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**IN THE UNITED STATES BANKRUPTCY COURT  
FOR THE DISTRICT OF DELAWARE**

In re:

Sand Spring Capital III, LLC, et al.,<sup>1</sup>

Debtors.

Chapter 11

Case No. 11-13393 (BLS)

(Jointly Administered)

**DISCLOSURE STATEMENT WITH RESPECT TO  
DEBTORS' FIRST AMENDED JOINT PLAN OF REORGANIZATION**

Dated: June 6, 2013  
Wilmington, Delaware

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<sup>1</sup> The Debtors in these chapter 11 cases, along with the last four digits of each Debtor's federal tax identification number (if applicable), are CA Core Fixed Income Fund, LLC (7053) (Case No. 11-13394 (BLS)); CA Core Fixed Income Offshore Fund, Ltd. a/k/a CA Core Fixed Income Fund, Ltd. (N/A) (Case No. 11-13396 (BLS)); CA High Yield Fund, LLC (7155) (Case No. 11-13397 (BLS)); CA High Yield Offshore Fund, Ltd. a/k/a CA High Yield Fund, Ltd. (N/A) (Case No. 11-13400 (BLS)); CA Strategic Equity Fund, LLC (7141) (Case No. 11-13401 (BLS)); CA Strategic Equity Offshore Fund, Ltd. (N/A) (Case No. 11-13402 (BLS)); Sand Spring Capital III, LLC (9691) (Case No. 11-13393 (BLS)); Sand Spring Capital III, Ltd. (N/A) (Case No. 11-13403 (BLS)); and Sand Spring Capital III Master Fund, LLC (4004) (Case No. 11-13404 (BLS)). The address for each of the Debtors is 675 Third Avenue, 21<sup>st</sup> Floor, New York, NY 10017, c/o Kinetic Partners.

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Exhibit B-1: Cantor Chapter 11 Settlement Agreement

Exhibit B-2: Order of Bankruptcy Court approving Cantor Chapter 11 Settlement

Exhibit C: Liquidation Analysis



## I. INTRODUCTION

On October 25, 2011, each of the following investment funds (each a “Debtor,” and collectively the “Debtors”), filed voluntary petitions for relief under chapter 11 of the Bankruptcy Code, commencing these chapter 11 cases:

- CA Core Fixed Income Fund, LLC;
- CA Core Fixed Income Offshore Fund, Ltd. a/k/a CA Core Fixed Income Fund, Ltd.;
- CA High Yield Fund, LLC;
- CA High Yield Offshore Fund, Ltd. a/k/a CA High Yield Fund, Ltd.;
- CA Strategic Equity Fund, LLC;
- CA Strategic Equity Offshore Fund, Ltd.;
- Sand Spring Capital III, LLC;
- Sand Spring Capital III, Ltd.; and
- Sand Spring Capital III Master Fund, LLC

The Debtors continue to operate their business and manage their remaining properties as debtors in possession under the Bankruptcy Code.

This Disclosure Statement is submitted pursuant to section 1125 of the Bankruptcy Code for the solicitation of votes with respect to the Plan attached to this Disclosure Statement as **Exhibit A**.<sup>2</sup> If this Disclosure Statement is inconsistent with the Plan, the Plan will govern.

### A. Purpose of the Plan

You have received this document because you are a creditor, investor, or other stakeholder of one or more of several investments funds established by Commonwealth Advisors and that filed for bankruptcy in Delaware in October 2011. Those funds are listed above and defined as the “Debtors.” Based on your review of this document you may be asked to vote to accept or reject the Plan for restructuring those funds by completing the attached ballot. This document is called a “Disclosure Statement” and it describes the “Plan” that the Debtors have proposed to reorganize the investment funds.

Federal bankruptcy law allows the Debtors to file the Plan and permits the Official Committee of Equity Security Holders (the “Equity Committee”) to participate in the

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<sup>2</sup> Unless defined in this Disclosure Statement, all capitalized terms shall have the meanings ascribed to them in the Plan.

formulation of the Plan. The Bankruptcy Code has numerous technical provisions that dictate what terms must be in the Plan and provide the Debtors with additional discretion to include a variety of other terms in the Plan. In general, a plan must divide claims and interests into separate classes and specify a treatment of those classes. The technical provisions of the Bankruptcy Code and Bankruptcy Rules require that the classes vote, indicating whether they accept or reject the Plan. This process is explained in detail below in *Section II – Confirmation of the Plan*.

The Bankruptcy Code also provides that before the debtor and any official committee solicit votes to accept or reject a plan, the Bankruptcy Court must approve a written disclosure statement that contains information of a kind, and in sufficient detail, that would enable a hypothetical investor to make an informed judgment about accepting or rejecting the Plan. This document is the Disclosure Statement that the Bankruptcy Court presiding over the Debtors' bankruptcy cases has approved for circulation to you so you can have necessary information to determine whether to accept or reject the Plan.

While you should carefully read and review all of this Disclosure Statement and the Plan, one of the key issues for you if you are an investor in any of the Debtor funds is whether you will accept or reject the Plan and if you accept the Plan whether you will elect to settle any claims you may have against Cantor Fitzgerald & Company (and related persons and entities). In summary, if you are an investor in the Debtors, you will be required to make an election on the enclosed ballot indicating whether you are willing to accept the settlement. What follows is a brief description of the settlement with Cantor and the decisions you will need to make as an investor, a more detailed description of this provision is described in *Section VIII.B – Means for Implementation of the Plan, Direct Claim Action*.

The Plan implements a settlement with Cantor Fitzgerald & Co. and related entities, referred to as the "Cantor Chapter 11 Settlement," which the Bankruptcy Court approved on May 28, 2013. The Cantor Chapter 11 Settlement resolves claims that the Debtors may have against the Cantor Group, which are referred to in this Disclosure Statement and the Plan as "derivative" claims. The Cantor Chapter 11 Settlement, and the Plan generally, do not waive or release any claims that the Debtors or Investors may have against any parties other than the Cantor Group, including Commonwealth and Walter Morales.

Under the Cantor Chapter 11 Settlement, in exchange for Cantor's payment of \$1.0 million to the Debtors (the "Cantor Derivative Claim Settlement Amount"), the Debtors are releasing their claims against the Cantor Group. The Cantor Group also has claims against the Debtors for indemnification under a prior settlement described in greater detail in *Section III.F.4 – Indemnification*. As part of the Cantor Chapter 11 Settlement, the Cantor Group has agreed to limit the Cantor Indemnification Claims to the Indemnification Reserve that the Debtors will establish from their assets.

Claims that individual Investors may have against the Cantor Group, which are referred to as "direct" claims, whether they have been asserted in the current litigation by certain Investors or not, were not resolved by the Cantor Chapter 11 Settlement, but Cantor has agreed to make a settlement payment to Investors that elect to release their direct claims against the Cantor Group. In addition to the Cantor Derivative Claim Settlement Amount, Cantor has

agreed to pay up to a total of \$1.0 million to Investors who elect to release their direct claims and causes of action against the members of the Cantor Group (the “Cantor Direct Claim Settlement Amount” and “Supplemental Cantor Direct Claim Settlement Amount”). Investors who affirmatively elect to grant a Direct Claim Release to the Cantor Group shall be entitled to receive their pro rata share of this additional \$1.0 million in accordance with their aggregate Interests in all Debtors, along with their Interests in the Funds, and will not be responsible, directly or indirectly, for the Cantor Indemnification Claims.

Cantor’s agreement to pay the Cantor Direct Claim Settlement Amount and the Supplemental Cantor Direct Claim Settlement Amount is not an admission by any member of the Cantor Group that any Investors have viable direct claims against Cantor or any other member of the Cantor Group. Certain investors have already brought claims that such investors allege are their direct claims against Cantor (but that Cantor maintains are derivative claims belonging to the Debtors), which are described below in *Section III.F – Background and Events Leading to the Proposed Plan, Certain Pending Litigation*.

Alternatively, Investors may elect to retain their claims and causes of action against members of the Cantor Group.

Investors who affirmatively elect not to grant a Direct Claim Release to the Cantor Group, and therefore elect to continue or join the Direct Claim Action or commence their own direct claim litigation in accordance with the Plan, shall be permitted to do so and will also retain their Interests in the relevant Reorganized Funds. Investors who elect to continue to pursue their direct claims against the Cantor Group may ultimately be responsible for satisfying (from distributions or other payments from the Reorganized Funds’ assets to which they would otherwise be entitled on account of their Reorganized Fund Interests) any valid Cantor Indemnification Claims and therefore will find that the amounts to which they might otherwise be entitled relating to redemptions, distributions and other payments from the Reorganized Funds will be delayed and may be substantially reduced. The consequences of this election are further described in *Section VIII – C.1 – Non-Releasing Investors and Section VIII – D – Distributions and Redemptions*.

**Investors who fail to make an election shall be deemed to retain their claims and causes of action against members of the Cantor Group, and shall not be entitled to receive a pro rata share of the additional \$1.0 million being contributed by Cantor for Direct Claim Releases.**

If supported by Holders of Claims and/or Interests, and confirmed by the Bankruptcy Court, the Plan shall reorganize the Debtors as described in Section 8.1 of the Plan – Reorganized Funds.

The Debtors and the Official Committee of Equity Security Holders urge Holders of Claims and Interests entitled to vote on the Plan to read the Plan and this Disclosure Statement in their entirety ***before voting*** to accept or reject the Plan or electing to grant a release of their direct claims against the Cantor Group. If this Disclosure Statement is inconsistent with the Plan, the Plan will govern.

Other than this Disclosure Statement, any schedules and exhibits attached hereto or referenced herein, or otherwise enclosed in the solicitation package with this Disclosure Statement, no solicitation materials have been authorized by the Bankruptcy Court for use in soliciting acceptances of the Plan.

## **B. Why You Are Receiving This Document**

The Debtors are providing this Disclosure Statement to all Holders of Claims and Interests who are being solicited to vote to accept or reject the Plan and to other Persons only for informational and notice purposes. This Disclosure Statement summarizes the Plan's content and provides information relating to the Plan and the process the Bankruptcy Court will follow in determining whether to confirm the Plan. This Disclosure Statement discusses the events leading to the Debtors' determination to file the Bankruptcy Cases, the events that have taken place during the pendency of the Bankruptcy Cases, and, finally, summarizes and analyzes the Plan. This Disclosure Statement also describes certain U.S. Federal income tax consequences of the Plan to the Debtors and Holders of Claims and Interests, voting procedures and the confirmation process.

The Bankruptcy Code requires that, in connection with soliciting creditors and interest holders, the party proposing a Chapter 11 plan must provide creditors and interest holders with "adequate information." Accordingly, the Debtors are required to prepare and file with the Bankruptcy Court a document called a "disclosure statement", which the Bankruptcy Code mandates must contain sufficient information to enable parties who are affected by the plan to vote knowingly for or against the plan, or object to the plan, as the case may be. On \_\_\_\_\_, 2013, the Bankruptcy Court entered its Order \_\_\_\_\_ [Docket No. \_\_\_\_\_] that, among other things, concluded that this Disclosure Statement contains "adequate information".

This Disclosure Statement has been compiled by the Debtors to accompany the Plan. The statements, projections, financial information, and other information contained in this Disclosure Statement have been taken from documents prepared by or provided to the Debtors' advisors. The information provided in this Disclosure Statement represents the Debtors' best information regarding facts and financial information and is true to the best of their knowledge. Nothing contained in this Disclosure Statement shall have any preclusive effect against any party (whether by waiver, admission, estoppel or otherwise) in any cause or proceeding that may currently exist or occur in the future. This Disclosure Statement shall not be construed as or deemed to constitute an acceptance of fact or an admission by any party with regard to any of the statements made herein.

The statements contained in this Disclosure Statement are made as of the date hereof unless another time is specified herein, and neither delivery of this Disclosure Statement nor any exercise of rights granted in connection with the Plan, should be read to imply that there has been no change in the information set forth herein since the date of this Disclosure Statement. Certain of the information contained in this Disclosure Statement, by its nature, is forward looking, contains estimates and assumptions which may prove to be inaccurate, and contains projections which may prove to be wrong, or which may be materially different from actual future results. Each Creditor, Investor, and any other party receiving this Disclosure

Statement should independently verify the information contained herein and in the Plan and Plan documents, as well as the effect of the Plan, and should consult its own attorney and accountant as to the effect of the Plan on such individual Creditor or Investor. Your rights may be affected, even if you are not a Holder of a Claim or Interest against the Debtors.

*All parties receiving this Disclosure Statement should carefully review both this Disclosure Statement and the Plan before voting to accept or reject the Plan. Indeed, no party should rely solely on this Disclosure Statement but should also read the Plan. The Plan provisions will govern if there are any inconsistencies between the Plan and this Disclosure Statement.*

**THIS DISCLOSURE STATEMENT HAS NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION NOR HAS THE SECURITIES AND EXCHANGE COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THE STATEMENTS CONTAINED HEREIN.**

**THE FOLLOWING IS A VERY BRIEF SUMMARY OF THE PROVISIONS OF THE PROPOSED PLAN. ALL PARTIES ARE ENCOURAGED TO READ THE PLAN IN ITS ENTIRETY BEFORE VOTING TO ACCEPT OR REJECT THE PLAN.**

### **C. Plan Overview**

#### **1. Summary of Plan Treatment**

All Holders of Interests in the Debtors are entitled to vote on the Plan, as are Holders of certain Claims against the Debtors. Claims against and Interests in the Debtors are classified in the Plan as follows:

<b>Classes</b>	<b>Designation</b>	<b>Status</b>	<b>Estimated Amount as of March, 2013<sup>3</sup></b>	<b>Projected Recovery/Treatment</b>
Classes 1(a) through 7(a)	Other Priority Claims	Unimpaired	\$0	100%
Classes 1(b) through 7(b)	Secured Claims	Unimpaired	\$0	100%
Classes 1(c) through 7(c)	General Unsecured Claims (other	Unimpaired	\$4,660	100%

<sup>3</sup> These amounts are subject to change in market value and will be net of costs associated with payment of claims and expenses, and liquidation and documentation costs, and any reserves required in accordance therewith.

	than Interest Holder General Unsecured Claims)			
Classes 1(d) through 7(d)	Independent Fiduciary Indemnification Claims	Impaired	Unliquidated	Each Holder of an Allowed Independent Fiduciary Indemnification Claim shall receive a full and complete release from all Claims and Causes of Action that any of the Debtors or the Investors may have.
Classes 1(e) through 7(e)	Commonwealth Indemnification Claims	Waived	N/A	\$0
Classes 1(f) through 7(f)	Cantor Indemnification Claims	Impaired	Unliquidated	Cantor Indemnification Claims will be satisfied from the Indemnification Reserve. Cantor Indemnification Claims will be deemed Allowed Claims for purposes of this Plan. For purposes of treatment and distributions under the Plan, Cantor has agreed that it will accept the amounts that any order entered in the New York Litigation that becomes a final order determines that any member of the Cantor Group is entitled to recover on account of the Cantor Indemnification Claims as the recovery on such Allowed Claims.
Classes 1(g)	Interests	Impaired	\$79,047,037	Investors will receive their Ratable Portion of the

through 7(g)				Reorganized Fund Interests on the Cantor Chapter 11 Settlement Effective Date.
Classes 1(h) through 7(h)	Interest Holder General Unsecured Claims	Disallowed	N/A	\$0

**Classes 1(a) through 7(a) (Other Priority Claims).** These Classes consist of all Other Priority Claims against the relevant Debtor. These Classes are unimpaired and, therefore, each Holder of a Claim in these Classes is not entitled to vote to accept or reject the Plan.

**Classes 1(b) through 7(b) (Secured Claims).** These Classes consist of all Secured Claims against the relevant Debtor. These Classes are unimpaired and, therefore, each Holder of a Claim in these Classes is not entitled to vote to accept or reject the Plan.

**Classes 1(c) through 7(c) (General Unsecured Claims).** These Classes consist of all General Unsecured Claims other than Interest Holder General Unsecured Claims against the relevant Debtor. These Classes are unimpaired and, therefore, each Holder of a Claim in these Classes is not entitled to vote to accept or reject the Plan.

**Classes 1(d) through 7(d) (Independent Fiduciary Indemnification Claims).** These Classes consist of all Indemnification Claims held by an Independent Fiduciary against the relevant Debtor. These Classes are impaired and, therefore, each Holder of a Claim in these Classes is entitled to vote to accept or reject the Plan.

**Classes 1(e) through 7(e) (Commonwealth Indemnification Claims).** These Classes consist of all Indemnification Claims held by Commonwealth against the relevant Debtor. These Claims have been waived and each Holder of a Claim in these Classes is not entitled to vote.

**Classes 1(f) through 7(f) (Cantor Indemnification Claims).** These Classes consist of all Indemnification Claims held by members of the Cantor Group against the relevant Debtor. These Classes are impaired and, therefore, each Holder of a Claim in these Classes is entitled to vote to accept or reject the Plan.

**Classes 1(g) through 7(g) (Interests).** These Classes consist of all Interests held by Investors in the relevant Debtor. These Classes are impaired and, therefore, each Holder of an Interest in these Classes is entitled to vote to accept or reject the Plan.

**Classes 1(h) through 7(h) (Interest Holder General Unsecured Claims).** These Classes consist of all General Unsecured Claims held by Investors against the relevant Debtor. These Claims shall be Disallowed and, therefore, each Holder of a Claim in this Class is not entitled to vote to accept or reject the Plan; provided, however, if the Bankruptcy Court

determines that any Holder of a Claim in these Classes is entitled to vote on the Plan, then such Class will be deemed to have rejected the Plan since the relevant Holders shall not receive any distribution on account of these Disallowed Claims.

## **2. Executory Contracts**

As of the Effective Date, the Debtors shall assume or assume and assign, as applicable, pursuant to Section 7.4 of the Plan, each of the Executory Contracts of the Debtors that are identified in the Plan Supplement that have not expired under their own terms prior to the Effective Date. Except as provided in Section 7.2 of the Plan, the Debtors reserve the right to amend the Plan Supplement not later than fourteen (14) days prior to the Confirmation Hearing either to: (a) delete any Executory Contract and provide for its rejection pursuant to Section 7.4 of the Plan; or (b) add any Executory Contract, thus providing for its assumption or assumption and assignment, as applicable. The Debtors shall provide notice of any such amendment to the parties to the Executory Contract affected by the amendment not later than fourteen (14) days prior to the Confirmation Hearing. The Debtors reserve the right to dispute any cure amount. The Confirmation Order shall constitute an Order of the Bankruptcy Court pursuant to section 365 of the Bankruptcy Code approving all such assumptions or assumptions and assignments, as applicable, described in Section 7.1 of the Plan as of the Effective Date.

Except for those Executory Contracts that are (a) assumed pursuant to the Plan, (b) the subject of previous Orders of the Bankruptcy Court providing for their assumption, assumption and assignment or rejection, or (c) the subject of a pending motion before the Bankruptcy Court with respect to the assumption or assumption and assignment of any Executory Contracts as of the Effective Date, all Executory Contracts of the Debtors shall be rejected pursuant to the Plan; provided, however, that neither the inclusion by the Debtors of a contract on Schedule 7.2 of the Plan nor anything contained in Section 7 of the Plan shall constitute an admission by any Debtor that such contract is an Executory Contract or that any Debtor or its successors and assigns has any liability pursuant to Schedule 7.2, Section 7 of the Plan, or under the Contract.

The Confirmation Order shall constitute an Order of the Bankruptcy Court approving the rejection of Executory Contracts under Section 7.4 of the Plan pursuant to section 365 of the Bankruptcy Code as of the Effective Date. Any Claim for damages arising from any such rejection must be Filed by the Rejection Bar Date. Any timely Filed Claim for damages arising from any such rejection, if Allowed, will be as General Unsecured Claim

## **3. Voting and Confirmation**

Classes 1(a) through 7(a) (Other Priority Claims); Classes 1(b) through 7(b) (Secured Claims); and Classes 1(c) through 7(c) (General Unsecured Claims) are not Impaired and, pursuant to Section 1126(f) of the Bankruptcy Code, are deemed to have accepted the Plan and these Classes will not be solicited.

The Holders of Claims in Classes 1(e) through 7(e) (Commonwealth Indemnification Claims) have waived their relevant Claims and are not entitled to vote to accept or reject the Plan.



The Claims in Classes 1(h) through 7(h) (Interest Holder General Unsecured Claims) shall be Disallowed and the relevant Holders shall not be entitled to vote on the Plan on account of such Claims; provided, however, if the Bankruptcy Court determines that any Holder of Claims in these Classes is entitled to vote on the Plan, then such Class will be deemed to have rejected the Plan since the relevant Holders shall not receive any distribution on account of these Disallowed Claims.

Only Holders of Claims or Interests in Classes 1(d) through 7(d) (Independent Fiduciary Indemnification Claims); Classes 1(f) through 7(f) (Cantor Indemnification Claims); and Classes 1(g) through 7(g) are Impaired and, as such, entitled to vote to accept or reject the Plan.

Each Class of Claims or Interests that is entitled to vote shall have accepted the Plan if (i) the Holders of at least two-thirds in dollar amount of the Claims or Interests actually voting in each such Class have voted to accept the Plan, and (ii) the Holders of more than one-half in number of the Claims or Interests actually voting in each such Class have voted to accept the Plan.

This Disclosure Statement sets forth the deadlines, procedures, and instructions for voting to accept or reject the Plan and the applicable standards that will be utilized for tabulating ballots.

#### **D. Risk Factors and Disclaimer**

Prior to deciding whether and how to vote on the Plan, each Holder of a Claim or Interest should carefully read this Disclosure Statement, with all attachments and enclosures, in its entirety, and consult with their own advisors, in order to formulate an informed opinion as to the manner in which the Plan affects any Claim(s) or Interest(s) they may hold against the Debtors or any other parties and to determine whether to vote to accept the Plan. Holders of Claims or Interests should particularly consider the risk factors described in greater detail below.

Holders of Claims or Interests should also read the Plan carefully and in its entirety. This Disclosure Statement contains a summary of the Plan for convenience, but the terms of the Plan supersede and control the summary.

In formulating the Plan, the Debtors relied on financial data derived from their books and records that were maintained and provided by the managers and/or investment advisors to the Debtors, Commonwealth prior to, and including April, 2012, and Kinetic, subsequent to April, 2012. The Debtors represent that everything stated in this Disclosure Statement is true to the best of their knowledge. The Debtors nonetheless cannot, and do not, confirm the current accuracy of all statements appearing in this Disclosure Statement. The discussion in this Disclosure Statement regarding the Debtors may contain “forward looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995 or other applicable State or federal law. Such statements consist of any statement other than a recitation of historical fact and can be identified by the use of forward-looking terminology such as “may,” “expect,” “believe,” “anticipate,” “estimate” or “continue” or the negative thereof or other variations thereon or comparable terminology. The reader is cautioned that all forward looking

statements are necessarily speculative, and there are certain risks and uncertainties that could cause actual events or results to differ materially from those referred to in such forward looking statements. Any forward-looking statements are qualified in their entirety by reference to the factors discussed throughout this Disclosure Statement. The liquidation analyses, distribution projections and other information described herein are estimates only, and the timing and amounts of actual distributions to Creditors and Investors may be affected by many factors that cannot be predicted. Therefore, any analyses, estimates or recovery projections may or may not turn out to be accurate.

Nothing contained in this Disclosure Statement is, or shall be deemed to be, an admission or statement against the Debtors or any other party for purposes of any pending or future litigation matter or proceeding.

Although the Independent Fiduciaries, the Debtors' attorneys, and Kinetic have prepared this Disclosure Statement based upon factual information and assumptions respecting financial, business, and accounting data found in the books and records of the Debtors, these parties have not been able to independently verify such information and make no representations as to the accuracy thereof. The Independent Fiduciaries, the Debtors' attorneys, and Kinetic shall have no liability for the information in this Disclosure Statement. The Independent Fiduciaries, the Debtors' attorneys, and Kinetic also have made a diligent effort to identify in this Disclosure Statement, and in the Plan, pending litigation against the Debtors and the existence of any Causes of Action. However, no reliance should be placed on the fact that a particular litigation Claim or possible Cause of Action is, or is not, identified in this Disclosure Statement or the Plan. Other than Claims and Causes of Action that are being released under the Plan, the Debtors may seek to investigate, file and prosecute litigation Claims and projected Causes of Action and objections to Claims, in the manner contemplated by the provisions of the Plan, after the Confirmation Date or Effective Date of the Plan irrespective of whether this Disclosure Statement or the Plan identifies any such Claims, Causes of Action or objections to Claims. While these factors could affect distributions available to Holders of Allowed Claims or Interests under the Plan, the occurrence or impact of such factors will not affect the validity of the vote of the Impaired Classes entitled to vote to accept or reject the Plan (the "Voting Classes") or require a re-solicitation of the Voting Classes.

## **II. CONFIRMATION OF THE PLAN**

### **A. Confirmation Hearing for the Plan**

The Bankruptcy Code requires that, in order to confirm the Plan, the Bankruptcy Court must make certain findings concerning the Plan and the Debtors, including that (i) the Plan has classified Claims and Equity Interests in a permissible manner; (ii) the Plan complies with applicable provisions of the Bankruptcy Code; (iii) the Debtors have complied with applicable provisions of the Bankruptcy Code; (iv) the Debtors have proposed the Plan in good faith and not by any means forbidden by law; (v) the disclosure required by section 1125 of the Bankruptcy Code has been made; (vi) the Plan has been accepted by the requisite votes of creditors (except to the extent that cramdown is available under section 1129(b) of the Bankruptcy Code); (vii) the Plan is feasible and confirmation is not likely to be followed by the liquidation or the need for further financial reorganization of the Debtors under the Plan except as proposed in the Plan;

(viii) the Plan is in the “best interests” of all holders of Claims or Equity Interests in an impaired Class by providing to such holders on account of their Claims or Equity Interests property of a value, as of the Effective Date, that is not less than the amount that such holder would receive or retain in a chapter 7 liquidation, unless each holder of a Claim or Equity Interest in such Class has accepted the Plan; and (ix) all fees and expenses payable under 28 U.S.C. § 1930, as determined by the Bankruptcy Court at the hearing on Confirmation, have been paid or the Plan provides for the payment of such fees on the Effective Date.

