UNITED STATES BANKRUPTCY COURT
FOR THE WESTERN DISTRICT OF NORTH CAROLINA
Charlotte Division

In Re:	:	
	:	Case Number: 09-33198
Diamond Bay, LLC,	:	
	:	Chapter 11
Debtor.	:	

[PROPOSED] DISCLOSURE STATEMENT IN CONNECTION WITH THE PLAN OF REORGANIZATION OF DIAMOND BAY, LLC

Dated: Charlotte, North Carolina
February 22, 2010

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I. INTRODUCTION AND OVERVIEW

On November 19, 2009, Diamond Bay, LLC (the "Debtor")[1] filed a voluntary petition for relief pursuant to Chapter 11 of the United States Bankruptcy Code (the "Petition"). The purpose of this Disclosure Statement (the "Disclosure Statement") is to provide each known creditor with adequate information about the Debtor and the Debtor's Plan of Reorganization (the "Plan"), attached as Exhibit A, in order that creditors may arrive at a reasonably informed decision as to whether to accept or reject the Plan. Attached hereto as Exhibit B is a summary of the Debtor's assets and liabilities. A liquidation analysis is attached as Exhibit C. The Debtor's alternate proposed Plan budgets are attached as Exhibit D.

The information contained in this Disclosure Statement is included herein for purposes of soliciting acceptances of the Plan and may not be relied upon for any purpose other than to determine how to vote on the Plan. No representations concerning the Debtor are authorized by the Debtor other than as set forth in this Disclosure Statement. Any other representations or inducements made to solicit your acceptance that are not contained in this Disclosure Statement should not be relied upon by you in arriving at your decision to accept or reject the Plan.

The information contained herein is not the subject of a certified audit; however, the Debtor's property (the "Property") was appraised before the Petition Date, and the appraised values are reflected herein. The Debtor's liabilities are estimated based on the Debtor's records. Although substantial efforts have been made to be complete and accurate, the Debtor is unable to warrant or represent the full and complete accuracy of the information contained herein.

The Honorable George R. Hodges will hold a hearing on confirmation of the Plan (the "Confirmation Hearing"), in the United States Bankruptcy Court, Charles Jonas Federal Building, 401 West Trade Street, Charlotte, North Carolina, on **_____, 2010 at 9:30 A.M. (ET)**. At the Confirmation Hearing, the Bankruptcy Court will consider whether the Plan satisfies the requirements of the Bankruptcy Code, including whether the Plan is in the best interests of Creditors, and will review a ballot report concerning votes cast for acceptance and rejection of the Plan.

***READ THIS DISCLOSURE STATEMENT CAREFULLY TO FIND OUT*:**

1. **HOW THE PLAN WILL AFFECT YOUR CLAIMS OR INTERESTS;**
2. **WHAT RIGHTS YOU HAVE WITH RESPECT TO VOTING FOR OR AGAINST THE PLAN;**
3. **HOW AND WHEN TO VOTE FOR OR AGAINST THE PLAN; AND**
4. **WHAT RIGHTS YOU HAVE WITH RESPECT TO SUPPORTING OR OBJECTING TO THE PLAN.**

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[1] Capitalized terms not otherwise defined herein are defined in the Chapter 11 Plan of Reorganization of Diamond Bay, LLC.

THIS DISCLOSURE STATEMENT AND THE PLAN ARE AN INTEGRAL PACKAGE, AND THEY MUST BE CONSIDERED TOGETHER FOR THE READER TO BE ADEQUATELY INFORMED. HOWEVER, THIS DISCLOSURE STATEMENT CANNOT TELL YOU EVERYTHING ABOUT YOUR RIGHTS. YOU SHOULD CONSULT YOUR OWN LEGAL, FINANCIAL, AND TAX ADVISORS TO OBTAIN MORE SPECIFIC ADVICE ON HOW THE PLAN WILL AFFECT YOU AND WHAT IS THE BEST COURSE OF ACTION FOR YOU.

THE STATEMENTS CONTAINED IN THIS DISCLOSURE STATEMENT ARE MADE AS OF THE DATE OF THE DISCLOSURE STATEMENT UNLESS ANOTHER TIME IS SPECIFIED. THE DELIVERY OF THIS DISCLOSURE STATEMENT SHALL NOT UNDER ANY CIRCUMSTANCES CREATE AN IMPLICATION THAT THERE HAS NOT BEEN ANY CHANGE IN THE FACTS SET FORTH SINCE THE DATE OF THE DISCLOSURE STATEMENT.

THIS DISCLOSURE STATEMENT HAS BEEN PREPARED IN ACCORDANCE WITH SECTION 1125 OF THE BANKRUPTCY CODE AND NOT IN ACCORDANCE WITH FEDERAL OR STATE SECURITIES LAWS OR OTHER APPLICABLE NON-BANKRUPTCY LAW. ENTITIES HOLDING OR TRADING IN OR OTHERWISE PURCHASING, SELLING, OR TRANSFERRING CLAIMS AGAINST, INTERESTS IN, OR SECURITIES OF THE DEBTOR SHOULD EVALUATE THIS DISCLOSURE STATEMENT ONLY IN LIGHT OF THE PURPOSE FOR WHICH IT WAS PREPARED.

