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Judge Timothy W. Dore
Chapter 11

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9 UNITED STATES BANKRUPTCY COURT
10 WESTERN DISTRICT OF WASHINGTON, SEATTLE DIVISION

11 In re:

No. 16-12848-TWD

12 WASHINGTON FIRST FINANCIAL
13 GROUP, INC.,

DEBTOR'S DISCLOSURE STATEMENT

14
15 Debtor.

16 **IMPORTANT: THIS DISCLOSURE STATEMENT CONTAINS INFORMATION WHICH MAY**
17 **BEAR UPON YOUR DECISION TO ACCEPT OR REJECT THE DEBTOR'S PROPOSED PLAN**
18 **OF LIQUIDATION. PLEASE READ THIS DOCUMENT WITH CARE. THIS DOCUMENT**
19 **SUMMARIZES THE TERMS OF THE DEBTOR'S PROPOSED PLAN. THE DEBTOR WILL**
20 **SEEK TO CONTINUE TO NEGOTIATE PAYMENT TERMS WITH ITS CREDITORS, AND THE**
21 **SPECIFIC TREATMENT OF CLAIMS MAY CHANGE AS A RESULT, BUT THE DEBTOR**
22 **BELIEVES THAT THE PAYMENT TERMS WHICH THE DEBTOR WILL ASK THE COURT TO**
23 **APPROVE WILL NOT BE LESS FAVORABLE THAN THOSE DESCRIBED HEREIN.**

24 **I. INTRODUCTION**

25 Washington First Financial Group, Inc., who may be referred to as "Debtor" or "WFFG,"
26 submits this Disclosure Statement in support of Debtor's Plan of Liquidation.

This Disclosure Statement ("Disclosure Statement") contains information with respect to
the Debtor and the Debtor's proposed Plan of Liquidation (the "Plan"). Pursuant to Section 1125

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1 of the Bankruptcy Code ("Bankruptcy Code" or "Code"), this Disclosure Statement is being
2 distributed to you by the Debtor along with a copy of the Plan to allow you to make an informed
3 decision in exercising your right to accept or reject the Plan. The Debtor seeks to provide you, in
4 this Disclosure Statement, information of a kind, and in sufficient detail, as far as is reasonably
5 practicable under the circumstances, that would enable a hypothetical reasonable investor to
6 make an informed judgment about the Plan. In the event of inconsistencies between the Plan
7 and this Disclosure Statement, however, the terms of the Plan shall control.

8
9 The only representations that are authorized or which may be made concerning the
10 Debtor, the value of assets, or the Plan, are contained in this Disclosure Statement. The financial
11 information contained herein has not been subjected to an audit by an independent certified public
12 accountant. For that reason, the Debtor is unable to, and therefore does not, warrant or represent
13 that the information contained in this Disclosure Statement is without inaccuracy. However, great
14 effort has been made to ensure that all such information is fairly and accurately represented.

15 The Debtor urges you to accept its proposed Plan of Liquidation and, in the event you are
16 entitled to vote, to return your completed Ballot promptly so that your vote will be counted.

17 II. DEFINITIONS

18 Terms used in this Disclosure Statement not specifically defined herein or in the
19 Bankruptcy Code shall be defined as set forth in the Plan, which accompanies this Disclosure
20 Statement as Exhibit 1. In particular, capitalized terms shall have the meanings prescribed for
21 such terms in Article 1 of the Plan or as specifically defined in this Disclosure Statement if not
22 defined in the Plan.
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III. EXHIBITS AND PROCEDURE

Accompanying this Disclosure Statement are copies of:

1. Debtor's Plan of Liquidation, annexed as Exhibit 1.
2. Ballot for acceptance or rejection of the Plan, annexed as Exhibit 2.
3. Debtor's Schedules A and B listing all assets of the Debtor as of the Petition Date, annexed as Exhibit 3.
4. Debtor's Schedules D, E and F listing all liabilities of the Debtor as of the Petition Date, annexed as Exhibit 4.
5. Liquidation Analysis, annexed as Exhibit 5.
6. FDIC Settlement Agreement dated effective April 29, 2016, annexed as Exhibit 6.
7. Certificates of Merger dated effective May 6, 2016, annexed as Exhibit 7.
8. Proposed Liquidating Trust Agreement (to become effective upon Plan confirmation), annexed as Exhibit 8.

Other financial information is available from Debtor's counsel upon request.

After carefully reviewing this Disclosure Statement and its exhibits including the Plan and all attachments thereto, please indicate your vote on the enclosed Ballot and return it in the envelope provided and a copy via email to smoot@oles.com. If you have a claim in more than one Class, you will receive a separate Ballot for each claim (see "Voting Instructions"). Please vote every Ballot you receive. Completed original Ballots for holders of all claims should be mailed and copies emailed **so they are received no later than September 16, 2016**, to:

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Attn: Jeffrey L. Smoot
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Seattle, WA 98101
smoot@oles.com

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1 The Debtor has approved the Plan. The Debtor believes that acceptance of the Plan is in
2 the best interests of all creditors and recommends that you vote to accept the Plan.

3 In the event that any Class rejects the Plan, the Debtor will consider seeking confirmation
4 of the Plan under the “cram-down” provisions of Section 1129(b) of the Bankruptcy Code.

5 Voting procedures are set forth in Section XVI of this Disclosure Statement. Please refer
6 to that section of this Disclosure Statement and vote your Ballot in accordance with those
7 instructions.

8 The description of the Plan in this overview is a brief summary only. Creditors and other
9 parties in interest are urged to review the Plan itself, including all attachments thereto, which is
10 included and attached as Exhibit 1 to this Disclosure Statement, for a full understanding of the
11 provisions of the Plan.
12

13 **IV. DEBTOR’S CHAPTER 11 CASE**

14 The Debtor filed this Chapter 11 case on May 26, 2016 (“Petition Date”). The Debtor is a
15 corporation managing its affairs as a debtor-in-possession pursuant to Sections 1107 and 1108
16 of the Bankruptcy Code.

17 **V. OVERVIEW OF THE PLAN**

18 The description of the Plan in this overview is a brief summary only. Creditors and other
19 parties in interest are urged to review the Plan itself, which is included and attached as Exhibit 1
20 to this Disclosure Statement, for a full understanding of the provisions of the Plan.

