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HONORABLE KAREN A. OVERSTREET

UNITED STATES BANKRUPTCY COURT
WESTERN DISTRICT OF WASHINGTON

In re

J AND Y INVESTMENT LLC,

Debtor.

No. 13-10218

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

IMPORTANT: THIS DISCLOSURE STATEMENT CONTAINS INFORMATION RELATED TO THE DEBTOR'S PROPOSED PLAN OF REORGANIZATION. PLEASE READ THIS DOCUMENT WITH CARE. THE INFORMATION CONTAINED HEREIN IS SOLELY FOR PURPOSES OF SOLICITING ACCEPTANCE OF THE PLAN AND SHOULD NOT BE RELIED UPON FOR ANY OTHER PURPOSE.

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

TO ALL PARTIES IN INTEREST:

On January 10, 2013, J and Y Investment LLC ("Debtor") filed a petition for relief under Chapter 11 of the Bankruptcy Code. The Debtor is presently acting as a debtor-in-possession. The Debtor's reorganization case is pending before the above-captioned court ("Bankruptcy Court" or "Court").

1 This Disclosure Statement is submitted by the Debtor and contains information with respect to
2 Debtor’s proposed Plan of Reorganization (“Plan”). Pursuant to § 1125 of the Bankruptcy Code, this
3 Disclosure Statement is being distributed to you along with a copy of the proposed Plan to allow you
4 to make an informed decision in exercising your right to accept or reject the Proposed Plan. This
5 Disclosure Statement has been approved by order of the Court pursuant to § 1125 of the Bankruptcy
6 Code as containing information of a kind, and in sufficient detail, as far as is reasonably practicable
7 under the circumstances, that would enable a hypothetical reasonable investor to make an informed
8 judgment about the Plan. In the event of inconsistencies between the Plan and the Disclosure
9 Statement, however, the terms of the Plan shall control. The Court’s approval of this Disclosure
10 Statement does not constitute an endorsement by the Court of the proposed Plan.

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

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

**ARTICLE I.
DEFINITIONS**

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

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**ARTICLE II.
BACKGROUND INFORMATION**

A. Historical Background and Events Leading to Bankruptcy.

1. The Debtor and the Federal Way Office Building

The Debtor filed its petition for relief under Chapter 11 on January 10, 2013 (the "Petition Date"). The Debtor has retained control over its assets and continues to operate its business pursuant to §§ 1107 and 1108 of the Bankruptcy Code. The Debtor is a single-purpose Delaware limited liability company formed in 2004 to acquire and operate the real property and office building located at 2505 S. 320th Street, Federal Way, Washington (the "Property"). The Debtor's sole member and manager is East of Cascade, Inc.

The Property is a 2.825 acre site, on which there is a six-story, suburban office building built in 1987 and containing approximately 75,071 square feet of gross rentable commercial office space. The Property is well located, with immediate access to and visibility from I-5, and convenient drive times to the Seattle and Tacoma central business districts and Seattle Tacoma International Airport. In 2010, LNR Partners, Inc., the special servicing agent for the Lender, requested an appraisal of the Property. The resulting appraisal dated on or about September 3, 2010, estimated the value of the Property at between \$11,000,000, and \$11,200,000.

The Debtor generates income from leasing space in the Federal Way Office Building to commercial tenants. In 2007, the Federal Way Office Building was fully leased to high quality commercial tenants. However, due to the severe economic recession, the Debtor lost several significant tenants, including Northwest Prudential, West Sound Bank, which was closed in 2009 and for which the FDIC was appointed receiver, and L.M. Berry Co, which filed for bankruptcy on or about November 17, 2010. In 2012, the Debtor lost another significant tenant, MetLife, which closed its home loan division and vacated the space it occupied in the Federal Way office building. Recently the Debtor has added two new tenants, Landmark Professional and Lobel Financial. As of the Petition Date, the Federal Way Office Building was 71.8% occupied, with a total of approximately 19 tenants. One of the Debtor's tenants has renewed its lease and expanded its space, thus increasing the occupancy rate. The Debtor continues to employ Kidder Mathews as its leasing agent and negotiate with prospective tenants.