At the Confirmation Hearing, the Bankruptcy Court will confirm the Plan only if all of the requirements of the Bankruptcy Code are met.

## **B. Acceptance of Plan**

As a condition to confirmation, the Bankruptcy Code requires that each class of impaired claims or interests vote to accept a plan, except under certain circumstances. See “Confirmation Without Acceptance of All Impaired Classes” below. A plan is accepted by an impaired class of claims if holders of at least two-thirds in dollar amount and more than one-half in number of claims of that class vote to accept the plan. Only those holders of claims or interests who actually vote count in these tabulations. Holders of claims who fail to vote are not counted as either accepting or rejecting a plan.

In addition to this voting requirement, section 1129 of the Bankruptcy Code requires that a plan be accepted by each holder of a claim or interest in an impaired class or that the plan otherwise be found by the Bankruptcy Court to be in the best interests of each holder of a claim or interest in such class. See “Best Interests Test” below. In addition, each impaired class must accept the plan for the plan to be confirmed without application of the “fair and equitable” and “unfair discrimination” tests in section 1129(b) of the Bankruptcy Code discussed below. See “Confirmation Without Acceptance of All Impaired Classes” below.

## **C. Confirmation Without Acceptance of All Impaired Classes**

The Bankruptcy Code contains provisions for confirmation of a plan even if the plan is not accepted by all impaired classes, as long as at least one impaired class of claims has accepted it. These so-called “cramdown” provisions are set forth in section 1129(b) of the Bankruptcy Code.

A plan may be confirmed under the cramdown provisions if, in addition to satisfying all other requirements of section 1129(a) of the Bankruptcy Code, it (a) “does not discriminate unfairly,” and (b) is “fair and equitable,” with respect to each class of claims or interests that is impaired under, and has not accepted, the plan. As used by the Bankruptcy Code, the phrases “discriminate unfairly” and “fair and equitable” have specific meanings unique to bankruptcy law.

In general, the cramdown standard requires that a dissenting class receive full compensation for its allowed claim or interests before any junior class receives any distribution. More specifically, section 1129(b) of the Bankruptcy Code provides that a plan can be confirmed under that section if: (a) with respect to a secured class, (i) the holders of such claims retain the liens securing such claims to the extent of the allowed amount of such claims and that each

holder of a claim of such class receive deferred cash payments equaling the allowed amount of such claim as of the plan's effective date or (ii) such holders realize the indubitable equivalent of such claims; (b) with respect to an unsecured claim, either (i) the impaired unsecured creditor must receive property of a value equal to the amount of its allowed claim, or (ii) the holders of claims and interests that are junior to the claims of the dissenting class may not receive any property under the plan; or (c) with respect to a class of interests, either (i) each holder of an interest of such class must receive or retain on account of such interest property of a value, equal to the greater of the allowed amount of any fixed liquidation preference to which such holder is entitled, any fixed redemption price to which such holder is entitled or the value of such interest, or (ii) the holder of any interest that is junior to the interest of such class may not receive or retain any property on account of such junior interest.

The "fair and equitable" standard, also known as the "absolute priority rule," requires, among other things, that unless a dissenting unsecured class of claims or a class of interests receives full compensation for its allowed claims or allowed interests, no holder of claims or interests in any junior class may receive or retain any property on account of such claims or interests. With respect to a dissenting class of secured claims, the "fair and equitable" standard requires, among other things, that holders either (i) retain their liens and receive deferred cash payments with a value as of the plan's effective date equal to the value of their interest in property of the estate, or (ii) otherwise receive the indubitable equivalent of these secured claims. The "fair and equitable" standard has also been interpreted to prohibit any class senior to a dissenting class from receiving under a plan more than 100% of its allowed claims. The requirement that a plan not "discriminate unfairly" means, among other things, that a dissenting class must be treated substantially equally with respect to other classes of equal rank.

The Debtors will seek confirmation of the Plan over the objection of individual holders of Claims or Interests who are members of an accepting Class, and may seek confirmation of the Plan over the rejection of one or more Voting Classes.

The Debtors reserve the right to alter, amend, modify, revoke or withdraw the Plan, any exhibit or schedules thereto, or any Plan Document in order to satisfy the requirements of section 1129(b) of the Bankruptcy Code, if necessary. The Debtors believe that the Plan will satisfy the "cramdown" requirements of section 1129(b) of the Bankruptcy Code. However, there can be no assurance that the Bankruptcy Court will determine that the Plan meets the requirements of section 1129(b) of the Bankruptcy Code.

#### **D. Any Objections to Confirmation of the Plan**

Any responses or objections to confirmation of the Plan must be in writing and must be filed with the Clerk of the Bankruptcy Court with a copy to the Bankruptcy Court's Chambers, together with a proof of service thereof, and served on counsel for the Debtors and the office of United States Trustee on or before such deadline as the Bankruptcy Court may fix. Bankruptcy Rule 3020 governs the form of any such objection.

**Counsel on whom objections must be served are:**

Counsel for the Debtors

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**III. BACKGROUND AND EVENTS LEADING TO THE PROPOSED PLAN**

**A. Overview of the Debtors and Their Business**

Each of the Onshore Debtors is a Delaware limited liability company and each of the Offshore Debtors is a Cayman Island exempted company. The Debtors were each established in 2005, other than SSC3LLC, SSC3LTD, and SSC3MF (collectively, the “Sand Spring Debtors”) that were established in 2007. The Debtors are investment vehicles that hold securities and other assets for investment purposes for the benefit of their membership interest holders, in the case of the Onshore Debtors, and their shareholders, in the case of the Offshore Debtors. For each Onshore Debtor (other than SSC3MF) there is a corresponding Offshore Debtor, and each pair of Onshore and Offshore Debtors were established to pursue substantially identical investment strategies. The Onshore-Offshore differentiation was necessary to allow non-U.S. based and tax exempt Investors the opportunity to participate in the Debtors’ investment strategies and still remain in compliance with certain requirements under the U.S. securities and tax laws regarding investments by non-U.S. based and tax exempt Investors.

Investments in the Debtors were solicited pursuant to Private Placement Memoranda (“PPMs”) in accordance with Regulation D under the U.S. Securities Act of 1933, as amended, which were distributed to potential investors and described, among other things, each Debtor’s investment objectives, its management, the management and performance fees charged to Investors, the risks associated with investing in the Debtor and certain other legal, regulatory and compliance matters. Cash distributions have occurred through the sale of, or receipt of interest on, the Collybus CDO and other securities.

**B. Commonwealth and the Management of the Debtors**

Since the Debtors’ formation and through April, 2012, their investment strategies and operations were managed by Commonwealth. Commonwealth was established in 1991 and

is an investment manager and adviser based in Baton Rouge, Louisiana. Commonwealth is headed by Walter Morales, its President, Chief Investment Manager and Portfolio Manager.

Commonwealth served as the managing member of the Onshore Debtors (other than SSC3LLC and SSC3MF) and had authority to implement the Onshore Debtors' investment strategy pursuant to the authority designated to the managing member in the limited liability company agreements for those Debtors. Commonwealth served as the Investment Advisor to the Offshore Debtors (other than SSC3LTD) pursuant to investment advisory agreements entered into by Commonwealth and each of those Debtors. Prior to April, 2012, Morales was a director of the Offshore Debtors. With respect to the Sand Spring Debtors, prior to April, 2012, Sand Spring Management LLC, which is not a debtor in the Bankruptcy Cases, served as the managing member for SSC3LLC and SSC3MF, and, prior to April, 2012, Morales served as a director of SSC3LTD. SSC3LLC and SSC3LTD invest solely in SSC3MF. Under the Debtors' governing documents and investment advisory agreements with Commonwealth (where applicable), Commonwealth had discretion to manage the investment strategy for each of the Debtors.

In April 2012, pursuant to an Order entered by the Bankruptcy Court, Commonwealth was terminated as the managing member and/or investment advisor of the Debtors and replaced by Kinetic. Subsequently, on November 8, 2012, the SEC brought a complaint against Morales and Commonwealth based upon its investigation of Morales' and Commonwealth's management of the Debtors.

## **C. Overview of the Collybus CDO<sup>4</sup>**

### **1. Re-securitization of the Debtors**

By the second half of 2007, each of the Debtors was heavily invested in mortgage-backed securities ("MBS"). This period also saw the beginning of an unexpected, massive and long-lasting correction in the financial markets, which included a substantial decline in the market for MBS. These macro-economic conditions led to decreases in the liquidity, market value and ratings of the MBS owned by the Debtors, and Commonwealth began to explore the possibility of re-securitizing these MBS as well as those held by other accounts managed by Commonwealth.

### **2. The Creation of the Collybus CDO**

Beginning in June 2007, Commonwealth entered into discussions with Cantor regarding the creation of a collateralized debt obligation ("CDO") - a form of re-securitization. Certain MBS owned by Commonwealth's clients, including certain of the Debtors, would be contributed to a securitization vehicle that came to be known as the "Collybus CDO."<sup>5</sup> In turn, Cantor agreed to contribute approximately \$600 million in MBS that it held, and to contribute

<sup>4</sup> Certain information included in this section has been provided by Commonwealth and not independently verified by the Debtors.

<sup>5</sup> The Collybus CDO consists of six tranches of notes (the "Notes") co-issued by Collybus CDO I Ltd. and Collybus CDO I Corp. and a tranche of subordinated securities issued by Collybus CDO I Ltd.

approximately \$60 million cash.<sup>6</sup> Two other funds not affiliated with Cantor or Commonwealth also contributed MBS to the CDO and \$85 million cash. The Sand Spring Debtors also agreed to, and did, contribute approximately \$51 million into the CDO in payment for 80% of the non-rated equity piece of the CDO.<sup>7</sup> Ultimately, in November 2007, the Debtors (other than CASELLC and CASELTD), contributed certain MBS assets to the Collybus CDO, and received (along with other clients of Commonwealth) \$100 million plus the C and D tranches of the Collybus CDO Notes (5th and 6th level tranches). At the time, the Collybus CDO C and D Notes were rated investment grade by the rating agencies. The \$145 million cash paid into Collybus by Cantor and other unaffiliated Debtors was used, at least in part, to purchase securities from Commonwealth clients, including the Debtors. In short, the Debtors contributed MBS to Collybus and received in exchange cash and CDO notes, which had higher ratings on average than those securities that the Debtors contributed. For example, Standard & Poor's rated the C Notes A+ and the D Notes BBB+ in December 2007, whereas the average rating of securities contributed to Collybus by the Debtors was between BB+ and BBB-.

### **3. The Downgrade of the Collybus CDO**

In January 2008, S&P downgraded or placed credit watches on over 8,000 MBS or CDO securities. About three months after the formation of Collybus, financial markets, including the mortgage-backed securities market, suffered a decline coinciding with the failure and bail-out of Bear Stearns in March 2008. In April 2008, due to changes in assumptions, rating agencies lowered their ratings of the Collybus C and D notes<sup>8</sup> slightly, but nevertheless still rated them investment grade. By mid-June 2008, however, the C and D tranches were placed on negative watch by the rating agencies. By the end of the first quarter of 2008, Collybus had failed overcollateralization triggers with respect to the C and D tranches, which caused all cash flow to be diverted to principal and interest on the more senior notes, until such time as the coverage ratio recovered. In the fall of 2008, both the C and D tranche notes defaulted on their interest obligations and lost their investment grade ratings. Thereafter all Collybus cash flow was allocated to principal and interest on the A2 tranche notes and to interest on the A3 and B tranches.

### **4. The Purchase of the A2 Notes**

The Collybus A1 Notes were paid in full during the first quarter of 2008, leaving the A2 Notes the senior tranche. At this time, Commonwealth began negotiating with Cantor for the purchase of A2 Notes. In June 2008, the Debtors purchased from Cantor all of the \$610.5 million A2 Notes from the Collybus CDO at a discounted price of \$72.75 per \$100 par value of Notes. This price was below the value given the A2 Notes by an independent third party valuation firm and below the price Commonwealth estimated for the A2 Notes at the inception of the CDO. Cantor financed approximately \$300 million of the \$440 million purchase price for the A2 Notes.

<sup>6</sup> In return, Cantor received Class A1 Notes, A2 Notes, A3 Notes and B Notes from the Collybus CDO. The A1 Notes were paid off in full by the first quarter of 2008.

<sup>7</sup> The non-rated equity piece carried the most risk but held the opportunity for the greatest return.

<sup>8</sup> For example, S&P lowered its rating of the Collybus D tranche bonds from BBB+ to BBB-, and the C tranche bonds from A+ to A.

The financing was governed by a certain master repurchase agreement dated as of March 28, 2007 between Cantor, Commonwealth, and the Debtors (with all amendments, supplements and related confirmations and corrections, the “Cantor Repo”) by which Cantor agreed to buy the just-acquired A2 Notes and the Debtors agreed to repurchase the A2 Notes from Cantor at that same purchase price (adjusted upwards for an amount constituting a return to Cantor on the amount of the purchase price) at a point in the future. Having arranged for the Cantor Repo, the Debtors were able to acquire the A2 Notes for \$101,138,702.84 inclusive of accrued interest.

#### **5. Factors that Contributed to the Debtors’ Losses and Decrease in Value**

According to Commonwealth, several major events and circumstances contributed to losses to the Debtors after the Collybus CDO was formed. First, Bear Stearns failed in March 2008, after which all ABX indices for mortgage-backed securities declined. During the spring of 2008, however, the ABX indices rallied, only to experience another downturn in the summer of 2008 with the failure of Fannie Mae and Freddie Mac. Home prices nationwide dropped dramatically and home mortgage financing practically disappeared. In September 2008, Lehman Brothers filed bankruptcy, AIG was bailed out by the federal government, and worldwide financial markets were on the verge of financial collapse.

#### **6. Collybus CDO Liquidity Constraints**

While the Collybus CDO Notes, and in particular the A2 Notes, held their value fairly well (based upon valuations by independent third party valuation firms), Commonwealth contends that it was unable to find any buyers for the Collybus Notes for any price other than at fire sale liquidation prices. As a consequence, Commonwealth asserts that it was forced to suspend redemptions in the Debtors. Commonwealth contends that it scoured the marketplace for prospective buyers of the A2 Notes or for a firm willing to refinance them, so that the repurchase price owed to Cantor under the Cantor Repo could be satisfied in order to obtain a transfer back of the securities prior to the then-scheduled repurchase date of June 20, 2010 under the Cantor Repo, and the Debtors could generate cash to fund redemption. During that process, Commonwealth noticed in late 2010 and early 2011 an uptick in the market for the underlying MBS. As the Collateral Manager for Collybus, Commonwealth directed the Collybus CDO trustee to liquidate certain of the underlying securities, in order to take advantage of current market conditions. That process generated sufficient cash flow from the Collybus CDO with respect to the A2 Notes to pay the repurchase price under the Cantor Repo and to permit the transfer of the A2 Notes by Cantor back to the Debtors in March, 2011.

#### **D. The Suspension of Redemptions and Creation of the CA Recovery Funds**

By the end of 2008, the market for the securities in the Debtors’ portfolios, which were concentrated in the Collybus CDO Notes, had reached near stagnation. When pricing was available for the Debtors’ securities, significant disparities existed between the market’s pricing and the prices used by Commonwealth to value the Debtors’ securities. At that same time, the Investors were making redemption requests in increasing numbers. Commonwealth determined that the Debtors would be unable to satisfy the increasing redemption requests without liquidating their securities at prices Commonwealth believed were far below their intrinsic value.



Subsequently, Commonwealth and each of the Debtors informed the Investors that they had suspended both Investor redemptions from, and new contributions into, each of the Debtors.

In mid-2008, a series of Funds (the “CA Recovery Funds”) were established to provide liquidity for investors in the Sand Spring Funds through a transfer of certain assets that were not subject to the Cantor Repo. Investors in the Sand Spring Debtors received corresponding ownership interests in the CA Recovery Funds based on their ratable ownership interests in the Sand Spring Debtors. The CA Recovery Funds are not Debtors in these cases.

**E. The 2008 Cantor Litigation, the Settlement and the Repurchase of the A2 Notes**

On November 6, 2008, Commonwealth brought an arbitration proceeding before the Financial Industry Regulatory Authority (“FINRA”) that was intended to resolve a dispute concerning Cantor and Commonwealth’s interpretations of the Cantor Repo. According to Commonwealth’s statement of claim, the arbitration was intended to address Cantor’s alleged breach of the material terms of the Cantor Repo by failing to apply principal payments received on A2 Notes to reduce the Debtors’ obligations under the Cantor Repo. Additionally, on January 8, 2009, Commonwealth filed an action against Cantor in Louisiana state court seeking a temporary restraining order, preliminary and permanent injunctions and a declaratory judgment directed towards preventing Cantor from: (i) making margin calls on the Debtors or declaring an event of default under the Cantor Repo while the arbitration before FINRA was ongoing; or (ii) obtaining a declaration that the dispute between Cantor, Commonwealth and the Debtors, which was the subject of the FINRA arbitration, must proceed to arbitration in due course.

Commonwealth and the Debtors entered into a settlement agreement with Cantor effective as of January 11, 2009 (the “Cantor FINRA Settlement Agreement”), which resolved claims brought by Commonwealth on its own behalf and on behalf of the Debtors against Cantor with respect to the Debtors’ purchase and subsequent financing of the Collybus CDO Notes. The Cantor FINRA Settlement Agreement provided that (i) the confirmation under the Cantor Repo would be amended to delay the repurchase date under the Cantor Repo and to explicitly require the application of principal payments made on the A2 Notes to the amount owed by the Debtors under the Cantor Repo, (ii) the margin call provisions would be amended, (iii) Cantor would receive a prompt payment of \$5 million, to be applied to the Debtors’ repurchase obligations under the Cantor Repo, and (iv) Commonwealth and the Debtors would provide Cantor with a broad release of claims and agree to indemnify Cantor for certain causes of action related to the purchase and financing of the A2 Notes.

Commonwealth, in its capacity as Collateral Manager, directed the Collybus CDO trustee to liquidate certain of the collateral securities in order to take advantage of current market conditions. The liquidation by the Collybus CDO trustee of some of the collateral began in the latter part of 2010 and continued into early 2011 (as mentioned earlier). The proceeds flowed through the Collybus CDO waterfall and paid the amount of the Debtors’ repurchase obligation.

Cantor retained approximately \$527,000 from the cash flow from the Collybus CDO and allegedly applied those funds to what it claimed were the Debtors’ indemnification obligations in favor of Cantor under the Cantor FINRA Settlement Agreement. As part of the

Cantor Chapter 11 Settlement the Debtors and Cantor resolved any disputes related to the ownership of these funds.

## **F. Certain Pending Litigation**

### **1. The Louisiana Litigation**

In 2010, certain investors in the Debtors brought claims against Commonwealth and Cantor, both directly and derivatively on behalf of the Debtors.

On or about September 15, 2010, Joseph Broyles brought a putative class action suit in the 19th Judicial District Court for the Parish of East Baton Rouge in the state of Louisiana, Suit No: 594747, Section:23 (the “Direct Claim Action”) against Cantor, Commonwealth, Walter Morales and his wife, and several of Commonwealth’s employees.

In addition, in November 2010, Broyles and two other individual investors brought a derivative action in the 19th Judicial District Court for the Parish of East Baton Rouge in the State of Louisiana, Suit No: 596445, Section: 22 (the “Derivative Claim Action”) against the defendants in the Direct Claim Action as well as a number of present and former Cantor employees. CAHYLLC, CAHYLTD, CACFILLC, CACFILTD, CASELLC, and CASELTD were named as nominal plaintiffs and derivative defendants in the Derivative Claim Action. The Direct Claim Action and the Derivative Claim Action asserted claims for (1) negligent and/or intentional mismanagement of the investors’ investments in the Debtors, (2) negligent and/or intentional misrepresentation, (3) violation of Louisiana Blue Sky law, (4) breach of fiduciary duty, (5) negligent and/or intentional misrepresentation of material fact and omissions of material fact in connection with the sale of securities, (6) breach of contract, and (7) violations of Louisiana Civil Code article 2315. Broyles alleged hundreds of millions of dollars in damages on behalf of the investors and/or the Debtors.

In December 2010, the Municipal Employees’ Retirement System of Louisiana (“MERS”) moved to intervene in the Direct and Derivative Claim Actions, seeking to assert claims for breach of fiduciary duty, breach of Louisiana blue sky law, rescission, negligent misrepresentation, and fraud, relating to CACFILLC, SSC3LLC, and CA Recovery Fund, LLC. MERS also alleged that Commonwealth violated its duties under the Investment Advisors Act of 1940 and the Code of Ethics of Chartered Financial Analysts, but stated that it was not seeking to assert any claim against Commonwealth under the Investment Advisors Act or any other federal securities law. Cantor removed the Direct Claim Action and Derivative Claim Action (jointly, the “Louisiana Litigation”) to the United States District Court for the Middle District of Louisiana (the “Louisiana District Court”) on December 22, 2010. On January 28, 2011, the Direct Claim Action and the Derivative Claim Action were consolidated. The plaintiffs filed motions to remand the Louisiana Litigation back to Louisiana state court. The motion to remand the Direct Claim Action was denied on October 5, 2011. On November 4, 2011, Broyles filed an amended complaint in the Direct Claim Action. Broyles subsequently withdrew the amended complaint and moved for leave to refile it.

In December 2011, the Louisiana Litigation was administratively terminated without prejudice to the rights of the parties to reopen the proceedings in order to allow

mediation among the Debtors and the parties to the Louisiana Litigation. When that mediation was unsuccessful, in February 2012, MERS and Broyles moved to reopen the Louisiana Litigation and moved for leave to file a Second Amended Complaint in the Direct Claim Action. The Second Amended Complaint eliminated all class action allegations and purported to state only direct claims on behalf of only fifteen named plaintiffs. The Louisiana District Court ordered the Direct Claim Action reopened, but ordered that the Derivative Claim Action would remain stayed because of the Debtors' pending bankruptcy proceedings. The Louisiana District Court granted the motion for leave to file the Second Amended Complaint. In October 2012, the defendants in the Direct Claim Action moved to dismiss the Second Amended Complaint. In December 2012, before the Louisiana District Court ruled on the motion to dismiss the Second Amended Complaint, the plaintiffs in the Direct Claim Action moved for leave to file a Third Amended Complaint.

The Louisiana District Court issued an opinion on April 17, 2013 (the "Louisiana District Court Opinion") dismissing all but one claim – for aiding and abetting a breach of fiduciary duty – against Cantor, finding that all other claims against Cantor were derivative, not direct. The Louisiana District Court noted that, under Louisiana law, there is no claim for aiding and abetting breach of fiduciary duty, but the Louisiana District Court did not conduct a choice of law analysis. On April 24, 2013, Cantor filed a motion for reconsideration of the portion of the Louisiana District Court Opinion that did not dismiss the claim for aiding and abetting breach of fiduciary duty, arguing that the remaining claim against Cantor is derivative (and therefore resolved under the Cantor Chapter 11 Settlement) and that, in the alternative, if the Louisiana District Court determines that the remaining claim is direct, Louisiana law—which does not recognize such a claim—applies (and the claim should therefore be dismissed).

On June 3, 2013, the Louisiana District Court issued a further opinion (the "Second Louisiana District Court Opinion"). The Second Louisiana District Court Opinion granted Cantor's motion for reconsideration and dismissed the sole remaining claim against Cantor.

The Louisiana District Court denied the motion to dismiss the Second Amended Complaint filed by Commonwealth and Morales. The Louisiana District Court Opinion concluded that the Derivative Claim Action did not allege a class action because it sought damages only on behalf of the Debtors, not on behalf of the individual plaintiffs. The Louisiana District Court Opinion did not address the motion for leave to file a Third Amended Complaint.

On May 15, 2013, the plaintiffs in the Direct Claim Action filed a motion for reconsideration of the Louisiana District Court's dismissal of plaintiffs' "holder" claim as derivative and requested that the Court grant the motion for leave to file a Third Amended Complaint.

## **2. The New York Litigation**

In November 2010, Cantor brought an action (the "New York Litigation") in the Supreme Court of the State of New York, County of New York, Index No. 652084/2010, seeking indemnification of, *inter alia*, its expenses, including attorneys' fees, incurred in defending the Louisiana Litigation, against Commonwealth, CACFILTD, CACFILLC, CAHYLLC,

CAHYLTD, CASELLC, CASELTD, and SSC3LLC, pursuant to the Cantor FINRA Settlement Agreement. When the Cantor Repo was repaid on March 7, 2011, Cantor failed to return to the Debtors approximately \$527,000 from the cash flow from the Collybus CDO on the grounds that Cantor was entitled to apply those funds against Cantor's indemnification claims under the Cantor FINRA Settlement Agreement. On March 14, 2011, the defendants in the New York Litigation brought counterclaims (the "New York Counterclaims") against Cantor, alleging that Cantor's retention of these funds constituted (1) a breach of contract, (2) a breach of the covenant of good faith and fair dealing, (3) unjust enrichment, and (4) conversion.

Pursuant to the Cantor Chapter 11 Settlement, the New York Counterclaims will be dismissed on or after the Effective Date of the Plan. Furthermore, on or after the Effective Date, the Reorganized Debtors will be substituted as nominal defendants in the New York Litigation, and the Non-Releasing Investors will take over the cost and the defense of the New York Litigation, which shall be stayed until such time as the Direct Claim Action results in a final, non-appealable judgment.