21 In general, the Debtor’s Plan proposes to liquidate all assets of the Debtor, including
22 assets of WF Capital and the LLC Subsidiaries that were merged with the Debtor effective May
23 6, 2016, and distribute the net sale proceeds to holders of Allowed Claims as Beneficiaries under
24 a Liquidating Trust. Holders of Allowed Secured Claims shall retain their interests in collateral up
25 to the value of the collateral as determined by the Bankruptcy Court, and receive payment of their
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1 Allowed Secured Claims from the net proceeds of the sale of the collateral, until such claims are
2 satisfied or resolved pursuant to the Bankruptcy Code. A Liquidating Trust will be created for the
3 benefit of all secured and unsecured creditors (the "Beneficiaries") that is funded by the assets of
4 the Debtor, including assets gained through the collapse of the Debtor and WF Capital's corporate
5 structure in the Merger described in the FDIC Settlement Agreement (Exhibit 5 to this Disclosure
6 Statement), less amounts necessary to fund administration of the Chapter 11 Estate, including
7 but not limited to payment of administrative expense and priority claims as allowed by the
8 Bankruptcy Court. The procedure for and timing of distributions to holders of Allowed Unsecured
9 Claims is set forth in the Liquidating Trust Agreement annexed to this Disclosure Statement as
10 Exhibit 6.
11

12 Allowed Administrative Expense and Priority Claims, including attorney fees and
13 reimbursement of expenses, will be paid from the Liquidating Trust prior to payments to holders
14 of Allowed Claims.

15 The value of the property to be distributed under the Plan to creditors shall not be less
16 than the Net Proceeds from the liquidation of the Debtor's assets. Please refer to the Plan for
17 specific treatment of each class of creditor claims, and to the Liquidating Trust Agreement for
18 details regarding the liquidation of the Debtor's assets and the procedure for and timing of
19 distribution to creditors.
20

21 VI. HISTORY OF THE DEBTOR, ASSETS AND LIABILITIES, AND 22 EVENTS LEADING TO BANKRUPTCY

23 A. **Background.** WFFG is a Washington-based financial holding company that f
24 ormerly provided financial services through its commercial bank subsidiary, Washington First Int
25 ernational Bank ("WFIB"). WFIB was closed on June 11, 2010 by the Washington Department o
26 f Financial Institutions ("DFI"), which appointed the FDIC as receiver. As of July 1, 2015, WFFG'

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1 s only remaining subsidiary was WF Capital, Inc. ("WF Capital"), which owned three LLC Subsid
2 iaries holding real estate assets: Sapphire RE Property Holdings, LLC; Sapphire RE Property Ho
3 ldings 3, LLC; and Del Oro Properties LLC.

4
5 Between 2008 and 2009, WFFG issued a total of 203 unsecured promissory notes
6 (variable rate) to investors, which were guaranteed by the FDIC (the "FDIC Guarantee") pursuant
7 to the FDIC's Temporary Liquidity Guaranty Program (the "Program"). All but 53 of the notes
8 issued by WFFG under the Program were paid in full by WFFG. Following the closure of WFIB,
9 WFFG was unable to continue making any payments under the remaining notes (the "Guaranteed
10 Notes"), defaulted in its payments of principal and interest due to the noteholders, and the FDIC
11 was forced to repay the balance of the Guaranteed Notes to the noteholders pursuant to the FDIC
12 Guarantee. The FDIC made claims against WFFG for reimbursement of all its payments made
13 pursuant to the FDIC Guarantee, as provided under the Program. The total principal amount due
14 and owing to the FDIC with respect to such payments as of July 1, 2015 is \$34,262,045. Certain
15 of the directors and officers (the "D&Os") of WFFG entered into a settlement agreement with the
16 FDIC and paid a total of \$450,000 from their personal funds to the FDIC. These individuals have
17 claims against WFFG, WF Capital and the LLC Subsidiaries for indemnification of such amounts
18 pursuant to the Articles of Incorporation of WFFG and WF Capital and the provisions of the
19 Washington Business Corporations Act, Ch. 23B of the Revised Code of Washington (the
20 "Indemnification Claims").

21 22 **FDIC Settlement**

23 On April 29, 2016, WFFG, WF Capital, the LLC Subsidiaries and the D&Os entered into a
24 Settlement Agreement with the FDIC, which provided, in summary, that WF Capital and the LLC
25 Subsidiaries and all of their assets, claims, rights and obligations would be merged into WFFC
26 (the "Merger"), following which WFFC would file a voluntary petition under Chapter 11 of the

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1 Bankruptcy Code with a proposed Plan of Liquidation and Liquidating Trust Agreement, seek
2 confirmation of the Plan and approval of the Liquidating Trust Agreement, and seek approval of
3 the FDIC Settlement Agreement. The Settlement Agreement further provides that the D&Os will
4 release and not file indemnity or other claims against the Estate seeking to recover payments or
5 other personal contributions made to the FDIC, and will not participate in any unsecured creditors'
6 committee or equity security holders' committee, in exchange for all of the D&Os being released
7 by the FDIC except only in the event of any individual's criminal conduct.

8 The specific terms of the Debtor's settlement with the FDIC are set forth in the FDIC
9 Settlement Agreement annexed to this Disclosure Statement as Exhibit 6.

10 The LLC subsidiaries were merged into the Debtor effective May 6, 2016. Copies of the
11 Certificates and Articles of Merger are annexed to this Disclosure Statement as Exhibit 7.

12 **Debtor Files Chapter 11**

13 Pursuant to the terms of the FDIC Settlement Agreement, the Debtor filed a voluntary
14 petition for relief under Chapter 11 of the Bankruptcy Code on May 26, 2016, and soon after filed
15 this Disclosure Statement and the proposed Plan incorporating the terms of the FDIC Settlement
16 Agreement and Liquidating Trust Agreement.

17 **B. Events Since Bankruptcy Filings**

18 Following are material matters that have taken place since the Petition Date:

19 1. The Debtor filed its Disclosure Statement (Dkt. #14) and proposed Plan (Dkt. #13)
20 on July 6, 2016.

