using internet marketing, which
28 it was hoped would be a lower cost than direct mail and

1 telemarketing. In addition, the subsidiary was to develop the
2 origination of wholesale loans via the Internet portal E-
3 Wholesale. The corporation was dissolved on August 21, 2000.
4 The assets of Electroloan.com were transferred to FACO at that
5 time.

6 g. First Alliance Mortgage Company, Ltd. (non-
7 Debtor)

8 FAMCO Ltd. was a United Kingdom wholly-owned subsidiary of
9 FAMCO. FAMCO Ltd. was formed in order to conduct the mortgage
10 origination business in the U.K. In 1999, FAMCO Ltd. applied for
11 liquidation and all of its assets were distributed to FAMCO.

12 h. First Alliance Company, Ltd. (non-Debtor)

13 FACO Ltd. was a wholly owned subsidiary of FACO. The
14 company was formed as a U.K. holding company, and was dissolved
15 on August 24, 1999. All remaining assets at the time of
16 dissolution of FACO Ltd. were distributed to FACO and/or FAMCO.

17 i. First Alliance Sterling, PLC (non-Debtor)

18 This U.K. subsidiary was owned 26% by FAMCO and 74% by FAMCO
19 Ltd. It was formed in order to securitize loans in the European
20 markets and to hold residual interest arising out of the U.K.
21 operations, which never materialized. The company was dissolved
22 on April 20, 1999. All remaining assets at the time of
23 dissolution were distributed to FACO and/or FAMCO.

24 j. First Alliance Residual Holding Company (non-
25 Debtor)

26 This Delaware subsidiary, a precursor to FAPS, was wholly
27 owned by FAMCO. The corporation was dissolved on April 15, 1999.

28

1 All remaining assets at the time of dissolution were distributed
2 to FACO and/or FAMCO.

3 k. Coast Security Mortgage Company (non-Debtor)

4 In July 1999, FACO acquired Coast Security Mortgage Company
5 ("Coast"), a retail mortgage company that originated sub-prime
6 first mortgages, as an additional source of origination. As a
7 result of the Debtors' bankruptcy filing, the Debtors were not
8 able to obtain necessary financing via their warehouse lines of
9 credit and, consequently, were forced to shut down Coast's
10 operations due to the inability to fund loans originated by
11 Coast. Coast was dissolved in 2001. All known claims against
12 Coast have been resolved, and all of Coast's assets were
13 transferred to FACO at the time of dissolution.

14 l. First Alliance Acceptance Corporation (non-
15 Debtor)

16 This Delaware subsidiary was wholly owned by FACO. It was
17 formed to deal with proposed securitizations of credit card
18 receivables from the former credit card operation, but such
19 securitizations never materialized. The company was dissolved in
20 April 1999. All remaining assets at the time of dissolution were
21 distributed to FACO and/or FAMCO.

22 m. First Alliance Credit Corporation (non-
23 Debtor)

24 First Alliance Credit Corporation was used as another name
25 for the operations of FAMCO, due to the fact that a company with
26 a similar name was already doing business in Illinois. First
27 Alliance Credit Corporation had no separate assets or
28 liabilities.

1 An organizational chart indicating the relationship between
2 each of the Debtors and their subsidiaries is attached hereto as
3 Exhibit "C."

4 3. Historical Financial Data

5 The selected historical financial information of the Debtors
6 described in this Disclosure Statement has been derived in part
7 from the historical consolidated financial statements included in
8 the Debtors' forms 10-K and forms 10-Q on file with the
9 Securities and Exchange Commission.

10 In addition, financial information pertaining to the
11 Debtors' operations since the Petition Date is reflected in the
12 interim and operating reports that were filed with the Office of
13 the United States Trustee. Copies of the operating reports and
14 interim statements filed during the course of the Debtors'
15 bankruptcy cases can be obtained by contacting the Office of the
16 United States Trustee.

17 In addition to the foregoing public records, a copy of a
18 consolidated balance sheet as of March 31, 2002 for all of the
19 Debtors is attached hereto as Exhibit "B."

20 **B. Events Leading to the Debtors' Chapter 11 Filings**

21 During the third and fourth quarters of 1998, the asset-
22 backed securities market started experiencing high volatility and
23 other problems which led investors to require higher interest
24 rate spreads, higher credit enhancement, and better pricing.

25 Over time, loan origination fees came under increasing
26 scrutiny in the political arena and the press. Legislation was
27 being considered in California, the Debtors' primary place of
28 business, which would have limited origination fees that lenders

1 could charge their borrowers to 3%. Several other states where
2 the Debtors did business enacted restrictions and caps on the
3 fees a lender could assess for loans.

4 During this same time period, several entities engaged in
5 the sub-prime lending business, including the Debtors, were
6 investigated by governmental agencies in regard to alleged
7 predatory lending practices. The Federal government, along with
8 the Attorneys General of the states of Illinois, Florida,
9 Arizona, Washington, and Massachusetts, started investigations of
10 the Debtors' lending practices. Thereafter, several states,
11 various borrowers and certain interest groups commenced legal
12 actions against the Debtors for alleged predatory lending
13 practices and alleged violations of consumer protection laws.
14 During 1999 and early 2000, FAMCO incurred substantial legal fees
15 and expenses in defending these actions.

16 In the Debtors' opinion, the difficulties being experienced
17 by the asset-backed securities market, the predatory lending
18 practices allegations against FAMCO, and the environment within
19 the Debtors' industry resulted in a sharp downward trend in the
20 Debtors loan volume and earnings. In January and February 2000,
21 FAMCO showed no profit and projected a loss for March 2000 and
22 FAMCO's economic future was bleak.

23 On March 15, 2000 -- eight days before the Debtors filed for
24 bankruptcy -- the New York Times published an extensive article
25 questioning FAMCO's lending practices, and advising readers to
26 watch ABC's national news program, "20/20," on the evening of
27 March 15th for additional information. That night, 20/20 ran a
28 feature story on FAMCO's lending practices and its Wall Street

1 connections to the subprime market. The 20/20 program focused on
2 FAMCO's loan origination fees, borrower complaints and pending
3 litigation against FAMCO.

4 The Debtors always contended that they complied with all
5 applicable state and federal lending laws at all times, and
6 strongly disputed any allegations of impropriety.

7 As a result of the projected unprofitable business
8 operations, negative publicity and increasing burden of defending
9 numerous lawsuits, the FACO Board of Directors decided to seek
10 protection of the Bankruptcy Court.

11 **C. Insiders and Affiliates of the Debtors**

12 By virtue of his stock ownership interest in FACO in excess
13 of 20%, and his position as an officer, director, and Chairman of
14 the Board of the Debtors, Brian Chisick is an "insider" of the
15 Debtors under sections 101(31) and/or 101(2) of the Code. Other
16 insiders include those people who are "insiders" by virtue of
17 their positions as directors or officers of the Debtors, as
18 described in section III.E of the Disclosure Statement and the
19 related non-debtor entities described in section II.A.2 of the
20 Disclosure Statement.

21 **III.**

22 **SIGNIFICANT EVENTS DURING THE DEBTORS' CHAPTER 11 CASES**

23 The following is a list of significant events that have
24 occurred during the Debtors' cases:

25 **A. Petition Date And First Week Emergency Matters**

26 On March 23, 2000, the Debtors filed voluntary petitions for
27 reorganization under chapter 11 in the Bankruptcy Court.

28 Immediately after the Debtors filed their chapter 11 petitions,

1 the Debtors moved the Court for the following authority, all of
2 which was granted:

3 1. Motion to Authorize payment of terminated employees
4 pursuant to the Worker Adjustment and Retraining Act ("WARN Act")
5 (terminated employees were given the equivalent of 60 days salary
6 and certain benefits);

7 2. Motion Approving the Debtors continued use of a
8 centralized cash management system;

9 3. Motion to establish a deadline for filing proofs of
10 claim or interest;

11 4. Motion for global authority for Debtors to settle
12 disputes with Debtors landlords at branch offices; and

13 5. Motion to authorize joint administration of the
14 Debtors' bankruptcy cases.

15 **B. Debtors' Schedules of Assets and Liabilities and**
16 **Statements of Financial Affairs**

17 On May 5, 2000, the Debtors filed their schedules of assets
18 and liabilities as required by Code § 521 and Bankruptcy Rule
19 1007. Also on May 5, 2000, the Debtors filed their statements of
20 financial affairs which set forth specific information about
21 distributions made to creditors and insiders within ninety days
22 or within one year of the Petition Date respectively, as well as
23 other relevant pre-Petition Date transfers.

24 **C. Appointment of Creditors' Committee and Borrowers'**
25 **Committee.**

26 On April 10, 2000, the United States Trustee appointed a
27 committee of Creditors holding unsecured Claims for the Debtors'
28 cases (the "Creditors' Committee"). The current members of the.

1 Creditors' Committee and their designated representatives are
2 listed below:

3 <u>Creditor</u>	<u>Representative</u>
4 Fidelity Federal Bank, F.S.B. 4565 Colorado Blvd. 5 Los Angeles, CA 90039	Matthew J. Bonaccorso
6 Carney Direct Marketing 15520 Rockfield Blvd., Suite C 7 Irvine, CA 92618	Diana M. Arroyo
8 Workflow Direct/Pacific Admail, Inc. 1909 South Susan Street 9 Santa Ana, CA 92704	Erin Schlegel
10 Direct List Technology, Inc. 1950 W. Corporate Way 11 Anaheim, CA 92801-5373	Thomas Philip
12 Tension Envelope Corporation P. O. Box 9037 13 Temecula, CA 92589	Stanley D. Moskovitz
14 Miller/Davis Company 2575 University Ave. West, Suite 200 15 St. Paul, MN 55114-1069	A. K. Dube

16 The Creditors' Committee has retained the following
17 Professionals, each of whom has sought and received approval by
18 the Bankruptcy Court to be employed in these cases:

19 <u>Professional</u>	<u>Capacity</u>
20 Klee, Tuchin, Bogdanoff & Stern LLP (Employed 6/1/2000)	Bankruptcy Counsel
21 PricewaterhouseCoopers LLP 22 (Employed as of 6/8/2000)	Financial Advisors

23 In addition, on June 9, 2000, the United States Trustee
24 appointed a Committee specifically to represent the interests of
25 FAMCO Borrowers. The purpose of the Official Joint Borrowers'
26 Committee (the "Borrowers' Committee") was to represent the
27 individual FAMCO borrowers in all aspects of the bankruptcy
28

1 proceedings. The designated representatives of the Borrowers'
2 Committee are listed below:

3 Representative

4 American Association of Retired Persons
5 c/o Phillip M. Steinbock, Esq.
6 Steinbock & Hofmann
7 60 S. Market St. #1400
8 San Jose, CA 95113

9 David B. Zlotnick, Esq.
10 1010 Second Ave., Suite 1750
11 San Diego, CA 92101

12 Daniel Mulligan, Esq.
13 Jenkins & Mulligan
14 225 Bush Street, Seventh Floor
15 San Francisco, CA 94104

16 Jerome A. Ritter, Esq.
17 Ritter & Fenske, Ltd.
18 461 University Avenue West
19 St. Paul, MN 55103

20 Robert H. Silver
21 1436 Galaxy Drive
22 Newport Beach, CA 92660

23 The Borrowers' Committee has retained the following
24 Professionals, each of whom has sought and received approval by
25 the Bankruptcy Court to be employed in these cases:

<u>Professional</u>	<u>Capacity</u>
26 Pachulski, Stang, Ziehl, 27 Young & Jones P.C. 28 (Employed as of 6/9/2000)	General Bankruptcy Counsel
29 Nielson Elggren LLP 30 (employed as of 1/10/2002)	Financial Advisors

31 **D. Debtors Retain Professionals**

32 In order to facilitate the Debtors' reorganization process,
33 during the course of the Debtors' chapter 11 cases, the Debtors
34

1 have sought and received Bankruptcy Court approval to employ the
2 following Professionals:

<u>Professional</u>	<u>Capacity</u>
3 Irell & Manella LLP ³ 4 (Employed as of 3/23/2000)	Reorganization Counsel
5 United Financial, Inc. 6 (Employed as of 4/12/2000)	Broker for Loan Servicing Rights
7 Travers Realty Corporation (Employed 6/2/2000)	Real Estate Broker for sale of Jamboree Property
8 Hein & Associates LLP 9 (Employed 6/26/2000)	Auditors/Accountants/Financial Consultants
10 Bolar, Hirsch & Jennings LLP (Employed 6/26/2000)	Tax Accountants
11 Doss & Page 12 (Employed 6/26/2000)	Special Corporate Counsel
13 Carlton, DiSante & 14 Freudenberger LLP (Employed 6/26/2000)	Labor Counsel
15 Chapman & Cutler (Employed 6/26/2000)	Special Litigation Counsel for Illinois action
16 Shaun P. Martin 17 (Employed 6/26/2000)	Special Appellate Counsel for insurance claim litigation against ITT Hartford Group
18 Lamb & Baute LLP 19 (Employed 6/26/2000)	Special Litigation Counsel for Debtors in connection with Fidelity dispute
20 Luce, Forward, Hamilton & 21 Scripps LLP (Employed 6/26/2000)	Special Securities Counsel
22 Stephens, Reidinger & Beller LLP 23 (Employed 6/26/2000)	401(k) Plan Audit Accountants

24
25 ³ Effective May 1, 2000, the attorneys from The Lobel Firm
26 LLP joined Irell & Manella LLP. Therefore, the Debtors' motion
27 to employ Irell & Manella as general insolvency counsel, filed
with the Bankruptcy Court on April 21, 2000, sought employment of
28 the Lobel Firm as general insolvency counsel from the Petition
Date through April 30, 2000, and Irell & Manella as general
insolvency counsel thereafter.

1	Tow, Finestone and Associates LLC (Employed 6/26/2000)	Special Advisors for 401(k) and flexible benefits plans
2		
3	Fred Sands Realty (Employed 6/26/2000)	Real Estate Broker for sale of improved real property in Palm Springs, CA
4		
5	Crossroads LLC (Employed as of 7/5/2000)	Litigation Consultant
6		
7	Daehnke & Cruz Counsel (Employed 7/14/2000)	Special Insurance Litigation
8		
9	Brown, Rudnick, Freed & Gesmer P.C. (Employed 8/14/2000)	Special Litigation Counsel for Massachusetts action
10		
11	Rodriguez O'Donnell, Fuerst, Gonzalez & Williams (Employed 9/18/2000)	Special Litigation Counsel for Florida action
12		
13	CB Richard Ellis (Employed as of 4/15/2001)	Real Estate Broker for sale of Jamboree Property
14	Sperry VanNess (Employed as of 4/22/2002)	Real Estate Broker for sale of Jamboree Property
15		
16	Collier Shannon Scott PLLC (Employed as of 6/21/2001)	Special Litigation Counsel for FTC Litigation

17 **E. Management of the Debtors After the Chapter 11 Filings**

18 On the Petition Date, the officers of the Debtors included:

19 Brian Chisick (Chief Executive Officer and President); Francisco

20 Nebot (Chief Financial Officer); Beverly Allen (Vice President);

21 Bruce Bollong (Vice President); Jerry Hager (Vice President and

22 General Counsel); Susan Linder (Corporate Secretary); Dennis

23 DeBoer (Vice President); Salah Bastawy (Vice President); Steve

24 Chiolis (Vice President); Vasili Raptis (Vice President); and

25 Patricia Sullivan (Vice President); Catalina Alvarez (Vice

26 President); Jeffrey Smith (Executive Vice President); Ella

27 Carillo (Assistant Secretary); Peggy Tom (Vice President); Anne

28 Lane (Vice President); Faez Kaabi (Vice President and

1 Controller); Lynn Le (Assistant Secretary). On the Petition
2 Date, the following officers resigned from FACO: Dennis DeBoer,
3 Salah Bastawy, Steve Chiolis, Vasili Raptis, and Patricia
4 Sullivan. Thereafter, Francisco Nebot, Susan Linder, Catalina
5 Alvarez, Jeffrey Smith, Ella Carillo, Peggy Tom, Anne Lane, Faez
6 Kaabi, and Lynn Le resigned. The current officers of the Debtors
7 are: Brian Chisick (Chief Executive Officer and President);
8 Beverly Allen (Vice President); Joel Blitzman (Vice President and
9 Controller); Bruce Bollong (Vice President); and Jerry Hager
10 (Executive Vice President, General Counsel, and Secretary).

11 On the Petition Date, the board of directors of FACO was
12 composed of Merrill Butler, Brian Chisick, Sarah Chisick,
13 Francisco Nebot, Don Kasle, Daniel Perl, and Daniel Stevenson.
14 Subsequently, Dan Perl and Don Kasle resigned on September 25,
15 2000 and January 23, 2001, respectively. Daniel Stevenson died
16 in August 2001, and was replaced by Thomas Tarter. Francisco
17 Nebot resigned on September 7, 2001. Sarah Chisick resigned on
18 December 21, 2001. The current board of directors of FACO is
19 composed of Brian Chisick, Merrill Butler, and Thomas Tarter.

20 **F. Sale of Servicing Rights to Ocwen Federal Bank**

21 As of the Petition Date, FAMCO's servicing rights portfolio
22 consisted of approximately 9,700 mortgage loans with an aggregate
23 mortgage loan value of approximately \$714 million. In order to
24 obtain maximum value for its servicing rights portfolio, FAMCO
25 employed United Financial, Inc. ("UFI") and Daniel Perl of
26 Navieve Financial as brokers to market and sell the portfolio.
27 Following an objection to the employment of Daniel Perl, Daniel
28 Perl and Navieve Financial withdrew their employment application

1 and returned all money they had received to the Debtors. As part
2 of its marketing campaign to locate bidders for the portfolio,
3 UFI mailed descriptions of the loan servicing portfolio and
4 solicited bids from approximately 1,100 potential purchasers
5 including approximately 200 sub-prime loan originators, and
6 approximately 900 loan servicing entities.

7 On July 14, 2000, FAMCO received Bankruptcy Court
8 authorization for the sale of its servicing rights portfolio to
9 Ocwen Federal Bank ("Ocwen") for \$7.9 million. In addition,
10 FAMCO was reimbursed for recoverable servicing advances, totaling
11 approximately \$3.2 million.

12 At the time of sale, Ocwen held back approximately
13 \$1,500,000 due to the uncertainty of the collectability of
14 prepayment penalties under the servicing rights. According to
15 the holdback arrangement, Ocwen has been releasing approximately
16 \$250,000 to the Debtors every three months until the holdback
17 reaches \$500,000, which remainder is subject to holdback pending
18 Plan confirmation. Upon confirmation, those funds will then
19 become available for distribution through the Liquidating Trust.

20 In addition, approximately \$3.3 million was subject to
21 holdback by MBIA Insurance Corporation ("MBIA"), the insurer of
22 various Mortgage Loan Trusts, and the Bank of New York, Wells
23 Fargo Bank, and The Chase Manhattan Bank (as trustees of the
24 various Mortgage Loan Trusts) (collectively, the "Trustees") due
25 to FAMCO's obligation to repurchase defective loans and for
26 protection of the trustees, including the use of the funds
27 towards various litigation defense costs incurred by the trustees
28 relating to the purchase of Debtor-originated loans by the

1 Mortgage Loan Trusts. The parties agreed that this amount would
2 be subject to holdback until MBIA and the Trustees have
3 determined that the withheld amounts will not be needed to
4 satisfy FAMCO's future obligations arising under the Consent
5 Agreement between the Debtors, MBIA, and the Trustees (which was
6 approved by the Bankruptcy Court by order entered on July 14,
7 2000). MBIA and the Trustees shall evaluate the potential future
8 obligations of FAMCO under the Consent Agreement annually,
9 beginning in August 2001, and shall return any unneeded withheld
10 funds to FAMCO or the Liquidating Trust, as applicable, at the
11 time of such evaluation(s). Upon termination of the Consent
12 Agreement, MBIA and the Trustees shall return all remaining
13 withheld funds to FAMCO or the Liquidating Trust Trustee, as
14 applicable.

15 As of December 31, 2001, MBIA held almost \$1 million in
16 funds. As part of the Settlement Agreement, MBIA has agreed to
17 release the remainder of the holdback funds on the Effective Date
18 of the Plan. Similarly, the remainder of the Trustees have
19 negotiated with the Debtors to turn over the remaining funds
20 subject to holdback on the Effective Date. However, on February
21 8, 2002, the Trustees were named as defendants in a putative
22 class action complaint captioned Frances M. Bohnsack, et al. v
23 Lehman Bros., et al., Case No. 02-CV-1214. It is possible that
24 substantially all of the remaining holdback funds will be applied
25 by the Trustees and MBIA, their insurer, toward costs incurred in
26 defending this action. However, at this time, the Bohnsack
27 action has been stayed as to the Trustees by an order of the
28 District Court entered on May 13, 2002.

1 The sale to Ocwen allowed FAMCO to completely exit the
2 business of loan servicing for others. As of March 31, 2002,
3 FAMCO continues to service approximately 300 wholly-owned loans.
4 Pursuant to the Settlement Agreement, the Debtors will transfer
5 their remaining loan portfolio to the Liquidating Trust on the
6 Effective Date.

7 **G. Credit Card Agreement with Fidelity National Bank**

8 Prior to the Petition Date, Fidelity entered into an
9 agreement with the Debtors, pursuant to which the Debtors
10 originated and Fidelity underwrote certain accounts in connection
11 with a real estate secured credit card program. Under the terms
12 of the agreement, Fidelity would fund the credit card balance and
13 would pay the Debtors for their solicitation services, customer
14 services, and collection efforts.

15 On February 25, 2000, Fidelity gave notice to Debtors of the
16 expiration and termination of the servicing agreements as of
17 August 23, 2000, in accordance with the notice requirements of
18 the agreements, and demanded performance under the agreements.
19 Consequently, the Debtors transferred the credit card servicing
20 to Fidelity in September 2000. FAMCO was purportedly obligated
21 under the agreements to purchase all of the accounts and related
22 receivables generated under the credit card program as a result
23 of its termination.

24 Fidelity claimed that FAMCO was liable to it for
25 approximately \$16 million as a result of certain contractual
26 indemnity obligations pertaining to repayment of the credit card
27 advances. FAMCO disputed this position. Pursuant to the terms
28 of the servicing agreements, the parties instituted arbitration

1 proceedings to address this issue. During the course of the
2 arbitration, the parties agreed to a settlement that was
3 presented to the Bankruptcy Court for approval.

4 On October 30, 2001, the Bankruptcy Court entered an order
5 approving a stipulation between the Debtors and Fidelity with
6 respect to the credit card agreement. The stipulation settled
7 Fidelity's aggregate potential claims against the Debtors in
8 excess of approximately \$7.2 million in exchange for (1) the
9 surrender of \$2.9 million in cash collateral, held in an account
10 at Fidelity for the purpose of providing security for FAMCO's
11 debt to Fidelity; plus (2) an unsecured claim against the Debtors
12 of \$2.4 million. In addition, the stipulation provided for a
13 release by both parties of their officers, directors, employees
14 and agents with respect to any claims which related solely to the
15 unsecured credit card program. As a result of the Bankruptcy
16 Court's approval of the stipulation between Fidelity and the
17 Debtors, Fidelity has received the proceeds of the cash
18 collateral account and currently holds an Allowed Unsecured Claim
19 of \$2.4 million against the Debtors.

20 **H. Stipulation with Lehman**

21 On April 7, 2000, the Bankruptcy Court entered its "Order
22 Approving Stipulation Between Debtor and Lehman Commercial Paper
23 Inc. re: Adequate Protection on an Interim Basis" (the "Interim
24 Order"). A final hearing was originally scheduled for May 1,
25 2000 at 10:30 a.m., and has since been continued on several
26 occasions, most recently to May 7, 2002 at 3:00 p.m.

27 The terms of the Interim Order allowed Lehman to continue
28 be paid under the terms of its loan agreements with the Related

1 Debtors while at the same time preserving the rights of
2 interested parties to challenge the right of Lehman to receive
3 the payments under the stipulation based upon claims of equitable
4 subordination, among others. The Interim Order remains in full
5 effect as of the date of this Disclosure Statement and shall
6 remain in effect pending the final hearing on the Interim Order.

7 The Related Debtors, Lehman, the Creditors' Committee and
8 the Borrowers' Committee continued the hearing regarding final
9 approval of the Interim Order in an attempt to negotiate a final
10 order acceptable to the parties.

11 In November, 2001, the Borrowers' Committee, brought suit
12 against Lehman, among others, for claims arising out of their
13 relationship with the Related Debtors. The relief sought against
14 Lehman includes a prayer for equitable subordination of any and
15 all of Lehman's claim, as it was on the Petition Date, so that it
16 is treated as junior in payment priority to all Allowed Claims of
17 unsecured creditors in Classes 4 and 5. This would, among other
18 things, require Lehman to return to the Debtors' Estates (or the
19 Liquidating Trust after the Effective Date of the Plan) amounts
20 paid to Lehman until and unless all holders of Allowed Unsecured
21 Claims in Classes 4 and 5 were paid in full, including interest
22 at the legal rate from and after the Petition Date. This suit is
23 currently pending before the District Court, the Honorable David
24 O. Carter, District Judge, presiding, as Case No. SA CV 01-971
25 DOC (the "Lehman Litigation").

26 Because of the pending Lehman Litigation, the parties have
27 been unable to reach resolution on the terms of a final order.

28

1 There is no further hearing scheduled on the Interim Order at
2 this time.

3 I. Real and Personal Property Transactions

4 1. Efforts to Sell Jamboree Property

5 Subsequent to the Petition Date, the Debtors entered into an
6 agreement with an unaffiliated third party to sell its interest
7 in a parcel of improved real property located at 17200 Jamboree
8 Road in Irvine, California (the "Jamboree Property"). The
9 Jamboree Property is encumbered by a first-priority lien asserted
10 by Ohio Life in the approximate amount of \$3.5 million. The
11 Debtors received Bankruptcy Court authorization in November 2000
12 to sell the Jamboree Property, including the personal property
13 located on the premises, to an unaffiliated third party free and
14 clear of liens and encumbrances. However, the purchaser failed
15 to complete the transaction.

16 FAMCO received a second Bankruptcy Court authorization to
17 sell the Jamboree Property free and clear of liens and
18 encumbrances, including the personal property located on the
19 premises, to eRealty LLC ("eRealty") in March 2001. eRealty also
20 failed to complete the transaction at the originally agreed upon
21 purchase price. eRealty was obligated to consummate the purchase
22 of the Jamboree Property, or forfeit \$50,000 deposited into
23 escrow pursuant to the purchase and sale agreement executed by
24 and between eRealty and FAMCO.

25 In the interim, FAMCO attempted to mitigate its damages
26 occasioned by eRealty's conduct. As a result, on or about
27 April 5, 2001, FAMCO entered into an exclusive listing agreement
28 with CB Richard Ellis ("Ellis") in connection with the sale of

1 the Jamboree Property due to the inability of Travers Realty (the
2 prior listing agent for the Jamboree Property) to locate
3 prospective purchasers at what FAMCO believed to be a market
4 price. On or about June 1, 2001, the Bankruptcy Court entered
5 its order authorizing FAMCO to employ Ellis as its exclusive
6 listing agent for the sale of the Jamboree Property. The Court
7 subsequently entered orders on July 23, 2001, September 20, 2001
8 and November 20, 2001, extending Ellis' employment as listing
9 agent through January 31, 2002.

10 After approximately seven (7) months as broker for the
11 Jamboree Property, Ellis was not able to consummate a sale of the
12 Jamboree Property. Ellis informed FAMCO that it had observed a
13 significant decrease in tenant activity level in the latter part
14 of 2001, due to the September 11th events and subsequent concern
15 regarding company downsizing.

16 FAMCO is continuing to market the Jamboree Property at a
17 sale price of approximately \$5.5 million and, on March 15, 2002,
18 submitted an application to the United States Trustee to employ
19 Sperry Van Ness ("SVN") to market the Jamboree Property. FAMCO
20 elected to retain SVN because of its reputation and experience in
21 marketing commercial and investment real estate for sale in the
22 Orange County area, its extensive marketing efforts for its
23 listings, and its commitment to the investment real estate
24 market. The Bankruptcy Court approved the application. On April
25 23, 2002, the Debtors entered into an agreement to sell the
26 building to Standard Tool, Inc. for \$5.3 million. Court approval
27 of this proposed transaction is pending.

28

1 In the event that the Jamboree Property is not sold prior to
2 the Effective Date of the Plan, the Jamboree Property will
3 continue to be marketed for sale by the Liquidating Trust
4 Trustee.

5 2. Corporate Headquarters

6 In December 2000, the Debtors terminated a lease with a
7 partnership beneficially owned by Brian and Sarah Chisick,
8 relating to its 40,000 square foot corporate headquarters located
9 at 17305 Von Karman Avenue, Irvine, California. As a result of
10 negotiations, the Chisicks waived the Debtor's termination
11 penalty related to such lease. During the same month, the
12 Debtors entered into a one year sublease arrangement commencing
13 on January 1, 2001 to occupy 4,000 square feet of such building
14 with an unrelated third party. The diminished size of the
15 Debtors' corporate headquarters is due to the significant
16 reduction in the Debtors' staff as a result of the bankruptcy.
17 Rejecting the lease of their business premises enabled the
18 Debtors to reduce the ongoing administrative burdens on the
19 estates, resulting in total savings of over \$40,000 per month.

20 As a result of the downsizing, the Debtors were left with
21 office furnishings, fixtures, and equipment that were no longer
22 necessary for their business operations. Therefore, the Debtors
23 filed a motion for an order of the Bankruptcy Court on or about
24 January 5, 2001, authorizing the sale of such personal property
25 to its sublessor free of all liens, claims, and encumbrances.
26 The sublessor offered the Debtors \$150,000 in cash, which was
27 higher than any other offer received by the Debtors in connection
28 with the property. In addition, by selling the property in bulk

1 to the sublessor, the Debtors avoided expenses that they would
2 have incurred with respect to several smaller sales by having to
3 move and/or store the property. The Bankruptcy Court entered an
4 order approving the sale of personal property on February 13,
5 2001.

6 3. Sale of Palm Springs Condominium

7 On June 6, 2000, the Debtors filed a motion to sell a two-
8 bedroom furnished condominium owned by the Debtors in Palm
9 Springs, California, which was not subject to any liens, claims,
10 or encumbrances. The Debtors employed Fred Sands Desert Realty
11 to market the property for sale, and received an all-cash offer
12 for the property in the amount of \$135,000, which reflected the
13 market prices for similar condominiums in the area. The
14 Bankruptcy Court entered an order approving the sale on or about
15 June 29, 2000.

16 4. Blanket Sale of Personal Property

17 On or about June 16, 2000, the Debtors filed a motion with
18 the Bankruptcy Court for a blanket order authorizing the sale of
19 the Debtors' right, title, and interest in personal property,
20 including vehicles and furniture, fixtures, and equipment, which
21 the Debtors no longer needed for their business operations. The
22 Debtors proposed to sell the property free and clear of all
23 liens, claims, and encumbrances, by means of individual sales,
24 not exceeding \$50,000 per sale. The Bankruptcy Court entered its
25 order approving the Debtors' motion on or about July 11, 2000.
26 Following Bankruptcy Court approval, the Debtors sold furniture,
27 fixtures, and equipment totaling approximately \$371,000.

28

1 J. Securities Litigation

2 In June 1998, Leon Rasachack and Philip A. Ettedgui filed a
3 class action suit on behalf of themselves and all others
4 similarly situated who purchased or otherwise acquired the
5 securities of FACO from April 24, 1997 through May 27, 1998 (the
6 "Class Period"). The suit was entitled *Rasachack v. First*
7 *Alliance Corp.*, Case No. 796083. It was filed and remains
8 pending in the Superior Court of California in the County of
9 Orange against FACO and certain past and present officers and
10 directors of FACO. The original named plaintiffs have withdrawn
11 as plaintiffs and have been replaced by Robert Dierolf, Jack
12 Rosenthal and Roger Smith.

13 The complaint alleges that the defendants violated §§ 25400
14 and 25500 of the California Corporations Code by making a series
15 of misrepresentations and omissions concerning First Alliance
16 during the Class Period, thereby inflating the trading price of
17 its securities. The complaint seeks compensatory damages, pre-
18 and post-judgment interest, and equitable and injunctive relief.

19 The securities class action lawsuit was in the discovery
20 stage prior to the Petition Date. The action was stayed against
21 FACO as a result of the filing of the bankruptcy petition. The
22 plaintiffs filed a proof of claim in the Debtors' bankruptcy
23 cases, and continue to pursue their claims against other
24 defendants in the Superior Court. The Plan does not release or
25 discharge the individual defendants from potential liability as a
26 result of the securities class action lawsuit. The class was
27 certified by order of the State Court on February 28, 2002.

