MSBIDCO Merger Report

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Analysts

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Analysts' View: We believe the anticipated request to merge the two entities, Southern California Business Development Corporation (SCBDC) and Main Street Business and Industrial Development Corporation (MSBIDCO) is full and fair. We do not see any potential financial stability for SCBDC if this merger is unsuccessful. As such, shareholders are advised to approve the merger.

Overview: Subject to the conditions of the Merger Agreement, SCBDC will merge with and into MSBIDCO, and MSBIDCO will be the surviving corporation. Los Angeles LDC (LDC) will maintain a majority ownership in MSBIDCO to insure the organization retains its community development financial institution eligibility. MSBIDCO will operate as a mission driven lender with a community reinvestment act focus by serving a majority of borrowers operating or locating in low to moderate income census tracts.

Date of Merger: The Merger will become effective on the date (the "Effective Date") this Agreement is filed with the California Secretary of State in accordance with applicable law.

Entities of the Merger: The parties in the transaction include **A)** SCBDC and **B)** MSBIDCO and LA RiverWorks Holdings, subsidiaries of the LDC.

Southern California Business Development Corporation

The Southern California Business Development Corporation (SCBDC) was established by 22 banks in 1993 to increase the availability of capital to businesses. The ancillary effect of this is it creates jobs, and improves access to goods and services in the low-income community of South Central LA.

In August 1997, after sustaining significant losses, the SCBDC board of directors, led by its largest shareholders Bank of America and Wells Fargo Bank, engaged the LDC to run the SCBDC. This resulted in SCBDC eliminating its staff and ceasing its failed lending operations. Its remaining capital was converted into $2.5 million EQ2 promissory note and loaned to the LDC. The current unpaid principal balance due to the SCBDC is $3.1 million, with its current cash position of $1.3 million a result of LDC having paid interest on this debt.

Los Angeles LDC

The LDC provides debt, capital and advisory services to develop and grow new, emerging or long-standing small and medium sized businesses, including social enterprises, throughout selected targeted low income markets. Historically, the capital access activities of the LDC have encouraged additional private investment and stimulated other positive economic impacts in its target market. Since 1995, the LDC has delivered $400 million into the markets it serves.

The LDC's affiliates include MSBIDCO which is a for-profit, and licensed by the Department of Business Oversight as a commercial finance company, and LA River Works Holdings, LLC (LARWH). LARWH will hold title to the 8,000-square foot industrial building, subject to an adaptive reuse conversion into an office incubation space, The building is located, with approved plans, in the low-income community of Lincoln Heights.

The proposed merger will result in a debt to equity swap of the SCBDC's $3.1 million EQ2 promissory note and $1.3 million cash for MSBIDCO shares.

Key Terms of the merger

Transaction Details

Effective Date	The Merger will become effective on the date this Agreement is filed with the California Secretary of State in accordance with the applicable law.
Offer structure	Issued and outstanding shares of SCBDC will be converted into the right to receive 4.7 million shares of MSBIDCO which constitutes 47% of MSBIDCO.
By-laws	By-laws of MSBIDCO prior to the Merger will be the by-laws of the surviving corporation.
Articles of Inc.	The Articles of Incorporation of MSBIDCO prior to the Merger will be the Articles of Incorporation of the surviving corporation.
Board of Directors	SCBDC shareholders will be offered 4 seats on the MSBIDCO Board of Directors.

Capital Structure

MSBIDCO Equity	There will be 10 million authorized shares of common stock of MSBIDCO.
Equity Structure	47% owned by SCBDC 53% owned by LDC

Key SCBDC Shareholders

Company	# Shares	Status
East West Bank	40,000	Approved
Northern Trust Bank	40,000	Approved
Saehan Bank - Bank of Hope	40,000	Approved
United Pacific Bank	40,000	Approved
Pacific Western Bank	120,000	Approved
Cathay Bank	100,000	Approved
Manufacturers Bank	100,000	Approved
City National Bank	250,000	Approved
Far East National Bank	40,000	Approved
Comerica Bank of California	330,000	Approved
California Bank & Trust	250,000	Approved
First Bank	40,000	Approved
Bank of Hapoalim	40,000	Not Approved
BNY Mellon	80,000	Not Approved
Hanmi Bank - Pacific Union Bank	90,000	Not Approved
Bank of the West	350,000	Not Approved
Bank of America	625,000	Not Approved
Wells Fargo	670,000	Not Approved
Union Bank	875,000	Not Approved

Rationale for a merger of SCBDC with MSBIDCO

STRATEGIC DRIVERS

LA RiverWorks Holdings LLC

LA RiverWorks Holdings LLC, a wholly owned affiliate to MSBIDCO, will have assets that consist of an 8,000 square feet industrial building in Lincoln Heights that will be contributed to MSBIDCO by the LDC. The renovation and adaptive reuse of this industrial building into a small business/incubator/community development accelerator space that is designed to foster community and economic development activities. To remain engaged with the Lincoln Heights community the LA RiverWorks building will house all operations of MSBIDCO and its parent organization, LDC. All space not utilized for company purposes will be available to generate revenue as a small business center in the Lincoln Heights; additionally, this property is located in the LA Masterplan study area. The LDC has long been active in the commercial corridor revitalization and the LA RiverWorks building is part of a larger community development strategy for the North Broadway retail corridor which has several SCBDC shareholder banks located in the targeted area.