2. The Debtor's Secured Debt Structure

In connection with its acquisition of the Property, the Debtor assumed the underlying secured debt against the Property. Specifically, on November 12, 2004, the Debtor entered into an Assumption of Liability and Modification Agreement (the "Assumption Agreement") with Primestar Investment Corp. ("Primestar") and Wells Fargo Bank, N.A., as trustee for the registered holders of Banc of America Commercial Mortgage Inc. Commercial Mortgage Pass-Through Certificates, Series 2004-1. Pursuant to the Assumption Agreement, the Debtor assumed certain obligations of Primestar in connection with a loan from Bank of America, N.A. to Primestar made on or about October 1, 2003 (the "Loan"). The Loan is evidenced by a promissory note dated October 1, 2003 in the original principal sum of \$10,125,000 (as amended, the "Note"), and a Deed of Trust and Security Agreement

1 (“Deed of Trust”) of even date encumbering the Property. The beneficial interest in the Deed of Trust
2 was assigned to BACM 2004-1 320th Street South, LLC (“Lender”) by successive assignments, the
3 most recent of which was recorded on January 26, 2011 under Recording No. 20110126001613 in the
4 records of King County, Washington. The Loan is currently serviced by Bank of America, N.A. and
5 specially serviced by LNR Partners, LLC. Prepetition the principal balance of the loan was
6 substantially reduced.

3. Events Leading to Bankruptcy

7 Beginning in 2009, because of insufficient income generated by the Property, the Debtor was
8 unable to make the full amortizing monthly Loan payments to the Lender.

9 On August 22, 2011, the Lender issued a Notice of Default to the Debtor. Foreclosure
10 proceedings were commenced, and a trustee’s sale was scheduled for January 20, 2012. The trustee’s
11 sale was continued to May 18, 2012 while the Debtor and Lender attempted to negotiate a
12 restructuring of Debtor’s obligations to Lender. The Lender restarted the foreclosure process in May
13 2012, and continued the sale again until January 11, 2013. The parties were not able to reach
14 agreement, and this Chapter 11 was filed in order to allow the Debtor to continue its operations,
15 maximize the value of its assets for the estate and its creditors, including preservation of the equity in
16 the Property, and restructure its liabilities, including those owed to the Lender.

B. Events Since Bankruptcy Filing.

17 1. Employment of Debtor's Bankruptcy Counsel. On January 18, 2013, the Court entered
18 an interim Order authorizing the Debtor's employment of Bush Strout & Kornfeld LLP as its
19 bankruptcy counsel. On March 6, 2013, the Court entered the final Order authorizing the Debtor’s
20 employment of Bush Strout & Kornfeld LLP as its bankruptcy counsel.

21 2. Employment of Debtor's Lease Listing Agent. On March 5, 2013, the Court entered an
22 Order authorizing the Debtor's employment of Kidder Mathews as its exclusive listing agent for the
23 lease of commercial space at the Property.

3. Employment of Debtor's Valuation Consultant. On March 7, 2013, the Court entered
an Order authorizing the Debtor's employment of Kidder Mathews as its valuation consultant with
respect to the Property.

4. Claims Bar Date Established. On January 23, 2013, the Court entered an Order fixing
February 22, 2013 as the last day to file proofs of claim in this case.

5. Use of Cash Collateral and Adequate Protection. On January 22, 2013, the Court
entered an Order granting interim authority to the Debtor to use cash collateral and approving, on an
interim basis, adequate protection in favor of the Lender. On March 7, 2013, the Court entered an
order granting final approval of the use of cash collateral for up to a six-month period ending August
31, 2013, and granting final approval of adequate protection in favor of the Lender in the form of
monthly adequate protection payments beginning March 1, 2013, and a replacement lien

1 encumbering leases and subleases entered into following the Petition Date and the rents generated
2 therefrom.

3 4. Continued Use of Prepetition Bank Accounts. On January 18, 2013, the Court entered
4 an Order authorizing the Debtor to continue to use business bank accounts and checks that were in
5 existence before the Petition Date.

