UNITED STATES BANKRUPTCY COURT
MIDDLE DISTRICT OF FLORIDA
JACKSONVILLE DIVISION

In re

LYDIA CLADEK, INC. **Case No: 3:10-BK-02805-PMG**

Debtor. **Chapter 11**

DISCLOSURE STATEMENT OF OFFICIAL COMMITTEE OF UNSECURED CREDITORS

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I. INTRODUCTION

This Disclosure Statement is submitted by the Official Committee of Unsecured Creditors (the "Committee") appointed and serving in the Chapter 11 Case of Lydia Cladek, Inc., a Florida corporation ("LCI" or "Debtor"). The purpose of this Disclosure Statement is to provide holders of claims against LCI with sufficient information to make an informed judgment as to whether to accept or reject the Plan of Reorganization (the "Plan"), which the Committee has filed with this Court. This Disclosure Statement should be read in conjunction with the Plan.

To the extent this Disclosure Statement contains financial information, it was prepared from information provided by Michael Phelan, as Chapter 11 Trustee (the "Trustee") for LCI and the Debtor's books and records, which the Trustee made available to the Committee. The Committee has made every attempt to provide reliable and accurate financial information and most of the financial information contained herein has been provided by the Trustee; however, such information has not been subject to an independent certified audit to insure absolute accuracy.

The description of the Plan contained in this Disclosure Statement is intended as a summary only and is qualified in its entirety by reference to the Plan itself. Except as otherwise expressly provided herein, capitalized terms used herein and defined in the Plan shall have the same meaning attributed to them in the Plan.

The statements contained in this Disclosure Statement are made as of the date hereof, unless another time is specified herein, and delivery of this Disclosure Statement shall not create an implication that there has been no change in the facts set forth herein since the date of this Disclosure Statement and the date the materials relied upon in preparation of this Disclosure Statement were compiled.

This Disclosure Statement may not be relied upon for any purpose other than to determine how to vote on the Plan and nothing contained herein shall constitute an admission of fact or liability by any party or be admissible in any proceeding involving the Committee, the Debtor, the Trustee, or any other party or be deemed conclusive advice on the tax or other legal effects of the reorganization on holders of claims or interests.

THE UNITED STATES BANKRUPTCY COURT FOR THE MIDDLE DISTRICT OF FLORIDA, JACKSONVILLE DIVISION HAS APPROVED THIS DISCLOSURE STATEMENT, WHICH APPROVAL DOES NOT CONSTITUTE A DETERMINATION ON THE MERITS OF THE PLAN. THE APPROVAL OF THE DISCLOSURE STATEMENT MEANS THAT THE BANKRUPTCY COURT HAS FOUND THAT THE DISCLOSURE STATEMENT CONTAINS ADEQUATE INFORMATION TO PERMIT CREDITORS AND EQUITY INTEREST HOLDERS OF THE DEBTOR TO MAKE A REASONABLY INFORMED DECISION IN EXERCISING THEIR RIGHT TO VOTE UPON THE PLAN. HOWEVER, THE APPROVAL OF THIS DISCLOSURE STATEMENT DOES NOT CONSTITUTE A GUARANTEE OF THE ACCURACY OR COMPLETENESS OF THE INFORMATION CONTAINED HEREIN OR AN ENDORSEMENT OF THE PLAN BY THE BANKRUPTCY COURT.

INFORMATION CONTAINED HEREIN IS SUBJECT TO COMPLETION OR AMENDMENT. THIS DISCLOSURE STATEMENT SHALL NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY NOR WILL THERE BE ANY SALE OF THE SECURITIES DESCRIBED HEREIN UNTIL THE EFFECTIVE DATE. THIS DISCLOSURE STATEMENT IS NOT AN OFFER TO SELL THE SECURITIES DESCRIBED HEREIN AND IS NOT A SOLICITATION OF AN OFFER TO BUY SUCH SECURITIES IN ANY STATE WHERE SUCH OFFER OR SALE IS NOT PERMITTED.

THIS DISCLOSURE STATEMENT HAS BEEN PREPARED IN ACCORDANCE WITH § 1125 OF THE BANKRUPTCY CODE AND RULE 3016(C) OF THE FEDERAL RULES OF BANKRUPTCY PROCEDURE AND NOT NECESSARILY IN ACCORDANCE WITH FEDERAL OR STATE SECURITIES LAWS OR OTHER NONBANKRUPTCY LAW. NEITHER THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THE SECURITIES DESCRIBED HEREIN OR THIS DISCLOSURE STATEMENT OR PASSED UPON THE ACCURACY OR ADEQUACY OF THE STATEMENTS CONTAINED HEREIN. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE. PERSONS OR ENTITIES TRADING IN OR OTHERWISE PURCHASING, SELLING OR TRANSFERRING SECURITIES OR CLAIMS OF THE DEBTORS SHOULD EVALUATE THIS DISCLOSURE STATEMENT AND THE PLAN IN LIGHT OF THE PURPOSE FOR WHICH THEY WERE PREPARED.

NONE OF THE SECURITIES TO BE ISSUED TO CERTAIN HOLDERS OF ALLOWED CLAIMS PURSUANT TO THE PLAN WILL HAVE BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR UNDER ANY STATE SECURITIES OR "BLUE SKY" LAWS; AND SUCH SECURITIES WILL BE ISSUED IN RELIANCE UPON EXEMPTIONS FROM THE SECURITIES ACT AND EQUIVALENT STATE LAWS, THERE HAS BEEN NO INDEPENDENT AUDIT OF THE FINANCIAL INFORMATION CONTAINED IN THIS DISCLOSURE STATEMENT OR IN ANY EXHIBIT HERETO EXCEPT AS EXPRESSLY INDICATED IN THIS DISCLOSURE STATEMENT OR IN ANY EXHIBIT HERETO. THIS DISCLOSURE STATEMENT WAS COMPILED FROM INFORMATION OBTAINED BY THE DEBTOR FROM NUMEROUS SOURCES BELIEVED TO BE ACCURATE TO THE BEST OF THE DEBTOR'S KNOWLEDGE, INFORMATION AND BELIEF.

NO REPRESENTATIONS CONCERNING LCI OR THE PLAN, OTHER THAN THOSE SET FORTH IN THIS DISCLOSURE STATEMENT, HAVE BEEN AUTHORIZED BY LCI, THE COMMITTEE, THE TRUSTEE OR THE BANKRUPTCY COURT, AND THIS DISCLOSURE STATEMENT AND THE PLAN ARE THE ONLY DOCUMENTS AUTHORIZED BY THE COURT TO BE USED IN CONNECTION WITH THE SOLICITATION OF VOTES TO ACCEPT OR REJECT THE PLAN.

HOLDERS OF CLAIMS AND EQUITY INTERESTS SHOULD NOT CONSTRUE THE CONTENTS OF THIS DISCLOSURE STATEMENT AS PROVIDING ANY LEGAL, BUSINESS, FINANCIAL OR TAX ADVICE. EACH HOLDER SHOULD CONSULT WITH ITS OWN LEGAL, BUSINESS, FINANCIAL AND TAX ADVISORS WITH RESPECT TO

ANY SUCH MATTERS CONCERNING THIS DISCLOSURE STATEMENT, THE SOLICITATION OF VOTES TO ACCEPT THE PLAN, THE PLAN AND THE TRANSACTIONS CONTEMPLATED HEREBY AND THEREBY.

II. SUMMARY OF THE PLAN

The financial failure and ensuing Chapter 11 bankruptcy of LCI resulted from the operation of LCI as a Ponzi scheme by its principals. Although LCI presented its core business to be that of a sub-prime automobile lender, the business activity was merely the inducement for private investors to invest funds in the Ponzi scheme. As of the date of the bankruptcy filing investors had advanced an estimated $105,000,000 in loans and reinvested interest in LCI under the Ponzi scheme. Upon the bankruptcy filing LCI maintained cash, a sub-prime automobile loan portfolio, and certain other assets which are available to fund a reorganized entity to provide an economic return to the investors.

Under the Plan a newly formed Florida corporation ("Newco") will acquire certain assets of LCI, comprised mainly of LCI's cash, subprime automobile loan portfolio and unencumbered personal property. Newco will retain a manager skilled and experienced in the sub-prime automobile loan industry and the loan portfolio will be administered in a business-like manner with the goal of growing the loan portfolio and allowing periodic distributions to Newco's shareholders.

The potential recoveries by LCI's bankruptcy estate, including any potential lawsuits against the participants and beneficiaries of the Ponzi scheme, and the real property owned by LCI will be transferred to a creditors trust called the Cladek Creditors Trust. The Cladek Creditors Trust will manage the assets in the trust, liquidate the real property and pursue any litigation for the beneficiaries of the trust.

All creditors' claims will be determined and fixed as of the Petition Date. Allowed Administrative Claims and Priority Claims will be paid cash on the Effective Date. Allowed Secured Claims will receive their collateral. Unsecured Creditors will either receive potential cash distributions from the Cladek Creditor Trust if their Allowed Claim is $1,500 or less, or if their Allowed Unsecured Claim is over $1,500 they will be beneficiaries of the trust and may receive cash distributions from the Cladek Creditors Trust on an annual basis and will receive stock in Newco proportionate to their Allowed Claims.

The Committee believes that the Plan, which provides for continued administration of the loan portfolio by Newco, provides a substantially greater return to holders of Allowed Class 9 Claims than would liquidation. **As set forth in this Disclosure Statement and the attached projections, reorganization of the Debtor is projected to provide shareholders of Newco with a potential return that may be at least 4.5 times greater ($11,000,000-$15,000,000) than liquidation alone ($2,500,000.00) when considered on a net present value basis.** Specifically, this plan provides a potential return to Newco's shareholders from the initial investment in Newco, through growth, compounding and reinvestment, after five years of approximately $11.4 million and after eight years of approximately $18.7 million with estimated distributions to shareholders totaling $8 million for a total estimated return to the shareholders of $26,734,130. The distribution to shareholders by Newco is a projected potential

distribution and any distributions made by Newco would be determined by the shareholders of Newco (the Class 9 Creditors) and management of Newco. Furthermore, if the Cladek Creditors Trust is able to collect and distribute proceeds from the litigation and property sales, a portion of the proceeds will be reinvested in Newco and will further increase the potential return to Class 9 creditors as shareholders of Newco. The remainder of the net proceeds of the Cladek Creditors Trust will be distributed directly to Class 9 unsecured creditors with Allowed Claims. Accordingly, the Unsecured Creditors Committee strongly urges the Creditors to vote for this Plan of Reorganization

THE COMMITTEE BELIEVES THAT THE PLAN, AS NEGOTIATED AND PROPOSED, PROVIDES THE GREATEST POSSIBLE DISTRIBUTION TO CREDITORS AND INTEREST HOLDERS OF LCI. THE COMMITTEE THEREFORE BELIEVES THAT ACCEPTANCE OF THE PLAN IS IN THE BEST INTEREST OF EACH CLASS OF CREDITORS AND INTEREST HOLDERS OF LCI AND RECOMMEND THAT THEY VOTE TO ACCEPT THE PLAN.

III. PLAN VOTING PROCEDURES, BALLOT SOLICITATION AND ACCEPTANCE

Following approval of this Disclosure Statement, the Court will schedule a hearing to consider confirmation and approval of the Plan. Notice of that hearing will be provided to you along with a copy of the Plan, this Disclosure Statement, a ballot for you to either accept or reject the Plan, and an envelope for you to return your ballot. The Notice will advise you of the deadline for the submission of ballots to be counted.

Under the Bankruptcy Code, not all creditors of the Debtor are entitled to cast a vote to accept or reject the Plan. Only holders of claims that are "impaired" may vote. Holders of claims or interests for which the Plan makes no distribution are deemed to have rejected the Plan and may cast no ballot with respect to such claims. However, any creditor or party in interest may appear at the confirmation hearing on the Plan and be heard by the Court in support of or opposition to the Plan, provided that any person opposing confirmation shall have timely filed an objection in writing with the Court.

IF THE PLAN IS APPROVED BY THE NECESSARY VOTE OF HOLDERS OF CLAIMS ENTITLED TO VOTE, AND IS CONFIRMED BY THE BANKRUPTCY COURT, THE PLAN WILL BIND ALL HOLDERS OF CLAIMS AGAINST THE DEBTOR: (1) WHETHER OR NOT THEY WERE ENTITLED TO VOTE OR DID VOTE ON THE PLAN; AND (2) WHETHER OR NOT THEY RECEIVE ANY DISTRIBUTION OR PROPERTY UNDER THE PLAN.

After carefully reviewing the Plan, this Disclosure Statement, the ballot and its accompanying instructions, please indicate your acceptance or rejection of the Plan by voting in favor of or against the Plan on the accompanying ballot. Upon completing and signing the ballot please return it in the accompanying envelope to:

Clerk
United States Bankruptcy Court
300 N. Hogan St., Suite 3-350
Jacksonville, Florida 32202

Under the Bankruptcy Code, a class of claims or interests is considered to have accepted the Plan if both a majority in number and two-thirds (2/3) of the dollar amount of those actually voting from that class vote to accept the Plan. The claims of those members of a class of claims or interests who do not vote are not counted in determining whether the requisite statutory majority in number and dollar amount have voted for acceptance. Acceptance by the statutory majority, however, will bind the minority who vote to reject the Plan. Pursuant to § 1129(b) of the Bankruptcy Code, the Plan may also be confirmed and become binding on creditors and parties in interest notwithstanding the rejection of the Plan by a class of creditors or interest holders if the Court finds that the Plan does not "discriminate unfairly" and is "fair and equitable" to such class in accordance with the provisions of § 1129(b).

IN ORDER FOR YOUR VOTE TO BE COUNTED IT MUST BE CAST ON THE ACCOMPANYING BALLOT AND RECEIVED AT THE ADDRESS ABOVE NO LATER THAN THE DEADLINE SET FORTH IN THE NOTICE ACCOMPANYING THE BALLOT.

The information set forth herein is intended to help you arrive at a decision to either accept or reject the Plan.

IV. EVENTS LEADING TO THE CHAPTER 11

A. The Ponzi Scheme.

The investigation into the formation and operation of LCI indicates that LCI was operated as a Ponzi scheme, which is a device or plan in which returns to earlier investors are not obtained in substance from any underlying business venture, but instead are paid with monies received from new investors. The apparent underlying business is operated as an inducement to the investors to advance funds into the scheme, with the earliest investors being paid a return from the investment capital of subsequent investors. The Committee believes LCI's operations and activities fit this classic pattern. LCI's scheme operated in a manner which permitted it to pay high rates of return to the earlier Investors, which high returns induced the subsequent Investors' continued participation.

LCI was incorporated as a Florida corporation on January 2, 1998 by Lydia Cladek ("Cladek"), its initial and sole shareholder.

LCI commenced its operations in St. Augustine, Florida. The initial capitalization provided by Cladek was very shortly repaid through the proceeds of investments solicited through a scheme to generate capital for LCI from private investors (the "Promissory Note Investment Scheme"). The Promissory Note Investment Scheme raised money through the solicitation efforts of Cladek. Through this structure private investors were solicited to invest funds in LCI under terms by which the Investors would loan money to LCI in consideration of promissory notes signed by Cladek, as president of LCI, which provided an annual interest rate of between 15% to 20%. This tantalizingly high rate of return lured many Investors to invest funds in LCI, which was represented to be a successful lender within the sub-prime automobile loan industry.

Under the Promissory Note Investment Scheme representations were made to Investors that the proceeds of the Investors' loans would be invested by LCI in used automobile finance contracts, from which the yields would be sufficient to sustain LCI's operations and yet still permit the return of the extraordinary interest payments to Investors. However, as the aggregate amount of the investments obtained by LCI under the promissory notes rapidly grew, the amount of the interest obligations outpaced the ability of LCI's loan portfolio to generate the necessary cash both to run the company's operations and still to pay interest payments to Investors. Accordingly, as cash came into LCI from new Investors that cash was used to pay, to the extent necessary, the interest returns promised to earlier Investors.

Under the terms of the promissory notes, Investors had the option of receiving on either an annual or a monthly basis payment of the accrued interest on their investment or, alternatively, Investors could re-invest the accrued interest in LCI, thereby increasing the size of the investor's investment. Although some Investors elected to receive the interest payments, more elected to roll their purported interest returns back into new promissory notes. As a result, LCI was relieved of the obligation to payout cash on account of interest obligations and instead merely accrued the interest obligations on its books as additional Investor loans.

B. Where the Money Went.

Under the Ponzi scheme, the substantial capital invested by the Investors was dissipated in several ways. Initially, a substantial portion went to the payment of interest on the promissory note investments and to the payment of commissions to the Ponzi scheme participants in the Promissory Note Investment Scheme. Additionally, substantial sums of money were also transferred to principals and affiliates of LCI, a large portion of which were for no business purpose of LCI and for inadequate or no consideration. LCI also transferred funds to purchase numerous real properties, which properties were titled in the name of entities affiliated or controlled by Cladek. The application of any of the Investors' funds for any purpose other than the purchase of automobile finance contracts was contrary to the assertions made in LCI's Solicitation Booklet.

1. Interest Payments to Investors

Interest was obligated to be paid on the promissory notes at rates between 15% and 20%, and in order to sustain the scheme interest was paid to the earlier Investors from the proceeds of loans by the later Investors. The interest expenses of the Promissory Note Investment Scheme far exceeded the ability of LCI to pay them over time. Interest paid to investors consumed and exceeded all of the above profits. Based upon the amount of the interest expenses of LCI and the amount of net operating profit (exclusive of interest expenses), it is clear that LCI did not generate sufficient revenue to satisfy the interest expense payment obligations under the Promissory Note Investment Scheme and, therefore, the only means by which LCI could and did pay these amounts was from the capital investments from new Investors. This is the hallmark of a Ponzi scheme.