21 2. The Debtor filed a motion to approve this Disclosure Statement, approve notice
22 and objection procedures respecting Plan confirmation, approve the solicitation package and
23 procedure for distribution thereof, approving the form of ballots, and establishing procedures for
24 voting on the Plan on July 6, 2016 (Dkt. #15). A hearing on the motion to approve this Disclosure
25 Statement was held on July 6, 2016.
26

1 Statement has been scheduled for August 5, 2016 at 9:30 a.m. before Judge Timothy W. Dore,
2 in Room 8106, United States Courthouse, 700 Stewart Street, Seattle, WA 98101.

3 3. The Debtor filed an ex parte motion to set the deadline to file claims (Dkt. # 9).

4 4. The Debtor has submitted or will submit applications to approve employment of
5 counsel, special counsel, and accountants for the Debtor to the United States Trustee's Office.
6 Assuming no objection by the US Trustee, the applications will be filed on an *ex parte* basis after
7 seven days, consistent with Local Rule of Bankruptcy Procedure 2014-1(b).
8

9 **C. Assets.** The Debtor owned as of the Petition Date the assets listed in Schedules
10 A and B filed with the Bankruptcy Court, copies of which are annexed to this Disclosure Statement
11 as Exhibit 3.

12 In summary, the Debtor listed \$1,950,000.00 in real property, \$5,434,000 interests in real
13 property (subject to \$1,004,499 in secured claims) and \$3,700,000 in loans and a late-comers fee
14 owed to the Debtor (subject to \$0.00 in secured claims). The Debtor's assets include the assets
15 of WF Capital and the LLC Subsidiaries following the Merger of those entities and assets with the
16 Debtor prior to the Petition Date.

17 **D. Liabilities**

18 The Debtor's liabilities are set forth in Schedules D, E and F filed with the Bankruptcy
19 Court, copies of which are annexed to this Disclosure Statement as Exhibit 4. In summary, the
20 Debtor listed \$1,004,499.00 in secured claims and \$35,173,735.00 in general unsecured claims
21 including the FDIC.
22

23 **E. Anticipated Professional Fees and Expenses.** It is difficult to estimate the total
24 of professional fees and expenses that may be incurred in the Chapter 11 Case because it is
25 unknown whether there will be contested motions, claim objections, or objections to this
26 Disclosure Statement and/or confirmation of the Plan. It is anticipated that at least \$25,000 in

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1 fees and expenses will be incurred in the administration of the Debtor's Chapter 11 Case. Allowed
2 professional fees and expenses, including those of Debtor's counsel and the Liquidation Trustee,
3 will be paid as administrative expense claims from the Estate prior to distribution to unsecured
4 creditors.

5 **F. Avoidable Transfers.** The Debtor will investigate possible recoverable
6 preferential and fraudulent transfers under Sections 547 and 548 of the Bankruptcy Code, and
7 pursue recovery of any recoverable preferential and fraudulent transfers on behalf of the Estate.
8

9 **VII. HISTORICAL AND PROJECTED INCOME**

10 Since WFIB was closed on June 11, 2010, the Debtor's income has consisted of interest
11 payments, loan settlement proceeds, rental income from the LLC Subsidiaries, and sale proceeds
12 of real property by the LLC Subsidiaries.

13 During 2014, the Debtor, WF Capital and the LLC Subsidiaries had \$372,923 in gross
14 income, of which \$36,866 was rental income from the LLC Subsidiaries; \$5,750 was interest
15 income of WF Capital; and \$330,307 was loan settlement payments received by WFFG.

16 During 2015, the Debtor, WF Capital and the LLC Subsidiaries had \$816,876 in gross
17 income, of which \$789,810 was gross sale proceeds of two parcels of real property owned by one
18 of the LLC Subsidiaries, and \$27,066 was rental income from the LLC Subsidiaries.

19 During 2016, the Debtor, WF Capital and the LLC Subsidiaries had \$56,000 in gross
20 income, of which \$50,000 was received for release of a lien securing a loan owed to WF Capital,
21 and \$6,000 was rental income from the LLC Subsidiaries.

22 The Debtor projects that it would, absent the Merger and proposed Plan of Liquidation,
23 continue to earn rental income of approximately \$27,000 per year from the LLC Subsidiaries,
24 recover some interest or loan settlement payments, and possibly receive income from the sale of
25 additional real properties owned by the LLC Subsidiaries.
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VIII. PENDING LITIGATION

The Debtor is not involved in any pending litigation.

IX. CLASSIFICATION OF CLAIMS

9.1. Generally. Pursuant to Section 1122 of the Bankruptcy Code, set forth below is a designation of classes of Claims. A Claim is classified in a particular class only to the extent that the Claim qualifies within the description of the class and is classified in a different class to the extent the Claim qualifies within the description of that different class.

9.2. Unclassified Claims. In accordance with Section 1123(a)(1) of the Bankruptcy Code, Administrative Claims and Priority Tax Claims are not classified and are excluded from the below-listed Classes. Treatment of Unclassified Claims is provided in Article II of the Plan.

9.2.1. Administrative Claims. The only known Administrative Claims are those of the attorneys and other professionals of the Debtor, including the Liquidation Trustee, whose employment was or will be approved by the Court in this Chapter 11 Case. Approved compensation and reimbursement to attorneys and other professionals will be paid first from pre-petition retainers held in trust, then from the Liquidating Trust prior to distribution to unsecured creditors.

9.2.2. Priority Tax Claims. None known.

9.3. Classes.

The following is a designation of Classes of Claims:

Class 1. Class 1 consists of creditors 2nd Street LLC, Michael Ching Kit and Margaret Kit Man Kwan, and Mei Hwa Ting, holders promissory notes secured by percentage interests in the Net Loan Proceeds of three loans owed to the Debtor described more fully in Article 10.1.1(a), below. This Class is impaired.

1 Class 2. Class 2 consists of Allowed Claims of General Unsecured Creditors of the
2 Debtor, including the FDIC and the amounts, if any, by which any Allowed Claims of the creditors
3 included in Class 1 exceed the value of their respective Collateral, as approved by the Court
4 pursuant to Section 10.1.1(b). This Class is impaired.

