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IN THE UNITED STATES BANKRUPTCY COURT
OF THE WESTERN DISTRICT OF TEXAS
AUSTIN DIVISION

IN RE:	§	
	§	
WARRANTY GOLD, LTD.,	§	CASE NO. 03-15721-FRM
	§	CHAPTER 11
DEBTOR	§	JUDGE FRANK R. MONROE

**DISCLOSURE STATEMENT TO DEBTOR'S THIRD AMENDED PLAN OF LIQUIDATION DATED
APRIL 15, 2005**

Dated: April 15, 2005
Austin, Texas

Submitted By:

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<p>A copy of the entire Settlement Agreement proposed by the Debtor and Class Representatives is available at the Debtor’s website, www.warrantygold.com. A Notice of the Settlement is being sent to each WGVSC Holder who is a member of the Class along with the WGVSC Holder’s Ballot for voting on Debtor’s proposed Plan of Liquidation. The Notice outlines: (a) the formation of the Class; (b) the definition of the Class; (c) the terms of the proposed Settlement and Debtor’s Plan of Liquidation; (d) the proposed award of attorneys fees and expenses to Class Counsel; (e) the proposed award of incentive payments to the Class Representatives; (f) Class Members’ right to object to the proposed Settlement; (g) the time, date and place of the Hearing on the Settlement and Class Certification; (h) the Class Members’ right to appear at the Fairness Hearing in favor or in opposition to the proposed Settlement</p>		31
<p>The Settlement is predicated, however, not only on Bankruptcy Court Approval but on the approval by this Court of the Amended Motion for Class Certification for a Class Proof of Claim and Appointment of Class Representatives filed by the Class Representatives. The Class is also a non-opt out class—that is, if the Class is certified and the Settlement approved, no class member will be permitted to exclude himself or herself because only limited funds are available and all claims against such funds need to be resolved together. The Settlement and the Order approving the Settlement shall be binding upon any successors or assigns of the parties hereto, including but not limited to, any trustee or receiver subsequently appointed in this case. The Court shall retain jurisdiction to enforce each of the terms of this Settlement and the Order approving this Settlement.</p>		32
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DEBTOR § JUDGE FRANK R. MONROE

**DISCLOSURE STATEMENT TO DEBTOR'S THIRD AMENDED PLAN OF LIQUIDATION DATED
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ARTICLE I - INTRODUCTION

Warranty Gold, Ltd. (the "Debtor" or "Warranty Gold") submits this Disclosure Statement pursuant to 11 U.S.C. §1125 for use in the solicitation of votes on the Plan Of Liquidation of Warranty Gold, Ltd. as amended from time to time (the "Plan"), which it has proposed.¹

This Disclosure Statement sets forth certain information regarding the Debtor's prepetition operations and financial history, its need to seek Chapter 11 protection, significant events that have occurred during the Chapter 11 case, and the anticipated procedures for liquidating the Debtor's assets and paying its creditors. This Disclosure Statement also describes terms and provisions of the Plan, including certain alternatives to the Plan, certain effects of confirmation of the Plan, certain risk factors associated with the Plan, and the manner in which distributions will be made under the Plan. Additionally, this Disclosure Statement discusses the confirmation process and the voting procedures that holders of Claims and Interests must follow for their votes to be counted.

Prior to June 7, 2003, the Debtor marketed and sold automotive (vehicle) extended service contracts ("VSCs") to consumers throughout the United States. National Warranty Insurance Risk Retention Group ("NWIG") administered these contracts. On June 6, 2003, the Debtor was informed that NWIG had filed a liquidation proceeding in the Cayman Islands (and an ancillary proceeding in the United States Bankruptcy Court for the District of Nebraska under 11 U.S.C. §304). NWIG's insolvency proceedings required that Debtor find another insurer and administrator and it subsequently contracted with First Automotive Service Corporation ("FASC") to administer all contracts sold by the Debtor after June 6, 2003.² NWIG'S insolvency proceedings also resulted in its inability to administer, adjudicate or pay any claims arising from VSC's sold by Warranty Gold before June 7, 2003. Warranty Gold filed the present Chapter 11 case to fully and effectively deal with the claims of its pre-June 7 customers.

Warranty Gold contemplates the liquidation of all of its assets to pay as great a percentage as possible of the Allowed Claims of VSC holders and other creditors. These assets include Debtor's cash, proceeds ultimately realized from the prosecution of certain claims it has against third parties, the sale of assets, and funds flowing to it from NWIG 's Cayman Islands-based liquidation proceeding. The Debtor's assets will be distributed to creditors through the use of a Liquidation Trust. The Trust will remain in existence until all assets are completely liquidated and all lawsuits are finally concluded. At that time, the Trust will make a final distribution of the remaining assets to the Debtor's creditors.

As an integral part of the Plan but subject to the Bankruptcy Court's approval after notice and opportunity for hearing to all affected parties (which includes, but is not limited to, all Warranty Gold VSC ("WGVSC") holders regardless of whether they have filed a proof of claim), the Debtor consents to the creation of a class of WGVSC

¹ Except as otherwise provided in this Disclosure Statement, capitalized terms used herein have the meanings ascribed to them in the Plan, including, without limitation, the Glossary of Defined Terms which is attached to the Plan as Exhibit "A". Any capitalized term used herein that is not defined in the Plan shall have the meaning ascribed to that term in the Bankruptcy Code or Bankruptcy Rules, whichever is applicable.

² The Debtor is no longer operating and ceased selling automotive extended service contracts of any kind on November 25, 2003.

holders under Rule 23 of the Federal Rules of Civil Procedure for the limited purposes of (i) filing a Proof of Claim on behalf of all WGVSC holders (“Class Proof of Claim”); (ii) negotiating with the Debtor on the existence, amount and manner of calculating WGVSC holder claims; (iii) voting on the Plan on behalf of all WGVSC holders who have not filed proofs of claim; and (iv) executing documents on behalf of the WGVSC holders, including but not limited to the transfer of claims contemplated as part of the treatment of these creditors, necessary to the effectuation of the Plan.

The Debtor’s Plan divides creditors into six (6) Classes to which Warranty Gold will distribute assets. Except as otherwise provided in Class 4 below, each claim in each Class will have its Allowed Claim paid in full to the extent that assets are available. To the extent assets are not available to pay all claims in full in any particular Class, each creditor with an Allowed Claim in that Class will receive a *pro rata* distribution of the available assets. The Classes of Claims are as follows:

- Class 1 Prepetition Priority Unsecured Claims
- Class 2 Secured Claims of Ad Valorem Taxing Authorities
- Class 3 WGVSC Holder Claims
- Class 4 FASC VSC Holder Claims
- Class 5 All Non-VSC-Related Unsecured Claims
- Class 6 Equity Holder Interests in Debtor

A. Filing of the Debtor's Chapter 11 Case

The Debtor filed its voluntary petition for relief under Chapter 11 of the Bankruptcy Code on November 11, 2003 (the “Petition Date”) in the United States Bankruptcy Court for the Western District of Texas, Austin Division (the “Bankruptcy Court”). Debtor has remained a debtor-in-possession in control of its assets and its business pursuant to 11 U.S.C. §§ 1107 and 1108. While Warranty Gold is no longer marketing or selling automotive extended service contracts, its officers and management continue to manage its property and assets pursuant to 11 U.S.C. § 1108.

B. Purpose of Disclosure Statement

This Disclosure Statement is submitted in accordance with 11 U.S.C. § 1125 for the purpose of soliciting acceptances of the Plan from holders of certain Classes of Claims. Acceptances of the Plan are only being sought from Claimholders whose Claims are “impaired” (as that term is defined in 11 U.S.C. § 1124) by the Plan and who are receiving or retaining property under the Plan. Holders of Claims that are not “impaired” are deemed to have accepted the Plan. Holders of Claims or Interests that are not receiving or retaining any property under the Plan are deemed to have rejected the Plan.

The Debtor has prepared this Disclosure Statement pursuant to 11 U.S.C. § 1125, which requires that a copy of the Plan, or a summary thereof, be submitted to all holders of Claims against, and Interests in, the Debtor, along with a written disclosure statement containing adequate information about the Debtor of a kind, and in sufficient detail, as far as is reasonably practicable, that would enable a hypothetical, reasonable investor typical of Claimholders and Interestholders to make an informed judgment in exercising their right to vote on the Plan

Because of the significant number of creditors in this case (over 38,000), service of the Disclosure Statement and proposed Plan of Liquidation will be accomplished on two levels. Each and every creditor that has been identified by the Debtor will receive by United States Mail, First Class, Postage Prepaid, the following: (i) the Order signed by the Bankruptcy Court approving Debtor’s Disclosure Statement which will include, *inter alia*, deadlines and the date of the Confirmation Hearing; (ii) a Notice to WGVSC Holders which contains a summary of this Disclosure Statement and Plan; (iii) a ballot for voting on the Debtor’s Plan; and (iv) a copy of the Debtor’s

Plan. The notice referred to in (ii) will also contain a summary of the Motion for Class Certification filed by Joseph Newman and others as well as a notice of the terms of the proposed settlement by the class with the Debtor on Debtor's Objection to the Motion. For those desiring more information, the notices sent by mail will reference an internet website address where creditors may view, save and print the entire Disclosure Statement, the entire Amended Motion for Class Certification and Proposed Order, the entire Settlement, the Plan and all other documents referenced herein.

This Disclosure Statement was approved by the Bankruptcy Court on March 11, 2005. Such approval indicates that the Bankruptcy Court has determined that the Disclosure Statement meets the requirements of 11 U.S.C. § 1125 and contains adequate information to permit the Claimholders whose acceptance of the Plan is solicited to make an informed judgment regarding acceptance or rejection of the Plan. **HOWEVER, THE APPROVAL BY THE BANKRUPTCY COURT OF THIS DISCLOSURE STATEMENT DOES NOT CONSTITUTE AN ENDORSEMENT BY THE BANKRUPTCY COURT OF THE PLAN OR A GUARANTEE OF THE ACCURACY OR COMPLETENESS OF THE INFORMATION CONTAINED HEREIN.**

THE MATERIAL CONTAINED HEREIN IS INTENDED SOLELY FOR THE USE OF CREDITORS AND HOLDERS OF INTERESTS IN THE DEBTOR IN EVALUATING THE PLAN AND VOTING TO ACCEPT OR REJECT THE PLAN AND, ACCORDINGLY, MAY NOT BE RELIED ON FOR ANY PURPOSE OTHER THAN THE DETERMINATION OF HOW TO VOTE ON, OR WHETHER TO OBJECT TO, THE PLAN. THE LIQUIDATION OF THE DEBTOR PURSUANT TO THE PLAN IS SUBJECT TO NUMEROUS CONDITIONS AND VARIABLES, AND THERE CAN BE NO ABSOLUTE ASSURANCE THAT THE PLAN, AS CONTEMPLATED, WILL BE EFFECTUATED.

THE DEBTOR BELIEVES THAT THE PLAN AND THE TREATMENT OF CLAIMS AND INTERESTS THEREUNDER IS IN THE BEST INTERESTS OF CLAIMHOLDERS AND INTERESTHOLDERS AND URGE YOU TO VOTE TO ACCEPT THE PLAN.

THIS DISCLOSURE STATEMENT HAS NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION, NOR HAS THE COMMISSION PASSED ON THE ACCURACY OR ADEQUACY OF THE STATEMENTS CONTAINED HEREIN. ANY REPRESENTATION TO THE CONTRARY IS UNLAWFUL. THE PLAN SHOULD BE REVIEWED CAREFULLY.

NEITHER THE FILING OF THE PLAN NOR ANY STATEMENT OR PROVISION CONTAINED IN THE PLAN OR IN THE DISCLOSURE STATEMENT, NOR THE TAKING BY ANY PARTY IN INTEREST OF ANY ACTION WITH RESPECT TO THE PLAN, SHALL (A) BE OR BE DEEMED TO BE AN ADMISSION AGAINST INTEREST, AND (B) UNTIL THE EFFECTIVE DATE, BE OR BE DEEMED TO BE A WAIVER OF ANY RIGHTS ANY PARTY IN INTEREST MAY HAVE (I) AGAINST ANY OTHER PARTY IN INTEREST, OR (II) IN ANY OF THE ASSETS OF ANY OTHER PARTY IN INTEREST, AND, UNTIL THE EFFECTIVE DATE, ALL SUCH RIGHTS ARE SPECIFICALLY RESERVED. IN THE EVENT THAT THE PLAN IS NOT CONFIRMED OR FAILS TO BECOME EFFECTIVE, NEITHER THE PLAN NOR THE DISCLOSURE STATEMENT NOR ANY STATEMENT CONTAINED IN THE PLAN OR IN THE DISCLOSURE STATEMENT MAY BE USED OR RELIED UPON IN ANY MANNER IN ANY SUIT, ACTION, PROCEEDING OR CONTROVERSY WITHIN OR WITHOUT THE DEBTOR'S BANKRUPTCY CASE, INVOLVING THE DEBTOR, EXCEPT WITH RESPECT TO CONFIRMATION OF THE PLAN.

C. Hearing on Confirmation of the Plan

The Bankruptcy Court has set Wednesday, May 25, 2005 at 9:30 a.m. Central Time, as the time and date for the hearing (the "Confirmation Hearing") to determine whether the Plan has been accepted by the requisite number of Claimholders and whether the other requirements for confirmation of the Plan have been satisfied. Holders of Claims against the Debtor may vote on the Plan by completing and delivering the enclosed ballot to:

Warranty Gold Ballots
Lynn Hamilton Butler
Brown, McCarroll, LLP
P.O. Box 2227
Austin, Texas 78768
(512) 512-480-3200
Fax: (512) 512-481-4839
Email: warrantygold@mailbmc.com

on or before 5:00 p.m. Central Time on May 13, 2005. If the Plan is rejected by one or more impaired Classes of Claims or Interests, the Bankruptcy Court may still confirm the Plan, or a modification thereof, under 11 U.S.C. § 1129(b) (commonly referred to as a “cramdown”) if it determines, among other things, that the Plan does not discriminate unfairly and is fair and equitable with respect to the rejecting Class or Classes of Claims or interests impaired under the Plan. The procedures and requirements for voting on the Plan are described in more detail below.

D. Sources of Information

Except as otherwise expressly indicated, the portions of this Disclosure Statement describing the Debtor, its business, assets and management have been prepared from information furnished by the Debtor.

Certain information contained in this Disclosure Statement is taken directly from readily accessible documents or are digests of other documents. While the Debtor has made every effort to retain the meaning of such other documents or portions that have been summarized, it urges that any reliance on the contents of such other documents should depend on a thorough review of the documents themselves. These documents can be found on the Debtor’s website, www.warrantygold.com, or the official Court website, www.pacer.com.

In the event of a discrepancy between this Disclosure Statement and the actual terms of a document, the actual terms of such document shall govern and apply. In the event that there is a discrepancy between the Disclosure Statement and the Plan, the Plan shall govern and apply.

The statements contained in this Disclosure Statement are made as of the date hereof unless another time is specified, and neither the delivery of this Disclosure Statement nor any exchange of rights made in connection with it shall, under any circumstances, create an implication that there has been no change in the facts set forth herein since the date of this Disclosure Statement.

