

**THE UNITED STATES BANKRUPTCY COURT  
FOR THE DISTRICT OF MARYLAND  
(Greenbelt Division)**

**In re:**

**CONGRESSIONAL HOTEL CORP.**

**Debtor.**

**Case No. 11-26732-PM  
Chapter 11**

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**CASCO HOTEL GROUP, LLC**

**Debtor.**

**Case No. 11-26880-PM  
Chapter 11**

**Jointly Administered Under  
Case No. 11-26732-PM**

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**JOINT DISCLOSURE STATEMENT PURSUANT TO § 1125 OF THE BANKRUPTCY  
CODE IN SUPPORT OF THE JOINT PLAN OF LIQUIDATION FILED BY  
CONGRESSIONAL HOTEL CORPORATION AND CASCO HOTEL GROUP, LLC  
(Filed February 7, 2012)**

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**THIS IS NOT A SOLICITATION OF ACCEPTANCE OR REJECTION OF THE PLAN. ACCEPTANCES OR REJECTIONS MAY NOT BE SOLICITED UNTIL A DISCLOSURE STATEMENT HAS BEEN APPROVED BY THE BANKRUPTCY COURT. A HEARING TO CONSIDER THE ADEQUACY OF THIS DISCLOSURE STATEMENT UNDER SECTION 1125 OF THE BANKRUPTCY CODE HAS BEEN SET BY THE BANKRUPTCY COURT FOR \_\_\_\_\_ (PREVAILING EASTERN TIME). THE DEBTORS RESERVE THE RIGHT TO AMEND, SUPPLEMENT OR OTHERWISE MODIFY THIS DISCLOSURE STATEMENT PRIOR TO AND UP TO THE DATE OF SUCH HEARING.**

**THE DEBTORS HAVE REQUESTED THAT THE DISCLOSURE STATEMENT AND CONFIRMATION OF THE PLAN BE CONSOLIDATED AND CONSIDERED BY THE COURT CONCURRENTLY. PROVIDED THAT THE COURT GRANTS THE DEBTORS REQUEST TO HOLD A CONSOLIDATED HEARING ON APPROVAL OF THE DISCLOSURE STATEMENT AND CONFIRMATION OF THE PLAN, THE DEBTORS WILL PROVIDE NOTICE OF THE CONSOLIDATED HEARING AND BALLOTS TO ALL CREDITORS AND PARTIES-IN-INTEREST.**

## **I. INTRODUCTION**

### **A. Purpose of Disclosure Statement and Plan.**

This Disclosure Statement (the "Disclosure Statement") has been prepared pursuant to Section 1125 of the Bankruptcy Code by Congressional Hotel Corporation ("CHC") and CASCO Hotel Group, LLC ("CASCO"), as debtors and debtors-in-possession in the above captioned jointly administered cases (collectively, the "Debtors") in connection with the Debtors' solicitation of votes to confirm the Plan of Liquidation dated February 7, 2012 (as may be amended, supplemented or otherwise modified from time to time, the "Plan"). Capitalized terms that are not defined in this Disclosure Statement shall have the meaning set forth in the Plan.

The purpose of this Disclosure Statement is to set forth information: (i) regarding the history of the Debtors and their businesses; (ii) describing the Chapter 11 cases; (iii) concerning the Plan and alternatives to the Plan; (iv) advising the Holders of Claims and Equity Interests of their rights under the Plan; and (v) assisting the Holders of Claims entitled to vote on the Plan in making an informed judgment regarding whether they should vote to accept or reject the Plan.

Attached as **Exhibit A** to this Disclosure Statement is a copy of the Debtors' Plan.

On \_\_\_\_\_, 2012, the Bankruptcy Court (i) entered an order approving this Disclosure Statement (the "Disclosure Statement Order") as containing "adequate information" to enable a hypothetical, reasonable investor typical of Holders of Claims against or Equity Interests in the Debtors to make an informed judgment as to whether to accept or reject the Plan, and (ii) authorizing the Debtors to use this Disclosure Statement in

connection with the solicitation of votes to accept or reject the Plan. The Disclosure Statement Order establishes \_\_\_\_\_, 2012 at \_\_\_ a.m./p.m. (prevailing Eastern time) as the deadline for the return of Ballots accepting or rejecting the Plan (the "Voting Deadline"). APPROVAL OF THIS DISCLOSURE STATEMENT DOES NOT, HOWEVER, CONSTITUTE A DETERMINATION BY THE COURT AS TO THE FAIRNESS OR MERITS OF THE PLAN.

The Disclosure Statement Order sets forth in detail the deadline, procedures and instructions for voting to accept or reject the Plan, and for filing objections to confirmation of the Plan, the record date for voting purposes and the applicable standards for tabulating Ballots. In addition, detailed voting instructions accompany each Ballot. Each Holder of a Claim entitled to vote on the Plan should read this Disclosure Statement, the Plan, the Disclosure Statement Order and the instructions accompanying the Ballot in their entirety before voting on the Plan. These documents contain important information concerning the classification of Claims and Equity Interests for voting purposes and the tabulation of votes. No solicitation of votes may be made except pursuant to this Disclosure Statement and Section 1125 of the Bankruptcy Code. In voting on the Plan, Holders of Claims entitled to vote should not rely on any information relating to the Debtors other than the information contained in this Disclosure Statement, the Plan and all exhibits hereto and thereto.

THE DEBTORS BELIEVE THAT THE PLAN PROVIDES FOR THE BEST AVAILABLE RECOVERY TO ITS STAKEHOLDERS. THE DEBTORS RECOMMEND THAT HOLDERS OF CLAIMS VOTE FOR THE PLAN.

THIS DISCLOSURE STATEMENT IS NOT INTENDED TO REPLACE A CAREFUL AND DETAILED REVIEW AND ANALYSIS OF THE PLAN BY EACH HOLDER OF A CLAIM OR EQUITY INTEREST. THIS DISCLOSURE STATEMENT IS INTENDED TO AID AND SUPPLEMENT THAT REVIEW. THE DESCRIPTION OF THE PLAN HEREIN IS A SUMMARY ONLY. HOLDERS OF CLAIMS AND EQUITY INTERESTS AND OTHER PARTIES-IN-INTEREST ARE CAUTIONED TO REVIEW THE PLAN AND ANY RELATED ATTACHMENTS FOR A FULL UNDERSTANDING OF THE PLAN'S PROVISIONS. THIS DISCLOSURE STATEMENT IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO THE PLAN.

**B.  Holders of Claims Entitled to Vote.**

Pursuant to the provisions of the Bankruptcy Code, only classes of claims or interests that are (i) "impaired" by a plan and (ii) entitled to receive a distribution under such plan are entitled to vote on the plan. Classes of claims or equity interests in which the holders of claims or equity interests are not impaired under a chapter 11 plan are deemed to have accepted the plan and are not entitled to vote to accept or reject the plan. Classes of claims or equity interests in which the holders of claims or equity interests will receive no recovery under a chapter 11 plan are deemed to have rejected the plan and are not entitled to vote to accept or reject the plan.

In the Chapter 11 Cases, **Holders of Claims against CHC** in Class 1 and Class 4 are impaired by the Plan and are entitled to vote to accept or reject the Plan. Holders of Class 5 Equity Interests will receive no distribution under the Plan and, therefore, are deemed to have rejected the Plan. **Holders of Claims against CASCO** in Class 1 are unimpaired and are therefore not entitled to vote to accept or reject the Plan. Holders of Class 2 Equity Interests are not entitled to vote to accept or reject the Plan, unless and until all other claims asserted against CASCO are paid in full.

The Bankruptcy Code provides that a class of claims has accepted a plan if creditors in that class that hold at least two-thirds in dollar amount and more than one-half in number of the claims that cast ballots vote to accept the plan. Thus, acceptance of the Plan by Class 1 and Class 4 (in the case of CHC) will occur only if at least two-thirds in dollar amount and a majority in number of the Holders of Claims in each such Class that cast their Ballots vote to accept the Plan. A vote may be disregarded if the Bankruptcy Court determines, after notice and a hearing, that such acceptance or rejection of the Plan was not solicited or procured in good faith or in accordance with the provisions of the Bankruptcy Code.

If a Class of claims entitled to vote on the Plan does not accept the Plan, the Debtors reserve the right to amend the Plan or to request confirmation of the Plan pursuant to § 1129(b) of the Bankruptcy Code or both. Section 1129(b) permits the confirmation of a plan notwithstanding the non-acceptance of a plan by one or more impaired classes of claims or equity interests. Under that section, a plan may be confirmed by a bankruptcy court if, among other things, the plan does not "discriminate unfairly" and is "fair and equitable" with respect to each non-accepting class.

In the event that a Class of claims entitled to vote does not vote to accept the Plan, the Debtors' determination as to whether to request confirmation of the Plan pursuant to Section 1129(b) of the Bankruptcy Code will be announced prior the Confirmation Hearing.

