

May 19, 2008

TO: All Direct Lenders

RE: Update on Litigation and Mediation

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This letter is intended to provide you with an update on the litigation proceedings and to communicate the next steps for hopefully resolving once-and-for-all the issues between the Direct Lenders and Compass. Here are the highlights:

- The Court has ordered Donna Cangelosi to re-convey all beneficial interests to Direct Lenders that opted to join an LLC.
- The Court has prohibited Ms. Cangelosi from representing anything other than her own interests going forward.
- The Court has ordered Compass and certain Direct Lenders to participate in mediation before United States Bankruptcy Court Judge Mike Nakagawa on June 6, 2008 (or on a subsequent date should the Court so order).
- At the conclusion of the mediation, Compass intends to distribute a mediated proposal to all Direct Lenders for review and approval.

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On January 18, 2008, the lender LLCs and Compass agreed to a “standstill” temporarily suspending the litigation so that the parties could pursue settlement. On February 25 and 26 and March 13, 2008, representatives of Compass and the LLCs participated in a mediation before Judge Mike Nakagawa in an effort to arrive at a resolution of the litigation. The result of the mediation was a settlement proposal (the “Mediated Proposal”) under which Compass agreed to reduce by approximately 70% its claims for the default interest and late charges it purchased in the USA bankruptcy case.

Unfortunately, before the Mediated Proposal was delivered to the LLC members for their consideration, Donna Cangelosi, the Manager of the LLCs, apparently solicited a proposal from a Texas-based group called “Cross Litigation Management” that was intended to preclude settlement and continue the litigation with Compass. The Cross proposal, among many other things, provided for: (i) the pledge of a substantial portion of the Direct Lenders’ interests in their loans to Cross; (ii) an assignment to Cross of half of the Direct Lenders’ rights to recovery in the litigation; (iii) a complete surrender and transfer to Cross of control of the litigation; and (iv) a full indemnity of Cross by each individual LLC member, under which the LLC members could not sue Cross for wrongdoing and would be individually liable to Cross for third-party lawsuits against Cross.

At a hearing on April 28, 2008, the District Court ruled that:

- Ms. Cangelosi had acted improperly in soliciting approval of the Cross proposal;

- Ms. Cangelosi had failed to provide the LLC members with a fair and accurate description of the Mediated Proposal; and
- the Court would not approve the Cross proposal and Cross would not be permitted to become involved in any way in the litigation.

The District Court also determined that the LLCs had not complied with its previous rulings based on its determination that (i) the LLCs had been formed in violation of securities and trade laws, and (ii) Ms. Cangelosi had taken certain actions that were in violation of prior Bankruptcy Court and District Court Orders and in contempt of Court.

For these reasons, among others, on May 14, 2008, the District Court entered an Order directing that the LLCs and Ms. Cangelosi reassign to the LLC members all of their beneficial interests in the loans, provide a complete accounting to the District Court, and be excluded from representing the interests of the Direct Lenders in the litigation and the mediation. Copies of the District Court's Order and the April 28, 2008 hearing transcript are enclosed.

Compass remains committed to maximizing recoveries on the USA loans and to consensually resolving the "waterfall" dispute with all Direct Lenders, whether or not you are a member of an LLC. To this end, Compass has requested an immediate continuation of the mediation before Judge Nakagawa in an effort to salvage and build upon the progress that was made during the prior three days of mediation. If Compass and the Direct Lenders are able to reach an agreement:

- no funds from future loan resolutions or post-foreclosure sales will ever need to be escrowed;
- presently escrowed funds can be fully released;
- all parties will receive distributions in conformity with the settlement; and
- the parties will be able to achieve loan resolutions on a more timely basis.

On May 14, 2008, the District Court entered an Order directing that the mediation resume on June 6, 2008, the first available date on Judge Nakagawa's calendar. Until then (or thereafter should the Court order that the mediation occur on a date subsequent to June 6), the District Court has ruled that the litigation remain in a standstill mode to enable all parties to focus on settlement.<sup>1</sup> Compass is very hopeful that the continued mediation will produce a result that is acceptable to all parties and finally put an end to this dispute. Following the mediation, Compass will distribute a new Mediated Proposal to each and every Direct Lender. In accordance with the instructions of the District Court, each and every Direct Lender will have an opportunity to accept the terms of the new Mediated Proposal in his or her individual capacity. We truly believe that we will be able to achieve an acceptable result for the vast majority of the Direct Lenders.

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<sup>1</sup> Judge Jones has set a select few matters for hearing on June 2, 2008. These matters are not affected by the standstill.