No statements concerning the Debtor, the value of its property, or the value of any benefit offered to the holder of a Claim or Interest in connection with the Plan should be relied on other than as set forth in this Disclosure Statement. In arriving at a decision, parties should not rely on any representation or inducement made to secure their acceptance or rejection that is contrary to information contained in this Disclosure Statement, and any such additional representations or inducements should be immediately reported to counsel for the Debtor, Lynn Hamilton Butler, Brown McCarroll, L.L.P., 111 Congress Avenue, Suite 1400, Austin, Texas 78701, (512) 472-5456, lbutler@mailbmc.com.

ARTICLE II --EXPLANATION OF CHAPTER 11

A. Overview of Chapter 11

Chapter 11 is the principal reorganization chapter of the Bankruptcy Code. The commencement of a Chapter 11 case creates an estate comprising all of the debtor’s legal and equitable interests in property as of the date the petition is filed. Unless the Bankruptcy Court orders the appointment of a Liquidating Trustee, 11 U.S.C. §§ 1101, 1107 and 1108 provide that a Chapter 11 debtor may continue to operate its business and control the assets of its estate as a “debtor-in-possession.” Under Chapter 11, the debtor as debtor-in-possession or the Liquidating Trustee attempts to reorganize the debtor’s business and financial affairs for the benefit of the debtor, its creditors, and other interested parties.

The filing of a Chapter 11 petition also triggers the automatic stay under 11 U.S.C. § 362. The automatic stay halts essentially all attempts to collect pre-petition claims from the debtor or to otherwise interfere with the debtor's business or its estate.

B. Plan of Reorganization/Liquidation

Formulation of a Chapter 11 plan is the principal purpose of a Chapter 11 case. The plan sets forth the means for satisfying the claims of creditors against, and interests of equity security holders in, the debtor. Although usually referred to as a plan of reorganization, a plan may simply provide for an orderly liquidation of a debtor's property and assets. The Debtor's Plan in this case does in fact provide for an orderly liquidation of the Debtor's assets with the proceeds of the liquidation to pay the claims.

After the plan has been filed, the holders of claims against, or interests in, a debtor are permitted to vote on whether to accept or reject the plan. Chapter 11 does not require that each holder of a claim against, or interest in, a debtor vote in favor of a plan in order for the plan to be confirmed. At a minimum, however, a plan must be accepted by a majority in number and two-thirds in amount of those claims actually voting from at least one class of claims impaired under the plan. The Bankruptcy Code also defines acceptance of a plan by a class of interests (equity securities) as acceptance by holders of two-thirds of the number of shares actually voted.

Classes of claims or interests that are not "impaired" under a plan of reorganization are conclusively presumed to have accepted the plan and are therefore not entitled to vote. A class is "impaired" if the plan modifies the legal, equitable, or contractual rights attaching to the claims or interests of that class. Modification for purposes of impairment does not include curing defaults and reinstating original maturity dates or paying creditors in full in cash. Conversely, classes of claims or interests that receive or retain no property under a plan of reorganization are conclusively presumed to have rejected the plan and are therefore not entitled to vote.

Even if all classes of claims and interests accept a plan of reorganization/liquidation, the Bankruptcy Court may nonetheless still deny confirmation. Section 1129 of the Bankruptcy Code sets forth the requirements for confirmation and requires that a plan be, *inter alia*, in the "best interests" of impaired and dissenting creditors and interest holders and feasible. The "best interests" test generally requires that the value of the consideration distributed to impaired and dissenting creditors and interest holders under a Chapter 11 plan be at least as much as those parties would receive if the debtor were liquidated under Chapter 7 of the Bankruptcy Code. A plan must also be determined to be "feasible," which generally requires a finding that there is a reasonable probability that the debtor will be able to perform the obligations incurred under the plan to continue operations without the need for further financial reorganization or liquidation.

The Bankruptcy Court may confirm a plan of reorganization/liquidation even though fewer than all of the classes of impaired claims and interests accept it. The Court may do so under the "cramdown" provisions of 11 U.S.C. § 1129(b) if the plan proponent shows, *inter alia*, that the plan does not discriminate unfairly and is fair and equitable with respect to each impaired class of claims or interests that has not accepted it. The Bankruptcy Court must further find that the economic terms of the particular plan meet the specific requirements of 11 U.S.C. § 1129(b) with respect to the subject objecting class. A plan for which confirmation is sought under the provisions of 11 U.S.C. § 1129(b), must also meet all applicable requirements of 11 U.S.C. § 1129(a) (except § 1129(a)(8)), which include the requirements that (i) the plan complies with applicable Bankruptcy Code provisions and other applicable law, (ii) that the plan be proposed in good faith, and (iii) that at least one impaired class of creditors or interest holders has voted to accept the plan.

ARTICLE III -- VOTING PROCEDURES AND CONFIRMATION REQUIREMENTS

A. Ballots and Voting Deadline

A ballot for voting to accept or reject the Plan will be included with the packet mailed out to all Claimholders (or their authorized representatives) entitled to vote. After carefully reviewing the mailout and the full Disclosure Statement (including all exhibits) and Plan found at www.warrantygold.com, each Claimholder (or its authorized representative) entitled to vote should indicate its vote on the enclosed ballot. All Claimholders (or their

authorized representative) entitled to vote must (i) carefully review the ballot and instructions thereon, (ii) execute the ballot, and (iii) return it to the address indicated on the ballot by the deadline (the "Voting Deadline") for the ballot to be considered.

By order of the Bankruptcy Court, **BALLOTS MUST BE RECEIVED AT THE FOLLOWING ADDRESS NO LATER THAN MAY 13, 2005. ANY BALLOTS RECEIVED AFTER THAT DEADLINE WILL NOT BE COUNTED. IF YOUR BALLOT IS DAMAGED OR LOST, YOU MAY REQUEST A REPLACEMENT BY SENDING A WRITTEN REQUEST TO THIS SAME ADDRESS:**

**Warranty Gold Ballots
P.O. Box 2227
Austin, Texas 78768
(512) 512-480-3200
Fax: (512) 512-481-4839
Email: warrantygold@mailbmc.com**

B. Claimholders and Interestholders Entitled to Vote

Any Claimholder or Interestholder of the Debtor whose claim or interest is impaired under the Plan is entitled to vote if: (i) the Debtor has scheduled the Claimholder's or Interestholder's Claim or Interest and such Claim or Interest is not scheduled as disputed, contingent, or unliquidated; or (ii) the Claimholder or Interestholder has filed a proof of claim or Interest on or before the deadline set by the Bankruptcy Court for such filings.

Any persons or entities that purchased VSC's from the Debtor or its predecessor which were administered by NWIG and had not expired as of June 9, 2003 and any persons or entities whose contracts had expired on or before this date but who have covered repair claims that remain unpaid who have filed a Proof of Claim will be entitled to vote. The claims of any persons or entities that purchased VSC's from the Debtor or its predecessor which were administered by NWIG and had not expired as of June 9, 2003 and any persons or entities whose contracts had expired on or before this date but who have covered repair claims that remain unpaid WHO HAVE NOT FILED A PROOF OF CLAIM WILL BE VOTED BY THE PROPOSED CLASS REPRESENTATIVES IF THEIR REPRESENTATION IS APPROVED BY THE COURT ON MAY 24, 2005 AT 1:30 P.M.. The Ballot form which you received, even when returned, does not constitute a Proof of Claim. Any holder of a Claim or Interest to which an objection has been filed (and such objection is still pending) is not entitled to vote unless the Bankruptcy Court (on motion by a party whose Claim or Interest is subject to an objection) temporarily allows the Claim or Interest in an amount that it deems proper for the purpose of accepting or rejecting the Plan. Such motion must be heard and determined by the Bankruptcy Court prior to the Confirmation Hearing on the Plan. In addition, a Claimholder's or Interestholder's vote may be disregarded if the Bankruptcy Court determines that the Claimholder's or Interestholder's acceptance or rejection was not solicited or procured in good faith or in accordance with the applicable provisions of the Bankruptcy Code.

C. Bar Date for Filing Proofs of Claim

The Bankruptcy Court originally established a bar date for filing proofs of claim or interests in this Chapter 11 case of March 17, 2004. However, that bar date has been extended until the deadline for receipt of ballots voting on and objections to the confirmation of the Debtor's proposed Plan Of Liquidation, **WHICH DATE IS NOW SET AT MAY 13, 2005.**

D. Definition of Impairment

Under 11 U.S.C. § 1124, a class of claims or equity interests is impaired under a plan of reorganization/liquidation unless the plan with respect to each claim or equity interests of such class:

- (1) leaves unaltered the legal, equitable, and contractual rights of the holder of such claim or interest; or,

- (2) notwithstanding any contractual provision or applicable law that entitles the holder of a claim or interest to receive accelerated payment of such claim or interest after the occurrence of a default:
 - (a) cures any such default that occurred before or after the commencement of the case under the Bankruptcy Code, other than a default of a kind specified in Bankruptcy Code § 365(b)(2);(b) reinstates the maturity of such claim or interest as it existed before the default;
 - (b) compensates the holder of such claim or interest for damages incurred as a result of reasonable reliance on such contractual provision or applicable law; and
 - (c) does not otherwise alter the legal, equitable, or contractual rights to which such claim or equity interest entitles the holder of such claim or interest.

E. Classes Impaired Under the Plan

Claims or Interests in Classes 1, 2, 3, 5 and 6 are impaired under the Plan. Therefore, holders of those Claims are eligible, subject to the limitations set forth above, to vote to accept or reject the Plan.

Holders of unimpaired Claims are conclusively presumed to have accepted the Plan pursuant to 11 U.S.C § 1126(f). Debtor will not be soliciting votes from holders of unimpaired Claims. Such Creditors will be paid in accordance with the provisions of the Plan.

F. Vote Required for Class Acceptance

The Bankruptcy Code defines acceptance of a plan by a class of creditors as acceptance by holders of at least two-thirds in dollar amount and more than one-half in number of the claims of that class that actually cast ballots for acceptance or rejection of the Plan; that is, acceptance takes place only if creditors holding claims at least two-thirds in amount of the total amount of claims and more than one-half in number of the Creditors actually voting cast their ballots in favor of acceptance.

The Bankruptcy Code defines acceptance of a plan by a class of Interests as acceptance by holders of at least two-thirds in amount of the allowed interests of that class.

G. Information on Voting and Ballots

1. Transmission of Ballots to Creditors and Interest Holders

Ballots will be sent to all Claimholders in accordance with the Bankruptcy Rules. Those Claimholders whose Claims are unimpaired under the Plan are conclusively presumed to have accepted the Plan under 11 U.S.C. § 1126(f) and therefore need not vote. Under 11 U.S.C. § 1126(g), Claimholders or Interestholders who do not either receive or retain any property under the Plan are deemed to have rejected the Plan. In the event a Claimholder or Interestholder does not vote, the Bankruptcy Court may deem such Claimholder or Interestholder to have accepted the Plan.

2. Ballot Tabulation Procedures

For purposes of voting on the Plan, the amount and classification of a Claim or Interest and the procedures that will be used to tabulate acceptances and rejections of the Plan shall be exclusively as follows:

- a. If no Proof of Claim or Interest has been timely filed by any creditor *other than a WGVSC Holder*, the voted amount of a Claim or Interest shall be equal to the amount listed for the particular Claim in the Schedules of Assets and Liabilities, as and if amended, to the extent such Claim or Interest is not listed as contingent, unliquidated, or disputed, and the Claim or Interest shall be placed in the appropriate Class, based on the

Debtor' records, and consistent with the Schedules of Assets and Liabilities, the claims registry, and the respective registry of holders of Interests;

b. If a Proof of Claim or Interest *other than the Class Proof of Claim for WGVSC Holders* has been timely filed and has not been objected to before the expiration of the Voting Deadline, the voted amount of that Claim or Interest shall be as specified in the Proof of Claim or Interest filed with the Clerk;

c. To the extent that the Court approves the Class Representatives and Class Counsel seeking certification prior to or concurrently with the Confirmation hearing, the voted amount of the ballot cast by those Class Representatives on behalf of all WGVSC Holders in the class as defined shall be equal to the sum of:

- (i) the monthly premium (defined as the total premium paid by the VSC holder divided by the number of months of the policy) times the number of months remaining on each WGVSC Holder's contract as of November 11, 2003; and**
- (ii) any repair claims for the VSC holder which have been received and approved by Debtor but were unpaid as of November 11, 2003;**
- (iii) LESS any amount voted by individual WGVSC Holders who have filed Proofs of Claim.**

d. Subject to subparagraph (e) below, a Claim or Interest that is the subject of an objection filed before the Voting Deadline and which objection has not resolved on or before the Confirmation Date shall be disallowed for voting purposes, except to the extent and in the manner that the Debtor indicates in any objection or other pleading that the Claim or Interest should be allowed for voting or other purposes;

e. If a Claim or Interest has been estimated or otherwise allowed for voting purposes by order of the Bankruptcy Court, the voted amount and classification shall be that set by the Bankruptcy Court;

f. If a Claimholder or Interestholder or its authorized representative did not use the Ballot form provided by the Debtor or the Official Ballot Form authorized under the Federal Rules of Bankruptcy Procedure, such Ballot will be counted if the intent of the Claimholder or Interestholder can be discerned on the face of the Ballot. Any Ballots to which the intent cannot be discerned will be submitted to the Bankruptcy Court for such a determination;

g. If the Ballot is not received by Debtor on or before the Voting Deadline at the place fixed by the Bankruptcy Court, the Ballot will not be counted;

h. If the Ballot is not signed by the Claimholder or Interestholder or its authorized representative, the Ballot will not be counted;

i. Except as otherwise set forth above for the proposed WGVSC Holders Class Representatives, any Ballot cast by an entity (whether directly or as a representative) not the holder of a Claim or Interest on the Voting Record Date (as that term is defined below) will not be counted, unless the entity has the authority to cast such a Ballot;

j. If the Claimholder or Interestholder or its authorized representative did not check one of the boxes indicating acceptance or rejection of the Plan, or checked both such boxes, the Ballot will be counted as an acceptance;

k. If no Ballots are received on or before the Voting Deadline with respect to a particular class of Claims or Interests, then such class of Claims or Interest shall be deemed to have accepted the Plan;

1. Whenever a Claimholder or Interestholder (or its authorized representative) submits more than one Ballot voting the same Claim(s) or Interest(s) before the applicable deadline for submission of Ballots, except as otherwise directed by the Bankruptcy Court after notice and a hearing, the last such Ballot shall be deemed to reflect the voter's intent and shall supersede any prior Ballots.

ANY WGVSC HOLDER WHO DESIRES TO CAST HIS/HER/ITS OWN VOTE SHOULD MAKE SURE TO FILE A PROOF OF CLAIM AND VOTE ON THE FORM OF BALLOT RECEIVED IN THE MAIL ON OR BEFORE TO THE MAY 13, 2005 DEADLINE.

3. Execution of Ballots by Representatives

If a Ballot is signed by trustees, executors, administrators, guardians, attorneys-in-fact, officers of corporations, or others acting in a fiduciary or representative capacity, such Persons must indicate their capacity when signing and, at the Debtor's request, must submit proper evidence satisfactory to the Debtor of their authority to so act.

4. Waivers of Defects and Other Irregularities Regarding Ballots

All final determinations concerning the validity, form, eligibility (including time of receipt), acceptance, and revocation or withdrawal of Ballots are reserved in favor of the Bankruptcy Court, and the Court's determination in its sole discretion, will be final and binding. The Debtor reserves the right to present any defects or irregularities to the Bankruptcy Court and request rejection of a Ballot.

