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UNITED STATES BANKRUPTCY COURT

DISTRICT OF OREGON

In re)	Case No. 08-32798-tmb11
)	
Matrix Development Corporation,)	Chapter 11
an Oregon corporation, aka Legend Homes,)	
)	DISCLOSURE STATEMENT FOR
Debtor.)	DEBTOR'S PLAN OF
)	REORGANIZATION
)	(Dated March 31, 2009)
)	
)	
)	

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TABLE OF EXHIBITS

Exhibit A - Reorganized Debtor's Projected Financial Statements

Exhibit B - Liquidation Analysis

1 Matrix Development Corporation, an Oregon corporation (the “Debtor”, “Matrix”
2 or the “Company”) submits this Disclosure Statement in connection with its Plan of
3 Reorganization dated March 31, 2009 (the “Plan”). The purpose of this Disclosure
4 Statement is to set forth information that (i) summarizes the Plan and alternatives to the
5 Plan, (ii) informs creditors and shareholders of the treatment to be afforded their claims
6 against and equity interests in the Debtor under the Plan, (iii) assists creditors entitled to
7 vote in making informed decisions as to whether they should vote to accept or reject the
8 Plan, and (iv) assists the Court in determining whether the Plan complies with the
9 provisions of Chapter 11 of the Bankruptcy Code and should be confirmed. The Plan
10 describes how all claims against and equity interests in the Debtor will be resolved, and
11 provides the means by which the Debtor will be reorganized under the Bankruptcy Code.

12 **I.**

13 **EXECUTIVE SUMMARY**

14 **A. Introduction.**

15 On June 10, 2008 (the “Petition Date”), Matrix filed a voluntary petition for relief
16 under Chapter 11 of the Bankruptcy Code in the United States Bankruptcy Court for the
17 District of Oregon (the “Bankruptcy Court” or the “Court”). Since then, the Company
18 has managed its properties and affairs as debtor in possession. On March 31, 2009, the
19 Company filed its Plan of Reorganization with the Bankruptcy Court. This Disclosure
20 Statement describes certain aspects of the Plan, the Company’s business operations,
21 significant events that occurred in the Chapter 11 case, and related matters. This
22 Executive Summary is intended solely as a summary of the distribution provisions of the
23 Plan and certain matters relating to the plan confirmation process. For a more complete
24 understanding of the Plan, you should read this Disclosure Statement, the Plan, and the
25 exhibits thereto in their entirety.
26

1 B. Definitions and Plan Supremacy.

2 All terms defined in the Plan will have the same meanings when used in this
3 Disclosure Statement. Terms defined in this Disclosure Statement which are also defined
4 in the Plan are solely for convenience and the Debtor does not intend to change the
5 definitions of those terms in the Plan. Furthermore, in the event of any inconsistency
6 between the Plan and this Disclosure Statement, the Plan will control. The Exhibits
7 attached to this Disclosure Statement are incorporated into and are a part of this
8 Disclosure Statement.

9 C. Enclosures.

10 Accompanying this Disclosure Statement are the following enclosures:

- 11 1. Copy of the “Order Approving Disclosure Statement and Fixing
12 Time for Filing Acceptances or Rejections of Plan; and Notice of any Appropriate
13 Injunction and of Confirmation Hearing,” as entered by the Bankruptcy Court on _____,
14 2009 (the “Disclosure Statement Approval Order”), which, among other things, sets the
15 hearing to consider, and establishes the deadline for objecting to, confirmation of the
16 Plan;
- 17 2. Copy of the Plan; and
- 18 3. Ballot form and return envelope for voting on the Plan.

19 D. Voting.

20 Under the Bankruptcy Code, only creditors that hold claims in “impaired” classes
21 and which are “allowed,” or have been temporarily allowed by the Bankruptcy Court
22 pursuant to an order, are entitled to vote on the Plan. Under the Plan, 12 of 23 classes of
23 claims are “impaired.” In general, a claim is “allowed,” as that term is used in the
24 Bankruptcy Code, if (i) the claim is listed in the Debtor’s schedules of liabilities filed
25 with the Bankruptcy Court as not disputed, contingent, or unliquidated, or (ii) a proof of
26 claim has been timely filed with the Bankruptcy Court by the holder of the claim, and the

Debtor has not filed an objection to the claim, or (iii) the Bankruptcy Court has entered an order allowing the claim. If a claim is not allowed, but the holder thereof wishes to vote on the Plan, the holder must timely file a motion with the Bankruptcy Court requesting that the claim be temporarily allowed.

In order for an impaired class of claims to accept the Plan, votes representing at least two-thirds in amount and more than one-half in number of the claims voting in that class must be cast in favor of acceptance of the Plan. The Debtor is seeking acceptances from holders of allowed claims in Classes 1, 2, 3, 6, 7, 8, 13, 14, 15, 21, 22 and 23.

A vote for acceptance of the Plan by those holders of claims who are entitled to vote is important. In order for a vote to be counted, a ballot must be properly filled out and actually received on or before 5:00 p.m. Pacific time on _____, 2009, by the voting agent as set forth in the ballot.

E. Confirmation Hearing and Deadline for Objections.

The hearing to determine whether to confirm the Plan has been scheduled for _____, 2009, at _____ .m. (prevailing Pacific Time), or as soon thereafter as the matter can be heard, before the Honorable Trish M. Brown in Courtroom No. 4 of the United States Bankruptcy Court, 7th Floor, 1001 SW Fifth Avenue, Portland, Oregon 97204. The hearing may be adjourned from time to time without further notice except for an announcement made at the hearing or any adjourned hearing. Any objection to confirmation of the Plan must be made in writing, state all grounds for objection, be filed with the Clerk of the Bankruptcy Court and served as provided in the Disclosure Statement Approval Order so as to be actually received on or before _____, 2009.

1 F. Inquiries.

2 If you have questions about the procedures for voting your Claim, or about the
3 packet of materials that you received, or if you wish to obtain (at your own expense
4 unless otherwise specifically required by law) additional copies of the Plan or of this
5 Disclosure Statement, please contact Greene & Markley, P.C., 1515 SW Fifth Avenue,
6 Attention: Corri Larsen, Legal Assistant, telephone no. (503) 295-2668 or email at
7 corri.larsen@greenemarkley.com.

8 G. Plan Summary.

9 The following summarizes the classification and treatment of the Debtor's claims
10 and equity interests under the Plan.

11 1. Administrative Expense Claims and Priority Tax Claims.

12 Administrative Expense Claims and Priority Tax Claims are not classified under
13 the Plan. Their treatment under the Plan is specified by statute. These claims will be
14 paid by the Reorganized Debtor in full on the Effective Date or when due.

15 2. Secured Claims.

16 Under the Plan, each claim that is secured by a lien on property of the Debtor is
17 placed in a separate class or subclass. For reasons of convenience, certain secured claims
18 are grouped together by type or, in the case of Lenders' claims, by the identity of each
19 Lender. The Plan designates 15 classes of secured claims, although certain classes
20 include multiple subclasses.

21 All of the Lenders' secured claims are placed in eight general classes, one for each
22 Lender. Those classes are Classes 1, 2, 4, 6, 7, 8, 14 and 15. Under the Plan, the
23 payment terms and the maturity date of each Allowed Secured Claims that is secured by
24 one of the Retained Projects will be changed as set forth in the Plan. The Lenders'
25 claims that are secured by Collateral other than the Retained Projects are unimpaired by
26

1 the Plan and the Lenders holding those claims will be permitted to exercise their
2 foreclosure remedies with regard to that other Collateral.

3 Construction Lien Claims are placed in Class 3, which is impaired by the Plan.
4 The holders of those kinds of secured claims, to the extent the liens securing them are
5 valid and have priority over the trust deed liens of the Lenders, will be paid in full from
6 the proceeds of the Collateral securing those claims, in each case, when both (i) the
7 validity, priority and extent of the lien has been finally determined, either by Final Order
8 or by agreement of the lienholder, the Reorganized Debtor and the applicable Lender,
9 and (ii) the Collateral securing such secured claim has been sold.

10 The secured claims, if any, of JD Properties Vancouver LLC (Class 5), Dennis
11 Pahlisch (Class 9), North Albany Investments, LLC (Class 10), creditors holding
12 purchase money security interests in equipment (Class 11), and governmental units
13 holding property tax claims (Class 12) are not impaired by the Plan. Those classes of
14 claims are treated as set forth in the Plan.

15 The secured claim of Rocky Mountain Land LLC is placed in Class 13, which is
16 impaired by the Plan. The Collateral that secures that claim, as well as the Class 14
17 Claim of U.S. Bank, will be made subject to a lien in favor of the Reorganized Debtor to
18 secure a claim for the costs and expenses incurred by the Estate for obtaining and
19 maintaining governmental approvals and permits for the Witham Oaks subdivision (the
20 “506(c) Claim”). The lien securing the 506(c) Claim will be senior in priority to all liens
21 on that Collateral other than liens securing property tax claims. The holder of the Class
22 13 Claim will be permitted to exercise its foreclosure remedies with respect to that
23 Collateral, as will U.S. Bank.

1 3. Priority Employee-Related Claims and Priority Consumer Deposit
 2 Claims.

3 Under the Plan, prepetition claims entitled to priority under the Bankruptcy Code,
 4 other than Priority Tax Claims, are placed in Class 16 and Class 17. Class 16 consists of
 5 all Priority Claims owing to employees or to employee benefit plans. Class 17 consists
 6 of all Priority Claims owing to individuals, to the extent of \$2,425 per individual, for the
 7 refund of earnest money deposits made under Home purchase agreements that have been
 8 breached by the Debtor. Those classes of claims are not impaired by the Plan. The
 9 Reorganized Debtor will pay those kinds of claims in full on the Effective Date or when
 10 due.

11 4. General Unsecured Claims.

12 Under the Plan, general unsecured claims are divided into six classes, as described
 13 briefly below.

14 a. Class 18: Customer Home Warranty Claims. Allowed
 15 Unsecured Claims of Homeowners, to the extent of \$5,000 for the owners of any one
 16 Home, that arose or arise under and are covered by the terms of written warranty
 17 agreements with the Debtor will, in each case, be paid or performed in full by the
 18 Reorganized Debtor when due to be paid or performed under the terms of the applicable
 19 warranty agreement.

20 b. Class 19: Director and Officer Indemnity Claims. The
 21 claims of directors and officers of the Debtor, to the extent of \$100,000.00 (or such
 22 greater amount as may be authorized by the Reorganized Debtor's board of directors or
 23 shareholders) for each such individual, for indemnification that are not covered by
 24 insurance will be paid by the Reorganized Debtor as and to the extent required by Oregon
 25 law.
 26

c. Class 20: Surety Bond Claims. Under the Plan, the rights of each entity that issued a surety, maintenance or performance bond to the Debtor with respect to a Retained Project will remain unaltered by the Plan.

d. Class 21: Contractor Unsecured Claims. This class consists of all Allowed Unsecured Claims that, in each case, (i) arose from performing labor or transporting or furnishing materials or supplies at one of the Debtor's project sites, (ii) has not been assigned other than for purposes of security or of collecting the claim, and (iii) is not secured by a lien on any property (whether owned by the Debtor or other entity); provided, however, that if an entity is subrogated to the rights of a holder of a claim of this kind, the claim will be classified and treated as a Class 23 Claim. The Reorganized Debtor will pay to each holder of a claim in this class an amount equal to 40 percent of the Allowed Amount thereof on the Effective Date or as soon thereafter as the Allowed Amount is determined.

e. Class 22: Convenience Claims. This class consists of all Allowed Unsecured Claims that do not fall within the descriptions of any of the other classes of claims and that are for amounts of \$2,000.00 or less each. A holder of a claim in excess of \$2,000.00 can join Class 22 by electing to reduce the amount of the claim to \$2,000.00; such an election can be made by marking the appropriate box on a Ballot. The Reorganized Debtor will pay to each holder of a claim in this class an amount equal to 50 percent of the Allowed Amount thereof on the Effective Date or as soon thereafter as the Allowed Amount is determined.

f. Class 23: Other Claims. This class consists of all claims not otherwise classified or treated under the Plan. Creditors with claims in this class will receive cash distributions from the Reorganized Debtor annually over a period of time ending September 30, 2013 (or, in certain circumstances, December 31, 2013). Under the Plan, the Reorganized Debtor will be obligated to pay the holders of these claims not

less than \$12 million in the aggregate, although the Debtor projects that the actual amount to be paid will be substantially more. Specifically, the Reorganized Debtor will distribute to the holders of Allowed Class 23 Claims (a) \$1 million within 30 days after its receipt of the federal income tax refund for the 2008 tax year, but in no event later than December 31, 2009, and (b) the sum of 7.5 percent of the Reorganized Debtor's Gross Revenues from Operations and 50 percent of the Reorganized Debtor's Extraordinary Net Proceeds during the period July 1, 2009 through June 30, 2013, which will be determined annually for each fiscal year ended June 30, beginning June 30, 2010 and ending June 30, 2013, and will be funded annually no later than September 30 of each such fiscal year; provided, however, that if the total amount distributed to this class through September 30, 2013 is less than \$12 million, then the Reorganized Debtor must pay the holders of those claims an amount equal to such shortfall on or before December 31, 2013. The Company estimates that the holders of Allowed Class 23 Claims will receive under the Plan cash distributions totaling 15 cents per dollar of allowed claim or more.

5. Equity Interests. Under the Plan, all Equity Interests will be cancelled on the Effective Date, and the Shareholders will not receive or retain on account of their Equity Interests any property or other consideration under the Plan.

II.

DISCLAIMERS

THIS DISCLOSURE STATEMENT IS NOT THE PLAN. THIS DISCLOSURE STATEMENT, TOGETHER WITH THE PLAN WHICH ACCOMPANIES THIS DISCLOSURE STATEMENT, SHOULD BE READ COMPLETELY. FOR THE CONVENIENCE OF CREDITORS, THE PLAN IS SUMMARIZED IN THIS DISCLOSURE STATEMENT, BUT ALL SUMMARIES AND OTHER STATEMENTS REGARDING THE PLAN ARE QUALIFIED IN THEIR ENTIRETY BY THE PLAN ITSELF, WHICH IS CONTROLLING IN THE EVENT OF ANY INCONSISTENCY. NO REPRESENTATIONS OR ASSURANCES CONCERNING THE DEBTOR, INCLUDING, WITHOUT LIMITATION, ITS OPERATIONS, THE VALUE OF ITS ASSETS, OR THE FUTURE OPERATIONS OF THE REORGANIZED DEBTOR, ARE AUTHORIZED BY THE DEBTOR OTHER THAN

1 AS SET FORTH IN THIS DISCLOSURE STATEMENT. THIS IS A SOLICITATION
 2 BY THE DEBTOR ONLY. THE REPRESENTATIONS MADE HEREIN ARE
 3 THOSE OF THE DEBTOR AND NOT OF ITS ATTORNEYS OR ANY OTHER
 4 PROFESSIONAL.