### **3. The Texas Litigation**

In October 2012, the Fire & Police Fund Pension, San Antonio ("SAFPPF") brought an action (the "Texas Litigation", and together with the Louisiana Litigation, New York Litigation, the Derivative Action, and the Direct Claim Action, the "Collybus Litigation") in the District Court for the 288th District, Bexar County, Texas, Case No. 212-C1-16513, which has since been removed, and remains pending in the United States Bankruptcy Court for the Western District of Texas (Adversary Proceeding No. 12-05137-a998), against Cantor, Commonwealth, and Morales. The petition in the Texas Litigation was amended on February 1, 2013. The Amended Petition asserts a claim against Morales and Commonwealth for fraudulent inducement and a claim against Cantor for aiding and abetting fraudulent inducement. On February 25, 2013, motions to dismiss the Amended Petition were filed by each of the defendants. Cantor's motion argued, inter alia, that Texas does not recognize a cause of action for aiding and abetting fraudulent inducement.

As of April 26, 2013, SAFPPF and Cantor entered into a settlement agreement relating to the Texas Litigation. Under that settlement agreement, on or about the Cantor Chapter 11 Settlement Effective Date: (a) Cantor will pay to SAFPPF the cash sum of \$250,000, (b) the Texas Litigation will be dismissed with prejudice as to Cantor, and (c) the parties will exchange mutual releases. The release by SAFPPF will constitute a Direct Claim Release for purposes of the Plan and will entitle SAFPPF to its Pro Rata Percentage of the Direct Claim Settlement Amount in addition to the \$250,000 payment. SAFPPF will also retain its Ratable Portion of the Reorganized Fund Interests, as distributions on account of those interests may be increased by the Cantor Derivative Claim Settlement Amount. The effectiveness of the settlement agreement is contingent upon the implementation of the Cantor Chapter 11 Settlement.

### **4. Indemnification**

Commonwealth and Morales allege that they have incurred expenses related to the Louisiana Litigation, the Texas Litigation, and the New York Litigation and in the proofs of

claim filed in the Bankruptcy Cases. Pursuant to the Debtors' LLC Agreements, Articles of Association, or Investment Advisory Agreements, Commonwealth initially asserted Indemnification Claims against the Debtors; however, Commonwealth has since informed the Debtors and the Bankruptcy Court that it has abandoned those claims and they are waived under the Plan.

Likewise, Cantor has incurred attorneys' fees and other expenses related to the Louisiana Litigation, the Texas Litigation and the New York Litigation. Pursuant to the Cantor FINRA Settlement Agreement, in the New York Litigation, Cantor has asserted the Cantor Indemnification Claims against the Debtors. The Debtors have not provided Cantor with advancement in either litigation, but Cantor has retained and applied against its indemnification claims under the Cantor FINRA Settlement Agreement \$527,000 from the cash flow from the Collybus CDO. As set forth in greater detail in Section VIII Below, in accordance with the Cantor Chapter 11 Settlement, recourse on the Cantor Indemnification Claims will be limited to the Indemnification Reserve.

#### **G. The SEC Investigation and Complaint**

On July 10, 2009, the Securities and Exchange Commission (the "Commission" or "SEC") issued a formal order of private investigation, captioned In the Matter of Commonwealth (the "Formal Order"). The Formal Order provides "that a private investigation be made to determine whether any persons or entities have engaged in, or are about to engage in, any of the reported acts or practices [in the Formal Order] or any acts or practices of similar purport or object." According to the Formal Order, the SEC staff is investigating "possible violations" by Commonwealth, Morales, or their affiliates of Section 17(a) of the Securities Act of 1933, Section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5 thereunder, and Sections 204, 206(1)-(4) of the Investment Advisers Act, and Rules 204-2 and 206(4)-8 thereunder, dating back to at least November 2007.

According to the Formal Order, the SEC staff was authorized to investigate whether Commonwealth, its officers, directors, employees, partners, subsidiaries, and/or affiliates and/or other persons or entities: (i) directly or indirectly, may have been or may be, among other things, making false statements of material fact or failing to disclose material facts concerning, among other things, the asset valuations and returns of Commonwealth's hedge fund clients; (ii) may have been or may be failing to make and keep true, accurate and current books and records as prescribed by the Commission; (iii) directly or indirectly, may have been or may be making false statements of material fact or omitting to state material facts concerning, among other things, the asset valuations and returns of Commonwealth's hedge fund clients and the disclosure of conflicts of interest in connection with transactions between Commonwealth clients; (iv) may have, while acting as investment advisers, directly or indirectly, acting as principal for its own account, knowingly sold any security to or purchased any security from a client without disclosing to such client in writing before completion of such transaction the capacity in which it is acting and obtaining the consent of the client to such transaction; and (v) directly or indirectly, may have been or may be making untrue statements of material fact or omitting to state material facts necessary to make the statement, in light of the circumstances under which they were made, not misleading (including with respect to the asset valuations of Commonwealth's hedge fund clients).

On November 8, 2012, the SEC brought a complaint against Morales and Commonwealth (the “SEC Complaint”) based on its investigation. The SEC has alleged that Commonwealth and Morales:

engaged in a scheme to hide losses in [the Debtors]. These losses were realized, in part, from significant investments that the [Debtors] held in residential mortgage-backed securities (“RMBS”) which had deteriorated in value during the recent downturn in the residential housing market. To hide these losses, Defendants executed improper trades across the [Debtors] (“cross-trades”) that benefited certain clients at the expense of other clients. Defendants also made materially false representations to investors about the amount and value of, as well as the process for valuing certain mortgage-backed assets held in the [Debtors] and fabricated internal documents to justify the false valuations.

By virtue of the forgoing conduct, the SEC alleges that Morales and/or Commonwealth have violated or aided and abetted the violation of Section 17(a) of the Securities Act of 1933; Sections 10(b) of the Securities Exchange Act of 1934, and Rule 10b-5 thereunder; Sections 204, 206(1), 206(2), 206(4) and 207 of the Investment Advisers Act of 1940 and Rules 204-2, 206(4)-2, 206(4)-7 and 206(4)-8 thereunder. The SEC Complaint did not state any claims against Cantor.

## **H. The Investigation by the Independent Fiduciaries**

### **1. The Appointment of the Independent Fiduciaries**

On January 11, 2011, as amended by a resolution dated February 18, 2011, Commonwealth appointed Walker, Truesdell, Roth & Associates, Inc. (the “Independent Agent”) as an agent of the Onshore Debtors to, *inter alia*, evaluate and advise as to bankruptcy and restructuring matters, as well as to review claims and potential settlements with Cantor and Commonwealth (collectively the “Delegated Matters”). Hobart Truesdell represents Walker, Truesdell, Roth & Associates, Inc. in its capacity as the Independent Agent. On January 13, 2011, as amended by a resolution dated February 16, 2011, the boards of the Offshore Debtors appointed Hobart Truesdell to serve as an independent director on the boards of each of the Offshore Debtors and the boards of each of the Offshore Debtors formed an independent committee (the “Independent Committee”, and with the Independent Agent, the “Independent Fiduciaries”) consisting of Mr. Truesdell and Roisin Cater with materially the same powers and purpose with respect to the Offshore Debtors’ handling of the Delegated Matters as the Agent possessed with respect to the Onshore Debtors’ handling of the Delegated Matters. The Independent Fiduciaries have acted with respect to the Delegated Matters on behalf of all of the Debtors.

### **2. The Initial Investigation**

In December 2010, Young Conaway Stargatt & Taylor, LLP (“Young Conaway”) was engaged to advise the Debtors as to their restructuring options and, subsequently, to assist the Independent Fiduciaries in investigating the claims made in the Louisiana Litigation as well as other potential claims against Commonwealth or Cantor arising from the same operative facts (the “Investigation”). Young Conaway commenced an investigation as to whether Cantor had

engaged in any wrongdoing in connection with the formation of the Collybus CDO or entry into the Cantor FINRA Settlement Agreement and whether Commonwealth or its employees, including Morales, had (1) breached its fiduciary duties to any of the Debtors, (2) breached the LLC Agreements of the Onshore Debtors, (3) breached any contracts entered into with the Offshore Debtors, (4) violated Louisiana law, including Louisiana Blue Sky law and the Louisiana Retirement System Fiduciary Law, or (5) committed fraud or negligent misrepresentation in connection with (i) Commonwealth's role in the formation of the Collybus CDO, (ii) the Debtors' investments in the Collybus CDO, or (iii) Commonwealth's management of the Debtors' thereafter. Additionally, the Independent Fiduciaries observed that potential claims against Commonwealth or Cantor under Federal securities laws or under ERISA may also exist with respect to investors or the Debtors.

Young Conaway's initial investigation occurred between January 6, 2011 and April 2011. In the course of the investigation, Young Conaway spoke with five persons associated with Commonwealth, was provided access to 59,016 of Commonwealth's documents, and was given an opportunity to review three transcripts from the SEC investigation. The issues that were investigated are complex and pretrial discovery has not yet taken place in the Louisiana Litigation.

### **3. The Results of Young Conaway's Initial Investigation**

In the course of the investigation, the Independent Fiduciaries and their advisors were provided with a limited number of documents by Commonwealth but did not have direct or full access to either Commonwealth's or the Debtors' records.

Based upon the: (i) limited resources available to the Independent Fiduciaries to fully and completely review all of the relevant information related to the Louisiana Litigation, the Collybus Litigation and the SEC Investigation; and (ii) limited information reviewed by the Independent Fiduciaries during the Investigation, the Independent Fiduciaries were unable to reach a determination prior to the Petition Date regarding the viability or the value of the Debtors' and the Investors' claims against Commonwealth or the relative strength of the defenses thereto. However, the Independent Fiduciaries were able to conclude, based on the results of Young Conaway's investigation, that aside from the New York Counterclaims, the Cantor FINRA Settlement Agreement's releases provide potential defenses to claims that could be asserted against Cantor. As will be discussed more fully herein, the Independent Fiduciaries ultimately settled the Debtors' claims against Cantor, which settlement was approved by the Bankruptcy Court. Any claims that may exist against Commonwealth have not been resolved.

#### **I. Events Leading to these Bankruptcy Cases**

The Collybus CDO and the resulting Collybus Litigation raised several complex issues for the Debtors. As an initial matter, the claims asserted in the Derivative Claim Action belong to the Debtors and constitute property of the Debtors' estates. Accordingly, the Debtors needed to evaluate the merits of, and exercise appropriate control over, the Derivative Claim Action and the disposition of the claims asserted therein. Second, assuming that the plaintiffs prevail in the Louisiana Litigation and Cantor prevails in asserting the Cantor Indemnification Claims, the Collybus Litigation poses a "zero-sum" situation for the Investors because the

Debtors could conceivably have to pay from their own funds – which would otherwise be distributed to the Investors – an amount sufficient to satisfy any judgments that the Investors obtain against Cantor, as a result of the indemnification provisions of the Cantor FINRA Settlement Agreement. This situation substantially prejudices value for the Investors after accounting for the extensive costs and expenses that would result from litigating the class and derivative claims asserted in the Collybus Litigation to judgment. Finally, in the more than three years since the Collybus CDO's formation, the market for the Collybus CDO Notes– which make up substantial portions of the Debtors' assets – had contracted and the market's pricing for these securities declined drastically.

The Independent Fiduciaries and their professionals expended considerable time and resources familiarizing themselves with the Debtors, their businesses and the Collybus Litigation (including the claims asserted therein), the potential for additional Indemnification Claims against the Debtors that have not yet been formally asserted, residual claims that may arise, and the financial stakes posed by the Collybus Litigation. During this process, the Independent Fiduciaries consulted frequently with the Debtors' advisors, Commonwealth and Morales, each individually and collectively.

After careful consideration of the issues facing the Debtors, the Independent Fiduciaries determined to pursue a strategy with a twofold goal: (i) building a consensus among the Investors as to the liquidation and monetization of the Debtors' assets, including causes of action held by the Debtors, and (ii) resolving the Collybus Litigation in a cost-effective and expeditious manner. The Independent Fiduciaries identified the key constituencies in these cases – Cantor, Commonwealth, Morales and the Investors – and began the process of negotiating the terms of a consensual restructuring, reorganization or liquidation with Cantor, Commonwealth, and Morales that could be presented to the Investors. The Independent Fiduciaries expected that this process would establish the parameters through which the Investors could liquidate or retain the Debtors' investment portfolio and dispose of the various claims pending in, and that may arise from, the Collybus Litigation. The Independent Fiduciaries considered whether such a process could be implemented entirely out of Court or through an administrative or judicial proceeding – including under chapters 7 or 11 of the Bankruptcy Code or under applicable non-bankruptcy law.

The Independent Fiduciaries were able to engage Cantor, Commonwealth, and Morales, and the Debtors developed and prepared a plan (the “Prepack Plan”) and disclosure statement (the “Prepack Disclosure Statement”) after discussions with these parties, which, among other things provided for contributions by Commonwealth and Cantor. The Independent Fiduciaries concluded that it was appropriate to present the Prepack Plan to the Investor-body as a whole so that each Investor could independently evaluate the resolutions proposed therein.

The Debtors engaged Epiq to act as their voting and solicitation agent for purposes of distributing the Prepack Disclosure Statement and Prepack Plan ballots and calculating and tabulating votes on the Prepack Plan. On July 22, 2011, the Debtors caused Epiq to commence distribution of copies of the Prepack Disclosure Statement, the Prepack Plan, and ballots to each person or entity (or to their nominee) that was entitled to vote on the Prepack Plan.



As of the deadline to submit votes on the Prepack Plan (as may have been extended), all but one of the voting classes overwhelmingly voted to accept the Prepack Plan. The voting results for each Debtor are as follows:

<b>Debtor</b>	<b>Percent of Shares Accepting</b>	<b>Percent of Voters Accepting</b>
CA Core Fixed Income Fund, LLC	54.26%	89.41%
CA Core Fixed Income Fund, Ltd.	93.24%	95.74%
CA High Yield Fund, LLC	92.92%	89.33%
CA High Yield Fund, Ltd.	94.65%	95.50%
CA Strategic Equity Fund, LLC	93.75%	97.44%
CA Strategic Equity Offshore Fund, Ltd.	81.88%	94.74%
Sand Spring Capital III Master Fund, LLC	82.94%	91.43%

Of the 499 Investors who voted on the Prepack Plan, 445 (or 89%) voted to accept the Prepack Plan. The Debtors negotiated over an extended period of time with those Investors who elected to reject the Prepack Plan, and despite their best efforts no resolution was reached. Those Investors are plaintiffs in the Louisiana litigation.

Pursuant to the terms of the Prepack Plan, unless the Prepack Plan was accepted by all of the classes, Commonwealth and Cantor were not required to make their respective contributions. Accordingly, because of the impasse the Debtors found themselves at with respect to those dissenting Investors, the Debtors were unable to seek prosecution of the Prepack Plan, and therefore, they determined that it was in the best interests of their Investors to commence the Bankruptcy Cases.

## **J. The Bankruptcy Cases**

In light of being unable to garner the requisite support for proceeding with confirmation of the Prepack Plan, and after evaluating other possible alternatives, on October 25, 2011 (the “Petition Date”) the Debtors commenced the Bankruptcy Cases. During the Bankruptcy Cases, the following significant post-petition events occurred:

### **1. First Day Relief**

On the Petition Date, the Debtors filed several motions (the “First Day Motions”) requesting limited first day relief, including requesting the authority to employ Epiq [Docket No. 5], as well as maintain prepetition bank accounts and honor obligations owed to their custodial and administrative services provider [Docket No. 6]. The Bankruptcy Court granted the relief sought in the First Day Motions on October 26, 2011. Pursuant to the Bankruptcy Code, the

Debtors have satisfied obligations arising after the Petition Date in the ordinary course of business.

## **2. Retention of Professionals**

Pursuant to sections 327 and 328 of the Bankruptcy Code and Bankruptcy Rule 2014 and orders of the Bankruptcy Court, the Debtors retained Young Conaway Stargatt & Taylor LLP as bankruptcy counsel [Docket No. 80], and BDO USA, LLP and BDO Cayman Ltd. as auditor [Docket No. 121]. Since the Petition Date, these professionals have been paid 80% of their fees and 100% of their expenses on a monthly basis, pursuant to the professional fee procedures approved by the Bankruptcy Court [Docket No. 93].

Pursuant to section 363 of the Bankruptcy Code, and orders of the Bankruptcy Court, the Debtors retained Walker Truesdell Roth & Associates as Independent Agent of the Onshore Debtors and Hobart G. Truesdell as an Independent Director of the Offshore Debtors [Docket No. 126] ("Truesdell"), and subsequently, as set forth in greater detail below, Kinetic Partners (Cayman) Ltd. ("Kinetic") as Managing Member, Investment Member, and/or Advisor to the Debtors [Docket No. 288], replacing Commonwealth and Morales. Truesdell and Kinetic have been paid all fees and expenses in accordance with invoices submitted to the Debtors.

## **3. Schedules and Statements of Financial Affairs**

On November 23, 2011, the Debtors filed their Schedules and Statements of Financial Affairs [Docket Nos. 55-72]. The Debtors amended their Schedules [Docket Nos. 350-358] on July 13, 2012.

## **4. Establishment of Bar Dates**

In accordance with Bankruptcy Rule 3003(c)(3), by order dated July 23, 2012 [Docket No. 386] (the "Bar Date Order"), the Bankruptcy Court established September 24, 2012 (the "General Bar Date") as the last date by which all Creditors, including governmental units (as defined in section 101(27) of the Bankruptcy Code) other than the Securities Exchange Commission (the "SEC"), were permitted to file Proofs of Claim in the Bankruptcy Cases. The date by which the SEC is required to file Proofs of Claim in the Bankruptcy Cases is currently set as thirty (30) days after an amended Plan is filed (the "SEC Bar Date," and together with the General Bar Date, the "Bar Dates"). *See* Docket No. 836. Pursuant to Bankruptcy Rule 3003(c)(2), any Creditor whose Claim was not scheduled by the Debtors in the Schedules or was scheduled therein as disputed, contingent, or unliquidated, and who failed to file a Proof of Claim in the Bankruptcy Cases on or before the applicable Bar Date may not be treated as a Creditor for purposes of voting upon, or receiving any distributions under, the Plan in respect of such Claim.

## **5. Return of Investor Principal**

On November 15, 2011 and November 29, 2012, the Debtors filed motions [Docket Nos. 41 and 581] seeking the entry of orders authorizing them to make cash distributions (the "Interim Distributions") to the Investors on a *pari passu* basis. The Interim Distributions were intended to represent a return of the Investors' principal.

On February 22, 2012, after negotiations with, among others, the U.S. Trustee, the Bankruptcy Court authorized [Docket No. 157] the first Interim Distributions in the following amounts:

<b><u>DEBTOR</u></b>	<b><u>DISTRIBUTION</u></b>
CA High Yield Fund, LLC	\$738,941
CA High Yield Offshore Fund, Ltd.	\$1,976,071
CA Core Fixed Income Fund, LLC	\$3,873,190
CA Core Fixed Income Offshore Fund, Ltd.	\$899,909
CA Strategic Equity Fund, LLC	\$101,112
CA Strategic Equity Offshore Fund, Ltd.	\$56,304
Sand Spring Capital III Master Fund, LLC	\$652,396
<b>TOTAL</b>	<b>\$8,297,923</b>

The first Interim Distributions were remitted to Investors in March, 2012. On December 17, 2012, the Bankruptcy Court authorized [Docket No. 620] the second Interim Distributions in the following amounts:

<b><u>DEBTOR</u></b>	<b><u>DISTRIBUTION</u></b>
CA High Yield Fund, LLC	\$286,170
CA High Yield Offshore Fund, Ltd.	\$284,732
CA Core Fixed Income Fund, LLC	\$1,251,277
CA Core Fixed Income Offshore Fund, Ltd.	\$313,252
CA Strategic Equity Fund, LLC	\$45,231
CA Strategic Equity Offshore Fund, Ltd.	\$25,647
Sand Spring Capital III Master Fund, LLC	\$293,691
<b>TOTAL</b>	<b>\$2,500,000</b>

The second Interim Distributions were remitted to Investors in December, 2012.

## **6. Mediation**

On December 12, 2011, in an effort to reach a consensual resolution of the issues that prevented acceptance of the Prepack Plan, the Debtors engaged in a mediation process (the “Mediation”) with Commonwealth, Cantor, and certain of the Debtors’ investors (collectively, with the Debtors, Commonwealth, and Cantor, the “Mediation Parties”). The Mediation was approved by an Order [Docket No. 81] of the Bankruptcy Court, which, among other things,

appointed Joseph J. Farnan as mediator. Although the Mediation was ultimately not successful, the Mediation Parties were able to narrow the scope of open issues.

## **7. Appointment of the Equity Committee**

On February 27, 2012, the Ad Hoc Committee of Equity Security Holders (the “Ad Hoc Committee”) filed a motion [Docket No. 163] (the “Equity Committee Motion”) seeking the entry of an order directing the U.S. Trustee to appoint an official committee of equity security holders. Objections [Docket Nos. 169, 192, and 193] to the Equity Committee Motion were filed by the U.S. Trustee and multiple Investor groups.

After negotiations regarding the relief requested in the Equity Committee Motion and the objections thereto, the parties agreed to, and the Bankruptcy Court approved [Docket No. 222], the appointment of an equity committee (the “Equity Committee”) in all Bankruptcy Cases except for the Bankruptcy Case of CACFILLC. On May 3, 2012 the U.S. Trustee appointed the Equity Committee. The members of the Equity Committee are Curtis Justin Solar Sr., William E. Weldon, Tim Dietrich, Dr. Robert Earhart, Victor F. Trahan III, Charles E. Patterson, and MaryJo Mayfield.

Pursuant to sections 328 and 1103 of the Bankruptcy Code and Bankruptcy Rule 2014 and orders of the Bankruptcy Court, the Equity Committee retained DLA Piper LLP (US) (“DLA Piper”) as counsel [Docket No. 311], and The Greensledge Group as restructuring consultant and financial advisor [Docket No. 436]. Since their appointment, the fees incurred by The Greensledge Group have been paid in full monthly; however, DLA Piper LLP (US) has been paid \$45,000.00, which is less than the actual fees incurred monthly.

## **8. Commonwealth Termination**

Following the filing of a motion [Docket No. 208] by certain of the Investors on March 26, 2012, which sought the termination of all payments to Commonwealth, the Debtors negotiated with Commonwealth, and on April 25, 2012, obtained Court authorization [Docket No. 256] (the “Termination Order”) for the termination of Commonwealth as the managing member and/or investment advisor of the Debtors.

Concurrently, the Independent Fiduciaries solicited and reviewed proposals from a number of investment and management professionals and selected Kinetic to replace Commonwealth as the Debtors’ investment advisor and/or managing manager. In connection with the removal of Commonwealth and the appointment of Kinetic, the Debtors and Commonwealth agreed that, among other things, the Debtors would remit payment to Commonwealth for certain outstanding fees and expenses and Commonwealth would provide transition services to Kinetic regarding the Debtors’ assets and investments.

On November 2, 2012 and November 9, 2012, respectively, Commonwealth filed requests for payment [Docket Nos. 540 and 546] (the “Payment Requests”) of legal fees and expenses in the aggregate amount of \$30,367.20, which it asserts were incurred in connection with the replacement of Commonwealth pursuant to the Termination Order. On November 13, 2012, an objection [Docket No. 550] to the Payment Requests was filed by certain of the Investors. After negotiations between Commonwealth, the Debtors, and these Investors, an order

[Docket No. 628] was entered by the Bankruptcy Court on December 19, 2012 that authorized payment of \$21,000 to satisfy the obligations asserted by the Payment Requests. This order also provided that no further requests for payment shall be submitted by Commonwealth in accordance with the Termination Order.

## **9. TSB Ventures, LLC Motion for Relief from Automatic Stay**

On November 27 and December 20, 2012, TSB Ventures, LLC ("TSB") filed motions [Docket Nos. 578, 636] (the "TSB Motions") seeking relief from the automatic stay in order to exercise its purported right to purchase the TSB membership interests held by certain of the Debtors.

On April 22, 2013, the Bankruptcy Court entered an order [Docket No. 802] which, among other things, approved that certain Settlement Agreement By and Between the Debtor Members and TSB Ventures, LLC. Resolving Motions of TSB Ventures, LLC for Relief from Automatic Stay to Exercise Buy-out Provision, dated March 7, 2013 (the "TSB Settlement Agreement"). Among other things, the TSB Settlement Agreement provided that Debtors CA High Yield Fund, LLC, CA High Yield Offshore Fund, Ltd., CA Strategic Equity Fund, LLC, and CA Strategic Equity Offshore Fund, Ltd. would redeem their membership interests in TSB for a pro rata payment of \$1.0 million and potential, pro rata deferred payments of up to \$750,000. The transaction contemplated under the TSB Settlement Agreement closed on May 8, 2013.

## **10. Exclusivity**

The Bankruptcy Code grants a debtor an initial period of 120 days after the commencement of a chapter 11 case during which the debtor has the exclusive right to propose and to file a plan of reorganization. If a debtor proposes and files a plan within this initial 120-day exclusivity period, then the debtor has until the end of the period ending on the 180th day after the commencement of the chapter 11 case to solicit and obtain acceptances of such plan. These exclusive periods may be extended for a limited period of time by an order of the court. The Debtors received several extensions from the Bankruptcy Court to propose and file a plan of reorganization [Docket Nos. 191, 324, 444, 554].

