

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23

UNITED STATES BANKRUPTCY COURT
WESTERN DISTRICT OF WASHINGTON

In re

MERIDIAN SUNRISE VILLAGE, LLC,

Debtor.

No. 13-40342

DISCLOSURE STATEMENT FOR
DEBTOR'S PLAN OF
REORGANIZATION

IMPORTANT: THIS DISCLOSURE STATEMENT CONTAINS INFORMATION THAT MAY BEAR UPON YOUR DECISION TO ACCEPT OR REJECT THE PLAN OF REORGANIZATION (“PLAN”) OF MERIDIAN SUNRISE VILLAGE, LLC (“MERIDIAN” OR “DEBTOR”). PLEASE READ THIS DOCUMENT WITH CARE. THIS DOCUMENT SUMMARIZES THE TERMS OF THE PLAN. THE DEBTOR MAY CONTINUE TO NEGOTIATE PAYMENT TERMS WITH ITS 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 January 18, 2013 (“Petition Date”), the Debtor filed a voluntary petition under Chapter 11 of the Bankruptcy Code.

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 § 1125 of the Bankruptcy Code as containing information of a kind, and in sufficient detail, as far as is reasonably practicable under the circumstances, that would enable a hypothetical reasonable investor

1 to make an informed judgment about the Plan. In the event of inconsistencies between the Plan and
2 the Disclosure Statement, however, the terms of the Plan shall control. The Court's approval of this
Disclosure Statement does not constitute an endorsement of the Plan by the Court.

3 Pursuant to the Plan, the Debtor shall continue to own, manage and operate its shopping center
4 property and continue the lease-up process following the Effective Date in the ordinary course of
5 business. All Claims that are allowed by the Court shall be paid in full. Holders of Claims secured by
6 the real property and improvements owned by the Debtor shall retain their liens on and security
interests in such property until their Claims are fully paid. Unsecured creditors shall also be paid in
full over time, with interest on their claims. The Debtor's members shall would retain their equity
interests in the Debtor going forward.

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

9 **ARTICLE I.**
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
Plan.

13 **ARTICLE II.**
BACKGROUND INFORMATION

14 **A. Historical Background and Events Leading to Bankruptcy**

15 **1. The Project.**

16 The Debtor owns Sunrise Village, a shopping center in Puyallup's South Hill neighborhood
17 (the "Project"). Completed in 2008, the Project presently comprises over 225,000 square feet of
18 leasable space and features a mix of national, regional and local tenants including Staples, PetSmart,
19 LA Fitness, Party City, Sleep Country, Famous Footwear, Games Workshop and AT&T Mobility.
The Project also includes a number of restaurant options for customers, including Qdoba Mexican
Grill, the Ram Restaurant, Menchies Yogurt and Northwest Wine Bar. Although not strictly a part of
the Project, a Target location in the center also drives significant traffic to the Project.¹

20 As of the Petition Date, the Project was approximately about 75% leased and lease-up
21 activities continue. Negotiations are ongoing with prospective new tenants, and there is very little
22 scheduled tenant rollover until 2018. The Debtor also owns additional property slated for future
development, which would add approximately 200,000 additional square feet of leasable space.

23 ¹ The reader can visit <http://mysunrisevillage.com/Index.htm> for further details as to the Project.

1 An appraisal of the Project was completed in January 2012 by McKee & Schalka at the request
2 of the Debtor's secured lender ("Project Appraisal"). According to the Project Appraisal, effective
3 July 17, 2012, the "as is" value of the Project is \$59,700,000 with a stabilized value of \$74,400,000.

4 The Project is a profitable enterprise. Despite being at only about 75% occupancy, as of the
5 Petition Date, the Debtor's monthly net operating income was approximately \$235,000, which had
6 permitted the Debtor to consistently make timely and full payments due under the applicable loan
7 documents. It is projected that net income and enhancement of the value of the Project will both
8 increase as the Debtor completes lease-up activities.

9 **2. The Prepetition Loans**

10 **a. The Primary Loan.** Prior to the Petition Date, the Debtor entered into a construction
11 loan with U.S. Bank National Association ("U.S. Bank") to provide funding to complete construction
12 of the Project (the "Primary Loan"). The Primary Loan is secured by the real property and
13 improvements comprising Phase I of the Project, and the tenant leases and rents associated therewith.

14 Shortly after it originated the Primary Loan, and as contemplated under the provisions of the
15 Loan Agreement, U.S. Bank sold and assigned portions of the Primary Loan to three other lenders
16 (together with U.S. Bank, the "Lender Group") pursuant to an Assignment and Assumption
17 Agreement that was entered into with each such lender. Following the completion of such
18 assignments, the resulting interest held in the Primary Loan by the participating banks was (and, to the
19 Debtor's knowledge, remains) as follows:

20 U.S. Bank:	33.3333333333333%
21 Bank of America, N.A:	26.6666666666667%
22 Citizens Business Bank:	20.0%
23 Guaranty Bank & Trust Company:	20.0%

U.S. Bank is the administrative agent bank for the Lender Group. As of the Petition Date, the
outstanding balance of the Primary Loan was approximately \$54,900,000. Based upon the as-is
valuation reflected in the Project Appraisal, the Lender Group enjoys an equity cushion in its
collateral of over \$4,800,000.

b. Phase II and III Loan. In June 2007, the Debtor entered into a construction loan
agreement with U.S. Bank to finance construction of Phases II and III, adjacent to the Project (the
"Phase II & III Loan"). The initial loan commitment for the Phase II & III Loan was \$41,250,000,
much of which was drawn.

