

ROYAL HOUSING, INC.

MAY 24, 2011,

Appeal Case ID No. 484677

2003 FRANCHISE TAX APPEAL HEARING

Respondent's Exhibits

David Gemmingen, Tax Counsel IV, for Respondent Franchise Tax Board

Donald Feurzeig, Esq., Appellant's Representative

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STATE BOARD OF EQUALIZATION



Appeal Name: ROYAL HOUSING, INC.

Case ID: 484677 ITEM #: B1

Date: MAY 24, 2011 Exhibit No: _____

TP FTB DEPT _____

MICHAEL M. STEIN
EXHIBITS

DECLARATION
OF MICHAEL M. STEIN

I hereby certify I can testify competently to all matters stated herein of my own knowledge.

1. I have reviewed the appeal briefs filed by the staff of the State Board of Equalization in this matter. It is clear that they do not understand what was being "valued" as of January 1, 2003 or the basis for my valuation. What I valued is Royal's (Appellant's) real asset at that time—a claim in litigation against Wilshire that was settled. I did not value a portfolio of undivided interests in the RIWNs (Notes) on an arm's length sale basis as no such sale could take place. No one would purchase assets from a seller whose very title to the assets was the subject of pending litigation. As of January 1, 2003 Wilshire had withdrawn from settlement negotiations and was actively pursuing litigation in which it sought to determine that it and not Royal owned the interests in RIWNs.

2. As of January 1, 2003, Royal's position in the litigation was precarious. Wilshire was raising a number of claims to ownership of the RIWNs that Royal had minimal capacity to oppose, including (a) that the original sale of the RIWNs to the bank and the Bancorp had not been consummated and (b) that the sale if consummated had been rescinded and (c) the FDIC improperly blocked Wilshire's efforts to repurchase the RIWNs. As to (a) and (b) all of the percipient witnesses, including the bank and Bancorp's original attorneys, were either adverse parties or hostile. If Wilshire's position was sustained, Appellant's RIWNs would be valueless.

3. Based on my experience, knowledge of the parties, and the litigation risks, I would have recommended a settlement of the action for a net payment to my clients at that time of \$250,000. This was the basis of my valuation which reflected the true value of what asset Royal had on its books as of January 1, 2003. The key factors in my evaluation were (a) the prior amounts offered by Wilshire before the Bancorp and its principal, Leonard Sands, became adverse parties, (b) the risks and costs of litigation with Wilshire and Sands and (c) Wilshire's potential motivation for settlement at that time. I fully expected the litigation to be protracted with a high probability of an adverse determination on Royal's ownership interest in the RIWNs before we could reach any settlement. Nevertheless, I believed the potential for a settlement in excess of continuing litigation cost justified continuing to enforce Royal's rights.

4. I had participated in or directed all settlement communications and negotiations with Wilshire from October 1998 through 2003. After Royal reached agreement with the Bancorp and Sands to proceed jointly in enforcing their respective interests in the RIWNs, I met with Wilshire's principal, Bruce Rozet, to discuss a settlement. He initially rejected the idea that Royal had any interest in the RIWNs and stated he would pay nothing for their interests. This was followed in early 1999 with an offer to pay

\$75,000 that was raised to \$500,000 in February 1999 when I informed Wilshire that Royal and the Bancorp were proceeding jointly to enforce their rights in the RIWNs.

5. After unsuccessful efforts to obtain a settlement, Wilshire initiated a lawsuit contesting Royal's interest in the RIWNs and seeking an injunction barring any attempt by Royal to enforce its claimed interests in the RIWNs. Royal had discovered that while the FDIC had "owned" the interest sold to Royal, Wilshire had sold the Englewood property and refinanced the Spencer Street project without accounting for any of the proceeds. Royal also learned that a sale of Thomas Paine Square was imminent. Placing this evidence before the court led to Wilshire being forced to share the proceeds of the Thomas Paine Square sale as a condition to an injunction.

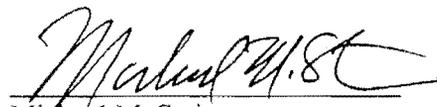
6. Immediately following the receipt of the proceeds of the Thomas Paine sale, the Bancorp withdrew from its agreement with Royal, contending it was entitled to a higher percentage of the proceeds from this RIWN and the remaining RIWNs. It then substituted its own counsel to represent it in the pending litigation with Wilshire. Thereafter, it adopted an adversarial position to Royal. It constantly threatened suit unless Royal agreed that (a) the Bancorp was entitled to a share of the RIWNs that was disproportionate to its interests in the RIWNs and (b) that the Bancorp was not obligated to share any of the legal expenses incurred in enforcing recovery on the RIWNs.

7. Settlement efforts continued with Wilshire which resulted in a possible tentative settlement in mediation in September 2002. The parties worked on documentation until early December 2002. At that point, Jay Gottfriedson, Wilshire's attorney announced that Wilshire was withdrawing from any settlement efforts and would aggressively pursue the litigation.

8. Wilshire then began to pursue litigation. Suddenly, in April 2003, Gottfriedson announced Wilshire had changed its position and would resurrect the settlement talks which resulted in a settlement in September 2003. At the time Wilshire withdrew from the settlement, I believed the value of Royal's position was a fraction of the settlement amount because of its precarious position in the litigation as noted above. I would have recommended that Royal, as soon as it seemed feasible, make a proposal, to settle for a reduced amount that would net Royal \$250,000 after costs.

I declare under penalty of perjury the foregoing is true and correct.

Dated: May 13 2010


Michael M. Stein

#21
13-99

ENTERED
SUSTAIN

FILED
LOS ANGELES SUPERIOR COURT

DEC 21 1999

JOHN A. CLARKE, CLERK
S. Mixon
BY S. MIXON, DEPUTY

1 MICHAEL M. STEIN, INC.
MICHAEL M. STEIN (Bar No. 039882)
2 17609 Ventura Boulevard, Suite 201
Encino, California 91316-3825
3 Telephone: (818) 788-2700
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4 BRADLEY TABACH-BANK (Bar #048769)
5 TABACH-BANK & LEVENSTEIN, a Law Corporation
1453 Third Street, Suite 250
6 Santa Monica, California 90401-3400
Telephone: (310) 394-4777
7 Facsimile: (310) 458-2978

8 Attorneys for DEFENDANTS ROYAL HOUSING, INC. and FIRST PACIFIC BANCORP,
9 INC.

10 SUPERIOR COURT OF THE STATE OF CALIFORNIA
11 FOR THE COUNTY OF LOS ANGELES

12 WILSHIRE INVESTMENTS)
13 CORPORATION, a California Corporation;)
SUMA LIMITED, a Delaware Corporation;)
14 ATLANTIC INVESTORS, L.P., a Delaware)
Limited Partnership; ASSOCIATED)
15 HOUSING GROUP, LTD., a California)
Limited Partnership; BELMONT)
16 INVESTORS, L.P., a Delaware Limited)
Partnership; LOUIS A. CICALESE, an)
17 individual; WESTERN HOUSING)
ASSOCIATES, a California Limited)
18 Partnership; PACIFIC HOUSING)
PARTNERS, L.P., a Delaware Limited)
19 Partnership; C.P. INVESTMENT FUND)
1986-III; MARTIN HOUSING FUND,)
20 LTD.; PARTNERSHIP INVESTOR)
SERVICES, INC; SHERMAN)
21 INVESTMENT FUND, LTD; SHERMAN)
INVESTMENT FUND II, LTD., and)
22 WESTPORT HOUSING CORPORATION,)

23 Plaintiffs,

24 v.

25 ROYAL HOUSING, INC., a California)
Corporation; FIRST PACIFIC BANCORP,)
26 INC., a California Corporation; and DOES)
1 through 50, inclusive,)
27

28 Defendants

CASE NO. SC059793

Date Action Commenced:
December 17, 1999

Assigned to Honorable:

DEFENDANTS ROYAL HOUSING,
INC., AND FIRST PACIFIC
BANCORP'S OPPOSITION TO
PLAINTIFFS APPLICATION FOR
PRELIMINARY INJUNCTION;
MEMORANDUM OF POINTS AND
AUTHORITIES; AND SUPPORTING
DECLARATIONS OF LEONARD
SANDS, WILLIAM HARRISON AND
MICHAEL M. STEIN

DATE: December 23, 1999
TIME: 1:30 p.m.
PLACE: Department B

DISCOVERY CUTOFF: NONE
MOTION CUTOFF: NONE
TRIAL DATE: NONE

REG OF ACT
60 N 71 12/21/99 13:56:00
SANTA MONICA DISTRICT

4

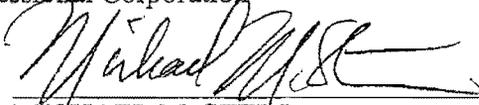
1 TO THE HONORABLE COURT, PLAINTIFFS AND THEIR COUNSEL, Defendants
2 hereby submit their opposition to Plaintiff's application for preliminary injunction, Defendants
3 do not oppose an injunction with respect to the pending foreclosure sale of collateral securing
4 promissory notes ("Notes") due and payable by the Plaintiffs to Defendants, provided an
5 adequate and sufficient bond in the amount of \$9,500,000 is ordered to dissuade Plaintiffs from
6 continuing their past and continuing practice of disposing of the collateral without accounting to
7 the Defendants proceeds. This opposition is based on the Points and Authorities and the
8 Declarations of Leonard Sands, William Harrison and Michael M. Stein filed herewith and all
9 other documentary and oral evidence presented to the Court at the hearing.

10
11 DATED: December 21, 1999.

12 TABACH-BANK & LEVENSTEIN
13 BRADLEY TABACH-BANK

14 MICHAEL M. STEIN, INC.
15 a Professional Corporation

16 By:



17 MICHAEL M. STEIN
18 Attorneys for Defendants
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1 least two of the projects with a combined indebtedness to Royal in excess of
2 \$3,000,000, (2) have pocketed \$65,000 of surplus cash and (3) are in the process of
3 selling the Thomas Paine Square project in which the amount due Defendants Royal
4 and Bancorp is in excess of \$2,000,000. Altogether, the total indebtedness as of 1997,
5 Royal and Bancorp could have recovered on the ten notes is in excess of \$12,000,000
6 (see Harrison, ¶ 4 and Exhibit A).

7 For the foregoing reasons, if the Court concludes that the Plaintiffs are entitled to
8 a preliminary injunction prohibiting the Defendants from holding foreclosure sales of
9 collateral securing the RIWNs, during the pendency of this litigation such an order
10 should be conditioned on an adequate bond as required by CCP Section 529. An
11 adequate bond in this case is \$9,000,000, which sum is equal to the outstanding
12 balances due on the Defendants' interests in the remaining RIWNs not previously sold
13 or refinanced by the Plaintiffs and their affiliates.

14
15 Respectfully submitted,

16 TABACH-BANK & LEVENSTEIN
17 BRADLEY TABACH-BANK

18 MICHAEL M. STEIN, INC.
19 a Professional Corporation

20 By:


21 MICHAEL M. STEIN
22 Attorneys for Defendants
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26
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Law Offices

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Facsimile (818) 788-2788
E-Mail mmsteininc@aol.com

OUR FILE #

VIA: Facsimile 310: 284-2025

September 29, 1999

Justin E. Budare, Esq.
Marcus, Watanabe, Snyder & Dave, LLP
1901 Avenue of the Stars
Suite 300
Los Angeles, CA 90067-6005

RE: Royal Housing, Inc. v. First Pacific Bancorp Wrap Note Claims

Dear Justin:

This will confirm that the UCC foreclosure sales that were to take place yesterday at my office at 10:00 a.m. have been postponed to remain at the same location on October 13, 1999. Please be advised that my clients are under no obligation to further postpone the sale.