5 Class 3. Class 3 consists of holders of Equity Interests of the Debtor. This Class is
6 impaired.

7 Class 4. Class 4 consists of the Indemnity Claims of the D&Os. This Class is impaired.
8

9 **X. TREATMENT OF CLAIMS UNDER THE PLAN**

10 10.1. **Classified Claims.**

11 Claims, other than Unclassified Claims, shall be treated in the manner set forth in this
12 Article 10.1. Except as specifically provided elsewhere in the Plan, the treatment of, and the
13 consideration to be received by, holders of Allowed Claims pursuant to the Plan shall be in full
14 satisfaction, settlement, release, extinguishment and discharge of the respective Allowed Claims.

15 10.1.1. Class 1. The Class 1 Secured Claims of 2nd Street LLC, Michael Ching Kit and
16 Margaret Kit Man Kwan, and Mei Hwa Ting, will be paid from the proceeds of the Collateral
17 securing their promissory notes, as follows:

18 (a) The Claim of 2nd Street LLC is secured by twenty-eight percent (28%) of the Net
19 Loan Proceeds of the Wasco #01, Wasco #03 and Bingo #1 loans (the "Wasco/Bingo Loans").
20 The Claim of Michael Ching Kit and Margaret Kit Man Kwan is secured by twelve percent (12%)
21 of the Net Loan Proceeds of the Wasco/Bingo Loans. The Claim of Mei Hwa Ting is secured by
22 ten percent (10%) of the Net Loan Proceeds of the Wasco/Bingo Loans. For purposes of the Plan,
23 "Net Loan Proceeds" means the Cash distributions the holders of such Secured Claims are
24 entitled to receive from Sentosa Properties LLC ("Sentosa"), pursuant to the Distribution
25 Agreement between Debtor and Sentosa dated February 26, 2012.
26

1 (b) Holders of Allowed Class 1 Secured Claims will retain their security interest in the
2 Collateral up to the value of the Collateral as determined by the Bankruptcy Court until such time
3 as the Claim is satisfied or otherwise resolved pursuant to the Bankruptcy Code.

4 (c) Holders of Allowed Class 1 Secured Claims will be Beneficiaries of the Liquidating
5 Trust to be established pursuant to Article 7 of the Plan, and entitled to participate in the
6 distributions from the Liquidating Trust described in Article 8 of the Plan.

7 10.1.2. Class 2. The Allowed Class 2 General Unsecured Claims will be Beneficiaries of
8 the Liquidating Trust to be established pursuant to Article 7 of the Plan, and entitled to participate
9 in the distributions from the Liquidating Trust described in Article 8 of the Plan.

10 10.1.3. Class 3. The Class 3 Claims of holders of Equity Interests of the Debtor will receive
11 no distribution under the Plan. Pursuant to the terms of the FDIC Settlement Agreement, all
12 previously issued and outstanding shares of the capital stock of the Debtor, including all shares
13 of its common stock, are deemed canceled as of the Confirmation Date.

14 10.1.4. Class 4. The Class 4 Indemnity Claims of the D&Os will receive no distribution
15 under the Plan. Pursuant to the terms of the FDIC Settlement Agreement, the D&Os have agreed,
16 upon Plan Confirmation, to release and not file any indemnity or other claims against the Estate
17 seeking to recover payments or other personal contributions made to the FDIC.

18 10.1.5. Impaired Classes. The Impaired Classes of Claims are as follows: All Classes of
19 Claims under the Plan are impaired.

20 10.1.6. Other Unclassified Claims and Demands. None known.

21 10.1.7. No Creditors' Committee. It is assumed that holders of claims in Class 2 will
22 decline to participate in a creditors' committee if one is formed under §1102(a)(1).
23
24

25 **XI. TREATMENT OF EXECUTORY CONTRACTS AND UNEXPIRED LEASES**

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1 11.1. Assumption, Assignment And Rejection Of Unexpired Lease and Executory
2 Contracts. The Debtor is not a party to any known unexpired leases or executory contracts other
3 than the FDIC Settlement Agreement. To the extent a creditor asserts and the Bankruptcy Court
4 finds that the Debtor is a party to an unexpired lease or executory contract, such unexpired lease
5 or executory contract shall be treated as follows:

6 (a) Assumption. The Debtor shall, within thirty (30) days after entry of any Final Order
7 determining any agreement to be either an unexpired lease or executory contract, either seek
8 approval to either (i) assume the unexpired lease or executory contract; or, (ii) reject the unexpired
9 lease or executory contract. The FDIC Settlement Agreement shall, upon Confirmation, be
10 deemed to be assumed. Any unexpired lease or executory contract not assumed or rejected by
11 the Confirmation Date shall be deemed to be rejected.

12 (b) Reservation. Notwithstanding anything in Section 5.1 of the Plan to the contrary,
13 Section 5.1 shall not apply to any unexpired lease or executory contract that is treated otherwise
14 under the Plan.

15 11.2. Rejected Unexpired Leases And Executory Contracts. Rejected unexpired leases
16 and executory contracts shall be treated as non-priority unsecured claims in accordance with
17 Section 5.3 of the Plan.

18 11.3. Damages Upon Rejection. The Bankruptcy Court shall determine the dollar
19 amount, if any, of the Claim of any Entity seeking damages by reason of the rejection of any
20 executory contract or unexpired lease; provided, however, that such Entity must have timely filed
21 a Proof of Claim with the Bankruptcy Court. To the extent any such Claim is Allowed by the
22 Bankruptcy Court by Final Order, such Claim shall become, and shall be treated for all purposes
23 under the Plan as, a non-priority general unsecured claim of the Debtor, and the holder thereof
24 shall receive distributions as a holder of an Allowed Claim in Class 2.
25
26

1 **XII. CLAIMS OBJECTIONS AND TREATMENT OF DISPUTED CLAIMS**

2 **A. Defenses and Counterclaims.** The Reorganized Debtor shall acquire all
3 defenses, counterclaims and setoffs, whether equitable or legal, of the Debtor and Debtor-in-
4 Possession to claims held or asserted to be held against the Debtor, except as provided by the
5 Plan.

