

First Day Motions

This memorandum summarizes (i) the motions, applications, and complaints (the “First-Day Motions”) filed by the Debtors¹ on August 4, 2008 (the “Petition Date”) or shortly thereafter in the United States Bankruptcy Court for the District of Delaware (the “Bankruptcy Court”), (ii) the motion filed by a party in interest in the chapter 11 cases (collectively, together with the First-Day Motions, the “Initial Pleadings”), and (iii) the orders entered in connection therewith. The Honorable Kevin J. Carey is presiding over the Debtors’ chapter 11 cases. All capitalized terms used but not otherwise defined herein shall have the meanings ascribed to such terms in the applicable Initial Pleading. Objection and/or answer deadlines for each Initial Pleading are noted below, where applicable.

A. Financing Motions

- 1. Debtors’ Emergency Motion for (I) Entry of Stipulation and Interim Order (A) Authorizing the Use of Cash Collateral, (B) Granting Adequate Protection to Prepetition Secured Parties and (C) Granting Related Relief and (II) Scheduling Interim Hearing and Final Hearing (the “Cash Collateral Motion”). [Docket No. 17]**

By the Cash Collateral Motion, the Debtors seek entry of a stipulation and interim order (the “Cash Collateral Order”) authorizing the use of cash collateral, providing adequate protection to prepetition lenders, and granting related relief. The Debtors assert that such relief is necessary to avoid immediate and irreparable harm caused by the inability to assess their cash to fund operations.

As of the Petition Date, the Debtors assert that substantially all cash, securities, and other property (and the proceeds thereof) (the “Cash Collateral”) of the Debtors as of the Petition date were subject to rights of setoff in favor of Wachovia, KeyBank, and Bank of America (the “Prepetition Lenders”), which provide the Prepetition Lenders with the equivalent of a lien on the Cash Collateral. The Debtors’ prepetition credit facilities (the “Credit Facilities”) are summarized as follows:

¹ A list of the Debtors is attached hereto as Exhibit A.

<i>Loan</i>	<i>Amount</i>	<i>Administrative Agent</i>	<i>Security</i>
Third Consolidated, Amended and Restated Revolving Credit Construction Loan Agreement (the “ <u>Tower Loan</u> ”)	\$49.055 million	Wachovia	First priority liens on and security interests in certain residential tower projects in Florida and New Jersey (the “ <u>Tower Collateral</u> ”) Second priority liens on the Shared Collateral (as defined below) Guarantees by certain WCI subsidiaries
Senior Term Loan Agreement (the “ <u>Term Loan</u> ”)	\$224.830 million	KeyBank	First priority liens on and security interests in substantially all of the Debtors’ assets other than the Tower Collateral (the “ <u>Shared Collateral</u> ”) Second priority liens on the Tower Collateral Guarantees by certain WCI subsidiaries
Senior Unsecured Revolving Credit Agreement (the “ <u>Revolving Loan</u> ”) ²	\$489 million outstanding, \$47.143 million undrawn	Bank of America	First priority liens on the Shared Collateral Second priority liens on the Tower Collateral Guarantees by certain WCI subsidiaries

By the Cash Collateral Motion, the Debtors propose to use Cash Collateral in accordance with a proposed budget through the interim order period with variances from the budget of up to 12.5% in the aggregate. The Debtors also propose to use Cash Collateral to pay fees to the Bankruptcy Court clerk, the U.S. Trustee, and professionals retained by the Debtors and any official statutory committee (the “Carve-Out”).³

As adequate protection for the use of Cash Collateral, the Debtors propose to provide the Prepetition Lenders with the following:

- Payment of current interest at the non-default rate under the respective prepetition credit agreements on the payment dates set forth in the prepetition credit agreements. All rights are reserved, however, for any party-in-interest to seek disgorgement or to recharacterize such payments as principal to the extent the prepetition liens are avoided or the obligations owed to the Prepetition Liens are successfully challenged or undersecured;
- The accrual of interest at the default rate, and, if later allowed by the Bankruptcy Court, payment as an administrative expense priority claim;

² Although the Debtors granted liens securing the Revolving Loan, the name of the credit agreement still refers to it as unsecured.

³ For fees incurred after the occurrence of an event of default under the cash collateral order, the Carve-Out provides for payment of fees up to \$7 million.

- The Debtors will pay or reimburse the reasonable costs and expenses of financial and legal advisors engaged by the agents to the Prepetition Lenders in accordance with the arrangements existing prior to the Petition Date;
- The Debtors will continue to provide financial and budgetary information to the Prepetition Lenders;
- Replacement liens on and security interests in all of the Debtors' property and assets, whether acquired before or after the Petition Date, to protect against any diminution in value of the collateral (including Cash Collateral) during the chapter 11 cases. Replacement liens shall not be granted, however, on certain excluded assets, including, among others, avoidance actions and third party deposits, and any proceeds thereof; and
- Superpriority claims senior to all administrative claims.

By the Cash Collateral Motion, the Debtors have also agreed to prohibit the use of Cash Collateral to bring any of the following actions (each, a "Lender Claim"): (i) challenge any of the prepetition secured claims and liens; (ii) prosecute an avoidance action (including a fraudulent conveyance or preference action) against any of the Prepetition Secured Lenders; (iii) prevent, hinder, or otherwise delay the efforts of the Prepetition Secured Lenders to realize upon their collateral, including Cash Collateral, in accordance with the Prepetition Secured Credit Agreement and the Cash Collateral Order; and (iv) seek to modify, without their consent, any of the rights of the Prepetition Secured Lenders under the Prepetition Secured Credit Agreement and the Cash Collateral Order. The Committee, however, shall be able to access \$75,000 of the Cash Collateral to review the Prepetition Secured Credit Agreement and related documents. Further, if any party in interest has filed an action with respect to a Lender Claim by no later than the 90th day following the appointment of the Official Committee and is successful in such action, then none of the prohibitions outlined above with respect to the use of Cash Collateral shall apply to that party.

The Debtors argue that the Cash Collateral Motion is necessary to preserve and maintain the value of the estates and that the failure to allow such use could result in the Debtors' liquidation. The Debtors further state that the proposed interim order is the product of extensive negotiations with the Prepetition Lenders and reflects the agreement with such lenders as to the terms.

On August 5, 2008, the Bankruptcy Court entered an interim order granting the Cash Collateral Motion through August 30, 2008 at 11:59 p.m. (ET). A final hearing to consider the Cash Collateral Motion has been scheduled for August 27 at 10:00 a.m. (ET) with a corresponding objection deadline set for August 20, 2008 at 4:00 p.m. (ET).

2. Debtors' Motion for Order (I) Authorizing Continued Use of Existing (A) Cash Management System and Bank Accounts and (B) Business Forms; (II) Authorizing Continued Postpetition Intercompany Transactions; and (III) Waiving Investment and Deposit Requirements (the "Cash Management Motion"). [Docket No. 5]

By the Cash Management Motion, the Debtors request entry of an order authorizing them to (i) continue to use their existing cash management system, bank accounts, and business forms, (ii) continue postpetition intercompany transactions, and (iii) waive investment and deposit requirements imposed by U.S. Trustee guidelines.

The Debtors' cash management system (the "Cash Management System") involves the collection, disbursement and movement of funds through a series of bank accounts. The Cash Management System consolidates virtually all funds received by the Debtors, tracks the corporate entities that are the owners of such funds, and otherwise allows the Debtors to, among other things, (i) control and monitor corporate funds, (ii) ensure cash availability, and (iii) reduce administrative expenses by facilitating the movement of funds.

Pursuant to guidelines established by the U.S. Trustee, the Debtors are technically required to close all existing bank accounts and open new postpetition accounts, maintain separate accounts for cash collateral and trust-fund taxes, and obtain new checks and business forms with the debtor in possession designation imprinted on them. The Debtors use a multitude of checks and other business forms in the ordinary course of their businesses. To minimize expenses to the estates, the Debtors request authorization to continue using their existing check stock and business forms. The Debtors maintain that changing checks and business forms is unnecessary and unduly burdensome.

