

TOUSA Liquidation Trust

Quarterly Report - For the Quarter Ended September 30, 2017

November 2017



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Trust Activities

Recordkeeping

CohnReznick LLP (“CR”)¹ maintains the books and records of the Liquidation Trust, utilizing QuickBooks (“QB”) accounting software. Following the resignation of certain employees of the Liquidation Trust, control of the accounts maintained in QB was transitioned to CR. Various electronic and hard copy records and files were also transferred to CR. CR obtains the appropriate approvals from the Liquidation Trust Advisory Board and/or the Liquidation Trustee for disbursement of funds from all accounts maintained by the Liquidation Trustee, including Debtor accounts, and handles the daily, weekly and monthly cash activities. These activities include, among other things, internal bank transfers, wire transfers, transmission of electronic data to the Liquidation Trustee for ultimate transmittal to Wells Fargo Bank, bank account reconciliations, administering payroll, payroll tax remittance and reporting, payment of Liquidation Trust expenses, payment of Debtor-related obligations, processing and related bookkeeping of various classes of creditor distributions, and reporting to the Liquidation Trustee and the Liquidation Trust Advisory Board.

US Trustee Reporting

CR handles the quarterly reporting of the Debtors and Liquidation Trust activities to the U.S. Trustee. To date, the Trust has prepared and filed all required quarterly reports through September 30, 2017.

Tax Filings

The Trust has prepared and filed all required 2013, 2014, 2015 and 2016 federal and state income tax returns.

Valuation of Trust Assets

In March 2014, CR prepared a report that valued the Liquidation Trust interests as of August 21, 2013. Below is a website link to the report.

<https://clientaccess.kccllc.com/documents/0810928/08109281404110000000000001.pdf>

¹ Capitalized terms used and not otherwise defined herein shall have the meaning ascribed to such terms in the *Amended Joint Plan of Liquidation of TOUSA, Inc. and its Affiliated Debtors and Debtors in Possession Under Chapter 11 of the Bankruptcy Code*, dated August 6, 2013 (the “Plan”).

Claims Distributions

Claims Resolution/Distribution

The Liquidation Trust made final distributions to all Allowed Administrative Claims, priority claims, TOUSA Class 1A Claims, TOUSA Class 1B Claims, Conveying Subsidiaries Class 1 Claims and Beacon Hill Class 3 Claims. TOUSA Class 5A and 5B Claims and Conveying Subsidiaries Class 4A and 4B Claims received initial and supplemental or final distributions totaling over \$347 million. Additional distributions are dependent upon the outcome of the Transeastern Litigation and the Trust's ongoing expenses, including the funding of the Transeastern Litigation. The resolved general unsecured claims are broken into the following categories:

- Employee claims;
- Claims receiving a one-time five percent distribution (the "Minimum Conveying Subsidiary Recovery Amount"), the holders of which are not Liquidation Trust Beneficiaries, where the initial distribution on account of such claims is less than \$600;
- Claims receiving the Minimum Conveying Subsidiary Recovery Amount, the holders of which are not Liquidation Trust Beneficiaries, where the initial distribution on account of such claims is more than \$600;
- Claims receiving more than one distribution, the holders of which are Liquidation Trust Beneficiaries; where the distribution is less than \$100; and
- Claims receiving more than one distribution, the holders of which are Liquidation Trust Beneficiaries; where the distribution is more than \$100.

The General Unsecured Claims are broken into the above categories for tax and reporting purposes, as well as for administrative efficiency. Page 4 provides a breakdown of the number of claims that have received an initial or partial distribution and the associated dollar amounts.

Schedule of Distributions²

Claim	Number of Claims	Amount Distributed
Revolver Claim	1	\$ 7,306,277
First Lien Term Loan Lender Claims	1	17,236,924
Senior Notes Claims	1	325,978,908
Secured Claims	4	41,009
Administrative Claims and Expenses	13	10,667,176
Priority Claims	44	150,860
Employee Claims (general unsecured)	11	214,251
General Unsecured Claims receiving less than \$600 distribution (not Liquidation Trust Beneficiaries)	172	14,681
General Unsecured Claims receiving more than \$600 distribution (not Liquidation Trust Beneficiaries)	50	651,559
General Unsecured Claims (Liquidation Trust Beneficiaries)	678	20,620,983
General Unsecured Claims (No W-9 form provided or less than \$100 distribution)	-	-
Total Creditor Distributions	975	\$ 382,882,628

² Below schedule includes distributions through September 30, 2017.

