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IN THE UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF DELAWARE

In re:

DBSI, INC., et al.,

Debtors.

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§

Chapter 11

Case No. 08-12687 (PJW)

Jointly Administered

NOTICE OF FILING
FIRST INTERIM REPORT OF EXAMINER

PLEASE TAKE NOTICE that Joshua R. Hochberg, the duly authorized and appointed Examiner in the above-referenced cases, hereby files the First Interim Report of Examiner, attached hereto as Exhibit 1.

Dated: August 3, 2009

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EXHIBIT 1

First Interim Report of Examiner

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Joshua R. Hochberg, the duly authorized and appointed Examiner in *In re DBSI Inc., et al.*, Case No. 08-12687 (the “Cases” or “Bankruptcy Proceedings”), herewith files his Interim Report in the Cases as follows:

I. INTRODUCTION AND PROCEDURAL BACKGROUND

On November 10, 2008 (the “Petition Date”), the majority of the Debtors herein filed Voluntary Petitions for relief under Chapter 11 of the Bankruptcy Code. The Debtors have continued in possession of their respective properties and have continued to operate their businesses as debtors in possession pursuant to sections 1107(a) and 1108 of the Bankruptcy Code.

On March 25, 2009, the Bankruptcy Court entered its Order directing the United States Trustee to appoint an examiner herein (the “Examiner Order”)¹ and on April 3, 2009, the United States Trustee filed her Notice of Appointment of Examiner (“Notice of Appointment”) wherein she appointed Joshua R. Hochberg as the Examiner.² On April 14, 2009, the Bankruptcy Court approved the Examiner’s appointment.³

In accordance with the Examiner Order, the Examiner consulted with the Debtors, the Committee and other parties in interest regarding the proposed Investigation and prepared and submitted a proposed Work Plan and Budget on April 21, 2009 (the “Examiner’s Work Plan

¹ Docket No. 2974.

² Docket No. 3207.

³ Docket No. 3308.

Motion”).⁴ On April 29, 2009, the Bankruptcy Court conducted a hearing with respect to the Work Plan Motion and granted the Work Plan Motion from the bench, made oral comments with respect to the Examiner’s Work Plan and Budget, and authorized the Examiner to begin the investigation (the “Investigation” or “Examination”) immediately. On June 9, 2009, the Examiner provided an oral status report as ordered by the Court.

Prior to filing his Work Plan Motion, the Examiner selected the law firm of McKenna Long & Aldridge LLP (“MLA”), to serve as his counsel in these Cases and the law firm of Cole, Schotz, Meisel, Forman & Leonard, P.A. to serve as his Delaware counsel. In addition, the Examiner determined that the services of an investigator and financial advisors would be necessary. The Examiner selected Don B. Southerland, Jr., CPA (“Southerland”), a former FBI Special Agent, to serve as his principal investigator in the Examination, and Hays Financial Consulting, LLC (“HFC”) to serve as his Financial Advisor. Applications to employ the Examiners’ professionals were filed on April 17, 2009 and granted by the Court on April 29, 2009.⁵

II. WHY AN INTERIM REPORT IS BEING FILED

The Examiner is filing this Interim Report for two reasons. First, the Official Committee of Unsecured Creditors in these Cases (the “Committee”) requested that the Examiner file an interim report to address certain issues related to the pending plan confirmation process. In particular, the Committee requested that the Examiner report, to the extent possible, on the status of his investigation with respect to the corporate and financial relationships existing by and

⁴ Docket No. 3356.

⁵ As used herein, “the Examiner” means the Examiner and / or his retained professionals, including attorneys from MLA, Southerland, and HFC.

between the Debtors in the Cases and certain non-Debtor affiliates and related entities. This Interim Report summarizes aspects of the interrelated ownership and control of Debtors and non-Debtor entities as requested by the Committee.

Second, the Examiner has uncovered and is reporting on information relevant to the Bankruptcy Proceedings that brings into question issues concerning the Debtors' books and records and uses of cash. The Examiner believes it is important for the Court, creditors and parties-in-interest to be advised of these findings at this time. Specifically, this Interim Report details the uses of cash from the DBSI 2008 Notes Corporation ("2008 Notes Corp.") and examines how the uses were booked in the records of the Debtors. This cash (the "2008 Notes Proceeds") was raised from investors through a February 2008 offering (the "2008 Notes Offering").

This Interim Report documents that the Debtors had common ownership of, exercised control over, and engaged in complex financial transactions with non-Debtor related companies. Based on an analysis of the uses of 2008 Notes Proceeds, the Examiner concludes that the Debtors' general ledger accounting entries provide both confusing and misleading impressions of what occurred. The initial journal entries used to document the transfer of funds from investors are often misleading as to how those funds raised from investors were actually used. Indeed, the process of tracing the actual money flows is complicated because of the misleading journal entries. The difficulty in tracing sources and uses of funds is also compounded by intercompany transfers and the Debtors' practice of transferring and re-transferring funds among numerous Debtor and non-Debtor related company accounts, often on the same day. In addition, the Debtors' paper records are disorganized. Hundreds of boxes of documents containing records of both the Debtors and their non-Debtor affiliates are located throughout the Debtors' offices.

Although the Debtors are now making efforts to organize and catalog their records, this has been a slow process. It can take several days to find requested accounting records.

Based on an analysis of the Debtors' financial records, the Debtors had serious cash flow problems and operating losses before and at the time of the 2008 Notes Offering, and needed to use the 2008 Notes Proceeds in order to continue their operations. Based upon an analysis of the uses of the funds obtained from the 2008 Notes Offering, it appears that the Debtors booked journal entries explaining the uses of the 2008 Notes Proceeds in a way that concealed that large sums of money from those Notes were used to fund day to day operations and pre-existing obligations. Determining the Debtors' actual use of funds requires extensive analysis and the tracing of funds through numerous Debtor and non-Debtor accounts.

III. INVESTIGATION OVERVIEW

Upon approval of the Work Plan Motion on April 29, 2009, Southerland and a professional employed by HFC traveled to the Debtors' corporate offices in Boise, Idaho to begin the Investigation. They were joined one week later by a second professional from HFC. These three professionals have been working out of the Debtors' office almost continuously since May 1, 2009.

In addition, the Examiner assigned personnel from MLA to head up certain portions of the Examination. In particular, attorneys were assigned to lead the investigations and report generally concerning intercompany transfers; accountable reserves; business ownership and control; the financial and other dealings involving Stellar Technologies LLC ("Stellar") and the other non-Debtors including Western Electronics LLC, iTerra, UltraDesign, BioReaction, GigOptix and Wavetronix (each defined further below and collectively referred to in this Report

as the “Tech Companies”); and reviews of particular transactions identified by the Examiner as problematic that relate to how the Debtors generally conducted their business operations.

A. Description of Investigative Steps Undertaken to Date

Upon his arrival in Boise, Southerland began meeting with employees and attorneys of the Debtors to identify possible witnesses, locate and identify documents and set up witness interviews. The two HFC professionals began working with the Debtors’ accounting and technology staff to obtain access to the Debtors’ accounting and financial records and to gain an understanding of the Debtors’ financial and accounting practices.

As noted in the Work Plan Motion, the Examiner planned to utilize the work product prepared by the Committee’s Financial Advisors, FTI Consulting, to the fullest extent possible. On May 8, 2009, the Examiner executed a Stipulation and Consent Protective Order with the Committee, which was approved by the Court on May 14, 2009.⁶ Pursuant to this Stipulation, the Committee and FTI have provided the Examiner with full and complete access to FTI’s work product, which has been utilized by the Examiner in the Investigation. FTI has also suggested areas requiring further scrutiny by the Examiner.

In order to be able to procure testimony and documents through subpoenas, the Examiner also filed his “Motion Directing the Production of Documents and Authorizing the Examinations of the Debtors, the Debtors’ Current and Former Officers, Directors and Employees and other Persons and Entities” (the “2004 Motion”) on May 12, 2009. The 2004 Motion proposed

⁶ Docket No. 3533.

expedited procedures that the Examiner could use to procure the production of documents and information and deposition testimony. This Motion was granted by the Court on May 22, 2009.⁷

To date, the Examiner has reviewed voluminous electronic data and hard copy documents, conducted a detailed review of the Debtors' accounting systems, investigated numerous transactions, and conducted forty-nine witness interviews. He has reviewed the organizational documents and company minutes for over thirty DBSI related entities. The Examiner has obtained or had access to a large volume of documents through the Debtors and/or their counsel and from third parties. He has also had access to electronic records contained in an electronic database maintained by Debtors' counsel, Young Conaway Stargatt & Taylor, LLP ("YCST"). Although a large number of documents are posted on the YCST database, much of the documentation needed to complete the Examination is not. In addition, the HFC forensic accountants assisting the Examiner have had access to the Debtors' computerized accounting systems such as YARDI, Solomon, and QuickBooks. The Examiner has had access to CSC Global, a web-based program used by the Debtors to store organizational documents such as operating agreements and state filings. The Examiner has also retrieved and reviewed numerous paper records maintained by the Debtors. Finally, the Examiner has copied, preserved and reviewed electronic data from both the Debtors' main computer servers and from individual computers used by current and former employees of the Debtors.

The interviews conducted to date have included all of the Debtors' principal management personnel with the exception of Mr. Mark Ellison, General Counsel to certain of the Debtors ("Ellison"), and Mr. Douglas L. Swenson, Debtors' co-founder and most senior executive

⁷ Docket No. 3622.

("Douglas Swenson"). The Examiner conducted interviews of key witnesses taking into consideration factors including time, resources, and the avoidance of duplicative interviews. The Examiner's professionals have also had frequent contact with the Debtors' management and employees during the course of the Examination. The Debtors, the Debtors' Idaho counsel, and the interviewees have been generally cooperative in the scheduling and conduct of the interviews.

The interviews have not been conducted under oath. Detailed notes have been taken by the Examiner's professionals during the interviews. One interview has been transcribed.

The Examiner anticipates interviewing Mr. Ellison in the near future. It should be noted that Mr. Ellison has made himself available to the Examiner's professionals to answer specific questions or to provide documents requested by the Examiner during the course of the Examination.

The Examiner had been negotiating for approximately six weeks with Douglas Swenson's attorneys to set an interview date for Douglas Swenson, and in mid-June had agreed that the interview would occur on July 14 and 15, 2009. After preparing for this interview and traveling to Boise with some of his retained professionals to conduct it, the Examiner was informed on July 13, 2009 that Douglas Swenson was canceling the interview. Numerous witnesses have indicated that they never engaged in transactions of any significance without first consulting Douglas Swenson. Further, the Debtors had previously filed with the Court the "Declaration of Douglas L. Swenson in Support of Chapter 11 Petitions and First Day Motions" in which Mr. Swenson declared, under penalty of perjury, that he had "detailed knowledge of

and experience with the business and financial affairs” of the Debtors.⁸ The Examiner served a subpoena to compel Douglas Swenson’s deposition after he refused to appear for his scheduled interview. Douglas Swenson has objected to this subpoena, and this matter is pending before the Court.⁹

In addition to obtaining information from the Debtors, the Examiner has also obtained information from third parties. Several third parties have voluntarily provided information and documents. Others have either requested a subpoena or the Examiner has determined that a subpoena would be required. Approximately ten subpoenas have been issued and served to date.

B. Challenges Encountered to Date in Connection With the Examination

Although the Debtors have been generally cooperative, the Examination has faced several procedural and logistical difficulties.

First, upon arrival at Debtors’ offices, the Examiner discovered that the Debtors’ business records were largely unorganized and were not readily accessible. The Debtors’ paper records are now located in the Debtors’ office on West Explorer Drive in Boise, Idaho. These paper records represent the accumulation of many years’ files both from the Explorer Drive location and from other former offices of the Debtor that have been consolidated post-Petition with the Explorer Drive office. Although the Examiner has been able independently to review boxes containing records, the Examiner normally has to make requests for specific records directly through employees of the Debtors because of the volume of records at issue. This has been a time consuming and cumbersome process, which has been complicated by the limited amount of

⁸ Docket No. 3.

⁹ Docket Nos. 4073, 4085, and 4122.

staff available to assist on site. In addition to being short-staffed as a result of the bankruptcy, the Debtors' current employees are often not the ones with personal knowledge concerning the location of required records.

Second, it took several weeks for employees of HFC to obtain complete access to all of the Debtors' electronic databases. Although the Examiner was initially provided with access to databases maintained by the Debtors' attorneys, the Examiner quickly learned that the Debtors maintained several additional electronic databases. The Examiner now believes that he has access to all of the Debtors' electronic records and financial databases.

Third, the Debtors' accounting systems are extremely complex and require significant training time. Multiple separate accounting systems are in use by different Debtors, and in many cases, more than one system must be consulted to review all material information regarding transactions. The systems used by the Debtors often contain numerous entries relating to individual financial transactions, and the Debtors did not use consistent language or methodology in describing transactions entered into their ledger systems, which makes searching for information cumbersome. Moreover, as set forth in more detail below, the Examiner has now determined that the ledger entries themselves can be misleading, which makes it necessary but difficult and time consuming to trace ledger transactions to bank and other direct records.¹⁰

Fourth, the Debtors' books and records, both paper and electronic, are completely under the control of the Debtors' senior management. Although the Examiner was initially advised

¹⁰ The Debtors' uses of company names adds another layer of complexity. When a Debtor entity ceased or changed operation, consolidated, and/or was created, the old entity would from time to time assume the name of one of the former entity groups, and the new entity would assume the name of another previous entity. The computer accounting systems made all name changes retroactive, thereby making the names inconsistent with bank statements and documents.

that the Debtors' Chief Restructuring Officer, Timothy Boates of RAS Management, would be the primary liaison between the Examiner and the Debtors, Mr. Boates has had no involvement in the Examination to date and, to the Examiner's knowledge, has not been present at the Debtors' offices since the Examination began. Thus, in order to obtain information and access to the Debtors records, the Examiner must generally make requests upon employees who are directly controlled and supervised by senior management as opposed to an independent, court-approved professional.

Fifth, and related to the previous point, the Examiner cannot state with certainty the degree to which the Debtors' records have been fully and completely preserved and cannot state whether there has (or has not) been alteration or destruction of records material to the Examination either before the Examination began or thereafter. Indeed, the Examiner learned through interviews that, for a period of time following the Petition Date, Debtors' former employees were permitted to take home company computers as a form of severance compensation, but Debtors required the computers to be "wiped" of data first. This practice apparently stopped after a litigation hold was enforced.

Sixth, the Examiner is investigating the sources and uses of funds transferred to certain Tech Companies. According to the Debtors' general ledgers and information provided by the Debtors, approximately \$200 Million was loaned to or secured by the assets of these entities or by Debtor and non-Debtor holding companies' interests in these Tech Companies. Four of the Tech Companies are still operating. Upon authorization of the Examination, the Examiner intended to contact the Tech Companies directly to obtain documents and information. However, both the Debtors and the Committee requested that the Examiner work through Paul Judge ("Judge"), the CEO of Stellar Technologies LLC, a non-Debtor, to obtain information and

documents related to most of these companies. The Debtors, the Committee and Judge each asserted that Judge could provide the information required by the Examiner. Further, the Debtors, the Committee and Judge claimed that issuing subpoenas or contacting these companies directly could result in disruptions of the businesses of these companies. Ultimately, Judge was unable to deliver certain critical information requested by the Examiner and the Examiner has now sought this information directly from the Tech Companies. To the Examiner's knowledge, information and belief, there has been no disruption in the business activities of the operating Tech Companies and they have been generally cooperative with the Examiner. However, not going directly to the Tech Companies in the early stages of the Examination has caused some delay and additional expense.

Seventh, the Debtors have asserted attorney-client privilege and/or work product protection for certain records, including records specifically requested by the Examiner. The Examiner does not know whether these documents would have shed further light on the issues investigated to date or whether they would have aided the Investigation. Due to time constraints, the Examiner has not challenged these assertions of privilege and/or work product protection.

IV. DEFINITIONS

For purposes of this Report, the following terms shall have the meaning ascribed to them below:

“BioReaction” shall mean BioReaction Industries LLC, a Idaho limited liability company.

“Control Group” shall mean, collectively, Douglas Swenson, Charlie Hassard (“Hassard”), John Mayeron (“Mayeron”), Walt Mott (“Mott”), Ferrell Bennett (“Bennett”), John Foster (“Foster”), Thomas Var Reeve (“Reeve”) and Gary Bringhurst (“Bringhurst”).

“2008 Notes Corp.” shall mean DBSI 2008 Notes Corporation, an Idaho corporation.

“GCC” shall mean DBSI Guaranteed Capital Corporation, an Idaho corporation.

“DBSI Inc.” shall mean DBSI Inc., an Idaho corporation, which entity was known as DBSI Housing Inc. until April 1, 2008.¹¹

“DBSI Properties” shall mean DBSI Properties Inc., an Idaho corporation, which entity was known as Spectrus Group LLC until April 1, 2008.

“DBSI Realty” shall mean DBSI Realty Inc., an Idaho corporation, which entity was known as DBSI Realty Corporation until March 25, 2008.

“DBSI Related Companies” shall mean, collectively, those entities that are not owned by DBSI Inc. but are owned by members of the Control Group, including DBSI Securities Corporation, an Idaho corporation, DCJ Inc., an Idaho corporation, and DBSI/Western Technologies LLC, an Idaho limited liability company.

“DCJ Inc.” shall mean, DCJ Inc., an Idaho corporation, which entity was formerly known as DBSI Inc. until March 25, 2008.¹²

¹¹ Where in this Report “DBSI Inc” is used in connection with events prior to April 1, 2008, this should be read to refer to the predecessor entity, DBSI Housing, Inc. Note that the Debtors themselves used these titles somewhat interchangeably after April 1, 2008 -- for example, DBSI Inc. continued to use bank accounts that were in the name of DBSI Housing Inc.

“DDRS” shall mean, DBSI-Discovery Real Estate Services LLC, an Idaho limited liability company.

“Debtor Entities” shall mean, collectively, DBSI Inc., the Operating Entities, the Debtor Project Subsidiaries and the DBSI Related Companies.

“Debtor Project Subsidiaries” shall mean those certain Project Subsidiaries that have been included as parties to the Bankruptcy Proceedings.

“DRR” shall mean DBSI Redemption Reserve, an Idaho general partnership.

“FOR 1031” shall mean FOR 1031 LLC, an Idaho limited liability company.

“Former Related Companies” shall mean, collectively, those entities that are now wholly owned by DBSI Inc. but which have not always been wholly owned by DBSI Inc., including, DDRS, FOR 1031 and DBSI Properties Inc.

“GigOptix” shall mean GigOptix, Inc., a Delaware corporation.

“Investments” shall mean DBSI Investments Limited Partnership, an Idaho limited partnership.

“iTerra” shall mean iTerra Communications LLC, an Idaho limited liability company.

“Master Leaseco” shall mean DBSI Master Leaseco, Inc., an Idaho corporation.

¹² Other than in this sentence to note the former name of DCJ Inc., unless expressly otherwise noted, “DBSI Inc.” as used in this report refers only to the entity currently known as DBSI Inc. and formerly known as DBSI Housing Inc.

“Non-Debtor DBSI Entities” shall mean, collectively, Kastera LLC, Investments, Stellar and the Non-Debtor Project Subsidiaries.

“Non-Debtor Project Subsidiaries” shall mean those certain Project Subsidiaries that have not been included as parties to the Bankruptcy Proceedings.

“Operating Entities” shall mean DBSI Realty, DDRS, DBSI Development Services LLC, DBSI Land Development LLC, Spectrus Real Estate Inc., FOR 1031, Master Leaseco and DBSI Properties Inc.

“Project Subsidiaries” shall mean the DBSI related entities created in connection with the acquisition, ownership, management, leasing or sale of particular real estate projects or used in connection with a bond or note investment projects.

“Stellar” shall mean Stellar Technologies LLC, an Idaho limited liability company.

“Subsidiaries” shall mean, collectively, DBSI Realty Inc., DBSI Development Services LLC, DBSI Land Development LLC, Spectrus Real Estate Inc. and Master Leaseco.

“Technology Holding Companies” shall mean, collectively, Stellar and DBSI/Western Technologies LLC.

“UltraDesign” shall mean UltraDesign LLC, an Idaho limited liability company.

“Wavetronix” shall mean Wavetronix LLC, an Idaho limited liability company.

V. SUMMARY OF PRELIMINARY CONCLUSIONS AND RECOMMENDATIONS

A. Preliminary Conclusions

Based on review and analysis of corporate records, the actual uses of 2008 Notes Proceeds described herein, interviews conducted to date, and the overall investigation to date, the Examiner has reached the following specific preliminary conclusions:

1. DBSI Inc., Douglas Swenson, and the Control Group owned and/or controlled both the Debtor companies and all significant non-Debtor companies. Specifically, DBSI Inc, Douglas Swenson, and the Control Group were able to control the flow of funds and direct that loans be made to or “secured” by non-Debtor company assets including DRR, Stellar, DBSI Investments Limited Partnership, and Kastera.

2. DBSI and Douglas Swenson-controlled companies, whether Debtors or non-Debtors, were run as a unified business. The sources and uses of funds were evaluated by considering all companies controlled by DBSI Inc., Douglas Swenson and/or the Control Group. DBSI Inc. and its controlled entities typically commingled and accumulated their available funds, which were disbursed for the most pressing obligations as they came due. Intercompany transfers were typically treated as loans.

3. Many of the general ledger entries accounting for fund transfers do not fully, fairly and accurately reflect the transactions they purport to describe. It is the Examiner’s understanding that these ledger entries are the primary sources of financial information provided by the Debtors to the Court and to creditors and parties-in-interest.

4. A company known as DRR, which is a non-Debtor, was used as an intermediary for most intercompany cash transfers. DRR is purportedly a general partnership; however, no partnership agreement exists for this entity. The use of DRR helped obfuscate the true source and use of funds that were transferred between entities. Large loans receivable from DRR on the books of Debtor entities represent nothing more than an accumulation of fund transfers which were documented by accounting entries. The money that flowed through DRR was always obtained from other sources and DRR had no significant assets (other than the loans receivable) or business operations. Determining the true source of the funds received by DRR is complex. DBSI Inc's balance sheet dated December 31, 2008 reflects that DRR owes DBSI Inc. \$196 million.

5. In large part, the loans made by 2008 Notes Corp. were used for the benefit of DBSI Inc. to meet existing obligations and operating expenses, rather than for the investment purposes described in the Private Placement Memorandum for the 2008 Notes Offering. DBSI Inc. and its controlled entities had severe cash flow problems and operating losses. DBSI Inc. used 2008 Notes Proceeds to fund current operating expenses of a failing enterprise. Ultimately, none of the business entities controlled by Douglas Swenson and the DBSI Control Group had any reasonable likelihood of generating revenues sufficient to ever repay DBSI's obligations to the 2008 Notes Corp. (or to the investors who contributed the cash to it).

6. Highly questionable internal valuations and appraisals were used to support loans from the bond and note programs sponsored by DBSI Inc.

B. Recommendations

Due to the findings set forth herein, the Examiner believes that the current Work Plan should be reconsidered and amended. Because funds were commingled and transferred among numerous entities, tracing commingled funds from bond and note offerings or TIC investments would be time consuming and expensive without corresponding benefit to the Debtors and their Estates. Further, these funds often lost their identity as they moved among various Debtor and non-Debtor entities. It appears from the Investigation conducted to date that the commingled funds used by the Debtors to meet pre-existing obligations and operating expenses were used without regard to their source and without regard to whether such obligations and expenses were TIC-related or non-TIC-related.

Accordingly, because of the substantial work already done, expertise already developed, and issues identified that would be of benefit to the Debtors and their Estates, the Examiner recommends that he be permitted to complete and report on his investigation of the following issues:

1. Detail the amounts and timing of distributions to insiders from Debtors and non-Debtors, including, in particular, distributions from DBSI Investments Limited Partnership. This project would also entail reporting on significant credits against distributions claimed by Douglas Swenson. This project was included in the Work Plan and is near completion.

2. Determine the amounts booked, transferred or loaned to Tech Companies and the uses of these funds. With respect to the funds transferred to the Tech Companies, the report would also include a description of the terms and conditions under which such funds were transferred to the Tech Companies (e.g. loan, equity stakes, and any conversions of loans to

equity stakes). This project was also in the original Work Plan. The Examiner has made substantial progress in this area, including resolving issues related to confidentiality of records, conducting preliminary interviews, and obtaining and analyzing some financial information. This project will require additional work to complete.

3. Report on the legal and financial issues related to Accountable Reserves. The Examiner has been investigating issues related to the Accountable Reserves maintained by the Debtors, however, the investigation of these issues is not complete. To date, the Examiner has not identified any bank or other accounts containing segregated Accountable Reserves. It appears to the Examiner that funds designated as Accountable Reserves were relied upon and used by the Debtors for their day to day business operations. This project was also included in the original Work Plan and an overview could be completed without substantial additional work.

4. Conduct the depositions of Douglas Swenson and, as necessary, interview or depose additional persons. This is a limited project.

5. Complete the investigation of four to six specific property transactions that appear problematic to the Examiner. These transactions illustrate significant problems and issues with respect to how DBSI Inc. and the individuals who controlled it conducted its business operations over a period of years. Substantial progress has been made on this project, but it has not yet been completed.

6. Investigate and report on potential claims and causes of action against third parties. Several possible claims have been identified, but will require further investigation.

7. Report on and summarize all other results to date, including the results of interviews and a description of significant documents. This investigative work is mostly done. Additional time will be required to compile the information and prepare a report.

C. Disclaimer

This is an Interim Report. The Examiner has not yet completed his Examination in this matter. Upon completion of his Examination, the Examiner will file a written report containing his final findings and conclusions. Although the findings and conclusions set forth herein have been carefully considered and investigated, they are interim findings and conclusions. Additional information may be discovered in the course of this Examination that may alter or amplify them.

VI. INVESTIGATION OF RELATIONSHIPS BETWEEN DEBTORS AND NON-DEBTORS.

A. Introduction

1. Scope of Review

In this section, the Examiner reports his findings concerning the ownership, control, management and inter-relationships among numerous DBSI related companies, some of which are currently Debtors and some of which are not. This section analyzes the relationships between the Debtors and those companies that are not currently debtors in the Bankruptcy Proceedings. In addition, the relationships between the individual owners of the Debtors and those companies that are not currently Debtors are analyzed.

In connection with the Examination, the Examiner's professionals reviewed the company record books for the various DBSI-related entities detailed below. Reviewed were any and all documents included in the record books, including formation documents, meeting minutes, consents of the board of directors (or managers), ownership ledgers and certificates and related organizational agreements. The record books for DBSI Inc., the DBSI Related Companies, Former Related Companies, the Operating Entities, Kastera LLC, and Investments have been maintained by Ellison, as general counsel for DBSI Inc., and were provided by him for review at the DBSI Inc. headquarters. The record books for the Technology Holding Companies, Western Electronics LLC,¹³ UltraDesign and iTerra have been maintained by Judge and were provided by him for review at the DBSI Inc. headquarters. BioReaction, Wavetronix, and GigOptix each maintain their corporate record books at their respective headquarters, and all of these entities produced copies of their corporate records to the Examiner. The factual statements set forth in the section below are based on the materials set forth in the company record books unless otherwise specifically stated.

2. Overview of Relationships Between the Companies.

DBSI Inc. is the parent entity that owns, directly or indirectly, 100% of the Operating Entities and the Debtor Project Subsidiaries. DBSI Inc. is owned almost entirely by Douglas Swenson (91.38%). Douglas Swenson and other members of the Control Group also own the DBSI Related Companies. DBSI Inc., the Operating Entities, the Debtor Project Subsidiaries and the DBSI Related Companies are currently all party to the Bankruptcy Proceeding (collectively, the "Debtor Entities").

¹³ Western Electronics LLC also produced copies of its corporate record books directly to the Examiner.

As described in further detail below, for the last fifteen years each of these Debtor Entities has been exclusively owned, controlled, operated and managed by all or some portion of the Control Group. Some of the individuals who compose this Control Group have changed over time, but each, during their period of ownership of the Debtor Entities, has been actively engaged in and involved with directing the operations of the Debtor Entities, serving on the various boards of directors and serving as senior executive officers of the Debtor Entities.

The Control Group also owns, directly and/or indirectly through its interest in DBSI Inc. and Investments, all or substantially all of the interests in the Non-Debtor DBSI Entities, including Kastera and Stellar. These entities are not currently Debtors. The Non-Debtor DBSI Entities have been owned by various members of the Control Group for almost the entirety of their existence. The respective company minutes reflect that Douglas Swenson and the individuals who compose the Control Group have each, during their individual periods of ownership of the Non-Debtor DBSI Entities, been actively engaged in and involved with directing the operations of these Non-Debtor DBSI Entities, serving on the various boards of directors and as senior executive officers of these entities.

DRR is an entity apparently used and managed by the Control Group that is currently not party to the Bankruptcy Proceedings. DRR was used as a bank clearing house for both the Debtor Entities and the Non-Debtor DBSI Entities. In many instances, the money flowing through DRR was booked as loans payable to and loans receivable from the other entities. The actual ownership of DRR remains in question, but it was routinely used in the day to day operations of the Debtor Entities.

According to the books and records of the Debtor Entities, the Non-Debtor DBSI Entities have derived significant financial benefits from the Debtor Entities consistently throughout their existence. The Non-Debtor DBSI Entities and the Debtor Entities have shared overhead expenses, office space and employees and have maintained common accounting and payroll services and systems. Douglas Swenson and the rest of the Control Group (through their control of the Debtor Entities) have caused the Debtor Entities to provide Non-Debtor DBSI Entities with on-going financial support via loans and capital infusions, and to guaranty the third party financial obligations of the Non-Debtor DBSI Entities. In addition, the Control Group caused loans to be made that were used for Debtor Entity operating expenses and capital requirements, secured by Stellar and DBSI/Western Technologies LLC assets.¹⁴

Finally, the Control Group owns an indirect interest (via its interests in the Technology Holding Companies) in the Tech Companies. These Tech Companies are not currently Debtors. In most cases, these Tech Companies are majority owned by the Control Group and, with the exception of GigOptix, are controlled by DBSI Inc. and Douglas Swenson. Further, the Control Group has historically exercised a significant amount of control over most of these Tech Companies, holding a majority of the positions on the various boards of directors. Douglas Swenson has, with very little exception, always served on the board of directors of each of these Tech Companies. For the past several years, other members of the Control Group have been increasingly less involved in the management and operations of these Tech Companies and, in fact, these Tech Companies have become increasingly managed by individuals who are completely unrelated to DBSI Inc. and its related entities. On the face of the Debtor Entities'

¹⁴ See analysis of 2008 Notes Proceeds contained herein.

financial records, these Tech Companies have derived significant financial benefit from DBSI Inc. and the Debtor Entities, being provided the benefit of loans received by the Technology Holding Companies from DBSI controlled entities.

Douglas Swenson is by far the single greatest constant in both the ownership and the control of all of the Debtor Entities, the Non-Debtor DBSI Entities and the Tech Companies. He has owned nearly all of the ownership interests, either directly or indirectly, of each of the Debtor Entities throughout their existence. Further, he has, throughout the entire existence of each of these entities, held a position on each of the boards of directors of the Debtor Entities (in many cases as the sole director) and has routinely acted as the most senior executive officer of each of these entities. Additionally, he owns a controlling interest, indirectly, in all of the Non-Debtor DBSI Entities and all of the Tech Companies other than GigOptix. The board minutes indicate that he has been an actively engaged member of the board of directors of each of the Non-Debtor DBSI Entities and all of the Tech Companies throughout almost the entire existence of each of these entities. He exercised great influence on the direction and operation of these entities and, particularly, on the financial relationship between the Debtor Entities, the Non-Debtor DBSI Entities and the Tech Companies.

3. Description of Charts Depicting Ownership, Control and Management

Appended hereto as Appendices 2A-N are charts depicting the ownership, control and management of the DBSI related companies by the Control Group. More specifically, (i) Appendix 2-A details the significant entities owned by the Control Group and shows whether each is currently a Debtor or a non-Debtor; (ii) Chart 2-B details non-Debtor entities directly and indirectly owned by the Control Group and shows the percentages of ownership of the Control

Group in the non-Debtor entities; (iii) Chart 2-C details the ownership interests of DBSI Inc. in each of the non-Debtor entities and shows which non-Debtor entities are controlled by DBSI Inc.; (iv) Chart 2-D details non-Debtor entities directly and indirectly owned by Douglas Swenson and shows his percentages of ownership in the non-Debtor entities; (v) Chart 2-E shows which non-Debtor entities are controlled by Douglas Swenson; (vi) Chart 2-F shows the non-Debtor entities in connection with which Douglas Swenson serves on the board of directors (or managers); (vii) Chart 2-G details non-Debtor entities directly and indirectly owned by Reeve and shows his percentages of ownership in the non-Debtor entities; (viii) Chart 2-H shows the non-Debtor entities in connection with which Reeve serves on the board of directors (or managers); (ix) Chart 2-I details non-Debtor entities directly and indirectly owned by Hassard and shows his percentages of ownership in the non-Debtor entities; (x) Chart 2-J shows the non-Debtor entities in connection with which Hassard serves on the board of directors (or managers); (xi) Chart 2-K details non-Debtor entities directly and indirectly owned by Mayeron and shows his percentages of ownership in the non-Debtor entities; (xii) Chart 2-L shows the non-Debtor entities in connection with which Mayeron serves on the board of directors (or managers); (xiii) Chart 2-M details non-Debtor entities directly and indirectly owned by Bringhurst and shows his percentages of ownership in the non-Debtor entities; and (xiv) Chart 2-N shows the non-Debtor entities in connection with which Bringhurst serves on the board of directors (or managers).

B. Debtor Entities

As detailed below, some portion of the Control Group has owned, directly or indirectly, 100% of the interests of the various Debtor Entities throughout the existence of these Debtor Entities. Further, some portion on this Control Group has, with very little exception, controlled, managed and operated the Debtor Entities throughout the existence of these Debtor Entities.

1. DBSI Inc.

a. Ownership.

Douglas Swenson currently owns 91.38% of DBSI Inc. Other current owners include Hassard (4.06%), Mayeron (4.06%) and Bringhurst (0.5%). Douglas Swenson has been an owner of DBSI Inc. since its formation in 1980 and has owned no less than 75% of the shares of DBSI Inc. since March 1, 1992. Hassard and Mayeron have been owners of DBSI Inc. consistently since March 1, 1992. Bringhurst acquired his interest in DBSI on May 25, 2008.¹⁵ Former owners of DBSI Inc. include Mott (1992-2006), Bennett (1992-2000) and Foster (1992-2002), each of whom owned less than 5% of DBSI Inc. during their period of ownership.¹⁶ In addition, Reeve owned less than 2% of DBSI Inc. for a very short period of time, from May 25, 2008 through December 31, 2008.¹⁷

b. Management.

The current board of directors of DBSI Inc. consists of Douglas Swenson, Hassard, Mayeron and Reeve. The current executive officers of DBSI Inc. are Douglas Swenson (Chief Executive Officer and President), Hassard (Chief Financial Officer), Mayeron (Executive Vice President), David Swenson (Assistant Secretary) and Jeremy Swenson (Assistant Secretary).

¹⁵ All of this ownership information is based the stock ledger included in the minute books for this entity provided by company counsel and, in part, from review of the corporate minutes. The stock certificates for these interests are not included the company records.

¹⁶ Note also that Ellison and David Palfreyman owned interests of DBSI Inc. from 1980-1992, however this period of ownership is not significant to the current analysis.

¹⁷ Reeve pledged his interest in DBSI Inc. to Douglas Swenson in connection with a \$2,000,000 loan to Reeve from Swenson. Reeve assigned his interests in DBSI Inc. to Swenson in exchange for forgiveness of the debt on December 31, 2008. The loan was provided to Reeve in order so that Reeve could make a capital contribution to Kastera LLC in exchange for ownership interests in Kastera LLC.

The current board of directors and executive officers generally reflect the persons who have controlled and managed DBSI Inc. throughout its history, with the exception of Bringhurst who resigned from his position on the board of directors and as Chief Operating Officer in February 2009. Although there have been some changes in the management of DBSI Inc. throughout the years, the involvement and influence of Douglas Swenson and, to a somewhat lesser extent, Hassard and Mayeron, has been consistent and extensive. Douglas Swenson has served on the board of directors and acted as President of DBSI Inc. consistently since its formation in 1980. In addition, he has acted as the Chief Executive Officer of DBSI Inc. since the establishment of such position in 2004. In the vast majority of circumstances, he has acted as the attorney in fact on behalf of DBSI Inc. and has been the individual authorized to take actions, sign documents and negotiate business authorized by the board of directors. Since 1992, Mayeron and Hassard have also consistently served on the board of directors and acted as senior officers of DBSI Inc. The corporate minutes of DBSI Inc. show that both Mayeron and Hassard were active and engaged in the operations and management of DBSI Inc. consistently since 1992.

Reeve did not join the board of directors of DBSI Inc. until 2005. Similarly, Bringhurst only served on the board of directors of DBSI Inc. for a short period during 2008 and 2009 (during which time he also held very senior management positions in the entity). However, these individuals have both served on the board of directors and acted as the senior management of FOR 1031 since its inception in 2003, which entity had an ongoing relationship with DBSI Inc.

David Swenson and Jeremy Swenson have never served on the board of directors of DBSI Inc. However, each of these individuals have held middle to senior level management positions within the DBSI related companies since approximately 2004 and, ultimately, each

served as a senior executive officer of DBSI Inc. Jeremy Swenson began acting as Assistant Secretary of DBSI Inc. on April 13, 2005 and since then has been authorized to and has executed many acquisition, financing and other related documents on behalf of DBSI Inc. and its related subsidiaries. Similarly, David Swenson began acting as an Assistant Secretary of DBSI Inc. in January 2008. Each of these individuals continues to serve as an Assistant Secretary for DBSI Inc. and many of its related entities, including but not limited to, DBSI Realty Inc., DBSI Development Services LLC, Spectrus Real Estate Inc., DBSI Properties Inc. and Master Leaseco.

Other members of the board of directors have included Mott (1992-2006), Foster (1992-2002), Bennett (1992- approximately 2002) and Ellison (2005-2008). These individuals were each heavily involved in the management and operations of DBSI Inc. during the periods in which they served but their period of involvement is confined.

2. Operating Entities

The business, operations and management of the DBSI businesses was directed through the Operating Entities. Each of the Operating Entities described below served a particular function in facilitating the underlying business of the DBSI Inc., being the acquisition, ownership, management, leasing or sale of commercial real estate projects and the creation, sale and management of various investment vehicles. Each of these Operating Entities is wholly owned, directly or indirectly, by DBSI Inc. and is a Debtor Entity.

a. Subsidiaries

The Subsidiaries have been wholly owned, directly or indirectly, by DBSI Inc. since their formation or have otherwise been owned by the same individuals (in the same percentages of ownership) as DBSI Inc. Given the history of ownership of the Subsidiaries, it is not surprising that the control and management of these entities has tracked, fairly consistently, the control and management of DBSI Inc. described above.

In the case of each of these Subsidiaries, Douglas Swenson has served without interruption on the board of directors (or in the case of any limited liability company, on the board of managers) since the formation of the of such companies and has, with a few inconsequential exceptions, also served as the most senior officer of each of the Subsidiaries. In addition, at one time or another, he has served as the sole director (or manager) of each of these Subsidiaries. With some limited exception described below, both Mayeron and Hassard have also been consistently involved with the management and operations of these Subsidiaries.

(1) DBSI Development Services LLC

DBSI Development Services LLC was created in March 2005 for the purpose of acting as the operating entity in connection with the acquisition, ownership, management, development and sale of unimproved real estate. This entity has been owned by DBSI Inc. for the entirety of its existence.¹⁸ Douglas Swenson has served as Chairman of the board of managers for this entity from its inception and throughout its existence. Mayeron also served on the board of

¹⁸ This is based on the company's operating agreement included in the minute books for this entity provided by company counsel. The minute books did not contain either an ownership ledger or ownership certificates for this entity.

managers of DBSI Development Services LLC beginning in March 2005, as did Jeremy Swenson who joined the board of managers in September 2005. Both of these individuals resigned from their positions on the board of managers in November 2006, leaving Douglas Swenson as the sole manager. Other members of the board of managers of this entity include former DBSI Inc. owners, Foster and Mott, who served on the board of managers from March 2005 until August 2006.

Douglas Swenson has served as the President of such entity since August 11, 2006. Jeremy Swenson has been the acting Assistant Secretary since September 1, 2006, and David Swenson began acting as an Assistant Secretary on June 1, 2008. With the exception of Mott (who served as the President and Chief Executive Officer from March 2, 2005 until August 11, 2006) and Foster (who served as Executive Vice President of Operations from December, 2005 until August 8, 2006), the company records show no individuals have held executive offices other than Douglas Swenson, Jeremy Swenson and David Swenson.

DBSI Development Services LLC maintained very few corporate formalities. Virtually the only formal, documented actions by the board of directors were with respect to appointment and resignation of officers and directors. There are only a couple of meetings of the board of directors in which it appears that business matters were discussed, and the corporate records reflect only one instance in which consent was obtained in connection with a specific business related action item by this entity (i.e., authorizing acceptance of a line of credit). Other than that, there are no documented consents or authorizations by the board of directors regarding the acquisition, sale or ownership of assets by this entity or the financing activities of this entity, nor do their board meeting minutes reflect board discussion and analysis of such business activities. Given the lack of corporate formalities, it is difficult to ascertain who directed and carried out the

operations of this entity prior to 2006 but, as stated above, Douglas Swenson has been the President and the sole manager of this entity since 2006.

(2) DBSI Realty Inc.

DBSI Realty Inc. was created in 1982 for the purpose of providing overhead and support to DBSI Inc. and its related companies. It appears based on the records of this entity that it has also been involved in the funding and use of certain of the DBSI related investment vehicles. Although this entity did not become owned by DBSI Inc. until January 2007, its ownership has always tracked that of DBSI Inc. (i.e., it has always been owned by the same owners in substantially the same percentages of ownership as DBSI Inc.).

Douglas Swenson has served on the board of directors of this entity and, except for the period from 1987-1992, has served as the most senior executive officer of this corporation from its inception. Mayeron and Hassard served on the board of directors of DBSI Realty Inc. from 1992 until they stepped down from their positions on the board of directors in early 2008, leaving Douglas Swenson as the sole director of this entity. The corporate minutes of DBSI Realty Inc. reflect that both Mayeron and Hassard were actively engaged in the operations and management of this entity starting in November 1992, at which time they began serving on the board of directors and serving as senior executive officers. Mayeron stopped serving as an executive officer in February 2007, and Hassard stopped serving as an executive officer in March 2008. Jeremy Swenson began acting as an executive officer, specifically as the Assistant Secretary, in November 2005, and David Swenson joined him in such position in February 2008. Both David Swenson and Jeremy Swenson continue to hold the positions of Assistant Secretary. Douglas Swenson continues to act as President and Secretary.

It appears that DBSI Realty Inc. maintained some corporate formalities. Prior to 2006, the records reflect that the board of directors of this entity met and took formal action to consent to the material business matters undertaken by this entity. After 2005, it appears that there were annual meetings of the shareholders and board of directors. Records regarding the elections and resignations of officers and directors were maintained, but records reflect little other formal action was taken in connection with the business operations after 2005.

(3) Master Leaseco

Master Leaseco was created in 2004 to serve as the master tenant in connection with the master leases placed on improved real estate purchased and sold through DBSI related companies. Master Leaseco has been owned by DBSI Inc. and, as such, its management has closely tracked the management of DBSI Inc. since its inception.

Douglas Swenson has served on the board of directors of this entity and has served as the most senior executive officer of this corporation throughout its existence. Mayeron and Hassard consistently served on the board of directors of this entity since its inception in 2004 until February 2009, at which time Douglas Swenson became the sole director of this entity. Hassard also served as senior executive officer of this entity until February 2009. Jeremy Swenson began acting as the Assistant Secretary of this entity in October 2005 and David Swenson joined him in such position in January 2008. Both David Swenson and Jeremy Swenson continue to act as Assistant Secretaries. Douglas Swenson continues to act as President and Secretary.

The company records for Master Leaseco are minimal. It appears that the board of directors did not conduct meetings regarding business management and operations nor did they consent to or authorize the majority of the actions of such entity with any formality. The records

reflect that the board of directors conducted annual meetings of the shareholders and board of directors and maintained records regarding the elections and resignations of officers and directors, but it appears that no consent was granted in connection with the business operations of this entity. Specifically, the company records do not reflect consent or authorization by the management board to make specific loans to or receive of any loans from the various DBSI-related entities.¹⁹ Further, the records do not reflect any discussion and analysis by the management board of such specific undertakings. Similarly, the company records do not reflect consent or authorization by the management board to any of the master lease obligations undertaken by this entity.

(4) DBSI Land Development LLC

DBSI Land Development LLC was created in 2006 for the purpose of managing DBSI 2006 Land Opportunity Fund LLC. This entity has been wholly owned by DBSI Development Services LLC (which is wholly owned by DBSI Inc.) since its inception.²⁰ Douglas Swenson and Jeremy Swenson have been managers of this entity consistently throughout its existence. Based on the company records, it appears that there have been no documented meetings of the managers during its existence. Further, there are only two documented consents for action by this company, both of which deal with the appointment of managers.

¹⁹ The records do contain one general authorization for the making of intercompany loans.

²⁰ This is based on the company's operating agreement included in the minute books for this entity provided by company counsel. The minute books did not contain either an ownership ledger or ownership certificates for this entity.

(5) Spectrus Real Estate Inc.

Spectrus Real Estate Inc. was created in March 2008 for the purpose of sponsoring whole property, single buyer real estate transactions. This entity has been wholly owned by DBSI Inc. since its formation and throughout its existence. During this company's very short existence from March 2008 to the present, Douglas Swenson has been its sole director. Bringhurst acted as President and Secretary of this entity from its inception until February 3, 2009, at which time Douglas Swenson assumed that position. Jeremy Swenson and David Swenson have been acting as the Assistant Secretaries of this entity since its inception and continue to serve in that position.

There are very few company records for Spectrus Real Estate Inc. since it was only created in March 2008. Further, the few consents for actions that were formalized were consented to solely by Douglas Swenson as the sole director of the entity. It appears that officers and directors were formally elected. But, consents to or authorizations regarding the business operations of the entity were not documented with any formality during the period of its existence. There are no documented consents or authorizations by the board of directors regarding the acquisition, sale or ownership of assets by this entity or the financing activities of this entity, nor do the board meeting minutes reflect board discussion and analysis of such business activities.

b. Former Related Companies

The Former Related Companies are currently wholly owned, directly or indirectly, by DBSI Inc. but these entities have not been owned by DBSI Inc. throughout their existence. Despite that, there has been much overlap in the ownership and management of DBSI Inc. and these Former Related Companies since their formation. Douglas Swenson was a majority owner

of these Former Related Companies and has been actively involved in the management of each of these entities without interruption since their formation and throughout their existence. Further, even prior to these entities being owned by DBSI Inc., the records indicate that these entities received substantial benefits from DBSI Inc. and were materially inter-connected with and dependant on DBSI Inc. and the subsidiaries.

