

SETTLEMENT AGREEMENT

This Settlement Agreement (this “AGREEMENT”), dated as of September 27, 2011 (the “EXECUTION DATE”), is made by and among Lehman Brothers Holdings, Inc. (“LBHI”), a Delaware corporation, Lehman ALI, Inc., a Delaware corporation (“ALI”), Lehman Commercial Paper Inc., a New York corporation (“LCPI”), on the one hand and collectively referred to as the “LEHMAN PARTIES”, and Arch Insurance Company, a Missouri corporation (“ARCH”) on the other hand (the LEHMAN PARTIES, ARCH and, upon the execution and delivery of an amendment or joinder to this AGREEMENT as described below, the LB NOMINEES, may be referred to collectively as the “PARTIES”).

All initially capitalized terms used herein shall have the respective meanings ascribed to such terms in this Agreement or, where indicated, in the JOINT PLAN.

The PARTIES anticipate that affiliates of the LEHMAN PARTIES which have not yet been formed will be added to this AGREEMENT by amendment or joinder on or prior to the TRANSFER CLOSING DATE. The affiliate taking title to the RITTER RANCH PROJECT is referred to herein as the “LEHMAN RITTER RANCH NOMINEE” and the affiliate taking title to the TESORO BURNHAM PROJECT is referred to herein as the “LEHMAN TESORO BURNHAM NOMINEE” and collectively as the “LB NOMINEES” and each as an “LB NOMINEE”.

RECITALS

WHEREAS, ARCH has issued certain surety bonds (including subdivision, payment, performance and other bonds) with respect to the development of (a) the real estate development project comprised of, in part, certain real property consisting of approximately 10,625 acres located in the City of Palmdale, California and owned, as of the EXECUTION DATE, by the RITTER RANCH DEBTOR (the “RITTER RANCH PROJECT”), which are outstanding as of the EXECUTION DATE in the aggregate outstanding penal sum of \$12,796,467, for the benefit of Palmdale Hills Property, LLC, a Delaware limited liability company (the “RITTER RANCH DEBTOR”), as more particularly described in Exhibit A attached hereto and made a part hereof (collectively, the “RITTER RANCH BONDS”) and (b) the real estate development project comprised, in part, of certain real property consisting of approximately 185 acres located in the City of Santa Clarita, California and owned, as of the EXECUTION DATE, by the TESORO BURNHAM DEBTOR (the “TESORO BURNHAM PROJECT” and together with the RITTER RANCH PROJECT, collectively, the “PROJECTS” and each a “PROJECT”), which are outstanding as of the EXECUTION DATE in the aggregate outstanding penal sum of \$536,000, for the benefit of Tesoro SF, LLC, a Delaware limited liability company (the “TESORO BURNHAM DEBTOR”), as more particularly described in Exhibit A attached hereto and made a part hereof (collectively, the “TESORO BURNHAM BONDS” and together with the RITTER RANCH BONDS, the “BONDS”);

WHEREAS, LCPI made certain loans to the RITTER RANCH DEBTOR in the original aggregate maximum principal amount of \$264,000,000 (collectively, the “RITTER RANCH”

LOAN”), which RITTER RANCH LOAN is secured by, among other things, a first priority deed of trust encumbering the RITTER RANCH PROJECT;

WHEREAS, ALI made a loan to SCC Acquisitions, LLC (the “INTERIM LOAN BORROWER”) in the original maximum principal amount of \$20,000,000 (the “INTERIM LOAN”), which INTERIM LOAN is guaranteed by the TESORO BURNHAM DEBTOR, as a wholly-owned subsidiary of the INTERIM LOAN BORROWER, and secured by, among other things, a first priority deed of trust encumbering the TESORO BURNHAM PROJECT;

WHEREAS, as a result of various repurchase transactions entered into prior to the commencement of the LEHMAN CASES, LBHI and/or LCPI may hold interests in the RITTER RANCH LOAN and/or the INTERIM LOAN;

WHEREAS, on September 15, 2008 and on various dates thereafter, LBHI, LCPI and certain of their subsidiaries commenced voluntary cases (collectively, the “LEHMAN CASES”) under the Bankruptcy Code, which LEHMAN CASES have been consolidated for procedural purposes only and are being jointly administered under Case Number 08-13555 and are pending in the United States Bankruptcy Court for the Southern District of New York (“NY BANKRUPTCY COURT”);

WHEREAS, in November 2008, (i) the RITTER RANCH DEBTOR, the TESORO BURNHAM DEBTOR and certain affiliates of the RITTER RANCH DEBTOR and the TESORO BURNHAM DEBTOR more particularly identified as “VOLUNTARY DEBTORS” on Exhibit B attached hereto and made a part hereof (collectively the “VOLUNTARY DEBTORS”), filed voluntary cases (the “VOLUNTARY DEBTOR CASES”) under the Bankruptcy Code in the United States Bankruptcy Court for the Central District of California (the “CALIFORNIA BANKRUPTCY COURT”) and (ii) various creditors filed involuntary cases under the Bankruptcy Code (the “TRUSTEE DEBTOR CASES”; and together with the VOLUNTARY DEBTOR CASES, the “SUNCAL CASES”) in the CALIFORNIA BANKRUPTCY COURT against certain other affiliates of the RITTER RANCH DEBTOR and the TESORO BURNHAM DEBTOR more particularly identified as “TRUSTEE DEBTORS” on Exhibit B attached hereto and made a part hereof (collectively, the “TRUSTEE DEBTORS” and, together with the VOLUNTARY DEBTORS, the “SUNCAL DEBTORS”), all of which SUNCAL CASES are being jointly administered under Case Number 8:08-bk-17206-ES;

WHEREAS, on or about March 18, 2009 and April 15, 2009, ARCH filed various proofs of claim against certain of the SUNCAL DEBTORS as more particularly described on Exhibit C attached hereto and made a part hereof (collectively, the “ARCH PROOFS OF CLAIM”);

