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HONORABLE KAREN A. OVERSTREET

UNITED STATES BANKRUPTCY COURT
WESTERN DISTRICT OF WASHINGTON

In re

B & T OLSON FAMILY LLC,

Debtor.

No. 12-14352

DEBTOR'S DISCLOSURE STATEMENT
FOR PLAN OF REORGANIZATION
UNDER CHAPTER 11 OF THE
BANKRUPTCY CODE

IMPORTANT: THIS DISCLOSURE STATEMENT CONTAINS INFORMATION THAT MAY BEAR UPON YOUR DECISION TO ACCEPT OR REJECT THE PLAN OF REORGANIZATION (“PLAN”) OF B & T OLSON FAMILY LLC (“DEBTOR”). PLEASE READ THIS DOCUMENT WITH CARE. THIS DOCUMENT SUMMARIZES THE TERMS OF THE PLAN. THE DEBTOR MAY CONTINUE TO NEGOTIATE PAYMENT TERMS WITH CREDITORS, AND THE SPECIFIC TREATMENT OF CLAIMS MAY CHANGE AS A RESULT, BUT THE PAYMENT TERMS WHICH THE DEBTOR WILL ASK THE COURT TO APPROVE WILL IN NO CASE BE MATERIALLY LESS FAVORABLE THAN THOSE DESCRIBED HEREIN.

TO ALL PARTIES IN INTEREST:

On April 26, 2012 (“Petition Date”), the Debtor filed a voluntary petition under Chapter 11 of the Bankruptcy Code. The Debtor’s reorganization case is presently pending before the above-captioned court (the “Bankruptcy Court” or “Court”).

This Disclosure Statement contains information with respect to the Debtor’s proposed Plan. Pursuant to § 1125 of the Bankruptcy Code, the Disclosure Statement is being distributed to you along with a copy of the Plan to allow you to make an informed decision in exercising your right to accept or reject the Plan. This Disclosure Statement has been approved by order of the Court pursuant to

DEBTOR'S DISCLOSURE STATEMENT FOR PLAN OF
REORGANIZATION UNDER CHAPTER 11 OF THE
BANKRUPTCY CODE – Page 1

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5000 Two Union Square
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1 § 1125 of the Bankruptcy Code as containing information of a kind, and in sufficient detail, as far as is
2 reasonably practicable under the circumstances, that would enable a hypothetical reasonable investor
3 to make an informed judgment about the Plan. In the event of inconsistencies between the Plan and
4 the Disclosure Statement, however, the terms of the Plan shall control in all instances. The Court's
5 approval of this Disclosure Statement does not constitute an endorsement of the Plan by the Court.

6 The Debtor urges you to accept the proposed Plan and to promptly return your completed
7 ballot to enable your vote to be counted.

8 I. 9 DEFINITIONS

10 Terms used in this Disclosure Statement not specifically defined herein or in the Bankruptcy
11 Code shall be defined as set forth in the Plan that accompanies this Disclosure Statement. In
12 particular, capitalized terms shall have the meanings prescribed for such terms in Section II of the
13 Plan.

14 II. 15 BACKGROUND INFORMATION

16 A. Historical Background and Events Leading to Bankruptcy.

17 A. The Debtor and Its Properties

18 The Debtor is a Washington limited liability company formed in 2001 to acquire and develop
19 commercial real property. The Debtor's members are Brett and Tina Olson, husband and wife, each
20 of whom owns 50% of the membership interests in the Debtor and is a managing member. The Debtor
21 currently owns commercial properties in Lake Stevens, Stanwood, and Camano Island, Washington
22 (each, a "Property" and collectively, the "Properties"), as detailed below.

23 1. Lake Stevens/Team Fitness Building

The Lake Stevens real property is located at 1109 Frontier Circle East, Lake Stevens,
Washington ("Team Fitness Building"). The Debtor built this 25,000 square foot building in 2002,
which has more than 400 feet of highway frontage on State Route 9, and has been fully occupied by
two tenants since it was built. One tenant, Team Fitness, occupies 22,000 square feet, which includes
the majority of the first floor and the entire second floor of the building. M.V.P.T. Physical Therapy,
the second tenant, occupies 3,000 square feet in the southwest corner of the building. The leases
generate approximately \$42,240 per month in income for the Debtor. The Team Fitness Building is
quite valuable. It operates profitably, generating surplus cash after payment of all monthly operating
expenses.

2. Port Susan Building

The Debtor owns two real properties in Stanwood, Washington. One property is located at
9712 270th St. NW in downtown Stanwood ("Port Susan Building"). The Port Susan Building was

1 built in 2005 and comprises a 30,000 square foot office building with underground parking. The
2 building is in very good condition. Approximately 7,000 square feet of the building is leased by two
3 tenants, Stanwood Physical Therapy and Stanwood Dentist. The remaining 23,000 square feet is
4 presently vacant. This Property also includes an additional tax lot incorporating 29,621 square feet of
undeveloped, commercially-zoned land. The leases generate approximately \$11,740 per month in
income for the Debtor.

5 3. Resilience Building

6 The Debtor also owns real property located at 7213 267th St. NW in Stanwood (“Resilience
7 Building”). The Resilience Building has 45,000 square feet of space and is in very good condition.
8 The building was built in 1996, acquired by the Debtor in 2007, and was extensively remodeled and
9 updated in 2010 for the tenant, Resilience Fitness. Resilience is a health club with, among other
10 amenities, two racquet courts, a full-size indoor basketball court, and three championship indoor
11 tennis courts with an elevated spectator viewing area. Resilience leases 100% of the available space,
and lease payments are currently approximately \$30,000 per month. In October 2012, the lease rate
increases to \$40,000 per month, and there are additional rent escalations set for future periods until the
lease rate tops out at \$55,000 per month in November 2014. Brett Olson and Tina Olson, the Debtor’s
Members, are also the sole members of the tenant Resilience Fitness LLC.