5 UNLESS OTHERWISE EXPRESSLY STATED, PORTIONS OF THIS DISCLOSURE
 6 STATEMENT DESCRIBING THE DEBTOR'S FINANCIAL CONDITION HAVE
 7 NOT BEEN SUBJECTED TO AN INDEPENDENT AUDIT, BUT PREPARED FROM
 8 INFORMATION COMPILED BY THE DEBTOR FROM RECORDS MAINTAINED
 9 IN THE ORDINARY COURSE OF ITS OPERATIONS. REASONABLE EFFORTS
 10 HAVE BEEN MADE TO ACCURATELY PREPARE ALL FINANCIAL
 11 INFORMATION WHICH MAY BE CONTAINED IN THIS DISCLOSURE
 12 STATEMENT FROM THE INFORMATION AVAILABLE TO THE DEBTOR.
 13 HOWEVER, AS TO ALL SUCH FINANCIAL INFORMATION, THE DEBTOR IS
 14 UNABLE TO WARRANT OR REPRESENT THAT THE INFORMATION
 15 CONTAINED HEREIN IS WITHOUT ERROR.

16 AS TO CONTESTED MATTERS, ADVERSARY PROCEEDINGS AND OTHER
 17 ACTIONS OR THREATENED ACTIONS, THIS DISCLOSURE STATEMENT
 18 SHALL NOT CONSTITUTE OR BE CONSTRUED AS AN ADMISSION OF ANY
 19 FACT, LIABILITY, STIPULATION OR WAIVER, BUT RATHER AS A
 20 STATEMENT MADE IN SETTLEMENT NEGOTIATIONS.

21 THE CONTENTS OF THIS DISCLOSURE STATEMENT SHOULD NOT BE
 22 CONSTRUED AS LEGAL, BUSINESS OR TAX ADVICE TO HOLDERS OF
 23 CLAIMS AGAINST OR EQUITY INTERESTS IN THE DEBTOR. CREDITORS
 24 AND SHAREHOLDERS SHOULD CONSULT THEIR OWN LEGAL COUNSEL OR
 25 TAX ADVISOR ON ANY QUESTIONS OR CONCERNS RESPECTING TAX,
 26 SECURITIES, OR OTHER LEGAL EFFECTS OF THE PLAN ON THEM.

16 III.

17 ORGANIZATION AND ACTIVITIES OF DEBTOR

18 A. Corporate History.

19 Matrix is a privately-held Oregon corporation that was founded in 1972 by David
 20 L. Oringdulph. Its corporate headquarters are located in Portland, Oregon. The
 21 Company is a C corporation for federal income tax purposes.

22 B. Business of the Debtor.

23 1. Summary Description of Business. Matrix, directly and through its
 24 affiliates, is engaged in the business of developing and selling real estate for residential
 25 purposes. This business includes the acquisition, development, construction,
 26 management, mortgage brokerage and sale of residential real estate. Prior to 2004, the

1 Company's developments were located primarily in the Portland metropolitan area. At
2 the time of its bankruptcy filing, the Company, directly and through its affiliates, owned
3 land in Oregon, California, Colorado and Washington. The Company builds single
4 family houses, townhomes and condominiums.

5 2. About the Corporate Group. The Company's corporate group
6 includes a number of affiliates. Historically, in recent years, the activities of the
7 corporate group were conducted primarily through three entities -- Matrix, Legend
8 Homes Corporation ("Legend Homes"), and Legend Real Estate Services Corporation
9 ("LRES"). Matrix acquires and develops raw land. Legend Homes constructs single
10 family houses, townhomes and condominiums. LRES, which also does business under
11 the name Legend Mortgage, provides real estate brokerage and mortgage brokerage
12 services. Legend Homes was a wholly-owned subsidiary of Matrix until June 9, 2008,
13 when it was merged with and into Matrix. LRES is a wholly-owned subsidiary of
14 Matrix. Matrix also owns 50 percent or more of the ownership interests in 13 limited
15 liability companies that were formed to develop specific properties.

16 3. Projects. As of March 31, 2009, the Debtor directly owned the
17 developments, subdivisions and projects listed in Section V.A.2. These projects are in
18 various stages of entitlement or development.

19 4. Products. Through its Legend Homes Division, the Company
20 designs and constructs a wide-variety of high quality residential dwellings. It builds
21 single-family houses as well as townhomes and condominiums. In calendar year 2008,
22 the price range of its products was from \$175,000 to \$530,000, with an average unit price
23 of \$364,400.

24 5. Employees. As of March 31, 2009, the Debtor employed 30 full-
25 time people and no part-time people in its business operations. A summary of the
26 number of employees by activity follows:

1	Administration and Accounting	18
	Construction Supervision	9
2	Sales and Marketing	3

3 The Company is not a party to any collective bargaining agreement, and no labor
4 union or other organization represents, purports to represent, or is attempting to represent
5 any employees. Employee relations are considered to be good and there have been no
6 labor relation problems in the Company's history.

7 6. Competition. The homebuilding industry is a highly competitive
8 one in the markets in which the Company operates. There are few barriers to becoming a
9 homebuilder in Oregon or elsewhere. The Company competes with most of its
10 competitors on price, the quality of its products, customer service, and its reputation.

11 7. Warranties. The Company provides each of its customers with a
12 standardized limited warranty that obligates it to replace or repair, or pay the home buyer
13 the reasonable cost of replacing or repairing, defective plumbing, electrical, mechanical,
14 and structural or other components of a new residential unit. Under its standard warranty
15 agreement, the warranty period is one year from the date the home buyer is given
16 possession of the property.

17 8. Trademarks. The Company owns certain unregistered trademarks
18 and service marks that have been used for marketing its products. These product names
19 include "Legend Homes."

20 9. Government Regulation. The Company is subject to various federal,
21 state and local laws, regulations and administrative rules affecting its business. It must
22 comply with laws regulating land use and development, licensing and permitting, equal
23 employment, minimum wages, and the like. The Company believes that presently it is in
24 compliance with all such laws and requirements.

1 C. Management.

2 The following table identifies each executive officer and the director of the
3 Company as of the date hereof and sets forth the annual cash compensation to each.

4 <u>Name</u>	<u>Age</u>	<u>Position</u>	<u>Annual Cash Compensation</u>
5 David L. Oringdulph	70	Director and President of Matrix	\$174,000
6 Jim L. Chapman	55	President of Legend Homes Division	\$155,000
7 Diane F. Jarvis	55	Secretary / Treasurer and 8 Chief Financial Officer	\$155,000
9 Craig Brown	61	Vice-President of Matrix	\$122,112

10 D. Shareholders.

11 Matrix has one class of voting common stock. As of the date hereof, there are 500
12 shares of common stock outstanding. The David L. Oringdulph Revocable Living Trust
13 directly owns 470 shares, and Kara Oringdulph-Hale directly owns 30 shares.

14 E. Related Party Transactions.

15 Transactions involving insiders or other related parties that the Company deems
16 material are summarized in this Section.

17 1. Insider Guaranties.

18 All or substantially all of the Company's indebtedness for borrowed money has
19 been personally guarantied by David L. Oringdulph and, in the case of loans made by
20 KeyBank, also by the David L. Oringdulph Revocable Living Trust. Mr. Oringdulph
21 also executed a personal guaranty in favor of JD Properties Vancouver, LLC. Mr.
22 Oringdulph disputes or may dispute liability under certain of these guaranties.

23 The Company has also guarantied certain loans made to affiliates, including
24 La Ventana 77 Partners LLC, Amberglen Village Townhomes LLC and Northgate
25 Stonewater Partners LLC.
26

1 2. Shareholder Loans.

2 David L. Oringdulph is indebted to the Company on loans made to him.
3 According to the Company's records, the unpaid balance of those loans as of December
4 31, 2008, was \$2,165,926. The Company expects that the entire amount of this
5 receivable will be offset against Mr. Oringdulph's claims against the Company based on
6 personal guaranties. The promissory note evidencing those loans matured on December
7 31, 2008.

8 The Company's records also reflect that as of December 31, 2008, Kara
9 Oringdulph-Hale is indebted to the Company in the amount of \$2,377,658. The
10 Company recorded amounts paid for premiums under certain life insurance policies
11 issued upon the life of David L. Oringdulph as loans to Ms. Oringdulph-Hale. Ms.
12 Oringdulph-Hale is named in these policies as the owner and as the direct beneficiary.
13 Under a set of complex documents, Ms. Oringdulph-Hale assigned her rights as owner of
14 these policies to Wells Fargo Bank for purposes of securing certain loans made to the
15 Company pursuant to a Credit Agreement dated as of December 3, 2004, as amended.
16 Wells Fargo Bank's claims under that Credit Agreement were also supported by, among
17 other things, a letter of credit established by First Independent Bank in the amount of
18 \$1,700,000. As a result of the Company's bankruptcy, Wells Fargo Bank exercised its
19 rights under its loan documents, causing the life insurance policies to be surrendered to
20 the insurers and making a draw on the letter of credit. Ms. Oringdulph-Hale disputes
21 liability for these purported shareholder loans.

22 Additional amounts due from Kara Oringdulph-Hale and George Hale in the
23 amount of \$109,500 are recorded on the Company's books. The promissory note
24 evidencing those loans matured on December 31, 2008.
25
26

1 Oringdulph Hale, LLC, a company owned by David Oringdulph and Kara
2 Oringdulph-Hale, is indebted to the Company on a loan in the amount of \$505,977.21.
3 The promissory note evidencing this loan matured on December 31, 2008.

4 3. Affiliate Receivables and Write Offs.

5 The Company was previously a venture partner in West Sylvan Village LLC
6 ("West Sylvan") and Silver Creek Crossing LLC ("Silver Creek"). In 2006, the
7 Company sold its interest to the other member, DLB & Associates, LLC, resulting in
8 notes due to the Company in the total amount of \$1,833,398. Principal and interest
9 payments have been made on those notes since 2006 in the total amount of \$805,884.
10 Additionally, the Company has received payments totaling \$1,085,441 as profit sharing
11 payments since 2006. The present amount owing is \$1,155,150.15. Collection is
12 unlikely on the outstanding balance. Silver Creek is in default on its loan, which is now
13 held by the FDIC, and the value of West Sylvan has fallen to the point where insufficient
14 equity remains to secure the Company's third trust deed.

15 Springs Ranch LLC ("Springs Ranch") is an entity owned by the Company, DLB
16 & Associates, LLC, and Chimento Group, Inc. Since the formation of Springs Ranch,
17 Matrix has funded cash flow shortages as agreed in the operating agreement. As of the
18 Petition Date, Springs Ranch owed the Company \$650,275.10. The collection of this
19 receivable is likely, as there are funds in an escrow account sufficient to repay this
20 amount.

21 San Marcos Townhomes, LLC ("San Marcos") is an entity owned by the
22 Company, DLB & Associates, LLC, and Chimento Group, Inc. San Marcos currently
23 owns land in Sun City, California with no bank debt. Matrix funded the purchase of the
24 property as agreed in the operating agreement. On the Petition Date, San Marcos owed
25 the Company \$2,961,207.09. Collection is unlikely because the land value has declined
26 to an estimated value of only \$175,000 and the entity has no other assets.

1 Northgate Stonewater Partners, LLC (“Northgate”) is an entity owned by the
2 Company and Chimento Group, Inc. Matrix has funded cash flow shortages as agreed in
3 the operating agreement. In December 2008, Bank of America foreclosed on the land
4 owned by Northgate. On the Petition Date, Northgate owed the Company \$1,264,801.88.
5 Collection is unlikely because Northgate presently owns no assets.

6 Creekview Partners, LLC (“Creekview”) is an entity owned by the Company,
7 DLB & Associates, LLC, and Chimento Group, Inc. Matrix has funded cash flow
8 shortages as agreed in the operating agreement. Creekview deeded its remaining
9 property back to the lender, M&T Bank, in March 2009. On the Petition Date,
10 Creekview owed the Company \$326,251.73. Collection is unlikely because Creekview
11 has no remaining assets.

12 Red Baron Air LLC (“Red Baron”) is an entity owned by the Company and
13 Renaissance Development Corporation whose sole asset was an airplane. The Company
14 contributed \$350,042.11 to Red Baron in exchange for an equity interest. Red Baron
15 sold the airplane in 2008. The Company’s equity interest has no value, because Red
16 Baron has no remaining assets.

17 Hidden Hills East, LLC (“Hidden Hills”) is an entity wholly owned by the
18 Company. Matrix funded cash flow shortages as needed. Hidden Hills transferred its
19 land and related assets to the lender, M&T Bank, in December 2008. On the Petition
20 Date, Hidden Hills owed the Company \$1,135,468.55. Collection is unlikely because
21 Hidden Hills has no remaining assets of any value.

22 Pradera Heights, LLC (“Pradera”) is an entity wholly owned by the Company.
23 Matrix funded cash flow shortages as needed. Pradera’s primary asset, land, was
24 transferred to the seller and note holder in May 2008. On the Petition Date, Pradera owed
25 the Company \$5,953,678.22. Collection is unlikely because Pradera has no remaining
26 assets of any value.

1 La Ventana Partners 77, LLC ("La Ventana") is an entity wholly owned by the
 2 Company. Matrix funded cash flow shortages as needed. La Ventana's principal asset,
 3 land, was foreclosed by the lender in 2008. On the Petition Date, La Ventana owed the
 4 Company \$5,821,089.73. Collection is unlikely because La Ventana has no remaining
 5 assets of any value.

6 Bethany Properties, LLC ("Bethany") is an entity wholly owned by the Company.
 7 Matrix funded cash flow shortages as needed. Bethany's principal asset is option rights
 8 in land. On the Petition Date, Bethany owed the Company \$2,558,069.96. Collection is
 9 unlikely, because the option exercise price is greater than the current market value of land
 10 subject to Bethany's option rights. Moreover, Bethany does not have the funds necessary
 11 to meet future contract obligations, and will thus be forced to forfeit its option rights.

12 Madison Heights LLC ("Madison Heights") was an entity previously owned by the
 13 Company and DLB & Associates, LLC. The Company expended funds on behalf of
 14 Madison Heights in the total amount of \$55,040.99 after Madison Heights ceased
 15 operations. Collection is unlikely because Madison Heights has no remaining assets.

16 Autumn Park LLC ("Autumn Park") was an entity previously owned by the
 17 Company and DLB & Associates, LLC. The Company expended funds in the total
 18 amount of \$46.50 on behalf of Autumn Park after Autumn Park ceased operations.
 19 Collection is unlikely because Autumn Park has no remaining assets.

