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7 **UNITED STATES BANKRUPTCY COURT**
8 **SOUTHERN DISTRICT OF CALIFORNIA**
9

10 In re
11 CAROL KARLOVICH

12 Debtor.

CASE NO. 10-10860-PB11
10-10862-PB11

Chapter 11

JOINT DISCLOSURE STATEMENT

Date:
Time:
14 Dept.: Three
15 Judge: Hon. Peter W. Bowie
16

17
18 In re
19 KARLOVICH FINANCIAL, LLC

20 Debtor.
21

I.

INTRODUCTION

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2
3 Carol Karlovich and Karlovich Financial, LLC (the “Debtors”), the debtors and
4 debtors-in-possession in the above-referenced chapter 11 cases (the “Reorganization Cases”),
5 submits this Joint Disclosure Statement (the “Disclosure Statement”) pursuant to section
6 1125 of the United States Code (11 U.S.C. §§ 101 et seq., the “Bankruptcy Code”) with
7 respect to the Debtors’ Joint Plan of Reorganization filed concurrently herewith (the “Plan”).
8 This Disclosure Statement is to be used in connection with the solicitation of acceptances of
9 the Plan. A copy of the Plan is attached hereto as Exhibit A. Unless otherwise defined
10 herein, terms used herein have the meanings ascribed thereto in the Plan (*See* Section 1 of
11 the Plan entitled “Definitions and Interpretation”).

12 Attached, or to be filed as exhibits to this Disclosure Statement, are the following
13 documents:

- 14 ● The Plan. (Exhibit A)
- 15 ● Liquidation Analysis. (Exhibit B)
- 16 ● Financial Operating Projections. (Exhibit C)
- 17 ● List of Creditors by Class and Claim Amounts. Amounts listed are subject to
18 objection. (Exhibit D).

19 If you are entitled to a vote to accept or reject the Plan, the ballot (“Ballot”) for
20 acceptance or rejection of the Plan is enclosed with this Disclosure Statement. In addition,
21 voting instructions accompany each Ballot.

22 The Debtors believe that the Plan provides the greatest and earliest possible recoveries
23 to holders of Claims, that acceptance of the Plan is in the best interests of all parties, and that
24 any alternative would result in further delay, uncertainty, expense, and ultimately, smaller
25 distributions to holders of Allowed Claims. The Debtors believe the acceptance,
26 confirmation and implementation of the Plan is in the best interest of creditors of the Debtors.

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1 After the Effective Date of the Plan, the Debtors will conduct business, including the
2 management of their commercial real estate business, leasing Debtors' properties and/or
3 seeking to sell and/or refinancing these same properties. (After the Effective Date the
4 Debtors' interests will be known as the "Reorganized Debtor" and all assets shall be in the
5 name of the individual Debtor, Carol Karlovich) Under the Plan, the Reorganized Debtor
6 shall retain ownership of and control of the Reorganized Debtor. Thus, current creditors of
7 the Debtors will have the opportunity to continue to conduct business with the Reorganized
8 Debtor.

9 The Plan generally contemplates a distribution to holders of Allowed General
10 Unsecured Claims. Each holder of an Allowed General Unsecured Claim will receive on
11 account of such claim, its pro rata share of periodic distributions from the Distribution
12 Account maintained by the Debtors. As more fully described below, the Debtors anticipate
13 that holders of Allowed General Unsecured Claims will receive a distribution of
14 approximately 34.23% of the amount of their claim by the expiration of the Plan. The final
15 distribution percentages will depend on net revenues from the rental of Debtors' real
16 properties after payments are made to secured creditors and on the potential sale of personal
17 property and real property held by Debtors free and clear of other liens. Secured claims will
18 retain their security interests or otherwise will be paid in full upon the sale of real property,
19 the refinancing of loans or under modified terms as agreed to by the Debtors and the secured
20 claim holder. Administrative Claims will be paid separately and will be paid in full.

21 The Plan implements the Debtors' restructuring and continuation of Debtors' business
22 interests.

23 II.

24 NOTICE TO HOLDERS OF CLAIMS

25 The purpose of this Disclosure Statement is to enable you, as a creditor whose claim
26 is impaired under the Plan, to make an informed decision in exercising your right to vote to
27 accept or reject the Plan.

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1 **THIS DISCLOSURE STATEMENT CONTAINS IMPORTANT**
2 **INFORMATION THAT MAY BEAR UPON YOUR DECISION TO ACCEPT OR**
3 **REJECT THE PLAN. PLEASE REVIEW THIS DOCUMENT CAREFULLY.**

4 On _____, after notice and a hearing, the Bankruptcy Court signed an order
5 approving this Disclosure Statement as containing adequate information of a kind and in
6 sufficient detail to enable hypothetical, reasonable investors typical of the Debtors' creditors
7 to make an informed judgment whether to accept or reject the Plan. The Disclosure
8 Statement order sets forth deadlines for voting to accept or reject the Plan and procedures to
9 be followed to object to confirmation of the Plan.

10 **APPROVAL OF THIS (OR ANY OTHER) DISCLOSURE STATEMENT BY**
11 **THE BANKRUPTCY COURT DOES NOT CONSTITUTE A DETERMINATION BY**
12 **THE BANKRUPTCY COURT OF THE FAIRNESS OF THE PLAN OR THE**
13 **ACCURACY OR COMPLETENESS OF THE INFORMATION CONTAINED IN**
14 **THIS DISCLOSURE STATEMENT.**

15 Each holder of a Claim entitled to vote on the Plan should read the Disclosure
16 Statement, the Plan, the Disclosure Statement Order and the instructions accompanying the
17 Ballots in their entirety before voting on the Plan. These documents contain, among other
18 things, important information concerning the classification of Claims and Interests for voting
19 purposes and the tabulation of votes. No solicitation of votes to accept the Plan may be made
20 except pursuant to section 1125 of the Bankruptcy Code.

21 After carefully reviewing this Disclosure Statement, including the attached exhibits,
22 please indicate your acceptance or rejection of the Plan by voting in favor of or against the
23 Plan on the enclosed ballot and returning the same to John L. Smaha, Esq., Smaha Law
24 Group, 7860 Mission Center Court, Ste. 100, San Diego, CA, 92108, no later than 5:00 p.m.,
25 Pacific Time, on February 25, 2010 (the "Voting Deadline"). You will be bound by the Plan
26 if it is accepted by the requisite holders of claims, even if you do not vote to accept the Plan.

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1 TO BE SURE YOUR BALLOT IS COUNTED, YOUR BALLOT MUST BE
2 ACTUALLY RECEIVED NO LATER THAN 5:00 P.M., PACIFIC TIME ON _____
3 _____. For a general description of the voting instructions and the name, address and phone
4 number of the person you may contact if you have questions regarding the voting procedures,
5 see Section X "Confirmation and Consummation Procedures-Solicitation of Votes" below.

6 Pursuant to section 1128 of the Bankruptcy Code, the Bankruptcy Court has scheduled
7 a hearing to consider confirmation of the Plan (the "Confirmation Hearing") on _____
8 ____ at _____, Pacific Time, in Department Four of the United States Bankruptcy
9 Court, Southern District of California, located at 325 West F Street, San Diego, California
10 92101.

11 The Bankruptcy Court has directed that Objections, if any, to confirmation of the Plan
12 be filed on or before _____ at _____, Pacific Time, in the manner described in
13 Section X "Confirmation and Consummation Procedure" below.

14 **THE DEBTORS BELIEVE THAT THE PLAN MAXIMIZES CREDITOR**
15 **RECOVERIES AND URGES ALL HOLDERS OF IMPAIRED CLAIMS TO VOTE**
16 **TO ACCEPT THE PLAN.**

17 **A. Purpose of Disclosure Statement**

18 The Bankruptcy Code requires that a proponent of a reorganization plan prepare and
19 file with the Bankruptcy Court a "disclosure statement" that provides information of a kind,
20 and in sufficient detail, that would enable a typical holder of claims or equity interests in a
21 class impaired under that plan to make an informed judgment with respect to the plan. This
22 Disclosure Statement provides such information, as well as information regarding the
23 deadlines for casting ballots with respect to the Plan, the deadlines for objecting to
24 confirmation of the Plan, the requirements that must be satisfied in order for the Bankruptcy
25 Court to confirm the Plan, and other relevant information. Parties in interest should read this
26 Disclosure Statement, the Plan, and all of the accompanying exhibits in their entirety in order
27 to determine:

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- 1 • How the Plan will affect their Claim against and Interest in the Debtor;
- 2 • Their rights with respect to voting for or against the Plan;
- 3 • Their rights with respect to objecting to confirmation of the Plan; and
- 4 • How and when to cast a ballot with respect to the Plan.

5 The Disclosure Statement, however, cannot and does not provide holders of Claims
6 and Interests with legal, financial or other advice. You should consult with your lawyers
7 and/or financial advisors to obtain specific advice regarding how the Plan will affect you and
8 regarding your best course of action with respect to the Plan.

9 **B. Holders of Claims Entitled to Vote**

10 Holders of Allowed Claims in Classes 1, 2, 3, 4, 6, 7, 8, 9 and 11 (collectively the
11 “Voting Classes”) are entitled to vote on the Plan because such Classes are: (i) impaired
12 under the Plan within the meaning of section 1124 of the Bankruptcy Code; and (ii) may
13 receive distributions of property under the Plan and therefore are not deemed to have rejected
14 the Plan under Section 1126(g) of the Bankruptcy Code.

15 The Bankruptcy Court may confirm the Plan only if at least one Class of impaired
16 Claims has voted to accept the Plan (without counting the votes of any insiders whose Claims
17 are classified within that Class) and if certain statutory requirements are met as to both non-
18 consenting members within a consenting Class and as to dissenting Classes. A Class of
19 Claims has accepted the Plan only when at least one-half in number and at least two-thirds
20 in amount of the Allowed Claims actually voting in that Class vote in favor of the Plan.

21 In the event of a rejection of the Plan by one or more Voting Classes, the Debtors
22 intend to request that the Bankruptcy Court confirm the Plan in accordance with section
23 1129(b) of the Bankruptcy Code, which permits confirmation notwithstanding such rejection
24 if the Bankruptcy Court finds that the Plan “does not discriminate unfairly” and is “fair and
25 equitable” with respect to the rejecting Classes.

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1 **C. Important Notice and Cautionary Statement**

2 The historical financial data relied upon in preparing the Plan and this Disclosure
3 Statement are based upon the Debtors' books and records. The liquidation analysis,
4 estimates, and other financial information referenced in this Disclosure Statement or attached
5 hereto as exhibits have been developed by the Debtors and their professional advisors.
6 Although these professional advisors assisted in the preparation of this Disclosure Statement,
7 in doing so, such professionals relied upon factual information and assumptions regarding
8 financial, business, and accounting data provided by the Debtor and third parties, most of
9 which information has not been audited. The professional advisors of the Debtors have not
10 independently verified such information and, accordingly, make no representations as to its
11 accuracy. Moreover, although reasonable efforts have been made to provide accurate
12 information, the Debtors cannot warrant or represent that the information in this Disclosure
13 Statement, including any and all financial information, is without inaccuracy or omissions,
14 or that actual values or distributions will comport with the estimates set forth herein.

15 No entity may rely upon the Plan or this Disclosure Statement or any of the
16 accompanying exhibits for any purpose other than to determine whether to vote in favor of
17 or against the Plan. Nothing contained in such documents constitutes an admission of any
18 fact or liability by any party, and no such information will be admissible in any proceeding
19 involving the Debtors or any other persons, nor will this Disclosure Statement be deemed
20 evidence of the tax or other legal effects of the Plan on holder of Claims or Interests in the
21 Bankruptcy Case.

22 **III.**

23 **EXPLANATION OF CHAPTER 11**

24 **A. Overview of Chapter 11**

25 Chapter 11 is the principal reorganization chapter of the Bankruptcy Code. Pursuant
26 to Chapter 11, a debtor attempts to reorganize its business for the benefit of the debtor, its
27 creditors and other parties in interest. The Debtor commenced his Reorganization Case with
28 the Bankruptcy Court by filing a voluntary petition for relief under chapter 11 of the

1 Bankruptcy Code on June 12, 2009.

2 The commencement of a Chapter 11 case creates an estate comprising of all the legal
3 and equitable interests of the debtor as of the date the petition is filed. Sections 1107 and
4 1108 of the Bankruptcy Code provide that a debtor may continue to operate his business and
5 remain in possession of his property as a "debtor in possession" unless the bankruptcy court
6 orders the appointment of a trustee. In the present Reorganization Case, the Debtor has
7 remained in possession of his property and continues to manage his financial affairs as a
8 debtor-in-possession.

9 The filing of a Chapter 11 petition also triggers the automatic stay provisions of the
10 Bankruptcy Code. Section 362 of the Bankruptcy Code provides, among other things, for
11 an automatic stay of all attempts to collect or recover pre-petition claims from the debtor or
12 to otherwise interfere with, or exercise control over, the debtor's property or business. Except
13 as otherwise ordered by the bankruptcy court, the automatic stay remains in full force and
14 effect until the effective date of a confirmed plan of reorganization.

15 The formulation of a plan of reorganization is the principal purpose of a chapter 11
16 case. The plan sets forth the means for satisfying claims against and interests in the debtor.
17 Unless a trustee is appointed, only the debtor may file a plan during the first 120 days of a
18 chapter 11 case.

19 **B. Plan of Reorganization**

20 Although referred to as a plan of reorganization, a plan may provide for anything from
21 a complex restructuring of a debtor's business and its related obligations to a simple
22 liquidation of a debtor's assets. In either event, upon confirmation, the plan becomes binding
23 on the debtor and all of its creditors and equity holders, and the obligations owed by the
24 debtor to such parties are compromised and exchanged for the obligations specified in the
25 plan.

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1 After a plan of reorganization has been filed, the holders of impaired claims against
2 and interests in a debtor are permitted to vote to accept or reject the plan, provided such
3 holders are to receive distributions under the plan. Before soliciting acceptances to the
4 proposed plan, section 1125 of the Bankruptcy Code requires a plan proponent to prepare a
5 disclosure statement containing adequate information of a kind, and in sufficient detail, to
6 enable a hypothetical reasonable investor to make an informed judgment about the plan. This
7 Disclosure Statement is presented to holders of Claims against the Debtor to satisfy the
8 requirements of section 1125 of the Bankruptcy Code in connection with the Debtor's
9 solicitation of votes on the Plan.

10 If all classes of claims and interests accept a plan of reorganization, the bankruptcy
11 court may confirm the plan if it independently determines that the requirements of section
12 1129 of the Bankruptcy Code have been satisfied. Section 1129 of the Bankruptcy Code sets
13 forth the requirements for confirmation of a plan and, among other things, requires that a
14 plan meet the "best interests" of creditors test and be "feasible." The "best interests" test
15 generally requires that the value of the consideration to be distributed under a plan to the
16 holders of claims or interests in the debtor is not less than those parties would receive if the
17 debtor were liquidated pursuant to a hypothetical liquidation occurring under Chapter 7 of
18 the Bankruptcy Code. Under the "feasibility" requirement, the court generally must find that
19 there is a reasonable probability that the debtor will be able to meet its obligations under its
20 plan without the need for further financial reorganization. With the possible exception of
21 approval of the Plan by all impaired classes, the Debtor believes that the Plan satisfies all the
22 applicable requirements of section 1129(a) of the Bankruptcy Code including, in particular,
23 the best interests of creditors test and the feasibility requirement.

24 Chapter 11 does not require that each holder of a claim or interest in a particular class
25 vote in favor of a plan of reorganization in order for the bankruptcy court to determine that
26 the class has accepted the plan. Rather, a particular class will be determined to have accepted
27 the plan if the court determines that the plan has been accepted by a majority in number and
28 two-thirds in amount of those claims actually voting in such class. In the present case, only

1 the holders of claims who actually vote will be counted as either accepting or rejecting the
2 Plan.

3 In addition, classes of claims or interests in the debtor that are not "impaired" under
4 a plan of reorganization are conclusively presumed to have accepted the plan and thus are not
5 entitled to vote. Accordingly, acceptances of a plan will generally be solicited only from
6 those persons who hold claims or equity interests in an impaired class. A class is "impaired"
7 if any of the legal, equitable, or contractual rights associated with the claims or equity
8 interests of that class are modified in any way under the plan. Modification for purposes of
9 determining impairment, however, does not include curing defaults and reinstating maturity
10 or payment in full in cash on the effective date of the plan.

11 As more fully discussed below, holders of claims in Classes 1, 2, 3, 4, 6, 7, 8, 9 and
12 11 are impaired and entitled to vote on the Plan. Class 10 is unimpaired and does not vote
13 under the Plan. Class 10 is deemed to have accepted the Plan.

14 The Bankruptcy Court may also confirm a plan of reorganization even though fewer
15 than all classes of impaired claims and equity interests accept it. For a plan of reorganization
16 to be confirmed despite its rejection by a class of impaired claims or equity interests, the
17 proponent of the plan must show, among other things, that the plan does not "discriminate
18 unfairly" and that the plan is "fair and equitable" with respect to each impaired class of
19 claims or equity interests that has not accepted the plan.

20 Under section 1129(b) of the Bankruptcy Code, a plan is "fair and equitable" as to a
21 rejecting class of claims or equity interests if, among other things, the plan provides: (a) with
22 respect to secured claims, that each such holder will receive or retain on account of its claim
23 property that has a value, as of the effective date of the plan, in an amount equal to the
24 allowed amount of such claim or such other treatment as accepted by the holder of such
25 claim; and (b) with respect to unsecured claims and equity interests, that the holder of any
26 claim or equity interest that is junior to the claims or equity interests of such class will not
27 receive or retain on account of such junior claim or equity interest any property at all unless
28 the senior class is paid in full.

1 A plan does not "discriminate unfairly" against a rejecting class of claims or equity
2 interests if (a) the relative value of the recovery of such class under the plan does not differ
3 materially from that of any class (or classes) of similarly situated claims or equity interests,
4 and (b) no senior class of claims or equity interests is to receive more than 100% of the
5 amount of the claims or equity interests in such class.

6 **IV.**

7 **BACKGROUND INFORMATION**

8 **A. Description of the Debtors**

9 Debtor, Carol Karlovich is an individual residing in San Diego, California. Debtor
10 is a real estate investor and property owner who has had an established stable of commercial
11 real estate properties for over twenty years. Debtor, Karlovich Financial, LLC, is a
12 California limited liability company wholly owned and operated by Carol Karlovich.
13 Karlovich Financial, LLC was created in 2004 at the behest of Mission Federal Credit Union
14 so that Debtor could purchase a commercial property in El Cajon, California. Since its
15 creation, Carol Karlovich has operated Karlovich Financial, LLC and the real property it
16 holds as though the entity did not exist. Carol Karlovich ignored corporate formalities and
17 transferred and regularly commingled and transferred funds from the LLC to herself
18 whenever the need arose.

19 During the last twenty or so years, Debtors have purchased and have come to manage
20 a total of seven commercial real estates properties in and around San Diego County. Debtors
21 operate their business as a sole proprietorship, do not and have never operated the business
22 as a separate entity. In addition, the Debtors own a residence in La Jolla, California which
23 the individual Debtor currently resides at and maintains her home office. Finally, Debtor
24 owns an undeveloped plot of land in Kern County, California free and clear of all liens. The
25 Debtors obtained the Kern County property in 1993 as part of a divorce settlement with Carol
26 Karlovich's late husband.

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1 Debtor's filing of a Chapter 11 reorganization has been necessitated due to the general
2 downturn in the economy and the fact that several large tenants have vacated a number of the
3 available spaces for the Debtors. Beginning in early 2004 with the chapter 11 bankruptcy
4 of Krispy Kreme and its rejection of its long term lease on one of Debtors' properties, the
5 Debtors have seen a number of important tenants reject and/or breach leases. As Debtors
6 have sought replacement tenants, the Debtors have had to reduce lease rates, reduce rental
7 location sizes and, on occasion, have been forced to provide certain reductions to rent and/or
8 concessions to tenants in order to retain. As the commercial real estate market has suffered
9 through what many would call a global recession, the Debtors were unable to maintain
10 payments to all secured creditors and, unfortunately, Carol Karlovich spent most of her life
11 savings attempting to maintain the various properties. As her cash holdings dwindled it
12 became clear that a reorganization of their debts was required.

13 **B. Debtors' Commercial Properties**

14 *1. 12233-47 Woodside Avenue, Lakeside, California, 92040.*

15 Debtor, Carol Karlovich, purchased this property, located at 12233-47 Woodside
16 Avenue, Lakeside, California 92040 (the "Woodside Property") in 1978 for a purchase price
17 of \$125,000.00. The Woodside Property consists of a retail/commercial center with
18 approximately 9,408 sq.ft. of rentable floor area and 35,284 sq.ft. of land area. The
19 Woodside Property has seven units available for rent, only four of which are currently let to
20 third parties.

21 Currently, the Woodside Property generates \$8,718.25 in gross monthly income.
22 Current operating expenses are estimated at a total of \$2,261.24 (\$38.00 for electric bills,
23 \$89.14 for trash removal, \$602 for management fees by Radelow Gittings, \$200.00 for
24 landscaping, \$282.67 for property insurance, \$200 for maintenance costs, \$15.00 for postage
25 related to billings and \$834.43 for property insurance). The net earnings of the property,
26 without debt payments, is \$6,457.01. Debtor refinanced the Woodside Property on or about
27 October 5, 2006. Debtor took on a \$1,000,000 note from Home Bank of California as part
28 of the refinance. . Under the Home Bank Note, the Debtor's monthly payment is supposed

1 to be \$7,094.85.

2 Debtors are negotiating with a current tenant that runs a bar from one space to move
3 into a larger space, although the lease payment will likely not increase by much. The new
4 lease will reduce the vacant spaces from three to two vacant spaces. Although this may not
5 increase the gross rentals, the Debtors believe they could then find a suitable tenant for the
6 two remaining vacant spaces. Debtor has employed Radelow Gittings as a property manager
7 for this property, but it only does property management. Debtor has personally handled
8 leasing of the property and does not have anyone currently listing the Woodside Property.

9 2. 13520-38 Poway Road, Poway, California 92064

10 The real property best identified as 13520-38 Poway Road, Poway, California 92064
11 (the "Poway Road Property") is a commercial building with eleven units available for rent
12 totaling approximately 11,310 square feet of available rental space. The Poway Road
13 Property is currently fully let and generates monthly gross rents of approximately \$37,286.69.
14 This includes commercial rents and common area maintenance ("CAM") fees. The Poway
15 Road Property is managed by third party management company, Radelow/Gittins Property
16 Management. The Subject Property has approximately \$5,300.00 a month in monthly
17 expenses that are categorized as CAM expenses, i.e., these expenses are paid out by the
18 Debtor and then reimbursed to the Debtor on a pro rata basis by the Debtor's tenants at the
19 Subject Property. After CAM expenses are paid out, the Debtors generally realize more than
20 enough to cover the \$15,400.27 a month payment that the secured noteholder is contractually
21 entitled to and the Debtor believes that the Poway Road Property is current on all loan
22 payments.

23 Generally, the Poway Road Property produces about \$13,968.68 in net earnings after
24 all payments (estimated at \$7,917.74 in monthly expenses including property tax payments
25 and the \$15,400.27 amortized payment). The Poway Road Property was purchased by the
26 Debtor in 1999 for \$1,500,000. The most current appraisal valued the Poway Road Property
27 at \$3,610,000.00 as determined by NPV Advisors. A previous valuation from December 1,
28 2007 by CBRE valued the Poway Road Property at \$4,200,000. In any event, the Poway

1 Road Property has substantial equity for the Debtors and generates substantial monthly net
2 income.

3 3. 141 Broadway, El Cajon, California 92021

4 The real property best described as 141 Broadway, El Cajon, California 92021 (the
5 "141 Broadway Property") was purchased by the Debtor in 2004 at a purchase price of
6 \$3,200,000.00 and was immediately placed into a limited liability company, Karlovich
7 Financial, LLC at the requirement of Mission Federal Credit Union. The Broadway Property
8 is a commercial building with approximately 4,000 sq.ft. of rentable space. The Broadway
9 Property is currently separated into two (2) distinct rentable spaces.

10 When Debtors purchased the 141 Broadway Property it had been fully rented to
11 Krispy Kreme and generated enough income to cover all operating and debt obligations of
12 the 141 Broadway Property. However, as a result of Krispy Kreme's bankruptcy, the lease
13 was abandoned and the property was left vacant for some time. Krispy Kreme reorganized
14 and paid 2.3 cents on the dollar to unsecured claimants.

15 Del Taco, the current tenant, decided to only occupy a portion of the 141 Broadway
16 Property and left approximately 1,200 sq.ft unrented for the last two years. The 141
17 Broadway Property currently generates \$12,744.53 in gross earnings. The 141 Broadway
18 Property has approximately \$3,363.95 in monthly expenses (including \$1,955 per month in
19 property taxes, \$15.00 in postage fees, \$142.00 in insurance costs, Common Area Dues of
20 \$551.95 and a \$500 management fee owed to Radelow Gittings). The net rents are not
21 enough to cover the contractual payment owed of \$13,359.38 (since the filing of the
22 Bankruptcy, this amount has increased due to an increase in interest tied to the index value
23 to \$17,654.40). The net rents are estimated at \$9,380.58. Currently, the Debtors are
24 negotiating with a potential tenant that is looking to fill the second unit of the 141 Broadway
25 Property. The Debtors have had some difficulty in getting the lease finalized due to
26 difficulties with Del Taco and other tenants. The new tenant is a barbecue restaurant and
27 would help significantly increase the gross income of the 141 Broadway Property. Debtors
28 have a listing agreement with Lee & Associates for the lease listing. Debtors are in the

1 process of getting court approval to hire this professional. The agreement excludes any lease
2 entered into with Geno's Barbeque. There is a lease listing agreement that terminated in May
3 of 2010 that did not exclude Geno's Barbeque. Debtor may intend to seek payment to
4 Location Matters for this agreement if Geno's Barbeque agrees to a lease.

5 4. 176 Knoll Road, San Marcos, CA. 92069

6 Debtor purchased the property best described as 176 Knoll Road, San Marcos, CA.
7 92069 (the "Knoll Road Property") in 2005 for a total purchase price of \$4,000,000.00. The
8 loan obtained from San Diego County Credit Union ("SDCCU") was for \$2,920,000.
9 Debtors put in over \$1,000,000 of their own money to purchase the Knoll Road Property.
10 The property was valued on January 24, 2005 at a value of \$4,020,000. The most current
11 valuation by NPV Advisors provides a value of \$1,330,000.00. The Debt owed on the Knoll
12 Road Property is \$2,807,622.86.

13 The Knoll Road Property is a 14,000 sq.ft. commercial building that currently,
14 consists of one large unit. The current tenant, Creative Leather Furniture ("Creative") has
15 been at the property for over twelve years and is the original tenant. It's original lease called
16 for lease payments of \$20,000 a month plus NNN expenses. By an amendment dated
17 December 1, 2008, the rent to Debtors was reduced to \$11,667.00. By a second amendment
18 dated February 1, 2010, the rent was further reduced to \$10,000, without NNN expenses.
19 There is also a promissory note owed by Creative to the Debtor in the amount of \$34,721.79
20 from December 1, 2008, indicating that unpaid rents had to be paid back. Recently, the
21 Debtor and Creative have agreed to a third amendment. This amendment calls for a slight
22 reduction in the general rent, however, Creative will be freeing up approximately 4,677 feet
23 of the premises for the Debtors to offer for lease to third parties. The Debtors will now
24 generate base rent of \$8,866.35, and additional triple net charges of approximately \$5,000.00
25 a month. Debtors will also have an opportunity to find a new tenant for the new, nearly five
26 thousand square foot space in order to increase rent for the Knoll Road Property. The current
27 lease will increase over the next two years. The second year of the lease will see an increase
28 of base rent to \$10,266.30 plus triple net recoveries. The third year of the lease will see an

1 increase of base rent to \$11,386.26, plus triple net recoveries. The Debtor will list the new
2 4,667 square foot location for rent and believes it could generate as much an additional
3 \$5,000 from a new lease for this portion of the Knoll Road Property plus additional NNN
4 charges.

5 With the current gross income of \$10,937.00, the Knoll Road Property generates only
6 \$7,493.09 in net earnings (after costs of \$2,474.66 for property taxes, \$254.25 for insurance,
7 a management fee of \$350 for common area management, \$150.00 for security, \$200 for
8 maintenance and \$15.00 for postage). The monthly payment to SDCCU is \$17,766.63 under
9 the contractual amount. However, the split of the Knoll Road Property into two separate
10 spaces will likely increase the profitability of the Knoll Road Property to a point where the
11 current net earnings of \$70,251.12 for the Debtor's five year plan of reorganization would
12 be increased to as much as \$465,544.08 after ongoing payments to SDCCU are factored. The
13 Debtors do not assume so much in arriving at this number either. As indicated above, the
14 Debtors have leased 9,333 feet of the Knoll Road Property at \$0.95 a square foot. Assuming
15 the Debtors could obtain a new tenant for the remaining 4,667 feet, the Debtors could rent
16 the entire premises at a monthly gross base rent of \$13,330.00. The triple net charges would
17 gross the Debtor an additional \$5,000 a month. The monthly expenses for the property,
18 including ongoing property taxes, would equal \$3,443.91. The monthly payment scheduled
19 for the Movant would be \$5,541.67. The net rents, formerly estimated at \$1,951.42 could
20 reasonably be expected to rise to \$11,359.09 a month, or \$69,773.04 in the first year of the
21 plan alone. Assuming square footage rents increase as the economy improves, using the
22 actual numbers from the current lease, the Debtor would anticipate annual increases to
23 \$94,973.04 in the second year, \$115,133.04 in the third year, and \$88,332.48 for the final two
24 years as the Debtor commences making amortized payments of interest and principal to the
25 Movant. The total of \$465,544.08 for those five years is a conservative estimate.

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1 5. 500 West San Marcos Boulevard, San Marcos, CA. 92069

2 Debtor purchased the property best known as 500 West San Marcos Boulevard, San
3 Marcos, CA. 92069 (the "West San Marcos Property") in 2004 with a purchase price of
4 \$1,800,000. The first deed of trust with the SDCCU had a debt of approximately \$1,300,000,
5 indicating that the Debtor put about \$500,000 of her own money into the West San Marcos
6 Property. The most current valuation places the value of the West San Marcos Property at
7 \$1,370,000.00 with an overall debt of approximately \$1,200,000.

8 The West San Marcos Property is a commercial property with approximately 3,796
9 sq.ft. of rentable space separated into four units. The Debtors previously had all four units
10 rented out, generating gross income of \$16,383.54. However, one tenant has recently moved
11 out and one of the four units is now vacant. With the vacancy, the Debtors are only
12 generating \$11,843.97. With monthly expenses of \$4,717.83 (including, \$2,731.69 for
13 monthly taxes, \$1,971.14 for CAMS and management fees and an additional \$15.00 for
14 postage charges) the net earnings are \$7,126.14. The monthly payment owed to the secured
15 creditor is \$8,123.91 so the Debtor is short on the payment by only \$997.77.