12 4. Camano Island Buildings

13 The Debtor owns real properties located at 848 N. Sunrise Blvd., Camano Island, Washington
14 (“Camano Buildings”) which it built in 2005. The Camano Properties comprise three buildings on
15 four legal lots. The portion of the Camano Property commonly known as “Building D” is a 4,500
square foot building fully occupied by one tenant, Islander’s Restaurant. The Islander’s Restaurant
lease generates \$6,500 in lease payments per month. Based on communications with real estate
brokers familiar with commercial properties in the area, the Debtor believes Camano Building D is
worth approximately \$925,000.

16 The Camano Property commonly known as “Buildings E and F” has one 8,000 square foot
17 building with three tenants, Distinctive Interiors, Sno-Isle Library and Edward Jones, and 3,000
18 square feet of vacant space. These two leases generate approximately \$8,094 in rents per month. The
19 lease for Sno-Isle Library (“Library Lease”), because it is paid by a municipal entity, is always paid in
20 full one year in advance, following approval of the municipal budget. The Library Lease was renewed
by the tenant shortly before the Petition Date. Based on communications with real estate brokers
familiar with commercial properties in the area, the Debtor believes the value of Camano Buildings E
and F is approximately \$1.3 million.

21 Finally, the portion of the Camano Property commonly known as “Building G” is a 4,000
22 square foot building. Based on communications with real estate brokers familiar with commercial
23 properties in the area, the Debtor believes the Building G Camano Property is worth approximately
\$650,000. However, for purposes of the Plan, the Debtor is accepting Opus Bank’s appraised value of
\$450,000.

1 5. Obligations Secured by the Properties

2 In connection with its acquisition and development of the Properties, the Debtor obtained
3 financing from three separate lenders: Cascade Bank (now Opus Bank), EverTrust Bank (now
4 KeyBank), and Frontier Bank (now Union Bank). Opus Bank asserts a first position deed of trust and
5 assignment of rents against the Port Susan Building, Resilience Building, and Camano Building G,
6 and a second position deed of trust and assignment of rents against the Team Fitness Building. Union
7 Bank asserts a first position deed of trust and assignment of rents against the Team Fitness Building.
8 Key Bank asserts a first position deed of trust and assignment of rents against Camano Buildings D, E
9 and F. The amounts owed to each of these secured lenders are described in more detail below.

7 6. Management of the Properties

8 Brett and Tina Olson, the Debtor’s members, provide all property management services for
9 each of the Properties. For these services the Olsons charge the Debtor nothing, saving the Debtor an
10 expense of some 3% - 6% of rental income each month. The Olsons have continued to provide these
11 services since the Petition date at no cost.

10 7. Events Leading to Bankruptcy

11 In 2007, both the Port Susan and Resilience Buildings were leased by one tenant, Dan Lehr,
12 and operated as fitness clubs. In 2008, Lehr ceased making rent payments, vacated both properties,
13 and subsequently filed for bankruptcy protection. Team Fitness then took over and became a tenant of
14 the Resilience Property and Port Susan Buildings, but later vacated all but the Team Fitness Buildings.
15 This left the Debtor in 2010 with approximately 70,000 square feet of vacant space in the Port Susan
16 and Resilience Buildings shortly before a substantial remodel of the Resilience Building was to begin.
17 Brett and Tina Olson, principals of the Debtor, invested approximately \$500,000 in the remodel of the
18 Resilience Fitness Building, and formed Resilience Fitness LLC. Resilience Fitness LLC operates the
19 fitness club in the Resilience Building.

16 Despite the challenging economic environment, and except as described below, the Debtor has
17 paid its all of its operating expenses and remained current on its loan payments to Opus Bank, Union
18 Bank and Key Bank.

18 In 2010 the Debtor and Cascade Bank reached agreement on a loan modification, pursuant to
19 which the Debtor was required to make interest only payments at 5% on three of its largest loans for a
20 period of one year. Cascade indicated that it would likely renew the terms of the loan modifications
21 the following year.

21 In June 2011, the Debtor met with representatives of Cascade Bank to request an extension of
22 the loan modification agreement reached in 2010, which agreement was set to expire in August 2011.
23 At that meeting the Debtor was informed that the bank, which was in the process of being acquired by
Opus Bank, would be unable to make any loan modifications until Opus Bank took over bank
operations in July. The bank representatives indicated to the Debtor, however, that Opus Bank held
itself out as a community bank interested in supporting local businesses, and so the Debtor remained

1 committed to working with Opus Bank in order to obtain loan modifications necessary for the
2 Debtor's business to survive the economic downturn.

3 The Debtor heard nothing further from Opus Bank until early September 2011, when it
4 received a payment notice from Opus Bank showing that the monthly payment amounts for the three
5 modified loans had returned to the pre-modification amounts owed. Unable to make the full payments
6 on all three of the loans now owned by Opus Bank, the Debtor stopped making payments on only its
7 largest Opus loan, loan number 5304020513 in September 2011. The Debtor continued, however, to
8 make payments on all other Opus obligations.

9 On or about September 21, 2011, Opus Bank finally informed the Debtor that it would require
10 an executed pre-negotiation agreement in order to consider any requests for loan modifications. The
11 Debtor duly executed the pre-negotiation agreement and returned it to Opus. At Opus' request, the
12 Debtor subsequently provided Opus with all financials, current leases, rent rolls, expenses, and all
13 other financial information requested. On or about October 25, 2011, Opus Bank informed the Debtor
14 that it was unwilling to modify the Debtor's loans. On December 23, 2011, the Debtor received two
15 notices of default from Opus Bank, which commenced non-judicial foreclosure proceedings against
16 the Team Fitness and Port Susan Buildings.

17 Further attempts at negotiating a restructuring of loan obligations with Opus Bank failed, and
18 this Chapter 11 was filed in order to allow the Debtor to continue its operations, maximize the value
19 of its assets for the estate and its creditors, including preservation of any equity in the Properties, and
20 restructure its liabilities.

21 **B. Events Since Bankruptcy**

22 1. Claims Bar Date. On June 4, 2012 the Bankruptcy Court entered an order fixing July
23 16, 2012 as the last date to file proofs of claim.