Unaudited Balance Sheet as of September 30, 2017

ASSETS	
Current Assets	
Cash ⁽¹⁾	\$4,308,900
Prepaid Insurance and Other	105,150
Total Current Assets	<u>4,414,050</u>
Other Assets ⁽²⁾	<u>96,452,101</u>
TOTAL ASSETS	<u><u>\$100,866,151</u></u>
LIABILITIES AND EQUITY	
Liabilities	
Current Liabilities:	
Accounts Payable	\$452,088
Initial Liquidation Trust funding	5,000,000
Total Liabilities	<u>5,452,088</u>
Equity	
Liquidation Trust Interests:	
FLTL Lenders	41,646,452
SLTL Lenders	17,918,496
General Unsecured Creditors	43,139,478
Liquidation Trust Interests	102,704,426
Retained Earnings (Deficit)	<u>(7,290,364)</u>
Total Equity	<u>95,414,062</u>
TOTAL LIABILITIES AND EQUITY	<u><u>\$100,866,150</u></u>

Unaudited Balance Sheet as of September 30, 2017

(1) In addition to the Cash that is an asset of the Liquidation Trust, the Liquidation Trust holds Debtor funds (as a disbursing agent of the Debtors), in the approximate amount of \$10.67 million as a reserve for Debtor and trust expenses, including funding the Transeastern litigation.

(2) Other Assets are based on the November Valuation Report, which indicated a total asset value of approximately \$102.7 million as of the Effective Date. Subsequent to the Effective Date, the Liquidation Trust monetized the assets listed on page 8. In addition, the Liquidation Trust made required capital contributions totaling approximately \$8,000 to Remington Ranch and Brushy Creek. Below is a reconciliation from the financial statements to the November Valuation Report:

Other Assets per Financial Statement	\$ 96,452,101
AIG/Chartis Receivable	1,339,000
Preference Actions	63,134
Entrada Del Oro	244,100
Preferred Home Mortgage Co.	2,998,300
Universal Land Title Inc.	88,000
Woodland Pines	1,011,000
RSUI	194,000
Retainers	6,767
Remington Ranch	119,413
Remington Ranch Capital Call	(4,388)
Brushy Creek	196,750
Brushy Creek Capital Call	(3,750)
Total per November Valuation Report	<u>\$ 102,704,428</u>

Unaudited Income Statement for the Quarter Ended September 30, 2017

	For the Quarter Ended September 30, 2017
Interest Income	\$ 3,915
Other Income	1,141,061
Total Income	<u>1,144,976</u>
Salaries, Taxes and Benefits	-
Rent	746
Professional Fees	716,246
IT	45,753
Insurance	23,215
Bank Charges	5,665
UST Fees	16,900
Other	1,420
Total Expenses	<u>809,944</u>
Net Income (Loss)	<u><u>\$ 335,032</u></u>

Schedule of Receipts from Financial Assets

Asset	Q1 - 2017	Q2 - 2017	Q3 - 2017	Since Inception
AIG/Chartis				\$1,356,150
Various Preference Actions	\$686	\$15,263		346,138
Brushy Creek				331,479
Woodland Pines				1,884,728
Preferred Home Mortgage Co.				2,980,069
Universal Land Title Inc.				93,098
RSUI				25,000
Entrada del Oro				250,000
AlixPartners				475,000
Lake Las Vegas Litigation			\$1,133,500	2,586,542
Refund of Professional Fee Retainers				6,767
Total	\$686	\$15,263	\$1,133,500	\$10,334,971

Transeastern Litigation Update

On March, 8, 2017, U.S. District Judge K. Michael Moore issued a decision affirming the remedial scheme of the bankruptcy court's original 2009 Order. Judge Moore concluded that the bankruptcy court did not abuse its discretion in requiring the Transeastern Lenders to disgorge the moneys that they improperly received in the fraudulent transfer transaction, ruling that the bankruptcy court was within its authority to order that "the New Lenders and the Transeastern lenders each bear some of the burden." Judge Moore also adopted the bankruptcy court's 2016 Report and Recommendation that the settlements with the New Lenders, Monarch, and the D&O Coverage defendants did not reduce the liability of the Transeastern Lenders who did not participate in the Monarch settlement.

The Transeastern Lenders appealed this ruling to the U.S. Court of Appeals for the Eleventh Circuit. This appeal was fully briefed by the parties. Amicus briefs in support of the Transeastern Lenders were filed by the Loan Syndications and Trading Association and Commercial Finance Association and by a group of bankruptcy professors, while the National Association of Bankruptcy Trustees filed an amicus brief in support of the Liquidation Trustee. Oral argument before the Eleventh Circuit is tentatively scheduled for mid-December 2017.