WHEREAS, the City of Palmdale made demand upon and filed a lawsuit against ARCH seeking the performance of certain work and other obligations which the RITTER RANCH DEBTOR failed to perform under various subdivision improvement agreements, development agreements and other agreements with the City of Palmdale, and on or about February 10, 2010, ARCH and the City of Palmdale resolved certain disputes between them by entering into a Settlement and Mutual Release Agreement with respect to the RITTER RANCH PROJECT and certain RITTER RANCH BONDS, a true and correct copy of which is attached hereto as Exhibit

D (as amended, restated, supplemented or otherwise modified to the extent permitted hereunder and including all exhibits, schedules and annexes thereto, the “ELR SETTLEMENT AGREEMENT”);

WHEREAS, ARCH is an intervening plaintiff in the equitable subordination adversary proceeding styled *Palmdale Hills Property, LLC vs. Lehman ALI, Inc.*, Case Number 8:09-ap-01005 pending in the CALIFORNIA BANKRUPTCY COURT (the “ADVERSARY PROCEEDING”), in which ARCH alleges, among other things, that the claims of the LEHMAN PARTIES in the SUNCAL CASES should be subordinated to ARCH’s claims in the SUNCAL CASES as evidenced in the ARCH PROOFS OF CLAIM;

WHEREAS, on August 23, 2011, LCPI and ALI (collectively the “PLAN PROPONENTS”) filed that certain Third Amended Joint Chapter 11 Plan for Eleven Voluntary Debtors with respect to all of the VOLUNTARY DEBTORS except SCC/Palmdale, LLC, SunCal Emerald Meadows, LLC, SJD Partners, Ltd., SJD Development Corp., SunCal Communities III, LLC and North Orange Del Rio Land, LLC (collectively, the “PLAN DEBTORS”) in the applicable VOLUNTARY DEBTOR CASES (as modified, amended, supplemented or superseded from time to time, the “JOINT PLAN”), which JOINT PLAN sets forth, among other things, a settlement proposal to unsecured creditors of the PLAN DEBTORS, and a proposal for the reorganization of the PLAN DEBTORS, and their respective assets and liabilities;

WHEREAS, among other things, the JOINT PLAN provides for the transfer and conveyance of each of the PROJECTS, as well as the other Plan Projects (as such term is defined in the JOINT PLAN), to one or more Lehman Nominees (as such term is defined in the JOINT PLAN) designated by the Lehman Lenders (as such term is defined in the JOINT PLAN), or any of them, to take title to the applicable Plan Project(s) and/or any other assets of the applicable PLAN DEBTOR(S) on the Effective Date (as such term is defined in the JOINT PLAN) or, if later than the Effective Date, the subsequent date on which title to the PROJECTS is transferred pursuant to the JOINT PLAN to the LB NOMINEES (the “TRANSFER CLOSING DATE”);

WHEREAS, the JOINT PLAN also provides for distributions to be made to the creditors of the PLAN DEBTORS as provided in the JOINT PLAN; and

WHEREAS, the LEHMAN PARTIES (certain of which are PLAN PROPONENTS and/or creditors of the PLAN DEBTORS) and ARCH have negotiated a settlement and resolution of all of ARCH’s claims against the PLAN DEBTORS (as reflected in the ARCH PROOFS OF CLAIM) that, upon the confirmation and effectiveness of the JOINT PLAN, would result in ARCH accepting less favorable treatment under the JOINT PLAN than other creditors of the PLAN DEBTORS holding allowed claims in the same class(es) as ARCH’s claims, all in consideration of the promises, covenants, agreements and undertakings more particularly set forth in this AGREEMENT.

NOW therefore, the PARTIES agree as follows:

1. Intentionally Omitted
2. General Purpose of Agreement

The purpose of this agreement is for ARCH, as surety for and creditor of the RITTER RANCH DEBTOR and the TESORO BURNHAM DEBTOR, and party to settlement agreements with bond claimants pertaining to the PROJECTS, and the LEHMAN PARTIES, as secured creditors of the RITTER RANCH DEBTOR and TESORO BURNHAM DEBTOR who propose to take title to the PROJECTS through the JOINT PLAN to reach agreement as to their respective past and future obligations pertaining to the BONDS issued by ARCH on the PROJECTS.

3. Agreements pertaining to Ritter Ranch Project

- a. ARCH agrees that its RITTER RANCH BONDS will remain in effect after the TRANSFER CLOSING DATE and after transfer of the RITTER RANCH PROJECT to the LEHMAN RITTER RANCH NOMINEE, and ARCH will continue to perform its obligations to the City of Palmdale pursuant to the ELR SETTLEMENT AGREEMENT.
- b. If requested by the LEHMAN PARTIES or the LEHMAN RITTER RANCH NOMINEE, ARCH will cooperate with the LEHMAN PARTIES and the LEHMAN RITTER RANCH NOMINEE to seek permission from the City of Palmdale for the LEHMAN RITTER RANCH NOMINEE to assume the necessary entitlements and development agreements to continue development of the RITTER RANCH PROJECT, and to seek permission from the City of Palmdale to substitute the LEHMAN RITTER RANCH NOMINEE as the bond principal on the existing RITTER RANCH BONDS. Further, at the request of the LEHMAN PARTIES or the LEHMAN RITTER RANCH NOMINEE, ARCH will assist them in negotiating with the City of Palmdale and/or other public bodies regarding the scope of improvements to comply with the requirements of the RITTER RANCH PROJECT or the modification of the existing requirements. LEHMAN RITTER RANCH NOMINEE agrees to bear any actual and reasonable out-of-pocket expenses incurred by ARCH in providing this cooperation provided that such expenses have been pre-approved by the LEHMAN RITTER RANCH NOMINEE.
- c. If the JOINT PLAN is confirmed as to the RITTER RANCH DEBTOR, then within ten (10) days following the later of (i) entry of the LEHMAN COURT APPROVAL, and (ii) entry of an order by the CALIFORNIA BANKRUPTCY COURT confirming the JOINT PLAN, the LEHMAN PARTIES shall deposit the sum of \$1.5MM into an interest-bearing escrow account to be held by a mutually acceptable escrow agent (the "RITTER RANCH ESCROW AGENT") at a mutually acceptable financial institution and pursuant to a mutually acceptable escrow arrangement (the "RITTER RANCH ESCROW") to be held in escrow pending the occurrence of the TRANSFER CLOSING DATE. If the TRANSFER CLOSING DATE does not occur on or prior to September 30, 2012 and this AGREEMENT is terminated as a result as provided in