THIS DISCLOSURE STATEMENT HAS NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION NOR HAS THE COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THE STATEMENTS CONTAINED HEREIN.

II. BACKGROUND

The Debtor filed its Chapter 11 petition on November 19, 2009. The Debtor was formed on January 30, 2008 as a Delaware limited liability company. The Debtor's offices are located in Charlotte, North Carolina. The Debtor's sole member is MF Biloxi, LLC, a North Carolina limited liability company. The Debtor's sole asset consists of approximately 17.35 acres of undeveloped real property located in Biloxi, Harrison County, Mississippi (the "Property"). The Property is comprised of two parcels; the "Southern Parcel" is bordered to the south by the Gulf of Mexico, and the "Northern Parcel" is across the street to the north. The Debtor's financial difficulties are related to its inability to satisfy a loan obligation to Wachovia Bank, N.A. ("Wachovia") for which the Property serves as collateral.

A. History of the Property

The Debtor and MF Biloxi are affiliates of Mountain Funding, L.L.C. ("Mountain Funding"). The Property was previously owned by Seaside Residences, LLC (f/k/a Portofino by the Sea, LLC) ("Seaside") and served as collateral for a $9,000,000.00 loan from Mountain Funding that was later increased to $15,500,000.00 in an amended promissory note dated April

7, 2006 ("Note A"). Also on, April 7, 2006, Mountain Funding loaned Seaside an additional $7,950,000.00 through another promissory note ("Note B"). Both Note A and Note B were secured by an Amended and Restated Deed of Trust, Security Agreement and Fixture Filing dated April 7, 2006 and recorded by the Chancery Clerk, Harrison County, Mississippi, on April 11, 2006, Instrument Number 2006-2675-T-J2.

Wachovia Bank, N.A. ("Wachovia") became a lender with respect to the Property in a series of transactions in late 2007 and early 2008. At that time, the lien securing Note A and Note B was split into two, distinct liens, with one securing Note A, and the other securing Note B. With respect to Note A, a splitter deed of trust (the "Splitter Deed of Trust") was recorded on January 4, 2008, Instrument Number 2008-120-T-J2. Mountain Funding then assigned Note A and the Splitter Deed of Trust to Wachovia; an assignment was recorded on January 29, 2008, Instrument Number 2008-596-T-J2. Pursuant to the terms of a letter agreement (the "Letter Agreement") between Mountain Funding and Wachovia, Wachovia offered to convey to Mountain Funding the most junior portion of Note A for payments totaling $2.7 million that Mountain Funding made in November 2007 and January 2008. Thus, Wachovia and Mountain Funding are co-lenders with respect to Note A, with Wachovia owning the senior interest.

B. History of the Debtor

The Letter Agreement also provided that Note A was to be the only secured obligation with respect to the Property. Accordingly, Mountain Funding foreclosed on Note B, and the Property was conveyed to Mountain Funding in a Substitute Trustee's Deed dated January 31, 2008 and recorded as Instrument Number 2008-431-D-J2. On February 4, 2008, Mountain Funding conveyed the Property to the Debtor via a Special Warranty Deed recorded as Instrument Number 2008-489-D-J2, for a purchase price of $21,609,239.09, which was memorialized in a promissory note (the "Promissory Note") executed by the Debtor in favor of Mountain Funding on February 4, 2008.[2] On March 25, 2008, the Debtor assumed the obligations pursuant to Note A in a Loan Assumption Agreement recorded as Instrument Number 2008-1828-T-J2.

On January 31, 2009, the Debtor's payment obligations pursuant to Note A came due. Through its Manager, Arthur Nevid, the Debtor attempted to negotiate with Wachovia as to forbearance. Eventually, however, Wachovia noticed a foreclosure sale of the Property.

C. The Debtor's Bankruptcy Case

The Debtor filed its chapter 11 bankruptcy case on November 19, 2009. In doing so, the Debtor sought to preserve its substantial equity in the Property for the benefit of the Debtor's unsecured Creditors. An Appraisal performed for the Debtor with an effective date of November

[2] The Promissory Note permits Mountain Funding to sell or assign, in whole or in part, or to grant participations in that note to other lenders. Mountain Funding subsequently issued participation certificates to 29 participants (the "Participants"). Pursuant to the Promissory Note, the participation certificates and amendments thereto, the Participants are authorized to assert claims for repayment directly against the Debtor. In addition, Mountain Funding conveyed its interest in Note A to the Participants.

13, 2009 indicates that the value of the Property would be $44,100,000.00 if the Property were to be sold in three years, and that it has a discounted current value of $30,600,000.00.[3] With respect to the two parcels that comprise the Property, the Appraisal valued the Southern Parcel at $23,200,000.00 in three years, with a current, discounted value of $16,100,000.00, and showed a value for the Northern Parcel of $20,900,000.00 in three years with a current, discounted value of $14,500,000.00. Although the effective date of the Appraisal was November 13, 2009, it was not delivered to the Debtor until after the Petition Date.