24 2. Orders Employing Professionals. On May 30, 2012, the Bankruptcy Court entered an
25 order authorizing the Debtor's employment of Bush Strout & Kornfeld as bankruptcy counsel. On
26 June 8, 2012 the Bankruptcy Court entered an order authorizing the Debtor's employment of Kidder
27 Mathews as the Debtor's valuation consultant with respect to its Properties. On June 20, 2012, the
28 Bankruptcy Court entered an order authorizing the employment of Windermere Real Estate – C.I.R.,
29 Inc. as exclusive listing agent for the sale of the Debtor's Port Susan and Camano Buildings, and also
30 as exclusive leasing agent for the vacant space in the same Properties. On July 6, 2012, the
31 Bankruptcy Court entered an order authorizing the employment of Hutchison & Foster as the Debtor's
32 special counsel.

33 3. Use of Cash Collateral and Adequate Protection. On May 3, 2012, the Court entered
an order granting interim authority to the Debtor to use cash collateral and granting the Debtor's
secured lenders interim adequate protection in the form of a replacement lien encumbering leases and
subleases entered into following the Petition Date, and the rents generated therefrom (the "Interim
Replacement Liens"). On June 26, 2012, the Court entered a second interim order granting the use of
cash collateral of Key Bank until August 31, 2012, and the cash collateral of Union Bank and Opus

1 Bank until the second week of September 2012. The Court also granted adequate protection in the
2 form of continuing Interim Replacement Liens and certain cash payments to each of the secured
lenders, as set forth in the second interim cash collateral budget.

3 4. Continued Use of Prepetition Bank Accounts. On May 2, 2012, the Court entered an
4 order authorizing the Debtor to continue to use business bank accounts and checks that were in
existence before the Petition Date.

5 5. Adequate Assurance to Utilities Under Bankruptcy Code § 366. On May 2, 2012, the
6 Bankruptcy Court entered an order approving, on an interim basis, the Debtor's proposed adequate
7 assurance to utilities under Bankruptcy Code § 366 in the form of a two-week deposit. If a utility
provider did not provide written objection on or before May 24, 2012, the Court's interim order
became final as to that utility provider.

8 6. Motion for Dismissal or Relief from Stay. On May 25, 2012, Opus Bank filed a
9 motion seeking dismissal of the Debtor's bankruptcy case, or, in the alternative, relief from stay to
10 foreclose on four of the Debtor's Properties ("Motion for Dismissal"). The hearing on the Motion for
Dismissal was set for June 22, 2012, the day of the hearing on the Debtor's continued use of cash
11 collateral. Prior to the hearing, the Debtor and Opus Bank reached an agreement whereby the Debtor
would file its proposed plan of reorganization and disclosure statement on an expedited basis by the
12 end of July 2012, and file a motion to shorten time for the hearing on the disclosure statement.
Subject to Court approval of the motion shortening time, the parties agreed that the hearing on
confirmation of the Debtor's plan of reorganization would be held on September 14, 2012, and Opus
13 Bank agreed to continue its hearing on the Motion for Dismissal to that date.

14 **III.**
ASSETS AND LIABILITIES OF DEBTOR

15 **A. Assets.**

16 The value of the Debtor's Properties, as described in more detail below, is as follows:

17

Property	Value
Team Fitness	\$ 4,500,000.00
Port Susan	\$2,350,000.00
Resilience	\$5,430,000.00
Camano Building G	\$450,000.00
Camano Building D	\$925,000.00
Camano Buildings E & F	\$1,300,000.00
TOTAL	\$14,955,000.00

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22 The values for the Team Fitness, Port Susan, and Resilience Properties are based on work performed
23 by Kidder Mathews ("KM") as the Debtor's valuation consultant with respect to the Properties.
Specifically, Peter Shorett of KM was employed to perform real estate appraisal reviews of the May
2012 appraisals of the Team Fitness, Port Susan, and Resilience Buildings obtained by Opus Bank and

1 submitted in support of Opus' Motion for Dismissal. Details for all asset values are set forth below
2 and in Exhibits A, B and C attached hereto.

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1. Lake Stevens/Team Fitness Building

The market value of the Team Fitness Building, effective as of May 11, 2012, and as described in more detail in the KM appraisal review attached hereto as Exhibit A, is \$4,500,000. While Opus Bank's appraisal, conducted by CBRE, set the market value of the Property at \$3,900,000, KM's review of the appraisal showed that it contained superfluous information not germane to the valuation of the Property, as well as a number of glaring errors and omissions when assigning a value to the Team Fitness Building. Specifically, CBRE presented a market analysis focused on the supply and demand for retail shopping centers, but made no effort to analyze or discuss the market for athletic clubs or properties that would be competitive with the Team Fitness Building. Further, CBRE elected to omit the sales comparison approach, and in its income capitalization approach, CBRE overstated the vacancy rate of the Team Fitness Building and used a higher than appropriate capitalization rate. Finally, CBRE used a contract rental rate for the physical therapy space that is \$17,000 below what the tenant actually pays. The series of omissions and incorrect valuations in the CBRE appraisal lead to an understatement of the value of the property by \$600,000, or 25%.

2. Port Susan Building

The market value of the Port Susan Building, effective as of May 11, 2012, and as described in more detail in the KM appraisal review attached hereto as Exhibit B, is \$2,350,000. While Opus Bank's appraisal, conducted by Colliers International ("CI"), set the market value of the Property at \$2,000,000, KM's review of the appraisal revealed that CI made a significant mathematical error in the calculation of the Property's net operating income, errors in judgment concerning stabilized occupancy, capitalization rate selection, and numerous re-leasing assumptions. CI also inexplicably opined that the surplus land site contained a useable land area that was half of the actual useable size of the area, resulting in an undervaluation of \$110,000 undervaluation of the Port Susan Building. The other mathematical and judgment errors lead to an additional undervaluation of the Property by \$240,000. The series of omissions and incorrect valuations in the CI appraisal lead to an understatement of the value of the Port Susan Property by \$350,000, or 17%.

