

IN THE UNITED STATES BANKRUPTCY COURT  
FOR THE WESTERN DISTRICT OF TEXAS  
SAN ANTONIO DIVISION

In re:	§	Chapter 11
	§	
LA VILLITA MOTOR INNS, J.V.	§	Case No. 10-54864
	§	
Debtor.	§	

LA VILLITA MOTOR INN J.V.'S DISCLOSURE STATEMENT  
FOR DEBTOR'S PLAN OF REORGANIZATION

IMPORTANT DATES

Date by which Ballots must be received: \_\_\_\_\_, at 5:00 p.m. (Prevailing Central Time)

Date by which Objections to Confirmation of the Plan must be filed and served \_\_\_\_\_,  
at 5:00 p.m. (Prevailing Central Time)

Hearing on confirmation of the Plan: \_\_\_\_\_, at \_\_\_\_\_ a.m./p.m. (Prevailing  
Central Time)

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Dated: June 17, 2011

ATTORNEYS FOR, LA VILLITA MOTOR  
INNS, J.V., DEBTOR IN POSSESSION

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THIS DISCLOSURE STATEMENT HAS NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION, NOR HAS THE SECURITIES AND EXCHANGE COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THE STATEMENTS CONTAINED HEREIN.

THIS DISCLOSURE STATEMENT INCLUDES FORWARD-LOOKING STATEMENTS BASED LARGELY ON THE CURRENT EXPECTATIONS OF THE DEBTOR AND PROJECTIONS ABOUT FUTURE EVENTS AND FINANCIAL TRENDS AFFECTING THE FINANCIAL CONDITION OF THE DEBTOR OR THE REORGANIZED DEBTOR'S BUSINESS. THE WORDS "BELIEVE," "MAY," "WILL," "ESTIMATE," "CONTINUE," "ANTICIPATE," "INTEND," "EXPECT" AND SIMILAR EXPRESSIONS INDENTIFY THESE FORWARD-LOOKING STATEMENTS. THESE FORWARD-LOOKING STATEMENTS ARE SUBJECT TO A NUMBER OF RISKS, UNCERTAINTIES AND ASSUMPTIONS, INCLUDING THOSE DESCRIBED BELOW UNDER THE CAPTION "RISK FACTORS." IN LIGHT OF THESE RISKS AND UNCERTAINTIES, THE FORWARD LOOKING EVENTS AND CIRCUMSTANCES DISCUSSED IN THIS DISCLOSURE STATEMENT MAY NOT OCCUR AND ACTUAL RESULTS COULD DIFFER MATERIALLY FROM THOSE ANTICIPATED IN THE FORWARD-LOOKING STATEMENTS. NEITHER THE DEBTOR NOR THE REORGANIZED DEBTOR UNDERTAKE ANY OBLIGATIONS TO UPDATE OR REVISE ANY FORWARD-LOOKING STATEMENTS, WHETHER AS A RESULT OF NEW INFORMATION, FUTURE EVENTS OR OTHERWISE.

NO REPRESENTATIONS OR OTHER STATEMENTS CONCERNING THE DEBTOR (PARTICULARLY AS TO ITS FUTURE BUSINESS OPERATIONS OR THE VALUE OF ITS ASSETS) ARE AUTHORIZED BY THE DEBTOR, OTHER THAN THOSE EXPRESSLY SET FORTH IN THIS DISCLOSURE STATEMENT. ANY REPRESENTATIONS OR INDUCEMENTS MADE TO SECURE YOUR ACCEPTANCE, WHICH ARE OTHER THAN AS SET FORTH IN THIS STATEMENT, SHOULD NOT BE RELIED UPON BY YOU IN ARRIVING AT YOUR DECISIONS. ANY SUCH ADDITIONAL REPRESENTATIONS AND INDUCEMENTS SHOULD BE REPORTED TO COUNSEL FOR THE DEBTOR WHO SHALL DELIVER SUCH INFORMATION TO THE BANKRUPTCY COURT, WHICH MAY TAKE SUCH ACTION AS IT DEEMS APPROPRIATE.

THE INFORMATION CONTAINED HEREIN HAS NOT BEEN INDEPENDENTLY AUDITED, EXCEPT AS SPECIFICALLY REFERENCED HEREIN. THE INFORMATION CONTAINED IN THIS DISCLOSURE STATEMENT HAS BEEN SUBMITTED BY THE DEBTOR AND ITS INTERNAL ACCOUNTING STAFF, UNLESS SPECIFICALLY STATED TO BE FROM OTHER SOURCES. THE DEBTOR'S PLAN IS AN INTEGRAL PART OF THIS DISCLOSURE STATEMENT, AND EACH CREDITOR IS URGED TO REVIEW THE PLAN IN ITS ENTIRETY PRIOR TO VOTING ON IT.

THE DEBTOR MAKES NO REPRESENTATIONS WITH RESPECT TO THE EFFECTS OF TAXATION (STATE OR FEDERAL) ON THE INTEREST HOLDERS OR CREDITORS WITH RESPECT TO THE TREATMENT OF THEIR CLAIMS OR INTERESTS UNDER THE PLAN, AND NO SUCH REPRESENTATIONS ARE AUTHORIZED BY THE DEBTOR. CREDITORS AND INTEREST HOLDERS ARE ENCOURAGED TO SEEK THE

**ADVICE OF THEIR OWN PROFESSIONAL ADVISORS IF THEY HAVE ANY SUCH QUESTIONS.**

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**ARTICLE 1.**  
**INTRODUCTION**

This Disclosure Statement is submitted by La Villita Motor Inns, J.V. (the “Debtor”), the chapter 11 debtor-in-possession in the above-captioned Case, in connection with the Debtor’s efforts to solicit votes necessary to confirm the Debtor’s Plan of Reorganization (the “Plan”). A copy of the Plan is attached hereto as Exhibit A.

**1.01 Filing of the Debtor’s Chapter 11 Case**

On December 17, 2010 (the “Petition Date” or the “Filing Date”), Debtor filed a voluntary petition for relief under Chapter 11 of title 11 of the United States Code, 11 U.S.C. §§ 101, *et seq.* (the “Bankruptcy Code”) in the United States Bankruptcy Court for the Western District of Texas, San Antonio Division (“Court” or “Bankruptcy Court”). The Debtor continues to manage its affairs as a debtor-in-possession pursuant to Bankruptcy Code Sections 1107 and 1108. This Disclosure Statement and the accompanying Plan are filed on behalf of the Debtor.

