UNITED STATES BANKRUPTCY COURT
DISTRICT OF CONNECTICUT
BRIDGEPORT DIVISION

IN RE:	§	**CHAPTER 11**
	§	
SAGECREST II LLC	§	**Case No. 08-50754 (AHWS)**
SAGECREST FINANCE LLC	§	**Case No. 08-50755 (AHWS)**
SAGECREST HOLDINGS LIMITED	§	**Case No. 08-50763 (AHWS)**
SAGECREST DIXON INC.,	§	**Case No. 08-50844 (AHWS)**
	§	
Debtors.	§	**Jointly Administered**

DISCLOSURE STATEMENT WITH RESPECT TO JOINT PLAN OF LIQUIDATION UNDER CHAPTER 11 OF THE BANKRUPTCY CODE PROPOSED BY SAGECREST II, LLC, SAGECREST FINANCE LLC, SAGECREST HOLDINGS LIMITED, SAGECREST DIXON INC. AND THE OFFICIAL COMMITTEE OF EQUITY SECURITY HOLDERS

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Dated: August 9, 2010

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I. INTRODUCTION

SageCrest II, LLC, SageCrest Finance, LLC, SageCrest Holdings, Limited, SageCrest Dixon Inc., and the Official Committee of Equity Security Holders of SageCrest II, LLC and SageCrest Finance, LLC (collectively, the "Proponents") submit this Disclosure Statement with respect to the Joint Plan of Liquidation Under Chapter 11 of the Bankruptcy Code Proposed by SageCrest II, LLC, SageCrest Finance LLC, SageCrest Holdings Limited, SageCrest Dixon, Inc. and the Official Committee of Equity Security Holders (the "Plan"). This Disclosure Statement is to be used in connection with the solicitation of votes on the Plan. A copy of the Plan is attached hereto as **Exhibit 1**. Unless otherwise defined herein, capitalized terms used herein have the meanings ascribed thereto in the Plan (see Article I of the Plan entitled "Definitions, Construction, and Interpretation").

For a summary of the proposed treatment of your Claim or Interest under the Plan, please see the charts on pages 9-20 below.

II. NOTICE TO HOLDERS OF CLAIMS AND INTERESTS

The purpose of this Disclosure Statement is to enable Holders of Claims against and Interests in the Debtors whose Claims and Interests are impaired under the Plan and are entitled to vote on the Plan to make an informed decision in exercising their right to vote to accept or reject the Plan.

THIS DISCLOSURE STATEMENT CONTAINS INFORMATION THAT MAY BEAR UPON YOUR DECISION TO ACCEPT OR REJECT THE PLAN. PLEASE READ THIS DOCUMENT CAREFULLY.

On _____, 2010, the Bankruptcy Court conducted a hearing on the adequacy of the Disclosure Statement and subsequently entered an order pursuant to section 1125 of the Bankruptcy Code (the "Disclosure Statement Order") approving this Disclosure Statement as containing information of a kind, and in sufficient detail, adequate to enable a hypothetical, reasonable investor, typical of the solicited holders of Claims against and Interests in the Debtors, to make an informed judgment with respect to the acceptance or rejection of the Plan. A copy of the Disclosure Statement Order is included in the materials accompanying this Disclosure Statement. APPROVAL OF THIS DISCLOSURE STATEMENT BY THE BANKRUPTCY COURT DOES NOT CONSTITUTE A DETERMINATION BY THE BANKRUPTCY COURT REGARDING THE FAIRNESS OR MERITS OF THE PLAN.

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

Each Holder of a Claim or Interest entitled to vote to accept or reject the Plan should read this Disclosure Statement and the Plan in their entirety before voting. No solicitation of votes to accept or reject the Plan may be made except pursuant to this Disclosure Statement and section 1125 of the Bankruptcy Code. Except for the Proponents and their professionals, no person has

been authorized to use or promulgate any information concerning the Debtors, their business, or the Plan, other than the information contained herein, in connection with the solicitation of votes to accept or reject the Plan. No Holder of a Claim or Interest entitled to vote on the Plan should rely upon any information relating to the Debtors, their business, or the Plan other than that contained in the Disclosure Statement and the exhibits hereto. Unless otherwise indicated, the sources of all information set forth herein are the Proponents and their professionals.

After carefully reviewing this Disclosure Statement, including the attached exhibits, please indicate your acceptance or rejection of the Plan by voting in favor of or against the Plan on the enclosed ballot and returning the same, to the address set forth on the ballot, in the enclosed return envelope so that it will be received by the Balloting Agent, Neligan Foley LLP, 325 N. St. Paul, Suite 3600, Dallas, Texas 75201, Attention: Kathy Gradick, no later than 5:00 p.m. Eastern Time on _____, 2010.

If you do not vote to accept the Plan, or if you are not entitled to vote on the Plan, you may be bound by the Plan if it is accepted by the requisite Holders of Claims or Interests. See "Solicitation of Votes; Voting Procedures," "Vote Required for Class Acceptance," and "Cramdown" in Article VIII ("Confirmation of the Plan") below.

TO BE SURE YOUR BALLOT IS COUNTED, YOUR BALLOT MUST BE RECEIVED NO LATER THAN 5:00 P.M. EASTERN TIME ON _____, 2010. For detailed voting instructions and the name, address, and phone number of the person you may contact if you have questions regarding the voting procedures, see "Ballots and Voting Deadline" in Section VIII.A.1 below.

Pursuant to section 1128 of the Bankruptcy Code, the Bankruptcy Court has scheduled a hearing to consider confirmation of the Plan (the "Confirmation Hearing") on **_____, 2010, at _____ __.m. Eastern Time**, in the United States Bankruptcy Court for the District of Connecticut, Bridgeport Division. **The Bankruptcy Court has directed that objections, if any, to confirmation of the Plan be filed and served on or before _____, 2010**, in the manner described in Section VIII.B below under the caption, "Confirmation Hearing."

THE PROPONENTS SUPPORT CONFIRMATION OF THE PLAN AND URGE ALL HOLDERS OF IMPAIRED CLAIMS AND INTERESTS TO ACCEPT THE PLAN.

III. EXPLANATION OF CHAPTER 11

A. Overview of Chapter 11

Chapter 11 is the principal reorganization chapter of the Bankruptcy Code. Pursuant to chapter 11, the debtor in possession attempts to reorganize its business for the benefit of the debtor, its creditors, and other parties in interest.

The commencement of a chapter 11 case creates an estate comprising all the legal and equitable interests of the debtor in property as of the date the bankruptcy petition is filed. Sections 1101, 1107, and 1108 of the Bankruptcy Code provide that a debtor may continue to operate its business and remain in possession of its property as a "debtor in possession" unless

the bankruptcy court orders the appointment of a trustee. In the present chapter 11 cases, the Debtors have remained in possession of their property and continued to operate their businesses as debtors in possession.

The filing of a chapter 11 petition also triggers the automatic stay provisions of the Bankruptcy Code. Section 362 of the Bankruptcy Code provides, *inter alia*, for an automatic stay of all attempts to collect prepetition claims from the debtor or otherwise interfere with its property or business. Except as otherwise ordered by the bankruptcy court, the automatic stay remains in full force and effect until the effective date of a confirmed plan of reorganization.

The formulation of a plan of reorganization is the principal purpose of a chapter 11 case. The plan sets forth the means for satisfying the claims against and interests in the debtor. Generally, unless a trustee is appointed, only the debtor may file a plan during the first 120 days of a chapter 11 case (the "Exclusive Period"). However, section 1121(d) of the Bankruptcy Code permits the court to extend or reduce the Exclusive Period upon a showing of "cause." After the Exclusive Period has expired, a creditor or any other party in interest may file a plan, unless the debtor has filed a plan within the Exclusive Period, in which case, the debtor is generally given 60 additional days (the "Solicitation Period") during which it may solicit acceptances of its plan. The Solicitation Period may also be extended or reduced by the court upon a showing of "cause." In the Debtors' Bankruptcy Cases, the Court entered several orders that extended the Debtors' Exclusive Periods and Solicitation Periods for the longest periods permissible under section 1121 of the Bankruptcy Code. For further discussion about the Bankruptcy Court's extension of the Debtors' Exclusive Periods, see Section VI.D.18 below.

B. Plan of Reorganization

Although referred to as a plan of reorganization, a plan may provide anything from a complex restructuring of a debtor's business and its related obligations to a simple liquidation of the debtor's estates. After a plan of reorganization has been filed, certain holders of claims against or interests in a debtor are permitted to vote to accept or reject the plan. Before soliciting acceptances of the proposed plan, section 1125 of the Bankruptcy Code requires the debtor to prepare a disclosure statement containing information of a kind, and in sufficient detail, to enable a hypothetical investor to make an informed judgment about the plan. This Disclosure Statement is presented to Holders of Claims against and Interests in the Debtors to satisfy the requirements of section 1125 of the Bankruptcy Code.

If all classes of claims and interests accept a plan of reorganization, the bankruptcy court may nonetheless deny confirmation of the plan unless the court independently determines that the requirements of section 1129 of the Bankruptcy Code have been satisfied. Section 1129 sets forth the requirements for confirmation of a plan and, among other things, requires that a plan meet the "best interests" test and be "feasible." The "best interests" test requires that the value of the consideration to be distributed to the holders of claims and interests under a plan may not be less than those parties would receive if the debtor were liquidated in a hypothetical liquidation under chapter 7 of the Bankruptcy Code. Under the "feasibility" requirement, the court must find that there is a reasonable probability that the debtor will be able to meet its obligations under its plan without the need for further financial reorganization.

The Proponents believe that the Plan satisfies all applicable requirements of section 1129(a) of the Bankruptcy Code, including, in particular, the "best interests of creditors" test and the "feasibility" requirement. The Proponents support confirmation of the Plan and urge all holders of impaired Claims and Interests to vote to accept the Plan.

Chapter 11 does not require that each holder of a claim against or interest in a debtor vote in favor of a plan of reorganization in order for the bankruptcy court to confirm the plan. At a minimum, however, the plan must be accepted by a majority in number and two-thirds in amount of those claims actually voting in at least one class of impaired claims under the plan. The Bankruptcy Code defines acceptance of the plan by a class of interests (equity securities) as acceptance by holders of two-thirds of the number of shares actually voting. In the present case, only the holders of impaired Claims or Interests who actually vote will be counted as either accepting or rejecting the Plan.

Classes of claims or interests that are not "impaired" under a plan of reorganization are conclusively presumed to have accepted the plan and thus are not entitled to vote. Accordingly, acceptances of a plan will generally be solicited only from those persons who hold claims or interests in an impaired class. A class is "impaired" if the legal, equitable, or contractual rights attaching to the claims or equity interests of that class are modified in any way under the plan. Modification for purposes of determining impairment, however, does not include curing defaults and reinstating maturity or payment in full in cash. Claims against the Debtors in Classes 3, 4, 5D, 6, 7, 8 and 9, and Interests in SC Holdings (Class 10B), SC II (Class 10C) and SC Dixon (Class 10D) are impaired under the Plan and the Holders of those Claims and Interests are thus entitled to vote on the Plan. Claims against the Debtors in Classes 1, 2, 5A, 5B and 5C, and Interests in SC Finance (Class 10A) are not impaired under the Plan, and the Holders of those Claims and Interests are thus not entitled to vote on the Plan. Administrative Expense Claims and Priority Tax Claims are unclassified; their treatment is prescribed by the Bankruptcy Code. The Holders of such Claims are not entitled to vote on the Plan.

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

Under section 1129(b) of the Bankruptcy Code, a plan is "fair and equitable" as to a class of rejecting claims if, among other things, the plan provides: (a) with respect to secured claims, that each such holder will, *inter alia*, receive or retain on account of its claim property that has a value, as of the effective date of the plan, equal to the allowed amount of such claim, or realize the indubitable equivalent of its secured claim; and (b) with respect to unsecured claims and equity interests, that the holder of any claim or equity interest that is junior to the claims or equity interests of such class will not receive or retain on account of such junior claim or equity interest any property at all unless all senior classes are paid in full.

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

The Proponents believe that the Plan has been structured so that it will satisfy these requirements as to any rejecting Class of Claims or Interests, and can therefore be confirmed, if necessary, even if not accepted by all voting Classes of Claims or Interests. The Proponents reserve the right to request confirmation of the Plan under the "cramdown" provisions of section 1129 of the Bankruptcy Code.

IV. SUMMARY OF THE PLAN

A. General Overview

The Proponents believe, and will demonstrate at the Confirmation Hearing, that confirmation and consummation of the Plan are in the best interests of Holders of Claims against and Interests in the Debtors. Generally, the Plan provides that SC Management, a new entity created under the Plan, will liquidate the Debtors' assets in an orderly fashion over approximately four (4) years and distribute the net proceeds to Holders of Allowed Claims and Allowed Interests in the priority prescribed by the Bankruptcy Code and according to the specific provisions of the Plan.

B. Classification and Treatment of Claims and Interests

The following is a summary of the classification and treatment of Claims and Interests under the Plan. Such classification is without prejudice to a party in interest asserting that it is entitled to a different classification or treatment under the Plan or applicable law. The Administrative Expense Claims and Priority Tax Claims shown below constitute the Debtors' estimate of the amount of such Claims, taking into account amounts, if any, paid or projected to be paid before the Effective Date. The total amount of Claims and Interests shown below reflects the Debtors' current estimate of the likely amount of such Claims and Interests, subject to the resolution by settlement or litigation of Claims and/or Interests that the Debtors believe are subject to disallowance or reduction. Reference should be made to the entire Disclosure Statement and to the Plan for a complete description of the classification and treatment of Claims and Interests.

THIS IS ONLY A SUMMARY OF CERTAIN PROVISIONS OF THE PLAN. THE PLAN INCLUDES OTHER PROVISIONS THAT MAY AFFECT YOUR RIGHTS. YOU ARE URGED TO READ THE PLAN IN ITS ENTIRETY BEFORE VOTING ON THE PLAN.

1. Unclassified Claims Against the Debtors

In accordance with section 1123(a)(1) of the Bankruptcy Code, unclassified Claims against the Debtors consist of Administrative Claims and Priority Tax Claims. Based on their books and records and their projections for future expenses, the Debtors presently estimate the amounts of such Claims as follows:

SageCrest II LLC

Administrative Expense Claims	Undetermined; estimate to be provided before hearing on Disclosure Statement
Priority Tax Claims	Approximately $639.43

SageCrest Finance LLC

Administrative Expense Claims	Undetermined; estimate to be provided before hearing on Disclosure Statement
Priority Tax Claims	Zero

SageCrest Holdings Limited

Administrative Expense Claims	Undetermined; estimate to be provided before hearing on Disclosure Statement
Priority Tax Claims	Zero

SageCrest Dixon, Inc.

Administrative Expense Claims	Undetermined; estimate to be provided before hearing on Disclosure Statement
Priority Tax Claims	Approximately $3,048.42

a. Allowance and Payment of Administrative Claims

The Holder of any Administrative Claim that is incurred, accrued or in existence prior to the Effective Date, other than (a) a Fee Claim, (b) an Allowed Administrative Claim, or (c) a liability in the Ordinary Course of Business must file with the Bankruptcy Court and serve on all parties required to receive such notice a request for the allowance of such Administrative Claim on or before thirty (30) days after the Effective Date. Such request must include at a minimum (a) the name of the Holder of the Claim, (b) the amount of the Claim, and (c) the basis of the Claim. Failure to timely and properly file and serve the request required under Section 2.01(a) of the Plan may result in the Administrative Claim being forever barred and discharged. Objections to such requests must be filed and served pursuant to the Bankruptcy Rules on the requesting

party and the Reorganized Debtors within thirty (30) days after the filing of the applicable request for payment of an Administrative Claim.

Any Person who holds or asserts an Administrative Claim that is a Fee Claim shall be required to file with the Bankruptcy Court and serve on all parties required to receive such notice a Fee Application within thirty (30) days after the Effective Date. The Russell Funds shall have standing to assert the Russell Funds Fee Claim as an Administrative Claim allocated to SC Holdings and shall be permitted to file a Fee Application in accordance with Section 2.01(b) of the Plan. The Russell Funds are, and shall be deemed, qualified applicants under Section 503(b)(3)(D) of the Bankruptcy Code with respect to any Fee Application for payment of the Russell Funds Fee Claim as an Administrative Claim allocated to SC Holdings. Failure to timely and properly file and serve a Fee Application as required under this Section may result in the Fee Claim being forever barred and discharged. No Fee Claim will be deemed Allowed until an order allowing the Fee Claim becomes a Final Order. Objections to Fee Applications must be filed and served pursuant to the Bankruptcy Rules on the Reorganized Debtors and the Person to whose application the objections are filed within thirty (30) days after the filing of the Fee Application subject to objection. No hearing may be held on a Fee Application until the foregoing objection period has expired.

An Administrative Claim with respect to which a request for payment is required and has been properly filed pursuant to Section 2.01(a) of the Plan shall become an Allowed Administrative Claim if no timely objection is filed. If a timely objection is filed, the Administrative Claim shall become an Allowed Administrative Claim only to the extent Allowed by a Final Order. An Administrative Claim that is a Fee Claim, and with respect to which a Fee Application has been properly filed and served pursuant to Section 2.01(b) of the Plan, shall become an Allowed Administrative Claim only to the extent Allowed by a Final Order.

Except to the extent that a Holder of an Allowed Administrative Claim has been paid prior to the Effective Date, or agrees to a different treatment, each Holder of an Allowed Administrative Claim (other than Allowed Administrative Claims incurred in the Ordinary Course of Business, which are paid pursuant to Section 2.01(e) of the Plan) shall receive, in full satisfaction, release and discharge of and exchange for such Administrative Claim, and after the application of any retainer or deposit held by such Holder, Cash from SC Management equal to the Allowed amount of such Administrative Claim within ten (10) Business Days after the Allowance Date with respect to such Allowed Administrative Claim, provided, however, that in the event SC Management has insufficient Cash to pay all Allowed Fee Claims (including an Allowed Russell Funds Fee Claim) in full as set forth above, then SC Management and all Holders of Allowed Fee Claims shall agree to alternative treatment for the payment of all Allowed Fee Claims. SC Management shall allocate each Allowed Fee Claim among SC II, SC Finance and SC Holdings according to their respective liability for any Allowed Fee Claim, and any Allowed Russell Funds Fee Claim shall be allocated solely to SC Holdings. SC Management shall carry such allocations on the books and records of SC Management and shall take such allocations and the source of any payment made at any time on an Allowed Fee Claim into account and adjust the amount of any Distributable Cash allocable or payable to SC II or SC Holdings by SC Management pursuant to Section 6.02 of the Plan to ensure that SC II, SC Finance and SC Holdings pay their allocable portions of Allowed Fee Claims.

Holders of Administrative Claims based on liabilities incurred in the Ordinary Course of Business of the Debtors during the Bankruptcy Cases (other than Claims of governmental units for taxes or Claims and/or penalties related to such taxes, or alleged Administrative Claims arising in tort) shall not be required to file any request for payment of such Claims. Administrative Claims incurred in the Ordinary Course of Business of the Debtors will be paid by SC Management pursuant to the terms and conditions of the transaction giving rise to such Administrative Claim, without any further action by the Holders of such Administrative Claim. The Debtors reserve and SC Management shall have the right to object before the Objection Deadline to any Administrative Claim arising, or asserted as arising, in the Ordinary Course of Business, and shall withhold payment of such claim until such time as any objection is resolved pursuant to a settlement or a Final Order.

b. Allowance and Payment of Priority Tax Claims

Except to the extent that an Allowed Priority Tax Claim has been paid or otherwise satisfied prior to the Initial Distribution Date, each Holder of an Allowed Priority Tax Claim, in full satisfaction, release, settlement, and discharge of and exchange for such Claim, shall receive from SC Management (a) deferred Cash payments over a period not exceeding five (5) years after the Petition Date in an aggregate principal amount equal to the Allowed amount of such Priority Tax Claim, plus interest, from the Petition Date through the date such Claim is paid in full, on the unpaid portion thereof at the rate of interest determined under applicable nonbankruptcy law as of the calendar month in which the Confirmation Date occurs, in equal annual installments with the first payment to be due on the later of (i) the Initial Distribution Date or (ii) five (5) Business Days after the date when a Priority Tax Claim becomes an Allowed Priority Tax Claim, and subsequent payments to be due on each anniversary of the Initial Distribution Date, or (b) such other less favorable treatment to which such Holder and the relevant Reorganized Debtor agree in writing. Notwithstanding the foregoing, (a) any Claim or demand for payment of a penalty (other than a penalty of the type specified in Bankruptcy Code section 507(a)(8)(G)) shall be Disallowed pursuant to the Plan and the Holder thereof shall not assess or attempt to collect such penalty from any Debtor, Reorganized Debtor, or SC Management or from any of their Assets, and (b) SC Management shall have the right to pay any Allowed Priority Tax Claim, or any unpaid balance of such Claim, in full, at any time after the Effective Date, without premium or penalty. SC Management shall allocate each Allowed Priority Tax Claim to the specific Debtor against which such Priority Tax Claim is Allowed, and SC Management shall take such allocations into account in determining the amount of any Distributable Cash allocable or payable to SC II or SC Holdings by SC Management pursuant to Section 6.02 of the Plan. No Debtor or Reorganized Debtor shall have any liability or obligation as to any Priority Tax Claim that is Allowed against any other Debtor or Reorganized Debtor.

c. U.S Trustee Fees

SC Management shall timely pay to the United States Trustee on behalf of each Reorganized Debtor all quarterly fees incurred by such Debtor pursuant to 28 U.S.C. § 1930(a)(6) until the Bankruptcy Case of such Debtor is closed. SC Management or each Reorganized Debtor shall serve on the United States Trustee a quarterly financial report for each quarter (or portion thereof) after the Effective Date that such Reorganized Debtor's Bankruptcy Case remains open.

2. Classified Claims and Interests

The following is an estimate of the numbers and amounts of classified Claims and Interests under the Plan:

Nothing herein shall be dispositive of the allowance of any Claims or Interests or constitute a waiver by the Debtors or any other party of the right to object to such Claims or Interests. The Debtors are not stipulating to the validity or amount of any of the Claims or Interests for which estimations are provided herein. The amounts set forth herein are estimates based upon the Schedules and proofs of Claim or Interest filed as of the Bar Date applicable to such proofs of Claim or Interest or, as to Redemption Claims (Class 8) and Interests in SC II (Class 10C), are proposed Allowed amounts based on provisions of the Plan as described in this Disclosure Statement.[1]

Class	Treatment
Class 1 – Non-Tax Priority Claims **SC Finance (Class 1A)** Estimated Amount: zero Estimated Number: zero **SC Holdings (Class 1B)** Estimated Amount: zero Estimated Number: zero **SC II (Class 1C)** Estimated Amount: $257,770 Estimated Number: 1 **SC Dixon (Class 1D)** Estimated Amount: $22,257.75 Estimated Number: 3	Unimpaired On or as soon as practicable after the later of (a) the Initial Distribution Date or (b) the Allowance Date with respect to a Non-Tax Priority Claim, the Holder of such Allowed Non-Tax Priority Claim shall receive from SC Management in full satisfaction, settlement, release and discharge of and in exchange for such Allowed Non-Tax Priority Claim, (y) Cash in an amount equal to the Allowed amount of its Non-Tax Priority Claim, or (z) such other, less favorable treatment to which such Holder and SC Management or the relevant Reorganized Debtor agree in writing. To the extent an Allowed Non-Tax Priority Claim entitled to priority treatment under 11 U.S.C. §§ 507(a)(4) or (5) exceeds the statutory cap applicable to such Claim, such excess amount shall be treated as a Class 6 General Unsecured Claim against the relevant Debtor.
Class 2 – Secured Tax Claims[2] **SC Finance (Class 2A)** Estimated Amount: zero Estimated Number: zero	Unimpaired With respect to any Allowed Secured Tax Claim for tax years prior to 2009, to the extent not already paid or otherwise satisfied, on or as soon as practicable after the later of (a) the Initial Distribution Date or (b) the Allowance Date with respect

[1] In some instances, creditors have filed duplicative proofs of claim against one or more of the Debtors. For purposes of estimating the amount and number of claims herein, and to avoid the overestimation of Claims, the Debtors have treated such duplicative claims in accordance with the Debtors' Schedules rather than in accordance with the duplicative proofs of claim or, in the absence of a scheduled amount, the Debtors have attempted, where reasonably possible, to allocate the duplicative proofs of claim among the appropriate Debtor(s). Further, the estimated amounts herein do not include any amounts related to proofs of claim for which the claimant did not assert a specific amount or stated that its claim amount was "unknown."

