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**UNITED STATES BANKRUPTCY COURT**  
**EASTERN DISTRICT OF CALIFORNIA**  
**SACRAMENTO DIVISION**

**In re:**

**MBD, Inc.,**

**Debtor**

**Case No. 08-34347**

**D.C. No. WCL-18**

**CHAPTER 11**

**DISCLOSURE STATEMENT FOR  
DEBTOR'S CHAPTER 11 PLAN DATED AS  
OF JULY 17, 2009**

Date: TBD  
Time: TBD  
Courtroom: Room 28, 7<sup>th</sup> Floor  
Location: Robert T. Matsui U.S. Courthouse  
501 "I" Street  
Sacramento, California  
Judge: Honorable Michael McManus  
Department A

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

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**DISCLOSURE STATEMENT FOR  
DEBTOR'S CHAPTER 11 PLAN DATED AS OF JULY 17, 2009**

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## 1. INTRODUCTION

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

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

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

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

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**2. BACKGROUND AND SUMMARY OF THE PLAN**

**2.1 Background**

As most of you know, MBD has been in the development business in the Chico area for over 17 years. Throughout that time, the company was quite successful and it became respected as one of the leading developers in the region.

Despite this track record, MBD, like other developers, was stopped in its tracks when its banks withdrew their support, primarily because of the broader economic forces that caused all of them to pull back from what has been viewed as excessive concentration on real estate lending.

At the commencement of this case, MBD had the following projects in its portfolio, which were being financed by the banks listed below:

<u>Project Name</u>	<u>Description</u>	<u>Lender</u>
Belvedere Heights Subdivision	191 lot subdivision; Phase I (100 lots fully subdivided); Phase II (partially prepared for subdividing)	Umpqua Bank
Montebello Estates	Parcel of raw land	Umpqua Bank
Cielo Vista Estates	8 lot subdivision	Umpqua Bank
Fleetwood Property	5 parcel office & warehouse condominiums	Umpqua Bank
La Dolce Piazza	2 retail/office buildings	Tri Counties Bank

MBD built 12 homes on lots in Phase I of the Belvedere Heights Subdivision. As it prepared to build a home on each lot, it refinanced the portion of the Umpqua loan related to that lot in conjunction with construction financing from other lenders. In the months leading up to commencement of this case, MBD sold seven lots with homes on them.<sup>1</sup> As of commencement of this case, MBD held two lots that had been refinanced by Northern California National Bank

<sup>1</sup> This includes one lot that was sold without the house already built. MBD custom built the home on the lot for the buyer over the several months after the sale of the lot.

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

### 3 **2.2 General Structure of the Plan**

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

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

19 MBD recognizes that its overall chances for success will depend on improvement over  
20 time in the broader economic situation in the Chico area. In order to balance the sharing of risk  
21 between MBD and its secured lenders, the Plan sets certain income milestones for its two  
22 projects. If MBD does not meet the Plan’s milestones for one of its properties, MBD must either

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

1 pay off the loan securing that property or surrender it to the applicable lender. *See* §§4.1(a) and  
2 (c) below.

### 3 **2.3 Treatment of Classified Claims under the Plan**

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

9	<u>Class</u>	<u>Holder</u>	<u>Description of Claims</u>
10	A-1	Tri Counties Bank	Loan for 3211 Cohasset commercial building
11	A-2	Tri Counties Bank	Loan for 3221 Cohasset commercial building
12	A-3	Tri Counties Bank	Construction loan for Belvedere Lot 57
13	A-4	Umpqua Bank	Infrastructure construction loan for Belvedere Heights Subdivision
14	A-5	Umpqua Bank	Acquisition and construction loans for Fleetwood office condominiums
15	A-6	Umpqua Bank	Acquisition loan for Montebello Estates
16	A-7	Umpqua Bank	Infrastructure construction loan for Cielo Vista Estates development
17	A-8	Caterpillar Financial	Secured equipment purchase loan
18	A-9	AICCO, Inc.	Insurance premium financing
19	A-10	Butte County	Secured property taxes on Belvedere and the La Dolce buildings
20	A-11	Butte County	Secured property taxes on Fleetwood and Cielo Vista properties
21	A-12	Tehama County	Secured property taxes on Montebello
22			
23			
24			
25			
26			

1           B-1    Unsecured Trade Creditors

2           B-2    Unsecured Lenders

3           C     Shareholder Interests

4           **(a)    Bank Lender Claims (Classes A-1 through A-8)**

5           As shown by the above list of classes, the Plan separates each bank lender claim into its  
6 own class, because each of the claims has unique characteristics and each piece of real property  
7 collateral is unique.