In addition, the Debtors request that they should be allowed to continue intercompany transactions in the ordinary course of their businesses (the "Intercompany Transactions"). Under the Cash Management System, funds generated by the business operations of each participating Debtor generally flow into various centrally-maintained bank accounts on a nightly basis. The Debtors assert that these transfers represent an extension of credit to other Debtors and are essential to the Debtors' ability to function. Accordingly, the Debtors seek an order allowing them to continue the Intercompany Transactions.

The Debtors also request a waiver of the investment and deposit requirements of Bankruptcy Code section 345 to provide a bond or securities for amounts held in bank accounts which exceed the federally insured limit of \$100,000.

An order approving the Cash Management Motion was entered on August 5, 2008, with the exception of the waiver of investment and deposit requirements of section 345. A final hearing solely on the section 345 waiver will be held on August 27, 2008 at 10:00 a.m. (ET) if any objections are received by August 26, 2008. If no objections are received, the Bankruptcy Court will grant the waiver.

B. Operational Motions

1. Debtors' Motion for Authority to Pay Prepetition Wages, Compensation and Employee Benefits (the "Wages Motion"). [Docket No. 6]

By the Wages Motion, the Debtors seek entry of an order (i) authorizing the Debtors to honor all obligations incurred under or related to certain payroll obligations, business expense reimbursements, employee benefits, and other practices, programs and policies for their employees (collectively, the "Prepetition Employee Obligations") as described below, (ii) authorizing the Debtors to pay up to \$100,000 in additional miscellaneous prepetition obligations (the "Additional Obligations") pursuant to specified procedures, and (iii) directing applicable banks to receive, honor, process, and pay any and all payroll and employee benefit related checks, provided sufficient funds are available to honor such payments.

The Debtors, together with their non-Debtor affiliates (collectively, the “WCI Group”), employ approximately 1,800 employees, including approximately 1,100 hourly-paid amenities operational personnel (collectively, the “WCI Group Employees”).⁴ In addition, the WCI Group retains approximately 1,800 real estate sales representatives as independent contract employees (the “Contract Employees” and, together with the WCI Group Employees, the “Employees”) who are paid commissions from the proceeds of their home sales, which range from 3-6% of the sales price for each home. The Debtors estimate that their aggregate liability for accrued Prepetition Employee Obligations as of the Petition Date did not exceed approximately \$3.9 million, plus modest amounts of business expenses not yet submitted for reimbursement.

The Debtors’ employees are paid either bi-weekly or semi-monthly. The cumulative average payroll per pay period is approximately \$4.5 million. Due to the lag in payroll, the Debtors estimate that as of the Petition Date, approximately \$3.4 million in the aggregate has accrued but is not yet due to the Debtors’ employees, with no employees owed in excess of \$10,950. The Debtors estimate that no more than \$281,000 in the aggregate has accrued but not been paid to the Contract Employees.

The Debtors assert that the Employees are an essential component of a successful reorganization, and any deterioration of their morale or welfare would have a devastating impact on the Debtors’ ability to reorganize.

To minimize the hardship that the Debtors’ employees will suffer if prepetition obligations are not paid as expected, and to maintain employee morale and welfare, the Wages Motion seeks authority to pay and honor the Prepetition Employee Obligations, which include (i) honoring payroll checks in float, (ii) paying all accrued and unused vacation to terminated employees, (iii) reimbursing the modest amount of outstanding business expenses, (iv) maintaining and continuing to pay for (a) health insurance policies, under which claims for approximately \$100,000 were accrued but unpaid at the Petition Date, (b) a dental insurance policy, under which claims for approximately \$25,000 were accrued but unpaid at the Petition Date, and (c) various other types of health, disability, and accident insurance policies, (v) maintaining a 401(k) plan, which provides for matching contributions from the Debtor, of which not more than \$50,000 have accrued but not yet been contributed, (vi) maintaining a workers’ compensation policy, (vii) maintaining severance benefits for employees who are not otherwise party to a formal severance agreement, (viii) forwarding amounts deducted or withheld from employees’ paychecks to the appropriate third parties, and (ix) maintaining all other benefits that the Debtors have historically provided in the ordinary course of business, and to pay all costs incident to the foregoing, including costs of third party administrators.

An order approving the Wages Motion was entered on August 6, 2008. The order authorized payment of Prepetition Employee Obligations up to \$5.1 million, and does not authorize the Debtors to pay Additional Obligations.

2. Debtors’ Motion for Authority to Pay Prepetition Trust Fund Taxes in the Ordinary Course of Business (the “Trust Fund Taxes Motion”). [Docket No. 7]

By the Trust Fund Taxes Motion, the Debtors seek entry of an order authorizing, but not directing, the Debtors to pay certain taxes, including sales, use, and other trust fund type taxes that arose prior to the Petition Date,

⁴ Approximately 126 of the WCI Group Employees are employed by Watermark Realty, Inc. (“Watermark”), a non-Debtor subsidiary of WCI Communities, Inc. (“WCI”). Because WCI directly funds all payroll and benefit obligations for such Watermark employees, the amounts summarized herein are inclusive of the amounts paid to the Watermark employees.

including prepetition taxes subsequently determined upon audit or otherwise. The Debtors estimate that any payments relating to such prepetition taxes will not exceed \$800,000.

In support of the Trust Fund Taxes Motion, the Debtors assert that the funds necessary to pay the prepetition taxes are held in trust for the relevant taxing authorities pursuant to applicable law. As the Debtors hold only legal title and possess no equitable interest in such funds, the funds necessary to pay such taxes are not property of the Debtors' bankruptcy estates. Moreover, under applicable provisions of the Bankruptcy Code, such taxes have priority over all unsecured claims. Finally, the Debtors argue that if they are unable to pay the foregoing taxes in a timely fashion, the Debtors' officers and directors may be subject to personal liability for such taxes, distracting the Debtors' senior management from directing the Debtors' reorganization.

An order approving the Trust Fund Taxes Motion was entered on August 6, 2008, authorizing the payment of up to \$1,000,000 in trust fund taxes.

3. Debtors' Motion for an Interim and Final Order (I) Prohibiting Utility Companies from Altering, Refusing, or Discontinuing Service to the Debtors, (II) Deeming Utility Companies Adequately Assured of Future Payment, and (III) Establishing Procedures for Determining Requests for Additional Adequate Assurance (the "Utilities Motion"). [Docket No. 8]

By the Utilities Motion, the Debtors seek entry of an order (i) prohibiting the utility companies that provide service to the Debtors (the "Utility Companies") from altering, refusing, or discontinuing such service, (ii) deeming the Utility Companies adequately assured of future payment, and (iii) establishing procedures for determining requests for additional adequate assurances of payment.

The Debtors obtain electricity, telephone, and similar services (collectively, the "Utility Services") from the Utility Companies at an average cost of \$1,232,635.20 per month. The Debtors represent that they have paid all amounts owing to the Utility Companies on a timely basis and they are current with respect to all undisputed invoices for Utility Services, except where the commencement of the chapter 11 cases may have interrupted payments.

To provide adequate assurance of payment to the Utility Companies, the Debtors propose to provide each Utility Company with a deposit equal to approximately 50% of the estimated cost of such Utility Company's monthly Utility Services, approximately \$616,317.60 in the aggregate. For certain Utility Companies that already hold deposits from the Debtors, the Debtors will increase the amount of such deposits to equal approximately 50% of the estimated cost of each such Utility Company's monthly Utility Services. For certain other Utility Companies that are beneficiaries under surety bond arrangements, the Debtors will only pay a Utility Deposit if any such Utility Company could not make a valid demand against its surety bonds equal to approximately 50% of such Utility Company's monthly Utility Services.

The Debtors submit that such deposits, together with the Debtors' ability to pay for future Utility Services in the ordinary course of business, constitute sufficient adequate assurance. If any Utility Company believes additional assurance is required, the Utilities Motion sets forth procedures that such Utility Company must follow in order to request such additional assurance. The procedures include, but are not limited to, serving a written request for additional assurance on the Debtors within 45 days after the entry of the order granting the Utilities Motion and continuing to provide unaltered services to the Debtors. If the parties cannot reach a consensual agreement on an adequate amount of assurance, the Bankruptcy Court shall determine whether additional assurance is required.

Finally, the Debtors request that, in the event the Debtors terminate the services of any Utility Company, such Utility Company must immediately refund the entire amount of its deposit without exercising any purported right of setoff or recoupment.