Sincerely,



MICHAEL M. STEIN

MMS:bzs

cc: VIA FACSIMILES
E. Jay Gotfredson, Esq.
Brad Tabach-Bank, Esq.
George Kostakos, Esq.
Leonard Sands, Esq.
Royal Housing, Inc.

let/Budare4

3

MEMO TO: Miles J. Feldman, Esq.
MEMO FROM: Michael M. Stein, Esq.
DATE: May 2, 2003
RE: Royal v. Englewood, Spencer Street

Miles, as per our telephone conversation, when I started to do a redraft integrating the Quinn and Gotfredson comments, it became very apparent that this is a total "whipsaw" situation. To participate, Quinn wants us to sell him Spencer Street for \$125,000 and after we get the \$1,700,000 on San Martin, assign our interest to him. Selling Spencer Street for \$125,000 is below our claim against Quinn for our share of the proceeds of the refi \$200,000 and substantially prejudices our security if San Martin doesn't sell. One of two things is going on here. Quinn is continuing to act as a front man for Rozet. This is just part of the continuing tactic to string out the settlement negotiations until such time as the properties are sold and then renegotiate a deal with us. On the other hand, Quinn could be acting as an independent (which I doubt). In any event, I must agree with Bill Harrison that we must simply ignore Quinn and present the deal as given to Gotfredson to work out a deal with the entire Wilshire Group, or otherwise we have no settlement. In this regard, I have found that it is pointless to accept the bulk of Gotfredson's substantive changes as they are either:

- a. part of the Rozet negotiation technique to always be a moving target, or
- b. just a ball he is throwing up in the air to see if he can whipsaw us for Rozet/Quinn's benefit.

With this in mind, I enclose the corrections I have made to his draft as well as the text of a proposed transmittal letter which will start the ball rolling.

NOTES DUE AND PAYABLE JULY 1999
EXHIBITS

July 1, 1999

San Martin Twin Towers Apartments Limited Partnership
a California limited partnership
c/o Partnership Investor Services, Inc.
a California corporation
General Partner
12100 Wilshire Blvd.
Suite 1400
Los Angeles, CA 90025

Re: San Martin Twin Towers Apartments All-Inclusive Note

Gentlemen:

You and your counsel Roger Hartman, Esquire have been advised on several occasions that the undersigned are the owners of an undivided 100% interest in that certain all-inclusive note and residual note ("Note") in the original principal amount of \$9,720,000 dated September 1, 1983 of which you are the maker. On several occasions through our counsel, we have endeavored (in accordance with the Notes and a security agreement and pledge executed in favor of Payee of the Notes) to have you execute current financing statements ("UCC-1") and acknowledge the indebtedness owing to the undersigned. Through your counsel and direct communications from your principals, you have repudiated any obligations to the undersigned or that the undersigned has any interest in the Note and have refused to execute such documentation.

Because the Note is currently secured by an unperfected pledge of the partnership interests of your general and limited partners, the Note and its security do not currently show as a lien on the San Martin Twin Towers Apartment projects. As a result our interests are wholly at risk with respect any conveyance of the property, any judgment, management or tax liens or other perfected security interests.

le/SanMartin

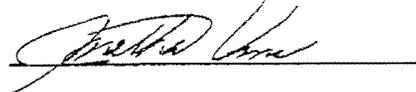
It has come to our attention with respect to interests in other notes we hold in which affiliates of your general partner act as general partners, that voluntary conveyances and refinancing have occurred without notice or accounting for the proceeds thereof. We view your refusal as a repudiation of your contractual obligations, exposing the undersigned to a total loss of our interest and investment in the Note. Accordingly, we herewith declare the Note in default, and the entire balance due and payable thereunder. The present balance due and owing on the all-inclusive note is \$9,720,000 with interest at the rate of 14% per annum, less the outstanding balance on the underlying HUD note. Based on the undivided interest due and owing to the undersigned and an estimated balance on the HUD note of \$5,009,400 (as of 8/1/98), the amount due and payable to the undersigned is \$919,980, plus accrued interest. You may make payment by directing a check to the undersigned and delivering same to our counsel Bradley Tabach-Bank.

If payment is not received within 30 days we will commence all action necessary to enforce our rights.

Sincerely,

ROYAL HOUSING, INC.

By:



July 1, 1999

Palmdale Limited Partnership
a California limited partnership
c/o Wilshire Investments Corporation
a California corporation
General Partner
12100 Wilshire Blvd.
Suite 1400
Los Angeles, CA 90025

Re: Palmdale Apartments All-Inclusive Note

Gentlemen:

You and your counsel Roger Hartman, Esquire have been advised on several occasions that the undersigned are the owners of an undivided 41.9% interest in that certain all-inclusive note and residual note ("Note") in the original principal amount of \$1,538,000 dated January 1, 1983 of which you are the maker. On several occasions through our counsel, we have endeavored (in accordance with the Notes and a security agreement and pledge executed in favor of Payee of the Notes) to have you execute current financing statements ("UCC-1") and acknowledge the indebtedness owing to the undersigned. Through your counsel and direct communications from your principals, you have repudiated any obligations to the undersigned or that the undersigned has any interest in the Note and have refused to execute such documentation.

Because the Note is currently secured by an unperfected pledge of the partnership interests of your general and limited partners, the Note and its security do not currently show as a lien on the Palmdale Apartment projects. As a result our interests are wholly at risk with respect any conveyance of the property, any judgment, management or tax liens or other perfected security interests.

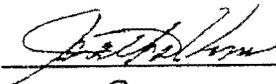
let/Palmdale

It has come to our attention with respect to interests in other notes we hold in which affiliates of your general partner act as general partners, that voluntary conveyances and refinancing have occurred without notice or accounting for the proceeds thereof. We view your refusal as a repudiation of your contractual obligations, exposing the undersigned to a total loss of our interest and investment in the Note. Accordingly, we herewith declare the Note in default, and the entire balance due and payable thereunder. According to our calculations, the present balance due and owing on the all-inclusive note is \$1,538,000 with interest at the rate of 12% per annum, less the outstanding balance on the underlying HUD note. Based on the undivided interest due and owing to the undersigned and an estimated balance on the HUD note of \$579,600 (as of 8/1/98), the amount due and payable to the undersigned is \$401,570, plus accrued interest. You may make payment by directing a check jointly to the undersigned and delivering same to our counsel Bradley Tabach-Bank.

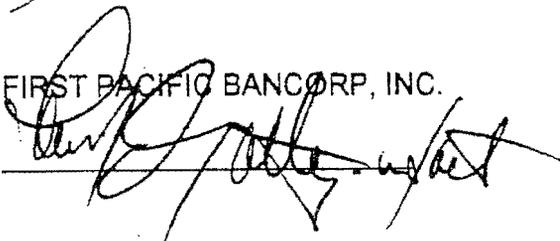
If payment is not received within 30 days we will commence all action necessary to enforce our rights.

Sincerely,

ROYAL HOUSING, INC.

By:  _____

FIRST PACIFIC BANCORP, INC.

By:  _____

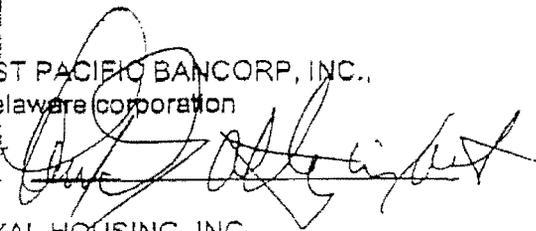
NOTICE OF DISPOSITION OF COLLATERAL ON DEFAULT

Pursuant to Section 9504 of the California Commercial Code and the Laws of Puerto Rico, First Pacific Bancorp, Inc., a Delaware corporation and Royal Housing, Inc., a California corporation, the undersigned as secured parties under a security agreement executed by Partnership Investor Services, Inc., a District of Columbia corporation, Westport Housing Corporation, a Delaware Limited partnership, Martin Housing fund, Ltd., a District of Columbia limited partnership, Sherman Investment Fund, Ltd., a District of Columbia limited partnership, and Sherman II Investment Fund, Ltd., a District of Columbia limited partnership, as debtors on September 1, 1983, gives notice to, Partnership Investor Services, Inc., a District of Columbia corporation, Westport Housing Corporation, a Delaware Limited partnership, Martin Housing fund, Ltd., a District of Columbia limited partnership, Sherman Investment Fund, Ltd., a District of Columbia limited partnership, and Sherman II Investment Fund, Ltd., a District of Columbia limited partnership, that, because of the debtor's default under the security agreement, the collateral under the security agreement will be sold by the undersigned secured parties at a public sale on September 28, 1999, at 10:00 o'clock A.M. at 17609 Ventura Boulevard, Encino, California 91316.

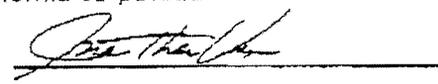
The collateral referred to in the preceding paragraph consists of: All the right, title and interest of the Debtors as either general or limited partners of San Martin Apartments, Ltd. I, a District of Columbia limited partnership (the "Purchaser") in accordance with the Limited Partnership Agreement of the Purchaser, as amended from time to time (the "Partnership Agreement"), including without limitation, any and all payments or distributions of whatever kind or character and whether in cash or in property, at any time made, owing or payable to Debtors, or either of them, in respect of or on account of its interest in Purchaser, whether due or to become due and whether representing profits, distributions pursuant to complete or partial liquidation or dissolution, or repayment of capital contributions, and the right to receive, use and enjoy all such payment and distributions, and all proceeds thereof, in every case whether now existing or hereafter acquired or arising, and excluding specifically, any and all promissory notes executed in favor of or assigned to any general partner or limited partner in the Purchaser and/or any and all letters of credit in favor of or assigned to any general partner or limited partner in the Purchaser and excluding specifically all cash derived from such promissory notes and/or letters of credit.

Dated: August 20 1999

FIRST PACIFIC BANCORP, INC.,
a Delaware corporation

By: 

ROYAL HOUSING, INC.,
a California corporation

By: 

doc/Disp-SanMartin

Law Offices
MICHAEL M. STEIN, INC.

A Professional Corporation
17609 Ventura Boulevard, Suite 201
Encino, California 91316-3825
Telephone (818) 788-2700
Facsimile (818) 788-2788
E-Mail mmsteininc@aol.com

OUR FILE #

VIA: Facsimile 310: 284-2025

September 29, 1999

Justin E. Budare, Esq.
Marcus, Watanabe, Snyder & Dave, LLP
1901 Avenue of the Stars
Suite 300
Los Angeles, CA 90067-6005

RE: Royal Housing, Inc. v. First Pacific Bancorp Wrap Note Claims

Dear Justin:

This will confirm that the UCC foreclosure sales that were to take place yesterday at my office at 10:00 a.m. have been postponed to remain at the same location on October 13, 1999. Please be advised that my clients are under no obligation to further postpone the sale.

Sincerely,



MICHAEL M. STEIN

MMS:bzs

cc: VIA FACSIMILES
E. Jay Gotfredson, Esq.
Brad Tabach-Bank, Esq.
George Kostakos, Esq.
Leonard Sands, Esq.
Royal Housing, Inc.

BIZVALPLUS, INC.

1997 THIRD PARTY BOOK VALUE RELIANCE

Tax Preparation
Tax Planning
Tax Consulting
Accredited Valuation Services
Business and Intangibles Valuation
Discount Reports

June 3, 2008

Mr. Jon Vines
Royal Housing, Inc.
7 Marchant Court
Kensington, CA 94707

Dear Jon:

This letter and enclosures are in response to the comments listed in the Franchise Tax Board auditor's review of the valuation of the HUD Residual Interest Wraps Notes ("RIWN's").

