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WESTERN WATER COMPANY

7 UNITED STATES BANKRUPTCY COURT  
8 NORTHERN DISTRICT OF CALIFORNIA  
9

10 In re	Case No. 05-42839
11 WESTERN WATER, LLC,	Chapter 11
12 Debtor.	
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16 **DISCLOSURE STATEMENT FOR FIRST AMENDED**  
17 **PLAN OF REORGANIZATION OF WESTERN WATER COMPANY**  
18  
19 **December 29, 2005**  
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1 This disclosure statement (the “Disclosure Statement”) is filed in connection with the First  
2 Amended Plan of Reorganization for Western Water Company, dated December 29, 2005 (the  
3 “Plan”) filed by Western Water Company, debtor and debtor-in-possession (“the Debtor” or  
4 “Western Water”). The definitions in Article I of the Plan apply to the capitalized terms in the  
5 Disclosure Statement..

6 The purpose of this Disclosure Statement is to provide the Debtor’s creditors and equity  
7 interests with sufficient information about the Debtor and the Plan to enable them to make an  
8 informed judgment about the proposed Plan. This Disclosure Statement has been conditionally  
9 approved by the Court as containing information of a kind, and in sufficient detail, to enable  
10 Holders of Claims and Interests to make an informed judgment with respect to voting to accept or  
11 reject the Plan.

12 **The information contained in this Disclosure Statement relies on the Debtor’s internal  
13 financial records for accuracy and has not been the subject of a certified audit. The Debtor  
14 has made every effort to be accurate; however, the Debtor does not warrant or represent that  
15 the information contained herein is without any inaccuracies. Each Holder of a Claim or  
16 Interest should review the entire Plan before casting a ballot.**

## 17 **I. SUMMARY OF THE PLAN**

### 18 **A. Overview**

19 The Plan provides for cash payment in full of all Allowed Claims of all creditors, with  
20 postpetition interest at the applicable federal judgment interest rate of 3.32% per annum. All  
21 existing equity interests in the Debtor will be cancelled, and all or some of the current holders of  
22 the Debtor’s preferred stock will become the new common shareholders of the Debtor. After  
23 reorganization, the Debtor will no longer be a public company.

### 24 **B. Summary of Claims and Treatment in Plan**

25 The chart below briefly summarizes the treatment of various classes of Claims and Interests  
26 under the Plan. Actual amounts of Allowed Claims and Allowed Interests may vary. For a  
27 complete description of the classification and treatment of Allowed Claims and Allowed Interests,  
28 all parties should review the Plan.

<b>Class</b>	<b>Description</b>	<b>Estimated Amount of Claims/Interests</b>	<b>Treatment</b>
Unclassified	Administrative Claims	\$918,000 (as of 11/30/05)	Cash payment for 100% of Allowed Claim
Unclassified	Priority Tax Claims	\$0	Cash payment for 100% of Allowed Claim
1	Priority Wage Claims	\$0	Cash payment for 100% of Allowed Claim plus Postpetition Interest at 3.32% per annum
2-A	Yuba County Tax Claims	\$0	Taxes to be paid as they become due; all legal, equitable and contractual rights remain unaltered
2-B	Other Secured Claims	\$0	Cash payment for 100% of Allowed Claim plus interest at contract rate, or surrender of collateral to secured creditor, at option of Debtor
3-A	General Unsecured Claims (excluding Debentures and Promissory Notes)	\$72,000	Cash payment for 100% of Allowed Claim plus Postpetition Interest at 3.32% per annum
3-B	Debenture Claims	\$8.8 million	Cash payment for 100% of Allowed Claim plus Postpetition Interest at 3.32% per annum
3-C	Promissory Note Claims	\$1.1 million	Cash payment for 100% of Allowed Claim plus Post-Petition Interest at 3.32% per annum
4-A	Series F Preferred Stock	\$2.5 million liquidation preference	New Common Stock to be issued, or Cash payment of \$260,000, at option of shareholder; Preferred Stock cancelled
4-B	Series C Preferred Stock	\$7.7 million liquidation preference	New Common Stock to be issued; Preferred Stock cancelled
4-C	Other Equity Interests (including Old Common Stock)	8.4 million shares	Old Common Stock cancelled; no Distributions or other consideration will be paid

1           **C.           Effective Date of the Plan**

2           The Plan will become effective on first business day after the Confirmation Order becomes  
3           final. The Debtor’s best estimate is that, assuming the Plan is confirmed promptly after the  
4           currently scheduled date for the Confirmation Hearing, the Effective Date of the Plan will likely  
5           occur in February 2006.

6           **D.           Source and Timing of Distributions**

7           Cash distributions under the Plan will be funded by the Debtor, primarily from the net  
8           proceeds of the recent sale of the Debtor’s water rights and real property located in Douglas  
9           County, Colorado, known as the Cherry Creek Project. Distributions will be made on the Effective  
10          Date of the Plan, or as soon thereafter as practicable, as to all Claims that have been allowed by the  
11          Effective Date. The New Common Stock will also be issued to the current owners of preferred  
12          stock on the Effective Date.

13          **II.          BACKGROUND OF WESTERN WATER**

14          **A.          Western Water and Its Business**

15          The Debtor is a publicly held corporation, incorporated in Delaware, with its principal place  
16          of business in Point Richmond, California. The Debtor’s principal activity has been to acquire and  
17          develop water assets in California and Colorado. The Debtor believes that there is a growing  
18          demand for water resources in these areas and that the demand is expected to exceed the water  
19          resources currently available.

20          The Debtor, however, encountered significant regulatory obstacles in its attempts to develop  
21          and transfer water for delivery to potential customers in California. These regulatory obstacles  
22          were compounded by the electric energy crisis in California that caused many transfers to be  
23          uneconomic because of the high and unrecoverable cost of pumping water over long distances. The  
24          Debtor also faced significant competition in arranging water transfers from governmental agencies.  
25          In addition, the process for developing the regulatory framework and physical infrastructure  
26          necessary to complete commercial deliveries in Colorado took longer and cost more than originally  
27          anticipated.

28                           **1.          The Cherry Creek Project**

29          At the time of the filing of the Chapter 11 case, the largest asset on the Debtor’s books  
30          consisted of real property, water rights and related assets in the Cherry Creek basin, Colorado,  
31          known as the “Cherry Creek Project.” The Cherry Creek Project incorporates tributary rights  
32          (stream diversion), nontributary water rights (right to pump ground water) and water storage sites  
33          which together provide a reliable water source to meet the needs of the rapidly-growing Douglas  
34          County communities in the South Denver metropolitan area.

35          The Cherry Creek Project was sold by the Debtor during the Chapter 11 case for \$14  
36          million, as discussed below.