(1) FOR 1031

FOR1031 was formed in August 2003 by Reeve and Douglas Swenson for the purpose of acquiring and selling improved real estate to tenants in common through the real estate channel. Although the entity was owned for a short time entirely by Reeve, the organizational documents provide that Douglas Swenson was always a manager of the company. Further, the organizational documents provide that Douglas Swenson would arrange for financing and working capital for the entity in return for stock purchase options. Effective January 1, 2004, Douglas Swenson exercised the stock options and became the majority shareholder (90%) of FOR 1031. This stock was paid for by Swenson's execution of a \$90,000 demand note in favor of FOR 1031.²¹ From January 1, 2004 until March 15, 2006, FOR 1031 was owned by Swenson (90%) and Reeve (10%). On March 15, 2006, Swenson and Reeve contributed their interests in FOR 1031 to DBSI Properties Inc. in exchange for ownership interests in DBSI Properties Inc. For the period of March 15, 2006 through April 1, 2008, DBSI Properties Inc. (which owned 100% of FOR 1031) was owned by Douglas Swenson (86.6%), Reeve (9.6%) and Bringhurst (3.8%). In 2008, Swenson, Reeve and Bringhurst exchanged their indirect ownership interests in

²¹ The Examiner has searched the company ledger and cannot confirm that Douglas Swenson repaid this note.

FOR 1031 for additional interests in DBSI Inc. and all shares of FOR 1031 came to be owned by Spectrus Real Estate Inc., which is wholly owned by DBSI Inc.²²

Since its formation and throughout its existence, FOR 1031 has been managed and controlled by Douglas Swenson, Reeve and Bringhurst as described below. Reeve and Douglas Swenson have acted as the managers of the entity from its formation in August 2003 without interruption throughout its existence. Bringhurst joined such board of managers for the period of September 1, 2005 through February 16, 2009. Reeve acted as the most senior executive officer from its formation until September 1, 2005. Bringhurst served as a senior executive officer for the vast majority of its existence in one capacity or another, replacing Reeve as the President and Chief Financial Officer for the period beginning September 1, 2005 and ending February 16, 2009. Douglas Swenson and Reeve continue to be the managers of this entity. There are no longer any executive officers of this entity, however, Douglas Swenson continues to act as the “Authorized Representative” on behalf of the entity.

Even prior to being owned by DBSI Inc., FOR 1031 received substantial benefit from DBSI Inc. and its subsidiaries. The corporate minutes of DBSI Inc. show that DBSI Inc. often acted as the guarantor with regard to loans from third parties to FOR 1031. Further, DBSI Inc. established, funded and owned subsidiaries that acted as the master tenants in connection with each of the master leases placed on the various real estate projects sponsored by FOR 1031. These master lease obligations were integral to FOR 1031’s ability to sell these real estate

²² All ownership information in connection with this entity was obtained from the company’s operating agreement and unit ledger included in the minute books for this entity provided by company counsel. The ownership certificates for these interests are not included the company records.

projects to investors and were often a drain on the financial resources of DBSI Inc.²³ Further, Master Leaseco (a wholly owned subsidiary of DBSI Inc. and a Debtor Entity) made numerous loans to wholly owned subsidiaries of FOR 1031.²⁴ Similarly, it appears based on an analysis of the flow of funds of these entities, that FOR 1031 also made certain capital transfers to Master Leaseco.²⁵ Even prior to DBSI Inc.'s ownership of FOR 1031, the Control Group treated these entities as if FOR 1031 were a subsidiary of DBSI Inc. and did very little to maintain the separateness of these entities.

The company records for FOR 1031 are minimal and reflect only one meeting of the board of managers during the existence of this entity. There are some written consents authorizing action by the entity with respect to appointment and resignation of officers and directors and, a couple of actions related to the sale of assets. There are no documented consents or authorizations by the board of directors regarding the acquisition or ownership of assets by this entity or the financing activities of this entity, nor do board meeting minutes reflect board discussion and analysis of such business activities. It appears based on the lack of company records that the operations of this entity and any business decisions and undertakings were taken without any formal member or management consent.

²³ This information was ascertained during interviews with former and current employees of DBSI Inc., including Paris Cole, Michael Attiani, Matthew McKinlay, Matthew Ray and Deborah Miller.

²⁴ These loans from Master Leaseco have not been verified from an accounting standpoint but this information is based on promissory notes from FOR 1031 subsidiaries to Master Leaseco which are included in the company books of Master Leaseco.

²⁵ The Examiner has found at least one transfer from FOR 1031 on December 30, 2004 that went through various DBSI related entities to ultimately be contributed to Master Leaseco in the amount of \$7,900,063.04. This capital transfer was booked as a loan on the company books but was not shown as an amount owing by Master Leaseco in the audit report prepared by Eide Bailly dated January 7, 2005.

(2) DBSI Properties

DBSI Properties Inc. was formed in August 2005 by Bringhurst as Spectrus Group LLC. The entity was formed to act as the sponsor in connection with real estate transactions being sold through the real estate channel (rather than the securities channel). In April 2008, this entity was converted into a corporation and renamed DBSI Properties Inc. Thereafter, this entity acted as the sponsor for real estate transactions being sold through the securities channel.

Although the entity was owned for a short time entirely by Bringhurst, Douglas Swenson acted as co-manager of the entity even during such period. Effective January 1, 2006, Douglas Swenson became the majority shareholder (86.54%) of DBSI Properties Inc., along with Reeve (9.62%) and Bringhurst (3.84%). Douglas Swenson and Reeve acquired their interests in exchange for their ownership interests in FOR 1031. In 2008, all shares of DBSI Properties Inc. were transferred to DBSI Inc. via assignment by the owners in exchange for interests in DBSI Inc.²⁶

Until April 1, 2008, DBSI Properties Inc. was managed and controlled fairly consistently by a board of managers consisting of Douglas Swenson and Bringhurst. Reeve, Pete Johnson and Lee Broome joined the board of managers in March 2006. Bringhurst acted as the most senior executive officer of the entity from its formation in 2005 until April 1, 2008. After April 1, 2008, Douglas Swenson became the sole director and the most senior executive officer of DBSI Properties Inc. Jeremy Swenson and David Swenson did not serve on the board of managers for this entity, but David Swenson began acting as the Assistant Secretary in May 2006

²⁶ This is based on the ownership ledger included in the minute books for this entity provided by company counsel. The stock certificates for these interests are not included the company records.

and Jeremy Swenson assumed a similar role in January 2008. Both David Swenson and Jeremy Swenson continue to serve as Assistant Secretaries, with Douglas Swenson acting as President and Secretary.

The company records for DBSI Properties Inc. are minimal. There were a few meetings of the managers in which business matters were discussed (without any specificity being noted in the records). Formal records were maintained with regard to the election and resignation of officers and managers and certain organizational related actions (such as change of names, grant of stock options, increase in size of management board). There are no written consents to action or authorizations for any of the business operations of the entity, nor do their board meeting minutes reflect board discussion and analysis of business activities. It appears based on the lack of company records that the operations of this entity and any business decisions and undertakings were taken without any formal member or management consent.

(3) DDRS

DDRS was effectively owned by DBSI Inc. and FOR 1031 in equal shares from its formation in 2005 until April 1, 2008, at which time it became owned indirectly (through DBSI Realty Inc.) entirely by DBSI Inc. This entity was formed with the purpose of serving as the common paymaster and provider of overhead services for numerous DBSI related companies and FOR 1031 (prior to FOR1031 being owned by DBSI Inc.).

Throughout its existence, the board of managers of DDRS has been effectively the same as the management of DBSI Inc. and FOR 1031. Such board of managers has included Douglas Swenson, Mayeron, Bringhurst and Reeve, with the senior executive officers being Bringhurst, Jeremy Swenson and David Swenson. Bringhurst acted as the President and Chief Executive

Officer of the entity for the majority of the existence of this company from the period beginning in 2005 through his resignation from such position in February 2009. Jeremy Swenson and David Swenson became the Assistant Secretaries of such entity in 2005 and continue to serve in such role. The board of managers now includes Douglas Swenson, Mayeron and Reeve.

DDRS has maintained almost no corporate formalities since its formation. The board of managers has had only one meeting and issued only four consents for action during the company's existence. There are no documented consents or authorizations by the board of directors regarding the business operations of this entity or the financing activities of this entity, nor do the records reflect board discussion and analysis of such business activities. It appears based on the lack of company records that the operations of this entity and any business decisions and undertakings were taken without any formal member or management consent.

3. Project Level Subsidiaries

DBSI Inc. owns, directly or indirectly, 100% of the Project Level Subsidiaries which have been used in connection with the acquisition, ownership, management, leasing and sale of each particular real estate project or have been used in connection with a bond or note investment vehicles. Many of the subsidiary entities are Debtor Entities, but many remain Non-Debtor DBSI Entities. Not surprisingly, given the ownership of such entities, the management of such entities tracks closely the management of DBSI Inc. These entities have maintained little or no corporate formalities since their formation.

4. DBSI Related Companies

a. DCJ Inc. and DBSI Securities Corporation

DBSI Inc. shares substantially the same ownership and management with the DBSI Related Companies. DCJ Inc. is an entity that has existed since 1979 for the purpose of investing in various real estate projects. DBSI Securities Corporation was created in 1979 as well, serving as the broker dealer for all securities offerings by the DBSI group of companies.

These two DBSI Related Companies have been owned by the same owners as DBSI Inc. in substantially the same percentages for almost the entirety of their existence. Douglas Swenson owns the vast majority of interests (88.23%), along with minority shareholders, Hassard (5.8%) and Mayeron (5.8%). Douglas Swenson has been an owner of these companies since their inception, and Hassard and Mayeron have been owners of these DBSI Related Companies consistently since March 1, 1992. Further, former owners²⁷ of DBSI Inc., including Mott (1992-2006), Bennett (1992-2000) and Foster (1992-2002), each owned a minority interest (less than 5% in each case) in these entities during the same periods in which they owned interests in DBSI Inc.²⁸

Similarly, these DBSI Related Companies have been operated and managed by these same owners since 1992. Douglas Swenson has served on the board of directors of these entities since their formation. Hassard and Mayeron have served on the board of directors consistently

²⁷ Note also that Ellison and David Palfreyman owned interests of DBSI Inc. from 1980-1992, however this period of ownership is not significant to the current analysis.

²⁸ All of this ownership information is based the stock ledger included in the minute books for this entity provided by company counsel and, in part, from review of the corporate minutes. The stock certificates for these interests are not included the company records.

since they obtained ownership in the entities in 1992. Each of these owners have, during some period of time, held various senior executive management positions in these entities. Douglas Swenson has held the most senior executive management office of DCJ Inc. throughout the company's existence. He also held the most senior executive management office of DBSI Securities Corporation until May 2005. Mayeron served as the Chief Executive Officer of this entity from May 2005 until February 2009 (at which time Douglas Swenson returned to his position as President and Chief Executive Officer). Hassard has served as the Secretary of these entities consistently since 1992, and also served as either the Chief Financial Officer or the Executive Vice President of Finance of DCJ Inc. throughout such period. Reeve and Ellison also served on the board of directors of DCJ Inc. for the period of 2005-2009.

b. DBSI/Western Technologies LLC

The Control Group, directly or indirectly, owns all of DBSI/Western Technologies LLC. This is a non-operational holding company that owns a majority of the interests in Western Electronics LLC.

DBSI/Western Technologies LLC is not owned directly by DBSI Inc. However, the control and management of this entity substantially and closely tracks the management of DBSI Inc. DBSI/Western Technologies LLC is managed and operated by a board of managers consisting of DBSI Inc. owners, Douglas Swenson, Hassard and Mayeron, and former DBSI Inc. owners, Foster and Mott. Further, according to the corporate books and records, substantial funding for DBSI/Western Technologies LLC has been provided via loans from DBSI related Project Level Subsidiaries, specifically from the DBSI bond and notes entities.

(1) Ownership.

DBSI/Western Technologies LLC was created in 2000 and is the owner of a majority of the ownership interests of Western Electronics LLC. DBSI/Western Technologies LLC is owned solely by the Control Group (directly or indirectly through certain individuals ownership of Investments). Based on the corporate minutes, it appears that the Control Group influenced the management and operation. Specifically, this entity is owned by Investments (80%), Reeve (10%) and Bringhurst (10%). DBSI Inc. does not own a direct ownership interest in DBSI/Western Technologies LLC and owns, indirectly through its ownership stake in Investments, less than a majority of the total interests of such entity (43.44%). It appears that the Control Group (via their control of DBSI Inc.) caused DBSI Inc. to provide this entity with material financial benefits.

(2) Control

DBSI Inc. controls DBSI/Western Technologies LLC indirectly. Investments controls DBSI/Western Technologies LLC as the owner of 80% of DBSI/Western Technologies LLC's interests. DBSI Inc. controls Investments as the owner of 54.3% of Investments' interests.

Currently, Douglas Swenson controls DBSI Inc. as the owner of 91.38% of the total shares of DBSI Inc.

(3) Management

The board of managers of this entity reflects its ownership and includes Douglas Swenson, Foster, Hassard, Mott and Mayeron.

This entity did not maintain entity formalities. In fact, based on the company records, it appears that the board of managers only consented to three actions on behalf of this entity throughout the entirety of its existence. Further, there is no record of any meetings of the board of managers or the members of this entity during its nine years of existence. Specifically, the company records do not reflect consent or authorization by the management board to the making of loans to Western Electronics LLC or receiving of any loans from the various DBSI related entities. The records do not reflect any discussion and analysis by the management board of such specific undertakings. Per the corporate records, the operations of this entity and any business decision and undertakings were taken without any formal member or management consent.

(4) Commingling of Funds and Assets

Further, it appears that this failure to maintain the entity separate and apart from its majority shareholder (DBSI Investments Limited Partnership) extends to the ownership of assets. More specifically, the entity formation documents of DBSI/Western Technologies LLC reflect that Investments, its sole member at that time, would make an initial capital contribution to the entity upon its formation on October 1, 2000 of all of its shares in Western Electronics LLC and Strategic Finishing LLC. However, neither the records of Investments nor the records of DBSI/Western Technologies LLC show that Investments actually transferred its interests in Western Electronics LLC and Strategic Finishing LLC to DBSI/Western Technologies LLC in 2000.²⁹ The records in fact show that Investments did not transfer its interests in Western

²⁹ It should be further noted that neither the records of Strategic Finishing LLC nor the records of Investments indicate that Investments ever owned interests in Strategic Finishing LLC. The records indicate that DBSI Inc.

(footnote continued on next page)

Electronics LLC until April 21, 2005. The records do not show that the interests of Strategic Finishing LLC were ever transferred to DBSI/Western Technologies LLC. The fact that DBSI/Western Technologies LLC did not own an interest in these entities for the period from and after October 1, 2000 and until April 21, 2005 means that any loans from DBSI related bond and note funds which were made to DBSI/Western Technologies LLC during such period based on its value as the supposed owner of the interests of Western Electronics LLC and Strategic Finishing LLC were based on a false valuation. Further DBSI/Western Technologies LLC's pledge of assets in connection with these loans was valueless and the note holders did not have an actual security interests in these assets.

Despite not being majority owned by DBSI Inc., DBSI/Western Technologies LLC has received substantial benefit from DBSI Inc. throughout its existence. It appears that DBSI Inc. has provided this entity with administrative support services, including accounting services.

Further, DBSI/Western Technologies LLC has reportedly received funding for its operations and investments via loans from DBSI related entities, including specifically from DRR, GCC and 2008 Notes Corp. For example, DBSI/Western Technologies LLC reportedly received \$5,775,500 in loan funds from GCC.³⁰ Based on DBSI/Western Technologies LLC's general ledger as of December 31, 2008, it appears that DBSI/Western Technologies LLC owed \$18,958,390 to various DBSI related entities.³¹ In connection with each of these financings,

owned a majority of the interests in such entity but there is nothing to indicate that such interests were ever transferred to Investments.

³⁰ Amended and Restated Promissory Note and Pledge from DBSI/Western Technologies LLC to DBSI Guaranteed Capital Corporation dated July 1, 2002.

³¹ Company ledger shows \$8,706,499.89 owing to 2008 Notes Corp., \$6,806,814.72 owing to DRR and \$3,445,075 owing to GCC.

DBSI/Western Technologies LLC pledged its interest in the Western Electronics LLC to the applicable DBSI related bond and notes funds. In addition, despite DBSI Inc. not owning a majority interest in this entity, the Control Group caused DBSI Inc. to act as the guarantor with regard to the financial obligations of this entity on several occasions, including its obligations to the DBSI bond and note entities. For example, DBSI Inc. guaranteed payment of all amounts owed by DBSI/Western Technologies LLC to GCC.³²

C. Non-Debtor Companies

All or a portion of the Control Group has, as detailed below, owned, directly or indirectly, 100% of the interests of the various Non-Debtor Related Entities throughout the existence of these Non-Debtor Related Entities. Further, individual members of the Control Group have controlled, managed and operated the Non-Debtor Related Entities throughout the existence of these Non-Debtor Related Entities.

Indeed, during sworn testimony provided in mid-2005 to the Securities and Exchange Commission (“SEC”), Douglas Swenson stated that he considered any entity that he had “a controlling interest in as being part of the DBSI Group”³³ and acknowledged that all of the assets of the DBSI Group had been pledged to repay DBSI Housing, Inc.’s bond guarantee obligation.³⁴ Douglas Swenson further acknowledged that cash flows were commingled

³² Guaranty executed by DBSI Housing Inc. in favor of DBSI Guaranteed Capital Corporation dated July 1, 2002 executed by Douglas Swenson on behalf of DBSI Housing Inc.

³³ Douglas Swenson’s June 28, 2005 SEC Testimony at 110:25-111:7.

³⁴ *Id.* at 46:4-48:24.

throughout the entire Group such that “it’s really hard to trace where all the funds go to or where all the funds come from.”³⁵

1. Kastera LLC

- a. Ownership

Kastera LLC was created in 2005 and is the parent entity that owns, directly or indirectly, 100% of the interests of the Kastera related entities, including Kastera Homes LLC, Kastera Development LLC and a number of subsidiary project level entities, which are in the business of acquiring, owning, developing and selling unimproved residential real estate. Kastera LLC is owned by DBSI Inc. (66.67%) and Reeve (33.3%). The interests of Kastera LLC that are now owned by DBSI Inc. were originally owned by Douglas Swenson personally but were transferred by Swenson to DBSI Inc. on March 1, 2007.³⁶

- b. Control

Douglas Swenson indirectly controls Kastera LLC. DBSI Inc. is the controlling shareholder of Kastera LLC with 66.6% of the total shares. Douglas Swenson is the controlling shareholder of DBSI Inc. with 91.38% of the total shares.

³⁵ *Id.* at 24:3-22.

³⁶ All of this ownership information is based the unit ledger included in the minute books for this entity provided by company counsel. There are no certificates of ownership in the company records.

c. Management

Kastera LLC was managed from the time of its formation until March 1, 2007 by Reeve and Douglas Swenson. On March 1, 2007, Douglas Swenson became the sole manager of Kastera LLC. On June 1, 2009, Todd Twedt replaced Douglas Swenson as the sole manager. For the period of August 1, 2005 through August 29, 2007, Reeve acted as the President of this entity, with Joe Swenson acting as Vice President. On March 31, 2007 (after Douglas Swenson became the sole manager of Kastera LLC) the entity was reorganized and all of its assets and liabilities were split between Kastera Homes LLC and Kastera Development LLC. Thereafter, Kastera LLC became simply a non-operating parent holding company for the Kastera related companies. Reeve was removed from his position as President of Kastera LLC and became the President of Kastera Development LLC, and Joe Swenson was removed from his position as Vice President of Kastera LLC and became the President of Kastera Homes LLC. There are currently no executive officers for Kastera LLC.

Kastera LLC maintained few corporate formalities according to the corporate minute books maintained by this entity. The records show no meetings of the managers and such managers consented to only eight actions during the entity's existence. The majority of these consents were in connection with either the appointment or removal of managers and officers, and one half of these were consented to solely by Douglas Swenson. There are no documented consents or authorizations by the board of managers regarding the acquisition, sale or ownership of assets by this entity or the financing activities of this entity, nor management discussion and analysis of such business activities. It appears based on the lack of company records that the operations of this entity and any business decisions and undertakings were taken without any formal member or management consent. Given the lack of corporate formalities, it is difficult to

ascertain who directed and carried out the operations of this entity but, as stated above, Douglas Swenson acted as the sole manager of this entity from 2007 until June 1, 2009.

d. Commingling of Funds and Assets

The operational overhead of Kastera LLC and its related subsidiaries is commingled with that of DBSI Inc. Kastera LLC has adopted DBSI Inc.'s 401(k) retirement plan, DBSI provides accounting and payroll services for the Kastera related entities and DBSI has provided internal auditing services for the entities.

The source of the initial capital contribution for Kastera LLC was a \$6,000,000 distribution to Douglas Swenson from FOR 1031. Douglas Swenson in turn loaned \$2,000,000 of this distribution to Reeve to be attributed to Kastera LLC as his capital contribution. Additional funding for Kastera LLC was provided by DBSI Inc. and its related entities (including FOR 1031 and Spectrus Group LLC) pursuant to multiple loans from such entities, including but not limited to a \$10,000,000 Revolving Line of Credit dated May 3, 2005 from FOR 1031.³⁷ In addition, Kastera LLC and its subsidiaries received funding for the purchase of assets via loans from DBSI related Project Level Subsidiaries, specifically from the DBSI bond and notes entities. For example, it appears that the Kastera related entities received loans from the DBSI 2008 Notes Corporation in connection with the purchase of assets.

³⁷ The company records indicate that as of the Petition Date, \$7,790,158.63 remains outstanding in connection with this loan.

2. DBSI Investments Limited Partnership

a. Ownership

Investments is a Non-Debtor entity that is a holding company for other DBSI Non-Debtor Entities. Investments owns interests in Stellar and DBSI/Western Technologies LLC. In addition, Investments owns an interest in a number of limited partnerships that own real estate projects, and acts as a general partner for certain other limited partnerships that own real estate projects. Investments received substantial funding from other DBSI entities over many years. According to spreadsheets maintained by the Debtors' accountants to track intercompany loans and receivables, Investments owed \$101,144,847 to DRR as of December 31, 2008.³⁸ Further, Investments was used to make numerous distributions, which are still being analyzed, to members of the Control Group.

Investments was created in 1994. Currently, the majority of the interests of this entity are owned by DBSI Inc. (54.3%), with all remaining interests owned by the current owners of DBSI Inc., Douglas Swenson (26.2%), Mayeron (6.5%) and Hassard (6.5%), and by one former owner of DBSI Inc., Mott (6.5%).³⁹ Foster and Bennett are former owners.⁴⁰

³⁸ The Examiner was provided with these spreadsheets by Hassard, the Chief Financial Officer of DBSI Inc.

³⁹ Note that the profit distribution percentages for DBSI Investments Limited Partnership vary slightly from the capital contribution percentages provided above. The profit distribution percentages are as follows: DBSI Inc. (58.05%), Douglas Swenson (28.03%), Mayeron (6.96%), Hassard (6.96%) and Mott (0.0%).

⁴⁰ All of this ownership information is based the partnership agreement included in the minute books for this entity provided by company counsel.

b. Control

DBSI Inc. controls Investments as the owner of 54.3% of its interests. Ultimately, however, Douglas Swenson controls Investments by virtue of his control of DBSI Inc. In fact, Douglas Swenson controls over 80.5% of the total interests of Investments. He owns 26.2% of Investments directly. He also controls the 54.3% of the interest of Investments that are owned by DBSI Inc., as he is the controlling shareholder of DBSI Inc. with 91.38% of its total shares.

c. Management

Prior to January 1, 2005, Investments was managed and controlled by its general partners, including Douglas Swenson, personally and on behalf of DBSI Inc., Mayeron, Hassard, Mott and, for a period of time, Foster and Bennett (being the same individuals who were managing and controlling DBSI Inc. during the same periods). On January 1, 2005, the general partners agreed that Investments would be managed and operated in almost every aspect solely by DBSI Inc.

According to the corporate minute books maintained by Investments, the entity maintained some limited entity formalities prior to July 1, 2006. It appears that during the period of 1995-2001, the general partners (being the same individuals who were managing and operating DBSI Inc. during that same period) met annually in connection with the business and operations of this entity, but few other entity formalities were maintained. There are no records of consents for action by the entity during such period. For the period of 2001-2006, the company records show a few documented consents to entity actions, although they are sporadic. Further, those consents to action that were executed were, in almost every case, executed solely by Douglas Swenson as managing general partner of Investments or by Douglas Swenson on

behalf of DBSI Inc. No corporate formalities whatsoever have been maintained since July 1, 2006. From that date on, the corporate minute books do not show that any meetings of the partners have transpired, nor that the managing general partner during that period (DBSI Inc.) has consented to any actions on behalf of the entity.

d. Commingling of Funds and Assets

Investments enjoyed substantial financial advantages from its relationship with DBSI Inc. The operational overhead of Investments was commingled with that of DBSI Inc. DBSI Inc. provides all accounting services for Investments.

Based on the corporate minute books of DBSI Inc., it appears that the funds and ownership assets of DBSI Inc. and Investments have been commingled. The Examiner has found several instances where it appears that DBSI Inc. has assigned its ownership interests in DBSI related entities to Investments. The Examiner has reviewed the financial records of both DBSI Inc. and Investments in connection with these assignments and cannot find that consideration was paid to DBSI Inc. in connection with any of these transactions. For example, the corporate records show that on March 1, 2000, the board of directors of DBSI Inc. authorized assignment of 100% of DBSI Inc.'s interests in Stellar to Investments. The Examiner has neither been able to determine the terms and conditions of this assignment nor identify any consideration paid for these assets after a review of the company records. Similarly, (i) on July 1, 2003, the board of directors of DBSI Inc. authorized assignment of 100% of its interests in DBSI Fresno Forms LLC; (ii) on July 29, 2003, the board of directors of DBSI Inc. authorized assignment of 100% of its interests in DBSI Salem Offices LLC; (iii) on September 9, 2003, the board of directors of DBSI Inc. authorized assignment of 100% of its interests in DBSI Genesis LLC; (iv)

and on September 16, 2003, the board of directors of DBSI Inc. authorized assignment of 100% of its interests in DBSI Advantage LLC. Again, the Examiner has not been able to determine the terms and conditions of this assignment, nor has he been able to identify any consideration paid for these assets after a review of the company records.

Further, the records purport that DBSI Inc.'s business purposes were advanced by the use of the assets of Investments. For example, it appears pursuant to the company minutes dated February 28, 2005, that Investments pledged its indirect ownership interests in DBSI related technology companies to GCC and DBSI Real Estate Funding Corporation in connection with the guarantees to these entities made by DBSI Inc.⁴¹

3. DRR

According to spreadsheets maintained by the Debtors' accountants to track intercompany loans and receivables, DRR owed \$196,693,698 to DBSI Inc. as of December 31, 2008. The spreadsheets further indicate that DRR has the following large receivables due from Non-Debtor Entities as of December 31, 2008: \$101,144,847 from Investments and \$127,869,385 from Stellar. Ledger entries regarding these loans and receivables date back to 1999.

As with all of the Debtor entities, the Examiner requested a corporate minute book or similar records from the Debtors regarding the ownership and control of DRR. The Examiner was advised that no such records existed for DRR. This is the only entity for which such records were not readily available.

⁴¹ The actual pledge agreements in connection with these pledges have not been located.

Accordingly, the Examiner requested copies of any documents that would evidence the ownership and control of DRR and also reviewed publicly available records. The Examiner determined that the only publicly available record concerning DRR was a Statement of Partnership Authority filed with the Idaho Secretary of State on June 21, 2007 and signed by Douglas Swenson. The Examiner therefore also requested copies of any partnership or similar agreements related to DRR together with copies of any loan or other agreements relating to the loans and receivables identified above. In response, the Debtors produced copies of federal tax returns filed by DRR and produced ledger entries relating to financial activities of DRR. The Debtors have been unable to provide the Examiner with a partnership agreement or other governing document for DRR.

The Examiner was able to locate certain promissory notes from DBSI related entities in favor of DRR relating to loans made by DRR during and prior to 2005.⁴² The Examiner has not found any formal loan documentation for loans made by DRR after 2005. He has not found any formal loan documentation evidencing loans to DRR from DBSI Inc. The Examiner was advised that the Debtors had considered preparing a “Master Note” in connection with the DRR transactions and may have at least drafted the form of such a document concerning indebtedness owed to DRR by DBSI related entities.

The Examiner also questioned several current and former company employees regarding DRR. All but a few of the numerous witnesses interviewed by the Examiner disclaimed any knowledge of DRR. Hassard, the Chief Financial Officer of DBSI Inc., provided the most detailed explanation of DRR. He indicated that DRR was established in 1994 to allow investors

⁴² See, e.g., Promissory Note from Stellar in favor of DRR dated December 31, 2004 in the amount of \$41,627,720.

in Limited Partnerships (the “LPs”) “who had sales proceeds or cash available to invest and for other DBSI affiliated entities to borrow these funds and provide a return to the investing entities.”⁴³ He further explained that DRR “was intended to break even, but consistently has some variable income or loss which is thus allocated to its principal PLP [i.e., Preferred Limited Partnership] creditors.”⁴⁴ Hassard further noted that, for the “convenience and ease of accounting, DBSI Inc. has also made loans to its affiliates through DRR.”⁴⁵ As to this latter function, Hassard and other witnesses such as former DBSI accountants, Matt Duckett (“Duckett”) and Paris Cole (“Cole”), described DRR as a mechanism through which intercompany transactions were made.

DRR’s most recent federal tax return for the year ended 2007 indicates that it is a partnership with 17 members, all of which are LPs and none of which is a DBSI entity. This is consistent with what Cole told the Examiner during his interview: DBSI did not have an ownership interest in DRR; instead, the LPs were the partners and DBSI simply managed DRR.

In order to confirm that his understanding of DRR was complete, the Examiner sent a June 24, 2009 letter to counsel for the Debtors that identified the information available to the Examiner regarding DRR and requested a partnership agreement or other documentation evidencing ownership and control of DRR. In response, the Examiner received a June 26, 2009 letter from counsel for the Debtors indicating that the Examiner had been provided with detailed spreadsheets of DRR transactions, copies of its partnership tax returns for the years 2001-2007,

⁴³ This statement is taken from a one page history of DRR provided by Hassard and attached hereto as Exhibit 1.

⁴⁴ *Id.*

⁴⁵ *Id.*

and Hassard's testimony at an interview that DRR was formed under Idaho's Uniform Partnership Act. The letter, however, did not confirm or deny that a written partnership agreement for DRR existed.

After continuing to investigate this matter, counsel for the Examiner had further conversations and correspondence with Thomas Banducci, ordinary-course counsel for the Debtors. On July 24, 2009, counsel for the Examiner, had a conversation with Banducci wherein he confirmed that no executed partnership or similar agreement existed with respect to DRR.

In sworn testimony provided to the SEC on June 28, 2005, Douglas Swenson described DRR as "essentially an internal partnership that serves to keep track of money that has been borrowed and lent between the various DBSI controlled entities."⁴⁶ He further testified that DRR borrowed money from or lent money to entities that were not part of DBSI Inc. but were entities in which he personally held a controlling interest.⁴⁷

The Examiner is continuing his examination of DRR to analyze its function and role. His current belief, based upon the lack of documentation provided to date and the interviews of DBSI accounting personnel such as Hassard, Cole, Duckett, and Miller, is that little or no formalities have been followed with respect to the establishment of DRR and that, at most, it can be described as an oral or implied partnership. Further, it appears that the loans receivable from DRR and the loans payable to DRR represent an accumulation of accounting entries and, other than the old promissory notes from DBSI related companies in favor of DRR identified above, have not been documented by formal loan documents. Examples of the use of DRR as an entity

⁴⁶ Douglas Swenson's June 28, 2005 SEC testimony at 109:18-21.

⁴⁷ *Id.* at 110.

used to distribute money between various companies are included in the analyses provided later in this Interim Report for the uses of the 2008 Notes Proceeds.

4. Stellar

The Control Group directly or indirectly owns most of Stellar. Individuals unrelated to DBSI Inc. own 16.98% of the interests in Stellar but all other interests are owned by the Control Group. Stellar is a non-operational holding company that own interests in a variety of companies that manufacture and sell technology related products.

Stellar is not owned directly by DBSI Inc. However, the control and management substantially and closely tracks the management of DBSI Inc. Stellar is managed and operated by a board of managers consisting of Douglas Swenson, Hassard, Mayeron, Reeve and Paul Judge. In fact, the only member of the board of managers that is unrelated to DBSI is John Wasden. Further, according to the corporate books and records, substantial funding for Stellar has been provided via loans from DBSI related entities, specifically from DRR and the DBSI bond and notes entities.

a. Ownership

Stellar is owned by Investments (62.26%), Reeve (10.38%), Bringhurst (10.38%) and various other individuals that are not associated with DBSI related companies (16.98%). DBSI Inc. does not own a direct ownership interest in Stellar and owns, indirectly, less than a majority of the total interests of such entity (33.81%) but it appears that the Control Group (via their control of DBSI Inc.) caused DBSI Inc. to provide this entity with material financial benefits.

Stellar was created March 1, 2000 and is the holding company that owns interests in iTerra (in which Stellar owns 80.10% of the total shares), UltraDesign (in which Stellar owns approximately 64.1% of the total shares), BioReaction (in which Stellar owns approximately 98.17% of the total shares), GigOptix (in which Stellar owns approximately 18.60% and iTerra owns 14.20% of the total shares) and Wavetronix (in which Stellar owns approximately 62.18% of the total shares).

b. Control

DBSI Inc. controls Stellar indirectly. Investments controls Stellar as the owner of 62.26% of Stellar's interests. DBSI Inc. controls Investments as the owner of 54.3% of Investments' interests.

Currently, Douglas Swenson controls DBSI Inc. as the owner of 91.38% of the total shares of DBSI Inc.

c. Management

Management for this entity is provided by a board of managers that consists almost exclusively of members of the Control Group, including specifically, Douglas Swenson, Reeve, Hassard and Mayeron. Other members of the board of managers include Judge, a former executive of FOR 1031⁴⁸, and Wasden, an individual otherwise unaffiliated with DBSI Inc. This entity has maintained fairly consistent and regular company formalities, having regular meetings of the board of managers and obtaining member and/or board of managers consent and authorization to act on behalf of the company on what appears to be a fairly regular basis.

⁴⁸ As a result of an interview with Judge, the Examiner understands that he was a consultant to the Tech Companies until he began working for FOR 1031 at its inception in 2003. He then left FOR 1031 to act as the senior executive officer of Stellar in August 2005.

According to the entity minute books, until August 2005, Douglas Swenson was almost always the individual authorized to carry out actions and execute documents and agreements authorized by the board of managers on behalf of Stellar. On August 15, 2005, Judge became the President and Chief Executive Officer of this entity, reporting to the board of managers. Judge was also added to the board of managers at that time. Nevertheless, in his review of the documents relating to the 2008 Notes Proceeds, the Examiner found that the Promissory Note dated May 22, 2008 from Stellar in favor of the 2008 Notes Corp. is executed by Douglas Swenson as the Chairman of the Board of Directors of Stellar.⁴⁹ Further, Douglas Swenson also signed the Pledge Agreement dated May 22, 2008 from Stellar in favor of the 2008 Notes Corp. as the Chairman of the Board of Directors of Stellar.⁵⁰

d. Commingling of Funds and Assets

Despite not being majority owned by DBSI Inc., Stellar has reportedly received substantial benefit from DBSI Inc. DBSI Inc. provides this entity with administrative support services and office space. In addition, DBSI Inc. provides Stellar with accounting services and payroll services.

Further, since 2002, Stellar has reportedly received funding via loans from DBSI related entities, specifically from the DBSI bond and notes entities and DRR. For example, Stellar reportedly received \$27,127,658 in loan funds from GCC.⁵¹ As of December 31, 2008, Stellar

⁴⁹ Promissory Note dated May 22, 2008 from Stellar in favor of 2008 Notes Corp.

⁵⁰ Pledge Agreement dated May 22, 2008 from Stellar in favor of 2008 Notes Corp. Note, it does not appear that any collateral was actually pledged pursuant to the Pledge Agreement dated May 22, 2008 from Stellar in favor of 2008 Notes Corp.

⁵¹ Amended and Restated Promissory Note from Stellar to DBSI Guaranteed Capital Corporation dated July 1, 2002.

reportedly owed \$127,869,385 to DRR attributable at least in part to monies borrowed from DBSI related bond and note funds.⁵² In connection with each of these financings, Stellar pledged its interest in the Tech Companies to the applicable DBSI related bond and notes funds.

5. Tech Companies

The Technology Holding Companies (which, as stated above, are owned almost exclusively by the Control Group, directly or indirectly) own a substantial interest in the Tech Companies, including Western Electronics LLC (in which DBSI/Western Technologies LLC owns 80.28% of the total shares), iTerra (in which Stellar owns 80.10% of the total shares), UltraDesign (in which Stellar owns approximately 64.1% of the total shares), BioReaction (in which Stellar owns approximately 98.17% of the total shares), GigOptix (in which Stellar owns approximately 18.60% and iTerra owns 14.20% of the total shares) and Wavetronix (in which Stellar owns approximately 62.18% of the total shares).⁵³

DBSI Inc. owns an indirect interest in these Tech Companies in the following percentages: (i) DBSI Inc. indirectly owns 34.75% of Western Electronics LLC⁵⁴; (ii) DBSI Inc. indirectly owns 27.08% of iTerra⁵⁵; (iii) DBSI Inc. indirectly owns 21.67% of UltraDesign⁵⁶; (iv)

⁵² The Examiner was provided with these spreadsheets by Hassard, the Chief Financial Officer of DBSI Inc.

⁵³ These ownership percentages are based on the most current reports provided by Judge. The stock certificates and ledgers contained in the company records and minute books vary slightly from the reported percentages of ownership.

⁵⁴ 80.28% of Western Electronics LLC is owned by DBSI/Western Technologies, LLC. 80% of DBSI/Western Technologies, LLC is owned by Investments (i.e., Investments owns 64% of Western Electronics LLC indirectly). 54.3% of Investments is owned by DBSI Inc. (i.e, DBSI Inc. owns 34.75% of Western Electronics LLC indirectly).

⁵⁵ 80.10% of iTerra is owned by Stellar. 62.26% of Stellar is owned by Investments (i.e., Investments owns 49.87% of iTerra indirectly). 54.3% of Investments is owned by DBSI Inc. (i.e, DBSI Inc. owns 27.08% of iTerra indirectly).

DBSI Inc. indirectly owns 33.19% of BioReaction⁵⁷; (v) DBSI Inc. indirectly owns 8.65% of GigOptix⁵⁸; and (vi) DBSI Inc. indirectly owns 21.02% of Wavetronix⁵⁹.

The Control Group owns an indirect interest in these Tech Companies in the following percentages: (i) 80.28% of Western Electronics LLC⁶⁰; (ii) 66.50% of iTerra⁶¹; (iii) 64.10% of UltraDesign⁶²; (iv) 81.5% of BioReaction⁶³; (v) 21.25% of GigOptix⁶⁴; and (vi) 41.35% of Wavetronix⁶⁵.

⁵⁶ 64.10% of UltraDesign is owned by Stellar. 62.26% of Stellar is owned by Investments (i.e., Investments owns 39.91% of UltraDesign indirectly). 54.3% of Investments is owned by DBSI Inc. (i.e, DBSI Inc. owns 21.67% of UltraDesign indirectly).

⁵⁷ 98.17% of BioReaction is owned by Stellar. 62.26% of Stellar is owned by Investments (i.e., Investments owns 61.12% of BioReaction indirectly). 54.3% of Investments is owned by DBSI Inc. (i.e, DBSI Inc. owns 33.19% of BioReaction indirectly).

⁵⁸ 14.2% of GigOptix is owned by iTerra. 80.10% of iTerra is owned by Stellar (i.e., Stellar owns 11.4% of GigOptix through iTerra's interest). 18.6% of GigOptix is owned by Stellar directly, so Stellar owns 25.6% of GigOptix total. 62.26% of Stellar is owned by Investments (i.e., Investments owns 15.94% of GigOptix). 54.3% of Investments is owned by DBSI Inc. (i.e, DBSI Inc. owns 8.65% of GigOptix indirectly).

⁵⁹ 62.18% of Wavetronix is owned by Stellar. 62.26% of Stellar is owned by Investments (i.e., Investments owns 38.71% of Wavetronix indirectly). 54.3% of Investments is owned by DBSI Inc. (i.e, DBSI Inc. owns 21.02% of Wavetronix indirectly).

⁶⁰ 80.28% of Western Electronics LLC is owned by DBSI/Western Technologies, LLC. 100% of DBSI/Western Technologies, LLC is owned by the Control Group (i.e., the Control Group owns 80.28% of Western Electronics indirectly).

⁶¹ 80.10% of iTerra is owned by Stellar. 83.02% of Stellar is owned by the Control Group (i.e., the Control Group owns 66.50% of iTerra indirectly).

⁶² 64.10% of UltraDesign is owned by Stellar. 83.02% of Stellar is owned by the Control Group (i.e., the Control Group owns 53.22% of UltraDesign indirectly).

⁶³ 98.17% of BioReaction is owned by Stellar. 83.02% of Stellar is owned by the Control Group (i.e., the Control Group owns 81.5% of BioReaction indirectly).

⁶⁴ 25.6% of GigOptix is owned by Stellar (directly and through Stellar's interest in iTerra). 83.02% of Stellar is owned by the Control Group (i.e., the Control Group owns 21.25% of GigOptix indirectly).

⁶⁵ 62.18% of Wavetronix is owned by Stellar. 83.02% of Stellar is owned by the Control Group (i.e., the Control Group owns 41.35% of Wavetronix indirectly).

Douglas Swenson currently controls all of the Tech Companies other than GigOptix. The management of these Tech Companies overlaps with the management and operational authority of DBSI Inc. and, more specifically, in each case, Douglas Swenson serves on the board of managers (or directors) of each of the Tech Companies and has done so for substantially the entire existence of these entities. Furthermore, the minute books of these companies show that Douglas Swenson has been actively involved with and engaged in the management, operations and direction of these companies.

DBSI related companies loaned large sums of money to the Technology Holding Companies, who then reportedly loaned those sums to the Tech Companies. In exchange for these loans from the DBSI related companies, the Technology Holding Companies pledged their ownership interests in the Tech Companies as collateral. These loans, which required an 85% loan to value ratio, were made and approved based on DBSI Inc.'s valuation of the Tech Companies.

Moreover, Douglas Swenson acknowledged in his 2005 SEC testimony that he calculated the estimated values and cash flows of DBSI/Western Technologies LLC, Bio-Reaction, iTerra LLC, EmergeCore Networks LLC and Wavetronix that were included in the Real Estate Funding Offering Statement used in connection with the sale of the GCC bonds.⁶⁶ Furthermore, he considered the interests in these companies to have been pledged in support of DBSI Inc.'s bond obligation.⁶⁷

⁶⁶ Douglas Swenson's June 28, 2005 SEC Testimony at 22:17-23:5.

⁶⁷ *Id.* at 46:4-48:24.

Finally, although DBSI management did not run the day to day operations of the Tech Companies, it did provide oversight, accounting, assessment of business strategies, and assistance with marketing issues.⁶⁸ More specifically, during Douglas Swenson's 2005 SEC testimony, the following discussion occurred:

Q: I do understand that there are some accounting functions that are provided for the company, so that might be separate or that might be what you are referring to but, yeah, if you could just generally talk about that oversight, and then I specifically wanted to get into the accounting functions?

A: One of the, what I call my partners, he's actually a minority interest holder, John Foster, spends probably 70 to 80 percent of his time overseeing the non-real estate [i.e., Tech Company] aspects of the business. And I probably spend, I don't know, maybe a third of my time. And then there are I guess three other people, at least three other people, that basically spend full time on non-real estate aspects of the business, of the overall group. So this is all involved in oversight and accounting, and assessing business strategies, trying to assist these companies in marketing issues and those sorts of things, but not in running the day to day operations.

Q. And how long has that been the case that you've had those people in place at DBSI who provide this oversight function for these companies.

A. Well, I was just trying to recall. I think John Foster began that role two and a half to three years ago. I think it would have been before the last real estate funding offering there. Before that, besides the group was smaller and I was much more involved personally, I was basically doing what he's doing now so, I basically added another layer between myself and the companies directly, so I could spend more time on other matters.⁶⁹

⁶⁸ *Id.* at 77:16-78:8.

⁶⁹ *Id.* at 67:4-22 & 77:16-78:19.

a. Western Electronics LLC⁷⁰

(1) Ownership

80.28% of the total shares of Western Electronics LLC are owned by DBSI/Western Technologies LLC (which is owned entirely by the Control Group, including, Reeve (10%), Bringhurst (10%) and Investments (80%)). DBSI Inc. does not hold a direct ownership interest in Western Electronics, but indirectly owns less than a majority of the total interests of such entity (34.75%); however, the Control Group owns 80.28% of Western Electronics indirectly and based on the corporate minutes, it appears that the Control Group influenced the management and operation. In fact, prior to 2003, the Control Group had nearly exclusive management of this entity. Further, Douglas Swenson controls the voting interests of this entity and it appears that the Control Group (via their control of DBSI Inc.) caused DBSI Inc. and other Debtor Entities to provide this entity with material financial benefits as further described below.

⁷⁰ This description reflects the ownership, management and control of Western Electronics LLC as of the date of the filing of these Bankruptcy Proceedings and the ownership, management and control structure under which the members of Western Electronics LLC currently operate; however, the operating agreement of Western Electronics LLC provides that a member ceases to be a member of the company upon certain events, including a bankruptcy. This appears to be an automatic cessation that does not require action by the other members. Therefore, under the terms of the operating agreement of Western Electronics LLC, DBSI/Western Technologies LLC ceased to be a member of Western Electronics LLC as of the date that DBSI/Western Technologies LLC became a Debtor. The operating agreement of Western Electronics LLC further provides that upon such an occurrence, the remaining members can elect to either (i) purchase the dissociated member's membership interests at fair market value or (ii) allow the dissociated member to hold its membership interest as an assignee. As an assignee, the dissociated member has no right to participate in management and is only entitled to distributions and return of capital, and to be allocated profits and losses. To the Examiner's knowledge, DBSI/Western Technologies LLC's interests have not been purchased per option (i). The Examiner therefore assumes that by default DBSI/Western Technologies LLC is currently holding its interests as a dissociated member with the rights of an assignee. Neither DBSI/Western Technologies LLC nor the other members of Western Electronics LLC have enforced the terms of these provisions to date, and DBSI/Western Technologies LLC is still involved in the management of Western Electronics LLC. At any time, however, the remaining members of Western Electronics LLC could chose to enforce these provisions and remove DBSI/Western Technologies LLC (or its estate) from the control/management of Western Electronics LLC or to purchase their interests.

(2) Control

DBSI Inc. controls Western Electronics LLC indirectly. DBSI/Western Technologies LLC controls Western Electronics LLC as the owner of 80.28% of Western Electronics LLC's interests. Investments controls DBSI/Western Technologies LLC as the owner of 80% of DBSI/Western Technologies LLC's interests. DBSI Inc. controls Investments as the owner of 54.3% of Investments' interests.

Currently, Douglas Swenson controls DBSI Inc. as the owner of 91.38% of the total shares of DBSI Inc.

(3) Management

The current board of managers of Western Electronics LLC consists of Douglas Swenson, Judge and four individuals unrelated to DBSI related companies. Despite the current involvement from individuals outside of the Control Group, Western Electronics LLC was managed almost exclusively by a board of managers that consisted of individuals from the Control Group, including, Douglas Swenson, Hassard, Foster, Mott, Reeve and Bringhurst for the period of November 1999 until December 2003. In December 2003, however, it was determined that the board of managers of this entity should largely consist of individuals outside of the Control Group and the DBSI group of companies. As such, from and after December 2003, the board of managers of this entity purposely became a more balanced mixture of DBSI insiders and owners, and individuals unrelated to the DBSI related companies; however, (i) Douglas Swenson has remained a member of the board of managers of this entity throughout its existence save for the period of November 2003 through August 2005, (ii) Judge has remained a

member of the board of managers of this entity since August 2005 and (iii) Reeve and Bringhurst continued as members of the board of managers of this entity until January 2007.