28

1 The Claims against the Debtors arising from this lawsuit,
2 which are disputed by the Debtors, have been designated in the
3 Plan as Subordinated Claims pursuant to section 510(b) of the
4 Code and are considered "Class 6" claims under the Plan.
5 Accordingly, upon confirmation of the Plan, such claims shall be
6 deemed subordinated to those of the general unsecured creditors,
7 including borrower claims. Since it is anticipated that there
8 will not be enough money to pay all general unsecured creditors
9 in full, there will be no distributions made to subordinated
10 creditors, although they will retain their Claims and rights of
11 action against the Debtors, including their rights, if any, to
12 the proceeds of the Lloyd's Policy. Any judgment obtained by the
13 holders of Claims in Class 6 against the Debtors may be executed
14 and enforced in accordance with applicable non-bankruptcy law
15 only against insurers that issued and/or insurance proceeds under
16 any Insurance Policy issued to the Debtors intended to cover the
17 liability asserted by the holders of such claims, and may not be
18 enforced against any other assets of the Debtors, the Liquidating
19 Trust, or the Redress Fund.

20 **K. Government Claims Litigation**

21 1. **Federal Trade Commission**

22 On or about September 19, 2000, the FTC filed a proof of
23 claim in the Debtors' bankruptcy case. Fourteen days later, the
24 FTC filed an action against the Debtors in District Court,
25 alleging violations of the Federal Trade Commission Act and the
26 Truth in Lending Act. The FTC's lawsuit seeks permanent
27 injunctive relief and other equitable remedies including redress,
28 rescission, refund, and disgorgement.

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28

2. Massachusetts

On or about October 30, 1998, The Commonwealth of Massachusetts filed a complaint initiating a civil action on behalf of the Commonwealth against FAMCO in Massachusetts state court, seeking an injunction against FAMCO for allegedly charging rates, points, and other terms which significantly deviate from industry-wide standards or which are otherwise unconscionable or unlawful. The Massachusetts complaint alleged that FAMCO violated the Massachusetts Consumer Protection Act and pertinent regulations in making mortgage loans to Massachusetts residents. The relief sought in the complaint includes injunctive relief; restitution for all consumers; civil penalties; and the costs of investigating and prosecuting the action, including attorney's fees and costs. The Commonwealth filed a motion for summary judgment in this action on or about February 15, 2001. The motion for summary judgment was denied in January 2002.

Prior to the Debtors' bankruptcy filing, Massachusetts obtained a preliminary injunction enjoining FAMCO from (1) originating any loans in Massachusetts in violation of state law, including a prohibition on originating loans with more than five points, and (2) taking any steps to foreclose on residential real property in Massachusetts without providing written notice to counsel for the attorney general of Massachusetts. On or about September 18, 2000, Massachusetts filed a proof of claim in the Bankruptcy Court that asserted causes of action based on the previously filed state court action.

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28

3. Illinois

On December 1, 1998, the Attorney General of Illinois filed a complaint initiating a civil action against FAMCO in Illinois state court. In the complaint, Illinois alleges that FAMCO violated the Illinois Consumer Fraud and Deceptive Business Practices Act and the Illinois Interest Act in making loans to the citizens of Illinois. The complaint seeks an injunction prohibiting FAMCO from making mortgage loans to residents of Illinois, restitution, civil penalties, rescission and revocation of business licenses. On September 14, 2000, Illinois filed a proof of claim in the Bankruptcy Court asserting Claims based solely on state law and the pending state court complaint. On August 16, 2001, Illinois filed an amended complaint adding claims against certain officers and directors of FAMCO. The Illinois action was subsequently consolidated with the FTC action.

4. Florida

Post-petition, on or about June 1, 2000, the Florida attorney general filed a complaint initiating a civil action in Florida state court against FAMCO and various current and former FAMCO officers and directors. The complaint, brought on behalf of all FAMCO borrowers in Florida, alleges violations of the Florida Deceptive and Unfair Trade Practices Act and common law fraud, and requests injunctive relief enjoining FAMCO from engaging in the business of making mortgage loans or other forms of consumer loans within the State of Florida, civil penalties against FAMCO based on alleged violations of the Florida Deceptive and Unfair Trade Practices Act, reformation and/or

1 rescission, and monetary relief on behalf of FAMCO borrowers. On
2 or about September 18, 2000, Florida filed a proof of claim in
3 the Bankruptcy Court asserting Claims based solely on state law
4 and the pending state court complaint. On November 13, 2001,
5 Florida filed a complaint in the District Court against certain
6 officers and directors of FAMCO. The Florida action was
7 subsequently consolidated with the FTC action.

8 5. California

9 On or about September 18, 2000, the Attorney General of the
10 State of California ("California") filed a proof of claim in the
11 Bankruptcy Court asserting Claims based solely on state law. In
12 addition, on June 11, 2001, California initially filed a
13 complaint against FAMCO and certain current and former officers
14 of FAMCO in their individual capacities. Subsequently,
15 California dismissed the state court complaint and, on October
16 29, 2001, filed a similar complaint in the District Court. The
17 complaint alleges that FAMCO and others engaged in unfair
18 competition and untrue or misleading representations with respect
19 to its business practices, and sought injunctive relief,
20 restitution, and civil penalties. The California action was
21 subsequently consolidated with the FTC action.

22 6. Other States

23 On or about September 18, 2000, Arizona, Minnesota, and New
24 York filed proofs of claim in the Bankruptcy Court asserting
25 Claims based solely on state law. Minnesota's Claim was made in
26 order to enforce a pre-petition settlement, and has been
27 satisfied by full performance under the terms of the settlement
28 agreement.

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28

7. Post-Petition Litigation

The proofs of claim and certain of the litigation referenced above were initially filed in the Bankruptcy Court. However, the District Court has withdrawn the reference from the Bankruptcy Court with respect to all of the governmental claims and lawsuits. The litigation and the proofs of claim filed by governmental entities were consolidated by the District Court for purposes of trial. Trial on those matters was set for April 2002. All of the issues raised by the governmental litigation and proofs of claim have been settled pursuant to the Settlement Agreement described in the next section.

L. Settlement of Borrower and Government Litigation

1. Summary of Efforts Leading to Settlement

Between June 2001 and January 2002, the parties engaged in very extensive discovery, reviewing hundreds of thousands of pages of documents, serving and responding to numerous written discovery requests, and taking numerous depositions. During this period, the parties conducted more than forty (40) depositions of witnesses and interviewed numerous others. Both sides had retained and prepared experts in anticipation of the April 9, 2002 trial date. Moreover, the parties filed a large number of motions (many of which were pending at the time of the settlement) relating to various procedural and substantive issues.

In January and February 2002, counsel for the parties participated in a series of settlement conferences before the Honorable Dickran Tevrizian, United States District Court Judge, for the Central District of California, and engaged in extensive,

1 ongoing settlement negotiations. Those discussions occurred
2 after the discovery and trial preparation efforts previously
3 discussed, as a result of which the parties were well aware of
4 the strengths and weaknesses of their cases. Those negotiations
5 ultimately led to the Settlement Agreement that was signed by all
6 parties as of February 25, 2002, and filed with the District
7 Court on March 21, 2002. The Settlement Agreement was
8 preliminarily approved by the District Court on April 24, 2002.

9 2. Summary of Settlement Agreement

10 A true and correct copy of the Settlement Agreement is
11 attached to the Plan as Exhibit "2" or may be viewed on-line at
12 <http://www.ftc.gov/bcp/online/edcams/famco/>.⁴ The following is
13 only a summary of the terms and conditions of the proposed
14 settlement:

15 The proposed Settlement will create a "Redress Fund" for the
16 benefit of borrowers who are members of the settlement class. A
17 discussion of how the Redress Fund will be distributed can be
18 found in section III.L.3, below. Settlement Class Members are
19 those Persons who obtained a home loan from FAMCO between January
20 1, 1992 and March 23, 2000, and do not validly and timely request
21 to be excluded from the Settlement Class (in other words,
22 Settlement Class Members are all Borrowers, minus those who
23 choose to opt out of the Settlement).

24
25
26 ⁴ This summary of the Settlement Agreement is qualified in
27 its entirety by reference to the more detailed information
28 contained in the Settlement Agreement. Consequently, you should
read the Settlement Agreement in its entirety. In the event of
any inconsistency between the Settlement Agreement and this
Disclosure Statement, the Settlement Agreement will control.

1 Under the terms of the Settlement Agreement, on the
2 Settlement Effective Date:

3 • Brian and Sarah Chisick will contribute a total of \$20
4 million (adjusted in the manner set forth in the Settlement
5 Agreement) to the capital of the Debtors.

6 • Brian Chisick will purchase the Residual Interest
7 Certificates, including the Residual Proceeds, by paying in cash
8 to FAPS the amount of: (i) \$25.1 million; plus (ii) interest in
9 an amount equal to the total amount that would be received on a
10 \$25.1 million deposit for a period from January 1, 2002 to the
11 Settlement Effective Date, based on an annual interest rate of
12 three percent (3%).

13 • The Coordinated Plaintiffs will be granted collectively an
14 Allowed Unsecured Claim of \$217 million for purposes of
15 determining the value of all Allowed Settlement Claims.
16 Notwithstanding that, should the value of the Debtors' Estates
17 exceed the agreed amount of the Borrowers' Claims, the Borrowers
18 and other Coordinated Plaintiffs shall have the right to request
19 that the District Court hold a hearing to determine the actual
20 value of their claims.

21 • Upon the Effective Date, the Debtors or the Liquidating
22 Trust Trustee, as applicable, will pay specified amounts (as
23 discussed below) to those parties with Allowed Administrative
24 Claims, Allowed Tax Claims, Allowed Opt Out Claims, Allowed
25 Claims in Classes 1 to 3 and 5, and will transfer to the
26 Liquidating Trust Trustee certain reserve amounts to be held by
27 the Liquidating Trust (see more detailed discussion in section
28 IV.F.5 below). All other amounts in the Debtors' Estates

1 (including the payments from Brian and Sarah Chisick, discussed
2 above) will be turned over to the Redress Fund.

3 • Thereafter, the Liquidating Trust will liquidate all
4 remaining assets of the Debtors and, after payment of
5 administrative expenses and certain other claims, will pay the
6 amount remaining to the Redress Fund.

7 • A lawsuit is pending that will determine the rights of the
8 parties to an officers, directors and company insurance policy
9 (the "Lloyd's Policy") obtained from Lloyd's Underwriters at
10 Interest ("Lloyd's"). In the event that proceeds are determined
11 to be available to the Debtors and others under the Lloyd's
12 policy, the Settlement Agreement dictates how certain proceeds
13 will be distributed.

14 • Certain insurers will collectively pay \$1 million to the
15 Redress Fund on behalf of the assignees of the Debtors' mortgage
16 loans.

17 • The Settlement Class Members will expressly waive claims
18 for rescission or reformation of any loan originated by the
19 Debtors.

20 • Brian Chisick, Sarah Chisick and FAMCO will be subject to
21 an FTC Consent Decree barring them from engaging in future
22 violations of the law. Brian and Sarah Chisick will also be
23 enjoined from engaging in any residential loan origination
24 business for ten years in Massachusetts, New York, and Arizona,
25 and for life in the states of California, Florida, and Illinois.

26 • Certain former officers and employees of the Debtors will
27 be subject to a permanent injunction and order enjoining them
28 from violating specific federal and state laws in Arizona,

1 California, Florida, Illinois, Massachusetts, and New York, and
2 requiring that, for a period of five years, they notify the
3 foregoing states of their non-business mailing addresses, and of
4 any mortgage lending business they are involved in that is
5 located in or does business in any of those states.

6 • The Settlement Class Members and other Plaintiffs will
7 release the Debtors, their current and former officers, directors
8 and employees and others from all known and unknown claims for
9 damages and other relief (including cancellation, reformation or
10 rescission of the loans) arising out of or relating to home
11 mortgage loans obtained from FAMCO from January 1, 1992 through
12 March 23, 2000.

13 • The Debtors will release Brian and Sarah Chisick, the
14 family members of the Chisicks and all entities controlled by
15 them, the current and former officer, directors and employees of
16 the Debtors and others from all known and unknown claims. In
17 addition, the Debtors will release all claims against certain
18 borrowers related to certain settlements of claims or lawsuits
19 which were paid by the Debtors within the ninety days prior to
20 the filing of the bankruptcy.

21 The settlement will only become effective if certain
22 conditions are met as set forth in detail in Section 7.1 of the
23 Settlement Agreement, and the Settlement is given final approval
24 by the District Court. One of the conditions of the
25 effectiveness of the Settlement Agreement is that the Debtors
26 confirm a chapter 11 liquidating plan of reorganization
27 consistent with the terms of the Settlement Agreement.

28

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28

3. The FTC's Proposed Distribution of the Redress Fund

Prior to the Confirmation Date, the FTC, with the input of the Coordinated Plaintiffs (as defined in the Settlement Agreement), shall submit to the Court for review and approval a plan for the disbursement of the Redress Fund to Settlement Class Members and other Plaintiffs (the "Redress Plan"). Pursuant to the Settlement Agreement, and for purposes of determining the aggregate available sum of monies to be distributed by the Redress Fund to the Settlement Class Members (the "Settlement Class Amount"), the proposed Redress Plan will provide that the following amounts will be paid from the Redress Fund and the balance distributed to the Settlement Class Members: (a) any attorneys' fees and costs awarded by the Court to counsel for the Coordinated Plaintiffs (as defined in the Settlement Agreement, save and except the fees and costs of the Official Joint Borrowers' Committee) and/or the National Association of Attorneys General, which fees and costs will not exceed the lesser of \$15 million or twenty percent (20%) of the fund available for distribution to Settlement Class Members (before deducting attorneys' fees and costs); (b) any payments awarded by the Court to certain individual Plaintiffs, either as representatives of all borrowers, Settlement Class representatives, or individuals instrumental in initiating the lawsuits that are the subject of the Settlement Agreement, which payments may jointly exceed \$1 million, and (c) any payments to equity shareholders in an amount not to exceed \$3.25 million.

1 Under the FTC's proposed Redress Plan, and subject to the
2 approval of the Court, each Settlement Class Member who qualifies
3 will be entitled to receive a refund of the loan origination fees
4 paid to the Debtors for each mortgage loan such Settlement Class
5 Member entered into with the Debtors. If the total refunds due to
6 the Settlement Class Members for their loan origination fees
7 exceed the Settlement Class Amount in the Redress Fund, as is
8 expected to occur, each Settlement Class Member who qualifies for
9 a refund will be paid a percentage of the loan origination fee
10 that is equal to the Settlement Class Member's proportional share
11 of the Settlement Class Amount for each mortgage loan such
12 Settlement Class Member entered into with the Debtors.
13 Nevertheless, joint borrowers will be entitled to only a single
14 proportional distribution with respect to each loan. In
15 addition, the holder of an Allowed Settlement Claim who
16 previously settled Claims against the Debtors, other than
17 pursuant to the Settlement Agreement, may not qualify to receive
18 any distributions from the Redress Fund and will not be entitled
19 to receive any separate distribution under the Liquidating Plan.
20 To the extent that funds remain in the Redress Fund after
21 payments to the Settlement Class Members under the Redress Plan,
22 the FTC, after consultation with the Coordinated Plaintiffs (as
23 defined in the Settlement Agreement), if appropriate, may elect
24 to make a subsequent distribution to eligible Settlement Class
25 Members or, if appropriate, may apply any remaining funds for
26 such other equitable relief, including consumer education
27 remedies as the FTC determines to be reasonably related to the
28 practices of the Debtors and Brian Chisick as alleged in the

1 FTC's Second Amended Complaint. Any funds not used for such
2 equitable relief shall be paid to the United States Treasury.

3 The Debtors, other Settling Defendants (as defined in the
4 Settlement Agreement), and the Official Committee of Unsecured
5 Creditors pursuant to an agreement entered into after the
6 Settlement Agreement, shall have no right to contest the
7 substance or manner of distribution of the Redress Fund nor any
8 responsibility in connection therewith.

9 4. Motions to Obtain Approval of Settlement and
10 Related Procedures

11 On or about April 3, 2002, the Class Plaintiffs filed a
12 motion seeking preliminary approval of the Settlement Agreement,
13 certification of the settlement class, as well as approval of the
14 form and manner for disseminating notice of the class action and
15 proposed Settlement Agreement to members of the settlement class.
16 At the hearing on April 22, 2002, and by Order entered April 24,
17 2002, the Court approved the Settlement Agreement on a
18 preliminary basis, certified the settlement class, and scheduled
19 a hearing for September 9, 2002 on the fairness, reasonableness
20 and adequacy of the Settlement Agreement.

21 On April 15, 2002, the Debtors filed a motion to establish a
22 bar date for filing proofs of claim for those borrowers who elect
23 to opt-out of the Settlement Agreement by the deadline of June 5,
24 2002 established by the Court. On May 15, 2002, the Court
25 granted the motion and entered an Order establishing July 5, 2002
26 as the bar date for opt-out proofs of claim.

27
28

1 5. Motion to Withdraw Reference of Entire Case

2 On April 1, 2002, the Debtors filed a motion seeking to
3 withdraw the Debtors' bankruptcy cases from the Bankruptcy Court
4 in their entirety, including all pending claims disputes and
5 litigation. The primary purpose of such withdrawal was to ensure
6 the most efficient use of judicial resources by having the same
7 Court determine all issues related to approval of the Settlement
8 Agreement and confirmation of the Debtors' Plan.

9 At a hearing on April 22, 2002, the District Court granted
10 the Debtors' motion and withdrew the reference of each the
11 Debtors' bankruptcy cases from the Bankruptcy Court in their
12 entirety. The only exception to this complete withdrawal of the
13 reference is certain preference actions (i.e., actions against
14 creditors who received certain payments within 90 days of the
15 Petition Date) which, by stipulation of the Debtors, the
16 Creditors' Committee, the Borrowers' Committee, and the FTC, will
17 remain in the Bankruptcy Court.

18 M. Claims Objections

19 As described in section III.A.3 of this Disclosure
20 Statement, pursuant to the Bankruptcy Court's "Order Approving
21 Joint Motion for Order (1) Establishing Last Date to File Proofs
22 of Claim or Interest; (2) Authorizing the Related Debtors to
23 Publish Notice of the Bar Date; and (3) Approving Form of Notice
24 Thereof," July 5, 2000 was the last day to file proofs of claim
25 or interest against the Debtors or their estates. The bar date
26 was subsequently extended to August 16, 2000 for all borrower
27 Claims other than those relating to the manner in which the

28

1 claimants' loans were serviced, and to September 19, 2000 for
2 Claims of all governmental units.

3 The Debtors' references in this Disclosure Statement to the
4 amounts of Claims are based upon the amounts of those Claims as
5 reflected in the Debtors' schedules of liabilities or in filed
6 proofs of claim and are not intended to be admissions regarding
7 the allowed amount of the Claims or waivers of the Debtors',
8 Borrowers' Committee's, Post-Confirmation Committee's, and/or the
9 Liquidating Trust's right to assert any otherwise available
10 defense, recoupment, setoff, or counterclaim against any Claim.
11 The Debtors have not completed their audit of the filed proofs of
12 claim and reserve the right to object to such Claims at any time
13 during these Cases. Pursuant to the Plan, any Claims disputes
14 that are not resolved prior to the Effective Date of the Plan may
15 be commenced or continued by the Liquidating Trust after the
16 Effective Date. On July 18, 2001, the Debtors amended their
17 schedules to include additional undisputed Claims.

18 **N. Recovery of Preferential or Fraudulent Transfers**

19 Pursuant to a stipulation approved by the Bankruptcy Court,
20 the Debtors turned over responsibility for the investigation and
21 prosecution of recovery actions against insiders (as defined in
22 section 101(31) of the Code) under sections 544, 547, 548, and
23 550 of the Code to the Creditors' Committee. Pursuant to section
24 V.E.5 of the Plan, the right to prosecute all recovery actions,
25 including actions against insiders, if any, shall be assigned to
26 the Liquidating Trust Trustee following confirmation of the Plan.
27 The Debtors' Statements of Financial Affairs on file with the
28 Bankruptcy Court disclosed: (i) all payments to Creditors made

1 within ninety (90) days of the Petition Date; (ii) all payments
2 to insiders made within one (1) year of the Petition Date; and
3 (iii) all distributions to an insider of the Debtors, including
4 compensation in any form, bonuses, loans, stock redemptions, and
5 options exercised within one (1) year of the Petition Date.
6 Pursuant to section 546 of the Code, avoidance actions under
7 sections 544, 545, 547, 548 or 553 of the Code may not be
8 commenced after two years from the Petition Date, which in this
9 case occurred on March 23, 2002. As discussed below, a number of
10 actions were timely filed against various parties. However, in
11 the event that the Settlement Agreement is approved by the Court,
12 and in view of the promises made in that agreement, all claims
13 against insiders shall be released by the Debtors, and any
14 actions based on such claims shall be dismissed as to insiders.

15 1. Recovery Actions Commenced by the Debtors

16 The Debtors analyzed all payments to Creditors made within
17 ninety (90) days of the Petition Date to identify Creditors that
18 may have received preferential payments subject to recovery under
19 sections 547 and 550 of the Code. Since the Code does not
20 authorize the recovery of attorneys' fees and costs incurred in
21 pursuing these types of actions, the Debtors conferred with the
22 Committees to determine the minimum amount of potential recovery
23 necessary to justify the costs and fees required to file and
24 prosecute a recovery action. Based on the Debtors' discussions
25 with the Committees, the Debtors decided not to commence a
26 recovery action unless the potential recovery from such action
27 equaled or exceeded \$10,000.

28

1 a. Recovery Actions Against Professionals.

2 Several law firms and other professionals received payments
3 within ninety (90) days of the Petition Date. After analyzing
4 these payments, the Debtors determined that some of the payments
5 to professionals within this period, including some payments by
6 cashier's checks immediately prior to the Petition Date appeared
7 to constitute such preferential payments. Accordingly, the
8 Debtors commenced recovery actions against the following
9 professionals on or about March 22, 2002:

- 10 • Skadden, Arps, Slate, Meagher & Flom LLP
- 11 • Sheppard, Mullin, Richter & Hampton
- 12 • Oppenheimer, Wolff & Donnelly, LLP
- 13 • Wilson Sonsini Goodrich & Rosati
- 14 • Perkins Coie, LLP
- 15 • Akin, Gump, Strauss, Hauer & Feld, LLP
- 16 • Keesal, Young & Logan
- 17 • Baker & Hostetler, LLP
- 18 • Leonard, O'Brien, Wilford, Spencer & Gale, Ltd.
- 19 • Bolar, Hirsch Jennings, LLP
- 20 • Reed, Smith, Shaw & McClay, LLP
- 21 • Brown, Rudnick, Freed & Gesmer
- 22 • Chapman & Cutler
- 23 • Daehnke & Cruz
- 24 • Deloitte & Touche, LLP
- 25 • Doss & Page
- 26 • Gibbons & Conley

27
28

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28

b. Recovery Actions Against Vendors.

Several of the Debtors' vendors were paid for services or products within ninety (90) days of the Petition Date. After analyzing these payments, the Debtors determined that some of the payments to vendors within this period appeared to constitute such preferential payments. Accordingly, the Debtors commenced recovery actions against the following vendors on or about March 22, 2002:

- Tension Envelope Corporation
- Hankin Investment Banking
- Emerald Mortgage Assistance Company
- Norwest Bank Minnesota, N.A.
- Guidestar, Inc
- Advanced Resource Computer Systems, Inc.
- Response Envelope
- Hassett Air Express
- Beyond Interactive
- VLSystems, Inc.
- Workflow Direct, Inc.
- The Columbus Group, LLC
- Bill Draving Company, Inc.
- Direct List Technology
- Tristar Marketing Group

c. Recovery Actions Against Borrowers.

Pre-petition, the Debtors periodically entered into settlements of borrower-related claims, which varied in amount. Several borrowers were paid on account of settlements within ninety (90) days of the Petition Date, which payments appeared to

1 constitute such preferential payments. Accordingly, the Debtors
2 commenced a recovery action against the following borrowers on or
3 about March 22, 2002:

- 4 • Rose Baker
- 5 • Michael and Joan Carroll
- 6 • Robert and Lori Cosgrove
- 7 • John W. Gibson
- 8 • Felipe and Maria Ibarra
- 9 • James J. and Nancy Jones
- 10 • Harvey and Caren Kaller
- 11 • Martin and Arlene Lebo
- 12 • Carl A. Magerl Jr.
- 13 • Myrna E. and Gary M. McDaniel
- 14 • Marion and Elaine McKeever
- 15 • Thomas and Louise Melfi
- 16 • Milan and Diane Osmeck
- 17 • Edward S. and Joanne Toney Pagter
- 18 • Howard and Wilma Pinstein
- 19 • Jo Ann Ray
- 20 • Janice Schuller
- 21 • Michael and Kathleen Simmons
- 22 • Joanne Sonmez
- 23 • Stanley and Victoria Thayer
- 24 • Charles B. and Marvaline White
- 25 • Dawn Willis
- 26 • David and Sylvia Woods

27 The Settlement Agreement provides that, if finally approved
28 by the District Court, the Debtors shall release all of the

1 identified preference claims against those borrowers unless said
2 borrower is a Settlement Class Member who opts out of the
3 Settlement. Claims against those borrowers who opt-out of the
4 Settlement Agreement will not be released. Since the Settlement
5 Agreement has not yet been approved, the Debtors were required to
6 commence the recovery action against borrowers receiving
7 settlement payments during the preference period in order to
8 preserve these claims for the benefit of all creditors before the
9 expiration of the statute of limitations. In order to avoid
10 incurring potentially needless costs and fees in prosecuting this
11 action, the Debtors filed a motion to stay the recovery action
12 against borrowers receiving payments during the preference period
13 pending approval of the Settlement Agreement and confirmation of
14 the Plan.

15 2. Recovery Actions Commenced by the Committees

16 The Debtors made several transfers to the Debtors' insiders
17 within the applicable avoidance periods including, but not
18 limited to, bonuses to employees and transfers related to FAMCO's
19 1996 IPO. These transfers appeared to constitute avoidable
20 preferential payments. Based on their analysis of these
21 transfers, the Committees commenced an adversary proceeding
22 against the following insiders on or about March 22, 2002.

- 23 • Brian Chisick
- 24 • Sarah Chisick
- 25 • Jamie Chisick
- 26 • Brad Chisick
- 27 • Mark Chisick
- 28 • Mark Mason

- 1 • Jeffrey Smith
- 2 • Donald Kasle
- 3 • Merrill Butler
- 4 • George Gibbs
- 5 • Dennis DeBoer
- 6 • Avi Oren
- 7 • Mark Reynolds
- 8 • Francisco Nebot
- 9 • Daniel Perl
- 10 • Eric Hovde
- 11 • Hovde Capital, Inc.
- 12 • Sal Bastaway
- 13 • Borgi-Hesis, Inc.
- 14 • MJB Associates
- 15 • Haverstock LP

16 However, the Settlement Agreement provides that the Debtors
17 shall release all of the identified claims against insiders.
18 Since the Settlement Agreement has not yet been approved, the
19 Committees commenced the recovery actions against insiders in
20 order to preserve these claims for the benefit of all creditors
21 before the expiration of the statute of limitations. In order to
22 avoid incurring potentially needless costs and fees in
23 prosecuting this action, the Committees filed a motion to stay
24 the recovery action against insiders receiving payments during
25 the preference period pending approval of the Settlement
26 Agreement and confirmation of the Plan.

27
28

1 O. Termination of Pension Plan

2 FACO had a defined 401(k) contribution plan, which was
3 effective July 1, 1994. The 401(k) plan was available to all
4 employees over the age of eighteen who had been employed by the
5 Debtors for six months. As of the Petition Date, the 401(k) plan
6 covered approximately 458 employees. In April 2000,
7 approximately one month after the Petition Date, the Debtors
8 adopted an amendment to the 401(k) plan, terminating the plan
9 effective July 12, 2000. All of the employee accounts were 100%
10 vested. As of March 31, 2000, the assets of the plan totaled
11 \$5.9 million. The Debtors distributed all of the assets of the
12 401(k) plan to participants on December 31, 2000.

13 P. Status of Current Operations

14 All of the Debtors' Operating Reports and Interim
15 Statements, which detail all financial dealings and transfers of
16 the Debtors since the Petition Date, are on file with the Office
17 of the United States Trustee, and may be obtained by contacting
18 the Office of the United States Trustee.

19 As of the Petition Date, all of the Debtors' loan
20 origination operations ceased. The Debtors have laid off over
21 400 employees. In July 2000, the Debtors sold the majority of
22 their servicing rights portfolio to Ocwen, and currently employ
23 two individuals in connection with their remaining servicing
24 business. As of March 31, 2002, the Debtors' remaining fourteen
25 employees,⁵ including employee retained on an hourly basis, are
26 actively involved with the following activities:

27 _____
28 ⁵ This figure does not include Brian Chisick, who has not
received compensation from the Debtors since June 2001.

1 INTERESTED PARTIES ARE URGED TO READ THE PLAN AND THE EXHIBITS
2 THERETO IN THEIR ENTIRETY SO THAT THEY MAY MAKE AN INFORMED
3 JUDGMENT CONCERNING THE PLAN.

4 **A. Introduction**

5 The Plan divides Claims and Interests into Classes and sets
6 forth the treatment for each Class. In accordance with the Code,
7 Administrative Claims and Priority Unsecured Tax Claims are not
8 classified. Each Class also contains Claims or Interests that
9 are substantially similar to the other Claims or Interests in
10 such Class. Under the Plan, all Claims and Interests have been
11 separated into ten (10) Classes, and each Class has been
12 determined to be either impaired or unimpaired by the Plan.

13 References in this Disclosure Statement to the amount of
14 Claims are based on the information reflected in the Debtors'
15 Schedules of Assets and Liabilities or in filed proofs of claim
16 and are not intended to be admissions regarding the Allowed
17 amount of the Claims or waivers of the Debtors' rights to assert
18 any otherwise available defense, recoupment, setoff, or
19 counterclaim against any claim. The Debtors have not completed
20 their audit of the filed proofs of claim and expect to object to
21 the allowance of some or all of the proofs of claim, if
22 appropriate, to the extent that they assert Claims exceeding any
23 amount set forth as undisputed in the Debtors' Schedules of
24 Assets and Liabilities.

25
26
27
28

1 **B. Summary of Anticipated Distributions to Creditors and**
 2 **Interest Holders**

3

4 **Summary of Payments to Creditors**

5 Class	Description of Class	Impaired	Amount to be Paid	Estimated Amount of Allowed Claims	Estimated Distribution Under Plan
7 Priority Claims					
8 N/A	Administrative Expenses (11 U.S.C. § 503(b), 507(a)(1))	N/A	Unpaid portion of Allowed Claims paid in full in cash on Effective Date or as soon thereafter as practical	\$25.5 million (estimated as of 9/19/02)	\$25.5 million (including approx. \$19.4 million paid as of 3/31/02)
12 N/A	Priority Tax Claims	N/A	Amount of Allowed Claims paid in full in cash on Effective Date	\$662,000	\$662,000
15 Secured Claims					
16 Class 1	Secured Claim of Lehman	No	Subject to one of the following treatments: (1) note cured and reinstated; or (2) contractual rights unaltered	\$18 million ⁶	\$18 million ⁶
19 Class 2	Secured Claim of Ohio Life	No	Subject to one of the following treatments: (1) note cured and reinstated; or (2) contractual rights unaltered	\$3.42 million	\$3.42 million
23 Unsecured Claims and Interests					
24 Class 3	Priority Claims	Yes	Amount of Allowed Claims paid in full in cash on Effective Date,	\$35,000	\$35,000

26

27 ⁶ This amount is subject to the resolution of the equitable subordination actions asserted in the Aiello v. Lehman Action and
 28 the Borrowers' Committee v. Lehman Action, as defined and more fully described in section V.G.1 below.

