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12
13 **UNITED STATES BANKRUPTCY COURT**
14 **CENTRAL DISTRICT OF CALIFORNIA**
15 **SANTA ANA DIVISION**
16

17 In re
18 FREMONT GENERAL CORPORATION, a
Nevada corporation,
19 Debtor.

Case No. 8:08-bk-13421-ES

CHAPTER 11 CASE

**NEW WORLD ACQUISITION, LLC'S
DISCLOSURE STATEMENT WITH
RESPECT TO CHAPTER 11 PLAN OF
REORGANIZATION FOR FREMONT
GENERAL CORPORATION (DATED
NOVEMBER 6, DECEMBER 23, 2009)**

22 Taxpayer ID No. 95-2815260
23



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1 ALTHOUGH THE BANKRUPTCY COURT APPROVED NEW WORLD'S
2 DISCLOSURE STATEMENT WITH RESPECT THE CHAPTER 11 PLAN OF
3 REORGANIZATION FOR FREMONT GENERAL CORPORATION DATED NOVEMBER
4 6, 2009, THIS DISCLOSURE STATEMENT WITH RESPECT TO THE CHAPTER 11 PLAN
5 OF REORGANIZATION FOR FREMONT GENERAL CORPORATION DATED
6 DECEMBER 23, 2009 HAS NOT BEEN APPROVED IN ITS ENTIRETY UNDER
7 BANKRUPTCY CODE SECTION 1125(B) FOR USE IN THE SOLICITATION OF
8 ACCEPTANCES OR REJECTIONS OF THE CHAPTER 11 PLAN DESCRIBED HEREIN.
9 ACCORDINGLY, THE FILING AND THE DISTRIBUTION OF THE DISCLOSURE
10 STATEMENT IS NOT INTENDED, AND SHOULD NOT BE CONSTRUED, AS
11 SOLICITATION OF ACCEPTANCES AND REJECTIONS OF SUCH PLAN. THE
12 INFORMATION CONTAINED HEREIN SHOULD NOT BE RELIED UPON FOR ANY
13 PURPOSE BEFORE A BANKRUPTCY JUDGE DETERMINATION THAT THIS
14 DISCLOSURE STATEMENT IN ITS ENTIRETY CONTAINS ADEQUATE
15 INFORMATION WITHIN THE MEANING OF SECTION 1125(B) OF THE BANKRUPTCY
16 CODE.
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1 **I. INTRODUCTION**

2 New World Acquisition, LLC (“New World”), ~~Holders~~[Holder](#) of significant Equity Interests
3 in Fremont General Corporation (the “Debtor”), submits this Disclosure Statement in connection with
4 the solicitation of acceptances and rejections of New World’s proposed [Chapter 11](#) plan of
5 reorganization for the Debtor (the “Plan”).

6 **THE DOCUMENT YOU ARE READING IS THE DISCLOSURE STATEMENT FOR**
7 **THE ACCOMPANYING PLAN. FOR A COMPLETE UNDERSTANDING OF THE PLAN,**
8 **YOU SHOULD READ THIS DISCLOSURE STATEMENT, THE PLAN AND THE**
9 **EXHIBITS TO THESE DOCUMENTS IN THEIR ENTIRETY.**

10 **EXCEPT TO THE EXTENT THAT THIS DISCLOSURE STATEMENT EXPRESSLY**
11 **STATES THAT ANY STATEMENT, REPRESENTATION, ESTIMATE OF ANALYSIS OR**
12 **FINANCIAL INFORMATION CONTAINED IN THE DISCLOSURE STATEMENT WAS**
13 **FURNISHED BY THE DEBTOR TO NEW WORLD, THE CREDITORS COMMITTEE OR**
14 **THE EQUITY COMMITTEE (AS SO REPRESENTED IN A PUBLIC FILING BY THE**
15 **DEBTOR, THE CREDITORS COMMITTEE OR THE EQUITY COMMITTEE), ALL**
16 **STATEMENTS, REPRESENTATIONS, ESTIMATES AND ANALYSIS OF FINANCIAL**
17 **INFORMATION CONTAINED IN THIS DISCLOSURE STATEMENT ARE SOLELY**
18 **THOSE OF NEW WORLD AND SHOULD NOT BE RELIED UPON AS STATEMENT OF**
19 **THE DEBTOR OR ITS MANAGEMENT.**

20 **SOME STATEMENTS IN THIS DISCLOSURE STATEMENT MAY CONSTITUTE**
21 **FORWARD-LOOKING STATEMENTS WITHIN THE MEANING OF THE FEDERAL**
22 **SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”) AND THE**
23 **SECURITIES EXCHANGE ACT OF 1934, AS AMENDED. SUCH STATEMENTS ARE**
24 **BASED UPON INFORMATION AVAILABLE WHEN THE STATEMENT WERE MADE**
25 **ARE SUBJECT TO RISKS AND UNCERTAINTIES THAT COULD CAUSE ACTUAL**

1 **RESULTS TO DIFFER MATERIALLY FROM THOSE EXPRESSED IN THE**
2 **STATEMENT. NEITHER THE SECURITIES AND EXCHANGE COMMISSION (“SEC”)**
3 **NOR HAS ANY STATE SECURITIES COMMISSION APPROVED OR DISAPPROVED**
4 **THE DISCLOSURE STATEMENT, PLAN OR ANY EXHIBITS.**

5 Capitalized terms used and not otherwise defined herein shall have the meanings ascribed to
6 them in the Plan.

7 **A. Purpose of This Document**

8 The purpose of this Disclosure Statement is to set forth information (1) about the history of
9 the Debtor, its business, and the chapter 11 case, (2) concerning the Plan and alternatives to the Plan,
10 (3) advising the Holders of Claims and Equity Interests of their rights under the Plan, (4) assisting
11 any Creditors and Equity Interest Holders in making an informed judgment regarding whether they
12 should vote to accept and indicate their preference for this Plan and vote to reject any plan proposed
13 by the Debtor or the Official Committee of Unsecured Creditors or the Official Committee of Equity
14 Holders, and (5) assisting the Bankruptcy Court in determining whether the Plan complies with the
15 provisions of chapter 11 of the Bankruptcy Code and should be confirmed.
16
17

18 At ~~a hearing~~hearings on November 12, ~~2009~~2009 and _____, the Bankruptcy
19 Court approved this Disclosure Statement as containing “adequate information” concerning the Plan,
20 meaning that it contains sufficient information to enable any Holder of Claims and Equity Interest
21 entitled to vote to make an informed judgment in exercising their rights to vote to accept or reject the
22 Plan. The Bankruptcy Court’s approval of this Disclosure Statement or any other disclosure
23 statement for a plan for the Debtor does not mean that the Court recommends either acceptance or
24 rejection of a plan. No solicitation of votes may be made except pursuant to an approved Disclosure
25 Statement.
26

27 ~~The~~Generally, the only Creditors or Equity Interest Holders who may vote for or against the
28 Plan are those who have a Claim or Equity Interest that is both (1) Allowed or Allowed for voting

1 purposes and (2) classified in an impaired Class. A Class is impaired if (a) the legal, equitable, or
2 contractual rights of the Claims or Equity Interests in the Class are altered, (b) the plan cures any
3 default, reinstates the maturity of the Claim, and compensates the Holder for certain losses or (c) as
4 New World believes, Creditors holding General Unsecured Claims are paid in full in Cash with
5 interest on the Effective Date. Classes of Claims or Equity Interests that are not impaired are
6 conclusively presumed to have accepted the Plan and therefore, are not entitled to vote on the Plan.
7 Class 4 is the only impaired Class under the New World Plan; all other Classes are deemed to have
8 voted to accept the Plan. However, out of an abundance of caution and in order to allow Holders of
9 Class 3C Claims (TOPrS Claims) to elect to receive New Notes and Common Stock in lieu of
10 reinstatement, Holders of Claims in Classes 3A, 3B, 3C and 5 are receiving Ballots so that they can
11 vote on the Plan and their vote can be counted in the event that the Court disagrees with New World's
12 characterization of the Class treatment and finds that any Class of Claims is actually impaired. New
13 World reserves its rights to have the matter of Class impairment determined prior to the Confirmation
14 Date.
15

16
17 The Bankruptcy Court has not yet confirmed the Plan described in this Disclosure Statement.
18 In other words, the terms of the Plan are not yet binding on any Creditor or Holder of an Equity
19 Interest. However, if the Court later confirms the Plan, then the Plan will be binding on the Debtor
20 and on all Creditors and Equity Interest Holders in this case, whether or not the Holder of a Claim or
21 Equity Interest actually votes for the Plan.

22
23 New World, as proponent of the Plan, recommends that the Holders of Equity Interests in
24 Class 4 indicate on the Ballot their preference for the New World Plan and reject any other plan. In
25 addition, because the New World Plan provides the greatest certainty of full and expeditious recovery
26 for Creditors in all Classes, New World recommends that Holders of Claims in Classes 3A, 3B, 3C
27 and 5 vote also to accept the New World Plan and express their preference for the New World Plan.

28 THE FINANCIAL INFORMATION IN THIS DISCLOSURE STATEMENT INCLUDES

1 INFORMATION THAT HAS NOT BEEN AUDITED OR REVIEWED BY AN INDEPENDENT
2 REGISTERED ACCOUNTANT. NONE OF THE FINANCIAL INFORMATION INCLUDED
3 HEREIN HAS BEEN PREPARED IN ACCORDANCE WITH GENERALLY ACCEPTED
4 ACCOUNTING PRINCIPALS.

5 NEVERTHELESS, TO THE BEST OF NEW WORLD'S KNOWLEDGE AND BELIEF,
6 THE INFORMATION CONTAINED IN THIS DISCLOSURE STATEMENT IS ACCURATE. AS
7 INDICATED SUCH INFORMATION HAS BEEN STATED BY THE DEBTOR, THE
8 CREDITORS COMMITTEE AND THE EQUITY COMMITTEE IN THEIR FILINGS WITH THE
9 BANKRUPTCY COURT.
10

11 **B. Solicitation Package**

12 Accompanying this Disclosure Statement (which is provided on CD-ROM) is a package of
13 hard copy materials called the "Solicitation Package." The Solicitation Package contains copies of,
14 among other things:

- 15 • The Bankruptcy Court order approving the Disclosure Statement and procedures for soliciting
16 and tabulating votes in the Plan (the "Solicitation Order") which, among other things, approves
17 this Disclosure Statement as containing adequate information, schedules the Confirmation
18 Hearing sets, the voting deadline, sets out the procedures for distributing Solicitation Packages to
19 the Holders of Claims against and Equity Interests in the Debtor, establishes the procedures for
20 tabulating Ballots used in voting on the Plan, and sets the deadline for objection to confirmation
21 of the Plan;
22
- 23 • The Notice of the Hearing to Consider Confirmation of New Worlds' [Chapter 11](#) Plan of
24 Reorganization for Fremont General Corporation; and
- 25 • One or more Ballots and a postage-paid return envelope (Ballots are provided only to Holders of
26 Claims and Equity Interest that are entitled to [or are being solicited to](#) vote on the Plan), which
27
28

1 will be used by Creditors and Equity Interest Holders who are entitled to or who have been
2 conditionally solicited to vote on the Plan.

3 **C. Voting Procedures, Ballots, and Voting Deadline**

4 After carefully reviewing the materials in the Solicitation Package and the detailed
5 instructions accompanying your Ballot, please indicate your acceptance or rejection of the Plan by
6 voting in favor of or against the Plan. Each Ballot has been coded to reflect the Class of Claims or
7 Equity Interests it represents. Accordingly, in voting to accept or reject the Plan, you must use only
8 the coded ballot or ballots sent to you with this Disclosure Statement.
9

10 In order for your vote to be counted, you must complete and sign your original ballot and
11 return it in the envelope provided (only original signatures will be accepted). Please return your
12 completed Ballot to the Voting Agent, unless you are a beneficial ~~holder~~Holder of a Senior Note or
13 Junior Note or Equity Interest (each as defined below) who receives a Ballot from a broker, bank,
14 commercial bank, trust company, dealer, or other agent or nominee (each, a “Nominee”), in which
15 case you must return the Ballot to such Nominee. Ballots of the beneficial Holders should not be sent
16 to the Debtor or to the Indenture Trustees for the Senior Notes or the Junior Notes.
17

18 If you are a beneficial ~~holder~~Holder of a Note or Equity Interest who receives a Ballot from a
19 Nominee, in order for your vote to be counted, your Ballot must be completed in accordance with the
20 voting instructions on the Ballot and received by the Nominee in enough time for the Institutional
21 Nominee to transmit a Master Ballot to the Voting Agent so that it is received ~~to~~by the Voting Agent
22 no later than ~~December 23, 2009~~February 24, 2010 at 5:00 p.m. (~~prevailing Eastern time~~Pacific
23 Time) (the “Voting Deadline”). If you are the Holder of any other type of Claim, in order for your
24 vote to be counted, your ballot must be properly completed in accordance with the voting instructions
25 on the ballot and received by (the “Voting Agent”) no later than the Voting Deadline. Any Ballot
26 received after the Voting Deadline shall be counted at the sole discretion of New World. Do not
27 return any debt instruments or equity securities with your ballot. **Any executed Ballot that does not**
28

~~indicate either an acceptance or rejection of the Plan or indicates both and acceptance and rejection of the Plan will not be counted as a vote either to accept or reject the Plan.~~

If you have any questions about the procedure for voting your Claim or Equity Interest, materials that you have receive, or if you wish to obtain, at your own expenses, an additional copy of this Disclosure Statement and its appendices and exhibits, please contact the Voting Agent. You may obtain a copy of the Disclosure statement and Plan from (i) the Office of the Clerk, United States Bankruptcy Court for the Central District of California, Santa Ana Division, 411 West forth St. Santa Ana, California 92701; (ii) through the Court's website using PACER service (www.cacb.uscourts.gov); and (iii) by making a written request to counsel for New World: Sonnenschein Nath & Rosenthal LLP, 1221 Avenue of the Americas, New York, New York 10020, Attn: Daniel Pina, Paralegal, Facsimile: (212) 768-6800.

Before voting on the Plan, each Holder of Claims and Equity Interests in Classes that are entitled to vote on the Plan should read, it its entirety, the Disclosure ~~Statement~~[Statements](#), the Plan,[s](#) the Solicitation Order, the notice of the Confirmation Hearing, and the instructions accompanying the ballots. These documents contain important information concerning how Claims are classified for voting purposes and how votes will be tabulated.

D. Individual Ballots

If you are a Holder of an Allowed Claim in Classes 3A, 3B, 3C or 5 or a Holder of an Allowed Equity Interest in Class 4, accompanying this Disclosure Statement is a Ballot for casting your vote(s) on the Plan and a pre-addressed envelope for the return of the Ballot. **BALLOTS FOR ACCEPTANCE OR REJECTION OF THE PLAN ARE BEING PROVIDED ONLY TO HOLDERS OF CLAIMS AND EQUITY INTERESTS IN CLASSES 3A, 3B, 3C , 4 and 5 WHICH ARE ENTITLED TO OR REQUESTED TO OR ARE BEING CONDITIONALLY SOLICITED TO VOTE TO ACCEPT OR REJECT THE PLAN.** If you are the ~~holder~~[Holder](#) of a Claim and/or Equity Interest in said Class(es), and (a) did not receive a Ballot, (b) received a damaged or illegible Ballot,

1 or (c) lost your Ballot, or if you are a party in interest and have any questions concerning the
2 Disclosure Statement, any of the Exhibits hereto, the Plan, or the voting procedures in respect thereof,
3 please contact Kurtzman Carson Consultants LLC (“KCC”), 2335 Alaska Avenue, Los Angeles,
4 California 310.823.9000, the balloting tabulator.

5 **TO BE COUNTED, YOUR BALLOT MUST BE RECEIVED BY ~~DECEMBER 23,~~**
6 **~~2009,~~February 24, 2010, AT 5 P.M. (Pacific Time) (THE “VOTING DEADLINE”) AT THE**
7 **ADDRESS SET FORTH ON THE PRE-ADDRESSED ENVELOPE ENCLOSED WITH**
8 **YOUR BALLOT. BALLOTS MUST BE RECEIVED BY THE VOTING AGENT AT THE**
9 **FOLLOWING ADDRESS BY THE VOTING DEADLINE: KURTZMAN CARSON**
10 **CONSULTANTS LLC, 2335 ALASKA AVENUE, EL SEGUNDO, CA 90245. BALLOTS**
11 **NOT TIMELY RECEIVED BY THE BALLOT TABULATOR WILL NOT BE COUNTED.**

12
13 Votes cannot be transmitted orally or by e-mail. Accordingly, you are urged to return your
14 signed and completed Ballot promptly. Ballots not received by the Voting Deadline and unsigned
15 Ballots will not be counted. ~~Any executed Ballots that are timely received, but which do not indicate~~
16 ~~either an acceptance or rejection of the Plan, will be deemed to constitute an acceptance of the Plan.~~

17
18 You are being asked to consider multiple plans in addition to the New World Plan. There is
19 no prohibition against voting to accept or reject multiple plans and you may express a preference as
20 to all of the Plans without regard to whether you voted to accept or reject any Plan. If more than one
21 Plan is confirmable, the Bankruptcy Court can consider the preferences of creditors and equity
22 holders, as well as other factors described below.

23
24 The Bankruptcy Court has scheduled a hearing on Confirmation of the Plan for ~~January~~
25 ~~8,~~March 12, 2010 at 9:30 a.m. and to continue on ~~January 15,~~March 19, 2010 at 9:30 a.m. (Pacific
26 Time) at the United States Bankruptcy Court for the Central District of California, Santa Ana
27 Division, Courtroom 5A, 411 W. 4th Street, Santa Ana, California. Any objections to confirmation of
28 the Plan must be in writing and filed with the Bankruptcy Court, and served so as to be received by 5

1 p.m. (Pacific Time) on ~~December 23, 2009~~, [February 22, 2010](#), upon the following: (1) counsel to
2 New World, Lesnick & Prince LLP, 185 Pier Avenue, Suite 103, Santa Monica, CA 90405, Attn:
3 Christopher E. Prince; and Sonnenschein Nath & Rosenthal LLP, 1221 Avenue of the Americas, 25th
4 Floor, New York, New York 10020, Attn: Carole Neville and Peter D. Wolfson; Telephone: (212)
5 768-6700; (2) counsel to the Debtor, Patton Boggs LLP, 2001 Ross Avenue, Suite 3000, Dallas,
6 Texas 75201, Attn: Robert W. Jones, J. Maxwell Tucker, and Brent McIlwain and Stutman, Treister
7 & Glatt, P.C., 1901 Avenue of the Stars, 12th Floor, Los Angeles, California 90067, Attn: Theodore
8 B. Stolman and Whitman L. Holt; (3) Office of the United States Trustee, 411 W. 4th Street, Suite
9 9041, Santa Ana, California 92701, Attn: Frank Cadigan; (4) counsel to the Official Committee of
10 Unsecured Creditors, Klee, Tuchin, Bogdanoff & Stern LLP, 1999 Avenue of the Stars, 39th Floor,
11 Los Angeles, California 90067, Attn: Lee Bogdanoff & Jonathon Shenson; ~~and~~ (5) counsel to the
12 Official Committee of Equity Holders, Weiland Golden, Smiley, Wang Ekvall & Strok LLP, 650
13 Center Drive, Suite 950, Costa Mesa, California ~~92626~~. [92626](#); (6) [counsel for Ranch Capital LLC,](#)
14 [Munger Tolles & Olson LLP, Att: Derek J Kaufman, Esq. 355 south grand Avenue, suite 3500, Los](#)
15 [Angeles 90071, Facsimile \(714\)966-1002](#); (7) [counsel for Signature Group Holdings LLC,](#)
16 [Manderson, Schafer & McKinlay LLP, Att: John P. Schafer, Esq., 4695 MacArthur Court, suite](#)
17 [1270, Newport Beach, California 92660, Facsimile \(949\) 743-8319](#); M & M Plan, Attn: John
18 [Mylinick , 23 Mechanic Street, Shelburne Falls, Massachusetts 01370, Facsimile \(866\) 214-8595 and](#)
19 [Andrey Mutchnik, 17 de la Puodriere #105, Montreal, Quebec , Canada H4G 3J5.](#)

20
21
22 ~~Both the~~ [The](#) Official Committee of Unsecured Creditors ~~and~~, the Official Committee of
23 Equity Holders [and various other parties](#) have proposed ~~plans~~ [Plans](#) which provide different treatment
24 for Claims against and Equity Interests in the Debtor ~~and~~, different corporate governance procedures.
25 ~~Only the New World Plan provides for an investment of new capital in the Debtor, and different~~
26 [financing solutions](#). Only one of the Plans can be confirmed by the Bankruptcy Court. If more than
27 one ~~plan~~ [Plan](#) meets the requirements for confirmation, the Bankruptcy ~~court~~ [Court may consider](#)
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1 [which Plan provides the best treatment for Holders of Claims and Equity Interests and which Plan](#)
2 [provides the best capital structure for the reorganized company. New World believes that its Plan](#)
3 [provides meets the confirmation requirements and provides both the best treatment for Holders of](#)
4 [Claims and Interests and the best capital structure for the Reorganized Debtor going forward. In](#)
5 [addition, where there are competing Plans, the Bankruptcy Court](#) will consider the preferences of
6 Creditors and Holders of Equity Interests in determining which Plan to confirm. [Accordingly, New](#)
7 [World urges you to express your preference for the New World Plan.](#)
8

9 THE CONTENTS OF THIS DISCLOSURE STATEMENT SHOULD NOT BE
10 CONSTRUED AS LEGAL, BUSINESS, OR TAX ADVICE. ANY TAX ADVICE THAT MAY BE
11 CONTAINED IN THE DISCLOSURE STATEMENT IS NOT INTENDED TO BE USED AND
12 CANNOT BE USED FOR THE PURPOSE OF AVOIDING ANY TAX PENALTIES THAT MAY
13 BE IMPOSED ON ANY PERSON. ALL CREDITORS AND EQUITY INTEREST HOLDERS
14 SHOULD CONSULT THEIR OWN LEGAL COUNSEL AND ACCOUNTANTS AS TO LEGAL,
15 TAX, AND OTHER MATTERS CONCERNING THEIR CLAIMS OR EQUITY INTERESTS.
16

17 **II. OVERVIEW OF NEW WORLD'S PLAN**

18 The following is a brief summary of the material provisions of the Plan and is provided for
19 convenience only. A more detailed description of the Plan appears below. .

20 **A. The Merger of Fremont General Credit Corporation** 21 **and Fremont Reorganizing Corporation Into the Debtor**

22 New World's Plan is designed to meet the two primary goals of Chapter 11—the
23 reorganization of the business operation and the satisfaction of Claims and Equity Interests.

24 The Plan's business objective is to simplify the corporate structure of the Debtor and its
25 wholly-owned subsidiary, Fremont General Credit Corporation ("FGCC"), and FGCC's wholly-
26 owned subsidiary, Fremont Reorganizing Corporation, formerly known as Fremont Investment &
27 Loan ("FRC") by effecting a merger of these three entities and vesting title to all Assets of the
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1 Debtor, FGCC, and FRC in the Reorganized Debtor, which will then make distributions to Holders of
2 Allowed Claims and Equity Interests in accordance with the Plan and after making appropriate
3 reserves for creditors of FGCC and FRC.

4 The New World Plan provides the Reorganized Debtor with additional liquidity by way of (i)
5 a ~~\$6.85~~ million equity investment ~~(with the shares priced at the 90 day average prior to the disclosure~~
6 ~~statement hearing on the New World Plan)~~ and (ii) ~~Exit Financing of \$20 million for operations,~~
7 ~~general corporate purposes and reserves for making the Distributions required by the Plan and to the~~
8 ~~holders of Post-Effective Date Merger Claims.~~ for 10 million shares of Common Stock. If the
9 TOPrS do not elect to accept the alternative treatment under the New World Plan, New World will
10 purchase an additional 10.6 million shares of Common Stock. The shares of the Debtor's ~~common~~
11 ~~stock~~ Common Stock have been trading from a low of \$.~~3027~~ to a high of \$.~~4172~~ during the period of
12 ~~August~~ September through ~~October~~ November 2009. New World will also receive Warrants to
13 acquire shares of Common Stock of the Reorganized Debtor at an average exercise price of \$.~~67~~ and
14 ~~may allocate certain of those Warrants to the lender in connection with the Exit Financing. In~~
15 ~~addition, under~~ 90 per share.

16
17
18 New World has adapted its Plan to the recent developments in the case as a result of the
19 change in the law (the Worker, Homeownership, and Business Assistance Act of 2009 (H.R. 3548),
20 signed into law by President Obama on November 6, 2009) resulting in a potential \$22 million tax
21 refund to the Debtor and thereby providing additional liquidity to the Reorganized Debtor. In
22 addition, New World's Plan, as modified on December 3, 2009, takes into account the interests of
23 Holders of Claims and Equity Interests in a marketable and liquid replacement security, narrowly
24 tailored trading restrictions to preserve certain tax benefits, minimal dilution, and best practices with
25 respect to corporate governance. Under the New World Plan, the operations of the Reorganized
26 Debtor will be under the supervision of a representative and experienced Board that will maximize
27 the value of the operations for the benefit of the Creditors, ~~holders~~ Holders of Post-Effective Date
28

1 Merger Claims and Equity Interests and observe all good corporate governance practices.

2 **B. Treatment of Claims Against the Debtor and Equity Interests in the Debtor**

3 The New World Plan proposes to make a substantial payment of Cash on account of
4 Unsecured Claims, other than on account of the TOPrS and Junior Notes, ~~which~~ The TOPrS will be
5 Reinstated exactly in accordance with the terms of the Indenture. ~~Accordingly, the~~ and FGFI Trust
6 or, if the Holders of the TOPrS elect, they will receive New Notes and 10.6 million shares of
7 Common Stock. The Plan contains an efficient Distribution mechanism that will allow the
8 Distributions to Holders of Allowed Claims through the Reorganized Debtor or a designee ~~or in the~~
9 ~~case of the Senior Notes, through the Indenture Trustee~~ rather than through an elaborate system of
10 trusts and plan administrators.

11
12 The Plan designates a series of Classes of Claims against the Debtor and one Class of Equity
13 Interests in the Debtor. The following table summarizes the treatment of Claims and Equity Interests
14 under the Plan with: (1) estimates of the amount of Claims in each category or Class that will be
15 finally determined to be Allowed Claims; and (2) a description of the treatment provided for in the
16 Plan for each Class of Claims and Equity Interests. The dollar amounts are based on the records of
17 the Debtor as of the Petition Date or the date of the disclosure statement proposed by the Creditors
18 Committee and the Equity Committee and do not constitute an admission by New World or the
19 Debtor, the Creditors Committee or the Equity Committee as to the validity or amount of any
20 particular Claim or Equity Interest. All rights of any party in interest to dispute the validity or
21 amount of any Claim or Equity Interest that have not already been Allowed by the Bankruptcy Court
22 or by agreement of the parties have been reserved.
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Class	Description of Claim or Interest	Treatment	Estimated Aggregate Amount of Allowed Claims	Estimated Percentage Recovery of Allowed Claims or Interests	Impaired and Entitled to Vote
N/A	Administrative Claims ¹	Unless any entity entitled to payment of an Allowed Administrative Claim agrees to a less favorable treatment or unless otherwise ordered by the Court, each Holder of an Allowed Administrative Claim will receive, in full satisfaction of its Claim, Cash in an amount equal to the amount of the Allowed Administrative Claim on the later of: (1) the Effective Date, or (2) the fifteenth Business Day after such Administrative Claim becomes an Allowed Administrative Claim, or, in either case, as soon thereafter as is practicable. However, Ordinary Course Administrative Claims will be paid in full in accordance with the terms and conditions of the particular transaction or agreement that gave rise to the Ordinary Course Administrative Claim or as otherwise authorized by the Court.	New World estimates that the projected range of unpaid Administrative Claims will be from \$2,000,000 to \$2,500,000.	100%	No
N/A	Priority taxes	Except to the extent that a Holder of an Allowed Priority Tax Claim has been paid by the Debtor prior to the Effective Date, agrees to different treatment, is	The Debtor has estimated the range from \$100,271 to \$102,676,574. ² New World has	100%	No

¹ Administrative Claims described in this table do not include Administrative Claims that have already been paid or any intercompany Administrative Claims that may be due to FRC. Other Claims that are treated in this category include, U.S. Trustee Fee, Professional Fees and Indenture Trustee Fees.

² The \$102,676,574 figure includes the IRS's proof of claim in the amount of \$89,384,470 and the California Franchise Tax Board's proof of claim in the amount of \$13,292,104 and does not represent the Debtor's view of the amount that ultimately is likely to be Allowed. The Debtor disputes the proofs of claim filed by the IRS and the California Franchise Tax Board.