Although some corporate formalities have been maintained by this entity, it appears that many material actions by this entity were undertaken without any formalities. For example, there is no record of or information about the issuance or forgiveness of loans from DBSI related entities in the company record books for this entity.

(4) Commingling of Funds and Assets

Despite the fact that DBSI Inc. has never owned a direct interest in Western Electronics LLC, it appears that Western Electronics LLC enjoyed material financial benefits from its relation with DBSI Inc. Western Electronics LLC reportedly received the benefit of loans from DBSI related entities (which passed through DBSI/Western Technologies LLC), specifically from DRR and the DBSI bond and notes entities.⁷¹ However, based on DBSI/Western Technologies LLC's ledger as of December 31, 2008, it appears that Western Electronics LLC no longer owed any amount to DBSI/Western Technologies LLC in connection with these financings. The Examiner understands based on conversations with Judge that any and all amounts owed to DBSI/Western Technologies LLC were converted to equity in Western Electronics LLC. DBSI/Western Technologies LLC's interests in this entity were reportedly pledged to the applicable DBSI related bonds and notes corporations in connection with these

⁷¹ The Examiner has not yet verified receipt of loan money by this entity.

financings. Further, it appears that DBSI Inc. itself may have made loans to Western Electronics LLC in 2002, 2003 and 2004, all of which appear to have been forgiven by DBSI Inc.⁷²

b. iTerra

(1) Ownership

80.10% of the total shares of iTerra are owned by Stellar (which is owned by Reeve (10.38%), Bringham (10.38%), various other individuals that are not associated with the DBSI related companies (16.98%) and Investments (62.26%)). DBSI Inc. does not hold a direct ownership interest in iTerra, but indirectly owns less than a majority of the total interests of such entity (27.08%); however, the Control Group owns 66.50% of iTerra indirectly and based on the corporate minutes, it appears that the Control Group influenced the management and operation. Further, Douglas Swenson controls the voting interests of this entity and it appears that the Control Group (via their control of DBSI Inc.) caused DBSI Inc. and other Debtor Entities to provide this entity with material financial benefits as further described below.

(2) Control

DBSI Inc. controls iTerra indirectly. Stellar controls iTerra as the owner of 80.10% of the interests. Investments controls Stellar as the owner of 62.26% of Stellar's interests. DBSI Inc. controls Investments as the owner of 54.3% of Investments' interests.

⁷² Although not fully confirmed at this time, records indicate that a total of \$6,552,747 of debt from DBSI Inc. to Western Electronics LLC was forgiven from 2002-2004. The trial balance of DBSI/Western Technologies LLC, however, still shows that DBSI/Western Technologies LLC owes money to DRR in approximately this same amount. It is possible that DBSI/Western Technologies LLC actually made these loans to Western Electronics LLC and later forgave the Western Electronics LLC's indebtedness. Nonetheless, it appears that the underlying loan from DRR (or DBSI Inc.) to DBSI/Western Technologies LLC still remains outstanding despite DBSI/Western Technologies LLC's apparent forgiveness of Western Electronics LLC's debt. The Examiner has been unable to get further insight and clarification on these loans from DBSI employees.

Currently, Douglas Swenson controls DBSI Inc. as the owner of 91.38% of the total shares of DBSI Inc.

(3) Management

Since November 26, 2007, the board of managers of iTerra has consisted of Douglas Swenson, Judge and Hassard. Prior to that time, however, the board of managers of this entity, as well as the executive officers, included individuals outside of the DBSI group of companies. According to the company minutes, Douglas Swenson, however, has always been an active and engaged member of the board of managers (except for a period of 10 months in 2007), acting on behalf of the company as authorized agent in many instances and serving as the Chairman of the board of managers from August 2005 until January 2007. Although iTerra continues to exist, it is the Examiner's understanding that the company is no longer an operating entity.

(4) Commingling of Funds and Assets

Despite the fact that DBSI Inc. has never owned a direct interest in iTerra, it appears that iTerra has enjoyed material financial benefits from DBSI Inc. iTerra has reportedly received the benefit of loans from DBSI related entities (which loan funds passed through Stellar), specifically from DRR, GCC and 2008 Notes Corp.⁷³ Based on Stellar's ledger as of December 31, 2008, it appears that iTerra owed \$51,873,328 (including, principal and interest) to Stellar in connection with these financings. Stellar's interests in this entity were reportedly pledged to the applicable DBSI related bonds and notes corporations in connection with these financings.

⁷³ The Examiner has not yet verified receipt of loan money by this entity. This information was obtained from the general ledger of Stellar as of December 31, 2008.

Further, the minutes of DBSI Inc. indicate that the Control Group caused DBSI Inc. to guaranty certain of such entity's third party financial obligations and lease obligations.⁷⁴

In July 2007, iTerra formed GigOptix LLC, a wholly owned subsidiary of iTerra. All of iTerra's assets and liabilities, as well as operations and intellectual property, were transferred to GigOptix LLC except for \$45,800,000 worth of debt that iTerra owed to Stellar. According to the general ledger of Stellar as of December 31, 2008, it appears that approximately \$51,873,328 (including, principal and interest) remained outstanding in connection with this indebtedness. Additional amounts were then loaned by Stellar to GigOptix LLC directly. GigOptix LLC then merged with Lumera Corporation to form GigOptix. In June 2007, amounts outstanding by GigOptix to Stellar were reclassified as paid in capital to GigOptix.⁷⁵

c. UltraDesign

(1) Ownership

64.1% of the total shares of UltraDesign are owned by Stellar (which is owned by Reeve (10.38%), Bringhurst (10.38%), various other individuals that are not associated with the DBSI related companies (16.98%) and Investments (62.26%)). DBSI Inc. does not hold a direct ownership interest in UltraDesign, but indirectly owns less than a majority of the total interests of such entity (21.67%); however, the Control Group owns 64.10% of UltraDesign indirectly and based on the corporate minutes, it appears that the Control Group influenced the management and operation. Further, Douglas Swenson controls the voting interests of this entity and it

⁷⁴ DBSI Inc. corporate minute book, in particular, minutes of March 7, 2002.

⁷⁵ GigOptix 10Q report dated 4/5/2009.

appears that the Control Group (via their control of DBSI Inc.) caused DBSI Inc. and other Debtor Entities to provide this entity with material financial benefits as further described below.

(2) Control

DBSI Inc. controls UltraDesign indirectly. Stellar controls UltraDesign as the owner of 64.10% of the interests. Investments controls Stellar as the owner of 62.26% of Stellar's interests. DBSI Inc. controls Investments as the owner of 54.3% of Investments' interests.

Currently, Douglas Swenson controls DBSI Inc. as the owner of 91.38% of the total shares of DBSI Inc.

(3) Management

Douglas Swenson was the only DBSI Insider to serve on the board of managers of UltraDesign. According to the company minutes, Douglas Swenson has been an active and engaged member of such board of managers, acting on behalf of the company as authorized agent in several instances. Although UltraDesign continues to exist and may have some residual value, the Examiner understands that the company is no longer actively operating. Based on the company records, it appears that the board of managers has not consented to any action since March 2005.

(4) Commingling of Funds and Assets

Despite the fact that DBSI Inc. has never owned a direct interest in UltraDesign, this entity appears to have enjoyed material financial benefits from DBSI Inc. UltraDesign is reported to have received the benefit of loans from DBSI related entities (which loans passed

through Stellar), specifically from DRR and the DBSI bond and notes entities.⁷⁶ Based on Stellar's ledger as of December 31, 2008, UltraDesign no longer owed any amounts to Stellar in connection with these financings.⁷⁷ Stellar's interests in this entity were reportedly pledged to the applicable DBSI related bonds and notes corporations in connection with these financings.

d. BioReaction

(1) Ownership

98.17% of the total shares of BioReaction are owned by Stellar (which is owned by Reeve (10.38%), Bringhurst (10.38%), various other individuals that are not associated with DBSI related companies (16.98%) and Investments (62.26%)). DBSI Inc. does not hold a direct ownership interest in BioReaction, but indirectly owns less than a majority of the total interests of such entity (33.19%); however, the Control Group owns 81.5% of BioReaction indirectly and based on the corporate minutes, it appears that the Control Group influenced the management and operation. Further, Douglas Swenson controls the voting interests of this entity and it appears that the Control Group (via their control of DBSI Inc.) caused DBSI Inc. and other Debtor Entities to provide this entity with material financial benefits as further described below.

⁷⁶ The Examiner has not yet verified receipt of loan money by this entity. This information was obtained from the general ledger of Stellar as of December 31, 2008.

⁷⁷ The Examiner has not yet been able to determine whether previous amounts owing were repaid to Stellar or converted to equity or otherwise forgiven.

(2) Control

DBSI Inc. controls BioReaction indirectly. Stellar controls BioReaction as the owner of 98.17% of the interests. Investments controls Stellar as the owner of 62.26% of Stellar's interests. DBSI Inc. controls Investments as the owner of 54.3% of Investments' interests.

Currently, Douglas Swenson controls DBSI Inc. as the owner of 91.38% of the total shares of DBSI Inc.

(3) Management

The board of managers of BioReaction has always consisted of members of the Control Group, as well as individuals outside of the DBSI group of companies in almost equal proportions. According to the company minutes, Douglas Swenson, however, has always been an active and engaged member of the board of managers, has been the chairman of the board of managers since August 2005, and has acted on behalf of the company as authorized agent in many instances.

(4) Commingling of Funds and Assets

Despite the fact that DBSI Inc. has never owned a direct interest in BioReaction, this entity appears to have enjoyed material financial benefits from DBSI Inc. BioReaction reportedly received the benefit of loans from DBSI related entities (which passed through Stellar), specifically from DRR and the DBSI bond and notes entities. Based on Stellar's ledger as of December 31, 2008, it appears that BioReaction no longer owed any amount to Stellar in connection with these financings. The Examiner understands from conversations with Judge that any and all amounts previously owing to Stellar in connection with these financings have been

converted to equity. Stellar's interests in this entity were reportedly pledged to the applicable DBSI related bonds and notes corporations in connection with these financings. Further, the minutes of DBSI Inc. indicate that the Control Group caused DBSI Inc. to guaranty certain of such entity's third party financial obligations.⁷⁸

e. GigOptix

(1) Ownership

18.60% of the total shares of GigOptix are owned by Stellar (which is owned by Reeve (10.38%), Bringhurst (10.38%), various other individuals that are not associated with DBSI related companies (16.98%) and Investments (62.26%)) and 14.20% are owned by iTerra (80.10% of which, as stated above, is owned by Stellar). DBSI Inc. does not hold a direct ownership interest in GigOptix but owns indirectly less than a majority of the total interests of such entity.

(2) Control

Stellar directly and indirectly owns 29.43% of GigOptix⁷⁹ and, therefore, neither Stellar nor any member of the Control Group controls this entity.

⁷⁸ DBSI Inc. corporate minute book, in particular, the minutes from June 2003.

⁷⁹ 18.6% of GigOptix is owned directly by Stellar. 11.37% of GigOptix is owned indirectly by Stellar (via the interests of iTerra (14.2%)).

(3) Management

The Examiner has not yet reviewed the corporate records for this entity. He has, however, confirmed that Douglas Swenson serves on the board of directors of this entity along with other individuals who are not associated with DBSI Inc.

(4) Commingling of Funds and Assets

Despite the fact that DBSI Inc. has never owned a direct interest in GigOptix, this entity has enjoyed material financial benefits from DBSI Inc. GigOptix has received the benefit of loans from DBSI related entities (which loans passed through Stellar), specifically from DRR and the DBSI bond and notes entities. Based on Stellar's ledger as of December 31, 2008, it appears that GigOptix no longer owed any amount to Stellar in connection with these financings. The Examiner understands from conversations with Judge as well as GigOptix's public filings with the SEC that any and all amounts previously owing to Stellar in connection with these financings have been converted to equity. Stellar's interests in this entity were reportedly pledged to the applicable DBSI related bonds and notes corporations in connection with these financings.

f. Wavetronix

(1) Ownership

62.18% of the total shares of Wavetronix are owned by Stellar (which is owned by Reeve (10.38%), Bringham (10.38%), various other individuals that are not associated with DBSI related companies (16.98%) and Investments (62.26%)). DBSI Inc. does not hold a direct ownership interest in Wavetronix, but indirectly owns less than a majority of the total interests of

such entity (21.02%); however, the Control Group owns 41.35% of Wavetronix indirectly and based on the corporate minutes, it appears that the Control Group influenced the management and operation. Further, Douglas Swenson controls the voting interests of this entity and it appears that the Control Group (via their control of DBSI Inc.) caused DBSI Inc. and other Debtor Entities to provide this entity with material financial benefits as further described below.

(2) Control

DBSI Inc. controls Wavetronix indirectly. Stellar controls Wavetronix as the owner of 62.18% of the interests. Investments controls Stellar as the owner of 62.26% of Stellar's interests. DBSI Inc. controls Investments as the owner of 54.3% of Investments' interests.

Currently, Douglas Swenson controls DBSI Inc. as the owner of 91.38% of the total shares of DBSI Inc.

(3) Management

The board of managers of BioReaction has always consisted of members of the Control Group, as well as individuals outside of the DBSI group of companies in almost equal proportions. According to the company minutes, Douglas Swenson has always been an active and engaged member of the board of managers, frequently being authorized to act on behalf of the company. Douglas Swenson, Hassard and Judge continue to serve on the board of managers, along with individuals outside of the DBSI group of companies.

(4) Commingling of Funds and Assets

Despite the fact that DBSI Inc. has never owned a direct interest in Wavetronix, this entity appears to have enjoyed material financial benefits from DBSI Inc. Wavetronix has reportedly received the benefit of loans from DBSI related entities (which loan funds passed through Stellar), specifically from DRR, GCC and 2008 Notes Corp.⁸⁰ Based on Stellar's ledger as of December 31, 2008, it appears that Wavetronix owed approximately \$30,990,231 (including, principal and interest) to Stellar in connection with these financings. Stellar's interests in this entity were reportedly pledged to the applicable DBSI related bonds and notes corporation in connection with these financings.

VII. USES OF 2008 NOTES PROCEEDS

A. Introduction

The Examiner analyzed the use of funds raised from DBSI's 2008 Notes Offering. DBSI raised approximately \$90 million from investors from the 2008 Notes Offering. The Examiner decided to report on the 2008 Notes at this time because the analysis of the actual use of funds raised in the offering impacts issues of importance to the Bankruptcy Proceedings and is indicative of how the Debtors and the Control Group ran their business operations. The analysis illustrates the use of intercompany transfers by and among Debtors and non-Debtors in the day-to-day operations of DBSI Inc.

⁸⁰ The Examiner has not yet verified receipt of loan money by this entity. This information was obtained from the general ledger of Stellar as of December 31, 2008.

The Examiner selected the 2008 Notes for an in-depth analysis to try to answer the following questions:

- Can DBSI's books and records be relied on accurately to reflect the flow and use of money?
- Were 2008 Notes Proceeds commingled with other sources of cash to meet current cash flow needs including ongoing expenses and obligations of DBSI Inc.?
- Was adequate security obtained for loans made with 2008 Notes Proceeds?
- Did entities providing security for loans from 2008 Notes Corp. actually receive any benefit?
- Were non-Debtor entities used as conduits for disbursing 2008 Notes Proceeds and, if so, what is the effect of this?

Based on analysis of the uses of the 2008 Notes Proceeds, the Examiner concludes that the Debtors' ledger entries explaining the use of those proceeds cannot be relied upon to fairly explain the essence of the transactions. A significant portion of the 2008 Notes Proceeds were not actually used for the purposes described in the ledgers. These proceeds were also not used for a purpose detailed in the Private Placement Memorandum offering the sale of investor interests in the Notes. Much of the 2008 Notes Proceeds were neither used to acquire real estate nor to finance or refinance loans. In fact, the proceeds were used to prop up a failing enterprise by making cash available to support current operations and obligations. The mechanism used by DBSI Inc. to make this cash available included purporting to loan 2008 Notes Proceeds based on

collateral the value of which was overstated. Much of the 2008 Notes Proceeds was not truly “invested.” Rather, these proceeds were actually used to meet then-current cash needs. As a result, investments were not made that could one day be used to repay the 2008 Notes.

B. The 2008 Notes Offering

On February 6, 2008, 2008 Notes Corp. issued a Confidential Private Placement Memorandum (the “PPM”) wherein it offered \$50,000,000 in investment interests, with the ability to increase to \$90,000,000, the aggregate principal amount of 9.5% Notes due on December 31, 2015 (the “2008 Notes”). A copy of the PPM is attached as Exhibit 2. According to the PPM, the proceeds of the Offering were to be used:

- (i) to acquire, rehabilitate, entitle, develop and/or finance real estate assets prior to their sale, resale, third-party financing or syndication; and
- (ii) to finance or refinance non-real estate Entities.

With respect to loans to be made using 2008 Notes Proceeds, the PPM stated “To receive a Loan in accordance with the Loan requirements, an Entity must meet certain Loan requirements, including a maximum overall 85% Loan to Value Ratio.”⁸¹ The PPM disclosed that for real estate, the value used for this calculation might not reflect fair market value, might not be based on valuations obtained from third parties,⁸² and could be based on a “reasonable estimate” by the guarantor, DBSI Housing Inc.⁸³ Some or all of the loans would be unsecured.⁸⁴

⁸¹ PPM at 10.

⁸² *Id.* at 17.

⁸³ *Id.* at 1, *id.* at 26.

An undefined “percentage” of the PPM proceeds could be used to retire an “entity’s existing debt obligations.”⁸⁵ The PPM also stated that “proceeds from the sale of the Notes will be held in a separate account (the “Loans to Entities Account”), which will be used only to pay offering costs and to fund loans, and will not be commingled with the Guarantor’s financial or business accounts or with the accounts of any Affiliates.”⁸⁶

Exhibit B to the PPM is DBSI Housing Inc.’s (now DBSI Inc.) financial statements dated June 30, 2007. These financial statements are significant because DBSI Housing Inc. agreed to unconditionally guarantee repayment of the Notes.⁸⁷ The balance sheet for DBSI Housing Inc. reflected retained earnings of more than \$99 million which, if accurate, made the guarantee DBSI agreed to supply appear substantial. However, the financial statements were not prepared according to GAAP and were not audited. The financial statements did not disclose which DBSI-owned and/or controlled entities were consolidated for reporting purposes. The notes to the Balance Sheet and Statement of Operations stated that DBSI Housing Inc. was a principal in numerous entities, and referred only in general terms to affiliated entities that composed the “DBSI Group of Companies.” DBSI Securities Corporation, DBSI Inc., (currently, DCJ Inc.), DBSI Realty Corporation, numerous bond finance subsidiaries, and DBSI Properties L.P. (currently DBSI Investments Limited Partnership) were listed as “other affiliated entities.” The notes to the financial statements stated that the Company entered into numerous transactions

⁸⁴ *Id.* at 15.

⁸⁵ *Id.* at 15. Entities were defined to include current and future wholly or partially owned subsidiaries of DBSI Housing Inc. within the meaning of Section 270.3a of the Investment Company Act of 1940. *Id.* at 35.

⁸⁶ *Id.* at 27.

⁸⁷ *Id.* at 1.

with “affiliated entities included in the DBSI Group of Companies” without further defining exactly which companies were included in the group.

Most significantly, DBSI Housing Inc.’s balance sheet netted payables and receivables from affiliates in a single entry as “net payable to affiliates” of \$2,985,091. According to the financial statements, all receivables were treated as collectible except for a minimal amount disclosed as “doubtful accounts.” The fact that there was more than \$140,000,000 in loans receivable from DRR on the June 30, 2007 date of the Financial Statements is not disclosed.⁸⁸ It also appears that DRR was being treated as an “affiliate” although it is not a Debtor in the Bankruptcy Proceedings. This netting of loans payable and receivable effectively concealed the size of the loans receivable. Also concealed was the fact that DBSI Housing Inc.’s loans receivable were from DRR, an entity that was used as a conduit for money transfers, and which had no liquid assets that could be used to repay the loan.

DBSI Housing Inc.’s financial statements also included as an asset \$89,897,937 described as “Land Investments.” The Notes to the Financial Statements disclosed only that the investments consisted of “controlling interests in various entities. . .” which were valued at their “original cost.” The Examiner is still analyzing whether the company in fact had land investments worth \$89 million for financial reporting purposes.

⁸⁸ Trial Balance for DBSI Housing dated June 30, 2007 retrieved from DBSI Yardi system.

C. Uses of the 2008 Notes Proceeds

The 2008 Notes Offering raised a net of \$89.3 million from investors.⁸⁹ The 2008 Notes Corp., a wholly owned subsidiary of DBSI Inc., accumulated and distributed the funds raised by the 2008 Notes Offering. The funds were accumulated in a newly created account set up for the 2008 Notes Corp. In addition to the 2008 Notes Proceeds, other 2008 Notes Corp. funds flowed through that account as property loan repayments and interest income.

The Examiner analyzed and traced the use of a significant portion of the funds raised through the 2008 Notes Offering. This task was complicated because funds flowed in and out of the 2008 Notes account, often on a daily basis. In addition, the same money was transferred between various DBSI entities (both Debtors and non-Debtors), also often on a daily basis. The numerous movements of the funds were documented by journal entries that did not always describe the basis for the transfer. Because of these numerous vague, confusing, and misleading journal entries, determining the use of the 2008 Notes Proceeds required the devotion of extensive and unanticipated resources.

In large part, the uses of the funds raised through the 2008 Notes Offering were documented by reference notes and general ledger entries in DBSI's accounting systems. At times these journal entries were entered days or weeks after the money was transferred and/or were subject to modifications and adjustments. Exhibit 3 details the sources and uses of all the 2008 Notes Proceeds as reflected in the original journal entries.

⁸⁹ The Debtor's investor schedule reflects a total of \$89,604,000. According to the Examiner's analysis, the total is actually \$89,388,733. This difference has not been reconciled, but it does not affect the Examiner's analysis.

Detailed below are the Examiner's findings concerning some of the significant uses of the 2008 Notes Proceeds.

1. \$27,293,500 from 2008 Notes Booked as Loans to Stellar

a. Stellar Loan Approvals

The DBSI accounting entries for the disbursement of the 2008 Notes Proceeds reflect that \$27,293,500 was loaned to Stellar.⁹⁰

The Examiner located a DBSI Loan Record Index on the website of the Debtors' counsel, YCST, in support of the \$27,293,500 amount that was loaned to Stellar on June 16, 2008.⁹¹ This loan accumulated and superseded prior loans for smaller amounts that were made from the 2008 Notes as those funds were received.

For the June 16, 2008 loan, Hassard, as Secretary for 2008 Notes Corp., certified on August 20, 2008 that the amount loaned did not exceed a loan to value ("LTV") ratio of 85% of the fair market value of the security for the loan. The DBSI loan approval documents reflect that this 85% LTV was based on a \$32,110,000 valuation of Stellar's interests in Wavetronix and Bio-Reaction, but the loan package lacks a valuation of Wavetronix as back-up.⁹² Douglas

⁹⁰ Judge, the President and CEO of Stellar Technologies, LLC, provided the Examiner with "draft" flow charts labeled "for discussion purposes only" detailing the flow of funds from the 2008 Notes for the benefit of Stellar which agrees with this figure. These charts also reflect that Stellar owed far in excess of \$100 million in total to DRR and to a lesser degree to 2008 Notes and GCC as of December 31, 2008.

⁹¹ Stellar Technologies LLC Loan Record Index for June 16, 2008 Loan.

⁹² Earlier, loan documents had been prepared to justify a loan made on May 22, 2008 to Stellar by the 2008 Notes. This loan was subsumed by the June 16, 2008 loan. The Examiner located the DBSI loan packet for the May 22, 2008 loan. (DBSI Request For Funds From Loan Committee submitted May 21, 2008 and related documents.) The package was sent to Jeremy Swenson, Mark Griffin, Shane Warner, and Cole for approval of the proposed loan for Stellar Technologies and included loan documents. Jeremy Swenson approved the loan on behalf of the loan

(footnote continued on next page)

Swenson supplied paperwork in support of this loan. He consented to the pledge of Stellar assets as President of GCC. He also consented to the loan on behalf of “DBSI Investments Limited Partnership, as the Majority Member of Stellar Technologies LLC” and signed the document as the “Majority Member: DBSI Investments Limited Partnership by DBSI Inc. its General Partner, Douglas L. Swenson President.” Judge authorized the loan on behalf of Stellar. (Previously, Douglas Swenson had signed a May promissory note on behalf of Stellar.) Stellar pledged its membership interests, which were valued at \$32 million, in Wavetronix and Bio-Reaction in support of the loan. Although DBSI Inc. was listed as a guarantor on the loan approval sheets, the Examiner has not located any such guarantee. No evaluation was done of collectability issues. The loan was “secured” only by Stellar’s ownership interest in Wavetronix and Bio-Reaction and no stock was actually pledged.

b. Uses of 2008 Notes Proceeds Loaned to Stellar

The Examiner analyzed the general ledger cash account entries supporting the disbursements of the \$27,293,500 for Stellar and the Tech Companies. There were a total of ten journal entries booked for transfers between March and July 2008 to support these

committee. Douglas Swenson signed the promissory note on behalf of Stellar, the borrower, and the pledge agreement as “Owner: Stellar Technologies LLC By: Douglas L Swenson, Chairman of the Board.”

The May 22, 2008 loan package also included details explaining how DBSI attempted to justify the 85% LTV requirements imposed as a lending requirement by 2008 Notes PPM. For example, according to an Executive Summary of the Wavetronix LLC-secured loan request dated May 21, 2008, DBSI’s Loan Committee requested \$18 million on May 22, 2008 to be loaned against Stellar’s ownership interest in Wavetronix. An internal evaluation was performed by DBSI to determine the net amount that could be loaned by 2008 Notes Corp. to Stellar for the May loan. The executive summary makes clear that the calculations of LTV were based on claimed appraised values for Wavetronix without any subtraction for intercompany debt. If intercompany debt is considered then Wavetronix actually had negative value according to an internal “restricted use appraisal report” dated December 31, 2007, which was included in the package. In addition, Stellar/DBSI was treated as owning 100% of Wavetronix for calculating the LTV, according to the executive summary. The summary also stated that the loan will be used to pay down GCC loans.

disbursements. All of the disbursements were booked as loans receivable by the 2008 Notes Corp. from Stellar. After extensive tracing of these ten transactions beyond the initial journal entries, the Examiner concludes that \$18,341,536 “loaned” to Stellar was promptly transferred to DBSI Inc.’s checking and operating accounts.⁹³ The \$18 million was then used almost immediately by DBSI Inc., in large part for general operating expenses. At the time of the transfers, DBSI Inc. was suffering from a severe cash shortage crisis that required it to obtain significant cash infusions to sustain its operations.⁹⁴

The transfer of the \$18,341,536 to DBSI Inc. was obscured by a series of misleading journal entries. The cash transfers were often accomplished by using DRR as an intermediary. Once the \$18,341,536 was received by DBSI Inc., it was used to pay, among other expenses, payroll and personal state income taxes owed by owners. The Examiner concludes that only \$8,951,964 of the \$27,293,500 booked as loans to Stellar may have actually been retained by GCC in repayment of Stellar’s debt to GCC, which was the stated explanation for several of the loan entries.⁹⁵

The ten journal entries summarizing the \$27,293,500 in disbursements to Stellar are summarized in the following chart.

⁹³ In its books and records, DBSI Inc. is still often treated as DBSI Housing but the Examiner will refer to DBSI Inc. unless an entry is directly quoted.

⁹⁴ DBSI Inc. prepared weekly cash flow statements analyzing all disbursements that were scheduled and all anticipated sources of cash for all DBSI-related entities. These statements have not been fully analyzed but they reflect that the company understood for a lengthy period of time that it was losing money in its ongoing operations and that the only way to meet its cash flow needs was to bring in additional investment money.

⁹⁵ The Examiner is in the process of analyzing how this debt had been actually incurred and whether it was because of cash investments that went to the Tech Companies.

Entry #	Property Name	GL Account Name	Date	Description	Control	Amount
1	DBSI 2008 Notes Corporation	Receivable - Loans	13-Mar-08	Funds to Stellar	J-367514	7,000,000.00
2	DBSI 2008 Notes Corporation	Receivable - Loans	20-Mar-08	Funds to Stellar fr NC2008	J-369894	1,058,000.00
3	DBSI 2008 Notes Corporation	Receivable - Loans	28-Apr-08	gcc redemption	J-384964	750,000.00
4	DBSI 2008 Notes Corporation	Receivable - Loans	05-May-08	ach to stellar	J-386572	88,470.10
5	DBSI 2008 Notes Corporation	Receivable - Loans	13-May-08	paydown stellar debt to gcc	J-390305	620,000.00
6	DBSI 2008 Notes Corporation	Receivable - Loans	15-May-08	pay stellar debt owed to gcc	J-391294	318,000.00
7	DBSI 2008 Notes Corporation	Receivable - Loans	05-Jun-08	funds to paydown stellar debt to	J-399667	10,895,494.00
8	DBSI 2008 Notes Corporation	Receivable - Loans	17-Jun-08	loan to Stellar	J-403572	3,000,000.00
9	DBSI 2008 Notes Corporation	Receivable - Loans	19-Jun-08	loan to Stellar	J-404433	810,000.00
10	DBSI 2008 Notes Corporation	Receivable - Loans	03-Jul-08	funds to stellar	J-409847	2,753,536.00
Total Loans Booked to Stellar from 2008 Notes Corporation						<u>27,293,500.10</u>

The journal entries numbered 1, 2, 4, and 10 reflect \$10,900,006 in funds transferred to Stellar with almost no further information. Entries 3, 5, 6, and 7 (\$750,000, \$620,000, \$318,000, and \$10,895,494) reflect that a total of \$12,583,494 in funds was used to pay down GCC debt owed by Stellar. Entries 8 and 9 were booked as loans to Stellar. The Examiner has identified significant issues with respect to each of these ten “loans” to Stellar. Two charts detailing his analysis of the initial actual cash flow of the \$27,293,500 are appended as Exhibits 4A and 4B. The two charts organize the same information in different ways. A more detailed analysis of each of the journal entries reproduced above, including information about how the \$27,293,500 was used once it was transferred to DBSI Inc., follows:

Entry #1

Reported: On March 12, 2008, \$7 million was wired to Stellar and booked as “Funds to Stellar.”

Analyzed Use: The \$7 million was transferred to DBSI Inc. to meet then-current cash needs.

On March 13, 2008, \$7 million was withdrawn from the 2008 Notes Corp. bank account and transferred to DRR. This money was then deposited in Stellar’s bank account via an electronic transfer from DRR on the same day. On March 14, 2008, the \$7 million was withdrawn from Stellar’s bank account and electronically transferred back to DRR. According to DBSI Inc’s check register for its KeyBank account, this amount was then transferred from DRR to the general operating account for DBSI Inc. The DBSI Inc. account reflects the transfer of the \$7 million into the account, bearing the notation “Funds to Hsg fr DRR” on March 14, 2008. Without this money, the account would have had a negative balance on that day in excess of \$1.5 million. Funds were then disbursed from DBSI Inc. over the next three days, resulting in a negative balance in the account by March 17, 2008.

Among the significant uses of the funds disbursed from the DBSI Inc. account are transactions recorded as payments to GigOptix (\$350,000) and to the 2006 Secured Notes Corporation to pay off a loan owed by Kastera on a property, transfers to an account described as “TIC OP,” payments for more than \$55,000 of Douglas Swenson’s state tax liabilities, and a transfer recorded by the Debtors as “Funds to Hsg. LR fr Hsg OP” account.

Entry #2

Reported: On March 20, 2008, \$1,058,000 was wired to Stellar and booked as “Funds to Stellar fr NC 2008.”

Analyzed Use: The \$1,058,000 was transferred to DBSI Inc. to meet then-current cash needs.

On March 20, 2008, the \$1,058,000 was withdrawn from the 2008 Notes Corp. bank account and transferred to DRR. This money was then deposited to Stellar’s bank account via an electronic transfer from DRR on the same day. After this transfer, and still on the same day, \$1,058,000 was withdrawn from the Stellar bank account and electronically transferred back to DRR. According to DBSI Inc’s check register for its KeyBank account, DRR transferred the exact same amount, \$1,058,000, to DBSI Inc. At the time of this transfer, the DBSI Inc. account had reflected a negative balance since March 17, 2008. On March 24, 2008, \$1,750,000 was sent to “TIC MMA” placing the account again in a negative balance. The Chart below details the uses of funds after the \$1,058,000 was deposited into DBSI Inc.’s account.

Date	Description	Amount	Totals
3/20/2008	Funds Transfer		1,058,000.00
	<u>Uses:</u>		
3/20/2008	Beginning balance in the DBSI Inc., 11000 operating account at 03/20/08	(239,938.49)	
3/20/2008	Accountable Reserves transfers to 17 properties ranging between \$750 and \$1,650 per property.	(31,400.00)	
3/20/2008	TIC Deposit for Regents	(34,050.00)	
3/20/2008	Transfer to pay a loan at Bank of Cascades #740006962	(11,489.11)	
3/20/2008	Payment to Knipe, Janoush Knipe, LLC for appraisal	(3,950.00)	
3/21/2008	Funds to DBSI Realty for operational expenses	(100,500.00)	
3/21/2008	Funds sent to Plantation property	(1,000.00)	
3/21/2008	Funds sent to the TIC deposit accounts	(160,000.00)	
3/21/2008	Funds sent to Kastera	(66,000.00)	
3/24/2008	Funds transferred to the TIC money market account for TIC expenses	<u>(1,750,000.00)</u>	<u>(2,398,327.60)</u>
	Net Uses of Cash		<u>(1,340,327.60)</u>

Entries #3, 5, 6, and 7

Reported: Four transfers made between April 28, 2008 and June 5, 2008, totaling \$12,583,494 were booked as Stellar pay-downs of GCC debt.

Analyzed Use: \$3,720,000 out of the \$12,583,494 was transferred back to DBSI Inc. and used for then-current cash needs.

The funds detailed in the four entries were withdrawn directly from the 2008 Notes Corp. bank account and deposited in the GCC bank account. After the final deposit on June 5, 2008, GCC made three transfers into DBSI Inc.'s M&I Bank operating account. These transfers

occurred on June 13, 2008, June 16, 2008, and June 19, 2008 and totaled \$3,720,000, which was described in the check register as follows:

- On June 13, 2008, \$2,000,000 was transferred and described as “Gcc to issue \$2M distribution to Housing, Inc.”
- On June 16, 2008, \$1,300,000 was transferred and described as “funds to gcc on behalf of stellar. Gcc had temporary funds (idle) so it re-loaned it to Stellar, so Stellar paid back Drr and drr paid back Inc.”
- On June 19, 2008, \$420,000 was transferred and described as a “loan to stellar to paydown DRR.” DBSI Inc’s check register for its M&I Bank account reflected that this money was deposited into that account, and it was booked as coming from DRR.

The chart below describes the use of the \$3,720,000 after it was transferred to the DBSI Inc. operating account.

Date	Description	Amount	Totals
6/13/2008	Transferred from the GCC account to DBSI Inc's operation account described as "Gcc to issue \$2M distribution to Housing, Inc."	2,000,000.00	
6/16/2008	Transferred from the GCC account to the DBSI Inc operating account described as "funds to gcc on behalf of stellar. Gcc had temporary funds (idle) so it reloaned it to Stellar, so Stellar paid back Drr and drr paid back Inc."	1,300,000.00	
6/19/2008	Transferred from the GCC account to the DBSI Inc operating account described as a "loan to Stellar to paydown DRR."	<u>420,000.00</u>	3,720,000.00
	<u>Uses:</u>		
6/13/2008	Pay-down to 2006 Notes for Kastera Properties	(1,169,015.00)	
6/13/2008	Pay-down Purdy 64 Peacock loan from Real Estate Funding Corp	(450,000.00)	
6/13/2008	Funds from Inc to 06 Note to pay-down South Hill Loan	(380,395.00)	
6/16/2008	Wire to GigOptix	(350,000.00)	
6/16/2008	Title Insurance for Colony West	(24,058.32)	
6/16/2008	Accountable Reserves transfers to 11 Land Bank TIC properties ranging between \$1,500 and \$1,836 per property.	(17,408.00)	
6/16/2008	Funds transferred to DBSI Properties Liquid Reserve account to cover an ongoing negative balance in account	(100,000.00)	
6/16/2008	Funds transferred to DBSI Properties Liquid Reserve account to cover an ongoing negative balance in account	(30,000.00)	
6/16/2008	Wire to DBSI TIC Securities account for overdraft balance of (749,940.75) created from transfers to other DBSI entities covering their over-drafted accounts	(750,000.00)	
6/17/2008	Funds transferred to DBSI Properties Liquid Reserve account to cover an ongoing negative balance in account	(20,000.00)	
6/19/2008	Partially covers payroll funding request	<u>(429,123.68)</u>	<u>(3,720,000.00)</u>
	Remainder		<u>0.00</u>

Entry #4

Reported: On May 5, 2008, \$88,470.10 was transferred to Stellar and booked as “ach to stellar.”

Analyzed Use: This money appears to have been used in connection with the GCC notes.

On May 5, 2008, \$88,470.10 was withdrawn from the 2008 Notes Corp. bank account and transferred to DBSI Inc. On the same day, this money was electronically transferred to Stellar’s bank account. On the next day, May 6, 2008, the \$88,470.10 was withdrawn from the Stellar bank account and electronically transferred back to DBSI Inc.

The transfer back from Stellar was not reflected on DBSI Inc’s bank account statement, but it was recorded as coming into GCC’s account that day. There are conflicting notations concerning this flow of funds: a notation on Stellar’s bank statement reflects that the money transferred through DBSI Inc., while GCC’s register and bank statement reflect that the money went directly to its savings account. The Examiner cannot determine which is correct. In any event, the \$88,470.10 was distributed as \$50,000 in a roll-over of GCC investor principal to Villago North and \$38,470.10 in GCC bond payments.

Entry #8

Reported: On June 17, 2008, \$3,000,000 was booked as a “loan to Stellar” from the 2008 Notes.

Analyzed Use: The \$3,000,000 was transferred to DBSI Inc. to meet then-current cash needs.

The Examiner found no evidence in Stellar's bank statements that these funds were actually sent to Stellar. According to DBSI Inc.'s check register for its M&I Bank checking account, these funds were received by DBSI Inc. directly from DRR, which obtained the money directly from the 2008 Notes Corp. bank account. The entry notes describe these funds as "coming from DRR to INC - actually coming from 08 notes to Stellar - Stellar to DRR - DRR to Inc." According to the check register, the funds received by DBSI Inc. covered payments to Legacy Hills and interest payments for other properties, and \$2,206,671 was used to cover overdrafts on the same day. In addition, money from the account (coupled with money received from Entry #7 above and Entry #9 described below) was used to meet payroll expenses within days of the transfer.

Entry #9

Reported: On June 19, 2008, \$810,000 was booked as a "loan to Stellar" from the 2008 Notes.

Analyzed Use: The \$810,000 was transferred to DBSI Inc. to meet then-current cash needs except for \$7,400, which was transferred back to Stellar.

The Examiner found no evidence in the Stellar bank statements that these funds were actually sent to Stellar. However, as indicated below, Stellar did actually receive \$7,400 of this amount in its checking account on July 2, 2008, which it used to cover a debit for payroll taxes. The \$810,000 moved as follows:

- On June 19, 2008, \$810,000 was withdrawn from the 2008 Notes Corp. bank account and transferred directly to DRR.

- On the same day, June 19, 2008, DBSI Inc.'s check register for its M&I Bank checking account, reflects a deposit of \$802,600 (\$810,000 less the \$7,400 kept by DRR and later transferred to Stellar), which was booked as "funds to paydown Inc."
- This money was combined with the money described in Entry #7 to fund the DBSI Realty payroll expenses paid on June 19, 2008.
- On July 2, 2008, DRR transferred to Stellar the \$7,400 not sent to DBSI Inc's account.

Entry #10

Reported: On July 3, 2008, \$2,753,536 was booked as "funds to Stellar" from the 2008 Notes.

Analyzed Use: The \$2,753,536 was transferred to DBSI Inc. to meet then-current cash needs.

Analysis of the 2008 Notes Corp. bank statement and the Debtor's cash ledgers indicate a commingling of the "funds to Stellar" with funds for a property called "Florissant." The funds flowed as follows:

- On July 3, 2008, \$3,613,536 was withdrawn from the 2008 Notes Corp. bank account, booked as "funds to Prop for Florissant and to Stellar."
- On the same day, July 3, 2008, \$2,753,536 was credited and subsequently withdrawn from the Stellar bank account, noted only as a "Cash Mgmt TRSFR."

- On the same day, July 3, 2008, the same \$2,753,536 was booked as moving through DRR to DBSI Inc.'s check register in its M&I Bank account. The journal entry for the transfer stated: "fund trans only- no backup available as it's a routine transfer."
- The remaining \$860,000 was attributed to the Florissant property on the Debtor's general ledger.

Subsequently, the \$2,753,536 was combined with other funds, including TIC money, and accumulated in the M&I account into total funds of \$5,490,000. This amount was subsequently transferred on the same day to KeyBank with a journal entry reading "funds to key bank account – no back up. Just a normal transfer." On the same day, the \$5,490,000 was again moved from the operating account to the DBSI Realty Reserve account, where it was consumed by operations, flowing into the daily bank sweeps and covering positive pay transactions in numerous DBSI-controlled bank accounts.⁹⁶ Twenty-seven pages of transfers with approximately twenty-five entries per page document the full use of these funds.

2. \$9,600,827 from 2008 Notes Booked as Loans to DBSI Western Technologies LLC

a. Western Technologies Loan Approvals

The DBSI accounting entries for the disbursement of the 2008 Notes reflect that \$9,600,827 was loaned to DBSI/Western Technologies LLC ("Western Technologies") based

⁹⁶ In a positive-pay or "zero-balance" cash management system, a bank may use funds as needed to cover various payments from accounts that draw from those funds.

upon a Minority Interest Valuation of Western Electronics, LLC. The actual loan approval to Western Technologies is dated September 2, 2008.⁹⁷ The Examiner has been unable to locate a promissory note or a pledge agreement of assets in connection with this loan. The loan approval documents show that \$8,706,500 was internally approved as loans to Western Technologies. There is no support for \$9,600,827 being the amount of the loan.

b. Uses of 2008 Note Proceeds Loaned to Western Technologies

Between September 4, 2008 and October 29, 2008 a total of \$9,600,827 was loaned to Western Technologies from the 2008 Notes, as evidenced by a series of six journal entries. The Examiner analyzed some of the actual uses of the \$9,600,827 as follows:

(1) Loan of \$2,400,827

Between September 4, 2008 and September 19, 2008, \$2,400,827 was loaned to Western Technologies. \$1,646,189.50 of this money was described as funds transferred through “Western Tech to gcc.” The remaining funds were described as funds transferred/loaned to Western Technologies from the 2008 Notes. The funds passed through Western Technologies’ account. A chart detailing the cash flow of the \$2,400,827 is appended as Exhibit 5. Below is a description of some of uses of this money.

Of the \$2,400,827, a total of \$875,000 was transferred from Western Technologies to DRR on September 5, 2008. On the same day, money was transferred through various DBSI Inc. accounts and \$875,000 was deposited in the DBSI Inc. Operating Account.

⁹⁷ Western Technologies LLC Loan Approval Committee packet dated August 28, 2008 and approved September 2, 2008.

The remaining \$1,525,827 was transferred to GCC. Of that amount, \$941,982 paid GCC investors. \$350,000 was transferred through DRR to GigOptix. Other funds were reinvested by GCC investors in the 2008 Notes.

(2) Loan of \$7,200,000

On October 29, 2008, \$7,200,000 was transferred from the 2008 Notes to DBSI Inc. The entry for that transfer stated: “fnds from 08 notes to pydwn drr” and the notes to the entry state “fnds from 08 notes to Inc”.⁹⁸ A chart detailing the cash flow of the \$7,200,000 loaned to Western Technologies is appended as Exhibit 6. Below is a description of some of uses of this money.

Based on the Examiner’s analysis of the actual uses of the \$7,200,000, the money never went to Western Technologies. Rather, on October 29, 2008, it was transferred to the DBSI Inc. operating account. On the same and the following day, \$2,385,241 was swept into the TIC Operating Expenses account. From the \$7,200,000, an additional \$4,808,262.79 was transferred to the DBSI Inc. M&I Bank Operating account.

From the funds placed into the M&I account, a variety of legal fees were paid. Additional sums were transferred to GigOptix and Kastera. \$3,714,660.57 of the funds were transferred back to 2008 Notes and then redistributed. \$2,105,672 of that redistribution from 2008 Notes Corp. was transferred back to DBSI Inc. to pay additional legal fees and salaries on November 7, 2008, mere days before the Petition Date.

⁹⁸ The description for the transaction stated: “(fnds from 08 ntes to inc) fnds frm 08 ntes to Inc thru d westec n drr-though 08 notes gives fund to Inc, its going thru dwestec fr drr, as 08 notes gvng to dwestec to pydwn dwestec-drr payable, then drr pys dwn pyble to Inc.”

3. \$4,460,939 from 2008 Notes Corp. Booked as a Loan to FOR 1031

a. \$4,460,939 Loan Approval Documents

Among the intercompany transfers from the 2008 Notes was \$4,460,939, which was booked as a loan to FOR 1031.

The Loan Committee records document the approval of a loan to FOR 1031 on April 18, 2008. The records include a Promissory Note and a Pledge Agreement containing a schedule purporting to show that, on April 18, 2008, FOR 1031 borrowed the \$4,460,939 from the 2008 Notes using as collateral its 1% interest in 109 TIC properties. The loan committee records also reflect that this loan amount had an 85% LTV ratio by calculating 85% of the original TIC Sales Price (net of Accountable Reserves and debt).

The 1% interest in TIC properties that was used as collateral for the \$4,460, 939 loan was the retained ownership interest in real estate projects that were sold to TIC investors between 2003 and 2006. The Loan Committee records reflect no evaluation of the current worth of the 109 properties. There was also no evaluation as to whether the individual properties were performing and whether the residual 1% interest held by FOR 1031 had any value. Douglas Swenson signed the promissory note and pledge agreement on behalf of FOR 1031 LLC as its manager. He also signed the pledge agreement on behalf of the LLC that owned the 1% interest in the individual TIC properties. Further, he signed the pledge agreement for the secured party, DBSI 2008 Notes Corp., as its President.

b. Uses of \$4,460,939 of 2008 Notes Proceeds Loaned to FOR 1031

The Examiner analyzed the use of the \$4,460,929 in 2008 Notes Proceeds and determined that the money never went to FOR 1031. Rather, it was transferred to an account in the name of DBSI Properties, Inc. As summarized in the chart attached as Exhibit 7, the money then was transferred from the DBSI Properties Inc. account to “TIC Securities,” for use as “DBSI Closing and Broker Expenses,” and to the “TIC MM” and “DBSI Housing Inc. Operations” account. Some of the funds were used for commission and payroll expense.

4. \$18,700,002 in 2008 Notes Proceeds Loaned in Connection with the
“Riverview” Project

In September 2008, \$18,700,002 from the 2008 Notes was loaned in connection with the purchase of three contiguous parcels of unimproved land called the “Riverview” property. The \$18,700,002 was disbursed by 2008 Notes in three separate loans to three DBSI subsidiary LLCs (DBSI Villages of Riverview LLC, DBSI Villages of Riverview II LLC, and DBSI Villages of Riverview III LLC) for the purpose of acquiring the property.⁹⁹ Although the actual purchase price of the property was approximately 2/3 of the total loan amount, the loan was justified as conforming to the 85% LTV ratio required by the 2008 Notes Corp. PPM. This LTV ratio was based on an appraisal of the property obtained by DBSI.

