

**UNITED STATES BANKRUPTCY COURT
DISTRICT OF MINNESOTA**

In re:

BKY No. 04-42402

Knutson, Inc.,

Chapter 11

Debtor.

DEBTOR'S PLAN OF REORGANIZATION

Knutson, Inc., the debtor in possession in the above-referenced bankruptcy case proposes the following Plan of Reorganization pursuant to Title 11 of the United States Code. All parties in interest are encouraged to consult the Debtor's Disclosure Statement served with this plan before voting to accept or reject this plan.

**ARTICLE I
DEFINITIONS**

For purposes of this Plan of Reorganization, the following terms shall have the respective meanings hereinafter set forth. Any terms contained in this plan of reorganization that are not specifically defined shall have the meaning provided for in Title 11 of the United States Code, unless the context otherwise requires.

"Bankruptcy Code" or **"Code"** means Title 11 of the United States Code.

"Bankruptcy Rule" means a Federal Rule of Bankruptcy Procedure.

"Clerk" means the office of the clerk of the United States Bankruptcy Court for the District of Minnesota.

"Confirmation Date" means the date of the order confirming this Plan.

"Contested Claim" means (1) a claim that is not an allowed claim because Debtor or another party in interest has objected to the allowance of such claim under Code § 502(b) and Bankruptcy Rule 3007, (2) any secured or unsecured portions of a secured claim that is subject of a motion for determination of the value of security under Code § 506(a) and Bankruptcy Rule 3012 or (3) any claim or portion of a claim which is scheduled by the Debtor as disputed, contingent or unliquidated and as to which no proof of claim has been filed.

"Court" means a United States Bankruptcy Judge pursuant to reference from the United States District Court for the District of Minnesota, or any other court having competent jurisdiction to enter an order confirming the Plan.

"Debtor" means Knutson, Inc., the debtor in possession in the above-referenced bankruptcy case, and the reorganized debtor following Confirmation Date.

"Effective Date" means the later of the eleventh day after the Court's Order confirming the Debtor's Plan of Reorganization, provided no appeal from said Order is made, or eleven days after consummation of a sale of assets to fund the Plan.

"Filing Date" means April 29, 2004.

"Final Order" means an order of the Court which has not been reversed, stayed, modified or amended and the time to appeal from or to seek review or rehearing of such order has expired. Debtor may elect to waive provisions relating to appeal and treat any order of the Court as a Final Order and may distribute and otherwise proceed under this Plan, even if there is a pending motion to extend time for appeal or a pending appeal, unless the order is stayed.

"Plan" means this Chapter 11 plan of reorganization as amended or modified.

"Schedules" means the schedules of assets and liabilities of Debtor on file with the Clerk, as from time to time amended in accordance with Bankruptcy Rule 1009.

ARTICLE II TREATMENT OF ADMINISTRATIVE CLAIMS

Administrative Claims are those costs and expenses of administration arising under Section 503(b) of the Code (other than as described in subparagraph 3 hereof) which are entitled to first priority under Section 507(a)(1) of the Code. The Debtor does not believe that there will be any unpaid administrative claims. If not paid previously, allowed Administrative Claims will be paid in full in cash on the Effective Date, or as soon as practicable thereafter but no later than fifteen (15) business days after the Administrative Claim becomes an allowed Claim, or shall be paid in accordance with such terms as may have been agreed upon by the Debtor and the respective claimants.

Professional fees that constitute administrative claims are the allowed fees and costs or the professionals that have been employed by the Debtor. Provided that the professionals receive Bankruptcy Court approval of their fees and expenses, these claims for professional fees shall be paid in full on the Effective Date, or as soon as practicable thereafter, or on such other date as the Court may fix, or in the ordinary course of business of the Debtor, or upon such terms as may be agreed upon by the particular professional and the Debtor.