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Class	Description of Claim or Interest	Treatment	Estimated Aggregate Amount of Allowed Claims	Estimated Percentage Recovery of Allowed Claims or Interests	Impaired and Entitled to Vote
		<p>subject to reduction through use of a carry back or application of NOLs or is subject to the Final Order of the Bankruptcy Court, each Holder of an Allowed Priority Tax Claim shall receive, in full satisfaction of its Claim, Cash in an amount equal to such Allowed Priority Tax Claim on the later of (1) the Effective Date, or (2) the fifteenth Business Day after the Priority Tax Claim becomes an Allowed Priority Tax Claim, or in either case, as soon thereafter as is practicable, provided that the Reorganized Debtor may, at its sole option, pay an Allowed Priority Tax Claim in equal quarterly payments over a period not exceeding five years after the Petition Date with simple interest at the rate of applicable non bankruptcy law.</p>	<p>estimated that the Allowed Priority Taxes will be significantly below the high end of the range.</p>		
1	Secured Claims	<p>In full satisfaction of any Allowed Secured Claim, the Holder of the Allowed Secured Claim will receive either the full amount of the Allowed Secured Claim in Cash on the later of the Effective Date or fifteen days after the Claim becomes an Allowed Secured Claim or the Collateral securing the Allowed Secured Claim. Any Allowed deficiency balance will be treated in Class 3A.</p>	<p>Neither the Debtor nor New World are aware of any valid Secured Claims.</p>	100%	No

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Class	Description of Claim or Interest	Treatment	Estimated Aggregate Amount of Allowed Claims	Estimated Percentage Recovery of Allowed Claims or Interests	Impaired and Entitled to Vote
2	Priority Non-Tax Claims	Except to the extent that a Holder of an Allowed Priority Non-Tax Claim agrees to a less favorable treatment, each Allowed Priority Non-Tax Claim will be paid in full satisfaction of the Priority Non-Tax Claim on the later of (1) the Effective Date or (2) the fifteenth Business Day after such date that the Claim becomes an Allowed Priority Non-Tax Claim, or in either case, as soon thereafter as is practicable	The Debtor has estimated the range from \$0 to \$68,253	100%	No
3A	General Unsecured Claims (excluding the of Claims represented by the Senior Notes (3B) and the TOPrS Claims and Junior Note Claims(Class 3C))	Except as provided below with respect to the Holder of an Allowed General Unsecured Claim that is party to a settlement, compromise, stipulation or order, or the Holder of an Allowed Class 3A agrees to different treatment, the Holder of an Allowed Class 3A General Unsecured Claim shall retain their legal, equitable, and contractual rights and on the later of the Effective Date of the Plan or within fifteen business days from the date such Claim becomes an Allowed Claim or as soon thereafter as is practicable such Holder shall be paid in full in Cash with prepetition interest and Post Petition Interest (at the federal judgment rate of 2.51%) calculated from the Petition Date until the Distribution. The Holder of an Allowed General Unsecured Claim	Approximately \$56.5 million Class 3A includes the proof of claim filed by the Debtor's indirect wholly-owned subsidiary, FRC, in an unspecified amount.	100%	No

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Class	Description of Claim or Interest	Treatment	Estimated Aggregate Amount of Allowed Claims	Estimated Percentage Recovery of Allowed Claims or Interests	Impaired and Entitled to Vote
		pursuant to the Rampino Stipulation, the Enron Stipulation, the BNY Stipulation or any other settlement, compromise, stipulation or order which provides for different treatment shall be paid in accordance with the underlying compromise, settlement, stipulation or order giving rising to the Allowed Claim, and if no payment date is specified on the later of (1) the fifteenth Business Day after the Effective Date or (2) the fifteenth Business Day after the Claim becomes an Allowed Claim, or in either case, s soon thereafter as is practicable.			
3B	General Unsecured Claims of the Holders of the 7.875% Senior Notes	The Holders of the Senior Notes will be paid their principal, plus prepetition interest at the rate set forth in the Senior Notes, and Post Petition interest at the federal judgment rate in effect as of the Petition Date, which was 2.51% on the Effective Date. , or at such rate determined by the Bankruptcy Court that will render the Senior Notes Unimpaired. The Plan provides for the payment of the reasonable fees of the Indenture Trustee without reduction to the distribution to the Noteholders.	\$176,402,107, (on the Petition Date)	100%	No
3C	TOPrS Claims	The Holders of Allowed TOPrS Claims shall retain their legal, equitable, and contractual rights provided by the Indenture dated as of	\$107,422,681 (as of Petition Date)	100%	No

Class	Description of Claim or Interest	Treatment	Estimated Aggregate Amount of Allowed Claims	Estimated Percentage Recovery of Allowed Claims or Interests	Impaired and Entitled to Vote
		<p>March 6, 1996. The TOPrS and Junior Notes shall be Reinstated.</p> <p><u>The Plan offers the Holders of the TOPrS the option to accept New Notes in principal face amount of \$95 million and 10.6 million shares of Common Stock in satisfaction of their Claims.</u></p> <p>The Plan provides for the reasonable fees of the Indenture Trustee and the payment of Indenture Trustee fees after the Effective Date.</p>			
4	Equity Interests	<p>Holders of existing Equity Interests in the Debtor will retain their Equity Interests in the Reorganized Debtor in full and final satisfaction of their Equity Interests, subject to dilution as a result of the issuance of stock for a reserve for Warrants to be issued, New World Equity Investment , and to the extent necessary to satisfy Class <u>3C and Class 5</u> Claims.</p>	<p>As of the Petition Date, approximately 82,116,176<u>78,400,000</u> shares of the Debtor's common stock had been<u>Common Stock were issued and outstanding.</u></p>		Yes
5	Section 510(b) Claims	<p>The Holders of Allowed Section 510(b) Claims will receive newly-issued interests in the Reorganized Debtor in full and final satisfaction of their Allowed Section 510(b) Claims. The percentage interest of common stock<u>Common Stock</u> to which such Holders will be entitled shall be based upon the average trading value of the common stock<u>Common</u></p>	Unknown	100%	No

Class	Description of Claim or Interest	Treatment	Estimated Aggregate Amount of Allowed Claims	Estimated Percentage Recovery of Allowed Claims or Interests	Impaired and Entitled to Vote
		<p><u>Stock</u> of the shares of the Reorganized Debtor for the thirty days preceding the date on which any Section 510(b) Claims become Allowed Section 510(b) Claims if such allowance occurs after the Effective Date.</p> <p>If the Court determines in a Final Order that the Allowed Class 5 Claim is not subject to subordination under 11 U.S.C. § 510(b), then the Holder of the Allowed Class 5 Claim will receive the same treatment as holders of Claims in the appropriate Class of Unsecured Claims or Equity Interests.</p> <p>Certain of the Section 510(b) Claims shall be reduced or satisfied by proceeds from insurance policies.</p>			

III. HISTORY OF THE DEBTOR

The Debtor is a publicly-held Nevada corporation that has functioned as a financial services holding company. Its prepetition business operations were conducted through two intermediate holding companies--one for banking operations and one for insurance operations. Prepetition, the Debtor's common stock was traded on the New York Stock Exchange under the symbol "FMT."

A. The Banking Operations

The Debtor engaged in both commercial and residential real estate lending nationwide through FRC, the Debtor's industrial bank subsidiary. FRC focused on the origination of commercial

1 real estate loans and held these loans primarily for investment. Its consumer lending operations
2 focused on the origination of non-prime and sub-prime residential real estate loans, most of which
3 were sold to third party investors or securitized. FRC was one of the nation's largest originators of
4 sub-prime loans. Prepetition, FRC offered certificates of deposit and savings and money market
5 deposit accounts through its 22 retail banking branches in California.

6 FRC's business grew rapidly in the years before the Debtor's bankruptcy filing. FRC's total
7 amount of residential loan originations increased from approximately \$14 billion in 2003 to
8 approximately \$36 billion in 2006. Its commercial real estate loan originations also increased from
9 approximately \$1.1 billion in annual mortgage originations in 2003 to approximately \$8.3 billion in
10 2005. However, the sub-prime lending market deteriorated significantly in 2007. A periodic review
11 by the Federal Deposit Insurance Corporation ("FDIC") of FRC's sub-prime lending operations led to
12 the issuance of a cease-and-desist order with respect to some of FRC's past sub-prime lending
13 practices. The cease and desist order required much higher capital levels, making it more difficult for
14 FRC to operate in the sub-prime business. As a result, FRC decided to discontinue its sub-prime
15 lending activities. As of March 7, 2007, FRC ceased entering into new funding commitments for
16 sub-prime mortgage loans, although it continued to honor remaining outstanding commitments. FRC
17 also sold substantially all of its commercial real estate loan portfolio during 2007, terminating FRC's
18 interest in its commercial real estate lending business.

19 The vast majority of FRC's originated residential loans were transferred to third parties via a
20 whole loan sale or securitizations. Most of FRC's loans were transferred via a whole loan sale. In a
21 whole loan sale, FRC entered into an agreement to sell loans for cash, generally on a servicing
22 released basis, but occasionally on a servicing retained basis. As part of the sale process, FRC gave
23 customary representations and warranties regarding the characteristics and origination process of the
24 loans. FRC also generally committed to repurchase loans if a payment default occurred within a
25 certain period after the loan was sold.
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1 In a securitization, FRC transferred residential loans to a qualifying special-purpose entity,
2 established for the limited purpose of purchasing the loans and issuing interest bearing securities that
3 represented interests in the loans. The transfer of the loans in a securitization was treated as a sale,
4 with the loans being removed from FRC's balance sheet, although FRC continued to perform loan
5 servicing functions for the securitizations.

6 For various reasons, some of the loans that FRC originated were not sold to other parties. In
7 March and April of 2007, FRC entered into whole loan sale agreements that transferred the majority
8 of FRC's unsold sub-prime residential real estate loans, valued at approximately \$6.9 billion.
9

10 New World is advised that the existing cash and assets of FRC greatly exceed FRC's own
11 liabilities, even in a liquidation.

12 **B. The Insurance and Indemnity Operations**

13 **On the insurance side, the Debtor owns all of the common stock of Fremont**

14 **Compensation Insurance Group, Inc.** ("FCIG"). FCIG in turn owns 100% of bare legal title to the
15 common stock of Fremont Indemnity Company in Liquidation ("Indemnity") and 100% of bare legal
16 title to the common stock of Fremont Life Insurance Company ("Life").
17

18 Indemnity operated in the property and casualty insurance industry and engaged in the
19 underwriting of workers' compensation insurance policies. In June 2003, Indemnity was placed into
20 a state "conservation" proceeding under section 1101 of the California Insurance Code, and the
21 following month, that proceeding was subsequently converted into a liquidation proceeding under
22 section 1016 of the California Insurance Code. In connection with those proceedings, the California
23 Insurance Commissioner obtained all of the powers of the directors, officers, and manager of
24 Indemnity, as well as sole control over Indemnity's property.
25

26 Life operated as a licensed life, annuity, and accident, and health insurance company,
27 although it had discontinued writing new policies in 1995 and in 1996 entered into a coinsurance
28 agreement to reinsure all existing annuity, life, and credit in-force business. By 2004, Life had

1 terminated its life, disability, workers' compensation and common carrier liability lines. Life was
2 placed into a state "conservation" proceeding by the CIC in June 2008.

3 **C. The Debtor's Management**

4 Until November 2007, the Debtor was managed by a management team that included
5 Chairman of the Board James A. McIntyre, President and Chief Executive Officer Louis J. Rampino.
6 Mr. McIntyre and Mr. Rampino were each employed by the Debtor for approximately thirty years.
7 Mr. McIntyre served as the Debtor's Chief Executive Officer from 1976 until 2004, when Mr.
8 Rampino was appointed as Chief Executive Officer.
9

10 In November 2007, Mr. McIntyre, Mr. Rampino, and several of the Debtor's other officers
11 and directors resigned after the Debtor continued to experience significant financial difficulties. The
12 Debtor's previous management team was replaced with a new management team, including
13 Chairman of the Board of Directors and Chief Executive Officer Stephen H. Gordon and Vice-
14 Chairman and President David S. DePillo. This management team managed the Debtor from
15 November 2007 through October 2008. Gordon and DePillo resigned from day-to-day management
16 on September 30, 2008, but remained on the board as chairman and vice-chairman, respectively. On
17 October 1, 2008, Richard A. Sanchez replaced Mr. DePillo and Mr. Gordon and became the Debtor's
18 Interim President and Interim Chief Executive Officer. Mr. Sanchez has served as Interim President
19 and Interim CEO through the present date. Other members of the new management team, namely
20 Thea K. Stuedli as the chief financial officer and Donald E. Royer as the general counsel, have
21 remained in their positions since November 2007.
22

23
24 In November 2007, in connection with the hiring of the new management team, the Debtor
25 and FRC entered into employment agreements (together, the "Employment Agreement") with
26 Gordon, DePillo, Sanchez, Royer, and Stuedli (together, the "Executives") for a term of three years.
27 Notices of non-renewal of the Employment Agreement are expected to be sent in November 2009.
28 Among other things, the Employment Agreements provide that the Debtor and FRC are jointly and

1 severally obligated to pay the Executives' salaries. In addition, if an Executive is terminated for
2 other than "cause" of a voluntary resignation for "good reason," then the Debtor and FRC may be
3 obligated to pay them severance compensation equal to 300% of their average annual bonus and
4 provide continued health benefits for three years. Moreover, if there is a "change in control event,"
5 which includes situations where any person becomes the beneficial owner of 20% of the voting
6 securities of the Debtor or FRC or a reorganization or merger where the resulting entity is not the
7 Debtor or FRC, then any outstanding and unvested equity awards the Executive is eligible to receive
8 automatically fully vest.
9

10 The Employment Agreements with Sanchez, Royer, and Stuedli (the "Executive Employment
11 Agreements") will be assumed under the Plan and they will continue to retain their executive
12 positions and perform their existing job descriptions with the Reorganized Debtor following the
13 Effective Date, should they decide to continue to serve. As of the date of this Disclosure Statement,
14 they have not made a decision about whether to continue to serve. In addition, the Debtor has
15 advised New World that Sanchez, Royer, or Stuedli may take the position that "good reason" exists
16 for one or more of them to resign under the terms of the Executive Employment Agreements and that
17 they are entitled to certain payments by the Debtor as a result of their resignation. New World does
18 not agree with that contention. In the event that they elect to continue to serve, their biographical
19 information follows.
20

21 **1. Richard A. Sanchez, Interim President**
22 **and Interim Chief Executive Officer**

23 Mr. Sanchez has served as both a bank executive and a banking regulator. From 2002
24 through 2006, he was a director of Commercial Capital Bancorp, Inc. ("CCBI") and served as the
25 Executive Vice President, Chief Administrative Officer, and Corporate Secretary for CCBI and
26 Commercial Capital Bank ("CCB"). Prior to that, he was Deputy Regional Director for the Office of
27 Thrift Supervision, where he supervised examiners responsible for 85 insured financial institutions
28

1 with total assets of over \$300 billion.

2 **2. Thea Stuedli, Executive Vice President and Chief Financial Officer**

3 Ms. Stuedli is a certified public accountant with more than eleven years of financial services
4 experience. From 2004 to 2006, Ms. Stuedli served as Senior Vice President and Chief Accounting
5 Officer at CCB, where she was primarily responsible for all internal and external financial reporting
6 requirements, including all SEC filings, board of directors' reports, and regulatory reports. From
7 2002 through 2004, she served as the Corporate Controller at Jackson Federal Bank and, before that,
8 served as a manager in the financial services practice at KPMG, LLP.

9
10 **3. Donald E. Royer, Executive Vice President and General Counsel**

11 Mr. Royer has served in various capacities in the California financial services industries. In
12 2007, he acted as a consultant in representing various mortgage lenders. In 2006, Mr. Royer joined
13 CCBI and CCB as Executive Vice President and General Counsel. From 2002 to 2006, Mr. Royer
14 was in private practice as an attorney. From 1991 to 2002, Mr. Royer was employed by Downey
15 Savings as Executive President, General Counsel, and Corporate Secretary. From 1988 to 1991, Mr.
16 Royer served as Executive Vice President and General Counsel of American Savings Bank, and from
17 1984 to 1988 was the Executive Vice President and General Counsel of Financial Corporation of
18 America and American Savings and Loan Association. Before that, Mr. Royer held positions as
19 general counsel for American Savings and Loan Association. He began his legal career at First
20 Federal Savings.
21

22 **IV. THE CHAPTER 11 CASE**

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

24 FRC was one of the nation's largest sub-prime lenders. Although FRC resold the vast
25 majority of all loans that it originated via "whole loan" sales, FRC remained obligated to repurchase
26 loans that it had sold if they experienced a payment default within a certain period of time after being
27 sold. FRC's loan repurchase obligations increased significantly in 2006.
28

1 A combination of loan repurchase losses and deterioration in the sub-prime loan market
2 caused FRC to experience significant erosion in its statutorily mandated capital ratios. Consequently,
3 on February 27, 2007, the FDIC provided the Debtor and FRC with a Cease and Desist Order, which
4 required the Debtor to take steps to improve FRC's Tier 1 capital ratio and significantly adjust and
5 improve its sub-prime lending practices. As a result of the Cease and Desist Order, FRC decided to
6 completely terminate all new sub-prime funding commitments on March 7, 2007, although it
7 continued to honor existing funding commitments made before March 7, 2007. FRC reached
8 agreements to sell its remaining residential and commercial real estate loan portfolios to third parties
9 during the first half of 2007.
10

11 Even after ceasing residential lending, disposing of residential and commercial loan
12 portfolios, completing the sale of significant portions of FRC's assets, and taking other steps to
13 comply with the Cease and Desist Order, the Debtor was not able to sufficiently repair the damage to
14 FRC's capital position caused by the sub-prime lending crisis. The FDIC issued a Supervisory
15 Prompt Corrective Action Directive (the "Directive") on March 26, 2008, which that gave the Debtor
16 sixty days to either recapitalize FRC or accept an offer for FRC to be acquired by another depository
17 institution. In order to comply with the Directive, the Debtor reached an agreement with
18 CapitalSource, Inc. ("CapitalSource"), where CapitalSource would agree to purchase substantially all
19 of FRC's principal assets and assume its deposits. Because the Debtor was a publicly traded entity, it
20 would have to comply with SEC proxy rules in order to complete the sale to CapitalSource.
21 However, given its dire financial condition, the Debtor determined that it would be unable to
22 complete an audit of its 2007 consolidated financial statements and required subsequent quarterly
23 financial statement reviews. Under SEC proxy rules, both of these items would have to be completed
24 before the Debtor could solicit shareholder approval of the CapitalSource Transaction. Given the
25 difficulties associated with completing a sale outside of bankruptcy, the Debtor determined that its
26 best option for completing the sale would be to seek protection under Chapter 11 of the Bankruptcy
27
28

1 Code and complete the sale. Accordingly, on June 18, 2008 (the “Petition Date”), the Debtor filed a
2 voluntary petition for relief under chapter 11 of the Bankruptcy Code. The Debtor has continued to
3 manage its Assets and properties as a debtor-in-possession pursuant to Bankruptcy Code sections
4 1107 and 1108.

5 As of the Petition Date, the Debtor’s books and records reflected that the Debtor’s common
6 stock was held by approximately 120 holders of record, with no person or entity holding more than
7 20% of the Debtor’s common stock. The Debtor’s common stock had been listed on the New York
8 Stock Exchange (“NYSE”) under the “FMT” symbol. On or about April 14, 2008, the NYSE
9 announced that the Debtor’s stock should be suspended prior to the opening of trading on April 17,
10 2008.
11

12 Also as of the Petition Date, the Debtor had two issues of debt securities outstanding. On
13 March 1, 1999, the Debtor issued its “Senior Notes,” in principal face amount of \$200,000,000. As
14 of the Petition Date, approximately \$176,400,000 in principal plus accrued interest was outstanding.
15

16 On March 6, 1996, the Debtor issued the Junior Notes to the Debtor’s wholly-owned
17 subsidiary, Fremont General Financing I, a Delaware business trust. Fremont General Financing I in
18 turn issued preferred securities that had been traded on the NYSE under the symbol “FMTPR.”
19 Generally, the Debtor would make payments on account of the Junior Notes to Fremont General
20 Financing and Fremont General Financing would make distributions to the ~~holders~~holders of the
21 TOPrS. As of the Petition Date, the Debtor’s books and records reflected that approximately \$103
22 million in principal amount plus interest of ~~Trust Preferred Securities (“TOPrs”)~~TOPrS remained
23 outstanding.
24

25 **B. Significant Events During the Chapter 11 Case**

26 **1. Retention of Debtor’s Professionals and Agents**

27 After filing its petition for reorganization, the Debtor retained the law firm of Patton Boggs
28 LLP, as reorganization counsel, effective as of June 18, 2008. The Debtor also retained the law firm

1 of Stutman, Treister & Glatt, PC, to assist Patton Boggs in rendering bankruptcy-related services to
2 the Debtor. The Bankruptcy Court approved the Debtor's employment of these professionals,
3 effective as of the Petition Date, pursuant to orders entered on September 29, 2008.

4 The Debtor has also retained (i) FTI Consulting, Inc. ("FTI") to provide interim management
5 and management assistance to the Debtor, (ii) the law firms of Willenken, Wilson, Loh & Lieb, LLP,
6 Epstein Becker & Green, PC and The Caldwell Law Firm as special litigation counsel, and (iii)
7 KPMG Corporate Finance LLC ("KPMGCF") as the Debtor's exclusive financial advisor in
8 conjunction with a contemplated transaction that could form the basis for a plan of reorganization.

9 The Debtor has also retained Squar, Milner, Peterson, Miranda & Williamson, LLP and Ernst
10 & Young, LLP as the Debtor's independent accountant and auditor.

11
12 **2. Appointment of the Creditors' Committee and Equity Committee**

13 **On July 1, 2008, the U.S. Trustee appointed an official committee of creditors holding**
14 **unsecured claims against the Debtor (the "Creditors' Committee")** to represent the interests of the
15 general unsecured creditors of the Estate. The members of the Creditors' Committee are: (1)
16 Tennenbaum Multi-Strategy Master Fund, which serves as the chair; (2) HSBC Bank USA, N.A., the
17 Indenture Trustee for holders of the Debtor's 7.875% Senior Notes; (3) Wells Fargo Bank, N.A., as
18 successor trustee to the Bank of New York Trust Company, N.A., the Indenture Trustee for holders
19 of the Debtor's 9% Junior Subordinated Debentures; (4) Dennis & Loretta Danko Family Trust; and
20 (5) Rita Angel. In addition, Howard Amster and Roark, Rearden & Hamot Capital Management
21 serve as "ex officio" members of the Creditors Committee.
22

23 The Creditors Committee has employed Klee, Tuchin, Bogdanoff & Stern LLP ("Klee
24 Tuchin") as its counsel, the Solon Group, Inc. ("Solon") as its financial advisor on a limited basis in
25 the Case, and Bocarsly Emden Cowan Esmail & Arndt LLP ("Bocarsly") as its tax advisor.
26

27 On July 8, 2008, the U.S. Trustee appointed the Equity Committee to represent the interests of
28 the equity Holders. The initial members of the Equity Committee were: (1) John M. Koral; (2)

1 William M. Stern; (3) Paul Dagostino; (4) William Holmes; (5) Frank E. Williams, Jr.; (6) Jeffrey M.
2 Pies; (7) Lynn Ehlers; (8) John M. Mlynick; and (9) Jonathan Siegal. The latter two later resigned
3 from the Equity Committee. The Equity Committee has employed, with the Bankruptcy Court's
4 approval, Weiland Golden as its counsel and CRG as its financial advisor.

5 **3. Consummation of the CapitalSource Transaction**

6 **Within a week of the Petition Date, the Debtor filed its Motion for Order Authorizing**
7 **the Debtor to Use the Shares of Non-Debtor Subsidiary to Consummate the CapitalSource**
8 **Transaction (the "CapitalSource Motion"),** which sought entry of an order authorizing the Debtor,
9 as sole shareholder, to use its shares of a non-debtor subsidiary to consummate the CapitalSource
10 Transaction. Following a hearing on July 17, 2008, the Court entered an order approving the
11 CapitalSource Motion, which order was supported by accompanying Findings of Fact and
12 Conclusions of Law.

13
14 The CapitalSource Transaction closed on or about July 25, 2008, and FRC subsequently
15 surrendered its banking charter to the state of California and changed its name from Fremont
16 Investment & Loan to Fremont Reorganizing Corporation. As a result of the CapitalSource
17 Transaction — which both the Creditors' Committee and the Equity Committee supported — seizure
18 of FRC by the FDIC was avoided and significant value was preserved for all stakeholders.

19
20 **4. The Order Limiting Transfers of Equity**

21 On the Petition Date, the Debtor filed an emergency motion for an order limiting certain
22 transfers of Equity Interests in the Debtor. The motion was filed because the Debtor's consolidated
23 federal corporate income tax return for 2007 reflect NOLs of \$695,469,659 that, if preserved, could
24 yield a tax benefit of more than \$200 million. However, the Debtor was concerned that unregulated
25 postpetition trading of the Debtor's equity interests could reduce or eliminate the value of the NOLs
26 that it thought might be critical to its reorganization. Accordingly, the Debtor sought an order
27 limiting and tailoring restrictions on trading and requiring the Debtor to receive advance notice of any
28

1 transfers that could have the effect of jeopardizing the NOLs. The Court granted the requested relief
2 with an order that was entered on June 19, 2008.

3 **5. Insider Compensation**

4 During the Case, the Debtor sought Court approval of the post-petition compensation of its
5 current and past officers and directors, including Stephen H. Gordon, David S. DePillo, Donald E.
6 Royer, Richard A. Sanchez, and Thea K. Stuedli. The Court approved a stipulation on September 15,
7 2008, that set the post-petition compensation for each of these officers or directors and established a
8 mechanism for apportioning the executive compensation cost among the Debtor and FRC.
9

10 **6. Establishment of General Bar Date and Filing of Claims**

11 On September 4, 2008, pursuant to a Stipulated Order Regarding the Claims Bar Date, the
12 Court established November 10, 2008, as the general claims bar date for all Persons other than
13 governmental units to file proofs of Claim or Equity Interests arising prior to the Petition Date,
14 pursuant to section 501 of the Bankruptcy Code, and (2) December 15, 2008, as the claims bar date
15 for governmental units to file pre-petition Claims.
16

17 Over 900 Proofs of Claim have been filed against the Debtor, including a limited number after
18 the Claims Bar Date. Based on its preliminary review, it appears that many of these asserted Claims
19 are invalid and/or inflated and, ultimately after Claims objection litigation, the aggregate Claims
20 amounts should be significantly reduced.

21 **7. Relief from Stay Motions — McIntyre,**
22 **Faigin, and The Bank of New York Mellon**

23 During the Case, two of the Debtor's former Officers, James A. McIntyre and Alan C. Faigin
24 filed motions seeking relief from the automatic stay under Bankruptcy Code section 362. Former
25 CEO McIntyre sought relief from the automatic stay to allow him to pursue litigation requiring the
26 Debtor to hold a shareholder's meeting. After conducting a hearing on the matter, the Bankruptcy
27 Court entered an order on October 24, 2008, denying, without prejudice, McIntyre's motion to lift the
28

1 stay.

2 Former General Counsel Faigin filed a motion to lift the automatic stay in order to pursue
3 state court litigation against the Debtor and FRC under a theory that both entities were jointly liable
4 for amounts that were still allegedly owed to Faigin under his pre-petition employment contract with
5 the Debtor. Although the Debtor, but not FRC, was a party to Faigin's employment contract, Faigin
6 had attempted to pursue arbitration against FRC, which is not a debtor in bankruptcy, under a theory
7 that both Debtor and FRC were joint employers of Faigin. The Bankruptcy Court entered an order on
8 December 24, 2008 allowing Faigin's litigation against FRC to proceed on the condition that Faigin
9 amend his complaint to remove all allegations against the Debtor and refrain from seeking discovery
10 from the Debtor in connection with the state court litigation. The Debtor has entered into stipulation
11 whereby Faigin dismissed ~~his~~ [his](#) claims in Adversary Proceeding No. 08-1256 with prejudice as to all
12 defendants other than the Debtor and without prejudice as to the Debtor. [In November, 2009, Faigin](#)
13 [filed a motion to lift the automatic stay with respect to discovery in that state court litigation.](#)
14

15
16 **8. Engagement of KPMG Corporate Finance**
and the Attempts to Negotiate a Consensual Plan

17 On January 6, 2009, the Bankruptcy Court approved the engagement of KPMG Corporate
18 Finance LLC ("KPMGCF"), a subsidiary of KPMG LLP (UK), as the Debtor's financial advisor to
19 locate potential acquirers of the Debtor who might act as a sponsor in a potential plan of
20 reorganization. In connection with this engagement, KPMGCF distributed marketing materials
21 informing potential investors of the opportunity to act as the sponsor of the Debtor's plan of
22 reorganization.
23

24 As a result of KPMGCF's marketing efforts, 26 parties entered into non-disclosure
25 agreements and were provided access to information about the Debtor and its management.
26 Ultimately, the Debtor received six non-binding letters of intent from interested third parties.
27

28 In Spring 2009, the Debtor evaluated each of these proposals to determine whether the

1 implementation of any of such proposals through a plan of reorganization was viable and consulted
2 with the committees to determine their positions. Neither of the Committees adopted any of the
3 proposals. Ultimately, the Debtor proposed its own plan.

4 New World has been advised that KPMGCF may claim a transaction fee in excess of \$1
5 million in connection with the New World Plan based on ~~the Exit Financing~~, the Warrants and the
6 New World equity purchase. New World reserves all rights with respect to such claims.
7 Notwithstanding the reservation of rights with respect to any additional fees claimed by KPMGCF,
8 New World has included transaction fee of \$850,000 in its Projections in its estimate of Professional
9 Fees.
10

11 **9. Exclusivity**

12 Pursuant to the Bankruptcy Code, a debtor-in-possession, has 120 days from the date of the
13 filing of its Chapter 11 petition with the Bankruptcy Court in which to file a plan of reorganization,
14 subject to Bankruptcy Court's authority to grant extensions of this exclusive period for cause. During
15 this exclusive period no other person or entity is permitted to file a plan of reorganization. The
16 Debtor obtained an extension of its exclusive periods to June 1, 2009, to propose its plan and
17 September 1, 2009, to solicit votes on the plan. Although the Debtor filed its plan, the Creditors'
18 Committee filed a motion to terminate exclusivity that was set for a hearing on July 14, 2009. The
19 Equity Committee joined in that motion and the Court granted the motion and terminated exclusivity
20 effective July 17, 2009. Both the Creditors' Committee and the Equity Committee have filed plans
21 [and additional plans have filed by various parties.](#)
22

23 **10. Settlement of Claims and Litigation**

24 During the course of the Case, the Debtor has achieved settlements of various matters. In
25 some instances, the Debtor has negotiated final terms of settlement, subject only to obtaining
26 Bankruptcy Court approval. The following narrative describes the more significant settlements.
27

28 a) California Insurance Commissioner

1 In June 2004, the California Insurance Commissioner (the “CIC”), as Indemnity’s statutory
2 liquidator, sued the Debtor and FCIG in state court, alleging that they improperly utilized net
3 operating loss deductions (“NOLs”) allegedly belonging to Indemnity (the “NOL Case”). In 2005,
4 the CIC filed another complaint against the Debtor and others on behalf of Indemnity as successor in
5 interest to Comstock Insurance Company (“Comstock”), a former affiliate of Indemnity that was
6 subsequently merged into Indemnity. That case alleged similar causes of action regarding the
7 utilization of NOLs as well as assertions of improper transactions with other insurance subsidiaries
8 and affiliates of Indemnity (the “Comstock Action”). In 2008, FRC was added as a defendant in both
9 the NOL Case and the Comstock Action.
10

11 As a result of disputes as to whether Indemnity, which is in liquidation, and its subsidiaries
12 could be considered part of the Debtor’s consolidated taxpayer group for federal income tax
13 purposes, the CIC requested that the IRS issue a private letter ruling to resolve the dispute. The IRS
14 issued it on July 26, 2006, and based on that ruling, the CIC has taken the position that Indemnity and
15 its subsidiaries should be included in the Debtor’s consolidated taxpayer group, and the Debtor has
16 maintained its objection to such tax treatment (the “Tax Deconsolidation Dispute”).
17

18 The CIC also filed a lawsuit in California state court asserting on behalf of Indemnity claims
19 of ownership to substantial portions of artwork, including any related proceeds from the sale of that
20 artwork, that were at any time in the possession or control of the Debtor or its affiliates. The Debtor
21 removed that action to the Bankruptcy Court on July 11, 2008, and it remains pending as case number
22 08:08-ap-01258-ES (the “Art Adversary Dispute”). The claims are being asserted against the Debtor,
23 FRC, and four current or former employees of the Debtor.
24

25 In connection with these various adversary proceedings, the CIC filed four claims with the
26 Bankruptcy Court, asserting the claims set forth in the NOL Case, the Comstock Action, the Art
27 Adversary Dispute, and the Tax Consolidation Dispute. Collectively, the liquidated amounts of these
28 asserted claims exceed \$489 million, and also included unliquidated amounts.

1 In April 2009, the Debtor, FRC, and FCIG (together, the “Fremont Entities”) and the CIC, in
2 its capacity as the statutory liquidator or Indemnity and the statutory conservator of Life, entered into
3 a stipulation agreement that settled their disputes (the “CIC Stipulation”). In the CIC Stipulation, the
4 Fremont Entities and the CIC agreed to the following:

5 (1) Tax Issues: Within 20 days of the CIC Stipulation’s effective date, the Fremont
6 Entities will take the appropriate action to document that Indemnity has been deconsolidated from the
7 group of affiliates of the Debtor that elect to participate in a consolidated federal taxpayer group so
8 that Indemnity can use any NOLs generated by Indemnity on or after January 1, 2003, on its own tax
9 returns. In addition, the Debtor has agreed to cooperate with the CIC in the preparation, filing,
10 approval, and consummation of the statutory liquidation case involving Indemnity.