The Debtors assert that the relief requested in the Utilities Motion is necessary because uninterrupted Utilities Services are essential to the Debtors' ongoing operations and the success of their reorganization. Should any Utility Company terminate service, the Debtors maintain that their business operations could be irreparably harmed and their ability to reorganize jeopardized.

An interim order approving the Utilities Motion was entered on August 6, 2008. A final hearing to consider the Utilities Motion has been scheduled for August 27, 2008 at 10:00 a.m. (ET) with a corresponding objection deadline set for August 20, 2008 at 4:00 p.m. (ET).

4. Debtors' Motion for Authority to Implement Procedures to Pay Certain Prepetition Claims of Contractors, Materialmen and Vendors (the "Critical Vendors Motion"). [Docket No. 9]

By the Critical Vendors Motion, the Debtors seek entry of an order authorizing, but not directing, the Debtors to pay, in the ordinary course of business, the prepetition claims of third parties who provide essential services, goods and materials, in accordance with the Claim Payment Procedure (as defined below). The Debtors assert that they rely on a number of third party contractors, subcontractors, materialmen, laborers, engineers, and other similar suppliers (the "Lien Claimants") who may be able to assert construction, materialman's, mechanic's, warehousemen, or other statutory liens against the Debtors' property to secure payment of claims arising from goods and services provided to the Debtors. As of the Petition Date, the Debtors estimate the amount of claims secured by liens is approximately \$15.3 million. The Debtors believe that the Lien Claimants will be unwilling to continue to provide goods and services if the liens are not satisfied.

The Debtors also rely on third party vendors to supply goods, materials, and services that the Debtors claim are critical to their businesses (the "Non-Lien Claimants" and, together with the Lien Claimants, the "Critical Vendors"). The Debtors assert that the Non-Lien Claimants may be unwilling to continue to provide goods and services to the Debtors if they are not paid, and locating alternative providers of these goods and services would be prohibitively expensive.

The Debtors seek to establish procedures (the "Claim Payment Procedure") for the resolution and payment of claims held by the Critical Vendors who are continuing to provide goods and services to the Debtors. The Debtors seek approval of the following Claim Payment Procedures:

- The Debtors propose to pay any claims for which a valid lien exists if the Debtors determine, in their business judgment, that payment is in the best interests of the estates. The Debtors will file with the Bankruptcy Court a monthly accounting of lien claims paid;
- The Debtors propose to pay any claims of Non-Lien Claimants if (i) the Non-Lien Claimant refuses to do business with the Debtors until such claim is paid and (ii) the Debtors determine in their business judgment that the Non-Lien Claimant's goods and services are critical, losing such goods or services would create harm or loss of economic advantage, and the Debtors have no alternative source or supplier of the goods and services provided by the Non-Lien Claimant;

- Any Non-Lien Claimant refusing to do business until its claim is paid must show cause to the Bankruptcy Court why it requires payment of the claim prior to providing goods or services; and
- The Debtors shall provide a monthly accounting of all payments made to Non-Lien Claimants. Any party may challenge such payments within 30 days of the filing of the monthly accounting.

An order approving the Critical Vendors Motion was entered on August 6, 2008, authorizing payment to Lien Claimants of up to \$15.3 million and Non-Lien Claimants of up to \$5 million.

5. Debtors' Motion for Entry of an Order Authorizing the Debtors to (I) Continue to Issue Title Insurance Policies and (II) Hold Certain Property in Trust as Closing Agent (the "Title Insurance Motion"). [Docket No. 10]

By the Title Insurance Motion, the Debtors seek entry of an order (i) authorizing First Fidelity Title, Inc. ("First Fidelity"), one of the Debtors, to continue to issue title insurance policies as agent for the Title Insurers (as defined below) and to collect and remit applicable premiums and charges in connection therewith, (ii) authorizing First Fidelity to hold in trust property deposited with it as closing agent in connection with the sale of real property, (iii) confirming that such property held in trust is not property of the Debtors' bankruptcy estates, (iv) authorizing First Fidelity to make disbursements of such property held in trust upon the closing of the sale of real property, and (v) approving the form of communication attached to the Title Insurance Motion, which will be provided to parties seeking to utilize First Fidelity's closing services. The Debtors believe that the provision of title insurance and closing services is in the ordinary course of their business and the property held in escrow by First Fidelity as closing agent is not property of the Debtors' estates. Nevertheless, the Debtors seek entry of these orders to reassure their existing and prospective customers and other parties in interest, including the Title Insurers, regarding the security of such property.

First Fidelity is a wholly-owned subsidiary of Debtor WCI Communities, Inc. that provides title insurance and closing services. It issues policies on behalf of large national title insurers and derives its revenues primarily from commissions on title insurance premiums and closing services provided to the Debtors' customers. Specifically, First Fidelity is party to agency agreements with certain title insurance companies (together, the "Title Insurers"), whereby First Fidelity issues title insurance policies and binders for properties as an agent for the Title Insurers, collects the applicable premiums and charges, remits to the Title Insurers their portion of the premiums and charges, and retains the remainder as compensation. First Fidelity also acts as a closing agent, receiving property from buyers, sellers, lenders, title insurers, and other parties in connection with the closing of real property sales. All funds First Fidelity receives as a closing agent are wired directly to or deposited into certain escrow accounts. Upon closing of a sale transaction, First Fidelity makes disbursements from such escrow accounts pursuant to the terms of the applicable escrow instructions.

The Debtors believe that the filing of these chapter 11 cases has caused existing and potential customers to become concerned about the Debtors' title insurance and closing services. The Debtors assert that if the Bankruptcy Court does not provide the relief requested in the Title Insurance Motion, the Debtors' existing and potential customers will choose other providers for title insurance and closing services, thereby depriving the Debtors and their estates of substantial revenues.

An order approving the Title Insurance Motion was entered on August 5, 2008.

6. **Debtors' Motion for Entry of an Order (I) Authorizing Debtors to (A) Maintain Insurance and Surety Bond Programs, (B) Maintain Insurance Premium Financing Program, (C) Pay Insurance and Surety Bond Premiums in the Ordinary Course, and (D) Pay All Obligations Associated Therewith and (II) Preventing Insurance and Surety Companies from Giving any Notice of Termination or Otherwise Modifying any Insurance Policy or Surety Bonds Without Obtaining Relief from the Automatic Stay (the "Insurance Motion"). [Docket No. 11]**

By the Insurance Motion, the Debtors seek entry of an order authorizing them to (i) maintain their insurance coverage levels required under their corporate risk program and revise, extend, and supplement such coverage levels as needed, (ii) maintain their insurance premium financing program and renew, supplement, or enter new financing arrangements as needed, (iii) maintain their surety bond programs and revise, extend, supplement, renew and change surety bonds as needed, (iv) pay any prepetition and postpetition obligations associated therewith, and (v) prevent insurance and surety bond companies from giving any notice of termination or otherwise modifying any insurance policy or surety bonds without obtaining relief from the automatic stay.

Insurance Policies

Pursuant to their corporate risk program, the Debtors maintain a number of insurance policies (collectively, the "Insurance Policies") with total 2008 annual premiums of \$6,101,085. Many of the Insurance Policies are required by applicable law or the Debtors' contractual obligations, and they include a broad variety of commercial, professional, accidental, risk, and liability insurance policies.

The Debtors finance the premiums for a majority of the Insurance Policies through commercial premium finance agreements (the "Financing Agreements"), in which the financier pays the annual insurance premiums in advance, and the Debtors pay the financier over time in monthly installments. The Debtors' annual premiums under the Financing Agreements aggregate \$5,585,088. As of the Petition Date, approximately \$2,192,270 remained outstanding under the Financing Agreements. The Debtors' obligations under the Financing Agreements are secured by all unearned premiums or dividends payable to the Debtors under such financed Insurance Policies.

In addition, as of the Petition Date, approximately \$37,963 remained outstanding for premiums under certain other Insurance Policies that are not financed by the Debtors.

The Debtors maintain that without such coverage, (i) they would be in breach of legal or contractual coverage requirements and (ii) they would be exposed to substantial liability. In addition, if the Debtors fail to pay the premiums necessary to maintain the Insurance Policies, they may be unable to find alternative insurance at a competitive prices.