16 The Debtors have engaged Lee & Associates to list the vacant property for rent.
17 Debtors need to obtain court approval for Lee & Associates and are in the process of doing
18 so. Radelow Gittings has been approved as the property manager only for this property.

19 6. 942-54 South Santa Fe, Vista, California 92084

20 Debtor purchased the property best known as 942-54 South Santa Fe, Vista, California
21 92084 (the "Santa Fe Property") in 2000 for a purchase price of \$1,400,000. The Santa Fe
22 Property has an outstanding loan with a balance of \$1,424,376.53 which was held by 1st
23 Bank of Beverly Hills. 1st Bank was taken over by the FDIC and the debt was only recently
24 purchased by a limited liability company identified as 2010-1 CRE Venture, LLC ("2010-1").

25 The Santa Fe Property was valued in November of 2004 at a value of \$2,075,000.00.
26 The most recent valuation by NPV gave the Santa Fe Property a value of \$967,000.00 as of
27 June 14, 2010. The Santa Fe Property is a commercial building with 7,200 sq.ft of rentable
28 space divided into six separate units. Currently, the Santa Fe Property only has four units

1 rented and has two vacant units.

2 The Santa Fe Property currently generates gross income of \$8,718.25. With operating
3 expenses of \$2,819.26 (\$1,392.45 for taxes, \$1,411.81 in CAM expenses and \$15.00 in
4 postage fees). With net earnings of \$5,898.99, the Santa Fe Property is short of the monthly
5 contractual amount of \$9,440.55 by \$3,451.56. Debtor has engaged Lee & Associates to list
6 the Santa Fe Property vacancies for leasing and the application is pending approval by the
7 Court.

8 7. 7905-09 Broadway, El Cajon, California

9 Debtor purchased the 7905-7909 Broadway, Lemon Grove, California 91945 (the
10 "7905-09 Broadway Property") and placed it into Karlovich Financial, LLC at the request
11 of the secured creditor, MFCU. Debtors will transfer the 7905-09 Broadway Property to the
12 Reorganized Debtor by operation of the Plan after the two Debtors are substantially
13 consummated into one case. MFCU identifies the debt owed on the 7905-09 Broadway
14 Property as being \$431,544.16. The Debtors hired National Property Valuation Advisors,
15 Inc. to provide the Debtor with an accurate and current valuation for the 7905-09 Broadway
16 Property. The Debtor had previously provided an estimated value of \$300,000 based on her
17 personal opinion. The appraisal report of National Property Valuation Advisors, Inc. found
18 a value of \$446,000.

19 The 7905-09 Broadway Property is a commercial building with three units available
20 for rent totaling approximately 5,000 square feet of available rental space. The 7905-09
21 Broadway Property is currently not fully let and generates monthly gross rents of
22 approximately \$1,830, with \$1,500.00 being the base rent and the rest being recovered CAM
23 charges. The 7905-09 Broadway Property has two vacant unit that are being marketed to
24 potential tenants.

25 The Debtors have approximately \$901.80 in monthly expenses that she is generating
26 in order to maintain the 7905-09 Broadway Property. This includes \$553.80 that is to be
27 turned over to MFCU to cover current property tax obligations. The 7905-09 Broadway
28 Property will provide MFCU with a net rent payment of approximately \$928.20 compared

1 to Debtors' regular monthly payment, which was \$2,621.28. If the units that are available for
2 rent are filled, the Debtors would have more than enough to make the monthly payment to
3 MFCU. The Debtors are making every effort to lease the space and are in the process of
4 confirming the employment of a broker to list and market the vacant spaces for rent.

5 **C. Debtor's Residence**

6 2052 Via Casa Alta, La Jolla, CA. 92037:

7 2052 Via Casa Alta, La Jolla, California 92037 (the "Via Casa Alta Property") is the
8 individual Debtor's principal residence. The Debtor purchased this home in 1986 for a total
9 purchase price of \$2,800,000. Currently, the residence has a first trust deed with Mission
10 Federal Credit Union ("MFCU") on the home with a debt of approximately \$3,775,000.00.
11 In addition, the residence has a home equity line of credit ("HELOC") from MFCU in the
12 amount of \$1,000,000. An appraisal done in August of 2003 set the value at \$8,025,000
13 done by Zorilla Appraisal Services. Another appraisal done the same month by Salvatore
14 Appraisal Services found the value to be \$8,000,000. A newer appraisal, done on May 1,
15 2010, by Sara F. Schwarzentraub came it a value of \$3,730,000.00. The value based on a
16 reduced market and the existence of slippage on the residence.

17 The monthly costs on the residence are \$12,100 for the first deed of trust with MFCU.
18 Additionally, the Debtor has property taxes of \$2,619.00 a month, \$708.00 a month of
19 insurance, \$500.00 in electric bills, \$500.00 for heat and air, \$300.00 for gardener and pool
20 services and an additional \$300 for maintenance. Debtors exclude the MFCU HELOC costs
21 as the Debtors have filed a motion to strip the HELOC off the Via Casa Alta Property. In
22 total, the residence costs about \$17,027.00 to maintain. The property generates no income
23 at this time, however, the Debtors indicate that they may list the property for lease. If so, the
24 Debtors will need to file a motion to employ any broker hired to list the property and the
25 Debtors will need to find alternate living accommodations for the individual Debtor and her
26 individual expenses would increase.

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1 **D. Debtor's Kern County Lots**

2 Debtors own forty-eight home site lots in Kern County, California free and clear of
3 all liens. The Debtors received these lots in 1993 as part of a divorce settlement with her late
4 husband. Debtors provided a value of \$450,000 on their schedules based on the settlement
5 value given to the property in 1993. Debtors are in the process of obtaining a broker in Kern
6 County who would be able to suggest a more current, potential sales price for the lots.
7 Debtors intend to list the Kern County Lots for sale if the value of the lots and the market for
8 such lots would generate a substantial return to the Debtors and the Debtors' estates.

9 **V.**

10 **SUMMARY OF THE PLAN**

11 The Discussion of the Plan set forth below is qualified in its entirety by reference to
12 the Plan, the terms of which are controlling. Holders of Claims and Interest and other
13 interested parties are urged to read the Plan in its entirety so that they may make an informed
14 judgment concerning the Plan.

15 After confirmation of the Plan, the Reorganized Debtors will continue to conduct
16 business including, but not limited to, property management and consulting services.

17 **A. Classification and Treatment of Claims**

18 The Plan provides for the treatment of eleven (11) Classes of Claims. The treatment
19 of Claims described below applies only to Allowed Claims. Claims that are the subject of
20 a pending objection before the Bankruptcy Court or other pending litigation, or that have not
21 been allowed pursuant to a Final Order of the Bankruptcy Court, will receive distributions
22 under the Plan only if and after they become Allowed Claims. The Reorganized Debtors
23 retain the right after the confirmation of the plan to initiate proceedings to subordinate or
24 otherwise object to Claims. The risks associated with these claims are discussed below in
25 Section IX(c).

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1 **1. Administrative Expense Claims (Including Fee Claims)**

2 Administrative Expense claims are those expenses which are entitled to priority under
3 Bankruptcy Code Section 507(a)(1) and which are, or become, allowed at any time before
4 close of this Chapter 11 case. Administrative Expense claimants will be paid in full before
5 payments or distributions are made toward the claims of the other classes unless an
6 Administrative Expense Claimant agrees to accept a different payment from the Debtors.

7 To the best of their knowledge, the Debtors are not fully current with administrative
8 creditors including the Debtor's attorneys. However, contingent on approval from the Court,
9 the Debtors will pay all administrative creditors on or as soon as allowed after the Effective
10 Date. Unpaid legal and professional fees that will be owed to Smaha Law Group, APC are
11 estimated to be approximately \$100,000 as of the Effective Date of the Plan. The Debtor has
12 already paid the Smaha Law Group a retainer fee of \$30,000, of which approximately
13 \$20,221.75 still remain. The retainer shall reduce this claim on a dollar for dollar basis.

14 Subject to Court approval, the Debtors shall make payments to the Smaha Law Group
15 to satisfy all outstanding fees owed to Debtors' counsel when funds are available. Any
16 outstanding balance at the Effective Date shall be paid within forty-five (45) days of the
17 Effective Date in an amount as approved by this Court, and shall come from Debtors'
18 Distribution Account if available. Debtors anticipate that the Remaining Cash at the time of
19 the Confirmation Date (estimated at \$100,000) and the cash infusion by Karisa Karlovich of
20 \$200,000, will be enough to cover all Administrative Expenses.

21 The Debtor anticipates an additional Administrative Expense Claim for a certified
22 public accountant to prepare and file tax returns on the Debtors' behalf. The estimated
23 expense for these tax returns is approximately \$2,000.00. The Debtors shall seek to pay the
24 CPA by separate court order. .

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1 **2. Secured Claim on Woodside Property**

2 *Secured Claim: Class 1 (Home Bank)*

3 Home Bank indicates its total claim as being \$1,008,587.42 as of June 22, 2010. A
4 previous appraisal done by Home Bank's appraiser on September 7, 2006 valued the
5 Woodside Property at \$1,600,000.00. Debtors' independent appraisal set the current value
6 of the Woodside Property at \$1,050,000.00. The appraisal from NPV Advisors, Inc.
7 indicates that the Woodside Property could generate as much as \$13,854.50 when the
8 property becomes fully let.

9 Debtor and Home Bank have reached a tentative agreement regarding the Woodside
10 Property's treatment under the Plan. The agreement has been memorialized by a letter
11 agreement submitted to Smaha Law Group by Mr. James Kostas and shall be finalized in the
12 form of a stipulation to be submitted to the Court for approval. The agreement calls for
13 interest only payments for one year on the amount owed, being approximately \$5,589.39 a
14 year. The second year of the Plan would have one year of net rents that must fall between
15 a minimum of interest only payments and a maximum of an amortized rate for 6.67% over
16 a twenty five year period, with the estimated amount being \$6,457.01. Thereafter, years three
17 through five will be equal to payments of an amortized amount of interest and principal based
18 on the same 6.67% over a twenty five year amortization period. The estimated amount is
19 \$6,825.60. Debtors must also bring property taxes current (estimated at \$5,516.26) and
20 continue paying monthly tax set asides for future property tax payments. Thereafter, Debtors
21 must pay the full amount due on the Note at the end of the five year Plan. The final numbers
22 won't be available until a final settlement agreement is drafted by Home Bank and signed by
23 the parties to the agreement. Debtors would amend the Plan and Projections to reflect the
24 correct amount prior to confirmation. Home Bank's Claim is impaired under the Plan and
25 is entitled to vote on the Plan.

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1 **3. Secured Claim on Poway Road Property**

2 *Secured Claim: Class 2. 2010-1*

3 1st Bank of Beverly Hills was the original note holder on the Poway Road Property's
4 first secured claim. 1st Bank was taken over by the FDIC recently and sold this note, along
5 with other notes taken out by the Debtor, to a new entity that has only recently taken over,
6 2010-1. Debtor generally realizes more than enough to cover the \$15,400.27 a month
7 payment that 1st Bank is contractually entitled to and the Debtor believes that the Subject
8 Property is current on all loan payments. Generally, the Subject Property produces about
9 \$13,968.68 in net earnings after all payments (estimated at \$7,917.74 in monthly expenses
10 including property tax payments and the \$15,400.27 amortized payment).

11 Under the Plan, the Class 2 Claimant shall retain its secured claim of \$2,381,714.63
12 in full. Payments on the Class 2 Claimant's claim shall be made on a monthly basis. For the
13 first three years of the Plan, the Class 2 Claimant shall receive a monthly payment of
14 \$9,923.81 which is based on interest only payments based on a 5% interest rate. Payments
15 for years four and five would be increased to amortized payments on the full claim with a 5%
16 interest rate and an amortization schedule of twenty-five years. The payments would be in
17 the amount of \$13,923.27 for those last two years of the Plan. Thereafter, Debtors must pay
18 the full amount due on the Note at the end of the five year Plan. 2010-1's Class 2 Claim is
19 impaired under the Plan and is entitled to vote on the Plan.

20 **4. Secured Claim on 141 Broadway Property**

21 *Secured Claim: Class 3 (MFCU)*

22 MFCU has indicated that it's full claim against the 141 Broadway Property is
23 \$2,479,771.34 as of June 22, 2010. A previous appraisal done by MFCU's appraiser on June
24 20, 2006 valued the 141 Broadway Property at \$3,450,000.00. Debtors' independent
25 appraisal valued the property currently at \$1,720,000. The 141 Broadway Property has
26 current net rents of \$9,380.58. The appraisal from NPV Advisors, Inc. indicated that the 141
27 Broadway Property could generate as much as \$15,829.58 when the property becomes fully
28 let.

1 The Secured Claim of MFCU on the 141 Broadway Property shall be segregated into
2 secured and unsecured portions under 11 U.S.C § 506. Under Debtors' independent
3 valuation, MFCU has a secured claim of \$1,720,000. For the first three years of the Plan,
4 Debtors shall pay interest only payments based on a 5% interest rate and a twenty-five year
5 mortgage, which would make monthly interest only payments be \$7,166.67. This would
6 leave net earnings of \$2,213.91 for the first three years. The next two years would be
7 amortized payments of both interest and principle at \$10,054.95 based on a 5% interest rate
8 and a twenty-five year mortgage. Thereafter, Debtors must pay the full secured amount due
9 on the Note at the end of the five year Plan.

10 Under the Plan, the Debtors and their bankruptcies shall be substantively consolidated.
11 The LLC Debtor shall be dissolved and the 141 Broadway Property shall be transferred by
12 quitclaim deed to the individual Debtor. The Reorganized Debtor shall be Carol Karlovich
13 and all of the Debtors' real properties, shall be maintained by the Reorganized Debtor for the
14 benefit of the estate. Debtors previously filed a motion for substantive consolidation of the
15 two bankruptcies, which was denied without prejudice as premature. Debtors intend to
16 obtain consolidation by this Plan or by a subsequently filed motion for substantive
17 consolidation after this Disclosure Statement and Plan are filed with the Court.

18 The remaining amount unsecured amount would be treated as a Class 10 Unsecured
19 Claim and would receive the same treatment as all other unsecured claims. MFCU's Class
20 3 Claim is impaired under the Plan and is entitled to vote on the Plan.

21 Under 11 U.S.C. §1111(b), MFCU may elect to deem its entire claim to be fully
22 secured by the 141 Broadway Property. In the event that MFCU elects to be treated in such
23 a fashion, the Debtor may also then elect to surrender the 141 Broadway Property in full
24 satisfaction of MFCU's claim, thereby eliminating in full the Class 3 claim of MFCU and
25 eliminating any and all recourse claims of MFCU under Class 3 and/or Class 11 as against
26 the Debtors. MFCU's election must be made, in writing, on or before the last day to submit
27 ballots on the Plan. Debtor's election to surrender the property must be made prior to
28 Confirmation. If Debtor elects to retain the 141 Broadway Property, the Debtor shall

1 continue interest only payments at 5% for the first three years and would then make
2 amortized payments over the next two years as called for in the Plan, only with the full
3 secured amount.

4 **5. Secured Claim on 176 Knoll Road Property**

5 *Secured Claim: Class 4 (SDCCU)*

6 The Class 4 secured claim is secured by the Knoll Road Property. SDCCU was owed
7 \$2,807,622.86 as of June 22, 2010. Debtors independent appraisal identified the value as of
8 the Bankruptcy filing date as \$1,330,000.00 with net rents of \$7,493.09.

9 The Secured Claim of SDCCU on the Knoll Road Property shall be segregated into
10 secured and unsecured portions under 11 U.S.C § 506. Under Debtors' independent
11 valuation, SDCCU has a secured claim of \$1,330,000.0. Debtor shall pay interest only
12 payments based on a 5% interest rate and a twenty-five year mortgage, which would make
13 monthly interest only payments be \$5,541.67. This would leave net earnings of \$1,951.42
14 for the first three years. The next two years would be amortized payments of both interest
15 and principle at \$7,775.05 based on a 5% interest rate and a twenty-five year mortgage.
16 Thereafter, Debtors must pay the full secured amount due on the Note at the end of the five
17 year Plan.

18 The remaining amount unsecured amount would be treated as a Class 11 Unsecured
19 Claim and would receive the same treatment as all other unsecured claims. SDCCU's Class
20 4 Claim is impaired under the Plan and is entitled to vote on the Plan.

21 Under 11 U.S.C. §1111(b), SDCCU may elect to deem its entire claim to be fully
22 secured by the Knoll Road Property. In the event that SDCCU elects to be treated in such
23 a fashion, the Debtor may also then elect to surrender the Knoll Road Property in full
24 satisfaction of SDCCU's claim, thereby eliminating in full the Class 4 claim of SDCCU and
25 eliminating any and all recourse claims of SDCCU under Class 4 and/or Class 11 as against
26 the Debtors. SDCCU's election must be made, in writing, on or before the last day to submit
27 ballots on this Plan. Debtor's election to surrender the property must be made prior to
28 Confirmation. If Debtor elects to retain the Knoll Road Property, the Debtor shall continue

1 interest only payments at 5% for the first three years and would then make amortized
2 payments over the next two years as called for in the Plan, only with the full secured amount.

3 **6. Secured Claim on 2052 Via Casa Alta Property**

4 *Secured Claim: Class 5 (MFCU)*

5 The Class 5 secured claim of MFCU is secured by the Via Casa Alta Property. MFCU
6 is owed \$3,775,000.00 as of June 22, 2010. Because the Via Casa Alta Property is the
7 individual Debtor's primary residence, the Debtors do not have the ability to modify the
8 payment schedule for the Class 5 Claim. The contractual payment on the MFCU Class 5
9 Claim is \$12,100.00. The Debtor shall commence making regular monthly payments as of
10 the Effective Date of the Plan and shall continue regular monthly payments thereafter.
11 Thereafter, Debtors must pay the full secured amount due on the Note at the end of the five
12 year Plan. MFCU's Class 5 Claim is unimpaired under the Plan and is not entitled to vote on
13 the Plan

14 If any arrearage exists on the Via Casa Alta Property, the Debtor shall use any
15 Remaining Cash, the \$200,000 cash infusion from Karisa Karlovich and net rents after
16 payments are made to Administrative Claims in order to eliminate the arrearage. Debtors
17 estimate that the current arrearages are \$146,428.93. As indicated herein, the Debtors shall
18 provide payment to Administrative Claims first from the Remaining Cash. Thereafter, the
19 Debtors shall provide full payment of the arrearages to MFCU from Remaining Cash, from
20 the \$200,000 cash infusion from Karisa Karlovich and from net rents. Once all arrearages
21 have been paid, the loan shall be deemed current and thereafter shall proceed in accordance
22 with its terms. These payments shall be from the Distribution Account.

23 The Debtors shall also immediately list the Via Casa Alta Property for sale with a
24 court approved real estate broker. The Debtors shall make every effort to sell the Via Casa
25 Alta Property at a reasonable value. In the event of a sale fo the Via Casa Alta Property, all
26 proceeds, after paying costs of sale including commissions, will initially go towards
27 eliminating the Class 5 Claim of MFCU.

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1 **7. Second Secured Claim on 2052 Via Casa Alta Property**

2 *Secured Claim: Class 6*

3 The Class 6 secured claim of MFCU is secured by the Via Casa Alta Property. MFCU
4 was owed \$990,000.00 as of June 22, 2010. Debtors independent appraisal identified the
5 value as of the Bankruptcy filing date of the Via Casa Alta Property as \$3,730,000.00. As
6 such, under 11 U.S.C § 506., the Debtors have the ability to remove the full amount of
7 MFCU's secured claim from the Via Casa Alta Property as MFCU is fully unsecured in this
8 property.

9 As such, the full amount of MFCU Class 6 claim will be treated as a Class 11
10 Unsecured Claim and its Plan treatment shall be consistent with, and equal to, the treatment
11 given to all other Class 10 General Unsecured Claims. MFCU's Class 6 Claim is impaired
12 under the Plan and is entitled to vote on the Plan.

13 In the event that the Via Casa Alta Property is sold by the Debtors and the net revenue
14 for the sale is above and beyond MFCU's Class 5 Claim, all proceeds of the sale shall go to
15 MFCU's Class 6 claim up to and including the total value of its claim. Thereafter, if the Via
16 Casa Alta Property generates further net proceeds, the funds will be distributed to General
17 Unsecured Creditors and to the Reorganized Debtor on a 50/50 basis. For example, if the
18 Via Casa Alta Property generates \$10,000 above and beyond the costs of sale, Class 5 claims
19 and Class 6 claims, General Unsecured Creditors would receive a \$5,000 distribution to be
20 paid on a pro rata basis and the Reorganized Debtor would receive \$5,000.

21 In the event that MFCU's Class 6 claim is found to be partially secured by the Via
22 Casa Alta Property, under 11 U.S.C. §1111(b), MFCU may elect to deem its entire claim to
23 be fully secured by the Via Casa Alta Property. In the event that MFCU elects to be treated
24 in such a fashion, the Debtors may also then elect to surrender the Via Casa Alta Property in
25 full satisfaction of MFCU's claim, thereby eliminating in full the Class 6 claim of MFCU and
26 eliminating any and all recourse claims of MFCU under Class 6 and/or Class 11 as against
27 the Debtors. MFCU's election must be made, in writing, on or before the last day to submit
28 ballots on this Plan.

1 **8. Secured Claim on West San Marcos Property**

2 *Secured Claim: Class 7 (SDCCU)*

3 SDCCU'S secured claim on the West San Marcos Property is fully secured in the
4 amount of \$1,200,000.00 as of June 22, 2010. Debtors' independent appraisal set the current
5 value of the West San Marcos Property at \$1,370,000.00. The West San Marcos Property
6 has previously generated as much as \$16,383.54 when the property has been fully let.

7 For the first three years of the Plan, Debtors shall pay interest only payments based
8 on a 5% interest rate and a twenty-five year mortgage, which would make monthly interest
9 only payments be \$5,000.00. The next two years would be amortized payments of both
10 interest and principle at \$8,008.88 based on a 5% interest rate and a twenty-five year
11 mortgage. Thereafter, Debtors must pay the full secured amount due on the Note at the end
12 of the five year Plan. SDCCU's Class 7 Claim is impaired under the Plan and is entitled to
13 vote on the Plan.

14 **9. Secured Claim on South Santa Fe Property**

15 *Secured Claim: Class 8 (2010-1)*

16 2010-1 has a claim against the South Santa Fe Property for \$1,424,000.00 as of June
17 22, 2010. A previous appraisal done by 1st Bank of Beverly Hills's appraiser in November
18 of 2004 valued the South Santa Fe Property at \$2,075,000.00. Debtors' independent
19 appraisal valued the property currently at \$967,000.00. The South Santa Fe Property has
20 current net rents of \$5,898.99. The appraisal from NPV Advisors, Inc. indicated that the
21 South Santa Fe Property could generate as much as \$10,925.66 when the property becomes
22 fully let.

23 The Secured Claim of 2010-1 on the South Santa Fe Property shall be segregated into
24 secured and unsecured portions under 11 U.S.C § 506. Under Debtors' independent
25 valuation, MFCU has a secured claim of \$967,000.00. For the first three years of the Plan,
26 Debtors shall pay interest only payments based on a 5% interest rate and a twenty-five year
27 mortgage, which would make monthly interest only payments be \$4,029.17. This would
28 leave net earnings of \$1,869.82 for the first three years. The next two years would be

1 amortized payments of both interest and principle at \$5,652.99 based on a 5% interest rate
2 and a twenty-five year mortgage. Thereafter, Debtors must pay the full secured amount due
3 on the Note at the end of the five year Plan.

4 The remaining amount unsecured amount would be treated as a Class 11 Unsecured
5 Claim and would receive the same treatment as all other unsecured claims. 2010-1's Class
6 8 Claim is impaired under the Plan and is entitled to vote on the Plan

7 Under 11 U.S.C. §1111(b), MFCU may elect to deem its entire claim to be fully
8 secured by the South Santa Fe Property. In the event that MFCU elects to be treated in such
9 a fashion, the Debtor may also then elect to surrender the South Santa Fe Property in full
10 satisfaction of MFCU's claim, thereby eliminating in full the Class 8 claim of MFCU and
11 eliminating any and all recourse claims of MFCU under Class 8 and/or Class 11 as against
12 the Debtors. MFCU's election must be made, in writing, on or before the last day to submit
13 ballots on this Plan. Debtor's election to surrender the property must be made prior to
14 Confirmation. If Debtor elects to retain the Santa Fe Property, the Debtor shall continue
15 interest only payments at 5% for the first three years and would then make amortized
16 payments over the next two years as called for in the Plan, only with the full secured amount.

17 **10. Secured Claim on 7905-09 Broadway Property**

18 The Secured Claim of MFCU on the Lemon Grove Property is fully secured in the
19 amount of \$435,000.00 as of June 22, 2010. For the first three years of the Plan, Debtors
20 shall pay interest only payments based on a 5% interest rate and a twenty-five year mortgage,
21 which would make monthly interest only payments be \$1,812.50. The next two years would
22 be amortized payments of both interest and principle at \$2,542.97 based on a 5% interest rate
23 and a twenty-five year mortgage. Debtors shall make all distributions to MFCU directly,
24 without the use of the Distribution Agent or the Distribution Account. Thereafter, Debtors
25 must pay the full secured amount due on the Note at the end of the five year Plan. MFCU's
26 Class 9 Claim is impaired under the Plan and is entitled to vote on the Plan.

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1 **11. Priority Claims - IRS**

2 *Priority Claim: Class 10*

3 This class is comprised of the Priority Claim of the Internal Revenue Service (the
4 "IRS"). The IRS has filed a claim for allegedly unpaid taxes in the amount of \$211,151.58.
5 The Debtors have not filed tax returns for 2009 taxes and are in the process of having a CPA
6 employed in order to finalize those tax returns and will file tax returns once approval is
7 obtained and the CPA has time to draft and submit the tax returns. The Debtor anticipates
8 that the IRS will withdraw its claim when the IRS receive Debtors' tax returns showing
9 substantial losses for the year. If the Debtors have misinterpreted the IRS's claim and said
10 claim are not eliminated, then the Debtor shall pay the Class 9 claimant(s) Allowed Claim
11 in full as of the Effective Date or will submit all net rent payments currently targeted for
12 Class 10 General Unsecured Claims to the Class 9 Claims until they are fully paid, with
13 interest accruing under the Plan at the current federal short term rate of 0.46%. The Priority
14 Claimant is unimpaired under the Plan and is not entitled to vote on the Plan.

15 *Priority Claim Property Taxes: Class 10(a)*

16 This class is comprised of all pre-petition obligations owed to the County of San
17 Diego Treasurer - Tax Collector by the Debtors as a result of unpaid real property taxes on
18 the Debtors' various real properties. The Debtors are informed and believe that they are
19 current on the real property taxes for the Poway Road Property and for the West San Marcos
20 Property. The Debtors therefore believe that the property taxes for the 2009-2010 period
21 have not been paid on the following properties along with the Debtors' understanding of the
22 outstanding amounts owed:

23	Woodside Property	\$5,517.26
24	141 Broadway Property	\$25,810.00
25	Knoll Road Property	\$36,715.96
26	South Santa Fe Property	\$21,769.78
27	Via Casa Alta Property	<u>\$34,570.04</u>
28	Total	\$124,383.04

1 The outstanding amounts listed above shall be paid in full in full as of the Effective
2 Date or will submit all net rent payments currently targeted for Class 10 General Unsecured
3 Claims to the Class 9(a) Claims until they are fully paid, with interest accruing under the Plan
4 at the current federal short term rate of 0.46%. The Priority Property Tax Claimants are
5 unimpaired under the Plan and are not entitled to vote on the Plan.

6 **12. General Unsecured Claims**

7 *Unsecured Claim: Class 11*

8 *General Unsecured Claim: Class 11:* Holders of Allowed General Unsecured Claims
9 shall receive, in full satisfaction of such claims, pro rata Cash payments in an amount equal
10 to approximately 34.23%, without interest, of the amount of their claim by the expiration of
11 the Plan. As more fully discussed below, distributions to Unsecured Creditors will be made
12 from the Distribution Account and according to the terms and conditions as indicated herein.
13 Generally, payments on the Allowed General Unsecured Claims shall be made on a quarterly
14 basis after the Effective Date if the Debtor is current with Secured Creditors. The Allowed
15 General Unsecured Claims that are not paid in full from distributions within the Plan shall
16 be discharged at the expiration of sixty (60) months from the Effective Date, subject to
17 motion of the Debtor for discharge prior to the expiration of sixty (60) months through
18 substantial consummation of the Plan under 11 USC Section 1141 (“Discharge Date”).
19 Notwithstanding the occurrence of the Discharge Date, if any Litigation Actions identified
20 herein have not come to a final resolution and Allowed General Unsecured Claimants have
21 not been paid in full, the Reorganized Debtor’s bankruptcy will remain open for the limited
22 purpose of distributing proceeds from those actions. The Debtor does not anticipate filing
23 any Litigation Actions. All other property or assets in the estate will no longer be available
24 for distribution and the Reorganized Debtor will make no contribution to the estate.

25 General Unsecured Claims shall receive a distribution of all net rents each quarter for
26 the full five years of the plan, plus proceeds from the sale of the Fax Shares and proceeds
27 from the sale of the Debtors’ real property lots, a total estimated distribution of
28 \$1,316,752.08, an amount that will be reduced by payments to be made to Real Property Tax

1 Priority Claimants. The Debtors have estimated that Administrative Expenses shall cost the
2 estate approximately \$100,000 and shall be paid from Remaining Cash and from the cash
3 infusion by Karisa Karlovich after those expenses have been reduced by a retainer held by
4 Debtors' bankruptcy counsel of approximately \$20,000.00.

5 The Class 5 Secured Claimant is owed \$136,429.93 in arrearages which will be paid
6 in full by the Remaining Cash and the cash infusion from Karisa Karlovich. The next claims
7 to be paid would be those to be paid to Class 10(a) Priority Property Tax Claims. The
8 estimated amount of these claims is \$124,383.04. The Remaining Cash and cash infusion
9 from Karisa Karlovich will be used to reduce these claims to approximately \$26,645.97.
10 This remaining amount will be paid from the net rents, proceeds from the sale of the Fax
11 Shares and/or proceeds from the sale of the Debtors' real property lots. Once these are paid,
12 the remained of the net rents, proceeds from the sale of the Fax Shares and/or proceeds from
13 the sale of the Debtors' real property lots will go to General Unsecured Creditors. The total
14 estimated payout to these creditors will be \$1,290,106.11, or 34.23% of their claims as
15 provided above.

16 The Debtor estimates that there are approximately \$3,768,677.24 in General
17 Unsecured Claims, including the residual secured claims from the real properties.
18 Undisputed General Unsecured Claims are impaired under the Plan and are entitled to vote
19 on the Plan.

20 **13. Subordinated Unsecured Creditor - Karisa Karlovich**

21 Subordinated Claim: Class 12:

22 During the pendency of this bankruptcy, Karisa Karlovich, shall not receive any
23 distributions from the estate. Her claim of \$200,000 shall accrue interest at a rate of 5% per
24 annum. The full amount of her claim, including accrued interest, shall be paid in full after
25 the Plan is completed and within sixty-six (66) months of the Effective Date, unless the
26 Reorganized Debtor and Karisa Karlovich agree otherwise after the completion of the Plan.

