

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

In re

YSC, INC.,

Debtor-in-Possession.

Case No. 13-17946

THIRD AMENDED DISCLOSURE
STATEMENT

YSC Inc., the Debtor, submits the following Third Amended Disclosure Statement pursuant to 11 U.S.C. § 1125:

1. THE PURPOSE

The purpose of this statement is to provide the holders of such claims and interest with adequate information respecting the Debtor and the Plan of Reorganization in order that they may make an informed judgment concerning the plan and vote their acceptance or rejection.

An acceptance or rejection of the plan may be voted by completing the ballot which accompanies the plan and mailing it to Wells and Jarvis, P.S., 502 Logan Building, 500 Union Street, Seattle, Washington 98101, in a postage-paid envelope. Ballots must be received by counsel for the Debtor by August 29, 2014. The Debtor intends to seek

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2 confirmation of a plan as soon as practically possible. A hearing has been set for the 5th day
3 of September, 2014 at 9:30 a.m., seeking confirmation of the plan.

4 In order for the plan to be accepted, the holder of two thirds (2/3) of the amount of the
5 claims voting, and more than one-half (1/2) of the number of claims in Classes Two through
6 Fourteen who vote, must have voted for acceptance of the plan. If sufficient acceptances are
7 not received, the Debtor may elect to request confirmation of the plan under § 1129(b) of the
8 Bankruptcy Code. Such a request could result in confirmation of the plan notwithstanding an
9 objection to the plan by any creditors. If required, the plan may be modified at the time of the
10 hearing on confirmation to permit approval under § 1129(b) of the Bankruptcy Code.

11 This disclosure statement is the only document authorized by the Debtor to be used in
12 connection with solicitation of acceptance of their plan. NO REPRESENTATION
13 CONCERNING THE DEBTOR (PARTICULARLY AS TO THE VALUE OF
14 PROPERTIES, CREDITOR CLAIMS, OR FUTURE LIQUIDATION EFFORTS) IS
15 AUTHORIZED BY THE DEBTOR OTHER THAN AS SET FORTH IN THIS
16 STATEMENT. ANY REPRESENTATION OR INDUCEMENT MADE TO SECURE
17 YOUR ACCEPTANCE, WHICH IS OTHER THAN CONTAINED HEREIN, SHOULD BE
18 REPORTED TO DEBTOR'S ATTORNEY, JEFFREY B. WELLS, AND SHOULD NOT
19 BE RELIED UPON BY YOU IN ARRIVING AT YOUR DECISION TO ACCEPT OR
20 REJECT THIS PLAN.
21

22 2. EVENTS PRECEDING THE CHAPTER 11 FILING

23 The Debtor is owned by Chan and Sang Yim, individuals with extensive experience in
24 the hospitality industry. Since moving to the United States in 1996, the Yims have worked as
25

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2 hotel managers and owners, beginning with small local hotels. The Debtor, YSC Inc., was
3 incorporated in 1998.

4 In June of 2006, the Yims and the Debtor purchased the Comfort Inn in Federal Way,
5 Washington, which the Debtor currently operates. The Yims bought the real estate
6 individually and the Debtor owns the hotel's personal property. For the next approximately
7 year and a half, the Comfort Inn performed well. The Yims therefore decided to expand and
8 buy the Ramada Inn in Olympia, Washington which Debtor also currently operates. As with
9 the Comfort Inn, the Yims own the Ramada Inn real estate personally and Debtor owns the
10 hotel's personal property. In March of 2008 the Yims obtained financing to purchase the
11 Ramada Inn from City Bank in exchange for a deed of trust on the Ramada Inn as well as a
12 third-position lien on the Comfort Inn and a junior lien on the Yims' residence.