On February 19, 2013, the Debtors filed their *Fifth and Final Motion for Entry of an Order Extending Debtors' Exclusive Periods Within Which to File a Chapter 11 Plan and to Solicit Acceptances Thereof* [Docket No. 695] (the "Fifth Extension Motion"). The Fifth Extension Motion sought the entry of an Order extending the Debtors' exclusive period to file a chapter 11 plan through and including April 25, 2013. Consideration of the Fifth Extension Motion was adjourned pending consideration of the 9019 Motion (defined below).

On April 25, 2013, the Debtors filed the Debtors' Joint Plan of Reorganization. [Docket No. 812].

## **11. Bankruptcy Litigation**

### **(a) Adversary Proceeding**

On April 5, 2012, the Debtors commenced an adversary proceeding (the “Adversary Proceeding”) against certain of their investors (the “Defendants”) so that the Debtors may control the litigation (the “Louisiana Litigation”) currently pending against Commonwealth, Cantor<sup>9</sup>, and Morales. The Debtors believe that the claims asserted in the Louisiana Litigation are derivative in nature and are, therefore, property of the Debtors’ estates. The Debtors further believe that if they are authorized to control the claims pending in the Louisiana Litigation they will be better-positioned to steer the Bankruptcy Cases to a resolution that is in the best interests of their estates, investors, and parties in interest.

Upon the commencement of the Adversary Proceeding, the Debtors filed a motion for summary judgment (the “Summary Judgment Motion”). After extensive briefing, the submission of limited evidence by the Defendants, and oral argument, the Bankruptcy Court entered an Order denying the Summary Judgment Motion. The Adversary Proceeding remains pending.

(b) Estimation Proceeding

On April 20, 2012, certain of the Investors (the “Core Fixed Investors”) filed a motion to estimate the indemnification claims of Commonwealth, Morales, and Cantor (the “Estimation Motion”).<sup>10</sup> In August 2012, Commonwealth and Morales announced that they would not file a claim for further indemnification from the Debtors, obviating any need to estimate the claims for indemnification that they might otherwise have. Because litigation of all of the issues implicated by the Estimation Motion would be burdensome, costly, and duplicative of the determinations to be made in the Louisiana Litigation, specific issues to be tried in connection with the Estimation Motion (the “Estimation Issues”) were identified in the Bankruptcy Court’s *Order Establishing Discovery and Briefing Schedule for Hearing on Estimation Motion (D.I. 249)* [Docket No. 514]. Generally, the Estimation Issues relate to whether the Cantor FINRA Settlement Agreement was the product of fraud and the scope of Cantor’s entitlement to indemnification under the Cantor FINRA Settlement Agreement.

The Debtors, Cantor, Commonwealth, the Core Fixed Investors, and the Equity Committee engaged in significant discovery concerning the Estimation Issues. Over the course of ten months these parties collectively:

- a. Served and responded to 60 interrogatories;
- b. Produced and reviewed more than 65,000 documents; and
- c. Held five depositions, including the deposition of Morales and the attorney acting as Cantor’s outside counsel for the purposes of negotiating the Cantor FINRA Settlement Agreement.

<sup>9</sup> The Cantor Chapter 11 Settlement Agreement provides for the resolution of the Debtors’ claims against Cantor.

<sup>10</sup> Until entering into the Cantor Chapter 11 Settlement Agreement, the Debtors supported the Estimation Motion, and worked collectively with the Core Fixed Investors to prosecute such motion.

Cantor also produced an expert report (the “Expert Report”) concerning the value of the consideration received by the Debtors in connection with the Cantor FINRA Settlement Agreement.

The trial on the Estimation Motion was originally scheduled for August 2012, but was rescheduled a number of times before ultimately being cancelled as a consequence of the Bankruptcy Court’s approval of the Cantor Chapter 11 Settlement. The liquidation of the Cantor Indemnification Claims sought in the Estimation Motion will be decided in the New York Litigation or other agreed forum in accordance with the terms of the Plan.

## **12. Cantor Chapter 11 Settlement**

On March 7, 2013, the Debtors, the Equity Committee and Cantor entered into the Cantor Chapter 11 Settlement Agreement (as amended, the “Cantor Chapter 11 Settlement”), that provides for, among other things: (i) the release by the Debtors of claims against the Cantor Group, including those derivative claims asserted in the Derivative Claim Action; (ii) the settlement of the Estimation Motion; (iii) the settlement of the New York Counterclaims; (iv) the limitation of recourse on the Cantor Indemnification Claims to the Indemnification Reserve; and (v) the payment of \$1.0 million to the Debtors for distributions to all Investors. Additional details regarding the Cantor Chapter 11 Settlement Agreement are set forth in Section VIII of this Disclosure Statement.

On March 19, 2013, the Debtors filed their *Motion for Order Approving Stipulation Among the Debtors, the Official Committee of Equity Security Holders, and Cantor Fitzgerald & Co.* [Docket No. 735] (the “9019 Motion”) seeking approval of the Cantor Chapter 11 Settlement. A number of Investors and parties in interest (the “Objecting Parties”) filed objections and responses to the 9019 Motion [Docket Nos. 760, 761, 776, 799] (the “9019 Objections”),

Extensive discovery, which included interrogatories, requests for the production of documents, and deposition requests, was propounded on the Debtors, Cantor, and the Equity Committee by certain of the Objecting Parties in connection with the 9019 Motion. The Objecting Parties took depositions of one of the Debtors’ independent fiduciaries, Mr. Hobart G. Truesdell, and the chair of the Equity Committee, Mr. Victor F. Trahan, III. In addition, the Debtors took the deposition of Theodore W. Urban, an expert proffered by certain of the Objecting Parties in support of their objection to the 9019 Motion.

The Bankruptcy Court held an evidentiary hearing to consider approval of the 9019 Motion on April 29 and May 6, 2013. On May 28, 2013, the Bankruptcy Court entered its Order approving the 9019 Motion. The Bankruptcy Court considered the objections of certain Investors in CACFILLC and the testimony of their expert witness, but found that such objections and testimony did not merit denial of the 9019 Motion. The Bankruptcy Court observed that the investor litigation in Louisiana and Texas and the Cantor indemnification litigation in New York had left the Debtors at a standstill. Further, the Bankruptcy Court’s approval of the Cantor Chapter 11 Settlement was influenced by its view that the alleged Cantor Indemnification Claims are large enough to prevent the Debtors from moving forward with their reorganization and administration of claims. Accordingly, the Bankruptcy Court found that a compromise was

necessary to achieve prompt recoveries for the Investors and the Debtors' other constituencies. With respect to the settlement of claims belonging to the Debtors against Cantor that are settled and released under the Cantor Chapter 11 Settlement, without deciding the merits of such potential claims, the Bankruptcy Court characterized the Debtors' prospects of success in litigation against Cantor as "unclear" and "daunting", and characterized the litigation process as one that would be "long, difficult and expensive with a very uncertain outcome", given the lack of evidence that any claims could be easily or quickly pursued to judgment against Cantor. With respect to the potential settlement of claims belonging to individual Investors against Cantor, as noted by the Bankruptcy Court, the Cantor Chapter 11 Settlement is structured to allow Investors to make a decision to (1) participate in the settlement and release their individual direct claims against Cantor, or (2) decline to participate and retain their rights to pursue any claims they may have against Cantor for greater recovery if the litigation is successful.

#### IV. SUMMARY OF THE PLAN

The Plan accomplishes the reorganization of the Debtors.

Among other things, the Plan implements the Cantor Chapter 11 Settlement, which was approved by the Bankruptcy Court on May 28, 2013. The Cantor Chapter 11 Settlement, and the Plan generally, do not waive or release any claims that the Debtors or Investors may have against any parties other than the Cantor Group, including Commonwealth and Walter Morales. The Cantor Chapter 11 Settlement does resolve claims that the Debtors may have against the Cantor Group, which are referred to in this Disclosure Statement and the Plan as "derivative" claims.

Specifically, under the Cantor Chapter 11 Settlement in exchange for Cantor's payment of \$1.0 million to the Debtors (the "Cantor Derivative Claim Settlement Amount"), the Debtors are releasing their claims against the Cantor Group. The Cantor Derivative Claim Settlement Amount will initially be in escrow and will be released to the Debtors for distribution to all Investors pro rata, once the Plan is effective and certain conditions precedent are satisfied. The Cantor Group also has claims against the Debtors for indemnification under a prior settlement described in greater detail in Section III of this Disclosure Statement and, as part of the Cantor Chapter 11 Settlement, the Cantor Group has agreed to limit its recourse for its Cantor Indemnification Claims to the Indemnification Reserve that the Debtors will establish from their assets, in exchange for the releases of claims and causes of action that have been and/or may be commenced by the Debtors against the members of the Cantor Group.

In addition, under the terms of the Cantor Chapter 11 Settlement, Cantor has agreed to make up to an additional amount of \$1.0 million in settlement payments to Investors who elect to release their direct claims and causes of action that have been and/or may be commenced by such Investors against the members of the Cantor Group. Alternatively, Investors may elect to retain their claims and causes of action against members of the Cantor Group. Investors who affirmatively elect to grant a Direct Claim Release to the Cantor Group shall be entitled to receive their pro rata share of an additional \$1.0 million in accordance with their aggregate Interests in all Debtors, along with their Interests in the Reorganized Funds, and will not be responsible, directly or indirectly, for the Cantor Indemnification Claims. Investors who affirmatively elect not to grant a Direct Claim Release to the Cantor Group, and therefore



elect to continue or join the Direct Claim Action, shall be permitted to do so and will retain their Interests in the relevant Reorganized Funds; provided, however, that Investors who elect to continue to pursue their direct claims against the Cantor Group may ultimately be responsible for satisfying (from distributions or other payments from the Reorganized Funds' assets to which they would otherwise be entitled on account of their Reorganized Fund Interests) any valid Cantor Indemnification Claims.

## **V. CLASSIFICATION OF CLAIMS AND EQUITY INTERESTS**

### **A. Unclassified Claims**

In accordance with section 1123(a)(1) of the Bankruptcy Code, Administrative Claims, Professional Fee Claims, and Priority Tax Claims, have not been classified.

### **B. Classified Claims and Interests**

#### **1. General**

Pursuant to section 1122 of the Bankruptcy Code, set forth below is a designation of the Classes of Claims and Interests in the Debtors. A Claim or Interest is placed in a particular Class only to the extent that such Claim or Interest falls within the description of that Class. A Claim or Interest is also placed in a particular Class for purposes of receiving a distribution under the Plan, but only to the extent such Claim or Interest is an Allowed Claim or Interest and has not been paid, released, or otherwise settled prior to the Effective Date. Except as otherwise expressly set forth in the Plan, a Claim or Interest which is not an Allowed Claim or Allowed Interest shall not receive any payments, rights or distributions under the Plan.

#### **2. Classification**

For purposes of the Plan, Holders of Claims, except for Administrative Claims, Priority Tax Claims, Professional Fee Claims, and Holders of Interests are classified as follows:

##### **(a) Class 1**

(i) Class 1(a) Claims shall consist of all CACFILLC Other Priority Claims.

(ii) Class 1(b) Claims shall consist of all CACFILLC Secured Claims.

(iii) Class 1(c) Claims shall consist of all CACFILLC General Unsecured Claims (other than CACFILLC Interest Holder General Unsecured Claims).

(iv) Class 1(d) Claims shall consist of CACFILLC Independent Fiduciary Indemnification Claims.

(v) Class 1(e) Claims shall consist of CACFILLC Commonwealth Indemnification Claims.

(vi) Class 1(f) Claims shall consist of Cantor Indemnification Claims against CACFILLC.

(vii) Class 1(g) Interests shall consist of all Interests in CACFILLC.

(viii) Class 1(h) Claims shall consist of all CACFILLC Interest Holder General Unsecured Claims.

(b) Class 2

(i) Class 2(a) Claims shall consist of all CACFILTD Other Priority Claims.

(ii) Class 2(b) Claims shall consist of all CACFILTD Secured Claims.

(iii) Class 2(c) Claims shall consist of all CACFILTD General Unsecured Claims (other than CACFILTD Interest Holder General Unsecured Claims).

(iv) Class 2(d) Claims shall consist of CACFILTD Independent Fiduciary Indemnification Claims.

(v) Class 2(e) Claims shall consist of CACFILTD Commonwealth Indemnification Claims.

(vi) Class 2(f) Claims shall consist of Cantor Indemnification Claims against CACFILTD.

(vii) Class 2(g) Interests shall consist of all Interests in CACFILTD.

(viii) Class 2(h) Claims shall consist of all CACFILTD Interest Holder General Unsecured Claims.

(c) Class 3

(i) Class 3(a) Claims shall consist of all CAHYLLC Other Priority Claims.

(ii) Class 3(b) Claims shall consist of all CAHYLLC Secured Claims.

(iii) Class 3(c) Claims shall consist of all CAHYLLC General Unsecured Claims (other than CAHYLLC Interest Holder General Unsecured Claims).

(iv) Class 3(d) Claims shall consist of CAHYLLC Independent Fiduciary Indemnification Claims.

(v) Class 3(e) Claims shall consist of CAHYLLC Commonwealth Indemnification Claims.

(vi) Class 3(f) Claims shall consist of Cantor Indemnification Claims against CAHYLLC.

(vii) Class 3(g) Interests shall consist of all Interests in CAHYLLC.

(viii) Class 3(h) Claims shall consist of all CAHYLLC Interest Holder General Unsecured Claims.

(d) Class 4

(i) Class 4(a) Claims shall consist of all CAHYLTD Other Priority Claims.

(ii) Class 4(b) Claims shall consist of all CAHYLTD Secured Claims.

(iii) Class 4(c) Claims shall consist of all CAHYLTD General Unsecured Claims (other than CAHYLTD Interest Holder General Unsecured Claims).

(iv) Class 4(d) Claims shall consist of CAHYLTD Independent Fiduciary Indemnification Claims.

(v) Class 4(e) Claims shall consist of CAHYLTD Commonwealth Indemnification Claims.

(vi) Class 4(f) Claims shall consist of Cantor Indemnification Claims against CAHYLTD.

(vii) Class 4(g) Interests shall consist of all Interests in CAHYLTD.

(viii) Class 4(h) Claims shall consist of all CAHYLTD Interest Holder General Unsecured Claims.

(e) Class 5

(i) Class 5(a) Claims shall consist of all CASELLC Other Priority Claims.

(ii) Class 5(b) Claims shall consist of all CASELLC Secured Claims.

(iii) Class 5(c) Claims shall consist of all CASELLC General Unsecured Claims (other than CASELLC Interest Holder General Unsecured Claims).

(iv) Class 5(d) Claims shall consist of CASELLC Independent Fiduciary Indemnification Claims.

(v) Class 5(e) Claims shall consist of CASELLC Commonwealth Indemnification Claims.

(vi) Class 5(f) Claims shall consist of Cantor Indemnification Claims against CASELLC.

(vii) Class 5(g) Interests shall consist of all Interests in CASELLC.

(viii) Class 5(h) Claims shall consist of all CASELLC Interest Holder General Unsecured Claims.

(f) Class 6

(i) Class 6(a) Claims shall consist of all CASELTD Other Priority Claims.

(ii) Class 6(b) Claims shall consist of all CASELTD Secured Claims.

(iii) Class 6(c) Claims shall consist of all CASELTD General Unsecured Claims (other than CASELTD Interest Holder General Unsecured Claims).

(iv) Class 6(d) Claims shall consist of CASELTD Independent Fiduciary Indemnification Claims.

(v) Class 6(e) Claims shall consist of CASELTD Commonwealth Indemnification Claims.

(vi) Class 6(f) Claims shall consist of Cantor Indemnification Claims against CASELTD.

(vii) Class 6(g) Interests shall consist of all Interests in CASELTD.

(viii) Class 6(h) Claims shall consist of all CASELTD Interest Holder General Unsecured Claims.

(g) Class 7

(i) Class 7(a) Claims shall consist of all SSC3LLC and SSC3LTD Other Priority Claims.

(ii) Class 7(b) Claims shall consist of all SSC3LLC and SSC3LTD Secured Claims.

(iii) Class 7(c) Claims shall consist of all SSC3LLC and SSC3LTD General Unsecured Claims (other than SSC3LLC Interest Holder General Unsecured Claims).

(iv) Class 7(d) Claims shall consist of SSC3LLC and SSC3LTD Independent Fiduciary Indemnification Claims.

(v) Class 7(e) Claims shall consist of SSC3LLC and SSC3LTD Commonwealth Indemnification Claims.

(vi) Class 7(f) Claims shall consist of Cantor Indemnification Claims against SSC3LLC and SSC3LTD.

(vii) Class 7(g) Interests shall consist of all Interests in SSC3LLC and SSC3LTD.

(viii) Class 7(h) Claims shall consist of all SSC3LLC and SSC3LTD Interest Holder General Unsecured Claims.

**C. Identification of Classes Impaired and Not Impaired by the Plan**

**1. Impaired Classes of Claims and Interests Entitled to Vote**

The following Classes are Impaired by the Plan and Holders of Claims and/or Interests in each of these Classes are entitled to vote to accept or reject the Plan:

(a) Classes 1(d), 2(d), 3(d), 4(d), 5(d), 6(d), and 7(d) (Independent Fiduciary Indemnification Claims);

(b) Classes 1(f), 2(f), 3(f), 4(f), 5(f), 6(f), and 7(f) (Cantor Indemnification Claims); and

(c) Class 1(g) (CACFILLC Interests), Class 2(g) (CACFILTD Interests), Class 3(g) (CAHYLLC Interests), Class 4(g) (CAHYLTD Interests), Class 5(g) (CASELLC Interests), Class 6(g) (CASELTD Interests), and Class 7(g) (SSC3LLC and SSC3LTD Interests).

**2. Unimpaired Classes of Claims Not Entitled to Vote**

The following Classes are not Impaired by the Plan and the Holders of Claims in each of these Classes are not entitled to vote to accept or reject the Plan:

(a) Classes 1(a), 2(a), 3(a), 4(a), 5(a), 6(a), and 7(a) (Other Priority Claims);

(b) Classes 1(b), 2(b), 3(b), 4(b), 5(b), 6(b), and 7(b) (Secured Claims); and

(c) Classes 1(c), 2(c), 3(c), 4(c), 5(c), 6(c), and 7(c) (General Unsecured Claims).

**3. Classes of Waived Claims Not Entitled to Vote**

The Holders of Claims in following Classes have waived their relevant Claims and are not entitled to vote to accept or reject the Plan: Classes 1(e), 2(e), 3(e), 4(e), 5(e), 6(e), and 7(e) (Commonwealth Indemnification Claims).

**4. Classes of Disallowed Claims Not Entitled to Vote**

The Claims in the following Classes shall be Disallowed and the relevant Holders shall not be entitled to vote on the Plan on account of such Claims; provided, however, if the Bankruptcy Court determines that any Holder of Claims in the following Classes is entitled to

vote on the Plan, then such Class will be deemed to have rejected the Plan since the relevant Holders shall not receive any distribution on account of these Disallowed Claims: Classes 1(h), 2(h), 3(h), 4(h), 5(h), 6(h), and 7(h) (Interest Holder General Unsecured Claims).

## **VI. TREATMENT OF CLAIMS AND EQUITY INTERESTS**

Other than as specifically set forth herein, the treatment of and consideration to be received by Holders of Claims and Interests pursuant to the Plan shall be in full satisfaction, settlement, release and discharge of such Holder's respective Claim or Interest.

### **A. Unclassified Claims**

#### **1. Administrative Claims**

Subject to the provisions of section 503(b) of the Bankruptcy Code, each Holder of an Allowed Administrative Claim (other than a Professional Fee Claim, which is not included as an Administrative Claim under the Plan), shall be allocated among, and paid by, the several Debtors that may be obligated respectively, at their election, in full, in Cash, upon the latest of (i) the Cantor Chapter 11 Settlement Effective Date or as soon thereafter as is reasonably practicable, (ii) in respect of liabilities incurred in the ordinary course of business, the date upon which such liabilities are payable in the ordinary course of the Debtors' business, consistent with past practices, (iii) the date upon which such Administrative Claim becomes an Allowed Administrative Claim or (iv) such other date as is agreed upon between the Holder of such Allowed Administrative Claim and the Debtors. All requests for payment of Administrative Claims, other than Administrative Claims described in clause (ii) above must be Filed by no later than the Administrative Claims Bar Date.

#### **2. Professional Fee Claims**

Professionals requesting compensation or reimbursement of expenses are required to File and serve fee applications for final allowance of fees for services rendered or expenses incurred prior to the Effective Date, pursuant to the notice provisions of the Interim Fee Order, no later than forty-five (45) days after the Effective Date. All such applications for final allowance of compensation and reimbursement of expenses will be subject to the authorization and approval of the Bankruptcy Court. Only the Professional Fee Claims that are Allowed by the Bankruptcy Court will be owed and required to be paid under the Plan, and shall be allocated among, and paid by, the several Debtors that may be obligated respectively.

#### **3. Priority Tax Claims**

Unless a Final Order otherwise provides, each Holder of an Allowed Priority Tax Claim shall receive, pursuant to section 1129(a)(9)(C) of the Bankruptcy Code, (i) Cash in an amount equal to the unpaid portion of such Allowed Claim payable upon the later of the Cantor Chapter 11 Settlement Effective Date or the date on which such Priority Tax Claim becomes an Allowed Claim, (ii) installment payments in Cash of such Allowed Priority Tax Claim over a period ending not later than five (5) years after the Petition Date plus simple interest at the rate required by section 511 of the Bankruptcy Code on any outstanding balance as of the Effective Date or such lesser rate as is agreed by a particular taxing authority, or (iii) some other, less

favorable treatment as is agreed upon by the Holder of such Allowed Priority Tax Claim and the Debtors. Notwithstanding the foregoing, the Holder of an Allowed Priority Tax Claim shall not be entitled to receive any payment on account of any penalty arising with respect to or in connection with the Allowed Priority Tax Claim.

## **B. Classified Claims**

The following Classes of Claims and Interests shall be treated as follows:

### **1. Classes 1(a), 2(a), 3(a), 4(a), 5(a), 6(a), and 7(a) (Other Priority Claims)**

Although alleged Other Priority Claims were filed prior to the Bar Date, the Debtors believe that there are no valid Other Priority Claims in these Classes, and all such asserted Other Priority Claims are deemed Disputed Claims under the Plan. In full and complete satisfaction, settlement, release and discharge of Allowed Other Priority Claims, each Holder of an Allowed Other Priority Claim shall be paid in respect of such Allowed Other Priority Claim (i) the full amount of such Claim in Cash, as soon as practicable after the later of (a) the Cantor Chapter 11 Settlement Effective Date and (b) the date on which such Claim becomes an Allowed Other Priority Claim; or (ii) such lesser amount as the Holder of an Allowed Other Priority Claim and the Debtors might otherwise agree, as soon as practicable after the later of (a) the Cantor Chapter 11 Settlement Effective Date and (b) the date of such parties' agreement. Other Priority Claims shall be allocated among, and paid by, the several Debtors that may be obligated respectively.

### **2. Classes 1(b), 2(b), 3(b), 4(b), 5(b), 6(b), and 7(b) (Secured Claims)**

Although alleged Secured Claims were filed prior to the Bar Date, the Debtors believe that there are no valid Secured Claims in these Classes, and all such asserted Secured Claims are deemed Disputed Claims under the Plan. In full and complete satisfaction, settlement, release and discharge of Allowed Secured Claims, each Holder of an Allowed Secured Claim shall be paid in respect of such Allowed Secured Claim (i) the return of the Collateral securing such Allowed Secured Claim, (ii) the reinstatement of such Allowed Secured Claim pursuant to section 1124 of the Bankruptcy Code, notwithstanding any contractual provision or applicable non-bankruptcy law that entitles the Holder of such Allowed Secured Claim to demand or to receive payment of such Allowed Secured Claim prior to the stated maturity of such Allowed Secured Claim from and after the occurrence of a default, (iii) the payment of such Allowed Secured Claim in full in Cash, or (iv) such other treatment as shall be agreed to between the Holder of an Allowed Secured Claim and the Debtors. Any alleged Secured Claim not specifically addressed in the Plan and the Confirmation Order as a Secured Claim shall be disallowed as a Secured Claim and shall be treated for all purposes under the Plan as a General Unsecured Claim if such Claim is an Allowed General Unsecured Claim. All such Claims shall be allocated among, and paid by, the several Debtors that may be obligated respectively.

### **3. Classes 1(c), 2(c), 3(c), 4(c), 5(c), 6(c), and 7(c) (General Unsecured Claims)**

In full and complete satisfaction, settlement, release and discharge of Allowed General Unsecured Claims, each Holder of an Allowed General Unsecured Claim shall be paid

in respect of such Allowed General Unsecured Claim (i) the full amount of such Claim in Cash, as soon as practicable after the later of (a) the Cantor Chapter 11 Settlement Effective Date and (b) the date on which such Claim becomes an Allowed General Unsecured Claim; or (ii) such lesser amount as the Holder of an Allowed General Unsecured Claim and the Debtors might otherwise agree, as soon as practicable after the later of (a) the Cantor Chapter 11 Settlement Effective Date and (b) the date of such parties' agreement; provided, however, that such treatment shall be subject to any caps or limitations on such Allowed General Unsecured Claim pursuant to sections 502(b)(6), 502(b)(7), or 502(e) of the Bankruptcy Code and any other provisions under applicable bankruptcy and non-bankruptcy law that are similar in nature or effect, the application of which does not constitute impairment under section 1126 of the Bankruptcy Code. General Unsecured Claims shall be allocated among, and paid by, the several Debtors that may be obligated respectively.