Section 10 hereof, then upon termination of this AGREEMENT, the PARTIES shall direct the RITTER RANCH ESCROW AGENT to immediately release all funds in the RITTER RANCH ESCROW to the LEHMAN PARTIES. The foregoing obligations of the PARTIES to direct the disbursement of the funds in the RITTER RANCH ESCROW as provided above following the termination of this AGREEMENT shall survive the termination of this AGREEMENT.

- d. Provided that the TRANSFER CLOSING DATE has occurred, the LEHMAN RITTER RANCH NOMINEE will reimburse ARCH in an aggregate amount (the "ELR PAYMENT CAP AMOUNT") equal to the lesser of (a) \$1,100,000, and (b) the actual amounts paid by ARCH in respect of the work ("ELR WORK") committed to be performed by ARCH under the ELR SETTLEMENT AGREEMENT. Any and all claims that ARCH may have against the RITTER RANCH DEBTOR or any other SUNCAL DEBTOR arising from any costs, expenses or other losses incurred by ARCH in respect of the ELR WORK in excess of the ELR PAYMENT CAP AMOUNT shall be waived by ARCH. On the TRANSFER CLOSING DATE, the LEHMAN RITTER RANCH NOMINEE shall reimburse ARCH for amounts actually paid by ARCH through the TRANSFER CLOSING DATE in respect of the ELR WORK (up to the ELR PAYMENT CAP AMOUNT). ARCH will provide reasonable documentation of its actual payments in respect of the ELR WORK as a pre-requisite to any payment to ARCH, including conditional releases of contract and lien rights from the completion contractors to the extent of such payments. Upon the LEHMAN RITTER RANCH NOMINEE's taking title to the RITTER RANCH PROJECT, ARCH will consult with the LEHMAN RITTER RANCH NOMINEE prior to engaging any other contractors or vendors required to complete the ELR WORK pursuant to the ELR SETTLEMENT AGREEMENT and the LEHMAN RITTER RANCH NOMINEE will have the right to reasonably approve any contracts to be entered into by ARCH for the performance of such work. ARCH shall continue to make direct payments to the completion contractors for progress payment invoices submitted by the completion contractors within the time that a progress payment is due under the completion contract and the LEHMAN RITTER RANCH NOMINEE will reimburse ARCH (up to the ELR PAYMENT CAP AMOUNT) for such progress payments as provided herein. In that event, ARCH and the LEHMAN RITTER RANCH NOMINEE will cooperate reasonably to verify the accuracy of the completion contractor's invoice. The PARTIES acknowledge that change orders occur frequently in complex construction projects. ARCH agrees that it will not agree to any requested change orders by the bond obligee City of Palmdale or its completion contractors in excess of \$10,000 without written notice to, consultation with and consent from the LEHMAN RITTER RANCH NOMINEE or any entity designated by the LEHMAN PARTIES to monitor the construction. The LEHMAN RITTER RANCH NOMINEE agrees that it will not unreasonably withhold consent to any change orders necessary for ARCH to fulfill its ELR SETTLEMENT AGREEMENT obligations to the bond obligee City of Palmdale. The LEHMAN RITTER RANCH NOMINEE shall have the right to monitor the construction (or designate someone to do so on its behalf) and supervise, review and approve all work performed by contractors, approve any payments to be made to such contractors and

- to obtain lien waivers, releases and other such documentation as a condition to payment to such contractors as required or prescribed under the applicable construction documents.
- e. The LEHMAN RITTER RANCH NOMINEE will consent to the release of the ELR BONDS upon completion of the ELR WORK as provided in the ELR SETTLEMENT AGREEMENT. Any amendments or modifications to the ELR SETTLEMENT AGREEMENT shall be subject to the LEHMAN RITTER RANCH NOMINEE'S consent and approval. If ARCH completes the ELR WORK in accordance with the terms of the ELR SETTLEMENT AGREEMENT and otherwise satisfies all other conditions and requirements in the ELR SETTLEMENT AGREEMENT to the release of the RITTER RANCH BONDS that the City of Palmdale has agreed to release pursuant to the terms of the ELR SETTLEMENT AGREEMENT (the "ELR BONDS"), and notwithstanding the foregoing, the City of Palmdale refuses or otherwise fails to release all of the ELR BONDS, and specifically those ELR BONDS securing the performance of work that the City of Palmdale has agreed under the ELR SETTLEMENT AGREEMENT does not need to be performed by ARCH (the "WAIVED WORK"), then the LEHMAN RITTER RANCH NOMINEE will agree to reasonably cooperate with ARCH in ARCH's efforts to convince or persuade the City of Palmdale to comply with its obligations to ARCH under the ELR SETTLEMENT AGREEMENT and release all of the ELR BONDS; provided, however, that the LEHMAN RITTER RANCH NOMINEE shall have no obligation to (i) file or pursue any claim, action, lawsuit or proceeding against the City of Palmdale, or join in any such claim, action, lawsuit or proceeding that may be filed or pursued by ARCH, (ii) replace, substitute or exonerate the ELR BONDS; or (iii) take any action that requires the expenditure of funds or the incurrence of any obligation or liability on the part of the LEHMAN RITTER RANCH NOMINEE; provided, further, that the foregoing shall not impair any right that ARCH may have to reimbursement for payments actually made by ARCH in performing any WAIVED WORK that constitutes work performed after the TRANSFER CLOSING DATE in accordance with Section 3.g. below.
- f. Upon taking title to the RITTER RANCH PROJECT, the LEHMAN RITTER RANCH NOMINEE shall be responsible for negotiating the terms for development of the RITTER RANCH PROJECT with the City of Palmdale and for providing any bonds required by the City of Palmdale to secure development of the RITTER RANCH PROJECT, provided that the LEHMAN RITTER RANCH NOMINEE shall have absolutely no liability or obligation to ARCH and there shall be no effect on the obligations of the LEHMAN RITTER RANCH NOMINEE or ARCH under this AGREEMENT if the LEHMAN RITTER RANCH NOMINEE fails to provide any such bonds that may be required by the City of Palmdale.
- g. Following the occurrence of the TRANSFER CLOSING DATE, ARCH will have primary responsibility to engage and to pay completion contractors to finish the remaining bonded improvements with respect to the RITTER RANCH PROJECT but the LEHMAN RITTER RANCH NOMINEE may, at its option, elect to enter into any such completion contract. Except with respect to the ELR WORK which shall be