During 2010, the Debtor reduced the outstanding balance of the Phase II & III Loan principal
paydowns in a total amount of \$1,250,000 (in addition to funding an interest reserve of \$969,000),
application of proceeds from the sale of a pad site to Target, and moving a portion of the remaining
indebtedness to the Primary Loan.

1 The Phase II & III Loan is secured by 14.5 acres of partially improved retail pads (“Phase II &
2 III Real Property”). As of the Petition Date, the outstanding balance of the Phase II & III Loan was
3 \$8,436,000. Unlike with the Primary Loan, U.S. Bank continues to hold all of the lender’s rights in
4 the Phase II & III Loan. As of the Petition Date, the Debtor was current on all payments under the
5 Phase II & III Loan.

6
7 **c. Phase IV Loan.** In February 2008, the Debtor entered into a loan agreement with U.S.
8 Bank (the “Phase IV Loan”) to finance acquisition of additional property – a vacant parcel referred to
9 as the “Miller Parcel” and an existing building then occupied by Valley Bank (together, the “Phase IV
10 Property”).

11 The initial commitment for the Phase IV Loan was \$1,680,000. During 2010, the Debtor
12 reduced the outstanding balance by way of principal paydowns in a total amount of \$635,000 in
13 addition to funding an interest reserve of \$168,000. The Phase IV Loan is secured by the Phase IV
14 Property. As of the Petition Date, the outstanding balance of the Phase IV Loan was \$1,045,000.

15 U.S. Bank continues to hold all of the lender’s rights in the Phase IV Loan. As of the Petition
16 Date, the Debtor was current on all payments under the Phase IV Loan.

17 **3. Events Leading to Bankruptcy Filing.**

18 **a. Extensions of Maturity Date and Lender Group Compensation.** The Loan
19 Agreement for the Primary Loan provided for an initial maturity date of October 4, 2009, with an
20 option to extend maturity to April 4, 2010 upon the satisfaction of certain conditions. Due to the
21 economic recession that was especially acute in the real estate sector, lease-up activities did not
22 proceed during 2008 and 2009 at the pace initially contemplated by the Loan Agreement. The Debtor
23 and the Lender Group therefore entered into a series of amendments to the Loan Agreement, pursuant
to which the maturity date was ultimately extended to June 25, 2013.

The Lender Group, however, was well-compensated for these concessions. During 2010
alone, the Debtor made principal paydowns on the Primary Loan in a total amount of over \$7,000,000.
The Debtor also agreed to reduce the amount of the Lender Group’s commitment as to the Primary
Loan by another \$2,116,302. Applying the principal paydowns, the commitment went from
\$75,000,000 to \$65,340,468. The Debtor also paid the Lender Group various fees in connection with
these amendments to the Loan Agreement totaling more than \$850,000, in addition to the \$375,000
fee that was paid in connection with the origination of the Primary Loan. In addition, beginning in
November 2011 the Debtor began making monthly principal payments based upon a “net cash flow”
formula that have also reduced principal by approximately \$350,000 in total.

Up to the Petition Date, the Debtor remained current on all payment obligations to the Lender
Group. By any measure, the Lender Group has received treatment virtually unseen in today’s real
estate market – in addition to the equity cushion it enjoys in its collateral.

b. Addition of Financial Covenant Becomes Sole Source of Default. A financial
covenant that was added more than two years after the Primary Loan was originated is the sole issue

1 under the Primary Loan. In connection with the Third Amendment to the Loan Agreement, the
2 Lender Group required that a debt service coverage ratio covenant (the “DSCR Covenant”), which
3 does not appear in the original form of the Loan Agreement, be added as a condition to the extension
4 of the maturity date of the Primary Loan.

5 In 2012, the Lender Group declared the Debtor to be in default under the Primary Loan based
6 upon the DSCR Covenant and demanded immediate payment of \$11,622,422, the amount allegedly
7 owing to bring the Primary Loan into compliance with such covenant. The calculation of the ratio
8 under the DSCR Covenant is in part based upon the application of an interest rate of 6.25%, a rate
9 more than 200 basis points higher than the market rate for loans of this type. The resulting amount
10 allegedly necessary to cure the default equates to approximately twenty percent of the total
11 outstanding balance of the Primary Loan. The Debtor was and remains unable to meet this payment
12 demand.

13 The Primary Loan contains a commitment from the Lender Group to fund tenant
14 improvements and lease commissions, so as to permit the Debtor to continue with lease-up activities
15 and allow the Project to achieve stabilization and further enhance the value of the Lender Group’s
16 collateral. Despite numerous prepetition requests by the Debtor, the Lender Group refused to advance
17 any such funding solely on the basis of the single covenant default.