**4. Classes 1(d), 2(d), 3(d), 4(d), 5(d), 6(d), and 7(d) (Independent Fiduciary Indemnification Claims)**

In full and complete satisfaction, settlement, release and discharge of each Allowed Independent Fiduciary Indemnification Claim, each Holder of an Allowed Independent Fiduciary Indemnification Claim shall receive a full and complete release from all Claims and Causes of Action that any of the Debtors or the Investors may have, as more fully set forth in Section 12 of the Plan on the Cantor Chapter 11 Settlement Effective Date. Independent Fiduciary Indemnification Claims shall be allocated among, and paid by, the several Debtors that may be obligated respectively.

**5. Classes 1(e), 2(e), 3(e), 4(e), 5(e), 6(e), and 7(e) (Commonwealth Indemnification Claims)**

All Indemnification Claims asserted by Commonwealth have been waived.

**6. Classes 1(f), 2(f), 3(f), 4(f), 5(f), 6(f), and 7(f) (Cantor Indemnification Claims)**

All Cantor Indemnification Claims for Specified Expenses or other amounts relating to the Direct Claim Action, the Texas Litigation, or the Derivative Claim Action will be satisfied from the Indemnification Reserve. Any Cantor Indemnification Claims for unjust enrichment, and any related claims, arising because the contractual indemnification claims are not enforceable will be satisfied from the Indemnification Reserve. All such Cantor Indemnification Claims shall be allocated among, and paid from the Indemnification Reserve established from the assets of the several Debtors that may be obligated respectively; provided, however, that such treatment of the Cantor Indemnification Claims under the Plan shall not otherwise affect Cantor's rights to assert the Debtors' joint and several liability for the Cantor Indemnification Claims against the entire Indemnification Reserve.

Cantor Indemnification Claims will be deemed Allowed Claims for purposes of the Plan, other than treatment and distribution, in amounts agreed by the Debtors, the Equity Committee and Cantor. For purposes of treatment and distributions under the Plan, Cantor has agreed that it will accept the amounts that any order entered in the New York Litigation that



becomes a final order after the conclusion of all appeals determines that any member of the Cantor Group is entitled to recover on account of the Cantor Indemnification Claims as the amount of the recovery on such Allowed Claims. No objection to a Cantor Indemnification Claim may be made until after the final resolution of the Direct Claim Action. No Cantor Indemnification Claim will be subject to any estimation proceeding in the Bankruptcy Court. The Bankruptcy Court will not retain jurisdiction to estimate any Cantor Indemnification Claims or to resolve objections to, determine, adjudicate, or enforce any Cantor Indemnification Claims. Cantor Indemnification Claims at any time asserted will be adjudicated in the New York Litigation or other agreed forum, and the Reorganized Funds will be substituted as defendants in the New York Litigation in lieu of the Debtors. The Reorganized Funds will not challenge either the jurisdiction of the court overseeing the New York Litigation or the forum of the New York Litigation. The Reorganized Funds will stand in the shoes of the Debtors for all purposes with respect to the Cantor Indemnification Claims, the Cantor FINRA Settlement Agreement, and the New York Litigation, but with recourse limited to the Indemnification Reserve. Any argument or Claim by any member of the Cantor Group against the Debtors with respect to the Cantor Indemnification Claims will apply with equal force against the Reorganized Funds.

**7. Class 1(g) (CACFILLC Interests)**

All CACFILLC Interests are deemed Allowed Interests under the Plan. In full and complete satisfaction, settlement, release and discharge of each Allowed CACFILLC Interest, each Holder of an Allowed CACFILLC Interest shall retain its Ratable Portion of the Reorganized Fund Interests on the Cantor Chapter 11 Settlement Effective Date. Each Holder of an Allowed CACFILLC Interest may elect to become a Releasing Investor by timely executing and delivering to Cantor a Direct Claim Release. If a Holder of an Allowed CACFILLC Interest does not timely execute and deliver to Cantor a Direct Claim Release, such Non-Releasing Investor will not be entitled to redemption, distribution, or other payments on account of its Reorganized Fund Interest until the Cantor Indemnification Claims are resolved and, if owing, paid.

**8. Class 2(g) (CACFILTD Interests)**

All CACFILTD Interests are deemed Allowed Interests under the Plan. In full and complete satisfaction, settlement, release and discharge of each Allowed CACFILTD Interest, each Holder of an Allowed CACFILTD Interest shall retain its Ratable Portion of the Reorganized Fund Interests on the Cantor Chapter 11 Settlement Effective Date. Each Holder of an Allowed CACFILTD Interest may elect to become a Releasing Investor by timely executing and delivering to Cantor a Direct Claim Release. If a Holder of an Allowed CACFILTD Interest does not timely execute and deliver to Cantor a Direct Claim Release, such Non-Releasing Investor will not be entitled to redemption, distribution, or other payments on account of its Reorganized Fund Interest until the Cantor Indemnification Claims are resolved and, if owing, paid.

**9. Class 3(g) (CAHYLLC Interests)**

All CAHYLLC Interests are deemed Allowed Interests under the Plan. In full and complete satisfaction, settlement, release and discharge of each Allowed CAHYLLC Interest,

each Holder of an Allowed CAHYLLC Interest shall retain its Ratable Portion of the Reorganized Fund Interests on the Cantor Chapter 11 Settlement Effective Date. Each Holder of an Allowed CAHYLLC Interest may elect to become a Releasing Investor by timely executing and delivering to Cantor a Direct Claim Release. If a Holder of an Allowed CAHYLLC Interest does not timely execute and deliver to Cantor a Direct Claim Release, such Non-Releasing Investor will not be entitled to redemption, distribution, or other payments on account of its Reorganized Fund Interest until the Cantor Indemnification Claims are resolved and, if owing, paid.

**10. Class 4(g) (CAHYLTD Interests)**

All CAHYLTD Interests are deemed Allowed Interests under the Plan. In full and complete satisfaction, settlement, release and discharge of each Allowed CAHYLTD Interest, each Holder of an Allowed CAHYLTD Interest shall retain its Ratable Portion of the Reorganized Fund Interests on the Cantor Chapter 11 Settlement Effective Date. Each Holder of an Allowed CAHYLTD Interest may elect to become a Releasing Investor by timely executing and delivering to Cantor a Direct Claim Release. If a Holder of an Allowed CAHYLTD Interest does not timely execute and deliver to Cantor a Direct Claim Release, such Non-Releasing Investor will not be entitled to redemption, distribution, or other payments on account of its Reorganized Fund Interest until the Cantor Indemnification Claims are resolved and, if owing, paid.

**11. Class 5(g) (CASELLC Interests)**

All CASELLC Interests are deemed Allowed Interests under the Plan. In full and complete satisfaction, settlement, release and discharge of each Allowed CASELLC Interest, each Holder of an Allowed CASELLC Interest shall retain its Ratable Portion of the Reorganized Fund Interests on the Cantor Chapter 11 Settlement Effective Date. Each Holder of an Allowed CASELLC Interest may elect to become a Releasing Investor by timely executing and delivering to Cantor a Direct Claim Release. If a Holder of an Allowed CASELLC Interest does not timely execute and deliver to Cantor a Direct Claim Release, such Non-Releasing Investor will not be entitled to redemption, distribution, or other payments on account of its Reorganized Fund Interest until the Cantor Indemnification Claims are resolved and, if owing, paid.

**12. Class 6(g) (CASELTD Interests)**

All CASELTD Interests are deemed Allowed Interests under the Plan. In full and complete satisfaction, settlement, release and discharge of each Allowed CASELTD Interest, each Holder of an Allowed CASELTD Interest shall retain its Ratable Portion of the Reorganized Fund Interests on the Cantor Chapter 11 Settlement Effective Date. Each Holder of an Allowed CASELTD Interest may elect to become a Releasing Investor by timely executing and delivering to Cantor a Direct Claim Release. If a Holder of an Allowed CASELTD Interest does not timely execute and deliver to Cantor a Direct Claim Release, such Non-Releasing Investor will not be entitled to redemption, distribution, or other payments on account of its Reorganized Fund Interest until the Cantor Indemnification Claims are resolved and, if owing, paid.

**13. Class 7(g) (SSC3LLC and SSC3LTD Interests)**

All SSC3LLC and SSC3LTD Interests are deemed Allowed Interests under the Plan. In full and complete satisfaction, settlement, release and discharge of each Allowed SSC3LLC and SSC3LTD Interest, each Holder of an Allowed SSC3LLC and SSC3LTD Interest shall retain its Ratable Portion of the Reorganized Fund Interests on the Cantor Chapter 11 Settlement Effective Date. Each Holder of an Allowed SSC3LLC and SSC3LTD Interest may elect to become a Releasing Investor by timely executing and delivering to Cantor a Direct Claim Release. If a Holder of an Allowed SSC3LLC or SSC3LTD Interest does not timely execute and deliver to Cantor a Direct Claim Release, such Non-Releasing Investor will not be entitled to redemption, distribution, or other payments on account of its Reorganized Fund Interest until the Cantor Indemnification Claims are resolved and, if owing, paid.

**14. Classes 1(h), 2(h), 3(h), 4(h), 5(h), 6(h), and 7(h) (Interest Holder General Unsecured Claims)**

All Interest Holder General Unsecured Claims shall be Disallowed and not entitled to vote on the Plan; provided, however, if the Bankruptcy Court determines that any Interest Holder General Unsecured Claim is entitled to vote on the Plan, then such Interest Holder General Unsecured Claim will be deemed to have rejected the Plan since it shall not receive any distribution on account of its Disallowed Interest Holder General Unsecured Claim.

**VII. TREATMENT OF EXECUTORY CONTRACTS****A. Assumption; Assignment**

As of the Effective Date, the Debtors shall assume or assume and assign, as applicable, pursuant to Section 7.4 of the Plan, each of the Executory Contracts of the Debtors that are identified in the Plan Supplement that have not expired under their own terms prior to the Effective Date. Except as provided in Section 7.2 of the Plan, the Debtors reserve the right to amend the Plan Supplement not later than fourteen (14) days prior to the Confirmation Hearing either to: (a) delete any Executory Contract and provide for its rejection pursuant to Section 7.4 of the Plan; or (b) add any Executory Contract, thus providing for its assumption or assumption and assignment, as applicable. The Debtors shall provide notice of any such amendment to the parties to the Executory Contract affected by the amendment not later than fourteen (14) days prior to the Confirmation Hearing. The Debtors reserve the right to dispute any cure amount. The Confirmation Order shall constitute an Order of the Bankruptcy Court pursuant to section 365 of the Bankruptcy Code approving all such assumptions or assumptions and assignments, as applicable, described in Section 7.1 of the Plan as of the Effective Date.

**1. Cure Payments; Adequate Assurance of Performance**

Any monetary defaults under each Executory Contract to be assumed under the Plan shall be satisfied, pursuant to section 365(b)(1) of the Bankruptcy Code, in either of the following ways: (a) by payment of the default amount in Cash, in full, on the Effective Date; or (b) by payment of the default amount on such other terms as may be agreed to by the Debtors and the non-Debtor contract counter-parties to such Executory Contract. In the event of a dispute regarding (i) the amount or timing of any cure payments, (ii) the ability of the Debtors or

an assignee of the Debtors to provide adequate assurance of future performance under the contract to be assumed or assumed and assigned, as applicable, or (iii) any other matter pertaining to assumption or assumption and assignment of the contract to be assumed, the Debtors shall pay all required cure amounts promptly following the entry of a Final Order resolving the dispute; provided, however, notwithstanding any other provision of the Plan, (a) with the written agreement of the counterparty to an Executory Contract or (b) upon written notice to the counterparty, the Debtors may add any Executory Contract to the list of rejected contracts if the Debtors determine, in their sole discretion, that it is not in their best interests to assume the Executory Contract considering the cure amount or any other terms of assumption or assumption and assignment as determined by the Bankruptcy Court in a Final Order.

## **2. Objections to Assumption of Executory Contracts**

To the extent that any party to an Executory Contract identified for assumption asserts it is entitled to a cure under section 365(b)(1) of the Bankruptcy Code, or has any other objection with respect to any proposed assumption, cure, or assignment on the terms and conditions provided in the Plan, all such arrearages, damages and objections must be Filed and served: (a) as to any contract identified in the Plan Supplement within the same deadline and in the same manner established for the Filing and service of objections to Confirmation of the Plan; and (b) as to any contracts identified in any subsequent amendments to the Plan Supplement within fourteen (14) days after the Debtors File and serve such amendment. Failure to assert any arrearages, damages, or objections in the manner described in the prior sentence shall constitute consent to the proposed assumption, cure, or assignment on the terms and conditions provided in the Plan, including an acknowledgement that the proposed assumption or assumption and assignment provides adequate assurance of future performance and that the amount identified for “cure” in Schedule 1 to the Plan Supplement, or any amendments thereto or the Plan is the amount necessary to cover all outstanding defaults under the Executory Contract to be assumed or to be assumed and assigned as well as an acknowledgement and agreement that no other defaults exist under such contract.

### **B. Rejection**

Except for those Executory Contracts that are (a) assumed pursuant to the Plan, (b) the subject of previous Orders of the Bankruptcy Court providing for their assumption, assumption and assignment or rejection, or (c) the subject of a pending motion before the Bankruptcy Court with respect to the assumption or assumption and assignment of any Executory Contracts as of the Effective Date, all Executory Contracts of the Debtors shall be rejected pursuant to the Plan; provided, however, that neither the inclusion by the Debtors of a contract on Schedule 7.2 of the Plan nor anything contained in Section 7 of the Plan shall constitute an admission by any Debtor that such contract is an Executory Contract or that any Debtor or its successors and assigns has any liability pursuant to Schedule 7.2, Section 7 of the Plan, or under the Contract.

The Confirmation Order shall constitute an Order of the Bankruptcy Court approving the rejection of Executory Contracts under Section 7.4 of the Plan pursuant to section 365 of the Bankruptcy Code as of the Effective Date. Any Claim for damages arising from any

such rejection must be Filed by the Rejection Bar Date. Any timely Filed Claim for damages arising from any such rejection, if Allowed, will be as General Unsecured Claim.

### **VIII. MEANS FOR IMPLEMENTATION OF THE PLAN**

#### **A. Reorganized Funds**

The Plan is a plan for the reorganization of each Debtor as a Reorganized Fund in which such Debtor's Assets and Securities, including, without limitation, the Collybus CDO Securities, will be retained. As of the Effective Date, each Debtor will be deemed to be reconstituted as a Reorganized Fund. On the Effective Date, all Assets (after accounting for payment of Claims (including, without limitation, Indemnification Claims), expenses, costs of administration, and reserves (including, without limitation, the Indemnification Reserve to which recourse for Cantor Indemnification Claims is limited)) of each of the Debtors will be Assets of each of the Reorganized Funds, respectively. On or as soon as practicable after the Cantor Chapter 11 Settlement Effective Date, distributions to Holders of Claims and Interests shall be made in accordance with the terms of the Plan and the priorities set forth in section 726 of the Bankruptcy Code pro tanto, and all Investors will retain their Ratable Portions of Reorganized Fund Interests on account of their Allowed Interests. The governing documents of the Reorganized Funds will be the documents existing prior to the Petition Date, or, if amended and/or restated, will be included in the Plan Supplement.

#### **B. Indemnification Reserve**

The Debtors have the discretion to establish reserves from their assets, as they deem necessary or appropriate in connection with their business, in accordance with their governing documents. The Debtors are authorized to maintain such reserves for the payment of fees and expenses and potential claims, liabilities, and obligations of the Debtors, in lieu of making the reserved funds available for redemptions, distributions, or other payments to Investors. The Debtors have determined that it is appropriate to establish and maintain the Indemnification Reserve for the payment of Cantor Indemnification Claims by the Reorganized Funds under the Plan. The Debtors have further determined that each Reorganized Fund shall designate a percentage of its assets for the Indemnification Reserve in an amount equal to the percentage of Reorganized Fund Interests in such Reorganized Fund held by Non-Releasing Investors.

#### **C. Direct Claim Action**

The Plan provides each Investor, with respect to all of such Investor's Claims against the Cantor Group, an option to either pursue the Direct Claim Action against Cantor, or execute and deliver to Cantor a Direct Claim Release.

##### **1. Non-Releasing Investors.**

Any Investor, with respect to all of such Investor's Claims against the Cantor Group, who does not timely execute and deliver to Cantor a Direct Claim Release will be treated as a Non-Releasing Investor. If an Investor does not timely execute and deliver the Direct Claim Release to Cantor by the expiration of the Direct Claim Release Grace Period, the Investor is not

already a party to the Direct Claim Action, and the Investor desires to bring a claim against any member of the Cantor Group arising from the Investor's purchase or ownership of its Interest in all Debtors, the Investor must join as a plaintiff in the Direct Claim Action; provided, that, the Plan shall not impair any defense otherwise available to any member of the Cantor Group. The Investors who do not timely execute and deliver Direct Claim Releases to Cantor and who are plaintiffs in the Direct Claim Action will assume, at their own expense and not that of the Reorganized Funds, the Reorganized Funds' defense of the Cantor Indemnification Claims. The Reorganized Funds shall establish the Indemnification Reserve from their assets, which shall be used solely for the purpose of funding payment of the Cantor Indemnification Claims of the members of the Cantor Group, as more fully set forth in Section 6.6 of the Plan. The Cantor Group may only pursue Cantor Indemnification Claims in the New York Litigation or any other single forum and venue of its choice; provided, that Cantor and any Non-Releasing Investor may elect to pursue Cantor Indemnification Claims with respect to such Non-Releasing Investor's Reorganized Fund Interest in any agreed forums and venues, with notice to the Reorganized Funds. After the Reorganized Funds are substituted as defendants in the New York Litigation in lieu of the Debtors, the parties to the New York Litigation and the parties to the Direct Claim Action will take such actions as may be appropriate to suspend all proceedings in the New York Litigation, except as contemplated by the Cantor Chapter 11 Settlement, until after the final resolution of the Direct Claim Action, including any appeals. No judgment or other recovery against any member of the Cantor Group in the Direct Claim Action will be payable until the Cantor Indemnification Claims have been fully resolved in the New York Litigation, or other forum agreed to by Cantor. After satisfaction of all Cantor Indemnification Claims of all members of the Cantor Group for which recovery has been allowed by final order in the New York Litigation, any remaining assets of the Reorganized Funds in the Indemnification Reserve shall be released and held by the Reorganized Funds in accordance with their governing documents.

## **2. Releasing Investors.**

Any Investor who does timely execute and deliver to Cantor a Direct Claim Release will be treated as a Releasing Investor. The form of the Direct Claim Release will be contained in the Plan Supplement and will (i) require each Investor executing and delivering to Cantor a Direct Claim Release to certify to Cantor that the Investor is the original holder of such claims covered by the Direct Claim Release or, if not the original holder, is the assignee of such claims of the original holder and any intervening assignee and has not further assigned such claims, (ii) provide that the Direct Claim Release is effective as of the later to occur of the Cantor Chapter 11 Settlement Effective Date or the Investor's execution and delivery to Cantor of the Direct Claim Release, and (iii) be reasonably satisfactory to Cantor in all respects. Any Investor who does not timely execute and deliver to Cantor a Direct Claim Release prior to the expiration of the Direct Claim Release Grace Period will not be treated as a Releasing Investor under the Plan.

## **D. Distributions and Redemptions**

No redemptions, distributions or other payments on account of Reorganized Fund Interests may be made on or before the Cantor Chapter 11 Settlement Effective Date. Following the Cantor Chapter 11 Settlement Effective Date, redemptions and distributions and other

payments on account of Reorganized Fund Interests will be in accordance with, and subject to the terms and conditions of, the governing documents of the Reorganized Funds, and will be further subject to the amount of available cash or other distributable assets of the Reorganized Funds. To the extent that any Investors made requests for redemption that were not satisfied prior to the commencement of the Bankruptcy Cases, such requests will be deemed cancelled on the Effective Date, and any Investor that desires to redeem its Reorganized Fund Interests will be required to submit a new request to the appropriate Reorganized Fund.

Under the governing documents of the Debtors, the Debtors have the authority to suspend Investors' ability to redeem their Interests, including the authority to not effect redemptions or distribute redemption proceeds if otherwise distributable funds should be reserved for obligations of the Debtors. In addition, distributions to Investors, if any, are at the discretion of the Debtors, in such amounts, and subject to reserves for future expenses or to meet future contingencies, as the Debtors may determine.

An Investor's rights to distributions and other payments (including in connection with redemptions) are subject to the Debtors' ability to withhold amounts that would otherwise be distributable or payable to an Investor that has a due and owing obligation to the Debtors. Under the governing documents of the Debtors, any such withheld amount may be applied by the Debtors to extinguish the Investor's obligation to the Debtors and will be treated as though distributed or paid to the Investor.

On the Effective Date, the Debtors and Reorganized Funds will exercise their rights under their governing documents to limit redemptions and distributions and other payments on account of Reorganized Fund Interests that are held by Non-Releasing Investors. The Reorganized Funds will maintain the Indemnification Reserve to pay Cantor Indemnification Claims as such Cantor Indemnification Claims shall be determined in the New York Litigation or other permitted forum and, if owing, paid. Following Investors' elections as to whether to grant a Direct Claim Release to the Cantor Group, the Non-Releasing Investors will be the only beneficiaries of litigation against the Cantor Group. As a consequence of such election, the Reorganized Funds may withhold distributions and other payments (including in connection with redemptions) to which Non-Releasing Investors would otherwise be entitled on account of their Reorganized Fund Interests, and apply such amounts against the Cantor Indemnification Claims, until all Cantor Indemnification Claims for which recovery has been allowed by final order in the New York Litigation are paid from the Indemnification Reserve.

#### **E. Cantor Settlement**

The Plan contemplates the implementation of the Cantor Chapter 11 Settlement. Copies of the Cantor Chapter 11 Settlement Agreement and the order of the Bankruptcy Court approving the Cantor Chapter 11 Settlement are attached to this Disclosure Statement as **Exhibit B-1** and **Exhibit B-2**, respectively. The Debtors or Reorganized Funds will provide to Cantor at least five (5) Business Days' prior written notice of when the Cantor Chapter 11 Settlement Effective Date is scheduled to occur, and on or promptly following the Cantor Chapter 11 Settlement Effective Date, the Reorganized Funds will file a notice with the Bankruptcy Court that the Effective Date under the Plan and the Cantor Chapter 11 Settlement Effective Date have occurred.

**1. Cantor Derivative Claim Settlement Amount.**

The Cantor Derivative Claim Settlement Amount shall be held in escrow under escrow arrangements reasonably satisfactory to the Debtors, the Equity Committee, and Cantor. On the Cantor Chapter 11 Settlement Effective Date, (i) pursuant to such escrow arrangements, the Cantor Derivative Claim Settlement Amount will be released to the Reorganized Funds, together with any interest thereon, and vest in the Reorganized Funds until distributed to Investors under the Plan, (ii) the Reorganized Funds, on their own behalf and on behalf of the Debtors, will release the Cantor Group from any and all claims against the Cantor Group upon the terms contained in the Cantor Chapter 11 Settlement Agreement, and (iii) the Cantor Indemnification Claims that were otherwise satisfied in part by the setoff giving rise to the New York Counterclaim will be reinstated.

**2. Cantor Direct Claim Settlement Amount.**

Cantor will from time to time inform the Debtors or Reorganized Funds of the names of the Investors who have executed and delivered Direct Claim Releases to Cantor. As of the fifth Business Day prior to the Cantor Chapter 11 Settlement Effective Date, the Debtors or Reorganized Funds will determine the Pro Rata Percentages of all Investors who have then executed and delivered Direct Claim Releases, and will notify Cantor of the Cantor Direct Claim Settlement Amount and the deposit account to which Cantor is to deposit the Cantor Direct Claim Settlement Amount. On the Cantor Chapter 11 Settlement Effective Date, Cantor will deposit the Cantor Direct Claim Settlement Amount to the deposit account so designated by the Debtors or Reorganized Funds. Following the deposit of the Cantor Direct Claim Settlement Amount, the Reorganized Funds will distribute to those Releasing Investors the Cantor Direct Claim Settlement Amount in accordance with those Releasing Investors' respective Pro Rata Percentages.

**3. Cantor Supplemental Direct Claim Settlement Amount.**

On the Cantor Chapter 11 Settlement Effective Date, the Reorganized Funds shall deliver to any Investor who has not executed and delivered to Cantor a Direct Claim Release a notice, the form of which shall be filed with the Plan Supplement, advising that (i) such Investor is a Non-Releasing Investor and that redemptions and distributions and other payments on account of its Reorganized Fund Interest are limited, and (ii) such Investor may elect to become a Releasing Investor by timely executing and delivering to Cantor a Direct Claim Release during the Direct Claim Release Grace Period. As of the expiration of the Direct Claim Release Grace Period, the Reorganized Funds will determine the Pro Rata Percentages of all Investors who have then executed and delivered Direct Claim Releases to Cantor after the fifth Business Day prior to the Cantor Chapter 11 Settlement Effective Date but before the expiration of the Direct Claim Grace Period and who have not voted against the Plan, and will notify Cantor of the Cantor Supplemental Direct Claim Settlement Amount and the deposit account into which Cantor is to deposit the Cantor Supplemental Direct Claim Settlement Amount. On the third Business Day following the end of the Direct Claim Release Grace Period, Cantor will deposit the Cantor Supplemental Direct Claim Settlement Amount to the deposit account so designated by the Reorganized Funds. Following the deposit of the Cantor Supplemental Direct Claim Settlement Amount, the Reorganized Funds will distribute to those Releasing Investors the Cantor



Supplemental Direct Claim Settlement Amount in accordance with those Releasing Investors' respective Pro Rata Percentages. Any Claims or Causes of Action with respect to a default by Cantor in its obligations under the Cantor Chapter 11 Settlement Agreement to pay the Cantor Supplemental Direct Claim Settlement Amount may be pursued by the Reorganized Funds on their own behalf or on behalf of the Debtors or Investors entitled to the Cantor Supplemental Direct Claim Settlement Amount.