13 Unfortunately, shortly thereafter the nationwide recession occurred and the
14 profitability of both hotels was negatively impacted. Subsequently, the City Bank loan was
15 transferred to Whidbey Island Bank as part of an FDIC receivership. While interest rates in
16 general fell significantly with the recession, neither City Bank, nor later Whidbey Island
17 Bank, reduced the interest rate of the Yims' loan, which fluctuated between 7.25% and the
18 current rate of 6.25%. However, Debtor managed to stay current on its monthly contractual
19 payments (with the exception of a few months in the summer of 2013 when Debtor made
20 interest-only payments). This Chapter 11 case was filed because Whidbey Island called the
21 note on its maturity date in March of 2013.
22

23 Fortunately, since the beginning of 2013 for the Comfort Inn and mid 2013 for the
24 Ramada Inn, Debtor has seen an improvement in overall receipts. Since the bankruptcy filing
25 it has continued making the ongoing contractual payments on each deed of trust as they come
26

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2 due. The Yims filed this Chapter 11 proceeding on behalf of YSC, Inc. with the intention of
3 selling one of the hotels to pay down secured debt while continuing to operate the other.

4 On July 1, 2014 Debtor sold the Comfort Inn and has based its plan around sale of that
5 property and continued operations of the Ramada Inn. The Yims have also filed a personal
6 bankruptcy and will file a congruent plan of reorganization in that case. Through these plans
7 Debtor and the Yims believe they can propose a feasible structure to repay creditors.

8 3. FINANCIAL INFORMATION

9 The principal tangible assets and liabilities of YSC, Inc. as they existed on May 31,
10 2014 are set forth in the balance sheet attached as **Exhibit A**. Income and expense statements
11 for 2013 for YSC, Inc., are set forth in **Exhibit B**, attached hereto. Both exhibits were
12 prepared by Danielle Kim, accountant for the Debtor. The amounts owed, and the monthly
13 payments to, secured creditors are as follows:

14	15	16	17	18
	Creditors	Collateral	Approximate Amount Owed	Monthly Payments
16	Class Four – Whidbey Island Bank (now Heritage Bank)	Ramada Inn 4520 Martin Way E Olympia, WA And Comfort Inn third deed of trust	\$11,339,559.39	\$69,819.6 2
19	Class Six – Thurston County	Personal Property Ramada Inn	\$2,537,07	
20	Class Seven – Great American Financial	Phone system for Ramada Inn	\$8,405.20	\$734.54
22	Class Eight – Persona	Sign for the Ramada Inn	\$18,424	
23	Class Nine – Marlin Bank	Dishwasher for Ramada Inn	\$6,493.42	\$120.23
24	Class Ten – Wyndham/Ramada Worldwide Inc.	Ramada Inn Franchise	\$92,633.90	10% of revenue

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2 Debtor will retain all assets during the administration of the plan of reorganization
3 except as set forth below. Debtor believes the valuation of assets and income and expense
4 statement, Exhibits A and B, provide a realistic and reliable projection of the value of the
5 assets and income and expenses throughout the plan repayment period.

6 Attached as **Exhibit C** are financial projections for May 2014 through April 2015
7 which can be extrapolated through the duration of the plan and demonstrate the feasibility of
8 Debtor's proposed payments. Debtor has in recent months experienced increased receipts of
9 approximately 15%. Out of a desire to provide conservative projections, however, the
10 attached projection is based upon a 10% increase in receipts from 2013. Attached as **Exhibit**
11 **D** is an amortization schedule demonstrating the proposed payments of Whidbey Island
12 Bank's loan. Attached as **Exhibit E** is a breakdown of distribution from the sale proceeds of
13 Debtor's Comfort Inn.

14 **4. DESCRIPTION OF PLAN**

15 The claims to be dealt with under the Plan are classified as follows:

16 A. Class One. Class One consists of those parties holding administrative costs
17 and expenses as defined by 11 U.S.C. 503(b). The members must have filed for this status
18 and their claim allowed by the Court. The known members of this class and the amount of
19 their claims are:

20 1. Wells and Jarvis, P.S. (attorneys for Debtor), estimated not to exceed
21 \$40,000 owing at the time of confirmation.

22 2. Danielle Kim, accountant for Debtor, estimated not to exceed \$10,000
23 owing at the time of confirmation.

24 3. Sam Lee, broker, who has agreed to waive his commission from the
25

1
2 closing of the Comfort Inn sale and therefore will receive no compensation.

3 4. Fees due the United States Trustee under 28 U.S.C. §1930(a)(6) of the
4 Bankruptcy Code, estimated to be \$6,500 owing at the time of confirmation (based on the
5 average quarterly fee to date).