2. Real Estate Purchases.

Notwithstanding its inability to generate sufficient income to pay its Investors the return set forth in the Investor promissory notes under the Promissory Note Investment Scheme, LCI continued to solicit new investments. The success of the investment solicitation effort yielded large sums of money, some of which were diverted to acquire real estate. Real estate in Florida was purchased with LCI funds and these properties were titled in the name of entities owned or controlled by Cladek.

C. The Business Wind-Down and Collapse.

The financial failure of LCI resulted from the operation of LCI as a Ponzi scheme by its principal. Because the sub-prime automobile business activity of LCI was merely an inducement for private investors to invest funds in the Ponzi scheme, the operation of the automobile loan portfolio, including the purchase of automobile finance contracts and collections on purchased contracts, was not prudently managed, nor did it need to be well-managed from LCI's perspective, inasmuch as the Promissory Note Investment Scheme was continuously generating new cash from Investors.

In early 2010, notwithstanding the efforts to raise additional capital, which included representations regarding the financial viability of LCI, LCI was unable to generate sufficient new investment capital to continue interest payments to Investors, and as a consequence, LCI announced that it was suspending the payment of interest on its promissory note obligations.

D. The Bankruptcy Case

On April 2, 2010, creditors filed an involuntary Chapter 11 bankruptcy petition against LCI which was pending in the United States Bankruptcy Court for the Middle District of Florida, Jacksonville Division under case number 10-bk-02800-PMG (the "Involuntary Bankruptcy Case").

On April 5, 2010 (the "Petition Date"), LCI filed a voluntary petition for relief under Chapter 11 of the Bankruptcy Code in the United States Bankruptcy Court for the Middle District of Florida, Jacksonville Division under case number 10-bk-02805-PMG (the "Bankruptcy Case").

On April 12, 2010, the Court entered an Order granting a Motion to Consolidate the Involuntary Bankruptcy Case and the Bankruptcy Case and providing that the Bankruptcy Case is the lead case (Doc No. 32).

E. The Petition Date Debt.

As of the Petition Date, it is estimated that LCI owed money to approximately 1300 Investors and the aggregate amount of outstanding indebtedness owing on account of Investor notes generated under the Promissory Note Investment Scheme is estimated at approximately $105,000,000 according to the schedules filed with the court.

F. The Remaining Loan Portfolio.

The core business of LCI which served as the inducement for the Ponzi scheme operated as a specialty finance company which provided financing for pre-owned motor vehicles. It is known in the industry as "sub-prime lender" meaning that most of its borrowers cannot qualify for traditional loans. Because its loans were of a shorter term and lower quality than the industry average, its loans carried a higher risk of nonpayment, enabling LCI to acquire its loans from dealers at steep discounts.

V. EVENTS DURING THE CHAPTER 11 CASE

A. Management.

Cladek is the sole shareholder of LCI and was the President of LCI.

On April 12, 2010, the Court entered an Order Granting Emergency Motion to Appoint Chapter 11 Trustee (Doc. No. 31) and on Appointment of Chapter 11 Trustee and Setting of Bond (Doc. No. 44) which appointed Michael Phelan as Chapter 11 Trustee.

The Trustee is authorized to operate the Debtor's business pursuant to section 1108 of the Bankruptcy Code. The Trustee's duties include taking possession custody and control of the operations of the Debtor, investigate and evaluate whether the continued operation is in the best interests of creditors of LCI, investigate allegations of fraud, dishonesty, mismanagement and misconduct of the affairs of the Debtor and the Debtor's insiders and agents, and take all measures necessary to ensure that the Debtor's assets are properly managed and protected for the benefit of creditors of LCI.

B. Debtor's Professionals.

The following professionals have been employed by the Trustee for LCI during the bankruptcy case:

Akerman Senterfitt has been employed as the Trustee's counsel. On June 9, 2010, the Court entered an Order Approving the Application to Employ Akerman Senterfitt as counsel (Doc. No. 121). The primary lawyers involved in the reorganization are Jacob Brown and Steven Wirth.

Wilcox Firm, LLC has been employed as additional counsel for the Trustee, in the event that situations arise in which Akerman Senterfitt may have an actual or perceived conflict in connection with its representation of the Trustee. On July 7, 2010, the Court entered an Order Authorizing the Retention of the Wilcox Firm, LLC as counsel for the Trustee (Doc. No. 160).

Michael Moecker and Associates has been employed as accountants for the Trustee. On September 16, 2010, the Court entered a Final Order Authorizing the Application for Retention of Michael Moecker and Associates, Inc. as Accountants for the Chapter 11 Trustee *Nunc Pro Tunc* to April 14, 2010 (Doc. No. 235).

C. Creditors' Committee.

On June 1 2010, the Office of the United States Trustee appointed the following committee to represent the interests of unsecured creditors in this case:

Gary L. Alligood, 115 Sunset Harbor Way #202 St. Augustine FL 32080;

Rudolph J. Danowski, 127 Hogsback Road, Oxford, CT, 06478;

David J. Rees, 4219 Bunker Dr., Quincy, IL 62305;

Robert F. Helfferich, 21409- 60th Street, Bristol, WI 53104-9732;

Bennett Yell Agency, Inc., c/o Bennett Yell (Noel Yell), 9075 June Lane, St. Augustine, FL 32080;

Andrea Levinson & Michael Egelman c/o Michael Egelman, 127 Bonita Road, St. Augustine, FL 32086; and

RAD Management Company, c/o Donald R. Radbill, 221 N. Forest Dune Dr. St. Augustine, FL 32080.

As members of the Committee, the above individuals and entities are charged with the task of monitoring the Debtor's performance during the proceeding of the case, ensuring that all assets and claims of the Debtor are being properly administered, judging the feasibility of the Plan, negotiating the proposed treatment of unsecured claims pursuant to the Plan, and making recommendations concerning the confirmation of any plan of reorganization.

The Committee has hired the law firm of Burr & Forman to represent it in this case and to assist the Committee with the performance of its statutory duties. Burr & Forman is a commercial law firm with offices throughout the Southeastern United States and the primary lawyer involved in the case is Jon E Kane, a bankruptcy practitioner with substantial experience representing creditors in complex business reorganizations.

The Committee is entitled to request payment or reimbursement of fees and costs from the estate for its selected counsel, together with expenses incurred by members of the Committee in the performance of their duties, which fees and costs are subject to Bankruptcy Court approval and payment as an administrative expense.

The Committee has filed an application to employ the following professional in the development of this plan:

An application to retain Edward Buttner and Buttner Hammock & Company, a Jacksonville, Florida based accounting firm, as the Committee's post-petition accountant, has been filed with the court (Doc. No. 256). Buttner Hammock & Company was selected due to its unique experience in the sub-prime auto loan market. Edward Buttner is a licensed Certified

Public Accountant and former principal of Universal Motor Credit, a Jacksonville, Florida, based originator and servicer of subprime auto loans. During Mr. Buttner's tenure Universal Motor Credit serviced a portfolio of over $60 million in auto loans. Mr. Buttner's experience in this area has been invaluable in evaluating the quality of LCI's loan portfolio, and in forecasting the prospective operation and administration of the LCI loan portfolio.

D. Executory Contracts and Unexpired Leases.

Based on the Schedules filed with the Court, on the Petition Date, LCI was party to the following leases and executory contracts[1]:

Lessor	Description
Banc of America Leasing Capital LLC	Office furniture
CitiCapital Technology Finance Inc.	Equipment Leases
Key Equipment Finance, Inc.	Equipment Leases

E. Claims Bar Date.

The claims bar date for filing proofs of claim or interests was initially fixed as August 3, 2010. This bar date was subsequently extended to November 1, 2010. If a Claim was listed in the schedules as non-contingent, liquidated and undisputed, a Proof of Claim need not be filed. Creditors are responsible for examining the schedules to determine the necessity of filing a Proof of Claim. Creditors are advised to monitor the case for any amendments to the schedules which may impact the necessity of filing a proof of claim.

F. FBI Investigation.

Prior to the Petition Date, the FBI began an investment fraud investigation of the Debtor and Cladek including violations of 18 U.S.C. § 1341 (mail fraud) and 18 U.S.C. § 1342 (wire fraud), as well as money laundering transactions in violation of 18 U.S.C. §§ 1956 and 1957. In or about March 2010, federal authorities executed a search warrant and seized various property and records from the Debtor's offices and from the home of Cladek. To the knowledge of the Committee, as of the date of this Disclosure Statement, no indictment or further status of the investigation has been issued.

G. Investigation of LCI's Pre-petition Affairs.

[1] Banc of America Leasing Capital LLC and CitiCapital Technology Finance Inc. have filed UCC Financing Statements and, accordingly, are treated in Classes 6 and 7 respectively. Pursuant to the terms of the Plan, the Cladek Creditor Trust reserves the right and has the ability to object to the Claims in Classes 6 and 7.

The Trustee investigated the pre-petition and post-petition conduct of the Debtor, including a review and analysis of financial information of the Debtor and the pre-petition transfers of the Debtor. Additionally, the Trustee made numerous inquiries to unsecured creditors with regard to the Debtor and conducted national electronic asset searches with respect to disclosed and undisclosed principals of the Debtor. Additionally, with the assistance of the Trustee's accountant, the Trustee conducted a forensic accounting of the prior financial transactions of the Debtor in an effort to determine the amount, purpose and recipient of fraudulent transfers from the Debtor.

In cooperation with the Trustee and the Trustee's professionals, the Committee reviewed and analyzed the quality of the Debtor's loan portfolio, including an analysis of the age of each loan, the payment history, applicable interest rate, and title ownership of each vehicle. The Committee also reviewed the results of the forensic accounting completed by Trustee and Trustee's accountant.

H. Post-Petition Operations.

The financial performance of the company during the Case is more particularly reflected in the operating reports filed by the Trustee with the Court. Although LCI has continued the collection of its loan portfolio, its operations have constricted during the Case with no additional automobile finance contracts being purchased. Although LCI's cash on hand has increased with the payment of finance contracts within the portfolio and from the proceeds of repossessed automobiles, the value of the loan portfolio has correspondingly decreased.

I. The Cladek Lawsuit and Properties.

Cladek owns or controls twelve properties in Florida that appear to have been acquired with investor funds. The money used by Cladek to fund the purchase of these properties is traceable to LCI. The Trustee challenged the propriety of the transfer of LCI funds, contending that LCI improperly transferred funds to Cladek and entities affiliated or controlled by Cladek.

On or about May 19, 2010, the Trustee commenced a lawsuit in the Bankruptcy Court for the Middle District of Florida under Case number 10-ap-00248-PMG, against Cladek and entities affiliated or controlled by Cladek with the following causes of action: (i) to substantively consolidate Cladek and entities owned or controlled by Cladek with and into the bankruptcy estate of the LCI; (ii) to impose alter ego liability and pierce the corporate veil with regard to Cladek and entities owned or controlled by Cladek; (iii) for a preliminary and permanent injunction against Cladek and entities owned or controlled by Cladek from taking certain actions including any acts to transfer, conceal or dispose of property; (iv) for turnover of property to the bankruptcy estate of LCI; (v) to avoid fraudulent transfers; (vi) for conversion; (vii) for unjust enrichment; (viii) for constructive trust; (ix) for an accounting; and (x) for breach of fiduciary duty (the "Lydia Cladek Lawsuit").

On September 7, 2010, the Court entered a Final Judgment in the Lydia Cladek Lawsuit, which held that: (i) Cladek is an alter ego of the Debtor and determined that Cladek is liable for all of the debts and liabilities of LCI; (ii) Cladek is ordered to turnover all property of the Debtor's bankruptcy estate to the Trustee, including possession and control of all real property;

(iii) judgment is entered against Cladek for damages in the amount of $21,000,000.00 on the counts for conversion, unjust enrichment, and breach of fiduciary duties; (iv) a constructive trust is imposed for the benefit of LCI against any funds, property or other things of value transferred by LCI to Cladek and all proceeds and products thereof; (v) Cladek is directed to provide an accounting to the Trustee on or before October 8, 2010; (vi) judgment is entered against Cladek on the count for fraudulent transfer and such transfers are avoided and Cladek is ordered to turnover all such transfers; and (vii) that the Court shall enter a separate order granting a permanent injunction against the defendants.

The Final Judgment specifically listed certain real property (the "Cladek Properties") to be turned over to the Trustee, which are as follows:

Street Address:

189 Sea Colony Parkway, St. Augustine Florida
5494 Atlantic View, St. Augustine, Florida
349 Jellison Road, St. Augustine, Florida
108 Seagrove Main Street, St. Augustine, Florida
23 Old Mission Avenue, St. Augustine, Florida
25 Old Mission Avenue, St. Augustine, Florida
27 Old Mission Avenue, St. Augustine, Florida
16249 Captiva Drive, Captive, Florida
16250 Captive Drive, Captiva, Florida
4443 Waters Edge Lane, Sanibel, Florida
1001 Lindgren Boulevard, Sanibel, Florida
1061 SW Alaska Way, Greenville, Florida

The Cladek Properties shall be assigned and transferred to the Cladek Creditor Trust and shall vest in the Cladek Creditors Trust free and clear of all Claims and Liens, with the exception only of the liens specifically provided for in the Plan and any recorded mortgage liens and statutory liens encumbering any of the Cladek Properties, which recorded mortgage liens and statutory liens shall continue to encumber the respective Cladek Properties to which they may attach. As there may not be equity in some of the Cladek Properties, the Creditor Agent, in his/her discretion, may transfer some or all of the Cladek Properties to the secured creditor for the respective property.

J. Post-Petition Litigation.

After the Petition Date, in addition to the Lydia Cladek Lawsuit, the Trustee has commenced the following litigation in an effort to recover assets for the benefit of the bankruptcy estate and its creditors:

On June 15, 2010, the Trustee filed a Complaint against William Lamond, which is currently pending under case number 10-ap-00318;

On July 15, 2010, the Trustee filed a Complaint against The Global Hunger Project, which is currently pending under case number 10-ap-00365;

On July 15, 2010, the Trustee filed a Complaint against Goliath and Be-Be's World Inc., which is currently pending under case number 10-ap-00366;

On July 15, 2010, the Trustee filed a Complaint against the Spiritual Living Inc. St. Augustine, which is currently pending under case number 10-ap-00367;

On July 15, 2010, the Trustee filed a Complaint against Diamond in the Rough Farm, Inc., which is currently pending under case number 10-ap-00369; and

On July 15, 2010, the Trustee filed a Complaint against PeaceJam Foundation, which is currently pending under case number 10-ap-00370.

VI. THE PLAN

The Committee has proposed a plan of reorganization to deal with the Debtor's debt. Under the Plan most of LCI's assets, including the existing loan portfolio, proceeds from the sale of Non-Performing assets, all cash and other assets, but *excluding* all claims and rights of action, including those claims and lawsuits arising from the Ponzi scheme and the Cladek Properties, will be assigned and transferred to a to-be-formed Florida corporation, Newco. Shares of Newco will be issued to Unsecured Creditors in Class 9 in proportion to their undisputed Allowed Class 9 Claims. Newco will administer and operate the loan portfolio, which may be supplemented with distributions from the Cladek Creditors Trust.

All claims and rights of action, including claims and rights arising from the ponzi scheme, and the Cladek Properties will be assigned and transferred to the Cladek Creditor Trust. The Cladek Creditor Trust will administer the assets in the trust, litigate the Causes of Action and claim objections, liquidate the Cladek Properties and distribute proceeds to Allowed Class 8 Claimants, Allowed Class 9 Claimants and Newco in accordance with the terms of the Plan and the Creditor Trust Agreement.

The Plan is intended to ensure that all creditors receive as much or more as they would receive from a liquidation of LCI's remaining assets and that Class 9 Allowed Claims will receive substantially more from a reorganization than from a liquidation. The several classes of claims against the LCI bankruptcy estate and their respective treatment under the Plan are set forth below.

A. **Classification of Claims.**

The Plan classifies claims and interests separately in accordance with the provisions of the Bankruptcy Code. A summary of all claims and their classification is set forth below:

Class	Class Type	Claimant
1	Administrative	Allowed Administrative Claims
2	Priority	Allowed Priority Claims
3	Secured Claim	Allowed Secured Claim of Anita Spring
4	Secured Claim	Allowed Secured Claim of Bernard Reller
5	Secured Claim	Avoidable Claims
6	Secured Claim	Allowed Secured Claim of Banc of America Leasing & Capital LLC
7	Secured Claim	Allowed Secured Claim CitiCapital Technology Finance, Inc.
8	Unsecured	Allowed Unsecured Claims - Convenience Class
9	Unsecured	Allowed Unsecured Claims
10	Equity	Shareholders

All applications for allowance of administrative claims, including applications for professional fees and reimbursement of costs advanced, are required to be made within thirty (30) days of the confirmation hearing or as otherwise required by the Court.

B. Purpose of the Plan.

In formulating the Plan, the overriding goal was to create a structure which would maximize the potential recovery by the creditors of LCI comprised overwhelmingly of the Investors who invested moneys under the Promissory Note Investment Scheme. The Committee has concluded that a simple liquidation of the existing loan portfolio, which would be at a substantial discount due to the nature of the sub-prime automobile finance contracts of which it is comprised, would yield only a token distribution to the Investors. However, prospective operation and administration of the loan portfolio in a prudent and business-like manner, with the potential for periodic cash distributions to shareholders from the loan portfolio's yield or, alternatively, further growth of the loan portfolio by reinvestment of its operational proceeds will create a more valuable asset based upon a present value analysis. The Unsecured Creditors, as owners of Newco, will be able to make their own decisions as to the timing or amount of cash distributions from Newco, a possible ultimate liquidation of the loan portfolio as it may grow and mature in value, and/or for the sale of Newco. Accordingly, the Committee has determined that a liquidation of the business would not be in the best interest of the creditors and would, in fact, produce less return for creditors than would be achieved by the Plan.