#### **4. Discharge by Making Deposits**

The deposits of the Cantor Direct Claim Settlement Amount and the Cantor Supplemental Direct Claim Settlement Amount will fully discharge Cantor from its obligations to pay any consideration required for the related Direct Claim Releases to become effective. Cantor will have no responsibility or liability for any error in the calculation of any Pro Rata Percentage or for any distribution to Releasing Investors by the Debtors or the Reorganized Funds of the Cantor Direct Claim Settlement Amount or the Cantor Supplemental Direct Claim Settlement Amount.

#### **5. Security Interest; No Interim Distributions from the Indemnification Reserve.**

Pursuant to a security agreement, the form of which shall be filed with the Plan Supplement, on the Cantor Chapter 11 Settlement Effective Date the Reorganized Funds will grant to Cantor, as agent for the members of the Cantor Group, a security interest in the assets of the Reorganized Funds in the Indemnification Reserve to secure the payment of any Cantor Indemnification Claims that are resolved, whether by agreement or by entry of a final order in the New York Litigation, or other forum agreed to by Cantor. The Plan Supplement will provide and require the steps to be taken for the security interest to be perfected by control and otherwise and for the security interest to have a first priority. The security agreement will prohibit any release of assets from the Indemnification Reserve without Cantor's consent until any and all Cantor Indemnification Claims for which any member of the Cantor Group has recourse to the Indemnification Reserve have been finally resolved and, if finally resolved in favor of the member of the Cantor Group, have been satisfied from the Indemnification Reserve. Upon any Investor (who did not timely execute and deliver a Direct Claim Release prior to the fifth Business Day before the Cantor Chapter 11 Settlement Effective Date) becoming a Releasing Investor prior to the expiration of the Direct Claim Release Grace Period, (i) such Investor will be treated as a Releasing Investor for all purposes of the Plan (including, without limitation, as to redemptions, distributions and other payments) as though the Direct Claim Release was executed and delivered prior to the Cantor Chapter 11 Settlement Effective Date; (ii) Cantor consents to a release of assets from the Indemnification Reserve in percentage equal to the percentage of Reorganized Fund Interests held by such Investor, and releases its lien on such assets; and (iii) all assets so released from the Indemnification Reserve shall be held by the Reorganized Funds in accordance with their governing documents.

If, following the expiration of the Direct Claim Release Grace Period, the Cantor Group or any member of the Cantor Group settles the Direct Action Claim as to the Cantor Group or, as the case may be, the member, in whole or in part, with one or more of the Non-Releasing Investors, Cantor shall notify the Reorganized Funds of the settlement, and the Cantor

Group or the member's recourse against, and Cantor's security interest in, the Indemnification Reserve shall be released to the extent set forth in the notification. Any assets of the Reorganized Funds so released will be held by the Reorganized Funds in accordance with their governing documents.

#### **6. Cantor Chapter 11 Settlement Excluded Claims.**

The Cantor Chapter 11 Settlement does not settle or otherwise affect any Cantor Chapter 11 Settlement Excluded Claims or any defense to a Cantor Chapter 11 Settlement Excluded Claim. The Cantor Chapter 11 Settlement does not affect any claim, or any defense to any claim, to the extent held by an Investor, and not by a Debtor or Reorganized Fund, against any member of the Cantor Group and (i) asserted in the Direct Claim Action, or (ii) otherwise arising from the Investor's purchase or ownership of any Interest in any Debtor, unless, in each case, a Direct Claim Release is timely provided to Cantor by the Investor.

#### **F. Post-Confirmation Operations**

Following Confirmation, and prior to the occurrence of the Effective Date, the then-current officers, directors, managers, managing members, fiduciaries, and investment advisor of each of the Debtors shall continue in their respective capacities and the Debtors shall execute such documents and take such other action as is necessary to effectuate the transactions provided for in the Plan. From and after the Effective Date, subject to Section 8.7 of the Plan, the officers, directors, managers, managing members, fiduciaries, and investment advisor for the Reorganized Funds shall be appointed and shall serve in such capacities in accordance with the Reorganized Funds' governing documents. Prior to the Effective Date, the Debtors, the CACFILLC Investors, and the Equity Committee shall solicit bids for the Investment Manager, to be elected by the Investors in accordance with the Reorganized Funds' governing documents. From and after the Effective Date, the Reorganized Funds shall (i) continue in possession, custody and control of all of the Debtors' respective, books, records, rights and privileges together with any Assets that are not disposed of pursuant to the provisions of the Plan, and (ii) be solely responsible for the management of their respective affairs and the operation of their respective businesses, subject only to the jurisdiction of the Bankruptcy Court to enforce the provisions of the Plan.

#### **G. No Substantive Consolidation**

The Plan is a joint plan that does not provide for substantive consolidation of the Estates, and on the Effective Date, the Estates shall not be deemed to be substantively consolidated for purposes of the Plan. Allowed Claims or Allowed Interests held against one Debtor will be satisfied solely from the Cash or other Assets of such Debtor and its Estate. Except as specifically set forth in the Plan, nothing in the Plan or this Disclosure Statement shall constitute or be deemed to constitute an admission that one Debtor is subject to or liable for any claim against the other Debtors. Additionally, Persons holding Claims or Interests against more than one Debtor, to the extent Allowed in each Debtor's Bankruptcy Case, will be treated as a separate Claim or Interest against each Debtor's Estate; provided, however, that no Holder shall be entitled to receive more than payment in full of its Allowed Claim or Allowed Interest, and such Claims and Interests will be administered and treated in the manner provided in the Plan. If

a Holder asserts Claims against more than one Debtor alleging joint and several liability of the Debtors, such Claims shall be subject to a proceeding in the Bankruptcy Court to allocate liability severally among the Debtors

#### **H. Investment Manager**

On and after the Cantor Chapter 11 Settlement Effective Date, all Assets not distributed to Holders of Allowed Claims or Interests shall be managed by the Investment Manager and shall be held in the name of the Reorganized Funds free and clear of all Claims and Interests other than the Cantor Indemnification Claims against the Indemnification Reserve and Cantor's security interest in the Indemnification Reserve.

The terms of the Investment Manager's employment, including the Investment Manager's duties, powers and compensation, to the extent not set forth in the Plan, shall be set forth in the governing documents of the Reorganized Funds, as may be supplemented by a management agreement, and unless otherwise provided in the Plan, shall be in all cases without the need for further action or approval of the Bankruptcy Court.

#### **I. Collybus CDO Manager**

As of the Effective Date, the Reorganized Funds will seek to replace Commonwealth as the collateral manager of the Collybus CDO.

The terms of the replacement collateral manager's (the "Replacement Collateral Manager") employment, including the Replacement Collateral Manager's duties, powers and compensation, to the extent not set forth in the Plan, shall be set forth in the governing documents of the Reorganized Funds, as may be supplemented by a management agreement, and unless otherwise provided in the Plan, shall be in all cases without the need for further action or approval of the Bankruptcy Court.

#### **J. Restructuring of the Reorganized Funds**

From and after the Effective Date, the Reorganized Funds may merge, consolidate or reorganize any of the Reorganized Funds and/or combine any of the Reorganized Funds with any Affiliates in such manner as the Reorganized Funds may deem prudent with a view toward minimizing the cost of administering their Assets or conducting their respective businesses. Any such merger, consolidation or reorganization will not affect the Indemnification Reserve.

#### **K. Interests in the Reorganized Funds**

From and after the Confirmation Date, Investors shall continue to hold their membership interests, in the case of the Onshore Debtors, and shares, in the case of the Offshore Debtors, in the same manner as such Investors did prior to the Petition Date, and, on the Effective Date, the Interests shall be retained as Reorganized Fund Interests as contemplated by the Plan.

**L. Causes of Action**

Except to the extent released pursuant to the Plan, effective on and after the Effective Date, all Claims and Causes of Action of the Debtors shall be retained by the Reorganized Funds. Except to the extent released pursuant to the Plan, all of the Debtors' Causes of Action, including, but not limited to, those under sections 510, 544, 545, 547, 548, 549, 550, 551, and 553 of the Bankruptcy Code shall be retained by the Reorganized Funds. Claims and Causes of Action of the Debtors shall be pursued by the Reorganized Funds in their sole discretion and any recoveries from the pursuit of Claims and Causes of Action shall be property of the Reorganized Funds.

**M. Closing of the Bankruptcy Cases**

The Reorganized Funds may seek the entry of a Final Decree at any time after the Plan has been substantially consummated provided that all required fees due under 28 U.S.C. § 1930 have been paid.

**N. Continuation of Automatic Stay**

In furtherance of the implementation of the Plan, except as otherwise provided in the Plan, all injunctions or stays provided for in the Bankruptcy Cases pursuant to sections 105 or 362 of the Bankruptcy Code, or otherwise, and in existence on the Confirmation Date, shall remain in full force and effect and apply to all Holders of Claims against, or Interests in, the Debtors, the Estates and the Assets until the Effective Date; provided, however, that nothing in the Plan shall be deemed to extend the scope of any such injunction or stay beyond the provisions of section 362 of the Bankruptcy Code.

**O. Distributions**

Except as otherwise agreed by the Holder of a particular Claim or Interest, or as provided in the Plan, all distributions shall be made as soon as reasonably practicable after the Cantor Chapter 11 Settlement Effective Date. If a Claim or Interest is not Allowed as of the date of distributions to its Class, as soon as reasonably practicable after the date on which such Claim or Interest becomes an Allowed Claim or Allowed Interest, the Reorganized Funds shall pay directly to the Holder of such Allowed Claim or Allowed Interest the amount provided for under the Plan.

Distributions to any Holder of an Allowed Claim or Allowed Interest shall be allocated first to the principal amount of any such Allowed Claim or Allowed Interest, as determined for federal income tax purposes, and then, to the extent the consideration exceeds such amount, to the remainder of such Claim or Interest comprising interest, if any (but solely to the extent that interest is an allowable portion of such Allowed Claim or Allowed Interest). Whenever any payment of a fraction of a cent would otherwise be called for, the actual distribution shall reflect a rounding of such fraction down to the nearest cent.

The Investment Manager shall make all distributions of Cash or other property required under the Plan, unless the Plan specifically provides otherwise.

Except as otherwise provided in the Plan, the Investment Manager shall make distributions to Holders of Allowed Claims and Allowed Interests at the address for each such Holder as indicated on the Debtors' records as of the date of any such distribution; provided, however, that the manner of such distributions shall be determined at the discretion of the Investment Manager; and provided, further, that the address for each Holder of an Allowed Claim or Allowed Interest shall be deemed to be the address set forth in any Proof of Claim, if any, Filed by that Holder.

If the distribution to the Holder of any Allowed Claim or Allowed Interest is returned to Reorganized Funds as undeliverable, no further distribution shall be made to such Holder, and the Reorganized Funds shall have no obligation to make any further distribution to the Holder, unless and until the Reorganized Funds are notified in writing of such Holder's then current address.

Any Person that fails to claim any distribution to which it is otherwise entitled within one hundred twenty (120) days from the date upon which a distribution is first made to such Person shall forfeit all rights to any distribution under the Plan. Persons which fail to claim their distribution shall forfeit their rights thereto and shall have no claim whatsoever against the Reorganized Funds or any Holder of an Allowed Claim or Allowed Interest to whom distributions are made by the Reorganized Funds.

Pursuant to section 346(f) of the Bankruptcy Code, the Reorganized Funds shall be entitled to deduct any federal, state or local withholding taxes from any Cash payments made with respect to Allowed Claims or Allowed Interests, as appropriate. From and as of the Effective Date, the Reorganized Funds shall comply with all reporting obligations imposed on it by any Governmental Unit in accordance with applicable law with respect to such withholding taxes. As a condition to making any distribution under the Plan, the Reorganized Funds may require that the Holder of an Allowed Claim or Allowed Interest provide such Holder's taxpayer identification number and such other information and certification as may be deemed necessary for the Reorganized Funds to comply with applicable tax reporting and withholding laws.

Notwithstanding anything to the contrary in the Plan, the Reorganized Funds shall not be required to make a distribution to any Claim or Interest Holder if the aggregate dollar amount of the distribution (net of costs associated with making such distribution) is less than fifty dollars (\$50).

## **IX. ACCEPTANCE OR REJECTION OF THE PLAN**

### **A. Persons Entitled to Vote**

Classes 1(a), 2(a), 3(a), 4(a), 5(a), 6(a), and 7(a) (Other Priority Claims); Classes 1(b), 2(b), 3(b), 4(b), 5(b), 6(b), and 7(b) (Secured Claims); and Classes 1(c), 2(c), 3(c), 4(c), 5(c), 6(c), and 7(c) (General Unsecured Claims) are not Impaired and pursuant to Section 1126(f) of the Bankruptcy Code are deemed to have accepted the Plan and these Classes will not be solicited.

The Holders of Claims in Classes 1(e), 2(e), 3(e), 4(e), 5(e), 6(e), and 7(e) (Commonwealth Indemnification Claims) have waived their relevant Claims and are not entitled to vote to accept or reject the Plan.

The Claims in Classes 1(h), 2(h), 3(h), 4(h), 5(h), 6(h), and 7(h) (Interest Holder General Unsecured Claims) shall be Disallowed and the relevant Holders shall not be entitled to vote on the Plan on account of such Claims; provided, however, if the Bankruptcy Court determines that any Holder of Claims in these Classes is entitled to vote on the Plan, then such Class will be deemed to have rejected the Plan since the relevant Holders shall not receive any distribution on account of these Disallowed Claims.

Only Holders of Claims or Interests in Classes 1(d), 2(d), 3(d), 4(d), 5(d), 6(d), and 7(d) (Independent Fiduciary Indemnification Claims); Classes 1(f), 2(f), 3(f), 4(f), 5(f), 6(f), and 7(f) (Cantor Indemnification Claims); Class 1(g) CACFILLC Interests; Class 2(g) CACFILTD Interests; Class 3(g) CAHYLLC Interests; Class 4(g) CAHYLTD Interests; Class 5(g) CASELLC Interests; Class 6(g) CASELTD Interests; and Class 7(g) SSC3LLC and SSC3LTD Interests are Impaired and, as such, entitled to vote to accept or reject the Plan.

#### **B. Acceptance by Impaired Classes**

An Impaired Class of Claims and Interests shall have accepted the Plan if (i) the Holders of at least two-thirds in amount of the Allowed Claims and Interests actually voting in such Class have voted to accept the Plan and (ii) the Holders of at least one-half in number of the Allowed Claims and Interests actually voting in such Class have voted to accept the Plan.

#### **C. Voting and Acceptance by Holders of Interests in SSC3LLC and SSC3LTD**

Together, SSC3LLC (66%) and SSC3LTD (34%) are the 100% equityholders of SSC3MF. Accordingly, SSC3MF will vote its Interests in accordance with the indications received from the Holders of Interests in SSC3LLC and SSC3LTD. Investors in SSC3LLC and SSC3LTD will be provided with the SSC3MF Ballot, which solicits their preference for acceptance or rejection of the Plan. SSC3MF will vote its Interests in the manner indicated by the Holders of a majority of the Interests in SSC3LLC and SSC3LTD who timely return ballots.

### **X. CONDITIONS PRECEDENT TO THE EFFECTIVE DATE**

The following are conditions precedent to the occurrence of the Effective Date, each of which must be satisfied or waived in accordance with Section 13 of the Plan:

- (a) The Bankruptcy Court shall have entered the Confirmation Order approving the Plan in form and substance acceptable to the Debtors, the Equity Committee, and Cantor;
- (b) The Confirmation Order shall have become a Final Order; and
- (c) The execution, delivery and performance of the Cantor Chapter 11 Settlement Agreement by the Debtors shall have been approved by the entry of an Order that has become a Final Order.

Except as prohibited by applicable law or as otherwise provided in the Plan, the Debtors, with the express written consent of the Equity Committee and Cantor, may waive the conditions to the Effective Date set forth in Section 13.1(b) of the Plan and, without the consent of the Debtors or the Equity Committee, Cantor may waive the condition set forth in Section 13.1(c) of the Plan.

In the event that the conditions specified in Section 13.1 of the Plan have not been satisfied or waived on or before thirty (30) days after the Confirmation Date, the Debtors, with the consent of the Equity Committee and Cantor, may seek an order from the Bankruptcy Court vacating the Confirmation Order. Such request shall be served upon counsel to the Equity Committee, counsel to Cantor, and the U.S. Trustee. If the Confirmation Order is vacated: (i) the Plan shall be null and void in all respects; (ii) any settlement of Claims or Interests provided for under the Plan shall be null and void without further order of the Bankruptcy Court; and (iii) the time within which the Debtors may assume and assign or reject all Executory Contracts that exist between the Debtors and any Person shall be extended for a period of sixty (60) days after the date the Confirmation Order is vacated.

## **XI. EFFECT OF CONFIRMATION**

### **A. Binding Effect of Plan**

The provisions of the Plan shall be binding upon the Debtors and the Reorganized Funds, and all Persons that previously held, currently hold, or may in the future hold Claims against or Interests in the Debtors, whether or not the Claims and Interests of such Persons are Impaired under the Plan and whether or not such Persons have accepted the Plan, and their respective successors and assigns.

### **B. Vesting of Property**

The Assets of the Debtors' Estates shall be vested in the Reorganized Funds on the Effective Date, except as otherwise provided in the Plan.

### **C. Discharge**

The rights afforded and the treatment of all Claims and Interests shall be in exchange for and in complete satisfaction, discharge and release of all Claims and Interests of any nature whatsoever, including any interests, costs, expenses and attorneys' fees accruing thereon or in connection therewith, against the Debtors, their Estates or any of their respective Assets arising prior to the occurrence of the Cantor Chapter 11 Settlement Effective Date. Except as otherwise expressly specified in the Plan, the Confirmation Order shall act as of the Cantor Chapter 11 Settlement Effective Date as a discharge of all debts of, Claims against, and Liens on the Debtors and cancellation of all Interests in the Debtors and their respective Assets, arising at any time prior to the occurrence of the Cantor Chapter 11 Settlement Effective Date, regardless of whether a Proof of Claim or Proof of Interests with respect thereto was Filed, whether the Claim or Interest is Allowed, or whether the Holder of the Claim or Interest votes to accept the Plan or is entitled to receive distributions hereunder. Except as otherwise expressly specified in the Plan, as of and after the occurrence of the Cantor Chapter 11 Settlement Effective Date, any Holder of such discharged Claim or cancelled Interest shall be precluded

from asserting against the Debtors, their Estates, the Reorganized Funds or any of their respective Assets, any other or further Claim or Interest based on any document, instrument, act, omission, transaction or other activity of any kind or nature that occurred before the Cantor Chapter 11 Settlement Effective Date.

#### **D. Exculpation**

Except as otherwise specifically provided in the Plan, none of the Exculpated Parties shall have or incur, and are hereby released from, any obligation, Cause of Action or liability to one another or to any Creditor or Investor, or any other party in interest, for any act or omission in connection with, relating to, or arising out of, the Bankruptcy Cases, the negotiation and pursuit of confirmation of the Plan, the Consummation of the Plan, or the administration of the Estates or the Assets to be distributed under the Plan, except for their gross negligence or willful misconduct, and in all respects shall be entitled to reasonably rely upon the advice of counsel with respect to their duties and responsibilities (if any) under the Plan. Notwithstanding any other provision of the Plan, no Creditor, Investor, nor other party in interest, shall have any right of action against any Exculpated Party for any act or omission in connection with, relating to, or arising out of, the Bankruptcy Cases, the negotiation and pursuit of confirmation of the Plan, the Consummation of the Plan, or the administration of the Estates or the property to be distributed under the Plan, except for such Exculpated Party's gross negligence or willful misconduct

#### **E. Limitation of Liability**

Except as expressly set forth in the Plan, following the Cantor Chapter 11 Settlement Effective Date, no Exculpated Party shall have or incur any liability to any holder of a Claim or Interest for any act or omission in connection with, related to, or arising out of, the Bankruptcy Cases, the negotiation and pursuit of confirmation of the Plan, the Consummation of the Plan or any contract, instrument, release or other agreement or document created in connection with the Plan, or the administration of the Plan or the property to be distributed under the Plan, except for such Exculpated Party's gross negligence or willful misconduct.

#### **F. Compromise, Settlement, Injunction and Related Provisions**

Notwithstanding anything to the contrary contained in the Plan or the Confirmation Order, the allowance, classification and treatment of all Allowed Claims against and Allowed Interests in the Debtors, and the respective treatments of Allowed Claims and Allowed Interests and distributions thereon, takes into account and conforms to the relative priority and rights of the Claims and the Interests in each Class in connection with any contractual, legal and equitable subordination rights relating thereto whether arising under general principles of equitable subordination, section 510 of the Bankruptcy Code, or otherwise to the extent such subordination is enforceable under applicable law. Upon the consummation of the treatment and distributions to Claims and Interests contemplated by Section 6 of the Plan, all such rights described in the preceding sentence are settled, compromised, discharged and released pursuant to the Plan. The Confirmation Order will constitute the Bankruptcy Court's finding and determination that the settlements reflected in the Plan are (i) in the best interests of the Debtors, their Estates and all Holders of Claims and Interests, (ii) fair, equitable and



reasonable, (iii) made in good faith, (iv) supported by adequate consideration and reasonably equivalent value, and (v) approved by the Bankruptcy Court pursuant to section 363 of the Bankruptcy Code and Bankruptcy Rule 9019. The Confirmation Order shall approve the releases by all Persons of all such contractual, legal and equitable subordination rights or Causes of Action that are satisfied, compromised and settled pursuant to the Plan. Nothing in this paragraph shall compromise or settle in any way whatsoever, any Causes of Action that the Debtors, or the Reorganized Funds, as applicable, may have against Persons that are not Released Parties or provide for the indemnity of any Persons that are not Released Parties.

### **1. Full and Final Satisfaction**

Commencing upon the Cantor Chapter 11 Settlement Effective Date, the Reorganized Funds shall be authorized to make the distributions under the Plan to the Holders of Allowed Claims and Allowed Interests. All payments and all distributions made by the Reorganized Funds shall be in full and final satisfaction, settlement and release of all Claims against or Interests in the Debtors arising before the Cantor Chapter 11 Settlement Effective Date.

### **2. Release of Liens**

Except as otherwise provided in the Plan or in any contract, instrument, release, or other agreement or document created in connection with the Plan, on the Cantor Chapter 11 Settlement Effective Date all Liens against the Assets of the Debtors' Estates shall be released, and all right, title and interest of any Holder of such Liens shall revert to the Reorganized Funds.

### **3. Releases by Debtors and Estates**

Pursuant to section 1123(b) of the Bankruptcy Code, in exchange for good and valuable consideration, on and after the Cantor Chapter 11 Settlement Effective Date, the Released Parties (other than the Cantor Group) are each deemed released and discharged by the Debtors, the Reorganized Funds and the Estates from all Claims, obligations, rights, suits, judgments, damages, Causes of Action, remedies and liabilities whatsoever, whether for tort, fraud, contract, violations of federal or state securities laws, or otherwise, including, but not limited to, the Collybus Litigation and any Claims or Causes of Action arising from the Collybus CDO, and any derivative Claims or Causes of Action asserted or that could possibly have been asserted on behalf of the Debtors, whether liquidated or unliquidated, fixed or contingent, matured or unmatured, known or unknown, foreseen or unforeseen, existing or hereinafter arising, in law, equity, or otherwise, that the Debtors, the Reorganized Funds, or the Estates would have been legally entitled to assert in their own right (whether individually or collectively) or on behalf of the Holder of any Claim or Interest or other Person, based on or relating to, or in any manner arising from, in whole or in part, the Debtors, the Bankruptcy Cases, the purchase, sale, or rescission of the purchase or sale of any security, the subject matter of, or the transactions or events giving rise to, any Claim or Interest that is treated in the Plan, the business or contractual arrangements between any Debtor and any Released Party, the restructuring of Claims and Interests prior to or in the Bankruptcy Cases, the negotiation, formulation, or preparation of the Plan and related Disclosure Statement, or related agreements, instruments, or other documents, upon any other act or omission, transaction, agreement, event, or other

occurrence taking place on or before the Cantor Chapter 11 Settlement Effective Date. Pursuant to section 1123(b) of the Bankruptcy Code, in exchange for the Cantor Derivative Claim Settlement Amount and/or other good and valuable consideration, on and after the Cantor Chapter 11 Settlement Effective Date, each Debtor releases the Cantor Group from any and all claims the Debtor may have against any member of the Cantor Group arising from any fact, event or circumstance, action or omission occurring prior to the Cantor Chapter 11 Settlement Effective Date including, without limitation, all claims asserted against any members of the Cantor Group in the Derivative Claim Action and the New York Counterclaim asserted against any member of the Cantor Group in the New York Litigation; provided, however, the releases contained in Section 12.4 of the Plan shall not include the release of (i) any claim against Cantor arising from Cantor's representations and warranties contained in the Cantor Chapter 11 Settlement Agreement or from Cantor's obligations under Sections 2 or 3 of the Cantor Chapter 11 Settlement Agreement, or (ii) any claim against Cantor arising under the Plan or any document, instrument, or agreement executed to implement the Plan. The releases include Cause of Action under sections 510, 544, 545, 547, 548, 549, 550, 551 and 553 of the Bankruptcy Code. Entry of the Confirmation Order shall constitute the Bankruptcy Court's approval, pursuant to Bankruptcy Rule 9019, of the provisions of this provision of the Plan and further, shall constitute the Bankruptcy Court's finding that the provisions of the Plan are: (1) in exchange for the good and valuable consideration provided by the Released Parties; (2) a good faith settlement and compromise of the Claims released; (3) in the best interests of the Debtors and all Holders of Claims and Interests; (4) fair, equitable and reasonable; (5) given and made after due notice and opportunity for hearing; and (6) a bar to any of the Debtors, the Reorganized Funds or their successors asserting any claim or Claim or Cause of Action against any of the Released Parties. Notwithstanding anything to the contrary in the foregoing, the release set forth above does not release any post-Cantor Chapter 11 Settlement Effective Date obligations of any party under the Plan or any document, instrument, or agreement executed to implement the Plan. The releases contained in Section 12.4 of the Plan are in addition to and are not in substitution of and do not otherwise impair any release given prior to the Petition Date by a Debtor or any other Released Party to another Released Party.

