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UNITED STATES BANKRUPTCY COURT
FOR THE WESTERN DISTRICT OF WASHINGTON
AT SEATTLE

In re:

CASCADE AG SERVICES, INC.,

Debtor.

NO. 12-18366

THIRD AMENDED DISCLOSURE
STATEMENT FOR DEBTOR’S SECOND
AMENDED CHAPTER 11 PLAN OF
REORGANIZATION

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18 **IMPORTANT:**

19 THIS DISCLOSURE STATEMENT CONTAINS INFORMATION RELATED TO THE
20 CASCADE AG SERVICES, INC.’S (THE “**DEBTOR**”) PROPOSED PLAN OF
21 REORGANIZATION (THE “**PLAN**”). PLEASE READ THIS DOCUMENT WITH CARE.
22 THE INFORMATION CONTAINED HEREIN IS FOR PURPOSES OF SOLICITING
23 ACCEPTANCE OF THE PLAN AND SHOULD NOT BE RELIED UPON FOR ANY OTHER
24 PURPOSE.

25 THIS DISCLOSURE STATEMENT DOES NOT CONSTITUTE AND MAY NOT BE
26 DEEMED LEGAL, BUSINESS, FINANCIAL, OR TAX ADVICE. ANY PERSONS
27 DESIRING ANY SUCH ADVICE SHOULD CONSULT THEIR OWN ATTORNEYS OR
28 ADVISORS.

29 THE INFORMATION CONTAINED IN THIS DISCLOSURE STATEMENT HAS
30 BEEN SUBMITTED BY THE DEBTOR’S MANAGEMENT, EXCEPT WHERE OTHER
31 SOURCES ARE IDENTIFIED. THE DEBTOR AUTHORIZES NO REPRESENTATIONS

1 CONCERNING THE DEBTOR OR THE PLAN OTHER THAN THOSE IN THIS
2 DISCLOSURE STATEMENT AND ACCOMPANYING DOCUMENTS. YOU SHOULD
3 NOT RELY ON ANY REPRESENTATIONS OR INDUCEMENTS MADE BY ANY PARTY
4 TO SECURE YOUR VOTE OTHER THAN THOSE CONTAINED IN THIS DISCLOSURE
5 STATEMENT. THE DEBTOR HAS BEEN CAREFUL TO BE ACCURATE IN THIS
6 DISCLOSURE STATEMENT IN ALL MATERIAL RESPECTS, AND THE DEBTOR
7 BELIEVES THAT THE CONTENTS OF THIS DISCLOSURE STATEMENT ARE
8 COMPLETE AND ACCURATE IN ALL MATERIAL RESPECTS. HOWEVER, THE
9 DEBTOR CANNOT AND DOES NOT WARRANT OR REPRESENT THAT THE
10 INFORMATION CONTAINED HEREIN IS WITHOUT INACCURACY. IN PARTICULAR,
11 EVENTS AND FORCES BEYOND THE DEBTOR'S CONTROL MAY ALTER THE
12 ASSUMPTIONS UPON WHICH THE FEASIBILITY OF THE PLAN IS BASED.

13 THE DEBTOR MAY CONTINUE TO NEGOTIATE PAYMENT TERMS WITH ITS
14 CREDITORS, AND THE SPECIFIC TREATMENT OF CLAIMS MAY CHANGE AS A
15 RESULT, BUT THE DEBTOR BELIEVES THAT THE PAYMENT TERMS THAT THE
16 DEBTOR WILL ASK THE COURT TO APPROVE WILL NOT BE LESS FAVORABLE
17 THAN THOSE DESCRIBED HEREIN.

18 **TO ALL PARTIES IN INTEREST:**

19 On August 13, 2012 (the "**Petition Date**"), the Debtor filed a petition for relief under
20 Chapter 11 of the Bankruptcy Code. The Debtor is presently acting as a debtor in possession.
21 The Debtor's case is pending before the above-captioned court (the "**Bankruptcy Court**" or the
22 "**Court**").

23 This Disclosure Statement (this "**Disclosure Statement**") is submitted by the Debtor and
24 contains information with respect to the Debtor's proposed Plan of Reorganization (the "**Plan**").
25 Pursuant to § 1125 of the Bankruptcy Code, this Disclosure Statement is being distributed to you
26 along with a copy of the proposed Plan to allow you to make an informed decision in exercising

1 your right to accept or reject the proposed Plan. This Disclosure Statement has been approved
2 by order of the Court pursuant to § 1125 of the Bankruptcy Code as containing information of a
3 kind, and in sufficient detail, as far as is reasonably practicable under the circumstances, that
4 would enable a hypothetical reasonable investor to make an informed judgment about the Plan.
5 In the event of inconsistencies between the Plan and this Disclosure Statement, however, the
6 terms of the Plan shall control. The Court's approval of this Disclosure Statement does not
7 constitute an endorsement of the proposed Plan by the Court.

8 THE ONLY REPRESENTATIONS THAT ARE AUTHORIZED OR THAT MAY BE MADE
9 CONCERNING THE DEBTOR, THE VALUE OF ASSETS, OR THE PLAN ARE
10 CONTAINED IN THIS DISCLOSURE STATEMENT. THE FINANCIAL INFORMATION
11 CONTAINED HEREIN OR INCORPORATED BY REFERENCE HAS BEEN PREPARED
12 BY THE DEBTOR'S MANAGEMENT AND IS EFFECTIVE AS OF THE DATE HEREOF
13 UNLESS OTHERWISE SPECIFIED. THE READER SHOULD NOT INFER OR ASSUME
14 THAT THERE HAVE BEEN NO CHANGES IN THE FACTS SET FORTH HEREIN SINCE
15 THE DATE HEREOF. FINANCIAL INFORMATION, WHILE PRESENTED WITH
16 NUMERICAL SPECIFICITY, IS NECESSARILY BASED UPON A VARIETY OF
17 ESTIMATES AND ASSUMPTIONS THAT, ALTHOUGH CONSIDERED REASONABLE
18 AND PRUDENT BY MANAGEMENT, MAY NOT BE REALIZED AND WILL REMAIN
19 SUBJECT TO INHERENT UNCERTAINTIES. THE FINANCIAL INFORMATION HAS
20 NOT BEEN SUBJECTED TO AN AUDIT AND FOR THAT REASON THE DEBTOR IS
21 UNABLE TO WARRANT OR REPRESENT THAT THE INFORMATION CONTAINED IN
22 THIS DISCLOSURE STATEMENT IS WITHOUT INACCURACY. HOWEVER, GREAT
23 EFFORT HAS BEEN MADE TO ENSURE THAT ALL SUCH INFORMATION IS FAIRLY
24 REPRESENTED. PERSONS REVIEWING THIS DISCLOSURE STATEMENT ARE
25 ADVISED THAT SIGNIFICANT CONCERNS HAVE BEEN RAISED BY CREDITORS IN
26 THIS PROCEEDING ABOUT CERTAIN INFORMATION IN THE DEBTOR'S

1 HISTORICAL FINANCIAL STATEMENTS.

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

4 **ARTICLE I.**

5 **DEFINITIONS**

6 Terms used in this Disclosure Statement not specifically defined herein or in the
7 Bankruptcy Code shall be defined as set forth in the Plan that accompanies this Disclosure
8 Statement. In particular, capitalized terms shall have the meanings prescribed for such terms in
9 Article II of the Plan.

10 **ARTICLE II.**

11 **BACKGROUND INFORMATION**

12 **A. The Debtor and Its Business Operations**

13 The Debtor does business under the trade name “Pleasant Valley Farms” (“**PVF**”). Prior
14 to August 1, 2012, PVF consisted of four separate entities: Cascade Ag Services, Inc., the main
15 operating entity; Staffanson Harvesting, LLC; Mountain View Produce, Inc.; and Sterling
16 Investment Group, LLC. These entities were consolidated on August 1, 2012, shortly before the
17 Petition Date, to streamline the bankruptcy filing process, and Cascade Ag Services, Inc., the
18 Debtor, was the sole surviving entity.

19 The Debtor, which is located in Washington’s Skagit Valley, is a vegetable processing
20 company that processes Washington-grown cucumbers and cabbage into pickles and sauerkraut,
21 through natural fermentation. The Debtor’s finished products include genuine dill pickles,
22 kosher dill pickles, glacier deli pickles, sweet pickles, sauerkraut, and peppers.

23 The Debtor processes approximately 15 million pounds of cucumbers and four million
24 pounds of cabbage annually. Its facility sits on 10 acres of land and uses approximately 800
25 brine tanks for its natural fermentation process. Storage and production areas occupy 20,000
26 square feet of building space. The Debtor employs approximately 80 year-round employees and

1 approximately 150 seasonal laborers. The Debtor's management works closely with employees
2 to oversee all production and processing, including planting, cultivating, fertility, variety trials,
3 harvesting, quality grading, fermentation, formulation, packaging, sales, and shipping.

4 The Debtor's customers include foodservice distributors, food manufacturers, pickle
5 manufacturers, restaurant chains, retail grocery chains, and local retailers. The Debtor has about
6 60-percent market share for foodservice accounts in Washington, Oregon, and Alaska; and
7 significant sales in California, Idaho, Montana, Utah, North Dakota, South Dakota, Nevada, and
8 Arizona. The Debtor also has international customers in Canada and China, and recently
9 introduced a retail product line that is being sold in "big box" stores and in the fresh deli section
10 of supermarkets. The Debtor's products can also be found at Costco stores, as well as in the
11 refrigerated sections of Haggen, QFC, Whole Foods, and Thriftway stores in the Pacific
12 Northwest.

13 The Debtor was originally established in 1996. Since 1996, the Debtor's operations have
14 evolved from growing, washing, sizing, grading, and shipping cucumbers for in- and out-of-state
15 processing, to full-scale food manufacturing and distribution of finished food products. The
16 Debtor became one of the few vegetable processors established in western Washington in over
17 50 years. In 2000, a large, national conglomerate began purchasing and shutting down many
18 local cucumber processors. In response, the Debtor's management positioned it to become the
19 only local pickle company. By 2008, the Debtor completed the transformation of its business
20 model from an agricultural services provider to a fully integrated producer/processor, and the
21 only remaining pickle company in the Pacific Northwest. The Debtor's sales continue to grow—
22 despite competition from the national conglomerate—because the Debtor's location in the Skagit
23 Valley, where the climate produces arguably the best raw product in the world; its use of
24 traditional tank spicing and natural fermentation processes; and its proprietary recipes result in
25 very high-quality finished products. Furthermore, there is a growing consumer demand for high-
26 quality, local, natural food products in both retail and foodservice. By adopting the position of

1 the alternative pickle company that is bringing back traditional flavor profiles by using old-
2 fashioned recipes and utilizing local raw product, the Debtor has a unique marketing platform
3 that connects with consumers and that has resulted in year-over-year sales growth.