[2] Class 2 includes ad valorem tax claims by any taxing authorities.

Class	Treatment
SC Holdings (Class 2B) Estimated Amount: zero Estimated Number: zero **SC II (Class 2C)** Estimated Amount: $70.33 Estimated Number: 1 **SC Dixon (Class 2D)** Estimated Amount: zero Estimated Number: zero	to a Secured Tax Claim, the Holder of such Allowed Secured Tax Claim shall receive from SC Management or Reorganized SC Dixon, as applicable, in full satisfaction, settlement, release and discharge of and in exchange for such Allowed Secured Tax Claim, (x) Cash equal to the value of its Allowed Secured Tax Claim, including interest thereon at the rate provided under applicable non-bankruptcy law pursuant to Bankruptcy Code section 511 from the Petition Date through the date such Claim is paid in full, (y) the Collateral securing the Allowed Secured Tax Claim, or (z) such other, less favorable treatment as may be agreed upon in writing by such Holder and SC Management or Reorganized SC Dixon, as applicable. The Holder of a Secured Tax Claim for ad valorem taxes for any tax year from 2009 and thereafter shall retain all rights and remedies for payment thereof in accordance with applicable non-bankruptcy law. Notwithstanding any other provision of the Plan, each Holder of an Allowed Secured Tax Claim shall retain its Lien in the Collateral that secures its Claim or the proceeds of such Collateral (to the extent such Collateral is sold by SC Management or Reorganized SC Dixon, as applicable, free and clear of such Lien) to the same extent and with the same validity and priority as such Lien held as of the Petition Date until (a) the Holder of such Allowed Secured Tax Claim (i) has been paid Cash equal to the value of its Allowed Secured Tax Claim and/or (ii) has received a return of the Collateral securing its Allowed Secured Tax Claim, or (iii) has been afforded such other treatment as to which such Holder and SC Management or Reorganized SC Dixon, as applicable, have agreed upon in writing, or (b) such purported Lien has been determined by a Final Order to be invalid or avoidable. To the extent that a Secured Tax Claim exceeds the value of the interest of the Estate in the property that secured such Claim, such Claim shall be deemed Disallowed pursuant to Bankruptcy Code section 502(b)(3). Notwithstanding the foregoing, the Debtors and Reorganized Debtors are authorized to transfer, and shall transfer, their Assets as of the Effective Date to SC Management in accordance with Section 6.01 of the Plan, and such Assets shall remain subject to any Lien securing an Allowed Secured Tax Claim until such Lien is released in accordance with Section 5.02 of the Plan. If SC Management or Reorganized SC Dixon fails to timely pay any payment required under Section 5.02 of the Plan, the affected Holder of an Allowed Secured Tax Claim shall send written notice of default to SC Management or Reorganized SC Dixon, as applicable. If the default is not cured within twenty-one (21) days after notice of default is mailed, such Holder may

Class	Treatment
	proceed with any remedies for collection of all amounts due under applicable non-bankruptcy law without further order of the Bankruptcy Court.
Class 3 –Deutsche Bank Secured Claims (against SC Finance only) **SC Finance (Class 3A)** Estimated Amount: $7,369,464.73, plus interest, costs and fees Number: 1 **SC Holdings (Class 3B)** Estimated Amount: $100,160,583.15, plus interest, costs and fees Number: 1	Impaired. The DB Secured Claims against SC Finance and SC Holdings are separately classified in Class 3A and Class 3B, respectively, and Deutsche Bank shall be entitled to submit a separate Ballot for each such Class. However, each of the Allowed DB Secured Claims shall receive identical, consolidated treatment under the Plan as set forth in Section 5.03 of the Plan. Allowance of DB Secured Claims. Each of the DB Secured Claims shall be Allowed in an amount to be determined by the Bankruptcy Court. Treatment. In full satisfaction, settlement, release and discharge of and in exchange for the Allowed DB Secured Claims and all Liens securing such Claims, Deutsche Bank shall receive, on or as soon as practicable after the later of the Effective Date or the Allowance Date with respect to the DB Secured Claims: (i) property of the Debtors that is the indubitable equivalent of all or a portion of such Allowed Claims; and/or (ii) the DB Promissory Note, which shall be issued by SC Finance, SC II, SC Holdings, SCFR, SC Limited and SC Management in the principal amount of the Allowed DB Secured Claims less an amount equal to the value of the property of the Debtors, if any, that is transferred to Deutsche Bank pursuant to the foregoing clause (i). The Plan Supplement shall identify the property of the Debtors, if any, to be transferred to Deutsche Bank pursuant to the foregoing clause (i), the value of such property as of the Effective Date, and the principal amount of the DB Promissory Note, and the Plan Supplement shall include the form of the DB Promissory Note. To the extent there is any inconsistency or conflict between the DB Promissory Note and the Plan, the provisions of the Plan shall control. The DB Promissory Note shall include the following terms: (i) Joint and Several Liability. SC Finance, SC II, SC Holdings, SCFR, SC Limited and SC Management shall each be jointly and severally liable for all obligations arising under the DB Promissory Note. (ii) Collateral. The DB Collateral shall consist of all Collateral that secures the Allowed DB Secured Claims as of the Effective Date, plus all assets of SC II, SCFR and SC Limited that are transferred to SC Management on the Effective Date pursuant to Section 6.01 of the Plan (which excludes the WMD Bonds and any interest in the WMD Bonds). Deutsche Bank

Class	Treatment
	shall retain its Liens on the DB Collateral and the proceeds of the DB Collateral, if any, until: (A) the DB Promissory Note has been satisfied by its terms, (B) the DB Collateral has been transferred or abandoned to, or foreclosed upon by, Deutsche Bank, or (C) the obligors under the DB Promissory Note and Deutsche Bank have agreed in writing upon such other treatment of the DB Collateral. Notwithstanding the foregoing, the Debtors and Reorganized Debtors are authorized to transfer all of their Assets as of the Effective Date to SC Management in accordance with Section 6.01 of the Plan, and such Assets shall remain subject to all Liens securing the Allowed DB Secured Claims until such Liens are released in accordance with Section 5.03(b)(ii) of the Plan. (iii) Interest. Interest on the unpaid principal balance of the DB Promissory Note shall accrue at a rate per annum (computed on a 360-day basis for the actual number of days elapsed) equal to One-Month LIBOR plus 5.5% and, at the option of the obligors under the DB Promissory Note, shall be (A) paid in Cash quarterly in arrears on the fifth (5th) Business Day following the last day of each calendar quarter after the Effective Date, or (B) added to the principal amount due under the DB Promissory Note monthly in arrears. (iv) Payment of Principal. On or before the fifth (5th) Business Day following the last day of each calendar quarter, commencing after the fourth (4th) full calendar quarter following the Effective Date, SC Management shall make a principal payment on the DB Promissory Note in an amount equal to the amount of cash held by SC Management on the last Business Day of the immediately preceding calendar quarter less the aggregate Budgeted Expenses for the following twelve (12)-month period. (v) Prepayment. The obligors under the DB Promissory Note may pay or prepay the principal amount due under DB Promissory Note at any time prior to its maturity date without penalty or premium. (vi) Maturity Date. The DB Promissory Note shall mature on December 31, 2014. (vii) Payment Default. The sole event of default under the DB Promissory Note shall be a Payment Default. (viii) Remedies Upon Payment Default; Opportunity to Cure. Upon the occurrence of a Payment Default, Deutsche Bank may deliver a notice of Payment Default to the obligors under the DB Promissory Note. The obligors under the DB Promissory Note shall have a period of ninety (90) days after receipt of a notice of

Class	Treatment
	Payment Default to cure such default. If such Payment Default has not been cured within such 90-day period, then Deutsche Bank may pursue the rights and remedies available to it with respect to the DB Promissory Note and the DB Collateral. (ix) Collateral Report. No less than ninety (90) days after the end of each calendar year after the Effective Date, SC Management shall deliver to Deutsche Bank an appraisal of the DB Collateral.
Class 4 – SageCrest Regal Secured Claim (against SC Dixon only) Estimated Amount: $48,842,759 Estimated Number: 1	Impaired The Holder of the Allowed SageCrest Regal Secured Claim shall receive from SC Dixon, in full satisfaction, settlement, release and discharge of and in exchange for such Allowed Claim, a Cash payment equal to the Allowed amount of such Claim within thirty (30) days after the later of (a) the closing on a sale of the Collateral that secures the Allowed SageCrest Regal Secured Claim or (b) the Allowance Date with respect to the Allowed SageCrest Regal Secured Claim. The timing of the sale of the Collateral that secures the Allowed SageCrest Regal Secured Claim shall be within the discretion of SC Dixon. Notwithstanding any other provision of the Plan, the Holder of the Allowed SageCrest Regal Secured Claim shall retain its Lien in the Collateral that secures its Claim or the proceeds of such Collateral (to the extent such Collateral is sold by SC Dixon free and clear of such Lien) to the same extent and with the same priority as such Lien held as of the Petition Date until (a) the Holder of the Allowed SageCrest Regal Secured Claim has been paid Cash equal to the value of the Allowed SageCrest Regal Secured Claim, or (b) such purported Lien has been determined by a Final Order to be invalid or otherwise avoidable. If the Allowed SageCrest Regal Secured Claim exceeds the value of the Collateral securing such Claim, then pursuant to Bankruptcy Code section 506(a), any such excess amount shall be deemed to be and shall be treated as a Class 6D General Unsecured Claim against SC Dixon.
Classes 5A-5C – Miscellaneous Secured Claims against SC Finance, SC Holdings and SC II **SC Finance (Class 5A)** Estimated Amount: $738,581.92[3]	Unimpaired. Classes 5A, 5B and 5C are each a separate Class of Miscellaneous Secured Claims against SC II, SC Finance and SC Holdings, respectively, and each such Class shall contain a

[3] The only claim in Class 5A was filed by Kelley Drye & Warren LLP ("KDW"). KDW filed proofs of claim in the identical amount in each of the Debtors' Bankruptcy Cases. The Debtors believe such Claims are duplicative, and reserve the right to object to such Claims on any grounds, but the full amount of each such Claim by KDW is included in the estimated amounts of all Claims in each of Classes 5A-5D.

Class	Treatment
Estimated Number: 1 **SC Holdings (Class 5B)** Estimated Amount: $738,581.92 Estimated Number: 1 **SC II (Class 5C)** Estimated Amount: $1,471,210.43[4] Estimated Number: 3	separate subclass for each Miscellaneous Secured Claim in such Class. Each such subclass is deemed to be a separate Class for all purposes under the Bankruptcy Code and the Plan. On or as soon as practicable after the later of (i) the Initial Distribution Date or (ii) the Allowance Date, each Holder of an Allowed Miscellaneous Secured Claim in Class 5A, 5B or 5C shall receive from SC Management, in full satisfaction, settlement, release and discharge of and in exchange for such Claim, (i) Cash equal to the value of its Allowed Miscellaneous Secured Claim, (ii) the Collateral securing the Allowed Miscellaneous Secured Claim, or (iii) such other, less favorable treatment as to which such Holder and SC Management or the relevant Reorganized Debtor shall have agreed upon in writing. Notwithstanding any other provision of the Plan, each Holder of an Allowed Miscellaneous Secured Claim in Classes 5A, 5B and 5C shall retain its Lien in the Collateral that secures its Claim or the proceeds of such Collateral (to the extent such Collateral is sold by SC Management free and clear of such Lien) to the same extent and with the same validity and priority as such Lien held as of the Petition Date until (i) the Holder of such Allowed Miscellaneous Secured Claim has received (A) Cash equal to the value of its Allowed Miscellaneous Secured Claim, (B) a return of the Collateral securing its Allowed Secured Tax Claim, or (C) such other treatment as to which such Holder and SC Management or the relevant Reorganized Debtor shall have agreed upon in writing, or (ii) such purported Lien has been determined by a Final Order to be invalid or avoidable. Notwithstanding the foregoing, SC II, SC Finance and SC Holdings are authorized to transfer, and shall transfer, their Assets as of the Effective Date to SC Management in accordance with Section 6.01 of the Plan, and such Assets shall remain subject to any Lien securing an Allowed Miscellaneous Secured Claim until such Lien is released in accordance with Section 5.05(a) of the Plan. If any Allowed Miscellaneous Secured Claim in Class 5A, 5B or 5C exceeds the value of the Collateral securing such Claim, then pursuant to Bankruptcy Code section 506(a), any such excess amount shall be deemed to be and shall be treated as a Class 6 General Unsecured Claim.

[4] This amount includes a proof of claim filed as a secured claim by Deutsche Bank in the amount of $732,558.18. However, neither such proof of claim nor the addendum thereto provides any evidence that such claim is secured. The Debtors contend that such claim is an unsecured claim and is based on SC II's guaranty of 10% of certain secured debt owed by SC Finance to Deutsche Bank. The Debtors reserve the right to object to such claim on this basis and any other grounds. Such guaranty claim, i.e., the Deutsche Bank Guaranty Claim, is classified separately as an unsecured claim in Class 7, and the amount of such claim is included both in the estimated amount of the Class 7 claim and in the estimated amount of the claims in Class 5C.

Class	Treatment
Class 5D – Miscellaneous Secured Claims against SC Dixon **SC Dixon (Class 5D)** Estimated Amount: $3,851,928 Estimated Number: 4	Class 5D shall contain a separate subclass for each Miscellaneous Secured Claim against SC Dixon. Each such subclass is deemed to be a separate Class for all purposes under the Bankruptcy Code and the Plan. **Class 5D.1: T. Harris Environmental Management, Inc.:** As a compromise and settlement of all Claims asserted by T. Harris Environmental Management, Inc. ("Harris") against SC Dixon, Harris shall hold an Allowed Miscellaneous Secured Claim against SC Dixon in the amount of CDN$55,000.00. Such Allowed Miscellaneous Secured Claim shall be secured by Lien in the Collateral that secures Harris's Claim, and such Lien shall be senior to any and all other Liens in such Collateral, including without limitation, any such Liens asserted by SageCrest Regal. In full satisfaction, settlement, release and discharge of and in exchange for the Class 5D.1 Allowed Other Secured Claim and all other Claims, if any, against SC Dixon held or asserted by Harris, Harris shall receive a Cash payment from SC Dixon in the amount of CDN$55,000.00, without interest, within thirty (30) days after the earlier of (A) the sale by SC Dixon of the Collateral that secures the Allowed Other Secured Claim held by Harris; (B) the refinancing of such Collateral by SC Dixon, or (C) the fifth (5th) anniversary of the Effective Date. Harris shall retain its Lien in the Collateral that secures its Allowed Other Secured Claim against SC Dixon or the proceeds of such Collateral (to the extent such Collateral is sold by SC Dixon free and clear of such Lien) until Harris has received the Cash payment provided in this Section 5.5(b)(i) of the Plan. Within seven (7) days after Harris' receipt of such Cash payment, Harris shall file a release of all Liens and any related Claims against any and all property of Reorganized SC Dixon in the real property records where any such Lien or related Claim has been registered. As of the Effective Date, Harris and its officers, employees, agents, successors and assigns (the "Harris Releasors") shall be deemed to irrevocably release and forever discharge SC Dixon and its affiliates and their respective officers, directors, shareholders, managers, employees, agents and advisors (the "SC Dixon Releasees") from all actions, causes of action, suits, proceedings, liabilities, debts, sums of money, obligations, duties, dues, accounts, interest, bonds, covenants, contracts, Claims, damages, and claims for costs and demands that the Harris Releasors ever had, now have, can, shall or may have against any of the SC Dixon Releasees, whether known or unknown, arising from any matter in connection with the foregoing Collateral, Harris's Miscellaneous Secured Claim against SC Dixon and/or based on or arising from the payment of approximately CDN$1,367,178 by SC Dixon to Terrasan

Class	Treatment
	Environmental Solutions, Inc. on or about September 10, 2008, save and except for the payment by SC Dixon required by this Section 5.05(b)(i) of the Plan. **Class 5D.2: Other Holders:** The Holder of an Allowed Miscellaneous Secured Claim against SC Dixon in Class 5D.2 shall receive from SC Dixon, in full satisfaction, settlement, release and discharge of and in exchange for such Allowed Claim, a Cash payment equal to the Allowed amount of such Claim within thirty (30) days after the later of (i) the closing on a sale of the Collateral that secures such Allowed Claim or (ii) the Allowance Date with respect to such Allowed Claim. The timing of the sale of the Collateral that secures an Allowed Miscellaneous Secured Claim against SC Dixon in Class 5D.2 shall be within the discretion of SC Dixon. Notwithstanding any other provision of the Plan, the Holder of an Allowed Miscellaneous Secured Claim against SC Dixon in Class 5D.2 shall retain its Lien in the Collateral that secures its Claim or the proceeds of such Collateral (to the extent such Collateral is sold by SC Dixon free and clear of such Lien) to the same extent and with the same validity and priority as such Lien held as of the Petition Date until (i) the Holder of such Allowed Claim has been paid Cash equal to the value of such Allowed Claim, or (ii) such purported Lien has been determined by a Final Order to be invalid or otherwise avoidable. If an Allowed Miscellaneous Secured Claim against SC Dixon in Class 5D.2 exceeds the value of the Collateral securing such Claim, then pursuant to Bankruptcy Code section 506(a), any such excess amount shall be deemed to be and shall be treated as a Class 6D General Unsecured Claim against SC Dixon.
Class 6 – General Unsecured Claims against SC Finance, SC Holdings and SC II **SC Finance (Class 6A)** Estimated Amount: $3,907,236.05[5] Estimated Number: 10	Impaired. Each Allowed General Unsecured Claim in Class 6A (SC Finance), Class 6B (SC Holdings), and Class 6C (SC II) shall include interest thereon, at the Case Interest Rate, from the Petition Date through the date such Allowed General Unsecured Claim is paid in full. ***If all of Classes 6A, 6B and 6C vote in favor of the Plan,*** then each Holder of an Allowed General Unsecured Claim in Classes 6A, 6B, and 6C shall receive from SC Management quarterly Cash payments, commencing with the first full calendar quarter

[5] Karen Topol, as personal representative of Kenneth Polokoff, filed a proof of claim in each of the SC Finance, SC Holdings and SC II Bankruptcy Cases cases, asserting an unsecured claim in the amount of $1,689,742. The Debtors believe such Claims are duplicative and reserve the right to object to such Claims on this basis and any other grounds, but the full amount of each such Claim by Topol is included in the estimated amounts of all Claims in Classes 6A-6C.

Class	Treatment
SC Holdings (Class 6B) Estimated Amount: $3,801,882.38[6] Estimated Number: 11 **SC II (Class 6C)** Estimated Amount: $6,783,548 Estimated Number: 48	after the Effective Date and continuing until all Allowed General Unsecured Claim in Classes 6A, 6B, and 6C are paid in full, totaling the Allowed amount of such Claim in full satisfaction, settlement, release and discharge of and in exchange for such Claim. Each quarterly Cash payment shall be made no later than ten (10) Business Days after the end of each calendar quarter. Each quarterly Cash payment to a Holder of a General Unsecured Claim under Section 5.06(b) of the Plan shall be of an amount equal to the lesser of such Holder's Pro Rata (calculated using all Allowed and Disputed General Unsecured Claims in Classes 6A, 6B and 6C) share of $300,000 or the unpaid balance of such Allowed General Unsecured Claim. ***If Class 6A, 6B or 6C votes to reject the Plan,*** then each Holder of an Allowed General Unsecured Claim in Classes 6A, 6B, and 6C shall receive from SC Management a payment of Cash equal to the amount of such Allowed General Unsecured Claim, plus interest at the Case Interest Rate from the Petition Date through the date of payment, on the later of (i) the Allowance Date or (ii) the first (1st) Business Day that is four (4) years after the Effective Date.
Class 6D – General Unsecured Claims against SC Dixon **SC Dixon (Class 6D)** Estimated Amount: $5,966,133.40 Estimated Number: 11	On or as soon as practicable after the later of (i) the first Distribution Date after all Allowed Claims in Classes 4 and 5D have been paid or otherwise satisfied in full, or (ii) the Allowance Date, each Holder of an Allowed General Unsecured Claim in Class 6D (SC Dixon), in full satisfaction, settlement, release and discharge of and in exchange for such Claim, shall receive from SC Dixon or SC Management a Cash payment equal to a Pro Rata share of the Cash, if any, derived from the liquidation of the Assets of SC Dixon that remain after all Allowed Claims in Classes 4 and 5D have been paid or otherwise satisfied in full. Each Allowed General Unsecured Claim against SC Dixon shall be satisfied solely from such Cash of SC Dixon. SC Dixon anticipates that it is unlikely that any Cash will be available for distribution to Holders of Allowed General Unsecured Claims against SC Dixon in Class 6D.
Class 7 – Deutsche Bank Guaranty Claim (against SC II only) Estimated Amount: $732,558.18 plus	Impaired. In full satisfaction, settlement, release and discharge of and in exchange for the Allowed DB Guaranty Claim, SC II shall

[6] This amount includes $624,342.08 listed in Holdings' Schedules as the amount of a General Unsecured Claim owed by Holdings to Windmill. This amount will be reduced to zero pursuant to the Windmill Settlement or the Plan. Further, Joseph Consulo and James Dickens filed proofs of claim in the amounts of $750,000 and $110,000, respectively, in each of the SC Holdings and SC II Bankruptcy Cases. The Debtors believe such Claims are duplicative but the full amount of each such Claim by Consulo and Dickens is included in the estimated amounts of all Claims in Classes 6B and 6C.

Class	Treatment
interest, costs, and fees Number: 1	execute the DB Promissory Note on the Effective Date and SC II shall be jointly and severally liable for all obligations arising under the DB Promissory Note.
Class 8 – Redemption Claims against SC II Estimated Amount: $174,080,672 Estimated Number: 121	Impaired. Class 8 includes, and is limited to, all Redemption Claims, which are unsecured, non-priority Claims against SC II asserted by any equity security holder of SC II that arises from and by virtue of a request, made at any time before the Petition Date, to redeem an Interest in SC II pursuant to the SC II Operating Agreement. SC II has identified all Holders of Redemption Claims according to its books and records and has notified such Holders that they are entitled to participate in Class 8 of the Plan by providing them a Class 8 Ballot for purposes of voting to accept or reject the Plan. **Any Person who did not receive a Class 8 Ballot and believes they are a Holder of a Redemption Claim and entitled to participate in Class 8 must file a proof of claim asserting a Redemption Claim with the Bankruptcy Court no later than the Redemption Claim Bar Date, which is _____, 2010.** The Bankruptcy Court shall determine whether any Person who timely files a Redemption Claim is entitled to vote and otherwise participate in Class 8 as the Holder of a Redemption Claim. As discussed more fully in Section VI.D.16 of this Disclosure Statement, during the Bankruptcy Cases, various disputes have arisen concerning the characterization, allowability, priority, and subordination of alleged Claims and rights arising from the prepetition requests by investors in SC II to redeem their Interests in SC II. The classification of all Redemption Claims in Class 8 and the treatment of all Redemption Claims set forth in Section 5.08 of the Plan represents a compromise and settlement of all such disputes pursuant to Bankruptcy Code section 1123(b)(3)(A). The Allowed amount of each Redemption Claim shall be equal to the following:[7] (i) for a Holder of a Redemption Claim that requested (in one or more requests at any time before the Petition Date) to redeem 100% of such Holder's Interest in SC II: (A) if such Holder had a positive capital account balance reflected on its June 30, 2007 capital account statement from SC II, the amount reflected on the "Value on June 30, 2007" line of

[7] Examples of how the Allowed amount of a Redemption Claim is calculated under Section 5.08(c) of the Plan are set forth below in Section IV.B.3 of this Disclosure Statement.