The full amount of the three loans, \$18,700,002, was disbursed into a DBSI Inc. “Properties Operating” bank account at M&I Bank, and promissory notes secured by mortgages for the full amount of the loan were executed by the three LLCs and recorded. However, the full

⁹⁹ The amounts of the three separate loans were \$6,348,246, \$6,229,142, and \$6,122,612.

purchase price for the property was \$12,000,000, and only that amount was used to acquire the property. The remaining funds, totaling \$6,700,002, remained in the “Properties Operating” account, which is an unsegregated cash account.

a. \$6,700,002 of the Riverview Loan Proceeds Used for DBSI Inc.

Operations

On September 10, 2008, two days after the purchase of the Riverview properties, \$6,122,612 – an amount precisely equaling one of the three loans to the subsidiary LLCs – was transferred to a “TIC Liquid Reserve” bank account held by DBSI Inc. Both the DBSI Inc. “Properties Operating” and “TIC Liquid Reserve” bank accounts are tied to the Debtor’s general ledger account #14000, which is also called a “liquid reserve” account.¹⁰⁰ This account had a zero balance when the remaining 2008 Notes Proceeds were deposited. Over the course of September 2008, the balance of that account again dwindled to zero as cash was disbursed to fund a variety of business expenses, including funding other property acquisitions, repaying investors in prior years’ Notes corporations, and funding business expenses that the Examiner is still in the process of identifying. The description of these transfers in company accounting records was not always complete or accurate, which significantly complicated the Examiner’s analysis. A spreadsheet detailing the use of these funds as currently known to the Examiner is attached as Exhibit 8. Below is further analysis of the subsequent uses of 2008 Notes Proceeds borrowed in connection with the Riverview property after the funds were transferred to the “Properties Operating” and “TIC Liquid Reserve” bank accounts:

¹⁰⁰ Because the two bank accounts are tied to the single GL account, there is no ledger entry accompanying this transfer of funds.

(1) Use of \$1,231,527.50 to Repay Prior Investors

On September 15, 2008, \$1,231,527.50 of the \$6,122,612 was transferred into the DBSI Inc. Operating Account, GL #11500. At the same time, Debtor's TIC Liquid Reserve bank account was credited in the same amount.

Reported: The records state that the transfer was "to cover outgoing interest payments."

Analyzed Use: Prior to this transfer, the DBSI Inc. GL account #11500 reflected a negative cash balance. The initial transfer of funds covered this negative balance. The remaining money was used by DBSI Inc. to repay the 2005, 2006, and 2008 Notes Corps, which in turn appear to have used the funds to make investor interest payments. For instance:

- 2005 Notes
 - \$265,660.03 was described as "pay-down pristine int to 05 notes"
- 2006 Notes
 - \$321,256.24 was described as "pay-down kastera inv int on 06 notes"
- 2008 Notes
 - \$150,000 was described as "Oakridge int pay-down by inc thru prop"
 - \$100,000 was described as "Spectrus Inv int pay-down by inc thru prop"
 - \$207,224.50 was described as "Stellar int pay-down by inc thru drr"

In each case, the general ledgers of the respective Notes Corporations reflect these sums being received, and then disbursed in smaller amounts described as “bond payments” to various persons and entities. The recipients of these payments were identified in the ledger entries and appear to be investors in the respective Notes Corporations.

(2) Transfer of \$2,952,000 to “Liquid Reserves”

On September 16 and 17, 2008, \$2,952,000 of the \$6,122,612 was transferred from DBSI Properties’ GL Operating Account to DBSI Inc.’s #11500 GL Operating Account.

Reported: \$2,402,000 was described as “funds transfer,” and \$550,000 was described as “transfer to cover outgoing wire.”

Analyzed Use: After being transferred to DBSI, Inc.’s operating account, the funds were transferred on the same day to DBSI, Inc.’s liquid reserve account, #14000. From there, the funds were transferred to DBSI, Inc.’s cash clearing account, GL #14500, where the funds were commingled with funds from both Debtor and non-Debtor cash accounts.

Once in the cash clearing account and commingled with other funds, these 2008 loan proceeds were used to pay DBSI operating expenses. DBSI maintained over 700 cash accounts that were operated on a zero-balance or positive-pay cash management system, described *supra* at note 96. In DBSI’s case, these accounts included TIC entity, corporate, and bond-holder note accounts, among many others.

(3) Transfer of \$1,671,826.19 to a General Operating Account

On September 18, 19, and 23, 2008, the \$6,122,612 further funded three transfers totaling \$1,671,826.19 from the DBSI Properties GL operating account to the DBSI Inc. operating account.

Reported Use: Each of the three transfers was described as a “funds transfer.”

Analyzed Use: Following these three transfers, there were seventeen separate disbursements from the DBSI Inc. operating account for expenses, which were generally indicated in the journal entry description. These fund uses are fully identified in Exhibit 8, but some examples of the more significant amounts are as follows:

- \$383,890 was used by DBSI Inc. to pay insurance premiums;
- \$360,000 was used as earnest money in connection with other property acquisitions;
- \$350,000 was transferred to the DBSI Inc. cash clearing account; and
- \$125,000 was transferred to DBSI Realty’s GL #11500 “Operating Account” and was described as “to cover an overdraft.”

The remaining \$577,390 was never transferred out of the DBSI Inc. “Properties Operating” bank account into which the loan proceeds were initially deposited. Instead, these funds were consumed by operating expenses of DBSI Properties, Inc.

An e-mail (Exhibit 9) dated September 5, 2008, which was near the time of the Riverview acquisition and shortly before the Petition Date, sheds some light on the inner workings and cash flow difficulties of the company, and reflects the extent to which the Company relied on Note proceeds to fund the ongoing operations of the Company. This e-mail, which was written by Duckett, DDRS's Vice President of Finance and Accounting, to Jeremy Swenson, David Swenson, Bringham, Cole, and Douglas Swenson, reflects various anticipated uses of money from the 2008 Notes in September, including "GCC redemptions" and "to payoff GCC." It also notes that the "Villages at Ridgeview" (believed to be a reference to the Villages of Riverview) was moved to a September closing date. In connection with demands on the 2008 Notes funds, Duckett projected the 2008 Notes to have a negative balance by the end of September, which he proposed remedying by "[moving] collateral between different notes." However, he anticipated a "challenge" in late October when he predicted the company's working capital needs would outstrip by a significant margin the availability of Notes money.¹⁰¹

VIII. AVAILABILITY AND ALLOCATION OF FUNDING FOR THE EXAMINATION

As of the filing of this Interim Report, and although several fee requests have been filed with the Court, neither the Examiner nor any of his retained professionals have been paid for the substantial services rendered and costs incurred to date or reimbursed for the significant travel and other expenses they have incurred. As of the filing of this Interim Report, the Examiner and his retained professionals have requested total compensation and reimbursement of expenses in

¹⁰¹ Duckett wrote, "The challenge comes in late October when there is projected to be only around 6 million of total note availability with 7 million of collateral and approximately 10 million of working capital needed." (See Exh. 9)

the approximate amount of \$950,000. The Examiner and his retained professionals will shortly be filing their July compensation and expense requests.

For the first two months of the Examination, the Examiner and his retained professionals have requested approximately \$890,000 in fees and approximately \$60,000 in expenses. In his work plan and budget, the Examiner projected that the fees and expenses incurred during the first two months of the Examination would be \$1,072,000 and \$125,000, respectively. Accordingly, the Examiner was approximately \$180,000 under his fee estimate and \$65,000 under his expense budget for the first two months. Please note that these figures do not include April fees and expenses for the Examiner and HFC, which were incurred in preparing the work plan and budget and were not included in the Investigation budget.

Although final numbers are not yet available for July, fees and expenses will exceed what was budgeted. There are several reasons why. The Examiner and his retained professionals spent significant time and incurred expenses to prepare and write this Interim Report, which was not contemplated in the original work plan and budget. Furthermore, the analysis of the Debtors' complex accounting entries proved difficult and required peeling away layers of accounting transactions. In addition, the Examiner and his professionals spent significant time and incurred expenses preparing for and traveling to Boise, Idaho for the cancelled interview of Douglas Swenson and the motions practice associated with this.

There are two primary reasons why the Examiner has not been paid to date. First, the Committee has filed its Omnibus Limited Objection and Reservation of Rights to Applications for Compensation and Reimbursement of Expenses of the Examiner's Professionals (the "Committee Objection"). The Committee Objection asserts that no fees or reimbursement of

expenses should be paid to the Examiner and his professionals unless and until the Examiner recommends a procedure by which the costs of the Examination may be allocated among the respective Debtors.

Second, the Committee has advised the Examiner that it has demanded that the Debtors cease all payments to non-Ordinary course professionals pending a further overall agreement regarding the allocation of the administrative expenses of these cases. The Committee made this demand after learning of certain post-petition transfers of funds from certain Debtors largely to fund administrative expenses, but without attempting to determine the overall status of payments to professionals. This demand by the Committee has had the perverse effect of causing wide disparities in the compensation paid to professionals to date, with the Debtors' professionals having been paid, by far, the highest percentages of compensation requested.

Based upon the information learned by the Examiner to date, the pattern and practice of the Debtors prior to bankruptcy was to use money from any available source to fund their operations and obligations and to create after-the-fact ledger entries to justify their uses of funds in this manner. Funds were commingled and used without regard to their sources or intended purposes. Therefore, it will be difficult, and likely cost-prohibitive, to allocate and separately account for uses of funds by and among Tenant-in-Common Investors and Bond and Note Investors.

IX. CONCLUSION

The Examiner believes that the findings set forth herein are material, and that they may affect the future course of these Chapter 11 proceedings and the Court's judgment with respect to the continued role of the Examiner. Moreover, given certain of the findings herein, the Examiner

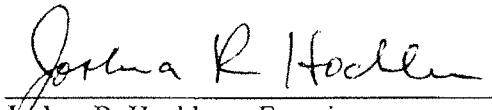
recommends refocusing his Examination on areas of greatest value to the Debtors and their Estates. Accordingly, the Examiner recommends that the Court and parties-in-interest consider the Examiner's proposal herein for work to be completed and undertaken.

The Examiner is concerned that significant time, expense and effort will go to waste if he does not complete the Investigation as set forth in Section V(B) above. The Examiner believes that he should continue his Investigation as set forth therein because the proposed areas of examination are important, will add value to the Estates, and will optimize the value of the work already done. The Examiner has consulted and will continue to consult with parties-in-interest. For now, the Examiner is continuing his efforts, but awaits further developments and the Court's instructions.

[SIGNATURES ON NEXT PAGE]

Respectfully Submitted,

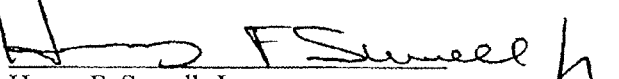
Dated: August 3, 2009
Wilmington, Delaware



Joshua R. Hochberg, Examiner
MCKENNA LONG & ALDRIDGE LLP
1900 K Street, NW
Washington, DC 20006-1108
Telephone: (202) 496-7500
Facsimile: (202) 496-7756

Court Appointed Examiner

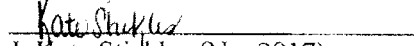
MCKENNA LONG & ALDRIDGE LLP



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-and-

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FORMAN & LEONARD, P.A.


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Telephone: (302) 652-3131
Facsimile: (302) 652-3117
kstickles@coleschotz.com

Counsel to the Examiner

Appendix 1

Exhibits to Interim Report

Exhibit	Description
1	History of DBSI Redemption Reserve Fund
2	DBSI 2008 Notes Corporation Confidential Private Placement Memorandum, dated February 6, 2008
3	Sources and Uses of Funds Booked through DBSI 2008 Notes Corporation
4A	Analysis of 2008 Notes Corporation Loan to Stellar
4B	Analysis of 2008 Notes Corporation Loan to Stellar
5	Analysis of 2008 Notes Corporation Loan of \$9,600,827.89 to Western Technologies
6	Analysis of 2008 Notes Corporation Loan of \$7,200,000 to Western Technologies
7	Analysis of 2008 Notes Corporation Loan of \$4,460,939.00 Secured by For 1031's 1% Interest in 109 TIC Properties
8	Uses of \$18,700,002 in 2008 Notes Proceeds Loaned in Connection with Villages of Riverview Project
9	E-mail dated September 5, 2008 from M. Duckett to Jeremy Swenson, David Swenson, Gary Bringham, Paris Cole, and Douglas Swenson regarding Cash Sheet

Appendix 2

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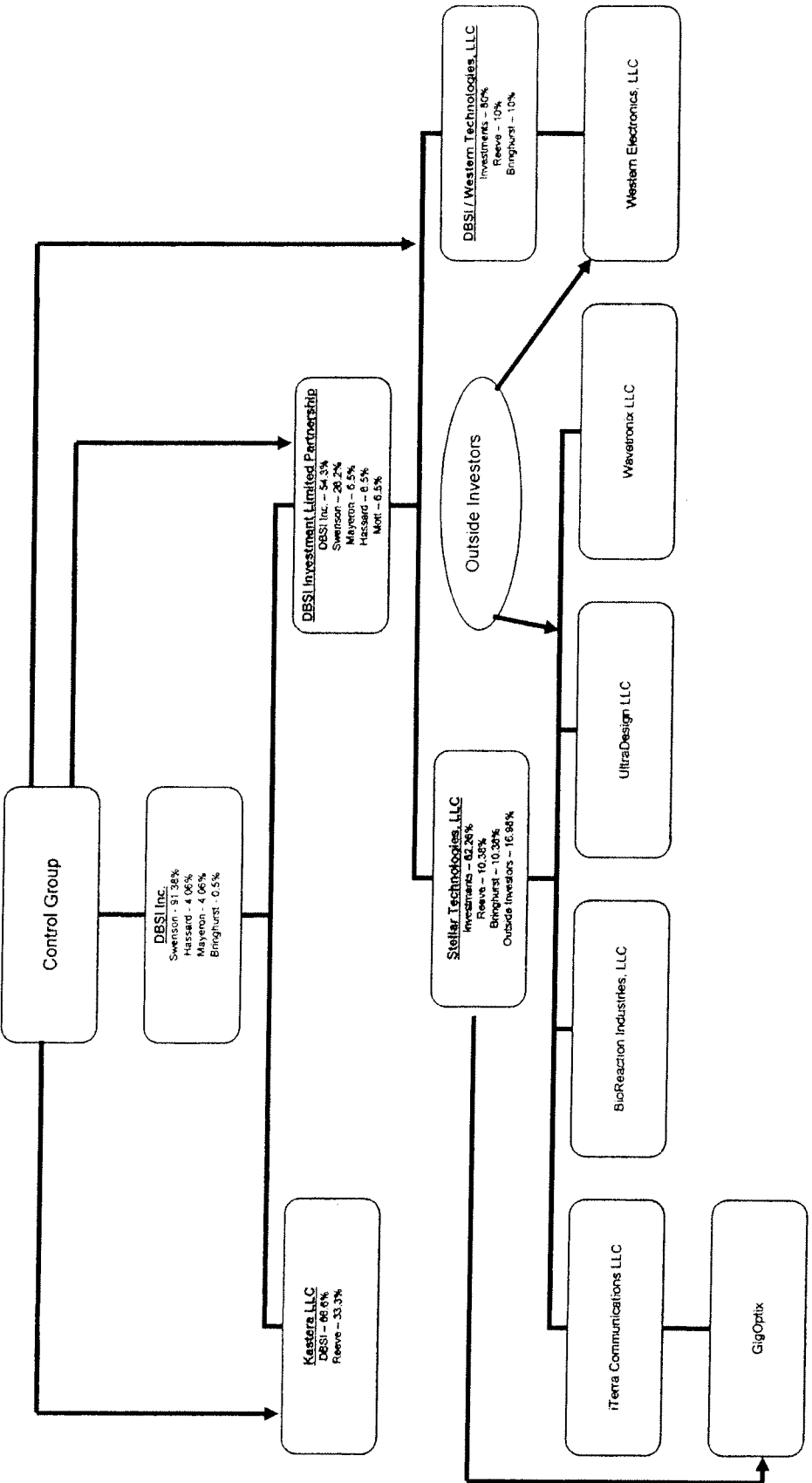
graph TD
    CG[Control Group] --> DBSISec[DBSI Securities Corporation]
    CG --> DBSIInc[DBSI Inc.]
    CG --> DBSIR[DBSI Redemption Reserve  
(Legal Relationship Unknown)]
    DBSIInc --> DCJ[DCJ Inc.]
    DBSIInc --> DBSIInvLP[DBSI Investment Limited Partnership]
    DBSIInc --> DBSIProp[DBSI Properties, Inc.]
    DBSIInc --> DBSIML[DBSI Master Leasco, Inc.]
    DBSIInc --> Spectrum[ Spectrum Real Estate, Inc.]
    DBSIInc --> DBSIDev[DBSI Development Services, LLC]
    DBSIInc --> DBSIRealty[DBSI Realty, Inc.]
    DBSIInc --> Kastera[Kastera LLC]
    DBSIInvLP --> DBSIWTL[DBSI / Western Technologies, LLC]
    DBSIInvLP --> Stellar[Stellar Technologies, LLC]
    Stellar --> iTerra[iTerra Communications LLC]
    Stellar --> BioReaction[BioReaction Industries, LLC]
    Stellar --> UltraDesign[UltraDesign LLC]
    Stellar --> Wavetronix[Wavetronix LLC]
    Stellar --> WesternElectronics[Western Electronics, LLC]
    DBSIRealty --> DBSIDiscovery[DBSI Discovery Real Estate Services LLC]
    DBSIDev --> DBSILand[DBSI Land Development LLC]
    DBSIProp --> For1031[For 1031 LLC]
    DBSIML --> For1031
    DBSISec --> DBSIR
    Kastera --> GigOptix
  
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CONTROL GROUP:
 Douglas Swenson
 Charles Hassard
 John Mayeron
 T. Var Reeve
 Gary Brindhurst

2A

- Douglas Swenson
- Charles Hassard
- John Mayeron
- T. Var Reeve
- Gary Bringham
- Walt Mott
- Ferrell Bennett
- John Foster

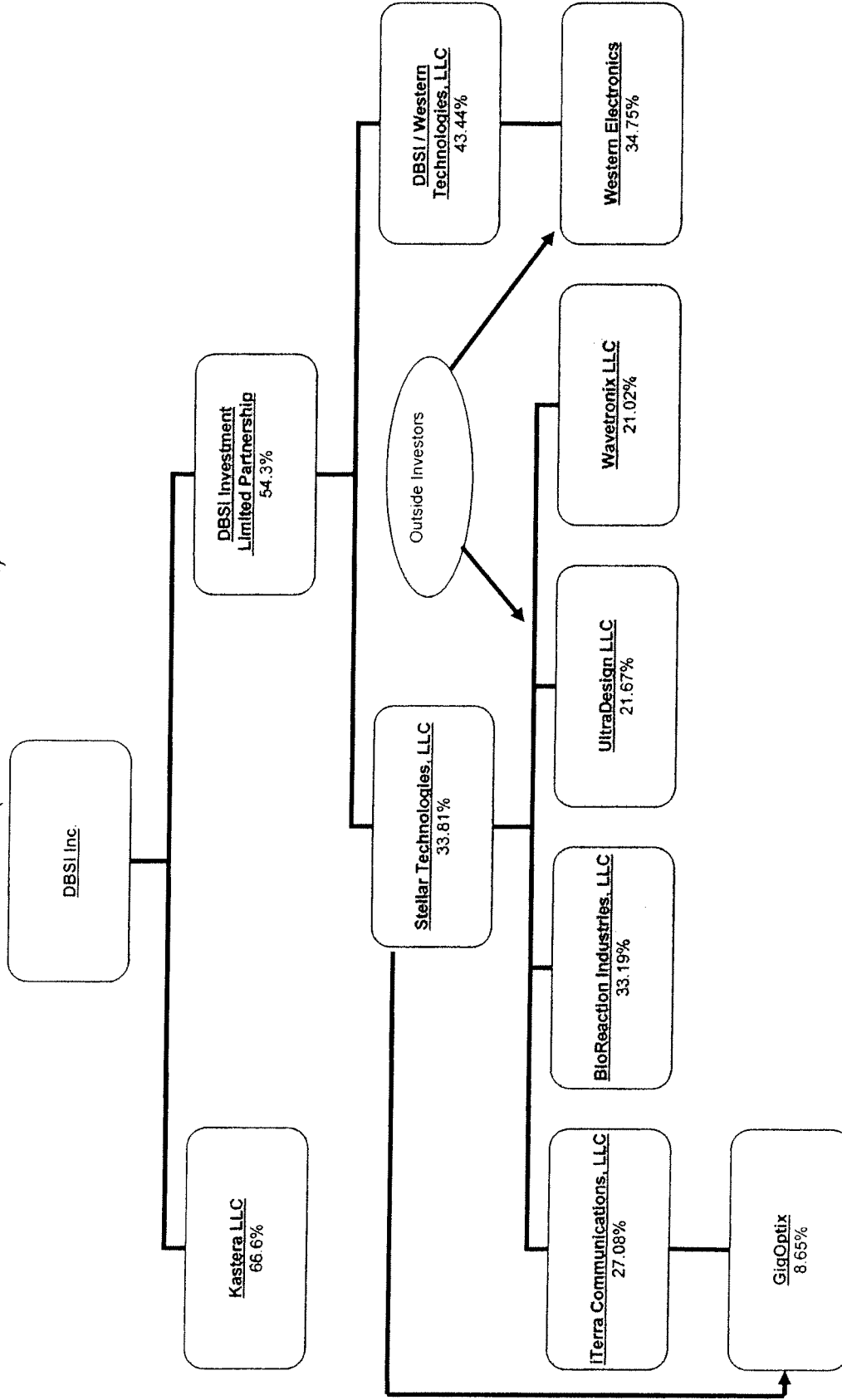
Control Group Ownership of Non-Debtor DBSI Entities (direct and indirect)



CONTROL GROUP:
 Douglas Swenson
 Charles Hassard
 John Mayeron
 T. Var Reeve
 Gary Bringham
 Walt Mott
 Ferrell Bennett
 John Foster

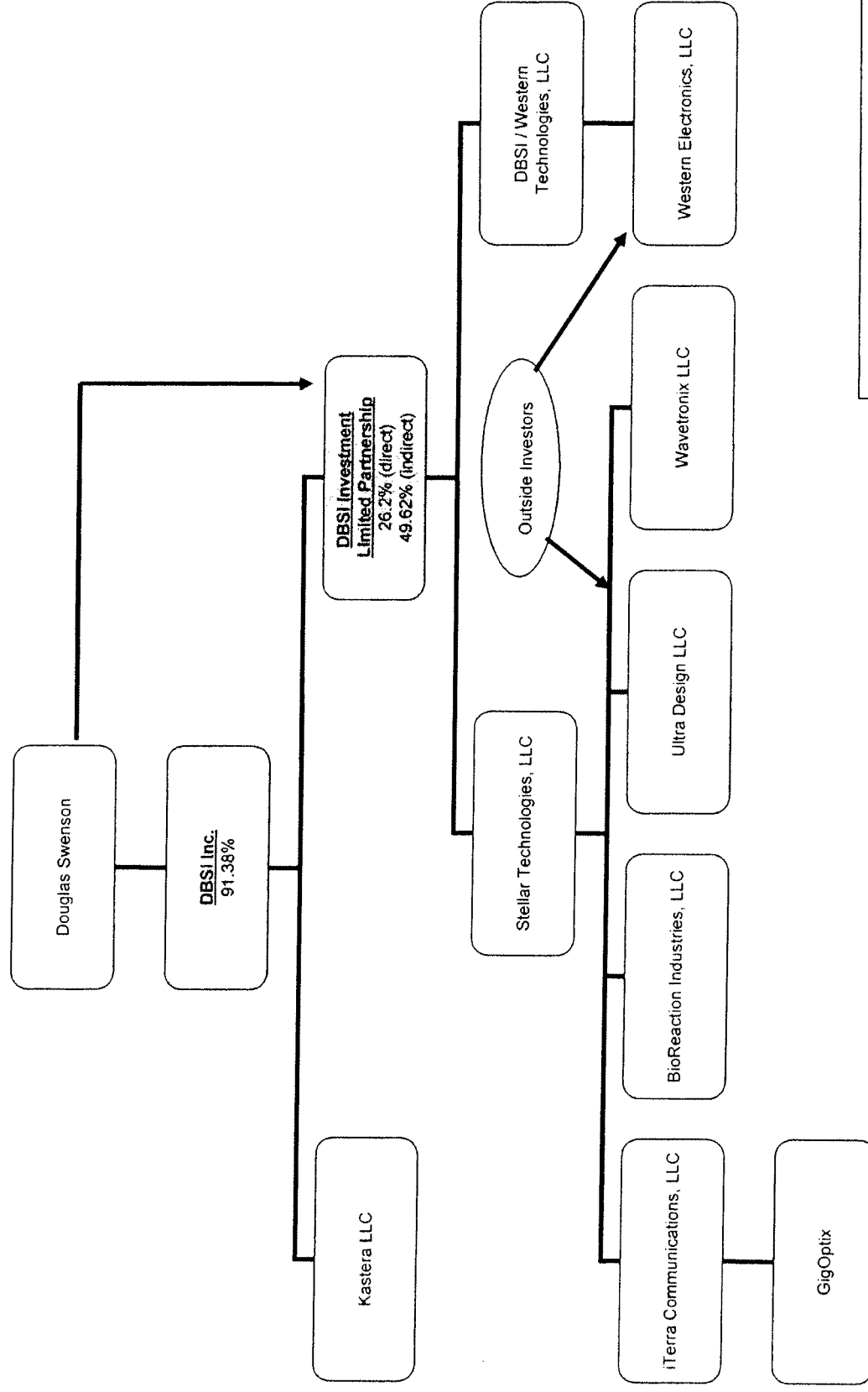
Shaded Areas = Non-Debtor
 Non-Shaded Areas = Debtor

DBSI Inc. Ownership / Control of Non-Debtor Entities (direct and indirect)



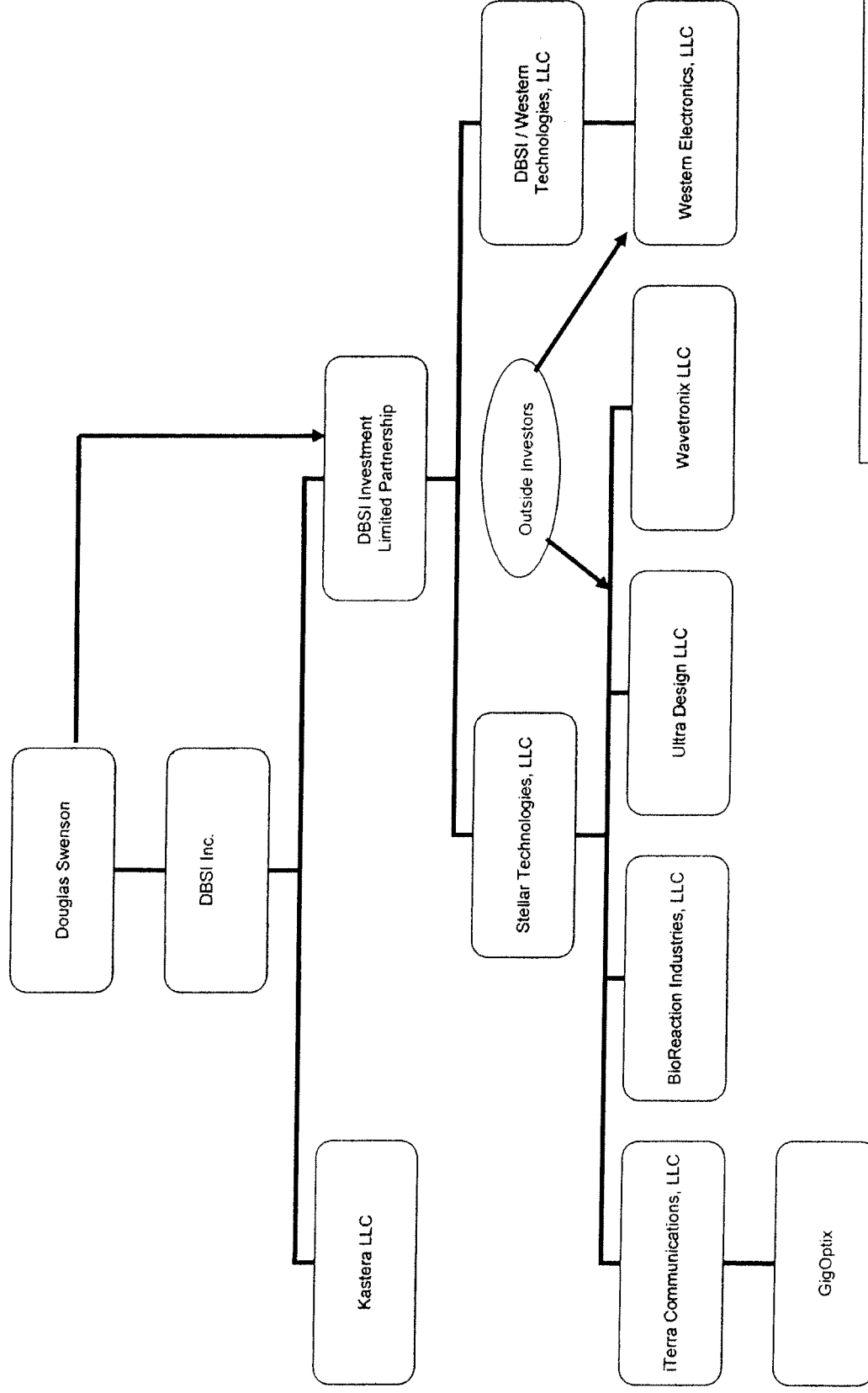
Shaded Areas = Entities Controlled by DBSI, Inc.
Non-Shaded Areas = Entities not Controlled by DBSI, Inc.

Non-Debtor Entities Owned by Douglas Swenson



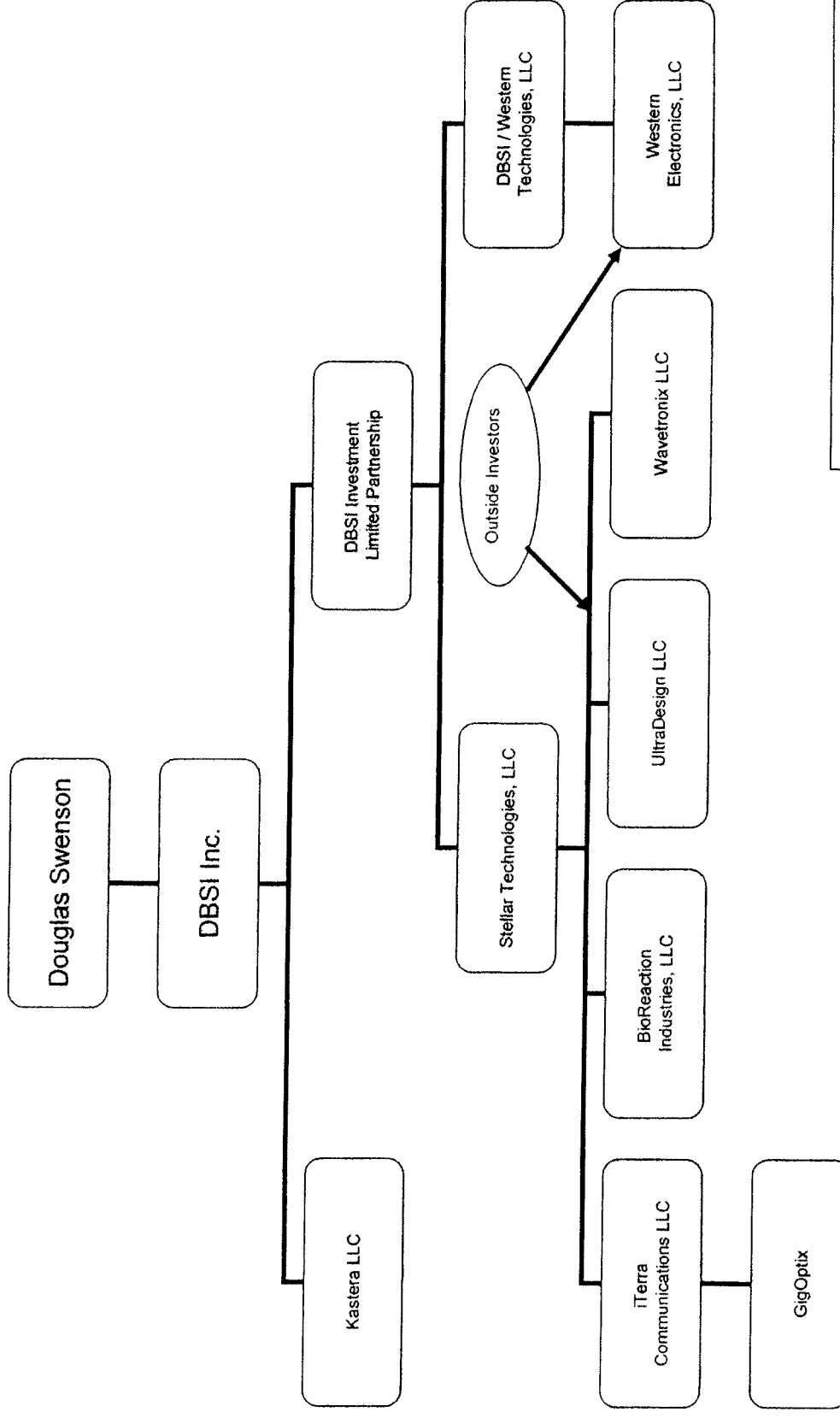
Shaded Areas = Direct Ownership
Non-Shaded Areas = Indirect Ownership

Non-Debtor Entities Controlled by Douglas Swenson

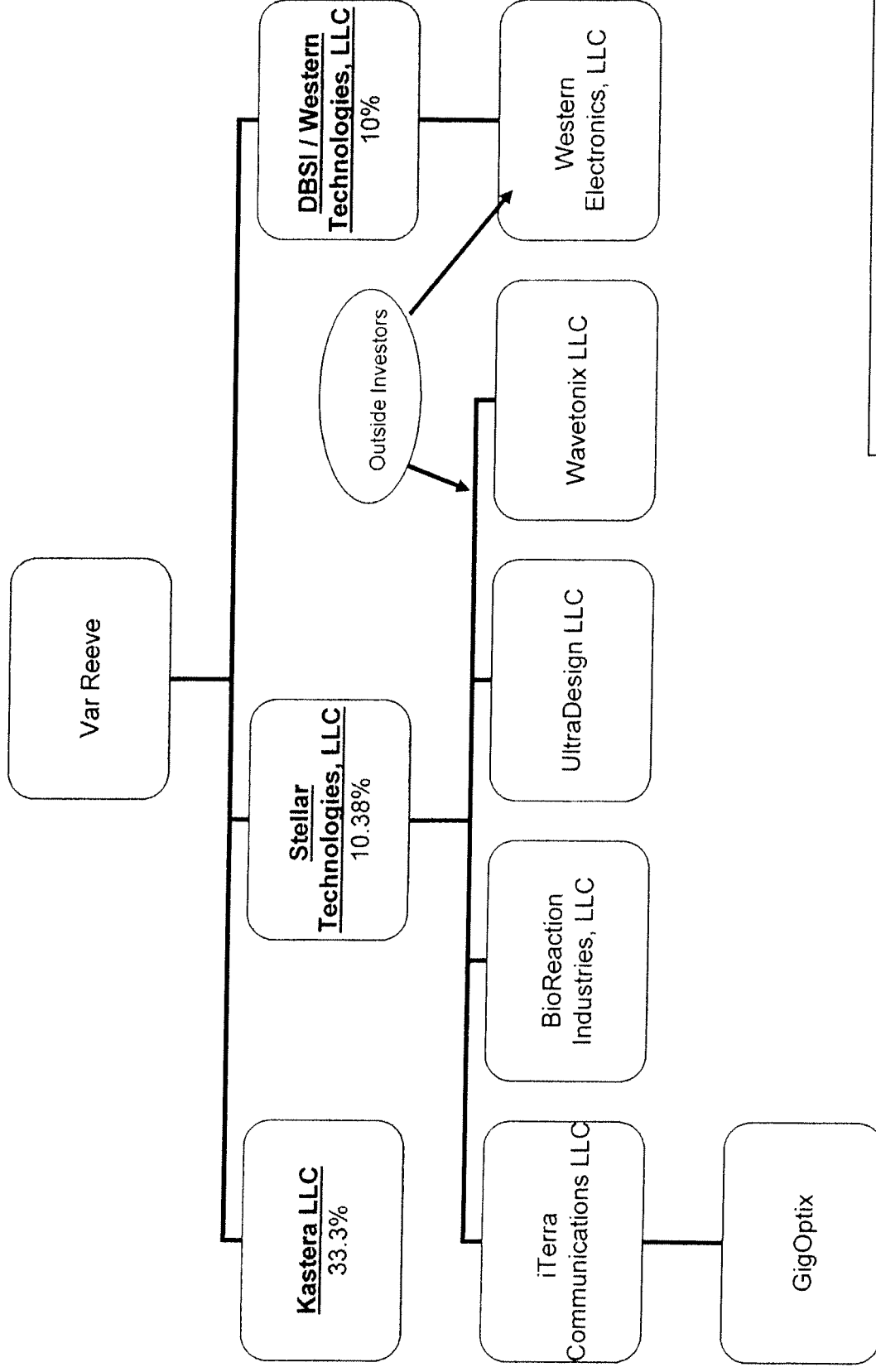


Shaded Areas = Entities Controlled by Douglas Swenson
 Non-Shaded Areas = Entities Not Controlled by Douglas Swenson

Non-Debtor Entities on which Douglas Swenson is on the Board of Directors (or Managers)
(As of the date of the Bankruptcy Filing)

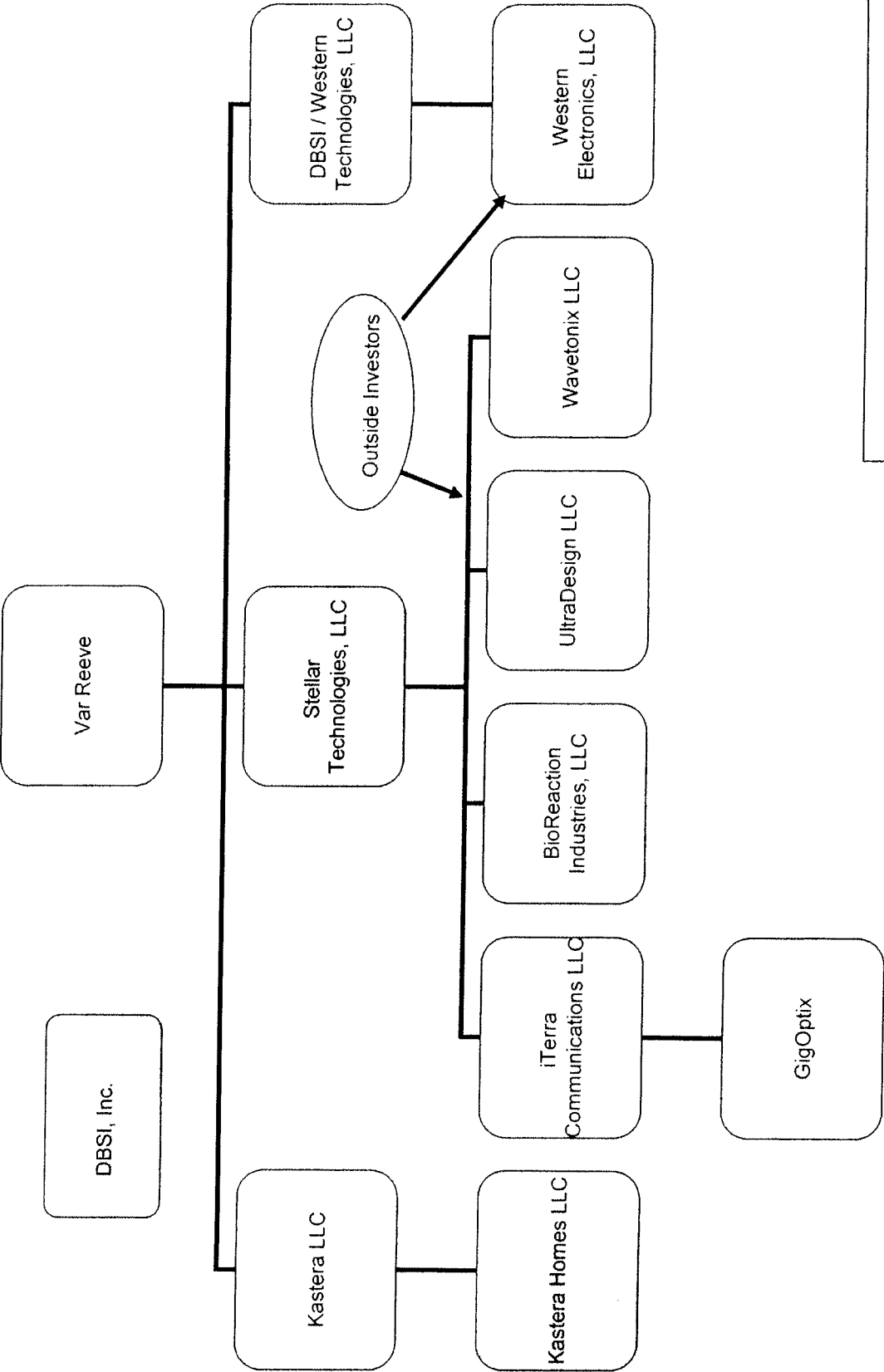


Non-Debtor Entities Owned by Var Reeve



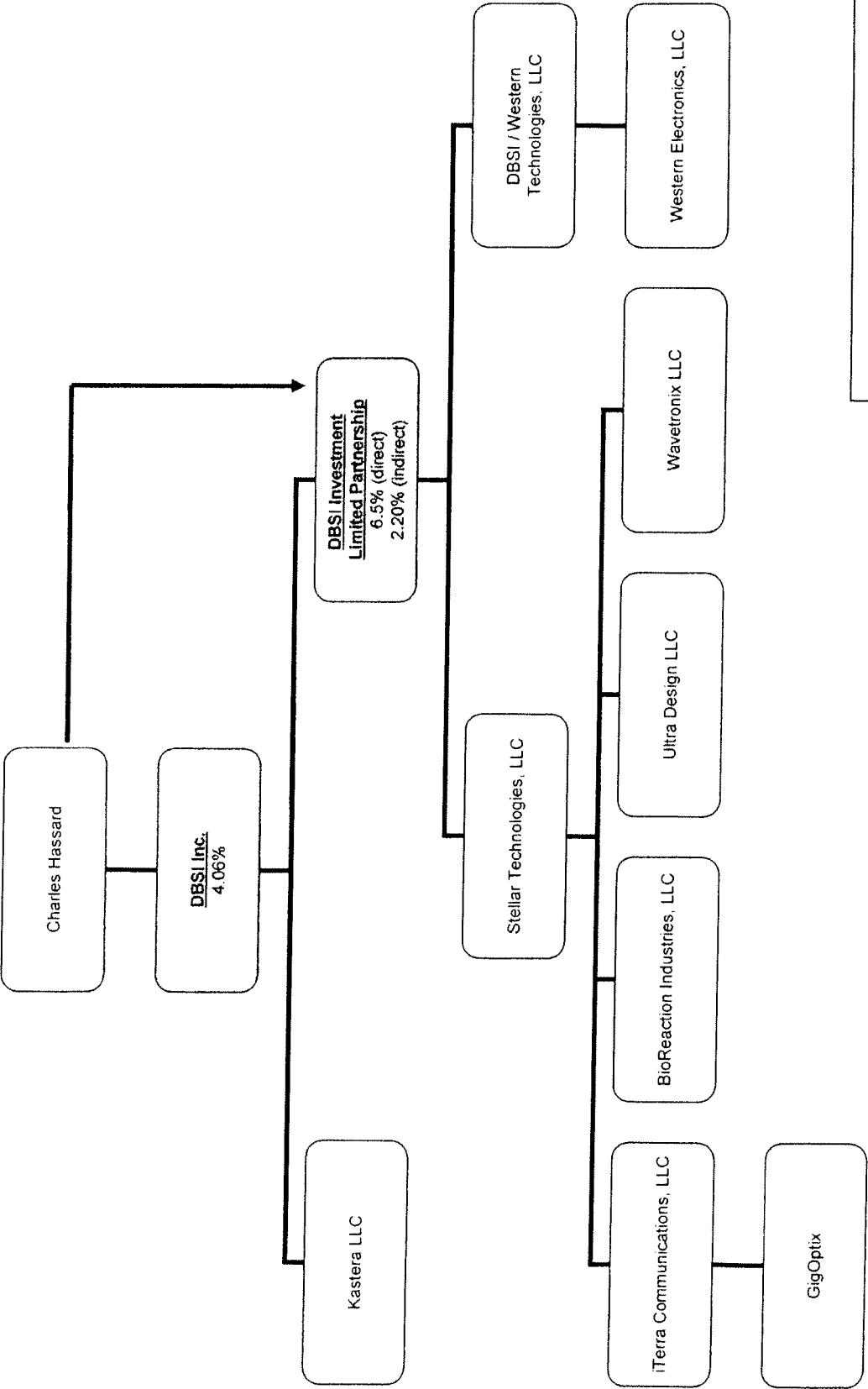
Shaded Areas = Direct Ownership
Non-Shaded Areas = Indirect Ownership

Non-Debtor Entities on which Var Reeve is on the Board of Directors (or Managers)
(as of the date of the Bankruptcy Filing)



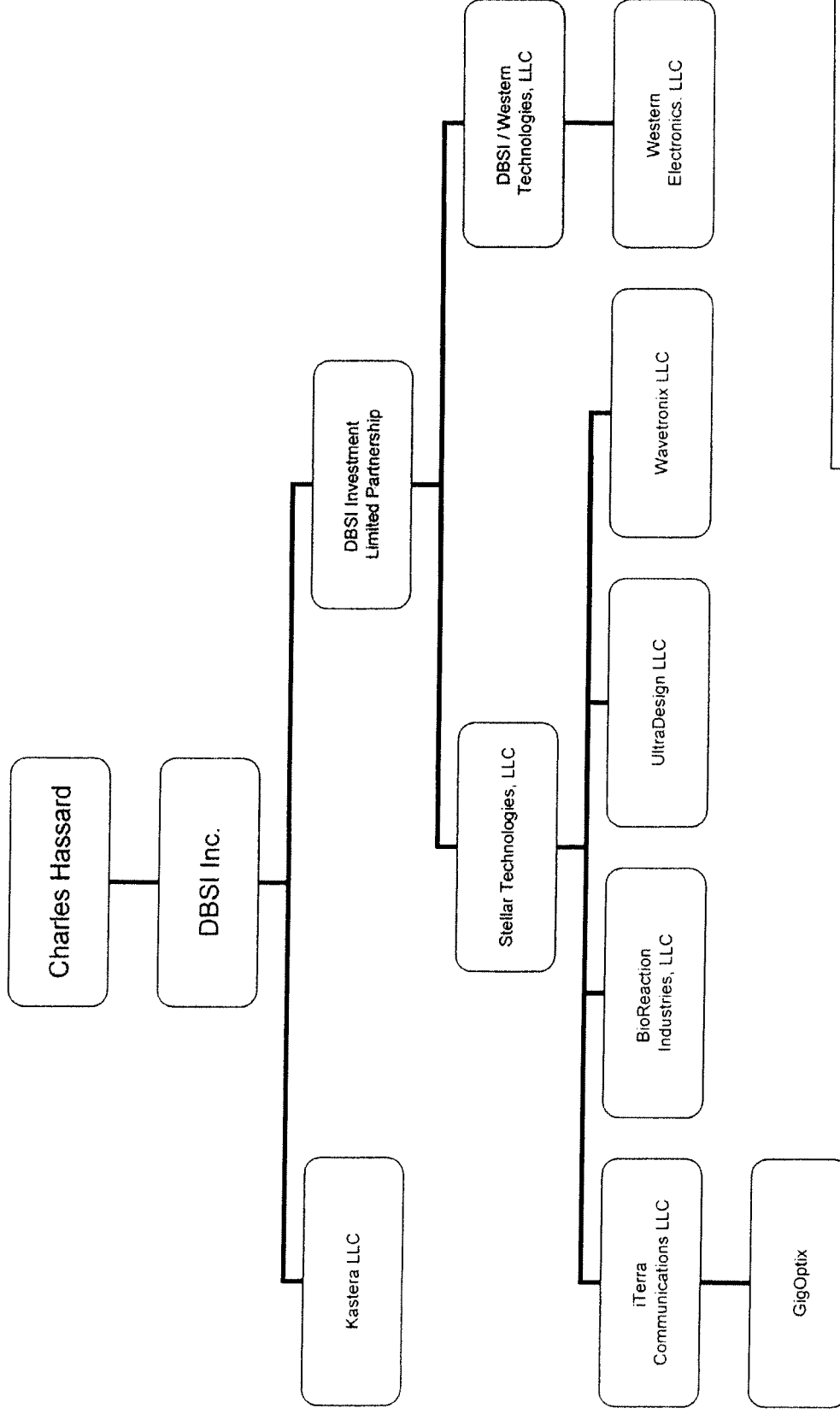
Shaded Areas = Board of Directors
Non-Shaded Areas = Not on Board of Directors