18 The Debtor sought to negotiate a workout agreement with the Lender Group to address the
19 covenant default. To that end, the parties entered into the Fourth and Fifth Amendments to the Loan
20 Agreement, pursuant to which the Lender Group agreed to (among other things) forbear from
21 exercising its remedies through May 15, 2012. In addition, and at the request of the Lender Group,
22 the Debtor engaged Capstone Advisory Group, LLC, as its financial consultant to assist it in workout
23 discussions. In consultation with the Debtor, Capstone developed a presentation discussing various
alternatives (most of which had already been the subject of unsuccessful discussions between the
Lender Group and the Debtor), and the Capstone team also reached out to individual members of the
Lender Group seeking to pursue a dialogue towards a workout solution. Unfortunately, one member
refused to participate in any discussions and another made demands that the Debtor and its
professionals deemed not reasonable (and unworkable) under the circumstances. Despite Capstone’s
efforts, no progress was made with the Lender Group and the Debtor was otherwise unable to achieve
any traction with the Lender Group even as to the rough outline of a possible workout arrangement.

18 In October 2012, the Debtor learned that three of the Lender Group members were marketing
19 their interests in the Primary Loan for sale. A provision in the Loan Agreement permitted transfers of
20 member interests only to other commercial banks or similar institutions, absent the Debtor’s consent.
21 The Lender Group requested that the Debtor waive this protection, but did not offer any consideration
22 in exchange for this waiver. The Debtor declined the request.

23 By letter dated January 9, 2013, the Lender Group advised the Debtor of its election to begin
charging default-rate interest on the Primary Loan, effective immediately. The additional cost to the
Debtor is approximately \$250,000 per month, an expense the Debtor does not have the remotest
ability to pay. Following a meeting with counsel for the Lender Group, at which the Debtor was

1 advised that there was no chance that the Lender Group would suspend the running of default interest
2 on the Primary Loan, the Debtor made the difficult decision to commence this Chapter 11 case.

3 The purpose of the bankruptcy was and is to allow the Debtor to restructure its financial
4 obligations, including the Primary Loan so that it may continue operations.

5 **B. Events Since Bankruptcy**

6 The Debtor has previously filed detailed schedules of their assets and liabilities and statements
7 of their financial affairs. These documents may be reviewed at the Bankruptcy Court clerk's office
8 during normal business hours.

9 **a. Authority to Use Cash Collateral.** On January 28, 2013, the Court authorized
10 the Debtor to use, on an interim basis, the asserted cash collateral of U.S. Bank and the Lender Group
11 in the Debtor's operations pursuant to a court-approved budget. On March 6, 2013, the Court entered
12 an order granting final approval of the Debtor's use of cash collateral.

13 **b. Utilities; Cash Management.** On January 28, 2013, the Court entered orders
14 approving the Debtor's proposed adequate assurances of payment to utility providers, and authorizing
15 the Debtor to continue to use prepetition bank accounts on a going-forward basis.

16 **c. Employment of Professionals.** The Court approved the Debtor's employment
17 of Bush Strout & Kornfeld, LLP its bankruptcy counsel by order entered February 12, 2013.

18 **d. Claims Bar Date.** By order entered February 20, 2013, the Court established
19 April 5, 2013, as the deadline for the filing of Proofs of Claim in this case.

20 **ARTICLE III.**
21 **ASSETS AND LIABILITIES OF THE DEBTOR**

22 **A. Assets**

23 **1. Real Property.** The Project is comprised of 29 parcels of real property comprising the
Project, the Phase II & III Real Property and the Phase IV Real Property. The Project Appraisal did
not assign a value to each parcel individually but concluded that the Project had an as is value of
\$59,700,000. An appraisal commissioned by U.S. Bank in March 2012 concluded that the Phase II &
III Real Property had a total combined value of \$9,200,000, as of March 30, 2012. An appraisal
commissioned by U.S. Bank in February 2010 concluded that the Phase IV Real Property had a
combined "as is" value of \$1,270,000 as of February 23, 2010.

2. Personal Property. As of the Petition Date, the Debtor held the following personal
property:

100% Interest in Meridian Sunrise Village IV, LLC	0.00
Accounts Receivable	403,545.04
Office Equipment and Furnishings	2,000.00
Total:	550,976.04

B. Liabilities

1. Secured Claims

a. Real Estate Tax Claims – Pierce County Budget & Finance

Claim Amount	Tax Parcel Securing Claim	Property
13,331.98	6025660010	Phase I
18,905.39	6025660030	Phase I
6,544.37	6025660040	Phase I
6,638.31	6025660050	Phase I
8,058.67	6025660070	Phase I
10,738.60	6025660080	Phase I
8,999.68	6025660090	Phase I
9,950.37	6025660100	Phase I
8,975.29	6025660120	Phase I
5,344.91	6025660130	Phase I
5,716.03	6025660140	Phase I
8,497.93	6025660150	Phase I
6,035.44	6025660160	Phase I
20,262.99	6025660170	Phase I
46,553.31	6025660180	Phase I
5,417.16	6025660190	Phase I
1,998.48	6025660200	Phase I
13,211.61	6025660210	Phase I
12,686.78	6025660220	Phase I
2,388.70	6025660230	Phase I
3,916.79	6025660240	Phase I
55,616.00	6025660250	Phase I
173.97	6025660270	Phase I
2,465.10	6025660290	Phase I
6,373.01	0419227004	Phase III
9,906.07	0419227028	Phase IV
4,303.79	0419227029	Phase IV

Claim Amount	Tax Parcel Securing Claim	Property
6,373.01	0419227033	Phase III
44,429.11	6025660060	Phase II

b. Lender Group. As described above, the outstanding balance owed by the Debtor to the Lender Group with respect to the Primary Loan was \$54,900,000 as of the Petition Date. The Debtor's obligations under the Primary Loan are secured by a Deed of Trust, Assignment of Rents and Leases and Security Agreement, dated April 4, 2008, and recorded April 4, 2008 under Pierce County Recording No. 200804040458, encumbering the real property and improvements comprising the Project.

c. U.S. Bank

(1) Phase II & III Loan. As of the Petition Date, the Debtor owed U.S. Bank approximately \$8,436,000 with respect to the Phase II & III Loan. The Phase II & III Loan is secured by a Deed of Trust, Assignment of Rents and Leases and Security Agreement, dated June 28, 2007, and recorded June 29, 2007 under Pierce County Recording No. 200706290611, encumbering the Phase II & III Collateral.