reimbursed as provided in Section 3.d. above, if the City of Palmdale or any other obligee under the RITTER RANCH BONDS makes a demand upon the RITTER RANCH BONDS to perform bonded works of improvement and the City of Palmdale or other obligee and LEHMAN RITTER RANCH NOMINEE do not reach agreement as to performance of that work, ARCH will perform its obligations under the RITTER RANCH BONDS and the LEHMAN RITTER RANCH NOMINEE will reimburse ARCH for the costs of any such work. The LEHMAN RITTER RANCH NOMINEE will also reimburse ARCH for any valid payment bond claims made under RITTER RANCH BONDS which are payment bonds for work performed after the TRANSFER CLOSING DATE. The reimbursement obligations of the LEHMAN RITTER RANCH NOMINEE described in Section 3.d. above and this Section 3.g. are referred to herein as such LEHMAN RITTER RANCH NOMINEE's "REIMBURSEMENT OBLIGATIONS."

- h. ARCH represents that it has made payments to certain payment bond claimants for work performed on the RITTER RANCH PROJECT prior to the TRANSFER CLOSING DATE for which ARCH has obtained a full release and assignment of the claimant's rights as listed in Exhibit E attached hereto and made a part hereof. On the TRANSFER CLOSING DATE, ARCH will assign all rights ARCH has to the payment bond claims, including any rights obtained from those claimants, to the LEHMAN PARTIES (or their designees), including any rights to a bankruptcy claim or proof of claim associated with the payment bond claims. ARCH does not warrant that the assigned claims are valid, but does warrant that it owns the claims (including all settled claims identified on Exhibit E, in full, free and clear of any and all rights, interests or claims of any other person. ARCH will indemnify and hold the LEHMAN PARTIES and the LEHMAN RITTER RANCH NOMINEE harmless from any further claims by payment bond claimants pertaining to work performed prior to the TRANSFER CLOSING DATE and reimburse the LEHMAN PARTIES for any payments or distributions made by the LEHMAN PARTIES to any such claimants under the JOINT PLAN.
- i. On the TRANSFER CLOSING DATE, the LEHMAN RITTER RANCH NOMINEE shall provide to ARCH a first priority lien on the RITTER RANCH PROJECT (the "RITTER RANCH DOT") as additional collateral for and to further secure the LEHMAN RITTER RANCH NOMINEE'S REIMBURSEMENT OBLIGATIONS.
- j. In the event that the LEHMAN RITTER RANCH NOMINEE fails to pay its REIMBURSEMENT OBLIGATIONS as provided in this AGREEMENT within fifteen (15) business days following its receipt of written notice from ARCH demanding payment of such REIMBURSEMENT OBLIGATIONS, together with documentation evidencing ARCH's actual payments to completion contractors giving rise to such REIMBURSEMENT OBLIGATIONS as well as conditional releases of contract and lien waivers from such completion contractors with respect to any payments made to them and with respect to which ARCH is seeking reimbursement from the LEHMAN RITTER RANCH NOMINEE. ARCH can seek recovery of such REIMBURSEMENT OBLIGATIONS from the collateral provided by the LEHMAN

RITTER RANCH NOMINEE (i.e., the RITTER RANCH ESCROW and the RITTER RANCH DOT) in addition to pursuing ARCH's rights and remedies directly against the LEHMAN RITTER RANCH NOMINEE for any breach of this AGREEMENT. Notwithstanding the foregoing or anything to the contrary contained herein, ARCH agrees to first seek recovery from the funds available in the RITTER RANCH ESCROW before seeking recovery under the RITTER RANCH DOT or pursuing any other rights or remedies for any breach of this AGREEMENT. The RITTER RANCH ESCROW and RITTER RANCH DOT shall be the only collateral required by ARCH for maintaining the RITTER RANCH BONDS and shall be the only security for the LEHMAN RITTER RANCH NOMINEE'S REIMBURSEMENT OBLIGATIONS.

- k. The LEHMAN RITTER RANCH NOMINEE shall have the right, at any time and in its sole discretion, to cause ARCH to release the RITTER RANCH DOT provided that, in connection with any such release the LEHMAN RITTER RANCH NOMINEE deposits with the RITTER RANCH ESCROW AGENT cash or a letter of credit from a banking institution reasonably acceptable to ARCH in the amount of \$2MM which shall be added to, held as part of and otherwise disbursed in the same manner as other funds held in the RITTER RANCH ESCROW. Upon delivery of the \$2MM cash or letter of credit to the RITTER RANCH ESCROW AGENT, ARCH will release the RITTER RANCH DOT and any other security interests granted to ARCH pursuant thereto.
- l. Upon the release, substitution, replacement or exoneration of the RITTER RANCH BONDS, ARCH shall release all collateral for the RITTER RANCH NOMINEE's REIMBURSEMENT OBLIGATIONS, including, without limitation, all funds and/or letters of credit in the RITTER RANCH ESCROW, the RITTER RANCH DOT and any other security interests granted to ARCH.

