



Financial Corporation
AHEAD OF THE FUTURE

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IMH FINANCIAL CORPORATION

VOLUNTARY CHAPTER 11 BANKRUPTCY CASE

SHAREHOLDER FAQs

- *Important Note: These FAQs summarize, among other things, the contents of filings made by IMH in the U.S. Bankruptcy Court for District of Delaware, and are qualified in their entirety by reference to those filings. We encourage those of you who wish to obtain additional information regarding the subjects summarized below to refer to the Company's SEC filings found here: <https://www.sec.gov/cgi-bin/browse-edgar?action=getcompany&CIK=0001397403&owner=exclude&count=40&hidefilings=0>.*

1. What did IMH announce?

- We (IMH Financial Corporation ("IMH" or the "Company")) entered into a Restructuring Support Agreement ("RSA") with (1) JPMorgan Chase Funding Inc. ("JPM"), our largest preferred equity holder; (2) Juniper Realty Partners and Juniper NVM, Inc., collectively our second largest preferred equity holder ("Juniper"); and (3) common stock holders ITH Partners and Lawrence D. Bain, collectively our third largest equity holder overall (the "Bain Parties"), to restructure and recapitalize the Company.
- To implement this restructuring and recapitalization, the Company filed a voluntary Chapter 11 petition in the U.S. Bankruptcy Court for District of Delaware (the "Court").

2. What is Chapter 11?

- Chapter 11 is a section of the U.S. Bankruptcy Code that allows companies to reorganize their finances and pursue a restructuring and recapitalization while continuing to operate their businesses.
- In our case, we are proposing a plan of reorganization (the "Plan") whereby all of the holders of our common stock will receive cash in exchange for their shares and JPM will ultimately own 100% of our common stock.

3. What led up to our decision to file this Chapter 11 Petition now?

- Juniper and JPM have the right to require us to redeem a large percentage of their Preferred Stock for approximately \$42.9 million at any time after July 24, 2020. We do not have the cash available to fund this redemption nor do we have the ability to obtain funding from an outside source to fund this redemption. Our failure to redeem the Preferred Stock would trigger a process potentially resulting in the Company's liquidation, which we believe would deprive our common stockholders of any recovery.

- The main sources of liquidity and working capital for the Company historically have been the disposition of our existing REO assets, proceeds from borrowings and equity issuances, cash-on-hand, revenue from the ownership and management of hotels, and investment income.
- Our investments do not, and historically have not, generated sustainable earnings sufficient to cover our operating costs. Further, our two key assets (the McArthur Place Hotel in Sonoma County, California and the Rio West/Rancho Grande property in New Mexico) are not presently generating any profits. For example, the hotel, our sole income producing hospitality asset, has faced continued challenges from events outside of our control, including massive wildfires in 2017 and the current COVID-19 pandemic, which caused interruption of the hotel's operations, increased costs, and decreased demand. Due to these operational and financial challenges, combined with the financial burdens imposed on us by being an SEC-reporting company, we are facing an immediate liquidity crisis. As of the date of the bankruptcy filing, we had less than \$225,000 of available cash on hand. Without the debtor-in-possession financing proceeds described below, we would have expected to run out of cash on or around July 31, 2020.
- In 2019, Juniper, the holder of our Series B-1 shares of Preferred Stock, indicated that it would not agree to extend the redemption date of those shares. This development – coupled with the looming redemption date when JPM could also demand that we redeem their Preferred Stock and our liquidity crunch – led the Board to create a Special Committee in November 2019, with full authority to review, evaluate, and to take any and all actions related to a recapitalization of the Company and also related to any possible strategic alternatives (the "Strategic Alternatives") available. Leigh Feuerstein, Michael Racy and Lori Wittman, three independent members of our Board of Directors, were appointed to the Special Committee, with Ms. Wittman serving as Chair.
- Over the course of the following several months, the Special Committee, with the assistance of its independent outside financial and legal advisors, explored options for the Company to meet its obligation to redeem its Preferred Stock without having to liquidate the Company or all its assets.
- However, in February and March 2020, virtually all of the Strategic Alternatives which may have been previously available to us became unviable due to the COVID-19 pandemic, various governmental actions taken in response to the pandemic, and the resulting general collapse of the travel and hospitality market. The closure of our hotel from March through June 2020 accelerated our already severe liquidity problems and made the hotel a much less marketable property. Our negotiations concerning the sale of Rio West broke down, and it became clear that a reasonable price could not be achieved if Rio West were sold in the short term. The Special Committee also concluded that a liquidation of the Company would leave no funds for our common stockholders. Extensive analysis, including in a report from the financial advisors to the Special Committee, supported these conclusions.
- Under these circumstances, there was no realistic prospect of a sale of the Company or its assets to a third party. Accordingly, the Special Committee undertook direct negotiations with JPM and Juniper, the holders of our Preferred Stock. After a great deal of deliberations, negotiations, investigations and financial and legal analyses, the Special Committee ultimately recommended that we engage in the restructuring and recapitalization transactions memorialized in the RSA, and recommended the filing of the Bankruptcy Case. The Board voted in favor of this recommendation, and the Chapter 11 Petition was filed with the Court on July 23, 2020.

