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UNITED STATES BANKRUPTCY COURT

FOR THE CENTRAL DISTRICT OF CALIFORNIA

RIVERSIDE DIVISION

In re VINEYARD NATIONAL BANCORP, Debtor.	Case No. 6:09-bk-26401-RN Chapter 11 **DISCLOSURE STATEMENT IN SUPPORT OF THE DEBTOR'S PLAN OF LIQUIDATION** **Disclosure Statement Hearing** **Date:** January 21, 2010 **Time:** 2:00 p.m. **Place:** Courtroom 301 3420 Twelfth Street Riverside, CA 92501-3819 **Confirmation Hearing** **Date:** **Time:** **Place:**

PLAN OVERVIEW

The Plan provides for the disposition of all assets of the Debtor's Estate to holders of Allowed Claims consistent with the priority provisions of the Bankruptcy Code, as provided for in the Debtor's Plan of Liquidation]. Remaining assets, to the extent not converted to cash or other proceeds as of the Effective Date, will be sold or otherwise disposed of after the Effective Date, with all net cash proceeds to be distributed to holders of Allowed Claims as provided for in the Plan.

Plan Summary

Class	Treatment	Property Distributed	Recovery (**approx**.)	Voting Status
Class 1: Other Priority Claims	Payment in Cash in full	Cash	100% of Allowed Claim	Unimpaired - **not** entitled to vote (deemed to accept)
Class 2: Secured Claims	Retention of all legal, equitable and contractual rights	Cash and/or Property	100% of Allowed Secured Claim	Unimpaired - **not** entitled to vote (deemed to accept)
Class 3: General Unsecured Claims	Pro Rata distribution of Cash in Estate	Cash		Impaired - entitled to vote
Class 4: Subordinated Claims of Holders of Indenture Securities	Pro Rata distribution of Cash in Estate only after all of Debtor's Senior Indebtedness in Classes 2 and 3 is paid in full	Cash		Impaired – entitled to vote
Class 5: Preferred Stock Interests	Receives no distribution under the Plan unless and until Class 4 is paid in full	N/A	N/A	Impaired - **not** entitled to vote (deemed to reject)
Class 6: VNBC Common Stock Interests	Receives no distribution under the Plan unless and until Class 5 is paid in full	N/A	N/A	Impaired – **not** entitled to vote (deemed to reject)

Note Regarding Distributions:

Distributions to holders of Administrative Expenses and Priority Tax Claims and holders of Claims in Classes 1 and 2 are anticipated to be made on the later of: (i) the Effective Date, or as soon as practicable thereafter; and (ii) as soon as practicable after the date the claim becomes an Allowed Claim. Distributions to holders of Claims in Class 3 are anticipated to be made: (i) no later than sixty days after the Effective Date; or (ii) as soon as practicable after the date the claim becomes an Allowed

Claim; provided, however, distributions could be delayed by reason of: (a) claims filed after the Effective Date (including claims arising from rejection of executory contracts and unexpired leases); and (b) Disputed Claims (including Disputed Claims that are not liquidated). Distributions to holders of Claims in Class 4 will be made only after the Debtor's Senior Indebtedness in Classes 2 and 3 are paid in full and then such distribution will be made as soon as reasonably practicable after the date such claim becomes and Allowed Claim; provided, however, distributions could be delayed by reason of: (a) claims filed after the Effective Date (including claims arising from rejection of executory contracts and unexpired leases); and (b) Disputed Claims (including Disputed Claims that are not liquidated).

I. INTRODUCTION

Vineyard National Bancorp, a California corporation ("VNBC," or the "Debtor"), filed a voluntary petition (the "Petition") under chapter 11 ("Chapter 11") of title 11 of the United States Code, 11 U.S.C. § 101 et seq. (the "Bankruptcy Code"), on July 21, 2009 (the "Petition Date"), thereby commencing the above-captioned Chapter 11 case (the "Chapter 11 Case"). VNBC has operated as a debtor-in-possession since the Petition Date. No trustee or examiner has been appointed. The Official Committee of Unsecured Creditors was appointed by the Office of the United States Trustee ("OUST") on August 12, 2009 and additional members were added on September 10, 2009 (collectively, the "Committee"). The Debtor has filed its "*Debtor's Plan of Liquidation"*] (as the same may be modified, amended or supplemented, the "Plan"). The Plan envisions a liquidation of all the Debtor's remaining assets pursuant to the provisions of the Bankruptcy Code and in accordance with the terms of the Plan.

A. Section 1125.

This *Disclosure Statement In Support of the Debtor's Plan of Liquidation* (as the same may be modified, amended, or supplemented, the "Disclosure Statement") is submitted pursuant to section 1125 of the Bankruptcy Code to holders of impaired Claims in connection with the proceedings seeking confirmation of the Plan, which has been proposed by the Debtor and filed with the Bankruptcy Court. A copy of the Plan is attached hereto as **Exhibit A**. Unless otherwise defined herein, all capitalized terms contained herein shall have the meanings ascribed to them in the Plan.

This Disclosure Statement sets forth information regarding, among other things, the history of the Debtor and its business, the filing of the Petition and the Plan, and alternatives thereto. Its purpose is to provide the holders of impaired Claims adequate information to assist them in making an informed decision regarding acceptance or rejection of the Plan. Each holder of an impaired Claim should read this Disclosure Statement (including its exhibits) and the Plan (including its exhibits) in their entirety and consider them with such holder's legal and financial advisors in connection with the proceedings seeking confirmation of the Plan. No person has been authorized by the Debtor to utilize for purposes of solicitation any information concerning the Debtor or its business other than the information contained or referred to herein.

B. Voting Classes.

Pursuant to the Bankruptcy Code, each holder of an Allowed Claim in Classes 3 and 4 (the "Voting Classes"), is entitled to vote on the Plan. Holders of Allowed Claims in Classes 1 and 2 are presumed to accept the Plan pursuant to 1126(f) of the Bankruptcy Code because their Claims are not impaired under the Plan. Holders of Equity Interests in Classes 5 and 6 are presumed to reject the Plan pursuant to 1126(g) of the Bankruptcy Code because they will not receive a distribution under the Plan. For a description of the Classes of Claims and of the Equity Interests and their treatment under the Plan, see Section II of the Plan entitled "*Classification and Treatment of Claims and Equity Interests*."

Except as described below, the Plan may be confirmed only if accepted by the Voting Classes. The Bankruptcy Code defines "acceptance" with respect to a class of impaired Claims, as acceptance by holders of at least two-thirds in dollar amount and more than one-half in number of the Allowed Claims in such class counting only those holders who cast Ballots (as defined below).

THE DEBTOR BELIEVES THAT THE PLAN PROVIDES THE BEST FEASIBLE RECOVERIES TO THE HOLDERS OF IMPAIRED CLAIMS AND THAT ACCEPTANCE OF THE PLAN IS IN THE BEST INTERESTS OF SUCH HOLDERS. THE DEBTOR THEREFORE RECOMMENDS THAT HOLDERS OF IMPAIRED CLAIMS VOTE TO ACCEPT THE PLAN.

The Debtor anticipates that the Voting Classes will vote to accept the Plan. The Debtor

reserves the right to modify the Plan in accordance with section 1127(a) of the Bankruptcy Code.

For a more detailed description of the requirements for acceptance of the Plan and of the criteria for confirmation notwithstanding rejection by certain classes, see Section VI of this Disclosure Statement entitled "*Confirmation Procedure*."

C. Additional Information.

Attached as Annexes to this Disclosure Statement are copies of the following:

1. The Plan (Exhibit A);
2. Projected Estate Cash Proceeds Analysis (Exhibit B);
3. Hypothetical Chapter 7 Liquidation Analysis (Exhibit C);
4. List of Pending Litigation (Exhibit D);
5. Potential Preference Payments (Exhibit E);
6. Potential Third Party Estate Causes of Action (Exhibit F); and
7 Potential D&O Claims (Exhibit G).

Also accompanying this Disclosure Statement and its attendant exhibits, including the Plan, are copies of the following: (i) the Notice of the Order of the Bankruptcy Court approving this Disclosure Statement, and scheduling the confirmation hearing, the deadlines and procedures for voting, and for objecting to confirmation of the Plan, and related matters (the "Confirmation Notice"); and (ii) for each holder of an Allowed Claim in the Voting Classes, the form of ballot for casting an acceptance or rejection of the Plan (the "Ballot").

D. Disclaimer.

The Bankruptcy Court has approved this Disclosure Statement as containing adequate information of a kind and in sufficient detail, as far as is reasonably practicable in light of the nature and history of the Debtor and the condition of its books and records, to enable hypothetical, reasonable investors typical of the holders of impaired Claims to make an informed judgment as to whether to accept or reject the Plan.

APPROVAL OF THIS DISCLOSURE STATEMENT DOES NOT, HOWEVER, CONSTITUTE A DETERMINATION BY THE BANKRUPTCY COURT AS TO THE FAIRNESS OR THE MERITS OF THE PLAN. THIS DISCLOSURE STATEMENT HAS

NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION (THE "COMMISSION") UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR BY ANY STATE AUTHORITY UNDER ANY STATE SECURITIES OR "BLUE SKY" LAW, NOR HAS THE COMMISSION (OR ANY STATE AUTHORITY) PASSED UPON THE ACCURACY OR ADEQUACY OF THE STATEMENTS CONTAINED IN THIS DISCLOSURE STATEMENT.

THIS DOCUMENT WAS COMPILED FROM INFORMATION OBTAINED BY THE DEBTOR FROM NUMEROUS SOURCES BELIEVED TO BE ACCURATE AT THE TIMES MADE, TO THE DEBTOR'S KNOWLEDGE, INFORMATION, AND BELIEF. HOWEVER, NOTHING CONTAINED HEREIN SHALL BE DEEMED TO BE AN ADMISSION OR A DECLARATION AGAINST INTEREST BY THE DEBTOR FOR PURPOSES OF ANY EXISTING OR FUTURE LITIGATION AGAINST THE DEBTOR OR ITS ESTATE OR THE COMMITTEE.

EXCEPT AS OTHERWISE EXPRESSLY STATED HEREIN, NOTHING CONTAINED HEREIN SHALL BE ATTRIBUTABLE TO OR IS DERIVED FROM OR REPRESENTED TO BE ACCURATE BY THE DEBTOR OR BY ANY OF ITS ADVISORS. NOR HAS THE DEBTOR OR ANY SUCH ADVISOR INDEPENDENTLY VERIFIED THE INFORMATION SET FORTH HEREIN.

ALTHOUGH THE DEBTOR'S PROFESSIONAL ADVISORS HAVE ASSISTED IN THE PREPARATION OF THIS DISCLOSURE STATEMENT BASED UPON FACTUAL INFORMATION AND ASSUMPTIONS RESPECTING FINANCIAL, BUSINESS, AND ACCOUNTING DATA PROVIDED BY THE DEBTOR, THEY HAVE NOT INDEPENDENTLY VERIFIED THE INFORMATION SET FORTH HEREIN AND MAKE NO REPRESENTATIONS AS TO THE ACCURACY THEREOF.

After carefully reviewing this Disclosure Statement and the Plan, including the respective exhibits, each holder of an impaired Claim in the Voting Classes should decide whether to accept or reject the Plan and should indicate its vote on the enclosed Ballot and return it in the envelope provided.

E. Balloting.

TO BE COUNTED, YOUR BALLOT MUST BE COMPLETELY FILLED IN, SIGNED, AND TRANSMITTED IN THE MANNER SPECIFIED IN THE BALLOT SO THAT IT IS RECEIVED BY THE VOTING DEADLINE SPECIFIED IN THE BALLOT. PLEASE CAREFULLY FOLLOW ALL INSTRUCTIONS CONTAINED IN THE BALLOT. ANY BALLOTS RECEIVED WHICH DO NOT INDICATE EITHER AN ACCEPTANCE OR REJECTION OF THE PLAN, OR WHICH INDICATE BOTH AN ACCEPTANCE AND REJECTION OF THE PLAN, OR WHICH OTHERWISE DO NOT FULLY COMPLY WITH THE BALLOT INSTRUCTIONS, WILL NOT BE COUNTED. DO NOT RETURN YOUR SECURITIES WITH YOUR BALLOT.

If you have any questions about the procedure for voting, or if you did not receive a Ballot, received a damaged Ballot, or have lost your Ballot, or if you would like any additional copies of this Disclosure Statement, please write to the Debtor's Ballot Tabulator, Bankruptcy Management Corporation ("BMC") 1330 East Franklin Avenue, El Segundo, California 90245 or call (310) 321-5555.

F. Confirmation Hearing.

The Bankruptcy Court has scheduled a hearing on confirmation of the Plan (the "Confirmation Hearing") on the date and at the place specified in the Confirmation Notice accompanying this Disclosure Statement. The Bankruptcy Court has directed that objections, if any, to confirmation of the Plan be served and filed on or before the date specified, and in the manner described, in the Confirmation Notice. The Confirmation Hearing may be continued from time to time by the Bankruptcy Court without further notice except for the announcement of the continuation date made at the Confirmation Hearing or at any subsequent continued Confirmation Hearing.

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II. SUMMARY

The following is a summary of certain information contained elsewhere in this Disclosure Statement. Reference is made to, and this Summary is qualified in its entirety by reference to, the more detailed information contained herein and in the exhibits hereto. Holders of impaired Claims are urged to read this Disclosure Statement, the Plan and their exhibits in their entirety.

A. The Debtor.

The Debtor, a California corporation, was a bank holding company incorporated in California in 1988 and was previously registered under the Bank Holding Company Act of 1956, as amended. The Debtor's principal business was to serve as the holding company for its wholly-owned subsidiary, Vineyard Bank, National Association (the "Bank") and other banking or banking-related subsidiaries. The Bank was the Debtor's principal asset.

B. Overview Of The Plan.

THE FOLLOWING OVERVIEW IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO THE PLAN, WHICH IS ATTACHED HERETO AS EXHIBIT A. IN THE EVENT OF ANY INCONSISTENCY, THE PLAN WILL CONTROL.

The Plan provides for the liquidation of substantially all of the assets of the Debtor and the distribution of the Estate Cash Proceeds to holders of Allowed Claims, consistent with the priority provisions of the Bankruptcy Code, in accordance with the Plan. The Plan does not provide for any distribution to holders of Allowed Equity Interests unless and until holders of Allowed Class 4 Claims have been paid in full – which, as set forth in the projections attached as Exhibit B hereto, is not projected to occur.

C. Recommendation.

The Debtor believes that the Plan provides the best feasible recoveries to holders of impaired Claims and is in the best interests of such holders. ACCORDINGLY, THE DEBTOR RECOMMENDS THAT ALL SUCH HOLDERS ACCEPT THE PLAN.

