

Crown Paper Liquidating Trust Status and Remaining Tasks as of November 4, 2008

I. Introduction and Background

When the Trust assumed control of the liquidation of the Crown entities, it was required to assume the obligation to repay substantial unpaid chapter 11 expenses, certain pre-petition secured and priority obligations and to share substantially all recoveries with the Crown entities pre-petition lenders. In addition, the Trust was required to assume the obligation to ultimately resolve several thousand claims that were not addressed during the chapter 11 because it was not clear that there were funds to pay for the fees and expenses of undertaking such resolution of claims and because it was not clear that there would be a distribution and thus any benefit to resolving the claims. If there were no distribution, there would have been no benefit to such activity and thus that expense and the corresponding burden on the Court may have been wasteful. Accordingly, the Crown entities chapter 11 plan deferred the requirement of action on the claims until it was clear that at least \$1 million would be available to distribute to the beneficiaries of the Liquidating Trust. The assets transferred to the Trust were primarily litigation claims. Thus, unless and until there would be sufficient success in the prosecution of litigation claims to repay the inherited unpaid chapter 11 expenses and pay the ongoing expenses of the Liquidating Trust, there could be no distribution to beneficiaries and the Trust would not process the resolution of the several thousands of remaining unresolved claims

Given that set of circumstances, until the middle of 2007 and for the bulk of the time of its existence from the Effective Date of the Crown entities' chapter 11 plan, the trust had insufficient funds with which to even pay its own ongoing operations, fees and expenses, much less to pay the inherited obligations or have \$1 million for distribution to Trust beneficiaries. Nevertheless, the Trust and its professionals expended tremendous resources and energies to attempt to properly administer and carry out the purposes of the trust's creation. With the exception of those matters beyond the control of the trust, activities were accomplished in the earliest possible time frame in moving the administration forward. The litigation claims were skillfully and vigorously prosecuted. As a result of the diligent prosecution of litigation claims, in mid-2007, the Trust was, for the first time, assured of having sufficient funds to: pay the obligations it inherited from the chapter 11; retire its own accrued and unpaid obligations of administration; and fund at least \$1 million for distribution to beneficiaries.

Thus, in mid-2007, the Trust began the process of preparing for a distribution of funds to beneficiaries while continuing to administer remaining assets. That process included: finalizing the settlements that would produce the funding; evaluating all unresolved claims and initiating many rounds of objections to the thousands of unresolved claims and prosecuting them to either a settlement or adjudicated conclusion; preparing the tax noticing and receipt of

taxpayer identification needed for a distribution; continuing administration of remaining Trust assets; and settling all outstanding inherited chapter 11 obligations and unpaid Trust obligations. Virtually all of these steps are completed except for the final resolution of a relative handful of claims and the disposition of two remaining Trust assets. Importantly, because several of the unresolved claims are asserted in unliquidated amounts, it is necessary to achieve their full resolution prior to making a distribution.

What follows is a discussion of the status of administration of the remaining assets, the progress on and status of resolution of unresolved claims and the planning for a distribution.

II. Remaining Assets to Be Administered

A. Profit Island

The liquidating trust owns approximately 78% of the mineral rights and the executive rights (control) of the mineral rights on Profit Island, a 2,400 acre island in the Mississippi River north of Baton Rouge, Louisiana. Crown had sold the surface rights and 22% of the mineral rights prior to the chapter 11, thus retaining 78% of the mineral rights. An appraisal commissioned by Crown for the chapter 11 process indicated that these mineral rights had a value of approximately \$250,000. However, if no drilling operations were commenced by October 2007, the mineral rights would have lapsed in favor of the owner of the surface rights.