8           The Plan provides for the Belvedere Heights loan to be paid through sale or refinancing  
9 of the individual lots in the subdivision. As each lot is sold or refinanced, MBD will pay a  
10 “Release Price” set forth in the Plan to Umpqua Bank. The loan will remain in effect until  
11 September 2012 as long as MBD sells or refinances enough lots to meet the debt reduction  
12 milestones set forth in the Plan. *See* §4.1(d)(iii)(C) of the Plan. If MBD misses any milestone,  
13 the bank will be entitled to foreclose on the property on 20 days’ notice to MBD. *See*  
14 §4.1(d)(iii)(D) of the Plan.<sup>3</sup>

15           On the other hand, the Plan provides for the Fleetwood office condominium complex, the  
16 Montebello Property and the Cielo Vista subdivision to be transferred to Umpqua Bank on the  
17 Effective Date of the Plan, free and clear of all liens, claims and interests other than those  
18 exceptions to title approved by the bank. The exceptions will include all unpaid property taxes  
19 and those non-financial title exceptions identified in the Plan. *See* §§4.1(e), (f) and (g) of the  
20 Plan.

21           The Tri Counties Bank loans on the La Dolce properties were originally long term loans  
22 maturing in 2032. The Plan provides for MBD to pay interest-only for the first year. If the La  
23 Dolce buildings are sufficiently leased to provide the bank with adequate rent/debt service

24 <sup>3</sup> The Plan also reflects agreement by Umpqua Bank to limit its claim to the principal amount of the Belvedere  
25 Loan and to set a new variable interest rate equal to the Prime Rate. Interest may not exceed eight percent (8%)  
26 per annum, regardless of increases in the Prime Rate. Also, after the first year, there will be a minimum interest  
rate of four percent (4%).



1 coverage at the end of that year, the loans will continue with fully amortized payments to a  
2 maturity date of 2034.<sup>4</sup> If they are not sufficiently leased by the end of the first year, MBD will  
3 have one more year to pay the bank's claims in full, such as through sale of the buildings.

4 Finally, the Plan provides for MBD to continue paying interest only on the claim of Tri  
5 Counties Bank secured by Lot 57 and the home constructed on it. Principal is to be paid from the  
6 sale of the property. The claim will be fully due and payable twenty-four months after the  
7 Effective Date, or on sale of Lot 57 if earlier.

8 **(b) Property Tax Claims (Classes A-10 – A-12)**

9 Each of the Company's projects is encumbered by real property tax claims for the  
10 2008-2009 tax year which are either wholly or partially unpaid. These claims are categorized in  
11 Classes A-10 through A-12 under the Plan.

12 Retained Properties. Class A-10 includes the 2008-2009 taxes for Belvedere Heights and  
13 La Dolce Piazza, the two properties being retained by the Debtor under the Plan. Both of these  
14 properties are located in Butte County. MBD is to make quarterly payments on these claims for  
15 three years after the Effective Date. The payments are to be applied to the principal amount of  
16 those claims, then to interest at the rate provided by the state tax law. Notwithstanding that  
17 payment schedule, the taxes on any particular parcel are to be paid in full on sale of that parcel.

18 Transferred Properties. Classes A-11 (Butte County) and A-12 (Tehama County) consist  
19 of the claims for taxes on the three properties to be transferred to Umpqua Bank under the Plan,  
20 Fleetwood, Montebello and Cielo Vista. Those claims will be assumed by Umpqua Bank (or its  
21 nominee, if any), who will become responsible for the taxes and any related interest.

22 **(c) Other Secured Claims**

23 The Debtor had purchased a piece of heavy construction equipment from Caterpillar  
24 Corporation and financed the purchase with Caterpillar Financial Services Corporation. CFSC

25 <sup>4</sup> Interest on the restructured Tri Counties Bank loans will be variable at Prime Rate plus 1%, with a minimum of  
26

1 retains a claim for approximately \$27,900 [Class A-8 under the Plan.] The Plan provides for the  
2 CFSC claim (with interest at 9% per annum) to be paid in equal installments of \$1,342.55 each  
3 until paid in full. These are the same payments as existed under the original contract with CFSC.

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

8 **(d) General Unsecured Creditors**

9 MBD owes approximately \$1,580,000 to unsecured creditors. Of that debt, \$1,260,000  
10 resulted from funds loaned to MBD by family of MBD's president Andrew Meghdadi and local  
11 businessmen in the Chico area who loaned money to MBD for various projects. The remaining  
12 \$325,000 is owed to subcontractors, construction suppliers and other trade creditors. It is  
13 important to MBD to pay all these creditors in full. Therefore, the Plan provides for all  
14 unsecured claims to be paid in full, with interest at five percent per annum (5%).

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

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

24  
25 6% and a maximum of 8%.  
26

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

#### 4 **2.4 Administrative Claims**

##### 5 **(a) Description and Treatment of Administrative Claims**

6 In addition to the claims classified under the Plan, on the Effective Date, MBD will be  
7 obligated to pay any unpaid expenses incurred during the Chapter 11 case. These will consist,  
8 for the most part, of payments to the professionals who assisted MBD during the case. Those  
9 professionals include (a) the Law Offices of William C. Lewis, bankruptcy counsel, (b) William  
10 Ward, Esq., litigation and business counsel, and (c) Evans Appraisal Service, Inc., real property  
11 appraiser. In light of the fact that the largest portion of the professional fees was deposited as a  
12 retainer prior to commencement of this case, MBD estimates that these amounts will not be  
13 material.