III. BACKGROUND

As more fully described below, the Plan provides that all assets of the Estate remaining on the Effective Date will remain in the Estate and not revest in the Debtor. The Estate Cash Proceeds will be distributed to the Debtor's creditors by the Liquidating Agent in accordance with applicable provisions of the Bankruptcy Code and in accordance with the Plan, and the Liquidating Agent will be appointed to, among other things, handle prosecution of any and all potential claims that may bring cash into the Estate, and sell any other assets that may have value, bring any potential avoidance actions, and object to any claims.

A. The Debtor's Business.

Prior to the closure of the Bank by the Office of the Comptroller of the Currency ("OCC") and the appointment of the Federal Deposit Insurance Corporation ("FDIC") as a receiver for the Bank's assets and liabilities in July 2009, the Debtor's primary business was to serve as a holding company for the Bank. The Bank was a commercial bank operating in California, in the counties of Orange, Los Angeles, Marin, Riverside, San Bernardino and San Diego and had sixteen full-service branches in the cities of Chino, Corona, Covina, Crestline, Diamond Bar, Irvine, Irwindale, Lake Arrowhead, La Verne, Manhattan Beach, Rancho Cucamonga, San Diego, San Dimas, San Rafael, Upland and Walnut. The Bank was originally organized as a national banking association under federal law and commenced operations under the name Vineyard National Bank in 1981. In August 2001, the Bank changed its name to Vineyard Bank and converted its charter to a California-chartered commercial bank which, among other things, provided it with increased legal lending limits. On May 11, 2006, the Bank was converted back to a national bank under the name Vineyard Bank, National Association. As a national bank, the Bank operated under the supervision of the OCC and deposit accounts at the Bank were insured by the FDIC up to the maximum amount permitted by law. As a bank holding company, the Debtor's primary regulator was the Board of Governors of the Federal Reserve System ("FRB").

In addition to the Bank, the Debtor previously owned two consolidated operating subsidiaries, 1031 Exchange Advantage, Inc. and 1031 Funding & Reverse Corp. (collectively, the "Exchange Companies"), which acted as qualified intermediaries under Section 1031 of the Internal

Revenue Code of 1986. The Exchange Companies were acquired in December 2007. In order to eliminate operating losses associated with the Exchange Companies, the Debtor sold the Exchange Companies back to the original seller in September 2008.

Other than the business conducted by the Bank and the Exchange Companies, the Debtor did not own or engage in any other operating businesses. As a legal entity separate and distinct from its subsidiaries, the Debtor's principal source of funds was dividends that were paid by the Bank.

B. The Debtor's Financing.

1. **Statutory Business Trusts**

Between December 2001 and May 2006, the Debtor raised approximately $115 million of capital through ten (10) Statutory Business Trusts. Information regarding each of the Statutory Business Trusts is set forth in the table below:

Statutory Business Trust Name:	**Trustee:**	**Indenture Information:**	**Dated:**	**Indenture Principal Amount**
VST I - Vineyard Statutory Trust I	U.S. Bank	Indenture – Floating Rate Junior Subordinated Deferrable Interest Debentures – Due 2031	12/18/2001	$12,372,000
VST II -Vineyard Statutory Trust II	Wilmington Trust	Indenture – Floating Rate Junior Subordinated Deferrable Interest Debt Securities Due 2033	12/19/2002	$5,155,000
VST III – Vineyard Statutory Trust III	Wilmington Trust	Indenture – Floating Rate Junior Subordinated Debt Securities Due 2033	9/25/03	$10,310,000
VST IV – Vineyard Statutory Trust IV	Wilmington Trust	Indenture – Floating Rate Junior Subordinated Debt Securities Due 2034	12/19/03	$10,310,000
VST V – Vineyard Statutory Trust V	BONY	Indenture – Junior Subordinated Debt Securities Due 2034	3/25/04	$10,310,000
VST VI – Vineyard Statutory Trust VI	BONY	Indenture - Indenture – Floating Rate Junior Subordinated Debt Securities Due 2034	5/18/04	$12,372,000
VST VII – Vineyard Statutory Trust VII	Wells Fargo	Indenture - Indenture – Floating Rate Junior Subordinated Debt	12/22/04	$10,310,000

		Securities Due 2034		
VST VIII – Vineyard Statutory Trust VIII	Wilmington Trust	Indenture - Indenture – Floating Rate Junior Subordinated Debt Securities Due 2034	4/15/05	$10,310,000
VST IX – Vineyard Statutory Trust IX	Wilmington Trust	Indenture - Indenture – Floating Rate Junior Subordinated Debt Securities Due 2034	8/19/05	$15,464,000
VST XI – Vineyard Statutory Trust XI	Wilmington Trust	Indenture - Indenture – Floating Rate Junior Subordinated Debt Securities Due 2034	5/16/06	$18,557,000

The Debtor sponsored the Statutory Business Trusts for the purpose of selling and administering trust preferred securities. The Statutory Business Trusts sold the trust preferred securities to investors and then used the proceeds of the sale of the trust preferred securities to purchase from the Debtor junior subordinated deferrable interest debentures (the "Debt Securities") pursuant to the Statutory Trust Indentures. The Debt Securities are owned by and held of record in the name of the respective Statutory Trust Trustees in trust for the benefit of their respective Statutory Business Trusts. Interest payments on the Debt Securities paid by the Debtor to the Statutory Trust Trustees were used to fund the Statutory Business Trust's distributions to the preferred security holders.[1] The Debtor executed guarantees for the trust preferred security holders of each Statutory Business Trust that guaranteed that if the Debtor made an interest payment to the Statutory Trust Trustees owing under the Debt Securities, the Debtor guaranteed that the Statutory Trust Trustee would pay the dividend to the holders of the trust preferred securities.

The Statutory Business Trusts issued two types of trust preferred securities: (i) Capital Securities and (ii) Common Securities (collectively, the "Trust Preferred Securities").[2] The Debtor owns 100% of the Common Securities issued by each of the Statutory Business Trusts, which Common Securities equal an approximately 3% minority interest in the Statutory Business Trusts. The holders of Capital Securities own the remaining majority interest in the respective Statutory

[1] The interest rate under the Debt Securities is based on a 3 month LIBOR index plus the following margin: 3.06% under VST I, 3.35% under VST II, 3.05% under VST III, 2.85% under VST IV, 2.85% under VST V, 2.85% under VST VI, 2.00% under VST VII, 2.25% under VST VIII, 1.70% under VST IX, and 1.60% under VST XI.

[2] "Capital Securities" and "Common Securities" shall have the meanings attributed to them in the respective Statutory Business Trusts.

Business Trusts.

Upon an Event of Default (as defined in the respective Statutory Business Trusts), the rights of the holders of Common Securities to receive payments of distributions from the Statutory Business Trusts are subordinated to the rights of the holders of the Capital Securities to receive the same.[3] Upon the filing of the Chapter 11 Case by the Debtor, the Statutory Trust Trustees are required to dissolve the Trust as expeditiously as the Statutory Trust Trustee determines is practical and liquidate the assets owned by the Statutory Business Trust.[4]

Article XV of each of the Statutory Trust Indentures provides that payment due on the Debt Securities is subordinated and junior in right of payment to the prior payment in full of all Senior Indebtedness of the Debtor, whether outstanding on the date of the Statutory Trust Indenture or thereafter incurred. To the extent the Statutory Trust Trustees receive a distribution prior to Senior Indebtedness being paid in full, the Statutory Trust Trustees are required to hold the distribution in trust for the Senior Indebtedness; provided, however, the subordination provisions do not apply to Statutory Trust Trustee Claims for trustee fees and costs of administration of the Statutory Business Trusts.

The cash raised by the Statutory Business Trusts was typically down-streamed by the Debtor to the Bank to provide adequate capital to support the Bank's strategic plan initiatives, including facilitating organic growth, the acquisition of Rancho Bank, a California-chartered commercial bank ("Rancho Bank"), fulfilling regulatory capital requirements, and providing capital and liquidity for general operating purposes.

2. **Junior Subordinated Indenture Unrelated to Statutory Business Trusts**

In or about December 2002, to raise additional capital, the Debtor issued Floating Rate Junior Subordinated Debentures Due December 26, 2017 (the "Debentures") in the aggregate principal amount of $5,000,000 and U.S. Bank is the Trustee. The Debentures issued under the Junior Subordinated Indenture bear a floating rate of interest of 3.05% over the three month LIBOR and required quarterly interest payments. Like the Statutory Trust Indentures, Article XV of the Junior

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[3] *See* Annex 1 to the Statutory Business Trusts, Paragraph 9.

[4] *See* Annex 1 to the Statutory Business Trusts, Paragraph 3.

Subordinated Indenture provides that that payment due on the Debentures is subordinated and junior in right of payment to the prior payment in full of all Senior Indebtedness[5] of the Debtor, whether outstanding on the date of the Junior Subordinated Indenture or thereafter incurred. To the extent the Junior Subordinated Indenture Trustee receives a distribution prior to Senior Indebtedness being paid in full, the Junior Subordinated Indenture Trustee is required to hold the distribution in trust for the Senior Indebtedness; provided, however, the subordination provisions do not apply to Junior Subordinated Indenture Trustee Claims for trustee fees and the costs of administration of the Junior Subordinated Indenture.

Like the proceeds from the Statutory Trust Indentures, these funds were also down-streamed to the Bank to support the Bank's strategic plan initiatives.

3. **Senior Secured Lender - FTBN**

On or about March 17, 2006, the Debtor and First Tennessee Bank, National Association ("FTBN") entered into a Loan Agreement (the "Loan Agreement")) wherein FTBN committed to make a revolving loan in the amount of Seventy Million Dollars ($70,000,000). The Debtor executed a Promissory Note on March 17, 2006 evidencing the loan ("Loan"), which Note was amended and restated on March 29, 2007 (the "Note"). The original Maturity Date (as defined in the Loan Agreement) for the Loan was one year from the date that the Note was executed. The Maturity Date was ultimately extended to May 22, 2009 pursuant to the Modification Agreements (as defined below). The Note was secured by a first priority security interest in all 1,218,700 of issued and outstanding shares of common stock (the "Pledged Shares") in Debtor's wholly-owned subsidiary, the Bank, pursuant to the Pledge and Security Agreement executed by Debtor on March 17, 2006 (the "Pledge Agreement" together with the Loan Agreement, Note, and the eight Modification Agreements[6] are herein referred to collectively as the "Loan Documents). The Loan Documents provide that interest accrued on the Note at an annual variable rate equal to LIBOR plus 3.5% per annum. The outstanding principal and interest on the Loan as of the Petition Date was approximately $50,998,707.21.

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[6] Between June 2006 and April 2009, the Debtor and FTBN entered into eight (8) modification agreements ("Modification Agreements"), which among other things, extended the Maturity Date several times, amended certain terms in the Loan Documents, and extended waivers of various covenants within the Loan Documents.

As a result of the closure of the Bank by the OCC and the appointment of the FDIC as the receiver for all assets and liabilities of the Bank, the Pledged Shares are likely valueless and therefore the debt owed by the Debtor under the Loan will be treated under the Plan as fully unsecured.

4. **Investment Interests**

The Debtor was formed as a bank holding company to provide additional flexibility to the organization through the ability to serve a broader geographic area, expand its product offerings, access capital markets through the ability to issue debt and other financial instruments, and to gain certain tax benefits. Upon its formation in 1988 it acquired all of the issued and outstanding securities of the Bank.

The Debtor's VNBC Common Stock and VNBC Preferred Class D Stock are publicly held and the Debtor is subject to the reporting requirements of the Securities Exchange Act of 1934, as amended. The VNBC Common Stock was traded on NASDAQ until it was delisted in the second quarter of 2009. Thereafter, the VNBC Common Stock traded in the over-the-counter market through the Pink OTC Markets, Inc. (also known as the "Pink Sheets") under the ticker symbol "VNBC-PK". It continues to trade post petition in the over-the-counter market through the Pink Sheets, however, the symbol has now changed to "VNBCQ-PK" to indicate that the Debtor filed bankruptcy. The Debtor's VNBC Preferred Class D Stock traded on NYSE AMEX (formerly AMEX) until it was delisted from trading in the second quarter of 2009. It now trades in the over-the-counter market through the Pink Sheets under the ticker symbol "VNBAQ".

a. <u>Preferred Stock Interests</u>

The Debtor raised approximately $31.6 million through the issuance of Preferred Stock Interests. The Debtor's Preferred Stock Interests include VNBC Preferred Class C Stock and VNBC Preferred Class D Stock. As of the Petition Date, approximately 10,000 shares of VNBC Preferred Class C Stock and 2,300,000 shares of VNBC Preferred Class D Stock were issued and outstanding. The VNBC Preferred Class C Stock and VNBC Preferred Class D Stock (a) rank senior to the Debtor's VNBC Common Stock and (b) are on parity with each other. There are no Equity Interests (as defined in the Plan) of the Debtor which rank senior to the VNBC Preferred Class C Stock and VNBC Preferred Class D Stock.

Each of the VNBC Preferred Class C Stock and VNBC Preferred Class D Stock has rights, preferences and privileges which are superior to the VNBC Common Stock, including, dividend and liquidation preferences. However, neither the VNBC Preferred Class C Stock nor the VNBC Preferred Class D Stock is convertible or exchangeable into any other property or securities of the Debtor.

Holders of the VNBC Preferred Class C Stock and VNBC Preferred Class D Stock have no voting rights except to the extent required by law or as otherwise expressly provided in the Debtor's Articles of Incorporation (the "Articles"). Under the Articles, holders of VNBC Preferred Class C Stock and VNBC Preferred Class D Stock, voting together as a class, have the right to elect two (2) directors if the preferred dividends have not been paid for either four (4) dividend periods with respect to the VNBC Preferred Class C Stock or six (6) dividend periods with respect to the VNBC Preferred Class D Stock. Further, the consent of the holders of the VNBC Preferred Class C Stock and VNBC Preferred Class D Stock, as applicable, must be obtained if any amendment, authorization, issuance or other action would expand or create an equity security with rights, preferences and privileges which are superior to the Preferred Stock Interests or which would otherwise materially and adversely affect the rights, preferences and privileges of the Preferred Stock Interests, as applicable.

Holders of VNBC Preferred Class C Stock are entitled to receive a non-cumulative, quarterly, cash dividend at a floating rate per annum equal to 3-month LIBOR plus 3.8%. Holders of VNBC Preferred Class D Stock are entitled to receive a non-cumulative, quarterly cash dividend at an annual amount equal to $0.75 per share.

