

**UNITED STATES BANKRUPTCY COURT  
NORTHERN DISTRICT OF ILLINOIS  
EASTERN DIVISION**

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In re:	)	Chapter 11
	)	
KIMBALL HILL, INC., <i>et al.</i> , <sup>1</sup>	)	Case No. 08-10095
	)	(Jointly Administered)
	)	
Debtors.	)	Hon. Susan Pierson Sonderby
	)	

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**NOTICE OF (A) THE SOLICITATION AND VOTING  
PROCEDURES, (B) THE PLAN OBJECTION DEADLINE, AND (C) THE  
CONFIRMATION HEARING WITH RESPECT TO THE DEBTORS' PLAN**

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**PLEASE TAKE NOTICE** that on January 21, 2009 the United States Bankruptcy Court for the Northern District of Illinois, Eastern Division (the "Bankruptcy Court") entered the *Order Approving the Debtors' Disclosure Statement and Granting Related Relief* (the "Solicitation Procedures Order"). Pursuant to the Solicitation Procedures Order, a copy of which is provided with this notice (the "Notice"), the Bankruptcy Court approved, among other things, the *Disclosure Statement for the Debtors' Joint Plan Pursuant to Chapter 11 of the United States Bankruptcy Code* (as amended from time to time and including all exhibits and supplements, the "Disclosure Statement") filed in support of the *Joint Plan of Kimball Hill, Inc. and its Debtor Subsidiaries Pursuant to Chapter 11 of the United States Bankruptcy Code* (as amended from time to time and including all exhibits and supplements, the "Plan"), as containing adequate information, as required under section 1125(a) of title 11 of the United States Code (the "Bankruptcy Code"), and authorizing the Debtors to solicit votes with regard to the Plan.<sup>2</sup>

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<sup>1</sup> The Debtors in these cases include: Kimball Hill, Inc.; 18th and Peoria, LLC; KH Financial Holding Company; KH Ingham Park South, LLC; KHH Texas Trading Company L.P.; Kimball Hill Far East Detroit, LLC; Kimball Hill Homes Austin, L.P.; Kimball Hill Homes California, Inc.; Kimball Hill Homes Dallas, L.P.; Kimball Hill Homes Florida, Inc.; Kimball Hill Homes Houston, L.P.; Kimball Hill Homes Illinois, LLC; Kimball Hill Homes Nevada, Inc.; Kimball Hill Homes Ohio, Inc.; Kimball Hill Homes Oregon, Inc.; Kimball Hill Homes Realty Florida, Inc.; Kimball Hill Homes San Antonio, L.P.; Kimball Hill Homes Texas Investments, L.L.C.; Kimball Hill Homes Texas Operations, L.L.C.; Kimball Hill Homes Texas, Inc.; Kimball Hill Homes Washington, Inc.; Kimball Hill Homes Wisconsin, Inc.; Kimball Hill Stateway, Inc.; Kimball Hill Texas Investment Company, L.L.C.; Kimball Hill Urban Centers Chicago One, L.L.C.; Kimball Hill Urban Centers Chicago Two, L.L.C.; Kimball Hill Urban Centers Special Purposes, LLC; Kimball Hill Urban Centers, L.L.C.; National Credit and Guaranty Corporation; and The Hamilton Place Partnership.

<sup>2</sup> Capitalized terms used but not otherwise defined herein shall have the meanings ascribed to them in the Disclosure Statement.



**Confirmation Hearing.** A hearing to confirm the Plan (the “Confirmation Hearing”) will commence on March 9, 2009 at 2:00 p.m. prevailing Central Time before the Honorable Susan Pierson Sonderby in Courtroom 642 in the United States Courthouse, 219 South Dearborn Street, Chicago, Illinois 60604. The Confirmation Hearing may be continued from time to time by the Court or the Debtors without further notice other than such adjournment announced in open court. In accordance with the Plan, the Plan may be modified, if necessary, prior to, during, or as a result of the Confirmation Hearing, without further notice to interested parties.