On January 7, 2010, Wachovia filed a motion for relief from the automatic stay, attaching an appraisal of the Property that showed values for the Southern Parcel of $3,325,000.00, and for the Northern Parcel as $9,850,000.00 for a total value of $13,175,00.00.[4]

Meanwhile, the Bankruptcy Court, also on a motion by Wachovia, entered an Order determining that the Debtor's case is a single-asset real estate case and, therefore, subject to the provisions of Section 362(d)(3) of the Bankruptcy Code. The Bankruptcy Court further established February 22, 2010 as the deadline for the Debtor to file a chapter 11 plan.

III. SUMMARY OF THE PLAN

THE FOLLOWING IS A BRIEF STATEMENT OF THE PLAN AND SHOULD NOT BE RELIED UPON FOR VOTING PURPOSES. CREDITORS ARE URGED TO READ THE PLAN IN FULL. CREDITORS ARE FURTHER URGED TO CONSULT WITH COUNSEL IN ORDER TO FULLY UNDERSTAND THE PLAN. THE PLAN REPRESENTS A PROPOSED LEGALLY BINDING CONTRACT BY THE DEBTOR, AND AN INTELLIGENT JUDGMENT CONCERNING SUCH A PLAN CANNOT BE MADE WITHOUT UNDERSTANDING IT.

A. The Debtor's Asset

The Debtor's sole asset is the Property. The Debtor maintains that the Property's current value is $30,600,000.00, as indicated in the Debtor's Appraisal, which further projects a future sales value of $44,100,000.00 in three years. A portion of the Property may be transferred to settle the secured claim asserted by Wachovia, with the remaining portion to be sold or auctioned within 60 days following the fifth anniversary of the Effective Date to satisfy unsecured claims. Alternatively, the Plan provides that the Reorganized Debtor may make payments with respect to the secured claim asserted by Wachovia, provided that the Property would be sold or auctioned within 60 days following the fifth anniversary of the Effective Date.

[3] This Appraisal was filed with the Bankruptcy Court on January 15, 2010 and again on January 22, 2010.

[4] The Debtor obtained a review of this appraisal filed by Wachovia that called into question the market value conclusions stated in the Wachovia appraisal. This review was filed with the Bankruptcy Court on January 22, 2010.

B. The Debtor's Proposed Treatment of Claims and Interests

The Debtor's liabilities include claims for administrative expenses, a claim for ad valorem real property taxes, the secured claim asserted by Wachovia, general unsecured claims of trade creditors and the Participants, general unsecured contingent claims based on a settlement agreement assumed by the Debtor before the Petition Date, and any claim held by the Debtor's Member. The Plan addresses each of these classes of claims. A budget for the Plan, based on both alternatives treatments for the Allowed Secured Lender Claim provided in the Plan, is attached as Exhibit D.

Administrative Claims for the cost or expense of administration of the Debtor's Bankruptcy Case and any priority tax claims pursuant to Section 503, 506 and 507 of the Bankruptcy Code are not classified in the Plan. These claims shall be paid in full on the first to occur of the Effective Date or as soon as practicable after such claims are allowed by the Bankruptcy Court. The Debtor estimates that Allowed Administrative Claims at $30,000.00.

ALL AMOUNTS LISTED FOR EACH CLASS OF CLAIMS ARE MERELY ESTIMATES, SUBJECT TO CHANGE THROUGH THE ADJUDICATION OF THE DEBTOR'S OBJECTIONS TO CLAIMS, IF ANY. ALL CAPITALIZED TERMS NOT DEFINED HEREUNDER SHALL HAVE THE MEANINGS ASCRIBED TO THEM IN THE PLAN.

Class 1 consists of any allowed other priority claims asserted pursuant to Section 507(a) of the Bankruptcy Code. These claims shall be paid in full on the first to occur of the Effective Date or as soon as practicable after such claims are allowed by the Bankruptcy Court and are not impaired under the Plan. The Debtor is not aware of any other priority claims that may be asserted in this case. To the extent that any such claims are filed, recovery should be 100%. This class is unimpaired and is not entitled to vote on the Plan.

Class 2 consists of any Allowed Secured Ad Valorem Tax Claim for real property taxes due relative to the Debtor's Property in Biloxi, Mississippi. Pursuant to Miss. Code Ann. § 27-35-1, taxes assessed upon land attach as a lien on the real property as of January 1. Miss. Code Ann. § 27-35-1(1). The Debtor proposes to pay the Allowed Secured Ad Valorem Tax Claim, plus interest at 1% per month, in monthly installments beginning within 10 days of the Effective Date and ending not later than 10 days following the first (1st) anniversary of the Effective Date. In the event that the Property is sold or auctioned prior to full satisfaction of the Allowed Secured Ad Valorem Tax Claim, unpaid amount of this Claim shall be paid from the proceeds thereof. Class 2 will be Impaired under the Plan, and the holder of the Class 2 Claim shall be permitted to vote on the Plan. The Debtor estimates the Allowed Secured Ad Valorem Tax Claim at $37,894.69, which reflects the total amount due for 2009 real property taxes that were billed post-petition. The estimated recovery for Class 2 Claims is 100%.