Class	Treatment
	such statement plus the unpaid amount reflected on the "June Redemption" line of such statement, or (B) if such Holder had a capital account balance of zero in SC II as of June 30, 2007, as reflected on its June 30, 2007 capital account statement from SC II or otherwise, the unpaid amount reflected on the "March Redemption" line of such Holder's March 31, 2007 capital account statement from SC II, valued as of June 30, 2007, plus the unpaid amount reflected on the "June Redemption" line of such Holder's June 30, 2007 capital account statement from SC II; or (ii) for a Holder of a Redemption Claim that requested (in one or more requests at any time before the Petition Date) to redeem less than 100% of its interest in SC II, the unpaid amount of such requested redemption. **The proposed Allowed amount of each Redemption Claim is set forth in the Class 8 Ballot distributed by SC II to each such Holder. Such Ballot shall constitute an objection by SC II to the Allowed amount of any Redemption Claim that exceeds the amount set forth on such Ballot. The amount of a Redemption Claim set forth in a Class 8 Ballot shall be binding on the Holder of such Redemption Claim and shall establish the Allowed amount of such Redemption Claim for all purposes unless such Holder files a proof of a Redemption Claim before the Redemption Claim Bar Date. Therefore, any Holder of a Redemption Claim who contends that the Allowed amount of its Redemption Claim is greater than the amount set forth on such Holder's Class 8 Ballot must file a proof of claim asserting a Redemption Claim with the Bankruptcy Court no later than the Redemption Claim Bar Date. Any such timely filed proof of claim shall be treated as a motion by such Holder to estimate the Allowed amount of its Redemption Claim for purposes of voting on the Plan. The Class 8 Ballot distributed by SC II shall constitute an objection by the Proponents to any such motion to estimate.** Each Holder of an Allowed Redemption Claim against SC II shall receive Cash payments from SC II up to the Allowed amount of such Claim, without interest, in full satisfaction, settlement, release and discharge of and in exchange for such Claim. All Cash payments by SC II to Holders of Allowed Redemption Claims shall be made on a *pari passu* basis with Cash payments by SC II to Holders of Allowed Interests in SC II in Class 10C pursuant to Section 5.10(c) of the Plan. Cash payments will be made on a quarterly basis no later than ten (10) Business Days after the end of each calendar quarter, commencing with the first full calendar quarter during which

Class	Treatment
	SC II receives a payment of Distributable Cash from SC Management pursuant to Section 6.02 of the Plan and after all Allowed amounts payable under Section 5.08(d)(ii) of the Plan have been paid in full, and shall continue thereafter until all Allowed Redemption Claims have been paid in full or SC II determines that no additional Cash is available for distribution to Holders of Allowed Redemption Claims in Class 8 and Holders of Allowed Interests in SC II in Class 10C. Each such quarterly Cash payment shall be in an amount equal to the lesser of a Pro Rata share of the Distributable Cash received by SC II from SC Management pursuant to Section 6.02 of the Plan or the unpaid balance of each Allowed Redemption Claim. In addition to the Cash payments provided for in Section 5.08(d)(i) of the Plan, any Holder of a Redemption Claim who has paid any fees or expenses incurred in litigating or otherwise asserting in the Bankruptcy Cases the allowance or priority of such Holder's Redemption Claim shall receive a Cash payment from SC II equal to 100% of such reasonable fees and expenses in an Allowed amount agreed to by such Holder and SC II or established by a Final Order of the Bankruptcy Court upon application by such Holder filed no later than 60 days after the Effective Date; provided that the aggregate amount of all amounts Allowed and payable pursuant to Section 5.08(d)(ii) of the Plan shall not exceed $500,000, and if such aggregate Allowed amounts exceed $500,000, they shall be paid on a Pro Rata basis. All amounts payable pursuant to Section 5.08(d)(ii) of the Plan, not to exceed $500,000, shall be paid in full before SC II may make any other Distribution to any Holder of an Allowed Redemption Claim provided for in the preceding paragraph and in Section 5.08(d)(i) of the Plan or to any Holder of an Allowed Interest in SC II pursuant to Section 5.10(c) of the Plan. Notwithstanding any other provision of the Plan (including Section 5.08(d)(i)), no Distribution shall be made to any Holder of an Allowed Redemption Claim pursuant to Section 5.08(d) of the Plan unless and until all Allowed Administrative Claims and Allowed Priority Claims against all Debtors, and all Allowed Claims against SC II in Classes 1C, 2C, 5C, 6C, and 7 have been paid or otherwise satisfied in full as provided in this Plan. SC II, in its sole discretion, shall determine the amount and timing of any Distributions to Holders of Allowed Redemption Claims and Allowed Interests in SC II.
Class 9 – Intercompany Claims	Impaired.

[8] Intercompany Claims also include the amounts of approximately $31.5 million and $1.5 million asserted by SC II against non-Debtors Limited and SCFR, respectively. Limited, SCFR and SC Holdings dispute the validity and amount of these Intercompany Claims. All disputes regarding Intercompany Claims were resolved in the Plan-related mediation discussed in Section VI.D.19 below.

Class	Treatment
SC Finance (Class 9A) Estimated Amount: $3,733,475 Estimated Number: 2 **SC Holdings (Class 9B)** Estimated Amount: $3,700,000 Estimated Number: 1 **SC II (Class 9C)**[8] Estimated Amount: $4,067,620 Estimated Number: 1 **SC Dixon (Class 9D)** Estimated Amount: zero Estimated Number: zero	On the Effective Date, all Intercompany Claims shall be cancelled, discharged and eliminated in full, and the Holders of Intercompany Claims shall not receive or retain any property or any interest in property on account of such Intercompany Claims; provided, however, that SC Management shall use Distributable Cash to pay in full each Intercompany Claim that is attributable to any share of an Allowed Fee Claim that is allocated to SC II, SC Finance or SC Holdings under Section 2.01(d) of the Plan and that remains unpaid on or after the Effective Date.
Class 10A –Interests in SC Finance Number of Holders: 1	Unimpaired. **SC Finance (Class 10A):** SC II, the sole Holder of all Allowed Interests in SC Finance, shall retain its Interest in SC Finance, as reorganized under the terms of the Plan. In accordance with Section 6.01 of the Plan, SC II shall contribute its Interests in SC Finance to SC Management.
Class 10 – Interests in SC II and SC Holdings **SC Holdings (Class 10B)** Estimated Amount: undetermined Estimated Number: 2 **SC II (Class 10C)** Estimated Amount: $12,181,980 Estimated Number: 8	Impaired. **SC Holdings (Class 10B)**: Each Holder of an Allowed Interest in SC Holdings shall retain its Interest in SC Holdings, as SC Holdings is reorganized under the terms of the Plan. Each such Holder shall receive Distributions from SC Holdings, on a Pro Rata basis, from the Distributable Cash received by SC Holdings from SC Management pursuant to Section 6.02 of the Plan, net of allocations and reserves for Fee Claims paid by SC Management on behalf of such entities in accordance with Section 2.01(d) of the Plan. No Distribution shall be made to any Holder of an Allowed Interest in SC Holdings pursuant to Section 5.10(b) of the Plan unless and until all Allowed Administrative Claims and Allowed Priority Claims against all Debtors, and all Allowed Claims against SC Holdings in Classes 1B, 2B, 3B, 5B, and 6B have been paid or otherwise satisfied in full as provided in this Plan. SC Holdings, in its sole discretion, shall determine the amount and timing of any Distributions to Holders of Allowed Interests in SC Holdings. **SC II (Class 10C)**: Each Holder of an Allowed Interest in SC II shall retain its Interest in SC II, as SC II is reorganized under the terms of the Plan pursuant to an amended SC II Operating Agreement that will be included in the Plan Supplement. The Allowed amount of each Interest in SC II shall be equal to the

Class	Treatment
	following: (i) for a Holder of such Interest that requested (in one or more requests at any time before the Petition Date) to redeem less than 100% of such Holder's Interest in SC II, the amount reflected on the "Value on June 30, 2007" line of such Holder's June 30, 2007 capital account statement from SC II minus the unpaid amount of such Holder's requested redemption(s); or (ii) for a Holder of such Interest that did not request, at any time before the Petition Date, to redeem any portion of its Interest in SC II, the amount reflected on the "Value on June 30, 2007" line of such Holder's June 30, 2007 capital account statement from SC II. **The proposed Allowed amount of each Interest in SC II is set forth in the Class 10C Ballot distributed by SC II to each Holder of an Interest in SC II. The Allowed amount of an Interest in SC II set forth in such Class 10C Ballot shall be binding on the Holder of such Interest in SC II and shall establish the Allowed amount of such Interest in SC II for all purposes unless such Holder submits a Class 10C Ballot before the Balloting Deadline that asserts a higher amount. Therefore, any Holder of an Interest in SC II who contends that the Allowed amount of its Interest in SC II is greater than the amount set forth by SC II on such Holder's Class 10C Ballot must state the amount it asserts as the Allowed amount of its Interest in SC II on its Class 10C Ballot and must submit such Class 10C Ballot to the Balloting Agent no later than the Balloting Deadline. Any such timely submitted Class 10C Ballot shall be treated as a motion by such Holder to estimate the Allowed amount of its Interest in SC II for purposes of voting on the Plan. The Class 10C Ballot distributed by SC II shall be treated as an objection by the Proponents to such motion to estimate.** Each such Holder shall receive Distributions from SC II, on a Pro Rata basis, from the Distributable Cash received by SC II from SC Management pursuant to Section 6.02 of the Plan, net of allocations and reserves for Fee Claims paid by SC Management on behalf of SC II in accordance with Section 2.01(d) of the Plan. Such Distributions shall be made on a pari passu basis with Cash payments by, or on account of, SC II to Holders of Allowed Redemption Claims in Class 8 pursuant to Section 5.08(d)(i) of the Plan. No Distribution shall be made to any Holder of an Allowed Interest in SC II pursuant to Section 5.10(c) of the Plan unless and until all Allowed Administrative Claims and Allowed Priority Claims against all Debtors, all Allowed Claims against SC II in Classes 1C, 2C, 5C, 6C, and 7, and all payments to Holders of Allowed Class 8 Claims pursuant to Section 5.08(d)(ii) of the Plan have been paid in full as provided in the Plan. SC II, in its sole discretion, shall determine the amount and timing of any Distributions to Holders of Allowed Interests in SC II.

Class	Treatment
Class 10D – Interests in SC Dixon Number of Holders: 1	Impaired. **SC Dixon (Class 10D)**: The Holder of Allowed Interests in SC Dixon shall retain such Allowed Interests in SC Dixon, as SC Dixon is reorganized under the terms of the Plan, but such Holder shall not be entitled to receive or retain, and shall not receive or retain, any Cash or other property under the Plan on account of its Allowed Interests in SC Dixon. Upon the liquidation of all property of the Estate of SC Dixon and the distribution of all proceeds of such liquidation to Holders of Allowed Claims against SC Dixon in accordance with the Plan, all Interests in SC Dixon shall be canceled and SC Dixon shall be dissolved in accordance with applicable law.

3. Calculation of Proposed Amounts of Allowed Redemption Claims

As set forth in the Plan (section 5.08) and this Disclosure Statement (pp. 18-19 above), the Allowed amount of each Class 8 Redemption Claim is set forth on the Ballot that SC II will send to each Holder of a Redemption Claim. Such Allowed amount depends on several factors, such as (a) whether an investor in SC II requested a redemption of its investment and, if so, whether the redemption request was for 100% or some lesser percentage, and (b) whether SC II made any payment to a redeeming investor on account of its redemption request.

The following examples illustrate the calculation of the amount of an Allowed Redemption Claim ***for an investor in SC II that requested (through one or more requests before the Petition Date) redemption of 100%*** of its investment in SC II:

Example 1 – Investor's June 30, 2007 capital account statement from SC II shows $1 million in the "Value on June 30, 2007" line of such statement. After June 30, 2007, the investor requested to redeem, in one or more requests, 100% of its investment in SC II. The investor received $0 on account of such redemption requests. The investor has an Allowed Class 8 Redemption Claim in the amount of $1 million. See Plan, § 5.08(c)(i)(A).

Example 2 – Investor's June 30, 2007 capital account statement from SC II shows $1 million in the "Value on June 30, 2007" line of such statement. After June 30, 2007, the investor requested to redeem, in one or more requests, 100% of its investment in SC II. The June 30, 2007 capital account statement shows $500,000 in the "June Redemption" line. The investor received $0 on account of such redemption requests. The investor has an Allowed Class 8 Redemption Claim in the amount of $1.5 million. See Plan, § 5.08(c)(i)(A).

Example 3 - Investor's June 30, 2007 capital account statement from SC II shows $1 million in the "Value on June 30, 2007" line of such statement. After June 30, 2007, the investor requested to redeem, in one or more requests, 100% of its investment in SC II. The June 30, 2007 capital account statement shows $500,000 in the "June Redemption" line. The investor received $250,000 on account of "June Redemption." The investor has an Allowed Class 8 Redemption Claim in the amount of $1.25 million. See Plan, § 5.08(c)(i)(A).

Example 4 - Investor's June 30, 2007 capital account statement from SC II shows $0 in the "Value on June 30, 2007" line of such statement. The June 30, 2007 capital account statement shows $2 million in the "June Redemption" line. The investor received $0 on account of the "June Redemption." The investor has a Class 8C claim in the amount of $2 million. See Plan, § 5.08(c)(i)(B).

Example 5 - Investor did not receive a June 30, 2007 capital account statement from SC II because such investor's March 31, 2007 capital account statement from SC II showed $0 in the line "Value on March 31, 2007." The investor's March 31, 2007 capital account statement from SC II shows $2 million in the "March Redemption" line. The investor received $800,000 on account of the "March Redemption." The investor has a balance of $1.2 million on account of the "March Redemption." SC II reflected a net rate of return in April 2007 of 0.41%, in May 2007 of 0.72%, and in June 2007 of 0.95%. The balance of $1.2 million valued as of June 30, 2007 is $1,225,125. The investor has a Class 8C claim in the amount of $1,225,125. See Plan, § 5.08(c)(i)(B).

Further, the following example illustrates the calculation of the amount of an Allowed Redemption Claim ***for an investor in SC II that requested (through one or more requests before the Petition Date) redemption of less than 100%*** of its investment in SC II (see Plan, § 5.08(c)(ii)):

Example 6 - Investor's June 30, 2007 capital account statement from SC II shows $1 million in the "Value on June 30, 2007" line of such statement. After June 30, 2007, the investor requested to redeem, in one or more requests, less than 100% of its investment in SC II. Investor's September 30, 2007 capital account statement shows $400,000 in the "September Redemption" line. The investor received $0 on account of the "September Redemption." The investor has an Allowed Class 8 Redemption Claim in the amount of $400,000. (The balance of the $1 million, or $600,000, is classified in Class 10C as an Interest in SC II.)

C. Means of Implementation of the Plan

1. Formation of SC Management and Other Entities; Transfer of Assets to SC Management.

Before the Effective Date, the Debtors shall cause SC Management and the other entities set forth on Exhibit B to the Plan (as such exhibit may be amended or otherwise modified up to and including the date of the Confirmation Hearing) that are not in existence as of the Confirmation Date to be formed and in good standing under the laws of the State of Delaware. On the Effective Date: (a) SC Finance and SC II shall contribute all of their Assets (other than the WMD Bonds or any interest in the WMD Bonds) to SC Management and receive in exchange for such contributions 23% of the equity ownership of SC Management, provided, that SC II shall not contribute its equity interest in SageCrest Canada Holdings, Inc. or any interest, whether direct or indirect, in SC Dixon or any Assets of SC Dixon, to SC Management, but SC II shall transfer all Cash that it receives at any time after the Effective Date on account, directly or indirectly, of its equity interest in SageCrest Canada Holdings, Inc. to SC Management within five (5) Business Days after SC II's receipt thereof; and (b) by and through contributions of

entities set forth on Exhibit B to the Plan (as such exhibit may be amended or otherwise modified up to and including the date of the Confirmation Hearing) all of the Assets of SC Holdings, SCFR and SC Limited (except for (i) the Interests in SC Holdings held by SCFR and SC Limited, and (ii) the WMD Bonds or any interest in the WMD Bonds) shall be contributed to SC Management, and SC Holdings shall receive in exchange for such contributions 77% of the equity ownership of SC Management.

2. Sources of Cash for Plan Distributions

The sources of Cash necessary for SC Management to pay Allowed Claims that are to be paid in Cash by SC Management under the Plan will be: (a) the Cash of the Debtors, SCFR and SC Limited on hand as of the Effective Date, which will be transferred to SC Management; (b) Cash arising from the operation, ownership, maintenance, and/or sale of the Assets owned, managed, and/or serviced by or at the direction of SC Management, including, without limitation, the DB Collateral; (c) any Cash generated or received by SC Management after the Effective Date from any other source, including, without limitation, any recoveries from the prosecution of all Causes of Action (which shall be transferred to SC Management on the Effective Date). The sources of Cash necessary for SC II and SC Holdings to pay Allowed Claims and/or Allowed Interests that are to be paid by SC II or SC Holdings in Cash under the Plan will be distributions from SC Management. SC Management shall pay 23% of all Distributable Cash to SC II and shall pay 77% of all Distributable Cash to SC Holdings in amounts and at times that SC Management shall determine in its sole discretion, provided that the timing of such payments shall be made on a pari passu basis. SC Management, in its sole discretion, may pay Cash to SC II or SC Holdings at any time as an advance against future Distributable Cash payable by SC Management to SC II or SC Holdings, and SC Management shall carry any such advance payments as debts on its books and records accordingly and shall satisfy such debts by charging any advances against Distributable Cash before making any subsequent payments of Distributable Cash to such entities. The source of Cash necessary for SC Dixon to pay Allowed Claims against SC Dixon that are to be paid by SC Dixon in Cash under the Plan will be the proceeds from the sale of the Assets of SC Dixon, net of any costs and expenses of such sale(s).

3. Debtors' Management After the Effective Date

From and after the Effective Date: (a) the Manager shall be the manager of SC II and shall perform the management responsibilities of SC II pursuant to the SC II Operating Agreement, as amended; (b) SC Holdings shall be managed in accordance with its articles of organization and, if applicable, orders of the Bermuda Court; and (c) SC Management shall be managed as set forth in Section 6.06 of the Plan.

4. Servicing and Liquidation of Assets After the Effective Date

SC Management and the Reorganized Debtors shall manage and service (directly or via third party contractors) each of their respective Assets and any other assets within their control, directly or indirectly, and shall liquidate all such assets as expeditiously as reasonably possible, consistent with the goal of maximizing the value of such assets for the benefit of Creditors and

Interest Holders. SCFR, SC Limited, and other non-Debtor affiliates of the Debtors may execute management agreements with SC Management.

SC Management or the Debtors may retain a third party to participate in managing and liquidating the Assets of SC Management, the Debtors and/or the Reorganized Debtors. To the extent any such asset manager is identified or sought to be retained before the hearing on the Disclosure Statement, the Proponents will timely identify such asset manager in a motion or other filing with the Bankruptcy Court.

5. SC Management

(a) **Establishment; Governance.** SC Management shall be established and become effective as of the Effective Date. SC Management will be governed by a membership agreement and bylaws, the forms of which will be included in the Plan Supplement.

(b) **Managers; Voting.** SC Management shall be managed by a board consisting of four (4) managers. The initial managers shall be two (2) managers appointed by the Equity Committee in its sole discretion and two (2) managers appointed by the JPL in its sole discretion after consultation with the Russell Funds. All initial members shall be identified in the Plan Supplement. Each member shall have one equally weighted vote and all material decisions shall require majority vote to be effective.

(c) **Resignation; Removal.** Any manager of SC Management may resign at any time for any reason. The bylaws of SC Management may provide for the removal of a manager. Upon the resignation or removal of a manager, a replacement manager shall be appointed by the other manager of SC Management who (or whose predecessor) was appointed by the same party that appointed the resigning or removed manager.

(d) **Oversight of Asset Liquidation.** SC Management shall oversee all aspects of the liquidation of the DB Collateral and all other Assets of SC Management.

(e) **Standing.** SC Management shall have the right to appear in the Bankruptcy Court or any other court of competent jurisdiction and be heard on any matter relating to the interpretation or implementation of the Plan.

6. Release and Exculpation

(a) Release by Debtors. *Effective as of the Effective Date, and except as otherwise provided in the Plan (including Section 5.09 of the Plan) or the Confirmation Order, the Debtors and the Reorganized Debtors, in their individual capacities and as debtors in possession, will be deemed to have forever released, waived and discharged the Releasees from any and all Claims, obligations, suits, judgments, damages, demands, debts, rights, Causes of Action and liabilities (other than the rights of the Debtors or Reorganized Debtors to enforce the Plan and the contracts, instruments, releases, indentures and other agreements or documents delivered or executed thereunder), whether for tort, contract, violations of federal or state securities laws, or otherwise, whether liquidated or unliquidated, fixed or contingent, matured or unmatured, known or unknown, foreseen or unforeseen, then existing or thereafter arising, in law, equity or otherwise that are based in whole or part on any act, omission, transaction, event or other*

occurrence, including actions in connection with indebtedness for money borrowed by the Debtors, taking place on or prior to the Effective Date in any way relating to the Debtors, the Reorganized Debtors, the Bankruptcy Cases, or the Plan; provided, however, that no Releasee shall be released or discharged from any Claims, obligations, suits, judgments, debts or Causes of Action arising out of or in connection with indebtedness for money borrowed by any such Releasee from any of the Debtors or from any Claim or Cause of Action specifically preserved or transferred under the Plan.

(b) Limited Release by Deutsche Bank of Guaranty Claims Against SCFR and SC Limited. *Effective as of the Effective Date, and except as otherwise provided in the Plan or the Confirmation Order, in consideration for SCFR and SC Limited (1) becoming co-obligors on the DB Promissory Note and assuming joint and several liability for all obligations arising under the DB Promissory Note, (2) contributing and transferring a substantial portion of their assets to SC Management on the Effective Date, and (3) subjecting such assets to the Liens of Deutsche Bank as assets constituting part of the DB Collateral for all purposes under the Plan, Deutsche Bank, Deutsche Bank AG, New York Branch, and their respective affiliates shall be deemed to have forever waived, released and discharged SCFR and SC Limited from any and all claims, obligations, suits, judgments, damages, demands, debts, rights, causes of action and liabilities, whether liquidated or unliquidated, fixed or contingent, matured or unmatured, known or unknown, foreseen or unforeseen, then existing or thereafter arising, in law, equity or otherwise that are based in whole or part on the Deutsche Bank Offshore Guaranty. Entry of the Confirmation Order shall constitute the Bankruptcy Court's approval, pursuant to Bankruptcy Rule 9019, of the foregoing third-party release, and further, shall constitute its findings that such third-party release is: (1) in exchange for the good and valuable consideration provided by SCFR and SC Limited, a good faith settlement and compromise of the claims released by such third-party release; (2) in the best interests of the Debtors and all Holders of Claims and Interests; (3) fair, equitable and reasonable; (4) given and made after due notice and opportunity for hearing; and (5) a bar against Deutsche Bank, Deutsche Bank AG, New York Branch, and their respective affiliates asserting any of the foregoing released claims against SCFR and SC Limited.*

(c) Exculpation. *Effective as of the Effective Date, and except as otherwise provided in the Plan or the Confirmation Order, the Debtors and all other Persons, along with their respective present or former employees, agents, officers, directors and principals, shall be deemed to have released the Releasees from, and none of the Releasees shall have or incur any liability or obligation for, any Claim, cause of action or other assertion of liability, whether liquidated or unliquidated, fixed or contingent, matured or unmatured, known or unknown, foreseen or unforeseen, and whether asserted or assertable directly or derivatively, in law, equity, or otherwise, to any Holder of a Claim or Interest or any other Person for any act or omission originating or occurring on or after the Petition Date through and including the Effective Date in connection with, relating to or arising out of the Bankruptcy Cases, the operation of the Debtors' business during the Bankruptcy Cases, the formulation, negotiation, preparation, filing, dissemination, approval, or confirmation of the Plan, the Disclosure Statement, the solicitation of votes for or confirmation of the Plan, the consummation or administration of the Plan, or the property to be liquidated and or distributed under the Plan, except for their willful misconduct or gross negligence as determined by a Final Order of a court*

of competent jurisdiction. The foregoing parties will be entitled to rely reasonably upon the advice of counsel in all respects regarding their duties and responsibilities under the Plan.

Each Person to which Section 9.05 of the Plan (Release and Exculpation) applies shall be deemed to have granted the releases set forth in such Section notwithstanding that it may hereafter discover facts in addition to, or different from, those that it now knows or believes to be true, and without regard to the subsequent discovery or existence of such different or additional facts, and such Persons expressly waive any and all rights that they may have at common law or under any statute or other applicable law that would limit the effect of such releases to those claims or causes of action actually known or suspected to exist as of the Effective Date.