4. Agreements Pertaining to Tesoro Burnham Project

- a. ARCH agrees that its TESORO BURNHAM BONDS will remain in effect after the TRANSFER CLOSING DATE and after transfer of the TESORO BURNHAM PROJECT to the LEHMAN TESORO BURNHAM NOMINEE.
- b. If requested by the LEHMAN PARTIES, ARCH will cooperate with the LEHMAN PARTIES and the LEHMAN TESORO BURNHAM NOMINEE to seek permission from the City of Santa Clarita for the LEHMAN TESORO BURNHAM NOMINEE to assume the necessary entitlements and development agreements to continue development of the TESORO BURNHAM PROJECT, and to seek permission from the City of Santa Clarita to substitute the LEHMAN TESORO BURNHAM NOMINEE as the bond principal on the existing TESORO BURNHAM BONDS. Further, at the request of the LEHMAN PARTIES or the LEHMAN TESORO BURNHAM NOMINEE, ARCH will assist them in negotiating with the City of Santa Clarita and/or other public bodies regarding the scope of improvements to

comply with the requirements of the TESORO BURNHAM PROJECT or the modification of the existing requirements LEHMAN TESORO BURNHAM NOMINEE agrees to bear any actual and reasonable out-of-pocket expenses incurred by ARCH in providing this cooperation provided that such expenses have been pre-approved by the LEHMAN TESORO BURNHAM NOMINEE.

- c. If and to the extent that a call is made on the TESORO BURNHAM BONDS following the TRANSFER CLOSING DATE, ARCH will honor its obligations under the applicable TESORO BURNHAM BONDS and will have primary responsibility to engage and to pay completion contractors to finish the remaining bonded improvements with respect to the TESORO BURNHAM PROJECT but the LEHMAN TESORO BURNHAM NOMINEE may, at its option, elect to enter into any such completion contract. If the City of Santa Clarita or any other obligee under the TESORO BURNHAM BONDS makes a demand upon the TESORO BURNHAM BONDS to perform bonded works of improvement and the City of Santa Clarita or other obligee and LEHMAN TESORO BURNHAM NOMINEE do not reach agreement as to performance of that work, ARCH will perform its obligations under the TESORO BURNHAM BONDS and the LEHMAN TESORO BURNHAM NOMINEE will reimburse ARCH for the costs of any such work. The LEHMAN TESORO BURNHAM NOMINEE will also reimburse ARCH for any valid payment bond claims made under TESORO BURNHAM BONDS which are payment bonds for work performed after the TRANSFER CLOSING DATE. The reimbursement obligations of the LEHMAN TESORO BURNHAM NOMINEE described in this clause c. are referred to herein as such LEHMAN TESORO BURNHAM NOMINEE's "REIMBURSEMENT OBLIGATIONS."
- d. ARCH will indemnify and hold the LEHMAN PARTIES and the LEHMAN TESORO BURNHAM NOMINEE harmless from any claims by payment bond claimants as to work performed on the TESORO BURNHAM PROJECT prior to the TRANSFER CLOSING DATE and reimburse the LEHMAN PARTIES for any payments or distributions made by the LEHMAN PARTIES to any such claimants under the JOINT PLAN.

5. Agreements Pertaining to Both Projects

- a. On the TRANSFER CLOSING DATE, ARCH will waive any payments and release any claims it may have against the RITTER RANCH DEBTOR and TESORO BURNHAM DEBTOR in respect of all unpaid bond premiums incurred under the BONDS as of the TRANSFER CLOSING DATE and will obtain a release of the Rohm Agency's claims for its share of the premiums (as to the BONDS only) incurred prior to the TRANSFER CLOSING DATE as a condition of this reimbursement; provided, that if ARCH is unable to obtain such release from the Rohm Agency, ARCH hereby agrees to

indemnify and hold the LEHMAN PARTIES harmless from any and all claims of the Rohm Agency in respect of any such premiums and reimburse the LEHMAN PARTIES for any disbursements made by the LEHMAN PARTIES under the JOINT PLAN to the Rohm Agency (or any assignee thereof) in respect of such claims. ARCH hereby represents and warrants that there are no amounts in respect of any bond premiums owing to any brokers or other persons other than Rohm Agency. The LB NOMINEES shall make payment to ARCH of all accruing bond premiums on BONDS that remain outstanding after the TRANSFER CLOSING DATE in the amounts specified in Exhibit F attached hereto and made a part hereof until the applicable BONDS are released, substituted, replaced or exonerated. All such annual premiums shall be calculated on a pro rata basis from the TRANSFER CLOSING DATE.

- b. ARCH represents that the chart attached hereto as Exhibit E identifies all claims made under any payment BONDS, the status of ARCH's resolution of such claims and, if settled, the amounts paid by ARCH in settling such claims, the date of payment, the extent to which ARCH has taken an assignment of the corresponding claims against the RITTER RANCH DEBTOR and/or TESORO BURNHAM DEBTOR and the extent to which the claimants are RESIDUAL RIGHTS CLAIMANTS. ARCH further represents that it has made payments to certain payment bond claimants who contend that they have additional, valid non-bonded claims and for which ARCH has received only a partial assignment of the claimant's rights (the "RESIDUAL RIGHTS CLAIMANTS"). All such RESIDUAL RIGHTS CLAIMANTS are listed on Exhibit E attached hereto and made a part hereof. On or prior to the TRANSFER CLOSING DATE, ARCH will obtain a full release or assignment of all such residual rights from each of the RESIDUAL RIGHTS CLAIMANTS. ARCH will provide the LEHMAN PARTIES with copies of all such releases or assignments and evidence reasonably acceptable to the LEHMAN PARTIES that, on the TRANSFER CLOSING DATE, ARCH is the owner and holder of 100% of the bonded claims held by the RESIDUAL RIGHTS CLAIMANTS, free and clear of such RESIDUAL RIGHTS CLAIMANTS' rights. On the TRANSFER CLOSING DATE, ARCH will assign all such rights to the LEHMAN PARTIES (or their designees) (to the extent such rights have not otherwise been released) without any reimbursement to ARCH of any amounts paid by ARCH to the RESIDUAL RIGHTS CLAIMANTS in obtaining such releases or assignments.
- c. All bonded claims held or otherwise acquired by ARCH from bond claimants who also have claims against any of the PLAN DEBTORS will be transferred and assigned to the LEHMAN PARTIES (or their designees) on the TRANSFER CLOSING DATE.