The Unsecured Creditors in Class 9 will receive shares of Newco and may receive distributions of cash from the Cladek Creditors Trust. The plan is structured to maximize the value of the estate by maximizing the value of the loan portfolio through the operation of Newco, which will be owned by and benefit the Unsecured Creditors, and to provide cash distributions to Unsecured Creditors from the Cladek Creditors Trust.

A significant component of the return which Investors may realize is the potential favorable tax treatment which they may be able to obtain upon characterization of their losses under the Ponzi scheme as theft losses for income tax purposes, as discussed in Section X below. THE COMMITTEE MAKES NO REPRESENTATION OR WARRANTY THAT ANY INDIVIDUAL'S TAX TREATMENT WILL BE AS SUGGESTED IN SECTION X BELOW, BUT THE COMMITTEE BELIEVES THAT THE TAX TREATMENT OF AN INVESTOR'S LOSSES UNDER THE PONZI SCHEME AS THEFT LOSSES MAY BE SUPPORTED BY THE APPLICABLE TAX RULES AND INTERPRETIVE RULINGS. EACH INVESTOR SHOULD CONSULT HIS OR HER OWN PERSONAL TAX ADVISOR WITH RESPECT TO THEIR PERSONAL CIRCUMSTANCES AND THE AVAILABILITY OF THE TAX TREATMENT DISCUSSED IN SECTION X BELOW.

THE COMMITTEE BELIEVES THAT THE PLAN AS NEGOTIATED AND PROPOSED PROVIDES THE GREATEST POSSIBLE DISTRIBUTIONS TO CREDITORS OF LCI. THE COMMITTEE THEREFORE BELIEVES THAT ACCEPTANCE OF THE PLAN IS IN THE BEST INTEREST OF EACH CLASS OF CREDITORS OF LCI AND RECOMMENDS THAT THEY VOTE TO ACCEPT THE PLAN.

C. Treatment of Classes.

Each class of claims and interests is afforded different treatment under the Plan, as described below.

Class 1 Administrative Claims.

Allowed Administrative Claims, as defined under 11 U.S.C. § 507(a)(1) and as allowed under 11 U.S.C. § 503(b), will be paid by the Trustee in full on or before the Effective Date, or as otherwise agreed between the Committee, the Trustee and the Priority Claim Holder. After the Effective Date, quarterly fees payable to the Office of the United States Trustee will be paid by the Cladek Creditors Trust when due in the ordinary course through the entry of the Final Decree. Administrative Claims may be subject to dispute or objection and shall receive no distribution until such objection or dispute is resolved by Final Order. The Administrative Claims are estimated at $600,000.[2]

[2] The administrative expenses reflect the estimated total fees and expenses to be incurred through the Confirmation Date by the professionals retained in this bankruptcy case and do not reflect the partial payment of those estimated totals which have been or may be paid to any of the professionals under Interim Fee Applications. As of the date of this Disclosure Statement, the following amounts may have been paid to the professionals upon their Interim Fee Applications and monthly fee statements in accordance with the Final order Granting Chapter 11 Trustee's Motion for Approval of Interim Compensation procedures for Professionals (Doc. No. 190)(the "Procedures Order"):

The holder of any Administrative Claim, other than: (i) a claim for fees and expenses by professionals within the Case, (ii) a liability incurred and paid in the ordinary course of business by the Debtor, or (iii) an Allowed Administrative Claim, must file with the Bankruptcy Court, and serve on the Trustee, the Committee, and their counsel, notice of such Administrative Expense within thirty (30) days after the Effective Date. Such notice must include at a minimum (i) the name of the holder of the Claim, (ii) the amount of the Claim, and (iii) the basis of the Claim. Failure to file timely and properly the notice required under this section of the Plan shall result in the Administrative Claim being forever barred and discharged. Each professional who holds or asserts a claim for compensation for services rendered and reimbursement of expenses incurred prior to the Effective Date shall be required to file with the Bankruptcy Court and serve on all parties required to receive such notice, a Fee Application within thirty (30) days after the Effective Date.

Additionally, an Administrative Carve-Out account in the amount of $100,000.00 will be set aside for the purpose of funding the expenses, including professional fees of the Trustee, the Committee and the Cladek Creditors Trust. Of the $100,000, $50,000.00 shall be set aside for expenses anticipated to be incurred by the Trustee and the Committee after the Confirmation Date for the orderly wind down of its administrative affairs, the transition to Newco and the Cladek Creditors Trust of any then-pending litigation in which the Trustee is engaged and the closing of the Case. Any of the $50,000 transferred to Committee's counsel remaining in the Administrative Carve-Out upon the closing of the Case shall be delivered to the Cladek Creditors Trust. The remaining $50,000 of the $100,000 shall be transferred to the Cladek Creditor Trust for payment of anticipated expenses, including professional fees and costs, for the initial formation of the trust and the fees and costs for investigation and litigation of the objections to claims and adversary proceedings.

Class 2 **Priority Claims.**

Allowed Priority Claims will be paid by the Trustee in full on or before the Effective Date, or as otherwise agreed between the Committee, the Trustee and the Priority Claim Holder. Priority Creditors whose Claims are subject to dispute or objection shall receive no distribution until such objection or dispute is resolved by Final Order. Priority Claims are estimated at $4,000.00.

(i) Final Application for Compensation for Nina M LaFleur, previous counsel for the Committee, Fee: $6,675.00 & costs: $0 (Doc. No. 223);

(ii) Counsel for the Committee may be paid, subject to Court approval and the Procedure Order, a total of $71,109.06 through August 31, 2010;

(iii) Counsel for the Trustee may be paid, subject to Court approval and the Procedures Order, a fee of $335,625.65 and expenses of $17,843.96 as requested by the Application for Compensation for Akerman Senterfitt (Doc No. 240); and

(iv) Accountants for the Trustee may be paid, subject to Court approval and the Procedure Order, $115,450.00 in fees and expenses of $39,258.34 from April 13, 2010 through August 31, 2010 as requested in the Amended Application for Interim Compensation for Michael Moecker & Associates, Inc. (Doc. No. 244); and (v) Trustee may be paid, subject to court approval, a fee of $51,060.00 and expenses of $3,467.42 from April 13, 2010 through August 31, 2010 as requested by the Amended Application for Interim Compensation for Michael P. Phelan, Chapter 11 Trustee (Doc. No. 243).

Class 3 **Secured Claim of Anita Spring** Class 3 consists of the Allowed Secured Claim of Anita Spring. The Class 3 Claim is in the amount of $374,874.44 and is allegedly secured by a lien on all of the Debtor's interest in certain automobile installment sales contracts. To the extent that Anita Spring has a valid and enforceable security interest and an Allowed Claim, Anita Spring shall receive, in full satisfaction of her claim, an assignment of the automobile installment sales contracts which are allegedly collateral for her Allowed Claim as the indubitable equivalent of her Allowed Secured Claim pursuant to 11 U.S.C. §1129(b)(2)(A)(iii) and/or to the extent that any of the automobile installment sales contracts which are allegedly collateral for her Allowed Secured Claim have been sold in the Bankruptcy Case, the allocated proceeds from that collateral. Any difference between the amount of the Allowed Secured Class 3 Claim and the Allowed Claim of Anita Spring shall be treated as a Class 9 Unsecured Claim and paid accordingly. The Claim of Anita Spring may be subject to dispute or objection and shall receive no distribution until such objection or dispute is resolved by Final Order.

Class 4 **Secured Claim of Bernard Reller** Class 4 consists of the Secured Claim of Bernard Reller. The Class 4 Claim is in the amount of $210,748.00 and is allegedly secured by a lien on all of the Debtor's interest in certain automobile installment sales contracts. To the extent that Bernard Reller has a valid and enforceable security interest and an Allowed Claim, Bernard Reller shall receive, in full satisfaction of his claim, an assignment of the automobile installment sales contracts which are allegedly collateral for his Allowed Claim as the indubitable equivalent of his Allowed Secured Claim pursuant to 11 U.S.C. §1129(b)(2)(A)(iii) and/or to the extent that any of the automobile installment sales contracts which are allegedly collateral for his Allowed Secured Claim have been sold in the Bankruptcy Case, the allocated proceeds from that collateral. Any difference between the amount of the Allowed Secured Class 4 Claim and the Allowed Claim of Bernard Reller shall be treated as a Class 9 Unsecured Claim and paid accordingly. The Claim of Bernard Reller may be subject to dispute or objection and shall receive no distribution until such objection or dispute is resolved by Final Order.

Class 5 **Secured Claims - Avoidable Claims** Class 5 consists of the Allowed Secured Claims of Deborah Rey, Mary Katherin Murphy, John Dix Nock, IV, Alexandra Elizabeth Nock, Kathryn Tutten Nock, Axel Justice Nock, Deborah C. Muhs Trust a/k/a Deborah C. Radbill, Radbill Environmental Resources, Inc., a/k/a Donald N. Radbill, The Donald N. Radbill Living Trust, Rad Management Company, Linda R. Nelms, Mary Lou Preston, Linda R. Nelms, Patricia G. Sligh, Equity Trust Company, Robert A. Roth, Diane W. Bennett, Ruby Inez Weldon, Ralph E. Brown, and R&B Investment Trading Company which are allegedly secured by liens on certain automobile installment sales contracts. The State of Florida Uniform Commercial Code Financing Statements for these Secured Creditors were either: (i) filed within ninety (90) days of the Petition Date and are preferences, pursuant to 11 U.S.C. §547; (ii) filed on or after the Petition Date and violate the automatic stay of 11 U.S.C. §362 and are improper post-petition transfers pursuant to 11 U.S.C. §549; and/or (iii) are not properly perfected in accordance with the requirements of the Uniform Commercial Code. The Allowed Secured Class 5 Claims shall be deemed Unsecured Claims and shall be treated as a Class 9 Unsecured Claim and paid accordingly. The Class 5 unsecured claims may be subject to dispute or objection and shall receive no distribution under Class 9 until such objection or dispute is resolved by Final Order.

Class 6 **Secured Claim - Banc of America Leasing & Capital LLC** Class 6 consists of the Allowed Secured Claim of Banc of America Leasing & Capital LLC which is allegedly secured by a lien on certain personal property. To the extent that Banc of America Leasing & Capital LLC has an Allowed Secured Claim it shall receive, in full satisfaction of its claim, the personal property which serves as collateral for its Allowed Claim as the indubitable equivalent of its Allowed Secured Claim pursuant to 11 U.S.C. §1129(b)(2)(A)(iii). Any difference between the amount of the Allowed Secured Class 6 Claim and the Allowed Claim shall be treated as a Class 9 Unsecured Claim and paid accordingly. The Claim of Banc of America Leasing & Capital LLC may be subject to dispute or objection and shall receive no distribution until such objection or dispute is resolved by Final Order.

Class 7 **Secured Claim - CitiCapital Technology Finance, Inc**. Class 7 consists of the Allowed Secured Claim of CitiCapital Technology Finance, Inc. which is allegedly secured by a lien on certain personal property. To the extent that CitiCapital Technology Finance, Inc. has an Allowed Secured Claim it shall receive, in full satisfaction of its claim, the personal property which serves as collateral for its Allowed Claim as the indubitable equivalent of its Allowed Secured Claim pursuant to 11 U.S.C. §1129(b)(2)(A)(iii). Any difference between the amount of the Allowed Secured Class 7 Claim and the Allowed Claim shall be treated as a Class 9 Unsecured Claim and paid accordingly. The Claim of CitiCapital Technology Finance, Inc. may be subject to dispute or objection and shall receive no distribution until such objection or dispute is resolved by Final Order.

Class 8 **Unsecured Claims--Convenience Class** Class 8 Consists of all Allowed Unsecured Claims which total $1,500 or less. Class 8 Allowed Unsecured Claims will receive a pro rata distribution of the Net Trust Proceeds pursuant to the terms set forth in Class 9 Section A. Class 8 Claims may be subject to dispute or objection and shall receive no distribution until such objection or dispute is resolved by Final Order.

Class 9 **Unsecured Claims** Class 9 consists of all Allowed Unsecured Claims, other than Allowed Unsecured Claim which total $1,500 or less which are treated in Class 8. Holders of Allowed Class 9 Unsecured Claims will receive, in full satisfaction of their Allowed Unsecured Claims, in accordance with the terms of the Plan: (i) a Pro Rata Share of fifty percent (50%) of the Net Trust Proceeds from the Trust Assets, as determined on an annual basis for up to 5 years including a final distribution of a Pro Rata Share of fifty percent (50%) of final distribution from the Net Trust Proceeds and the Trust Assets, in accordance with the terms of the Plan and the Creditor Trust Agreement; and (ii) distribution of shares in Newco on the basis of one share for each $1,000.00 of each such Unsecured Creditor's Allowed Unsecured Class 9 Claim.

A. Cash Distribution from Cladek Creditors Trust

The assets of the Cladek Creditors Trust shall consist of the Causes of Action, the Cladek Properties and the $50,000 to be transferred to the Cladek Creditors Trust from the Administrative Carve-Out for payment of administrative fees and costs including attorneys' fees and costs. On the Effective Date, Newco and each Holder of an Allowed Class 9 Claim and an Allowed Class 8 Claim will become a beneficiary of the Cladek Creditors Trust, which is a creditors' trust to be formed on or before the Effective Date, which will be managed by a

Creditor Agent selected by the Committee, pursuant to the terms of the Creditors Trust Agreement. On the Effective Date, the Causes of Action and the Cladek Properties shall be transferred to and vested in the Cladek Creditors Trust.

Under this plan the Cladek Creditors Trust may make 5 annual distributions with the first distribution to occur one year after the Effective Date (the "First Distribution Date") and each year thereafter for a total of 5 years. The Creditor Agent has discretion to decline to make a yearly distribution if such a distribution would result in a *de minimus* distribution and the Creditor Agent has discretion to make additional distributions.[3]

The Cladek Creditor Trust may make an annual distribution, after establishing a reserve of $50,000, as follows: (i) payment of the Net Trust Proceeds to the Holders of Allowed Class 8 Claims as set forth in Class 8 on a Pro Rata Basis until paid in full; and (ii) after payment, in full, of the Class 8 Claims and if there are sufficient Net Trust Proceeds to make a distribution which is not *de minimus*, the Cladek Creditor Trust will use the remaining Net Trust Proceeds to make a distribution to: (a) Newco of fifty percent (50%) of the remaining Net Trust Proceeds; and (b) Holders of Allowed Class 9 Unsecured Claims a Pro Rata Share of fifty percent (50%) of the remaining Net Trust Proceeds; *provided, however* that no Creditor will receive an amount greater than its Allowed Claim.

In the event that there are insufficient funds to pay Allowed Class 8 Claims in full on the First Distribution Date, the Cladek Creditor Trust will make a pro rata distribution to Allowed Class 8 Claims. In such case, Allowed Class 9 Claims and Newco will not receive distributions on the First Distribution Date.

Once the Class 8 Claims are paid in full, the Cladek Creditor Trust may make future annual distributions of the Net Trust Proceeds, while maintaining a reserve of $50,000 and if there are sufficient Net Trust Proceeds to make a distribution which is not *de minimus*, to: (a) Newco of fifty percent (50%) of the remaining Net Trust Proceeds; and (b) to Holders of Allowed Class 9 Unsecured Claims a Pro Rata Share of fifty percent (50%) of the remaining Net Trust Proceeds; *provided, however*, no Creditor will receive an amount greater than its Allowed Claim.

The Cladek Creditors Trust will maintain a minimum of $50,000 in cash at all times (which shall not be subject to yearly distributions) for payment of administrative and litigation expenses until the Cladek Creditors Trust makes a final distribution of Trust Assets to the Class 8 Creditors, Class 9 Creditors and Newco as set forth herein. On the final annual distribution, to occur no later than 5 years from the Effective Date, the Cladek Creditor Trust shall distribute the Net Trust Proceeds and Trust Assets, including the $50,000 reserve. In the event that the Class 9 Claims are paid in full, the remainder of the Net Trust Proceeds and Trust Assets, including the $50,000 reserve will be distributed to Newco.

Upon receipt of its distribution of its Pro Rata Share of the Cladek Creditors Trust, each Holder of an Allowed Unsecured Claim shall be deemed to have permanently relinquished its

[3] At times the cost of the distribution is more than the distribution itself. For example, paying postage to mail a check for thirteen cents to each creditor would not be cost effective.

right to receive any further payment or distribution from the Debtor, the Estate, and Newco with respect to its Claim (other than any rights associated with their stock ownership in Newco).

Distribution shall be made as set forth in the Creditors Trust Agreement. No distribution will be made to any Holder of a Disputed Claim. Any distributions to a Holder of a Disputed Claim shall be made if, when, and only to the extent such Disputed Claim is or becomes an Allowed Claim pursuant to a Final Order or by settlement or otherwise. To the extent Class 9 Claims or Class 8 Claims are Disputed Claims, the Creditor Agent shall establish an appropriate reserve for Disputed Claims. Any person who holds both an Allowed Claim and a Disputed Claim will receive the appropriate distribution on the Allowed Claim, although no distribution will be made on the Disputed Claim until such dispute is resolved by settlement or Final Order.

The Cladek Creditors Trust shall be responsible for all distributions from the Cladek Creditors Trust to Allowed Class 8 Claims and Allowed Class 9 Claims. The Creditors Trust shall be responsible for the following: (i) payment of all post-Effective Date U.S. Trustee's Fees for any disbursements out of the Cladek Creditors Trust; (ii) for prosecuting and settling all Causes of Action; (iii) management and sale of the Cladek Properties; and (iv) for prosecuting and settling all objections to Claims. Any distributions to Class 8 Creditors and Class 9 Creditors are speculative in nature and depend upon contingencies including the success in litigation.