7. Injunction

Except as otherwise provided in the Plan, the Confirmation Order shall provide that from and after the Effective Date, all Holders of Claims against and Interests in the Debtors are permanently enjoined from taking any of the following actions against the Debtors, the Reorganized Debtors, SC Management, the entities set forth on Exhibit B to the Plan (as such exhibit may be amended or otherwise modified up to and including the date of the Confirmation Hearing), SCFR, and/or SC Limited, or any of their property on account of any such Claim or Interest: (a) commencing or continuing in any manner or in any place, any action or other proceeding; (b) enforcing, attaching, collecting, or recovering by any manner or means any judgment, award, decree, or order; (c) creating, perfecting, or enforcing any encumbrance or Lien; (d) asserting a setoff, subrogation, or recoupment of any kind against any debt, liability, or obligation due to the Debtors; and (e) commencing or continuing, in any manner or in any place, any action that does not conform to or comply with, or is inconsistent with, the provisions of the Plan; provided, however, that nothing contained herein shall preclude such Persons from exercising their rights pursuant to and consistent with the terms of the Plan or the Confirmation Order. If allowed by the Bankruptcy Court, any Person injured by any willful violation of such injunction shall recover actual damages, including costs and attorneys' and experts' fees and disbursements, and, in appropriate circumstances, may recover punitive damages, from the willful violator.

8. Revocation or Withdrawal of the Plan

The Proponents reserve the right to revoke and/or withdraw the Plan at any time before the Confirmation Date. If the Proponents revoke or withdraw this Plan, or if confirmation or the Effective Date of the Plan does not occur, then the Plan shall be deemed null and void. In such event, nothing contained herein shall be deemed to constitute a waiver or release of any Claims by or against the Debtors or any other Person or to prejudice in any manner the rights of the Debtors or any other Person in any further proceedings involving the Debtors or any other Person.

9. Modification of the Plan

The Proponents reserve the right to modify the Plan in writing at any time before the Confirmation Date, provided that (a) the Plan, as modified, meets the requirements of Bankruptcy Code sections 1122 and 1123 and (b) the Proponents shall have complied with

Bankruptcy Code section 1125. The Proponents further reserve the right to modify the Plan in writing at any time after the Confirmation Date and before substantial consummation of the Plan, provided that (a) the Plan, as modified, meets the requirements of Bankruptcy Code sections 1122 and 1123, (b) the Proponents shall have complied with Bankruptcy Code section 1125, and (c) the Bankruptcy Court, after notice and a hearing, confirms the Plan as modified, under Bankruptcy Code section 1129. A Holder of a Claim or Interest that has accepted or rejected the Plan shall be deemed to have accepted or rejected, as the case may be, such Plan as modified, unless, within the time fixed by the Bankruptcy Court, such Holder changes its previous acceptance or rejection.

D. Executory Contracts and Unexpired Leases; Compensation, Benefit, and Pension Programs

The Plan constitutes and incorporates a motion by the Debtors under Bankruptcy Code sections 365 and 1123(b)(2) to (a) reject, as of the Effective Date, all Executory Contracts to which a Debtor is a party, except for any Executory Contract that has been assumed or rejected pursuant to an order of the Bankruptcy Court entered before the Effective Date, and (b) assume all Executory Contracts identified in the Schedule of Assumed Contracts that will be included in the Plan Supplement.

The Confirmation Order shall constitute an order of the Bankruptcy Court under Bankruptcy Code sections 365 and 1123(b)(2) approving the rejection or assumption, as applicable, of Executory Contracts pursuant to the Plan as of the Effective Date. Notice of the Confirmation Hearing shall constitute notice to any non-debtor party to an Executory Contract that is to be assumed or rejected under the Plan of the Debtors' intent to assume or reject such Executory Contract and any related Cure Amount proposed by the Debtors.

The SC II Operating Agreement shall be amended to, inter alia, remove all redemption rights of any investor. The SC II Operating Agreement, as amended, shall be included in the Plan Supplement and it shall be executed by the Manager and become effective as of the Effective Date.

If the rejection of an Executory Contract pursuant to Section 7.01 of the Plan gives rise to a Claim by any non-Debtor party or parties to such Executory Contract, such Claim shall be forever barred and shall not be enforceable against the Debtor, the Reorganized Debtors, SC Management, the Estates, or the agents, successors, or assigns of the foregoing, unless a proof of such Claim is filed with the Bankruptcy Court and served upon the Reorganized Debtors on or before the Rejection Bar Date. Any Holder of a Claim arising out of the rejection of an Executory Contract that fails to file a proof of such Claim on or before the Rejection Bar Date shall be forever barred, estopped, and enjoined from asserting such Claim against the Debtors, Reorganized Debtors, SC Management, the Estates or any of their Assets and properties. Nothing contained herein shall extend the time for filing a proof of Claim for rejection of any Executory Contract rejected before the Confirmation Date.

Any Rejection Claim arising from the rejection of an Executory Contract shall be treated as a General Unsecured Claim pursuant to the Plan, except as limited by the provisions of Bankruptcy Code sections 502(b)(6) and 502(b)(7) and mitigation requirements under applicable

law. Nothing contained herein shall be deemed an admission by the Debtors that such rejection gives rise to or results in a Rejection Claim or shall be deemed a waiver by the Debtors or any other party in interest of any objections to such Rejection Claim if asserted.

Except as otherwise provided in a Final Order, pursuant to Bankruptcy Code sections 365(a), (b), (c) and (f), all Cure Amounts that may require payment under Bankruptcy Code section 365(b)(1) under any Executory Contract that is assumed pursuant to a Final Order shall be paid by SC Management within fifteen (15) Business Days after such order becomes a Final Order with respect to undisputed Cure Amounts or within fifteen (15) Business Days after a Disputed Cure Amount is Allowed by agreement of the parties or a Final Order. If a party to an assumed Executory Contract has not filed an appropriate pleading on or before the date of the Confirmation Hearing disputing the amount of any Cure Amount proposed by the Debtor, the cure of any other defaults, the promptness of the Cure Amount payments, or the provisions of adequate assurance of future performance, then such party shall be deemed to have waived its right to dispute such matters. Any party to an assumed Executory Contract that receives full payment of a Cure Amount shall waive the right to receive any payment on a Class 6 General Unsecured Claim that relates to or arises out of such assumed Executory Contract.

V. DESCRIPTION OF THE DEBTORS

A. Overview

SC II, SC Finance, SC Dixon, SC Holdings, SCFR and SC Limited are part of a group of funds commonly known as the SageCrest Funds (the "SageCrest Funds" or "SageCrest"). SC II serves as the domestic fund within the SageCrest Funds. SCFR and SC Limited serve as the offshore funds within the SageCrest Funds.

SC II directly or indirectly owns several special purpose entities (each, an "SPE") that hold (directly or indirectly) specific investments of the SageCrest Funds, including a life insurance portfolio, specialty finance loans to third parties and real estate investments. An organizational chart showing the relationship among the various entities within the SageCrest Funds is attached hereto as **Exhibit 2**.

SC Limited and SCFR are Bermuda exempted companies limited by shares and are not debtors in the Bankruptcy Cases but, as discussed below, are each the subject of a winding up proceeding in Bermuda. SC Holdings is also a Bermuda exempted company limited by shares and is a wholly owned subsidiary of SC Limited and SCFR.

SC II and SC Finance filed voluntary petitions for relief under chapter 11 of the Bankruptcy Code on August 17, 2008, commencing cases 08-50754 and 08-50755, respectively. SC Holdings filed a voluntary petition for relief under chapter 11 of the Bankruptcy Code on August 20, 2008, commencing case no. 08-50763. SC Dixon filed a voluntary petition for relief under chapter 11 of the Bankruptcy Code on September 11, 2008, commencing case no. 08-50844. The Debtors' Bankruptcy Cases are jointly administered under case no. 08-50754. See Section VI.D.1 below.

Pursuant to sections 1107(a) and 1108 of the Bankruptcy Code, the Debtors continue to operate their businesses and manage their properties, affairs and assets as debtors-in-possession.

B. History and Corporate Structure

SC II is a Delaware limited liability company that was formed on or about May 10, 2002.

SC Finance is a Delaware limited liability company that was formed as a wholly owned subsidiary of SC II on or about March 22, 2007.

SC Dixon is an SPE within the SageCrest Funds that owns real property at 900 Dixon Road in Toronto, Canada, formerly the site of the Constellation Hotel. SC Dixon is a wholly owned subsidiary of SageCrest Canada Holdings, Inc., which is a wholly owned subsidiary of SC II. SC Dixon was in the process of demolishing the Constellation Hotel buildings in order to construct a new hotel and other facilities on the property when SC Dixon filed for bankruptcy.

One of the other SPE's ultimately owned by SC II is Il Lugano LLC ("Il Lugano"), which is a debtor in case no. 08-50811 before the Bankruptcy Court. Il Lugano owns and operates a hotel and condominium property in Fort Lauderdale, Florida known as the Il Lugano Hotel • Residences.

Windmill Management LLC ("Windmill"), a Delaware limited liability company, was formed on or about February 26, 2001. As of the Petition Date, Windmill was the Manager of SC II pursuant to an Amended and Restated Operating Agreement of SC II dated December 18, 2002, pursuant to which Windmill managed the investments of SC II. The principals of Windmill are Alan and Philip Milton.

As of the Petition Date, Windmill also served as the investment manager of SC Limited and SCFR pursuant to Investment Management Agreements between Windmill and SCFR and Windmill and SC Limited. Pursuant to the Operating Agreement of SC II and the Investment Management Agreements with SC Limited and SCFR, Windmill was entitled to an annual management fee of 1.5% of the Net Asset Value of the total assets under management, paid quarterly in advance by SC II, SC Limited and SCFR.

Pursuant to a settlement agreement that (a) was approved by an order of the Bankruptcy Court entered on May 18, 2010 and (b) became effective on July 1, 2010, Windmill resigned as the manager of SC II and any other SageCrest entity for which it was manager and was relieved of all of its duties as manager or asset servicer with respect to any SageCrest entity and their assets. See Section VI.D.20 below.

C. Business and Assets of Debtors

The SageCrest Funds were formed to address the financial needs of companies that were shut off from traditional sources of capital due to the consolidation of the banking and specialty finance sectors. The Debtors primarily operate through two lines of business: structured finance and real estate investment and development. The Debtors focus on real estate opportunities in four areas: hospitality, mixed-use, multi-family and commercial. The Debtors have also

invested in life insurance policies, either through purchasing those policies from third parties or making loans to individuals to finance premium payments using the policies as collateral.

The Debtors provided secured financing to a diversified group of small to mid-sized businesses. The Debtors made loans to borrowers primarily in the following five areas: specialty finance; life insurance-related products; corporate; mortgage/real estate products; and specialty auto finance. The Debtors typically provided senior secured asset-based loans and related products to small to medium-sized businesses that have a significant asset base and were overlooked by many lenders in the mainstream capital markets. At times, the Debtors also provided junior or subordinated secured financing.

The SageCrest Funds' current assets can be classified into five general categories: asset-backed loans, corporate loans, real estate loans, real estate owned and a life insurance portfolio consisting of both premium finance loans and life settlement policies owned by SC II through SPE's Antietam LLC and National Consolidated Funding II, LLC.

Generally, the Debtors' assets were purchased and held through multiple SPEs. SC II directly or indirectly owns 100% of the stock of the SPEs, which in turn own legal title to most of the underlying investments of the SageCrest Funds. Other than SC II, none of the Debtors owns any of the stock of the SPEs.

SC II sold Participation Interests in certain loans to the SPEs and other assets owned and originated by SC II to SC Limited and SCFR through separate Master Investment Agreements entered into between SC II and SC Limited and SC II and SCFR dated May 3, 2004, and Amended and Restated Master Investment Agreements dated September 21, 2006.

As the direct or indirect owner of 100% of the equity interests in the SPEs that own many of the SageCrest Funds' underlying assets, SC II is the ultimate holder of all of the underlying assets (loans to third parties, real estate properties, insurance policies) that are held in the SPEs. SC Limited, SCFR and SC Holdings hold Participation Interests in the loans made by SC II, but do not own any of the equity interests in the SPEs. See **Exhibit 2**. The percentages of ownership and Participation Interests held by SC II, SC Finance and SC Holdings in the various loans and other assets are set forth in the Amended Schedule B of SC II, SC Finance and SC Holdings filed with the Bankruptcy Court on or about January 31, 2009.

The Debtors used two separate credit facilities to fund their operations. SC Finance is a borrower under a Loan, Security and Servicing Agreement with Deutsche Bank dated April 2, 2007 (as amended, supplemented or modified from time to time, the "SC Finance DB Loan Agreement"). SC Holdings is a borrower under a separate Loan, Security and Servicing Agreement with Deutsche Bank dated April 2, 2007 (the "SC Holdings DB Loan Agreement" and with the Finance DB Loan Agreement, the "Credit Facility"). The SC Finance DB Loan Agreement and the SC Holdings DB Loan Agreement, which are not cross-collateralized, gave the Debtors access to a $400 million loan facility prior to bankruptcy.

Pursuant to a Sale and Contribution Agreement dated April 2, 2007 and entered into in connection with the SC Finance DB Loan Agreement, SC II sold and contributed certain of its

assets to SC Finance to serve as collateral for the SC Finance DB Loan Agreement. Similarly, SC Limited and SCFR sold and contributed their Participation Interests in certain assets owned and originated by SC II to SC Holdings to serve as collateral for the SC Holdings DB Loan Agreement.

As noted above, most of the SageCrest Funds' "hard" assets are held by various SPEs that are direct or indirect subsidiaries of SC II. SC Limited, SCFR and SC Holdings principally own Participation Interests in various loans between SC II and the SPEs. Deutsche Bank's Liens in connection with the SC Finance DB Loan Agreement are secured by the interests that SC II has in loans to SPEs and not the actual assets owned by the SPEs. Similarly, Deutsche Bank's Liens arising under or in connection with the Holdings DB Loan Agreement are secured by the Participation Interests of SC Holdings in the interests of SC Finance in the loans to the SPEs and not by tangible assets.

D. Interrelated Operation of the SageCrest Funds

In many respects, the SageCrest Funds, both onshore and offshore, were operated as one fund. Their assets generally were purchased by SC II or an SPE, and the operation, management, acquisition, and sale of the assets were all managed by a single entity, Windmill.

SC Limited and SCFR hold Participation Interests in virtually all assets of SC II pursuant to the Master Investment Agreements. Because the Master Investment Agreements vested SC II with the right to control and manage the assets, most of the revenue (loan payments, etc.) collected on the assets in which SC Limited and SCFR held Participation Interests came directly into an SC II bank account, and the majority of the expenses associated with those assets were paid from that same account. The parties to the Participation Interests shared pro rata in the credit risk, costs, and expense of managing and servicing the shared loans. Windmill contends that it booked intercompany payables and receivables between and among SC II, SC Limited and SCFR in order to account for these shared costs.

Windmill contended that it transferred or reallocated Participation Interests between and among SC II, SC Limited and SCFR pursuant to the Master Investment Agreements in an effort to equalize the returns realized by the investors in the three funds so that the funds would achieve virtually identical rates of return. Windmill also contends that it attempted to manage the funds as though they were a single fund. Further, while the funds had separate bank accounts, cash was routinely transferred among accounts of the SageCrest Funds and used to pay expenses for jointly held assets. Windmill contends that it established intercompany receivables and payables in the ordinary course of business to reflect these transfers. As described in Section VI.D.19 below, the Debtors, the Committee, the JPL, SCFR and SC Limited disagreed as to the validity of Windmill's contentions and as to the accuracy and validity of the records and alleged transfers made by Windmill, including the validity and amounts of inter-fund balances and accounts that Windmill reported as of the Petition Date. These issues were resolved through the mediation described in Section VI.D.19 below.

E. Secured Indebtedness of the Debtors

1. SC Finance and SC Holdings

On or about April 2, 2007, Deutsche Bank committed to offer secured financing to SC Holdings in the aggregate principal amount of up to $300,000,000 pursuant to the terms of the SC Holdings DB Loan Agreement. SC Holdings' obligation to repay amounts advanced under the SC Holdings DB Loan Agreement, including interest accrued thereon, is evidenced by a promissory note executed by SC Holdings and made payable to Deutsche Bank. As security for payment when due of all amounts advanced under the SC Holdings DB Loan Agreement and other amounts owed by SC Holdings pursuant to the terms of the SC Holdings DB Loan Agreement, SC Holdings pledged certain collateral, as more particularly described in the SC Holdings DB Loan Agreement (the "Offshore Collateral"), and granted a security interest in such Offshore Collateral to Deutsche Bank. To further ensure the repayment of amounts payable to Deutsche Bank under the SC Holdings DB Loan Agreement, SCFR and SC Limited executed the Deutsche Bank Offshore Guaranty.

On or about April 2, 2007, Deutsche Bank committed to offer secured financing to SC Finance in the aggregate principal amount of up to $100,000,000 pursuant to the SC Finance DB Loan Agreement. SC Finance's obligation to repay amounts advanced under the SC Finance DB Loan Agreement, including interest accrued thereon, is evidenced by a promissory note executed by SC Finance and made payable to Deutsche Bank. As security for payment when due of all amounts advanced under the SC Finance DB Loan Agreement and other amounts owed by SC Finance pursuant to the terms of the SC Finance DB Loan Agreement, SageCrest Finance pledged certain collateral, as more particularly described in the SC Finance DB Loan Agreement (the "Onshore Collateral" and, together with the Offshore Collateral the "Collateral"), and granted a security interest in the Onshore Collateral to Deutsche Bank.

Pursuant to the Credit Facility, Deutsche Bank is the primary secured creditor of SC Finance and SC Holdings. Deutsche Bank filed a proof of claim in the SC Holdings Bankruptcy Case, contending that, as of the Petition Date, amounts outstanding under the SC Holdings DB Loan Agreement include principal in the amount of $99,539,108.01, plus interest, default interest and other costs and fees due in accordance with the terms of the SC Holdings DB Loan Agreement. Deutsche Bank filed a proof of claim in the SC Finance Bankruptcy Case, contending that, as of the Petition Date, amounts outstanding under the SC Finance DB Loan Agreement include principal in the amount of $7,369,464.73, plus interest, default interest and other costs and fees due in accordance with the terms of the SC Finance DB Loan Agreement.

As noted above, the respective obligations of SC Finance and SC Holdings are not cross-collateralized under the Credit Facility. However, the Plan proposes that, as of the Effective Date, SC Finance, SC Holdings, SC II, SCFR and SC Limited will become jointly and severally liable for the payment of the Allowed DB Secured Claims against both SC Finance and SC Holdings and that the DB Collateral securing such payment will consist of all Collateral that secures both the Deutsche Bank Secured Claim against SC Finance and the Deutsche Bank Secured Claim against SC Holdings as well as all of the assets of SC II, SCFR and SC Limited. Thus, the Plan will significantly enhance Deutsche Bank's collateral position with respect to the DB Secured Claims as of the Effective Date.

In addition to the secured claims filed by Deutsche Bank, the law firm of Kelley, Drye & Warren LLP ("KDW") filed a proof of claim in each of the SC Finance and SC Holdings Bankruptcy Cases, asserting a secured claim in the amount of $738,581.92 in each case. There has been no resolution of these claims. Any dispute regarding the validity and amount of these claims (including, for example, that the claims are duplicative and/or unsecured) will be resolved by the Bankruptcy Court.

2. SC II

According to the Schedules filed by SC II, there are no secured claims against SC II. However, KDW filed a proof of claim in the SC II Bankruptcy Case, asserting a secured claim in the amount of $738,581.92. There has been no resolution of this claims. Any dispute regarding the validity and amount of this claim (including, for example, that the claim is duplicative of claims KDW filed in other Bankruptcy Case and/or is unsecured) will be resolved by the Bankruptcy Court.

3. SC Dixon

SageCrest Regal, Inc. is the holder of a first mortgage on the 900 Dixon Road property owned by SC Dixon, and therefore is the Holder of a secured Claim against SC Dixon in the amount of approximately $48,842,759.

In addition, three claimants, Terrasan Environmental Solutions, Inc., T. Harris Environmental Solutions, Inc. and Olympus Security & Investigations, Inc. (collectively, the "Construction Lien Claimants") assert Liens against the 900 Dixon Road property owned by SC Dixon under the applicable Canadian Construction Lien Act, R.S.O. 1990, c. C. 30. SC Dixon contends that the Secured Claims of the Construction Lien Claimants are subordinate to the first mortgage Lien of SageCrest Regal, Inc. and that the property subject to these Liens is worth less than the Secured Claim owed to SageCrest Regal, Inc. Therefore, SC Dixon contends that the Claims of the Construction Lien Claimants are unsecured. However, for purposes of this Disclosure Statement, these Claims are included in the estimated amount of Secured Claims in Class 5D (Miscellaneous Secured Claims against SC Dixon) set forth on page 14 above.

F. <u>Unsecured Indebtedness of the Debtors</u>

1. SC II

As of the Petition Date, SC II had total unsecured debt of approximately $4,330,564.91 according to the Schedules filed by SC II, including an Intercompany Claim held by SC Limited in the amount of $4,067,620. Creditors have filed proofs of unsecured Claims against SC II in the aggregate amount of $23,742,060, including proofs of Claims totaling $17,294,871.47 that are classified as Class 8 Redemption Claims against SC II or Class 10C Interests in SC II, some of which are subject to pending objections and/or litigation filed by the Debtors and/or the Equity Committee against the relevant parties who filed such proofs of Claims (see Section VI.D.16 below). The disputes regarding these asserted Claims, and similar Claims that have been or could be asserted by other parties are resolved by the settlement incorporated in the treatment of Redemption Claims in Class 8 under the Plan. Any dispute regarding the validity

and amount of these Claims, and their treatment under the Plan, will be resolved by the Bankruptcy Court.

On January 30, 2009, the Bankruptcy Court issued an order extending the Bar Date for investors in SC II to file proof of claim related to the redemption of their interests in SC II before the Petition Date. See Section VI.D.17 below. The Plan sets a deadline (i.e., the Redemption Claims Bar Date, which is _____, 2010) for filing a proof of claim asserting a Redemption Claim. See Plan § 5.08.

2. SC Finance

As of the Petition Date, SC Finance had total unsecured debt of approximately $5,829,354 according to the Schedules filed by SC Finance, including an Intercompany Claim by SC Holdings in the amount of $3,718,670. Creditors have filed proofs of unsecured Claims for $1,883,943. There has been no resolution of these Claims. Any dispute regarding the validity and amount of these Claims will be resolved by the Bankruptcy Court.

3. SC Holdings

As of the Petition Date, SC Holdings had total unsecured debt of approximately $1,248,020.15 according to the Schedules filed by SC Holdings. Creditors have filed proofs of unsecured Claims for $2,553,862.23. There has been no resolution of these Claims. Any dispute regarding the validity and amount of these Claims will be resolved by the Bankruptcy Court.

4. SC Dixon

As of the Petition Date, SC Dixon had total unsecured debt of approximately $1,445,498.75 according to the Schedules filed by SC Dixon. Creditors have filed proofs of unsecured Claims for $5,887,040. There has been no resolution of these Claims. Any dispute regarding the validity and amount of these Claims will be resolved by the Bankruptcy Court.

VI. THE DEBTORS' BANKRUPTCY CASES

A. Factors Leading to Chapter 11 Filings

Beginning with the quarter ended December 31, 2006, investors in SC II, SCFR and SC Limited requested redemption of their membership interests in the funds. The number of redemption requests increased in each of the quarters ended March 31, 2007, June 30, 2007, and September 30, 2007. By the end of September 30, 2007, a majority of the investors in SC II, SCFR and SC Limited had requested redemption of their membership interests in the funds.

The redemption requests for the quarter ended December 31, 2006 were paid in full. In the third quarter of 2007, the redemption requests for the period ended March 31, 2007 were partially paid from proceeds generated from the sale of two airplanes owned by the funds. Despite efforts by Windmill throughout 2007 and early 2008 to raise liquidity through a 144A public stock and debt offering, sales of assets or refinancing of the Deutsche Bank Credit Facility, the funds were unable to generate sufficient liquidity to pay the remaining balance of

the redemption requests for the quarter ended March 31, 2007, or any subsequent redemption requests.