6 **B. No Distribution on Disputed Claims.** Notwithstanding any provision of the Plan
7 specifying the time for payment of distributions to holders of claims, no payment or distribution
8 shall be made to the holder of any Disputed Claim until the time such claim has been determined
9 to be an Allowed Claim.
10

11 **XIII. IMPLEMENTATION OF THE PLAN**

12 13.1. Liquidating Trust. A Liquidating Trust shall be created for the benefit of all secured
13 and unsecured creditors, including the FDIC, that is funded by the assets of the Debtor as of the
14 Petition Date, including assets gained through the collapse of the Debtor's and WF Capital's
15 corporate structure into the Merger described in the FDIC Settlement Agreement, less amounts
16 necessary to fund administration of the Chapter 11 Estate, including but not limited to payment of
17 allowed priority, administrative expense claims including attorney fees and reimbursement of
18 expenses approved by the Court, United States Trustee fees, and secured claims.

19 13.2. Liquidating Trustee. The Liquidating Trustee will be appointed subject to approval
20 by the Bankruptcy Court. The Liquidating Trustee will be authorized to perform acts including,
21 but not limited to, making interim and final distributions on Allowed Unsecured Claims and
22 establishing reserves for use by the Liquidating Trust, as set forth in the Liquidating Trust
23 Agreement, a copy of which is attached to this Disclosure Statement as Exhibit 6 and incorporated
24 in the Plan. The expenses of the Liquidating Trust, including compensation of the Liquidating
25 Trustee, shall be paid out of the Liquidating Trust, subject to Bankruptcy Court approval. In the
26

1 event of a conflict between the terms of the Liquidating Trust Agreement and the Plan, the Plan
2 will control.

3 13.3. Plan Distributions.

4 (a) As soon as practicable after the Effective Date, the Liquidating Trustee shall
5 distribute to the holders of Class 2 claims the net remaining Cash held by the Debtor, after:
6 (i) payment of the amounts to be paid on the Effective date to holders of certain Unclassified
7 Claims, as provided in Section 2.2 and 2.5; and, (ii) payment to the Liquidating Trustee, to hold
8 for the benefit of the Claims Reserve Account and Reserve for Costs of Administration, as those
9 terms are defined in Sections 4.3 and 4.4, respectively, in the Liquidating Trust Agreement, in
10 amounts to be determined by the Court in the Confirmation Order.
11

12 (b) The Liquidating Trustee shall distribute to the holders of Allowed General
13 Unsecured Claims, provided that any such distribution is not unduly burdensome, Pro Rata in
14 accordance with such holders' relative Beneficial Interests in the Liquidating Trust, the balance of
15 its net income and the net proceeds from the sale of Trust Assets; provided, however, that any
16 such distribution shall only be made after (i) reserves in the Claims Reserve Account are fully
17 funded; and (ii) the Liquidating Trustee has retained an amount reasonably necessary to fund the
18 Reserve for Costs of Administration, as provided for in the Liquidating Trust Agreement.
19

20 13.4. Unclaimed Property. Under the terms of the Liquidating Trust Agreement, the
21 Liquidating Trustee may withhold from amounts distributable to any person any and all amounts,
22 determined in the Liquidating Trustee's reasonable sole discretion, required by any law,
23 regulation, rule, ruling, directive or other governmental requirement.

24 To the extent not otherwise provided in the Liquidating Trust Agreement, any cash, assets,
25 and other property to be distributed under the Plan that remain unclaimed (including by an Entity's
26 failure to negotiate a check issued to such Entity) or otherwise not deliverable to the Entity entitled

1 thereto before the later of (a) one year after distribution or (b) 120 calendar days after an order
2 allowing such Entity's Claim becomes a Final Order, shall result in cancellation of such Entity's
3 Claim to the extent of the unclaimed amount. In such event, such Entity's Claim shall no longer
4 be deemed to be Allowed and such Entity shall deemed to have waived its rights to such payments
5 or distributions under the Plan pursuant to Section 1143 of the Bankruptcy Code and shall have
6 no further Claim in respect of such distribution and shall not participate in any further distributions
7 under the Plan with respect to such Claim.

8 13.5 Further Authorization. The Debtor, if and to the extent necessary, shall seek such
9 orders, judgments, injunctions and rulings that any of them deem necessary to carry out further
10 the intentions and purposes of, and give full effect to the provisions of, the Plan.

11 13.6. Transfer Taxes. The issuance, transfer, or exchange of any of the securities
12 issued under, or the transfer of any other assets or property pursuant to the Plan or the making
13 or delivery of an instrument of transfer under the Plan shall not (and the Confirmation Order shall
14 so order), pursuant to Section 1146 of the Bankruptcy Code, be taxed under any law imposing a
15 stamp tax, transfer tax or other similar tax.

16 13.7. Recordable Order. The Confirmation Order shall be declared to be in recordable
17 form, and shall be accepted by any recording officer for filing and recording purposes without
18 further or additional orders, certifications or other supporting documents.

19 13.8. Effectuating Documents and Further Transactions. The Debtor and Liquidating
20 Trustee shall be authorized to execute, deliver, file or record such contracts, instruments,
21 releases, indentures and other agreements or documents and take or direct such actions as may
22 be necessary or appropriate to effectuate and further evidence the terms and conditions of the
23 Plan.
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26

1 13.9. Compromise of Controversies. In consideration for the distributions and other
2 benefits provided under the Plan, including the Liquidating Trust, the provisions of the Plan
3 constitute a good faith compromise and settlement of all Claims and controversies resolved under
4 the Plan and the entry of the Confirmation Order shall constitute the Bankruptcy Court's approval
5 of such compromises and settlements under Bankruptcy Rule 9019. To the extent there is a
6 conflict between the terms of the Liquidating Trust Agreement and the Confirmed Plan, the Plan
7 will control.

8 **XIV. LIQUIDATION ANALYSIS**

9 Under the "best interests" of creditors test set forth in Section 1129(a)(7) of the Bankruptcy
10 Code, the Bankruptcy Court may not confirm a plan unless the plan provides each holder of a
11 claim or interest who does not otherwise vote in favor of the plan with property of a value, as of
12 the effective date of the plan that is not less than the amount that such holder would receive or
13 retain if the debtor was liquidated under Chapter 7 of the Bankruptcy Code. To demonstrate that
14 the Plan satisfies the "best interests" of creditors test, the Debtor has prepared a hypothetical
15 Liquidation Analysis, which is attached as Exhibit 5 to this Disclosure Statement, which is based
16 upon certain assumptions discussed in this Disclosure Statement and in the notes accompanying
17 the Liquidation Analysis (the "Notes"). Capitalized terms not defined in the Notes shall have the
18 meanings ascribed to them in the Plan and this Disclosure Statement. The Liquidation Analysis
19 estimates potential Cash distributions to Holders of Allowed Claims and Interests in a hypothetical
20 Chapter 7 liquidation of the Debtor's assets. Asset values discussed in the Liquidation Analysis
21 may differ materially from values referred to in the Plan and Disclosure Statement or actual
22 amounts that may be recovered through liquidation of the assets.