C. Voting Procedures.

If you are entitled to vote or reject the Plan, enclosed is a Ballot for the acceptance or rejection of the Plan and a pre-addressed envelope for the return of the Ballot. **BALLOTS FOR ACCEPTANCE OR REJECTION OF THE PLAN ARE BEING PROVIDED ONLY TO HOLDERS OF CLAIMS ASSERTED AGAINST CHC IN CLASS 1 AND CLASS 4 BECAUSE THEY ARE THE ONLY HOLDERS OF CLAIMS THAT ARE ENTITLED TO VOTE TO ACCEPT OR REJECT THE PLAN.** Please use only the official Ballot (or Ballots) that accompanies this Disclosure Statement. If you are the Holder of a Claim in one of these Classes and did not receive a Ballot, received a damaged or illegible Ballot or lost your Ballot, or if you are a party-in-interest and have any questions concerning this Disclosure Statement, any of the exhibits hereto, the Plan or the voting procedures in respect thereof, please contact CHC's counsel at: McNamee Hosea Jernigan Kim Greenan & Lynch, P.A., 6411 Ivy Lane, Suite 200, Greenbelt, Maryland 20770, Attn: James M. Greenan, Esquire, TEL: (301

441-2420 and CASCO's counsel, Stinson Morrison Hecker LLP, 1775 Pennsylvania Avenue, N.W., Suite 800, Washington, D.C. 20006, Attn: Lawrence P. Block, Esquire, TEL: 202-785-9100.

After carefully reviewing this Disclosure Statement and the exhibits attached hereto, please indicate on the enclosed Ballot your vote with respect to the Plan and transmit that Ballot to the respective Debtors' counsel for which you hold a claim in accordance with any one of the following two (2) methods. **FAILURE TO COMPLY WITH THE REQUIREMENTS OF ANY OF THESE METHODS MAY RESULT IN YOUR VOTE NOT BEING COUNTED.**

(1) **If you have a claim against CHC**, executed Ballots will be accepted if sent by mail and timely delivered to the following address: McNamee Hosea Jernigan Kim Greenan & Lynch, P.A., 6411 Ivy Lane, Suite 200, Greenbelt, Maryland 20770, Attn: James M. Greenan; or

(2) **If you have a claim against CHC**, a facsimile copy of an executed Ballot that is faxed to (301) 982-9450, Attn: James M. Greenan, and received by CHC's counsel prior to the Voting Deadline will be effective as delivery of a manually executed Ballot; **and**

(3) **If you have a claim against CASCO**, executed Ballots will be accepted if sent by mail and timely delivered to the following address: Stinson Morrison Hecker LLP, 1775 Pennsylvania Avenue, N.W., Suite 800, Washington, D.C. 20006, Attn: Lawrence P. Block; or

(4) **If you have a claim against CASCO**, a facsimile copy of an executed Ballot that is faxed to (202) 572-9993, Attn: Lawrence P. Block, and received by CASCO's counsel prior to the Voting Deadline will be effective as delivery of a manually executed Ballot.

**IN ORDER TO BE COUNTED, BALLOTS MUST BE RECEIVED BY THE VOTING DEADLINE. IF YOU ARE REQUIRED TO RETURN YOUR BALLOT TO YOUR AGENT, YOU MUST RETURN YOUR BALLOT TO IT IN SUFFICIENT TIME FOR IT TO PROCESS IT AND RETURN IT TO DEBTORS' COUNSEL BY THE VOTING DEADLINE. ANY EXECUTED BALLOTS THAT ARE TIMELY RECEIVED BUT DO NOT INDICATE EITHER AN ACCEPTANCE OR REJECTION OF THE PLAN OR INDICATE BOTH AN ACCEPTANCE AND REJECTION OF THE PLAN WILL BE COUNTED AS AN ACCEPTANCE OF THE PLAN.**

**CREDITORS AND OTHER PARTIES-IN-INTEREST ARE CAUTIONED TO REVIEW THE DISCLOSURE STATEMENT ORDER AND THE PLAN FOR A FULL UNDERSTANDING OF VOTING REQUIREMENTS.**

**THE DEBTORS BELIEVE THAT PROMPT CONFIRMATION AND IMPLEMENTATION OF THE PLAN IS IN THE BEST INTERESTS OF THE DEBTORS, ALL HOLDERS OF CLAIMS AND THEIR RESPECTIVE ESTATES.**

D. Confirmation Hearing.

In accordance with the Disclosure Statement Order and Section 1128 of the Bankruptcy Code, a hearing will be held before the Honorable Paul Mannes, United States Bankruptcy Judge for the Southern District of Maryland, United States Bankruptcy Court, 3rd Floor, 6500 Cherrywood Lane, Greenbelt, Maryland 20770 on \_\_\_\_\_, 2012 at \_\_\_\_\_.m. (prevailing Eastern time), to consider confirmation of the Plan. Objections, if any, to confirmation of the Plan must be served and filed so that they are received on or before \_\_\_\_\_, 2012 at \_\_\_\_\_.m. (prevailing Eastern Time), in a manner set forth in the Disclosure Statement Order. The hearing on confirmation of the Plan may be adjourned from time to time without further notice except for the announcement of the adjourned date and time at the hearing on confirmation of any adjournment thereof.

E. Miscellaneous.

THIS DISCLOSURE STATEMENT HAS BEEN PREPARED BY THE DEBTORS IN GOOD FAITH BASED UPON INFORMATION DERIVED FROM (i) THE DEBTORS' BOOKS AND RECORDS, AND (ii) THE DEBTORS' PRINCIPALS, SENIOR MANAGEMENT, KEY PERSONNEL AND VARIOUS OUTSIDE PROFESSIONALS, INCLUDING LEGAL, ACCOUNTING, MANAGEMENT AND FINANCIAL ADVISORS.

THE DEBTORS ARE UNABLE TO WARRANT OR REPRESENT THAT THIS DISCLOSURE STATEMENT IS WITHOUT ERROR. ALTHOUGH ALL REASONABLE EFFORTS UNDER THE CIRCUMSTANCES HAVE BEEN MADE TO BE ACCURATE, HOLDERS OF CLAIMS ENTITLED TO VOTE SHOULD READ THIS DISCLOSURE STATEMENT CAREFULLY AND IN ITS ENTIRETY AND, WHERE POSSIBLE, CONSULT WITH COUNSEL OR OTHER ADVISORS PRIOR TO VOTING ON THE PLAN. THIS DISCLOSURE STATEMENT DOES NOT CONSTITUTE LEGAL, BUSINESS, FINANCIAL OR TAX ADVICE. INTERESTED PARTIES DESIRING ANY SUCH OR OTHER ADVICE SHOULD CONSULT WITH THEIR OWN ADVISORS.

THE STATEMENTS CONTAINED IN THIS DISCLOSURE STATEMENT ARE MADE BY THE DEBTORS AS OF THE DATE HEREOF UNLESS OTHERWISE SPECIFIED HEREIN, AND THE DELIVERY OF THIS DISCLOSURE STATEMENT IS NOT ASSURANCE THAT THERE HAS BEEN NO CHANGE IN ANY OF THE INFORMATION SET FORTH HEREIN SINCE SUCH DATE.

FOR THE CONVENIENCE OF HOLDERS OF CLAIMS AND EQUITY INTERESTS, THIS DISCLOSURE STATEMENT SUMMARIZES THE TERMS OF THE PLAN. THIS DISCLOSURE STATEMENT IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO THE FULL TEXT OF THE PLAN. IF ANY INCONSISTENCY EXISTS BETWEEN THE TERMS AND PROVISIONS OF THE PLAN AND THIS DISCLOSURE STATEMENT, THE TERMS AND PROVISIONS OF THE PLAN SHALL CONTROL.

THIS DISCLOSURE STATEMENT MAY NOT BE RELIED ON FOR ANY

PURPOSE OTHER THAN TO DETERMINE WHETHER TO VOTE TO ACCEPT OR REJECT THE PLAN, AND NOTHING STATED HEREIN SHALL CONSTITUTE AN ADMISSION OF FACT OR LIABILITY BY ANY PARTY, BE ADMISSIBLE IN ANY PROCEEDING INVOLVING THE DEBTORS OR ANY OTHER PARTY OR BE DEEMED CONCLUSIVE EVIDENCE OF THE TAX OR OTHER LEGAL EFFECTS OF THE PLAN ON THE DEBTORS OR HOLDERS OF CLAIMS OR EQUITY INTERESTS.

ALL PROJECTED RECOVERIES SET FORTH IN THE PLAN AND THIS DISCLOSURE STATEMENT ARE BASED ON THE TRANSACTIONS DESCRIBED HEREIN. ALL SUCH RECOVERIES ARE MERELY PROJECTED RECOVERIES BASED ON ASSUMPTIONS WHICH ARE SET FORTH HEREIN. TO THE EXTENT THAT ACTUAL RESULTS VARY FROM THE ASSUMPTIONS, RECOVERIES MAY VARY FROM THE PROJECTIONS.