Surety Bonds

In the ordinary course of their business, the Debtors are required to post bonds (the "Surety Bonds") as collateral to secure certain of their performance, financial, and escrow obligations. As of the Petition Date, the

aggregate Surety Bonds outstanding totaled \$166,307,140, with annual premiums of approximately \$909,084 and an unpaid 2008 balance of \$85,320.

The Debtors maintain that not having the Surety Bond programs would have serious adverse consequences to the Debtors' business operations and reorganization efforts. Specifically, the Debtors (i) would lose the right to operate in certain states, (ii) would not be entitled to use customer escrow deposits to fund construction costs, and (iii) could lose valuable development rights where maintaining the Surety Bonds is a condition to retaining such rights. The Debtors further maintain that cancellation of Surety Bonds would create a substantial liability and risk of loss of value, as well as a potential breach of many of the Debtors' contracts and other obligations.

Finally, the Debtors believe that insurance and surety bond companies may be unaware of, or simply choose to ignore, the automatic stay unless the Bankruptcy Court enters an order prohibiting them from doing so. As explained above, the consequences of cancellation of the Insurance Policies or the Surety Bonds would cause immediate and irreparable harm to the Debtors.

An order approving the Insurance Motion on a limited basis was entered on August 6, 2008. The order granted the Insurance Motion, but limited the injunctive relief, which prohibits insurance and surety companies from giving notice of termination or otherwise modifying any insurance policy or surety bonds without obtaining relief from the automatic stay, to the period prior to August 27, 2008, unless the Bankruptcy Court orders further relief.

7. Debtors' Motion for Entry of an Order (I) Authorizing the Debtors to Deliver Title to Homes, Tower Residences and Certain Other Real Property Free and Clear of Liens, Claims, Encumbrances and Other Interests, (II) Authorizing the Debtors to Satisfy Certain Prepetition Obligations in Connection with the Sale of Such Property, (III) Establishing Procedures for the Resolution and Payment of Certain Lien Claims and (IV) Granting Related Relief (the "Home Sale Motion"). [Docket No. 12]

By the Home Sale Motion, the Debtors seek entry of an order (i) authorizing them to continue to deliver title to homes, residences, and other real property free and clear of all liens, claims, encumbrances, and other interests, (ii) authorizing the Debtors to continue past business practices, including, where appropriate, application of deposits, (iii) authorizing the Debtors to pay closing costs, modify contracts, and enter into new sales contracts, (iv) authorizing the Debtors to establish lien attachment procedures, and (v) authorizing the Debtors to proceed immediately with the sale of homes, residences, and other real property.

In the ordinary course of business, the Debtors enter into contracts for the design, construction, and sale of homes, residences, and other real property (the "Prepetition Sales Contracts"). In some instances, the terms of the Prepetition Sales Contracts require customers to provide the Debtors with a deposit on the purchase price. The Debtors estimate that they have collected approximately \$51.7 million in deposits for sales that have not closed, and approximately \$17.6 million of that amount remains in escrow with the remaining balance having been utilized for construction. The Debtors ask that they be given permission to apply these deposits at closing consistent with the terms of the relevant Prepetition Sales Contract. The Debtors assert that if this relief is not granted, they may not be able to close pending sales and attract new customers.

Other activities performed by the Debtors in the ordinary course of business include paying closing costs, modifying contracts, and entering into new sales contracts. The Debtors assert that without the authority to do each of these activities, new sales could not be made and the Debtors' business would effectively come to a halt.

In order to complete sales of homes, residences, and other real property, the Debtors must be able to convey title to customers free of all liens. Therefore, the Debtors request the Bankruptcy Court grant permission to sell property free and clear of all liens, with the liens attaching to the proceeds of the sale pursuant to the following proposed lien procedures:

- The Debtors will be authorized to sell homes free and clear of Liens and other encumbrances;
- All valid and enforceable liens will transfer to the proceeds of the sale and the lien claimants will be deemed secured to the extent of the proceeds;
- Where the Debtors determine that a valid tax lien exists, the Debtors may satisfy any obligations required to release the lien to the extent such is necessary to effectuate a closing of a sale;
- Any holder of a construction, materialman's, mechanics', or other statutory lien against property of the Debtors to be sold may send the Debtors a written demand detailing the circumstances behind the lien. The Debtors must respond to any demand within 20 days, and if they determine that such lien is valid or that litigation would be more costly than settling the lien, the Debtors shall pay the claims underlying such lien;
- If a dispute regarding a construction, materialman's, mechanics', or other statutory lien is not resolved within 30 days after receipt by the Debtors of a demand, either party may file a motion seeking determination by the Bankruptcy Court of the lien's validity;
- Except as provided in any Bankruptcy Court orders regarding the use of cash collateral, the Debtors shall be authorized to hold and use proceeds from the sale of homes, residences, and other real property for general corporate purposes;
- If a demand is served in accordance with these lien procedures, the Debtors shall maintain cash proceeds on hand in an aggregate amount sufficient to satisfy all unresolved demands against homes, residences, and other real property that has been sold, but not greater than the amount of proceeds actually received from the sale of the property which corresponds to each demand; and
- No holder of a construction, materialman's, mechanics', or other statutory lien shall have any claim against the Debtors' title insurers or any buyer of a home, residence, or other real property with respect to any asserted lien.

An order approving the Home Sale Motion was entered on August 5, 2008. Any holder of a construction, materialman's, mechanics', or other statutory lien that intends to object to the above procedures must file a written objection by August 20, 2008 at 4:00 a.m. (ET). If a timely objection is received, a hearing will be held on August 27, 2008 at 10:00 a.m. (ET).

8. Debtors' Motion for Authority to Pay Homeowner Association, Condominium Association and Membership Club Obligations (the "Amenities Obligations Motion"). [Docket No. 13]

By the Amenities Obligations Motion, the Debtors seek entry of an order allowing them to pay homeowner association, condominium association, and membership club obligations (the "Amenities Obligations"). In conjunction with the Debtors' residential projects, they typically incorporate non-profit homeowners and condominium associations and pre-pay the dues required to fund such associations (the "Pre-paid

Assessments”). After a unit in a project is sold, the owner of that unit becomes liable for association dues. Once a certain number of units in a project are sold, the Debtors turn over control of the association to the owners. Prior to turnover, the Debtors are obligated to fund any deficit in the operating budget or pay dues for unsold units (“Deficit Funding”). As of the Petition Date, the Debtors were past due on approximately \$1.1 million in Deficit Funding obligations on unsold units. The aggregate cost of Prepaid Assessments and Deficit Funding obligations averages \$1 million per month.

The Debtors also incorporate non-profit equity clubs which own golf and other club amenities. The Debtors sell memberships in these clubs and turn over control to the owners once a certain number of memberships are sold. Prior to turnover, the Debtors are obligated to fund any deficit in each club’s budget. As of the Petition Date, the Debtors were past due on approximately \$770,000 of such funding obligations. The aggregate monthly cost of funding club deficits averages \$900,000.

Additionally, some of the Debtors’ housing communities own non-equity clubs where members pay periodic dues but do not own an interest in the clubs. The Debtors must also fund any shortfall in the operations of these non-equity clubs. As of the Petition Date, the Debtors estimate their non-equity club funding obligations to be approximately \$1.76 million with an average monthly cost of \$1.9 million.

The Debtors assert that the failure to continue to fund the Amenities Obligations would destroy their reputation and relationship with customers, which would irreparably harm their businesses.

An order approving the Amenities Obligations Motion was entered on August 6, 2008 with the Bankruptcy Court approving the payment of \$3.6 million of Amenities Obligations.

9. Debtors’ Motion for Authority to Honor and Maintain Certain Customer Programs (the “Customer Programs Motion”). [Docket No. 14]

By the Customer Programs Motion, the Debtors seek entry of an order authorizing them to honor and maintain their Sales Incentive Program, Gift Certificates, Merchandise Returns, and Event Deposits (each, as defined below, and collectively, the “Customer Programs”) in the ordinary course of business.