A quarterly fee is payable by the Debtor to the United States Trustee under 28 U.S.C. § 930(a)(6). These fees are entitled to priority under Section 507(a)(1) of the Code. Fees which become due during the pendency of the Chapter 11 Case will be paid in full in the normal course of business. Any unpaid fees due on the Effective Date will be paid in full in cash on the Effective

Date, or as soon as practicable thereafter, but no later than fifteen (15) business days after the Effective Date unless agreed otherwise by the claimant.

ARTICLE III PRIORITY CLAIMS

Prepetition priority government claims, less any payments that the Debtor may have made during the course of this case, shall be paid, in full on the Effective Date or, over five years, with interest on the outstanding balance of the allowed claim at the rate provided for in 26 U.S.C. §6621(b), from and after the Effective Date. The claims shall be paid in full within six years of the date that the tax was assessed. Those claims are believed to total \$27,743.98 and will share a pro rata payment of \$462.40 per month.

ARTICLE IV CLASSIFICATION OF CLAIMS AND INTERESTS

All claims against the Debtor shall be bound by the provisions of the Plan and are hereby designated pursuant to and in accordance with Section 1123(a) of the Code as the following Classes: CLASS D IS DEEMED IMPAIRED UNDER THIS PLAN.

Class A. The allowed secured claim held by the Bank, as of April 29, 2004, in the approximate principal amount of \$909,588.99 as of approximately August 18, 2004 by way the following notes:

- i. Note No. 24584, with a principal balance of \$45,849.59 (and accrued interest of \$96.48);
- ii. Note No. 24585, with a principal balance of \$432,530.23 (and accrued interest of \$1,437.46);
- iii. Note No. 24380, with a principal balance of \$417,300.00 (and accrued interest of \$17,630.00); and,
- iv. Note No. 27272, with a principal balance of \$13,909.17 (and accrued interest of \$7.87).

The Bank also has a claim for interest, attorney's fees and expenses.

Class B. The allowed secured claim held by the Internal Revenue Service ("**IRS**") of \$37,570.03.

Class C. The allowed secured claim held by Lyon County for past-due real estate taxes in the amount of \$16,219.00.

Class D. The allowed claims that are not secured by a lien on property in which the Bankruptcy Estate has an interest, and that are not specifically included in any other class. The Debtor estimates the allowed claims in this class to be approximately \$187,214.00.

Class E. This class shall consist of the untimely filed claims or claims which have been disallowed in this case.

Class F. This Class shall consist of the shareholder interests in the Debtor. Mr. Knutson is the Debtor's sole shareholder.

**ARTICLE V
TREATMENT OF CLASSES**

Class A. The Bank will retain its current collateral and remain cross-collateralized to secure all indebtedness. The Plan treatment for each note (the "**Notes**") will be as follows:

- a. Note No. 24584. The note will amortize for 16 years at its present interest rate. The monthly payment will be \$400.00 per month.
- b. Note No. 24585. The note will amortize over 20 years at its current interest rate. The monthly payment will be \$2,900.00 per month.
- c. Note No. 24380. This note will have a new interest rate of 50 basis points (.5%) over the New York Prime rate. The Bank will be paid \$1,200.00 per month through September 1, 2005, when the balance of the loan will be amortized over 20 years; resulting in monthly payments of approximately \$3,200.00 per month.
- d. Note No. 27272. This note will be amortized over 5 years at its current interest rate. The monthly payment will approximately \$300.00 per month.
- e. The Notes will all balloon in five (5) years.
- f. The Debtor has the right to prepay the unpaid balance to Bank, without penalty, at any time.
- g. The Debtor shall assign to the Bank its rents from its convenience store operations to be used to reduce the Debtor's monthly payments to the Bank.

Class B. The allowed secured claim held by the IRS, believed to be 37,570.03, shall be paid over a period of five (5) years by way of monthly payments as follows:

Year 1:	\$300
Year 2:	\$400
Year 3:	\$550
Year 4:	\$700
Year 5:	\$1,180.84

Class C. The Debtor will pay its obligation to the County by way of monthly payments of \$270.32 over a period of 5 years commencing one year after the Effective Date of the Plan.