In liquidation, the preference of the VNBC Preferred Class C Stock, after payment or provision for payment of all debts and liabilities of the Debtor and the rights of any senior equity securities, is an amount equal to the liquidation preference of $1,000.00 per share, plus (i) all accrued but unpaid dividends for the then current dividend period until the date of payment in such dividend period, and (ii) all accrued but unpaid dividends that have been declared with respect to one or more prior dividend periods (but without accumulation of any previously undeclared and unpaid dividends for prior dividend periods), before any distributions to the holders of the Debtor's VNBC Common Stock or any equity securities ranking, as to liquidation, junior to the VNBC Preferred Class C Stock.

In liquidation, the preference of the VNBC Preferred Class D Stock, after payment or

provision for payment of all debts and liabilities of the Debtor and the rights of any senior equity securities, is an amount equal to the liquidation preference of $10.00 per share (subject to equitable adjustments for splits, combinations or reclassification of the VNBC Preferred Class D Stock), plus all accrued but unpaid dividends from the last dividend period, without interest to the date fixed for such liquidation, before any distributions to the holders of the Debtor's VNBC Common Stock or any equity securities ranking, as to liquidation, junior to the VNBC Preferred Class D Stock.

If the legally available assets for distribution are insufficient to make full payment to the holders of the Preferred Stock Interests, then the holders of the Preferred Stock Interests share ratably in such distributions. The holders of Preferred Stock Interests are not receiving any distribution under the Plan and therefore are deemed to reject the Plan pursuant to section 1126(g) of the Bankruptcy Code.

b. VNBC Common Stock

The Debtor raised approximately $89,474,237 through the sale and issuance of VNBC Common Stock.[7] As of September 30, 2008, the Debtor had issued and outstanding approximately 9,893,978 shares of VNBC Common Stock.[8] Except as otherwise provided under the law, the VNBC Common Stock has no special rights, preferences or privileges. In liquidation, if there are any assets remaining of the Debtor legally available for distribution to stockholders after payment or provision for payment of all debts and liabilities of the Debtor, the order of priority is: (a) the holders of the VNBC Preferred Class C Stock to the extent of their liquidation preference (provided, however, if the assets are insufficient to pay the VNBC Preferred Class D Stock, payment is made ratably with the VNBC Preferred Class D Stock); (b) the holders of the VNBC Preferred Class D Stock to the extent of their liquidation preference; and (c) all remaining assets are distributed to the holders of VNBC Common Stock. The VNBC Common Stock holders are not receiving any distribution under the Plan and therefore are deemed to reject the Plan pursuant to section 1126(g) of the Bankruptcy Code.

c. Warrants

In connection with the sale and issuance of VNBC Common Stock to institutional investors

[7] Net of 1,892,965 treasury shares repurchased at an aggregate cost of $32,565,752.

[8] The number of shares of VNBC Common Stock does not include treasury stock, unvested restricted stock, and unexercised warrants.

in a private placement on June 18, 2004, the Debtor granted the institutional investors warrants ("Warrants") to purchase 168,000 additional shares of VNBC Common Stock at an exercise price of $23.81 per share. The Warrants expire on June 11, 2011. The Warrants are out of the money based on a VNBC Common Stock price of $0.06 per share as of the close of trading on September 24, 2009. The holders of Warrants are not receiving any distribution under the Plan and therefore are deemed to reject the Plan.

C. Events Leading Up to Bankruptcy.

1. **Overall Business Erosion**

Under the direction of Norman Morales, the former President and Chief Executive Officer and a former director of the Debtor and the Bank, the Debtor's business strategy focused on growing the Bank's loan portfolio primarily through higher yielding loans generated through its luxury home construction, tract construction and commercial construction specialty lending groups. Because these specialty lending groups focused principally on loan origination, the business generated by these groups generally took the form of discrete loan transactions which generally did not carry with them the other portions of the borrower's banking relationship, including their deposit relationship. Strong originations coupled with a robust housing and real estate market in 2002 through 2006 contributed to high concentrations of construction loans as a percentage of total loans and as a percentage of capital, and an origination pace which continued to outstrip the Bank's ability to generate core deposits to fund all of its lending activities. To bridge its funding gap, the Bank relied on higher cost deposits, including promotional money market accounts and certificates of deposit, and alternative funding sources, including Federal Home Loan Bank ("FHLB") borrowings.

Further, to provide additional capital and liquidity to fund the Bank's growth, the Debtor, as the parent of the Bank, incurred debt in the form of the Loan from FTBN and subordinated debt and hybrid instruments such as the Debt Securities under the Statutory Trust Indentures and the Debentures under the Junior Subordinated Indenture. This capital and funding strategy was designed in a robust economic and real estate environment, and the Debtor and the Bank employed this strategy to fuel their growth over a period of approximately seven (7) years. However, while the Debtor and the Bank's balance sheets grew, so did their exposure to the risk of an economic downturn.

The erosion of the economy and real estate market starting in 2007 was faster and more dramatic than many anticipated. Specifically, the Debtor believes that the national economic conditions, and more particularly, the economic conditions of the Southern California real estate market, caused the Bank to suffer a substantial decline in the quality of its loan portfolio, resulting in substantial losses. The losses sustained by the Debtor and the Bank were primarily the result of the combined effect of significant write-downs of assets (including other real estate owned ("OREO"), goodwill and deferred tax assets), increased provisioning for loan losses, declining profitability due to net interest margin compression, and increased operational expenses associated with deteriorating asset quality.

In September 2007 the prior Board of Directors of the Debtor and the Bank instructed management to reassess the enterprise's strategic objectives in order to address the anticipated impact of adverse market and economic conditions. The result was the development of an action plan to reduce overall enterprise risk in the Debtor and the Bank.

2. **Resignation of Directorship and Termination of CEO of Bank and Debtor**

On or about January 24, 2008, the Debtor announced that Mr. Morales agreed to resign as a director and that his employment as President and Chief Executive Officer of both the Debtor and the Bank was terminated. Mr. Morales' resignation and the termination of his employment occurred as a result of the prior Board's determination that, although there was agreement as to many matters, irreconcilable differences existed between certain strategic objectives endorsed by Mr. Morales and the fundamental strategic objective to reduce enterprise risk embraced by other members of the prior Board.

3. **Consent Solicitation & Proxy Contest**

After the resignation and termination of Mr. Morales, Mr. Morales and Jon Salmanson, one of the Debtor's shareholders, launched a consent solicitation and proxy contest in February 2008 in order to amend the Debtor's Bylaws and replace all the directors on the prior Board with an alternative slate of directors. The proxy contest and related events continued until approximately August 4, 2008, when Mr. Morales announced that he was unable to obtain regulatory approval from the OCC and

FRB to serve as a director or officer of the Bank and Debtor, respectively, Mr. Morales withdrew his candidacy as a director, and a Board comprised of a majority of candidates from the alternative slate of directors was elected at the annual meeting of shareholders.

4. **Regulatory Actions By OCC Impacting the Bank**

On May 5, 2008, the Bank was informed in writing by the OCC that, as a result of an examination, the Bank had been designated to be in a "troubled condition" for purposes of Section 914 of the Financial Institutions Reform, Recovery and Enforcement Act of 1989 ("Section 914"). As a result of this designation, the Bank was not allowed to appoint any new director or senior executive officer or change the responsibilities of any current senior executive officers without providing the OCC with 90 days prior written notice. Such appointment or change in responsibilities could be disapproved by the OCC. In addition, the Bank was not allowed to make indemnification or severance payments to, or enter into agreements providing for such indemnification or severance payments with, institution-affiliated parties, which included key employees and directors of the Bank, without complying with certain statutory restrictions including prior approval of the OCC and FDIC.

On July 22, 2008, the OCC and the Bank entered into a Consent Order requiring the Bank to take a number of actions, including, reducing the credit risk in its loan portfolio, increasing its reserves against loan losses, and strengthening its overall capital position by complying with enhanced capital requirements.

5. **Regulatory Action by FRB Impacting Debtor**

On May 20, 2008, the FRB notified the Debtor that, as a result of an off-site review, the Debtor had been designated to be in a "troubled condition" for purposes of Section 914. Upon such designation, the Debtor was subject to the similar restrictions affecting the Bank related to the appointment and change in responsibilities of directors and officers and indemnification and severance payments. In addition, the FRB advised the Debtor that in light of the Debtor's obligation to serve as a source of financial strength to the Bank, the Debtor could not make payments to third parties, including, without limitation, dividend payments to the holders of its VNBC Common Stock and Preferred Stock Interests, payments of interest and principal to its creditors, and payments for certain other operating expenses, without prior FRB approval.

On September 23, 2008, the FRB and the Debtor entered into a Written Agreement requiring the Debtor to take, and refrain from taking, a number of actions to ensure the Debtor served as a source of financial strength to the Bank. Those actions included, without limitation, raising additional regulatory capital to ensure that the Bank complied with the enhanced regulatory capital requirements of the Consent Order, not make payments to third parties (including, without limitation, dividend payments to the holders of its common stock and preferred stock, payments of interest and principal to its creditors), and refraining from the acceptance of dividends and other payments from the Bank.

6. **Slate of New Directors for Debtor and the Bank**

On August 11, 2008, following the Debtor's annual meeting of shareholders, it announced that five (5) new directors from the alternative slate, Douglas Kratz, Glen Terry, Cynthia Harriss, Lester Strong and Harice "Dev" Ogle, and two existing directors, David Buxbaum and Charles Keagle, had been elected to its Board. On August 20, 2008, Ms. Harriss resigned from the Board of the Debtor and the Board appointed Perry Hansen, Chairman of the Board of the Bank, to serve as a director of the Debtor, subject to regulatory approval. In addition, the Board appointed James LeSieur, the former Chairman of the Board and former interim President and Chief Executive Officer, to serve as a director, subject to regulatory approval. On September 12, 2008, the new Board appointed Glen Terry as President and Chief Executive Officer of the Debtor and the Bank, subject to regulatory approval. Regulatory approval was subsequently obtained for each of these parties to serve in their respective capacities.

As a result of these changes, the Debtor believes that the new Board contained several directors with significant turn-around experience prior to joining the Debtor and the Bank. The biographies provided by such individuals includes the following experience:

a. Glen Terry. Mr. Terry is a career banking executive who previously held positions of President and Chief Executive Officer and served on the boards of four regional community banks in Northern California—The Vintage Bank (Napa), Solano Bank (Vacaville), Napa Valley Bank (Napa) and Tri Valley Bank (San Ramon). His career also included senior positions in multi-billion dollar regional and interstate banks. At Napa Valley Bank, Mr. Terry engineered the company's restructuring, managed full compliance with and ultimate removal of a

regulatory cease and desist order, substantially reduced troubled assets and significantly improved the profitability of the institution. In 1996, Napa Valley Bank was merged into Westamerica Bank.

b. Douglas Kratz and Perry Hansen. In 1985, Mr. Kratz was appointed President and Chief Executive Officer of Financial Services Corporation of the Midwest ("FSCM") and a director of its subsidiary bank, The Rock Island Bank, Rock Island, Illinois. Also in 1985, Mr. Hansen was appointed to the board of directors of FSCM and as Chairman and Chief Executive Officer of The Rock Island Bank. At the time Messrs. Kratz and Hansen joined FSCM and The Rock Island Bank, both entities were under regulatory sanctions from the FRB. However, within 18 months the sanctions were lifted from both FSCM and The Rock Island Bank. Both Messrs. Kratz and Hansen remained involved for approximately fourteen (14) years until the combined entities, with consolidated assets of almost $600 million, were sold. In late 2000 and early 2001, Messrs. Kratz and Hansen initiated a similar turnaround and recapitalization of Second Mid-America Bancorp, Inc. and its subsidiary, First Illinois National Bank, by merging the troubled entities with and into newly formed and well capitalized entities, National Bancshares, Inc. and its subsidiary, THE National Bank, Bettendorf, Iowa. The combined entities have consolidated assets over $1 billion.

c. James LeSieur. In 1991, Mr. LeSieur was appointed President and Chief Executive Officer of Sunwest Bank, Tustin, California just as Southern California was entering a severe economic downturn. Sunwest Bank was operating under regulatory sanctions at the time and ultimately was placed under a cease and desist order by the FDIC. Without the ability to attract additional capital at that time through its parent, West Coast Bancorp, Mr. LeSieur led Sunwest Bank's return to profitability by resolving asset quality problems, consolidating operations, selling assets to generate capital and effectively downsizing and reorganizing the organization. Following Sunwest Bank's return to profitability, West Coast Bancorp was able to downstream capital to Sunwest Bank and ultimately the order was lifted. Following the lifting of the order in the mid 1990's, Mr. LeSieur led the organic profitable growth of Sunwest Bank from approximately $110 million in assets to more than $250 million by the end of 2002.

7. **Restructuring by New Board of Directors of Debtor and Bank**

Under the direction of the new Board of Directors, the Debtor and the Bank furthered the risk mitigation plans initiated by the prior Board and developed additional strategies in an attempt to strengthen the capital and liquidity of the Debtor and the Bank, restore profitability and, thereafter, grow responsibly. These plans and strategies included, among other things, the following objectives:

a. **Improving Asset Quality**. Among other things, the Bank expanded the Special Assets Group which was formed in early 2008 and conducted additional detailed evaluations of the Bank's loan portfolio and intensified its monitoring in an effort to maintain a full understanding of the market value of collateral underpinning the loans. If the collateral value of any loan was considered compromised or if the full collectability of principal and interest was considered impaired, strategies and action plans were implemented in an attempt to correct the impairment of the loan. Those strategies and action plans included, but were not limited to, restructuring the loan to effect a workout, foreclosing upon and liquidating the collateral securing the loan and selling the loan to reduce exposure to loss. However, with respect to the efforts to sell non-performing loans and other real estate owned, due in large part, the Debtor believes, to closed capital markets, a scarcity of buyers with the ability to close, and continued deterioration of property values, consummating sales at prices which did not further exacerbate the losses and capital erosion became increasingly more difficult and many transactions were not completed because the negative impact of the sale was greater than the carrying costs of the asset. Further, as a result of continued deterioration in California's Inland Empire real estate market, combined with weakening in the Los Angeles and Orange County markets, there continued to be significant increases in the Bank's non-performing loan portfolio and its other real estate owned.

b. **Termination of Lending; Capital and Liquidity Preservation; Loan Portfolio Diversification.** In late 2007, the Bank significantly curtailed and in early 2008 ultimately terminated the origination of luxury home construction, tract construction and commercial construction loans. Further, with the exception of certain renewals of existing credits in narrow asset categories (e.g. business loans connected to the Bank's branch network), in early 2008 the Bank significantly curtailed new loan originations. Combined with enhanced collection efforts to pursue

pay-downs and pay-offs of existing credits, the workouts and loans sales conducted through the Special Assets Group, and the curtailment of new loan originations, the Bank was able to reduce its balance sheet which alleviated some, but not all, of the pressure on its capital ratios and liquidity. These actions also started to change the composition of the loan portfolio as construction loans as a percentage of all assets began to shrink. However, in addition to the continued impact on the construction loan portfolio addressed above, market conditions began to impact other portions of the Bank's loan portfolio, including commercial real estate loans and business and personal lines of credit. As a result, the Bank continued to experience significant increases in its non-performing and non-accrual loans which out-stripped its ability to absorb further write-offs, decreases in income, increased operating costs, and increased losses.

c. **Liquidity Stabilization.** As addressed in more detail under "Regulatory Action By OCC Impacting the Bank" above, in August 2008 the Bank entered into a Consent Order with the OCC. One of the impacts of the Consent Order was that the Bank was automatically subject to 12 C.F.R. 337.6 (the "Deposit Statute"), which restricted the Bank from receiving, renewing or rolling-over brokered deposits and imposed a maximum permissible rate that the Bank could offer on its other deposit products. The Debtor believes that negative publicity resulting from the Bank and the Debtor's financial results and the financial results of other financial institutions, together with the seizure of IndyMac Bank based in Pasadena, California by federal regulators in July 2008, caused a significant amount of customer deposit withdrawals affecting the Bank's liquidity and its ability to meet its obligations as they became due. Further, the following activities and actions impacted the Bank's ability to generate deposits and additional liquidity:

(i) **Brokered Deposits**. During the second quarter of 2008, the Bank obtained $266.3 million in brokered deposits which offset the $226.9 million in run-off of savings, NOW and money market deposit accounts. However, as a result of the Deposit Statute and other regulatory limitations, the Bank could no longer accept, renew or rollover brokered deposits unless it received a waiver from the FDIC. The Bank requested a waiver from the FDIC, but it was not granted and the Bank was unable to employ the use of brokered deposits as a source of liquidity.