Management's vision and successful track record

Under the potential merger, MSBIDCO will be led by Michael Banner and the existing LDC staff. Banner has previously demonstrated his ability to use his market knowledge and finance skills to pioneer lending operations and corridor revitalization. He has been active in community development finance for the past 30 years. Additionally, he has an extensive background utilizing public funds to stimulate revitalization in distressed and communities for color. Prior to becoming active in community development, Michael Banner was a senior banker specializing in commercial lending with several major California banks.

Most notably, while running the LDC Banner launched the 504 Accelerated Capital Express Loan Fund I, 2004 (504 ACE Fund) to provide the most flexible commercial real estate lending program to serve borrowers operating in distressed or high poverty census tracts. A primary social objective of the fund was to target both non-profit organizations and borrowers of color who are often overlooked by most CRE focussed lender or unable to participate in the SBA 504 program. Under this unleveraged $10 million fund, all investors achieved 100% return of capital while earning a 5% cash on cash return on investment throughout the dire economic crisis that began in 2008. Except for Bank of America, all the SCBDC's largest shareholders (300,000 shares) were investors in the 504 ACE Loan Fund.

Recapitalization Plan

If the merger is completed, MSBIDCO shareholders will have an opportunity to invest in the next 504 ACE Fund II. This new fund is included in the LDC's $25 million recapitalization plan "**Engage Borrow Invest**" (EBI) which could be leveraged at 4:1 to bring in at least $100 million in new small developments. EBI will be community development driven finance to revitalise low-income neighbourhoods, in pursuit of the mission of Los Angeles LDC and its affiliates.

CURRENT FINANCIAL SNAPSHOT of LDC and SCBDC

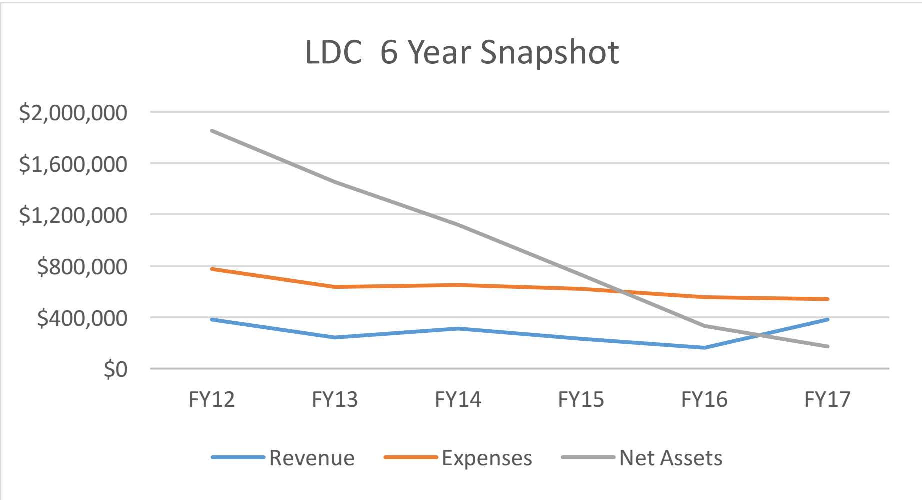
In August 1999, SCBDC sold its loan portfolio to LDC while liquidating its securities portfolio and provided a $25 million subordinated fixed rate promissory note to LDC. As such, LDC has obligated to make repayments on the note receivable to SCBDC to the amount of $3.1 million. The current financial position of LDC, as seen below, indicates a declining revenue stream, and thus only interest payments have been made.

Historically, LDC has incurred normal operating expenses that are consistent with the CDFI industry. LDC's FY17 operating expense amounted to over $540,000, which is inclusive of interest payments to the SCBDC. As such, SCBDC's revenue and profitability has been reliant upon LDC's ability to continue making repayments on the promissory note. However, LDC's cash and cash equivalents stands at $1,671,912 which gives them a 40 month burn rate.

