

UNITED STATES BANKRUPTCY COURT FOR THE  
SOUTHERN DISTRICT OF NEW YORK

In re:

Chapter 11

THE 1031 TAX GROUP, LLC, *et al.*,<sup>1</sup>

Case No. 07-11448 (MG)  
Jointly Administered

Debtors.

MONTHLY OPERATING STATEMENT  
FOR THE PERIOD ENDING DECEMBER 1, 2009

DEBTORS' ADDRESS: 1601 JACKSON STREET  
SUITE 200  
FORT MYERS, FL 33901

ATTORNEYS TO THE TRUSTEE: GOLENBOCK EISEMAN ASSOR BELL & PESKOE LLP  
437 MADISON AVENUE  
NEW YORK, NY 10022

JOHNSON POPE BOKOR RUPPEL & BURNS LLP  
911 CHESTNUT STREET  
CLEARWATER, FL 33756

DISBURSEMENTS FOR THE PERIOD: \$72,625

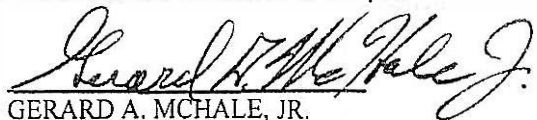
INCOME/ (LOSS) FOR THE PERIOD: \$(463,508)

REPORT PREPARER: GERARD A. MCHALE, JR., TRUSTEE - 1031 TAX GROUP, LLC, *et al.*

*This Operating Statement Must Be Signed By a Representative of the Debtors*

The undersigned, having reviewed the attached report and being familiar with the Debtors' financial affairs, verifies under the penalty of perjury, that the information contained therein is complete, accurate and truthful to the best of my knowledge.

Date: February 16, 2010



GERARD A. MCHALE, JR.

Trustee

The 1031 Tax Group, LLC, *et al.*

Indicate if this is an amended statement by checking here:

AMENDED STATEMENT \_\_\_\_\_

<sup>1</sup> The Debtors are: The 1031 Tax Group, LLC; 1031 Advance 132 LLC; 1031 Advance, Inc.; 1031 TG Oak Harbor LLC; Atlantic Exchange Company, Inc.; Atlantic Exchange Company LLC; Investment Exchange Group, LLC; National Exchange Accommodators, LLC; National Exchange Services QI, Ltd.; NRC 1031, LLC; Real Estate Exchange Services, Inc.; Rutherford Investment LLC; Security 1031 Services, LLC; Shamrock Holdings Group, LLC; and AEC Exchange Company LLC.

THE 1031 TAX GROUP, LLC, *et al.*,  
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The 1031 TAX GROUP, LLC, *et al.*,  
STATEMENT OF FINANCIAL POSITION  
AS OF DECEMBER 1, 2009  
(UNAUDITED)

**ASSETS:**

<b>Cash</b>	Ch 11 Trustee	\$ 93,581,471	NOTE 2
	Other	\$ 28,177	↓
	<b>Total Cash</b>	<b>\$ 93,609,648</b>	
<b>Other Current Assets</b>	Deposits - Other	\$ -	NOTE 3
	<b>Total Other Current Assets</b>	<b>\$ -</b>	
<b>Other Receivables</b>	Receivable - Former Owners	\$ 285,500	NOTE 4
	Receivable - KPKB	\$ 250,000	↓
	Receivable - Tax Refund	\$ 2,800,000	↓
	<b>Total Receivables</b>	<b>\$ 3,335,500</b>	
<b>TOTAL ASSETS</b>		<b>\$ 96,945,148</b>	

**LIABILITIES & EQUITY:**

Current Liabilities	Accrued Professional Fees	\$ 22,044,884	NOTE 5
	<b>Total Current Liabilities</b>	<b>\$ 22,044,884</b>	
Other Liabilities	Exchanger Claims	\$ 147,030,785	NOTE 6
	All Other Claims	\$ 5,201,815	
	<b>Total Other Liabilities</b>	<b>\$ 152,232,600</b>	
Equity	Members Equity	\$ (77,332,336)	
	<b>Total Equity</b>	<b>\$ (77,332,336)</b>	
<b>TOTAL LIABILITIES &amp; EQUITY</b>		<b>\$ 96,945,148</b>	

\$ -

THE 1031 TAX GROUP, LLC, *et al.*  
STATEMENT OF OPERATIONS  
FOR THE PERIOD ENDING DECEMBER 1, 2009  
(UNAUDITED)