6 B. Class Two. Wilshire Bank ("Wilshire") held the first position deed of trust on
7 the Comfort Inn located at 31622 Pacific Hwy S. Federal Way, Washington. The real estate
8 was owned by Debtor's principals, the Yims, but Debtor operated the hotel and owned the
9 personal property associated with the hotel. Wilshire also held a first-position security interest
10 in the Debtor's personal property. As set forth on Exhibit E, Wilshire Bank received
11 \$2,828,689.79 from the sale of the Comfort Inn, in full payment of its liens.
12

13 C. Class Three. The U.S. Small Business Administration ("SBA") held the second
14 deed of trust on the Comfort Inn located at 31622 Pacific Hwy S., Federal Way, WA. It also
15 had a security interest in the Comfort Inn personal property which was secured by a junior
16 UCC statement (through the Northwest Business Development Association). Class Three
17 received \$1,514,923.34 in full payment of its liens.
18

19 D. Class Four. Whidbey Island Bank, which is now known as Heritage Bank
20 through successor by merger (hereinafter "Heritage") held the third deed of trust on the
21 Comfort Inn property. It also filed a junior UCC statement against the personal property
22 (through the former lender, City Bank). It also holds the first deed of trust on the Ramada Inn
23 located at 4520 Martin Way E., Olympia, WA. Like the Comfort Inn, the Yims own the real
24 estate but the Debtor operates the Ramada Inn and owns the personal property therein.
25

26 Heritage also holds a deed of trust on the Yims' residence. Per Heritage's appraisal filed in
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1 this case, the Ramada Inn is valued at \$12,800,000 for the real estate and personal property.
2 The current contract interest is 6.25%, and the contract payment was approximately \$96,309.
3 Heritage received \$1,804,365.69 from the sale of the Comfort Inn property. It asserts that the
4 remaining balance owing as of July 15, 2014 is \$11,339,559.39.

6 E. Class Five. King County was owed personal property taxes in the approximate
7 amount of \$3,629.99 secured on the Comfort Inn personal property. These and the back-
8 owed real estate taxes were paid in full from the sale of the Comfort Inn property and
9 therefore no further amounts should be owing to King County.

11 F. Class Six. Per its proof of claim Thurston County is owed pre-petition personal
12 property taxes of \$2,537.07 secured on the Ramada Inn personal property.

13 G. Class Seven. Thurston County is owed real estate tax arrears for 2011, 2013
14 and the first-half of 2014 which total \$280,166.92. Thurston County's claim is secured as a
15 tax lien against the Yims' Ramada Inn real property, which accrues interest at 12%. YSC, Inc.
16 will make payments on this lien on behalf of the Yims since its repayment is necessary for
17 continued operations of the Ramada Inn business.

19 H. Class Eight. Great American Financial Services Corporation (previously Great
20 America Leasing) is secured on Debtor's phone system at the Ramada Inn. The total amount
21 owed as of the petition date was \$8,405.20 per the proof of claim filed. The monthly payment
22 is \$734.54. Payments are current. Per the proof of claim, the value of the phone system is
23 \$2,500, leaving \$5,905.20 of the claim unsecured.

25 I. Class Nine. Persona is a secured creditor on Debtor's sign for the Ramada Inn.
26 No proof of claim has been filed to date. The total amount owed is approximately \$18,424.00.

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1 Payments are current. Debtor estimates the value of the signage to be consistent with the
2 amount owed.

3
4 J. Class Ten. Marlin Business Bank is secured through a lease agreement on the
5 dishwasher at Debtor's Ramada Inn. Per its proof of claim, \$6,493.42 was owed as of the
6 petition date. According to the claim, the monthly payments are \$120.23.

7 K. Class Eleven. Wyndham/Ramada Worldwide Inc. is a secured creditor who
8 licenses the Ramada Inn name to Debtor. Monthly payments are 10% of gross revenue. The
9 Debtor is approximately \$92,633.90 in arrears according to the proof of claim filed.