No distribution will be made to Investors under Class 9 or Class 8 for Promised Profit or False Profit and the Plan specifically reserves the right of the Cladek Creditors Trust to object to Claims and seek denial or reduction in Claims which are based on or include False Profit or Promised Profit. Only Class 8 or 9 Allowed Unsecured Claims by Investors for Actual Pecuniary Loss, which are not subject to dispute or objection, will receive a distribution under the Plan.

B. Shares of Newco

Class 9 Allowed Unsecured Claims will receive distribution of shares in Newco on the basis of one share for each $1,000.00 of each such Unsecured Creditor's Allowed Unsecured Class 9 Claim. No fractional shares shall be distributed and the shares distributed on account of each Allowed Claim in Class 9 shall be rounded up or down to the nearest whole $1,000.00 increment. THE COMMITTEE MAKES NO REPRESENTATIONS OR WARRANTIES CONCERNING THE RIGHT OF ANY PERSON TO TRADE IN NEWCO'S SECURITIES DISTRIBUTED PURSUANT TO THE PLAN. Class 9 Claims which are subject to dispute or objection shall receive no distribution of shares in Newco until such objection or dispute is resolved by Final Order. However, Newco shall reserve shares to make distributions to such creditors until all claims objections have been finally determined. The distribution of the shares of Newco shall occur one hundred and days (180) days after the Effective Date of the Plan or ten (10) days after an order becomes a Final Order approving the allowed amount of such Claim, whichever is later.

Class 10. Equity Interests.

There shall be no distribution to holders of Allowed Interests. All pre-petition equity interests in the Debtor shall be deemed cancelled on the Effective Date, as will all purchase options or prescriptive rights associated with the Debtor's pre-petition equity interests.

D. Means of Implementation.

The Plan will be implemented and funded through the administration and distribution of the trust assets by the Cladek Creditors Trust, utilization of cash on hand as of the Effective Date and the formation and operation of Newco. Upon the Effective Date the required payments of Administrative Claims, the Administrative Carve-Out and Priority Claims will be paid by the Trustee from the cash funds of the Debtor then on hand. Upon the making of such payments, and except as otherwise provided in the Plan, all of the Debtor's Property will be assigned and transferred to Newco, which shall be organized and constituted no later than the Effective Date. All of the Debtor's Causes of Action and the Cladek Properties will be transferred to the Cladek Creditor Trust no later than the Effective Date. All of the records concerning the administration of the Case (but not its business records relating to administration of the loan portfolio and automobile inventory), and the Debtor's right to assert all privileges of communication and disclosure, including the accountant-client, attorney-client, and work product privileges shall be transferred to the Cladek Creditors Trust. The Debtor's business records relating to the administration of the loan portfolio and automobile inventory shall be transferred to Newco. Classes 1-7 shall be handled by the Trustee. Distributions to Class 9 shall be handled by Newco and the Cladek Creditors Trust. The Strike Price of the shares of Newco shall be established by the Confirmation Order. Distributions to Class 8 shall be handled by the Cladek Creditors Trust.

Upon the Effective Date of the Plan, Newco will be organized under the terms of the Bylaws and Articles of Incorporation attached to the Plan as Exhibit "A". The distribution of the shares of Newco shall occur one hundred and days (180) days after the Effective Date of the Plan or ten (10) days after an order becomes a Final Order approving the allowed amount of such Claim, whichever is later. Newco will assume the ownership and operation of the loan portfolio, with the prospective business decisions as to the growth of, distributions from, and ultimate liquidation of the loan portfolio at some point in the future being determined by Newco according to its internal governance procedures.

1. Allowed Claims.

Only holders of Allowed Claims are entitled to receive distributions under the Plan. An Allowed Claim is all or any portion of a Claim (i) which has been scheduled and to which no objection has been filed or no Proof of Claim has been filed, (ii) for which a Proof of Claim has been filed but to which no objection has been filed, or (iii) which has been allowed or adjudicated by Final Order of the Court. The Committee anticipates that any and all Objections to Claims will be heard on an omnibus basis no later than thirty (30) days following the Effective Date of the Plan, or as soon as practicable thereafter.

2. The Value of Shares.

The value of the shares of Newco to be issued to the holders of Class 9 claims will be determined as of the Effective Date by determination of the "Strike Price" for a unit, based upon the value of the fair market value of the portfolio, together with cash on hand and the fair market of any other assets assigned to Newco by LCI under the Plan, less the cash distribution required to be made to pay Allowed Administrative Claims, the Administrative Carve-Out, and Allowed Priority Claims. The "Strike Price" will be determined by an opinion of value to be presented at the Confirmation Hearing by consultants retained by the Committee.

The remaining cash funds transferred to Newco, after the Trustee pays the Allowed Administrative Claims, the Administrative Carve-Out, and Allowed Priority Claims as set forth in the Plan, will be utilized to grow the loan portfolio through the purchase of additional automobile finance contracts, such that the ability of the loan portfolio to generate periodic distributions, after an initial period of reinvestment and consolidation to build sufficient value, is enhanced. Any distributions from the Cladek Creditors Trust to Newco will also be used to grow the loan portfolio within the discretion of Newco's management.

E. Executory Contracts.

All executory contracts and unexpired leases not assumed prior to the Confirmation Date will be rejected. Any party to a contract or lease which claims damages from the rejection of such lease or contract must file a Claim for such damages within thirty (30) days of: (i) the rejection of such contract or lease; or (ii) confirmation of the Plan, whichever is earlier, or be forever barred from asserting such Claim. Any timely Allowed Claim based upon a rejected lease or contract shall be treated as a Class 8 or Class 9 Unsecured Claim.

F. Retirement Benefits.

LCI does not offer or provide retirement benefits to its employees.

G. Effective Date of the Plan.

In accordance with the Plan, the Effective Date of the Plan shall be the first business day arising ten (10) days following the date upon which the Confirmation Order is no longer subject to appeal or certiorari proceedings, or in the event of an appeal, upon which an order confirming the Confirmation Order becomes final and is no longer subject to further appeal or certiorari proceedings or such other earlier date as the debtor shall designate in a written notice filed with the Court.

H. Effect of Confirmation.

Except as otherwise provided in the Plan or the Confirmation Order, upon the Effective Date all Property of the Debtor, excluding all Causes of Action and Cladek Properties, shall be assigned and transferred to Newco and shall vest in Newco free and clear of all Claims and Liens, with the exception only of the liens specifically provided for in this Plan. All Causes of Action and the Cladek Properties shall be assigned and transferred to the Cladek Creditor Trust and shall vest in the Cladek Creditors Trust free and clear of all Claims and Liens, with the

exception only of the liens specifically provided for in this Plan and any recorded mortgage liens and statutory liens encumbering any of the Cladek Properties, which recorded mortgage liens and statutory liens shall continue to encumber the respective Cladek Properties to which they may attach.

Payments of, distributions to and other treatment of the Claims of all creditors and equity interests provided for in the Plan shall be deemed to be in complete satisfaction, discharge and release of such Claims. Except as otherwise provided in the Plan, all creditors and equity interest holders shall be permanently enjoined and precluded from asserting against Debtor, Newco, the Cladek Creditor Trust or any of Debtor's assets as assigned to Newco or the Cladek Creditor Trust any other or further Claim against Debtor, Newco, Cladek Creditor Trust or any of Debtor's assets as assigned to Newco based upon any act or omission, transaction or other activity of any kind or nature that occurred prior to the Confirmation Date. Without limitation of the foregoing, the assets of the Debtor, the Cladek Creditor Trust and Newco shall not be subject to disgorgement in favor of the Securities and Exchange Commission or any other government entity, nor shall Debtor, the Cladek Creditor Trust be required to pay restitution to any Investor except as provided by the Plan. Nothing herein or within the Plan shall be construed as a release of any rights or obligations under the Plan or as an injunction against any action to enforce any rights or obligations under the Plan.

I. Provisions Governing Distribution.

Any payments or distributions to be made pursuant to the Plan shall be made as provided for in the Plan or as may otherwise be ordered by the Bankruptcy Court. Any payment or distribution by Newco or the Cladek Creditor Trust pursuant to the Plan, to the extent delivered by the United States Mail, shall be deemed made when deposited into the United States Mail. Any payment or distribution required to be made hereunder on a day other than a Business Day shall be due and payable on the next succeeding Business Day.

J. Procedures for Resolving and Treating Contested and Contingent Claims.

Unless a different date is set by order of the Bankruptcy Court, all objections to Claims shall be served and filed no later than sixty (60) days after the Confirmation Date or thirty (30) days after a particular proof of Claim is filed, whichever is later. All Disputed Claims shall be litigated to Final Order; provided, however, that the Cladek Creditor Trust may compromise and settle any Contested Claim, subject to the approval of the Bankruptcy Court. All objections to such Claims are reserved. The Cladek Creditor Trust shall have the responsibility for objecting to the allowance of Claims following the Effective Date. No other party may file objections to Claims after the Effective Date.

As soon as practicable after a Disputed Claim becomes an Allowed Claim, the holder of such Allowed Claim shall receive a distribution in an amount equal to the aggregate of all the distributions that such holder would have received had such Disputed Claim been an Allowed Claim on the Effective Date. Distributions to each holder of a Disputed Claim, to the extent that such Claim becomes an Allowed Claim, shall be made in accordance with the provisions of the Plan governing the Class to which such Claim belongs. Newco shall have the right to make or

direct the making of all interim distributions to the holders of Allowed Claims. No interest shall be paid on account of a Disputed Claim that later becomes an Allowed Claim.

K. Conditions Precedent to Occurrence of Effective Date.

The Effective Date shall not occur unless and until the following conditions have been satisfied or waived by the Committee: (a) the Confirmation Order shall have been entered, in form and substance acceptable to the Committee; and (b) the Confirmation Order shall have become a Final Order.

L. Post-Confirmation Management of Newco.

The Plan contemplates vesting some of the Debtor's assets in Newco, which will be owned by the persons who have invested in LCI (i.e. the unsecured claimants). Newco will be formed on or before the Effective Date under the terms of the Bylaws and Articles of Incorporation which are attached to the Plan as Exhibit "B", and the Bylaws and Articles of Incorporation will be deemed adopted and agreed to by all creditors within Class 9, who will become the shareholders of Newco, upon confirmation of the Plan.

Among other things, the Bylaws and Articles of Incorporation contemplate the establishment of a Board of Directors for the corporation, the initial directors of which shall be the members of the Committee serving as of the Effective Date of the Plan. The newly constituted Board of Directors will serve without compensation until such time as the conclusion of the first general meeting of the shareholders of Newco. Newco will organize the first general meeting of its shareholders within two hundred and forty (240) days of the Effective Date for the purpose of electing a new Board of Directors, which in turn will elect the officers of the corporate entity. The Board of Directors will have supervisory control over Newco, its officers, and through them its business affairs.

All persons receiving distributions of shares in Newco shall be entitled to vote in any election of Directors of Newco or any other matters requiring shareholder approval on a one share/one vote basis, provided, however, that a quorum of shareholders shall be deemed present for voting purposes if ten percent (10%) or more of the shareholders vote in person or through proxy. A simple majority of the units represented by shareholders actually voting shall be sufficient to approve or disapprove any corporate act requiring shareholders approval.

Post-confirmation, Newco and the Creditor Agent will offer Class 9 Creditors the option to reinvest any distributions they may receive from the Cladek Creditor Trust for additional shares in Newco.

Upon the Effective Date LCI will dissolve as a corporation.

Upon the Effective Date, the Trustee shall assign and transfer to the Cladek Creditor Trust all rights and all Causes of Action to pursue claims on behalf of the LCI Estate. Newco and the Cladek Creditor Trust shall have standing to enforce the terms of the Plan on behalf of its creditor constituency until the Case is closed.

DECISIONS RELATING TO THE AMOUNT, TIMING, AND FREQUENCY OF MONETARY DISTRIBUTIONS TO HOLDERS OF SHARES OF NEWCO SHALL BE VESTED IN NEWCO, AND SHALL BE MADE UPON THE BUSINESS JUDGMENT OF NEWCO, CONSISTENT WITH THE TERMS OF THE BYLAWS AND ARTICLES OF INCORPORATION.

M. Preferences.

Section 547 of the Bankruptcy Code provides the power for a bankruptcy debtor, for the benefit of its estate, to avoid in certain circumstances payments which were made to creditors within the ninety-day period immediately preceding the filing of a bankruptcy case, such that the creditors which received payments are not treated preferentially to similarly situated creditors who did not. It is anticipated that the Cladek Creditor Trust will pursue any preference recoveries against any entities, including Investors. Based upon the Amended Statement of Financial Affairs filed by the Trustee (Doc. No. 201), it is estimated that there is $3,994,119.99 in available preference recovery.

VII. FEASIBILITY OF THE PLAN

A. Newco's Business Model.

Upon its acquisition of the loan portfolio by assignment and transfer from the Trustee, Newco will continue to operate the portfolio in the North and Central Florida geographic area with the assistance of a professional manager and consultants experienced in the sub-prime automobile finance industry retained under independent contractor management agreements. The Committee believes that if the loan portfolio is administered in a prudent business-like manner the loan portfolio: (a) will generate sufficient income to the loan portfolio to grow; and/or (b) periodic distributions to the shareholders of Newco. The Committee believes that the ultimate yield to shareholders on a present value basis will be significantly greater than reinvestment of a shareholders' share of the liquidation proceeds were the loan portfolio to be liquidated and sold at a material discount in its present condition. The Plan contemplates that Newco will conduct its future business within the sub-prime automobile financing business, but will invest in higher quality and longer term notes than those previously purchased by LCI. In furtherance of Newco's plan and business model, if the Plan is confirmed, Newco will immediately begin purchasing and acquiring automobile loans and loan portfolios early in January, 2011. Given the nature of the sub-prime automobile loan markets, timing of the acquisition of such loans and loan portfolios is deemed by the Committee as necessary, important to and in the best interest of Newco and the efforts to maximize potential of future recovery for the creditors and Investors.

1. The Sub-prime Automobile Finance Industry.

The automobile finance industry is estimated by industry experts to be the second largest consumer finance industry in the United States. The market is generally segmented based on the type of vehicle sold (new versus pre-owned) and the credit characteristics of the individual borrower (prime or sub-prime). Many large financial service entities, such as commercial banks, savings and loan companies, credit unions and captive finance companies, do not consistently provide financing to the sub-prime market. This is due in large part to: (i) the higher risk of the

obligors under the installment contracts; (ii) the lack of experience in servicing sub-prime consumers; and (iii) the regulatory oversight and capital requirements imposed by governmental agencies on traditional lenders which limit their ability to extend credit to such sub-prime consumers. In many cases, organizations in the automobile finance business have migrated toward higher credit quality customers in order to reduce collection and processing costs and to maintain higher levels of credit quality. Sub-prime lenders such as Ellyson Financial, First American Auto, and many others have filled the resulting void.

2. A Typical Sub-prime Automobile Financing Contract Transaction.

LCI operated in the sub-prime automobile financing industry, and thus its typical contract transactions are illustrative of a transaction structure. In a typical transaction a consumer would purchase a used automobile from a licensed automobile dealer and that dealer would enter into a retail installment contract with the customer to finance the vehicle purchase. The dealer would provide the customer's credit information, application, buyers order and other information to various lenders who would then negotiate with the dealer to purchase that retail installment contract at a discounted amount. Each retail installment contract contains an assignment provision and the dealer will then execute the assignment of the contract upon the "purchase" of the contract from a lender. This is commonly referred to as "indirect" lending.

LCI would typically purchase contracts from used car dealers at the point of sale (POS) when the dealer entered into the retail installment contract with the customer. LCI would purchase the contracts form the dealer at a discount that typically ranged from 35% to 50% based on credit quality of the buyer, the age and value of the collateral, and the general market conditions. For example, the dealer agrees to sell the vehicle to the customer for $4,500 with a down payment of $500 and to finance $4000 at 29% over 24 months with 52 biweekly payments of $103.09. LCI would purchase this contract for $2,600 (based on a 35% discount) and then collect the payments from the customer, which by the end of the term of the contract would total $5,360.68 (assuming the borrower made all the scheduled loan payments.) However, the notes purchased by LCI were generally on the lower value, shorter term, and lower quality end of the spectrum. While this allowed the notes to be purchased at a higher discount, it was accompanied by associated problems of increased default and credit risk.

Newco instead will focus on the "sweet spot" in the secondary market, purchasing notes of higher values and longer terms with higher quality autos as collateral and better qualified buyers, thus reducing the credit and default risk. Newco will still focus on the credit-challenged customer, so the contracts purchased will usually carry the highest interest rate allowed by law. Generally, these customers have credit scores of less than 620 and are unable to secure a loan from other financial institutions and the dealer is not able to carry the note itself. Customers' payments generally are set up for every two weeks so that they can be monitored carefully. .Newco will focus on the "sweet spot" loan values of approximately $9,500 which can be purchased at discounts of approximately 25% of principal and typically have terms of 24 to 42 months. This is a more conservative and lower risk approach than previously used by LCI. Finally, the inherent profitability of this industry is further enhanced for Newco, since the debt-for-equity swap at reorganization eliminates any requirement to pay interest on invested funds.

A dealer typically decides to sell its notes to a secondary finance company like Newco because it needs the money for operating expenses, or to purchase more vehicle inventory, or because the dealer does not have the staff or inclination to manage the collection of the accounts. In addition, some automotive dealers are taxed on their accounts receivable on an accrual basis, which means that they are taxed as if the money owed to them on the contracts already has been received. In contrast, Newco normally would be taxed as a finance company, which means it is taxed as funds are actually collected.