Class D. General Unsecured Claims. Unsecured Creditors, holding allowed claims, will be paid a pro rata share of \$28,682.00 over the period of five (5) years by way of annual payments commencing one (1) year after the Effective Date. The total payments per year are: Year One - \$5,088.00; Year Two - \$5,393.00; Year Three - \$5,717.00; Year Four - \$6,060.00 and Year Five - \$6,424.00.

Class E. Untimely Filed Claims. Holders of Class E claims shall receive nothing under the Plan and shall not be treated as claim holders for purposes of voting or distribution under the Plan.

Class F. Shareholders. The interest of the shareholders shall not be impaired under this Plan. Knutson shall remain the Debtor's sole shareholder.

ARTICLE VI CONTESTED CLAIMS

No payment will be made under the Plan with respect to a contested claim until that claim becomes allowed, by agreement of the parties to any claim dispute or by Final Order of the Court. As soon as practicable after the allowed claim is established by agreement or Final Order, Debtor will pay the holder of such allowed claim the amount provided in the Plan.

ARTICLE VII MEANS FOR EXECUTION OF THE PLAN

The scheduled Plan payments and other financial obligations of the Debtor under the Plan shall be funded by the Debtor's operations.

ARTICLE VIII EXECUTORY CONTRACTS AND UNEXPIRED LEASES

The Debtor assumes hereunder all of its executory contracts and leases except those executory contracts and leases which the Debtor rejected prior to confirmation of its Plan of Reorganization. With respect to rejected leases, the respective lessors' claims shall be reduced by the amount of any pre- and post-petition deposits paid by the Debtor. The Debtor shall not be responsible for late charges, based upon pre-petition delinquencies, for any lease or executory contract, after April 29, 2004.

Upon the expiration or rejection of the Debtor's executory contracts or leases, the subject property will be made available to the creditor for return.

Any claim arising from the rejection of an executory contract or unexpired lease must be filed before the deadline established by the Court for the filing of claims. Any claim not timely filed shall not be entitled to a distribution from the estate.

Upon the expiration or rejection of the Debtor's executory contracts or leases, the subject property will be made available to the creditor for return. No assumed leases will be renewed by the Debtor. Each assumed lease shall expire, in accord with its own terms, without renewal. No further notice shall be required of the Debtor.

Any claim arising from the rejection of an executory contract or unexpired lease must be filed before the deadline established by the Court for the filing of claims. Any claim not timely filed shall not be entitled to a distribution from the estate.

ARTICLE IX ACCEPTANCE AND CONFIRMATION

In order to confirm the Plan, the Code requires that the Court make a series of determinations concerning the Plan, including:

- (i) that the Plan has classified Claims and equity security holder interests in a permissible manner;
- (ii) that the contents of the Plan comply with the technical requirements of Chapter 11 of the Code;
- (iii) that the Debtor has proposed the Plan in good faith; and,
- (iv) that the Debtor's disclosures concerning the Plan have been adequate and have included information concerning all payments made or promised in connection with the Plan and the Chapter 11 Case, as well as the identity, affiliations and compensation to be paid to all officers, directors, partners and other insiders.

The Debtor believes that all of these conditions have been met and will seek rulings of the Court to this effect at the hearing on confirmation of the Plan.

The Code also requires that the Plan be accepted by the requisite votes of creditors and equity security holders, that the Plan be feasible, and that confirmation of the Plan be in the "best interests" of all creditors and equity security holders. To confirm the Plan, the Court must find that all of these conditions are met. Thus, even if the creditors and equity security holders of the Debtor accept the Plan by the requisite votes, the Court must make independent findings respecting the Plan's feasibility and whether it is in the best interests of the Debtor's creditors and equity security holders before it may confirm the Plan. The "best interests" and feasibility conditions to confirmation are discussed below.