- In the end, and at its core, the Special Committee determined that the restructuring and recapitalization embodied by the RSA was the only viable means of meeting our obligations to our creditors and JPM and Juniper, and which would provide any recovery to our common stockholders.

4. What is the Company's current status?

- We have received Court approval to access \$10.15 million in "debtor-in-possession" financing from JPM. This financing, together with the limited cash flows we receive from our operations, is expected to provide sufficient liquidity to support the Company through the Court-supervised process.
- We are operating in the ordinary course and fully expect to continue operating as normal throughout the Court-supervised process.

5. When does the Company expect to complete the Court-supervised process?

- Pursuant to the RSA, the Company has entered into an agreement with the principal stakeholders regarding a consensual Chapter 11 Plan that the principal stakeholders have agreed to support.
- Consummation of the Chapter 11 Plan will be subject to confirmation (or approval) by the Court. Confirmation of the Plan can take up to 4-6 months, if necessary. This timing is subject to procedures to be approved by the Court and other factors, and remains subject to change.
- We are moving ahead in this process with the support of JPM and Juniper. We intend to move through this process as quickly and efficiently as possible.
- Important milestones and other information are set forth in the Court-approved Disclosure Statement (see below) or on this website.

6. Will the Company continue to report quarterly earnings during this process?

- Shortly following the Company's bankruptcy filing, the Company sent a letter to the Securities and Exchange Commission ("SEC") seeking relief from the Company's annual and quarterly reports under the Securities Exchange Act of 1934 (the "Exchange Act"). The Company did not receive any rejection of its request for relief. As a result, in conformity with the provisions of SEC Staff Legal Bulletin No. 2, the Company will file, under cover of a Current Report on Form 8-K, its periodic financial reports filed with the Court, as well as other material financial information concerning developments in its bankruptcy proceedings, in lieu of such quarterly and annual reporting under the Exchange Act.

7. Will IMH be a publicly-reporting company after it emerges from bankruptcy?

- If the Plan as proposed is confirmed by the Court, the Company will no longer be a publicly reporting company post-bankruptcy.

8. Can I sell my stock now that the Company is in bankruptcy?

- The restrictions on the transfer of your shares set forth in the Company's Articles of Incorporation and By-laws will continue in effect during the bankruptcy process.
- Importantly, the Court has entered a final order establishing restrictions and notification procedures that apply to all trading and transfers of beneficial interests in the Company's stock. A copy of the Court's order is attached.

9. I got a flash drive and documents in the mail from Donlin Recano – what is it?

- If you are a holder of common or other stock in the Company, or a holder of a claim against the Company, you should have received, or will soon receive, a flash drive and a packet of documents related to the Plan proposed by the Company (the "Solicitation Package").
- The Solicitation Package includes a flash drive containing: (1) a lengthy document called a disclosure statement dated September 1, 2020, setting forth information regarding the Company and the Plan, along with exhibits (the "Disclosure Statement"); (2) a copy of the Plan; and (3) a copy of the Court order approving the Disclosure Statement (the "Disclosure Statement Order").
- The Solicitation Package also includes paper copies of (1) a notice regarding the hearing for the Court to consider confirmation of the Plan, currently set for **October 13, 2020 at 12:00 p.m. (EST)**; (2) a letter from the special committee of the Company's board of directors in support of the Plan; and (3) (i) a ballot to vote on the Plan (a "Ballot"), if you are in a voting class (see below); or (ii) a notice of non-voting status, if you are not in a voting class.
- If you would prefer paper copies of the Disclosure Statement, the Plan, and/or the Disclosure Statement Order, you may contact Donlin Recano by (1) first-class mail addressed to Donlin, Recano & Company, Inc., Re: IMH Financial Corporation, P.O. Box 199043, Blythebourne Station, Brooklyn, NY 11219, (2) personal delivery or overnight courier to Donlin, Recano & Company, Inc., Re: IMH Financial Corporation, 6201 15th Avenue, Brooklyn, NY 11219, (3) telephoning the Voting Agent at 1-877-534-8310, or (4) email at imhinfo@donlinrecano.com with a reference to "IMH Financial Corporation" in the subject line. You may also contact bankruptcy counsel for the Company: (1) Christopher Bayley at Snell & Wilmer L.L.P. at (602) 382-6214 or cbayley@swlaw.com, or (2) Bill Bowden at Ashby & Geddes at (302) 654-1888 or wbowden@ashbygeddes.com.

