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7
8 **UNITED STATES BANKRUPTCY COURT**
9 **EASTERN DISTRICT OF CALIFORNIA**
10 **SACRAMENTO DIVISION**

11
12 **In re:**

13
14 **MBD, Inc.,**

15
16 **Debtor**

Case No. 08-34347

D.C. No. WCL-18

CHAPTER 11

**DISCLOSURE STATEMENT FOR
DEBTOR'S AMENDED CHAPTER 11 PLAN
DATED AS OF SEPTEMBER 23, 2009**

Date:

Time:

Courtroom: Room 28, 7th Floor

Location: Robert T. Matsui U.S. Courthouse
501 "I" Street

Sacramento, California

Judge: Honorable Michael McManus
Department A

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21 MBD, Inc. ("MBD" or the "Debtor"), the debtor and debtor in possession in this case under
22 Chapter 11 of the U.S. Bankruptcy Code, has proposed its plan for reorganization of its financial
23 affairs ("Plan"). A copy of the Plan is being sent to you along with this Disclosure Statement.
24 This Disclosure Statement only summarizes the Plan. You should read the Plan carefully and
25 make sure you understand its terms. If any statement in this Disclosure Statement conflicts with
26 the Plan, the terms of the Plan control.

**DISCLOSURE STATEMENT FOR DEBTOR'S AMENDED
CHAPTER 11 PLAN DATED AS OF SEPTEMBER 23, 2009**

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EXHIBIT A – Summary of Financial Projections

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1. INTRODUCTION

Starting in early 2007, MBD began experiencing the same downturn in real estate sales and prices as has been experienced by all of the nation's real estate developers. It was also faced with ever-tightening lender relationships as financial and regulatory pressures were placed on the banks for whom MBD relied for support. Finally, its primary lender initiated foreclosure proceedings on MBD's largest development project and MBD determined that it had to seek protection to prevent the loss of value that foreclosure would have represented.

Accordingly, MBD began this case under Chapter 11 of the Bankruptcy Code on October 6, 2008, in order to give itself breathing room to develop a method for resolving its financial difficulties. The method developed by MBD is embodied in the Plan. The Plan represents MBD's new contract with its creditors, and MBD believes that it is a workable proposal through which it should be able to pay all of its legitimate obligations, although over a longer time period than MBD originally agreed with many of its creditors.

Most of you who are receiving this Disclosure Statement are being asked to vote whether to accept the Plan. The purpose of this Disclosure Statement is to provide you sufficient background information to allow you to make an informed decision whether to accept the Plan. We hope that you will find that acceptance of the Plan is the best choice to make under these difficult circumstances.

This Disclosure Statement contains all of the information that MBD believes you need to make an informed decision. Nevertheless, you are free to consider any information known to you even if it is not in this Disclosure Statement, and you may ask questions and request additional information from MBD personnel or any other person.

1 (“NCNB”) and three lots that were refinanced by Tri Counties Bank. All but one of those lots
2 have been sold during this case.

3 Also, due to an agreement reached with Umpqua Bank on lot release prices for the
4 Belvedere lots, MBD has built one more house in the subdivision and sold it in September 2009.
5 MBD has also contracted to pre-sell two more houses once they are fully constructed. One is
6 scheduled to close in October 2009, and one in November 2009.

7 **2.2 General Structure of the Plan**

8 MBD intends to meet its obligations under the Plan by continuing its development of the
9 Belvedere Heights Subdivision. The company will also continue managing the La Dolce Piazza
10 office/retail buildings. In order to concentrate its resources during the current economic climate,
11 MBD has agreed with Umpqua Bank to transfer the other properties (Fleetwood, Montebello and
12 Cielo Vista) to the bank in satisfaction of its claims secured by those properties.

13 MBD has a proven track record of successful development in the local Chico area, and of
14 building homes that readily attract buyers. Despite its record, MBD recognizes that the next year
15 (or maybe more) will remain uncertain. However, given its history and recent sales successes,
16 MBD considers it to be realistic to expect that, once the current unprecedented upheaval in the
17 credit and housing markets stabilizes, the combination of (a) Chico’s attractiveness to the
18 growing elder population, (b) lack of overbuilding and the absorption history in the Chico area,
19 and (c) MBD’s track record will allow MBD to successfully resume operations at or near its
20 former levels. See “Feasibility of the Plan” below. Through construction and sale of homes in
21 Belvedere Heights, along with rental of units in the La Dolce Piazza complex, MBD intends to
22 pay all its creditors in full over time.²

23
24 ² MBD may undertake new development projects or take on construction projects for other landowners in its
25 capacity as a licensed general contractor. These would generate additional sources of working capital that could
26 be used to pay claims. However, MBD is not relying on any other projects in expecting to meet its obligations
under the Plan.

1 MBD recognizes that its overall chances for success will depend on improvement over
2 time in the broader economic situation in the Chico area. In order to balance the sharing of risk
3 between MBD and its secured lenders, the Plan sets certain income milestones for its two
4 projects. If MBD does not meet the Plan's milestones for a property, MBD must either pay off
5 the loan securing that property or surrender it to the applicable lender. See §§4.1(a) and (c)
6 below.

7 **2.3 Treatment of Classified Claims under the Plan**

8 Generally speaking, the Plan divides MBD's creditors into various classes and specifies
9 how the creditors in each of the classes are to be paid after confirmation of the Plan by the
10 Bankruptcy Court. These include classes of secured claims and unsecured claims, and a class
11 representing the equity ownership of the Company. The classes are listed in the following table
12 and the Plan's treatment of the claims in each class is described in the paragraphs after the table:

| 13 | <u>Class</u> | <u>Holder</u> | <u>Description of Claims</u> |
|----|--------------|-------------------|--|
| 14 | A-1 | Tri Counties Bank | Loan for 3211 Cohasset commercial building |
| 15 | A-2 | Tri Counties Bank | Loan for 3221 Cohasset commercial building |
| 16 | A-3 | Tri Counties Bank | Belvedere Lot 57 |
| 17 | A-4 | Umpqua Bank | Infrastructure construction loan for Belvedere Heights Subdivision |
| 18 | A-5 | Umpqua Bank | Acquisition and construction loans for Fleetwood office condominiums |
| 19 | A-6 | Umpqua Bank | Acquisition loan for Montebello Estates |
| 20 | A-7 | Umpqua Bank | Infrastructure construction loan for Cielo Vista Estates development |
| 21 | A-8 | AICCO, Inc. | Insurance premium financing |
| 22 | A-9 | Butte County | Secured property taxes on Belvedere and the La Dolce buildings |
| 23 | | | |
| 24 | | | |
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1 Andrew Meghdadi, his wife, several of his family members and certain local investors
2 guaranteed the loans to MBD from Umpqua Bank. Some of these guarantors and others are
3 partners with MBD in one or another of the projects financed by Umpqua Bank. In connection
4 with the Plan, Umpqua Bank has agreed to release all of Mr. Meghdadi's family members and
5 the other investors from their guarantees if they, in turn, sign releases in favor of the bank. The
6 bank has also agreed to release Mr. Meghdadi and his wife from their guaranties as to the
7 properties being transferred to the bank on the same condition. The guaranties issued by
8 Mr. Meghadi, his wife, and his family trust with regard to the Belvedere Loan will remain in full
9 force and effect.