Non-Debtor Entities Owned by Charles Hassard



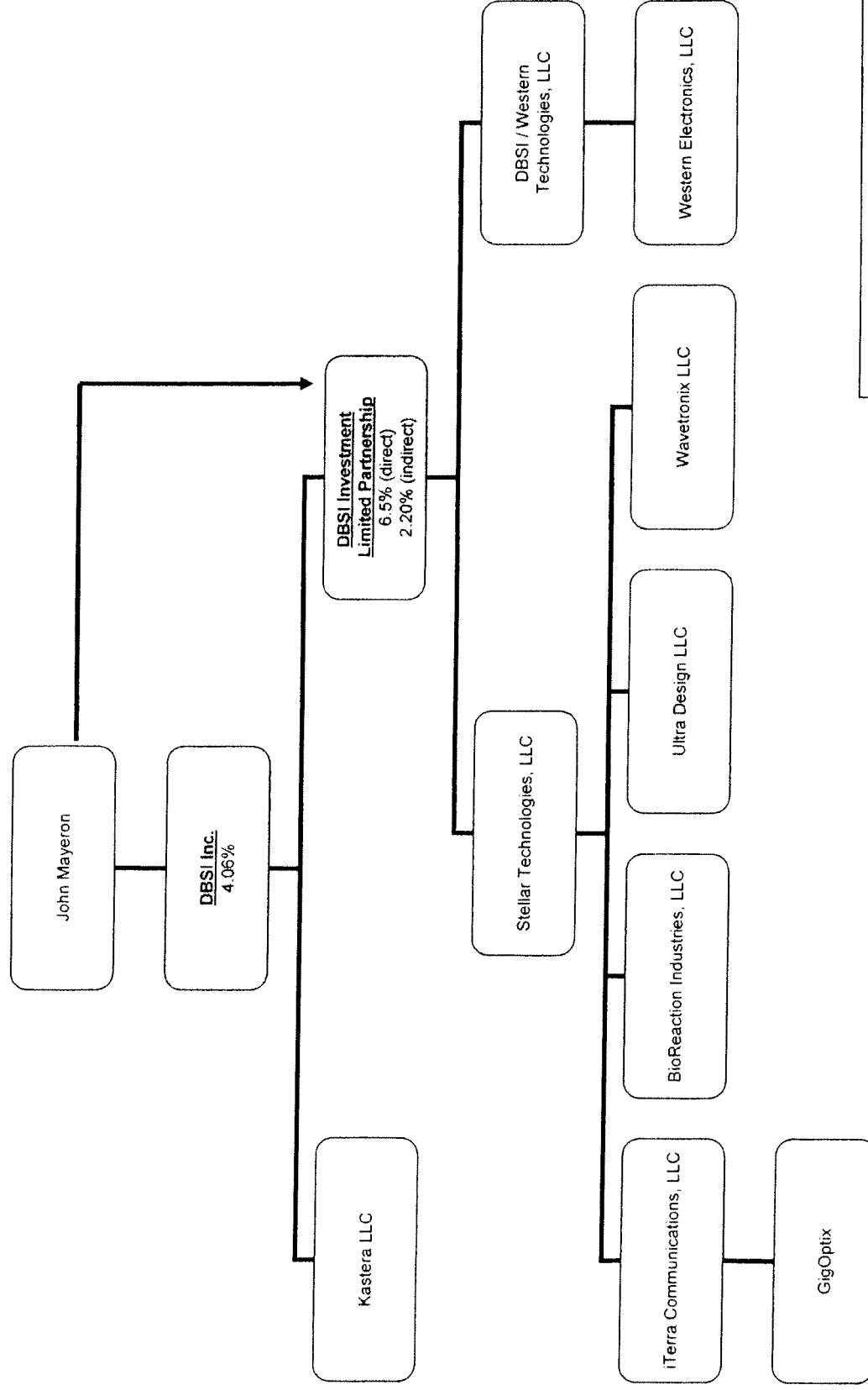
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Non-Shaded Areas = Indirect Ownership

Non-Debtor Entities on which Charles Hassard is on the Board of Directors (or Managers)
(As of the date of the Bankruptcy Filing)



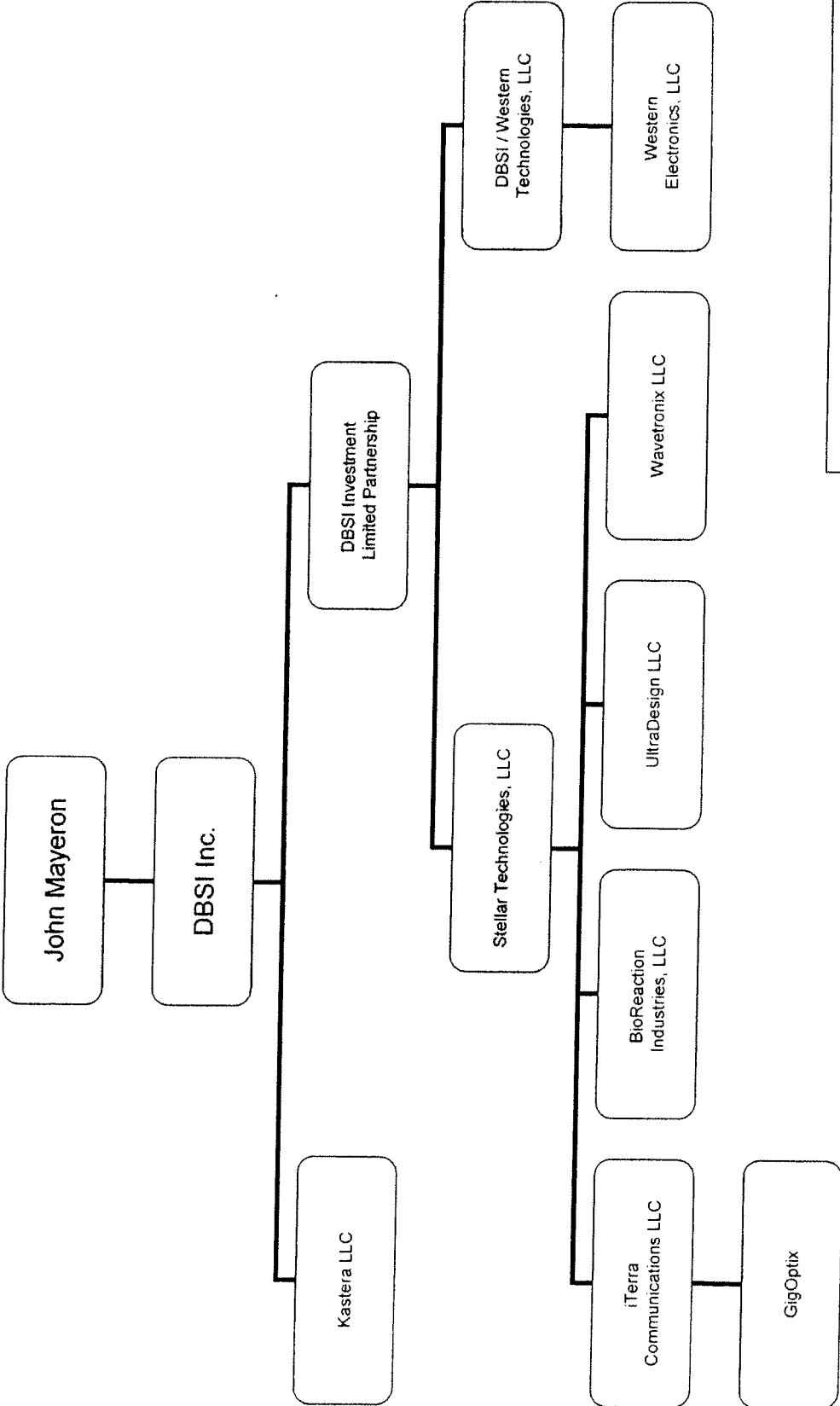
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Non-Shaded Areas = Not on Board of Directors

Non-Debtor Entities Owned by John Mayeron



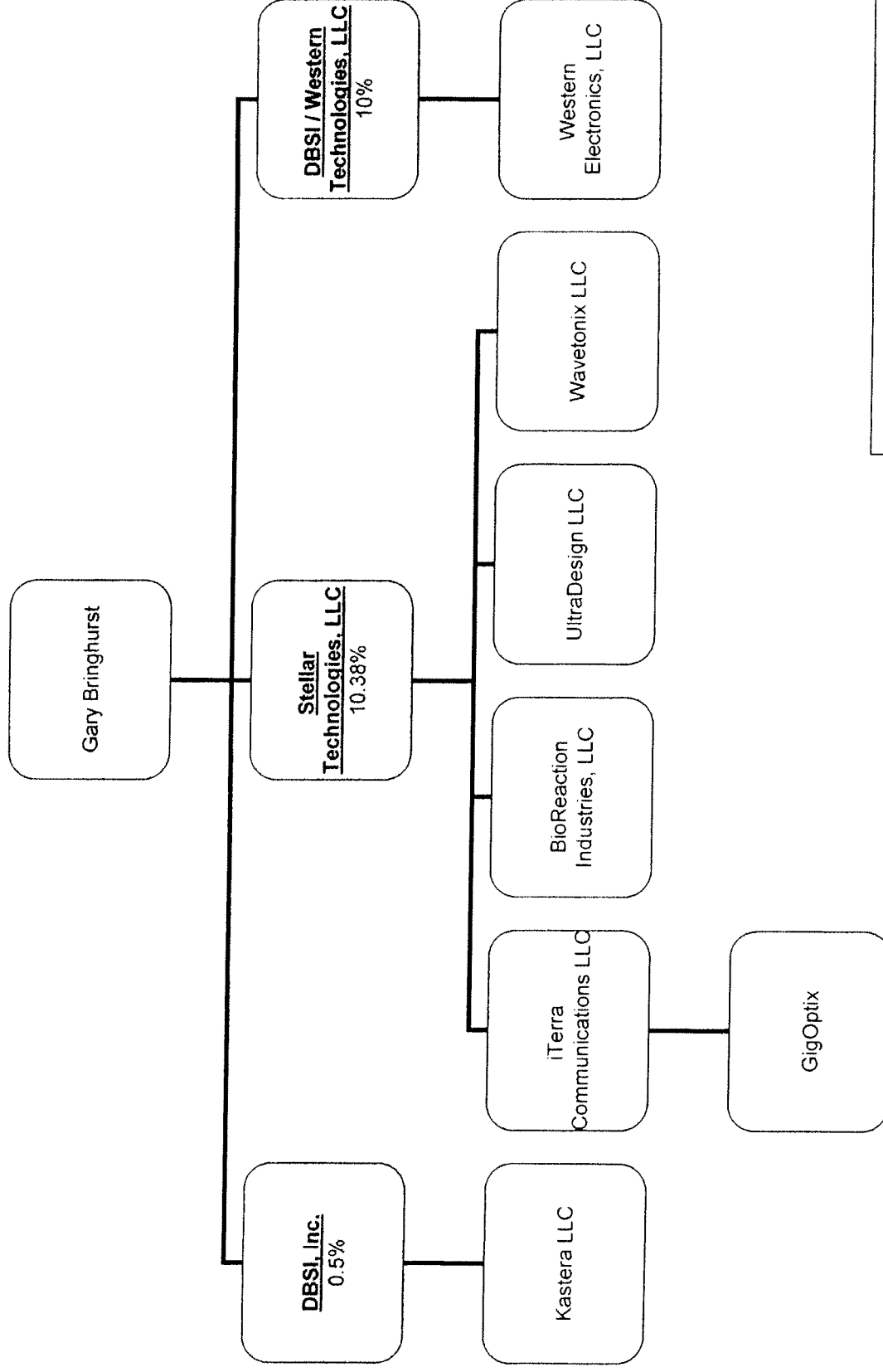
Shaded Areas = Direct Ownership
Non-Shaded Areas = Indirect Ownership

Non-Debtor Entities on which John Mayeron is on the Board of Directors (or Managers)
(As of the date of the Bankruptcy Filing)



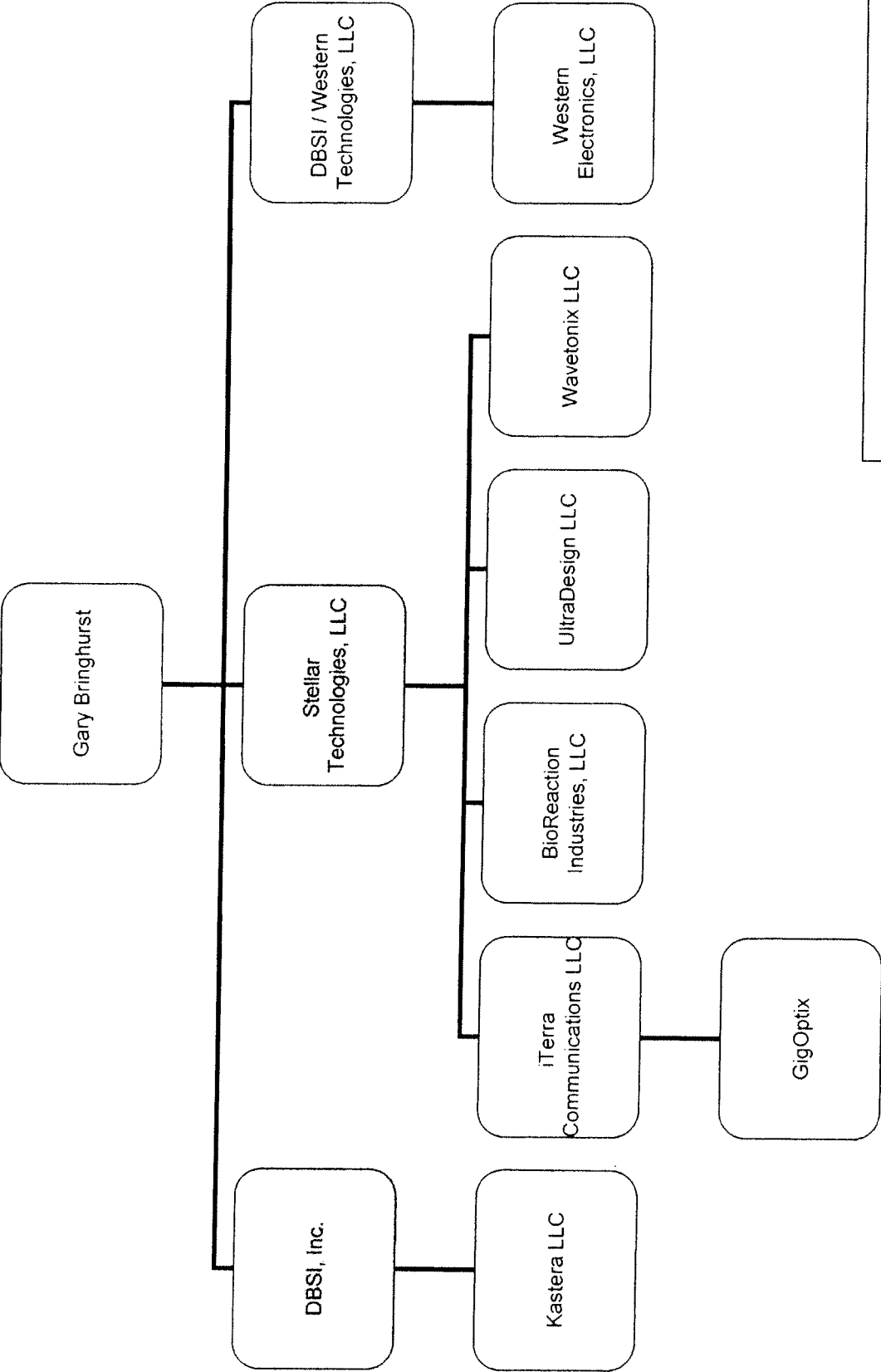
Shaded Areas = Board of Directors
Non-Shaded Areas = Not on Board of Directors

Non-Debtor Entities Owned by Gary Bringhurst



Shaded Areas = Direct Ownership
Non-Shaded Areas = Indirect Ownership

Non-Debtor Entities on which Gary Bringhurst is on the Board of Directors (or Managers)
(as of the date of the Bankruptcy Filing)



Shaded Areas = Board of Directors
Non-Shaded Areas = Not on Board of Directors

Exhibit 1

History of DBSI Redemption Reserve Fund (DRR)

Under the PLP Agreements, the General Partner of the PLP's, DBSI Inc., was to establish Reserves, as it deemed appropriate in its sole judgment, for operations and the eventual redemption of PLP's interests. Funds in fact were established by the PLP's under the name of DBSI Redemption Reserve Fund (DRR) following the first reorganizations of PLP's in 1994. This allowed partnerships who had sales proceeds or other cash available, to invest; and for other DBSI affiliated entities to borrow those funds and provide a return to the investing entities.

Those PLP's which invested their Reserves in the form of line of credit loans were also given partnership interests in DRR, proportionate to their loans to DRR. None of them contributed or were ever distributed any capital to or from DRR. All funds came from loans from PLP's, DBSI or affiliates. This new entity was intended to break even, but consistently has some variable income or loss which is thus allocated to its principal PLP creditors. Since the PLP's allocate incremental income to DBSI Inc., it also allocates the DRR income or loss ultimately to DBSI Inc.

For convenience and ease of accounting, DBSI Inc. has also made loans to its affiliates through DRR. All loans to and from DRR have been tracked as made over the years and reconciled periodically (at least each year end) with the records of the entities borrowing or lending to or from it. At different times, new notes have been written by the borrowers to document their indebtedness, but the principle record is the detailed ledger of loans or borrowings kept by different accounting staff over the years.

History of the DBSI Limited Partnerships (RELP's and PLP's)

According to a 1997 private placement memorandum, DBSI Inc. and its affiliates began offering real estate limited partnership (RELP) interests in 1979. Through 1997 they had held general partner positions in fifty two such partnerships which had invested in over 80 apartment complexes in Idaho, Oregon, Washington, Alaska, Arizona and Utah; ten shopping centers and motels (in Idaho, Montana and Utah); one office building (in Idaho); and one unimproved land investment (in Idaho). The aggregate purchase price of the properties was approximately \$161,000,000, and the capital invested was approximately \$63,000,000.

By 1994, these RELP properties had begun to pass their original anticipated holding period and some of the limited partnership interests had sold their property and liquidated. Some of these investors wanted to reinvest. Because the investor limited partners had sheltered or deferred significant tax liabilities, these tax deferrals would usually trigger a limited partner's recapture income on sale or liquidation of their real estate assets. However if they could contribute their former RELP interest to a new preferred limited partnership (PLP) in exchange for an interest in the PLP, they could continue or freeze their tax deferral possibly until the redemption of their PLP interest.

Starting in 1994, on most potential sales opportunities, the RELP asked its partners to vote for one of three basic sale options: (1) approve the future sale of the property and receive a proportionate cash distribution in liquidation of their interest; (2) approve the sale of the property but before the sale occurred receive a proportionate interest in a new PLP; or (3) not approve the sale. Most sales were based on current third party offers to purchase either for cash or short term installment notes, but some were based on outside appraisers valuation and purchased by DBSI Inc. for later sale or other disposition. Some of the RELP's sold their property and liquidated, without offering a reinvestment option. There are still four RELP's remaining with outside investors which are in different stages of planning to sell, selling or liquidating their interests in low income housing properties. A few other real estate properties are held by DBSI Inc. limited partnerships without outside investors.

The new partners received their PLP interests with a Preferred Value based generally on cash they could have received in liquidation of the RELP, and a cumulative Preferred Return (typically 8% annually) on the Preferred Value. They also had a Put Option which typically could be exercised during a one to two year window commencing between seven to nine years after the vote creating the PLP. The Put Option, guaranteed by DBSI Inc., required the PLP to purchase the limited partner's interest for the Preferred Value plus any unpaid Preferred Return. The investor ledger shows that over \$8,000,000 of the Put Options have been exercised over the years, and over \$27,000,000 of Preferred Value interests are still outstanding in the 38 PLP's. (After the grouping of multiple property sales, from the same prior RELP, there are separate accounting and tax reporting records for 35 combined PLP's).

The Preferred Limited Partners have been allocated income to the extent of (but not in excess of) Preferred Return paid to them as distributions during any tax year. The balance of PLP income or loss was allocated to the General Partner. This in effect froze the Limited Partners capital account and continued their tax deferral. Each prior year, at least by year end, the PLP's, which had sold real estate and were not already investing in other real estate with adequate qualified non recourse debt, typically invested indirectly through DBSI partnerships in other qualifying real estate so that they would not require recapture of prior losses. Following bankruptcy of DBSI Inc., the general ledgers of many of the PLP's still reflected investment in real estate or investment in real estate partnerships at year end 2008.

Exhibit 2

CONFIDENTIAL PRIVATE PLACEMENT MEMORANDUM
February 6, 2008

DBSI 2008 Notes Corporation
9.5% Corporate Notes due December 31, 2015

Minimum Investment: \$50,000
Maximum Offering Amount: \$50,000,000⁽¹⁾

DBSI 2008 Notes Corporation (the "Company") is offering \$50,000,000⁽¹⁾ (the "Offering") aggregate principal amount of 9.5% Notes due December 31, 2015 (the "Notes"). The Notes are callable by the Company beginning January 1, 2013, and earlier only under certain very limited circumstances. Prospective purchasers of Notes ("Purchasers") who meet certain suitability requirements may purchase Notes. The Notes are being issued with a minimum purchase of \$50,000 and in additional denominations of \$1,000; however, smaller purchases may be available at the sole and absolute discretion of the Company. Capitalized terms not defined in this Memorandum are defined in the section entitled "Glossary" herein.

The Company is a wholly-owned subsidiary of DBSI Housing Inc. Proceeds from the sale of the Notes will be used to lend monies (the "Loans") to current and future Entities wholly owned by DBSI Housing, Inc. (the "Guarantor") and certain of its subsidiaries that are controlled entities (together, the "Entities"). The proceeds of the Offering will be used to make Loans to Entities to (i) acquire, rehabilitate, entitle, develop and/or finance real estate assets prior to their sale, resale, third-party financing or syndication and (ii) to finance or refinance non-real estate Entities.

The Notes will be the primary obligations of the Company and will be unconditionally guaranteed by the Guarantor. To receive a Loan in accordance with the Loan requirements, an Entity must meet certain Loan requirements including a maximum overall 85% Loan to Value Ratio. To the extent allowed by any senior liens, the promissory notes may be secured by a lien on the respective Entity's assets or pledge of ownership interests, but the lien may be subordinate to any prior existing loan. The financial statements of the Company will be audited by an independent certified public accountant beginning with year-end 2008.

Commencing upon the date of issuance of the Notes, the Notes will bear interest at the rate of 9.5% per annum, payable monthly in arrears on the fifteenth day of the month following the date of Initial Investment and continuing monthly thereafter. Beginning January 1, 2010, the Company will annually redeem at the written request of Noteholders, up to 10% of the original aggregate principal of the Notes issued plus accrued interest. The Notes will be redeemable subject to the following: January 1, 2010 at 96% of original principal amount plus accrued interest; January 1, 2011 at 98% of original principal amount plus accrued interest; January 1, 2012 & beyond at 100% of original principal amount plus accrued interest.

These Notes have not been registered with the Securities and Exchange Commission (the "Commission") or any state securities commission. The Offering is being made in reliance upon certain exemptions from registration and only to Accredited Investors.

These Notes have not been approved by the Commission or any state securities commission, nor has the Commission or any state securities commission passed upon the accuracy or adequacy of this Private Placement Memorandum (the "Memorandum"). Any representation to the contrary is a criminal offense. See "RISK FACTORS" for a discussion of certain risks that should be considered in connection with an investment in the Notes.

- there is no assurance that over the term of the Notes all of the Loans will be secured by liens;
- there is no certainty as to an investment in Notes being profitable;
- this is a "best-efforts" offering with no minimum or escrow requirements;
- there are various conflicts of interest among the Company, the Guarantor, DBSI Securities Corporation and its affiliates;
- the Notes are illiquid and have limited transferability.

	Price to the Purchasers	Costs ⁽²⁾	Offering Proceeds to the Company
Per Note (minimum purchase).....	\$ 50,000	\$ 4,750	\$ 45,250
Total Maximum ⁽¹⁾	\$ 50,000,000	\$ 4,750,000	\$45,250,000

⁽¹⁾ Subject to increase to no more than \$90,000,000 at the sole and absolute discretion of the Company.

⁽²⁾ Includes selling commissions and other offering costs. (See "The Offering and Plan of Distribution"). This Offering is being made on a best efforts basis by registered securities broker-dealers and investment advisers ("Selling Agents") selected by DBSI Securities Corporation, an affiliate of the Company and the distributor of the Notes. The Company may pay sales commissions, due diligence costs and non-accountable marketing expenses to DBSI Securities Corporation which may reallocate them to the

Selling Agents in amounts estimated at up to 6.5%, 0.5%, and 0.5%, respectively, of the principal amount of all Notes, as well as a placement fee and expense reimbursement to DBSI Securities Corporation of 2%. The Company will agree to indemnify each broker-dealer against certain liabilities, including in certain cases, liabilities under the Securities Act of 1933, as amended. In addition, certain Purchasers who have engaged the services of a Registered Investment Advisers ("RIA") with whom the investor has agreed to pay a fee for investment advisory services in lieu of commissions and affiliates of the Company may purchase Notes net of Selling Commissions and Expense Reimbursements.

This Memorandum does not constitute an offer or solicitation to any non accredited investor nor to any accredited investor in any state or other jurisdiction in which such an offer or solicitation is not authorized or is required to be registered. Any representation to the contrary is unlawful.

The Notes are being offered only to Accredited Investors on a "best efforts" basis through DBSI Securities Corporation, an affiliate of the Company and a member of the Financial Industry Regulatory Authority ("FINRA"), which will, in turn, contract with other FINRA-registered Selling Agents. The Offering will terminate on or before June 30, 2008 unless extended to a date not later than December 31, 2008 at the sole and absolute discretion of the Company.

NOTICE TO PROSPECTIVE PURCHASERS

This Memorandum has been prepared for distribution to potential Purchasers for their confidential use and information in evaluating an investment in the Notes. Prospective Purchasers should carefully note the following important facts:

An investment in the Notes is highly speculative, involves very high risk of loss of capital, and is suitable only for persons who are able to evaluate the risks of the investment. An investment in the Notes should be made only by persons able to bear the risk of and to withstand the total loss of their investment. (See "Risk Factors").

This Memorandum was prepared solely for the benefit of persons interested in the offering. Any distribution of this Memorandum to any person other than the prospective Purchaser (or to those individuals who are retained to advise the Purchaser with respect to the Offering) is unauthorized, and any reproduction of this Memorandum in whole or in part, or the divulgence of any of its contents without the prior written consent of the Company, is unauthorized and prohibited.

The prospective Purchaser, by accepting delivery of this Memorandum, agrees to immediately return this Memorandum and all attached or enclosed documents to the Company if the prospective Purchaser does not elect to make a subscription or if its entire subscription is rejected by the Company.

This Offering may be withdrawn, cancelled, or terminated at any time and is specifically made subject to the conditions described in this Memorandum. The Company reserves the right, in its sole and absolute discretion, to accept or reject any subscription in whole or in part or to allot to any prospective Purchaser less than the dollar amount of Notes subscribed for by such Purchaser.

Prospective Purchasers are not to construe the contents of this Memorandum as legal, tax or investment advice. Each prospective Purchaser should consult its own legal, tax, and financial advisors as to the legal, tax and related matters concerning an investment in the Notes.

The description of any documents summarized herein is incomplete and prospective Purchasers should review the actual documents themselves and achieve a full understanding of their contents. All documents related to this Offering will be made available to the prospective Purchaser upon request.

Any projections of operating results included herewith by reference were prepared solely by management of the Company. Such projections were not compiled or reviewed by independent accountants, and, accordingly, no opinion or other form of assurance is expressed. Additionally, because such projections are based on a number of assumptions and are subject to significant uncertainties and contingencies, many of which are beyond the control of the Company, there is no assurance that such projections will be realized and actual results may vary significantly from those included. The projections should not be regarded as a representation that the projections will be achieved, nor should the projections be relied upon in purchasing the Notes offered hereby.

During the course of the Offering and prior to sale, prospective Purchasers are urged and invited to ask questions of and to obtain additional information from the officers of the Company concerning the terms and conditions of the Offering, Notes, the Company and the business of the Company, and any other relevant matters (including but not limited to additional information to verify the accuracy of the information set forth herein). Such information will be provided to the extent that the officers of the Company possess such information or can acquire it without unreasonable effort or expense. However, no

person has been authorized to make any representations other than those contained in this Memorandum and, if given or made, such representations must not be relied upon.

Other than this Memorandum and any marketing materials approved and authorized by the Company to be distributed to Broker Dealers and Accredited Investors, no other literature will be employed in this Offering.

The Company, the Guarantor, DBSI Securities Corporation and its affiliates may also respond to specific questions from brokers, prospective Purchasers and their advisors.

The Offering is made only by means of this Memorandum. Except as described herein, neither the Company nor the Guarantor has authorized the use of other sales materials in connection with the Offerings. No dealer, salesman or other person has been authorized to give any information or to make any representations other than those contained in this Memorandum, and, if given or made, such information or representations must not be relied upon.

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INTRODUCTION

This Memorandum provides certain information regarding the Company and the offering of \$50,000,000 (subject to increase by the Company in its sole and absolute discretion to no more than \$90,000,000) aggregate principal amount of Notes.

The proceeds from the sale of the Notes will be used to make Loans to current and future Entities consisting of the Guarantor and certain of its subsidiaries that are controlled Entities. The proceeds of any Loans to Entities will be used as follows: (i) to acquire, rehabilitate, entitle, develop and/or finance real estate assets prior to their sale, resale, third-party financing or syndication; and (ii) to finance or refinance non-real estate Entities. To receive a Loan in accordance with the Loan requirements, the Entity must meet certain Loan requirements including a maximum overall 85% Loan to Value Ratio. The Note principal and interest payments are unconditionally guaranteed by the Guarantor and, the Loans to Entities may be secured by Entity assets or ownership interests in the Entities to the extent allowed by any senior debt instruments.

The Notes will bear interest at the rate of 9.5% per annum, payable monthly in arrears on the fifteenth day of the month following the date of Initial Investment and continuing monthly thereafter. Noteholders may elect to have interest reinvested and compounded monthly. The Notes will be issued with a minimum purchase of \$50,000 and in additional denominations of \$1,000; however, smaller purchases may be available at the sole and absolute discretion of the Company. Beginning January 1, 2010, the Company will annually redeem at the written request of Noteholders, up to 10% of the original aggregate principal of the Notes issued plus accrued interest. The Notes will be redeemable subject to the following: January 1, 2010 at 96% of original principal amount plus accrued interest; January 1, 2011 at 98% of original principal amount plus accrued interest; January 1, 2012 & beyond at 100% of original principal amount plus accrued interest. The Company, at its sole and absolute discretion, may redeem more than 10% of the original aggregate principal of the Notes issued if there are requests made for redemptions that exceed 10% of the original aggregate principal. The Company will redeem the Notes in the order that requests are received. The redemption will not be cumulative for any amounts not redeemed in prior years. The Notes are non-callable by the Company through December 31, 2012 except under certain very limited circumstances, including death of Noteholder. (See "The Offering and Plan of Distribution—The Offering" and "Exhibit F – the Master Note"). The Notes are due and payable in full to the Noteholders on December 31, 2015.

The Notes are being offered and will be issued pursuant to Regulation D as promulgated under the Securities Act of 1933, as amended, (the "Securities Act") solely to Accredited Investors as defined in Regulation D.

Because the Notes are not registered under the Securities Act or state securities laws, they cannot be sold or transferred unless they are subsequently registered under the Securities Act or an exemption from such registration is available under federal and applicable state law. Therefore, except to the extent of the early redemption provision, prospective Purchasers should consider a purchase of the Notes to be an investment for the term of the Notes (until December 31, 2015). A transfer of the Notes prior to the end of the term will generally be restricted and if permitted may be made only to persons who meet certain suitability requirements. Most state securities agencies also have restrictions regarding transfer of the Notes. A review of the applicable federal and state restrictions should be undertaken before any transfer to a third party is contemplated.

Prospective Purchasers and their representatives should read completely and carefully this Memorandum, which provides a summary of the Notes, the Loan transactions with the Entities, and other information the Company believes is important for a prospective Purchaser to consider. The Memorandum also contains a list of risk factors that each prospective Purchaser should carefully review and understand (See "Risk Factors"). There is also additional information and documents that are available by contacting the Company (See "Availability of Additional Information and Documents"). However, no person is authorized to make any representations other than those contained in this Memorandum and, if given or made, such representations must not be relied upon. Prospective Purchasers and their representatives are strongly encouraged to contact Investor Relations, to obtain any additional information that may be desired. Investor Relations is available by telephone at (866) 489-3377.

WHO MAY INVEST

The offer and sale of Notes is being made in reliance on an exemption from the registration requirements of the Securities Act. Accordingly, distribution of this Memorandum is strictly limited to persons who meet the requirements and make the representations set forth below. The Company reserves the right to declare any prospective Purchaser ineligible to purchase Notes based upon any information which may become known or available to the Company concerning the suitability of such prospective Purchaser, for any other reason or for no reason, in the Company's sole and absolute discretion.

The Notes are highly speculative, involve a very high risk, and are suitable only for persons of substantial financial means who have no need for liquidity in this investment. Notes will only be offered and sold to prospective Purchasers who:

- 1) purchase a minimum of \$50,000 in Notes unless the Company, in its sole and absolute discretion, waives the minimum purchase requirement;
- 2) represent in writing that they are "Accredited Investors" (as defined by Rule 501 of Regulation D as promulgated under the Securities Act); and
- 3) satisfy the investor suitability requirements established by the Company and as may be required under federal or state law.

Each prospective Purchaser must represent in writing that he or she meets, among others, **ALL** of the following requirements; that he or she:

- 1) has received, read, and fully understands this Memorandum, is basing the decision to invest on this Memorandum, and has relied on the information contained in this Memorandum and has not relied upon any representations made by any other person;
- 2) understands that an investment in the Notes is highly speculative and involves very high risk of loss of capital and is fully cognizant of and understands all of the risk factors relating to a purchase of Notes, including, without limitation, those risks set forth below in the section entitled "Risk Factors";
- 3) attests that their overall commitment to investments that are not readily marketable is not disproportionate to their individual net worth, and that this investment in the Notes will not cause such overall commitment to become excessive;
- 4) has adequate means of providing for their financial requirements, both current and anticipated, and has no need for liquidity in this investment;
- 5) can bear and is willing to accept the economic risk of losing the entire investment the Notes;
- 6) is acquiring Notes for their own account and for investment purposes only, and has no present intention, agreement or arrangement for the distribution, transfer, assignment, resale or subdivision of their Notes; and
- 7) is an "Accredited Investor" (as defined under Rule 501 of Regulation D as promulgated under the Securities Act).

In addition to certain institutional investors, a prospective Purchaser who meets one of the following tests will qualify as an "Accredited Investor" if:

- 1) the prospective Purchaser is a natural person who had individual income in excess of **\$200,000** in each of the two most recent years, or joint income with that person's spouse in excess of **\$300,000** in each of these years, and has a reasonable expectation of reaching the same income level in the current year;

- 2) the prospective Purchaser is a natural person whose individual net worth, or joint net worth with that person's spouse, exceeds **\$1,000,000** at the time of his investment in the Notes;
- 3) the prospective Purchaser is an organization described under Section 501(c)(3) of the Code, a corporation, Massachusetts or similar business trust, or a partnership not formed for the specific purpose of acquiring the Notes, with total assets in excess of **\$5,000,000**;
- 4) the prospective Purchaser is an entity (including an IRA) in which all of the equity owners are Accredited Investors as defined in subparagraphs (1) and (2) above;
- 5) the prospective Purchaser is a trust with total assets in excess of **\$5,000,000**, not formed for the specific purpose of acquiring the Notes, the purchase of which is directed by a "sophisticated person" as defined in Rule 506(b)(2)(ii) of Regulation D as promulgated under the Securities Act; or
- 6) the prospective Purchaser is an employee benefit plan within the meaning of ERISA in which the investment decision is made by a plan fiduciary (as defined in Section 3(21) of ERISA) which is either a bank, savings and loan association, insurance company, or registered investment adviser; or the employee benefit plan has total assets in excess of **\$5,000,000**; or it is a self-directed plan in which investment decisions are made solely by persons who are Accredited Investors.

For purposes of calculating an investor's net worth, "net worth" is defined as the difference between total assets and total liabilities, including home, home furnishings and personal automobiles. In the case of fiduciary accounts, the net worth and/or income suitability requirements must be satisfied by the beneficiary of the account, or by the fiduciary, if the fiduciary directly or indirectly provides funds for the purchase of the Notes.

Certain representations will be made by each investor in the Subscription Agreement. The Company will rely on the accuracy of these representations and may require additional evidence that a prospective Purchaser satisfies the applicable standards at any time prior to the acceptance of the Subscription Agreement. A prospective Purchaser is not obligated to supply any information so requested by the Company, but the Company may reject a Subscription Agreement from any prospective Purchaser who fails to supply any requested information.

If you do not meet the requirements described above, please do not read further and immediately return this Memorandum to the Company, the broker or the registered representative from whom you received it. In the event you do not meet such requirements, this Memorandum does not constitute an offer to sell the Notes to you.

The written representations made by each prospective Purchaser will be reviewed to determine suitability. The Company has the right, in its sole and absolute discretion, to reject any Subscription Agreement if the Company believes that the prospective Purchaser does not meet the applicable investor suitability requirements, the Notes are an unsuitable investment for the prospective Purchaser, or for any other reason or for no reason. Prospective Purchasers who are unable or unwilling to make the foregoing representations may not purchase the Notes.

These investor suitability requirements represent minimum suitability requirements, as established by the Company from time to time. Satisfying these requirements will not necessarily mean that Notes are a suitable investment for a prospective Purchaser, or that the Company will accept the Subscription Agreement. Furthermore, the Company, as appropriate, may modify such requirements, in its sole and absolute discretion from time to time, and any such modification may increase the suitability requirements.

HOW TO SUBSCRIBE

If, after carefully reading the entire Memorandum obtaining any other information available hereby and being fully satisfied with the results of pre-investment due diligence activities, a prospective Purchaser would like to purchase Notes, a prospective Purchaser should complete and sign the attached Subscription Agreement. The full purchase price of \$50,000 must be paid by check, upon submission of the Subscription Agreement for the Note(s). The minimum purchase amount is \$50,000, with additional denominations of \$1,000 although the Company may lower the minimum purchase requirement for certain Purchasers in its sole and absolute discretion.

Instructions for subscribing to the Notes are in the Subscription Agreement. All Subscription Agreements should be forwarded to the address below, and all subscription payments should be mailed or delivered to:

DBSI 2008 Notes Corporation
1550 South Tech Lane
Meridian, Idaho 83642
Attn: DBSI Subscription Services

If funds are wired, please use the following Wire Instructions:

Account Number: 101102315
Routing/ABA Number: 44154594
Marshall & Ilsley Bank
770 North Water Street
Milwaukee, Wisconsin 53202
Account Name: DBSI 2008 Notes Corporation

Upon receipt of the signed Subscription Agreement, verification of the prospective Purchasers investment qualifications, and acceptance of the subscriber's subscription by the Company (in the Company's sole and absolute discretion), the Company will notify each prospective Purchaser of receipt and acceptance of the subscription. In the event the Company does not accept a prospective Purchaser's subscription for the Notes for any reason, the Company will promptly direct Marshall & Ilsley Bank to return or cause to be returned the escrowed funds to such subscriber.

Acceptance of Subscriptions

The Company may, in its sole and absolute discretion, accept or reject any Subscription Agreement, in whole or in part, for a period of 30 days after receipt of the Subscription Agreement. Any Subscription Agreement not rejected within 30 days of receipt shall be deemed accepted. The Manager may terminate this Offering at any time.

PRIVATE PLACEMENT MEMORANDUM SUMMARY

The following summary is qualified in its entirety by the more detailed information and financial statements included in this Memorandum.

The Company:	The Company is an Idaho corporation with its principal office located at 1550 South Tech Lane, Meridian, Idaho 83642, telephone (208) 955-9800. (See "The Company and the Guarantor" and "Management of the Company and the Guarantor").								
The Guarantor:	The Guarantor will unconditionally guarantee payment of the interest and principal of the Notes to the Noteholders. (See "The Company and the Guarantor").								
Securities Offered:	\$50,000,000 aggregate principal of Notes, subject to increase to no more than \$90,000,000 at the sole and absolute discretion of the company. (See "The Notes").								
Investment Objectives:	The investment objectives of the Company are to: (i) preserve and protect the Members' principal; (ii) make monthly interest payments to Noteholders; and (iii) provide return of principal upon maturity of the Notes.								
Maturity:	December 31, 2015								
Interest:	9.5% per annum, payable monthly in arrears on the fifteenth day of the month following the date of Initial Investment and continuing monthly thereafter. Noteholders may elect to have interest reinvested.								
Minimum Purchase Amount:	The Notes will be issued with a minimum purchase of \$50,000 and in additional denominations of \$1,000 unless a lesser amount is approved at the sole and absolute discretion of the Company.								
Limited Redemption at Option of Noteholder:	Beginning January 1, 2010, the Company will annually redeem up to ten percent (10%) of the original principal amount of the Notes plus accrued interest, at the request of Noteholders upon at least 120 days prior written notice. Subject to certain exceptions, redemption will be honored in the order that requests are received. At its sole and absolute discretion, the Company may honor requests for redemption upon proof of death or disability of Noteholder. The redemption date and amount will be as follows:								
<table> <tr> <th><u>Redemption Date</u></th><th><u>Redemption Price</u></th></tr> <tr> <td>January 1, 2010</td><td>96% of original principal amount plus accrued interest</td></tr> <tr> <td>January 1, 2011</td><td>98% of original principal amount plus accrued interest</td></tr> <tr> <td>January 1, 2012 & beyond</td><td>100% of original principal amount plus accrued interest</td></tr> </table>		<u>Redemption Date</u>	<u>Redemption Price</u>	January 1, 2010	96% of original principal amount plus accrued interest	January 1, 2011	98% of original principal amount plus accrued interest	January 1, 2012 & beyond	100% of original principal amount plus accrued interest
<u>Redemption Date</u>	<u>Redemption Price</u>								
January 1, 2010	96% of original principal amount plus accrued interest								
January 1, 2011	98% of original principal amount plus accrued interest								
January 1, 2012 & beyond	100% of original principal amount plus accrued interest								
Callability:	The Notes are noncallable by the Company through December 31, 2012 except under certain very limited circumstances, including death of Noteholder. (See "The Offering and Plan of Distribution-The Offering"). On and after January 1, 2013, the Notes are callable, at par plus interest, in whole or in part, at the Company's sole option and demand upon thirty days written notice. Any partial call of the Notes will be implemented by the Company with Noteholders selected by the Company in its discretion.								
Use of Proceeds:	The proceeds of the Offering will be used to make loans to Entities to: (i) acquire, rehabilitate, entitle, develop and/or finance real estate assets prior to their sale, resale, third-party financing or syndication; and (ii) to finance or refinance non-real estate Entities. (See "Use of Proceeds" and "Loans to Entities").								
Loans to Entities:	Proceeds from the sale of Notes will be loaned to Entities whose loan applications have been approved by the Company. The primary financial requirement is that, at the time each Loan is made; the aggregate Loan to Value Ratio of the Loans must not exceed 85%. All								

Loans will be evidenced by promissory notes, with a term of one year unless extended in the sole and absolute discretion of the Company. To the extent allowed by any senior liens, the promissory notes may be secured by a lien on the respective Entity's assets or pledge of ownership interests, but the lien may be subordinate to any prior existing loan. (See "Loans to Entities").

- Investor Suitability: The Notes will be offered and sold only to Accredited Investors who meet certain minimum suitability requirements. Purchasers residing in certain states may need to meet additional standards. The Company in its sole and absolute discretion reserves the right to approve or disapprove each Purchaser. (See "Who May Invest").
- Audited Financials: The Company will be audited annually by an independent certified public accounting firm beginning with year-end 2008. The report from that annual audit will be made available to the Noteholders of record upon request. The Guarantor's financial statements are not required to be audited.
- Private Placement: The Offering is made pursuant to exemption from registration under Regulation D as promulgated under the Securities Act, and exemptions available under applicable state securities laws and regulations.
- Tax Reports: The Company will send to each Noteholder, within 30 days of each fiscal year end, such tax information as may be necessary for the preparation of the Noteholder's tax returns.
- Risk Factors: There are numerous risk factors associated with this Offering including but not limited to, the following:
- there is no assurance that over the term of the Notes all of the Loans will be secured by liens;
 - there is no certainty as to an investment in Notes being profitable;
 - this is a "best-efforts" offering with no minimum or escrow requirements;
 - there are various conflicts of interest among the Company, the Guarantor, DBSI Securities Corporation and its affiliates;
 - the Notes are illiquid and have limited transferability.

(See "Risk Factors").

QUESTIONS AND ANSWERS ABOUT THIS OFFERING

The following questions and answers provide certain limited information about the Company and this Offering. It should be read in conjunction with, and is qualified in its entirety by, the detailed information appearing elsewhere in this Memorandum. **You are required to read this entire Memorandum and whatever additional information you request before making an investment.**

Q: Why invest in the Notes?

A: The Notes are unconditionally guaranteed by the Guarantor, which has an unaudited net worth, as of June 30, 2007, of \$105 million. To the extent allowed by any senior liens, the promissory notes may be secured by a lien on the respective Entity's assets or pledge of ownership interests, but the lien may be subordinate to any prior existing loan.

Q: What will the proceeds of the Offering be used for?

A: The proceeds of the Offering will be used to make Loans to Entities to (i) acquire, rehabilitate, entitle, develop and/or finance real estate assets prior to their sale, resale, third-party financing or syndication and (ii) to finance or refinance non-real estate Entities.