The Debtors offer a variety of incentives to market their homes (the “Sales Incentive Program”), including (i) cash discounts, (ii) sports club memberships, marina slips, and/or free or discounted merchandise, and (iii) payment of the buyer’s closing costs, travel-related expenses and/or certain future property-related expenses. The use of particular incentives is tailored to local market conditions. Many of the Sales Incentive Program obligations are incurred and satisfied shortly after closing and they typically represent approximately 0.5% to 0.75% of aggregate home sales. In 2007, the Debtors’ total gross home sales totaled over \$631 million. The Debtors estimate that as of the Petition Date, the Sales Incentive Program obligations associated with backlogged home sales will not exceed \$2.25 million. The Debtors believe that due to potentially weak market conditions, increased incentives may be necessary to motivate future customers.

In addition, the Debtors also offer certain other Customer Programs, such as (i) promotional gift certificates issued for use at the Debtors’ various amenities (the “Gift Certificates”), (ii) a merchandise return policy at the Debtors’ clubs and other facilities (the “Merchandise Returns”), and (iii) customer deposits provided for reservations of the Debtors’ amenities’ facilities for events (the “Event Deposits”). As of the Effective Date, the Debtors estimate that the amounts outstanding under the above three programs are less than \$100,000, \$2,000, and \$50,000, respectively.

The Debtors assert that failure to honor obligations under the Customer Programs could irreparably harm the Debtors' reputation at a time when their reputation is critical to maintaining customer relations, which will generate additional home sales and increase revenue. In particular, terminating the Sales Incentive Program could significantly impair the Debtors' ability to sell homes and realize the value of their real estate assets, particularly in communities experiencing weaker demand.

An order approving the Customer Programs Motion was entered August 6, 2008. The order authorized the Debtors to make payments under the Sales Incentive Program up to \$2,250,000.

10. Debtors' Motion for Authority to Honor and Maintain Home Warranty Programs (the "Home Warranty Motion"). [Docket No. 15]

By the Home Warranty Motion, the Debtors seek entry of an order authorizing the Debtors to honor and maintain their home warranty programs. The Debtors assert that such programs are crucial to their reorganization efforts because the programs maintain positive customer relationships and a strong reputation for the Debtors' name brand.

Under the home warranty programs, the Debtors offer certain limited warranties on their homes to replace or repair any parts that are defective because of the Debtors' workmanship or materials. In some instances, the Debtors also provide legally mandated warranties to cover major structural and design defects. The Debtors maintain reserves to cover obligations under the home warranty program by reserving 1% of revenue received from home sales. In the past year, the Debtors have spent approximately \$11 million to fund the costs of the home warranty program with actual costs per house averaging approximately \$7,500. The Debtors estimate their accrued obligations with respect to the home warranty program will not exceed approximately \$19.2 million as of the Petition Date.

The Debtors assert that the relief requested is crucial to reassure homebuyers who may be apprehensive about the Debtors' ability to continue to honor obligations to customers while under the jurisdiction of the Bankruptcy Court.

An order approving the Home Warranty Motion was entered on August 5, 2008.

11. Debtors' Motion for Authority to Return Homebuyer Deposits (the "Homebuyer Deposit Motion"). [Docket No. 16]

By the Homebuyer Deposit Motion, the Debtors seek entry of an order (i) authorizing, but not directing, them to return Deposits (as defined below) subject to and in accordance with the terms of certain prepetition contracts and (ii) determining that upon the return of a Deposit to a buyer, the underlying contract with such buyer shall be deemed terminated, and the Debtors shall have no further obligation under such contract.

As of the Petition Date, the Debtors were party to over 255 contracts to design, build, and/or sell certain properties (collectively, the "Contracts"). The Contracts always require a prospective buyer to provide the Debtors with a deposit on the purchase price (the "Deposit"). Depending on contract terms and applicable law, the Debtors either segregated or escrowed Deposits collected prior to the Petition Date or used the Deposit funds for construction and other building activities. In that regard, many of the Deposits are held in escrow by non-debtor third parties, such as Chicago Title Insurance Company and Stewart Title. Certain Deposits, however, are generally deposited in escrow accounts held in the name of Debtor WCI Realty, Inc., and certain other Deposits are held in escrow accounts maintained by Debtor First Fidelity Title, Inc.

The Debtors estimate that they have collected approximately \$51.7 million in Deposits related to prepetition Contracts that have not yet closed. Approximately \$17.6 million of such Deposits remain in escrow, and the remainder has been utilized for construction and other building activities. If a buyer refuses to close on a Contract in breach of its terms, the Debtors are generally entitled to retain such buyer's Deposit as damages for the breach. Where law requires, the Debtor is only entitled to retain a portion of the Deposit as liquidated damages and they return the remaining portion to the buyer.

Likewise, in the event the Debtors breach or terminate a Contract, the Debtors may be obligated to return the entire Deposit to the buyer. In rare cases, Contracts may be contingent on the buyer being able to obtain financing so such buyers may be entitled to a return of their Deposit if they are unable to obtain financing. As of the Petition Date, the Debtors believe they may owe approximately \$1.8 million on account of Deposits they may be contractually required to return to buyers.

The Debtors maintain that Deposits held in escrow are neither the Debtors' nor their estates' property so the Debtors should be authorized to return such Deposits pursuant to the relevant Contracts. Furthermore, the Debtors believe that the ability to return Deposits where they are contractually obligated to do so is essential to retaining customers. Conversely, the inability to refund Deposits, including those that are part of the Debtors' estates, will severely impair the Debtors' ability to attract new customers and enter into postpetition contracts. Accordingly, the Debtors believe that the value obtained from avoiding the return of these Deposits will be materially outweighed by the damage such avoidance would cause to the Debtors' business, reputation, and ability to reorganize.

An order approving the Homebuyer Deposit Motion was entered on August 6, 2008.

C. Administrative Motions

1. Debtors' Motion for Joint Administration of Cases (the "Joint Administration Motion"). **[Docket No. 2]**

By the Joint Administration Motion, the Debtors seek entry of an order directing the joint administration of the Debtors' reorganization cases. The Debtors assert that joint administration will obviate the need for duplicative notices, motions, applications, and orders, and thereby expedite the administration of, and reduce administrative expenses for, these cases without prejudicing the rights of any creditors. The Debtors further request that a unified joint administration caption be used on all pleadings in this case reflecting the jointly administered status under the caption of *WCI Communities, Inc., et al.*

An order approving the Joint Administration Motion was entered on August 5, 2008.

2. Debtors' Motion for an Extension of Time to File Schedules of Assets and Liabilities, Schedules of Executory Contracts and Unexpired Leases, and Statements of Financial Affairs (the "Extension Motion"). [Docket No. 3]

By the Extension Motion, the Debtors seek entry of an order extending the 30-day period imposed by applicable bankruptcy law within which they are required to file schedules of assets and liabilities, schedules of executory contracts and unexpired leases, and statements of financial affairs (collectively, the "Schedules"). The Debtors seek to extend the 30-day period within which they must file the Schedules for an additional 60 days, without prejudice to their ability to request additional time.

The Debtors assert that there is cause for the extension because of (i) the large amount of information that must be assembled and compiled in order to complete the Schedules, (ii) the significant amount of employee time that must be devoted to the task of completing the Schedules, (iii) the limited staff available, and (iv) the myriad demands on their employees in connection with the commencement of their chapter 11 cases.

An order approving the Extension Motion was entered on August 5, 2008 providing for a 30-day extension, as opposed to the requested 60-day extension.

D. Professional Retention and Compensation Motions

1. Debtors' Application for Order Authorizing and Approving the Appointment of Epiq Bankruptcy Solutions, LLC as Noticing, Claims, and Balloting Agent for the Bankruptcy Court (the "Epiq Retention Application"). [Docket No. 4]

By the Epiq Retention Application, the Debtors seek entry of an order authorizing and approving the appointment of Epiq Bankruptcy Solutions, LLC ("Epiq") as the noticing, claims, and balloting agent of the Bankruptcy Court.

Because the Debtors estimate there will be more than 200 creditors in these cases, the Debtors maintain that it would be unduly time consuming and burdensome for the office of the Clerk of the Bankruptcy Court (the "Clerk's Office") to distribute notices, process administrative information relating to the reorganization cases, receive all proofs of claim filed, and maintain an official claims register. The Debtors assert that Epiq's appointment will relieve the Bankruptcy Court and the Clerk's Office of their heavy administrative burdens and will promote the effective administration of the Debtors' estates. Accordingly, the Debtors propose to employ Epiq as noticing, claims, and balloting agent to, among other things, provide the foregoing services.