##### 14 **(b) Deadline for Asserting Administrative Claims**

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

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

#### 21 **2.5 Post-confirmation Injunction**

22 Mr. Meghdadi, MBD's President, guaranteed loans to the Company from both Umpqua  
23 Bank and Tri Counties Bank. All guarantors of the Umpqua loans are released under the Plan.  
24 In order to enhance Mr. Meghdadi's ability to concentrate on rebuilding the Company business  
25 and generating the funds to pay the restructured claims, the Plan provides for an injunction  
26 restricting Tri Counties Bank from pursuing enforcement of the guaranties as long as MBD is  
meeting its obligations under the Plan.

1 **2.6 Other Provisions**

2 The Plan also contains various provisions for its implementation, which should be self  
3 explanatory. See, for example, Article 9 below.

4 **3. KEY DECISION FACTORS**

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

- 7 • The Plan is fair and equitable in how it treats any particular claim;
- 8 • The Plan is feasible; i.e. whether MBD can meet the obligations established in the  
9 Plan; and
- 10 • Whether the Plan provides creditors with a better recovery than a liquidation of the  
11 company under Chapter 7 of the Bankruptcy Code.

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

14 **4. FAIRNESS OF THE PLAN**

15 This section will explain why MBD believes that the Plan is fair and equitable to each  
16 class of creditors which is “impaired” under the Plan.<sup>5</sup> The following classes are impaired under  
17 the Plan:

18 <u>Class</u>	<u>Holder</u>	<u>Description of Claims</u>
19 A-1	Tri Counties Bank	Loan for 3211 Cohasset commercial 20 building
21 A-2	Tri Counties Bank	Loan for 3221 Cohasset commercial 22 building
23 A-3	Tri Counties Bank	Construction loan – Belvedere Lot 57

24 <sup>5</sup> “Impairment” is a term of art used in the Bankruptcy Code. A class is impaired if the Plan alters any of its legal,  
25 equitable or contractual rights. Only creditors in impaired classes are called upon to vote on the Plan. Creditors  
26 in unimpaired classes are conclusively presumed to have accepted the Plan.

1	A-4	Umpqua Bank	Infrastructure construction loan for Belvedere Heights Subdivision
2	A-5	Umpqua Bank	Acquisition and construction loans for Fleetwood office condominiums
3			
4	A-6	Umpqua Bank	Acquisition loan for Montebello Estates
5	A-7	Umpqua Bank	Infrastructure construction loan for Cielo Vista Estates development
6	A-8	Caterpillar Financial	Secured equipment purchase loan
7	A-10	Butte County	Secured property taxes on Belvedere and the Cohasset buildings
8			
9	A-11	Butte County	Secured property taxes on Montebello, Fleetwood and Cielo Vista properties
10			
11	B-1	Unsecured Trade Creditors	
12	B-2	Unsecured Lenders	

13 **4.1 Secured Claims**

14 Under the Bankruptcy Code, a Plan is considered fair and equitable to the holder of a  
15 secured claim if the Plan provides for the holder to retain its lien on the collateral securing its  
16 claim (to the extent of the allowed amount of the claim) and receive either (a) deferred cash  
17 payments totaling at least the allowed amount of the claim, with the payments having a present  
18 value equal to at least the value of the collateral or (b) the indubitable equivalent of its claim.  
19 A plan may also provide for sale of the collateral, with the lien attaching to the sale proceeds as  
20 long as the creditor still receives either (a) or (b) under the plan.

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

- 23 1. The Allowed Amount of a secured claim is determined as of the Effective Date of the  
24 Plan. Under the Bankruptcy Code, that amount is the lesser of (a) the total of unpaid  
25 principal, interest and costs or (b) the value of the lender’s collateral on the Effective  
26 Date.
2. A “market rate” of interest, as in effect on the Effective Date, is calculated to compensate

1 the creditor for the delay in payment of its claim. The courts use a formula approach to  
2 determining the appropriate interest rate. An initial, non-risk rate is used as the base;  
generally the Wall Street Journal's "prime rate." Then a risk premium is added to the rate  
if appropriate.

- 3 3. The stream of payments proposed under the Plan is discounted back to the Effective Date,  
4 using that market rate of interest, to calculate the net present value of the payments.

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

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

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

12 (i) Claim Amounts. The estimated balance of the loan secured by 3211  
13 Cohasset is expected to be approximately \$719,000 on the Effective Date, and MBD values that  
14 property at approximately \$1,800,000. MBD estimates that the balance of the 3221 Cohasset  
15 loan on the Effective Date will be about \$431,000, and its value is approximately \$975,000.  
16 Therefore, since the values of the properties exceed the amounts of the loans, the Allowed  
17 Amounts for purposes of the fairness test are the loan balances on the Effective Date.