3. Resilience Building

The market value of the Resilience Building, effective as of May 11, 2012, and as described in more detail in the KM appraisal review attached hereto as Exhibit C, is \$5,430,000. Opus Bank's appraisal, conducted by CBRE, set the market value of the Property at \$4,200,000. KM's review of the appraisal showed that, like the Team Fitness appraisal by CBRE, the Resilience appraisal contained superfluous information not germane to the valuation of the Property, as well as a number of omissions and errors in judgment when assigning a value to the Resilience Building. Specifically, CBRE again presented a market analysis focused on the supply and demand for retail shopping centers, but made no effort to analyze or discuss the market for athletic clubs or properties that would be competitive with the Resilience Building. Further, CBRE elected to omit the sales comparison approach, and in its income capitalization approach, CBRE ignored future rent escalations identified

1 in the tenant lease and thereby penalized the value of the Property. Finally, CBRE used a contract
2 rental rate for the physical therapy space that is \$17,000 below what the tenant actually pays. The
series of omissions and incorrect valuations in the CBRE appraisal lead to an understatement of the
3 value of the property by \$1,230,000, or 30%.

4 **4. Camano Buildings**

5 The appraisal performed by CI of Camano Building G set an as-is market value of \$450,000.
6 The Debtor has not yet requested a review of the CI appraisal by KM, and at this time and for the
purposes of this Disclosure Statement and Plan, uses this value of the Property.

7 Based on communications with real estate brokers familiar with commercial properties in the
8 area, the Debtor believes Camano Building D is worth approximately \$925,000.

9 Based on communications with real estate brokers familiar with commercial properties in the
10 area, the Debtor believes the value of Camano Buildings E and F is approximately \$1.3 million.

11 **5. Olsons' Residence**

12 The Debtor's Members, Brett and Tina Olson, own a residence located at 2170 Crestview
13 Drive, Laguna Beach, California. While not part of the Debtor's estate, the Olsons' Residence serves
14 as collateral securing their guaranty of the Debtor's obligations to Opus Bank, and its value is relevant
to the proposed means for execution of the Plan and other Confirmation issues. There are two parcels
associated with the Olsons' Residence. The combined 2012-2013 tax-assessed value for the parcels
that comprise the Olsons' Residence is \$3,720,796.00. There is a first mortgage against the property
in favor of Bank of America in the approximate amount of \$1,850,000. Opus Bank holds a second
position deed of trust against the property.

15 **B. Liabilities**

16 **1. Administrative Expense Claims.**

17 Administrative Expense Claims, in the form of fees and expenses incurred by Professional
18 Persons engaged by the Debtor, have accrued in the amounts indicated below:

19 Bush Strout & Kornfeld LLP, attorneys for Debtor (time period of application _____):

20 Fees: *[to be provided]*
Costs:
Total:

21 Kidder Mathews, valuation consultant to Debtor (time period of application 6/14/12 – 7/25/12):

22 Fees: \$11,700.00
Costs: \$0.00
Total: \$11,700.00

1 As of July 27, 2012, Hutchison & Foster, special counsel for Debtor, had not incurred any fees or
2 costs. Additional amounts have accrued in favor of each Professional Person since the dates
3 indicated. All amounts owed in favor of Professionals will be the subject of applications subject to
4 notice and a hearing in the Bankruptcy Court.

5 **2. Priority Tax Claims.**

6 Early in the case the Internal Revenue Service (“IRS”) filed a Proof of Claim in the amount of
7 \$700.00 for the years 2006-2012 on the basis of unfiled tax returns. On May 21, 2012, the IRS filed
8 an amended Proof of Claim that reduced the amount claimed to zero. The Debtor also listed a claim
9 in its schedules in favor of Washington State Department of Labor & Industries – Elevator Section
10 (“L&I”) in the amount of \$109.40. The claim was not listed as contingent, unliquidated or disputed.
11 L&I did not file a Proof of Claim. There are no other Priority Tax Claims.

12 **3. Secured Claims.**

13 On or about July 16, 2012, Opus Bank filed eight separate Proofs of Claim in connection with
14 the Class 1 Claim described herein alleging an aggregate amount owing of \$12,214,319.00 as of the
15 Petition Date. Key Bank has filed a proof of claim alleging an aggregate amount owing of
16 \$2,200,923.78. Union Bank has filed a proof of claim alleging an amount owing of \$1,172,980.07.
17 The Snohomish County Treasurer filed a proof of claim alleging a secured claim of \$209,394.43 for
18 real property taxes owed by the Debtor. Additionally, and as reflected in the Debtor’s Schedule D, the
19 Debtor’s records indicate that the Island County Treasurer has a secured claim of \$13,468.85 for real
20 property taxes owed by the Debtor. Following the Petition Date and pursuant to order of the Court,
21 the Debtor made payments to Snohomish County and Island County in the amounts of \$22,817.89 and
22 \$4,489.91, respectively.

23 **4. General Unsecured Claims.**

As set forth in the Debtor’s Schedule F, the Debtor’s records indicate that there are claims
totaling \$2,159,700.19 in general unsecured claims against the Debtor. This amount, however,
includes the scheduled amount of \$2,150,398.60 owed to the Debtor’s Members for monies loaned to
the Debtor as funds were needed to cover expenses related to the Properties and remain current on
pre-petition obligations to the Debtor’s secured creditors.

The amounts set forth above are tentative and at this time are based solely on amounts set forth
in the Debtor’s records and proofs of claim that were filed in this case. It is possible that the Debtor
may object to some of the claims in order to resolve disputes that cannot be resolved through
negotiation, and the Debtor has specifically reserved the right to do so. Claims against the Debtor
may be increased or may be reduced through litigation, compromise, or other developments
subsequent to the date of approval of this Disclosure Statement.

1 **IV. SUMMARY OF PROPOSED PLAN OF REORGANIZATION**

2 A complete copy of the proposed Plan accompanies this Disclosure Statement. The discussion
3 of the Plan that follows constitutes a summary only. You are urged to read the Plan itself with care
4 before deciding to accept or reject the Plan.

4 **A. Explanation of Impaired and Unimpaired Claims.**

5 The term “Impaired” as used herein refers to those creditors to whom this Disclosure
6 Statement (and the related Ballots and other materials delivered together herewith) are being furnished
7 and who are entitled to accept or reject the Plan. The Claims in each of the Classes 1 through 7 are
8 impaired under the Plan, and the holders of Claims in such Classes are entitled to vote to accept or
9 reject the Plan.