4 **B. The Debtor's Secured Debt Structure**

5 The Debtor filed Chapter 11, despite its many successes, because it financed its operation
6 with short-term secured financing at high interest rates. Specifically, the constituent entities that
7 made up PVF prior to the Petition Date obtained short-term secured financing from Horizon
8 Bank, ShoreBank Pacific, Summit Bank, and RSF Mezzanine Fund, L.P., as follows:

Date	Lender	Description of Loan	Original Principal Amount
4/5/2004	Horizon Bank	Business Loan to Cascade Ag Services	\$ 3,750,000.00
5/22/2006	Summit Bank	Agricultural Loan to Staffanson Harvesting	\$ 1,250,000.00
7/12/2007	Summit Bank	Business Loan to Mountain View Produce	\$ 183,820.00
2/19/2008	Summit Bank	Agricultural Loan to Staffanson Harvesting	\$ 122,600.00
2/19/2008	Summit Bank	Agricultural Loan to Staffanson Harvesting	\$ 107,350.00
8/25/2008	Summit Bank	Business Loan to Mountain View Produce	\$ 190,235.00
9/12/2008	Skagit Farmers Supply	Commercial line of credit to Staffanson Harvesting	\$ 215,000.00
10/2/2008	Summit Bank	Agricultural Loan to Staffanson Harvesting	\$ 320,550.00
1/29/2009	ShoreBank Pacific	Business Loan to Cascade Ag Services, Sterling Investment Group, Mountain View Produce, and Staffanson Harvesting	\$ 2,500,000.00
8/17/2009	RSF Mezzanine Fund, L.P.	Business Loan to Cascade Ag Services and Sterling Investment Group	\$ 1,000,000.00
9/17/2010	SCOG	Business Development Loan to Cascade Ag Services	\$ 150,000.00

23 Horizon Bank was later succeeded by Washington Federal; Summit Bank was succeeded
24 by Columbia; and ShoreBank Pacific was succeeded by OPB. Based on its review of the
25 security and other agreements executed in connection with the above loans, and based on its
26 review of the financing statements filed by the lenders, the Debtor believes that under

Washington law, as of July 31, 2012—just before the pre-filing consolidation described further below—the above lenders’ priorities in the constituent entities’ primary asset categories were as follows:

Staffanson Harvesting, LLC				
	Inventory	Accounts	Farm Products	Equipment
1.	Columbia	Columbia	Columbia	Columbia
2.	OPB	OPB	RSF	OPB
3.	RSF	RSF		RSF

Mountain View Produce, Inc.				
	Inventory	Accounts	Farm Products	Equipment
1.	OPB	OPB	RSF	OPB
2.	RSF	RSF		RSF

Cascade Ag Services, Inc.				
	Inventory	Accounts	Farm Products	Equipment**
1.	OPB*	OPB*	RSF	Washington Federal
2.	Washington Federal	Washington Federal		Skagit Farmers Supply (equipment @ 13459 Dodge Valley Road only)
3.	RSF	RSF		OPB
4.				RSF

* OPB is only first with respect to Cascade Ag Services’ accounts and inventory by virtue of an intercreditor agreement with Washington Federal. Furthermore, the extent of OPB’s priority under this agreement is limited to \$2,500,000.

** The Debtor believes that SCOG is secured only to the extent of a first-priority, purchase money security interest in a pasteurizer and cooling tunnel.

Sterling is not listed above because its only property prior to the entity consolidation was the real property located at 13459 Dodge Valley Road, Mount Vernon, WA, where the Debtor’s main processing plant and tank farm is located. With respect to that property, and based on its review of the land title records, the Debtor believes that under Washington law, the secured lenders rank in priority as follows: (1) Washington Federal, (2) Skagit Farmers, (3) OPB.

C. The Debtor’s Pre-Bankruptcy Workout Efforts

The Debtor’s lack of proper, long-term financing had a significant negative impact on the Debtor’s cash flow. The Debtor defaulted on its obligations to its primary secured lenders, and was forced to obtain credit from its vendors, which is again short-term debt at a high interest rate, and which inhibits negotiations for favorable vendor pricing, thereby increasing operating

1 costs and costs of goods sold.

2 In 2011, the Debtor initiated workout efforts with its secured lenders, and attempted to
3 secure replacement financing for its operating line of credit, which is held by OPB. In
4 connection with these refinancing efforts, the Debtor entered into a conditional forbearance
5 agreement (the “**Forbearance Agreement**”) with OPB on November 15, 2011, wherein OPB
6 agreed to temporarily forbear from exercising its remedies provided that the Debtor deliver, by
7 November 30, 2011, a plan to raise the capital needed to secure replacement financing, and to
8 retire the OPB line of credit in full. The Forbearance Agreement was extended and amended a
9 total of ten times over the next several months as the Debtor tried to develop a plan to retire the
10 OPB line of credit. These efforts ultimately were unsuccessful.

11 In June 2012, and as part of the eighth amendment to the Forbearance Agreement, OPB
12 imposed a deadline for the commencement of a liquidating receivership under Chapter 7.60
13 RCW. At that point, a Chapter 11 reorganization became the Debtor’s only viable non-
14 liquidation alternative. After further negotiations between the Debtor and OPB, OPB agreed to
15 extend \$250,000 in post-petition financing to the Debtor on several conditions, including the
16 express condition that the Debtor either sell the company by November 4, 2012, or agree to the
17 appointment of a Chapter 11 trustee. The Debtor filed its Chapter 11 voluntary petition on the
18 Petition Date, August 13, 2012.

19 **D. Effect of Pre-Bankruptcy Consolidation**

20 On August 1, 2012, just prior to the Petition Date, PVF’s four constituent entities were
21 consolidated into the Debtor, to simplify and streamline the bankruptcy filing process. The
22 consolidation took place in three steps: First, Sterling was merged into Staffanson Harvesting,
23 with Staffanson Harvesting as the surviving entity. Next, Mountain View Produce was merged
24 into Cascade Ag, with Cascade Ag as the surviving entity. Finally, Staffanson Harvesting was
25 merged into Cascade Ag, with Cascade Ag as the surviving entity. At each step, the surviving
26 entity assumed all of the liabilities and became vested with all of the assets of the disappearing

1 entity.

2 The Debtor believes that under Washington law, following the consolidation, each
3 secured lender maintained its relative priority with respect to each of the Debtor's assets. So, for
4 example, if Columbia was first in priority with respect to a harvester originally owned by
5 Staffanson Harvesting, Columbia remained first in priority with respect to that harvester
6 following the consolidation. Another secured lender who did not originally have a security
7 interest in that harvester, but did have a security interest (with an after-acquired asset provision)
8 in Cascade Ag's assets would, by virtue of the consolidation, acquire an interest in the harvester,
9 but that interest would be subordinate to the interests of lenders who had security interests in
10 Staffanson Harvesting's assets. Similarly, lenders, like Columbia, who originally did not have
11 an interest in Cascade Ag's assets would, by virtue of the merger, obtain one, but that interest
12 would be subordinate to the interests of those lenders who already had an interest in Cascade
13 Ag's assets. Accordingly, following the merger, and as of the Petition Date, the Debtor believes
14 that under Washington law, the secured lenders had the following priorities with respect to the
15 Debtor's primary asset categories:

16

Cascade Ag Services, Inc. (assets acquired from Staffanson Harvesting through merger)				
	Inventory (\$413,092)	Accounts (Intercompany only)	Farm Products (None)	Equipment (\$8,108,412)
17				
18	1. Columbia	Columbia	Columbia	Columbia
19	2. One Pacific Coast Bank	One Pacific Coast Bank	Rudolf Steiner Mezzanine Fund	One Pacific Coast Bank
20	3. Rudolf Steiner Mezzanine Fund	Rudolf Steiner Mezzanine Fund		Rudolf Steiner Mezzanine Fund
21	4. Washington Federal	Washington Federal		Washington Federal
22	5.			Skagit Farmers Supply (equipment @ 13459 Dodge Valley Road only)

23 ///

24 ///

25 ///

26 ///

Cascade Ag Services, Inc. (other assets)				
	Inventory (\$7,575,211)	Accounts (\$1,243,100)	Farm Products (\$1,920,000)	Equipment (\$6,765,842)
1.	One Pacific Coast Bank, followed by Rudolf Steiner Mezzanine Fund, to the extent of \$12,865 in inventory originally acquired from Mountain View Produce	One Pacific Coast Bank*	Rudolf Steiner Mezzanine Fund	Skagit Council of Governments (PMSI on pasteurizer and cooling tunnel only)
2.	One Pacific Coast Bank*	Washington Federal	Columbia	Washington Federal
3.	Washington Federal	Rudolf Steiner Mezzanine Fund		Skagit Farmers Supply (equipment @ 13459 Dodge Valley Road only)**
4.	Rudolf Steiner Mezzanine Fund	Columbia		One Pacific Coast Bank
5.	Columbia			Rudolf Steiner Mezzanine Fund
6.				Columbia

* One Pacific Coast Bank is only senior to Washington Federal here by virtue of an intercreditor agreement with Washington Federal. Furthermore, the extent of One Pacific Coast Bank's priority under this agreement is limited to \$2,500,000.

** Cascade Ag Services estimates that approximately \$10 million of its equipment (including equipment acquired from Staffanson Harvesting) is currently located at 13459 Dodge Valley Road.

E. Significant Events Since Bankruptcy Filing

1. Post-Petition Financing

The Debtor's initial post-petition financing agreement with OPB was approved by the Court on an interim basis, then rejected at final hearing, along with the provision therein requiring a liquidation event by November 4, 2012. The Debtor and OPB later negotiated and entered into a revised post-petition financing agreement regarding the initial \$250,000 loan, which had been disbursed following initial approval of the first agreement, and providing for an additional \$300,000 in post-petition financing, however, a liquidation event by December 31, 2012 remained as a condition. This agreement was approved by the Court on October 31, 2012.

2. Post-Petition Use of Cash Collateral

Since the Petition Date, the Court has entered five interim orders authorizing the Debtor to continue using its cash, inventory, and accounts ("**Cash Collateral**"). The most recent order,

1 entered on January 10, 2013, authorized the Debtor to continue using Cash Collateral through
2 March 31, 2013; this authorization period was later extended through April 20, 2013. The
3 hearing on the Debtor's next request for continued authorization to use Cash Collateral will take
4 place on April 16, 2013.