(2) Phase IV. As of the Petition Date, the Debtor owed U.S. Bank approximately \$1,045,000 with respect to the Phase IV Loan. The Phase IV Loan is secured by a Deed of Trust, Assignment of Rents and Leases and Security Agreement, dated April 4, 2008, and recorded April 4, 2008, under Pierce County Recording No. 200804040458, encumbering the Phase IV Collateral.

2. General Unsecured Claims

The Debtor's records reflected that, as of the Petition Date it owed approximately \$1,075,000 in prepetition unsecured claims. Of this amount, approximately \$58,000 constitutes the Debtor's liability with respect to security deposits provided by its tenants that the Debtor is not yet obligated to return.

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

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

A. Explanation of Impaired and Unimpaired Claims

The term "Impaired" as used herein refers to those creditors to whom this Disclosure Statement (and the related Ballots and other materials delivered together herewith) are being furnished

1 and who are entitled to accept or reject the Plan. Holders of Claims in impaired classes are entitled to
2 vote to accept or reject the Plan.

3 The term “Unimpaired” refers to those creditors whose claims or interests remain unaltered by
4 the reorganization effectuated by the Plan. Because of this favorable treatment, these creditors are
5 conclusively deemed to have accepted the Plan. Accordingly, under Section 1126(f) of the
6 Bankruptcy Code, it is not necessary to solicit acceptances from the holders of claims or interests in
7 such classes.

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

9 The Plan establishes six (6) classes of claims and one class of interests with respect to the
10 Debtor. If the Plan is confirmed by the Court and becomes effective, the class into which each
11 Allowed Claim and Allowed Interest fits will determine the manner in which such claim or interest
12 will be treated. The classes defined in the proposed Plan are summarized below.

13 **1. Unclassified Claims**

14 **a. Administrative Claims**

15 As defined under the Plan, Administrative Expense Claims are Allowed Claims for costs or
16 expenses of the Chapter 11 Case that are allowed under sections 503(b) and 507(a)(1) of the
17 Bankruptcy Code, which will primarily be comprised of the allowed claims of Professional Persons
18 and amounts owed the United States Trustee pursuant to 28 U.S.C. § 1930. Under the Plan, each
19 Holder of an Allowed Administrative Expense Claim against the Debtor shall be paid in full on or
20 before the Distribution Date or upon entry of a Final Order allowing such claim, whichever shall
21 occur later, unless the Holder of such claim agrees to different treatment.

22 Each Holder of an Allowed Administrative Expense Claim against the Debtor shall receive
23 such distribution from the Disbursing Agent, either upon, or as promptly as practicable after the
24 Distribution Date provided, however, that Allowed Administrative Expense Claims which are
25 Ordinary Course Administrative Expense Claims shall be deemed allowed in the amount shown in the
26 Debtor’s records unless such claim is a Disputed Claim, and shall be paid in the ordinary course of
27 business in accordance with the terms and conditions of the particular agreements governing such
28 Ordinary Administrative Expense Claims

29 **b. Priority Tax Claims**

30 As defined under the Plan, Priority Tax Claims are Allowed Claims of Taxing Agencies that
31 are entitled to priority in accordance with section 507(a)(8) of the Bankruptcy Code. Priority Tax
32 Claims include the principal portion of the applicable tax and interest accrued thereon through the
33 Effective Date but do not include any penalties. Pursuant to § 1129(a)(9)(C) of the Bankruptcy Code,
34 all Priority Tax Claims against the Debtor shall be paid in full within five (5) years following the
35 Petition Date with interest at the lowest applicable statutory rate. Claims of taxing agencies for

1 penalties against the Debtor shall be Class 6 claims to the extent they are Allowed Claims and shall
2 not be treated under this paragraph.

3 Notwithstanding the foregoing, the Claim of Pierce County Budget and Finance for unpaid
4 real property taxes is a Secured Claim (and therefore not a Priority Tax Claim) and is being treated
5 under Section IV.B.1 below of the Plan. However, consistent with Section 1129(a)(9)(D) of the
6 Bankruptcy Code, Pierce County shall receive treatment more favorably under the Plan than it would
7 if it was treated as holding a Priority Tax Claim and paid pursuant to the provisions of Section
8 1129(a)(9)(C) of the Bankruptcy Code.