By the end of the third quarter of 2007, a total of approximately $225 million was outstanding on the Deutsche Bank Credit Facility. Late in 2007, although SC Finance and SC Holdings had not defaulted on any payments due to Deutsche Bank under the Credit Facility, Deutsche Bank contended that Debtors were in default of one or more technical covenants under the Credit Facility, and demanded that the Debtors enter into amendments to the Credit Facility loan documents in exchange for a waiver of such default.

On or about December 7, 2007, SC Holdings and SC Finance each entered into a First Amendment to the SC Holdings DB Loan Agreement and the SC Finance DB Loan Agreement, respectively (the "DB Amendment"). The DB Amendment generally required SC Holdings and SC Finance to pay down the balance outstanding on the Credit Facility in order to meet certain Advance Rate (or loan to value) targets as of February 29, 2008, April 30, 2008 and June 30, 2008. For SC Finance, the Advance Rate had to be decreased to 47.5% by February 29, 2008, 37.5% by April 30, 2008, and 25% by June 30, 2008. For SC Holdings, the Advance Rate had to be decreased to 31% by February 29, 2008, 28% by April 30, 2008, and 25% by June 30, 2008.

After executing the DB Amendment, the SageCrest Funds applied virtually all proceeds from the sales of assets to Deutsche Bank to meet the lower loan to value ratio targets and pay down the debt to Deutsche Bank. The Debtors contend that all loan to value ratio targets were met by the dates required by the DB Amendment. Nonetheless, in August 2008, Deutsche Bank refused to honor the Debtors' request to fund approximately $2 million under the Credit Facility. Deutsche Bank also expressed to Windmill that it wanted Windmill to simply liquidate the Debtors' assets as quickly as possible to pay all amounts outstanding on the Credit Facility.

The economy worsened and credit markets continued to tighten significantly in 2008. The lack of market liquidity had an adverse effect on the ability of SageCrest to sell its loans and other assets, and for the counter-parties to the loans to satisfy the conditions of refinance the loans. The tight credit market also inhibited the Debtors' ability to refinance the Credit Facility. As lenders like Deutsche Bank attempted to deal with their exposure to structured products, subprime mortgage defaults, and an overall volatile market, their willingness to lend was significantly reduced.

Because the values of the Debtors' assets were believed to far exceed the amount outstanding on the Credit Facility, the Debtors' management was faced with a decision of how to best maximize the value of the Debtors' assets for the benefit of all of the Debtors' investors and creditors.

The Debtors could not operate and thereby preserve and maximize the value of their assets for investors and creditors without advances under the Credit Facility or use of cash collateral. Furthermore, conducting sales of assets in an artificially short time period to meet the demands of Deutsche Bank and investors who had requested redemptions would have likely resulted in a significant reduction in value of the assets available to make distributions to investors and creditors. Absent a quick sale of many of the Debtors' assets at liquidation prices,

the Debtors did not have sufficient cash to honor the redemption requests and pay Deutsche Bank.

The Debtors sought the protection of Chapter 11 to give the Debtors the time to properly maintain and manage the Debtors' assets and to sell those assets in an orderly liquidation that would maximize the return to all of the Debtors' investors and creditors.

B. Fortress Sale Transaction

In late 2007 and early 2008, Windmill negotiated a term sheet with Fortress Investment Group ("Fortress") whereby Fortress or its affiliate would purchase all of the assets SC II, SCFR, SC Limited, SC Holdings and SC Finance for a total price of $600,000,000, which was 60% of the internal carrying value of the assets as of November 30, 2007. In addition, the term sheet included a 50% back-end split to the existing investors in the SageCrest Funds as the funds' assets were monetized by Fortress, after Fortress recovered all invested dollars, including the purchase price as well as any additional capital contributed by Fortress to maintain or enhance the assets, as well as a 10% compounded rate of return on its investment.

In early 2008, Windmill recommended to SC II investors and the boards of directors of SC Limited and SCFR that the funds go forward with the Fortress transaction, and that the sale of the assets in one transaction had several advantages over a drawn-out approach involving individual asset sales, which would likely take several years to complete. Windmill also warned that the funds would continue to face continued distress in the credit markets and increased pressure from Deutsche Bank.

The boards of directors of SC Limited and SCFR requested a fairness opinion in connection with the potential transaction. Windmill retained Houlihan Smith & Company ("Houlihan") to give a fairness opinion. Houlihan issued its Fairness Opinion Report to the Board of Directors of SC Holdings, SC Limited and SCFR as of March 3, 2008. In the report, Houlihan concluded that the assets of the SageCrest Funds had a fair value of between $517,176,287 and $806,553,644 as of March 6, 2008. Several investors in the funds instructed Windmill not to proceed with the transaction, and the boards of directors of SC Limited, SCFR and SC Holdings never approved the transaction.

During 2008, the economy worsened, the assets of the SageCrest Funds continued to decline in value, and SC II, SC Finance and SC Holdings filed bankruptcy petitions in August 2008 after Deutsche Bank cut off further funding.

C. Commencement of the Bankruptcy Cases

SC II and SC Finance filed for protection under the Bankruptcy Code on August 17, 2008. SC Holdings filed for protection under the Bankruptcy Code on August 20, 2008. SC Dixon filed for protection under the Bankruptcy Code on September 11, 2008.

D. Significant Events Since Commencement of Bankruptcy Case

1. Joint Administration

On or about August 21, 2008, Debtors SC II, SC Finance and SC Holdings filed Motions for Joint Administration of their bankruptcy cases. On or about August 27, 2008, orders were entered granting the Motions, and directing the procedural and administrative consolidation of the SC II, SC Holdings and SC Finance cases under case no. 08-50754.

On or about October 8, 2008, Debtor SC Dixon filed a Motion for Joint Administration seeking to have its case consolidated for administrative purposes only with the jointly administered SC II, SC Finance and SC Holdings cases. An order granting this relief was entered on or about October 30, 2008. Therefore, the SC II, SC Finance, SC Holdings and SC Dixon cases are now being jointly administered under case no. 08-50754.

The SC II, SC Finance, SC Holdings and SC Dixon cases are not substantively consolidated. Il Lugano remains in a separately administered case, case no. 08-50811.

2. Appointment of Official Committees

a. Equity Committee

On October 7, 2008, the Office of the United States Trustee (the "UST") appointed the Equity Committee for the SC II, SC Finance and SC Holdings Bankruptcy Cases, consisting of the following equity security holders of SC II:

Wall Watchstone Partners, L.P.	SSR Capital Partners, LP	Wood Creek Multi-Asset Fund, LP
Topwater EF III, LLC	Charles Bilezikian Revocable Trust	Somerset I, LLC
The Irrevocable Trust of James E. Lineberger		

Topwater and Wood Creek later resigned from the Equity Committee, and on November 4, 2008, the UST filed an Amended Notice of Appointment of Equity Security Holders removing Topwater and Wood Creek from the Equity Committee.

On November 5, 2008, the Equity Committee filed a Notice of Appointment of *Ex Officio* Members of the Committee of Equity Security Holders appointing Marilyn and Raymond Ruddy Family Fund and Eden Rock Structure Finance Fund, two investors in SC Limited, as *ex officio* members of the Equity Committee.

On March 27, 2009, the JPL filed a motion to dissolve the Equity Committee as to SC Holdings. On April 22, 2009, the Bankruptcy Court granted the JPL's motion and, as of that date, the Equity Committee was dissolved as to SC Holdings.

Since its appointment, the Equity Committee and its professionals have been actively involved in all aspects of the Bankruptcy Cases.

b. Unsecured Creditors' Committee

On October 31, 2008, the UST appointed the Creditors' Committee consisting of two members: AllFinancial Group, LLC, and Equal Overseas Consulting, Ltd. Since its appointment, the Creditors' Committee has not taken an active role in the Bankruptcy Cases, and has not retained any professionals.

3. Retention of Professionals

a. Bankruptcy Counsel to the Debtors

On August 23, 2008, SC II, SC Finance and SC Holdings filed Applications for an Order Authorizing Retention of Neligan Foley LLP ("NF") as Counsel to the Debtors (the "NF Application"), as well as Applications of Debtor and Debtor-in-Possession for an Order Authorizing the Retention and Employment of Zeisler & Zeisler as Local Co-Counsel to the Debtors.

The NF Applications with respect to SC II and SC Holdings were granted by orders entered on October 9, 2008. The NF Application with respect to SC Finance was granted at a hearing held on October 7, 2008, and the Bankruptcy Court entered an order on March 20, 2009 granting the NF Application as to SC Finance.

The directors of Holdings determined that Holdings needed separate chapter 11 counsel in its Bankruptcy Case. Therefore, on November 22, 2008, Holdings filed an Application to Employ Cole, Schotz, Meisel, Forman & Leonard, P.C. ("Cole Schotz") and Neubert, Pepe & Monteith, P.C. ("NPM") as counsel. The Bankruptcy Court granted this Application on December 22, 2008, effective as of November 6, 2008, and Cole Schotz and NPM were substituted for NF and Zeisler & Zeisler as counsel for Holdings.

b. Counsel to the Equity Security Holders Committee

On October 31, 2008, an Application to employ Kilpatrick Stockton LLP ("Kilpatrick") as counsel to the Equity Committee nunc pro tunc to October 16, 2008 was filed. On November 5, 2008, an Application to employ Reid & Reige, P.C. ("Reid") as counsel to the Equity Committee nunc pro tunc to October 16, 2008 was filed. Two parties filed limited objections to those Applications. The Bankruptcy Court overruled the objections and issued orders on December 17, 2008 and June 4, 2009 approving the Applications of Reid and Kilpatrick, respectively, effective in each instance as of October 16, 2008.

c. Financial Advisors to the Equity Committee

On November 21, 2008, an Application to employ FTI Consulting, Inc. as financial advisors to the Equity Committee was filed. Two parties filed limited objections to that

Application. The Bankruptcy Court overruled the objections and issued an order approving the Application on December 17, 2008, effective as of October 29, 2008.

d. Retention of Kelley Drye & Warren as Special Counsel to Debtors

On October 15, 2008, KDW filed its Application to be Employed as Special Counsel to represent the Debtors in general corporate and tax matters, as well as issues related to a loan made by Debtors to Art Capital Group ("ACG") and a subsequent settlement with ACG related to that loan. Two parties filed objections to that Application. The Bankruptcy Court overruled the objections and issued an order approving the Application on November 25, 2008, nunc pro tunc to August 17, 2008. Upon default by ACG on a payment due under the settlement agreement on November 19, 2008, KDW filed suit against ACG on January 20,2009, which is discussed in Section VI.D.14 below. On March 6, 2009, the defendants in the suit against ACG filed a motion with the Bankruptcy Court seeking to require a clarification of KDW's employment as special counsel to the Debtors. SC II and SC Holdings filed responses to that motion. On March 18, 2009, the Bankruptcy Court entered an order denying the motion to clarify.

e. Retention of Houlihan Smith & Company to Provide Valuation Services to the Debtors

On November 21, 2008, the Debtors filed an Application to Employ Houlihan Smith to Provide Valuation Services to the Debtors. The Application was granted by order entered on December 22, 2008.

f. Retention of Ordinary Course Professionals

Prior to the filing of bankruptcy, the Debtors utilized a number of professionals in the ordinary course of their business, including appraisers, auditors, accountants, attorneys and others. Therefore, on September 17, 2008, the Debtors filed an Application to Employ and Compensate Certain Professionals Utilized in the Ordinary Course of Debtors' Business Nunc Pro Tunc to August 17, 2008 seeking to employ a number of professionals whose services the Debtors would need to continue to operate their business during the bankruptcy. An order granting the Application was entered on September 29, 2008. Pursuant to that order, on February 19, 2009 and January 13, 2010, the Debtors filed statements that summarized the payments to ordinary course professionals through September 30, 2009.

4. Schedules and Statement of Financial Affairs

On October 14, 2008, SC II, SC Finance and SC Holdings filed their Schedules and Statements of Financial Affairs, which includes detailed financial information regarding the Debtors' assets and liabilities. SC II and SC Finance filed Amended Schedules B and F, as well as Amended Statements of Financial Affairs, on January 30, 2009. SC Holdings filed an Amended Schedule B and Amended Statement of Financial Affairs on January 30, 2009.

5. Section 341 Creditor Meetings

Pursuant to section 341 of the Bankruptcy Code, the Debtors held an initial meeting with the creditors of SC II, SC Finance and SC Holdings and the representative of the UST on September 22, 2008. The meeting was continued on October 20, 2008, at which time Debtors SC Dixon and Il Lugano were included. Although Il Lugano is a debtor in a separate case, it was included in the October 20 meeting due to its relationship to the Debtors in the jointly administered Bankruptcy Cases. The meeting with creditors of all Debtors was completed on November 17, 2008.

6. Use of Cash Collateral

As discussed above, SC Finance and SC Holdings are borrowers under a Deutsche Bank Credit Facility, and certain assets of SC Finance and SC Holdings serve as collateral for the SC Finance DB Loan Agreement and the SC Holdings DB Loan Agreement. When the bankruptcy cases of SC Finance and SC Holdings were filed, SC Finance and SC Holdings sought authority from the Bankruptcy Court to use cash collateral pursuant to section 363 of the Bankruptcy Code. Without use of cash collateral, the Debtors would have suffered irreparable harm, and the value of their assets would have been greatly diminished.

SC Finance and SC Holdings filed their Motions for Authority to Use Cash Collateral and to Provide Adequate Protection (the "Cash Collateral Motions") on August 22, 2008. An expedited hearing was held on the Cash Collateral Motions on August 26, 2008, after which the Bankruptcy Court granted preliminary use of cash collateral by SC Finance and SC Holdings. A final hearing on the Cash Collateral Motions was scheduled for September 16, 2008.

On September 11, 2008, consistent with its rulings at the August 26 hearing, the Bankruptcy Court entered Preliminary Orders Authorizing Use of Cash Collateral and Providing Adequate Protection to Secured Creditor through September 17, 2008 in accordance with a Budget attached as Exhibit A to the order.

In September-November 2008, the Bankruptcy Court entered three additional preliminary orders authorizing the Debtors' continued use of cash collateral through December 16, 2008 and scheduling a status conference for that same date.

At the status conference on December 16, 2008, the Bankruptcy Court indicated that it would schedule the final hearing on the Cash Collateral Motions for January 5, 2009. On December 22, 2008, the Bankruptcy Court entered a Fifth Preliminary Order Authorizing Use of Cash Collateral and Providing Adequate Protection to Secured Creditor (the "Fifth Preliminary Order"), which authorized the Debtors' use of cash collateral through January 31, 2008 and established a procedure for continued approval of cash collateral budgets for subsequent months through the date of a final hearing on the Cash Collateral Motions.

At the January 5, 2009 status conference, the Bankruptcy Court did not set a final hearing on the Cash Collateral Motions, because the Debtors informed the Bankruptcy Court that Houlihan was in the process of valuing the Debtors' assets. Deutsche Bank and the Debtors agreed to await the Houlihan valuation report before initiating costly discovery in preparation for a final hearing. The Debtors believed that the value of their assets far exceeded the amount due

to Deutsche Bank under the Deutsche Bank Credit Facility. Houlihan's valuation report, dated March 11, 2009 and updated as of July 27, 2009, confirmed the Debtors' belief. See Section VI.D.13 below for a discussion of the Houlihan valuation report.

To date, no final hearing on the Cash Collateral Motions has been set. Since the entry of the Fifth Preliminary Order, the Debtors have continued to use cash collateral pursuant to the monthly budgeting process set forth in that order.

7. Automatic Stay Litigation

An immediate effect of the filing of a bankruptcy case is the imposition of the automatic stay under section 362 of the Bankruptcy Code, which, with limited exceptions, enjoins the commencement or continuation of all litigation against the Debtors. This injunction will remain in effect until the Effective Date of the Plan unless otherwise modified by the order of the Bankruptcy Court.

To date, two motions to lift stay have been filed against the Debtors, one by Deutsche Bank, and the other by Corus Bank.

On or about September 12, 2008, following the initial hearing on the Cash Collateral Motions, Deutsche Bank filed a Motion for Relief for Automatic Stay (the "DB Stay Motion"), contending that the Bankruptcy Cases were improperly filed because they were essentially a two-party dispute between Deutsche Bank and the Debtors. The Debtors have never been required to file a response to the DB Stay Motion. However, the Debtors dispute Deutsche Bank's assertion that these bankruptcy cases were improperly filed or that they are merely a two-party dispute between the Debtors and Deutsche Bank. As reflected on the Schedules, the Debtors have many unsecured creditors. In addition, certain investors who requested redemption before the Debtors filed the Bankruptcy Cases have filed proofs of claim contending that they are unsecured creditors, not equity holders of SC II. See Section VI.D.16 below. Should those investors prevail, many other investors who requested redemption prior to SC II's bankruptcy filing will file proofs claims asserting they are also unsecured creditors. See Section VI.D.17 below (discussion of Bar Date for Equity Security Holders). In addition, the Debtors disagree with Deutsche Bank's contention that it is improper for the Debtors to file bankruptcy to obtain the breathing room necessary to conduct an orderly liquidation of assets to maximize value of their assets for all investors and creditors when the secured lender, Deutsche Bank, is significantly oversecured. Therefore, if Deutsche Bank were to insist on a hearing on the DB Stay Motion, the Debtors would vigorously oppose it. The Debtors believe they have an obligation to maximize value for all investors and creditors, and not simply sell assets as quickly as possible to pay Deutsche Bank in a manner that diminishes value for other stakeholders. To date, Deutsche Bank has not requested a final hearing on the DB Stay Motion.

On October 15, 2008, Corus Bank, N.A. ("Corus"), a secured lender on a partially constructed condominium property located in Brooklyn, New York owned by Caton on the Park, LLC, an indirect subsidiary of SC II, filed a Motion for Relief from Stay with respect to the property seeking a stay to proceed with foreclosure proceedings it had commenced in the Supreme Court of the State of New York, County of Kings, Index No. 16004/2008 (the "NYS Action"). On November 13, 2008, the Bankruptcy Court entered a Stipulation and Order

Granting Partial Relief from the Automatic Stay for the limited purpose of allowing a receiver to be appointed in the NYS Action to physically preserve, protect and maintain the property. The hearing to consider the remaining relief requested in the Corus Motion was set on November 18, 2008, but was continued several times by agreement of the parties and has not been reset. Therefore, no further relief has been entered on the Corus Motion at this time.

8. Proceedings in the Bermuda Court and the Bankruptcy Court Regarding SC Limited, SCFR and SC Holdings

On or about August 29, 2008, the boards of directors of SC Limited and SCFR, the Bermuda companies that serve as the offshore investment funds within the SageCrest Funds, passed resolutions that SC Limited and SCFR should commence a winding up proceeding and seek the appointment of a provisional liquidator in the Supreme Court of Bermuda, Companies (Winding Up) Commercial Court (the "Bermuda Court"). Four days later, SC Limited and SCFR filed petitions in the Bermuda Court, which were assigned case nos. 2008, no. 196 and 197, respectively. Peter C. B. Mitchell ("Mitchell") was appointed Provisional Liquidator (the "PL") of SC Limited and SCFR, pursuant to orders of the Bermuda Court dated September 2, 2008.

On February 17, 2009, Windmill filed a petition with the Bankruptcy Court seeking to commence an involuntary chapter 11 case against SCFR pursuant to section 303 of the Bankruptcy Code, case no. 09-50273 (the "SCFR Involuntary"). On April 7, 2009, SCFR filed an answer, disputing the involuntary petition on the merits and requesting that the Bankruptcy Court dismiss it. On May 4, 2009, SC II filed a joinder in the involuntary petition against SCFR. On May 15, 2009, SCFR filed a motion requesting that the Bankruptcy Court abstain from considering the involuntary petition or, alternatively, dismissing it. On June 16, 2009, SC II and Windmill filed an opposition to SCFR's motion for abstention or dismissal. On August 17, 2009, the Bankruptcy Court entered a stipulated order to defer further proceedings in the SCFR Involuntary pending the outcome of mediation among various parties regarding a chapter 11 plan for all of the Debtors (see Section VI.D.19 below regarding the plan mediation). Such mediation produced several agreements, including the Windmill Settlement (as defined and discussed in Section VI.D.20 below), which provided, *inter alia*, for the dismissal of the SCFR Involuntary. On July 1, 2010, the parties in case no. 09-50273 filed a joint stipulation dismissing the SCFR Involuntary with prejudice.

On or about March 3, 2009, SC Limited and SCFR sought, and the Bermuda Court entered, additional orders expanding the PL's powers with respect to SC Limited and SCFR, and terminating the powers but not the services of the directors of SC Limited and SCFR. In addition, on or about March 3, 2009, the directors of SC Holdings authorized the filing of an application with the Bermuda Court to appoint Mitchell as the PL of SC Holdings, and the Bermuda Court granted such application.

Because SC II and the Equity Committee believed that the aforementioned actions and certain other actions taken by the offshore directors and the PL of SC Limited, SCFR and SC Holdings were an attempt to interfere with the Debtors' chapter 11 cases and the Bankruptcy Court's jurisdiction, on or about March 12, 2009, SC II and the Equity Committee filed

Adversary No. 09-05009 against the PL[9] and the offshore directors of SC Holdings, SC Limited and SCFR, seeking temporary, preliminary and permanent injunctive relief against these defendants.

On March 12, 2009, the Bankruptcy Court entered a temporary restraining order prohibiting these defendants from, *inter alia*, taking actions to exercise control over property of the Debtors' estates or interfering with the Bankruptcy Court's jurisdiction over the Debtors' chapter 11 cases. On March 20, 2009, the Bankruptcy Court entered a preliminary injunction (the "Injunction") granting substantially similar relief, including restrictions on the sale or other disposition of the WMD Bonds in which SC II, SCFR and SC Limited hold interests without further Bankruptcy Court approval. On April 15, 2009, the Bankruptcy Court entered a Stipulated Order Regarding WMD Bonds and Cash Proceeds in this adversary proceeding (the "Stipulated Order"), which included provisions for the use of certain proceeds from the WMD Bonds. In May-June 2010, the parties resolved all issues in this adversary proceeding. Thus, on July 30, 2010, the parties filed a stipulation dismissing Adversary No. 09-05009, which will, among other things, nullify the effect of the Injunction and the Stipulated Order, allow SC II, SC Limited and SCFR to manage and sell the WMD Bonds pursuant to their agreement without further Bankruptcy Court approval and provide for Windmill's disbursement of proceeds of the WMD Bonds in its possession to those parties in accordance with their agreement.

9. Retention of Creative Realty Management, LLC to Manage Debtors' Real Estate Assets

Certain SPE own real property, including the Il Lugano hotel and condominium project owned by Debtor Il Lugano, the Constellation Hotel owned by Debtor SC Dixon, and others that require ongoing management and development. Before the Petition Dates, the Debtors used the services of Creative Realty Management, LLC ("CRM"), an affiliate of Merchant Equity based in New York, New York, to assist the Debtors with the management and development of their real property interests. CRM has provided a variety of services to the Debtors, including: (a) overseeing construction of the Todd English Restaurant at Il Lugano; (b) overseeing the Caton on the Park construction project; (c) overseeing the Project Improvement Program at Bethel Park Crown Plaza; (d) asset management services in connection with the Holiday Inn Milford, Mass.; (e) management services in connection with the Sodus Bay Marina; (f) management services in connection with the sale of Bethel Park Crowne Plaza; (g) sales and leasing management and other services in connection with the Hawthorne Estates condominium project; and (h) construction oversight and requisition reviews at Grand Oaks Communities.

The Debtors elected to continue using the services of CRM to manage and develop their real property interests during the Bankruptcy Cases. Therefore, on September 24, 2008, the Debtors filed a Motion to Grant Administrative Expense Status to Debtors' Post-Petition Obligations to Creative Realty and to Authorize the Debtors to Pay Such Obligations in the Ordinary Course of Business. After negotiation with various parties in interest, including the UST and at least one investor, regarding the terms of the Debtors' retention of CRM, on October 10, 2008, the Bankruptcy Court entered an order granting the Debtors' motion.

[9] Mr. Mitchell is now deceased and has been succeeded by Nigel Chatterjee and Daniel Schwarzmann as the JPL.

