

**UNITED STATES BANKRUPTCY COURT
DISTRICT OF MINNESOTA**

In re:	Substantively Consolidated Under BKY 13-40789
HUSTAD INVESTMENT CORPORATION, HUSTAD REAL ESTATE COMPANY, HUSTAD INVESTMENTS, LP,	BKY 13-40789 BKY 13-40786 BKY 13-40788
Debtors.	Chapter 11 Cases

**DEBTOR'S DISCLOSURE STATEMENT
JULY 29, 2013**

I. INTRODUCTION

A. General

The above-named debtors, and debtors in possession in the above-referenced chapter 11 cases (collectively, "Debtors" and as consolidated, "Debtor") seek confirmation from the United States Bankruptcy Court for the District of Minnesota ("Bankruptcy Court") of their Plan of Reorganization dated July 24, 2013 ("Plan"). A copy of the Plan accompanies this Disclosure Statement (the "Disclosure Statement").

This Disclosure Statement is furnished pursuant to Section 1125 of the United States Bankruptcy Code, 11 U.S.C. §101 *et seq.* (the "Code") and is intended to provide all persons who have claims against the Debtors or their property with information sufficient to permit them to make an informed judgment as to their votes to accept or reject the Plan. The information set forth in this Disclosure Statement has been supplied by the Debtors.

This Disclosure Statement and the enclosed Plan should be read in their entirety. It may also be advisable for creditors to consult their own counsel or other advisors with respect to matters related to the Plan. For the convenience of creditors the terms of the Plan are summarized in this Disclosure Statement in Section IV entitled "Summary of the Plan". However, all summaries are qualified by the Plan itself, which is controlling in the event of any inconsistency.

Any capitalized terms contained herein which are not specifically defined herein shall have the meaning provided for in the Plan unless the context otherwise requires.

B. Representations

No representations concerning the Debtors are authorized by the Debtors other than as set forth in this Disclosure Statement. Any representations or inducements made to secure acceptance of the Plan which are other than as contained in this Disclosure Statement should not be relied upon by creditors in arriving at a decision to vote to accept or reject the Plan.

The information contained herein is not audited. The Debtors are unable to warrant or represent that the information contained herein is without any inaccuracy, although the Debtors have made every reasonable effort to be accurate in all material respects. Ravich Meyer Kirkman McGrath Nauman & Tansey, counsel for the Debtors, has not verified any of the information set forth in this Disclosure Statement. Ravich Meyer Kirkman McGrath Nauman & Tansey has no actual knowledge of any inaccuracies.

II. HISTORY OF THE DEBTORS

The Debtors were founded by Ruth and Wallace Hustad over the years to own and develop investment property and to provide real estate services. Hustad Investment Corporation ("HIC"), f/k/a Hustad Development Corporation, was founded in 1972 by Wallace and Ruth. It was formed as a development company to acquire and develop land owned by family partnerships and third parties. It evolved into a real estate investment company by the 1990's. In 1997, HIC hired Trek Development, owned by Elisabeth Hustad, to develop that investment property. In 1989 and 1990, the Hustad children, Susan, Wally, Kelli and Elisabeth, each became a minority shareholder of HIC.

Hustad Real Estate, Inc. ("HRE") was founded by Ruth Hustad in 1978. It was a full service real estate firm, specializing in land and residential properties. It provided services related to transactions on behalf of HIC and other family partnerships. In the 1990's, it evolved into a real estate management company for the other Hustad companies, Ruth Hustad and the estate of Wallace Hustad.

Hustad Investment Limited Partnership ("HILP") was founded in 2003. Its general partner is HRE and its limited partners are Ruth Hustad and the estate of Wallace Hustad. HILP holds real estate for investment and development purposes.