10. The Class 6 Ballot I received has a dollar amount listed under "Item 1" representing my shares in the Company – how was that number calculated?

- Under the Plan, "Common Stock" in the Company is defined, for Plan voting purposes only, as having a par value of \$.01 per share. Thus, for example, if you own 500 shares of Common Stock in the Company, your Ballot should state that you hold a Class 6 Common Stock Interest in the Company consisting of \$5.00.
- This number is used by the Company only for purposes of tabulating votes on the Plan, as the Bankruptcy Code requires that 2/3 of Class 6 Common Stock shareholders who vote on the Plan must vote to accept the Plan in order for Class 6 to receive the recovery proposed by the Plan.

- **IMPORTANTLY, THE NUMBER ON YOUR BALLOT DOES NOT REPRESENT YOUR ESTIMATED RECOVERY UNDER THE PLAN.** In the example used above, assuming Class 6 votes to accept the Plan and the Plan is confirmed, the Company anticipates that Class 6 Common Stock holder will receive an estimated amount between \$150 and \$225 (or \$0.30 - \$0.45 per share) for his or her 500 shares of Common Stock in the Company.

11. How do I vote on the Plan?

- As set forth in the Disclosure Statement, if you are a member of Classes 4, 5, 6, 7, or 8 (holders of Common Stock or equity interest in the Company), you are entitled to vote on the Plan, and should have received or will soon receive a Solicitation Package including a Ballot to vote on the Plan.
- As set forth in the Disclosure Statement, if you are a holder of common stock of the Company, you are a member of Class 6.
- As set forth in the Disclosure Statement, if you are a holder of outstanding warrants in the Company, you are a member of Class 7.
- Your Ballot includes instructions on voting and submission specific to you, based upon your voting Class – please read it carefully.
- Ballots can be returned (1) via first-class mail addressed to Donlin, Recano & Company, Inc., Re: IMH Financial Corporation, P.O. Box 199043, Blythebourne Station, Brooklyn, NY 11219, (2) personal delivery or overnight courier to Donlin, Recano & Company, Inc., Re: IMH Financial Corporation, 6201 15th Avenue, Brooklyn, NY 11219; or (3) via a customized online balloting portal on this website: www.DonlinRecano.com/clients/imh/vote.
- No Ballots will be accepted by e-mail, facsimile, or any other electronic format except for through the online balloting portal on this website (www.DonlinRecano.com/clients/imh/vote).

12. Is there a deadline to vote on the Plan?

- **Yes.** In order to be counted, the deadline by which your executed and completed Ballot must be delivered to, and **actually received** by, Donlin Recano is **October 6, 2020 at 5:00 p.m. (EST)**.

13. Do I have to vote on the Plan?

- No. It is your decision whether to vote on the Plan. However, if the Plan is confirmed by the Court, it will be binding on you whether or not you vote.
- Importantly, if at least 2/3 of the shares voted of Class 6 (holders of common stock of the Company) or Class 7 (holders of outstanding warrants in the Company) do not vote to accept the Plan, those classes will not receive any recovery under the Plan if the Plan is confirmed.
- Thus, as set forth in the Disclosure Statement, the Company urges you to vote to accept the Plan and return your properly executed Ballot by **October 6, 2020 at 5:00 p.m. (EST)**.

14. How do I “opt-out” of the release provisions in the Plan?

- If you are in Class 6, 7 or 8, you will have an option on your Ballot to “opt-out” of the release and injunction provisions in the Plan. Such language has been reproduced for your reference on your Ballot.
- If you wish to opt-out of the release provisions, you must check the box on your Ballot under “Item 3” and return your executed and completed Ballot so that it is **actually received** by Donlin Recano no later than **October 6, 2020 at 5:00 p.m. (EST)**.
- If you do not check this box, you will be deemed to consent to the release provisions in the Plan.

15. How much will IMH common stockholders receive as part of the Plan?

- In the event that at least 2/3 of shares voted by holders of the common stock of the Company who return Ballots vote to accept the Plan, the holders of our common stock will receive, pro rata, an aggregate cash payment of not less than \$5,012,462 and not more than \$7,518,694 as more particularly described in the Disclosure Statement, resulting in a recovery of \$0.30 - \$0.45 per share. If Class 6 votes to reject the Plan, all the members of Class 6 will receive nothing on account of their shares in the Company.
- We recognize that the decision to invest in IMH was a major decision for many of our shareholders, and we regret that our common shareholders will receive back only a fraction of their original investment if they vote to accept the Plan.