Rather than sell the rights without any effort to exploit the minerals for a sum presumably in the range of \$250,000, the trust sought to find a qualified oil and gas company to lease and explore the availability of oil and gas reserves under the property. If drilling operations could be commenced, royalties could be realized and, importantly, the reversion of the mineral rights to the owner of the surface would be postponed for an additional 7 years beyond the drilling and production activities. Soon after the Effective Date of March 1, 2002, the trust began gathering information, including contact with the owner of the surface and remaining mineral rights and obtaining seismological data on the property from a former lessee. The trust searched for a qualified exploration company working in the area. An oil and gas company with drilling operations in the vicinity of Profit Island was contacted and was asked to make a proposal. Ultimately this company did make a proposal and after negotiation, in 2005, an option was executed wherein that company was given an option to lease the mineral rights at Profit Island with a provision of royalties to the trust and the other owner of the mineral rights.

After studying the property, the lessee/options exercised the right to lease the mineral rights under a portion of Profit Island, retaining an option on the balance of the property, and commenced drilling operations in 2006. With the

expenditure by the lessee/optionee believed by the trust to be in excess of \$25 million, the well was successful and in 2007 the well began production. The trust has received a total of over \$377,000 in rental payments, extension payments and option payments. Royalties received by the trust have amounted to over \$2,123,090 in the months from the partial month production of May 2007 and full months' production thereafter to September 2008, an average of over \$124,887 per month. However, the share of the trust in actual production for the year 2008 from this asset has averaged \$77,000 per month.

In 2007, finally having resources to do so, the trust engaged oil and gas consultants to evaluate the reserves available underlying Profit Island, the possibility of leasing the balance of the property if the lessee/optionee does not exercise its option, the value of the trust's interests and to prepare a plan to dispose of the trust's interests for the highest possible value. There have been several weather events in the last year that have impacted production at the well, partially accounting for the reduced yield from this asset in 2008. In addition, the lessee has been making changes in the well to meet operating conditions. Our consultant has recommended against attempting monetizing this asset during the several interruptions in production and until the changes in the well result in a stabilized production. The consultant is working with the trust's oil and gas counsel and geologists to finalize its recommendations. Included within the anticipated recommendations will be a suggested time frame for disposition and approach to disposition and sale to maximize value.

B. Retirement Plan Reversion-Settlement with Hartford Insurance Company

In 2001, Crown purchased an annuity from Hartford Insurance Company for the annuitization of retirement benefits to former employees under several merged retirement plans of Crown. The PACE International Union challenged the action in the Bankruptcy Court which determined that Crown breached its fiduciary duties in connection with this action and determined that the excess funds in the retirement plan should be redistributed to current retirement plan beneficiaries. After unsuccessful appeals to the District Court and Ninth Circuit Court of Appeals, the liquidating trust obtained a reversal of this decision in June 2007 from the United States Supreme Court. After jurisdiction was returned to the Bankruptcy Court, an order was entered in December 2007 vacating the previous decision.

Thus, absent other complications, there would be no impediment after December 2007 in the liquidating trust paying to certain former employees their portion of the excess funds (certain of the former employees chose to make voluntary contributions to the plan and, thus, are entitled to a portion of the excess funds) and for the trust to take the remaining excess funds as a reversion. However, the PACE union had also filed a number of administrative

and other claims, including some asserting a failure by Crown to fund obligations to certain former employees. Although the trust had undertaken to address all specific concerns as to former employees' entitlements, the PACE claims remained pending.

In addition, as sponsor of the retirement plans for which an annuity had been purchased, the Trust had received a settlement required by certain states' attorneys general of the Hartford Insurance Company in the approximate total amount of \$1.8 million. The Trust had filed a notice that it intended to treat these funds as general funds of the Trust. PACE had filed an objection to the treatment the Trust had proposed.

Given the impact of the potential outcomes of the PACE suit before the Supreme Court, these other disputed matters could not be resolved prior to the ultimate outcome of the principal PACE suit which was finally resolved only in December 2007. With the vacating of the earlier PACE decision, the trust endeavored to resolve the remaining disputes with PACE amicably. Unable to accomplish that initially, the trust commenced prosecuting objections to the PACE claims. Fortunately, the Trust has in the past several months been able to resolve those of the PACE claims that would impact the disposition of the reversion of excess retirement plan assets and of the \$1.8 million Hartford settlement.

