

HONORABLE TIMOTHY W. DORE

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UNITED STATES BANKRUPTCY COURT
WESTERN DISTRICT OF WASHINGTON
AT SEATTLE

In Re)	No. 12-13263 TWD
)	(Jointly Administered)
SEATTLE GROUP, LTD, dba COMFORT)	
INNS & SUITES,)	
)	
Debtors.)	
<hr/>		
CONDOR DEVELOPMENT LLC,)	
)	
Debtor.)	

DEBTORS' SECOND AMENDED DISCLOSURE STATEMENT

APRIL 11, 2014

DEBTORS' SECOND AMENDED
DISCLOSURE STATEMENT

127041.0002/5983844.1

LANE POWELL PC
1420 FIFTH AVENUE, SUITE 4200
SEATTLE, WASHINGTON 98111-9402
206.223.7000 FAX: 206.223.7107

1 ALL CREDITORS AND INTEREST HOLDERS ARE ADVISED AND
2 ENCOURAGED TO READ THIS FIRST AMENDED DISCLOSURE STATEMENT
3 (the "AMENDED DISCLOSURE STATEMENT") AND THE DEBTORS' SECOND
4 AMENDED JOINT PLAN OF LIQUIDATION (the "PLAN") IN THEIR ENTIRETY
5 BEFORE VOTING TO ACCEPT OR REJECT THE DEBTORS' PLAN. ALL
6 SUMMARIES OF THE PLAN AND OTHER STATEMENTS CONTAINED IN THIS
7 DISCLOSURE STATEMENT ARE QUALIFIED IN THEIR ENTIRETY BY
8 REFERENCE TO THE PLAN, THE EXHIBITS ANNEXED TO THE PLAN, AND THE
9 EXHIBITS ANNEXED TO THIS AMENDED DISCLOSURE STATEMENT. THE
10 STATEMENTS CONTAINED IN THIS DISCLOSURE STATEMENT ARE MADE
11 ONLY AS OF THE DATE HEREOF UNLESS OTHERWISE INDICATED, AND
12 THERE CAN BE NO ASSURANCE THAT THE STATEMENTS CONTAINED
13 HEREIN WILL BE CORRECT AT ANY TIME AFTER THE DATE HEREOF.

8 THIS AMENDED DISCLOSURE STATEMENT HAS BEEN PREPARED IN
9 ACCORDANCE WITH SECTION 1125 OF THE BANKRUPTCY CODE AND
10 RULE 3016(c) OF THE FEDERAL RULES OF BANKRUPTCY PROCEDURE
11 ("BANKRUPTCY RULES").

10 AS TO CONTESTED MATTERS, ADVERSARY PROCEEDINGS, AND
11 OTHER PENDING OR THREATENED LITIGATION OR ACTIONS, THIS
12 DISCLOSURE STATEMENT DOES NOT CONSTITUTE AND MAY NOT BE
13 CONSTRUED AS AN ADMISSION OF ANY FACT OR LIABILITY, STIPULATION,
14 OR WAIVER, BUT RATHER AS A STATEMENT MADE IN SETTLEMENT
15 NEGOTIATIONS.

14 THIS AMENDED DISCLOSURE STATEMENT HAS BEEN PREPARED BY
15 THE DEBTORS IN THEIR CAPACITIES AS DEBTORS-IN-POSSESSION UNDER
16 THE BANKRUPTCY CODE. THE INFORMATION CONTAINED IN THIS
17 AMENDED DISCLOSURE STATEMENT IS INCLUDED HEREIN FOR PURPOSES
18 OF SOLICITING ACCEPTANCES OF THE DEBTORS' PLAN AND MAY NOT BE
19 RELIED UPON FOR ANY PURPOSE OTHER THAN TO DETERMINE HOW TO
20 VOTE ON THE DEBTORS' PLAN. THE DESCRIPTIONS SET FORTH HEREIN OF
21 THE ACTIONS, CONCLUSIONS, OR RECOMMENDATIONS OF THE DEBTORS
22 OR ANY OTHER PARTY IN INTEREST HAVE BEEN PASSED UPON BY SUCH
23 PARTY, BUT NO SUCH PARTY MAKES ANY REPRESENTATION OR WARRANTY
24 REGARDING SUCH DESCRIPTIONS.

20 THIS DISCLOSURE STATEMENT WILL NOT BE ADMISSIBLE IN ANY
21 NON-BANKRUPTCY PROCEEDING INVOLVING THE DEBTORS OR ANY OTHER
22 PARTY, NOR WILL IT BE CONSTRUED TO CONSTITUTE CONCLUSIVE ADVICE
23 ON THE TAX OR OTHER LEGAL EFFECTS OF THE REORGANIZATION AS TO
24 HOLDERS OF CLAIMS AGAINST, OR INTERESTS IN, THE DEBTORS.

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1 **ARTICLE I**

2 **INTRODUCTION**

3 Seattle Group, Ltd and Condor Development, LLC (collectively the “Debtors”)
4 hereby transmit this Second Amended Disclosure Statement (the “Disclosure Statement”)
5 pursuant to Section 1125 of the Bankruptcy Code for use in the solicitation of votes on their
6 Third Amended Plan filed with the United States Bankruptcy Court for the Western District
7 of Washington on April 11, 2014 (the “Plan”), as it may be further amended, supplemented,
8 or modified from time to time in accordance with its terms and with 11 U.S.C. § 1127 (the
9 “Debtors’ Plan”). A copy of the Plan is annexed to this Disclosure Statement as **Exhibit A**.

10 This Disclosure Statement sets forth certain information regarding the Debtors’ pre-
11 petition history, the nature of the Bankruptcy Case, and the terms of the Debtors’ Plan,
12 including certain alternatives to the Plan, certain effects of confirmation of the Plan, certain
13 risk factors associated with the Plan and the manner in which distributions will be made
14 under the Plan. In addition, this Amended Disclosure Statement discusses the confirmation
15 process and the voting procedures that holders of Claims in Impaired Classes must follow for
16 their votes to be counted.

17 FOR A DESCRIPTION OF THE PLAN AND VARIOUS RISK AND OTHER
18 FACTORS PERTAINING TO THE DEBTORS’ PLAN AS IT RELATES TO HOLDERS
19 OF CLAIMS AGAINST AND INTERESTS IN THE DEBTORS, PLEASE SEE
20 “SUMMARY OF THE PLAN” AND “RISK FACTORS TO BE CONSIDERED.”