6. Assignments

- a. ARCH shall sell, assign and convey to the LEHMAN PARTIES on the TRANSFER CLOSING DATE, all of ARCH's right, title and interest to the ARCH-owned payment bond claims referenced in Exhibit E, free and clear of any right, claim, lien or interest of the bond claimants or any other person provided that all amounts that are due and payable under this AGREEMENT by the LEHMAN PARTIES to ARCH on the TRANSFER CLOSING DATE are paid to ARCH.
- b. ARCH shall sell, assign and convey to the LEHMAN PARTIES on the TRANSFER CLOSING DATE, all of its right, title and interest to the ARCH-owned payment bond Residual Rights claims referenced in Exhibit E, free and clear of any right, claim, lien or interest of the RESIDUAL RIGHTS CLAIMANTS, any other bond claimants or any other person provided that all amounts that are due and payable under this AGREEMENT by the LEHMAN PARTIES to ARCH on the TRANSFER CLOSING DATE are paid to ARCH.
- c. ARCH shall sell, assign and convey to the LEHMAN PARTIES on the TRANSFER CLOSING DATE, all rights, claims or causes of action that ARCH has against any indemnitors who have provided indemnity to ARCH with respect to losses incurred by ARCH in connection with the BONDS, free and clear of any rights, claims, liens or interests of any person provided that all amounts that are due and payable under this AGREEMENT by the LEHMAN PARTIES to ARCH on the TRANSFER CLOSING DATE are paid to ARCH.
- d. ARCH and the LEHMAN PARTIES shall reasonably cooperate to effectuate the assignments and conveyances described in this Section 6 including the delivery by ARCH of such assignments and other instruments reasonably requested by the LEHMAN PARTIES.

7. Conveyance of Properties to Third Party Transferees

The LEHMAN PARTIES agree that if a PROJECT is transferred to a person or entity that is not an affiliate of any LEHMAN PARTY or LB NOMINEE (a "THIRD PARTY TRANSFEREE"), the applicable LB NOMINEE will require as a condition of closing of such transfer that the THIRD PARTY TRANSFEREE furnishes replacement bonds with respect to such PROJECT acceptable to the bond obligee(s), and obtain the full release and exoneration by the obligee(s) of the applicable BONDS. Upon the full release and exoneration of such BONDS, ARCH shall release all collateral, including any cash, letters of credit, and/or deeds of trust, and all other security interests provided or granted to or for the benefit of ARCH by such LB NOMINEE. The applicable LB NOMINEE will indemnify and hold ARCH harmless for any performance or payment bond losses, including attorney's fees and expenses, which may arise if the LB NOMINEE does not obtain a full release and exoneration of the applicable BONDS as a part of the transfer of the applicable PROJECT to a THIRD PARTY TRANSFEREE.

8. Releases

On the TRANSFER CLOSING DATE and to the extent not otherwise assigned to the LEHMAN PARTIES (or their designees) pursuant to the terms of this AGREEMENT, (a) ARCH will release any claims against the PLAN DEBTORS and/or LEHMAN PARTIES with respect to the paid payment bond claims arising from work performed prior to the TRANSFER CLOSING DATE, (b) ARCH will release all claims against any of the VOLUNTARY DEBTORS including, without limitation, claims with respect to performance bond obligations on the PROJECTS and any claims pertaining to any of the other projects owned by the other VOLUNTARY DEBTORS (except any claims against SJD Partners, Ltd. and any liquidated, non-contingent claims against North Orange Del Rio Land, LLC (the “EXCLUDED CLAIMS”)), (c) ARCH will dismiss, with prejudice, its complaint and all claims it has in intervention in the ADVERSARY PROCEEDING against all defendants, (d) ARCH will release all LEHMAN PARTIES and the LB NOMINEES from all claims arising from or with respect to the PROJECTS, the BONDS or the VOLUNTARY DEBTORS other than the EXCLUDED CLAIMS and any claims arising under this AGREEMENT or any other document executed and delivered in connection herewith, and (e) ARCH will dismiss all claims against the TRUSTEE DEBTORS for guaranty or indemnity liability arising from any of the BONDS. The obligations of the LB NOMINEES to reimburse ARCH for future bond payments (above the amounts to be paid on the TRANSFER CLOSING DATE) shall in no way be waived, lessened or affected by the release of the VOLUNTARY DEBTORS under this AGREEMENT.

9. Dates and Events Governing the Terms of this Agreement

- a. Entry of Confirmation Order by California Bankruptcy Court. Within ten (10) days following the entry of an order of the CALIFORNIA BANKRUPTCY COURT confirming the JOINT PLAN, the LEHMAN PARTIES shall deposit \$1.5MM into the RITTER RANCH ESCROW as provided in Section 3.c. hereof.
- b. Transfer Closing Date. On the TRANSFER CLOSING DATE, all other rights and obligations to reimburse and post collateral, as expressly provided herein, shall become effective and the LEHMAN PARTIES shall pay to ARCH the amounts expended by ARCH with respect to work performed under the ELR SETTLEMENT AGREEMENT (up to the ELR PAYMENT CAP AMOUNT).
- c. Transfer of the Projects to Third Party Transferees. In the event a PROJECT is transferred to a THIRD PARTY TRANSFEREE, the applicable LB NOMINEE shall obtain the release of the then outstanding BONDS issued for such LB NOMINEE’S PROJECT and replace those BONDS.