On September 29, 1997, Royal Housing, Inc. ("Royal", or the "Company") acquired Package Number 19577 of HUD loans from the Federal Deposit Insurance Corporation ("FDIC"), the RIWN's. The auditor suggests that an individual analysis of each RIWN's face value, book value, maturity date or value of the underlying security should have been done. The description in the listings by the FDIC referred to the RIWN's as nonperforming residual receipt notes, and further described them as varied percentage interests or vendor's interests in **unsecured** notes wrapped around HUD notes. The FDIC sold them for 10% of their ostensible face values. As we described in our report:

In the specific instance, a pool of notes that wrap FDIC notes on HUD, or low income housing projects that are to be repaid out of excess income, or the residual income from the project after operating costs, reserves and other, more senior debt obligations are satisfied. *If there is no excess or residual cash flow, then the note holders receive nothing.*

These notes were further described in the May issue, Volume 57, of *The Business Lawyer*. In an article by Richard Sauer, Esquire, and Assistant Director in the Division of Enforcement of the Securities Exchange Commission, he noted that in one fraud case that the SEC examined, *First Pacific v. SEC*, had committed securities fraud when it overstated the values of "residual interest wrap notes". The SEC noted that these obligations are not true notes, but are rather unsecured, contingent claims against partnerships that generated no cash during their terms, and could take many years to repay. Indeed, some notes could last as long as 40 years.

Mr. Jon Vines

Page 2

Mr. Sauer also noted that many of these HUD real estate partnerships were tax shelter partnerships that produced little, if any economic benefit aside from the tax benefits produced. Because of this, cash flow to repay these notes was highly unlikely to be forthcoming.

The SEC ultimately determined that because of the speculative and contingent nature of the notes, that they had an indeterminate or unascertainable cash value. So, a pre-imminent government body such as the **SEC determined in litigation that these notes were so speculative as to preclude a finding as to their value,** that only ultimate collection was available as a way to value them, and only at the point in time of collection.

We note the enclose term sheet reflects the basics of each RIWN. Most had maturity dates of 2011 or 2023, a full 9 years for some and 21 years for the balance. Only one had a maturity date of 2003, and its ostensible payoff amount was only \$70,873. We enclose a copy of the signed term sheet along with the FDIC's Loan Sale sheet. All interest rates were above 10, and were mostly at 12% or higher. Those rates are equivalent to rates paid on junk bonds. The exception is that junk bonds at the valuation date traded at much higher principal values. Reducing the principal paid increases the potential return, which is what investors demand with higher levels of risk. The term sheet also indicated the transaction agreement's participation rates in future cash flows. As can be seen from the above, RIWN's do not lend themselves to a traditional financial analysis.

The auditor suggests that the reason for the values selected was not disclosed, and so appears arbitrary. We again quote from the report.

We will use just four possible outcomes: \$59,999, \$444,290, \$1,029,157 and \$4,388,220. The values herein are book value or book investment for Royal Housing for the low value, total remaining book value of the notes per the FDIC schedule after the initial collection, the value so obtained in final settlement and finally the remaining total book value of the RIWN's.

As seen from the above, we fully describe each value and where the value was derived from.

The auditor next suggests that the weights assigned to the possible outcomes appear arbitrary. This may appear to be so but I not. It is an assignment of either likely or highly unlikely. A 5% weighting suggests the outcome is highly unlikely. The other two outcomes, the middle values were deemed to be equally likely, and therefore split the remaining available weights.

The values derived are for the entire RIWN's, of which Royal only has a 50% interest, so the values are reduced by the applicable percentage.

The auditor then suggests that litigation for collection was assumed. Actually it was not assumed it was a fact. We quote again.

Mr. Jon Vines
Page 3

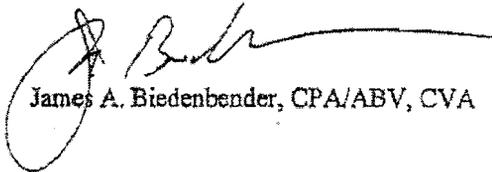
We also note that legal expense of slightly more than \$288,000 was incurred for negotiations and collections in the final settlement. That amount suggests that considerable effort was expended after the S Election in order to make the obligations worth acquiring by their maker, AFC and its affiliates. It can also be argued that without the legal efforts incurred after the S Election, that the notes would have remained as they were, and so the value attributable to the obligations at time of collection was created after the S election through the legal process.

Finally, the auditor says the entire Company was valued and that a discount for built-in gains tax was applied. That is settled tax law. The value of the notes cannot exceed the value of the Company.

In The Estate of Davis, 110 TC 530 (1996), the Courts approved valuations that took this built-gains tax into account. It was also permitted in Eisenberg, 82 AFTR 2d 98-5757 (CA-2, 1988) and in Estate of Jameson, TCM 1999-43. The Internal Revenue Service has acquiesced in this matter. There have been a litany of cases where the methodology to calculate this unrecorded liability has been scrutinized and discussed.

The issue is what is the net built-in gain for the Company, not what the value would be if the Corporate ownership were to be disregarded.

Very truly yours,


James A. Biedenbender, CPA/ABV, CVA

FDIC

Federal Deposit Insurance Corporation - Western Service Center

\$51,000,000 LOAN SALE

PACKAGE NUMBER	AGGREGATE BOOK VALUE	ASKING PRICE	PRICE AS % OF BOOK
19719	\$ 952,396	N/A	N/A
Perf Residential Real Estate Loans		Officer: Lynden Shigezawa	
19720	\$ 3,882,839	\$1,761,000	45.35%
Non-Perf Environmental Comm'l R/E Apartments		Officer: Kristine Gisolo	
19721	\$ 2,483,563	\$1,813,000	73.00%
Non-Perf Environmental Other Comm'l Real Estate		Officer: Kristine Gisolo	
19722	\$10,439,577	\$6,880,000	65.90%
Non-Perf Environmental Comm'l R/E Apartments		Officer: Kristine Gisolo	
19723	\$ 9,859,049	\$5,850,000	59.34%
Non-Perf Commercial Real Estate Loans		Officer: Lynden Shigezawa	
19724	\$ 8,288,236	\$7,500,000	90.50%
Non-Perf Environmental Comm'l R/E Retail (single asset)		Officer: Kristine Gisolo	
19725	\$ 1,791,878	\$1,298,000	72.44%
Non-Perf Commercial Land Loans		Officer: Lynden Shigezawa	
19726	\$ 6,327,026	\$4,281,000	67.66%
Non-Perf Environmental Comm'l Apartment (2 asset line)		Officer: Kristine Gisolo	
19727	\$ 1,529,892	\$1,354,000	88.50%
Non-Perf Environmental Comm'l R/E Apt. (single asset)		Officer: Kristine Gisolo	
19577	\$ 5,333,533	\$ 533,353	10.00%
Non-Perf Residual Receipt Notes (HUD WRAP NOTES)		Officer: Kristine Gisolo	

Date: August 22, 1997

FEDERAL DEPOSIT INSURANCE CORPORATION

BULLETIN # 3

BULK SALES 19720, 19721, 19722, 19724, 19726, 19727, & 19577

The Loans Sales Department of the Western Service Center of the Federal Deposit Insurance Corporation ("FDIC") has some pertinent information to announce.:

SALE NUMBER	DESCRIPTION OF ASSETS	NUMBER OF ASSETS	BOOK VALUE
19720	NP Environmental Coml Loans - Apts	7	\$3,882,838
19721	NP Environmental Coml Loans - Other R/E	4	\$2,483,563
19722	NP Environmental Coml Loans- Apts	27	\$10,439,577
19724	NP Environmental Coml Loan - Retail Center	1	\$8,288,236
19726	NP Environmental Coml Loans - Apts	2	\$6,327,025
19727	NP Environmental Coml Loan - Apt	1	\$1,529,892
19577	Residual Receipt Notes (HUD WRAP NOTES)	11	\$5,333,522

BID DEADLINE: Wednesday, September 3rd 2:00 PDT

General statement for all referenced pools:

Please note that any funds being held by a rent receiver for rents and security deposits will be transferred and forwarded on to the winning bidder.

19722 - please note that two of the Housing Authority of Kern County notes are being modified and will be extended and assumed by the party currently making the payments; the modification was approved by the FDIC in accordance with the terms of the RTC bridge loan (loan to facilitate) and

19726 - a copy of the current appraisal for property address;

19724 - FDIC has just been notified that one of the largest tenants filed a Chapter 11 bankruptcy;

Please tender your bids with this known information.

If you have any questions regarding bid procedures or about the packages, please contact Kristine Gisolo of the Western Service Center Loan Sales Department at (714) 263-7834.

The Buyer understands that his/her bid(s) are being submitted in accordance with the terms and conditions of each respective loan sale agreement and further acknowledges that the seller sells the loans without recourse on an "AS IS", "WHERE IS" basis.

Kristine Gisolo
FDIC
Loan Sales Specialist

cc: Sale File

ROYAL HOUSING, INC.
2001 CALIFORNIA TAX RETURN
EXHIBITS

REC'D SEP 15 2002 SAC



TAXABLE YEAR

2001

California Corporation

Franchise or Income Tax Return (NOT TO BE USED BY WATER'S-EDGE ELECTORS)

0201597624

FORM

100

calendar year 2001 or fiscal year beginning month day year 2001, & ending month day year 20

California corporation number: 1825670 Federal employer ID number (FEIN): [REDACTED]

Corporation name: Royal Housing, Inc.

Address: 7 Marchant Court PMB no. [REDACTED]

City: Kensington, CA State: CA ZIP Code: 94707-1217

A Final return? Merged/Reorganized IRC Section 338 sale QSub election Dissolved Surrendered (withdrawn) Enter date: _____

B Is income included in a combined report of a unitary group? Yes No If yes, indicate: wholly within CA (R&TC 25101.15) within and outside of CA

C If the corp filed on water's-edge basis pursuant to R&TC Sections 25110 & 25111 in previous years, enter the date water's-edge election ended: _____

D Was the corporation's income included in a consolidated federal return? Yes No

Questions continued on Side 2

STATE ADJUSTMENTS	1	Net income (loss) before state adjustments. See instructions.	● 1	3,288.
	2	Amount deducted for foreign or domestic tax based on income or profits.	● 2	
	3	Amount deducted for tax under the provisions of the Bank and Corporation Tax Law.	● 3	800.
	4	Interest on government obligations.	● 4	
	5	Net California capital gain from Schedule D, line 11.	● 5	
	6	Depreciation and amortization in excess of amount allowed under California law. Attach form FTB 3885.	● 6	
	7	Net income from corporations not included in federal consolidated return. See instructions.	● 7	
	8	Other additions. Attach schedule(s).	● 8	
	9	Total. Add line 1 through line 8.	● 9	4,088.
	10	Intercompany dividend deduction. Attach Schedule H (100).	● 10	
	11	Other dividend deduction. Attach Schedule H (100).	● 11	
	12	Additional depreciation allowed under CA law. Attach form FTB 3885.	● 12	
	13	Capital gain from federal Form 1120 or Form 1120A, line 8.	● 13	
	14	Contributions.	● 14	
	15	EZ, LAMBRA, or TTA business expense and net interest deduction.	● 15	
	16	Other deductions. Attach schedule(s).	● 16	
	17	Total. Add line 10 through line 16.	● 17	
	18	Net income (loss) after state adjustments. Subtract line 17 from line 9. See instructions.	● 18	4,088.
C INCOME	19	Net income (loss) for state purposes. Complete Sch R if apportioning income. See instructions.	● 19	4,088.
	20	Net operating loss (NOL) carryover deduction. See instructions.	● 20	
	21	Pierce's disease, EZ, LARZ, TTA, or LAMBRA NOL carryover deduction. See instructions.	● 21	
	22	Disaster loss carryover deduction. See instructions.	● 22	
	23	Net income for tax purposes. Combine line 20 through line 22, then subtract from line 19.	● 23	4,088.
T AXES	24	Tax. 8.84 % X line 23 (not less than minimum franchise tax, if applicable).	■ 24	800.
	25	Enter credit name _____ code no. _____ and amount: _____	▶ 25	
	26	Enter credit name _____ code no. _____ and amount: _____	▶ 26	
	27	To claim more than two credits, see instructions.	● 27	
	28	Add line 25 through line 27.	■ 28	
	29	Balance. Subtract line 28 from line 24 (not less than minimum franchise tax, if applicable).	■ 29	800.
	30	Alternative minimum tax. Attach Schedule P (100). See instructions.	■ 30	
31	Total tax. Add line 29 and line 30.	■ 31	800.	
P A Y M E N T S	32	Overpayment from prior year allowed as a credit.	■ 32	
	33	2001 estimated tax payments. See instructions.	■ 33	800.
	34	2001 Nonresident Withholding. See instructions.	■ 34	
	35	Amount paid with extension of time to file tax return.	■ 35	
	36	Total payments. Add line 32 through line 35.	■ 36	800.
D D R O R D E P O S I T O F A M O U N T D U E	37	Tax due. If line 31 is more than line 36, subtract line 36 from line 31. Go to line 41.	■ 37	0.
	38	Overpayment. If line 36 is more than line 31, subtract line 31 from line 36.	■ 38	
	39	Amount of line 38 to be credited to 2002 estimated tax.	■ 39	
	40	Refund. Amount of line 38 to be refunded. Line 38 less line 39. See DDR instructions.	■ 40	
		a Fill in the account information to have the refund directly deposited. Routing number: _____	● 40 a	
		b Type: Checking <input type="checkbox"/> Savings <input type="checkbox"/> c Account Number: _____	● 40 c	
	41 a	Penalties and interest. b <input type="checkbox"/> Check if estimate penalty computed using Exception B or C. See instructions.	■ 41 a	
42	Total amount due. Add line 37 and line 41. Pay with tax return.	■ 42	0.	