5. Withdrawal of Ballots and Revocation

Any holder of a Claim or Interest (or its authorized representative) in an impaired Class who has delivered a valid Ballot for the acceptance or rejection of the Plan may withdraw such acceptance or rejection by delivering a written notice of withdrawal to counsel for Debtor at any time before the Voting Deadline.

To be valid, a notice of withdrawal must: (i) contain the description of the Interests or Claims to which it relates and the aggregate principal amount or number of shares, represented by such Interests or Claims; (ii) be signed by the Claimholder or Interestholder (or its authorized representative) in the same manner as the Ballot; and (iii) be received by counsel for Debtor in a timely manner at the address set forth herein. The Debtor expressly reserves the absolute right to contest the validity of any such withdrawals of Ballots.

Unless otherwise ordered by the Bankruptcy Court, a purported notice of withdrawal of Ballot that is not received in a timely manner by the Debtor will not be effective to withdraw a previously furnished Ballot.

Any Claimholder or Interestholder (or its authorized representative) who has previously submitted a properly completed Ballot before the Voting Deadline may revoke such Ballot and change its vote by submitting before the Voting Deadline a subsequent, properly completed Ballot for acceptance or rejection of the Plan.

H. Confirmation of Plan

1. Solicitation of Acceptances

The Debtor is soliciting your vote. The Debtor will bear the cost of any such solicitation. No other additional compensation shall be received by any party for any solicitation other than as disclosed to the Bankruptcy Court.

NO REPRESENTATIONS OR ASSURANCES, IF ANY, CONCERNING THE DEBTOR OR THE PLAN ARE AUTHORIZED BY THE DEBTOR OTHER THAN AS SET FORTH IN THIS DISCLOSURE STATEMENT. ANY REPRESENTATIONS OR INDUCEMENTS MADE BY ANY PERSON TO SECURE YOUR VOTE OTHER THAN THOSE CONTAINED IN THIS DISCLOSURE STATEMENT SHOULD NOT BE RELIED ON BY YOU IN ARRIVING AT YOUR DECISION, AND SUCH ADDITIONAL

REPRESENTATIONS OR INDUCEMENTS SHOULD BE REPORTED TO COUNSEL FOR THE DEBTOR FOR SUCH ACTION AS MAY BE DEEMED APPROPRIATE.

THIS IS A SOLICITATION SOLELY BY THE DEBTOR, AND IS NOT A SOLICITATION BY ANY SHAREHOLDER, ATTORNEY, OR ACCOUNTANT FOR THE DEBTOR. THE REPRESENTATIONS, IF ANY, MADE HEREIN ARE THOSE OF THE DEBTOR AND NOT OF SUCH SHAREHOLDERS, ATTORNEYS, OR ACCOUNTANTS, EXCEPT AS MAY BE OTHERWISE SPECIFICALLY AND EXPRESSLY INDICATED.

Under the Bankruptcy Code, a vote for acceptance or rejection of a plan may not be solicited unless the claimant has received a copy of a disclosure statement (or summary thereof) approved by the Bankruptcy Court prior to, or concurrently with, such solicitation. This solicitation of votes on the Plan is governed by 11 U.S.C. § 1125(b). Violation of this section of the Code may result in sanctions by the Bankruptcy Court, including disallowance of any improperly solicited vote.

2. Requirements for Confirmation of the Plan

At the Confirmation Hearing, the Bankruptcy Court shall determine whether the requirements of 11 U.S.C. § 1129 have been satisfied, in which event the Bankruptcy Court shall enter an Order confirming the Plan. Section 1129 requires that:

- The Plan complies with the applicable provisions of the Bankruptcy Code;
- The Debtor has complied with the applicable provisions of the Bankruptcy Code;
- The Plan has been proposed in good faith and not by any means forbidden by law;
- Any payment or distribution made or promised by the Debtor or by a person issuing securities or acquiring property under the Plan for services or for costs and expense in connection with the Plan has been disclosed to the Bankruptcy Court, and any such payment made before the confirmation of the Plan is reasonable, or if such payment is to be fixed after confirmation of the Plan, such payment is subject to the approval of the Bankruptcy Court as reasonable;
- The Debtor has disclosed the identity and affiliation of any individual proposed to serve, after confirmation of the Plan, as a director, officer or voting trustee of the Debtor, an affiliate of the Debtor participating in a joint plan with the Debtor, or a successor to the Debtor under the Plan; the appointment to, or continuance in, such office of such individual is consistent with the interests of Creditors and Interest Holders and with public policy; and the Debtor has disclosed the identity of any insider that will be employed or retained by the reorganized debtor and the nature of any compensation for such insider;
- Any government regulatory commission with jurisdiction (after confirmation of the Plan) over the rates of the Debtor has approved any rate change provided for in the Plan, or such rate change is expressly conditioned on such approval;
- With respect to each impaired Class of Claims or Interests, either each holder of a Claim or Interest of the Class has accepted the Plan, or will receive or retain under the Plan on account of that Claim or Interest, property of a value, as of the Effective Date of the Plan, that is not less than the amount that such holder would so receive or retain if the Debtor were liquidated on such date under Chapter 7 of the Bankruptcy Code. If Bankruptcy Code § 1111(b)(2) applies to the Claims of a Class, each holder of a Claim of that Class will receive or retain under the Plan on account of that Claim property of a value, as of the Effective Date, that is not less than the value of that holder's interest in the Debtor's interest in the property that secures that Claim;
- Each Class of Claims or Interests has either accepted the Plan or is not impaired under the Plan;

- Except to the extent that the holder of a particular Administrative Claim or Priority Claim has agreed to a different treatment of its Claim, the Plan provides that Administrative Claims, Professional Fee Claims and Allowed Prepetition Priority Tax Claims shall be paid in full with the first available funds accumulated by Debtor or the Liquidation Trust;
- If a Class of Claims or Interests is impaired under the Plan, at least one such Class of Claims or Interests has accepted the Plan, determined without including any acceptance of the Plan by any insider holding a Claim or Interest of that Class; and
- Confirmation of the Plan is not likely to be followed by the liquidation or the need for further financial reorganization of the Debtor or any successor to the Debtor under the Plan, unless such liquidation or reorganization is proposed in the Plan.

The Debtor believes that the Plan satisfies all of the statutory requirements of the Bankruptcy Code for confirmation and that the Plan was proposed in good faith. The Debtor believes it has complied, or will have complied, with all the requirements of the Bankruptcy Code governing confirmation of the Plan.

3. Acceptances Necessary to Confirm the Plan

Voting on the Plan by each holder of a Claim or Interest (or its authorized representative) is important. Chapter 11 of the Bankruptcy Code does not require that each holder of a Claim or Interest vote in favor of the Plan in order for the Court to confirm the Plan. Generally, to be confirmed under the acceptance provisions of Bankruptcy Code § 1126(a), the Plan must be accepted by each Class of Claims or Interests that is impaired under the Plan by parties holding at least two-thirds in dollar amount and more than one-half in number of the Allowed Claims of such Class actually voting in connection with the Plan. With regard to a Class of Interests, more than two-thirds of the shares actually voted must accept to bind that Class. Even if all Classes of Claims and Interests accept the Plan, the Bankruptcy Court may refuse to confirm the Plan if the requirements of Bankruptcy Code § 1129 are not met.

4. Cramdown

In the event that any impaired Class of Claims or Interests does not accept the Plan, the Bankruptcy Court may still confirm the Plan at the request of the Debtor if, as to each impaired Class that has not accepted the Plan, the Plan “does not discriminate unfairly” and is “fair and equitable.” A plan of reorganization/liquidation does not discriminate unfairly within the meaning of the Bankruptcy Code if no Class receives more than it is legally entitled to receive for its claims or equity interests. “Fair and equitable” has different meanings for holders of secured and unsecured claims and equity interests.

With respect to a secured claim, “fair and equitable” means either (i) the impaired secured creditor retains its liens to the extent of its allowed claim and receives deferred cash payments at least equal to the allowed amount of its claims with a present value as of the effective date of the plan at least equal to the value of such creditor's interest in the property securing its liens, (ii) property subject to the lien of the impaired secured creditor is sold free and clear of that lien, with that lien attaching to the proceeds of sale, and such lien proceeds must be treated in accordance with clauses (i) and (iii) hereof; or (iii) the impaired secured creditor realizes the “indubitable equivalent” of its claim under the plan.

With respect to an unsecured claim, “fair and equitable” means either (i) each impaired creditor receives or retains property of a value equal to the amount of its allowed claim or (ii) the holders of claims and equity interests that are junior to the claims of the dissenting class will not receive any property under the plan.

With respect to equity interests, “fair and equitable” means either (i) each impaired equity interest receives or retains, on account of that equity interest, property of a value equal to the greater of the allowed amount of any fixed liquidation preference to which the holder is entitled, any fixed redemption price to which the holder is entitled, or the value of the equity interest; or (ii) the holder of any equity interest that is junior to the equity interest of that class will not receive or retain under the plan, on account of that junior equity interest, any property.

In the event at least one Class of impaired Claims or Interests rejects or is deemed to have rejected the Plan, the Bankruptcy Court will determine at the Confirmation Hearing whether the Plan is fair and equitable and does not discriminate unfairly against any rejecting impaired Class of Claims or Interests.

The Debtor believes that the Plan does not discriminate unfairly and is fair and equitable with respect to each impaired Class of Claims and Interests.

ARTICLE IV -- THE DEBTOR THROUGH THE DATE OF FILING

A. Entity Information

Debtor Warranty Gold is a Texas limited partnership which commenced business by the filing of its Certificate of Limited Partnership with the Secretary of State on April 7, 2000. Its principal place of business was located at located at 9111 Research Boulevard, Austin, Texas 78758. Its physical address, now that operations are skeletal, is located at the office of a member of the General Partner at 9508 Jollyville Road. The individual partners in the limited partnership, the nature of their partnership interests, and their respective ownership percentages are as follows:

George Parsons – Limited Partner -- 39.6%
Michael Kammerman – Limited Partner -- 9.9%
Tim Herman – Limited Partner -- 39.6%
Robert Spellings – Limited Partner 9.9%
PHSK, L.L.C. – General Partner -- 1%

The limited partners wholly own PHSK, L.L.C., a Texas limited liability company also created on April 7, 2000, in the approximately the same percentages that they own Warranty Gold.

B. Warranty Gold's Business

Warranty Gold was in the business of marketing extended service contracts on automobiles and other motorized craft, such as motorcycles, watercraft and recreational vehicles. Warranty Gold maintained an Internet website (www.warrantygold.com) which was accessed by potential customers who desired to purchase such contracts. The service contracts were purchased by customers throughout the United States from Warranty Gold in Austin, Texas. Many of Warranty Gold's customers paid for their extended service contracts, in whole or in part, through the use of credit cards, such as Visa and MasterCard.

At the time it commenced business in April of 2000, Warranty Gold engaged NWIG, the oldest risk retention group in the United States at the time, to serve as its administrator and VSC insurer. In October of 2001, NWIG also assumed the responsibility from Interstate National Dealer Services for administering and insuring responsibilities of those VSCs which had been sold by Warranty Gold's predecessor-in-interest prior to March, 2000. In December of 2002, Warranty Gold and NWIG entered into a further agreement by which all the outstanding VSC's sold by Warranty Gold and administered by NWIG were consolidated under one agreement for ease of administration. On or about the same time as the execution of this agreement, Warranty Gold transferred over \$3.4 million in customer premiums to NWIG to insure appropriate reserves existed with NWIG to pay all future claims arising from WGVSC's. The relevant documents evidencing the Warranty Gold/NWIG relationship are available for review at www.warrantygold.com.

When Warranty Gold sold a VSC, it would deposit into a "premium trust account" within sixty (60) days from the end of the month in which the VSC was sold the premium portion of the purchase price. The premium portion theoretically equaled the cash reserves necessary to satisfy the actuarial requirements applicable to that particular vehicle and contract. Those trust accounts were maintained at the American Bank of Commerce in Austin, Travis County, Texas. All monies deposited into such accounts were governed by certain trust agreements entered into between Warranty Gold and NWIG which specified the exclusive uses for these funds.

Until June 6, 2003, Warranty Gold was succeeding in profitably marketing and selling VSC's. It maintained an impeccable Better Business Bureau rating. By spring of 2003, it had reached a high of over 1,600 contracts sold in a single month.

On June 6, 2003, Warranty Gold was informed by NWIG that NWIG had been placed in provisional liquidation in the Cayman Islands. From June 6 through June 9, 2003, Warranty Gold temporarily ceased doing business. On June 9, 2003, Warranty Gold re-opened for business selling VSCs administered and insured by First Automotive Risk Retention Group ("FAIR") and its designee Southwest Reinsure, Inc. ("Southwest Re"). In October of 2003, Warranty Gold rescinded its agreement with FAIR and entered into a new agreement with First Automotive Service Corporation ("FASC"), which provided that FASC was the "administrative obligor" on the contracts sold by the Debtor from June 9, 2003, forward. Notwithstanding the fact that it had obtained another risk retention group through which to sell VSC's, however, Warranty Gold continued to be plagued by negative publicity from the collapse of NWIG, continuing loss of goodwill as more and more pre-June 7th repair claims could not be paid because of the NWIG liquidation proceedings, and criticism and regulatory actions by various state agencies. Warranty Gold's management therefore decided to longer pursue business after November 26, 2003 and instead concentrate the company's efforts on the marshalling, liquidation and distribution of the Debtor's assets to the Debtor's creditors.

C. Financing of Warranty Gold

In April of 2000, the partners of Warranty Gold purchased the assets of Warranty Gold Acceptance Corporation ("WGAC") with a combination of capital contributions, loans from limited partner loans and a seller-financed secured obligation back to the owners of WGAC (*i.e.* Don Cephus and Gloria Collins, North Dallas Equities, Inc. and CECO Management Corporation--collectively "Cephus and Collins"). At the same time, Warranty Gold entered into a \$2,000,000.00 credit facility with ABC, which was secured *inter alia* by the personal guarantees of Warranty Gold's limited partners. Cephus and Collins voluntarily subordinated their loan to the ABC credit facility.³ The debts owed to the Cephus and Collins and American Bank of Commerce were secured by consensual security agreements and financing statements. These security agreements attached to all of Warranty Gold's property. The obligations to Cephus and Collins and ABC were further collateralized by the personal guarantees of the Warranty Gold limited partners.

Shortly after June 6, 2003, ABC and Warranty Gold entered into discussions regarding the financial condition of Warranty Gold in the face of the NWIG liquidation. Based on these discussions, ABC and Warranty Gold agreed to an offset of the remaining ABC secured financing facility with available cash owned by Warranty Gold and held at ABC. This offset effectively eliminated Warranty Gold's outstanding debt with ABC. ABC continues to assert a contingent claim for potential chargebacks by Global Payment Systems (*see below*) in excess of the amount of its collateral or sums available for offset and has therefore not released its security interest or the personal guarantees it holds against the Warranty Gold limited partners.

In July and August of 2003, Warranty Gold began similar negotiations with Cephus and Collins. Ultimately, Cephus and Collins accepted \$600,000.00 and a release of the claims Warranty Gold believes it held against them in connection with the original sales transaction in full and final settlement of its liens, claims and encumbrances against the limited partnership and the guarantors of the limited partnership's debts. The outstanding debt to Cephus and Collins at the time of the settlement was over \$1,000,000.00.⁴

³ The relevant documents to the purchase and financing of Warranty Gold from Cephus and Collins are available for review at www.warrantygold.com.

⁴ The relevant documents to the purchase and financing of Warranty Gold from Cephus and Collins are available for review at www.warrantygold.com.