23
24
25 NEITHER THE DEBTOR NOR ITS ADVISORS MAKE ANY REPRESENTATION OR
26 WARRANTY THAT THE ACTUAL RESULTS WOULD OR WOULD NOT APPROXIMATE THE

1 ESTIMATES AND ASSUMPTIONS REPRESENTED IN THE LIQUIDATION ANALYSIS.
2 ACTUAL RESULTS COULD VARY MATERIALLY.

3 Because the Debtor is proposing a Plan of Liquidation, provided the costs of administration
4 incurred by the Liquidating Trustee, including the Liquidating Trustee's fee, is not greater than the
5 statutory administrative fee that could be recovered by a Chapter 7 Trustee, each holder of an
6 allowed claim would receive property of a value, as of the Effective Date of the Plan that is not
7 less than the amount that such holder would receive or retain if the Debtor was liquidated under
8 Chapter 7 of the Bankruptcy Code. The proposed compensation of the Liquidating Trustee will
9 be no greater than the statutory compensation that could be allowed to a Chapter 7 Trustee under
10 Section 326 of the Bankruptcy Code. Accordingly, the Debtor believes Section 1129(a)(7) is
11 satisfied.
12

13 **XV. RISK FACTORS**

14 Distributions to creditors contemplated under the Plan are contingent upon many
15 assumptions, some or all of which could fail to materialize and preclude the Plan from becoming
16 effective or reduce anticipated distributions. Proceeds from the sale of Real Property assets may
17 be less than anticipated depending on market factors which cannot be predicted. The Liquidating
18 Trustee may assign the late-comers' fee owed to the Debtor at a present-value discount, resulting
19 in recovery of less than the full amount of the fee. It is anticipated that the loans owed to the
20 Debtor by Prium Companies, LLC and Prium Meeker Mall LLC may not be fully collectible. Prium
21 Companies, LLC, filed a Chapter 11 bankruptcy case on August 14, 2014 (Western District of
22 Washington Bankruptcy Case No. 14-44512), which is pending. The Liquidating Trustee may
23 seek to compromise claims, which could result in less than full recovery of funds owed to the
24 Debtor.
25
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1 No assurance can be given that the Plan will be confirmed by the Court. In that event,
2 due to the costs and uncertainties inherent in a modified Plan of Liquidation or a conversion and
3 liquidation under Chapter 7, all creditors of the estate face substantial risk that their recovery
4 under such alternative circumstances may be substantially less favorable than their recovery
5 provided for by the Plan.

6 **XVI. CONFIRMATION OF THE PLAN**

7 **A. Voting Procedures**

8 A Ballot to be used for voting your acceptance or rejection of Debtor's Plan of Liquidation
9 is being mailed to you together with this Disclosure Statement and Plan. Holders of claims should
10 read the instructions carefully, complete, date and sign the ballot, and transmit it in the envelope
11 enclosed. IN ORDER TO BE COUNTED, YOUR BALLOT MUST BE RECEIVED AT THE
12 INDICATED ADDRESS NOT LATER THAN 5:00 P.M. ON SEPTEMBER 16, 2016. FAILURE TO
13 VOTE OR A VOTE TO REJECT THE PLAN WILL NOT AFFECT THE TREATMENT TO BE
14 ACCORDED A CLAIM IF THE PLAN NEVERTHELESS IS CONFIRMED.
15

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

21 **B. Hearing on Confirmation**

22 The hearing on Confirmation of the Plan will be scheduled for September 23, 2016, at 9:30
23 a.m. before the Honorable Timothy W. Dore, United States Bankruptcy Judge, in 700 Stewart
24 Street, Room 8106, Seattle, Washington, 98101. The Bankruptcy Court shall confirm the Plan at
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1 that hearing only if certain requirements, as set forth in Section 1129 of the Bankruptcy Code, are
2 satisfied.

3 **C. Best Interests of Creditors**

4 In order to satisfy one of the requirements under Section 1129, the Debtor must establish
5 that with respect to each Class, each holder of a claim in that Class has accepted the Plan or will
6 receive or retain under the Plan on account of such claim property of a value that is not less than
7 the amount that such holder would receive if Debtor's assets were to be liquidated under Chapter
8 7 of the Bankruptcy Code. The Debtor believes that the Plan satisfies this test. The Debtor
9 anticipates that the Court will make such a determination at the time of the hearing on
10 Confirmation.
11

12 **D. Feasibility**

13 Under Section 1129(a)(11), a debtor proposing a plan must establish that confirmation of
14 the plan is not likely to be followed by the debtor's liquidation, or the need for further financial
15 reorganization, unless such liquidation or reorganization is provided for in the plan. The Debtor
16 in this case is proposing a Plan of Liquidation, so the Debtor believes the requirement of Section
17 1129(a)(11) is satisfied.
18

19 **E. Treatment of Dissenting Classes of Creditors**

20 The Bankruptcy Code requires the Bankruptcy Court to find that the Plan does not
21 discriminate unfairly, and is fair and equitable, with respect to each class of claims that is impaired
22 under, and has not accepted, the Plan. Upon such a finding, the Bankruptcy Court may confirm
23 the Plan despite the objections of a dissenting Class. The Debtor believes the Plan does not
24 discriminate unfairly, and is fair and equitable to each class of claims that is impaired.
25

26 **F. Effect of Confirmation**

1 1. Vesting of Assets. Except as otherwise provided in the Liquidation Plan, on the
2 Effective Date all property comprising the Estate shall revert in the Debtor. Property identified in
3 the Liquidation Trust Agreement shall be deemed to be transferred by the Debtor to the
4 Beneficiaries by transfer to, and vesting in, the Liquidating Trust, free and clear of all Liens, Claims
5 and Equity Interests (other than as expressly provided herein).