**1.02 Purpose of Disclosure Statement**

The purpose of this Disclosure Statement is to provide you, as the holder of a Claim against the Debtor, with information to enable you to make a reasonably informed decision on the Plan before exercising your right to vote to accept or reject the Plan.<sup>1</sup>

On \_\_\_\_\_, after notice and a hearing, the Bankruptcy Court approved this Disclosure Statement as containing information, of a kind and in sufficient detail, adequate to enable the holders of Claims against the Debtor to make an informed judgment to accept or reject the Plan (A copy of the *Order Pursuant to 11 U.S.C. §1125, and FED. R. BANKR. P. 3017 Approving Disclosure Statement and Fixing Time for Filing Acceptances or Rejections of Plan* [Docket No. \_\_\_\_\_] is attached hereto as Exhibit B). **THE BANKRUPTCY COURT’S APPROVAL OF THIS DISCLOSURE STATEMENT DOES NOT CONSTITUTE A GUARANTY OF THE ACCURACY OR COMPLETENESS OF THIS INFORMATION OR THE BANKRUPTCY COURT’S ENDORSEMENT OF THE PLAN.**

You should read all of this Disclosure Statement before voting on the Plan. **HOWEVER, THE DISCLOSURE STATEMENT IS NOT INTENDED TO REPLACE A CAREFUL AND DETAILED REVIEW AND ANALYSIS OF THE PLAN ITSELF BY EACH HOLDER OF A CLAIM OR INTEREST. THE DISCLOSURE STATEMENT IS INTENDED TO AID AND SUPPLEMENT THAT REVIEW. THE DESCRIPTION OF THE PLAN IS A SUMMARY ONLY. HOLDERS OF CLAIMS AND INTERESTS AND OTHER PARTIES IN INTEREST ARE CAUTIONED TO REVIEW THE PLAN AND ANY RELATED ATTACHMENTS IN THEIR ENTIRETY FOR A FULL UNDERSTANDING OF THE PLAN’S PROVISIONS. THE DISCLOSURE STATEMENT IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO THE PLAN.**

You are urged to consult with your own financial and other advisors in deciding whether to vote to approve or reject the Plan. No solicitation of votes may be made except

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<sup>1</sup> Capitalized terms that are not defined in the Disclosure Statement are defined in the Plan.

pursuant to this Disclosure Statement, and no person has been authorized to use any information concerning the Debtor or their businesses other than the information contained in this Disclosure Statement.

About this Disclosure Statement:

- The statements contained in this Disclosure Statement are made as of the date that the Bankruptcy Court enters an order approving this Disclosure Statement, unless another time is specified in this Disclosure Statement. Neither the delivery of this Disclosure Statement nor any action taken in connection with the Plan implies that the information contained in this Disclosure Statement is correct as of any time after that date.

- Unless the context requires otherwise: (a) the gender (or lack of gender) of all words used in this Disclosure Statement includes the masculine, feminine and neuter; (b) references to articles and sections (other than in connection with the Bankruptcy Code, the Bankruptcy Rules, another specified law or regulation or another specified document) refer to the articles and sections of this Disclosure Statement; and (c) “including” means “including, without limitation.”

- Many capitalized words used in this Disclosure Statement have been defined in the context of the provisions in which they first appear within this Disclosure Statement. Any other capitalized terms used in this Disclosure Statement are intended to have the meanings ascribed to them in the Plan. Any capitalized term not defined in the context of a provision or in the Plan shall have the meaning ascribed to that term in the Bankruptcy Code or Bankruptcy Rules, whichever is applicable.

- You may not rely on this Disclosure Statement for any purpose other than to determine how to vote on the Plan. Nothing contained in this Disclosure Statement constitutes or will be deemed to be advice on the tax or other legal effects of the Plan on holders of Claims or interests.

- Certain of the information contained in this Disclosure Statement is forward-looking. This Disclosure Statement contains estimates and assumptions that may prove not to have been accurate and financial projections that may be materially different from actual future experiences.

- Acceptance or rejection of the Plan is subject to a number of risks. See “Risk Factors” at Section 9 of this Disclosure Statement.

### **1.03 Summary of Treatment of Claims and Equity Interests Under the Plan**

The Plan contains definitions and rules of interpretation and provides for the treatment of separate classes for holders of Claims against, and Equity Interests in, the Debtor. As required by the Bankruptcy Code, Administrative Claims and Priority Tax Claims are not classified.

The table below summarizes the classification and treatment of the principal pre-petition Claims and Equity Interests under the Plan. The classification and treatment for all Classes are described in more detail in the Plan.



Class	Description	Treatment
1	Secured Tax Claims  <b>(Unimpaired; deemed to accept)</b>	Each holder of an Secured Tax Claim (except any holder that agrees to lesser or otherwise different treatment), at the election of the Debtor, shall (1) be Paid in Full, in Cash, in full satisfaction, settlement, release, extinguishment, and discharge of such Claim, on the later of (a) the Effective Date, (b) the date on which the Secured Tax Claim is scheduled to be paid in the ordinary course of business under applicable law or regulation, or (c) the date upon which such Secured Tax Claim becomes an Allowed Claim, or (2) receive treatment in any other manner such that its Allowed Secured Tax Claim shall not be impaired pursuant to section 1124 of the Bankruptcy Code, including, but not limited to, payment in accordance with the provisions of section 1129(a)(9)(C) of the Bankruptcy Code
2	Lender Secured Claim  <b>(Impaired; entitled to vote)</b>	On the later of the first day of the month following (a) the Effective Date, or (b) the date on which the Lender Secured Claim becomes an Allowed Claim, the Holder of the Allowed Class 2 Claim shall receive the Class 2 Note in full and final satisfaction, discharge, and release of the Allowed Lender Secured Claim. The original principal balance of the Class 2 Note shall be an amount equal to the Allowed Class 2 Claim plus any accrued interest from the date the Class 2 Claim is Allowed through the date of issuance of the Class 2 Note, minus all adequate protection payments made by the Debtor from the Petition Date through the date of issuance of the Class 2 Note, minus all Pendency Interest Payments. Interest shall accrue on the Class 3 Note after the date of issuance of the Class 3 Note, at the rate of 5% simple interest per annum. The term of the Class 2 Note shall be five (5) years. The Class 2 Note shall be paid in equal monthly installments of principal and interest commencing 30 days following the date of issuance of the Class 2 Note and continuing on the same day of each successive month thereafter for 59 months with a final balloon payment on the 60th month equal to the remaining balance due under the Class 2 Note.
3	General Unsecured Claims  <b>(Impaired; entitled to vote)</b>	Except to the extent that a holder of an Allowed Class 3 General Unsecured Claim has agreed to receive other lesser treatment, each holder of an Allowed Class 3 Claim shall receive one hundred percent (100.00%) of their total Allowed Class 3 Claim which will be paid in equal monthly installments commencing on the later to