1                                   **2.       The Yuba Goldfields Water Rights**

2           The Debtor also has interests in land, mineral rights and water rights in Yuba County,  
3 known as the Yuba Goldfields Water Rights, which the Debtor carries on its books at a value of  
4 approximately \$280,000. The Debtor has no estimate of the market value of the Yuba Goldfields  
5 Water Rights. The Yuba Goldfields Water Rights were obtained primarily through a quitclaim  
6 deed from the Debtor’s predecessor-in-interest, which was in the mining business and obtained the  
7 water rights in connection with its mining operations in the Yuba Goldfields. The Debtor has  
8 interests in a broad portfolio of riparian, appropriative and groundwater rights associated with the  
9 Yuba Goldfields.

10           The Yuba Goldfields Water Rights are accessible to both local agricultural distribution  
11 systems, including the Yuba County Water Agency’s South Yuba Canal which runs through the  
12 Goldfields, and the statewide water distribution system centered on the Sacramento/San Joaquin  
13 River Delta. Thus, water arising under the Yuba Goldfields Water Rights can be conveniently and  
14 economically conveyed to meet beneficial uses throughout California.

15           However, development of the Yuba Goldfields Water Rights presents a long-term, complex  
16 and expensive challenge, including significant regulatory hurdles. Development of the Yuba  
17 Goldfields Water Rights has been delayed by lengthy environmental and regulatory challenges. In  
18 April 2005, a proposed multi-party, global settlement called the Lower Yuba River Accords (the  
19 “Accords”) was announced. The Accords were approved, subject to environmental review, by the  
20 State Water Resources Control Board in June 2005. If the Accords are ultimately confirmed, their  
21 implementation could facilitate cooperative development of the Yuba Goldfields Water Rights.  
22 However, the Debtor is currently unable to estimate or predict the time or incremental investment  
23 that will be required to develop the Yuba Goldfield Water Rights to a point where they could  
24 generate significant revenue.

25           The real property holdings that are included in the Yuba Goldfield Water Rights are (1) a  
26 22-acre parcel, on which the Company maintains its project office and several old, single-story  
27 industrial buildings and storage sheds and (2) a six-acre parcel within the Goldfields that was the  
28 refuse disposal site for the former town of Hammonton. Neither parcel is revenue generating, or, in  
the Debtor’s opinion, marketable except in conjunction with the Yuba Goldfields Water Rights.  
The 22-acre parcel is assessed by Yuba County for real property tax purposes at \$150,000, and the  
six-acre parcel is assessed at \$2,048. The water rights are separately assessed at a total of  
\$120,000.

The Debtor also owns certain mineral rights underlying tracts of land in Butte and Sacramento  
Counties. The Debtor believes it is unlikely that there are commercially recoverable minerals under  
those tracts, and the Debtor has lacked the financial resources to undertake exploration for such  
minerals.

**B.       The Debtor’s Corporate Structure**

The Debtor has approximately 8.4 million shares of common stock outstanding, which is  
publicly held and widely dispersed. Only one shareholder, a 12.4% shareholder (which is also an  
affiliate of the owners of a majority of the Series C Preferred Stock), holds 5% or more of the  
common stock of the Debtor.

1 In addition to the common stock, the Debtor has two classes of preferred stock, (a) the Series  
2 C Preferred Stock, of which there are approximately 7,708 shares outstanding with a stated value of  
3 \$1,000 per share, held by 13 shareholders, and (b) the Series F Preferred Stock, of which there are  
4 approximately 2,533 shares outstanding with a stated value of \$1,000 per share, held by one  
5 shareholder.

6 The Series C Preferred Stock provides for annual dividends of 7.25% of the stated value per  
7 share, payable semi-annually in arrears in January and July, has a liquidation preference equal to the  
8 stated value plus any declared but unpaid dividends, and is subject to mandatory redemption, at the  
9 option of the holder, in 2006 and 2007 at a redemption price equal to the liquidation preference. The  
10 Series F Preferred Stock provides for annual dividends of 6% of the stated value per share, payable  
11 semi-annually in arrears in January and July, which may be paid either in cash or in additional shares  
12 of Series F Preferred Stock at the discretion of the Board of Directors. The Series F Preferred Stock  
13 has a liquidation preference equal to the stated value of \$1,000 per share, plus any declared but  
14 unpaid dividends, and is subject to mandatory redemption, at the option of the holder, in 2010 and  
15 2011 at a redemption price equal to the liquidation preference. In the event of a liquidation of the  
16 Debtor, the holders of the Series C Preferred Stock and Series F Preferred Stock share *pari passu* if  
17 the assets of the Debtor are insufficient to pay their respective liquidation preferences in full.

18 There are no declared but unpaid dividends on any of the Series C Preferred Stock or Series  
19 F Preferred Stock. The total stated value of all of the Series C Preferred Stock, which is also the  
20 total liquidation preference and total mandatory redemption obligation of the Series C Preferred  
21 Stock, is approximately \$7.7 million. The total stated value of all of the Series F Preferred Stock,  
22 which is also the total liquidation preference and total mandatory redemption obligation of the  
23 Series F Preferred Stock, is approximately \$2.5 million.

### 24 **C. Reason for Chapter 11 Filing**

25 The Debtor was unable to generate revenue from operations sufficient to sustain operations  
26 and meet its on-going obligations. The Debtor was forced to sell assets to generate cash to sustain  
27 operations, develop and market the Cherry Creek Project, and protect the Debtor's other assets.  
28 The Debtor sold most of its readily saleable assets in California and therefore retained fewer and  
less liquid assets to generate cash flow or sale proceeds in the future.

The Debtor determined that it was necessary to seek Chapter 11 protection to defer  
currently due obligations pending marketing and orderly sale of the Cherry Creek Project.

## 29 **III. THE CHAPTER 11 PROCEEDINGS**

30 The Debtor filed its Chapter 11 case on May 24, 2005. Since the Petition Date, the Debtor  
31 has continued to operate its business and manage its property as a debtor-in-possession.

### 32 **A. Management of the Debtor**

33 Michael Patrick George, the Debtor's chief executive officer since 1998, was designated by  
34 the Debtor as its Responsible Officer for the Chapter 11 case. The Board of Directors during the  
35 Chapter 11 case consists of Dennis J. Kenny and Reginald M. Norris, Jr., who have been directors  
36 since March 2004, and Mr. George, who has been a director since 1998. The Debtor has been  
37 represented by the law firm of Morrison & Foerster, LLP as its counsel during the Chapter 11 case.  
38

1           **B.           Creditors Committee**

2           On June 8, 2005, the U.S. Trustee appointed a Creditors Committee to represent the  
3 interests of unsecured creditors. The Creditors Committee has three members, Empire Insurance  
4 Company, which has been represented on the Committee by Michael DeKler; T. Rowe Price  
5 Associates, Inc., which has been represented on the Committee by Hubert M. Stiles, Jr.; and  
6 Christopher Johnson, who has been represented on the Committee by Neil J. Burmeister. The  
7 Creditors Committee retained Stutman, Triester & Glatt, Professional Corporation, as its counsel in  
8 the Chapter 11 case.