On the date of commencement of this case, the Debtors had a loan with BMO Harris Bank secured by real property located at County Road 101 and Bass Lake Road in Maple Grove MN, real property called Bluff Country Village in Eden Prairie, MN and property called the Winter Farm near Northfield, MN. That loan was originally made by National City Bank in 2000, which was later acquired by M&I Marshall & Ilsley Bank and then by BMO Harris Bank. Since commencement of this case, the loan has been acquired by Monty SPV, LLC. At the time of filing, the amount of the loan was approximately \$12.3 million.

HIC was originally operated by Wallace Hustad. HRE was originally operated by Ruth Hustad. Elisabeth Hustad ("Beth") began working in the companies in 1984. She was first elected as an officer in 1985. She left in 1996 to form Trek (at that point, Beth had been half

owner of HLC, President of HDC and VP of HRE). She continued to work on projects as an independent contractor as Trek Development for Hustad and Town & Country, except for 1999-2000 when she worked for Town & Country (later acquired by K. Hovnanian). Beth was asked to come back in 2001 to help Hustad through a difficult employee transition. In 2002, Wallace's health began to fail. Wallace died in 2007. Beth was elected VP of HIC and asked by the trustee of Wallace Hustad Trust to accept the position of COO on September 17, 2007. She was elected COO on February 19, 2008. Beth was elected President and CEO of HRE as of January 29, 2009.

The recession of 2008-10 had a negative impact on the real estate financial and banking industries which the Debtors' business and sales slowed. Historically, the Debtors had paid debt service and operating expenses from the sale of property. The Debtors, Ruth Hustad and the Wallace Hustad estate were forced to sell assets to keep up with these payments during the recession. In addition, payroll to Elisabeth Hustad was deferred. Notwithstanding these efforts, in 2010 the BMO loan matured. After a short notice period, BMO commenced a proceeding to foreclose on its collateral.

In 2011, HIC shareholders Kelli Hueler and Wallace Hustad (son) commenced a lawsuit against Susan Seeland, Ruth Hustad, Elisabeth Hustad and related trusts alleging wrongdoing in the management of the Debtors. The district court appointed Lewis Remele, Jr. as a Special Litigation Committee under local rules to investigate and report on the alleged wrongdoing and on whether the claims were derivative or claims assertable by the minority shareholders in their own right. His report, which finds the claims to be derivative and not founded on fact or law, is attached hereto as **Exhibit A**.

Despite the adverse environment, substantial progress toward development and sale of the Maple Grove property occurred in the years before the filing of these cases. Since 2005, Trek Development has been working with the City of Maple Grove to plan the development of that site, including site design and planning, obtaining approvals of government agencies, interfacing with architects, engineers, contractors, and City Staff, negotiating developer agreements, conducting neighborhood meetings, and marketing the housing and commercial parcels for sale. The result has been a close working relationship with the City of Maple Grove and a site plan which is feasible and in which the City has substantial confidence.

In addition, many of the parcels are positioned for sale. The concept plan for the Maple Grove property is attached as **Exhibit B**. The following parcels are earmarked for sale as indicated:

<u>Parcel and Proposed Buyer</u>	<u>Proposed Price</u>
South Residential (Hamlets) to Ryland Homes	\$5,505,500
BCV Gas to Geller Industries, Inc	950,000
MG Walgreens to NLD Holdings III, LLC	900,000
MG East to FiberPop Solutions, Inc.	1,750,000
MG Kinderberry to New Horizon Child Care	600,000
BCV South to Rowland Development Group, LLC	825,000

In late 2012, the BMO foreclosure lawsuit culminated in a judgment against the

defendants. As a result, BMO set a sheriff's sale for February 21, 2013. These cases were filed on February 20, 2013.

III. SIGNIFICANT EVENTS DURING THE CHAPTER 11 CASES

3.1. Creditors Committee. The United States Trustee has been unable to appoint a committee of unsecured creditors in this case.