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Schedule D California Capital Gains and Losses

Part I Short-Term Capital Gains and Losses - Assets Held One Year or Less. Use additional sheet(s) if necessary.

(a) Kind of property and description (Example, 100 shares of Z Company)	(b) Date acquired (mo, day, yr)	(c) Date sold (mo, day, yr)	(d) Gross sales price	(e) Cost or other basis plus expense of sale	(f) Gain (loss) ((d) less (e))
1					
2	Short-term capital gain from installment sales from form FTB 3805E, line 26 or line 37				2
3	Unused capital loss carryover from 2000				3
4	Net short-term capital gain (loss). Combine line 1 through line 3				4

Part II Long-Term Capital Gains and Losses - Assets held More Than One Year. Use additional sheet(s) if necessary.

5					
6	Enter gain from Schedule D-1, line 9 and/or any capital gain distributions				6
7	Long-term capital gain from installment sales from form FTB 3805E, line 26 or line 37				7
8	Net long-term capital gain (loss). Combine line 5 through line 7				8
9	Enter excess of net short-term capital gain (line 4) over net long-term capital loss (line 8)				9
10	Net capital gain. Enter excess of net long-term capital gain (line 8) over net short-term capital loss (line 4)				10
11	Total of line 9 and line 10. Enter here and on Form 100, Side 1, line 5. Note: If losses exceed gains, carry forward losses to 2002.				11

Schedule J Add-On Taxes and Recapture of Tax Credits. See instructions.

1	LIFO recapture due to S corporation election (IRC Sec 1363(d) deferral \$ _____)	1
2	Interest computed under the look-back method for completed long-term contracts (Attach form FTB 3834)	2
3	Interest on tax attributable to installment: a Sales of certain timeshares and residential lots	3a
	b Method for nondealer installment obligations	3b
4	IRC Section 197(f)(9)(B)(ii) election	4
5	Credit recapture name	5
6	Combine line 1 through line 5, Revise Side 1, line 37 or line 38, whichever applies, by this amount. Write 'Schedule J' to the left of line 37 or line 38	6

Questions (continued from Side 1)

E Principal business activity code. (Do not leave blank): • 531390
 Business activity Investments
 Product or service Real Estate
 Date incorporated: 9/18/1992 • Where: State CA Country USA

G Date business began in California or date income was first derived from California sources: • 3/31/1993

H First return? • Yes No If 'Yes' and this corporation is a successor to a previously existing business, check the appropriate box:
 • (1) sole proprietorship (2) partnership (3) joint venture
 (4) corporation (5) other
 (attach statement showing name, address and FEIN of previous business)

I 'Doing business as' name: • _____

J Did this corporation or its subsidiary(ies) have a change in control or ownership, or acquire ownership or control of any other legal entity this year? • Yes No

K At any time during the taxable year, was more than 50% of the voting stock:
a Of the corporation owned by any single interest? • Yes No
b Of another corporation owned by this corporation? • Yes No
c Of this and one or more other corps owned or controlled, directly or indirectly, by the same interests? • Yes No
 If a or c is 'Yes,' enter the country of the ultimate parent: _____
 If a, b, or c is 'Yes,' furnish a statement of ownership indicating pertinent names, addresses and percentages of stock owned. If the owner(s) is an individual, provide the social security number.

L Was 50% or more of the stock of this corporation owned directly by another corporation during this taxable year? • Yes No

M Is this corporation apportioning income to California using Schedule R? • Yes No

N How many affiliates in the combined report are claiming immunity from taxation in California under Public Law 86-272? • _____

O Corporation headquarters are: • (1) Within California
 (2) Outside of California, within the U.S.
 (3) Outside of the U.S.

P Location of principal accounting records: address above

Q Accounting method: • (1) Cash (2) Accrual (3) Other

R Did this corporation or one of its subsidiaries make a federal election to be treated as a foreign sales corporation (FSC) or a domestic international sales corporation (DISC)? • Yes No

S Is this corporation a RIC for California purposes? • Yes No

T Is this corporation treated as a REMIC for California purposes? • Yes No

U Is this corporation a REIT for California purposes? • Yes No

V Is this corporation an LLC or limited partnership electing to be taxed as a corporation for federal purposes? • Yes No

W Is this corporation to be treated as a credit union? • Yes No

X Is the corporation under audit by the IRS or has it been audited by the IRS in a prior year? • Yes No

Y Have all required information returns (e.g. Federal Forms 1099, 5471, 5472, 8300, 3865, etc) been filed with the Franchise Tax Board? • N/A Yes No

Z During the taxable year, were gross receipts (less returns and allowances) of this corporation more than \$1 million? • Yes No

Please Sign Here Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

Signature of officer: _____ Title: _____ Date: 9/26/02 Telephone: 415-444-5550

Paid Preparer's Use Only Preparer's signature: [Signature] Date: SEP 9 2002 Check if self-employed:

Firm's name (or yours, if self-employed) and address: Suarez Accountancy Corporation
150 W. 7th Street, Suite 100
San Pedro, CA 90731 Telephone: (310) 832-7887

CACA0112L 01/07/02

Schedule L Balance Sheets	Beginning of taxable year		End of taxable year	
	(a)	(b)	(c)	(d)
Assets				
1 Cash		7,735.		6,416.
2a Trade notes and accounts receivable				
b Less allowance for bad debts				
3 Inventories				
4 Federal and state government obligations				
5 Other current assets				
6 Loans to stockholders/officers. Attach sch				
7 Mortgage and real estate loans				
8 Other investments	See Stm 4	801,436.		323,596.
9a Buildings and other fixed depreciable assets				
b Less accumulated depreciation				
10a Depletable assets				
b Less accumulated depletion				
11 Land (net of any amortization)				
12a Intangible assets (amortizable only)	1,442.		1,442.	
b Less accumulated amortization	1,442.		1,442.	
13 Other assets				
14 Total assets		809,171.		330,012.
Liabilities and stockholders' equity				
15 Accounts payable				
16 Mortgages, notes, bonds payable in less than 1 year				
17 Other current liabilities	See Stm 5	170,805.		150,805.
18 Loans from stockholders		83,321.		26,276.
19 Mortgages, notes, bonds payable in 1 year or more		436,955.		
20 Other liabilities	See Stm 6	1.		32,000.
21 Capital stock: a Preferred stock				
b Common stock	43,500.	43,500.	43,500.	43,500.
22 Paid-in or capital surplus. Attach reconciliation				
23 Retained earnings — Appropriated				
24 Retained earnings — Unappropriated		74,589.		77,431.
25 Adjustments to shareholders' equity (attach sch)				
26 Less cost of treasury stock				
27 Total liabilities and stockholders' equity		809,171.		330,012.

Schedule M-1 Reconciliation of income (loss) per books with income (loss) per return
 This schedule does not have to be completed if the amount on Schedule L, line 14, column (d), is less than \$25,000.

1 Net income per books	2,842.	7 Income recorded on books this year not included in this return (itemize)	
2 Federal income tax	446.	a Tax-exempt interest \$	
3 Excess of capital losses over capital gains			
4 Taxable income not recorded on books this year (itemize)		8 Deductions in this return not charged against book income this year (itemize)	
5 Expenses recorded on books this year not deducted in this return (itemize)		a Depreciation \$	
a Depreciation \$		b State tax refunds \$	
b State taxes \$			
c Travel and entertainment \$		9 Total. Add line 7 and line 8	0.
6 Total. Add line 1 through line 5	3,288.	10 Net inc per return. Subtract line 9 from line 6	3,288.

Schedule M-2 Analysis of unappropriated retained earnings per books (Schedule L, line 24)
 This schedule does not have to be completed if the amount on Schedule L, line 14, column (d), is less than \$25,000.

1 Balance at beginning of year	74,589.	5 Distributions: a Cash	
2 Net income per books	2,842.	b Stock	
3 Other increases (itemize)		c Property	
		6 Other decreases (itemize)	
4 Total. Add line 1 through line 3	77,431.	7 Total. Add line 5 and line 6	
		8 Balance at end of yr. Subtract ln 7 from ln 4	77,431.

Client 108114

Royal Housing, Inc.

1825670

3/07/02

04:53PM

Statement 1
Form 100, Schedule F, Line 5(b)
Other Interest

Bank of America.....	\$	162.
Royal Apartments.....		2,444.
Total	\$	<u>2,606.</u>

Statement 2
Form 100, Schedule F, Line 10
Other Income

Net Income - Royal Apartments.....	\$	19,716.
Total	\$	<u>19,716.</u>

Statement 3
Form 100, Schedule F, Line 27
Other Deductions

Accounting.....	\$	1,132.
Bank Charges.....		84.
CA filing fee.....		20.
Legal and Professional.....		37,000.
Total	\$	<u>38,236.</u>

Statement 4
Form 100, Schedule L, Line 8
Other Investments

	<u>Beginning</u>	<u>Ending</u>
Investment in Royal Apts.....	\$ 90,632.	\$ 112,792.
Investment in WRAPs.....	539,999.	59,999.
Notes receivable-Royal Apts.....	170,805.	150,805.
Total	\$ <u>801,436.</u>	\$ <u>323,596.</u>

Statement 5
Form 100, Schedule L, Line 17
Other Current Liabilities

	<u>Beginning</u>	<u>Ending</u>
Deferred credit-excess of acq. assets.....	\$ 170,805.	\$ 150,805.
Total	\$ <u>170,805.</u>	\$ <u>150,805.</u>

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ROYAL HOUSING, INC.
2002 CALIFORNIA TAX RETURN
EXHIBIT

Client 108114

Royal Housing, Inc.

1825670

Statement 1
Form 100, Schedule A
Taxes Deducted

Nature of Tax	Taxing Authority	Total Amount	Nondeduct. Amount
Investment expenses		\$ 466.	\$ 0.
Licenses and Permits	Sec. of State	20.	0.
State Tax	Franchise Tax Board	800.	800.
Total		\$ 1,286.	\$ 800.