9 **2. Classified Claims and Interests**

10 Class 1: Secured Claim of Pierce County Budget and Finance Group

11 Class 2: Secured Claim of the Lender Group

12 Class 3: Secured Claim of U.S. Bank – Phase II & III

13 Class 4: Secured Claim of U.S. Bank – Phase IV

14 Class 5: Administrative Convenience Claims

15 Class 6: Unsecured Claims Other Than Class 5 and Class 7 Claims

16 Class 7: Allowed Security Deposit Claims

17 Class 8: Membership Interests

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

19 The Treatment of Claims and Interests Under the Plan, and the Means for Execution of the
20 Plan, are set forth in Sections V and VI, respectively, of the Plan and are summarized below.
21 Notwithstanding the summary provided below, the terms of the Plan shall control the classification
22 and treatment of claims and all other aspects of the Debtor's rights and obligations as to matters
23 governed by the Plan following the Effective Date. Parties are urged to read the Plan with care to
determine the treatment proposed for their Claim or Interest.

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

1. **Class 1: Secured Claim of Pierce County Budget and Finance.**

Class 1 consists of the Secured Claim of Pierce County Budget and Finance (the "Class 1 Claim"). The Plan provides that the Class 1 Claim would be allowed in the aggregate amount of Proofs of Claim previously filed with the Court. Pierce County shall retain its liens against the real property and improvements owned by the Debtor and shall be paid in twenty-four equal monthly payments commencing during the first full month following the Effective Date.

2. **Class 2: Secured Claim of Lender Group.**

Class 2 consists of the Secured Claim of the Lender Group arising from the Primary Loan (the "Class 2 Claim"). The Plan provides that the Class 2 Claim shall be allowed in such amount as to which the Debtor may agree or the Court may approve. Following the Effective Date, the Lender

1 Group shall retain its liens and security interests against the various real and personal property in the
2 Project that secure the Primary Loan until the Class 2 Claim has been paid in full. Following the
3 Effective Date, the Debtor will make (i) monthly interest-only payments on the Class 2 Claim during
4 each of the first sixty (60) full months following the Effective Date, followed by (ii) equal monthly
5 principal and interest payments on the Class 2 Claim based upon a 30-year amortization and an
6 interest rate of two and three-quarters percent (2.75%) per annum through the Class 2 Maturity Date.
7 The Plan also provides for additional provisions related to the treatment of new tenant leases, use of
8 revenues from the Project, partial releases of collateral securing the Class 2 Claim, and loan
9 covenants.

10 **3. Class 3: Secured Claim of U.S. Bank (Phase II & III).**

11 Class 3 consists of the Secured Claim of U.S. Bank arising from the Phase II & III Loan (the
12 “Class 3 Claim”). The Plan provides that the Class 3 Claim shall be allowed in such amount as to
13 which the Debtor may agree or the Court may approve. Following the Effective Date, the Lender
14 Group shall retain its liens and security interests against the various real and personal property
15 comprising the Phase II & III until the Class 3 Claim has been paid in full. Following the Effective
16 Date, the Debtor will make (i) monthly interest-only payments on the Class 3 Claim during each of
17 the first sixty (60) full months following the Effective Date, followed by (ii) equal monthly principal
18 and interest payments on the Class 3 Claim based upon a 30-year amortization and an interest rate of
19 three and one-quarter percent (3.25%) per annum through the Class 3 Maturity Date. The Plan also
20 provides for additional provisions related to the treatment of new tenant leases, and loan covenants.

21 **4. Class 4: Secured Claim of U.S. Bank (Phase IV).**

22 Class 4 consists of the Secured Claim of U.S. Bank arising from the Phase IV Loan (the
23 “Class 4 Claim”). The Plan provides that the Class 4 Claim shall be allowed in such amount as to
24 which the Debtor may agree or the Court may approve. Following the Effective Date, the Lender
25 Group shall retain its liens and security interests against the various real and personal property
26 comprising the Phase IV until the Class 4 Claim has been paid in full. Following the Effective Date,
27 the Debtor will make (i) monthly interest-only payments on the Class 4 Claim during each of the first
28 thirty-six (36) full months following the Effective Date, followed by (ii) equal monthly principal and
29 interest payments on the Class 4 Claim based upon a 30-year amortization and an interest rate of two
30 and three-quarters percent (2.75%) per annum through the Class 4 Maturity Date. The Plan also
31 provides for additional provisions related to the treatment of new tenant leases, and loan covenants.

32 **5. Class 5: Administrative Convenience Claims**

33 Class 5 consists of each Administrative Convenience Claim, which are defined in the
34 Plan as “All Allowed Claims (i) in the amount of \$600.00 or less, and (ii) in an amount greater than
35 \$600.00 of claimants electing to be treated as if holding an Allowed Claim in the amount of \$600.00”
36 (the “Class 5 Claims”). The Plan provides that each Class 5 Claim shall be allowed or disallowed in
37 such amount as to which the Debtor may agree or the Court may approve. Each holder of a Class 5
38 Claim will receive a Cash payment equal to the full amount of their Allowed Claim, on the later of (i)
39 ten (10) Business Days after the Effective Date, or (ii) three Business Days following the date upon

1 which the Debtor receives notice that such Claim has become an Allowed Claim. Holders of
2 Unsecured Claims in an amount greater than \$600 shall have the option to elect treatment under
3 Class 5 by agreeing to reduce the amount of such Unsecured Claim to \$600. The Plan also provides
4 for a procedure in the event of an over-election by creditors for treatment under Class 5.