(ii) **Federal Home Loan Bank**. Effective on or about April 21, 2008,

the FHLB reduced the Bank's borrowing capacity from 40% to 30% of the Bank's total assets. Further, the Bank's borrowing availability was limited to the amount of eligible collateral that can be pledged to secure that borrowing facility. As a result of prior draws against and continued reliance on this facility, as of August 31, 2008, the Bank had substantially exhausted its additional availability under the FHLB borrowing facility. Further, as the advances came due and were repaid to the FHLB, the FHLB was not obligated to re-lend the funds to the Bank.

(iii) **Other Unsecured Correspondent Facilities**. As of August 31, 2008, neither the Debtor nor the Bank had unsecured correspondent banking facilities with borrowing availability.

(iv) **Federal Reserve "Down-Stream" Requirement**. On July 31, 2008, the FRB notified the Debtor that it must serve as a source of financial strength to the Bank and as such, required that management perform an analysis of the cash needs for the Debtor through October 31, 2008. The FRB further required that any amounts not required for the Debtor's operations be contributed to the Bank to support its operational needs.

(v) **Federal Reserve Discount Window Facility.** On August 1, 2008, the Bank entered into an intercreditor agreement with the FHLB and the FRB whereby certain eligible loans pledged to the FRB, and agreed to by the FHLB, could be utilized to support any advances from the Federal Reserve Discount Window. The Federal Reserve Discount Window facility was in addition to and supplemented the borrowing facility previously established with the FHLB. The Bank pledged loans with an aggregate principal balance of over $400 million which could be used by the Federal Reserve Discount Window in determining an available amount to the Bank; however, the Federal Reserve Discount Window is not obligated to lend on any collateral deposited. In September 2008 the Bank borrowed approximately $20 million from the Federal Reserve Discount Window to bridge a short term funding deficit. The loan was repaid on schedule. Thereafter, the Bank increased its reliance on a promotional deposit campaign in compliance with the Deposit Statute to meet its liquidity needs.

(vi) **Promotional Certificates of Deposit**. In or about July 2008, due to the continued deposit run-off and the inability to obtain a timely brokered deposit waiver from the

FDIC, the Bank accelerated its marketing of promotional certificates of deposit ("Promotional CDs"). The deposit rates that were offered by the Bank were in compliance with the regulatory requirements of the OCC and the FDIC, including the Deposit Statute.

(vii) **Liquidity Position at Bank Closure**. As addressed above, during this period the Bank had limited alternative means of generating necessary liquidity. Therefore, while the funds originated through the Promotional CDs were at a higher cost, the Bank's liquidity stabilized and at the time of its closure by the OCC on July 17, 2009 the Bank had a liquidity cushion which exceeded $100 million (i.e. a positive Federal Funds Sold position).

d. **Cost Reduction**. The Bank's organizational and cost structure was originally developed to facilitate growth and the Debtor believed it became inefficient, inconsistent, and burdensome based on the business and financial impacts affecting the Bank. Efforts to reduce expenses included, but were not limited to:

(i) **Layoffs and Operating Cost Reduction**. The Bank eliminated staff and reduced or eliminated other operating expenses.

(ii) **Divestiture of Exchange Companies**. On September 9, 2008, the Debtor entered into an agreement to sell two of its consolidated operating subsidiaries, the Exchange Companies, back to their previous owner. The Debtor originally acquired the Exchange Companies, which act as qualified intermediaries under Section 1031 of the Internal Revenue Code, during the fourth quarter of 2007, in order to provide a source of low-cost deposits for the Bank. However, due to the erosion in the real estate market, the businesses of the Exchange Companies was also negatively impacted, causing the Debtor to assist with the funding of the Exchange Companies operating expenses and a reduction in the amount of the lower cost deposits held by the Exchange Companies at the Bank. In exchange for the forgiveness of debt owed by the Exchange Companies to the Debtor totaling approximately $644,000 and a payment by the Debtor to the Exchange Companies in the amount of $72,000, the employment agreement with the previous owner and the earn-out provisions under the original sale agreement were terminated.

(ii) **Non-Qualified Deferred Compensation Plan Termination**. In order to save the costs associated with plan administration and matching contributions, and to

retain critical employees otherwise seeking immediate distributions under the plan through voluntary termination, on August 20, 2008, the Board of Directors of the Bank, as the plan administrator, terminated the Bank's Non-Qualified Deferred Compensation Plan. While termination of the plan required aggregate distributions totaling approximately $3.4 million from plan assets, the plan assets were held outside the Bank in investments designated by the plan participants and did not affect the Bank's liquidity.

The Debtor did not modify, amend, terminate, make distributions or otherwise disturb the Directors Deferred Compensation Plan (the assets of which consisted of cash held by the Debtor) and each of the former directors that participated in that plan are now unsecured creditors of the estate.

However, notwithstanding the efforts made by the Board and management, the problems in the Bank's loan portfolio continued to increase and caused the Bank's losses to accelerate because of increases in the provisioning for loan losses, increases in the costs associated with problem loan and OREO resolution, and decreases in income as a result of non-performing and non-accrual loans. As a result, although the Bank was taking steps to reduce costs within its control, those measures could not effectively offset the losses, cost increases and capital erosion arising from the problems in the Bank's loan and OREO portfolio.

8. **Efforts by the Debtor to Raise Capital and Seek Strategic Alternatives**

In 2007, the Debtor commenced its capital raising efforts and the development of strategic alternatives. In April 2008, the prior Board engaged Sandler O'Neill & Partners, L.P. as its investment bankers to assist in the Debtor's capital raising efforts. In August 2008, the new Board engaged Friedman, Billings, Ramsey & Co. and Howe, Barnes, Hoefer & Arnett as its investment bankers to either raise capital for the Debtor or sell the Bank. On or about November 13, 2008, the Debtor announced the execution of an agreement for the sale of the Bank to Vineyard Bancshares, Inc. ("VBI"), a bank holding company formed by the Debtor's Chairman of the Board of Directors, Douglas Kratz. The transaction with VBI was contingent on the ability of VBI to raise $125 million in new capital, an amount at the time considered sufficient to acquire the Bank from the Debtor and fulfill the regulatory capital requirements of the Bank.

In connection with the capital raising efforts and the potential sale of the Bank to VBI, the Debtor also took the following actions:

(a) **Line of Credit Modifications and Event of Default**. As of approximately August 31, 2008, the Debtor had approximately $48.3 million in principal outstanding under the secured line of credit under the FTBN Loan which was secured by the Pledged Shares of the VNBC Common Stock. As reflected in section III.B.3 above, on several occasions over the term of the FTBN Loan the Debtor had been in default due to non-compliance with certain financial and operating covenants, which were waived pursuant to the Modification Agreements. Moreover, in connection with its capital raising efforts, the Debtor negotiated a discounted payoff of the line of credit conditioned upon the successful completion of the capital raise.

(b) **Discounted Payoff on Indentures, VNBC Preferred Class C Stock**. In addition to the discounted payoff of the FTBN line of credit, the Debtor negotiated a discounted payoff under a portion of the obligations under the Statutory Trust Indentures and VNBC Preferred Class C Stock conditioned upon the successful completion of the capital raise.

(c) **NASDAQ Waiver**. The issuance of the investment units contemplated under the capital raise would have generally required approval by the Debtor's shareholders pursuant to the rules of the NASDAQ Stock Market ("NASDAQ"). However, NASDAQ rules provide for an exception in a case where the delay involved in securing shareholder approval for the issuance would seriously jeopardize the financial viability of a company. In accordance with this exception, the Debtor's Board expressly approved the Debtor's intended use of the exception and the Debtor intended to mail a notice to shareholders and file a public notice explaining its reliance on the exception for the issuance of the investment units.

Despite all efforts taken by the Board and management of the Bank and the Debtor, the Debtor was unable to raise capital or sell the Bank and on May 28, 2009, the Debtor announced that the proposed transaction with VBI had been terminated. The inability of the Debtor to raise capital or to otherwise implement other strategic alternatives to enhance the financial position of the Bank, including, without limitation, the sale of the Bank, caused the Bank and the Debtor to remain in non-compliance with each of the Consent Order and Written Agreement, particularly as it related to the

inability to raise capital and comply with the capital requirements imposed on the Bank and the Debtor. Although each of the Bank and the Debtor responded to the notices of non-compliance, the Debtor believes that the inability to raise capital or implement other strategic alternatives to enhance the financial position of the Bank remained the primary regulatory concern. The Bank was closed by the OCC on July 17, 2009 and the FDIC was appointed as the receiver. On that same date, the FDIC facilitated the acquisition of most of the assets and liabilities of the Bank by California Bank & Trust. Thereafter, the Debtor filed bankruptcy on July 21, 2009.

D. Debtor In Possession Administration.

The Debtor commenced its Chapter 11 Case on the Petition Date to implement the liquidation of the Debtor's assets and operations. The Debtor has taken the following steps to efficiently administer its Chapter 11 Case to date:

1. **Employment Applications.**

On the Petition Date, the Debtor filed applications to employ Landau & Berger, LLP ("L&B") as its bankruptcy counsel and Manatt, Phelps & Phillips, LLP ("Manatt") as its special corporate, banking and litigation counsel. By Orders entered on August 26, 2009 (Docket No. 30) and September 1, 2009 (Docket No. 35) respectively, the Bankruptcy Court approved the employment by the Debtor of both L&B and Manatt.

2. **Motion to Reject Certain Executory Contracts and Unexpired Leases.**

On or about July 23, 2009, the Debtor filed a *Motion To Approve Rejection Of (1) Two Unexpired Non-Residential Real Property Leases And (2) One Executory Employment Agreement* ("Rejection Motion'") (Docket No. 12). An Order approving the Rejection Motion was entered by the Bankruptcy Court on September 4, 2009 granting retroactive rejection as of July 23, 2009 (Docket No. 36) of two commercial office leases; and an employment agreement with the then current President and Chief Executive Officer of the Debtor, Glen C. Terry (the "Terry Employment Agreement"). In connection with the rejection of the Terry Employment Agreement, the Court also authorized the transfer of approximately $90,000 in funds at City National Bank ("CNB") into the Debtor's debtor-in-possession operating account. The funds had been placed in the CNB account by the Bank in connection with the Terry Employment

Agreement. Because the account at CNB is in the name of the Bank, the Debtor has been working through the administrative process with the FDIC for the release of that portion of the funds representing Debtor's pro rata share of the account. If the use of that process breaks down or fails to cause the release of the funds, the Debtor is prepared to file a turnover motion with the Bankruptcy Court.

The first commercial lease rejected was for two non-residential office suites located at 8105 Irvine Center Drive, Suites 600 and 650, Irvine, California 92618. One suite was an administrative office used by both the Bank and the Debtor and the second suite was used as a Bank branch. After the OCC closed the Bank and appointed the FDIC as receiver on July 17, 2009, the Debtor was required to vacate these leased premises. The second commercial lease rejected was for a non-residential office building located at 1016 Irwin Street, San Rafael, California 94901.

3. **Motion to Wind-Down Employee Stock Ownership Plan**.

On or about September 8, 2009, the Debtor filed its *Motion Pursuant To Sections 105 And 363(B) Of The Bankruptcy Code For Entry Of An Order (1) Approving The Use Of Certain Estate Funds To Terminate The Debtor's Employee Stock Ownership Plan, (2) Authorizing Debtor To Forgive, Discharge And Cancel The Promissory Note Executed By The Employee Stock Ownership Plan Trust, And (3) Granting Such Other And Further Related Relief* (Docket No. 38) ("ESOP Motion"). As of the date of this filing, the Bankruptcy Court had not approved the ESOP Motion.

The Debtor was the plan sponsor of an Employee Stock Ownership Plan ("ESOP") for employees of both the Debtor and the Bank and the Debtor's Board administered the ESOP ("ESOP Committee") with the aid of the ESOP trustee, First Bankers Trust Services, Inc. ("FBTS" or "Trustee"). All of the ESOP assets were held in a segregated trust fund for the benefit of the ESOP participants (the "ESOP Trust").

As a means to fund the ESOP Trust's purchase of 298,000 shares of common stock in the Debtor ("Shares") for allocation to employee participant accounts, the ESOP Trust entered into a loan agreement on behalf of the ESOP with TIB The Independent Bankers Bank (the "TIB Loan"). On or about December 10, 2004, the ESOP Trust entered into a Loan Agreement with

the Debtor to borrow approximately $6,855,638.46 from the Debtor (the "ESOP Loan") pursuant to a Promissory Note to repay the TIB Loan in full. The ESOP Loan was secured by the Shares and such Shares were placed in a suspense account maintained by the ESOP Trust for the benefit of the Debtor.