The only other financing obligations incurred by Warranty Gold while it operated were unsecured loans from its limited partners, which had outstanding balances as of November 11, 2003, as follows:

George Parsons -	\$92,613.76
Tim Herman -	\$92,613.76
Robert Spellings -	\$23,153.35
Michael Kammerman -	\$23,153.35

No other financing was in place as of the Petition Date. In that there was no liquidated secured debt as of the Petition Date, no cash collateral motion was pursued by the Debtor. By agreement, ABC reserved its right to assert claims to Warranty Gold collateral if and when a debt held by ABC against Warranty Gold arose. No debtor financing has been sought by Warranty Gold during the pendency of this bankruptcy. Warranty Gold's day-to-day operations during the pendency of the bankruptcy have been funded with accounts receivable generated from the sale of post-June 6 VSC's.

D. Events Leading to Bankruptcy

As has probably been inferred from the preceding sections, Warranty Gold believes the collapse of NWIG as reflected by the filing of its liquidation proceeding in the Cayman Islands on June 6, 2003 was the one and only event that led to the filing of the instant bankruptcy proceeding. Prior to this date, all contracts actually sold by Warranty Gold had been sold through NWIG and all contracts purchased from its predecessor as well as those sold (except for a short period of time) were administered, adjudicated and paid through NWIG. After this date, Warranty Gold did not have the ability to sell any further contracts through NWIG and no repair claims (with a very few exceptions) on contracts existing as of that date have been paid. Even after it obtained a new administrator for new contracts, Warranty Gold's volume post-June 6th averaged approximately one-fifth of its pre-June 6th volume.

Further, as a result of the NWIG liquidation, customers holding VSC's administered by NWIG began contacting their respective credit card-issuing banks and requesting repayment or charge-backs against Warranty Gold. Between January 1, 2003 and June 30, 2003, for example, Warranty Gold had received total chargebacks of \$844.10. Between July 1, 2003, and October 2003, Warranty Gold was hit with charge-backs totaling over \$506,388.84.

As a result of the NWIG liquidation and the subsequent charge-backs, as well as the potential claim liability arising from unpaid repair claims on contracts sold prior to June 6, 2003, the management through the Board of Directors of its general partner decided that it was in the best interests of the company and its creditors to attempt to rebuild its business or, if necessary, liquidate through an organized, court-supervised proceeding. Warranty Gold filed for relief under Chapter 11 of the United States Bankruptcy Code on November 11, 2003.

C. Financial Condition of the Debtor at the Time of Filing

1. Assets

As of the Petition Date, the Debtor listed assets in the amount of \$7,651,020.12. The assets are set forth below:

Real Estate	-	none
Cash	-	\$1,359,508.01
Cash Reserves	-	\$2,152,562.73 ⁵

⁵ This amount includes a Certificate of Deposit which was subsequently drawn upon as a security for credit card refunds paid to Warranty Gold customers by Global Payments. This arrangement was approved by the Court in connection with the settlement of an adversary proceeding filed by Global Payments.

Accounts Receivables	-	\$2,111,532.50
Other Receivables	-	\$246,136.67
Credit Card Dispute Sums	-	\$486,287.22
Prepaid Expenses	-	\$10,905.96
Employee Advances	-	\$58,875.00
Property, Plant & Equipment	-	\$279,974.57 (net of depreciation)
General Intangible Assets	-	\$945,237.46

A more detailed description of the Debtor's assets as of this date can be obtained through the Debtor's Schedules and Statement of Financial Affairs and its Monthly Operating Reports, all available at www.warrantygold.com.

2. Liabilities

In its Schedules of Assets and Liabilities, the Debtor listed liabilities in the aggregate amount of \$29,593,671.32 as of the Petition Date. That aggregate amount is comprised of the following:

Secured Claims	\$0.00 ⁶
Priority Claims	\$0.00 ⁷
NWIG Customer Refund Claims	\$28,780,221.00 ⁸
Vendor and Unsecured Loan Debt	\$813,450.32

A more detailed description of the Debtor's liabilities can be obtained through the Debtor's Schedules and Statement of Financial Affairs and its Monthly Operating Reports, all available at www.warrantygold.com.

Since the filing of the bankruptcy, over 16,000 creditors have filed claims in the Warranty Gold bankruptcy. The Twentieth Amended List Of Filed Claims, which is a listing of the 16,829 claims filed in the Warranty Gold bankruptcy through February 2005, is available at www.warrantygold.com. The claims are currently being reviewed by the Debtor and will continue being reviewed by the Liquidating Trustee for a determination of allowability.

ARTICLE V -- POST-BANKRUPTCY OPERATIONS AND SIGNIFICANT EVENTS⁹

A. Administration of the Case

1. Debtor as Debtor in Possession

After the Petition Date, and in accordance with 11 U.S.C. §§ 1107(a) and 1108, Warranty Gold continued to operate its business and manage its properties as a debtor-in-possession. At the present time, Warranty Gold has

⁶ However, ABC continues to reserve its rights to assert a secured claim against the Debtor if any liability accrues to ABC as a result of its involvement with Warranty Gold.

⁷ This did not include accrued leave claims, as Debtor was still operating its business at the time of filing and assumed this leave would be used by employees in the ordinary course of business.

⁸ This number was based on time remaining on VSC's.

⁹ Various significant pleadings from the Warranty Gold bankruptcy are available at www.warrantygold.com.

no employees. Two former employees perform services on a contract basis to maintain the necessary books and records and the databases of Warranty Gold, as these will be in the continually evolving process of determining the precise amount of VSC Holder claims and accurately making distributions to these claimants.

2. Schedules And Statement Of Financial Affairs

Warranty Gold filed its Schedules of Assets and Liabilities and Statement of Financial Affairs on December 5, 2003.

3. First Meeting Of Creditors

The first meeting of creditors was held on December 16, 2003.

4. Creditors/Warranty Holders Committee

Shortly after the Petition Date, the Office of the United States Trustee formed what was originally believed to be the Creditors Committee in this case. As all members of the Committee were WGVSC Holders, the Committee was reconstituted and redesignated by the Court as the Official Committee of Warranty Holders. The current members of this Committee are:

Robert Phelan, Chairman
Eric Beauchamp
Dave Dickert
Benjamin Gamoran
William Herskovitz
William Schwab
William Steele

Barron & Newburger, P.C. was selected by the Committee to represent it. The firm's employment was approved by the Court on March 1, 2004.

5. Employment Of Professionals

Pursuant to 11 U.S.C. §§ 327 and 328 of the Bankruptcy Court has approved the employment of the following professionals in this case:

Porter Rogers Dahlman & Gordon – bankruptcy counsel for debtor
Approved: November 11, 2003

Terminated: April 17, 2004
Terms of Employment: hourly

Brown McCarroll, L.L.P. – bankruptcy counsel for debtor

Approved April 17, 2004.
Terms of Employment: hourly

Herman Howry & Breen – special litigation counsel for debtor

Approved: March 9, 2004
Terms of Employment: hourly

Campbells – Cayman Islands – special Cayman Island counsel for debtor Approved:

Approved: March 1, 2004
Terms of Employment: hourly

Lockart Atchely & Associates, L.L.P. – case accountants for debtor
Approved: April 20, 2004
Terms of Employment: hourly

The Jacks Firm f/k/a Mithoff & Jacks -- special counsel for prosecution of claims against NWIG professionals
Approval: April 5, 2005
Terms of Employment: contingent

Gerard & Osuch, L.L.P.,
Blumenthal & Markham, L.L.P.,
Greco, Traficante & Edwards, L.L.P. and
Smaha & Daley, L.L.P. -- special counsel for prosecution of claims against NWIG
Approval: pending
Terms of Employment: contingent

Barron & Newburger, P.C. -- counsel for the Official Committee of Warranty Holders
Approved: March 1, 2004
Terms of Employment: hourly

From the Petition Date through, the Debtor anticipates that it has incurred over \$300,000.00 in fees and expenses to its professionals. Of the foregoing sums, Debtor's counsel has obtained interim Court approval and been paid \$85,588.00 in fees and expenses. The Committee estimates it has incurred fees and expenses to date to its counsel of approximately \$150,000.00. Committee counsel has not sought interim approval and has received no compensation in this case to date. Additionally, Malakoff Doyle & Finberg, P.C., proposed counsel for the customer class, and Diamond McCarthy Taylor Bryant & Lee, counsel to the proposed Plan Trustee, intend to seek an award of fees and expenses pursuant to Bankruptcy Code § 503(b) for making substantial contributions to the Debtor's estate. Pursuant to 11 U.S.C. §§ 330 and 331 the fees and expenses of each of the Professionals are subject to review and approval by the Bankruptcy Court.

B. Business Operations

As Debtor's business operations continued to decline and ultimately cease during the pendency of the instant case, Debtor took actions aimed at reducing its expenses as much as possible without jeopardizing its ability to maximize the value of the estate. As a result, the continued collection of accounts receivable, the processing of credit card charge-back requests and the compilation of creditor and claim information have continued without significant disruption. These actions included:

1. Employee Matters

Warranty Gold's ability to maintain the minimal operations necessary to maximize the value of the estate was directly related to its relationship with and cooperation from its employees. However, the realities of the Debtor's condition caused the Debtor's management to ultimately terminate the employment of the Debtor's sales staff and related personnel. Further, by agreement with various creditor and regulatory entities, the Debtor has downsized its operations but maintained a staff to continue to deal with the administration of the charge-back process, continue the collection of accounts receivable and complete the compilation of creditor/claim information for the anticipated adjudication of claims post-confirmation. Finally, as of the end of December 2004, the Debtor had no employees. One former employee – a computer technician – works on an hourly basis as an independent contractor as and when needed.

2. Administrative Expenses

Since September 1, 2004, few (if any) expenditures have been made by the Debtor which do not relate to the essential operations of the Debtor for the benefit of the bankruptcy estate. The Debtor no longer has a physical office or any of the expenses associated with such an office, other than a storage facility rental and the costs of an internet webpage presence.

3. Lease For Warranty Gold's Corporate Office

By agreement, the Warranty Gold corporate office leases have terminated. The prepetition corporate office lease has been rejected by court order. This landlord has filed a proof of claim for rejection damages. The second and final corporate office lease was a month-to-month lease and has been terminated by its terms, with no remaining amounts owed.

C. Debtor's Postpetition Financial Condition

1. In General

Detailed financials with respect to Debtor's postpetition operations are reflected in the Monthly Operating Reports filed in the instant case, which can be reviewed on the Debtor's website at warrantygold.com.

2. Assets

At the end of December 2004, the Debtor held the following assets:

Cash - \$133,669.49

Restricted Cash (NWIG Premiums) - \$1,684,396.04¹⁰

Accounts Receivable - \$213,934.00

Credit Card Charge-Back Disputed Claims - \$1,548,294.58

Right To Distribution From NWIG Estate - 20.3% of the total NWIG Estate, with an approximate value of at least \$4,000,000.00

Potential Causes Of Action Against 3rd Parties – unknown value

3. Liabilities

Debtor was and remains current in its payment of the expenses incurred post-petition in the ordinary course of business, except for a disputed long distance invoice with AT&T. New liabilities incurred post-petition are almost entirely related to the expenses of the professionals in the case.

As of the end of March 2005, over 16,000 proofs of claim had been filed with an estimated debt amount of over \$16,000,000.00. Debtor records indicate that approximately \$37,000,000.00 is owed to WGVSC Holders on their Refund Claims and \$2,500,000.00 for unpaid repair claims incurred prior to November 11, 2003.

D. Existing and Potential Litigation/Proceedings

1. Global Payment

On or about December 1, 2003, Debtor filed an adversary proceeding in the Bankruptcy Court, styled *Warranty Gold vs. Global Payment Systems, et al.*, and number Adversary Proceeding No. 03-1264 ("Global Payments Litigation"). Many WGVSC holders who had paid for their VSC's by credit card, both immediately prior to and after the filing of Warranty Gold's bankruptcy proceeding, disputed their debts to Warranty Gold and requested refunds of the sums debited to their accounts. The chargeback refunds ultimately resulted in forced withdrawals from Debtor's operating account at ABC. The adversary sought to avoid these transactions and recover

¹⁰ The restricted funds included a certificate of deposit that was placed by court order with Global Payments as security for its credit card merchant agreement. This certificate of deposit was subsequently depleted by customer charge-backs claimed against Global Payments postpetition.

these funds as unauthorized postpetition transfers of estate assets, preferential transfers to creditors and unlawful transfers in violation of the automatic stay. The Debtor also sought to enjoin numerous card-issuing banks and credit card companies from processing “chargebacks” from cardholders who purchased contracts from the Debtor. Several credit card companies intervened, including MBNA. The Court initially enjoined all parties from chargebacks that might affect the Debtor. The Court later amended its order to allow credit card companies to process their chargebacks because their claims would be against Global Payments, not the Debtor. The Court continued to enjoin Global Payments from accessing the Debtor’s cash accounts for reimbursement claims that might result from chargebacks by credit card companies against Global.

On March 29, 2004, MBNA filed a counter-claim against Warranty Gold. The counter-claim was a declaratory judgment action, which requested the following things: (i) a declaration that MBNA is entitled to process all chargebacks initiated by persons holding MBNA credit cards; (ii) a declaration that all past and future chargebacks do not constitute improper setoffs under the Code or violate the Stay or injunctions issued by the court; (iii) a declaration that the chargebacks are not avoidable under the Code; and (iv) \$7,000 in attorney's fees, plus interest. MBNA moved for the entry of default against Warranty Gold. Warranty Gold responded by asserting that the amended preliminary injunction order fully decided all issues between Warranty Gold and MBNA and that no answer was necessary from Warranty Gold. The Bankruptcy Court agreed with MBNA. MBNA received a default judgment for the requested relief. As part of the judgment, Warranty Gold was obligated to pay \$7,000.00 in attorney fees to MBNA. This payment has been made. No other obligation to MBNA remains.

Warranty Gold anticipates resolving the remaining issues contained in the credit card injunction adversary proceeding prior to confirmation as these issues pertain to the VISA/Mastercard card-issuing banks only. Warranty Gold intends to continue to assert that Global Payments, Warranty Gold’s card processor, breached its agreement with Warranty Gold by allowing unauthorized charge-backs against Warranty Gold both prepetition and postpetition.

2. First Automotive Service Company

On January 26, 2004, Warranty Gold filed suit in the State Court Travis County, Texas, styled *Warranty Gold, Ltd. vs. Southwest Reinsure, Inc., First Automotive Service Corporation and First Automotive Insurance Risk Retention Group* and numbered GN-400227 alleging breach of contract, fraud, violations of the Texas Deceptive Trade Practices Act and violations of the Texas Insurance Code and seeking damages in excess of \$5 million. On March 1, 2004, the Defendants filed a notice of removal of the suit to this Court. This suit was subsequently removed to federal court and settled by the parties. The settlement was approved by the Bankruptcy Court on November 9, 2004. By this settlement, FASC unconditionally assumed all obligations of Warranty Gold under the FASC Administration Agreement between First Automotive Service Corporation and Warranty Gold, Ltd. for contracts sold between June 9, 2003 and November 26, 2003, paid the Debtor the sum of \$55,000.00 and eliminated the claims of the Defendants against Warranty Gold in this case in the amount of \$706,076.00.