occur of the first day of the month following 30 days after (a) the Effective Date, or (b) the date on which the Class 3 Claim becomes an Allowed Claim, and continuing on the same day of each successive month thereafter for 24 months. in full and final satisfaction, discharge, and release of the General Unsecured Claim.

- |   |  |   |
|---|--|---|
| 4 | Insider Claims<br><br>(Impaired; entitled to vote)   | All Insider Claims shall be converted to equity on the Effective Date in full and final satisfaction, discharge, and release of the Insider Claims. |
| 5 | Equity Interests<br><br>(Impaired; entitled to vote) | Class 5 Equity Interests shall retain their Equity Interests in the Debtor as they existed on the Petition Date.                                    |

#### 1.04 Plan Balloting and Confirmation Procedures

##### 1.04.01 *Holder of Claims and Interests Entitled to Vote*

Only Classes of Claims and interests that are (i) “impaired” by a plan of reorganization or liquidation and (ii) entitled to receive a distribution under such a plan are entitled to vote to accept or reject a plan under the Bankruptcy Code. In this case, only holders of Claims in Class 3, Class 4, and Class 5 are impaired, or possibly impaired, by the Plan and entitled to vote to accept or reject the Plan. Claims in Class 1 and Class 2 are unimpaired by the Plan, and the holders thereof are conclusively presumed to have accepted the Plan.

##### 1.04.02 *Voting Procedures*

If you are entitled to vote to accept or reject the Plan, a Ballot (the “Ballot”) for acceptance or rejection of the Plan and a pre-addressed envelope for return of the Ballot are enclosed. BALLOTS FOR ACCEPTANCE OR REJECTION OF THE PLAN ARE BEING PROVIDED ONLY TO HOLDERS OF CLAIMS IN CLASS 3, CLASS 4, CLASS 5 AND CLASS 6, BECAUSE THEY ARE THE ONLY HOLDERS OF CLAIMS THAT MAY VOTE TO ACCEPT OR REJECT THE PLAN. 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 the Disclosure Statement and Exhibits hereto, the Plan or the voting procedures in respect thereof, please contact:

Debra L. Innocenti, Esq.  
Counsel for Debtor  
Oppenheimer, Blend, Harrison & Tate, Inc.  
711 Navarro, Suite 600  
San Antonio, Texas 78205

After carefully reviewing this Disclosure Statement, please indicate your acceptance or rejection of the Plan by voting in favor of or against the Plan, then return the Ballot to the Debtor’s counsel, at the address set forth on the Ballot, in the enclosed, postage paid,

return envelope by **5:00 p.m.**, (Prevailing Central Time) on \_\_\_\_\_. Any Ballot not indicating an acceptance or rejection will be deemed an acceptance of the Plan. You may also return your Ballot by courier or fax by following the instructions on the Ballot. **ANY BALLOTS RECEIVED BY THE DEBTOR'S COUNSEL AFTER 5:00 P.M., PREVAILING CENTRAL TIME, ON \_\_\_\_\_, WILL NOT BE COUNTED, UNLESS THIS DATE IS EXTENDED BY THE BANKRUPTCY COURT.**

1.04.03 *Voting Requirements for Class Acceptance of the Plan*

YOUR ACCEPTANCE OF THE PLAN IS IMPORTANT. In order for the Plan to be "accepted" by Creditors and interest holders, at least sixty-six and two-thirds percent (66.66%) in amount of Allowed Claims and more than fifty percent (50%) in number of Allowed Claims voting in each Class must accept the Plan. By not voting, a Creditor favoring acceptance of the Plan jeopardizes confirmation.

1.04.04 *Confirmation Hearing*

The Bankruptcy Court has entered an order fixing \_\_\_\_\_, at \_\_\_\_\_ a.m./p.m (Prevailing Central Time), Bankruptcy Courtroom 3, San Antonio, Texas as the date, time and place for the initial commencement of a hearing on confirmation of the Plan, and fixing \_\_\_\_\_ at **5:00 p.m.**, (Prevailing Central Time), as the time by which all objections to confirmation of the Plan must be filed with the Bankruptcy Court and served on counsel for the Debtor. The confirmation hearing may be adjourned from time to time without further notice except for the announcement of the adjourned time and date at the confirmation hearing or any adjournment thereof.

Section 1128(a) 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, conform to Federal Rules of Bankruptcy Procedure and Local Rules of the Bankruptcy Court, set forth the name of the objecting party, the nature and amount of the Claim or Interest held or asserted by the objecting party against the Debtor's Estate, the basis for the objection and the specific grounds thereof. The objection, together with proof of service thereof, must then be filed with the Bankruptcy Court, with copies served upon the following and upon the Limited Service list in this case:

OPPENHEIMER, BLEND,  
HARRISON & TATE, INC.  
Attn: Debra L. Innocenti  
711 Navarro, Suite 600  
San Antonio, Texas 78205

**UNLESS AN OBJECTION IS TIMELY AND PROPERLY SERVED AND FILED BY \_\_\_\_\_, AT 5:00 P.M. (PREVAILING CENTRAL TIME), IT MAY NOT BE CONSIDERED BY THE BANKRUPTCY COURT.**

**ARTICLE 2.**  
**DEBTOR'S BACKGROUND AND FINANCIAL PICTURE**

**2.01 General**

The Debtor is a Texas joint venture, formed on or about April 14, 1980, that owns and operates a hotel located at 100 La Villita in San Antonio, Texas, known as the Riverwalk Plaza Hotel (the "Hotel").