21 THIS DISCLOSURE STATEMENT CONTAINS SUMMARIES OF CERTAIN
22 PROVISIONS OF THE PLAN, CERTAIN STATUTORY PROVISIONS, CERTAIN
23 DOCUMENTS RELATED TO THE DEBTORS’ PLAN, CERTAIN EVENTS IN THE
24 BANKRUPTCY CASE, AND CERTAIN FINANCIAL INFORMATION. ALTHOUGH
25 THE DEBTORS REPRESENTATIVE BELIEVES THAT THE PLAN AND RELATED
26 DOCUMENT SUMMARIES ARE FAIR AND ACCURATE IN ALL MATERIAL

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1 RESPECTS, SUCH SUMMARIES ARE QUALIFIED TO THE EXTENT THAT THEY DO
2 NOT SET FORTH THE ENTIRE TEXT OF SUCH DOCUMENTS OR STATUTORY
3 PROVISIONS. FACTUAL INFORMATION CONTAINED IN THIS DISCLOSURE
4 STATEMENT HAS BEEN PROVIDED BY THE DEBTORS' REPRESENTATIVES AS
5 WELL AS DOCUMENTS AND REPORTS PRODUCED BY OTHER THIRD PARTIES,
6 INCLUDING THE DEBTORS' BROKERS AND ITS HOTEL MANAGEMENT
7 COMPANY. THE DEBTORS ARE UNABLE TO WARRANT OR REPRESENT THAT
8 THE INFORMATION CONTAINED HEREIN, INCLUDING THE FINANCIAL
9 INFORMATION, IS WITHOUT ANY INACCURACY OR OMISSION.

10 IN DETERMINING WHETHER TO VOTE TO ACCEPT THE PLAN, HOLDERS
11 OF CLAIMS AND INTERESTS ENTITLED TO VOTE MUST RELY ON THEIR OWN
12 EXAMINATION OF THE DEBTORS, THE FINANCIAL INFORMATION AVAILABLE
13 FROM THE DEBTORS AND THE TERMS OF THE PLAN, INCLUDING THE MERITS
14 AND RISKS INVOLVED. YOU SHOULD CONSULT YOUR COUNSEL OR TAX
15 ADVISOR ON ANY QUESTIONS OR CONCERNS RESPECTING TAX OR OTHER
16 LEGAL CONSEQUENCES OF THE DEBTORS' PLAN.

17 THE DEBTORS' REPRESENTATIVES BELIEVE THAT THE PLAN WILL
18 RESULT IN THE MAXIMUM RECOVERY FOR ITS CREDITORS CONSISTENT WITH
19 THE OBJECTIVES OF CHAPTER 11 AND, ACCORDINGLY, THAT ACCEPTANCE OF
20 THE PLAN BY ALL HOLDERS OF CLAIMS ENTITLED TO VOTE ON THE PLAN IS
21 IN THE BEST INTERESTS OF THE DEBTORS AND THEIR CREDITORS AND
22 INTEREST HOLDERS. THE DEBTORS URGE HOLDERS OF CLAIMS AND
23 INTERESTS ENTITLED TO VOTE ON THE PLAN TO VOTE TO ACCEPT THE PLAN.

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1 **ARTICLE II**

2 **PLAN PROCEDURES AND VOTING**

3 **A. VOTING INSTRUCTIONS AND PROCEDURES**

4 Unless otherwise defined elsewhere in this Amended Disclosure Statement,
5 capitalized terms used herein shall have the meanings defined and used in the Plan. In
6 particular, when capitalized terms are used, creditors should refer to the definitions set forth
7 in Article III of the Plan.

8 **B. NOTICE TO HOLDERS OF CLAIMS AND INTERESTS**

9 This Disclosure Statement is being transmitted to holders of Claims (“Claimants”)
10 and Equity Security Interests (“Interests”) in the Debtors. The purpose of this Disclosure
11 Statement is to provide adequate information to enable holders of Claims against and
12 Interests in the Debtors

13 IF CONFIRMED BY THE BANKRUPTCY COURT, THE PLAN WILL BIND ALL
14 HOLDERS OF CLAIMS AGAINST AND INTERESTS IN THE DEBTORS, WHETHER
15 OR NOT THEY ARE ENTITLED TO VOTE OR DID VOTE ON THE PLAN AND
16 WHETHER OR NOT THEY RECEIVE OR RETAIN ANY DISTRIBUTIONS OR
17 PROPERTY UNDER THE DEBTORS’ PLAN. ACCORDINGLY, ALL HOLDERS OF
18 CLAIMS AGAINST OR INTERESTS IN THE DEBTORS ARE ENCOURAGED TO
19 READ THIS DISCLOSURE STATEMENT AND ITS EXHIBITS CAREFULLY AND IN
20 THEIR ENTIRETY BEFORE DECIDING TO VOTE EITHER TO ACCEPT OR TO
21 REJECT THE PLAN.

22 No solicitation of votes may be made except after distribution of this Disclosure
23 Statement, and no Person has been authorized to distribute any information concerning the
24 Debtors other than the Debtors. Except as set forth in “Solicitation; Voting Procedures”
25 below, no Person has been authorized by the Debtors or any Person acting on behalf of the
26 Debtors in connection with the Plan or the Solicitation to give any information or to make

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1 any representation other than as contained in this Disclosure Statement and the Exhibits
2 annexed hereto or incorporated by reference or referred to herein, and, if given or made, such
3 information or representation may not be relied upon as having been authorized by the
4 Debtors.

5 Except as expressly stated herein, this Disclosure Statement does not reflect any
6 events that may occur subsequent to the date hereof that may have a material impact on the
7 information contained in this Disclosure Statement. Neither the Debtors nor the Reorganized
8 Debtors intend to update the Financial Projections. Accordingly, the Financial Projections
9 will not reflect the impact of any subsequent events not already accounted for in the
10 assumptions underlying the Financial Projections. Further, the Debtors do not anticipate that
11 any amendments or supplements to this Disclosure Statement will be distributed to reflect
12 such occurrences. The delivery of this Disclosure Statement will not under any
13 circumstances imply that the information contained herein, including, but not limited to, the
14 Financial Projections, is correct or complete as of any time subsequent to the date hereof,
15 subject to the foregoing qualifications.

16 THE BANKRUPTCY COURT'S APPROVAL OF THIS DISCLOSURE
17 STATEMENT DOES NOT CONSTITUTE EITHER A GUARANTY OF THE
18 ACCURACY OR COMPLETENESS OF THE INFORMATION CONTAINED HEREIN
19 OR AN ENDORSEMENT OF THE DEBTORS' PLAN BY THE BANKRUPTCY COURT.

20 **C. SOLICITATION PACKAGE**

21 Accompanying this Disclosure Statement for the purpose of soliciting votes on the
22 Debtors' Plan are copies of (i) the Plan (attached as **Exhibit A**), (ii) the notice of, among
23 other things, the time for submitting Ballots to accept or reject the Plan, the date, time, and
24 place of the hearing to consider the confirmation of the Plan, the final approval of this
25 Amended Disclosures Statement and related matters, and the time for filing objections to the
26 confirmation of the Plan (the "Confirmation Hearing Notice"), and, as applicable, (iii) a

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1 Ballot or Ballots (and return envelope(s)) that you may use in voting to accept or to reject the
2 Plan, or a notice of non-voting status, as applicable. If you did not receive a Ballot and
3 believe that you should have, please contact the Debtors' or any proponent of a competing
4 plan at the addresses and phone numbers set forth below.