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28

			without interest		
Class 4	Unsecured Borrower Claims	Yes	The Redress Fund shall receive the Pro Rata share of available proceeds to be distributed to Class 4 in accordance with the Settlement Agreement; Allowed Opt-Out Claim shall receive the lesser of (1) amount equal to Allowed Opt-Out Claim, or (2) Pro Rata share of available proceeds for payment of all Allowed Claims in Class 4	\$217 million (plus Allowed Opt-Out Claims)	\$55-60 million
Class 5	Unsecured Claims	Yes	50% of the amount of the Allowed Claim, plus 20% of the amount of any recovery in the Reliance Insurance Co. litigation and the Lehman action, up to a maximum total of 75% of the Allowed Claim	\$7 million	approx. \$3.5 million
Class 6	Subordinated Claims	Yes	\$0	unknown	\$0
Class 7	Interests in FACO	Yes	\$0	N/A	\$0
Class 8	Interests in FAMCO	Yes	\$0	N/A	\$0
Class 9	Interests in FAMCO-MN	Yes	\$0	N/A	\$0
Class 10	Interests in FAPS	Yes	\$0	N/A	\$0

1 C. Payment of Administrative Expenses and Treatment of
2 Certain Unclassified Claims

3 1. Administrative Claims. Administrative Claims are
4 Claims for any cost or expense of the chapter 11 case that are
5 allowed under sections 503(b) and 507(a)(1) of the Code. These
6 expenses include all actual and necessary costs and expenses
7 relating to the preservation of the Estates or the operation of
8 the Debtors' businesses, all Claims for cure payments arising
9 from the assumption of executory contracts and unexpired leases
10 pursuant to sections 365(b)(1) of the Code, and all United States
11 Trustee quarterly fees. The Debtors have paid all outstanding
12 United States Trustee fees. As defined in the Plan,
13 Administrative Claims include Claims of Professionals. The
14 Claims of Professionals comprise requests for compensation and
15 reimbursement of expenses by Professionals to the extent allowed
16 by the Court. Under the Plan, Administrative Claims as allowed
17 by the Court shall be paid by the Liquidating Trust.

18 Subject to the bar date provisions of section II.B of the
19 Plan, on the later of the Effective Date, or as soon thereafter
20 as practical, or the date on which the Administrative Claim is
21 allowed, the Liquidating Trust Trustee will pay to each Creditor
22 holding an Allowed Administrative Claim, unless that Creditor
23 agrees to different treatment, Cash equal to the unpaid portion
24 of such Allowed Administrative Claim. Administrative Claims of
25 any Debtor against any other Debtor shall not be paid and shall
26 be eliminated for all purposes. The Allowed Administrative
27 Claims are estimated to total approximately \$25.5 million as of
28 the Effective Date (estimated to occur on October 15, 2002),

1 including approximately \$19.4 million that has been paid to
2 professionals as of February 28, 2002, and allowed on an interim
3 basis. A schedule of the estimated Allowed Administrative
4 Claims, as of March 31, 2002, is attached hereto as Exhibit "E."

5 2. Bar Date for Administrative Claims.

6 All applications for interim compensation of Professionals
7 for services rendered and for reimbursement of expenses incurred
8 on or before the Confirmation Date, and all other requests for
9 payment of an Administrative Claim incurred before the
10 Confirmation Date under sections 507(a)(1) or 503(b) of the Code
11 (except only for Claims under 28 U.S.C. § 1930) shall be filed no
12 later than sixty (60) days after the Confirmation Date. All
13 applications for interim compensation of Professionals for
14 services rendered and for reimbursement of expenses incurred on
15 or before the Confirmation Date, and all other requests for
16 payment of an Administrative Claim incurred before the
17 Confirmation Date under sections 507(a)(1) or 503(b) of the Code,
18 shall include a request for payment of any amounts withheld under
19 the interim payment procedures approved by the Bankruptcy Court.

20 Interim compensation of Professionals for services rendered
21 after the Confirmation Date and prior to the Effective Date shall
22 be sought and paid in accordance with the interim fee procedures
23 established by an order of the Bankruptcy Court.

24 All applications for final compensation of Professionals for
25 services rendered and for reimbursement of expenses incurred on
26 or before the Effective Date, and any other request for
27 compensation by any Entity for making a substantial contribution
28 in the Cases, and all other requests for payment of an

1 Administrative Claim incurred before the Effective Date under
2 sections 507(a) (1) or 503(b) of the Code (except only for Claims
3 under 28 U.S.C. § 1930) shall be filed no later than sixty (60)
4 days after the Effective Date.

5 Any Administrative Claim required to be filed within the
6 foregoing deadlines that is not filed within such deadlines shall
7 be forever barred and the Debtors shall be discharged of any
8 obligation on such Claim; and any Creditor who is required to
9 file a request for payment of such Claim and who does not file
10 such request by the applicable bar date shall be forever barred
11 from asserting such Claim against the Estates or the Liquidating
12 Trust, or any of their respective properties.

13 3. Professionals. The Allowed Administrative Claims of
14 Professionals shall be paid in accordance with section
15 1129(a) (9) (A) of the Code by the Liquidating Trust Trustee.

16 4. Priority Unsecured Tax Claims. On the Effective Date,
17 the Liquidating Trust Trustee will pay each holder of an Allowed
18 Tax Claim in Cash, in full. Holders of Allowed Tax Claims shall
19 not be entitled to receive any payment on account of post-
20 Petition Date interest on, or penalties with respect to or
21 arising in connection with, such Tax Claims, except as allowed by
22 the Court, and all Claims or demands by holders of Tax Claims for
23 post-Petition Date interest or penalties thereon, except as may
24 be allowed by the Court, shall be disallowed by the Plan and the
25 Final Confirmation Order, and the holders of Tax Claims shall not
26 assess or attempt to collect interest or penalties from the
27 Estates, the Liquidating Trust or any of their respective
28 properties.

1 The Debtors estimate that the amount of Allowed Tax
2 Claims will total approximately \$662,000 as of the Effective
3 Date. A schedule of all Tax Claims, including duplicate and
4 objectionable Claims is attached hereto as Exhibit "F."

5 **D. Classification of Claims and Interests**

6 1. Manner of Classification of Claims and Interests

7 It is not possible to predict with certainty the
8 distributions that will ultimately be paid to holders of Claims
9 in the following Classes because of variable elements necessary
10 to the calculation (e.g., the total amount of Allowed Claims in
11 each class, the amount to be realized from the sale of certain
12 assets, and the amounts to be recovered from third parties).
13 Accordingly, the estimates of the Claims in each Class are based
14 on the information known to the Debtors as of the filing date of
15 this Disclosure Statement.

16 Except for Claims of a kind specified in sections 507(a)(1)
17 or 507(a)(8) of the Code, all Claims against, and Interests in,
18 the Debtors and with respect to all property of the Debtors and
19 the Estates, are defined and hereinafter designated in respective
20 Classes. The Plan is intended to deal with all Claims against
21 and Interests in the Debtors, of whatever character, whether
22 known or unknown, whether or not with recourse, whether or not
23 contingent or unliquidated, and whether or not previously allowed
24 by the Court pursuant to section 502 of the Code. However, only
25 holders of Allowed Claims will receive any distribution under the
26 Plan. For purposes of determining Pro Rata distributions under
27 the Plan, Disputed Claims shall be classified in the Class in
28 which such Claims would be included if Allowed.

1 2. Classification. Allowed Claims and Interests are
2 divided into the following Classes:

3 a. Class 1 Claim (Secured Claim of Lehman).
4 Class 1 consists of the Allowed Secured Claim of Lehman, if any.

5 b. Class 2 Claim (Secured Claim of Ohio Life).
6 Class 2 consists of the Allowed Secured Claim of Ohio Life.

7 c. Class 3 Claims (Priority Claims). Class 3
8 consists of all Allowed Priority Claims.

9 A schedule of all Class 3 Claims, including duplicate and
10 objectionable Claims is attached hereto as Exhibit "G."

11 d. Class 4 Claims (Unsecured Borrower Claims).
12 Class 4 consists of all Allowed Settlement Claims and all Allowed
13 Opt-Out Claims.

14 e. Class 5 Claims (Other Unsecured Claims).
15 Class 5 consists of all Allowed Claims, including Claims arising
16 from the rejection of executory contracts, other than (a)
17 Administrative Claims, (b) Tax Claims, and (c) Claims included
18 within any other Class designated in the Plan.

19 A schedule of all Class 5 Claims, including duplicate and
20 objectionable Claims is attached hereto as Exhibit "H."

21 f. Class 6 Claims (Subordinated Claims). Class
22 6 consists of all Allowed Subordinated Claims. All Claims
23 identified in the schedule attached as Exhibit "3" to the Plan
24 shall be deemed to be Subordinated Claims.

25 g. Class 7 Interests. Class 7 consists of the
26 Interests in FACO.

27 h. Class 8 Interests. Class 8 consists of the
28 Interests in FAMCO.

1 i. Class 9 Interests. Class 9 consists of the
2 Interests in FAMCO-MN.

3 j. Class 10 Interests. Class 10 consists of the
4 Interests in FAPS.

5 **E. Treatment of Claims and Interests**

6 1. Class 1 Claim of Lehman

7 Class 1 is unimpaired. Except to the extent that the holder
8 of an Allowed Secured Claim in Class 1 agrees to a different
9 treatment, the holder of the Allowed Secured Claim in Class 1
10 shall, at the sole election of the Debtors (if made prior to the
11 Effective Date) and thereafter by the Liquidating Trust Trustee,
12 receive one of the following treatments: (i) the Allowed Secured
13 Claim shall be cured and reinstated pursuant to section 1124(2)
14 of the Code, and the Liquidating Trust Trustee shall fund all
15 amounts, and take all action otherwise necessary to reinstate
16 such Allowed Secured Claim, on or prior to the tenth (10th)
17 Business Day following the Effective Date; or (ii) the legal,
18 equitable and contractual rights to which the holder of such
19 Allowed Secured Claim is entitled shall remain unaltered.

20 Any unsecured portion of Lehman's Claim that is not a
21 Subordinated Claim shall be included in Class 5.

22 2. Class 2 Claim of Ohio Life

23 Class 2 is unimpaired. Except to the extent that the holder
24 of the Allowed Secured Claim in Class 2 agrees to a different
25 treatment, the holder of the Allowed Secured Claim in Class 2
26 shall, at the sole election of Debtors (if made prior to the
27 Effective Date) and thereafter by the Liquidating Trust Trustee,
28 receive one of the following treatments: (i) the Allowed Secured

1 Claim shall be cured and reinstated pursuant to section 1124(2)
2 of the Code, and the Liquidating Trust Trustee shall fund all
3 amounts, and take all action otherwise necessary to reinstate
4 such Allowed Secured Claim, on or prior to the tenth (10th)
5 Business Day following the Effective Date; or (ii) the legal,
6 equitable and contractual rights to which the holder of such
7 Allowed Secured Claim is entitled shall remain unaltered.

8 Any unsecured portion of Ohio Life's Claim shall be included
9 in Class 5.

10 3. Class 3 Priority Claims

11 Class 3 is impaired. Except to the extent that the holder
12 of such Claim agrees to a different treatment, the Liquidating
13 Trust Trustee shall pay in Cash on the Effective Date to each
14 holder of an Allowed Claim in Class 3, the principal amount of
15 such Allowed Class 3 Claim, without interest. Based on the
16 statutory limits set by Code section 507(a)(3), the Debtors
17 estimate that there will be aggregate Allowed Class 3 Claims of
18 approximately \$35,000, after objections to Disputed Claims are
19 resolved. A schedule of the claimants and the face amounts of
20 all priority claims asserted against the Debtors' Estates is
21 attached as Exhibit "G" hereto. Because Exhibit "G" includes
22 claims that are subject to later objection by the Debtors and/or
23 the Liquidating Trust, the claims identified therein are
24 substantially higher than the total figure for Allowed Class 3
25 Claims estimated by the Debtors.

26 4. Class 4 Unsecured Borrower Claims

27 Class 4 is impaired. Debtors and the Liquidating Trust will
28 make payments to the holders of Allowed Opt-Out Claims and the

1 Redress Fund on account of Allowed Claims in Class 4 as specified
2 below.

3 a. Treatment of Allowed Settlement Claims

4 The holders of Allowed Settlement Claims in Class 4 shall
5 receive payments from the Redress Fund as funded in accordance
6 with the Settlement Agreement, the Plan, and the Liquidating
7 Trust Agreement. For purposes of distribution of assets under
8 the Plan, and subject to the rights set forth in section V.E.7(j)
9 of the Plan, the total value of Allowed Settlement Claims shall
10 be deemed to be \$217 million.

11 The FTC shall establish the Redress Fund to be administered
12 for the benefit of the holders of the Class 4 Settlement Claims,
13 including Settlement Class Members and other Plaintiffs. The
14 Redress Fund, for the benefit of all Class 4 Settlement Claims,
15 shall receive the entire Pro Rata share of the assets of the
16 Debtors' Estates available for the payment of all Class 4
17 Settlement Claims, calculated in the manner set forth in the Plan
18 and funded in accordance with the Settlement Agreement and the
19 Liquidating Trust Agreement.

20 Holders of Allowed Settlement Claims in Class 4 shall
21 receive payments only from the Redress Fund and shall have no
22 further Claims against the Debtors. Prior to the Confirmation
23 Date, the FTC, with the input of the Coordinated Plaintiffs (as
24 defined in the Settlement Agreement), shall submit to the Court
25 for review and approval a plan for the disbursement of the
26 Redress Fund to the Settlement Class Members and other
27 Plaintiffs.

28

1 Settlement Class Members with Allowed Claims shall be
2 entitled to vote on the Plan. As the authorized agents for
3 Settlement Class Members, the Representative Plaintiffs shall be
4 entitled to cast ballots on behalf of all Settlement Class
5 Members that do not vote on the Plan. In addition, the
6 Representative Plaintiffs may vote their separate individual and
7 representative Claims.

8 b. Treatment of Allowed Opt-Out Claims

9 The holders of Allowed Opt-Out Claims in Class 4 shall
10 receive payments to be made by the Liquidating Trust Trustee from
11 the Liquidating Trust in accordance with and as provided by the
12 Liquidating Trust Agreement, and section V.E.7 of the Plan. The
13 holders of Allowed Opt-Out Claims in Class 4 shall receive their
14 Pro Rata share of the assets of the Debtors' Estates available
15 for the payment of all Allowed Claims in Class 4.

16 All Opt-Out Claims are subject to post-Effective Date claims
17 objections as discussed in Article V of the Plan.

18 5. Class 5 Unsecured Claims

19 Class 5 is impaired. The holders of Allowed Claims in Class
20 5 will receive payments as specified below.

21 Each holder of an Allowed Claim in Class 5 shall receive an
22 amount equal to 50% of such holder's Allowed Claim in Class 5.
23 The holders of Allowed Claims in Class 5 shall also receive 20%
24 of any recovery (whether by way of judgment, settlement,
25 reduction or subordination of claim, or any other methodology)
26 from the Reliance Company Litigation (as defined in the
27 Settlement Agreement) and from Lehman, including from the
28 Official Borrowers' Committees' action against Lehman currently

1 pending in the Court (Case No. SA CV 01-971 DOC); provided,
2 however, such recovery emanates from actions involving the
3 Debtors, any successor, the Post-Confirmation Committee, the
4 Liquidating Trust and/or the Redress Fund. The maximum amount
5 that each holder of an Allowed Claim in Class 5 shall be entitled
6 to receive after accounting for any recovery from Lehman and the
7 Reliance Company Litigation (as defined in the Settlement
8 Agreement) shall be 75% of the amount of such holder's Allowed
9 Claim in Class 5. Notwithstanding the foregoing, if any holder
10 of an Allowed Claim in Class 4 receives more than 75% of the
11 amount of his or her Allowed Claim in Class 4, then each holder
12 of an Allowed Claim in Class 5 shall receive such holder's Pro
13 Rata share of the aggregate sum of all monies to be distributed
14 to all holders of Allowed Claims in Classes 4 and 5 by the
15 Liquidating Trust and the Redress Fund, without duplication, so
16 that in such event, holders of Allowed Claims in Classes 4 and 5
17 shall receive the same percentage payment on their Allowed
18 Claims.

19 6. Class 6 Subordinated Claims

20 Class 6 is impaired. Holders of Claims in Class 6 will
21 retain their Claims and rights of action against the Debtors but
22 will not receive any distribution under the Plan. Any judgment
23 obtained by the holders of Claims in Class 6 against the Debtors
24 may be executed and enforced in accordance with applicable non-
25 bankruptcy law only against insurers that issued and/or insurance
26 proceeds under any Insurance Policy issued to the Debtors
27 intended to cover the liability asserted by the holders of such
28

1 Claims, and may not be enforced against any other assets of the
2 Debtors, the Liquidating Trust, or the Redress Fund.

3 7. Class 7 Interests

4 Class 7 is impaired. Except as to the Trust Shares, the
5 Class 7 Interests in FACO shall be deemed canceled as of the
6 second (2nd) Business Day following the Effective Date. Holders
7 of Class 7 Interests will not receive any distribution under the
8 Plan. Brian and Sarah Chisick agree not to transfer, or cause to
9 be transferred, any Chisick Shares (as defined in the Settlement
10 Agreement).

11 8. Class 8 Interests

12 Class 8 is impaired. Except as to the Trust Shares, the
13 Class 8 Interests in FAMCO shall be deemed canceled as of the
14 second (2nd) Business Day following the Effective Date without
15 the payment of any monies or other consideration. Holders of
16 Class 8 Interests will not receive any distribution under the
17 Plan.

18 9. Class 9 Interests

19 Class 9 is impaired. Except as to the Trust Shares, the
20 Class 9 Interests in FAMCO-MN shall be deemed canceled as of the
21 Effective Date without the payment of any monies or other
22 consideration. Holders of Class 9 Interests will not receive any
23 distribution under the Plan.

24 10. Class 10 Interests

25 Class 10 is impaired. Except as to the Trust Shares, the
26 Class 10 Interests in FAPS shall be deemed canceled as of the
27 second (2nd) Business Day following the Effective Date without
28 the payment of any monies or other consideration. Holders of

1 Class 10 Interests will not receive any distribution under the
2 Plan.

3 **F. Implementation of the Plan and Execution of its Terms**

4 1. Implementation of Plan

5 The Debtors propose to implement and consummate the Plan
6 through the means contemplated by sections 1123(a)(5)(B) and (D),
7 1123(b)(3)(A) and (B), and 1123(b)(4) of the Code.

8 2. Capital Contribution and Sale of Residual Interest
9 Certificates

10 In accordance with section 2.1 of the Settlement Agreement,
11 on the Effective Date, Brian and Sarah Chisick collectively shall
12 make a capital contribution to FACO of \$20 million (adjusted in
13 the manner set forth in section 2.1 of the Settlement Agreement),
14 which shall become property of the Debtors' estates to be
15 distributed in accordance with the provisions of the Plan, the
16 Settlement Agreement and sections V.B and V.E of the Plan.

17 In accordance with section 2.2 of the Settlement Agreement,
18 on the Effective Date, Chisick shall purchase the Residual
19 Interest Certificates, including the Residual Proceeds, by paying
20 in Cash to FAPS the amount of: (i) \$25.1 million; plus (ii)
21 interest in an amount equal to the total amount that would be
22 received on a \$25.1 million deposit for a period from January 1,
23 2002 to the Effective Date, based on an annual (365-day) rate of
24 simple interest of three percent (3%). The Cash proceeds from
25 the sale of the Residual Interest Certificates shall become
26 property of the Debtors' Estates to be distributed in accordance
27 with the provisions of the Plan, the Settlement Agreement, and
28 section V.E of the Plan. Chisick shall be deemed to be a "good

1 faith" purchaser of the Residual Interest Certificates pursuant
2 to section 363(m) of the Code.

3 3. Distribution of the Debtors' Assets; Liquidation
4 of Assets

5 On the Effective Date, the Debtors shall transfer all of the
6 assets of the Debtors' Estates, except for the Insurance
7 Policies, to the Liquidating Trust and the Redress Fund as
8 specified below. On the Effective Date, the Liquidating Trust
9 shall be funded with certain assets of the Debtors' Estates in
10 accordance with the Settlement Agreement and section V.E.1 of the
11 Plan. On the Effective Date, the Debtors shall transfer to the
12 Redress Fund all Cash of the Debtors' Estates remaining after the
13 transfers to the Liquidating Trust.

14 The Debtors shall retain the Insurance Policies, subject to
15 the right of the Liquidating Trust Trustee to manage, liquidate
16 and control the prosecution of any matters related to the
17 Debtors' interest in the Insurance Policies and to receive any
18 proceeds of the Insurance Policies to which the Debtors are
19 entitled, other than the proceeds from the Lloyd's Policy (as
20 defined in the Settlement Agreement). To the extent of the
21 Debtors' interests in the Insurance Policies, the Debtors through
22 the Effective Date, and the Liquidating Trust Trustee thereafter,
23 shall be responsible for managing, liquidating and prosecuting
24 any matters related to the Insurance Policies.

25 The Debtors through the Effective Date, and the Liquidating
26 Trust Trustee thereafter, shall liquidate in a commercially
27 reasonable manner all other property of the Debtors by sale or
28 other disposition and distribute the proceeds thereof in

1 accordance with the Plan, the Liquidating Trust Agreement, and/or
2 the Settlement Agreement, as appropriate.

3 4. Winding Up and Dissolution of the Debtors

4 Following the Effective Date, the Debtors shall not be
5 authorized to conduct any business other than to: (a) receive a
6 capital contribution from Brian and Sarah Chisick required to be
7 paid on the Effective Date under section 2.1 of the Settlement
8 Agreement; (b) comply with their obligations under the Settlement
9 Agreement and the Plan; (c) retain the Insurance Policies and
10 pursue proceeds under the Insurance Policies; and (d) take such
11 actions as are necessary to dissolve and wind up. Prior to the
12 dissolution of the Debtors, the Debtors shall transfer all cash
13 and other assets, including any proceeds from the Insurance
14 Policies, to the Liquidating Trust or the Redress Fund in
15 accordance with the Plan and the Settlement Agreement.

16 5. The Liquidating Trust

17 a. Transfer of Property.

18 On the Effective Date, the Liquidating Trust shall
19 be funded with certain assets of the Debtors' Estates and others
20 as set forth in and in accordance with the Settlement Agreement
21 and the Plan. All of the unliquidated assets of the Debtors'
22 Estates, except for the Insurance Policies, shall be transferred
23 to the Liquidating Trust on the Effective Date including, but not
24 limited to, notes, other negotiable instruments, Recovery Rights,
25 and all other choses in action, claims, and legal entitlements.
26 The amount of Cash transferred to the Liquidating Trust shall
27 include (a) an amount sufficient to pay all Allowed Claims to the
28 extent payable on the Effective Date under the Plan, (b) the

1 amount provided for under sections 1.28(3), 1.28(4), and 1.28(5)
2 of the Settlement Agreement, and (c) to the extent not already
3 provided for herein, an amount sufficient to pay all Claims of
4 Creditors not paid on the Effective Date to the extent payable
5 under the Plan if such Claims were allowed in full.

6 For purposes of calculating the amount of Cash to be
7 transferred to the Liquidating Trust, the calculation of the
8 reserve required by section 1.28(3)(f) of the Settlement
9 Agreement shall take into account (a) all amounts required to be
10 paid into the Redress Fund on the Effective Date, including,
11 without limitation, all amounts required to be paid to the
12 Redress Fund by the Debtors and others pursuant to section 2.7 of
13 the Settlement Agreement, and (b) estimates of all amounts
14 anticipated to be paid directly into the Redress Fund after the
15 Effective Date, including, without limitation, a portion of any
16 amounts recovered by the Debtors from the Insurance Policies. On
17 the Effective Date, all remaining Cash of the Debtors' Estates
18 shall be transferred to the Redress Fund in accordance with and
19 as specified in the Settlement Agreement.

20 b. Management and Powers of Liquidating Trust.

21 After the Effective Date, the affairs of the
22 Liquidating Trust and all assets held or controlled by the
23 Liquidating Trust shall be managed under the direction of the
24 Liquidating Trust Trustee in accordance with the Liquidating
25 Trust Agreement. The Liquidating Trust shall be deemed to be the
26 representative of the Estates as provided by section 1123 of the
27 Code, to the extent of and in accordance with the terms of the
28 Liquidating Trust Agreement, and shall have the rights, powers

1 and standing of debtors-in-possession under section 1107 of the
2 Code, and such other rights, powers and duties incident to
3 performance of the Debtors' obligations under the Plan or
4 otherwise as may be reasonably necessary. Subject to the terms
5 of the Liquidating Trust Agreement, the powers of the Liquidating
6 Trust Trustee shall include, but not be limited to: (a) the
7 ability and authority to object to Claims, and the ability to
8 prosecute or settle such objections and defend claims and
9 counterclaims asserted in connection therewith (including by way
10 of asserting the Debtors' rights of recoupment, setoff or
11 otherwise); (b) the initiation and prosecution in every capacity,
12 including as representative of the Estates under section
13 1123(b)(3)(B) of the Code, of the Recovery Rights, except for the
14 Recovery Rights released pursuant to the Settlement Agreement;
15 (c) the compromise and settlement of any such Recovery Rights;
16 (d) the sale, lease, license, abandonment or other disposition of
17 any or all of the property of the Liquidating Trust; (e) the
18 filing and prosecution of any requests for state and/or federal
19 tax refunds; (f) effecting distributions under the Plan to the
20 holders of Allowed Claims in accordance with the Plan, the Final
21 Confirmation Order, any other Final Claim Order or Post-
22 Confirmation Order, the Liquidating Trust Agreement, and/or the
23 Settlement Agreement, as appropriate; (g) participation in any
24 post-Confirmation motions to amend or modify the Plan or the
25 Liquidating Trust Agreement, or appeals from the Confirmation
26 Order; (h) participation in actions to enforce or interpret the
27 Plan, and (i) manage, liquidate and prosecute any matters related

28

1 to the Debtors' interest in the Insurance Policies including the
2 rights, if any, to pursue guaranty fund coverage.

3 Subject to sections 5.3.3(a) and 5.3.4(a) and (b) of the
4 Liquidating Trust Agreement, if, after the Effective Date, the
5 holder of a Disputed Claim and the Liquidating Trust Trustee
6 agree to a settlement of such holder's Disputed Claim for an
7 amount not in excess of the face amount of such Disputed Claim,
8 such Claim shall be deemed to be an Allowed Claim as of the
9 Effective Date in an amount equal to the agreed settlement amount
10 without need for further review or approval by the Court.

11 c. Employment of Professionals and Payment of
12 Trustee's Fees and Costs.

13 The Liquidating Trust is authorized, subject to
14 further order of the Court, to employ such Entities, including
15 professional persons within the meaning of sections 327 of the
16 Code, as it may deem necessary to enable it to perform its duties
17 under the Plan and the Liquidating Trust Agreement, and the costs
18 of such employment and other expenditures shall be paid from the
19 Liquidating Trust, except as otherwise specified in the
20 Liquidating Trust Agreement and subject to further order of the
21 Court and the procedures set forth in the Liquidating Trust
22 Agreement. Such Entities shall be disinterested under the Code
23 and professional persons must satisfy the requirements of Section
24 327 of the Code, except as provided in section V.E.4 of the Plan.
25 Such Entities shall be compensated and reimbursed for their
26 reasonable and necessary fees and out-of-pocket expenses on a
27 monthly basis from the Liquidating Trust pursuant to the
28 procedures set forth in the Liquidating Trust Agreement.

1 The Liquidating Trust Trustee initially shall employ
2 Pachulski, Stang, Ziehl, Young & Jones and Klee, Tuchin,
3 Bogdanoff & Stern LLP as litigation counsel for the purpose of
4 prosecuting certain actions and litigating certain Disputed
5 Claims as specified in sections V.E.5 and V.E.6 of the Plan and
6 Irell & Manella LLP as litigation counsel for the following
7 matters, subject to the right of the Committees to participate in
8 such actions as their interests may appear: (1) all insurance
9 declaratory relief actions; (2) claim objections for all Claims
10 except for Claims filed by secured creditors, Insiders,
11 shareholders, and professionals; (3) all Recovery Rights for
12 which Irell & Manella LLP is counsel of record, except for those
13 that were released pursuant to the Settlement Agreement; and (4)
14 such other matters as the Liquidating Trust Trustee deems to be
15 in the best interest of the Liquidating Trust. Thereafter, the
16 Liquidating Trust Trustee may retain the aforesaid law firms for
17 the actions specified herein without Court approval, or such
18 other professional persons, subject to approval by the Court and
19 the requirements of Section 327 of the Code, as the Liquidating
20 Trust Trustee deems to be in the best interests of the
21 Liquidating Trust.

22 In addition, the Liquidating Trust Trustee shall be entitled
23 to a reasonable hourly fee and reimbursement of all costs
24 incurred in performing its duties under the Liquidating Trust,
25 subject to the approval of the Court.

26 d. Prosecution of Recovery Rights. Pursuant to
27 the Final Confirmation Order, on the Effective Date, the Debtors
28 will irrevocably assign, transfer and convey to the Liquidating

1 Trust, the Recovery Rights, except for the Recovery Rights
2 released pursuant to the Settlement Agreement. Subject to
3 section V.E.4 of the Plan, the Liquidating Trust shall employ
4 Pachulski, Stang, Ziehl, Young & Jones and Klee, Tuchin,
5 Bogdanoff & Stern LLP as litigation counsel for the purpose of
6 resolving (1) any Recovery Rights against Insiders, except for
7 the Recovery Rights released pursuant to the Settlement
8 Agreement, (2) the Disputed Claims of Insiders, other than those
9 Disputed Claims that were released pursuant to the Settlement
10 Agreement, and (3) all claims and objections as may be asserted
11 against Lehman related entities or the Claims of Lehman. All
12 recoveries derived from any Recovery Rights shall be delivered to
13 the Liquidating Trust to be distributed in accordance with the
14 legal priorities established in the Plan and in accordance with
15 the Liquidating Trust Agreement and the Settlement Agreement.
16 Any and all fees, costs and expenses incurred in respect of the
17 investigation, initiation and prosecution of such claims shall be
18 payable and paid solely by the Liquidating Trust in accordance
19 with the Liquidating Trust Agreement.

20 e. Approved Distributions. The Liquidating
21 Trust Trustee shall make all distributions in accordance with the
22 terms of the Plan, the Settlement Agreement, the Liquidating
23 Trust Agreement, the Final Confirmation Order, and any other
24 Final Claim Orders or Final Post-Confirmation Orders of the
25 Court. No distributions shall be made on account of any Disputed
26 Claims unless and until such Claims become Allowed Claims, as
27 provided in the Plan, the Liquidating Trust Agreement, the Final
28 Confirmation Order, and any other Final Claim Orders of the

1 Court. Nothing in this section shall control, delay, or affect
2 distributions that will be made from and/or to the Redress Fund.

3 (i) *Reserve for Unpaid Claims.* For purposes of
4 calculating Pro Rata or any other distributions to be made under
5 the Plan to holders of Allowed Claims, the calculation of the
6 total Allowed Claims in any Class shall be computed as if all
7 Disputed Claims then pending were allowed in the full amount
8 thereof.

9 (ii) *Initial Distribution Date.* Except for
10 payments required to be made on the Effective Date in accordance
11 with the Settlement Agreement and other sections of the Plan, and
12 subject to the discretion of the Liquidating Trust Trustee, on
13 the sixty-first (61st) day after the Effective Date, or as soon
14 as practicable thereafter, the Liquidating Trust Trustee shall
15 distribute any property required to be distributed under the Plan
16 (and in accordance with Liquidating Trust Agreement and the
17 Settlement Agreement) to the holders of Allowed Claims.

18 (iii) *Allowance of Claims.* Distributions
19 shall be made with respect to any Disputed Claim which becomes an
20 Allowed Claim after the Effective Date on or as soon as
21 practicable after the date on which each Disputed Claim becomes
22 an Allowed Claim. The amount of any distribution shall be
23 calculated, on a Pro Rata basis, so that each Disputed Claim that
24 becomes an Allowed Claim receives an initial distribution equal
25 to the total percentage distributions made prior to the date of
26 such allowance on other Allowed Claims that are classified or
27 treated similarly under the Plan.

28

1 (iv) Subsequent Distribution Dates. After
2 the Initial Distribution Date, unless otherwise directed in a
3 Final Post-Confirmation Order, the Liquidating Trust Trustee
4 shall make additional semi-annual distributions (to be made every
5 sixth month following the Effective Date) to the holders of
6 Allowed Claims and shall make periodic distributions to the
7 Redress Fund at the discretion of the Liquidating Trust Trustee
8 (in each case, as provided for in the Liquidating Trust
9 Agreement), provided that in the reasonable discretion and
10 judgement of the Liquidating Trust Trustee there shall be in the
11 Liquidating Trust cash in an amount sufficient to render feasible
12 a distribution after making reasonable reserves to pay the
13 expenses (including, but not limited to, federal income taxes and
14 withholding taxes, if any, and all expenses and fees incurred in
15 the prosecution of the Recovery Rights or in objecting to
16 Claims), debts, charges, liabilities, and obligations of the
17 Liquidating Trust, and provided that each distribution to a
18 single Creditor must exceed \$50.00. Any semi-annual distribution
19 which is less than \$50.00 shall be withheld and carried-over to
20 the next period only once; thereafter, the distribution shall be
21 made notwithstanding the fact that it may be less than \$50.00.

