

**UNITED STATES BANKRUPTCY COURT
NORTHERN DISTRICT OF ILLINOIS
EASTERN DIVISION**

In re:

KIMBALL HILL, INC., *et al.*,¹

Debtors.

Chapter 11

Case No. 08-10095
(Jointly Administered)

Hon. Susan Picerson Sonderby

ORDER APPROVING LITIGATION PROCEDURES FOR AVOIDANCE ACTIONS

Upon consideration of the motion (the "Motion") of the KHI Liquidation Trust, as successor to Kimball Hill, Inc. and its debtor subsidiaries (collectively, the "Debtors"), pursuant to 11 U.S.C. §§ 105(a) and 547(b), Federal Rules of Bankruptcy Procedure 2002, 7026, 7029, 9006(b)(1), (c) and 9007, and Local Bankruptcy Rules 1000-2, 7016-1 and 9013-9, for entry of an order approving certain procedures for litigation of avoidance actions; it appearing that notice of the Motion was sufficient and proper under the circumstances and that no other or further notice need be given; and it appearing that the relief requested is in the best interests of the Debtors' estates, all creditors and other parties in interest; it is hereby **ORDERED** as follows:

1. Notice of the Motion as provided for therein is sufficient and further notice is waived pursuant to Fed. R. Bankr. P. 2002.

2. All parties to any adversary complaint ("Complaint") filed by the KHI Liquidation Trust to avoid and recover certain transfers pursuant to 11 U.S.C. §§ 547, 548 and 550 (the "Avoidance Actions") shall be bound by this Order.

¹ The Debtors in these cases include: Kimball Hill, Inc.; KH Financial Holding Company; Kimball Hill Homes Austin, L.P.; Kimball Hill Homes California, Inc.; Kimball Hill Homes Dallas, L.P.; Kimball Hill Homes Houston, L.P.; Kimball Hill Homes Illinois, LLC; Kimball Hill Homes San Antonio, L.P.; Kimball Hill Homes Texas Investments, L.L.C.; Kimball Hill Homes Texas Operations, L.L.C.; Kimball Hill Homes Texas, Inc.; Kimball Hill Texas Investment Company, L.L.C. and The Hamilton Place Partnership.

A. Extensions of Time for KHI Liquidation Trust to Serve Summonses and for Defendants to Respond to Complaints

3. The KHI Liquidation Trust shall serve any summons issued in connection with a Complaint within twenty-eight (28) days of the date of issuance of the summons. The KHI Liquidation Trust may effectuate service of process on any defendant (“Defendant”) to the Avoidance Actions that is a corporation, partnership or association under Federal Rule of Bankruptcy Rule 7004(b)(3) by delivering a copy of the applicable summons and complaint to the attention of such Defendant’s “officer, managing or general agent” without specifically identifying such individual or to such Defendant’s registered agent.

4. The Defendants’ time to answer or otherwise plead in response to any Complaint is extended to fifty-six (56) days after the issuance of the summons. The KHI Liquidation Trust may further extend the Defendants’ time to answer or otherwise plead in response to any Complaint without obtaining further approval from the Court; provided, however, that if the KHI Liquidation Trust agrees to extend any Defendant’s time to answer or otherwise plead beyond such fifty-six (56) day period, the parties shall file with the Court a stipulation and agreed order in the subject adversary proceeding fixing the new date by which the Defendant’s answer or other responsive pleading is due.

B. Default Judgment Procedure

5. Nothing in these Litigation Procedures shall impair the KHI Liquidation Trust’s ability to obtain default judgments against Defendants that do not timely respond to Complaints in accordance with the Federal Rules of Bankruptcy Procedure. The KHI Liquidation Trust may obtain a default judgment against any Defendant that is properly served with a copy of a Complaint and related summons and fails to answer or otherwise plead in response to such Complaint within fifty-six (56) days of the issuance of the summons or as extended by agreement of the KHI Liquidation Trust pursuant to a filed stipulation and agreed order.

6. The KHI Liquidation Trust may seek a Default Judgment without issuing an Election Notice and shall file and serve a motion for default judgment on any Defendant in accordance with Rule 55 of the Federal Rules of Civil Procedure (made applicable by Federal Rule of Bankruptcy Procedure 7055) and the Case Management Procedures, as amended.