5 **D. VOTING PROCEDURES AND BALLOTS**

6 Holders of claims should carefully read the instructions and complete, date and sign
7 the ballot and transmit a copy of it to both: (i) Teresa Stephenson, Lane Powell PC, 1420
8 Fifth Avenue, Suite 4200, PO Box 91302, Seattle, WA 98111-9402, phone (206) 223 2551;
9 fax (206) 223-7107; and (ii) David Neu, of K&L Gates, LLP, 925 Fourth Avenue, Suite
10 2900, Seattle, WA 98104, phone (206) 370-8125; fax (206) 370-6289.

11 **FOR YOUR VOTE TO BE COUNTED, YOUR BALLOT MUST BE**
12 **PROPERLY COMPLETED AS SET FORTH ABOVE AND IN ACCORDANCE**
13 **WITH THE VOTING INSTRUCTIONS ON THE BALLOT, AND YOUR BALLOT**
14 **(OR THE MASTER BALLOT CAST ON YOUR BEHALF) MUST BE RECEIVED**
15 **AT THE ADDRESSES SET FORTH ABOVE BY THE VOTING DEADLINE OF**
16 _____ **2014.**

17 **E. CONFIRMATION HEARING AND DEADLINE FOR OBJECTIONS**

18 Pursuant to Section 1128 of the Bankruptcy Code and Bankruptcy Rule 3017(c), the
19 Bankruptcy Court has scheduled a hearing on confirmation of the Plan and final approval of
20 this Amended Disclosure Statement (the "Confirmation Hearing") to commence on
21 _____ or as soon thereafter as counsel may be heard, before the Honorable
22 Timothy W. Dore, United States Bankruptcy Judge, in the United States Bankruptcy Court,
23 Western District of Washington. The Bankruptcy Court has directed that objections, if any,
24 to confirmation of the Plan must be filed with the clerk of the Bankruptcy Court and served
25 so that they are **RECEIVED** on or before _____ at 5:00 p.m. Pacific Standard
26 Time, by counsel for the Debtors, Lane Powell PC, 1420 Fifth Avenue, Suite 4200, PO Box

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1 91302, Seattle, WA 98111-9402, phone (206) 223-7260; fax (206) 223 7107, ATTN:
2 TERESA STEPHENSON and on counsel for East West Bank, David Neu K&L Gates, The
3 Class 7 Claims will not be paid anything from the assets of the Estate and thus are deemed to
4 have rejected the Plan. LP, 925 Fourth Avenue, Suite 2900, Seattle, WA 98104, phone
5 (206) 370-8125; fax (206)370-6289 and all parties that have filed requests for special notice.

6 The Bankruptcy Court may adjourn the Confirmation Hearing from time to time
7 without further notice except for the announcement of the adjournment date made at the
8 Confirmation Hearing or at any subsequent adjourned Confirmation Hearing.

9 **IN THE VIEW OF THE DEBTORS, THE TREATMENT OF HOLDERS OF**
10 **CLAIMS AND INTERESTS IN THE IMPAIRED CLASSES (IDENTIFIED IN**
11 **SECTION 6 OF THE DEBTORS' PLAN) ELIGIBLE TO VOTE CONTEMPLATES A**
12 **POTENTIAL RECOVERY FOR SUCH HOLDERS THAT IS NOT LESS THAN THE**
13 **RECOVERY THAT WOULD BE AVAILABLE IN A CHAPTER 7 LIQUIDATION.**
14 **ACCORDINGLY, THE DEBTORS BELIEVE THAT THE DEBTORS' PLAN IS IN**
15 **THE BEST INTERESTS OF HOLDERS OF CLAIMS IN SUCH CLASSES AND**
16 **RECOMMENDS THAT ALL HOLDERS OF CLAIMS IN THE IMPAIRED**
17 **CLASSES ENTITLED TO DO SO VOTE TO ACCEPT THE DEBTORS' PLAN.**

18 **ARTICLE III**

19 **GENERAL INFORMATION**

20 **A. SUMMARY OF PLAN**

21 The Plan is an operating plan that provides for full payment of all secured and priority
22 unsecured creditors and a distribution to unsecured creditors out of quarterly payments of Net
23 Cash Flow. The Plan also contemplates the potential for a Sale (the "Sale") of substantially
24 all of the Debtors' real and personal property used in operating the Comfort Inns and Suites
25 Hotel and related personal property (the "Property") after a sustained twelve to thirty six
26 month period of improved operations and a period of removal of the Property from the

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1 market. Additionally, the Owners have agreed to make available to the Hotel a line of credit
2 and equity contribution of \$600,000 (\$100,000 equity contribution and a \$500,000 line of
3 credit) (the "Owners' Contribution") for capital improvements during the period of
4 operations subject to approval of the Conservatorship Court. The Conservator and Mrs.
5 Ciaramella have agreed to pursue the approval of the Conservatorship Court for the Owners
6 Contribution. The Conservator believes that he will be able to obtain approval of the Owners
7 Contribution in amounts sufficient to cover any necessary capital improvements or other
8 payments to creditors as necessary to comply with the terms of the Plan.

9 As set forth in the Disclosure Statement and the Plan, the Debtors believe that based
10 on the Debtors' significantly improved operations following the hiring of the Marin
11 Management, Inc. as the Hotel Manager, the resulting stabilized income and the Owners'
12 Contribution that the Debtors will be able to make the proposed plan payments until the Sale
13 at the improved purchase price may be realized.

14 **B. GENERAL BACKGROUND INFORMATION AND ORGANIZATIONAL**
15 **STRUCTURE OF THE DEBTOR**

16 1. Summary of Business Operations of Hotel and Parking Lot (collectively
17 referred to as "the Project").

18 The Debtors directly own and operate Comfort Inn & Suites Hotel which is located at
19 19333 International Boulevard in SeaTac, Washington in close proximity to the Seattle-
20 Tacoma Airport. This proximity to the Seattle-Tacoma Airport provides both a relatively
21 constant source of business and leisure travelers. Guests at the Property are serviced by a
22 free shuttle to and from the airport and revenues are enhanced by offering both long and short
23 term parking accommodations and "park and ride" promotions. SeaTac International Airport
24 is the seventeenth busiest in the United States, with over 31 million distinct travelers using
25 the facility in 2010.

1 The Hotel consists of 176 rooms in two adjoining buildings which were finally
2 constructed in 1987 and 1998, respectively. On-site amenities include a fitness center, a
3 breakfast room, a small business center and 1,100 square feet of meeting space. In addition to
4 the existing hotel property, the Debtors also own adjacent land. This excess land totals
5 approximately 1 acre in size and is currently used to both augment hotel parking operations
6 and as a direct source of income. The land has been improved for parking and is currently
7 paved, lighted, striped and fenced. The location of the excess land, immediately south and
8 west of the Hotel property, gives the Hotel the ability to secure long term parking
9 accommodations for Hotel guests. There is a consistent demand for parking in the area as
10 well as the potential to use the land for additional development. Utilizing both on-site and
11 valet lots, the hotel has approximately 224 parking stalls, providing both convenient guest
12 parking options and a source of additional income.