5 **6. Class 6: Unsecured Claims Other Than Class 5 or Class 7 Claims**

6 Class 6 consists of all Unsecured Claims other than (i) Claims that qualify for or elect
7 treatment under Class 5, or (ii) that qualify as a Class 7 Claim (the "Class 6 Claims"). The Plan
8 provides that each Class 6 Claim shall be allowed or disallowed in such amount as to which the
9 Debtor may agree or the Court may approve. The Debtor shall pay each Class 6 Claim in full in
10 twenty-four (24) equal monthly payments, commencing in the first full month following the Effective
11 Date, with interest on the unpaid principal balance of each Class 6 Claim at the Federal Judgment
12 Rate.

13 **7. Class 7: Security Deposit Claims.**

14 Class 7 consists of the Security Deposit Claims. The Debtor shall pay each Holder of an
15 Security Deposit Claim in the ordinary course of business and in accordance with the terms of the
16 contract between the Debtor and such Holder.

17 **8. Class 8: Allowed Interests of the Equity Holders.**

18 Class 8 consists of the Allowed Membership Interests of the Equity Holders. The Equity
19 Holders shall retain their interests in the Debtor following Confirmation and shall retain and exercise
20 in their discretion all the privileges and benefits arising from such interests.

21 **ARTICLE V.**
22 **MEANS FOR IMPLEMENTATION; DISTRIBUTIONS;**
23 **RETENTION OF CLAIMS**

A. General Terms

The Means for Execution of the Plan are set forth in Article VII of the Plan. As detailed
therein, the Debtor shall pay all Allowed Claims in full over time from the income generated from the
operation of the Project. Holders of Allowed Claims in Classes 1, 2, 3 and 4 shall retain their liens
and security interests in property of the estate following the Effective Date until such Claims are paid
in full. Holders of Unsecured Claims in Classes 6 and 7 shall also be paid in full over time, while
holders of Unsecured Claims in Class 5 will be paid in full on the Effective Date.

B. Retention of Claims and Causes of Action

The Plan provides that, unless otherwise waived under the Plan, all rights, claims and causes
of action, whether equitable or legal, of the Debtors or the Reorganized Debtors against all persons are
reserved for the Reorganized Debtors, including without limitation all rights, claims and causes of

1 action of the Debtors or the Reorganized Debtors arising under §§ 544, 545, 547, 548, 549 and 550 of
2 the Bankruptcy Code, or under applicable non-bankruptcy law, for the recovery of avoidable
preferences, fraudulent transfers or other conveyances.

3 **C. Distributions Under the Plan**

4 **1. Sources of Funds for Distribution.** The distributions under the Plan shall be made
5 from amounts generated from operations of the Reorganized Debtor.

6 **2. Disbursing Agent.** The Debtor shall act as the Disbursing Agent.

7 **3. Disputed Claims.** Notwithstanding any provision of the Plan specifying the time for
8 payment of distributions to holders of Claims, no payment or distribution shall be made to the Holder
9 of any Disputed Claim until the time such Claim has been determined to be an Allowed Claim.
10 Notwithstanding the existence of a Disputed Claim in a Class to which a distribution under this Plan is
11 due, such distribution to other creditors shall not be affected by any delay in the resolution of the
Disputed Claim. Upon the allowance of any Disputed Claim, the holder shall be paid the amount that
such holder would have received had its Claim been an Allowed Claim on the Effective Date.

12 **4. Distributions by the Disbursing Agent.** The Disbursing Agent shall make all
13 distributions required to be distributed under this Plan.

14 **D. Rights of Action**

15 The Reorganized Debtor shall acquire all claims and causes of action of the Debtor and shall
16 also acquire all defenses, counterclaims and setoffs, whether equitable or legal, of the Debtor to claims
17 held or asserted to be held against the Debtor. Without limiting the foregoing, under the Plan, all
18 rights, claims and causes of action, whether equitable or legal, of the Debtor or the Reorganized
19 Debtor against all persons are reserved for the Reorganized Debtor, including without limitation all
20 rights, claims and causes of action of the Debtor or the Reorganized Debtor arising under §§ 544, 545,
21 547, 548, 549 and 550 of the Bankruptcy Code, or under applicable non-bankruptcy law, for the
22 recovery of avoidable preferences, fraudulent transfers or other conveyances.

23 **ARTICLE VI.
EXECUTORY CONTRACTS AND UNEXPIRED LEASES**

As detailed therein, the Plan constitutes a motion by the Debtor to assume as of the Effective
Date all executory contracts and unexpired leases identified in Exhibit B to the Plan that have not
previously been assumed or rejected.

**ARTICLE VII.
LIQUIDATION ANALYSIS**

The Bankruptcy Code requires that a creditor with a right to vote either accept the Plan, or that
such creditor receive under the Plan at least as much as it would receive if the Debtor's assets were

1 liquidated in and the proceeds distributed under a Chapter 7 liquidation. This is generally known as
2 the “best interests” test. To apply the test, the Debtor’s assets are valued at the dollar amount that
3 would be generated from their distressed liquidation in the context of a Chapter 7 case by a trustee
4 appointed by the Bankruptcy Court. The analysis for purposes of this case assumes that a trustee
5 would hold the property for a limited amount of time, not add any further tenants, and sell the Project
6 over a shorter marketing period than would be recommended to maximize on its value.