Statement 2
Form 100, Schedule F, Line 5(b)
Other Interest

Bank of America.....	\$ 104.
Royal Apartments.....	2,250.
Total	\$ 2,354.

Statement 3
Form 100, Schedule F, Line 10
Other Income

Net Income - Royal Apartments.....	\$ 23,647.
Total	\$ 23,647.

Statement 4
Form 100, Schedule F, Line 27
Other Deductions

Accounting.....	\$ 2,383.
Bank Charges.....	126.
Legal and Professional.....	72,660.
Supplies.....	265.
Total	\$ 75,434.

Statement 5
Form 100, Schedule L, Line 8
Other Investments

	Beginning	Ending
Investment in Royal Apts.....	\$ 112,792.	\$ 136,002.
Investment in WRAPs.....	59,999.	59,999.
Notes receivable-Royal Apts.....	150,805.	119,780.
Total	\$ 323,596.	\$ 315,781.

ROYAL HOUSING, INC.
2003 CALIFORNIA TAX RETURN
EXHIBITS



STATE OF CALIFORNIA
 FRANCHISE TAX BOARD
 PO BOX 942857
 SACRAMENTO CA 94257-0021

TELEPHONE: (800) 852-5711

**NOTICE OF ACTION ON
 PROPOSED ASSESSMENT**

SEE THE ENCLOSURE FOR MORE INFORMATION AND AN EXPLANATION OF YOUR RIGHTS AND RESPONSIBILITIES.

Mailing address:

Notice #: 8811136090205
 ROYAL HOUSING, INC.
 7 MARCHANT CT
 KENSINGTON, CA 94707-1217

Date: February 27, 2009
 Appeal By : 03/30/2009

Entity ID : CORP 1825670
 NPA Number : 00163514
 NPA Date : 12/18/2006
 Ref Number :

Taxable Year : 12/31/2003
 D.L.N. : 5004003656001

Amount : \$76,647.00
 Revenue Code: 3431830:CLA

Issued to:

ROYAL HOUSING, INC.

The Franchise Tax Board has considered your protest against the proposed assessment. As a result, we have revised the proposed assessment as follows.

NET INCOME AS REPORTED	\$	1,033,339.00
ADJUSTMENTS:		
CR&TC SECTION 23802(E)	-1,033,339.00	
TOTAL ADJUSTMENTS		-1,033,339.00
REVISED TAXABLE NET INCOME	\$	0.00
MINIMUM TAX		800.00
OTHER TAX:		
TAX FROM SCHEDULE D	91,347.00	
TOTAL OTHER TAX	\$	91,347.00
TOTAL TAX	\$	92,147.00
LESS PREVIOUSLY ASSESSED	\$	15,500.00
TOTAL ADDITIONAL TAX	\$	76,647.00
TOTAL	\$	76,647.00

Based upon the recommendation of the Hearing Officer, we are revising the built-in-gain tax related to the sale of the wrap notes per Section 1374 to which California Revenue and Taxation Code section 23809 conforms. IRC Section 1374(d)(2)(A) limits the net recognized built-in gain during any year to the corporation's taxable income for that taxable year. Therefore, the net recognized built-in gain for TYE 12/2003 is reduced from \$1,084,158 (per audit) to \$1,033,339, your net taxable income for the year. Please note that the remaining built-in gain from the sale of the wrap notes of \$892,181 (\$1,925,520-\$1,033,339) needs to be carried forward and treated as a recognized built-in gain in any succeeding taxable year in which you have taxable income. See the Hearing Officer's Preliminary Position Letter dated 09/18/2008 and Determination Letter dated 01/08/2009 for details.

This notice includes only additional tax and/or penalties. It does not include interest. Interest is assessed from the original due date of the return to the date Franchise Tax Board receives payment. When the

FOLDER

30

**S Corporation
Capital Gains and Losses and Built-In Gains**

2003

D (100S)

Corporation name as shown on Form 100S

California corporation number

Royal Housing, Inc.

1825670

SECTION A — 8.84% Tax on Built-In Gains

Part I Short-Term Capital Gains and Losses — Assets Held One Year or Less. Use additional sheet(s) if necessary.

1	(a) Description of property (Example: 100 shares 7% preferred of 'Z' Company)	(b) Date acquired (month, day, year)	(c) Date sold (month, day, year)	(d) Gross sales price	(e) Cost of other basis plus expense of sale	(f) Gain (loss) (d) less (e)
2	Short-term capital gain from form FTB 3805E, line 26 or line 37 and federal Form 8824. See instructions					2
3a	Net short-term capital gain (loss). Combine line 1, column (f) and line 2					3a
b	Tax on short-term capital gain(s) included on line 12 below					3b
c	Subtract line 3b from line 3a. Enter this amount on Form 100S, Schedule K, column (d), line 4d or line 6					3c

Part II Long-Term Capital Gains and Losses — Assets Held More Than One Year. Use additional sheet(s) if necessary.

4						
5	Long-term capital gain from form FTB 3805E, line 26 or line 37 and federal Form 8824. See instructions					5
6a	Net long-term capital gain (loss). Combine line 4, column (f) and line 5					6a
b	Tax on long-term capital gain(s) included on line 12 below					6b
c	Subtract line 6b from line 6a. Enter this amount on Form 100S, Schedule K, column (d), line 4e or line 6					6c

Part III Tax on Built-In Gains. See instructions before completing this part.

7	Excess of recognized built-in gains over recognized built-in losses attributable to California. Attach computation schedule	7	
8	Taxable income. See the instructions for federal Schedule D (Form 1120S). Use California amounts	8	
9	Enter the smaller of line 7 or line 8 or computed amount. See instructions	9	
10	Net operating loss (NOL) carryover deduction from years the corporation was a C corporation. See instructions	10	SUSPENDED
11	For 2003 tax year, enter the amount from line 9. If zero or less, enter -0- here and on line 12	11	
12	Tax on built-in gains. Multiply line 11 by 8.84% (financial S corporations must use 10.84%). Enter here and on Form 100S, Side 1, line 28	12	

Part IV Net Capital Gains (Losses)

Combine amounts on Part I, line 3a and Part II, line 6a. Enter here and on Form 100S, Side 1, line 4

SECTION B — 1.5% Tax on Capital Gains

Part I Short-Term Capital Gains and Losses — Assets Held One Year or Less. Use additional sheet(s) if necessary.

1						
2a	Short-term capital gain from form FTB 3805E, line 26 or line 37 and federal Form 8824. See instructions					2a
b	Combine line 1, column (f) and line 2a. Enter here and on Form 100S, Schedule K, column (d), line 4d or line 6					2b
c	Unused capital loss carryover from 2002 attributable to the S corporation					2c
3	Net short-term capital gain (loss). Combine line 2b and line 2c					3

Part II Long-Term Capital Gains and Losses — Assets Held More Than One Year. Use additional sheet(s) if necessary.

4	Wrap notes	9/29/97	10/15/03	1,229,157.	144,999.	1,084,158.	
5	Enter gain from Schedule D-1, line 9 and/or any capital gain distributions					5	
6	Long-term capital gain from form FTB 3805E, line 26 or line 37 and federal Form 8824. See instructions					6	
7	Net long-term capital gain (loss). Combine line 4, column (f) through line 6. Enter here and on Form 100S, Schedule K, column (d), line 4e or line 6					7	1,084,158.
8	Enter excess of net short-term capital gain Section B, Part I (line 3) over net long-term capital loss Section B, Part II, line 7					8	
9	Net capital gain. Enter excess of net long-term capital gain (line 7) over net short-term capital loss (line 3)					9	1,084,158.
10	Total line 8 and line 9. If line 10 is a gain, enter here and on Form 100S, Side 1, line 4. If line 10 is a loss, carry forward losses to year 2004					10	1,084,158.

Client 108114

Royal Housing, Inc.

1825670

Statement 1
Form 100S, Line 7
Other Additions

CA Passive Activity Adjustment.....	\$	80.
Net Income from Rental Real Estate Activities.....		16,748.
Total	\$	<u>16,828.</u>

Statement 2
Form 100S, Schedule F, Line 20
Other Deductions

Accounting.....	\$	1,440.
Bank Charges.....		130.
Legal and Professional.....		70,744.
Total	\$	<u>72,314.</u>

Statement 3
Form 100S, Schedule K, Line 21
Other Items

S Corporation's Aggregate Gross Receipts.....	\$	1,233,092.
---	----	------------

Statement 4
Form 100S, Schedule L, Line 8
Other Investments

	<u>Beginning</u>	<u>Ending</u>
Investment in Royal Apts.....	\$ 136,002.	\$ 153,482.
Investment in WRAPs.....	59,999.	0.
Notes receivable-Royal Apts.....	119,780.	119,780.
Total	\$ <u>315,781.</u>	\$ <u>273,262.</u>

Statement 5
Form 100S, Schedule L, Line 17
Other Current Liabilities

	<u>Beginning</u>	<u>Ending</u>
Deferred credit-excess of acq. assets.....	\$ 119,780.	\$ 119,780.
Total	\$ <u>119,780.</u>	\$ <u>119,780.</u>

DEMIT SEP 15 2004 SAC



15977

TAXABLE YEAR 2003 California S Corporation Franchise or Income Tax Return

0365601

PASS FORM 100S

040 0365601

Header section containing taxpayer information: California corporation number 1825670, Federal employer identification number, Corporation name Royal Housing, Inc., Address 7 Marchant Court, Kensington, CA 94707-1217, Business activity Investments, Product or service Real Estate.

Main table with columns for STATE ADJUSTMENTS, INCOME, TAXES, PAYMENTS, and REFUND OR AMOUNT DUE. Rows include Ordinary income (line 1), Net income (line 15), Tax (line 22), Total tax (line 30), and Total amount due (line 42).

33

CALIFORNIA REV. TAX CODE SECTION 24345

CALIFORNIA REVENUE AND TAXATION CODE SECTION 24345.

A deduction shall be allowed for taxes or licenses paid or accrued during the taxable year, except:

(a) Taxes paid to the state under this part.

(b) Taxes on or according to or measured by income or profits paid or accrued within the taxable year imposed by the authority of any of the following:

(1) The Government of the United States or any foreign country.

(2)

(2) Any state, territory, county, school district, municipality, or other taxing subdivision of any state or territory.

**CORPORATION TAX LAWS
AND REGULATIONS**

PART 11, DIV. 2, REVENUE AND TAXATION CODE

Chapter 1. General Provisions and Definitions

Article 1. General Provisions

Section 23001

[Title.] This part is known and may be cited as the Corporation Tax Law.

(Sec. 23001 is as amended by Ch. 543 (S.B. 1185), Laws 2001, effective January 1, 2002.)

(Uncodified Law) [Technical corrections made by T.A.M.R.A.] Sections 1001 to 2005, inclusive, of the federal Technical and Miscellaneous Revenue Act of 1988 (Public Law 100-647) enacted numerous technical corrections to provisions of the Internal Revenue Code, the Tax Reform Act of 1986 (Public Law 99-514), the Omnibus Budget Reconciliation Act of 1986 (Public Law 99-509), and the Omnibus Budget Reconciliation Act of 1987 (Public Law 100-203), some of which are incorporated into Part 10 (commencing with Section 17001) and Part 11 (commencing with Section 23001) of Division 2 of the Revenue and Taxation Code by specific reference. Unless specifically provided otherwise, those technical corrections made by Public Law 100-647 to provisions which are incorporated by reference into Part 10 (commencing with Section 17001) and Part 11 (commencing with Section 23001) are declaratory of existing law and shall be applied in the same manner as specified in Public Law 100-647.

(Uncodified Sec. 162, Ch. 1352, Laws 1989.)