A. BEST INTEREST OF CREDITORS AND EQUITY SECURITY HOLDERS.

The Debtor believes that a commercially reasonable liquidation of the Debtor's assets would generate the proceeds as reflected in Exhibit C attached to the Disclosure Statement. The liquidation analysis reflects a Chapter 7 liquidation valuation.

B. FEASIBILITY.

Section 1129(a)(11) of the Code requires that confirmation of the Plan is not likely to be followed by the liquidation of the reorganized Debtor or the need for further financial reorganization. In evaluating whether the Plan satisfies this feasibility standard, the Debtor has analyzed the ability of the Debtor to satisfy its creditor's claims after confirmation of the Plan. That analysis is provided in Exhibit B of the Disclosure Statement.

Financial statements evidencing the Debtor's operations during this Chapter 11 case are attached as Exhibit D to the Disclosure Statement. The Debtor is current on monthly operating reports and on paying its quarterly fees to the U.S. Trustee.

C. CONFIRMATION.

In order for the Court to confirm the Plan, an affirmative vote must be cast by each Class which is considered "impaired" by the Plan. Section 1126(c) of the Code provides that a class of creditors accepts a plan if the plan is accepted by creditors holding at least two-thirds in dollars amount and one-half in number of the allowed claims of such class held by creditors who have voted to accept or reject the Plan.

Notwithstanding the foregoing, under certain circumstances the proponent of the Plan (in this case, the Debtor) may seek confirmation and the Court may confirm the Plan despite the failure of one or more of the impaired Classes to accept the Plan. The Debtor may utilize the so-called "cram-down" provisions under Section 1129(b) of the Code in the event that all impaired Classes do not accept the Plan.

**ARTICLE X
ALTERNATIVES TO THE PLAN**

The Debtor believes that the Plan provides its creditors and equity security holders with the earliest and greatest possible value which can be realized on their respective claims and interests. The alternatives to confirmation of the Plan are submission of an alternative plan (or plans) of reorganization by the Debtor or any other party in interest or the liquidation of the Debtor. Under Section 1121 of the Code, a debtor has the exclusive right to file a plan of reorganization during the first 120 days following the commencement of its Chapter 11 case, and if a Plan is filed within said time frame, the Debtor has an exclusive right to obtain confirmation of its Plan for 180 days following the commencement of its case. A calculation of the amount creditors will receive if the Debtor is liquidated is set forth in Exhibit C to the Disclosure Statement. The Debtor's liquidation analysis is based upon a Chapter 7 liquidation.

**ARTICLE XI
POST-CONFIRMATION COMPOSITION OF THE DEBTOR AND MANAGEMENT**

Bradley Knutson should remain as the Debtor's president and shall receive his normal compensation of \$900.00 per week. It is anticipated that the Debtor's employees and their compensation shall remain unchanged.

**ARTICLE XII
TAX CONSEQUENCES**

The Debtor is not qualified to advise its creditors and equity security holders of the specific respective tax impact on each of them as a result of treatments provided in the Plan and therefore makes no representation as to the same. Each creditor and equity security holder is urged to consult with a tax advisor as to such matters.

**ARTICLE XIII
PENSION PLAN/EMPLOYEE BENEFIT PLANS**

The Debtor has no pension plans or employee benefit plans except for a health care plan.

**ARTICLE XIV
RELEASE OF THE DEBTOR**

As of the Effective Date, the rights afforded in the Plan shall be in exchange for and in complete settlement, satisfaction, payment, cancellation, discharge and release of all Claims and interests of any nature whatsoever against the Debtor. The release shall be effective as to each Claim or interest, regardless of whether a proof of claim or proof of interest therefor was filed, whether the Claim or interest is allowed, or whether the holder thereof votes to accept the Plan, pursuant to 11 U.S.C. §1141.

**ARTICLE XV
AVOIDABLE TRANSFERS AND LITIGATION**

The Debtor shall analyze each claim made against the Debtor, and if appropriate, commence proceedings to disallow claims.