Pursuant to the Epiq Application, the Debtors will compensate Epiq on a monthly basis, at rates comparable to other claims agents and to the rates charged by Epiq in other chapter 11 cases. Pursuant to the parties' engagement letter (the "Engagement Letter"), the Debtors paid Epiq a \$25,000 retainer, to be applied immediately in satisfaction of the Debtors' obligations under the engagement letter. Also pursuant to the Engagement Letter, the Debtors have agreed to indemnify Epiq for certain claims, damages, and losses incurred as a result of Epiq's role in the chapter 11 cases (the "Indemnification Provisions"). To reduce unnecessary administrative expenses, the Debtors seek authorization to pay Epiq's fees and expenses without the necessity of Epiq filing formal fee applications.

An order approving the Epiq Retention Application was entered on August 5, 2008. The order qualifies the Indemnification Provisions such that Epiq is not entitled to indemnification (i) for services not listed in the Engagement Letter, (ii) for any claim or expense arising from (a) Epiq's gross negligence or willful misconduct or (b) a contractual dispute in which the Debtors allege the breach of Epiq's contractual obligation, and (iii) without further order of the Bankruptcy Court.

2. Debtors' Application for Authority to Employ and Retain White & Case LLP as Attorneys for the Debtors Nunc Pro Tunc to the Petition Date (the "W&C Retention Application"). [Docket No. 59]

By the W&C Retention Application, the Debtors seek entry of an order authorizing the employment and retention of White & Case LLP ("W&C") as their bankruptcy counsel, retroactive to the Petition Date. The Debtors state that in preparation for these chapter 11 cases, W&C has become familiar with the Debtors' businesses and many of the potential legal issues that may arise in their bankruptcy cases. Accordingly, the

Debtors believe that W&C is well-qualified and uniquely able to represent them in the cases in an efficient and timely manner.

According to the W&C Retention Application, W&C will provide the following services: (i) taking all necessary actions to protect and preserve the Debtors' estates, including the prosecution of actions on the Debtors' behalf, the defense of any actions commenced against the Debtors, the negotiation of disputes in which the Debtors are involved, and the preparation of objections to claims filed against the Debtors' estates; (ii) providing legal advice with respect to the Debtors' powers and duties as debtors in possession; (iii) preparing all necessary or appropriate motions, applications, answers, orders, reports, and other papers in connection with the administration of the Debtors' estates; (iv) assisting the Debtors in connection with any disposition of the Debtors' assets, by sale or otherwise; (v) assisting the Debtors in the negotiation, preparation, and confirmation of a plan or plans of reorganization and all related transactions; (vi) appearing in Bankruptcy Court to protect the Debtors' interests; and (vii) performing all other necessary legal services in connection with the Debtors' chapter 11 cases. The Debtors expect that W&C will represent them in coordination with the Delaware law firm, Bayard, P.A. The Debtors expect that W&C will work closely with Bayard, P.A. to ensure there is no unnecessary duplication of services to the Debtors.

Furthermore, the Debtors assert that W&C (i) has no connection with the Debtors, their creditors or other parties in interest in the reorganization cases except as disclosed in connection with the W&C Retention Application, (ii) does not hold any interest adverse to the Debtors' estates, and (iii) is a "disinterested person" as that term is defined by the Bankruptcy Code.

W&C attorneys charge between \$365 - \$1,100 per hour and its paraprofessionals bill at rates between \$145 - \$295 per hour. The Debtors assert that these rates are consistent with W&C's regular hourly rates for similar services. For the 12 months preceding the Petition Date, W&C received payments in the aggregate amount of approximately \$700,000 for professional fees and expenses incurred with respect to various matters. On July 24, 2008, the Debtors paid a \$500,000 retainer for prepetition services rendered in connection with these chapter 11 cases. As all such amounts have been applied to fees and expenses owing to W&C on account of such services, there is no retainer balance remaining. W&C has also agreed to voluntarily waive any claim against the Debtors for the payment of any additional outstanding prepetition fees or expenses. W&C will apply to the Bankruptcy Court for compensation under the Bankruptcy Code for all services performed after the Petition Date.

A hearing to consider the W&C Retention Application has been scheduled for August 27, 2008 at 10:00 a.m. (ET) with a corresponding objection deadline set for August 20, 2008 at 4:00 p.m. (ET).

3. Application of Debtors to Employ and Retain Bayard, P.A. as Co-counsel for the Debtors (the "Bayard Retention Application"). [Docket No. 62]

By the Bayard Retention Application, the Debtors seek an order allowing them to retain Bayard, P.A. ("Bayard") as co-counsel for the Debtors, retroactive to the Petition Date. The Debtors believe that Bayard is both well qualified and uniquely able to represent them efficiently due to (i) Bayard's extensive bankruptcy knowledge and experience, particularly in Delaware courts, and (ii) Bayard's proximity to the Bankruptcy Court and ability to respond quickly to emergency motions or other matters.

According to the Bayard Retention Application, Bayard will provide the following services: (i) taking all necessary actions to protect and preserve the Debtors' estates, including the prosecution of actions on the Debtors' behalf, the defense of any actions commenced against the Debtors, the negotiation of disputes in which the Debtors are involved, and the preparation of objections to claims filed against the Debtors' estates; (ii)

providing legal advice with respect to the Debtors' powers and duties as debtors in possession; (iii) preparing all necessary or appropriate motions, applications, answers, orders, reports, and other papers in connection with administration of the Debtors' estates; (iv) assisting the Debtors in connection with any disposition of the Debtors' assets, by sale or otherwise; (v) assisting the Debtors in the negotiation, preparation, and confirmation of a plan or plans of reorganization and all related transactions; (vi) appearing in Bankruptcy Court to protect the Debtors' interests; and (vii) performing all other necessary legal services in connection with the Debtors' chapter 11 cases. The Debtors expect that Bayard will work closely with W&C to ensure there is no unnecessary duplication of services to the Debtors.

Furthermore, the Debtors assert that Bayard (i) has no connection with the Debtors, their creditors or other parties in interest in the reorganization cases except as disclosed in the Bayard Retention Application, (ii) does not hold any interest adverse to the Debtors' estates, and (iii) is a "disinterested person" as that term is defined by the Bankruptcy Code.

Bayard attorneys charge between \$250 - \$765 per hour and its paraprofessionals bill at rates between \$135 - \$230 per hour. The Debtors assert that these rates are consistent with Bayard's regular hourly rates for similar services. Prior to the Petition Date, Bayard received a \$25,000 retainer for prepetition services rendered in connection with these chapter 11 cases. As all such amounts have been applied to fees and expenses owing to Bayard, there is no retainer balance remaining. Bayard will apply to the Bankruptcy Court for compensation under the Bankruptcy Code for all services performed after the Petition Date.

A hearing to consider the Bayard Retention Application has been scheduled for August 27, 2008 at 10:00 a.m. (ET) with a corresponding objection deadline set for August 20 at 4:00 p.m. (ET).

4. Debtors' Motion for Establishment of Procedures for Interim Compensation and Reimbursement of Expenses for Chapter 11 Professionals and Committee Members (the "Interim Compensation Motion"). [Docket No. 65]

By the Interim Compensation Motion, the Debtors propose procedures for compensation of professionals, including (i) attorneys and financial advisors for the Debtors or the Committee and (ii) ordinary course professionals to the extent their fees and expenses exceed the limitations set forth in the OCP Motion (the "Professionals"), during the chapter 11 cases.