22 (v) Unclaimed Property. Until the expiration of
23 one (1) year following the date on which the distribution of the
24 Unclaimed Property has been attempted, Unclaimed Property shall
25 be delivered upon presentation of proper proof by a holder of its
26 entitlement thereto, after which time any holder of an Allowed
27 Claim entitled to Unclaimed Property shall cease to be entitled
28 thereto. Thereafter, all right, title and interest therein shall

1 vest in the Liquidating Trust for redistribution in the order and
2 priority established in the Plan, the Settlement Agreement, and
3 the Liquidating Trust Agreement.

4 (vi) *Surrender of Promissory Notes.*

5 Notwithstanding any other provision of the Plan, no holder of an
6 Allowed Claim shall receive any distribution under the Plan in
7 respect of such Allowed Claim until such holder has surrendered
8 to the Liquidating Trust, if applicable, any promissory note
9 evidencing such Allowed Claim, or until evidence of loss and
10 indemnity satisfactory to the Liquidating Trust Trustee, in its
11 sole and absolute discretion, shall have been delivered to the
12 Liquidating Trust in the case of any note alleged to be lost,
13 stolen or destroyed.

14 (vii) *Final Distribution.* Following the final

15 liquidation of all of the assets, rights and interests comprising
16 the Liquidating Trust Estate, after the resolution of all
17 outstanding objections to Disputed Claims and all actions or
18 other proceedings relating to any Recovery Rights and any
19 Insurance Policies, after all funds that could be received by the
20 Liquidating Trust and/or the Redress Fund pursuant to the
21 Settlement Agreement have been received, and after the payment of
22 all expenses and other obligations of the Liquidating Trust in
23 accordance with the Liquidating Trust Agreement, the Liquidating
24 Trust Trustee shall cause the distribution of all remaining
25 available assets to the holders of Allowed Claims in accordance
26 with the Plan and the Settlement Agreement. Any property
27 remaining in the Liquidating Trust after payment of all expenses
28 of the Liquidating Trust (including, without limitation, all

1 taxes and professional fees) and all distributions required under
2 the Plan to the holders of Allowed Administrative Claims, Allowed
3 Tax Claims, Allowed Opt Out Claims, and Allowed Claims in Classes
4 1, 2, 3, and 5, shall be transferred to the Redress Fund. In
5 accordance with the Liquidating Trust Agreement, the Liquidating
6 Trust Trustee shall file a final report and account of all
7 receipts and disbursements with the Court.

8 (viii) *Exemption From Certain Taxes.* Pursuant
9 to section 1146(c) of the Code, no transfer to or from the
10 Liquidating Trust or the Redress Fund under the Plan and related
11 documents, nor any subsequent transfer from the Liquidating Trust
12 or the Redress Fund to the beneficiaries of the Liquidating Trust
13 or the Redress Fund, shall be subject to any stamp tax or similar
14 tax.

15 (ix) *Estimation of Disputed Claims of an*
16 *Unspecified Amount.* As to any Disputed Claim filed for an
17 unspecified amount, including, but not limited to, Claims based
18 upon rejection of executory contracts or leases, the Court, upon
19 motion by the Liquidating Trust, may estimate the amount of such
20 Disputed Claim and may determine an amount sufficient to reserve
21 for any such Disputed Claim. Any Entity whose Disputed Claim
22 filed for an unspecified amount is so estimated shall have
23 recourse only against the Liquidating Trust and against no other
24 assets (including, without limitation, the Redress Fund) or
25 person (including, without limitation, the Redress Fund
26 Administrator and the Liquidating Trust Trustee), and in any case
27 only in an amount not to exceed the estimated amount of such
28

1 Entity's Disputed Claim, even if such Entity's Disputed Claim, as
2 finally allowed, exceeds the maximum estimated amount thereof.

3 (x) *Assets in Liquidating Trust in Excess of*
4 *Amount of Allowed Claims.* To the extent that assets available
5 for the payment of Allowed Settlement Claims have a value in
6 excess of \$217 million, the Plaintiffs may apply to the Court for
7 a determination of the value of their claims in excess of the
8 deemed \$217 million value agreed upon for Allowed Settlement
9 Claims herein. The judgment of the Court with regard to such
10 application shall be binding on all parties and that claim amount
11 shall be used by the Liquidating Trust Trustee to determine
12 appropriate distributions from the Liquidating Trust to Creditors
13 with Allowed Claims.

14 f. Rights and Duties of Post-Confirmation
15 Committee.

16 The Post-Confirmation Committee shall have the
17 powers and duties set forth in Section 1103 of the Code as
18 applicable to the administration of the Liquidating Trust,
19 including but not limited to:

- 20 1. Consulting with the Liquidating Trust Trustee
21 concerning the administration of the Liquidating Trust;
- 22 2. Reviewing the Liquidating Trust Trustee's
23 written reports setting forth the business activities and
24 financial condition of the Liquidating Trust;
- 25 3. Consulting with the Liquidating Trust Trustee
26 regarding any litigation save and except (a) objections to Opt-
27 Out Claims, including any settlements thereof, provided, however,
28 that nothing in this section shall be construed to limit the

1 FTC's right to approve opt-out settlements pursuant to the
2 Settlement Agreement, (b) claims brought by Opt-Out Claimants
3 against the Debtors or any of their former officers and
4 directors, provided, however, that nothing in this section shall
5 be construed to limit the FTC's right to approve opt-out
6 settlements pursuant to the Settlement Agreement, (c) objections
7 to Claims in Class 3 and Class 5 where the face amount of the
8 Claim is less than or equal to \$50,000, (d) the Rasachack class
9 action litigation suit, and (e) litigation determining rights to
10 proceeds from the Lloyd's Policy (as defined in the Settlement
11 Agreement), except with respect to any settlement or judgment
12 which would result in total proceeds from the Lloyd's Policy (as
13 defined in the Settlement Agreement) of less than \$10,000,000;

14 4. Participating in any and all court
15 proceedings pertaining to the administration of the Liquidating
16 Trust, except as to matters set forth as exceptions to section
17 V.H.3. of the Plan; and

18 5. Employing, subject to the approval of the
19 Court, attorneys, accountants, or other agents to represent or
20 perform services for the Post-Confirmation Committee.

21 **G. Membership in the Post-Confirmation Committee.**

22 The Post-Confirmation Committee shall consist of
23 representatives of AARP, the State of California, the FTC, the
24 Representative Plaintiffs, and an individual borrower.

25 **H. Objections to Claims**

26 All objections to Claims shall be filed with the Court
27 and served upon the holders of such Claims no later than one (1)
28 day prior to the Effective Date, except as extended by an

1 agreement between the claimant and the Debtors, or by order of
2 the Court upon a motion filed by the Debtors, with notice of such
3 motion to be served upon the Office of the United States Trustee
4 and those holders of Disputed Claims to which the objection is
5 made. If an objection has not been filed to a proof of claim
6 that relates to a Disputed Claim by the objection bar date
7 established in section V.J. of the Plan, the Claim to which the
8 proof of claim relates shall be treated as an Allowed Claim for
9 purposes of distribution under the Plan.

10 I. Executory Contracts and Unexpired Leases

11 1. Rejection of All Executory Contracts and Leases

12 As of the Confirmation Date, all executory contracts and
13 unexpired leases of the Debtors shall be rejected pursuant to the
14 provisions of sections 365 and 1123 of the Code.

15 2. Proofs of Claim With Respect to Rejection Damages

16 Pursuant to the terms of the Final Confirmation Order
17 and Bankruptcy Rule 3002(c)(4), and except as otherwise ordered
18 by the Court, proofs of claim for Claims arising from the
19 rejection of an executory contract or unexpired lease shall be
20 filed with the Court no later than thirty (30) days after the
21 earlier of (i) the date of the entry of a Final Claim Order
22 approving such rejection, and (ii) the Confirmation Date, or such
23 Claim shall be forever barred.

24 Any Allowed Claims arising from the rejection of an
25 executory contract or unexpired lease shall be included in Class
26 5 of the Plan.

27
28

1 **J. Sole Equity Interest of Debtors**

2 On the Effective Date, the Debtors shall cause to be issued
3 to the Liquidating Trust one (1) share of FAMCO common stock, one
4 (1) share of FACO common stock, one (1) share of FAMCO-MN common
5 stock, and one (1) share of FAPS common stock Date (collectively,
6 the "Trust Shares") for the purpose of further ensuring that the
7 Liquidating Trust is fully capable of administering and
8 distributing all property of the Debtors' Estates pursuant to the
9 Plan, the Settlement Agreement and the Liquidating Trust
10 Agreement. As of two (2) business days after the Effective Date,
11 the Trust Shares shall be the sole issued and outstanding stock
12 interests in the Debtors. The Trust Shares shall be cancelled on
13 the Termination Date (as defined in the Liquidating Trust
14 Agreement) and may not in any way be transferred from the
15 Liquidating Trust.

16 **V.**

17 **ASSETS AVAILABLE FOR DISTRIBUTION TO CREDITORS**

18 As described in section IV.E of this Disclosure Statement,
19 the Plan is a liquidating Plan. Assets of the Debtors will be
20 liquidated and the cash proceeds distributed to the holders of
21 Allowed Claims and Allowed Interests, if applicable, in
22 accordance with the Plan and the Settlement Agreement. The
23 Debtors' assets consist primarily of: (1) cash; (2) the Residual
24 Interest Certificates; (3) real property; (4) the Debtors'
25 Lehman-funded and self-funded loan portfolios; (5) entitlements
26 to proceeds of insurance policies; (6) claims against third-
27 parties, including Lehman; and (7) federal income tax refund
28 requests (which are discussed in section VI.D.4, below). A

1 schedule listing all of the Debtors' tangible assets is attached
2 hereto as Exhibit "D."

3 **A. Residual Interest Income**

4 The primary source of the Debtors' cash flow is derived
5 from the residual interests in certain Mortgage Loan Trusts.
6 Generally, a "residual" is the junior derivative of an asset-
7 backed securitization. As part of its business and financing
8 strategy, FAMCO securitized the majority of its loans utilizing
9 Mortgage Loan Trusts. The trust is a multi-class security that
10 derives its cash flow from a pool of mortgages. In a typical
11 securitization, FAMCO sold loans to a special purpose entity,
12 established for the limited purpose of buying the assets from
13 FAMCO and transferring the assets to a trust. The trust issues
14 interest-bearing securities, referred to as regular interest,
15 which are collateralized by the underlying mortgages. The
16 proceeds from the sale of the securities were used to purchase
17 the assets from FAMCO. In addition to the cash proceeds received
18 by FAMCO in connection with the securitization, FAPS retained a
19 residual interest in the trust.

20 As the holder of the residual, FAPS is entitled to receive
21 certain excess cash flows (after all holders of notes that are
22 senior to the residual have been paid according to their
23 contracts) generated by the securitized loans. The residual,
24 which is sometimes referred to as an I/O strip, represents the
25 difference between: (a) principal and interest paid by borrowers,
26 and (b) the sum of (i) scheduled principal and interest paid to
27 holders of the regular interests, (ii) trustee fees, (iii) third-
28 party "credit enhancement" fees, if applicable, (iv) stipulated

1 servicing fees, and (v) estimated loan portfolio losses. FAPS
2 starts receiving these excess cash flows after certain
3 overcollateralization requirements, which are specific to each
4 securitization and are used as a means of credit enhancement, are
5 met.

6 The Debtors have historically valued the Residual Interests
7 using a model that takes into account discounted cash flows,
8 using prepayment, default, loss and interest rate assumptions
9 that market participants would use for similar financial
10 instruments. When the Debtors entered liquidation, they adjusted
11 the valuation formula to use only discounted cash flows and
12 return of overcollateral, and used the valuation of the Residual
13 Interests as of March 31, 2000, as a starting point. This
14 conservative adjustment was made to reflect the lack of a
15 recognized market for these complex derivative interests,
16 litigation risk, and other market conditions. In year 2000,
17 there was not a significant difference between the valuation and
18 the prior model. In year 2001 use of the prior model would have
19 resulted in a higher valuation than use of the methodology
20 adopted in 2000. Since the facts that led the Debtors to make
21 the conservative adjustment in 2000 remain, the Debtors decided
22 to make no upward adjustment to the valuation.

23 The negotiated terms of the proposed settlement, if approved
24 by the Court, will result in the sale of these assets to Brian
25 and Sarah Chisick, related parties. The purchase price will be
26 (i) \$25.1 million, plus (ii) interest in an amount equal to the
27 total amount that would be received on a \$25.1 million deposit
28 for a period from January 1, 2001 to the Settlement Effective

1 Date, based on an annual interest rate of three percent (3%). As
2 of December 31, 2001, the Debtors estimated the value of their
3 residual interests at \$25.1 million.

4 **B. Real and Personal Property**

5 As of December 31, 2001, the property of the Debtors
6 consists of land, building, building improvements, office
7 equipment, furniture and vehicles worth an estimated net
8 realizable value of approximately \$1.3 million (after payment of
9 estimated costs of disposition).

10 Included in this total is the Debtors' fee simple ownership
11 interest in a parcel of improved real property located at 17200
12 Jamboree Road in Irvine, California. The Jamboree Property is
13 encumbered by a first-priority lien asserted by Ohio Life in the
14 approximate amount of \$3.42 million.

15 The Debtors received court authorization to sell the
16 Jamboree Property free and clear of liens and encumbrances,
17 including the personal property located on the premises, to an
18 unaffiliated third party in March 2001; however, the purchaser
19 failed to complete the transaction. Following additional
20 marketing efforts by Sperry Van Ness, on April 23, 2002, the
21 Debtors accepted an offer to purchase the Jamboree Property for
22 \$5.3 million. The Debtors intend to seek Court approval for the
23 sale of the Jamboree Property prior to the anticipated
24 Confirmation Date. The estimated net proceeds from the sale of
25 the Jamboree Property are anticipated to be between \$950,000 and
26 \$1,300,000, depending on the ultimate resolution of a dispute
27 regarding prepayment penalties.

28

1 **C. Loan Portfolio**

2 As of March 31, 2002, the Debtors owned approximately \$29.6
3 million (face amount) of mortgage loans, which the Debtors
4 estimate have a net realizable value of approximately \$26.8
5 million. Of this amount, approximately \$26 million in loans
6 (face amount) are subject to Lehman Commercial Paper's alleged
7 security interest, although the balance on Lehman's loan is
8 approximately \$18 million, as of March 31, 2002. Based upon face
9 value, there is equity in the Debtors' loan portfolio of
10 approximately \$11 million.

11 Since the Petition Date, the Debtors had actively sought a
12 purchaser for the loan portfolio, but were not able to locate a
13 potential purchaser willing to pay a fair market value of the
14 portfolio in view of the uncertainties arising from the
15 outstanding litigation.

16 **D. Loan Servicing Rights**

17 One of the primary components of the Debtors' revenues
18 historically has been loan servicing. The Debtors' current
19 servicing functions are payment processing (including demand for
20 payoffs), reconveyances, monitoring and advances for fire/flood
21 insurance, collections on delinquent loans, foreclosure and
22 bankruptcy proceedings, and reporting and remittances to the
23 Warehouse Line. Mortgage servicing rights are amortized against
24 loan servicing and other fee income over the period of estimated
25 net future servicing fee income.

26 The Debtors' loan servicing income has diminished
27 significantly due to the bankruptcy filing and sale of assets of
28 the Debtors. In July 2000, FAMCO sold the majority of its

1 servicing rights portfolio to Ocwen Federal Bank. As part of
2 that transaction, certain reserves were established of which
3 \$500,000 are remaining. These funds are required to be paid to
4 the Debtors on the Effective Date.

5 As of December 31, 2001, FAMCO continues to service
6 approximately 300 wholly owned loans.

7 By continuing to service its loan portfolio, the Debtors'
8 prospects for realizing maximum value from a sale of the loan
9 portfolio is enhanced, as defaults are minimized through watchful
10 monitoring of loans. In addition, the Debtors are entitled to
11 retain late payment charges, prepayment penalties and other
12 ancillary fees collected from mortgagors.

13 **E. Insurance Policies**

14 1. D&O Insurance

15 The Debtors hold a directors' and officers' and company
16 insurance policy obtained from the Underwriters at Lloyd's of
17 London ("Lloyd's"), and an excess insurance policy obtained from
18 Reliance Insurance Company ("Reliance").

19 On February 5, 2002, Lloyd's filed its Adversary Complaint
20 for Interpleader and Declaratory Relief (the "Interpleader
21 Action"), alleging that its policy includes an aggregate limit of
22 liability of \$10 million for all claims. Lloyd's requested the
23 Court to order it to pay the entire policy proceeds of \$10
24 million into court and to discharge its Underwriters of further
25 liability and duty under its policy.

26 The Debtors filed an answer and a counterclaim alleging that
27 Lloyd's understated the aggregate limit of its liability under
28

1 its policy and requesting the Court to order Lloyd's to deliver
2 the entire policy proceeds to the Court's registry.

3 Jack Rosenthal, Roger Smith and Robert Dierolf, erroneously
4 sued as Leon Rasachack and Philip A. Ettedgui, on behalf of
5 themselves and all others similarly situated (the "Securities
6 Class Action Plaintiffs"), were also sued by Lloyd's in the
7 Interpleader Action. They filed an answer, contending that, by
8 virtue of the entity coverage provided in the Lloyd's Policy,
9 which relates solely to securities claims, and a prior decision
10 by the Bankruptcy Court, which the Securities Class Action
11 Plaintiffs contend determined that the proceeds of the Lloyd's
12 Policy were property of the Debtors' Estates, the policy proceeds
13 are an asset of the estate payable only for their class action
14 securities claims. The Securities Class Action Plaintiffs
15 further assert that the policy proceeds are not payable to any of
16 the other defendants in the Interpleader Action.

17 The defendants in the Interpleader Action include some of
18 the present and past officers, directors and employees of the
19 Debtors who, along with the Debtors, are insureds under the
20 Policy. Plaintiffs in litigation brought against the insureds
21 were also sued by Lloyd's in the Interpleader Action.

22 The defendants in the Interpleader Action, including the
23 Debtors, dispute the contention of the Securities Class Action
24 Plaintiffs that the Lloyd's policy is available only to pay
25 claims of the securities class action claimants. They and the
26 Debtors contend that the Lloyd's policy insures many insureds
27 against many claims. The dispute over the proper amount and
28

1 allocation of the proceeds of the Lloyd's policy will be decided
2 by the Court in the Intepleader Action.

3 Pursuant to the Settlement Agreement, upon the Settlement
4 Effective Date, the insureds under the Lloyd's Policy are
5 obligated to cause \$3 million of the Lloyd's Policy proceeds to
6 be paid into the Redress Fund. The Securities Class Action
7 Plaintiffs have indicated that they intend to object to the
8 approval of the Settlement Agreement based upon their alleged
9 entitlement to the Lloyd's Policy proceeds and their assertion
10 that the Debtors have no right to dictate the distribution of the
11 Lloyd's Policy proceeds. The Settlement Agreement provides that
12 after payment of the initial \$3 million into the redress fund,
13 the balance will first be applied towards defense costs,
14 settlement costs, or adverse judgments previously incurred or to
15 be incurred in the future by the insureds. Any residual amounts
16 of the Lloyd's policy remaining after resolution and payment of
17 all claims against that policy will be paid to the Redress Fund.
18 The amount of this policy residual, if any, cannot be determined
19 until all such claims are resolved.

20 The face amount of the Reliance policy is \$5 million. It is
21 excess to the Lloyd's policy and is a follow form policy. In May
22 2001, Reliance was placed in a Rehabilitation Proceeding by the
23 Pennsylvania Department of Insurance and a Liquidation Order was
24 issued in October 2001.

25 Due to Reliance's liquidation status, the proceeds of the \$5
26 million Reliance excess D&O policy may not be recoverable. The
27 Settlement Agreement does not require a contribution to the
28 Redress Fund from this policy. The Debtors contend that all

1 proceeds from this excess policy, if and when obtained from
2 Reliance, the California Insurance Guaranty Association ("CIGA")
3 and/or any other applicable state insurance guaranty association,
4 will be applied to satisfy any judgment against the insureds and
5 any settlement and defense costs incurred by the insureds. The
6 Coordinated Plaintiffs and the Securities Class Action Plaintiffs
7 contend that they have rights to the proceeds of the Reliance
8 excess D&O policy, and that they have the right to make claims
9 against CIGA and perhaps other state guaranty fund associations,
10 as third party beneficiaries of the Reliance policy. The issue
11 of which party is entitled to the proceeds and benefits of the
12 Reliance D&O policy may need to be decided by a court of
13 competent jurisdiction.

14 2. E&O Insurance

15 The Debtors also hold errors and omissions insurance
16 policies with an aggregate available policy limit of \$11 million,
17 issued by Reliance Insurance Company. Prior to the bankruptcy,
18 Reliance had brought a declaratory relief action seeking a
19 determination of their coverage responsibilities. In November
20 2000, the Debtors moved to require Reliance to post a bond the
21 amount of the policy limits, which motion was granted by the
22 Bankruptcy Court on December 20, 2000. Reliance's objections to
23 the Bankruptcy Court's ruling were unsuccessful, and Reliance
24 ultimately posted the bond, which is currently the subject of
25 litigation assigned to the District Court on March 14, 2002.
26 Pursuant to the Settlement Agreement, and subject to the terms of
27 the Plan, all proceeds that are ultimately recovered from this
28 policy will be paid to the Redress Fund.

1 **F. Prepaid Expenses**

2 The Debtors estimate that they have approximately \$980,000
3 of prepaid expenses and miscellaneous assets. These assets
4 primarily consist of interest receivables, prepaid insurance,
5 prepaid utilities, and prepaid professionals fees. The
6 receivables will be collected by the Debtors prior to the
7 Effective Date of the Plan, and by the Liquidating Trust Trustee
8 thereafter. The prepaid expenses benefit the Debtors and the
9 Liquidating Trust by eliminating the need for future cash outlays
10 for, among other things, certain utilities, insurance, and
11 professionals.

12 **G. Potential Litigation Claims and/or Pending Litigation**

13 The Debtors are presently investigating or have investigated
14 whether to proceed with certain litigation claims. The following
15 is a summary of some of the claims not discussed elsewhere in
16 this Disclosure Statement:

17 1. Lehman

18 On August 9, 2001, an action was filed against Lehman
19 Commercial Paper, Inc. by several borrowers claiming that Lehman
20 aided and abetted FAMCO in defrauding the borrowers (the "Aiello
21 v. Lehman Action"). The Aiello v. Lehman Action was filed as a
22 class action and is now pending in the District Court.

23 On November 1, 2001, the Borrowers' Committee filed an
24 action in the Bankruptcy Court against Lehman, its parent Lehman
25 Brothers Holdings, Inc., Lehman Bros., and several current and
26 former officers and directors of the Debtors for, among other
27 claims, equitable subordination under Bankruptcy Code section
28 510(c) (the "Borrowers' Committee v. Lehman Action"). Lehman's

1 original alleged Secured Claim against the Debtors was
2 approximately \$77 million. Should the equitable subordination
3 claim against Lehman be successful, assets available for
4 distribution under the Plan would increase by an amount equal to
5 the portion of Lehman's claim that is subordinated to the claims
6 of borrowers and/or unsecured creditors. In addition, should
7 actual damages be awarded for the claims presented against
8 Lehman, those recoveries would benefit the borrower plaintiffs.
9 The monetary benefit to the Debtors' estates from the
10 subordination action against Lehman may be reduced by the
11 judgment reduction provisions contained in the Settlement
12 Agreement.

13 The District Court withdrew the reference of the Borrowers'
14 Committee v. Lehman Action, and consolidated it with the Aiello
15 v. Lehman Action. The Aiello v. Lehman Action and the Borrowers'
16 Committee v. Lehman Action are set for trial on January 28, 2003.
17 The equitable subordination claim asserted by the purported class
18 action plaintiffs could directly affect the respective parties'
19 priority to payment from the Debtors' bankruptcy estates.
20 Pursuant to the Settlement Agreement, and conditioned upon the
21 effectiveness of the Plan, the portion of the Aiello v. Lehman
22 Action against Brian Chisick, and the portion of the Borrowers'
23 Committee v. Lehman Action against FAMCO officers and directors,
24 will be dismissed with prejudice and released, whereas the
25 actions against Lehman will be transferred to the Liquidating
26 Trust on the Effective Date of the Plan and go forward.

27
28

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28

2. Law Firms and Insurance Brokers

FAMCO has potential malpractice claims against certain law firms, as well as certain insurance brokers relating to the mishandling of certain borrower claims. The Debtors are currently evaluating the benefits, if any, of pursuing actions against the law firms and insurance brokers. There are tolling agreements in place with certain law firms and the insurance brokers to prevent the loss of rights by virtue of applicable statutes of limitations. These actions will be transferred to the Liquidating Trust on the Effective Date of the Plan.

3. Escrow proceeds

The Debtors received court authorization to sell the Jamboree Property free and clear of liens and encumbrances, including the personal property located on the premises, to eRealty in March 2001, for a sale price of \$6.050 million. On March 8, 2001, less than two business days prior to the hearing on the eRealty sale motion, eRealty forwarded correspondence to the Debtors purporting to evidence eRealty's willingness to consummate the sale, but at a purchase price of \$1 million less than that to which the parties had agreed. Subsequently, eRealty failed to complete the transaction pursuant to the purchase and sale agreement and escrow instructions executed by and between eRealty and the Debtors. It is the Debtors position that eRealty may have forfeited its \$50,000 deposit. The Debtors, prior to the Effective Date of the Plan and the Liquidating Trust, following the Effective Date, will take all actions necessary to obtain the release of the \$50,000 deposit from the escrow, where it is currently being held. The Debtors

1 have sent a letter to eRealty demanding that eRealty instruct the
2 escrow company to release the \$50,000 deposit to the Debtors. As
3 of the date of this Disclosure Statement, eRealty has not
4 responded to the Debtors' demand.

5 4. Pending Litigation

6 The Debtors are currently pursuing several of their insurers
7 regarding payments of claims. Litigation against ITT Hartford
8 involves insurance coverage and bad faith claims arising from ITT
9 Hartford's failure to cover or reimburse claims which arose out
10 of an advertising dispute that went into litigation. ITT
11 Hartford prevailed on a motion for summary judgment brought by
12 ITT Hartford in the United States District Court, Southern
13 Division (the court in which the action against ITT Hartford is
14 pending). The Debtors have appealed this adverse ruling to the
15 Ninth Circuit Court of Appeals. The appeal has been fully
16 briefed, and the Debtors are currently awaiting the scheduling of
17 oral argument by the court.

18 Litigation against Reliance Insurance Company of Illinois
19 involves the Debtors' E&O policies. The Reliance matter is
20 currently pending before the District Court as described above.

21 Both of these matters will be transferred to the Liquidating
22 Trust on the Effective Date of the Plan.

23 VI.

24 CERTAIN FEDERAL INCOME TAX CONSEQUENCES OF PLAN

25 A. Introduction

26 Implementation of the Plan may have federal, state, and
27 local tax consequences to the Debtors and to the Creditors and
28 shareholders of Debtors. No tax opinion has been sought or will

1 be obtained with respect to any tax consequences of the Plan, and
2 the following disclosure (the "Tax Disclosure") does not
3 constitute and is not intended to constitute either a tax opinion
4 or tax advice to any person. Rather, the Tax Disclosure is
5 provided for informational purposes only.

6 Moreover, the Tax Disclosure summarizes only certain of the
7 federal income tax consequences associated with the Plan's
8 implementation, and does not attempt to comment on all such
9 aspects of the Plan's implementation. In addition, certain of
10 the federal income tax consequences described in the Tax
11 Disclosure are dependent on factual determinations that are
12 subject to uncertainties. Similarly, the Tax Disclosure does not
13 attempt to consider any facts or limitations applicable to any
14 particular Creditor or shareholder which may modify or alter the
15 consequences described below. The Tax Disclosure also does not
16 address state, local, or foreign tax consequences or the
17 consequences of any federal tax other than the federal income
18 tax.

19 The Tax Disclosure is based upon the provisions of the
20 Internal Revenue Code of 1986, as amended, the regulations
21 promulgated thereunder, existing judicial decisions, and
22 administrative rulings. In light of the numerous recent
23 amendments to the Internal Revenue Code, no assurance can be
24 given that legislative, judicial, or administrative changes will
25 not be forthcoming that would affect the accuracy of the
26 discussion below. Any such changes could be material and could
27 be retroactive with respect to the transactions entered into or
28 completed prior to the enactment or promulgation thereof.

1 Finally, the tax consequences of certain aspects of the Plan are
2 uncertain due to a lack of applicable legal authority and may be
3 subject to judicial or administrative interpretations that differ
4 from the discussion below.

5 Tax legislation has been introduced in the past in Congress
6 which, if enacted, would fundamentally alter the basic scheme of
7 federal taxation by replacing the federal income tax with a
8 national retail sales tax or a form of value added tax. Other
9 proposed tax legislation would transform the current graduated-
10 rate federal income tax into an income-based flat tax.
11 Fundamental tax reform of the type described above may be re-
12 introduced and enacted in 2002 or subsequent years. Insofar as
13 the discussion below addresses income tax consequences in 2002
14 and/or subsequent years, such discussion may be completely
15 invalidated if fundamental tax reform is enacted.

16 Creditors and shareholders therefore are advised to consult
17 with their own tax advisors regarding the tax consequences to
18 them and to the Debtors of the transactions contemplated by the
19 Plan, including federal, state, local, and foreign tax
20 consequences.

21 **B. Taxation of the Redress Fund and the Liquidating Trust**

22 Section 468B(g) of the Internal Revenue Code provides that
23 escrow accounts, settlement funds or similar funds are subject to
24 current taxation. It also provides that the IRS shall prescribe
25 regulations for the taxation of any such account or fund, whether
26 as a grantor trust or otherwise. The IRS issued final
27 regulations regarding qualified settlement funds on December 18,
28 1992. However such regulations specifically reserve the tax

1 treatment of funds established to resolve certain types of
2 claims, such as (i) claims of a debtor's general trade creditors
3 or debtholders that relate to a Title 11 or similar case, or a
4 workout and (ii) claims arising under a workers compensation act
5 or a self-insured health plan ("Excluded Claims"), unless such
6 Excluded Claims arise out of the same event or series of events
7 as certain qualified claims. On February 1, 1999, the IRS issued
8 proposed regulations respecting disputed ownership funds, but
9 such rules are to become effective only when final regulations
10 are published. Thus, there is some uncertainty as to who is
11 responsible for reporting income generated by the property in the
12 Liquidating Trust.

13 Pursuant to the Plan, the Settlement Agreement, and related
14 documents, the administrators responsible for administering the
15 Liquidating Trust and the Redress Fund, respectively, will also
16 be required to file appropriate income tax returns and to pay any
17 tax due on income earned in such trust or fund out of the
18 earnings or corpus of the Liquidating Trust or Redress Fund,
19 respectively.

20 1. In General: Qualified Settlement Funds

21 A trust is a qualified settlement fund if it is
22 (i) established pursuant to an order of a court and is subject to
23 the continued jurisdiction of the court, (ii) established to
24 satisfy one or more contested or uncontested claims that have
25 resulted or may result from an event that has given rise to at
26 least one claim of a tort, breach of contract or violation of law
27 ("Qualified Claims") and (iii) established as a trust under
28 applicable state law. A qualified settlement fund may not be

1 established to resolve Excluded Claims that did not arise out of
2 the same event or series of events as the Qualified Claims
3 ("Disqualified Claims"). Under section 1.468B-2 of the final
4 regulations, a qualified settlement fund is taxable on its
5 modified gross income at the maximum federal income tax rate for
6 trusts. In general, the modified income of a qualified
7 settlement fund does not include amounts transferred to the
8 qualified settlement fund to resolve or satisfy a liability for
9 which it was established. Likewise, a qualified settlement fund
10 does not receive a deduction for amounts paid to satisfy any such
11 liabilities. The tax basis in the property transferred to a
12 qualified settlement fund is equal to the fair market value of
13 such property. A qualified settlement fund would be taxed on
14 gains (and would deduct losses) on property sold or distributed
15 in kind to Creditors, if any, based on the appreciation or
16 depreciation in the value of such property after the date the
17 qualified settlement fund received the property. For purposes of
18 filing federal income tax returns, information reporting and
19 withholding requirements, payments by or to a qualified
20 settlement fund should be treated as payments by or to a
21 corporation.