13 The Hotel is a long-term franchisee of Choice Hotels International. The Hotel
14 initially opened as a Comfort Inn in 1987 with 120 rooms and in 1988, 57 rooms were added
15 and the name changed to Comfort Inn & Suites. One room from the original construction
16 was removed to make a hallway between the two buildings.

17 The business operated at the Hotel and Parking Lot is somewhat seasonal with the
18 slower months occurring between November and April and significant improvements during
19 the late Spring, Summer and early Fall.

20 2. Formation of the Debtors, Membership Interests, the AHP Manager and Hotel
21 and Restaurant Managers.

22 a. Organizational Structure of the Debtor.

23 Seattle Group, Ltd is a limited partnership organized under the laws of the State of
24 California. Condor Management, Inc. is owned 100% by Mr. Ciaramella and is the General
25 Partner of Seattle Group, Ltd. Seattle Group, Ltd is owned approximately 90% by Condor, a
26 general partnership, 7% by Mr. Ciaramella and 3% by Mrs. Ciaramella. Condor in turn is

1 owned 50% by Mr. Ciaramella and 50% by Mrs. Ciaramella. Condor Development LLC is a
2 Washington limited liability owned 50% by Joe Ciaramella and 50% by Laura Ciaramella,
3 Mr. Ciaramella's wife.

4 **C. FACTORS LEADING TO CHAPTER 11 FILING**

5 1. Operating History and Problems Leading to Chapter 11.

6 The Hotel and Parking Lot and related business had a long track record of profitable
7 operations. However, due to the general economic downturn and operational and
8 management problems more specifically set forth below, in recent years the Debtors'
9 revenues have been down significantly and the Hotel has underperformed in relation to its
10 competition.

11 In 2007, the owners of the hotel decided to purchase the Airport Plaza building next
12 to the hotel. In order to finance the transaction, the Comfort Inn and Suites took on a new
13 bank loan of \$8.5 million increasing the debt service on the hotel substantially. A new
14 manager brought on in March 2010 proved ineffective and lost several key customs including
15 Alaska Airlines. Alaska Airlines accounted for approximately a quarter of the Hotel's
16 revenues. Alaska Airlines cut their business in half in December 2010 and cut off their
17 business entirely in December 2011. Non Stop Travel pulled out in 2011. Various other
18 groups that book blocks of rooms in the summer also went elsewhere. The Hotel's
19 occupancy rate underperformed comparable hotels in the market by an estimated 25 to 30
20 percentage points. Anecdotal evidence suggests that the general manager was both
21 inattentive to business and not focused on customer care and satisfaction. Given the market
22 conditions, room rates were higher than other hotels in the area further reducing hotel
23 occupancy. Additionally, as set forth below the Debtors' officer was suffering from memory
24 loss associated with Alzheimer's.

1 2. Appointment of Conservator.

2 In mid-2012 Mr. Ciaramella's daughter filed an action in the Los Angeles California
3 Superior Court-Probate Division (the "Conservatorship Court") seeking the appointment of a
4 conservator for Mr. Ciaramella and his assets including community property held by Mr.
5 Ciaramella with his wife (the "Conservatorship Estate"). At that time there was also pending
6 in the Los Angeles County Superior Court (Family Law Division) an action for the
7 dissolution of the marriage of Mr. Ciaramella and his wife, Laura Ciaramella. That
8 dissolution action involved a determination of the character of the property of Mr. and Mrs.
9 Ciaramella, i.e. whether separate or community property. Based on medical testimony
10 concerning Mr. Ciaramella's lack of short-term memory, significantly impaired judgment
11 and ability to manage his assets and business, the Probate Court appointed Mr. Michael
12 Seibert as Temporary Conservator of the Estate in September 2012 and later made me the
13 permanent Conservator of the Estate in December of 2012. The Conservatorship Court also
14 entered an order authorizing the Conservator to operate Mr. Ciaramella's business entities
15 including the business operations of the Debtors (the "Hotel") and to act in connection with
16 Mr. Ciaramella's dissolution of marriage action. The Conservatorship Court later appointed
17 Mr. Seibert also as general conservator of Mr. Ciaramella's estate and as trustee of the
18 Ciaramella family trust. The Ciaramellas hold most of their personal assets in the trust. Mr.
19 Seibert has over 30 years of business experience primarily in the area of mergers,
20 acquisitions, private equity, venture capital and restructurings.

21 3. Actions Taken by Conservator.

22 a. Evaluation of the Conservatorship Estate and Debtors' Estate. Shortly
23 after his appointment the Conservator discovered that the Conservatorship Estate was in
24 disarray with non-functioning real estate properties and significant problems with the
25 operations at the Debtors' Hotel. As the Conservator evaluated these assets and businesses, it
26 became clear that Mr. Ciaramella had likely operated with impaired memory and judgment

1 for several years. For example, during 2010 and 2011, an onsite manager of the Hotel hired
2 by Mr. Ciaramella mismanaged the Hotel by failing to pay taxes (despite receiving owner
3 contributions for such payments) as well as numerous other creditors, failing to maintain the
4 property (i.e. allowed between 44 to 46 rooms to fall out of service due to maintenance and
5 other problems), failed to replace linens and other supplies and had lost Alaska Air, a very
6 significant revenue source, as a customer. All of the above, along with a continued downturn
7 in tourism, caused a significant and rapid decline in the Hotel's sales.

8 b. Replacement of Debtors' Bankruptcy Counsel. Shortly after his
9 appointment the Conservator replaced Larry Feinstein with Lane Powell PC as counsel for
10 the Debtors' in possession in the Bankruptcy Cases.

11 c. Replacement of the Former Real Estate Broker. The Debtors'
12 Representative replaced the former brokers previously employed by Mr. Ciaramella with
13 Jones, Lang, LaSalle (the "Brokers"), an experienced hotel brokerage group to market the
14 Hotel, Parking Lot and related business.

15 d. Appointment of Hotel Manager and Resulting Improved Performance.
16 In late May 2013 with the approval of the Bankruptcy Court the Conservator engaged the
17 services of Marin Management, Inc. ("Hotel Manager" or "Marin"), an experienced hotel
18 management company who has maximized the Hotel's performance and reduced the costs of
19 operation. Marin outsourced two positions and eliminated perks for the general manager. In
20 addition, they brought industry standard financial reporting practices to the hotel along with
21 multiple levels of oversight, added additional financial controls, a maintenance policy and
22 brought professional personnel management and policies to the Hotel. Marin hired a new
23 general manager, Margo Eduardo, who began in July 2013. Ms. Eduardo is well versed in
24 yield management and set up revenue management practices so that the hotel could achieve
25 the highest possible revenues on a daily basis by balancing pricing and occupancy. Marin
26

1 also maintained the hotel in an appropriate manner including replacing additional air
2 conditioning units and a new water heater system at the cost of over \$25,000.