The procedures that the Debtors propose include:

- No earlier than the 20th day of each month, each Professional seeking interim compensation will file and serve a monthly statement detailing its fees and expenses incurred for the prior month on (i) the Debtors, (ii) Debtors' counsel, (iii) the Office of the U.S. Trustee, (iv) the Committee, (v) the administrative agents for the secured creditors, and (vi) the indenture trustees for the outstanding notes (the "Notice Parties");
- The monthly statement need not be filed with the Bankruptcy Court;
- The Notice Parties will have 20 days to object to any fees;
- In the absence of any timely objection, the Debtors will be authorized to pay 80% of the fees and 100% of the expenses identified in each monthly statement to which no objection has been served;
- If the Debtors receive an objection to a particular fee statement, they will withhold payment of that portion of the fee statement, but will pay the remainder of the fees and expenses;

- If an objection to a monthly fee statement is withdrawn, the Debtors may pay the fees and expenses that were subject to the objection. If the parties are unable to resolve the objection within 20 days, the issue will be presented to the Bankruptcy Court; and
- Professionals will file their first interim fee applications with the Bankruptcy Court on December 15, 2008. Subsequent interim fee applications will be due in three-month increments thereafter. If a Professional does not file an interim fee application, the Professional will not receive payment under the compensation procedures until such Professional files its interim fee application.

A hearing on the Interim Compensation Motion is scheduled for August 27, 2008 at 10:00 a.m. (ET) with a corresponding objection deadline set for August 20, 2008 at 4:00 p.m. (ET).

5. Debtors' Application for Authority to Employ and Retain Lazard Frères & Co. LLC as Financial Advisor for the Debtors and Debtors in Possession Nunc Pro Tunc to the Petition Date and Waiving Certain Requirements of Local Rule 2016-2 (the "Lazard Retention Application"). [Docket No. 75]

By the Lazard Retention Application, the Debtors seek entry of an order authorizing the employment of Lazard Frères & Co. LLC ("Lazard") as financial advisors and investment bankers to the Debtors.

The Debtors assert that Lazard will provide them with the following financial advisory and investment banking services: (i) analyzing the Debtors' operations and financial condition; (ii) analyzing the Debtors' debt capacity; (iii) assisting the Debtors in determining their post emergence capital structure; (iv) assisting in valuing the Debtors as a going concern; (v) assisting in developing and seeking approval of a restructuring plan; (vi) advising the Debtors regarding new securities offered under a restructuring plan; (vii) evaluating potential financings, including DIP and Exit Financings; (ix) assisting the Debtors in negotiating tactics; (x) assisting the Debtors in preparing necessary financial documents; and (xi) providing testimony, if necessary, before the Bankruptcy Court. The Debtors assert that Lazard's services will not duplicate the services provided by the Debtors' other professionals.

If retained, Lazard will receive the following compensation and may be eligible for compensation under more than one category:

- A monthly advisory fee of \$175,000 payable starting June 1, 2008;
- A completion fee of \$5.5 million (the "Completion Fee") to be paid on the consummation of a restructuring;
- A financing fee equal to 1% of the total gross proceeds to be paid upon the consummation of any financing, the amount which shall be credited against any Completion Fee;
- Reimbursement for reasonable expenses not to exceed \$125,000; and
- Indemnification by the Debtors of Lazard, its affiliates, and directors, officers, and employees under certain circumstances.

Prior to the Petition Date, the Debtors paid Lazard \$606,667 for monthly advisory fees and reimbursed \$5,538.97 of Lazard's expenses. The Debtors state that they currently do not owe Lazard any compensation for services provided or expenses incurred prior to the Petition Date. Lazard will file interim and final fee applications in accordance with the applicable provisions of the Bankruptcy Code, the Bankruptcy Rules, the Local Bankruptcy Court Rules, and any applicable order of the Bankruptcy Court.

A hearing on the Lazard Retention Application is scheduled for August 27, 2008 at 10:00 a.m. (ET) with a corresponding objection deadline set for August 20, 2008 at 4:00 p.m. (ET).

6. Debtors' Motion for Authority to Employ Professionals Used in the Ordinary Course of Business (the "OCP Motion"). [Docket No. 91]

By the OCP Motion, the Debtors seek entry of an order authorizing the Debtors to employ and compensate certain professionals used in the ordinary course of the Debtors' businesses (each an "OCP" and, collectively, the "OCPs"). The Debtors assert that the OCPs provide services in a variety of matters unrelated to the chapter 11 cases, including, but not limited to, legal, accounting, appraising, auctioning, and certain other professional capacities.

The Debtors seek permission to continue to employ the OCPs postpetition without the necessity of each OCP filing a formal application for employment or compensation. The Debtors claim that it would be burdensome to request that each OCP apply separately for approval of its employment and compensation, and that many OCPs are unfamiliar with the chapter 11 process and thus may be unwilling to go through the fee request process.

The Debtors request the following procedures:

- The Debtors will be authorized to pay, without formal application to the Bankruptcy Court, 100% of fees and disbursements to each of the OCPs retained by the Debtors upon the submission to the Debtors of an appropriate invoice setting forth in reasonable detail the nature of the services rendered after the Petition Date;
- Any payments in excess of \$75,000 per month will require approval from the Bankruptcy Court in accordance with the Bankruptcy Code, the Bankruptcy Rules, the Local Rules of Bankruptcy Court, the Fee Guidelines promulgated by the Executive Office of the U.S. Trustee, and any applicable orders of the Bankruptcy Court;
- Each OCP will file a verified statement with the Bankruptcy Court prior to the payment of compensation and serve it specified parties in interest. Such parties will then be given 20 days to object to the retention of such OCP;
- The Debtors will file with the Bankruptcy Court and serve on specified parties in interest, including the Committee a list of OCPs every 90 days that contains (i) the name of the OCP, (ii) the aggregate amount paid to such OCP within the past 90 days, and (iii) a general description of the services rendered by such OCP; and
- The Debtors reserve the right to supplement or revise the list of OCPs without the need for any further hearing and without the need to file individual retention applications.

The Debtors state that, if the expertise and background knowledge of the OCPs with respect to the particular areas and matters for which they were responsible prior to the Petition Date are lost, the Debtors will incur additional expenses as new professionals will have to be trained and acclimated to the Debtors' needs, businesses, and operations. The Debtors further assert that the OCPs will not be involved in the administration of the chapter 11 cases but, rather, will provide services in connection with the Debtors' ongoing business operations.

A hearing on the OCP Motion is scheduled for August 27, 2008 at 10:00 a.m. (ET) with a corresponding objection deadline set for August 20, 2008 at 4:00 p.m. (ET).

7. Debtors' Application for Authority to Employ and Retain Sitrick and Company Inc. as Communications Consultants for the Debtors Nunc Pro Tunc to the Petition Date. (the "Sitrick Retention Application"). [Docket No. 107]

By the Sitrick Retention Application, the Debtors seek entry of an order authorizing them to employ and retain Sitrick and Company Inc. ("Sitrick"), retroactive to the Petition Date, as corporate communications consultants for the Debtors. The Debtors believe that Sitrick is both well qualified and uniquely able to represent them efficiently due to (i) Sitrick's extensive experience as communications consultants to companies reorganizing under the Bankruptcy Code and (ii) the background Sitrick obtained and the programs they began to implement since being retained by the Debtors on July 30, 2008. The Debtors maintain that the employment of Sitrick is appropriate and necessary to enable the Debtors to maintain and develop customer relationships and to preserve the Debtors' reputation in the industry, both of which the Debtors claim are essential to a successful reorganization.

According to the Sitrick Retention Application, Sitrick will provide the following services: (i) developing and implementing communications programs and related strategies and initiatives for communications with the Debtors' key constituencies regarding the Debtors' operations, financial performance, and progress through the chapter 11 cases; (ii) developing public relations initiatives for the Debtors to maintain public confidence and internal morale; (iii) preparing press releases and other public statement for the Debtors; (iv) interfacing with the media and other communications conduits as necessary; (v) preparing other written communications to the Debtors' key constituencies; and (vi) performing such other communications consulting services as may be requested by the Debtors. The Debtors expect that Sitrick will work closely with the Debtors' other professionals to ensure that there is no unnecessary duplication of services to the Debtors.

Furthermore, the Debtors assert that Sitrick (i) has no connection with the Debtors, their creditors, or other parties in interest in the reorganization cases, except as disclosed in the Sitrick Retention Application, (ii) does not hold any interest adverse to the Debtors' estates, and (iii) is a "disinterested person" as that term is defined by the Bankruptcy Code.