9           **C.           Post-Petition Financing**

10           By order entered on June 30, 2005, the Court authorized the Debtor to obtain up to  
11 \$1,040,000 in postpetition financing (the “DIP Loan”) from Citywide Banks, a Colorado bank, and  
12 to grant to Citywide Banks liens and security interests in the Cherry Creek Project. The DIP Loan  
13 closed on August 26, 2005. The DIP Loan was repaid in full on November 17, 2005 from the  
14 proceeds of sale of the Cherry Creek Project, discussed below, and all liens and security interests  
15 granted to Citywide Banks were released.

16           **D.           Sale of Cherry Creek Project**

17           Following the filing of the Chapter 11 case, the Debtor continued its marketing efforts,  
18 which commenced in early 2005, to sell the Cherry Creek Project. On July 1, 2005, the Court  
19 entered an order approving the Debtor’s agreement with General Capital Partners, LLC and Garald  
20 L. Barber to serve as restructuring advisers and real estate broker to assist the Debtor in selling the  
21 Cherry Creek Project. The agreement with the brokers provided for them to receive a transaction  
22 fee or commission based on the amount of the gross sale proceeds realized from the Cherry Creek  
23 Project.

24           The brokers and the Debtor’s management contacted over 200 parties and executed  
25 confidentiality agreements with a total of 28 interested parties who conducted due diligence on the  
26 Cherry Creek Project. After an intensive marketing effort, the Debtor entered into an asset  
27 purchase agreement with a “stalking horse” purchaser, which included purchase of not only the  
28 Cherry Creek Project but substantially all assets of the Debtor, for a total purchase price of \$13.2  
million, subject to overbids. The Debtor filed a motion on September 7, 2005 for approval of Bid  
Procedures to be implemented to seek overbids through an auction process. Prior to the hearing on  
the Debtor’s motion, the “stalking horse” exercised a right to terminate its agreement with the  
Debtor, after which the Debtor amended its motion and Bid Procedures to provide for an auction of  
the Cherry Creek Project only, without a “stalking horse.”

          The Court on October 5, 2005 entered an order approving the Debtor’s requested Bid  
Procedures for an auction for the Cherry Creek Project, with a minimum purchase price of \$14  
million. The Debtor received one qualifying bid of \$14 million before the bid deadline from the  
Cherry Creek Project Water Authority (“CCPWA”), a public water authority formed under  
Colorado statutes consisting of four Colorado water and sanitation districts. The Debtor entered  
into an asset purchase agreement, dated as of October 14, 2005, to sell the Cherry Creek Project to  
CCPWA for \$14 million, all cash.

1 The sale to CCPWA was approved by the Court by order entered on October 25, 2005. The  
2 sale closed on November 17, 2005.

#### 3 **IV. ASSETS AND LIABILITIES**

##### 4 **A. Assets**

5 Based on book values, the Debtor has assets valued at approximately \$13.7 million, as of  
6 November 30, 2005. Debtor's primary asset consists of cash of approximately \$13 million, mostly  
7 derived from the proceeds of sale of the Cherry Creek Project. The Debtor's other assets consist of  
8 the Yuba Goldfields Water Rights and related assets with a book value of approximately \$280,000,  
9 two promissory notes receivable with a total face value of approximately \$244,000, and  
miscellaneous other assets with a total book value of approximately \$150,000. The Debtor's  
estimate of the liquidation value of its assets, for comparison of the Plan to a Chapter 7 liquidation,  
is discussed in Section VIII.B. below.

##### 10 **B. Prepetition Claims or Potential Claims**

11 The Debtor believes that it has a potential antitrust claim arising out of a prior business as a  
12 water wholesaler in California during the period between 1998 and 2003. The Debtor believes that  
13 its business was damaged by the concerted efforts of the Metropolitan Water District of Southern  
14 California, the California Department of Water Resources and the U.S. Bureau of Reclamation, and  
15 that such activity violated state and federal antitrust laws and was not protected by government  
16 immunity. However, the Debtor has not had the financial resources to pursue the claim or obtain an  
independent analysis of the validity or potential value of the claim, and is not able to assign any  
value to the claim. The potential claim will be retained under the Plan, in case the Reorganized  
Debtor determines that it would be worthwhile to investigate and pursue the claim.

17 The Debtor is a member of a plaintiff class certified in a California class action lawsuit,  
18 titled *Slemmer v. Fontana Union Water Company*, et al., Case No. SCVSS 085856, pending in the  
19 San Bernardino Superior Court, brought on behalf of former shareholders of Fontana Union Water  
20 Company. The plaintiffs allege that actions of the defendant, Kaiser Ventures Inc., deprived the  
21 plaintiffs of a substantial portion of the intrinsic value of their shares when the shares were sold in a  
transaction negotiated and promoted by the defendant. The Debtor is not able to evaluate the merits  
of the claim or when, if ever, the claim will result in a recovery to the Debtor, and consequently the  
Debtor assigns no present value to the claim.

##### 22 **C. Postpetition Liabilities**

23 The Debtor is current on its postpetition trade debt, and its largest post-petition liability, the  
24 DIP Loan, has been repaid. However, the Debtor has substantial accrued postpetition legal fees,  
25 totaling approximately \$416,000, as of November 30, 2005, for services of the Debtor's counsel  
26 and counsel for the Creditors Committee, but a substantial portion of the accrued fees of the  
attorneys for the Debtor and Creditors Committee have been paid since that date or will be paid  
before the Effective Date, which will correspondingly reduce the Debtor's cash position.

27 The Debtor will also owe a \$500,000 retention/incentive bonus to Mr. George, which he is  
28 entitled to receive if two conditions are met: (1) the Debtor confirms and implements a plan of  
reorganization (or an alternative achieving the same result occurs) by which all unsecured creditors

1 of the Debtor are paid 100% of their allowed claims; and (2) Mr. George continues his employment  
2 with the Debtor until the earlier of (a) the confirmation of a plan of reorganization, or (b) his  
3 employment is terminated at the will of the Board of Directors. The retention/incentive bonus was  
approved by the Court by order entered on June 30, 2005.

#### 4 **D. Prepetition Liabilities**

5 The Debtor owes approximately \$10 million in prepetition liabilities. The Debtor has no  
6 prepetition secured debt, except the statutory lien of Yuba County for property taxes, which are  
7 current. The Debtor's primary prepetition liability consists of approximately \$8.8 million in  
8 principal and accrued interest, as of the Petition Date, owed to 16 creditors holding the Debtor's  
9 unsecured 9% Convertible Subordinated Debentures (the "Debentures") which were issued in  
September 1995 and matured on September 30, 2005. The Debentures bear interest at 9% per year,  
payable semi-annually on September 30 and March 31 each year. The Debtor did not make the  
interest payments due on March 31, 2005.