3 4. Post-Bankruptcy Performance and Other Relevant Events.

4 a. Improved Performance of Hotel under Management by Conservator
5 and Hotel Manager. Marin's superior performance has more than paid for Marin's monthly
6 management fee. Specifically, since the hiring of Marin the Hotel has shown sales
7 improvements every month. Attached as Exhibit B is a summary showing the improvement
8 of the Hotel's revenue since the Petition Date. By way of summary, for the first twelve (12)
9 months after the filing of the Debtors' Bankruptcy Cases (i.e. period ending February 2013 as
10 compared to February of 2012), the Hotel's sales increased by over 28% over the sales for
11 the same period 12 months earlier. For the same 12-month period ending February 2014,
12 sales have increased again an additional 16% over the same 12-month period in the prior
13 year. Importantly, with the improved management and financial performance of the Hotel,
14 operations during the last 12 months have generated positive cash flow sufficient to pay
15 interest to EastWest Bank and costs of operation including repairs and improvements at the
16 Hotel. An operating plan that was not feasible at the beginning of this case given the
17 management disarray and financial setbacks suffered at the time, is now feasible given the
18 turnaround of the Business. Given that despite extensive marketing and efforts of the Debtors
19 and their Broker and other professionals the highest and best offer made for the Hotel at this
20 time is \$7.5 million the Debtors believe that the operating plan is the best option to pursue.
21 Attached as Exhibit C is a copy of the Debtors' operating projections which support the
22 proposed payments to be made under the terms of this Plan.

23 b. Efforts to Sell the Property and Negotiate with EastWest Bank on
24 Carve-Out. After their employment the Brokers extensively marketed the Hotel for sale.
25 With the consent of EastWest Bank the Debtors executed to conclusion two separate
26 purchase and sale agreements with two different purchasers at the prices of \$9.5 million and

1 \$9.0 million respectively. Unfortunately, both purchasers withdrew their offers. In
2 connection with the latter offer the Debtors had negotiated a carve-out with EastWest Bank
3 that would have paid in full the Allowed Claims in Classes 1 through 4, together with a 10%
4 payment to Class 6 claimants (the "Carve-Out"). The \$9.0 Million purchaser withdrew
5 following the filing of EastWest Bank's motion for relief from stay. Recently, the party that
6 initially had offered \$9.5 million for the Hotel made an offer for \$7.5 million. EastWest Bank
7 declined to agree to the Carve-Out in connection with the \$7.5 million offer and the Debtors
8 have not pursued this sale and instead have filed the Plan.

9 c. Payments to East West Bank and to Tax Creditors and East West
10 Motions for Relief from Stay. The Debtors under the direction of the Conservator, have
11 made payments on account of the pre-petition real property taxes owing in the approximate
12 amount of \$143,000 in connection with the Condemnation Proceedings described below.
13 Additionally as of April 11, 2014, the Debtors had made payments to East West Bank of over
14 \$691,000 since the Petition Date, most of which was paid by the Conservator who has made
15 monthly payments of \$34,500 to East West Bank every month since February of 2013 (the
16 "EastWest Payments"). Despite these payments, East West Bank filed a motion for relief
17 from stay and an order was entered granting relief from stay, but prohibiting EastWest Bank
18 from selling the property until after July 31, 2014 (the "Conditional Stay Order"), in order to
19 provide the Debtors with the opportunity to obtain confirmation of the Plan.

20 d. Plan Scheduling Order. In conjunction with the Conditional Stay
21 Order, the Court issued a scheduling order which provides that the initial confirmation
22 hearing will be held on June 13, 2014 and if there is an objection to confirmation hearing the
23 contested confirmation hearing will be held on July 9, 2014. The Debtors believe that it is
24 likely that EastWest Bank will object to confirmation.

25 e. Determination of EastWest Bank's Allowed Class 5 Secured Claim by
26 Valuation Motion. The Debtors will file shortly a motion to determine the value of the Hotel

1 and for a determination of East West Bank's Allowed Class 5 Secured Claim, which will also
2 determine the proper allocation of the EastWest Payments. The Debtors will seek a hearing
3 on this Motion in mid to late May prior to the initial confirmation date. Based on the
4 evidence before the Court and EastWest Bank's appraisals the Debtors believe that the
5 Bankruptcy Court will value the Hotel and Property at between \$8.5 and \$8.7 million and
6 will determine that the Allowed Class 5 Claim is less than the \$8.1 million used in the
7 Debtors projections for payment of the Allowed Class 5 Claim.

8 f. Sound Transit Relief from Stay, Condemnation Actions and
9 Stipulation with the King County Taxing Authorities Regarding Initial Condemnation
10 Proceeds. In relation to the expansion of the light rail south of Seattle Tacoma Airport,
11 Sound Transit sought relief from stay in the Bankruptcy Cases to commence the
12 Condemnation Actions against the property held by certain landowners, including a portion
13 of the Debtors' parking lot which are tax parcels nos. 042204-9241-06, 042204-9077-05,
14 042204-9151-04 (the "Condemned Parcels"). In order to commence the Condemnation
15 Actions against the Condemned Parcels, Sound Transit filed a motion for relief from stay.
16 The Debtors stipulated to relief from stay to allow Sound Transit to commence the
17 Condemnation Actions. Sound Transit commenced such actions in King County Superior
18 Court under case nos. 12-2-38971-3 KNT and 12-2-38975-6 KNT (the "Condemnation
19 Actions"). At the time of the commencement of the Condemnation Actions, it was
20 discovered that one of the Condemned Parcels was actually held in the name of an affiliate of
21 the Debtors, J&L Development NW, LLC ("J&L"). After the appointment of the
22 Conservator, it was discovered that J&L through its owners, Mr. and Mrs. Ciaramella, had
23 intended to transfer the property back to Condor Development LLC but because of the health
24 issues, this had not been done prior to the filing of the Bankruptcy Cases. Accordingly, J&L
25 through its owners executed a quit claim deed of the property from J&L to Condor
26 Development, LLC which deed was recorded on January 2, 2013. Sound Transit agreed to

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1 pay \$143,700.00 regarding the respective tax parcels in Condemnation Proceeds which
2 proceeds were paid to King County on account of the real property taxes upon approval order
3 of this Court entered March 22, 2013. Additionally, Sound Transit has paid Additional
4 Condemnation Proceeds for the Debtors reimbursement of costs and attorneys' fees related to
5 defense of the Condemnation Action. Those Additional Condemnation Proceeds of
6 \$25,000.00 are being held in the trust account of Lane Powell and will be applied to the
7 Allowed Professional Fee Claims.