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1 **14. Equity Holders - Carol Karlovich**

2 *Equity Claim: Class 13*

3 Under the Plan, Carol Karlovich, and her daughter, Karisa Karlovich, shall
4 collectively receive an ongoing insider salary of \$3,000.00 a month so they can manage the
5 Reorganized Debtors and ensure that the real properties reach full capacity and remain full
6 once that goal is attained. Carol and Karisa Karlovich shall also ensure that all deposits are
7 made into the Distribution Account and shall make sure that all ongoing reporting and
8 operating requirements are met during the Post-Confirmation stage of this Bankruptcy.
9 Karisa Karlovich is not an equity holder and would receive her portion of the \$3,000 solely
10 as an insider providing services to the Reorganized Debtors.

11 Carol Karlovich would, at the end of the Plan, be allowed to retain all of the exempted
12 property listed on the Debtors' schedules and would further retain possession of any and all
13 real properties for which she could provide full payment to the secured creditors holding
14 valid and effective liens on each property.

15 If the Debtors sell any of the Debtors' real properties, with the exception of the Kern
16 County Lots, the Debtors shall pay the full secured claim of the secured creditors holding a
17 lien on a sold real estate property. Thereafter, the Debtors would retain any net proceeds
18 from the sale of any real estate property, excluding the Kern County Lots, and would apply
19 the net proceeds towards potentially unpaid Administrative Claims, ongoing operating
20 expenses of the Reorganized Debtors and/or use the net proceeds to pay down or eliminate
21 other secured claims on Debtors' unsold real properties.

22 **B. Plan Distributions to Classes of Creditors**

23 Unless otherwise provided herein, any distributions and deliveries to be made on
24 account of Allowed Claims hereunder shall be in complete settlement, satisfaction and
25 discharge of such Allowed Claims. Except as specifically provided herein, at the option of
26 the Debtor, any Cash payment to be made hereunder may be made by check or wire transfer,
27 or as otherwise required or provided in applicable agreements. All unclaimed Plan
28 Distributions shall revert to the Debtors.

1 properties for lease, (d) Debtors are in the process of employing CBRE to list one real
2 property for lease, and (e) Debtors are in the process of employing CPA, Howard Silberman
3 to prepare Debtors' tax returns for 2009.

4 **2. Operation of Debtors' Business**

5 The Debtors have continued the operation of their commercial real estate rental and
6 leasing business. Debtors' rental income has been steady and the Debtors have been hard at
7 work attempting to lease vacant spaces. Debtors are maintaining the same level of
8 performance and profitability from their real estate business and intend to continue to put in
9 their full time efforts, along with the efforts of Karisa Karlovich, to increase the performance
10 and profitability of the Debtors' real properties. The Debtors anticipate that they can increase
11 the general level of leasing operations during the time period for the Plan and eventually
12 reach a point where all of the Debtors' real properties and their vacant spaces will be fully
13 let..

14 **3. Funding of the Distribution Account**

15 The Debtors shall fund the Distribution Account with the Karisa Karlovich infusion
16 of funds of \$200,000 the Remaining Cash, the proceeds of the sale of the FAZ shares and the
17 empty lots, and net rental income from the operation of their commercial real estate rental
18 business. As expressed above, the Debtors shall pay all Administrative Expenses at, or
19 around, the time of the Effective Date. Debtors shall thereafter pay all arrearages to the Class
20 5 creditor and then outstanding property tax bills with remaining funds, if available. The
21 Debtors shall have approximately \$100,000 in Remaining Cash, \$200,000 from Karis
22 Karlovich and further cash from net rents and/or potential sale of the FAZ shares and the
23 empty lots available to pay these funds at this time and may have more by the time the Plan
24 is confirmed. Thereafter, the Distribution Account shall be funded and maintained from the
25 operation of the Debtors' commercial real estate rental business with deposits of all net rental
26 incomes into the Distribution Account. The Debtors anticipate generating substantial gross
27 income a month covering all ongoing operating expenses and mortgage payments to all
28 secured creditors with substantial net rents left over to provide substantial payments to

1 General Unsecured Creditors.

2 **4. Litigation Claims and Settlements**

3 The Debtors do not anticipate filing any Litigation Claims. Any settlements that are
4 reached on potential, currently unknown Litigation Claims shall be subject to Court approval
5 after noticed motion.

6 **5. Debtor's Real Properties**

7 *Debtor's Ongoing Lease Negotiations*

8 The Woodside Property currently has three vacant units available for rent. Debtor is
9 negotiating with a current tenant that runs a bar from one space to move into a larger space,
10 although the lease payment will likely not increase by much. The move in to the larger unit
11 will give the Debtor a longer term lease with the bar tenant and will open a smaller unit for
12 rent that should be easier to list and rent. This will reduce the vacant spaces from three to
13 two, but will not increase the gross rentals for the time being. However, the two remaining
14 spaces should be easier to rent with smaller square footage available and with the Woodside
15 Property being

16 Debtors have Radelow Gittings as a property manager for this property, but it only
17 does property management. Debtors have personally handled leasing of the Woodside
18 Property and do not have anyone currently listing the Woodside Property. Debtors have
19 signage at the properties available for rent, signage leading into the property and are in
20 discussions with Lee & Associates to obtain their services for active listings through Lee &
21 Associates proprietary services and online listings.

22 With regards to the Poway Road Property, as the property is fully let, the Debtors have
23 not and will not retain any broker to list the Poway Road Property for rent. The net earnings
24 of the Poway Road Property will be used in the Plan to cover shortfalls for other real
25 properties, including the Debtor's residence, the Via Casa Alta Property and to provide
26 payments to General Unsecured Creditors.

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1 The Broadway Property is a commercial building with approximately 4,000 sq.ft. of
2 rentable space. The Broadway Property is currently separated into two (2) distinct rentable
3 spaces. Previously it had been fully rented to Krispy Kreme. However, as a result of Krispy
4 Kreme's bankruptcy, the lease was abandoned and the property was left vacant for some
5 time. Del Taco, the current tenant, decided to only occupy a portion of the Broadway
6 Property and left approximately 1,200 sq.ft unrented for the last two years. Currently, the
7 Debtor is negotiating with a potential tenant that is looking to fill the second unit of the
8 Broadway Property. The Debtor has had some difficulty in getting the lease finalized due
9 to difficulties with Del Taco and other tenants. The new tenant is a bbq spot, Geno's
10 Barbeque, and would help significantly increase the gross income of the Broadway Property.

11 The Knoll Road Property is a 14,000 sq.ft. commercial building that consists of one
12 large unit. The current tenant, Creative Leather Furniture has been at the property for over
13 five years. It's original lease called for lease payments of \$20,000 a month plus NNN
14 expenses. By an amendment dated December 1, 2008, the rent to Creative was reduced to
15 \$11,667.00. By a second amendment dated February 1, 2010, the rent was further reduced
16 to \$10,000. There is also a promissory note owed by Creative to the Debtors in the amount
17 of \$34,721.79 from December 1, 2008, indicating that unpaid rents had to be paid back.
18 Currently, Debtors indicate that it could insist on an increase in rent on the Knoll Road
19 Property but is unsure if that would result in any solid payment from Creative. As indicates
20 above, Creative has agreed to a new, third lease amendment and the Debtor has already
21 increased the gross rental income of the Knoll Road Property and shall have an additional
22 4,667 square foot space to further increase gross rents.

23 The Debtors currently resides at the Via Casa Alta Property and maintains the property
24 as her home and office from which Debtors operate their management and rental duties.
25 Debtors are in the process of contacting brokers and identifying the potential rental value and
26 potential rental rates that the Via Casa Alta Property generates. If the Via Casa Alta
27 Property can generate substantial gross rental income, the Debtors shall seek to increase their
28 monthly insider salary to cover rent for alternative residence. The costs of alternative living

1 accommodations will be taken into consideration when Debtors make decision to rent the Via
2 Casa Alta Property or not. Any additional net rental income produced by Via Casa Alta
3 would be added to the Net Rent payments to General Unsecured Creditors.

4 The West San Marcos Property is a commercial property with approximately 3,796
5 sq.ft. of rentable space separated into four units. The Debtor previously had all four units
6 rented out, generating gross income of \$16,383.54. However, one tenant has recently moved
7 out and one of the four units is now vacant. With the vacancy, the Debtor is only generating
8 \$11,843.97. The Debtor has engaged Lee & Associates to list the vacant property for rent
9 and is in the process of obtaining approval for their employment.

10 The Santa Fe Property is a commercial building with 7,200 sq.ft of rentable space
11 divided into six separate units. Currently, the Santa Fe Property only has four units rented
12 and has two vacant units. Debtor has engaged Lee & Associates to list the Santa Fe Property
13 vacancies for leasing. The Debtor is in the process of obtaining court approval for those
14 leasing listings.

15 *Motion For Relief From Stay on Woodside Property*

16 Home Bank of California filed a relief from stay action on July 13, 2010, alleging that
17 it was not adequately protected and that the Woodside Property was not necessary for an
18 effective reorganization. In its motion papers, Home Bank indicated it was owed
19 \$1,008,587.42 as of June 22, 2010. A previous appraisal done by Home Bank's appraiser
20 on September 7, 2006 valued the Woodside Property at \$1,600,000.00. Debtor opposed the
21 motion by indicating the value of the Woodside Property was determined by an independent
22 appraisal at \$1,050,000.00, indicating that the net rents of \$6,457.01 were more than enough
23 to adequately protect Home Bank and that the Woodside Property could be an important part
24 of the Debtor's reorganization. The appraisal from NPV Advisors, Inc. indicated that the
25 Woodside Property could generate as much as \$13,854.50 when the property became fully
26 let.

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1 Debtor and Home Bank have reached a tentative agreement regarding the Woodside
2 Property. The agreement has been memorialized by a letter agreement submitted to Smaha
3 Law Group by Mr. Kostas. The agreement calls for interest only payments for one year,
4 followed by one year of net rents that must fall between a minimum of interest only payments
5 and a maximum of an amortized rate for 6.67% over a twenty five year period. Thereafter,
6 years three through five will have to equal payments of an amortized amount of interest and
7 principal based on the same 6.67% over a twenty five year period. Debtor also must bring
8 property taxes current (estimated at \$5,516.26) and continue paying monthly tax set asides
9 for future property tax payments. Thereafter, Debtor must pay the full amount due on the
10 Note at the end of the five year agreement. The final numbers won't be available until a final
11 settlement agreement is drafted up by Home Bank.

12 Motion For Relief From Stay on 141 Broadway Property

13 MFCU filed a motion for relief from stay on this property on July 14, 2010 alleging
14 that it was not adequately protected and that the 141 Broadway Property was not necessary
15 for an effective reorganization. In its motion papers, MFCU indicated it was owed
16 \$2,479,771.34 as of June 22, 2010. A previous appraisal done by MFCU's appraiser on June
17 20, 2006 valued the Broadway Property at \$3,450,000.00. Debtor opposed the motion by
18 indicating the value of the 141 Broadway Property was determined by an independent
19 appraisal at \$1,720,000, indicating that the net rents of \$9,380.58 were more than enough to
20 adequately protect MFCU and that the Broadway Property could be an important part of the
21 Debtor's reorganization both currently and fully let. The appraisal from NPV Advisors, Inc.
22 indicated that the 141 Broadway Property could generate as much as \$15,829.58 when the
23 property became fully let. The Court took the matter under submission and a decision on this
24 motion is still pending.

25 Motion for Relief From Stay on Knoll Road Property

26 SDCCU filed a motion for relief from stay on this property on June 25, 2010 alleging
27 that it was not adequately protected and that the Knoll Road Property was not necessary for
28 an effective reorganization. In its motion papers, SDCCU indicated it was owed

1 \$2,807,622.86 as of June 22, 2010. Debtor opposed the motion by indicating the value of
2 the Knoll Property was determined by an independent appraisal at \$1,330,000.00, indicating
3 that the net rents of \$7,493.09 were more than enough to adequately protect SDCCU for that
4 secured claim and that the Knoll Road Property could be an important part of the Debtor's
5 reorganization. One problem with Debtor's plans for the property's future is that the
6 property is not likely to generate much more income over the next few years. The Court set
7 an evidentiary hearing for September 8, 2010 at 9:00 a.m. to determine if the Knoll Road
8 Property is necessary for reorganization. The parties to this motion, SDCCU and the
9 Debtors, have agreed to continue the hearing on this matter until October 20, 2010 at 9:00
10 a.m. The Debtors have briefed the issue of whether or not the Knoll Road Property is
11 necessary for the Debtors' reorganization.

12 *Motion to Strip Lien on Via Casa Alta Property*

13 Debtor has filed a motion to strip the HELOC loan of MFCU off of the Via Casa Alta
14 Property under the Bankruptcy Code. MFCU has opposed the motion and is awaiting a
15 detailed appraisal. The Court set a status conference for October 4, 2010 at 11:00 a.m. prior
16 to setting an evidentiary hearing to determine valuation. Counsel for MFCU has indicated
17 that he has an appraisal pending and may be filing a motion for relief from stay soon after
18 he receives it. The appraisal was to have been received several weeks ago, but Debtors have
19 not received or heard anything from MFCU on the matter.

20 *Motion to Substantively Consolidate*

21 The Debtors filed a motion to substantively consolidate the cases of Carol Karlovich
22 and Karlovich Financial, LLC. The matter was heard on August 30, 2010 before the
23 Honorable Peter W. Bowie. The motion was denied without prejudice based, primarily on
24 the Court's position that the motion may have been premature. The Debtors, as indicated
25 above, intend to substantively consolidate these matters by the terms of the Plan or by
26 motion, to be filed after the filing of this Disclosure Statement and the Debtors' Joint Plan

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1 **6. Accounting/Reporting**

2 a. Quarterly Reports: As more fully described herein, the Reorganized Debtors will
3 provide Quarterly Reports summarizing Distribution Account transactions, including an
4 itemization of all deposits and withdrawals. The Reorganized Debtors will provide the
5 Quarterly Report to the Court and will serve the report on the United States Trustee and any
6 creditor that formally requests a copy by written request to the Reorganized Debtors or the
7 Reorganized Debtors' counsel. The Quarterly Report will provide total deposits and
8 withdrawals, a description of each deposit and withdrawal and a total balance for the
9 Distribution Account. The Quarterly Report will not summarize or provide additional detail
10 on the Reorganized Debtor's business operations.

11 The Reorganized Debtors will provide Operating Reports as required, although the
12 level of detail will be subject to the same caveats identified in the Reorganized Debtors'
13 Business Operations Section of this Disclosure Statement. Notwithstanding any other
14 provision the Reorganized Debtor's Quarterly Reports will substantially conform to the Post-
15 Confirmation Report, required by 28 U.S.C. § 586(a)(3)(D) and 11 U.S.C. § 1106(a)(1). The
16 Quarterly Report will stop when, and if, the Debtor seeks and obtains an order finding that
17 the Plan has been substantially consummated under 11 U.S.C. § 1101.

18 **7. Expenses**

19 a. Personal Living Expenses: Carol Karlovich and insider Karisa Karlovich will
20 jointly received \$3,000 from the Reorganized Debtors' estate to pay a portion of their
21 personal living expenses. The Debtors believes they can generate sufficient income from
22 their business operations in order to cover the monthly contribution to the estate and the
23 personal expenses of Carol and Karisa Karlovich. As such, the Reorganized Debtors will not
24 use any funds from the Distribution Account to cover any personal living expenses after the
25 Effective Date. In the event that the Debtors rent out the Via Casa Alta Property to increase
26 rental income, the Debtors will likely file a motion with this Court to approve alternate
27 housing for Carol and Karisa Karlovich.

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1 **A. Classification and Treatment of Claims**

2 If the Plan is confirmed by the Bankruptcy Court, each holder of an Allowed Claim
3 in a particular class will receive the same treatment as the other holders in the same class of
4 Claims, whether or not such holder voted to accept the Plan. Moreover, upon confirmation,
5 the Plan will be binding on all of the Debtor's creditors whether or not such creditors voted
6 to accept the Plan. Such treatment will be in full satisfaction, release and discharge of and
7 in exchange for such holder's respective Claims, except as otherwise provided in the Plan.
8 Creditors are advised that, to the extent that their claims are not in a class that will receive
9 payment, in full, on the Effective Date, that the present value of funds received under the
10 Plan is less than the aggregate amount of the payments received over time, under the Plan.
11 This maxim recognizes that a dollar received one year from today is worth less than a dollar
12 received today. In performing a present value analysis, creditors should consult their
13 financial advisor for a determination of an appropriate discount rate.

14 **B. Implementation of the Plan**

15 **1. Operation of the Debtor:** Upon confirmation of the Plan, the Reorganized
16 Debtors will have the authority to (i) have the Distribution Agent make all Plan Distributions
17 as otherwise contemplated by the Plan, (ii) prosecute and settle any objections to Claims, and
18 (iii) take any and all other actions reasonably necessary to effectuate the purposes of the Plan.

19 **2. Estate Assets:** Except for secured liens on real property of the Reorganized
20 Debtor, all real property of the estate shall be held in trust by the Reorganized Debtor for the
21 benefit of the estate, until such time as the Unsecured Claims have been paid as provided in
22 the Confirmation Order. Upon all plan payments to Unsecured Claims, the assets of the
23 Debtor shall immediately vest in the Reorganized Debtor, free and clear of all Claims, liens,
24 encumbrances, charges and other interests, without further order from the Bankruptcy Court.

25 As of the Effective Date, the Reorganized Debtor's business operations created post-
26 petition and all proceeds therefrom, shall vest in the Reorganized Debtor, free and clear of
27 all Claims, liens, encumbrances, charges and other interests, without further order from the
28 Bankruptcy Court. After assets vest in the Reorganized Debtor, she may operate her business

1 and may use, acquire, and dispose of property free of any restrictions of the Bankruptcy Code
2 or the Bankruptcy Rules and in all respects as if there were no pending case under any
3 chapter or provision of the Bankruptcy Code, except as otherwise provided in the Plan.

4 **3. Prosecution of Causes of Action and Avoidance Actions:** All avoidance
5 actions and avoidable transfers assertable by the Debtors-in-Possession, pursuant to sections
6 542 through 553 of the Bankruptcy Code, and other causes of action, if any, including actions
7 identified as the Litigation Actions, shall be retained by the Reorganized Debtors-in-
8 possession and he shall have standing, authority and capacity to prosecute such Claims and
9 Causes of Action in his sole discretion as he deems appropriate. Net recoveries from the
10 same shall be distributed as provided in the Plan. The Debtors have no pending Avoidance
11 Actions and do not anticipate asserting such actions before the Effective Date or during the
12 sixty months (60) months following the Effective Date. Debtors do not anticipate filing
13 Litigation Actions at this time.

14 **4. Distributions by the Debtors:** On the Effective Date, or as soon thereafter as
15 funds exist in the Distribution Account and in accordance with the terms of this Plan, the
16 Debtors shall pay (or reserve sufficient amounts to pay), through the Distribution Agent, all
17 remaining Allowed Claims to those claimants holding Administrative Expense Claims, Fee
18 Claims, Secured Administrative Expense Claims, and Priority Claims as provided in the Plan.
19 Thereafter the Reorganized Debtors shall pay the holders of Allowed Unsecured Claims
20 pursuant to the terms of the Plan.

21 **5. The Distribution Account:** The Distribution Account shall be a federally
22 insured bank account to be administered and maintained by the Distribution Agent, which
23 is to be created pursuant to and for the purposes set forth in the Plan. The Distribution Assets
24 shall be used to implement the Plan and shall be devoted to the payment of Trust Expenses
25 and distributions to Allowed Claims.

26 Neither the Reorganized Debtors nor the Distribution Agent shall incur responsibility
27 or liability by reason of any error of law or any matter or thing done or suffered or omitted
28 to be done under a Quarterly Report, except for willful misconduct, breaches of fiduciary

1 duty, or negligence. No claim or cause of action shall lie against the Reorganized Debtor or
2 the Distribution Agent if a misstatement or omission is corrected by an amendment.

3 **6. Transfer of Distribution Assets:** Pursuant to the terms of the Plan, the
4 Reorganized Debtors shall grant, release, assign, transfer and deliver the Distribution Assets
5 to the Distribution Agent as of the Effective Date and for a period of eighty-four (84) months
6 after the Effective Date. The Distribution Assets are to be held for the benefit of the holders
7 of Claims against the Reorganized Debtor and to be applied as specified in the Plan, the
8 Confirmation Order, the Plan Documents, and any other orders relating thereto. The
9 Distribution Assets which the Reorganized Debtor shall grant, release, assign, transfer and
10 deliver to the Distribution Agent as of the Effective Date and for eighty-four (84) months
11 thereafter shall consist of the (i) Initial Distribution Assets, (ii) net recoveries from Litigation
12 Actions, (iii) net proceeds from the sale of the Debtor's Subject Property, and (iv) income
13 capped at \$5,000 per month generated from the Reorganized Debtor's business operations.

14 **7. Distribution Agent and Distribution Powers:** The Distribution Agent shall be
15 established for the purposes set forth in the Plan, including, without limitation, to (i) provide
16 the Court and the United States Trustee with quarterly reports on net income and
17 distributions, to (ii) make all Plan Distributions as otherwise contemplated in the Plan, and
18 (iii) to take any and all other actions reasonably necessary to effectuate the purposes of the
19 Plan. As more fully described above, the Distribution Agent will file quarterly reports with
20 the Court, and such reports will be served on the United States Trustee. The Distribution
21 Agent will file such quarterly reports as long as the case is open and will serve the same upon
22 any party that requests such report in writing.

23 The Distribution Agent shall be the Smaha Law Group, APC. The Distribution Agent
24 may be contacted by creditors and/or interested parties at the following address: 7860
25 Mission Center Court, Suite 100, San Diego, California, Tel. (619) 688-1557, Fax (619) 688-
26 1558. All inquiries should be directed to John L. Smaha and/or Gustavo E. Bravo. The
27 Distribution Agent will not be compensated by and through the Debtor's Plan except for
28 reimbursement of Estate Expenses as provided above. The Distribution Agent will not be

1 bonded as the Distribution Agent shall maintain the funds in their client trust account and the
2 funds will not be in any risk.

3 **8. Liquidation of Distribution Assets:** From and after the Effective Date, the
4 Distribution Agent is empowered to distribute assets from the Distribution Account in
5 accordance with the terms and conditions of the Plan.

6 **9. Distribution Expenses:** The Distribution Agent shall from time to time after the
7 Effective Date, pay from the Distribution Account, Distribution Expenses, which expenses
8 shall include, postage, paper, casual labor, bookkeeping, travel and related expenses capped
9 at \$10,000 for the life of the Plan. Such expenses shall not include any attorneys fees or
10 general overhead of the Debtor. If the Distribution Agent determines that it is necessary, the
11 Distribution Expenses shall include the expense of retaining a third party, certified public
12 accountant to review and certify income and distributions. In such an event, the Distribution
13 Agent will be authorized to hire and retain a certified public accountant without further order
14 of the Bankruptcy Court. Any expenses of litigation of the Reorganized Debtor, including
15 attorneys fees, costs and expert expenses incurred in any action, objection, or otherwise, shall
16 not be a Distribution Expense, but rather an expense of the Reorganized Debtor.

17 The Distribution Expenses shall be paid without further order of the Bankruptcy Court.
18 The Distribution Expenses shall have first priority in payment from the Distribution Account.

19 **10. Limitation of Liability:** In exercising the rights and duties set forth in the Plan,
20 the Distribution Agent shall exercise his best judgment so that all distributions are distributed
21 fairly and in accordance with the Plan. The Distribution Agent shall incur no responsibility
22 or liability by reason of any error of law or any matter or thing done or suffered or omitted
23 to be done under the Plan, except for willful misconduct, breaches of fiduciary duty, or
24 negligence of such Distribution Agent. No claim or cause of action shall lie against any
25 Distribution Agent in reasonable reliance upon the advice of any attorney or other
26 professional engaged or consulted with.

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1 **11. Debtor's Personal Expenses:** As more fully discussed herein, the Reorganized
2 Debtors will make net rent payments into the Distribution Account. The Reorganized Debtor
3 will not use funds from the Distribution Account for his ongoing expenses during the Plan.
4 The Reorganized Debtors will use the \$3,000.00 insider salaries paid to Carol Karlovich and
5 Karisa Karlovich to cover their monthly expenses.

6 **12. Time Bar to Payments:** The Reorganized Debtors shall stop payment on any
7 distribution check that has not cleared through the Distribution Account within ninety (90)
8 days of the date of issuance thereof. Requests for re-issuance of any such checks shall be
9 made directly to the Distribution Agent by the holder of the Allowed Claim with respect to
10 which such check was issued. Any claim in respect of such voided check shall be made
11 within one hundred and eighty (180) days after the date of the issuance of such voided check.
12 If no request is made as provided herein, all Claims in respect of voided checks shall be
13 discharged and forever barred. The amount represented by such unclaimed checks, and those
14 undeliverable after commercially reasonable diligence, shall be distributed Pro Rata to the
15 remaining holders of Allowed Claims, pursuant to the terms of this Plan. Distributions to
16 holders of Allowed Claims shall be made to their last known address, which shall be
17 presumed to be as set forth on the proof of claim filed by such Claimant, or if no proof of
18 claim was filed, on the Schedules filed by the Debtor, as may have been amended from time
19 to time, unless a Claimant shall have supplied a new or corrected address in writing to the
20 Reorganized Debtor or Reorganized Debtor's counsel within two weeks prior to a
21 Distribution to permit the Debtor to revise his records accordingly.

22 **13. Exemption from Securities Laws:** The issuance of any securities, if any,
23 pursuant to the Plan, shall be exempt from any securities laws registration requirements to
24 the fullest extent permitted by section 1145 of the Bankruptcy Code.

25 **14. Special Tax Provisions:** Pursuant to section 1146 of the Bankruptcy Code, the
26 issuance, transfer or exchange of any notes or securities under the Plan, the creation of any
27 mortgage, deed of trust or other security interest, the making or assignment of any lease or
28 sublease, or the making or delivery of any deed or other instrument of transfer under, in

1 furtherance of, or in connection with the Plan, including, without limitation, any deeds, bills
2 of sale or assignments executed in connection with any of the transactions contemplated
3 under the Plan shall not be subject to any stamp, real estate transfer, mortgage recording or
4 other similar tax.

5 **15. Noticed Motion:** Settlement of any Litigation Action, sale of any real property,
6 abandonment of real property, modification of a secured claim, and objection to claims shall
7 be by noticed motion only.

8 **C. The Plan Documents**

9 The Plan includes the Plan Documents which means those certain agreements,
10 documents and instruments entered into on or as of the Effective Date as contemplated by,
11 and in furtherance of, the Plan. The Plan Documents shall be included as part of the Plan
12 Supplement, if any. On the Effective Date, the Debtor, and the Reorganized Debtor shall
13 execute and deliver the Plan Documents as required under the Plan, if any. The solicitation
14 of votes on the Plan shall be deemed a solicitation for the approval of the Plan Documents
15 and all transactions contemplated thereunder. Entry of the Confirmation Order shall
16 constitute approval of the Plan Documents and all such transactions.

17 **D. Compromise of Controversies**

18 Pursuant to Bankruptcy Rule 9019, and in consideration for the classification,
19 distribution and other benefits provided under the Plan, the provisions of the Plan shall
20 constitute a good faith compromise and settlement of all Claims and controversies resolved
21 pursuant to the Plan, including, without limitation, all Claims arising prior to the Petition
22 Date, whether known or unknown, foreseen or unforeseen, asserted or unasserted, arising out
23 of, relating to or in connection with the business or affairs of or transactions with the Debtor.
24 The entry of the Confirmation Order shall constitute the Bankruptcy Court's approval of each
25 of the foregoing compromises or settlements, and all other compromises and settlements
26 provided for in the Plan, and the Bankruptcy Court's findings shall constitute its
27 determination that such compromises and settlements are in the best interests of the Debtor,
28 the estate, creditors and other parties in interest, and are fair, equitable and within the range

1 of reasonableness.

2 **E. Procedures for Disputed Claims**

3 **1. Generally:** The Debtor does not anticipate disputing or objecting to any claims.
4 However, the Debtor reserves the right to dispute and/or object to claims pursuant to the
5 following procedures:

6 **2. Objections to Claims:** Other than with respect to Fee Claims, only the
7 Reorganized Debtor shall be entitled to object to Claims, including any Claim which was
8 listed by the Debtor in the Schedules in an amount not disputed or contingent. Any objections
9 to such Claims (other than Fee Claims) shall be served and filed on or before the later of: (a)
10 ninety (90) days after the Effective Date; (b) thirty (30) days after a request for payment or
11 proof of Claim is properly filed and served upon the Debtor; or (c) such other date as may
12 be fixed by the Bankruptcy Court, whether fixed before or after the date specified in clause
13 (a) hereof. Notwithstanding the above, any objection to a Claim shall be served and filed on
14 or before thirty (30) days after the Confirmation Date. Notwithstanding any authority to the
15 contrary, an objection to a Claim shall be deemed properly served on the claimant if the
16 Reorganized Debtor effects service in any of the following manners: (a) in accordance with
17 Federal Rule of Civil Procedure 4, as modified and made applicable by Bankruptcy Rule
18 7004; (b) to the extent counsel for a claimant is unknown, by first class mail, postage prepaid,
19 on the signatory of the proof of claim as well as all other representatives identified in the
20 proof of claim or any attachment thereto; or (c) by first class mail, postage prepaid, on any
21 counsel that has appeared on the claimant's behalf in the Reorganization Case (so long as
22 such appearance has not been subsequently withdrawn). The Plan shall not affect any party's
23 rights to object to Fee Claims.

24 **3. Payments and Distributions with Respect to Disputed Claims:** To the extent
25 a Claim is a Disputed Claim, the Debtor shall not be required to make the applicable disputed
26 portion of a payment to the holder of such Disputed Claim which would otherwise be payable
27 to the holder of a Disputed Claim. In the event that Disputed Claim is subsequently allowed,
28 the Distribution Account shall thereafter pay the appropriate amount to the holder of the

1 Claim in accordance with the terms of the Plan and in the same manner as any other creditor
2 of the same Class.

3 **F. Executory Contracts and Unexpired Leases**

4 **1. General Treatment:** Unless otherwise expressly assumed in writing prior to the
5 Effective Date of the Plan, or otherwise specifically provided for below, all pre-petition
6 executory contracts and leases in which the Debtors are lessees of the Debtors shall be
7 deemed rejected upon the Effective Date of the Plan. To the extent necessary, the Debtors
8 shall reaffirm any and all leases in which the Debtors are lessors.