10 The Debtor also owes approximately \$1.1 million in principal and accrued interest, as of the  
11 Petition Date, to 13 holders of unsecured promissory notes (the "Promissory Notes"), consisting of  
12 the Amended Promissory Notes executed by the Debtor dated December 7, 2004 and the  
13 Promissory Notes executed by the Debtor dated January 26, 2005. All of the Promissory Notes  
14 matured on October 1, 2005. The Promissory Notes were issued to holders of the Series C  
15 Preferred Stock who loaned the Debtor the funds necessary to pay the semi-annual dividends due  
and payable on the Series C Preferred Stock in July 2003, January 2004, July 2004 and January  
2005. The Promissory Notes bear interest at 2% per annum, compounded semi-annually in January  
and July of each year and payable with the principal on the maturity date.

16 Other than the indebtedness on the Debentures and Promissory Notes, the Debtor's  
17 prepetition liabilities consist of approximately \$36,000 in trade debt and approximately \$36,000  
18 owed to Mr. George for accrued vacation. All other prepetition employee wage, vacation and  
benefit claims were paid by the Debtor after the Petition Date pursuant to authorization of the  
Court.

#### 19 **V. THE PLAN OF REORGANIZATION**

20 **The following is a summary of the treatment of various Classes of Claims and Interests**  
21 **under the Plan, and not a complete statement of the provisions of the Plan. Creditors and**  
22 **other interested parties should read the entire Plan for the full and complete statement of its**  
23 **terms and conditions. The summary that follows is not deemed to limit, qualify or otherwise**  
24 **interpret the provisions of the Plan. In case of any apparent discrepancy between the Plan**  
25 **and the summary contained in this Disclosure Statement, the language of the Plan shall**  
26 **control.**

#### 27 **A. Classification and Treatment of Claims and Interests**

28 Under the Plan, Claims and Interests are divided into Classes, except as to categories  
of claims that under the Bankruptcy Code are not classified. A Claim or Interest is placed in a  
particular Class only to the extent that the Claim or Interest falls within that Class and is classified  
in other Classes to the extent that any portion of the Claim or Interest falls within the description of  
such other Classes.

1                   **1.       Administrative Claims, Including Professional Fee Claims**  
2                   **(Unclassified)**

3                   *Description:* Administrative Claims consist of Claims specified in Section 503(b) of  
4 the Bankruptcy Code and entitled to priority under Section 507(a)(2) of the Bankruptcy Code.  
5 Administrative Claims consist of liabilities incurred by the Debtor after the Petition Date, including  
6 expenses of preserving the Debtor's Estate and operating its business, Professional Fee Claims of  
7 attorneys employed by the Debtor and the Creditors Committee, Mr. George's bonus and fees owed  
8 to the United States Trustee.

9                   *Estimated Amount:* During the pendency of the Chapter 11 case, the Debtor has paid  
10 its postpetition obligations incurred in the ordinary course of business. Accordingly, the Debtor  
11 expects that all postpetition trade debt payable prior to the Effective Date will have been paid as of  
12 such date. The Debtor is also current on payment of U.S. Trustee's fees. The Debtor estimates that  
13 unpaid Administrative Expenses total approximately \$918,000, as of November 30, 2005, without  
14 reduction for professional fees paid since November 30, 2005 or that may be paid prior to the  
15 Effective Date. Professional fees will continue to accrue through the Effective Date.

16                   *Summary of Treatment:* The Plan provides for 100% payment of Allowed  
17 Administrative Claims other than Professional Fee Claims, in Cash on the Effective Date, except  
18 that liabilities incurred in the ordinary course of business will be paid in the ordinary course of  
19 business. Professional Fee Claims will be paid in such amounts as allowed by the Court upon entry  
20 of a Final Order approving such payment.

21                   **2.       Priority Tax Claims (Unclassified)**

22                   *Description:* Priority Tax Claims consist of certain taxes on income and gross  
23 receipts, which are entitled to priority under Section 507(a)(8) of the Bankruptcy Code.

24                   *Estimated Amount:* The Debtor does not believe that there are or will be any  
25 Allowed Priority Tax Claims.

26                   *Summary of Treatment:* The Plan provides for 100% payment of Allowed Priority  
27 Tax Claims in Cash on the Effective Date.

28                   **3.       Class 1. Priority Wage Claims**

*Description:* Class 1 consists of Priority Wage Claims, which are wages and  
employee benefits owed to employees of the Debtor, up to a maximum of \$10,000 per employee  
and earned within 180 days before the Petition Date, that are entitled to priority under Section  
507(a)(4) and (5) of the Bankruptcy Code.

*Estimated Amount:* Pursuant to an order of the Court entered after the Petition Date,  
the Debtor was authorized to pay all prepetition wages and benefits owing to employees of the  
Debtor, except for vacation pay accrued and owing to Mr. George, which exceeds the \$10,000 limit  
for Priority Wage Claims. Therefore, the Debtor does not believe there are or will be any Allowed  
Priority Wage Claims.

1            *Summary of Treatment:* The Plan provides for 100% payment of Allowed Priority  
2 Wage Claims in Cash on the Effective Date, plus interest at the Postpetition Interest Rate of 3.32%  
3 per annum from the Petition Date to the payment date.

4            **4.        Class 2-A. Secured Real Property Taxes - Yuba County**

5            *Description:* Class 2-A consists of the Claims of the Yuba County Tax Collector, or  
6 other government official responsible for the collection of real property taxes in Yuba County, for  
7 real property taxes assessed against and secured by a Lien on the land, water rights and mineral  
8 rights owned by the Debtor in Yuba County.

9            *Estimated Amount:* The Debtor estimates real property taxes on its real property  
10 interests in Yuba County are approximately \$4,310 per year. All real property taxes will be current  
11 as of the Effective Date.

12            *Summary of Treatment:* The Plan provides that all real property taxes constituting  
13 the Class 2-A Claims will be paid as they become due, and all legal, equitable and contractual  
14 rights of the Holder of the Class 2-A claims, including Lien rights, will remain unaltered by the  
15 Plan.

16            **5.        Class 2-B. Other Secured Claims**

17            *Description:* Class 2-B consists of any other Secured Claims, other than the Class  
18 2-A Claims for Yuba County real property taxes, secured by a Lien on any property of any kind of  
19 the Debtor.

20            *Estimated Amount:* The Debtor does not believe there are any Secured Claims in  
21 Class 2-B.