10 In addition, the partnership agreements relating to the properties to be transferred to
11 Umpqua Bank will be rejected (terminated) under the Plan; the Plan provides for the parties and
12 MBD to enter into mutual releases as to any claims relating to the projects. These releases,
13 however, will not include release of certain loans made directly to MBD by certain of the
14 partners. See §2.3(d) below (General Unsecured Claims). Please note that the release by MBD
15 of any of its claims against the partners is conditioned on their granting mutual releases to MBD
16 and its managers. While MBD believes that the guarantors/partners will agree to enter into these
17 releases, they have not yet agreed and there is no assurance that the releases will be agreed upon.
18 If any of the guarantors or partners refuse to grant the proposed releases, they may assert claims
19 against MBD in amounts that MBD cannot predict at this time. If they do assert such claims,
20 they will be added to Class B-1 (unsecured trade claims).

21 Tri Counties Bank

22 The Tri Counties Bank loans on the La Dolce properties were originally long term loans
23 maturing in 2032. The Plan restructures those loans as follows:

24
25 rate of four percent (4%).
26

1 (a) They will bear interest at six percent (6%) per annum for the first year and
2 seven and one fourth percent (7¼%) thereafter. MBD will make level monthly payments based
3 on a 25 year amortization, with the loans being due in six (6) years.

4 Finally, the Plan provides for MBD to pay interest only at six percent (6%) on the claim
5 of Tri Counties Bank secured by Lot 57 and the home constructed on it. Principal is to be paid
6 from the sale of the property. The claim will be fully due and payable on August 31, 2010, or on
7 sale of Lot 57 if earlier.

8 **(b) Insurance Financing – AICCO (Class A-8)**

9 During this case, MBD financed its current year's property and liability insurance
10 through AICCO, Inc. The AICCO claim is categorized in Class A-8 under the Plan. The Plan
11 does not change the terms of the financing agreements with AICCO, and MBD will continue to
12 make the remaining payments in accordance with the financing agreement.

13 **(c) Property Tax Claims (Classes A-9 – A-11)**

14 Each of the Company's projects is encumbered by real property tax claims for the
15 2008-2009 tax year which are either wholly or partially unpaid. These claims are categorized in
16 Classes A-9 through A-11 under the Plan.

17 Retained Properties. Class A-9 includes the 2008-2009 taxes for Belvedere Heights and
18 La Dolce Piazza, the two properties being retained by the Debtor under the Plan. Both of these
19 properties are located in Butte County. MBD is to make quarterly payments on these claims for
20 three years after the Effective Date. The payments are to be applied to the principal amount of
21 those claims, then to interest at the rate provided by the state tax law. Notwithstanding that
22 payment schedule, the taxes on any particular parcel are to be paid in full on sale of that parcel.

23 Transferred Properties. Classes A-10 (Butte County) and A-11 (Tehama County) consist
24 of the claims for taxes on the three properties to be transferred to Umpqua Bank under the Plan,
25
26

1 Fleetwood, Montebello and Cielo Vista. Those claims will be assumed by Umpqua Bank (or its
2 nominee, if any), who will become responsible for the taxes and any related interest.

3 **(d) General Unsecured Creditors**

4 MBD owes approximately \$1,580,000 to unsecured creditors. Of that debt, \$1,260,000
5 resulted from funds loaned to MBD by family of MBD's president Andrew Meghdadi and local
6 businessmen in the Chico area who loaned money to MBD for various projects. The remaining
7 \$256,000 is owed to subcontractors, construction suppliers and other trade creditors. It is
8 important to MBD to pay all these creditors in full. Therefore, the Plan provides for all
9 unsecured claims to be paid in full, with interest at five percent per annum (5%).

10 However, MBD will need time to generate the funds to start paying its unsecured
11 creditors, because most of the company's funds in the first year or two will be needed to
12 construct houses and pay secured creditors. Also, the uncertainty in the economy makes it hard
13 for MBD to commit to fixed payments to its unsecured creditors.

14 Accordingly, the Plan provides for general unsecured creditors to be paid through
15 quarterly payments starting in October 2010. In other words, the Plan provides MBD a one year
16 moratorium on payments to unsecured creditors. Once they begin, payments will equal fifty
17 percent of MBD's Net Operating Cash Flow for each calendar quarter preceding the payment
18 date in which MBD generates a positive cash flow.

19 The Plan also provides that payment will be made, first to the unsecured trade creditors
20 (Class B-1 under the Plan), then once all trade creditors are paid in full, payments will begin on
21 the same schedule to the unsecured Lenders (Class B-2) under the Plan.

22 **2.4 Administrative Claims**

23 **(a) Description and Treatment of Administrative Claims**

24 In addition to the claims classified under the Plan, on the Effective Date, MBD will be
25 obligated to pay any unpaid expenses incurred during the Chapter 11 case. These will consist,
26

1 for the most part, of payments to the professionals who assisted MBD during the case. Those
2 professionals include (a) the Law Offices of William C. Lewis, bankruptcy counsel, (b) William
3 Ward, Esq., litigation and business counsel, and (c) Evans Appraisal Service, Inc., real property
4 appraiser. In light of the fact that the largest portion of the professional fees was deposited as a
5 retainer prior to commencement of this case, MBD estimates that these amounts will not be
6 material.

7 **(b) Deadline for Asserting Administrative Claims**

8 The Plan requires any party who asserts an administrative claim to file a request for
9 payment of the claim with the Bankruptcy Court and serve it on MBD within sixty (60) days
10 after the Confirmation Notice is mailed to creditors.

11 **ANY PARTY WHO MISSES THAT DEADLINE WILL NOT BE ENTITLED TO**
12 **PAYMENT OF ANY ADMINISTRATIVE CLAIMS, REGARDLESS OF**
WHETHER IT IS OTHERWISE MERITORIOUS.