## II. OVERVIEW OF THE PLAN

The Plan contemplates, among other things, the payment in full in cash of all Administrative Claims and Priority Tax Claims. Furthermore, the Plan provides for the classification and treatment of Allowed Claims and Equity Interests as summarized in the following table. The summary also identifies which Classes are entitled to vote on the Plan in accordance with the Disclosure Statement Order and describes the estimated recovery for the Allowed Claims in each class. The summary set forth herein is qualified in its entirety by reference to the full text of the Plan.

### A. Summary of CHC Claims.

CLASS	TYPE OF CLAIM OR EQUITY	TREATMENT	ESTIMATED RECOVERY	STATUS
1	Allowed Citizens Secured Claim	Payment in full at Closing from the proceeds of the sale of the Assets	100%	Impaired - Entitled to Vote.
2	Allowed Secured Claim of Montgomery County, Maryland (Real Property Taxes)	Payment in full at Closing from the proceeds of the sale of the Assets	100%	Unimpaired – Not Entitled to Vote.

3	Priority Tax Claims (Comptroller of Maryland) (Pre-Petition Sales and Use Tax)	Payment in full on or before the Effective Date.	100%	Unimpaired – Note Entitled to Vote.
4	General Unsecured Claims	Each Holder of an Allowed General Unsecured Claim will receive a pro rata share of any remaining monies after the payment of all secured, administrative and priority claims	To be determined once valuation of the Debtors' respective estates is determined by further Court order	Impaired - Entitled to Vote.
5	Equity Interest Holders	On the Effective Date, Equity Interests will be cancelled and each Holder thereof will not be legally entitled to receive or retain distributions on account of Equity Interests	0%	Impaired – Not Entitled to Vote

B. Summary of CASCO Claims.

CLASS	TYPE OF CLAIM OR EQUITY	TREATMENT	ESTIMATED RECOVERY	STATUS
1	Allowed Secured Claim of Montgomery County, Maryland (Real Property Taxes)	Payment in full at Closing from the proceeds of the sale of the Assets	100%	Unimpaired – Not Entitled to Vote.



2	Equity Interest Holders	On the Effective Date, Equity Interests will be cancelled and each Holder thereof will receive or retain distributions after all Claims of CASCO creditors are paid in full.	Unknown	Impaired – Not Entitled to Vote, unless and until all Holders of Claims against CASCO are paid in full.
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### III. DESCRIPTION AND HISTORY OF DEBTORS' BUSINESSES

#### A. Overview.

CHC is a Maryland corporation with its principal place of business located at 1775 Rockville Pike, Rockville, Maryland 20850. CHC operates a full service boutique hotel, offering 162 guest rooms, located in Montgomery County, Maryland (the "Hotel"). Until March 2008, the Hotel was flagged as a Ramada Inn before being re-flagged as The Legacy Hotel & Meeting Centre, under which it currently operates. In addition to a business center and fitness facilities, CHC, as franchisee, operates a Phillips Seafood restaurant on the premises. CHC also leases a meeting and conference center from Congressional Village Associates, LLC, offering approximately 9,000 square feet of conference and event space adjacent to the hotel. CHC also owns and leases retail space adjacent to the Hotel. Mervis Diamond Corporation ("Mervis") presently leases and operates a jewelry store from one of the two retail spaces. The second retail space is vacant. At the time of the filing of CHC's chapter 11 case, the Hotel was and continues to be managed by Interstate Management Company, LLC.

CHC is owned by Alan Cohen, Sue-Ann Cohen Siegel and Craig Cohen, each owning a one-third interest in CHC.

CASCO is the fee owner of certain real property consisting of 15,873 square feet (0.3644 acres more or less) of land located at 1775 Rockville Pike, Rockville, Maryland 20850 (the "Land"). The Hotel is situated on the Land pursuant to a certain Ground Lease dated January 31, 1996 by and among Congressional South Associates Limited Partnership, as landlord, and CHC, as tenant, memorialized of record by a Memorandum of Lease dated January 31, 1996 and recorded in the Land Records of Montgomery County, Maryland at Liber 13926 (the "Ground Lease"). On or about November 30, 2007, Congressional South Associates Limited Partnership assigned all right, title and interest in the Ground Lease to CASCO. On or about June 15, 2011, CASCO terminated the Ground Lease, by virtue of CHC having been in default of its obligations under the Ground Lease. As a result of the termination of the Ground Lease, the furniture, fixtures, equipment and improvements, pursuant to a reversionary interest as provided for in the Ground Lease, became the property of CASCO. However, notwithstanding the termination of the Ground Lease, and for purposes of allocating the cash proceeds from the sale of the Debtors'

Assets, each Debtor shall be deemed to retain their respective pre-Ground Lease termination assets, as if the Ground Lease had not been terminated.

Other than owner and lessor of the Land, CASCO has no business operations or employees. CASCO is owned by Alan Cohen, Sue-Ann Cohen Siegel and Craig Cohen, each owning a one-third interest in CASCO.

**B. Summary of Funding of the Debtors' Operations.**

1. CHC is operating its business from its revenues derived from the operations of the Hotel. Citizens Bank of Pennsylvania ("Citizens") has consented to the use of the revenues, cash and other cash equivalents pursuant to Orders authorizing the Debtors' Use of Cash Collateral and Granting Adequate Protection Thereto.

2. CASCO is not conducting any business operations, but will fund allowed claims asserted against CASCO from the proceeds of the sale of the Debtors' Assets.

**IV. EVENTS LEADING TO CHAPTER 11 FILING**

CHC previously filed for Chapter 11 bankruptcy protection on May 3, 2009 in the United States Bankruptcy Court for the District of Maryland, Case No. 09-17901-PM (the "2009 CHC Bankruptcy Case"). The 2009 CHC Bankruptcy Case was filed as a result of a judgment entered against CHC in favor of Mervis in a breach of contract action filed in the Circuit Court of Maryland for Montgomery County, Case No. 259919-V (the "Litigation"). The Litigation arose out of a July 2004 lease for retail space entered into between Mervis, as tenant, and CHC, as Landlord. Under the lease, CHC was to perform certain build-out work at the premises, and then deliver the premises to Mervis by giving Notice of Possession. Mervis was then to build-out and fixture the Premises in order to operate a jewelry store.

On March 16, 2005, Mervis filed suit alleging that CHC had breached the lease by refusing to commence and promptly complete the build-out work and by refusing to deliver possession of the premises to Mervis. Mervis sought specific performance of the lease and damages.

The case proceeded to trial in June, 2006. The trial court found in favor of Mervis, concluding that CHC had breached the Mervis lease. The trial court entered judgment ordering CHC to specifically perform its obligations under the lease and awarded Mervis \$2,164,500.00 in damages. The trial court also awarded Mervis approximately \$298,979.00 in attorneys' fees. CHC noted a timely appeal.

On or about December 12, 2007, the Court of Special Appeals affirmed the trial court's decision to award Mervis specific performance, but reversed the trial court's award of lost profits, and remanded the case to the trial court on the matter of damages. The Court of Special Appeals did not reverse the attorneys' fee award. After a second trial on damages, the trial court found in favor of Mervis and awarded Mervis \$2,966,597.00 in damages. CHC subsequently filed the 2009 CHC Bankruptcy Case.

On July 10, 2009, with leave of the Bankruptcy Court, the Circuit Court entered a judgment against CHC in the amount of \$3,456,085.50. On September 21, 2009, the Circuit Court also entered a supplemental judgment in favor of Mervis for attorneys' fees in the amount of \$501,805.29. CHC noted a second appeal to the Court of Special Appeals of Maryland on the damage and attorneys' fee award.

On June 17, 2010, the Court of Special Appeals affirmed the decision of the Circuit Court upholding the damage award entered in favor of Mervis. The Court of Special Appeals also affirmed the judgment in favor of Mervis for attorneys' fees in the amount of \$501,805.29.

Ultimately, CHC was unable to reorganize its financial affairs in the 2009 CHC Bankruptcy Case and on May 18, 2011, the 2009 CHC Bankruptcy Case was dismissed. Subsequent to the dismissal of the 2009 CHC Bankruptcy Case, the Debtors, through Molinaro Koger, the Court approved broker, continued to aggressively market the Debtors' Assets, including the Land owned by CASCO. These efforts resulted in the Debtors obtaining an offer to purchase the Debtors' Assets for \$18,000,000.00. As a result, on August 23, 2011, the Debtors entered into an Agreement of Sale with 1775 Rockville Pike, LLC, a Delaware Limited Liability Company, whereby 1775 Rockville Pike, LLC agreed to purchase the Debtors' Assets for \$18,000,000.00.

As a result of certain collection efforts taken by Mervis, including a garnishment of CHC's accounts, the Debtors were unable to consummate the sale of the Assets to 1775 Rockville Pike, LLC outside of bankruptcy. Accordingly, the Debtors filed the Chapter 11 Cases.