11 (2) Life Stock. On the effective date of the CIC Stipulation, FCIG, as the ~~holder~~Holder
12 of all of Life’s issued and outstanding stock, will transfer all of its right, title, and interest in the
13 stock of Life to the Commissioner.

14 (4) Proofs of Claim. On the effective date of the CIC Stipulation, each of the proof of
15 claim filed by the CIC in the Debtor’s case will be withdrawn, disallowed, and expunged with
16 prejudice. The CIC will be allowed a \$5 million general unsecured claim in the Debtor’s Case, and
17 this claim will be the sole and exclusive right to payment by CIC, Indemnity, and Life from the
18 Debtor’s bankruptcy estate, except with respect to the D&O Case described below.

19 (5) Art Adversary Dispute. On the effective date of the CIC Stipulation, the CIC will
20 receive \$4.1 million of the funds presently held in escrow that are attributable to the sale of certain of
21 the Debtor’s artwork. The Debtor will receive the remaining proceeds held in the escrow account
22 (approximately \$300,000) and ownership rights to all of the remaining artwork, including any future
23 proceeds from the sale or disposition of such artwork.

24 (6) Cash Payment. On the effective date of the CIC Stipulation, FRC will pay to
25 Indemnity \$5.0 million.
26
27
28

1 (7) Dismissal of Pending Litigation. As soon as possible after the effective date of the
2 CIC Stipulation, the CIC will dismiss with prejudice all of the actions mentioned above, including
3 any counterclaim or cross complaint filed therein, and the Fremont Entities will dismiss with
4 prejudice any claims filed in connection with Indemnity's statutory liquidation case.

5 (8) Releases. Except for the agreements and obligations set forth in the CIC Stipulation,
6 CIC, Indemnity, Life, and the Fremont Entities will give each other mutual releases of the claims set
7 forth in the actions described above.
8

9 The Debtor filed a motion to approve the CIC Stipulation pursuant to FRBP 9019 (a) in April
10 2009, and the motion was approved at a hearing held on May 14, 2009. The CIC Stipulation has also
11 been approved by the two necessary state court and the settlement is essentially final.

12 b) Massachusetts Attorney General

13 The Debtor and FRC were also subject to ongoing litigation in the Massachusetts Superior
14 Court in Suffolk County ("MA Superior Court") brought by the Attorney General for the
15 Commonwealth of Massachusetts (the "Commonwealth") based upon alleged consumer protection
16 violations stemming from FRC's lending practices in connection with the origination and servicing of
17 residential mortgage loans made to Massachusetts residents. The complaint sought injunctive and
18 equitable relief and civil penalties. Since February 2009, the Debtor and FRC have been operating
19 under a preliminary injunction issued by the MA Superior Court, as modified in March 2008, that
20 enjoined the Debtor and FRC from foreclosing on certain of the loans made to Massachusetts
21 residents absent the approval of the MA Superior Court. The preliminary injunction also prevented
22 the Debtor and FRC from selling, transferring, or assigning any of these Massachusetts residential
23 loans unless certain conditions were met. This litigation appeared to be outside the scope of the
24 exemptions to the automatic stay pursuant to 11 U.S.C. § 362(b)(4).
25
26

27 In April 2009, after comprehensive settlement discussions, the Commonwealth, the Debtor,
28 and FRC entered into a Final Judgment by Consent (the "Final Judgment"). Pursuant to the Final

1 Judgment, FRC will pay \$10 million to the Commonwealth on the effective date of the Final
2 Judgment. If neither FRC nor FGCC is the subject of a bankruptcy proceeding as of a date that is
3 about 95 days after the effective date of the Final Judgment and no court has determined that either
4 the Debtor or FRC has violated any of the terms of the Final Judgment, then the Commonwealth will
5 withdraw with prejudice the \$20 million proof of claim that it filed in the Debtor's Case. If either
6 FRC or FGCC is in a bankruptcy proceeding on such date, then the Commonwealth may void the
7 Final Judgment and refund the \$10 million.
8

9 If the Final Judgment becomes effective, then the preliminary injunction will be modified and
10 will become a permanent injunction that will apply to loans to Massachusetts residents or to loans
11 secured by property in Massachusetts. The permanent injunction; requires the Debtor or FRC to
12 provide the Massachusetts Attorney General with prior notice before initiating or advancing a
13 foreclosure on any such mortgage loan originated by FRC. If the Attorney General does not provide
14 a written objection, then the Debtor or FRC may proceed with the foreclosure. If there is a written
15 objection, then the parties will follow the resolution procedures set forth in the Final Judgment. In
16 addition, before the Debtor or the FRC can sell, transfer, or assign any mortgage loan originated by
17 FRC that is secured by any residential property in Massachusetts, they must (1) provide the Attorney
18 General with prior notice; (2) a purchaser or assignee from the FRC must agree to be bound by the
19 foreclosure and sale restrictions in the permanent injunction, and (3) a copy of the written assignment
20 must be provided to the Attorney General. In exchange for this agreement, upon entry of the Final
21 Judgment by the MA Superior Court, the Commonwealth will release the Debtor and FRC from the
22 claims set forth in the Massachusetts Action.
23
24

25 The Debtor sought Court approval of the Final Judgment pursuant to FRBP 9019(a) in April
26 2009, and that was approved at a hearing on May 14, 2009. ~~The Equity Committee believes that~~
27 ~~all~~All conditions to the effectiveness of the Final Judgment have occurred and the settlement has been
28 consummated.

1 c) Enron

2 In April 2009, the Debtor entered into a stipulation and agreement (the “Enron Stipulation”)
3 with Enron Creditors Recovery Corporation (“Enron”) to settle the litigation described below and to
4 resolve a proof of claim in the approximate amount of \$25.5 million that Enron filed against the
5 Debtor in the Case.

6 On December 2, 2001, Enron and certain affiliates filed voluntary petitions for relief under
7 chapter 11 of the Bankruptcy Code in the United States Bankruptcy Court, Southern District of New
8 York (the “Enron Court”). Before that date, Enron issued unsecured commercial paper to various
9 entities, including the Debtor. The commercial paper had maturities of up to 270 days. In a series of
10 transfers, Enron allegedly paid over \$1 billion to various entities, including \$25,426,521.66 to the
11 Debtor, on account of the commercial paper prior to their stated maturity. In November 2003,
12 representatives of Enron’s bankruptcy estate filed avoidance actions in the Enron Court against the
13 Debtor and various defendants, contending that the payments were avoidable and recoverable under
14 the Bankruptcy Code. In settlement of that dispute, Enron and the Debtor agreed to the following:
15

16 (1) Allowed General Unsecured Claim. Enron will be allowed for purposes of voting
17 on any plan proposed in the Case and receiving Distributions a general unsecured claim against the
18 Debtor in the amount of \$4.0 million (the “Allowed Enron Claim”). However, upon Enron’s actual
19 receipt of Distributions from the Debtor’s bankruptcy estate of \$2.0 million, the Allowed Enron
20 Claim will be deemed satisfied in full and Enron will have no further right to any Distributions from
21 the Debtor’s bankruptcy estate. The Allowed Enron Claim is the only right to payment that Enron
22 will have against the Debtor’s bankruptcy estate.
23

24 (2) Dismissal of the Avoidance Action. After the effective date of the agreement, Enron
25 has agreed to dismiss the avoidance action with prejudice as to the Debtor, with each party bearing its
26 own attorney’s fees and costs.
27

28 (3) Releases. On the effective date and except for the agreements and obligations

1 arising from the settlement, Enron and the Debtor will exchange mutual general releases of all claims
2 they may hold against one another.

3 Both the Bankruptcy Court and the Enron Court have approved the settlement agreement.

4 d) The Rampino Litigation and Associated
5 Defendants' Wages SERP, and Indemnification Claims

6 In October 2006, the CIC, as the statutory liquidator of Indemnity, filed a first amended
7 complaint in Los Angeles Superior Court against seven former officers and directors of the Debtor or
8 Indemnity (together, the "Rampino Defendants"), alleging that they breached their fiduciary duties by
9 allowing Indemnity to engage in an inappropriate underwriting scheme that caused injury to
10 Indemnity's reinsurers, which in turn injured Indemnity by settlements it made with those reinsurers
11 (the "D&O Case"). Although neither the Debtor nor any affiliates are defendants in the D&O Case, it
12 is possible that the Debtor could have indemnification obligations to some or all of the Rampino
13 Defendants. After the Debtor filed its bankruptcy petition, each of the Rampino Defendants filed at
14 least one claim based on, among other things, the contention that the Debtor is obligated to indemnify
15 each of them for any settlement amounts or judgment that might be entered against them in the D&O
16 Case.'

17
18 In May 2009, the Debtor entered into a stipulation (the "Rampino Stipulation") with the
19 Rampino Defendants and the CIC to settle the outstanding litigation and to resolve fifteen proof of
20 claims that together asserted liquidated amounts in excess of \$27 million and that also contained
21 substantial contingent and unliquidated components. A summary of the Rampino Stipulation is as
22 follows:
23

24 (1) Allowed General Unsecured Claim of CIC. The CIC will be allowed, for voting and
25 Distribution purposes, a general unsecured claim in the amount of \$35 million. However, after the
26 CIC's actual receipt of Distributions from the Debtor's bankruptcy estate totaling \$22 million, the
27 claim will be deemed to be satisfied in full and the CIC will have no further right to any distributions
28

1 from the Debtor's bankruptcy estate on account of the D&O Case. This claim is in addition to the \$5
2 million General Unsecured Claim allowed the CIC for the unrelated settlement discussed above.

3 (2) Final Disallowance of Proof of Claims. Each of the Rampino Defendants' proofs of
4 claim will be deemed to have been withdrawn or disallowed with prejudice.

5 (3) Allowed General Unsecured SERP Claims. Four of the seven defendants will each
6 be allowed for purposes of voting and distribution purposes a general unsecured claim against the
7 Debtor in amounts ranging from \$2.3 million to \$5.6 million. However, once they actually receive
8 distributions in specific, lesser amounts ranging from \$1.42 million to \$3.47 million, their Claims
9 will be deemed to have been satisfied in full and they will have no further rights to Distributions or
10 payments from the Debtor's bankruptcy estate. They will also have no right to Distributions or
11 payments from the Fremont General Corporation Supplemental Executive Retirement Plan or the
12 Fremont General Corporation Supplemental Executive Retirement Plan II.

13 (4) Dismissal of Litigation. After the effective date of the Rampino Stipulation, CIC
14 and Indemnity will dismiss the D&O Case with prejudice, and Mr. Bailey, Mr. Rampino, and Mr.
15 McIntyre will dismiss their respective adversary proceedings that are pending in the Bankruptcy
16 Court to be dismissed with prejudice against all defendants other than the Debtor. With respect to the
17 Debtor, the dismissal is conditioned upon their receiving payment on account of their allowed general
18 unsecured claims.

19 (5) Releases. Except for the agreements and obligation arising under the Rampino
20 Stipulation, the parties will execute mutual general releases, except that the Rampino Defendants are
21 not releasing any claims that they may have against the Debtor as a result of ownership of the
22 Debtor's common stock or other securities of the Debtor or its affiliates. In addition, no one is
23 releasing any claims that they may hold against any insurance policy issued by any insurer of any of
24 the parties.

25 The hearing on approval of the Rampino Stipulation was held on June 11, 2009, and the order
26
27
28

1 approving the Rampino Stipulation was entered on June 18, 2009. With the settlement of the Faigin
2 adversary proceeding described above, the SERP litigation is closed as of this date.

3 e) Other Settled and Resolved Claims

4 The Debtor and FRC entered into an agreement with Credit Suisse to provide for the payment
5 and resolution of a proof of claim in excess of \$2 million filed by Credit Suisse, which agreement
6 was approved by the Court pursuant to Federal Rule of Bankruptcy Procedure 9019(a).

7 The Debtor entered into a stipulation providing for the withdrawal with prejudice of 86
8 separate proofs of claim filed by the plaintiffs in the so-called Scheid action, which stipulation was
9 approved by the Court.

10 The Debtor and FRC agreed to settle their affirmative claims against BlackRock, Inc., Private
11 National Mortgage Acceptance Company, LLC, and John Lawrence, which agreement was also
12 approved by the Court pursuant to Federal Rule of Bankruptcy Procedure 9019(a).

13 f) Settlement With Bank of New York Mellon

14 The Debtor has also resolved a proof of claim The Bank of New York Mellon (“BNY”) filed
15 against the Estate which asserts a Claim of approximately \$20.1 million arising out of a prepetition
16 lawsuit against the Debtor styled as *Bank of New York v. Fremont General Corporation*, Case No.
17 CV-03-09238-CAS, United States District Court for the Central District of California. The litigation
18 generally involved a dispute over a custodial account of Fremont Indemnity established for the
19 benefit of workers compensation claimants from which BNY alleged the Debtor wrongfully
20 withdrew funds. The Debtor and BNY executed a settlement stipulation pursuant to which BNY was
21 granted an Allowed Claim of \$10 million that may be deemed satisfied by receipt of payments (i)
22 totaling \$6.5 million if such amount is received by BNY by October 31, 2009 or (ii) totaling \$7
23 million if such amount is received by BNY by June 30, 2010, BNY’s pending action against the
24 Debtor will be dismissed and the parties exchanged general mutual releases, subject to certain
25 exceptions. On August 4, 2009, the Debtor filed its *Motion for Order Approving Stipulation Between*
26
27
28

1 *the Debtor and The Bank of New York* [Docket No. 853] seeking approval of settlement with Bank of
2 New York Mellon. On September 28, 2009, the Bankruptcy Court entered an order approving the
3 settlement. The Allowed Claim of BNY will be treated as an Allowed General Unsecured Claim in
4 Class 3A, subject to the terms of the settlement governing the satisfaction of such Claim.

5 g) The Examiner Motion

6 On or about September 30, 2009, John Mlynick and Andre Mutchnik sought appointment of
7 an examiner to, inter alia, investigate alleged improprieties on the part of the Debtor's management
8 with respect to discounts offered by certain creditors for prompt payment outside of a plan.

9 After a hearing on December 3, 2009, the Bankruptcy Court granted the motion for
10 appointment of an examiner pursuant to 11 U.S.C. 1104 (c)(2) with limited scope to investigate the
11 following matters: 1. whether Tennenbaum Capital partners at any time offered Debtor to discount(s)
12 of its claim in exchange for prompt payment of its claim by or before 10/31/2009 either within or
13 outside a confirmed Chapter 11 Plan; 2. Whether Bank of New York at any time offered debtor
14 discounts(s) of its claim in exchange for prompt payment of its claim prior to 10/31/2009 outside a
15 confirmed plan; 3. If the answer to either Tennenbaum or Bank of New York is "no," the
16 investigation as the particular entity will be deemed completed; if the answer to either question 1 or 2
17 is "yes," the investigation shall continue as to the entity(ies) for whom the answer is in the affirmative
18 as follows: (a) whether there were any legal means by which Debtor could have taken advantage of
19 the discount(s), (b). If so, whether there is evidence to support the position that Debtor breached
20 fiduciary or other duties to the estate by failing to take advantage of the discount, and (c) if Debtor
21 breached any duties, what are the likely damages suffered by the estate? The examiner shall file and
22 serve on movants, the UST and all parties appearing the hearing a written report of his/her findings
23 within 30 days of the effective date of his/her appointment. The examiner shall be authorized to
24 interview parties/persons and review all documents, pleadings, reports, and other papers necessary to
25 investigate the matters noted above and to report on his/her conclusions. All parties and professionals
26
27
28

shall, upon reasonable request, provide the examiner with all documents relating to the purpose of this order and cooperate with the examiner in his/her investigation. Deny as to request for appointment of a Chapter 11 Trustee

On or about December 21, 2009, the U.S. Trustee appointed Leonard Gumport to serve as the examiner and sought approval of the appointment from the Bankruptcy Court.

11. Allowance of Fees and Costs of Professionals Employed by the Debtor, the Creditors' Committee, and the Equity Committee

In connection with the retention of the professionals employed by the Debtor, the Creditors' Committee, and the Equity Committee, the Court approved interim fee procedures. With the exception of certain professionals whose compensation is subject to different procedures, professionals are eligible to receive payment of 80% of their monthly fees and 100% of their monthly costs, provided that no objection is timely filed and served in connection with their monthly fee statements. Such professionals may request and receive payment of the "hold back" amounts at interim or final fee hearings.

Kurtzman Carson Consultants, retained by the Debtor, is paid in full on a monthly basis by the Debtor under a separate procedure. KPMG has also been compensated differently, receiving a monthly retainer of \$25,000 until its retention is terminated by the Debtor, and it is entitled to receive an additional transaction fee if a plan sponsored by a third-party plan proponent becomes effective.

Below is a chart that summarizes the fees and costs incurred and requested by the professionals through March 31, 2009. The first interim period ran from June 18, 2008, through November 30, 2008 (the "First Interim Period"). The second interim period ran from December 1, 2008, through March 31, 2009.

Professional	Retainer	Fees Requested in First Interim Period	Costs Requested in First Interim Period	Unpaid Portion from First Interim Period	Fees Requested in Second Interim Period	Costs Requested in Second Interim Period	Unpaid Portion from Second Interim Period
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Professional	Retainer	Fees Requested in First Interim Period	Costs Requested in First Interim Period	Unpaid Portion from First Interim Period	Fees Requested in Second Interim Period	Costs Requested in Second Interim Period	Unpaid Portion from Second Interim Period
Klee Tuchin	N/A	\$652,229	\$32,129	\$0	\$571,868	\$11,265	\$113,829
Stutman Treister	\$116,314	\$978,456	\$46,882	\$0	\$746,501	\$20,267	\$149,300
Patton Boggs	\$250,000	\$1,459,565	\$37,427	\$0	\$608,329	\$29,686	\$121,665
FTI	\$500,000	\$909,964	\$132,132	\$0	\$429,651	\$39,4611	\$85,930
Weiland Golden	N/A	\$391,820	\$10,046	\$0	\$213,573	\$467	\$43,118
Solon Group	N/A	\$25,285	\$0	\$0	\$10,452	\$0	\$0
CRG Partners	N/A	\$87,100	\$105	\$0	\$20,362	\$0	\$0
Epstein Becker	N/A	\$238,524	\$12,720	\$0	\$619,720	\$18,070	\$0
Willenken Wilson	N/A	N/A	N/A	N/A	\$5,351	\$8	\$0
Caldwell Law Firm	N/A	N/A	N/A	N/A	\$17,508	\$0	\$0

Since the end of the Second Interim Period, the professionals have continued to incur fees and expenses. From April 1, 2009, through July 31, 2009, the interim fee applications submitted by the professionals seek payment of the following fees and expenses, with the unpaid portion for this time period as indicated below:

Professional	Retainer	Fees	Expenses	Unpaid Portion
Klee Tuchin	N/A	\$795,297	\$14,392	\$159,059
Stutman Treister	N/A	\$848,468	\$41,878	\$169,727
Patton Boggs	N/A	\$663,712	\$18,274	\$137,742
FTI	N/A	\$428,263	\$25,780	\$156,710
Weiland Golden	N/A	\$328,808 <u>\$330,157</u>	\$1,2173,835.44	\$65,762
Solon Group	N/A	\$36,465	\$0	\$29,947
CRG Partners	N/A	\$108,361	\$1,086	\$50,225
Epstein Becker	N/A	\$57,787	\$4,519	\$11,557
Willenken Wilson	N/A	\$11,963	\$91	\$12,054

Professional	Retainer	Fees	Expenses	Unpaid Portion
Caldwell Law Firm	N/A	\$104,227	\$6,291	\$20,855
Squar Milner	\$100,000	\$57,546	\$0	\$57,546
Bocarsly Emden	N/A	\$28,375	\$158	\$5,675
Ernst & Young	N/A	\$48,600	\$0	\$9,270

[The Bankruptcy Court has entered orders approving certain of these applications and authorized payment of half the unpaid amount.](#) The above professionals will continue to incur fees and expenses through Confirmation of the Plan.

V. LITIGATION AND CAUSES OF ACTION

A. Litigation Commenced Pre-Petition

As of the Petition Date, the Debtor was involved in certain litigation and other actions set forth in the Bankruptcy Schedules, the most material of which are discussed above.

B. Post-Petition and Other Potential Causes of Action

1. In General

Since the Petition Date, the Debtor has prosecuted or defended adversary proceedings that are connected with this Chapter 11 case. In some instances, the Debtor removed civil actions that were pending in other courts on the Petition Date to the Bankruptcy Court. The discussion in this Section is for general informational purposes only. Nothing herein is intended nor should be construed to be an admission or acknowledgement of any matter and all parties reserve all of their respective rights with respect to any potential and/or actual claims against any Persons.

2. Adv. Pro. No. 8:08-ap-01256-ES and Adv. Pro No. 8:09-ap-01103-ES: the SERP Actions

This adversary proceeding involves certain claims asserted against the Debtor arising from two supplemental executive retirement plans, or "SERPs." The Debtor removed this proceeding from California state court to this Court on July 7, 2008. The Debtor filed a motion to dismiss the plaintiffs complaint. The plaintiffs have filed a second amended complaint,

1 A second set of plaintiffs filed the separate adversary proceeding No. 8:09-ap-01103-ES,
2 *Bailey v. Fremont General Corporation, et al.* This proceeding was brought by two former executive
3 employees of the Debtor, Wayne Bailey and Louis Rampino, and involves certain ERISA claims
4 asserted against the Debtor related to two supplemental executive retirement plans.

5 The Rampino Stipulation described above and the Faigin stipulation described above resolves
6 these adversary proceedings with respect to all plaintiffs at this time.

7
8 **3. Adv. Pro. No. 8:08-ap-01258-ES: The Art Action**

9 This proceeding involves the California Insurance Commissioner's asserted ownership
10 interests in certain artwork and related proceeds (the "Art Action"). This proceeding was removed
11 from California state court to this Court by the Debtor on July 11, 2008. The Art Action was settled
12 and, as described above, the settlement was approved by the Court.

13
14 **4. Adv. Pro. No. 8:08-ap-01418-ES: The Insurance Action**

15 This proceeding involves the Debtor and FRC's rights to coverage under certain insurance
16 policies issued by the Federal Insurance Company (the "Insurance Action"). This proceeding was
17 commenced by the Debtor and FRC on October 20, 2008 and remains pending before the Court.

18
19 **5. Adv. Pro. No. 8:08-ap-01470-ES: The Mover Action**

20 This proceeding involves the Debtor's claims against National Relocation Services, Inc.,
21 Mike Garrett, and other parties in connection with the misappropriation of certain furniture, fixtures,
22 and equipment from the Debtors Water Garden location (the "Mover Action"). This proceeding was
23 commenced by the Debtor on November 20, 2008, and a motion to amend the complaint ~~is currently~~
24 ~~pending~~ [was granted in August 2009.](#)

25
26 **6. ERISA Class Action**

27 In 2007, six complaints seeking class certification were filed in the United States District
28 Court, Central District of California, against the Debtor and various officers, directors, and
employees by participants in the Debtor's Investment Incentive Plan 401(k) and Employee Stock

1 Ownership Plan, alleging violations of the Employee Retirement Income Security Act of 1974
2 (“ERISA”) in connection with stock in the Debtor held by the Plans (the “ERISA Action”). The six
3 complaints have been consolidated in a single proceeding.

4 The plaintiffs in the ERISA Action contend that their claims are not subject to subordination
5 and contend that to the extent that their claims exceed available insurance coverage, they should be
6 classified and treated as Class 3A General Unsecured Claims. New World disagrees and believes
7 that to the extent that the ERISA Action claims become Allowed Claims, they should be classified
8 and treated as Class 5 Section 510(b) Claims. In addition, the Plaintiffs in the ERISA Action contend
9 that their claims are covered under available insurance policies up to \$100 million. Plaintiffs in the
10 ERISA Action have stated their intention to file a motion to lift the automatic stay and a motion to
11 withdraw the reference so that their claims may continue to be prosecuted against the Debtor in the
12 District Court in the ERISA Action. The Debtor recently reached an agreement with the plaintiffs
13 that modified the automatic stay to allow their claims to go forward in the United States District
14 Court and realize any judgment from available insurance. Any Claim in excess of insurance would
15 be satisfied, if Allowed, as a Section 510(b) Claim.
16
17

18 **7. The Securities Class Action (Al-Beitawi V. Fremont General**
19 **Corp., Consolidated Securities Complaint, Case No. CV07-05756)**

20 In September 2007, three separate complaints seeking class certification were filed in the
21 United States District Court, Central District of California, against the Debtor and various officers
22 and directors alleging violations of federal securities laws in connection with published statements by
23 the Debtor regarding its loan portfolio and loans held for resale during the period from May 2006
24 through February 2007. The three class action lawsuits were consolidated into a single proceeding
25 with a consolidated class action complaint filed on March 3, 2008 (the “Securities Class Action”). In
26 January 2009, a second amended class action securities complaint was filed alleging violations from
27 October 2005 through March 2007; the defendants include the Debtor and several former and current
28

1 officers of the Debtor and FRC. The litigation against the Debtor has been stayed by the bankruptcy
2 filing. It is not stayed as to any of the non-Debtor defendants. The plaintiffs have asserted that the
3 Debtor's liability insurance policies in favor of their officers and directors provide coverage for the
4 claims asserted in the Securities Class Action as well as for claims against the Debtor directly for
5 alleged violations of federal securities laws. The Plan will provide for the right of the plaintiffs to
6 pursue claims against the Debtor, which will be treated in accordance with the Plan, and to recover
7 from available insurance coverage. It also preserves their right to conduct discovery. Any Allowed
8 Claims of the Securities Class Action plaintiffs will be classified and treated as Allowed Section
9 510(b) Claims.
10

11 **8. Causes of Action Are to Be Retained**
12 **Under Plan; No Waiver Should Be Implied**

13 Attached hereto as Exhibit 1 is a non-exhaustive list of potential Causes of Action Schedule;
14 provided, however, notwithstanding any otherwise applicable principle of law or equity, including,
15 without limitation, any principles of judicial estoppel, res judicata, collateral estoppel, issue
16 preclusion, or any similar doctrine, the failure to list, disclose, describe, identify, analyze or refer to
17 any Cause of Action, or potential Cause of Action, in the Plan, this Disclosure Statement, or any
18 other document filed with the Bankruptcy Court will in no manner waive, eliminate, modify, release,
19 or alter the rights of the Debtor, New World, or the Reorganized Debtor's right to commence,
20 prosecute, defend against, settle, and realize upon any Cause of Action that the Debtor or the Estate
21 has or may have as of the Confirmation Date. Unless otherwise provided in the Plan or Confirmation
22 Order, to the extent any filed or to-be-filed actions are not resolved, after the Effective Date, the
23 Reorganized Debtor will continue to prosecute, settle, or otherwise resolve or dispose of those
24 actions. Notwithstanding the foregoing, nothing stated in the Plan, the schedule of Litigation or this
25 Disclosure Statement requires New World or the Reorganized Debtor to pursue any Cause of Action.
26
27
28

1 **9. Objections To Claims**

2 New World is informed that the Debtor has commenced its review, analysis and investigation
3 of the filed Claims and the Claim objection process. Over 900 proofs of claim in an aggregate
4 amount in excess of \$1.14 billion have been filed in the case. After Confirmation, the Reorganized
5 Debtor will continue the Claim objection process and file additional objections to various scheduled
6 and filed Claims. The Debtor has commenced the Claim objection process, although it is not
7 expected to be completed prior to the hearing on confirmation of the Plan. Thus far, the objections
8 by the Debtor and the various settlements have reduced the total Claims against the Estate by
9 approximately \$541 million. New World is informed that the Debtor has preliminarily identified
10 more than 600 invalid, duplicate, late-filed, or improperly classified Claims, and the Court
11 established a procedure for handling bulk Claim objections for omnibus objections related to proofs
12 of Claim that were filed on account of Interests, duplicate claims, and proofs of Claim that relate only
13 to FRC. The Court has ruled on nine omnibus Claim objections. These objections and additional
14 objections are expected to substantially reduce the amount of Claims asserted against the Estate.
15
16

17 **10. Insurance Policies with Westchester Surplus Lines**
18 **Insurance Company and Pacific Employers Insurance Company**

19 Prepetition, Westchester Surplus Lines Insurance Company (“WSLIC”) issued to the Debtor a
20 claims made directors and officers excess liability insurance policy and a six year run off
21 endorsement thereto for claims made against the insured for wrongful acts occurring between January
22 1, 2008 and December 31, 2014 (the “WSLIC Policy”). According to WSLIC, under certain
23 circumstances, the Debtor would be required to reimburse the insurer for advanced defense costs.
24 Pacific Employers Insurance Company (“PEIC”) issued prepetition to the Debtor high-deductible
25 workers compensation occurrence policies for the calendar years 2000, 2001, 2002, and possibly
26 additional years (the “PEIC Policies”). WSLIC and PEIC have filed contingent and unliquidated
27 proofs of claim. Matters relating to the WSLIC Policy and PEIC Policies will be addressed in the
28

1 Plan. WSLIC and PEIC each reserve their right to object to the Plan.

2 **VI. GENERAL DISCUSSION OF ASSETS AND LIABILITIES**

3 **A. Assets**

4 According to the Debtor's unaudited balance sheet as of August 31, 2009, the Debtor has
5 Cash on hand of approximately \$27.3 million. An additional \$11.5 million in Cash is currently held
6 in accounts at Merrill Lynch Trust Company that were established in connection with the SERPs that
7 are currently the subject of a pending ownership dispute. Cash on hand as of the Effective Date will
8 be used to satisfy Allowed Claims under the Plan. In addition to these Cash deposits, the Debtor also
9 has several insurance policies, including 2007 and 2008 Directors' and Officers' Liability Policies
10 that were issued by XL Specialty Insurance Company with coverage totals of up to \$100 million and
11 \$225 million, respectively. There are also policies issued by Federal Insurance Company; the Debtor
12 and FRC are in the process of attempting to recover more than \$10 million in defense and settlement
13 costs that were incurred in connection with the action brought by the Massachusetts Attorney General
14 that was discussed above.
15

16
17 Other than the Cash and its interests in various insurance policies, the primary assets of the
18 Debtor are comprised of its direct and indirect ownership interest in FGCC, FRC, and FCIG. New
19 World does not believe that any value will be realized from FCIG, which has no employees and no
20 contracts. The Debtor also holds ownership interests in Fremont Aviation Services Corp. and
21 Fremont General Financing I. Fremont Aviation Services Corp. used to own a corporate jet that was
22 sold in 2008; the company is in the process of being wound down. The interest in Fremont Aviation
23 Services Corp. will vest in the Reorganized Debtor and it will continue to be wound down; the
24 treatment of Fremont General Financing I is discussed in the next section and elsewhere in the
25 Disclosure Statement.
26

27 On the Petition Date, the consolidated federal income taxpayer group of which the Debtor is
28 the common parent had reported NOLs for the 2007 tax year amounting to over \$1 billion. Based

1 upon information provided by the Debtor, approximately \$418 million of those NOLs were carried
2 back to earlier tax years to obtain a tax refund, leaving, as of the Petition Date, estimated NOLs for
3 application to 2007 and future tax years of approximately \$695 million. [This estimate may change](#)
4 [based upon the carrybacks authorized under the Worker, Homeownership, and Business Assistance](#)
5 [Act of 2009 \(H.R. 3548\).](#)

6 In connection with the relief sought during the early stages of the Case, the Debtor
7 obtained an order from the Bankruptcy Court that established certain procedures regarding trading in
8 the Debtor's common stock that were designed to avoid a "change of control" and preserve these
9 NOLs. Although the trading order will not be in effect after the Effective Date of the Plan, the
10 Reorganized Debtor will continue to protect and preserve the Fremont NOLs, to the extent necessary,
11 with an amendment to the Articles of Incorporation restricting certain trading.
12

13 **B. Liabilities**

14 **1. Liabilities Identified in the Schedules**

15 According to the Schedules, as of the Petition Date, the Debtor listed more than \$326.5
16 million in Unsecured Claims, the majority of which were listed as undisputed. The majority of the
17 Debtor's undisputed and liquidated liabilities are attributable to two prepetition debt issuances that
18 together total approximately \$282.5 million and to an intercompany debt owed by the Debtor to FRC
19 of approximately \$32.2 million. The remainder of the Debtor's undisputed and liquidated liabilities
20 that were listed in the Schedules is related to a small amount of prepetition trade debt and employee
21 benefit obligations. In addition to these undisputed and liquidated liabilities, the Schedules list
22 disputed, contingent, and unliquidated priority Claims that consist mostly of potential tax liabilities
23 and other disputed, contingent, and unliquidated general unsecured Claims related to litigation
24 against the Debtor and to the SERP plans.
25
26

27 **2. Proofs of Claim**

28 November 10, 2008, was set as the claims bar date for creditors of the Debtor other than

1 governmental units, which had until December 15, 2008. Notice of the claims bar dates and the
2 procedures for filing claims were mailed to all creditors and parties in interest on September 11,
3 2008, and it was also published in the Wall Street Journal on September 12, 2008. Over 900 proofs
4 of Claim were filed in the Case, in the aggregate amount of \$1.14 billion. A summary of the Claims,
5 which does not take into account any objections to the Claims, is as follows:

6 Secured Claims	\$8,466,301
7 Priority Unsecured Claims	107,056,301
8 General Unsecured Claims	1,023,180,072
9 Total	\$1,143,702,725

10
11
12 Although this sum is substantially greater than the amount identified by the Debtor in the
13 Schedules, the Debtor has indicated that it has performed an initial review of the Claims Filed in this
14 Case and has concluded, based on that review, that a substantial number of the proofs of Claim Filed
15 in the Case are without merit, duplicative, inflated, or improperly classified. As an example, there is
16 no known reason for any valid secured Claims to exist against the Debtor. In addition, a number of
17 Claims have been resolved by the Debtor for amounts that are substantially less than what is
18 contained in the proof of Claim and some Claims have already been withdrawn or disallowed. For
19 these reasons, New World does not believe that the proofs of Claim Filed in this Case accurately
20 reflect the Debtor's liabilities and expects that the Allowed Claims against the Estate will be
21 substantially less once the claim objection process is completed.
22

23
24 **3. Senior and Junior Notes**

25 Most of the Debtor's undisputed liabilities arise from prepetition debt issuances of 7.875%
26 Senior Notes due in 2009 in the original aggregate principal amount of \$200 million (the "Senior
27 Notes") and 9% Junior Subordinated Debentures due March 31, 2026 in the original aggregate
28 principal amount of \$103,092,784 (the "Junior Notes"). As of the Petition Date, approximately

1 \$176.4 million in principal and accrued interest was outstanding under the Senior Notes, and
2 approximately \$107.4 million in principal and accrued interest was outstanding under the Junior
3 Notes and TOPrS. The Plan allows the Claims in those amounts. As discussed below, the Plan
4 proposes to pay the Holders of the Senior Notes in full with interest from the Petition Date at a rate to
5 be determined by the Bankruptcy Court and to reinstate the Junior Notes and ~~to preserve their legal,~~
6 ~~contractual, and equitable rights intact~~ the TOPrS. However, if the Holders of the TOPrS elect to
7 accept the New Notes and Common Stock in satisfaction of their Claims, each Holder will receive a
8 pro rata share of New Notes and 10.6 million shares of Common Stock. The New Notes will be
9 issued in principal face amount of \$95,000,000 and pay interest semi-annually at 9%. The New
10 Notes will be redeemable at a premium of 3%, 2% and 1% during the first, second and third years.
11 The forms of the New Note and New Note Indenture, subject to modification, are attached to the Plan
12 as Exhibits 1 and 2, respectively. In the event that the TOPrS do not elect to receive the New Notes
13 and Common Stock, New World will purchase 10.6 million shares of Common Stock at \$.50 per
14 share.