13 **2.5 Post-confirmation Injunction**

14 Mr. Meghdadi, MBD's President, guaranteed loans to the Company from both Umpqua
15 Bank and Tri Counties Bank. In order to enhance Mr. Meghdadi's ability to concentrate on
16 rebuilding the Company business and generating the funds to pay the restructured claims, the
17 Plan provides for an injunction restricting either bank from pursuing enforcement of the
18 guaranties as long as MBD is meeting its obligations under the Plan.

19 **2.6 Other Provisions**

20 The Plan also contains various provisions for its implementation, which should be self
21 explanatory. *See*, for example, Article 7 below.

22 **3. KEY DECISION FACTORS**

23 MBD believes that there are three key factors that bear on your decision whether to
24 accept the Plan. They are whether:

- 25
 - The Plan is fair and equitable in how it treats any particular claim;
- 26

- The Plan is feasible; i.e. whether MBD can meet the obligations established in the Plan; and
- Whether the Plan provides creditors with a better recovery than a liquidation of the company under Chapter 7 of the Bankruptcy Code.

Each of these factors will be discussed in the remaining sections of this Disclosure Statement.

4. FAIRNESS OF THE PLAN

This section will explain why MBD believes that the Plan is fair and equitable to each class of creditors which is “impaired” under the Plan.⁴ The following classes are impaired under the Plan:

| <u>Class</u> | <u>Holder</u> | <u>Description of Claims</u> |
|--------------|-------------------|--|
| A-1 | Tri Counties Bank | Loan for 3211 Cohasset commercial building |
| A-2 | Tri Counties Bank | Loan for 3221 Cohasset commercial building |
| A-3 | Tri Counties Bank | Construction loan – Belvedere Lot 57 |
| A-4 | Umpqua Bank | Infrastructure construction loan for Belvedere Heights Subdivision |
| A-5 | Umpqua Bank | Acquisition and construction loans for Fleetwood office condominiums |
| A-6 | Umpqua Bank | Acquisition loan for Montebello Estates |
| A-7 | Umpqua Bank | Infrastructure construction loan for Cielo Vista Estates development |
| A-9 | Butte County | Secured property taxes on Belvedere and the Cohasset buildings |

⁴ “Impairment” is a term of art used in the Bankruptcy Code. A class is impaired if the Plan alters any of its legal, equitable or contractual rights. Only creditors in impaired classes are called upon to vote on the Plan. Creditors in unimpaired classes are conclusively presumed to have accepted the Plan.

1 B-1 Unsecured Trade Creditors

2 B-2 Unsecured Lenders

3 **4.1 Secured Claims**

4 Under the Bankruptcy Code, a Plan is considered fair and equitable to the holder of a
5 secured claim if the Plan provides for the holder to retain its lien on the collateral securing its
6 claim (to the extent of the allowed amount of the claim) and receive either (a) deferred cash
7 payments totaling at least the allowed amount of the claim, with the payments having a present
8 value equal to at least the value of the collateral or (b) the indubitable equivalent of its claim.

9 A plan may also provide for sale of the collateral, with the lien attaching to the sale proceeds as
10 long as the creditor still receives either (a) or (b) under the plan.

11 Determining whether “deferred cash payments” proposed under the Plan are sufficient to
12 meet the above standard is a three step process:

- 13 1. The Allowed Amount of a secured claim is determined as of the Effective Date of the
14 Plan. Under the Bankruptcy Code, that amount is the lesser of (a) the total of unpaid
15 principal, interest and costs or (b) the value of the lender’s collateral on the Effective
16 Date.
- 17 2. A “market rate” of interest, as in effect on the Effective Date, is calculated to compensate
18 the creditor for the delay in payment of its claim following confirmation of the plan. The
19 courts use a formula approach to determining the appropriate interest rate. An initial,
20 non-risk rate is used as the base; generally the Wall Street Journal’s “prime rate.” Then a
21 risk premium is added to the rate if appropriate.
- 22 3. The stream of payments proposed under the Plan is discounted back to the Effective Date,
23 using that market rate of interest, to calculate the net present value of the payments.

24 If the calculated net present value equals the Allowed Amount of the claim, the deferred
25 payments are sufficient to be considered fair and equitable to the creditor. On this basis, the Plan
26 is fair to each class for the following reasons:

(a) Classes A-1 and A-2 (Tri Counties Bank – 3211 and 3221 Cohasset)

These two loans are being treated the same under the Plan. Therefore, applying the above
three step analysis to these classes demonstrates that the Plan is fair and equitable to Tri Counties
as to these loans:

1 (i) Claim Amounts. The estimated balance of the loan secured by 3211
2 Cohasset is expected to be approximately \$719,000 on the Effective Date, and MBD values that
3 property at approximately \$1,800,000. MBD estimates that the balance of the 3221 Cohasset
4 loan on the Effective Date will be about \$860,000, and its value is approximately \$1,650,000.
5 Therefore, since the values of the properties exceed the amounts of the loans, the Allowed
6 Amounts for purposes of the fairness test are the loan balances on the Effective Date.

7 (ii) Interest Rate. The Plan provides for Tri Counties Bank to receive interest
8 starting at 6% for the first year and 7¼% thereafter. With interest rates currently at record or
9 near-record lows, this rate is clearly within the range of market rates.

10 (iii) Present Value of Payment Stream. The Plan provides for Tri Counties
11 Bank to receive level monthly payments of principal and interest based on a 25 year
12 amortization, and the remaining balance will be due in six years. Thus, Tri Counties will be
13 entitled to receive the full present value of its claims, satisfying the final test.

14 **(b) Class A-3 (Tri Counties Bank – Lot 57)**

15 This claim is for \$315,000, and MBD is offering the home for sale at \$429,000.
16 Therefore, the loan is fully secured and the loan amount is the proper Allowed Amount of the
17 claim. As noted above, the 6% interest rate is within the current market range, and it is to be paid
18 monthly.

19 The entire principal and interest on the claim is payable at the earlier of sale of the home
20 or on August 31, 2010, thus providing a payment stream that is fair to the bank.

21 **(c) Class A-4 (Umpqua Bank – Belvedere Loan)**

22 The circumstances of the Belvedere loan are somewhat more complex than those just
23 described for Tri Counties Bank. Nevertheless, the Plan's treatment of this claim is fair and
24 equitable to Umpqua Bank under the above three step analysis.

1 (i) Claim Amount. As stated above, the Allowed Amount of a secured claim
2 is the lesser of the amount due under the Debtor's loan agreements or the value of the collateral
3 securing the loan. As of the Effective Date, if all interest and charges incurred during this case
4 were included, the amount of the Belvedere Loan claim would be over \$11,000,000. However,
5 several appraisals have been performed on the property for both MBD and Umpqua Bank, which
6 each had a different value. As a result, MBD and the bank have agreed to fix an amount of its
7 Allowed Claim at the principal amount of the loan, or approximately \$10,140,000. This amount
8 is within the range of the various appraisals.