The Reorganized Debtor retains all causes of actions that were owned by the Debtor and the estate for maximum periods of limitation. This provision is intended to avoid the result of an argument that confirmation of a plan of reorganization bars subsequent claims against creditors for fraudulent conveyances. Any creditor who has, or may have, been the recipient, or subsequent transferee, of an avoidable fraudulent conveyance, shall be subject to having its Scheduled Plan Payment reduced or delayed, or its secured claim avoided, pending a resolution of the fraudulent conveyance litigation, regardless of whether the creditor voted for, or agreed to the provisions of, the Plan.

ARTICLE XVI
RETENTION AND ENFORCEMENT OF CLAIMS OR INTEREST BELONGING TO
DEBTOR OR ESTATE

Unless specifically released herein, Debtor retains and may, at its option, enforce any claim or interest belonging to itself or the estate, including, but not limited to, any claim for avoidance of any transfer and recovery of any asset that could be avoided and recovered by a trustee under the Bankruptcy Code. Debtor may object to allowance of any claim, unless such claim, interest, or objection has been compromised and such compromise has been approved by order of the Court entered prior to the Confirmation Date or provided for in this Plan. Any claim or interest recoverable under Code § 550 will remain property of Debtor after the Confirmation Date, and any property or funds recovered under such claim or interest will remain property of Debtor until such property or funds are used to pay the expenses, including attorneys' fees, arising from the prosecution of such claim or interest. Debtor may, at its option, compromise any claim, interest, or objection retained herein after the Confirmation Date without approval from the Court.

ARTICLE XVII
MODIFICATION OF THIS PLAN

Debtor may amend or modify this Plan in the manner provided for under Code § 1127(a) or (b). Debtor shall give notice of any proposed modifications to the Committee of Unsecured Creditors or its counsel, the United States Trustee, any party who has filed a response or objection (other than a ballot) to the Plan, any party who has requested notice under Bankruptcy Rules 2002(I) or 9010(b), and any party the treatment of whose claim is affected by the modification. Counsel for the Committee and to the United States Trustee and to any other parties designated by the Court. Debtor also reserves the right to make such modifications at any hearings on confirmation as are necessary to permit this Plan to be confirmed under Code § 1129(b).

ARTICLE XVIII
PLAN CONSUMMATION AND CONTINUING JURISDICTION

Following confirmation and substantial consummation, the Court may enter a Final Order and direct that this bankruptcy case be closed. The Plan will be fully consummated upon the fulfillment by Debtor of all of its obligations for payment and distributions under this Plan.

The Court shall retain jurisdiction until this Plan has been fully consummated for the following purposes: entry of an order releasing and satisfying mortgages or liens; classification of the claims and interests of creditors and allowance of the claims and interests of creditors; allowance of claims for damages from the rejection of executory contracts; determination of all questions and disputes regarding title to the assets of the estate and determination of all causes of action between Debtor and any other party, including but not limited to any claim, interest, or objection retained under this Plan; correction of any defect; the curing of any omission or the reconciliation of any inconsistency in this Plan or the order of confirmation as may be necessary to carry out the purpose and intent of this Plan, interpretation and enforcement of the terms of this Plan; shortening or extending for cause, of time fixed for doing any act or thing under this Plan, and entry of any order, including any injunction, necessary to enforce the title, rights, and powers of Debtor. The Court may exercise its jurisdiction after notice and a hearing or ex parte, as the Court determines to be appropriate.

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**ARTICLE XIX
CONCLUSION**

It is important that creditors and equity security holders exercise their rights to vote for the acceptance or rejection of the Plan. The Debtor requests that each holder of a Claim complete the ballot and vote to accept the proposed Plan.

KNUTSON, INC.

Dated: September 2, 2004

By: Bradley G. Knutson - Pres.
Bradley G. Knutson
Its: President

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