#### **4. Releases by Holders of Claims and Interests**

Except as provided below, in exchange for good and valuable consideration, as of the Cantor Chapter 11 Settlement Effective Date, the Released Parties (other than the Debtors, the Reorganized Funds and the Estates) and each Creditor or Investor that was entitled to vote on the Plan shall be deemed to have released and discharged each of the Released Parties from all obligations, suits, judgments, damages, demands, debts, rights, Causes of Action remedies and liabilities whatsoever for tort, fraud, contract, violations of federal or state securities terms or otherwise, whether liquidated or unliquidated, fixed or contingent, matured or unmatured, known or unknown, foreseen or unforeseen, then existing or hereafter arising, in law, equity, or otherwise, based on or relating to or in any manner arising from, in whole or in part, the Debtors, the Collybus Litigation and any claims and Causes of Action arising from the Collybus CDO, the Bankruptcy Cases, the Plan, or the Disclosure Statement, the subject matter of, or the transactions or events giving rise to, any Claim or Interest that is treated in the Plan, the business or contractual arrangements between any Debtor and any Creditor or Investor, the restructuring of Claims and Interests prior to or in the Bankruptcy Cases, the negotiations, formulation, or preparation of the Plan, the related Disclosure Statement, or related agreements, instruments, or

other documents, or upon any other act or omission, transaction, agreement, event, or other occurrence taking place on or before the Cantor Chapter 11 Settlement Effective Date and that could have been asserted at any time up to immediately prior to the Cantor Chapter 11 Settlement Effective Date; provided, however, that an Investor shall only be deemed to release and discharge the members of the Cantor Group if such Investor timely executes and delivers a Direct Claim Release to Cantor. Section 12.5 of the Plan does not release (i) Commonwealth; (ii) Morales; (iii) any Cantor Indemnification Claims of any member of the Cantor Group, but the member's recourse is limited to the Indemnification Reserve as set forth in Section 6.6 of the Plan to satisfy the member's Cantor Indemnification Claims; or (iv) any claim of any employer against any present or former employee of any claim of the present or former employee against the employer. Each Investor must, pursuant to a certificate, in form and substance satisfactory to the Debtors and the Equity Committee, to be Filed with the Plan Supplement, represent and warrant to the Released Parties that the Investor, whether as the original Holder of the Interest or an assignee thereof as of the Record Date, holds all obligations, suits, judgments, damages, demands, debts, rights, Causes of Action remedies and liabilities to be released under Section 12.5 of the Plan and has right to give the releases thereof contemplated by Section 12.5 of the Plan. In the event that any Person that is deemed under the Plan to have granted a release to the Released Parties takes any action that is inconsistent with such release (or the injunctions ordered by the Plan), including, without limitation, such as bringing any claim or suit in respect of matters that are released or otherwise barred by the Plan against any Released Party, the Reorganized Funds promptly shall oppose, defend against, and seek dismissal and cessation of any such inconsistent action and the Person bringing the claim or suit shall pay all attorneys' fees and expenses of the Reorganized Funds.

## **5. Injunctions**

**EXCEPT AS PROVIDED IN THE PLAN, ALL PERSONS INCLUDING, BUT NOT LIMITED TO INVESTORS, WHO HAVE HELD, HOLD OR MAY HOLD CLAIMS, RIGHTS, CAUSES OF ACTION, LIABILITIES OR ANY EQUITY INTERESTS BASED UPON ANY ACT OR OMISSION, TRANSACTION OR OTHER ACTIVITY OF ANY KIND OR NATURE RELATED TO THE DEBTORS OR THE BANKRUPTCY CASES THAT OCCURRED PRIOR TO THE CANTOR CHAPTER 11 SETTLEMENT EFFECTIVE DATE, OTHER THAN AS EXPRESSLY PROVIDED IN THE PLAN OR THE CONFIRMATION ORDER, REGARDLESS OF THE FILING, LACK OF FILING, ALLOWANCE OR DISALLOWANCE OF SUCH A CLAIM OR INTEREST AND REGARDLESS OF WHETHER SUCH PERSON HAS VOTED TO ACCEPT THE PLAN AND ANY SUCCESSORS, ASSIGNS OR REPRESENTATIVES OF SUCH PERSONS SHALL BE PRECLUDED AND PERMANENTLY ENJOINED ON AND AFTER THE CANTOR CHAPTER 11 SETTLEMENT EFFECTIVE DATE FROM (I) THE COMMENCEMENT OR CONTINUATION IN ANY MANNER OF ANY CLAIM, ACTION OR OTHER PROCEEDING OF ANY KIND WITH RESPECT TO ANY CLAIM, INTEREST OR ANY OTHER RIGHT OR CLAIM AGAINST THE RELEASED PARTIES, OR ANY ASSETS OF ANY OF THE FOREGOING, WHICH THEY POSSESSED OR MAY POSSESS PRIOR TO THE CANTOR CHAPTER 11 SETTLEMENT EFFECTIVE DATE, (II) THE ENFORCEMENT, ATTACHMENT, COLLECTION OR RECOVERY BY ANY MANNER OR MEANS OF ANY JUDGMENT, AWARD, DECREE OR ORDER WITH RESPECT TO ANY CLAIM,**

**INTEREST OR ANY OTHER RIGHT OR CLAIM AGAINST THE RELEASED PARTIES, OR ANY ASSETS OF THE FOREGOING, WHICH SUCH PERSONS POSSESSED OR MAY POSSESS PRIOR TO THE CANTOR CHAPTER 11 SETTLEMENT EFFECTIVE DATE, (III) THE CREATION, PERFECTION OR ENFORCEMENT OF ANY ENCUMBRANCE OF ANY KIND WITH RESPECT TO ANY CLAIM, INTEREST OR ANY OTHER RIGHT OR CLAIM AGAINST THE RELEASED PARTIES, OR ANY ASSETS OF THE FOREGOING WHICH THEY POSSESSED OR MAY POSSESS AND (IV) THE ASSERTION OF ANY CLAIM THAT IS RELEASED UNDER THE PLAN. THIS SECTION DOES NOT APPLY TO THE NON-RELEASING INVESTORS WITH RESPECT TO THE DIRECT CLAIM ACTION OR TO MEMBERS OF THE CANTOR GROUP WITH RESPECT TO THE CANTOR INDEMNIFICATION CLAIMS**

**G. Rights of Investors.**

No provision of the Plan shall affect or impair any right of an Investor to submit a claim to, or recover from, a fair fund, restitution fund, or disgorgement plan established by the U.S. Securities and Exchange Commission under 17 CFR 201.1100, *et seq.*, or other similar fund established by any state or governmental unit with respect to the Debtors.

**H. Rights of SEC.**

Notwithstanding any provision of the Plan to the contrary, nothing in the Plan, Disclosure Statement, or Confirmation Order shall (i) discharge or release any person or entity from any right, claim, cause of action, power or interest held or assertable by the SEC, or (ii) enjoin, impair or delay the SEC from commencing or continuing any investigation, claim, cause of action or proceeding against any person or entity in any forum.

**I. Section 1145 Exemption**

Pursuant to section 1145(a) of the Bankruptcy Code, neither section 5 of the Securities Act of 1933 nor any State or local law requiring registration for offer or sale of a security or registration or licensing of an issuer of, underwriter of, or broker or dealer in, shall apply with respect to any security being offered, sold or transferred under the Plan.

**J. Section 1146 Exemption**

Pursuant to section 1146(a) of the Bankruptcy Code, the issuance, transfer or exchange of any security under the Plan or the making or delivery of any instrument of transfer pursuant to, in implementation of, or as contemplated by the Plan, or the re-vesting, transfer or sale of any real or personal property of the Debtors or Reorganized Funds pursuant to, in implementation of, or as contemplated by the Plan shall not be taxed under any state or local law imposing a stamp tax, transfer tax or similar tax or fee.

**K. Compliance with Tax Requirements**

In connection with the Plan, to the extent applicable, the Debtors, or the Reorganized Funds in accordance with the Plan shall comply with all reporting and withholding requirements imposed on them by any Governmental Unit.

**L. Severability of Plan Provisions**

If, prior to Confirmation, any term or provision of the Plan is held by the Bankruptcy Court to be invalid, void or unenforceable, the Bankruptcy Court will have the power to alter and interpret such term or provision to make it valid or enforceable to the maximum extent practicable, consistent with the original purpose of the term or provision held to be invalid, void or unenforceable, and such term or provision then will be applicable as altered or interpreted; provided, however, that any such alteration or interpretation must be in form and substance acceptable to the Debtors, Equity Committee, and Cantor. Notwithstanding any such holding, alteration or interpretation, the remainder of the terms and provisions of the Plan will remain in full force and effect and will in no way be affected, impaired or invalidated by such holding, alteration or interpretation. The Confirmation Order will constitute a judicial determination and will provide that each term and provision of the Plan, as it may have been altered or interpreted in accordance with the foregoing, is valid and enforceable pursuant to its terms.

**XII. RETENTION OF JURISDICTION****A. General Scope of Jurisdiction**

Following the Effective Date, the Bankruptcy Court shall retain jurisdiction over the Bankruptcy Cases to the extent legally permissible, including, without limitation, such jurisdiction as is necessary to ensure that the purposes and intent of the Plan are carried out.

**B. Claims and Causes of Action**

Except as provided in Section 14.2 of the Plan, the Bankruptcy Court shall retain jurisdiction (i) to classify, resolve objections to, and determine or estimate, pursuant to section 502(c) of the Bankruptcy Code or otherwise, all Claims and Interests, and (ii) to adjudicate and enforce all Claims and Causes of Action which have not been waived and released by the Debtors pursuant to the Plan or otherwise. The Bankruptcy Court will not retain jurisdiction to estimate Cantor Indemnification Claims of the members of the Cantor Group or to resolve objections to, determine, adjudicate or enforce Cantor Indemnification Claims of members of the Cantor Group and such issues will be determined by the court with jurisdiction over the New York Litigation.

**C. Specific Jurisdiction**

Subject to Section 14.2 of the Plan, without in any way otherwise limiting the scope of the Bankruptcy Court's retention of jurisdiction over the Bankruptcy Cases as otherwise provided for in the Plan, the Bankruptcy Court shall retain jurisdiction for the following specific purposes:

(a) to determine all questions and disputes regarding title to the Assets, and all Causes of Action, controversies, disputes or conflicts, whether or not subject to any pending action as of the Effective Date, between the Debtors and any other Person;

(b) to modify the Plan after the Effective Date pursuant to the Bankruptcy Code, the Bankruptcy Rules and applicable law;

(c) to enforce and interpret the terms and conditions of the Plan and the Confirmation Order, including any dispute concerning the scope or interpretation of the Releases;

(d) to enter such Orders, including, but not limited to, such future injunctions as are necessary to enforce the respective title, rights and powers of the Reorganized Funds, and to impose such limitations, restrictions, terms and conditions on such title, rights and powers as the Bankruptcy Court may deem necessary;

(e) to enter a Final Decree closing the Bankruptcy Cases;

(f) to correct any defect, cure any omission, or reconcile any inconsistency in the Plan and the Confirmation Order as may be necessary to implement the purposes and intent of the Plan;

(g) to hear and determine all objections related to the allowance or classification of Claims and Interests;

(h) to hear and determine all applications by the Professionals for the allowance of compensation and the reimbursement of expenses and the reasonableness of any fees and expenses authorized to be paid or reimbursed under the Bankruptcy Code;

(i) to hear and determine any applications or motions pending on the Effective Date for the rejection, assumption or assumption and assignment of any Executory Contracts that exist between the Debtors and any Person and to hear and determine and, if necessary, adjudicate and liquidate all Claims arising therefrom;

(j) to hear and determine all motions, applications, adversary proceedings and contested matters that may be pending on the Effective Date or Filed thereafter;

(k) to remedy any defect or omission or reconcile any inconsistency in any order of the Bankruptcy Court to the extent authorized by the Plan or the Bankruptcy Court;

(l) to hear and determine all controversies, suits, and disputes that may arise in connection with the interpretation, enforcement or consummation of the Plan;

(m) to consider and act on the compromise and settlement of any claim or Cause of Action by or against the Debtors arising under or in connection with the Plan;

(n) to issue such orders in aid of execution of the Plan as may be authorized by section 1142 of the Bankruptcy Code or are otherwise necessary or appropriate to carry out

the provisions of the Plan and enjoin any interference with the implementation or the consummation of the Plan;

(o) to hear and determine such other matters or proceedings as may be provided for under Title 28 or any other title of the United States Code, the Bankruptcy Code, the Bankruptcy Rules, other applicable law, the Plan or in any Orders of the Bankruptcy Court, including, but not limited to, the Confirmation Order or any Order that may arise in connection with the Plan or the Confirmation Order; and

(p) to hear and determine any other matters not inconsistent with the Bankruptcy Code.

#### **D. Failure of Bankruptcy Court to Exercise Jurisdiction**

If the Bankruptcy Court abstains from exercising, declines to exercise, or is otherwise without jurisdiction over any matter arising out of the Bankruptcy Cases, including, but not limited to, the matters set forth in Section 14 of the Plan, Section 14 of the Plan shall not prohibit, limit or otherwise affect the exercise of jurisdiction by any other court having competent jurisdiction with respect to such matter.

### **XIII. MISCELLANEOUS PROVISIONS**

#### **A. Defects, Omissions and Amendments**

The Debtors may, insofar as it does not materially and adversely affect Holders of Claims or Interests, correct any defect, omission or inconsistency in the Plan in such manner and to such extent as may be necessary or desirable to implement the Plan. The Plan may be altered or amended (i) with respect to non-material alterations or amendments, upon notice to the U.S. Trustee and counsel to the Equity Committee, and counsel to Cantor, or (ii) with respect to material alterations or amendments, with the written consent of the Equity Committee, and Cantor, before or after Confirmation as provided in section 1127 of the Bankruptcy Code if, in the opinion of the Bankruptcy Court, the modification does not materially and adversely affect the interests of Holders of Claims and Interests, so long as the Plan, as modified, complies with sections 1122 and 1123 of the Bankruptcy Code and the Debtors have complied with section 1125 of the Bankruptcy Code. For the avoidance of doubt, the Debtors shall be required to seek Bankruptcy Court approval of any material alterations or amendments of the Plan upon appropriate notice and a hearing.

#### **B. Certain Actions**

By reason of entry of the Confirmation Order, prior to, on or after the Effective Date or the Cantor Chapter 11 Settlement Effective Date, as appropriate, all matters provided for under the Plan that would otherwise require approval of the directors of the Debtors or the Holders of Interests, including, without limitation, (i) the distribution of Cash pursuant to the Plan, (ii) the adoption, execution, delivery, and implementation of all contracts, leases, instruments, releases, and other agreements or documents related to the Plan, (iii) the transfer or other disposition of Assets pursuant to the Plan, and (iv) the adoption, execution, and implementation of other matters provided for under the Plan involving the Debtors or their

Assets, shall be deemed to have occurred and shall be in effect prior to, on or after the Effective Date or the Cantor Chapter 11 Settlement Effective Date, as appropriate, pursuant to the applicable Limited Liability Company Act of the State of Delaware or the Cayman Islands equivalent, without any requirement of further action by the stockholders, members, managing members, directors, or officers of the Debtors or the Holders of Interests.

**C. Additional Transactions Authorized Under the Plan**

On or prior to the Effective Date, the Debtors shall be authorized to take any such actions as may be necessary or appropriate to reinstate Claims or render Claims not Impaired.

**D. Direction to Parties**

From and after the Effective Date, the Reorganized Funds may apply to the Bankruptcy Court for an Order directing any necessary party to execute or deliver, or to join in the execution or delivery, of any instrument required to effect a transfer of Assets required under the Plan, and to perform any other act, including, without limitation, the satisfaction of any Lien, that is necessary for the consummation of the Plan, pursuant to section 1142(b) of the Bankruptcy Code, provided that such direction is in accordance with the Plan.

**E. Setoffs**

The Debtors or Reorganized Funds may, after giving effect to the releases in the Plan and to the extent permitted under applicable law, setoff against any Allowed Claim or Allowed Interest and the distributions to be made pursuant to the Plan on account of such Allowed Claim or Allowed Interest, the claims, rights and causes of action of any nature (other than claims arising under chapter 5 of the Bankruptcy Code) that the Debtors may hold against the Holder of such Allowed Claim or Allowed Interest that are not otherwise waived, released or compromised in accordance with the Plan; provided, however, that neither such a setoff nor the allowance of any Claim or Interest hereunder shall constitute a waiver or release by the Debtors of any such claims, rights and Causes of Action that the Debtors possess against such Holder.

**F. Effectuating Documents; Further Transactions**

The Reorganized Funds shall be authorized to take such actions as may be necessary or appropriate to effectuate and further evidence the terms and conditions of the Plan.

**G. Further Actions; Implementation**

The Debtors or the Reorganized Funds shall be authorized to execute, deliver, File or record such documents, contracts, instruments, releases and other agreements and take such other or further actions as may be necessary to effectuate or further evidence the terms and conditions of the Plan.

**H. Substantial Consummation**

On the Effective Date, the Plan shall be deemed substantially consummated under Bankruptcy Code sections 1101 and 1127(b).



**I. Reservation of Rights**

Neither the filing of the Plan nor any statement or provision contained in the Plan or in this Disclosure Statement or any Plan Supplement, nor the taking by any party in interest of any action with respect to the Plan, shall (a) be or be deemed to be an admission against interest, and (b) until the Cantor Chapter 11 Settlement Effective Date, be or be deemed to be a waiver of any rights any party in interest may have (i) against any other party in interest, or (ii) in any of the assets of any other party in interest, and, until the Cantor Chapter 11 Settlement Effective Date, all such rights are specifically reserved. In the event that the Plan is not confirmed or fails to become effective, or the Cantor Chapter 11 Settlement Effective Date does not occur, neither the Plan nor this Disclosure Statement nor any statement contained in the Plan or in this Disclosure Statement or any Plan Supplement may be used or relied upon in any manner in any suit, action, proceeding or controversy within or without the Bankruptcy Cases involving the Debtors, except with respect to Confirmation of the Plan.

**J. Preservation of All Causes of Action**

Except to the extent released pursuant to Section 12 of the Plan, effective on and after the Effective Date, unless a claim or Cause of Action against a Person is expressly waived, abandoned, relinquished, released, compromised, settled or treated otherwise in the Plan or any Final Order, including, without limitation, the Confirmation Order, the Debtors and Reorganized Funds expressly reserve such claim or Cause of Action, whether existing as of the Petition Date or thereafter arising, including, but not limited to any adversary proceeding Filed in the Bankruptcy Cases and all claims and Causes of Action not specifically identified or of which the Debtors may presently be unaware of that arise or exist by reason of additional facts or circumstances unknown to the Debtors at this time or facts or circumstances that may change or be different from those the Debtors now believe to exist, for later action by the Reorganized Funds provided that such claims and Causes of Action are not extinguished under the Plan, and therefore, no preclusion doctrine, including, without limitation, the doctrine of *res judicata*, collateral estoppel, issue preclusion, claim preclusion, waiver, estoppel (judicial, equitable or otherwise) or laches shall apply to such claims or Causes of Action upon or after Confirmation based on this Disclosure Statement, the Plan or the Confirmation Order, except where such claims or Causes of Action have been expressly waived and released.

The Debtors are invested in mortgage-backed securities, collateralized debt obligations and other asset backed securities. The underlying collateral for the majority of the Debtors' Assets are MBS. The mortgages underlying the MBS were sold to trusts that issued the securities to the public. The sale and servicing of those mortgage loans have come under heavy scrutiny by investors in the MBS. A number of investors have brought lawsuits against the servicers of mortgage loans claiming, among other things, that the servicers are in violation of the pooling and servicing agreements between the servicers and the trusts that issued securities to the public. The Debtors are not releasing any claims or Causes of Action that the Debtors may have against such parties, including the loan sellers, servicers and the trustees of the underlying securities.

However, no Cause of Action against any of the Released Parties shall be preserved to the extent that the Cause of Action is released under Section 12 of the Plan.

**K. Revocation or Withdrawal of Plan**

Subject to the terms of the Plan, the Debtors reserve the right to revoke or withdraw the Plan at any time before entry of the Confirmation Order. If the Debtors revoke or withdraw the Plan prior to the Confirmation Date, the Plan shall be deemed to be null and void. In such event, nothing contained in the Plan or in any document relating to the Plan shall be deemed to constitute an admission of validity, waiver or release (i) by any Person of any claims and Causes of Action against the Debtors; or (ii) by the Debtors of any claims and Causes of Action against any Person, or to waive, impair, prejudice or otherwise affect in any manner the rights of the Debtors or any Person in any proceeding involving the Debtors.

**L. Governing Law**

Except to the extent the Bankruptcy Code or Bankruptcy Rules are applicable, and subject to the provisions of any contract, instrument, release, or other agreement or document entered into in connection with the Plan that provides otherwise, the rights and obligations arising under the Plan shall be governed by, and construed and enforced in accordance with, the laws of the State of Delaware, notwithstanding any conflicts of law principles, rules or laws to the contrary.

**M. Preservation of Insurance**

The Debtors' release from, and payment of, Claims shall not diminish or impair the enforceability of any insurance policy that may cover any Claims, including, without limitation, any Claims on account of the Debtors' officers or directors or any other Person.

**N. Successors and Assigns**

Unless expressly otherwise provided in the Plan, the rights, benefits and obligations of any Person named or referred to shall be binding upon, and shall inure to the benefit of, the heir, executor, administrator, successor or assign of such Person.

**O. Term of Injunctions or Stays**

Unless otherwise provided in accordance with the Plan or an applicable order of the Bankruptcy Court, all injunctions or stays provided for in the Bankruptcy Cases pursuant to sections 105 or 362 of the Bankruptcy Code shall remain in full force and effect until the Effective Date.

**P. Notices**

Any notice required or permitted to be provided under the Plan shall be in writing and served by either (a) certified mail, return receipt requested, postage prepaid, (b) hand delivery or (c) reputable overnight delivery service, freight prepaid, to be addressed as follows:

If to the Debtors:

YOUNG CONAWAY STARGATT & TAYLOR, LLP
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Robert S. Brady Michael R. Nestor 1000 North King Street Rodney Square Wilmington, Delaware 19801
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with copies to the Equity Committee and Cantor:

DLA PIPER LLP (US) Stuart M. Brown R. Craig Martin 919 Market Street, Suite 1500 Wilmington, DE 19801	BINGHAM McCUTCHEN LLP Edwin E. Smith Jared R. Clark 399 Park Avenue New York City, New York 10022
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#### **Q. Rules Governing Conflicts between Documents**

In the event of a conflict between the terms of the Plan and any contract, instrument, release, or other agreement or document created or entered into in connection with the Plan, the terms of the Plan shall control over any such documents. In the event of a conflict between the terms of the Plan or any contract, instrument, release, or other agreement or document entered into in connection with the Plan, on the one hand, and the terms of the Confirmation Order, on the other hand, the terms of the Confirmation Order shall control. In the event of a conflict between the information contained in this Disclosure Statement, on the one hand, and the terms of the Plan, the Confirmation Order or any contract, instrument, release, or other agreement or document entered into in connection with the Plan, on the other hand, the Plan, the Confirmation Order or any contract, instrument, release, or other agreement or document entered into in connection with the Plan (as the case may be) shall control.

#### **R. Headings**

The headings used in the Plan are for convenience purposes only and neither constitute a portion of the Plan nor in any manner affect the provisions of the Plan.

### **XIV. FEASIBILITY OF THE PLAN AND THE BEST INTERESTS TEST**

At the Confirmation Hearing, the Bankruptcy Court will determine whether the requirements of section 1129 of the Bankruptcy Code have been satisfied. If so, the Bankruptcy Court will enter the Confirmation Order. If supported by the Voting Classes, the Debtors believe that the Plan satisfies or will satisfy the applicable requirements, as follows:

- The Plan complies with the applicable provisions of the Bankruptcy Code.
- The Debtors, as Plan proponent, will have complied with the applicable provisions of the Bankruptcy Code.
- The Plan has been proposed in good faith and not by any means forbidden by law.

- Any payment made or promised under the Plan for services or for costs and expenses in, or in connection with, the Bankruptcy Cases, or in connection with the Plan and incident to the case, has been disclosed to the Bankruptcy Court, and any such payment made before the confirmation of the Plan is reasonable, or if such payment is to be fixed after the confirmation of the Plan, such payment is subject to the approval of the Bankruptcy Court as reasonable.
- Each Impaired Class has accepted the Plan.
- Except to the extent that the Holder of a particular Claim will agree to a different treatment of such Claim, the Plan provides that Allowed Administrative, Allowed Professional Fee, and Allowed Priority Tax Claims will be paid in full on the Cantor Chapter 11 Settlement Effective Date, or as soon thereafter as practicable.
- Confirmation of the Plan is not likely to be followed by the liquidation, or the need for further financial reorganization, of the Debtors or any successor to the Debtors under the Plan, unless such liquidation or reorganization is proposed in the Plan.
- All fees of the type described in 28 U.S.C. § 1930, including the fees of the United States Trustee, will be paid as of the Effective Date.<sup>3</sup>
- The Debtors believe that (a) the Plan satisfies or will satisfy all of the statutory requirements of Chapter 11 of the Bankruptcy Code, (b) they have complied, or will have complied, with all of the requirements of Chapter 11 and (c) the Plan has been proposed in good faith.