5 **3. Employment of Professional Persons; Change in Management Structure**

6 The Debtor has employed the following Professional Persons, with Court approval, since
7 the Petition Date:

Professional Person	Role	Date of Final Approval
Cairncross & Hempelmann	Debtor's counsel	September 7, 2012 (Dkt. No. 116)
Hamstreet & Associates ¹	Chief restructuring officer & financial advisor	September 28, 2012 (Dkt. No. 143)
J. Brian Scott	Equipment Appraiser	November 9, 2012 (Dkt. No. 231)
<u>Don Gustafson</u>	<u>Real Estate Appraiser</u>	<u>April 25, 2013 (Dkt. No. 429)</u>

14 Additionally, the management structure of the Debtor was changed following the Petition
15 Date. Most significantly, in October 2012, the Debtor retained a new Chief Financial Officer. In
16 February 2013, the Debtor retained a new controller and operations manager. Craig Staffanson
17 and Ben Lee have remained in their respective President and Vice President positions.

18 **4. Claims Bar Dates**

19 On September 12, 2012, the Court entered an order establishing November 2, 2012 as the
20 deadline for filing Proofs of Claim. Notice of the deadline was duly provided to all creditors on
21 the Official Mailing List. The Plan establishes a bar date for filing Proofs of Claim for asserted
22 Administrative Expense Claims.

23 **5. Appointment of Unsecured Creditors Committee**

24 On August 16, 2012, the United States Trustee appointed the Unsecured Creditors
25

26 ¹ Hamstreet & Associates resigned effective January 31, 2013. (See Dkt. Nos. 314-15.)

1 Committee (the “**Committee**”). On March 5, 2013, the Court authorized employment of
2 Schwabe, Williamson & Wyatt as the Committee’s counsel on a final basis.

3 **6. Unsuccessful Stalking Horse Transaction**

4 On October 24, 2012, the Court approved a procedure to sell substantially all of the
5 Debtor’s assets by December 31, 2012, as required under the terms of the Debtor’s post-petition
6 financing agreement with OPB. By the time that order was entered, the Debtor was already
7 engaged in serious negotiations with Inveris Partners LLC, a financial (as opposed to strategic)
8 buyer that was interested in purchasing the Debtor’s assets for investment purposes. The sale
9 procedure approved by the Court contemplated that the Debtor would enter into an asset
10 purchase agreement (“**APA**”) with Inveris, and that a competitive auction would follow. The
11 Debtor and Inveris Partners LLC entered into an APA on November 14, 2012. However, Inveris
12 withdrew from the APA the next day, citing subjective concerns about the Debtor’s financials.
13 No competitive auction ever took place.

14 **7. Equipment Leases**

15 The Debtor has not yet assumed or rejected any equipment leases. Assumption or
16 rejection is set forth in Article VI of the Plan.

17 **8. Real Property Leases**

18 The Debtor has not yet assumed or rejected any real property leases; however, after the
19 Petition Date, the Debtor’s lease of real property from Hughes Farms terminated according to its
20 terms. The current deadline for the Debtor to assume or reject leases of non-residential real
21 property under which the Debtor is lessee is June 13, 2013. The Debtor intends to assume
22 certain unexpired real property leases under the Plan, as more fully discussed in Article VII of
23 this Disclosure Statement. Importantly, the Debtor intends to assume the lease of the property on
24 which much of its tank inventory sits (the “**Pickle Vat Ground Lease**”). The owner of this
25 property is Emerald Partners, et al., *dba* Haller Farms.

26 The Haller Farms property holds one half of the 800 tanks utilized by the Debtor. These

1 tanks represent approximately \$2.5 million in inventory. All storm water and waste water
2 generated by the Debtor's facility are put through treatment systems and disposal sites on a
3 second Haller property, which the Debtor also leases, on a month-to-month basis. Without the
4 Pickle Vat Ground Lease and the other Haller property leases, the Debtor would be forced to
5 cease operations, and 14.5 million pounds of inventory and 6.4 million pounds of brine would
6 need to be relocated immediately. Storm and waste water would need to be captured and hauled
7 away to a disposal facility indefinitely. The Haller leases are vital to the Debtor's operation.

8 Although the Debtor is current on post-petition rent payments for the Pickle Vat Ground
9 Lease and the field leases, Haller asserts a Claim for approximately \$143,000 in pre-petition
10 unpaid rent for the field leases. Haller has indicated that it intends to object to the Debtor's
11 assumption of the Pickle Vat Ground Lease unless unpaid rent for the field leases is cured.
12 Accordingly, and as more fully set forth in Articles VI and VII of this Disclosure Statement, the
13 Debtor intends to continue leasing all Haller properties, and intends to pay all arrearages on the
14 month-to-month Haller leases, which otherwise could be cancelled at Haller's discretion.

15 **9. Reduction in Monthly Expenses**

16 Since the Petition Date, the Debtor has made significant reductions in its operating
17 expenses, as follows:

- 18 • The Debtor reduced its sales staff count from 4.5 to two, saving
19 \$200,000 annually.
- 20 • Reduced broker fees from 3% to 1% effective February 15, 2013,
21 saving another \$200,000 annually.
- 22 • Reduced freight costs for an annualized savings of \$130,000.
- 23 • Negotiated reductions in its ingredient, supply, and packaging
24 costs for an annualized savings of \$160,000.
- 25 • Reduced production costs by overhauling its production
26 scheduling, which will allow the Debtor to take advantage of more
purchasing discounts, and eliminate rush orders, for an estimated
annualized savings of \$108,000.
- Improved contract negotiation and management, resulting in
increased revenue.

- Implemented 9-10% price increases for a majority of the Debtor's customers.

10. Negotiation with Whyte's

During February and March 2013, the Debtor engaged in active discussions with Whyte's, an international food manufacturer and distributor, regarding its interest in funding a consensual plan of reorganization. Despite good faith efforts by both the Debtor and Whyte's, the parties were unable to reach an agreement.

11. Negotiation with Community Investor Group

The Debtor has also been engaged in active discussions to raise sufficient money to confirm the Plan by the Confirmation Date. Because the Debtor was unable to reach agreement with Whyte's, the Plan contemplates the restructuring and continuation of the Debtor with revised ownership and governance, the payment of Administrative Expense Claims, and appropriate treatment of each Class of Claims as required by the Bankruptcy Code, as further described in Article III below.

ARTICLE III.

SUMMARY OF PROPOSED PLAN OF REORGANIZATION

The Plan contemplates a \$3.0 million capital infusion. As of May 3, 2013, the identity of investors and the amounts of investment have not yet been finalized. Money contributed to fund the Plan will be used to satisfy Administrative Expense Claims to the extent that those Claims must be satisfied for Confirmation, unless there is agreement with Holders of Administrative Expense Claims to defer payment. In exchange, investors who contribute to the Plan will receive preferred equity and/or directorship rights commensurate with their investment. In this context, preferred stock is defined as shares eligible for a 10% dividend payment subject to EBITDA achievements, which will be established by the Reorganized Debtor at a future date. Dividends would be payable annually following the successful completion of a third-party review. The purpose of the review would be to confirm earnings and cash availability.

1 The ownership structure of the Reorganized Debtor will be adjusted as necessary to
2 preserve, to the fullest extent, any available tax benefits, including, without limitation, net-
3 operating-loss carry forwards, which will have an advantageous effect upon Plan distributions.
4 At this time, the Plan contemplates that a new CEO and Chairman of the Board will be retained.
5 Craig Staffanson and Ben Lee will remain employed by the Reorganized Debtor. The Plan
6 contemplates that the nature of Mr. Staffanson and Mr. Lee's compensation will remain salary,
7 plus employee benefits consistent with the benefits available to other employees of the
8 Reorganized Debtor.

9 Furthermore, at the time of drafting this Disclosure Statement, the Plan contemplates that
10 the governance of the Reorganized Debtor would be vested in the following board of directors:
11 Steve Sakuma, Barry Spector, John MacArthur (who would also serve as the Reorganized
12 Debtor's CEO), Ben Lee, and Craig Staffanson. The identity of board members could change
13 between the date of this Disclosure Statement and the Confirmation Date.

14 **ARTICLE IV.**

15 **ASSETS, LIABILITIES AND OPERATING PERFORMANCE OF THE DEBTOR**

16 **A. Assets**

17 The Debtor's primary assets consist of inventory, accounts, equipment, and the real
18 property on which the Debtor's processing facility sits. As of the Petition Date, the Debtor's
19 bankruptcy schedules reflect the Debtor's assets as follows:

	Asset Description	Scheduled Value
20		
21	1. Real property located at 13459 Dodge Valley Road, Mount Vernon, WA	\$ 2,234,000.00
22	2. Cash on Hand	
23	3. U.S. Bank account no. 8448	2,843.65
24	4. Key Bank savings	200.00
25	5. Key Bank account no. 6836	200.00
26	6. Key Bank account no. 6844	200.00
	7. Key Bank account no. 6851	200.00
	8. Accounts receivable	1,329,676.09
	9. Vehicles (trucks and trailers)	326,900.00

	Asset Description	Scheduled Value
10.	Computer equipment (book value)	2,700.00
11.	Equipment (per 3/25/2011 appraisal)	12,844,257.00
12.	Raw materials	328,115.11
13.	Tank inventory	5,669,642.49
14.	Work in process	848,076.03
15.	Investment in growing crops	180,989.71
16.	Harvesting equipment (per 3/25/2011 appraisal)	1,521,000.00
17.	Pasteurizer	225,000.00
18.	Miscellaneous office equipment	Unknown
19.	Blueberry plants	Unknown
20.	Possible claims against third parties	Unknown

In November 2012, the Debtor retained an appraiser to perform an updated appraisal of its vehicles, equipment, and harvesters (lines 9, 11, and 16 above). Based on this appraisal, the Debtor believes that its trucks and trailers (line 9) have a value of approximately \$225,000; and that its equipment and harvesters combined (lines 11 and 16) have a going-concern value of \$11,134,097, and an orderly liquidation value of \$4,230,957.

The Debtor reserves the right to present updated valuation information at the time of the hearing on Plan confirmation, as to the value of the Debtor's assets as of the Confirmation Date.

B. Liabilities

Based on the Debtor's records and on the Proofs of Claim filed in this Reorganization Case, the Debtor believes that its liabilities are as follows. The Debtor reserves the right, pursuant to Article V of the Plan, to challenge or settle any and all asserted Claims, except to the extent that any such Claims have been deemed Allowed by a previous order of the Bankruptcy Court. Accordingly, the final amount of Allowed Claims may be significantly different than the liabilities set forth below.