15
16
17 The Junior Notes are currently held by Fremont General Financing I (“Fremont General
18 Financing”), a statutory business trust that was formed under Delaware law pursuant to an Amended
19 and Restated Declaration of Trust of Fremont General Financing I dated March 6, 1996 (the
20 “Fremont General Financing Declaration of Trust”). Fremont General Financing is a wholly-owned
21 subsidiary of the Debtor that was formed as a special purpose financing entity to hold the Junior
22 Notes as its sole asset. In 1996, Fremont General Financing issued and sold approximately \$100
23 million of 9% Trust Originated Preferred Securities or TOPrS in a public offering, which represented
24 preferred undivided beneficial interests in the assets of Fremont General Financing (i.e., the Junior
25 Notes). The Debtor made payments on account of the Junior Notes to Fremont General Financing,
26 and then Fremont General Financing would in turn distribute those payments to holders of TOPrS.
27 Pursuant to the terms of the Fremont General Financing Declaration of Trust, Fremont General
28

1 Financing I was to terminate in the event that the Debtor filed for bankruptcy. New World does not
2 believe that a provision for termination on the filing of a bankruptcy may be enforced by the Trustee.
3 For that and other reasons [relating to the effect of non-monetary defaults on reinstatement, unless the](#)
4 [Holders of the TOPrS elect to receive New Notes and Common Stock](#), the New World Plan reinstates
5 the TOPrS and with such treatment, leaves the contractual rights of the Holders thereof and ~~of the~~
6 Junior Notes unimpaired.

7
8 As discussed more fully in section VII.B.3 below, the Indenture Trustee for the Senior Notes
9 believes that Holders of Claims in Class 3C (Junior Note Claims) are also impaired and entitled to
10 vote on the Plan. New World disagrees with the Indenture Trustee's analysis.

11 **4. Intercompany Claims**

12 According to the Schedules and a proof of Claim that was filed by FRC, there is an
13 intercompany payable owed by the Debtor to FRC of approximately \$32.2 million, the bulk of which
14 is owed in connection with a Tax Allocation Agreement dated May 1, 2006, between the Debtor,
15 FGCC, and FRC (the "Tax Allocation Agreement"). The merger that will be consummated pursuant
16 to the Plan will result in the elimination of all intercompany Claims between the Debtor, FRCC, and
17 FRC, including any intercompany Claims owed by the Debtor to FRC pursuant to the Tax Allocation
18 Agreement.
19

20 **VII. SUMMARY OF THE PLAN OF REORGANIZATION**

21 The following is a summary of the material provisions of the Plan.

22 The Plan is intended to achieve the two primary goals of Chapter 11 of the Bankruptcy Code:
23 to satisfy Claims against and Equity Interests in the Debtor and to reorganize the business of the
24 Debtor. Accordingly, the Plan proposes to use the assets of the Debtor and Reorganized Debtor to
25 satisfy the Claims of Creditors and to leave the holders of Equity Interests with their Equity Interests
26 in a revitalized, ongoing business. To meet the liquidity needs of the Reorganized Debtor for
27 operations, administration expenses, and Claims reserves, the New World Plan provides for a ~~\$6.85~~
28

1 million equity investment in the Reorganized Debtor ~~and a \$20 million secured Exit Facility~~. New
2 World will also receive Warrants to acquire shares of the Reorganized Debtor ~~for \$30~~
3 ~~million~~ Common Stock at an average price of \$.~~67~~ and may allocate certain of the Warrants in
4 ~~connection with the Exit Facility. The holder~~ 90. The Holder of the Warrants will have the option
5 for a cashless exercise of the Warrants by reducing the number of shares issued. The Warrants will
6 be exercisable for a period of ten years as follows:

<u>Warrant Amount</u>	<u>Exercise Price</u>	<u>Shares</u>
5,000,000	.40	12,500,000
5,000,000	.60 <u>.75</u>	8,333,333 <u>5,333,333</u>
5,000,000	.70 <u>.90</u>	7,142,857 <u>4,444,444</u>
5,000,000	.80 <u>1.050</u>	6,250,000 <u>3,809,524</u>
5,000,000	.90	5,555,556 <u>13,587,301</u>
5,000,000	1.00	5,000,000
\$30,000,000	.67	44,781,746

16
17 The terms of the Warrant will be incorporated in full in the Warrant Agreement, the form of
18 which, subject to modification, is attached to the Plan as Exhibit ~~2.4~~.

19 The treatment of Allowed Claims and Allowed Equity Interests under the Plan supersedes any
20 agreements or rights the Holders of those Claims or Equity Interests may have in or against the
21 Debtor or its Assets and is in full satisfaction of the legal, equitable, and contractual rights of the
22 Holders of the Claims or Equity Interests. Unless the Plan provides otherwise, no Distributions will
23 be made and no rights retained on account of any Claim or Equity Interest that has not become an
24 Allowed Claim or Allowed Equity Interest.

25
26 As required by the Bankruptcy Code, the Plan classifies Claims and Equity Interests in
27 various classes according to their right to priority. The Plan states whether each Class of Claims or
28

Equity Interests is impaired and provides for the treatment that each Class will receive.

A. Allowance and Treatment of Unclassified Claims

Certain types of Claims are not placed into voting classes but are instead unclassified. They are considered unimpaired and they are given treatment in accordance with the Bankruptcy Code:

1. Administrative Claims

Administrative Claims are for costs and expenses of administering the Debtor’s Case that are allowable under Bankruptcy Code section 503(b) or 28 U.S.C. § 1930, and include Claims incurred postpetition in the ordinary course of the Debtor’s business, fees and expenses of professionals, and fees due to the U.S. Trustee’s Office.

The following chart lists the Debtor’s unpaid Administrative Claims and their treatment under the Plan:

Description	Treatment
Ordinary Course Administrative Claims	Unless the Reorganized Debtor objects to an Ordinary Course Administrative Claim, the Claim will be allowed in accordance with the terms and conditions that gave rise to the Ordinary Course Administrative Claim, and the person holding the Ordinary Course Administrative Claim need not file any request for payment of its claim.
Clerk’s Office Fees	Paid in full before the Effective Date.
Office of the U.S. Trustee	Paid in full pursuant to 28 U.S.C. § 1930.
Allowed Non-Ordinary Course Administrative Claims, Professional Fee Claims and Indenture Fee Claims ³	Paid in full on the later of: (1) the Effective Date; or (2) the fifteenth Business Day after such Non-Ordinary Course Administrative Claim or Professional Fee Claim becomes an Allowed Administrative Claim or Allowed Professional Fee Claim, or in either case, as soon thereafter as is practicable. The Indenture Trustee Fee Claims will be paid in accordance with the terms of the Plan.

a) Administrative Claim Reserve

On the Effective Date, the Reorganized Debtor will fund the Administrative Claims Reserve with sufficient funds to pay all Administrative Claims outstanding as of the Effective Date in full.

³ The Indenture Trustee Fees have been classified as Administrative Claims solely for convenience. Nothing herein

1 Ordinary Course Administrative Claims will be paid in the ordinary course of the Reorganized
2 Debtor's operations. Distributions will be made to the Holders of Allowed Administrative Claims
3 from the Administrative Claims Reserve. Any amounts remaining in the Administrative Claims
4 Reserve after payment in full of all Allowed Administrative Claims will revert to the Reorganized
5 Debtor.

6 b) Administrative Claims Bar Date

7 All requests for payment of an Administrative Claim that accrued from the Petition Date,
8 except for (1) Ordinary Course Administrative Claims, (2) Clerk's Office and U.S. Trustee fees, (3)
9 Professional Fee Claims, and (4) Indenture Trustee Fees must be filed with the Court no later than
10 thirty days after the Effective Date (the "Administrative Claims Bar Date") or be forever barred.
11

12 c) Deadline for Objections to Administrative Claims

13 All objections to allowance of Administrative Claims, excluding Professional Fee Claims,
14 must be filed by any parties in interest no later than sixty (60) days after the Administrative Claims
15 Bar Date (the "Administrative Claims Objection Deadline.") The Administrative Claims Objection
16 Deadline may be extended for a one-time sixty (60) day period by the Reorganized Debtor by filing a
17 notice of the extended Administrative Claim Objection Deadline with the Bankruptcy Court.
18 Thereafter, it may only be extended by an order of the Bankruptcy Court. If no objection to an
19 Administrative Claim is filed on or before the Administrative Claim Objection Deadline, then the
20 Administrative Claim will be deemed Allowed as of that date.
21

22 d) U.S. Trustee Fees

23 Quarterly fees owed to the Office of the U.S. Trustee will be paid prior to the Effective Date
24 by the Debtor, and after the Effective Date by the Reorganized Debtor when due in accordance with
25 applicable law. The Reorganized Debtor will continue to file reports showing the calculation of such
26

27
28 constitutes an admission that the fees are entitled to Administrative Claim priority.

1 fees until the Case is closed under Bankruptcy Code section 350.

2 e) Professional Fee Claims

3 Any professional seeking allowance of a Professional Fee Claim for services rendered prior to
4 the Effective Date must (1) file their application for allowance of compensation and reimbursement
5 of expenses on or before ~~45~~thirty (30) days after the Effective Date or such other date as may be set
6 by the Bankruptcy Court, and (2) ~~have the fees and expenses allowed by a Final Order~~serve the
7 application on the Reorganized Debtor and the U.S. Trustee. Any party in interest may file an
8 objection to such an application within the time provided by the Local Bankruptcy Rules or within
9 any other period that the Court sets. Professional Fee Claims will be Allowed if, when and to the
10 extent that, the Bankruptcy Court enters an order allowing the Professional fee Claim and fourteen
11 (14) days have passed without a stay of the enforcement of such order or, if a stay has been granted,
12 such stay has lapsed or been lifted or dissolved. Professionals holding Professional Fee Claims who
13 do not timely file and serve their applications for payment will be forever barred from asserting these
14 Claims against the Reorganized Debtor or its property.

15 f) Indenture Trustee Fees and Expenses

16 The Reorganized Debtor will pay or cause to be paid in full and in Cash, without reduction to
17 the recovery of applicable holders of allowed claims, any and all Indenture Trustee Fees and other
18 amounts that are due to each of the Indenture Trustees and its counsel as of the Effective Date on or
19 before the later of: (i) the Effective Date; or (ii) five (5) days after the date on which the Reorganized
20 Debtor receives from such Indenture Trustee a reasonably and customary detailed itemized statement
21 of such amounts so long as the Reorganized Debtor does not, within such five (5) day period, give
22 written notice to such Indenture Trustee that it disputes the amount requested or any part thereof and
23 all such amounts shall be deemed Allowed without further application to or order from the Court.
24 The Reorganized Debtor's objection shall be limited to a "reasonableness standard" and whether the
25 amounts sought are actually due and payable under the particular Indenture. If the Reorganized
26
27
28

1 Debtor gives such Indenture Trustee timely written notice that it disputes the amount requested or any
2 part thereof, the Reorganized Debtor will promptly pay or cause to be paid any undisputed amounts
3 and any pending disputed items shall be promptly presented to and determined by the Court, the sole
4 questions being whether the amounts in dispute are due and payable under the particular Indenture
5 and satisfy the “reasonableness standard”; any unpaid amounts shall be promptly paid upon
6 determination by the Court that such amounts are due and owing under the respective Indenture
7 Trustee Fees. The Reorganized Debtor shall also promptly pay or cause to be paid in full any and all
8 fees and expenses that will be incurred in connection with the distributions to be made by the
9 Indenture Trustees under the Plan to the extent such fees and costs are provided for by the Indentures.

11 Any claim for Indenture Trustee fees and expenses arising after the Effective Date shall be
12 paid in the ordinary course of business by the Reorganized Debtor. Nothing in the Plan shall be
13 deemed to impair, waive, extinguish or negatively impact any charging lien of an Indenture Trustee.

14 **2. Priority Tax Claims**

15 Priority Tax Claims include certain unsecured income, employment, and other taxes described
16 by Bankruptcy Code section 507(a)(8).
17

18 The following chart lists the treatment under the Plan for Debtor’s § 507(a)(8) Priority Tax
19 Claims:

Description	Treatment
Priority Tax Claims Arising Under 11 U.S.C. § 507(a)(8)	Except to the extent that a Holder of an Allowed Priority Tax Claim has been paid by the Debtor prior to the Effective Date, agrees to different treatment or its Claim is the subject of Final Order of the Bankruptcy Court, each Holder of an Allowed Priority Tax Claim shall receive, in full satisfaction of its Claim, Cash in an amount equal to such Allowed Priority Tax Claim on the later of (1) the Effective Date, or (2) the fifteenth Business Day after the Priority Tax Claim becomes an Allowed Priority Tax Claim, or in either case, as soon thereafter as is practicable. The Debtor or Reorganized Debtor, as the case may be, reserves the right to pay any Allowed Priority Tax Claim in equal quarterly payments over a period of five years from the date of the entry of the Order for relief in the simple interest at applicable non bankruptcy rate.

B. Allowance and Treatment of Classified Claims and Interests

1. Secured Claims (Class 1)

Secured Claims are Claims secured by liens on Estate property to the extent that the lien is valid and unavoidable and against property in which the Estate has an interest or that is subject to setoff under 11 U.S.C. § 553. A Claim is secured only to the extent of the value of the Holder’s interest in the collateral that secures the Claim. If there are any Allowed Secured Claims, New World does not believe that they are impaired and, therefore, the Holders are deemed to accept the Plan not entitled to vote on the Plan. The following chart summarizes the treatment of any Allowed Secured Claims, if any, against the Debtor:

Class	Description	Impaired	Treatment
1	Allowed Secured Claims	No	Unless the Holders agrees to different terms, in full satisfaction of any Allowed Secured Claims, the Holder of the Allowed Secured Claim will receive either (1) the full amount of the Allowed Secured Claim in Cash on the later of the Effective Date or fifteen business days after the Claim becomes an Allowed Secured Claim or (2) the Collateral securing the Allowed Secured Claim, Any Allowed deficiency balance will be treated in Class 3A.

2. Priority Non-Tax Claims (Class 2)

Priority Non-Tax Claims are those unsecured claims entitled to priority under 11 U.S.C. § 507(a) other than Tax Claims arising under 11 U.S.C. § 507(a)(8). The Bankruptcy Code requires that each Holder of a Priority Non-Tax Claim receive Cash on the Effective Date equal to the Allowed amount of such Claim. However, a Class of Priority Non-Tax Claims may elect to accept deferred Cash payments of a value, as of the Effective Date of the Plan, equal to the Allowed amount of such Claim. Class 2 is not impaired and, therefore, the Holders of Class 2 Claims are deemed to accept the Plan and are not entitled to vote on the Plan.

The following chart summarizes the treatment of these Claims:

Class	Description	Impaired	Treatment
2	Priority Non-Tax	No	Except to the extent that a Holder of an Allowed Claims Priority Non-Tax Claim agrees to other treatment, each Allowed Priority Non-Tax Claim will be paid in full satisfaction of the Priority Non-Tax Claim from funds available to the Reorganized Debtor on the later of (1) the Effective Date or (2) the fifteenth Business Day after such date that the Claim becomes an Allowed Priority Non-Tax Claim or, in either case, as soon thereafter as is practicable.

3. General Unsecured Claims (Class 3)

Class 3 is comprised of all General Unsecured Claims, which are Claims not entitled to priority under Bankruptcy Code section 507(a). New World believes that Classes 3A, 3B, and 3C are unimpaired; therefore, the Creditors in Classes 3A, 3B, and 3C will not be entitled to cast votes.

Classes 3A (General Unsecured Claims) and 3B (Senior Notes) are paid in full in Cash with Post Petition Interest at the federal judgment rate which, under the case law interpreting Section 1124 of the Bankruptcy Code, as amended, leaves intact their legal, equitable and contractual rights.

The TOPrS and the Junior Notes are Reinstated and unimpaired under Section 1124. The Indenture Trustee for the Junior Notes disputes the right of New World, as the Plan proponent, to Reinstate the Junior Notes or the TOPrS based upon defaults triggered by the filing of the Case. New World believes that sections 365 and 1124 of the Bankruptcy Code and case law interpreting those provisions support New World's position with respect to the Reinstatement of the TOPrS and the Junior Notes. By way of clarification, in the event that the Bankruptcy Court finds that Class 3C is impaired under a definition of impairment, the Holders of Allowed TOPrS Claims shall retain all legal, equitable and contractual rights provided by the Indenture dated as of March 6, 1996 and the Notes and expect that all existing, continuing or future non-monetary defaults that might otherwise prevent cure or reinstatement under 11 U.S.C. §1124 are hereby deemed waived. In such event and to

1 the extent that the parties do not agree to different terms, the Indenture and Notes shall be reaffirmed
2 by the Reorganized Debtor and shall remain in full force and effect and the Confirmation Order shall
3 provide for such reaffirmation.

4 The Plan offers the Holders of the TOPrS the option to receive \$95 million in principal face
5 amount of New Notes and 10.6 million shares of Common Stock if they accept the Plan. If the
6 Holders of the TOPrS do not elect this alternative treatment, the TOPrS and the Junior Notes will be
7 Reinstated and New World will purchase the additional 10.6 million shares of Common Stock at \$.50
8 per share.

9
10 The Indenture Trustee for the Senior Notes believes that the Holders of Junior Notes Claims
11 are impaired, contrary to their stated treatment herein, because, to the extent that the Court
12 determines that the Holders of Senior Notes Claims are only entitled to receive Post-Petition Interest
13 in satisfaction of the requirements of section 1124 of the Bankruptcy Code, the subordination
14 provisions of the Junior Notes indenture require Holders of Junior Notes Claims to pay from any
15 distribution such Holders receive on account of such Claims to Holders of Senior Notes Claims the
16 value of the difference between Post-Petition Interest and the amount the Senior Notes Holders would
17 receive if paid interest from the Petition Date at the rate borne by the Senior Notes. New World
18 disagrees with the Indenture Trustee's analysis. The Plan provides for the payment of post-petition
19 interest at a rate determined by the Bankruptcy Court.

20
21 ~~In an abundance of caution, the~~The Holders Claims in Classes 3A, 3B and 3C are being sent
22 Ballots to vote on the New World Plan. If the Court disagrees with New World's characterization
23 and finds that one or more of Classes 3A, 3B, or 3C are in fact impaired, then the votes will be
24 counted. In addition, the Ballot of Class 3C affords the Holders of the TOPrS to make the election to
25 receive New Notes and Common Stock. New World reserves the right to have the Court determine
26 prior to the Confirmation Date whether the holders in Class ~~3A~~, 3B and 3C are impaired.
27
28

The following chart summarizes the Plan's treatment of all Classes containing the Debtor's
General Unsecured Claims:

Class	Description	Impaired	Treatment
3A	General Unsecured Claims (excluding the TOPrS Claims, and the \$176,402,107 of Claims represented by the 7.875% Senior Notes due 2009)	No	<p>Except as provided below with respect to the Holder of an Allowed General Unsecured Claim pursuant to any settlement, compromise, stipulation or order which provides for different treatment, whether in terms of maturity, amortization, interest rate and/or entitlement to interest (prepetition or postpetition) or otherwise, the Holder of an Allowed Class 3A General Unsecured Claim shall retain their legal, equitable, and contractual rights and shall be paid in full on the later of the Effective Date of the Plan or within fifteen business days of becoming an Allowed Class 3A General Unsecured Claim, with prepetition interest and Post Petition interest Interest at the federal judgment rate from the Petition Date.</p> <p>The Holder of an Allowed General Unsecured Claim pursuant to the Rampino Stipulation, the Enron Stipulation, the BNY Stipulation or any other settlement, compromise, stipulation or order which provides for treatment that is different from the treatment provided for herein, shall be paid in accordance with the underlying compromise, settlement, stipulation or order giving rising to the Allowed Claim, and if no payment date is specified on the later of (1) the Effective Date or (2) the fifteenth Business Day after the Claim becomes an Allowed Claim, or in either case, as soon thereafter as is practicable.</p>
3B	General Unsecured Claims of the Holders and of the 7.875% Senior Notes \$176,402,10.56 (prepetition)	No	The Holders of Allowed Class 3B General Unsecured Claims shall retain their legal, equitable, contractual rights and, on the Effective Date, will be paid their principal, plus prepetition interest at the rate set forth in the Senior Notes, and PostPetition interest at the federal judgment rate in effect as of the Petition Date, which was 2.51% or at such rate as determined by the Bankruptcy Court that shall leave the Senior Note claims unimpaired.
3C	TOPrS Claims \$107,422,680.37 (prepetition)	No	The Holders of Allowed TOPrS Claims shall be Reinstated. The TOPrS shall retain all legal, equitable and contractual rights provided by the Indenture and the FGFI Trust.

Class	Description	Impaired	Treatment
			<u>The Holders of the TOPrS may elect to receive New Notes in the aggregate principal amount of \$95 million maturing five years from the date of issuance and paying interest semi-annually at 9% and 10.6 million shares of Common Stock.</u>

4. Class of Equity Interests (Class 4)

Equity Interest Holders are the parties who hold ownership interests (i.e., Equity Interests) in the Debtor. As of the Petition Date, the Debtor had issued approximately ~~82,116,179~~ 78,400,000 shares of ~~common stock~~ Common Stock. The New World Plan provides for the Holders of allowed Equity Interests to retain their Equity Interests in the Reorganized Debtor. Nevertheless, Class 4 is impaired because the Equity Interests are subject to dilution for the issuance of additional shares of ~~common stock~~ Common Stock for reserves for the Warrants issued in connection with the purchase of ~~\$6.8~~ 10 million ~~(20.6 million)~~ of shares by New World on the Effective Date, the equity purchase of those 10 million at \$5 million, and additional 10.6 million shares issued ~~for~~ to the Holders of the TOPrS or to New World, and the shares of Common Stock for payment, if any, of Allowed Section 510(b) Claims. Therefore, the Holders of Equity Interests are entitled to vote to accept or reject the Plan:

Class	Description	Impaired	Treatment
4	Equity Interests	Yes	Holders of existing Equity Interests in the Debtor will retain their Equity Interests in the Reorganized Debtor in full and final satisfaction of their Equity Interests, subject to dilution for the issuance of shares in reserve for the Warrants, the shares issued to New World on account of the equity contribution and the common stock issued to the Holders of Allowed Class 5 Claims, if any.

5. Class or Claims Subordinated Under 11 U.S.C. § 510(b) (Class 5)

Class 5 is comprised of Claims subject to subordination under 11 U.S.C. § 510(b) because they arise from the rescission of a purchase or sale of a security of the Debtor or an affiliate of the

1 Debtor, for damages arising from the purchase or sale of such a security, or for reimbursement or
2 contribution on account of such a claim. The Claims of the plaintiffs in the ERISA Action and the
3 Securities Class Action are presently classified in this Class. If the Court enters a Final Order finding
4 that the Allowed Claims should be subordinated pursuant to 11 U.S.C. § 510(b), then the Creditors
5 shall receive the treatment proposed below. If the Court enters a Final Order finding that the
6 Allowed Claims should not be subordinated pursuant to 11 U.S.C. § 510(b), then the Creditors shall
7 receive the same treatment provided for in the appropriate class of Unsecured Creditors. Class 5 is
8 unimpaired because the Holders retain their legal, equitable and contractual rights as determined by
9 the Final Order of the Bankruptcy Court. The amount of any such Allowed Claim shall be reduced in
10 whole or part to the extent the Holder of such Allowed Claim receives proceeds of insurance policies
11 in satisfaction thereof. The Holders of Claims in Class 5 are not entitled to Vote. The following
12 chart describes the treatment provided for Holders of Class 5 Claims under the Plan:

Class	Description	Impaired	Treatment
5	Section 510(b) Claims	No	<p data-bbox="927 1150 1498 1682">It must be determined by a final Order that that the Claims in this Class are (a) Allowed Class 5 Claims and (b) subject to subordination under 11 U.S.C. § 510(b), then the Holder of the Allowed Class 5 Section 510(b) Claim will receive newly-issued common stock in the Reorganized Debtor in full and final satisfaction of its Allowed Section 510(b) Claim. The percentage interest of common stock to which such Holders will be entitled shall be based upon the average trading value of the common stock of the shares of the Reorganized Debtor for the thirty days preceding the date on which any Section 510(b) Claims become Allowed Section 510(b) Claims if such allowance occurs after the Effective Date.</p> <p data-bbox="927 1703 1498 1902">If the Court determines in a Final Order that the Allowed Class 5 Claim is not subject to subordination under 11 U.S.C. § 510(b), then the Holder of the Allowed Class 5 Claim will receive the same treatment as Allowed Class 3A General Unsecured Claims.</p> <p data-bbox="927 1923 1498 1944">Certain Allowed Class 5 Claims may be reduced</p>

Class	Description	Impaired	Treatment
			or satisfied by proceeds of insurance policies.

New World believes that the issuance of ~~interests in~~ securities and Common Stock of the Reorganized Debtor to the Holders of Allowed ~~Class~~ Classes 3C and 5 Claims, if any, pursuant to the Plan will satisfy the applicable requirements of section 1145(a)(1) of the Bankruptcy Code, and that such issuance should be exempt from registration under the Securities Act and any applicable Blue Sky Law. The issuance of ~~this stock~~ these securities and Common Stock will be entirely in exchange for or on account of Claims or Equity Interests.

C. Executory Contracts and Unexpired Leases

Effective upon Confirmation of the Plan, the Debtor will reject all executory contracts and unexpired leases between the Debtor and any other party that have not previously been rejected, other than the Executive Employment Agreements, certain insurance contracts and those executory contracts and unexpired leases which are listed on the Schedule of Assumed Agreements to be filed twenty-one (21) days before the Confirmation Hearing Date with the Bankruptcy Court of executory contracts and unexpired leases to be assumed under the Plan on the Effective Date. That schedule will list the amount of the proposed cure payment required by 11 U.S.C. § 365(b)(1). A copy of the schedule and notice of the objection deadline will be served on the contract parties.

Any party that objects to the assumption of its executory contract or unexpired lease by the Debtor or to the proposed cure payment must file with the Court and serve on interested parties a written objection with supporting evidence that states the basis for the objection. This objection must be filed with the Court and served no later than ten (10) days before the Confirmation Hearing. Any entity that fails to timely file and serve an opposition will be deemed to have waived any and all objections to the proposed assumption or the amount of the proposed cure payment. In the absence of a timely objection by such a party, the Confirmation Order shall constitute a final determination of

1 the amount of the cure payment and that the Reorganized Debtor has shown adequate assurances of
2 its future performance.