Class 3 consists of the secured claim asserted by Wachovia estimated for purposes of the Plan at $15,594,564.96 (the "Secured Lender Claim"). On or about March 25, 2008, the Debtor assumed the loan agreement with respect to Note A, described above, which is secured by a Splitter Deed of Trust on the Debtor's Property. This obligation became due on January 31, 2009. For purposes of the Plan, and reserving all rights with respect to a determination of the

allowed amount of the same, the Debtor estimates the Allowed Secured Lender Claim to be approximately $15,594,564.96. The Debtor proposes two, alternate treatments for the Allowed Secured Lender Claim.

Pursuant to the first alternative, provided that the Southern Parcel is valued by the Bankruptcy Court for not less than $16,100,000.00, which exceeds the estimated Allowed Secured Lender Claim, the Allowed Secured Lender Claim shall be satisfied in full by conveyance to Wachovia of the Southern Parcel of the Property. If the Southern Parcel is valued by the Bankruptcy Court at less than $16,100,000.00, the Debtor may elect to satisfy the difference between that value and the Allowed Secured Lender Claim by conveying a portion of the Northern Parcel or by paying the difference in Cash to Wachovia as full satisfaction of the Allowed Secured Lender Claim. Conveyance of any portion of the Property with respect to the Allowed Secured Lender Claim shall be free and clear of liens. Any such conveyance(s) shall be made on or before 30 days following the Effective Date. Upon such conveyance(s), including any Cash payment made under this alternative, any lien with respect to the Property relative to the Allowed Secured Lender Claim shall be released.

Pursuant to the second alternative, if, based on the Bankruptcy Court's valuation of the Property, the Allowed Secured Lender Claim is under-secured, the Debtor proposes to treat the Allowed Secured Lender Claim as a fully secured obligation of the Debtor such that the lien on the Property shall be retained pursuant to Section 1129(b)(2)(A)(i)(I) of the Bankruptcy Code until the Allowed Secured Lender Claim has been paid in full. Any unsecured portion of the Allowed Secured Lender Claim would be an Allowed Unsecured Deficiency Claim. Pursuant to this alternative, the lien reflected in the Splitter Deed of Trust would remain in place, and the Debtor's obligation on the Allowed Secured Lender Claim would be modified to extend over a period of five (5) years. Beginning on or before 30 days following the Effective Date, the Debtor would make monthly amortization payments of principal and interest with respect to the Allowed Secured Lender Claim, equating to $1,062,000.00 per year. The remaining balance would be paid in full on or about 60 days after the fifth (5th) anniversary of the Effective Date. Pursuant to this alternative, the Debtor would begin to list the Property for sale on or about the third (3rd) anniversary of the Effective Date. If the Property sells or is under contract within 30 days following the fifth (5th) anniversary of the Effective Date, the Allowed Secured Lender Claim would be satisfied from sale proceeds. In the event that the Property has not sold by the fifth (5th) anniversary of the Effective Date, or is not put under contract for sale within 30 days following that anniversary, the Property shall be sold at Auction on or about 60 days after that fifth (5th) anniversary of the Effective Date, and the Allowed Secured Lender Claim shall be satisfied from the proceeds thereof, with any Net Proceeds to be distributed to the holders of Allowed Unsecured Claims.

Under either alternative treatment, Class 3 will be Impaired under the Plan, and the holder of this Claim shall be permitted to vote on the Plan. Pursuant to either alternative treatment, the estimated recovery for the Class 3 Allowed Secured Lender Claim is 100%.

Class 4 consists of Allowed General Unsecured Claims, including any Claims held by Participants and any Allowed Unsecured Deficiency Claim, as defined herein, but excluding any Allowed General Unsecured Contingent Claims. The Debtor estimates that Allowed General

Unsecured Claims total approximately $29,177,303.00. Upon the Sale or Auction of any portion of the Property, holders of any Allowed General Unsecured Claims shall receive pro rata distributions of any Net Proceeds, up to the full amount of their Allowed General Unsecured Claims. The Allowed General Unsecured Claims are Impaired, and the holders of such Claims shall be permitted to vote on the Plan.

The estimated recovery for Class 4 Claims, based on a Sale of the Northern Parcel (only) after the third anniversary of the Effective Date is approximately 71.63%. This estimated recovery could increase based on any appreciation of the Northern Parcel. The estimated recovery for Class 4 Claims if the Property is held for five years and then sold, and Net Proceeds are distributed on Class 4 Claims, is approximately 100%.

Class 5 consists of any Allowed General Unsecured Contingent Claims. Upon the Sale or Auction of any portion of the Property, holders of any Allowed General Unsecured Contingent Claims shall share in a pro rata distribution of up to 5% of their Allowed Claims from any Net Proceeds remaining after all Allowed General Unsecured Claims have been paid in full. The Debtor estimates that Allowed General Unsecured Contingent Claims total $3,555,000.00. The Allowed General Unsecured Contingent Claims are Impaired, and the holders of such Claims shall be permitted to vote on the Plan. The estimated recovery for Class 5 Claims is unknown.