As a result, the Debtors believe that the Plan does not unfairly discriminate against the Holders of Claims and Interests in the Voting Classes.

#### **A. Feasibility**

Under section 1129(a)(11) of the Bankruptcy Code, the Debtors must show that Confirmation is not likely to be followed by the liquidation, or the need for further financial reorganization, of the Debtors or any successor to the Debtors, unless such liquidation or reorganization is proposed in the Plan. The Plan complies with this requirement, as all of the Assets will be vested in the Reorganized Funds pursuant to the terms and conditions of the Plan, and provided that the Plan is confirmed by the Bankruptcy Court and consummated, the Debtors will be reorganized and no longer will be subject to any such future reorganization or liquidation.

#### **B. Best Interests Test**

The Bankruptcy Code requires the bankruptcy court to determine that a plan is in the “best interests” of all holders of claims and interests that are impaired by the plan and that have not accepted the plan. The “best interests” test, as set forth in section 1129(a)(7) of the Bankruptcy Code, requires a bankruptcy court find that each holder of a claim or interest in an impaired class either (i) has accepted the plan or (ii) will receive or retain under the plan property

of a value, as of the effective date of the plan, that is not less than the amount that such holder would recover if the debtor were liquidated under Chapter 7 of the Bankruptcy Code.

In a typical Chapter 7 case, a trustee is elected or appointed to liquidate a debtor's assets for distribution to creditors in accordance with the priorities set forth in the Bankruptcy Code. Generally, secured creditors are paid first from the proceeds of sales of the properties securing their liens. If any assets are remaining in the bankruptcy estate after satisfaction of secured creditors' claims from their collateral, administrative expenses are paid next. Unsecured creditors are paid from any remaining sales proceeds, according to their respective priorities. Unsecured creditors with the same priority share in proportion to the amount of their allowed claims in relationship to the total amount of allowed claims held by all unsecured creditors with the same priority. Finally, equity interest holders receive the balance that remains, if any, after all creditors are paid.

For purposes of the best interests test and in order to determine the liquidation value available to Holders of Allowed Claims and Interests, the Debtors prepared the Liquidation Analysis that is annexed to this Disclosure Statement as Exhibit C.

## **XV. IMPORTANT CONSIDERATIONS AND RISK FACTORS**

HOLDERS OF CLAIMS AGAINST AND INTERESTS IN THE DEBTORS SHOULD READ AND CONSIDER CAREFULLY THE FACTORS SET FORTH BELOW AS WELL AS THE OTHER INFORMATION SET FORTH IN THIS DISCLOSURE STATEMENT (AND THE DOCUMENTS DELIVERED TOGETHER HERewith AND/OR INCORPORATED HEREIN BY REFERENCE), PRIOR TO VOTING TO ACCEPT OR REJECT THE PLAN. THESE RISK FACTORS SHOULD NOT, HOWEVER, BE REGARDED AS CONSTITUTING THE ONLY RISKS INVOLVED IN CONNECTION WITH THE PLAN AND ITS IMPLEMENTATION.

### **A. The Debtors Have No Duty to Update**

Except as otherwise provided herein, the statements contained in this Disclosure Statement are made by the Debtors as of the date hereof, unless otherwise specified herein, and the delivery of this Disclosure Statement after that date does not imply that there has been no change in the information set forth herein since that date. The Debtors have no duty to update this Disclosure Statement unless otherwise ordered to do so by the Bankruptcy Court.

### **B. No Representations Outside this Disclosure Statement are Authorized**

No representations concerning or related to the Debtors, the Bankruptcy Cases or the Plan are authorized by the Bankruptcy Court or the Bankruptcy Code, other than as set forth in this Disclosure Statement. Any representations or inducements made to secure your acceptance, or rejection, of the Plan that are other than as contained in, or included with, this Disclosure Statement should not be relied upon by you in arriving at your decision. You should promptly report unauthorized representations or inducements to Debtors' counsel and the office of the United States Trustee.

**C. Information Presented Based on Debtors' Books and Records**

While the Debtors have endeavored to present information fairly in this Disclosure Statement, because of Debtors' financial difficulties, as well as the complexity of Debtors' financial matters, the Debtors' books and records upon which this Disclosure Statement is based might be incomplete or inaccurate. The financial information contained herein, unless otherwise expressly indicated, is unaudited.

**D. Projections and Other Forward Looking Statements Not Assured**

Certain of the information contained in this Disclosure Statement is, by nature, forward looking, and contains estimates and assumptions which might ultimately prove to be incorrect, and contains projections which may be materially different from actual future experiences. There are uncertainties associated with any projections and estimates, and they should not be considered assurances or guarantees of the amount of Debtors or the amount of Claims in the various classes that might be allowed.

**E. Claims Could Be More Than Projected**

The allowed amount of Claims or Interests in each Class could be significantly more than projected, which in turn, could cause the value of distributions to be reduced substantially.

**F. Uncertainty of Recovery from Investors' Direct Claims**

Certain effects of an Investor's election to release its direct claims or retain its direct claims will not be known at the time such election has to be made by the Investor. The litigation by the Non-Releasing Investors may result in significant litigation proceeds to which Releasing Investors will not be entitled. If successful, the Non-Releasing Investors' litigation proceeds may be greater than the settlement proceeds paid to Releasing Investors under the Cantor Chapter 11 Settlement. However, the litigation may not result in any recovery for Non-Releasing Investors, and the litigation will cause greater Cantor Indemnification Claims to be incurred that will reduce total amounts available to Non-Releasing Investors.

**G. The Debtors May Not Be Able to Honor Redemption Requests or May Only Be Able to Satisfy Redemptions in Amounts Less than Anticipated by Investors**

Many of the assets held by the Debtors are illiquid and no regular trading markets may exist for some or all of these assets. As a result, in order to satisfy redemption requests, the Investment Manager must determine what assets to liquidate and the process by which to attempt to obtain reasonable market prices for such assets. The sale of certain assets may prove impossible or impractical at any given time due to factors beyond the control of the Investment Manager. Further, even if the Investment Manager can successfully sell such assets, the prices that can be obtained for such assets may be less than the currently reflected Net Asset Value, or, what the Investment Manager believes to be the reasonable fair market value. The Investment Manager may also pursue other resolutions of certain assets that may include restructuring or other outcomes that may provide greater flexibility and alternatives to Investors. Any restructuring may be subject to numerous contingencies and the resolution pursued by the

Investment Manager may make determinations that result in less liquidity than if the Investment Manager sought solely to liquidate the portfolio of assets. As a result, the Debtors may have inadequate cash available from which to fund redemptions, or, the proceeds from asset sales may be less than the carrying value of such assets which, in turn, may limit the ability of the Debtors to honor redemption requests or to make redemptions at all, or, may result in reduced recoveries to Investors.

#### **H. Projections**

While the Debtors believe that their projections are reasonable, there can be no assurance that they will be realized, resulting in recoveries that could be significantly less than projected.

#### **I. No Legal or Tax Advice is Provided to You by this Disclosure Statement**

The contents of this Disclosure Statement should not be construed as legal, business or tax advice. As a result, the tax consequences to a particular Investor may be other than as described in this Disclosure Statement and could affect the value of an Investor's investment in the Debtors. Each Holder of a Claim or Interest should consult his, her or its own legal counsel and accountant as to legal, tax and other matters concerning his, her, or its Claim or Interest. This Disclosure Statement is not legal advice to you. This Disclosure Statement may not be relied upon for any purpose other than to determine how to vote on the Plan or object to confirmation of the Plan.

#### **J. No Admissions Made**

Nothing contained herein shall constitute an admission of any fact or liability by any party (including, without limitation, the Debtors or Cantor) or to be deemed evidence of the tax or other legal effects of the Plan on the Debtors or on Holders of Claims or Interests.

#### **K. No Waiver of Rights Except as Expressly Set Forth in the Plan**

A vote for or against the Plan does not constitute a waiver or release of any Claims or rights of the Debtors (or any party in interest, as the case may be) to object to any person's Claim or Interest, or recover any preferential, fraudulent or other voidable transfer or estate assets, regardless of whether any Claims of the Debtors or their respective estates are specifically or generally identified herein.

#### **L. Plan May Not be Accepted or Confirmed**

The Debtors may choose not to pursue Confirmation of the Plan if the Plan is not accepted by a sufficient percentage of the Investors in the Debtors. Additionally, there can be no guarantee that the Bankruptcy Court will ultimately confirm the Plan even if it is accepted by the requisite majorities of Investors.

**M. Failure to Obtain Confirmation of the Plan May Result in Liquidation or Alternative Plan on Less Favorable Terms**

Although the Debtors believe that the Plan will satisfy all requirements for confirmation under the Bankruptcy Code if it is supported by the Voting Classes, there can be no assurance that the Bankruptcy Court will reach the same conclusion. Moreover, there can be no assurance that modifications to the Plan will not be required for confirmation or that such modifications would not be sufficiently material as to necessitate the resolicitation of votes on the Plan.

If the Plan is not confirmed, there can be no assurance that the Bankruptcy Cases would continue under Chapter 11 of the Bankruptcy Code rather than be converted into cases under Chapter 7 of the Bankruptcy Code and liquidated or that any alternative plan or plans of reorganization would be on terms as favorable to the holders of Claims against, and Interests in, any of the Debtors as the terms of the Plan.

**N. Failure of Occurrence of the Effective Date May Result in Liquidation or Alternative Plan on Less Favorable Terms**

Although the Debtors believe that the Effective Date may occur shortly after the Confirmation Date, there can be no assurance as to such timing. The occurrence of the Effective Date is also subject to certain conditions precedent as described in Section 13.1 of the Plan. Failure to meet any of those conditions could result in the Plan not being consummated.

If the Confirmation Order is vacated, (a) the Plan shall be null and void in all respects; (b) any settlement of Claims or Interests provided for in the Plan shall be null and void without further order of the Bankruptcy Court; and (c) the time within which the Debtors may assume and assign or reject all executory contracts shall be extended for a period of one hundred twenty (120) days after the date the Confirmation Order is vacated.

If the Effective Date of the Plan does not occur, there can be no assurance that the Bankruptcy Cases will continue rather than be converted into liquidating cases under Chapter 7 of the Bankruptcy Code or that any alternative plan or plans of reorganization would be on terms as favorable to the holders of Claims against, and Interests in, any of the Debtors as the terms of the Plan.

## **XVI. BINDING EFFECT OF CONFIRMATION**

**A. Binding Effect of Confirmation**

Confirmation will legally bind the Debtors, all Creditors, Investors and other parties in interest to the provisions of the Plan, whether or not the Claim or Interest is impaired under the Plan, and whether or not such Creditor or Investor has accepted the Plan.

**B. Vesting of Assets Free and Clear of Liens, Claims and Interests**

Pursuant to section 1141(b) of the Bankruptcy Code, all property of the respective estate of each Debtor, together with any property of each Debtor that is not property of its estate



and that is not specifically disposed of pursuant to the Plan or separate Order of the Bankruptcy Court, will revert in the applicable Reorganized Debtor on the Effective Date. Thereafter, the Reorganized Funds may operate their businesses and may use, acquire and dispose of property free of any restrictions of the Bankruptcy Code, the Bankruptcy Rules and the Bankruptcy Court. As of the Effective Date, all property of each Reorganized Debtor will be free and clear of all liens, claims, encumbrances and any other interests except as specifically provided pursuant to the Plan, this Disclosure Statement or the Confirmation Order.

### **C. Good Faith**

Confirmation of the Plan shall constitute a finding that the Plan has been proposed in good faith and in compliance with applicable provisions of the Bankruptcy Code.

### **D. Discharge of Claims**

The rights afforded in the Plan and the treatment of all Claims and Interests in the Plan shall be in exchange for and in complete satisfaction, discharge and release of Claims and Interests of any nature whatsoever, including any interest accrued on Claims from and after the Petition Date, against any Debtor or any of its respective assets or properties, except as set forth in the Plan. Except as set forth in the Plan, on the Effective Date, all such Claims against, and Interests in, any Debtor shall be satisfied, discharged and released in full and all Persons and Entities shall be precluded from asserting against any Reorganized Funds, its successor or its assets or properties any other or further Claims against, and Interests in, the Debtors based upon any act, omission, transaction or other activity of any kind or nature that occurred prior to the Confirmation Date.

### **E. Judicial Determination of Discharge**

Except as set forth in the Plan, all Holders of Claims and Interests will be permanently enjoined, from and after the Effective Date, from (a) commencing or continuing in any manner any action or other proceeding of any kind on any such Claim or Interest against the Debtors, their estates, or the Reorganized Funds; (b) the enforcement, attachment, collection or recovery by any manner or means of any judgment, award, decree or order against the Debtors, their estates, or the Reorganized Funds; and (c) creating, perfecting, or enforcing any encumbrance of any kind against the property or interests in property of the Debtors, their estates, or the Reorganized Funds. The Confirmation Order shall be a judicial determination of discharge of all Claims against, and Interests in, the Debtors pursuant to sections 524 and 1141 of the Bankruptcy Code, and shall void any judgment obtained or entered against Debtors at any time, to the extent the judgment relates to a discharged Claim or Interest.

## **XVII. CERTAIN U.S. FEDERAL INCOME TAX CONSEQUENCES OF THE PLAN**

**IRS Circular 230 disclosure:** to ensure compliance with requirements imposed by the IRS, we inform you that any U.S. federal tax advice contained in this document (including any attachment) is not intended or written to be used, and cannot be used, for the purpose of (i) avoiding penalties under the Internal Revenue Code or (ii) promoting, marketing or

**recommending to another party any transaction or matter that is contained in this document.**

The following discussion summarizes certain anticipated federal income tax consequences of the implementation of the Plan which is for general information purposes only and does not purport to be a complete analysis or listing of all potential tax consequences. Moreover, such summary should not be relied upon for purposes of determining the specific tax consequences of the Plan to the Debtors or to any particular Holder of a Claim or Interest. This summary assumes that the various indebtedness and other arrangements to which a Debtor is a party will be respected for U.S. federal income tax purposes in accordance with their form.

The following summary is based on the Internal Revenue Code of 1986, as amended (the “Tax Code”), Treasury Regulations promulgated and proposed thereunder, judicial decisions, and published administrative rules and pronouncements of the IRS in effect on the date hereof. Legislative, judicial or administrative changes or interpretations enacted or promulgated hereafter could alter or modify the analysis and conclusions set forth below. Changes in, or new interpretations of, such rules may be effective retroactively and could significantly affect the federal income tax consequences described below.

The federal income tax consequences of the Plan are complex and are subject to uncertainties. The Debtors have not requested a ruling from the Internal Revenue Service (“IRS”) or an opinion of counsel with respect to any of the tax aspects of the Plan. Thus, no assurance can be given as to the interpretation that the IRS will adopt. In addition, this summary does not address foreign, state, or local tax consequences of the Plan, and it does not purport to address the federal income tax consequences of the Plan to special classes of taxpayers (such as foreign taxpayers, broker-dealers, banks, mutual funds, insurance companies, financial institutions, small business investment companies, regulated investment companies, and tax-exempt organizations). A substantial amount of time may elapse between the date of this Disclosure Statement and the receipt of a final distribution under the Plan. Events occurring after the date of this Disclosure Statement, such as additional tax legislation, court decisions, or administrative changes, could affect the U.S. federal income tax consequences of the Plan and the transactions contemplated thereunder.

**THE FOLLOWING SUMMARY OF CERTAIN FEDERAL INCOME TAX CONSEQUENCES IS FOR INFORMATIONAL PURPOSES ONLY AND IS NOT A SUBSTITUTE FOR CAREFUL TAX PLANNING AND ADVICE BASED UPON THE INDIVIDUAL CIRCUMSTANCES OF A HOLDER OF A CLAIM OR INTEREST. THE TAX CONSEQUENCES TO HOLDERS OF CLAIMS AND INTERESTS MAY VARY BASED UPON THE INDIVIDUAL CIRCUMSTANCES OF EACH HOLDER. MOREOVER, THE TAX CONSEQUENCES OF CERTAIN ASPECTS OF THE PLAN ARE UNCERTAIN DUE TO THE LACK OF APPLICABLE LEGAL PRECEDENT AND THE POSSIBILITY OF CHANGES IN THE APPLICABLE TAX LAW. THERE CAN BE NO ASSURANCE THAT THE IRS WILL NOT CHALLENGE ANY OF THE TAX CONSEQUENCES DESCRIBED HEREIN, OR THAT SUCH A CHALLENGE, IF ASSERTED, WOULD NOT BE SUSTAINED. ACCORDINGLY, EACH HOLDER OF A CLAIM OR INTEREST IS URGED TO CONSULT ITS OWN TAX ADVISOR FOR THE**

## **FEDERAL, STATE, LOCAL, AND OTHER TAX CONSEQUENCES APPLICABLE UNDER THE PLAN.**

### **A. Consequences to the Debtors**

#### **1. Cancellation of Indebtedness Income Generally**

Pursuant to the Tax Code and subject to certain exceptions, a taxpayer generally must recognize income from the cancellation of debt ("COD Income") to the extent that such taxpayer's indebtedness is discharged for an amount less than the adjusted issue price of the indebtedness determined in the manner described below. Generally, the amount of COD Income, subject to certain statutory and judicial exceptions, is the excess of (i) the adjusted issue price of the discharged indebtedness less (ii) the sum of the fair market value (determined at the date of the exchange) of the consideration, if any, given in exchange for such discharged indebtedness including cash, property and the issue price of any new indebtedness. If a new debt instrument is issued to the creditor, then the issue price of such debt instrument is determined under either Section 1273 or Section 1274 of the Tax Code. Generally, these provisions treat the fair market value of a publicly-traded debt instrument as its issue price and the stated principal amount of any other debt instrument as its issue price if its terms provide for adequate stated interest. A non publicly-traded debt instrument has adequate stated interest if the interest exceeds the applicable federal rate established by the IRS.

#### **2. Exclusion of COD Income and Reduction of Tax Attributes in General**

In general, Section 108 of the Tax Code provides that a taxpayer that is a debtor in a bankruptcy case may exclude COD income from its gross income, but also requires the taxpayer to reduce certain tax attributes (including net operating losses ("NOLs") and carryovers, general business credits, alternative minimum tax credits, capital losses, the tax basis of its assets, passive activity losses, and credits and foreign tax credits) as of the first day of the tax year following the effective date, to the extent the debtor has such attributes to reduce, by the amount of COD Income that otherwise would have been recognized. Income arising from the cancellation of debt of an entity that is taxed as a partnership or a disregarded entity is not excludable at the partnership level. Instead, the COD Income is treated as an income item allocated separately among the partners or passed directly through to the owner of the entity. Tax attributes are reduced only after the debtor's tax liability for the tax year of the effective date is determined (with, in each case, current-year NOLs being reduced before any NOL carryforwards from prior years). A debtor's tax basis in its assets will not be reduced below the amount of its liabilities (as defined) outstanding immediately after the COD income is recognized. Any COD income remaining after exhausting available tax attributes is simply excluded from income without any further reduction or adjustment.

Section 108(e)(2) of the Tax Code provides that a taxpayer will not recognize COD Income to the extent that the taxpayer's satisfaction of the debt would have given rise to a deduction for U.S. federal income tax purposes. Unlike Section 108(b) of the Tax Code, Section 108(e)(2) does not require a reduction in the taxpayer's tax attributes as a result of the non-recognition of COD Income. Thus, where Section 108(e)(2) of the Tax Code applies, a taxpayer may discharge indebtedness without recognizing income and without reducing its tax attributes.

### **3. COD Income – Effect of the Plan**

The Debtors have been taxed either as partnerships or as disregarded entities and the net income and losses of the Debtors have been allocated to the Investors. As a result, if the Debtors are deemed to have COD Income, such income would be allocated among the Investors and those Investors may be required to include such COD Income in their gross income. To the extent that the Debtors have previously incurred NOLs or other losses or credits that have been passed through to the Investors for federal income tax purposes, the Investors may be able to carry forward such tax attributes to future tax years. Although it is not clear whether the Investors would be able to exclude COD Income in this case, if there is COD Income that the Investors are able to exclude from income, certain tax attributes of the Investors may be subject to elimination or reduction as of the first day of the tax year following the Effective Date as more fully explained above. The Debtors do not believe that there will be COD Income allocated among the Investors, and as a result, the Debtors do not believe that COD Income will affect the amount of tax attributes available to the Investors to offset income in years after the year of the Effective Date.

### **4. Accrued Interest**

If the Debtors issue consideration to the Holders of Claims pursuant to the Plan that is attributable to accrued but unpaid interest, the applicable Debtor should be entitled to interest deductions for the amount of such accrued interest, to the extent the applicable Debtor has not already deducted such amount. The Debtors should not have COD Income from the discharge of any accrued but unpaid interest pursuant to the Plan to the extent that the payment of such interest would have given rise to a deduction pursuant to Section 108(e)(2) of the Tax Code, as discussed above.

## **B. Consequences to Holders of Claims or Interests**

Unless otherwise provided in the Tax Code, the exchange of an asset for cash or other property constitutes a taxable transaction. A Holder of a Claim or Interest would generally recognize gain or loss in an amount equal to the difference between (a) the “amount realized” by the Holder of such Claim or Interest in exchange for its Claim or Interest, and (b) such Holder’s adjusted tax basis in the Claim or Interest. The “amount realized” is equal to the sum of cash and the aggregate fair market value of any other consideration received under the Plan.

To the extent applicable, the character of any gain or loss (e.g., ordinary income or loss or long-term or short-term capital gain or loss) will be determined by a number of factors, including the tax status of the Holder, whether the Claim or Interest constitutes a capital asset in the hands of the Holder, whether the Claim or Interest has been held for more than twelve (12) months, the purpose and circumstances of the acquisition of such Claim or Interest, and whether and to what extent the Holder has previously claimed a deduction for the worthlessness of all or a portion of the Claim or Interest. Generally, if the claim or interest is a capital asset to the Holder, any gain or loss realized will generally be characterized as capital gain or loss, and will constitute long-term capital gain or loss if the Holder has held such Claim or Interest for more than a year. A Holder who purchased its Claim from a prior Holder at a market discount may be subject to the market discount rules of the Tax Code.

**C. Importance of Obtaining Your Own Professional Tax Assistance**

THE FOREGOING DISCUSSION IS INTENDED ONLY AS A SUMMARY OF CERTAIN U.S. FEDERAL INCOME TAX CONSEQUENCES OF THE PLAN AND IS NOT A SUBSTITUTE FOR CAREFUL TAX PLANNING WITH A TAX PROFESSIONAL. THE ABOVE DISCUSSION IS FOR INFORMATION PURPOSES ONLY AND IS NOT TAX ADVICE. THE TAX CONSEQUENCES ASSOCIATED WITH THE PLAN ARE IN MANY CASES UNCERTAIN AND MAY VARY DEPENDING ON HOLDER'S INDIVIDUAL CIRCUMSTANCES. ACCORDINGLY, HOLDERS ARE URGED TO CONSULT THEIR TAX ADVISORS ABOUT THE U.S. FEDERAL, STATE, LOCAL AND NON-U.S. INCOME AND OTHER TAX CONSEQUENCES OF THE PLAN.

**XVIII. ALTERNATIVES TO THE PLAN**

If the Plan is not confirmed and consummated, the alternatives to the Plan include (i) liquidation of the Debtors under Chapter 7 of the Bankruptcy Code and (ii) an alternative plan of reorganization or a plan of liquidation.

**A. Liquidation Under Chapter 7**

If no plan is confirmed, the Bankruptcy Cases may be converted to cases under Chapter 7 of the Bankruptcy Code, pursuant to which a trustee would be appointed or elected to liquidate the Debtors' assets for distribution in accordance with the priorities established by Chapter 7 of the Bankruptcy Code. A discussion of the effects that a Chapter 7 liquidation would have on the recoveries of holders of Claims and Interests is set forth in the Liquidation Analysis attached as Exhibit C to this Disclosure Statement.

**B. Alternative Plan of Reorganization or Plan of Liquidation**

If the Plan is not confirmed, the Bankruptcy Court could confirm a different plan. The Plan is, in essence, a reorganization of the Debtors' Assets and a different plan might involve either a reorganization of the Debtors' Assets, an orderly liquidation of the Debtors' Assets, or a combination of the two alternatives. The period in which the Debtors have the exclusive right to propose a Plan has expired. Accordingly, another party in interest could file a competing plan.

**XIX. CONCLUSION**

The Debtors urge that Creditors and Investors carefully review both this Disclosure Statement and the Plan before voting to accept or reject the Plan.

Dated: June 6, 2013

<p>CA Core Fixed Income Fund, LLC, Sand Spring Capital III, LLC, CA High Yield Fund, LLC, Sand Spring Capital III Master Fund, LLC, and CA Strategic Equity Fund, LLC</p> <p><u>/s/Hobart G. Truesdell</u>  Hobart G. Truesdell  Independent Agent  Walker, Truesdell, Roth &amp; Associates, Inc.</p>	<p>CA Strategic Equity Offshore Fund, Ltd., CA Core Fixed Income Offshore Fund, Ltd. a/k/a CA Core Fixed Income Fund, Ltd., CA High Yield Offshore Fund, Ltd. a/k/a CA High Yield Fund, Ltd., and Sand Spring Capital III, Ltd.</p> <p><u>/s/ Hobart G. Truesdell</u>  Hobart G. Truesdell  Board Member</p> <p><u>/s/ Roisin Cater</u>  Roisin Cater  Board Member</p>
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