9 **2. Cure of Defaults:** Except to the extent that different treatment has been agreed
10 to by the non-debtor party or parties to any executory contract or unexpired lease to be
11 assumed, the Reorganized Debtor shall within thirty (30) days after the Effective Date, file
12 and serve on parties to any executory contracts or unexpired leases to be assumed and other
13 parties in interest a pleading with the Bankruptcy Court listing the cure amounts of all
14 executory contracts or unexpired leases to be assumed. The parties to such executory
15 contracts or unexpired leases to be assumed by the Reorganized Debtor shall have fifteen
16 (15) days from the date of service to object to the cure amounts listed by the Debtor. If an
17 objection is filed with respect to the cure amount due under an executory contract or
18 unexpired lease, the Bankruptcy Court shall hold a hearing to determine the cure amount.
19 Notwithstanding the foregoing, at all times through the date that is five (5) Business Days
20 after the Bankruptcy Court enters an order resolving and fixing the amount of a disputed cure
21 amount, the Debtor shall have the right to reject such executory contract or unexpired lease

22 **3. Rejection Claims:** Except as otherwise ordered by the Bankruptcy Court, in the
23 event that the rejection of an executory contract or unexpired lease by the Debtors pursuant
24 to the Plan results in damages to the other party or parties to such contract or lease, a Claim
25 for such damages shall be forever barred and shall not be enforceable against the Debtor or
26 the Reorganized Debtor, unless a proof of claim has been filed with the Bankruptcy Court
27 and served upon counsel for the Debtor on or before the Rejection Claims Bar Date. If there
28 are no objections to a Rejection Claim, or to the extent a Rejection Claim later becomes an

1 Allowed Claim, the Rejection Claim shall be classified and treated as a General Unsecured
2 Claim.

3 **G. Conditions Precedent to the Effective Date**

4 **1. Conditions Precedent to Confirmation:** Certain conditions must be satisfied
5 prior to confirmation of the Plan. These conditions are as follows:

6 a. The Bankruptcy Court shall have entered an order finding that the Disclosure
7 Statement contains adequate information pursuant to section 1125 of the Bankruptcy Code;
8 and,

9 b. The Bankruptcy Court shall have entered a Confirmation Order acceptable in form
10 and substance to the Debtor.

11 c. Conditions Precedent to the Effective Date.

12 Certain conditions must be satisfied prior to the occurrence of the Effective Date.

13 These conditions are as follows:

14 (a) the Effective Date shall have occurred on or before March 31, 2011;

15 (b) the Confirmation Order confirming the Plan, as such Plan may have been amended
16 or modified, in form and substance satisfactory to the Debtor, shall have been entered
17 and docketed by the Bankruptcy Court, and such order shall have become a Final
18 Order and shall provide that:

19 (i) the Debtor or Reorganized Debtor is authorized to take all actions
20 necessary or appropriate to enter into, implement, and consummate the contracts,
21 instruments, releases, leases, indentures, and other agreements or documents
22 contemplated by or described in the Plan;

23 (ii) the provisions of the Confirmation Order are non-severable and
24 mutually dependent;

25 (iii) the Debtor shall be deemed to have solicited acceptances of the
26 Plan in good faith and in compliance with the applicable provisions of the
27 Bankruptcy Code, including without limitation, sections 1125 and 1126(b) of the
28 Bankruptcy Code, and any non-bankruptcy law, rule or regulation governing the

1 adequacy of disclosure in connection with such solicitation;

2 (iv) the Debtor shall be deemed to have participated in good faith and in
3 compliance with the applicable provisions of the Bankruptcy Code in the offer and
4 issuance of any securities under the Plan and, therefore, are not, and on account of
5 such offer, issuance and solicitation will not be, liable at any time for any violation
6 of any applicable law, rule, or regulation governing the solicitation of acceptances
7 or rejections of the Plan or the offer and issuance of any securities under the Plan;

8 (c) the Plan Documents, in form and substance acceptable to the Debtor, shall have
9 been executed and delivered by the Reorganized Debtor and such other parties deemed
10 necessary by the Reorganized Debtor, and all conditions precedent thereto shall have been
11 satisfied;

12 (d) the Reorganized Debtor shall have sufficient Cash on hand and/or financing
13 sources to make timely distributions under the Plan;

14 (e) the Debtor shall file all notices and reports, if any, required to be filed, by the
15 Debtor in connection with the Plan's effectiveness.

16 **2. Waiver of Conditions Precedent:** Each of the conditions precedent set forth
17 above may be waived in whole or in part by the Debtor without any other notice to parties
18 in interest or notice to or order of the Bankruptcy Court and without a hearing. The failure
19 to satisfy or waive any condition may be asserted by the Debtor regardless of the
20 circumstances that give rise to the failure of the condition to be satisfied. The failure of the
21 Debtor or Reorganized Debtor to assert the non-satisfaction of any conditions will not be
22 deemed a waiver of any other rights under the Plan, and each such right will be deemed an
23 ongoing right that may be asserted or waived at anytime or from time to time. If the Debtor
24 waives any condition precedent and consummates the Plan, any challenge to the Debtor's
25 waiver shall become moot by consummation of the Plan and will forever foreclose any ability
26 to challenge the Plan.

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1 **3. Effect of Failure of Conditions:** If all the conditions to effectiveness and the
2 occurrence of the Effective Date have not been satisfied or duly waived on or before the first
3 Business Day that is more than sixty (60) days after the Confirmation Date, or by such later
4 date as is proposed and approved, after notice and a hearing, by the Bankruptcy Court, then
5 upon motion by the Debtor made before the time that all of the conditions have been satisfied
6 or duly waived, the Confirmation Order shall be vacated by the Bankruptcy Court; provided,
7 however, that notwithstanding the filing of such a motion, the Confirmation Order shall not
8 be vacated if all of the conditions to consummation set forth above are either satisfied or duly
9 waived before the Bankruptcy Court enters an order granting the relief requested in such
10 motion. If the Confirmation Order is vacated, the Plan shall be null and void in all respects.

11 **H. Effect of Confirmation**

12 **1. Vesting of Assets:** Except for secured liens on real property of the Reorganized
13 Debtor, all real property of the estate shall be held in trust by the Reorganized Debtor for the
14 benefit of the estate, until such time as the Unsecured Claims have been paid as provided in
15 the Confirmation Order. Upon all plan payments to Unsecured Claims, the assets of the
16 Debtor shall immediately vest in the Reorganized Debtor, free and clear of all Claims, liens,
17 encumbrances, charges and other interests, without further order from the Bankruptcy Court.

18 As of the Effective Date, the Reorganized Debtor's business operations created post-
19 petition and all proceeds therefrom, shall vest in the Reorganized Debtor, free and clear of
20 all Claims, liens, encumbrances, charges and other interests, without further order from the
21 Bankruptcy Court. After assets vest in the Reorganized Debtor, she may operate her business
22 and may use, acquire, and dispose of property free of any restrictions of the Bankruptcy Code
23 or the Bankruptcy Rules and in all respects as if there were no pending case under any
24 chapter or provision of the Bankruptcy Code, except as otherwise provided in the Plan.

25 **2. Discharge of Claims:** Except as otherwise provided in the Plan or in the
26 Confirmation Order, the rights afforded in the Plan and the payments and distributions to be
27 made thereunder shall allow the Debtor to seek a discharge of all existing debts and Claims
28 of any kind, nature, or description whatsoever against or in the Debtor or any of the Assets

1 or properties to the fullest extent permitted by section 1141 of the Bankruptcy Code. Except
2 as otherwise provided in the Plan, upon a finding of the court of the termination of the Plan,
3 all Claims against the Debtor shall be, and shall be deemed to be, discharged whether or not
4 a proof of Claim or proof of interest was filed with respect thereto. The Debtor reserves the
5 right to seek an order from the bankruptcy court granting a discharge of his debts prior to the
6 termination of the Plan.

7 **3. Discharge of the Debtors:** As this bankruptcy deals with a Debtor that is an
8 individual, under 11 U.S.C. §1141(d)(5), unless after notice and a hearing the court orders
9 otherwise for cause, confirmation of this Plan does not discharge the Debtor and the
10 Reorganized Debtor's debts provided for in the plan until the court grants a discharge on
11 completion of all payments under the Plan or upon substantial consummation as determined
12 by the Court by separate order. The Reorganized Debtor intends to seek a discharge by
13 separate noticed motion after Confirmation of the Plan.

14 **4. Injunctions:** Unless otherwise provided in the Plan, all injunctions or stays
15 arising prior to the Confirmation Date in accordance with sections 105 or 362 of the
16 Bankruptcy Code, or otherwise, and in existence on the Confirmation Date, shall remain in
17 full force and effect until the Effective Date. Upon the entry of the Confirmation Order, all
18 holders of Claims and other parties in interest, along with their respective present or former
19 affiliates, employees, agents, officers, directors, or principals, shall be enjoined from taking
20 any actions to interfere with the implementation or consummation of the Plan.

21 Except as otherwise provided in the Plan or the Confirmation Order, as of the
22 Confirmation Date, but subject to the occurrence of the Effective Date, all Persons who have
23 held, hold or may hold Claims against the Debtor or the Estate are, with respect to any such
24 Claims, permanently enjoined from and after the Confirmation Date from:

25 (a) commencing, conducting or continuing in any manner, directly or indirectly, any
26 suit, action or other proceeding of any kind (including, without limitation, any proceeding
27 in a judicial, arbitral, administrative or other forum) against or affecting the Debtor, the
28 estate, the Reorganized Debtor or any of his property, or any direct or indirect transferee of

1 any property of, or direct or indirect successor in interest to, any of the foregoing Persons or
2 any property of any such transferee or successor;

3 (b) enforcing, levying, attaching (including, without limitation, any pre judgment
4 attachment), collecting or otherwise recovering by any manner or means, whether directly
5 or indirectly, any judgment, award, decree or order against the Debtor, the estate, or the
6 Reorganized Debtor or any of his property, or any direct or indirect transferee of any property
7 of, or direct or indirect successor in interest to, any of the foregoing Persons, or any property
8 of any such transferee or successor.

9 (c) creating, perfecting or otherwise enforcing in any manner, directly or indirectly,
10 any encumbrance of any kind against the Debtor, the estate or the Reorganized Debtor or any
11 of his property, or any direct or indirect transferee of any property of, or successor in interest
12 to, any of the foregoing Persons; and,

13 (d) acting or proceeding in any manner, in any place whatsoever, that does not
14 conform to or comply with the provisions of the Plan to the fullest extent permitted by
15 applicable law.

16 **5. Retention of Causes of Action/Reservation of Rights:** Except as specifically
17 provided in the Plan, nothing contained in the Plan or the Confirmation Order shall be
18 deemed to be a waiver or the relinquishment of any rights, Claims or Causes of Action that
19 the Debtor may have or the Reorganized Debtor may choose to assert on behalf of the Estate
20 in accordance with any provision of the Bankruptcy Code or any applicable non-bankruptcy
21 law, including, without limitation:

22 (a) any and all Claims against any Person, to the extent such Person
23 asserts a cross-claim, counterclaim, and/or Claim for setoff which
24 seeks affirmative relief against the Debtor, Reorganized Debtor, or
25 any of his agents, representatives or employees.

26 (b) the avoidance of any transfer by or obligation of the Estate or the
27 Debtor or the recovery of the value of such transfer;

28 (c) the turnover of any property of the estate; and/or

1 (d) Claims against other third parties.

2 Nothing contained in the Plan or the Confirmation Order shall be deemed to be a
3 waiver or relinquishment of any Claim, Cause of Action, right of setoff, or other legal or
4 equitable defense that the Debtors had immediately prior to the Petition Date. The
5 Reorganized Debtor shall have, retain, reserve and be entitled to assert all such Claims,
6 Causes of Action, rights of setoff, or other legal or equitable defenses which the Debtor had
7 immediately prior to the Petition Date as fully as if the Reorganization Case had not been
8 commenced.

9 THE FAILURE TO SPECIFICALLY IDENTIFY ANY OTHER CAUSE OF
10 ACTION OR AVOIDANCE ACTION SHALL NOT BE CONSTRUED OR ACT TO
11 CREATE A WAIVER, RELEASE OR DISCHARGE OF SUCH CAUSE OF ACTION OR
12 AVOIDANCE ACTION.

13 **6. Exculpation:** None of the Debtor, the Reorganized Debtor, or any of his
14 respective employees, agents, representatives, attorneys, consultants and advisors (acting in
15 such capacity) shall have or incur any liability to any entity for any act taken or omitted to
16 be taken in connection with and subsequent to the commencement of the Reorganization
17 Case, the formulation, preparation, dissemination, implementation, confirmation or approval
18 of the Plan, any other plan of reorganization or any compromises or settlements contained
19 therein, any disclosure statement related thereto or any contract, instrument, release or other
20 agreement or document provided for or contemplated in connection with the transactions set
21 forth in the Plan or in connection any other proposed plan; provided, however, that the
22 foregoing provisions shall not affect the liability that otherwise would result from any such
23 act or omission to the extent that such act or omission constituted breach of fiduciary duty,
24 negligence or willful misconduct. Each of the foregoing parties in all respects shall have and
25 shall be entitled to rely upon the advice of counsel with respect to their duties and
26 responsibilities during the Reorganization Case and under the Plan.

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1 **7. Termination of Professionals:** On the Effective Date, the engagement of each
2 professional retained by the Debtor may be terminated without further order of the Court or
3 act of the parties. The Debtor shall thereafter, without the need for further order of the
4 Bankruptcy Court, be free to retain and compensate one or more professionals.

5 **8. Substantial Consummation:** As of the Effective Date, upon the execution and
6 delivery of the Plan Documents and commencement of distributions under the Plan, the
7 Debtor may seek an order from the Bankruptcy Court determining that the Plan has been
8 substantially consummated pursuant to section 1101 of the Bankruptcy Code.

9 **9. Plan Modifications, Amendments and Revocation:** The Plan may be amended,
10 modified or supplemented by the Debtors in the manner provided by section 1127 of the
11 Bankruptcy Code or as otherwise permitted by law, without additional disclosure pursuant
12 to section 1125 of the Bankruptcy Code, except as the Bankruptcy Court may otherwise
13 direct. In addition, after the Confirmation Date, so long as such action does not materially
14 and adversely affect the treatment of holders of Claims pursuant to the Plan, the Debtor may
15 institute proceedings in the Bankruptcy Court to remedy any defect or omission or reconcile
16 any inconsistencies in the Plan, the Plan Documents and/or the Confirmation Order, with
17 respect to such matters as may be necessary to carry out the purposes and effects of the Plan.

18 Prior to the Effective Date, the Debtor may make appropriate technical adjustments
19 and modifications to the Plan without further order or approval of the Bankruptcy Court,
20 provided, that, such technical adjustments and modifications do not adversely affect in a
21 material way the treatment of holders of Claims.

22 The Debtor reserves the right to revoke or withdraw the Plan prior to the Effective
23 Date. If the Debtor takes such action, the Plan shall be deemed null and void.

24 **I. Retention of Jurisdiction**

25 On and after the Effective Date, the Bankruptcy Court shall retain jurisdiction,
26 pursuant to 28 U.S.C. §§ 1334 and 157 (but the Plan shall in no way expand the jurisdiction
27 otherwise granted to the Bankruptcy Court pursuant 28 U.S.C. §§ 1334 and 157), over all
28 matters arising in, arising under, or related to the Reorganization Case for, among other

1 things, the following purposes:

2 (a) To hear and determine applications for the assumption or rejection of executory
3 contracts or unexpired leases and the allowance of Claims resulting therefrom.

4 (b) To determine any motion, adversary proceeding, avoidance action, application,
5 contested matter, and other litigated matter pending on or commenced after the Confirmation
6 Date.

7 (c) To ensure that distributions to holders of Allowed Claims are accomplished as
8 provided herein.

9 (d) To consider Claims or the allowance, classification, priority, compromise,
10 estimation, or payment of any Claim or Administrative Expense Claim.

11 (e) To enter, implement, or enforce such orders as may be appropriate in the event the
12 Confirmation Order is for any reason stayed, reversed, revoked, modified, or vacated.

13 (f) To issue injunctions, enter and implement other orders, and take such other actions
14 as may be necessary or appropriate to restrain interference by any Person with the
15 consummation, implementation, or enforcement of the Plan, the Confirmation Order, or any
16 other order of the Bankruptcy Court.

17 (g) To hear and determine any motion to modify the Plan in accordance with section
18 1127 of the Bankruptcy Code, to remedy any defect or omission or reconcile any
19 inconsistency in the Plan, the Disclosure Statement, or any order of the Bankruptcy Court,
20 including the Confirmation Order, in such a manner as may be necessary to carry out the
21 purposes and effects thereof

22 (h) To hear and determine all Fee Claims.

23 (i) To hear and determine disputes arising in connection with the interpretation,
24 implementation, or enforcement of the Plan, the Confirmation Order, any transactions or
25 payments contemplated hereby, or any agreement, instrument, or other document governing
26 or relating to any of the foregoing.

27 (j) To take any action and issue such orders as may be necessary to construe, enforce,
28 implement, execute, and consummate the Plan, including any release, injunction or

1 exculpation provisions set forth herein, or to maintain the integrity of the Plan following
2 consummation.

3 (k) To determine such other matters and for such other purposes as may be provided
4 in the Confirmation Order.

5 (l) To hear and determine matters concerning state, local, and federal regulations,
6 Claims or taxes.

7 (m) To hear and determine any other matters related hereto and not inconsistent with
8 the Bankruptcy Code and title 28 of the United States Code.

9 (n) To enter a final decree closing the Reorganization Case.

10 (o) To recover all Assets of the Debtor and property of the estate, wherever located.

11 (p) To resolve any disputes under the Plan.

12 **J. Default**

13 **1. Automatic Stay and Default Provisions:** The automatic stay provided in 11
14 U.S.C. § 362 shall continue in force as against property of the Post-Confirmation Debtor
15 after the Effective Date and all creditors shall be bound by the terms and conditions of the
16 Plan. A default in a distribution payment to a creditor will occur under the following
17 circumstances:

18 a. Administrative Expense Claims: All outstanding Administrative Expense Claims
19 will be fully paid on the Effective Date or as agreed to by the claimants. After the Effective
20 Date, if the Reorganized Debtor is unable to pay an Administrative Expense Claims within
21 thirty (30) days of being due, then a default will occur as to that Claim, unless the creditor
22 consents to a later payment. Upon default, Administrative Expense Claimants may take any
23 action available to them under applicable bankruptcy law.

24 b. Secured Creditors: A default will occur as to payment on a secured claim if the
25 Reorganized Debtor fails to make the required monthly payments to the Secured Creditor
26 holding a first, second deed of trust or any secured claim within thirty (30) days of the date
27 due. In the event of any default, creditors holding a second deed of trust must seek relief
28 from stay. If relief is granted, the Secured Creditor may then take any action available to

1 them under applicable bankruptcy law including but not limited to seeking to foreclose on
2 the underlying security or to seek any remedies available under state law for breach of
3 contract, provided that any such default continues after five (5) days notice to the
4 Reorganized Debtor and his counsel and the failure of the Reorganized Debtor to cure any
5 such default. Upon default, a creditor holding a first deed of trust may seek relief from stay,
6 and if granted, take any action available to them under applicable bankruptcy law including
7 but not limited to seeking to foreclose on the underlying security or seek to any remedies
8 available under state law for breach of contract provided that any such default continues after
9 ten (10) days notice to the Reorganized Debtor and his counsel and the failure of the
10 Reorganized Debtor to cure any such default. A creditor holding a secured claim on personal
11 property may seek relief from stay, and if granted, take any action available to them under
12 applicable bankruptcy law including but not limited to seeking to foreclose on the underlying
13 security or seek to any remedies available under state law for breach of contract provided that
14 any such default continues after ten (10) days notice to the Reorganized Debtor and his
15 counsel and the failure of the Reorganized Debtor to cure any such default.

16 c. General Unsecured Claims: A default will occur as to payment on the General
17 Unsecured Claims if the Reorganized Debtor fails to make payments from the Distribution
18 Account to Unsecured Creditors within thirty (30) days after the conclusion of each quarter
19 after the Effective Date.

20 In the event of any default, Unsecured Creditors may make a noticed motion to seek
21 the appointment of a Liquidating Trustee to sell secured properties and administer the plan,
22 provided that any such default continues after five (5) days notice to the Reorganized Debtor
23 and his counsel and the failure of the Reorganized Debtor to cure any such default.

24 d. Debtor's Contribution to the Estate: A default will occur if the Reorganized
25 Debtor fails to provide his designated contribution of the net rents, provided that such default
26 continues after thirty (30) days notice to the Reorganized Debtor and his counsel and the
27 failure of the Reorganized Debtor to cure any such default within that time period. In the
28 event of default, Unsecured Creditors may make a noticed motion to seek conversion or

1 dismissal of the Case.

2 e. Notice to Secured Creditors: The Reorganized Debtor will provide notice on the
3 event of a default to all secured creditors or any party that requests such notice in writing to
4 the Reorganized Debtor or his counsel. Notice will be provided by first class mail five (5)
5 days after a default, provided that the Reorganized Debtor fails to cure such default during
6 that time. Notwithstanding the right of a secured creditor to foreclose or seek any other
7 remedy available under state law, notice to the Reorganized Debtor and their counsel must
8 be provided and the Reorganized Debtor must be allowed to cure any default in the
9 applicable time period as indicated above.

10 VIII.

11 CERTAIN FACTORS TO BE CONSIDERED

12 The holder of a Claim against the Debtor should read and carefully consider the
13 following factors, as well as the other information set forth in this Disclosure Statement (and
14 the documents delivered herewith and/or incorporated by reference herein), before deciding
15 whether to vote to accept or to reject the Plan.

16 A. Certain Bankruptcy Considerations

17 The Debtors believe that if the Plan is not confirmed and consummated, there can be
18 no assurance that any alternative plan of reorganization would be on terms as favorable to
19 the holders of the impaired Claims as the terms of the Plan. In addition, if a protracted
20 reorganization or a liquidation of the Debtor's assets were to occur, there is a substantial risk
21 that holders of Claims would receive less than they will receive under the Plan. See Exhibit
22 B for a liquidation analysis of the Debtors. Exhibit B demonstrates that in a chapter 7
23 liquidation general unsecured creditors would receive a minimal distribution of
24 approximately 3.29%. The Debtor's Plan contemplates a distribution of 34.23% of the
25 allowed amount of unsecured claims over time. Thus, the chapter 11 Plan is preferable to
26 a chapter 7 liquidation, giving unsecured claims as much as a 30% increase in their return.

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1 The Plan substantially relies on the continued operation of the Reorganized Debtor.
2 After the Effective Date, the Reorganized Debtor will continue to operate her business.
3 Attached hereto as Exhibit C is an operating pro forma for the five (5) year period after the
4 Effective Date. Exhibit C demonstrates that the Reorganized Debtors will be able to generate
5 the distributions called for under the Plan through the successful operation of their business.

6 **B. Tax Consequences**

7 THE FEDERAL, STATE, LOCAL AND OTHER GENERAL TAX
8 CONSEQUENCES TO THE HOLDERS OF CLAIMS AND INTEREST AS A RESULT
9 OF THE PLAN MAY VARY BASED UPON THE INDIVIDUAL CIRCUMSTANCES OF
10 EACH HOLDER. THEREFORE, EACH CREDITOR OR EQUITY SECURITY HOLDER
11 SHOULD CONSULT THEIR OWN TAX ADVISOR TO DETERMINE THE
12 TREATMENT AFFORDED THEIR RESPECTIVE CLAIMS OR INTERESTS BY THE
13 PLAN UNDER FEDERAL TAX LAW, THE TAX LAW OF THE VARIOUS STATES
14 AND LOCAL JURISDICTIONS OF THE UNITED STATES AND THE LAWS OF
15 FOREIGN JURISDICTIONS.

16 NO STATEMENT IN THIS DISCLOSURE STATEMENT SHOULD BE
17 CONSTRUED AS LEGAL OR TAX ADVICE. THE DEBTOR AND ITS COUNSEL DO
18 NOT ASSUME ANY RESPONSIBILITY OR LIABILITY FOR THE TAX
19 CONSEQUENCES A CREDITOR OR EQUITY SECURITY HOLDER MAY INCUR AS
20 A RESULT OF THE TREATMENT AFFORDED THEIR CLAIM OR INTEREST UNDER
21 THE PLAN.

22 **IX.**

23 **CONFIRMATION AND CONSUMMATION PROCEDURE**

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

25 **A. Solicitation of Votes**

26 In accordance with sections 1126 and 1129 of the Bankruptcy Code, the Claims in
27 Classes 1, 2, 3, 4, 6, 7, 8, 9, 10 and 11 are impaired and are entitled to vote to accept or reject
28 the Plan. Any Creditor holding a Claim in an impaired class under the Plan may vote on the

1 Plan so long as such Claim has not been disallowed and is not the subject of an objection
2 pending as of the voting deadline. Nevertheless, if a Claim is the subject of such an
3 objection, the holder thereof may vote if, prior to the voting deadline such holder obtains an
4 order of the Bankruptcy Court allowing such Claim, in whole or in part, or the Bankruptcy
5 Court approves a stipulation between the Debtor and such holder, fully or partially allowing
6 such Claim, whether for all purposes or for voting purposes only.

7 As to classes of claims entitled to vote on a plan, the Bankruptcy Code defines
8 acceptance of a plan by a class of creditors as acceptance by holders of at least two-thirds in
9 dollar amount and more than one-half in number of the claims of that class that have timely
10 voted to accept or reject a plan.

11 A BALLOT WILL NOT BE COUNTED IF IT IS NOT ACTUALLY RECEIVED BY
12 JOHN L. SMAHA, ESQ., SMAHA LAW GROUP, 7860 MISSION CENTER COURT,
13 STE. 100, SAN DIEGO, CA, 92108, NO LATER THAN 4:00 P.M., PACIFIC TIME, ON
14 FEBRUARY 25, 2010. PLEASE FOLLOW THE INSTRUCTIONS ON YOUR BALLOT
15 FOR RETURNING THE BALLOT.

16 In addition, a vote may be disregarded if the Bankruptcy Court determines, after notice
17 and a hearing, that such acceptance or rejection was not solicited or procured in good faith
18 or in accordance with the provisions of the Bankruptcy Code.

19 If you have any questions about these instructions, please call John L. Smaha, Esq.,
20 at (619) 688-1557.

21 **B. The Confirmation Hearing**

22 The Bankruptcy Code requires the Bankruptcy Court, after notice, to hold a
23 confirmation hearing. The Confirmation Hearing in respect of the Plan has been scheduled
24 for _____ at _____, Pacific Time, before the Honorable Peter W. Bowie, United
25 States Bankruptcy Court, Southern District of California. The Confirmation Hearing may be
26 adjourned from time to time by the Bankruptcy Court without further notice, except for an
27 announcement of the adjourned date made at the Confirmation Hearing.

28 ///

1 Objections, if any, to confirmation of the Plan must be in writing, and must (a) state
2 the name and address of the objecting party and the nature and amount of the claim or
3 interest of such party, (b) state with particularity the basis and nature of each objection to
4 confirmation of the Plan, and (c) be filed, together with proof of service, with the Court (with
5 a copy to chambers) and served so that they are received no later than 5:00 p.m., Pacific
6 Time, on _____, by the Court and the following parties: (i) John L. Smaha, Esq.,
7 Smaha Law Group, 7860 Mission Center Court, Ste. 100, San Diego, CA, 92108; (ii) Office
8 of the United States Trustee, 402 West Broadway, Ste. 600, San Diego, CA 92101-8511,
9 Attention: David Ortiz; Objections to confirmation of the Plan are governed by Bankruptcy
10 Rule 9014.

11 Any party failing to file and serve a Preliminary Objection to the Plan in compliance
12 with this Order shall be barred from being heard upon or raising any objections to the Plan
13 at the Confirmation Hearing.

14 **C. Confirmation**

15 At the Confirmation Hearing, the Bankruptcy Court will confirm the Plan only if all
16 of the requirements of section 1129 of the Bankruptcy Code are met. Among the
17 requirements for confirmation of the Plan are that the Plan is (I) accepted by all impaired
18 classes of claims and equity interests or, if rejected by an impaired class, that the Plan "does
19 not discriminate unfairly" and is "fair and equitable" as to such class, (ii) feasible, (iii) in the
20 "best interests" of creditors and stockholders that are impaired under the Plan, and (iv)
21 complies with section 1129(a)(9)(C) of the Bankruptcy Code.

22 **1. Cramdown - Unfair Discrimination and Fair and Equitable Tests:** To obtain
23 non-consensual confirmation of the Plan, at least one impaired class must vote to accept the
24 Plan (excluding any votes of insiders), and the Debtor must demonstrate to the Bankruptcy
25 Court that the Plan "does not discriminate unfairly" and is "fair and equitable" with respect
26 to each impaired, non-accepting class. The Bankruptcy Code provides the following
27 non-exclusive definition of the phrase "fair and equitable," as it applies to secured creditors,
28 unsecured creditors and equity holders:

1 a. Secured Creditors: Either (i) each impaired secured creditor retains its liens
2 securing its secured claim and receives on account of its secured claim deferred cash
3 payments having a value as of the Effective Date of the Plan equal to the amount of its
4 allowed secured claim, (ii) each impaired secured creditor realizes the "indubitable
5 equivalent" of its allowed secured claim, or (iii) the property securing the claim is sold free
6 and clear of liens with such liens attaching to the proceeds of the sale and the treatment of
7 such liens on proceeds is provided in clause (i) or (ii) immediately above.

8 b. Unsecured Creditors: Either (i) each impaired unsecured creditor receives or
9 retains under the Plan property of a value equal to the allowed amount of its claim, or (ii) the
10 holders of claims and interests that are junior to the claims of the rejecting class of unsecured
11 creditors will not receive or retain any property under the Plan.

12 The Debtors believe that the Plan and the treatment of all classes of Claims under the
13 Plan satisfy the foregoing requirements for non-consensual confirmation of the Plan. In the
14 event that one or more classes of impaired Claims reject the Plan, the Bankruptcy Court will
15 determine at the Confirmation Hearing whether the Plan is fair and equitable with respect to,
16 and does not discriminate unfairly against, any rejecting impaired class of Claims.

17 Assuming that a secured creditor may object to the confirmation of the Plan, the
18 Debtor believes the plan could be "crammed down" despite the secured creditor's objection.
19 As provided above a secured creditor must retain its liens securing its secured lien and either
20 receives payment in full on its secured claim or realizes the "indubitable equivalent" of its
21 allowed secured claim. In the instant case, there are several secured claimants. All creditors
22 must receive full payment on their secured claims before the termination of the Plan.
23 Further, all secured creditors will retain a secured claim equal to the value of the real
24 property securing their claims. Although the plan may not pay off all secured creditors in
25 full, the five years of payments will include principal payments, leaving secured creditors
26 with reduced claims. Each secured creditors is receiving the equivalent of its secured claim
27 by retaining a secured interest on the Debtors' real property to which its claim attaches,
28 receiving principal payments and receiving interest payments on the loan in excess of the

1 going market rate for interest rates. In the event the Debtors are unable to refinance the real
2 properties within the five years of the Plan, each secured creditor would receive the given
3 property in full satisfaction of its claim. Assuming that the real properties, at the very least,
4 retains their values, this means that the secured creditors would receive a valuable property
5 in exchange for their reduced claims, in addition to having received interest payments over
6 the life of the Plan. As such, the Debtors believe they can cram down the plan over an
7 objection by secured creditors.