Accordingly, the trust is now finalizing the calculation of the entitlements of some of the former employees who are entitled to an allocation of the excess plan assets. Upon completion, the Trust will arrange for proper distribution of those allocations and thereafter take the reversion of remaining excess funds and pay the excise tax obligation arising from that reversion so that the net funds received can be distributed in accordance with the chapter 11 plan. In addition, the resolution of the PACE objection relating to the Hartford settlement will enable the Trust to administer this asset.

C. Remaining Litigation Claim

As of the date of this update, only one litigation claim seeking affirmative relief on behalf of the trust remains pending. This litigation has been settled and a motion seeking settlement approval has been filed and is now pending.

III. Administration, Claims, Distribution and Closing Activities

A. Claims

As indicated above, in mid 2007, it was believed that there would be sufficient funds after payment of the various trust obligations and plan required payments to fund a distribution of at least \$1 million to trust beneficiaries. Thus, the trust immediately began the process of analysis and review of claims. The

result was that, the trust had reviewed and filed objections to all claims requiring objection by January 31, 2008. By that time, the trust had filed nine rounds of omnibus objections and twenty six individual objections in an effort to conclude the determination of a total of 2,624 unresolved claims pending as of the start of that process.

While the Trust had initiated all of the appropriate objections by the end of January 2008, the process of completing action on such objections would depend on responses of the claimants and the timing available on the Court's calendar. As of the time of this status report, all but 7 of the 732 claims as to which claims objections were filed by the Trust have been resolved. Of the remaining unresolved claims, the Trust sought and obtained a status conference before the Court on October 15, 2008 to establish the timing and method of resolution of the remaining claims. The Court has set a process for negotiations to attempt to resolve certain of those claims and a deadline for further action by the claimants in respect to others of those claims. The Court deadline for such actions will end in November 2008. The Trust plans to be proactive in efforts to resolve these remaining claims. However, if any remain unresolved, the Court will decide the process for reaching an adjudication of any such remaining unresolved claims.

As indicated above, some of these remaining unresolved claims are asserted in unliquidated amounts. Accordingly, the Trust cannot make a distribution until such claims are resolved.

B. Claims and Distributions

The Crown entities' chapter 11 plan required the liquidating trust to complete distributions to various priority, administrative, tax and former secured creditors either in specified amounts or pursuant to a formula provided for under the plan. The ability of the trust to make a distribution to trust beneficiaries would depend upon the trust's compliance with such requirements. The liquidating trust files quarterly reports with the United States Trustee to, among other requirements, track its compliance with such requirements. As reflected in the quarterly report filed with the United States Trustee for the quarter ending September 30, 2008, the trust had completed payments required by the plan which totaled in excess of \$30.5 million.

Upon the disposition of remaining claim objections, the trust will pay any additional obligations arising from such disposition and will make a first interim distribution to trust beneficiaries. Based upon the claims resolutions to date, there will be a minimum of \$327,500,000 in beneficial interests entitled to participate in the distribution, including the \$263,970,028 in beneficial interests resulting from the Old Sub Notes. As indicated above, it is important to note that there remain a number of claims which have not been resolved. The amount of beneficial interests will be higher by the amount of such claims ultimately

allowed. As of October 31, 2008, the Trust had deposits of cash in the amount of approximately \$7.9 million, subject to: reserves for disputed claims; additional obligations to the pre-petition lenders; accrued and ongoing Trust operating expenses; and accrued and ongoing Trust administration fee and expense obligations.

The remaining sources of recovery for the Trust include: the net, after excise tax, proceeds of the retirement plan reversion; the net proceeds of the litigation claim currently the subject of a settlement motion; interest on invested funds; and the proceeds of mineral rights at Profit Island. The total that will be available from these sources will be determined in the coming months as the administration of such assets is completed. The proceeds of these remaining assets may or may not be included in the initial distribution depending upon the timing of that distribution and the timing of completion of administration of those assets. To the extent not included in the initial distribution, such proceeds will be included in a final distribution.

Coincident with implementing the final distribution, the trust will seek a bar order for claims occurring during the trust administration and will file final tax returns. The trust is targeting to accomplish that and a final decree by the date through which the Court has currently granted an extension for the administration of the Trust, March 2009.