Class 6 shall consist of the Equity Interest in the Debtor held by the Member, MF Biloxi, LLC. In exchange for any interests it may retain pursuant to this Plan, the Member shall make a contribution of approximately $703,500.00 to up to a maximum of approximately $6,090,000.00 to fund the Plan, depending upon which alternative treatment of the Class 3 Claim is approved by the Bankruptcy Court, which is referred to herein as the Equity Contribution. *See* Ex. D. To ensure that the Equity Contribution reflects a fair and reasonable estimate of the value of any interest in the Reorganized Debtor retained by the Member under this Plan, Creditors will be offered an opportunity to submit bids for the Equity Interest in a process to be approved by the Bankruptcy Court. The Equity Interest is Impaired by the Plan, and this class will be deemed to have rejected the Plan. No distribution of any kind shall be made with respect to the Equity Interest until and unless all Claims in Classes 1 through 5 have been satisfied in accordance with the Plan. The estimated recovery for Class 6 is unknown.

C. Provisions for Voting on the Plan

1. Creditors Allowed to Vote and Deadline for Voting. Creditors holding allowed claims in Classes 2, 3, 4, and 5 are entitled to vote to accept or reject the Debtor's Plan. The Court has fixed a deadline of _____ by which date Creditors must file ballots with the Bankruptcy Court. Even though Creditors who chose not to vote, or who vote against the Plan, will be bound by the terms and treatment set forth in the Plan if the Plan is accepted by the requisite majorities in each class of creditors and/or is confirmed by the Bankruptcy Court. Creditors who fail to vote will not be counted in determining acceptance or rejection of the Plan. Allowance of a claim or interest for voting purposes does not necessarily mean that the claim or interest will be allowed or disallowed for purposes of distribution under the terms of the Plan. Any claim to which an objection has been or will be made will be allowed for purposes of

distribution only after a determination has been made by the Bankruptcy Court. Such determination of allowed status may be made before or after the Plan is confirmed.

2. Voting Provisions. In order for the Plan to be accepted by any class of creditors entitled to vote on the Plan, the creditors in that class who hold at least two-thirds (2/3) in dollar amount of the claims in that class and who comprise more than one-half (1/2) in total number of creditors in the class who are entitled to vote must accept the Plan. Under certain limited circumstances more fully described in Section 1129(b) of the Bankruptcy Code, the Bankruptcy Court may confirm the Plan by a "cramdown," notwithstanding the rejection of the Plan by one or more impaired classes of creditors entitled to vote on the Plan. The Debtor intends to seek confirmation pursuant to Section 1129(b) in the event that any class of creditors rejects the Plan.

You may vote on the Plan by completing and mailing the enclosed ballot to:

Clerk, United States Bankruptcy Court
PO Box 34189
Charlotte, NC 28234-4189

You should use the ballot sent to you with this Disclosure Statement to cast your vote for or against the Plan. You may NOT cast ballots or votes orally. In order for your ballot to be considered by the Bankruptcy Court, it must be received at the above address no later than the time designated in the notice accompanying this Disclosure Statement. If you are a Claimant in Classes 2, 3, 4 or 5 and did not receive a ballot with this Disclosure Statement, you may obtain a ballot by contacting:

Grier Furr & Crisp, PA
ATTN: Diamond Bay, LLC Plan
101 North Tryon Street, Suite 1240
Charlotte, NC 28246

Only holders of Allowed Claims in impaired Classes are entitled to vote on the Plan. In addition, the record date of all Claims against the Debtor for voting purposes shall be the date on which the Bankruptcy Court enters an order approving this Disclosure Statement. Persons holding Claims transferred after such date will not be permitted to vote on the Plan. Pursuant to the provisions of Section 1126 of the Bankruptcy Code, the Bankruptcy Court may disallow any vote accepting or rejecting the Plan if such vote is not cast in good faith.

The Bankruptcy Court established March 23, 2010 as the deadline by which all proofs of Claim must be filed in the Chapter 11 Case.

3. Representations Limited. No representation concerning the Debtor, particularly regarding future business operations or the value of the Debtor's assets, has been authorized by the Debtor except as set forth in this Disclosure Statement. You should not rely on any other representations or inducements offered to you to secure your acceptance or decide how to vote on the Plan. Any person making representations or inducements concerning acceptance or rejection of the Plan should be reported to counsel for the Debtor.

While every effort has been made to provide the most accurate information available, the Debtor is unable to warrant or represent that all information is without inaccuracy. No known inaccuracies are set forth herein. Further, much of the information contained herein consists of future projections. While every effort has been made to ensure that the assumptions are valid and that the projections are as accurate as can be made under the circumstances, the Debtor has not undertaken to certify or warrant the absolute accuracy of the projections.