20 4. 401(k) Savings Plan.

21 The Company has a 401(k) plan to provide retirement benefits that covers all of its
 22 employees over 21 years of age who have worked 1000 hours or more during a calendar
 23 year. The Company's contribution is vested on a six-year graded schedule. Employees
 24 may contribute up to the maximum percentage allowed by the plan, and the Company
 25 makes a matching contribution under a discretionary formula that is calculated yearly.
 26 During calendar year 2008, the Company matched up to 25 percent of each employee's

1 contribution or \$100 per month, whichever was less. The Company contributed \$24,878
2 to the Plan in 2008.

3 F. Market Conditions.

4 1. Residential Construction - Nationwide.

5 Home prices in the United States began to move on an upward trend beginning in
6 1996, based on data from the Standard & Poor's/Case-Shiller Composite-10 home price
7 index. During the second half of the 1990s, the increase in home prices began to
8 accelerate as year-over-year price gains amounted to 1.9 percent, 5.4 percent and 9.1
9 percent at year-end 1996, 1997 and 1998, respectively. The trend continued in 1999 and
10 2000 when year-over-year gains amounted to 10.8 percent and 14.1 percent. In 2001, the
11 Standard & Poor's/Case-Shiller Composite-20 index became available and provides data
12 for a broader set of metropolitan areas. The index includes 20 residential real estate
13 markets nationwide including Los Angeles, Miami, Washington DC, Boston, Chicago
14 and Portland, Oregon.

15 From 2001 through 2005, home prices in the United States continued to increase
16 and the Composite-20 index had year-over-year gains of 7.9 percent, 12.2 percent and
17 11.4 percent in 2001, 2002 and 2003, respectively. The increase in home prices escalated
18 in 2004 with an increase of 16.2 percent, which was followed by slightly lower growth of
19 15.5 percent in 2005.

20 In 2006, the housing market reached a turning point, with July 2006 being the last
21 month of price appreciation. The year-over-year increase in the index in July 2006 was
22 0.7 percent. Housing prices have continued to decline in every month since July 2006
23 with the index declining 9.0 percent on year-over-year basis in 2007. As of March 2008,
24 the index had a value of 172.19 and in July 2008, the index stood at 167.69, which was
25 almost the same level as it was in July 2004, when the index was 167.43. From the peak
26

1 of 206.52 in July 2006, the index declined 16.6 percent through March 2008 and 18.8
2 percent through June 2008.

3 While the index has declined from its peak in July 2006, individual markets have
4 had varying levels of decline. Through March 2008, the market with the largest decline
5 was Las Vegas, with a drop of 27.9 percent from its peak in August 2006. Las Vegas
6 was followed by Phoenix with a drop of 26.6 percent, San Diego, which fell 25.9 percent
7 and Miami, which declined 25.6 percent.

8 By June 2008, the markets with the largest declines were Phoenix, with 32.6
9 percent, Las Vegas at 32.5 percent, Miami at 32.4 percent and San Diego at 30.0 percent.
10 Las Vegas, Phoenix, San Diego and Miami comprised four of the top seven markets for
11 price increases since 2000. Overall, the markets that had the largest price increases have
12 also incurred the largest price declines.

13 2. Residential Construction - Portland Metropolitan Area.

14 Overall, the residential housing market in the Portland Metropolitan Area
15 experienced the nationwide trend of growth, followed by decline. However, housing
16 prices peaked in July 2007, which was a full year after the nationwide peak. Based on
17 data from the S&P/Case-Shiller Home Price Index, the Portland Metropolitan Area
18 experienced an overall trend of rising home prices from January 1987 through July 2007.
19 Price appreciation was strongest in 1989 through 1991 and from 2003 through 2006.
20 From January 2001 through May 2005, the rate of price increases in Portland lagged the
21 national increase in home prices. In June 2005, housing price growth in Portland began
22 to outpace the national market and in March 2006 Portland reached its highest year-over-
23 year growth at 22.8 percent. The Portland area continued to experience double digit
24 growth in housing prices through November 2006, while growth in the national market
25 had begun to decline in August 2006. While the national market began year-over-year
26 price declines in January 2007, Portland continued to experience growing housing prices

1 on a year-over-year basis through December 2007. However, the rate of price decline in
2 Portland through June 2008 was lower than the nationwide rate.

3 In March 2008, housing prices in Portland had fallen at a year-over-year rate of
4 4.0 percent, while the national rate of decline was 14.3 percent. The rate of decline
5 accelerated in both Portland and nationwide from March 2008 through June 2008 as it
6 reached 5.8 percent on a year-over-year basis in the Portland area and 15.9 percent
7 nationwide.

8 Through March 2008, housing prices in Portland had fallen 6.5 percent from their
9 peak in July 2007. In 2008, housing prices in Portland increased 0.4 percent from March
10 through June and in June prices were 6.2 percent lower from their peak. Nationally,
11 housing prices in June were 2.6 percent lower than in March.

12 Overall, the housing market in Portland declined in terms of activity and prices
13 from 2007 to 2008. Activity was lower in both construction and sales of used homes.

14 The level of building permit activity for residential construction in Portland
15 declined in 2002 from 2000 and 2001. Activity increased in early 2003, but experienced
16 a seasonal decline in the winter of 2003 and 2004 due to weather, but activity increased
17 in the spring of 2004. The winter of 2004 and 2005 was milder than normal and in
18 summer 2005 there was a record number of building starts. Permit issuance reached its
19 peak in early 2006. However by year end 2006 permit issuance had declined 15.3
20 percent from year end 2005. The decline continued in 2007, with year end permit
21 issuance at 16.3 percent lower than in 2006. In December 2007, permit issuance in
22 Multnomah, Washington and Clackamas counties totaled 157 permits, which was the
23 lowest level since January 1990. Through May 2008, there were 1,132 permits issued in
24 the Tri-County area, which was 57.8 percent lower than the same period in 2007. The
25 decline in 2008 was credited to an increasing supply of used homes and an increase in
26 standing inventory.

1 Since March 2006, housing inventory in Portland has increased from a low of 2.0
2 months. From March 2006 through January 2007 inventory rose to 6.2 months.
3 Inventory declined somewhat to 3.8 months in March 2007, and then rose to 8.6 months
4 in September 2007. Inventory remained fairly constant through December 2008, when it
5 stood at 8.5 months. In January 2008 inventory spiked to a high of 12.8 months. It
6 declined to 10.4 months in February 2008 and 9.1 months in March 2008. In April, May
7 and June 2008, inventory stood at 10.3, 9.2 and 9.5 months, respectively. Overall,
8 housing inventory in Portland in 2008 was higher than in 2006 and 2007.

9 On a year-over-year basis, pending sales and new listings in March 2008 were
10 down by 37 percent and 2 percent, respectively. In April and May 2008, pending sales
11 were down by 31 percent on a year-over-year basis and new listings were down by 3
12 percent and 12 percent respectively. This trend continued into June 2008 when pending
13 sales had decreased 30 percent from 2007 and new listings had decreased 16 percent.

14 In March 2008, the median sales price for a residence was \$286,500, which was
15 only a \$300 increase from March 2007. The median sales price fell to \$275,000 in April
16 2008, but then increased to \$287,500 in May 2008. In June 2008, the median sales price
17 of \$289,000 was \$6,000 lower than the median sales price in June 2007.

18 Along with the slowdown in home sales and the increase in housing inventory,
19 there has been a decline in residential construction, which was illustrated by a decline in
20 residential building permit issuance in the Portland area. Year-to-date through March
21 2008, permit issuance in the Portland area was for 2,150 housing units, which was a
22 decline of 50 percent from the same period in 2007. Construction activity in the single
23 family home construction segment has declined even further, with 1,147 permits being
24 issued through March 2008, which was a 52 percent decline from 2007.

25 Year-to-date through June 2008, residential permit issuance totaled 4,495 units,
26 which was a 41 percent decline from the same period in 2007. For the period of April

2008 through June 2008, total permits were 2,345 units, which was a 30 percent decline from 3,369 in the same period in 2007.

Overall, the housing market in the Portland Metropolitan Area has declined over the last two years after experiencing strong growth in previous years. The downturn in the Portland market began about a year after the national market began to decline. A decline in construction activity and housing starts has occurred as housing prices have declined and available inventory has increased. Currently, local and national economists are predicting further downward pressure on home pricing in the Portland area. A price recovery in the Portland area is expected to occur, at the soonest, in late 2009 or early 2010.

G. Selected Financial Information.

The following table sets forth certain selected financial data as of December 31 of the years indicated and for the fiscal years then ended. The financial data was taken from consolidated financial statements which include the accounts of the Company, its wholly-owned subsidiaries, and variable interest entities in which the Company directly owns 50 percent or more of the outstanding equity and has effective control. All balance sheets and results of operations of those affiliates are reflected within the Company's consolidated financial statements.

<u>Income Statement Data:</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Total revenues	\$68,204,885	\$121,438,505	\$177,526,617
Pre-tax operating income (loss)	(43,395,237)	(303,043)	26,116,597
Land value decrease	(41,800,000)	(15,995,621)	(0)
Tax	5,603,947	116,985	(10,095,000)
Net income (loss)	(79,591,291)	(16,181,680)	16,021,597
<u>Balance Sheet Data:</u>			
Other assets	\$28,944,617	\$15,073,480	\$35,654,274
Inventories	93,450,349	223,013,055	231,763,774
Total assets	122,394,966	238,086,535	267,418,048
Total liabilities	161,785,315	195,263,560	196,596,379
Shareholders' equity (deficit)	(39,390,349)	42,822,975	70,180,189

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IV.**THE CHAPTER 11 CASE****A. Events Leading to Bankruptcy.**

Matrix's bankruptcy filing was precipitated by a series of unfortunate events and circumstances that began in late 2006. The Company was -- and still is -- impacted by many of the factors which have adversely impacted the home building industry nationwide over the last two years. These factors have included the depressed housing market, severe challenges in the credit and mortgage markets, diminished consumer confidence, and increased foreclosures.

As a direct result of those industry factors, the value of the Company's inventories became significantly impaired and its sales declined. The impairment of its inventories put the Company in breach of many of its credit agreements with its lenders. Those breaches, in turn, caused many of the Company's lenders to stop making further advances under its credit facilities and, in some cases, the lender also demanded that all of the Company's sale proceeds be paid to the lender through escrow as a condition of releasing its trust deed liens on the homes and condominium units that were sold by the Company.

Further exacerbating the Company's financial problems was a judgment that was entered against it on February 15, 2008. The judgment creditor, JD Properties Vancouver, LLC ("JD Properties"), caused the judgment to be registered, or lien abstracts to be recorded, in various counties in which the Company owns real property. On or about April 4, 2008, it garnished the Company's bank account, and in May 2008 the Company made additional payments to JD Properties in exchange for the release of the judgment lien on homes sold to home buyers. These payments to JD Properties, and additional sums held by a title company as a result of the judgment, further depleted the Company's cash for operations.

1 The confluence of these events forced the Company to cease its vertical
2 construction activities in May 2008. With its cash position severely depleted, and unable
3 to obtain additional working capital from its lenders, the Company evaluated its options
4 and determined that bankruptcy court protection was the only viable alternative for
5 saving the business.

6 B. Commencement of Chapter 11 Case.

7 Matrix commenced this Chapter 11 case by filing a voluntary petition for relief
8 under Chapter 11 of the Bankruptcy Code on June 10, 2008. No trustee has been
9 appointed, and the Debtor has continued to manage its properties and affairs as debtor in
10 possession pursuant to section 1107 and 1108 of the Bankruptcy Code.

11 C. Official Committee of Unsecured Creditors.

12 The Bankruptcy Code provides for the appointment of an official committee of
13 unsecured creditors in a Chapter 11 case. This committee is generally composed of the
14 seven largest unsecured creditors and is appointed by the United States trustee. In this
15 Chapter 11 case, the Official Committee of Unsecured Creditors (the "Committee") was
16 formed on July 1, 2008. The current members of the Committee and their respective
17 representatives are: Salem Painting Company, represented by Phil Kartel; Tri County
18 Temp Control, represented by Alan Sanchez; and SR Design LLC, represented by Cathy
19 Roper. The Committee is represented by Gary U. Scharff of the Law Office of Gary
20 Underwood Scharff.

21 D. Funding for Postpetition Obligations.

22 Since the commencement of this Chapter 11 case, the Company has timely paid or
23 performed all of its obligations incurred after the Petition Date. Its cash has come from
24 three principal sources: (1) bank deposits as of the bankruptcy filing, which totaled
25 \$1,339,776; (2) income tax refunds received in 2008 in the amount of \$2,985,821
26 (Federal \$2,342,856, Oregon \$575,312, Colorado \$45,914, and California \$21,739); and

1 (3) cash collateral of four lenders (i.e., Bank of America, JPMorgan Chase Bank,
2 KeyBank, and Columbia River Bank) to the extent permitted under the orders entered on
3 September 11 and 12, 2008.

4 E. Postpetition Operations.

5 On the Petition Date, the Company's business operations were at a standstill. It
6 had suspended its vertical construction activities a few weeks before in May 2008 and, at
7 the time of the bankruptcy filing, it did not have the ability to sell its real estate inventory
8 in the ordinary course of business because it could not deliver good title to customers.
9 Through a series of orders entered after the "first-day" hearing held on June 16, 2008, the
10 Court authorized the Debtor to sell its real estate inventory in the ordinary course of
11 business free and clear of liens, and to assume its prepetition contracts with customers.
12 However, under those orders, the Company was not permitted to use any of the proceeds
13 from the sale of its inventory as working capital to fund its ongoing operations. In order
14 to obtain authorization to use certain of the sale proceeds, the Debtor filed a series of
15 motions on August 11, 2008. Shortly thereafter, those motions were referred to The
16 Honorable Elizabeth L. Perris, who presided as the settlement judge at settlement
17 conferences. Those settlement conferences resulted in agreements with four of the
18 Company's lenders. Those agreements were incorporated into five separate orders that
19 were entered on September 11 and 12, 2008. As a result of the funding authorized by
20 those orders, the Company restarted its vertical construction activities at four of its
21 subdivisions on September 15, 2008.

22 The following table sets forth selected financial data for the periods indicated.
23 This information should be read in conjunction with the financial statements and data
24 included elsewhere in this Disclosure Statement. None of this financial data has been
25 audited or reviewed by a certified public accountant and, accordingly, it may not be in
26 accordance with generally accepted accounting principles.