6 5. Adequate Assurance to Utilities Under Bankruptcy Code § 366. On January 18, 2013,
7 the Court entered an Order approving, on an interim basis, the Debtor's proposed adequate assurance
8 to utilities under Bankruptcy Code § 366 in the form of a deposit equal to the average two weeks' cost
9 of utility consumption for each provider. None of the utility providers submitted a written objection
10 by the February 14, 2013 deadline, and the Court's interim Order became final as to each utility
11 provider.

12 6. Pre-Petition Payroll and Related Expenses. On January 18, 2013, the Court entered an
13 Order authorizing the Debtor to pay certain pre-petition payroll obligations and related expenses and
14 taxes for the period December 31, 2012 through January 11, 2013.

15 7. Order Authorizing Debtor to Enter into Amended Lease Agreement. On March 20,
16 2013, the Court entered an Order authorizing the Debtor to enter into an amended lease agreement
17 with Wells Fargo Bank, N.A. The amended lease extends the existing lease term to November 30,
18 2016, and provides for the lease of an additional 1,000 square feet to Wells Fargo Bank, N.A. for an
19 additional \$1,667.67 per month, inclusive of operating expenses, with annual three percent increases.

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ARTICLE III.
ASSETS AND LIABILITIES OF DEBTOR

A. Assets.

The Schedules reflect that, as of the Petition Date, the Debtor had assets with a total value of \$13,053,686.60, comprised of the Property (\$11,433,800), accounts and notes receivable, and other nominal personal property.

B. Liabilities.

The scheduled value of claims against the Debtor totals approximately \$8,652,958.00.

1. Administrative Expense Claims.

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

Bush Strout & Kornfeld LLP, attorneys for Debtor (time period of application 1/10/13 – 4/15/13):

Fees: \$ _____

1 Costs: \$ _____
2 **Total:** \$ _____

3 Kidder Mathews, valuation consultant to Debtor (time period of application 1/10/13 – 4/15/13):

3 Fees: \$ _____
4 Costs: \$ _____
4 **Total:** \$ _____

5 Additional amounts have accrued in favor of each Professional Person since the dates indicated. All
6 amounts owed in favor of Professionals will be the subject of applications subject to notice and a
6 hearing in the Bankruptcy Court.

7 **2. Priority Tax Claims.**

8 On February 7, 2013, the Washington State Department of Revenue ("DOR") filed a Proof of
9 Claim in the total amount of \$23,032.00, asserting that of that amount, \$21,977.00 was owed on the
10 basis of sales and business tax owing for the tax period January 1, 2009 through December 31, 2011,
10 \$870.00 was owed for interest and penalties, plus an additional penalty of \$1,055.00. The Debtor
10 disputes this claim, as reflected on its Schedules. There are no other Priority Tax Claims.

11 **3. Secured Claims.**

12 On February 21, 2013, the Lender filed a Proof of Claim stating that its claim as follows:

13 Principal balance	\$8,421,097.24
14 Interest at non-default rate of 5.62 percent per annum from 7/1/11 through Petition Date	\$739,931.19
15 Additional interest at note default rate of 4.0 percent per annum from 10/1/10 through and including Petition Date	\$785,534.09
16 Prepayment premium	\$339,023.39
17 Late fees	\$45,290.88
18 Appraisal fees	\$8,400.00
18 Environmental fees	\$2,950.00
19 Inspection fee	\$445.00
19 Tax escrow advances	\$100,454.70
20 Title expenses and recording fees	\$14,809.37
21 Administrative fees	\$125.00
21 Attorneys' fees and costs through 1/10/13	\$33,233.85
22 Credit suspense funds	(\$12,397.33)
22 Credit escrow funds	(\$88,159.87)
23 Credit cash management account	(\$118,773.58)
23 TOTAL as of Petition Date	\$10,271,963.93

1 The Debtor will seek to obtain agreement with the Lender on the allowable amount of the
2 Lender's claim. In the absence of such an agreement, the Debtor will ask the Court to determine such
3 amount.

4 **4. General Unsecured Claims.**

5 As set forth in the Debtor's Schedule F, the Debtor's records indicate that there are general
6 unsecured claims against the Debtor totaling \$68,655.31.