8 The next assumption to be made is if the class of unsecured creditors objects to the
9 Plan. If unsecured creditors object to the Plan, the Debtors' Plan does not pay unsecured
10 creditors in full. However, the cram down provisions of the code does not necessarily require
11 full payment. Because the Debtor is an individual, the Absolute Priority Rule does not apply
12 in this case so the unsecured creditors do not have to be paid in full for the Debtor to retain
13 assets assuming that the Court would approve a motion to substantively consolidate the
14 Debtors' bankruptcies and to transfer the 141 Broadway Property to Carol Karlovich as the
15 Reorganized Debtor. If not, then the Debtors would likely have to return the property owned
16 by the LLC and would thereby receive no benefit from the lone property held by the LLC.
17 The end result of such a turnover to MFCU would likely be the substantial increase of
18 MFCU's unsecured claim against the Reorganized Debtor and the reduction of the Debtors'
19 gross rental incomes.

20 As shown in detail below by the liquidation and best interests analysis, the Debtors'
21 plan provides the best opportunity for creditors to maximize their return. By contrast, a
22 liquidation under a chapter 7 would receive almost half of the distributions envisioned by this
23 Plan. The liquidation analysis and the best interests analysis show that a plan could be
24 crammed down despite the objections of unsecured creditors.

25 X.

26 **FEASIBILITY, RISK AND LIQUIDATION/BEST INTERESTS ANALYSIS**

27 A. **Feasibility:**

28 ///

1 The Bankruptcy Code requires that confirmation of a plan is not likely to be followed
2 by liquidation or the need for further financial reorganization. The Debtors believe that
3 confirmation of the Plan is not likely to be followed by the liquidation or the need for further
4 financial reorganization of the Debtors. The Debtors have maintained their operation for
5 many years and believe they can maintain a level of operations that will allow for the
6 distributions called for in this Plan.

7 **B. Best Interests of Creditors Test/Liquidation Analysis:**

8 With respect to each impaired class of Claims and Equity Interests, confirmation of
9 the Plan requires that each holder of a Claim either (i) accept the Plan or (ii) receive or retain
10 under the Plan property of a value, as of the Effective Date, that is not less than the value
11 such holder would receive or retain if the Debtor were liquidated under chapter 7 of the
12 Bankruptcy Code. This requirement is referred to as the "best interests of creditors test." To
13 determine what holders of Claims and Equity Interests of each impaired class would receive
14 if the Debtor were liquidated under chapter 7, the Bankruptcy Court determines the dollar
15 amount that would be generated from the liquidation of the Debtor's assets and properties in
16 the context of a chapter 7 liquidation case. The cash amount that would be available for
17 satisfaction of Claims would consist of the proceeds resulting from the disposition of the
18 assets of the Debtor, augmented by the unencumbered cash held by the Debtor at the time of
19 the commencement of the liquidation case. Such amounts would be reduced by the amount
20 of the costs and expenses of the liquidation and by such additional administrative and priority
21 claims that may result from the termination of the Debtor's business and the use of chapter
22 7 for the purposes of liquidation.

23 Attached as Exhibit B is a Liquidation Analysis, consisting of a pro forma liquidation
24 balance sheet. The Liquidation Analysis reflects the Debtor's assumptions of the amount and
25 sources of cash that would be available for distribution if the Debtors were to be wound
26 down and liquidated in a chapter 7 proceeding. Under that scenario, the basic sources of cash
27 include cash on hand, the liquidation of Debtors' real properties, and the estimated proceeds
28 obtained from the sale of the Debtor's real property. The value of Debtors' real properties

1 has been estimated at liquidation value to the Debtors. The Debtors' real properties are
2 commercial in nature and therefore attract investors looking for short and long term
3 investments and generally present themselves as much more sophisticated than purchasers
4 of residential real properties. As such, it is most likely that such buyers would be aware of
5 the fact that the Debtors' real properties were being sold through either bankruptcy sales or
6 by foreclosures after relief from stay was granted. A sale of the Debtors' real properties
7 under a liquidation would therefore be of limited value in comparison to the ongoing value
8 of the business operations simply due to the nature of the commercial real estate market and
9 the sophisticated and knowledgeable investors pervading that market. The 10% reduction
10 on the value of the real properties therefore accurate in the Debtor's estimation and should
11 likely be much higher. The aggregate amount of those proceeds would be distributed
12 according to the priority scheme established by chapter 7 of the Bankruptcy Code including
13 paying off all costs of sale, which the Debtors have estimated at 9% of the total sales price..

14 The first priority distribution would include the percentage fees payable to a chapter
15 7 trustee (computed on a sliding scale as a percentage of the gross proceeds distributed) and
16 the professional fees that a chapter 7 trustee would likely incur. The Debtor estimates such
17 fees and professional costs at approximately \$110,000, although the sliding scale would
18 allow for much more. Thereafter, the Administrative Claims incurred by the estate during
19 the pendency of the chapter 11 case of the Debtor would be paid. In the attached Liquidation
20 Analysis, the Debtors assume that these will receive a full distribution on their claims.
21 Finally, unsecured creditors would receive \$179,810.26, or just 3.29% of their claims. The
22 Liquidation Analysis also assumes that the field of General Unsecured Creditors would likely
23 be much higher in such a liquidation as the secured creditors would receive much less in such
24 a liquidation than by Debtors' reorganization.

25 As discussed above, the Debtor believes that the Plan will provide for the payment of
26 all Administrative Claims, Fee Claims, Priority Tax Claims and Priority Claims and would
27 provide a 34.23% distribution to holders of general unsecured claims. Accordingly, the
28 Debtors believe that confirmation of the Plan will provide each holder of an Allowed Claim

1 a recovery that is not less than such holder would receive pursuant to liquidation of the
 2 Debtors under chapter 7 of the Bankruptcy Code Reference should be made to the
 3 Liquidation Analysis for a complete discussion and presentation of the expected distributions
 4 to parties in interest if the Reorganization Case were converted to a case under chapter 7 of
 5 the Bankruptcy Code.

6 **C. Requirements for Individuals Under 11 USC Section 1129(a)(15):**

7 Section 1129(a)(15) provides certain requirements for objecting unsecured creditors.
 8 If an unsecured creditor objects to the confirmation of the plan, (A) the value, as of the
 9 effective date of the plan, of the property to be distributed under the plan on account of such
 10 claim is not less than the amount of such claim **or** (B) the value of the property to be
 11 distributed under the plan is not less than the projected disposable income of the debtor to
 12 be received during the 5-year period beginning on the date that the first payment is due under
 13 the plan.

14 In the instant case, the Debtors assume that unsecured creditors are unlikely to vote
 15 against the Debtor's Plan due to the fact that the Plan, as explained above, provides a better
 16 result to them than a liquidation under a chapter 7 bankruptcy would provide. As such, the
 17 Debtors believe that this section of the bankruptcy code will not come into play at the time
 18 of confirmation. In the event that an unsecured creditor does object to the Debtors' Plan, the
 19 Debtor believes that Debtors' Plan satisfies subsection (B) of Section 1129(a)(15). The
 20 Debtors' distributions to be made during the plan (i.e. the property to be distributed under the
 21 plan) is significantly higher than the Debtors' projected disposable income. The Debtors'
 22 disposable income on a monthly basis is determined as follows:

23	Gross Income	\$91,248.69
24	Business Expenses (11 USC §1325(b)(2)(B))	-\$70,509.63
25	Living Expenses (11 USC §1325(b)(2)(A)(i))	-\$16,277.10
26	Total Disposable Income	\$ 4,461.96

1 The Debtors' disposable income under 11 USC §1325(b)(2) is \$4,461.96 on a monthly
 2 basis. Multiplied over the life of the plan (five years, $\$5,139.06 \times 12 \times 5 = \$267,717.60$) the total
 3 disposable income for the Debtors is \$267,717.60. The Debtors' distributions to creditors
 4 for the Plan totals an estimated minimum of \$1,290,106.11 over the life of the Plan to Class
 5 10 Unsecured Claimants alone and as much as \$102,000 in administrative expenses including
 6 attorneys' fees and payments to the United States Trustee. With the fact that the Debtors
 7 will be making substantial payments to Secured Creditors, including in the monthly business
 8 expenses listed above, there is no doubt that the total distributions will be in excess of the
 9 Debtors' disposable income.

10 The Debtor's personal expenses were presented to the Court in his motion for insider
 11 compensation. The Debtor's expenses are:

12	Housing Expense	\$12,100.00
13	Home Maintenance	\$2,927.10
14	Food	\$250.00
15	Pharmacy	\$100.00
16	Gas/Car/Insurance	\$350.00
17	Phone	\$150.00
18	Health Insurance	\$150.00
19	Toiletries	\$50.00
20	Miscellaneous/Daily Expenses	<u>\$200.00</u>
20	TOTAL EXPENSES	\$16,277.10

21 The Debtors does not lead an extravagant lifestyle. The individual Debtor resides at
 22 a rather large home in La Jolla, California but will be spending most of her income in order
 23 to maintain the Via Casa Alta Property for the benefit of creditors and will have a very
 24 limited allowance for her personal expenses. Further, the individual Debtor also has an adult
 25 daughter that will be living with the individual Debtor and will be assisting the Debtors with
 26 the management of their real properties. The individual Debtor maintains a 2004 Lincoln
 27 that she uses mostly to travel for work. The Debtors would pay a total of \$2,927.10 for all
 28 expenses related to the Via Casa Alta Property and would likely need more to cover real

1 property expenses. Certainly, this amount is not unreasonable. The Debtor is over 70 and
2 maintains a healthy diet involving a steady intake of organic fruits and vegetables and other
3 foods that are important to someone who spends well over eight hours a day working. The
4 Debtor maintains a modest lifestyle and believes the \$16,277.10 (automatically reduced to
5 \$4,177.10 if the home payments are not taken into consideration) she has set aside are not
6 unreasonable given the substantial distributions the Debtors are making into the Plan.

7 **D. The Absolute Priority Rule:**

8 The Absolute Priority Rule, set forth in 11 USC Section 1129(b)(2)(B), indicates that
9 the holder of any claim or interest that is junior to the claims of such class will not receive
10 or retain under the plan on account of such junior claim or interest any property, except that
11 in a case in which the debtor is an individual, the debtor may retain property included in the
12 estate under section 1115, subject to the requirements of subsection (a)(14) of section 1129.

13 In the instant case, the Reorganized Debtor is an individual and the Absolute Priority
14 Rule does not apply to his bankruptcy. As such, the Debtors are allowed to retain property
15 included in the Debtor's estate. In addition, the Debtors are providing substantial new value
16 to the estate by maintaining their business and putting in substantial amounts of gross rents
17 each month into the Plan.

18 **XI.**

19 **ALTERNATIVES TO CONFIRMATION AND CONSUMMATION OF THE**
20 **PLAN**

21 If the Plan is not confirmed and consummated, the Debtors' alternatives include (i)
22 liquidation of the Debtor under chapter 7 of the Bankruptcy Code and (ii) the preparation and
23 presentation of an alternative plan of reorganization. CREDITORS ARE URGED TO VOTE
24 IN FAVOR OF THE DEBTOR'S PLAN.

25 Liquidation under Chapter 7: If no chapter 11 plan can be confirmed, the
26 Reorganization Case may be converted to a case under chapter 7 of the Bankruptcy Code in
27 which a trustee would be elected or appointed to liquidate the assets of the Debtor. A
28 discussion of the effect that a liquidation would have on the recovery of holders of Claims

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is set forth above, and illustrated in the Liquidation Analysis attached hereto as Exhibit 2.

XII.

CONCLUSION AND RECOMMENDATION

The Debtor urges holders of impaired Claims to vote to accept the Plan and to evidence such acceptance by returning their ballots so that they will be received on or before 4:00 p.m., Pacific Time on _____

Dated: October 19, 2010

Respectfully submitted,

/s/ John L. Smaha
John L. Smaha, Bar No. 095855
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W:\Karlovič, Carol\Carol Karlovič BK\Plan and D.S\101.Disc.Stmt.wpd

EXHIBIT A

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Gustavo E. Bravo, Esq., Bar No. 218752
2 **SMAHA LAW GROUP, APC**
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3 San Diego, California 92108
Telephone: (619) 688-1557
4 Facsimile: (619) 688-1558

5 Attorneys for Debtors, Carol Karlovich and Karlovich Financial, LLC
6
7

8 **UNITED STATES BANKRUPTCY COURT**
9 **SOUTHERN DISTRICT OF CALIFORNIA**

10 In re
11 CAROL KARLOVICH

12 Debtor.

CASE NO. 10-10860-PB11
10-10862-PB11

Chapter 11

**FIRST AMENDED JOINT PLAN OF
REORGANIZATION**

Judge: Hon. Peter W. Bowie

16 In re
17 KARLOVICH FINANCIAL, LLC

18 Debtor
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25
26
27
28

TABLE OF CONTENTS

Page

ARTICLE I.

DEFINITIONS	1
1.1 Administrative Bar Date	1
1.2 Administrative Expense Claims	1
1.3 Allowed Claim	1
1.4 Assets	2
1.5 Avoidance Actions	2
1.6 Bankruptcy Code	2
1.7 Bankruptcy Court	2
1.8 Bankruptcy Rules	2
1.9 Bar Date(s)	3
1.10 Beneficiaries	3
1.11 Business Day	3
1.12 Cash	3
1.13 Causes of Action	3
1.14 Claim	3
1.15 Class	3
1.16 Confirmation Date	3
1.17 Confirmation Hearing	4
1.18 Confirmation Order	4
1.19 Debtors	4
1.20 Deficiency Claim	4
1.21 Disallowed	4
1.22 Distribution Account	4
1.23 Distribution Agent	4
1.24 Distribution Assets	4
1.25 Disclosure Statement	4
1.26 Disclosure Statement Hearing	5
1.27 Disputed Claim	5
1.28 Effective Date	5
1.29 Estate	5
1.30 Fee Claim	5
1.31 Final Order	5
1.32 General Unsecured Claim	5
1.33 Insider	5
1.34 Litigation Actions	6
1.35 Person	6
1.36 Petition Date	6
1.37 Plan	6
1.38 Plan Documents	6
1.39 Post-Confirmation Debtors	6
1.40 Priority Claims	6
1.41 Priority Property Tax Claim	6
1.42 Pro Rata	6
1.43 Professional Person(s)	7
1.44 Rejection Claim	7
1.45 Rejection Claims Bar Date	7
1.46 Remaining Cash	7
1.47 Reorganization Cases	7
1.48 Reorganized Debtor	7

1	1.49	Schedules	7
2	1.50	Unsecured Claim Distribution	7
3	ARTICLE II.		
4	CLASSIFICATION OF CLAIMS		8
5	2.1	Administrative Expense Claims	8
6	2.2	Class 1: Secured Claim of Home Bank	9
7	2.3	Class 2: Secured Claim of 2010-1 CRE Venture, LLC	10
8	2.4	Class 3: Secured Claim of Mission Federal Credit Union	10
9	2.5	Class 4: Secured Claim of San Diego County Credit Union	10
10	2.6	Class 5: Secured Claim of Mission Federal Credit Union	11
11	2.7	Class 6: Secured Claim of Mission Federal Credit Union	11
12	2.8	Class 7: Secured Claim of 2010-1 CRE Venture, LLC	11
13	2.9	Class 8: Secured Claim of 2010-1 CRE Venture, LLC	11
14	2.10	Class 9: Secured Claim of Mission Federal Credit Union	12
15	2.11	Class 10: Priority Claims	12
16	2.12	Class 10(a): Property Tax Priority Claims	13
17	2.13	Class 11: General Unsecured Creditors	13
18	2.14	Class 12: Subordinated Claim of Karisa Karlovich	13
19	2.15	Class 13: Equity Holders	13
20	ARTICLE III.		
21	IMPAIRMENT OF CLAIMS		14
22	3.1	Impairment of Claims	14
23	ARTICLE IV.		
24	TREATMENT OF CLAIMS		14
25	4.1	Administrative Claims	14
26	4.2	Class 1	15
27	4.3	Class 2	16
28	4.4	Class 3	16
29	4.5	Class 4	17
30	4.6	Class 5	18
31	4.7	Class 6	19
32	4.8	Class 7	20
33	4.9	Class 8	20
34	4.10	Class 9	21
35	4.11	Class 10	21
36	4.11	Class 10(a)	22
37	4.12	Class 11	22
38	4.13	Class 12	24
39	4.14	Class 13	24
40	ARTICLE V.		
41	EXECUTORY CONTRACTS / UNEXPIRED LEASES		24
42	5.1	Executory Contracts/Unexpired Leases	24
43	5.2	Rejection Claims	25

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

ARTICLE VI.

MEANS FOR IMPLEMENTATION 25

6.1 Plan Documents 25

6.2 Continued Existence 25

6.3 Avoidance Actions and Collections 25

6.4 Compromise of Controversies 26

6.5 Approval of Plan Documents 26

6.6 Reorganized Debtor’s Business 26

6.7 Distributions 26

ARTICLE VII.

DISTRIBUTIONS 27

7.1 Satisfaction of Claims 27

7.2 Manner of Payment Under Plan 27

7.3 Exemption from Securities Laws 27

7.4 Setoffs 27

7.5 Special Tax Provisions 27

7.6 Distribution Account 28

7.7 Distribution Agent 28

7.8 Distribution Expenses 29

7.9 Satisfaction of Claims 30

7.10 Manner of Payment Under Plan 30

7.11 Setoffs 30

ARTICLE VIII.

PROCEDURES FOR DISPUTED CLAIMS 30

8.1 Objections to Claims 30

8.2 Payments and Distributions with Respect to Disputed Claims 31

ARTICLE IX.

CONDITIONS PRECEDENT TO THE EFFECTIVE DATE 31

9.1 Conditions Precedent to Confirmation 31

9.2 Conditions Precedent to the Effective Date 31

9.3 Effect of Failure of Conditions 33

ARTICLE X.

DEFAULT 33

10.1 Automatic Stay and Default 33

ARTICLE XI.

EFFECT OF CONFIRMATION 34

11.1 Vesting of Assets 34

1	11.2 Discharge of Claims	35
	11.3 Discretion to Abandon Property	35
2	11.4 Discretion to Liquidate or Refinance Property	35
	11.5 Discretion to Reduce Secured Claims	36
3	11.6 Noticed Motion	36
	11.7 Term of Injunctions or Stays	36
4	11.8 Injunction Against Interference With Plan	36
	11.9 Injunction	37
5	11.10 Retention of Causes of Action/Reservation of Rights	37
	11.11 Exculpation	38

ARTICLE XII.

7	RETENTION OF JURISDICTION	38
---	---------------------------------	----

ARTICLE XIII.

9	MISCELLANEOUS PROVISIONS	40
10	13.1 Completion of Plan	40
11	13.2 Substantial Consummation	40
	13.3 Amendments	41
12	13.4 Revocation or Withdrawal of this Plan	41
	13.5 Cramdown	41
13	13.6 Confirmation Order	41
	13.7 Severability	42
14	13.8 Governing Law	42
	13.9 Section 1125(e) of the Bankruptcy Code	42
15	13.10 Expedited Determination	43
	13.11 Time Bar to Payments	43
16	13.12 Fractional Distributions	43
	13.13 Time	43
17	13.14 Waiver of Bankruptcy Rule 7062	44
	13.15 Compliance with Tax Requirements	44
18	13.16 Notices	44
	13.17 Exhibits	45
19	13.18 Binding Effect	45
	13.19 Business Records	45
20	13.20 Means for Execution of Plan of Reorganization	45
	13.21 Compliance with Post-Confirmation Reporting and U.S. Trustee's Fees ..	45

ARTICLE XIV.

22	CONCLUDING STATEMENTS BY DEBTOR	46
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24
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26
27
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1 Carol Karlovich, Debtor and Debtor-in-Possession herein, and Karlovich Financial,
2 LLC, Debtor and Debtor-In-Possession (hereinafter, collectively referred to as “Debtors”)
3 submit this Joint Plan of Reorganization pursuant to Section 1121(a) of Title 11 of the United
4 States Code:

5 **ARTICLE I.**
6 **DEFINITIONS**

7 The following terms used in this plan of reorganization shall have the following
8 meanings:

9 **1.1 Administrative Bar Date:** Shall mean the date specified in Section 2.2 of this
10 Plan, or such other date as may be fixed by order of the Bankruptcy Court, by which an
11 Administrative Expense Claim must be filed, or be forever barred from asserting such
12 Administrative Expense Claim against the Debtors, the Estate, or the Reorganized Debtors
13 or their property. Notwithstanding the Administrative Bar Date, the United States Trustee
14 is not required to file a proof of claim and is not bound by a bar date.

15 **1.2 Administrative Expense Claims:** Shall mean any right to payment
16 constituting a cost or expense of administration of the Reorganization Case (other than a Fee
17 Claim) allowed under sections 503(b) and 507(a)(2) of the Bankruptcy Code, including,
18 without limitation, any actual and necessary costs and expenses of preserving the Debtors’
19 estate, any actual and necessary costs and expenses of operating the Debtors’ business.

20 **1.3 Allowed Claim:** Shall mean, with reference to any Claim: (a) any Claim
21 against the Debtors which has been listed in the Schedules as liquidated in amount and not
22 disputed or contingent, and for which no contrary or inconsistent proof of claim has been
23 filed; or notwithstanding the Claim being listed in the Schedules as liquidated in an amount
24 and not disputed or contingent, (i) the Debtors have filed an objection to the Claim which has
25 been overruled, or (ii) as to which no objection to allowance has been interposed prior to the
26 deadline by which such objections must be filed in accordance with this Plan or such other
27 applicable period of limitation fixed by the Bankruptcy Code, the Bankruptcy Rules, or the
28 Bankruptcy Court and as to which such deadline has expired; (b) any timely filed proof of

1 claim (i) as to which no objection to allowance has been interposed prior to the deadline by
2 which such objections must be filed in accordance with this Plan or such other applicable
3 period of limitation fixed by the Bankruptcy Code, the Bankruptcy Rules, or the Bankruptcy
4 Court and as to which such deadline has expired, or (ii) as to which an objection has been
5 filed and not withdrawn and such objection has been determined by a Final Order (but only
6 to the extent such objection has been overruled); (c) any Claim which is not a Disputed
7 Claim; or (d) any Claim allowed hereunder. Unless otherwise specified herein or allowed by
8 order of the Bankruptcy Court, Allowed Claims (including Allowed Administrative Expense
9 Claims) shall not, for any purpose under this Plan, include post Petition Date interest on such
10 Claims, unless otherwise provided for under this Plan.

11 **1.4 Assets:** Shall mean all of the right, title and interest of the Debtors in and to
12 property of whatever type or nature (real, personal, mixed, tangible or intangible).

13 **1.5 Avoidance Actions:** Shall mean all claims, rights and causes of action of the
14 Debtor and the Estate that arise under the terms of the Bankruptcy Code, including, but not
15 limited to, all preference, fraudulent conveyance and other causes of action under chapter 5
16 of the Bankruptcy Code, whether or not such litigation has been commenced as of the
17 Effective Date.

18 **1.6 Bankruptcy Code:** Shall mean Title 11 of the United States Code, as amended
19 from time to time, as applicable to the Reorganization Case.

20 **1.7 Bankruptcy Court:** Shall mean the United States Bankruptcy Court for the
21 Southern District of California or any other court exercising competent jurisdiction over the
22 Reorganization Case or any proceeding therein.

23 **1.8 Bankruptcy Rules:** Shall mean the Federal Rules of Bankruptcy Procedure,
24 as promulgated by the United States Supreme Court under Section 2075 of Title 28 of the
25 United States Code, as amended from time to time, applicable to the Reorganization Case,
26 and any Local Rules of the Bankruptcy Court.

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1 **1.9 Bar Date(s):** Shall mean the original claims bar date of September 23, 2010
2 or such other dates fixed by order(s) of the Bankruptcy Court or this Plan as the day(s) by
3 which all Persons asserting a certain Claim must have filed proofs of such Claim or be
4 forever barred from asserting such Claim against the Debtors or the estate.

5 **1.10 Beneficiaries:** Shall mean collectively the holders of Allowed Claims under
6 the Plan, or any successors to such holders' Allowed Claims.

7 **1.11 Business Day:** Shall mean any day other than a Saturday, a Sunday, or any
8 other day on which nationally chartered banking institutions in San Diego, California are
9 required or authorized to close by law or executive order.

10 **1.12 Cash:** Shall mean legal tender of the United States of America or a
11 commercially recognized cash equivalent.

12 **1.13 Causes of Action:** Shall mean any and all of the Debtors' actions, causes of
13 action, suits, accounts, controversies, agreements, promises, rights to legal remedies, rights
14 to equitable remedies, rights to payment, and Claims, whether known or unknown, reduced
15 to judgment, not reduced to judgment, liquidated, unliquidated, fixed, contingent, matured,
16 unmatured, disputed, undisputed, secured, unsecured and whether asserted or assertable
17 directly or derivatively, in law, equity or otherwise, whether or not such litigation has been
18 commenced as of the Effective Date.

19 **1.14 Claim:** Shall mean "claim" as defined in section 101(5) of the Bankruptcy
20 Code.

21 **1.15 Class:** Shall mean a Claim or interest, or a group of Claims or interests,
22 consisting of those Claims or interests which are substantially similar to each other, as
23 classified under the Plan, or a Claim or interest, or a group of Claims or interests, classified
24 by amount as may be reasonable and necessary as an administrative convenience claims, or
25 a group of Claims or interests which are otherwise required to be separately classified.

26 **1.16 Confirmation Date:** Shall mean the date that the Confirmation Order is
27 entered on the docket of the Bankruptcy Court.

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1 **1.17 Confirmation Hearing:** Shall mean the hearing to be held by the Bankruptcy
2 Court regarding confirmation of this Plan; as such hearing may be adjourned or continued
3 from time to time.

4 **1.18 Confirmation Order:** Shall mean the order of the Bankruptcy Court
5 confirming this Plan pursuant to section 1129 of the Bankruptcy Code.

6 **1.19 Debtors:** Shall mean Carol Karlovich, an individual and Karlovich Financial,
7 LLC, a limited liability company solely owned by Carol Karlovich.

8 **1.20 Deficiency Claim:** Shall mean, with respect to a Claim that is partially secured,
9 the amount by which the Allowed amount of such Claim exceeds the Debtors' interest in
10 such property that collateralizes the Claim.

11 **1.21 Disallowed:** (when used in the context of a Claim or Interest) Shall mean the
12 entirety or any portion of any Claim against, or interest in, the Debtors which has been
13 disallowed by a Final Order of the Bankruptcy Court.

14 **1.22 Distribution Account:** Shall mean the federally insured bank account to be
15 administered and maintained by the Debtors' Distribution Agent, which is to be created
16 pursuant to and for the purposes set forth in the Plan.

17 **1.23 Distribution Agent:** Shall mean the third party agent for the Debtors that will
18 administer the Distribution Account and shall make all distributions from the Distribution
19 Account.

20 **1.24 Distribution Assets:** shall mean all property, interests, funds, or other asset
21 available in the Distribution Account for distribution on Allowed Claims and Estate
22 expenses.

23 **1.25 Disclosure Statement:** Shall mean the Disclosure Statement that relates to this
24 Plan, as such Disclosure Statement may be amended, modified or supplemented (including
25 all exhibits and schedules annexed thereto or referred to therein).

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1 **1.26 Disclosure Statement Hearing:** Shall mean the hearing held by the
2 Bankruptcy Court to consider approval of the Disclosure Statement as containing adequate
3 information as required by section 1125 of the Bankruptcy Code, as the same may be
4 adjourned or continued from time to time.

5 **1.27 Disputed Claim:** Shall mean any Claim that is not an Allowed Claim as of the
6 relevant date.

7 **1.28 Effective Date:** Shall mean the date that is eleven (11) calendar days after the
8 Confirmation Date, or, if such date is not a Business Day, the next succeeding Business Day,
9 so long as no stay of the Confirmation Order is in effect on such date; provided, however that
10 if, on or prior to such date, all conditions to the Effective Date set forth in this Plan have not
11 been satisfied, or waived, then the Effective Date shall be the first Business Day following
12 the day on which all such conditions to the Effective Date have been satisfied or waived.

13 **1.29 Estate:** Shall mean the estate of the Debtors in the Reorganization Cases
14 created pursuant to section 541 of the Bankruptcy Code.

15 **1.30 Fee Claim:** Shall mean a Claim by a Professional Person for compensation,
16 indemnification or reimbursement of expenses pursuant to sections 327, 328, 330, 331,
17 503(b) or 1103(a) of the Bankruptcy Code in connection with the Reorganization Case.

18 **1.31 Final Order:** Shall mean an order of the Court or of any court of competent
19 jurisdiction which has been entered and which has become final by expiration of the time of
20 an appeal therefrom, or, if an appeal(s) is taken, by resolution of such appeal(s) in favor of
21 one of the parties thereto and the expiration of the time for further appeal(s) therefrom.

22 **1.32 General Unsecured Claim:** Shall mean a Claim against the Debtors, including
23 a Deficiency Claim, but other than a Secured Claim, an Unsecured Priority Claim, an
24 Administrative Expense Claim, a Fee Claim, a Priority Claim or a Tax Priority Claim.

25 **1.33 Insider:** Shall have the meaning ascribed to that term by section 101(31) of the
26 Bankruptcy Code.

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1 **1.34 Litigation Actions:** Shall mean all claims, rights and causes of action of the
2 Debtor and the Estate that arise under the terms of the Bankruptcy Code, including, but not
3 limited to, actions already commenced or anticipated.

4 **1.35 Person:** Shall mean any individual, corporation, partnership, association,
5 indenture trustee, limited liability company, organization, joint stock company, joint venture,
6 estate, trust, governmental unit or any political subdivision thereof, interest holders, or any
7 other entity.

8 **1.36 Petition Date:** Shall mean June 22, 2010.

9 **1.37 Plan:** Shall mean this Plan of Reorganization, including, without limitation,
10 any exhibits or schedules hereto, as the same may be amended or modified from time to time
11 in accordance with the provisions of the Bankruptcy Code and the terms hereof.

12 **1.38 Plan Documents:** Shall mean the agreements, documents and instruments
13 entered into on or as of the Effective Date as contemplated by, and in furtherance of, the
14 Plan.

15 **1.39 Post-Confirmation Debtors:** Shall mean the Debtors, after the Confirmation
16 Date, but before the Effective Date.

17 **1.40 Priority Claims:** Shall mean all claims as defined in sections 507(a)(4), (a)(5)
18 and (a)(7) of the Bankruptcy Code only, excluding claims as defined in sections 507(a)(2),
19 (a)(3), (a)(6), (a)(8) and (a)(9) of the Bankruptcy Code.

20 **1.41 Priority Property Tax Claim:** Shall mean any Claim of a governmental unit
21 against the Debtor of the kind entitled to priority in payment under section 507(a)(8) of the
22 Bankruptcy Code. The Debtors are informed and believe that there are pre-petition Priority
23 Property Tax Claims in this Bankruptcy. Pre-petition tax claims with recorded liens will be
24 treated as secured claims on each applicable real property.

25 **1.42 Pro Rata:** Shall mean the proportion that the dollar amount of an Allowed
26 Claim in a particular Class or particular Classes bears to the aggregate dollar amount of all
27 Allowed Claims in such Class or Classes.