The Hotel was built in 1969 and has operated as an independent, non-branded upscale boutique since October 2009. The Hotel has 129 guest rooms, including deluxe, junior and executive suites. The Hotel offers its guests a 24-hour fitness center, a 24-hour business center, an outdoor heated swimming pool, a full-service coffee bar, a restaurant, a two-story parking garage and other services that generate revenue. The Hotel also has multiple convention rooms for meeting space, including a 2,349 square foot ballroom.

**2.02 Causes of Bankruptcy Filing**

On or about September 25, 1998, the Debtor executed a Fixed Rate Note (the "Note") with AMRESKO Capital L.P. ("AMRESKO") in the original principal amount of \$8.4 million, secured by certain real property and improvements, including the Hotel, as well as all accounts, inventory, all personal property located on the Hotel premises, and all rents and proceeds generated by operations of the Hotel, to the extent described in the Mortgage, Deed of Trust, and Security Agreement (the "Deed of Trust"); Security Agreement; Assignment of Leases and Rents; and Environmental Liabilities Agreement (collectively, the "Loan Documents"). The Note required monthly payments of \$56,874.97 for a term of ten years, beginning October 1, 1998, with a final balloon payment due October 1, 2008. The amount of the balloon payment is not reflected in the Note.

The Loan Documents were ultimately assigned to LaSalle National Bank "as Custodian and Trustee." ORIX and its predecessors have asserted that the assignments were effective as to transfer the Loan Documents into a real estate mortgage investment conduit (REMIC) known as GS Mortgage Commercial Securities Corporation II, Commercial Mortgage Pass-Through Certificate, Series 1999-C1 (the "Trust").

Until October 1, 2008, the date the balloon became due, the Debtor had not been in monetary default on the Loan Documents. To avoid default, the Debtor began attempting as early as January 2008 to obtain refinancing that would allow it to make the balloon payment. The Debtor engaged Jones Lang LaSalle, a reputed, nationwide broker that handles refinancing on a large scale. As a result of Jones Lang LaSalle's efforts, the Debtor received numerous responses from lenders and brokers. It culled the list to several lenders.

By the second week of August, 2008, Bank of Texas sent a letter of commitment based on getting a final number of the exact amount due on the underlying note. Bank of Texas was unable to obtain that number from Capmark, the Trust's master servicer at that time. During October, 2008, after the balloon became due, the Debtor had made sufficient progress with another lender, WorldBanc, to the point that the parties' lawyers were preparing the standard loan documents. But WorldBanc likewise could not obtain a payoff balance.

On November 7, 2008, the Trust's previous special servicer advised the Debtor that effective November 5, 2008, ORIX would be servicing the Debtor's loan. The Debtor never

received a final payoff number from ORIX or anyone else associated with or claiming to be associated with Trust.

The Debtor continued to make its monthly interest-only payments while it sought a final payoff balance from ORIX so that it could effectively refinance. The Debtor also attempted to negotiate an extension of the Note, and provided all documents ORIX requested in this regard.

On March 16, 2009, ORIX sent a Notice of Default and Recourse Trigger, advising the Debtor that certain loans from individuals and entities affiliated with the Debtor from as early as April 16, 2008, constituted Events of Default and demanded all rents collected from that date to the present and retroactively applied a default rate of interest to the Note. ORIX based its determination of default on Sections 9(d) and 23(e) of the Mortgage—inapplicable provisions likely selected as they do not require notice and opportunity to cure.

The Debtor again asked ORIX to provide a final payoff statement in April 2009. ORIX's representative said she would have to obtain the information from Capmark, and that Capmark would not "have an official payoff statement ready for a few days." ORIX sent the foreclosure notice the next day and never provided the requested balance information.

To stop the foreclosure, the Debtor filed suit against ORIX, the Trust and other potential servicers on May 9, 2009, in the 150th Judicial District Court, Bexar County, Texas, for negligent misrepresentation, breach of contract, and fraud as well as seeking an accounting. The trial court entered judgment against ORIX and found that ORIX "intentionally interfered with [the Debtor's] ability to avoid foreclosure and pay the note" and "intentionally interfered with [the Debtor's] ability to avoid foreclosure and pay off the note." Findings of Facts and Conclusions of Law, *La Villita Motor Inns, J.V., et al. v. ORIX Capital Markets, LLC*, Cause No. 2009-CI-07339, in the District Court, 150th Judicial District, Bexar County, Texas (August 28, 2009). ORIX appealed.

On August 25, 2010, the Fourth Court of Appeals reversed certain of the trial court's judgments and remanded; the Fourth Court of Appeals did not set aside the findings of the trial court as they pertained to certain of ORIX's bad acts. *See ORIX Capital Markets, LLP et al. v. La Villita Motor Inns, J.V. et al*, \_\_\_ S.W.3d \_\_\_, 2010 WL 3331702 (Tex.App.—San Antonio 2010). Subsequent to its opinion, the Fourth Court of Appeals entered an order setting a hearing to appoint a receiver for the Debtor. Debtor's attempts at negotiation with ORIX failed, and the Debtor filed for relief under Chapter 11 of the Bankruptcy Code to prevent its property from entering receivership and thereby preserve the assets for the benefit of all creditors and interest owners.

**ARTICLE 3.**  
**SELECTED FINANCIAL INFORMATION,**  
**PROJECTIONS AND VALUATION ANALYSIS**

**3.01 General**

This section provides summary financial information concerning the recent financial performance of the Debtor, financial projections for the Debtor and discusses an estimated valuation of the Debtor. The projections and values are based on information available as of the date of this Disclosure Statement. The Debtor's maintains its own financial information. The financial information contained in this Disclosure Statement has not been audited. The significant assumptions underlying the projections and valuation and the basis of their preparation are discussed below.

**3.02 Operating Performance**

**3.02.01 *Pre-Petition Operations***

A description of Debtor's pre-petition operating performance for fiscal years 2007 through December 2010 is summarized below.