	<u>11/1 - 12/1</u>
<b>Income</b>	
Interest Income	\$ 40,311
Miscellaneous Income	\$ 16,628
<b>Total Income</b>	<b>\$ 56,939</b>
 <b>Expense</b>	
Bank Fees	\$ 3,996
Bond Premium	\$ -
Consulting Expense	\$ 624,415
Legal Fees	\$ (176,593)
Operating Expenses	\$ 11,584
Payroll Expenses	\$ 17,397
Printing & Reproduction Expense	\$ 4,648
Settlement Expenses	\$ 35,000
U.S. Trustee Fees	\$ -
<b>Total Expense</b>	<b>\$ 520,447</b>
 <b>Net Income</b>	<b>\$ (463,508)</b>

THE 1031 TAX GROUP, LLC, *et al.*,  
STATEMENT OF CASH FLOWS  
FOR THE PERIOD ENDING DECEMBER 1, 2009  
(UNAUDITED)

	Nov - Dec 1, 09	Cumulative
<b>Trustee Wachovia Account</b>		
<b>Opening Cash Balance</b>	\$ 40,370,392	\$ -
<b>Receipts</b>		
Misc cash receipts	\$ 16,628	\$ 252,258
Payments related to Okun Toys and IPofA Group		\$ 522,164
Asset Sales		\$ 4,996,621
Settlements - Insurance	\$ 5,250,000	\$ 38,391,715
Settlements - Wachovia	\$ 45,045,327	\$ 45,045,327
Settlements - Other	\$ 2,931,439	\$ 3,563,715
Christian Cove Funds		\$ 1,635,740
Interest Income	\$ 40,311	\$ 392,578
<b>Total Receipts</b>	<b>\$ 53,283,704</b>	<b>\$ 94,800,118</b>
<b>Disbursements</b>		
1031 et al Operating Disbursements	\$ 32,977	\$ 2,063,630
Professional Fees		\$ 6,538,963
Settlement Related Expenses	\$ 35,000	\$ 842,560
Trustee Bond Premium		\$ 108,000
Other	\$ 4,648	\$ 197,442
<b>Total Disbursements</b>	<b>\$ 72,625</b>	<b>\$ 9,750,596</b>
<b>Transfers Among DIP Accounts</b>		
Transfer from/(to) Other DIP Accounts	\$ -	\$ 8,499,808
<b>Net Transfers Among DIP Accounts</b>	<b>\$ -</b>	<b>\$ 8,499,808</b>
<b>Transfers from Non-DIP Accounts</b>		
Transfer from (to) Other Accounts	\$ -	\$ 32,141
<b>Net Transfers Among Non DIP Accounts</b>	<b>\$ -</b>	<b>\$ 32,141</b>
<b>Net Change in Cash</b>	<b>\$ 53,211,079</b>	<b>\$ 93,581,471</b>
<b>Ending Cash – Trustee Wachovia Account</b>	<b>\$ 93,581,471</b>	<b>\$ 93,581,471</b>

THE 1031 TAX GROUP, LLC, *et al.*  
NOTES TO FINANCIAL STATEMENTS

**1. Background and Organization**

*Background*

The 1031 Tax Group, LLC, *et al.*, (the “Debtors”) represent a group of affiliated companies which were assembled as subsidiaries or under common ownership beginning in August 2005 and extending through December 2006 (the “Acquisitions”). The Debtors act as a “qualified intermediary” (also referred to as a “QI,” “accommodator” or “facilitator”) for deferred tax, like kind property exchanges consummated by exchangers pursuant to the Internal Revenue Code, 26 U.S.C. section 1031. A Section 1031 tax deferred exchange, named for the Internal Revenue Code Section to which it refers (also known as a Starker exchange, tax free exchange or like kind exchange), allows a deferral of the taxes that would otherwise be due.

According to the 1031 Debtors, as of May 14, 2007, there were in excess of three hundred (300) open straight exchange contracts representing an estimated liability of approximately \$150.6 million. In addition, there were over one hundred (100) open reverse exchange contracts, at an undetermined total value, with an associated cash liability of approximately \$8.6 million.

*Bankruptcy Filing*

On May 14, 2007<sup>2</sup> (the “Petition Date”), The 1031 Tax Group, LLC, *et al.*, filed voluntary petitions for relief under chapter 11 of title 11 of the United States Code (the “Bankruptcy Code”) in the United States Bankruptcy Court for the Southern District of New York (the “Bankruptcy Court”) (Case No. 07-11448 (MG)). Until the appointment of a Chapter 11 Trustee on October 25, 2007, the Debtors managed their property and operated their business as “debtor in possession” under the jurisdiction of the Bankruptcy Court and in accordance with the applicable provisions of the Bankruptcy Code.

On October 25, 2007, the appointment of Gerard A. McHale, Jr. as Chapter 11 Trustee of the Debtors was approved by the Bankruptcy Court.