CRM initially was retained through January 31, 2009 pursuant to an existing contract dated August 1, 2008, which provided for the payment of a flat fee of $160,000 per month to CRM, plus the reimbursement of reasonable expenses. On April 15, 2009, the Bankruptcy Court entered an order approving the first amendment of that agreement, which extended CRM's services through July 2009 at a reduced fee of $95,000 per month for February through April 2009, and $85,000 per month for May through July 2009. On December 1, 2009, the Bankruptcy Court entered an order approving the second amendment of that agreement, which extended CRM's services through March 31, 2010 at a reduced fee of $70,000 per month plus reasonable approved expenses. On May 5, 2010, the Debtors filed a motion to approve a third amendment, which would maintain CRM's fee at $70,000 per month (subject to certain reduction if the Debtors sold or disposed of any properties under CRM's management during the extension period) through September 30, 2010 (subject to early termination without cause upon 30 days' notice) plus reasonable approved expenses. The Bankruptcy Court granted this motion at a hearing on June 15, 2010, and on July 19, 2010, the Bankruptcy Court entered an order authorizing the Debtors to execute and perform under the third amendment.

10. Continued Use of Existing Cash Management System

On October 10, 2008, to comply with Guidelines of the UST concerning Debtor in Possession bank accounts and avoid the necessity of opening new accounts and disrupting the Debtors' business operations, the Debtors filed a Motion to Continue to Use Existing Cash Management System and Existing Bank Accounts and to Maintain Existing Business Forms. Following discussion with the UST and other parties in interest, the Bankruptcy Court entered an order granting the Motion on December 18, 2008.

11. Management of Debtors' Loan Portfolios in the Ordinary Course of Business

In the ordinary course of the Debtors' business it is necessary for the Debtors from time to time to modify the terms of loans in which the Debtors hold an interest or to foreclose on collateral securing such loans. Therefore, in order to set parameters on the Debtors' ability to continue to manage its loan portfolio and conduct foreclosure sales in the ordinary course of business, the Debtors filed a Motion for Authorization to Manage Their Loan Portfolios and Investments in the Ordinary Course of Business, Including Authorization to (A) Honor and/or Fund Certain Pre-Petition Commitments, (B) Foreclose Upon Collateral in Ordinary Course of Business, (C) Enter Into Loan Modification and Forbearance Agreements in the Ordinary Course of Business, and (D) Make Intercompany Loans, Payments and Transfers in the Ordinary Course of Business (the "Ordinary Course Motion") on January 21, 2009. After extensive negotiations with the Equity Committee and other parties regarding the parameters for the Debtors to continue these activities in the ordinary course of business without objection by those parties, and the appropriate form of order, and following a hearing on February 10, 2009, the Bankruptcy Court entered an order on March 24, 2009 granting the Ordinary Course Motion.

12. Sealing Equity Investor List

In order to protect confidentiality of its investors, SC II filed a Motion to Seal List of Equity Security Holders Required Under Bankruptcy Rule 1007(c). The Bankruptcy Court granted the Motion by order entered on January 30, 2009, and SC II then filed the list of equity

security holders in SC II under seal with the Bankruptcy Court. The order granting the Motion to Seal provides procedures for parties in interest to obtain a copy of the list by signing a form of Confidentiality Agreement attached to the Motion.

13. Valuations of the Debtors' Assets

As discussed above, the Debtors retained Houlihan to value the Debtors' assets. Houlihan's report dated March 11, 2009 provides an analysis of the fair value of all of the assets owned by the Debtors, other than Intercompany Claims. The fair value standard used by Houlihan in its analysis is set forth in FAS 157, which defined fair value as "the price at which an asset (or liability) could be bought (or incurred) or sold (settled) in a current transaction between willing parties, that is, other than in a forced or liquidation sale." Non-Debtors SCFR and SC Limited have interests in some of the assets valued by Houlihan, including the WMD Bonds and the Catalina Ferry. For a breakdown of the percentages of participation interests held in the assets by SC Finance and SC Holdings, see the attachments to each Schedule B filed by SC Finance and SC Holdings in their Bankruptcy Cases.

According to its March 11, 2009 report, Houlihan opined that the range of fair value for the total portfolio held by the SageCrest Funds as of December 31, 2008 was from a low of $314,440,653 to a high of $408,875,421. Separate ranges of value are summarized in the report for each category of assets owned by the funds, including Asset-Backed Loans (low of $66,015,460 to high of $81,212,817), Corporate Loans (low of $52,433, to high of $69,767,302), Insurance (low of $75,827,140 to high of $126,031,131), Real Estate Loans (low of $10,460,858 to high of $15,920,561), and Real Estate Owned (low of $109,703,983 to high of $115,943,609).

Houlihan supplemented its March 11, 2009 by a supplemental valuation report, dated July 27, 2009, which compared the value of the Debtors' assets in a short-term liquidation scenario with the values in an orderly wind-down scenario. Houlihan defined short-term liquidation values as "the value one would expect to receive when forced to transact within a 3- to 6- month time-frame and in the currently distressed markets." Houlihan defined orderly wind-down values as "a best case scenario in which the values of asset backed and corporate securities are assumed to be maximized," which Houlihan assumed to be three to five years.

According to its July 27, 2009 supplemental report, Houlihan's opined that the value of the Debtors' assets in a short-term liquidation scenario is $215,845,725, and that the value of the Debtors' assets in an orderly-wind down scenario is $547,598,368. Separate ranges of value are summarized in the report for each category of assets owned by the Debtors, including Asset-Backed Loans (short-term liquidation value of $45,550,354 and orderly wind-down value of $106,123,381), Corporate Loans (short-term liquidation value of $35,935,521 and orderly wind-down value of $85,549,468), Insurance (short-term liquidation value of $52,003,981 and orderly wind-down value of $189,517,871), Real Estate Loans (short-term liquidation value of $7,630,833 and orderly wind-down value of $22,251,390), and Real Estate Owned (short-term liquidation value of $74,725,038 and orderly wind-down value of $144,156,258).

In its supplemental report, Houlihan revised the fair value of the Debtors' total portfolio as of December 31, 2008 to reflect a low of $312,784,460 and a high of $401,156,270. The values for each category of assets were revised as follows: Asset-Backed Loans (low of

$65,071,934 to high of $80,121,846), Corporate Loans (low of $51,336,458 to high of $67,752,428), Insurance (low of $75,827,140 to high of $126,031,131), Real Estate Loans (low of $10,460,858 to high of $15,920,561), and Real Estate Owned (low of $110,088,070 to high of $111,330,294).

The values provided in Houlihan's March 11, 2009 and July 27, 2009 reports demonstrate that Deutsche Bank is significantly over-secured with respect to the debt owed to Deutsche Bank by SC Finance and SC Holdings. The values of the Debtors' assets may have changed since Houlihan provided its reports. Some assets may have increased in value, while the value of other assets may have decreased.

The Debtors are in the process of obtaining additional updated valuations of some or all of their assets and will disclose any updated value information they receive before the hearing on the Disclosure Statement or before the Confirmation Hearing, as applicable, in a timely manner. The Debtors believe that the valuation evidence presented at the Confirmation Hearing will establish that the Deutsche Bank Secured Claims are significantly over-secured and that the payment in full of all Allowed General Unsecured Claims against SC II, SC Finance and SC Holdings as provided in the Plan is feasible.

In addition to the valuations obtained by the Debtors, Deutsche Bank has retained Alvarez & Marsal to perform a valuation of the DB Collateral. See Section VI.D.21 below. The results of such valuation have not yet been made available to the Proponents.

14. Art Capital Litigation

On January 20, 2009, SC II commenced an action (the "NY Action") in the Supreme Court of the State of New York, County of New York, Index No. 600166/09, against Ian S. Peck ("Peck"), ACG Credit Company II, LLC, ACG Finance Company LLC, Fine Art Finance, LLC, Art Capital Group, LLC, Art Capital Group, Inc., and ACG Credit Company, LLC (collectively, the "Defendants"). The action arises out of the breach of a "so-ordered" settlement stipulation (the "So-Ordered Settlement Stipulation") that was signed on May 19, 2008 to resolve a prior litigation as well as the Defendants' tortious acts that occurred after the So-Ordered Settlement Stipulation was executed.

Also on January 20, 2009, SC II filed an Order to Show Cause in the NY Action, seeking to seize all of the property located at Defendants' offices and Peck's home including, but not limited to, certain collateral (the "Assigned Collateral") securing certain loans that were assigned to SC II (the "Assigned Loans"), a preliminary injunction and a temporary restraining order (the "Motion"). On January 21, 2009, SC II and Defendants stipulated to a temporary restraining order which prohibited any movement of the Assigned Collateral located at Defendants' offices. Defendants subsequently filed papers in opposition to the Motion and SC II filed its reply papers. On February 11 and 13, 2009, the court held evidentiary hearings on the Motion. The only witness to testify was Peck. Subsequently, the parties engaged in discussions which ultimately resulted in a Stipulation and Order requiring Defendants to turn over the Assigned Collateral to SC II and deposit $250,000 in escrow and an order restraining at least $826,280.40 in Defendants' bank accounts. The court also ordered that Defendants turn over three (3) years of

bank account information and an evidentiary hearing relating to the $826,280.40, which was scheduled for March 27, 2009.

Defendants sought a stay pending appeal regarding the restraint on the bank account, the hearing, and the production of the bank account records. On March 25, 2009, a Justice of the Appellate Department, First Department granted an interim stay (not on the merits). After the stay motion was fully briefed, the First Department vacated the interim stay and denied the motion for a stay. Defendants also filed a motion in the Bankruptcy Cases to stay the NY Action, which the Bankruptcy Court denied on March 17, 2009.

After the First Department denied the stay, the court ordered the Defendants to produce the bank account records and the parties scheduled the evidentiary hearing for May 1, 2009. On the eve of that hearing, SC II and Defendants entered into a Stipulation and Order that resulted in an additional $913,475.45 being placed into escrow. Of the funds that were escrowed, $511,475.45 was released to SC II on July 1, 2009 pursuant to that same Stipulation and Order. The parties also agreed upon an expedited arbitration schedule to resolve certain claimed fees and expenses.

On April 30, 2009, SC II filed an Amended Complaint in the NY Action, asserting twelve (12) causes of action against Defendants including, but not limited to, breach of the So-Ordered Settlement Stipulation, tortious interference, turnover, fraud and fraudulent inducement, and contempt.

Defendants moved to dismiss the Amended Complaint on August 19, 2009. On December 21, 2009, SC II moved, by order to show cause, for an order of contempt against Defendants for certain violations of court orders. In particular, SC II sought to hold Defendants in contempt for: (1) failing to wire transfer over $6 million to SC II pursuant to the So-Ordered Settlement Stipulation; (2) interfering with the servicing, managing and administration of the Assigned Loans; (3) withdrawing and transferring funds out of an account that the court ordered to remain "inviolate"; and (4) unilaterally cancelling the arbitration. Defendants opposed that motion and cross-moved against SC II alleging that SC II was in contempt of the So-Ordered Settlement Stipulation by granting participation interests in the loans in 2006 and asserting fraud-based claims. SC II opposed the cross-motion.

The aforementioned motions were argued before the Honorable Eileen Bransten in January 2010. On June 8, 2010, Justice Bransten denied Defendants' motion to dismiss except she granted the portion to strike the demand for attorneys' fees from all claims except the contempt and fraud claims. Justice Bransten also denied both the contempt motion and cross-motion.

On June 3, 2010, SC II commenced an adversary proceeding against Defendants in the Bankruptcy Cases, Adversary Proceeding No. 10-05042 (the "Adversary Proceeding"). The complaint in the Adversary Proceeding asserts six (6) causes of action including, but not limited to, nonpayment of a two-year note, breach of contract, conversion, and turnover. The first five (5) causes of action are against all Defendants and part of the relief sought is alter ego liability.

Simultaneously, SC II filed motions for a prejudgment remedy, a temporary restraining order, a preliminary injunction, and replevin. Defendants opposed those motions and filed a motion seeking to have the Bankruptcy Court abstain, either on mandatory or permissive abstention grounds. Argument was held on June 8, 2010. The Bankruptcy Court denied Defendants' mandatory abstention motion and held the remaining motions in abeyance.

Following that hearing, Defendants requested that the NY Action be consolidated with the Adversary Proceeding as well as SC II's objection to a proof of claim that was filed by Defendants.[10] SC II did not oppose Defendants' request and the Bankruptcy Court agreed to consolidate all of the matters and set a discovery deadline of September 30, 2010 and a trial date for October 26, 2010.

On June 25, 2010, Defendants removed the NY Action to the United States District Court for the Southern District of New York. On July 7, 2010, the parties submitted a Stipulation and Order requesting the transfer of the NY Action to the United States District Court for the District of Connecticut. That same day, the transfer request was granted. Such transfer of the NY Action and its referral to the Bankruptcy Court has not yet been completed.

On July 13, 2010, Defendants served their answers to the Amended Complaint in the NY Action and the Complaint in the Adversary Proceeding. Both answers contain the same counterclaims against SC II as well as a third-party claim against Alan Milton seeking set off and unspecified damages. Defendants also moved to dismiss the first five (5) causes of action in the Adversary Proceeding based on the allegations of alter ego. At a hearing held on August 3, 2010, the Bankruptcy Court postponed the disposition of the motion to dismiss until a trial on the merits.

15. Calpian Transactions and Disputes

SC Finance and SC Holdings own certain promissory notes (the "Calpian Notes") issued by Calpian Residual Partners II, LLC and Calpian Residual Partners III, LLC (collectively, "Calpian"), which are secured by all of Calpian's assets. Calpian's assets include certain Residual Purchase Agreements ("RPAs") between Calpian and Innovative Resource Alliance, Inc. d/b/a MSN Merchant Marketing Services, Inc. ("MSN").

MSN's primary business is to facilitate contracts with merchants ("Merchant Contracts") to conduct their credit card, check card and debit card transactions through various processors ("Processors") and to provide related support services. MSN serves as a marketer for the Processors under separate agreements (the "Processing Agreements") that entitle MSN to receive compensation from the Processors in the form of monthly residual payments (the "Residuals") calculated as a fraction of each card transaction.

Pursuant to the RPAs, Calpian purchased the Residuals from MSN. Several of the RPAs require MSN to repurchase the Residuals upon the occurrence of a specified triggering event. Calpian holds a first-priority lien on all of MSN's assets to secure MSN's repurchase obligation.

[10] SC II objected to the proof of claim filed by Defendants and the hearing on the objection was held in November 2009. During that hearing, the Bankruptcy Court ordered the matters to proceed in the NY Action instead of the Bankruptcy Court. However, the objection was preserved and will now be consolidated with the other actions.

In 2008, MSN defaulted on this obligation and on September 9, 2008, it filed a voluntary chapter 11 petition in case no. 08-23071-BKC-PGH (the "MSN Bankruptcy"), in the United States Bankruptcy Court for the Southern District of Florida (the "MSN Bankruptcy Court").

In the MSN Bankruptcy, Calpian contended that it is owns the Residuals under the RPAs and that MSN has no right, title or interest therein and that Calpian could not use the Residuals as cash collateral or any other purpose. MSN alleged that the RPAs should be construed as financing transactions whereby Calpian is merely a secured creditor holding a security interest in the Residuals, which are property of MSN's bankruptcy estate. In a series of cash collateral orders, Calpian agreed to allow MSN to use certain Residuals (to date, approximately $4.6 million) during the pendency of the MSN Bankruptcy. Calpian and MSN have negotiated a settlement agreement under which the Residuals are confirmed to be Calpian's property, and MSN will assign the Merchant Contracts to Calpian. As soon as Calpian concludes negotiations with a Processor to service this portfolio, MSN will file a motion requesting that the MSN Bankruptcy Court approve the settlement agreement. Upon such approval, MSN will file a motion to dismiss the MSN Bankruptcy.

16. Disputes Involving Topwater and Other So-Called "Redeemed Investors"

On December 4, 2008, SC II and the Equity Committee, as plaintiffs, initiated Adversary Proceeding No. 08-05097 (the "Topwater Adversary") against certain members of SC II, namely, Topwater Exclusive Fund III LLC ("Topwater"), Freestone Low Volatility Partners, L.P., Freestone Low Volatility Qualified Partners, L.P. ("Freestone"), and Wood Creek Multi-Asset Fund, L.P. ("Wood Creek") (collectively, the "Topwater Defendants") as defendants. The crux of the Topwater Adversary is that the Topwater Defendants each submitted a request for either a partial or total redemption of their interests in SC II, to be effective on June 30, 2007. SC II did not pay to the Topwater Defendants the funds to redeem those interests because SC II's Second Amended and Restated Operating Agreement (the "Operating Agreement") gives SC II and its Manager the discretion to postpone or disallow redemption payments if, *inter alia*, such payments would adversely affect SC II's business. *See* Operating Agreement, § 3.9, p. 6. In accordance with this provision, SC II and its Manager (Windmill) did not pay the redemption payments to the Topwater Defendants.

The Topwater Adversary involves the following related issues that were being litigated separately, but were consolidated into the Topwater Adversary so they can be determined in a coordinated fashion.

a. Topwater's Request for a "Redeemed Investor" Committee

On October 7, 2008, the UST filed its appointment of the Equity Committee [Docket No. 105] (the "Equity Committee Appointment"). No distinction was made between redeemed and unredeemed investors. In fact, Topwater and Wood Creek were appointed to the Equity Committee. On October 6, 2008, the Topwater Defendants filed an amended motion [Docket No. 103] (the "Appointment Motion") to appoint a committee of unsecured creditors consisting solely of redeemed investors of SC II, asserting that because they sought redemption of their membership interests pre-petition, they were no longer equity security holders of SC II and had been transformed into unsecured creditors with claims against, and a right to payment from,

SC II. Their rationale was that because redeemed investors are creditors and unredeemed investors are equity security holders, these two groups have different interests and cannot possibly serve together on the same committee.

SC II filed its Objection to the Appointment Motion [Docket No. 174] on October 17, 2008, asserting that the Topwater Defendants' purported statutory authority was inapplicable; that the Topwater Defendants were equity security holders of SC II, not creditors; and that analogous decisions involving stock options and warrants reach the same result. SC II proposed that rather than litigate over whether investors are creditors or equity security holders, by virtue of a request for redemption that was never paid, the Equity Committee Appointment should be allowed to take effect with Topwater and Wood Creek as members. Litigating over creditor status was something that might eventually have to be undertaken once the Topwater Defendants filed proofs of claim, if the duly appointed Equity Committee could not resolve that issue internally. On October 17, 2008, the Equity Committee filed its Objection to the Appointment Motion [Docket No. 158], which echoed the Objection filed by SC II.

b. Topwater's Objection to the Composition of the Unsecured Creditors Committee

At the hearing on the Appointment Motion, on October 21, 2008, the Bankruptcy Court directed the UST to appoint the Creditors' Committee in the SC II Bankruptcy Case, but left to the UST's discretion the parties who would be appointed to that committee. Thus, the UST could have nominated investors that claimed to have redeemed their interests pre-petition, and other non-investor creditors. To justify being selected to sit on the Creditors' Committee, the Topwater Defendants filed their proofs of claim and thereby sought to convince the UST that they were unsecured creditors rather than equity interest holders. In addition, Topwater and Wood Creek resigned from the Equity Committee.

The UST filed its Appointment of the Creditors Committee [Docket No. 249] on October 31, 2008. None of the Topwater Defendants were appointed to that committee. In response, the Topwater Defendants filed their Objection to the Composition of the Official Committee of Unsecured Creditors [Docket Nos. 276 and 277], restating the arguments first made in the Appointment Motion. SC II filed its Response to this Objection [Docket No. 281] and re-emphasized the arguments that it had made in its Objection to the Appointment Motion.

c. Objections to Claims Filed by Topwater Defendants

The Topwater Defendants each filed proofs of claim in the SC II Bankruptcy Case to allege that they are creditors of SC II with standing to sit on the Creditors' Committee [Proof of Claim Nos. 8, 9, 10 and 12 (12-1 and 12-2)]. The amounts asserted in these proofs of claim total $14,021,891.04. SC II filed objections to each of these proofs of claim [Docket Nos. 238, 239, 240, 304, and 339-342]. Other equity investors in SC II (Raynemark Investments LLC, Empyrean Capital Group, LLC and Pine Street Institutional Partners LP) filed similar proofs of claim, totaling $3,272,980.43, asserting that they are creditors of SC II. SC II filed objections to each of these proofs of claim [Docket Nos. 676, 677 and 695]. All of these claims are classified as Class 8 Redemption Claims against SC II for all purposes under the Plan, except for the proof of claim filed by Empyrean Capital Group, LLC, which is classified as a Class 10C Interest in

SC II). The Proponents reserve the right to object to any and all similar claims filed or asserted at any time by any other party.

d. Commencement of the Topwater Adversary

On December 6, 2008, SC II and the Equity Committee filed their Complaint to Disallow or, in the Alternative, to Subordinate Claims (the "Complaint") against the Topwater Defendants, which formally initiated the Topwater Adversary and stated three separate causes of action against the Topwater Defendants: (1) that the Topwater Defendants' proofs of claim should be disallowed in full because the Topwater Defendants are equity security holders and not unsecured creditors: (2) that even if the Topwater Defendants hold claims against SC II rather than equity interests in SC II, those claims must be subordinated to all other claims against SC II under Bankruptcy Code section 510(b) because those claims, if any, are for damages arising from the purchase or sale of equity interests in SC II and thus must be mandatorily subordinated; and (3) to the extent the Topwater Defendants have valid and allowable pre-petition claims against SC II, those claims should be equitably subordinated under Bankruptcy Code section 510(c).

On January 7, 2009, the Topwater Defendants filed their Answer, Affirmative Defenses and Counterclaims to the Complaint [Adversary Docket No. 7], and asserted two counterclaims against SC II and the Equity Committee: (1) that the Topwater Defendants are entitled to be treated as creditors holding non-subordinated claims against SC II; and (2) that the Topwater Defendants are entitled to be treated as equity security holders of SC II if they are not creditors. On January 26, 2009, SC II and the Equity Committee filed their answer to these counterclaims [Adversary Docket No. 8].

e. Consolidation

All of the above-described litigation was consolidated into the Topwater Adversary by virtue of a Pre-Trial Order that the Bankruptcy Court entered on February 13, 2009.

f. Memorandum Opinion and Order

On August 19, 2009, the Bankruptcy Court entered a Memorandum and Order Overruling Plaintiffs' Parol Evidence Objections and Deferring Ruling on Plaintiffs' Hearsay and Relevance Objections, finding that the terms "redeem" and "redemption" as used in the Operating Agreement of SC II were subject to more than one interpretation, in that "a reasonable third person could understand redemption to mean either that members of the LLC are redeemed on the effective date of redemption or are redeemed on the date upon which they are paid their redemption prices."

g. Trial

The Bankruptcy Court commenced the trial of the Topwater Adversary on September 10, 2009, but suspended it indefinitely due to concerns about whether the Bankruptcy Court's ruling could be binding on other investors and the potential duplication of litigation over investors' status as creditors or equity holders. The Bankruptcy Court encouraged the parties to mediate the issues in the Topwater Adversary with former United States Bankruptcy Judge Melanie

Cyganowski (the "Mediator"), who was already mediating disputes among the Debtors, SCFR, SC Limited, the Equity Committee and other parties with the goal of achieving a consensual joint plan for all of the Debtors (see Sections VI.D.18 and VI.D.19 below).

h. Mediation and Settlement Discussions

In December 2009, following the suspension of the trial, the parties to the Topwater Adversary engaged in mediation with Judge Cyganowski and substantial settlement discussions. Despite the best efforts of the parties and the mediator, however, settlement could not be achieved.

i. Topwater's Motion to Set Bar Date

On October 13, 2009, following unsuccessful settlement efforts and mediation, the Topwater Defendants filed a Second Amended Motion for the Appointment of an Official Committee of June 30 Redeemed Investors, and Motion for Order: (A) Directing Debtor SageCrest II LLC to file its list of Equity Security Holders and (B) Establishing Bar Date for Equity Security Holders and June 30 Redeemed Investors to File Proofs of Claim or Interest, Approving the Form and Manner of Notice of the Bar Date, and Directing Debtor to Provide Such Notice, or Alternatively, Motion for Order Directing Immediate Resumption of the Trial in the Topwater Adversary [Docket No. 770].