The Debtor's Property was appraised before the Petition Date, and the values in that Appraisal reflect the Debtor's best estimates of the value of the Property as of the date that this Disclosure Statement was filed. These values may differ from the valuation for the Property included in the Debtor's Petition. Pursuant to the Plan, the Bankruptcy Court may be asked to value the Property.

IV. OTHER PLAN PROVISIONS

1. Claims Objections. The Plan provides that the Reorganized Debtor shall have 120 days within which to file any objections to claims against the Estate, unless the Bankruptcy Court extends that deadline. The Plan makes further provisions for settling claims objections, and Creditors are advised to read the Plan for more information.

2. Avoidance Actions. Pursuant to the Plan, the Reorganized Debtor will be authorized to pursue avoidance actions on behalf of the Estate. In general, transfers made to Creditors within 90 days of the Petition Date may be subject to avoidance. Other transfers that may be avoidable include payments to insiders, as that term is defined in Section 101(31) of the Bankruptcy Code that were made within one year before the Petition Date.

The Debtor's Statement of Financial Affairs, filed with the Petition, reveals transfers totaling $7,100.00 to Precision Landscaping and Design, LLC that were made within the 90-day period preceding the Petition Date. The Debtor believes that these transfers are not subject to avoidance based on, among other exceptions, the exception for ordinary course transactions. Accordingly, the Debtor places a value of zero on any claim it may have against this creditor.

The Debtor's Statement of Financial Affairs lists transfers to certain insider Creditors made on December 19, 2008, which range from $28.13 to $900.00. Due to the *de minimis* nature of these transfers, the Debtor values any claims it may have relative to transfers to insiders at zero.

3. Management of the Reorganized Debtor. The Plan contemplates that the Debtor's asset will re-vest in the Debtor on the Effective Date of the Plan. Arthur Nevid would continue to manage the Debtor. Pre-petition, Mr. Nevid was not compensated by the Debtor, and the Plan does not contemplate a change in that arrangement.

4. Retention of Jurisdiction. The Plan provides that the Bankruptcy Court will retain jurisdiction over this Chapter 11 case for certain purposes set forth in the Plan.

V. ACCEPTANCE AND CONFIRMATION

The Bankruptcy Code requires that the Bankruptcy Court, after notice, hold a hearing to consider confirmation of the Plan. As indicated herein, this the Confirmation Hearing in this case will be held on _____, 2010 at 9:30 a.m. The Confirmation Hearing may be adjourned from time to time by the Bankruptcy Court without further notice except for an announcement made at the Confirmation Hearing.

At the Confirmation Hearing, the Bankruptcy Court will determine whether the requirements of Section 1129 of the Bankruptcy Code have been satisfied, in which case the Bankruptcy Court will enter and Order confirming the Plan. These requirements include determinations by the Bankruptcy Court that (i) the Plan has classified Claims in a permissible manner; (ii) the Plan reflects the "best interests" of all Creditors; (iii) the Plan is feasible; (iv) the Plan has been accepted by the requisite number and amount of Creditors in each Class entitled to vote on the Plan, or that the Plan may be confirmed without such acceptances; (v) the Plan and its proponent comply with various technical requirements of the Bankruptcy Code; (vi) the Debtor has proposed the Plan in good faith; (vii) any payments made under or promised in connection with the Plan are subject to the approval of the Bankruptcy Court as reasonable; and (viii) the Plan provides specified recoveries for certain priority claims. The Debtor believes that all of these conditions have been or will be met prior to the Confirmation Hearing.

THESE ARE COMPLEX STATUTORY PROVISIONS, AND THE PRECEDING DISCUSSION IN THIS DISCLOSURE STATEMENT IS NOT INTENDED TO BE A COMPLETE SUMMARY OF THE LAW. IF YOU DO NOT UNDERSTAND ANY OF THESE PROVISIONS, PLEASE CONSULT WITH YOUR ATTORNEY. IF ALL CLASSES DO NOT ACCEPT THE PLAN, THE DEBTOR INTENDS TO RELY UPON THE "CRAMDOWN" PROVISION OF SECTION 1129(b) OF THE BANKRUPTCY CODE.

1. Classification of Claims. The Bankruptcy Court requires that a plan place each creditor's claim in a class with "substantially similar" claims. The Debtor believes that the Plan's classification of claims with the requirements of the Bankruptcy Code and applicable case law.

2. The Best Interests Test. Notwithstanding acceptance of the Plan in accordance with Section 1126 of the Bankruptcy Code, the Bankruptcy Court must find, whether or not any party in interest objects to Confirmation of the Plan, that the Plan is in the best interests of the Creditors. Bankruptcy courts have generally defined "best interests" as the Bankruptcy Code's requirement that, under any plan of reorganization, each member of an impaired class of creditors must receive or retain, on account of its claim, property of value, as of the effective date of the plan, that is not less than the amount such creditor would receive or retain if the Debtor was liquidated under chapter 7 of the Bankruptcy Code. The Debtor believes that the Plan is in the best interests of the Creditors in this case.