18 (ii) Interest Rate. The Plan provides for Tri Counties Bank to receive interest  
19 at a variable rate equal to the Prime Rate plus 1%. With interest rates currently at record or  
20 near-record lows, this rate is clearly within the range of market rates. The Prime Rate is  
21 currently 3.25%; thus making the rate on this claim 4.25%. However, as additional protection to  
22 the bank, the Plan sets a floor of six percent (6%) on the interest rate payable to Tri Counties  
23 Bank. Alternatively, it fixes a maximum rate of eight percent (8%) to protect MBD against  
24 unreasonable risk from the variable rate provision of the Plan.

25 (iii) Present Value of Payment Stream. The Plan provides for Tri Counties  
26 Bank to receive payments of interest only during the first year following the Effective Date. At

1 that point, MBD is to start making fully amortized payments that will pay the loans in full in 25  
2 years (equivalent to the original payment terms of the pre-bankruptcy loans), but only if MBD  
3 has leased sufficient units in each Cohasset building so that the Net Cash Flow is 1.2 times the  
4 fully amortized loan payment. If that cash flow level is not reached, then interest only payments  
5 continue and the loan becomes fully due at the end of the second year. Therefore, under either  
6 alternative, the Plan provides for a stream of payments that will equal the Allowed Amount of  
7 each loan plus interest accrued under it.

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

9 This claim is for \$315,000, and MBD is offering the home for sale at \$439,000.

10 Therefore, the loan is fully secured and the loan amount is the proper Allowed Amount of the  
11 claim. The interest rate provision for this loan is the same as for the La Dolce buildings  
12 discussed in the preceding section, and it is appropriate for the same reasons.

13 Payments under the Plan consist of interest-only until the earlier of (i) the date the home  
14 is sold or (ii) two years after the Effective Date. The entire principal and interest on the claim is  
15 payable at the earlier of that time, thus providing a payment stream that is fair to the bank.

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

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

20 (i) Claim Amount. As stated above, the Allowed Amount of a secured claim  
21 is the lesser of the amount due under the Debtor's loan agreements or the value of the collateral  
22 securing the loan. As of the Effective Date, if all interest and charges incurred during this case  
23 were included, the amount of the Belvedere Loan claim would be over \$11,000,000. However,  
24 several appraisals have been performed on the property for both MBD and Umpqua Bank, which  
25 each had a different value. As a result, MBD and the bank have agreed to fix an amount of its  
26

1 Allowed Claim at the principal amount of the loan, or approximately \$10, 140,000. This amount  
2 is within the range of the various appraisals.

3 (ii) Interest Rate. The Plan provides for the Belvedere Loan claim to bear a  
4 variable interest rate at the Prime Rate. It also provides that the rate will not exceed eight percent  
5 (8%) per annum, like the maximum rate for Tri Counties Bank and, after the first year, the  
6 minimum rate will be four percent (4%). As discussed above, given the low rates of interest in  
7 the current market and the variable rate feature, this rate is within the range of market rates.

8 (iii) Payment Stream. First of all, the Plan provides for MBD to pay a  
9 “Release Price” to Umpqua Bank each time it sells or refinances a lot in Phase I of the Belvedere  
10 Heights Subdivision. The Plan contains certain “Milestone Dates” by which the claim must be  
11 reduced to specified levels. If a Milestone paydown level is missed, the claim becomes fully due.  
12 If MBD succeeds in making the payments required for each milestone, the claim will be fully  
13 due in September 2012. In either case, the Plan provides for full payment of the claim, with  
14 market interest, thereby satisfying the requirement for fair treatment of the claim.

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

16 The Plan provides for MBD to transfer the properties securing its other three loans from  
17 Umpqua Bank to the bank in satisfaction of those claims. Since the estimated values of the  
18 properties exceeds the amounts of those claims, transfer of the properties provides Umpqua with  
19 the “indubitable equivalent” of its claims and is, therefore, fair and equitable.

20 **(e) Class A-7 (Caterpillar Financial)**

21 The three step analysis also demonstrates that the Plan is fair and equitable to Caterpillar  
22 Financial as to its claim in Class A-7.

23 (i) Claim Amount. MBD estimates the value of the equipment purchased  
24 from Caterpillar and subject to its claim to be approximately \$35,000. On the Effective Date,  
25 MBD estimates that the amount of Caterpillar’s claim will be about \$27,900. Accordingly, the  
26 amount of Caterpillar’s claim will be its Allowed Claim for purposes of the Plan.



1 (ii) Interest Rate. The Plan provides for a nine percent (9%) interest rate on  
2 the Caterpillar claim. That rate is the original contract rate, and MBD estimates that it equals or  
3 exceeds the current market rate for loans of this type.