9 (ii) Interest Rate. The Plan provides for the Belvedere Loan claim to bear a
10 variable interest rate at the Prime Rate. It also provides that the rate will not exceed eight percent
11 (8%) per annum and, after the first year, the minimum rate will be four percent (4%). As
12 discussed above, given the low rates of interest in the current market and the variable rate feature,
13 this rate is within the range of market rates.

14 (iii) Payment Stream. First of all, the Plan provides for MBD to pay a "Release
15 Price" to Umpqua Bank each time it sells or refinances a lot in Phase I of the Belvedere Heights
16 Subdivision. The Plan contains certain "Milestone Dates" by which the claim must be reduced to
17 specified levels. If a Milestone paydown level is missed, the claim becomes fully due and
18 Umpqua may foreclose on the property without further orders from the Bankruptcy Court. If
19 MBD succeeds in making the payments required for each milestone, the claim will be fully due
20 in September 2012. In either case, the Plan provides for full payment of the claim, with market
21 interest, thereby satisfying the requirement for fair treatment of the claim.

22 **(d) Classes A-5, A-6 and A-7 (Umpqua Bank – Other Claims)**

23 The Plan provides for MBD to transfer the properties securing its other three loans from
24 Umpqua Bank to the bank in satisfaction of those claims. Since the estimated values of the
25
26

1 properties exceeds the amounts of those claims, transfer of the properties provides Umpqua with
2 the “indubitable equivalent” of its claims and is, therefore, fair and equitable.

3 **(e) Class A-9 (Butte County – Retained Properties)**

4 Class A-9 includes the tax claims held by Butte County secured by senior tax liens on the
5 Belvedere Heights Subdivision and the La Dolce Piazza buildings. The Plan contains provisions
6 for deferred payments on those claims. The Bankruptcy Code contains rules specifying certain
7 requirements for treating secured tax claims in addition to those for other secured claims. The
8 treatment of these claims under the Plan (described above) complies with these specific rules.
9 Most importantly for this analysis, the interest rate under the Plan is the rate required by the state
10 tax law, and the Plan requires both full payment and payment terms more favorable to the county
11 than the terms for unsecured creditors. Therefore, the Plan is fair and equitable as to Butte
12 County’s claims in Class A-9.

13 **4.2 Unsecured Claims (Classes B-1 and B-2)**

14 The Bankruptcy Code requires a plan to pay unsecured creditors the full amounts of their
15 Allowed Claims, with interest at a market rate, unless all junior interests are cancelled. The Plan
16 so provides. The exact duration of the payments necessary to pay these claims in full is not
17 certain under the Plan because the Plan bases payments on the company’s future cash flow.
18 Nevertheless, the Plan does require the claims to be paid in full, and they bear a reasonable
19 interest rate (5% per annum) to compensate the creditors for the delay in payment.

20 **5. FEASIBILITY OF THE PLAN**

21 **5.1 Summary**

22 The previous section explains MBD’s proposal for payment of its creditors and the
23 reasons those payment methods are fair and should be accepted. Of course, no proposal is
24 meaningful unless there is a reasonable likelihood that it can be fulfilled. This section of this
25
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1 Disclosure Statement explains why MBD should be able to meet the payment obligations
2 established by the Plan.

3 MBD's ability to pay its debts under the Plan will depend on its ability to build and sell
4 houses (or sell lots) in its Belvedere Heights Subdivision, its ability to rent units in the La Dolce
5 Piazza buildings, and on its ability to generate additional sources of revenue. As discussed
6 above, MBD has a long track record of success in doing so and, in ordinary times, there would be
7 little question. See "Background" above.

8 But as we all know, these are far from ordinary times. The country has experienced one
9 of the worst economic downturns in its history. Also, two areas of the economy hit the hardest
10 by recent events are two on which MBD's success depends: the banking system and the housing
11 market. Currently, no one can predict with certainty when or how the market will improve.
12 However, based on several factors, MBD projects that the Chico housing market will recover
13 within the next two years, at the latest. These factors may be summarized as follows:

14 Federal Government Intervention. Unlike in earlier downturns, the federal government is
15 taking extraordinary steps to shore up the banking system and stabilize the housing market.
16 MBD acknowledges that the value and effect of this intervention will remain unanswerable for
17 the next several months. However, there are already some signs of positive effects. The Census
18 Bureau reported that new home sales in February 2009 were about 4½% higher than the previous
19 month (though its report apparently had a large margin for error), and many banks just reported
20 improved financial performance in their most recent fiscal quarters.

21 Chico Area Characteristics. The Chico area has been slightly insulated from the major
22 swings in house values over the last several years. House prices certainly have dropped in the
23 area but, unlike metropolitan areas like Sacramento, Los Angeles and the Bay Area, Chico did
24 not become overbuilt in the run-up to the recent real estate downturn. This somewhat insulated
25 home sellers in Chico from the economic chaos in other regions.

1 Another benefit for Chico home sellers is the so-called “green line” drawn around the city
2 by the Chico city government, whereby development in the more rural and environmentally
3 sensitive areas outside the line was seriously restricted. Accordingly, approved developments
4 inside the line (such as Belvedere Heights) are much more valuable in the Chico area than similar
5 developments in areas where there are not geographic restrictions on further development.

6 Demographics and geography also support Chico’s ability to rebound early in response to
7 any economic improvement. The Chico population is continuing to grow, even in this
8 environment. Further, its job base is not centered in industries that depend on lending and large
9 capital infusions for their stability. The Chico area is highly attractive for older members of our
10 country’s aging population. Chico is known for the presence of quality health care, clean air and
11 a wide variety of accessible retail services. Outdoor recreation opportunities in the area are
12 extensive. With its affordable cost of living, it offers an excellent lifestyle for retired persons and
13 individuals who are part of the expanding virtual economy where employment is not tied to a
14 particular physical location.

15 Even now, signs of stabilization are appearing. At a minimum, it appears that property
16 values have nearly bottomed in the Chico area. More importantly, Chico does not have the level
17 of unsold inventory that plagues many other areas. Therefore, it is quite realistic to expect that,
18 as the market starts to stabilize and improve, Chico home sales and commercial activity will
19 respond more rapidly than other areas.

20 Further, anecdotal evidence shows that home sales overall are accelerating in the Chico
21 area, even though prices remain depressed and a large part is still in sales of foreclosed homes.
22 This evidence shows the existence of demand and, as the inventory of foreclosed homes is
23 consumed, that demand will turn to non-foreclosed and newly constructed homes.