22            *Summary of Treatment:* If there are any Allowed Class 2-B Claims, the Plan  
23 provides that the secured creditor will receive, at the sole election of the Debtor, either (a) 100%  
24 payment of the Allowed Class 2-A Claims in Cash on the Effective Date, with interest at the  
25 contract rate, or if no interest rate is specified, at the Postpetition Interest Rate of 3.32% per annum,  
26 from the Petition Date to the date of payment, or (b) the Debtor will abandon, relinquish and  
27 transfer the collateral to the secured creditor.

28            **6.        Class 3-A. General Unsecured Claims Other Than Debenture  
                 Claims and Promissory Note Claims**

*Description:* Class 3-A consists of General Unsecured Claims other than Debenture  
Claims and Promissory Note Claims. Class 3-A Claims include unpaid prepetition trade claims,  
executory contract rejection claims, if any, and the unpaid prepetition vacation accrual of Mr.  
George.

*Estimated Amount:* The Debtor estimates that Allowed Class 3-A Claims will total  
approximately \$72,000. The estimated total assumes that there will be no allowed damage claims  
arising from rejection of executory contracts.

1                    *Summary of Treatment:* The Plan provides for 100% payment of Allowed Class 3-A  
2 Claims in Cash on the Effective Date, with interest at the Postpetition Interest Rate of 3.32% per  
annum from the Petition Date to the date of payment.

3                    **7.        Class 3-B. Debenture Claims**

4                    *Description:* Class 3-B consists of Claims based on the Debentures.

5                    *Estimated Amount:* The Debtor estimates that Allowed Class 3-B Claims will total  
6 approximately \$8.8 million.

7                    *Summary of Treatment:* The Plan provides for 100% payment of Allowed Class 3-B  
8 Claims in Cash on the Effective Date, with interest at the Postpetition Interest Rate of 3.32% per  
annum from the Petition Date to the date of payment.

9                    **8.        Class 3-B. Promissory Note Claims**

10                   *Description:* Class 3-B consists of Claims based on the Promissory Notes.

11                   *Estimated Amount:* The Debtor estimates that Allowed Class 3-C Claims will total  
12 approximately \$1.1 million.

13                   *Summary of Treatment:* The Plan provides for 100% payment of Allowed Class 3-C  
14 Claims in Cash on the Effective Date, with interest at the Postpetition Interest Rate of 3.32% per  
annum from the Petition Date to the date of payment.

15                   **9.        Class 4-A. Series F Preferred Stock Interests**

16                   *Description:* Class 4-A consists of the Interests based on the Series F Preferred  
17 Stock.

18                   *Estimated Amount:* The Debtor estimates that there are approximately 2,553 shares  
19 of Series F Preferred Stock outstanding, with a stated value of \$1,000 per share, which have a total  
stated value and liquidation preference of approximately \$2.5 million.

20                   *Summary of Treatment:* On the Effective Date, the Series F Preferred Stock will be  
21 cancelled. The Holder of the Series F Preferred Stock will receive 24.74% of the New Common  
22 Stock to be issued by the Debtor, *provided, however*, that the Holder may elect, by written notice  
delivered to the Debtor on or before the date and time of the Confirmation Hearing, to receive a  
23 Cash payment in the amount of \$260,000 in lieu of New Common Stock.

24                   **10.      Class 4-B. Series C Preferred Stock Interests**

25                   *Description:* Class 4-B consists of the Interests based on the Series C Preferred  
26 Stock.

27                   *Estimated Amount:* The Debtor estimates that there are approximately 7,708 shares  
28 of Series F Preferred Stock outstanding, with a stated value of \$1,000 per share, which have a total  
stated value and liquidation preference of approximately \$7.7 million.

1                    *Summary of Treatment:* On the Effective Date, the Series C Preferred Stock will be  
2 cancelled, and the Holders of the Series C Preferred Stock will receive 75.26% of the New  
3 Common Stock to be issued by the Reorganized Debtor, pro rata based on their current holdings of  
4 Series C Preferred Stock. If the Holder of the Series F Preferred Stock elects a Cash payment  
instead of New Common Stock, then the Holders of the Series C Preferred Stock will receive 100%  
of the New Common Stock..

#### 5                    **11. Class 4-C. Other Equity Interests**

6                    *Description:* Class 4-C consists of any other equity interests in the Debtor,  
7 including the Interests of the Holders of the Old Common Stock of the Debtor.

8                    *Estimated Amount:* The Debtor estimates that there are approximately 8.4 million  
9 shares of Old Common Stock outstanding.

10                   *Summary of Treatment:* Class 4-C Interests will not receive any distributions or  
11 other consideration or retain any equity interests in the Debtor under the Plan. On the Effective  
Date, all Old Common Stock of the Debtor will be cancelled, and all rights and interests of Holders  
of Class 4-C Interests will be extinguished and terminated.

### 12                   **VI. IMPLEMENTATION OF THE PLAN**

#### 13                   **A. Continuation of the Debtor; Corporate Governance**

14                   The Debtor will continue in existence as the Reorganized Debtor and will continue to be  
15 organized and incorporated under the laws of the State of Delaware. The initial Board of Directors  
16 of the Reorganized Debtor will consist of its current directors, Dennis J. Kenny, Reginald M.  
17 Norris, Jr. and Michael Patrick George. The Debtor's current Chief Executive Officer, Michael  
18 Patrick George, will be the Chief Executive Officer of the Reorganized Debtor. The directors and  
19 officers will continue in their current capacities until they are replaced or their services are  
20 terminated pursuant to the provisions of the Certificate of Incorporation or Bylaws of the  
Reorganized Debtor or applicable state corporation law. The compensation to be paid to Mr.  
George as Chief Executive Officer will be determined by agreement between the directors and Mr.  
George after Confirmation and may include an equity interest in the Reorganized Debtor.

#### 21                   **B. Cancellation of Existing Equity Interests; Issuance of New Common Stock**

22                   On the Effective Date, all existing equity interests, including the Series C Preferred Stock,  
23 Series F Preferred Stock and Old Common Stock of the Debtor, will be automatically cancelled and  
24 be of no further force or effect. The Reorganized Debtor will issue and distribute New Common  
25 Stock to the current holders of the Series C Preferred Stock and Series F Preferred Stock, unless the  
26 holder of the Series F Preferred Stock elects the cash payment provided to it under the Plan. The  
27 total number of shares of New Common Stock to be issued will be determined by the Board of  
28 Directors.

