



**WINDERMERE COMMERCIAL**  
Windermere Central Oregon Real Estate, LLC

**Cleve Brock, Broker**  
**Pete Rencher, Broker**  
**Dan Steelhammer, Broker**  
**Tom Rothschild, Broker**

*Offices in Bend & Redmond*

April 14, 2009

To Brian Stevens  
Mark Neuman  
Tim Larkin

Re: Offer to Purchase Sellers Interest in Klondike Point, LLC

Gentlemen

On behalf of Stephanie Studebaker I am submitting with this letter and offer to purchase your interest in Klondike Point LLC ("Klondike").

**History**

Klondike purchased certain real property and improvements thereon, commonly known as The Odd Fellows Building (the "Property"), in 2005 for \$650,000 from Frank Ruegg, with \$550,000 of the purchase price carried by Mr. Ruegg in the form of a note secured by the Property and evidenced by a trust deed (the "Ruegg Loan"). Debt service under the Ruegg Loan is \$3,367.13 per month, or \$40,405.56 annually. Roofing, HVAC work, deferred maintenance, repairs and improvements of approximately \$250,000 were completed on the Property following the purchase and paid for primarily with proceeds from a loan from Columbia River Bank in the amount of \$249,000, also secured by the Property. Debt service under the Columbia River Loan is subject to a variable interest rate, and is currently approximately \$4,704 per month or \$56,448 per year, and the current principal balance for both loans combined is approximately \$630,000.

Following the purchase, tenants were recruited, rents were increased, cash flows increased and things looked promising.

**Current Situation**

Now, in April 2009, the picture has changed. A glut of commercial office space in Bend has been exacerbated by the severe economic down turn. All the leases in the Odd Fellows Building have expired or will expire in 2009. Two spaces are vacant, resulting in a current vacancy rate of approximately 27% based on rentable square footage. Another existing tenant wishes to find smaller space when his lease expires in 2009. Other than Tyler and Studebaker, the remaining tenants include a mortgage broker, a real estate appraiser, and a beautician---all businesses particularly subject to the hazards of

*"Uncompromising Local Expertise & Experience in the Commercial Marketplace"*

BEND OFFICE: 61510 So. Highway 97 Bend, Oregon 97702 OFFICE: 541.388.0404 FAX: 541.389.6831  
REDMOND OFFICE: 1020 SW Indian Avenue, Suite 100 Redmond, Oregon 97756 OFFICE 541.548.2772 FAX: 541.548.9103  
*windermerecommercial.com*

## Exhibit F-3

our current economy. Market rents appear to be well below our expiring lease rates, and are estimated to be at best \$0.89 to \$0.99 per foot on a NNN basis. It may be necessary to move to full service leases at rates near \$1 per foot in order to obtain tenants.

For Stephanie Studebaker to continue as a tenant, she too will need to renew her lease at market rates, and have an opportunity for continued ownership that is economically viable in the current market; otherwise, she too must consider moving to another site.

Meanwhile, underwriting criteria for commercial lenders have tightened, requiring debt coverage ratios in excess of 1.25, requiring cash flow analysis based only on long term leases and strong tenants, and many lenders will not loan at all on buildings with high vacancy rates. For many reasons, the traditional investor market seems to be essentially non-existent. Buyers are waiting for "blood in the streets" pricing, banks are either not lending or have horrendous underwriting criteria, and many potential buyers with cash are choosing to keep it due to the souring economy. It is not clear at what rate of return an historic building in downtown Bend with significant vacancies and expiring leases would need to be priced to garner a sale. Based on current activity, it appears that at least an 8% capitalization rate using current net operating income will be required on properties that have good leases and low vacancies.

### **Bend Market Information**

Submitted with this letter is a report of current "for lease" office space with available space from 500 to 2000 square feet in Bend (a report for all space to 6000 square feet resulted in too many listings for the system to generate a report; the maximum result field is 200 properties). You will see a trend to significantly lower asking lease rates, with many going below \$1 per foot, and even to "full service" leases that do not recapture NNN costs in addition to rent. Recently many prime west side and downtown spaces have moved to lease rates well below \$1 per foot. You will also note that there are well over 100 properties for lease in that list.