## **V. DESCRIPTION OF BANKRUPTCY CASE**

### **A. General Case Background.**

On August 15, 2011 and August 17, 2011, CHC and CASCO, respectively, voluntarily commenced these Chapter 11 cases. On August 24, 2011, the Debtors filed a motion for order authorizing the sale of substantially all of Debtors' assets free and clear of all liens, claims, encumbrances and other interests to 1775 Rockville Pike, LLC, and for related relief (the "Sale Motion") [docket no. 17]. The Sale Motion sought authorization to sell the Debtors' Assets to 1775 Rockville Pike, LLC for \$18,000,000.00. Due to the extensive negotiations and due diligence conducted by 1775 Rockville Pike, LLC, the Sale Motion also sought, as a condition to closing a sale to a third party, a Break-Up Fee in the amount of \$540,000.00 (an amount equal to three percent (3%) of the proposed purchase price).

On or about October 6, 2011, Baywood Hotels Inc. submitted a proposed agreement of sale, offering to purchase the Debtors' Assets for \$18,500,000.00. Accordingly, on October 14, 2011, the Debtors filed an expedited motion (the "Bid Procedures Motion") for an order (i) establishing bidding procedures, including a break-up fee in connection with a sale of substantially all of the Debtors' assets free and clear of liens, claims, encumbrances and other interests (ii) authorizing the Debtors to conduct an auction sale of the Assets, (iii) scheduling a

date for the Auction and authorizing the Debtors to conduct the Auction of the Assets before the Court, (iv) scheduling a hearing to approve the Auction result and the sale of the Assets (v) approving the Bid Procedures and (vi) approving the form and manner of notices [docket no. 68].

On November 30, 2011, the Bankruptcy Court entered a Consent Order approving the Bid Procedures Motion, approving the bid procedures, allowing a Break-Up Fee in favor of 1775 Rockville Pike, LLC in the amount of \$325,000.00 and scheduling an Auction of the Debtors' Assets and approval of the Auction on December 8, 2011.

B. Sale of Substantially all of Debtors' Assets.

On December 8, 2011, an Auction was held to obtain the highest and best offer for the Debtors' Assets. Other than the offers of 1775 Rockville Pike, LLC and Baywood Hotels, Inc., no other offers were received by the Debtors. At the Approval Hearing conducted immediately following the Auction, Baywood Hotels, Inc.'s offer to purchase the Debtors' Assets for \$19,500,000.00 was determined to be the highest and best offer. Baywood has since designated Rockville Hospitality, LLC ("Rockville Hospitality") as the entity that will acquire title to the Debtors' Assets.

On December 23, 2011, the Debtors and Rockville Hospitality executed an Agreement of Sale (the "Rockville Hospitality Agreement of Sale"), whereby Rockville Hospitality will acquire the Debtors' Assets free and clear of liens, encumbrances and interests for \$19,500,000.00 (the "Purchase Price"). Prior to the Auction, CHC disclosed to bidders, including Rockville Hospitality, possible mold spore infestation existing in certain of the guest rooms and adjacent corridors within the Hotel and CHC provided Rockville Hospitality with proposals submitted by a contractor qualified to perform mold remediation services upon the Hotel. Rockville Hospitality elected to accept the Assets subject to the mold remediation in consideration of a credit against the Purchase Price at Closing, in the amount of \$475,000.00 (the "Mold Remediation Credit").

The Rockville Hospitality Agreement of Sale is subject to a forty-five (45) day inspection period that commenced on December 23, 2011 and expires on or about February 7, 2012 (the "Inspection Period"). Prior to the expiration of the Inspection Period, Rockville Hospitality is entitled to terminate the Rockville Hospitality Agreement of Sale, for any reason or no reason whatsoever, by written notice to the Debtors before the end of the Inspection Period. Notwithstanding any such termination by Rockville Hospitality, the Deposit tendered by it to the Debtors in the amount of \$500,000.00 is non-refundable and shall become the property of the Debtors' estates in the event the Rockville Hospitality Agreement of Sale is terminated, subject to Citizens Bank of Pennsylvania's valid and perfected security interest in, among other things, the Deposit.

On January 23, 2012, the Court entered an Order approving the Sale Motion (the "Sale Order"). The Sale Order is adopted and incorporated herein as if fully set forth. A copy of the Sale Order is attached hereto as **Exhibit B**.

## VI. SUMMARY OF THE LIQUIDATION PLAN

### A. Introduction.

The following summary and other descriptions in this Disclosure Statement are qualified in their entirety by reference to the provisions of the Plan, a copy of which is annexed hereto as **Exhibit A**. Each Holder of a Claim or Equity Interest is urged to review carefully the terms of the Plan. In the event of any inconsistency between the provisions of the Plan and the summary contained herein, the terms of the Plan shall govern. Moreover, all capitalized terms not otherwise defined in this Disclosure Statement shall have the meanings set forth in the Plan.

In general, a chapter 11 plan (i) divides claims and equity interests into separate classes, (ii) specifies the property that each class is to receive under the plan, and (iii) contains other provisions necessary to the reorganization or liquidation of the Debtors. Under the Bankruptcy Code, "claims" and "equity interests" are classified rather than "creditors" and "shareholders" because such entities may hold claims or equity interests in more than one class. For purposes of this Disclosure Statement, the term "Holder" refers to the holder of a Claim or Equity Interest, respectively, in a particular Class under the Plan.

A chapter 11 plan may specify that certain classes of claims or equity interests are either to be paid in full upon effectiveness of the plan or are to remain unchanged by the plan. Such classes are referred to as "unimpaired" and, because of such favorable treatment, the holders in such classes are deemed to accept the plan. Accordingly, it is not necessary to solicit votes from the holders of claims or equity interest in such classes. A chapter 11 plan also may specify that certain classes will not receive any distribution or property or retain any claim against a debtor. Such classes are deemed to have rejected the plan and, therefore, need not be solicited to vote to accept or reject the plan.

### B. Administrative and Priority Tax Claims.

1. **Administrative Claims.** Subject to the provisions of sections 330(a), 331 and 503(b) of the Bankruptcy Code, each Administrative Claim that is Allowed will be paid by the respective Debtor that holds such Claim, in full, in cash, in such amounts as are incurred in the ordinary course of business by the Debtors, or in such amounts as such Administrative Claim is Allowed by the Bankruptcy Court (i) upon the later of the Effective Date or, if such Claim is Allowed after the Effective Date, the date upon which there is a Final Order allowing such Administrative Claim, (ii) upon such other terms as may exist in the ordinary course of such Debtors' business and in accordance with the terms of any agreement governing or documents evidencing such Administrative Claim, or (iii) as may be agreed upon between the Holder of such Allowed Administrative Claim and the Debtors. Administrative Claims include, but are not limited to, quarterly fees due to the United States Trustee, which shall be paid in full as they become due without further Court Order. Except with respect to those fees required to be paid by the Debtors to the United States Trustee, all Administrative Claims shall be filed with the Bankruptcy Court not later than thirty (30) days after the Effective Date.

2. **Priority Tax Claims.** Each Allowed Priority Tax Claim will be paid by the Debtors with whom the Priority Tax Claim is attributable, in full, in Cash, on the Effective Date or as may be agreed upon between the Holder of such an Allowed Priority Tax Claim and the Debtors or pursuant to further Court Order authorizing the payment prior to the Effective Date.

3. **Professional Fees.** All final applications for the Professional Fees for services rendered in connection with these Chapter 11 cases prior to the Confirmation Date shall be filed with the Bankruptcy Court not later than thirty (30) days after the Effective Date. Payment on approved professional fees shall be made within thirty (30) days of Court approval. Without limiting the foregoing, the Debtors or the Plan Administrator may pay the charges incurred on or after the Confirmation Date for Professionals' fees, disbursements, expenses or related support services without application to or approval by the Bankruptcy Court.

C. Classification and Treatment of Claims and Equity Interests.

1. **Classification.** The categories of Claims and Equity Interests listed below classify Claims and Equity Interests for all purposes, including voting, confirmation and distribution pursuant to the Plan and pursuant to Sections 1122 and 1123(a)(1) of the Bankruptcy Code. A Claim or Equity Interest will be deemed classified in a particular Class only to the extent that the Claim or Equity Interest qualifies within the description of that Class and will be deemed classified in a different Class to the extent that any remainder of such Class or Equity Interest qualifies within the description of such different Class. A Claim or Equity Interest is in a particular Class only to the extent that such Claim or Equity Interest is Allowed in that Class and has not been paid or otherwise settled prior to the Effective Date.

CHC: Summary of Classification and Treatment of Claims and Equity Interests

CLASS	DESCRIPTION	STATUS	ENTITLED TO VOTE
1	Allowed Citizens Secured Claim	Impaired	YES
2	Allowed Secured Claim of Montgomery County	Unimpaired	NO
3	Priority Tax Claims	Unimpaired	NO
4	General Unsecured Claim	Impaired	YES
5	Equity Interest Holders	Impaired	NO

CASCO: Summary of Classification and Treatment of Claims and Equity Interests

CLASS	DESCRIPTION	STATUS	ENTITLED TO VOTE
1	Allowed Secured Claim of Montgomery County	Unimpaired	No
2	Equity Interest Holders	Impaired	No, unless and until all Holders of Claims against CASCO are paid in full

2. Acceptance and Rejections.**A. CHC**

Class 1 impaired under the Plan and is entitled to vote on the Plan.