3 In the event of a dispute regarding the cure payment, adequate assurances, or some other
4 matter related to assumption, the cure payment required by 11 U.S.C. § 365(b)(1) shall not be made
5 until after entry of a Final Order resolving the dispute and approving the assumption. Pending the
6 entry of a Final Order, the executory contract or unexpired lease at issue will be deemed assumed by
7 the Reorganized Debtor unless otherwise ordered by the Court. Upon payment of the cure amount
8 required by 11 U.S.C. § 365(b)(1), any prepetition or postpetition arrearage or other Claim asserted in
9 a Filed proof of Claim or listed in the Schedules shall be deemed satisfied in full and the Claim shall
10 be deemed disallowed, without further order of the Court or action by any party.
11

12 All Allowed Claims arising from the rejection of executory contracts or unexpired leases will
13 be treated as Class 3A General Unsecured Claims, and a proof of claim must be filed with the
14 Bankruptcy Court and served on the Reorganized Debtor within thirty days of the Effective Date of
15 the Plan or be forever barred and unenforceable against the Debtor, the Reorganized Debtor, or their
16 property.
17

18 **D. Means of Effectuating the Plan**

19 **1. Merger**

20 Section 1123(a)(5)(C) of the Bankruptcy Code contemplates that one means for
21 implementation of a plan of reorganization is through the merger of a debtor with one or more
22 entities. Both Nevada Revised Statute Section 92A.180 and California Corporations Code § 1110
23 enable parent corporations to effectuate “short-form” mergers with subsidiaries. The Plan
24 contemplates a two-step merger that will occur on the Effective Date of the Plan: first, FGCC will
25 merge into the Reorganized Debtor or the Debtor, as the case may be, and then FRC will merge into
26 the Reorganized Debtor or the Debtor, again as the case may be. The resulting entity will be the
27 Reorganized Debtor. The Reorganized Debtor will then continue to operate its business in the
28

1 ordinary course with the assets of the subsidiaries and will perform its obligations under the Plan.

2 On the asset side, the effect of the merger will be that the assets of the Debtor, FGCC, and
3 FRC will become assets of the Reorganized Debtor. On the liability side, any existing liabilities of
4 FGCC and FRC that are outstanding as of the date of the merger will become obligations of the
5 Reorganized Debtor. The liabilities of FGCC and FRC will be assumed and satisfied by the
6 Reorganized Debtor in the ordinary course of business in accordance with applicable non-bankruptcy
7 law and are not classified or treated as Claims under the Plan. The stock of FGCC and FRC will be
8 cancelled and all intercompany claims between the Debtor, FGCC, and FRC will be eliminated.
9 After payment of the sums required to be paid on the Effective Date under the Plan, it is estimated
10 that the Reorganized Debtor will have \$84.8 million in cash on hand.
11

12 New World is advised that while FRC operated as a bank and engaged in the business of loan
13 origination, it may have entered into mortgage loan purchase and securitization agreements that
14 contained provisions that addressed FRC's possible merger or consolidation. Some of these
15 agreements are believed to contain provisions specifying that the successor corporation have a
16 minimum net worth of at least \$25 million or be an institution whose deposits are insured by the
17 FDIC, or that the merger not adversely affect the then current rating on the certificates originally
18 generated. Because FRC ceased operating as a bank and returned its banking charter some time ago,
19 it is unlikely that these provisions are relevant or could give rise to valid claims.
20

21 New World believes that the merger is an appropriate and proper means of implementing the
22 Plan. The corporate structure of the Debtor, FGCC, and FRC was established while FRC was
23 operating as an industrial bank subject to federal and state regulations and the Debtor, as the holding
24 company, was similarly subject to laws and regulations that governed its ownership of FRC. Because
25 FRC is no longer a bank, the same laws and regulations do not apply. The merger will streamline
26 operations and eliminate redundant costs and will facilitate the decision-making process because the
27 Reorganized Debtor will have only one board instead of three and that board can more easily monitor
28

1 the performance of the business and the status of all outstanding liabilities.

2 a) The Assets and Liabilities of FGCC

3 Because FGCC is the holding company for FRC, its wholly-owned subsidiary, its assets
4 consist of its ownership interest in FRC and approximately \$986,000 in cash. Because it is a holding
5 company, its balance sheet does not reflect any material outstanding liabilities.

6 b) The Assets and Liabilities of FRC

7 FRC's assets include real estate loan portfolios, real estate holdings and other investments,
8 and the cash flow and income generated from these assets, primarily from the collection of mortgage
9 principal and interest payments. FRC has recently outsourced the servicing of its loans to a third
10 party sub-servicer, Specialized Loan Servicing LLC ("SLS").
11

12 According to FRC's unaudited balance sheet, FRC's primary assets consist of (i)
13 approximately \$336.7 million in cash and cash equivalents; (2) residential real property held for sale
14 with a book value of approximately \$6.8 million; (3) its corporate headquarters and related personal
15 property, furniture, and equipment with an aggregate book value, after depreciation, of about \$4.3
16 million; (4) real estate loan portfolios with an aggregate book value of approximately \$159.7 million;
17 (5) common stock investments with a book value of approximately \$2.1 million; and (6) Community
18 Reinvestment Act loans and investments with a book value of approximately \$18.1 million. The fair
19 market value of these assets is not necessarily reflected in the book values. In addition, FRC may be
20 entitled to recoveries against fidelity bonds and insurance policies.
21

22 FRC's main liabilities consist of the remaining contingent, unliquidated, and disputed claims
23 associated with its lending operations. Many of these liabilities have been resolved, but many
24 remain. Those that remain are mostly related to residential loans originated by FRC that were then
25 sold to third parties in either whole loan sales or securitized transactions. When done as a whole loan
26 sale, FRC sold the loans for cash and gave the buyer customary representations and warranties
27 regarding the loan that required FRC to repurchase those loans if certain defaults occurred within a
28

1 designated period after the sale (the “Repurchase Claims”).

2 FRC established a reserve for Repurchase Claims that has been adjusted on occasion as
3 claims have been resolved and new Repurchase Claims asserted. FRC has contested and settled
4 many Repurchase Claims, but there are Repurchase Claims that remain outstanding and that could be
5 asserted in the future, although the likelihood of that occurring decreases over time. FRC has
6 reserved approximately \$10.5 million on account of known Repurchase Claims and has indicated that
7 it is likely that this sum will be used to satisfy known Repurchase Claims. It has been assumed by
8 parties in the Case that there are additional Repurchase Claims estimated to be in the range of \$14.4
9 million and \$29.4 million that will require payment and resolution. Because FRC’s records reflect
10 that FRC has historically been able to resolve Repurchase Claims for a fraction of their asserted face
11 amounts and because of the progress that has been made to date, New World believes that the
12 Reorganized Debtor will have sufficient cash to satisfy any remaining Repurchase Claims. The Plan
13 provides for the creation of a cash reserve for Repurchase Claims and for contingent claims in the
14 aggregate amount of \$30 million. In the event that the claims do exceed the sums being reserved, the
15 Reorganized Debtor will be liable for such claims. After the Effective Date, the Reorganized Debtor
16 may increase or decrease the amount of the reserves as deemed appropriate by the Reorganized
17 Debtor and any Final Order of the Bankruptcy Court requiring a different or greater reserve. In the
18 event that the claims do not exceed the sums being reserved after resolution and payment of all
19 claims, the remaining funds held in the reserve shall be remitted to the Reorganized Debtor. [The](#)
20 [New World Plan provides the Reorganized Debtor with additional liquidity to meet expenses and](#)
21 [claims as a result of the New World equity purchase and the tax refund that the Debtor will most](#)
22 [likely receive.](#)

23
24
25
26 U.S. Bank National Association, as Trustee (“U.S. Bank”) has alleged that the various
27 securitization trusts that own more than 700 residential loans originated by FRC and as to which U.S.
28 Bank acts as trustee, have an aggregate amount of at least \$98 million of claims (\$64 million of

1 liquidated claims and in excess of \$34 million in face amount of unliquidated claims). U.S. Bank has
2 reserved its right to contest confirmation of the Plan and the provisions of the Plan regarding the
3 Merger and the provisions governing post Effective Date Distributions. Wells Fargo Bank, National
4 Association, as Trustee (“Wells Fargo”) has joined in the objection. Together, U.S. Bank and Wells
5 Fargo contend that the Repurchase Claims are approximately \$200 million. New World will seek
6 additional information regarding U.S. Bank’s alleged Repurchase Claims. New World does not
7 believe that U.S. Bank’s or Wells Fargo’s claims have merit.
8

9 In ~~order to meet the potential need for additional reserve funds, New World is seeking~~
10 ~~financing in a competitive process that will provide the Reorganized Debtor with a \$20 million Exit~~
11 ~~Facility in the form of a secured credit facility with interest payable at a commercially advantageous~~
12 ~~rate of interest per annum for a term of seven years. The Exit Facility will be initially secured by the~~
13 ~~Reorganized Debtor’s existing loan portfolio. The reserves for Repurchase Claims and other claims~~
14 ~~will not serve as collateral for the Exit Facility. Among other things, the Exit Facility contemplates~~
15 ~~the ability to substitute collateral. As a result, sales or repayments from within the existing loan~~
16 ~~portfolio will not necessarily result in the need to amortize the Exit Facility, provided that mutually~~
17 ~~satisfactory substitute collateral is pledged. The new assets which are targeted for~~
18 ~~acquisition/origination by New World are expected to be suitable substitute collateral for the Exit~~
19 ~~Facility. Moreover, there may be provisions to expand the capacity of the Exit Facility to meet the~~
20 ~~anticipated growth of the asset base. Alternatively, the Reorganized Debtor will have the right to~~
21 ~~prepay the Exit Facility, subject to customary prepayment provisions, to the extent that a refinancing~~
22 ~~alternative would better meet its anticipated financing needs. In connection with the Exit Financing~~
23 ~~Facility, the Reorganized Debtor may issue to the Lenders Warrants of ten years duration to purchase~~
24 ~~some part of 44,781,746 shares of common stock at an average price of \$.67 pursuant to the terms of~~
25 ~~the New Fremont Warrants. New World is engaged in a competitive process to secure the best~~
26 ~~possible financing terms for the Reorganized Debtor. Accordingly, although New World has~~
27
28

1 ~~attached hereto as Exhibit 2 a form of Term Sheet for the Exit Facility, certain terms and the identity~~
2 ~~of the Lenders will not be disclosed until ten (10) days prior to the Confirmation Hearing. In~~
3 addition, New World will invest approximately \$~~6.8~~5 million on the Effective Date of the Plan to
4 purchase approximately ~~20.6~~10 million common stock ~~(with the shares priced at the 90 day average~~
5 ~~prior to the disclosure statement hearing on the New World Plan).~~ Changes in the projections and
6 other information with respect to stock ownership provided by the Debtor may result in an increase or
7 decrease in the number of shares purchased subject to a maximum adjustment of shares with a
8 purchase price of \$1 million. Without giving effect to the Warrants and including New World's
9 current Equity Interests, New World estimates that the purchase of the Equity Interest will result in an
10 ownership interest of approximately ~~24~~24.3% of the stock of the Reorganized Debtor based on
11 78,380,000 shares currently outstanding.

13 Additionally, FRC is a party to more than 150 various pending litigation actions at various
14 stages of litigation, and additional lawsuits continue to be filed and commenced against it. These
15 lawsuits relate to FRC's lending operations and essentially involve title actions, foreclosure
16 proceedings, or claims asserted by individual borrowers against FRC. The title actions are usually
17 covered by applicable title insurance and defended by the insurer and the others are sometimes
18 covered by insurance. Historically, FRC has been successful in resolving the matters not covered by
19 insurance for small sums.

21 New World has provided a notice to creditors of FRC that the Plan may affect their rights. A
22 copy of this notice is attached hereto as Exhibit ~~3~~2.

24 **2. Postconfirmation Business Operations of the Reorganized Debtor**

25 Although the immediate goal of the Plan is obviously to provide a source for full repayment
26 of Claims against the Debtor after appropriate reserves for contingent and Post Effective Date Merger
27 Claims of FGCC and FRC, the long-term strategy is to utilize the assets of the Reorganized Debtor to
28 invest in business opportunities. Under the business plan, the Reorganized Debtor, in addition to the

1 existing business, will structure, originate and manage a diversified portfolio of commercial and
2 residential mortgages, mortgage securities, corporate debt and asset-backed securities which may be
3 sourced as new transactions or purchased in the secondary marketplace. All such investments shall
4 be made pursuant to the direction of the New Board and an Investment Management Committee
5 appointed by the Board.

6 The activities will target after-tax returns of 20-25%, although the Plan assumes only a 15%
7 return on invested capital. The Plan also proposes to utilize the Debtor's substantial NOL carry
8 forwards to generate significant after-tax returns to the Reorganized Debtor's shareholders. A
9 description of the business and projections related thereto are set forth in greater detail in the
10 Projections for the Reorganized Debtor (the "Projections") attached as Exhibit [4.3](#).

11 As a result of the recent enactment of the *Worker, Homeownership, and Business Assistance*
12 *Act of 2009* (H.R. 3548), signed into law by President Obama on November 6, 2009, the Debtor and
13 its subsidiaries that join with it in filing a federal consolidated corporate income tax return are now
14 permitted to elect up to a five year carryback (instead of a two year carryback) of NOLs and
15 alternative minimum tax net operating losses ("AMT NOLs") incurred in 2008 or 2009. The Debtor
16 intends to make such an election, and has determined that the carryback of its 2008 NOL and 2008
17 AMT NOL may result in tax refunds of approximately \$22 million, although the exact amount and
18 timing of any refunds remains uncertain. The carryback refund would be requested by filing Form
19 1139 and such filing would be subject to audit. After partial utilization of its 2008 NOL, the Debtor
20 projects a NOL carryforward for the Fremont General Corporation consolidated group as of
21 December 31, 2008 of approximately \$769 million.

22 As of ~~August~~[October](#) 31, 2009, the Debtor had Cash on hand of ~~\$27,348,966~~[25,875,197](#).
23 [The Debtor will have an additional \\$22 million as a result of the tax refund if allowed.](#) The balance
24 of the funds that will be necessary to satisfy the payments required to be made on the Effective Date
25 will be obtained from the Debtor's investment in its non-bankruptcy subsidiary, FRC, which will be

1 merged into the Reorganized Debtor on the Effective Date, and after appropriate payments or
2 reserves are made for claims of creditors of FGCC and FRC, and the New World ~~Equity Investment~~
3 ~~and the Exit Financing Facility~~ equity investment.

4 After payments required to be made on the Effective Date are made, the cash balance
5 available to the Reorganized Debtor, together with ~~the Exit Facility and~~ the New World Equity
6 purchase, will provide sufficient liquidity to meet its operating expenses, obligations under the Plan,
7 strategic investments, and interest expense.

9 **3. The Reorganized Debtor's Management Team**

10 On the Effective Date of the Plan, the existing board of directors for the Debtor will be
11 replaced by a ~~nine~~² member New Board of Directors comprised of the following members:
12 ~~Four~~^{Three} members ~~from or~~ in consultation with the ten largest shareholders and the Equity
13 Committee excluding New World and ~~five~~^{four} members designated by New World. The members of
14 the New Board will be designated twenty (20) days prior to the Confirmation Hearing. Biographies
15 of four of the individuals to be designated by New World are as follows:

17 **Seth B. Lipsay**

18 Mr. Lipsay is an Executive Managing Director of New World Realty Advisors, LLC. Mr.
19 Lipsay's professional career has included senior leadership roles in a variety of public and private
20 organizations in the real estate, mortgage, and CMBS arenas, including Kenneth Leventhal &
21 Company, Kidder Peabody, Paine Webber, and UBS.

22 Mr. Lipsay has recognized expertise in originating, underwriting, structuring, negotiating and
23 harvesting complex debt, mezzanine and equity investments in the commercial real estate and
24 specialty finance arenas. His experience includes originations in excess of \$2 billion of commercial
25 and multifamily mortgage loans and more than \$1 billion of corporate leveraged lease financings for
26 leading private and institutional owners and acquirers of real estate portfolios. As a Trader on a
27 leading CMBS desk. Mr. Lipsay was intimately involved in the securitization and trading of billions
28

1 of dollars worth of public and private CMBS, including the bond structuring, credit rating and
2 institutional sales processes.

3 Mr. Lipsay also has considerable principal and advisory experience in portfolio sales,
4 contentious workouts and complex restructurings of commercial real estate and mortgage assets. He
5 has played a leadership role representing mortgage borrowers and lenders in many large corporate
6 and portfolio restructurings. In addition, he has successfully represented major banks and insurance
7 companies in orchestrating large-scale portfolio sale processes, coordinating the simultaneous
8 marketing, documentation and closings of multiple pools of performing and non-performing loans
9 and properties among multiple bidders and back-up bidders.
10

11 As a 25-year veteran of the real estate and mortgage finance industries, Mr. Lipsay has
12 developed a strong reputation for his unique ability to assess complex situations, develop creative,
13 but practical solutions, and provide valuable counsel throughout the process of implementing the
14 selected strategic solutions. Over the years, Mr. Lipsay has advised the chief executives and boards
15 of leading insurance companies, money center banks, and investment banks as well as public and
16 private property owners in real estate matters of great significance and value. Mr. Lipsay won the
17 Institutional Investor Real Estate Deal of the Year Award for his pivotal role in a large, complex
18 portfolio transaction with a major insurance company and a leading opportunity fund. Clients rely
19 upon his sharp mind, strong interpersonal skills, and broad base of knowledge and experience in the
20 real estate realm when confronting complexity, adversity or uncertainty.
21

22 Mr. Lipsay holds an MBA in real estate and finance from the Wharton School of the
23 University of Pennsylvania, a Juris Doctor in tax and business planning from the Hofstra University
24 School of Law, and a BA from New College in public policy.
25

26 **Steven H. Shepsman**

27 Mr. Shepsman is an Executive Managing Director New World Realty Advisors, LLC. Mr.
28 Shepsman was a Managing Partner of Kenneth Leventhal and Company and of Ernst & Young's Real

1 Estate Practice, who worked directly with and was responsible for the activities of several hundred
2 real estate consultants and accountants working on diverse engagements including complex valuation
3 assignments of large performing and nonperforming real estate and real estate long portfolios,
4 litigation assignments, large judicial and nonjudicial restructurings (including the chapter 11
5 proceeding of Bay Financial Corp. and Peter S. Kalikow), M&A support, capital markets activities
6 including entity, portfolio and property debt and equity (Private and public) financings and
7 integrating tax, accounting and regulatory issues into these various assignments.
8

9 His clients included numerous leading banks, investment banks, insurance companies, funds,
10 developers, homebuilders, investors, law firms and a variety of real estate service firms. Mr.
11 Shepsman was integrally involved in the planning and execution of the first privately funded good
12 bank/ bad bank: Mellon/ Grant Street Banks.

13 As a principal in a real estate fund, he was responsible for the initial due diligence and closing
14 of significant investments in a variety of platforms, including student housing, assisted living,
15 medical office, hospitality/gaming, parking/ land banking and various privatization programs. He
16 directed the subsequent acquisition and financing by those platform entities of in excess of \$1 billion
17 of real estate investments. Mr. Shepsman also participated in the disposition of these investments
18 through sales, initial public offerings, restructurings and recapitalizations.
19

20 Mr. Shepsman has served on the boards of a number of privately held companies as well as
21 Grubb & Ellis, a publicly traded real estate services company. He currently serves as the chair of the
22 Official Equity Committee of General Growth Properties, Inc.
23

24 Mr. Shepsman received his BS in business administration from the University at Buffalo and
25 is presently the Vice Chairman of the Dean's Advisory Council for its School of Management.

26 **Daniel K. Pfeffer**

27 Mr. Pfeffer is an Executive Managing Director of New World Realty Advisors, LLC. With
28 over 20 years of direct real estate experience, including as a founder and Chief Executive Officer of a

1 private real estate development firm, Mr. Pfeffer is well respected in the real estate community. He
2 has a deep background in real estate finance, restructuring and development. Mr. Pfeffer has
3 received accolades for many of his projects; include his work with Brownfield sites, projects
4 involving highly complex financial structuring, including, hybrid tax increment financing structures,
5 historic tax credit utilization and others. Mr. Pfeffer has a vast amount of experience in land use
6 analysis, zoning work and project level development/construction.

7
8 Mr. Pfeffer previously served for twelve years as President, and Co-Founder of Midtown
9 Equities of New York where he oversaw a large, diverse multi-disciplined portfolio of investment
10 and development projects. He concluded many highly complex projects, including the development
11 of a 56 acre Brownfield Site in South Florida that has become a model for many other cities in
12 America. Mr. Pfeffer also has extensive experience in taking over failed projects, both at the
13 construction level stage, as well as fully developed properties. A large element of what he
14 accomplishes involves repositioning troubled or broken assets based on market needs.

15
16 Prior to that time, Mr. Pfeffer was a Vice President at GE Capital in Stamford, CT, where he
17 was directly responsible for acquiring government held properties from the Department of Housing
18 and Urban Development (HUD) and the Resolution Trust Corp (RTC) and was charged with the
19 responsibility of overseeing and restructuring the \$2.5 billion acquisitions portfolio. Smith Barney
20 recruited Mr. Pfeffer in 1992 to join its Real Estate Investment Banking Group, where he managed
21 secondary offerings and IPO's for large real estate developers.

22
23 Mr. Pfeffer has an extensive background in both financial and project level restructurings. He
24 spent a number of years at Manufacturers Hanover Trust, as one of the original members of the real
25 estate work out team. During his tenure, among others, he successfully completed restructuring and
26 workout assignments involving one of the worlds' premier hotel companies, a large multi-national
27 apartment developer, and a major owner of shopping malls. Mr. Pfeffer was directly responsible for
28 restructuring a large number of luxury hotel properties including Ritz-Carltons and other luxury

1 brands.

2 Mr. Pfeffer holds a B.A. in Economics with a concentration in Accounting from the
3 University of Rochester. In addition, Mr. Pfeffer holds an M.B.A. in Finance from New York
4 University, Stern School of Business.

5 **Kenneth S. Grossman**

6 Kenneth S. Grossman is a highly experienced investor and executive specializing in troubled
7 and distressed credit products, Mr. Grossman has a demonstrated track record of selecting profitable
8 investments and actively participating in the financial and operational restructuring of target
9 companies.
10

11 From 2000 until 2007 funds managed by him have generated annual internal rates of return in
12 excess of 30% on average.

13 Mr. Grossman has served on numerous official corporate bodies, including Boards of
14 Directors and official and unofficial groups involved in restructuring and bankruptcies.
15

16 **Bondholder/Bank/Creditor/Equity Committees**

American Homepatient, Inc.	Kara Homes, Inc.	Oneida, Inc.
Circle K. Corp	Kasper/Anne Klein, Inc.	Rickel, Inc.
Claridge Casino, Corp.	Lenox, Inc.	Resorts International, Inc.
Evercom Systems, Inc.	Leslie Fay Companies	Revco, Inc.
Fair Lanes, Inc.	Loehmann's Inc	Securus Technologies
Glasstech, Inc.	Morris Publishing	Western Union Corp.
Hill Stores, Inc.	Navigator Gas, Ltd.	Worldcorp, Inc.

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27 **Board Memberships**
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	<u>Chairman</u>	<u>Director</u>	<u>Shareholder Representative</u>
1			
2	e-Lottery, Inc. (2006 – 2008)	e-Lottery, Inc. (2003 – 2008)	Jennifer Convertibles, Inc. (2005 – Present)
3	Roberts Consolidated Industries (1994 – 1998)	Evercom Systems (2003 – 2005)	
4			
5		Texas-New Mexico Power, Inc. (2003 – 2005)	
6			

7 Mr. Grossman was an attorney with Shea & Gould specializing in Bankruptcy, Creditor's
8 Rights and Commercial Litigation from 1981 – 1989.

9 Mr. Grossman was affiliated with Balfour Investors Inc. and the Recovery Group, LP from
10 1989 – 1998, where he began investing in distressed situations.

11 Q2/1999 – Q4/1999 Mr. Grossman was a consultant to Avalon Total Return Fund, LP
12 (distressed debt and value equity fund) and to Riverside Capital, Inc. (High Yield Fund).

13 Q4/1999 – Q3/2006 Mr. Grossman was a Managing Director of Alpine Associates, LP.

14 Q4/2006 – Q2/2008 Mr. Grossman was a Managing Member of Del Mar Asset Management,
15 L.P.

16 Q3/2008 – Q2/2009 Mr. Grossman was a Managing Director of Ramius, LLC

17 The members of New World are four seasoned professionals with vast experience in work-
18 outs, distressed investing and corporate restructuring and revitalizations. Together they have well
19 over a century of experience in these disciplines. They have the expert financial, legal and
20 organizational skills necessary to reposition Fremont after 18 months in bankruptcy. At various times
21 each of them has served as the lead advisor or principal (with capital at risk) in many of the largest
22 corporate and real estate restructurings of the past 20 years. While in these roles they have each
23 raised substantial amounts of new capital, and structured or restructured hundreds of millions of
24 dollars of mortgage debt.

25 In addition, several of the New World members have experience at both the board and senior
26
27
28

1 management levels with real estate and lending operating companies. They have served as the
2 managing partners of several real estate funds with hundreds of millions of dollars in equity capital
3 and as owners and senior management of several specialty finance companies. The New World
4 members currently hold approximately 4.5% of the common stock of the Debtor based upon
5 approximately 78,380,000 shares outstanding. As a result of its equity investment of approximately
6 ~~\$6.85~~ million for approximately ~~20.6~~10 million shares, New World will hold approximately ~~23.5~~13.6
7 % of the stock of the Reorganized Debtor and after giving effect to the Warrant, New World will hold
8 approximately ~~48~~ 24.1% of the stock of the Reorganized Debtor. In the event that New World
9 purchases the additional 10.6 million shares, New World will own 33.5% of the Common Stock after
10 giving effect to the Warrants. New World estimates that its fees and expenses in connection with its
11 Plan proposal through the Effective Date will not exceed ~~\$600,000~~,700,000, provided that none of the
12 constituents launches deliberately costly confirmation litigation.

14 The boards of the subsidiaries will also be reconstituted in advance of the merger to the extent
15 necessary to manage the affairs of the subsidiaries pre merger.

17 On and after the Effective Date, the Reorganized Debtor will use its commercially reasonable
18 best efforts to hold its next annual meeting no later than December 30, 2010. In addition to
19 amendments to the Certificate of Incorporation to prohibit the issuance of non-voting securities and
20 restrict certain transfers of Common Stock, the Reorganized Debtor's Certificate of Incorporation
21 will be amended to provide that the chairman of the board or secretary of the Reorganized Debtor
22 shall call a special meeting of its stockholders at the written request of stockholders possessing at
23 least 25% of the voting power of the issued and outstanding Common Stock of the Reorganized
24 Debtor entitled to vote generally for the election of directors.

26 Richard Sanchez, Don Royer and Thea Stuedli (the "Remaining Executives") have not
27 agreed, at this point, to continued employment by the Reorganized Debtor under the terms of the
28 Executive Employment Agreements or otherwise, although New World intends to seek assumption of

1 the Executive Employment Agreements. The terms of the Executive Employment Agreements expire
2 in November 2010.

3 **4. Reporting Requirements**

4 **At present the Debtor is classified as a “reporting company”** for purposes of the 1934
5 Securities and Exchange Act. The Debtor previously determined that the Debtor was unable to file
6 its Quarterly Report on Form 10-Q for the quarter ended March 31, 2009 by the May 15, 2009 due
7 date and the Debtor was not able to make that filing within the fifteen-day extension permitted by the
8 rules of the SEC. A similar disclosure has been made regarding the Annual Report on Form 10-K for
9 the fiscal year ended December 31, 2007 and 2008 in addition to the Quarterly Report on form 10-Q
10 for the quarters ended March 31, 2008, June 30, 2008 and September 30, 2008.

12 While it implements its initial investment strategy, the Reorganized Debtor will remain a
13 public company with Equity Interests trading on the pink sheets. The Reorganized Debtor will seek
14 an accommodation from the SEC of filing and past due reporting requirements, if feasible,
15 commencing with a Form 10-K in the first quarter in which the Plan goes effective, which is
16 anticipated to be the first quarter of 2010. This accommodation may be available to a registrant, like
17 the Debtor, that has filed on Form 8-K all monthly reports required by the Bankruptcy Code while in
18 bankruptcy. If granted, the accommodation would permit all the filing of a detailed, comprehensive
19 Form 10-K to include all audited financial statements and unaudited statements that would have been
20 available had the registrant filed timely and complete reports. In the event that the Reorganized
21 Debtor is unable to obtain the requested accommodation or if there are other impediments, the
22 Reorganized Debtor will become current in its SEC reporting requirements post emergence. The cost
23 of certifying the Debtor’s historical financial statements is estimated to be between \$1.5 million and
24 \$2.5 million and is included in New World’s projections. At the same time, New World intends to
25 prepare and file a registration statement, the financial component of which and the response to SEC
26 commentary is included in the above estimate. New World estimates that these processes may take
27
28

1 six (6) months to complete, based on a average two and half (2 1/2) months audit period, plus the
2 back audit required. Although New World believes that it has estimated sufficient time, there can be
3 no assurance that the process can be completed within that time frame.

4 **E. Risk Factors**

5 The Reorganized Debtor's ability to perform its obligations under the Plan is subject to
6 various factors and contingencies, some of which are described in this section. The following
7 discussion summarizes some of the material risks associated with the Plan, but is not exhaustive.
8 Moreover, it should be read in connection with other disclosures contained in the Plan and the
9 Disclosure Statement. Each Creditor and Equity Holder, in conjunction with its advisors, should
10 supplement the following discussion by analyzing and evaluating the Plan and the Disclosure
11 Statement as a whole. The risks associated with the Plan must be carefully considered in determining
12 whether to accept the Plan.
13

14 **1. Additional Risks**

15 a) General Risks

16 There are certain downsides and risks associated with the business plan that must be
17 considered, including the following:
18

19 (1) Investment returns could be less than projected and the Reorganized Debtor might
20 be forced to liquidate investments to raise Cash;

21 (2) Operating cost and litigation settlement could exceed projection;

22 (3) Resolution of bankruptcy claims might take longer than expected and require the
23 Reorganized Debtor to pay or reserve more Cash than anticipated in the projections, although a
24 contingency is included in the projections; and

25 (4) The Reorganized Debtor may be unable to implement its long-term plan if its capital
26 reserves are found to be insufficient by any applicable law or regulations.
27

28 b) Specific Risks

1 In addition to the general risks described above, there are a number of specific risks that must
2 be taken into account, as set forth below.

3 (i) Repurchase Claims

4 As explained above, FRC sold most of its residential loans to third parties in either whole loan
5 sales or securitization transactions. As part of the sale process, FRC was often required to give
6 representations and warranties regarding the origination process of the loans and committed to
7 repurchase loans if a payment default occurred within a specified period of time, giving rise to
8 potential Repurchase Claims.
9

10 In 2006, the total amount of Repurchase Claims significantly increased and comprised about
11 2.4% of the loans FRC sold and securitized in 2006. In 2005, the percentage had only been 0.9% and
12 in 2004 it had been 0.7%. Demands based on Repurchase Claims have continued.