22 2. The Redress Fund

23 The Redress Fund will be established pursuant to the Court-
24 approved Plan and the Settlement Agreement to satisfy Allowed
25 Settlement Claims in Class 4. The Debtors believe that each of
26 these Claims should be classified as a Qualified Claim.
27 Therefore, although not free from doubt, the Debtors believe that
28 the Redress Fund constitutes a qualified settlement fund under

1 final Treasury regulations section 1.468B-1. If the IRS were to
2 disagree, the tax consequences to the Debtors and the Creditor
3 beneficiaries of the Redress Fund could differ materially from
4 those described below.

5 Assuming that the IRS respects the treatment of the Redress
6 Fund as a qualified settlement fund, the Redress Fund should be
7 subject to taxation separate from the Debtors or the Creditors
8 (see the discussion of the taxation of qualified settlement funds
9 described in section VI.B.1 above). In particular, the Redress
10 Fund should be taxed on any income earned in respect of the
11 property transferred to it by the Debtors.

12 If the Redress Fund is not treated as qualified settlement
13 fund, by analogy to the treatment of such funds in the proposed
14 regulations, it is possible that the Redress Fund will be treated
15 as an association taxable currently on its income as C
16 corporation. It is also possible that the Redress Fund could be
17 treated as a grantor trust for which the Creditor beneficiaries
18 are treated as the grantors. As such, the Creditor beneficiaries
19 would be subject to current taxation on the income generated by
20 the Redress Fund. In such event, the manner of allocating the
21 income of the trust among the beneficiaries is unclear.

22 3. The Liquidating Trust

23 Although not free from doubt, the Debtors believe that the
24 Liquidating Trust constitutes a disputed ownership fund under
25 proposed Treasury Regulations section 1.468B-9. If the IRS were
26 to disagree, the tax consequences to the Debtors and the Creditor
27 beneficiaries of the Liquidating Trust could differ materially
28 from those described below.

1 A disputed ownership fund under the proposed Treasury
2 Regulations is an escrow, fund or trust that (i) is established
3 to hold money or property subject to conflicting claims of
4 ownership, (ii) is subject to continuing jurisdiction of a court
5 and (iii) cannot pay money to or on behalf of a claimant without
6 the approval of the court. According to the Plan, the
7 Liquidating Trust will be subject to the continuing jurisdiction
8 of the Court and the property transferred to the Liquidating
9 Trust can be distributed only in accordance with the terms of the
10 court-approved Plan or with the approval of the Court. Moreover,
11 according to the Plan, the Liquidating Trust is established for
12 the benefit of the holders of Allowed Settlement Claims in Class
13 4 (and the Redress Fund on their behalf) and the holders of
14 Allowed Administrative Claims, Allowed Tax Claims, Allowed Class
15 4 Opt-Out Claims, and Allowed Claims in Class 1, 2, 3 and Class 5
16 (collectively, the "Claimants"). The Claimants have asserted
17 conflicting claims of ownership of, or a legal or equitable
18 interest in, certain assets of the Debtors, and thus, such assets
19 should be considered "disputed property" within the meaning of
20 proposed Treasury Regulations section 1.468B-9.

21 A disputed ownership fund is taxable as if it were a
22 qualified settlement fund if all assets transferred to the fund
23 are passive investment assets, such as cash, cash equivalents,
24 stock, and debt obligations. In all other cases, a disputed
25 ownership fund is taxable as if it were a C corporation, except
26 as otherwise provided in Treasury Regulations section 1.468B-9.
27 As of the Effective Date, the Debtors will transfer to the
28 Liquidating Trust certain disputed ownership property of the

1 Estates specified in section V.E.1 of the Plan, including the
2 remaining mortgage loans and certain Recovery Rights and
3 unliquidated assets owned by the Debtors. It is unlikely that
4 the Recovery Rights or any remaining operating assets would be
5 considered passive investment assets, and thus, although not free
6 from doubt, the Liquidating Trust should be taxed as a C
7 corporation, except to the extent that the provisions of Treasury
8 Regulation section 1.468B-9 direct otherwise, including: (i) in
9 general, property transferred to the Liquidating Trust by, or on
10 behalf of, the Debtors should be excluded from the gross income
11 of the trust; (ii) distributions to Claimants by the Liquidating
12 Trust will not be taxable events to the trust; and (iii) the
13 Liquidating Trust will not be allowed a deduction for
14 distributions to, or on behalf of, a Claimant.

15 Although the proposed regulations provide that the IRS will
16 not challenge a reasonable, consistently applied method of
17 taxation for income earned by a disputed ownership fund,
18 transfers to such fund, and distributions made by such fund
19 established before the date of publication of final regulations,
20 the proposed regulations do not become effective until the date
21 of publication of final regulations. If the Liquidating Trust is
22 not treated as a disputed ownership fund by analogy to the
23 treatment of such funds in the proposed regulations, it is
24 possible that the Liquidating Trust could be treated as a grantor
25 trust for which the Claimants are treated as the grantors. As
26 such, the Claimants would be subject to current taxation on the
27 income generated by the Liquidating Trust. In such event, the
28

1 manner of allocating the income of the trust among the Claimants
2 is unclear.

3 C. Tax Consequences to Creditors

4 1. Generally

5 The tax consequences of the Plan's implementation to a
6 Creditor will depend on several factors, including the underlying
7 basis for the Creditor's claim, whether the Creditor reports
8 income on the cash or accrual method, whether the Creditor
9 receives consideration in more than one tax year of the Creditor,
10 and whether all the consideration received by the Creditor is
11 deemed to be received by that Creditor in an integrated
12 transaction. EACH CREDITOR IS URGED TO CONSULT ITS OWN TAX
13 ADVISOR IN THIS REGARD.

14 2. Establishment of the Redress Fund and Liquidating
15 Trust

16 Assuming that the characterization of (i) the Redress Fund
17 as a qualified settlement fund and (ii) the Liquidating Trust as
18 a disputed ownership fund is in each instance respected by the
19 IRS, the establishment of the Redress Fund and the Liquidating
20 Trust and the transfers of the Debtors' assets thereto should not
21 be taxable events with respect to the Creditors.

22 Moreover, Creditors should not be subject to tax on any
23 income recognized by the Redress Fund or the Liquidating Trust
24 during and as a result of the holding, investment or liquidation
25 of assets formerly belonging to the Debtors, because the Redress
26 Fund and the Liquidating Trust would be taxable on any investment
27 income or gain resulting from any appreciation in the value of
28

1 such assets after the respective transfers to the Redress Fund
2 and the Liquidating Trust.

3 3. Distributions From the Redress Fund and the
4 Liquidating Trust

5 a. Distributions in Satisfaction of Claims

6 Assuming that the characterization of (i) the Redress Fund
7 as a qualified settlement fund and (ii) the Liquidating Trust as
8 a disputed ownership fund is in each instance respected by the
9 IRS, the Creditors must treat distributions in the same manner as
10 would have been the case if such payments had been received
11 directly from the Debtors. Whether and the extent to which such
12 a payment to a Creditor holding an Allowed Claim is includible in
13 the holder's gross income will be determined by reference to the
14 Claim in respect of which the distribution is made. In general,
15 the holder will recognize ordinary income in respect of such
16 payment if the Claim is in respect of an item generating ordinary
17 income, such as wages or in the nature of interest, to such
18 holder. A payment with respect to a previously deducted item may
19 also result in taxable income. Similarly, if a Claim is held as
20 part of a trade or business, the holder of such Claim should
21 generally recognize ordinary loss to the extent that such
22 holder's adjusted basis in the Claim exceeds the amount received
23 by such holder with respect to such Claim. If a Claim is held in
24 respect of a capital asset, the holder should generally recognize
25 a capital gain or loss. However, any distribution attributable
26 to accrued but unpaid interest will be treated as ordinary
27 income, regardless of whether the origin of the Claim is capital

28

1 in nature or whether gain or loss is otherwise recognized on the
2 Claim.

3 b. Receipt of Interest

4 A Creditor who, under its accounting method, was not
5 previously required to include in income accrued but unpaid
6 interest attributable to an existing Claim, and who exchanges its
7 interest Claim for Cash pursuant to the Plan, will be treated as
8 receiving ordinary interest income to the extent of any
9 consideration so received allocable to such interest, regardless
10 of whether that Creditor realizes an overall gain or loss as a
11 result of the exchange of its existing Claim. A Creditor who had
12 previously included in income accrued but unpaid interest
13 attributable to its existing Claim will recognize a loss to the
14 extent such accrued but unpaid interest is not satisfied in full.
15 For purposes of the above discussion, "accrued" interest means
16 interest which was accrued while the underlying Claim was held by
17 the Creditor. The extent to which consideration distributed
18 under the Plan is allocable to such interest is uncertain.

19 Although it is not certain that the IRS would respect such a
20 position, in the case of debt Claims, the Debtors believe that
21 the Liquidating Trust's payments to Creditors in respect of such
22 debt Claims should first be allocated to principal and only
23 secondarily to any interest accrued and owed to such Creditors.
24 Thus, a cash basis Creditor may not realize any interest income
25 and, to the extent that an accrual basis Creditor included in
26 taxable income in a prior taxable year accrued interest that
27 later becomes uncollectible, such Creditor should be entitled to
28 a bad debt deduction. In the case of a Creditor whose Claim

1 constituted a capital asset in its hands, the gain or loss would
2 be a capital gain or loss.

3 c. Withholding

4 The administrators of the Redress Fund and the Liquidating
5 Trust may withhold any amounts required by law from payments made
6 to Creditors. This may require payments by certain Creditors of
7 the required withholding tax on any non-cash consideration deemed
8 issued under the Plan. In addition, the Creditors may be
9 required to provide general tax information to the administrators
10 of the Redress Fund and the Liquidating Trust.

11 D. Federal Income Tax Consequences To The Debtors

12 1. Transfers of Assets to the Liquidating Trust and
13 the Redress Fund

14 a. To the Liquidating Trust

15 Assuming that the treatment of the Liquidating Trust as a
16 disputed ownership fund is respected by the IRS, each Debtor
17 should recognize gain or loss on the transfer of its assets to
18 the Liquidating Trust as if each Debtor had sold its assets for
19 fair market value on the date of such transfer. As discussed
20 above in section VI.B.1, the Liquidating Trust should then be
21 subject to tax on any income earned on the property after it is
22 transferred to the Liquidating Trust. The Debtors should be able
23 to use their net operating losses ("NOLs") to offset any gains
24 realized on such transfers to the Liquidating Trust.
25 Accordingly, the Debtors believe that the Debtors should not
26 incur any significant regular federal tax liability (although the
27 Debtors may incur alternative minimum tax upon the utilization of

28

1 such NOLs) as a result of the transactions contemplated by the
2 Plan on the Effective Date.

3 Again assuming that the treatment of the Liquidating Trust
4 as a disputed ownership fund is respected by the IRS, to the
5 extent that transfers are made to the Liquidating Trust in
6 respect of Claims that, if paid directly by the Debtors, would
7 have resulted in deductions for the Debtors, such transfers to
8 the Liquidating Trust should be deductible by the Debtors.

9 b. To the Redress Fund

10 Assuming that the treatment of the Redress Fund as a
11 qualified settlement fund is respected by the IRS, transfers by
12 or on behalf of the Debtors to the Redress Fund should be
13 deductible by the Debtors.

14 2. Reduction of the Debtors' Indebtedness

15 The Debtors believe that they will satisfy their obligations
16 to the Creditors on the Effective Date, the date on which they
17 will transfer their respective assets to the Redress Fund and the
18 Liquidating Trust. That is because on that date, pursuant to the
19 Plan, the Creditors will have agreed to accept less than the
20 unpaid balance of their debts in complete satisfaction of their
21 Claims to the extent that the funds in the Redress Fund or the
22 Liquidating Trust are insufficient to satisfy such debts in full.
23 (Actual or constructive debt cancellation will hereinafter be
24 referred to as a "Debt Discharge Amount.") Moreover, a Debtor
25 should not recognize any Debt Discharge Amount upon the release
26 of such Debtor's obligations as a guarantor under the Plan.

27 In general, the Internal Revenue Code provides that a
28 taxpayer who realizes a cancellation or discharge of indebtedness

1 must include the Debt Discharge Amount in its gross income in the
2 taxable year of discharge to the extent that the Debt Discharge
3 Amount exceeds any consideration given for such discharge. A
4 Debtor's Debt Discharge Amount may be increased to the extent
5 that unsecured creditors holding unscheduled claims fail to
6 timely file proofs of Claim and, as a consequence, have their
7 Claims discharged on the Confirmation Date pursuant to
8 section 1141 of the Code. No income from the discharge of
9 indebtedness is realized to the extent that payment of the
10 liability being discharged would have given rise to a deduction
11 for tax purposes. The Debtors believe that a substantial number
12 of Claims constitute liabilities the payment of which would give
13 rise to a deduction.

14 If a taxpayer realizes cancellation of indebtedness pursuant
15 to a confirmed plan under the Code, however, such Debt Discharge
16 Amount is specifically excluded from gross income. The Internal
17 Revenue Code, however, requires certain tax attributes of each of
18 the Debtors to be reduced by the Debt Discharge Amount excluded
19 from the income of such Debtor. Tax attributes are reduced in
20 the following order of priority: NOLs and NOL carryovers;
21 general business credits; minimum tax credits; capital loss
22 carryovers; basis of property of the taxpayer; passive activity
23 loss or credit carryovers; and foreign tax credit carryovers.
24 Tax attributes are generally reduced by one dollar for each
25 dollar excluded from gross income, except that general tax
26 credits, minimum tax credits, and foreign tax credits are reduced
27 by 33.3 cents for each dollar excluded from gross income.

28

1 Although the tax attribute reduction rules may reduce or
2 eliminate a large portion of the Debtors' NOLs and/or other tax
3 attributes of the Debtors, such reduction takes place after the
4 determination of the tax to be imposed on the Debtors for the
5 taxable year of the discharge. Consequently, the Debtors should
6 be able to fully use their NOLs to offset any taxable income
7 recognized during the taxable year ending on the Effective Date,
8 including gain recognized as a result of transfers of assets to
9 the Liquidating Trust on the Effective Date. Moreover, because
10 the Debtors likely will be deemed liquidated for federal income
11 tax purposes on the Effective Date, any remaining tax attributes
12 will be of little economic value.

13 3. Liquidation of the Debtors

14 Under Article IV. of the Plan, Interests in Class 7,
15 Class 8, Class 9 and Class 10, which represent the equity
16 interests of the holders in FACO, FAMCO, FAMCO-MN and FAPS,
17 respectively, will be cancelled and discharged without any
18 consideration. The Debtors believe that FACO, FAMCO, FAMCO-MN
19 and FAPS should each be deemed to be liquidated for federal
20 income tax purposes on the Effective Date.

21 Because the Debtors should recognize gain or loss on the
22 transfers of their assets to the Liquidating Trust, the Debtors
23 should not recognize any material additional gains or losses on
24 their deemed liquidations. The Debtors should be able to utilize
25 their respective remaining NOLs against any additional gains
26 triggered on liquidation. Any gain not sheltered by NOLs would
27 be subject to tax. Any such tax would be a liability under the
28 Plan to be satisfied by the Liquidating Trust.

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28

4. Carryback of the Debtors' Net Operating Losses

Pursuant to recently enacted tax legislation, NOLs generated in taxable years ending in 2001 and 2002 may be carried back up to five years (instead of the usual two years). Therefore, if the Effective Date occurs before the end of 2002 and the Debtors have an NOL for such tax year, then any remaining loss may be carried back to and used to offset income in the Debtors' 1997 taxable year. This may result in a tax refund to the Debtors. Assuming that the Effective Date occurs before the end of 2002, then depending upon the amount of the NOL carryback from 2002, the Debtors believe that any refund could be as much as \$10 million. It is currently uncertain whether there will be any such NOL from 2002 to carryback, and, if there is, the amount of such NOL.

E. Tax Consequences to the FACO Shareholders

As of the second (2nd) Business Day following the Effective Date, the Class 7 Interests in FACO will be cancelled and discharged. FACO shareholders may recognize a loss on such cancellation. If the shareholder held such shares as a capital asset, the loss recognized will generally be a capital loss. Such loss will be a long term capital loss if the shareholder held such shares as a capital asset for longer than a year. Any amounts received by FACO shareholders with respect to their Interests or Claims on account of the purchase or ownership of the canceled shares may affect the calculation of gain or loss with respect to such shares.

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28

F. General Disclaimer

PERSONS CONCERNED WITH THE TAX CONSEQUENCES OF THE PLAN SHOULD CONSULT THEIR OWN ACCOUNTANTS, ATTORNEYS AND/OR ADVISORS. THE DEBTORS MAKE THE AFOREMENTIONED DISCLOSURE OF POSSIBLE TAX CONSEQUENCES FOR THE SOLE PURPOSE OF ALERTING READERS OF TAX ISSUES THEY MAY WISH TO CONSIDER.

VII.

CONFIRMATION REQUIREMENTS AND PROCEDURES

The following discussion is intended solely for the purpose of alerting readers about basic Plan confirmation issues, which they may wish to consider, as well as certain deadlines for filing proofs of Claims and requests for payment of administrative expenses. The Debtors CANNOT and DO NOT represent that the discussion contained below is a complete summary of the law on this topic.

Many requirements must be met before the Court can confirm the Plan. Some of the requirements include that the Plan must be proposed in good faith, accepted by the requisite number of Creditors, pays Creditors at least as much as Creditors would receive in a chapter 7 liquidation, and is feasible. These requirements are not the only requirements for confirmation.

A. Liquidation Analysis

One of the confirmation requirements is the "Best Interests Test," which requires a liquidation analysis. Under the Best Interests Test, if the holder of an Allowed Claim or Allowed Interest is in an impaired Class and does not vote to accept the Plan, then that non-accepting Claim holder must receive or retain under the Plan property of a value not less than the amount that

1 the entity would receive or retain if the Debtors were liquidated
2 under chapter 7 of the Code.

3 In a chapter 7 case, a debtor's assets are usually sold by a
4 chapter 7 trustee. Secured Creditors are paid first from the
5 sales proceeds of properties on which the secured Creditors have
6 liens. Administrative Claims are paid next. Next, unsecured
7 Creditors are paid from any remaining sales proceeds, according
8 to their rights to priority. Unsecured Creditors with the same
9 priority share in proportion to the amount of their allowed
10 Claims in relationship to the amount of total allowed unsecured
11 Claims. Finally, interest holders receive the balance that
12 remains after all Creditors are paid, if any.

13 For the Court to be able to confirm the Plan, the Court must
14 find that all Creditors and interest holders who do not accept
15 the Plan will receive at least as much under the Plan as such
16 holders would receive under a chapter 7 forced liquidation. The
17 Debtors maintain that this requirement is easily met here because
18 the Plan itself calls for an orderly and reasonable liquidation
19 of the Debtors' assets and a distribution of the proceeds without
20 the expense and delay of protracted and highly contentious
21 litigation.

22 The Debtors believe that a liquidation under chapter 7 will
23 bring a lesser recovery for Creditors than the distributions
24 under the Plan for several reasons. First, under the Plan, the
25 Debtors' assets will be liquidated by the Liquidating Trust in an
26 orderly and reasonable manner, with the assistance of the
27 Debtors' former officers and professionals and the Committees'
28 professionals upon the Liquidating Trust Trustee's request and

1 subject to Court approval to the extent required in the Plan.
2 These individuals are in a better position than a chapter 7
3 trustee to maximize the value of the Debtors' assets, and recover
4 maximum net value from the remaining litigation claims. A
5 chapter 7 trustee and his or her professionals would have a steep
6 learning curve in preparing to administer these complex cases and
7 would need to review voluminous documents and files. Thus, in
8 addition to the statutory chapter 7 trustee's fees (based upon a
9 percentage of the assets administered), the unsecured Creditors
10 would bear the additional administrative burden created by
11 professionals who are unfamiliar with the Debtors' operations and
12 assets.

13 Second, because there are four distinct debtors in these
14 cases, if the cases are converted to chapter 7, there actually
15 could be four separate chapter 7 cases. As a result, there could
16 be four trustees and four sets of professionals involved in the
17 administration of the separate chapter 7 cases which would
18 dramatically decrease potential distributions to Creditors.

19 Third, under the Plan, while Creditors holding Allowed
20 Claims could receive an initial and additional interim
21 distributions under the Plan, the Debtors' assets will be
22 liquidated over time, through an orderly and reasonable
23 liquidation that will allow the assets to be sold for their fair
24 market value. In a chapter 7 case, the assets likely will be
25 liquidated in less than one year, which probably would result in
26 lower amounts being realized from the assets. It is also
27 unlikely that a trustee would be in a position to make any
28 distributions to Creditors for some time. Consequently, the sale

1 of the Debtors' assets in a chapter 7 liquidation case would
2 probably create more expenses and greater delays relative to the
3 recoveries for Creditors than the process contemplated under the
4 Plan.

5 The Liquidation Analysis set forth in Exhibit "I"
6 demonstrates that all Creditors and interest holders will receive
7 at least as much under the Plan as they would receive in a
8 chapter 7 liquidation case. As shown in Exhibit "I," the Debtors
9 have determined that confirmation of the Plan will provide each
10 holder of a Claim or an Interest with a recovery that is not
11 less, and will in fact exceed for an unsecured Creditor or equity
12 security holder, what it would receive pursuant to a liquidation
13 of the Debtors under chapter 7 of the Code, or such holder of a
14 Claim has indicated that it will vote in favor of the Plan.

15 **B. Feasibility**

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

22 There are at least two important aspects of a feasibility
23 analysis. The first aspect considers whether the Debtors will
24 have enough Cash on hand on the Effective Date of the Plan to pay
25 all the Allowed Claims and Allowed Administrative Expenses which
26 are entitled to be paid on such date. The Debtors maintain that
27 this aspect of feasibility is satisfied as illustrated here:

28

1	Cash on hand on the Effective Date:	\$36,000,000
2	LESS ESTIMATED CLAIMS:	
3	Unpaid Administrative Expenses ⁷	\$ 6,100,000
4	Priority Tax Claims	\$ 662,000
5	Non-Tax Priority Claims	\$ 35,000
6	Class 5 Claims	\$ 3,500,000
7	Court costs	\$ unknown
8	U.S. Trustee's Fees	\$ unknown
9	Subtotal	<u>\$10,297,000</u>
10	Balance after paying these amounts	\$25,703,000

11 The Debtors estimate that they will have Cash on hand on the
12 Effective Date of approximately \$36 million (not including
13 amounts to be paid to Debtors on the Effective Date pursuant to
14 the Settlement Agreement). A portion of the Cash on hand on the
15 Effective Date includes Residual Proceeds. From its available
16 cash, the Debtor (through the Liquidating Trust) is required to
17 pay administrative expenses and priority Claims in full on the
18 Effective Date. As shown in the table in section IV.B of this
19 Disclosure Statement, the unpaid administrative expenses and
20 priority Claims are estimated to total \$6 million as of the
21 Effective Date. This amount includes the Debtors' estimate that
22 the cost of duplicating and mailing the Plan and Disclosure
23 Statement to all parties entitled to vote on the Plan will cost
24 approximately \$ _____⁸. Furthermore, the estimated expenses

25 ⁷ See section IV.C.1, *supra*.

26 ⁸ This is an estimate only. The Debtors intend to use an
27 outside copy center to prepare the ballots for mailing to
28 creditors. The Debtor will solicit bids for copying (estimated
at _____ to _____ cents per page). The name of the copy center will
be disclosed in the Disclosure Statement which is mailed to
creditors and interest holders with the ballot. In addition to
the anticipated copying and mailing charges for sending
solicitation packages to voting parties, this figure includes the
estimated cost of copying and mailing summaries of the plan and
disclosure statement to all borrowers as described in section
VII.6.A hereof.

1 payable on the Effective Date include the statutory fees payable
2 to the United States Trustee which are estimated to total
3 \$ _____⁹, and the special Court costs which are estimated at
4 \$ _____.

5 The second aspect of feasibility considers whether the
6 Debtors will have enough Cash over the life of the Plan to make
7 the required Plan payments. The Plan is essentially a "pot" plan
8 under which certain Creditors will receive their pro rata share
9 of the proceeds generated through the liquidation of the Debtors'
10 assets. Thus, the Plan is, by definition, feasible, since the
11 Liquidating Trust is to distribute only the proceeds that it
12 obtains from the liquidation of assets. Please see section V of
13 this Disclosure Statement for a discussion of the value of the
14 Debtors' assets. PLEASE CONSULT WITH YOUR LAWYER OR ACCOUNTANT
15 IF YOU HAVE ANY QUESTIONS ABOUT THE DEBTORS' PROJECTIONS.

16 **C. Risks Associated With the Plan**

17 THERE ARE SIGNIFICANT FINANCIAL RISKS ASSOCIATED WITH THE
18 PLAN WHICH MUST BE CAREFULLY CONSIDERED IN DETERMINING WHETHER TO
19 VOTE TO ACCEPT OR REJECT THE PLAN.

20 The following is intended as a summary of certain material
21 risks associated with the Plan and the future liquidation of the
22 Debtors assets, but is not exclusive and should be supplemented
23 by an analysis and evaluation of the Plan and this Disclosure
24 Statement as a whole by each Claim and Interest holder with such
25 person's advisors.

26
27 _____
28 ⁹ Post-confirmation U.S. Trustee's fees will be paid by the
Liquidating Trust pursuant to the Liquidating Trust Agreement.
See Exhibit "1" to the Plan, at § 5.8.1.

1 Other risks usually associated with a plan of
2 reorganization, where a debtor is reorganized as a going concern,
3 are not present in this case because the Debtors' Plan is a plan
4 of liquidation. Other than the possible failure to realize the
5 maximum value upon liquidation of a particular asset, the
6 Debtors' proposed Plan results in no additional risk beyond those
7 which would be encountered in a chapter 7 liquidation. In fact,
8 due to the longer period of time afforded the Liquidating Trust
9 to liquidate the remaining assets under the Plan, compared to the
10 period of time in which a chapter 7 trustee would liquidate the
11 same assets, the Plan is likely to result in a higher return to
12 the Estates and their Creditors, and with those most
13 knowledgeable assisting the process.

14 Substantial obstacles may prevent swift confirmation and
15 consummation of the Plan, including the failure to quickly obtain
16 an order approving the Settlement Agreement. Accordingly, no
17 assurance can be given that either confirmation or consummation
18 will occur before any date certain.

19 VIII.

20 EFFECT OF CONFIRMATION OF PLAN

21 A. No Discharge

22 The Plan provides for the liquidation of all of the Debtors'
23 assets. In addition, the Debtors will not engage in business
24 after consummation of the Plan and the Debtors would not be
25 entitled to a discharge if the Cases were cases under chapter 7
26 of the Code. Therefore, the Debtors will not receive any
27 discharge in their bankruptcy cases because the Debtors do not
28

1 meet the requirements for receiving a discharge specified in
2 section 1141(d)(3) of the Code.

3 Pursuant to section V.D of the Plan, except as provided in
4 the Settlement Agreement, which requires certain payments to be
5 funded directly to the Redress Fund, and except for Insurance
6 Policies and the Contingency Fund, all property of the Debtors
7 and their Estates shall be transferred to and vested in the
8 Liquidating Trust on the Effective Date.

9 **B. Modification of the Plan**

10 The Debtors may modify the Plan at any time before
11 Confirmation pursuant to section 1127 of the Code. The Court may
12 require a new disclosure statement and/or re-voting on the Plan
13 if the Debtors modify the Plan before Confirmation, unless the
14 Court finds that the proposed modification does not adversely
15 change the treatment of any Claim or Interest held by any entity
16 that has not accepted the modification in writing in accordance
17 with Bankruptcy Rule 3019. The Debtors also may seek to modify
18 the Plan at any time after Confirmation pursuant to section 1127
19 of the Code so long as (1) the Plan has not been substantially
20 consummated and (2) the Court authorizes the proposed
21 modifications after notice and a hearing.

22 **C. Final Decree**

23 After the Estates have been fully administered as referred
24 to in Bankruptcy Rule 3022, the Debtors shall file a motion with
25 the Court to obtain a final decree to close the Cases in
26 accordance with section 350 of the Code.

27
28

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28

D. Retention of Jurisdiction

The Court shall retain jurisdiction to the extent provided by law for the purposes specified in Article VII of the Plan.

DATED: May ____, 2002

FIRST ALLIANCE MORTGAGE COMPANY, a California corporation

By: _____
Joel Blitzman,
Its Vice President and
Controller

DATED: May ____, 2002

FIRST ALLIANCE CORPORATION, a Delaware corporation

By: _____
Joel Blitzman,
Its Vice President and
Controller

DATED: May ____, 2002

FIRST ALLIANCE MORTGAGE COMPANY, a Minnesota corporation

By: _____
Joel Blitzman,
Its Vice President and
Controller

DATED: May ____, 2002

FIRST ALLIANCE PORTFOLIO SERVICES, a Nevada corporation

By: _____
Joel Blitzman,
Its Vice President and
Controller

PRESENTED BY:

IRELL & MANELLA LLP

By: _____
William N. Lobel
Evan C. Borges
Attorneys for Debtors and Debtors in Possession

**EXHIBIT A TO DISCLOSURE STATEMENT OMITTED. A COPY OF THE
PLAN IS ATTACHED HERETO AS EXHIBIT "D."**

Exhibit A
Page 146

FIRST ALLIANCE CORPORATION
CONSOLIDATED BALANCE SHEET (Dollars in thousands)
AS OF MARCH 31, 2002

	October	November	December	January	February	March
ASSETS						
Cash and cash equivalents	\$ 35,063	\$ 36,139	\$ 35,290	\$ 35,520	\$ 33,236	\$ 33,466
Restricted cash	3,355	3,307	3,346	3,320	3,286	3,304
Servicing advances and fees	108	108	104	100	110	111
Loans held for sale	38,433	34,838	33,030	30,690	28,049	26,862
Loans receivable	-	-	-	-	-	-
Residual interests in securities	27,449	26,142	25,102	23,539	22,103	21,094
Property, net	6,439	5,439	4,739	4,739	4,739	4,739
Deferred taxes - Asset	-	-	-	-	-	-
Prepaid expenses and other assets	1,040	1,178	980	797	635	716
Total assets	\$ 108,887	\$ 107,150	\$ 102,591	\$ 98,705	\$ 93,358	\$ 90,312

	October	November	December	January	February	March
LIABILITIES AND STOCKHOLDERS' EQUITY						
Warehouse financing facility	\$ 29,899	\$ 27,945	\$ 25,752	\$ 23,036	\$ 21,313	\$ 18,867
Reserve for estimated liquidation costs	10,872	9,488	12,288	10,184	7,924	6,562
Accrued contingent liabilities	3,204	3,204	3,204	3,204	3,204	3,204
Accounts payable and accrued liabilities	11,918	13,331	14,310	14,504	13,014	13,145
Income taxes payable	1,486	1,489	608	609	493	489
Notes payable	3,448	3,440	3,431	3,422	3,413	3,404
Total liabilities	60,627	58,897	68,594	54,839	49,361	45,671
Stockholders' Equity						
Class A Common Stock	223	223	223	223	223	223
Additional Paid in Capital	67,307	67,307	67,307	67,307	67,307	67,307
Retained Earnings	33,083	33,056	27,800	28,569	28,600	29,444
Treasury stock	(52,333)	(52,333)	(52,333)	(52,333)	(52,333)	(52,333)
Total stockholders' equity	48,280	48,253	42,997	43,766	43,897	44,841
Total liabilities and stockholders' equity	\$ 108,887	\$ 107,150	\$ 102,591	\$ 98,705	\$ 93,358	\$ 90,312

Exhibit A
 Page 147

FIRST ALLIANCE CORPORATION

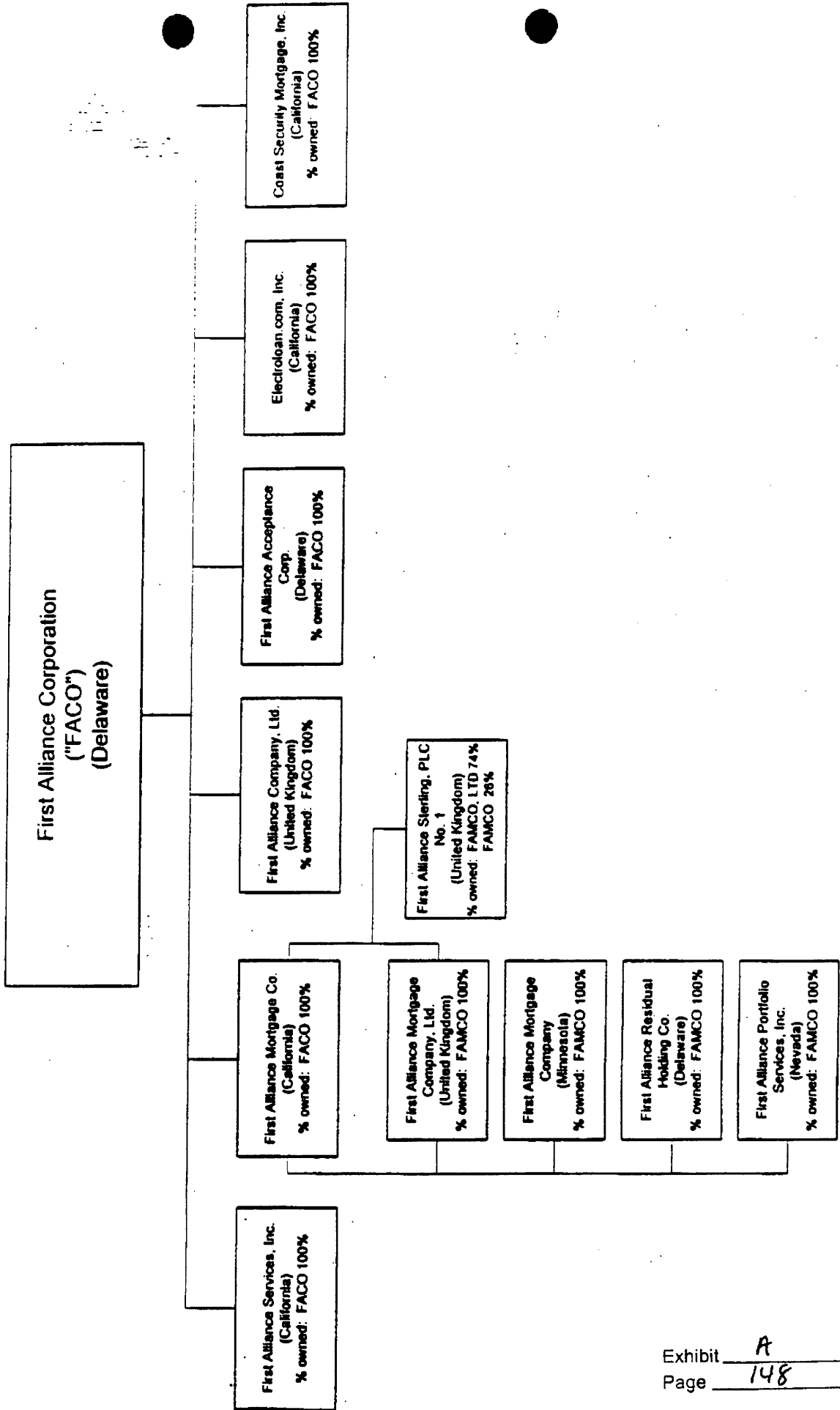


Exhibit "D"

Net Assets Available for Liquidation

Asset	Approximate Net Realizable Value as of March 31, 2002 (unless otherwise specified)
Cash and cash equivalents (not including capital contribution to be made by Brian Chisick on the Effective Date)	\$33,400,000
Restricted cash	\$3,340,000
Residual Interest Certificates	\$21,094,000
Real and Personal Property	\$1,335,000
Loan servicing rights	Unknown
Loans receivable	\$8,015,000
Prepaid expenses and other assets	\$716,000
Potential income tax refunds	Unknown ¹
Domain Names	Nominal or no value
Trademarks	Nominal or no value
Claims to insurance proceeds	Unknown
TOTAL:	\$67,900,000

¹ The potential recovery on income tax refund requests is up to approximately \$10 million, but the estimated recovery is uncertain, and may be substantially less than this amount.