24 MBD’s Performance. Finally, MBD’s own history points to the raw material for success.
25 For example, the Plan’s treatment of the Belvedere Loan from Umpqua Bank is based on
26

1 projections (discussed more fully below) of fourteen home sales in the first year after the
2 Effective Date. In the eleven months since the commencement of this case, MBD has sold six
3 houses. In the two months leading to the date of this Disclosure Statement, MBD has sold or
4 placed two homes in escrow. To meet its projection for the first, and hardest, year, MBD will
5 only have to maintain its current pace.

6 The following portions of this section will explain MBD's specific projections for
7 generating the payments to its various creditor classes. MBD recognizes that nothing is certain in
8 the current environment. However, you need not be certain that the Plan will succeed to support
9 it. MBD asks you to consider only whether it is more likely than not that the Plan can succeed –
10 and ask yourself whether acceptance of the Plan is better than the alternative. *See* "Comparison
11 to Liquidation" below.

12 **5.2 Belvedere Heights**

13 MBD's largest project, the Belvedere Heights subdivision, consists of two separate
14 phases. In Phase I, all streets, sewers, lights, and other "off-site" improvements were completed
15 in May, 2008. That phase developed with 100 home sites. MBD has built homes on 21 of the
16 100 sites, and it has ready-to-build sites remaining for 79 more homes. Phase II is approved for
17 93 home sites. It has about 20% of its offsite improvements completed, and MBD intends to
18 resume work on Phase II after it completes construction of homes on Phase I, if not sooner.

19 MBD projects that it will complete the 79 homes in Phase I within four years. While all
20 projections are subject to variance, depending on future conditions, MBD projects finishing and
21 selling twelve homes in the first year of the Plan (i.e. through fall of 2010), eighteen in year two,
22 twenty-four in the third year, and two more by the time the Belvedere Loan becomes due in
23 September 2012.

1 Although not reflected in the projections in this Disclosure Statement, MBD does believe
2 that prices will improve after the first two years, such that its profit outlook could be better than
3 projected in this Disclosure Statement.

4 As each homesite is sold or refinanced, the Release Price for the lot will be paid to
5 Umpqua Bank in exchange for release of title to that lot. MBD will build the homes as general
6 contractor. The Release Prices are designed so that the bank's claim will be reduced to
7 approximately \$4,800,000 by the time it becomes due on September 2012. MBD intends, then,
8 to refinance Phase II to pay that remaining balance of the Belvedere Loan. Given that the new
9 lender would have a sufficient equity cushion, MBD projects that it should be able to obtain such
10 refinancing, assuming that market and lending conditions have improved by December 2012.

11 Besides using the Release Price payments to retire the debt to Umpqua Bank, MBD will
12 use its profits as general contractor and developer on the home construction to fund its operations
13 and payments to unsecured creditors.

14 In addition to obtaining a loan to refinance the Umpqua Bank claim on Belvedere
15 Heights, MBD projects that it will be able to obtain a loan of approximately \$3,000,000 secured
16 by the Phase II property to finish the infrastructure improvements for Phase II and separate
17 construction loans for each home to be built thereto, as it did with Phase I. With that financing,
18 MBD should be able to complete development of Phase II, generate cash flow to repay any
19 remaining unsecured claims and yield a reasonable profit for the company.

20 **5.3 La Dolce Piazza Buildings**

21 MBD's office complex, La Dolce Piazza, consists of two buildings, 3211 Cohasset and
22 3221 Cohasset, in Chico. The 3211 building consists of five retail or office suites and the 3221
23 building consists of four such units. Four of the units in 3211 are leased, and one is occupied by
24 MBD. Three are leased in 3221, and one is vacant. The vacant unit was previously a pizza
25
26

1 parlor and was quite large. MBD has developed plans to divide the space into two offices and
2 expects that such division will permit MBD to lease the remaining space.

3 Currently, total rents and other income from the 3211 Cohasset building is approximately
4 \$9,850 per month, and income from the 3221 Cohasset building is approximately \$9,100 per
5 month. If the current leases (or comparable leases) continue, they would provide sufficient Net
6 Cash Flow (after operating expenses) to operate the properties and make the loan payments to Tri
7 Counties Bank. Further, assuming that the lending climate normalizes within the next five years,
8 MBD has sufficient equity in the properties to refinance the loans and pay Tri Counties Bank.

9 **5.4 Overall Operations; Payments on Non-bank Claims**

10 Based on the net cash flow from the Belvedere Heights and La Dolce Piazza properties,
11 MBD projects generating sufficient excess cash flow to pay its overhead and other operating
12 expenses. It expects to also generate sufficient cash flow to make payments of approximately
13 \$155,000 in the 2010-2011 plan year and \$265,000 in the next year on its unsecured claims.
14 Those payments would be sufficient to pay all of the Unsecured Trade Claims by the end of the
15 third year of the Plan. Payments would then start on the Unsecured Lender claims and continue
16 until they are paid in full. *See* the “Summary of Financial Projections” attached hereto as
17 Exhibit A. The projections also include payments on the other secured claims (AICCO and
18 property taxes).

19 **6. COMPARISON TO LIQUIDATION**

20 One might be concerned that the proposed Plan improperly puts the entire risk on the
21 Company’s secured lenders. However, the terms of the Plan were negotiated carefully with the
22 lenders and they have agreed to the terms. In addition, it appears that real estate values have
23 bottomed, or nearly bottomed, in the last few months. Therefore, the lenders whose claims are
24 secured by MBD’s properties will not lose value from waiting to see whether circumstances
25 improve. The Plan contains requirements for MBD to make payments to the applicable lenders
26

1 that will equal or exceed accrued interest, thereby reducing the debts to these lenders or
2 preventing them from increasing.

3 In contrast, if the Plan is not confirmed and the lenders are compelled to foreclose on
4 their collateral properties, MBD will lose several million dollars that it and its owners have
5 dedicated to this business; value that can be increased by further construction in the subdivisions.

6 And \$1,500,000 in unsecured creditors will have no source of recovery on their claims because,
7 once the banks foreclose, there will not be any assets left from which to generate funds for the
8 other creditors.