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

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

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

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

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

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

B. Classification of Claims and Interests.

The Plan establishes 3 classes of claims and 1 class of interests. 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 summarized below.

1 **1. Unclassified Claims.**

2 **a. Administrative Expense Claims**

3 Administrative Expense Claims are Claims for costs or expenses of the Reorganization Case
4 that are allowed under sections 503(b) and 507(a)(2) of the Bankruptcy Code, including all actual and
5 necessary costs and expenses relating to the preservation of a debtor's estate or the liquidation of its
6 business, all allowances of compensation or reimbursement of expenses to the extent Allowed by the
7 Court, all Allowed Claims for reclamation pursuant to 546(c) of the Bankruptcy Code, and all
8 Allowed Claims for cure payments arising from the assumption of executory contracts pursuant to
9 Section 365(b)(1) of the Bankruptcy Code to the extent such cure payments have not already been
10 paid.

11 Administrative Expense Claims also consist of fees and expenses of Professional Persons, and
12 other ongoing expenses of operation. As of April 15, 2013, Bush Strout & Kornfeld has incurred
13 \$ [REDACTED] in fees and costs for its representation of the Debtor. As of April 15, 2013, Kidder
14 Mathews, as the Debtor's valuation consultant has incurred \$ [REDACTED] in fees and costs for
15 work performed for the Debtor. While additional amounts owing Professional Persons will
16 necessarily accrue prior to Confirmation, the ultimate amount is not subject to estimation at this time.

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

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

19 **b. Priority Tax Claims**

20 As described in more detail in the Plan, the Debtor shall pay the Allowed Claim of DOR in full
21 in equal monthly payments in an amount sufficient to pay the full amount of the DOR Allowed Claim
22 within the time period established under section 1129(a)(9)(C) of the Bankruptcy Code. Payments to
23 DOR shall commence on the later of the Effective Date or five (5) Business Days following the date
the DOR Claim becomes an Allowed Claim. If the DOR Claim does not become an Allowed Claim
on or before the Effective Date, then the Debtor shall, on and in each month following the Effective
Date, deposit into a segregated account cash equal to the monthly payment that would have been made

1 to the DOR on the Effective Date based upon an Allowed Claim of \$21,977.00 and the remaining
2 time for payment under Code § 1129(a)(9)(C).

3 **2. Classified Claims and Interests.**

4 All Claims (as defined in § 101(5) of the Bankruptcy Code) against the Debtor are classified as
5 set forth herein. A Claim is in a particular Class only to the extent it qualifies within the definition of
6 such Class and is in a different Class to the extent it qualifies within the definition of such different
7 Class.

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- 9 a. Class 1: Secured Claim of Lender
 - 10 b. Class 2: Administrative Convenience Claims
 - 11 c. Class 3: Allowed Unsecured Claims Other Than Class 2
 - 12 d. Class 4: Allowed Interests of Members

13 **C. Treatment of Classified Claims and Interests Under the Plan.**

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

20 **1. Class 1: Secured Claim of Lender.**

21 Class 1 is Impaired, and consists of the Secured Claim of the Lender. From and after the
22 Effective Date, the Class 1 Claim shall be paid as follows, with each monthly payment being made on
23 or before the 15th day of each month, commencing with the first full month after the Effective Date:
(i) twenty four (24) equal monthly interest only payments with interest accruing on the unpaid
principal balance at the rate of four and 75/100 percent (4.75%) per annum, followed by (ii) fifty-nine
(59) equal monthly payments of principal and interest based upon a thirty (30) year amortization, with
interest accruing on the unpaid principal balance at the rate of four and 75/100 percent (4.75%) per
annum, and (iii) a single final payment of all outstanding principal and interest in the 84th full month
following the Effective Date. Lender shall retain its security interests against the property of the
Estate to secure the Class 1 Claim, including the Property, and leases and rents associated with the
Property, except as modified by the Plan. The Debtor shall pay when due all real estate taxes related to
the Property, and shall maintain insurance in the amount and of the type currently in effect insuring
the Property and the Lender's interest therein. The Debtor shall not allow any liens to attach to the
Property other than the Lender's liens. The Debtor shall provide the Lender with a copy of its annual
federal tax return, and shall, on a quarterly basis, provide the Lender with a copy of its rent roll and an
operating report showing the Debtor's monthly income and expenses.