#### 26                   **C. Restrictions on Transfer of New Common Stock**

27                   The New Common Stock will contain a legend that no transfers of New Common Stock,  
28 and no agreements providing for the transfer of New Common Stock or any option, warrant or

1 other right to acquire the New Common Stock, shall be permitted within three years of the  
2 Effective Date unless either (1) a more likely than not opinion of tax counsel of the transferor,  
3 satisfactory to the Reorganized Debtor, is rendered that such transfer of New Common Stock will  
4 not result in a change of ownership under the provisions of Section 382 of the Internal Revenue  
5 Code and regulations thereunder, or (2) the Board of Directors waives the foregoing condition. .  
6 The Board of Directors may, from time to time, adopt such additional procedures with respect to  
and impose such further limitations on the transferability of the New Common Stock, or any other  
classes of common stock that are authorized and issued, as it may in good faith deem reasonable  
and desirable to protect and maintain the tax attributes of the Reorganized Debtor.

#### 7 **D. Revesting and Disposition of Assets**

8 On the Effective Date, the property of the Debtor's Estate, except for the Cash to be held in  
9 the Distribution Account, will revest in the Reorganized Debtor, free and clear of all Claims and  
10 Interests and Liens, except as specifically provided in the Plan or the Confirmation Order. After  
11 the Effective Date, the Reorganized Debtor may use, sell, liquidate, abandon or otherwise dispose  
of any assets of the Debtor (or decline to do any of the foregoing), without approval of the Court or  
notice to any Persons.

#### 12 **E. Distribution Account**

13 On or before the Effective Date, the Debtor or Reorganized Debtor will establish the  
14 Distribution Account, which will be maintained by the Reorganized Debtor and will hold sufficient  
15 Cash to (1) make all Distributions of Cash required under the Plan; and (2) reserve for Disputed  
16 Claims under the Plan. The Distribution Account will be held in trust solely for the benefit of  
17 Holders of Allowed Claims and Disputed Claims, and, if applicable, the Holder of the Series F  
18 Preferred Stock, and will require two signatures for all withdrawals over \$10,000. Upon (1)  
19 completion of Distributions of Cash required under the Plan, (2) resolution of all Disputed Claims,  
and (3) if any Distributions of Cash have been returned to the Reorganized Debtor as undeliverable  
or unclaimed, the expiration of the deadline under the Plan for asserting a claim for an  
undeliverable or unclaimed Distribution, any remaining amounts in the Distribution Account will  
be returned to and will vest in the Reorganized Debtor.

#### 20 **F. Claims Objection Deadline**

21 The deadline for filing objections to Claims and Interests will be the Effective Date,  
22 unless the deadline is extended by an order of the Court. Any Claim or Interest to which no timely  
23 objection has been filed shall be deemed an Allowed Claim or Allowed Interest. If an objection to  
24 a Claim or Interest is filed on or before the Effective Date, such Claim or Interest will be a  
25 Disputed Claim or Distributed Interest and will not receive a Distribution on the Effective Date.  
26 No Distributions will be made on a Disputed Claim or Disputed Interest unless and until all  
27 objections to such Disputed Claim or Disputed Interest have been settled or withdrawn or have  
28 been determined by Final Order, and the Disputed Claim or Disputed Interest, or some portion  
thereof, becomes an Allowed Claim or Allowed Interest.

#### 26 **G. Preservation of Retained Claims**

27 Except as otherwise provided in this Plan or the Confirmation Order, all Retained Claims,  
28 including Avoidance Actions, will be retained by and will be enforceable by the Reorganized

1 Debtor, and any recoveries from Retained Claims, including Avoidance Actions, will be retained  
2 by the Reorganized Debtor. From and after the Effective Date, the Reorganized Debtor may  
3 enforce, sue on, settle, compromise, abandon or release (or decline to do any of the foregoing) all  
Retained Claims of the Debtor without approval of the Court or notice to any Persons.

#### 4 **H. Creditors Committee**

5 The Creditors Committee will continue in place until the Effective Date. On the Effective  
6 Date, the Creditors Committee will be dissolved and the duties and powers of the Creditors  
7 Committee will terminate, except with respect to any applications for award of compensation and  
reimbursement of expenses to the members of the Committee and any Professionals retained by the  
Creditors Committee for services rendered prior to the Effective Date.

#### 8 **I. Notices After the Effective Date**

9 After the Effective Date, all notices, motions or applications for which creditors and parties  
10 in interest may be entitled to notice under Bankruptcy Rules 2002 will be required to be served only  
11 on (a) the U.S. Trustee, (b) the Reorganized Debtor, (c) counsel for the Reorganized Debtor, and  
12 (d) those Persons who file with the Court and serve on the Reorganized Debtor a request, which  
13 includes such Person's name, contact person, address, telephone number and facsimile number, that  
such Person receive notices of post-Effective Date matters. Persons who had previously filed with  
the Court requests for special notice of the proceedings and other filings in the Case will not receive  
notice of post-Effective Date matters unless they file new requests for notice.

### 14 **VII. CONFIRMATION PROCEDURES**

#### 15 **A. Voting on the Plan**

16 In order to vote on the Plan, parties voting must complete the ballot sent with this  
17 Disclosure Statement and return it to the following address so that it is actually received by 5:00  
18 p.m. Pacific Time on January 30, 2006:

19 Morrison & Foerster LLP  
20 425 Market Street, 33rd Floor  
San Francisco, CA 94105  
21 FAX (415) 268-7522  
Attention: Heather Adler

22 Ballots will be accepted by personal delivery, mail, overnight courier or by FAX. Ballots will not be  
23 accepted as an e-mail attachment. **Only those ballots returned in a timely manner will be counted  
in determining whether a Class has accepted or rejected the Plan.**

#### 24 **B. Acceptances Necessary for Confirmation**

##### 25 **1. Impaired Classes of Claims and Interests**

26 Classes 4-A and 4-B are Impaired under the Bankruptcy Code and are entitled to vote to  
27 accept or reject the Plan. Classes 1, 2-A, 2-B, 3-A, 3-B and 3-C are Unimpaired under the  
28 Bankruptcy Code and are deemed to have accepted the Plan and, therefore, are not entitled to vote

1 to accept or reject the Plan. Class 4-C is Impaired, but is deemed to have rejected the Plan and,  
2 therefore, is not entitled to vote to accept or reject the Plan.

## 3 **2. Acceptance By Impaired Classes**

4 An Impaired Class of Claims entitled to vote shall have accepted the Plan if (1) the Holders  
5 of at least two-thirds in amount of the Allowed Claims actually voting in the Class have voted to  
6 accept the Plan, and (2) the Holders of more than one-half in number of the Allowed Claims  
7 actually voting in the Class have voted to accept the Plan. There is no Impaired Class of Claims  
8 under the Plan. An Impaired Class of Interests entitled to vote shall have accepted the Plan if the  
9 Holders of at least two-thirds in amount of the Allowed Interests actually voting in such Class have  
10 voted to accept the Plan.