To determine what the Creditors would receive if the Debtor was liquidated under chapter 7, the dollar amount that would be generated from the liquidation of the Debtor's assets in a chapter 7 liquidation must be considered. The amount that would be available for the satisfaction of Claims would consist of the Debtor's interest in the net proceeds resulting from

the disposition of the Estate's assets. The Estate's interests would be further reduced by the amount of any secured claims, the costs and expenses of the liquidation, and such additional administrative claims and priority claims that may result from the liquidation of the Debtor's estate. These calculations are set forth in a hypothetical liquidation analysis attached to this Disclosure Statement.

In a typical chapter 7 bankruptcy case, a trustee is elected or appointed by the Bankruptcy Court to liquidate the debtor's assets for distribution to creditors based on the priorities set forth in the Bankruptcy Code. The costs of liquidation in a chapter 7 case would become administrative claims with the highest priority against the proceeds of liquidation. Such costs would include the fees payable to a chapter 7 trustee, as well as those payable to the trustee's attorneys, financial advisors, appraisers, accountants, auctioneers, other professionals that a trustee may engage, and the costs of advertising associated with liquidation. It is estimated that an auction sale of the Property would result in a significantly lower return than the appraised value. After satisfying administrative claims arising in the course of the chapter 7 liquidation, the proceeds of the liquidation would then become payable to satisfy any unpaid expenses incurred during the time that the case was pending under chapter 11, including compensation for Debtor's attorneys, financial advisors, appraisers, accountants, and other professionals engaged by the Debtor.

Exhibit C reflects a hypothetical liquidation analysis of the Debtor's Estate. This hypothetical liquidation analysis is based on assumptions that the Debtor believes to be reasonable based on the best information available to it. However, there are numerous economic, legal, and other uncertainties that could dramatically change the results in an actual liquidation. Nevertheless, for the reasons discussed above, the Debtor has concluded that the Plan provides Creditors with a recovery that has a present value at least equal to the present value of the distribution that that such Person would receive if the Estate were liquidated pursuant to chapter 7 of the Bankruptcy Code.

BECAUSE THE LIQUIDATION ANALYSIS AND THE PROJECTIONS ARE BASED UPON A NUMBER OF ASSUMPTIONS AND ARE INHERENTLY SUBJECT TO SIGNIFICANT UNCERTAINTIES THAT ARE BEYOND THE DEBTOR'S CONTROL, THERE CAN BE NO ASSURANCE THAT THE LIQUIDATION VALUES WOULD, IN FACT, BE REALIZED IN THE EVENT OF A LIQUIDATION PURSUANT TO CHAPTER 7 OR THAT THE FINANCIAL PROJECTIONS WILL BE REALIZED. ACTUAL RESULTS MAY BE HIGHER OR LOWER THAN THOSE SHOWN IN THE EXHIBITS, POSSIBLY BY MATERIAL AMOUNTS.

3. Feasibility of the Plan. Section 1129(a)(11) of the Bankruptcy Code requires a judicial determination that confirmation of the Plan will not likely be followed by liquidation or the need for further financial reorganization of the Debtor or any other successor to the Debtor under the Plan, unless such liquidation or reorganization is proposed in the Plan. The Debtor believes that it will be able to meet its obligations under the Plan.

4. Confirmation. The Plan may be confirmed if the holders of impaired classes of Claims accept the Plan. Classes of Claims that are not impaired are deemed to have accepted the

Plan. A Class is impaired if the legal, equitable or contractual rights attaching to the Claims or interests of that Class are modified other than by curing defaults and reinstating maturities or by full payment in cash.

The Bankruptcy Code defines acceptance of a plan by a class of claims as acceptance by the holders of two-thirds (2/3) in dollar amount and a majority in number of allowed claims in that class. This calculation includes only those holders of claims who actually vote to accept or reject the Plan. Votes on the Plan are being solicited only from holders of Allowed Claims in impaired classes.

In the event that an impaired Class does not accept the Plan, the Bankruptcy Court may nevertheless confirm the Plan at the Debtor's request if (i) all other requirements of Section 1129(a) of the Bankruptcy Code are satisfied, and (ii) as to each impaired Class that has not accepted the Plan, the Bankruptcy Court determines that the Plan does not discriminate unfairly and is fair and equitable with respect to such non-accepting Class. **THE DEBTOR BELIEVES THAT THE PLAN IS IN THE BEST INTERESTS OF ALL CREDITORS AND STRONGLY RECOMMENDS THAT ALL PARTIES ENTITLED TO VOTE CAST THEIR BALLOTS IN FAVOR OF ACCEPTING THE PLAN.** Nevertheless, the Debtor has requested that the Bankruptcy Court confirm the Plan over the rejection of any non-accepting Class in the event that all other elements of Section 1129(a) of the Bankruptcy Code are satisfied.

A plan does not discriminate unfairly if the legal rights of a non-accepting class are treated in a manner that is consistent with the treatment of other classes whose legal rights are intertwined with those of the non-accepting class, and no class receives payments in excess of that which it is legally entitled to receive. The Debtor believes that, pursuant to the Plan, all holders of impaired claims are treated in a manner that is consistent with the treatment of other holders of Claims with which any of their legal rights are intertwined. Accordingly, the Debtor believes the Plan does not discriminate unfairly as to any impaired class of Claims.