The office "for lease" market in Bend is plummeting downward. The report reflects asking rates, and actual leases are being signed at significantly lower rates. Landlords are approaching tenants and offering across the board rent reductions in advance of renewal. Rents are being converted from NNN leases to Full Service leases at drastically lower total rates. What a few months ago were "teaser" low rates are now the base rates for three and five year leases. Western Title, a more modern downtown office building just offered \$0.69 per foot rates for the first tenants to lease that space. Rents are coming below \$1.00 per foot in highly attractive Mill District, downtown and west side areas.

The current rents do not now and will not in the future cover the debt service. Debt service is currently at \$8,698 per month. Current gross income from existing leases totals \$6,376 for a monthly shortfall of \$2,322. This has resulted in the recently announced Capital Contribution requirement from members of Klondike. Going forward, Klondike (and its members) will be required to fund all cash shortfalls on both loans, and pay all maintenance and related costs of the building not covered through NNN recovery. It is

*"Uncompromising Local Expertise & Experience in the Commercial Marketplace"*

BEND OFFICE: 61510 So. Highway 97 Bend, Oregon 97702 OFFICE: 541.388.0404 FAX: 541.389.6831  
REDMOND OFFICE: 1020 SW Indian Avenue, Suite 100 Redmond, Oregon 97756 OFFICE 541.548.2772 FAX: 541.548.9103  
*windermerecommercial.com*

## Exhibit F-3

entirely possible that the building will go over 50% vacant this year, with no assurance of how quickly, if at all, it can be leased up. All rents will most likely have to be significantly reduced on renewal to retain even the tenants currently in place.

### Value Analysis

Attached to this letter are copies of two analyses of net operating income, each based on a different set of assumptions or perspectives. All assume that current market rents are now no more than \$0.89 to \$0.99 per foot NNN (except Allstate, whose lease is not a NNN lease) for space within the Odd Fellows Building. These rates are fair and reasonable in my professional opinion, and take into account a rate intended to fill the spaces in a reasonably short period of time, but are not "give away" rates.

In the current market, underwriters and investors would use current market rents with signed long term leases with credit worthy tenants as a basis for investment analysis. Here, we have no long term leases, and the continued viability of our remaining tenants may prove suspect. The Investor or Underwriter approach is approximated in the report titled "Market Investor Underwriter Analysis" and that valuation, in my opinion, best represents what a third party buyer in the current market would be likely to offer for the Property. Utilizing a capitalization rate of 8%, and applying that rate to net operating income based on those tenants who have not voiced any intention (yet) to depart, and adjusting those rents to market, the resulting value is \$400,228. Unfortunately, that price is not sufficient to cover the outstanding debt on the property.

The second analysis, titled "Market Rent, 11% Vacancy" applies current market rents and a vacancy rate of 11%, which rate is very generous to the Landlord in the current market, but is still less than the Property's current vacancy rate. This rate reflects the vacancy rate for commercial office space in downtown Bend as reported by Compass Commercial in their 4<sup>th</sup> Quarter 2008 survey. The rate is lower than the overall vacancy rate for office space in Bend, and in my opinion understates the actual vacancy rate for downtown, especially as reflected since the turn of the year. The analysis applies rent rates that reflect the high side of projected market rents for the various spaces within the building. Other than the existing lease to Allstate, the rents are stated as NNN rents; it may be necessary to adjust the rents to "full service" or "modified gross" leases at prices per foot similar to the stated rents. The value determined utilizes a capitalization rate based on projected operating income. Again, we feel the income numbers are more than fair, and could well prove high. The capitalization rate of 7.75 is also quite fair for an older property with expiring leases in a downward spiraling economy; most analysts in this market would require at least an 8% rate given the building, the leases, and the market. There is an adjustment for a 6 month rent up period to obtain leases for the two currently vacant spaces and the space for which the Tenant has already indicated a desire to downsize. This period may or may not be sufficient to obtain tenants and get to 11% vacancy, and other tenants may elect not to renew later in the year. All told, the analysis provides a value for the property that is likely to be more generous than a market appraisal.