Q: How will Noteholders receive interest payments?

A: Noteholders will receive 9.5% per annum, payable monthly in arrears on the fifteenth day of the month following the date of Initial Investment and continuing monthly thereafter.

Q: Is there any minimum investment required?

A: Yes. The minimum purchase is \$50,000, unless waived by the Company, in its sole and absolute discretion.

Q: What is the term of the Notes?

A: The Notes maturity date is December 31, 2015. Therefore, the term of each Note will vary according to the date of Initial Investment, but will be in excess of seven (7) years.

Q: What is the callability of the Notes?

A: The Notes are non-callable by the Company through December 31, 2012 except under certain very limited circumstances, including death of Noteholder. On and after January 1, 2013, the Notes are callable, at par plus accrued interest, in whole or in part, at the Company's sole and absolute option and demand upon thirty days written notice. Any partial call of the Notes will be implemented by the Company with Noteholders selected by the Company in its sole and absolute discretion.

Q: Is there a reinvestment option?

A: Noteholders may elect initially to reinvest all (but not less than all) of their fixed interest payments. The interest payments reinvested will be retained by the Company and used in its business operations pertaining to its Loans. Reinvested interest will begin to accrue interest as of its payment date. The total amount of the reinvested interest over the year, with interest compounded monthly on the reinvested amount, will be added to the principal amount of the Note at the end of each calendar year. Noteholders may change their reinvestment election for the following calendar year by giving written notice not less than thirty (30) days prior to the end of the current calendar year.

Q: Is there a liquidity option?

A: Beginning January 1, 2010, the Company will annually redeem up to ten percent (10%) of the original

principal amount of the Notes plus accrued interest, at the request of Noteholders upon at least 120 days prior written notice. Subject to certain exceptions, redemption will be honored in the order that requests are received. At its sole and absolute discretion, the Company may honor requests for redemption upon proof of death or disability of Noteholder. The redemption date and amount will be as follows:

<u>Redemption Date</u>	<u>Redemption Price</u>
January 1, 2010	96% of original principal amount plus accrued interest
January 1, 2011	98% of original principal amount plus accrued interest
January 1, 2012 & beyond	100% of original principal amount plus accrued interest

Q: What is DBSI Group of Companies' experience with Note offerings?

A: As of December 31, 2007, DBSI Group has retired 8 of 15 prior debt offerings and as of the date of this Memorandum has an outstanding balance of \$211 million. DBSI Group plans to retire three additional debt offerings by the end of 2008, resulting in 11 of the 15 prior debt offerings being retired and equates to nearly \$127 million of retired debt. More than \$20 million in debt was retired through operation capital in 2007, with an additional estimated \$41 million expected to be retired in 2008. If retired as planned, in 2008, about 74% of all pre-2005 debt of this type will have been retired by DBSI Group. (See "Exhibit C—Prior Similar Debt Guaranteed by the Guarantor").

Q: What requirements must the Entities satisfy to receive a Loan from the Company?

A: In order to qualify for Loans from the Company, each Entity will be required to submit a loan application to the Company and satisfy a variety of requirements. The primary financial requirement is that, at the time each Loan is made, the aggregate Loan to Value Ratio of the Loans must not exceed a maximum overall 85% Loan to Value Ratio. The Company has appointed a Loan Committee to oversee and administer the Loans to Entities. (See "Loan Requirements").

Q: Are there additional requirements for a non-real estate Entity to receive a Loan from the Company?

A: Yes. Loans to non-real estate Entities will only be made on the basis of an appraisal performed by an independent, non-affiliated entity, rendering an opinion as to the fair market value of the underlying entity. The Loan Committee will also require the non-real estate Entities to provide an updated independent appraisal annually for reevaluation of the Loan to Value if the loan is extended past one year.

Q: How does a prospective Noteholder subscribe for Notes?

A: In order to purchase Notes in this Offering, a prospective Noteholder must complete the Subscription Documents in the form contained in Exhibit D of this Memorandum for the amount of Notes desired. The subscriber will need to pay for the Notes at the time he/she subscribes. (See "How To Subscribe").

Q: Will the Notes generate UBTI (unrelated business taxable income)?

A: The Notes are expected to be classified as debt, and as such will not, standing alone, result in the recognition of UBTI by tax-exempt investors. Please consult your tax advisor for your specific situation.

Q: Can an IRA or other qualified plan invest in the Notes?

A: Yes, with no UBTI the Notes may be appropriate for qualified money (IRA, KEOGH, CRT, etc.). Please consult your tax advisor for your specific situation.

Q: Will this investment be subject to capital gain or ordinary income tax rates?

A: It is anticipated that any and all federally taxable income allocated to Noteholders by the Company will be taxable at ordinary income tax rates and not at capital gains tax rates. The Company will send Noteholders

annual 1099 tax information. Noteholders should consult their tax advisors. (See “Federal Income Tax Consequences”).

Q: Who can Noteholders contact to answer their questions?

A: For questions regarding the Company or Offering, Noteholders should contact their registered representative or:

DBSI 2008 Notes Corporation
1550 South Tech Lane
Meridian Idaho 83642
Attn: DBSI Securities Corporation, Subscription Services
Telephone: (208) 955-9800
Facsimile: (208) 955-9788

RISK FACTORS

Investment in the Notes is highly speculative and is suitable only for persons who are able to evaluate the risks of the investment. An investment in the Notes should be made only by persons able to bear the risk of and to withstand the total loss of their investment. In addition to the factors set forth elsewhere in this Memorandum and general investment risks, prospective Purchasers should consider the following risks before making a decision to purchase the Notes.

There is no Assurance that Over the Term of the Notes all of the Loans will be Secured by Liens

The Loans will be evidenced by promissory notes requiring payments sufficient to pay the Note interest and principal on or before the due dates of the Note interest and principal. It is not expected that over the term of the Notes any or all of the loans will be secured by liens. To the extent allowed by any senior liens, the promissory notes may be secured by a lien on the respective Entity's assets or pledge of ownership interests, but the lien may be subordinate to any prior existing loan. Consequently, if the Entity's revenue is insufficient to service the debt secured by the first loan, the holder of such prior lien may institute foreclosure proceedings and the company would not receive any proceeds from the sale of the Entity's assets until the prior lienholder was paid in full. There may also be other liens or other ownership interests, in addition to the first loan, that under some circumstances could be filed and could take a senior position to the Loan. As a result, SOME OR ALL OF THE LOANS WILL BE UNSECURED.

A Percentage of Proceeds will be Used to Refinance an Entity's Existing Debt Obligations

The ability of an Entity to operate its business may depend upon the willingness and ability of the Company to Loan it funds. The Company anticipates that it will make Loans to Entities that will not be generating cash flow from operating activities at the time the Loan is made. In addition, Entities may have leveraged their investments by incurring substantial debt and may have insufficient revenue to service debt and other operating costs at the time of the Loan. Accordingly, Loans will be used to retire an Entity's existing debt obligations.

Risk of Company's Related Party Lending and Thin Capitalization

As explained in this Memorandum, the Company is a "finance subsidiary" of its parent, the Guarantor. The Company's purpose is to further the business of and provide loans to related entities controlled by the Company's parent. Since the businesses are related and under common control, prospective Purchasers should consider the risks associated with this related party lending activities and the inherent conflicts of interest related thereto, which should be considered in addition to and in conjunction with all of the other risk factors detailed in this Memorandum. Since the Company is a "finance subsidiary" of the Guarantor, it is thinly capitalized. Because of the thin capitalization, the Company will not have sufficient assets beyond the Loans to make all the interest and principal payments on the Notes. If one or more of the Loans are in default and there is not sufficient real estate or other collateral from the Entities for repayment and if the Guarantor cannot provide payment, the Noteholders could lose part or all of their investment in the Notes.

Risks Regarding the Guarantor

The Guarantor and its affiliates control and/or have interests in numerous commercial real estate projects aggregating approximately 18,600,000 square feet and various other substantial non-real estate business interests with offices in many states and overseas. In 29 years, the Guarantor and its affiliates have grown to more than 400 employees and have raised more than \$1.5 billion in capital. The Guarantor currently manages assets valued at over \$2.65 billion. In its role as the parent company, the Guarantor has guaranteed other loans and obligations for many other partnerships and projects including but not limited to, prior similar debt issues with a current principal balance of approximately \$211,000,000 (See "Exhibit C"), and upon occasion has found it necessary to lend money to affiliates for their operating expenses and debt service. In addition, the Guarantor and its subsidiaries have substantial master lease obligations on most of the commercial real estate projects. If the Guarantor lends substantial amounts to other Entities, or is required to support prior guarantees on other debt obligations or otherwise or master lease obligations, the Guarantor may not have sufficient funds to satisfy its obligations to the Noteholders. Additionally, there are no

restrictions or prohibitions on the Guarantor regarding utilizing additional leverage, merging, or even selling or liquidating the Company without notice to or receipt of Noteholder consent.

As general partner to a substantial number of limited partnerships, the Guarantor has liability for all partnership debts and obligations and for any claims or actions chargeable to a partnership. These projects and the Guarantor have commercial general liability insurance coverage that they believe is sufficient to handle the most likely claims or actions for personal injury and property damage. However, if there were a claim or action that was not covered by the insurance, the use of corporate funds to pay or defend against the claim or action could impair the ability of the Guarantor to satisfy its guarantee on the Notes.

Lack of Noteholder Control of Loans; Costs of Collection Upon Default

Noteholders will have no control of the Entities to which Loans will be made, the amounts of the Loans, or all the conditions of the Loans. The success of the Loans will, to a large extent, depend upon the amount and the terms and conditions of those Loans as determined by the Company. The success of the Loans will also depend on the management of the Entities and supervision provided by the Company and other affiliates. There are no assurances that the management and supervision of the Loans or the Entities will be successful in the future.

In the event of a default in payment of interest and/or principal of the Notes, it may be necessary to institute legal action to enforce the Company's obligations under the Loans against the Company and/or the Guarantor or to foreclose on the Loan collateral, if any. Such legal action may be costly and time consuming; consequently, the proceeds ultimately recovered on behalf of the Noteholders may be diminished and delayed, possibly substantially so, by such legal action.

Business Risks Associated with Use of Proceeds of the Notes

The proceeds from the issuance of the Notes will be loaned to various Entities (See "Loans to Entities"). The Company will rely upon the repayment of those Loans to pay the interest payments and the principal to the Noteholders. Therefore, the Noteholders should be aware of the following risks associated with those Loans and the Entities.

Risks Associated with Operations. Historically, cash flow from the Entities has tended to fluctuate considerably in response to variations in both national and local economic conditions. The Entities are also subject to the risk of adverse changes in conditions, such as excessive competition resulting in an oversupply of competing products; lack of attractiveness of the products to users; adverse changes in the products' price and other operating structures; laws and regulations, and tax rates; and the inability of the Entities to provide for adequate support and maintenance of its products.

Certain expenditures associated with the operation of the Entities (principally, debt payments, certain taxes, general, administrative, and sales and marketing costs) are not normally substantially decreased by events adversely affecting gross income. In the event the operation of an Entity does not generate sufficient operating income or other sources of liquidity to pay all of its operating expenses, taxes, and debt service requirements, and consequently Loan payments are not met, the Company will likely sustain a loss on its Loan to the Entity. There are no assurances that an Entity will generate any cash flow from operations. The risk of unavailability of cash flow is substantially increased because the Company anticipates that it will make Loans to a substantial number of Entities that will (i) acquire, rehabilitate, entitle, develop and/or finance real estate assets prior to their sale, resale, third-party financing or syndication and (ii) to finance or refinance non-real estate Entities that may not be generating any or significant cash flow from operations at the time the Loan is made.

Risks Associated with Leveraged Investments. As a result of the use of leverage, a relatively slight decrease in the gross income of an Entity may materially and adversely affect cash flow. Should an Entity's revenue be insufficient to service its Loan and pay taxes and other operating costs, the Entity will be required to utilize working capital, seek additional funds, or suffer a foreclosure of its Loan. There are no assurances that funds to refinance a Loan will be available to an Entity, if needed, or, if available, will be on terms acceptable to the Entity.

Risks Associated with the Controlling Entity. The ability of an Entity to service its Loan from the Company may be dependent on the financial and operational stability of its parent or affiliates, which include the Guarantor. The ability of an Entity to operate its business may depend upon the willingness and ability of its parent or another affiliate to loan it additional funds.

The future operations of an Entity could be adversely affected by future changes related to its parent or an affiliate which could include, without limitation: (1) the parent or affiliate's bankruptcy or cessation of business; (2) one or more of the principals leaving the parent or affiliate; and (3) a sale or merger of the parent or affiliate without the prior consent of the Noteholders. There can be no assurance that one or more of these events or other potential events adversely affecting a parent or affiliate's ability to fulfill its obligations to an Entity will not occur during the life of the Notes.

Financial Statements of Guarantor. Although the financial statements of the Company as of each December 31, beginning 2008, will be audited, potential investors may have less assurance as to fair presentation of financial statements of the Guarantor, since it is not required that such financial statements be reviewed or audited by independent accountants.

Risks Regarding High Loan to Value Ratio and Determination Thereof. The real estate Entities Loan to Value Ratio may be based on an appraised or estimated value of real estate assets and such appraisal or valuation may not reflect the actual fair market value of real estate assets and may have been obtained by the Guarantor or an affiliate rather than by a prospective first mortgage lender or other disinterested third party. In the absence of an appraisal or valuation, value will be determined solely by the Guarantor utilizing industry acceptable valuation methods such as capitalization of income, replacement cost, discounted cash flow, and comparable sales methodologies. Applied capitalization rates will be consistent with the asset type, ownership interest and local market, and will be applied to pro forma net operating income of the real estate and non-real estate assets. Nevertheless, such valuation methodologies can be highly subjective and result in valuations that may not be reflective of actual market value. Loans to non-real estate Entities will only be made on the basis of an appraisal performed by an independent, non-affiliated entity, rendering an opinion as to the fair market value of the underlying entity. Regardless of valuation method and the availability of real estate appraisals, the 85% Loan to Value Ratio is very high and such leverage is well in excess of what would normally be permitted by third party lenders. In the event of Company default under the Notes, accrued interest and Note charges, delinquent taxes, insurance premiums, maintenance costs, legal fees, real estate commissions and other carrying and liquidation costs incurred by Note Purchasers might well dissipate any remaining equity positions in the respective real estate and non-real estate assets and lead to a loss of Note Purchaser capital.

Absence of Note Rating

The Company has not applied and does not intend to apply to any creditworthiness rating agency for a rating on the Notes. Therefore, any comparison made or conclusion drawn regarding the nature and type of the Notes, as opposed to a rated debt obligation, would be at the risk of the individual prospective Purchaser.

Absence of Public Market; Nonliquidity; Market Value

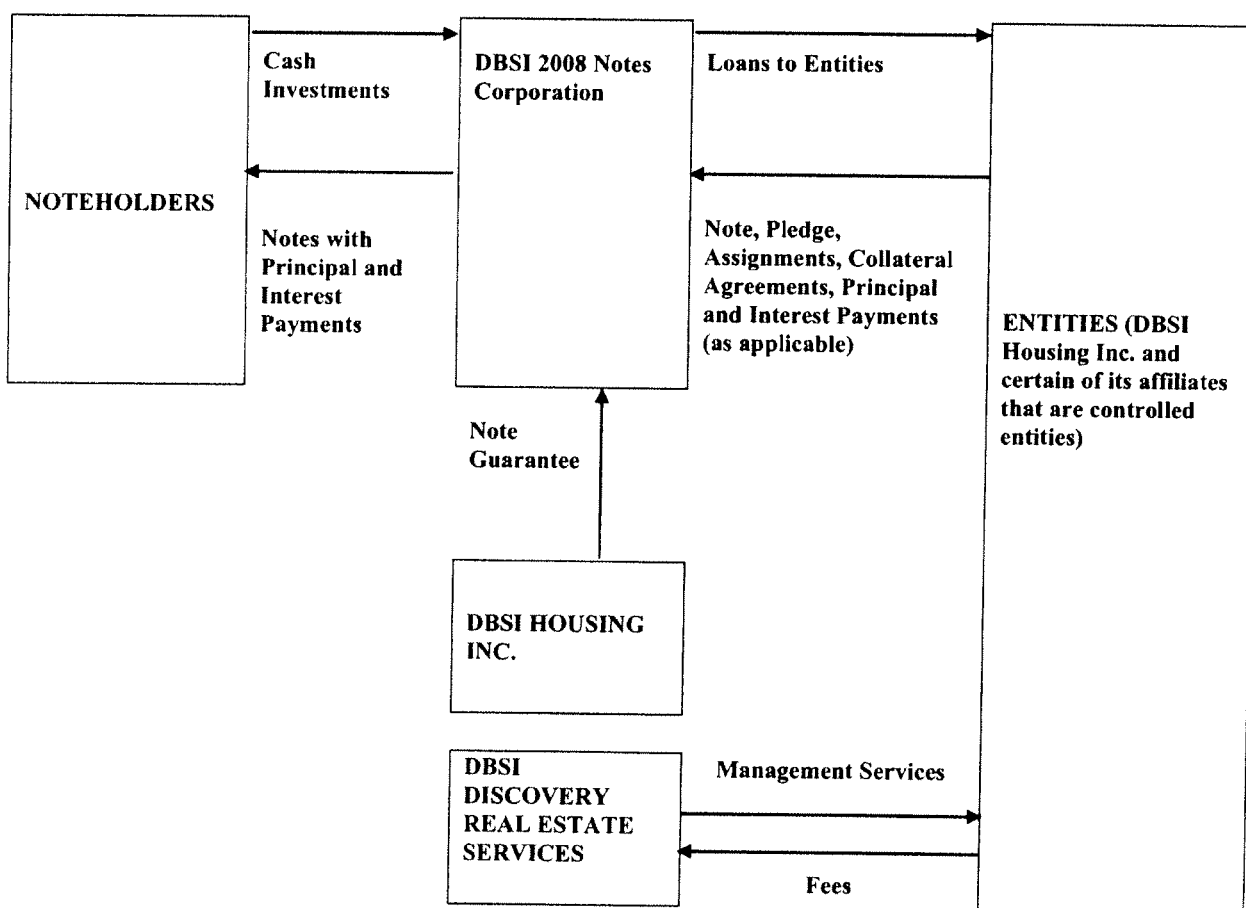
The Notes will not be listed on any national securities exchange or included for quotation through an inter-dealer quotation system of a registered national securities association. The Notes constitute new issues of securities with no established trading market. Furthermore, it is not anticipated that there will be any regular secondary market following the completion of the offering of the Notes. Therefore, an investment in the Notes should be considered nonliquid. In addition, even in the unlikely event that a secondary market for the Notes were to develop, no assurance can be given that the initial offering prices for the Notes will continue for any period of time. The market value of the Notes might be discounted from their initial offering prices, depending on prevailing interest rates, the market for similar securities, and other factors. Accordingly, the Notes should be purchased for their projected returns only and not for any resale potential, which may or may not exist.

Absence of Third-Party Registrar and Trustee

The Company, as the designated Registrar, will maintain the Note Register and record all transfers of Notes. The Company may have a conflict of interest in serving as the Registrar, and the absence of a third-party Registrar may result in less protection to Noteholders than might be provided by a third-party Registrar. There will also not be any third-party trustee for the Notes. Noteholders will rely upon the Company, its officers, and its affiliates to invest the Note proceeds wisely and profitably and in accordance with the Loan requirements.

CERTAIN RELATIONSHIPS AND CONFLICTS OF INTEREST

The Company is a wholly-owned subsidiary of the Guarantor. (See “The Company and The Guarantor”). A third corporation, DBSI Realty Corporation, which is also an affiliate of the Guarantor, may provide management services to some of the Entities. The following chart illustrates the relationship of the above-described entities:



Because of these relationships, there exist certain potential conflicts of interest. In considering a purchase of the Notes, prospective Purchasers should carefully consider the following potential conflicts of interest:

Inconsistent Interests. The interests of the Noteholders may be inconsistent in some respects with the interests of the Company. The Company, the Guarantor and certain of its affiliates, by reason of their ownership interests in some of the Entities and their receipt of fees from the Entities, have and will have conflicts of interest in connection with their performance of certain activities, including, management of the Entities.

Related Party Management. Affiliated entities may have certain management responsibilities with respect to the Entities. In addition, there are various other relationships among the Company and affiliates. These relationships involve conflicting interests which may affect performance of obligations to the Entities (See “Management of the Company and the Guarantor”).

Other Entities and Activities. Affiliates of the Company are committed to the continuing management of numerous entities, which have invested directly (or through other entities) in various real estate complexes and operating real estate and non-real estate businesses. The affiliates are planning to be committed to the continuing management of other as yet unformed entities.

Claims Against Certain Persons. The Company has made certain representations and undertakings, which could give rise to claims that might require the Entities to institute litigation against it or it to pursue the Entities for collection or damages. Since the Company could not be expected to pursue claims against itself, the Noteholders might in certain circumstances have to retain separate counsel for such purposes.

Employment of Professionals. The Entities expect to employ or retain attorneys, accountants, and other advisors who may customarily be employed or retained by the Company or affiliates. Such advisors may be representing the Entities and the Company at the same time. In the event the Company’s interests were to become adverse to the interests of the Entities, there might arise a need for one or more of such advisors to withdraw from representation and for the Company to seek advise elsewhere.

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ESTIMATED USE OF PROCEEDS

The estimated sources and uses of funds in the Offering are as follows:

<u>SOURCE OF FUNDS</u>	<u>Maximum Offering Amount⁽⁴⁾</u>	<u>Percent</u>	<u>Increased Maximum Offering Amount</u>	<u>Percent</u>
Sale of Notes ⁽¹⁾	<u>\$50,000,000</u>	<u>100%</u>	<u>\$90,000,000</u>	<u>100%</u>
<u>USE OF FUNDS</u>				
Offering Expenses ⁽²⁾	\$ 4,750,000	9.5%	\$ 8,550,000	9.5%
Loans to Entities ⁽³⁾	<u>\$45,250,000</u>	<u>90.5%</u>	<u>\$81,450,000</u>	<u>90.5%</u>
Total Use of Proceeds	<u>\$50,000,000</u>	<u>100%</u>	<u>\$90,000,000</u>	<u>100%</u>

⁽¹⁾ The Notes being offered to prospective Purchasers are described in the section titled "The Notes."

⁽²⁾ Includes selling commissions and other offering costs. (See "The Offering and Plan of Distribution"). This Offering is being made on a best efforts basis by registered securities broker-dealers and investment advisors ("Selling Agents") selected by DBSI Securities Corporation, an affiliate of the Company and the distributor of the Notes. The Company may pay sales commissions, due diligence costs and non-accountable marketing expenses to DBSI Securities Corporation which may reallocate them to the Selling Agents in amounts estimated at up to 6.5%, 0.5%, and 0.5%, respectively, of the principal amount of all Notes, as well as a placement fee and expense reimbursement to DBSI Securities Corporation of 2%. The Company will agree to indemnify each broker-dealer against certain liabilities, including in certain cases, liabilities under the Securities Act of 1933, as amended. In addition, certain Purchasers who have engaged the services of a Registered Investment Advisor ("RIA") with whom the investor has agreed to pay a fee for investment advisory services in lieu of commissions and affiliates of the Company may purchase Notes net of Selling Commissions and Expense Reimbursements.

⁽³⁾ All of the net proceeds from sale of the Offering will be used to make Loans to Entities to (i) acquire, rehabilitate, entitle, develop and/or finance real estate assets prior to their sale, resale, third-party financing or syndication and (ii) to finance or refinance non-real estate Entities.

⁽⁴⁾ Subject to increase to no more than \$90,000,000 at the sole and absolute discretion of the Company.

FEDERAL INCOME TAX MATTERS

Circular 230 Notice: Nothing contained in this Memorandum is intended or written by the Company or any of its advisors to be used, and it cannot be used, by any potential Purchaser or other person for the purpose of avoiding penalties that may be imposed under federal income tax law. This Memorandum was written to support the promotion or marketing of the Notes and offered by the Company and other matters addressed in this Memorandum. Each potential Purchaser should seek advice concerning the tax aspects of and tax considerations involved in an investment in the Notes from an independent tax adviser.

General

The following is a general discussion of certain federal income tax consequences of the purchase, ownership and disposition of the Notes based upon the relevant provisions of the Internal Revenue Code of 1986, as amended (the "Code"), the regulations thereunder, existing judicial decisions and published rulings. Future legislative, judicial or administrative changes or interpretations, which may or may not be retroactive, could affect the federal income tax consequences to the Noteholders or the Company. The discussion below does not purport to deal with the federal income tax consequences applicable to all categories of investors, some of which may be subject to special rules. The discussion focuses primarily upon investors who will hold the Notes as "capital assets" (generally, Notes held for investment) within the meaning of the Code. You are advised to consult your own tax advisors with regard to the federal income tax consequences of acquiring, holding and disposing of the Notes, as well as state, local and other tax consequences resulting from an investment in the Notes.

If it were determined that the Notes should be treated for federal income tax purposes as an equity investment in the Company instead of as indebtedness, the changes in the tax consequences to Noteholders might be significant and adverse. If the Notes were treated as equity for tax purposes, Noteholders would be taxed as owners of the Company for tax purposes. The tax treatment of owners of a limited liability company is substantially different than the tax treatment of lenders to a limited liability company. If the Noteholders were treated as owners, their income might be significantly different in amount and character than the interest income on the Notes.

The following discussion is based on the assumption that the Notes will be treated in their entirety as indebtedness and not as an equity investment in the Company.

Interest paid or accrued on the Notes will be treated as ordinary income to the Noteholders. Interest paid to Noteholders will generally be taxable to them when received, but interest paid to Noteholders who report their income on the accrual method will be taxable to them when accrued, if earlier, regardless of when such interest is actually paid. Reinvested interest will be deemed to be constructively received at each monthly payment date and therefore, will be reported income as earned. The Company will report annually to the IRS and to the Noteholders of record interest paid or accrued on the Notes.

Market Discount

A subsequent purchaser of Notes at a discount from the aggregate principal amount of the Notes generally will also be required to (i) treat a portion of any gain realized on a sale, exchange, redemption or certain other dispositions (e.g., a gift) of the Notes as ordinary income to the extent of the accrued market discount and defer, until disposition of the Notes, all or a portion of the interest deductions attributable to any indebtedness incurred or continued to purchase or carry the Notes issued with market discount in the event such interest exceeds the interest on the Notes includable in the Noteholder's income or (ii) elect to include such market discount in income as it accrues on all market discount instruments held by such Noteholder. It should be noted that market discount will be deemed to be zero if the amount allocable to each Note is less than one-quarter of one percent of the stated redemption price at maturity of such Notes times the number of complete years to its maturity remaining after the date of purchase.

Sale or Exchange of Notes

Upon a sale, exchange or redemption of a Note, the Noteholder will recognize gain or loss equal to the difference between the amount realized on such sale, exchange or redemption and his or her adjusted basis in the

Notes. Such adjusted basis generally will equal the cost of the Notes to such Noteholder (increased by market discount if the election described above is made) included in his or her gross income with respect to such Notes and reduced by any basis in the Notes previously allocated to payments on the Notes received by such Noteholder. Similarly, a Noteholder who receives a principal payment with respect to the Notes will recognize gain or loss equal to the difference between the amount of the payment and his or her adjusted basis in the Notes or portions thereof that are satisfied by such payment. Except as discussed above with respect to market discount, any such gain or loss will be capital gain or loss (provided the Notes are held as a capital asset) and will be long-term or short-term depending on whether the Notes has been held for more than one year. You should realize that the Notes are subject to restrictions on transferability. (See “Risk Factors–Restrictions on Transfer”).

Backup Withholding

A Noteholder may, under certain circumstances, be subject to “backup withholding” with respect to “reportable payments.” This withholding generally applies if a Noteholder: (i) fails to furnish the Company with its taxpayer identification number (“TIN”); (ii) furnishes the Company an incorrect TIN; (iii) fails to report properly interest, dividends or other “reportable payments” as defined in the Code; or (iv) under certain circumstances, fails to provide the Company with a certified statement, signed under penalty of perjury, that the TIN provided is its correct number and that the Noteholder is not subject to backup withholding. Backup withholding will not apply, however, with respect to certain payments made to Noteholders, including payments to certain exempt recipients (such as exempt organizations) and to certain foreign investors. Noteholders should consult their tax advisers as to their qualification for exemption from backup withholding and the procedure for obtaining the exemption.

State Income Tax Consequences

You should also consider the state income tax consequences of the acquisition, ownership, and disposition of the Notes. State income tax law may differ substantially from the corresponding federal law, and this discussion does not purport to describe any aspect of the income tax laws of any state. Therefore, you should consult your own tax advisors with respect to the various state tax consequences of an investment in the Notes.

INVESTMENTS BY QUALIFIED PLANS AND INDIVIDUAL RETIREMENT ACCOUNTS

In considering an investment in the Notes of any assets of a qualified plan, a fiduciary, taking into account the facts and circumstances of such qualified plan, should consider, among other things:

- (1) whether the investment is in accordance with the documents and instruments governing such qualified plan;
- (2) the definition of plan assets under ERISA (“Plan Assets”);
- (3) whether the investment satisfies the diversification requirements of Section 404(a)(1)(C) of ERISA;
- (4) whether, under Section 404(a)(1)(B) of ERISA, the investment is prudent considering the nature of an investment in the Property and the fact that there is not expected to be a market created in which the fiduciary can sell or otherwise dispose of the Notes;
- (5) whether the Company, the Guarantor or any of its affiliates is a fiduciary or a party in interest to the qualified plan; and
- (6) whether an investment in Notes may cause the qualified plan to recognize Unrelated Business Taxable Income (“UBTI”).

With respect to item (6) above, the Company’s management believes that the payment of interest to Noteholders pursuant to this Offering will not, standing alone, result in the recognition of UBTI by tax-exempt investors. The prudence of a particular investment must be determined by the responsible fiduciary (usually the trustee, plan administrator or investment manager) with respect to each qualified plan, taking into account all of the facts and circumstances of the investment.

ERISA provides that Notes may not be purchased by a qualified plan if the Company, the Guarantor or any of its affiliates is a fiduciary or party in interest (as defined in Sections 3(21) and 3(14) of ERISA) to the plan unless such purchase is exempt from the prohibited transaction provisions of Section 406 of ERISA. Under ERISA, it is the responsibility of the fiduciary responsible for purchasing Notes not to engage in such transactions. Section 4975 of the Code has similar restrictions applicable to transactions between disqualified persons and qualified plans or individual retirement accounts, which could result in the imposition of excise taxes on the Company, unless and until such a prohibited transaction is corrected.

In the case of an IRA, if the Company, the Guarantor or any of its affiliates is a disqualified person with respect to the IRA, the purchase of Notes by the IRA could instead cause the entire value of the IRA to be taxable to the IRA sponsor.

Section 406 of ERISA and Code Section 4975I also prohibit qualified plans from engaging in certain transactions with specified parties involving Plan Assets. Code Section 4975I also prevents IRAs from engaging in such transactions. One of the transactions prohibited is the furnishing of services between a plan and a “party in interest” or a “disqualified person.” Included in the definition of “party in interest” under Section 3(14) of ERISA and the definition of “disqualified person” in Code Section 4975(e)(2) are “persons providing services to the plan.” If the Company, the Guarantor or certain affiliates have previously provided services to a benefit plan investor, then the Company or the Guarantor could be characterized as a “party in interest” under ERISA and/or a “disqualified person” under the Code with respect to such benefit plan investor. If such a relationship exists, it could be argued that the affiliate of the Company or the Guarantor is being compensated directly out of Plan Assets for the provision of services, i.e., establishment of the Offering and making it available as an investment to the qualified plan. If this were the case, absent a specific exemption applicable to the transaction, a prohibited transaction could be determined to have occurred between the qualified plan and the affiliate of the Company, or the Guarantor.

Another type of transaction prohibited by ERISA and the Code is one in which fiduciaries of a qualified plan or the person who establishes an individual retirement account engage in self-dealing or in co-investment with the plan or account. Accordingly, affiliates of the Company and the Guarantor are not permitted to purchase Notes with assets of any benefit plan investor if they (1) have investment discretion with respect to such assets or (2) regularly give individualized investment advice which serves as the primary basis for the investment decisions made with respect to such assets. In addition, no fiduciary of a qualified plan or owner of an individual retirement account should purchase Notes both individually and with assets of the benefit plan investor.

With respect to an investing IRA, the tax-exempt status of the account could be lost if the investment constitutes a prohibited transaction under Code Section 408(e)(2) by reason of the affiliate of the Company, or the Guarantor engaging in the prohibited transaction with the IRA or the individual who established the IRA or his beneficiary. If the IRA were to lose its tax-exempt status, the entire value of the IRA would be considered to be distributed and taxable to the IRA sponsor.

BUSINESS PLAN

The DBSI Group of Companies ("DBSI Group") is an industry leader dedicated to locating, acquiring, developing, managing and providing real estate investment opportunities throughout the country. DBSI Group and its Entities will use the proceeds from the sale of the Notes to ensure growth and maintain a competitive advantage.

Real Estate Entities

Real estate ownership, entitlement and development is a very capital intensive enterprise. DBSI Group and its real estate Entities are substantially and increasingly involved in both real estate dealer and real estate development businesses. In order to effectively compete in today's markets and in connection with these businesses, DBSI Group and its real estate Entities need every advantage possible to assist in acquiring and developing quality real estate asset opportunities, including the ready availability of affiliates' capital. Furthermore, today's current capital and debt market instability and uncertainty can potentially restrict DBSI Group and its affiliates' ability to compete in today's highly competitive market. In order not to lose assets to other buyers and developers, DBSI Group and its real estate Entities need to have substantial ready capital available to use quickly when opportunities are identified. Often sufficient time is not available to secure bank or other financing when competing for the most attractive real estate opportunities. The Company is designed to give DBSI Group and its real estate Entities additional readily available revolving real estate acquisition and development capital. The real estate Entities will use the proceeds from the Offering to purchase, rehabilitate, entitle, develop and/or finance selected assets. By having this capital available, real estate Entity personnel expect to be able to acquire, rehabilitate, entitle or develop assets, possibly at more favorable terms than might otherwise be available. Permanent equity and debt financing is expected to be put in place following acquisition, rehabilitation, or development and/or the assets will be sold, thus, making the Company's funds revolving, i.e., available for another transaction.

As part of its competitive advantage, the DBSI Group of Companies also includes a small non-real estate portfolio. DBSI Group and its non-real estate Entities will use the proceeds from the sale of the Notes to continue their growth and diversification.

Non Real Estate Entities

DBSI Group and its non-real estate Entities provide an increasingly diverse non-real estate portfolio for DBSI Group and its affiliates by strictly focusing on placements of private equity funds pooled predominantly from DBSI Group and its affiliates. DBSI Group and its non-real estate Entities build their asset base through strategic acquisitions and investments in emerging technology companies with quality people and core technologies. DBSI Group and its non-real estate Entities provide financing to growing companies within the portfolio that demonstrate a large market opportunity, superior competitive position, proprietary product or service, scalable technology, and tangible customer benefits. The Loans may be used for new equipment purchases, working capital or to retire existing debt obligations. In order not to lose a competitive advantage in their respective emerging technology markets, DBSI Group and its non-real estate affiliates need to have substantial capital available to use quickly when opportunities present themselves. Often sufficient time is not available to secure bank or other financing when competing in the challenging and fast-paced environment of emerging technology markets. The Company is designed to give DBSI Group and its non-real estate Entities additional readily available revolving capital financing and refinancing capital for its non-real estate portfolio. The Company expects the non-real estate Entities to typically use Loans to finance operations or for the early retirement of existing debt. The Company will only lend a maximum of forty percent (40%) of the gross proceeds to the non real-estate Entities.

LOANS TO ENTITIES

The proceeds of the Offering will be used to make Loans to Entities to (i) acquire, rehabilitate, entitle, develop and/or finance real estate assets prior to their sale, resale, third-party financing or syndication and (ii) to finance or refinance non-real estate Entities. The Company will minimize concentration, by loaning to a diverse group of Entities. The Company will only lend a maximum of forty percent (40%) of the gross proceeds to the non real-estate Entities. Real estate assets can be any generally recognized interest or estate in real property, including without

limitation, fee simple, tenant in common or an option to acquire an interest or estate in real property. Ownership interests in non-real estate Entities can be any generally recognized equity interest in any business venture that a non-real estate Entity has a vested ownership interest. (See "The Notes" below).

The Company anticipates, but is not limited to, making Loans to the following DBSI Group controlled Entities or their subsidiaries:

DBSI-Discovery Real Estate Services LLC

DBSI-Discovery Real Estate Services ("DDRS") is a full-service real estate acquisition company. The primary focus of DDRS is providing well-positioned, intrinsic-valued real estate opportunities such as retail, office, flex, industrial, and multi-family offerings. Services provided by DDRS include property acquisitions, property management, leasing, closing operations, accounting, marketing, and information technology. DDRS will typically submit a loan application to the Company for the purpose of securing funds to acquire a retail, office, flex, industrial, or a multi-family property prior to the sale, resale, third-party financing or syndication of the property.

DBSI Development Services LLC

DBSI Development Services LLC, an Idaho limited liability company, was formed in March 2005 and is 100% owned by the Guarantor. DBSI Development controls various real estate entities and properties, which has interests in numerous commercial real estate development projects. DBSI Development's executive team has over 150 years of combined experience in the development industry and has developed over 1 billion square feet in completed projects. DBSI Development will typically submit a loan application to the Company for the purpose of acquiring, rehabilitating, entitling, developing and/or financing land and/or development projects or land prior to the sale, resale, third-party financing or syndication of the land or development project.

DBSI Properties Company Limited Partnership

DBSI Properties Company Limited Partnership ("Properties"), an Idaho limited partnership, is majority controlled by the Guarantor and is based in Boise, Idaho. Beginning, in 1999, Properties began investing in non-real estate companies throughout the intermountain and western United States. Presently, Properties owns a majority interest in Stellar Technologies LLC and Western Electronics LLC. Stellar Technologies serves as a business incubator and owns a majority interest in the following non-real estate companies: Bio-Reaction Industries LLC, GigOptix LLC, and Wavetronix LLC.

Western Electronics LLC is a contract manufacturer providing sub-assembly, final assembly, and testing for OEM companies. Western Electronics has been in business since 1978 and under Properties ownership since 1999. Western provides manufacturing, distribution and fulfillment offerings and solutions including design for manufacturability and testability, procurement and materials management, Printed Circuit Board Assembly (PCBA), custom molded cable and wire harness assembly, final product assembly, and distribution/end-order-fulfillment value added services. Western has three business segments (PCA, Product, Cable/Harness) within two US Operation locations (Idaho & Colorado). These separate operations are capable of manufacturing sub-assemblies and final product assembly to customer specifications, then vertically integrating these sub-assemblies into a finished product, and providing seamless end-order fulfillment on behalf of our customers. These services enable Western's customers to focus on their core competencies of Research & Development and Sales & Marketing.

Stellar Technologies LLC, an Idaho limited liability company, was formed in 1999 for the purpose of maintaining a majority interest in number of new technology ventures.

Bio-Reaction Industries LLC designs and manufactures industrial filtration systems that biologically absorb and digest volatile organic compounds and odors found in industrial applications, and converts them primarily to carbon dioxide and water vapor. Bio-Reaction's patented design of its biofilters and its patented compost matrix formulation combine fungal and bacterial catalytic activity into a scalable, cost effective pollution control solution. With a smaller footprint and lower capital and operating costs than competing technologies, Bio-Reaction systems create no secondary

pollutants, prevent cross-media pollution, encourage onsite recycling of waste streams, and reduce generator liability and facility emissions.

GigOptix LLC designs semiconductor-integrated circuits for broadband communications systems. GigOptix's current products are system-on-chip solutions for 12.5Gb/s, 40Gb/s and beyond. Those products include transmit and receive functions which are required for the physical layer of an optical communication system within both the datacomm and telecomm market segments. The company provides customers with platform and custom product solutions using advanced design methodologies and process technologies. GigOptix's world-class design team brings together core competencies in microwave/analog, high-speed digital/system design, and analog system processing/high-speed converters, which enables the company to develop unique cost effective market solutions.

Wavetronix LLC develops advanced traffic management systems for traffic detection and measurement. The company has expertise in Radio Frequency design, digital signal processing, and wireless technologies. The company's first product, the SmartSensor, based on the company's patented Digital Wave Radar technology, was introduced in August 2002. This system reduces the total cost and increases the accuracy and manageability of traffic detection and measurement systems. The SmartSensor is a non-intrusive solution and is completely self-managed and calibrated. Because it is a radar solution, it does not experience any adverse problems with weather conditions or its environment.

A loan application for the non-real estate Entities will be submitted for the purpose of financing operations or for the early retirement of existing debt. The Company may use up to \$28 million of the Offering proceeds to retire the aggregate principal outstanding balances of existing debt on these Entities.

Loan Requirements

In order to qualify for Loans from the Company, each Entity will be required to submit a loan application to the Company and satisfy a variety of requirements. The primary financial requirement is that, at the time each Loan is made, the aggregate Loan to Value Ratio of the Loans must not exceed a maximum overall 85% Loan to Value Ratio. The Company has appointed a Loan Committee to oversee and administer the Loans to Entities. The Loan Committee will initially consist of Mark Griffin, Vice President of Tax for DBSI Group of Companies, Paris Cole, Controller, DBSI-Discovery Real Estate Services, Wade Thomas, Associate General Counsel and Chief Compliance Officer, DBSI Group of Companies and Jeremy Swenson, Assistant Secretary of DBSI Housing, Inc.

Loans to Real Estate Entities

At the time each Loan is made, the aggregate Loan to Value Ratio of the Loans must not exceed a maximum overall 85% Loan to Value Ratio. Loan to Value Ratio is defined elsewhere herein by reference to an appraised or estimated value of assets and/or ownership interests as provided herein. Such appraisal or valuation may not reflect the actual fair market value of the assets and/or ownership interests, and may have been obtained by the Guarantor or an affiliate rather than by a prospective first mortgage lender or other disinterested third party. In the absence of an appraisal or valuation, asset and/or ownership interest value will be determined solely by the reasonable estimate of the Guarantor utilizing industry acceptable valuation methods such as capitalization of income, replacement cost, discounted cash flows, and comparable sales methodologies. Applied capitalization rates, if applicable, will be consistent with the property type, local market, and/or ownership interest, and will be applied to pro forma net operating income of the asset. Other minimum requirements for loan qualification are that each Entity receiving a Loan must demonstrate compliance with the same standards regarding legal matters as would normally be required by a third-party lender. Borrowing Entities are not required to have any operating cash flow as a condition to receiving a loan.

Loans to Non-Real Estate Entities

The Company will only lend a maximum of forty percent (40%) of the gross proceeds to the non real-estate Entities. At the time each Loan is made, the aggregate Loan to Value Ratio of the Loans must not exceed a maximum overall 85% Loan to Value Ratio. Loan to Value for the non-real estate Entities means the sum of the amount of a Loan and any other loans or other directly related obligations divided by the fair market value of the underlying entity determined by an appraisal performed by an independent, non-affiliated entity. The Loan Committee will also

require the non-real estate Entities to provide an updated independent appraisal annually for reevaluation of the Loan to Value if the loan is extended past one year.

Promissory Notes and Security

The Loans to the borrowing Entities will be evidenced by promissory notes requiring payments sufficient to pay the Note interest and principal on or before the due dates of the Note interest and principal. In order to recoup the offering costs paid by the Company and to provide a cash flow cushion, the Loans are expected to be made at 11.5% interest rates, 2.0% higher than the Note's rate. The promissory notes mature one year from date of inception but may be extended for additional time at the sole and absolute discretion of the Company.

To the extent allowed by any senior liens, the promissory notes may be secured by a lien on the respective Entity's assets or pledge of ownership interests, but the lien may be subordinate to any prior existing loan. As a result of senior liens, some or all of a Loan may be unsecured. Therefore, in some cases, there may be no Entity asset lien collateral available and the Loan may be only a general unsecured claim against the Entity.

If allowed by state law, UCC-1 notice filing will be filed with the secretary of state's office in each appropriate state regarding the pledge of ownership interest. If allowed by the underlying third-party loan documents, a memorandum of non-encumbrance will be recorded in the county records of the jurisdiction in which each Entity is located. Such recordings are intended to diminish the likelihood of future Loan violations by providing notice to potential future lenders that a loan from them may violate previous Entity Loan requirements.

Annual Audits and Separate Accounts

The Company will be audited annually by an independent certified public accounting firm beginning with year-end 2008. However, the Guarantor's financial statements are not required to be audited. The report from that annual audit will be made available to the Noteholders of record upon request. Proceeds from the sale of the Notes will be held in a separate account (the "Loans To Entities Account"), which will be used only to pay offering costs and to fund loans, and will not be commingled with the Guarantor's financial or business accounts or with the accounts of any Affiliates. The Loans to Entities Account will issue funds to and receive payment from those Entities that borrow the Note proceeds. Funds may not be loaned to an Entity unless it completes all documentation as required by the Company.

The Company will also establish an "Interest Account" from which all interest payments to the Noteholders will be paid. The Company will initially fund the Interest Account with two hundred thousand dollars (\$200,000), or additional amounts deemed necessary to make monthly interest payments on the Notes. The Company will also establish a "Redemption Account" which will be used solely for redeeming the Notes, either at the request of the Noteholder or the Company starting on January 1, 2010 and every year thereafter, and in accordance with the provisions set forth herein.

Repayment and Credit Enhancement

The Company anticipates that the borrowing Entities will pay the interest and repay the principal of their respective Loans to the Company (and the Company in turn will pay the interest and repay the principal of the Notes) from one of three sources or a combination thereof. The three sources, which will vary substantially in order of importance and priority from Entity to Entity are: (1) any operating cash flow from the Entity to the extent it may exist (borrowing Entities are not required to have any operating cash flow as a condition to receiving a Loan); (2) new loans and loan refinancings obtained by the Entity, which may include loans from the Guarantor or other affiliates; and (3) sales or syndications of some or all of the Entity's ownership interests or assets, such as, without limitation, to investors. There can be no assurance that funds will be available from any of the designated sources to pay the interest and repay the principal of the Loans at their due dates. The promissory notes mature one year from date of inception but may be extended for additional time at the sole and absolute discretion of the Company.

THE COMPANY AND THE GUARANTOR

The Company

The Company was incorporated in Idaho in 2008 and is wholly owned by the Guarantor. There is no operating history of the Company, but the principals of the Guarantor and its affiliates have extensive business experience. See "Management of the Company and the Guarantor" for a discussion of the business experience of these individuals.

The principal executive offices of the Company, the Guarantor and many of the other Entities are located at 1550 South Tech Lane, Meridian, Idaho 83642. The Company's telephone number at such address is (208) 955-9800.

The Guarantor

The Guarantor was incorporated in Idaho in February 1980 and is a parent company or controlling entity to various real estate and non-real estate entities which have interests in numerous commercial real estate and non-real estate projects and businesses. In 29 years, DBSI Group and its affiliates have grown to more than 400 employees and have, along with its affiliates, raised more than \$1.5 billion in capital. DBSI Group currently manages assets valued at over \$2.65 billion. The Guarantor has a net worth of more than \$105 million, and its offerings have included more than 60 traditional real estate offerings, 15 debt offerings, and numerous commercial real estate and non-real estate projects and businesses. This includes more than 75 tenant in common offerings in 31 states. The majority (controlling) shareholder of the Guarantor is Douglas L. Swenson. The remaining shares of the Guarantor are held by the following corporate officers: Charles E. Hassard, Executive Vice President, Finance; and John Mayeron, Executive Vice President, Marketing. The executive offices and telephone number of the Guarantor are the same as those of the Company. The Guarantor will provide an unconditional guarantee of payment of the interest to the Noteholders and principal redemption of the Notes as provided in this Memorandum. The guarantee may be enforced directly against the Guarantor without first proceeding against the Company in the event the Company fails to pay as required.