3. Management Services of and Relationship With Ellyson Financial, Inc.

It is anticipated that Newco will negotiate a management agreement with Ellyson Financial, Inc. Ellyson Financial, Inc. is incorporated in Georgia and operates in the sub-prime automobile finance industry. Ellyson Financial, Inc. is a member of the Georgia Independent Auto Dealers Association (GIADA) and the National Independent Auto Dealers Association (NIADA). These organizations allow Ellyson Financial to keep abreast of all of the Operational and Legislative issues within the auto industry. Ellyson Financial is experienced in POS and seasoned loans (i.e., a loan that the customer has been making payments on for several months.) Ellyson Financial has experience dealing with a range of dealers, from the very small, individually owned auto lots to those that sell over a million dollars in inventory each month. Ellyson Financial seeks out dealers that provide an on-site maintenance and service station to repair vehicles. Ellyson Financial works with the retailer and makes every effort to keep the vehicles it sells operating, for the purpose facilitating the continuous payments by the borrowers on their obligations to the lender. Moreover, cars which are repossessed upon a borrower's default may often be refurbished and sold yet again, generating a new finance contract.

Chuck Ellyson, the owner of Ellyson Financial, Inc. and a former Air Force Officer, earned his B.A. in 1980 and his M.B.A. from Florida Institute of Technology in 1987. Mr. Ellyson has owned two previous businesses and has extensive management experience with a Fortune 500 company. As the founder of the business, he has operated in every facet of the sub-prime lending business. His two biggest priorities are establishing a personal relationship with each dealer and employing his many risk management strategies.

4. Industry Competition.

The pre-owned automobile finance business for sub-prime consumers is highly fragmented and competitive. There are numerous competitors providing, or capable of providing, financing through dealers to sub-prime consumers of automobiles and many companies have entered this market. Newco will not compete with commercial banks, savings and loans, credit unions, financing arms of automobile manufacturers such as General Motors Acceptance Corporation, Ford Motor Credit Corporation, Chrysler Credit Corporation, or other consumer lenders that apply more traditional lending criteria to the credit approval process. Traditional lenders such as banks and credit unions generally lend to "prime" consumers. These consumers generally borrow at lower finance rates, purchase newer model automobiles, and have a lower default rate than non-prime customers. Many of the largest providers of financing to the non-prime automobile finance market are specialty automobile finance companies and dealers who provide financing programs directly to the consumer. Newco's main competitors will be used

automotive dealers themselves, who tend to retain "buy here, pay here" contracts, and other specialized sub-prime automobile lenders operating in Florida.

5. **Regulation**.

Newco's operations will be subject to regulation, supervision and licensing under various federal, state and local statutes and ordinances. Additionally, most states regulate the procedures which must be followed in connection with the repossession of vehicles securing installment sale contracts, including the Fair Debt Collections Practices Act. Compliance with existing laws and regulations does not have a material adverse effect on operations. Newco will obtain and maintain all requisite licenses and permits and remain in material compliance with all applicable local, state and federal regulations as to its lending operations.

Newco will require a Sales Finance Company License with the Florida Department of Banking and Finance. Pursuant to regulations of the State of Florida governing the automobile financing business, the Department of Banking and Finance conducts on site audits periodically to monitor compliance with the applicable regulations. The regulations govern, among other matters, licensure requirements, requirements for maintenance of proper records, payment of required fees to the State of Florida, maximum interest rates that may be charged on loans to finance used vehicles and proper disclosure to customers regarding financing terms.

Newco will obtain a copy of the originator's retail installment seller's license at the time it purchases a contract to assure that the originator has complied with applicable regulations. In addition, Newco may choose to obtain a retail installment seller's license in Florida in order to auction or resell its repossessed automobiles.

B. **Newco's Operational Performance Projections**.

The Committee has, with the assistance of Buttner Hammock & Co., performed extensive feasibility studies of the Debtor's operations. Summarized below are financial projections of the portfolio, based upon a thorough analysis of future income and expenses of Newco and with the assumption that the Plan will be implemented in accordance with its terms. These forecasts are not dependent on funding from any distribution from the Cladek Creditor Trust. However, if any additional funds are obtained they will be used to purchase additional notes to supplement the growth of the portfolio and further improve these projections.

In preparing these forecasts, the Committee has made conservative assumptions with respect to the availability of automobile finance contracts for purchase, the purchase price and discount for those contracts, expected repossession rates that could be experienced, and projected operating costs and overhead expenses which the company will incur. The Committee has assumed that the majority of repossessed vehicles are sold in a timely manner at local auctions, although web-based auctions and/or re-sales through retail dealers may well improve profitability. Additional risk mitigation and profit enhancements like mandatory GPS installation, availability of liability insurance and road hazard insurance as additional profit centers are anticipated, but not currently reflected in the projections. These items would further reduce the risk of loss as well as augmenting the profitability of the business.

Finally, the forecasts are based on projected payments from the existing portfolio and estimated expenses and legal fees. Operational and/or economic changes between the submission of this Plan and the Confirmation Date could impact the projections significantly, either positively or negatively, due to the compounding effect associated with the high rate of interest earned on invested funds and the ability to purchase new contracts with such earnings.

The proposed business model for Newco has been rigorously modeled with projected revenue streams decremented by payroll and other expenses to determine the maximum reinvestment that can be used to purchase additional notes. Presented below are summaries of the financial projections of the portfolio illustrating the expected growth based upon an initial five year period of reinvestment and consolidation to maximize the value of the company, followed by a three year period where partial payments are made to equity holders to maintain a ceiling on the number of notes, and by extension, the size of the company. At December 31, 2018 the principal balance of the loan portfolio is estimated at $18,384,816. At that date, Newco can liquidate its existing portfolio, continue to operate as a going concern or stop making any new loans and continue to collect the existing portfolio until all loans were fully collected. A Projected Balance Sheet and a Comparison of Value of Future Distributions to Immediate Liquidation has been prepared to demonstrate the expected growth and subsequent distributions to the shareholders of Newco and is attached as **Composite Exhibit "A".** The Committee will have information available for examination on the website for the Unsecured Creditors' Committee of LCI, the website address which is www.burr.com/clients/cladek/. If there are any questions they can be directed to the Committee's toll free phone number 1-866-443-1597 or by email at cladekcommitteeinfo@burr.com.

Although the Committee believes that the projections are reasonable in light of the assumptions upon which they are based and the historical performance of the portfolio, no assurances can be given that the projected returns will be realized. The Committee urges all creditors to examine the projections and the Plan carefully and to consult with their own counsel regarding their personal situation.

1. Consolidation and Reinvestment through December 2015.

As of December 2015 and assuming no distributions are made to holders of shares of Newco the total value of the portfolio, without reduction of the unearned finance charges and the unearned discount, and including cash on hand, is estimated to be $18,253,282. Reducing the value of the portfolio by the amount of the unearned finance charges of $4,588,794 and the unearned discount of $2,255,304, the total value of the portfolio, including cash on hand, is estimated to be $11,409,186.

2. Reduce Reinvestment and Begin Partial Distributions January 2016.

Beginning in January 2016, reinvestment could be reduced to enable a partial distribution payments to shareholders of Newco of $2 million in 2016, and $3 million in each of 2017 and 2018. As of December, 2018, the total value of the portfolio, without reduction of the unearned finance charges and the unearned discount, and including cash on hand, is $30,566,703. Reducing the value of the portfolio by the amount of the unearned finance charges of $7,934,078 and the unearned discount of $3,898,494, the total value of the portfolio, including cash on hand,

is estimated at $18,734,131. Adding the potential estimated cash distributions, which may be made by Newco to shareholders, of $8 million made in 2016-2018 to this total demonstrates a total estimated return to the equity holders of Newco of $26,734,130 through December 2018.

VIII. RISK FACTORS

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

A. Bankruptcy Risks.

1. Insufficient Acceptances.

For the Plan to be confirmed, each impaired Class of Claims and Interests is given the opportunity to vote to accept or reject the Plan, except, however, for those Classes which will not receive any distribution under the Plan and which are, therefore, considered to have rejected the Plan. With regard to the impaired Classes which vote on the Plan, the Plan will be deemed accepted by a Class of impaired Claims if the Plan is accepted by holders of Claims of such Class actually voting on the Plan who hold at least two-thirds (2/3) in an amount and more than one-half (1/2) in number of the total Allowed Claims of such Class. The Plan will be deemed accepted by a Class of impaired Interests if it is accepted by the members actually voting on the Plan who hold at least two-thirds (2/3) in an amount of the total Allowed Interests voted. Only those members of a Class who vote to accept or reject the Plan will be counted for voting purposes.

If any impaired Class of Claims or Interests does not accept the Plan, pursuant to §1129(b) of the Bankruptcy Code, the Bankruptcy Court may still confirm the Plan at the request of the Committee if, among other things, as to each impaired Class which has not accepted the Plan, the Plan "does not discriminate unfairly" and is "fair and equitable." The Committee believes that the Plan affords fair and equitable treatment for all Allowed Claims and Interests. If one or more of the impaired Classes of Claims or Interests votes to reject the Plan, the Committee may request that the Bankruptcy Court confirm the Plan by application of the "cramdown" procedures available under § 1129(b) of the Bankruptcy Code. However, there can be no assurance that the Committee will be able to use the cramdown provisions of the Bankruptcy Code for Confirmation of the Plan. Any modification of the Plan necessary to effect a cramdown may result in a different treatment of Claims and Interests than those currently afforded in the Plan, which, as to any Claim or Interest, may be less favorable, and distributions to holders of Claims and Interests may be delayed.

2. Confirmation Risks.

Any objection to the Plan by a member of a Class of Claims or Interests could either prevent Confirmation of the Plan or delay such Confirmation for a significant period of time.

3. Conditions Precedent.

Confirmation of the Plan and occurrence of the Effective Date are subject to certain conditions precedent that may not occur. The Committee; however, will work diligently with all parties in interest to ensure that all conditions precedent are satisfied.

B. Economic Risks.

1. Economic Recession.

Newco's projected success is based on experience and takes into account normal fluctuations in the economy. Nonetheless, a severe recession or economic depression could adversely affect Newco. Although the Committee believes that the projections can withstand an economic downturn, there is no guarantee that a severe recession or long-term depression will not occur. In the event of such an occurrence, Newco could face difficulties in meeting its financial goals.

2. Leverage.

The success of Newco and the ability of Newco to make distributions to its shareholders will depend on factors such as the economic climate, competition in the industry, and other factors, which Newco cannot predict or control. The more cash available to Newco (from cash on hand as of the Effective Date and distributions from the Cladek Creditor Trust) for reinvestment into Newco's loan portfolio, the greater the growth opportunities available to Newco and the greater the probability Newco will be able to make distributions to shareholders. Newco must make sure that any distributions made to shareholders do not adversary affect Newco's ability to withstand adverse economic conditions.

3. Unanticipated Losses.

Although the Committee does not anticipate a repeat of LCI's losses, lower than expected collections or higher default rates will severely impact Newco's ability to make distsributions to its shareholders.

4. The Price at Which Finance Contracts are Purchased.

The price at which finance contracts are purchased has a dramatic impact on the return on invested funds. Historically, financed contracts were purchased by LCI at approximately 35% of the principal amount of the note. Higher quality finance contracts are typically not available for purchase at such steep discounts, so the financial projections for Newco use a much more conservative discount rate of 25% as the baseline. Competition and general economic conditions, including returns available on alternative investments, will impact the price at which Newco can purchase finance contracts,.

5. The Availability of Retail Dealers to Sell Repossessed Cars.

Newco will have three disposition options with respect to repossessed vehicles: (l) it can re-sell the vehicles on consignment with a retail dealer and perhaps generate a new finance

contract, (2) it can sell the vehicles at local or web-based auction, or (3) it can sell the vehicle to a retail dealer. There are dealers that seek out finance company repossessed cars so as to avoid the time and fees of the auction. Newer well-conditioned vehicles are typically sold at retail, older, less desirable vehicles are usually sold at auction. Anticipated carrying costs are also a factor in how a repossessed vehicle is administered. As a general rule, repossessed vehicles sold at retail will generate higher recoveries than simply selling repossessed vehicles at auction. If Newco can establish ongoing business relationships with retail dealers Newco will be able to take advantage of the higher returns on repossessed vehicles.

6. Underwriting Guidelines.

Newco will adhere to established underwriting guidelines when purchasing finance contracts. Among other things, credit scores, length of time on job, residency, stability, and ties to the community factor into the decision to purchase finance contracts. Deviation from the established guidelines can impact profitability.

7. Fraud and Misrepresentation.

Although Newco will strive to perform proper due diligence before purchasing finance contracts, fraud or misrepresentations by dealers and borrowers can impact the profitability of the portfolio.

C. Risks Inherent with the Issuance of Securities Issued Under a Reorganization Plan.

1. Applicability of Federal and Other Securities Laws to Issuance of Securities Under Confirmed Plan.

Under § 1125 of the Bankruptcy Code, any person that solicits acceptance or rejection of the Plan in good faith and in compliance with the applicable provisions of the Bankruptcy Code, or that participates, in good faith and in compliance with the applicable provisions of the Bankruptcy Code, in the offer, issuance, sale or purchase of a security offered or sold under the Plan will not be liable, on account of such solicitation or participation, for violation of any applicable law, rule or regulation governing solicitation of acceptance or rejection of a plan or the offer, issuance, sale or purchase of securities, including federal and state securities laws.

2. Registration of Newco's Shares.

Under § 1145(a) of the Bankruptcy Code, the issuance of the shares to be distributed under the Plan in exchange for a Claim against LCI, and the subsequent resale of such securities by entities that are not "underwriters" (as defined in §1145(b) of the Bankruptcy Code) are not subject to the registration requirements of §5 of the Securities Act of 1933 (the "Securities Act") or equivalent state securities laws. Section 1145 of the Bankruptcy Code generally exempts from such registration the offer or sale of securities which are offered or sold in exchange for a claim against, or interest in, or an administrative expense claim against a debtor. BECAUSE OF THE COMPLEX, SUBJECTIVE NATURE OF THE QUESTION OF WHETHER A PARTICULAR HOLDER MAY BE AN UNDERWRITER, THE COMMITTEE MAKES NO

REPRESENTATION OR WARRANTY CONCERNING THE ABILITY OF ANY PERSON TO DISPOSE OF THE SECURITIES TO BE DISTRIBUTED UNDER THE PLAN.

The Committee believes that the distribution of shares of Newco for Claims against the Debtor under the circumstances provided in the Plan will satisfy the requirements of § 1145(a). Thus, the shares of Newco issued pursuant to the Plan will be deemed to have been issued in a registered public offering under the Securities Act pursuant to the exemption provided by § 4(1) thereof unless the holder is an "underwriter" with respect to such securities as that term is defined in §1145(b)(1) of the Bankruptcy Code (a "statutory underwriter"). In addition, such securities generally may be resold by the recipients thereof without registration under state securities or "blue sky" laws pursuant to various exemptions provided by the respective laws of the several states. However, recipients of securities issued under the Plan are advised to consult with their own counsel as to the availability of any such exemption from registration under state security laws in any given instance and as to any applicable requirements or conditions to the availability thereof.

Section 1145(b) of the Bankruptcy Code defines "underwriter" for purposes of the Securities Act as one who: (a) purchases a claim with a view to distribution of any security to be received in exchange for the claim; (b) offers to sell securities issued under a plan from persons receiving such securities, if the offer to buy is made with a view to distribution of such securities; or (c) is an issuer (in this case, Newco) of the securities within the meaning of §2(11) of the Securities Act.

The term "issuer" is defined in §2(11) of the Securities Act, however, the reference contained in § 1145(b)(1)(D) of the Bankruptcy Code) to §2(11) of the Securities Act purports to include as statutory underwriters all persons who, directly or indirectly, through one or more intermediaries, control, are controlled by or are under common control with, an issuer of securities. "Control" (as defined in Rule 405 under the Securities Act) means the possession, direct or indirect, of the power to direct or cause the direction of the policies of a person, whether through the ownership of voting securities, by contract or otherwise. Accordingly, an officer or director of a reorganized debtor or its successor, under a plan of reorganization (i.e., Newco) may be deemed to be a "control person" of such debtor or successor, particularly if the management position or directorship is coupled with ownership of a significant percentage of the reorganized debtor's or its successor's voting securities. Moreover, the legislative history of § 1145 of the Bankruptcy Code suggests that a creditor who owns at lease ten percent of the securities of a reorganized debtor is a presumptive "control person" of the debtor.

To the extent that a person who is deemed to be an "underwriter" receives securities in Newco pursuant to the Plan, re-sales by such person would not be exempted by §1145 of the Bankruptcy Code from registration under the Securities Act or other applicable law. Entities deemed to be statutory underwriters for purposes of § 1145 of the Bankruptcy Code may, however, be able to sell securities without registration pursuant to the resale provisions of Rule 144A and Rule 144 under the Securities Act. Each of these provisions as hereafter described permit the resale of securities received pursuant to the Plan by statutory underwriters subject to applicable holding period requirements, volume limitations, notice and manner of sale requirements and certain other conditions.

Rule 144A provides a non-exclusive safe harbor exemption from the registration requirements of the Securities Act for re-sales to certain "qualified institutional buyers" of securities which are "restricted securities" within the meaning of the Securities Act, irrespective of whether the seller of such securities purchased its securities with a view towards reselling such securities. Under Rule 144A, a "qualified institutional buyer" is defined to include, among other persons (e.g., dealers registered as such pursuant to § 15 of the 1934 Act), an entity which purchases securities for its own account or for the account of another qualified institutional buyer and which (in the aggregate) owns and invests on a discretionary basis at least $100 million in the securities of unaffiliated issuers. Subject to certain qualifications, Rule 144A does not exempt the offer or sale of securities which, at the time of their issuance, were securities of the same class of securities then listed on a national securities exchange (registered as such pursuant to §6 of the Exchange Act) or quoted in a U.S. automated inter-dealer quotation system. Because shareholders in Newco will not, at the time of issuance under the Plan be securities then so listed or quoted, holders of such securities who are deemed to be "affiliates" or "control persons" of Newco within the meanings of Rule 405 under the Securities Act should, assuming that all other conditions of Rule 144A are met, be entitled to avail themselves of the safe harbor resale provisions thereof. In the event that Newco is subsequently registered under the Exchange Act, the exemption provided by Rule 144 A will not longer be available.