3. NWIG Reserve Accounts

On or about February 18, 2004, Warranty Gold filed an adversary proceeding in this Court styled *Warranty Gold, Ltd. vs. Theo Bullmore and Simon Whicker as Joint Official Liquidators for National Warranty Insurance Risk Retention Group* and numbered 04-01034-frm, seeking the turnover of premium payments by its customers which are being held in customer trust accounts at American Bank of Commerce in Austin, Texas (approximately \$1.6 million) and in NWIG accounts located in the Cayman Islands (approximately \$3.4 million). The adversary has effectively been abated as the parties are continuing to attempt by all the creditors of NWIG to structure a global agreement as to the distribution of all the funds being held by NWIG; absent the entry of such an agreement, the suit will be stayed pending an order of the United States Bankruptcy Court for the District of Nebraska lifting the automatic stay as to NWIG to permit the suit to go forward.¹¹

¹¹ Relevant documents regarding the NWIG trust fund adversary will be available at www.warrantygold.com.

Warranty Gold intends on filing a declaratory judgment action as to its rights to the funds held in the ABC customer reserve accounts. Warranty Gold asserts that it holds a right of reimbursement in the amount of approximately \$200,000.00 for funds Warranty Gold paid out to WGVSC Holders after June 6, 2003, with such payments made at the request of NWIG and under the authority of the Cayman Island liquidation court. The Committee and or the Class Representatives for the WGVSC Holders may dispute this claim.

4. NWIG Responsible Parties

Warranty Gold anticipates filing suit against Deloitte & Touche, L.L.P., Milliman USA, Inc., A.M. Best Company, Inc., Signet Star Reinsurance Company, American Safety Insurance Services, Inc., Donald Erway, Randall Erway and Rex Moats, among others, ("NWIG Third Parties") for various causes of action, including but not limited to breach of contract and fraud, arising from the demise and liquidation of NWIG. Similar suits have already been filed against some or all of these entities by NWIG's Joint Official Liquidators, and by Ruben Rocker purportedly on behalf of all NWIG VSC holders regardless of the retailer from whom they purchased their VSC's.

Debtor has filed an application to retain the distinguished Jacks Firm to represent it in this litigation. The Jacks Firm may enter into a Joint Prosecution Agreement with the attorneys representing Ruben Rocker to prosecute the claims against these professionals subject to approval by the Court of its application and application of the Rocker attorneys (which is also on file). There have been discussions with the other major NWIG retailers to join together in prosecuting the claims against the NWIG Third Parties on the grounds that these professionals will be more inclined to settle if they can obtain releases from all potential plaintiffs.

The potential recovery in this litigation is extremely large as are the risks and the expenses attendant thereto. The above-referenced special counsel have accepted representation on a contingency basis and will advance all litigation costs, thereby incurring no cost to the estate unless there is a recovery.

5. Customers Obtaining Charge-Backs

Warranty Gold believes it has claims against customers who made charge-back requests and obtained money in violation of provisions of the Bankruptcy Code and the Federal Fair Credit Billing Act. Under the Debtor's proposed Plan, these claims will be transferred to the Liquidation Trustee who, given the relatively small size of some, may or may not elect to prosecute same. **ANY WGVSC HOLDER WHO RECEIVED ANY MONEY FROM SAID HOLDER'S BANK OR CREDIT CARD COMPANY IN RESPONSE TO A CHARGEBACK REQUEST ON SUMS PAID TO WARRANTY GOLD AFTER AUGUST 12, 2003, IS PLACED ON NOTICE THAT THE DEBTOR MAY HAVE A CLAIM AGAINST THE HOLDER BECAUSE THESE FUNDS WERE OBTAINED IN VIOLATION OF THE AUTOMATIC STAY OF THE BANKRUPTCY CODE OR BECAUSE THE TRANSFERS WERE AVOIDABLE UNDER THE BANKRUPTCY CODE OR AWERE IMPROPERLY MADE UNDER THE FAIR CREDIT BILLING ACT AND THAT THE DEBTOR OR LIQUIDATION TRUSTEE MAY SUE TO RECOVER THESE SUMS. FURTHER, THE PLAN PROPOSES TO DISALLOW THE CLAIMS OF ANY WGVSC HOLDER WHO RECEIVED A CHARGEBACK PAYMENT FROM WARRANTY GOLD EITHER PREPETITION OR POSTPETITION AND WHO HAS FAILED TO REMIT THE PAYMENT BACK TO WARRANTY GOLD UNTIL AND UNLESS THE FUNDS RECEIVED ON THE CHARGEBACK ARE REMITTED BACK TO WARRANTY GOLD.**

6. NWIG Cayman Island Liquidation

Warranty Gold is currently participating as a creditor in the NWIG liquidation in the Cayman Islands. Warranty Gold retained counsel in the Cayman Islands prepetition and that counsel has been approved in the instant case to continue to represent the Debtor's interests. Tim Herman, special litigation counsel to Warranty Gold, represents Warranty Gold on the NWIG creditors' committee. Warranty Gold is also participating in the related bankruptcy proceeding filed in Omaha, Nebraska under 11 U.S.C. § 304. To date, no claims process has been instigated by the Cayman liquidators. However, the Cayman liquidators estimate the cash asset value of the liquidation to be approximately \$23,000,000. Further, Warranty Gold has participated in numerous meetings attempting to settle the outstanding issues with NWIG and arrive at a fair apportionment of the approximately \$23 million that the JOL's anticipate will be available for distribution. The members of the NWIG Creditors'

Committee, who are estimated to hold approximately 95% of the claims against NWIG, have tentatively arrived at percentages to be received by each of them of each NWIG dollar distributed to creditors based in part on the amount and number of contracts each placed with NWIG and in part of other factors. Debtor's percentage appears to be materially larger than it would receive from a pro-rata distribution. The NWIG Creditors Committee is negotiating with NWIG to distribute these sums in what is termed in the Caymans a "scheme of arrangement" rather than a "scheme of liquidation." While entering into a scheme of arrangement with the JOL's will require the release of the JOL's and NWIG by the retailers and WGVSC Holders, it is anticipated that the amount of expenses and time saved in not having to go through a formal liquidation proceeding in the Caymans will offset the value of the release. The settlement with NWIG will effectuate a transfer of the NWIG assets out of the Cayman Islands and into United States-based entities charged with the fiduciary duties to distribute these assets to the WGVSC holders on account of the NWIG liquidation.

As more fully set forth in *Motion of Warranty Gold, Ltd. For Order Approving Settlement of Debtor's Objection to Class Proof of Claim Filed by Melissa Newman* and the Debtor's proposed Plan as well as in the *Special Notice To Certain Persons Who Obtained Vehicle Service Contracts From Warranty Gold Prior To June 9, 2003*, **FOR AND IN CONSIDERATION OF RECEIVING BOTH THE ASSETS OF THE DEBTOR AND ALL THE ASSETS THE DEBTOR WILL RECEIVE FROM THE NWIG DISTRIBUTIONS, WGVSC HOLDERS WILL BE TRANSFERRING THEIR RIGHTS TO PURSUE ANY AND ALL CLAIMS, DEMANDS OR RIGHTS OF ACTION THEY MAY HAVE AGAINST: (1) NWIG OR ANY OF ITS OFFICERS, DIRECTORS, EMPLOYEES, SHAREHOLDERS OR OTHER AGENTS; AND (2) THE OTHER NWIG CREDITORS COMMITTEE MEMBER RETAILERS OR ANY OF THEIR OFFICERS, DIRECTORS EMPLOYEES, SHAREHOLDERS OR OTHER AGENTS. THE INDIVIDUALS WHO HAVE SOUGHT TO REPRESENT ALL WGVSC HOLDERS BY THEIR FILING OF A CLASS PROOF OF CLAIM IN THIS CASE WILL HAVE AS PART OF THEIR SETTLEMENT WITH THE DEBTOR ON THE DEBTOR'S OBJECTION TO THE CLASS PROOF OF CLAIM THE RIGHT AND OBLIGATION TO EXECUTE ANY NECESSARY DOCUMENTS TO EFFECTUATE THE TRANSFER ON BEHALF OF ALL WGVSC HOLDERS—REGARDLESS OF WHETHER ANY INDIVIDUAL WGVSC HOLDER HAS FILED HIS/HER/ITS OWN PROOF OF CLAIM.**

7. Miscellaneous Potential Litigation

In addition to the above-described litigation, the Debtor may be a potential plaintiff or defendant in other lawsuits, claims, and administrative proceedings. The outcome of those proceedings cannot be predicted with certainty. A decision as to whether to pursue such litigation will be made by the Liquidating Trustee. Debtor assumes that the Liquidating Trustee will not pursue such litigation if the reasonably anticipated costs associated with pursuing those claims will have a materially adverse affect on the financial condition of the Trust or the distributions to be made under the Plan.

The Liquidating Trustee may pursue potential litigation which includes, but is not limited to the recovery of any existing receivables owed to Warranty Gold and the pursuit of any breach of contract causes of action determined to be of value. The Liquidating Trustee may pursue recovery from the officers, directors or employees of Warranty Gold for mismanagement, errors or omissions, breach of their fiduciary duties to the Debtor and its creditors and any other available theories. He may also seek subordination of insider claims to those of general unsecured creditors and potential claims against former accountants, attorneys and other professional advisors for malpractice or breach of their fiduciary obligations to Warranty Gold. Furthermore, the Liquidating Trustee reserves all rights to object to any claim filed against the Debtor, save and except for those claims which have been allowed through either stipulation or agreement or court order.

8. Preference and Other Avoidance Litigation

During the ninety (90) day period immediately preceding the Petition Date, the Debtor voluntarily and involuntarily (the latter primarily through setoffs by credit card companies and ABC) made various payments and other transfers while insolvent to creditors on account of antecedent debts. Warranty Gold disclosed in its bankruptcy schedules all transactions of which it had knowledge made in the ninety (90) day period preceding the Petition Date, which totaled \$3,668,718.48. Warranty Gold believes that the amount of unauthorized charge-backs could be greater than \$1,000,000. In addition, during the one-year period prior to the filing date, the Debtor made

certain transfers to, or for the benefit of, certain insider creditors. Specifically, Warranty Gold continued to make loan repayment payments to the Warranty Gold limited partners. As listed in the Debtor's schedules, the following payments were made to insiders within one year of the bankruptcy:

Cephus and Collins	-	\$746,999.97
George Parsons	-	\$106,064.76
Michael Kammerman	-	\$218,715.55 ¹²
Robert Spellings	-	\$42,731.74
Tim Herman	-	\$100,940.98

On or about January 24, 2003, before any news of the NWIG collapse was known by anyone at Warranty Gold, Warranty Gold made a distribution to its limited partners in the following amounts:

Michael Kammerman	-	\$16,493.40
George Parsons	-	\$65,973.60
Tim Herman	-	\$65,973.60
Robert Spellings	-	\$16,493.40

Some or all of foregoing payments may be subject to avoidance and recovery by the Debtor's bankruptcy estate as preferential and/or fraudulent transfers pursuant to 11 U.S.C. §§ 329, 544, 547, 548 and 550. Under 11 U.S.C. § 1123(b)(3)(B), the Liquidating Trustee on behalf of holders of Allowed Claims shall hold all claims, causes of action, and other legal and equitable rights that the Debtor had (or had power to assert) immediately prior to Confirmation of the Plan, including but not limited to actions for the avoidance and recovery of estate property under 11 U.S.C. §§ 329 and 550, or transfers avoidable under 11 U.S.C. §§ 544, 545, 547, 548, 549 or 553(b), and may commence or continue, in any appropriate court or tribunal, any suit or other proceeding for the enforcement of such actions. All recoveries from the above-referenced actions shall be Trust Assets and will be distributed to holders of Allowed Claims pursuant to the Plan.

ALL INDIVIDUALS AND ENTITIES, INCLUDING BUT NOT LIMITED TO THOSE SPECIFICALLY NAMED AND THOSE DESCRIBED HEREIN, ARE HEREBY PUT ON NOTICE THAT ANY PAYMENTS RECEIVED WITHIN THE APPLICABLE PERIOD PRIOR TO THE FILING OF THE DEBTOR'S BANKRUPTCY ARE SUBJECT TO BEING AVOIDED BY THE DEBTOR OR THE LIQUIDATING TRUSTEE.

With respect to any potential avoidance actions, the likelihood of successful recovery must be weighed against the legal fees and other expenses that would likely be incurred in determining whether to pursue legal remedies for the avoidance and recovery of any transfers. Inasmuch as the Debtor' investigation of such payments is in the nascent phase, they are unable to provide any meaningful estimate of the total amount that could be recovered. Counsel for the Debtor has not undertaken any resolution of the insider transactions to avoid the appearance of a conflict of interest. The right to investigate and pursue the insider transactions will be left to the Liquidating Trustee.

E. Executory Contracts

1. Assumption and Assignment of Contracts In General

The Debtor does not anticipate assuming any executory contracts, other than those assumed previously. However, in the event that a party is found to assume the remaining real estate lease obligations of the Debtor, the Debtor will endeavor to maximize the value of such a lease in an appropriate assumption and assignment transaction.

¹²This amount includes Mr. Kammerman's salary as president of Warranty Gold

2. Vehicle Service Contracts

On November 12, 2003, the Debtor filed a motion in which it requested that the Bankruptcy Court reject all VSC's executed on or before June 6, 2003, asserting that they these contracts were executory and, as such, could be rejected.¹³ By agreement, the finality of that Order was extended to allow adequate time for customers to review the order and object, if appropriate. Numerous customers contacted the Debtor and its counsel urging objection. The hearing on the reconsideration of the November 12 order rejecting such claims has been continued on the Court's calendar throughout this case.

It is the Debtor's position that the pre-June 6, 2003 VSC's are executory in that the Debtor was the marketer and neither the administrator nor insurer of the contracts and therefore had no post-sale obligations and should be rejected under the business judgment rule. To the extent that the VSC's are not found to be executory, the Debtor asserts that the customer/creditor has a damage claim against the Debtor in an amount set by the proration formula contained in each customer's contract.

The Debtor's plan effectively rejects the NWIG contract claims. Rejection provides NWIG VSC holders with larger damage claims than proration under each customer's contract. The FASC contract claims have been assumed and assigned to FASC pursuant to the Court's November 9, 2004 settlement order.

3. Assumption of Global Payment Agreement

The Debtor assumed its credit card processing agreement with Global Payment Systems.¹⁴ However, the Debtor believes that Global Payment Systems may have breached the assumed agreement. The Debtor intends to continue to investigate the actions of Global Payment Systems and to take any and all necessary acts to enforce its rights against Global Payments in the appropriate forum. Specifically, the Debtor believes that Global Payments allowed unauthorized charge-backs to be incurred. The Debtor believes that these charge-backs violated the Rules and Regulations of both VISA and Mastercard. Finally, the Debtor asserts that the Debtor was induced into the assumption of its credit card agreement with Global Payment Systems with the understanding that the outstanding accounts receivable would be made available to Warranty Gold, post-assumption. In fact, Global Payment Systems required Warranty Gold to post all remaining accounts receivable with Global Payment as security for the assumed agreement.

ARTICLE VII -- DESCRIPTION OF THE PLAN

A. Introduction

A summary of the principal provisions of the Plan and the treatment of Classes of Allowed Claims and Interests is set out below. It is, however, the Plan and not the Disclosure Statement that governs the rights and obligations of the parties and, should any discrepancies be found between the two documents, the terms of the Plan control.