1 improve the cash flow from operations and will increase the value of the Property. The current and
2 projected cash flow of the Property supports the Plan payments.

3 The obligation to the secured Lender (Class 1 under the Plan) matures seven years after the
4 Effective Date of the Plan. In order to satisfy the Lender's claim in full, the Debtor will either
5 refinance the Property or sell the Property prior to that time.

6 **B. Retention of Claims and Causes of Action**

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

13 As set forth in the Debtor's Statement of Financial Affairs, pre-petition the Debtor made
14 certain transfers to third parties, including insiders of the Debtor. The Debtor lacks the resources to
15 pursue recovery of claims arising from such transfers, and, further, any recoveries would likely be
16 applied to the Claim of the Lender against the Estate. Further, the Lender has alleged that potential
17 conflicts of interest would prevent the Debtor from pursuing such recovery. Accordingly, Section
18 VII.G of the Plan provides that upon the Effective Date all rights, claims and causes of action of the
19 Debtor arising under §§ 547 and 548 of the Bankruptcy Code are reserved for and assigned to Lender,
20 and Lender, in its discretion, may administer, pursue, or abandon any or all such claims, except for
21 avoidance claims against unaffiliated third party suppliers and vendors, which claims are released by
22 the Plan.

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

A. Assumption of Executory Contracts and Unexpired Leases.

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

B. Rejection of Executory Contracts and Unexpired Leases.

The Plan constitutes a motion by the Debtor to reject all other executory contracts and
unexpired leases of the Debtor, not heretofore assumed or rejected, as of the Effective Date, except

1 (1) those executory contracts and unexpired leases previously assumed, and (2) those executory
2 contracts and unexpired leases set forth in Exhibit B to this Disclosure Statement. Any claim arising
3 from the rejection of an executory contract or unexpired lease is a Class 6 claim to the extent it is an
4 Allowed Claim. Any entity holding a claim based upon the rejection of an executory contract or
5 unexpired lease pursuant to Section VI of the Plan must file a Proof of Claim with the Bankruptcy
6 Court within thirty (30) days after the Effective Date. The failure of any such entity to file a Proof of
7 Claim within the specified time period will result in the disallowance of such claim.

8 **ARTICLE VII.**

9 **LIQUIDATION ANALYSIS**

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

20 The Plan provides for full payment to all creditors. Thus, all creditors will receive as much or
21 more than they would in a Chapter 7 liquidation. The Lender asserts that the Property is worth \$8.8
22 million today, based on an appraisal the Lender procured dated February 1, 2013. In a hypothetical
23 Chapter 7, if the Property is worth \$8.8 million, it would be insufficient to pay even the secured
Lender's claim in full if sold. Thus, other creditors would receive no payment of their claims, based
on the Lender's view of the value of the Property. The Debtor believes the Property is worth more
than \$8.8 million. The Debtor has engaged Kidder Mathews as its valuation expert, which is in the
process of completing an appraisal review regarding the Property. The Debtor will provide the Lender
and any party requesting a copy of the appraisal review at or before the time the Plan is mailed out to
creditors. However, the Debtor's Plan proposes payment in full of all claims, thus the "best interests"
test is satisfied.

24 **ARTICLE VIII.**

25 **TAX CONSEQUENCES**

26 **A. Introduction**

27 Implementation of the Plan may result in federal, state and local tax consequences to the
28 Debtor, to its members, and to its creditors. Neither rulings from the Internal Revenue Service (the
29 "IRS") or any state or local taxing authority, nor tax opinions will be sought or obtained with respect
30 to any consequences of the Plan. This Disclosure Statement Article is not a tax opinion; the
31 description of potential tax consequences contained herein is provided solely for general informational

1 purposes, no attempt has been made to identify the specific tax consequences to any specific party,
2 and the information in this Article cannot be relied upon for tax reporting or penalty avoidance
3 purposes.

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

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

11 The Debtor is a Delaware limited liability company that is a disregarded entity for federal
12 income tax purposes. As such, it is a conduit rather than a separate tax-paying entity for federal
13 income tax purposes, and should incur no separate liability for such tax on any of the transactions
14 contemplated by the Plan.