9 Consider the following table, which sets forth the value each class of creditors is to
10 receive under the Plan versus its estimated recovery if MBD's assets were liquidated under
11 Chapter 7 of the Bankruptcy Code:

| <u>Class</u> | <u>Description</u> | <u>Plan Distributions</u> ⁵ | <u>Liquidation Recovery</u> |
|--------------|------------------------------------|--|-----------------------------|
| A-1 | Tri Counties Bank 3211 Cohasset | \$718,948 | \$718,948 |
| A-2 | Tri Counties Bank 3221 Cohasset | \$860,000 | \$860,000 |
| A-3 | Tri Counties Bank Lot 57 | \$315,000 | \$315,000 |
| A-4 | Umpqua Bank Belvedere Loan | \$10,140,000 | \$7,375,000 ⁶ |
| A-5 | Umpqua Bank Fleetwood Loans | \$4,103,952 | \$4,103,952 |
| A-6 | Umpqua Bank Montebello Loan | \$1,105,000 | \$1,105,000 |
| A-7 | Umpqua Bank Cielo Vista Loan | \$553,427 | \$553,427 |

24 ⁵ Does not include post-Confirmation interest.

25 ⁶ According to Umpqua Bank's appraisal in connection with its motion for relief from the automatic stay filed in
26 December 2008.

| | | | | |
|---|----------------|--|-------------|-----------|
| 1 | A-8 | AICCO, Inc. | 5,665 | 5,665 |
| 2 | A-9 | Property Taxes Retained Properties | \$119,164 | \$119,164 |
| 3 | A-10 & A-11 | Property Taxes Transferred Properties | \$86,409 | \$86,409 |
| 4 | B-1 | Unsecured Trade Claims | \$325,000 | 0 |
| 5 | B-2 | Unsecured Lenders | \$1,260,000 | 0 |
| 6 | | | | |

7 The above table shows some of the secured bank claims being fully paid in liquidation
8 only because the appraised values of the properties subject to those claims are higher than the
9 claim amounts. However, if those creditors were forced to sell these properties at foreclosure in
10 the next few months, there is substantial likelihood that they would not recover the appraised
11 values of those properties and would receive less than the allowed amounts of their claims.

12 MBD projects that the property tax claims will be paid in full, regardless of confirmation
13 of the Plan or liquidation, because those claims hold senior lien positions above even the bank
14 lenders. Therefore, the counties are likely to receive full payment no matter what happens to the
15 properties.

16 MBD projects that no payments would be made on unsecured claims if the Plan were not
17 confirmed and the company were liquidated under Chapter 7 because a Chapter 7 trustee would
18 not have the capacity to continue construction and manage the company's property. Therefore,
19 the most likely result of a Chapter 7 case would be the abandonment of all properties to the
20 secured creditors. As a result, there would be no source for payments to unsecured creditors.

21 MBD believes that this Plan strikes an appropriate balance between protecting its secured
22 lenders against undue loss and granting the Company an opportunity to generate returns to repay
23 its other creditors and resume its position as a leading Chico area developer and employer.

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7. OTHER INFORMATION

7.1 Post-Confirmation Management

Andrew Meghadadi will continue as President of MBD, with full managerial responsibility for its operations. MBD intends, initially, to pay Mr. Meghdadi a salary of \$5,000 per month. Also, Mr. Meghdadi is entitled to a construction management fee equal to 10% of the construction cost each home in Belvedere Heights as it is sold.

7.2 Procedure for Disputed Claims

Under the Bankruptcy Code, any party interested in this Chapter 11 case has the right to object to claims asserted against the estate. The Plan contains detailed provisions for reserving funds payable on claims that become Disputed Claims, treatment of the reserved funds, and payments once the allowability of a Disputed Claim is determined. Generally, the Debtor will hold funds payable on a Disputed Claim in a separate Claims Reserve account until the Claim is or is not Allowed, then distribute the reserved funds shortly after receiving notice of any determination.

7.3 Post-Confirmation Notices

Except for notice of entry of the Confirmation Order, all notices required or permitted to be given to all creditors or other parties in interest pursuant to Rule 2002 of the federal bankruptcy rules will be valid if given only to MBD, the U.S. Trustee, counsel for Umpqua Bank and Tri Counties Bank, any parties who file and serve upon MBD requests for special notice as to matters relating to the Plan, and parties who, after Confirmation, serve upon MBD requests for copies of post-Confirmation notices.

1 **7.4 Retention and Enforcement of Claims by the Estate**

2 **(a) Retention of Claims in General**

3 The Plan provides that the Debtor will retain and may enforce after Confirmation all
4 claims held by it or its estate, including claims arising from the power, under the Bankruptcy
5 Code or otherwise, to avoid and recover transfers.

6 This retention will not apply, however, to any claims released in conjunction with the
7 Plan.

8 **(b) CAUTION TO CREDITORS**

9 The Plan is not intended to release any claims or causes of action the Debtor might hold
10 against third parties, including creditors treated under the Plan. The Debtor's counsel and
11 management have not completed their investigation of potential claims held by the Debtor
12 against third parties. Therefore, the Debtor and the Committee retain the right to assert claims
13 against any creditor or other interested party if they are later determined to exist or be worthy of
14 assertion, even if the claims are not described in the Plan or this Disclosure Statement.

15 Accordingly, all persons asserting claims against the Debtor or its property or interests in
16 its property, or that are subject to claims by the Debtor, **PLEASE TAKE NOTICE THAT** all
17 claims, defenses, powers and interests of the Debtor are hereby reserved for the benefit of the
18 Debtor and its estate for the purpose of objecting to the allowance of claims, subordinating
19 claims, avoiding transfers of property or interests in property, determining the extent, validity, or
20 priority of any lien, and for the purpose of recovering property, damages, or equitable relief and
21 enforcing of any and all claims and rights held by the Debtor as of Confirmation.

22 **7.5 Assumption and Rejection of Executory Contracts**

23 **(a) Contracts Being Assumed or Rejected**

24 Certain agreements entered into by a debtor before commencement of a Chapter 11 case,
25 but not all, are treated as "executory contracts" under the Bankruptcy Code. Very loosely stated,
26

1 a contract is "executory" under the Bankruptcy Code if both parties still have material duties to
2 perform at the commencement of the case.

3 All executory contracts should be either assumed (carried forward) or rejected
4 (terminated) during the bankruptcy case. To fulfill this duty, the Plan provides that all executory
5 contracts to which the Debtor was a party on the Petition Date are rejected, except for those listed
6 in Exhibit A to the Plan.

7 **(b) Deadline for Filing Rejection Claims**

8 If a party believes it has a claim for damages from rejection of an executory contract, the
9 party must file a proof of claim within sixty days after mailing of the Confirmation Notice or the
10 claim will be permanently disallowed and the party will not receive any recovery on the claim. If
11 any contract rejection claim is filed and Allowed, it will be included in Class B-1 under the Plan.