If Rule 144A is unavailable, such holders may, under certain circumstances, be entitled to resell their securities pursuant to the more limited safe harbor resale provisions of Rule 144 under the Securities Act. Generally, Rule 144 provides that if certain conditions are met (e.g., volume limitations, manner of sale, availability of current public information about the issuer, etc.) specified persons who resell "restricted securities" or who resell securities which are not restricted but who are "affiliates" of the issuer of the securities sought to be resold, will not be deemed to be "underwriters" as defined in § 2(11) of the Securities Act. Under Rule 144, the aforementioned conditions to resale will no longer apply to restricted securities sold for the account of a holder who is not an affiliate of the company at the time of such resale, so long as a period of at least two years have elapsed since the later of (i) the Effective Date and (ii) the date on which such holder his or its securities from an affiliate of the company.

On the Effective Date, Newco may be subject to the periodic reporting and informational requirements of the Exchange Act. If registered, the exemption provided by Rule 144 should be available during such times as Newco is in compliance with the periodic reporting and informational requirements of §13 and 15(d) of the Exchange Act. In no event will the exemption provided by Rule 144 be available sooner than ninety (90) days following the effective date of the registration of Newco under the Exchange Act.

Under Florida Statues Section 517.061(3), the isolated sale or offer for sale of securities is exempt from registration when such offer or sale is made by or on behalf of a vendor who is not the issuer or underwriter of the securities, who, being the bona fide owner of such securities, disposes of her or his own property for her or his own account, and such sale is not made directly or indirectly for the benefit of the issuer or an underwriter of such securities or for the direct or indirect promotion of any scheme or enterprise with the intent of violating or evading Florida securities laws. For purposes of this exemption, isolated offers or sales include, but are not limited to, an isolated offer or sale made by or on behalf of a vendor of securities who is not the issuer or underwriter of the securities if either (a) the offer or sale of securities is in a transaction

exempt under § 4(1) of the Securities Act, or (b) the offer or sale of securities is in a transaction satisfying all of the following requirements: (i) there are no more than 35 purchasers, or the seller reasonably believes that there are no more than 35 purchasers, of the securities of the issuer in this state during an offering made in reliance upon this subsection or, if such offering continues for a period in excess of 12 months, in any consecutive 12-month period; (ii) neither the seller nor any person acting on behalf of the seller offers or sells securities pursuant to this subsection by means of any form of general solicitation or general advertising in the state of Florida; (iii) prior to the sale, each purchaser or the purchaser's representative, if any, is provided with, or given reasonable access to, full and fair disclosure of all material information; and (iv) no person defined as a "dealer" under Florida securities laws is paid a commission or compensation for the sale of the seller's securities unless such person is registered as a dealer under this chapter.

Whether or not any particular person would be deemed to be an "underwriter" of Newco securities to be issued pursuant to the Plan, or an "affiliate" of Newco, would depend upon various facts and circumstances applicable to that person. Accordingly, the Committee expresses no view as to whether any person would be such an "underwriter" or an "affiliate."

IN VIEW OF THE COMPLEX, SUBJECTIVE NATURE OF THE QUESTION OF WHETHER A PARTICULAR PERSON MAY BE AN UNDERWRITER OR AN AFFILIATE OF NEWCO, THE COMMITTEE MAKES NO REPRESENTATIONS OR WARRANTIES CONCERNING THE RIGHT OF ANY PERSON TO TRADE IN NEWCO'S SECURITIES DISTRIBUTED PURSUANT TO THE PLAN. ACCORDINGLY, THE COMMITTEE RECOMMENDS THAT POTENTIAL RECIPIENTS OF SECURITIES CONSULT THEIR OWN COUNSEL CONCERNING WHETHER THEY MAY FREELY TRADE SUCH SECURITIES.

Newco has no present intention to register under the Securities Act of 1933 Newco's securities distributed under the Plan or to apply for listing of Newco's securities on a national securities exchange or quoting in a United States automated interdealer quotation system or to comply with the reporting requirements of the Exchange Act with respect to the initial issuance of Newco's shares.

3. Lack of Established Market for New Securities.

No trading market currently exists for Newco's securities. No assurance can be given as to whether a market for Newco's securities will develop or, if one does develop, the price at which such holders may be able to sell Newco's securities. If such a market were to develop, Newco's securities could trade at prices lower or higher than the estimated price at the Effective Date as a result of many factors, including prevailing interest rates, Newco's operating results, and the market for Newco's securities, or that an active public market for Newco's securities will develop.

IX. AVOIDANCE AND FRAUDULENT TRANSFER CLAIMS

Pursuant to §548 of the Bankruptcy Code, a debtor in possession may avoid a fraudulent transfer of property made while the debtor was insolvent or which rendered the debtor insolvent, if the debtor received less than reasonably equivalent value in exchange for such property and if the transfer was made within one year before the commencement of the Bankruptcy Case. Pursuant to §544 of the Bankruptcy Code, a debtor in possession may also avoid a transfer of property that is avoidable under applicable non-bankruptcy law. Section 544 of the Bankruptcy Code enables a debtor to apply applicable state laws, including fraudulent conveyance laws, to avoid a transfer of property.

Pursuant to § 1123(b)(3) of the Bankruptcy Code and except as provided by order of the Bankruptcy Court, and upon assignment of such rights to the Cladek Creditor Trust, the Cladek Creditor Trust shall have the right to enforce against any person or governmental unit any and all causes of action and rights of the Debtor that arose both before and after the Petition Date, including the rights and powers of a trustee and debtor in possession and all causes of action granted pursuant to and still existing under §§ 502, 544, 545, 547, 548, 549, 550,551 and 553 of the Bankruptcy Code. To the extent that the Trustee, as of the Effective Date, is the plaintiff in any pending adversary proceedings pursuing certain actions, such as the avoidance or fraudulent transfer actions, in connection with the Case, the Cladek Creditor Trust shall thereupon be substituted as the party in interest in place of the Trustee.

The Committee cautions; however, that there are often numerous defenses to preference claims and other avoidance actions, as well as collectability issues which diminish the potential recoveries. The Committee therefore makes no representations regarding the viability of these claims and any recovery and distribution to creditors. The Cladek Creditor Trust will retain the authority to compromise any avoidance claim based on consideration of such factors as collectability, cost of prosecution, potential defenses and the like. It is anticipated that the Cladek Creditor Trust will retain a law firm on a contingency basis to litigate the causes of action post-confirmation, which will reduce litigation expenses and costs for the Cladek Creditor Trust.

As set forth in the Plan and based upon the fact that the Debtor operated as a Ponzi scheme, it is inequitable to allow Investors to retain and keep monies paid by the Debtor in excess of their original principal investments because such Investors would be profiting at the expense of those Investors who entered the scheme at a later date, received nothing, and lost their entire principal investment. Investors will be required to disgorge and turnover to Newco any and all "False Profits" received by the Debtor, defined as the amount by which: (a) the total amount of money paid by the Debtor to or for the benefit of each Investor, including payments of interest and repayments of principal, exceeds (b) the total amount of money such Investor deposited, invested, or transferred to the Debtor on an aggregate basis, excluding any amounts derived from interest accrual or interest rollover. The Cladek Creditor Trust will notify each Investor who may be required to disgorge and turn over False Profits to the Cladek Creditor Trust, and such amounts required to be turned over will be deemed immediately due and owing upon the receipt of such notification. In the event, and to the extent, an Investor refuses to turn over all False Profits received, the Cladek Creditor Trust may initiate avoidance actions under the applicable bankruptcy provisions and rules to recover the amounts subject to disgorgement. Any action to recover from and require the disgorgement of False Profits by an Investor will be

commenced in the Court, for which the Plan provides the retention of jurisdiction and such actions will be brought in the Jacksonville Division of the Middle District of Florida.

X. FEDERAL TAX CONSEQUENCES

A material consideration for Investors is the potential tax treatment of losses they will have sustained by virtue of their investments in the Ponzi scheme, and the potential income tax effects they will derive from the ownership of shares of Newco. The following discussion addresses the potential tax treatment of those losses and of the financial performance of Newco which the Committee believes is available under a proper analysis and application of the relevant provisions of the Internal Revenue Code.

THE COMMITTEE MAKES NO REPRESENTATION OR WARRANTY THAT ANY INDIVIDUAL'S TAX TREATMENT WILL BE AS SUGGESTED IN SECTION X BELOW AND THE FOREGOING IS SOLELY THE INDEPENDENT VIEW OF THE COMMITTEE AFTER REASONABLE INVESTIGATION AND ANALYSIS OF THE RELEVANT PROVISIONS OF THE INTERNAL REVENUE CODE. UPON THAT ANALYSIS THE COMMITTEE BELIEVES THAT THE TAX TREATMENT AS THEFT LOSSES OF AN INVESTOR'S LOSSES UNDER THE PONZI SCHEME IS SUPPORTED BY THE APPLICABLE TAX RULES AND INTERPRETIVE RULINGS. HOWEVER, BECAUSE THE PROPER DETERMINATION OF TREATMENT AND REPORTING OF LOSSES IS BASED ON THE FACTS AND CIRCUMSTANCES OF EACH SITUATION, EACH INVESTOR SHOULD CONSULT HIS OR HER OWN PERSONAL TAX ADVISOR WITH RESPECT TO THEIR PERSONAL CIRCUMSTANCES AND THE AVAILABILITY OF THE POTENTIAL TAX TREATMENT DISCUSSED BELOW. THIS COMMUNICATION (INCLUDING ATTACHMENTS) DOES NOT CONSTITUTE TAX ADVICE BY THE COMMITTEE REGARDING ANY MATTERS OR ISSUES INVOLVING FEDERAL TAX LAW.

A. <u>Tax Treatment of Investors' Losses and Prospective Distributions from Newco</u>

The Investors' loans to LCI were solicited and funded as a result of a Ponzi scheme. Under the proposed Plan, the Investors stand to receive only a fraction of the amounts they lent to the now bankrupt LCI, either through cash distributions upon confirmation of the Plan or the issuance of shares in Newco, or both. These circumstances give rise to the following issues under applicable principals of federal taxation: (a) How will the amounts received by the Investors be characterized for federal income tax purposes?; (b) How will the losses sustained by the Investors be treated for federal income taxes purposes?; and (c) How will amounts received by Investors subsequent to distribution of securities from the bankruptcy estate be treated for federal income tax purposes?

1. Income.

The United States Tax Court has addressed the treatment of losses sustained under a Ponzi scheme in two separate Tax Court opinions: *Premji v. Commissioner*[4] in 1996 and *Parrish v. Commissioner*[5] in 1997. In these cases, the Court declined to apply the open transaction doctrine, which permits a taxpayer who receives installment payments on the sale or other disposition of property, to recover his basis prior to recognizing gain where the amount realized is not susceptible to valuation.[6] The essence of the open transaction doctrine is uncertainty that the taxpayer will recover the full amount of his basis or cost, and the Court found that the amounts actually received by the taxpayers prior to the discovery of the Ponzi scheme represented interest income as the taxpayers had not shown that it was uncertain they would recover their principal investment.

The IRS has indicated that it will follow the decisions of the Tax Court in *Premji* and *Parrish* and will treat payments received by an investor in a Ponzi scheme prior to the discovery of the fraud as interest.[7] However, the IRS concedes that amounts, if any, recovered from a Ponzi scheme after discovery of the fraud (that is, after the point at which a typical investor would be aware that recovery of his of her principal was uncertain) may be treated as a return of capital. To the extent such amounts do not exceed the taxpayer's basis in the Ponzi scheme, they are not includable in income, but instead reduce basis otherwise recoverable through a bad debt or loss deduction, as discussed below.[8]

In this case, the Committee believes the Investors possess the requisite uncertainty as to the recovery of their investments to invoke the open transaction doctrine.[9] If such treatment is appropriate, any amount distributed to an Investor is not includable in such Investor's gross income to the extent such distribution does not exceed the Investor's basis in his investment.[10] Any amount received by a Investor in excess of such Investor's basis in his investment, however, would be taxable as interest. Such amounts received would constitute a return on an Investor's investment with LCI rather than merely a return of such Investor's investment. These amounts represent compensation for the use and forbearance of money and are therefore includable in income as interest.

2. Loss Allowance and Basis.

Section 165(a) of the Internal Revenue Code provides that there shall be allowed as a deduction any loss sustained during the taxable year and not compensated for by insurance or otherwise. In the case of a corporation, deductible losses are not necessarily limited to those incurred in a trade or business or in a transaction entered into for profit. In the case of an

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[4] T.C. Memo. 1996-304.

[5] T.C. Memo. 1997-474, *aff'd.*, 168 F.3d 1098 (8th Cir. 1999).

[6] See *Burnet v. Logan*, 283 U.S. 404 (1931); *Underhill v. Com 'r.*, 45 T.C. 489 (1966). 15 CCA 200305028 (December 27,2002).

[7] CCA 200305028 (December 27, 2002).

[8] CCA 200451030 (September 30, 2004).

[9] *See Premji v. Com'r.*, T.C. Memo. 1996-304.

[10] CCA 200451030 (September 30, 2004).

individual, on the other hand, deductible losses are limited to: (i) losses incurred in a trade or business;[11] (ii) losses incurred in any transaction entered into for profit (though not connected with a trade or business)[12] ; and (iii) losses of property not connected with a trade or business or a transaction entered into for profit if such losses arise from fire, storm, shipwreck, or other casualty, or from theft.[13] These losses are generally referred to as "personal casualty losses."

Generally, the amount of the deduction for any loss is based on the taxpayer's adjusted basis as provided in Section 1011. Typically, the taxpayer's adjusted basis in an asset or loan is its cost.[14] Therefore, each Investor's basis in its investment is equal to the amount lent to the Debtor, as well as any amounts received as "interest" and subsequently reinvested in or relent to the Debtor.

(a) Losses by IRAs and Retirement Accounts.

The adjusted basis of an investment in the hands of an Investor who invested funds from a qualified retirement account requires a more thorough factual inquiry. A taxpayer is entitled to exclude a certain amount of otherwise includible income when amounts are contributed to a qualified plan for the taxpayer's benefit or deferred pursuant to a cash or deferred arrangement, commonly referred to as a 401(k) plan[15]. Moreover, a taxpayer is entitled to deduct certain amounts contributed to an individual retirement account (IRA).[16] A taxpayer cannot claim a loss on income he has not yet taken into account for tax purposes.[17] Thus, when a taxpayer incurs a loss of funds held in a qualified plan, 401 (k) plan, or IRA, such a loss will not be deductible if such funds were not previously included in such taxpayer's income. Rather, the taxpayer will recognize less income in the future due to the fact that the taxpayer will receive a smaller distribution from the plan or IRA.

3. Theft Losses.

Logic dictates and the Committee assumes that Investors invested in LCI with the intention of making a profit. Therefore, any loss from the transaction, including one due to theft, would appear to be fully deductible as an investment loss under Section 165(c)(2) rather than partially deductible as a personal loss under Section 165(c)(3)[18]. Nevertheless, an investment loss due to theft is more advantageous than most other investment losses due to the fact that investment losses due to theft are not limited to investment income, are not subject to the two percent floor on miscellaneous itemized deductions, or may be carried back or forward as a net operating loss, discussed more fully below.[19] Therefore, the determination of whether the Investors' losses were due to theft remains an important one.

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[11] I.R.C. § 165(c)(1).

[12] I.R.C. § 165(c)(2).

[13] I.R.C. § 165(c)(3).

[14] I.R.C. § 1012.

[15] Treas. Reg. § 1.402(a)-1(a)(1)(i), (d)(2)(i).

[16] I.R.C. § 219(a).

[17] McCoy, 527-3rd T.M. *Loss Deductions*, II.C.2.

[18] *But see* CCA 200451030 (September 30, 2004), in which the IRS maintains its official position that such losses are deductible only under § 165(c)(3), subject to the limitations of § 165(h).

[19] I.R.C. § 172(d)(4)(C).

The term "theft" is deemed to include, but is not necessarily limited to, larceny, embezzlement, and robbery.[20] Whether a theft loss occurs depends upon the law of the jurisdiction where it was sustained, and the exact nature of the crime, whether larceny or embezzlement, obtaining money under false pretenses, swindling or other wrongful deprivation of the property of another, is of little importance so long as it amounts to theft.[21] The absence of a criminal prosecution does not preclude the deduction of a theft loss.[22] Thus to qualify as a "theft" loss within the meaning of Section 165(c), the taxpayer need only to prove that his loss resulted from a taking of property that is illegal under the law of the state where it occurred, and that the taking was done with criminal intent.[23] Under Florida law, any person who engages in a scheme to defraud and obtains property thereby is guilty of organized fraud.[24] For purposes of this criminal statute, the term "scheme to defraud" means "a systematic, ongoing course of conduct with intent to defraud one or more persons, or with intent to obtain property from one or more persons by false or fraudulent pretenses, representations, or promises or willful misrepresentations of a future act."[25]

The Internal Revenue Service has conceded in several instances, and the Tax Court has accepted such positions, that a loss resulting from an investment in a Ponzi scheme is deductible as a theft loss.[26] Thus, if a taxpayer is fraudulently induced to invest in a Ponzi scheme, any losses resulting therefrom may be deductible as a theft loss under Section 165(c) in the year the theft was discovered to the extent no reasonable prospect of recovery exists.[27] The Internal Revenue Service has advised that the fact that a legitimate Debtor may at times be required to pay previous investors with proceeds received from newer investors does not necessarily support a conclusion that the newer investors were the victims of a theft, particularly if the Debtor successfully emerges from a bankruptcy proceeding.[28] However, in this instance the Committee believes the facts indicate that LCI was not operated with the intention of repaying the Investor loans, nor does the Plan contemplate that LCI will reorganize and emerge as an operating company. Instead, LCI will assign all of its remaining assets to Newco, which will operate under a new business structure and business model and LCI will thereupon be dissolved. Recently, the IRS has provided additional guidance on the treatment of losses sustained in Ponzi schemes[29] and issued safeharbor reporting procedures for such losses.[30]

4. <u>Bad Debts</u>.