4 (iii) Present Value of Payment Stream. The Plan requires MBD to make  
5 monthly payments of \$1,342.55 each. This is the same monthly payment as was provided in the  
6 original Caterpillar installment agreement. Payments start on the first month after the Effective  
7 Date. Assuming that payments start on July 1, 2009, the loan will be paid in full, including  
8 interest, in approximately May 2011. Therefore, the discounted value of the payment stream will  
9 equal the Allowed Amount of the Caterpillar claim.

10 **(f) Class A-10 (Butte County – Retained Properties)**

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

20 **(g) Classes A-11 & A-12 (Butte and Tehama Counties – Transferred Properties)**

21 The secured tax claims in these classes are those that encumber the properties being  
22 transferred to Umpqua Bank. Their assumption by the bank will ensure that they will be paid in  
23 accordance with applicable nonbankruptcy law. Accordingly, they are receiving the indubitable  
24 equivalent of their claims, which constitutes fair treatment.

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

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

8 **5. FEASIBILITY OF THE PLAN**

9 **5.1 Summary**

10 The previous section explains MBD's proposal for payment of its creditors and the  
11 reasons those payment methods are fair and should be accepted. Of course, no proposal is  
12 meaningful unless there is a reasonable likelihood that it can be fulfilled. This section of this  
13 Disclosure Statement explains why MBD should be able to meet the payment obligations  
14 established by the Plan.

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

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

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

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

13           Another benefit for Chico home sellers is the so-called “green line” drawn around the city  
14 by the Chico city government, whereby development in the more rural and environmentally  
15 sensitive areas outside the line was seriously restricted. Accordingly, approved developments  
16 inside the line (such as Belvedere Heights) are much more valuable in the Chico area than similar  
17 developments in areas where competition can readily expand.

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

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

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

10 MBD's Performance. Finally, MBD's own history points to the raw material for success.  
11 For example, the Plan's treatment of the Belvedere Loan from Umpqua Bank is based on  
12 projections (discussed more fully below) of fourteen home sales in the first year after the  
13 Effective Date. In the six months since the commencement of this case, MBD has sold four  
14 houses. In the two months leading to the date of this Disclosure Statement, MBD has sold or  
15 placed two homes in escrow. To meet its projection for the first, and hardest, year, MBD will  
16 only have to maintain its current pace.

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

## 23 **5.2 Belvedere Heights**

24 MBD's largest project, the Belvedere Heights subdivision, consists of two separate  
25 phases. In Phase I, all streets, sewers, lights, and other “off-site” improvements were completed  
26 in May, 2008. That phase developed with 100 home sites. MBD has built homes on 12 of the

1 100 sites, and it has ready-to-build sites remaining for 82 more homes. Phase II is approved for  
2 91 home sites. It has about 20% of its offsite improvements completed, and MBD intends to  
3 resume work on Phase II after it completes construction of homes on Phase I, if not sooner.

4 MBD projects that it will complete the 82 homes in Phase I within four years. While all  
5 projections are subject to variance, depending on future conditions, MBD projects finishing and  
6 selling fourteen homes in the first year of the Plan (i.e. through summer 2010), eighteen in year  
7 two, twenty-four in the third year, and nineteen more by the time the Belvedere Loan becomes  
8 due in September 2012.

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

12 As each homesite is sold or refinanced, the Release Price for the lot will be paid to  
13 Umpqua Bank in exchange for release of title to that lot. MBD will build the homes as general  
14 contractor. The Release Prices are designed so that the bank's claim will be reduced to  
15 approximately \$3,200,000 by the time it becomes due on September 2012. MBD intends, then,  
16 to refinance Phase II (currently valued at \$3,500,000) and the remaining 9 lots in Phase I (with a  
17 projected value of at least \$900,000) to pay that remaining balance of the Belvedere Loan. Given  
18 that the new lender would have a 47% equity cushion, MBD projects that it should be able to  
19 obtain such refinancing, assuming that market and lending conditions have improved by  
20 September 2012.

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

24 In addition to obtaining a loan to refinance the Umpqua Bank claim on Belvedere  
25 Heights, MBD projects that it will be able to obtain a loan of approximately \$3,000,000 secured  
26 by the Phase II property to finish the infrastructure improvements for Phase II and separate

1 construction loans for each home to be built thereto, as it did with Phase I. With that financing,  
2 MBD should be able to complete development of Phase II, generate cash flow to repay any  
3 remaining unsecured claims and yield a reasonable profit for the company.

### 4 **5.3 La Dolce Piazza Buildings**

5 MBD's office complex, La Dolce Piazza, consists of two buildings, 3211 Cohasset and  
6 3221 Cohasset, in Chico. The 3211 building consists of five retail or office suites and the 3221  
7 building consists of four such units. Four of the units in 3211 are leased, and one is occupied by  
8 MBD. Three are leased in 3221, and one is vacant.