At the Confirmation Hearing, the Debtors will seek approval of the global settlement reached between the official committee of unsecured creditors and the Debtors’ prepetition senior secured lenders that is incorporated into, and designed to be implemented through, the Plan. The settlement on which the Plan is premised provides for distributions to creditors on a consolidated basis. Consistent with the settlement, any Claim against a Debtor and any guarantee thereof executed by any other Debtor and any joint or several liability of any of the Debtors are deemed one right to a distribution under the Plan. In addition to governing the treatment and distributions to be received by certain Holders of Claims, the settlement resolves several other matters regarding the administration of the Debtors’ Estates, including (a) the manner in which Administrative Claims will be paid and (b) the establishment of the Post-Consummation Trust and the Liquidation Trust in full and final settlement of any and all claims and causes of action asserted by the Creditors’ Committee against the Prepetition Agent including the diminution in value claims asserted by the Prepetition Lenders and the avoidance actions under chapter 5 of the Bankruptcy Code that the Creditors’ Committee sought to assert.

**Warranty Claims.** If you bought a home from Kimball Hill and the closing occurred on or after April 23, 2008, any warranty claim you may have should be asserted against the warranty insurance. Additionally, you may wish to consult your own attorneys or other professionals to determine whether you hold a claim against Kimball Hill. Individuals with warranty claims who wish to contest their status under the Plan should refer to the procedures for filing an objection to the Plan set forth above and in the Solicitation Procedures Order.

**Copies of the Disclosure Statement, the Plan, and the Solicitation Package.** The Debtors will serve the Disclosure Statement, Plan, Solicitation Procedures Order, and certain other relevant materials (collectively, the “Solicitation Package”) on the Holders of Claims entitled to vote as of the Record Date. The Solicitation Package (except Ballots) can also be obtained (i) from the Debtors’ Voting and Solicitation Agent (a) at its website at <http://www.kccllc.net/kimballhill>, (b) by writing to Kimball Hill, Inc., c/o Kurtzman Carson Consultants LLC, 2335 Alaska Avenue, El Segundo, California 90245, (c) by calling (877) 631-3923, or (d) by emailing [kimballhillinfo@kccllc.com](mailto:kimballhillinfo@kccllc.com) or (ii) for a fee via PACER at <http://ecf.ilnb.uscourts.gov/>. If you desire paper copies of any of the solicitation documents contained in the Solicitation Package please contact the Voting and Solicitation Agent.

**Record Date.** The Record Date for purposes of determining which Holders of Claims are entitled to vote on the Plan is January 13, 2009.

**Voting Deadline.** The Bankruptcy Court has approved February 27, 2009 at 5:00 p.m. prevailing Pacific Time, as the voting deadline (the “Voting Deadline”) for submitting Ballots and Master Ballots with respect to the Plan. If you hold a Claim against one of the Debtors as of the Record Date and are entitled to vote to accept or reject the Plan, you have received a Ballot

or a Master Ballot and Ballot Instructions appropriate for your Claim(s). For your vote on the Plan to be counted, you must follow the appropriate Ballot Instructions, complete all required information on the Ballot or Master Ballot, execute and return the completed Ballot or Master Ballot so that it is actually received in accordance with the Ballot Instructions at the address indicated on the Ballot or Master Ballot by the Voting Deadline. Any failure to follow the Ballot Instructions included with the Ballot or Master Ballot may disqualify your Ballot or Master Ballot and your vote.

**Objections to the Plan.** The Bankruptcy Court has established February 27, 2009 at 5:00 p.m. prevailing Central Time, as the last date and time for filing and serving objections to the Confirmation of the Plan (the “Plan Objection Deadline”). Any objection to the Plan must (a) be in writing; (b) conform to the Bankruptcy Rules and the Local Rules; (c) state the name and address of the objecting party and the amount and nature of the Claim or Interest; (d) state with particularity the basis and nature of any objection to the Plan; (e) propose a modification to the Plan that would resolve such objection (if applicable); and (f) be filed, contemporaneously with a proof of service, with the Court and served so that it is actually received no later than the Plan Objection Deadline by the following parties:

<i>Counsel to the Debtors</i>	<i>Office of the United States Trustee for the Northern District of Illinois</i>
<b>Kirkland &amp; Ellis LLP</b> Attn: Ray C. Schrock Lauren Hawkins Aon Center 200 East Randolph Drive Chicago, Illinois 60601	United States Trustee Attn: Kathryn M. Gleason Stephen G. Wolfe United States Courthouse 219 South Dearborn Street, Suite. 873 Chicago, Illinois 60604
<i>Co-Counsel to the Creditors’ Committee</i>	
<b>Akin Gump Strauss Hauer &amp; Feld LLP</b> Attn: Philip C. Dublin 590 Madison Avenue New York, New York 10022	<b>Shaw Gussis Fishman Glantz Wolfson &amp; Towbin LLC</b> Attn: Steven B. Towbin, Esq. 321 North Clark Street Chicago, Illinois 60610
<i>Counsel to the Agent to the Prepetition Secured Lenders</i>	
<b>Mayer Brown LLP</b> Attn: J. Robert Stoll, Esq. 71 South Wacker Drive Chicago, Illinois 60606	

**Temporary Allowance of Claims for Voting Purposes.** If a Holder’s Claim is subject to a pending objection as of the Record Date, the Holder of such Claim cannot vote unless one or more of the following events have taken place at least five (5) business days before the Voting Deadline: (a) an order of the Bankruptcy Court is entered allowing such Claim pursuant to section 502(b) of the Bankruptcy Code, after notice and a hearing; (b) an order of the Bankruptcy Court is entered temporarily allowing such Claim for voting purposes only pursuant to Bankruptcy Rule 3018(a), after notice and a hearing; (c) a stipulation or other agreement is executed between the Holder of such Claim and the Debtors resolving the objection and allowing such Claim in an agreed upon amount; (d) a stipulation or other agreement is executed between the Holder of such Claim and the Debtors temporarily allowing the Holder of such Claim to vote

its Claim in an agreed upon amount; or (e) the pending objection to such Claim is voluntarily withdrawn by the Debtors (each, a “Resolution Event”). No later than two (2) business days after a Resolution Event, the Voting and Solicitation Agent or Securities Voting Agent, as appropriate, shall distribute a Solicitation Package and a pre-addressed, postage pre-paid envelope to the relevant Holder of such temporarily allowed Claim that has been allowed for voting purposes only (or for other purposes as set forth in an applicable order of the Bankruptcy Court) by such Resolution Event, which must be returned according to the instructions on the Ballot by no later than the Voting Deadline.

If the Holder of a Claim receives a Solicitation Package and the Debtors object to such Claim after the Record Date but at least fifteen (15) days prior to the Confirmation Hearing, the Debtors’ notice of objection will inform such Holder of the rules applicable to Claims subject to a pending objection and the procedures for temporary allowance for voting purposes. Furthermore, if the Holder of a Claim receives a Solicitation Package and the Debtors object to such Claim less than fifteen (15) days prior to the Confirmation Hearing, the Holder’s Claim shall be deemed temporarily allowed for voting purposes only without further action by the Holder of such Claim and without further order of the Bankruptcy Court.

**Release, Exculpation, and Injunction Provisions in the Plan.** Please be advised that the Plan contains certain release, exculpation, and injunction provisions. Article VIII of the Plan provides as follows:

Releases by the Debtors: Pursuant to section 1123(b) of the Bankruptcy Code, and except as otherwise specifically provided in the Plan, for good and valuable consideration, including the service of the Released Parties (defined below) to facilitate the expeditious emergence of the Debtors and the implementation of the Plan, on and after the Effective Date, the Released Parties are deemed released and discharged by the Debtors, their Estates, the Post-Consummation Trust, the Liquidation Trust, and their Affiliates, from any and all Claims, obligations, rights, suits, damages, Causes of Action, remedies, and liabilities whatsoever, including any derivative Claims or Causes of Action asserted on behalf of the Debtors, whether known or unknown, foreseen or unforeseen, existing or hereinafter arising, in law, equity, or otherwise, that the Debtors, their Estates, the Post-Consummation Trust, the Liquidation Trust, or their Affiliates would have been legally entitled to assert in their own right (whether individually or collectively) or on behalf of the Holder of any Claim or Interest or other Entity, based on or relating to, or in any manner arising from, in whole or in part, the Debtors, the Chapter 11 Cases, the purchase, sale, or rescission of the purchase or sale of any security of the Debtors, the subject matter of, or the transactions or events giving rise to, any Claim or Interest that is treated in the Plan, the business or contractual arrangements between any Debtor and any Released Party, the restructuring of Claims and Interests prior to or in the Chapter 11 Cases, the negotiation, formulation, or preparation of the Plan and Disclosure Statement, or related agreements, instruments, or other documents, upon any other act or omission, transaction, agreement, event, or other occurrence taking place on or before the Effective Date, other than Claims or liabilities arising out of or relating to any act or omission of a Released Party that constitutes a failure to perform the duty to act in good faith and where such failure to perform constitutes willful misconduct, gross negligence, or fraud.