8 The term “Unimpaired” refers to those creditors whose claims or interests remain unaltered by
9 the reorganization effectuated by the Plan. Because of this favorable treatment, these creditors are
10 conclusively deemed to have accepted the Plan. Accordingly, under Section 1126(f) of the
11 Bankruptcy Code, it is not necessary to solicit acceptances from the holders of claims or interests in
12 such classes. There are no unimpaired Claims under the Plan.

11 **B. Classification of Claims and Interests.**

12 The Plan establishes seven classes of claims and one class of interests. If the Plan is
13 confirmed by the Court and becomes effective, the class into which each Allowed Claim and Allowed
14 Interest fits will determine the manner in which such claim or interest will be treated. The classes
15 defined in the proposed Plan are summarized below.

15 **1. Unclassified Claims.**

16 **a. Administrative Expense Claims**

17 Administrative Expense Claims are Claims for costs or expenses of the Reorganization Case
18 that are allowed under sections 503(b) and 507(a)(1) of the Bankruptcy Code, including all actual and
19 necessary costs and expenses relating to the preservation of a debtor's estate or the liquidation of its
20 business, all allowances of compensation or reimbursement of expenses to the extent Allowed by the
21 Court, all Allowed Claims for reclamation pursuant to 546(c) of the Bankruptcy Code, and all
22 Allowed Claims for cure payments arising from the assumption of executory contracts pursuant to
23 section 365(b)(1) of the Bankruptcy Code to the extent such cure payments have not already been
paid.

21 Administrative Expense Claims also consist of fees and expenses of Professional Persons, and
22 other ongoing expenses of operation. As of _____, 2012, Bush Strout & Kornfeld has incurred *\$/to
23 be provided]* in fees and costs for its representation of Debtor. As of July 25, 2012, Kidder Mathews
has incurred \$11,700.00 in fees and costs for its work as a valuation expert with respect to the
Debtor’s Properties. As of July 27, 2012, as special counsel Hutchison & Foster had not incurred any

1 fees and costs for its representation of Debtor. While additional amounts owing Professional Persons
2 will necessarily accrue prior to Confirmation, the ultimate amount is not subject to estimation at this
time.

3 Administrative Expense Claims (other than the Allowed Claims of Professional Persons)
4 representing an undisputed unpaid liability incurred on and after the Petition Date in the ordinary
5 course of business will be paid as and when due in the ordinary course of business without an order of
6 the Court. Unless an Administrative Expense Claim is paid as aforesaid as an ordinary course
7 obligation, an Administrative Expense Claim shall become an Allowed Administrative Claim only to
the extent Allowed by Final Order of the Court. Unless otherwise ordered by the Court, request for
8 payment of Administrative Expense Claims that have accrued from the Claims Bar Date through the
9 Effective Date, must be filed and served no later than thirty (30) days after the Effective Date.

10 Under the Plan, each Holder of an Administrative Expense Claim shall be paid in full on the
11 later of the Effective Date or the date such Claim becomes an Allowed Claim, except to the extent that
12 any Holder of an Allowed Administrative Expense Claim agrees to less favorable treatment thereof.
13 Administrative Expense Claims representing obligations incurred in the ordinary course shall be paid
14 in the ordinary course of that Debtors' business in accordance with the terms and conditions of the
particular agreements governing such obligations.

11 **b. Priority Tax Claims**

12 As defined under the Plan, Priority Tax Claims are Allowed Claims of Taxing Agencies that
13 are entitled to priority in accordance with section 507(a)(8) of the Bankruptcy Code. Priority Tax
14 Claims include the principal portion of the applicable tax and interest accrued thereon through the
Effective Date but do not include any penalties. The only Priority Tax Claim – the scheduled claim in
15 favor of L&I in the amount of \$109.40 – shall be deemed allowed and paid in full on the Effective
Date.

16 **2. Classified Claims and Interests.**

17 All Claims (as defined in § 101(4) of the Bankruptcy Code) against the Debtor are classified as
18 set forth herein. A Claim is in a particular Class only to the extent it qualifies within the definition of
such Class and is in a different Class to the extent it qualifies within the definition of such different
Class.

- 19 a. Class 1: Secured Claims of Opus Bank
- 20 b. Class 2: Secured Claim of Union Bank
- 21 c. Class 3: Secured Claim of KeyBank
- 22 d. Class 4: Secured Claim of Island County Treasurer
- 23 e. Class 5: Secured Claim of Snohomish County Treasurer
- f. Class 6: General Unsecured Claims
- g. Class 7: Allowed Interests of Members

1 **C. Treatment of Claims and Interests Under the Plan.**

2 The Treatment of Claims and Interests Under the Plan, and the Means for Execution of the
3 Plan, are set forth in Sections IV and VII, respectively, of the Plan and are summarized below.
4 Notwithstanding the summary provided below, the terms of the Plan shall control the classification
5 and treatment of claims and all other aspects of the Debtor's rights and obligations as to matters
6 governed by the Plan following the Effective Date. Parties are urged to read the Plan with care to
7 determine the treatment proposed for their Claim or Interest.

8 In summary, the Plan treats the various classes as follows:

9 1. Class 1: Secured Claims of Opus Bank. Class 1 represents the Secured Claims of Opus
10 Bank, as successor to eight loans originated by Cascade Bank. Opus Bank has filed eight separate
11 Proofs of Claim in connection with the Class 1 Claim alleging an aggregate amount owing of
12 \$12,214,319 as of the Petition Date. On the Effective Date, the Debtor shall execute and deliver to
13 Opus Bank Deeds in Lieu conveying to Opus Bank or its designee the Resilience Fitness Building and
14 Camano Building G, and Brett and Tina Olson shall execute and deliver a Deed in Lieu conveying to
15 Opus Bank or its designee the Olsons' Residence. Upon completion of the deliveries of these Deeds
16 in Lieu, the amount of the Class 1 Claim shall be deemed reduced by a total of \$7,580,000. Opus
17 Bank shall retain its security interests in the Port Susan Building and the Team Fitness Building. On
18 the Effective Date, the remaining balance of the Class 1 Claim shall be amortized for paying in one
19 hundred two equal monthly installments of principal and interest based upon a thirty (30) year
20 amortization, with interest accruing on the unpaid principal balance at the rate of four percent (4.0%)
21 per annum.

