

Last year, Diversified filed an involuntary bankruptcy case against Tree Moss, which is now managed by a chapter 11 trustee. Diversified holds the largest claim against the Tree Moss bankruptcy 11 estate. The sole significant asset of that estate, the Marquis Villas, is comprised of 63 condominium units in the Palm Springs area. The remaining 38 units at the development are owned by Diamond Resorts (formerly known as Sunterra). On March 31st, Judge Riegle approved the sale of the Tree Moss assets to Diamond Resorts. In addition to approving the sale, Judge Riegle approved the Tree Moss Trustee's motion to terminate the property manager and to replace it with Diamond Resorts. The sale is a complicated one, but the key points are as follows:

- The sale price is \$9 million, payable \$8 million at closing and the remaining \$1 million on the earlier of (a) one year from the closing date; or (b) 15 days following the buyer's receipt of all approvals necessary to register all the Tree Moss units for sale to the public as timeshares.
- The Marquis Villas project is built on land that is the subject of a longterm ground lease, and the deal will not close until Diamond Resorts obtains the approval of the Bureau of Indian Affairs, which approval also will include an extension of the lease term. While Diamond Resorts has been devoting time to obtaining such approval, and while approval is expected, the sale documents provide that the closing must occur no later than 215 days (i.e., about seven months) from March 31st (i.e., early November).
- Diamond Resorts, as well as the homeowners association (which Diamond Resorts controls), will waive all claims against Tree Moss. Diamond Resorts contends that the claims amount to millions of dollars, and both the Tree Moss Trustee and Diversified contend that Diamond has failed to prove up those claims. But Diversified acknowledges that the homeowners association holds substantial claims, and the waiver thereof means that Diversified shares the eventual sale proceeds with a smaller group of unsecured creditors.
- Diversified provided a Debtor-in-Possession loan to the Tree Moss Trustee totaling \$700,000 to fund the Tree Moss bankruptcy estate, specifically the operation of the Marquis Villas. Such loan will be repaid from the first proceeds of the sale. The loan balance as of March 31st, including interest at the contract rather than the default rate, approximates \$750,000. Because Diversified holds the largest claim against the Tree Moss estate, it also will share in the lion's share of the proceeds after the Trustee and her counsel have been paid. Just what percentage of the proceeds we receive will depend on the size of the other claims and on whether such claims are legitimate.

If the transaction closes in early November, it is unlikely that Diversified will receive any payment this year other than the repayment of the loan. The earlier it closes, the greater the odds that we receive a large payment this year. Diversified will not receive its share of the \$1 million second payment until 2009.