B. Highlights of Debtor's Plan

Because every Holder of a VSC purchased from Warranty Gold is a creditor in this case, Debtor's creditor base consists of over 38,000 individuals or entities and is far larger than most cases with comparable assets and liabilities. The Plan is developed to allow for the most efficient mechanism for distribution of Warranty Gold's assets to its customers. As part of the Plan, a class of Warranty Gold customers will be established. This class will be authorized to negotiate on behalf of the Warranty Gold customers in all present and future litigation. The Plan also designates a plan trustee to oversee the continuing liquidation of Warranty Gold's assets, including the prosecution of any and all lawsuits against entities that caused Warranty Gold's collapse. Through a series of distributions, the Liquidating Trustee will distribute all of Warranty Gold's liquidated assets to its creditors, the vast majority of which are comprised of Warranty Gold's customers.

¹³ A copy of the motion and order rejecting the pre-June 6 VSC's can be found at www.warrantygold.com.

¹⁴ A copy of the motion and order assuming this agreement can be found at www.warrantygold.com

C. Designation of Claims and Interests

The following is a designation of the classes of Claims and Interests under this Plan. In accordance with 11 U.S.C. § 1123(a)(1), Administrative Claims (including the claims of the Professionals in the case for Fees) , and Priority Unsecured Tax Claims are not included in the following classes.

A Claim or Interest is classified in a particular class only to the extent that the Claim or Interest qualifies within the description of that class and is classified in another class or classes to the extent that any remainder of the Claim or Interest qualifies within the description of such other class or classes.¹⁵ A Claim or Interest is classified in a particular class only to the extent that the Claim or Interest is an Allowed Claim or Allowed Interest in that class and has not been paid, released or otherwise satisfied before the Effective Date; a Claim or Interest which is not an Allowed Claim or Interest is not in any Class.¹⁶

Allowed Claims and Allowed Interests are classified as follows:

- Class 1 Prepetition Priority Unsecured Claims
- Class 2 Secured Claims of Ad Valorem Taxing Authorities
- Class 3 WGVSC Holder Claims
- Class 4 FASC VSC Holder Claims
- Class 5 All Non-VSC-Related Unsecured Claims
- Class 6 Equity Holder Interests in Debtor

D. Treatment of Claims and Interests

1. Treatment of Unclassified Claims

a. Payment of Administrative Claims, Professional Fee Claims, Substantial Contribution Claims, and Priority Unsecured Tax Claims

Administrative Claims are Claims for any cost or expense of the Chapter 11 case allowable under 11 U.S.C. §§ 503(b) and 507(a)(1) and include all actual and necessary costs and expenses related to the preservation of the Estate or the operation of the Debtor's business, all claims for cure payments arising from the assumption of executory contracts and unexpired leases under 11 U.S.C. § 365, fees payable to the Chapter 11 Trustee pursuant to 11 U.S.C. § 326(a) and all United States Trustee quarterly fees. Under the Plan, Allowed Administrative Claims incurred through the Confirmation Date shall be paid by the Debtor with funds on hand. To the extent that the funds held by the Debtor are insufficient to pay all Allowed Administrative Claims, said claims shall be paid by the Liquidating Trustee with the first funds received by the Liquidating Trustee that are not Trust Funds and that are not necessary to pay the fees and expenses of the Liquidating Trustee or to fund the Trust's Administrative Expense Reserve. Allowed Administrative Claims will be paid by the Debtor and/or the Liquidating Trustee *in pari passu*—that is, to the extent that funds are not available to pay all Administrative Claims in full, they will be paid in manner so as to provide, to the extent possible, that the percentage paid on each Administrative Claim remains the same.

Professional Fee Claims are Claims for compensation and reimbursement of expenses by Professionals to the extent allowed under the Bankruptcy Code and Bankruptcy Rules. Allowed Professional Fee Claims incurred

¹⁵ For example, a \$100,000 claim secured by collateral valued at \$50,000 would be considered a secured claim up to the value of the collateral and generally treated as a separate class but the unsecured portion of the claim would be classified along with other general unsecured claims.

¹⁶ Proofs of Claim are presumptively allowed unless and until objected to and an order disallowing them has been entered.

through the conclusion of the Closing shall be paid, depending on when they are approved, by: (i) first from the balance of the retainers, if any, held by Professionals until fully exhausted; (ii) then by the Debtor, if allowed before the Debtor's Assets have been transferred to the Plan Trust, within five (5) days following the Allowance Date; and (iii) by the Liquidating Trustee from the Trust within five (5) days of the Allowance Date if such Date is after the Debtor has transferred its assets to the Trustee and available non-reserved funds exist to make such payments. Any Professional Fee Claims incurred by any Professionals retained by the Debtor and the Committee related solely to the Closing but arising after the conclusion of the Closing, shall be paid by the Trust from Available Cash as a Trust Cost without further application to the Bankruptcy Court, and such payment shall be made prior to any Distributions to Classes 1 through 6. Should a dispute arise between a Professional seeking payment hereunder and the Liquidating Trustee, the Professional may seek approval from the Court for said fees and, if approved, said fees will be paid by the Liquidating Trustee upon the later of ten (10) days from the date of the order or upon the availability of funds. The Debtor anticipates Professional Fee Claims to be in excess of \$ 400,000.00.

The Debtor shall continue to pay United States Trustee's fees as they come due up to and including the date its assets are transferred to the Liquidating Trust ("Transfer Date"). After the Transfer Date and until the Chapter 11 case is closed, the Liquidating Trustee shall pay as a Trust Cost all fees incurred under 28 U.S.C. § 1930(a)(6).

Priority Unsecured Tax Claims are Unsecured Claims of Governmental Units that are entitled to priority status under 11 U.S.C. § 507(a)(8). Debtor is unaware of any Priority Unsecured Tax Claims. To the extent that any such claims are discovered and allowed, they will be paid on or before November 11, 2009, with interest accruing on the unpaid balance at 5% per annum, beginning on the Effective Date of the Plan.

b. Bar Dates for Unclassified Claims

All requests for payment of Administrative Claims arising on or before the Confirmation Date (except those noted in the following paragraph) must be filed with the Bankruptcy Court and served on the Debtor, the Liquidating Trustee, the U. S. Trustee, and the Committee within twenty (20) days after the entry of the Order confirming Debtor's Plan or by such earlier deadline as may apply to a particular Administrative Claim pursuant to an order of the Bankruptcy Court entered before the Confirmation Date. Any Administrative Claim (except those noted in the following paragraph) for which an application or request for payment is not filed within the above-referenced time period shall be discharged and forever barred, and shall not be entitled to any distributions under the Plan.

All requests for payment of Professional Fee Claims and/or Substantial Contribution Claims arising on or before the conclusion of the Closing must be filed with the Bankruptcy Court and served on the Debtor, the Liquidating Trustee, the U. S. Trustee, and the Committee within sixty (60) days after the Closing Date. Any request for payment of an Administrative Tax Claim must be filed with the Bankruptcy Court and served on the U. S. Trustee and Liquidating Trustee by the later of (i) thirty (30) days after the Effective Date or (ii) sixty (60) days after the filing of any required tax return relating to the Administrative Tax Claim. Any such Professional Fee Claims, and/or Substantial Contribution Claims or Administrative Tax Claims for which an application or request for payment is not filed within the above-referenced time periods shall be discharged and forever barred, and shall not be entitled to any Distributions under the Plan.

2. Treatment of Class 1 Allowed Prepetition Priority Claims

Certain Claims are entitled to priority under Bankruptcy Code—to wit, claims for wages, salaries, or commissions (11 U.S.C. § 507(a)(3)), claims for contributions to employee pension plans (11 § 507(a)(4), and claims by individuals for refunds of deposits (11 U.S.C. § 507(a)(6)). Allowed Class 1 Claims shall be paid by the Debtor (prior to the Transfer Date) or the Liquidating Trustee (after the Transfer Date) within ten (10) days following the Allowance Date. To the extent that funds are unavailable to fully pay Allowed Class 1 Claims, such claims will receive an interim *pro rata* distribution of available non-reserved funds on hand at the Allowance Date and will receive full payment of the allowed amount of the Claim at such time as adequate funds exist in the possession of the Debtor or the Liquidating Trustee to fully pay such claims.

The Debtor is unaware of any Class 1 Claims other than Claims by Warranty Gold's ex-employees for accrued vacation and sick leave that was still unused at the termination of their employment. The Debtor is

investigating whether such accrued leave was to be paid to the ex-employees and under what circumstances such payment was mandatory. Debtor estimates the total amount of these claims, to the extent they exist, do not exceed \$40,000.00.

3. Treatment of Class 2 Secured Claims of Ad Valorem Taxing Authorities

a. Determination of Class 2 Claims.

The Debtor is unaware of any Class 2 Claims other than a possible personal property tax claim held by Travis County.¹⁷ If there is more than one Class 2 Secured Claim, however, each shall be classified in a separate subclass. The Debtor prior to the Transfer Date or the Liquidating Trustee may seek a determination regarding the allowability of any Class 2 Secured Claim, if any is asserted, and may initiate litigation seeking a determination of the amount, extent, validity and priority of any Liens securing any Class 2 Secured Claim and the extent to which any Cash Collateral or other Trust Asset is subject to any such Lien.

b. Treatment of Class Claims.

Each Allowed Class 2 Secured Claim shall be satisfied in full by the payment of Cash from the Trust Assets on or before November 11, 2009. Upon such payment, any and all Liens securing such Class 2 Allowed Secured Claim shall be fully satisfied, released and discharged.

4. Treatment of Class 3 WGVSC Holder Claims.

Class 3 consists of the claims of all persons or entities who purchased vehicle service contracts from Warranty Gold, Ltd. (or its predecessor), which were administered by NWIG and which had not expired as of June 9, 2003. This class also includes the claims of persons whose contracts had expired on or before this date but who still have covered repair claims that remain unpaid. The claims themselves fall into two categories: (i) individual refund or "rejection damages" claims which for purposes of the Plan is defined as the value to be imputed to that portion of the term of a Class Member's VSC which still remained as of November 11, 2003; and (ii) individual repair claims which for purposes of the Plan are claims which a WGVSC Holder may have for repairs that were covered by the WGVSC Holder's VSC and were incurred but not paid prior to November 11, 2003.

Allowed Class 3 Claims will receive *pro rata* payments from the Liquidating Trustee of the liquidated assets of the Debtor available for distribution after payment in full of the Trusts fees and expenses all Unclassified Claims (*e.g.* Administrative Expense Claims, and priority tax claims) together with all Allowed Class 1, 2, and 5 claims as provided for herein. Allowed Class 3 Claims will also be the exclusive recipients of *pro rata* payments from any funds being held in trust by Warranty Gold for the benefit of WGVSC Holders. Debtor believes that there is currently being held at ABC Bank approximately \$1.6 million which will ultimately be determined to be trust funds. Further, the Debtor has alleged that a certain account containing approximately \$3.4 million in the possession of the JOL's in the Cayman Islands contains trust funds held for the benefit of Warranty Gold customers.

Class 3 Claimants can expect to receive annual payments from the Liquidating Trustee if there is at least \$2 million available for distribution (after reservation for all Trust costs and expenses, and full payment of higher priority claims) and their *pro rata* payments are greater than \$25.00 each. If and when all Allowed Class 3 Claims are paid in full, the requirements of Bankruptcy Code § 1129(b) will be deemed to be satisfied as to Class 3.

In exchange for the distributions provided for herein, Class 3 Claimants through their Class Representatives shall transfer all WG Third Party Claims and all the proceeds of any WG Third Party Claims they may have arising from or otherwise relating to their VSC's to the Liquidating Trustee. Additionally, upon confirmation of the Plan, Class 3 Claimants shall be deemed to have authorized their Class Representatives to effect, upon the request of the Liquidating Trustee, a release and relinquishment of their claims, if any, against any NWIG Third Parties which arose from the purchase and use of their VSC's.

¹⁷ No claim has been filed to date.

Pursuant to Bankruptcy Code § 502(d), any holder of a Class 3 Claim who has failed to make any payments required under the Holder's Contract up to and including November 11, 2003, or has received a payment from the Holder's card-issuing bank as a result of a Credit Card Chargeback will not be entitled to any distribution under the Plan, unless and until such Holder delivers to the Debtor or the Liquidating Trustee any payment amount outstanding or chargeback amount received.

5. Treatment of Class 4 FASC VSC Claims.

Class 4 is comprised of Warranty Gold customers who purchased VSCs subsequent to June 6, 2003. FASC VSC Holders are not creditors of Warranty Gold as a result of the complete assumption of liability for the FASC VSC's by FASC. However, this Class is created to outline the rights and obligations of the FASC VSC Holders. Pursuant to the Court's November 9, 2004 Order Granting Motion To Compromise Controversies Between Debtor And Southwest Reinsure, Inc., First Automotive Service Corporation and First Automotive Risk Retention Group, First Automotive Service Corporation ("FASC") has assumed all liability arising from contracts sold by Warranty Gold since June 7, 2003. FASC is therefore responsible for all claims on any Warranty Gold contract it is administering and Class 4 Creditors are unimpaired under the Plan.

As contracts held by potential Class 4 Claimants are enforceable against FASC (*i.e.* a holder of a potential Class 4 Claim is able to get such Claim administered, adjudicated and, if appropriate, paid by FASC), the holders of such potential Class 4 Claim will not be allowed a distribution under the Plan on behalf of such Claim.

To the extent that any creditors with Class 4 Claims which are enforceable against FASC remain unpaid as of the Transfer Date and assert a claim against the Debtor which the Court allows, Debtor's claim against FASC for breach of the Assumption Agreement will be transferred to the Liquidating Trustee to prosecute with any net proceeds of such actions to be distributed exclusively to such Holders of these Class 4 Claims. However, to the extent that a Holder of a Class 4 Claim is entitled to seek recovery directly from FASC under the Assumption Agreement, that Holder will not be eligible for a distribution unless and until the Holder of said claim makes his/her best efforts to obtain satisfaction of such claim from FASC prior to any payment from the Debtor or the Liquidation Trust. "Best efforts" means, for the purposes of this Paragraph, that the holder of a Class 4 Claim has demanded payment from FASC.

Pursuant to Bankruptcy Code § 502(d), to the extent that a Holder of a Class 4 Claim failed to make any payments required under the contract held by such Holder or to the extent that a Holder of a Class 4 Claim received payment from the Holder's card-issuing bank as a result of a credit card chargeback, the Holder of the Class 4 Claim will not be entitled to any distribution under the Plan unless and until such Holder delivers to the Debtor or the Liquidating Trustee any payment amount outstanding or chargeback amount received.

6. Treatment of Class 5 Allowed Non-VSC-Related Unsecured Claims.

Class 5 consists of all non-VSC-related pre-petition unsecured claims against the Debtor—to wit, all vendor claims, rejection claims and insider loan claims.¹⁸ Debtor's initial schedules reflected an estimated approximately \$850,000.00 in Class 5 liabilities. The Proofs of Claim filed to date reflect approximately \$1,300,000.00 in potential Class 5 liabilities. Debtor expects that, after the objection process, there will be approximately \$400,000.00 in Class 5 Allowed Claims.

The Liquidating Trustee will marshal the first \$100,000 of available non-reserved funds, after payment in full of the Unclassified Claims together with Allowed Class 1 and 2 Claims as provided for herein, to pay Allowed Class 5 Claims. Creditors with Allowed Class 5 claims will each receive one *pro rata* distribution from this \$100,000 in an amount not to exceed thirty-five percent (35%) of their Allowed Claim. If and when all Allowed Class 5 Claims are paid the lesser of their *pro-rata* portion of the \$100,000.00 or

¹⁸ The inclusion of insider loan claims in Class 5 shall not preclude, or otherwise waive, the Liquidating Trustee's right to seek subordination of these insider loans or offsets against claims the Liquidating Trustee may have against these individuals.

thirty-five percent (35%) of their Allowed Claims, the requirements of 11 U.S.C. § 1129(b) will be deemed to be satisfied as to Class 5.