The condition that a plan be fair and equitable generally requires that an impaired class that has not accepted the plan must receive certain specified recoveries, as set forth in Section 1129(b)(2) of the Bankruptcy Code. The Debtor believes that the Plan meets the thresholds specified in this section of the Bankruptcy Code.

5. Objections to Confirmation. Any objections to confirmation of the Plan must be filed with the Clerk of the United States Bankruptcy Court for the Western District of North Carolina, located at 401 West Trade Street, Charlotte, North Carolina, with a mailing address of P.O. Box 34189, Charlotte, NC 28234-4189, and served upon (a) A. Cotten Wright, Grier Furr & Crisp, PA, 101 N. Tryon Street, Suite 1240, One Independence Center, Charlotte, NC 28246; and (b) Linda Simpson, United States Bankruptcy Administrator, 402 West Trade Street, Charlotte, NC 28202 in such manner as will cause such objections to be filed with the Bankruptcy Court and received by the aforementioned parties no later than **_____, 2010 AT 4:00 P.M. (ET)**.

VI. EFFECT OF CONFIRMATION

On the Effective Date, the Debtor and the Estate will be discharged from all Claims and liens that existed before confirmation of the Plan, except for liens, payments, and distributions expressly provided for in the Plan. The discharge will be fully effective against all Creditors regardless of whether they have voted to accept or reject the Plan, and regardless of whether the Plan is confirmed by consent or by resort to the provisions of Section 1129(b) of the Bankruptcy Code. Except as otherwise provided in the Plan, the confirmation of the Plan vests all of the property of the Estate in the Debtor.

VII. POTENTIAL FOR MATERIAL FEDERAL TAX CONSEQUENCES

The Debtor is not aware of any potential material federal tax consequences of the Plan to the Debtor. Because the Debtor is owned 100% by MF Biloxi, LLC, any tax liabilities resulting from the Debtor's business are reported as a component of that entity's tax returns. Accordingly, any tax consequences that may result from the Plan would be borne by the Debtor's Member.

With respect to income tax consequences to the holders of Allowed Claims, the United States federal income tax consequences of the transactions contemplated by the Plan will depend upon, among other things, (a) whether the Claim and the consideration received in respect thereof are "securities" for federal income tax purposes; (b) the manner in which a holder acquired a Claim; (c) the length of time the Claim has been held; (d) whether the Claim was acquired at a discount; (e) whether the holder has taken a bad debt deduction with respect to the Claim (or any portion thereof) in the current or prior years; (f) whether the holder has previously included in its taxable income accrued but unpaid interest with respect to the Claim; (g) the holder's method of tax accounting; and (h) whether the Claim is an installment obligation for federal income tax purposes. Again, other factors may also be relevant to a determination of the tax consequences of the Plan. Therefore, the holders of Allowed Claims should consult their own tax advisors for information that may be relevant to their particular situations and circumstances and the particular tax consequences to them of the transactions contemplated by the Plan.

Internal Revenue Service Circular 230 Disclosure: To ensure compliance with requirements imposed by the IRS, unless specifically indicated otherwise, any tax advice contained in this communication (including any attachments) was not intended or written to be used and cannot be used for the purpose of avoiding tax related penalties or promoting, marketing, or recommending to another party any tax related matter addressed in this communication. A formal and thorough written tax opinion would first be required for any tax advice contained in this communication to be used to avoid tax related penalties. Please consult your own tax professional.

VIII. OTHER SOURCES OF INFORMATION AVAILABLE TO CREDITORS AND PARTIES IN INTEREST

Additional motions, affidavits, orders or other documentation that might be of interest to any holder of a claim against the Debtor in this proceeding are shown on the docket report for the Debtor's case maintained by the Bankruptcy Court's Clerk's Office. Copies of the docket report and documents available may be obtained from the Bankruptcy Court's website at www.ncwb.uscourts.gov, or by contacting the Debtor's attorneys.

IX. RECOMMENDATION AND CONCLUSION

THE DEBTOR BELIEVES THAT CONFIRMATION AND IMPLEMENTATION OF THE PLAN ARE PREFERABLE TO ANY OF THE FEASIBLE ALTERNATIVES BECAUSE THE PLAN WILL PROVIDE SUBSTANTIALLY GREATER RECOVERIES FOR CREDITORS. ACCORDINGLY, THE DEBTOR URGES HOLDERS OF CLAIMS IN IMPAIRED CLASSES TO VOTE TO ACCEPT THE PLAN BY SO INDICATING ON THEIR BALLOTS AND RETURNING THEM AS SPECIFIED IN THIS DISCLOSURE STATEMENT AND ON THE BALLOTS.

[Signatures on following pages.]

Respectfully submitted this the 22nd day of February, 2010.

/s/ A. Cotten Wright
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DIAMOND BAY, LLC

By: _____
Arthur Nevid, Manager