## 11 **3. Confirmation Without Acceptances of All Classes (Cramdown)**

12 To the extent necessary, the Debtor will request confirmation of the Plan under  
13 Section 1129(b) of the Bankruptcy Code. Section 1129(b) provides that even if one or more  
14 Classes of Claims or Interests reject the Plan, or are deemed to have rejected the Plan, the Court  
15 may confirm the Plan if it finds that at least one impaired Class of Claims has voted to accept the  
16 Plan, without considering any acceptance of the Plan by an insider, and that the Plan does not  
17 discriminate unfairly and is “fair and equitable” as to each impaired Class of Claims or Interests  
18 that has not accepted the Plan.

19 Under Section 1129(b) of the Bankruptcy Code, a Plan is “fair and equitable” to a non-  
20 assenting Class if (1) those in a non-assenting impaired Class of Claims either receive or retain  
21 property having a value, as of the Effective Date, equal to the allowed amount of their Claims, and  
22 (2) those in a non-assenting impaired Class of Interests receive or retain property having a value,  
23 as of the Effective Date, equal to the greatest of (a) any fixed liquidation preference of their Interest,  
24 (b) any fixed redemption price for their Interest, or (c) the value of such Interest, or, alternatively,  
25 (3) with respect to both Claims and Interests, if the non-assenting Class receives less than the value  
26 required, no Holders of Claims or Interests with a lower priority will receive or retain any property  
27 under the Plan on account of such junior Claims or Interests.

## 28 **C. Objections to Confirmation**

All objections to Confirmation of the Plan must be in writing, must state the basis for the  
objection, must be filed with the Court and must be served upon:

### Attorneys for the Debtor

Morrison & Foerster LLP  
425 Market Street, 33<sup>rd</sup> Floor  
San Francisco, California 94105-2482  
Attention: Patricia S. Mar

### Attorneys for the Creditors Committee

Stutman, Treister & Glatt Professional Corp.  
1901 Avenue of the Stars, 12<sup>th</sup> Floor  
Los Angeles, California 90067  
Attention: Alan Pedlar

1        U.S. Trustee

2        Office of U.S. Trustee  
3        1301 Clay Street, Suite 690N  
4        Oakland, CA 94612-5217

5        in such manner as will cause such objections to be filed and received on or before 5:00 p.m. Pacific  
6        Time on January 30, 2006.

7                    **D.        Confirmation Hearing**

8        Pursuant to Section 1128 of the Bankruptcy Code, the Court has scheduled a Confirmation  
9        Hearing to consider the Plan on February 6, 2006 at 2:00 p.m.. The Confirmation Hearing will be  
10       held before the Honorable Leslie Tchaikovsky in Courtroom No. 220, United States Bankruptcy  
11       Court, 1300 Clay Street, Oakland, California. The Confirmation Hearing may be adjourned from  
12       time to time by the Court without further notice other than by announcement of the next adjourned  
13       date at the Confirmation Hearing or any adjourned Confirmation Hearing. At or after the  
14       Confirmation Hearing or any adjourned Confirmation Hearing, the Court will enter an order  
15       confirming the Plan if sufficient acceptances have been received from the Classes of Claims and  
16       Interests entitled to vote on the Plan and if all other statutory requirements have been satisfied.

17                    **VIII.    PLAN CONFIRMATION ISSUES**

18                    **A.        Feasibility of the Plan**

19        As a condition to Confirmation, the Bankruptcy Code requires that Confirmation is not  
20        likely to be followed by a Chapter 7 liquidation or the need for further financial reorganization.  
21        This requirement is commonly referred to as the “feasibility” requirement of Section 1129(a)(11) of  
22        the Bankruptcy Code.

23        The Debtor estimates that the cash payments under the Plan will require approximately  
24        \$11.4 million. The Debtor has unrestricted cash of approximately \$13 million, as of November 30,  
25        2005, and expects that as of the Effective Date, it will continue to have sufficient cash to fund all  
26        cash payments required under the Plan. Satisfaction of the Debtor’s obligations under the Plan will  
27        not be dependent on the future operations or income of the Reorganized Debtor or on further  
28        liquidation of the Debtor’s assets. Thus, the Plan poses no feasibility issues as to the Debtor’s  
29        ability to perform its obligations under the Plan.

30                    **B.        Chapter 7 Liquidation Analysis**

31        Notwithstanding acceptance of the Plan by each impaired Class of Claims and Interests,  
32        Section 1129(a)(7) of the Bankruptcy Code requires that to be confirmed, the Plan must provide to  
33        each non-accepting holder of a Claim or Interest property of a value, as of the Effective Date of the  
34        Plan, at least equal to the amount such creditor or shareholder would receive or retain if the Debtor  
35        is liquidated under Chapter 7 of the Bankruptcy Code. This test is often referred to as the “best  
36        interest of creditors” test, although the requirement applies to equity security holders as well as to  
37        creditors. The Debtor believes that the Plan satisfies the “best interest” test and provides all  
38        creditors and shareholders no less in value than they would receive in a Chapter 7 liquidation.

1 The Plan indisputably meets the “best interest” test as to all creditors, as the Plan provides  
2 for 100% payment, plus postpetition interest at the applicable federal judgment interest rate, of all  
3 Allowed Claims of creditors. Creditors would not receive more under a Chapter 7 liquidation.  
4 Furthermore, in a Chapter 7 liquidation, there would likely be substantial delay before any  
5 payments are made to creditors, whether they be Chapter 11 administrative creditors or prepetition  
6 creditors, as a Chapter 7 trustee would have to be appointed, and no payments would likely be  
7 made to creditors until the Chapter 7 trustee has completed the liquidation of the Debtor’s assets,  
8 investigated and resolved all creditor claims, and filed the trustee’s final report.

9 The Debtor believes that the “best interest” test has relevance only as to the preferred  
10 shareholders. Attached as Exhibit A hereto is a summary of the Debtor’s analysis of the liquidation  
11 value of its assets, as of the Effective Date of the Plan, after the projected payments to creditors  
12 under the Plan are completed. As indicated, in a Chapter 7 liquidation, the net liquidation value of  
13 the Debtor’s remaining assets, after estimated selling costs based on 10% of the value of the  
14 unliquidated assets, is estimated to be approximately \$1,270,000. However, such net liquidation  
15 value does not take into account the substantial fees and costs of a Chapter 7 trustee.

16 A Chapter 7 trustee would be entitled to a statutory fee of up to 3% on all distributions  
17 made by the trustee, which would include distributions to creditors, even though the Debtor has  
18 substantial cash reserves available for immediate payment of creditors. Thus, if no plan is  
19 confirmed, and creditors were to be paid through a Chapter 7 case, the trustee would be entitled to  
20 fees of up to 3% on the cash of over \$11 million that the Debtor expects to pay to Chapter 11  
21 administrative creditors and prepetition creditors under the Plan. The statutory Chapter 7 trustee  
22 fees would substantially reduce the value of the Debtor’s assets available for the preferred  
23 shareholders.