1. Secured Claims

The Debtor anticipates that the following creditors will or may assert Secured Claims against the Debtor's assets as of the Petition Date:

///

Creditor	Amount of Secured Claim as of Petition Date	Source of Claim Information
One PacificCoast Bank (successor-in-interest to ShoreBank Pacific)	\$ 2,655,065.79	Proof of Claim No. 41
Washington Federal (successor-in-interest to Horizon Bank)	2,625,898.93	Proof of Claim No. 50
Columbia (successor-in-interest to Summit Bank)	900,267.07	Proof of Claim No. 100
RSF Mezzanine Fund, L.P.	1,681,832.37	Proof of Claim No. 98
Skagit Farmers Supply	493,735.98	Proof of Claim No. 109
Internal Revenue Service	537,735.10	Proof of Claim No. 20
Skagit Council of Governments	132,337.00	Debtor's records
Skagit County Treasurer	146,372.55	Proof of Claim No. 1
Farms Northwest	572,673.00	Processor lien notice
Hughes Farms, Inc.	2,382,024.00	Processor lien notice
Donald Kruse	58,166.31	Processor lien notice
Nolan Lee Farms	215,418.47	Processor lien notice
NMHG Financial Services	35,834.22	Claim Nos. 123 & 124
Yale Financial Services	8,555.74	Debtor's records

The actual allowed amount of the above claims on the Confirmation Date may be greater than, or less than, the amounts shown in the table above. For example, certain secured claims have continued to accrue interest, attorneys' fees, and costs since the Petition Date. Attached as **Exhibit A** hereto are the asserted amounts of the Claims of OPB (as of March 31, 2013 and April 1, 2013 (for its Class 11 Claim, as defined below)), Columbia (as of April 12, 2013), and Washington Federal (as of March 31, 2013).

2. Priority Unsecured Claims

a. Priority Tax Claims

Based on Proofs of Claim, asserted Priority Tax Claims total approximately \$1,089,662.50, including Claims made by the Internal Revenue Service (Proof of Claim No. 20), the Washington State Department of Revenue (Proof of Claim No. 42), the Washington State Department of Labor and Industries (Proof of Claim No. 5), and the Washington State Employment Security Department (Proof of Claim No. 65).

///

1 b. Priority Wage Claims

2 Priority Wage Claims are those Claims entitled to priority under 11 U.S.C. § 507(a)(4)
3 for wages, salaries, and commissions earned within 180 days before the Petition Date, to the
4 maximum extent of \$11,725 per employee. The Debtor believes that outstanding Priority Wage
5 Claims total approximately \$40,000.

6 c. Section 503(b)(9) Claims

7 Attached as **Exhibit B** hereto is a listing of likely Section 503(b)(9) Claims based on the
8 Debtor's records. The Debtor believes that creditors may assert up to approximately \$40,000 in
9 Section 503(b)(9) Claims against the estate.

10 d. Professional Fee Claims

11 Professionals Persons have invoiced a total of approximately \$776,527 in post-petition
12 fees and reimbursable expenses through March 2013.² The Court has previously authorized the
13 Debtor to pay a portion of asserted Professional Fee Claims on an interim, monthly basis, and the
14 Debtor has paid a cumulative amount of approximately \$231,212 of outstanding fees from the
15 Petition Date to date. The Debtor anticipates that, due to creditor objection, the final, allowed
16 amount of Professional Fee Claims may be significantly less than the fees invoiced to date.

17 e. Claims for Post-Petition, Ordinary Course Expenses

18 The Debtor is current (no more than 30 days past due) on paying post-petition, ordinary-
19 course expenses. Accordingly, the Debtor believes that these claims are minimal. The Debtor
20 projects being completely current on ordinary-course expenses on the Confirmation Date.

21 f. Other Priority Unsecured Claims

22 Other than U.S. Trustee's fees, which have been and will be paid as they become due, the
23 Debtor knows of no other Priority Unsecured Claims. To the extent that any such claims exist,
24 they will likely be Administrative Expense Claims, and will be identified and allowed or
25 disallowed pursuant to the procedure set forth in Articles IV and V of the Plan.

26 _____
² Payments to the Debtor's equipment appraiser, which have been fully paid, are not included.

1 **3. General Unsecured Claims**

2 According to its bankruptcy schedules, general Unsecured Claims against the Debtor's
3 assets totaled approximately \$11,386,775.51 as of the Petition Date. The Debtor will continue to
4 evaluate Claims, and this figure is expected to change as Claims are resolved.

5 **C. Operating Performance**

6 A summary of the Debtor's postpetition operating performance through March 2013 (on
7 an accrual basis) is set forth in the table below. Through March 2013, (including the prepetition
8 month of August 2012), the Debtor has posted a net operating loss of \$4,169,644. EBITDA loss
9 (earnings before interest, taxes, depreciation and amortization) over that same period is
10 \$4,523,569:

11	Net income (loss) YTD :	\$	(4,169,644)
12	Add back: Taxes	\$	9,505
13	Add back: Depreciation	\$	(711,241) ³
14	Add back: Interest Expense	\$	347,811
15	EBITDA through 3/31/2013:	<u>\$</u>	<u>(4,523,569)</u>

16 The Debtor's performance to date has been consistent with the projections previously
17 submitted in support of the Debtor's cash collateral budget. The Debtor notes here that its post-
18 petition earnings were hampered by several non-recurring events and expenses that will not
19 impact the Reorganized Debtor's future earning, including: bankruptcy-related professional fees,
20 lost vendor discounts, due diligence efforts and professional fees associated with the failed
21 stalking horse transaction, default interest obligations, administrative headcount reductions,
22 lower of cost-or-market adjustments, below-cost salt stock sales, and one-time adjustments
23 arising from the Debtor's conversion from cash to accrual accounting.

24 A 2012 year-end balance sheet is attached as **Exhibit C** to this Disclosure Statement.
25 Meeting the sales goals projected in the Plan will be accomplished by means of the same strategy
26

³ This is the net depreciation following a correction made in 2012 to depreciation for previous accounting periods.

1 that has proven effective to reach the significant sales growth already experienced. Specifically:

- 2 • The Debtor's largest customer just purchased a new distribution center
3 in Colorado, and the Debtor will work with its customer in this new
4 location to increase its market share.
- 5 • A large "big box" retailer will be targeted for additional stores in the
6 Western U.S. and Canada. The Debtor already provides one seasonal
7 item to 66 stores for this retailer, and due to the Debtor's superior
8 quality products, plans to increase sales to this customer by getting
9 more items in more locations.
- 10 • The Debtor's sales team will direct efforts toward existing customers
11 by increasing its market share through introduction of the Debtor's
12 products to restaurants, chains, and big-box stores. The Debtor's
13 existing broker network coordinates with the sales staff in each market
14 to identify new contacts.
- 15 • New customers will be obtained by showing the Debtor's product to
16 distributors and their customers (restaurants or grocery stores) and
17 getting them to compare their current suppliers' taste and texture to the
18 Debtor's superior products.

19 ARTICLE V.

20 **CLASSIFICATION OF CLAIMS AND INTERESTS**

21 All claims and interests against the Debtor are classified as set forth herein. A claim is in
22 a particular class only to the extent it qualifies within the definition of such class and is in a
23 different class to the extent it qualifies within the definition of such different class. The Plan
24 establishes 16 classes of claims, with most Secured Claims being a separate class; and one class
25 of interests. Certain other Claims are Unclassified Claims pursuant to applicable provisions of
26 the Bankruptcy Code. If the Plan is confirmed by the Court and becomes effective, the class into
which each Allowed Claim and Allowed Interest fits will determine the manner in which such
claim or interest will be treated. The classes defined in the proposed Plan are listed below and
further described in Article V.

1. Class 1: Allowed Secured Claim of OPB – Pre-petition line of credit
2. Class 2: Allowed Secured Claim of Washington Federal
3. Class 3: Allowed Secured Claim of Columbia
4. Class 4: Allowed Secured Claim of RFS Mezzanine Fund, L.P.
5. Class 5: Allowed Secured Claim of Skagit Farmers Supply
6. Class 6: Allowed Secured Claims of Producers (Farms Northwest,
Hughes Farms, Inc., Donald Kruse, Nolan Lee Farms)

7. Class 7: Allowed Secured Claims of Forklift Financers (NMHG and Yale)
8. Class 8: Allowed Secured Claim of SCOG
9. Class 9: Allowed Secured Claim of Internal Revenue Service
10. Class 10: Allowed Secured Claim of Skagit County Treasurer
11. Class 11: DIP Agreement Priority Claim of OPB
12. Class 12: Allowed Priority Unsecured (Non-Tax) Claims
13. Class 13: Allowed Administrative Convenience Claims (\$1,000 or less)
14. Class 14: Allowed Claim of Emerald Partners, et al.
15. Class 15: Allowed General Unsecured Claims
16. Class 16: Allowed Interests of Equity Holders

ARTICLE VI.

PROVISIONS FOR SATISFYING CLAIMS AND SPECIFYING TREATMENT OF EACH CLASS UNDER THE PLAN

A. Treatment of Unclassified Claims and Interests

Under Section 1123(a)(1) of the Bankruptcy Code, Administrative Expense Claims and Priority Tax Claims are not classified. These Claims will be treated as follows under the Plan.

1. Administrative Expense Claims

Allowed Administrative Expense Claims will be treated as follows:

- a. Post-Petition Claims Incurred in the Ordinary Course of the Debtor's Business.

Claims incurred in the ordinary course of the Debtor's business following the Petition Date shall be paid in the ordinary course of business in accordance with terms and conditions of the particular agreements governing such obligations, or as otherwise agreed upon or deemed consented to by the Holder of the Claim and the Reorganized Debtor.

- b. Section 503(b)(9) Claims.

Section 503(b)(9) claims are claims for the value of goods received by the Debtor within 20 days before the Petition Date, sold to the Debtor in the ordinary course of the Debtor's business. Allowed Section 503(b)(9) claims shall be paid in full on the Effective Date, or on such other date as may be agreed upon or deemed consented to by the Holder of the Section 503(b)(9) Claim and the Reorganized Debtor.

1 c. Professional Fee Claims.

2 Any Professional Person seeking an award by the Bankruptcy Court of compensation
3 shall file a final application with the Bankruptcy Court for allowance of such award for services
4 rendered and reimbursement of expenses incurred through the Effective Date within sixty (60)
5 days after the Effective Date. **THE FAILURE TO FILE TIMELY AND SERVE SUCH FEE**
6 **APPLICATION SHALL RESULT IN THE FEE CLAIM BEING FOREVER BARRED**
7 **AND DISCHARGED.** Unless otherwise agreed upon or deemed consented to, one half of
8 allowed professional fees will be paid after allowance by the Bankruptcy Court, and the
9 remaining half will be paid within one year after the Effective Date at zero interest,
10 approximately as follows: monthly payments of \$50,000 beginning August 2013 through April
11 2014, and a final payment of \$531,000 in June 2014.⁴ Based on its discussions with Holders of
12 Professional Fee Claims, the Debtor believes that such Holders will consent to this treatment.

13 d. Other Administrative Expense Claims.