Section 23002

[IRC § 7851]

[Application.] Except where otherwise expressly provided, all of the provisions of this part are applicable to the taxes imposed respectively under Chapter 2 (commencing with Section 23101), Chapter 2.5 (commencing with Section 23400), or Chapter 3 (commencing with Section 23501), or to the predecessor acts of this part, the Bank and Corporation Franchise Tax Act or the Corporation Income Tax Act, respectively.

(Sec. 23002 is as amended by Ch. 877, Laws 1993, applicable to income years beginning on or after January 1, 1993.)

Section 23003

[References.] A reference made in this part by number without further identification:

- (a) To a division, is a reference to that division of this code.
- (b) To a part, is a reference to that part in this division.
- (c) To a chapter, is a reference to that chapter in which it is made.
- (d) To an article, is a reference to that article in the chapter in which it is made.

Section 23004

[IRC § 7805]

[Regulations authorized.] Whenever this part refers to "regulations of the Franchise Tax Board," or makes similar reference, the reference authorizes the Franchise Tax Board to make rules and regulations as to the subject matter concerning which the reference is made.

ROZET
EXHIBITS

Suarez Accountancy Corporation

Richard Suarez, Jr. CPA
(licensed in CA and NV)

September 25, 2006

Franchise Tax Board
Ms. Araceli Ponce-Garcia
Attn: 343:APG:F150
P.O. Box 1673
Sacramento, CA 95812-1673

Re: Royal Housing, Inc.
CCN: 1825670
Year: 2003

Via UPS Overnight Delivery

Dear Ms. Ponce-Garcia

This is a follow up to my original letter dated May 31, 2006. As we discussed, at issue is the fair market value as of January 1, 2003, of the wrap notes which were sold by Royal Housing during the year.

Fair market value is defined as the price for which a property would change hands between a willing buyer and seller, both knowing all the facts and neither being obligated to buy or sell.

Wrap notes are not like a second trust deed which is collateralized by real estate. Wrap notes were a liability of the partnership that owned the property. These particular notes were the liability of partnership's controlled by Associated Financial Corporation and its owner Bruce Rozet. In the late 1980's, Associated Financial Corporation acquired Housing Resources Management (HRM), a property management company specializing in HUD properties. Both principals of Royal Housing, Inc. (RHI) were employed by HRM at the time, but separated in later years. HRM managed the partnerships with the wrap notes.

At some point in time the notes became property of the FDIC and were offered at auction. RHI was determined to be the highest bidder only after the highest bidder (Rozet's firm, AFC) was disqualified because of a conflict of interest. Other lower bidders were financial institutions.

I have enclosed copies of the FDIC bid solicitation, loan sale agreement, purchasers representation letter and sale documents, with sections highlighted regarding the highly speculative nature of the investments.

1891 N. Gaffey Street, Suite 217
San Pedro, California 90731
310-832-7887 telephone
310-832-6563 facsimile

38

Ms. Araceli Ponce-Garcia
September 25, 2006
Page two

Although they eventually did realize a profit, this was hardly determinable at January 1, 2003. By nature the notes did not have a due date and were subject to negotiation with Bruce Rozet and AFC. Additionally, some of the documentation regarding the notes was not available from the seller of the notes (FDIC). Bruce Rozet was described as a slumlord and constantly at odds with the U.S. Department of Housing and Urban Development (HUD) and subject of investigation by the HUD office of the Inspector General. He was extremely difficult to deal with at any level. I have enclosed articles discussing Mr. Rozet and his troubles with HUD.

It is our argument that the fair market value of the notes remained the same as the initial purchase, since the buyer and seller were bidding on the same notes and tendered bids which were almost identical. Add to this the fact that the FDIC, the then willing seller, sold these notes for approximately the initial asking price. The notes or terms did not change since this sale. These notes were sold to one of the few parties with the knowledge and expertise to recognize a potential gain. But that was not certain until the sale was actually funded by the owners. They were the only willing sellers.

IGNORES
ROYAL'S
DECLARATION
THAT NOTES
DUE AND
PAYABLE

We, the RHI shareholders and I, have significant experience in dealing with HUD properties. HUD residual receipts notes are payable only from proceeds of a sale, exchange or refinance. Properties usually have use agreements whereby, the properties must remain low income for a number of years. Since HUD subsidizes the rents, there is usually no incentive to refinance. Even if they did receive refinance proceeds they were under no obligation to repay the notes since they were partnerships liabilities not collateralized by the real estate.

A valuation of the 'wrap notes' was not prepared at January 1, 2003 because we considered the original purchase price to be the best indication of fair market value.

I would request that you review the enclosed information and call with any questions. I also would offer to meet with you personally and explain anything in this letter at your convenience.

Sincerely,



Richard Suarez, Jr.

Enclosures

ALL-INCLUSIVE RESIDUAL NOTE
AND AGREEMENT

San Martin Twin Towers

Los Angeles, California,

\$9,720,000.00

For value received, the undersigned (the "Maker") promises to pay to SAN MARTIN TWIN TOWERS, LTD. a District of Columbia limited partnership ("Payee"), at 11812 San Vicente Boulevard, Ste. 600, Los Angeles, California 90049, or at such other place as Payee may from time to time designate in writing, the sum of NINE MILLION SEVEN HUNDRED TWENTY THOUSAND DOLLARS (\$9,720,000.00), with interest from the Effective Date hereof on such amount of principal as may be unpaid from time to time during the term of this Note at the rate of 14% per annum, principal and interest payable in equal consecutive monthly installments of ONE HUNDRED THIRTEEN THOUSAND EIGHT HUNDRED THIRTY-FIVE DOLLARS (\$113,835.00) on the fifth day of every month (the "Payment Date"), beginning on the fifth day of December 5, 1983, and continuing until the Maturity Date, at which time the then unpaid principal balance of this Note together with all accrued and unpaid interest thereon shall be paid in full.

This Note and all sums due hereunder shall be immediately due and payable on the Maturity Date or on a sale or refinancing of the Project or as herein provided, whichever shall first occur.

The total amount of this Note includes the unpaid principal balance of the HUD Note (as defined herein) together with all accrued but unpaid interest thereon. As of December 31, 1982, the unpaid principal balance of the HUD Note is SIX MILLION FIVE HUNDRED THIRTY-SIX THOUSAND NINETY-FIVE DOLLARS (\$6,536,095.00).

This Note is secured by the Collateral described in the Security Agreement of even date herewith.

ARTICLE 1

Compliance with HUD Regulations

Section 1.1. Notwithstanding anything herein contained to the contrary, Payee and Maker hereby agree that, so long as the same shall be in force, the Regulatory Agreement, and/or any modification, amendment or replacement thereof, shall control the operation of the Project. Moreover, Payee and Maker hereby agree that so long as a contract for mortgage insurance continues in effect, and during such further period of time as HUD shall be the owner, holder or insurer of the HUD Mortgage, or during any time that HUD is obligated to insure a mortgage on the Project, the Project will be operated strictly in accordance with the HUD Mortgage and the Regulatory Agreement, the applicable provisions of the National Housing Act, as amended, and the regulations promulgated thereunder by HUD. No provision of this Note: (i) shall be deemed to release Payee from its obligations and responsibilities under its various agreements with HUD nor (ii) create additional rights or defenses in the event of a foreclosure by HUD other than those rights and defenses existing under the HUD Mortgage.

Section 1.2. In furtherance of Payee's and Maker's undertaking that so long as the Regulatory Agreement is in force the Project will be operated strictly in accordance therewith, Payee hereby acknowledges that Maker does not have the right to, and shall not, use or apply any rents, profits or other income received by the Maker from the

Section 2.6. "HUD Note" shall mean that certain promissory note executed by Payee in the original principal amount of _____ DOLLARS (\$ _____), secured by the HUD Mortgage.

Section 2.7. "Improvements" shall mean those improvements and structures located upon the Land consisting of, among other things, a 360 unit rental housing project commonly known as San Martin Twin Towers identified among the records of HUD as FHA Project No. 056-44042-LDP.

Section 2.8. "Land" shall mean that certain tract of real property situated in Guaynabo, Puerto Rico legally described on Exhibit "A" attached hereto and made a part hereof upon which the Improvements are located, together with any and all rights and appurtenances thereto, including any right, title and interest of Payee in and to adjacent streets, alleys, or rights-of-way.

Section 2.9. "Maker" shall mean that entity so designated in the first paragraph of this Note, its successors and assigns.

Section 2.10. "Maturity Date" shall mean the fifth day of December, 2023

Section 2.11. "Monthly Installments" shall mean the monthly installment payments of principal and interest due on the Note and a reference to "Monthly Installment" shall be to any one of the Monthly Installments.

Section 2.12. "Note" shall mean this All-Inclusive Residual Note and Agreement.

Section 2.13. "Payee" shall mean the Payee above named.

Section 2.14. "Payee's Agent" shall mean that person or entity designated by Payee pursuant to Section 4.1 to receive payments required to be made hereunder by Maker to Payee.

Section 2.15. "Payment Due Date" shall mean the fifth day of each month after the Effective Date.

Section 2.16. "Personal Property" shall mean all items of tangible and intangible personal property owned by the Payee and used on, about or in connection with the operation of the Land and the Improvements.

Section 2.17. "Project" shall collectively mean the Land, the Improvements and the Personal Property.

Section 2.18. "Regulatory Agreement" shall mean that certain Regulatory Agreement entered into by and between Payee and HUD which is incorporated by reference into the HUD Mortgage and which Regulatory Agreement Maker agrees to execute as required by HUD.

Section 2.19. "Section 2.19 Amount" shall mean, on a monthly basis, the amount of the gross receipts received by Maker from the operation of the Project which are applied as required by the terms of the Regulatory Agreement to the payment of the HUD Note along with all applicable reserves and escrows required by HUD to be funded pursuant to the Regulatory Agreement and on such a periodic basis as permitted by HUD any allowable distribution of Surplus Cash or Residual Receipts pursuant to the terms of the Regulatory Agreement. Maker shall apply gross receipts received from

1 DECLARATION OF WILLIAM HARRISON

2 I, William Harrison, under penalty of perjury declares as follows:

3 1. I am personally familiar with all matters stated herein and could
4 competently testify thereto if called.

5 2. I am and have been since its formation in 1992 the Vice President of Royal
6 Housing, Inc., a California corporation ("Royal"). From 1984 until 1989, I was employed
7 as the President of Housing Resources Management ("HRM"), a management company
8 formed by A. Bruce Rozet ("Rozet") and Dean Ross (the "Rozet Group") to manage
9 various HUD-assisted rental projects that were owned by partnerships under the control
10 of the Rozet Group entities. From 1989 to present I have been employed by Eugene
11 Burger Management Corporation ("EBMC") in Greenbrae, California.

12 3. In 1997, Royal submitted a purchase bid with the Federal Deposit
13 Insurance Corporation ("FDIC") to acquire certain residual interest wrap notes ("RIWNs")
14 they were offering for sale as part of the liquidation of First Pacific Bank ("Bank"). The
15 RIWNs were purchase money instruments received by the Sellers of the eleven HUD
16 projects. HUD Regulations preclude any secondary financing on a project, less the
17 holder of the HUD-insured first mortgage consents. Such consent is routinely refused
18 and so, alterative collateral in the form of 100% of the partnership interest in the Debtor
19 partnership on each of the RIWNs is pledged as collateral. On September 26, 1997, our
20 bid was accepted by the FDIC and we subsequently purchased the interests in eleven
21 RIWNs listed on Exhibit "A" hereto.

22 4. Each of the projects on which Royal has an RIWN was appraised in 1992
23 by the FDIC. Based on appraisal information in the FDIC files - both the 1992 full
24 appraisals and subsequent 1997 valuation letters from local real estate brokers - and
25 Royal's own assessments based on knowledge of similar properties, Royal has estimated
26 the balance due on the individual RIWNs (column L in Exhibit "A"). The shares of the
27 estimated balances due Royal and the Bancorp for their respective interests is shown on
28 the top and bottom halves of the exhibit. the balance due Royal and the Bancorp on the

1 Thomas Paine Square RIWN as of this assessment was \$2,301,413 and the balance due
2 on the remaining RIWNs, other than Spencer Street and Englewood was \$8,552,452.