<u>Income Statement Data:</u>	<u>1/1/09- 2/28/09</u>	<u>10/1/08- 12/31/08</u>	<u>7/1/08- 9/30/08</u>	<u>6/1/08- 6/30/08</u>
Total revenues	\$3,801,200	\$6,906,622	\$11,062,257	\$1,979,396
Pre-tax operating income (loss)	(981,575)	(16,497,794)	(1,670,570)	(704,614)
Land value decrease	(3,390,000)	(2,520,000)	(34,032,157)	—
Other non-operating adjustments	(8,795,138)	—	—	—
Tax benefit (expense)	(117,168)	5,683,267	1,091,280	207,010
Net income (loss)	(13,283,881)	(13,334,527)	(34,611,447)	(497,604)

V.

ASSETS AND LIABILITIES

A. Assets.

The Debtor's assets are comprised of current assets and long-term assets. Current assets consist of cash and receivables that are expected to be collected within a period of one year; long-term assets are all other assets, principally inventory and fixed assets. A brief review of the Company's assets, by categories used for financial reporting purposes, is set forth below.

The discussion that follows addresses only those assets that are owned directly by Matrix, including those of its Legend Homes Division; it does not include a discussion of assets owned by its subsidiaries and other affiliates. For purposes of this Disclosure Statement, unless otherwise noted, values are stated at their fair market value or net realizable value, in each case as reasonably determined by management based on information presently known and available to it, including appraisal reports. Accordingly, certain adjustments have been made to the Company's financial statements. These adjustments include the write-off of receivables that are determined to be uncollectible and the write-down of inventory that has a fair value less than its carrying value. These adjustments have not been audited or reviewed by a certified public accountant and they might not be in accordance with generally accepted accounting principles.

1 1. Current Assets.

2 Set forth below are the Debtor's current assets as of February 28, 2009:

3	Restricted cash	7,440,223
4	Unrestricted cash	3,904,419
5	Professional deposits	53,500
6	Utility deposits	39,181
7	Prepaid expenses	193,068
8	Escrowed receivables	1,212,618
9	Accounts receivable	5,500
10	Notes receivable	5,314
11	Insider receivables	615,477
12	Unliquidated tax refund	6,000,000
13	Liquidated tax refunds	<u>1,051,061</u>
14	Total	\$20,520,361

15 2. Inventories.

16 The Debtor currently owns raw land, developed but unplatted lots, platted lots,
17 homes under construction, and completed homes. Set forth below is a summary that lists
18 the Company's inventory by project or subdivision and that shows for each the estimated
19 going concern value and its liquidation value, in each case, as of February 28, 2009.

20	<u>Project</u>	<u>Status</u>	<u>Going Concern Value</u>	<u>Liquidation Value</u>
21	Arlington	Developed -not platted lots	\$4,726,200	\$3,780,960
22	Copper Creek	Raw Land	800,000	640,000
23	Edgewater 1	Homes	1,818,458	1,478,657
24	Edgewater 1	Platted Lots	957,600	766,080
25	Edgewater 2	Platted Lots	6,315,000	5,052,000
26	Edgewater 3	Raw Land	935,000	748,000
27	Edgewater 4	Raw Land	360,000	288,000
28	Edgewater East	Homes	311,199	247,383
29	Edgewater East	Platted Lots	352,800	282,240
30	North Albany Village1 & 2	Raw Land	2,242,500	1,794,000
31	North Pointe	Homes	1,119,948	931,990
32	North Pointe	Platted Lots	920,000	736,000
33	Pawers	Raw Land	500,000	400,000
34	Taralon 1	Homes	1,811,999	1,479,367
35	Taralon 1	Platted Lots	3,265,270	2,612,216
36	Taralon 2	Platted Lots	1,730,000	1,384,000
37	The Q	Homes	2,520,516	2,142,439
38	The Q 2 & 3	Raw Land	840,000	672,000
39	Trillium Woods	Platted Lots	3,644,691	1,768,000

1	Victoria Gardens	Homes	1,000,543	796,252
	Victoria Gardens	Platted Lots	2,391,600	1,913,280
2	Village @ Orenco	Homes	1,495,223	1,203,567
	Village @ Orenco	Platted Lots	2,922,769	2,338,215
3	Villebois	Homes	1,972,912	1,612,715
	Villebois	Platted Lots	7,938,000	6,350,400
4	Villebois 2	Raw Land	6,978,000	5,582,400
	Walnut Creek	Homes	797,797	644,694
5	Walnut Creek	Platted Lots	2,114,167	1,691,333
	Willamette Landing 6	Homes	848,770	702,471
6	Willamette Landing 6	Platted Lots	670,000	536,000
	Willamette Landing 7	Homes	885,601	730,236
7	Willamette Landing 7	Platted Lots	430,625	344,500
	Willamette Landing 8	Developed -not platted lots	1,350,000	1,080,000
8	Willamette Landing 9	Raw Land	340,000	272,000
	Witham Oaks	Raw Land	6,600,000	5,280,000
9				
10			<hr/>	<hr/>
			\$73,907,187	\$58,281,395

11 Summary by Category

12		Homes-Complete & Under construction	\$14,582,965	\$11,969,770
		Platted Lots	33,652,522	25,774,265
13		Developed -not platted lots	6,076,200	4,860,960
		Raw Land	19,595,500	15,676,400
14			<hr/>	<hr/>
			\$73,907,187	\$58,281,395

15 3. Fixed Assets.

16 As of February 28, 2009, the book value of the Debtor's model furniture,
 17 furnishings and equipment, including leasehold improvements, net of accumulated
 18 depreciation, was \$499,386.

19 4. Investments.

20 The Company's investments consist principally of ownership interests in 13
 21 affiliates. Only one of those entities, Springs Ranch, is expected to make distributions to
 22 the Company on account of its ownership interests.

23 The Company also owns 200,000 shares of stock in Q Tires, Inc., a Nevada
 24 corporation. Stock of that corporation is not publicly traded. The Company purchased
 25 that stock in April 2006 for \$200,000.00, or \$1.00 per share. The stock is believed to be
 26 worthless.

1 5. Other Assets.

2 The Company's other material assets are federal and state tax refund claims,
3 contract rights under real estate option and purchase agreements, and litigation claims.

4 Debtor has filed for federal and state income tax refunds totaling approximately
5 \$1,051,061. In its tax return for calendar year 2008, the Company will claim refunds
6 totaling approximately \$6,000,000 for carryback of 2008 losses to 2006.

7 The Company is party to one contract under which it has the right and option to
8 purchase certain real property. The contract is in addition to those that have been
9 assumed or rejected to date in the Chapter 11 case. The value of these contract rights is
10 uncertain.

11 The Debtor also holds certain litigation claims against others, all of which will be
12 preserved for the benefit of the Reorganized Debtor under the Plan to the extent they are
13 not sooner resolved. These include: (a) the claims asserted by the Debtor against
14 JD Properties Vancouver, LLC in Adversary Proceeding No. 08-03260, in which the
15 Company seeks to set aside judgment liens and recover prepetition payments totaling
16 \$413,538.19 as preferences under section 547 of the Bankruptcy Code; (b) claims against
17 First American Title Company ("FATCO") to recover up to \$500,000 (\$762,938 held less
18 \$262,938 used to pay homeowners on pre-petition liens) of escrowed sale proceeds,
19 which are being held pending resolution of certain claims that FATCO has against the
20 Company based on title insurance policies issued by FATCO before the commencement
21 of the Chapter 11 case (under which it insured over certain liens that have not been
22 satisfied or released); and (c) claims against Derek L. Brown, Derek L. Brown &
23 Associates, Inc., DLB & Associates, and Odyssey Properties, LLC, which are described
24 in Section III.E.3. above.

25 B. Liabilities.

26 1. Secured Claims.

1 The Company is indebted to various creditors whose claims are secured, in whole
 2 or in part, by property of the estate. Under the Plan, these claims have been placed in 15
 3 classes. These secured claims are summarized below. The categories of secured claims
 4 discussed below are for convenience and do not track the classes of claims set forth in the
 5 Plan.

6 a. Lenders' Claims. The Company is indebted to eight different
 7 lenders for borrowed money. Each of the lenders holds one or more trust deed liens on
 8 certain of the Company's real estate inventory. These lenders are:

9 (i) Bank of America. Bank of America holds claims
 10 against the Company based on loans secured by its subdivisions known as North Pointe
 11 Meadows and Village at Orenco. It has been given relief from the automatic stay to
 12 permit it to foreclose its trust deed lien on North Pointe Meadows. The debt recorded on
 13 the Company's books as of February 28, 2009, is \$9,281,805. This amount includes
 14 interest accrued up to August 2008.

15 (ii) Columbia River Bank. Columbia River Bank holds
 16 claims against the Company for loans secured by its subdivisions known as Walnut Creek
 17 and Arlington. The debt recorded on the Company's books as of February 28, 2009, is
 18 \$14,830,403. This amount includes interest accrued up to August 2008.

19 (iii) First Independent Bank. First Independent Bank holds
 20 claims against the Company for loans secured by its subdivisions known as North Albany
 21 Village and Victoria Gardens. The debt recorded on the Company's books as of February
 22 28, 2009, is \$8,588,545. This amount includes interest accrued up to August 2008.

23 (iv) JPMorgan Chase Bank. JPMorgan Chase Bank holds
 24 claims against the Company for loans secured by its subdivisions known as Willamette
 25 Landing phase 6 and 7. The debt recorded on the Company's books as of February 28,
 26 2009, is \$5,535,548. This amount includes interest accrued up to August 2008.

(v) KeyBank. KeyBank holds claims against the Company for loans secured by its subdivisions known as Copper Creek, Edgewater Phases 1, 2, 3, 4, and East, and The Q Phases 1 and 2. The debt recorded on the Company's books as of February 28, 2009, is \$21,538,926. This amount includes interest accrued up to August 2008.

(vi) M&T Bank. M&T Bank holds claims against the Company for a loan secured by the subdivision known as Trillium Woods. The debt recorded on the Company's books as of February 28, 2009, is \$3,644,691.

(vii) U.S. Bank. U.S. Bank holds claims against the Company for a loan secured by the subdivision known as Witham Oaks. The debt recorded on the Company's books as of February 28, 2009, is \$4,961,566. This amount includes interest accrued up to August 2008.

(viii) Wachovia Financial Services Inc. Wachovia Financial Services Inc. holds claims against the Company for loans secured by its subdivisions known as Taralon Phases 1 and 2 and Villebois Phases 1 and 2. The debt recorded on the Company's books as of February 28, 2009, is \$36,593,375. This amount includes interest accrued up to August 2008.

b. Construction Lien Claims. Approximately 60 vendors of the Company have asserted 380 statutory liens on the Company's present and former real estate inventory under Oregon's Construction Lien Law (ORS 87.001 to 87.060 and 87.075 to 87.093). The amount of these statutory lien claims total approximately \$2,100,000. The Company estimates that approximately \$700,000 of these claims are secured by valid liens which have priority over trust deed liens of lenders and that the remaining claims are unsecured.

c. Property Tax Claims. The Company's real estate inventory and equipment are subject to statutory liens that secure claims of governmental units for

property taxes, assessments, and similar impositions. As of February 28, 2009, the total amount of the unpaid prepetition real property taxes was approximately \$657,500. There are no unpaid prepetition personal property taxes.

d. Other Secured Claims and Leases.

The Company is also indebted to other creditors for amounts owing under vehicle leases that will be assumed pursuant to the Plan. The lease claims total approximately \$34,300 as of February 28, 2009, on five vehicles under the leases listed below. Additionally, there is one additional vehicle under a month to month lease with a monthly lease payment of \$151.

<u>Auto</u>	<u>Expiration</u>	<u>Monthly</u>	<u>Buyout</u>	<u>Remaining</u>
Van	7/31/10	\$352	None	\$5,956
Van	9/30/10	\$330	None	\$6,274
Acura	5/13/09	\$629	None	\$1,886
Honda	6/30/09	\$577	\$5,609	\$7,331
Lexus	7/31/10	\$756	None	\$12,849

The Company is also indebted to three private parties who hold secured claims on various parcels of real property owned by the Company. These secured claims total approximately \$1,601,073.

The Company is also indebted to the Internal Revenue Service in the amount of \$131,843 for corporate income taxes for the 2007 tax year that resulted from a postpetition audit examination. This claim will be satisfied by setoff against other federal tax refunds of the Company.

2. Administrative Expense Claims.

Administrative Expense Claims consist primarily of (a) costs and expenses incurred in connection with the operation of the Debtor's business after the Petition Date, (b) claims of professionals who are or were employed at the expense of the Debtor's bankruptcy estate, to the extent allowed by the Court, and (c) fees and charges assessed against the bankruptcy estate under 28 USC § 1930, including quarterly fees payable to

1 the United States trustee. Assuming the Effective Date of the Plan is July 1, 2009, the
2 Debtor projects that unpaid Administrative Expense Claims will total approximately
3 \$1,380,000, consisting of (i) approximately \$1,015,000 in postpetition trade payables and
4 other accrued expenses, (ii) approximately \$350,000 owing to professionals, net of
5 amounts provisionally paid through such date pursuant to Court orders, and (iii) \$13,000
6 for United States trustee quarterly fees.

7 3. Priority Claims.

8 The Debtor estimates that unpaid claims that arose before the Petition Date which
9 are entitled to priority under section 507(a) of the Bankruptcy Code will not exceed, in
10 the aggregate, \$65,700. These claims consist of (a) the claims of individuals, to the
11 extent of \$2,425 each, arising from the deposit of money in connection with the purchase
12 of homes or condominium units, for the personal, family, or household use of such
13 individuals, under purchase contracts that have been cancelled or otherwise terminated,
14 which claims are estimated to total approximately \$33,950, and (b) claims of employees
15 for accrued, but unused, vacation and sick leave pay and for deferred compensation
16 totaling approximately \$31,750 as of February 28, 2009.

17 4. Customer Home Warranty Claims.

18 Claims for breach of the Company's one-year warranty given to buyers of its
19 homes, townhomes and condominium units that were sold prior to the Petition Date are
20 believed by management to be immaterial in amount. Only five proofs of claim were
21 timely filed by customers.

22 5. Director and Officer Indemnity Claims.

23 Under Oregon law, a corporation is permitted to indemnify individuals who are
24 made a party to a proceeding (whether civil, criminal, administrative or investigative), or
25 are threatened to be made a party to such a proceeding, because the individuals are or
26 were a director, officer or employee of the corporation, against liability under certain

1 circumstances. Generally, a corporation may indemnify an officer or director against
2 liability if (a) the conduct of the individual was in good faith, (b) the individual
3 reasonably believed that the individual's conduct was in the best interests of the
4 corporation, or at least not opposed to its best interests, and (c) in the case of a criminal
5 proceeding, the individual had no reasonable cause to believe the individual's conduct
6 was unlawful. Each of the Company's officers timely filed a proof of claim asserting a
7 contingent and unliquidated claim against the Debtor for indemnification. As of the date
8 hereof, no proceeding has been commenced or threatened against any of the Company's
9 officers or other employees based on their activities with the Company.