Class 2 and Class 3 are unimpaired under the Plan and the Holders of Allowed Claims in such Classes are conclusively presumed to have accepted the Plan pursuant to Section 1126(f) of the Bankruptcy Code and are not entitled to vote on the Plan.

Class 4 is impaired under the Plan and is entitled to vote on the Plan.

Class 5 is impaired under the Plan and Holders of Equity Interests in such Class are conclusively presumed to have rejected the Plan and, therefore, are not entitled to vote on the Plan.

**B. CASCO**

Class 1 is unimpaired under the Plan and the Holders of Allowed Claims in such Classes are conclusively presumed to have accepted the Plan pursuant to § 1126(f) of the Bankruptcy Code and is not entitled to vote on the Plan.

Class 2 is impaired under the Plan and Holders of Equity Interests in such Class are conclusively presumed to have rejected the Plan and, therefore, are not entitled to vote on the Plan, unless and until all Holders of Claims against CASCO are paid in full.

3. Treatment of Claims and Equity Interests.

(a) **Allocation of Sale Proceeds.** Rockville Hospitality has agreed to purchase the Debtors' Assets for \$19,500,000.00, less the Mold Remediation Credit in the amount of \$475,000.00. For purposes of allocating the Purchase Price between the Debtors' estates, each

Debtor is deemed to retain title to their property as such property was titled prior to the termination of the Ground Lease. Accordingly, CASCO is selling its right, title and interest in the Land, while CHC is selling its right, title and interest in the remaining Assets. CASCO has engaged an Appraiser who has valued the Land encumbered by the Ground Lease to be \$3,450,000.00, and the Land unencumbered by the Ground Lease to be \$5,700,000.00. Further Court Order will conclusively determine the value of the Land owned by CASCO and therefore the allocation of the proceeds of the Sale of the Debtors' Assets. Mervis disputes the valuation of the Land and the allocation of the proceeds of the sale of the Debtors' Assets. Accordingly, prior to disbursement of funds pursuant to the Plan, the Court shall determine the allocation of the proceeds from the sale of the Debtors' Assets to the Debtors' respective estates.

(b) **Administrative Expenses and Fees.** Administrative Expenses are Claims for fees, costs or expenses of administering the Debtors' Chapter 11 Cases which are allowed under Code Section 507(a)(1), including all professional compensation requests pursuant to Sections 330 and 331 of the Code. The Code requires that all Administrative Expenses, including fees payable to the Court and the Office of the United States Trustee which were incurred during the pendency of these cases must be paid on the Effective Date of the Plan, unless a particular claimant agrees to a different treatment.

The Debtors' Allowed Administrative Claims will be paid in full on (i) the Effective Date, (ii) upon entry of a Court order approving the amount of such claims, or (iii) when agreed to by the Debtors and the administrative claimant. Except with respect to those fees required to be paid to the United States Trustee, all Administrative Claims shall be filed with the Bankruptcy Court not later than thirty (30) days after the Effective Date. Additionally, the Court must approve all professional compensation and expenses. Each professional person requesting compensation in the case pursuant to Sections 327, 328, 330, 331, 503(b) or 1103 of the Code shall file an application for allowance of final compensation and reimbursement of expenses not later than thirty (30) days after the Effective Date. Nothing herein shall prohibit each professional person from requesting interim compensation during the course of these cases pending Confirmation of this Plan. No motion or application is required to fix fees payable to the Clerk's Office or the Office of the United States Trustee, as those fees are determined by statute.

(c) **Treatment of CHC Claims.**

(i) **Allowed Citizens Secured Claim (Class 1)**

Citizens Bank of Pennsylvania ("Citizens") will be paid at Closing from the proceeds of the sale of the Assets, pursuant to the Plan and the Sale Order.

<b>Class</b>	<b>Description</b>	<b>Impaired</b>	<b>Treatment</b>
Class 1	Allowed Citizens Secured Claim	Yes	Paid in full at Closing from the proceeds of the



			Sale of the Assets.
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On the Petition Date, the Debtors were indebted to Citizens on account of a loan of money (the "Legacy Loan")<sup>1</sup> in the total aggregate amount of approximately \$14,597,998.06 (the "Prepetition Indebtedness") pursuant to the terms of (i) a Construction Loan Agreement dated November 28, 2007 by and between Legacy Accommodator, LLC (the "Legacy Borrower"), as borrower, and Citizens, as lender (the "Loan Agreement"); (ii) a Promissory Note in the principal amount of \$14,000,000.00 dated November 28, 2007, made by Legacy, as maker, in favor of Citizens, as payee (the "Citizens Note"); (iii) an Indemnity Deed of Trust Guaranty Agreement made as of November 28, 2007 by CHC, as guarantor, in favor of Citizens (the "Guaranty"); (iv) an Indemnity Fee and Leasehold Deed of Trust, Assignment, Security Agreement and Fixture Filing made as of November 28, 2007 by CASCO and CHC, jointly, as grantor, in favor of Dennis J. Hoover, as trustee, and Citizens, as beneficiary (the "Deed of Trust"); (v) an Assignment of Leases and Rents for Hotel Property made as of November 28, 2007 by CHC in favor of Citizens (the "Assignment of Revenues"); and (vi) various other related instruments, agreements and documents. The Loan Agreement, Citizens Note, Guaranty, Deed of Trust, Assignment of Revenues and other related instruments, agreements and documents evidencing the Prepetition Indebtedness are hereinafter collectively referred to as the "Prepetition Loan Documents."

Pursuant to the Prepetition Loan Documents, Citizens holds a perfected first priority security interest in and lien on the Land and improvements located at 1775 Rockville Pike, Rockville, Maryland and related personal property as specified in the Prepetition Loan Documents (collectively, the "Assets").

Pursuant to the Prepetition Loan Documents (including the Assignment of Revenues), Section 552(b) of the Code and applicable non-bankruptcy law, the post-petition rents, issues, profits and revenues of the Property constitute part of the collateral in which Citizens holds a perfected first priority security interest.

Pursuant to Citizens' Proofs of Claim and the Consent Order Allowing and Authorizing Payment to Citizens Bank of Pennsylvania of Fees, Costs and Charges Pursuant to Section 506(B) of the Bankruptcy Code dated January 12, 2012, the Citizens Allowed Claim is estimated to be **\$14,600,000.00**.

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<sup>1</sup> Legacy Accommodator, LLC is the sole member of Congressional Hotel Corporation. Legacy Accommodator is the borrower of the Legacy Loan and referred to herein as the "Legacy Borrower." Legacy Accommodator has no assets, conducts no business and was formed for the sole purpose of acquiring the Legacy Loan.

(ii) **Allowed Secured Claim of Montgomery County, Maryland (Class 2)**

CHC is indebted to Montgomery County, Maryland on account of unpaid property taxes for fiscal year 2011 in the amount of approximately **\$79,000.00**. The Allowed Secured Claim of Montgomery County will be paid from the proceeds of the sale of the Assets.

<b>Class</b>	<b>Description</b>	<b>Impaired</b>	<b>Treatment</b>
Class 2	Allowed Secured Claim of Montgomery County, Maryland (Property Taxes)	NO	Paid in full at Closing from the proceeds of the Sale of the Assets.

(iii) **Allowed Priority Tax Claims of the Comptroller of Maryland (Class 3)**

Priority Tax Claims represent certain pre-petition unsecured income, sales and other taxes described by Code Section 507(a)(8). The Code requires that each holder of such a Section 507(a)(8) allowed Priority Tax Claim receive the present value of such claim in deferred cash payments, over a period non exceeding six years from the date of the assessment of such tax. To the extent that there are any Priority Tax Claims, such Priority Tax Claims will be paid on the Effective Date or as may be agreed upon between the Holder of such an Allowed Priority Tax Claim and the Debtors or pursuant to further Court Order authorizing the payment prior to the Effective Date.

CHC is indebted to the Office of the Maryland Comptroller on account of pre-petition unpaid sales and use tax in the amount of approximately **\$46,000.00**.

<b>Class</b>	<b>Description</b>	<b>Impaired</b>	<b>Treatment</b>
Class 3	Allowed Priority Tax Claims of the Comptroller of Maryland (Sales and Use Tax)	No	Payment in full on the Effective Date or as otherwise permitted by the Bankruptcy Court.

(iv) **Allowed General Unsecured Claims (Class 4)**

Allowed General Unsecured Claims are uncollateralized claims not entitled to priority under Code Section 507(a). The following identifies the Plan's treatment of this Class containing all of CHC's Allowed General Unsecured Claims, including the Mervis unsecured judgment claim in the principal amount of \$3,957,890.79.