	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Room Revenue	\$3,156,738	\$3,073,289	\$2,173,528	\$2,779,951
Other Revenue*	\$472,949	\$334,537	\$362,590	\$317,404
Total Revenue	\$3,629,687	\$3,405,890	\$2,536,118	\$3,097,355
EBIDTA	\$1,388,713	\$1,087,420	\$573,971	\$1,037,926

\* Other Revenue consists of long-term leases less subject to risks, such as monthly contract parking and rent from the Hotel's restaurant and bar.

**3.02.02 *Post-Petition Operations***

A description of Debtor's pre-petition operating performance for January through May, 2010, is summarized below.

	<b>Dec. 17- Jan. 31</b>	<b>February</b>	<b>March</b>	<b>April</b>	<b>May</b>
Room Revenue	\$212,114	\$193,234	\$329,611	\$271,507	\$204,349
Other Revenue	\$25,397	\$28,498	\$37,118	\$34,044	\$31,346
Total Revenue	\$237,511	\$221,732	\$366,729	\$305,227.28	\$235,810
EBIDTA	\$-18,140	\$46,593	\$135,036	\$81,990.81	\$-21,970†

† May 2011 EBIDTA includes a payment of \$18,256 for Texas Franchise Tax due once annually.

**3.02.03 *Increase in Hotel Revenues***

During the pendency of the Bankruptcy Case, revenues of the Debtor have continued to increase. The increase is due to recent and extensive renovations and the Debtor's continued efforts to maximize the Hotel revenues and a transformation from a limited service hotel to an upper-tier, full service, "lifestyle boutique" Hotel, with an aggressive online marketing campaign.

Guestrooms were renovated in 2008, with new plumbing, electrical, granite, marble tiling, showers, tubs, crown molding and furniture, and 42-inch flat-screen televisions were installed in guestrooms beginning in 2009 and concluding during the post-petition period. Food and beverage facilities were opened in July 2010, which included a brand new restaurant, bar, coffee shop and kitchen establishment, with new furniture, equipment and fixtures. The lobby lounge (Monterrey Lounge) was renovated in 2010. The Hotel pool area was resurfaced with a new wood deck. The three-story parking garage was sealed with a blacktop membrane to prevent cracks and leaks. The Hotel's 4,000 square-foot ballroom was renovated with a stained concrete floor, new ceiling and wall art.

Most recently, the Hotel touched up the driveway entrance (enhancing the mural) and implemented an exterior renovation plan which included improved signage and lighting on the property and enhancements to the guestroom balconies. The Hotel has also coordinated with prominent local artists to showcase their work throughout the property.

Based on data from the Source Strategies, Inc. 1st Quarter Factbook,<sup>2</sup> for the twelve months ending March 31, 2011, the Hotel has increased revenue per available room ("RevPAR") over the same period in 2010 by 32%.<sup>3</sup> However, RevPAR for the Debtor's competition is down approximately 2% to 13.6% year-over-year for the same period, as set out below.

Hotel	Change in RevPAR
Sheraton Gunter	-13.6%
Crown Plaza	-8.1%
Hotel Mengar	-2.0%
Hyatt Regency	-9%
Holiday Inn Tropicana	-4.5%

The Debtor's increased operating performance has resulted in the Debtor's increasing its cash position on the balance sheet by approximately \$118,010 since the Petition Date, while still remaining current on its post-petition obligations and making over \$100,000 in payments for 2010 *ad valorem* taxes and escrowing for 2011 *ad valorem* taxes. Moreover, the Debtor was able to achieve these operational improvements during the first calendar quarter, historically the lowest season for hotels in San Antonio, Texas.

<sup>2</sup> Source Strategies, Inc. maintains the most accurate and comprehensive Texas hotel database, covering 98% of all hotels. Source data is based on the Texas State Comptroller audited tax files for the period of 1980 to the present, making it more accurate and complete than voluntary samples. Since 1988, Source has been under contract to the Office of the Governor, Economic Development and Tourism to supply its hotel research data and analysis.

<sup>3</sup> Source Strategies mistakenly calculated the Debtor's RevPAR based on 133 available rooms. The Debtor has 129 available rooms. Accordingly, the Debtor's increase in RevPAR is actually *higher* than reported.

The Debtor also believes it can develop additional opportunities to grow non-room revenue through valet services, VIP shuttle services, room services, in-room mini bar amenities, bicycle packages, river boat packages, art sales, banquet room rentals and various other services. The Debtor believes these value-added amenities will support the Hotel to raise ADR, increase room revenue and solidify the transformation to a full-service lifestyle boutique hotel.

### 3.03 **Financial Projections of the Reorganized Debtor**

As part of its efforts to evaluate its operations and develop its Plan, the Debtor has developed projections of the financial performance for a 5-year period following the anticipated Effective Date (the "Reorganized Debtor's Pro Forma"). The Reorganized Debtor's Pro Forma included in this Disclosure Statement is based upon a number of important assumptions, which are subject to significant business, economic and competitive risks and uncertainties that are not within the Debtor's control and could cause actual results to differ materially and adversely from the Projections. Such factors include the effect of the Chapter 11 filing upon the Debtor's business and operations as well as the effect of general economic conditions. These and other factors are described in greater detail in Section 9 entitled "Risk Factors."

The Projections are not and should not be regarded as a representation that the forecasted revenue and expense levels will be achieved. However, based upon the Projections, the Debtor believes that the Reorganized Debtor will be able to meet all of its financial obligations under the Plan and, accordingly, that confirmation of the Plan is not likely to be followed by further liquidation or the need for further reorganization. The Projections must be read in conjunction with the assumptions and notes set forth herein below.

### 3.04 **Projected Cash Flow Statement for the Reorganized Debtor**

#### 3.04.01 ***Assumptions and Notes***

**Continuing Operations.** The Reorganized Debtor will remain in possession and ownership and continue to maintain and operate the Hotel.

**Bankruptcy Assumptions.** The financial forecast uses the following assumptions as it relates to Debtor's Plan:

<b>TASK</b>	<b>TARGETED DATE</b>
Filing of bankruptcy plan and disclosure statement	June 17, 2011
Confirmation of plan	___, 2011
Effective date of plan	___, 2011

**Revenue.** Room revenue was derived from the Debtor's demand forecast, which projects high, average, and low room demands based on historical trends, group-demand activity and citywide events. Historically, the Debtor's actual room revenues have been consistent with the forecast. Other revenue is projected to remain consistent, as it consists of long-term leases, including the restaurant and bar lease as well as contract parking.