13 As of April 30 2009, FRC had reserved approximately \$51.7 million on account of known
14 Repurchase Obligations and estimated that \$10.6 million would be paid out of the reserve in June
15 2009. Under the Plan proposed by New World, \$30 million will continue to be reserved for
16 Repurchase Claims. Although New World believes that this reserve should be more than sufficient to
17 satisfy any such Repurchase Claims, it is possible that the final amount of Repurchase Claims may
18 exceed this reserve. However, New World believes that even if the Repurchase Claims exceed the
19 reserve, the assets of the Reorganized Debtor should be sufficient to cover all Repurchase Claims.
20

21 (ii) Risks Regarding Unresolved Litigation

22 FRC is further a defendant in excess of 150 litigation matters in various for a related to its
23 lending operations. While resolution of the lawsuits is on-going, new lawsuits often replace the
24 resolved ones and there is no assurance that the lawsuits will be resolved for the sums projected by
25 New World. The ability of the Reorganized Debtor to fully realize upon FRC's assets may be
26 constrained by FRC's need to retain funds to defend against and settle these litigation matters.
27

28 (iii) Risks Regarding Unresolved Claims

1 As of the date of this Disclosure Statement, the process of reviewing and objecting to Claims
2 is not complete. To the extent not resolved and the settlements approved prior to the Effective Date
3 of the Plan, final resolution of certain Claims will require approval of the New Board of the
4 Reorganized Debtor.

5 One such Claim is the Claim filed by the IRS (the "IRS Claim") that asserts a priority
6 unsecured Claim against the Debtor in excess of \$89 million.

7 According to the Debtor, the Debtor has administratively appealed adjustments proposed
8 during the IRS examination of tax years 2004 and 2005. The adjustments proposed by the IRS
9 pertain to the valuation of retired interests in securitizations and non-accrual interest income on
10 commercial real estate loans, and will increase the Debtor's taxable income. The assessments
11 associated with these adjustments were included in the IRS Claim.
12

13 In addition, the Debtor's 2006 tax return is currently being examined by the IRS. The Debtor
14 received notice of an IRS audit in December 2008. In 2006, the Debtor recorded a NOL of
15 approximately \$459 million which was fully carried back to the 2004 tax return to recapture a
16 majority of the taxes that the Debtor paid in 2004. The Debtor then received a "carryback refund" in
17 2008 of approximately \$160 million. If the IRS proposes adjustments that reduce the NOL that was
18 recorded on the 2006 return, it could impact the carryback refund and result in the Debtor having to
19 repay some or all of the tax return that the Debtor received.
20

21
22 ~~As a result of the recent enactment of the Worker, Homeownership, and Business Assistance~~
23 ~~Act of 2009 (H.R. 3548), signed into law by President Obama on November 6, 2009, the Debtor and~~
24 ~~its subsidiaries that join with it in filing a federal consolidated corporate income tax return are now~~
25 ~~permitted to elect up to a five year carryback (instead of a two year carryback) of NOLs and~~
26 ~~alternative minimum tax net operating losses ("AMT NOLs") incurred in 2008 or 2009. The Debtor~~
27 ~~intends to make such an election, and has determined that the carryback of its 2008 NOL and 2008~~
28 ~~AMT NOL may result in tax refunds of approximately \$20 million, although the exact amount and~~

1 ~~timing of any refunds remains uncertain. The carryback refund would be requested by filing Form~~
2 ~~1139 and such filing would be subject to audit. After partial utilization of its 2008 NOL, The Debtor~~
3 ~~projects a NOL carryforward for the Fremont General Corporation consolidated group as of~~
4 ~~December 31, 2008 of approximately \$769 million.~~

5 The Debtor's 2007 tax return is also under examination after the Debtor received the audit
6 notice in January 2009. In 2007, the Debtor recorded a NOL in excess of \$1 billion and that loss was
7 partially carried back to 2005 to recapture taxes paid in 2005, resulting in the Debtor receiving a
8 "carryback refund" of approximately \$105 million in June 2008. This refund was transferred to FRC
9 in accordance with an existing tax allocation agreement.

11 There is a similar issue with the Claim filed by the Franchise Tax Board in the amount of
12 \$13,292,104. if these Claims are not resolved favorably to the Debtor, then they may adversely affect
13 the ability of the Reorganized Debtor to consummate the Plan.

14 In addition to those tax issues, there is another issue that may adversely impact the ability to
15 fund the Plan. In November 2008, FRC entered into a Consent Agreement with the IRS in which the
16 IRS allowed FRC to change its method of accounting for loan repurchase obligations. Under that
17 Consent Agreement, FRC must recognize an increase in computing taxable income of \$100,358,879
18 (the "Adjustment"). FRC is required to recognize a quarter of the Adjustment in computing taxable
19 income beginning with the tax year ended December 31, 2008, and is required to recognize a quarter
20 of the Adjustment in each of the next three years. If FRC ceases engaging in the trade or business
21 associated with the loan repurchase obligations or ceases to exist, then FRC may be required to take
22 the remaining balance of the Adjustment into account in computing taxable income in the year it
23 ceases that business or ceases to exist. As a result, if FRC does not generate a sufficient offset
24 against the taxable income recognized under the Consent Agreement (such as by using NOL carry
25 forwards to offset its taxable income), then the Reorganized Debtor may incur a federal and state tax
26 liability beyond that disputed liability included within the IRS Claim. The Consent Agreement-based
27
28

1 liability would likely be required to be paid from Cash on hand.

2 (iv) Regulatory Issues

3 There is a risk that the SEC could institute a proceeding under Section 12(j) of the Securities
4 Exchange Act of 1934 to revoke the Debtor's registration of the securities registered under Section
5 12(g) of the Act. While the Debtor and/or the Reorganized Debtor may use its best efforts to become
6 current in its reporting obligations, there is no assurance that it will be able to do so in sufficient time
7 to avoid a Section 12(j) revocation.
8

9 In addition, the Reorganized Debtor intends to conduct its business and operations so that it is
10 not required to register under the Investment Company Act, as amended. If it is not able to do so, it
11 may have to register in order to comply with the Investment Company Act, as amended, and if so,
12 could become subject to substantial regulation with respect to its management, operations,
13 transactions with affiliates (as defined in the Investment Company Act, as amended), asset
14 composition (including diversification and industry concentration), governance, capital structure and
15 use of leverage.
16

17 **F. Tax Consequences of Plan**

18 **1. Certain Federal Income Tax**
19 **Consequences of the Plan**

20 **TO ENSURE COMPLIANCE WITH U.S. TREASURY DEPARTMENT CIRCULAR**
21 **230, HOLDERS OF CLAIMS AND EQUITY INTERESTS ARE HEREBY NOTIFIED THAT:**
22 **(A) ANY DISCUSSION OF U.S. FEDERAL TAX ISSUES CONTAINED OR REFERRED TO**
23 **IN THIS DISCLOSURE STATEMENT IS NOT INTENDED OR WRITTEN TO BE RELIED**
24 **UPON, AND CANNOT BE RELIED UPON, BY SUCH HOLDERS FOR THE PURPOSE OF**
25 **AVOIDING PENALTIES THAT MAY BE IMPOSED ON THEM UNDER THE INTERNAL**
26 **REVENUE CODE OF 1986, AS AMENDED ("TAX CODE"); (B) SUCH DISCUSSION IS**
27 **WRITTEN IN CONNECTION WITH THE PROMOTION OR MARKETING OF THE**
28

1 **TRANSACTION OR MATTERS ADDRESSED HEREIN; AND (C) SUCH HOLDERS**
2 **SHOULD SEEK ADVICE BASED ON THEIR PARTICULAR CIRCUMSTANCES FROM**
3 **THEIR OWN INDEPENDENT TAX ADVISOR.**

4 a) General

5 The following discussion is a summary of certain U.S. federal income tax consequences of the
6 Plan to the Debtor and to holders of Claims and Equity Interests. This discussion is based on the
7 Internal Revenue Code of 1986, as amended (the “Code”), Treasury regulations promulgated and
8 proposed thereunder (the “Treasury regulations”), judicial decisions and published administrative
9 rules and pronouncements of the Internal Revenue Service (the “IRS”) as in effect on the date hereof.
10 Due to the complexity of certain aspects of the Plan, the lack of applicable legal precedent for many
11 of the federal tax consequences of the Plan, the possibility of changes in the law, the potential for
12 disputes as to legal and factual matters with the IRS, the federal tax consequences described in the
13 Plan are subject to significant uncertainties and may or may not reflect the position taken by the
14 Debtor on any tax return. No legal opinions have been requested from counsel with respect to any of
15 the tax aspects of the Plan and no rulings have been or will be requested from the IRS with respect to
16 the any of the issues discussed below. Furthermore, legislative, judicial or administrative changes
17 may occur, perhaps with retroactive effect, that could affect the accuracy of the statements and
18 conclusions set forth below as well as the tax consequences to the Debtor and the holders of Claims
19 and Equity Interests.

20 This discussion does not purport to address all aspects of U.S. federal income taxation that
21 may be relevant to the Debtor or the holders of Claims or Equity Interests in light of their personal
22 circumstances, nor does the discussion deal with tax issues with respect to taxpayers subject to
23 special treatment under the U.S. federal income tax laws (including, for example, banks,
24 governmental authorities or agencies, pass-through entities, brokers and dealers in securities who
25 elect to apply a mark-to-market method of accounting, insurance companies, financial institutions,
26
27
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1 tax-exempt organizations, small business investment companies, regulated investment companies,
2 foreign taxpayers, and persons who hold Claims as part of a “straddle,” a “hedge against currency
3 risk or a “conversion transaction”). Except as expressly set forth below, no aspect of foreign, state,
4 local or estate and gift taxation is addressed.

5 By its acceptance of a TOPrS security, each Holder agreed to treat the Junior Notes as
6 indebtedness and the TOPrS as evidence of indirect beneficial ownership in the Junior Notes, in each
7 case for United States federal income tax purposes. The balance of this discussion assumes that such
8 treatment is correct.
9

10 No assurance can be given as to the positions that the Debtor and its subsidiaries may take in
11 any tax returns, or as to the amount of the Debtor’s net operating losses (“NOLs”) or other tax
12 attributes. This discussion includes certain financial projections and estimates based on preliminary
13 information that is subject to further review. No assurance can be given that actual results will not
14 differ materially.

15 **THE FOLLOWING SUMMARY IS NOT A SUBSTITUTE FOR CAREFUL TAX**
16 **PLANNING AND ADVICE BASED UPON THE PERSONAL CIRCUMSTANCES OF EACH**
17 **HOLDER OF A CLAIM OR EQUITY INTEREST. THERE CAN BE NO ASSURANCE**
18 **THAT THE IRS WILL NOT CHALLENGE ANY OF THE TAX CONSEQUENCES**
19 **DESCRIBED HEREIN, OR THAT SUCH A CHALLENGE, IF ASSERTED, WOULD NOT**
20 **BE SUSTAINED. ACCORDINGLY, EACH HOLDER OF A CLAIM OR EQUITY**
21 **INTEREST IS URGED TO CONSULT WITH SUCH HOLDER’S TAX ADVISORS**
22 **CONCERNING THE U.S. FEDERAL, STATE, LOCAL, FOREIGN AND OTHER TAX**
23 **CONSEQUENCES OF THE PLAN.**
24
25

26 b) Consequences to Debtor Group

27 (i) Mergers of FGCC and FRC into the Debtor

28 Pursuant to the Plan, each of FGCC and FRC would be merged into the Debtor in connection

1 with effectiveness of the Plan, but prior to, and as a condition to, the infusion of equity capital by
2 New World and the issuance of the Warrants. Each merger should be treated for U.S. federal income
3 tax purposes as a liquidation of FGCC or FRC, as the case may be, into the Debtor. It is expected
4 that each of FGCC and FRC will be solvent at the time of the merger and that each merger should be
5 treated as a liquidation pursuant to Section 332.

6 (ii) Cancellation of Indebtedness

7 A taxpayer generally must include in gross income the amount by which indebtedness
8 discharged exceeds any consideration (i.e., the issue price of debt instruments or the fair market value
9 of property, including stock of the taxpayer) given in exchange for such discharge (such excess,
10 "COD income"). Section 108 of the Code provides two relevant exceptions to this general rule: first,
11 COD income is not included in gross income to the extent the payment of such indebtedness would
12 have given rise to a deduction (the "Deductible Payment Exception") and second, any COD income
13 realized may be excluded from gross income if the cancellation occurs in a case under the
14 Bankruptcy Code, but only if the taxpayer is under the jurisdiction of a bankruptcy court and the
15 cancellation is granted by the court or is pursuant to a plan approved by the court (the "Bankruptcy
16 Exception"). Any COD income excluded from gross income under the Bankruptcy Exception
17 generally must be applied to reduce certain tax attributes of the taxpayer, including NOLs, by the
18 amount of COD income that is excluded.

19 Under the Plan, holders of Claims in the following classes will be paid the full amount of their
20 Allowed Claims: Administrative Claims, Priority Taxes, Secured Claims, Priority Non-Tax Claims,
21 General Unsecured Claims of the Holders of the 7.875% Senior Notes. Since those Claims will be
22 paid in full, satisfaction of such Claims should not give rise to COD Income to the Debtor (except to
23 the extent that interest previously accrued and deducted by the Debtor is not required to be paid).
24 Similarly, the holders of General Unsecured Claims in Class 3A, Senior Notes in Class 3B, the
25 TOPrS Claims; and the Junior Notes (if Holders of the TOPrS Claims elect to have such Claims and
26
27
28

1 Notes reinstated, as described above), the Equity Interests and the Section 510(b) Claims will not be
2 impaired and, in certain cases, such Claims do not relate to debt instruments, and therefore no COD
3 Income should result from these Claims.

4 If the Holders of the TOPrS Claims so elect, such Claims will not be reinstated; rather,
5 Holders will receive New Notes and common shares in the Debtor in exchange for their TOPrS
6 Claims, and the TOPrS and the Junior Notes will be extinguished. In such event, the Debtor would
7 realize COD income to the extent the sum of the issue price of the New Notes and the fair market
8 value of the common shares issued to Holders of TOPrS Claims is less than the adjusted issue price
9 of the TOPrS exchanged therefor.

11 The adjusted issue price of the TOPrS would be equal to the original issue price of the TOPrS,
12 increased by the amount of any accrued but unpaid interest and original issue discount. The issue
13 price of the New Notes generally would be equal to their fair market value if the New Notes are
14 considered to be publicly traded for U.S. federal income tax purposes. If the TOPrS are considered to
15 be publicly traded but the New Notes are not, the New Notes will be considered to have been issued
16 as part of an investment unit, the issue price of which is equal to the fair market value of the TOPrS.
17 The issue price of the New Notes would be determined by allocating the issue price of the investment
18 unit between the New Notes and the common shares in accordance with their relative fair market
19 values. If neither the TOPrS nor the New Notes are considered to be publicly traded, the issue price
20 of the New Notes will be their principal amount. In general, a debt instrument will be treated as
21 publicly traded if (i) it is listed on a national securities exchange or certain interdealer quotation
22 systems; (ii) it appears on a system of general circulation that provides a reasonable basis to
23 determine its fair market value by disseminating either recent price quotations of one or more
24 identified brokers, dealers or traders or actual prices of recent sales transactions; or (iii) under certain
25 circumstances, price quotations for the debt instrument are readily available from dealers, brokers or
26 traders. It is likely that the TOPrS and/or the New Notes will be considered publicly traded for U.S.
27
28

1 [federal income tax purposes.](#)

2 As noted above, the Debtor is the common parent of an affiliated group of corporations that
3 join in the filing of a consolidated U.S. federal income tax return (the “Debtor Group”). The
4 principal intercompany claim between the Debtor and its affiliates is an intercompany payable owed
5 by the Debtor to FRC, the bulk of which is owed in connection with the Tax Allocation Agreement.
6 The merger of FRC into the Debtor that will be consummated pursuant to the Plan will result in the
7 elimination of this intercompany claim. If, as expected, the liquidation of FRC into the Debtor is tax-
8 free pursuant to Section 332, no discharge of indebtedness income should be recognized upon
9 elimination of the intercompany claim.
10

11 As a result of the foregoing, the Debtor believes that it ~~will not~~[may](#) realize a material amount
12 of COD ~~Income~~[income](#) for U.S. federal income tax purposes ~~as a result of the implementation of the~~
13 ~~Plan~~[if Holders of TOPrS Claims elect to receive New Notes and common shares in exchange for their](#)
14 [TOPrS Claims. The amount of any COD Income will depend upon the fair market value of New](#)
15 [Notes and common shares transferred in exchange for the TOPrS Claims. Pursuant to the](#)
16 [Bankruptcy Exception, the Debtor would not recognize this COD Income as taxable income; rather,](#)
17 [the Debtor would be required to reduce its tax attributes, beginning with its NOLs.](#)
18

19 The ~~holders~~[Holders](#) of Claims and Equity Interests should be advised that no ruling has been
20 requested from the IRS regarding this issue and no assurances can be given that the positions
21 intended to be taken by the Debtor will be accepted by the IRS.
22

23 (iii) Net Operating Losses

24 Based on information made available by the Debtor, as of December 31, 2008, the Debtor
25 Group estimates that it had U.S. consolidated net operating losses of approximately \$819 million.
26 The Debtor has indicated that the amount of such NOLs remains subject to adjustment by the IRS, ~~as~~
27 ~~well as to carrybacks~~[and that the Debtor expects to carry back a substantial amount of such NOLs to](#)
28 prior years. [The effect of such carrybacks would be](#) to cover additional tax assessments, [and/or to](#)

1 [generate tax refunds](#), in prior years, depending upon the outcome of ongoing IRS examinations. In
2 general, NOLs may be carried back two years and forward twenty years. [Federal legislation recently](#)
3 [was enacted that would permit certain eligible businesses to elect to carryback certain NOLs for a](#)
4 [period of 3, 4, or 5 years to offset taxable income in those preceding taxable years.](#) The Reorganized
5 Debtor's ability to ~~utilize such NOLs~~ [carry forward NOLs remaining after any permitted carrybacks](#)
6 may be limited by Section 382 of the Code, as described below.

7
8 (iv) Possible Limitations on Net Operating
Losses, "Built-In" Losses and Deductions

9 c) Overview of Section 382

10 (1) Net Operating Losses. Under Section 382 of the Code, if a corporation with NOLs
11 (a "loss corporation") undergoes an "ownership change," the amount of its pre-change NOLs that
12 may be utilized to offset post-change taxable income is subject to an annual limitation (the "Section
13 382 Limitation"). In general terms, an "ownership change" will occur if one or more of the
14 corporation's 5% shareholders increase their ownership, in the aggregate, by more than 50 percentage
15 points over a three-year period. The Section 382 Limitation is an amount equal to the product of the
16 applicable long-term tax-exempt rate in effect on the date of the ownership change (for example,
17 [4.484.16%](#) for ownership changes occurring in ~~October~~[December](#) 2009) and the value of the loss
18 corporation immediately prior to the ownership change. The value of the loss corporation generally
19 is equal to the value of the stock of the loss corporation immediately before the ownership change,
20 provided that such value is subject to (i) reduction if the corporation will hold substantial nonbusiness
21 assets after the ownership change and (ii) certain other adjustments specified in Section 382 and
22 applicable Treasury regulations. If a loss corporation does not continue its historic business or use a
23 significant portion of its business assets in a new business for two years after the ownership change,
24 the Section 382 Limitation would be zero. Generally, Section 382 and the Section 382 Limitation are
25 applied to a consolidated group as though the group were a single corporation, subject to certain
26
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28

1 exceptions noted below.

2 (2) Built-in Losses. In addition to limiting a corporation's ability to utilize NOLs, the
3 Section 382 Limitation may limit the use of certain losses or deductions which are "built-in" as of the
4 date of an ownership change and which are subsequently recognized. If a loss corporation has a net
5 unrealized built-in loss at the time of an ownership change in excess of a specified threshold (taking
6 into account most assets and all items of "built-in" income and deduction), then any built-in loss or
7 deduction recognized during the following five years (up to the amount of the original net built-in
8 loss) generally will be treated as a pre-change loss and will be subject to the Section 382 Limitation.
9 Conversely, if the loss corporation has a net unrealized built-in gain at the time of an ownership
10 change, in excess of a specified threshold, then any built-in gain recognized during the following five
11 years (up to the amount of the original net built-in gain) generally will increase the Section 382
12 Limitation in the year recognized, such that the loss corporation would be permitted to use pre-
13 change losses against such built-in gain income in addition to its regular annual allowance.

14
15 (3) Section 382(1)(5) Bankruptcy Exception. Section 382(1)(5) provides an exception
16 to the application of the Section 382 Limitation for certain loss corporations under the jurisdiction of
17 a court in a bankruptcy case (the "Section 382(1)(5) Bankruptcy Exception"). The Section 382(1)(5)
18 Bankruptcy Exception applies if historic shareholders and certain creditors prior to an ownership
19 change own at least 50 percent of the total voting power and total value of the loss corporation's
20 stock after the ownership change (the "50 percent historic shareholder test"). The historic
21 shareholders and creditors must own at least 50 percent of the corporation's stock as a result of being
22 shareholders and creditors immediately before the ownership change. Thus, for example, if a party
23 that is an historic shareholder acquires additional shares for new consideration pursuant to the Plan,
24 those additional shares would be considered 'new' shares and would not be considered historic for
25 purposes of the 50 percent historic shareholder test. Solely for purposes of the 50 percent historic
26 shareholder and creditor test, options or warrants of the loss corporation generally are deemed
27
28

1 exercised if such treatment would result in the 50 percent historic shareholder and creditor test being
2 failed. The continuity of business enterprise requirement does not apply to an ownership change that
3 qualifies for the Section 382(1)(5) Bankruptcy Exception. The loss corporation must, however, carry
4 on more than an insignificant amount of an active trade or business, or an acquisition of control as
5 defined in Section 269 of the Code may be considered to have been made for a prohibited purpose
6 under Section 269.

7
8 If the Section 382(1)(5) Bankruptcy Exception applies to a loss corporation, the loss
9 corporation's pre-change NOLs and built-in losses would not be subject to a Section 382 Limitation.
10 ~~Rather, Instead, the amount of~~ the loss corporation's pre-change NOLs ~~would be subject to certain~~
11 ~~reductions relating to the amount of loss corporation debt in respect of which stock is issued.~~
12 ~~Because the Plan does not provide for the issuance of stock for debt, these reductions should not~~
13 ~~apply~~ that may be carried over to post-change years would be reduced by the amount of interest
14 deductions claimed during the three taxable years preceding the Effective Date, and during the part of
15 the taxable year prior to and including the Effective Date, in respect of indebtedness exchanged for
16 the Debtor's stock pursuant to the Plan. Such indebtedness would include the indebtedness
17 represented by the TOPrS Claims, if the Holders of the TOPrS Claims elect to receive New Notes
18 and Common Stock in exchange therefor. The Section 382(1)(5) Bankruptcy Exception provides that
19 a second ownership change occurring during the two-year period immediately following the first
20 ownership change would reduce the Section 382 Limitation to zero. There is no clear interpretation
21 as to whether and how the Section 382(1)(5) Bankruptcy Exception applies to a consolidated group;
22 e.g., whether historic shareholders of a parent corporation who satisfy the 50 percent historic
23 shareholder test prevent the other members of the consolidated group from experiencing an
24 ownership change.
25
26

27 (4) Alternative: Section 382(1)(6). If a loss corporation does not qualify for the Section
28 382(1)(5) Bankruptcy Exception or elects not to apply the Section 382(1)(5) Bankruptcy Exception, a

1 special rule under Code Section 382(1)(6) applicable to corporations under the jurisdiction of a
2 bankruptcy court will apply in calculating the loss corporation's value for purposes of determining
3 the Section 382 Limitation. Under this special rule, the loss corporation's value would be the lesser of
4 (a) the value of the loss corporation's stock immediately after the ownership change (as opposed to
5 immediately before the ownership change, as discussed above) and (b) the value of the loss
6 corporation's assets determined without regard to liabilities immediately before the ownership
7 change, subject to certain adjustments specified in Section 382 and the applicable Treasury
8 regulations. One such adjustment is a reduction in the value of a loss corporation that holds
9 substantial nonbusiness assets immediately after an ownership change.
10

11 d) Application of Section 382 to the Debtor Group

12 (1) Ownership change. To facilitate the Section 382 analysis, the Debtor has made
13 available certain information regarding owner shifts in Debtor stock over the past three years. This
14 information indicates that an approximately 34.7% owner shift has occurred over the three year
15 period ending January 31, 2010 (an assumed Plan effective date used solely for purposes of this
16 analysis). No assurance can be given that the information furnished by the Debtor would be accepted
17 by the IRS. Shares to be issued ~~to New World~~ pursuant to the Plan would add to this owner shift, as
18 would ~~certain~~ some or all shares acquired by New World and certain of its investors, and possibly
19 certain Holders of TOPrS, prior to the Petition Date. Any shares issued in respect of Section 510(b)
20 Claims would not add to this owner shift if, as expected, such shares in the aggregate represent less
21 than ten percent of the then outstanding shares. Based on the foregoing, New World expects that the
22 owner shifts over the three years preceding the expected Effective Date, together with the issuance of
23 shares ~~to New World~~ pursuant to the Plan, would trigger an "ownership change" of the Debtor
24 Group. If an "ownership change" occurs, the Debtor Group's NOLs would become subject to a
25 Section 382 Limitation unless the Section 382(1)(5) Bankruptcy Exception applies.
26
27

28 (2) Section 382(1)(5) Bankruptcy Exception. In order for the Section 382(1)(5)

1 Bankruptcy Exception to apply, historic shareholders and certain creditors of the Debtor must own at
2 least 50 percent of the Debtor's stock after the ownership change, as a result of their historic
3 ownership. This 50 percent historic shareholder and creditor test compares stock ownership
4 immediately before and immediately after an ownership change, and is distinct from the rolling three-
5 year test used to determine if an ownership change has occurred. Solely for purposes of the 50
6 percent historic shareholder and creditor test, shares issued ~~to New World~~ pursuant to the Plan would
7 be considered new shares and would not be counted as historic share ownership. Similarly, solely for
8 purposes of the 50 percent historic shareholder test, Warrants issued pursuant to the Plan would be
9 deemed exercised, and the shares deemed issued upon exercise would be considered new shares and
10 not historic shares. Shares issued to a Holder of a TOPrS Claim generally would be treated as issued
11 to a historic creditor as a result of such creditor's historic ownership if such creditor held, or is
12 deemed to have held, its TOPrS since the date that is 18 months before the date of the filing of the
13 title 11 case. Shares issued in respect of Section 510(b) Claims likely would be considered historic
14 shares, because these shares would be issued in respect of ordinary course claims which arose prior to
15 the ownership change. New World estimates that the shares to be issued to New World ~~pursuant to~~
16 ~~the plan~~ and to Holders of TOPrS claims that are not historic creditors, together with the shares that
17 would be deemed issued upon deemed exercise of the Warrants, would be less than 50 percent of the
18 shares outstanding after the ownership change. The remaining shares of Debtor stock, which would
19 represent more than 50 percent of the shares outstanding after the ownership change, would ~~continue~~
20 ~~to be~~ owned by historic shareholders and creditors of the Debtor as a result of such historic
21 ownership. Accordingly, New World anticipates that the 50 percent historic shareholder and creditor
22 ownership test will be satisfied and that the Section 382(1)(5) Bankruptcy Exception will apply to the
23 Debtor. If the Section 382(1)(5) Bankruptcy Exception applies to the Debtor, the Debtor's NOLs and
24 built-in losses arising prior to the ownership change will not be subject to a Section 382 Limitation.
25
26
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28

(3) Debtor's Subsidiaries. A portion of the Debtor Group's NOLs is attributable to

1 subsidiaries of the Debtor, including FRC and FGCC. FRC and FGCC are loss corporations that are
2 not under the jurisdiction of a court in a bankruptcy case. As noted above, the Section 382(1)(5)
3 Bankruptcy Exception is applicable only to loss corporations that are under the jurisdiction of a court
4 in a bankruptcy case. Pursuant to the Plan, however, FRC and FGCC will be merged into the Debtor
5 on the Effective Date. If, as expected, these mergers are treated for Federal income tax purposes as
6 tax-free liquidations pursuant to Section 332, then the Debtor, which is under the jurisdiction of a
7 court in a bankruptcy case, would succeed to the NOLs and certain other tax attributes of FGCC and
8 FRC on the Effective Date. New World intends to request the Debtor to file its tax returns for the
9 period which includes the Effective Date in a manner which applies the Section 382(1)(5)
10 Bankruptcy Exception not only to NOLs which were originally attributable to the Debtor, but also to
11 NOLs to which the Debtor succeeds as a result of the mergers of FGCC and FRC into the Debtor. No
12 assurance can be given that the Debtor will file its tax returns on this basis. Because no definitive
13 guidance exists on the application of the Section 382(1)(5) Bankruptcy Exception to a group of
14 corporations, and/or to the contemplated mergers/liquidations, it is unclear whether the Section
15 382(1)(5) Bankruptcy Exception would apply to the NOLs of FGCC and FRC.

16
17
18 (4) Alternative Treatment. If the Section 382(1)(5) Bankruptcy Exception does not
19 apply to NOLs of the Debtor, the transactions contemplated by the Plan may subject the Debtor's
20 NOLs to a Section 382 Limitation calculated under the special rules of Section 382(1)(6), as
21 described above. If the Section 382(1)(5) Bankruptcy Exception does not apply to NOLs of FRC or
22 the other subsidiaries of the Debtor, the transactions contemplated by the Plan may subject those
23 NOLs to a Section 382 Limitation determined under the regular rules of Section 382, as described
24 above.

25 26 **2. Consequences to Holders of Claims.**

27 The federal income tax consequences of the Plan to a Holder of a Claim will depend upon
28 several factors, including but not limited to: (i) the origin and nature of the Holder's Claim, (ii)

1 whether the Holder is a resident of the United States for tax purposes (or falls into any of the special
2 classes of taxpayers excluded from this discussion as noted above), (iii) whether the Holder reports
3 income on the accrual or cash basis method, (iv) whether the Holder has taken a bad debt deduction
4 or worthless security deduction with respect to the Claim and (v) whether the Holder receives
5 distributions under the Plan in more than one taxable year.

6 **HOLDERS ARE STRONGLY ADVISED TO CONSULT THEIR TAX ADVISORS**
7 **WITH RESPECT TO THE TAX TREATMENT UNDER THE PLAN OF THEIR**
8 **PARTICULAR CLAIMS.**
9

10 a) Contingent Liability Claims

11 In general, the Claims can be divided into two broad categories for federal income tax
12 purposes. The first category consists of Claims that are not treated as debt for federal income tax
13 purposes. Most of the Administrative Claims, Priority Taxes, Priority Non-Tax Claims, General
14 Unsecured, and Section 510(b) Claims, for example, are included in this category.

15 The Holder of such a Claim generally should not recognize any income, gain or loss, if at all,
16 until actual receipt of consideration under the Plan (in the case of a cash basis taxpayer) or at such
17 time as the Holder's right to consideration under the Plan becomes fixed and determinable (in the
18 case of an accrual basis taxpayer). In either case, the Holder generally should be treated no differently
19 for federal income tax purposes than had the consideration been received with respect to the Holder's
20 original Claim, except to the extent that a payment from the Debtor represents interest, which a
21 Holder shall report in accordance with such Holder's method of accounting as described in the
22 preceding sentence.
23

24 Holders of Administrative Claims, Priority Taxes, Priority Non-Tax Claims, certain General
25 Unsecured Claims, and Section 510(b) Claims, will recognize gain or loss equal to the amount
26 realized under the Plan in respect of their Claims, less their respective tax bases in their Claims. The
27 amount realized for this purpose will generally be equal to the amount of cash and the fair market
28

1 value of common stock received under the Plan in respect of their Claims.