Allowed General Unsecured Claims are estimated to be approximately **\$6,811,545.00**.

<b>Class</b>	<b>Description</b>	<b>Impaired</b>	<b>Treatment</b>
Class 4	Allowed General Unsecured Claims	Yes – Entitled to Vote	<p>The holders of general unsecured claims shall receive a pro rata share of any monies remaining after the payment of all administrative and priority claims.</p> <p>The anticipated pro rata distribution to this class will depend on the allocation of the proceeds of the sale of the Assets.</p>

Each holder of an Allowed General Unsecured Claim shall receive, in full settlement and satisfaction thereof, a pro rata share remaining, less reserves established pursuant to the terms of the Plan, and after payment in full of Allowed Class 1, Class 2 and Class 3 Claims. Class 4 Claims are impaired under the Plan and are entitled to vote. The amount of Allowed General Unsecured Claims are subject to change if and to the extent rejection damages are asserted against the Debtors' by parties to rejected executory contracts and unexpired leases or objections to Allowed General Unsecured Claims are asserted and resolved by further Court Order.

(v) **Class of Equity Interest Holders (Class 5).** The members of this class will be treated as follows:

<b>Class</b>	<b>Description</b>	<b>Impaired</b>	<b>Treatment</b>
Class 5	Equity Interest Holders	Yes	CHC will be dissolved as a result of this Plan of liquidation, and the shares will be deemed cancelled. The interest holders are deemed to reject the Plan

Because the value of CHC's assets is less than the total value of CHC's debts and liabilities, Holders of Equity Interests will receive no distributions on account of such Equity Interests. Holders of Class 5 Equity Interests are deemed to have rejected the Plan.

(d) **Treatment of CASCO Claims.**

(i) **Allowed Secured Claim of Montgomery County, Maryland (Class 1)**

CASCO is indebted to Montgomery County, Maryland on account of unpaid property taxes for fiscal year 2011 in the amount of approximately **\$15,000. (Class 1)**

<b>Class</b>	<b>Description</b>	<b>Impaired</b>	<b>Treatment</b>
Class 1	Allowed Secured Claim of Montgomery County, Maryland (Property Taxes)	NO	Paid in full at Closing from the proceeds of the Sale of the Assets.

(ii) **Class of Equity Interest Holders (Class 2).** The members of this class will be treated as follows:

<b>Class</b>	<b>Description</b>	<b>Impaired</b>	<b>Treatment</b>
Class 2	Equity Interest Holders	Yes	CASCO will be dissolved as a result of this Plan of liquidation, and the shares will be deemed cancelled. The interest holders are deemed to reject the Plan.

After payment to the Holders of Allowed Claims of the CASCO estate, any remaining proceeds shall be distributed to the Holders of Class 2 Equity Interests.

Mervis Diamond Corporation asserts that it believes a portion of the Citizens Allowed Secured Claim should be borne by the CASCO estate. While CASCO, like CHC, are both guarantors of the Citizens Note giving rise to the Citizens Allowed Secured Claim, the Citizens Note refinanced a prior existing loan of CHC; the Citizens Note was made by Legacy Accommodator, LLC, a corporation for which CHC is the sole member; and the Citizens Note was earmarked for use solely by CHC. CASCO was not the intended recipient of the Citizens Note and received no benefit from the Citizens Note.

The Debtors expect that the issue concerning whether all or some of the Citizens Allowed Secured Claim should be allocated to the CASCO estate will be resolved by further Order of the Bankruptcy Court in conjunction with the hearing on the allocation of the proceeds from the sale of the Debtors' Assets. Accordingly, the Classes of CASCO Claims are subject to change.

#### **D. Cramdown.**

If any Impaired Class of Claims entitled to vote shall not accept the Plan, the Debtors will seek confirmation of the Plan under § 1129(b) of the Bankruptcy Code or seek to amend or modify the Plan. With respect to any Impaired Class of Claims or Interests that is deemed to reject the Plan, the Debtors will request that the Bankruptcy Court confirm the Plan pursuant to Section 1129(b) of the Bankruptcy Code.

#### **E. Means for Implementation of the Plan.**

1. Cancellation of Equity Interests. On the Effective Date, the Debtors will be dissolved and all Equity Interests will be cancelled and will be deemed terminated.
2. Section 1146 Exemption. Pursuant to Section 1146 of the Bankruptcy Code,

the transfer of the Debtors' Assets to Rockville Hospitality, LLC pursuant to the January 23, 2012 Sale Order attached hereto as **Exhibit B** shall not be subject to any document recording tax, stamp tax, conveyance fee, sales and use tax, intangibles or similar tax, mortgage tax, stamp act, real estate transfer tax, mortgage recording tax or other similar tax or governmental assessment. Furthermore, upon entry of the Confirmation Order, the appropriate state and local governmental officials and agents shall forgo the collection of any such tax or governmental assessment and accept for filing and recordation any of the foregoing instruments or other documents without the payment of any such tax, recordation fee or governmental assessment.

#### **F. Treatment of Executory Contracts and Unexpired Leases.**

1. Rejection of Executory Contracts and Unexpired Leases. On the Confirmation Date, all executory contracts or unexpired leases of the Debtors not otherwise expressly assumed and assigned or subject to a motion to assume and assign will be deemed rejected in accordance with the provisions and requirements of §§ 365 and 1123 of the Bankruptcy Code.

2. Claims Based on Rejection of Executory Contracts or Unexpired Leases. All proofs of claim with respect to Claims arising from the rejection of executory contracts or unexpired leases, if any, must be filed with the Bankruptcy Court within the later of thirty (30) days after the date of entry of an order of the Bankruptcy Court confirming the Plan or an Order rejecting the executory contracts or unexpired leases. Any Claims arising from the rejection of an executory contract or unexpired lease for which proofs of claim are not filed within such time will be forever barred from assertion against the Debtors, their Estates and property unless otherwise ordered by the Bankruptcy Court. All Allowed Claims arising from rejection of executory contracts or unexpired leases for which proofs of claim have been timely filed will be, and will be treated as, Allowed General Unsecured Claims, subject to any limitation on allowance of such Claims under § 502(b) of the Bankruptcy Code or otherwise.

#### **G. Provisions Governing Distributions.**

##### 1. Appointment of Plan Administrator.

Upon confirmation, the Debtors shall each appoint a Plan Administrator who will be charged with liquidating that Debtors' respective assets and commencing or continuing litigation. The Plan contemplates that the source of recovery for payments to creditors will be from the sale of the Debtors' Assets and post confirmation commencement or continuation of litigation including but not limited to the filing of avoidance actions to recover funds that constitute fraudulent conveyances or preferences under the Bankruptcy Code, as well as other actions that may exist, including, but not limited to the pending adversary proceeding captioned *Congressional Hotel Corporation v. Mervis Diamond Corporation et al.*, Adversary No. 12-00040.

2. Distribution for Claims Allowed as of the Effective Date.

Distributions to be made on the Effective Date on account of Claims that are Allowed as of the Effective Date and are entitled to receive distributions under the Plan will be made on the Effective Date or as soon as practicable thereafter except as otherwise specified in the Plan. Distributions on account of Claims that become Allowed Claims after the Effective Date will be made pursuant to the Plan.

3. Distribution by the Plan Administrator.

The Plan Administrator will make all initial distributions required under the Plan and, to the extent there are funds, will make additional distributions. Subsequent distributions shall be made by the Plan Administrator based upon additional funds obtained through the prosecution of litigation.

4. Delivery and Distributions and Undeliverable or Unclaimed Distributions.

Except as otherwise specified in the Plan, any distribution to a Holder of an Allowed Claim will be made to such Holder of record as of the Confirmation Date at the address of such Holder as indicated in the records of the Debtor.

Undeliverable Distributions.

a. Holding of Undeliverable Distributions. If any Allowed Claim Holder's distribution is returned as undeliverable, no further distributions will be made to such Holder unless and until the Plan Administrator is notified in writing of such Holder's then current address.

b. Compliance with Tax Requirements. Any federal, state or local withholding taxes or amounts required to be withheld under applicable law will be deducted from distributions under the Plan. All Entities holding Claims will be required to provide any information necessary to effect the withholding of such taxes.

5. Timing and Calculation of Amounts to Be Distributed.

On or as soon as practicable after the Effective Date (except as otherwise specified in the Plan), each Holder of an Allowed Claim will receive the full amount of the distributions that the Plan provides for such Allowed Claims in the applicable Class.

**H. Procedures for Resolving Disputed Claims.**

1. Prosecution of Objections to Claims.

After the Confirmation Date, the Plan Administrator will have the exclusive authority to file, settle, compromise, withdraw or litigate to judgment objections to any Claims, and may settle or compromise any Disputed Claim without approval of the Bankruptcy Court.