Expenses and Administrative Costs. Expenses were derived based on static percentages of room revenue derived from an analysis of historical operations.

Prepaid Expenses & Accrued Liabilities. Amounts are derived from identified expenses where specific payment dates and amounts are known. Amounts include but are not limited to, multiple types of insurance, property taxes, city operating permit fees, and state franchise taxes. In appropriate instances they have been adjusted from historical levels to reflect the projected operations.

Debt Service. The Debtor's cash flow projections assume that the Debtor's Plan is confirmed and the payments to Class 1 – 5 creditors are made as provided for therein. [Discussion of the anticipated principal balance of the Class 2 note.]

#### 3.04.02 *Projections*

Based upon, and subject to the notes and assumptions above, the Debtor has prepared cash flow projections for the five-year period following the Effective Date of the Plan. The Reorganized Debtor's Pro Forma is attached hereto as Exhibit C.

#### 3.05 Valuation of the Hotel

The Debtor's principal asset is the Hotel. On or about January 3, 2011, the Debtor retained Colliers PKF Consulting USA ("Colliers") to estimate the market value "as is" (the "Market Value") and the prospective "as stabilized" value (the "Prospective Value") of the real property as well as the contributory value of certain personal property. The effective date of the appraisal report is December 22, 2010. The date of the Market Value is December 1, 2010, and the date of the Prospective Value is December 1, 2013. Colliers assumed that Debtor would continue to operate as an independent, non-branded hotel during the projection period. Based on such and other assumptions set out in greater detail in the Self-Contained Appraisal Report (the "Appraisal"), Colliers estimated the Market Value of the Hotel at \$13,000,000 and the Prospective Value at \$15,500,000.

The Debtor believes that the value of the Debtor's property substantially exceeds the approximate claim of the Lender.

### ARTICLE 4. PROCEEDINGS IN THE CHAPTER 11 CASE

#### 4.01 Commencement and Administration of the Case

The Debtor's Chapter 11 Case was commenced on December 17, 2010. The following is a description of the more significant matters to have come before the Court.

##### 4.01.01 *First Day Pleadings*

Upon the filing of the Bankruptcy Case, it was critical to the Debtor that it smoothly transition into bankruptcy and operate its business in Chapter 11 in compliance with all of the requirements thereof. Accordingly, the Debtor filed multiple so-called "first day" pleadings to ensure this purpose. Among other things, the Debtor filed motions requesting the following: (i) procedures to ensure the provision of adequate assurance to

utility companies, for the purpose of ensuring that the utility companies would not be permitted to terminate the Debtor's services; (ii) authority to pay the pre-petition wages of employees at the Hotel; (iii) authority to retain their pre-petition bank accounts and to continue using their centralized cash management system; and (iv) authority to use cash collateral of the Lender on an interim basis. The Bankruptcy Court granted these motions. Additionally, the Debtor filed its schedules of assets and liabilities, and its statement of financial affairs, which are available for review on the docket of the Bankruptcy Case.

4.01.02      *Approval of Employment of OBHT as Debtor's Counsel*

On December 20, 2010, the Court approved the Debtor's Motion to Employ Oppenheimer, Blend, Harrison & Tate, Inc. as counsel for the Chapter 11 Debtor. As counsel for the Debtor, Oppenheimer, Blend, Harrison & Tate, Inc. is entitled to seek interim and final compensation from the Estate of Debtor upon duly noticed application and after a hearing before the Court.

4.01.03      *Cash Collateral*

On December 20, 2010, the Bankruptcy Court held a hearing on the Debtor's cash collateral motion, which requested that the Bankruptcy Court authorize the Debtors' use of the Lender's cash collateral on a final basis. On December 20, 2010, the Bankruptcy Court entered an order authorizing the Debtors' use of cash collateral until and through January 12, 2011, based on the Debtor's limited agreement with ORIX. The Debtor agreed, and the order provided, that, among other things: (i) the Debtors' use of cash collateral was generally limited to line item expenditures set forth in the budget attached to the order as Exhibit "A"; (ii) the Lender be provided with adequate protection in the form of valid, perfected replacement security interests in, and liens and mortgages upon, all of the Debtors' postpetition collateral, to the extent of any diminution in value of its prepetition collateral; (iii) the Lender receive an allowed priority claim under section 507(b) of the Bankruptcy Code to the extent adequate protection proves insufficient in protecting the Lender against diminution of its interest in collateral; and (iv) the Debtor agree to make no payments to any Insiders of the Debtor, except as otherwise provided in the Court's order authorizing the Debtor to pay certain employee obligations and continue administration of benefit plans. A final hearing was set for January 12, 2011.

On January 12, 2011, the Bankruptcy Court conducted a second hearing on the Debtor's use of Cash Collateral based on the short-term nature of the agreement the Debtor was able to reach with ORIX. Again, the Debtor was only able to negotiate short-term extensions of its use of cash collateral based on the same restrictions. Additional hearings were held on March 9, 2011, March 22, 2011, and May 18, 2011. The corresponding orders entered extended the Debtor's use of cash collateral through July 31, 2011, generally based on the same restrictions, with the Debtor agreeing to make adequate protection payments to ORIX in the amount of \$38,331.32 on June 1, 2011, and July 1, 2011.

4.01.04      *Extension of Exclusivity Period*

On May 8, 2011, the Debtor filed a motion requesting the Court extend the period during which the Debtor has the exclusive right to file and solicit votes on its plan of reorganization, known as the "exclusivity period." ORIX filed an objection to the Debtor's

motion, the Debtor replied, and the Court set a hearing for the matter on May 18, 2011. The Debtor and ORIX were able to reach an agreement whereby the exclusivity period for the Debtor to file its plan of reorganization would be extended to June 19, 2011, and the period in which the Debtor has the exclusive right to solicit acceptances for a plan of reorganization would be extended until August 18, 2011. The parties announced the agreement on the record on May 18, 2011, and the Bankruptcy Court entered an order memorializing the agreement on June 1, 2011.