22 2. Class 2: Secured Claim of Union Bank. Class 2 consists of the Secured Claim of
23 Union Bank, as successor to the beneficial interests in a loan originated by Frontier Bank. On July 16,
24 2012, Union Bank filed a Proof of Claim in connection with the Class 2 Claim in the amount of
25 \$1,172,980.07 as of the Petition Date. The Class 2 Claim is secured by a first position deed of trust
26 encumbering the Team Fitness Building. On the Effective Date, the Class 2 Claim shall be amortized
27 for payment based upon a seven-year amortization, provided that all amounts shall be due and payable
28 in December 2017. Interest shall accrue on the unpaid balance at a fixed rate of five percent (5%) per
29 annum.

30 3. Class 3: Secured Claims of KeyBank. Class 3 consists of the Secured Claim of
31 KeyBank, as successor to the beneficial interest in two loans originated by EverTrust Bank. On July
32 16, 2012, KeyBank filed a Proof of Claim in connection with the Class 3 Claim in the amount of
33 \$2,200,923.76. On the Effective Date, the Debtor shall execute and deliver to KeyBank Deeds in Lieu
34 conveying to KeyBank or its designee Camano Buildings D, E & F in full and complete satisfaction of
35 the Class 3 Claim. No amount shall be payable and no other distribution shall be made on the Class 3
36 Claim under the Plan.

37 4. Class 4: Secured Claim of Snohomish County Treasurer. Class 4 consists of the
38 Secured Claim of Snohomish County Treasurer for outstanding real and personal property taxes
39 associated with the Resilience Fitness Building, the Port Susan Building, and the Team Fitness

1 Building. Snohomish County previously filed a Proof of Claim in an aggregate amount of
2 \$209,394.43 as of the Petition Date. Following the Petition Date, the Debtor made a payment to
3 Snohomish County in the amount of \$22,817.89. The Class 4 Claim shall therefore be allowed upon
4 Confirmation in the amount of \$186,576.54. Following the conveyance of the Resilience Fitness
5 Building to Opus Bank, no amount shall be payable to Snohomish County on account of the amounts
6 related to the Resilience Fitness Building, and Snohomish County shall be entitled to exercise any
7 remedies it may have under non-bankruptcy law to recover such amounts from its collateral. On the
8 Effective Date, the remaining balance of \$154,597.87, shall be amortized for payment in forty-two
9 (42) equal payments, and interest shall accrue on the unpaid principal balance at a fixed rate of five
10 percent (5.0%) per annum.

11 5. Class 5: Secured Claim of Island County Treasurer. Class 5 consists of the Secured
12 Claim of Island County Treasurer for outstanding real property taxes related to Camano Buildings D,
13 E & F, and G. The Debtor listed claims in its Schedule E in favor of Island County in a total amount
14 of \$14,294.26, and Island County did not file a Proof of Claim. Following the Petition Date, the
15 Debtor made a payment to Island County in the amount of \$4,489.91. The Class 5 Claim shall
16 therefore be allowed upon Confirmation in the amount of \$9,804.35. Island County shall retain its
17 statutory liens against each of Camano Buildings D, E & F, and G for amounts owing related to each
18 particular property. In connection with the treatment of the Class 1 and Class 3 Claims, on the
19 Effective Date Camano Buildings G shall be conveyed to Opus Bank and Camano Buildings D, and E
20 & F shall be conveyed to KeyBank. The Debtor shall make no payments on account of the amounts
21 owing on the Class 5 Claim, and the holder of the Class 5 Claim shall be entitled to exercise any
22 remedies it may have under applicable non-bankruptcy law to recover such amounts.

23 6. Class 6: General Unsecured Claims. Class 6 consists of all Unsecured Claims not
more particularly described in another Class under the Plan. All Class 6 Claims shall be paid in full in
two payments, which shall be due on the tenth (10th) day of the twelfth (12th) and the eighteenth
(18th) full month following the Effective Date. Interest shall accrue on the unpaid balance of each
Allowed Claim that is a Class 6 Claim following the Effective Date at the Federal Judgment Rate.

7. Class 7: Allowed Interests of Members. Class 7 consists of the Allowed Interests of
the Members of the Debtor. Except as otherwise provided for under the Plan, the Members shall
retain such interests following Confirmation but shall receive no distributions on account of such
interests (i) if there exists a default under payments owing to any other Class, or (ii) the Debtor shall
fail to make any payment due on the Effective Date.

ARTICLE V. MEANS FOR EXECUTION OF THE PLAN

A. General Terms

As detailed in the Plan, following Confirmation the Debtor shall continue to own, control,
manage and operate its assets and business in connection with the Team Fitness Building and the Port
Susan Building in the exercise of reasonable and prudent judgment in the ordinary course of business
without further notice or order of the Court. Funding for payments to creditors pursuant to the Plan

1 shall come from Cash on hand as of the Effective Date, and operating revenues. The Debtor or its
2 designee shall act as disbursing agent for payments and distributions due under the Plan.

3 **B. Conveyance of Properties.**

4 On the Effective Date, the Debtor shall convey (i) to KeyBank, Camano Buildings D, E & F,
5 and (ii) to Opus Bank, the Resilience Fitness Building and Camano Building G. In each case the
6 conveyance shall be by way of a non-merger deed in lieu of foreclosure. KeyBank and Opus Bank
7 shall be permitted to realize on such properties following the Effective Date.

8 **C. Retention of Claims and Causes of Action**

9 Unless otherwise provided in the Plan, all rights, claims and causes of action, whether
10 equitable or legal, of the Debtor or the Reorganized Debtor against all persons are reserved for the
11 Reorganized Debtor, including without limitation all rights, claims and causes of action of the Debtor
12 or the Reorganized Debtor arising under §§ 544, 545, 547, 548, 549 and 550 of the Bankruptcy Code,
13 or under applicable non-bankruptcy law, for the recovery of avoidable preferences, fraudulent
14 transfers or other conveyances.