14 Allowed Administrative Expense Claims other than (a) post-petition claims incurred in
15 the ordinary course of the Debtor's business, (b) Section 503(b)(9) Claims, or (c) Professional
16 Fee Claim ("**Other Administrative Expense Claim**") will be paid the full unpaid amount of
17 such claim in Cash on the latest of (a) the Effective Date or as soon as reasonably practical
18 thereafter, (b) as soon as practicable after the date on which such Other Administrative Expense
19 Claim becomes an Allowed Administrative Expense Claim, (c) such other date as may be agreed
20 upon or deemed consented to by the Holder of the Other Administrative Expense Claim and the
21 Reorganized Debtor, or (d) a date otherwise ordered by the Bankruptcy Court; provided,
22 however, that Other Administrative Expense Claims assumed by the Reorganized Debtor on the
23 Effective Date pursuant to the Plan, including any tax obligations arising after the Petition Date,
24 will be paid or performed by the Reorganized Debtor when due, in accordance with the terms

25 _____
26 ⁴ The Debtor anticipates that, due to creditor objection, the final, allowed amount of Professional Fee Claims may be significantly less than the fees invoiced to date. Accordingly, the Debtor anticipates that the final payment may be significantly less than \$531,000.

1 and conditions of the particular agreements or non-bankruptcy law governing such Other
2 Administrative Expense Claim.

3 e. Identification of Administrative Expense Claims.

4 Any person asserting an Administrative Expense Claim shall file proof of such asserted
5 Administrative Expense Claim with the clerk of the Bankruptcy Court no later than 30 days
6 following the Confirmation Date (the “**Administrative Claims Bar Date**”). **THE FAILURE**
7 **TO FILE A PROOF OF AN ADMINISTRATIVE EXPENSE CLAIM ON OR BEFORE**
8 **THE ADMINISTRATIVE CLAIMS BAR DATE SHALL RESULT IN SUCH CLAIM**
9 **BEING FOREVER BARRED, DISALLOWED, AND DISCHARGED WITHOUT**
10 **FURTHER ORDER OF THE BANKRUPTCY COURT.**

11 **2. Priority Tax Claims**

12 With respect to any Priority Tax Claim not paid pursuant to any prior Bankruptcy Court
13 order, and except to the extent that a Holder of an Priority Tax Claim agrees to different
14 treatment more favorable to the Reorganized Debtor, Holders of Priority Tax Claims shall
15 receive monthly payments, in an amount sufficient to pay the full amount of the Allowed Claim
16 by August 13, 2017 (five years after the Petition Date), pursuant to 11 U.S.C. § 1129(b)(9)(C),
17 with payments commencing in January 2014. Holders of Priority Tax Claims will receive
18 interest-only payments for the first six months, followed by principal-and-interest payments
19 through August 13, 2017. Interest on Priority Tax Claims will accrue at the applicable federal
20 rate.

21 All payments on Priority Tax Claims shall be applied by Taxing Agencies, first, to the
22 principal balance of the trust fund portion of any such Claim (if any) and, second, as to such
23 portion in chronological order, from oldest to newest. A Holder of a Priority Tax Claim shall
24 retain its prepetition lien against the Debtor’s assets to the same extent and with the same validity
25 and priority as existed prepetition until the Priority Tax Claim is paid in full.

26 Notwithstanding the foregoing, in the event the Reorganized Debtor makes a significant

1 distribution to Holders of Priority Tax Claims, collectively, the remaining principal balance that
2 is owed each Holder of a Priority Tax Claim shall be reamortized over the remaining term as
3 provided for under this Section VI.A.2. For purposes of this paragraph, a “significant
4 distribution” shall mean a distribution in the amount of \$50,000 or more.

5 **B. Treatment of Classified Claims and Interests**

6 The Treatment of Claims and Interests Under the Plan, and the means for execution of the
7 Plan, are set forth in Articles IV and VII, respectively, of the Plan, and are summarized below.
8 Treatment of creditors holding Secured Claims is further detailed in **Exhibit D** hereto.
9 Notwithstanding the summary provided below, the terms of the Plan shall control the
10 classification and treatment of claims and all other aspects of Reorganized Debtor’s rights and
11 obligations as to matters governed by the Plan following the Effective Date. Parties are urged to
12 read the Plan with care to determine the treatment proposed for their Claim or Interest.

13 As to Classes 1, 2, 3, 4, and 5, the Debtor reserves the right to enter into agreements with
14 any or all Claim Holders to satisfy the balance due for each claim by means of an accelerated
15 payment, with any negotiated discounts.

16 **1. Class 1: Allowed Secured Claim of OPB – Pre-Petition Line of Credit**

17 Class 1 consists of the Allowed Secured Claim of OPB (the “**Class 1 Claim**”) arising
18 from the pre-petition line of credit that OPB extended to the Debtor. The Class 1 Claim shall be
19 allowed to the extent of \$2,655,065.79 on the Effective Date, pursuant to the stipulation between
20 the Debtor and OPB in connection with OPB’s extending post-petition credit to the Debtor.

21 \$2,107,842 of the Class 1 Claim will be paid in full over five years. This portion of the
22 Class 1 Claim will accrue interest at 5% per annum until paid in full, and will be amortized over
23 10 years. OPB will receive monthly, interest-only payments beginning July 2013, for the first
24 six months. Thereafter, OPB will receive equal, monthly, principal-and-interest payments for the
25 next 54 months, followed by a balloon payment in the 61st month, to pay the remaining balance
26 of this portion of the Class 1 Claim in full. There will be no penalty for early payment. OPB

1 shall retain its prepetition lien against the Debtor's assets to the same extent and with the same
2 validity and priority as existed prepetition until this portion of the Class 1 Claim is paid in full.

3 The remaining portion of the Class 1 Claim will be evidenced by a non-interest-bearing
4 promissory note (the "**Hope Note**") under which no payments will be made or due for five years
5 following the Effective Date. If the Reorganized Debtor satisfies benchmarks to be agreed upon
6 between OPB and the Debtor, then payments on the Hope Note will commence in the sixth year
7 following the Effective Date, on terms to be agreed upon between OPB and the Debtor.

8 **2. Class 2: Allowed Secured Claim of Washington Federal**

9 Class 2 consists of the Allowed Secured Claim of Washington Federal (the "**Class 2**
10 **Claim**") arising from the pre-petition term loan that Horizon Bank extended to the Debtor, and
11 that Washington Federal later assumed.

12 \$1,515,556 of the Class 2 Claim will be paid in full over five years. This portion of the
13 Class 2 Claim will accrue interest at 5% per annum until paid in full, and will be amortized over
14 10 years. Washington Federal will receive monthly, interest-only payments beginning July
15 2013, for the first six months. Thereafter, Washington Federal will receive equal, monthly,
16 principal-and-interest payments for the next 54 months, followed by a balloon payment in the
17 61st month, to pay the remaining balance of this portion of the Class 2 Claim in full. There will
18 be no penalty for early payment. Washington Federal shall retain its prepetition lien against the
19 Debtor's assets to the same extent and with the same validity and priority as existed prepetition
20 until this portion of the Class 2 Claim is paid in full.

21 The remaining portion of the Class 2 Claim will either be: (a) settled in full by way of
22 payment of 10% of its value on the Effective Date; or (b) converted to common stock, at
23 Washington Federal's option. The Debtor's financial projections assume that Washington
24 Federal will elect the former.

25 **3. Class 3: Allowed Secured Claim of Columbia**

26 Class 3 consists of the Allowed Secured Claim of Columbia (the "**Class 3 Claim**")

1 arising from the pre-petition loans that Summit Bank extended to the Debtor, and that Columbia
2 later assumed. Columbia asserts that one of these loans matured according to its terms prior to
3 the Petition Date, and that as of April 12, 2013, the balance on that loan (“**Loan No. 1756**”) was
4 \$167,483.81. See Exhibit A hereto.

5 \$959,440 of the Class 3 Claim will be paid in full over five years. This portion of the
6 Class 3 Claim will accrue interest at 5% per annum until paid in full, and will be amortized over
7 10 years. Columbia will receive monthly, interest-only payments beginning July 2013, for the
8 first six months. Thereafter, Columbia will receive equal, monthly, principal-and-interest
9 payments for the next 54 months, followed by a balloon payment in the 61st month, to pay the
10 remaining balance of this portion of the Class 3 Claim in full. There will be no penalty for early
11 payment. Columbia shall retain its prepetition lien against the Debtor’s assets to the same extent
12 and with the same validity and priority as existed prepetition until this portion of the Class 3
13 Claim is paid in full.

14 The remaining portion of the Class 3 Claim will either be: (a) settled in full by way of
15 payment of 10% of its value on the Effective Date; or (b) converted to common stock, at
16 Columbia’s option. The Debtor’s financial projections assume that Columbia will elect the
17 former.

18 **4. Class 4: Allowed Secured Claim of RSF**

19 Class 4 consists of the Allowed Secured Claim of RSF (the “**Class 4 Claim**”) arising
20 from the pre-petition loan that RSF extended to the Debtor. The Class 4 Claim will either be (a)
21 settled in full by way of payment of 10% of its value on the Effective Date, or (b) converted to
22 common stock on the Effective Date, at RSF’s option. The Debtor’s financial projections
23 assume that RSF will elect the latter. If RSF fails to make an election on its Ballot, the Class 4
24 Claim will be converted to common stock.

25 **5. Class 5: Allowed Secured Claim of Skagit Farmers Supply**

26 Class 5 consists of the Allowed Secured Claim of Skagit Farmers Supply (the “**Class 5**”

1 **Claim**”) arising from the pre-petition line of credit that Skagit Farmers Supply extended to
2 Staffanson Harvesting. The Class 5 Claim will be paid in full over five years. The Class 5
3 Claim will accrue interest at 5% per annum until paid in full, and will be amortized over 10
4 years. Skagit Farmers Supply will receive monthly, interest-only payments beginning July 2013,
5 for the first six months. Thereafter, Skagit Farmers Supply will receive equal, monthly,
6 principal-and-interest payments for the next 54 months, followed by a balloon payment in the
7 61st month, to pay the remaining balance of this portion of the Class 5 Claim in full. There will
8 be no penalty for early payment. Skagit Farmers Supply shall retain its prepetition lien against
9 the Debtor’s assets to the same extent and with the same validity and priority as existed
10 prepetition until this portion of the Class 5 Claim is paid in full.⁵

11 **6. Class 6: Allowed Secured Claims of Producers**

12 Class 6 consists of the Allowed Secured Claims of producers (Farms Northwest,
13 Hughes Farms, Inc., Donald Kruse, Nolan Lee Farms) arising under Chapter 60.13 RCW (the
14 “**Class 6 Claims**”). Each Class 6 Claim will either be (a) settled in full by way of payment of
15 10% of its value on the Effective Date, or (b) converted to common stock on the Effective Date,
16 at the Holder’s option. The Debtor’s financial projections assume that each Holder of a Class 6
17 Claim will elect the latter. If a Holder of a Class 6 Claim fails to make an election on its Ballot,
18 such Holder’s Class 6 Claim will be converted to common stock.