8 g. Motion for Dismissal filed by the State of Washington and Stipulation
9 Regarding Plan Treatment. On November 15, 2012 the State of Washington filed a motion to
10 dismiss the Debtors' Bankruptcy Cases. This motion was ultimately resolved through the
11 filing of a stipulation between the Debtors and the State of Washington concerning the filing
12 of the Plan and the treatment of the tax claims held by the State of Washington under the
13 proposed Plan. This stipulation was approved by the order of the Bankruptcy Court entered
14 on March 14, 2013. The Stipulation provided for payment of the State of Washington over
15 time with an initial payment of 25% of the allowed claims. The Carve-Out provides for full
16 payment of these claims which is an improvement over the payment proposed in the
17 Stipulation.

18 **ARTICLE IV**

19 **ASSETS AND LIABILITIES**

20 **A. ASSETS**

21 The Debtors' assets consist primarily of the real and personal property associated
22 with the Hotel and Parking Lot as well as the rights to the Construction Permit Proceeds. A
23 detailed listing of these assets is set forth in the Debtors' Schedules and amended Schedules
24 on file with the Bankruptcy Court.

25 **B. LIABILITIES**

26 The Schedules as amended and the filed claims reflect the Debtors' liabilities.

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ARTICLE V

DESCRIPTION OF DEBTORS' PLAN

A. NON-VOTING CLASSES

The Plan classifies claims of the Debtors' creditors and equity security holders into the following classes:

1. Class 1: Allowed Administrative Claims.

Class 1 Claims consist of all Allowed Administrative Claims (as defined in the Plan) entitled to priority pursuant to Section 507(a) (1) which have been allowed by order of the Bankruptcy Court or as otherwise defined or provided for in the Plan, the Bankruptcy Code or Title 28 of the United States Code including Professional Fee Claims and U.S. Trustee Fees. Class 1 is a non-voting class. The Class 1 Allowed Administrative Expense Claims of the U.S. Trustee due and owing on the date of entry of the Confirmation Order shall be paid in full, without interest, on or before the Effective Date. The Allowed LP Fee Claims shall accrue interest commencing on the Effective Date as follows: 1) \$25,000 from the Condemnation Proceeds designated for the payment of Professional Fees associated with obtaining the Condemnation Proceeds in the approximate amount of \$146,000 which amount shall be payable on the earlier of the Effective Date or the date of entry of the LP Fee Order; 2) \$25,000 from the Retainer payable on the earlier of the Effective Date or the date of entry of the LP Fee Order; 3) \$60,000 on August 1, 2014 payable from the Net Income; 4) equal monthly installments of \$5,000 per month commencing on September 1, 2014 from Net Income and continuing until the earlier of: (i) December 1, 2016; or (ii) the date of Sale, at which time any remaining balance due and owing on the Allowed LP Fee Claims shall be paid in full together.

2. Class 2: Section 507(a)(8): Allowed Priority Tax Claims.

Class 2 Claims consists of all Allowed Unsecured Claims entitled to priority pursuant to Section 507(a)(8) of the Bankruptcy Code. These priority claims consist of the Allowed

1 Unsecured Claims of governmental units for taxes or dues of the kind specified in Section
2 507(a)(8) of the Bankruptcy Code. Class 2 is a non-voting class. The Class 2 Claims shall
3 accrue interest at their respective statutory rates pursuant to 11 U.S.C. § 511. The Class 2
4 Allowed Priority Tax Claims entitled to priority pursuant to Section 507(a)(8) of the
5 Bankruptcy Code shall be paid in full as follows: 1) 25% of their Allowed Claims on or
6 before the Effective Date with the balance to be paid in equal monthly installments
7 commencing on August 1, 2014; and 2) equal monthly installments of \$2,314 payable to the
8 Allowed Class 2 Claims Pro Rata, with such monthly payments continuing until the earlier
9 of: (i) March 1, 2017 or (ii) a Sale, at which time the balance of the Allowed Class 2 Claims
10 shall be paid in full together with any accrued but unpaid interest.

11 3. Class 3: Section 507(a)(4): Allowed Priority Wage Claims.

12 The Class 3 Claims consists of all Allowed Unsecured Claims entitled to priority
13 pursuant to Section 507(a)(4) of the Bankruptcy Code. These priority claims consist of the
14 Allowed Unsecured Claims of employees for wages, salaries and commissions, including,
15 severance and sick pay incurred by an individual employee up to a maximum claim amount
16 of \$11,725 and earned within 90 days prior to the Petition Date as specified in Section
17 507(a)(3) of the Bankruptcy Code. Class 3 is a non-voting class. The Debtors do not believe
18 that there are any Class 3 Claims. The Class 3 Allowed Priority Wage Claims entitled to
19 priority pursuant to Section 507(a)(4) of the Bankruptcy Code shall be paid in full on the
20 Confirmation Date from the Carve Out.

21 **B. VOTING CLASSES**

22 1. Class 4: Allowed Secured Claims of King County.

23 Class 4 Claims consists of the Allowed Secured Claims of King County, the holder of
24 a tax lien against the Debtors' Real Property. The Class 4 Claims are impaired. The Debtors'
25 estimated amount of the Class 2 claims is set forth on Exhibit D to the Disclosure Statement.
26 The Class 4 Claimant will retain its liens on the Debtors' Real Property and the Allowed

1 Class 4 Claims will accrue interest at the statutory rate of 12% per annum until paid in full.
2 The Debtors will pay the Allowed Class 4 Secured Claim together with accrued interest as
3 follows: 1) 25% of the Allowed Class 4 Secured Claim payable on the Effective Date; 2)
4 equal monthly installments of \$7,489 per month to be paid Pro Rata to the Allowed Class 4
5 Claims commencing on August 1, 2014 and continuing until payment in full of the Allowed
6 Class 4 Claims on the earlier of: (i) the date of a Sale or (ii) the first business day following
7 the 5th Anniversary of the Effective Date.

8 2. Class 5: Allowed Secured Claim of EastWest Bank.

9 Class 5 consists of the Allowed Secured Claim of EastWest Bank, holder of certain
10 deeds of trust against the Debtors' Real Property and a UCC-1 lien against the Debtors'
11 Personal Property. The Class 5 claims are impaired. The Debtors' estimated amount of the
12 Class 5 claims is set forth on Exhibit D to the Disclosure Statement but the actual amount
13 will be determined by the Court at a hearing set on the Debtors' motion to value the collateral
14 and determine the amount of the Class 5 Allowed Secured Claim. The Class Allowed
15 Secured Claim of the Class 5 Claimant will retain its liens on the Debtors' Real Property and
16 the Debtors' Personal Property and will be paid interest at the rate of 5.25% per annum based
17 on its Allowed Secured Claim as follows: 1) equal monthly installments of principal and
18 interest in the amount \$34,500 per month commencing on the Effective Date and continuing
19 until the earlier of: (i) a Sale of the Property or (ii) the first business day following the 5th
20 anniversary of the Effective Date.