24 Furthermore, a Chapter 7 trustee would likely need to employ attorneys, and possibly  
25 accountants, at the expense of the estate, to assist the trustee in the administration of the Chapter 7  
26 case. The trustee and the trustee’s attorneys would need to spend significant time familiarizing  
27 themselves with the Debtor, the Debtor’s assets and any legal issues surrounding the case, which  
28 would necessarily, to some degree, duplicate the work previously performed by, and the knowledge  
previously acquired by, the Debtor’s management and attorneys. Based on all of the foregoing  
considerations, the Debtor believes that a Chapter 7 liquidation would cost more and yield less  
value for the preferred shareholders than the Plan.

29 The Plan provides flexibility for the new equity owners to determine the future direction of  
30 the Reorganized Debtor, including whether to hold, sell or develop its remaining assets. Thus, if  
31 the new owners of the Reorganized Debtor decide that it is in their best interests to liquidate the  
32 Reorganized Debtor’s remaining assets or the corporation itself, they can do so under the Plan  
33 without the added expenses of a Chapter 7 case. The Plan therefore preserves more value for the  
34 holders of the preferred stock, as the new equity owners of the Reorganized Debtor, than they  
35 would realize in a Chapter 7 liquidation and thus satisfies the “best interest” test as to the holders of  
36 preferred stock.

37 The Plan also provides the holder of the Series F Preferred Stock with an option to receive a  
38 \$260,000 cash payment for its equity interest, in lieu of receiving New Common Stock under the  
Plan. The amount of the cash payment is a reasonable approximation, with a cash discount, of the  
Series F Preferred Stock’s proportionate share of the estimated liquidation value of the Debtor’s

1 assets available for preferred shareholders shown in Exhibit A, and because the cash payment is not  
2 reduced by the potential fees and costs of a Chapter 7 trustee, provides the holder of the Series F  
3 Preferred Stock with a higher liquidation payment than the holder would likely receive in a Chapter  
7 liquidation.

4 Nor would a Chapter 7 liquidation benefit the Debtor's current common stockholders, who  
5 hold the Old Common Stock. The liquidation preferences of the preferred shareholders total  
6 approximately \$10.2 million. The net liquidation value of the Debtor's assets, even without  
7 considering the fees and expenses of the Chapter 7 trustee, falls far short of the amount needed to  
8 pay the liquidation preferences of the preferred shareholders. Because the preferred shareholders'  
9 combined liquidation preference is substantially in excess of the liquidation value of the Debtor's  
10 residual assets (after providing for full payment of creditors), common stockholders could not  
11 realize any recovery from the liquidation of the Debtor. Although the common stockholders will  
12 receive or retain no property or other consideration under the Plan, they do not receive less under  
13 the Plan than they would receive in a Chapter 7 liquidation. Therefore, the Plan satisfies the "best  
14 interest" test with respect to the common stockholders.

## 11 **IX. EFFECT OF CONFIRMATION OF THE PLAN**

### 12 **A. Binding Effect of Confirmation**

13 Confirmation of the Plan will bind the Debtor, the Reorganized Debtor and all Holders of  
14 Claims and Interests whether or not (1) a Proof of Claim or Proof of Interest was filed or deemed  
15 filed pursuant to Section 501 of the Bankruptcy Code, (2) the Claim or Interest is Impaired under  
16 the Plan, (3) the Claim or Interest is an Allowed Claim or Allowed Interest, or (4) the Holder of the  
17 Claim or Interest has accepted the Plan.

### 16 **B. Discharge of Debts**

17 The rights afforded under the Plan and the treatment of Claims and Interests under the Plan  
18 will be in exchange for, and in complete satisfaction, discharge and release of, all Claims against  
19 and Interests in the Debtor, the Reorganized Debtor, the Estate or their assets, regardless of whether  
20 the Holder of a Claim or Interest receives any Distribution or retains any property pursuant to the  
21 Plan on account of such Claim or Interest. Confirmation of the Plan will discharge the Debtor and  
22 Reorganized Debtor from all liability on account of Claims that arose at any time before  
23 Confirmation, including all debts specified in Sections 502(g), 502(h) and 502(i) of the Bankruptcy  
24 Code, whether or not (1) a Proof of Claim was filed or deemed filed pursuant to Section 501 of the  
25 Bankruptcy Code, (2) the Claim is an Allowed Claim, or (3) the Holder of the Claim has accepted  
26 the Plan.

### 24 **C. Effect of Discharge**

25 Upon entry of the Confirmation Order, any Holder of a Claim that is discharged will be  
26 permanently enjoined from the commencement or continuation of any action, the employment of  
27 process, or other action, to collect, recover or offset any such discharged Claim from the Debtor,  
28 the Reorganized Debtor or the Estate or any of their assets.



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**EXHIBIT A  
TO DISCLOSURE STATEMENT**

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**ESTIMATED LIQUIDATION VALUE OF ASSETS  
as of the Effective Date, after Payment of Claims of Creditors**

Description	Estimated Liquidation Value
Cash on Effective Date (Note 1)	\$1,100,000
Yuba Goldfields Water Rights (and related interests)	100,000
Mineral Rights (Yuba, Butte and Sacramento Counties)	0
Promissory Notes (Note 2)	75,000
Furniture and Fixtures, Files and Equipment	3,500
Yuba South Canal Water Conveyance Fees (Note 3)	10,000
Retained Claims	0
Subtotal	<u>\$1,288,500</u>
Less Estimated Cost of Liquidation (Note 4)	(18,850)
<b>Net Liquidation Value before Chapter 7 Trustee's and Trustee's professionals' fees</b>	<b>\$1,269,650</b>

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Note 1: Estimate based on projected Effective Date of January 31, 2006, after payment of, or reserve for, Claims of creditors.

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Note 2: Assumes immediate sale of two promissory notes owed to the Debtor with principal balances totaling \$244,068.

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Note 3: Yuba County Water Agency pays the Debtor a quarterly fee to transport water through a canal in which the Debtor owns water interests. The liquidation value is based on the estimated present value of the conveyance fees through 2007, when the payments will terminate.

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Note 4: Based on 10% of the stated liquidation value of the unliquidated assets (i.e., all assets except cash).

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**THE ESTIMATED LIQUIDATION VALUES SET FORTH ABOVE ARE BASED ON THE OPINION OF THE DEBTOR'S MANAGEMENT, AND NO APPRAISALS HAVE BEEN OBTAINED BY THE DEBTOR IN CONNECTION WITH THIS DISCLOSURE STATEMENT. THE ESTIMATED LIQUIDATION VALUES MAY NOT BE RELIED ON AS A REPRESENTATION, GUARANTEE OR ASSURANCE OF THE ACTUAL RESULTS OF A LIQUIDATION OF THE DEBTOR'S ASSETS. .**

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