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1 **1.43 Professional Person(s):** Shall mean all Persons retained by order of the
2 Bankruptcy Court in connection with the Reorganization Case, pursuant to sections 327, 328,
3 330 or 1103 of the Bankruptcy Code.

4 **1.44 Rejection Claim:** Shall mean any Claim arising under section 502(g) of the
5 Bankruptcy Code and any Claim of a holder of an Executory Contract which pursuant to
6 prior Order of Court is allowed as a Claim under section 502(g) of the Bankruptcy Code.

7 **1.45 Rejection Claims Bar Date:** Shall mean the date that is 30 days after the
8 Effective Date and by which all Persons asserting Claims arising from the rejection of an
9 executory contract or unexpired lease must have filed proofs of such Claims or be forever
10 barred from asserting such Claims against the Debtors or the estate, or other similar order,
11 as may be entered by the Bankruptcy Court.

12 **1.46 Remaining Cash:** Shall mean all Cash in the possession of the Debtors as of
13 the Effective Date.

14 **1.47 Reorganization Cases:** Shall mean the cases under chapter 11 of the
15 Bankruptcy Code commenced by the Debtors on the Petition Date in the Bankruptcy Court
16 and styled In re Carol Karlovich, Case Number 10-10860-PB11 and In re Karlovich
17 Financial, LLC, Case Number 10-10862-PB11.

18 **1.48 Reorganized Debtor:** Shall mean Carol Karlovich on and after the Effective
19 Date. Karlovich Financial, LLC shall be dissolved as of the Effective Date and all property
20 held by Karlovich Financial, LLC shall be transferred to the Reorganized Debtor, Carol
21 Karlovich, by quitclaim deed.

22 **1.49 Schedules:** Shall mean the schedules of assets and liabilities, lists of holders
23 of Claims, and the statement of financial affairs filed by the Debtors with the Bankruptcy
24 Court, as such schedules and statements may be supplemented or amended.

25 **1.50 Unsecured Claim Distribution:** Shall mean the distribution of Cash by the
26 Debtors to each holder of an Allowed Unsecured Claim as set forth in Section 5.1.9 of this
27 Plan.

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ARTICLE II
CLASSIFICATION OF CLAIMS

The creditors and other holders of claims against the Debtors are divided into the following classes for purposes hereof unless otherwise noted

2.1 Administrative Expense Claims.

Administrative claims are those expenses which are entitled to priority under Bankruptcy Code Section 507(a)(1) and which are, or become, allowed at any time before close of this Chapter 11 case.

2.1.1 Except to the extent that a holder of an Allowed Administrative Expense Claim agrees to a different treatment (and except to the extent provided in sections 2.1 or 2.2 of this Plan), the Debtors shall pay to each holder of an Allowed Administrative Expense Claim Cash from the Disbursement Account, in an amount equal to such Claim on the later of the Effective Date and the first Business Day after the date that is thirty (30) calendar days after the date such Administrative Expense Claim becomes an Allowed Administrative Expense Claim, or as soon thereafter as is reasonably practicable.

2.1.2 All fees payable pursuant to 28 U.S.C. § 1930(a)(6) shall be paid by the Debtors on or before the Effective Date.

2.1.3 Upon the disposition of any property (including real or personal property) of the Debtors, the Bankruptcy Court, upon application of the Debtors, may determine the amount of any tax claim accruing as a result of the disposition of said property pursuant to section 503(b)(1)(B) of the Bankruptcy Code.

2.1.4 Bar Date for Administrative Expense Claims: Proofs of Administrative Expense Claims and/or requests for the allowance and payment of Administrative Expense Claims, other than a Fee Claim, unless otherwise required pursuant to a prior order of the Bankruptcy Court, must be filed and served by the date that is no later than forty-five (45) days after the Effective Date. Notwithstanding anything to the contrary herein, no proof of Administrative Expense Claim or application for payment of an Administrative Expense Claim need be filed for the allowance of any: (a) expense or liability

1 incurred in the ordinary course of the Reorganized Debtor's business on or after the Effective
2 Date; (b) Administrative Expense Claim held by a trade vendor, which administrative
3 liability was incurred by the Debtor in the ordinary course of business between the Debtor
4 and such creditor on or after June 12, 2009; or (c) fees of the United States Trustee arising
5 under 28 U.S.C. § 1930 allocable to periods on or after the Petitions Dates. All Claims
6 described in clause (a), (b) and (c) of the immediately preceding sentence shall be paid by
7 the Reorganized Debtors in the ordinary course of business. Any Persons that fail to file a
8 proof of Administrative Expense Claim or request for payment thereof on or before the
9 Administrative Bar Date as required herein, or other applicable order of the Bankruptcy
10 Court, shall be forever barred from asserting such Claim against the Debtors, the estate, the
11 Reorganized Debtors or their property, and the holder thereof shall be enjoined from
12 commencing or continuing any action, employment of process or act to collect, offset or
13 recover such Administrative Expense Claim.

14 **2.1.5 Fee Claims:** All Professional Persons seeking allowance by the
15 Bankruptcy Court of a Fee Claim (a) shall file their respective final applications for
16 allowance of compensation for services rendered and reimbursement of expenses incurred
17 by a date that is no later than the date that is forty-five (45) calendar days after the Effective
18 Date and (b) shall be paid by the Debtors, in full from the Disbursement Account, in such
19 amounts as are approved by the Bankruptcy Court (a) upon the later of (i) the Effective Date
20 and (ii) ten (10) calendar days after the date upon which the order relating to the allowance
21 of any such Fee Claim is entered or (b) upon such other terms as may be mutually agreed
22 upon between the holder of such Fee Claim and the Debtors.

23 **2.2 Class 1: Secured Claim of Home Bank**

24 This class is comprised of the Secured Claim of Home Bank (the "First Secured
25 Claim") which is asserted as a secured claim against Debtors' real property located at 12233-
26 47 Woodside Avenue, Lakeside, California 92040 (the "Woodside Property"), reflected by
27 a first deed of trust. The current claim of Home Bank is in the approximate amount of
28 \$1,008,587.42 plus other potential fees and charges. This claim is fully secured.

1 **2.3 Class 2: Secured Claim of 2010-1 CRE Venture, LLC**

2 This class is comprised of the Secured Claim of 2010-1 CRE Venture, LLC (“2010-
3 1”) which is asserted as a secured claim against Debtors’ real property best identified as
4 13520-38 Poway Road, Poway, California 92064 (the “Poway Road Property”) reflected by
5 a recorded deed of trust. The current claim of 2010-1 is in the approximate amount
6 \$2,381,714.63. This claim is fully secured.

7 **2.4 Class 3: Secured Claim of Mission Federal Credit Union**

8 This class is comprised of the Secured Claim of Mission Federal Credit Union (
9 “MFCU”) which is asserted as a secured claim against Debtors’ real property best identified
10 as 141 Broadway, El Cajon, California 92021 (the “141 Broadway Property”), reflected by
11 a first deed of trust. The current claim of MFCU is in the approximate amount of
12 \$2,479,771.34. However, MFCU’s security in the 141 Broadway Property is only
13 \$1,720,000. Absent further order of the Bankruptcy Court upon the Effective Date, said
14 claim will be deemed allowed as secured in the amount of \$1,720,000 and unsecured in the
15 amount of \$759,771.34. The \$759,771.34 unsecured claim shall be treated as a General
16 Unsecured Claim as part of Class 11.

17 **2.5 Class 4: Secured Claim of San Diego County Credit Union**

18 This class is comprised of the Secured Claim of San Diego County Credit Union
19 (“SDCCU”) which is asserted as a secured claim against Debtors’ real property best
20 identified as 176 Knoll Road, San Marcos, CA. 92069 (the “Knoll Road Property”), reflected
21 by a first deed of trust. The current claim of SDCCU is in the approximate amount of
22 \$2,807,622.86. However, SDCCU’s security in the Knoll Road Property is only \$1,330,000.
23 Absent further order of the Bankruptcy Court upon the Effective Date, said claim will be
24 deemed allowed as secured in the amount of \$1,330,000 and unsecured in the amount of
25 \$1,477,622.86. The \$1,477,622.86 unsecured claim shall be treated as a General Unsecured
26 Claim as part of Class 11.

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1 **2.6 Class 5: Secured Claim of Mission Federal Credit Union**

2 This class is comprised of the Secured Claim of Mission Federal Credit Union (

3 “MFCU”) which is asserted as a secured claim against Debtors’ real property best identified

4 as 2052 Via Casa Alta, La Jolla, California 92037 (the “Via Casa Alta Property”), reflected

5 by a first deed of trust. The current claim of MFCU is in the approximate amount

6 \$3,775,000.00 plus other potential fees and charges. This claim is deemed fully secured

7 under applicable law as the residence of the Debtor.

8 **2.7 Class 6: Secured Claim of Mission Federal Credit Union**

9 This class is comprised of the Secured Claim of Mission Federal Credit Union (

10 “MFCU”) which is asserted as a secured claim against Debtors’ real property best identified

11 as 2052 Via Casa Alta, La Jolla, California 92037 (the “Via Casa Alta Property”), reflected

12 by a second deed of trust. The current claim of MFCU is in the approximate amount

13 \$1,000,000.00 plus other potential fees and charges. The value of the Via Casa Alta Property

14 is only \$3,700,000.00 with the first secured claim of MFCU being \$3,775,000, thus, absent

15 further court order, this claim is fully unsecured. The full amount of MFCU Class 6 claim

16 will be treated as a Class 10 Unsecured Claim and its Plan treatment shall be consistent with,

17 and equal to, the treatment given to all other Class 11 General Unsecured Claims.

18 **2.8 Class 7: Secured Claim of 2010-1 CRE Venture, LLC**

19 This class is comprised of the Secured Claim of SDCCU which is asserted as a

20 secured claim against Debtors’ real property best identified as 500 West San Marcos

21 Boulevard, San Marcos, CA. 92069 (the “West San Marcos Property”) reflected by a

22 recorded first deed of trust. The current claim of SDCCU is in the approximate amount

23 \$1,200,000.00 plus other potential fees and charges. This claim is fully secured.

24 **2.9 Class 8: Secured Claim of 2010-1 CRE Venture, LLC**

25 This class is comprised of the Secured Claim of 2010-1 CRE Venture, LLC (“2010-

26 1”) which is asserted as a secured claim against Debtors’ real property best identified as 942-

27 54 South Santa Fe, Vista, California 92084 (the “Santa Fe Property”) reflected by a recorded

28 deed of trust. The current claim of 2010-1 is in the approximate amount of \$1,424,376.53.

1 However, 2010-1's security in the Santa Fe Property is only \$967,000.00. Absent further
2 order of the Bankruptcy Court upon the Effective Date, said claim will be deemed allowed
3 as secured in the amount of \$967,000.00 and unsecured in the amount of \$457,376.53. The
4 \$457,376.53 unsecured claim shall be treated as a General Unsecured Claim as part of Class
5 11.

6 **2.10 Class 9: Secured Claim of Mission Federal Credit Union**

7 This class is comprised of the Secured Claim of Mission Federal Credit Union (
8 "MFCU") which is asserted as a secured claim against Debtors' real property best identified
9 as 7905-09 Broadway, Lemon Grove, California 91945 (the "Lemon Grove Property"). The
10 Lemon Grove Property was transferred from the Debtors to Carol Karlovich's daughter,
11 Karisa Karlovich, in September of 2009. The transfer was in return for a promissory note
12 from Karisa Karlovich in the amount of \$210,000. The promissory note from Karisa
13 Karlovich has been substantially reduced since the transfer of the Lemon Grove Property, in
14 addition, Karisa Karlovich has used her personal funds to bring the current loan to MFCU
15 current. As such, the Debtors shall enter into a settlement agreement with Karisa Karlovich
16 wherein the Debtors shall regain ownership of the Lemon Grove Property by quitclaim deed
17 in return for a release of the promissory note owed by Karisa Karlovich and Karisa Karlovich
18 shall obtain a \$50,000 claim that shall be treated as a Class 11 General Unsecured Claim
19 below. The current claim of MFCU on the Lemon Grove Property is reflected by a recorded
20 first deed of trust. The current claim of MFCU is in the approximate amount of \$435,000.00
21 plus other potential fees and charges. This claim is fully secured.

22 **2.11 Class 10: Priority Claims**

23 This class is comprised of claims that are entitled to priority under 11 U.S.C. Section
24 507. The Debtors believe the only claim in this class consists of the claims of Internal
25 Revenue Service ("IRS") based on estimates for unfiled tax returns for the 2009 calendar
26 year. The Debtors have since filed their tax returns with the IRS and believe that the entire
27 amount provided by the IRS in its proof of claim shall be eliminated by this filing.

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1 **2.12 Class 10(a): Property Tax Priority Claims**

2 This class is comprised of claims that are entitled to priority under 11 U.S.C. Section
3 507. This class is comprised of all pre-petition obligations owed to the County of San Diego
4 Treasurer - Tax Collector by the Debtors as a result of unpaid real property taxes on the
5 Debtors' various real properties. The Debtors are informed and believe that they are current
6 on the real property taxes for the Poway Road Property and for the West San Marcos
7 Property. The Debtors therefore believe that the property taxes for the 2009-2010 period
8 have not been paid on the following properties along with the Debtors' understanding of the
9 outstanding amounts owed:

10	Woodside Property	\$5,517.26
11	141 Broadway Property	\$25,810.00
12	Knoll Road Property	\$36,715.96
13	South Santa Fe Property	\$21,769.78
14	Via Casa Alta Property	\$34,570.04

15 **2.13 Class 11: General Unsecured Creditors**

16 This class is comprised of all unsecured claim holders against either Debtors including
17 the above classes whose undersecured portion of their claims are not secured by any assets
18 of the Debtors.

19 **2.14 Class 12: Subordinated Claim of Karisa Karlovich**

20 This class is comprised of the subordinated unsecured claim of Karisa Karlovich that
21 shall be created by operation of this Plan and by Karisa's contribution of \$200,000 in cash
22 into the Distribution Account.

23 **2.15 Class 13: Equity Holders**

24 This class is comprised of Carol Karlovich as the sole equity holder of Debtor
25 Karlovich Financial, LLC and as the residual of all assets owned by the bankruptcy estate of
26 Carol Karlovich and Karlovich Financial, LLC.

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ARTICLE III.

IMPAIRMENT OF CLAIMS

3.1 Impairment of Claims:

The claims of Classes 1, 2, 3, 4, 6, 7, 8, 9, 11 and 12 are impaired under the Plan. The claims of all other classes are unimpaired under the Plan. Class 13 is assumed to have rejected the Plan. **All impaired classes are entitled to vote as set forth below.**

ARTICLE IV.

TREATMENT OF CLAIMS

Each class of claims or interests of Debtor shall be treated as follows.

4.1 Administrative Claims:

To the best of their knowledge, the Debtors are current with administrative creditors except with respect to the Debtors' attorneys and Debtors' Certified Public Accountant. Debtors' have also employed brokers to list a number of Debtors' real properties for lease, but will only compensate these professionals in the event leases are obtained for the Debtors' benefit and payment shall occur by and through separate motions to compensate the real estate professionals. Unpaid legal and professional fees owed to Smaha Law Group, APC are estimated to be approximately \$60,000.00 as of the Effective Date of the Plan. The Debtors have already paid the Smaha Law Group a retainer fee of \$30,000, of which \$20,221.75 still remain. As of the end of October, 2010, The Smaha Law Group had expended \$73,980.50 in fees and approximately \$222.13 in costs. The Smaha Law Group anticipates expending an additional \$25,000.00 through the approval of the Plan process. The retainer shall reduce this claim on a dollar for dollar basis and the Debtors shall thereafter pay the approved final fees in accordance with section 2.1.5 above. Debtor's fees owed to the Smaha Law Group shall be paid with the Remaining Cash and from the \$200,000 contribution from Karisa Karlovich after an order allowing such fees is entered.

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1 The Debtors' Certified Public Accountant shall likely be paid by a separate fee
2 application once his services are completed, in the event that there is still an outstanding
3 amount as of the Effective Date, the Debtors' CPA shall be paid after final fees are approved
4 in accordance with section 2.1.5 above. Debtors' Certified Public Accountant's bills are
5 likely to total \$2,100.00 and shall be paid from Remaining Cash.

6 **4.2 Class 1:**

7 As of the Effective Date of the Plan, the secured claim of Home Bank shall be deemed
8 fully secured against real property of the Reorganized Debtor in the amount \$1,008,587.42
9 as of June 22, 2010. Debtors and Home Bank have reached a tentative agreement regarding
10 the Woodside Property's treatment. The agreement has been memorialized by a letter
11 agreement submitted to Smaha Law Group by Mr. James Kostas and shall be finalized in the
12 form of a stipulation to be submitted to the Court for approval. The agreement calls for
13 interest only payments for one year on the amount owed, being approximately \$5,589.39 a
14 month. The second year of the Plan would have one year of net rents that must fall between
15 a minimum of interest only payments and a maximum of an amortized rate for 6.67% over
16 a twenty five year period, with the estimated amount being \$6,457.01. Thereafter, years three
17 through five will be equal to payments of an amortized amount of interest and principal based
18 on the same 6.67% over a twenty five year amortization period. The estimated amount is
19 \$6,825.60. Debtors shall make all distributions to Home Bank directly, without the use of
20 the Distribution Agent or the Distribution Account.

21 Debtors must also bring property taxes current from any excess rents (estimated at
22 \$5,516.26) and continue paying monthly tax set asides for future property tax payments.
23 Thereafter, Debtors must pay the full amount due on the Note at the end of the five year Plan.
24 The final numbers won't be available until a final settlement agreement is drafted by Home
25 Bank and signed by the parties to the agreement. Debtors will amend the Plan and
26 Projections to reflect the correct amount prior to confirmation.

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1 On the last day of the Plan, the Fixed Payment will cease and the Debtor shall have
2 to pay the remaining amount owed to Home Bank unless the Reorganized Debtors and Home
3 Bank reach further agreement to continue payments beyond the Plan.

4 **4.3 Class 2:**

5 The Class 2 Claimant, 2010-1, shall retain its fully secured claim of \$2,381,714.63 on
6 the Poway Road Property. Payments on the Class 2 Claimant's claim shall be made on a
7 monthly basis. For the first three years of the Plan, the Class 2 Claimant shall receive a
8 monthly payment of \$9,923.81, based on interest only payments on a 5% interest rate.
9 Payments for years four and five would be increased to amortized payments on the full claim
10 with a 5% interest rate and an amortization schedule of twenty-five years. The payments will
11 be in the amount of \$13,923.27 for those last two years of the Plan. Debtors shall make all
12 distributions to 2010-1 directly, without the use of the Distribution Agent or the Distribution
13 Account. Thereafter, Debtors must pay the full amount due on the Note at the end of the five
14 year Plan. 2010-1's Class 2 Claim is impaired under the Plan and is entitled to vote on the
15 Plan.

16 **4.4 Class 3:**

17 The Secured Claim of MFCU on the 141 Broadway Property shall be segregated into
18 secured and unsecured portions under 11 U.S.C § 506. Under Debtors' independent
19 valuation, MFCU has a secured claim of \$1,720,000. For the first three years of the Plan,
20 Debtors shall pay interest only payments based on a 5% interest rate and a twenty-five year
21 mortgage, which would make monthly interest only payments be \$7,166.67. The next two
22 years shall be amortized payments of both interest and principle at \$10,054.95 based on a 5%
23 interest rate and a twenty-five year mortgage. Debtors shall make all distributions to MFCU
24 directly, without the use of the Distribution Agent or the Distribution Account. Thereafter,
25 Debtors must pay the full secured amount due on the Note at the end of the five year Plan.

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1 The Debtors and their bankruptcies shall be substantively consolidated by separate
2 motion or by operation of this Plan. The LLC Debtor shall be dissolved and the 141
3 Broadway Property shall be transferred by quitclaim deed to the individual Debtor. The
4 Reorganized Debtor shall be Carol Karlovich and all of the Debtors' real properties, shall be
5 maintained by the Reorganized Debtor for the benefit of the estate. Debtors previously filed
6 a motion for substantive consolidation of the two bankruptcies, which was denied without
7 prejudice as premature. Debtors intend to obtain consolidation by this Plan or by a
8 subsequently filed motion for substantive consolidation after this Disclosure Statement and
9 Plan are filed with the Court.

10 The remaining, unsecured amount of \$759,778.34 would be treated as a Class 11
11 Unsecured Claim and would receive the same treatment as all other unsecured claims.
12 MFCU's Class 3 Claim is impaired under the Plan and is entitled to vote on the Plan.

13 Under 11 U.S.C. §1111(b), MFCU may elect to deem its entire claim to be fully
14 secured by the 141 Broadway Property. In the event that MFCU elects to be treated in such
15 a fashion, the Debtor may also then elect to surrender the 141 Broadway Property in full
16 satisfaction of MFCU's claim, thereby eliminating in full the Class 3 claim of MFCU and
17 eliminating any and all recourse claims of MFCU under Class 3 and/or Class 11 as against
18 the Debtors. MFCU's election must be made, in writing, on or before the last day to submit
19 ballots on this Plan.

20 **4.5 Class 4:**

21 The Secured Claim of SDCCU on the Knoll Road Property shall be segregated into
22 secured and unsecured portions under 11 U.S.C § 506. Under Debtors' independent
23 valuation, SDCCU has a secured claim of \$1,330,000.0. Debtor shall pay interest only
24 payments based on a 5% interest rate and a twenty-five year mortgage, which would make
25 monthly interest only payments be \$5,541.67. This will leave estimated net earnings of
26 \$1,951.42 for the first three years. The next two years would be amortized payments of both
27 interest and principle at \$7,775.05 based on a 5% interest rate and a twenty-five year
28 mortgage. Debtors shall make all distributions to SDCCU directly, without the use of the

1 Distribution Agent or the Distribution Account. Thereafter, Debtors must pay the full
2 secured amount due on the Note at the end of the five year Plan.

3 The remaining, unsecured amount of \$1,477,622.86 will be treated as a Class 11
4 Unsecured Claim and will receive the same treatment as all other unsecured claims.
5 SDCCU's Class 4 Claim is impaired under the Plan and is entitled to vote on the Plan.

6 Under 11 U.S.C. §1111(b), SDCCU may elect to deem its entire claim to be fully
7 secured by the Knoll Road Property. In the event that SDCCU elects to be treated in such
8 a fashion, the Debtor may also then elect to surrender the Knoll Road Property in full
9 satisfaction of SDCCU's claim, thereby eliminating in full the Class 4 claim of SDCCU and
10 eliminating any and all recourse claims of SDCCU under Class 4 and/or Class 11 as against
11 the Debtors. SDCCU's election must be made, in writing, on or before the last day to submit
12 ballots on this Plan.

13 **4.6 Class 5:**

14 The Class 5 secured claim of MFCU is secured by the Via Casa Alta Property. MFCU
15 is owed \$3,775,000.00 as of June 22, 2010. Because the Via Casa Alta Property is the
16 individual Debtor's primary residence, the Debtors do not have the ability to modify the
17 payment schedule for the Class 5 Claim. The contractual payment on the MFCU Class 5
18 Claim is \$12,100.00 and shall remain as much during the life of the Plan. The Debtor shall
19 commence making regular monthly payments as of the Effective Date of the Plan and shall
20 continue regular monthly payments thereafter. Debtors shall make all distributions to MFCU
21 directly, without the use of the Distribution Agent or the Distribution Account MFCU's
22 Class 5 Claim is unimpaired under the Plan and is not entitled to vote on the Plan.

23 If any arrearage exists on the Via Casa Alta Property, the Debtor shall use any
24 Remaining Cash, the \$200,000 cash infusion from Karisa Karlovich and net rents after
25 payments are made to Administrative Claims in order to eliminate the arrearage. Debtors
26 estimate that the current arrearages are \$146,428.93. As indicated herein, the Debtors shall
27 provide payment to Administrative Claims first from the Remaining Cash. Thereafter, the
28 Debtors shall provide full payment of the arrearages to MFCU from Remaining Cash, from

1 the \$200,000 cash infusion from Karisa Karlovich and from net rents. Once all arrearages
2 have been paid, the loan shall be deemed current and thereafter shall proceed in accordance
3 with its terms. These payments shall be from the Distribution Account.

4 The Debtors shall also immediately list the Via Casa Alta Property for sale with a
5 court approved real estate broker. The Debtors shall make every effort to sell the Via Casa
6 Alta Property at a reasonable value. In the event of a sale fo the Via Casa Alta Property, all
7 proceeds, after paying costs of sale including commissions, will initially go towards
8 eliminating the Class 5 Claim of MFCU.

9 **4.7 Class 6:**

10 The Class 6 secured claim of MFCU is secured by the Via Casa Alta Property. MFCU
11 was owed \$990,000.00 as of June 22, 2010. Debtors independent appraisal identified the
12 value as of the Bankruptcy filing date of the Via Casa Alta Property as \$3,730,000.00. As
13 such, under 11 U.S.C § 506., the Debtors have the ability to remove the full amount of
14 MFCU's secured claim from the Via Casa Alta Property as MFCU is fully unsecured in this
15 property.

16 As such, the full amount of MFCU Class 6 claim will be treated as a Class 11
17 Unsecured Claim and its Plan treatment shall be consistent with, and equal to, the treatment
18 given to all other Class 11 General Unsecured Claims. MFCU's Class 6 Claim is impaired
19 under the Plan and is entitled to vote on the Plan.

20 In the event that the Via Casa Alta Property is sold by the Debtors and the net revenue
21 for the sale is above and beyond MFCU's Class 5 Claim, all proceeds of the sale shall go to
22 MFCU's Class 6 claim up to and including the total value of its claim. Thereafter, if the Via
23 Casa Alta Property generates further net proceeds, the funds will be distributed to General
24 Unsecured Creditors and to the Reorganized Debtor on a 50/50 basis. For example, if the
25 Via Casa Alta Property generates \$10,000 above and beyond the costs of sale, Class 5 claims
26 and Class 6 claims, General Unsecured Creditors would receive a \$5,000 distribution to be
27 paid on a pro rata basis and the Reorganized Debtor would receive \$5,000.

28 ///

1 In the event that MFCU's Class 6 claim is found to be partially secured by the Via
2 Casa Alta Property, under 11 U.S.C. §1111(b), MFCU may elect to deem its entire claim to
3 be fully secured by the Via Casa Alta Property. In the event that MFCU elects to be treated
4 in such a fashion, the Debtors may also then elect to surrender the Via Casa Alta Property in
5 full satisfaction of MFCU's claim, thereby eliminating in full the Class 6 claim of MFCU and
6 eliminating any and all recourse claims of MFCU under Class 6 and/or Class 11 as against
7 the Debtors. MFCU's election must be made, in writing, on or before the last day to submit
8 ballots on this Plan.

9 **4.8 Class 7:**

10 SDCCU's secured claim on the West San Marcos Property is fully secured in the
11 amount of \$1,200,000.00 as of June 22, 2010. For the first three years of the Plan, Debtors
12 shall pay interest only payments based on a 5% interest rate and a twenty-five year mortgage,
13 which would make monthly interest only payments be \$5,000.00. The next two years would
14 be amortized payments of both interest and principle at \$8,008.88 based on a 5% interest rate
15 and a twenty-five year mortgage. Debtors shall make all distributions to SDCCU directly,
16 without the use of the Distribution Agent or the Distribution Account Thereafter, Debtors
17 must pay the full secured amount due on the Note at the end of the five year Plan.
18 SDCCUS's Class 7 Claim is impaired under the Plan and is entitled to vote on the Plan.

19 **4.9 Class 8**

20 The Secured Claim of 2010-1 on the South Santa Fe Property shall be segregated into
21 secured and unsecured portions under 11 U.S.C § 506. Under Debtors' independent
22 valuation, MFCU has a secured claim of \$967,000.00. For the first three years of the Plan,
23 Debtors shall pay interest only payments based on a 5% interest rate and a twenty-five year
24 mortgage, which would make monthly interest only payments be \$4,029.17. The next two
25 years would be amortized payments of both interest and principle at \$5,652.99 based on a 5%
26 interest rate and a twenty-five year mortgage. Debtors shall make all distributions to 2010-1
27 directly, without the use of the Distribution Agent or the Distribution Account Thereafter,
28 Debtors must pay the full secured amount due on the Note at the end of the five year Plan.

1 The remaining, unsecured amount of \$457,376.53 will be treated as a Class 11
2 Unsecured Claim and would receive the same treatment as all other unsecured claims. 2010-
3 1's Class 8 Claim is impaired under the Plan and is entitled to vote on the Plan.

4 Under 11 U.S.C. §1111(b), MFCU may elect to deem its entire claim to be fully
5 secured by the South Santa Fe Property. In the event that MFCU elects to be treated in such
6 a fashion, the Debtor may also then elect to surrender the South Santa Fe Property in full
7 satisfaction of MFCU's claim, thereby eliminating in full the Class 8 claim of MFCU and
8 eliminating any and all recourse claims of MFCU under Class 8 and/or Class 11 as against
9 the Debtors. MFCU's election must be made, in writing, on or before the last day to submit
10 ballots on this Plan.

11 **4.10 Class 9:**

12 The Secured Claim of MFCU on the Lemon Grove Property is fully secured in the
13 amount of \$435,000.00 as of June 22, 2010. For the first three years of the Plan, Debtors
14 shall pay interest only payments based on a 5% interest rate and a twenty-five year mortgage,
15 which would make monthly interest only payments be \$1,812.50. The next two years would
16 be amortized payments of both interest and principle at \$2,542.97 based on a 5% interest rate
17 and a twenty-five year mortgage. Debtors shall make all distributions to MFCU directly,
18 without the use of the Distribution Agent or the Distribution Account Thereafter, Debtors
19 must pay the full secured amount due on the Note at the end of the five year Plan. MFCU's
20 Class 9 Claim is impaired under the Plan and is entitled to vote on the Plan.

21 **4.11 Class 10:**

22 The IRS has filed a claim for allegedly unpaid taxes in the amount of \$211,151.58.
23 The Debtors have not filed tax returns for 2009 taxes and are in the process of having a CPA
24 employed in order to finalize those tax returns and will file tax returns once approval is
25 obtained and the CPA has time to draft and submit the tax returns. The Debtor anticipates
26 that the IRS will withdraw its claim when the IRS receive Debtors' tax returns showing
27 substantial losses for the year. If the Debtors have misinterpreted the IRS's claim and said
28 claim are not eliminated, then the Debtor shall pay the Class 9 claimant(s) Allowed Claim

1 in full as of the Effective Date or will submit all net rent payments currently targeted for
 2 Class 11 General Unsecured Claims to the Class 10 Claims until they are fully paid, with
 3 interest accruing under the Plan at the current federal short term rate of 0.46% per annum .
 4 The Priority Claimant is unimpaired under the Plan and is not entitled to vote on the Plan.