15 The Plan provides that the Debtor will either refinance or sell the Property in order to satisfy
16 the secured Lender. Thus, since a sale is contemplated by the Plan, pursuant to WAC 458-61A-207,
17 the Debtor will be exempt from the imposition of real estate excise taxes that would otherwise be
18 payable under RCW 82.45.060 and/or other applicable law as to any sale of the Property at any time
19 following Confirmation.

20 As discussed below, the member includes its share of income items in its gross income and,
21 subject to various limitations, may deduct its share of losses.

22 **B. Tax consequences to Member of the Debtor**

23 The Member must include its partnership income items and gains in its gross income. These items
are subject to any mandatory special allocations under the Agreement and to various requirements of
the Internal Revenue Code (the "IRC").

With the exception of any gain from sale of all or a portion of the Property, the income items
discussed in this Article VII will probably be taxed as ordinary income for federal net income tax
purposes with respect to the Member. Some or all of any gain on a sale of the Property will probably
be characterized as long-term capital gain. Some income will be recaptured at ordinary income rates
and some or all of any gain on the sale of the Property will be taxed at capital gain rates.

C. Tax Consequences to Creditors

Creditors will report any payments received under the Plan and any amounts disbursed in
accordance with their normal method of accounting, and the Debtor is not in a position to otherwise
identify tax consequences of the Plan to creditors.

ARTICLE IX.

1 **RISK FACTORS**

2 Distributions to creditors contemplated under the Plan are contingent upon many assumptions,
3 some or all of which could fail to materialize and preclude the Plan from becoming effective or reduce
4 anticipated distributions. Most important, however, is that the Plan is subject to approval by the
5 various classes of creditors entitled to vote under the Bankruptcy Code and to confirmation of the Plan
6 by the Bankruptcy Court. No assurance can be given that the Plan will be accepted by the requisite
7 number and amount of creditors or confirmed by the Court. In that event, due to the costs and
8 uncertainties inherent in a modified Plan of Reorganization or a conversion and liquidation under
9 Chapter 7, all creditors of the estate face substantial risk that their recovery under such alternative
10 circumstances may be substantially less favorable than their recovery provided for by the Plan.

7 **ARTICLE X.**
8 **CONFIRMATION OF THE PLAN**

9 **A. Voting Procedures.**

10 A ballot to be used for voting your acceptance or rejection of the Debtor's Plan of
11 Reorganization is being mailed to you together with this Disclosure Statement and Plan. Holders of
12 claims should read the instructions carefully, complete, date and sign the ballot, and transmit it in the
13 envelope enclosed. IN ORDER TO BE COUNTED, YOUR BALLOT MUST BE RECEIVED AT
14 THE INDICATED ADDRESS NOT LATER THAN 5:00 P.M. ON _____, 2013. FAILURE
15 TO VOTE OR A VOTE TO REJECT THE PLAN WILL NOT AFFECT THE TREATMENT TO BE
16 ACCORDED A CLAIM OR INTEREST IF THE PLAN NEVERTHELESS IS CONFIRMED.

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

17 **B. Hearing on Confirmation**

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

21 **C. Feasibility**

22 The Debtor must also establish that confirmation of the Plan is not likely to be followed by the
23 Reorganized Debtor's liquidation, or the need for further financial reorganization. To the extent
24 necessary, the Debtor will present testimony with respect to feasibility at the hearing on confirmation
25 of the Plan. The Debtor believes that the Plan is feasible and that the Bankruptcy Court will so find,

1 but a Bankruptcy Court finding of feasibility does not guarantee that the Debtor will successfully
2 complete or pay all its obligations under the Plan.

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

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

9 **E. Effect of Confirmation**

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

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

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

RESPECTFULLY SUBMITTED this 26th day of March, 2013.

J AND Y INVESTMENT LLC
Debtor-In-Possession

By: EAST OF CASCADES, INC.
Its Manager

Yong C. Kang
Its President

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EXHIBIT A

[TO BE FILED]

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EXHIBIT B

[TO BE FILED]