As of the Petition Date, and as reflected on Schedule B of the Debtor's Schedules of Assets and Liabilities, the balance of the ESOP Loan was $4,528,187. Of the original 298,000 Shares held in the suspense account by the ESOP Trust as collateral for the ESOP Loan, only approximately 202,996 Shares remained as collateral in the suspense account as property of the Debtor's estate on the Petition Date, and such Shares have been liquidated to preserve value for the Debtor's estate. The net sale proceeds from the sale of the 202,996 Shares was approximately $5,650.11 (the "Debtor Suspense Account Cash"). By the ESOP Motion, the Debtor sought court approval to use the Debtor Suspense Account Cash to partially fund the wind-down and termination of the ESOP and to cancel, forgive and discharge the ESOP Loan since the ESOP Loan would not be re-paid.

4. **Bar Date Motion**.

On or about August 28, 2009, the Debtor filed the *Notice Of Motion And Motion For Entry Of An Order (I) Establishing Bar Dates For Filing Proofs Of Claim Or Interest; And (Ii) Approving The Form And Manner Of Notice Thereof* (Docket No.31), amended by the Notice of Errata (Docket No. 32)("Bar Date Motion"). Pursuant to an Order of the Bankruptcy Court entered on November 12, 2009 [Docket No. 72], the Bar Date Motion was approved and the Bar Date for filing proofs of claim was fixed as January 7, 2010 (the "Bar Date"). The last date for governmental units (as defined in section 101(27) of the Bankruptcy Code) to file proofs of claim is January 18, 2010. The *Notice Of Bar Date For Filing Proofs Of Claim Or Interest Against Debtor And Debtor-In-Possession Vineyard National Bancorp* was served on all creditors, equity holders and other parties-in-interest.

5. **Insurance Refunds**

Commencing on Petition Date, the Debtor, through its insurance broker, arranged for a reduction in coverage under its Workers Compensation Insurance Policy and its Commercial Package Policy (which includes general liability and personal property coverage) to recognize the

termination of employment of all employees of the Bank and the loss of all premises owned or leased by the Bank upon the closure of the Bank by the OCC. As a result of the reduction in coverage, each of the Workers Compensation Insurance Policy and the Commercial Package Policy are paid in full and will expire on February 1, 2010. Further, the Debtor received a refund check in the amount of $23,483.04 with respect to the Commercial Package Policy and has received $36,748.60 with respect to the Workers Compensation Insurance Policy.

6. **Formation of the Committee**.

On or about August 12, 2009, pursuant to the Notice of Appointment of Committee of Unsecured Creditors filed with the Bankruptcy Court (Docket No. 24), the OUST formed a three person unsecured creditors committee in this Chapter 11 Case composed of three Statutory Trust Trustees. On September 10, 2009, the OUST filed an Amended Notice of Appointment of Committee of Unsecured Creditors (Docket No. 41) and added two more members to the Committee as follows: (i) the Debtor's one secured creditor, FTBN, and (ii) a former vendor that provided market data to the Debtor called The Concord Group. The members of the Committee are: (1) Wilmington Trust, (2) BONY (3) Vineyard Statutory Trust I (US Bank), (4) FTBN; and (5) The Concord Group. The Committee retained Winston & Strawn, LLP as its counsel.

7. **Schedules and Statement of Financial Affairs**.

On the Petition Date, the Debtor filed its Schedules and Statement of Financial Affairs with the Bankruptcy Court.

8. **Motion to Vest the Prosecution of Certain Litigation in the Committee**

On September 23, 2009, the Committee filed the *Motion for Order Vesting Official Committee of Unsecured Creditors With Authority and Standing To Investigate, Bring, Maintain and Settle Claims* (Docket No. 47)(collectively the "Committee Standing Motion"), seeking, among other things, a Court order granting and vesting the Committee with authority and standing to investigate, bring, maintain and settle to the fullest extent, any and all claims, causes of actions, rights, obligations, offsets and objections held by the Debtor and its estate (i) against its respective directors, officers, and shareholders; and (ii) any "Claims" as defined in the Debtor's Fidelity Bond insurance policy (collectively, the "D&O Claims"). The Committee thereafter supplemented the Committee Standing

Motion by filing with the Bankruptcy Court, and serving, its *Supplement to Motion for Order Vesting Official Committee of Unsecured Creditors With Authority and Standing to Investigate, Bring, Maintain and Settle Claims* [Docket No. 50] ("Supplement").

On October 6, 2009, the Debtor filed with the Bankruptcy Court and served its *Debtor and Debtor-In-Possession Vineyard National Bancorp's Statement Regarding Motion for Order Vesting Official Committee of Unsecured Creditors With Authority and Standing to Investigate, Bring, Maintain and Settle Claims* [Docket No. 58] ("Debtor's Statement"). On October 2, 2009, the Committee filed its proposed Order granting the relief sought in the Claims Investigation Motion [Docket No. 60] ("Proposed Committee Order"). On October 12, 2009, the Debtor, by its *Notice of Lodgment of Debtor and Debtor-In-Possession Vineyard National Bancorp's Competing Order Granting Motion for Order Vesting Official Committee of Unsecured Creditors With Authority and Standing to Investigate, Bring, Maintain and Settle Claims* [Docket No. 61] ("Debtor's Proposed Order"), the Debtor submitted to the Court its own proposed order granting the Claims Investigation Motion.

By Order entered on October 23, 2009, the Bankruptcy Court approved the Insurance Claims Investigation Motion (the "Committee Standing Order"). The Court did not adopt the provisions sought by the Debtor in the Debtor's Proposed Order, thus requiring, *inter alia*, that the Debtor turn over to the Committee regulatory documents that would otherwise be subject to requirements of confidentiality imposed by applicable federal law and regulation, subject to the Committee thereafter complying with such requirements.

E. Prosecution of Estate Causes Of Action and D&O Claims.

1. **Litigation Against Third Parties**.

The Debtor and its professionals have made a diligent effort to identify in Exhibit "D" to this Disclosure Statement, all Estate Causes of Action against third parties other than preference/fraudulent transfer actions, objections to Claims and the D&O Claims. Additionally, pursuant to the Plan, on the Effective Date, the Liquidating Agent will be vested with the D&O Claims identified on Exhibit "G", and the Committee will transfer its authority and standing under the Committee Standing Order with respect to those D&O Claims to the Liquidating Agent. No reliance should be placed on the fact that a

particular Estate Cause of Action or D&O Claim is or is not identified in Exhibits "D", "F" and "G" because the lists are non-exclusive and may be amended prior to the Confirmation Date to provide for additional disclosures. The Liquidating Agent or the Post-Confirmation Committee may seek to investigate, file and prosecute Estate Causes of Action and D&O Claims after the Effective Date of the Plan, whether or not the Estate Causes of Action and D&O Claims are identified in the Disclosure Statement. As reflected in Section XI.C of the Plan, on the Effective Date, the Debtor's Estate is retaining any and all Estate Causes of Action the Estate may have against any third parties and Section V.E. of the Plan provides that the Liquidating Agent has the authority to prosecute these Estate Causes of Action. Furthermore, as reflected in Section XI.D on the Effective Date, the Committee is transferring all D&O Claims to the Liquidating Agent to be prosecuted, if appropriate.

2. **Recovery of Preferential or Fraudulent Transfers**.

The Liquidating Agent will investigate whether certain prepetition payments to creditors may be recovered pursuant to sections 544, 547, 548 and 550 of the Bankruptcy Code or applicable State law. Exhibit "E" to the Disclosure Statement lists and/or identifies (i) all payments to creditors made within ninety days of the Petition Date, (ii) all payments to insiders made within one year of the Petition Date, and (iii) all distributions given to an insider of the Debtor, including compensation in any form, bonuses, loans, stock, redemptions, and options exercised. Each transfer listed therein and all other prepetition transfers and obligations of the Debtor will be evaluated to determine whether the transfer or obligation is avoidable on any grounds. Any creditor or party in interest that received a transfer from the Debtor within four years prior to the Petition Date or in whose favor the Debtor incurred an obligation may be the subject of an Estate Causes of Action on account of such transfer or obligation if grounds exist to avoid the transfer or obligation. The Liquidating Agent has the authority to prosecute preferential and fraudulent transfers. See Section V.E of the Plan.

3. **Objections to Claims**.

To date, the Debtor has not filed any objections to Claims. As set forth in Section IV.B of the Plan, after the Effective Date, the Liquidating Agent has the authority to object, prosecute, and settle Claims.

IV. THE PLAN OF REORGANIZATION

A DETAILED CHART SETTING FORTH EACH CLASS DESIGNATED UNDER THE PLAN, THE PROPOSED TREATMENT UNDER THE PLAN OF EACH CLASS, THE PROJECTED RECOVERY UNDER THE PLAN FOR EACH CLASS, AND WHETHER A CLASS IS ENTITLED TO VOTE, IS SET FORTH AT THE OUTSET OF THIS DISCLOSURE STATEMENT. See – Plan Summary.

The Plan envisions a liquidation of all remaining assets of the Debtor's Estate by the Liquidating Agent. The Liquidating Agent will distribute the assets of the Estate consistent with the Bankruptcy Code priority scheme and in accordance with the terms of the Plan.

The Debtor believes that through the Plan: (x) holders of impaired unsecured Claims will obtain a greater recovery than would be available if the Debtor's assets were liquidated in any other manner under the Bankruptcy Code or if any other feasible alternatives were pursued; and (y) the value of the assets of the Estate will be maximized by converting the assets of the Estate into Cash in the most efficient and economical manner.

THE DEBTOR BELIEVES THAT THE PLAN PROVIDES THE BEST FEASIBLE RECOVERIES TO THE HOLDERS OF IMPAIRED CLAIMS AND THAT ACCEPTANCE OF THE PLAN IS IN THE BEST INTERESTS OF SUCH HOLDERS. THE DEBTOR THEREFORE RECOMMENDS THAT HOLDERS OF IMPAIRED CLAIMS ACCEPT THE PLAN.

In accordance with the Bankruptcy Code, the Plan classifies Claims and Equity Interests separately and provides, separately for each Class, that holders of Claims or Equity Interests in the Class will receive various types of consideration, thereby giving effect to the different rights of the holders in each Class.

In general, under the Plan, on the Effective Date, all of the Estate's assets will remain assets of the Estate, the Liquidating Agent will establish Reserves, and the Allowed Administrative Expenses, Allowed Priority Tax Claims, and the Allowed Class 1 Claims and Allowed Class 2 Claims will receive payment from the Liquidating Agent in full in Cash or as otherwise noted in the Plan.

No later than sixty (60) days following the Effective Date (the "Initial Class 3 Distribution Date"), all Allowed Class 3 Claims will receive a Pro Rata distribution of the Net Estate Cash

Proceeds. Pro Rata distributions relating to Disputed Claims will be placed in the Disputed Claims Reserve. Based upon the Debtor's estimate of the total General Unsecured Claims in Class 3 of approximately $_____ and the Debtor's estimate of the Net Estate Cash Proceeds, the Trustee estimates that holders of Allowed Claims in Class 3 will receive a percentage recovery of approximately _____% of the face amount of their Allowed Claims. The actual percentage recovery will vary depending upon, among other things, the actual amount of Allowed Claims and the actual amount of Net Estate Cash Proceeds realized, such that the actual recovery may be different than the Debtor's estimate. Based upon the Debtor's estimates, the Net Estate Cash Proceeds are not sufficient to pay the Allowed Class 3 Claims in full. See Exhibit "B" to this Disclosure Statement.

Class 4 Claims are unsecured claims. However, pursuant to the Indentures, such Claims are fully subordinated to Senior Indebtedness and cannot receive a distribution until the Senior Indebtedness is paid in full. Accordingly, holders of Class 4 Claims shall only receive a Pro Rata distribution of Net Estate Cash Proceeds (i) after all Allowed Claims of Senior Indebtedness in Classes 2 and 3 are paid in full and (ii) on such date as is reasonably practicable after the Class 4 Claim becomes an Allowed Claim (the "Initial Class 4 Distribution Date"); provided, however, the Statutory Trust Trustee Claims and the Junior Subordinated Indenture Trustee Claims shall be paid and satisfied, in full, from the portion of the Net Estate Cash Proceeds distribution to be made to holders of Allowed Class 4 Claims prior to the distribution of Net Estate Cash Proceeds to the holders of Capital Securities and the Debentures, respectively. Based upon the Debtor's estimates, it is unlikely the Senior Indebtedness in Class 3 will be paid in full and therefore a distribution to holders of Allowed Class 4 Claims is not expected.

Holders of Allowed Preferred Stock Interests in Class 5 are junior in priority to Allowed Class 4 Claims, and will not receive a distribution under the Plan unless and until the holders of Allowed Class 4 Claims are paid in full. Since no distribution is expected to be made on account of Allowed Class 4 Claims, Allowed Preferred Stock Interests in Class 5 will receive nothing on account of their interests under the Plan, and such Preferred Stock Interests will be deemed cancelled upon confirmation of the Plan.

Holders of Allowed VNBC Common Stock Interests in Class 6 are junior in priority to

Allowed Class 5 Preferred Stock Interests and will not receive a distribution under the Plan unless and until the holders of Allowed Class 5 Claims are paid in full. Since no distribution is expected to be made on account of Allowed Class 5 Preferred Stock Interests, Allowed VNB Common Stock Interests in Class 6 will receive nothing on account of their interests under the Plan, and such VNB Common Stock Interests will be deemed cancelled upon confirmation of the Plan.

THE SUMMARY OF THE PLAN SET FORTH HEREIN IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO THE MORE DETAILED PROVISIONS SET FORTH IN THE PLAN, THE TERMS OF WHICH ARE CONTROLLING. The Plan is attached hereto as Exhibit A and forms a part of this Disclosure Statement.

A. Summary Of Certain Other Provisions Of The Plan.

1. **Executory Contracts and Unexpired Leases**.

Subject to the approval of the Bankruptcy Court, the Bankruptcy Code empowers the Debtor to assume, assume and assign, or reject executory contracts and unexpired leases. As a general matter, an "executory contract" is a contract under which material performance remains due by each party. If an executory contract or unexpired lease is rejected by the Debtor, the other party to the agreement may file a Claim for any damages incurred by reason of the rejection. In the case of rejection of employment agreements and leases of real property, such damage Claims are subject to certain limitations imposed by the Bankruptcy Code. If an executory contract or unexpired lease is assumed, the debtor generally has the obligation to perform its obligations thereunder in accordance with the terms of such agreement. If an executory contract is assumed and assigned, the assignee generally has the obligation to perform the obligations of the debtor thereunder in accordance with the terms of such agreement.

Section VIII of the Plan discusses the assumption and rejection of executory contracts in further detail. Executory contracts and unexpired leases to be assumed pursuant to the Plan and the projected Cure Payments, if any, are listed in Exhibit 1 to the Plan. The procedures for disputing a Cure Payment or objecting to the assumption of such executory contracts or unexpired leases are discussed in further detail in Section VIII.B. of the Plan. The Debtor reserves the right to delete any contract or lease from Exhibit 1 to the Plan, thereby rejecting the contract or lease, up to and

including the hearing on confirmation of the Plan, by filing with the Bankruptcy Court an amended Exhibit 1 to the Plan and by giving notice to counsel for the Committee and counsel for the non-debtor party to the contract or lease.