21 3. Class 6: Allowed General Unsecured Claims without Guaranties. Class 6

22 consists of the Allowed General Unsecured Claims that do not hold guaranties against the
23 Debtors' equity holders. The Class 6 Claims are impaired. The amount of the filed
24 unsecured claims is approximately \$183,000 and the actual amount will be determined
25 following confirmation of the Plan and the filing of objections. The Allowed Class 6 Claims
26 together with the Allowed Class 6 Claims shall have two options: (i) The option to reduce

1 their claims to \$1,000 and be paid this amount on the Effective Date (Option 1); or (ii) the
2 option to be paid Pro Rata from an annual payment commencing on the first anniversary of
3 the Effective Date (or approximately July 10, 2015) of 50% of the Net Cash Flow which
4 payments shall continue until a Sale at which time the Allowed Class 6 Claims will be paid
5 Pro Rata along with the Allowed Class 7 Claims, the balance of the net proceeds of Sale
6 available after the payment of the Class 1 through 5 Allowed Claims and any balance due on
7 account of the Owners' LOC (Option 2). Any Class 6 claimant not voting on the Plan and
8 selecting an option in the ballot shall be deemed to have selected Option 1.

9 4. Class 7: Allowed General Unsecured Claims With Guaranties. Class 7
10 consists of the Allowed General Unsecured Claims that hold Guaranties. This claim consists
11 of the unsecured deficiency claim of East West Bank, if any, after the Bankruptcy Court's
12 determination of the Allowed Class 5 Claim. The Allowed Class 7 Claim shall have two
13 options: (i) The option to reduce its claims to \$1,000 and be paid this amount on the Effective
14 Date (Option 1); or (ii) the option to be paid Pro Rata from an annual payment commencing
15 on the first anniversary of the Effective Date (or approximately July 10, 2015) of 50% of the
16 Net Cash Flow which payments shall continue until a Sale at which time the Allowed Class 6
17 Claims will be paid Pro Rata along with the Allowed Class 7 Claims, the balance of the net
18 proceeds of Sale available after the payment of the Class 1 through 5 Allowed Claims and
19 any balance due on account of the Owners' LOC (Option 2). Any Class 7 claimant not
20 voting on the Plan and selecting an option in the ballot shall be deemed to have selected
21 Option 1. The Allowed Class 7 Claim will be reduced by any payments it receives on
22 account of the Government Guaranties.

23 5. Class 8: Allowed Claims of Interest Holders. Class 8 consists of the claims of
24 the shareholders and members of the Debtors. The Interests of the Allowed Interest Holders
25 are impaired. The Plan proposes to pay the Allowed Class 8 Interests any excess proceeds
26 upon a Sale, after payment in full of the Class 1 through 7 claims, provided, however, if the

1 Court determines that the absolute priority rule applies, the Allowed Class 8 Interest holders
2 will relinquish their stock and not receive anything on account of the Plan.

3 **ARTICLE VI**

4 **TAX ASPECTS OF THE PLAN**

5 **A. TAX CONSEQUENCES TO THE DEBTORS**

6 The Debtors are pass-through entities for income tax purposes. Thus, confirmation
7 and consummation of the Plan will have no federal income tax consequences to the Debtors.

8 **B. TAX CONSEQUENCES TO THE UNSECURED CREDITORS**

9 Under the Plan, the unsecured creditors will receive a cash payment as set forth above
10 in full satisfaction of their claims. Each such claim holder will generally recognize gain or
11 loss for federal income tax purposes measured by the difference between the amount
12 received and their basis in the claim. Since most of the unsecured debt is trade debt, it is
13 anticipated that any loss on retirement of the debt under the Plan would be ordinary loss;
14 however, the character of the gain or loss as capital or ordinary will depend on many factors,
15 including the tax status of the holder, whether the claim is a capital asset in the hands of the
16 holder, whether a portion of the distribution is allocable to accrued interest, and whether the
17 holder has previously claimed a bad debt deduction.

18 **C. WITHHOLDING**

19 Payments to certain creditors, such as wage creditors, if any, may be subject to U.S.
20 backup withholding at a 31% rate. Backup withholding generally will not apply, however, to
21 any person who furnishes, on a properly executed IRS Form W-9, such person's taxpayer
22 identification number and certifies under penalties of perjury that the number is correct and
23 that the person is not subject to backup withholding, or who otherwise certifies such person's
24 exemption from backup withholding. The backup withholding tax is not an additional tax
25 and it may be credited against the federal income tax liability of a particular person if the
26

1 required information is provided to the IRS. If backup withholding results in an
2 overpayment of tax, a refund may be obtained by filing a federal income tax return.

3 **D. TAX CONSEQUENCES TO EQUITY INTEREST HOLDERS**

4 1. Discharge of Indebtedness Income.

5 Because the Debtors are respectively a limited partnership and a limited liability
6 company for federal income tax purposes, income (“COD Income”) resulting from the
7 cancellation of unsecured claims will be allocated separately to the Members of the Debtors.
8 The COD Income would be treated as income from debt cancellation to the extent that the
9 payment of the debt by the Debtors would not result in a deduction. Since the 2013 income
10 tax returns have not yet been prepared and the Sale has not yet occurred, it has not yet been
11 determined the amount, if any of debt discharge that could result in COD Income to the
12 Interest Holders.

13 2. Gain from the Sale of the Property.

14 The Sale of the Debtors’ property pursuant to the Plan would result in taxable income
15 to the Interest Holders if the sale results in a gain, or if an Interest Holder’s share of debt
16 relieved in a sale of the property exceeds the Member’s tax basis. Because the 2014 income
17 tax returns have not yet been prepared, the amount of such deemed gain cannot be estimated.

18 3. Bad Debt Deductions by Members.

19 Members that are also creditors will generally be subject to the tax consequences
20 described in B above.

21 THE PRECEDING DISCUSSION IS INTENDED ONLY AS A SUMMARY OF
22 MATERIAL FEDERAL INCOME TAX CONSEQUENCES OF THE PLAN AND DOES
23 NOT PURPORT TO BE A COMPLETE ANALYSIS OR DISCUSSION OF ALL
24 POTENTIAL TAX EFFECTS RELEVANT THERETO. THUS, CREDITORS ARE
25 URGED TO CONSULT THEIR OWN TAX ADVISORS AS TO THE SPECIFIC TAX
26 CONSEQUENCES TO THEM OF THE PLAN, INCLUDING TAX RETURN

1 REPORTING REQUIREMENTS, THE APPLICABILITY AND EFFECT OF FEDERAL,
2 STATE, LOCAL, AND OTHER APPLICABLE TAX LAWS AND THE EFFECT OF ANY
3 PROPOSED CHANGES IN THE TAX LAWS.