15 **ARTICLE VI.**
16 **EXECUTORY CONTRACTS AND UNEXPIRED LEASES**

17 **A. Assumption of Executory Contracts and Unexpired Leases.**

18 The Plan constitutes a motion by the Debtor to assume the executory contracts and unexpired
19 leases set forth in Exhibit D as of the Effective Date pursuant to § 365(a) of the Bankruptcy Code.
20 The Debtor believes no cure pursuant to § 365(b)(1)(A) of the Code will become due upon
21 assumption. Notwithstanding the foregoing, any party to an executory contract or unexpired lease
22 scheduled for assumption as provided in this paragraph shall, within the same deadline and in the
23 same manner established for objections to confirmation, file any claim for arrearage required to be
cured by § 365(b)(1) of the Bankruptcy Code and any objections to the assumption. Failure to assert
such arrearage or to file any objections shall constitute an agreement to the assumption and an
acknowledgment that no defaults or claims exist under said contract that require a cure.

B. Rejection of Executory Contracts and Unexpired Leases.

The Plan constitutes a motion by the Debtor to reject all other executory contracts and
unexpired leases of the Debtor, not heretofore assumed or rejected, as of the Effective Date, except
(1) those executory contracts and unexpired leases previously assumed, and (2) those executory
contracts and unexpired leases set forth in Exhibit D to this Disclosure Statement. Any claim arising
from the rejection of an executory contract or unexpired lease is a Class 6 claim to the extent it is an
Allowed Claim. Any entity holding a claim based upon the rejection of an executory contract or
unexpired lease pursuant to Section VI of the Plan must file a Proof of Claim with the Bankruptcy
Court within thirty (30) days after the Effective Date. The failure of any such entity to file a Proof of
Claim within the specified time period will result in the disallowance of such claim.

1 **ARTICLE VII.**
2 **LIQUIDATION ANALYSIS**

3 The Bankruptcy Code requires that a creditor with a right to vote either accept the Plan, or that
4 such creditor receive under the Plan at least as much as it would receive if the Debtor's assets were
5 liquidated in and the proceeds distributed under a Chapter 7 liquidation. This is generally known as
6 the "best interests" test. To apply the test, the Debtor's assets are valued at the dollar amount that
7 would be generated from their distressed liquidation in the context of a Chapter 7 case by a trustee
appointed by the Bankruptcy Court. The analysis takes into account the costs and expenses of the
liquidation, and such additional administrative and priority claims that may result from such a
liquidation. Net liquidation proceeds would be paid to general unsecured creditors only to the extent
funds are available after secured creditors have been paid the full value of their collateral and priority
creditors receive full payment on their claims.

8 The Debtor believes that it is clear that no creditor (other than Union Bank) would receive as
9 much in a Chapter 7 liquidation as it would under the Plan. In a hypothetical Chapter 7, two problems
10 would be presented. First, a trustee would be unlikely to hold and operate the Properties indefinitely,
11 so as to permit their sale for a market price. While Bankruptcy Code § 721 permits a trustee to seek
12 authority to operate a business that arrives as a Chapter 7 debtor, the statute provides that it may only
be "for a limited period." A trustee could not sell the Properties over an extended period of time, nor
would the Trustee have the benefit of the free property management services provided for the
Properties that are currently provided. A trustee would thus incur significant fees and costs for
property management services and expenses.

13 Second, a trustee would presumably be faced with a motion for relief from stay from Opus
14 Bank, KeyBank, and/or Union Bank on the basis that the estate held no realizable equity in the
15 Properties securing the Debtor's obligations to the lenders. Given the reality that a trustee could not
16 hold the Properties for only a "limited period" of time, her/his only option would be a quick sale of
17 the Properties. As a result of the economic downturn, there is less demand for these Properties and
18 fewer transactions in the marketplace, making the marketing of commercial properties challenging
19 even for sellers with the luxury of time. In contrast here, sales of the Properties would need to close
rapidly and would occur only if the Properties were sold at a substantial discount, an amount the
Debtor believes would be well below the total of the secured debt of Opus Bank and KeyBank. The
trustee would therefore not have any ability to liquidate the Properties in a way that would yield
anything beyond full payment to Union Bank, and to Snohomish and Island County for the real
property taxes owed, and partial payments on amounts owed to Opus Bank and KeyBank.

20 The Debtor believes that a hypothetical Chapter 7 trustee, when faced with these
21 circumstances, would determine that s/he had no ability to recover unencumbered funds for creditors,
22 and would abandon the Project under Bankruptcy Code § 554. In that event, the Properties would
23 leave the bankruptcy estate, the automatic stay would no longer be applicable, and Opus Bank, Key
Bank and Union Bank would be free to recover on their collateral under applicable non-bankruptcy
law. The net result would be no distributions to unsecured creditors in a hypothetical Chapter 7 case,
and less than full payment to Opus Bank and KeyBank. It is plain that the Plan represents a much
better alternative for creditors.

1 **ARTICLE VIII.**
2 **TAX CONSEQUENCES**

3 **A. Introduction**

4 Implementation of the Plan may result in federal, state and local tax consequences to the
5 Debtor, and to their creditors. Neither rulings from the IRS or any state or local taxing authority, nor
6 tax opinions will be sought or obtained with respect to any consequences of the Plan. This Disclosure
7 Statement Article is not a tax opinion; the description of potential tax consequences contained herein
8 is provided solely for general informational purposes, no attempt has been made to identify the
9 specific tax consequences to any specific party, and the information in this Article cannot be relied
10 upon for tax reporting or penalty avoidance purposes.

11 Because of the numerous uncertainties concerning the consequences of the Plan, there is no
12 assurance of any kind that a particular taxpayer will, in fact, be entitled to the tax treatment described
13 in this Disclosure Statement Article. **EVERY PARTY POTENTIALLY AFFECTED BY THE PLAN
14 IS STRONGLY ADVISED TO CONSULT WITH THEIR OWN TAX ADVISORS REGARDING
15 THE TAX CONSEQUENCES TO THEM OF THE TRANSACTIONS CONTEMPLATED BY THE
16 PLAN.**

17 **B. Tax Consequences to the Debtor and Its Members**

18 The Debtor is a Washington limited liability company that is a disregarded entity for federal
19 income tax purposes. As such, all of its activities are reported directly on the Members' personal
20 income tax return, and thus the Debtor should incur no separate liability for such tax on any of the
21 transactions contemplated by the Plan.