10 6. Other Unsecured Claims.

11 In addition to those claims described above, a variety of other claims which are not
12 entitled to priority under the Bankruptcy Code have been asserted against the Debtor in
13 this case. The largest category of these claims are those of the Company's lenders based
14 on loans secured by real estate inventory that is worth less than the unpaid balances
15 owing on those loans, those based on unsecured lines of credit and those based on
16 guaranties of loans made to certain of the Company's affiliates. The Debtor estimates
17 that those claims total approximately \$72 million. The actual amount of the unsecured
18 claims of the lenders will depend on a number of factors, primarily the amounts that the
19 lenders recover from the foreclosure of the real estate collateral that is abandoned by the
20 Debtor and the values of the Retained Projects as determined pursuant to the Plan.

21 There are also a number of other kinds of unsecured claims, some of which are
22 disputed by the Company. Among the claims that are disputed by the Company are those
23 asserted by the Madison Heights Condominium Owners' Association, the Stonewater
24 Homeowners' Association, and the Hambach Crossing Owners' Association. The total
25 amount of those disputed claims exceeds \$33 million. A portion of those disputed claims
26 is believed by the Company to be covered by certain of the Company's insurance

1 policies. The actual amount of those claims will depend upon how they are ultimately
 2 resolved, but the Debtor believes such claims will total less than \$10 million.

3 VI.

4 DESCRIPTION OF THE PLAN

5 A discussion of the principal provisions of the Plan is set forth below. The
 6 discussion of the Plan which follows is a summary only and is qualified in its entirety by
 7 reference to the full text of the Plan itself. You are urged to read the Plan in full and
 8 make a thorough review of its terms in evaluating whether to accept or reject the Plan. If
 9 any inconsistency exists between the summary herein and the Plan, the terms of the Plan
 10 control.

11 A. Classification and Treatment of Claims and Equity Interests.

12 1. Classification Generally.

13 The Plan designates Classes of Claims and Equity Interests for purposes of voting
 14 on the Plan and making distributions thereunder. All Claims, other than Administrative
 15 Expense Claims and Priority Tax Claims, and all Equity Interests are placed in Classes
 16 under the Plan. A Claim is classified in a particular Class only to the extent that the
 17 Claim falls within the description of that Class and is classified in one or more other
 18 Classes to the extent that any remainder of the Claim falls within the description of such
 19 other Classes.

20 2. Treatment of Claims and Equity Interests.

21 A summary of the classification and treatment of Claims and Equity Interests
 22 under the Plan is set forth in Section I.G. above. A creditor will receive a distribution
 23 under the Plan only if such creditor is the holder of an Allowed Claim. Distributions
 24 under the Plan are in full satisfaction of all Claims against the Debtor.

25 B. Plan Funding.

1 The Plan will be funded by a combination of the Debtor's cash on hand as of the
 2 Effective Date and cash that is collected or generated by the Reorganized Debtor after the
 3 Effective Date.

4 C. Distributions to Creditors.

5 The provisions of the Plan that govern distributions to creditors and the resolution
 6 of disputed and contingent claims are set forth in Article V of the Plan. Certain of those
 7 provisions are summarized below.

8 1. Distributions Generally.

9 Distributions under the Plan will be made on or after the Effective Date, as more
 10 specifically set forth in the Plan. Distributions to be made by the Reorganized Debtor
 11 under the Plan ordinarily will be made by check drawn on a domestic bank. Withholding
 12 taxes and other amounts required to be withheld under applicable law will be deducted
 13 from distributions. Distributions to creditors pursuant to the Plan ordinarily will be
 14 delivered by regular mail, postage prepaid, in an envelope addressed as directed in a
 15 request served on the Reorganized Debtor as provided in the Plan, but if no such request
 16 is made, at the address shown in the Debtor's schedules, as they may from time to time be
 17 amended, or, if a different address is stated in a proof of claim duly filed with the Court,
 18 to such address.

19 2. Reserve Fund.

20 On the Effective Date, or as soon thereafter as is practicable, the Reorganized
 21 Debtor will establish a Reserve Fund, which will consist of all Unclaimed Property, cash
 22 reserved for the benefit of holders of Disputed Claims and of Contingent Claims, and
 23 cash reserved pending the resolution of disputes as to the identity of entities who are
 24 entitled to receive distributions under the Plan.

25 3. Undeliverable or Unclaimed Distributions.
 26

1 For a period of 180 days after a distribution is made pursuant to the Plan, checks
2 and other property that are unclaimed (including checks that have been returned as
3 undeliverable without a proper forwarding address and checks that were not mailed or
4 delivered because of the absence of a proper address to which to mail or deliver the same)
5 will be held in the Reserve Fund for the holders of Allowed Claims entitled thereto. After
6 the expiration of such 180 day period, holders of Allowed Claims who have not claimed
7 such Unclaimed Property will no longer be entitled thereto, and the Claims of such
8 holders will be deemed Disallowed for all purposes.

9 4. Time Bar for Cashing Distribution Checks.

10 The Reorganized Debtor will have the right to stop payment on any check issued
11 by it under the Plan if such check is not negotiated within 60 days after the date of
12 issuance thereof. Requests for reissuance of any check must be made to the Reorganized
13 Debtor, by the holder of the Allowed Claim to whom such check originally was issued,
14 prior to the expiration of the 180 day period. After such date, the holder of any such
15 Claim who has failed to make a timely request for reissuance of such a voided check will
16 not be entitled to any other or further distribution under the Plan on account of such
17 voided check or such Claim.

18 5. Limitations on Amending Claims.

19 Except as otherwise provided in the Plan, after the Confirmation Date, a proof of
20 claim may be amended by the holder of such Claim solely to decrease, but not to increase,
21 the amount of such Claim.

22 D. Executory Contracts and Unexpired Leases.

23 On the Effective Date, all executory contracts and unexpired leases of the Debtor
24 not previously rejected and not the subject of a pending motion to reject will be assumed
25 by the Reorganized Debtor, in each case, in accordance with the provisions and
26 requirements of sections 365 and 1123(b)(2) of the Bankruptcy Code. Any monetary

amounts that are in default under a contract or a lease that is assumed pursuant to the Plan will be satisfied by a cash payment unless otherwise agreed.

VII.

THE REORGANIZED DEBTOR

A. Ownership and Management.

1. Shareholders.

The Plan provides that on the Effective Date all of the Debtor's common stock then outstanding will be cancelled and new shares of common stock in the Reorganized Debtor ("New Common Stock") will be issued. The New Common Stock will be issued to the following individuals:

<u>Name</u>	<u>Percentage of Shares</u>
Jim L. Chapman	50 percent
Diane F. Jarvis	25 percent
Craig Brown	20 percent
James M. Goodrich	5 percent

Mr. Chapman will acquire his shares of New Common Stock in exchange for the forgiveness of his claims against the Debtor for deferred compensation, which total \$828,908. Mr. Brown also will acquire his shares in exchange for the forgiveness of his claims against the Debtor for deferred compensation, which total \$449,720. Ms. Jarvis will acquire her shares in exchange for a capital contribution in the amount of \$60,000, which will be paid in cash on the Effective Date. The shares to Mr. Goodrich will be issued to him as bonus compensation.

Stock options or other rights to acquire shares of the Reorganized Debtor's capital stock may be granted by the Reorganized Debtor or its shareholders after the Effective Date. Nothing in the Plan imposes any restriction on the right of the Reorganized Debtor's shareholders to sell or otherwise dispose of any interest in their shares of stock.

2. Management.

The Plan provides that upon the occurrence of the Effective Date, a new board of directors of the Reorganized Debtor will be elected. Until the Reorganized Debtor has fully performed its obligations under the Plan to the holders of Allowed Class 23 Claims, the number of directors will be five. Three of the directors will be elected by the holders of the New Common Stock, and two will be appointed by majority vote of the creditors that hold the five largest Allowed Class 23 Claims. Of the three directors to be elected by the New Common Stockholders, however, one of them must be a disinterested person who has no less than five years of actual experience in the home building industry other than as an appraiser or lender.

Each outside director will be entitled to an annual director's fee of \$10,000, plus \$250 for each special board meeting that such director attends. These fees will be paid by the Reorganized Debtor at the end of each calendar quarter.

The Debtor expects that two of the directors to be elected by the New Common Stockholders will be Jim L. Chapman and Diane F. Jarvis. The identities and affiliates of the other three directors will be disclosed at or before the hearing to consider confirmation of the Plan.

The following table identifies each person who is expected to serve as an executive officer of the Reorganized Debtor on the Effective Date and sets forth the initial annual compensation to each.

<u>Name</u>	<u>Age</u>	<u>Position</u>	<u>Annual Cash Compensation</u>
Jim L. Chapman	55	President	\$155,000
Diane F. Jarvis	55	Secretary /Treasurer and Chief Financial Officer	\$155,000
Craig Brown	61	Vice-President	\$122,122

1 In addition, the Reorganized Debtor will employ David L. Oringdulph as a Special
2 Projects Manager at his current annual salary of \$174,000.

3 B. New Corporate Name

4 The corporate name of the Reorganized Debtor will be "Legend Homes
5 Corporation." On the Effective Date, the Debtor's articles of incorporation will be
6 amended and restated to, among other things, effectuate this name change.

7 C. Financial Projections.

8 The Debtor has prepared financial projections for the Reorganized Debtor based
9 on the new capital structure contemplated by the Plan and on the treatment of the
10 Debtor's various claims under the Plan. In accordance with "fresh start" accounting
11 principles, the Reorganized Debtor's assets will be restated at fair values and its liabilities
12 will be restated at present values, in each case as of the Effective Date. Attached hereto
13 as Exhibit A are projected balance sheets, income statements and cash flow statements for
14 the Reorganized Debtor as of and for the four fiscal yearly periods beginning July 1, 2009
15 and ending June 30, 2013. These projections are based on a number of assumptions,
16 including the assumption that the Effective Date of the Plan will be July 1, 2009. The
17 Debtor believes that the major assumptions on which these financial projections are based
18 are reasonable and that the projected results are reasonably achievable by the Reorganized
19 Debtor's management team. However, as is the case with all "forward looking"
20 statements, no assurance can be given that the Reorganized Debtor will be able to achieve
21 the projected results.

22 **VIII.**

23 **VOTING ON THE PLAN**

24 A. Voting Eligibility.

25 In general, a holder of a claim or interest may vote to accept or reject a plan if both
26 (1) the claim or interest is "allowed," which means generally that it is not disputed,

contingent or unliquidated in amount, and (2) the claim or interest is part of a class that is impaired by the plan. If a creditor or equity interest holder will not receive any distribution under a plan in respect of such claim or interest, the Bankruptcy Code deems such holder to have rejected the plan and provides that the holder is not entitled to vote. On the other hand, if the claim or interest is part of a class that is not impaired, the Bankruptcy Code conclusively presumes that holder of such claim or interest has accepted the plan and provides that the holder is not entitled to vote. Under section 1124 of the Bankruptcy Code, a class of claims or interests is deemed to be “impaired” under a plan unless (1) the plan leaves unaltered the legal, equitable, and contractual rights to which such claim or interest entitles the holder thereof, or (2) notwithstanding any legal right to an accelerated payment of such claim or interest, the plan (a) cures all existing defaults (other than defaults resulting from the occurrence of events of bankruptcy), (b) reinstates the maturity of such claim or interest as it existed before the default, (c) compensates the holder of such claim or interest for any damages resulting from such holder’s reasonable reliance on such legal right to an accelerated payment, and (d) does not otherwise alter the legal, equitable, or contractual rights to which such claim or interest entitles the holder of such claim or interest.

Under the Plan, only the holders of allowed claims (or of disputed claims that are temporarily allowed by the Court for voting purposes) in Classes 1, 2, 3, 6, 7, 8, 13, 14, 15, 21, 22 and 23 are entitled to vote. Classes 4, 5, 9, 10, 11, 12, 16, 17, 18, 19 and 20 are not impaired under the Plan and are deemed to have accepted the Plan without voting. Class 24 is conclusively deemed to have rejected the Plan and the holders of Equity Interests are not entitled to vote.

B. Voting Deadline.

1 The deadline for submitting completed ballots is ____ p.m. (prevailing Pacific
2 Time) on ____, 2009 (the "Voting Deadline"). Only those ballots that are actually
3 received by the Voting Deadline will be counted as either accepting or rejecting the Plan.

4 C. Acceptance By a Class.

5 As a condition to confirmation, the Bankruptcy Code requires, among other things,
6 that (1) at least one class of claims that is impaired under the plan has accepted the plan,
7 determined without including any acceptance of the plan by any insider, and (2) except
8 under certain circumstances, each class of claims or interests that is impaired under the
9 plan accepts the plan. Section 1126(c) of the Bankruptcy Code defines acceptance of a
10 plan by an impaired class of claims as acceptance by holders of at least two-thirds in
11 dollar amount and more than one-half in number of claims in that class, but for that
12 purpose counts only the votes of those creditors who actually vote to accept or reject the
13 plan.

14 D. Voting Procedures.

15 1. Submission of Ballots.

16 A form of Ballot is included among the materials that accompany this Disclosure
17 Statement. All votes to accept or reject the Plan must be cast by properly submitting a
18 duly completed and executed Ballot. Ballots must be delivered to the Voting Agent
19 designated in the Ballot at the address or fax number set forth on the Ballot form and must
20 be received by the Voting Deadline. The method of delivery of a Ballot is at the election
21 and risk of the voting creditor. Please carefully follow the directions contained on the
22 enclosed Ballot.

23 2. Incomplete Ballots.

24 Any Ballot received which is not signed, which does not contain sufficient
25 information to permit the identification of the claimant, or which does not indicate either
26

1 an acceptance or rejection of the Plan or which indicates both acceptance and rejection of
2 the Plan will be invalid and will not be counted as a vote cast with respect to the Plan.

3 3. Withdrawal or Change of Votes.

4 A Ballot may be withdrawn by delivering a written notice of withdrawal to the
5 Voting Agent at any time prior to the Voting Deadline. Thereafter, a withdrawn Ballot
6 will not be effective unless approved by the Bankruptcy Court. In order to be valid, a
7 notice of withdrawal must (i) specify the name of the holder who submitted the vote on
8 the Plan to be withdrawn, (ii) contain a description of the Claim to which it relates and
9 (iii) be signed by the holder in the same manner as on the Ballot. The Debtor
10 expressly reserves the absolute right to contest the validity of any such withdrawals of
11 votes on the Plan.

12 Any creditor who has submitted to the Voting Agent a properly completed Ballot
13 prior to the Voting Deadline may change such vote by submitting to the Voting Agent
14 prior to the Voting Deadline a subsequent properly completed Ballot. In the case where
15 more than one timely, properly completed Ballot is received with respect to the same
16 Claim, the Ballot that bears the latest date will be counted.