All executory contracts and unexpired leases which have not previously been rejected, which are not specifically assumed, either pursuant to the Plan or by separate order in the Chapter 11 Case, or which are not the subject of a motion to assume pending on the Effective Date, are deemed rejected pursuant to the Plan as of the Effective Date (or as of such earlier date as announced by the Debtor at the Confirmation Hearing). Exhibit 2 to the Plan contains a nonexclusive list of executory contracts and unexpired leases to be rejected under the Plan. Section VIII.D sets forth the procedures for filing a Claim arising from the rejection of an executory contract or unexpired lease.

All Allowed Claims arising from the rejection of executory contracts or unexpired leases, whether under the Plan or by separate proceeding, will be treated as Allowed Class 3 Claims under the Plan.

2. **Means Of Implementation**.

a. **From the Confirmation Date to the Effective Date**.

Although the Plan will become effective only on the Effective Date, on and after the Confirmation Date and until the Effective Date, the Debtor shall take or cause to be taken all actions which are necessary or appropriate to enable the Plan to become effective on the Effective Date and to implement and perform the Plan on and after the Effective Date.

b. **Revesting of Assets**.

The confirmation of the Plan will not revest any property of the Estate in the Debtor, but rather, all assets of the Estate, including, but not limited to, any and all Estate Causes of Action, and the Estate Cash Proceeds thereof, shall remain in the Estate and shall be liquidated (or donated/recycled), and the proceeds distributed, by the Liquidating Agent in accordance with the Plan.

c. **Appointment of Liquidating Agent.**

As of the Effective Date, the Liquidating Agent will be responsible for liquidating the assets of the Estate. The Liquidating Agent shall commence his duties as Liquidating Agent on the Effective

Date for the purpose of carrying out all responsibilities and making distributions provided for under the Plan.

(i) Powers and Responsibilities of Liquidating Agent.

The powers and responsibilities of the Liquidating Agent are set forth in Section V.B.1 of the Plan.

(ii) Disbursing Agent.

The Liquidating Agent shall either serve as the Disbursing Agent under this Plan or, subject to prior Bankruptcy Court approval, appoint a Disbursing Agent under this Plan, provided, however, with respect to the distributions to be made to holders of Allowed Class 4 Claims, the respective Statutory Trust Trustees and Junior Subordinated Indenture Trustees shall be the Disbursing Agent. The Disbursing Agent may employ or contract with other entities to assist or perform the distribution of property.

(iii) Post-Effective Date Employment Of Professionals By Liquidating Agent.

As set forth in Section V.B.3 of the Plan, the Liquidating Agent is authorized to employ such persons, including professionals, as the Liquidating Agent may deem necessary to enable the Liquidating Agent to perform the functions under the Plan. The costs of such employment and other expenditures shall be paid from the proceeds from the Operating Reserve or the Litigation Reserve as appropriate; provided, however, that prior to the entry of an order closing the Bankruptcy Case (the "Final Decree") the fees and costs to be paid to the Liquidating Agent and all professionals employed by him as well as the professionals employed by the Post-Confirmation Committee, shall be subject to the approval of the Bankruptcy Court and after notice is given in compliance with Section XI.K of the Plan.

(iv) Compensation of Liquidating Agent.

The Liquidating Agent shall serve with bond, paid for by funds from the Estate, with the Debtor's creditors as the beneficiaries thereof.

d. **Establishment of Reserves**.

On the Effective Date, the Reserves shall be funded from the assets of the Estate by the

Liquidating Agent. At least two (2) business days prior to the Effective Date, the Debtor, shall file a notice of the proposed amount of the Reserves (other than the Litigation Reserve, the amount of which has already been provided for in the Plan) and serve such notice on those parties entitled to notice in this Chapter 11 Case.

e. **Funding Of The Plan**.

After funding the Reserves, the Cash to fund the payments required to be made on the Effective Date for Allowed Administrative Expenses, Allowed Priority Tax Claims and to holders of both Allowed Class 1 Claims and Allowed Class 2 Claims, shall be derived from the Estate Cash Proceeds. The Net Estate Cash Proceeds will be used to pay Allowed Class 3 Claims on the Initial Class 3 Distribution Date.

Payments, other than Interim Distributions, the Initial Class 3 Distribution Date distributions, and the Initial Class 4 Distribution Date distributions, if any, that are required or permitted to be made by the Liquidating Agent pursuant to this Plan during the period from after the Effective Date to the Final Distribution Date, shall be made from (a) the Operating Reserve to fund Estate operations, expenses, tax liabilities, and other obligations of the Liquidating Agent, (b) the Administrative Claims Reserve to pay Administrative Claims that accrued prior to the Effective Date but are to be paid after the Effective Date, (c) the Disputed Claims Reserve to pay Allowed Claims, other than Allowed Class 3 Claims paid on the Initial Class 3 Distribution Date or Allowed Class 4 Claims paid on the Initial Class 4 Distribution Date, that were previously Disputed Claims, as applicable or (d) the Litigation Reserve to fund costs and expenses associated with investigating and prosecuting Estate Causes of Action and D&O Claims.

On the Litigation Reserve Expiration Date, all of the remaining funds from the Litigation Reserve shall become Net Estate Cash Proceeds. On the Final Distribution Date, all of the remaining unused funds from the Reserves and the Net Estate Cash Proceeds shall be distributed Pro Rata to holders of Allowed Class 3 Claims and to the extent the Allowed Class 3 Claims of all Senior Indebtedness is paid in full, then to the Allowed Class 4 Claims, as provided for in the Plan.

f. **Prosecution Of Estate Causes Of Action and D&O Claims By The Liquidating Agent or the Post-Confirmation Committee.**

Pursuant to the Confirmation Order, on the Effective Date, the Debtor and (with respect to the D&O Claims) the Committee, irrevocably assign, transfer and convey to the Liquidating Agent the right to manage and control all property of the Estate, including, but not limited to, all Estate Causes of Action and the D&O Claims vested the Liquidating Agent, on behalf of the Estate, pursuant to the Plan. Subject to the provisions of Section V.B.1 of the Plan, the Liquidating Agent shall have the power and authority to prosecute, compromise or otherwise resolve any and all such Estate Causes of Action and D&O Claims, with all recoveries derived therefrom to be included within Net Estate Cash Proceeds.

Therefore, the Estate Causes of Action described in Exhibit E (potential preference payments), Exhibit F (litigation against third parties and D&O Claims), Exhibit G (potential D&O Claims) and the pending litigation claims described on Exhibit D will be investigated and may be prosecuted by the Liquidating Agent thereafter. Additionally, the Liquidating Agent will investigate and may object to Claims after the Effective Date. The Debtor, and its Professional Persons have made a diligent effort to identify in Exhibits D, E and F to this Disclosure Statement, all Estate Causes of Action (other than objections to Claims) and D&O Claims. However, no reliance should be placed on the fact that a particular Estate Cause of Action or D&O Claim is or is not identified in Exhibits D, E, F or G. The Post-Confirmation Committee or the Liquidating Agent may seek to investigate, file and prosecute Estate Causes of Action or D&O Claims after the Effective Date of the Plan, whether or not the Estate Causes of Action or D&O Claims are identified in the Disclosure Statement.

Neither the Debtor, the Committee, nor the Liquidating Agent waives, relinquishes, or abandons any right or cause of action which constitutes property of the Debtor's Estate, whether or not such right or cause of action is an Estate Cause of Action or D&O Claim, has been listed or referred to in the Schedules or in this Disclosure Statement and whether or not such right or cause of action is currently known to the Debtor or the Liquidating Agent. The Debtor submits that the reservation of Estate Causes of Action and D&O Claims herein is sufficient to preserve such Estate Causes of Action

and D&O Claims and shall not give rise to any release, waiver, extinguishment, forfeiture or other impairment of any Estate Cause of Action or D&O Claim against any party, nor shall same subject the Estate, the Committee, or the Liquidating Agent to any claims or defenses of res judicata, equitable estoppel or any other similar doctrines or theories in connection with any of the D&O Claims or Estate Causes of Action.

g. **Issuance And Execution Of Plan Related Documents And Corporate Action**.

Pursuant to Section V.B.F of the Plan, as of the Effective Date, the Liquidating Agent will be authorized to execute such amendments, modifications, supplements, and other documents as provided for in the Plan. Upon the occurrence of the Effective Date, the Debtor shall be deemed dissolved.

h. **Cancellation/Surrender of the Indenture Securities, the Equity Interests And Related Agreements**.

As of the Effective Date, except to the extent otherwise provided herein, all notes, stock, instruments, certificates and other documents evidencing the Claims of the Record Holders and the beneficial owners of the Debt Securities and Indenture Securities shall be cancelled and deemed null and void and of no further force and effect (all without further act or action by any Person), other than as evidence of any right to receive distributions under the Plan; and the obligations of the Debtor under the Debt Securities and the Indenture Securities will be fully and finally satisfied and released without any further act of the Bankruptcy Court. As used in this section h, "Indenture" shall mean the Statutory Trust Indenture and the Junior Subordinated Indenture; "Indenture Securities" shall mean the Capital Securities, Common Securities and Debentures; and "Indenture Trustees" shall mean the Statutory Trust Trustees and the Junior Subordinated Indenture Trustees. Notwithstanding the termination of the Indentures, the provisions of such documents shall govern the relationships of the Indenture Trustees and Record Holders and beneficial owners of the Indenture Securities.

Following the Effective Date, holders of the Indenture Securities will receive from their respective Indenture Trustees or their designees specific instructions regarding the time and manner in which the Indenture Securities under the respective Indentures are to be surrendered. Pending such surrender, such Indenture Securities will be deemed cancelled and shall represent only the right to

receive the distributions to which the holder is entitled under this Plan.

3. **Provision For Allowance Of the Indentures**.

As set forth in further detail in Section IV.A. of the Plan, a beneficial owner of the Indenture Securities under the Indentures of record as of _____ (the "Record Date") shall, for purposes of distributions under the Plan, be deemed to have an Allowed Class 4 Claim for the outstanding principal amount of the Indentures owned by such beneficial owner plus accrued and unpaid interest as of the Petition Date, and need not file a proof of claim with respect thereto, subject to the aggregate amount of Allowed Class 4 Claims as provided for in the Plan.

With respect to distributions to be made to holders of the Indenture Securities under the Indentures classified in Class 4, the Indenture Trustees shall (i) be the Disbursing Agent, (ii) receive the consideration to be paid to holders of Indenture Securities under the Indentures as Indenture Trustees for the respective Indentures which are classified as Allowed Class 4 Claims; (iii) be responsible for making distributions to holders of Allowed Class 4 Claims arising from such Indentures; and (iv) be authorized to deduct the Indenture Trustee Claims from the consideration provided to holders of Allowed Class 4 Claims arising from such Indentures to the extent so provided for in the Indentures.

4. **Establishment Of The Post-Confirmation Committee**.

As set forth in Section VI of the Plan, after the Effective Date, the members of the Committee shall become the members of the Post-Confirmation Committee. The Post-Confirmation Committee will have access to information, and will, among other things, approve, and the Liquidating Agent may not without such approval, (i) commence any litigation (except for objections to Claims and Equity Interests and the ability to prosecute or settle such objections to Claims and Equity Interests, and to defend claims and counterclaims asserted in connection therewith including by way of asserting the Estate's rights of recoupment, setoff, or otherwise); or (ii) settle any litigation involving a Claim against the Estate, or an amount in controversy, in excess of $500,000.00 (other than as set forth in section (i) above). In addition, the Liquidating Agent shall prosecute such Estate Causes of Action as reasonably directed by the Post-Confirmation Committee; provided, however, in the event that the Liquidating Agent elects not to prosecute certain Estate Causes of Action or D&O Claims directed by

the Post-Confirmation Committee, the Post-Confirmation Committee shall have the power to commence such certain Estate Causes of Action and D&O Claims on behalf of the Estate; provided further, however, such election by the Liquidating Agent not to prosecute such certain Estate Causes of Action and D&O Claims shall not constitute "cause" to justify termination of the Liquidating Agent under Section VI.C of the Plan. Moreover, the Post-Confirmation Committee may terminate the Liquidating Agent for "cause" and upon order of the Bankruptcy Court and may select the successor Liquidating Agent. More details about the Post-Confirmation Committee are set forth in Section VI of the Plan.

5. **Resolution of Disputed Claims**.

As set forth in Section IV of the Plan, after the Effective Date and subject to the provisions of this Plan, the Liquidating Agent will review all Claims and determine if any grounds exist to object to such Claims. Only Allowed Claims will be paid. Distributions relating to Disputed Claims will be placed into the Disputed Claims Reserve until such time as such Disputed Claim is adjudicated or otherwise settled. Any Disputed Claim that becomes an Allowed Claim after the Effective Date will be paid from the Disputed Claims Reserve. If such Disputed Claim fails to become an Allowed Claim, money placed in the Disputed Claims Reserve on behalf of such Disputed Claim shall be deemed to be Net Estate Cash Proceeds and shall be distributed Pro Rata to holders of Allowed Class 3 Claims, and if appropriate under the Plan, Allowed Class 4 Claims.

6. **Distributions Under The Plan**.

a. **General Provisions**.

Except as otherwise provided herein, or as may be ordered by the Bankruptcy Court, distributions to be made on the Effective Date on account of Allowed Claims, other than Allowed Class 3 Claims and Allowed Class 4 Claims, shall be made on the Effective Date or as soon as practicable thereafter. Allowed Class 3 Claims shall receive a Pro Rata distribution of the Net Estate Cash Proceeds on the Initial Class 3 Distribution Date which is no later than 60 days after the Effective Date or as soon thereafter as practicable. If a distribution is due on Allowed Class 4 Claims under the Plan, such distribution shall occur on the Initial Class 4 Distribution Date. Notwithstanding the above, no distributions will be made on a Claim unless it is an Allowed Claim or in the case of a Disputed

Claim an order of the Bankruptcy Court has been entered estimating the Claim for purposes of distribution; and, provided further, however, distributions on Allowed Claims may be delayed as a result of, or the allowance or estimation of, Disputed Claims, or the expiration of time for filing a proof of claim.

b. **Delivery of Distributions, Address of Holder**.