2. Estimation of Claims.

The Debtors or the Plan Administrator may, at any time, request that the Bankruptcy Court estimate any contingent or unliquidated Claim pursuant to section 502(c) of the Bankruptcy Code regardless of whether the Debtors have previously objected to such Claim or whether the Bankruptcy Court has ruled on any such objection, and the Bankruptcy Court will retain jurisdiction to estimate any Claim at any time during litigation concerning any objection to any Claim, including during the pendency of any appeal relating to any such objection. In the event that the Bankruptcy Court estimates any contingent or unliquidated Claim, that estimated amount will constitute either the Allowed amount of such Claim or a maximum limitation on such Claim, as determined by the Bankruptcy Court. If the estimated amount constitutes a maximum limitation on such Claim, the Debtors may elect to pursue any supplemental proceedings to object to any ultimate payment on such Claim. All of the aforementioned Claims objection, estimation and resolution procedures are cumulative and not necessarily exclusive of one another. Claims may be estimated and subsequently compromised, settled, withdrawn or resolved by any mechanism approved by the Bankruptcy Court.

3. Payment and Distributions on Disputed Claims.

Notwithstanding any provision in the Plan to the contrary, except as otherwise agreed by the Plan Administrator in his sole discretion, no partial payments and no partial distributions will be made with respect to a Disputed Claim until the resolution of such disputes by settlement or Final Order. Subject to the Plan, as soon as practicable after a Disputed Claim becomes an Allowed Claim, the Holder of such Allowed Claim will receive all payments and distributions to which such Holder is then entitled under the Plan, without payment of interest on such Allowed Claim. Notwithstanding the foregoing, any Entity or Person who holds both an Allowed Claim(s) and a Disputed Claim(s) will receive the appropriate payment or distribution on the Allowed Claim(s), although, no payment or distribution will be made on the Disputed Claim(s) until such dispute is resolved by settlement or Final Order.

4. Preservation of Rights of Action.

Except as otherwise provided in the Plan or in any contract, instrument, release, indenture or other agreement entered into in connection with the Plan, in accordance with section 1123(b) of the Bankruptcy Code, the Plan Administrator will retain and may exclusively enforce any Claims, rights and Causes of Action that the Debtors or their estates may hold against any Person or Entity. The Plan Administrator may pursue such retained Claims, rights or Causes of Action, as appropriate, in accordance with the best interests of the estates.

5. Exculpation.

In no event shall the Plan Administrator, its employees, Professional Persons or



representatives be held personally liable for any claim asserted against the post-confirmation estate, the Plan Administrator, its employees, or any of its Professional Persons or representatives, except to the extent of any case of willful misconduct or gross negligence. Specifically, the Plan Administrator, its employees, and any of its Professional Persons or representatives shall not be liable for any negligence or any error of judgment made in good faith, except to the extent that the action taken or omitted to be taken by the Plan Administrator, its employees, or any of its Professional Persons or representatives are determined by a Final Order to be due to their own willful conduct or gross negligence.

## **I. Miscellaneous Provisions.**

1. Payment of Statutory Fees. All fees payable pursuant to section 1930 of Title 28 of the United States Code, as determined by the Bankruptcy Court at the hearing pursuant to section 1128 of the Bankruptcy Code, shall be paid on or before the Effective Date.

2. Modification of Plan. The Debtors reserve the right to alter, amend or modify the Plan prior to the entry of the Confirmation Order.

3. Revocation of Plan. The Debtors reserve the right to revoke and withdraw the Plan at any time prior to the Confirmation Date. If the Plan is so revoked or withdrawn, or if the Effective Date does not occur, then the Plan will be deemed null and void, and of no force or effect.

4. Successors and Assigns. The rights, benefits and obligations of any Entity or Person named or referred to in the Plan will be binding on, and will inure to the benefit of, any heir, executor, administrator, successor or assign of such Entity or Person.

5. Reservation of Rights. Except as expressly set forth in the Plan, the Plan will have no force or effect unless the Bankruptcy Court shall enter the Confirmation Order. None of the filing of the Plan, any statement or provision contained in the Plan or the taking of any action by the Debtors with respect to the Plan will be or will be deemed to be an admission or waiver of any rights of the Debtors with respect to Holders of Claims or Debtors' Equity Interests prior to the Effective Date.

6. Headings. Headings utilized in the Plan are for the convenience of reference only and will not constitute a part of the Plan for any other purpose.

7. Governing Law. Except to the extent that the Bankruptcy Code or other federal law is applicable, the Plan will be governed by and construed in accordance with the laws of the State of Maryland, without giving effect to the principles of conflict of laws thereof that would require application of the law of another jurisdiction.

8. Severability. If, prior to entry of the Confirmation Order, any term or provision of the Plan is held by the Bankruptcy Court to be invalid, void or unenforceable, the Bankruptcy Court, at the request of the Debtors, will have the power to alter and interpret such term or provision to make it valid or enforceable to the maximum extent

practicable, consistent with the original purpose of the term or provision held to be invalid, void or unenforceable, and such term or provision will then be applicable as so altered or interpreted. Notwithstanding any such holding, alteration or interpretation, the remainder of the terms and provisions of the Plan will remain in full force and effect and will in no way be affected, impaired or invalidated by such holding, alteration or interpretation. The Confirmation Order will constitute a judicial determination and will provide that each term and provision of the Plan, as it may have been altered or interpreted in accordance with the foregoing, is valid and enforceable pursuant to its terms.

9. Inconsistency. In the event of any inconsistency among the Plan, the Disclosure Statement, the Plan Documents, any exhibit to the Plan or any other instrument or document created or executed pursuant to the Plan, the provisions of the Plan will govern.

10. Further Assurances. The Debtors and all Holders of Claims and Equity Interests receiving distributions under the Plan and all other parties in interest will, from time to time, prepare, execute and deliver any agreements or documents and take any other actions as may be necessary or advisable to effectuate the provisions and intent of the Plan.

11. No Admissions. Notwithstanding anything in the Plan to the contrary, nothing contained in the Plan will be deemed as an admission by an Entity with respect to any matter set forth in the Plan.

12. Filing of Additional Documents. On or before the Effective Date, the Debtors may file with the Bankruptcy Court such agreements and other documents as may be necessary or appropriate to effectuate and further evidence the terms and conditions of the Plan.

## **VII. CERTAIN FEDERAL INCOME TAX CONSEQUENCES OF THE PLAN**

Pursuant to the Plan, Holders of Claims in the CHC estate and Holders of Claims in the CASCO estate will receive a cash distribution on account of their Claims. A Holder that receives cash in exchange for its Claim pursuant to the Plan will generally recognize income, gain or loss for federal income tax purposes in an amount equal to the difference between (i) the amount of cash received in exchange for its Claim, and (ii) the Creditor's adjusted tax basis in its Claim. The character of such gain or loss as capital gain or loss or as ordinary income or loss will be determined by a number of factors, including the tax status of the Holder, the nature of the Claim in such Holder's hand, whether the Claim constitutes a capital asset in the hands of the Holder, whether the Claim was purchased at a discount, and whether and to what extent the Holder has previously claimed a bad debt deduction with respect to its Claim.

To the extent that any amount received by a Holder of a Claim is attributable to accrued interest, such amount should be taxable to the Holder as interest income. Conversely, a Holder of a Claim may be able to recognize a deductible loss (or, possibly, a

write-off against a reserve for worthless debts) to the extent that any accrued interest on the Claims was previously included in the Holder's gross income but was not paid in full by Debtor. Such loss may be ordinary, but the tax law is unclear on this point.

## **VIII. CONFIRMATION OF THE PLAN**

Under the Bankruptcy Code, the following steps must be taken to confirm the Plan.

### **A. Confirmation Hearing.**

Section 1128(a) of the Bankruptcy Code requires the Bankruptcy Court, after notice, to hold a hearing on confirmation of a plan. The Debtors have requested that the disclosure statement hearing and confirmation of the Plan be considered concurrently, at a consolidated hearing. By order of the Bankruptcy Court, the Confirmation Hearing has been scheduled for [ ], 2012 at [\_\_:.m.] (prevailing Eastern time) before the Honorable Paul Mannes, United States Bankruptcy Judge for the District of Maryland, United States Bankruptcy Court, Courtroom 3D, 6500 Cherrywood Lane, Greenbelt, Maryland 20770. The Confirmation Hearing may be adjourned from time to time by the Bankruptcy Court without further notice except for an announcement made at the Confirmation Hearing or any adjournment thereof.

Section 1128(b) of the Bankruptcy Code provides that any party-in-interest may object to confirmation of a plan. Any objection to confirmation of the Plan must be in writing, and must set forth the name of the objecting party, the nature and amount of the Claim or Equity Interest held or asserted by the objecting party against the Debtors' estates or property, the basis for the objection and the specific grounds therefor. The objection, together with proof of service thereof, then must be filed with the Clerk of the United States Bankruptcy Court for the District of Maryland, and a copy served upon (i) CHC's counsel: McNamee Hosea Jernigan Kim Greenan & Lynch, P.A., 6411 Ivy Lane, Suite 200, Greenbelt, Maryland 20770, Attn: James M. Greenan, Esquire, TEL: (301) 441-2420; (ii) CASCO's counsel, Stinson Morrison Hecker LLP, 1775 Pennsylvania Avenue, N.W., Suite 800, Washington, D.C. 20006, Attn: Lawrence P. Block, Esquire, TEL: 202-785-9100; and (iii) The Office of the United States Trustee, 6305 Ivy Lane, Suite 600, Greenbelt, Maryland 20772, Attn: Leander Barnhill, Esquire.