LEGAL SUMMARY G/L VS 8K

Month	Name	A		B		C		D		E		F		G	8K Report
		Prior Month	Accrual	Paid	Against Accrual	Paid	Expense	Total Paid	Total Paid (B+C)	Accrual Expense	Total Expense (C+E)	Adjustments	YTD Accrual (A+B+E)		
Legal Professional Fees															
	Holt & Manella	-	11,863,788.20	-	733,579.22	12,597,347.42	13,947,374.15	14,680,953.37	745,950.09	2,083,605.95	-	100,000.00	61,739.24	100,000.00	FAMCO
	Daehnke & Cruz (1)	-	1,437,184.40	-	23,824.04	1,461,108.44	791,234.31	815,158.35	745,950.09	100,000.00	-	100,000.00	61,739.24	100,000.00	FAMCO
	Klein, Tuchin, Bogdanoff (2)	-	680,717.72	-	21,507.92	702,225.64	742,456.96	763,964.88	(843,669.84)	50,000.00	-	50,000.00	-	50,000.00	FAMCO-MN
	Other Attorney Fees	-	448,739.73	-	215,384.66	662,104.39	1,340,409.57	1,555,774.23	(843,669.84)	50,000.00	-	50,000.00	-	50,000.00	
	Doas (4)	-	13,348.02	-	(5,384.43)	7,963.59	1,714,143.99	(5,384.43)	13,348.02	-	-	-	-	-	
	Pachulski, Stang, Ziehl, Young	-	1,391,097.55	-	448,085.05	1,840,182.55	2,163,238.99	2,163,238.99	58,383.20	323,046.44	-	75,000.00	-	323,046.44	
	Luce, Forward, Hamilton & (3)	-	58,383.20	-	28,429.98	86,823.18	895,769.37	787,336.80	422,644.86	-	-	100,000.00	-	100,000.00	
	Collier, Shannon, Scott PLLC	-	620,788.37	-	27,304.53	712,338.80	322,644.86	422,644.86	-	-	-	-	-	-	
	Brown, Rudnick, Freed & Gesmer	-	295,340.33	-	(5,592.59)	(5,592.59)	-	-	-	-	-	-	-	-	
	Loan Servicing Fees	-	-	-	28,834.12	28,834.12	-	28,834.12	-	-	-	-	-	-	
	Coast	-	-	-	-	-	-	-	-	-	-	-	-	-	
	Crossroads (5)	-	25,978.53	-	-	25,978.53	-	-	25,978.53	-	-	-	-	-	
	Subtotal	-	16,813,338.05	-	1,000,650.68	18,439,986.71	19,828,727.68	21,233,378.34	-	2,793,391.63	-	16,000.00	-	2,793,391.63	
Other Professional Fees															
	Pricewaterhouse	-	711,875.00	-	68,125.00	780,000.00	781,875.00	850,000.00	-	70,000.00	-	-	-	70,000.00	
	Crossroads (5)	-	285,643.47	-	2,115.30	287,758.77	285,643.47	287,758.77	-	-	-	-	-	-	
	Dan Pearl (6)	-	30,000.00	-	-	30,000.00	30,000.00	30,000.00	-	-	-	-	-	-	
	Loan Servicing Fees	-	-	-	5,592.59	5,592.59	-	5,592.59	-	-	-	-	-	-	
	Coast	-	-	-	(28,834.12)	(28,834.12)	-	(28,834.12)	-	-	-	-	-	-	
	Doas (4)	-	-	-	27,747.00	27,747.00	-	27,747.00	-	-	-	-	-	-	
	Daehnke & Cruz	-	(100,000.00)	-	-	(100,000.00)	(100,000.00)	(100,000.00)	-	-	-	-	-	-	
	US Trustee Prog Pmt	-	-	-	14,750.00	14,750.00	-	14,750.00	-	-	-	-	-	-	
	Bolar, Hirsch & Jennings	-	-	-	-	-	18,000.00	18,000.00	-	-	-	-	-	-	
	Total	-	17,740,854.52	-	1,698,148.43	19,439,000.95	20,826,348.15	22,318,392.58	-	2,878,391.63	-	16,000.00	-	2,878,391.63	

(1) Does not include retainer for \$50,000 & \$100,000 pre-petition payment - total \$150,000
 (2) Does not include retainer for \$75,948
 (3) Does not include retainer for \$10,000
 (4) Reported as both Legal Professional Fees and Other Professional Fees
 (5) Reported as both Legal Professional Fees and Other Professional Fees
 (6) Reimbursed 7/28/00 against a different account

Priority Tax Claims

P O C #	NAME OF CLAIMANT	D I S T R I B U T E D	A M O U N T	S C A M E D E B E N E F I T
2733	ALAMEDA COUNTY TAX COLLECTOR	11/07/00	\$161.73	
1320	BROWARD COUNTY, DEPT OF FINANCE	07/18/00	\$939.88	
660	CALIFORNIA FRANCHISE TAX BOARD	06/26/00	\$78,870.60	
283	CITY & COUNTY OF DENVER/TREASURY	03/20/00	\$371.44	
349	DEPARTMENT OF LABOR & INDUSTRIES	06/05/00	\$168.10	
489	LOS ANGELES COUNTY TAX COLLECTOR	06/16/00	\$94.48	
2542	NEW JERSEY STATE TREASURER	08/23/00	\$2,059.00	
305	SALT LAKE COUNTY	03/20/00	\$83.58	
156	SAN DIEGO COUNTY TREASURY COL	04/22/00	\$146.87	
1319	STATE BOARD OF EQUALIZATION	07/18/00	\$1,548.06	
293	STATE OF FLORIDA, DEPT OF REVENUE	05/31/00	\$1,050.00	
2627	UPPER MERION TOWNSHIP	09/06/00	\$330.00	
511	NEW YORK CITY DEPT OF FINANCE	08/16/00	\$4,180.00	
335	ARIZONA DEPT OF REVENUE	06/02/00	\$15,584.00	
326	ORANGE COUNTY TREASURER TAX COL	06/01/00	\$34,014.01	
323	STATE OF NEW JERSEY	03/24/00	\$4,000.00	
98	UTAH STATE TAX COMMISSION	05/16/00	\$18,000.00	
348	VIRGINIA DEPT OF TAXATION	04/05/00	\$25.00	
	CALIFORNIA DEPARTMENT OF CORPORATION			\$84.47
	CLERK OF CIRCUIT COURT - PRINCE GEORGE COUNTY			\$22.00
	COMMONWEALTH OF MASSACHUSETTS			\$3,956.00
	COUNTY OF LOS ANGELES TREASURER			\$49.85
	COUNTY OF ORANGE			\$535.36
	DEPARTMENT OF CORPORATION			\$1,978.59
	DEPARTMENT OF CORPORATION			\$2,070.74
	FLORIDA DEPARTMENT OF REVENUE			\$1,000.00
	FLORIDA DEPARTMENT OF STATE			\$150.00
	FLORIDA DEPARTMENT OF STATE			\$8.75

Priority Tax Claims

P O C #	NAME OF CLAIMANT	D I S T R I B U T E D	C L A I M A M T	S C A M E S I D A M T
	GEORGIA INCOME TAX DIVISION			\$1,000.00
	GEORGIA SECRETARY OF STATE			\$15.00
	ILLINOIS DEPARTMENT OF REVENUE			\$16,000.00
	MINNESOTA DEPARTMENT OF REVENUE			\$13,000.00
	NEW YORK STATE CORPORATION TAX			\$3,500.00
	NYC DEPARTMENT OF FINANCE			\$2,500.00
	OHIO DIVISION OF FINANCIAL			\$1,750.00
	OREGON DEPARTMENT OF REVENUE			\$10.00
	PA DEPARTMENT OF REVENUE			\$2,413.00
	STATE DEPARTMENT OF ASSESSMENT			\$8,200.00
	TREASURER, STATE OF NEW JERSEY			\$2,350.00
	SALT LAKE COUNTY TREASURER			\$10.00
	SANTA CLARA COUNTY RECORDERS OFFICE			\$9.00
	STATE OF NEW JERSEY - DEPT OF LABOR			\$201.44
	STATE OF OHIO			\$34,891.20
	STATE OF UTAH			\$18,000.00
	R WAYNE WATTS - TAX COLLECTOR/TREASURER			\$4,035.17

Exhibit A
Page 152

Priority Non-Tax Claims

P O C #	NAME OF CLAIMANT	C A M T O A U M T	...
237	ACCARDI, TRACY A	\$738.46	
729	ALTMOLTZ, EVAN	\$2,790.00	
138	ARNDT, JEFFREY	\$380.00	
595	BARBAROV, ALAN	\$220.00	
419	BENNETT, JASON	\$100.00	
1075	BLESHERSKI, SCOTT	\$15,266.72	
6	CANO, ANDREW G	\$10,000.00	
145	CLARK, SHERRIE	\$70.00	
135	DEMIZIO, CARL A	\$2,200.00	
193	DUNBAR, DUSTIN	\$9,980.00	
3	ELLIOTT, BRENT K	\$18,700.00	
356	FLANNERY, KEVIN	\$1,075.21	
87	GERTZ, MATTHIAS M.	\$1,722.98	
1275	GRAVINA, RICHARD	\$1,250.22	
79	HAMMER, MARK	\$550.00	
1128	HOBSON, KELLY	\$15,000.00	
54	KIPNIS, DENISE R	\$6,000.00	
468	LANGOWSKI, TUD	\$498.46	
1125	LUDRON, LISA A	\$90.00	
336	MENTON, MODELINE	\$4,394.00	
238	MILLSTONE, GLENN	\$360.00	
582	NIEBERLING, CHARLES	\$1,187.70	
7	SPRONK, DAVID D	\$43,500.00	
143	SUMNERLIN, MLL	\$35.00	
189	TEMES, TONY C	\$2,074.00	
56	THOMAS, TAMER R	\$70.00	
910	TREHO, MICHAELS	\$17,844.98	
1106	WELLS, JONATHAN	\$240.00	
	ARNOLD, LAURA	\$70.00	
	ARNOLD, RICHARDO	\$1,193.90	
	BARBUZZA, RAFAEL	\$340.00	
	BASTIANI, SAI AII	\$200.00	
	CAMPBELL'S ADMINISTRATION, INC	\$1,000.00	
	CAPRO, RICHARD	\$300.00	
	CLARK, WEST EDANE	\$3,004.70	

Priority Non-Tax Claims

P O C #	NAME OF CLAIMANT	C M A L D I N T	1 2 3 4 5 6 7 8 9 0 .
	DAVIS, CHRISTOPHER		\$320 00
	DELAGADO, HENRY		\$832 02
	FIRST CHOICE HEALTHPLANS		\$346 60
	HALL, MELISSA		\$285 00
	JAZWINSKI, WILLIAM		\$120 00
	KATA, CARLA		\$105 00
	LA PATRIELLO, JOHN		\$220 00
	LEE, TERIAN		\$340 00
	LEVY, JOSHUA		\$60 00
	MC DONALD, DAVID		\$300 00
	MENDOZA, CARLOS		\$415 44
	PANASTAVROU, STAVROS		\$250 00
	PETERSON, CHRIS		\$275 00
	PUPO, DOMENICO		\$258 08
	RECARTE, NORMAN		\$320 00
	REEDY, STEVE		\$120 00
	ROBISON, JEFF		\$140 00
	RODRIGUEZ JR, NELLO		\$553 84
	RODATE, STEVEN		\$160 00
	ROSA, LEONARD		\$100 00
	RUANE, MICHAEL		\$168 00
	SCHETTINO, LEE		\$870 82
	SILAGY, JOSEPH		\$290 00
	SULLIVAN, JERMANIE THE UNITED STATES LIFE INSURANCE COMPANY		\$160 00
	THOMAS, JAMES		\$2,118 25
	WRIGHT, ROSEMARIE		\$60 00
	YBARRA, ANITA		\$250 00
			\$55 00

Other Unsecured Claims

P O C #	NAME OF CLAIMANT	D E B T D E D	A M O U N T	...
1230	ACXION INFOBASE	07/03/00	\$21,096.28	
388	ADMINISTRATIVE SERVICES CO-OP	06/08/00	\$451.86	
529	ADVANCED RESOURCE COMPUTER SYSTEMS	06/20/00	\$15,000.00	
530	ADVANCED RESOURCE COMPUTER SYSTEMS	06/20/00	\$15,000.00	
148	ADVISECOM CONSULTING SERVICES	01/19/00	\$1,825.00	
76	AFFILIATED APPRAISERS, INC.	05/16/00	\$410.00	
109	AFFINITY CORPORATION	05/17/00	\$510.00	
131	AFFINITY CORPORATION	05/17/00	\$510.00	
696	ALABAMA CORPORATE CREDIT UNION	06/27/00	\$0.00	
280	ALAMEDA COUNTY TAX COLLECTOR	05/30/00	\$255.10	
1296	ALL AIRE LIQUORSHES INC.	07/13/00	\$1,450.80	
684	ALLEN CORP SUPPLY CO INC	06/27/00	\$199.24	
1164	ALLEN CORP SUPPLY CO INC	07/05/00	\$199.24	
1378	ALLEN CORPORATION SUPPLY	07/26/00	\$0.00	
57	AMERICAN EXPRESS TRAVEL RELATED	05/02/00	\$19,245.90	
515	AMERICAN STOCK TRANSFER TRUST CO	06/20/00	\$2,675.00	
708	AMERICAN TITLE COMPANY	06/27/00	\$89,643.26	
2667	AMERICAN TITLE COMPANY	09/19/00	\$72,201.09	
493	ANG NEWSPAPER	06/16/00	\$154.32	
210	ANG NEWSPAPERS	03/22/00	\$154.32	
321	APPRAISAL EXPRESS SERVICES	06/02/00	\$2,230.00	
385	APPRAISAL MANAGEMENT SERVICES OF AMERICA	06/07/00	\$2,095.00	
476	APPRAISAL PROFESSIONALS INC	06/15/00	\$900.00	
512	ARAMARK	06/16/00	\$390.23	
735	ARAMARK REFRESHMENT	06/26/00	\$734.50	
223	ARAMARK REFRESHMENT SVC	03/24/00	\$390.23	
140	ARNOLD, JEFFREY		\$380.00	
146	ARNOLD, JEFFREY		\$280.00	
1679	ASHLEY, VIRGINIA	08/07/00	\$4,626.31	
628	ASSOCIATED GROUP	06/26/00	\$2,016.32	
692	ASSOCIATED SERVICES	06/26/00	\$476.06	
526	ASSOCIATED SERVICES CO	06/20/00	\$476.06	

Other Unsecured Claims

P O C #	NAME OF CLAIMANT	D E B T D E D T E 	A M O U N T	...
527	ASSOCIATED SERVICES CO	06/30/00	\$353 44	
528	ASSOCIATED SERVICES CO	06/30/00	\$323 36	
671	AT&T WIRELESS SERVICES, INC	06/23/00	\$232 45	
1094	ATM CORPORATION OF AMERICA	07/05/00	\$6,507 00	
506	BAKER & HOSTETLER	06/19/00	\$62,112 79	
96	BANQUE PAT	05/15/00	\$935 00	
220	BANQUE PAT	05/14/00	\$935 20	
920	BANK OF NEW YORK, AS TRUSTEE	07/03/00	\$0 00	
704	BELL ATLANTIC	06/27/00	\$1,597 99	
902	BELL ATLANTIC	07/03/00	\$946 85	
1283	BELL ATLANTIC, NJ	07/11/00	\$919 15	
2691	BELLSOUTH	09/22/00	\$424 91	
2692	BELLSOUTH	09/22/00	\$1,550 71	
420	BENNETT, JASON		\$100 00	
681	BEYOND INTERACTIVE	06/27/00	\$159,553 94	
706	BEYOND INTERACTIVE	06/27/00	\$159,553 94	
596	BML DRIVING COMPANY, INC	06/01/00	\$12,000 00	
2580	BLACK MOUNTAIN SPRING WATER	08/23/00	\$46 50	
1444	BLOOMBERG LP CO WALKIE FARR	07/28/00	\$18,731 23	
72	BLOOMFIELD TAXI & LIMO	05/12/00	\$1,961 40	
12	BOISE CASCADE OFFICE PRODUCTS	04/04/00	\$7,028 41	
1324	BOISE CASCADE OFFICE PRODUCTS	07/20/00	\$7,028 41	
1564	BOISE CASCADE OFFICE PRODUCTS	08/01/00	\$7,028 41	
550	BOLAR HIRSCH JENNINGS	06/21/00	\$20,789 50	
788	BOLLONG, BRUCE		\$0 00	
1755	BOND, LEE	04/09/00	\$0 00	
2655	BOOKER, JACK - ESTATE OF	09/18/00	\$2,493 52	
1329	BRISLIN, BRYANT		\$500 00	
374	BROWN, RUDOWNIK, FRED & GESMER	06/07/00	\$87,434 71	
1848	BUCKMASTER FAMILY TRUST	08/14/00	\$35,750 88	
761	BUTLER, MERRILL		\$2,375 00	
1548	CANDLE METRO BUSINESS SYSTEMS	08/01/00	\$1,775 84	
1152	CAPITAL CITY HOME LOANS, INC	07/03/00	\$0 00	
84	CARMENTA TRUCK CENTER	05/11/00	\$0 00	

Other Unsecured Claims

P O C #	NAME OF CLAIMANT	D I A L E D	C A M L O T E M T	...
2682	CARSON, MAIDA B	09/19/00	\$21,532.73	
423	CASCADE CABLANCE	06/13/00	\$732.00	
93	CASCADE COFFEE	05/15/00	\$313.09	
478	CB MID AMERICA, INC	06/15/00	\$48,285.96	
393	CDW COMPUTER CENTERS, INC	06/09/00	\$115.58	
202	CENTRAL PARKING SYSTEM	05/22/00	\$2,307.00	
1168	CERTILMAN, BALIN, ADLER & HYMAN	07/03/00	\$15,306.11	
877	CERTILMAN, BALIN, ADLER & HYMAN	06/30/00	\$15,306.11	
1089	CHAPMAN & CUTLER	07/03/00	\$35,593.08	
766	CHASE MANHATTAN BANK	06/29/00	\$0.00	
767	CHASE MANHATTAN BANK	06/29/00	\$0.00	
768	CHASE MANHATTAN BANK	06/29/00	\$0.00	
769	CHASE MANHATTAN BANK	06/29/00	\$0.00	
770	CHASE MANHATTAN BANK	06/29/00	\$0.00	
771	CHASE MANHATTAN BANK	06/29/00	\$0.00	
772	CHASE MANHATTAN BANK	06/29/00	\$0.00	
773	CHASE MANHATTAN BANK	06/29/00	\$0.00	
774	CHASE MANHATTAN BANK	06/29/00	\$0.00	
775	CHASE MANHATTAN BANK	06/29/00	\$0.00	
776	CHASE MANHATTAN BANK	06/29/00	\$0.00	
777	CHASE MANHATTAN BANK	06/29/00	\$0.00	
778	CHASE MANHATTAN BANK	06/29/00	\$0.00	
779	CHASE MANHATTAN BANK	06/29/00	\$0.00	
780	CHASE MANHATTAN BANK	06/29/00	\$0.00	
781	CHASE MANHATTAN BANK	06/29/00	\$0.00	
782	CHASE MANHATTAN BANK	06/29/00	\$0.00	
809	CHICAGO TITLE INSURANCE CO	06/28/00	\$184.00	
1134	CHIPIAN CORPORATION	07/03/00	\$10,532.00	
739	CHISICK, BRIAN		\$5,394.03	
740	CHISICK, BRIAN		\$2,494.54	
741	CHISICK, BRIAN		\$593.44	
742	CHISICK, BRIAN		\$7,872.99	
743	CHISICK, BRIAN		\$5,246.09	

Other Unsecured Claims

P O C #	NAME OF CLAIMANT	D E B T D E D	A M O U N T	...
744	CHISCK, BRIAN		\$232,082.00	
745	CHISCK, BRIAN		\$193.00	
749	CHISCK, BRIAN		\$310.91	
750	CHISCK, BRIAN		\$533.00	
789	CHISCK, BRIAN		\$0.00	
792	CHISCK, BRIAN		\$381.95	
878	CHISCK, BRIAN		\$2,000.00	
879	CHISCK, BRIAN		\$2,000.00	
880	CHISCK, BRIAN		\$2,000.00	
1177	CHISCK, BRIAN		\$79.33	
1178	CHISCK, BRIAN		\$2,000.00	
1179	CHISCK, BRIAN		\$2,000.00	
266	CHISCK, MARK		\$900,000.00	
790	CHISCK, SARAH		\$0.00	
2701	CFINANCIAL/TRAVELERS	09/29/00	\$16,006.38	
1541	CLEAN SOURCE, INC	08/01/00	\$755.79	
1213	CMDC	07/06/00	\$797.50	
273	CMS COMMUNICATIONS	05/30/00	\$507.50	
90	COAST TO COAST NOTARIES	05/12/00	\$2,075.00	
345	COAST TO COAST PAPER EQUIPMENT	06/05/00	\$6,634.02	
107	COASTAL BUILDING SERVICES	05/17/00	\$2,850.00	
132	COASTAL BUILDING SERVICES	05/17/00	\$2,850.00	
543	COASTAL BUILDING SERVICES	06/19/00	\$2,850.00	
569	COASTAL BUILDING SERVICES	06/22/00	\$2,850.00	
387	COFFEE BREAK SERVICES	06/08/00	\$35.28	
363	COFFEE LOVERS COFFEE SERVICE	06/06/00	\$188.00	
895	COHN, GOLDBERG & DEUTSCH	07/03/00	\$4,008.56	
2750	COHN, GOLDBERG & DEUTSCH	08/23/00	\$470.00	
2600	COHN, GOLDBERG & DEUTSCH, LLC	08/23/00	\$470.00	
2758	COHN, GOLDBERG & DEUTSCH, LLC	08/23/00	\$470.00	
1095	COLUMBIUS NEWPORT	07/05/00	\$30,454.55	
959	COMERCIA BANK, CALIFORNIA	07/03/00	\$251,969.14	
1159	COMERCIA BANK, CALIFORNIA	07/03/00	\$251,969.14	

Other Unsecured Claims

P O C #	NAME OF CLAIMANT	D E B T D E D	A M O U N T	...
2620	COMTECH SERVICES, INC	09/01/00	\$3,751.55	
1561	CONGELLIERE, ELLEN &	06/01/00	\$12,616.47	
709	CONNECTIONS	06/28/00	\$2,909.25	
296	COPELCO CAPITAL, INC	05/31/00	\$30,742.93	
2554	CORNISH, ERNEST J	08/17/00	\$8,357.40	
2603	CORNISH, ERNEST J	08/23/00	\$8,357.40	
887	COUDERT BROTHERS	06/30/00	\$19,850.71	
2015	COURTNEY, HOWARD P	08/15/00	\$5,414.00	
1239	COURTNEY, NATHANIEL & MARY	07/05/00	\$28,375.00	
78	CPS PARKING	05/16/00	\$0.00	
470	CPS PARKING	06/15/00	\$1,974.00	
756	GRANBROOK REALTY INVESTMENT FUND LP	06/29/00	\$9,505.32	
1536	CREIGHTON, CHARLES W	08/02/00	\$6,482.12	
262	CUSTOM COFFEE PLAN	05/20/00	\$369.13	
274	CUSTOM COFFEE PLAN	05/30/00	\$413.63	
277	CUSTOM COFFEE PLAN	05/20/00	\$483.75	
598	CUSTOM COFFEE PLAN	06/22/00	\$369.13	
599	CUSTOM COFFEE PLAN	06/22/00	\$391.31	
668	DAEHNKE & CRUZ	06/26/00	\$338,720.00	
2689	DAEHNKE & CRUZ	09/22/00	\$338,720.00	
1544	DAKIN, VERNA	08/01/00	\$0.00	
541	DALCO FINANCIAL SERVICES, PENSION & PROFIT SHING TR	06/20/00	\$23,575.51	
329	DARLINGTON APPRAISALS, INC	06/02/00	\$2,300.00	
50	DAVIS, ALISON S		\$6,600.00	
173	DE REMER, DONNA		\$2,798.25	
604	DEARLOGLASS CO, INC	06/22/00	\$0.00	
149	DIRECT LIST TECHNOLOGY INC	05/19/00	\$71,259.33	
674	DOERNER & GOLDBERG, INC	06/23/00	\$1,156.00	
292	DOLLAR BENT A GAR SYSTEMS, INC	05/30/00	\$5,637.00	
411	DOK, HOWARD & ELAINE	06/14/00	\$24,272.56	
978	DUBMAN, BEATRICE	07/03/00	\$80,923.69	
1671	DUFAY, ALFRED	08/02/00	\$14,268.09	
1674	DUFAY, DARRYL J	08/02/00	\$44,615.82	

Other Unsecured Claims

P O C #	NAME OF CLAIMANT	D I S T R I B U T E D	A M O U N T	...
757	DIKE-WEEKS REALTY LIMITED PARTNERSHIP	06/7900	\$39,213.68	
303	EDISON EXPRESS	06/01/00	\$1,055.00	
177	ELGIN AREA ASSOC OF REALTORS	05/22/00	\$354.00	
695	EMPIRE CORPORATE FCU	06/27/00	\$15,659.04	
822	EMPLOYERS INSURANCE OF WAUSAU	06/20/00	\$2,000.00	
300	ENGEL APPRAISALS	05/31/00	\$700.00	
106	EXTREAM DATA, INC	05/16/00	\$8,057.51	
2021	FALLIN, JACK F	08/15/00	\$0.00	
59	FARNSWORTH, CHARLES / MEDIATOR IN GLOSKEY	05/15/00	\$1,050.00	
158	FEDERAL EXPRESS CORP	05/22/00	\$35,464.73	
216	FEDERAL EXPRESS CORPORATION	05/22/00	\$35,464.73	
1631	FEDERMAN & PHELAN	02/04/00	\$9,950.70	
1537	FELYNOR, FLORENCE M	08/01/00	\$3,054.97	
246	FIDELITY FEDERAL BANK, F S B	05/26/00	\$2,400,000.00	
247	FIDELITY LEASING, INC	05/26/00	\$68,678.76	
256	FIDELITY LEASING, INC	05/26/00	\$73,090.23	
257	FIDELITY LEASING, INC	05/26/00	\$73,090.23	
810	FIDELITY NATIONAL TITLE INSURANCE CO	06/28/00	\$624.00	
1906	FIGUEROA/FIRST ALLIANCE MTDI CORP	08/14/00	\$0.00	
2700	FIGUEROA, MARY ANN		\$10,000.00	
898	FIRST UNION NATIONAL BANK	07/03/00	\$5,454.41	
752	FISHER & FISHER	06/29/00	\$17,333.40	
355	FLANNERY, KEVIN		\$1,141.56	
232	FORRESTER, LEE & SUSAN	05/25/00	\$5,418.07	
228	FORSYTHE APPRAISALS INC	05/25/00	\$300.00	
235	FORSYTHE APPRAISALS INC	05/25/00	\$300.00	
1018	FRED HERZON & ASSOCIATES	06/26/00	\$283.00	
644	FRED HERZON & ASSOCIATES (APPRAIASERS)	06/26/00	\$283.00	
2486	FRIEDMAN, HOWARD N	08/15/00	\$0.00	
1524	FRISTOE, NEIDA J	07/31/00	\$12,030.23	
738	GANDT, ESTATE OF RICHARD L	06/28/00	\$62,000.00	
171	GAUDIN, LOU	05/22/00	\$70.00	

Other Unsecured Claims

P O C #	NAME OF CLAIMANT	D I S T R I B U T E D	C A L L O U D I N G M T	...
2648	(881) DISTRIBUTING, INC.	09/16/00	\$651.89	
297	GEE, YIM F & ELIZABETH L.	03/31/00	\$15,557.12	
507	GLAUCOE CROCKETT BEINDCKER	04/19/00	\$586.86	
128	GIBSON, MERNA	03/18/00	\$0.00	
82	GIBSON, MERNA L.	03/11/00	\$40,635.48	
667	GLOVSKY, STEVEN		\$0.00	
911	GLOVSKY, STEVEN		\$2,000,000.00	
308	GOLDEN STATE PAPER COMPANY	03/30/00	\$1,476.59	
1591	GOLDSTEIN TRUST	08/02/00	\$0.00	
291	GOLDSTEIN, STEWART		\$9,500.00	
1407	GOLLAHER, BLANCHE O.	07/27/00	\$0.00	
186	GOOTER, CHRISTOPHER J.		\$2,500.00	
298	GRAINGER	04/31/00	\$562.99	
2602	GRAMMAS, BONNIE	08/23/00	\$4,774.94	
1633	GRAMMAS, BONNIE L.	08/04/00	\$9,325.07	
350	GRAYNA, RICHARD		\$0.00	
795	GREENBURGH TAXI	04/29/00	\$1,168.55	
341	GRIBBS, HOWARD & MARIAN	06/05/00	\$7,015.24	
1225	GUIDESTAR, INC.	07/03/00	\$21,977.04	
1754	GUNN, RUTH	08/09/00	\$0.00	
2520	GRIV, BETTY	08/21/00	\$41,156.46	
1495	HAGEMAN, RAY C & IRENE	07/31/00	\$2,779.24	
2566	HAGEMAN, RAY C & IRENE	08/21/00	\$5,556.18	
1494	HAGEMAN, RAY C & IRENE C	07/31/00	\$5,556.18	
933	HALBERT, MICHAEL P.	07/03/00	\$50,760.00	
242	HANKIN & COMPANY	05/16/00	\$6,968.00	
81	HARTE-HANKS SHOPPERS	05/11/00	\$0.00	
2284	HARTFORD FIRE INSURANCE CO.	08/14/00	\$459.09	
185	HASSETT AIR EXPRESS	03/24/00	\$14,204.23	
224	HASSETT AIR EXPRESS	09/24/00	\$14,204.23	
1214	HAYGOOD, RON & SHELBY	07/06/00	\$82.72	
1523	HEBER, REGINALD GARY	07/23/00	\$10,310.19	
1560	HEBER, REGINALD GARY	08/01/00	\$10,310.19	
2660	HILLES, PATRICIA A.	09/18/00	\$13,713.39	