19 **7. Class 7: Allowed Secured Claims of Forklift Financers**

20 Class 7 consists of the Allowed Secured Claims of NMHG and Yale, arising from the
21 Debtor’s retail installment purchase of several forklifts (the “**Class 7 Claims**”). The Class 7
22 Claims will be paid in full by the Effective Date.

23 Each Holder of a Class 7 Claim shall retain its prepetition lien against the Debtor’s assets
24 to the same extent and with the same validity and priority as existed prepetition until such Class

25 _____
26 ⁵ The Debtor believes that Skagit Farmers Supply is entitled to a Secured Claim to the extent of approximately
\$178,740—not the amount stated in Skagit Farmers Supply’s Proof of Claim. Accordingly, the Debtor’s projections
assume that the Class 5 Claim has a value of \$178,740.

1 7 Claim is paid in full.

2 **8. Class 8: Allowed Secured Claim of SCOG**

3 Class 8 consists of the Allowed Secured Claim of SCOG (the “**Class 8 Claim**”) arising
4 from the pre-petition loan that SCOG extended to Cascade Ag Services. \$40,109 of the Class 8
5 Claim will be paid in full over five years. This portion of the Class 8 Claim will accrue interest
6 at 5% per annum until paid in full, and will be amortized over 10 years. SCOG will receive
7 monthly, interest-only payments beginning July 2013, for the first six months. Thereafter,
8 SCOG will receive equal, monthly, principal-and-interest payments for the next 54 months,
9 followed by a balloon payment in the 61st month, to pay the remaining balance of this portion of
10 the Class 8 Claim in full. There will be no penalty for early payment. SCOG shall retain its
11 prepetition lien against the Debtor’s assets to the same extent and with the same validity and
12 priority as existed prepetition until this portion of the Class 8 Claim is paid in full.

13 The remaining portion of the Class 8 Claim will be converted to common stock on the
14 Effective Date.

15 **9. Class 9: Allowed Secured Claim of the IRS**

16 Class 9 consists of the Allowed Secured Claim of the IRS for unpaid taxes (the “**Class 9**
17 **Claim**”). The IRS shall receive monthly payments beginning in January 2014 in an amount
18 sufficient to pay the full amount of the Class 9 Claim by August 13, 2017 (five years after the
19 Petition Date), pursuant to 11 U.S.C. § 1129(b)(9)(C). The IRS will receive interest-only
20 payments for the first six months, followed by monthly principal-and-interest payments through
21 August 13, 2017. Interest on the Class 9 Claim will accrue at the applicable federal rate.

22 All payments on the Class 9 Claim shall be applied by the IRS first, to the principal
23 balance of the trust fund portion of any such Claim (if any) and, second, as to such portion in
24 chronological order, from oldest to newest. The IRS shall retain its prepetition lien against the
25 Debtor’s assets to the same extent and with the same validity and priority as existed prepetition
26 until the Class 9 Claim is paid in full.

1 To the extent that the IRS's Claim consists of penalties, such penalties will be treated as a
2 Class 14 Claim.

3 **10. Class 10: Secured Claim of Skagit County Treasurer**

4 Class 10 consists of the Allowed Secured Claim of the Skagit County Treasurer for
5 unpaid real and personal property taxes (the "**Class 10 Claim**"). The Skagit County Treasurer
6 shall receive monthly payments beginning in January 2014 in an amount sufficient to pay the full
7 amount of the Class 10 Claim by August 13, 2017 (five years after the Petition Date), pursuant to
8 11 U.S.C. § 1129(b)(9)(C). The Skagit County Treasurer will receive interest-only payments for
9 the first six months, followed by monthly principal-and-interest payments through August 13,
10 2017. Interest on the Class 10 Claim will accrue at the applicable federal rate.

11 All payments on the Class 10 Claim shall be applied by the Skagit County Treasurer first,
12 to the principal balance of the trust fund portion of any such Claim (if any) and, second, as to
13 such portion in chronological order, from oldest to newest. The Skagit County Treasurer shall
14 retain its prepetition lien against the Debtor's assets to the same extent and with the same validity
15 and priority as existed prepetition until the Class 10 Claim is paid in full.

16 To the extent that the Skagit County Treasurer's Claim consists of penalties, such
17 penalties will be treated as a Class 14 Claim.

18 **11. Class 11: DIP Agreement Priority Claim of OPB**

19 Class 11 consists of the priority claim of OPB (the "**Class 11 Claim**") that was
20 authorized and allowed by the Bankruptcy Court on October 31, 2012 in connection with OPB's
21 extending a total of \$550,000 (plus a loan fee of \$27,500) in post-petition financing to the
22 Debtor. The Class 11 Claim shall be paid in full on the Effective Date, with cash secured from
23 investors' funding.

24 **12. Class 12: Priority Unsecured (Non-Tax) Claims**

25 Class 12 consists of Allowed Unsecured Claims entitled to priority over the claims of
26 general unsecured creditors pursuant to 11 U.S.C. § 507 ("**Class 12 Claims**"); provided,

1 however, that Administrative Expense Claims and Priority Tax Claims are not Class 12 Claims
2 and shall be treated as provided in Section 4.1 of the Plan. The Debtor believes that it is current
3 on U.S. Trustee's fees, and that Class 12 Claims consist mostly of priority Claims for unpaid pre-
4 petition wages. These priority wage claims will be paid in full on the Effective Date. To the
5 extent that there exist Class 12 Claims other than priority wage claims, those remaining Class 12
6 Claims will be treated in the same manner as Class 14 Claims.

7 **13. Class 13: Administrative Convenience Claims (\$1,000 or less)**

8 Each Holder of any Class 15 Claim (as defined below) in the amount of \$1,000 or less is
9 deemed to hold an Administrative Convenience Claim (a "**Class 13 Claim**") unless such Holder
10 makes an election on a timely filed Ballot to have its Claim treated as a Class 15 Claim (a
11 General Unsecured Claim). Any Holder of a Class 15 Claim in excess of \$1,000 may elect to
12 reduce its Allowed Claim to \$1,000 and be treated under Class 13 by so indicating on a timely
13 submitted Ballot. By making such election, the Holder expressly agrees that, upon the Effective
14 Date, it shall be conclusively deemed to have waived and released for all purposes the portion of
15 its Claim greater than \$1,000.

16 Holders of Class 13 Claims shall receive an aggregate cash distribution of \$112,000 on
17 the Effective Date, which will be allocated among the Holders of the Class 13 Claims on a *pro*
18 *rata* basis.⁶ Holders of Class 13 Claims will receive no further payment under the Plan.

19 **14. Class 14: Allowed Claim of Emerald Partners, et al.**

20 Class 14 consists of the Allowed Claim of of Emerald Partners, et al., *dba* Haller Farms,
21 which Claim arises from unpaid pre-petition lease payments. Haller Farms asserts that, as of the
22 Petition Date, these arrearages totaled \$143,000. As described earlier in this Disclosure
23 Statement, Haller Farms owns the real property on which much of the Debtor's tank farm sits.
24 Haller Farms also owns two fields (a 112-acre field and a 225-acre field) that the Debtor leases,
25

26 ⁶ The Debtor's projections assume that all Holders of Class 15 Claims of \$5,000 or less will elect to have their
claims treated as Class 13 Claims, and that no Holders of Class 15 Claims over \$5,000 will so elect. If these
projections are correct, the \$112,000 cash distribution will be sufficient to pay all Class 13 Claims in full.

1 on a month-to-month basis. These properties are also vital to the Debtor's ongoing operations,
2 and as set forth in Article VII below, the Debtor intends to continue leasing these properties
3 following the Confirmation Date.

4 The Debtor believes that Haller Farms' cooperation regarding the Pickle Vat Ground
5 Lease will benefit all creditors—without the Pickle Vat Ground Lease, the Debtor would be
6 forced to cease operations. Accordingly, the Plan provides that the Class 14 Claim will be paid
7 in full over five years. The Class 14 Claim will accrue interest at 5% per annum, and will be
8 amortized over 10 years. Haller Farms will receive equal, monthly, principal-and-interest
9 payments beginning on July 31, 2013 through May 2018, followed by a balloon payment in June
10 2018. There will be no penalty for early payment.

11 **15. Class 15: General Unsecured Claims**

12 Class 15 consists of all Allowed Unsecured Claims not more particularly described in
13 other classes (the "**Class 15 Claims**"). The Debtor believes that the Class 15 Claims consist
14 primarily of accounts payable, credit cards, and investor notes. Each asserted Class 15 Claim
15 shall be allowed or disallowed, as the case may be, whether prior to or following Confirmation,
16 in such amount as the Court may approve following notice and a hearing. Each Holder of a
17 Class 15 Claim will have the option of either: (a) full settlement of its Class 15 Claim by way of
18 payment of 10% of such Class 15 Claim on the Effective Date, or (b) conversion to common
19 stock.

20 Alternatively, a Holder of a Class 15 Claim may elect to have its claim treated as a Class
21 13 Claim subject to the provisions of Paragraph 13, above. If a Holder of a Class 15 Claim fails
22 to make an election on its Ballot as to how its Claim should be treated, its Claim will be
23 converted to common stock on the Effective Date.

24 The Debtor's projections assume that all Holders of Class 15 Claims greater than \$5,000
25 will elect to have their Class 15 Claims converted to common stock, while Holders of Class 15
26 Claims of \$5,000 or less will elect to have their Class 15 Claim treated as a Class 13 Claim.

1 **16. Class 16: Allowed Interests of Equity Holders**

2 Class 16 consists of the Allowed Interests of the Equity Holders. As of the filing of this
3 Disclosure Statement, the Debtor anticipates the ownership structure of the Debtor will be
4 adjusted in an effort to accommodate the following goals:

5 a. The requirements for ownership and governance control requested by those
6 persons providing funding for the Plan and funds for operating capital needs;

7 b. The preservation of net-operating-loss carryforwards, to the maximum extent
8 possible, which can then be applied to reduce post-Confirmation tax obligations and improve the
9 level of distributions to creditors under the Plan;

10 c. Appropriate restrictions and limitations on the current ownership interests of
11 existing equity so that the Court can determine that the Plan substantially complies with the
12 absolute priority rule;

13 d. Assuming the foregoing goals are met, offering to Holders of converting Claims
14 the right to convert their claims to equity.