DBSI GROUP OF COMPANIES PRIOR DEBT PERFORMANCE

The information presented in this section represents the historical experience of debt programs managed by the Guarantor and its affiliates. All of such prior programs raised capital through the private sales of securities. Noteholders should not assume that they will experience returns, if any, comparable to those experienced by investors in such prior offerings.

The Guarantor, the sole shareholder of the Company, is a member of the DBSI Group. Beginning in 1994, DBSI Group has issued a total of 15 debt offerings all of which have been offered as private securities and raised in excess of \$300 million in capital. DBSI Group issued these offerings primarily to provide capital to help secure loans on real estate. DBSI Group or an affiliate, controls the entities which own the real estate and other assets. The debt instruments generally have a term of eight years and are unconditionally guaranteed by the Guarantor and are secured by the equity in the real estate and other projects.

As of December 31, 2007, DBSI Group has retired eight of 15 prior debt offerings and plans to retire three additional debt offerings, to total 11 offerings, by the end of 2008 representing nearly \$127 million of retired debt. More than \$20 million in debt was retired through operations in 2007 with an additional estimated \$41 million expected to be retired in 2008. If retired as planned, in 2008, about 74% of all pre-2005 debt of this type will have been retired by the DBSI Group (See "Exhibit C—Prior Similar Debt Guaranteed by the Guarantor").

MANAGEMENT OF THE COMPANY AND THE GUARANTOR

Management of the Company, the Guarantor and other Entities. The Company is an Idaho corporation established to further the real estate and non-real estate business of its parent and its parent's Affiliates by providing the Loans. The beneficial ownership and management of the Company and the stock ownership and management of

the Guarantor and most other Entities are held by the three (3) individuals identified as principals below. They also constitute the Board of Directors of the Company with Mr. Swenson, the majority (controlling) owner, serving as the Chairman.

Principals of the Guarantor. The current principals of the Guarantor and the business experience of each for at least the past five years are as follows:

Douglas L. Swenson, age 59, is President of the Guarantor, and also the founder and current President of other DBSI Companies, consisting of the Guarantor, its subsidiaries, and other affiliated companies. Prior to founding the DBSI Group of Companies in 1979, he practiced for three and one-half years as a Certified Public Accountant in Boise, Idaho, with Touche Ross & Co., an international accounting firm, specializing in taxation. In this capacity, he had extensive experience in the analysis of real estate and other investments. Prior to joining Touche Ross & Co., he was a practicing Certified Public Accountant with Peat, Marwick, Mitchell and Co. in Houston, Texas, beginning in 1972. Mr. Swenson is a Certified Public Accountant (inactive), a real estate licensee (inactive), and a registered principal and majority shareholder of the Managing Broker-Dealer. He holds a Master of Accountancy degree from Brigham Young University.

Charles E. Hassard, age 59, is Executive Vice President, Finance of the Guarantor. Prior to joining the DBSI Group of Companies in 1984, he was a Certified Public Accountant for seven years with Touche Ross & Co. in San Francisco, California, and Boise, Idaho, specializing in taxation. In his position, he had extensive experience in analyzing real estate and other investments. Mr. Hassard is a Certified Public Accountant previously licensed in California and currently licensed in Idaho. He holds a Master of Accountancy degree from Brigham Young University.

John Mayeron, age 53, is Executive Vice President, Marketing of the Guarantor. With over 20 years of experience in the securities industry, his most recent prior position was with Kavanaugh Securities before joining DBSI Group in 1990. Mr. Mayeron holds a Bachelor's degree from the University of Oregon in Marketing, International Business and Political Science and is a registered representative and shareholder of the Managing Broker-Dealer. He is a member of Phi Beta Kappa and Beta Gamma Sigma.

THE NOTES

The Notes are issued pursuant to and evidenced by the Note Registrar and will be held in "book-entry" on the Note Register by the Company. The offering of Notes by the Company will be limited to \$50,000,000 subject to increase by the Company at its sole and absolute discretion to a maximum of \$90,000,000, in aggregate principal amount. Interest on the Notes is payable monthly in arrears on the fifteenth day of the following month (each an "Interest Payment Date") until the principal sum is paid. The Notes bear interest at the rate of 9.5% per annum, payable monthly on the Interest Payment Dates. Noteholders may elect to have interest reinvested and compounded monthly (See "Interest Reinvestment Option"). The Notes are issued with a minimum purchase of \$50,000 and in additional denominations of \$1,000; however, smaller purchases are available at the sole and absolute discretion of the Company. Interest on the Notes will be payable by check or draft mailed to the person in whose name a Note is registered on the 1st day of the month preceding each Interest Payment Date. Unless redeemed earlier at the option of the Noteholder (See "Mandatory Redemption at Option of Noteholder"), or an Event of Default exists and the Noteholders elect to declare the Notes due and payable, or the Company calls the Notes for early redemption, the Notes will mature on December 31, 2015, at which time the principal of the Notes will be paid upon the presentation of ownership thereof to the Company. The Notes are non-callable by the Company through December 31, 2012, except under certain very limited circumstances, including death of Noteholder. (See "The Offering and Plan of Distribution—The Offering"). After that date, the Notes are fully callable at the Company's sole option and demand, in whole or in part, upon thirty days written notice. Any partial call will be implemented by the Company by selection among Noteholders at the Company's sole and absolute discretion. (See "Exhibit F – the Master Note")

Transfer and Exchange of Notes

Generally, the Notes will be non-transferable except in very limited circumstances, including death of Noteholder. If transfer is permitted by the Company, the transfer of Notes may be affected only by the registered owner thereof, at the Company's principal executive office in Meridian, Idaho. Substantial restrictions apply to the transfer of the Notes. The Notes have not been registered under the Securities Act, and therefore, cannot be sold or transferred unless they are subsequently registered under the Act or an exemption from such registration is available. A Noteholder may, under certain circumstances, be permitted to transfer the Notes, but only to persons who meet certain suitability standards, and the Company may require assurances that such standards are met before agreeing to any transfer of the Notes (See "The Offering and Plan of Distribution--Suitability Requirements for Purchasers"). Additionally, the Company may charge an administrative fee to effectuate any such transfer or exchange.

Mandatory Redemption at Option of Noteholder

An amount equal to one tenth of the original principal amount of all Notes issued under this Offering shall be subject to redemption at the option and demand of Noteholders on first day of each year, starting January 1, 2010 and every year thereafter (the "Redemption Date"). The Notes will be redeemable subject to the following: January 1, 2010 at 96% of original principal amount plus accrued interest; January 1, 2011 at 98% of original principal amount plus accrued interest; January 1, 2012 & beyond at 100% of original principal amount plus accrued interest. For a Note to be eligible for such redemption, a Noteholder must submit written demand for redemption to the Company at least 120 days prior to the Redemption Date. If the Company receives demand for redemption on a Redemption Date of more than one tenth of the original principal amount of the Notes issued, the Company shall honor the demands in the order of their receipt by the Company until 10% of the original principal amount of the Notes issued are redeemed at that Redemption Date. The Company may, but shall not be obligated to, honor any or all additional demands for redemption, provided the demands are honored in the order of their receipt by the Company. The redemption will not be cumulative for any amounts not redeemed in prior years. In addition to the above, at its sole and absolute discretion, the Company may honor requests for redemption upon proof of death or disability of the Noteholder. If such specific requests are honored, the amount redeemed will receive priority over all other redemptions and will be included in the annual amount available for redemption. Furthermore, if honored, such redemption requests shall be redeemed within 90 days of the Company receiving the redemption request.

Interest Reinvestment Option

Noteholders may elect initially or no less than annually thereafter to reinvest all (but not less than all) of their fixed interest payments. The interest payments reinvested will be retained by the Company and used in its business operations pertaining to its Loans. Reinvested interest will begin to accrue interest as of its payment date. The total amount of the reinvested interest over the year, with interest compounded monthly on the reinvested amount, will be added to the principal amount of the Note at the end of each calendar year. Noteholders may change their reinvestment election for the following calendar year by giving written notice not less than thirty (30) days prior to the end of the current calendar year.

CAPITALIZATION

The following table sets forth as of December 31, 2008, the expected capitalization of the Company and capitalization as adjusted to give effect to the issuance and sale by the Company of the Maximum Offering of Notes offered hereby.

	December 31, 2008 <u>As Adjusted⁽¹⁾</u> <u>Maximum⁽⁴⁾</u>	December 31, 2008 <u>As Adjusted</u> <u>Total Maximum</u> <u>Offering Amount</u>
Long-Term Debt:		
Notes ⁽²⁾	<u>\$50,000,000</u>	\$90,000,000
Total funded long-term debt	<u>\$50,000,000</u>	<u>\$90,000,000</u>
Stockholders' Equity:		
Common stock, no par value		
Authorized: 500,000 shares,		
Issued and Outstanding: 10,000 shares	\$ 10,000	\$ 10,000
Additional Paid-In Capital ⁽³⁾	<u>\$190,000</u>	<u>\$190,000</u>
Total stockholders' equity	<u>\$200,000⁽³⁾</u>	<u>\$200,000⁽³⁾</u>

⁽¹⁾ As adjusted to reflect the Offering of \$50,000,000.

⁽²⁾ The Notes being offered to prospective Purchasers are described in the section titled "The Notes."

⁽³⁾ The equity is from DBSI Housing Inc. (the "Guarantor"). (See "The Company and the Guarantor").

⁽⁴⁾ Subject to increase to no more than \$90,000,000 at the sole and absolute discretion of the Company.

THE OFFERING AND PLAN OF DISTRIBUTION

The Offering

The Company is offering \$50,000,000⁽¹⁾ aggregate principal amount of Notes, to prospective Purchasers who are Accredited Investors and who meet any additional requirements imposed by certain states or by the Company itself. There is no minimum offering amount. The Notes are issued with a minimum purchase of \$50,000 and in additional denominations of \$1,000. However, a purchase for less than \$50,000 may be accepted at the sole and absolute discretion of the Company. Persons desiring to purchase Notes should follow the procedure described below. Certain Purchasers, including but not limited to, selling agents, if allowed by their broker-dealer, employees of the Company or affiliates, and any other Purchasers at the sole and absolute discretion of the Company may buy Notes at a discount or net of selling commissions and expense reimbursements, reflecting, without limitation, the reduction in the broker-dealer commission payable on their purchase. The Company, in its discretion, may reject any subscription in whole or in part. Such rejection may be made for any reason. The Offering will terminate not later than June 30, 2008, unless extended to a date not later than December 31, 2008 at the sole and absolute discretion and option of the Company. The Company reserves the right to terminate the Offering at any time prior to the closing of subscriptions. In the unexpected event that proceeds from this Offering are received in excess of the amount of eligible Loans, or in the event the initial Loan has not been made within 180 days of the completion of the Offering, the Company reserves the right to call all or any portion of the Notes and refund such excess proceeds plus 9.5% interest from date of receipt to those subscribers selected by the Company in its discretion, until the remaining Offering proceeds do not exceed the eligible Loan amount, or otherwise as necessary to comply with all applicable laws.

This Offering is being made on a best efforts basis by Selling Agents selected by DBSI Securities Corporation, an affiliate of the Company and the distributor of the Notes. The Company will pay sales commissions, due diligence costs and non-accountable marketing expenses to DBSI Securities Corporation which may reallocate them to the Selling Agents in amounts estimated at up to 6.5%, 0.5%, and 0.5%, respectively, of the principal amount of all Notes, as well as a placement fee and expense reimbursement to DBSI Securities Corporation of 2%. The selling agreements to be entered into by DBSI Securities Corporation with the Selling Agents contain provisions for indemnity from the Company with respect to liabilities, including certain civil liabilities under the Securities Act, which may arise from the use of this Memorandum in connection with the offering of the Notes. A successful claim by the Selling Agents for indemnification could result in a reduction in the Company's assets. In the opinion of the Securities and Exchange Commission, indemnification for liabilities under the Securities Act is against public policy and therefore unenforceable.

Suitability Requirements for Purchasers

Purchase of the Notes is suitable only for persons of adequate financial means who have no need for liquidity with respect to this investment. Beginning January 1, 2010, the Company will annually redeem at the written request of Noteholders, up to 10% of the original aggregate principal of the Notes issued plus accrued interest. The Notes will be redeemable subject to the following: January 1, 2010 at 96% of original principal amount plus accrued interest; January 1, 2011 at 98% of original principal amount plus accrued interest; January 1, 2012 & beyond at 100% of original principal amount plus accrued interest. Even though the Notes are redeemable, on a first-come, first-served basis (subject to certain exceptions), there will not be any public market for the Notes and they should be considered illiquid.

Notes will be sold only to Purchasers, or fiduciaries representing Purchasers, who represent in writing that they are Accredited Investors. Purchasers residing in certain states may need to meet additional standards.

Purchasers should be aware that the Notes have not been registered under the Securities Act or state securities laws and therefore cannot be sold or transferred unless they are subsequently registered under the Securities Act or an exemption from such registration is available; accordingly, a Purchaser must bear the economic risk of the investment for an indefinite time. Under certain very limited circumstances, including death of Noteholder, a Noteholder may be

⁽¹⁾ Subject to increase to no more than \$90,000,000 at the sole and absolute discretion of the Company.

permitted to transfer Notes, but then only to persons who meet certain suitability standards, and the Company will require assurances that such standards are met before agreeing to any transfer of the Notes.

Documents to be Completed by Investors

Each prospective Purchaser desiring to subscribe for the Notes must complete and sign the Subscription Agreement and Investor Instructions attached to this Memorandum (or separate copy thereof) and return them to the Company.

In the Subscription Agreement and Investor Instructions each Purchaser will acknowledge, among other things that he or she: is purchasing the Notes for investment only and not with any intention of reselling or distributing all or any portion thereof to others; is able to bear the economic risk of investment in the Notes; and has provided complete and accurate information to the Company concerning Accredited Investor status and other relevant data. This Offering is intended to be a private offering exempt from the securities registration requirements of the Securities Act, by virtue of compliance with Regulation D and the rules and regulations promulgated under the Securities Act. Accordingly, the Notes offered hereby are not, and will not, be registered with the Commission or with any state securities commission.

REPORTS

The Company will furnish the following reports, statements, and tax information to each Noteholder:

Confirmation of Notes. Upon acceptance of the subscription agreement, each Noteholder will receive a confirmation of the amount of the denomination of his purchase. Since the Notes will be "book-entry" on the Note Register, Noteholders will not receive any form of a "note certificate."

Annual Report. The Company will be audited annually by an independent certified public accounting firm beginning with year-end 2008. The report from that annual audit will be made available to the Noteholders of record upon request.

Tax Information. Within 30 days after the end of each fiscal year, the Company will send to each Noteholder such tax information, including annual 1099 tax information, as shall be necessary for the preparation of federal income tax returns and state income and other tax returns with regard to the applicable jurisdictions.

NO RATING

The Company will not request a rating from Standard and Poor's Corporation, Moody's Investor's Service, or any other or similar rating company. The Company believes that the benefits of a rating do not justify the costs associated with a rating for the Notes issued by a new company with no established operating history.

LITIGATION

Currently, there are no material legal actions pending against the Guarantor, the Company or any of its affiliates. To the knowledge of each of the Guarantor, the Company or any of its affiliates, there are no actions contemplated which, if determined adversely, would have a material adverse effect on the Guarantor, the Company or any of its affiliates, its financial condition or operations.

AVAILABILITY OF ADDITIONAL INFORMATION AND DOCUMENTS

In connection with the Offering made hereby, selected securities broker-dealers are expected to make use of this Memorandum and other material supplied by the Company; the Offering of the Notes is made only by means of this Memorandum. No person has been authorized to make any representations other than these contained in this Memorandum and, if given or made, such representations must not be relied upon.

Information and documentation concerning the Company and the Entities are available for examination by each prospective Purchaser upon request, in connection with an evaluation of a purchase of the Notes. Prospective Purchasers are strongly encouraged to obtain such additional information and any request for examination of such documentation should be made to the Company through Charles E. Hassard, Executive Vice President, Finance, and a beneficial shareholder of the Company, at (208) 955-9800. Mr. Hassard will make an appointment with the prospective Purchaser or his representative for the examination of the requested documents at the offices of the Company or will provide copies of requested documents. Any other documents relevant to the transaction and which are obtainable by the Company but not listed herein are also available for examination by prospective Purchasers from Investor Relations at (866) 489-3377.

1. Articles of Incorporation and Bylaws of the Company.
2. Sample Loan Documents.
3. Financial statements, budgets, formation documents, business plans, real estate acquisition and development documents and other information on Entities which may receive Loans. The Company reserves the right to require any person who wishes to view the Company's proprietary information to first execute a Confidentiality and Nondisclosure Agreement in form and substance satisfactory to the Company.

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GLOSSARY

The definitions of certain terms used in this Memorandum are set forth below:

“Accredited investor” means the same as the term Accredited Investor defined in Regulation D as promulgated under the Securities Act.

“Company” means DBSI 2008 Notes Corporation, an Idaho corporation.

“DBSI Group” means DBSI Group of Companies.

“DDRS” means DBSI-Discovery Real Estate Services.

“Entities” means DBSI Housing, Inc. and those current and future entities that are wholly- or partially-owned subsidiaries of DBSI Housing Inc. and subject to the control of DBSI Housing Inc. within the meaning of Regulation §270.3a-5 of the Investment Company Act of 1940, as amended, and as further discussed in the Business Plan.

“ERISA” means the U.S. Federal Employment Rights and Income Security Act, U.S.C. Title 29, Section 18.

“Event of Default” refers to the occurrence of any of the following: (i) failure to pay the principal on the Notes when due at maturity, or upon any earlier due date, or upon mandatory redemption at the option of Noteholder, (ii) failure to pay any interest on the Notes for 10 days after notice of such default to the Company; (iii) failure to perform any other covenant for 10 days after receipt of written notice specifying the default and requiring the Company to remedy such default; or (iv) events of insolvency, receivership, conservatorship or reorganization of the Company.

“Guarantor” means DBSI Housing Inc.

“Increased Maximum Offering Amount” means \$90,000,000.

“Initial Investment” means the date the prospective purchaser became a Noteholder.

“Interest Payment Date” means each of the several dates on which interest on the Notes is payable, including the fifteenth day of each month until the Note principal sum is paid.

“Loans” or “Loans to Entities” means loans to Entities from the Offering proceeds and any subsequent loans to other Entities.

“Loan Committee” refers to the qualified individuals appointed by the Company to oversee and administer the Loans to Entities.

“Loan Requirements” means those items which must be satisfied in order for an Entity to qualify for a Loan.

“Loan to Value Ratio” for the real estate Entities means the sum of the amount of a Loan and any other loans or other directly related obligations divided by an appraised or estimated value or the Company’s reasonable estimated resale, discounted cash flow, or other value of the assets and/or ownership interest of an Entity. Real Estate assets can be any generally recognized interest or estate in real property, including without limitation, fee simple, tenant in common, or an option to acquire any such interest or estate in real property. In the case of a mortgage interest, the Loan to Value Ratio will be computed using the value of the mortgaged real estate assets. The Loan to Value Ratio for non-real estate Entities means the sum of the amount of a Loan and any other loans or other directly related obligations divided by the fair market value of the underlying entity determined by an appraisal performed by an independent, non-affiliated entity.

“Managing Broker-Dealer” means DBSI Securities Corporation, an Idaho corporation.

“Maximum Offering Amount” means \$50,000,000, subject to an increase to \$90,000,000 at the sole and absolute discretion of the Company.

“Memorandum” means the document specified as this Confidential Private Placement Memorandum for the offer and sale of Notes.

“Noteholders” means Purchasers of Notes.

“Note Register” means the records and documentation retained to track the ownership interest of the Notes.

“Notes” means the 9.5% Notes due December 31, 2015.

“Offering” means the offering of Notes by the Company pursuant to the terms and conditions described in the Memorandum.

“Purchaser” means person(s) who purchase Notes pursuant to this Memorandum.

“Redemption Date” means January 1, 2010 and each of the anniversary dates of that date until the Notes are paid in full.

“Registrar” means the Company, which is responsible for keeping track of the Noteholders and maintaining the Note Register.

“Securities Act” means the Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder.

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EXHIBIT A

**DBSI 2008 Notes Corporation
Balance Sheet**

DBSI 2008 Notes Corporation
Balance Sheet

January 7, 2008

ASSETS

CASH	\$ <u>200,000</u>
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LIABILITIES AND SHAREHOLDER'S EQUITY

SHAREHOLDER'S EQUITY

Common stock - \$1 par value; 500,000 shares authorized; 10,000 shares issued and outstanding	\$ 10,000
Additional Paid-in Capital	\$ <u>190,000</u>

DBSI 2008 NOTES CORPORATION

NOTES TO BALANCE SHEET

January 7, 2008

1. ORGANIZATION

DBSI 2008 Notes Corporation was formed effective January 7, 2008, to serve as the issuer of Notes due in 2015. Its sole shareholder is DBSI Housing Inc. The Company's only anticipated source of income will be from interest on loans made to certain Entities including DBSI Housing Inc. and certain of its controlled entities. The Company's only anticipated expense will be interest expense on the Company's Notes. All other operating expenses of the Company will be paid by DBSI Housing Inc. or other Affiliates.

2. COMMITMENTS AND RELATED PARTY TRANSACTIONS

In connection with the terms of the private offering of the Company's Notes, the Company is representing a net worth at the effective date of the Memorandum relating to the Notes of not less than \$200,000, which reflects the purchase price of the common stock issued and outstanding and additional paid-in capital.

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EXHIBIT B

Financial Statements of the Guarantor

DBSI HOUSING INC.
BALANCE SHEET
June 30, 2007
(Unaudited)

ASSETS

CURRENT ASSETS

Cash	\$ 14,014,641
Accounts receivable	10,409,256
Inventory (net of \$3,408,206 in third-party debt)	34,209,733
Cash - reserves and escrows	17,992,995
Cash - security and utility deposits	2,161,336
Total Current Assets	<u>78,787,962</u>

LONG-TERM ASSETS

Land investments (net of third-party debt)	89,897,937
Cash - reserves and escrows	13,252,334
Building and tenant improvements (net of depreciation)	19,731,909
Investments - partnerships	665,393
Investments - bond entities	3,217,214
Other assets	14,233,386
Total Long-term Assets	<u>140,998,171</u>
	<u>\$ 219,786,133</u>

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES

Accounts payable	\$ 14,572,366
Unearned rental income	7,738,433
Unearned fee income	316,421
Property taxes payable	16,920,487
Security deposits	5,946,705
Accountable reserves	5,552,517
Net payables to affiliates	2,985,091
Total Current Liabilities	<u>54,032,020</u>

LONG-TERM LIABILITIES

Stockholder notes payable	7,472,827
Accountable reserves	49,972,654
Total Long-term Liabilities	<u>57,445,482</u>

Total Liabilities	<u>111,477,502</u>
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Minority Interest	2,408,213
-------------------	-----------

EQUITY

Common Stock - \$1 par value, 5,000 shares authorized;	
89 shares issued and outstanding	89
Capital in excess of par value	6,672,273
Retained Earnings	99,228,057
	<u>105,900,419</u>
	<u>\$ 219,786,133</u>

DBSI HOUSING INC.
STATEMENT OF OPERATIONS
For the Period Ending June 30, 2007
(unaudited)

	YTD
REVENUES	
Real estate sales	\$ 148,860,214
Master lease income	131,592,933
Interest income	456,759
Real estate fund management income	6,459,440
Disposition fee income	7,453
Miscellaneous income	3,993,552
Total Revenue	\$ 291,370,351
 EXPENSES	
Cost of goods sold	\$ 144,241,716
Property operating expenses	41,372,981
Rent expense	38,199,057
Additional rent expense - mortgage & interest	38,130,897
Overhead expenses	12,918,925
Depreciation and amortization	1,726,464
Total Expenses	276,590,040
 NET INCOME	 \$ 14,780,311

DBSI HOUSING INC.

NOTES TO THE FINANCIAL STATEMENTS June 30, 2007

1. SIGNIFICANT ACCOUNTING POLICIES

Organization

DBSI Housing Inc. (the "Company"), an Idaho corporation, was formed in 1980 for the organization and financial structuring of entities investing in real estate and other businesses. The Company arranges financing for these entities and it or an affiliate serves as their controlling entity. In addition to over 80 previous and present traditional real estate entity equity offerings, the Company is a principal in entities which own interests in numerous commercial real estate projects located in 29 different states, including over 60 offerings of tenant in common interests and 14 past and present private debt offerings.

The Company is one of the affiliated entities (in addition to the numerous controlled investment entities) comprising the DBSI Group of Companies controlled by the same owners. The other affiliated entities are: DBSI Securities Corporation; DBSI Inc.; DBSI Realty Corporation; numerous bond finance subsidiaries of the Company; and DBSI Properties L.P.

Through the affiliated entities, the company has master leases on approximately 16,700,000 square feet of commercial real estate as of June 30, 2007. These leases are for approximately 10-20 years and included the right to receive sublease rents on the properties. Master lease income includes rental income from the underlying properties, certain expense reimbursements (such as CAM charges), and other income related to certain ancillary income producing activities associated with the underlying properties (for example, parking fees generated by the properties). Additionally, master lease income also includes certain fees received by DBSI related to the master leased properties, which includes, among other things, certain fees received from an affiliated entity for the company agreeing to enter into master lease on the properties sold by the affiliate to tenant in common buyers.

Basis of Accounting

In preparing the financial statements the Company normally follows accounting principles generally accepted in the United States of America ("GAAP"), however, not all of the principles used in preparing the financial statements are in conformity with GAAP.

Doubtful Accounts

The Company periodically reviews receivables and evaluates their collectibility. As of June 30, 2007, accounts receivable from third-parties were reduced by an estimated allowance for doubtful accounts of approximately \$1,700,000. Bad debt expense YTD as of June 30, 2007 was approximately \$1,676,000. The Company considers all receivables from affiliated entities as fully collectible and no allowance for doubtful accounts was deemed necessary.

Investments

Investments consist principally of numerous controlling interests in various entities, bonds issued by some of these entities and equity investments in some of these entities.

The Company accounts for its investments in affiliated real estate entities using the cost method of accounting. Under the cost method, an investment is recorded at its original cost and the Company recognizes income as it receives distributions from the investments.

For investments in affiliated entities whose primary purpose is not related to investing in real estate, the Company recognizes losses as contributions are made and income as distributions are received.

Accountable Reserves

Accountable reserves represent funds paid to the Company by tenant in common buyers for future building improvements and leasing commissions related to the real estate properties they buy. As the Company incurs costs related to building improvements and leasing commissions for the specific properties, the

reserves are reduced. Any reserves remaining at the time the properties are sold are payable to the respective owners.

Contingent Liabilities

In the normal course of business the company routinely enters into agreements with affiliated companies which could result in contingent liabilities. Although the Company does not believe any material actual liability will result from such contingent liabilities, by virtue of its controlling positions and/or guarantee agreements, the Company is contingently liable for most of the outstanding recourse indebtedness of its affiliated entities, including, without limitation, various offerings secured by loans, totaling approximately \$211,200,000 at June 30, 2007, made to various affiliates which in turn are secured by real estate and other business interests owned by the affiliated entities.

Real Estate Fund Management Income

In addition to tenant in common transactions the Company, through its subsidiaries, also manages funds whose purposes are to develop or own commercial real estate. The net assets and operations of these funds are not included in the net assets or operations of the Company, but in return for managing these funds the Company receives fees related to the services it provides to the funds. These services include but are not limited to property acquisition, financing, development, project management, leasing, legal, accounting, disposition and so forth. As of June 30, 2007 the funds managed by the Company had total assets with a cost of approximately \$159,000,000.

Disposition Fee Income

Disposition fee income represents the fees earned by the Company for services provided to third parties in relation to the sale of their commercial real estate and is recognized at the time of sale. For the year ended June 30, 2007 all disposition fee income related to real estate managed by the Company.

Tax Status

The Company does not provide for income taxes in the financial statements. Income or loss of DBSI Housing Inc. is reported by the shareholders on their income tax returns pursuant to an election under Subchapter S of the Internal Revenue Code.

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Actual results and value could differ substantially from those estimates.

2. RELATED PARTY TRANSACTIONS

During fiscal year 2007 the Company entered into numerous transactions with affiliated entities included in the DBSI Group of Companies. Income and expenses related to these transactions have been eliminated and any outstanding payables or receivables at the end of the year have been netted together.

3. KASTERA, LLC

Effective April 1, 2007 a principal of the Company contributed their sixty-six percent ownership in Kastera, LLC, a residential home developer and builder located in Boise, Idaho, to the Company in exchange for four shares of the Company's stock worth approximately \$5,418,000 as of April 1, 2007. The net assets and operations of Kastera, LLC have been included in the Company's financial statements using the consolidation method of accounting.

4. LEGAL SETTLEMENT

During 2007 several limited partnerships managed by the Company settled a lawsuit with the United States Department of Agriculture, Rural Development (RD). The lawsuit, which was initiated by the Company on behalf of the limited partnerships, regarded the RD's failure to comply with USDA, Rural Housing Service regulations by allowing the limited partnerships to repay certain mortgages under the Rural Rental Housing Program and remove the related properties from the Rural Rental Housing Program. Under terms of the settlement, the RD agreed to settle the lawsuit by paying a total of \$5,000,000 of which the Company received approximately \$2,592,000 for reimbursement of legal fees and other costs associated with the lawsuit. The remaining proceeds from the lawsuit were distributed to the limited partnerships on a pro-rata basis.

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EXHIBIT C

Prior Similar Debt Guaranteed By the Guarantor

Prior Similar Debt Guaranteed By DBSI Housing Inc. ⁽¹⁾
As of December 31, 2007

DBSI debt offerings typically have an eight year term, are non-callable for the first six years, and are guaranteed by DBSI Housing Inc. All retired and current debt offerings have returned 100% of obligations as stated in the private placement memorandum.

<u>Fund</u>	<u>Issue Date</u>	<u>Due Date</u>	<u>Interest Percentage</u>	<u>Original Amount</u>	<u>Current Principal Amount</u>	<u>Status</u>
DBSI Finance Corp.	1994	2001	8% participating, 11% fixed	\$5,000,000	\$0	Retired
DBSI Capital Corp.	1994	2001	8% participating, 11% fixed	\$10,000,000	\$0	Retired
DBSI Funding Corp.	1995	2002	8% participating, 11% fixed	\$4,000,000	\$0	Retired
DBSI 1999A Funding Corp.	1999	2006	10%	\$4,000,000	\$0	Retired
DBSI 1999B Funding Corp.	1999	2006	10%	\$5,000,000	\$0	Retired
DBSI 1999C Funding Corp.	1999	2006	10%	\$5,000,000	\$0	Retired
DBSI 2000A Funding Corp.	2000	2007	10.50%	\$5,000,000	\$0	Retired
DBSI 2000B Funding Corp.	2000	2007	11%	\$15,000,000	\$0	Retired
DBSI 2001A Funding Corp.	2001	2008	11%	\$5,000,000	\$4,501,000	Current
DBSI 2001B Funding Corp.	2001	2008	10%	\$10,000,000	\$9,240,000	Current
DBSI 2001C Funding Corp.	2001 2002	2009	10%	\$10,000,000	\$8,951,000	Current
DBSI Guaranteed Capital Corp.	2002	2008	9%, 9.50%, 10%	\$51,000,000	\$22,954,000	Current*
DBSI Real Estate Funding Corp.	2003	2010	9%, 9.50%	\$42,170,000	\$35,731,985	Current
DBSI 2005 Secured Notes Corp.	2005	2012	8.15%	\$55,000,000	\$54,312,018	Current
DBSI 2006 Secured Notes Corp.	2006	2014	8.41%	\$75,000,000	\$75,000,000	Current
Totals:				\$301,170,000	\$210,690,003	

(1) Does not include currently owed interest payments.

* DBSI exercised the call option on the GCC Bonds beginning January 1, 2007. As of December 31, 2007, approximately \$20 million of the GCC Bonds were retired. All redemptions are done per the lottery systems outlined in the DBSI Guaranteed Capital Corporation PPM.

This material does not constitute an offering to sell nor a solicitation of an offer to buy any security. Such offers can be made only by a confidential private placement memorandum. Investors must be aware that this material cannot and does not replace a confidential private placement memorandum and is qualified in its entirety by the confidential private placement memorandum. These investments involve a high degree of risk. Please refer to the "Risk Factors" of a confidential private placement memorandum. Past performance is not a guarantee of future results. This material contains certain projections and assumptions, which are not guarantees. Actual results of any specific offering may differ significantly from these assumptions and projections.

EXHIBIT D

Subscription Agreement and Investor Instructions

Please complete ALL information and send to DBSI.
Subscription Agreement will be tentatively accepted no earlier than 3PM Mountain Time on To Be Determined
Attention: Subscription Services, Via Fax: 866-508-6017 Email: subscriptiondocs@dbsigroup.com
or Mail To: 1550 South Tech Lane, Meridian, Idaho 83642

Please follow these instructions carefully. Failure to do so may result in rejection of your subscription. For questions please contact Subscription Services at 800-678-9110.

1. Investment Information

A minimum investment of \$50,000 is required; however, smaller amounts may be invested at the discretion of the Company. CHECKS SHOULD BE MADE PAYABLE TO THE ORDER OF: "DBSI 2008 Notes Corporation"

2. Type of Ownership

Please check the appropriate box to indicate the type of investor subscribing. **Important: For investors other than natural persons, organizational documents must be attached.** See the following page for description of required documents.

3. Registration and Contact Information

Enter the exact name or names in which the Notes are to be held.

4. Institutional Information

If the investment is being made for an IRA account, the custodial information should be entered here. An authorized individual must sign the form approving the investment and include the Custodian's Signature Guarantee Stamp. Please send the original subscription documents to the custodian. A completed copy of the subscription documents may be faxed to the company at (208) 489-2680 to hold a reserved position with the Company.

5. Distribution Information

Please check the appropriate box to indicate your preferred method of receiving distributions. **Note:** For ACH deposits a voided check must be attached. The company prefers ACH deposit for automatic payments.

6. Subscription Signatures

Each investor must separately initial, sign, and date this section where indicated. If title is to be held jointly, all parties must sign. If the registered owner is a limited liability company, partnership, corporation, or trust, a manager/managing member, general partner, officer, or trustee of the entity must sign.

7. Broker/Dealer or Registered Representative (RR) Information (RR ONLY)

To comply with state and federal securities laws and with FINRA Rule 2810 this section must be completed by the Broker/Dealer and or Registered Representative.

8. Investor Representation and Warranties

Once the representations and warranties listed under this section have been read, understood, and satisfied, the signature of the investor or trustee is required; if applicable, the signature of the joint owner is also mandatory.

9. Substitute Form W-9

Please sign and date to certify that the Taxpayer Identification Number (TIN) supplied is true and correct. The signature of the investor or trustee is required; if applicable the signature of the joint owner is also mandatory.

Capitalized terms used herein have the meanings set forth in the Confidential Private Placement Memorandum for DBSI 2008 Notes Corporation.

If you are a Qualified Plan:

- Faxed copies of original subscription documents
- Faxed copies of original forms required by the custodian (please include investor account number)
- All additional supporting documentation if registered as one of the following below

If you are a Corporation:

- Articles of Incorporation
- Bylaws
- All Amendments
- If possible, please provide a copy of the document(s) filed with the State Agency.

If you are a Limited Liability Company (LLC):

- Operating Agreement
- Articles of Organization/Formation
- All Amendments
- If possible, please provide a copy of the document(s) filed with the State Agency.

If you are a Limited Liability Partnership (LLP):

- Partnership Agreement
- Articles of Organization/Formation
- All Amendments
- If the General Partner of the Partnership is an entity, please provide that entities information.
- If possible, please provide a copy of the document(s) filed with the State Agency.

If you are a General Partnership:

- Partnership Agreement
- Articles of Organization/Formation
- All Amendments
- If the General Partner of the Partnership is an entity, please provide the same information above on this entity as well.
- If possible, please provide a copy of the document(s) filed with the State Agency.

If you are a Trust:

- Trust Agreement and all amendments
OR
- Certificate of Trust, Title Page of Trust, Powers Page(s), Signature Page with Acknowledgement.

If you are a Defined Benefit Plan:

- Adoption Agreement signed by Employer and Employee
- All amendments and resolutions.

If you are a Profit Sharing Plan:

- Adoption Agreement for Administration of plan from administrator
- All amendments and resolutions.

Incomplete subscription documents will be returned to the Registered Representative within 24 hours of receipt.

Note: Additional information may be required at the discretion of the Company

Updated 9/12/07



Please complete ALL information and send to DBSI.
Subscription Agreement will be tentatively accepted no earlier than 3PM Mountain Time on To Be Determined
Attention: Subscription Services, Via Fax: 866-508-6017 Email: subscriptiondocs@dbsigroup.com
or Mail To: 1550 South Tech Lane, Meridian, Idaho 83642

1. Investment Information

Please indicate subscription dollar amount:

Dollar Amount \$ _____ Minimum \$50,000*

For _____ Notes

In the event of a discretion between the dollar amount indicated above and that of the actual check(s) received, the check amount(s) will govern.

* Smaller amounts may be accepted at the discretion of the Company.

- ☐ I prefer to participate in the Interest Reinvestment Option.
☐ I prefer to receive cash distributions.

In the event that Notes are fully subscribed, you will be placed on a wait list and will be notified if a position becomes available.

State in which sale was made if other than state of residence (REQUIRED): _____

Select Method of Payment:

- ☐ Check enclosed ☐ Wire

Please make check(s) payable to:
DBSI 2008 Notes Corporation

Wire Instructions: Marshall & Ilsley Bank
770 N Water Street
Milwaukee, WI 53202
ABA: 101102315 Account Number: **44154594**
BNF: DBSI 2008 Notes Corporation
Reference: **DBSI 2008 Notes Corporation**

3. Registration and Contact Information☐ Mr. ☐ Mrs. ☐ Ms. ☐ M.D. ☐ Ph. D. ☐ Other _____

1st Registration Last Name/Entity* First Middle SSN/EIN Birth Date

2nd Registration Last Name/Entity* First Middle SSN/EIN Birth Date

Investor **Street** Address (Required by USA Patriot Act) City State ZipInvestor **Mailing** Address (If different) City State Zip

Investor Business Telephone Investor Home Telephone

*If Corporation or other Legal Entity, please Print Name of Signer:

Primary Signer Secondary Signer

A U.S. street address and a U.S. Social Security Number or Taxpayer Identification Number are required to open an account.

INTERNAL USE ONLYAccepted by: _____ Member # _____
Authorized Rep Date**2. Type of Ownership**

*Important: Trust docs must be attached

- ☐ Individual
☐ IRA
☐ Joint Tenants with Right of Survivorship
☐ Grantor Trust
☐ Other _____
☐ Corporation
☐ Qualified Plan _____
Please specify Pension, Profit Sharing, Keogh, MMP, etc.
☐ Transfer on Death (prohibited in NY, LA, TX)
☐ S Corporation ☐ Partnership ☐ LLC

4. Institutional Information

Custodial Name (above)

Custodial Address (above)

City (above) State Zip

Telephone (above) Custodial TIN

Custodial Account Number (above)

Custodian Signature (above)

Affix Signature Guarantee Stamp Here

5. Distribution (select one)

- ☐ I prefer to receive my cash distributions via ACH Deposit into the following Checking Account:
☐ I prefer to receive my cash distributions via check at the address of record for my account.

Custodial Address (If different from above)

City State Zip

Institution Name Account Name

Institution ABA# Account Number

Note: A voided check must be attached. By attaching a voided check, you authorize the Company to begin making electronic deposits into your account. A deposit shall constitute your receipt for each transaction.

6. Subscription Signatures

Please initial separately each of the representations below. Except in the case of fiduciary accounts, you may not grant any person a power of attorney to make such representations on your behalf. In order to induce DBSI 2008 Notes Corporation to accept this subscription, I hereby represent and warrant to you as follows:

Primary Investor _____ (initial only)	Secondary Investor _____ (initial only)	(a) I have received and read the Memorandum and Addendum and I am purchasing the Notes for my own account and not with any intention of reselling or distributing all or any portion thereof to others. (Fiduciaries should make the representation if purchasing for the fiduciary account.)
_____ (initial only)	_____ (initial only)	I have: (i) an individual net worth that exceeds \$1 million; (ii) gross income (excluding spouse income) that exceeded \$200,000 in the two most recent years (and have a reasonable expectation of such income in the current year); or (iii) have together with spouse income and reasonably expect gross income that exceeds \$300,000 in the two most recent years (and have a reasonable expectation of such income in the current year). NOTE: There are other ways to qualify as an accredited investor. You should carefully read the more detailed description of "Accredited Investor" qualification and the other investment requirements that appear in other places in the Memorandum and the Addendum.
_____ (initial only)	_____ (initial only)	(b)
_____ (initial only)	_____ (initial only)	(c) If other than a natural person, such entity represents and warrants that it is an "Accredited Investor" as defined in Rule 501 of Regulation D under the Securities Act.
_____ (initial only)	_____ (initial only)	You acknowledge that no secondary market exists or is expected to develop for the Notes, and that the resale or transfer of the Notes will be severely restricted under applicable securities laws. Because of these restrictions, you will agree that you understand that the purchase of the Notes should be viewed as an illiquid investment, and that you will be required to bear the financial risks of an investment in the Notes for an indefinite period. You acknowledge that: (a) investing in the Notes involves a high degree of risk; (b) you have substantial financial resources and have no need for liquidity in the Notes; (c) you understand or have been advised by your representative of the risks associated with investing in the Notes; and (d) you are able to afford a complete loss of your investment in the Notes.
_____ (initial only)	_____ (initial only)	(d)
_____ (initial only)	_____ (initial only)	(e) Your right to receive the Notes depends, among other things, on our receiving and accepting your Subscription Agreement. We may reject any Subscription Agreement or offer to purchase any of the Notes, in whole or in part, and withdraw or modify the offer without notice. We may also sell to you less than the amount of Notes that you have offered to purchase.

I declare that the information supplied above is true and correct and may be relied upon by DBSI 2008 Notes Corporation in connection with my investing in Notes. I understand that I will not be admitted as a member of DBSI 2008 Notes Corporation until my investment has been accepted by the Company. Depositing of my check alone does not constitute acceptance. The acceptance process includes, but is not limited to, reviewing the Subscription Agreement for completeness and signatures, conducting an Anti-Money Laundering check as required by the USA PATRIOT ACT, and depositing of funds.

Signature of Investor or Trustee

Signature of Joint Owner, if applicable

Date

Please note that this must be signed and initialed by Trustee(s) if a Qualified Plan. This application will not be processed if any signatures or initials are missing.

7. Broker/Dealer or Registered Representative (RR) Information

BROKER/DEALER

IARD/CRD number (if applicable) _____

Broker/Dealer Firm Name

Broker/Dealer Firm Telephone Number

Authorized Signature (if necessary)

Rep. Number Commission Code (if applicable)

REGISTERED REPRESENTATIVE(S)

Primary Representative Name

Telephone Number

Email Address

Split% (if applicable)

Secondary Representative Name

Telephone Number

Email Address

Split% (if applicable)

Firm Name (if different from Broker/Dealer or RR Name)

Office Address

City

State

Zip

Office Telephone

DBSI Wholesaler

Is the undersigned investor affiliated, directly or indirectly, with a member broker/dealer firm of the Financial Industry Regulatory Authority ("FINRA") as an employee, officer, director, partner or shareholder or as a relative or member of the same household of an employee, director, partner or shareholder of an FINRA member broker/dealer firm?

☐ Yes

☐ No

If yes, please state the nature of the affiliation: _____

To substantiate compliance with state and federal securities laws and with FINRA Rule 2810, the undersigned Registered Representative hereby certifies: "I have reasonable grounds to believe, based upon information furnished from the investor concerning his investment objectives, other investments, financial situation and needs and any other information known by me, that investment in the Notes is suitable for such investor in light of his financial position, net worth and other suitability characteristics. I further certify that the investor has been informed of all pertinent facts relating to the liquidity and marketability of an investment in the Notes during the term of the investment. Furthermore, the offering and execution of this subscription was made in the state above indicated, in which state I am currently authorized to sell securities." Standards of suitability have been established by the Company and fully disclosed in the section of the Addendum entitled, "Who May Invest." Prior to recommending purchase of the Notes, we have reasonable grounds to believe, on the basis of information supplied by the purchaser concerning buyer's investment objectives, other investments, financial situation and standards, and other pertinent information that: (i) the purchaser meets the standards established by the Company; (ii) the purchaser has a net worth and income sufficient to sustain the risks inherent in an investment in Notes, including loss of the entire investment and lack of liquidity; and (iii) the Notes are otherwise a suitable investment for the purchaser. We will maintain in our files documents disclosing the basis upon which the suitability of the purchaser was determined. We have not undertaken any investigation or review of, and expressly disclaim any obligation to investigate or review, any information related to any covenants, representations or warranties of the purchaser beyond those that apply to the standards of suitability established by the Company. By execution below, the registered representative and separately by an authorized officer of the broker-dealer firm, we verify that the above subscription either does not involve a discretionary account or, if so, that the purchaser's prior written approval was obtained relating to the liquidity and marketability of the Notes during the term of the investment.

Primary Representative Signature

Date

Secondary Representative Signature

Date

8. Investor Representations and Warranties

1. I acknowledge that I have received, read and fully understand the Memorandum and the Addendum. I acknowledge that I am basing my decision to invest in the Notes on the Memorandum and the Addendum thereto and I have relied only on the information contained in said materials and have not relied upon any representations made by any other person. I understand that an investment in the Notes is speculative and involves substantial risks and I am fully cognizant of and understand all of the risk factors relating to a purchase of the Notes, including, but not limited to, those risks set forth under "Risk Factors" in the Memorandum and the Addendum.
2. All information that I have provided to the Company herein concerning my suitability to invest in the Notes is complete, accurate and correct as of the date of my signature on this Subscription Agreement. I hereby agree to notify the Company immediately of any material change in any such information occurring prior to the acceptance of this Subscription Agreement, including any information about changes concerning my net worth and financial position.
3. I have had the opportunity to ask questions of, and receive answers from, the officers and employees of the Company concerning the Company, the creation or operation of the Company and the terms and conditions of the offering of the Notes, and to obtain any additional information deemed necessary. I have been provided with all materials and information requested by either me or others representing me, including any information requested to verify any information furnished to me.
4. I acknowledge that the sale of the Notes has not been accompanied by the publication of any advertisement, any general solicitation or as the direct result of an investment seminar sponsored by the Company or any of its affiliates. I acknowledge that the Notes will be uncertificated and noted in book entry form only, which will be reflected on the books of the Company.
5. The Notes have not been registered under the Securities Act of 1933, as amended, or the securities laws of any state and are being offered and sold in reliance on exemptions from the registration requirements of such laws. The Notes are subject to restrictions on transferability and resale and may not be transferred or resold except as permitted under such laws pursuant to registration or exemption therefrom. The Notes have not been approved or disapproved by the Securities and Exchange Commission, any state securities commission or other regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of the offering of Notes or the accuracy or adequacy of the Memorandum and the Addendum. Any representation to the contrary is unlawful.
6. I hereby agree to indemnify, defend and hold harmless the Company, DBSI Housing, Inc., DBSI Asset Management LLC, DBSI 2008 Development Services LLC, DBSI Securities Corporation and all of their members, managers, shareholders, officers, directors, employees, consultants, Affiliates and advisors (the "Indemnified Parties") of and from any and all damages, losses, liabilities, costs and expenses (including reasonable attorney's fees and costs) that they may incur by reason of the failure of the undersigned to fulfill all of the terms and conditions of this Subscription Agreement or by reason of the untruth or inaccuracy of any of the representations, warranties or agreements contained herein or in any other documents of the undersigned has furnished to any of the foregoing in connection with this transaction. The indemnification includes, but is not limited to, any damages, losses, liabilities, costs and expenses (including reasonable attorneys' fees) incurred by the Indemnified Parties defending against any alleged violation of federal or state securities laws that is based upon or related to any untruth or inaccuracy of any of the representations, warranties or agreements contained herein or in any other documents the undersigned has furnished to any of the foregoing in connection with this transaction.
7. Miscellaneous: (a) I may not transfer or assign this Subscription Agreement, or any interest herein, and any purported transfer shall be void; (b) I hereby acknowledge, and agree that I am not entitled to cancel, terminate or revoke this Subscription Agreement and that this Subscription Agreement will be binding on my heirs, successors and personal representatives; provided, however, that if the Company rejects this Subscription Agreement, this Subscription Agreement shall be automatically canceled, terminated or revoked; (c) this Subscription Agreement constitutes the entire agreement among the parties hereto with respect to the sale of the Notes and may be amended, modified or terminated only by a writing executed by all parties (except as provided herein with respect to rejection of this Subscription Agreement by the Company); (d) within five days after receipt of a written request from the company, the undersigned agrees to provide such information and to execute and deliver such documents as may be reasonably necessary to comply with any and all laws and regulations to which the Company is subject; and (e) the representations and warranties of the undersigned set forth herein shall survive the sale of the Notes pursuant to this Subscription Agreement.