Since LDC is SCBDC's only source of income, the SCBDC's shareholders can only derive value from continuing the LDC's operations or liquidating their assets and distributing cash amongst each other and exit the market. LDC's past operating deficits are primary resultant from a lack of capital to leverage and generate top line revenues. There is no history of unused credit losses. At the founding of the SCBDC, a $6 million credit facility had been granted opportunity, it is likely that they could have generated sufficient income to eliminate operating deficits. The EBI recapitalization strategy is attempting to correct the problem of a lack of capital for the LDC.

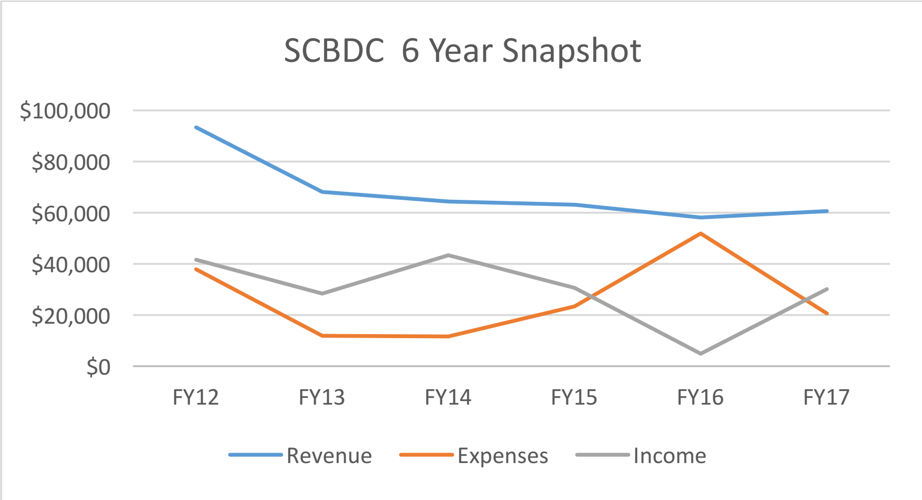
Los Angeles LDC, Inc

LDC	FY12	FY13	FY14	FY15	FY16	FY17
Revenue	383,407	243,422	313,509	232,362	159,618	383,407
Expenses	773,653	638,044	651,410	621,236	556,296	543,393
Change in net Assets	**(390,246)**	**(394,622)**	**(337,901)**	**(388,874)**	**(396,678)**	**(159,986)**
Net Assets						
Beginning of the year	2241152	1,850,906	1,456,284	1,118,383	729,509	332,831
End of the Year	1,850,906	1,456,284	1,118,383	729,509	332,831	172,845



Southern California Business Development Corporation

SCBDC	FY12	FY13	FY14	FY15	FY16	FY17
Revenue	93,215	68,087	64,432	63,212	58,150	60,655
Expenses	37,810	11,922	11,577	23,461	51,749	20,738
Income Before Tax	**55,405**	**56,165**	**52,855**	**39,751**	**6,401**	**39,917**
Income Tax Expense	13,749	27,686	9,476	9,199	1,353	9,673
Income	**41,656**	**28,479**	**43,379**	**30,552**	**5,048**	**30,244**



KEY RISKS TO THE MERGER

Pursuit to recover promissory note. At its inception, the SCBDC operated as a lender; however, it failed and required stabilization and was rehabilitated from a deteriorating financial profile by LDC. Given LDC's engagement as manager of SCBDC's operations since August 1997, LDC became a borrower, under an equity equivalent structure, of SCBDC. The current balance owing from LDC to SCBDC stands at $3,100,000. Since LDC has itself faced deteriorating revenue streams from a lack of funds deployed by financial institutions, it is unlikely LDC will meet debt repayments.

Without a merger, under the terms of the promissory note of $3,100,000 the SCBDC would have to exercise its rights and call the note. This will most likely require liquidation of the LDC and remove a mission driven lender from the low-income community. Thus, the SCBDC fails to maximise its return, due to the significant costs liquidation will incur, and would have to decide whether it wants to assume a role as a lender again or disperse assets amongst its shareholders, liquidate the company and remove an outlet of capital to low income communities.

Pursuing the liquidation strategy would inquire additional legal costs. Legal costs arise in the form of interim asset management where the liquidated entity would be placed under voluntary administration. Due to the potential increase in costs, attempting liquidation of LDC appears to be an inferior option as it leads to increased costs, and a lack of the value added through the social impact that has been available in the market since September 1980 towards Los Angeles' low income communities.