15 If in accord with the above goals, and subject to the Debtor's securing verification from
16 tax counsel, the Debtor anticipates the equity of the Reorganized Debtor would be structured as
17 follows:

- 18 • Preferred Stock: New investors, who would be eligible for a 10% dividend
19 payment subject to EBITDA achievements, which will be established by the
20 Reorganized Debtor at a future date. Dividends would be payable annually
following the successful completion of a third-party review. The purposes of the
review will be to confirm earnings and cash availability.
- 21 • Common Stock: Common stock is defined as shareholders eligible for dividend
22 payments subject to earnings and cash reserves and availability after consideration
23 of CapEx requirements. Existing equity would retain at least fifty percent
24 ownership to comply with tax requirements for utilization of carry-forward losses.
25 Any remaining common reserved for possible issuance to new investor.
26 Distributions to common shareholders would be subordinate to preferred
distributions. Further, ownership of existing equity would be pledged under the
plan to secure preferred distributions.

///

1 **C. Request for Forbearance on Personal Guaranties**

2 The Staffansons and Mr. Lee intend to devote their full time to the operation of the
3 business that will generate the revenues necessary to service the debt and preserve value for
4 creditors. They are each willing to execute employment contracts with reasonable non-
5 competition agreements. They will be severely hampered in their efforts to operate the business
6 if they are sued and subjected to collection actions by creditors holding personal guaranties of
7 the Debtor's obligations. Furthermore, uncontrolled pursuit of guarantor claims by the various
8 creditors who hold such claims will likely result in disparate recoveries amongst them. To
9 provide the Staffansons and Mr. Lee with the proper incentive to work for the benefit of all
10 creditors and to promote equality of creditor treatment, the Staffansons and Mr. Lee ask that the
11 Court stay all actions against the Staffansons and Mr. Lee on debts for which they are jointly
12 liable with the Debtor so long as the Debtor is not deemed to be in default under the confirmed
13 Plan.

14 **D. Voting Rights; Explanation of Impaired and Unimpaired Claims**

15 Under the Bankruptcy Code, all "impaired" Classes of claims are entitled to vote to
16 accept or reject the Plan. Under the Bankruptcy Code, a Class is impaired under the Plan unless
17 the legal, equitable, and contractual rights of the Holders of Claims in the Class are left unaltered
18 by the Plan, or, if any contractual provision or applicable law entitles the Holder of a Claim to
19 demand or receive accelerated payment of such claim after the occurrence of a default, the Plan
20 (a) provides for the curing of defaults, (b) reinstates the maturity of such Claim as such maturity
21 existed before such default, (c) compensates the Holder of such Claim for any damages incurred
22 as a result of any reasonable reliance by such Holder on such contractual provision or applicable
23 law, or (d) does not otherwise alter the legal, equitable, or contractual rights to which such Claim
24 entitles the Holder of such Claim. The term "unimpaired" refers to those creditors whose Claims
25 or Interests remain unaltered by the reorganization effectuated by the Plan. Because of this
26 favorable treatment, these creditors are conclusively deemed to have accepted the Plan.

1 Accordingly, only creditors in impaired classes that hold Allowed Claims, or whose
 2 Claims are temporarily allowed for voting purposes by the Court pursuant to an order, are
 3 entitled to vote on the Plan. Classes 7 and 11 are unimpaired under the Plan. Consequently,
 4 pursuant to § 1126(f) of the Bankruptcy Code, it is not necessary to solicit acceptances from the
 5 Holders of Claims or Interests in such Classes. The remaining Classes are impaired, and the
 6 Holders of Claims or Interests in those Classes are entitled to vote to accept or reject the Plan.

7 **ARTICLE VII.**

8 **EXECUTORY CONTRACTS AND UNEXPIRED LEASES**

9 The Plan constitutes a motion by the Debtor to assume all executory contracts and
 10 unexpired leases set forth in the following table:

11 Counterparty	Description	Cure Amount
12 Arlene Messman	Field Lease (paid semiannually)	\$ 0.00
13 Doreen Nystrom	Field Lease (paid semiannually)	0.00
14 Emerald Partners Group LLC	Pickle vat ground lease ⁷	0.00
15 Food Services of America	Exclusive Supplier Agreement through January 2014	0.00
16 Joan Koffel	Field Lease (paid semiannually)	0.00
17 NMHG Financial Services	Forklift leases ⁸	---
18 Yale Financial Services	Forklift leases	---

16 To the extent necessary, the Debtor will cure any arrearages and provide adequate
 17 assurances of future performance. Under the proposed Plan, parties must dispute the Debtor's
 18 cure amounts provided in the foregoing table, and object to any assumption no later than 60 days
 19 after the Effective Date.

20 The Plan provides that all previously unassumed executory contracts and unexpired
 21 leases not scheduled for assumption under the Plan will be deemed rejected as of the Effective
 22 Date. The Plan establishes a deadline for parties to file Proofs of Claim based upon the rejection
 23 of an executory contract or unexpired lease. Failure to timely file a Proof of Claim will result in
 24 the disallowance of any such claim. Any claim arising from the rejection of an executory
 25

26 ⁷ The Debtor intends to assume this lease to the extent that it constitutes an unexpired lease of real property.

⁸ The Debtor believes that the NMHG and Yale forklift leases are actually retail installment contracts, and has therefore treated them under Section 4.8 of the Plan. NMHG and Yale will be paid in full on the Effective Date.

1 contract or unexpired lease is a Class 15 Claim to the extent it is an Allowed Claim.

2 In addition to the unexpired leases of real property listed in the above table, the Debtor is
3 the lessee under the following month-to-month real property leases, and intends to continue
4 leasing these properties following the Confirmation Date.

Counterparty	Description
Emerald Partners Group LLC	225-acre field lease at Dodge Valley Farm
Emerald Partners Group LLC	112-acre field lease at Edison Farm
Ken Staffanson	Labor camp and buffer zone house lease

7
8 **ARTICLE VIII.**

9 **LIQUIDATION ANALYSIS**

10 The Bankruptcy Code requires that a creditor with a right to vote either accept the Plan,
11 or that such creditor receive under the Plan at least as much as it would receive if the Debtor's
12 assets were liquidated in and the proceeds distributed under a Chapter 7 liquidation. This is
13 generally known as the "best interests" test.

14 To apply the test, the Debtor's assets are valued at the dollar amount that would be
15 generated from their distressed liquidation in the context of a Chapter 7 case by a trustee
16 appointed by the Bankruptcy Court. The analysis takes into account the costs and expenses of
17 the liquidation, and such additional administrative and priority claims that may result from the
18 termination of the Debtor's business and the use of Chapter 7 for the purpose of liquidation. Net
19 liquidation proceeds would be paid to general unsecured creditors only to the extent funds are
20 available after secured creditors have been paid the full value of their collateral and priority
21 creditors receive full payment on their claims.

22 The estimated distressed liquidation values of the Debtor's primary assets are as
23 follows:⁹

24 _____
25 ⁹ The assets listed do not include any recoveries on preference, fraudulent transfer or other Avoidance Actions. At
26 this time, the Debtor has undertaken a preliminary analysis of the existence of such claims. It appears that during the
90- day preference period the Debtor was on COD terms with substantially all of its primary vendors, although a
limited amount of trade credit still existed. The Debtor has also discussed with counsel for the Unsecured Creditors
Committee the existence of Avoidance Actions against insiders and the Debtor's belief that the net value of such
claims (if any) is likely minimal on the basis of defenses that exist. The Debtor believes that it is critical to its future

Inventory (including Brine disposal)	(750,000)
Accounts Receivable (20%)	220,000
Machinery & Equipment (per Brian Scott appraisal,)	1,500,000
Land & Building	<u>400,000</u>
Total	<u>1,370,000</u>

If the Reorganization Case were converted to Chapter 7 or if this case were dismissed and a Receiver was appointed under Washington state law, the Debtor believes that the appointment of a Receiver / Trustee to sell the company as a going concern will lower the return to the creditor community than the proposed Plan of Reorganization.

Specifically, the Debtor assumes the following would occur: As an initial matter, as of the date of this Disclosure Statement, Haller Farms has not committed to a long-term lease for the property on which half of the Debtor's 800 fermentation tanks sit. Accordingly, purchasers at a sale may be unable to acquire rights to the Haller Farms property.

Furthermore, customers would quickly switch to another supplier and may find reasons to reduce or curtail the payment of accounts receivable to the Debtor. Employees would leave at a time when other Skagit Valley agri-businesses are hiring for the 2013 growing season. Storm and waste water would need to be hauled to an off-site disposal facility, a process that could take two years due to the amount of time required to clear inventory and brine from each of the 800 or so individual, 8,000-10,000-gallon tanks. Due to a Trustee's or Receiver's lack of expertise in managing the high demand needs of the product inventory, the inventory and brine will begin to

success to not embark on a process of suing its vendors on account of alleged Avoidance Actions, especially given that the Debtor is seeking to encourage the provision of trade credit following Confirmation and it does not appear that the value of Avoidance Actions is significant in comparison to the total debt. In the event that preferences prove to be immaterial, the Plan will provide that all Avoidance Actions shall be waived and released upon the Effective Date.

1 deteriorate, which is accelerated in warmer weather.

2 The pickles in the tanks as well as the brine require constant supervision by a team of
3 seven employees. The chemistry and biology of each tank is monitored, adjusted, and circulated
4 regularly to maintain its integrity. If the inventory is not managed by a skilled fermenter, not
5 only is the inventory in high danger of spoiling, but there also exists a real and significant risk to
6 the environment. These skilled fermenters are, in this case, the existing management—Craig
7 Staffanson and Ben Lee. If there is a brine spill due to improper or unskilled handling of the
8 inventory, and the brine ran into a storm drain, it would be toxic to the environment because of
9 the high levels of salts and natural acids.

10
11 When the pickle inventory is removed, the tank remains about 35% to 40% full of brine.
12 The facility is designed to recycle the brine indefinitely. Under a liquidation scenario,
13 approximately 300 semi-truck loads of brine would need to be hauled away and disposed of.
14 Because of the high levels of salt and natural acids, the Debtor does not know of any sewage
15 treatment facility that will accept the brine—if one cannot be located, then the brine would need
16 to be put into barrels and shipped to a waste storage facility, such as the one in Arlington,
17 Oregon. The buyers of inventory are very limited, and flooding the market all at once with
18 millions of pounds of product will induce a buyers' market. The buyers are aware of the above
19 issues, and it is unclear whether they will agree to pay for the inventory or insist on being paid to
20 haul it away, as they well know that the options are limited, and come at significant cost. The
21 Debtor has conducted its own analysis of the cost of disposing of the brine and determined that
22 over a two year period, the total cost of disposal would be at least \$1,500,000.00.¹⁰

23 Once empty, tanks would be disassembled and likely sold for scrap.

24 Finished product and inventory and unnecessary equipment, such as harvesters, would

25
26

¹⁰ The Debtor has not secured the professional opinion of anyone qualified to assess proper disposal requirements or costs.