After a hearing on these Motions on December 16, 2009, the Bankruptcy Court denied the Topwater Defendants' requests to set a bar date for so-called "redeemed" equity investors in SC II to file proofs of claim, to appoint any committee of "redeemed investors" or to restart the trial in the Topwater Adversary. SC II had filed a revised list of Equity Security Holders, so that issue was moot at the hearing. The list is filed under seal with the Bankruptcy Court.

17. Bar Date for Equity Security Holders

On December 17, 2008, SC II filed a Motion to Extend the Bar Date for Equity Security Holders to avoid the potentially premature filing of proofs of claims by all SC II investors who requested redemption of their interests before the SC II's Petition Date. If the Topwater Defendants in the Topwater Adversary were successful in establishing that they are creditors, not equity holders, and that their claims are not subordinated under Bankruptcy Code section 510(b) or 510(c), other investors in SC II who requested redemption of their interests prepetition would also likely file proofs of claims asserting that they are also creditors, and not equity holders of SC II. If the Topwater Defendants were unsuccessful in that litigation, there would likely be no need for other SC II investors who requested redemption of their interests to file proofs of claim. However, that determination was not made before the Bar Date (i.e., December 22, 2008). Therefore, to avoid requiring many SC II investors to file premature proofs of claim by the Bar Date, when the outcome of the Topwater Adversary was uncertain, SC II agreed with the Equity Committee to request an indefinite extension of the Bar Date for SC II investors to file proofs of claim. On January 30, 2009, the Bankruptcy Court entered an order granting this motion, subject

to the right of any party in interest to request that the Bankruptcy Court re-set a bar date for SC II investors seeking to establish "redemption claims" to a date certain in the future.[11]

18. Extensions of Exclusivity Periods

On November 26, 2008, SC II, SC Finance and SC Dixon (together, the "Onshore Debtors") filed a Motion to Extend the Exclusivity Period to File and Solicit Acceptances of a Plan of Reorganization to allow more time to negotiate a plan following the appointment of the Equity Committee and its retention of professionals. By order entered on December 15, 2008, the Bankruptcy Court extended the exclusivity periods for the Onshore Debtors to file and solicit acceptances of a plan to March 31, 2009, and May 29, 2009, respectively. On March 31, 2009, the Onshore Debtors filed a plan of reorganization for only the Onshore Debtors (the "Onshore Plan") and a related disclosure statement.

On March 18 and April 2, 2009, Holdings filed a motion and a renewed motion to extend its exclusivity periods for filing and soliciting acceptances of a plan to May 15 and July 16, 2009, respectively. On May 15, 2009, the Bankruptcy Court entered an order granting Holdings' motion and extending the exclusivity periods for Holdings accordingly. Also on May 15, 2009, Holdings filed a plan of liquidation for Holdings only, and a related disclosure statement.

On May 20, 2009, the Onshore Debtors filed a motion to further extend their exclusivity period for soliciting acceptances of the Onshore Plan from May 29, 2009 to September 16, 2009. On May 22 and 26, 2009, Holdings filed a motion to terminate exclusivity as to the Onshore Debtors and an objection to the Onshore Debtors' second motion to extend exclusivity, respectively. On May 28, 2009, the Bankruptcy Court entered an order denying Holdings' motion to terminate exclusivity for the Onshore Debtors.

Further, on June 10, 2009, the Bankruptcy Court entered an order (the "Mediation Order") (a) directing the Onshore Debtors and Holdings to exchange (but not file) their respective proposed plans for all of the Debtors, (b) appointing Melanie Cyganowski as the Mediator to mediate all issues regarding those proposed plans, (c) setting an initial mediation schedule, (d) extending to September 16, 2009 the exclusivity period for the Onshore Debtors and for Holdings to solicit acceptances of their respective stand-alone plans, and (e) setting a status conference for September 16, 2009 to consider the results of the mediation and other related matters. For further discussion of the mediation and negotiation that led to the preparation and filing of the Plan, see Section VI.D.19 below.

As the plan-related mediation among the Onshore Debtors and Holdings progressed in late 2009 and early 2010, the Bankruptcy Court entered several additional orders that extended the Exclusive Periods for the Onshore Debtors and Holdings with respect to their stand-alone plans. The last such order, entered on February 11, 2010, extended the Exclusive Periods for the Onshore Debtors and Holdings to April 17, 2010 and April 20, 2010, respectively. These dates coincide with the maximum periods under Bankruptcy Code section 1121 for the extension of a debtor's exclusive periods for filing and soliciting acceptances of a plan. The Debtors'

[11] The Topwater Defendants filed such a motion on October 13, 2009, but the Court entered an order on December 16, 2009 denying that motion. See Section VI.D.16 above.

Exclusive Periods have expired, but no other party has filed a proposed plan for any of the Debtors.

19. Mediation of Plan-Related Issues

In August 2009, pursuant to the Mediation Order, the Onshore Debtors, the Equity Committee, Holdings, the JPL and the Russell Funds began mediating several key issues The goal of the mediation was to reach consensus that would lead to the filing of a joint plan of liquidation for all of the Debtors with the support of all the mediating parties and avoid protracted, costly litigation associated with competing plans.

A key issue in the mediation involved Intercompany Claims asserted by SC II against SC Limited and SCFR in the aggregate amount of approximately $33 million. SC II and the Equity Committee contended that such Intercompany Claims were valid and must be paid in full under any confirmable plan from funds that would otherwise be available to Holdings for distribution to its creditors and equity interest holders. Conversely, Holdings, the JPL and the Russell Funds vehemently disputed the validity and amount of such Intercompany Claims and contended that SC II was not entitled to any payment on account of such Claims under a plan. Litigation of the disputed Intercompany Claims posed significant risk because the outcome would drastically affect the amounts distributed to SC II and Holdings and recoveries by their respective creditors and equity interest holders under a confirmed plan. Ultimately, the mediation produced a consensual resolution of the Intercompany Claim issue, pursuant to which all Distributable Cash will be divided and paid by SC Management to Holdings and SC II as follows: 77% to Holdings and 23% to SC II. All Intercompany Claims are disallowed under the Plan.

Another important issue in the plan mediation concerned the post-confirmation management and ownership of the Debtors' assets. Holdings proposed in its stand-alone plan that all of the Debtors' assets would be transferred to a liquidating trust that would be controlled by the JPL. The Onshore Debtors' plan provided that each Debtor would retain ownership of its assets and that such assets and the assets owned and managed by the Onshore Debtors in which Holdings held participation interests would be managed by an entity other than Windmill. Through the mediation, the parties resolved these disputes by agreeing to create a new entity, SC Management, to which virtually all of the Debtors' assets will be transferred on the Effective Date. SC Management will manage those assets from and after the Effective Date as provided in Article VI of the Plan, and SC Management (or Reorganized SC Dixon in limited instances) will make Distributions to the Holders of Allowed Claims under the Plan.

20. The Windmill Settlement

On September 8, 2009, SC II filed a motion (the "Windmill Motion") for the allowance and payment of an administrative claim for Windmill, in the amount of approximately $1 million, based on an unpaid management fee that Windmill claimed under the Amended and Restated Operating Agreement of SC II. SC II also stated that it intended to begin paying Windmill its future quarterly management fee instead of deferring payment. Windmill filed a joinder in that motion (the "Joinder"). Various parties (including Holdings, SCFR, SC Limited, the JPL and the Russell Funds) filed objections to the Windmill Motion. The objectors asserted, *inter alia*, that the Bankruptcy Court should defer consideration of the Windmill Motion until

parties had an opportunity to investigate potential claims against Windmill and that all issues regarding Windmill should be included in the plan-related mediation that was underway at the time. The objectors also urged that Windmill should immediately be replaced as the manager of the Debtors' assets. After a status conference on December 1, 2009, the Bankruptcy Court issued an order on December 15, 2009 directing the mediation of all issues regarding Windmill.

The mediation of the Windmill issues succeeded in producing a comprehensive settlement agreement (the "Windmill Agreement"), pursuant to which, *inter alia*, (a) Windmill and its principals Alan and Philip Milton would resign as managers or asset servicers for the SageCrest Entity Parties (as defined in the Windmill Agreement), (b) Ralph Harrison would succeed Windmill in such capacities and assume management responsibilities of the SageCrest Entity Parties as the Replacement Manager (as defined in the Windmill Agreement) on an interim basis through the Effective Date, (c) Windmill and the Miltons would receive, in full satisfaction of any and all Claims they may hold, payments of $600,000 when the Windmill Agreement became effective and an additional $725,000 in four (4) post-Effective Date installments, (c) all professionals employed by Windmill and the Miltons would waive any claims against the SageCrest Entity Parties, and (d) the SageCrest Entity Parties reserved all claims against the Miltons but agreed to limit any recoveries on such claims to certain Insurance (as defined in the Windmill Agreement).

On March 25, 2010, SC II filed a motion seeking the Bankruptcy Court's approval of the Windmill Agreement. The Topwater Defendants and the AC Defendants (collectively, the "Windmill Objectors") filed objections. On May 18, 2010, following a hearing and supplemental briefing, the Bankruptcy Court entered an order approving the Windmill Agreement (the "Windmill Order"). The Windmill Objectors appealed the Windmill Order to the District Court and those appeals are now pending. Oral argument in those appeals is scheduled for August 24, 2010.

As of early July 2010, all conditions for the Windmill Agreement to become effective had either occurred or been waived by all parties to the Windmill Agreement. For example, SC II and Windmill filed pleadings to withdraw the Windmill Motion and the Joinder with prejudice, and to dismiss the SCFR Involuntary with prejudice. Accordingly, on July 1, 2010, the Windmill Agreement became effective. On such date, *inter alia*, SC II paid the initial settlement payment of $600,000 thereon and Ralph Harrison became the Replacement Manager.

On July 12, 2010, the Windmill Objectors filed a Joint Motion for Stay Pending Appeal in the Bankruptcy Cases (the "Initial Stay Motion"), requesting that the Bankruptcy Court stay the Windmill Order pending the appeals in the District Court and prohibiting and enjoining all parties, including the parties to the Windmill Agreement, from taking any actions to consummate the Windmill Agreement. The Debtors and other parties opposed the Initial Stay Motion and after notice and a hearing, on July 20, 2010, the Bankruptcy Court denied the Initial Stay Motion.

On July 23, 2010, the Windmill Objectors filed an Emergency Motion for Stay Pending Appeal in the District Court (the "Second Stay Motion"). On July 26, 2010, the Debtors and other parties filed a response opposing the Second Stay Motion. At a hearing on July 27, 2010, the District Court denied the Second Stay Motion

21. Deutsche Bank Negotiations and Motions

In early 2010, after the plan mediation produced an agreement on the key terms of a plan and a resolution of the Windmill issues, the Proponents, the JPL and the Russell Funds initiated negotiations with Deutsche Bank on the treatment of its oversecured claims against SC Finance and SC Holdings. The Proponents' goal was to agree on terms that would fairly balance Deutsche Bank's desires for collateral protection and prompt payment with an orderly liquidation that would maximize recoveries for the Debtors' other creditors and equity interest holders.

On May 10, 2010, those negotiations reached an impasse when Deutsche Bank refused to yield in (a) demanding terms that, in the Proponents' judgment, would lead to a forced sale of the Debtors' assets at less than fair value, and (b) insisting that the Debtors immediately allow Deutsche Bank's financial consultant, Alvarez & Marsal ("Alvarez"), to conduct an open-ended investigation and appraisal of the Debtors' assets, books and records, and operations at an unnecessary expense to the Debtors' estates.

Deutsche Bank immediately turned to litigation, filing three motions on May 12, 2010: (a) Motion for Order Directing (I) Access to the Debtors' Books and Records and (II) Payment of Appraisal Fees and Costs (the "Appraisal Motion"); (b) a motion to appoint a chapter 11 trustee under section 1104(a) of the Bankruptcy Code (the "Trustee Motion"); and (c) an Ex Parte Motion for Order Directing Examination of Debtors Pursuant to Federal Rule of Bankruptcy Procedure 2004 (the "Rule 2004 Motion"). The Proponents, the JPL and the Russell Funds objected to these motions.

On June 15, 2010, the Bankruptcy Court held a hearing on Deutsche Bank's motions. At the hearing, Deutsche Bank deferred any further consideration by the Bankruptcy Court of the Rule 2004 Motion and the Trustee Motion. Further, Deutsche Bank and the objectors agreed to attempt to reach agreement on an order to resolve the Alvarez Motion. The parties eventually agreed on a form of order (the "Alvarez Order") that generally gives Deutsche Bank and Alvarez reasonable access to information (including the Debtors' books and records and personnel involved in the Debtors' management) required for Alvarez to perform a valuation of the Debtors' assets that serve as collateral for Deutsche Bank's secured claims against SC Finance and SC Holdings, in accordance with a "work plan" attached as an exhibit to the Alvarez Order. The Alvarez Order does not determine whether the Debtors are obligated to pay any fees or expenses incurred by Alvarez, and the parties reserved all related rights and objections, including objections by the Debtors or the Equity Committee that Alvarez engaged in work that is (a) duplicative of work performed by other professionals, (b) beyond the scope of its engagement; (c) unnecessary or not reasonably related to an appraisal of the Debtors' assets; or (d) beyond its professional expertise. The Bankruptcy Court entered the Alvarez Order on June 30, 2010.

VII. LITIGATION

A. Pending Litigation

The following is a description of litigation involving the Debtors that was pending as of the Petition Date:

1. SC II

Cause No.	Plaintiff(s)	Defendant(s)s	Court	Nature of Suit
08-CV-350573-PD1	Equal Overseas Consulting Ltd.	SC II and SC Dixon	Ontario Superior Court of Justice	Equal Overseas is seeking damages against SC Dixon and SC II as guarantor of the obligations of SC Dixon, pursuant to a consulting agreement entered into with respect to the Constellation Hotel in Toronto, Ontario, Canada. Equal Overseas is claiming damages in the amount of CDN $1,379,000 pre-judgment and post-judgment interest and a declaration that upon the sale of the Hotel, Equal Overseas is entitled to an additional sum CDN $850,000.
08-CV-00362210	Terrasan Environmental Solutions Inc.	SC Dixon, SC II, Aareal Bank AG, SageCrest Regal Inc., and 2008206 Ontario Limited	Ontario Superior Court of Justice	Terrasan filed a Statement of Claim in this suit asserting claims, including a lien claim, relating to the supply of demolition and environmental remediation services to 900 Dixon Road, Toronto, Ontario under an agreement allegedly entered into with SC Dixon on or about August 29, 2007. The lien claim asserted in this suit is in the amount of $4,288,172.30 (together with interest and costs). In addition, Terrasan is seeking damages in the amount of $2,188,200.00 for breach of contract.
06-CV-317883	2033783 Ontario Limited	SC II	Unknown	Unknown. This information is based on a litigation search conducted in May 2008. No further details are available relating to the case.
07-Cv-331949pd1	2033450 Ontario Inc.	SC II	Unknown	Unknown. This information is based on a litigation search conducted in May 2008. No further details are available relating to the case.
08-825-CH	SC II	Dewayne B. Hutchins, Brenda Hutchins and Blue Ribbon Motor Sales, Inc.	St. Joseph Circuit Court, Michigan, before the Hon. Paul E. Stutesman	Action on promissory note in the principal amount of $527,270.51 plus interest and costs through 08/19/08 in the amount of $158,956.64.

52051	Bass Development Company of New York, Inc.	SC II	Wayne County Supreme Court	Plaintiff was a site work contractor at the Project and filed a $108,070.65 mechanic's lien against the Project. Plaintiff claims its mechanic's lien has priority over SageCrest's mortgage lien because SageCrest failed to complete the required Section 22 Lien Law affidavit required in construction loans to show the net funds available for persons providing goods and services to construction projects.

2. SC Finance

None.

3. SC Holdings

None.

4. SC Dixon

Cause No.	Plaintiff(s)	Defendant(s)s	Court	Nature of Suit
08-CV-350573	Equal Overseas Consulting Ltd.	SC II and SC Dixon	Ontario Superior Court	Equal Overseas is seeking damages against SC Dixon and SC II as guarantor of the obligations of SC Dixon, pursuant to a consulting agreement entered into with respect to the Constellation Hotel in Toronto, Ontario, Canada. Equal Overseas is claiming damages in the amount of CDN $1,379,000 pre-judgment and post-judgment interest and a declaration that upon the sale of the Hotel, Equal Overseas is entitled to an additional sum CDN $850,000.
08-CV-362405	T. Harris Environmental Management, Inc.	SC Dixon	Ontario Superior Court	T. Harris filed a Statement of Claim in this suit asserting a lien claim relating to the supply of environmental and hazardous services to 900 Dixon Road, Toronto, Ontario under an agreement entered into with SC Dixon on or about August 15, 2007. The lien claim is in the amount of $118,508.25 (together with interest and costs).

08-CV-00362210	Terrasan Environmental Solutions Inc.	SC Dixon, SC II, Aareal Bank AG, SageCrest Regal Inc., and 2008206 Ontario Limited	Ontario Superior Court of Justice	Terrasan filed a Statement of Claim in this suit asserting claims, including a lien claim, relating to the supply of demolition and environmental remediation services to 900 Dixon Road, Toronto, Ontario under an agreement allegedly entered into with SC Dixon on or about August 29, 2007. The lien claim asserted in this suit is in the amount of $4,288,172.30[12] (together with interest and costs). In addition, Terrasan is seeking damages in the amount of $2,188,200.00 for breach of contract.
08-CV-4593	Olympus Security & Investigations, Inc.	SC Dixon, SageCrest Regal, Inc. and Terrasan Environmental Solutions, Inc.	Ontario Superior Court of Justice	Olympus filed a Statement of Claim in this suit asserting a lien claim in the amount of $73,844.46 relating to the provision of security services from 4/1/08 to 9/10/08 at SC Dixon's property located at 900 Dixon Road, Toronto, Ontario under a contract between Olympus and Terrasan.

B. Potential Litigation

The Debtors may have Causes of Action or potential Causes of Action against the following parties, among others:

1. Potential Claims Against RSM McGladrey Inc.

The Debtors preserve all potential Causes of Action against RSM McGladrey, Inc. for, *inter alia*, malpractice, negligence, improper and/or wrongful performance of accounting, auditing, or other professional services. SC Management or the Reorganized Debtors may pursue any or all of these Causes of Action after the Effective Date.

2. Claims Against Windmill and its Principals

The Debtors preserve all potential Causes of Action against Windmill and its principals and members (including, without limitation, Alan Milton and Philip Milton) in connection with services they provided to the Debtors and affiliated entities, including without limitation, all Causes of Action arising from acts, omission, performance of or failure to perform services, and breaches of various duties. SC Management or the Reorganized Debtors may pursue any or all

[12] In the proof of claim Terrasan filed in the SC Dixon Bankruptcy Case, Terrasan reduced the amount of the lien claim it asserts to $2,920,993.80 to account for a payment in the amount of $1,367,178.50 that Terrasan received from SC Dixon on or about September 10, 2008.

of these Causes of Action after the Effective Date, subject to the provisions of the Windmill Agreement (as defined in Section VI.D.20 above).

3. Any and all Claims and Causes of Action to Collect All Loans and Realize Value from Assets

It may be necessary for SC Management or the Reorganized Debtors to sue one or more parties to collect the loans owned by the Debtors, or foreclose upon any collateral securing such loans. In addition, it may be necessary for SC Management or the Reorganized Debtors to commence litigation to enforce their rights, contractual or otherwise, to collect and realize the maximum value from their other assets.

4. Avoidance Claims under Section 547 and 548 of the Bankruptcy Code

Section 547 of the Bankruptcy Code enables a debtor in possession to avoid and recover a transfer to a creditor made within 90 days before the petition date (or within one year before the petition date in the case of a transfer to an insider) if the transfer was made on account of an antecedent debt and enabled the creditor to receive more than it would in a liquidation under Chapter 7 of the Bankruptcy Code. A creditor has defenses to the avoidance of such a preferential transfer based upon, among other things, the transfer occurring as part of the ordinary course of the debtor's business or that, subsequent to the transfer, the creditor provided the debtor with new value. Section 548 of the Bankruptcy Code allows a debtor in possession to avoid and recover a transfer to a creditor made within one year before the petition date if (a) the transfer was made with actual intent to hinder, delay, or defraud other creditors or (b) the transfer was for less than reasonably equivalent value and the debtor was insolvent or undercapitalized at the time of the transfer or became insolvent or undercapitalized as a result of the transfer.

As of the Effective Date, all Causes of Action (including, without limitation, claims arising under sections 547 and 548 of the Bankruptcy Code) will be transferred to SC Management. SC Management will be authorized to prosecute, settle, or dismiss such Causes of Action.

The Debtors have disclosed in their Schedules payments by the Debtors to creditors prior to the Petition Date. Payments to creditors that might be subject to recovery as a preference may be insulated by a variety of defenses, including the new value defense, the ordinary course defense, recoupment and other defenses. No representation is made herein with respect to whether any avoidance actions will yield a material dividend to unsecured creditors or equity interest holders. Any party in interest who received a payment or other transfer from a Debtor could be subject to a preference claim if the payment or transfer occurred within 90 days before the relevant Petition Date. If a party in interest is an Insider, any transfers within a year before the relevant Debtor's Petition Date may be subject to preference action Any party-in-interest concerned about exposure to either preference, fraudulent conveyance or other avoidance actions is urged to consult counsel. A list of parties who may have received transfers within the foregoing periods can be found by reviewing the Schedules.

This section is intended only as a general description of payments made within the time periods set forth above, and does not constitute an admission of any fact relevant to a Cause of

Action to avoid a preferential or a fraudulent transfer. In addition, there are numerous defenses available to recipients of potentially avoidable transfers, and the Debtors have not made an attempt to analyze whether each particular recipient has any valid defense to an avoidance action.

VIII. CONFIRMATION OF THE PLAN

A. Solicitation of Votes; Voting Procedures

1. Ballots and Voting Deadline

A Ballot to be used for voting to accept or reject the Plan is enclosed with all copies of this Disclosure Statement mailed to all Holders of Claims and Interests entitled to vote. BEFORE COMPLETING YOUR BALLOT, PLEASE READ CAREFULLY THE INSTRUCTION SHEET THAT ACCOMPANIES THE BALLOT.

The Bankruptcy Court has directed that in order to be counted for voting purposes, Ballots for the acceptance or rejection of the Plan must be received no later than 5:00 p.m. Eastern Time on _____, 2010, at the following address:

Kathy Gradick
Neligan Foley LLP
325 N. St. Paul, Suite 3600
Dallas, Texas 75201
Fax: 214-840-5301

YOUR BALLOT MAY NOT BE COUNTED IF IT IS RECEIVED AT THE ABOVE ADDRESS AFTER 5:00 P.M. EASTERN TIME ON _____, 2010. FACSIMILE BALLOTS WILL BE ACCEPTED NO LATER THAN 5:00 P.M. EASTERN TIME ON_____, 2010.

2. Parties in Interest Entitled to Vote

Any Holder of a Claim or an Interest as of the date on which the Disclosure Statement Order was entered and whose Claim or Interest has not previously been disallowed by the Bankruptcy Court is entitled to vote to accept or reject the Plan, if such Claim or Interest is impaired under the Plan and either (a) such Holder's Claim has been scheduled by a Debtor (and such Claim is not scheduled as disputed, contingent, or unliquidated), (b) the Holder of an Interest has been identified in a list of equity security holders filed by a Debtor with the Bankruptcy Court or is authorized by the Bankruptcy Court to vote on the Plan, or (c) such Holder has filed a proof of Claim or proof of Interest on or before the applicable Bar Date.[13] Any Claim or Interest as to which an objection has been filed is not entitled to vote unless the Bankruptcy Court, upon application of the Holder to whose Claim or Interest an objection has been made, temporarily allows such Claim or Interest in an amount that it deems proper for the

[13] If a Holder did not file a proof of Claim or Interest on or before the applicable Bar Date, but such Holder subsequently obtained an order from the Bankruptcy Court allowing the Holder to file a proof of Claim or Interest thereafter, such Holder will be entitled to vote to accept or reject the Plan.

purpose of voting to accept or reject the Plan. Any such application must be heard and determined by the Bankruptcy Court on or before commencement of the Confirmation Hearing. A vote may be disregarded if the Bankruptcy Court determines, after notice and a hearing, that such vote was not solicited or procured in good faith or in accordance with the provisions of the Bankruptcy Code.