10. Conditions to Effectiveness of Agreement.

Except as expressly provided in this Section 10, this AGREEMENT shall become effective after each of the following conditions have occurred:

- a. The PARTIES (other than the LB NOMINEES) have delivered executed copies of this AGREEMENT to each other. Upon execution and delivery of an amendment or joinder to this AGREEMENT by the LB NOMINEES, such LB NOMINEES shall thereafter be bound by the terms of this AGREEMENT as if they had originally been parties hereto.
- b. The NY BANKRUPTCY COURT has issued a final non-appealable order approving the entry into the AGREEMENT by LBHI and LCPI (the "LEHMAN COURT APPROVAL").
- c. An order confirming the JOINT PLAN has been approved as a final non-appealable order by the CALIFORNIA BANKRUPTCY COURT, the Effective Date of the JOINT PLAN has occurred and title to the PROJECTS has been conveyed to the LB NOMINEES.

If any of the foregoing conditions has not occurred by September 30, 2012, each of the ARCH and the LEHMAN PARTIES (and the LB NOMINEES if they have become PARTIES hereto) shall have the right to terminate this AGREEMENT upon written notice to the other PARTY(IES), whereupon this AGREEMENT shall automatically terminate and be of no further force or effect and the PARTIES shall be automatically relieved of any further obligations hereunder (except for any obligations which are expressly stated to survive the termination of this AGREEMENT) and shall be fully restored to their respective legal positions as if this AGREEMENT had never been executed. Notwithstanding the foregoing or anything to the contrary contained herein, the obligation of the LEHMAN PARTIES to make the deposit provided for under Section 3.c. hereof in the amount of \$1.5MM shall become effective upon satisfaction only of the conditions described in clauses a. and b. above.

11. Warranties and Representations

ARCH hereby represents and warrants to the LEHMAN PARTIES that each of the representations and warranties of ARCH contained in this Agreement are true and correct as of the EXECUTION DATE and will be true and correct as of the TRANSFER CLOSING DATE. Each of the LEHMAN PARTIES hereby represents and warrants to ARCH that each of the representations and warranties of such LEHMAN PARTY contained in this AGREEMENT are true and correct as of the EXECUTION DATE and will be true and correct as of the TRANSFER CLOSING DATE.

Each PARTY represents and warrants to the other PARTIES that, subject to obtaining the LEHMAN COURT APPROVAL, this AGREEMENT has been duly executed and delivered by such PARTY and constitutes the legal, valid and binding agreement of such PARTY, enforceable against such PARTY in accordance with its terms and, upon execution and delivery

of the ancillary documents to be executed and delivered by such PARTY pursuant to or in accordance with the terms of this AGREEMENT, all such ancillary documents will have been duly executed and delivered by such PARTY and will constitute the legal, valid and binding agreement of such PARTY, enforceable against such PARTY in accordance with their respective terms.

12. Further Assurances

The PARTIES will execute and deliver, or cause to be executed and delivered, on the TRANSFER CLOSING DATE such instruments, agreements, assignments, releases, waivers, certificates and other documents contemplated to be delivered pursuant to or in accordance with the terms of this AGREEMENT or otherwise reasonably requested by another PARTY to effectuate or otherwise in furtherance of the terms of this AGREEMENT in such form and substance reasonably and mutually acceptable to the PARTIES and, from time to time after the TRANSFER CLOSING DATE, without further consideration, will execute and deliver, or cause to be executed and delivered, such instruments, agreements, assignments, releases, waivers, certificates or other documents as the other PARTIES may reasonably request, and take such actions as the other PARTIES may reasonably request, to effectuate, consummate or otherwise give effect to the transactions contemplated herein and to assure that the benefits of this AGREEMENT are realized by the PARTIES.

13. Dispute Resolution Procedures, Venue and Choice of Law

If the PARTIES cannot resolve any dispute which may arise between them concerning the performance, interpretation or enforcement of this AGREEMENT or with respect to any claims arising under this AGREEMENT, the PARTIES agree that any such dispute will be submitted to binding arbitration at and be administered by the Judicial Arbitration and Mediation Service (“JAMS”) before retired Judge Daniel Weinstein (or such other mediator/arbitrator as JAMS may appoint and the PARTIES may agree to if Judge Weinstein is unavailable). The PARTIES will request consideration of the dispute by Judge Weinstein (or other agreed upon mediator/arbitrator) within forty-eight (48) hours following a written notice from any PARTY to the other PARTIES that a dispute has arisen which cannot be resolved consensually among the PARTIES and will request the issuance of an expedited written opinion from Judge Weinstein (or other agreed upon mediator/arbitrator) which written opinion will be fully binding upon the PARTIES. The administration fees and expenses of any mediation shall be borne equally by the LEHMAN PARTIES, on the one hand, and ARCH, on the other hand.

14. Integrated Document and Future Modifications

This AGREEMENT represents the final agreement of the PARTIES, and supersedes all prior written and oral agreements, including the term sheet executed by LBHI and ARCH pertaining to the BONDS. This AGREEMENT may only be modified by a writing executed by all PARTIES. Evidence of prior writings and/or verbal communications may not be used as evidence in any proceeding pertaining to breach of or interpretation of this AGREEMENT. This is a fully negotiated AGREEMENT among sophisticated parties, and none of the PARTIES shall

be deemed the primary drafter of this AGREEMENT if any dispute arises concerning interpretation of this AGREEMENT.

15. No Admission of Liability

No provision in this AGREEMENT shall be construed as an admission of any liability or wrongdoing between the PARTIES.