16. How can I obtain more information?

- Court filings and other documents related to the Court-supervised process will be made available on this website as we proceed through the case. Please check back on this website for updates.

ORDERED, ADJUDGED, AND DECREED that

1. The Motion is granted on a final basis to the extent set forth herein.
2. The provisions of this Final Order shall be effective *nunc pro tunc* to the Petition Date.
3. The Debtor's Tax Attributes are property of the Debtor's estate and are protected by Section 362(a) of the Bankruptcy Code.
4. The restrictions, notification requirements, and other procedures annexed to the Interim Order as Exhibit 1 ("Procedures") are hereby approved and shall apply to all trading and transfers in the beneficial ownership of Common Stock (including directly and indirectly, and including Options to acquire beneficial ownership of Common Stock), as provided therein; *provided, that*, the Debtor may, in its sole discretion, waive in writing, any and all restrictions, stays, and notification procedures set forth in the Procedures.
5. Any acquisition, disposition, or trading in the beneficial ownership of Common Stock (including directly and indirectly, and including Options to acquire beneficial ownership of Common Stock) in violation of the Procedures shall be null and void *ab initio* pursuant to this Court's equitable powers under Section 105(a) of the Bankruptcy Code and as an act in violation of the automatic stay under Section 362 of the Bankruptcy Code.
6. Any person or Entity that knowingly and intentionally acquires, disposes of, or trades in the beneficial ownership of Common Stock (including directly and indirectly, and including Options to acquire beneficial ownership of Common Stock) in violation of this Interim Order or the Procedures or that otherwise fails to comply with their requirements shall be subject to such sanctions as this Court may consider appropriate pursuant to this Court's equitable power under Section 105(a) of the Bankruptcy Code.

7. The notices substantially in the forms annexed to the Interim Order as Exhibit 2, Exhibit 3, and Exhibit 4 are hereby approved.

8. Within five (5) business days of the entry of this Final Order (or as soon as practicable thereafter), the Debtor shall send the notice of this Final Order (the “Notice of Final Order”) substantially in the form annexed hereto as Exhibit 1 to (i) all parties that were served with notice of the Motion and (ii) all registered holders of the Debtor’s debt and/or equity securities. In addition, the Debtor will post the Procedures to the website established by Donlin, Recano & Co., Inc. (www.donlinrecano.com/imh) for this Bankruptcy Case (which website address shall be identified in the Notice of Final Order), such notice being reasonably calculated to provide notice to all parties that may be affected by the Procedures, whether known or unknown, and no further notice of the Procedures shall be necessary.

9. Nothing herein shall preclude any person or Entity desirous of acquiring or transferring any beneficial ownership in Common Stock (including directly or indirectly and including Options to acquire beneficial ownership of Common Stock) from requesting relief from this Interim Order from this Court, subject to the Debtor’s rights to oppose such relief.

10. Notice of the Motion complies with the Bankruptcy Rules and Local Rules.

11. The relief granted in this Final Order is intended solely to permit the Debtor to protect, preserve, and maximize the value of their Tax Attributes; accordingly, other than to the extent that this Final Order expressly conditions or restricts trading in the beneficial ownership of Common Stock (including Options to acquire beneficial ownership of Common Stock), nothing in this Final Order or in the Motion shall, or shall be deemed to, prejudice, impair, or otherwise alter or affect the rights of any holders of interests in the Debtor, including in connection with the

treatment of any such interests under the Debtor's chapter 11 plan or any applicable bankruptcy court order.

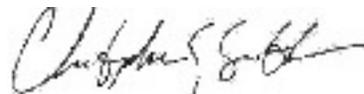
12. Nothing contained in the Motion or this Order shall be deemed or construed as an admission as to the validity or priority of any claim or lien against the Debtor or any other party or as a waiver of such parties' rights to dispute any claim or lien.

13. This Final Order shall be immediately effective and enforceable upon its entry.

14. The Debtor is authorized to take all actions necessary to implement the relief granted in this Order.

15. This Court shall retain jurisdiction with respect to all matters arising from or related to the implementation, interpretation, or enforcement of this Order.

Dated: August 10th, 2020
Wilmington, Delaware



CHRISTOPHER S. SONTCHI
UNITED STATES BANKRUPTCY JUDGE

Exhibit 1

Notice of Final Order

PLEASE TAKE FURTHER NOTICE that the requirements set forth in the procedures are in addition to the requirements of and applicable securities, corporate, and other laws and do not excuse non-compliance therewith.

Dated: _____
Wilmington, Delaware

ASHBY & GEDDES P.A.

By: /s/
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