3 5. The underlying notes on Englewood and Spencer Street have been paid off
4 and the proceeds were not used to satisfy the borrowers' obligations under the RIWNs.
5 The pay-off of the Englewood note was ascertained from an August 7, 1996 letter from
6 the Chicago HUD office to the FDIC that was found in the FDIC's files. It was
7 subsequently confirmed by a title search. The pay-off of the Spencer Street note was
8 disclosed during a conversation with Las Vegas HUD staff. I contacted and met with
9 Rozet to obtain payment as holder of the RIWNs. He refused to recognize Royal had an
10 interest in the RIWNs and repudiated any obligation to make any payments to Royal or
11 any other holder of the RIWNs.

12 6. In order to protect Royal and the Bancorp's interest in the RIWNs and to
13 avoid diversion of the proceeds of sales or refinancings of the remaining properties,
14 Royal and the Bancorp delivered to Roger Hartman, counsel for Plaintiffs, financing
15 statements (Form UCC-1) covering the collateral pledged to secure the RIWNs. Rozet
16 refused to execute the financing statements.

17 7. In my employment with EBMC I work closely with various government
18 agencies, including the Redevelopment Agency ("Agency") of the City and County of San
19 Francisco. I was informed in late 1999 by Sean Spear of the Agency that the Agency had
20 a considered and approved the purchase of the Thomas Paine Square project (See,
21 Exhibit "A"). I was advised that the Agency had reviewed a title search on the property
22 and found no information regarding the RIWN and was looking to pay the entire net
23 proceeds of any sale to a Rozet Group partnership which claimed to own the project free
24 and clear of any obligation other than the HUD insured first mortgage loan.

25 8. Each of the RIWNs is limited in payment to the holder only out of surplus
26 cash (i.e., operating revenues that HUD regulations permit to be distributed to owners),
27 and net sale or refinancing proceeds. I am familiar with the operations of one of the
28 RIWNs, Palmdale Park (See Exhibit "A") and am aware that the owners this year have

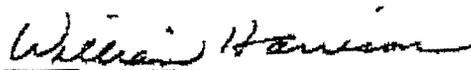
1 distributed \$87,403 in surplus cash to the partnership, none of which was paid to Royal or
2 Bancorp holders of the Palmdale RIWN.

3 9. In order to enforce collection of the Englewood and Spencer receivables,
4 which matured upon sale or refinancing, Royal filed complaints ("Complaints") in the
5 West District of the Superior Court for the County of Los Angeles against the respective
6 Debtor partnerships and their partners who had pledged their partnership interests as
7 collateral for the payment of the loan, being cases entitled and numbered, Royal Housing
8 vs. Englewood No. SC 053924 and Royal Housing v. Spencer Street, No. SC 057585.
9 Each of said actions is being actively pursued by Royal.

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I declare under penalty of perjury the foregoing is true and correct of my own
personal knowledge.

DATED: This 21st day of December, 1999 at Greenbrae, California.


WILLIAM HARRISON

ROYAL

BANCORP FDIC WRAP NOTES - Revised

A Project Name (ROYAL)	B Location	C FHA No.	D No. of Units	E Original Wrap Note	F Note Rate	G Estimated Market Value	H Date of Market Value	I HUD Debt	J Equity	K % of Wrap Wrap Owned	L Defendants Interest
BANK'S INTEREST											
Allied Gardens	Ft. Smith, AZ	082-44019	160	3,000,000	12%	2,750,000	06/25/97	1,252,200	1,497,800	20.000%	299,560
Englewood	Chicago	071-44114/55086	167	3,000,000	11%	4,000,000	04/20/97	307,000	3,693,000	63.000%	2,326,590
Hillsboro T.H.	El Dorado, AR	082-35017	152	2,800,000	12%	2,500,000	04/24/97	1,245,800	1,254,200	20.000%	250,840
Jefferson Manor	N. Little Rock, AR	082-44018	140	2,600,000	12%	2,520,000	09/23/92	1,448,600	1,071,400	20.000%	214,280
Northwest Acres	Springdale, AR	082-35027	80	1,400,000	12%	1,450,000	10/12/92	624,100	825,900	20.000%	165,180
Palmdale Apts.	Palmdale, CA	122-44082	58	1,538,000	12%	1,740,000	1998	579,600	1,160,400	10.475%	121,552
San Martin	Puerto Rico	056-44042	360	9,720,000	14%	12,600,000	1998	5,009,400	7,590,600	19.530%	1,482,444
Spencer Street	Las Vegas	125-44026	84	2,120,000	12%	3,276,000	04/15/97	818,900	2,457,100	33.440%	821,654
Terrace Green	Little Rock, AR	082-35029	100	1,900,000	12%	1,380,000	10/09/92	950,000	430,000	20.000%	86,000
Thomas Paine	San Francisco	121-44146	98	3,749,000	12%	6,860,000	1998	1,488,200	5,371,800	10.975%	589,555
Watkins Manor	Memphis, TN	081-55001	214	3,670,000	10%	1,925,000	04/30/97	420,500	1,504,500	35.000%	526,575

ROYAL

6,864,230 BANCORP'S INTEREST

BANCORP

Allied Gardens	Ft. Smith, AZ	082-44019	160	3,000,000	12%	2,750,000	06/25/97	1,252,200	1,497,800	80.000%	1,198,240
Englewood	Chicago	071-44114/55086	167	3,000,000	11%	4,000,000	04/20/97	307,000	3,693,000	0.000%	0
Hillsboro T.H.	El Dorado, AR	082-35017	152	2,800,000	12%	2,500,000	04/24/97	1,245,800	1,254,200	80.000%	1,003,360
Jefferson Manor	N. Little Rock, AR	082-44018	140	2,600,000	12%	2,520,000	09/23/92	1,448,600	1,071,400	80.000%	857,120
Northwest Acres	Springdale, AR	082-35027	80	1,400,000	12%	1,450,000	10/12/92	624,100	825,900	80.000%	660,720
Palmdale Apts.	Palmdale, CA	122-44082	58	1,538,000	12%	1,740,000	1998	579,600	1,160,400	31.425%	364,658
San Martin	Puerto Rico	056-44042	360	9,720,000	14%	12,600,000	1998	5,009,400	7,590,600	0.000%	0
Spencer Street	Las Vegas	125-44026	84	2,120,000	12%	3,276,000	04/15/97	818,900	2,457,100	0.000%	0
Terrace Green	Little Rock, AR	082-35029	100	1,900,000	12%	1,380,000	10/09/92	950,000	430,000	80.000%	344,000
Thomas Paine	San Francisco	121-44146	98	3,749,000	12%	6,860,000	1998	1,488,200	5,371,800	31.868%	1,711,858
Watkins Manor	Memphis, TN	081-55001	214	3,670,000	10%	1,925,000	04/30/97	420,500	1,504,500	65.000%	977,925
											7,117,879

6,864,230

BANCORP

#21
173-99

ENTERED
SUSTAIN

FILED
LOS ANGELES SUPERIOR COURT

DEC 21 1999

JOHN A. CLARKE, CLERK
[Signature]
BY B. MIXON, DEPUTY

1 MICHAEL M. STEIN, INC.
MICHAEL M. STEIN (Bar No. 039882)
2 17609 Ventura Boulevard, Suite 201
Encino, California 91316-3825
3 Telephone: (818) 788-2700
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4 BRADLEY TABACH-BANK (Bar #048769)
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1453 Third Street, Suite 250
6 Santa Monica, California 90401-3400
Telephone: (310) 394-4777
7 Facsimile: (310) 458-2978

8 *Attorneys for* DEFENDANTS ROYAL HOUSING, INC. and FIRST PACIFIC BANCORP,
INC.

10 SUPERIOR COURT OF THE STATE OF CALIFORNIA
11 FOR THE COUNTY OF LOS ANGELES

12 WILSHIRE INVESTMENTS)
13 CORPORATION, a California Corporation;)
SUMA LIMITED, a Delaware Corporation;)
4 ATLANTIC INVESTORS, L.P., a Delaware)
Limited Partnership; ASSOCIATED)
15 HOUSING GROUP, LTD., a California)
Limited Partnership; BELMONT)
16 INVESTORS, L.P., a Delaware Limited)
Partnership; LOUIS A. CICALEASE, an)
17 individual; WESTERN HOUSING)
ASSOCIATES, a California Limited)
18 Partnership; PACIFIC HOUSING)
PARTNERS, L.P., a Delaware Limited)
19 Partnership; C.P. INVESTMENT FUND)
1986-III; MARTIN HOUSING FUND,)
20 LTD.; PARTNERSHIP INVESTOR)
SERVICES, INC; SHERMAN)
21 INVESTMENT FUND, LTD; SHERMAN)
INVESTMENT FUND II, LTD., and)
22 WESTPORT HOUSING CORPORATION,)

CASE NO. SC059793
Date Action Commenced:
December 17, 1999

Assigned to Honorable:
DEFENDANTS ROYAL HOUSING,
INC., AND FIRST PACIFIC
BANCORP'S OPPOSITION TO
PLAINTIFFS APPLICATION FOR
PRELIMINARY INJUNCTION;
MEMORANDUM OF POINTS AND
AUTHORITIES; AND SUPPORTING
DECLARATIONS OF LEONARD
SANDS, WILLIAM HARRISON AND
MICHAEL M. STEIN

DATE: December 23, 1999
TIME: 1:30 p.m.
PLACE: Department B

23 Plaintiffs,)
24 v.)
25 ROYAL HOUSING, INC., a California)
Corporation; FIRST PACIFIC BANCORP,)
26 INC., a California Corporation; and DOES)
1 through 50, inclusive,)
7)
28 Defendants)

DISCOVERY CUTOFF: NONE
MOTION CUTOFF: NONE
TRIAL DATE:

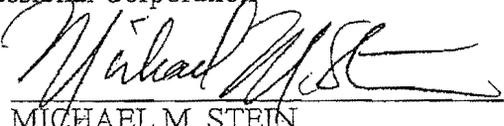
FILED
IN THE
COUNTY OF
LOS ANGELES
DISTRICT
COURT
CLERK
BY
REG. OF ACT

1 TO THE HONORABLE COURT, PLAINTIFFS AND THEIR COUNSEL, Defendants
2 hereby submit their opposition to Plaintiff's application for preliminary injunction, Defendants
3 do not oppose an injunction with respect to the pending foreclosure sale of collateral securing
4 promissory notes ("Notes") due and payable by the Plaintiffs to Defendants, provided an
5 adequate and sufficient bond in the amount of \$9,500,000 is ordered to dissuade Plaintiffs from
6 continuing their past and continuing practice of disposing of the collateral without accounting to
7 the Defendants proceeds. This opposition is based on the Points and Authorities and the
8 Declarations of Leonard Sands, William Harrison and Michael M. Stein filed herewith and all
9 other documentary and oral evidence presented to the Court at the hearing.

10
11 DATED: December 21, 1999.