Pursuant to Article I of the Plan, Released Parties shall include each of: (a) the Debtors and their Affiliates, which include Kimball Hill, Inc.; 18th and Peoria, LLC; KH Financial

Holding Company; KH Ingham Park South, LLC; KHH Texas Trading Company L.P; Kimball Hill Far East Detroit, LLC; Kimball Hill Homes Austin, L.P.; Kimball Hill Homes California, Inc.; Kimball Hill Homes Dallas, L.P.; Kimball Hill Homes Florida, Inc.; Kimball Hill Homes Houston, L.P.; Kimball Hill Homes Illinois, LLC; Kimball Hill Homes Nevada, Inc.; Kimball Hill Homes Ohio, Inc.; Kimball Hill Homes Oregon, Inc.; Kimball Hill Homes Realty Florida, Inc.; Kimball Hill Homes San Antonio, L.P.; Kimball Hill Homes Texas Investments, L.L.C.; Kimball Hill Homes Texas Operations, L.L.C.; Kimball Hill Homes Texas, Inc.; Kimball Hill Homes Washington, Inc.; Kimball Hill Homes Wisconsin, Inc.; Kimball Hill Stateway, Inc.; Kimball Hill Texas Investment Company, L.L.C.; Kimball Hill Urban Centers Chicago One, L.L.C.; Kimball Hill Urban Centers Chicago Two, L.L.C.; Kimball Hill Urban Centers Special Purposes, LLC; Kimball Hill Urban Centers, L.L.C.; National Credit and Guaranty Corporation; and The Hamilton Place Partnership.; (b) the DIP Lender, Kimball Hill, Inc., each in their capacities as such; (c) the Prepetition Agent, Harris, N.A. and the Prepetition Lenders as of the Effective Date, each in their capacities as such; (d) the Creditors' Committee and the members thereof, which include US Bank, N.A., SMH Capital Advisors, Inc., California National Bank, Tower Crossing Homeowners' Association, Masco Corporation, and Builders Gypsum Supply Co., each in their capacities as such; (e) the Indenture Trustee, U.S. Bank, N.A.; (f) the Plan Administrator, which will be determined at a later date, in its capacity as such; (g) the Liquidation Trust Administrator, which will be determined at a later date, in its capacity as such; and (h) with respect to each of the foregoing Entities in clauses (a) through (g), such Entities' subsidiaries, Affiliates, officers, directors, principals, employees, agents, financial advisors, attorneys, accountants, investment bankers, consultants, representatives, and other Professionals, in each case in their capacities as such; provided that clause (h) shall not include officers, directors, or employees of the Debtors who were no longer acting in such capacity on the Petition Date. Clause (h) of the foregoing sentence includes, Akin Gump Strauss Hauer & Feld LLP, Alvarez & Marsal North America, LLC, Deloitte Tax LLP, FTI Consulting, Inc., Garden City Group, Inc., Gardere Wynne Sewell LLP, Houlihan Lokey Howard & Zukin Capital, Inc., Kirkland & Ellis LLP, Kurtzman Carson Consultants LLC, Macquarie Capital (USA) Inc., Mayer Brown LLP, and Neal, Gerber & Eisenberg, LLP.