4.01.05 ***Motion of ORIX for Relief from the Automatic Stay***

On January 25, 2011, ORIX filed a motion requesting the automatic injunction be lifted to permit the Debtor's appeal of the Fourth Court of Appeal's opinion, *ORIX Capital Markets, LLP et al. v. La Villita Motor Inns, J.V. et al*, \_\_\_ S.W.3d \_\_\_, 2010 WL 3331702 (Tex.App.—San Antonio 2010). The Debtor did not oppose the requested relief, and on February 1, 2011, the Court entered an order granting ORIX's motion. On June 10, 2011, the Texas Supreme Court denied the Debtor's petition for review.

4.01.06 ***Lender Adversary Proceeding***

On May 12, 2011, the Debtor filed the Lender Adversary Proceeding requesting the Bankruptcy Court to avoid lien claims of one or more of the Defendants pursuant to section 544 of the Bankruptcy Code and seeking a determination of the Allowed amount of the Lender Secured Claim, if any. The Lender Adversary Proceeding and the allegations therein are discussed in greater detail in Article 5.05.02 of this Disclosure Statement.

**ARTICLE 5.**  
**SUMMARY OF THE DEBTOR'S PLAN**

5.01 **Explanation of Chapter 11**

Chapter 11 is the principal reorganization chapter of the Bankruptcy Code. Under Chapter 11, the plan proponent attempts to restructure a debtor's financial affairs or effectively liquidate the debtor's assets for the benefit of the creditors, equity interest holders and other parties in interest. The Chapter 11 plan is the debtor's agreement with its creditors containing the terms and conditions for the operation and/or liquidation of the properties and assets of the debtor and the treatment of the Claims and interests of creditors and parties-in-interest. In this instance, the Debtor's Plan proposes to liquidate the Property of the Estate, wind up the affairs of the Debtor and distribute the proceeds to creditors.

According to Section 1125 of the Code, acceptances of a Chapter 11 plan may be solicited by the debtor only after a written disclosure statement approved by the Bankruptcy Court as containing adequate information has been provided to each creditor or equity interest holder.

5.02 **Terms of the Plan Control**

The following represents the Debtor's best efforts to describe the treatment afforded the Claims of the Creditors in various Classes. Creditors should be aware that the terms of

the Plan control the treatment of all Claims. In the event of any inconsistencies between the Plan and this Disclosure Statement, the terms of the Plan shall be, in all events, determinative. The Debtor urges all Creditors to read the Plan for a complete understanding of the treatment of their Claims.

#### 5.03 **Classification and Treatment of Claims and Interests**

The Bankruptcy Code requires that a plan group creditors in Classes with other creditors holding similar Claims or interests. The Code provides little guidance as to how to classify Claims other than to prohibit the placement of creditors with dissimilar Claims in the same class. Generally, every creditor holding a Secured Claim is separately classified in recognition of the fact that each secured creditor's rights are different from every other creditor. Creditors whose Claims and rights are similar are generally grouped into the same class of Claims. Certain types or groups of creditor are not classified for treatment under the Plan. The Classification of Claims under the Plan is reflected in the table below.

<b>CLASS</b>	<b>DESCRIPTION</b>	<b>IMPAIRMENT</b>
Class 1	Priority Secured Tax Claims	Unimpaired. Deemed to accept.
Class 2	Lender Secured Claim	Impaired. Entitled to vote.
Class 3	General Unsecured Claims	Impaired. Entitled to vote.
Class 4	Insider Claims	Impaired. Entitled to vote.
Class 5	Equity Interests	Impaired. Entitled to vote.

#### 5.04 **Unclassified Claims**

As provided in Bankruptcy Code § 1123(a)(1), Administrative Expense Claims and Priority Tax Claims are not classified for purposes of voting on, or receiving distributions under, the Plan. Holders of Administrative Expense Claims and Priority Tax Claims are not entitled to vote on this Plan but, rather, are treated separately in accordance with Section 3.02 of this Plan and under Bankruptcy Code § 1129(a)(9)(A).

##### 5.04.01 ***General***

Each holder of an Allowed Administrative Claim and each holder of an Allowed Priority Secured Tax Claim (except any holder that agrees to a lesser or otherwise different treatment) shall be paid in full, in Cash, in full satisfaction of such Claim, on the later of the Effective Date or the date on which such Administrative Claims becomes an Allowed Claim

**Ordinary Course and Post-Petition Contractual Claims.** Allowed Administrative Claims representing (1) post-petition liabilities incurred in the ordinary course of business by the Debtor or (2) post-petition contractual liabilities, whether or not incurred in the ordinary course of business, shall be paid in accordance with the terms and conditions of the particular transactions relating to such liabilities and any agreements relating thereto.

**Professional Fee Claims.** Professional Fee Claims shall be paid from Distributable Cash on the later of (i) thirty (30) days after the Effective Date, or (ii) thirty (30) days following the date of a Final Order determining and Allowing such Claim as a Professional Fee Claim.

The Debtor estimates that, assuming an Effective Date of \_\_\_, unpaid Allowed Administrative Claims will total approximately \$\_\_\_\_\_, almost entirely consisting of Professional Fee Claims, as follows:

<b>ALLOWED PROFESSIONAL FEE CLAIMS</b>	<b>AMOUNT</b>
Oppenheimer, Blend, Harrison & Tate, Inc. (Debtor's Attorneys)	\$ 189,697.43
Colliers PKF Consulting USA (Valuation Expert)	\$ 625.00
Tsakopoulos Brown Scott & Anchors, CPAs (Accountants)	\$
<b>TOTAL</b>	\$

Statutory Fees. On or before the Effective Date, Administrative Expense Claims for fees payable pursuant to 28 U.S.C. Section 1930, as determined by the Bankruptcy Court at the Confirmation Hearing, will be paid in Cash equal to the Allowed amount of such Administrative Expense Claims. All fees payable pursuant to 28 U.S.C. Section 1930 subsequent to the Confirmation Date will be paid by the Reorganized Debtor in accordance therewith until the entry of a Final Decree.

Priority Tax Claims. Each holder of an Priority Tax Claim (except any holder that agrees to lesser or otherwise different treatment), at the election of the Debtor, shall (1) be Paid in Full, in Cash, in full satisfaction, settlement, release, extinguishment, and discharge of such Claim, on the later of (a) the Effective Date, (b) the date on which the Priority Tax Claim is scheduled to be paid in the ordinary course of business under applicable law or regulation, or (c) the date upon which such Priority Tax Claim becomes an Allowed Claim, or (2) receive treatment in any other manner such that its Allowed Secured Tax Claim shall not be impaired pursuant to section 1124 of the Bankruptcy Code, including, but not limited to, payment in accordance with the provisions of section 1129(a)(9)(C) of the Bankruptcy Code.