In addition, the Eleventh Circuit directed the parties to participate in mediation under the auspices of the court's circuit mediators. The Trustee and the Transeastern Lenders have enlisted a private mediator, former Judge Layn Phillips, to assist in the mediation process. The parties participated in a mediation session with Judge Phillips in New York City on October 17, 2017, and the mediation process is ongoing.

Falcone Action Update

Adversary Proceeding No. 10-02125 (the “Falcone Action”) was initially stayed on April 22, 2011 pending developments in the Transeastern Litigation. Since 2011, the Bankruptcy Court has granted the parties’ repeated joint requests to further extend the stay, and most recently ordered that the stay of the Falcone Action be extended until December 13, 2017.

Federal and State Tax Filings

2012

All required federal and state income tax returns for the Debtors have been filed. The total taxes due with these returns, which were minimum state income/excise taxes in Tennessee, were \$200. The TOUSA Group filed 2 federal returns and 23 state returns for the year ended December 31, 2012.

2013 Returns

All required federal and state returns for the Debtors for the period from January 1, 2013 through August 21, 2013 have been filed as final returns. The only tax liabilities incurred with the filings of the Group's returns were franchise taxes in Tennessee (\$100) and Texas (\$5,100) for which net operating losses carryovers are not available. The federal and Texas returns were reviewed by Ernst & Young prior to filing. There were 2 federal and 13 state returns filed for 2013.

2014 Returns

All required federal and state tax returns for the Trust and DCR for the period from January 1, 2014 through December 31, 2014 have been timely filed.

2015 Returns

All required federal and state tax returns for the Trust and DCR for the period from January 1, 2015 through December 31, 2015 have been timely filed. The Trust timely filed the DCR's 2015 final federal and state tax returns.

2016 Returns

The required federal tax return for the Trust for the period from January 1, 2016 through December 31, 2016 have been timely filed.

Other Tax Related Matters

The Liquidation Trust has responded to the authorities with respect to the previously discussed tax matters in Pennsylvania, Texas, and California (a remaining open claim) by providing the requested information and making a payment of \$6,000 to California to settle the claim. There has been no additional correspondence from these authorities and it is assumed these cases are now closed.

All post-petition period returns were filed requesting prompt determination of tax liability. As of September 30, 2017, no taxing authority has indicated that it intends to audit or make changes to the returns as filed, most of which have substantial unused net operating loss carryovers as discussed above. Based on the time during which taxing authorities may initiate the audit process under the prompt determination procedures, it is likely all of these returns have been accepted as originally filed.

Federal and State Tax Filings

Other Tax Related Matters (Continued)

In late June of 2014 the IRS alleged that the 2013 partnership return for TOUSA Homes Florida was filed late and assessed a small penalty. In December of 2014, based on certified filing information supplied by the Liquidation Trust, the IRS abated all penalties and the assessment has been reduced to zero.

In July 2015, one of the Debtors, TOUSA Homes, Inc., received notices of assessment of penalties related to its 2004 and 2005 filings of Form 1099. Since these assessments were small (\$1,300), they were not contested and were paid. Additionally a small Florida penalty assessment of \$100 was not contested and was paid.

TOUSA, Inc. had challenged the 2009 and 2010 property tax assessments of Osceola County related to the Regal Oaks project in Orlando with an estimated maximum recovery of \$50,000-\$75,000. A suit had been filed in the Osceola County Court by the Company against the County Assessor after administrative procedures proved unsuccessful in resolving this challenge. Since the Company was not able to produce sufficient information necessary to continue the pursuit of this challenge, in October 2014, the parties voluntarily agreed to jointly dismiss the suit with each party agreeing to bear their own costs. As the result of such dismissal, the services of the Company's legal counsel (Harlee & Bald) were concluded with the refund of \$6,766.50 for the remainder of an advance fee deposit held in escrow by Harlee & Bald.

In reviewing of the status of all of the filed claims earlier in 2015, it was discovered that a claim (#4209 for \$55,000 against TOUSA Homes, Inc.) made by the IRS remained open. The IRS conceded that there was no valid claim against TOUSA Homes, Inc. and provided a letter in support of the Company's objection to the claim which was filed with the Court. The Court sustained the Company's objection and the claim was dismissed in the third quarter of 2015.