*"Uncompromising Local Expertise & Experience in the Commercial Marketplace"*  
BEND OFFICE: 61510 So. Highway 97 Bend, Oregon 97702 OFFICE: 541.388.0404 FAX: 541.389.6831  
REDMOND OFFICE: 1020 SW Indian Avenue, Suite 100 Redmond, Oregon 97756 OFFICE 541.548.2772 FAX: 541.548.9103  
[windermerecommercial.com](http://windermerecommercial.com)

Exhibit F-3

Value Analysis	Property Value	Value Net of Debt	Membership Value
Investor Underwriter	\$400,228	\$(229,772)	\$(145,491)
11% Vacancy	\$669,247	\$39,247	\$24,851

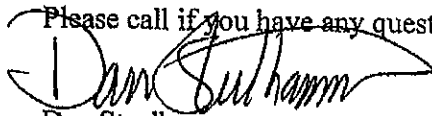
**Operating Agreement**

Also submitted with the Letter of Intent is a copy of the Klondike operating agreement. Please note the provisions governing purchase in the event a required capital contribution is not made. By our understanding, notice of a required capital contribution was sent on February 2009, with only Barbara Tyler and Stephanie Studebaker making the contribution. Thus, Sellers are in default under the Operating Agreement, triggering the purchase rights set forth in Section 9 of the operating agreement. The Operating Agreement sets forth a specific procedure for acquisition under the circumstances. The purchase price of your interest under the terms of the Operating Agreement would be 80% of appraised value, payable 20% down with the balance amortized over 15 years bearing interest at prime plus 1%. Although they appear to have the opportunity to enforce the terms of the operating agreement, Stephanie Studebaker has elected instead to present the offer contained in the attached Letter of Intent, without discount and without amortization. If you are unwilling or unable to accept the enclosed offer, Buyer would welcome a fair market value appraisal, and are more than willing to comply with the terms of the Operating Agreement, so long as that process occurs soon enough to allow Buyers to preserve their position in the property on terms acceptable to them.

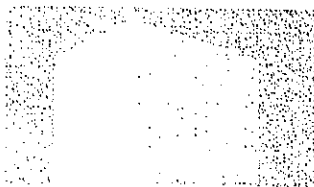
**Offer to Purchase**

Ms. Studebaker is making an offer based on the value determined in the 11% Vacancy analysis, a purchase price that they are comfortable will be at or well above an appraisal in the current market. The offer is to assume all the debt (\$630,000 total or, based on your pro rata interest in Klondike, \$399,042) and pay an additional \$24,851 to the Selling members, for a total value to the selling members of \$423,893. The offer is based on an overall current value of the building of \$669,247. As you can appreciate from the market information provided, the appraised value could be significantly lower. The offer represents a realistic assessment of value based on current market rents, vacancies and supply, a favorable capitalization rate, and is intended to be fair to all. And the offer does not include the "discount" and terms available to Buyer under the Operating Agreement.

Please call if you have any questions.

  
Dan Steelhammer  
Broker

BEND OFFICE:  
REDMOND OFF



*tplace*  
FAX: 541.389.6831  
FAX: 541.548.9103

Exhibit F-3

Hi Partners,

We need to have a cash infusion to Klondike due to the vacancies that are coming up. The Chiro (Center for Life) is out of his lease on April 1<sup>st</sup>. Skyline Mortgage is out of his lease on 7/20/09. Both tenants have told us they intend to discontinue the lease and move. I have attached the 2009 cash flow projection and the current rent roll. This email is your 30-day written notice to make this required cash contribution by Friday March 11, 2008. On this day, February 10, 2009, this required capital contribution was approved by the majority of the members.