Releases by Holders of Claims and Interests: Except as otherwise specifically provided in the Plan, on and after the Effective Date, Holders of Claims and Interests voting to accept the Plan and electing not to opt out of the release contained in this paragraph (which by definition, does not include Holders of Claims and Interests who are not entitled to vote in favor of or against the Plan), shall be deemed to have conclusively, absolutely, unconditionally, irrevocably, and forever, released and discharged the Debtors, the Post Consummation Trust, the Liquidation Trust, and the Released Parties from any and all Claims, Interests, obligations, rights, suits, damages, Causes of Action, remedies, and liabilities whatsoever, including any derivative Claims asserted on behalf of a Debtor, whether known or unknown, foreseen or unforeseen, existing or hereafter arising, in law, equity, or otherwise, that such Entity would have been legally entitled to assert (whether individually or collectively), based on or relating to, or in any manner arising from, in whole or in part, the Debtors, the Debtors' restructuring, the Debtors' Chapter 11 Cases, the purchase, sale, or rescission of the purchase or sale of any security of the Debtors, the subject matter of, or the transactions or events giving rise to, any Claim or Interest that is treated in the Plan, the business or contractual arrangements between any Debtor and any Released Party, the restructuring of Claims and Interests prior to or in the Chapter 11 Cases, the negotiation, formulation, or preparation of the Plan and Disclosure Statement, or related agreements, instruments, or other documents, upon any other act or omission, transaction,

agreement, event, or other occurrence taking place on or before the Effective Date, other than Claims or liabilities arising out of or relating to any act or omission of a Debtor or a Released Party that constitutes a failure to perform the duty to act in good faith, with the care of an ordinarily prudent person and in a manner the Debtor or the Released Party reasonably believed to be in the best interests of the Debtors (to the extent such duty is imposed by applicable non bankruptcy law) where such failure to perform constitutes willful misconduct, gross negligence, or fraud; provided that this release and discharge shall not apply to any distributions on account of Claims or Interests specifically contemplated in Article VII of the Plan.

Exculpation: Except as otherwise specifically provided in the Plan, no Exculpated Party shall have or incur, and each Exculpated Party is hereby released and exculpated from any Claim, obligation, Cause of Action, or liability to one another or to any Exculpating Party for any Exculpated Claim, except for gross negligence, willful misconduct, or fraud, but in all respects such Entities shall be entitled to reasonably rely upon the advice of counsel with respect to their duties and responsibilities pursuant to the Plan. The Debtors (and each of their respective Affiliates, agents, directors, officers, employees, advisors, and attorneys) have, and upon the Effective Date shall be deemed to have, participated in good faith and in compliance with the applicable provisions of the Bankruptcy Code with regard to the distributions of the securities pursuant to the Plan, and therefore are not, and on account of such distributions shall not be, liable at any time for the violation of any applicable law, rule, or regulation governing the solicitation of acceptances or rejections of the Plan or such distributions made pursuant to the Plan.

Pursuant to Article I of the Plan, the Exculpated Parties are the same as the Released Parties with the inclusion of any Disbursing Agents.

Injunction: Except as otherwise expressly provided in the Plan or for obligations issued pursuant to the Plan, all Entities who have held, hold, or may hold Claims or Interests that have been released pursuant to Article VIII.C or Article VIII.E, discharged pursuant to Article VIII.B, or are subject to exculpation pursuant to Article VIII.D are permanently enjoined, from and after the Effective Date, from: (1) commencing or continuing in any manner any action or other proceeding of any kind on account of or in connection with or with respect to any such Claims or Interests; (2) enforcing, attaching, collecting, or recovering by any manner or means any judgment, award, decree or order against such Entities on account of or in connection with or with respect to any such Claims or Interests; (3) creating, perfecting, or enforcing any encumbrance of any kind against such Entities or the property or estates of such Entities on account of or in connection with or with respect to any such Claims or Interests; (4) asserting any right of setoff, subrogation, or recoupment of any kind against any obligation due from such Entities or against the property or Estates of such Entities on account of or in connection with or with respect to any such Claims or Interests unless such Holder has filed a motion requesting the right to perform such setoff on or before the Effective Date, and notwithstanding an indication in a Proof of Claim or Interest or otherwise that such Holder asserts, has, or intends to preserve any right of setoff pursuant to section 553 of the Bankruptcy Code or otherwise; and (5) commencing or continuing in any manner any action or other proceeding of any kind on account of or in connection with or with respect to any such Claims or Interests released or settled pursuant to the Plan. Nothing in the Plan or Confirmation Order shall preclude any Entity from pursuing an action against one or more of the Debtors in a nominal capacity to recover insurance proceeds so long as the Plan Administrator or the Liquidation Trust Administrator, as applicable, and any

such Entity agree in writing that such Entity will: (a) waive all Claims against the Post-Consummation Trust, the Liquidation Trust, and the Estates related to such action and (b) enforce any judgment on account of such Claim solely against applicable insurance proceeds, if any.