6 2. Binding Effect. Except as otherwise provided in Section 1141(d)(3) of the
7 Bankruptcy Code and subject to the occurrence of the Effective Date, on and after the
8 Confirmation Date, the provisions of the Plan shall bind any holder of a Claim against, or Equity
9 Interest in, the Debtor and such holder's respective successors and assigns, whether or not the
10 Claim or Equity Interest of such holder is impaired under the Plan and whether or not such holder
11 has accepted the Plan.

12 3. Satisfaction of Claims Against the Estate. Except to the extent otherwise provided
13 in the Liquidation Plan or the Confirmation Order, the treatment of all Claims of any nature
14 whatsoever, known or unknown, including any interest accrued or expenses incurred thereon
15 from and after the Petition Date, against or Equity Interests in the Debtor under the Liquidation
16 Plan shall be in exchange for and in complete satisfaction of all such Claims against the property
17 of the Estate. Except as otherwise provided in the Liquidation Plan or the Confirmation Order, all
18 Persons shall be precluded from asserting, against property of the Estate any other Claims based
19 upon any act or omission, transaction or other activity of any kind or nature that occurred prior to
20 the Effective Date.

21 4. Exculpation. To the extent permitted by applicable law and approved by the
22 Bankruptcy Court, the Released Parties shall not have any liability to any holder of a Claim or
23 Equity Interest for any act or omission in connection with, or arising out of, the negotiation of the
24 Settlement Agreement, the negotiation and the pursuit of approval of this Disclosure Statement,
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1 the Plan or the solicitation of votes for, or confirmation of, the Plan, the funding of the Plan, the
2 consummation of the Plan, or the administration of the Plan (except for any liability that results
3 from willful misconduct as determined by a Final Order) or the property to be distributed under
4 the Plan and, in all respects, shall be entitled to rely upon the advice of counsel with respect to
5 their duties and responsibilities under the Plan.

6 5. Releases By the Debtor and its Estate. Except for the right to enforce the Plan, the
7 Debtor shall, on its own behalf and on behalf of its Estate, and the Liquidating Trust, effective
8 upon the occurrence of the Effective Date, be deemed to forever release, waive and discharge
9 the Released Parties of and from any and all Claims, demands, causes of action and the like,
10 existing as of the Effective Date or thereafter arising from any act, omission, event, or other
11 occurrence that occurred on or prior to the Effective Date, whether direct or derivative, liquidated
12 or unliquidated, fixed or contingent, matured or unmatured, disputed or undisputed, known or
13 unknown, foreseen or unforeseen, at law, in equity or otherwise. Such release, waiver and
14 discharge shall not operate as a release, waiver or discharge of any Released Party in respect of
15 any express contractual obligation of any such party effective from and after the Effective Date,
16 provided that no Person who votes to reject the Plan will receive the benefit of a release.

17
18 6. Consensual Releases By Holders of Claims. Except for the right to enforce the
19 Liquidation Plan and the FDIC Settlement Agreement, which is incorporated by the Plan in its
20 entirety, each Person who votes to accept the Liquidation Plan, other than the FDIC, shall, on
21 the Effective Date, be deemed to forever release, waive and discharge the Released Parties, to
22 the fullest extent permitted by Section 1141 of the Bankruptcy Code, of and from any and all
23 claims, demands, causes of action and the like, existing as of the Effective Date or thereafter
24 arising from any act, omission, event, or other occurrence that occurred on or prior to the Effective
25 Date, whether direct or derivative, liquidated or unliquidated, fixed or contingent, matured or
26

1 unmatured, disputed or undisputed, known or unknown, foreseen or unforeseen, at law, in equity
2 or otherwise that is based on, relates to, or in any manner arises from, in whole or in part, the
3 Debtor or its Subsidiaries, the Bankruptcy Case, the purchase, sale or rescission of the purchase
4 or sale of any security of the Debtor, the subject matter of, or the transactions or events giving
5 rise to, any Claim that is treated in the Liquidation Plan, the business or contractual arrangements
6 between the Debtor or its Subsidiaries and any Released Party relating to the restructuring of
7 Claims prior to or in the Bankruptcy Case or the negotiation, formulation or preparation of the
8 Liquidation Plan, or any related agreements, instruments or other documents. Except as
9 otherwise provided herein, upon the Effective Date, all such holders of Claims and their Affiliates
10 shall be forever precluded and enjoined from prosecuting or asserting any such discharged Claim
11 against the Debtor or any Affiliates. Notwithstanding the foregoing, in the event that the
12 Liquidation Plan is not confirmed, no party shall be deemed to have released or shall release any
13 claims or be released hereby. Furthermore, notwithstanding the foregoing, such release, waiver
14 and discharge shall not in any case operate as a release, waiver or discharge of any Released
15 Party: (i) in respect of any express contractual obligation of any such Released Party incurred in
16 connection with the Liquidation Plan, or of any express contractual obligation of any non-Debtor
17 party due to any other non-Debtor party; (ii) any and all conduct, acts, omissions or any other
18 activity arising from or related to any Released Party's criminal misconduct, act or omission under
19 applicable State or Federal law; and, (iii) any Claims, demands, causes of action and the like,
20 held by, or obligation owed to, FDIC-R or any other governmental agency, against any Released
21 Party. Notwithstanding anything to the contrary in Section 10.6 of the Plan, the sole release
22 provided by the FDIC shall be as set forth in the FDIC Settlement Agreement, and nothing herein
23 or otherwise in the Plan shall be construed to expand, modify or alter the scope of the release set
24 forth in the FDIC Settlement Agreement or the parties to whom any such release shall apply.
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1 7. Waiver of Avoidance Actions. Effective as of the Effective Date, the Debtor shall
2 have waived the right to prosecute, and to have settled and released for fair value, any avoidance
3 or recovery actions under Sections 545, 547, 548, 549, 550, 551 and 553 of the Bankruptcy Code
4 or other applicable law that belong to the Debtor and/or which the Debtor could have prosecuted
5 as debtor or debtor-in-possession against the Released Parties.

6 8. Term of Injunctions or Stays.