<b>Capital Call Required for Negative Cash Outlay</b>		<u>35,049.21</u>	12/31/09 Projected Negative Cash Bal
<b>Cash Reserves</b>		<u>15,000.00</u>	
<b>Total Capital Call</b>		<u>50,049.21</u>	
18.33%	Member Capital-Barbara Tyler	9,174.02	
18.33%	Member Capital-S. Studebaker	9,174.02	
5.56%	Member Capital-Tim Larkin	2,782.74	Contributions were not made Cessation Event Article 9
28.89%	Member Capital - Brian Stevens	14,459.22	
28.89%	Member Capital - Mark Neuman	14,459.22	
<b>100.00%</b>	<b>Total</b>	<u>50,049.21</u>	

Thanks,  
Stephanie Studebaker, Manager/Member Klondike Point, LLC

Stephanie Studebaker, CPA

Tyler & Studebaker CPA's LLP  
265 NW Franklin Avenue  
Bend, OR 97701  
541.382.5020 541.382.2923 fax

www.tylerstudebaker.com

x Stephanie Studebaker  
Stephanie Studebaker Member Manager

x Mark Neuma  
Mark Neuma Member

Barbara Tyler  
Barbara Tyler member

Pursuant to IRS Circular 230 - This written advice is not intended or written to be used, and it can not be used by any taxpayer, for the purpose of avoiding penalties that may be imposed on the taxpayer.

Confidentiality Notice - This email message, including any attachments, is for the sole use of the intended recipient(s) and may contain confidential and privileged information. Any unauthorized review, use, disclosure or distribution is prohibited. If you are not the intended recipient, please contact the sender by reply e-mail and destroy all copies of the original message.

## Letter of Intent to Purchase

**Buyer:** Stephanie Studebaker, or her assigns.

**Sellers:** Brian Stevens, Mark Neuman, and Tim Larkin

**Recitals:** Buyer and Sellers currently are members of Klondike Square LLC, an Oregon limited liability company, with ownership interests as follows:

Brian Stevens	28.885%
Mark Neuman	28.885%
Barbara Tyler	18.33%
Stephanie Studebaker	18.33%
Tim Larkin	5.55%

See the "Operating Agreement" Exhibit A attached, and incorporated here by this reference. Klondike Square LLC, ("Klondike") is a single purpose entity formed to own certain real property and improvements commonly known as "the Odd Fellows Building" located at 265 NW Franklin Boulevard in Bend, Deschutes County, Oregon (the "Property"). The Property consists primarily of a multi-tenant building which Klondike leases as its sole source of income. Klondike is also the borrower under two loans secured by the Property, one to Frank Ruegg ("Ruegg") with an approximate outstanding balance of \$520,000, and a second to Columbia River Bank ("Bank") with an approximate remaining balance of \$110,000. Accordingly, the total outstanding debt secured by the Property as of the date hereof is approximately \$630,000. Personal guarantees by all members of Klondike were also given to secure the two loans.

**Offer to Purchase:** Buyer hereby offer to purchase the entirety of Sellers' interest in Klondike for a purchase price of \$423,893, payable by Buyer assuming all of Sellers' interest in Klondike's obligations under the outstanding loans, assuming all of Sellers' interest in Klondike's obligations under any and all leases appurtenant to the Property, and paying to Sellers the sum of \$24,851 in cash, to be allocated among the Sellers pro rata. All commissions and fees owing to Windermere Commercial (WCORE LLC) shall be the responsibility of Buyer.

**Conditions of Sale:** This offer is subject to Buyer obtaining written approval by Ruegg and Bank of the change in ownership, any possible new financing, and approval of Buyer' attorneys. Buyer will have twenty days following Sellers' acceptance to obtain the appropriate approvals. The offer is not contingent on Ruegg or Bank releasing Sellers from any personal guarantees, however, Buyer will use commercially reasonable efforts to obtain such releases. This offer is for the entirety of Sellers' interest in Klondike, and no partial sale or transfer will be accepted.

**Closing of Sale:** The sale of Sellers' interest will close within 20 days following acceptance of the offer by Sellers, or as soon thereafter as a mutually agreeable Purchase

Exhibit F-3

Agreement can be prepared by Buyer' attorneys, and necessary approvals from lenders and courts is provided. Closing will occur at Amerititle in Bend.