10 L. Class Twelve. Choice Hotels International, Inc. is a secured creditor who
11 licenses the Comfort Inn name to Debtor. Monthly payments are 10% of gross revenue. The
12 Debtor was current on franchise fees at the time of closing and has paid the final fees due and
13 owing, therefore no further amounts are owed to Class Twelve.

14 M. Class Thirteen. US Foods, Inc. has filed a proof of claim seeking priority for
15 \$3,206.95 based on goods delivered to Debtor within 20 days prior to the filing date. \$102.71
16 is owed as a general, non-priority claim.

17
18 N. Class Fourteen. General unsecured creditors are owed \$506,560.52 based on
19 Debtor's schedules and proofs of claim filed to date. The schedule of unsecured creditors is
20 attached to the Plan. Debtor disputes one of the claims filed with the court, by AMB, and
21 therefore has not included that claimed amount in its Class Fourteen estimate.

22
23 O. Class Fifteen. Class Fifteen consists of the equity interests of Sang Kil Yim and
24 Chan Sook Yim.

25
26 **CLASSES NOT IMPAIRED BY THE PLAN**

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1 Class One is unimpaired by the plan and will be paid on the effective date of the plan
2 or through its pro-rata share with Class Twelve of the initial plan payments of \$2,000 per
3 month until the allowed claims are paid in full.
4

5 Classes Two, Three, Five, and Twelve have all been paid in full from the sale of the
6 Comfort Inn, therefore they will receive no further payments under Debtor's plan.

7 TREATMENT OF NON-IMPAIRED CLAIMS

8 All current fees due the United States Trustee under 28 U.S.C. §1930(a)(6) of the
9 Bankruptcy Code shall be paid on or before the effective date. The Reorganized Debtor shall
10 be responsible for timely payment of quarterly fees incurred pursuant to 38 U.S.C.
11 1930(a)(6). After confirmation, the Reorganized Debtor shall file with the United States
12 Trustee a monthly financial report for each month or portion thereof that the case remains
13 open. The monthly financial report shall include a statement of disbursements made during
14 the course of the month, whether or not pursuant to the Plan. The Reorganized Debtor shall
15 also file the Chapter 11 Post-Confirmation Report as required by Local Rule 2015-1(c).
16

17 TREATMENT OF IMPAIRED CLAIM

18 Debtor will continue to operate the Ramada Inn throughout the period of the plan, and
19 will fund the plan from the revenue therefrom until the Ramada Inn is sold or refinanced.
20

21 Debtor will pay the remaining balance owing to Class Four of \$11,339,559.39 on a 30
22 year amortization at 6.25% interest, which results in monthly payments of \$69,819.62, over 5
23 years from the operating revenue of the Ramada Inn. Payments will commence on the 10th of
24 the month following the plan's effective date and will continue on the 10th of each month
25 thereafter, with a balloon payment of the remaining amount due and owing at 60 months.
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1 Interest will accrue at a fixed rate of 6.25%. Class Four will be paid in full at (or anytime
2 before) the 60th month through either refinance or sale of the Ramada Inn.
3

4 In addition to the monthly payments as set forth above, Debtor will prepare a profit
5 and loss statement each year, using generally accepted accounting principles, from the
6 operation of the Ramada Inn and will pay over to Heritage net profits from operations as of
7 December 31st of each year, all amounts in excess of \$200,000. The payment of these
8 additional "balloon payments" shall be made by May 1 of the next following year. [i.e. profits
9 for 2014 will be paid to the Bank by May 1st 2015, etc.] Such payment will be applied to
10 reduce Heritage's principal loan balance.
11

12 Class Six. Ongoing personal property taxes for the Ramada Inn shall be paid as due.
13 The pre-petition balance owed to Class Six shall be paid in full through the monthly plan
14 payments of \$2,000 upon completion of payment to Classes One and Twelve.