3.2. Substantive Consolidation. On February 28, 2013, the Bankruptcy Court entered an order for joint administration of these cases. Upon a motion by the Debtors, on April 4, 2013, the Bankruptcy Court entered an order substantively consolidating the cases.

3.3. Property Sales. On April 11, 2013, the Debtor filed a motion to approve the sale of a parcel of property in Bluff Country Village to Geller Industries for a Holiday Stationstore. BMO opposed the motion on the ground that the motion did not provide for the payment of the proceeds of sale to BMO. On May 17, 2013 the Bankruptcy Court denied the motion.

On April 16, 2013, the Debtor filed a motion to approve bidding procedures and a form of asset purchase agreement relating to the residential portion of the Maple Grove Property. On May 17, 2013, the Bankruptcy Court granted that motion on the condition that the deadline for bids be extended to May 30, 2013. The Debtor received multiple bids for the property and negotiated a purchase agreement with Ryland Homes containing a \$5,505,500 purchase price. The Debtor has filed a motion to approve that sale, subject to higher and better bids, which is set for hearing on August 21, 2013.

3.4. Financing. The Debtor has not had sufficient working capital during this case. On April 17, 2013, the Debtor filed a motion to authorize limited post-petition financing from Trek Development. On May 17, 2013, the Bankruptcy Court authorized the Debtor to borrow up to \$37,000 for certain operating expenses.

3.5. Motion to Dismiss or Convert. On July 3, 2013, the United States Trustee filed a motion to convert these cases to chapter 7 or to dismiss them, in part because a plan had not been filed. That motion is set for hearing on July 31, 2013.

3.6. Bar Dates for Filing Proofs of Claim. The Bankruptcy Court set deadlines of July 1, 2013 for holders of Claims other than Governmental Units and August 19, 2013 for Governmental Units to file proofs of claim.

3.7. Financial Results. Financial statements of the Debtors for 2010 and 2011 are attached hereto as **Exhibit C.**

IV. SUMMARY OF THE PLAN AND MEANS FOR ITS EXECUTION

4.1. Summary. After confirmation of the Plan, Debtors will continue to operate their business in the ordinary course. Payments required by the Plan will be made from the cash flow generated by sales of the Debtors' real property and from the proceeds of the Investor Loan

described below. Each of the Debtors will continue as separate legal entities, but subject to the Bankruptcy Court's order for substantive consolidation. As was the case before these cases were commenced, the cash of the entities will be combined and used to pay the obligations under the Plan. As the result of substantive consolidation of these cases, each Reorganized Debtor is liable for all obligations under the Plan.

4.2. Investor Loan. On the Effective Date, FiberPop Solutions, Inc. (the "Investor") will make a \$4 million loan to the Debtor on the terms set forth in the commitment letter attached hereto as **Exhibit D**. The loan will fund a partial payment on the first mortgage debt roughly equal to \$1,000,000 payment to Lender, future development cost relating to the Maple Grove Property, payment of the claims of non-insider unsecured creditors, and operating capital needs of the Debtor including accrued and unpaid administrative expenses.

4.3. Feasibility of the Plan. The Debtors have completed their 2013-17 business plan and related projections. A copy of the projections is attached hereto as **Exhibit E**. The projections demonstrate that the Debtors will be capable of performing their obligations under the Plan.

4.4. Governance of the Reorganized Debtors. The board of governors of HIC and HRE shall consist of the following members: Ruth Hustad and Elisabeth Hustad, the current members of those boards.

4.5. Management of the Reorganized Debtors, Executive Compensation. Management of the Reorganized Debtor shall consist of Elisabeth Hustad as President and Chief Executive and Ruth Hustad as Chair of the Board. Their compensation in 2013 will be \$150,000 and \$75,000 respectively and in 2014 \$180,000 and \$90,000 respectively.