9 Currently, total rents and other income from the 3211 Cohasset building is approximately  
10 \$9,850 per month, and income from the 3221 Cohasset building is approximately \$8,100 per  
11 month. If the current leases (or comparable leases) continue, they would provide sufficient Net  
12 Cash Flow (after operating expenses) to meet the requirement in the Plan for the Net Cash Flow  
13 to exceed 1.2 times the Fully Amortized Tri Counties Payment one year after the Effective Date,  
14 thereby permitting the loans to be paid as provided in the Plan and to qualify for reinstating the  
15 original 25 year terms of the loans.

### 16 **5.4 Overall Operations; Payments on Non-bank Claims**

17 Based on the net cash flow from the Belvedere Heights and La Dolce Piazza properties,  
18 MBD projects generating sufficient excess cash flow to pay its overhead and other operating  
19 expenses. It expects to also generate sufficient cash flow to make payments of approximately  
20 \$130,000 in the 2010-2011 plan year, \$240,000 in the next year on its unsecured claims. Those  
21 payments would be sufficient to pay all of the Unsecured Trade Claims by the end of the third  
22 year of the Plan. Payments would then start on the Unsecured Lender claims and continue until  
23 they are paid in full. *See* the "Summary of Financial Projections" attached hereto as Exhibit A.  
24 The projections also include payments on the other secured claims (Caterpillar, AICCO, and  
25 property taxes).

1 **6. COMPARISON TO LIQUIDATION**

2 One might be concerned that the proposed Plan improperly puts the entire risk on the  
3 Company's secured lenders. However, MBD respectfully disagrees with that argument. At this  
4 point, it appears that real estate values have bottomed, or nearly bottomed, in the last few  
5 months. Therefore, the lenders whose claims are secured by MBD's properties will not lose  
6 value from waiting to see whether circumstances improve. The Plan contains requirements for  
7 MBD to make payments to the applicable lenders that will equal or exceed accrued interest,  
8 thereby reducing the debts to these lenders or preventing them from increasing.

9 In contrast, if the Plan is not confirmed and the lenders are compelled to foreclose on  
10 their collateral properties, MBD will lose several million dollars that it and its owners have  
11 dedicated to this business; value that can be increased by further construction in the subdivisions.  
12 And \$1,500,000 in unsecured creditors will have no source of recovery on their claims because,  
13 once the banks foreclose, there will not be any assets left from which to generate funds for the  
14 other creditors.

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

18	<u>Class</u>	<u>Description</u>	<u>Plan</u> <u>Distributions</u> <sup>6</sup>	<u>Liquidation</u> <u>Recovery</u>
19	A-1	Tri Counties Bank	\$718,948	\$718,948
20		3211 Cohasset		
21	A-2	Tri Counties Bank	\$432,652	\$432,652
22		3221 Cohasset		
23	A-3	Tri Counties Bank	\$315,000	\$315,000
24		Lot 57		

25 <sup>6</sup> Does not include post-Confirmation interest.  
26

1	A-4	Umpqua Bank Belvedere Loan	\$10,140,000	\$7,375,000 <sup>7</sup>
2	A-5	Umpqua Bank Fleetwood Loans	\$4,103,952	\$4,103,952 <sup>8</sup>
3	A-6	Umpqua Bank Montebello Loan	\$1,105,000	\$1,105,000 <sup>9</sup>
4	A-7	Umpqua Bank Cielo Vista Loan	\$553,427	\$553,427 <sup>9</sup>
5	A-8	Caterpillar Financial	\$25,315	\$23,000 <sup>9</sup>
6	A-9	AICCO, Inc.		
7	A-10	Property Taxes Retained Properties	\$119,164	\$119,164
8	A-11 & A-12	Property Taxes Transferred Properties	\$86,409	\$86,409
9	B-1	Unsecured Trade Claims	\$325,000	0
10	B-2	Unsecured Lenders	\$1,260,000	0

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

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

23 <sup>7</sup> According to Umpqua Bank’s appraisal in connection with its motion for relief from the automatic stay filed in  
24 December 2008.

<sup>8</sup> Appraisals during this case estimate that the values of these properties exceeds the bank’s claim amount.

<sup>9</sup> However, those appraised values may be overstated in the current market for a liquidation sale.  
26 Debtor’s estimate of liquidation value.



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

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

## 9 **7. OTHER INFORMATION**

### 10 **7.1 Post-Confirmation Management**

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

### 15 **7.2 Procedure for Disputed Claims**

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

### 23 **7.3 Post-Confirmation Notices**

24 Except for notice of entry of the Confirmation Order, all notices required or permitted to  
25 be given to all creditors or other parties in interest pursuant to Rule 2002 of the federal  
26 bankruptcy rules will be valid if given only to MBD, the U.S. Trustee, counsel for Umpqua Bank

1 and Tri Counties Bank, any parties who file and serve upon MBD requests for special notice as  
2 to matters relating to the Plan, and parties who, after Confirmation, serve upon MBD requests for  
3 copies of post-Confirmation notices.