The Debtors propose to pay Sitrick its customary hourly rates, which range from \$175-850 per hour. Prior to the Petition Date, Sitrick received a \$150,000 retainer for prepetition services rendered in connection with these chapter 11 cases. Such retainer has been applied to all outstanding fees and expenses incurred, but a final reconciliation has not yet been completed. Once the reconciliation has been completed, Sitrick will file a subsequent disclosure to the Bankruptcy Court. To the extent Sitrick holds amounts that exceed the amount of fees and expenses incurred to date, Sitrick will hold such amounts as a retainer to be applied against future fees and expenses. Sitrick will apply to the Bankruptcy Court for compensation under the Bankruptcy Code for all services performed after the Petition Date.

A hearing on the Sitrick Retention Application is scheduled for August 27, 2008 at 10:00 a.m. (ET) with a corresponding objection deadline set for August 20, 2008 at 4:00 p.m. (ET).

E. Third Party Motion

1. Emergency Motion of Jan Aikin for Relief from Stay (the "Aikin Lift Stay Motion"). [Docket No. 63]

By the Aikin Lift Stay Motion, petitioner Jan Aikin ("Aikin") seeks relief from the automatic stay to pursue an appeal against WCI in the Florida Second District Court of Appeals (Case No. 2D07-5721) (the "Appeal"). Under the contract for the sale of a condominium (the "Contract"), WCI can retain Aikin's deposit as liquidated

damages upon Aikin's default. The Appeal will determine whether Aikin is a defaulting purchaser under the Contract. Aikin asserts that WCI was the defaulting party.

Aikin maintains that equity favors modification of the automatic stay since WCI will receive a windfall if the Appeal is not allowed to proceed. In addition, Aikin believes the Appeal should be allowed to proceed since it involves an unsettled question of state law on a matter of public policy.

Aikin requests an emergency hearing on this motion to be held on the earliest possible date because oral argument for the Appeal is set for August 27, 2008.

A status hearing to consider the Aikin Lift Stay Motion has been scheduled for August 19, 2008 at 4:00 p.m. (ET).

F. Debtors' Adversary Complaints

1. Complaints by WCI Communities, Inc. against Safeco Insurance Company of America (the "Safeco Complaints"). [Docket Nos. 29-32]

By the Safeco Complaints, Debtor WCI Communities, Inc. ("WCI") seeks judgments against Safeco Insurance Company of America ("Safeco") for causes of action with respect to cancellation of four performance bonds issued by Safeco (the "Bonds"). The Bonds were issued between February 17, 2005 and May 26, 2006 to guarantee completion of various projects (the "Projects") by WCI. Safeco and WCI executed the Bonds in favor of the Bonds' respective obligees, and such obligees granted certain permits to WCI for the performance of the Projects. On July 25, 2008, Safeco unilaterally sent a notice of cancellation (collectively, the "Notices of Cancellation") of each Bond to the applicable obligees.

WCI maintains that the Bonds contain no provision allowing Safeco to cancel or terminate its obligations. On July 31, WCI requested that Safeco withdraw the Notices of Cancellation. Upon Safeco's refusal, WCI filed complaints seeking actual, compensatory, consequential, and punitive damages associated with Safeco's allegedly improper, illegitimate, and illegal issuance of the Notices of Cancellation, plus costs, expenses, and prejudgment interest.

Safeco is required to serve an answer or responsive motion to the Safeco Complaints within 30 days of WCI's service on Safeco.

EXHIBIT A

WCI Communities, Inc., et al. Listing of Affiliated Debtors

Bay Colony of Naples, Inc.
Bay Colony Realty Associates, Inc.
Bay Colony-Gateway, Inc.
Carpentry Management Associates, LLC
The Colony at Pelican Landing Golf Club, Inc.
Communities Amenities, Inc.
Communities Finance Company, LLC
Communities Home Builders, Inc.
Community Specialized Services, Inc.
Coral Ridge Communities, Inc.
Coral Ridge Properties, Inc.
Coral Ridge Realty Sales, Inc.
Coral Ridge Realty, Inc.
Dix Hills Home & Land Company, LLC
East Fishkill Development LLC
Fair Oaks Parkway, LLC
First Fidelity Title, Inc.
Florida Design Communities, Inc.
Florida Lifestyle Management Company
Florida National Properties, Inc.
Gateway Communications Services, Inc.
Gateway Communities, Inc.
Gateway Realty Sales, Inc.
GC Assets of Nassau, Inc.
Heron Bay Golf Course Properties, Inc.
Heron Bay, Inc.
Hopewell Crossing Home & Land Company, LLC
Hunting Ridge II, LLC
Hunting Ridge III, LLC
JYC Holdings, Inc.
Lake Grove Home & Land Company LLC
Mansion Ridge Home & Land Company LLC
(The) Mansion Ridge Sewer Co., Inc.
Marbella at Pelican Bay, Inc.
MHI-Rugby Road, L.L.C.
New Home & Land Company LLC
Pelican Bay Properties, Inc.
Pelican Landing Communities, Inc.
Pelican Landing Properties, Inc.
Pelican Marsh Properties, Inc.
Poplar Tree, LLC
Renaissance at Beacon Hill II, LLC
Renaissance at Beacon, Hill, LLC
Renaissance at Bellview Road, LLC
Renaissance at Bridges of Oakton II, LLC
Renaissance at Cardinal Forest, LLC
Renaissance at Evergreen Mills Road, LLC
Renaissance at Foxhall, LLC
Renaissance at Georgetown Pike, LLC
Renaissance at Hunting Hills, LLC
Renaissance at Kings Crossing, LLC
Renaissance at Lake Manassas, LLC
Renaissance at Oak Creek Club, LLC
Renaissance at Oak Glen, LLC
Renaissance at Occoquan Walk, LLC
Renaissance at River Creek II, LLC
Renaissance at River Creek Towns, LLC
Renaissance at River Creek Villas, Inc.
Renaissance at River Creek, Inc.
Renaissance at Roseland, Inc.
Renaissance at Rugby Road II, LLC
Renaissance at Rugby Road, LLC
Renaissance at South River, Inc.
Renaissance at the Bridges of Oakton, LLC
Renaissance at The Oaks, LLC
Renaissance at Timberlake II, LLC
Renaissance at Timberlake, LLC
Renaissance Centro Arlington, LLC
Renaissance Centro Columbia, LLC
Renaissance Custom Communities, LLC
Renaissance Holdings Corp.
Renaissance Housing Corp.
Renaissance Land, LLC
Resort at Singer Island Properties, Inc.
Reston Building Company, LLC
RMH, LLC
Sarasota Tower, Inc.
Southbury Home & Land Company LLC
Spectrum Construction Corp.
Spectrum Customer Care, Inc.
Spectrum Design Studio, Inc.
Spectrum FS Corp.
Spectrum Glen Cove Corp.
Spectrum Holmdel Corp.
Spectrum Kensington LLC
Spectrum Lake Grove, LLC
Spectrum Landing Corp.
Spectrum Long Beach, LLC
Spectrum North Bergen LLC
Spectrum PDC Corp.
Spectrum Valimar Corp.
Spectrum-Irvington Corp.
Spectrum-Riverwoods Corp.
Sun City Center Golf Properties, Inc.
Sun City Center Realty, Inc.
Tarpon Cove Realty, Inc.
Tarpon Cove Yacht & Racquet Club, Inc.
(The) Valimar Home & Land Company, LLC
Watermark Realty Referral, Inc.
WCI Amenities, Inc.
WCI Architecture & Land Planning, Inc.
WCI Business Development, Inc.
WCI Capital Corporation
WCI Communities, Inc.
WCI Communities Property Management, Inc.
WCI Custom Homes, LLC
WCI Golf Group, Inc.
WCI Homebuilding Northeast, U.S., Inc.
WCI Homebuilding, Inc.
WCI Homes Northeast, Inc.
WCI Homes, Inc.
WCI Hunter Mill LLC
WCI Ireland Inn Corp.
WCI Marketing, Inc.
WCI Mid-Atlantic U.S. Region, Inc.
WCI Northeast Real Estate Development, LLC
WCI Northeast U.S. Region, LLC
WCI Pompano Beach, Inc.
WCI Realty Connecticut, Inc.
WCI Realty Maryland, Inc.
WCI Realty New Jersey, Inc.
WCI Realty New York, Inc.
WCI Realty, Inc.
WCI Title, Inc.
WCI Towers Mid-Atlantic USA, Inc.
WCI Towers Northeast USA, Inc.
WCI Towers, Inc.