12 TABACH-BANK & LEVENSTEIN
13 BRADLEY TABACH-BANK

14 MICHAEL M. STEIN, INC.
15 a Professional Corporation

16 By: 

17 MICHAEL M. STEIN
18 Attorneys for Defendants
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1 MEMORANDUM OF POINTS AND AUTHORITIES

2 I.

3 INTRODUCTION

4 This action arises out of the acquisition by three purchase and sale transactions
5 between First Pacific Bancorp, Inc., ("Bancorp") and First Pacific Bank ("Bank") as
6 Purchasers of varying interests in eleven purchase money promissory notes (the
7 residual interest wrap notes or "RIWN") from the sale of eleven HUD-assisted low-
8 income housing projects ("HUD Projects"). Defendant Royal Housing, Inc. ("Royal") is
9 the Bank's successor in interest by purchase from the Federal Deposit Insurance
10 Corporation ("FDIC"). Ten of these projects are owned or controlled by Plaintiffs and
11 their affiliates, A. Bruce Rozet, W. Dean Ross and Lawrence F. Penn (the "Rozet
12 Group"). The Rozet Group holds no interest in either the project or the maker of the
13 RIWN on the eleventh HUD project and no one is contesting the Bank and Royal's
14 interest in this RIWN.

5 Plaintiffs mischaracterize this case as an effort by the Defendants to use
6 Plaintiff's refusal to execute financing statements (Form UCC-1) as a basis or pretext to
7 foreclose on the collateral securing the indebtedness. Actually, what is involved is the
8 consequences of Plaintiffs' repudiation of Defendants' interest in the RIWNs and
9 collateral securing their payment. Since 1997 after restrictions on sale or refinancing of
10 the HUD projects lapsed, Plaintiffs have engaged in a continuing action to sell and
11 refinance the HUD projects and pocket the proceeds without accounting to the
12 Defendants for any amounts due, which were then in excess of \$12,000,000. See
13 Harrison Declaration ("Harrison" Exhibit "A"). Already two of the HUD projects have
14 been sold and refinanced in this manner. They are the subjects of related actions
15 commenced by Defendant Royal and pending in this Court to trace the proceeds and
16 recover amounts due: Royal Housing, Inc. v. Englewood apartments, Ltd. et. al, case
17 SC057584 ("Englewood Action") and Royal Housing, Inc. v. Spencer Street Limited, et.
18 al, case SC 057585 ("Spencer Street Action"). The present litigation and the related

1 Englewood and Spencer Street actions are an appropriate vehicle to decide the parties
2 rights and duties on properties already sold or refinanced by the Rozet Group. For this
3 reason, the Defendants do not object to the interim relief sought by Plaintiffs, provided
4 there are adequate safeguards to prevent Plaintiffs from selling or refinancing the HUD
5 Projects without paying off Defendants' RIWNS. Accordingly, it is not necessary for the
6 Court, at this time, to make a determination as to the probability of success on the
7 merits. Specifically, the issues of substantive and procedural defects in the UCC
8 foreclosure sales which consume the bulk of Plaintiffs' application can be left to a
9 determination on the merits. However, the Court should instead focus on the Plaintiffs'
10 continuing activities that are divesting Defendants of their interests in the RIWNS and
11 order Plaintiffs to post a bond sufficiently adequate to protect Defendants from further
12 injury.

13
14 II.

15 SUMMARY OF FACTS

16 A.

17 THE RIWNS

18 Defendants do not oppose a preliminary injunction provided that the undertaking
19 required under Code of Civil Procedure Section 529 is truly adequate to address any
20 "damages" Defendants might sustain pending the determination of this case. The
21 Defendants face substantial damages if the Plaintiffs and their Rozet Group affiliates
22 continue to deal with the HUD Projects as if, in effect, the RIWNS do not exist.

23 The Defendants' exposure to a substantial loss during the pendency of this
24 action is a function of the peculiar legal interests created by the RIWNS. The RIWN is
25 an instrument unique to the purchase and sale of HUD Projects. It has certain standard
26 features of the all inclusive or so-called "wrap note" in that its principal balance includes
27 the outstanding balance of an underlying HUD-insured mortgage. What is unique about
28 these instruments is the restrictions on source of payment and collateralization. HUD

1 insurance requires that the mortgagee consent to any secondary financing secured by
2 the HUD project. These lenders routinely refuse to allow the holders of RIWNs to
3 receive a mortgage or deed of trust on the property. Thus, the RIWNs, including the
4 ones involved here, are collateralized by the pledge of the general and limited
5 partnership interests in the debtor entity. (Harrison, ¶ 3).

6 HUD regulations prohibit owners from distributing to themselves any project
7 generated funds, except for (a) all or a portion of the net operating revenues remaining
8 after the payment of all operation expenses, debt service, escrows and deposits and (b)
9 the net proceeds from the sale or refinancings. The amounts so distributable are
10 known as "surplus cash" or "residual interest," and are also the only funds that HUD
11 permits to be paid to the RIWN holder. (Harrison, ¶ 8). In combination, these
12 restrictions on normal collateralization and payment sources place a RIWN holder at
13 serious risk if the debtor is inclined to divert surplus cash, sale proceeds, and/or
14 refinancing proceeds to its own use. The Plaintiffs' and the Rozet Group's actions to
15 date demonstrate beyond question this is precisely what they have done and intend to
16 do in the future. Plaintiffs have already sold or refinanced two of the HUD Projects and
17 the sale of a third is pending yet Plaintiffs have failed and refused to account for and
18 distribute to Royal the surplus cash and/or the proceeds required to pay off these
19 RIWNs. (Harrison, ¶¶ 5 and 8).

20
21 B.

22 THE RESCISSION CLAIM

23 One final area does deserve comment. Although not referred to in any
24 significance in the Plaintiffs' Points and Authorities, Plaintiffs have included declarations
25 of Moses and Hartman to establish a rescission claim with respect to the Englewood,
26 Spencer Street and San Martin Twin Towers RIWNs acquired by the Bank (and
27 subsequently Royal) in the last purchase. The claim is both factually specious and
28 legally meritless. This assertion exemplifies how Plaintiffs have, at every opportunity,

1 disregarded the Defendants' ownership once the Bank went into the FDIC receivership.
2 Up until the very moment the FDIC was named as receiver, both Hartman and Moses
3 made every effort to support the validity of the sale of the RIWNs to the Bank and
4 Bancorp (see Leonard Sands Declaration ("Sands", ¶ 7, and Exhibits B and C).

5 A year later, without any tender or return of the consideration received by Moses,
6 Hartman notified the FDIC of Moses' claim of rescission. See Plaintiffs' Application,
7 Roger Hartman ("Hartman") Declaration, Exhibit A. No further action was taken for
8 almost five years. When HUD later removed the sale and refinancing restrictions on the
9 RIWNs, Hartman conveyed to the FDIC an offer to purchase the RIWNs, including the
10 very same ones he claimed to have rescinded. See Hartman, Exhibit "B". His efforts
11 were obviously rejected by the FDIC, which one year later sold all of the Bank's
12 interests in the RIWNs to Royal. It should be noted that as to the Bancorp, no claim
13 was ever made that any of the interests it acquired were rescinded.

14 Even assuming grounds for rescission existed, this claim against the Bank and
15 the FDIC as its receiver, was subject to the exclusive jurisdiction of the FDIC and
16 federal courts. See 12 U.S.C. § 1821(d); FDIC v. Shain, Schaffer & Rafanello (3rd Circ.
17 1991) 944 F.2d 129, 131. Moses failed to pursue these remedies and cannot, years
18 later, in a state court proceeding attack the ownership interests of the FDIC and its
19 transferees. The issuance of an injunction without a substantial bond will allow
20 Plaintiffs to accomplish the same result by selling or refinancing the HUD Projects and
21 retaining the proceeds of these and other surplus cash payments for their own benefit.
22 To maintain the status quo Plaintiffs must bond the outstanding balance of the
23 remaining RIWNs (which is at least in excess of \$9,000,000, See Harrison, ¶ 4). This is
24 especially vital in light of the pending sale of the Thomas Paine Square project.

25
26 III.

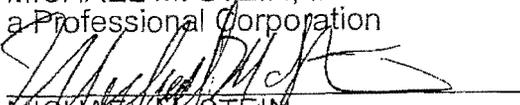
27 CONCLUSION

28 Defendants' evidence show that to date the Plaintiffs (1) have disposed of at

1 least two of the projects with a combined indebtedness to Royal in excess of
2 \$3,000,000, (2) have pocketed \$65,000 of surplus cash and (3) are in the process of
3 selling the Thomas Paine Square project in which the amount due Defendants Royal
4 and Bancorp is in excess of \$2,000,000. Altogether, the total indebtedness as of 1997,
5 Royal and Bancorp could have recovered on the ten notes is in excess of \$12,000,000
6 (see Harrison, ¶ 4 and Exhibit A).

7 For the foregoing reasons, if the Court concludes that the Plaintiffs are entitled to
8 a preliminary injunction prohibiting the Defendants from holding foreclosure sales of
9 collateral securing the RIWNs, during the pendency of this litigation such an order
10 should be conditioned on an adequate bond as required by CCP Section 529. An
11 adequate bond in this case is \$9,000,000, which sum is equal to the outstanding
12 balances due on the Defendants' interests in the remaining RIWNs not previously sold
13 or refinanced by the Plaintiffs and their affiliates.

14
15 Respectfully submitted,
16 TABACH-BANK & LEVENSTEIN
17 BRADLEY TABACH-BANK

18 MICHAEL M. STEIN, INC.
19 a Professional Corporation
20 By: 
21 MICHAEL M. STEIN
22 Attorneys for Defendants
23
24
25
26
27
28

Royal Housing, Inc. Appeal Timeline

Pg 21

Royal Housing ACQUIRES NOTES FROM FDIC WITH OFFERING DECLARATION \$5.3 million Book Value utilized by BIZVALPLUS, INC.

Pg 14

Royal Housing gives notice it will sell on 9/28/99 its collateral under the security agreement

Royal Housing receives \$40,000 from Escrow re THOMAS PAINE WRAP NOTE \$276,000 Allocated from NOTE \$125,000 Service Fee

Royal Housing's S corporation TAX election effective

1/29 9/97

8/30/99

5/01

1/03

5/03

6/03

9/03

11/05

2/07

2/07

BANCORP ACQUIRES RIWIN NOTES Book Value \$5.6 million

7/99 Royal Housing DECLARES 8 Notes Due & Payable with \$8.5 million due to Note Holders (Royal Housing) after taking into Account balance due on underlying HUD NOTE

Pgs 10 - 13

1984-1989 Royal shareholder William Harrison works for King O Management company formed by Bruce Rozet Pgs 38, 42

12/99 Michael Stein on behalf of Royal Housing SUBMITS DECLARATION TO SUPERIOR COURT COUNTY OF LOS ANGELES IN WHICH MR. STEIN STATES THE OUTSTANDING BALANCES DUE ON DEFENDANTS' (Royal's) INTERESTS IN THE REMAINING NOTES (RUWNS) IS EQUAL TO \$9,000,000

Pgs 5, 6

4/2002 Royal Housing enters into Stipulated Jdt with WILSHIRE ENTITIES AND DOES NOT ADDRESS Respective Parties' ownership interests in the Notes \$1,825,000 for 2 projects

Pg 8

M. STEIN MEMO STEIN RELAYS \$1,700,000 price for SAN MARTIN & also states \$125,000 for Spencier - NOT ENOUGH per standard

Royal Housing ASSIGNS ITS INTEREST IN ALL 11 NOTES TO WILSHIRE GROUP EVALUATE OR VALUE ROYAL'S 11 Notes for FMV ON 1/1/03 RATHER USES pre 9/97 figure

Pgs 17-19

6/08 BIZVALPLUS, INC. ADMITS IT DID NOT REVIEW, EVALUATE OR VALUE ROYAL'S 11 Notes for FMV ON 1/1/03 RATHER USES pre 9/97 figure

5/2010 M. STEIN ACKNOWLEDGES HE DID NOT PROVIDE FMV VALUATION of Royal Housing's 11 Notes AS OF 1/1/03

Pg 2

BIZVALPLUS Report Unlives Report Shareholder's BOES SHARES, SHARES, BIZVALPLUS ADDRESS ADDRESSING ADDRESSING M. STEIN'S PERSONAL DOCS STEIN'S PERSONAL DOCS