Section 166(a) of the Code allows a deduction for any debt which becomes worthless within the taxable year. In order to deduct a bad debt under Section 166, a taxpayer must prove the existence of a bona fide debt. A bona fide debt is a debt which arises from a debtor-Investor

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[20] Treas. Reg. § 1.165-8(d).

[21] *Edwards v. Bromberg*, 232 F.2d 107, 100 (5th Cir. 1956).

[22] *Montelone v. Commissioner*, 34 T.C. 688 (1960) *acq.* 1960-2 C.B. 6.

[23] Rev. Rul. 72-112, 1972-1 C.B. 60.

[24] Fla. Stat. § 817.034(4)(a).

[25] Fla. Stat. § 817.034(3)(3).

[26] *Jensen v. Commissioner*, T.C. Memo. 1993-393; *Berardo v. Commissioner*, T.C. Memo 1987-433; 1994 WL 1865988 (IRS FSA).

[27] See *Premji, supra*, n.11.

[28] CCA 200406046 (June 2, 2004).

[29] Rev. Rul. 2009-9, 2009-14 IRB 735, 03/17/2009

[30] Rev. Rul. 2009-20, 2009-14 IRB 749, 03/17/2009

relationship based upon a valid and enforceable obligation to pay a fixed or determinable sum of money.[31] In addition, for genuine indebtedness to be present, there must be both a good faith intent on the part of the borrower to repay the debt and a good faith intent by the lender to enforce payment of the debt. If the borrower fraudulently induces a lender to part with its money, no debtor-Investor relationship can be created because the borrower lacked the intent to repay the borrowed money. In such a situation, the loss incurred by the lender would be a theft loss under Section 165(c).[32]

If a debt constitutes a business debt, a deduction against ordinary income is allowed to the extent that the underlying obligation becomes wholly or partially worthless during the tax year.[33] A business debt is either (a) a debt created or acquired (as the case may be) in connection with a trade or business of the taxpayer or (b) a debt the loss from the worthlessness of which is incurred in the taxpayer's trade or business.[34] In the case of individuals, a business bad debt is deductible in computing adjusted gross income, unless the business in question is as an employee. A bad debt deduction claimed in connection with a taxpayer's business as an employee is deductible as a miscellaneous itemized deduction subject to the two-percent floor.[35] However, the Committee believes that the typical Investor was not in the business of loaning money, but rather made the loans simply as an investment for the purpose of general investment or retirement return, and thus it does not appear that any debts created or incurred by the Investors are business bad debts.

A non-business bad debt is deductible only as a short-term capital loss.[36] Accordingly, a taxpayer who incurs a non-business bad debt is subject to the rules that limit deductions for excess net short-term capital losses and capital loss carryovers. Moreover, non-business bad debts will not support a deduction for partial worthlessness.[37] In order for a non-business bad debt to be deductible, it must become totally worthless during the year. However, it is possible for a person to avoid the partial worthlessness prohibition by having the debtor (1) execute a new note for an amount approximately equal to what he might be expected to repay, or (2) pay as much of the note as is possible and cancel the remaining unpaid balance of the note.[38] The Committee believes the issuance to an Investor of shares in Newco is tantamount to the above alternatives, in that it fixes the amount of the Investor's loss, with the balance of the Investor's claim rendered worthless.

5. **Comparison of Theft Losses to Bad Debts.**

In some cases, it is unclear whether a particular situation involves a theft loss or a bad debt. The Supreme Court has held that the provisions allowing a deduction for losses (now in Section 165(a)) and those allowing a deduction for bad debts (now in Section 166) are mutually exclusive, and that where a situation is described in both sets of provisions, the specific

[31] Treas. Reg. § 1.166-1(c).
[32] Rev. Rul. 71-381, 1971-2 C.B. 126.
[33] Treas. Reg. §1.166-1(a).
[34] I.R.C. § 166(d)(2).
[35] McCoy, 538-2nd T.M., *Bad Debts*, IV.A.
[36] I.R.C. §§ 166(d)(1)(B), 1222(2).
[37] Treas. Reg. § 1.166-5(a)(2).
[38] McCoy, *Bad Debts, supra.*

provisions relating to debts govern.[39] Nevertheless, in the typical theft or embezzlement situation, the taxpayer is entitled, in the year the theft is discovered, to an ordinary loss deduction rather than a bad debt deduction.[40] This conclusion is due to the fact that, as discussed above, no debtor-Investor relationship is created when a thief steals from his or her victim.

A loss arising from theft is treated as sustained during the taxable year in which the taxpayer discovers the loss.[41] If, in the year of discovery, there exists a claim for reimbursement with respect to which there is a reasonable prospect of recovery, the theft loss is not sustained until the taxable year in which it can be determined with reasonable certainty that such reimbursement will not be received.[42] A reasonable prospect of recovery exists when the taxpayer has bona fide claims for recoupment from third parties or otherwise, and when there is a substantial possibility that such claims will be decided in his favor.[43] If a taxpayer does have a reasonable prospect that reimbursement will be received (perhaps as the result of a solvent thief's promise to repay), but the claim for reimbursement subsequently becomes worthless, the deduction should be a Section 166 bad debt deduction rather than a Section 165 loss.[44]

The Tax Court takes the position that a theft loss deduction will be barred in the year a reasonable prospect of reimbursement exists only to the extent of the potential reimbursement. If the theft loss exceeds the claim for recovery, the excess is currently deductible.[45] Thus, if a taxpayer loses $100,000 due to theft, and at the time of discovery it appears the taxpayer may be able to recoup only $20,000 of that amount, the taxpayer can deduct $80,000 in the year the theft was discovered. The remaining $20,000 of loss cannot be deducted until the possibility of recoupment becomes remote or nonexistent. If the taxpayer ultimately receives more than $20,000, the excess is includible in the taxpayer's gross income in the year received.[46]

6. <u>Analysis of Individual Investors' Losses</u>.

If LCI received money from the Investors with an intent to defraud, which the Committee believes to be the case, and the Investors have no reasonable prospect of recovery, the proper treatment of the Investors' losses is loss due to theft. For Investors who are individuals, the loss would be allowable as an itemized deduction based on the fact that, although the loss was not incurred in connection with a trade or business, it was incurred in connection with a transaction entered into for profit. If the amount of allowable loss exceeds an individual Investor's gross income for the year, the excess may be treated by the Investor as a net operating loss (NOL)[47]. Typically, an NOL may be carried back for two years and, if necessary, carried forward for

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[39] *Spring City Foundry Co. v. Com'r*, 292 U.S. 182 (1934).
[40] *Grenada Bank v. Com'r.*, 32 B.T.A. 1290 (1935).
[41] Treas. Reg. § 1.165-1(d)(3).
[42] *Id. Jeppsen v. Com'r*, 128 F.3d 1410, 1414 (10th Cir. 1997).
[43] *Ramsay Scarlett & Co., Inc. v. Com'r*, 61 T.C. 795, 811 (1974), *aff'd*, 521 F.2d 786 (4th Cir. 1975).
[44] *Douglas County Light & Water Co. v. Com'r*, 43 F.2d 904 (9th Cir. 1930).
[45] *Ramsey Scarlett & Co., supra.*
[46] Treas. Reg. § 1.165-1(d)(2)(iii).
[47] I.R.C. 172(d)(4(C).

twenty years.[48] An NOL resulting from theft may alternatively be carried back three years rather than two.[49]

If, on the other hand, the Debtor borrowed money from the Investors with no intent to defraud, or if the Debtor did intend to defraud the Customers but is able to repay them, any loss suffered from the Investors will not be treated as a theft loss but rather as a non-business bad debt. Any loss incurred due to the worthlessness of a non-business bad debt is allowable as a short-term capital loss. An individual's capital losses that are otherwise deductible are all owed only to the extent of capital gains plus the lesser of $3,000 or the excess of capital losses over capital gains.[50] Any disallowed capital loss deductions may be carried forward and treated as capital loss deductions in the succeeding taxable year. An excess of net short-term capital loss over net long-term capital gain is carried forward as a short-term capital loss, while an excess of net long-term capital loss over net short-term capital gain is carried forward as a long-term capital loss.[51]

7. <u>Treatment of Distributions from Newco and Disposition of Newco Shares.</u>

The Plan provides that Investors with Unsecured Class 9 Claims will receive on account of their Allowed Unsecured Claims a potential cash distribution and shares in Newco proportional to the amount of their Allowed Claims. Newco will be constituted as a corporation. Investors will recognize no income or gain upon the receipt of shares in satisfaction of their claims. The value of the shares received by each Investor will be categorized as a return of capital and will reduce the amount of loss allowable to such Investor. The adjusted basis of the shares in the hands of each Investor will be its fair market value when received, which fair market value will be established pursuant to the procedures contemplated under the Plan, and each Investor's holding period with respect to his or her units will begin on the date such shares are received.

Newco will be taxed as a corporation. Items of income, deduction, gain and loss will be realized and recognized by Newco. When Newco does distribute money or property to a shareholder, the shareholder will generally recognize income as a dividend.

If an Investor sells his or her shares, or an Investor's shares are redeemed by Newco, gain or loss will be recognized to the extent the amount realized on the sale exceeds or is less than the adjusted basis in the shares in the hands of the Investor. Ordinarily, if the Investor disposes of shares within a year of receiving, the character of the gain on the disposition will be short-term capital gain, and if the Investor holds the shares for more than a year before disposing of it, the gain will be long-term capital gain.

However, if the Investor was entitled to an ordinary theft loss when he or she received shares in satisfaction of his or her claims, such Investor may be required to "recapture" that loss as ordinary income. Specifically, the character of gain on the disposition of the shares will be

[48] I.R.C. § 172(b)(1)(A).
[49] I.R.C. § 172(b)(1)(F).
[50] I.R.C. § 1211(b).
[51] I.R.C. § 1212(b)(1).

ordinary income to the extent such gain does not exceed the amount of theft loss allowed under Section 165, described above.[52] The same rule applies if the Investor took an ordinary deduction for a business bad debt when the share was received, but does not apply if the debt was non-business, since the Investor is not entitled to an ordinary deduction in the latter case.[53] The character of any gain realized in excess of the loss or business bad debt deduction previously allowed generally will be short-term or long-term capital gain, depending on the Investor's holding period in the shares.

B. Tax Consequences to the Debtor --Discharge of Indebtedness Income and Section 108.

During its historical operations LCI generated substantial pre-petition NOL. However, LCI's NOL may not be transferred or assigned to Newco or any other entity, so analysis must be addressed to whether LCI's NOL represent such a significant value as to recommend the continuation of LCI as a going concern. Given the posture of LCI's obligations, and notwithstanding historical operating losses reflected on LCI's records as of the Petition Date, there appears to be no basis upon which LCI could be reorganized to provide any material benefit to creditors, including the Investors, by affording LCI opportunities to take advantage of LCI's NOL.

Corporations historically did not recognize debt-discharge income upon the issuance of their stock in satisfaction of their debt (the "stock-for-debt" exception). In 1984, however, the stock-for-debt exception was limited to insolvent or bankrupt corporations. This limited exception was then repealed for all corporations in 1993.[54] Thus, corporations issuing their stock in satisfaction of their debt after December 31, 1994, are treated as having purchased the debt for an amount of cash equal to the fair market value of the stock.[55] This creates discharge of indebtedness income to the extent that the outstanding principal amount of the debt exceeds the value of the stock issued in exchange for it. However, Section 108(a)(l) provides that gross income does not include any amount which (but for this subsection) would be includible in gross income by reason of the discharge (in whole or in part) of indebtedness of the taxpayer if, among other things, the discharge occurs in a Title 11 case or the discharge occurs when the taxpayer is insolvent.[56] Inasmuch as LCI's obligations to Investors are being discharged pursuant to a Title 11 case, LCI is not required to include such discharges in income under this provision.

The income exclusion provided by Section 108(a)(1) comes at a cost. The amount excluded from gross income under Section 108(a)(1) must be applied to reduce the tax attributes of the taxpayer as provided in Section 108(b)(2).[57] The first tax attribute to be reduced under these rules is the taxpayer's NOL.[58] Within this tax attribute, the NOL for the taxable year of the discharge is reduced first. The NOL carryovers are then reduced in the order of the taxable years

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[52] I.R.C. § 108(e)(7)(A)(ii)(II).

[53] I.R.C. § 108(e)(7)(A)(ii)(I).

[54] *See* § 13226 of 1993 RRA, which repealed the stock-for-debt exception for transfers after Dec. 31, 1994, unless the transfer occurred in a bankruptcy proceeding that was filed on or before Dec. 31, 1993.

[55] I.R.C. § 108(e)(8).

[56] I.R.C. § 108(a)(1)(A), (B).

[57] I.R.C. § 108(b).

[58] I.R.C. § 108(b)(2)(A).

in which they arose.[59] The reduction of NOL carryovers (as well as other tax attributes) is made after the determination of tax for the taxable year of the discharge. Accordingly, taxpayers may compute their tax for the year of the discharge using any available NOL carry forwards from prior years.[60]

If the amount of income excluded under Section 108(a)(J) is greater than the taxpayer's NOL, the excess is applied to reduce the taxpayer's other tax attributes in the following order, with deductions reduced dollar for dollar and credits reduced 331.3 cents per dollar of income excluded:

1. Any general business credit allowable under Section 38;

2. Any minimum tax credit available under Section 53(b);

3. Any net capital loss for the year of discharge and any capital loss carryover allowed under Section 1212;

4. The adjusted basis of taxpayer's property;

5. Any passive activity loss or credit carryover of the taxpayer under section 469(b); and

6. Any foreign tax credit carryover allowable under Section 27.[61]

In lieu of reducing the tax attributes by the amount of the exclusion, a taxpayer may elect to apply any portion of the required reduction to decrease the basis of the taxpayer's depreciable property.[62] The reduction of tax attributes does not apply to any amount to which an election to decrease basis applies.[63] Thus, if Debtor's adjusted basis in all its depreciable assets is greater than the amount of income excluded, and Debtor makes the election to reduce basis, none of Debtor's NOL carryover will be reduced. However, if the amount of income excluded exceeds Debtor's adjusted basis in its assets, such excess will be applied to reduce Debtor's other tax attributes in the order described above, starting with its NOL carryover.[64]

It is anticipated that the amount of income to be excluded by LCI under Section 108(a) will greatly exceed both LCI's adjusted basis in its assets and any NOL to which LCI may otherwise be entitled. In such case, it would make little difference whether or not LCI elected to reduce basis under Section 108(b)(5)(A). All of LCI's NOL carryover and all of LCI's adjusted basis in its assets will presumably be reduced to zero under Section 108(b)(1). Therefore, any value of continuing to operate LCI as a corporation is severely diminished due to the fact that it would have no NOL carryover with which to offset future income.

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[59] I.R.C. § 108(b)(4)(B).
[60] I.R.C. § 108(b)(4)(A).
[61] I.R.C. § 108(b)(2)(B)-(G).
[62] I.R.C. § 108(b)(5)(A).
[63] I.R.C. § 108(b)(5)(C).
[64] I.R.C. § 108(b)(5)(B).

XI. SECURITIES LAW MATTERS

A. Plan Equity Securities.

The Plan provides for Newco to issue to holders of Class 9 Unsecured Claims common stock on the basis of one share for each $1,000.00 of each such Unsecured Creditor's Allowed Unsecured Class 9 Claim (collectively, the "Plan Equity Securities").

The Committee believes that all of the Plan Equity Securities constitute "securities," as defined in section 2(1) of the Securities Act, § 101 of the Bankruptcy Code, and applicable state securities laws. The Committee further believes that, except as described below under "Issuance and Resale of Plan Equity Securities under the Plan," the offer and sale of the Plan Equity Securities pursuant to the Plan are, and, generally, subsequent transfers of the Plan Equity Securities by the holders thereof will be, exempt from federal and state securities registration requirements under various provisions of the Securities Act, the Bankruptcy Code and state securities laws.

B. Issuance and Resale of Plan Equity Securities Under the Plan.

1. Exemption from Registration

Section 1145 of the Bankruptcy Code provides that Section 5 of the Securities Act and any state law requirements for the offer and sale of a security do not apply to the offer or sale of stock, options, warrants or other securities by a creditor or Investor if (a) the offer or sale occurs under a plan of reorganization, (b) the recipients of the securities hold a claim against, an interest in, or claim for administrative expense against, the debtor, and (c) the securities are issued in exchange for a claim against or interest in a debtor or are issued principally in such exchange and partly for cash and property. In reliance upon this exemption, the offer and sale of the Plan Equity Securities will not be registered under the Securities Act or any state securities laws. To the extent that the Plan Equity Securities are issued under the Plan and are covered by § 1145 of the Bankruptcy Code, the Plan Equity Securities may be resold without registration under the Securities Act or other federal securities laws, unless the holder is an "underwriter" (as discussed below) with respect to such securities, as that term is defined in the Bankruptcy Code. In addition, the Plan Equity Securities generally may be able to be resold without registration under state securities laws pursuant to various exemptions provided by the respective laws of those states; however, the availability of such exemptions cannot be known unless individual state securities laws are examined. Therefore, recipients of the Plan Equity Securities are advised to consult with their own legal advisors as to the availability of any such exemption from registration under state law in any given instance and as to any applicable requirements or conditions to such availability.