5 **4.11 Class 10(a):**

6 The Debtors believe that the property taxes for the 2009-2010 period have not been
 7 paid on the following properties along with the Debtors' understanding of the outstanding
 8 amounts owed:

9	Woodside Property	\$5,517.26
10	141 Broadway Property	\$25,810.00
11	Knoll Road Property	\$36,715.96
12	South Santa Fe Property	\$21,769.78
13	Via Casa Alta Property	<u>\$34,570.04</u>
14	Total	\$124,383.04

15 The outstanding amounts listed above shall be paid in full as of the Effective Date
 16 using Remaining Cash and the \$200,000 cash infusion from Karisa Karlovich. If any amount
 17 remains due and owing, the Debtors will submit all net rent payments currently targeted for
 18 Class 11 General Unsecured Claims to the Class 10(a) Claims until they are fully paid, with
 19 interest accruing under the Plan at the current federal short term rate of 0.46% per annum.
 20 Debtors anticipates using the first two months of net rents to cover all outstanding Class
 21 10(a) payments, including accrued interest. The Priority Property Tax Claimants are
 22 unimpaired under the Plan and are not entitled to vote on the Plan.

23 **4.12 Class 11:**

24 Holders of Allowed General Unsecured Claims shall receive, in full satisfaction of
 25 such claims, pro rata Cash payments in an amount equal to approximately 34.23%, without
 26 interest, of the amount of their claim by the expiration of the Plan. As more fully discussed
 27 below, distributions to Unsecured Creditors will be made from the Distribution Account and
 28 according to the terms and conditions as indicated herein. Generally, payments on the

1 Allowed General Unsecured Claims shall be made on a quarterly basis after the Effective
2 Date if the Debtor is current with Secured Creditors. The Allowed General Unsecured
3 Claims that are not paid in full from distributions within the Plan shall be discharged at the
4 expiration of sixty (60) months from the Effective Date, subject to motion of the Debtor for
5 discharge prior to the expiration of sixty (60) months through substantial consummation of
6 the Plan under 11 USC Section 1141 ("Discharge Date"). Notwithstanding the occurrence
7 of the Discharge Date, if any Litigation Actions identified herein have not come to a final
8 resolution and Allowed General Unsecured Claimants have not been paid in full, the
9 Reorganized Debtor's bankruptcy will remain open for the limited purpose of distributing
10 proceeds from those actions. The Debtor does not anticipate filing any Litigation Actions.
11 All other property or assets in the estate will no longer be available for distribution and the
12 Reorganized Debtor will make no contribution to the estate.

13 General Unsecured Claims shall receive a distribution of all net rents each quarter for
14 the full five years of the plan, plus proceeds from the sale of the Fax Shares and proceeds
15 from the sale of the Debtors' real property lots, a total estimated distribution of
16 \$1,316,752.08, an amount that will be reduced by payments to be made to Real Property Tax
17 Priority Claimants. The Debtors have estimated that Administrative Expenses shall cost the
18 estate approximately \$100,000 and shall be paid from Remaining Cash and from the cash
19 infusion by Karisa Karlovich after those expenses have been reduced by a retainer held by
20 Debtors' bankruptcy counsel of approximately \$20,000.00.

21 The Class 5 Secured Claimant is owed \$136,429.93 in arrearages which will be paid
22 in full by the Remaining Cash and the cash infusion from Karisa Karlovich. The next claims
23 to be paid would be those to be paid to Class 10(a) Priority Property Tax Claims. The
24 estimated amount of these claims is \$124,383.04. The Remaining Cash and cash infusion
25 from Karisa Karlovich will be used to reduce these claims to approximately \$26,645.97.
26 This remaining amount will be paid from the net rents, proceeds from the sale of the Fax
27 Shares and/or proceeds from the sale of the Debtors' real property lots. Once these are paid,
28 the remained of the net rents, proceeds from the sale of the Fax Shares and/or proceeds from

1 the sale of the Debtors' real property lots will go to General Unsecured Creditors. The total
2 estimated payout to these creditors will be \$1,290,106.11, or 34.23% of their claims as
3 provided above.

4 The Debtor estimates that there are approximately \$3,768,677.24 in General
5 Unsecured Claims, including the residual secured claims from the real properties.
6 Undisputed General Unsecured Claims are impaired under the Plan and are entitled to vote
7 on the Plan.

8 **4.13 Class 12:**

9 During the pendency of this bankruptcy, Karisa Karlovich, shall not receive any
10 distributions from the estate. Her claim of \$200,000 shall accrue interest at a rate of 5% per
11 annum. The full amount of her claim, including accrued interest, shall be paid in full after
12 the Plan is completed and within sixty-six (66) months of the Effective Date, unless the
13 Reorganized Debtor and Karisa Karlovich agree otherwise after the completion of the Plan.

14 **4.14 Class 13:**

15 During the pendency of this bankruptcy, the Reorganized Debtor, Carol Karlovich,
16 shall receive insider salary of \$3,000.00 in order to provide for her personal living expenses
17 and those of her daughter, Karisa Karlovich, who will continue to reside with the Debtor and
18 shall continue to assist the Debtor in operating her rental business and to maintain the
19 Debtors' assets.

20 In the event that the Reorganized Debtor sells the Via Casa Alta Property, the
21 Reorganized Debtor shall receive an increase in insider salary to \$8,000.00 in order to cover
22 the rental and maintenance of alternative living accommodations for the Reorganized Debtor
23 and Karisa Karlovich.

24 **ARTICLE V.**

25 **EXECUTORY CONTRACTS / UNEXPIRED LEASES**

26 **5.1 Executory Contracts/Unexpired Leases:**

27 Unless otherwise expressly assumed in writing prior to the Effective Date of the Plan,
28 or otherwise specifically provided for below, all pre-petition executory contracts and leases

1 of the Debtors shall be deemed rejected upon the Effective Date of the Plan.

2 Debtor shall maintain all real property leases in which the Debtor is the lessor As of
3 the Effective Date of the Plan the Debtor shall assume all such leases and shall continue to
4 collect monthly payments through the life of the lease.

5 **5.2 Rejection Claims**

6 Except as otherwise ordered by the Bankruptcy Court, in the event that the rejection
7 of an executory contract or unexpired lease by the Debtors pursuant to this Plan results in
8 damages to the other party or parties to such contract or lease, a Claim for such damages shall
9 be forever barred and shall not be enforceable against the Debtors or the Reorganized
10 Debtors, unless a proof of claim has been filed with the Bankruptcy Court and served upon
11 counsel for the Debtors on or before the Rejection Claims Bar Date. If there are no objections
12 to the Rejection Claim, or to the extent the Rejection Claim later becomes an Allowed Claim,
13 the Rejection Claim shall be classified and treated as provided in Sections 3 and 4 of this
14 Plan.

15 **ARTICLE VI.**

16 **MEANS FOR IMPLEMENTATION**

17 **6.1 Plan Documents:** On the Effective Date the Reorganized Debtor shall execute
18 and deliver the Plan Documents, as the case may be and as required hereunder.

19 **6.2 Continued Existence**

20 The Reorganized Debtor shall continue to exist after the Effective Date in accordance
21 with applicable non-bankruptcy law. Karlovich Financial, LLC shall be dissolved as of the
22 Effective Date as provided for herein.

23 **6.3 Avoidance Actions and Collections:** All avoidance actions assertable by the
24 Debtor-in-Possession, pursuant to Sections 542 through 553 of the Bankruptcy Code, shall
25 be retained by the Reorganized Debtor. For the period of sixty (60) months on and after the
26 Effective Date, the Reorganized Debtor shall deposit into the Distribution Account all of the
27 net recovery by the Reorganized Debtor on all Avoidance Actions, actions for the recovery
28 of any pre-petition debt owed to the Debtor of any other cause of action (the "Avoidance

1 Collections”). For the purposes hereof, the term net recovery shall mean the gross dollars
2 collected less all attorneys fees and normal costs, including experts and employee overhead
3 expended in the collection thereof. Debtor has reviewed his financial records and, to date,
4 has not identified any potential Avoidance Actions at the time of the drafting of this Plan and
5 do not anticipate filing any such Avoidance Actions.

6 **6.4 Compromise of Controversies:** Pursuant to Bankruptcy Rule 9019, and in
7 consideration for the classification, distribution and other benefits provided under this Plan,
8 the provisions of this Plan shall constitute a good faith compromise and settlement of all
9 Claims and controversies resolved pursuant to this Plan, including, without limitation, all
10 Claims arising prior to the Petition Date, whether known or unknown, foreseen or
11 unforeseen, asserted or unasserted, arising out of, relating to or in connection with the
12 business or affairs of or transactions with the Debtors. The entry of the Confirmation Order
13 shall constitute the Bankruptcy Court's approval of each of the foregoing compromises or
14 settlements, and all other compromises and settlements provided for in this Plan, and the
15 Bankruptcy Court's findings shall constitute its determination that such compromises and
16 settlements are in the best interests of the Debtors, the estate, creditors and other parties in
17 interest, and are fair, equitable and within the range of reasonableness.

18 **6.5 Approval of Plan Documents:** The solicitation of votes on this Plan shall be
19 deemed a solicitation for the approval of the Plan Documents and all transactions
20 contemplated hereunder. Entry of the Confirmation Order shall constitute approval of the
21 Plan Documents and such transactions.

22 **6.6 Reorganized Debtor's Business:** After the Effective Date of the Plan, the
23 Reorganized Debtor will continue in the business of real estate investment and maintenance.

24 **6.7 Distributions:** On the Effective Date or as soon thereafter as funds exist in the
25 Disbursement Account and in accordance with the terms of this Plan, the Debtor shall pay
26 (or reserve sufficient amounts to pay) all remaining Allowed Claims to those claimants
27 holding Administrative Expense Claims, Priority Claims and Class 5 arrearage claims.
28 Thereafter the Debtors shall pay the holders of Allowed Secured Claims pursuant to the

1 terms of sections 4.1 through 4.12 of the Plan. At the appropriate time pursuant to the terms
2 of section 4.12 of the Plan, the Disbursement Account shall be used to distribute funds to the
3 holders of Allowed Unsecured Claims.

4 **ARTICLE VII.**

5 **DISTRIBUTIONS**

6 **7.1 Satisfaction of Claims:** Unless otherwise provided herein, any distributions
7 and deliveries to be made on account of Allowed Claims hereunder shall be in complete
8 settlement, satisfaction and discharge of such Allowed Claims.

9 **7.2 Manner of Payment Under Plan:** Except as specifically provided herein, at
10 the option of the Debtors, any Cash payment to be made hereunder may be made by a check
11 or wire transfer, or as otherwise required or provided in applicable agreements.

12 **7.3 Exemption from Securities Laws:** The issuance of any securities pursuant to
13 this Plan shall be exempt from any securities laws registration requirements to the fullest
14 extent permitted by section 1145 of the Bankruptcy Code.

15 **7.4 Setoffs:** The Debtors or the Reorganized Debtor, as applicable, may, pursuant
16 to section 553 of the Bankruptcy Code or applicable non-bankruptcy law, set off against any
17 Allowed Claim, and the distributions to be made pursuant to this Plan on account of such
18 Claim, Causes of Action of any nature that the Debtor or Reorganized Debtor may hold
19 against the holder of such Allowed Claim; provided that neither the failure to effect a setoff
20 nor the allowance of any Claim hereunder will constitute a waiver or release by the Debtor
21 or Reorganized Debtor of any Causes of Action that the Debtor or the Reorganized Debtor
22 may possess against such holder.

23 **7.5 Special Tax Provisions:** Pursuant to section 1146(a) of the Bankruptcy Code,
24 the issuance, transfer or exchange of any notes or securities under the Plan, the creation of
25 any mortgage, deed of trust or other security interest, the making or assignment of any lease
26 or sublease, or the making or delivery of any deed or other instrument of transfer under, in
27 furtherance of, or in connection with the Plan, including, without limitation, any deeds, bills
28 of sale or assignments executed in connection with any of the transactions contemplated

1 under the Plan shall not be subject to any stamp, real estate transfer, mortgage recording or
2 other similar tax.

3 **7.6 Distribution Account:** The Debtors shall fund the Distribution Account from
4 the net income coming from the operation of their real properties. As expressed above, the
5 Debtor shall pay all Administrative Expenses at, or around, the time of the Effective Date.
6 The Debtor will have approximately \$100,000 in Remaining Cash and the Karisa Karlovich
7 \$200,000 cash infusion, available to pay said Administrative Expenses. In addition, the
8 Debtors will have resolved the IRS's Priority Claim with the submission of their 2009 taxes.
9 Any Remaining Cash shall be used to pay arrearages on Class 5 Secured Claims and then
10 Priority Real Property Tax Claims. Thereafter, the Distribution Account shall be funded and
11 maintained from the operation of the Debtors' real properties with net rent deposits into the
12 Distribution Account and the proceeds from the sale of the Debtors' real property vacant lots
13 and the sale of the FAZ shares.

14 **7.7 Distribution Agent:** The Distribution Agent shall be established for the
15 purposes set forth in this Plan, including, without limitation, to (i) provide the Court and the
16 United States Trustee with quarterly reports on net income and distributions, to (ii) make all
17 Plan Distributions as otherwise contemplated in this Plan, (iii) to take any and all other
18 actions reasonably necessary to effectuate the purposes of this Plan.

19 The Reorganized Debtor will provide Quarterly Reports summarizing Distribution
20 Account transactions, including an itemization of all deposits and withdrawals. The
21 Reorganized Debtor will provide the Quarterly Report to the Court and will serve the report
22 on the United States Trustee and any creditor that formally requests a copy by written request
23 to the Reorganized Debtor or the Reorganized Debtor's counsel. The Quarterly Report will
24 provide total deposits and withdrawals, a description of each deposit and withdrawal and a
25 total balance for the Distribution Account. The Quarterly Report will not summarize or
26 provide additional detail on the Reorganized Debtor's business operations.

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1 The Reorganized Debtor will provide Operating Reports as required, although the
2 level of detail will be subject to the same caveats identified in the Reorganized Debtor's
3 Business Operations Section of this Disclosure Statement. Notwithstanding any other
4 provision the Reorganized Debtor's Quarterly Reports will substantially conform to the Post-
5 Confirmation Report, required by 28 U.S.C. § 586(a)(3)(D) and 11 U.S.C. § 1106(a)(1). The
6 Quarterly Report will stop when, and if, the Debtor seeks and obtains an order finding that
7 the Plan has been substantially consummated under 11 U.S.C. § 1101.

8 Neither the Reorganized Debtor nor the Distribution Agent shall incur responsibility
9 or liability by reason of any error of law or any matter or thing done or suffered or omitted
10 to be done under any Quarterly Report, except for willful misconduct, breaches of fiduciary
11 duty, or negligence. No claim or cause of action shall lie against the Reorganized Debtor or
12 the Distribution Agent if a misstatement or omission is corrected by an amendment.

13 From and after the Effective Date, the Distribution Agent is empowered to distribute
14 assets from the Distribution Account in accordance with the terms and conditions of the Plan.

15 The Distribution Agent shall be the Smaha Law Group, APC. The Distribution Agent
16 may be contacted by creditors and/or interested parties at the following address: 7860
17 Mission Center Court, Suite 100, San Diego, California, Tel. (619) 688-1557, Fax (619) 688-
18 1558. All inquiries should be directed to John L. Smaha and/or Gustavo E. Bravo. The
19 Distribution Agent will not be compensated by and through the Debtor's Plan except for
20 reimbursement of Estate Expenses as provided above. All fees of the Distribution Agent shall
21 be an obligation of the Reorganized Debtor. The Distribution Agent will not be bonded as
22 the Distribution Agent shall maintain the funds in their client trust account and the funds will
23 not be in any risk.

24 **7.8 Distribution Expenses:** The Distribution Agent shall be authorized to pay
25 Distribution Account Expenses from the Distribution Account. These expenses shall include
26 postage, paper, casual labor, bookkeeping, travel and related expenses capped at \$10,000 for
27 the life of the Plan. The expenses shall not include attorneys fees or general overhead of the
28 Debtor. The Distribution Agent is authorized to hire and retain a third party, certified public

1 accountant to review and certify income and distributions.

2 The Distribution Expenses shall be paid without further order of the Bankruptcy
3 Court. The Distribution Expenses shall have first priority in payment from the Distribution
4 Account.

5 **7.9 Satisfaction of Claims:** Unless otherwise provided herein, any distributions
6 and deliveries to be made on account of Allowed Claims hereunder shall be in complete
7 settlement, satisfaction and discharge of such Allowed Claims.

8 **7.10 Manner of Payment Under Plan:** Except as specifically provided herein, at
9 the option of the Reorganized Debtor, any Cash payment to be made hereunder may be made
10 by a check or wire transfer, or as otherwise required or provided in applicable agreements.

11 **7.11 Setoffs:** The Reorganized Debtor, as applicable, may, pursuant to section 553
12 of the Bankruptcy Code or applicable non-bankruptcy law, set off against any Allowed
13 Claim, and the distributions to be made pursuant to this Plan on account of such Claim,
14 Causes of Action of any nature that the Debtor may hold against the holder of such Allowed
15 Claim; provided that neither the failure to effect a setoff nor the allowance of any Claim
16 hereunder will constitute a waiver or release by the Debtor of any Causes of Action that the
17 Debtor may possess against such holder.

18 **ARTICLE VIII.**

19 **PROCEDURES FOR DISPUTED CLAIMS**

20 **8.1 Objections to Claims:** Other than with respect to Fee Claims, only the
21 Reorganized Debtor shall be entitled to object to Claims, including any Claim which has
22 been listed by the Debtor in the Schedules in an amount not disputed or contingent. Any
23 objections to such Claims (other than Fee Claims) shall be served and filed on or before the
24 later of: (a) ninety (90) days after the Effective Date; (b) thirty (30) days after a request for
25 payment or proof of Claim is properly filed and served upon the Debtor; or (c) such other
26 date as may be fixed by the Bankruptcy Court, whether fixed before or after the date
27 specified in clause (a) hereof. Notwithstanding any authority to the contrary, an objection to
28 a Claim shall be deemed properly served on the claimant if the Reorganized Debtors effect

1 service in any of the following manners: (a) in accordance with Federal Rule of Civil
2 Procedure 4, as modified and made applicable by Bankruptcy Rule 7004; (b) to the extent
3 counsel for a claimant is unknown, by first class mail, postage prepaid, on the signatory of
4 the proof of claim as well as all other representatives identified in the proof of claim or any
5 attachment thereto; or (c) by first class mail, postage prepaid, on any counsel that has
6 appeared on the claimant's behalf in the Reorganization Case (so long as such appearance has
7 not been subsequently withdrawn). This Plan shall not affect any party's rights to object to
8 Fee Claims.

9 **8.2 Payments and Distributions with Respect to Disputed Claims:** To the
10 extent a Claim is a Disputed Claim, the Reorganized Debtor shall not be required to make
11 a distribution of the applicable disputed portion of a payment to the holder of such Disputed
12 Claim which would otherwise be payable to the holder of a Disputed Claim. Instead such
13 Disputed Claim shall be reserved for pending allowance or disallowance. In the event that
14 Disputed Claim is subsequently allowed, the Reorganized Debtor shall thereafter pay the
15 appropriate amount to the holder of the Claim in accordance with the terms of the Plan and
16 in the same manner as any other creditor of the same Class.

17 **ARTICLE IX.**

18 **CONDITIONS PRECEDENT TO THE EFFECTIVE DATE**

19 **9.1 Conditions Precedent to Confirmation:** Each of the following is a condition
20 precedent to the occurrence of Confirmation of this Plan of Reorganization:

21 (a) the Bankruptcy Court shall have entered an order finding that the
22 Disclosure Statement contains adequate information pursuant to section 1125 of the
23 Bankruptcy Code; and

24 (b) the Bankruptcy Court shall have entered a Confirmation Order.

25 **9.2 Conditions Precedent to the Effective Date:** Each of the following is a
26 condition precedent to the occurrence of the Effective Date. The Effective Date shall have
27 occurred on or before March 31, 2011.

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1 1. The Confirmation Order confirming this Plan, as such Plan may have been
2 amended or modified, in form and substance satisfactory to the Debtor, shall have been
3 entered and docketed by the Bankruptcy Court, and such order shall have become a Final
4 Order and shall provide that:

5 (i) the Reorganized Debtor is authorized to take all actions necessary or
6 appropriate to enter into, implement, and consummate the contracts, instruments, releases,
7 leases, indentures, and other agreements or documents contemplated by or described in this
8 Plan;

9 (ii) the provisions of the Confirmation Order are non-severable and
10 mutually dependent;

11 (iii) (a) the Debtor shall be deemed to have solicited acceptances of this
12 Plan in good faith and in compliance with the applicable provisions of the Bankruptcy Code,
13 including without limitation, sections 1125 and 1126 (b) of the Bankruptcy Code, and any
14 non-bankruptcy law, rule or regulation governing the adequacy of disclosure in connection
15 with such solicitation;

16 (b) the Debtor shall be deemed to have participated in good faith and
17 in compliance with the applicable provisions of the Bankruptcy Code in the offer and
18 issuance of any securities under this Plan and, therefore, are not, and on account of such
19 offer, issuance and solicitation will not be, liable at any time for any violation of any
20 applicable law, rule, or regulation governing the solicitation of acceptances or rejections of
21 the Plan or the offer and issuance of any securities under this Plan.

22 (c) the Plan Documents, in form and substance acceptable to the
23 Debtor shall have been executed and delivered by the Reorganized Debtor and such other
24 parties deemed necessary by the Reorganized Debtor, and all conditions precedent thereto
25 shall have been satisfied;

26 (d) the Reorganized Debtor shall have sufficient Cash on hand and/or
27 financing sources to make timely distributions under this Plan;

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1 (e) the Debtor shall file all notices and reports, if any, required to be
2 filed, by the Debtor in connection with this Plan's effectiveness;

3 **9.3 Effect of Failure of Conditions:** If all the conditions to effectiveness and the
4 occurrence of the Effective Date have not been satisfied or duly waived on or before the first
5 Business Day that is more than sixty (60) days after the Confirmation Date, or by such later
6 date as is proposed and approved, after notice and a hearing, by the Bankruptcy Court, then
7 upon motion by the Debtor made before the time that all of the conditions have been satisfied
8 or duly waived, the Confirmation Order shall be vacated by the Bankruptcy Court; provided,
9 however, that notwithstanding the filing of such a motion, the Confirmation Order shall not
10 be vacated if all of the conditions to consummation set forth in section 9.1 of this Plan are
11 either satisfied or duly waived before the Bankruptcy Court enters an order granting the relief
12 requested in such motion. If the Confirmation Order is vacated pursuant to this section 9.3,
13 this Plan shall be null and void in all respects.

14 **ARTICLE X.**

15 **DEFAULT**

16 **10.1 Automatic Stay and Default:** The automatic stay provided in 11 U.S.C. § 362
17 shall continue in force after the Effective Date and all creditors shall be bound by the terms
18 and conditions of the Plan. A default in a distribution payment to a creditor will occur under
19 the following circumstances:

20 **10.1.1 Administrative Expense Claims:** All outstanding Administrative
21 Expense Claims will be fully paid on the Effective Date or as agreed to by the claimants.
22 After the Effective Date, if the Reorganized Debtor is unable to pay an Administrative
23 Expense Claim within thirty (30) days of being due, then a default will occur as to that
24 Claim, unless the creditor consents to a later payment. Upon default, Administrative Expense
25 Claimants may take any action available to them under applicable bankruptcy law.

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1 or the Bankruptcy Rules and in all respects as if there were no pending case under any
2 chapter or provision of the Bankruptcy Code, except as otherwise provided in the Plan.

3 **11.2 Discharge of Claims:** As this bankruptcy deals with a Debtor that is an
4 individual, under 11 U.S.C. §1141(d)(5), unless after notice and a hearing the court orders
5 otherwise for cause, confirmation of this Plan does not discharge the Debtor and the
6 Reorganized Debtor's debts until the court grants a discharge on completion of all payments
7 under the Plan. The Reorganized Debtor intends to seek a discharge by separate noticed
8 motion after the Effective Date.

9 **11.3 Discretion to Abandon Property:** Except as otherwise provided herein or in
10 the Confirmation Order, the Reorganized Debtor shall have the discretion at any time after
11 noticed motion to applicable parties, to abandon real property in full satisfaction of the
12 underlying secured claim ("Abandonment Notices"). Except as otherwise expressly provided
13 by this Plan or the Confirmation Order, upon the abandonment of the real property, the
14 Reorganized Debtor shall be deemed discharged of the secured claim and released under and
15 to the fullest extent provided under section 1141(d)(1)(A) of the Bankruptcy Code from any
16 and all Claims of any kind or nature whatsoever secured by that real property, including, but
17 not limited to, demands and liabilities that arose before the Confirmation Date, and all debts
18 of the kind specified in section 502(g), 502(h), or 502(i) of the Bankruptcy Code. Upon the
19 Effective Date, all holders of Secured Claims on the abandoned real property shall be forever
20 precluded and enjoined from prosecuting or asserting any such discharged Claim against the
21 Debtor or the Reorganized Debtor.

22 **11.4 Discretion to Liquidate or Refinance Property:** Except as otherwise
23 provided herein or in the Confirmation Order, the Reorganized Debtor, without further court
24 order, shall have the discretion beginning immediately after the Effective Date and
25 continuing for sixty (60) months after the Effective Date, to liquidate any real property by
26 sale ("Proposed Sales") or to refinance any loan on any real property ("Refinance"). Proceeds
27 from any sale or refinance of real property in excess of the amount of Allowed Secured
28 Claims shall be disbursed to the Debtor for the benefit of required payments to be made

1 under the Plan. In the event that proceeds from any sale of real property do not exceed the
2 applicable Allowed Secured Claims, the available proceeds shall be distributed pursuant to
3 the applicable sections hereof, and the Reorganized Debtor shall be deemed discharged of
4 the secured claim and released under and to the fullest extent provided under section
5 1141(d)(1)(A) of the Bankruptcy Code from any and all Claims of any kind or nature
6 whatsoever secured by that real property, including, but not limited to, demands and
7 liabilities that arose before the Confirmation Date, and all debts of the kind specified in
8 section 502(g), 502(h), or 502(i) of the Bankruptcy Code. A property can only be Refinanced
9 if the proceeds of the Refinance will pay the applicable Secured Claim in full. Upon the
10 Effective Date, all holders of Secured Claims on the liquidated real property shall be forever
11 precluded and enjoined from prosecuting or asserting any such discharged Claim against the
12 Debtor or the Reorganized Debtor.

13 **11.5 Discretion to Reduce Secured Claims:** Except as otherwise provided herein
14 or in the Confirmation Order, the Debtors shall have the discretion both before and after the
15 Effective Date to reduce the principal of any Secured Claim in the estate only by noticed
16 motion brought before this Court.

17 **11.6 Noticed Motion:** Settlement of any Litigation Action, sale of any real
18 property, abandonment of real property, modification of a loan, and objection to claims shall
19 be by noticed motion only.

20 **11.7 Term of Injunctions or Stays:** Unless otherwise provided herein, all
21 injunctions or stays arising prior to the Confirmation Date in accordance with sections 105
22 or 362 of the Bankruptcy Code, or otherwise, and in existence on the Confirmation Date,
23 shall remain in full force and effect until the Effective Date.

24 **11.8 Injunction Against Interference With Plan:** Upon the entry of the
25 Confirmation Order, all holders of Claims and other parties in interest, along with their
26 respective present or former affiliates, employees, agents, officers, directors, or principals,
27 shall be enjoined from taking any actions to interfere with the implementation or
28 consummation of this Plan.

1 **11.9 Injunction:** Except as otherwise provided in this Plan, as of the Confirmation
2 Date, but subject to the occurrence of the Effective Date, all Persons who have held, hold or
3 may hold Claims against the Debtor or the Estate are, with respect to any such Claims,
4 permanently enjoined from and after the Confirmation Date from: (a) commencing,
5 conducting or continuing in any manner, directly or indirectly, any suit, action or other
6 proceeding of any kind (including, without limitation, any proceeding in a judicial, arbitral,
7 administrative or other forum) against or affecting the Debtor or the Reorganized Debtor or
8 any of his property or any direct or indirect successor in interest to the Debtor or the
9 Reorganized Debtor or any property of any such successor; (b) enforcing, levying, attaching
10 (including, without limitation, any pre judgment attachment), collecting or otherwise
11 recovering by any manner or means, whether directly or indirectly, any judgment, award,
12 decree or order against the Debtor or the Reorganized Debtor or any of their property or any
13 direct or indirect successor in interest to the Debtor or the Reorganized Debtor or any
14 property of any such successor; (c) creating, perfecting or otherwise enforcing in any manner,
15 directly or indirectly, any encumbrance of any kind against the Debtor or the Reorganized
16 Debtor or any of their property or any direct or indirect successor in interest to the Debtor or
17 the Reorganized Debtor or any property of any such successor; and (d) acting or proceeding
18 in any manner, in any place whatsoever, that does not conform to or comply with the
19 provisions of this Plan to the full extent permitted by applicable law.

20 **11.10 Retention of Causes of Action/Reservation of Rights:** Except as specifically
21 provided herein, nothing contained in this Plan or the Confirmation Order shall be deemed
22 to be a waiver or the relinquishment of any rights, Claims or Causes of Action that the
23 Debtors may have or the Reorganized Debtor may choose to assert on behalf of the Estate
24 in accordance with any provision of the Bankruptcy Code or any applicable non-bankruptcy
25 law, including, without limitation, (i) any and all Claims against any Person, to the extent
26 such Person asserts a cross-claim, counterclaim, and/or Claim for setoff which seeks
27 affirmative relief against the Debtors, Reorganized Debtor, or any of his agents or
28 representatives; (ii) the avoidance of any transfer by or obligation of the Estate or the Debtors

1 or the recovery of the value of such transfer; (iii) the turnover of any property of the estate;
2 and/or (iv) Claims against other third parties.

3 Nothing contained in this Plan or the Confirmation Order shall be deemed to be a
4 waiver or relinquishment of any Claim, Cause of Action, Avoidance Action, right of setoff,
5 or other legal or equitable defense that the Debtor had immediately prior to the Petition Date.
6 The Reorganized Debtor shall have, retain, reserve, and be entitled to assert all such Claims,
7 Causes of Action, rights of setoff, or other legal or equitable defenses which the Debtors had
8 immediately prior to the Petition Date as fully as if the Reorganization Case had not been
9 commenced.

10 **11.11 Exculpation:** None of the Debtors, the Reorganized Debtor, or any of their
11 respective employees, agents, representatives, attorneys, consultants and advisors (acting in
12 such capacity) shall have or incur any liability to any entity for any act taken or omitted to
13 be taken in connection with and subsequent to the commencement of the Reorganization
14 Case, the formulation, preparation, dissemination, implementation, confirmation or approval
15 of the Plan, any other plan of reorganization or any compromises or settlements contained
16 therein, any disclosure statement related thereto or any contract, instrument, release or other
17 agreement or document provided for or contemplated in connection with the transactions set
18 forth in the Plan or in connection any other proposed plan; provided, however, that the
19 foregoing provisions shall not affect the liability that otherwise would result from any such
20 act or omission to the extent that such act or omission constituted breach of fiduciary duty,
21 negligence or willful misconduct. Each of the foregoing parties in all respects shall have and
22 shall be entitled to rely upon the advice of counsel with respect to their duties and
23 responsibilities during the Reorganization Case and under the Plan.