7 All creditors will receive full payment on their Claims from the cash flow generated from the
8 Debtor’s ongoing operation of the Project. In contrast, the Debtor believes that unsecured creditors
9 would receive nothing in a hypothetical Chapter 7. Although the Debtor enjoys equity in the Project,
10 the Plan is based upon the retention and ongoing operation of the Project. In a Chapter 7 liquidation,
11 two dynamics would operate against the interests of unsecured creditors and their chance for full
12 payment.

13 First, the Debtor believes that the Project in the hands of a Chapter 7 trustee would sell for a
14 price less than its appraised value, for at least two reasons. First, a Chapter 7 trustee would generally
15 have a more limited period of time in which to market and sell the Project. Less marketing time will
16 generally translate into a lower price for the property, especially given that this is a \$60 million retail
17 center and not (for example) a single-family residence. Second, the Project being marketed for sale by
18 a Chapter 7 trustee would be viewed by potential buyers as “distressed” property and, everything else
19 being equal, would yield a lesser return than if it was being sold by its owner outside of a bankruptcy
20 case. In fact, many secured lenders today are obtaining two values in their appraisals: an “as is” value
21 and a lower “disposition” value, the latter frequently being some 20%-25% lower than the former.
22 The Debtor believes that the combination of these factors would inevitably lead to a sale price for the
23 Project significantly lower than the appraised value. For purposes of this analysis, the Debtor assumes
the gross sales price would be the appraised value less fifteen percent (15%).

Second, a Chapter 7 trustee would incur various expenses in liquidating the Project that the
Debtor would not incur following Confirmation of its Plan. These expenses include but would not be
limited to (i) real estate commissions (assume 1%), (ii) excise taxes (1.78%), (iii) trustee’s
commission (assume 3%),² and (iv) attorney fees (assume \$50,000).

These assumptions yield the following outcome:

Gross sale proceeds (\$59,700,000 less 15%):	\$50,745,000
Less: Real estate commission:	\$507,450
Excise taxes:	903,261
Trustee’s commission:	\$1,522,350
Attorney fees:	<u>50,000</u>
	<u>\$2,983,061</u>
Net proceeds:	<u>\$47,761,939</u>

² A trustee’s commission under 11 U.S.C. § 326(a) would be a blended rate that would actually exceed 3% in the aggregate, but a 3% rate is used here for simplicity.

1 It is clear that unsecured creditors would receive nothing in a Chapter 7 liquidation. As of the
2 Petition Date, the outstanding principal balance of the Primary Loan was approximately \$54,780,000,
3 an amount that exceeds the net proceeds above by over \$7,000,000. Under the circumstances, a
4 Chapter 7 trustee would likely abandon the Project, its value and revenue-generating capacity would
be lost, and unsecured creditors would receive nothing. It is plain that the Plan represents a much
better alternative for unsecured creditors.

5 **ARTICLE VII.**
TAX CONSEQUENCES

6 **A. Tax Consequences for Debtor**

7 The Debtor is a Washington limited liability company taxed as a partnership for federal
8 income tax purposes. It is anticipated that the consummation of the Plan will not result in any federal
9 income tax liability on the part of the Debtor provided that its status as a tax partnership is maintained.
10 The Debtor is unable to offer an opinion as to whether partnership minimum gain will be triggered
under Treas. Reg. § 1.704-1(b)(2) and (d), whether partnership minimum gain chargeback would be
triggered under Treas. Reg. § 1.704-2, or any other effect under Subchapter K of the IRC.

11 The Plan may or may not create tax consequences to the Equity Holders in connection with the
12 inclusion in their allocable shares of partnership income, gain, loss, deduction, credit and other items
in their taxable income. The Debtor offers no opinion on these matters.

13 EACH AND EVERY EQUITY HOLDER IS STRONGLY URGED TO CONSULT A
14 PROFESSIONAL TAX ADVISOR REGARDING THE FEDERAL, STATE AND LOCAL TAX
CONSEQUENCES OF THE TRANSACTIONS DESCRIBED HEREIN AND IN THE PLAN.

15 **B. Tax Consequences to Creditors**

16 The Debtor expects that creditors will report any payments received under the Plan and any
amounts disbursed in accordance with their normal method of accounting.

17 **VIII.**
CONFIRMATION OF THE PLAN

18 **A. Voting Procedures**

19 A ballot to be used for voting your acceptance or rejection of the Plan of Reorganization is
20 being mailed to you together with this Disclosure Statement and Plan. Holders of claims should read
the instructions carefully, complete, date and sign the ballot, and transmit it in the envelope enclosed.
21 IN ORDER TO BE COUNTED, YOUR BALLOT MUST BE RECEIVED AT THE INDICATED
ADDRESS NOT LATER THAN _____, 2013. FAILURE TO VOTE OR A
22 VOTE TO REJECT THE PLAN WILL NOT AFFECT THE TREATMENT TO BE ACCORDED A
CLAIM OR INTEREST IF THE PLAN NEVERTHELESS IS CONFIRMED.

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

7 **B. Hearing on Confirmation**

8 The hearing on confirmation of the Plan has been set for _____, 2013
9 before the Honorable Brian D. Lynch, United States Bankruptcy Judge, in Courtroom I, United States
10 Bankruptcy Court, 1717 Pacific Avenue, Tacoma WA 98402-3233. The Bankruptcy Court shall
11 confirm the Plan at that hearing only if certain requirements, as set forth in § 1129 of the Bankruptcy
12 Code, are satisfied.