22 Pursuant to WAC 458-61-330, the Debtor will be exempt from the imposition of real estate
23 excise taxes that would otherwise be payable under RCW 82.45.060 and/or other applicable law as to
any non-merger deed in lieu of foreclosure executed in favor of any of the Debtor's secured lenders
pursuant to the Plan.

17 **C. Tax Consequences to Creditors**

18 Creditors will report any payments received under the Plan and any amounts disbursed in
19 accordance with their normal method of accounting. The Debtor can offer no opinion as to the tax
20 consequences arising from these payments.

21 **ARTICLE IX.**
22 **RISK FACTORS**

23 Distributions to creditors contemplated under the Plan are contingent upon many assumptions,
some or all of which could fail to materialize and preclude the Plan from becoming effective or reduce
anticipated distributions. Most important, however, is that the Plan is subject to approval by the
various classes of creditors entitled to vote under the Bankruptcy Code and to confirmation of the Plan
by the Bankruptcy Court. No assurance can be given that the Plan will be accepted by the requisite

1 number and amount of creditors or confirmed by the Court. In that event, due to the costs and
2 uncertainties inherent in a modified Plan of Reorganization or a conversion and liquidation under
3 Chapter 7, all creditors of the estate face substantial risk that their recovery under such alternative
4 circumstances may be substantially less favorable than their recovery provided for by the Plan.

5 **ARTICLE X.**
6 **CONFIRMATION OF THE PLAN**

7 **A. Voting Procedures**

8 A ballot to be used for voting your acceptance or rejection of the Debtor's Plan of
9 Reorganization is being mailed to you together with this Disclosure Statement and Plan. Holders of
10 claims should read the instructions carefully, complete, date and sign the ballot, and transmit it in the
11 envelope enclosed. IN ORDER TO BE COUNTED, YOUR BALLOT MUST BE RECEIVED AT
12 THE INDICATED ADDRESS NOT LATER THAN 5:00 P.M. ON _____, 2012. FAILURE
13 TO VOTE OR A VOTE TO REJECT THE PLAN WILL NOT AFFECT THE TREATMENT TO BE
14 ACCORDED A CLAIM OR INTEREST IF THE PLAN NEVERTHELESS IS CONFIRMED.

15 If more than one-half in number of claimants voting and at least two-thirds in amount of the
16 allowed claims of such claimants in each class of claims vote to accept the Plan, such classes will be
17 deemed to have accepted the Plan. If at least two-thirds in amount of the shares voted in a class of
18 equity interests are voted to accept the Plan, such Class will be deemed to have accepted the Plan. For
19 purposes of determining whether a class of claims or interests has accepted or rejected the Plan, only
20 the votes of those who have timely returned their ballots will be considered.

21 **B. Hearing on Confirmation**

22 The hearing on confirmation of the Plan has been set for September 14, 2012, before the
23 Honorable Karen A. Overstreet, United States Bankruptcy Judge, in U.S. Bankruptcy Court in Seattle,
Washington. The Bankruptcy Court shall confirm the Plan at that hearing only if certain
requirements, as set forth in § 1129 of the Bankruptcy Code, are satisfied.

C. Feasibility

The Debtor must also establish that confirmation of the Plan is not likely to be followed by the
Reorganized Debtor's liquidation, or the need for further financial reorganization. Attached hereto as
Exhibit E are unaudited cash flow projections the Debtor has prepared demonstrating the cash flow
that the Debtor estimates will be generated from operations from October 2012 and calendar year
2013. Future years will be consistent with and likely an improvement on the budgeted years. To the
extent necessary, the Debtor will present testimony with respect to feasibility at the hearing on
confirmation of the Plan. The Debtor believes that the Plan is feasible and that the Bankruptcy Court
will so find, but a Bankruptcy Court finding of feasibility does not guarantee that the Debtor will
successfully complete or pay all its obligations under the Plan.

1 **D. Treatment of Dissenting Classes of Creditors**

2 The Bankruptcy Code requires the Bankruptcy Court to find that the Plan does not
3 discriminate unfairly, and is fair and equitable, with respect to each class of claims or interests that is
4 impaired under, and has not accepted, the Plan. Upon such a finding, the Bankruptcy Court may
5 confirm the Plan despite the objections of a dissenting class. The Debtors have requested that the
6 Court confirm the Plan even if creditors holding claims in impaired classes do not accept the Plan.

7 **E. Effect of Confirmation**

8 Confirmation of the Plan shall operate on the Effective Date as a discharge of the Debtor from
9 all claims and indebtedness that arose before the Effective Date, except for those unclassified claims
10 that the Reorganized Debtor agrees to pay as a continuing obligation. All such discharged claims and
11 indebtedness shall be satisfied by the cash payment or other consideration provided under the Plan.
12 Upon Confirmation, all property of the Debtor's estate shall be free and clear of all claims and
13 interests of creditors, except as otherwise provided in the Plan or the order of the Bankruptcy Court
14 confirming the Plan. The Reorganized Debtor shall be vested with all assets of the Debtor's estate.
15 The provisions of the Plan shall bind the Debtor, the Reorganized Debtor, and all other parties in
16 interest, including any creditor of the Debtor, whether or not such creditor is impaired under the Plan
17 and whether or not such creditor has accepted the Plan.

18 **F. Consequences of the Failure to Confirm the Plan**

19 In the event the Court declines to confirm the Debtor's Plan, whether due to a failure of
20 creditor support or otherwise, a liquidation might ultimately result, either through a revised Plan under
21 Chapter 11 or conversion of this Chapter 11 case to a bankruptcy under Chapter 7 of the Bankruptcy
22 Code. As set forth in Article VII of this Disclosure Statement, it is likely that creditors would receive
23 a significantly reduced recovery under a liquidation.

RESPECTFULLY SUBMITTED this 2nd day of August, 2012

B & T OLSON FAMILY LLC

By _____
Brett T. Olson
Its Managing Member