15 Ongoing future real estate taxes owed to Class Seven shall be paid as they come due.
16 The tax lien shall be paid through monthly payments of \$7,500, which is estimated to result in
17 full repayment within five years of the petition date. Debtor may make additional payments if
18 extra cash flow is available in order to reduce this obligation faster.
19

20 Classes Eight, Nine and Ten shall continue to receive monthly payments pursuant to
21 contract as they come due. If the Ramada Inn is sold, any remaining balances owing to
22 Classes Eight, Nine and Ten shall be paid from the sale proceeds. If a refinance occurs,
23 Debtor shall continue making payment to Classes Eight, Nine, and Ten pursuant to contract
24 as applicable.
25

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1 Class Eleven. Debtor shall pay the ongoing franchise license fee to Class Eleven as it
2 becomes due each month pursuant to contract, and shall pay an additional \$10,000 by
3 September 1st of each year toward the past-due amount until Class Eleven is brought current.
4 Any remaining amount owing at the time of sale or refinance shall be paid from the sale or
5 refinance proceeds.
6

7
8 Class Thirteen's priority claim shall be paid in full through its pro-rata share of the
9 monthly plan payments of \$2,000, to be shared with Class One's allowed claims. The non-
10 priority portion of its claim shall be treated as a Class Fourteen claim.
11

12 Class Fourteen allowed claims shall receive full payment without interest. Class
13 Fourteen shall receive the monthly plan payment of \$2,000 following full payment to Classes
14 One, Six and Thirteen. The payments shall be distributed on a pro-rata basis amongst allowed
15 Class Fourteen claims. If the Ramada Inn is sold, the remaining balances owed to allowed
16 Class Fourteen claimholders shall be paid in full from the sale proceeds. If a refinance occurs,
17 the Debtor shall continue making monthly payments of \$2,000 until Class Fourteen is paid in
18 full.
19

20 Class Fifteen equity owners shall retain their interest in the Debtor. The Yims shall
21 not receive a distribution from the sale proceeds of the Comfort Inn. They would only receive
22 a distribution from the sale of the Ramada Inn after Classes One through Fourteen are paid as
23 set forth above.
24

25 **5. TREATMENT OF INTEREST**

1 The Debtor-in-Possession will retain its interest in all of its property, unless or until the
2 Ramada Inn is sold.
3

4 **6. TAX CONSEQUENCES**

5 The Debtor reports its income on a cash basis. Payments to creditors under the terms
6 of this plan, to the extent allowed by law, will be deducted from gross income and thereby
7 reduce Debtor's tax liability. Ongoing tax obligations shall be paid when due.
8

9 **7. PENDING LITIGATION AND CLAIMS**

10 The Debtor-in-Possession shall review all claims filed and all objections to the
11 allowance of such claims shall be filed within sixty (60) days after the effective date of the
12 Plan. Debtor anticipates objecting to the claim of AMB as it disputes that any amount is
13 owing. That claim is related to state court litigation which remains ongoing. Debtor has
14 tendered defense of the state court litigation to Heritage but the bank has not to date
15 responded to the offer. The Yims are seeking to personally retain their own attorney to defend
16 their interests as the owners of the real estate.
17

18 The court previously set a claims bar date of December 17, 2013, by which time all
19 claims had to be filed in order to be allowed.
20

21 **8. LIQUIDATION ANALYSIS**

22 If this case were to be converted to a Chapter 7 on the date of this disclosure
23 statement, it is anticipated no funds would be realized for unsecured creditors. The amount of
24 secured debt greatly exceeds the value of the Debtor's personal property. Further, while the
25 Ramada Inn real and personal property is valued at \$12.8 million, equity in the business as a
26 going concern would be lost when the Chapter 7 trustee presumably ceased operations of the
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1 hotel upon conversion. Further, presumably conversion to Chapter 7 would be a breach of the
2 franchise agreement and loss of the franchise name would cause a significant decrease in the
3 value of the hotel.
4

5 **9. MANAGEMENT**

6 The Debtors' Ramada Inn will continue to be managed by the Debtor through Sang
7 and Chan Yim, as well as their sons Danielle and Seung Yim, until sold.

8 **10. STATUS OF CASE**

9 This Chapter 11 Plan was filed by Debtor because the Debtor has sufficient income to
10 pay operating expenses and service secured debt as set forth herein.
11

12 RESPECTFULLY SUBMITTED this 28th day of July, 2014.

13 /s/ Sang Yim
14 Sang Yim, President
15 YSC, Inc.
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25