Other Unsecured Claims

P O C #	NAME OF CLAIMANT	D E B T I T E M	A M O U N T	...
190	HINCHY, WITTE, WOOD, ANDERSON & HODGES	05/24/00	\$605 00	
653	HOWARD, RICE, NEMEROVSKI, CANADY, FALE & RABKIN	06/26/00	\$52 40	
751	HUDSON, MARIAL		\$0 00	
231	HUTCHINGS COURT REPORTERS	05/23/00	\$531 10	
230	HUTCHINGS COURT REPORTERS LLC	05/23/00	\$531 10	
413	IDEAL SOLUTIONS	06/14/00	\$7,463 85	
275	INFORMATION NETWORK	05/19/00	\$1,865 00	
153	INFOTEL, INC	05/22/00	\$413 40	
205	INFOTEL, INC	05/22/00	\$413 40	
155	INMAN NEWS FEATURES	05/22/00	\$1,050 00	
204	INMAN NEWS FEATURES	05/22/00	\$1,050 00	
890	INTERCALL	06/19/00	\$80 00	
1251	IRON MOUNTAIN, INC	07/07/00	\$762 40	
1137	IRP MULLER COMPANY	07/05/00	\$177,458 40	
2640	JEROME MARGUERITE B	09/12/00	\$0 00	
603	JONES, JACK N	06/23/00	\$66,499 68	
748	KAABR, FAEZ		\$124,992 00	
5	KARMOUTA, AHMAD JAMAL		\$59,000 00	
992	KASLE, DONALD H		\$2,375 00	
1227	KESAL, YOUNG & LODAN	06/03/00	\$59,521 59	
91	KINCAID, CONNIE	05/15/00	\$2,160 00	
1	KOROGHILL, NEISSAN		\$14,590 00	
2624	KREBS, RUSSELL A	09/07/00	\$23,871 90	
591	L A OFFICE SUPPLY CO	06/22/00	\$619 17	
94	L A OFFICE SUPPLY CO	05/15/00	\$619 17	
104	LASER FORMS, INC	05/16/00	\$196 00	
2203	LAWRENCE, DAVID	08/16/00	\$1,456 27	
80	LENDERS SURVEY SERVICES	05/11/00	\$2,980 00	
1190	LENNER, SAMPSON & ROTHUSS	07/06/00	\$2,304 00	
2745	LENNER, SAMPSON & ROTHUSS	01/30/01	\$2,304 00	
793	LENDER, SUSAN		\$71,512 00	
874	LLOYDS OF LONDON UNDERWRITING MEMBERS	06/20/00	\$350,000 00	
875	LLOYDS OF LONDON UNDERWRITING MEMBERS	06/20/00	\$300,000 00	

Other Unsecured Claims

P O C #	NAME OF CLAIMANT	D I S T R I B	A M O U N T	...
271	LONDON BOROUGH OF BARKING & DAGENHAM	03/31/00	\$0.00	
542	LOS ANGELES TIMES	06/20/00	\$8,211.95	
917	MACEY, WLENSKY, COHEN, WITNER & KESSLER	07/03/00	\$1,014.00	
181	MANAGEMENT ACTION PROGRAMS, INC.	05/24/00	\$750.00	
225	MANAGEMENT ACTION PROGRAMS, INC.	05/24/00	\$750.00	
424	MANDERFIELD APPRAISAL GRP INC	06/13/00	\$0.00	
426	MANDERFIELD APPRAISAL GRP INC	06/13/00	\$3,350.00	
1136	MARSH RISK & INSURANCE SERVICES	07/05/00	\$40,202.00	
1100	MARTIN ESQ. SHAUN P	07/05/00	\$86,735.00	
1438	MARTINEZ, JOSE L & CLARA S	07/28/00	\$9,800.00	
1562	MARTINEZ, JOSE L & CLARA S	06/01/00	\$9,800.00	
166	MARVIN R BALUM, P.C.	05/22/00	\$8,750.00	
467	MASON, MARK K		\$0.00	
625	MASSACHUSETTS MUTUAL LIFE INS CO	06/22/00	\$29,454.72	
1542	MAZZO, BIONDO	06/01/00	\$5,133.15	
871	MIBA INSURANCE COMPANY	06/30/00	\$0.00	
2637	MIBNA AMERICA (SUCCESSOR TO MARYLAND BANK)	09/12/00	\$335.74	
2638	MIBNA AMERICA (SUCCESSOR TO MARYLAND BANK)	09/12/00	\$1,130.19	
2639	MIBNA AMERICA (SUCCESSOR TO MARYLAND BANK)	09/12/00	\$351.35	
226	MICCALLA, RAYNER, PADRICK, COBB	05/23/00	\$0.00	
243	MICCALLA, RAYNER, PADRICK, COBB	05/23/00	\$2,028.28	
714	MCI TELECOMMUNICATIONS	06/28/00	\$223,397.51	
2527	MELLON LEASING CORP	08/21/00	\$1,438.73	
585	MENTOR, MODELINE		\$4,304.00	
642	MENTOR, MODELINE		\$4,304.00	
1610	MICALE, GLORIA C	08/02/00	\$0.00	
344	MICRONOMICS	06/05/00	\$20,188.19	
1589	MILES, GAIL D & LYNDIA M	08/02/00	\$0.00	
294	MINNOTTA BUSINESS SOLUTIONS	05/31/00	\$20,663.32	
1002	MINUTEMAN PRESS	07/03/00	\$5,789.17	
245	MS DATA SERVICE CORP	05/26/00	\$106.35	
255	MS DATA SERVICE CORP	05/26/00	\$106.35	

Other Unsecured Claims

P O C #	NAME OF CLAIMANT	D E B T D A T E	A M O U N T	...
817	MSI MASTER SOFTWARE	06/30/00	\$891.35	
410	N.L. SREWAK PROFIT SHARING PLAN	06/14/00	\$21,859.51	
882	NATIONAL DEFAULT SERVING CORP	06/30/00	\$75.00	
248	NATIONAL FIRE INS CO OF PITTS, PA & NH FIRE INS CO	05/26/00	\$0.00	
325	NATIONAL UNION FIRE INS CO OF PITTS & NH INS CO	05/26/00	\$0.00	
313	NATIONWIDE APPRAISAL SERVICES	05/20/00	\$473.40	
477	NATIONWIDE GOVERNMENTS OF ARIZONA	06/15/00	\$91.43	
212	NAUGHTON APPRAISALS	05/22/00	\$3,000.00	
747	NEBOT, FRANCISCO		\$1,876,200.00	
791	NEBOT, FRANCISCO		\$0.00	
856	NIEBLING, CHARLES C		\$0.00	
276	NO CLAIM RECEIVED FROM COURT	NO DATE	\$0.00	
691	NO CLAIM RECEIVED FROM COURT		\$0.00	
783	NORWEST BANK MINNESOTA, NATL ASSOC	06/29/00	\$41,876,236.48	
784	NORWEST BANK MINNESOTA, NATL ASSOC	06/29/00	\$46,406,378.66	
785	NORWEST BANK MINNESOTA, NATL ASSOC	06/29/00	\$105,801,597.01	
786	NORWEST BANK MINNESOTA, NATL ASSOC	06/29/00	\$37,306,453.55	
787	NORWEST BANK MINNESOTA, NATL ASSOC	06/29/00	\$56,787,502.39	
813	NORWEST BANK MINNESOTA, NATL ASSOC	06/29/00	\$0.00	
814	NORWEST BANK MINNESOTA, NATL ASSOC	06/29/00	\$0.00	
815	NORWEST BANK MINNESOTA, NATL ASSOC	06/29/00	\$12,621.00	
816	NORWEST BANK MINNESOTA, NATL ASSOC	06/29/00	\$2,236.46	
8	NOT A FIRST ALLIANCE CLAIM (ENTERED IN ERROR BY COURT)		\$0.00	
9	NOT A FIRST ALLIANCE CLAIM (ENTERED IN ERROR BY COURT)		\$0.00	
10	NOT A FIRST ALLIANCE CLAIM (ENTERED IN ERROR BY COURT)		\$0.00	
11	NOT A FIRST ALLIANCE CLAIM (ENTERED IN ERROR BY COURT)		\$0.00	
1271	NOVA SURVEYORS, INC	07/11/00	\$410.00	
2664	NISSBAUM, JOSEPH A OR ANNE R	09/18/00	\$13,740.92	
2610	HYDEN, MATTHEW	08/28/00	\$350.00	
163	HYE APPRAISAL CORP	05/19/00	\$500.00	

Other Unsecured Claims

P O C #	NAME OF CLAIMANT	D E B T D A T E	C A L L A U N D M T	A M O U N T	P R I O R I T Y
414	O'KEEFE, MILWAED G	06/14/00		\$1,200.00	
368	O MAHONY, BRENDAN			\$344.89	
141	OF SERVICE WAREHOUSE	05/19/00		\$2,186.30	
142	OF SERVICE WAREHOUSE INC	05/19/00		\$2,186.30	
386	ONOTOS, PHILIP			\$2,181.85	
549	ONOTOS, PHILIP			\$2,181.85	
607	ONOTOS, PHILIP			\$2,181.85	
971	OSTROFF, TED			\$13,732.69	
1055	OSTROFF, TED			\$13,732.69	
398	PACIFIC BELL	06/12/00		\$1.00	
2742	PACIFIC BELL	01/08/01		\$26,789.86	
279	PAEENET	03/30/00		\$453.05	
652	PANELLO LAW OFFICES	06/26/00		\$4,084.26	
2599	PANELLO, JOSEPH M., PA. LAW OFFICES OF	08/24/00		\$3,459.20	
2757	PANELLO, JOSEPH M., PA. LAW OFFICES OF	03/15/01		\$3,134.20	
362	PANELLO, JOSEPH M., PA. LAW OFFICES OF	06/06/00		\$4,439.00	
531	PAMELEE, WILLIAM & MARY	06/20/00		\$15,041.15	
342	PAYMENT TECHNOLOGIES, INC	06/05/00		\$1,231.78	
417	PENNSYLVANIA BAR ASSOCIATION	06/13/00		\$47.35	
322	PERKINS COLE LLP	06/02/00		\$11,085.97	
1293	PEPISA, ANGELA V	07/12/00		\$23,698.00	
1317	PEPISA, ANGELA V	07/12/00		\$23,698.00	
1139	PETERSON, CHRIS A	07/05/00		\$1,050.00	
1163	PHEVA	07/05/00		\$0.00	
677	PILLSBURY, MADISON, SUTRO LLP	06/21/00		\$1,339.90	
2631	PTNEY BOWES CREDIT CORPORATION	09/12/00		\$200.00	
718	POLK, SCHERER & PROBER	06/27/00		\$0.00	
715	PR NEWSWIRE	06/28/00		\$884.50	
1420	PR NEWSWIRE	07/24/00		\$593.00	
1250	PROFIT RECOVERY PARTNERS	07/05/00		\$7,455.00	
548	PROFIT RECOVERY PARTNERS, LLC	06/21/00		\$7,455.00	
670	PURE WATER CORPORATION	06/23/00		\$55.41	
554	PWC ASSOCIATES	06/21/00		\$42,716.18	

Other Unsecured Claims

P O C #	NAME OF CLAIMANT	D I S T R I B U T E D	A M O U N T	...
555	PWC ASSOCIATES	06/21/00	\$42,716.18	
2696	QUALITY OFFICE MACHINES	09/25/00	\$0.00	
1220	QUALITY POSTING PUBLISHING	07/06/00	\$11,978.94	
505	QUIK KUP COFFEE SERVICE	06/19/00	\$277.94	
496	QUINN EMANUEL URQUHART	06/16/00	\$54,349.41	
200	RADIO CAB	03/22/00	\$48.42	
427	RADIO CAB COMPANY	06/13/00	\$48.42	
213	RAGAN, WILLIAM B	03/22/00	\$3,828.00	
310	RAFTS, VASILI		\$2,000.00	
311	RAFTS, VASILI		\$24,240.00	
312	RAFTS, VASILI		\$2,479.57	
206	RAY, PAUL	03/22/00	\$0.00	
183	REED SMITH SHAW & MCCLELLY LLP	03/23/00	\$10,011.97	
272	REED SMITH SHAW & MCCLELLY LLP	03/23/00	\$10,011.97	
126	RELIABLE SWEPPING SERVICE	03/18/00	\$150.00	
284	RELIANCE INSURANCE CO OF ILLINOIS	03/26/00	\$149,701.13	
285	RELIANCE INSURANCE CO OF ILLINOIS	03/26/00	\$149,701.13	
125	RESPONSE ENVELOPE	03/18/00	\$9,435.04	
111	RESPONSE ENVELOPE INC	03/18/00	\$9,435.04	
194	REYNOLDS, MARK		\$100,000.00	
722	RODDYBUSH, WAYNE L	06/28/00	\$0.00	
1175	RODDYBUSH, WAYNE L	07/05/00	\$0.00	
552	S & L PROPERTIES MGMT	06/21/00	\$3,398.50	
819	SAFECO INSURANCE COMPANY OF AMERICA	06/20/00	\$1,210,000.00	
820	SAFECO INSURANCE COMPANY OF AMERICA	06/20/00	\$1,210,000.00	
821	SAFECO INSURANCE COMPANY OF AMERICA	06/20/00	\$1,210,000.00	
152	SABLE, WILLIAM H	03/22/00	\$0.00	
175	SABLE, WILLIAM H	03/22/00	\$0.00	
2709	SCHIEFFER, LIZA & GILLIAN BRAND	10/06/00	\$0.00	
2702	SCHIEFFER, LIZA & GILLIAN BRAND	09/29/00	\$0.00	
2703	SCHIEFFER, LIZA & GILLIAN BRAND	09/29/00	\$0.00	
2704	SCHIEFFER, LIZA & GILLIAN BRAND	09/29/00	\$0.00	
2705	SCHIEFFER, LIZA & GILLIAN BRAND	09/29/00	\$1,107.15	

Other Unsecured Claims

P O C #	NAME OF CLAIMANT	D E B T E D	A M O U N T	1 2 3 4 5 6 7 8 9 10 11 12
2706	SCHIEFFER, LIZA & GILLIAN BRAND	09/29/00	\$3,569.84	
2708	SCHIEFFER, LIZA & GILLIAN BRAND	10/06/00	\$0.00	
2710	SCHIEFFER, LIZA & GILLIAN BRAND	10/06/00	\$0.00	
647	SERCHUK ZELEBYEYER LLP	06/26/00	\$3,997.23	
103	SERV A CUP OFFICE COFFEE	05/16/00	\$0.00	
136	SERV A CUP OFFICE COFFEE	05/19/00	\$6,661.50	
4	SIAMBAZIAN, BURU		\$45,000.00	
127	SHEAKLEY UNSERVICE	05/18/00	\$650.00	
110	SHEAKLEY UNSERVICE, INC.	05/18/00	\$650.00	
520	SIERRA SPRINGS BREWED HOT COFFEE	06/20/00	\$190.05	
830	SKADDEN, ARPS, SLATE, MEAGHER & FLOM	06/30/00	\$0.00	
746	SMITH, JEFFREY		\$1,627,500.00	
881	SMITH, JEFFREY		\$0.00	
2519	SMITH, PAT		\$0.00	
77	SPELLING PERSONNEL SERVICES	05/16/00	\$163.20	
178	SPELLING PERSONNEL SERVICES	05/22/00	\$7,129.34	
179	SPELLING PERSONNEL SERVICES	05/22/00	\$234.90	
180	SPELLING PERSONNEL SERVICES	05/22/00	\$176.25	
278	SPELLING PERSONNEL SERVICES	05/30/00	\$163.20	
53	SOUTHERN CALIFORNIA EDISON CO.	04/20/00	\$10,468.55	
465	SOUTHERN CALIFORNIA GAS CO.	06/13/00	\$765.97	
2695	SPECTRUM HUMAN RESOURCE SYSTEMS CORP.	09/23/00	\$9,317.59	
2556	STAPLES BUSINESS ADVANTAGE	08/22/00	\$0.00	
288	STEVENSON, DAN		\$2,100.00	
86	STONES PROTECTIVE ASSN	05/12/00	\$342.00	
807	SULLIVAN, PATRICIA		\$0.00	
1318	SUNGARD RECOVERY SERVICES	07/19/00	\$127,938.00	
1549	SUNGARD RECOVERY SERVICES	08/01/00	\$0.00	
716	T D SERVICE CO	06/28/00	\$5,336.15	
105	TEAM APPRAISALS, INC.	05/16/00	\$1,800.00	
259	TEMES, ANTHONY		\$2,072.86	
260	TEMES, TONY		\$0.00	
589	TEMES, TONY		\$2,072.00	

Other Unsecured Claims

P O C #	NAME OF CLAIMANT	D I S T R I B U T E D	C L A I M A M T	...
381	TENSION ENVELOPE	06/07/00	\$33,814.33	
572	TERRY, DONALD		\$18,000.00	
253	THE ORANGE COUNTY REGISTER	05/26/00	\$1,811.15	
164	THE TRANSPORTATION NETWORK	05/22/00	\$91.60	
165	THOMAS, JAMIE R		\$0.00	
240	TOSHIBA AMERICA BUSINESS SOLUTIONS	05/13/00	\$2,577.27	
1323	TRICOR AMERICA	07/20/00	\$22,943.62	
606	TROXEL, JAMES A OWENLUN	06/21/00	\$39,934.02	
170	TRW REID PROPERTY DATA	05/22/00	\$19,855.99	
222	TUNNER, DAVID W. & IRENE M.	05/24/00	\$17,531.46	
547	TWOMEY LATHAM SHEA	06/21/00	\$548.45	
196	TYPE TECH, INC	05/12/00	\$0.00	
516	TYPE TECH, INC	06/20/00	\$753.14	
1023	U.I.N.E. INC	07/03/00	\$43.10	
553	UNION 76 OIL COMPANY U	06/21/00	\$763.32	
1904	UNITED PARCEL SERVICE	08/14/00	\$3,797.54	
916	V.L. SYSTEMS	07/03/00	\$4,919.71	
2734	VERNO	11/14/00	\$1,250.00	
137	VERNO INC	05/19/00	\$1,250.00	
2740	VERIZON CALIFORNIA	12/14/00	\$939.99	
2741	VERIZON CALIFORNIA	12/14/00	\$939.33	
2665	VERMEERSCH, GERALDINE - ESTATE OF	09/18/00	\$4,286.91	
251	VITAL, ROSE		\$8,000.00	
567	VITAL, ROSE G		\$8,000.00	
2	VONCARL, WILLIAM		\$27,200.00	
151	VONCARL, WILLIAM		\$20,000.00	
58	WASHINGTON MUTUAL	03/03/00	\$95,124.36	
1590	WASSERMAN, LOUIS & SYLVIA	08/02/00	\$4,096.03	
188	WEST GROUP	03/24/00	\$421.63	
562	WHITE & WILLIAMS LAW OFFICES	06/22/00	\$1,606.29	
600	WHITE, DOROTHY P OR	06/22/00	\$10,000.00	
754	WIKI VENTURA, LLC	06/29/00	\$30,040.60	
1256	WILLIAM A BROUQUIN, PC	07/06/00	\$2,312.07	

Other Unsecured Claims

P O C #	NAME OF CLAIMANT	D I S T R I B U T I O N D A T E	A M O U N T	...
290	WILSON SOMSINI GOODRICH & ROSATI	07/30/00	\$18,217.24	...
1098	WOLF & RICHARDS, A LAW FIRM	07/05/00	\$4,523.75	...
2759	WOLF & RICHARDS, A LAW FIRM	07/05/00	\$4,523.75	...
2619	WOODRUFF, LLOYD BOOTH	08/31/00	\$3,860.11	...
561	WORKFLOW DIRECT	06/22/00	\$62,345.12	...
894	WRC PROPERTIES	07/03/00	\$43,841.68	...
95	ZAVIS, NANCY		\$7,560.00	...
1698	ZLOGAR, JAMES M	08/07/00	\$0.00	...
	A COLLINS BROWN & LINDA BROWN		\$50.00	...
	A JAMAL KAHMOUTA		\$235.00	...
	AAA YELLOW CAB		\$294.45	...
	ADELSON, OKLDEN, LONIA		\$1,012.98	...
	ADP LA PALMA		\$897.53	...
	ADP, INC.		\$669.38	...
	AIRBORNE EXPRESS		\$376.30	...
	AIRBORNE EXPRESS		\$281.91	...
	ALAMEDA COUNTY RECORDER		\$9.00	...
	ALTEC PRINTING		\$517.48	...
	ALVINA PROUYE		\$85.70	...
	AMERICAN BINDER SERV		\$25.39	...
	AMERICAN CHANGE SERVICE		\$1,205.15	...
	AMERITECH		\$722.54	...
	AMPCO SYSTEM PARKING		\$220.00	...
	ANDREW CANO		\$221.04	...
	ANNELLA & NYREE SCHILD		\$4,000.00	...
	ARCIS DATA SECURITY		\$742.40	...
	ARROWHEAD MOUNTAIN SPRING WATER		\$110.70	...
	ASHORTH PACIFIC, INC.		\$560.00	...
	ASSOCIATED APPRAISAL SERVICE		\$375.00	...
	ATLANTIC MORTGAGE & INVESTMENT CORP.		\$12.50	...
	ATTORNEY & NOTARY SUPPLY OF WASHINGTON		\$34.75	...
	ATTORNEY'S TITLE GUARANTY		\$118.00	...
	BANKERS APPRAISAL GROUP		\$550.00	...

Other Unsecured Claims

P O C #	NAME OF CLAIMANT	D I L I T E F D	C M L O A U N T	A M O U N T
	BARONE & SONS, INC			\$50 00
	BARWOOD, INC.			\$967 49
	BERNAN			\$68 00
	BIRNBAUM, UMEIDA & ALCALA LLP			\$6,600 00
	BNC MORTGAGE			\$0 13
	BOCK & CLARK, LTD			\$350 00
	BOLAN, HIRSCH & JENNINO LLP			\$20,789 50
	BOYER COFFEE COMPANY, INC			\$99 66
	BRENDAN OMAHONY			\$703 75
	BRENDAN OMAHONY			\$12 14
	BRENT ELLIOTT			\$499 96
	BRIAN CHRISCK			\$22,379 71
	BROWN RUDNICK FRIED & OESWER			\$14,169 03
	C T E SYSTEM, INC			\$3,069 59
	CALIFORNIA DEPT OF REAL ESTATE			\$163 00
	CANE MAY COUNTY RECORDER			\$18 00
	CCCS OF MARYLAND & DELAWARE			\$10 00
	CENTERSIDE ASSOCIATES, L.P.			\$3,472 23
	CERTIFIED APPRAISALS, INC			\$7,203 08
	CHASE MANHATTAN MORTGAGE CORP			\$20 00
	CHRISTOPHER J ODOTOS			\$44 55
	CITY OF PORTLAND, OREGON			\$60 00
	CLASSIC COFFEE SYSTEMS, LTD			\$713 75
	COAST TO COAST BUS EQUIP INC.			\$2,693 56
	COAST TO COAST OFFICE ESSENTIALS, INC			\$79 75
	COODINA NEAL ESTATE MANAGEMENT			\$100 70
	COFFEE AMBASSADOR			\$119 85
	COFFEE AMBASSADOR			\$303 46
	COLLINS COMPUTING, INC			\$11,988 75
	COMED			\$312 28
	COMMONWEALTH LAND TITLE			\$76 00
	CONNIE KINCAID			\$12,260 00
	CONSOLIDATED MULTIPLE LISTING SERVICE			\$50 00

Other Unsecured Claims

P O C #	NAME OF CLAIMANT	D E B T O R	C R E D I T O R	A M O U N T
	CONTRA COSTS COUNTY RECORDER			\$9.00
	COOK COUNTY RECORDER'S OFFICE			\$27.50
	COPYCO			\$344.50
	COSTCO WHOLESALE			\$1,073.11
	CONDARBT BROTHERS			\$6,496.13
	CRYSTAL SPRINGS			\$93.18
	CULLIGAN WATER CONDITIONING			\$75.90
	DAN STEVENSON			\$2,375.00
	DANIEL PERL			\$2,375.00
	DATA COMM WAREHOUSE			\$263.44
	DAVE SPROLL			\$773.00
	DAVID R. FLABELLA			\$275.00
	DELA WANE COUNTY RECORDER			\$23.00
	DENVER YELLOW CAB DEPARTMENT OF LABOR AND INDUSTRIES			\$128.60
	DEPOSITION TRUST COMPANY			\$164.10
	DIANE DENNEY			\$640.00
	DIANNE ARNEAL			\$34.23
	DIVERSIFIED MAINTENANCE SERVICES			\$213.96
	DOCUMENT SYSTEMS, INC			\$5,318.19
	DOMENICK PUPO			\$260.00
	DOM KASLE			\$33.77
	DUSTIN DUNBAR			\$1,375.00
	EAST BAY APPRAISAL SERVICES			\$22.12
	EAST BAY APPRAISAL SERVICES			\$450.00
	EAST BAY APPRAISAL SERVICES			\$600.00
	EDWIN A. ROACH, SRA			\$300.00
	EIS SERVICE CORPORATION			\$2,138.30
	EMERALD MORTGAGE ASSISTANCE			\$35,715.92
	EXPERIAN			\$3,543.71
	EXPRESS FINANCIAL SERVICES			\$29.00
	EXPRESS FINANCIAL SERVICES, INC			\$836.23
	FIDELITY FEDERAL BANK			\$34.00
	FIDELITY NATIONAL CREDIT SERVICES			\$1,337.80

Other Unsecured Claims

P O C #	NAME OF CLAIMANT	D I L I T E D	C M L O A U T M T	\$ A M O U N T
	FIDELITY NATIONAL CREDIT SERVICES			\$4,128.35
	FIDELITY NATIONAL TAX SERVICE			\$194.00
	FIDELITY NATIONAL TAX SERVICES			\$246.00
	FIDELITY NATIONAL TITLE			\$50.00
	FIDELITY NATIONAL TITLE			\$8.45
	FIDELITY NATIONAL TITLE			\$50.00
	FIRST ALLIANCE MORTGAGE			\$117.50
	FIRST ALLIANCE MORTGAGE CO			\$10,000.00
	FIRST ALLIANCE MORTGAGE LOAN SVC TRUST			\$8.00
	FIRST AMERICAN EQUITY LOAN SERVICES			\$10.00
	FIRST AMERICAN REAL ESTATE SOLUTIONS			\$11,318.63
	FIRST AMERICAN TITLE & ESCROW TRUST			\$23.85
	FIRST CHOICE			\$1,092.00
	FIRST CHOICE HEALTH PLAN			\$246.60
	FIRST TITLE CORPORATION			\$75.00
	FRANK H. ADAMS ENTERPRISES			\$11.17
	GATEWAY LAKE PRO/PONWEST FINANCIAL			\$22.99
	GETSMART.COM			\$4,348.00
	GIBBONS & CONLEY			\$1,628.00
	GLOVER & ASSOCIATES, INC.			\$200.00
	GREGORY S. WOODS			\$50.00
	GTE CALIFORNIA			\$1,047.77
	HANSEN QUALITY LOAN SERVICES			\$10,375.00
	HARVEY KALLER & CAREN KALLER			\$4,178.73
	HAUPPAUGE, NY BRANCH			\$45,007.80
	HINCHY WITTE WOOD ANDERSON & HODG			\$462.50
	HINCKLEY SPRINGS			\$99.46
	HITT MARKING DEVICES, INC.			\$75.14
	HOME DEPOT			\$280.84
	HOWARD RICE NEMEROVSKI CANADY HUDSON COUNTY MULTIPLE LISTING SERVICE			\$52.40
				\$18.70

Other Unsecured Claims

P O C #	NAME OF CLAIMANT	D I S T R I B U T I O N	C M L O A U N T	A M O U N T
	HUNTERDON COUNTY RECORDERS OFFICE			\$18.00
	10 CONCENTS			\$275.00
	HMPAC FUNDING CORP			\$150.00
	INA LIFE INSURANCE COMPANY NEW YORK			\$190.68
	INSTASHRED SECURITY SERVICES			\$200.00
	INTERNATIONAL BUSINESS DIRECTORIES			\$224.00
	IRVINE RANCH WATER DISTRICT			\$234.60
	IRVINE SCI-TECH BOOKS			\$114.41
	JAY BARR ADVERTISING INC.			\$5,747.63
	JEAN A. PATRICK/RED SWAN SERVICES			\$700.00
	JEFFREY PHILLIPS			\$20.99
	JIM THOMAS			\$29.71
	JIMMY'S CAB COMPANY			\$793.30
	JMO SECURITY			\$394.00
	JOHN SCHNIER			\$32.83
	JORGE GOMEZ			\$919.00
	JOSE A. VIDAL & ORALLA VIDAL			\$260.00
	JOSEPHINE COUNTY TITLE CO			\$15.80
	JUDICATE WEST			\$8,190.00
	KEESAL, YOUNG & LOGAN			\$79,637.33
	KELLY HODSON			\$481.08
	KEVIN G. FLANNERY			\$633.74
	KING COUNTY RECORDER			\$106.00
	L.A. CHECKER CAB CO., INC			\$648.90
	LAKEVIEW FLOWERS & GIFTS			\$491.99
	LAKEVIEW FLOWERS & GIFTS			\$447.30
	LANE GUIDE			\$83.00
	LAW OFFICES OF HOWARD RICE			\$33.40
	LAW OFFICES OF JOSEPH M. PANIELLO			\$623.00
	LENDERS INTERACTIVE ONLINE NETWORK			\$4,030.00
	LENS EXPRESS			\$80.00
	LEONARD APPRAISALS			\$100.00

Other Unsecured Claims

P O C #	NAME OF CLAIMANT	P A I D	A M O U N T	...
	LEXIS DOCUMENT SERVICES			\$47.00
	LEXIS DOCUMENT SERVICES			\$67.00
	LOS ANGELES COUNTY RECORDER			\$45.00
	LUCILLE L. JAMES			\$350.00
	LINDBERG & ASSOC			\$12.00
	MAC WAREHOUSE			\$199.80
	MACEY, WILBENSKY, COHEN, WITTNER			\$932.00
	MAIN STREET TITLE			\$26.00
	MAN, RABBIT, ROUSE MULTIMEDIA, INC.			\$920.00
	MARIA AMAADOR BAEZ			\$177.20
	MARICOPA COUNTY RECORDERS			\$9.00
	MARION L. SHEPHERD			\$235.63
	MARX E. LABERDA & CECILIA LABERDA			\$4,000.00
	MARK HAMMER			\$275.00
	MARKETRY, INC.			\$2,009.42
	MAX J. PIERRE & ELVINE PIERRE			\$911.42
	MBA			\$700.00
	MBA INSURANCE CORP.			\$10,150.00
	MCCARTHY & HOLTHUIS			\$100.00
	MCI WORLDWIDE			\$20,335.64
	MEDALING			\$150.00
	MERIDIAN ESCROW INC.			\$15.60
	MERRILL BUTLER			\$2,375.00
	MICHAEL KANUKA			\$6.40
	MICHAEL T. SMITH & L. APPRAISALS			\$600.00
	MICRO WAREHOUSE			\$452.20
	MICROTECH SOLUTIONS			\$237.03
	MIDDLESEX COUNTY MULTIPLE LISTING			\$20.00
	MIDDLESEX COUNTY RECORDERS			\$31.50
	MONTGOMERY COUNTY			\$10.00
	MOODY'S INVESTOR SERVICE			\$1,000.00
	MULTIPLE LISTING SERVICE			\$500.00
	NATIONAL FLOOD INSURANCE			\$954.00