Class 5 Claims will be allowed in an amount equal to the lesser of the stated amount contained in a Class 5 Claim or the amount reflected as non-contingent, liquidated, and undisputed in the Debtor's books and records.

7. Treatment of Class 6 Equity Interests In Debtor.

All Allowed Class 6 Equity Interests will be paid their *pro rata* distribution of all liquidation proceeds of the Debtor's Assets after full payment of all Trust expenses, allowed Unclassified Claims and allowed claims in Classes 1 through 5. The Debtor's Assets will be liquidated by the Liquidating Trustee and will be distributed until all such Assets are fully liquidated or deemed abandoned by the Liquidating Trustee. At such time as the Assets are fully liquidated or abandoned, all remaining proceeds will be distributed to the Class 6 Interest Holders. At such time as all superior Classes (Classes 1 through 5) are paid pursuant to the above terms, the Class 6 Interest Holders will have all authority granted to the Liquidating Trustee to direct the continued liquidation of Assets pursuant to the Liquidation Trust.

Class 6 Equity Interest Holders will be paid pro rata based upon the percentage equity held by each holder of a Class Interest as specified in the Debtor's books and records as of November 11, 2003.

ARTICLE VIII- MEANS FOR EXECUTION AND IMPLEMENTATION OF PLAN

On or before the date of the Plan Confirmation Hearing, Debtor will execute the requisite documents to establish the Warranty Gold Liquidating Trust. The Liquidating Trust Agreement will be in substantially the same form as the trust agreement contained on the Warranty Gold website at www.warrantygold.com. The Liquidating Trustee will assume responsibilities, and the Liquidating Trust will commence operations, on the effective date of said Liquidating Trust Agreement as set forth therein.

A. Selection and Compensation of Liquidating Trustee.

Debtor interviewed several candidates extensively for the position of Liquidating Trustee. After conferring with the Official Warranty Holders Committee, Debtor has selected Gregory S. Milligan of Austin, Texas. Mr. Milligan has indicated that he is willing to serve as Liquidating Trustee and will undertake his required duties pursuant to the Liquidating Trust Agreement upon said agreement's having become effective. Debtor will seek approval of the Liquidating Trust Agreement and Mr. Milligan's appointment as Liquidating Trustee at the Confirmation Hearing.

The Liquidating Trustee shall receive compensation as follows: (a) a monthly \$7,500.00 non-refundable draw, plus reimbursement of out-of-pocket expenses, to be accrued monthly and paid as funds are available for payment of administrative costs and expenses of the Trust; plus (b) a success fee based upon all net distributions to Beneficiaries from the Trust (net of all costs of administering the Trust) equivalent to the maximum fee allowed by the schedule set forth in 11 U.S.C. § 326(a); provided, that the resulting aggregate success fee shall be reduced by any monthly draw amounts previously received by the Liquidating Trustee.

B. Establishment of Trust.

The Trust Agreement shall be executed by all necessary parties. On the Effective Date, the Trust will be established for the purposes of (i) distributing Trust Assets; (ii) resolving and disputing Claims, and (iii) satisfying Claims by liquidating all the assets transferred to, vesting in and/or retained by the Trust through distribution of the proceeds of liquidated assets, net of all claims, expenses, charges, liabilities, and obligations of the Trust, to holders of Allowed Claims (the "Beneficiaries"). The Liquidating Trustee shall have no objective of engaging in any trade or business except to the extent reasonably necessary to achieve the Trust's liquidating purpose. The Liquidating Trustee shall use all reasonable efforts to expeditiously liquidate Trust Assets and to make timely distributions of their proceeds.

C. Term of Trust.

The Trust shall terminate on the date which is the fifth anniversary of its creation unless terminated sooner, or unless its termination date is further extended by the Bankruptcy Court as provided in the Trust Agreement.

D. Trust Assets.

Pursuant to the Plan, and as reflected in the Liquidating Trust Agreement, Trust Assets shall include, among other things (without limitation, and by way of example only), all Assets of the Debtor and all Avoidance Actions and other Rights of Action against any third-parties being transferred to, retained by and/or vesting in the Trust, all proceeds of the foregoing, and all other assets as the Liquidating Trustee may from time to time hold in trust or receive for the benefit of Beneficiaries (including all claims, actions, causes of action and/or rights transferred by any person to the Liquidating Trustee on behalf of the Trust). Subject to the above, the Trust shall have no liability for any amounts of cure or for any obligation or liability concerning any Executory Contracts assumed and/or assumed and assigned by the Debtor.

E. Transfer of Trust Assets

All Assets and property of the Debtor constituting Trust Assets shall be transferred to, retained for enforcement by and/or vested in the Trust, free and clear of all interests, claims, liens, and encumbrances.

F. Authority of Plan Trustee.

The Liquidating Trust Agreement sets forth the range of the Liquidating Trustee's powers and responsibilities. Stated generally, the Liquidating Trustee will have, without prior or further authorization, control and authority over the disposition of all Trust Assets and over management and the conduct of any business of the Trust for purposes set forth in the Plan and Liquidating Trust Agreement. Without limitation (and by way of example only), the Liquidating Trustee's powers shall include the authority: (a) to liquidate all Trust Assets in accordance with the terms of the Liquidating Trust Agreement and the Plan; (b) pursuant to 11 U.S.C. § 1123Co)(3)(B), and as successor-in-interest to the Debtor and representative of its estate, to own and retain, and to prosecute, enforce, compromise, settle, release, or otherwise dispose of, all claims, causes of action, defenses, counterclaims, setoffs, and recoupments belonging to the Debtor, its estate or the Trust including, without limitation, all Avoidance Actions and all other Rights of Action; (c) to review all Claims in this Case and file or litigate objections to the allowance of Claims and/or seek to estimate them; and (d) to employ, compensate and reimburse such agents or professional advisors as he deems appropriate to help him in fulfilling his duties under the Liquidating Trust Agreement and the Plan. Further details regarding the scope of the Liquidating Trustee's powers are set forth *in, inter alia*, section 4.03 of the Liquidating Trust Agreement.

G. Beneficial Interests.

The Trust is being established for the benefit of holders of Allowed Claims who are the Beneficiaries of the Trust and who will hold uncertificated beneficial interests in the Trust as of the Plan's Effective Date. The Liquidating Trust Agreement and Plan provide for the allocation of such beneficial interests to creditors who hold Allowed Claims. The Liquidating Trustee or his designated agent shall keep a register of the holders of beneficial interests. **Pursuant to the Plan and § 3.03 of the Liquidating Trust Agreement - and notwithstanding any purported agreement to the contrary among a Trust Beneficiary and any third-parties - except to the extent that a beneficial interest passes to a Beneficiary's legal representative upon death, insolvency or incapacity, the beneficial interest of any Beneficiary in the Trust shall not be transferable at any time on or after the Plan's Effective Date.** The Liquidating Trustee shall be entitled to disregard any purported or intended transfer, assignment, hypothecation, pledge, exchange or conveyance of any beneficial interest in the Trust on or subsequent to such Date.

H. Distributions.

Article VI of the Liquidating Trust Agreement contains provisions which provide for the Liquidating Trustee's interim and/or final Distributions to holders of Beneficial Interests in the Trust, according to the priorities set forth therein and in the Plan.

I. Preservation of Avoidance Actions and Objections to Claims.

In accordance with 11 U.S.C. § 1123(b)(3) and under the Plan, the Liquidating Trustee -as representative of the estate - will be vested with the right to object to proofs of Claim and to prosecute, compromise or otherwise resolve any Avoidance Actions or other Rights of Action and all other causes of action constituting Trust Assets including, but not limited to, the potential litigation described above. The Liquidating Trustee shall have the right and power to object to proofs of claim or interest or Claims including those deemed allowed under 11 U.S.C. § 1111(a) on any ground, including those set forth in 11 U.S.C. § 502. **THE RIGHT TO OBJECT TO ANY CREDITOR'S CLAIM IS RESERVED IN FAVOR OF THE LIQUIDATING TRUSTEE REGARDLESS OF WHETHER THE CREDITOR HAS VOTED IN FAVOR OF OR AGAINST THE PLAN OF REORGANIZATION.**

Debtor's Schedules of Assets and Liabilities identify creditors whose claims are disputed, and its Statement of Financial Affairs identifies the parties who received payments and transfers from the Debtor, which payments and transfers may be avoidable under the Bankruptcy Code. Moreover, Debtor continues to investigate Avoidance Actions and Rights of Action it may have against third parties. The Debtor has not completed its investigation of potential objections to claims, Avoidance Actions and other Rights of Action. **THE PLAN DOES NOT AND IS NOT INTENDED TO RELEASE ANY SUCH AVOIDANCE ACTIONS, OTHER RIGHTS OF ACTION, OR ANY OBJECTIONS TO PROOFS OF CLAIM. ALL SUCH RIGHTS AND RIGHTS OF ACTION ARE SPECIFICALLY RESERVED IN FAVOR OF THE TRUST.**

On the Effective Date, Debtor will transfer to the Trust for the benefit of the Estate and its creditors - and the Trust will be deemed vested with and to have retained, for enforcement by the Liquidating Trustee as representative of the estate - all Avoidance Actions and other Rights of Action, including, but not limited to, causes of action and claims for relief on account of and in respect of the provisions of § 362 and Chapter 5 (including §§ 510, 542, 544, 545, 547, 548, 549, 550 and 553) of the Bankruptcy Code and any other Rights of Action or claims for relief existing under applicable state or federal law. Pursuant to, among other authority, 11 U.S.C. § 1123(b)(3)(B), the Liquidating Trustee shall have the full power, authority, and standing to prosecute, compromise, or otherwise resolve such Rights of Action, with all proceeds derived therefrom to become property of the Trust and distributed in accordance with the Plan. The Trust shall not be subject to any counterclaims with respect to the recovery rights, provided, however, that the recovery rights will be subject to any set-off rights to the same extent as if the Debtor itself had pursued the recovery rights.

Creditors should understand that legal rights, claims and Rights of Action the Debtor may have against them, if any exist, are to be retained under the Plan for prosecution and enforcement by the Liquidating Trustee, as the case may be, unless a specific order of the Court authorizes the Debtor to release such claims. As such, creditors are cautioned not to rely upon (i) the absence of a listing of any legal right, Claim or Right of Action against a particular creditor in the Debtor's Disclosure Statement, Plan, Schedules of Assets & Liabilities or Statement of Financial Affairs, or (ii) the absence of litigation or demand prior to the Plan's Effective Date, as any indication that the Debtor and/or Liquidating Trustee does not possess or does not intend to prosecute any particular right, claim or cause of action if a particular creditor votes to accept the Plan. It is the expressed intention of the Plan to preserve rights, claims, and all Rights of Action of the Debtor, whether now known or unknown, for the benefit of the Debtor's estate and its creditors through the Trust distribution mechanism.

J. CREATION OF CLASS REPRESENTATIVE OF WARRANTY GOLD CUSTOMERS

This Plan will effectuate and utilize a class of WGVSC Holders to be created pursuant to Federal Rule of Civil Procedure 23. The creation of the class will be in conjunction with a settlement of all class members' claims against Warranty Gold and related entities ("Class Settlement"). The Settlement for which approval is sought is intended to be a Class Settlement aimed at resolving the claims of WGVSC Holders as a result of the failure of

Warranty Gold to honor their vehicle service contracts, which were sold to Class Members in conjunction with its insurer and administrator, National Warranty Insurance Risk Retention Group, Inc..

Settlement for which approval is sought herein is made by the Debtor and six individuals-- Joseph Newman, William Herskowitz, William Steele, Robert Phelan, Benjamin Gamoran, and Dave Dickert (hereafter "Class Representatives")--who, with Melissa Newman's knowledge and approval, amended her Class Proof of Claim on behalf of themselves and as representatives of certain purchasers of VSC's through the Debtor and seeks to resolve the Debtor's Objection to Proof of Claim Filed by Melissa Newman for a Class of Purchasers of Vehicle Service Contracts Issued by Warranty Gold, Ltd. and Backed by National Warranty Insurance Risk Retention Group, Inc. The Class Settlement is subject to the approval of the Bankruptcy Court and requires, as a condition precedent, the certification of the Class Representatives and the Class Counsel, which will be before the Bankruptcy Court by separate Motion.

Debtor's Schedules listed the claims of all individuals who purchased VSC's from Warranty Gold holders as "contingent, liquidated or disputed." Historically, only a small percentage of creditors in a bankruptcy case file proofs of claim and a creditor with a claim marked "Disputed, Contingent, or Unliquidated" in a Chapter 11 will receive no distributions if that creditor does not file a proof of claim. Because a substantial number of WGVSC Holders would not have received any distribution, Melissa Newman, in December of 2003, filed a proof of claim in Warranty Gold's bankruptcy case on behalf of herself and all others similarly situated. This proof of claim was later amended and filed by Melissa's husband, Joseph Newman, and by five of the seven members of the Official Warranty Holders Committee -- William Herskowitz, William Steele, Robert Phelan, Benjamin Gamoran and Dave Dickert (collectively "Newman"). The Class Representatives and all Class Members purchased VSC's from the Debtor, under which the Debtor (and NWIG) agreed to pay the costs of repairing Class Members' vehicles under the coverage terms specified thereby in the VSC's.

Debtor objected to the Motion for Class Certification which Melissa Newman filed through her counsel based on her Class Proof of Claim. After extensive negotiations, the would-be Class Representatives through their Counsel reached an agreement with the Debtor with respect to the Class Proof of Claim and the treatment of Class Members. The highlights of the settlement include the following:

- a. automatic allowance of Refund Claims;
- b. automatic allowance of Covered Repair Claims that have not been paid, to the extent they are reflected in the Debtor's records with the ability of Class Members to "add" Repair Claims that should be covered to their Claims;
- c. establishment of a Trust and the transfer of Debtor's assets into that Trust for liquidation and for distribution to creditors according to the Debtor's proposed Plan of Reorganization;
- d. transfer of WGVSC Holders claims and the proceeds of any such claims against NWIG and NWIG Third Parties to the Liquidating Trustee so as to enhance his ability to settle claims against NWIG and NWIG third parties;
- e. attorneys fees for Class Counsel based on the work they have performance and incentive awards to the Class Representatives to compensate them for their efforts in representing the interests of the Class;
- f. incorporation of the terms of the Settlement into Debtor's Plan of Liquidation.