V. TREATMENT OF CLAIMS AND EQUITY INTERESTS UNDER THE PLAN

5.1. Administrative Claims. Each holder of an allowed Administrative Claim (except any such holder that agrees to different treatment) shall receive the full amount of such claim, in cash, on the Distribution Date; provided, however, that allowed Administrative Claims representing (a) postpetition liabilities incurred in the ordinary course of business by the Debtor and (b) postpetition contractual liabilities arising under loans or advances to the Debtor, whether or not incurred in the ordinary course of business, shall be paid by the Reorganized Debtor in accordance with the terms and conditions of the particular transactions relating to such liabilities and any agreements relating thereto.

Administrative Claims to be paid on the Distribution Date are estimated to total approximately \$450,000, although a portion of these claims could be paid in the meantime from the proceeds of the sale of properties.

5.2. Priority Tax Claims. If any party holds a priority tax claim, in full satisfaction of its claim, it shall receive payment of that claim in 24 equal quarterly installments (representing payment of the claim plus interest at the applicable federal rate of 1.22% per annum) commencing on the first day of the third full month following the Effective Date and continuing

on the first day of each consecutive calendar quarter thereafter until a total of 24 payments have been made.

5.3. United States Trustee Fees. Fees payable by Debtor under 28 U.S.C. § 1930 will be paid in full on the Effective Date. In addition, following confirmation, the Debtor will timely pay all fees incurred pursuant to 28 U.S.C. §§1930(a)(6) and will file with the Court and serve on the U.S. Trustee a monthly financial report in the prescribed format, for each month or part thereof that the Case remains open.

5.4. Class 1 – Priority Non-Tax Claims. Class 1 consists of all Priority Non-Tax Claims. Claims of Elisabeth Hustad and Ruth Hustad, Insiders of the Debtor, for unpaid salary in the total amount of \$23,450.

Treatment. Payment of these claims is subordinated to the Class 2 and Class 7 claims and will be deferred until the claims in those classes are paid in full.

5.5. Class 2 – Secured Claim of Monty SPV, LLC (formerly held by BMO Harris Bank). Class 2 consists of a Secured Claim of Monty SPV, LLC (formerly held by BMO Harris Bank) in the amount of \$12,747,839 secured by first mortgages on Bluff Country Village, the Maple Grove Development and the Winter Farm, having a collective value of \$26.2 million.

Treatment. The Class 2 claim will continue to be secured by the collateral which presently secures that claim. In full satisfaction of the Class 2 claim, the holder will receive:

a. Interest on the full amount of the claim, adjusted for payments of principal from time to time, at the rate of 3.5% per annum payable after the Effective Date from proceeds of the sale of the collateral securing the claim according to the schedule attached to the Plan as **Exhibit 1** and continuing until the claim is paid in full.

b. Provided that the sale of the Hamlets residential property to Ryland Homes has closed before the Distribution Date and the real estate taxes on the Maple Grove Property have been paid from the proceeds of that sale, an extraordinary payment of \$1 million from the Investor Loan will be made on the Distribution Date.

c. The collateral securing the Class 2 claim will be sold in the ordinary course of the Debtor's business and the proceeds of sale will be used in substantial part to make principal and interest payments on the Class 2 claim on the schedule attached to the Plan as **Exhibit 1**. At the closing of each sale of that collateral, and provided that each payment is made at that closing to the holder of the Class 2 claim as provided in the Plan, the holder of the Class 2 claim shall provide a satisfaction of the mortgage or mortgages on that piece of collateral.

d. To the extent not earmarked for payment of the Class 2 claim, the proceeds of sale of the collateral securing that claim will be used to pay the Debtor's

operating expenses and expenses associated with the sale of the collateral, and to pay interest on the Investor Loan.

e. Default: Notwithstanding the terms of the loan documents, events of default shall be limited to failure of the Debtor to make a payment of principal or interest by the dates on the schedule attached to the Plan as **Exhibit 1** or take other actions as provided under this Plan. Remedies on Default: The holder of the Class 2 claim may, upon ten (10) days written notice to the Debtor, accelerate the unpaid balance of the claim payable under the Plan and exercise its remedies under the loan documents without further notice.

f. Upon payment of the Class 2 claim in full, the holder of the Class 2 claim shall provide a satisfaction of the mortgage or mortgages on the collateral securing that claim.