For purposes of all notices and distributions under the Plan, the Liquidating Agent shall be entitled to rely on the name and address of the holder of each Claim as shown on, and distributions to holders of Allowed Claims shall be made by regular U.S. first class mail to, the following addresses: (a) at the addresses set forth in the proofs of Claim Filed by such holders; (b) at the addresses set forth in any written notices of address change delivered to the Debtor or to the Liquidating Agent after the date on which any related proof of Claim was Filed; or (c) the address reflected on the Schedules if no proof of Claim or proof of Equity Interest is Filed and the Debtor or the Liquidating Agent has not received a written notice of a change of address. The Liquidating Agent shall be under no duty to attempt to locate holders of Allowed Claims who are entitled to unclaimed distributions.

c. **Record Date**.

Pursuant to Bankruptcy Rule 3021, on the Record Date, the transfer ledgers for the Indentures and the Equity Interests shall be closed, and there shall be no further changes in the holders of record of such securities. The Liquidating Agent shall not recognize any transfer of such securities occurring after the Record Date, but shall instead be entitled to recognize and deal for all purposes with only those holders of record stated on the applicable transfer ledgers as of the Record Date.

7. **Conditions Precedent**.

The Plan provides that it will not become effective until the Confirmation Order has been entered on the docket of the Bankruptcy Court and no stay of the Confirmation Order is in effect, unless this condition has been waived in writing by the Trustee.

8. **Retention Of Jurisdiction**.

The Plan provides for the retention by the Bankruptcy Court of jurisdiction over the Chapter 11 Case as specified in the Plan.

9. **Effective Date.**

The Effective Date is the first date that the Plan becomes effective under Section IX.A. of the Plan.

10. **Amendment, Modification Or Revocation Of The Plan**.

Prior to the Effective Date, the Debtor has the sole authority and power to alter, amend, or modify the Plan pursuant to section 1127 of the Bankruptcy Code. After the Effective Date, the Liquidating Agent, with the consent of the Post-Confirmation Committee, shall have the sole authority and power to alter, amend, or modify the Plan pursuant to section 1127 of the Bankruptcy Code.

11. **Post Confirmation Notice**.

From and after the Effective Date, any person who desires notice of any pleading or document filed in the Bankruptcy Court, or any hearing in the Bankruptcy Court, or other matter as to which the Bankruptcy Code requires notice to be provided, shall file a request for post-confirmation notice and shall serve the request on the Liquidating Agent; provided, however, the OUST, counsel to the Debtor and the Committee shall be deemed to have requested post-confirmation notice.

V. EFFECT OF PLAN CONFIRMATION

A. Preservation of Rights of Action.

Except to the extent any rights, claims, causes of action, defenses, and counterclaims are expressly and specifically released in connection with the Plan or in any settlement agreement approved during the Chapter 11 Case: (i) any and all Estate Causes of Action and D&O Claims accruing to the Debtor's Estate under the Plan shall remain with the Debtor's Estate on the Effective Date, whether or not litigation relating thereto is pending on the Effective Date, and whether or not any such Estate Causes of Action or D&O Claims have been listed or referred to in this Plan, this Disclosure Statement, or any other document filed with the Bankruptcy Court, and (ii) except with respect to requirements affecting the Debtor under the Committee Standing Order, neither the Debtor's Estate nor the Committee waives, releases, relinquishes forfeits, or abandons (nor shall either be estopped or otherwise precluded or impaired from asserting) any D&O Claim or Estate Cause of Action that constitutes property of the Debtor's Estate: (a) whether or not such D&O Claim or Estate Cause of Action has been listed or referred to in the Plan, this Disclosure Statement, or any other

document filed with the Bankruptcy Court, (b) whether or not such Estate Cause of Action or D&O Claim is currently known to the Debtor, the Committee or the Liquidating Agent, and (c) whether or not a defendant in any litigation relating to such Estate Cause of Action or D&O Claim filed a proof of claim in the Chapter 11 Case, filed a notice of appearance or any other pleading or notice in the Chapter 11 Case, voted for or against this Plan, or received or retained any consideration under this Plan.

B. No Liability For Solicitation Or Participation.

As specified in section 1125(e) of the Bankruptcy Code, persons who solicit acceptances or rejections of the Plan and/or who participate in the offer, issuance, sale, or purchase of securities offered or sold under the Plan, in good faith and in compliance with the applicable provisions of the Bankruptcy Code, are not liable, on account of such solicitation or participation, for violation of any applicable law, rule, or regulation governing the solicitation of acceptances or rejections of the Plan or the offer, issuance, sale, or purchase of securities.

VI. CONFIRMATION PROCEDURE

HOLDERS OF IMPAIRED CLAIMS AND OTHER INTERESTED PARTIES ARE URGED TO READ THE PLAN (INCLUDING THE EXHIBITS THERETO) IN ITS ENTIRETY SO THAT THEY MAY MAKE AN INFORMED JUDGMENT CONCERNING THE PLAN.

In order for the Plan to be confirmed by the Bankruptcy Court, all of the applicable requirements of section 1129 of the Bankruptcy Code must be met. These include, among others, the requirements that the Plan: (i) is accepted by all impaired classes of Claims; (ii) is feasible; and (iii) is in the "best interest" of holders of Claims and Equity Interests in each class impaired under the Plan.

The Plan and the Disclosure Statement were filed with the Bankruptcy Court and, after notice and a hearing, the Bankruptcy Court approved the Disclosure Statement. The Plan, the Disclosure Statement, Ballots, and other solicitation materials approved by the Bankruptcy Court were distributed to all known holders of impaired Claims in the Voting Classes. A Confirmation Hearing with respect to the Plan is scheduled to commence as set forth in the Confirmation Notice included in the solicitation materials and served on all creditors and parties in interest. At the confirmation hearing, the Debtor will request the Bankruptcy Court to confirm the Plan on the basis that all confirmation

requirements have been satisfied.

A. Voting; Acceptance.

Any holder of a Claim in an impaired Class is entitled to vote if either (i) such holder's Claim has been scheduled by the Debtor in the Schedules filed with the Bankruptcy Court (provided that such Claim has not been scheduled as disputed, contingent, unknown, or unliquidated), or (ii) such holder has filed a proof of Claim on or before the deadline previously fixed by the Bankruptcy Court and such Claim is deemed allowed pursuant to section 502 of the Bankruptcy Code or has been allowed by the Bankruptcy Court, unless such Claim has been disallowed for voting purposes by the Bankruptcy Court, or is allowed under the Plan. The Record Date for determining which holders of the Indenture Securities under the Indentures is a "Record Holder," will be _____. A vote may be disregarded if the Bankruptcy Court determines, after notice and a hearing, that an acceptance or rejection was not solicited or procured or made in good faith or in accordance with the provisions of the Bankruptcy Code.

The Voting Classes of Claims will be deemed to have accepted the Plan if the Plan is accepted by holders of at least two-thirds in dollar amount and more than one-half in number of the Claims of such Class (excluding certain Claims designated under section 1126(e) of the Bankruptcy Code) that will have voted to accept or reject the Plan.

THE INDENTURE TRUSTEES ARE NOT PERMITTED TO VOTE ON BEHALF OF THE HOLDERS OF THE INDENTURE SECURITIES UNDER THE INDENTURES. CONSEQUENTLY, SUCH HOLDERS MUST SUBMIT THEIR OWN BALLOTS IN ORDER FOR THEIR VOTES TO COUNT.

Classes 3 and 4 are the only Voting Classes because Classes 1 and 2 are not impaired and therefore are deemed to accept the Plan and Classes 5 and 6 are impaired but deemed to reject the Plan because they will not receive a distribution under the Plan.

B. Confirmation Hearing.

Section 1128(a) of the Bankruptcy Code requires the Bankruptcy Court, after notice, to hold a hearing on confirmation of the Plan (the "Confirmation Hearing"). The Confirmation Hearing may be postponed from time to time by the Bankruptcy Court without further notice except for an

announcement of the postponement made at the Confirmation Hearing. Section 1128(b) of the Bankruptcy Code provides that any party in interest may object to confirmation of the Plan. Objections must be made in writing, specifying in detail the name and address of the person or entity objecting, the grounds for the objection, and the nature and amount of the Claim or Equity Interest held by the objector, and otherwise complying with the requirements of the Bankruptcy Rules and Local Bankruptcy Rules. Objections must be filed and served pursuant to the Confirmation Notice in the manner set forth therein, on or before the time and date designated in the Confirmation Notice as being the last date for serving and filing objections to confirmation of the Plan. UNLESS AN OBJECTION TO CONFIRMATION IS TIMELY SERVED AND FILED IN ACCORDANCE WITH THE CONFIRMATION NOTICE, IT MAY NOT BE CONSIDERED BY THE BANKRUPTCY COURT. AS SET FORTH IN THE CONFIRMATION NOTICE, THE BANKRUPTCY COURT MAY NOT CONSIDER ANY OBJECTIONS THAT ARE NOT TIMELY RAISED.

At the Confirmation Hearing, the Bankruptcy Court will determine, among other things, whether the following confirmation requirements specified in section 1129 of the Bankruptcy Code have been satisfied:

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

2. The Debtor has complied with the applicable provisions of the Bankruptcy Code.

3. The Plan has been proposed in good faith and not by any means proscribed by law.

4. Any payment made or promised by the Debtor for services or for costs and expenses in, or in connection with, the Chapter 11 Case, or in connection with the Plan and incident to the Chapter 11 Case, has been disclosed to the Bankruptcy Court, and any such payment made before the confirmation of the Plan is reasonable or, if such payment is to be fixed after the confirmation of the Plan, such payment is subject to the approval of the Bankruptcy Court as reasonable.

5. The Debtor has disclosed the identity and affiliations of any individual proposed to serve, after confirmation of the Plan, as a director or officer of the Debtor, and the

appointment to, or continuance in, such office of such individual is consistent with the interests of creditors and with public policy, and the Debtor has disclosed the identity of any insider that will be employed or retained by the Debtor and the nature of any compensation for such insider.

6. Each holder of an impaired Claim and each holder of Equity Interests either has accepted the Plan or will receive or retain under the Plan on account of such holder's Claims or Equity Interests, as the case may be, property of a value, as of the Effective Date, that is not less than the amount that such entity would receive or retain if the Debtor's Estate were liquidated on such date under chapter 7 of the Bankruptcy Code. See Section VI.D of the Disclosure Statement entitled "Best Interests Test."

7. Unless the Debtor proposes a nonconsensual plan of liquidation, each class of Claims or Equity Interests has either accepted the Plan or is not impaired under the Plan.

8. Except to the extent that the holder of a particular Claim has agreed to a different treatment of such Claim, the Plan provides that Administrative Expenses and Other Priority Claims will be paid in full on the Effective Date and that holders of Priority Tax Claims will receive on account of such Claims payment in full on the Effective Date equal to the allowed amount of such Claims.

9. At least one impaired class of Claims has accepted the Plan, determined without including any acceptance of the Plan by any insider holding a Claim in such class.

10. The Plan contemplates the disposition of all of the assets of the Estate and the distribution of the proceeds therefrom to holders of Allowed Claims and Allowed Equity Interests in order of priority and as provided for in the Plan. See Section VI.C of the Disclosure Statement entitled "Feasibility."

The Debtor believes that, upon acceptance of the Plan by the Voting Classes, the Plan will satisfy all the statutory requirements of Chapter 11 of the Bankruptcy Code, that the Debtor has complied or will have complied with all of the requirements of Chapter 11, and that the Plan is being proposed and will be submitted to the Bankruptcy Court in good faith.

C. Feasibility.

The Bankruptcy Code requires that, in order for the Plan to be confirmed by the Bankruptcy

Court, it must be demonstrated that consummation of the Plan is not likely to be followed by the liquidation or the need for further financial reorganization of the Debtor, unless a liquidation is contemplated by the Plan. Here, the Plan contemplates the orderly sale or disposition of all of the assets of the Debtor and the distribution of the proceeds therefrom in accordance with the Plan. The Debtor has prepared a Projection of the Estate Cash Proceeds (see Exhibit B hereto). Exhibit B includes a detailed schedule of the sources and uses of Cash and property at the assumed Effective Date. The aggregate amount of cash required to be distributed (or reserved) under the Plan as of the Effective Date is set forth in Exhibit B hereto. The sources of funds for such cash payments will be cash on hand at the Effective Date. The Debtor believes that, based upon the assumptions made, such available funds will be adequate to fund the Plan.

D. Best Interests Test.

As referred to in subparagraph 6 of Section VI.B. above, confirmation of the Plan requires that each holder of an impaired Claim and each holder of Equity Interests either (a) accepts the Plan or (b) receives or retains under the Plan property of a value, as of the Effective Date, that is not less than the value such holder would receive or retain if the Debtor's Estate were liquidated under chapter 7 of the Bankruptcy Code.

The Debtor has determined that confirmation of the Plan will provide each holder of a Claim and each holder of Equity Interests with a recovery that is not less than that which it would receive pursuant to a liquidation of the Debtor under chapter 7 of the Bankruptcy Code. This determination is based upon a consideration of the effects that a chapter 7 liquidation would have on the ultimate proceeds available for distribution to such holders.

Conversion of this case to one under chapter 7 at this stage would simply add another layer of administrative expenses which would only serve to diminish the distributions to all creditors in this case. In a chapter 7 case, the chapter 7 trustee will incur fees and expenses of professionals that will be paid prior to any chapter 11 Claims. Accordingly, the distributions to creditors will likely be larger under the Plan. Moreover, initial distributions to creditors contemplated by the terms of the Debtor's Plan will be made quicker than any likely distribution that would be made by a Chapter 7 Trustee because a Chapter 7 Trustee will need an undetermined period of time to investigate and comprehend

the assets, liabilities, and asserted Claims against the Debtor's Estate.

Based on the foregoing, the Debtor believes that the Plan satisfies the Best Interest Test and represents a preferred alternative to the costs and delays attendant to a chapter 7 case and the appointment of a chapter 7 trustee therein.

E. Risks.

Because the final amount of monies that will be collected and the final amount of Allowed Administrative, Priority, Secured, General Unsecured Claims, and Subordinated Claims of Holders of Indentures have not yet been determined, the amounts for distribution to holders of Allowed Class 3 Claims and Allowed Class 4 Claims and the percentage that each holder of Allowed Class 3 Claims and Allowed Class 4 Claims may receive on account of its Allowed Claim could be less than the percentage estimated herein.

VII. ALTERNATIVES TO CONFIRMATION AND CONSUMMATION OF THE PLAN OF REORGANIZATION

The Debtor believes that the Plan affords holders of Claims and Equity Interests the potential for the greatest feasible realization out of the Debtor's assets, and, therefore, is in the best interest of such holders. The Debtor has considered alternatives to the Plan such as a liquidation in the context of a chapter 7 case. In the opinion of the Debtor, such alternatives would not afford holders of Claims or Equity Interests a return greater than that achieved under the Plan.