C. Stay of Discovery With Respect to Continued Adversary Proceedings

7. All adversary proceedings relating to the Avoidance Actions commenced by the KHI Liquidation Trust shall be considered "Continued Adversary Proceedings" so long as the subject of the Complaint remains in settlement discussions. Parties to the Continued Adversary Proceedings may engage in the informal exchange of information to facilitate settlement, but may not serve formal discovery requests, including, but not limited to, requests for production of documents, interrogatories or requests for admissions ("Discovery Requests"). For all Continued Adversary Proceedings, until such time as an Election Notice (as defined below) is filed and served in accordance with the procedures set forth herein, (i) no Rule 26(f) reports need to be filed; (ii) no Rule 26(a)(1) disclosures need to be made by either party; and (iii) no formal discovery deadlines shall be set by this Court.

8. Any party to a Continued Adversary Proceeding may deem a Continued Adversary Proceeding to be a "Disputed Adversary Proceeding" by providing written notice of such election (the "Election Notice") to the opposing party and its counsel of record (if any) in such Continued Adversary Proceeding by email, facsimile, overnight delivery or hand delivery, and by filing the Election Notice with the Court in such adversary proceeding; provided, however, no party to a Continued Adversary Proceeding shall file an Election Notice prior to July 9, 2010, and no Defendant shall file an Election Notice prior to the filing of its answer or other responsive pleading. The Election Notice shall be binding on all parties to the Continued

Adversary Proceeding, and any Continued Adversary Proceeding in which an Election Notice has been made shall become subject to the discovery and pretrial protocol set forth below.

D. Discovery and Pretrial Protocol for Disputed Adversary Proceedings

9. The parties to a Disputed Adversary Proceeding shall serve their Rule 26(a)(1) disclosures (the “Initial Disclosures”) no earlier than the date that is fifty-six (56) days after the date on which an Election Notice is filed and served (the “Initial Disclosures Date”).

10. The parties to a Disputed Adversary Proceeding shall not be required to (i) participate in a Rule 26(f) discovery conference and (ii) file a Rule 26(f) discovery report with the Court.

11. All written and oral fact discovery shall then be completed within 180 days of the Initial Disclosures Date (the “Discovery Deadline”) without prejudice to any party to a Disputed Adversary Proceeding to request an extension of the Discovery Deadline.

12. The party on whom Discovery Requests are served shall have sixty (60) days to respond to the Discovery Requests, without prejudice to that party’s right to request an extension of that deadline from the Court.

13. Disputed Adversary Proceedings shall be set for pretrial status hearings (the “Pretrial Status Hearing”) on the first Omnibus Hearing Date that is at least fourteen (14) days following the Discovery Deadline, as such may be extended by order of this Court. **Unless otherwise authorized by the Court for good cause shown, all parties to a Disputed Adversary Proceeding shall appear at the Pretrial Status Hearing in person (in the case of an individual) or through legal counsel.**

E. Status Hearings and Motion Dates

14. All status hearings and all motions filed in the Adversary Proceedings shall be held on Omnibus Hearing Dates, as established under the Case Management Order.

Notwithstanding the initial status hearing date on any summons, Defendants in Continued Adversary Proceedings are not required to appear on the Omnibus Hearing Dates.

15. All motions, applications or other filings (collectively, "Filings") shall be noticed for an Omnibus Hearing Date in accordance with the Case Management Procedures, as amended, or as otherwise provided for therein with respect to emergency matters, which motions shall also be governed by the Local Rules and this Court's Standing Order No. 4 dated February 10, 2010.

16. In conjunction with agendas for Omnibus Hearing Dates that the KHI Liquidation Trusts are required to provide to the Court under the Case Management Order, the KHI Liquidation Trust shall provide the Court with a consolidated status chart identifying the current status of the Continued and Disputed Adversary Proceedings, including any Filings that will be presented for hearing on that particular Omnibus Hearing Date.

17. The KHI Liquidation Trust shall remind Defendants to Disputed Adversary Proceedings of their obligation to appear at the Pretrial Status Hearing by serving each such Defendant and, if represented, such Defendant's counsel with a copy of the agenda for such Omnibus Hearing Date.

F. Notice of Litigation Procedures

18. The KHI Liquidation Trust shall include a copy of this Order with service of the Complaint and related summons on each of the Defendants. No further notice of the procedures set forth in this Order is required.

ENTER:

Dated: _____

4.19.10

[Handwritten Signature]

Bankruptcy Judge