5.6. Class 3 – Secured Claim of the Estate of Wallace Hustad. Class 3 consists of a Secured Claim of the Estate of Wallace Hustad in the amount of \$780,000 secured by a contract for deed on the Montana Ranch in the nominal sum of \$1 million, but having a value of \$780,000.

Treatment. The Class 3 claim will continue to be secured by the collateral which presently secures that claim. In full satisfaction of the Class 3 claim, the holder will receive monthly payments of principal and interest in the sum of \$7,562 commencing on the Distribution Date and continuing until the claim is paid or the collateral securing that claim is sold. Such payments will be made directly to Valley Bank, the holder of the first mortgage on the collateral.

5.7. Class 4 – Secured Claim of the Hennepin County Treasurer. Class 4 consists of a Secured Claim of the Hennepin County Treasurer for real estate taxes on Bluff Country Village in the amount of \$221,522.06 and real estate taxes on Schommer in the amount of \$28,997.12.

Treatment. The Class 4 claim will continue to be secured by the collateral which presently secures that claim. In full satisfaction of the Class 4 claim, the holder will receive the full amount of its claim secured by a particular parcel of real property at the closing of the sale of that parcel.

5.8. Class 5 – Secured Claim of the Hennepin County Treasurer. Class 5 consists of a Secured Claim of the Hennepin County Treasurer for real estate taxes on the Maple Grove Development in the amount of \$828,513.22.

Treatment. The Class 5 claim will continue to be secured by the collateral which presently secures that claim. In full satisfaction of the Class 5 claim, the holder will receive the full amount of its claim secured by a particular parcel of real property at the closing of the sale of that parcel.

5.9. Class 6 – Secured Claim of Central Bank. Class 6 consists of a Secured Claim of Central Bank in the amount of \$481,715 secured by a first mortgage on the Schommer Property having a value of \$1.2 million.

Treatment. The Class 6 claim will continue to be secured by the collateral which presently secures that claim. In full satisfaction of the Class 6 claim, the holder will receive:

a. monthly payments of principal and interest, at the annual rate of 5%, commencing on the Distribution Date. The payments will total \$3,319.68 per month.

b. Default: Notwithstanding the terms of the loan documents, events of default shall be limited to failure of the Debtor to make a timely payment under the Plan. Remedies on Default: The holder of the Class 6 claim may, upon ten (10) days written notice to the Debtor, accelerate the unpaid balance of the claim and exercise its remedies under the loan documents without further notice.

5.10. Class 7 – Unsecured Non-Insider Claims. Class 7 consists of general unsecured creditors who are not Insiders, which are estimated to total \$290,251.34.

Treatment. In full satisfaction of its claim, each holder of a Class 7 claim shall receive a payment, up to the full amount of its claim without interest, on the Distribution Date from the proceeds of the Investor Loan.

5.11. Class 8 – Unsecured Insider Claims. Class 8 consists of general unsecured creditors who are Insiders, which are estimated to total \$5,911,295.36 after accounting for set offs of claims of the Debtor against those Insiders.

Treatment. Payment of these claims is subordinated to the Class 2 and Class 7 claims and will be deferred until the claims in those classes are paid in full.

5.12. Class 9 – Interests in any of the named Debtors without accounting for substantive consolidation.

Treatment. The class 9 interests will remain in place and unaffected by this Plan.

VI. ALTERNATIVES TO THE PLAN

The only meaningful alternative to the Plan is a conversion to a chapter 7 liquidation under the Bankruptcy Code. Attached as **Exhibit F** is Debtors' liquidation analysis of the treatment of their creditors in a Chapter 7 case. The treatment provided by the Plan is substantially better for all creditors.