A. Liquidation Under Chapter 7.

If no plan can be confirmed, the Chapter 11 Case may be converted to a case under chapter 7 of the Bankruptcy Code, pursuant to which a trustee would be elected or appointed to liquidate the Debtor's assets for distribution to creditors in accordance with the priorities established by the Bankruptcy Code. A discussion of the effects that a chapter 7 liquidation would have on the recovery by holders of Claims and Equity Interests is set forth in Section VI.D of the Disclosure Statement entitled "Best Interests Test."

B. Alternative Plan Of Liquidation.

If the Plan is not confirmed, the Debtor could attempt to formulate a different plan. With respect to an alternative plan, the Debtor has explored various other alternatives in connection with the

extensive negotiation process involved in the formulation and development of the Plan, but concluded that the Plan provides the best feasible recoveries attainable under the circumstances. The Plan provides for an orderly disposition of the assets of the Estate on a timetable, and on terms, which maximizes the value of the Estate. Any alternative, liquidation under chapter 11 or under chapter 7, is likely to result in a lower recovery.

THE DEBTOR BELIEVES THAT CONFIRMATION AND IMPLEMENTATION OF THE PLAN IS PREFERABLE TO ANY OF THE ALTERNATIVES DESCRIBED HEREIN BECAUSE IT IS EXPECTED TO PROVIDE GREATER RECOVERIES AND INVOLVE LESS DELAY AND UNCERTAINTY AND LOWER ADMINISTRATIVE COSTS.

VIII. VOTING PROCEDURES

The Debtor is providing copies of the Confirmation Notice, this Disclosure Statement, the Plan, and/or Ballots or master ballots ("Master Ballots"), as applicable, to all known holders of impaired Claims in the Voting Classes, including registered holders as of the Record Date of the Indenture Securities under the Indentures (or, if applicable, to those holders who are listed as participants in a clearing agency's position). Registered holders may include brokerage firms, commercial banks, trust companies, or other nominees (the "Nominees"). If such Nominees do not hold for their own account, they should follow the procedures described in Section VIII.B below. Any beneficial owner who has not received a Ballot should contact such owner's Nominees, or write to the Debtor's Ballot Tabulator. Ballots must be returned to the Ballot Tabulator by no later than the Voting Deadline set forth in the Ballot.

A. Procedures For Tabulation Of Votes On The Plan.

Solely for purposes of voting to accept or reject the Plan, and not for the purpose of the allowance of, or distribution on account of, a Claim and without prejudice to the rights of the Debtor in any other context, the Debtor proposes that each Claim within the Voting Classes that is entitled to vote to accept or reject the Plan be temporarily allowed in accordance with the following rules (collectively, the "Tabulation Rules"):

1. Ballots and Master Ballots that (a) fail to indicate an acceptance or rejection on the Ballot; or (b) indicate both an acceptance or rejection on the same Ballot, will not be accepted

or counted by the Trustee in connection with the Trustee's request for confirmation of the Plan;

2. Creditors shall not split their vote within a Claim; thus, each creditor shall be deemed to have voted the full amount of its Claims either to accept or reject the Plan;

3. Original executed Ballot or Master Ballot is required. Delivery of a Ballot or Master Ballot by facsimile, email or any other electronic means will not be accepted;

4. If multiple Ballots or Master Ballots are received from or on behalf of an individual holder of a claim with respect to the same Claims prior to the Voting Deadline, the last Ballot timely received will be deemed to reflect the voter's intent and to supersede and revoke any prior Ballot;

5. If a Claim for which a proof of claim has been timely filed is marked as contingent, unliquidated or disputed on the face of the proof of Claim, such Claim will be temporarily allowed for voting purposes in the amount of $1.00, unless otherwise ordered by the Court, after notice and a hearing;

6. If a proof of Claim has been filed but such Claim is considered by the Debtor to be a Disputed Claim, such Disputed Claim will not be counted for purposes of voting on the Plan if the Debtor files an objection to such Disputed Claim no later than fourteen (14) days prior to the Voting Deadline, unless an order of the Bankruptcy Court is entered after notice and a hearing temporarily allowing the Disputed Claim for voting purposes under Bankruptcy Rule 3018(a);

7. If a Claim holder identifies a Claim amount on its Ballot that is less than the amount otherwise calculated in accordance with the Tabulation Rules, the Claim will be temporarily allowed for voting purposes in the lesser amount identified on such Ballot; and

8. If a Ballot is signed by a trustee, executor, administrator, guardian, attorney-in-fact, officer of a corporation, or other person acting in a fiduciary or representative capacity, such person should indicate such capacity when signing.

B. Special Provisions With Respect To Voting By Beneficial Owners Of The Indenture Securities; Instructions For Nominees.

Beneficial owners who are also Record Holders should complete their Ballots and return them directly to the Ballot Tabulator by the Voting Deadline. Beneficial owners who are not the

Record Holders on the Record Date (meaning they hold their securities in "street name") shall be directed to vote on the Plan through their respective Record Holders ("Nominees"). Nominees are directed to (a) promptly provide copies of the Disclosure Statement, the Plan, Confirmation Notice and the Ballot to the beneficial owners who are the Nominee's customers ("Customers") or are the beneficial owners for whose account such Nominee holds, and (b) request such beneficial owners vote on the Plan by executing a Ballot. The Nominee can either (i) execute the Ballots in blank and forward them to their Customers and advise the Customers to vote and forward their completed Ballot directly to the Ballot Tabulator or (ii) collect the completed Ballots of its Customers and execute a Master Ballot. If the Nominee is collecting the Ballots of its Customers, the Nominee is directed to instruct its Customers to return their Ballots to the Nominee and the Nominee will use the Master Ballot to compile the votes of the beneficial owners who return executed Ballots. The Ballot Tabulator will forward the Nominees a form of Master Ballot and a form of communication to their Customers and beneficial owners, which includes a Ballot form which the beneficial owners will use to instruct the Nominees how to cast their votes for or against the Plan.

Nominees are to record all such acceptances or rejections of the Plan received from the beneficial owners, complete a Master Ballot indicating the vote of each beneficial holder and the total principal amount of Indentures held by such beneficial holders for which it received Ballots, and return the Master Ballot to the Ballot Tabulator by the Voting Deadline. The Nominee is also required to retain all Ballots it receives from its beneficial owners for disclosure to the Bankruptcy Court, if necessary.

A beneficial owner whose Indenture Securities were registered in its own name on the Record Date and not held by another as Record Holder will be directed to use the Master Ballot or Ballot to cast its own vote.

Beneficial owners of Indenture Securities who acquired such securities after the Record Date and who wish to vote on the Plan must arrange to vote with their transferors by delivery to them of Ballots duly executed in blank by (or a duly executed proxy from) the beneficial owners of the securities on the Record Date.

IX. CERTAIN FEDERAL INCOME TAX CONSEQUENCES

A. Introduction.

The following discussion is a summary of certain U.S. federal income tax consequences of the Plan to the holders of Claims in Classes 3 and 4. This discussion is based on the Internal Revenue Code of 1986, as amended (the "Tax Code"), Treasury Regulations promulgated and proposed thereunder, judicial decisions, and published administrative rules and pronouncements of the Internal Revenue Service (the "IRS") as in effect on the date hereof. Due to the complexity of certain aspects of the Plan, the lack of applicable legal precedent, the possibility of changes in the law, the differences in the nature of the Claims (including Claims within the same Class), the holders' status and method of accounting (including holders within the same Class) and the potential for disputes as to legal and factual matters with the IRS, the tax consequences described herein are subject to significant uncertainties. No legal opinions have been requested from counsel with respect to any of the tax aspects of the Plan and no rulings have been or will be requested from the IRS with respect to the any of the issues discussed below. Furthermore, legislative, judicial or administrative changes may occur, perhaps with retroactive effect, which could affect the accuracy of the statements and conclusions set forth below as well as the tax consequences to the holders of Claims in Classes 3 and 4.

This discussion does not purport to address all aspects of U.S. federal income taxation that may be relevant to the holders of Classes 3 and 4 in light of their personal circumstances, nor does the discussion deal with tax issues with respect to taxpayers subject to special treatment under the U.S. federal income tax laws (including, for example, banks, governmental authorities or agencies, pass through entities, brokers and dealers in securities, insurance companies, financial institutions, tax exempt organizations, small business investment companies, regulated investment companies and foreign taxpayers). No aspect of foreign, state, local or estate and gift taxation is addressed.

THE FOLLOWING SUMMARY IS NOT A SUBSTITUTE FOR CAREFUL TAX PLANNING AND ADVICE BASED UPON THE PERSONAL CIRCUMSTANCES OF EACH HOLDER OF CLAIMS IN CLASSES 3 AND 4 EACH HOLDER OF A CLAIM IN CLASSES 3 AND 4 IS URGED TO CONSULT WITH SUCH HOLDER'S TAX ADVISORS CONCERNING THE U.S. FEDERAL, STATE, LOCAL, FOREIGN AND OTHER TAX CONSEQUENCES

APPLICABLE UNDER THE PLAN.

B. Federal Income Tax Consequences to Holders of Claims in Classes 3 and 4.

The federal income tax consequences of the Plan to a holder of Claims in Classes 3 and 4 will depend upon several factors, including but not limited to: (i) the origin of the holder's Claim, (ii) whether the holder is a resident of the United States for tax purposes (or falls into any of the special classes of taxpayers excluded from this discussion as noted above), (iii) whether the holder reports income on the accrual or cash basis method, (iv) whether the holder has taken a bad debt deduction or worthless security deduction with respect to its Claim, and (v) whether the holder receives distributions under the Plan in more than one taxable year.

Pursuant to the Plan, holders of Allowed Claims which are all classified in Class 3 will receive a Pro Rata distribution of Net Estate Cash Proceeds and holders of Allowed Claims in Class 4 may receive a Pro Rata distribution of Net Estate Cash Proceeds if holders of Allowed Claims in Class 3 are paid in full. A holder of a Claims in Classes 3 and 4 should generally recognize gain or loss in the amount equal to the difference between the amount of any payment to such holder on account of such Claims and such holder's adjusted tax basis, if any, in such Claim. Any gain or loss recognized in the exchange will be capital or ordinary depending on the status of the Claim in the holder's hands. If such gain or loss is capital, such gain or loss will be long-term or short-term depending how long such Claims have been held.

To the extent that any amount received by a holder of Claims in Classes 3 and 4 under the Plan is attributable to accrued interest not previously included in the holder's gross income, such amount should be taxable to the holder as interest income. Conversely, a holder of Claims in Classes 3 and 4 may be able to recognize a deductible loss (or, possibly, a write-off against a reserve for bad debts) to the extent that any accrued interest in respect of such Claims were previously included in the holder's gross income but was not paid in full by Debtor. Such loss may be ordinary, but the tax law is unclear on this point. The extent to which the consideration received by a holder of a Claim will be attributable to accrued interest in respect of such Claim is unclear.

The Debtor will withhold all amounts required by law to be withheld from payments made pursuant to the Plan. The Debtor will comply with all applicable reporting requirements of the Tax

Code.

C. Consequences to Debtor's Estate.

In general, under the Plan, on the Effective Date or as soon as practicable thereafter, all of the Estate's assets will remain assets of the Estate, and hence the Debtor will continue to be responsible for payment of any taxes resulting from the ownership, disposition, or otherwise with respect to the Estate's assets. To the extent that any federal, state, local or foreign tax liability results from the assets, the Liquidating Agent on behalf of the Debtor's Estate will pay the resulting tax to the IRS or applicable governmental authority from the Estate's assets.

X. FEES AND EXPENSES

The expenses of seeking acceptances of the Plan and of other aspects of Plan proceedings have been and will be borne by the Debtor's Estate. The solicitation has been and is being made principally by mail. Arrangements also have been or will be made with brokerage houses and other custodians, nominees, and fiduciaries to forward this Disclosure Statement, Ballots, and other pertinent materials to the beneficial holders of the Indenture Securities. The Debtor has reimbursed and will reimburse such forwarding agents for reasonable out-of-pocket expenses incurred by them, but no compensation has been or will be paid for their services.

In addition to the foregoing, the estate is obligated to pay fees and reimburse expenses for the various professionals employed in connection with the Chapter 11 Case to the extent such fees and expenses are allowed by the Bankruptcy Court.

XI. SUMMARY OF ADDITIONAL SOURCES OF INFORMATION

Additional sources of information regarding the Debtor's Estate and documents relating to the Plan are available to holders of Claims and Equity Interests. The following is a summary of certain documents and the places they can be reviewed or obtained:

A. Both prior to and after the Petition Date, the Debtor filed documents with the SEC in accordance with the informational requirements of the 1934 Act. Copies of such material can be obtained from the Public Reference Section of the Commission at 450 Fifth Street, NW, Washington, D.C. 20549, at prescribed rates. Certain of such material may be accessible via online computer.

B. Orders of the Bankruptcy Court and related papers pertaining to transactions outside

of the Debtor's ordinary course of business may be inspected at the office of the Clerk of the Bankruptcy Court located at 3420 Twelfth Street, Riverside, California 92501-3819.

C. The Debtor's Schedules of Assets and Liabilities, Statement of Affairs, List of Old Equity Security Holders, and Schedules of Executory Contracts and Unexpired Leases, as amended, may be inspected at the office of the Clerk of the Bankruptcy Court located at 3420 Twelfth Street, Riverside, California 92501-3819.

D. Periodic post-petition financial reports as filed with the OUST may be inspected at the Office of the OUST located at 3685 Main Street, Suite 300, Riverside, California 92501.

XII. RECOMMENDATION AND CONCLUSION

The Debtor believes that confirmation and implementation of the Plan are preferable to any of the feasible alternatives because the Plan will provide substantially greater recoveries for holders of Claims. Accordingly, the Debtor urges holders of Claims in the Voting Classes to accept the Plan.

DATED: November 16, 2009

DEBTOR AND DEBTOR-IN-POSSESSION
VINEYARD NATIONAL BANCORP

By: /s/ Donald H. Pelgrim
Donald H. Pelgrim, Jr.
Executive Vice President and Chief Administrative Officer

SUBMITTED BY:

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JON L.R. DALBERG
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EXHIBITS TO DISCLOSURE STATEMENT

Exhibit "A" - PLAN

Exhibit "B" - PROJECTED ESTATE CASH PROCEEDS ANALYSIS

Exhibit "C" - HYPOTHETICAL CHAPTER 7 LIQUIDATION ANALYSIS

Exhibit "D" - LIST OF PENDING LITIGATION CLAIMS

Exhibit "E"- POTENTIAL PREFERENCE PAYMENTS

Exhibit "F" - POTENTIAL THIRD PARTY ESTATE CAUSES OF ACTION

Exhibit “G” - D&O CLAIMS