**2. Cash**

*Debtor in Possession Accounts*

The Trustee previously maintained ten Debtor in Possession accounts with Wachovia Bank, NA. Of those accounts, two held non-restricted funds and seven held restricted funds. Since the plan has been confirmed, all funds except the Pajonas Escrow have become unrestricted. As of December 1<sup>st</sup>, cash balances are:

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<sup>2</sup> On June 11, 2007, AEC Exchange Company, LLC, an affiliate of the other Debtors, filed its own voluntary petition for relief under chapter 11 of the Bankruptcy Code in the Bankruptcy Court.

**The 1031 Tax Group, LLC  
Debtor In Possession Bank Accounts**

Name	Purpose	Balance
Operating Account	Pay Operating Expenses	\$ 456
Holding Account	Hold Additional Free Funds	\$ 47,007,117
Pajonas Settlement Funds	Hold Pajonas Settlement Funds	\$ 22,055
Various Escrow Accounts	Hold Settlement Funds Pending Court Approval	\$ 46,551,843
<b>GRAND TOTAL - Chapter 11 Trustee Funds</b>		<b>\$ 93,581,471</b>

*Funds Pending Transfer to DIP Account*

As of the Petition Date, the Debtors had identified 167 open bank accounts. As described above in Note 2, the Trustee completed the transfer balances to the DIP Accounts except for one account at HSBC Bank. Balances in this account totals about \$28,000.

All DIP Account statements are available for inspection.

**3. Other Current Assets**

Deposits were constructed using 1031 Tax Group, LLC banking records and are recorded at our best estimate. Because these deposits have been deemed uncollectible, they have been written off.

**4. Receivables**

Receivables are based on estimated collections yet to be received as a result of settlements reached by the Chapter 11 Trustee with third parties. In the Joint Disclosure statement, it is estimated that about \$73.203 million will be collected. Of this amount, \$69.868 million has been collected. Furthermore, all settlements have been approved by the court. The remaining \$3.335 million shows as "Receivables." Please refer to the below Exhibit for details.

**The 1031 Tax Group, LLC  
Settlement Agreements  
December 1, 2009**

<b>Group</b>	<b>Estimated Total Settlement</b>	<b>Collected to Date</b>	<b>Remaining Balance</b>
Crime Insurance	\$ 23,250,000	\$ 23,250,000	\$ -
E&O	\$ 4,600,000	\$ 4,600,000	\$ -
Former Owners	\$ 2,242,500	\$ 1,957,000	\$ 285,500
KPKB	\$ 12,385,740	\$ 12,135,740	\$ 250,000
Rosen	\$ 925,000	\$ 925,000	\$ -
Wachovia	\$ 27,000,000	\$ 27,000,000	\$ -
IRS	\$ 2,800,000	\$ -	\$ 2,800,000
<b>Totals</b>	<b>\$ 73,203,240</b>	<b>\$ 69,867,740</b>	<b>\$ 3,335,500</b>

**5. Accrued/Estimated Chapter 11 Professional Fees**

<b>Firm</b>	<b>Final Balances</b>
Ayers Warren	\$ 28
Cozen ●Connor	\$ 271
Davenport	\$ 146
Deloitte	\$ 6,013
Dreier	\$ -
Gilbert Oshinski	\$ 835
Golenbock	\$ 10,187
Greenberg Traurig	\$ 219
Herbst	\$ -
Huron	\$ 225
Johnson Pope	\$ 796
Kaufman and Canoles	\$ 14
Keane Miller	\$ -
Kennedy Berkley	\$ 8
KPMG	\$ -
Kurtzman Carson Consult.	\$ -
McHale	\$ 1,840
Mesirow	\$ 88
Olshan, Grundman	\$ 1,300
Rivero Gordimer	\$ 74
Roseline	\$ 1
	<u>\$ 22,045</u>

Professional fees are based on the court approved fee applications. Not included in the above amounts are pre-Trustee Fees. The Chapter 11 Trustee has reached agreements with the Professionals regarding pre-Trustee fees that represent approximately \$11 million of the accrued professional fees. Those fees shall only be paid after all allowed general unsecured claims have been paid in full, including payment of post-petition interest.

Court approved payments totaling \$3.783 million were made in July 2008 and an additional \$2.630 million were made in December 2008. In addition, small payments are made from time to time to professionals that did not require court approval for disbursement. The above balances will be transferred to the 1031 Debtors Liquidation Trust (\$21.045 million) and Class Action Qualified Settlement Fund (\$1.000 million) where they will subsequently be distributed per court order.

#### **6. Exchange Liability Payable**

As of December 1, 2009 approved Basic Exchanger Claims plus reserved items totaled about \$152 million. These balances were also transferred to the 1031 Debtor's Liquidation Trust.