17 4. Voting Multiple Claims.

18 Only one form of Ballot is provided for voting. Any creditor that holds Claims in
19 more than Class or multiple Claims within a Class is required to vote separately with
20 respect to each Claim. Please sign, and return in accordance with the instructions on the
21 Ballot form, a separate Ballot with respect to each such Claim.

22 **IX.**

23 **CONFIRMATION OF THE PLAN**

24 A. Confirmation Hearing.

25 The Bankruptcy Court will hold a hearing to consider confirmation of the Plan
26 commencing on _____, 2009, at _____ .m. (prevailing Pacific Time) in Courtroom

4 at the United States Bankruptcy Court, 1001 SW 5th Avenue, Suite 700, Portland, Oregon, 97204. The confirmation hearing may be adjourned from time to time by the Bankruptcy Court without further notice, except for an announcement of the adjourned date and time made at the confirmation hearing.

B. Deadline for Objecting to Confirmation.

Any objection to confirmation to the Plan must be in writing, must state with specificity the grounds for any such objections, and must be filed with the Bankruptcy Court on or before _____, 2009.

C. Requirements for Confirmation.

1. Confirmation Requirements Generally.

The Bankruptcy Court can confirm the Plan only if all the requirements of section 1129 of the Bankruptcy Code are met. Among the requirements for confirmation are that (i) the plan be accepted by all impaired classes of claims and of interests or, if rejected by an impaired class, the plan “does not discriminate unfairly” and is “fair and equitable” as to such class, (ii) the plan is feasible, and (iii) the plan is in the “best interest” of creditors and stockholders that are impaired under the plan.

2. Feasibility.

In connection with confirmation with the Plan, the Bankruptcy Court will have to determine that the confirmation of the Plan is not likely to be followed by the liquidation or the need for further financial reorganization of the Reorganized Debtor unless such liquidation or reorganization is proposed in the Plan. The Debtor believes that the Reorganized Debtor will be able to perform its obligations under the Plan. See Section VII. above.

3. Best Interests of Creditors.

Section 1129(a)(7) of the Bankruptcy Code requires that any holder of a claim or interest in an impaired class that votes against a proposed plan must receive under the

1 plan distributions that have a value, as of the effective date of the plan, at least equal to
2 that which the holder would receive if the debtor's assets were liquidated under Chapter 7
3 of the Bankruptcy Code. To determine what creditors and shareholders would receive if
4 the Debtor were liquidated, the Bankruptcy Court must determine the dollar amount that
5 would be generated from a liquidation of its assets in the context of a hypothetical
6 liquidation. Such determination must take into account the fact that, as to each asset, all
7 claims secured by that asset would have to be paid in full, as would all administrative
8 expenses in the Chapter 7 case and in the original Chapter 11 case, before the balance of
9 those proceeds would be made available to pay unsecured creditors and shareholders.

10 To determine if a plan is in the best interest of each impaired class, the present
11 value of the distributions from the proceeds of the hypothetical liquidation of the assets
12 (after subtracting the amount attributable to secured claims and administrative expenses
13 of the bankruptcy case) must be compared with the present value of the consideration
14 offered to each such class under the plan. In addition, the rule of absolute priority of
15 distribution from a debtor's estate must be applied. Under that rule, no junior holder of a
16 claim or equity interest may receive distributions under a plan unless the plan provides
17 that all senior classes will be paid in full or unless all senior classes vote to accept the
18 plan.

19 After consideration of the effect that a Chapter 7 liquidation would have on the
20 ultimate proceeds available for distribution to the Debtor's creditors and shareholders
21 (including (i) the increased cost and expense of liquidation under Chapter 7 arising from
22 fees payable to a Chapter 7 trustee and the attorneys and other professional advisors to
23 such trustee, (ii) the time value of money resulting from what is likely a more protracted
24 proceeding, and (iii) the application of the rule of absolute priority to distributions in a
25 Chapter 7 case), the Debtor has determined that confirmation of the Plan will provide
26

1 each creditor in an impaired Class with a greater recovery than such creditor would
2 receive in a Chapter 7 case concerning the Debtor.

3 The Debtor estimates that in liquidation under Chapter 7 general unsecured
4 creditors would receive cash distributions totaling approximately \$9 million. A
5 liquidation analysis is attached hereto as Exhibit B. It is also estimated that in a Chapter 7
6 case general unsecured creditors would realize on their claims a total recovery in the
7 range of 9 cents per dollar of allowed claim to 12 cents per dollar of allowed claim. The
8 actual recovery, as a percentage of allowed claims, would depend largely on the size of
9 the pool of the general unsecured claims after the lenders' unsecured deficiency claims
10 are determined and after all disputed claims are finally resolved.

11 In contrast, under the Plan, the Reorganized Debtor will be obligated to pay
12 general unsecured creditors cash payments totaling no less than about \$13 million. The
13 total amount of payments to general unsecured creditors pursuant to the Plan could be
14 much greater than that amount, however. The actual amount will depend on a number of
15 things, including, in the case of Class 23 Claims, the amount of the Reorganized Debtor's
16 operating revenues during the four year period beginning July 1, 2009 and ending June
17 30, 2013. All general unsecured creditors will recover under the Plan more than they
18 would in a Chapter 7 case. The recovery on any particular general unsecured claim, as a
19 percentage of the claim, will depend on how that claim is classified in the Plan.

20 4. Confirmation Over Dissenting Class.

21 The Bankruptcy Code permits confirmation of a plan even if it is not accepted by
22 all impaired classes, as long as (a) the plan otherwise satisfies the requirements for
23 confirmation, (b) at least one impaired class of claims has accepted it without taking into
24 consideration the votes of any insiders in such class, and (c) the plan is "fair and
25 equitable" and does not "discriminate unfairly" as to any impaired class that has not
26

1 accepted the plan. These so-called “cramdown” provisions are set forth in section
2 1129(b) of the Bankruptcy Code.

3 a. Fair and Equitable.

4 The Bankruptcy Code establishes different “cramdown” tests for determining
5 whether a plan is “fair and equitable” to dissenting impaired classes of secured creditors,
6 unsecured creditors, and equity interest holders as follows:

7 (i) Secured Creditors. A plan is fair and equitable to a class of
8 secured claims that rejects the plan if the plan provides: (a) that each of the holders of the
9 secured claims included in the rejecting class (i) retains the liens securing its claim to the
10 extent of the allowed amount of such claim, whether the property subject to those liens is
11 retained by the debtor or transferred to another entity, and (ii) receives on account of its
12 secured claim deferred cash payments having a present value, as of the effective date of
13 the plan, at least equal to such holder’s interest in the estate’s interest in such property;
14 (b) that each of the holders of the secured claims included in the rejecting class realizes
15 the “indubitable equivalent” of its allowed secured claim; or (c) for the sale, subject to
16 section 363(k) of the Bankruptcy Code, of any property that is subject to the liens
17 securing the claims included in the rejecting class, free and clear of such liens with such
18 liens to attach to the proceeds of sale, and the treatment of such liens on proceeds in
19 accordance with clause (a) or (b) of this paragraph.

20 (ii) Unsecured Creditors. A plan is fair and equitable as to a class
21 of unsecured claims that rejects the plan if the plan provides that: (a) each holder of a
22 claim included in the rejecting class receives or retains under the plan property of a value,
23 as of the effective date of the plan, equal to the amount of its allowed claim; or (b) the
24 holders of claims and interests that are junior to the claims of the rejecting class will not
25 receive or retain any property under the plan.
26

(iii) Holders of Equity Interests. A plan is fair and equitable as to a class of equity interests that rejects the plan if the plan provides that: (a) each holder of an equity interest included in the rejecting class receives or retains under the plan property of a value, as of the effective date of the plan, equal to the greatest of the allowed amount of (i) any fixed liquidation preference to which such holder is entitled, (ii) the fixed redemption price to which such holder is entitled, or (iii) the value of the interest; or (b) the holder of any interest that is junior to the interests of the rejecting class will not receive or retain any property under the plan.

The Debtor believes that the Plan and the treatment of all impaired Classes under the Plan satisfy the foregoing requirements for nonconsensual confirmation of the Plan.

b. Unfair Discrimination.

A plan of reorganization does not “discriminate unfairly” if a dissenting class is treated substantially equally with respect to other classes similarly situated and no class receives more than it is legally entitled to receive for its claims or interests. The Debtor believes that the Plan does not discriminate unfairly against any impaired Class.

5. Effects of Confirmation.

a. Vesting of Estate Property.

Except as otherwise provided in the Plan or in the Confirmation Order, on the Effective Date, all property of the Estate will vest in the Reorganized Debtor, in each case, free and clear of all Claims, liens, charges, encumbrances and other interests of Creditors and Shareholders. As of the Effective Date, the Reorganized Debtor may use and dispose and otherwise deal with such property and may conduct its affairs, in each case, without supervision of the Bankruptcy Court and free of any restrictions imposed by the Bankruptcy Code or the Bankruptcy Rules other than those restrictions expressly imposed by the Plan or the Confirmation Order.

1 b. Discharge.

2 Except as otherwise provided in the Plan or in the Confirmation Order, on the
3 Effective Date, the Debtor and the Reorganized Debtor will be discharged from all
4 liability on any or all Claims that arose before the Confirmation Date or that are of a kind
5 specified in section 502(g), 502(h) or section 502(j) of the Bankruptcy Code.

6 c. Exculpation.

7 Section 8.4 of the Plan provides:

8 **Neither the Debtor nor the Committee, nor any of their respective**
9 **officers, directors, members, representatives or agents who served as**
10 **such during this Chapter 11 case, shall have or incur any liability to**
11 **any Creditor or Shareholder, or to any other entity, for any act or**
12 **omission in connection with or arising out of the Chapter 11 case or the**
13 **pursuit of confirmation of the Plan, except for liability based on willful**
14 **misconduct or gross negligence, and, in all respects, the Reorganized**
 Debtor and its officers, directors and agents shall be entitled to rely
 upon the advice of counsel with respect to their duties and
 responsibilities under this Plan; provided, however, that the foregoing
 protection shall not apply to benefit attorneys or other professional
 persons employed by the Debtor or the Committee.

15 X.

16 **ALTERNATIVES TO THE PLAN**

17 The Debtor believes that the Plan affords its creditors the greatest opportunity for
18 realization on its assets and the greatest possible value that could be realized on their
19 claims. The Debtor also believes that the Plan is fair to and reasonable in its treatment of
20 all constituencies. Possible alternatives to the Plan which might arise if the Plan is
21 rejected or if the Court refuses to confirm the Plan include: (a) dismissal of this Chapter
22 11 case; (b) conversion of this Chapter 11 case to a case under Chapter 7 of the
23 Bankruptcy Code, which would entail the mandatory appointment of a trustee; (c)
24 submission by the Debtor of an alternative plan or the filing by another party in interest of
25 an alternative or competing plan; and (d) the appointment of a Chapter 11 trustee for the
26

1 purpose of operating the Debtor's business, administering the Debtor's assets, and filing
2 an alternative plan.

3 **XI.**

4 **RISK FACTORS**

5 The following discussion is intended to be a non-exclusive summary of certain
6 risks attendant to consummation of the Plan. Creditors are encouraged to supplement this
7 summary with their own analysis and evaluation of the Plan. Notwithstanding the risk
8 factors discussed below, the Debtor believes that the Plan is viable.

9 The Reorganized Debtor's business plan contemplates the achievement of certain
10 sales goals, pricing levels, and margins on sales. If the Reorganized Debtor is unable to
11 achieve the projected results, it may be unable to generate sufficient cash to fund its
12 ongoing operations and perform its obligations to creditors under the Plan. Management
13 believes that its financial projections are based on reasonable assumptions and that the
14 projected results are reasonably achievable.

15 **XII.**

16 **FEDERAL TAX CONSEQUENCES OF THE PLAN**

17 **A. Scope of Discussion.**

18 The following discussion summarizes in general terms certain federal income tax
19 consequences of the implementation of the Plan based upon existing provisions of the
20 Internal Revenue Code of 1986, as amended (the "Tax Code"), court decisions, and
21 current administrative rulings and practice. This summary does not address the federal
22 income tax consequences of the Plan to holders of Priority Claims or of secured Claims,
23 nor does it address any state, local or foreign tax matters or the federal income tax
24 consequences to certain types of creditors (including financial institutions, life insurance
25 companies, tax exempt organizations and foreign taxpayers) to which special rules may
26

1 apply. No rulings or opinions have been or will be requested from the Internal Revenue
2 Service with respect to any of the tax aspects of the Plan.

3 The Debtor is not making any representations regarding the particular tax
4 consequences of confirmation and consummation of the Plan as to creditors or
5 shareholders, nor is the Debtor or its professionals rendering any form of legal opinion or
6 tax advice as to such tax consequences. The tax laws applicable to corporations in
7 bankruptcy are complex and are subject to significant uncertainties. Each creditor and
8 shareholder is urged to consult his, her or its own tax advisor as to the consequences of
9 the Plan under federal and applicable state, local and foreign tax laws.

10 B. Tax Consequences to the Debtor.

11 The Debtor is a C corporation for federal income tax purposes and is separately
12 subject to income tax. The Debtor expects that the consummation of the Plan will result
13 in the Reorganized Debtor's inability to utilize any of the Company's net operating losses
14 or other tax attributes which otherwise could be utilized to reduce or eliminate income
15 taxes for future tax years.

16 C. Tax Consequences to Holders of General Unsecured Claims.

17 Pursuant to the Plan, holders of Allowed Claims in Classes 21, 22, and 23 will
18 receive one or more Cash distributions in full satisfaction of their Claims.

19 1. Gain or Loss.

20 In connection with the implementation of the Plan, each holder of an Allowed
21 Claim in Class 21, 22 or 23 generally will recognize gain or loss for federal income tax
22 purposes. The timing and amount of that gain or loss will depend upon a number of
23 factors, including whether the holder will receive multiple distributions pursuant to the
24 Plan and whether the Debtor's obligation to make payments will be treated as a new debt
25 obligation for federal income purposes. It is possible that any loss, or a portion of any
26

1 gain, realized by a creditor may have to be deferred until all distributions to the creditor
2 are received.

3 In addition, the character of any gain or loss recognized by a creditor as long-term
4 or short-term capital gain or loss or as ordinary income or loss will be determined by a
5 number of factors, including the tax status of the creditor, whether the obligation from
6 which the creditor's claim arose constitutes a capital asset in the hands of the creditor,
7 whether the obligation from which the claim arose has been held for more than one year,
8 the allocation of any distributions received between principal and unpaid accrued interest,
9 whether and to what extent the creditor has previously claimed a bad debt deduction, and
10 the extent (if any) to which interest may be imputed where multiple distributions are
11 received.