Objections to confirmation of the Plan are governed by Federal Rule of Bankruptcy Procedure 9014. **UNLESS AN OBJECTION TO CONFIRMATION IS TIMELY AND PROPERLY SERVED AND FILED BY 5:00P.M. (PREVAILING EASTERN TIME) ON [ ], 2012, IT MAY NOT BE CONSIDERED BY THE BANKRUPTCY COURT.**

### **B. Confirmation**

At the Confirmation Hearing, the Bankruptcy Court will confirm the Plan only if all of the requirements of Section 1129 of the Bankruptcy Code are met. Among the requirements for confirmation are that the Plan (i) is accepted by all impaired Classes of

Claims and Equity Interests or, if rejected by an impaired Class, "does not discriminate unfairly" and is "fair and equitable" as to such Class, (ii) is feasible and (iii) is in the "best interests" of Holders of Claims and Equity Interests that are impaired under the Plan.

1. Acceptance.

**CHC:** Claims in Class 1 and Class 4 are impaired and the Holders of such Claims are entitled to vote to accept or reject the Plan.

**CASCO:** Claims in Class 1 are unimpaired and the Holder of such Claim is not entitled to vote to accept or reject the Plan. Class 2 Holders of Equity Interests are not entitled to vote to accept or reject the Plan unless and until all Class of Claims of the CASCO estate are paid in full.

2. Unfair Discrimination and Fair and Equitable Tests.

If a Class of Claims entitled to vote on the Plan rejects the Plan, the Debtors reserve the right to amend the Plan or to request confirmation of the Plan pursuant to section 1129(b) of the Bankruptcy Code or both. Section 1129 permits the confirmation of a plan of reorganization notwithstanding the non-acceptance of a plan by one or more impaired classes of claims or equity interests. To obtain such confirmation, it must be demonstrated to the bankruptcy court that the plan "does not discriminate unfairly" and is "fair and equitable" with respect to such dissenting impaired class. A plan does not discriminate unfairly if the legal rights of a dissenting class are treated in a manner consistent with the treatment of other classes whose legal rights are substantially similar to those of the dissenting class and if no class receives more than it is entitled to for its claims or interests.

The Bankruptcy Code establishes different "fair and equitable" tests for secured claims, unsecured claims and interests, as follows:

(a) Secured Claims: Either the plan must provide: (i) for the holders of such claims to retain the liens securing such claims, whether the property subject to such liens is retained by the debtor or transferred to another entity, to the extent of the allowed amount of such claims, and for each holder of a claim to receive deferred cash payments totaling at least the allowed amount of such claim, as of the effective date of the plan, of at least the value of such holder's interest in the estate's interest in such property; (ii) for the sale of any property that is subject to the liens securing such claims, free and clear of such liens, with such liens to attach to the proceeds of such sale; or (iii) for the realization by such holders of the indubitable equivalent of such claims.

(b) Unsecured Claims: Either (i) each holder of an impaired unsecured claim receives or retains under the plan property of a value equal to the amount of its allowed claim; or (ii) the holders of claims and interests that are junior to the claims of the dissenting class will not receive any property under the plan.

(c) Equity Interests: Either (i) each interest holder will receive or retain under the plan property of a value equal to the greater of (a) the fixed liquidation preference or redemption price, if any, of such stock or (b) the value of the stock; or (ii) the holders of interests that are junior to the stock will not receive any property under the plan.

3. Best Interests Test.

With respect to each impaired Class of Claims and Equity Interests, confirmation of the Plan requires that each Holder of a Claim or Equity Interest either (i) accept the Plan or (ii) receive or retain under the Plan property of a value, as of the Effective Date, that is not less than the value such Holder would receive if the Debtors were liquidated under chapter 7 of the Bankruptcy Code. To determine what Holders of Claims and Equity Interests in each impaired Class would receive if the Debtors were liquidated under chapter 7, the Bankruptcy Court must determine the dollar amount that would be generated from the liquidation of the Debtors' assets and properties in the context of a chapter 7 liquidation case. The Cash amount that would be available for satisfaction of Claims and Equity Interests would consist of the proceeds resulting from the disposition of the unencumbered assets and properties of the Debtors, augmented by the unencumbered cash held by the Debtors at the time of the commencement of the liquidation case. Such cash amount would be reduced by the costs and expenses of liquidation and by such additional administrative and priority claims that might result from the termination of the Debtors' businesses and the use of chapter 7 for the purposes of liquidation.

The Debtors' costs of liquidation under chapter 7 would include the fees payable to a trustee in bankruptcy, as well as those fees that might be payable to attorneys and other professionals that such a trustee might engage. In addition, Claims would arise by reason of the breach or rejection of obligations incurred and leases and executory contracts assumed or entered into by the Debtors during the pendency of the Chapter 11 Cases. The foregoing types of Claims and other Claims that might arise in a liquidation case or result from the pending Chapter 11 Cases, including any unpaid expenses incurred by the Debtors during the Chapter 11 Cases, such as compensation for attorneys, financial advisors and accountants, would be paid in full from liquidation proceeds before the balance of those proceeds would be made available to pay prepetition Claims.

To determine if the Plan is in the best interests of each impaired Class, the present value of the distributions from the proceeds of a liquidation of the Debtors' unencumbered assets and properties, after subtracting the amounts attributable to the foregoing Claims, must be compared with the value of the property offered to such Classes of Claims under the Plan.

After considering the effects that a chapter 7 liquidation would have on the ultimate proceeds available for distribution to creditors in the Chapter 11 Cases, including the increased costs and expenses of a liquidation under chapter 7 arising from fees payable to a trustee in bankruptcy and professional advisors to such trustee, the Debtors have determined

that confirmation of the Plan will provide each Holder of an Allowed Claim with a recovery that is not less than such Holder would receive pursuant to the liquidation of the Debtors under chapter 7. For purposes of the best interests test, distributions available to unsecured creditors as proposed in the Plan are compared to proceeds available in a hypothetical chapter 7 liquidation. Actual distribution to creditor classes and individual creditors will be additionally diluted by an increase in Claims arising from, among other things, rejection of substantially all remaining prepetition executory contracts.

## **IX. ALTERNATIVES TO CONFIRMATION AND CONSUMMATION OF THE PLAN**

The Debtors believe that the Plan provides creditors with the best possible returns that can be realized on their respective Claims. The Debtors also believe that the Plan is fair and reasonable in its treatment of all constituencies. The alternatives to Confirmation of the Plan are (i) liquidation of the Debtors and distribution under chapter 7 of the Bankruptcy Code, (ii) confirmation of an alternative plan submitted by a party-in-interest in the Chapter 11 Cases and (iii) dismissal of the Chapter 11 Cases. As discussed below, the Debtors believe that the alternatives will be less beneficial to creditors and Holders of Equity Interests than if the Plan is consummated.

### **A. Liquidation under Chapter 7.**

If no chapter 11 plan can be confirmed, the Chapter 11 cases may be converted to a case under chapter 7 of the Bankruptcy Code in which a trustee would be elected or appointed to liquidate the assets of the Debtors. The Debtors believe that liquidation under chapter 7 would result in, among other things smaller distributions being made to creditors than those provided for in the Plan because of additional administrative expenses attendant to the appointment of a trustee and the trustee's employment of attorneys and other professionals, and as a result of the Debtors' inability in chapter 7 to benefit from the exemption from transfer and other related taxes pursuant to Section 1146.

### **B. Alternative Chapter 11 Plan.**

If the Plan is not confirmed, the Debtors or any of the parties-in-interest could attempt to formulate a different chapter 11 plan. The Debtor believes that no other plan would provide creditors with a greater value or earlier recovery than they would be entitled to receive under the Plan.

### **C. Dismissal of these Chapter 11 Cases.**

Upon dismissal of the Chapter 11 Cases, the protections of the Bankruptcy Code would disappear, thereby compromising the sale of the Debtors' Assets to 1775 Rockville Pike, LLC. Therefore, the Debtors believe that the dismissal of the Chapter 11 Cases is not a viable alternative to the Plan.

**X. CONCLUSION AND RECOMMENDATION**

The Debtors believe that the Plan is in the best interests of all Holders of Claims and urge the Holders of Impaired Claims to vote to accept the Plan and to evidence such acceptance by returning their Ballots to the Debtors at the address set forth in Section VIII of this Disclosure Statement so that they will be actually received on or before 5:00p.m., prevailing Eastern time, on [ ], 2012.

Dated: February 7, 2012

Respectfully submitted,

/s/ James M. Greenan

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