13 **C. Best Interests of Creditors**

14 In order to satisfy one of the requirements under § 1129, the Debtor must establish that with
15 respect to each Class 1 through Class 7, each holder of a Claim in that class has accepted the Plan or
16 will receive or retain under the Plan on account of such claim property of a value that is not less than
17 the amount that such holder would receive if the Debtor were to be liquidated under Chapter 7 of the
18 Bankruptcy Code. The Debtor believes that the Plan satisfies the requirements of the best interests of
19 creditors standard. Accordingly, the Debtor anticipates that the Court will find that the Plan satisfies
20 the best interests of creditors standard at the time of the hearing on Confirmation.

21 The Plan contemplates full payment to creditors, and thus, it satisfies the best interests of
22 creditors standard.

23 **D. Feasibility**

The Debtor must also establish that confirmation of the Plan is not likely to be followed by the
Debtor's liquidation, or the need for further financial reorganization. For purposes of determining
whether the Plan meets this requirement, the Debtor, along with its professionals, analyzed the future
prospects of the Debtor and its ability to meet its obligations under the Plan. The Debtor has analyzed
its ability to meet its obligations under the Plan and have prepared projections (the "Projections") for
the years 2013 through 2017. The Projections, and the significant assumptions upon which they are
based, are attached as Exhibit A to this Disclosure Statement. Based on the Projections, the Debtor
believes that Confirmation is not likely to be followed by the liquidation or further financial
reorganization of the Debtor. To the extent necessary, the Debtor will present additional evidence at
the hearing on Confirmation in support of such a finding.

**THE PROJECTIONS ARE BASED UPON A NUMBER OF SIGNIFICANT ASSUMPTIONS
INCLUDING, BUT NOT LIMITED TO, RECENT HISTORICAL OPERATING RESULTS
AND THE TERMS OF THE PLAN OF REORGANIZATION ON FILE AS OF THE DATE**

1 OF THIS DISCLOSURE STATEMENT. ACTUAL OPERATING RESULTS AND VALUES
2 MAY VARY SIGNIFICANTLY FROM THESE PROJECTIONS. THE PROJECTIONS
3 WERE NOT PREPARED WITH A VIEW TOWARD COMPLYING WITH THE
4 GUIDELINES FOR PROSPECTIVE FINANCIAL STATEMENTS PUBLISHED BY THE
5 AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS. NO INDEPENDENT
6 AUDITOR HAS COMPILED OR EXAMINED THE ACCOMPANYING PROSPECTIVE
7 FINANCIAL INFORMATION TO DETERMINE THE REASONABLENESS THEREOF
8 AND, ACCORDINGLY, HAS NOT EXPRESSED AN OPINION OR ANY OTHER FORM OF
9 ASSURANCE WITH RESPECT THERETO. THE PROJECTIONS MADE BY THE
10 DEBTOR CONSTITUTE A FORWARD-LOOKING STATEMENT AS DEFINED IN 15 USC
11 § 78u-5, AND ARE BASED UPON DATA AVAILABLE AS OF THE DATE OF THIS
12 DISCLOSURE STATEMENT TO THE DEBTOR. IMPORTANT FACTORS THAT COULD
13 CAUSE ACTUAL RESULTS TO DIFFER MATERIALLY FROM THOSE IN THE
14 PROJECTIONS INCLUDE, BUT ARE NOT LIMITED TO, THE ACCURACY OF THE
15 DATA THAT FORM THE BASIS FOR THE PROJECTIONS AND THE GENERAL
16 ECONOMIC CONDITIONS THAT MAY EXIST AT THAT TIME.

17 THE DEBTOR DOES NOT, AS A MATTER OF COURSE, PUBLISH PROJECTIONS OF
18 THEIR ANTICIPATED FINANCIAL POSITION, RESULTS OF OPERATIONS OR CASH
19 FLOWS. ACCORDINGLY, THE DEBTOR DOES NOT INTEND TO AND DISCLAIMS ANY
20 OBLIGATION TO (A) FURNISH UPDATED PROJECTIONS TO HOLDERS OF ALLOWED
21 CLAIMS OR EQUITY INTERESTS PRIOR TO THE EFFECTIVE DATE OR TO ANY
22 OTHER PARTY AFTER THE EFFECTIVE DATE OR (B) OTHERWISE MAKE SUCH
23 UPDATED INFORMATION PUBLICLY AVAILABLE.

E. Treatment of Dissenting Classes of Creditors

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

F. Effect of Confirmation

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

1 **G. Consequences of the Failure to Confirm the Plan**

2 In the event the Court declines to confirm the Plan, whether due to a failure of creditor support
3 or otherwise, the Court may approve a competing plan. Alternatively, a liquidation of the Debtor's
4 assets might ultimately result, either through a revised Plan under Chapter 11 or conversion
of this Chapter 11 case to a bankruptcy under Chapter 7 of the Bankruptcy Code with the increased
trustee fees and delays that will follow.

5 RESPECTFULLY SUBMITTED this 27th day of March.

6 MERIDIAN SUNRISE VILLAGE, LLC

7
8 By /s/ Martin Waiss
9 Martin Waiss, President, Investco Financial Corp.
Its Manager