12 2. Federal Income Tax Consequences of the Reserve Fund.

13 The Debtor believes that any interest earned in respect of the Reserve Fund will be
14 taxable to the Debtor, but there is no assurance the IRS will not assert a contrary position
15 and be sustained by the courts. Under section 468B(g) of the Tax Code, amounts earned
16 by an escrow account, settlement fund or similar fund or account must be subject to
17 current tax. The manner by which this is done is prescribed in the Tax Code provisions
18 governing the taxation of an account or fund as a grantor trust or otherwise.

19 3. Withholding.

20 All payments to creditors are subject to any applicable withholding (including
21 employment tax withholding). Under the Tax Code, interest, dividends and other
22 "reportable payments" may, under certain circumstances, be subject to "back-up
23 withholding" at a 28 percent rate. Back-up withholding generally applies if the holder (a)
24 fails to furnish his or her social security number or other taxpayer identification number
25 ("TIN"), (b) furnishes an incorrect TIN, (c) fails properly to report interest or dividends,
26 or (d) under certain circumstances, fails to provide a certified statement, signed under

penalty of perjury, that the TIN provided is the correct number and that such holder is not subject to backup withholding. Back-up withholding is not an additional tax but merely an advance payment that may be refunded to the extent it results in an overpayment of tax. Certain persons are exempt from back-up withholding, including, in certain circumstances, corporations and financial institutions.

D. Tax Consequences to Equity Interest Holders.

It is anticipated that there will not be any material adverse income tax consequences to Shareholders as a result of the confirmation or consummation of the Plan.

XIII.

CONCLUSION AND RECOMMENDATION

The Debtor believes that confirmation and implementation of the Plan is preferable to any alternative because it will provide the greatest recoveries to its creditors. For this reason, the Debtor urges all creditors entitled to vote on the Plan to accept the Plan.

Dated: March 31, 2009

Matrix Development Corporation,
an Oregon corporation

By /s/ Diane Jarvis
Diane Jarvis, its Chief
Financial Officer

Presented by:

/s/ David A. Foraker
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Attorneys for Debtor

Exhibit A

Reorganized Debtor's Projected Financial Statements

(Attached)

Balance Sheet

Legend Homes / Matrix Development
Balance Sheet

	Calendar Period Balances						Fiscal Year-End Balances			
	Reorg B/S June 30, 2009	Dec-09	Dec-10	Dec-11	Dec-12	Jun-13	Jun-10	Jun-11	Jun-12	Jun-13
ASSETS										
Current Assets										
Cash - Restricted	\$6,783,138	\$3,069,153	\$403,527	\$424,764	\$533,622	\$131,942	\$1,670,051	\$535,541	\$1,287,034	\$131,942
Cash - Unrestricted	3,097,956	8,249,370	5,721,388	7,561,266	4,453,932	888,570	2,977,734	2,139,178	7,355,240	888,570
Total Cash	\$9,881,094	\$11,318,523	\$9,124,916	\$11,986,030	\$9,987,554	\$1,020,512	\$4,647,785	\$2,674,719	\$8,642,274	\$1,020,512
Other Current Assets										
Escrowed Receivables	500,000	0	0	0	0	0	0	0	0	0
Related Party Receivables	650,275	0	0	0	0	0	0	0	0	0
Unliquidated Current Tax Refund	6,000,000	0	0	0	0	0	0	0	0	0
Total Other Current Assets	\$7,150,275	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total Current Assets	\$17,031,369	\$11,318,523	\$9,124,916	\$11,986,030	\$9,987,554	\$1,020,512	\$4,647,785	\$2,674,719	\$8,642,274	\$1,020,512
Long-Term Assets										
Inventory	840,000	840,000	840,000	840,000	840,000	840,000	840,000	840,000	840,000	840,000
Land Inventory	33,330,160	32,772,216	32,955,107	23,710,702	18,384,217	15,020,665	35,110,272	31,428,780	15,900,665	15,020,665
Lot & Direct Cost Inventory	\$34,170,160	\$33,612,216	\$33,795,107	\$24,550,702	\$19,224,217	\$15,860,665	\$35,950,272	\$32,268,780	\$16,740,665	\$15,860,665
Total Inventory	\$427,101	\$257,848	\$55,920	\$24,639	\$9,320	\$0	\$156,884	\$40,280	\$18,639	\$0
Fixed Assets										
Goodwill	\$1,982,197	\$1,982,197	\$1,982,197	\$1,982,197	\$1,982,197	\$1,982,197	\$1,982,197	\$1,982,197	\$1,982,197	\$1,982,197
Total Long-Term Assets	\$36,579,458	\$35,852,261	\$36,833,225	\$26,557,538	\$21,215,734	\$17,842,862	\$38,089,354	\$34,297,257	\$18,741,501	\$17,842,862
TOTAL ASSETS	\$53,610,827	\$47,170,783	\$41,958,141	\$34,553,568	\$28,203,288	\$18,863,374	\$42,737,138	\$36,965,976	\$27,383,775	\$18,863,374
LIABILITIES										
Current Liabilities										
Accounts Payable	\$1,380,000	\$1,380,000	\$1,380,000	\$1,380,000	\$1,380,000	\$1,380,000	\$1,380,000	\$1,380,000	\$1,380,000	\$1,380,000
Class 21 (Contractor)	973,500	0	0	0	0	0	0	0	0	0
Class 22 (Convenience)	26,500	0	0	0	0	0	0	0	0	0
Class 23 (Other - Current)	1,000,000	0	0	0	0	0	0	0	0	0
Total Current Liabilities	\$3,380,000	\$1,380,000	\$1,380,000	\$1,380,000	\$1,380,000	\$1,380,000	\$1,380,000	\$1,380,000	\$1,380,000	\$1,380,000
Non-Current Liabilities										
Class 23 (Other - Non-Current)	\$11,000,000	\$11,000,000	\$9,284,497	\$5,431,542	\$491,925	\$0	\$9,284,497	\$5,431,542	\$491,925	\$0
Long-Term Debt	38,979,327	35,942,234	30,688,848	21,109,825	11,383,386	3,787,537	34,074,120	27,681,528	15,782,499	3,787,537
Total Non-Current Liabilities	\$49,979,327	\$46,942,234	\$39,973,345	\$26,541,367	\$11,875,311	\$3,787,537	\$43,358,616	\$33,113,070	\$16,274,424	\$3,787,537
TOTAL LIABILITIES	\$53,359,327	\$48,322,233	\$41,353,345	\$27,921,367	\$13,255,311	\$5,167,537	\$44,738,616	\$34,493,070	\$17,654,424	\$5,167,537
EQUITY										
Additional Paid-In Capital	\$251,500	\$251,500	\$251,500	\$251,500	\$251,500	\$251,500	\$251,500	\$251,500	\$251,500	\$251,500
Retained Earnings	0	(1,402,950)	353,296	6,380,701	12,696,477	13,444,337	(2,252,978)	2,221,406	9,477,851	13,444,337
TOTAL EQUITY	\$251,500	\$(1,151,450)	\$604,796	\$8,632,201	\$12,947,977	\$13,695,837	\$(2,001,478)	\$2,472,906	\$9,729,351	\$13,695,837
TOTAL LIABILITIES & EQUITY	\$53,610,827	\$47,170,783	\$41,958,141	\$34,553,568	\$28,203,288	\$18,863,374	\$42,737,138	\$36,965,976	\$27,383,775	\$18,863,374

Disclaimer: This presentation estimates performance of the Company given certain assumptions. It cannot be relied upon to reflect actual results. It is based on historical data, estimates and assumptions.

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Income Statement

Legend Homes / Matrix Development
Income Statement

	6 Months				6 Months				12 Mos Ending				48 Mos Ending			
	2009	2010	2011	2012	2013	Jun-10	Jun-11	Jun-12	Jun-13	Jun-13			Jun-13			
UNIT CLOSERS	38	114	188	164	85	73	157	189	470	589						
REVENUES																
Home Sales	\$11,696,485	\$36,829,227	\$63,263,528	\$57,958,425	\$29,640,000	\$22,873,376	\$51,372,726	\$66,861,562	\$59,280,000	\$199,387,664						
TOTAL REVENUES	\$11,696,485	\$36,829,227	\$63,263,528	\$57,958,425	\$29,640,000	\$22,873,376	\$51,372,726	\$66,861,562	\$59,280,000	\$199,387,664						
DIRECT EXPENSES																
Direct & Lot Costs	(\$8,282,309)	(\$25,124,581)	(\$42,808,447)	(\$38,587,435)	(\$19,805,000)	(\$15,947,455)	(\$35,039,575)	(\$44,010,743)	(\$39,610,000)	(\$134,607,772)						
Interest	0	(34,190)	(176,110)	(157,006)	(80,000)	(2,313)	(104,837)	(180,156)	(160,000)	(447,306)						
Closing Costs	(673,502)	(2,109,579)	(3,636,859)	(3,318,400)	(1,700,000)	(1,315,976)	(2,944,862)	(3,777,703)	(3,400,000)	(11,438,341)						
COST OF GOODS SOLD	(\$8,955,811)	(\$27,268,350)	(\$46,621,417)	(\$42,062,841)	(\$21,585,000)	(\$17,265,743)	(\$38,088,074)	(\$47,968,602)	(\$43,170,000)	(\$146,493,419)						
GROSS MARGIN	\$2,740,674	\$9,560,877	\$16,642,111	\$15,895,584	\$8,055,000	\$5,607,633	\$13,283,652	\$17,892,960	\$16,110,000	\$52,894,245						
COMMUNITY EXPENSES																
Site Supervisor	(\$289,716)	(\$571,233)	(\$748,753)	(\$592,436)	(\$300,000)	(\$539,433)	(\$866,393)	(\$666,313)	(\$600,000)	(\$2,472,138)						
Field Cost	(63,833)	(113,112)	(130,882)	(108,180)	(55,000)	(105,889)	(126,042)	(118,876)	(110,000)	(460,807)						
Interest on A&D Loans & DIP Account Balance	(1,104,870)	(1,945,576)	(1,371,862)	(922,738)	(475,000)	(2,130,343)	(1,885,619)	(1,053,883)	(950,000)	(5,819,846)						
HOA Dues	(121,330)	(226,180)	(165,730)	(101,850)	(55,000)	(232,770)	(203,290)	(118,030)	(110,000)	(670,000)						
Warranty Cost	(28,500)	(85,500)	(141,000)	(124,250)	(65,000)	(54,750)	(117,750)	(141,750)	(130,000)	(444,250)						
Property Tax	(288,689)	(479,653)	(295,286)	(162,529)	(85,000)	(535,405)	(411,581)	(194,011)	(170,000)	(1,311,087)						
TOTAL COMMUNITY EXPENSES	(\$1,866,917)	(\$3,421,234)	(\$2,853,093)	(\$2,001,984)	(\$1,035,000)	(\$3,586,580)	(\$3,216,775)	(\$2,292,863)	(\$2,070,000)	(\$11,178,228)						
MARKETING COSTS																
Project Marketing Cost	(\$396,005)	(\$825,030)	(\$965,975)	(\$785,992)	(\$395,000)	(\$783,520)	(\$915,435)	(\$879,047)	(\$790,000)	(\$3,368,002)						
Model Operating Cost	(27,025)	(57,424)	(69,424)	(52,712)	(25,000)	(53,737)	(66,924)	(60,924)	(60,000)	(231,585)						
Model HOA Dues	(2,500)	(5,240)	(6,200)	(5,040)	(2,500)	(4,960)	(6,000)	(5,520)	(5,000)	(21,480)						
Model Property Tax	(20,619)	(42,652)	(52,118)	(41,296)	(20,000)	(40,613)	(49,649)	(46,423)	(40,000)	(176,685)						
Model Interest	0	(4,999)	(44,422)	(43,549)	(20,000)	0	(25,873)	(47,087)	(40,000)	(112,970)						
TOTAL MARKETING COSTS	(\$446,149)	(\$935,345)	(\$1,138,139)	(\$928,589)	(\$462,500)	(\$882,829)	(\$1,063,881)	(\$1,039,011)	(\$925,000)	(\$3,910,721)						
CONTRIBUTION FROM PROJECTS	\$427,608	\$5,204,298	\$12,650,878	\$12,965,012	\$6,557,500	\$1,126,214	\$9,002,996	\$14,561,086	\$13,115,000	\$37,805,296						
CORPORATE OVERHEAD																
Payroll, Taxes, & Benefits	(\$926,394)	(\$1,852,788)	(\$1,852,788)	(\$1,761,394)	(\$835,000)	(\$1,852,788)	(\$1,852,788)	(\$1,852,788)	(\$1,670,000)	(\$7,228,364)						
Business Expense	(\$84,911)	(1,203,100)	(1,493,878)	(1,471,720)	(608,552)	(1,106,186)	(1,363,079)	(1,522,896)	(1,370,000)	(5,382,181)						
Depreciation	(169,253)	(201,928)	(31,281)	(15,320)	(9,320)	(270,217)	(116,604)	(21,641)	(18,639)	(427,101)						
TOTAL CORPORATE OVERHEAD	(\$1,680,558)	(\$3,257,816)	(\$3,377,947)	(\$3,248,434)	(\$1,452,872)	(\$3,229,191)	(\$3,332,471)	(\$3,387,325)	(\$3,058,639)	(\$13,077,626)						
TURNAROUND COSTS	(\$150,000)	\$0	\$0	\$0	\$0	(\$150,000)	\$0	\$0	\$0	(\$150,000)						
EARNINGS BEFORE TAXES & EXTRAORDINARY ITEMS	(\$1,402,950)	\$1,946,482	\$9,272,932	\$9,716,578	\$5,104,628	(\$2,282,978)	\$6,670,525	\$11,163,762	\$10,056,361	\$24,637,670						
EXCESS PAYMENTS TO CLASS 23	\$0	\$0	\$0	\$0	(\$3,954,075)	\$0	\$0	\$0	(\$3,954,075)	(\$3,954,075)						
EARNINGS BEFORE TAXES	(\$1,402,950)	\$1,946,482	\$9,272,932	\$9,716,578	\$1,150,554	(\$2,282,978)	\$6,670,525	\$11,163,762	\$6,102,286	\$20,683,595						
INCOME TAXES	\$0	(\$190,236)	(\$3,245,526)	(\$3,400,802)	(\$402,694)	\$0	(\$1,196,142)	(\$3,907,317)	(\$2,135,800)	(\$7,228,258)						
Income Tax Loss Carryforward	(1,402,950)	0	0	0	0	(2,282,978)	0	0	0	0						
NET INCOME	(\$1,402,950)	\$1,756,246	\$6,027,406	\$6,315,776	\$747,860	(\$2,282,978)	\$5,474,383	\$7,256,445	\$3,966,486	\$13,444,337						

Disclaimer: This presentation estimates performance of the Company given certain assumptions. It cannot be relied upon to reflect actual results. It is based on historical data, estimates and assumptions.