16. Binding Effect; Successors and Assignees

This AGREEMENT shall inure to the benefit of and be binding upon the PARTIES and their respective successors and permitted assignees; provided that no PARTY may assign its rights or obligations under this AGREEMENT without the written consent of the other PARTIES.

17. Counterparts and Facsimile Transmittal of Executed Agreements

This AGREEMENT may be executed in counterparts, each of which constitutes an original, and all of which collectively constitute one agreement. The signatures of all PARTIES need not appear on the same counterpart. Facsimile transmitted signatures shall constitute originals for all purposes.

18. Severability and Construction

If any provision of this AGREEMENT shall be held by a court of competent jurisdiction to be illegal, invalid or unenforceable, the remaining provisions shall remain in full force and effect if the essential terms and conditions of this AGREEMENT for each PARTY remain valid, binding and enforceable.

19. Headings; Schedules and Exhibits; Interpretation.

The headings, titles or captions utilized in this AGREEMENT are designed for the sole purpose of facilitating ready reference this AGREEMENT and shall in no way define, limit, extend or describe the scope or intent of this AGREEMENT or any provisions hereof. References to Sections, unless otherwise indicated, are references to Sections of this AGREEMENT. All Schedules and Exhibits to this AGREEMENT are hereby made a part hereof and incorporated herein by reference for all purposes. Reference to any Schedule or Exhibit herein shall be to the Schedules and Exhibits attached hereto. As used herein, (i) the term “including” shall mean “including, without limitation,” and (ii) the masculine shall include the feminine and the neuter.

20. Survival

The representations, warranties, covenants and agreements made by the PARTIES in this AGREEMENT shall survive the closing of the transactions contemplated herein.

21. No Set-off Rights

None of the PARTIES shall have any set-off rights under this AGREEMENT or any other document executed in connection with the transactions contemplated by this AGREEMENT.

22. Notices

All notices and other communications given or made pursuant to this AGREEMENT shall be in writing and shall be deemed effectively given: (a) upon personal delivery to any PARTY to be notified, (b) when sent by electronic mail or facsimile confirmed by the recipient, (c) on the date of a registered or certified mail receipt prepared by the U.S. Postal Service, or (d) the date of a nationally recognized overnight courier's written verification of receipt. All communications shall be sent to the following, unless a written notice of changed recipient or address is exchanged between the PARTIES:

To any LEHMAN PARTY or LB NOMINEE at:

c/o Lehman Brothers Holdings, Inc.
1271 Avenue of the Americas
New York, New York 10020
Attn: Joelle Halperin
Facsimile: (646) 834-0874

With a copy (which shall not constitute notice) to:

Weil, Gotshal & Manges LLP
767 Fifth Avenue
New York, New York 10153
Attn: Michael Bond, Esq.
Facsimile (212) 310-8007

To ARCH at:

c/o Arch Insurance Group, Inc.
300 Plaza III, 3d Floor
Jersey City, NJ 07311
Attn: Patrick K. Nails, Esq.
Senior Vice president and Associate General Counsel
Facsimile: (201) 743-4659

With copies (which shall not constitute notice) to:

Leo & Weber, P.C.
One N. LaSalle Street, Suite 3600
Chicago, IL 60602

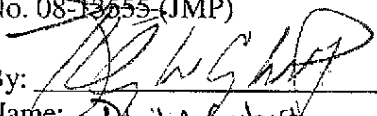
Attn: T. Scott Leo, Esq.
Facsimile: (312) 857-1240

Gascou Hopkins LLP
1801 Avenue of the Stars, Suite 230
Los Angeles, CA. 90067
Attn: Ronald Hopkins, Esq.
Facsimile: (310) 785-9149

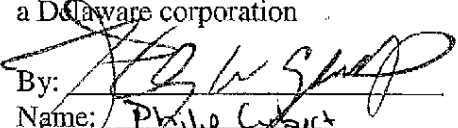
[Remainder of Page Intentionally Blank, Signatures on Following Page]

IN WITNESS WHEREOF, each Party by its duly authorized signatory has executed this Agreement:

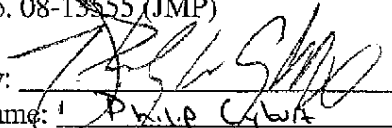
LEHMAN BROTHERS HOLDINGS, INC., a Delaware corporation, as Debtor and Debtor in Possession in its chapter 11 case in the United States Bankruptcy Court for the Southern District of New York, Case No. 08-13555 (JMP)

By: 
Name: Philip Cyburt
Title: Authorized Signatory

LEHMAN ALI, INC., a Delaware corporation

By: 
Name: Philip Cyburt
Title: Authorized Signatory

LEHMAN COMMERCIAL PAPER INC., a New York corporation, as Debtor and Debtor in Possession in its chapter 11 case in the United States Bankruptcy Court for the Southern District of New York, Case No. 08-13555 (JMP)

By: 
Name: Philip Cyburt
Title: Authorized Signatory

ARCH INSURANCE COMPANY, a Missouri corporation

By: _____
Name: _____
Title: _____

IN WITNESS WHEREOF, each Party by its duly authorized signatory has executed this Agreement:

LEHMAN BROTHERS HOLDINGS, INC., a Delaware corporation, as Debtor and Debtor in Possession in its chapter 11 case in the United States Bankruptcy Court for the Southern District of New York, Case No. 08-13555 (JMP)

By: _____
Name: _____
Title: _____

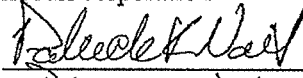
LEHMAN ALI, INC.,
a Delaware corporation

By: _____
Name: _____
Title: _____

LEHMAN COMMERCIAL PAPER INC., a New York corporation, as Debtor and Debtor in Possession in its chapter 11 case in the United States Bankruptcy Court for the Southern District of New York, Case No. 08-13555 (JMP)

By: _____
Name: _____
Title: _____

ARCH INSURANCE COMPANY,
a Missouri corporation

By: 
Name: Patrick K. Dault
Title: Senior Vice President