#### 4 **7.4 Retention and Enforcement of Claims by the Estate**

##### 5 **(a) Retention of Claims in General**

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

##### 9 **(b) CAUTION TO CREDITORS**

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

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

#### 23 **7.5 Assumption and Rejection of Executory Contracts**

##### 24 **(a) Contracts Being Assumed or Rejected**

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

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

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

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

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

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

15 **8. CONCLUSION**

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

20 Dated: July17, 2009

21 MBD, Inc.,  
22 A California Corporation

23 By:   
24 Andrew Meghdadi, President

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**EXHIBIT A**

**SUMMARY OF FINANCIAL PROJECTIONS**

**MBD, Inc.**  
**Summary of Financial Projections**  
**June 1 2009 to July 2013**

	NCF Belvedere	NCF La Dolce	General Expenses	NCF Operations	Class A-8 Caterpillar Financial	Class A-10 Property Taxes	Admin Claims	NCF After Sec'd & Priority Clms	Pymts on Unsecured Claims	Cumulative Net Cash Flow	Trade Unsecured Claims Balance	Lender Unsecured Claims Balance
<b>Year 1</b>												
June 2009	21,437.00	5,121.13	13,901.99	12,656.14	1,342.55			11,313.59		11,313.59	325,015.17	1,259,118.74
July	25,574.00	5,121.13	13,901.99	16,793.14	1,342.55			15,450.59		26,764.18		
August	38,094.00	5,121.13	13,901.99	29,313.14	1,342.55			27,970.59		54,734.77		
September	16,834.55	5,121.13	13,901.99	8,053.69	1,342.55			6,711.14		61,445.90		
October	28,821.30	5,121.13	13,901.99	20,040.44	1,342.55			18,697.89		80,143.79		
November	0.00	5,121.13	13,901.99	(8,780.86)	1,342.55			(10,123.41)		70,020.38		
December	0.00	(1,747.37)	13,901.99	(15,649.36)	1,342.55	11,617.00		(28,608.91)		41,411.47		
January 2010	0.00	5,121.13	13,901.99	(8,780.86)	1,342.55			(10,123.41)		31,288.06		
February	71,449.34	5,121.13	13,901.99	62,668.48	1,342.55			61,325.93		92,613.99		
March	52,011.00	5,121.13	13,901.99	43,230.14	1,342.55	11,617.00		30,270.59		122,884.57		
April	59,928.55	(1,747.37)	13,901.99	44,279.19	1,342.55			42,936.64		165,821.21		
May	43,094.00	5,121.13	13,901.99	34,313.14	1,342.55			32,970.59		198,791.80		
<b>Year 2</b>												
June 2010	38,271.55	5,121.13	13,901.99	29,490.69	1,342.55	11,617.00		16,531.14		215,322.94		
July	54,443.34	4,155.71	13,901.99	44,697.06	1,342.55			43,354.51		258,677.44		
August	63,668.00	4,162.39	13,901.99	53,928.40	1,342.55			52,585.85		311,263.29		
September	49,712.48	4,111.82	13,901.99	39,922.31	1,342.55	11,617.00		26,962.76		338,226.06		
October	38,094.00	4,111.82	13,901.99	28,303.83	1,342.55			26,961.28	61,451.56	303,735.78	263,563.61	
November	48,394.89	4,111.82	13,901.99	38,604.72	1,342.55			37,262.17		340,997.95		
December	16,834.55	(2,844.32)	13,901.99	88.24	1,342.55	11,617.00		(12,871.31)		328,126.64		
January 2011	21,437.00	4,024.18	13,901.99	11,559.19	1,342.55			10,216.64	25,676.07	312,667.21	237,887.54	
February	38,094.00	4,024.18	13,901.99	28,216.19	1,342.55			26,873.64		339,540.84		
March	74,016.93	3,936.39	13,901.99	64,051.33	1,342.55	11,617.00		51,091.78		390,632.63		
April	47,059.04	(2,932.11)	13,901.99	30,224.94	1,342.55			28,882.39	44,091.03	375,423.99	193,796.51	
May	59,531.00	3,936.39	13,901.99	49,565.40	1,342.55			48,222.85		423,646.85		
<b>Year 3</b>												
June 2011	143,218.93	3,848.49	13,901.99	133,165.43		11,617.00		121,548.43		545,195.28		
July	71,665.41	3,893.49	13,901.99	61,656.91				61,656.91	99,326.84	507,525.35	94,469.67	
August	102,110.93	3,893.49	13,901.99	92,102.43				92,102.43		599,627.78		
September	48,173.86	3,805.48	13,901.99	38,077.35		11,617.00		26,460.35		626,088.13		
October	43,394.89	3,805.48	13,901.99	33,298.38				33,298.38	90,109.85	569,276.67	4,359.83	
November	33,094.00	3,805.48	13,901.99	22,997.49				22,997.49		592,274.16		
December	0.00	(3,151.11)	13,901.99	(17,053.10)		11,617.00		(28,670.10)		563,604.06		
January 2012	0.00	3,717.39	13,901.99	(10,184.60)				(10,184.60)	13,812.89	539,606.57	0	1,249,665.68
February	21,437.00	3,717.39	13,901.99	11,252.40				11,252.40		550,858.98		
March	42,310.86	3,629.24	13,901.99	32,038.11		11,617.00		20,421.11		571,280.09		
April	114,883.78	(3,239.26)	13,901.99	97,742.53				97,742.53	10,744.46	658,278.16		1,238,921.22
May	91,987.59	3,629.24	13,901.99	81,714.84				81,714.84		739,992.99		