As shown by **Exhibit F**, there would be little in the way of preference recoveries in liquidation. Moreover, those recoveries are not available to supplement creditor payments under the Plan. In general, the Debtors were paying their bills as they came due before the cases were

filed. Thus, little in the way of antecedent debt was paid during the preference periods. No payments of significance were made to Insiders.

VII. TAX CONSEQUENCES

The Debtors are not qualified to advise creditors of the specific respective tax impact on each of them as a result of treatment provided in the Plan and therefore make no representation as to that. The Debtors are not expected to suffer adverse tax consequences as a result of the Plan. The Debtors have incurred tax losses in past years which are expected to carry forward to reduce any taxes payable after confirmation. The projections attached to this Disclosure Statement account for any taxes payable.

In accordance with the Plan, holders of general unsecured claims will receive a distribution on such claims. Any holder of a general unsecured claim will realize a loss in an amount equal to such claim, minus any recovery, on an adjusted tax basis. However, since the Plan provides for full payment of claims, no such effect is expected in this case.

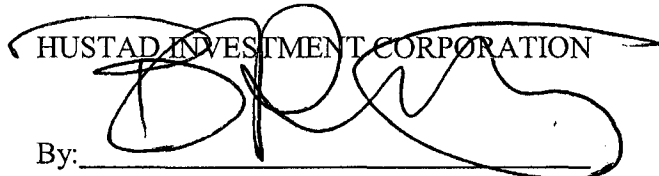
The tax consequences to holders of general unsecured claims will differ and will depend on factors specific to such holder, including but not limited to: (i) whether the claim, or a portion thereof, constitutes a claim for interest or principal; (ii) the origin of the claim; (iii) the type of consideration received in exchange for the claim; (iv) whether the holder is a United States person or a foreign person for tax purposes; (v) whether the holder reports income on the accrual or cash basis method; and (vi) whether the holder has taken a bad debt deduction or otherwise recognized a loss with respect to the claim.

THERE ARE MANY FACTORS THAT WILL DETERMINE THE TAX CONSEQUENCE TO EACH HOLDER OF A GENERAL UNSECURED CLAIM. FURTHERMORE, THE TAX CONSEQUENCES OF THE PLAN ARE COMPLEX AND, IN SOME CASES, UNCERTAIN. THEREFORE, IT IS IMPORTANT THAT EACH HOLDER OF A GENERAL UNSECURED CLAIM OBTAIN HIS, HER, OR ITS OWN PROFESSIONAL TAX ADVICE REGARDING THE TAX CONSEQUENCES TO SUCH HOLDER OF A GENERAL UNSECURED CLAIM AS A RESULT OF THE PLAN.

VIII. CONCLUSION

It is important that creditors exercise their rights to vote for the acceptance or rejection of the Plan. The Debtors request that each holder of a Claim in each class complete the ballot and vote to accept the proposed Plan.

Dated: July 29, 2013

HUSTAD INVESTMENT CORPORATION

By: _____
Elisabeth R. Hustad
Its: President & CEO

Dated: July 29, 2013

HUSTAD REAL ESTATE COMPANY

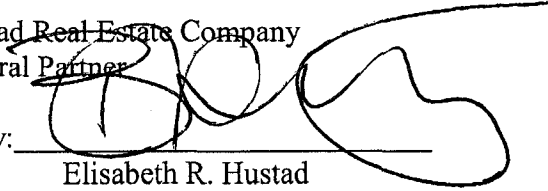
By: 

Elisabeth R. Hustad

Its: President & CEO

Dated: July 29, 2013

HUSTAD INVESTMENTS, LP

By: ~~Hustad Real Estate Company~~ 

Its: ~~General Partner~~

By: 

Elisabeth R. Hustad

Its: President & CEO

Dated: July 29, 2013

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