2 The character of any gain or loss recognized will depend on a number of factors, as described
3 below. The ~~holder~~Holder's aggregate tax basis for any non-cash consideration received under the
4 Plan will generally equal the amount realized. The holding period for any non-cash consideration
5 received under the Plan will generally begin on the day following the receipt of such consideration.

6 b) Debt Claims

7 The second category of Claims consists of Claims that are treated as debt obligations for
8 federal income tax purposes ("Debt Claims"). This category would include, among other Claims,
9 Senior Notes Claims, Junior Note Claims, and the TOPrS Claims. The payment or reinstatement of a
10 Debt Claim under the Plan will be treated as one of two possible transactions for federal income tax
11 purposes: a continuation of the Debt Claim or payment of the Debt Claim in a fully taxable
12 transaction.
13

14 (1) Continuation of Debt Claims.

15 A Holder of a TOPrS ~~Claim or Junior Note~~ Claim who receives (or maintains) an obligation
16 of the Debtor under the Plan that does not differ significantly from the original Claim generally
17 should not have a taxable event for federal income tax purposes. ~~The Holders of Allowed TOPrS~~
18 ~~Claims and Junior Note claims shall retain their legal, equitable, and contractual rights provided by~~
19 ~~the Indenture dated as of March 6, 1996, and the TOPrS and Junior Notes shall be Reinstated.~~
20 ~~Holders of such Claims~~ Accordingly, if the Holders of the TOPrS Claims elect to have their TOPrS
21 Claims reinstated, such Holders generally should not have a taxable event for federal income tax
22 purposes.
23

24 (2) Recapitalization Transactions.

25 If the Holders of the TOPrS Claims elect to exchange those claims for New Notes and
26 Common Stock, recapitalization treatment will apply to any such exchange if, as expected, the notes
27 represented by the TOPrS Claims constitute "securities" for U.S. federal income tax purposes. The
28

1 determination of whether a debt instrument constitutes a “security” for U.S. federal income tax
2 purposes depends upon an evaluation of the nature of the debt instrument, with an important factor
3 being the original term of the debt instrument. Generally, corporate debt instruments with maturities
4 when issued of less than five years are not considered securities while corporate debt instruments
5 with maturities when issued of ten years or more are considered securities. Moreover, the IRS has
6 ruled that a new debt instrument with a term of two years may be treated as a security where an
7 acquiring corporation issued it in a transaction that otherwise constitutes a tax-free reorganization in
8 exchange for a target debt instrument which had an original term of more than ten years and had the
9 same maturity date and terms (except for the interest rate) as the acquirer debt instrument. According
10 to the IRS ruling, the acquirer debt instrument represented a continuation of the Holder’s interest in
11 the corporation in substantially the same form. The debt instruments represented by the TOPrS
12 Claims had an original term of 30 years and should be treated as “securities.” The New Notes, which
13 have a term to maturity of five years, may not constitute securities. It is also uncertain whether the
14 New Notes will be treated as having substantially the same terms as the notes represented by the
15 TOPrS Claims and thereby represent a continuation of such notes. Due to the inherently factual
16 nature of the determination, each Holder is urged to consult its own tax advisor regarding the
17 treatment of the New Notes as securities for U.S. federal income tax purposes.

20 If the New Notes constitute securities for U.S. federal income tax purposes, the exchange of a
21 TOPrS Claim for New Notes and common shares should be treated as a tax-free exchange for U.S.
22 federal income tax purposes. As a result, except with respect to consideration received for accrued
23 interest, accrued market discount not previously includible in income, and fractional shares, a Holder
24 of a TOPrS Claim should not recognize gain or loss on the exchange provided the principal amount
25 of the New Notes received does not exceed the principal amount of the notes represented by the
26 TOPrS Claim exchanged therefor. A Holder’s adjusted tax basis in the TOPrS Claim surrendered
27 should be apportioned between the common shares and the New Notes based on their respective fair
28

1 market values on the Effective Date, and the Holder's holding period in the common shares and the
2 New Notes would include its holding period in the notes represented by the TOPrS Claim
3 surrendered therefor.

4 If the New Notes do not constitute securities, the exchange would be a partially tax-free
5 exchange. A Holder of a TOPrS Claim would realize gain or loss on the exchange of such TOPrS
6 Claim for New Notes and common shares in an amount equal to the difference between (x) the sum
7 of the issue price of the New Notes (as discussed above) and the fair market value of common shares
8 received and (y) the Holder's tax basis in the notes represented by the TOPrS Claim. A Holder of a
9 TOPrS Claim would not be entitled to recognize any loss realized as a result of the exchange of such
10 Claim, and would recognize any gain realized, but only to the extent of any "boot" received. "Boot"
11 for this purpose would include the fair market value of any New Notes received. Further,
12 nonrecognition will not apply to the extent Common Stock or New Notes (even if such notes
13 constitute securities) are received in respect of accrued interest or accrued market discount not
14 previously includible in income. A Holder's initial aggregate tax basis in common shares received in
15 the exchange would be equal to such Holder's adjusted tax basis in the notes represented by the
16 TOPrS Claims exchanged therefor, increased by any gain recognized on the exchange, and decreased
17 by the amount of boot received. In general, the Holder's holding period for the common shares
18 received would include the Holder's holding period for the note represented by the TOPrS Claim
19 exchanged therefor, except to the extent the common shares were received in respect of a claim for
20 accrued interest. A Holder's initial aggregate tax basis in New Notes received would be equal to the
21 fair market value of such notes on the Effective Date, and the Holder's holding period for such New
22 Notes would commence on the day following the Effective Date.

23
24
25
26 Whether or not a New Note constitutes a security, a Holder of a TOPrS Claim that receives
27 cash in lieu of a fractional share would recognize gain in an amount equal to the difference between
28 the amount of cash received in respect of the fractional share and the portion of the Holder's tax basis

1 in the TOPrS Claim that is allocable to the fractional share. Any gain or loss recognized on the
2 exchange generally should be capital gain or loss and should be long-term capital gain or loss if, at
3 the time of the exchange, a Holder has held the TOPrS Claim for more than one year. Each Holder of
4 a TOPrS Claim should consult with his or her own tax advisors concerning the treatment of cash
5 received in lieu of a fractional share.

6 (3) ~~(2)~~ Fully Taxable Transactions.

7
8 If a Debt Claim, including a Claim relating to the Senior Notes, is discharged under the Plan
9 other than ~~through a continuation of the Debt Claim~~ as described above, the discharge will generally
10 constitute a fully taxable transaction to the Holder and any gain or loss realized as a result of the
11 exchange or discharge will be recognized. A Holder whose discharge of a Debt Claim constitutes a
12 fully taxable transaction will realize gain or loss equal to the difference between (i) the “amount
13 realized” in respect of the Claim and (ii) the Holder’s tax basis therein. The amount realized generally
14 will be equal to the sum of the cash received, less any amounts allocable to interest.

15
16 c) Distributions in Discharge of Accrued but Unpaid Interest.

17 Distributions received in respect of Allowed Claims will be allocated first to the principal
18 amount of such Allowed Claims, with any excess allocated to accrued but unpaid interest. However,
19 there is no assurance that the IRS will respect such allocation for federal income tax purposes.
20 Holders of Allowed Claims not previously required to include in their taxable income any accrued
21 but unpaid interest on an Allowed Claim may be treated as receiving taxable interest, to the extent
22 any consideration they receive under the Plan is allocable to such accrued but unpaid interest.
23 Holders previously required to include in their taxable income any accrued but unpaid interest on an
24 Allowed Claim may be entitled to recognize a deductible loss, to the extent that such accrued but
25 unpaid interest is not satisfied under the Plan. Holders should consult their own tax advisors
26 concerning the allocation of consideration received in satisfaction of their Allowed Claims and the
27 federal income tax treatment of accrued but unpaid interest.
28

d) Character of Gain or Loss.

1
2 The character of any gain or loss as long-term or short-term capital gain or loss or as ordinary
3 income or loss recognized by a ~~holder~~Holder of Allowed Claims under the Plan will be determined
4 by a number of factors, including, but not limited to, the status of the ~~holder~~Holder, the nature of the
5 Allowed Claim in such ~~holder~~Holder's hands, the purpose and circumstances of its acquisition, the
6 ~~holder~~Holder's holding period of the Allowed Claim, and the extent to which the ~~holder~~Holder
7 previously claimed a loss, bad debt deduction or charge to a reserve for bad debts with respect to the
8 Allowed Claim. In this regard, section 582(c) of the IRC provides that the sale or exchange of a bond,
9 debenture, note or certificate, or other evidence of indebtedness by a bank or certain other financial
10 institutions, will not be considered the sale or exchange of a capital asset. Accordingly, any gain
11 recognized by such creditors as a result of the implementation of the Plan will be ordinary income.

12
13 In general, if a creditor holds a Debt Claim as a capital asset, any gain recognized will be
14 classified as capital gain, except to the extent of interest (including accrued market discount, if any,
15 as described below), and any loss required to be recognized will be classified as capital loss. Such
16 gain or loss will be long-term with respect to Debt Claims for which the creditor's holding period is
17 more than one year. There is a favorable tax rate applied to long-term capital gains for non-corporate
18 holders. Any capital losses realized generally may be used by a corporate holder only to offset capital
19 gains, and by an individual holder only to the extent of capital gains plus \$3,000 of other income.

20
21 e) Market Discount.

22 Generally, a "market discount" bond is one acquired after its original issuance for less than
23 the issue price of such bond plus the aggregate amount, if any, of original issue discount includible in
24 the income of all holders of such bond before such acquisition. Generally, gain realized on the
25 disposition of a market discount bond (or on the disposition of property exchanged for such bond in
26 certain non-taxable exchanges) will be ordinary income to the extent of "accrued market discount" at
27 the time of such disposition (determined using either constant interest or ratable daily accrual).
28

1 **3. Consequences to Holders of Equity Interests.**

2 Pursuant to the Plan, all Equity Interests are being reinstated. A ~~holder~~Holder of an Equity
3 Interest should not have a taxable event for federal income tax purposes.

4 **4. Withholding.**

5 All Distributions to holders of Allowed Claims under the Plan are subject to any applicable
6 withholding, including employment tax withholding. The Debtor and/or the Post-Confirmation Estate
7 will withhold appropriate employment taxes with respect to payments made to a ~~holder~~Holder of an
8 Allowed Claim which constitutes a payment for compensation. Payors of interest, dividends, and
9 certain other reportable payments are generally required to withhold from such payments if the payee
10 fails to furnish such payee's correct taxpayer identification number (social security number or
11 employer identification number), to the payor. This rate is currently 30% but is scheduled to be
12 reduced in future years. The Debtor and/or the Post-Confirmation Estate may be required to withhold
13 a portion of any payments made to a ~~holder~~Holder of an Allowed Claim if the ~~holder~~Holder (i) fails
14 to furnish the correct social security number or other taxpayer identification number ("TIN") of such
15 ~~holder~~Holder, (ii) furnishes an incorrect TIN, (iii) has failed to properly report interest or dividends to
16 the IRS in the past or (iv) under certain circumstances, fails to provide a certified statement signed
17 under penalty of perjury, that the TIN provided is the correct number and that such ~~holder~~Holder is
18 not subject to backup withholding. Backup withholding is not an additional tax but merely an
19 advance payment, which may be refunded to the extent it results in an overpayment of tax. Certain
20 persons are exempt from backup withholding, including, in certain circumstances, corporations and
21 financial institutions.
22
23
24

25 **AS INDICATED ABOVE, THE FOREGOING IS INTENDED TO BE A SUMMARY**
26 **ONLY AND NOT A SUBSTITUTE FOR CAREFUL TAX PLANNING WITH A TAX**
27 **PROFESSIONAL. THE FEDERAL, STATE, LOCAL AND OTHER TAX CONSEQUENCES**
28 **OF THE PLAN ARE COMPLEX AND, IN SOME CASES, UNCERTAIN. ACCORDINGLY,**

1 **EACH HOLDER OF A CLAIM OR INTEREST IS URGED TO CONSULT SUCH**
2 **HOLDER'S TAX ADVISORS CONCERNING THE FEDERAL, STATE, LOCAL AND**
3 **OTHER TAX CONSEQUENCES APPLICABLE UNDER THE PLAN.**

4 **G. Trading Restrictions**

5 In order to preserve the tax benefits from a second change in control, New World intends to
6 provide an amendment to the Articles of Incorporation. The proposed amendment to the Articles of
7 Incorporation to prevent a post Effective Date second change of control generally would restrict any
8 person or entity from attempting to transfer (which includes any direct or indirect acquisition, sale,
9 transfer, assignment, conveyance, pledge or other disposition) any of the Reorganized Debtor's stock
10 (or options, warrants or other rights to acquire such stock, or securities convertible or exchangeable
11 into such stock), to the extent that the transfer would (i) create or result in an individual or entity
12 becoming a 5-percent stockholder of the Reorganized Debtor's stock for purposes of Section 382 of
13 the Internal Revenue Code (which the amendment refers to as a "Five Percent Shareholder") or (ii)
14 increase the stock ownership percentage of any existing Five Percent Shareholder. The amendment
15 would not prevent transfers that are sales by a Five Percent Shareholder, although it would restrict
16 any purchasers that seek to acquire shares from a Five Percent Shareholder to the extent that the
17 purchaser is or would become a Five Percent Shareholder.

20 In order to provide for effective policing of the provision, the amendment will require a
21 Restricted Holder (defined as a Person or group of Persons that is a Five Percent Shareholder and
22 acquires or proposes to acquire securities) prior to the date of the proposed acquisition, to request in
23 writing that the Board of Directors (or a committee thereof that has been appointed by the Board of
24 Directors) review the proposed acquisition and authorize or not authorize the proposed acquisition in
25 accordance with the amendment. The Board of Directors may authorize an acquisition by a
26 Restricted Holder, if it determines, in its sole discretion, that, after taking into account the
27 preservation of the tax benefits, such acquisition would be in the best interests of the Reorganized
28

1 Debtor and its stockholders.

2 The amendment provides that any transfer that violates the provisions of the amendment
3 would be null and void *ab initio* and shall not be effective to transfer any record, legal, beneficial or
4 any other ownership of the number of shares which result in the violation of the amendment (which
5 are referred to as “**Excess Securities**”). The purported transferee would not be entitled to any rights
6 as a stockholder of the Reorganized Debtor with respect to the Excess Securities. Instead, the
7 purported transferee would be required, upon demand by the Reorganized Debtor to transfer the
8 Excess Securities to an agent designated by the Reorganized Debtor for the limited purpose of
9 consummating an orderly arm’s-length sale of such shares. The net proceeds of the sale will be
10 distributed first to reimburse the agent for any costs associated with the sale, second to the purported
11 transferee to the extent of the price it paid, and finally any additional amount will go to the purported
12 transferor, or, if the purported transferor cannot be readily identified, to a charity designated by the
13 Board of Directors. The amendment would also provide the Reorganized Debtor with various
14 remedies to prevent or respond to a purported transfer which violates its provisions.
15

16
17 Although New World believes that this should preserve the Fremont NOLs, it cannot
18 guarantee that they will remain available for the Reorganized Debtor because in order to realize value
19 from the NOLs, the Reorganized Debtor must also acquire income-producing assets or otherwise
20 conduct a business that generates positive income that can be setoff by the NOLs.

21 **H. Retention of Jurisdiction**

22 The Bankruptcy Court will retain jurisdiction of all matters arising in or related to the Plan to
23 the fullest extent provided by law until the Plan is fully consummated, including, without limitations:

- 24
- 25 1. The adjudication of the validity, scope, classification, allowance, and disallowance of
26 any Claim;
 - 27 2. The estimation of any Claim;
 - 28 3. The allowance or disallowance of Professional Fee Claims, compensation, or other

1 Administrative Claims;

2 4. To hear and determine Claims concerning taxes pursuant to Bankruptcy Code sections
3 346, 505, 525, and 1146;

4 5. To hear and determine any action or proceeding brought under Bankruptcy Code
5 sections 108, 510, 543, 544, 545, 547, 548, 549, 550, 551, and 553;

6 6. To hear and determine all actions and proceedings relating to pre-confirmation
7 matters;

8 7. To hear and determine any issue relating to the assumption or rejection of executory
9 contracts and unexpired leases;

10 8. To hear and determine any modification to the Plan in accordance with the Bankruptcy
11 Rules and the Bankruptcy Code;

12 9. To enforce and interpret terms of the Plan;

13 10. To correct any defects, cure any omissions, or reconcile any inconsistency in the Plan
14 or the Confirmation Order as may be necessary to carry out the purpose and intent of the Plan;

15 11. To hear and determine such matters and make such orders as are consistent with the
16 Plan as may be necessary to carry out the provisions thereof and to adjudicate any disputes arising
17 under or related to any order entered by the Court in this Case; and

18 12. The entry of an order concluding and terminating this Case.

19
20
21 **I. Claims**

22 **1. Maintenance of Post-Confirmation Claims Register**

23 In order to reduce the administrative burdens on the Bankruptcy Court and to improve the
24 efficiency of the remaining claims allowance process, the Plan provides that the Reorganized Debtor
25 shall be entitled to retain a third party, including, without limitation, Kurtzman Carson Consultants
26 LLC, to maintain the official claims register for this Case (the "Post-Confirmation Claims Register").
27 The Post-Confirmation Claims Register shall be based, in the first instance, upon an updated claims
28

1 database (the “Register Update”) that shall be filed by the Debtor at least twenty-one (21) days prior
2 to the Confirmation Hearing. Objections by any party in interest to the form or substance of the
3 Register Update may be considered as part of the Confirmation Hearing. The Plan further provides
4 that on the Effective Date, the Register Update shall be deemed to amend and supersede the
5 Bankruptcy Court’s official register, and may thereafter be relied upon by the Reorganized Debtor
6 and any retained third party as the official Post-Confirmation Claims Register. Finally, the Plan
7 provides that following the Effective Date, copies of the current Post-Confirmation Claims Register
8 may be obtained by any party in interest upon written request to the Reorganized Debtor.
9

10 **2. Claim Objections**

11 The Reorganized Debtor or any other party in interest shall file objections to Claims or Equity
12 Interests within 180 days of the Effective Date. The Reorganized Debtor may obtain an extension of
13 this date by filing a motion in the Bankruptcy Court, based upon a showing of “cause.” If, at the time
14 of any Distribution, a Claim or Equity Interest under the Plan is a Disputed Claim or Disputed Equity
15 Interest, the Reorganized Debtor shall have the right to hold in trust any funds that would be
16 distributed to that Claim Holder or Equity Interest Holder if the Claim or Equity Interest were
17 Allowed and until the Claim or Equity Interest is Allowed, if at all (the “Reserve Account”). Any
18 unused funds in the Reserve Account, not otherwise designated for payout under the Plan, shall be
19 returned to the Reorganized Debtor for use under the Plan, if required, and then to the Reorganized
20 Debtor. Once a Claim or Equity Interest becomes an Allowed Claim or Equity Interest, it will
21 receive the treatment afforded by the Plan.
22

23 **J. The Committees**

24 Until the Effective Date, the Equity Committee and the Creditors Committee shall continue in
25 existence. As of the Effective Date, the Equity Committee and the Creditors Committee shall
26 terminate and disband and the members of the Equity Committee and the Creditors Committee shall
27 be released and discharged of and from all further authority, duties, responsibilities and obligations
28

1 related to and arising from their service as Committee members. Except as otherwise provided in the
2 Plan or Court order, the prohibition on members of the Equity Committee from trading their
3 respective Equity Interests shall cease as of the Confirmation Date.

4 **K. Other Plan Provisions**

5 The Plan provides that on the Effective Date, the adoption of the Certificate of Incorporation
6 or similar organizational documents, the adoption of the By-Laws, the selection of directors and
7 officers for Reorganized Debtor, and all other actions contemplated by the Plan shall be deemed
8 authorized and approved in all respects (subject to the provisions of the Plan). All matters provided
9 for in the Plan involving the corporate structure of the Debtor or the Reorganized Debtor, and any
10 corporate action required by the Debtor or the Reorganized Debtor in connection with the Plan,
11 including, but not limited to, the cancellation of securities and related documents and issuance of new
12 securities and execution of related documents, shall be deemed to have timely occurred in accordance
13 with applicable law and shall be in effect, without any requirement of further actions by the security
14 holders or directors of the Debtor or the Reorganized Debtor. On the Effective Date, the appropriate
15 officers of Reorganized Debtor and members of the New Board of Reorganized Debtor are
16 authorized and directed to issue, execute and deliver the agreements, and other documents as required
17 by the Plan, including, without limitation, the New Notes, the New Note Indenture, the Warrant
18 Agreement and the Registration Rights Agreement.

21 On and after the Effective Date, the Reorganized Debtor will use its commercially reasonable
22 best efforts to hold its next annual meeting no later than December 30, 2010. In addition to
23 amendments to the Certificate of Incorporation to prohibit the issuance of non-voting securities and
24 restrict certain transfers of Common Stock, the Reorganized Debtor's Certificate of Incorporation
25 will be amended to provide that the chairman of the board or secretary of the Reorganized Debtor
26 shall call a special meeting of its stockholders at the written request of stockholders possessing at
27 least 25% of the voting power of the issued and outstanding Common Stock of the Reorganized
28

Debtor entitled to vote generally for the election of directors.

VIII. SECURITIES CONSIDERATIONS

Except as set forth below, common stock to be issued to Holders of Allowed Claims in Class 5, if any, will be issued without registration under the Securities Act or any similar federal, state or local law in reliance upon the exemptions set forth in section 1145 of the Bankruptcy Code.

Common ~~stock~~Stock to be issued in connection with the \$~~6.8~~5 million equity investment, Warrants to be issued and ~~common stock~~Common Stock to be issued in connection with the exercise of such Warrants will be issued without registration under the Securities Act or any similar federal, state or local law and in reliance upon the exemption set forth in section 4(2) of the Securities Act or Regulation D promulgated thereunder. In that regard, New World will have made customary representations to the Reorganized Debtor, including that it is an "accredited investor" as defined under Rule 501 of Regulation D. ~~The lenders who may be granted Warrants in connection with the Exit Financing will be required to make the same representation.~~

On or about the Effective Date, the Reorganized Debtor shall execute and deliver the Registration Rights Agreement in substantially the form attached as Exhibit ~~1~~3 to the Plan. The Registration Rights Agreement shall obligate the Reorganized Debtor to use commercially reasonable efforts to effect, within six (6) months following the Effective Date, the registration under the Securities Act of common stock held by persons who acquired such common stock under the Plan in reliance upon the exemption set forth in section 4(2) of the Securities Act or Regulation D promulgated thereunder. The Registration Rights Agreement shall include customary terms and conditions, including customary demand and "piggyback" registration provisions. The Reorganized Debtor shall be responsible for all registration expenses, excluding selling expenses. bring the Debtor into compliance with its reporting obligations under the Exchange Act.

As stated herein, to the extent that it is currently delinquent in its reporting obligations under the Securities Exchange Act of 1934, the Reorganized Debtor shall use its reasonable efforts to obtain

1 an accommodation and/or become compliant with such reporting obligations.

2 **A. Section 1145 of the Bankruptcy Code**

3 Section 1145(c) of the Bankruptcy Code provides that securities issued pursuant to a
4 registration exemption under section 1145(a)(1) of the Bankruptcy Code are deemed to have been
5 issued pursuant to a public offering. Therefore, the securities issued pursuant to a section 1145
6 exemption may generally be resold by any ~~holder~~Holder thereof without registration under the
7 Securities Act pursuant to the exemption provided by section 4(1) thereof, unless the ~~holder~~Holder is
8 an “underwriter” with respect to such securities, as such term is defined in section 1145(b)(1) of the
9 Bankruptcy Code. In addition, such securities generally may be resold by the recipients thereof
10 without registration under state securities or “blue sky” laws pursuant to various exemptions provided
11 by the respective laws of the individual states. However, recipients of securities issued under the Plan
12 are advised to consult with their own counsel as to the availability of any such exemption from
13 registration under federal securities laws and any relevant state securities laws in any given instance
14 and as to any applicable requirements or conditions to the availability thereof.

15
16
17 Section 1145(b)(1) of the Bankruptcy Code defines an “underwriter” for purposes of the
18 Securities Act as one who, subject to certain exceptions, (a) purchases a claim against the debtor with
19 a view to distribution of any security to be received in exchange for such claim, or (b) offers to sell
20 securities offered or sold under the plan for the holders of such securities, or (c) offers to buy
21 securities issued under the plan from the holders of such securities, if the offer to buy is made with a
22 view to distribution of such securities, and if such offer is under an agreement made in connection
23 with the plan, with the consummation of the plan or with the offer or sale of securities under the plan,
24 or (d) is an issuer, as used in section 2(11) of the Securities Act, with respect to such securities.

25
26 The term “issuer,” as used in section 2(11) of the Securities Act, includes any person directly
27 or indirectly controlling or controlled by, an issuer of securities, or any person under direct or indirect
28 common control with such issuer. “Control” (as defined in Rule 405 under the Securities Act) means

1 the possession, direct or indirect, of the power to direct or cause the direction of the management and
2 policies of a person, whether through the ownership of voting securities, by contract, or otherwise.
3 Accordingly, an officer or director of a reorganized debtor or its successor under a plan of
4 reorganization may be deemed to be “in control” of such debtor or successor, particularly if the
5 management position or directorship is coupled with ownership of a significant percentage of the
6 reorganized debtor’s or its successor’s voting securities. Moreover, the legislative history of section
7 1145 of the Bankruptcy Code suggests that a creditor who owns at least ten percent (10%) of the
8 voting securities of a reorganized debtor may be presumed to be a “control person.”
9

10 To the extent that persons deemed “underwriters” receive securities under the Plan, resales of
11 such securities would not be exempted by section 1145 of the Bankruptcy Code from registration
12 under the Securities Act or other applicable law. Holders of such securities may, however, be able, at
13 a future time and under certain conditions described below, to sell securities without registration
14 pursuant to the resale provisions of Rule 144 under the Securities Act.
15

16 New World intends to offer to the TOPrS under the terms and subject to the conditions set
17 forth the Plan, 9% Senior Notes due 2015 in an aggregate principal amount equal to \$95,000,000.
18 The New Notes will be issued pursuant to a qualified indenture. The New Senior Notes are being
19 offered in reliance on an exemption from the registration requirements afforded by section 1145 of
20 Bankruptcy Code. New World believes that the offer and exchange of the New Notes and the
21 Common Stock to the TOPrS under the Plan will satisfy such requirements of section 1145(a)(1) of
22 the Bankruptcy Code and, therefore, are exempt from the registration requirements.
23

24 **B. Section 4(2) of the Securities Act/Regulation D**

25 Section 4(2) of the Securities Act provides that the issuance of securities by an issuer in
26 transactions not involving any public offering are exempt from registration under the Securities Act.
27 Regulation D is a nonexclusive safe harbor promulgated by the United States Securities and
28 Exchange Commission under the Securities Act related to, among others, Section 4(2) of the

1 Securities Act.

2 The term "issuer," as used in Section 4(2) of the Securities Act, means, among other things, a
3 person who issues or proposes to issue any security.

4 Securities issued pursuant to the exemption provided by Section 4(2) of the Securities Act or
5 Regulation D promulgated thereunder are considered "restricted securities." As a result, resales of
6 such securities would not be exempt from the registration requirements of the Securities Act or other
7 applicable law. Holders of such restricted securities may, however, be able, at a future time and under
8 certain conditions described below, to sell securities without registration pursuant to the resale
9 provisions of Rule 144 and Rule 144A under the Securities Act.

10
11 On or after the Effective Date, the Reorganized Debtor shall execute and deliver the
12 Registration Rights Agreement.

13 **C. Rule 144 and Rule 144A**

14 Under certain circumstances, affiliates and holders of restricted securities may be entitled to
15 resell their securities pursuant to the limited safe harbor resale provisions of Rule 144. Generally,
16 Rule 144 provides that if certain conditions are met (e.g., that the availability of current public
17 information with respect to the issuer, volume limitations and notice and manner of sale
18 requirements), specified persons who resell restricted securities or who resell securities which are not
19 restricted but who are "affiliates" of the issuer of the securities sought to be resold, will not be
20 deemed to be "underwriters" as defined in section 2(11) of the Securities Act. Rule 144 provides that:
21 (i) a non-affiliate who has not been an affiliate during the preceding three months may resell
22 restricted securities after a six-month holding period if at the time of the sale there is current public
23 information regarding the issuer and after a one year holding period if there is not current public
24 information regarding the issuer at the time of the sale and (ii) an affiliate may sell restricted
25 securities after a six month holding period if at the time of the sale there is current public information
26 regarding the issuer and after a year holding period if there is not current public information
27
28

1 regarding the issuer at the time of the sale, provided that in each case the affiliate otherwise complies
2 with the volume, manner of sale and notice requirements of Rule 144.