A copy of the entire Settlement Agreement proposed by the Debtor and Class Representatives is available at the Debtor's website, www.warrantygold.com. A Notice of the Settlement is being sent to each WGVSC Holder who is a member of the Class along with the WGVSC Holder's Ballot for voting on Debtor's proposed Plan of Liquidation. The Notice outlines: (a) the formation of the Class; (b) the definition of the Class; (c) the terms of the proposed Settlement and Debtor's Plan of Liquidation; (d) the proposed award of attorneys fees and expenses to Class Counsel; (e) the proposed award of incentive payments to the Class Representatives; (f) Class Members' right to object to the proposed Settlement; (g) the time, date and place of the Hearing on the Settlement and Class

Certification; (h) the Class Members' right to appear at the Fairness Hearing in favor or in opposition to the proposed Settlement

The Settlement is predicated, however, not only on Bankruptcy Court Approval but on the approval by this Court of the Amended Motion for Class Certification for a Class Proof of Claim and Appointment of Class Representatives filed by the Class Representatives. The Class is also a non-opt out class—that is, if the Class is certified and the Settlement approved, no class member will be permitted to exclude himself or herself because only limited funds are available and all claims against such funds need to be resolved together. The Settlement and the Order approving the Settlement shall be binding upon any successors or assigns of the parties hereto, including but not limited to, any trustee or receiver subsequently appointed in this case. The Court shall retain jurisdiction to enforce each of the terms of this Settlement and the Order approving this Settlement.

ARTICLE IX -- RECOVERY ANALYSIS, FEASIBILITY AND RISKS

A. Feasibility.

The Debtor believes that after the Plan is implemented there will be sufficient Trust Cash to make the payments to Creditors that are required by the Plan, and therefore, the Plan is feasible.

B. Risks Associated with the Plan.

Both the confirmation and consummation of the Plan are subject to a number of risks. Specifically, the Debtor may not be able to meet any projections set forth in the previous section A in this Article IX. In addition, there are certain risks inherent in the reorganization process under the Bankruptcy Code. If certain standards set forth in the Bankruptcy Code are not met, the Bankruptcy Court will not confirm the Plan even if Claimholders accept the Plan. Although the Debtor believes that the Plan meets such standards, there can be no assurance that the Bankruptcy Court will reach the same conclusion. If the Bankruptcy Court were to determine that such requirements were not met, it could require the Debtor to re-solicit acceptances, which could delay and/or jeopardize confirmation of the Plan. The Debtor believes that the solicitation of votes on the Plan will comply with § 1126(b) and that the Bankruptcy Court will confirm the Plan. The Debtor, however, can provide no assurance that modifications of the Plan will not be required to obtain confirmation of the Plan, or that such modifications will not require a re-solicitation of acceptances.

ARTICLE X -- ALTERNATIVES TO PLAN AND LIQUIDATION ANALYSIS

There are three possible consequences if the Plan is rejected or if the Bankruptcy Court refuses to confirm the Plan: (a) the Bankruptcy Court could dismiss the Debtor's Chapter 11 bankruptcy case, (b) the Debtor's Chapter 11 bankruptcy case could be converted to liquidation case under chapter 7 of the Bankruptcy Code, or (c) the Bankruptcy Court could consider an alternative plan of reorganization proposed by some other party.

A. Dismissal

If the Debtor's bankruptcy case were to be dismissed, it would no longer have the protection of the Bankruptcy Court and the applicable provisions of the Bankruptcy Code.

B. Chapter 7 Liquidation

If the Plan is not confirmed, it is likely that the Debtor's Chapter 11 case will be converted to a case under Chapter 7 of the Bankruptcy Code, in which case a trustee would be elected or appointed to liquidate the assets of the Debtor for distribution to creditors in accordance with the priorities established by the Bankruptcy Code. Whether a bankruptcy case is one under Chapter 7 or Chapter 11, secured creditors, Administrative Claims, Priority Unsecured Non-Tax Claims and Priority Unsecured Tax Claims are entitled to be paid in cash and in full before unsecured creditors receive any funds.

If the Debtor's Chapter 11 case is converted to Chapter 7, the present Administrative Claims may have a priority lower than priority claims generated by the Chapter 7 case, such as the Chapter 7 Trustee's fees or the fees of attorneys, accountants and other professionals engaged by the Liquidating Trustee.

Further, the Chapter 11 plan process is being used to effectuate the prosecution and/or settlement of certain claims between Warranty Gold, NWIG and the other NWIG Retailers through the use of multiple transfers of claims and the establishment of a class representative under Federal Rule of Civil Procedure 23. The benefits of these portions of the plan would not be available under Chapter 7.

The Debtor believes that liquidation under Chapter 7 would result in far smaller distributions being made to Claimholders than those provided for in the Plan. Conversion to Chapter 7 would give rise to (a) additional administrative expenses involved in the appointment of a Liquidating Trustee and attorneys and other professionals to assist such Liquidating Trustee; (b) additional expenses and Claims, some of which would be entitled to priority, that would be generated during the liquidation and from the rejection of leases and other executory contracts in connection with a cessation of the Debtor's operations. In a Chapter 7 liquidation, it is very possible that general unsecured creditors would receive greatly diminished recovery on their claims.

C. Alternative Plan

To the extent an alternative plan is proposed, it would more than likely be substantially similar to the Debtor's in that it would propose a liquidation of the Debtor and the distribution of Available Cash to Creditors. In comparison to the Debtor's Plan, an alternative plan would not likely provide any greater return to creditors and any return could even be less due to the additional time and expense necessary to obtain approval of any alternative plan.

ARTICLE XI -- CERTAIN TAX AND SECURITIES LAWS ASPECTS OF PLAN

The following summary is a discussion of certain federal income tax consequences of the implementation of the Plan, including formation and operation of the Trust, to creditors and to the Debtor. This summary is based on the Internal Revenue Code of 1986, as amended (the "IRC"), the Treasury Regulations promulgated and proposed thereunder (the "Regulations"), and judicial decisions and published administrative rulings and pronouncements of the Internal Revenue Service (the "Service") as in effect on the date hereof. Legislative or administrative changes in such rules or new interpretations thereof may have retroactive effect and could significantly alter the federal income tax consequences discussed below.

The federal income tax consequences of the Plan and the formation and operation of the Trust are complex and are subject to significant uncertainties. The tax aspects of distributions to or from the Trust under the Plan are also complex and subject to significant uncertainties. There is no assurance that the Service will accept the form of the transaction chosen by the parties. Instead, the Service may attempt to restructure taxable events associated with the establishment and funding of the Trust, for example, if it determines that a different characterization of these events is necessary to truly reflect the transactions' substance for federal income tax purposes. Debtor urges creditors to seek independent professional tax advice on these issues and all other issues related to the Plan and the Trust. This summary does not address foreign, state or local tax consequences of the Plan or Trust, nor does it purport to address all significant federal income tax consequences of the Plan or Trust. This summary also does not purport to address the federal income tax consequences of the Plan or Trust to special taxpayer classes (*e.g.*, S corporations, banks, mutual funds, financial institutions, insurance or small business investment companies, regulated investment companies, broker-dealers or tax-exempt organizations). **ACCORDINGLY, THE DISCUSSION BELOW OF CERTAIN FEDERAL INCOME TAX CONSEQUENCES IS FOR INFORMATIONAL PURPOSES ONLY AND IS NOT A SUBSTITUTE FOR CAREFUL TAX PLANNING ADVICE BASED ON A CREDITOR'S INDIVIDUAL CIRCUMSTANCES. EACH CREDITOR IS URGED TO CONSULT ITS OWN TAX ADVISOR FOR INFORMATION CONCERNING FEDERAL, STATE, LOCAL AND OTHER TAX CONSEQUENCES APPLICABLE TO IT UNDER THE PLAN.**

A. Tax Characterization of Warranty Gold Liquidating Trust

As set forth in the Plan and section 2.04 of the Liquidating Trust Agreement, the Debtor believes that, for federal income tax purposes, the Trust shall be considered a "grantor trust" of which the Debtor is the grantor, and

shall not have any separate liability for any federal income taxes relating to, or arising from, the transfer, retention, vesting, operation and/or liquidation of Trust Assets. However, in accordance with the decision of the United States Supreme Court in *Holywell Corp. v. Smith*, 112 S.Ct. 1021 (1992), the Liquidating Trustee will be required to file the income tax returns that Debtor would have filed if its Assets had not been conveyed to and vested in the Trust. Therefore, to the extent that the operation or liquidation of Trust Assets creates tax liability for the Debtor, the Trust shall promptly pay such tax liability from available Trust Assets, and any such payments shall be considered costs and expenses of the Trust's operation. The Liquidating Trustee may establish a reserve sufficient to pay any accrued or potential tax liability arising out of the Trust's operations or ownership of Trust Assets.

Notwithstanding the above, the Service has announced in Rev. Proc. 94-45 that if certain conditions are met, it will issue a ruling that a liquidating trust created pursuant to a bankruptcy plan under Chapter 11 of the Bankruptcy Code will be treated as a grantor trust of which *either* the shareholders of the Debtor or its creditors (but not the debtor) is the grantor. If the Trust is characterized as a liquidating trust of which the Creditors are the grantors, then the transfer of the Debtor's Assets to the Trust will constitute a taxable disposition of those Assets by the Debtor, and any subsequent income, gain or loss realized with respect to the Trust Assets would be allocated to the Creditors, rather than to the Debtor.

B. Tax Consequences to Creditors and Equity Interest Holders

Although the Debtor does not believe that the transfer of its Assets to the Trust under the Plan will be considered a taxable event, all Creditors and Equity Interest holders may, at some point in time, be required to recognize income or be allowed a deduction as a result of the Plan's implementation. The exact tax treatment depends on each Creditor's or Equity Interest holder's method of accounting, the basis for their Claim or Interest, the amount of Distributions received, and upon the extent (if any) to which such Creditor has taken a bad debt reduction in prior tax years with respect to a particular debt owed to it by Debtor. In the event that the Trust is treated as a grantor trust for the benefit of Creditors, any income, gain or loss attributable to operation, ownership, or disposition of the Trust Assets would be taxable to Creditors, in accordance with their interests in Trust Assets, whether or not the Creditors had received any cash Distributions from the Trust. Gain or loss on the subsequent disposition of Trust Assets would be equal to the difference between the amount realized on the disposition of those assets and their tax bases in the hands of the Trust (initially, the Trust Assets' fair market value at the time of their transfer to the Trust). **EACH CREDITOR AND/OR EQUITY INTEREST HOLDER IS URGED TO CONSULT WITH ITS OWN TAX ADVISOR REGARDING THESE TAX ISSUES.**

C. Tax Consequences to the Debtor

Under the Plan, all the Debtor's Assets will be transferred to the Trust. Because income from the Trust Assets may only be used to pay the Debtor's liabilities, Debtor believes that (i) the transfer of Trust Assets to the Trust under the Plan will not constitute a taxable disposition of such Assets, (ii) the Trust should be classified for all federal income tax purposes as a "grantor" trust of which the Debtor is the grantor, and (iii) the Supreme Court's decision in *Holywell Corp. v. Smith*, supra, mandates that any federal income tax liability of the Debtor attributable to the Trust Assets or Trust operations be paid by the Trust. The Debtor also believes that it should be entitled to utilize its NOLs to offset in whole or in part any regular tax liability that may relate to, or arise from, the transfer, retention, vesting and liquidation of Trust Assets and/or operation of the Trust.

If the Service were to successfully assert that the Creditors are the grantors of the Trust, then Debtor would recognize gain or loss on the transfer of its Assets to the Trust in an amount equal to the difference between the fair market value of the Assets transferred and the tax basis of those Assets. It is expected that the Debtor's NOLs would be sufficient to offset any resulting gain for regular tax purposes, but Debtor might owe alternative minimum tax on any such gain.

Generally, taxpayers are entitled to carry their NOLs forward fifteen years from the year losses were incurred to offset taxable income earned in those years. Debtor has assumed that its NOLs will be available for regular income tax purposes to offset taxable income of the Trust produced after implementation of the Plan. If this assumption is incorrect, the ramifications to holders of Claims and Equity Interests could be material because Trust Assets would be reduced by the required payment of any federal income taxes imposed on the Debtor.

Special limitations on the utilization of NOLs would apply if the Debtor becomes subject to the alternative minimum tax ("AMT").¹⁹ If NOLs remain at least partially available, Debtor will, to the extent (if any) it generates positive alternative minimum taxable income, incur certain tax liabilities under the AMT. Taxable income for AMT purposes may be offset by a taxpayer's AMT net operating loss deduction (which may be less than the NOL deduction) only to the extent of 90% of the taxpayer's alternative minimum taxable income calculated without regard to any such deduction. Accordingly, even if the Debtor has regular tax NOLs sufficient to offset its regular taxable income, it would still be required to pay an AMT generally equal to 2% of the amount of income offset by NOLs.

THE DISCUSSION ABOVE IS INTENDED MERELY AS AN AID FOR CREDITORS, AND NEITHER DEBTOR NOR ITS COUNSEL ASSUMES ANY RESPONSIBILITY IN CONNECTION WITH THE INCOME TAX LIABILITY OF ANN CREDITOR OR ANY HOLDER OF AN EQUITY INTEREST. CREDITORS AND HOLDERS OF EQUITY INTERESTS ARE URGED TO OBTAIN ADVICE FROM INDIVIDUAL COUNSEL REGARDING THE APPLICABILITY OF FEDERAL AND STATE TAX LAWS.

D. Securities Law Considerations.

Confirmation of the Plan shall constitute a determination, pursuant to 11 U.S.C. § 1145(a)(i), that (except with respect to an entity that is an underwriter as defined in 11 U.S.C. § 1145(b)) Section 5 of the Securities Act of 1933 and any state or local law requiring registration for offer or sale of a security or registration or licensing of an issuer of, underwriter of, or broker or dealer in, a security do not apply to Beneficial Interests in the Trust. Inasmuch as all post-confirmation transfers of Beneficial Interests will be prohibited by the Plan in accordance with Article VIII.G above, there is no existing or anticipated trading market for the Beneficial Interests.²⁰

ARTICLE XII -- CONCLUSION

This Disclosure Statement provides information regarding the Debtor's bankruptcy estate and the potential benefits that might accrue to holders of Claims against and Interests in the Debtor under the Plan as proposed. The Plan is the result of extensive efforts by the Debtor, their advisors, and Debtor's management to provide the holders of Allowed Claims with a meaningful dividend. The Debtor believe that the Plan is feasible and will provide each holder of a Claim against the Debtor with an opportunity to receive greater benefits than those that would be received by any other alternative. The Debtor, therefore, urges interested parties to vote in favor of the Plan.

Respectfully submitted,

/s/ George Parsons
Representative, Warranty Gold, Ltd.

¹⁹ In general, an AMT is imposed on a corporation's alternative minimum taxable income at a 20% rate to the extent such tax exceeds its regular federal income tax. For purposes of computing taxable income for AMT purposes, certain tax deductions and other beneficial allowances are modified or eliminated. Any AMT that a corporation pays generally will be allowed as a nonrefundable credit against regular federal income tax liability in future taxable years when the corporation is no longer subject to AMT.

²⁰ Although Beneficial Interests in the Trust may be issued under Code § 1145, without compliance with the registration requirements of the Securities Act of 1933, the Trust may register the Beneficial Interests and file periodic reports under the 1934 Act. If the Liquidating Trustee determines that registration under the 1934 Act is required, he will take steps to comply with these requirements. In addition, once registered, the Trust would be required to file certain reports with the Securities and Exchange Commission, including quarterly and annual financial reports. Further, if the Liquidating Trustee determines that registration of the Beneficial Interests is required under the Investment Company Act of 1940 (the "1940 Act"), he will take steps to comply with these requirements. It is possible that Beneficial Interests in the Trust may be issued without compliance with registration requirements of the 1940 Act, if the Trust complies with requirements of the 1934 Act. The Trust is a liquidating entity, solely responsible for marshaling and distributing the Trust Assets. Beneficial Interests in the Trust will not be transferable and will be uncertificated. Under the circumstances, it is conceivable that the Trust may be construed as an entity not subject to the 1940 Act.

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