4 **ARTICLE VII**

5 **EXECUTORY CONTRACTS AND LEASES**

6 The Debtors intend to make the monthly payments in the ordinary course of business
7 as required under the terms of the executory contracts and leases identified in Schedule G of
8 the Amended Schedules filed in the Bankruptcy Cases until the closing of the Sale. Upon
9 closing of the Sale, the Debtors shall reject all scheduled executory contracts and leases that
10 the Purchaser has not agreed to assume as of the date of Closing and will make arrangements
11 for the immediate return any personal property leased.

12 **ARTICLE VIII**

13 **RISK FACTORS**

14 The distributions to be made under the Plan are contingent upon many assumptions,
15 some or all of which could prove to be invalid and preclude the Plan from becoming effective
16 or reduce anticipated distribution to creditors and equity security holders. The risk factors
17 that could affect the distribution amounts to creditors and equity security holders include the
18 following:

19 1. The Plan is subject to approval by various classes of creditors and interest
20 holders entitled to vote under the Bankruptcy Code and the ultimate confirmation of the Plan
21 by the Bankruptcy Court. No assurance can be given that the requisite number and amount
22 of creditors will accept the Plan or that the Court will approve it.

23 2. As discussed in Article VII above, the Debtors cannot be assured that the tax
24 treatment of the estate's assets arising out of administration of the estate will be as estimated
25 by the Debtors.

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1 3. The failure of the Debtors to meet their Plan projections, to obtain approval of
2 the Owners' Contribution or to consummate the Sale by the fifth anniversary of the Plan.

3 4. The allowance of claims in excess of the amounts estimated by the Debtors.

4 **ARTICLE IX**

5 **LEGAL ACTIONS**

6 There are no pending legal actions now that the Condemnation Actions have been
7 resolved. The Conservator's review of the books and records show that the Debtors made
8 certain payments on account of a personal car debt owed by the Debtors' shareholder, Joseph
9 Ciaramella in the amount of approximately \$16,000.00 during the two years prior to the
10 petition date and in the amount of approximately \$7,000.00 post-petition. Additionally, the
11 Debtors also made certain payments on account of the Debtor's line of credit mortgage debt
12 in the approximate amount of \$11,000.00 post-petition as well as certain payments on
13 account of this debt during the two years prior to the petition date. Additionally, there were
14 certain payments made to law firms representing insiders which are under review. All the
15 unauthorized post-petition payments were stopped by the Conservator. The amended
16 Schedules also reflect that certain car payments and the line of credit payments were made on
17 behalf of the insiders. Additionally, there may be causes of action against the company that
18 repaired the Hotel roof and potential claims against secured creditors. Pursuant to the terms
19 of the Debtors' Plan, the Debtors will retain all rights, claims and causes of action, equitable
20 and legal, held by the estate, against all persons arising under Sections 544, 545, 547, 548
21 and 549 of the Bankruptcy Code or under state, federal or foreign laws, except for any such
22 claims or causes of action that are settled prior to the Confirmation Date. The Debtors may
23 pursue, abandon or settle those causes of action in their sole discretion. However, based on
24 the facts that Mr. Ciaramella did not draw any management fee for several months while he
25 managed the Hotel, the Conservatorship estate has been fully funding the costs of the
26 Conservator for managing the Hotel during the pendency of these Bankruptcy Cases, and

1 because the Conservatorship assets are under the protection and control of the
2 Conservatorship Court, the Debtors will not be pursuing any avoidance claim on account of
3 the car payments, or other payments made to the Ciaramellas.

4 **ARTICLE X**

5 **THE BEST INTERESTS OF CREDITORS TEST AND LIQUIDATION**

6 **ANALYSIS**

7 **A. THE BEST INTERESTS OF CREDITORS TEST**

8 Pursuant to Section 1129(a)(7) of the Bankruptcy Code (also called the “best interests
9 of creditors” test), the Bankruptcy Code requires that each holder of an impaired claim or
10 interest either (i) accept the plan or (ii) receive or retain under the plan property of a value, as
11 of the effective date, that is not less than the value such holder would receive or retain if the
12 Debtors were liquidated under Chapter 7 of the Bankruptcy Code on the effective date. The
13 first step in meeting this test is to determine the dollar amount that would be generated from
14 the hypothetical liquidation of the Debtors’ assets in the context of liquidation in a Chapter 7
15 case.

16 To calculate the probable distribution to members of each impaired class of holders of
17 claims and equity interests if the Debtors were liquidated under Chapter 7, the Bankruptcy
18 Court must first determine the aggregate dollar amount that would be generated from the
19 Debtors’ assets if its Chapter 11 case were converted to a Chapter 7 case under the
20 Bankruptcy Code. This “liquidation value” would consist primarily of the proceeds from a
21 forced sale of the Debtors’ assets by a Chapter 7 trustee. In light of the Conditional Stay
22 Order and the fact that despite concerted marketing and other efforts, the highest and best
23 offer received to date is \$7.5 million, the Debtors have assumed a forced liquidation value in
24 the amount of \$7.5 million in gross proceeds would be realized by any Chapter 7 trustee.

25 Once the Bankruptcy Court determines the recoveries in liquidation of the Debtors’
26 secured and priority creditors, it would then determine the probable distribution to unsecured

1 creditors from the remaining available proceeds of the liquidation. If this probable
2 distribution has a value greater than the distributions to be received by the unsecured
3 creditors under the plan, then the plan is not in the best interests of creditors and cannot be
4 confirmed by the Bankruptcy Court.

5 As set forth above, based on the likely gross sales price of \$7.5 million which would
6 pay only the Class 4 claims in full and would only partially pay the Class 5 claims it is clear
7 that the unsecured claims would not receive any distribution in a Chapter 7 case.
8 Accordingly, the current Plan satisfies the best interest of creditors' test.

9
10 **ARTICLE XI**

11 **CONCLUSION**

12 The Debtors urge Creditors entitled to accept the Debtors' Plan by returning a
13 completed ballot attached hereto as **Exhibit D** by no later than _____, 2014 so
14 that your vote will be counted.

15 RESPECTFULLY SUBMITTED

16 Michael J. Seibert, as court-appointed representative of
17 Seattle Group, Ltd. and Condor Development, LLC

18 By: JS/
19 Michael J. Seibert, Conservator of the
20 Estate of Joseph Ciaramella, as President of
21 Condor Management, Inc., as the General Partner
22 of Seattle Group, Ltd.

23 By: JS/
24 Michael J. Seibert, Conservator of the
25 Estate of Joseph Ciaramella, as Manager of
26 Condor Development LLC

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CERTIFICATE OF SERVICE

The undersigned declares as follows:

That she is a Legal Assistant in the law firm of Lane Powell PC, and on April 11, 2014, she caused the attached document to be filed electronically through the CM/ECF system which caused Registered Participants to be served by electronic means, as fully reflected on the Notice of Electronic Filing.

I declare under penalty of perjury under the laws of the State of Washington and the United States that the foregoing is true and correct.

Executed on this 11th day of April, 2014, at Seattle, Washington.

/s/ Denise A. Campbell
Denise A. Campbell