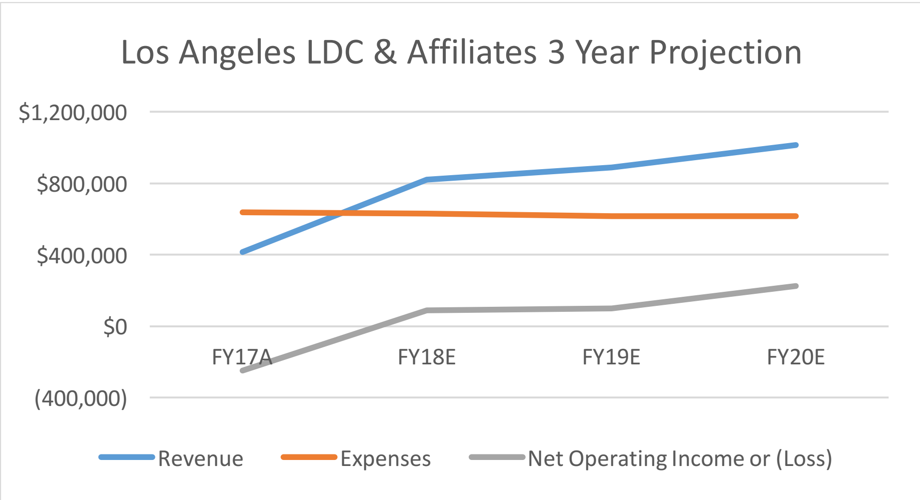
POST-MERGER FINANCIAL PROJECTIONS

The projected strengthening of Los Angeles LDC and its affiliates through its execution of its EBI recapitalization strategy should produce increased value for current SCBDC shareholders. Assuming if that were to occur and the affiliated operations have more stability then at some point there may be an opportunity for a decision to be reached by the governing body to declare dividends or an alternative method of distributing income.

The underlying value proposition of the merger is the inherent community development purpose that Los Angeles LDC and its affiliates adopt, as such, solely a financial return is not the main objective of this merger, nor should it be. In addition, this merger serves the original purpose of delivering capital in low income communities and structure of the SCBDC. There has not been any indication that SCBDC since its inception has desires to pay dividends to its shareholders. It did have apparent goal to serve low income market which has been kept alive by the LDC.

However, participation in the recapitalization plan is an alternative to balance the needs for high returns and social impact. The recapitalization plan, EBI strategy appears to have very similar characteristics to 504 ACE Loan Fund I and therefore has the potential to produce similar results. 504 ACE Fund I which was solely managed by the LDC for the benefit of its investors achieved 100% of return on capital and a 5.0%+ return on investment to all its investors. This fund was created in 2004 and helped facilitate minority led enterprises throughout the dire economic conditions in 2008.

Los Angeles LDC & Affiliates	FY17A	FY18E	FY19E	FY20E
Total Income	$416,000	$820,000	$890,000	$1,015,000
Cost of Capital	$25,000	$100,000	$175,000	$175,000
Net Interest Margin	**$391,000**	**$720,000**	**$715,000**	**$840,000**
Total Operating Expenses	$639,000	$631,000	$616,000	$616,000
Net Operating Income or (Loss)	**$(248,000)**	**$89,000**	**$99,000**	**$224,000**



Recommendation

It is our view that it is in the best interest for SCBDC shareholders to confirm the merger between SCBDC and MSBIDCO. It appears that it is in the best interest of SCBDC and its shareholders that it supports the merger and recapitalization plan, especially those who have already publicly committed to CRA reinvestment plans.

As can be seen, the LDC has sustained a net operating loss over the 6 financial years, with net assets dropping dramatically. Top line revenue has gone down because of the lack of capital to invest to generate the top line revenue. Had the original $6,000,000 credit facility offered by the SCBDC shareholder banks been provided to the LDC, it is plausible to believe they could have leveraged this credit into a loan portfolio to generate greater top line revenue. An inability to grow and maintain top line revenue, due to a lack of capital, is the fundamental cause of the decline in LDC's operating income. Historically, there has been no indication that credit losses had been the cause of any deterioration of operations.

This report suggests that the LDC will not be able to pay off the $3,100,000 without executing this recapitalization plans. As such, SCBDC and its shareholders have two alternatives:

Liquidate: Liquidation of LDC is not in the best interest of SCBDC if its objective is to maximize the return of its original $4,200,000 equity investment; nor will it extend the original purpose of the SCBDC's mission to increase to flow of business lending into low income communities.

Merge: Approve the merger and participate in the EBI strategy will increase the likelihood of generating: a) greater financial return; b) creating positive social impacts

If the merger is approved, the likelihood of acquiring a return on the $3,100,000 is significantly stronger, especially with the various strategic drivers that has been discussed including the recapitalization plan, LA RiverWorks projects and the successful management. In addition, facilitate the opportunity for MSBIDCO shareholders to support a platform that could leverage $100m.

Thus, this report recommends that all SCBDC shareholders should approve the merge.