3 Rule 144A provides a non-exclusive safe harbor exemption from the registration requirements
4 of the Securities Act for resales to certain “qualified institutional buyers” of securities that are
5 “restricted securities” within the meaning of the Securities Act, irrespective of whether the seller of
6 such securities purchased its securities with a view towards reselling such securities, if certain other
7 conditions are met (e.g., the availability of information required by paragraph 4(d) of Rule 144A and
8 certain notice provisions). Under Rule 144A, a “qualified institutional buyer” is defined to include,
9 among other persons, “dealers” registered as such pursuant to section 15 of the Securities Exchange
10 Act of 1934, and entities that purchase securities for their own account or for the account of another
11 qualified institutional buyer and that, in the aggregate, own and invest on a discretionary basis at least
12 \$100 million in the securities of unaffiliated issuers. Subject to certain qualifications, Rule 144A does
13 not exempt the offer or sale of securities that, at the time of their issuance, were securities of the same
14 class of securities then listed on a national securities exchange (registered as such pursuant to section
15 6 of the Exchange Act) or quoted in a United States automated inter-dealer quotation system.
16
17

18 Pursuant to the Plan, certificates evidencing shares of common stock received by (i) holders
19 of securities issued in reliance upon the exemption set forth in section 4(2) of the Securities Act, (ii)
20 holders of five percent or more of the outstanding common stock or (iii) by holders that request
21 legended certificates and who certify that they may be deemed to be underwriters within the meaning
22 of section 1145 of the Bankruptcy Code, will bear a legend substantially in the form below:
23

24 **THE SHARES OF COMMON STOCK EVIDENCED BY THIS CERTIFICATE**
25 **HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933,**
26 **AS AMENDED, OR UNDER THE SECURITIES LAWS OF ANY STATE OR**
27 **OTHER JURISDICTION AND MAY NOT BE SOLD, OFFERED FOR SALE**
28 **OR OTHERWISE TRANSFERRED UNLESS REGISTERED OR QUALIFIED**

1 **UNDER SAID ACT AND APPLICABLE STATE SECURITIES LAWS OR**
2 **UNLESS THE COMPANY RECEIVES AN OPINION OF COUNSEL**
3 **REASONABLY SATISFACTORY TO IT THAT SUCH REGISTRATION OR**
4 **QUALIFICATION IS NOT REQUIRED.**

5 Any person that would receive legended securities as provided above may instead receive
6 certificates evidencing common stock without such legend if, prior to the Effective Date, such person
7 or entity delivers to the Debtor (a) an opinion of counsel reasonably satisfactory to the Debtor to the
8 effect that the shares of common stock to be received by such person or entity are not subject to the
9 restrictions applicable to “underwriters” under section 1145 of the Bankruptcy Code and may be sold
10 without registration under the Securities Act and (b) a certification that such person or entity is not an
11 “underwriter” within the meaning of section 1145 of the Bankruptcy Code.
12

13 Any ~~holder~~Holder of a certificate evidencing shares of common stock of the Reorganized
14 Debtor bearing such legend may present such certificate to the transfer agent for exchange for one or
15 more new certificates not bearing such legend or for transfer to a new ~~holder~~Holder without such
16 legend at such times as (a) such shares are sold pursuant to an effective registration statement under
17 the Securities Act or (b) such ~~holder~~Holder delivers to the Reorganized Debtor an opinion of counsel
18 reasonably satisfactory to the Reorganized Debtor to the effect that such shares are no longer subject
19 to the restrictions applicable to “underwriters” under section 1145 of the Bankruptcy Code or (c) such
20 ~~holder~~Holder delivers to the Reorganized Debtor an opinion of counsel reasonably satisfactory to the
21 Reorganized Debtor to the effect that such shares are no longer subject to the restrictions pursuant to
22 an exemption under the Securities Act and such shares may be sold without registration under the
23 Securities Act, in which event the certificate issued to the transferee will not bear such legend.
24
25

26 **IN VIEW OF THE COMPLEX, SUBJECTIVE NATURE OF THE QUESTION OF**
27 **WHETHER A RECIPIENT OF COMMON STOCK MAY BE AN UNDERWRITER OR AN**
28 **AFFILIATE OF THE REORGANIZED DEBTOR, THE NEW WORLD MAKES NO**

1 **REPRESENTATIONS CONCERNING THE RIGHT OF ANY PERSON TO TRADE THE**
2 **COMMON STOCK OR WARRANTS TO BE DISTRIBUTED PURSUANT TO THE PLAN.**
3 **ACCORDINGLY, NEW WORLD RECOMMENDS THAT POTENTIAL RECIPIENTS OF**
4 **SECURITIES UNDER THE PLAN CONSULT THEIR OWN COUNSEL CONCERNING**
5 **WHETHER THEY MAY FREELY TRADE SUCH SECURITIES.**

6 **D. Investment Company Act Status**

7 The Reorganized Debtor intends to structure and operate its business in such a way that it will
8 not be deemed an “investment company” under the Investment Company Act of 1940 (the “Company
9 Act”). The Reorganized Debtor intends to operate as a financial company engaged in various
10 financing activities as discussed herein, and will not be primarily in the business of investing,
11 reinvesting or trading in securities. However as of the Effective Date of the Plan, the Reorganized
12 Debtor is projected to own: i) assets that could be deemed “investment securities” as defined in
13 Section 3(a)(1)(C) of the Company Act, that might exceed 40 percent of its total assets, less
14 government securities, investments in majority-owned subsidiaries, cash and cash items, and
15 consequently could be considered an investment company under that section. In such instance, the
16 Reorganized Company would need to register with the SEC as an investment company unless it can
17 rely on an exception or exemption from the Company Act, or obtain an order from the SEC allowing
18 it to operate under the terms of the order without registering. For up to a year from the Effective Date
19 of the Plan, the Reorganized Debtor intends to rely upon the provisions of Rule 3a-2 of the Company
20 Act, which provides a one-year period in which it may operate without being subject to registration
21 and regulation as an investment company. The Board of the Reorganized Debtor will adopt a
22 resolution evidencing the intent to rely on and observe the requirements of Rule 3a-2.
23
24

25 **IX. MISCELLANEOUS PROVISIONS GOVERNING DISBURSEMENTS**

26 **A. Dates of Distributions**

27 The Reorganized Debtor shall make each required distribution by the date stated in the Plan
28

1 with respect to such distribution. Any Distribution required to be made on the Effective Date shall be
2 deemed to be made on such date if made as soon as practicable after such date. Any Distribution
3 required to be made on the date on which a Claim becomes an Allowed Claim shall be deemed to be
4 made on such date if made on the nearest Distribution Date occurring after such date.

5 **B. Manner of Distribution**

6 At the option of the Reorganized Debtor, monetary distributions may be made in Cash, by
7 wire transfer, or by a check drawn on a domestic bank. Distributions to the Holders of Senior Notes
8 will be made through the Indenture Trustee.
9

10 **C. Undeliverable Distributions**

11 **If a Distribution is returned to the Reorganized Debtor as undeliverable, then such**
12 **Distribution amount shall be deemed to be “Unclaimed Property.”** Nothing contained in the Plan
13 shall require the Reorganized Debtor, or anyone else, to attempt to locate such Person. The
14 Unclaimed Property shall be set aside and (in the case of Cash) held in a segregated interest-bearing
15 account to be maintained by the Reorganized Debtor. If such Person presents itself within one (1)
16 year following the Effective Date, the Unclaimed Property distributable to such Person, together with
17 any interest or dividends earned thereon, shall be paid or distributed to such Person. If such Person
18 does not present itself within one (1) year following the Effective Date, any such Unclaimed Property
19 and accrued interest or dividends earned thereon shall become the property of the Reorganized
20 Debtor for use under the Plan, if required, then to the Reorganized Debtor.
21

22 **D. Rounding of Payments**

23 Whenever payment of a fraction of a cent would otherwise be called for, the actual payment
24 shall reflect a rounding down of such fraction to the nearest whole cent. To the extent Cash remains
25 undistributed as a result of the rounding of such fraction to the nearest whole cent, such Cash shall be
26 treated as “Unclaimed Property” and shall be dealt with in as described above.
27

28 **E. Compliance with Tax Requirements**

1 The Reorganized Debtor shall comply with all withholding and reporting requirements
2 imposed by federal, state, or local taxing authorities in connection with making Distributions
3 pursuant to the Plan.

4 In connection with each Distribution with respect to which the filing of an information return
5 (such as an Internal Revenue Service Form 1099 or 1042) or withholding is required, the
6 Reorganized Debtor shall file such information return with the Internal Revenue Service and provide
7 any required statements in connection therewith to the recipients of such Distribution, or effect any
8 such withholding and deposit all moneys so withheld to the extent required by law. With respect to
9 any Person from whom a tax identification number, certified tax identification number, or other tax
10 information required by law to avoid withholding has not been received by the Reorganized Debtor,
11 then the Reorganized Debtor may, at its sole option, withhold the amount required and distribute the
12 balance to such Person or decline to make such Distribution until the information is received.
13

14 **F. Distribution of Unclaimed Property**

15 If a distribution is returned to the Reorganized Debtor as undeliverable, then such distribution
16 amount shall be deemed to be “Unclaimed Property.” Nothing contained in the Plan shall require the
17 Reorganized Debtor, or anyone else, to attempt to locate such Person. The Unclaimed Property shall
18 be set aside and (in the case of Cash) held in a segregated interest-bearing account to be maintained
19 by the Reorganized Debtor. If such Person presents itself within one (1) year following the Effective
20 Date, the Unclaimed Property distributable to such Person, together with any interest or dividends
21 earned thereon, shall be paid or distributed to such Person. If such Person does not present itself
22 within one (1) year following the Effective Date, any such Unclaimed Property and accrued interest
23 or dividends earned thereon shall become the property of the Reorganized Debtor for use under the
24 Plan, if required, then to the Reorganized Debtor.
25
26

27 **G. No De Minimis Distributions**

28 If any single distribution required by the Plan would be for an amount of \$25.00 or less, then

1 the Reorganized Debtor shall not be required to process the distribution and may, at its option, either
2 add the distribution to the next distribution if the collective amount would be greater than \$25.00 or
3 may treat the distribution as Unclaimed Property.

4 **H. Setoff**

5 Any Claims of any nature which the Debtor or the Estate may have against the Holder of a
6 Claim may be, but are not required to be, set off against any Claim and the Distribution to be made
7 pursuant to the Plan in respect of such Claim. Neither the failure by the Reorganized Debtor or any
8 other Person to effect such a setoff nor the allowance of any Claim shall constitute a waiver or a
9 release of any claim which any or all of the foregoing may have against the Holder of a Claim.

11 **I. Distribution Record Date**

12 At the close of business on the Distribution Record Date, the claims registers for all Claims
13 (other than the TOPrS and the Junior Notes), and the transfer ledgers for the Senior Notes shall be
14 closed, and there shall be no further changes in the record holders of such Claims or such Senior
15 Notes. Except as provided herein, the Reorganized Debtor, the Disbursing Agent, the Indenture
16 Trustee, and each of their respective agents, successors, and assigns shall have no obligation to
17 recognize any transfer of Claims or any transfer of Senior Notes occurring after the Distribution
18 Record Date and shall be entitled instead to recognize and deal for all purposes hereunder with only
19 those record holders stated on the claims registers or transfer ledgers as of the close of business on
20 the Distribution Record Date irrespective of the number of distributions to be made under the Plan to
21 such Persons or the date of such distributions.

23 **X. CONDITIONS PRECEDENT TO**
24 **CONFIRMATION AND CONSUMMATION OF THE PLAN**

25 **A. Conditions to Confirmation**

26 The following are conditions precedent to the occurrence of the Confirmation Date, each of
27 which must be satisfied or waived in accordance with the Plan.
28

1 (a) an order finding that the Disclosure Statement contains adequate information pursuant
2 to Section 1125 of the Bankruptcy Code shall have been entered; and

3 (b) the proposed Confirmation Order shall be in form and substance reasonably
4 satisfactory to New World and wholly consistent with the New World Plan.

5 **B. Conditions to Effective Date**

6 The following conditions precedent must be satisfied or waived on or prior to the Effective
7 Date in accordance with Section IX of the Plan:

8 (a) the Confirmation Order shall have been entered in form and substance reasonably
9 satisfactory to New World and ~~the lender or the agent for the lenders under the Exit Facility, and~~
10 shall, among other things:

11 (i) Provide that the Debtor and the Reorganized Debtor are authorized and directed to take all
12 actions necessary or appropriate to enter into, implement, and consummate the contracts, instruments,
13 releases, leases, indentures, and other agreements or documents created in connection with the Plan;

14 ~~(ii) — approve the Exit Facility;~~ (iii) authorize the issuance of the New Notes, Common Stock and
15 the Warrants; and

16 (iv) provide that notwithstanding Rule 3020(e) of the Bankruptcy Rules, the Confirmation Order
17 shall be immediately effective, subject to the terms and conditions of the Plan;

18 (b) the Confirmation Order shall not then be stayed, vacated, or reversed;

19 ~~(c) — the documents evidencing the Exit Facility shall be in form and substance reasonably~~
20 ~~acceptable to New World, and the lender or the agent for the lenders under the Exit Facility; and, to~~
21 ~~the extent any of such documents contemplates execution by one or more persons, any such~~
22 ~~document shall have been executed and delivered by the respective parties thereto, and all conditions~~
23 ~~precedent to the effectiveness of each such document shall have been satisfied or waived;~~

24 (d) the By-laws and Articles of Incorporation, in form and substance reasonably
25 acceptable to New World shall have been adopted;
26

1 (f) all material authorizations, consents, and ~~regulatory~~ approvals required, if any, in
2 connection with consummation of the Plan shall have been obtained; and

3 (g) all material actions, documents, and agreements necessary to implement the Plan shall
4 have been effected or executed.

5 **C. Waiver of Conditions**

6 Each of the conditions set forth in this Section, with the express exception of the conditions
7 contained in Section (b), may be waived in whole or in part by New World with notice to parties-in-
8 interest without a hearing. Notwithstanding the foregoing, unless extended by Order of the
9 Bankruptcy Court o the Confirmation Order is stayed, the Effective Date shall occur no later than
10 twenty five (25) days after the entry of the Confirmation Order.

11 **XI. CONFIRMATION REQUIREMENTS AND PROCEDURES**

12 The following discussion is intended solely for the purpose of alerting parties in interest about
13 basic confirmation issues, which they may wish to consider, as well as certain deadlines for filing
14 Claims. New World CANNOT and DOES NOT represent that the discussion contained below is a
15 complete summary of the law on this topic.
16

17
18 The Bankruptcy Code sets forth a number of requirements that must be met before a plan may
19 be confirmed. Among others, a plan must be proposed in good faith, must treat claim in certain
20 Classes in a specific manner, the plan must provide a ~~holder~~Holder of claim or interest in an impaired
21 class with not less than the ~~holder~~Holder would receive or retain if the debtor were liquidated under
22 chapter 7 and a plan must be feasible. New World believes the Plan meets these requirements and all
23 the other requirements of the Bankruptcy Code for confirmation of the Plan.
24

25 **1. Votes Necessary for a Class to Accept the Plan**

26 When a Class of Claims is entitled to vote, it is considered to have accepted the Plan when
27 more than one-half (1/2) in number and at least two-thirds (2/3) in dollar amount of the Claims which
28 actually voted, voted in favor of the Plan. A Class of Equity Interests is considered to have

1 “accepted” the Plan when at least two-thirds (2/3) in amount of the interest-holders of such Class
2 which actually voted, voted to accept the Plan.

3 **2. Treatment of Non-Accepting Classes**

4 Even if any impaired Classes do not accept the proposed Plan, the Court may nonetheless
5 confirm the Plan if the non-accepting impaired Classes are treated in the manner required by the
6 Code. The process by which non-accepting impaired Classes are forced to be bound by the terms of a
7 Plan is commonly referred to as “cramdown.” The Code allows the Plan to be “crammed down” on
8 non-accepting Classes of Claims or Equity Interests if it meets all consensual requirements except the
9 voting requirements of 11 U.S.C. § 1129(a)(8) and if the Plan does not “discriminate unfairly” and is
10 “fair and equitable” toward each impaired Class that has not voted to accept the Plan as referred to in
11 11 U.S.C. § 1129(b) and applicable case law. In the event that the Court determines that any Class of
12 Claims or Equity Interests is impaired and therefore improperly designated by the Plan, New World
13 will tabulate the votes of the impaired Class(es), and will seek to “cram down” the Plan on any non-
14 accepting Classes as may be permitted by the Bankruptcy Code.
15

16 **XII. BEST INTERESTS TEST AND FEASIBILITY**

17 **A. The “Best Interests Test”**

18 In addition to the other requirements described in this Disclosure Statement, Bankruptcy Code
19 section 1129(a)(7) requires that each ~~holder~~Holder of a Claim or Interest in an Impaired Class either
20 (i) vote to accept the Plan or (ii) receive or retain under the Plan cash or property of a value, as of the
21 effective date of the Plan, that is not less than the value such ~~holder~~Holder would receive or retain if
22 the debtor were liquidated under chapter 7 of the Bankruptcy Code. This is referred to as the “Best
23 Interests Test.”
24

25 In a chapter 7 case, a trustee would be elected or appointed to liquidate the debtor’s assets for
26 distribution to creditors in accordance with the priorities set forth in the Bankruptcy Code. Under the
27 priority scheme set forth in the Bankruptcy Code, secured creditors are generally paid from the
28

1 proceeds of sale of the properties securing their liens. If any assets are remaining after the satisfaction
2 of secured claims, the holders of administrative claims are generally next to receive payments.
3 Unsecured claims are thereafter paid from any remaining sales proceeds, according to their legal
4 rights of priority. Unsecured claims with the same priority share in proportion to the amount of their
5 allowed claim in relation to the amount of total allowed unsecured claims with the same priority,
6 subject to any inter-creditor agreement. Finally, holders of Equity Interest receive the balance that
7 remains, if any, after all creditors are paid. Thus, for the Court to confirm the Plan, the Court must
8 find that all Creditors and Holders of Equity Interests who do not accept the Plan will receive at least
9 as much under the Plan as such Holders would receive under a hypothetical chapter 7 liquidation
10 taking into account the Debtor's assets at liquidation value.

12 The estimated the liquidation value of the Debtor's assets based upon the most accurate
13 information that is currently available is set forth on a liquidation analysis (the "Liquidation
14 Analysis") which is the following chart. The Liquidation Analysis is not a guarantee as to the
15 amounts and sources of recovery that could be realized in a hypothetical liquidation. Rather, the
16 Liquidation Analysis is only an estimate. The Liquidation Analysis was prepared based on a number
17 of sources, including unaudited financial statements prepared by the Debtor and the Committees and
18 information furnished by the Debtor and certain of its advisors and professionals concerning the
19 assets, liabilities and operations of the Debtor and its affiliates. As demonstrated by the Liquidation
20 Analysis, the prospects for recovery that may be realized by Creditors on account of their Claims and
21 Holders of Equity Interest on account of their Equity Interests in the Debtor would be at least as great
22 for most Creditors if not better, under the Plan as in a chapter 7 liquidation of the Debtor.

25 It is not certain that in a chapter 7 liquidation the Merger contemplated by the Plan could be
26 accomplished, that the inter-company claim would be cancelled, or that the assets of the Debtor's
27 direct and indirect subsidiaries would be made available for the payment of Claims and Equity
28 Interests to the extent contemplated by the Plan. Moreover, in a chapter 7 liquidation, payment of

1 claims to Creditors could be delayed while the chapter 7 trustee liquidates assets. In addition, the
2 administration of the wind down would be costly. Creditors (other than possibly the Holders of the
3 Senior Notes depending upon the interpretation of the subordination provisions in the Senior Notes
4 and the Junior Notes and the amount of reserved for FRC claims) would most likely not be paid in
5 full or receive Post Petition interest on their allowed claims. It is not certain that a chapter 7 trustee
6 would be successful in challenging certain of the claims against FRC and it is likely that the reserve
7 for Repurchase Claims would be substantially greater in a chapter 7 liquidation than under the Plan
8 where the Reorganized Debtor will be engaged in a continuing income generating business. Finally,
9 the Debtor's tax liability might be increased by recapture in a liquidation and the value of the
10 Fremont NOLs would be lost.

12 In contrast, under the Plan, General Unsecured Creditors will immediately receive Cash on
13 the Effective Date plus Post Petition Interest or interest at the rate determined by the Bankruptcy
14 Court, and holders of Equity Interest will retain their Equity Interests in substantial part. In light of
15 the foregoing, New World believes that Holders of Claims and Equity Interests would receive under
16 the Plan at least as much, if not more than in a liquidation under chapter 7.

18 The Liquidation Analysis set forth below assumes, among other things, that the assets of the
19 Debtor's direct and indirect subsidiaries are available for distribution to Creditors in the chapter 7
20 liquidation after a reserve for the FRC claims on terms substantially greater than would be required
21 under the Plan where the Reorganized Debtor is engaged as an income producing ongoing business.

22 **ASSETS VALUED AT LIQUIDATION VALUES**

23		
24	Estimated Cash on Hand as of 1/10	\$350,221,723 <u>\$355,548,000</u>
25	Income & Other Recoveries During Liquidation	\$ 40,218,00
26	Less Operating Costs During Liquidation	<u>\$ (30,367,000)</u>
27	Estimated Cash Available for Distribution	\$360,072,723 <u>\$365,399,000</u>
28	Plus Assets at Estimated Liquidation Value:	

1	Loans Held for Sale	\$ 60,000,00
2	FHLB Stock	\$ 2,000,0
3	Loans Held for Investment	\$ 3,500,0
4	Real Estate Owned	\$ 2,300,0
5	Premises & Equipment	\$ 6,000,0
6	Miscellaneous Assets	<u>\$ 15,000,00</u>
7		\$448,872,723 <u>454,199,000</u>
8		
9	Less: Chapter 7 Trustee Fees and Expenses	\$ (3,721,000)
10	Less: Professional Fees for Litigation	\$ (8,500,000)
11	Less: Priority Tax Claims, incl. accrued interest	\$ (12,000,000)
12	Less Additional Tax	\$ (17,000,000)
13	Less Accrued Administrative Claims	\$(2,500,000)
14	Less: FRC Claims (known and unknown) as estimated	<u>\$(200,000,000)</u>
15	by U.S. Bank and Wells Fargo (estimated) ⁴	
16	Net Cash Available for Distribution to Unsecured Creditors	\$205,151,723 <u>210,478,000</u>
17		
18		
19	Claims:	
20	Senior Notes, incl. accrued interest	\$185,438,000 <u>184,296,000</u>
21	(\$176.4 million without Post-Petition Interest)	
22	TOPrS Claims, incl. accrued interest	\$ 111,699,000
23	(\$107.4 million without Post-Petition Interest)	
24	General Unsecured Claims, incl. accrued interest	<u>\$ 55,505,00</u>
25	(\$47 million without Post-Petition Interest)	
26	(\$78 million per settlements if not paid in full)	

⁴ This is the estimate of Repurchase Claims as asserted by U.S. Bank and Wells Fargo. Nothing herein constitutes an admission by New World that New World adopts or agrees with the estimate except for the purposes of a hypothetical liquidation.

1 Total Unsecured Claims, incl. accrued interest \$~~352,642,000~~351,500,000
 2 ((Total Claims without Post-Petition Interest: \$330.8
 3 million or approximately \$378,100,000 at full amount)

4 Below is a demonstration in tabular format that all Creditors and Equity Interest Holders are
 5 projected to receive at least as much under the Plan as they would receive in a Chapter 7 liquidation
 6 giving effect to the subordination provision in the Indentures and accounting in full for Claims that
 7 have been settled in compromised amounts provided that such compromised amounts were paid in
 8 full.

CLASS	ESTIMATED PAYOUT PERCENTAGE OR RETAINED INTEREST UNDER PLAN	ESTIMATED PAYOUT PERCENTAGE OR RETAINED INTEREST IN CHAPTER 7 LIQUIDATION
1	100%	100%
2	100%	100%
3A	100% plus interest	approximately 54% ⁵
3B	100% Plus Interest	Approximately \$161,100,000 ⁶
3C	100%	0
4	100% subject to dilution	0
5	100%	0

20 **B. Feasibility**

21 The Bankruptcy Code requires that, in order for the Plan to be confirmed by the Bankruptcy
 22 Court, it must be demonstrated that consummation of the Plan is not likely to be followed by the
 23 liquidation or the need for further financial reorganization of the Debtor or any successor to the
 24 Debtor under the Plan (i.e., the Reorganized Debtor), unless such liquidation or reorganization is
 25 proposed in the Plan. See 11 U.S.C. § 1129(a)(11). The Projections (attached as Exhibit [43](#)) show
 26
 27

28 ⁵ Based upon approximately \$78 million of Claims.

1 estimated receipts from the income generating assets that will be retained by the Reorganized Debtor
2 and associated expenses. Additional assets of the Reorganized Debtor will include Cash as well as
3 the other assets described herein as set forth in the Liquidation Analysis set forth on the following
4 chart to this Disclosure Statement. The Projections are not a guarantee as to how the Reorganized
5 Debtor will perform or how quickly, or how much, creditors may be paid. Rather, the Projections are
6 only an estimate. The timetable for satisfaction of remaining Allowed Claims reflected in the
7 Projections may or may not turn out to be correct. The Projections were prepared from information
8 contained in a number of sources, including information furnished by the Debtor and certain of its
9 advisors and professionals concerning the assets, liabilities and operations of the Debtor and its
10 affiliates.
11

12 There are at least two important aspects of a feasibility analysis. The first aspect considers
13 whether the Plan proponent will have enough Cash on hand on the Effective Date of the Plan to pay
14 all the Claims and expenses which are entitled to be paid on such date. The second aspect considers
15 whether the proponent will have enough Cash over the life of the Plan to make the required Plan
16 payments.
17

18 With respect to the first component, there is sufficient Cash on hand and available to the
19 Debtor to pay all Claims that must be paid on the Effective Date so that even after the Administrative
20 Claims and the Claims in Classes 1, 2, 3A, 3B, and 5 are paid in full, there will be sufficient Cash
21 remaining in addition to the equity infusion ~~and exit financing~~ provided by the New World Plan to
22 fund the Reorganized Debtor's business plan and meet Plan obligations. Subsequent strategic
23 investments would occur in January and July 2011. Initially, the Reorganized Debtor will increase
24 the yield on its Cash investments through the purchase or mortgage-backed securities and other
25 related financial products with a target after-tax return of 6%. The Reorganized Debtor will continue
26
27

28 ⁶ This recovery reflects the turnover from the Junior Notes in accordance with the subordination agreement.

1 to generate loan income. The Plan assumes an average of \$500,000 a month on loan income from
2 January 2010 through July 2010, when the loans would be sold or securitized. These numbers are
3 consistent with the present rate of returns, which were \$550,000 in March 2009 and \$606,000 in
4 April 2009.

5 The second component of the feasibility analysis requires an examination of whether the
6 Reorganized Debtor will have sufficient Cash over the life of the Plan to make the required Plan
7 payments. The investment strategy and targets are set forth in Business Plan. The activities will
8 target after-tax returns of 20-25%, although the Plan assumes only a 15% return on invested capital.
9 With the Cash that will be available to the Reorganized Debtor, including the Equity Investment, ~~the~~
10 ~~Exit Facility~~ and the Warrant Exercise Price, as well as the generation of additional funds through the
11 early repayment of mortgages, real estate sales, and sales or securitization of loans, there is sufficient
12 liquidity to fund the Reorganized Debtor's long term strategy which will result in all Creditors being
13 paid in full and in a significant return to the Class 4 Equity Interests.
14

15 **XIII. EFFECT OF CONFIRMATION OF PLAN**

16 **A. Discharge**

17 Because the Plan does not contemplate the liquidation of substantially all of the property of
18 the estate and the Reorganized Debtor will engage in business after consummation of the Plan, the
19 rights under the Plan and the treatment of Claims and Equity Interests under the Plan will be in
20 exchange for, and in complete satisfaction, discharge, and release of all Claims of any nature
21 whatsoever against the Debtor, the Reorganized Debtor, or their property, except as otherwise
22 provided in the Plan or the Confirmation Order,
23

24 (1) On the Effective Date, except as otherwise provided for in the Plan the Debtor, the
25 Debtor's Estate, Reorganized Debtor, and their property will be deemed discharged and released
26 from any and all Claim, including without limitation, all demands, liabilities, Claims, that arose
27 before the Confirmation Date or that are based upon or otherwise relate to acts, events, omissions,
28

1 transactions or other activities of any kind that occurred before the Confirmation Date, and all debts
2 of the kind specified in Bankruptcy Code §§ 502(g), 502(h), or 502(i) regardless of whether: (a) a
3 proof of Claim based on such debt is filed or deemed filed; (b) a Claim based on such debt is
4 allowable under Bankruptcy Code § 502; or (c) the Person holding the Claim based on such a debt
5 has accepted the Plan;

6 (2) All Persons will be precluded from asserting against the Debtor, the Estate, or the
7 Reorganized Debtor, or their property, any other or further Claims based on, arising from, or in
8 connection with any act, event, omission, transaction, or other activity of any kind that occurred
9 before the Confirmation Date;

10 (3) Any debt of the Debtor, whether secured or unsecured, which was in default up to
11 the Confirmation, will no longer be deemed in default. Moreover, to the extent that the Debtor and
12 Reorganized Debtor comply with the terms and conditions of the Plan, these obligations will be
13 deemed in good standing;

14 (4) As set forth in sections 524 and 1141 of the Bankruptcy Code, except as otherwise
15 provided in the Plan or the Confirmation Order, the Confirmation Order constitutes a discharge or
16 any and all Claims against, and all debts and liabilities of, the Debtor. The Reorganized Debtor and
17 its property will be deemed discharged and released from any and all Claims and Equity Interests,
18 including, without limitation, all demands, liabilities, Claims and Equity Interests that arose before
19 the Confirmation Date or that are based on or otherwise relate to acts, events, transactions, or other
20 activities of any kind that occurred before the Confirmation Date. This discharge will void any
21 judgment that was obtained against the Debtor at any time only to the extent that the judgment
22 relates to a discharged Claim.

23 (5) Subject to the limitations and conditions imposed under section 1125(e) of the
24 Bankruptcy Code, Persons who, in good faith and in compliance with applicable provisions of the
25 Bankruptcy Code, either solicit Plan acceptances or rejections or participate in the offer, issuance,
26
27
28

1 sale, or purchase of securities under the Plan will not be liable on account of their solicitation or
2 participation for violation of any applicable law, rule, or regulation governing the solicitation of
3 Plan acceptances or rejections or the offer, issuance, sale, or purchase of such securities.

4 **B. Vesting of Property of the Estate**

5 On the Effective Date, all Assets that are property of the Estate as of the Effective Date,
6 including all Causes of Action, Rights of Action and Avoidance Actions, will vest in the Reorganized
7 Debtor free and clear of the Claims of any Creditors.

8 **C. Modification of Plan**

9 New World may modify the Plan at any time before confirmation provided that the
10 modifications meet the requirements of the Bankruptcy Code. New World may also seek to modify
11 the Plan at any time after confirmation only if (1) the Plan has not been substantially consummated
12 and (2) the Court authorizes the proposed modifications after notice and a hearing.

13 **D. Post-Confirmation Status Report**

14 Within 120 days of the Confirmation Date, the Reorganized Debtor shall file a status report
15 with the Court explaining what progress has been made toward consummation of the confirmed Plan.
16 The status report shall be served on the United States Trustee and the members of the Committees.
17 Further status reports shall be filed every 180 days and served on the same entities.

18 **E. Post-Confirmation United States Trustee Fees**

19 Pursuant to 28 U.S.C. § 1930(a)(6), quarterly fees to the United States Trustee will continue
20 to be due until the bankruptcy case is closed, at the rate in effect at the time such fees are due. Such
21 fees shall be paid by the Reorganized Debtor.

22 **F. Exculpation**

23 The Plan provides ~~that~~ as of the Effective Date, neither the Debtor, FGCC or FRC (including,
24 without limitation, their successors or assigns, including, without limitation, the Reorganized Debtor,
25 the Disbursing Agent, the Board of Directors and Board of Directors' Agents) or the Creditors'
26
27
28

1 Committee or the Equity Committee or the Indenture Trustees or New World and, in each case, none
2 of their respective present or former officers, directors, employees, members, agents, representatives,
3 shareholders, attorneys, accountants, financial advisors, investment bankers, lenders, consultants,
4 experts, and professionals and agents for the foregoing shall have or incur any liability for, and are
5 expressly exculpated and released from, any Claims (including, without limitation, any Claims
6 whether known or unknown, foreseen or unforeseen, then existing or thereafter arising, in law, equity
7 or otherwise) for any past or present or future actions taken or omitted to be taken under or in
8 connection with, related to, effecting, or arising out of the Case ~~including, without limitation, the~~
9 ~~formulation, negotiation, documentation, preparation, dissemination, implementation, administration,~~
10 ~~confirmation, or consummation of the Plan and the Disclosure Statement;~~ except only for actions or
11 omissions to act to the extent determined by a court of competent jurisdiction (in a Final Order) to be
12 by reason of such party's gross negligence, willful misconduct, or fraud, and in all respects, such
13 party shall be entitled to rely upon the advice of counsel with respect to its duties and responsibilities
14 under the Plan. It being expressly understood that any act or omission with the approval of the
15 Bankruptcy Court will be conclusively deemed not to constitute gross negligence, willful misconduct,
16 or fraud unless the approval of the Bankruptcy Court was obtained by fraud or misrepresentation.
17 provided, however, that nothing herein is intended to or shall exculpate the Committees, their
18 members (official or ex-officio) or professionals from improprieties under the Bankruptcy Code, the
19 Bankruptcy Rules or other applicable law with respect to the formulation, negotiation, preparation,
20 dissemination, solicitation or confirmation of any plan and/or disclosure statement.

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24 **G.**
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Deletions	329
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Moved to	6
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