1 also be sold. The Debtor's various vehicles would likely be auctioned. Any processing
2 equipment necessary to convert work-in-process into finished product would be retained; surplus
3 processing equipment (conveyors, etc.) would be sold, likely for scrap metal or at deeply
4 discounted pricing. Leased equipment (mobile structures, forklifts) would be returned to the
5 equipment lessors. Once all work-in-process is converted to finished product, the remaining
6 processing equipment would be sold, along with any excess packaging. The remaining finished
7 product would be sold. Sale prices would be reduced in order to improve marketability and to
8 accommodate the effect of a large volume of product saturating the market. Finally, the real
9 property would be cleaned up for sale, and those costs are unknown but could be very high. The
10 Debtor would bring or settle preference and Avoidance Actions, if deemed cost effective in a
11 Chapter 7, but there is no such ability to recover preferential transfers in a state court
12 receivership.
13
14

15 Given the distressed liquidation value of the Debtor's assets, as well as the cost of
16 administering the liquidation, there would be no funds available for distribution to general
17 unsecured creditors, and probably an insufficient amount to pay administrative claims and all
18 secured creditors' claims. In contrast, and as set forth in the Debtor's projections, the Plan
19 provides for settlement of Allowed Claims with a combination of cash at confirmation, term
20 payments, and equity in the Reorganized Debtor. Furthermore, the Plan provides for continued
21 use of the Haller Farms properties, which are vital to the Debtor's continued operations. The
22 Plan clearly provides a much better alternative to creditors than a Chapter 7 liquidation and the
23 best interest test is therefore satisfied.
24

ARTICLE IX.

RISK FACTORS

25 Distributions to creditors contemplated under the Plan are contingent upon many
26

1 assumptions, some or all of which could fail to materialize and preclude the Plan from becoming
2 effective or reduce anticipated distributions. Future events, including loss of market share or
3 changes in governmental regulations could impact the ability of the Debtor to comply with
4 distribution requirements under the Plan.¹¹ Such events are risks that are present in any business;
5 however, in this case the development of a material event would, in all likelihood, affect the
6 ability of the Debtor to make timely distributions under the Plan. Most important, however, is
7 that the Plan is subject to approval by the various classes of creditors entitled to vote under the
8 Bankruptcy Code and to confirmation of the Plan by the Bankruptcy Court. No assurance can be
9 given that the Plan will be accepted by the requisite number and amount of creditors or
10 confirmed by the Court. If the Plan is not accepted and confirmed, and due to the costs and
11 uncertainties inherent in a modified plan of reorganization or a conversion and liquidation under
12 Chapter 7, all creditors of the estate face substantial risk that their recovery under such
13 alternative circumstances may be substantially less favorable than their recovery provided for by
14 the Plan.

15 **ARTICLE X.**

16 **TAX CONSEQUENCES**

17 **A. Introduction**

18 Implementation of the Plan may result in federal, state and local tax consequences to the
19 Debtor, to its shareholders, and to its creditors. Neither rulings from the Internal Revenue
20 Service or any state or local taxing authority, nor tax opinions, will be sought or obtained with
21 respect to any consequences of the Plan. This Article is not a tax opinion; the description of
22 potential tax consequences contained herein is provided solely for general informational
23 purposes. No attempt has been made to identify the specific tax consequences to any specific
24 party, and the information in this Article cannot be relied upon for tax reporting or penalty
25

26 _____
¹¹ As an example, the Debtor could be required to relocate its tank farm or implement drainage requirements if so imposed by the impact of any future adverse relationships with existing landlords or regulatory entities.

1 avoidance purposes.

2 Because of the potentially numerous uncertainties concerning the consequences of the
3 Plan, there is no assurance of any kind that a particular taxpayer will, in fact, be entitled to the
4 tax treatment described in this Disclosure Statement Article. **EVERY PARTY**
5 **POTENTIALLY AFFECTED BY THE PLAN IS STRONGLY ADVISED TO CONSULT**
6 **WITH ITS OWN TAX ADVISORS REGARDING THE TAX CONSEQUENCES OF THE**
7 **TRANSACTIONS CONTEMPLATED BY THE PLAN.**

8 **B. Tax Consequences to the Debtor**

9 The Debtor is, and the Reorganized Debtor intends to be, a Washington C-corporation,
10 and is therefore a tax-paying entity for federal income tax purposes. The Debtor has not engaged
11 a tax professional to provide analysis and advice in connection with the Plan but is not aware of
12 any adverse tax consequences that will arise in connection with its consummation and
13 performance under the Plan. An important feature of the Plan will be an effort to have minimal
14 cancellation of debt; and retention of net operating carry-forward losses and the tax basis of
15 assets to offset against future operating income, thus enhancing the overall distributions to
16 certain classes of creditors.

17 **C. Tax Consequences to Creditors**

18 The Debtor assumes that creditors will report any payments received under the Plan in
19 accordance with their normal method of accounting. The Debtor makes no representation
20 whatsoever as to the tax consequences associated with the receipt of such payments.

21 **ARTICLE XI.**

22 **CONFIRMATION OF THE PLAN**

23 **A. Voting Procedures**

24 A ballot to be used for voting your acceptance or rejection of the Debtor's Plan of
25 Reorganization is being mailed to you together with this Disclosure Statement and Plan. Holders
26 of claims should read the instructions carefully, complete, date and sign the ballot, and transmit it

1 in the envelope enclosed. **IN ORDER TO BE COUNTED, YOUR BALLOT MUST BE**
2 **RECEIVED AT THE INDICATED ADDRESS NOT LATER THAN 5:00 P.M. ON**
3 **_____ . FAILURE TO VOTE OR A VOTE TO REJECT THE**
4 **PLAN WILL NOT AFFECT THE TREATMENT TO BE ACCORDED A CLAIM OR**
5 **INTEREST IF THE PLAN IS NEVERTHELESS CONFIRMED.**

6 If more than one-half in number of Holders voting and at least two-thirds in amount of
7 the Allowed Claims of such Holders in each Class of Claims vote to accept the Plan, such
8 Classes will be deemed to have accepted the Plan. If at least two-thirds in amount of the shares
9 voted in a Class of Interests are voted to accept the Plan, such Class will be deemed to have
10 accepted the Plan. For purposes of determining whether a Class of Claims or Interests has
11 accepted or rejected the Plan, only the votes of those who have timely returned their ballots will
12 be considered.

13 **B. Hearing on Confirmation**

14 The hearing on confirmation of the Plan has been set for _____, 2013,
15 before the Honorable Karen A. Overstreet, United States Bankruptcy Judge, in U.S. Bankruptcy
16 Court in Seattle, Washington. The Bankruptcy Court shall confirm the Plan at that hearing only
17 if certain requirements, as set forth in Section 1129 of the Bankruptcy Code, are satisfied.

18 **C. Feasibility**

19 The Debtor must also establish that confirmation of the Plan is not likely to be followed
20 by the Reorganized Debtor's liquidation, or the need for further financial reorganization.
21 Attached hereto as **Exhibit E** are unaudited P&L summary (1 page); P&L 5 year (5 pages);
22 Balance Sheet – Opening Bal (two pages); Summary Balance Sheet (2 pages); Balance Sheets 5
23 Year (10 pages); Cash Flow Summary (1 Page); Cash Flow 5 Year (5 pages); and Capital
24 Expenditure Budget Summary (1 page); that the Debtor has prepared demonstrating the cash
25 flow that the Debtor estimates will be generated from operations for five years beginning July 1,
26

1 2013, and ending June 30, 2018.¹² A primary source of increased liquidity going forward will
2 come from the significant cash-flow improvements described in Section II.E.9 above. As with
3 all financial projections, the projections set forth in Exhibit E represent estimates of revenues and
4 expenses associated with future operations, and the Reorganized Debtor's actual performance
5 will likely be different than the projected performance. However, the Debtor does believe that
6 the projections represent a reasonable, albeit conservative, forecast of revenues and expenses
7 associated with the Reorganized Debtor's future operations. The Debtor intends to present
8 testimony with respect to feasibility, if required, at the hearing on confirmation of the Plan. The
9 Debtor believes that the Plan is feasible and that the Bankruptcy Court will so find, but a
10 Bankruptcy Court finding of feasibility does not guarantee that the Reorganized Debtor will
11 successfully complete or pay all its obligations under the Plan.

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

13 The Bankruptcy Code requires the Bankruptcy Court to find that the Plan does not
14 discriminate unfairly, and is fair and equitable, with respect to each class of claims or interests
15 that is impaired under, and has not accepted, the Plan. Upon such a finding, the Bankruptcy
16 Court may confirm the Plan despite the objections of a dissenting class. The Debtor has
17 requested that the Court confirm the Plan even if creditors holding claims in impaired classes do
18 not accept the Plan.

19 **E. Effect of Confirmation**

20 Confirmation of the Plan shall operate on the Effective Date as a discharge of the Debtor
21 from any debt that arose before the Confirmation of the Plan to the extent specified in 11 U.S.C.
22 § 1141(d)(1)(A), except that the Debtor will not be discharged of any debt: (i) imposed by the
23 Plan; (ii) of a kind specified in 11 U.S.C. § 1141(d)(6)(A) if a timely complaint was filed in
24 accordance with Rule 4007(c) of the Federal Rules of Bankruptcy Procedure; or (iii) of a kind
25 specified in 11 U.S.C. § 1141(d)(6)(B).

26 _____
¹² The Debtor plans to obtain audited financial statements commencing with year 2013.

1 Upon Confirmation, all property of the Debtor's estate shall be free and clear of all
2 claims and interests of creditors, except as otherwise provided in the Plan or the order of the
3 Bankruptcy Court confirming the Plan. The Reorganized Debtor shall be vested with all assets
4 of the Debtor's estate. The provisions of the Plan shall bind the Debtor, the Reorganized Debtor,
5 and all other parties in interest, including any creditor of the Debtor, whether or not such creditor
6 is impaired under the Plan and whether or not such creditor has accepted the Plan.

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

8 In the event the Court declines to confirm the Debtor's Plan, whether due to a failure of
9 creditor support or otherwise, a liquidation might ultimately result, either through a revised Plan
10 under Chapter 11 or conversion of this Reorganization Case to a bankruptcy under Chapter 7 of
11 the Bankruptcy Code.

12 RESPECTFULLY SUBMITTED this 7th day of May, 2013.

13 CAIRNCROSS & HEMPELMANN, P.S.

14 /s/ John R. Rizzardi

15 John R. Rizzardi, WSBA No. 9388

16 Jessica C. Tsao, WSBA No. 44382

17 Attorneys for the Debtor

18 CASCADE AG SERVICES, INC.

19 /s/ Craig Staffanson

20 By: Craig Staffanson, President