3. Definition of Impairment

As set forth in section 1124 of the Bankruptcy Code, a class of claims or equity interests is impaired under a plan of reorganization unless, with respect to each claim or equity interest of such class, the plan:

(a) leaves unaltered the legal, equitable, and contractual rights of the holder of such claim or equity interest; or

(b) notwithstanding any contractual provision or applicable law that entitles the holder of a claim or equity interest to demand or receive accelerated payment of such claim or equity interest after the occurrence of a default:

(i) cures any such default that occurred before or after the commencement of the case under the Bankruptcy Code, other than a default of a kind specified in section 365(b)(2) of the Bankruptcy Code;

(ii) reinstates the maturity of such claim or interest as it existed before such default;

(iii) compensates the holder of such claim or interest for any damages incurred as a result of any reasonable reliance on such contractual provision or such applicable law; and

(iv) does not otherwise alter the legal, equitable or contractual rights to which such claim or interest entitles the holder of such claim or interest.

4. Classes Impaired Under the Plan

Classes of claims or equity interests that are not "impaired" under a plan of reorganization are conclusively presumed to have accepted the plan and thus are not entitled to vote. Accordingly, acceptances of a plan will be solicited only from those persons who hold claims or equity interests in an impaired class. A class is "impaired" if the legal, equitable, or contractual rights attaching to the claims or equity interests of that class are modified in any way under the plan. Modification for purposes of determining impairment, however, does not include curing defaults and reinstating maturity or payment in full in Cash.

Claims against the Debtors in Classes 3, 4, 5D, 6, 7, 8 and 9, and Interests in SC Holdings, (Class 10B), SC II (Class 10C) and SC Dixon (Class 10D) are impaired under the

Plan and the Holders of those Claims and Interests are entitled to vote to accept or reject the Plan.

Claims against the Debtors in Classes 1, 2, 5A, 5B and 5C, and Interests in SC Finance (Class 10A) are not impaired under the Plan, and the Holders of those Claims and Interests are conclusively presumed to have accepted the Plan under Bankruptcy Code section 1126(f) and are thus not entitled to vote on the Plan.

Administrative Expense Claims and Priority Tax Claims are unclassified. Their treatment is prescribed by the Bankruptcy Code, and the Holders of such Claims are not entitled to vote on the Plan.

5. Vote Required For Class Acceptance

Under the Bankruptcy Code, a Class of Claims that is entitled to vote to accept or reject the Plan shall have accepted the Plan if it is accepted by at least two-thirds (2/3) in amount and more than one-half (1/2) in number of the Allowed Claims in such Class that have voted on the Plan. The Bankruptcy Code also provides that a Class of Interests that is entitled to vote to accept or reject the Plan shall have accepted the Plan if it is accepted by the Holders of at least two-thirds (2/3) in amount of the Allowed Interests in such Class that have voted on the Plan.

B. <u>Confirmation Hearing</u>

Section 1128(a) of the Bankruptcy Code requires the Bankruptcy Court, after notice, to hold a hearing on confirmation of a plan. By order of the Bankruptcy Court, **the Confirmation Hearing on the Plan has been scheduled for _____, 2010 at __:__ __.m. Eastern Time** in the United States Bankruptcy Court for the District of Connecticut, Bridgeport Division. The Bankruptcy Court may adjourn the Confirmation Hearing from time to time without further notice except for an announcement made at the Confirmation Hearing or any adjournment thereof.

Section 1128(b) of the Bankruptcy Code provides that any party in interest may object to confirmation of a plan. **Any objection to confirmation of the Plan must be made in writing and filed with the Bankruptcy Court on or before 5:00 p.m. Eastern Time on _____, 2010**, at the following address:

Clerk of the United States Bankruptcy Court
District of Connecticut–Bridgeport Division
915 Lafayette Blvd.
Bridgeport, CT 06604

In addition, any such objection must be served upon the following parties, together with proof of service, so that they are ***received*** **by such parties on or before 5:00 p.m. Eastern Time on _____ 2010**:

Patrick J. Neligan, Jr. Neligan Foley LLP 325 N. St. Paul, Suite 3600 Dallas, TX 75242 (214) 840-5301 (Fax) Email: pneligan@neliganlaw.com COUNSEL FOR THE DEBTORS	Dennis S. Meir Paul M. Rosenblatt Kilpatrick Stockton LLP Suite 2800 1100 Peachtree Street Atlanta, GA 30309-4530 (404) 815-6555 (Fax) COUNSEL FOR THE EQUITY COMMITTEE
Steven E. Mackey Office of the U.S. Trustee The Giaimo Federal Building 150 Court Street, Room 302 New Haven, CT 06510	Laurence May Neil Y. Siegel Cole, Schotz, Meisel, Forman & Leonard, P.A. 900 Third Avenue New York, NY 10022 Fax: (212) 752-8393 COUNSEL FOR SAGECREST HOLDINGS LIMITED

Objections to confirmation of the Plan are governed by Bankruptcy Rule 9014 and the Order Approving Disclosure Statement and Setting Deadline for Objections. **UNLESS AN OBJECTION TO CONFIRMATION IS SERVED AND FILED ON THE PROPONENTS, THROUGH THEIR COUNSEL SO THAT IT IS ACTUALLY RECEIVED BY NO LATER THAN 5:00 P.M. EASTERN TIME ON _____ 2010, THE BANKRUPTCY COURT MAY NOT CONSIDER IT.**

The Proponents believe that the key dates leading up to and including the Confirmation Hearing are as follows:

1. **_____, 2010, 5:00 p.m. Eastern Time: Deadline for parties to file and serve any objection to the Plan.**

2. **_____, 2010, 5:00 p.m. Eastern Time: Deadline for parties entitled to vote on the Plan to have their ballots received by the tabulation agent.**

3. **_____, 2010, __:__ __.m. Eastern Time: Commencement of the Confirmation Hearing.**

C. Requirements For Confirmation of a Plan

At the Confirmation Hearing, the Bankruptcy Court must determine whether the Bankruptcy Code's requirements for confirmation of the Plan have been satisfied, in which event the Bankruptcy Court will enter an order confirming the Plan. As set forth in section 1129 of the Bankruptcy Code, these requirements are as follows:

1. The plan complies with the applicable provisions of the Bankruptcy Code.

2. The proponent of the plan complied with the applicable provisions of the Bankruptcy Code.

3. The plan has been proposed in good faith and not by any means forbidden by law.

4. Any payment made or promised by the debtors, by the plan proponents, or by a person issuing securities or acquiring property under the plan, for services or for costs and expenses in, or in connection with, the case, or in connection with the plan and incident to the case, has been approved by, or is subject to the approval of, the Bankruptcy Court as reasonable.

5. (a) (i) The proponent of the plan has disclosed the identity and affiliations of any individual proposed to serve, after confirmation of the plan, as a director, officer, or voting trustee of the debtor, an affiliate of the debtor participating in a joint plan with the debtor, or a successor to the debtor under the plan; and

(ii) the appointment to, or continuance in, such office of such individual, is consistent with the interests of creditors and equity security holders and with public policy; and

(b) the proponent of the plan has disclosed the identity of any insider that will be employed or retained by the reorganized debtors, and the nature of any compensation for such insider.

6. Any governmental regulatory commission with jurisdiction, after confirmation of the plan, over the rates of the debtor has approved any rate change provided for in the plan, or such rate change is expressly conditioned on such approval.

7. With respect to each impaired class of claims or interests:

(a) each holder of a claim or interest of such class has accepted the plan or will receive or retain under the plan on account of such claim or interest property of a value, as of the effective date of the plan, that is not less than the amount that such holder would so receive or retain if the Debtor was liquidated on such date under chapter 7 of the Bankruptcy Code on such date; or

(b) if section 1111(b)(2) of the Bankruptcy Code applies to the claims of such class, the holder of a claim of such class will receive or retain under the plan on account of such claim property of a value, as of the effective date of the plan, that is not less than the value of such holder's interest in the estate's interest in the property that secures such claims.

8. With respect to each class of claims or interests:

(a) such class has accepted the plan; or

(b) such class is not impaired under the plan.

9. Except to the extent that the holder of a particular claim has agreed to a different treatment of such claim, the plan provides that:

(a) with respect to a claim of a kind specified in section 507(a)(2) or 507(a)(3) of the Bankruptcy Code, on the effective date of the plan, the holder of such claim will receive on account of such claim cash equal to the allowed amount of such claim;

(b) with respect to a class of claims of a kind specified in section 507(a)(1), 507(a)(4), 507(a)(5), 507(a)(6), or 507(a)(7) of the Bankruptcy Code, each holder of a claim of such class will receive:

(i) if such class has accepted the plan, deferred cash payments of a value, as of the effective date of the plan, equal to the allowed amount of such claim; or

(ii) if such class has not accepted the plan, cash on the effective date of the plan equal to the allowed amount of such claim; and

(c) with respect to a claim of a kind specified in section 507(a)(8) of the Bankruptcy Code, the holder of a claim will receive on account of such claim regular installment payments in cash –

(i) of a total value, as of the effective date of the plan, equal to the allowed amount of such claim;

(ii) over a period ending not later than 5 years after the date of the order for relief under section 301, 302, or 303; and

(iii) in a manner not less favorable than the most favored nonpriority unsecured claim provided for by the plan (other than cash payments made to a class of creditors under section 1122(b); and

(d) with respect to a secured claim which would otherwise meet the description of an unsecured claim of a governmental unit under section 507(a)(8), but for the secured status of that claim, the holder of that claim will receive on account of that claim, cash payments, in the same manner and over the same period, as described in subparagraph (c) above.

10. If a class of claims is impaired under the plan, at least one class of claims that is impaired has accepted the plan, determined without including any acceptance of the plan by any insider holding a claim of such class.

11. Confirmation of the plan is not likely to be followed by the liquidation, or the need for further financial reorganization, of the debtor or any successor to the debtor under the plan, unless such liquidation or reorganization is proposed in the plan.

12. All fees payable under 28 U.S.C. § 1930, as determined by the Bankruptcy Court at the hearing on confirmation of the plan, have been paid or the plan provides for the payments of all such fees on the effective date of the plan.

13. The plan provides for the continuation after its effective date of payment of all retiree benefits, as that term is defined in section 1114 of the Bankruptcy Code, at the level established pursuant to subsection (e)(1)(B) or (g) of section 1114, at any time prior to confirmation of the plan, for the duration of the period the debtor has obligated itself to provide such benefits.

The Proponents believe that the Plan satisfies all the statutory requirements of chapter 11 of the Bankruptcy Code, that they have complied or will have complied with all the requirements of chapter 11.

D. Cramdown

In the event that any impaired Class of Claims or Interests does not accept the Plan, the Bankruptcy Court may still confirm the Plan at the request of the Proponents if, as to each impaired Class that has not accepted the Plan, the Bankruptcy Court determines that the Plan "does not discriminate unfairly" and is "fair and equitable" with respect to that Class. A plan of reorganization "does not discriminate unfairly" within the meaning of the Bankruptcy Code if no Class receives more than it is legally entitled to receive for its claims or equity interests.

"Fair and equitable" has different meanings with respect to the treatment of secured and unsecured claims and interests. As set forth in section 1129(b)(2) of the Bankruptcy Code, those meanings are as follows:

1. With respect to a class of *secured claims*, the plan provides:

(a) (i) that the holders of such claims retain the liens securing such claims, whether the property subject to such liens is retained by the debtor or transferred to another entity, to the extent of the allowed amount of such claims; and

(ii) that each holder of a claim of such class receive on account of such claim deferred cash payments totaling at least the allowed amount of such claim, of a value, as of the effective date of the plan, of at least the value of such holder's interest in the estate's interest in such property;

(b) for the sale, subject to section 363(k) of the Bankruptcy Code, of any property that is subject to the liens securing such claims, free and clear of such liens, with such liens to attach to the proceeds of such sale, and the treatment of such liens on proceeds under clause (a) and (b) of this subparagraph; or

(c) the realization by such holders of the "indubitable equivalent" of such claims.

2. With respect to a class of *unsecured claims*, the plan provides:

(a) that each holder of a claim of such class receive or retain on account of such claim property of a value, as of the effective date of the plan, equal to the allowed amount of such claim; or

(b) the holder of any claim or interest that is junior to the claims of such class will not receive or retain under the plan on account of such junior claim or interest any property.

3. With respect to a class of *equity interests*, the plan provides:

(a) that each holder of an interest of such class receive or retain on account of such interest property of a value, as of the effective date of the plan, equal to the greatest 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

(b) that the holder of any interest that is junior to the interests of such class will not receive or retain under the plan on account of such junior interest any property.

In the event that any impaired Class of Claims or Interests does not accept the Plan, the Bankruptcy Court will determine at the Confirmation Hearing whether the Plan is fair and equitable with respect to, and does not discriminate unfairly against, any rejecting impaired Class of Claims or Interests. The Proponents believe the Plan does not discriminate unfairly against, and is fair and equitable with respect to, each impaired Class of Claims or Interests and, thus, that the Plan may be confirmed under the applicable "cramdown" standards if necessary.

IX. RISK FACTORS

The following is intended as a summary of certain risks associated with the Plan, but it is not exhaustive and must be supplemented by the analysis and evaluation made by each Holder of a Claim or Interest of the Plan and this Disclosure Statement as a whole with such holder's own advisors.

A. Lower Than Expected Liquidation Proceeds

The Plan provides for the orderly liquidation of the Assets of all four Debtors, and several related entities, over approximately four (4) years after the Effective Date while providing adequate protections for the Debtors' major secured creditor, Deutsche Bank, throughout the liquidation process. Based on valuation analyses performed by independent third parties, the Proponents believe that the value of the Assets will be more than sufficient to enable Deutsche Bank and certain other creditors to be paid or otherwise receive the full present value

of their Claims over time under the Plan through an orderly liquidation that is designed to obtain maximum value of those assets and avoid sales at discounted prices that could unduly limit recoveries by other creditors and equity interest holders. Although the Holders of Allowed Redemption Claims and Allowed Interests in SC II and SC Holdings are not expected to be paid in full under the Plan, the orderly liquidation process proposed in the Plan is designed to maximize the return to such Holders.

There is some risk that the liquidation of the Assets will not yield the values suggested by the valuation analyses obtained by the Debtors. Although the Proponents believe that the values of the Assets will be sufficient to provide payment in full to certain creditors and a significant recovery to other creditors and equity interest holders, there can be no assurance of the value and recoveries that the liquidation of the Assets will ultimately yield. Thus, there is a risk that the liquidation proceeds will be insufficient to make all of the payments and/or other distributions proposed in the Plan.

B. Accelerated Liquidation

Although the Plan provides for the orderly liquidation of the Debtors' Assets over approximately four (4) years after the Effective Date, there is a risk that the liquidation could occur on a more accelerated basis and adversely affect the proceeds received for the Assets. The pace of the liquidation will be influenced by various factors, including, *inter alia*, market conditions, the values of the Assets, the condition of the Assets, and the cost of maintaining the Assets and administering the liquidation. There can be no assurance of the schedule on which Assets are liquidated, and liquidation on an accelerated basis may result in lower than expected proceeds from the liquidation of the Assets and thus diminished recoveries by Holders of Allowed Claims and Allowed Interests under the Plan.

C. Insufficient Acceptances

For the Plan to be confirmed, each impaired Class of Claims and Interests is given the opportunity to vote to accept or reject the Plan. With regard to such impaired voting Classes, the Plan will be deemed accepted by a Class of impaired Claims if the Plan is accepted by claimants of such Class actually voting on the Plan who hold at least two-thirds (2/3) in amount and more than one-half (1/2) in number of the total Claims of the Class voted. The Plan will be deemed accepted by a Class of impaired Interests if the Plan is accepted by Interest Holders in such Class actually voting on the Plan who hold at least two-thirds (2/3) of the number of shares actually voting. Only those members of a Class who vote to accept or reject the Plan will be counted for voting purposes. The Proponents reserve the right to request confirmation pursuant to the cramdown provisions in section 1129(b) of the Bankruptcy Code, which will allow confirmation of the Plan regardless of the fact that a particular Class of Claims or Interests has not accepted the Plan. However, there can be no assurance that any impaired Class of Claims or Interests under the Plan will accept the Plan or that the Proponents would be able to satisfy the cramdown provisions of the Bankruptcy Code for confirmation of the Plan.

D. Confirmation Risks

The following specific risks exist with respect to confirmation of the Plan:

(i) Any objection to confirmation of the Plan filed by a member of a Class of Claims or Interests, if sustained by the Bankruptcy Court, could either prevent confirmation of the Plan or delay confirmation for a significant period of time.

(ii) Although the Proponents believe that the Plan will meet all applicable standards and tests for confirmation, there can be no assurance that the Bankruptcy Court will reach the same conclusion and confirm the Plan.

E. Conditions Precedent

Confirmation of the Plan and occurrence of the Effective Date are subject to certain conditions precedent that may never occur or be waived. The Proponents, however, are working diligently with all parties in interest to ensure that all conditions precedent are satisfied.

X. ALTERNATIVES TO CONFIRMATION AND CONSUMMATION OF THE PLAN

One alternative to the Plan would be the conversion of the Bankruptcy Cases to cases under chapter 7 of the Bankruptcy Code and the liquidation of the Debtors' Assets under chapter 7. The Proponents believe that the Plan is the best option for creditors and investors because it is intended to maximize recoveries by all Holders of Allowed Claims and Interests through an orderly liquidation over a period of four (4) years. The following discussion provides a summary of the Proponents' analysis leading to the conclusion that the Plan will provide the highest value to Holders of Allowed Claims and Interests.

The Proponents have analyzed whether a chapter 7 liquidation of the Assets would be in the best interest of Holders of Claims and Interests and concluded that the liquidation value in a chapter 7 would be substantially lower than the value that may be realized under the Plan through an orderly liquidation over a period of approximately four (4) years. The Plan's proposed orderly liquidation and a chapter 7 liquidation would have the same general goal of liquidating the Assets and distributing the net proceeds to creditors and investors. However, the Proponents believe that a chapter 7 conversion and liquidation would result in substantial diminution in the value to be realized by Holders of Allowed Claims and Interests because: (1) a chapter 7 trustee or trustees would be appointed, which would lead to significant additional administrative expenses for the fees and costs of the trustee(s), and the attorneys, accountants, asset managers and/or servicers, and other professionals that would assist such trustee(s) in a chapter 7 liquidation; (2) additional expenses and claims, some of which would be entitled to priority in payments, would arise in a chapter 7 liquidation; (3) a chapter 7 trustee would likely liquidate the Debtors' Assets on a greatly accelerated "forced sale" pace (at the behest of Deutsche Bank or otherwise) that would erode the value of the Assets and yield much lower sale proceeds and distributions to creditors and investors on the whole (with the possible exception of Deutsche Bank) than the orderly liquidation proposed by the Plan; and (4) distributions to Holders of Claims and Interests could be delayed substantially due, in part, to the additional time necessary to convert the Bankruptcy Cases to cases under chapter 7 and for the chapter 7 trustee(s) and related professionals to become familiar with the complexities of managing and servicing the Debtors' Assets. Consequently, the Proponents believe that the Plan will provide a

greater return to Holders of Allowed Claims and Interests than a rapid liquidation under chapter 7 controlled by a trustee who has no familiarity with the Debtors' portfolio of assets.

XI. CERTAIN FEDERAL INCOME TAX CONSEQUENCES OF THE PLAN

The following is a brief summary of certain federal income tax consequences that Holders of Claims and Interests should consider. This summary does not address all aspects of federal income taxation that may be relevant to all persons considering the Plan. Special federal income tax considerations not discussed in this summary may be applicable to, among other persons, financial institutions, insurance companies, foreign corporations, tax-exempt institutions and persons who are not citizens or residents of the United States. In addition, this summary does not discuss any foreign, state or local tax law, the effects of which may be significant.

This summary is based on the Internal Revenue Code of 1986, as amended ("IRC"), the regulations promulgated thereunder, judicial decisions, and administrative positions of the Internal Revenue Service (the "Service"). All Section references in this summary are to Sections of the IRC. Any change in the foregoing authorities may be applied retroactively in a manner that could adversely affect persons considering the Plan.

No ruling will be sought from the Service with respect to the federal income tax aspects of the Plan and there can be no assurance that the conclusions set forth in this summary would be accepted by the Service. No opinion has been sought or obtained with respect to the tax aspects of the Plan.

THIS SUMMARY IS INTENDED FOR GENERAL INFORMATION ONLY. PERSONS CONSIDERING THE PLAN ARE ADVISED TO CONSULT THEIR OWN TAX ADVISORS CONCERNING THE PARTICULAR TAX CONSEQUENCES TO THEM OF THE PLAN AND THE LIQUIDATION OF THE DEBTORS AND OTHER TRANSACTIONS PROVIDED OR CONTEMPLATED UNDER THE PLAN, THE RECEIPT OF ANY PAYMENT UNDER THE PLAN, AND THE IMPACT ON THAT PERSON OR ANY OTHER PERSON OF ANY OBLIGATION IMPOSED UNDER THE PLAN.

A. Tax Consequences to the Debtors

Under the IRC, a taxpayer generally must include in gross income the amount of any discharge-of-indebtedness income realized during the taxable year. If SC Management or the Debtors pay all Allowed Claims in full, the Debtors will not recognize any discharge-of-indebtedness income pursuant to Section 108 of the IRC. If, however, SC Management or the Debtors do not pay all Allowed Claims in full, then the Debtors may be required to realize discharge-of-indebtedness income with respect to some or all of such claims.

B. Tax Consequences To Creditors or Investors

A Holder of an Allowed Claim or an Allowed Interest who receives Cash or other consideration in satisfaction of any Allowed Claim or Allowed Interest may recognize ordinary income. Each Holder of a Claim or Interest is urged to consult with its tax advisor regarding the tax implications of any Distributions it may receive under the Plan.

C. Information Reporting and Withholding.

All distributions to Holders of Claims and Interests are subject to any applicable withholding (including employment tax withholding). Under the IRC, interest, dividends and other "reportable payments" may, under certain circumstances, be subject to "backup withholding" then in effect. Backup withholding generally applies if the Holder (a) fails to furnish a social security number or other taxpayer identification number ("TIN"), (b) furnishes an incorrect TIN, (c) fails properly to report interest or dividends or (d) under certain circumstances, fails to provide a certified statement, signed under penalty of perjury, that the TIN provided is his correct number and that he is not subject to backup withholding. Backup withholding is not an additional tax but merely an advance payment, which may be refunded to the extent it results in an overpayment of tax. Certain persons are exempt from backup withholding, including, in certain circumstances, corporations and financial institutions.

THE FOREGOING SUMMARY OF CERTAIN MATERIAL FEDERAL INCOME TAX CONSEQUENCES HAS BEEN PROVIDED FOR INFORMATIONAL PURPOSES ONLY AND IS NOT A SUBSTITUTE FOR CAREFUL TAX PLANNING AND ADVICE BASED UPON THE INDIVIDUAL CIRCUMSTANCES PERTAINING TO A HOLDER OF A CLAIM OR INTEREST. EACH HOLDER OF A CLAIM OR INTEREST IS URGED TO CONSULT ITS OWN TAX ADVISORS FOR THE FEDERAL, STATE, LOCAL AND FOREIGN INCOME AND OTHER TAX CONSEQUENCES THAT MAY BE APPLICABLE UNDER THE PLAN.

XII. CONCLUSION

The Proponents urge Holders of Claims and Interests who are entitled to vote on the Plan to **ACCEPT** the Plan and to evidence such acceptance by returning their Ballots so that they will be received by **5:00 p.m. Eastern Time on _____, 2010.**

SAGECREST II LLC

By: */s/ Ralph H. Harrison, III*
Ralph H. Harrison, III
Its Authorized Representative

SAGECREST FINANCE LLC

By: */s/ Ralph H. Harrison, III*
Ralph H. Harrison, III
Its Authorized Representative

SAGECREST HOLDINGS LLC

By: */s/ Martin S. Zolnai*
Martin S. Zolnai
Its Authorized Representative

SAGECREST DIXON, INC.

By: */s/ Ralph H. Harrison, III*
Ralph H. Harrison, III
Its Authorized Representative

OFFICIAL COMMITTEE OF EQUITY SECURITY HOLDERS OF SAGECREST II LLC AND SAGECREST FINANCE LLC

By: */s/ James E. Lineberger, Jr.*
James E. Lineberger, Jr.
Its Chairman

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