24 **ARTICLE XII.**

25 **RETENTION OF JURISDICTION**

26 On and after the Effective Date, the Bankruptcy Court shall retain jurisdiction,
27 pursuant to 28 U.S.C. §§ 1334 and 157 (but this Plan shall in no way expand the jurisdiction
28 otherwise granted to the Bankruptcy Court pursuant 28 U.S.C. §§ 1334 and 157), over all

1 matters arising in, arising under, or related to the Reorganization Case for, among other
2 things, the following purposes:

3 (a) To hear and determine applications for the assumption or rejection of
4 executory contracts or unexpired leases and the allowance of Claims resulting therefrom.

5 (b) To determine any motion, adversary proceeding, avoidance action,
6 application, contested matter, and other litigated matter pending on or commenced after the
7 Confirmation Date.

8 (c) To ensure that distributions to holders of Allowed Claims are
9 accomplished as provided herein.

10 (d) To consider Claims or the allowance, classification, priority,
11 compromise, estimation, or payment of any Claim or Administrative Expense Claim.

12 (e) To enter, implement, or enforce such orders as may be appropriate in
13 the event the Confirmation Order is for any reason stayed, reversed, revoked, modified, or
14 vacated.

15 (f) To issue injunctions, enter and implement other orders, and take such
16 other actions as may be necessary or appropriate to restrain interference by any Person with
17 the consummation, implementation, or enforcement of this Plan, the Confirmation Order, or
18 any other order of the Bankruptcy Court.

19 (g) To hear and determine any motion to modify this Plan in accordance
20 with section 1127 of the Bankruptcy Code, to remedy any defect or omission or reconcile any
21 inconsistency in this Plan, the Disclosure Statement, or any order of the Bankruptcy Court,
22 including the Confirmation Order, in such a manner as may be necessary to carry out the
23 purposes and effects thereof.

24 (h) To hear and determine all Fee Claims.

25 (i) To hear and determine disputes arising in connection with the
26 interpretation, implementation, or enforcement of this Plan, the Confirmation Order, any
27 transactions or payments contemplated hereby, or any agreement, instrument, or other
28 document governing or relating to any of the foregoing.

1 (j) To take any action and issue such orders as may be necessary to
2 construe, enforce, implement, execute, and consummate this Plan, including any release,
3 injunction or exculpation provisions set forth herein, or to maintain the integrity of this Plan
4 following consummation.

5 (k) To determine such other matters and for such other purposes as may be
6 provided in the Confirmation Order.

7 (l) To hear and determine matters concerning state, local, and federal
8 regulations, Claims or taxes.

9 (m) To hear and determine any other matters related hereto and not
10 inconsistent with the Bankruptcy Code and title 28 of the United States Code.

11 (n) To enter a final decree closing the Reorganization Case.

12 (o) To recover all Assets of the Debtors and property of the estate, wherever
13 located.

14 (p) To sell real property free and clear of liens.

15 (q) To approve any settlement of any litigation or other controversy.

16 **ARTICLE XIII.**

17 **MISCELLANEOUS PROVISIONS**

18 **13.1 Completion of Plan:** This Plan shall be deemed completed upon the
19 Reorganized Debtor making all distributions from the Plan Distribution Account and other
20 payments required under the Plan as provided in Article IV above. Notwithstanding the
21 foregoing, the Plan will be deemed completed sixty (60) months after the Effective Date.

22 **13.2 Substantial Consummation:** As of the Effective Date, upon the execution
23 and delivery of the Plan Documents and commencement of distributions under the Plan, the
24 Debtor may seek an order from the Bankruptcy Court determining that the Plan has been
25 substantially consummated pursuant to section 1101 of the Bankruptcy Code.

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1 **13.3 Amendments:**

2 **13.3.1 Plan Modifications:** This Plan may be amended, modified, or
3 supplemented by the Reorganized Debtor in the manner provided for by section 1127 of the
4 Bankruptcy Code or as otherwise permitted by law, without additional disclosure pursuant
5 to section 1125 of the Bankruptcy Code, except as the Bankruptcy Court may otherwise
6 direct. In addition, after the Confirmation Date, so long as such action does not materially
7 and adversely affect the treatment of holders of Claims pursuant to this Plan, the Reorganized
8 Debtor may institute proceedings in the Bankruptcy Court to remedy any defect or omission
9 or reconcile any inconsistencies in this Plan, the Plan Documents and/or the Confirmation
10 Order, with respect to such matters as may be necessary to carry out the purposes and effects
11 of this Plan.

12 **13.3.2 Other Amendments:** Prior to the Effective Date, the Debtor may make
13 appropriate technical adjustments and modifications to this Plan without further order or
14 approval of the Bankruptcy Court; provided, however, that such technical adjustments and
15 modifications do not adversely affect in a material way the treatment of holders of Claims

16 **13.4 Revocation or Withdrawal of this Plan:** The Debtors reserve the right to
17 revoke or withdraw this Plan prior to the Effective Date. If the Debtors take such action, this
18 Plan shall be deemed null and void.

19 **13.5 Cramdown:** In the event a Class votes against this Plan, and this Plan is not
20 withdrawn as provided above, the Debtor reserves the right to seek a "cram down" of this
21 Plan pursuant to section 1129(b) of the Bankruptcy Code. To the extent any Class is deemed
22 to reject this Plan by virtue of the treatment provided to such Class, this Plan shall be
23 "crammed down" on the claimants within such Class pursuant to section 1129(b) of the
24 Bankruptcy Code.

25 **13.6 Confirmation Order:** The Confirmation Order shall, and is hereby deemed
26 to, ratify all transactions effected by the Debtors during the period commencing on the
27 Petition Date and ending on the Confirmation Date except for any acts constituting willful
28 misconduct, gross negligence, recklessness or fraud.

1 **13.7 Severability:** If, prior to the entry of the Confirmation Order, any term or
2 provision of this Plan is held by the Bankruptcy Court to be invalid, void, or unenforceable,
3 the Bankruptcy Court, at the request of the Debtors, shall have the power to alter and
4 interpret such term or provision to make it valid or enforceable to the maximum extent
5 practicable, consistent with the original purpose of the term or provision held to be invalid,
6 void, or unenforceable, and such term or provision shall then be applicable as altered or
7 interpreted. Notwithstanding any such holding, alteration, or interpretation, the remainder of
8 the terms and provisions of this Plan will remain in full force and effect and will in no way
9 be affected, impaired, or invalidated by such holding, alteration, or interpretation. The
10 Confirmation Order shall constitute a judicial determination and shall provide that each term
11 and provision of this Plan, as it may have been altered or interpreted in accordance with the
12 foregoing, is valid and enforceable pursuant to its terms.

13 **13.8 Governing Law:** Except to the extent that the Bankruptcy Code or other
14 federal law is applicable, or to the extent a Plan Document provides otherwise, the rights,
15 duties, and obligations arising under this Plan and the Plan Documents shall be governed by,
16 and construed and enforced in accordance with, the laws of the State of California, without
17 giving effect to the principles of conflict of laws thereof.

18 **13.9 Section 1125(e) of the Bankruptcy Code:** The Debtors have, and upon
19 confirmation of this Plan shall be deemed to have, solicited acceptances of this Plan in good
20 faith and in compliance with the applicable provisions of the Bankruptcy Code, and the
21 Debtors (and each of their respective affiliates, agents, directors, officers, employees,
22 advisors and attorneys) have participated in good faith and in compliance with the applicable
23 provisions of the Bankruptcy Code in the offer, issuance, sale and purchase of the securities
24 offered and sold under this Plan, and therefore are not, and on account of such offer,
25 issuance, sale, solicitation and/or purchase will not be, liable at any time for the violation of
26 any applicable law, rule, or regulation governing the solicitation of acceptances or rejections
27 of this Plan or offer, issuance, sale or purchase of the securities offered and sold under this
28 Plan.

1 **13.10 Expedited Determination:** The Reorganized Debtor is hereby authorized to
2 file a request for expedited determination under section 502(b) of the Bankruptcy Code for
3 all tax returns filed with respect to the Debtors, or the Reorganized Debtor, as the case may
4 be.

5 **13.11 Time Bar to Payments:** The Debtors shall stop payment on any distribution
6 check that has not cleared through the Distribution Account within ninety (90) days of the
7 date of issuance thereof. Requests for re-issuance of any such checks shall be made directly
8 to the Debtors by the holder of the Allowed Claim with respect to which such check was
9 issued. Any claim in respect of such voided check shall be made within one hundred and
10 eighty (180) days after the date of the issuance of such voided check. If no claim is made as
11 provided herein, all Claims in respect of voided checks shall be discharged and forever
12 barred. The amount represented by such unclaimed checks, and those undeliverable, after
13 commercially reasonable diligence, shall be distributed pro-rata to the remaining holders of
14 Allowed Claims, pursuant to the terms of this Plan. Distributions to holders of Allowed
15 Claims shall be made to their last known address, which shall be presumed to be as set forth
16 on the proof of claim filed by such Claimant, or if no proof of claim was filed, on the
17 Schedules filed by the Debtor as may have been amended from time to time, unless a
18 Claimant shall have supplied a new or corrected address in writing to the Debtor within two
19 weeks prior to a Distribution to permit the Debtor to revise its records accordingly.

20 **13.12 Fractional Distributions:** Notwithstanding anything to the contrary contained
21 in the Plan, no Cash payments of fractions of cents shall be made. Fractional cents shall be
22 rounded to the nearest whole cent.

23 **13.13 Time:** In computing any period of time prescribed or allowed by this Plan,
24 unless otherwise set forth herein or determined by the Bankruptcy Court, the provisions of
25 Bankruptcy Rule 9006 shall apply.

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1 **13.14 Waiver of Bankruptcy Rule 7062:** The Confirmation Order shall include:
2 (i) a finding that Bankruptcy Rule 7062 shall not apply to the Confirmation Order; and (ii)
3 authorization for the Debtors to consummate the Plan immediately after entry of the
4 Confirmation Order.

5 **13.15 Compliance with Tax Requirements:** In connection with the Plan, the
6 Debtors and the Reorganized Debtor, as applicable, shall comply with all withholding and
7 reporting requirements imposed by federal, state, local and foreign taxing authorities and any
8 distributions under the Plan, shall be subject to such withholding and reporting requirements.
9 Notwithstanding the foregoing, each holder of an Allowed Claim that is to receive a
10 distribution under the Plan, shall have the sole and exclusive responsibility for the
11 satisfaction and payment of any tax obligation imposed by any governmental unit, including
12 income, withholding and other tax obligations, on account of any distributions. The Debtors
13 have the right, but not the obligation, to not make a distribution until such holder has made
14 arrangements satisfactory to the Debtor for the payment of any tax obligations.

15 **13.16 Notices:** All notices, requests and demands to or upon the Debtors and the
16 Reorganized Debtor, to be effective shall be in writing (including by facsimile transmission)
17 and, unless otherwise provided herein, shall be deemed to have been duly given or made only
18 when actually delivered or, in the case of notice by facsimile transmission, when received
19 and telephonically confirmed, addressed as follows:

20 If to Debtor:

21 Carol Karlovich
22 2052 Via Casa Alta
23 La Jolla, California 92037

24 and

25 John L. Smaha, Esq., Bar No. 95855
26 SMAHA LAW GROUP, APC
27 7860 Mission Center Ct., Ste. 100
28 San Diego, CA 92108
 T: (619) 688-1557
 F: (619) 688-1558

1 **13.17 Exhibits:** All exhibits and schedules to this Plan, including the Plan
2 Supplement if any, are incorporated by reference into this Plan and are made a part hereof
3 as if more fully set forth herein.

4 **13.18 Binding Effect:** The provisions of this Plan (including the exhibits and
5 schedules to, and all documents and agreements executed pursuant to or in connection with
6 this Plan) and the Confirmation Order shall be binding on (i) the Debtors, (ii) all holders of
7 Claims against the Debtors, whether or not impaired under the Plan and whether or not such
8 holders have accepted or rejected the Plan, (iii) each Person or entity receiving, retaining or
9 otherwise acquiring property pursuant to the terms of the Plan, (iv) any non-Debtor party to
10 an executory contract or unexpired lease with the Debtors, (v) and any Person or entity
11 making an appearance in this Reorganization Case, and (vi) each of the foregoing's respective
12 heirs, successors, assigns, executors, administrators, officers, directors and agents.

13 **13.19 Business Records:** The Debtors' business records shall be maintained at
14 Debtors' present residence.

15 **13.20 Means for Execution of Plan of Reorganization:** The payments to be made
16 under the Plan will be funded from the revenues of the Debtors' business which shall be
17 utilized to make the required distributions to creditors for a period not to exceed sixty (60)
18 months from the Effective Date of the Plan. After the Effective Date of the Plan the business
19 shall continue to be run by Carol Karlovich. Carol Karlovich shall receive an insider salary
20 of \$3,000.00 a month as provided above.

21 **13.21 Compliance with Post-Confirmation Reporting and U.S. Trustee's Fees:**
22 On the Effective Date of the Plan, Debtors shall be impressed with the duty to comply with
23 the post-confirmation requirements and U.S. Trustee fees set forth in 28 U.S.C. Section
24 1930(a)(b).

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ARTICLE XIV.

CONCLUDING STATEMENTS BY DEBTOR

Since filing for bankruptcy, Debtors have worked diligently to protect and preserve the assets of the estate and the collective rights of its creditors and to promulgate a Plan of Reorganization for repayment of claims to all of her creditors. Debtors have prepared this Plan in an attempt to treat all creditors in a fair and equitable fashion as provided for by the provisions of the United States Bankruptcy Code.

In summary, Debtors believe that acceptance of this Plan will be in the best interests of Debtors' reorganization and payment of all of his creditor's claims to the greatest extent possible.

Dated: October 19, 2010

/s/ Carol Karlovich
Carol Karlovich

W:\Karlovich, Carol\Carol Karlovich BK\Plan and D.S\100.Plan.1st.Amended.wpd

EXHIBIT B

Carol Karlovich and Karlovich Financial, LLC
Liquidation Analysis
Proforma Chapter 7 Liquidation

Sources of Cash:

Sale of Real Estate - 12233-47 Woodside	\$ 945,000.00
Sale of Real Estate - 13250 Poway Road	\$ 3,249,000.00
Sale of Real Estate - 141 Broadway	\$ 1,548,000.00
Sale of Real Estate - 176 Knoll Road	\$ 1,197,000.00
Sale of Real Estate - 2052 Via Casa Alta	\$ 3,357,000.00
Sale of Real Estate - 500 W. San Marcos	\$ 1,233,000.00
Sale of Real Estate - 942-54 South Santa Fe	\$ 870,300.00
Sale of Real Estate - 7905-09 Broadway	\$ 454,000.00
Sale of Real Estate - Kern County Lots	\$ 200,000.00
Cash On Hand	\$ 4,500.00
Union Bank Checking Account	\$ 1,000.00
CitiBank Checking Account	\$ 49.76
Union Bank of California Checking Account	\$ 2,000.00
Union Bank of California Checking Account	\$ 24.09
FAZ Shares	\$ 85,000.00
Computer, Printer & Office Equipment	\$ 500.00
Total Sources of Cash	<u>\$ 13,146,375.85</u>

Less Estimated Priority Payments:

Capital Gains Tax - 12233-47 Woodside	\$ (124,303.05)
Capital Gains Tax - 13250 Poway Road	\$ (303,302.55)
Capital Gains Tax - 141 Broadway	\$ (0.00)
Capital Gains Tax - 176 Knoll Road	\$ (0.00)
Capital Gains Tax - 2052 Via Casa Alta	\$ (0.00)
Capital Gains Tax - 500 W. San Marcos	\$ (0.00)
Capital Gains Tax - 942-54 South Santa Fe	\$ (0.00)
Capital Gains Tax - 7905-09 Broadway	\$ (0.00)
Capital Gains Tax - Kern County Lots	\$ (45,750.00)
TOTAL CAPITAL GAINS TAXES	\$ (473,355.60)

Net to Creditors \$ 12,673,020.25

	<u>Total Claim</u>	<u>Percent Paid</u>	
Note Payable to Home Bank (Woodside)	\$1,008,587.42	72.93%	(\$735,646.95)
Administrative Exp.-Costs of Sale (Woodside)	\$85,050.00 (est.)	100.00%	(\$85,050.00)
Note Payable to 2010-1 (Poway)	\$2,350,000.00	100.00%	(\$2,350,000.00)
Administrative Exp.-Costs of Sale (Poway)	\$292,410.00 (est.)	100.00%	(\$292,410.00)
Note Payable to MFCU (141 Broadway)	\$2,600,000.00	54.18%	(\$1,408,680.00)
Administrative Exp. Costs of Sale (141 Brod.)	\$139,320.00 (est.)	100.00%	(\$139,320.00)
Note Payable to SDCCU (Knoll Road)	\$2,650,000.00	41.10%	(\$1,089,270.00)
Administrative Exp.-Costs of Sale (Knoll)	\$107,730.00 (est.)	100.00%	(\$107,730.00)
Note Payable to MFCU (Via Casa)	\$3,775,000.00	80.92%	(\$3,054,870.00)
Administrative Exp.-Costs of Sale (Via Casa)	\$302,130.00 (est.)	100.00%	(\$302,130.00)
Note Payable to SDCCU (W. San Marcos)	\$1,200,000.00	100.00%	(\$1,120,000.00)
Administrative Exp.-Costs of Sale (W. San M)	\$110,970.00 (est.)	100.00%	(\$110,970.00)
Note Payable to 2010-1 (Santa Fe)	\$1,424,000.00	55.62%	(\$791,973.00)
Administrative Exp.-Costs of Sale (Santa Fe)	\$78,327.00 (est.)	100.00%	(\$78,327.00)

Note Payable to MFCU (7905-09 Broadway)	\$435,000.00	94.9%	(\$413,140.00)
Administrative Exp. - Costs of Sale (7905)	\$40,860.00	100.00%	(\$40,860.00)
Administrative Exp- Costs of Sale (Kern)	\$36,450.00 (est.)	100.00%	(\$36,450.00)
Real Property Tax Priority Claims	\$124,383.04	100%	(124,383.04)
Chapter 7 Trustee	\$10,000 (est.)	100%	(10,000.00)
Chapter 7 Administrative Expenses	\$100,000 (est.)	100%	(100,000.00)
Chapter 11 Administrative Claims	\$102,000 (est.)	100%	(102,000.00)
	<u>16,147,359.00</u>		<u>\$12,493,209.99</u>

Net Funds Available for Class 11 - General Unsecured Creditors

\$ 179,810.26

Estimated Class 11 Claims - General Unsecured Creditors

\$5,451,451.11

Estimated Payout to Class 11 - General Unsecured Creditors

3.29 %

*Debtor anticipates recovery of approximately 90% of the fair market value price for Debtor's Real Properties if sold by the trustee in a distressed environment in a chapter 7 case. Debtor believes this amount may be generous given the market and the sophistication of commercial property investors. Several of these properties would likely be sold by foreclosure, creating a further distressed sale that would likely reduce anticipated recovery to as low as 50% of the fair market value.

** Debtor assumes \$12,500,000 in liquidated assets would be subject to the sliding scale of U.S. Trustee fees set forth in 11 U.S.C. § 326(a). The maximum amount chargeable is 3% of all liquidated assets, which would be \$375,000.00, but the trustee would be limited to actual expenses and Debtor assumes those to be much lower than the maximum.

EXHIBIT C

	Jan-11	Feb-11	Mar-11	Apr-11	May-11	Jun-11	Jul-11	Aug-11	Sep-11	Oct-11	Nov-11	Dec-11	TOTAL
GROSS RENTAL INCOME													
12233-47 Woodside Ave.	\$10,730.25	\$10,730.25	\$10,730.25	\$10,730.25	\$10,730.25	\$10,730.25	\$10,730.25	\$10,730.25	\$10,730.25	\$10,730.25	\$10,730.25	\$10,730.25	\$128,763.00
13520 Poway Road	\$37,286.69	\$37,286.69	\$37,286.69	\$37,286.69	\$37,286.69	\$37,286.69	\$37,286.69	\$37,286.69	\$37,286.69	\$37,286.69	\$37,286.69	\$37,286.69	\$447,440.28
141 Broadway	\$12,744.53	\$12,744.53	\$12,744.53	\$12,744.53	\$12,744.53	\$12,744.53	\$12,744.53	\$12,744.53	\$12,744.53	\$12,744.53	\$12,744.53	\$12,744.53	\$152,934.36
176 Knoll Road	\$13,366.35	\$13,366.35	\$13,366.35	\$13,366.35	\$13,366.35	\$13,366.35	\$13,366.35	\$13,366.35	\$13,366.35	\$13,366.35	\$13,366.35	\$13,366.35	\$207,397.20
500 West San Marcos	\$11,843.97	\$11,843.97	\$11,843.97	\$11,843.97	\$11,843.97	\$11,843.97	\$11,843.97	\$11,843.97	\$11,843.97	\$11,843.97	\$11,843.97	\$11,843.97	\$142,127.64
942-54 South Santa Fe	\$8,718.25	\$8,718.25	\$8,718.25	\$8,718.25	\$8,718.25	\$8,718.25	\$8,718.25	\$8,718.25	\$8,718.25	\$8,718.25	\$8,718.25	\$8,718.25	\$104,619.00
7905-09 Broadway	\$1,830.00	\$1,830.00	\$1,830.00	\$1,830.00	\$1,830.00	\$1,830.00	\$1,830.00	\$1,830.00	\$1,830.00	\$1,830.00	\$1,830.00	\$1,830.00	\$21,960.00
TOTAL GROSS RENT	\$96,520.04	\$96,520.04	\$96,520.04	\$96,520.04	\$96,520.04	\$96,520.04	\$96,520.04	\$96,520.04	\$96,520.04	\$96,520.04	\$96,520.04	\$96,520.04	\$1,205,241.48
PLUS: Karis Contribution	\$13,359.37	\$13,359.37	\$13,359.37	\$13,359.37	\$13,359.37	\$13,359.37	\$13,359.37	\$13,359.37	\$13,359.37	\$13,359.37	\$13,359.37	\$13,359.37	\$160,312.44
TOTAL GROSS INCOME	\$109,879.41	\$109,879.41	\$109,879.41	\$109,879.41	\$109,879.41	\$109,879.41	\$109,879.41	\$109,879.41	\$109,879.41	\$109,879.41	\$109,879.41	\$109,879.41	\$1,365,553.92
OPERATING EXPENSES													
12233-47 Woodside Ave.	\$2,261.24	\$2,261.24	\$2,261.24	\$2,261.24	\$2,261.24	\$2,261.24	\$2,261.24	\$2,261.24	\$2,261.24	\$2,261.24	\$2,261.24	\$2,261.24	\$27,134.88
13520 Poway Road	\$7,917.74	\$7,917.74	\$7,917.74	\$7,917.74	\$7,917.74	\$7,917.74	\$7,917.74	\$7,917.74	\$7,917.74	\$7,917.74	\$7,917.74	\$7,917.74	\$95,012.88
141 Broadway	\$3,363.95	\$3,363.95	\$3,363.95	\$3,363.95	\$3,363.95	\$3,363.95	\$3,363.95	\$3,363.95	\$3,363.95	\$3,363.95	\$3,363.95	\$3,363.95	\$40,367.40
176 Knoll Road	\$3,443.91	\$3,443.91	\$3,443.91	\$3,443.91	\$3,443.91	\$3,443.91	\$3,443.91	\$3,443.91	\$3,443.91	\$3,443.91	\$3,443.91	\$3,443.91	\$41,326.92
2052 Via Casa Alla	\$4,927.00	\$4,927.00	\$4,927.00	\$4,927.00	\$4,927.00	\$4,927.00	\$4,927.00	\$4,927.00	\$4,927.00	\$4,927.00	\$4,927.00	\$4,927.00	\$59,124.00
500 West San Marcos	\$4,717.83	\$4,717.83	\$4,717.83	\$4,717.83	\$4,717.83	\$4,717.83	\$4,717.83	\$4,717.83	\$4,717.83	\$4,717.83	\$4,717.83	\$4,717.83	\$56,613.96
942-54 South Santa Fe	\$8,718.25	\$8,718.25	\$8,718.25	\$8,718.25	\$8,718.25	\$8,718.25	\$8,718.25	\$8,718.25	\$8,718.25	\$8,718.25	\$8,718.25	\$8,718.25	\$104,619.00
7905-09 Broadway	\$901.80	\$901.80	\$901.80	\$901.80	\$901.80	\$901.80	\$901.80	\$901.80	\$901.80	\$901.80	\$901.80	\$901.80	\$10,921.60
TOTAL OPER. EXPENSES	\$36,251.72	\$36,251.72	\$36,251.72	\$36,251.72	\$36,251.72	\$36,251.72	\$36,251.72	\$36,251.72	\$36,251.72	\$36,251.72	\$36,251.72	\$36,251.72	\$435,020.64
NET INCOME FROM OPERATIONS	\$73,627.69	\$73,627.69	\$73,627.69	\$73,627.69	\$73,627.69	\$73,627.69	\$73,627.69	\$73,627.69	\$73,627.69	\$73,627.69	\$73,627.69	\$73,627.69	\$930,533.28
MORTGAGE PAYMENTS													
12233-47 Woodside Ave.	\$5,589.39	\$5,589.39	\$5,589.39	\$5,589.39	\$5,589.39	\$5,589.39	\$5,589.39	\$5,589.39	\$5,589.39	\$5,589.39	\$5,589.39	\$5,589.39	\$67,072.68
13520 Poway Road	\$9,923.81	\$9,923.81	\$9,923.81	\$9,923.81	\$9,923.81	\$9,923.81	\$9,923.81	\$9,923.81	\$9,923.81	\$9,923.81	\$9,923.81	\$9,923.81	\$119,065.72
141 Broadway	\$7,166.67	\$7,166.67	\$7,166.67	\$7,166.67	\$7,166.67	\$7,166.67	\$7,166.67	\$7,166.67	\$7,166.67	\$7,166.67	\$7,166.67	\$7,166.67	\$86,000.04
176 Knoll Road	\$5,541.67	\$5,541.67	\$5,541.67	\$5,541.67	\$5,541.67	\$5,541.67	\$5,541.67	\$5,541.67	\$5,541.67	\$5,541.67	\$5,541.67	\$5,541.67	\$66,500.04
2052 Via Casa Alla	\$11,796.87	\$11,796.87	\$11,796.87	\$11,796.87	\$11,796.87	\$11,796.87	\$11,796.87	\$11,796.87	\$11,796.87	\$11,796.87	\$11,796.87	\$11,796.87	\$141,562.44
500 West San Marcos	\$1,562.50	\$1,562.50	\$1,562.50	\$1,562.50	\$1,562.50	\$1,562.50	\$1,562.50	\$1,562.50	\$1,562.50	\$1,562.50	\$1,562.50	\$1,562.50	\$18,750.00
942-54 South Santa Fe	\$4,029.17	\$4,029.17	\$4,029.17	\$4,029.17	\$4,029.17	\$4,029.17	\$4,029.17	\$4,029.17	\$4,029.17	\$4,029.17	\$4,029.17	\$4,029.17	\$48,350.04
7905-09 Broadway	\$1,812.50	\$1,812.50	\$1,812.50	\$1,812.50	\$1,812.50	\$1,812.50	\$1,812.50	\$1,812.50	\$1,812.50	\$1,812.50	\$1,812.50	\$1,812.50	\$21,750.00
TOTAL MORTGAGE PMTS.	\$52,422.58	\$52,422.58	\$52,422.58	\$52,422.58	\$52,422.58	\$52,422.58	\$52,422.58	\$52,422.58	\$52,422.58	\$52,422.58	\$52,422.58	\$52,422.58	\$629,070.96
TOTAL NET EARNINGS	\$21,205.11	\$21,205.11	\$21,205.11	\$21,205.11	\$21,205.11	\$21,205.11	\$21,205.11	\$21,205.11	\$21,205.11	\$21,205.11	\$21,205.11	\$21,205.11	\$301,462.32
DISTRIBUTIONS													
Insider Salary	\$3,000.00	\$3,000.00	\$3,000.00	\$3,000.00	\$3,000.00	\$3,000.00	\$3,000.00	\$3,000.00	\$3,000.00	\$3,000.00	\$3,000.00	\$3,000.00	\$36,000.00
Unsecured Creditors	\$16,205.11	\$16,205.11	\$16,205.11	\$16,205.11	\$16,205.11	\$16,205.11	\$16,205.11	\$16,205.11	\$16,205.11	\$16,205.11	\$16,205.11	\$16,205.11	\$265,462.32
Remaining	\$100,000.00	\$100,000.00	\$100,000.00	\$100,000.00	\$100,000.00	\$100,000.00	\$100,000.00	\$100,000.00	\$100,000.00	\$100,000.00	\$100,000.00	\$100,000.00	\$1,290,106.11

Debtor claims that there will be over \$100,000 from net rents by confirmation.
 Further contribution from Karisa Karlovich
 Amounts to be paid as of effective date or from operations prior to payments to General Unsecured
 Attorney's fees
 Arreages on 1st for Via Casa Alla
 Taxes
 Sale of Faz Shares
 Sale of Lots
 Net income from Year 1
 Net income from Year 2
 Net income from Year 3
 Net income from Year 4
 Net income from Year 5

EXHIBIT D

PROVISIONAL

	A	B	C	D	E
	Secured Creditors	Claim per Schedule	Proof of Claim/ Negotiated	Residual Claim	% of Total Claims
1	2010-1	\$2,381,714.63		\$2,381,714.63	19.23%
2	2010-1	\$967,000.00		\$967,000.00	7.81%
3	Home Bank	\$1,008,587.42		\$1,008,587.42	8.15%
4	MFCU	\$1,720,000.00		\$1,720,000.00	13.89%
5	MFCU	\$3,775,000.00		\$3,775,000.00	30.49%
6	SDCCU	\$1,200,000.00		\$1,200,000.00	9.69%
7	SDCCU	\$1,330,000.00		\$1,330,000.00	10.74%
8					
9					
10	TOTALS:	\$12,382,302.05	-	\$12,382,302.05	100%
11					
12					
13	Priority Creditors				
14	IRS	-	\$ 210,451.58	\$ 210,451.58	99.67%
15	IRS	-	\$ 700.00	\$ 700.00	0.33%
16	TOTALS	\$0.00	\$ 211,151.58	\$211,151.58	100.00%

	A	B	C	D	E
1	Unsecured Creditors	Claim per Debtor	Proof of Claim/ Negotiated	Residual Claim	% of Total Claims
2	2010-1	\$ 457,000.00	-	\$ 457,000.00	11.97%
3	MFCU	\$ 759,771.34	-	\$ 759,771.34	19.90%
4	MFCU	\$ 990,000.00	-	\$ 990,000.00	25.93%
5	SDCCU	\$ 1,477,622.86	-	\$ 1,477,622.86	38.69%
6	American Express	\$ 25,999.25	-	\$ 25,999.25	0.68%
7	Chase Bank, USA	\$ 25,360.79	\$ 25,360.79	\$ 25,360.79	0.66%
8	Citi Cards	\$ 32,923.00	-	\$ 32,923.00	0.86%
9	Karisa Karlovich	\$ 50,000.00	-	\$ 50,000.00	1.31%
10	TOTALS:	\$3,818,677.24	\$ 25,360.79	\$3,818,677.24	100.00%