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Cash Flow

Legend Homes / Matrix Development
Cash Flow Statement - Projects

	6 Months 2009				6 Months 2010				6 Months 2011				6 Months 2012				6 Months 2013			
UNIT CLOSING	38	114	188	164	85	73	157	189	170	589										
PROCEEDS FROM CLOSINGS																				
Gross Proceeds From Closings	\$11,696,485	\$36,829,227	\$63,263,528	\$57,958,425	\$29,640,000	\$22,873,376	\$51,372,726	\$65,861,562	\$59,280,000	\$199,387,664										
LESS																				
Closing Costs	(673,502)	(2,109,579)	(3,636,859)	(3,318,400)	(1,700,000)	(1,315,976)	(2,944,662)	(3,777,703)	(3,400,000)	(11,438,341)										
PROCEEDS NET OF CLOSING COSTS	\$11,022,982	\$34,719,648	\$59,626,668	\$54,640,025	\$27,940,000	\$21,557,401	\$48,428,064	\$62,083,859	\$55,880,000	\$187,949,323										
CONSTRUCTION COSTS NET OF LOAN ACTIVITY																				
TOTAL COMMUNITY COSTS	(\$4,233,602)	(\$20,619,719)	(\$32,451,888)	(\$32,356,424)	(\$18,374,169)	(\$12,519,323)	(\$26,527,676)	(\$31,788,932)	(\$37,199,870)	(\$108,035,801)										
TOTAL MARKETING COSTS	(\$1,866,917)	(\$3,421,234)	(\$2,853,093)	(\$2,001,984)	(\$1,035,000)	(\$3,598,590)	(\$3,216,775)	(\$2,292,863)	(\$2,070,000)	(\$11,178,228)										
ADDITIONAL LOAN REPAYMENT	(\$446,149)	(\$935,345)	(\$1,138,139)	(\$928,589)	(\$462,500)	(\$982,829)	(\$1,053,881)	(\$1,035,011)	(\$925,000)	(\$3,910,721)										
NET CASH FLOW FROM PROJECTS	(\$2,813,872)	(\$7,309,704)	(\$10,898,524)	(\$8,798,277)	(\$5,100,000)	(\$5,002,676)	(\$10,193,326)	(\$9,524,373)	(\$10,200,000)	(\$34,920,376)										
CORPORATE OVERHEAD																				
Payroll Taxes & Benefits	(\$926,394)	(\$1,852,788)	(\$1,852,788)	(\$1,851,394)	(\$925,000)	(\$1,852,788)	(\$1,852,788)	(\$1,852,788)	(\$1,850,000)	(\$7,408,364)										
Business Expense	(\$584,911)	(\$1,203,100)	(\$1,493,878)	(\$1,470,272)	(\$760,000)	(\$1,106,188)	(\$1,383,079)	(\$1,522,896)	(\$1,520,000)	(\$5,512,161)										
TOTAL CORPORATE OVERHEAD	(\$1,511,305)	(\$3,055,888)	(\$3,346,666)	(\$3,321,666)	(\$1,685,000)	(\$2,958,974)	(\$3,215,867)	(\$3,375,684)	(\$3,370,000)	(\$12,920,525)										
TOTAL TURNAROUND	(\$150,000)	\$0	\$0	\$0	\$0	(\$150,000)	\$0	\$0	\$0	(\$150,000)										
OTHER RECEIPTS & DISBURSEMENTS																				
Tax Refunds	\$6,000,000	\$0	\$0	\$0	\$0	\$6,000,000	\$0	\$0	\$0	\$6,000,000										
Payments to Class 21	(26,500)	0	0	0	0	(26,500)	0	0	0	(26,500)										
Payments to Class 22	(973,500)	0	0	0	0	(973,500)	0	0	0	(973,500)										
Payments to Class 23	(1,000,000)	(1,715,503)	(3,852,954)	(4,939,617)	(4,446,000)	(2,715,503)	(3,852,954)	(4,939,617)	(4,446,000)	(15,954,075)										
Collect Escrowed Receivables	500,000	0	0	0	0	500,000	0	0	0	500,000										
Collect Related Party Receivables	650,275	0	0	0	0	650,275	0	0	0	650,275										
Loi Purchases (Net of Loans)	0	0	0	(2,000,000)	0	0	0	0	(2,000,000)	0										
TOTAL OTHER RECEIPTS & DISBURSEMENTS	\$5,150,275	(\$1,715,503)	(\$3,852,954)	(\$6,939,617)	(\$4,446,000)	\$3,434,772	(\$3,852,954)	(\$4,939,617)	(\$6,446,000)	(\$11,803,800)										
TOTAL OVERHEAD & OTHER	\$3,488,970	(\$4,771,392)	(\$7,199,620)	(\$10,261,283)	(\$6,131,000)	\$325,797	(\$7,068,821)	(\$8,315,301)	(\$9,816,000)	(\$24,874,325)										
INCOME TAXES	\$0	(\$190,236)	(\$3,245,526)	(\$3,400,802)	(\$402,694)	\$0	(\$1,196,142)	(\$3,907,317)	(\$2,135,800)	(\$7,239,259)										
NET CASH FLOW - BUILDER	\$5,151,413	(\$2,527,981)	\$1,839,878	(\$3,107,334)	(\$3,565,362)	(\$120,223)	(\$838,556)	\$5,216,063	(\$6,466,670)	(\$2,209,387)										
CORPORATE CASH ACCOUNT																				
Opening Balance	\$3,097,956	\$8,249,370	\$5,721,398	\$7,561,266	\$4,453,932	\$3,097,956	\$2,977,734	\$2,139,178	\$7,355,240	\$3,097,956										
Activity	5,151,413	(2,527,981)	1,839,878	(3,107,334)	(3,565,362)	(120,223)	(838,556)	5,216,063	(6,466,670)	(2,209,387)										
Ending Balance	\$8,249,370	\$5,721,398	\$7,561,266	\$4,453,932	\$888,570	\$2,977,734	\$2,139,178	\$7,355,240	\$888,570	\$888,570										

NOTE: DIP Account repayments are not reflected in corporate cash flow above because they are restricted accounts, but repayments are assumed one month following last closing in each respective community.

Disclaimer: This presentation estimates performance of the Company given certain assumptions. It cannot be relied upon to reflect actual results. It is based on historical data, estimates and assumptions.

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1 of 1

Exhibit B
Liquidation Analysis
(Attached)

**Legend Homes / Matrix Development**

Liquidation Analysis - Projected June 30, 2009
In Thousands of Dollars

	<u>Book Values</u>	<u>Liquidation Values</u>
ASSETS		
Current Assets		
Cash - Segregated Project DIP Accounts (1)	\$8,462	\$8,462
Cash - Unrestricted	3,099	3,099
Total Cash	<u>\$11,561</u>	<u>\$11,561</u>
Other Current Assets		
Professional Fee Deposits	\$0	\$0
Post-Petition Deposits	0	0
Prepaid Expenses	0	0
Prepaid Expenses - Profit Share Advance	0	0
Escrowed Receivables	\$500	\$500
Accounts Receivable	0.00	0.00
Notes Receivable	0.00	0.00
Related Party Receivables - Owners	0.00	0.00
Related Party Receivables - Oringdolph Hale LLC	0.00	0.00
Related Party Receivables - Subsidiary Companies	650	650
Unliquidated Current Year Tax Refund	6,000	6,000
Unliquidated Prior Years Tax Refund Estimate	0	0
Liquidated Prior Years Tax Refund	0	0
Total Other Current Assets	<u>\$7,150</u>	<u>\$7,150</u>
Total Current Assets	<u>\$18,711</u>	<u>\$18,711</u>
Inventory (2,3,4,5)		
Encumbered - Retained (6)		
Land	\$784	\$275
Lots	40,501	12,384
WIP	6,502	2,617
Homes	3,094	2,376
Total	<u>\$50,881</u>	<u>\$17,652</u>
Unencumbered - Retained (7)		
Land	\$2,978	\$930
Lots	0	0
WIP	0	0
Homes	0	0
Total	<u>\$2,978</u>	<u>\$930</u>
Encumbered - To Be Abandoned (8)		
Land	\$37,089	\$12,915
Lots	17,156	4,569
WIP	1,234	565
Homes	3,694	2,658
Total	<u>\$59,173</u>	<u>\$20,707</u>
Total Inventory		
Land	\$40,851	\$14,119
Lots	57,657	16,953
WIP	7,736	3,181
Homes	6,789	5,034
Total	<u>\$113,033</u>	<u>\$39,287</u>
Fixed Assets (9)		
Office Equipment	\$99	\$15
Model / Sales Office Furniture	255	38
Vehicles	23	3
Leasehold Improvements	49	7
Sales Equipment	1	0
Accumulated Depreciation	0	0
Total Net Fixed Assets	<u>\$427</u>	<u>\$63</u>
Other		
Investment in Q Tires, Inc.	\$0	\$0
Total Other	<u>\$0</u>	<u>\$0</u>
TOTAL ASSETS	<u>\$132,171</u>	<u>\$58,061</u>

Disclaimer: This presentation estimates performance of the Company given certain assumptions. It cannot be relied upon to reflect actual results. It is based on historical data, estimates and assumptions.

**Legend Homes / Matrix Development**

Liquidation Analysis - Projected June 30, 2009
in Thousands of Dollars

	<u>Book Values</u>	<u>Liquidation Values</u>
LIABILITIES in General Order of Priority		
Secured Debt - Allocated to Retained Properties (10)		
Land		\$217
Lots		12,384
Homes		4,993
Cash in Segregated DIP Accounts		7,646
Total		<u>\$25,240</u>
Secured Debt - Allocated to Abandoned Properties (11)		
Land		\$12,915
Lots		4,569
Homes		3,223
Cash in Segregated DIP Accounts		816
Total		<u>\$21,523</u>
Total Secured Real Estate Debt		
Land		\$13,132
Lots		16,953
Homes		8,216
Cash in Segregated DIP Accounts		8,462
Total		<u>\$46,763</u>
Secured Claims - Unencumbered Projects		
Property Taxes		\$6
Construction Liens		46
Total		<u>\$52</u>
TOTAL SECURED DEBT		<u><u>\$46,815</u></u>
Administrative Claims		\$1,380
Accounts Payable		\$1,380
Accrued Expenses		0
Accrued Professional Fees		0.00
Earnest Money Deposits		0.00
Total Administrative Claims Liabilities		<u>\$1,380</u>
Priority Claims		\$66
Unsecured Debt - Attributable to Real Estate Loans		
Land		\$26,656
Lots		39,292
Homes		8,370
Portion of above primed by Property Tax & Liens		2,200
Unsecured Debt - Attributable to Real Estate (12)		<u>\$76,518</u>
Unsecured Debt - Contractors		\$2,253
Convenience Class		\$53
Contractors & Key Suppliers (Net of Liens)		2,200
Total		<u>\$2,253</u>
Unsecured Debt - Other		
Lines of Credit		\$4,271
JD Properties		0
Other Trade		350
Disputed Claims - Unliquidated		
Total		<u>\$4,621</u>
TOTAL UNSECURED DEBT (Including Administrative Claims)		<u><u>\$84,838</u></u>
TOTAL LIABILITIES		<u><u>\$131,653</u></u>

**Legend Homes / Matrix Development**

Liquidation Analysis - Projected June 30, 2009
in Thousands of Dollars

<u>Book</u> <u>Values</u>	<u>Liquidation</u> <u>Values</u>
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ALLOCATION OF ASSETS TO LIABILITIES

Unencumbered Assets	\$11,246
Less	
Chapter 7 Administrative Claims @ 5% Unsecured Assets	(562)
Chapter 11 Administrative Claims	<u>(1,380)</u>
Remainder for Distribution for Pre-Petition Unsecured Claims	<u><u>\$9,304</u></u>

NOTES

- 1 Balance in Segregated Accounts differs from reorganized balance sheet due to abandoned projects and payment of secured claims for property taxes and construction liens on retained projects.
- 2 Management estimates Land Liquidation values at appraised liquidation values from June 2008 less 30%.
- 3 Management estimates Lot Liquidation values at appraised liquidation values from June 2008 less 30%.
- 4 Management estimates WIP Liquidation values with lots at appraised liquidation values from June 2008 plus vertical cost, total less 50%.
- 5 Management estimates Home Liquidation values with lots at appraised liquidation values from June 2008 plus vertical cost, total less 15%.
- 6 Includes Village At Orenco, Walnut Creek, The Q Phase 1, Edgewater Phases 1, 2, and East, Willamette Landing Phases 6 and 7, Villebois Phase 1, Trillium Woods, and Pawers.
- 7 Includes Willamette Landing Phases 8a and 9.
- 8 Includes Taralon, Victoria Gardens, North Pointe, North Albany Village, The Q Phases 2 and 3, Edgewater Phases 3 and 4, Arlington Ames, Copper Creek, Witham Oaks, Villebois Phase 2, the Bishop option, and the Landing At Evergreen option.
- 9 Liquidation values assume 15% of Book Values.
- 10 Assumes same projects and valuation methodologies as retained inventory above.
- 11 Assumes same projects and valuation methodologies as abandoned inventory above.
- 12 Excludes deficiencies for M&T Bank per settlement and includes deficiency for La Ventana.

Certificate of Service

I hereby certify that on March 31, 2009, I caused a copy of the Disclosure Statement for Debtor's Plan of Reorganization (Dated March 31, 2009) to be served on the parties indicated as "Non-ECF" on the attached List of Interested Parties by the methods indicated. Unless another method of service is indicated, service was made by placing a copy thereof in a sealed, first-class postage prepaid envelope, addressed to each party's last known address and depositing the same into the United States mail at Portland, Oregon on the date set forth below. The parties indicated as "ECF" on the attached List of Interested Parties were served previously by electronic means through the Court's Case Management/Electronic Case File system.

Dated: March 31, 2009.

GREENE & MARKLEY, P.C.

By /s/ David A. Foraker

David A. Foraker, OSB #812280

Attorneys for Debtor

LIST OF INTERESTED PARTIES

In re Matrix Development Corporation
US Bankruptcy Court Case No. 08-32798-tmb11

ECF

08-32798-tmb11 Notice will be electronically mailed via ECF to:

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08-32798-tmb11 Notice will not be electronically mailed via ECF to:

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Beaverton, OR 97008

Salem Painting Company
c/o Phil Kartel
3881 2nd Street
Hubbard, OR 97032

Tri County Temp Control
c/o Alan Sanchez
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Oregon City, OR 97045

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Clackamas, OR 97015

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14550 Ames St
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Other Parties

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