Resales of Plan Equity Securities; Definition of Underwriter

Section 1145(b)(1) of the Bankruptcy Code defines an "underwriter" as one who, except with respect to "ordinary trading transactions" of an entity that is not an "issuer," (a) purchases a claim against, interest in, or claim for an administrative expense in the case concerning, the debtor, if such purchase is with a view to distribution of any security received or to be received in exchange for such claim or interest, or (b) offers to sell securities offered or sold under a plan

for the holders of such securities, or (c) offers to buy securities offered or sold under a plan from the holders of such securities, if such offer to buy is (i) with a view to distribution of such securities and (ii) under an agreement made in connection with the plan, with the consummation of the plan, or with the offer or sale of securities under the plan, or (d) is an issuer of the securities within the meaning of section 2(11) of the Securities Act.

The definition of an "issuer" for purposes of whether a Person is an underwriter under § 1145(b)(1) of the Bankruptcy Code, by reference to section 2(11) of the Securities Act, includes as "statutory underwriters" all persons who, directly or indirectly, through one or more intermediaries, control, are controlled by, or are under common control with, an issuer of securities. The reference to "issuer," as used in the definition of "underwriter" contained in section 2(11), is intended to cover "controlling persons" of the issuer of the securities. "Control," as defined in Rule 405 of the Securities Act, means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities, by contract, or otherwise. Accordingly, an officer or director of a reorganized debtor or its successor under a plan of reorganization may be deemed to be a "controlling Person" of such debtor or successor, particularly if the management position or directorship is coupled with ownership of a significant percentage of the reorganized debtor's or its successor's voting securities. Moreover, the legislative history of § 1145 of the Bankruptcy Code suggests that a creditor who owns ten percent (10%) or more of the securities of a reorganized debtor may be presumed to be a "controlling Person."

Resales of the Plan Equity Securities by Persons deemed to be "underwriters" (which definition includes "controlling Persons") are not exempted by § 1145 of the Bankruptcy Code from registration under the Securities Act or other applicable law. Under certain circumstances holders of Plan Equity Securities who are deemed to be "underwriters" may be entitled to resell their Plan Equity Securities pursuant to the limited safe harbor resale provisions of Rule 144. Generally, Rule 144 would permit the public sale of securities received by such person if current information regarding the issuer is publicly available and if volume limitations, manner of sale requirements and certain other conditions are met. However, Newco does not presently intend to make publicly available the requisite current information regarding Reorganized Citation, and as a result, Rule 144 will not be available for resales of Plan Equity Securities by persons deemed to be underwriters.

Whether any particular Person would be deemed to be an "underwriter" (including whether such Person is a "controlling Person") with respect to the Plan Equity Securities would depend upon various facts and circumstances applicable to that Person. Accordingly, the Committee expresses no view as to whether any such Person would be deemed an "underwriter" with respect to the Plan Equity Securities. In view of the complex nature of the question of whether a particular Person may be an underwriter, the Committee makes no representations concerning the right of any Person to freely resell Plan Equity Securities. **Accordingly, the Committee recommends that potential recipients of Plan Equity Securities consult their own counsel concerning whether they may freely trade such securities without compliance with the federal and state securities laws.**

XII. ALTERNATIVES TO CONFIRMATION AND CONSUMMATION OF THE PLAN

The Committee has evaluated several reorganization alternatives to the Plan, including the continued operation of the Debtor under its current operating and debt structures, the sale of the Debtor as a going concern, and the liquidation of the Debtor. After studying these alternatives, the Committee has concluded that the Plan is the best alternative and will maximize recoveries by holders of Claims, assuming confirmation of the Plan and consummation of the transactions contemplated by the Plan. The following discussion provides a summary of the analysis of alternatives which lead to the conclusion that the Plan will provide the highest value to holders of Claims.

A. Continued Operation Under Prepetition Operation and Debt Structure.

The Debtor's pre-petition operating and debt structure provided insufficient income to meet the Debtor's obligations created under the Ponzi scheme. Even assuming the replacement of management with new personnel experienced in the sub-prime automobile financing industry, the extraordinary principal and interest obligations created under the Promissory Note Investment Scheme far exceed the ability of the remaining loan portfolio to repay. The Chapter 11 Case was precipitated by the cessation of any further loans under the Promissory Note Investment Scheme, and the termination of that source of further capital funds left LCI wholly unable to operate and generate positive cash flow. Accordingly, the Committee determined that any effort to continue operations under the existing debt structure was wholly unfeasible.

B. "Run-Out" Collection of the Loan Portfolio.

The Committee has also analyzed whether LCI's operations could be sustained solely for the purpose and for the time necessary to collect the automobile finance contracts presently within the portfolio over time until such time as the loan portfolio is fully paid out. However, continued operational expenses to sustain the infrastructure necessary to administer the loan collection process, including collections, repossessions, skip tracing, and general overhead expenses, render such an effort impractical. Although a well-run sub-prime automobile lender can generate a positive return, the enterprise requires continued infusion of new loans into the portfolio base in order to generate sufficient revenues to pay the necessary operational expenses on a sustained basis.

C. Merger/Joint Management of the Portfolio.

Another alternative to the Plan is a merger of the loan portfolio with another subprime automotive finance loan portfolio with the attendant economies of scale associated with a single management group. The Committee has explored such an option. However, merger of the portfolio with another would likely occur only following confirmation of the Plan, the organization of Newco, the assignment to it of the Debtor's assets, and the vesting control of operations with the creditor constituency as shareholders of Newco and its selected Board of Directors. At that point Newco could consider merging the portfolio, but the Committee believes that such a merger would create difficult obstacles in establishing terms by which Newco could extract itself from the business combination and liquidate its interest in the merged portfolio at

fair value, and instead would tie Newco's interests too closely with its prospective business partner, thereby chilling Newco's ability to liquidate its interests to maximum advantage should it choose to do so.

D. Sale of Portfolio and Liquidating Chapter 11 Plan.

The Committee has explored whether selling the remaining loan portfolio and utilizing the net sale proceeds remaining after administrative expenses to make a pro-rata distribution to unsecured creditors will produce a return greater than that contemplated by the Plan. Based on the information provided to the Committee, as of **October 22, 2010**, the total outstanding principal balance of the LCI loan portfolio was $1,296,465 (excluding the loans and/or proceeds subject to secured claims) with an estimated sales value of $648,233 (50% of the principal balance). Accordingly, the liquidation analysis of the portfolio, as of **October 22, 2010**, would provide as follows:

Estimated Sale Proceeds	$ 648,233.00
Cash on Hand (as of September 30, 2010)[65]	$2,209,853.48
Total Liquidation Proceeds	$2,858,086.48
Estimated Priority Claims	$ 4,000.00
Estimated Chapter 11 Administrative Claims	$ 600,000.00
Available for Distribution to Unsecured Creditors	$2,254,086.48
Estimated Unsecured Claims[66]	$105,635,472.67

Based on the information provided to the Committee, the estimated principal balance of the loan portfolio as of **December 31, 2010** would be $731,328.00 (excluding loans and/or proceeds subject to secured claims) and the estimated sales value of the loan portfolio would be $365,664.00 (50% of the principal balance). Accordingly, the liquidation analysis of the portfolio, estimated for December 31, 2010, would provide as follows:

Estimated Sale Proceeds	$ 365,664.00
Estimated Cash on Hand	$2,733,788.00
Total Liquidation Proceeds	$3,099,452.00
Estimated Priority Claims	$ 4,000.00
Estimated Chapter 11 Administrative Claims	$ 600,000.00
Available for Distribution to Unsecured Creditors	$ 2,495,452.00
Estimated Unsecured Claims[67]	$105,635,472.67

[65] Doc. No. 277.

[66] This estimate is the total amount of unsecured creditors listed on Amended Schedule F. This estimate assumes all claims are valid and not disputed and that no additional proofs of claims will be filed and is used solely to provide an estimate for the liquidation analysis and is not an admission as to the actual amount of Allowed Unsecured Claims. The Plan reserves the right to object to claims including those listed on Amended Schedule F.

E. Chapter 7 Liquidation.

Another alternative to the Plan is liquidation under Chapter 7 of the Bankruptcy Code. In Chapter 7 liquidation, a Chapter 7 trustee would be appointed to liquidate the Debtor's assets. Although a trustee could obtain permission to operate the business for a limited amount of time, most likely the trustee would promptly sell the loan portfolio and thereupon cease business operations. In such a sale the proceeds from the liquidation would be no more than as set forth above. Any proposed distribution to creditors would also be subject to the preliminary payment of the costs and expenses of the liquidation, including statutory compensation of the trustee, and the payment of the Chapter 7 Trustee's professionals' expenses. Any remaining funds would be distributed first to the Chapter 7 administrative claims, then to Chapter 11 administrative claims, then to priority claims, and then any balance to general unsecured creditors. The Committee believes that such a liquidation will yield an even smaller return to creditors than under the Chapter 11 liquidation scenario, at a minimum due to the additional Chapter 7 expenses. Potential avoidance action recoveries have been left out of the equation under either scenario given the speculative value of such claims.

Based on the information provided to the Committee, the estimated principal balance of the loan portfolio as of **December 31, 2010** would be $731,328.00 (excluding loans and/or proceeds subject to secured claims) and the estimated sales value of the loan portfolio would be $365,664.00 (50% of the principal balance). Accordingly, it is estimated that as of **December 31, 2010**, in a Chapter 7 liquidation, the following potential distribution to unsecured creditors would be available:

Estimated Sale Proceeds	$ 365,664.00
Estimated Cash on Hand	$2,733,788.00
Total Liquidation Proceeds	$3,099,452.00
Estimated Priority Claims	$4,000
Estimated Chapter 7 Administrative Expenses (Trustee Fee and Trustee's Attorneys' Fees)	$60,000
Estimated Chapter 11 Administrative Expenses	$600,000
Available for Distribution to Unsecured Creditors	$2,435,452.00
Estimated Unsecured Claims[68]	$105,635,472.67

[67] This estimate is the total amount of unsecured creditors listed on Amended Schedule F. This estimate assumes all claims are valid and not disputed and that no additional proofs of claims will be filed and is used solely to provide an estimate for the liquidation analysis and is not an admission as to the actual amount of Allowed Unsecured Claims. The Plan reserves the right to object to claims including those listed on Amended Schedule F.

[68] This estimate is the total amount of unsecured creditors listed on Amended Schedule F. This estimate assumes all claims are valid and not disputed and that no additional proofs of claims will be filed and is used solely to provide an estimate for the liquidation analysis and is not an admission as to the actual amount of Allowed Unsecured Claims. The Plan reserves the right to object to claims including those listed on Amended Schedule F.

The foregoing analysis indicates that the net distribution to creditors under liquidation would produce far less than the distributions contemplated by the Plan. Accordingly, the Committee has determined that a liquidation of the loan portfolio and the Debtor's remaining assets is not advisable.

The Committee believes that liquidation under either scenario above would result in substantial diminution in the value to be realized by holders of Claims because of: (i) the failure to realize the greater going-concern value of the Debtor's assets; (ii) additional administrative expenses involved in the appointment of a Chapter 7 trustee, attorneys, accountants, and other professionals to assist such Chapter 7 trustee in the case of a Chapter 7 proceeding; (iii) additional expenses and claims, some of which would be entitled to priority in payments, which would arise by reason of the cessation of the Debtor's operations; (vi) the resolution of the claims objection process on an individual claim basis as opposed to the streamlined claims resolution process contemplated by the Plan; and (v) the substantial time which would elapse before creditors would receive any distribution in respect of their Claims.

Consequently, the Committee believes that the Plan, which provides for continued administration of the loan portfolio by Newco, provides a substantially greater return to holders of Allowed Class 9 Claims than would liquidation. As set forth in this Disclosure Statement and the attached projections, reorganization of the Debtor is projected to provide shareholders of Newco with a potential return that may be at least 4.5 times greater ($11,000,000-$15,000,000) than liquidation alone ($2,500,000.00) when considered on a net present value basis. Specifically, this plan provides a potential return to Newco's shareholders from the initial investment in Newco, through growth, compounding and reinvestment, after five years of approximately $11.4 million and after eight years of approximately $18.7 million with estimated distributions to shareholders totaling $8 million for a total estimated return to the shareholders of $26,734,130. The distribution to shareholders by Newco is a projected potential distribution and any distributions made by Newco would be determined by the shareholders of Newco (the Class 9 Creditors) and management of Newco. Furthermore, if the Cladek Creditors Trust is able to collect and distribute proceeds from the litigation and property sales, a portion of the proceeds will be reinvested in Newco and will further increase the potential return to Class 9 creditors as shareholders of Newco. The remainder of the net proceeds of the Cladek Creditors Trust will be distributed directly to Class 9 unsecured creditors with Allowed Claims. Accordingly, the Unsecured Creditors Committee strongly urges the Creditors to vote for this Plan of Reorganization.

F. <u>Alternatives if Plan is Not Confirmed.</u>

Any other party in interest in the Chapter 11 Case could attempt to formulate and propose a different plan or plans of reorganization. Such plans might involve both a reorganization and continuation of the Debtor's business, a sale of the Debtor's business as a going concern, an orderly liquidation of the Debtor's assets, or a combination thereof. Further, if no plan of reorganization can be confirmed, the Chapter 11 Case may be converted to a liquidation proceeding under Chapter 7 of the Bankruptcy Code, with the result as discussed above.

XIII. DISCLAIMERS

The statements contained in this Disclosure Statement are made as of the date hereof, unless otherwise stated. Neither delivery of the Disclosure Statement nor any exchange of rights made in connection with Plan shall create an implication that there has been no change of facts since the date hereof.

DATED this 28 day of October 2010.

THE OFFICIAL COMMITTEE OF UNSECURED CREDITORS OF LYDIA CLADEK, INC.

By Noel Yell
Noel Yell, Chairperson

\- and

COUNSEL FOR THE OFFICIAL COMMITTEE OF UNSECURED CREDITORS OF LYDIA CLADEK, INC.

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**COMPARISON OF RECOVERY TO CREDITOR
OF FUTURE DISTRIBUTIONS FROM NEWCO
TO IMMEDIATE LIQUIDATION OF ASSETS**

		Portfolio Liquidation	Portfolio Liquidation	Portfolio Liquidation
Existing portfolio Principal Balance - excluding unearned finance charges - @ 12/31/10		$731,328	$731,328	$731,328
Liquidation percentage of Existing Portfolio		65%	50%	42.50%
Estimated Liquidation Value of Portfolio @ 12/31/10		$475,363	$365,664	$310,814
Cash at 12/31/2010		$2,129,788	$2,129,788	$2,129,788
Estimated Liquidation Value @ 12/31/10		$2,605,152	$2,495,453	$2,440,603
RECOVERY TO CREDITORS FROM NEWCO OPERATION				
Present value of all projected NEWCO distributions @ 4% discount rate as of 12/31/2018	FN (1)	$5,265,762	$5,265,762	$5,265,762
Present value of NEWCO portfolio sale as of 12/31/2018 @ 4% discount rate	FN (2)	$9,725,621	$8,755,989	$7,786,356
Present value of distributions and NEWCO portfolio sale as of 12/31/2018 @ 4% discount rate		$14,991,383	$14,021,750	$13,052,118
Additional recovery to Creditors from NEWCO assuming a 4% discount rate		**$12,386,232**	**$11,526,298**	**$10,611,515**
Present value of all projected NEWCO distributions @ 6% discount rate as of 12/31/2018	FN (1)	$4,570,646	$4,570,646	$4,570,646
Present value of the NEWCO portfolio sale as of 12/31/2018 @ 6% discount rate	FN (2)	$8,293,132	$7,466,316	$6,639,501
Present value of distributions and NEWCO portfolio sale as of 12/31/2018 @ 6% discount rate		$12,863,778	$12,036,962	$11,210,147
Additional recovery to Creditors from NEWCO assuming a 6% discount rate		**$10,258,626**	**$9,541,510**	**$8,769,544**

Footnote 1 - See Article VII B 2 of Disclosure Statement

Footnote 2 - The NEWCO portfolio sale as of 12/31/18 was assumed to be 75%, 67.5%, and 60%, respectively.

**COMPOSITE
EXHIBIT A**

Balance Sheet

Summary Balance Sheet

	2011	2012	2013	2014	2015	2016	2017	2018
Assets								
Cash	$76,153	$91,406	$258,795	$186,662	$690,937	$106,564	$95,178	$130,344
Finance Contracts - New	5,786,485	7,058,468	9,371,865	13,155,135	17,408,596	21,908,790	25,160,742	30,217,388
Finance Contracts - Existing	5,723	0	0	0	0	0	0	0
Repo Inventory-new loans	64,550	67,046	88,998	116,778	153,750	168,711	178,723	218,971
Total Assets	$5,932,911	$7,216,920	$9,719,658	$ 13,458,575	$ 18,253,283	$ 22,184,065	$ 25,434,643	$ 30,566,703
Liabilities and Shareholders' Equity								
Liabilities:								
Unearned Finance Charges-New	$1,656,330	$1,825,020	$2,512,754	$3,535,513	$4,588,794	$5,764,487	$6,572,561	$7,934,078
Unearned Finance Charges-existing	286	0	0	0	0	0	0	0
Unearned Discount-New	814,139	897,041	1,234,903	1,737,605	2,255,303	2,833,028	3,229,759	3,898,494
Unearned Discount-Existing	2,991	0	0	0	0	0	0	0
Total Liabilities	2,473,746	2,722,061	3,747,657	5,273,118	6,844,097	8,597,515	9,802,320	11,832,572
Shareholders' equity:								
Shareholder Capital-existing	2,861,118	2,861,120	2,861,120	2,861,120	2,861,120	2,861,120	2,861,120	2,861,120
Retained Earnings	598,047	1,633,739	3,110,881	5,324,337	8,548,066	12,725,430	15,771,203	18,873,011
Projected Distributions to Shareholders						(2,000,000)	(3,000,000)	(3,000,000)
Total Equity	3,459,165	4,494,859	5,972,001	8,185,147	11,409,186	13,586,550	15,632,323	18,734,131
	$ 5,932,911	$ 7,216,920	$9,719,658	$ 13,458,575	$ 18,253,283	$ 22,184,065	$ 25,434,643	$ 30,566,703