Other Unsecured Claims

P O C #	NAME OF CLAIMANT	D I A L E D	C A L I F O R N I A	AMOUNT
	NATIONAL NOTARY ASSOCIATION			\$118.44
	NATIONAL SCANTAL MORTGAGE			\$4,000.00
	NAUGHTON APPRAISALS			\$120.00
	NAUGHTON APPRAISALS			\$120.00
	NORWEST FINANCIAL CENTER			\$20.00
	OAKBROOK, BL BRANCH			\$48,283.96
	OCCABA			\$45.00
	OLD REPUBLIC TITLE			\$65.00
	OLSTEN STAFFING			\$122.72
	OPPENHEIMER			\$6,339.90
	ORANGE COUNTY CLERK RECORDER			\$14.25
	ORANGE COUNTY RECORDER			\$18.00
	ORANGE COURIER			\$200.40
	ORANGE, CA BRANCH			\$28,454.72
	PACER SERVICE CENTER			\$51.40
	PACIFIC ADMAI			\$11,366.35
	PACIFIC ADMAI			\$7,256.54
	PACIFIC BELL WIRELESS			\$55.42
	PACIFIC NORTHWEST TITLE			\$108.40
	PACIFIC NORTHWEST TITLE			\$59.45
	PACIFICADRE OF OREGON			\$484.99
	PACIFIC WEST ASSOC. OF REALTORS			\$269.00
	PARAMOUNT VENDING			\$36.02
	PAT SMITH			\$994.00
	PATYECI			\$1,231.78
	PDL, INC			\$82.40
	PHILIP OMOTIS			\$1,586.83
	PIERCE COUNTY RECORDER			\$10.00
	PRESENT PARTNERS			\$1,131.38
	PRESENT PARTNERS			\$123.66
	PRESTIGE TITLE			\$29.50
	PRICE WATERHOUSE COOPENS			\$4,000.00
	PRIBIS, INC			\$225.00
	PRISCILLA DE LEON			\$195.00

Exhibit A
Page 175

Other Unsecured Claims

P O C #	NAME OF CLAIMANT	D I A L E T E F D	C M A L O A U N T I	\$ A M O U N T \$
	PROFESSIONAL IN HUMAN RESOURCES			\$113 00
	PROFORMA			\$177 49
	PUBLICCASE			\$260 00
	PRIME FLO			\$46 77
	QUICKSTART TECHNOLOGIES, INC			\$1,275 00
	QUINN EMANUEL URQUHART OLIVER			\$596 37
	R. OLIVER APPRAISALS			\$189 50
	R. A. S. APPRAISAL SERVICES, INC.			\$200 00
	REED SMITH SHAW & MCCLAY			\$775 00
	REGIONAL TRUSTEE SERVICE CORP			\$9,114 66
	RHODIE FISHER			\$53 00
	RICHWALL & ASSOCIATES			\$400 00
	RICHWALL & ASSOCIATES			\$250 00
	RICOH			\$250 00
	RICOH BUSINESS SYSTEM			\$353 58
	ROBERT J. MINTY			\$181 02
	ROSE O. VITAL			\$354 00
	RPC APPRAISAL GROUP			\$1,441 66
	SALT LAKE BOARD OF REALTORS			\$598 00
	SAN JOSE, CA BRANCH			\$90 00
	SAN MATEO COUNTY RECORDER			\$52,760 00
	SCOTT ANSMAN, SGT US ARMY			\$9 00
	SCOTT BLESZENSKI			\$5 00
	SCOTT MAHON APPRAISAL SERVICE			\$12 45
	SENCHUK & ZELERMYER			\$400 00
	SERRAPARCO'S SIGN SYSTEMS, INC.			\$1,909 25
	SERVICE & GUARANTY TITLE			\$72 99
	SHADOW MOUNTAIN SPRING WATER			\$15 00
	SHEPARD, MITLIN, RICHTER &			\$12 23
	SHAMPTON			\$10,426 99
	SHEPARD, MITLIN, RICHTER &			\$5,921 36
	SIGNITUS			\$219 10

Other Unsecured Claims

P O C #	NAME OF CLAIMANT	D I L I B	C M L O A U T E N T	\$ A M O U N T
	SILVER SPRING, MID BRANCH			\$2,650.59
	SKADDEN, ARPS, SLATE SKADDEN, ARPS, SLATE, MEACHER & FLOM			\$1,025.00 \$117,978.00
	SHOHOMISH COUNTY			\$9.00
	SOCIETY OF HUMAN RESOURCES			\$160.00
	SONOMA COUNTY RECORDER			\$10.00
	SPARKLETT/SMCKESSON WATER			\$210.84
	STANDARD & POOR'S			\$2,390.00
	STEVEN LEE HULSE			\$125.00
	STEVEN KOGATE			\$160.00
	STEVEN KOGATE			\$40.00
	STICKELMAN & ASSOC			\$235.00
	SUFFOLK COUNTY CLERK			\$32.00
	SUNBURT ANALYST INC.			\$2,220.23
	SUNRISE APPRAISALS, INC.			\$250.00
	SUPERIOR GREAT LAKES			\$138.40
	SUPERIOR INFORMATION SERVICES			\$179.50
	SURESHED			\$150.00
	TEBBAN LEE			\$80.00
	THE CHASE MANHATTAN BANK			\$14,990.86
	THE CHASE MANHATTAN BANK			\$343.34
	THE DEPOSITORY TRUST COMPANY			\$25.00
	THE ESTATE OF CASBAH KERSTEN			\$25.00
	THE NEW YORK TIMBER			\$41.30
	THE WILLIAM CRAIG COMPANY, INC.			\$400.00
	THEODORE BAKER			\$350.00
	THIETA HOLDING COMPANY LP			\$113.17
	THIETA HOLDING COMPANY, LP			\$143.48
	THOMAS & SANDRA STINSON			\$45.00
	THOMAS COLE EDWARDS			\$412.02
	TIME WARNER COMMUNICATION			\$36.79
	TONY TEMES			\$164.80
	TOSH & ASSOCIATES			\$600.00

Other Unsecured Claims

P O C #	NAME OF CLAIMANT	D I A L I S E D	A M L O U N T	...
	TOSH & ASSOCIATES			\$300.00
	TOTAL TRAINING NETWORK			\$1,610.86
	TOWNSHIP OF BLOOMFIELDWATER DEPT			\$818.52
	TRACY, ACCARDI			\$3,099.35
	TRANSAMERICA INTELLITECH			\$1,785.16
	TRANS-BOX SYSTEMS, INC.			\$209.93
	TRANSGATION TITLE			\$96.00
	TREND			\$341.00
	TRISTAR MARKETING COMPANY			\$28,866.43
	TRUZECHMAN			\$21.00
	U S OFFICE PRODUCTS			\$136.91
	U S WEST COMMUNICATION			\$2,963.01
	UFAC			\$28.00
	UNITED STATES LIFE INSURANCE			\$2,110.25
	UNITED TITLE COMPANY TRUSTEE			\$7.00
	UNITED TITLE COMPANY TRG DIVISION			\$607.00
	UNITED VAN LINES			\$2,415.82
	UNIVERSAL LASER			\$103.10
	UNION LIFE INSURANCE COMPANY OF AMERICA			\$78.14
	US WEST			\$647.04
	US WEST			\$347.79
	V J C APPRAISAL			\$375.00
	VASILI BAVTIS			\$2,375.57
	WALSH & SWENEY, LLP			\$10.00
	WASTE MANAGEMENT OF ORANGE COUNTY			\$344.19
	WEBSTER GROUP INTERNATIONAL, INC.			\$746.00

EXHIBIT "I"

LIQUIDATION ANALYSIS SUMMARY	
(Assuming Liquidation to Commence on March 31, 2002)	
ASSETS VALUED AT LIQUIDATION VALUE	
<u>Current Assets</u>	
Cash on hand	\$33,400,000
Restricted cash	<u>\$ 3,340,000</u>
Total Current Assets	\$36,740,000
<u>Other Assets</u>	
Residual Interest Certificates	\$21,094,000
Net loans receivable	\$ 8,015,000
Net real and personal property	\$ 1,335,000
Prepaid expenses	\$ 716,000
Est. tax refunds	\$ Unknown
Est. proceeds from sale of intellectual prop.	\$ - 0 -
Est. preference recoveries	<u>\$ unknown</u>
Total Other Assets	\$31,160,000
TOTAL ASSETS AT LIQUIDATION VALUE:	\$67,900,000
DISTRIBUTIONS TO SECURED, PRIORITY AND ADMINISTRATIVE CREDITORS	
(Under a hypothetical Chapter 7 liquidation)	
Less: Est. chapter 7 trustee's fees and expenses ¹	\$ 6,790,000
Est. unpaid chapter 11 administrative claims ²	\$ 6,100,000
Est. priority claims (excluding admin. claims)	<u>\$ 697,000</u>
Total	\$13,587,000
BALANCE AVAILABLE TO PAY UNSECURED CREDITORS:	\$54,313,000
TOTAL ESTIMATED AMOUNT OF UNSECURED CLAIMS:	\$224,000,000

¹ Chapter 7 Trustee's fees, including professionals are estimated at approximately 10% of the assets administered.

² Based on estimated chapter 11 administrative expenses as of September 18, 2002.

PAYOUT PERCENTAGE COMPARISON

	<u>Ch. 7</u>	<u>Ch. 11 Plan</u>
Administrative Expenses	100%	100%
Priority Tax Claims	100%	100%
Priority Claims	100%	100%
Class 1	100%	100%
Class 2	100%	100%
Class 3	100%	100%
Class 4	24%	24-28% ³
Class 5	24%	50-75%
Class 6	0%	0%
Class 7	0%	0%
Class 8	0%	0%
Class 9	0%	0%
Class 10	0%	0%

³ This figure is higher than in a chapter 7 case primarily because confirmation of the Plan will allow the Settlement Agreement to become effective.

SUMMARY DISCLOSURE STATEMENT AND PLAN
FOR FIRST ALLIANCE BORROWERS
AND
NOTICE OF CONFIRMATION HEARING AND DEADLINES

Purpose of the Summary Disclosure Statement

You have been identified as a current or former borrower of First Alliance Mortgage Company ("FAMCO"). You may have a claim against FAMCO and its related companies, now in bankruptcy in the Central District of California, Southern Division. The purpose of this Summary Disclosure Statement and Plan is to explain how your claim will be treated in the Plan of liquidation filed by the companies in the bankruptcy, so that you may decide whether to vote for or against the Plan. It will also advise you of the dates for a court hearing to approve the Plan (the "Confirmation Hearing") and other important deadlines.

This Summary Disclosure Statement and Plan is only an overview of the actual Disclosure Statement and Plan and does not describe all of the details. For complete details, you may view the entire Disclosure Statement, Plan, and Notice of Hearing on the FTC's web site at <http://www.ftc.gov/bcp/online/edcams/famco/index.html>, or you may obtain copies by mailing or faxing a written request to: Irell & Manella LLP, Attn: Patty Naegely, Paralegal, 840 Newport Center Drive, Suite 400, Newport Beach, California 92660; Fax: (949) 760-5200.

Voting Instructions, Important Dates and Deadlines

If you received this Summary Disclosure Statement and Plan, you may vote to accept or reject the Plan. If you do not vote, individual persons who filed class action lawsuits against FAMCO and its related companies may vote to accept the Plan on your behalf. All borrowers will be deemed to accept the Plan if the borrowers who vote to accept the Plan total more than 1/2 of the number of borrowers who timely vote and hold at least 2/3 of the dollar amount of the claims held by the borrowers who timely vote.

Specific instructions regarding the procedures and timing for voting are in your enclosed ballot. Carefully follow the deadlines and procedures in the ballot in order to ensure that your vote regarding the Plan is properly recorded. Your ballot will not be counted unless it is timely.

Deadline for Voting For or Against the Plan: Return your ballot to CPT Group, Inc., Attn: FAMCO Ballots, 16630 Aston Street, Irvine, California 92606. **YOUR BALLOT MUST ACTUALLY BE RECEIVED BY 4:00 P.M. (PACIFIC DAYLIGHT TIME) ON AUGUST 13, 2002, OR IT WILL NOT BE COUNTED.**

Hearing on Confirmation of the Plan: The Confirmation Hearing at which the Court will determine whether or not to confirm (approve) the Plan will take place on September 10, 2002, at 8:30 a.m., before the Honorable David O. Carter, in Courtroom 9D of the United States District Court, located at 411 West Fourth Street, Santa Ana, California 92701.

Deadline for Objecting to Confirmation of the Plan: If you object to the Plan, you must file your objection in writing with the Clerk of the Court, United States District Court for the Central District of California, Southern Division, 411 West Fourth Street, Santa Ana, CA 92701, and serve a copy of the objection upon all of the following persons not later than 4:00 p.m. (Pacific Daylight Time) on August 13, 2002: (a) Irell & Manella LLP, Attn: William N. Lobel, Esq., 840 Newport Center Drive, Suite 400, Newport Beach, California 92660; (b) Federal Trade Commission, Attn: Anne M. McCormick, Esq., 600 Pennsylvania Ave. N.W., Mail Drop 4429, Washington, D.C. 20580; (c) The Office of the United States Trustee, Attn: Arthur Marquis, Esq., 411 West Fourth Street, Suite 9041, Santa Ana, CA 92701-8000; (d) Klee, Tuchin, Bogdanoff & Stern LLP, Attn: David Stern, Esq., 1880 Century Park East, Suite 200, Los Angeles, CA 90067; **and** (e) Pachulski Stang Ziehl Young & Jones PC, Attn: Larry W. Gabriel, Esq., 10100 Santa Monica Blvd., Suite 1100, Los Angeles, CA 90067.

History of the First Alliance Companies and the Bankruptcy Filing

Before filing bankruptcy, FAMCO and its related companies were in the business of originating, purchasing, selling, and servicing home mortgage loans. The companies started business in the 1970s and offered both fixed and adjustable rate loans primarily secured by first mortgages on single-family residences through their retail branch operations in 18 states and the District of Columbia.

FAMCO and its affiliates First Alliance Corporation, a Delaware Corporation ("FACO"), First Alliance Mortgage Company, a Minnesota Corporation ("FAMCO-MN"), and First Alliance Portfolio Services ("FAPS") are together referred to herein as the "Debtors." FAMCO was the principal operating entity of the Debtors' lending business, with headquarters in Irvine, California. FAPS owns property related to or derived from FAMCO's lending operations. FAMCO-MN operated the lending business in Minnesota. FACO is a publicly held corporation and owns 100% of the stock of FAMCO. FAMCO owns 100% of the stock of FAPS and FAMCO-MN.

Beginning in the late 1990s, the loan origination fees came under increasing scrutiny in the political arena and the press. Legislation was introduced in California, the Debtors' primary place of business, which would limit origination fees that lenders could charge their borrowers to 3%. Several other states where the

Debtors did business enacted restrictions and caps on the fees a lender could assess for loans.

In addition, the Federal government, along with the Attorneys General of the States of Illinois, Florida, Arizona, Washington, and Massachusetts, began investigations of the Debtors' mortgage lending practices. Thereafter, several states, various individual borrowers, and certain interest groups commenced legal actions against the Debtors for allegedly unfair and deceptive lending practices. During 1999 and early 2000, the Debtors incurred substantial legal fees and expenses in defending these actions.

Because of general economic conditions, the increased regulatory scrutiny of the mortgage lending industry, and other reasons, the Debtors experienced a sharp drop in loan volume and earnings. In January and February 2000, the Debtors showed no profit and projected a loss for March 2000, and their economic future was bleak. As a result of the projected unprofitable business operations, negative publicity, and the increasing burden of defending numerous lawsuits, the Debtors decided to seek the protection of the Bankruptcy Court. The Debtors filed their Chapter 11 bankruptcy cases on March 23, 2000.

On April 10, 2000, the United States Trustee appointed a committee to represent creditors holding unsecured claims in the bankruptcy cases (the "Creditors' Committee"). In addition, on June 9, 2000, the United States Trustee appointed the Official Joint Borrowers' Committee (the "Borrowers' Committee") to represent the interests of borrowers in the Debtors' bankruptcy cases.

Borrower-Related Claims And Lawsuits Against the Debtors

Before and after the bankruptcy filing, the Federal Trade Commission (the "FTC"); the states of Arizona, California, Florida, Illinois, Massachusetts, and New York; AARP; the Borrowers' Committee, and various individual borrowers, including representative borrowers suing on behalf of a nationwide Class, (together, the "Plaintiffs"), filed lawsuits against the Debtors and others. The lawsuits seek money damages and other relief from FAMCO and certain of its affiliates, officers and employees (the "First Alliance Defendants") for violations of the Federal Trade Commission Act, the Truth in Lending Act, and various provisions of state law. Some of the Plaintiffs also seek relief from certain mortgage loan trusts that purchased mortgage loans originated by FAMCO.

In defense of these lawsuits, the First Alliance Defendants contend, among other things, that they followed the law, complied with all disclosure requirements, and disclosed all loan fees and terms both orally and in writings signed by the borrowers.

Settlement of Borrower-Related Claims and Lawsuits

On March 21, 2002, the Plaintiffs and the First Alliance Defendants submitted to the Court a proposed settlement of the lawsuits. The proposed settlement would create a fund from the Debtors' bankruptcy estates and other sources to return money to borrowers who obtained FAMCO loans between January 1, 1992 and March 23, 2000 (the "Class Members"). Complete details of the proposed settlement are contained in a Settlement Agreement (also called a Stipulation of Settlement) between the Plaintiffs and the First Alliance Defendants. The Settlement Agreement can be viewed on the FTC's web site at <http://www.ftc.gov/bcp/conline/edcams/famco/index.html>. Below is a summary of some of the terms and conditions of the proposed settlement.

The proposed settlement will create a fund of money that will be used for the benefit of the borrowers who have not requested exclusion from the settlement (the "Redress Fund"). The FTC will be in charge of the Redress Fund, which is expected to include the following sums:

A. Approximately \$55-\$60 million from the Debtors' bankruptcy estates, including \$20 million from Brian Chisick, the Chief Executive Officer of the Debtors, and his wife Sarah Chisick;

B. At least \$3 million from an insurance policy with Lloyd's of London held by the Debtors' officers, directors, and employees (subject to resolution of a pending lawsuit concerning the Lloyd's policy);

C. \$1 million from certain insurers on behalf of the trustees for the mortgage loan trusts that purchased loans originated by the Debtors; and

D. Possibly additional amounts from tax refunds and lawsuits relating to the Debtors, including the lawsuits against Lehman described below.

The proposed Settlement Agreement will only become effective if certain conditions are met and if it is approved by the Court. If the proposed Settlement Agreement is approved and becomes effective, the Court will enter a judgment releasing and discharging the First Alliance Defendants from all claims that were or could have been asserted by borrowers who have not requested exclusion from the settlement.

On April 24, 2002, the Court preliminarily approved the Settlement Agreement, certified the settlement class, and scheduled a hearing for September 9, 2002 on the fairness, reasonableness and adequacy of the Settlement Agreement. On May 15, 2002, the Court ordered that all borrowers who request exclusion from the proposed class must file proofs of claim by July 5, 2002 or their claims against the Debtors will be forever barred.

The FTC's Proposed Distribution of the Redress Fund

Prior to the date the Plan is confirmed, the FTC, with the input of the other Plaintiffs, will submit to the Court for review and approval a plan for the disbursement of the Redress Fund to the eligible borrowers participating in the settlement (the "Redress Plan"). Under the FTC's proposed Redress Plan, each eligible borrower who qualifies will be entitled to receive a refund in the full amount of the loan origination fees paid to the Debtors for each FAMCO loan. If the total refunds due to eligible borrowers for their loan origination fees exceed the amount in the Redress Fund, as is expected to occur, each eligible borrower who qualifies for a refund will be paid a percentage of the loan origination fee that is equal to the eligible borrower's proportional share of the Redress Fund. Joint borrowers will be entitled to only a single proportional distribution with respect to each loan. In addition, borrowers who previously settled claims against the Debtors, other than pursuant to the Settlement Agreement, may not qualify to receive any additional distributions from the Redress Fund and will not be entitled to receive any separate distribution from the Debtors.

For purposes of determining the aggregate available sum of monies to be distributed from the Redress Fund to the eligible borrowers, the proposed Redress Plan will provide that the following amounts will be paid from the Redress Fund and the balance distributed to the eligible borrowers: (a) any attorneys' fees and costs awarded by the Court to counsel for the Plaintiffs, save and except the fees and costs of the Borrowers' Committee, and/or the National Association of Attorneys General, which fees and costs will not exceed the lesser of \$15 million or twenty percent (20%) of the fund available for distribution to the eligible borrowers (before deducting such attorneys' fees and costs); (b) any payments awarded by the Court to certain individual Plaintiffs, either as representatives of all borrowers, representatives of the settlement class, or individuals instrumental in initiating lawsuits that are the subject of the Settlement Agreement, which payments may jointly exceed \$1 million, and (c) any payments to equity shareholders in an amount not to exceed \$3.25 million.

To the extent that funds remain in the Redress Fund after payments under the Redress Plan to the eligible borrowers participating in the settlement, the FTC, with input from other plaintiffs, may elect to make a subsequent distribution to these eligible borrowers or, if appropriate, may apply any remaining funds for such other equitable relief, including consumer education remedies. Any funds not used for such relief shall be paid to the United States Treasury.

Overview of the Plan of Liquidation

The Debtors' proposed Plan will implement the Settlement Agreement explained above and pay the claims of creditors. The Plan divides the claims against and interests in the Debtors into 10 numbered "classes," in addition to certain administrative and priority tax claims, and explains how the Debtors' assets will be distributed to creditors, in accordance with the priorities of the Bankruptcy Code and pursuant to the Settlement Agreement. **All borrower claims are included in Class 4, regardless of whether a particular borrower has requested exclusion from the settlement.**

The following is a summary of the classes of claims and interests established by the Plan, and the estimated distributions to holders of claims under the Plan.

Summary of Payments to Creditors

<i>Class #</i>	<i>Description of Class</i>	<i>Amount to be Paid</i>	<i>Estimated Amount of Allowed Claims</i>	<i>Estimated Distribution Under Plan</i>
Priority Claims				
N/A	Administrative Expenses	Unpaid portion of Allowed Claims paid in full in cash on the effective date of the Plan or as soon thereafter as practical	\$25.5 million (estimated as of 9/19/02)	\$25.5 million (including approx. \$19.4 million paid as of 3/31/02)
N/A	Priority Tax Claims	Amount of Allowed Claims paid in full in cash on the effective date of the Plan	\$662,000	\$662,000
Secured Claims				
1	Secured Claim of Lehman	Subject to one of the following treatments: (1) note cured and reinstated; or (2) contractual rights unaltered	\$18 million ¹	\$18 million ¹
2	Secured Claim of Ohio Life	Subject to one of the following treatments: (1) note cured and reinstated; or (2) contractual rights unaltered	\$3.42 million	\$3.42 million.
Unsecured Claims and Interests				
3	Priority Claims	Amount of Allowed Claims paid in full in cash on the effective date of the Plan, without interest	\$35,000	\$35,000

¹This amount is subject to the resolution of the equitable subordination actions asserted against Lehman described below in the section entitled "Lawsuits Against Lehman Commercial Paper, Inc."

4	Unsecured Borrower Claims	The Redress Fund shall receive the Pro Rata share of available proceeds to be distributed to Class 4 in accordance with the Settlement Agreement; Allowed Opt-Out Claims shall receive the lesser of (1) amount equal to Allowed Opt-Out Claim, or (2) Pro Rata share of available proceeds for payment of all Allowed Claims in Class 4	\$217 million (plus Allowed Opt-Out Claims)	\$55-60 million
5	Unsecured Claims	50% of the amount of the Allowed Claim, plus 20% of the amount of any recovery in the Reliance Insurance Co. litigation and the Lehman action, up to a maximum total of 75% of the Allowed Claim	\$7 million	Approx. \$3.5 million
6	Subordinated Claims	\$0	Unknown	\$0
7	Interests in FACO	\$0	N/A	\$0
8	Interests in FAMCO	\$0	N/A	\$0
9	Interests in FAMCO-MN	\$0	N/A	\$0
10	Interests in FAPS	\$0	N/A	\$0

Proposed Treatment of Class 4 Unsecured Borrower Claims Under the Plan

Class 4 consists of the claims of all borrowers who obtained FAMCO loans between January 1, 1992 and March 23, 2000, regardless of whether they participate in the settlement. Unless you requested to be excluded from the settlement by June 5, 2002, you will hold an "Allowed Settlement Claim" under the Plan and will be paid from the Redress Fund, as explained below. Borrowers who have timely requested exclusion from the settlement hold "Opt-Out Claims" that, if timely asserted against the Debtors and if Allowed as discussed below, will be paid by the Liquidating Trustee.

All borrowers, regardless of whether they participate in the settlement, will receive the same proportional distribution of the available assets of the Debtors. For purposes of calculating the overall percentage of the distribution to be paid to borrowers, those borrowers participating in the settlement are deemed to hold Allowed claims totaling \$217 million.

Treatment of Allowed Settlement Claims: Borrowers who participate in the settlement shall receive payments from the FTC Redress Fund. The FTC Redress Fund shall receive the entire proportional share of the assets of the Debtors' estates available for the payment of all Allowed Settlement Claims discussed above in the

section titled "Settlement of Borrower-Related Claims." The Redress Fund shall be distributed to eligible borrowers in accordance with the Redress Plan to be approved by the Court. The eligible borrowers participating in the settlement shall receive payments only from the Redress Fund in accordance with the Redress Plan and shall have no further claims against the Debtors.

Treatment of Allowed Opt-Out Claims: Those borrowers who requested to be EXCLUDED from the settlement and who timely file proofs of claim that are Allowed against the Debtors shall receive payments from the Liquidating Trust. All Opt-Out Claims are subject to claims objections. If an objection is filed to your Opt-Out Claim, your claim is "disputed" and you will have to prove up your claim to the Court in order to get any distributions under the Plan. As described above, borrowers opting out of the settlement whose claims are ultimately Allowed will receive the same percentage distribution as the borrowers who are participating in the settlement.

Proposed Treatment of Class 5 Non-Borrower Unsecured Claims Under the Plan

Class 5 consists of the claims of general unsecured creditors other than the borrowers. Each non-borrower unsecured creditor shall receive an amount equal to 50% of their Allowed claim. These creditors will also share with the borrowers in certain recoveries.

In particular, the non-borrower unsecured creditors may receive up to 20% of any future recovery from certain litigation against Reliance Insurance Company and the Borrowers' Committee's action against Lehman currently pending in the Court and described below. However, the non-borrower unsecured creditors cannot receive more than 75% of their Allowed claims, unless the borrowers receive at least 75% of their claims; if the borrowers receive 75% of their Allowed claims, then the borrowers and the general unsecured creditors will share proportionately the aggregate sum of all monies to be distributed to unsecured creditors by the Liquidating Trust and the Redress Fund, so that in such event, holders of Allowed claims in Classes 4 and 5 shall receive the same percentage payment on their Allowed claims.

Treatment of Other Classes Under the Plan

Distributions to other classes under the Plan, as summarized in the table above, shall be made in accordance with the terms set forth in Article IV of the Plan. Only claims that are "Allowed" are entitled to receive distributions under the Plan. Pursuant to the settlement, borrowers participating in the settlement have Allowed claims.

In accordance with the priorities of the Bankruptcy Code, in these cases the holders of Allowed Administrative Expense Claims, Priority Tax Claims, Class 1 and

2 Secured Claims, and Class 3 Non-Tax Priority Claims will be paid in full. The remainder of the Debtors' assets is being paid to the borrowers and other general unsecured creditors in Classes 4 and 5 as set forth above. If the borrower and other general unsecured claims exceed the balance of the Debtors' assets, which is expected, then borrowers and other general unsecured creditors will receive less than the full amount of their Allowed claims.

Implementation of the Plan

The Plan establishes a "Liquidating Trust" which will be funded with certain assets of the Debtors on the effective date of the Plan. All of the Debtors' assets other than cash will be transferred to the Liquidating Trust on the effective date of the Plan. Sufficient cash to fund certain payments required under the Settlement Agreement will also be transferred to the Liquidating Trust on the effective date, including amounts to pay Administrative Claims and other payments due on the effective date of the Plan, as well as a reserve to pay the proportionate share of disputed claims in the event that such claims are later approved by the Court.

The Plan is a "liquidating plan." The Liquidating Trust Trustee will sell all non-cash assets of the Debtors and resolve all lawsuits and other claims brought on behalf of the Debtors. All cash on hand and the cash proceeds from these sales and lawsuits will be distributed to the holders of "Allowed claims" in accordance with the Plan and the Settlement Agreement. The Plan establishes a committee composed of representatives of the borrowers to oversee the implementation of the Plan. Among the assets to be distributed under the Plan and the Settlement Agreement are the following:

Asset	Approximate Net Realizable Value as of March 31, 2002 (unless otherwise specified)
Cash and cash equivalents (not including capital contribution to be made by Brian Chisick on the effective date of the Plan)	\$33,400,000
Restricted cash	\$3,340,000
Residual Interest Certificates	\$21,094,000
Real and Personal Property	\$1,335,000
Loan servicing rights	Unknown
Loans receivable	\$8,015,000
Prepaid expenses and other assets	\$716,000
Potential income tax refunds	Unknown
Domain Names	Nominal or no value
Trademarks	Nominal or no value
Claims to insurance proceeds	Unknown
Proceeds from lawsuits and recovery actions	Unknown
TOTAL:	\$67,900,000

Lawsuits Against Lehman Commercial Paper, Inc.

On August 9, 2001, several borrowers filed a class action against Lehman Commercial Paper, Inc., claiming that Lehman aided and abetted FAMCO in allegedly defrauding the borrowers (the "Aiello Action"). The Aiello Action is now pending in the Court.

On November 1, 2001, the Borrowers' Committee filed an action against Lehman, certain affiliates, and several current and former officers and directors of the Debtors for, among other claims, equitable subordination of Lehman's alleged secured claim under the Bankruptcy Code (the "Borrowers' Committee Action"). Lehman's original alleged secured claim against the Debtors, included in Class 1 under the Plan, was approximately \$77 million on the date of the Debtors' bankruptcy filings. If the equitable subordination claim against Lehman is successful, assets available for distribution under the Plan to borrowers and/or general unsecured creditors would increase by an amount equal to the portion of Lehman's claim that is subordinated to those claims. In addition, should damages be awarded against Lehman, those recoveries would benefit the borrowers and other general unsecured creditors in Classes 4 and 5. The potential monetary benefit to these creditors from the actions against Lehman may be reduced by the judgment reduction provisions contained in the Settlement Agreement.

The Borrowers' Committee Action and the Aiello Lehman Action are consolidated and pending in the Court. The Borrowers' Committee Action and the Aiello Action are set for trial in January, 2003. Pursuant to the Settlement Agreement, the portion of the Aiello Action against Brian Chisick and the portion of the Borrowers' Committee Action against the Debtors' officers and directors will be dismissed with prejudice and released. The Settlement Agreement does not provide for releases or dismissals of the lawsuits against Lehman and these actions will be transferred to the Liquidating Trust on the effective date of the Plan and go forward.

Other Plan Issues

The Plan has certain risks that creditors who are voting on the Plan should understand. For example, even if the Court confirms (approves) the Plan, the Plan will not become effective until the Court finally approves the Settlement Agreement and the Settlement Agreement becomes effective. Accordingly, no assurance can be given that either confirmation or consummation of the Plan will occur. Additionally, the Plan may have tax consequences for all creditors and the Debtors urge all creditors to consult their own tax advisors to obtain detailed information about how the Plan may affect their personal tax liabilities.

Disclaimer

This Summary Disclosure Statement may not be relied upon for any purpose other than to determine how to vote on the Plan. The Debtors incorporate the

Disclaimer set forth at pages 6 to 8 of the Disclosure Statement as if set forth here in full.

Conclusion

It is the opinion of the Debtors that, given the alternatives and inherent risks, the Plan offers the best opportunity for a meaningful recovery to all creditors, including the borrowers, in these difficult and challenging cases. The Debtors therefore urge you to cast your vote in favor of the Plan.

DATED: May ____, 2002

FIRST ALLIANCE MORTGAGE COMPANY, a California corporation

By: _____
Joel Blitzman,
Its Vice President and Controller

DATED: May ____, 2002

FIRST ALLIANCE CORPORATION, a Delaware corporation

By: _____
Joel Blitzman,
Its Vice President and Controller

DATED: May ____, 2002

FIRST ALLIANCE MORTGAGE COMPANY, a Minnesota corporation

By: _____
Joel Blitzman,
Its Vice President and Controller

DATED: May ____, 2002

FIRST ALLIANCE PORTFOLIO SERVICES, a Nevada corporation

By: _____
Joel Blitzman,
Its Vice President and Controller

PRESENTED BY:

IRELL & MANELLA LLP

By: _____
William N. Lobel
Evan C. Borges
Jeffrey M. Reisner
Mike D. Neue

Attorneys for Debtors and Debtors in Possession