12 **ANY PARTY WHO MISSES THAT DEADLINE WILL NOT BE ENTITLED TO**
13 **ANY PAYMENT DUE TO REJECTION OF ITS CONTRACT, REGARDLESS OF**
14 **WHETHER THE CLAIM IS OTHERWISE MERITORIOUS.**

15 **8. CONCLUSION**

16 For the reasons discussed in this Disclosure Statement, MBD believes that Confirmation
17 of the Plan is in the best interests of all of its creditors and the company. Accordingly, MBD
18 requests that you accept the Plan by completing the enclosed Ballot and returning it to our
19 attorneys as described on the Ballot Form.

20 Dated: September 23, 2009

21 MBD, Inc.,
22 A California Corporation

23 By: 
24 Andrew Meghdadi, President

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EXHIBIT A

SUMMARY OF FINANCIAL PROJECTIONS

MBD, Inc.
Summary of Financial Projections
November 2009 to October 2014

| | NCF Belvedere | NCF La Dolce | General Expenses | NCF Operations | Class A-9 Property Taxes | Admin Claims | NCF After Sec'd & Priority Clms | Pymts on Unsecured Claims | Cumulative Net Cash Flow | Trade Unsecured Claims Balance | Lender Unsecured Claims Balance |
|---------------|------------------|-----------------|---------------------|-------------------|--------------------------------|-----------------|---------------------------------------|---------------------------------|--------------------------------|---|--|
| Year 1 | | | | | | | | | | | |
| November 2009 | 16,834.55 | 6,543.93 | 13,901.99 | 9,476.49 | | | 9,476.49 | 9,476.49 | 256,016.66 | 1,259,118.74 | |
| December | 25,574.00 | (6,974.56) | 13,901.99 | 4,697.45 | | | 4,697.45 | 14,173.94 | | | |
| January 2010 | 38,094.00 | 6,543.94 | 13,901.99 | 30,735.95 | 40,000.00 | | (9,264.05) | 4,909.89 | | | |
| February | 0.00 | 6,543.94 | 13,901.99 | (7,358.05) | | | (7,358.05) | (2,448.16) | | | |
| March | 0.00 | 6,543.94 | 13,901.99 | (7,358.05) | 11,617.00 | | (18,975.05) | (21,423.21) | | | |
| April | 28,821.30 | (324.56) | 13,901.99 | 14,594.75 | | | 14,594.75 | (6,828.46) | | | |
| May | 26,736.86 | 6,543.94 | 13,901.99 | 19,378.81 | | | 19,378.81 | 12,550.35 | | | |
| June | 66,149.48 | 6,543.94 | 13,901.99 | 58,791.43 | 11,617.00 | | 47,174.43 | 59,724.78 | | | |
| July | 73,668.00 | 6,543.94 | 13,901.99 | 66,309.95 | | | 66,309.95 | 126,034.73 | | | |
| August | 21,437.00 | (324.56) | 13,901.99 | 7,210.45 | | | 7,210.45 | 133,245.18 | | | |
| September | 38,271.55 | (6,974.56) | 13,901.99 | 17,395.00 | 11,617.00 | | 5,778.00 | 139,023.18 | | | |
| October | 23,821.30 | 6,543.94 | 13,901.99 | 16,463.25 | | | 16,463.25 | 155,486.43 | 216,367.46 | | |
| Year 2 | | | | | | | | | | | |
| November 2010 | 30,622.04 | 7,491.71 | 13,901.99 | 24,211.76 | | | 24,211.76 | 179,698.19 | | | |
| December | 38,094.00 | (6,026.79) | 13,901.99 | 18,165.22 | 11,617.00 | | 6,548.22 | 186,246.41 | | | |
| January 2011 | 25,574.00 | 7,491.71 | 13,901.99 | 19,163.72 | | | 19,163.72 | 181,798.52 | 192,755.85 | | |
| February | 49,712.48 | 7,491.71 | 13,901.99 | 43,302.20 | | | 43,302.20 | 225,100.72 | | | |
| March | 38,094.00 | 7,491.71 | 13,901.99 | 31,683.72 | 11,617.00 | | 20,066.72 | 245,167.44 | 151,489.53 | | |
| April | 48,394.89 | 623.21 | 13,901.99 | 35,116.11 | | | 35,116.11 | 239,017.23 | | | |
| May | 36,271.55 | 7,491.71 | 13,901.99 | 31,861.27 | | | 31,861.27 | 270,878.50 | | | |
| June | 68,716.04 | 7,491.71 | 13,901.99 | 62,305.76 | 11,617.00 | | 50,688.76 | 321,567.26 | | | |
| July | 59,831.89 | 7,491.71 | 13,901.99 | 53,421.61 | | | 53,421.61 | 316,155.80 | 92,656.46 | | |
| August | 68,716.04 | 623.21 | 13,901.99 | 55,437.26 | | | 55,437.26 | 371,593.06 | | | |
| September | 76,849.45 | (6,026.79) | 13,901.99 | 56,920.67 | 11,617.00 | | 45,303.67 | 416,896.73 | 15,575.19 | | |
| October | 87,806.48 | 7,491.71 | 13,901.99 | 81,396.20 | | | 81,396.20 | 421,211.66 | | | |
| Year 3 | | | | | | | | | | | |
| November 2011 | 26,736.86 | 7,521.71 | 13,901.99 | 20,356.58 | | | 20,356.58 | 441,568.24 | | | |
| December | 11,834.55 | (5,996.79) | 13,901.99 | (8,064.23) | 11,617.00 | | (19,681.23) | 421,887.01 | | | |
| January 2012 | 33,094.00 | 7,521.71 | 13,901.99 | 26,713.72 | | | 26,713.72 | 407,564.95 | 0 | 1,233,658.15 | |
| February | 43,394.89 | 7,521.71 | 13,901.99 | 37,014.61 | | | 37,014.61 | 444,579.56 | | | |
| March | 58,716.04 | 7,521.71 | 13,901.99 | 52,335.76 | 11,617.00 | | 40,718.76 | 485,298.32 | | | |
| April | 48,173.86 | 7,521.71 | 13,901.99 | 41,793.58 | | | 41,793.58 | 474,868.36 | | 1,181,434.61 | |
| May | 97,925.89 | 7,521.71 | 13,901.99 | 91,545.61 | | | 91,545.61 | 566,413.97 | | | |
| June 2012 | 92,023.34 | 7,521.71 | 13,901.99 | 85,643.06 | 11,617.00 | | 74,026.06 | 640,440.03 | | | |
| July | 114,883.78 | 7,521.71 | 13,901.99 | 108,503.50 | | | 108,503.50 | 645,260.90 | | 1,077,751.98 | |

These projections are qualified in their entirety by the assumptions which follow.