7 (a) Except as otherwise expressly provided herein, and except with respect to
8 enforcement of the Plan, all Persons who have held, hold or may hold any Claim against, or Equity
9 Interest in, the Debtor as of the Effective Date will be permanently enjoined, from and after the
10 Effective Date, from (i) commencing or continuing in any manner any action or other proceeding
11 of any kind in any forum with respect to such Claim or Equity Interest against the Debtor or its
12 property, (ii) the enforcement, attachment, collection or recovery in any manner or by any means
13 any judgment, award, decree or order against the Debtor or its respective property, with respect
14 to such Claim or Equity Interest, (iii) creating, perfecting or enforcing any Lien or other
15 encumbrance of any kind against the Debtor or against any property or interests in property of
16 the Debtor, with respect to any such Claim or Equity Interest, (iv) asserting a right of setoff,
17 subrogation or recoupment of any kind against any obligation due from the Debtor or against any
18 property or interests in property of the Debtor or the Guaranteeing Subsidiaries, with respect to
19 such Claim or Equity Interest, (v) commencing or continuing any action, in any forum, that does
20 not comply or is inconsistent with the provisions of the Plan and (vi) pursuing any such Claim
21 released pursuant to Sections 10.4 and 10.6 of the Plan.

22 (b) Unless otherwise provided, all injunctions or stays arising under or entered during
23 the Debtor's Bankruptcy Case under Sections 105 or 362 of the Bankruptcy Code, or otherwise,
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1 and in existence on the Confirmation Date, shall remain in full force and effect until the Effective
2 Date.

3 9. Termination of Subordination Rights and Settlement of Related Claims. The
4 classification and manner of satisfying all Claims and Equity Interests under the Liquidation Plan
5 takes into consideration all subordination rights, whether arising by contract or under general
6 principles of equitable subordination, Sections 510(b) or 510(c) of the Bankruptcy Code, or
7 otherwise. All subordination rights that a holder of a Claim or Equity Interest may have with respect
8 to any distribution to be made under the Liquidation Plan shall be discharged and terminated, and
9 all actions related to the enforcement of such subordination rights shall be enjoined permanently.
10 Accordingly, distributions under the Liquidation Plan to holders of Allowed Claims will not be
11 subject to payment of a beneficiary of such terminated subordination rights, or to levy,
12 garnishment, attachment or other legal process by a beneficiary of such terminated subordination
13 rights.
14

15 10. Preservation of Claims. Except as otherwise provided in the Plan, including
16 Sections 10.4 through 10.7 thereof, as of the Effective Date, pursuant to Section 1123(b)(3)(B) of
17 the Bankruptcy Code, any action, cause of action, liability, obligation, right, suit, debt, sum of
18 money, damage, judgment, claim and demand whatsoever, whether known or unknown, at law,
19 in equity or otherwise, but excluding any Released Claims (collectively, "Causes of Action")
20 accruing to the Debtor, shall become assets of the Liquidating Trust, and the Liquidating Trustee
21 shall have the authority to commence and prosecute such Causes of Action for the benefit of the
22 Estate and the Liquidating Trust. After the Effective Date, the Liquidating Trustee shall have the
23 authority to compromise and settle, otherwise resolve, discontinue, abandon or dismiss all such
24 Causes of Action without approval of the Bankruptcy Court.
25

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

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1 In the event the Court declines to confirm Debtor's Plan, whether due to a failure of creditor
2 support or otherwise, the Debtor believes it is likely that this Chapter 11 case would be converted
3 to a case under Chapter 7 of the Bankruptcy Code.

4 **XVII. TAX CONSEQUENCES**

5 General tax consequences on creditors of any discharge, and the general tax
6 consequences of receipt of Plan consideration after confirmation, cannot be quantified by the
7 Debtor. The Debtor believes that there will be no adverse tax consequences of the Plan.
8 However, the Tax Code embodies many complicated rules which make it difficult to state
9 completely and accurately all the tax implications of any action on Debtors' tax liability, or the tax
10 consequences of the Plan on creditors.
11

12 DUE TO THE UNSETTLED AND COMPLEX NATURE OF TAX LAWS AND
13 ISSUES, AS WELL AS THE POSSIBILITY THAT DEVELOPMENTS
14 SUBSEQUENT TO THE DATE OF THIS DISCLOSURE STATEMENT COULD
15 AFFECT THE TAX CONSEQUENCES OF THE PLAN, THE FOREGOING
16 DISCUSSION SHOULD NOT BE REGARDED AS DEFINITIVE OR AS
17 COVERING ALL POSSIBLE TAX CONSEQUENCES. ADDITIONALLY, THIS
18 SUMMARY DOES NOT DISCUSS ALL ASPECTS OF FEDERAL INCOME
19 TAXATION THAT MAY BE RELEVANT TO A PARTICULAR CREDITOR OR
20 HOLDER OF AN EQUITY INTEREST IN LIGHT OF ITS INDIVIDUAL
21 CIRCUMSTANCES OR TO CERTAIN CREDITORS AND HOLDERS OF EQUITY
22 INTERESTS SUBJECT TO SPECIAL TREATMENT UNDER THE FEDERAL
23 INCOME TAX LAWS (FOR EXAMPLE, LIFE INSURANCE COMPANIES, TAX-
24 EXEMPT ORGANIZATIONS, FOREIGN CORPORATIONS AND INDIVIDUALS
25 WHO ARE NOT CITIZENS OR RESIDENTS OF THE UNITED STATES). THIS
26 SUMMARY DOES NOT DISCUSS ANY ASPECT OF STATE, LOCAL OR
FOREIGN TAXATION.

**CREDITORS CONCERNED WITH HOW THE PLAN MAY AFFECT THEIR TAX
LIABILITY SHOULD CONSULT WITH THEIR OWN ACCOUNTANTS,
ATTORNEYS, AND/OR ADVISORS.**

23 **XVIII. CONCLUSION**

24 The Debtor has endeavored to propose a confirmable liquidation Plan. In light of the
25 factors discussed in this Disclosure Statement, the Debtor believes that the proposed Plan offers
26 creditors the best chance of the greatest recovery on their claims.

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1 RESPECTFULLY SUBMITTED this 6th day of July 2016.

2 Debtor and Debtor-in-Possession

3 WASHINGTON FIRST FINANCIAL GROUP, INC.

4
5 By: /s/ Elizabeth Huang
6 W. Elizabeth Huang, Its President

7 OLES MORRISON RINKER & BAKER LLP

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9 By: /s/ Jeffrey L. Smoot
10 Jeffrey L. Smoot, WSBA #39335
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