**MBD, Inc.**  
**Summary of Financial Projections**  
**June 1 2009 to July 2013**

	NCF Belvedere	NCF La Dolce	General Expenses	NCF Operations	Class A-8 Caterpillar Financial	Class A-10 Property Taxes	Admin Claims	NCF After Sec'd & Priority Clms	Pymts on Unsecured Claims	Cumulative Net Cash Flow	Trade Unsecured Claims Balance	Lender Unsecured Claims Balance
<b>Year 4</b>												
June 2012	196,561.63	3,541.04	13,901.99	186,200.68		11,617.00		174,583.68		914,576.67		
July	127,699.90	3,511.04	13,901.99	117,308.95				117,308.95	177,020.52	854,865.10		1,061,900.70
August	212,518.34	3,511.04	13,901.99	202,127.39				202,127.39		1,056,992.48		
September	118,519.82	3,778.50	13,901.99	108,396.33		11,617.00		96,779.33		1,153,771.81		
New Loan on Belvedere Heights Subdivision										6,219,928.00		
Payoff of Umpqua Bank Claim (Class A-4)										(3,219,928.00)		
October	(1,795,274.48)	3,778.50	13,901.99	(1,805,397.97)				(1,805,397.97)	208,107.83	2,348,373.84		853,792.87
November	423,513.01	3,778.50	13,901.99	413,389.52				413,389.52		2,761,763.36		
December	369,634.22	(3,175.47)	13,901.99	352,556.76				352,556.76		3,114,320.12		
January 2013	104,366.93	3,693.03	13,901.99	94,157.96				94,157.96		3,208,478.09		853,792.87
February	(1,929,683.40)	3,693.03	13,901.99	(1,939,892.36)				(1,939,892.36)		1,268,585.72		
March	426,538.19	3,607.54	13,901.99	416,243.75				416,243.75		1,684,829.47		
April	42,756.96	(3,260.96)	13,901.99	25,594.02				25,594.02		1,710,423.49		853,792.87
May	584,494.04	3,607.54	13,901.99	574,199.59				574,199.59		2,284,623.08		
<b>Year 5</b>												
June 2013	716,073.15	3,522.06	13,901.99	705,693.22				705,693.22		2,990,316.30		
July	724,508.94	3,522.06	13,901.99	714,129.02				714,129.02	365,643.62	3,338,801.70		488,149.25
August	774,460.53	3,522.06	13,901.99	764,080.60				764,080.60		4,102,882.30		
September	715,253.94	3,436.60	13,901.99	704,788.55				704,788.55		4,807,670.85		
October	758,018.87	3,436.60	13,901.99	747,553.48				747,553.48	488,149.25	5,067,075.08		0.00
November	773,037.17	3,436.60	13,901.99	762,571.78				762,571.78		5,829,646.86		
December	711,483.30	(3,517.32)	13,901.99	694,063.99				694,063.99		6,523,710.85		
January 2014	740,283.53	3,351.18	13,901.99	729,732.72				729,732.72		7,253,443.58		
February	754,232.06	3,351.18	13,901.99	743,681.25				743,681.25		7,997,124.82		
March	751,884.20	3,265.81	13,901.99	741,248.02				741,248.02		8,738,372.84		
April	728,786.54	(3,602.69)	13,901.99	711,281.86				711,281.86		9,449,654.70		
May	738,600.60	3,265.81	13,901.99	727,964.42				727,964.42		10,177,619.11		
Repay Construction/takeout Loan										(6,219,928.00)		
Cumulative Net Cash Flow										3,957,691.11		

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

**Note re Forward Looking Statements**

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

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

**Other Assumptions**

Debt Service to Umpqua Bank (Class A-4) is included in Belvedere NCF

Debt Service to Tri Counties Bank (Classes A-1, A-2 and A-3) is included in La Dolce NCF

Payments on AICCO claim (Class A-9) are included in Operating Expenses

Assume interest rate on property tax claims of 10% per annum

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

Property Taxes on Montebello, Fleetwood and Cielo Vista properties to be assumed by Umpqua Bank or assignee

Assume that Umpqua Bank loan is refinanced in September 2012 through a new acquisition and construction loan  
of approximately \$6,220,000, payable interest only at an initial interest rate of 5.5% per annum