**Cost of Closing.** All costs of closing this sale shall be shared on a pro rata basis by the parties.

**Approval of Bankruptcy Court:** It shall be an express condition of closing that Sellers obtain any and all necessary approval of the transfer of Sellers interest in Klondike from the Bankruptcy Court in the matter of the Bankruptcy Petition of Summit Accommodators.

**Letter of Intent:** This offer is intended as a letter of intent only, and is not binding upon the parties. However, it is intended to outline the basic elements of an offer to purchase from which a formal purchase agreement can be mutually agreed upon. Only a mutually agreed upon and fully executed purchase and sale agreement will be binding upon the parties. By signing below the parties agree to use their best efforts to negotiate toward such a purchase agreement in a timely manner.

**Time for Response:** This offer shall remain in force until April 30, 2009, after which it will be deemed withdrawn.

It is so agreed by:

**Buyer**

Stephanie Studebaker  
Stephanie Studebaker

Date: 4/15/09

**Sellers**

\_\_\_\_\_  
Brian Stevens

Date: \_\_\_\_\_

\_\_\_\_\_  
Mark Neuman

Date: \_\_\_\_\_

\_\_\_\_\_  
Tim Larkin

Date: \_\_\_\_\_

**Exhibit F-3**

**Odd Fellows Building**  
 Operating Income Analysis  
 Projected Market Rents, 11% Vacancy

Scheduled Income	size	rate per ft*	monthly rent	6 mo. Rent up
100 Allstate	591	1.15	\$679.65	
101 Tyler & Studebaker CPA	1532	0.99	\$1,516.68	
103 Vacant	568	0.89	\$505.52	\$3,033.12
200 Sollitz Appraisal	714	0.89	\$635.46	
201 Skyline Mtge (wants to downsize)	1050	0.99	\$1,039.50	\$6,237.00
202 Celadon	683	0.99	\$676.17	
203 Vacant	693	0.89	\$616.77	\$3,700.62
Total	5831		\$5,669.75	
annual rent			\$68,037.00	
Less Vacancy at 11%	0.11		(\$7,484.07)	
Effective Gross Income			\$60,552.93	
<b>Expenses</b>				
Reserve for replacement 3%	0.03	\$1,816.59		
Suite 100 allocation of NNN	0.4	\$2,836.80		
Management	0.05	\$3,027.65		
Lease Commissions		\$0.00		
		\$7,681.03	(\$7,681.03)	
Net Operating Income			\$52,871.90	
Value based on cash flow	8%		\$660,898.70	
Less Discount for rent up period	7.75%		\$682,218.01	
Offering Amount			(\$12,970.74)	
			\$669,247.27	

\* rate assumes plus NNN except 100

**Exhibit F-3**

**Odd Fellows Building**  
 Franklin Ave., Bend  
 Income Stream Analysis  
 "Market Investor / Underwriter Analysis"

	<u>size</u>	<u>rate per ft*</u>	<u>monthly rent</u>
Scheduled Income			
100 Allstate	591	1.15	\$679.65
101 Tyler & Studebaker CPA	1532	0.99	\$1,516.68
103 Vacant	568	0.99	\$0.00
200 Sollitz Appraisal	714	0.99	\$706.86
201 Skyline Mtge (wants to downsize)	1050	0.99	\$0.00
202 Celadon	683	0.99	\$676.17
203 Vacant	693	0.99	\$0.00
Total	5831		\$3,579.36
annual rent			\$42,952.32
Less Vacancy at 10%	0.1		(\$4,295.23)
Effective Gross Income			\$38,657.09
 Expenses			
Reserve for replacement 3%	0.03	\$1,159.71	
Suite 100 allocation of NNN	0.4	236.4	
Management	0.05	\$1,932.85	
Lease Commissions		\$0.00	
		\$3,328.97	(\$3,328.97)
 Net Operating Income			\$35,328.12
 Value based on cash flow			
	8%		\$441,601.51
	7.50%		\$471,041.61

\* rate assumes plus NNN except 100