Signature of Investor or Trustee

Signature of Joint Owner, If applicable

Date

9. SUBSTITUTE FORM W-9

Under penalties of perjury, by signing the Subscription Agreement, I hereby certify that (a) I have provided herein my correct Taxpayer Identification Number and (b) except as otherwise expressly indicated above, I am a U.S. person (which includes a U.S. resident alien). The Internal Revenue Service does not require your consent to any provision of this document other than the certifications required to avoid back-up withholding.

Signature of Investor or Trustee

Signature of Joint Owner, If applicable

Date

EXHIBIT E

Corporate Guaranty

CORPORATE GUARANTY

For good and valuable consideration, **DBSI Housing Inc.**, an Idaho corporation ("Guarantor"), absolutely and unconditionally, guarantees and promises to pay to the order of the **Noteholders**, as defined in the Private Placement Memorandum dated February 6, 2008 (the "PPM"), on demand, any and all indebtedness related to the 9.5% Notes due December 31, 2015, (the "Notes") as offered by DBSI 2008 Notes Corporation (the "Company").

1. Guarantor understands that the term "indebtedness" as used in this agreement means the Notes, as evidenced by the PPM, which sets forth the terms of the Notes. Guarantor guarantees and promises to pay any and all of the Notes, including principal and interest, according to the terms of the Notes or according to law. Guarantor agrees to pay the Notes regardless of whether recovery may be or hereafter becomes barred by any statute of limitations, or becomes otherwise unenforceable.
2. Guarantor agrees and understands that any and all of the Notes were issued in reliance upon this Guaranty. Guarantor acknowledges that the Notes and the execution of this Guaranty has or will result in a receipt by Guarantor of reasonably equivalent value.
3. Guarantor's liability under this agreement shall not exceed at any one time the amount raised in the offering, which will not exceed the principal sum of \$90,000,000, plus accrued and accruing interest thereon and all related fees, attorneys' fees, costs and expenses for which the Company is obligated. The liabilities of Guarantor shall remain at all times undiminished, unreleased and undischarged to any extent, until payment in full of the Notes. The obligations of Guarantor under this agreement shall be in addition to any other obligations Guarantor may have to the Company under any other contracts, including guaranties, whether such guaranties are for the Noteholders or any other persons.
4. The Guarantor represents and warrants to the Noteholders that it (i) will maintain adequate capital for the normal obligations reasonably foreseeable in a business of its size and character and in light of its contemplated business operations, and in all events a book value net worth of not less than \$75 Million and (ii) will not transfer or otherwise dispose of a material portion of its assets without receiving a reasonably equivalent value in exchange.
5. Guarantor agrees that upon any default of the Notes, the Noteholders may, at their option, proceed directly and at once, without notice, against the Guarantor to collect and recover the full amount of the liability hereunder, or any portion of such liability. The obligations of the Guarantor under this agreement is independent of the obligations of the Company, and a separate action or actions may be brought and prosecuted against Guarantor whether action is brought against the Company or whether the Company be joined in any such action. No delay or omission by the Noteholders in exercising any right shall operate as a waiver of such right or any other right. Guarantor agrees to assume the responsibility for being and keeping itself informed of the financial condition of the Company and of all other circumstances bearing upon the risk of nonpayment of the Notes that diligent inquiry would reveal.

6. Guarantor represents and warrants to the Noteholders that no representations or agreements of any kind have been made to Guarantor that would limit or qualify the terms of this Guaranty.

7. Guarantor expressly waives any right or claim of right: (a) to notice of action or nonaction on the part of the Company, the Noteholders, or any or all of the Guarantor; (b) to notice of acceptance of this Guaranty; (c) to any notice of default or nonpayment and notice of dishonor to or upon Guarantor, the Company or any other party liable for any of the obligations under the Notes; and (d) to all other notices to which Guarantor might otherwise be entitled in connection with this Guaranty of any indebtedness or obligations hereby guaranteed.

8. Guarantor also expressly waives any right: (a) to make any defense arising by reason of any disability or other defense of the Company or by reason of the cessation from any cause whatsoever of the liability of the Company; and (b) of subrogation until all indebtedness of the Company be paid in full to the Noteholders.

9. Guarantor further expressly waives any benefit of any applicable antideficiency statutes and any applicable one-action statutes that may inure to the benefit of Guarantor. If the Company does not pay any sum when due under the Notes, upon the expiration of the applicable cure period, if any, the Noteholders in their sole discretion may proceed directly against the Guarantor under this agreement without first proceeding against the Company or any of the collateral or exhausting any of its remedies against the Company. The Guarantor agrees that, in lieu of any right to indemnification that the Guarantor might have against the Company, which right is hereby waived, the Guarantor shall be subrogated to the rights of the Noteholders if, but only if, the Guarantor fully satisfies and discharges the Company's obligations under the Notes. This right of subrogation shall be Guarantor's sole remedy against the Company.

10. If any of the payments of money or transfers of property made to Noteholders, by the Company or Guarantor in payment of indebtedness or otherwise should for any reason be declared to be fraudulent, preferential or voidable within the meaning of any state or federal law relating to fraudulent conveyances, preferential transfers or otherwise become voidable or recoverable under the Bankruptcy Code or any other federal or state law, in whole or in part, for any reason (hereinafter collectively called "Voidable Transfers") and the Noteholders are required to repay or restore any such Voidable Transfers, or any portion thereof, then, as to any such Voidable Transfer or the amount repaid or restored (including all costs, expenses and attorneys' fees of the Noteholders related thereto), the liability of Guarantor and all security interests and liens, if any, granted specifically as security for this Guaranty, shall automatically be revived, reinstated and restored as though such Voidable Transfer had never been made to the Noteholders. Nothing herein is an admission by any party that any such Voidable Transfer has occurred and all parties believe that no such Voidable Transfer exists.

11. Guarantor agrees to pay reasonable attorneys' fees, and other reasonable expenses incurred by the Noteholders in the enforcement of their rights under the Notes, including such expenses incurred before legal action, during the pendency of any such legal

action, during the enforcement of the Noteholder's rights in any bankruptcy or insolvency proceedings, and continuing to all such reasonable expenses in connection with any appeal to higher courts arising out of matters associated herewith.

12. Guarantor agrees that this agreement shall be binding upon the undersigned, the legal representatives, successors and assigns of the undersigned and shall be governed by and construed in accordance with the laws of the State of Idaho.

13. This Guaranty is assignable with the guaranteed indebtedness or any portion thereof, and when so assigned, the Guarantor shall be bound by this Guaranty to transferees.

14. This Guaranty contains the complete agreement between the Noteholders and the Guarantor. There are no prior or contemporaneous modifications, verbal or written, to this Guaranty, which may not be modified except by a written document executed by the party or parties to be bound. The provisions of this Guaranty are severable, and in the event that any provision shall be held to be invalid or unenforceable, the remaining provisions shall continue to be in full force and effect.

Dated effective the ____ day of _____, 200__.

GUARANTOR:

DBSI HOUSING INC.

By: _____
Douglas L. Swenson, President

SAMPLE

Exhibit F

Master Note

MASTER NOTE

\$50,000,000 (Subject to increase to no more than \$90,000,000)

February 6, 2008
Meridian, Idaho

For value received, DBSI 2008 Notes Corporation, an Idaho corporation, promises to pay to the order of the Noteholders as defined below, the principal sum of Fifty Million and 00/100 Dollars (\$50,000,000.00), subject to increase to no more than \$90,000,000 at the sole and absolute discretion of the Company, or so much thereof as may be outstanding from time to time, together with accrued interest at the Stated Interest Rate (as defined below) in accordance with the payment schedule described below.

1. Definitions. As used in this Master Note, the following capitalized terms shall have the meanings ascribed to them below:

1.1 "Company" means DBSI 2008 Notes Corporation, an Idaho corporation, and its successors, representatives and assigns.

1.2 "Initial Investment" means the date the prospective purchaser became a Noteholder.

1.3 "Loan" means the indebtedness evidenced by the Notes.

1.4 "Note(s)" means the note(s) purchased by the Noteholders.

1.5 "Loan Balance" means the outstanding balance of unpaid principal, at any time during the term of the Notes, as reflected on the Company's note register.

1.6 "Maturity Date" means December 31, 2015.

1.7 "Memorandum" means the DBSI 2008 Notes Private Placement Memorandum dated February 6, 2008, issued by the Company.

1.8 "Noteholders" means purchasers of Notes pursuant to the Memorandum, as reflected on the Company's note register.

1.9 "Stated Interest Rate" means the cumulative, non-compounded annual interest rate of 9.5% per annum.

2. Payment Schedule. Interest shall accrue from the date of Noteholder's purchase of a Note and shall be paid as follows:

2.1 Interest payments in an amount equal to 30 days accrued interest at 9.5% of the principal amount outstanding commencing on the fifteenth day of the month following the date of Initial Investment and continuing monthly thereafter, paid monthly in arrears, until the Maturity Date.

2.2 On the Maturity Date, if not sooner paid, Company shall pay to the Noteholders the outstanding principal plus all accrued and unpaid interest to provide an aggregate return of 9.5% per annum.

2.3 All interest payable hereunder shall be computed on the basis of a 30 day month and a 360-day year.

3. **Security.** The Company will loan the money raised by the Notes and to the extent allowed by any senior liens, will receive a promissory note which may be secured by a lien on the respective entities' assets or pledge of ownership interests, if a lien is allowed it may be subordinate to any prior existing loan.

4. **Method and Place of Payment.** All such payments of principal and interest are to be paid in lawful money of the United States of America and shall be made to the Noteholders as reflected in the Company's note register.

5. **Default.** The Company shall be in default under any of the Notes upon the happening of any of the following events or conditions:

5.1 Default in the payment or performance of any obligation, covenant or liability contained or referred to herein.

5.2 Any warranty, representation or statement made or furnished to the Noteholders by or on behalf of the Company becomes or proves to have been false in any material respect when made or furnished.

5.3 Dissolution, termination of existence, insolvency, business failure, appointment of a receiver or assignment for the benefit of creditors by, or the commencement of any proceeding under any bankruptcy or insolvency laws by or against the Company, or entry of any judgment against the Company.

6. **Remedies.** Upon the occurrence of any default hereunder and at any time thereafter, after ten (10) days written notice of such default to the Company and the Company's failure to cure such default, the Noteholders may declare immediately due and payable all amounts due under the Notes and shall have all remedies available under applicable law. As to any default that cannot be cured within such 10 day period, the Company shall provide evidence satisfactory to the Noteholders that the Company is diligently proceeding to cure the default and the same is likely to be cured.

7. **Waiver.** To the extent permitted by law, Company and all endorsers, all persons liable or to become liable on the Notes consent to any and all renewals and extensions in the time of payment and waive: (a) presentment, protest and demand, notice of protest, demand and dishonor and nonpayment of this Note and (b) all applicable appraisalment, valuation and exemption rights.

8. **Noteholders's Actions.** The remedies of the Noteholders as provided in the Notes shall be cumulative and concurrent, and may be pursued singularly, successively or together, at the sole discretion of the Noteholders, and may be exercised as often as occasion therefor shall arise. Failure of the Noteholders, for any period of time or on more than one occasion, to exercise its option to accelerate the Maturity Date of the Notes shall not constitute a waiver of the right to exercise the same at any time thereafter or in the event of any subsequent default. No act of omission or commission of the Noteholders, including specifically any failure to exercise any right, remedy or recourse, shall be deemed

to be a waiver or release of the same and any such waiver or release of the same is to be effected only through a written document executed by the Noteholders and then only to the extent specifically recited therein. A waiver or release with reference to any one event shall not be construed as a waiver or release of any subsequent event or as a bar to any subsequent exercise of the Noteholders's rights or remedies hereunder. Except as otherwise specifically required herein, notice of the exercise of any right or remedy granted to the Noteholders by the Notes is not required to be given.

9. **Prepayment.** The Company may not prepay any principal amount due under the Notes before December 31, 2012. The Noteholders may redeem the Notes and the Company may prepay any Notes that are redeemed pursuant to Section 10 herein.

10. **Redemption.** Beginning January 1, 2010, the Noteholders may request redemption of the Notes upon 120-days written notice to the Company. The Company will honor such redemption requests annually up to 10% of the original aggregate principal amount of the Notes. The Notes will be redeemable subject to the following: January 1, 2010, at 96% of original principal amount plus accrued interest; January 1, 2011 at 98% of original principal amount plus accrued interest; and January 1, 2012 & beyond at 100% of original principal amount plus accrued interest. The Company may at its sole and absolute discretion honor redemption requests in excess of 10% of the original aggregate principal amount of the Notes. Any redemption honored under this Section 10 shall not receive any additional interest as set forth in Sections 2.1, 2.2 and 2.3 herein.

11. **Notices.** All notices required or permitted to be given hereunder shall be deemed given when personally served or when deposited in the United States mail, postage prepaid, if to the Noteholders, by certified or registered mail, return receipt requested, as follows:

if to the Company, as follows:

DBSI 2008 Notes Corporation
1550 South Tech Lane
Meridian, Idaho 83642
Attention: Mark Ellison

and if to the Noteholders, by certified or registered mail, return receipt requested, addressed to the address in the Company's note register.

12. **Time.** Time is of the essence of the Notes and each of the provisions hereof.

13. **Captions.** The captions to the Sections hereof are for convenience only and shall not be deemed part of the text of the respective Sections and shall not vary, by implication or otherwise, any of the provisions of the Notes.

14. **Governing Law.** The Notes have been executed and delivered in, are payable in and shall be governed by the laws of the State of Idaho.

15. **Invalid Provisions.** The parties hereto intend and believe that each provision in the Notes comports with all applicable local, state and federal laws and judicial decisions. However, if any provision of the Notes is found by a court of law to be in violation of any applicable local, state or federal

SAMPLE

ordinance, statute, law, administrative or judicial decision, or public policy, and if such court should declare such provision to be illegal, invalid, unlawful, void or unenforceable as written, then it is the intent of all parties hereto that such provision shall be given force to the fullest possible extent that it is legal, valid and enforceable, that the remainder of the Notes shall be construed as if such illegal, invalid, unlawful, void or unenforceable provision were not contained therein, and that all other rights, obligations, and interest of Company and Noteholders shall continue in full force and effect.

[Signatures Appear on Following Page]

SAMPLE

Executed and effective as of the date first above written.

DBSI 2008 Notes Corporation

By: DBSI Housing Inc.

By: _____
Douglas L. Swenson, President

Exhibit 3

DBSI, et.al.
Sources and Uses of Funds Booked through DBSI 2008 Notes Corporation
(Indicated from Debtor reference notes and general ledger entries)

	Entity	Amount	Totals
<u>Sources of Cash</u>			
	Investor Funds (net of refunds and other adjustments)	\$	89,388,733
	DBSI 2008 Notes Corporation Capital Contribution	200,000	200,000
<u>Property Loan Principal Repayments</u>			
	Caymus Cove	200,000	
	Cavanaugh	211,026	
	Pinehurst West	3,750,000	
	Providence / Red Rock	3,565,000	
	Shoppes @ Trammel	2,445,000	
	Wild Prairie	78,715	
	Wisdom Pointe	565,400	10,815,141
<u>Interest Income</u>			
	Bank Interest Income	8,283	
	Interest Income from Stellar paid by DBSI Inc.	818,225	
	Interest Income from Properties paid by DBSI Inc.	2,820,333	
	Interest Income from Spectrus paid by DBSI Inc.	152,000	
	Property Interest Income - unidentified property	75,000	
	Belton Town Center	1,445	
	Caymus Cove	19,026	
	Florissant	21,966	
	Northgate	30,000	
	Oak Ridge	150,000	
	Peachtree	30,152	
	Pinehurst East	43,042	
	Pinehurst West	121,555	
	Providence / Red Rock	39,312	
	Shoppes @ Trammel	54,619	
	Trekkell	85,012	
	Wisdom Pointe	6,413	4,476,382
	Total Sources of Cash	\$	104,880,256
<u>Uses of Cash</u>			
<u>Note Issue Costs</u>			
	DBSI Securities - Commissions	(8,343,488)	(8,343,488)
<u>Technology Companies</u>			
	Stellar Technologies	(27,293,500)	
	Western Tech	(9,600,828)	
	Western Tech Loan Repayment	894,328	(36,000,000)
<u>DBSI Properties:</u>			
	DBSI Properties - Loans secured by For 1031's 1% Interest in 109	(4,460,939)	
	Belton Town Center	(333,234)	
	Colony West	(4,721,000)	
	Dorado	(1,820,630)	
	Florissant	(648,247)	

DBSI, et.al.
Sources and Uses of Funds Booked through DBSI 2008 Notes Corporation
(Indicated from Debtor reference notes and general ledger entries)

Entity	Amount	Totals
Northgate / Oak Ridge	(1,126,557)	
Oak Ridge	(5,571,871)	
Peachtree	(570,481)	
Pinehurst East	(298,434)	
Pinehurst West	(3,750,000)	
Providence / Red Rock	(3,565,000)	
Riverview	(18,700,002)	
Shoppes @ Trammel	(2,445,000)	
Trekell & I-8	(1,986,002)	
Wisdom Pointe	(565,400)	(50,562,797)
<u>Kastera</u>		
Caymus Cove	(200,000)	
Hidden Springs	(195,500)	
Majestic View	(2,882,921)	
Messian Meadows	(40,800)	
Streamview	(200,000)	
Wild Prairie	(78,715)	
Cavanaugh	(211,026)	(3,808,962)
<u>Bond and Note Interest paid back to Investors</u>		
Interest paid to 2008 Note Investors	(2,266,572)	
Interest paid to Investors in unidentified programs	(9,010)	(2,275,582)
<u>Other Transfers to DBSI Inc.</u>		
Funds to pay DBSI Employee PTO & PR Expenses*	(717,617)	
Bankruptcy Fees	(650)	
Legal Fees - Bankruptcy	(1,629,144)	
Loan to Kastera	(5,800)	
Transfers for TIC property expenses	(688,443)	
Miscellaneous	(3,031)	(3,044,684)
Total Uses of Cash		(104,035,514)
Net Sources / (Uses)	\$	844,742
Cash in M&I Bank Account	\$	262,591
Cash in US Bank Account		582,151
Remaining Cash		844,742

* Note: PTO stands for "paid time off" and PR stands for "payroll"

Exhibit 4A

2008 Notes Corporation Loan to Stellar Technologies, LLC \$27,293,500.10

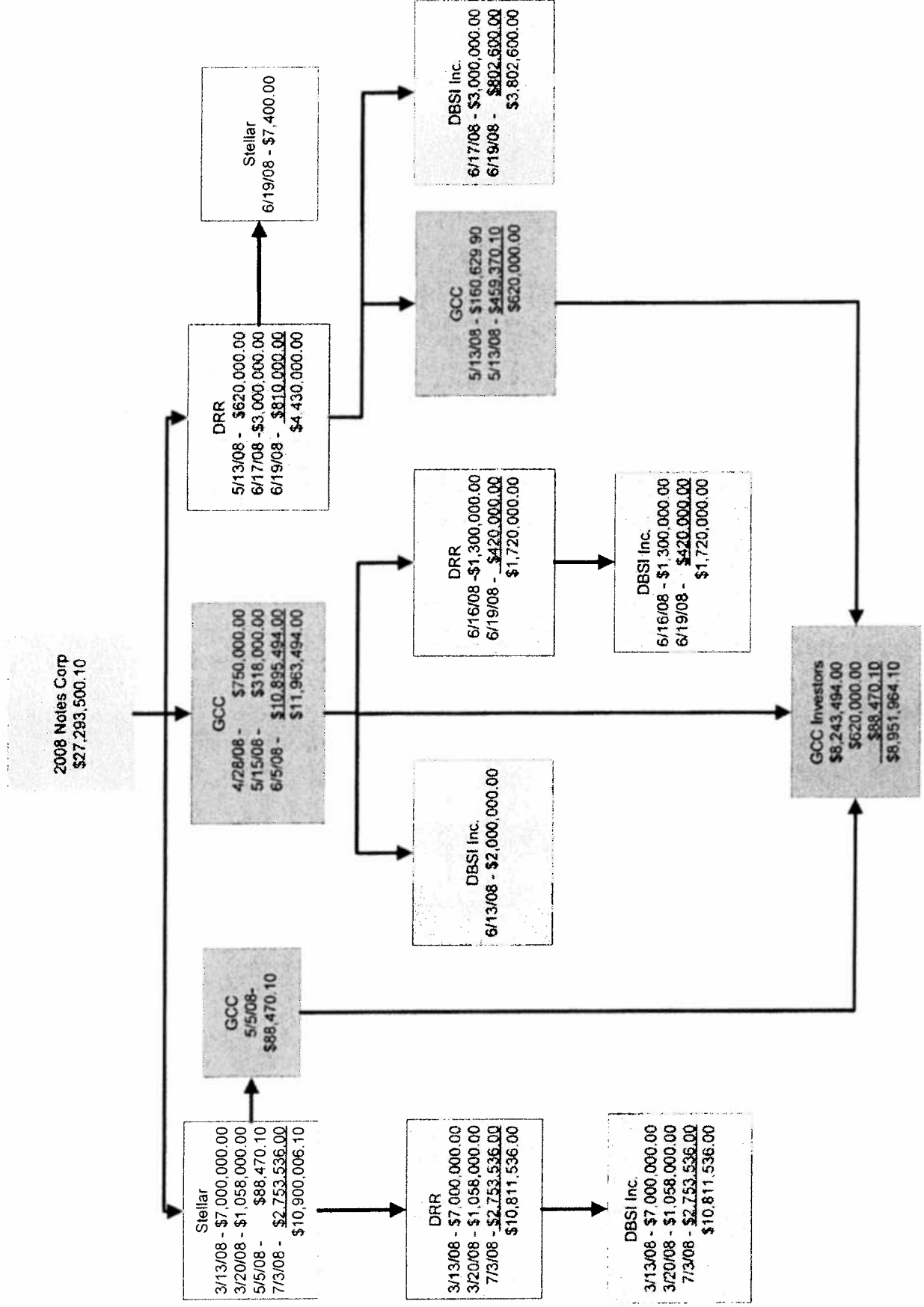


Exhibit 4B

2008 Notes Corporation
Loan to Stellar
\$27,293,500.10

From 2008 Notes Corporation
to Stellar
\$10,900,006.10

Date	Amount	From/(To)
3/13/2008	\$ 7,000,000.00	08 Notes
3/20/2008	1,058,000.00	08 Notes
5/5/2008	88,470.10	08 Notes
7/3/2008	2,753,536.00	08 Notes
7/3/2008	7,400.00	DRR
	<u>\$ 10,907,406.10</u>	
3/14/2008	(7,000,000.00)	(to DRR)
3/20/2008	(1,058,000.00)	(to DRR)
5/5/2008	(88,470.10)	(to GCC)
7/3/2008	(2,753,536.00)	(to DRR)
	<u>\$ 7,400.00</u>	

From Stellar
to DRR
\$ 10,811,536.00

Date	Amount	From/(To)
3/14/2008	\$ 7,000,000.00	Stellar
3/20/2008	1,058,000.00	Stellar
7/3/2008	2,753,536.00	Stellar
	<u>\$ 10,811,536.00</u>	
3/14/2008	(7,000,000.00)	(to DBSI Inc)
3/20/2008	(1,058,000.00)	(to DBSI Inc)
7/3/2008	(2,753,536.00)	(to DBSI Inc)
	<u>\$ -</u>	

From 2008 Notes Corporation
to GCC
\$11,963,494.00

Date	Amount	From/(To)
4/28/2008	\$ 750,000.00	08 Notes
5/15/2008	318,000.00	08 Notes
5/5/2008	88,470.10	Stellar
5/13/2008	160,629.90	DRR
5/13/2008	459,370.10	DRR
6/5/2008	10,895,494.00	08 Notes
6/13/2008	\$ 12,671,964.10	(to DBSI Inc)
6/16/2008	(2,000,000.00)	(to DBSI Inc)
6/16/2008	(1,369,500.00)	(to DRR)
6/19/2008	(420,000.00)	(to DRR)
	<u>\$ 8,951,964.10</u>	

From GCC
to DBSI Inc
\$ 2,000,000.00

Date	Amount	From/(To)
3/14/2008	\$ 7,000,000.00	DRR
3/20/2008	1,058,000.00	DRR
6/4/2008	2,000,000.00	GCC
6/16/2008	1,300,000.00	DRR
6/17/2008	3,000,000.00	DRR
6/19/2008	420,000.00	DRR
6/19/2008	802,600.00	DRR
7/3/2008	2,753,536.00	DRR
	<u>\$ 18,334,136.00</u>	

From 2008 Notes Corporation
to DRR
\$4,430,000.00

Date	Amount	From/(To)
5/13/2008	\$ 620,000.00	08 Notes
6/16/2008	1,300,000.00	GCC
6/17/2008	3,000,000.00	08 Notes
6/19/2008	810,000.00	08 Notes
6/19/2008	420,000.00	GCC
	<u>6,150,000.00</u>	
5/13/2008	(160,629.90)	(to GCC)
5/13/2008	(459,370.10)	(to GCC)
6/16/2008	(1,300,000.00)	(to DBSI Inc)
6/17/2008	(3,000,000.00)	(to DBSI Inc)
6/19/2008	(420,000.00)	(to DBSI Inc)
6/19/2008	(802,600.00)	(to DBSI Inc)
7/3/2008	(7,400.00)	(to Stellar)
	<u>\$ -</u>	

From DRR
to DBSI Inc
\$5,522,600.00

Total Net Monies from 2008 Notes Corporation Received by Each Entity

Stellar	\$ 7,400.00
GCC Investors	8,951,964.10
DBSI Inc	18,334,136.00
	<u>\$ 27,293,500.10</u>

Exhibit 5

2008 Notes Corporation Loan to Western Technologies, LLC \$9,600,827.89

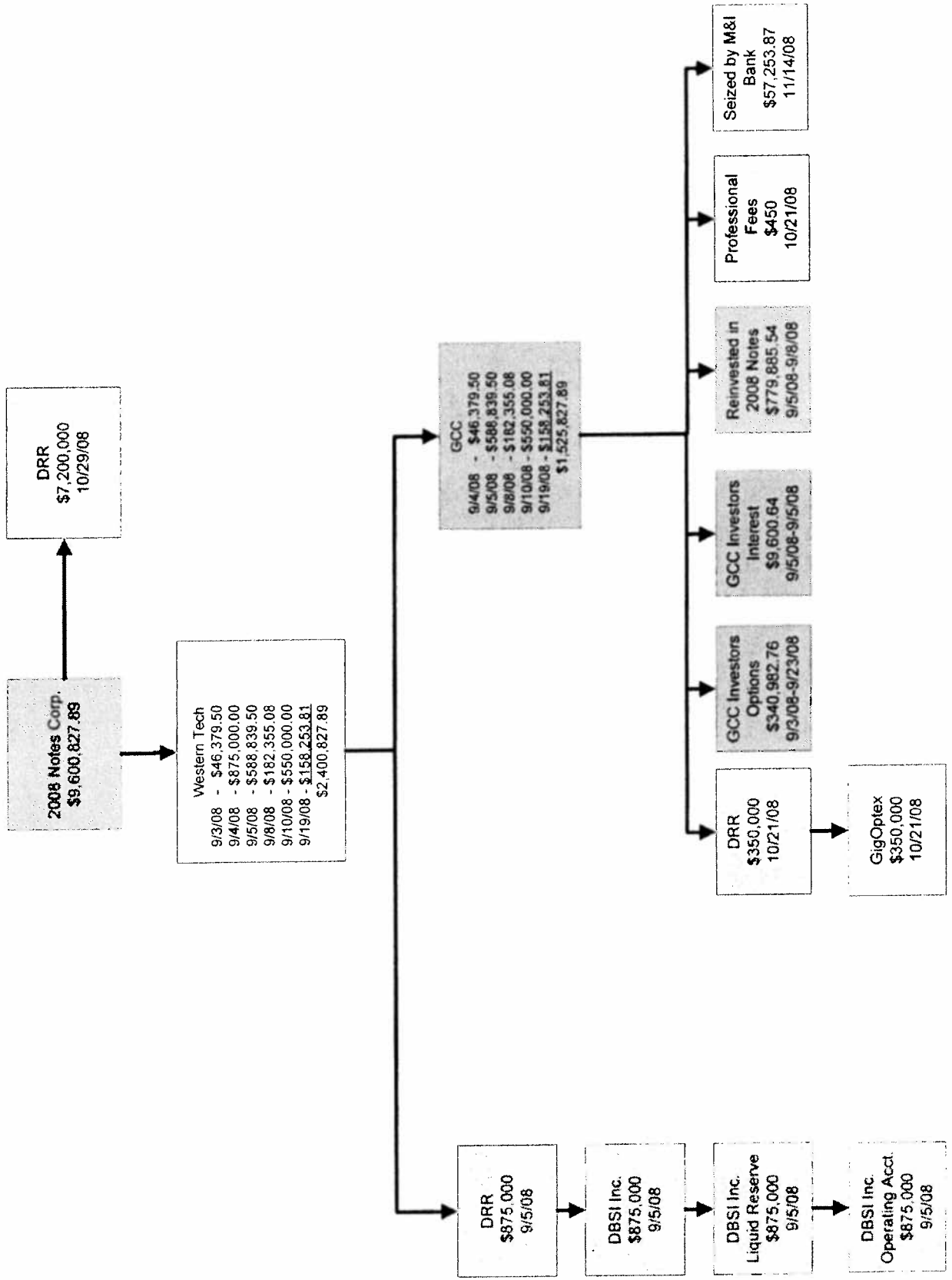


Exhibit 6

2008 Notes Corporation Loan to Western Technologies LLC \$7,200,000

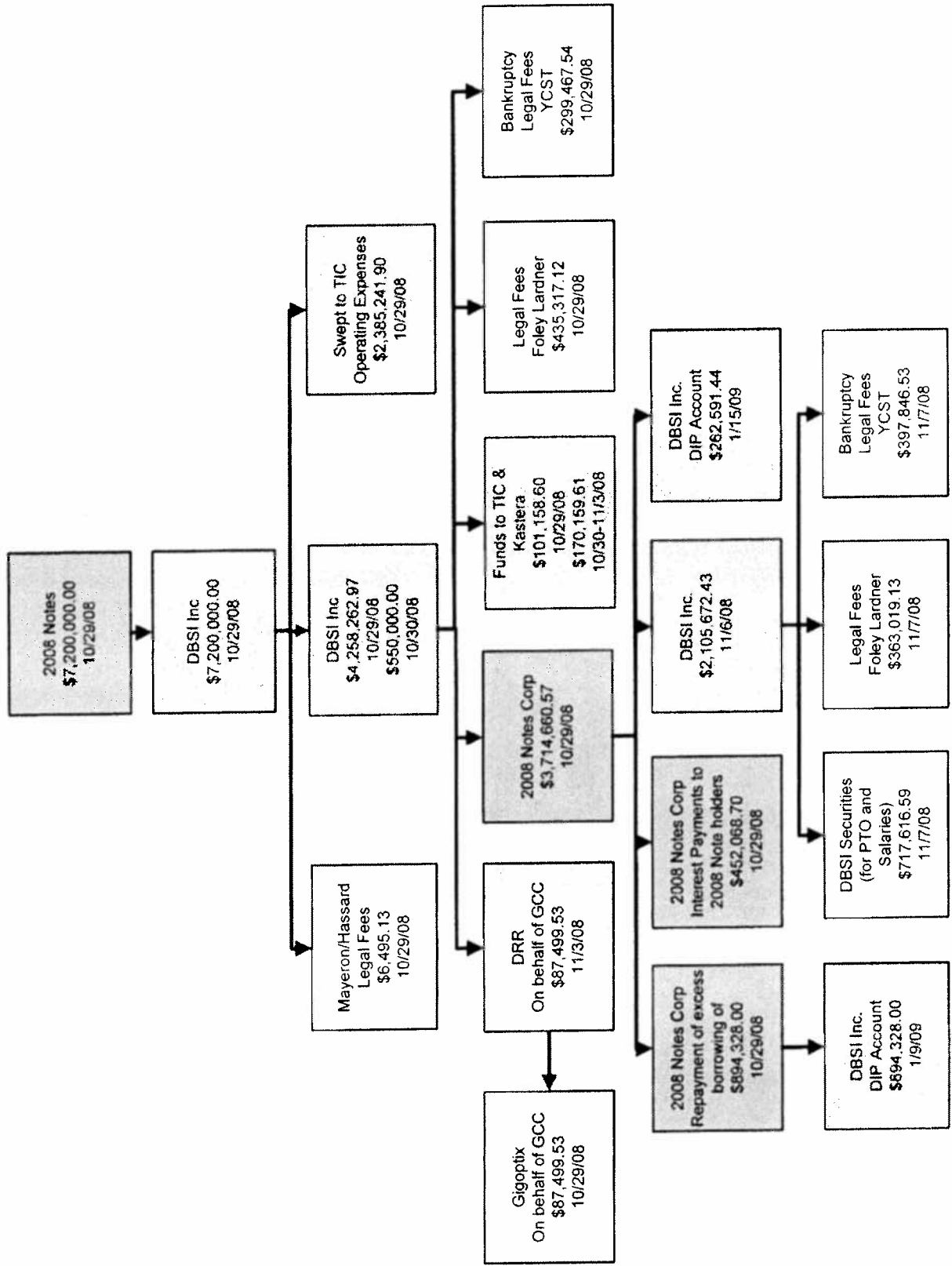


Exhibit 7

**2008 Notes Corporation Loan
Secured by For 1031's 1%
Interest in 109 TIC Properties
\$4,460,939.00**

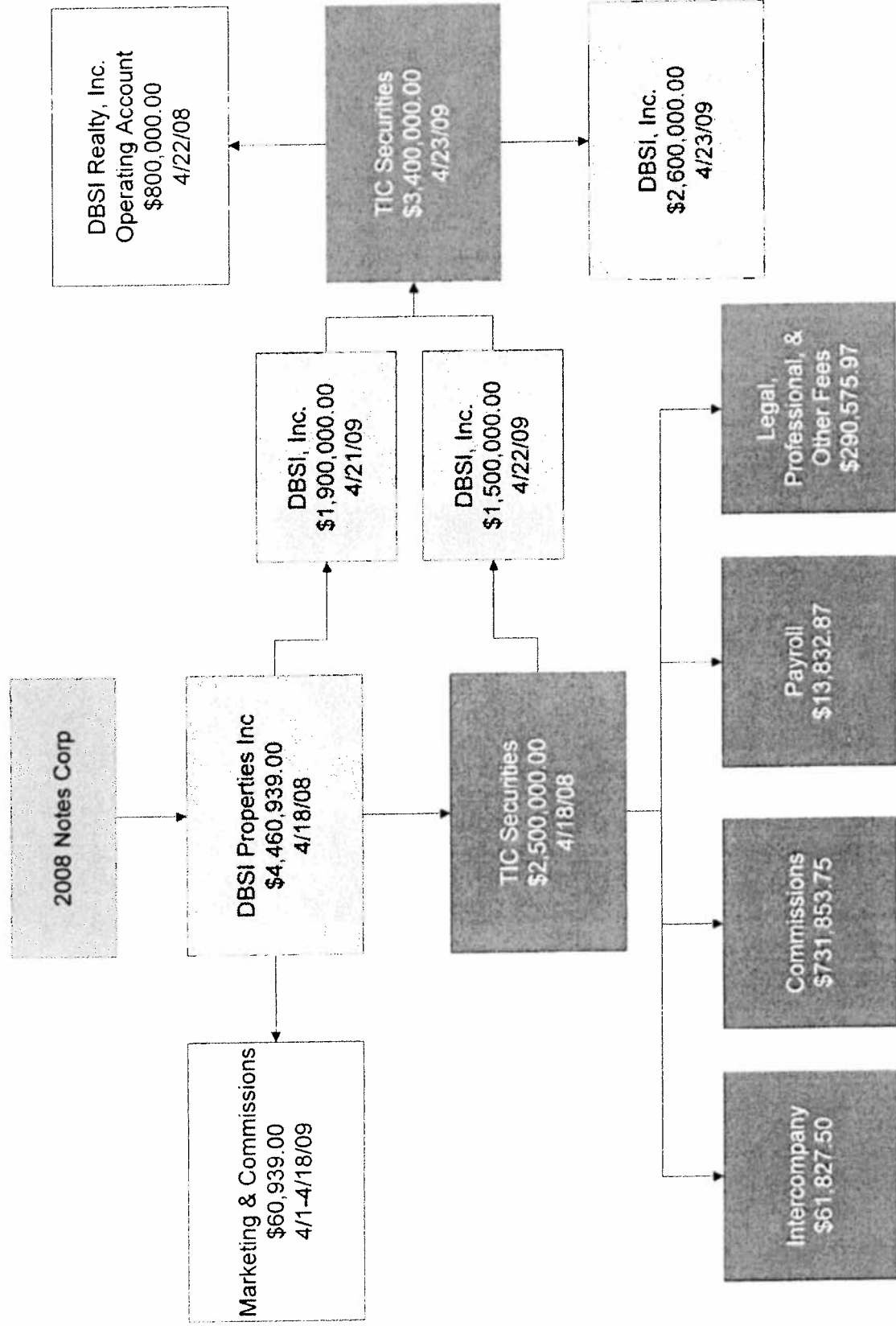


Exhibit 8

DBSI, et.al.

**Uses of \$18,700,002 in 2008 Notes Proceeds Loaned in Connection with Villages of Riverview Project
(Indicated from Debtor reference notes and general ledger entries)**

15500	Trust Account	08-Sep-08 (Villages of Riverview lo) Villages of Riverview loan	J-432432	6,229,144.00
15500	Trust Account	08-Sep-08 (Villages of Riverview lo) Villages of Riverview loan	J-432433	6,348,246.00
15500	Trust Account	08-Sep-08 (Villages of Riverview lo) Villages of Riverview loan- funds from 08 notes to Prop	J-432431	6,122,612.00
		Loan from 2008 Notes Corporation to Properties		18,700,002.00
		<u>Uses: Purchase Money paid by DBSI Properties</u>		
			(4,073,740.00)	
			(3,928,950.00)	
			(3,997,310.00)	(12,000,000.00)
		<u>Uses: Transfers out of the DBSI Properties accounts:</u>		
		"To cover outgoing interest payments" (actually went to DBSI Inc acct 11500)	(1,231,527.50)	
		"funds transfer" (actually went to DBSI Inc acct 11500)	(2,402,000.00)	
		"Transfer to cover outgoing wire" (actually went to DBSI Inc acct 11500)	(550,000.00)	
		"funds transfer" (actually went to DBSI Inc acct 11500, combined with \$320,000)	(800,000.00)	
		"funds transfer" (actually went to DBSI Inc acct 11500)	(1,035,779.59)	
		"funds transfer" (part of \$400,000 transferred on 09/23/08)	(103,304.91)	(6,122,612.00)
		Consumed in DBSI Properties account in numerous smaller transactions		577,390.00

Use of the \$6,122,612 in DBSI Inc account 11500:

Cover negative balance in account at first transfer date.

Booked as "pay-down pristine int to 05 notes," actually goes to 2005 Secured Notes fund and pays bond holders interest payments.	(265,660.03)	
Booked as "pay-down kastera inv int on 06 notes," actually goes to 2006 Secured Notes fund and pays bond holders interest payments.	(321,256.24)	
Booked as "pay-down dplant int on ref," actually goes to DBSI Real Est account and appears to sit there until current date.	(187,386.73)	
Booked as "Oakridge int pay-down by inc thru prop," actually goes back to 2008 Secured Notes fund and pays bond holders interest payments for Sept	(150,000.00)	
Booked as "Spectrus Inv int pay-down by inc thru prop," actually goes back to 2008 Secured Notes fund and pays bond holders interest payments for Sept	(100,000.00)	
Booked as "Stellar int pay-down by inc thru drr," actually goes back to 2008 Secured Notes fund and pays bond holders interest payments for Sept	(207,224.50)	(1,231,527.50)
Funds transferred from DBSI Inc operating account, to Liquid Reserve acct, then to Cash Clearing account	(2,402,000.00)	(2,402,000.00)
Funds transferred from DBSI Inc operating account, to Liquid Reserve acct, then to Cash Clearing account	(550,000.00)	(550,000.00)

Funds to Tics and units LLP (6 distributions to Cavanaugh, Ridgeview, Surprise Farm and Village North)	(33,922.36)
Funds to DRR	(59,862.75)
Funds from Inc for Hurricane Ike Restoration - Regents Park, TX	(117,434.00)
Funds to Realty Reserve, consumed by nightly sweeps to TIC and other accounts	(350,000.00)
<u>Funds of \$460,000 to property for earnest money & to fund account:</u>	
Initial EM Symmes Gate	(34,375.00)
Initial EM Shoppes at Northwood	(46,000.00)
Initial EM Crossings of Sandusky	(121,250.00)
Initial EM Sugarcreek Crossing	(34,500.00)
Initial EM Galloway Crossing	(23,875.00)
Initial EM Freeman Farms	(100,000.00)
Additional amount consumed in DBSI Properties account activity	(100,000.00)
<u>Funds of \$650,000 to Inc from DRR, back to DRR from Riverview 'profit', back to Inc to cover:</u>	
Marsh USA, Insurance	(247,749.13)
Marsh USA, Insurance	(136,141.25)
Bank of Cascades, Acct 0740006962	(50,191.47)
Bank of Cascades, Acct 0740006962	(12,183.86)
Funds to DBSI Realty to cover overdraft	(125,000.00)
Part of Funds to East West connector booked as Accountable Reserves	(79,341.37)
	<u>(1,671,826.19)</u>
	<u>(6,122,612.00)</u>

Exhibit 9

RE: Cash Sheet

From: "Brenda Fitzsimons" <BFitzsimons@dbsi.com>

To: "Matt Duckett" <MDuckett@dbsi.com>

Subject: RE: Cash Sheet

Sent: Fri, 5 Sep 2008 09:06:34 -0600

I'm copying all of Doug's e-mails for him. On the attachment you sent, do I just need to copy the Consolidated tab or every tab for him? Please let me know ASAP. X9873. Thanks.



Brenda Fitzsimons
Paralegal
Legal

1550 S Tech Lane
Meridian, ID 83642

(208) 955-9873 direct
(208) 955-9757 fax
bfitzsimons@dbsi.com
www.dbsi.com

From: Matt Duckett

Sent: Friday, September 05, 2008 8:30 AM

To: Jeremy Swenson; David Swenson; Gary Bringhurst; Paris Cole; Doug Swenson

Subject: Cash Sheet

Gentlemen:

Attached is a revised copy of the cash sheet. Highlighted below are several of the changes that were made in the assumptions.

- 1) The first ½ of Vista Pointe has been moved from a mid September closing to a mid November closing
- 2) E 470 West has been moved from 09/22 to 10/22 for a closing date

- 3) Villages at Ridgeview has been moved up to a 09/08 close date
- 4) 7.7 million of the GCC redemptions that come from the 08 note have been moved out to 09/29. The remaining 1 million of those redemptions are rollovers and are projected to close in early September
- 5) Surprise Farms closing into the Land Fund has been moved out to the end of October
- 6) It is still projected that Oakridge will move off of the Note and into the Fund by the end of September
- 7) The Conley land is acquired on Sept 11th by paying off the Zion's loan and the REF loan for the Palazzo, paying the 05 note for the Two Rivers Lots and giving Conley 1.5 million. Of the available 19 million of borrowings 8 million is drawn on the 11th, which basically offsets the outflows associated with the transaction.
- 8) On September 30th 3 million is drawn from the 08 note against the Conley land to payoff GCC – this leaves approximately 7 million of additional borrowing ability against the Conley land
- 9) This shows the 08 negative by the end of September – we will need to figure out how to move collateral between different notes to resolve this issue – should not be a problem.
- 10) The challenge comes in late October when there is projected to be only around 6 million of total note availability with 7 million of collateral and approximately 10 million of working capital needed.

Will each of you please review the model and let me know if you find any errors that need to be corrected. I want everyone's review and assistance in making sure we are accurate in our projections.

Thank you.

Matt

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In-reply-to: <6BE54104A0C4BB48BC522E178435D6EF03A6BCE7@Blackfoot.DDRS.net>

X-ms-has-attach: yes

Thread-topic: Cash Sheet

Thread-index: AckPY9JzsHm/3ANFTKy47MHF8tPedQABO4ZA

From: "Doug Swenson" <dswenson@dbsi.com>

Sender: "Brenda Fitzsimons" <BFitzsimons@dbsi.com>

Miscellaneous:08-12687-PJW DBSI, Inc., et al.,

Type: bk

Chapter: 11 v

Office: 1 (Delaware)

Assets: y

Judge: PJW

Case Flag: CLMSAGNT,
MEGA, LEAD, MTRUNADV**U.S. Bankruptcy Court****District of Delaware**

Notice of Electronic Filing

The following transaction was received from J. Kate Stickles entered on 8/3/2009 at 10:15 AM EDT and filed on 8/3/2009

Case Name: DBSI, Inc., et al.,**Case Number:** 08-12687-PJW**Document Number:** 4159**Docket Text:**

Examiner's Report *Notice* Filed by Joshua R. Hochberg. (Attachments: # (1) Exhibit First Interim Report of Examiner# (2) Appendix 1 and 2# (3) Exhibit (s) 1 and 2 to First Interim Report# (4) Exhibit (s) 3 through 9 to First Interim Report) (Stickles, J.)

The following document(s) are associated with this transaction:

Document description:Main Document**Original filename:**\\Cs-de-01\efilings\DBSI\DI Docs\interim report no.pdf**Electronic document Stamp:**

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Document description:Exhibit First Interim Report of Examiner**Original filename:**\\Cs-de-01\efilings\DBSI\DI Docs\examiners report.pdf**Electronic document Stamp:**

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Document description:Appendix 1 and 2**Original filename:**\\Cs-de-01\efilings\DBSI\DI Docs\examiners report appendix 1 and 2.pdf**Electronic document Stamp:**

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Document description:Exhibit (s) 1 and 2 to First Interim Report**Original filename:**\\Cs-de-01\efilings\DBSI\DI Docs\examiners report exh 1 and 2.pdf**Electronic document Stamp:**