MBD, Inc.
Summary of Financial Projections
November 2009 to October 2014

| | NCF Belvedere | NCF La Dolce | General Expenses | NCF Operations | Class A-9 Property Taxes | Admin Claims | NCF After Sec'd & Priority Clms | Pymts on Unsecured Claims | Cumulative Net Cash Flow | Trade Unsecured Claims Balance | Lender Unsecured Claims Balance |
|--|------------------|-----------------|---------------------|-------------------|--------------------------------|-----------------|---------------------------------------|---------------------------------|--------------------------------|---|--|
| Year 4 | | | | | | | | | | | |
| August | 66,365.55 | 7,521.71 | 13,901.99 | 59,985.27 | | | 59,985.27 | | 705,246.17 | | |
| September | 82,888.30 | (5,996.79) | 13,901.99 | 62,989.52 | 11,617.00 | | 60,108.61 | 109,930.65 | 756,618.69 | | 967,821.34 |
| October | 66,488.89 | 7,521.71 | 13,901.99 | 60,108.61 | | | | | 706,796.66 | | |
| November 2012 | 44,712.48 | 7,461.71 | 13,901.99 | 38,272.20 | | | 38,272.20 | | 745,068.86 | | |
| December 2012 | 28,094.00 | (6,056.79) | 13,901.99 | 8,135.22 | 11,617.00 | | (3,481.78) | | 741,587.08 | | |
| New Loan on Belvedere Heights Subdivision Payoff of Umpqua Bank Claim (Class A-4) | | | | | | | | | | | |
| January 2013 | 84,339.32 | 7,461.71 | 13,901.99 | 77,899.04 | | | 77,899.04 | 47,449.52 | 3,772,036.60 | | 920,371.82 |
| February | (2,200,000.00) | 7,461.71 | 13,901.99 | (2,206,440.28) | | | (2,206,440.28) | | 1,565,596.32 | | |
| March | 377,957.67 | 7,461.71 | 13,901.99 | 371,517.39 | | | 371,517.39 | | 1,937,113.71 | | |
| April | 551,657.14 | 7,461.71 | 13,901.99 | 545,216.86 | | | 545,216.86 | 0.00 | 2,482,330.57 | | 920,371.82 |
| May | (1,617,817.15) | 7,461.71 | 13,901.99 | (1,624,257.43) | | | (1,624,257.43) | | 858,073.14 | | |
| June | 559,876.70 | 7,461.71 | 13,901.99 | 553,436.42 | | | 553,436.42 | | 1,411,509.56 | | |
| July | 570,329.04 | 7,461.71 | 13,901.99 | 563,888.76 | | | 563,888.76 | 0.00 | 1,975,398.32 | | 920,371.82 |
| August | 462,139.24 | 7,461.71 | 13,901.99 | 455,698.96 | | | 455,698.96 | | 2,431,097.28 | | |
| September | 444,882.49 | (6,056.79) | 13,901.99 | 424,923.71 | | | 424,923.71 | | 2,856,020.99 | | |
| October | 421,255.15 | 7,461.71 | 13,901.99 | 414,814.87 | | | 414,814.87 | 722,255.71 | 2,548,580.15 | | 198,116.11 |
| Year 5 | | | | | | | | | | | |
| November 2013 | 307,991.45 | 7,461.71 | 13,901.99 | 301,551.17 | | | 301,551.17 | | 2,850,131.31 | | |
| December | 296,987.24 | (6,056.79) | 13,901.99 | 277,028.46 | | | 277,028.46 | | 3,127,159.77 | | |
| January 2014 | (334,966.44) | 7,461.71 | 13,901.99 | (341,406.72) | | | (341,406.72) | 198,116.11 | 2,587,636.94 | | 0.00 |
| February | 448,505.94 | 7,461.71 | 13,901.99 | 442,065.66 | | | 442,065.66 | | 3,029,702.60 | | |
| March | 399,474.64 | 7,461.71 | 13,901.99 | 393,034.36 | | | 393,034.36 | | 3,422,736.96 | | |
| April | 588,806.59 | 7,461.71 | 13,901.99 | 582,366.31 | | | 582,366.31 | | 4,005,103.28 | | |
| May | 868,530.05 | 7,461.71 | 13,901.99 | 862,089.77 | | | 862,089.77 | | 4,867,193.04 | | |
| June | 741,539.55 | 7,461.71 | 13,901.99 | 735,099.27 | | | 735,099.27 | | 5,602,292.31 | | |
| July | 752,406.88 | 7,461.71 | 13,901.99 | 745,966.60 | | | 745,966.60 | | 6,348,258.91 | | |
| August | 739,967.79 | 7,461.71 | 13,901.99 | 733,527.51 | | | 733,527.51 | | 7,081,786.42 | | |
| September | 716,795.59 | (6,056.79) | 13,901.99 | 696,836.81 | | | 696,836.81 | | 7,778,623.23 | | |
| October | 746,330.39 | 7,461.71 | 13,901.99 | 739,890.11 | | | 739,890.11 | | 8,518,513.33 | | |
| Payoff of Phase II Construction Loan | | | | | | | | | | | |
| | | | | | | | | | (7,798,855.18) | | |
| Cumulative Net Cash Flow | | | | | | | | | | | |
| | | | | | | | | | 719,658.15 | | |

These projections are qualified in their entirety by the assumptions which follow.

**MBD, Inc.
Summary of Financial Projections
Assumptions and Qualifications**

Note re Forward Looking Statements

The foregoing summary and the more detailed projections on which it is based are subject to assumptions, risks and uncertainties, many of which are beyond the control of MBD and its management, including particularly the nature and pace of recovery in the real estate sales and financing markets, demographic trends, and similar factors. Not all assumptions on which this summary are based are set forth below.

Readers are cautioned that the foregoing summary speaks as of the date it is made and is not a guaranty of future performance. Actual results or performance may vary materially from the expectations expressed or implied in the foregoing summary, and MBD does not undertake any responsibility to update the foregoing summary or identify other assumptions or limitations on which such summary is based.

Other Assumptions

Debt Service to Umpqua Bank (Class A-4) is included in Belvedere NCF
Debt Service to Tri Counties Bank (Classes A-1, A-2 and A-3) is included in La Dolce NCF
Payments on AICCO claim (Class A-9) are included in Operating Expenses
Assume interest rate on property tax claims of 10% per annum

Actual payments on property tax claims will be less than projected because claims will diminish as lots in Belvedere Heights Subdivision are sold and individual claims are paid through escrow

Property Taxes on Montebello, Fleetwood and Cielo Vista properties to be assumed by Umpqua Bank or assignee
Assume that Umpqua Bank loan is refinanced in December 2012 through a new acquisition and construction loan of approximately \$7,780,000, payable interest only at an initial interest rate of 5.00% per annum