#### 5.04.02 *Bar Dates for Administrative Expense Claims*

General Bar Date Provisions. The holder of an (i) Administrative Expense Claim, (ii) Professional Fee Claim; (iii) Priority Secured Tax Claims; and (vi) statutory fee Claims must file with the Bankruptcy Court and serve on the Debtor and its counsel no later than thirty (30) days after the Confirmation Date, a request for payment of the Claim. Such request for payment must conform to the requirements provided for in the Bankruptcy Code and Bankruptcy Rules and at a minimum identify the name of the claimant, the nature of and basis for the Claim, and the amount of the Claim. Holders of Administrative Expense Claims required to file a request for payment hereunder who fail to Timely File and serve a request for payment will be forever barred from asserting such Administrative Expense Claims against the Debtor, the Reorganized Debtor and their respective property, and such Administrative Expense Claims shall be deemed discharged as of the Effective Date. An Administrative Expense Claim will be Allowed if no objection is filed within thirty days (30) after filing and service of a request for payment. If an objection is filed to the Allowance of an Administrative Expense Claim, such Claim shall become an Allowed Administrative Expense Claim only to the extent Allowed by a Final Order.

Post-Effective Date Professional Fee Claims. Any Professional's Fee Claim incurred subsequent to the Effective Date by the Reorganized Debtor, may be paid without application to the Bankruptcy Court.

**5.05 Classification and Treatment of Classified Claims and Interests**

**5.05.01 *Class 1 - Secured Tax Claims***

Class 1 consists of Allowed Secured Tax Claims, namely the Claims of the taxing authority located in Bexar County for the year 2010, secured by statutory first liens.

Pursuant to agreements with ORIX memorialized in cash collateral orders entered by the Bankruptcy Court, the Debtor has escrowed funds for 2011 *ad valorem* taxes in a trust account held by its counsel, Oppenheimer, Blend, Harrison & Tate, Inc. To date, the Debtor has escrowed a total of \$38,451.00. Also pursuant to agreement with ORIX and orders entered by the Bankruptcy Court, the Debtor will have paid all 2010 *ad valorem* taxes, interest and penalties in full by July 31, 2011.

The Plan provides that each holder of an Secured Tax Claim (except any holder that agrees to lesser or otherwise different treatment), at the election of the Debtor, shall (1) be Paid in Full, in Cash, in full satisfaction, settlement, release, extinguishment, and discharge of such Claim, on the later of (a) the Effective Date, (b) the date on which the Secured Tax Claim is scheduled to be paid in the ordinary course of business under applicable law or regulation, or (c) the date upon which such Secured Tax Claim becomes an Allowed Claim, or (2) receive treatment in any other manner such that its Allowed Secured Tax Claim shall not be impaired pursuant to section 1124 of the Bankruptcy Code, including, but not limited to, payment in accordance with the provisions of section 1129(a)(9)(C) of the Bankruptcy Code.

In light of the 2010 *ad valorem* taxes being paid in full prior to the Effective Date and an ongoing escrow of 2011 taxes, the Debtor anticipates that Class 1 Secured Tax Claims shall simply be paid in the ordinary course as they come due.

**5.05.02 *Class 2 – Lender Secured Claim.***

Class 2 shall consist of the Lender Secured Claim as evidenced by the Lender Loan Documents.

The Class 2 Lender Secured Claim is a disputed claim as to amount and the party holding the Lender Loan Documents. The liens against the Debtor's assets in the Lender Loan Documents were originated for the express purpose of transferring the loan and associated mortgage and security interests to a trust in a securitization transaction.

The Debtor believes that the note and security documents memorializing the Lender Secured Claim were improperly transferred in contravention of the requirements of the governing Pooling and Servicing Agreement for the mortgage-backed securities trust and, accordingly, are void under New York trust and gift law and under the Texas Property Code. In addition, as a result of the acts and omissions of the Defendants, the Debtor is uncertain who is the rightful holder of the Lender Loan Documents that allegedly encumbers its assets. The Debtor believes that it will suffer the risks should an

unknown lien claimant appear at a later date asserting that it is the rightful holder of the Lender Loan Documents.

ORIX has filed a proof of claim with the Bankruptcy Court asserting a secured claim against the Debtor in the amount of \$8,564,759.68, and, to the extent ORIX is an oversecured creditor, additional sums for post petition interest and fees, costs and charges. ORIX identified itself as the "creditor" in the proof of claim and did not purport to file the claim in an agency or representative capacity, but as the owner and holder of the claim.

The Lender Adversary Proceeding filed by the Debtor asks the Bankruptcy Court to avoid lien claims of one or more of the Defendants pursuant to section 544 of the Bankruptcy Code and seeks a determination of the Allowed amount of the Lender Secured Claim, if any.

The Plan provides that the Bankruptcy Court will determine the Allowed Amount of the Lender Secured Claim pursuant to the Lender Adversary Proceeding. On the later of the first day of the month following (a) the Effective Date, or (b) the date on which the Lender Secured Claim becomes an Allowed Claim, the Holder of the Allowed Class 2 Claim shall receive the Class 2 Note in full and final satisfaction, discharge, and release of the Allowed Lender Secured Claim.

In full and final satisfaction of the Lender Secured Claim, the Lender shall receive the Class 2 Note and related security documents containing the following terms:

(a) Preservation of Liens. The Class 2 Note shall remain secured by all liens, security interests, other interests, and rights in, to and against all property of the Debtor and the Estate securing the Allowed Lender Secured Claim under the Lender Loan Documents determined to be valid Liens by Final Order

(b) Original Principal Balance. The original principal balance of the Class 2 Note shall be an amount equal to the Allowed Class 2 Claim plus any accrued interest from the date the Class 2 Claim is Allowed through the date of issuance of the Class 2 Note, minus all adequate protection payments made by the Debtor from the Petition Date through the date of issuance of the Class 2 Note, minus all Pendency Interest Payments.

(c) Interest. Interest shall accrue on the Class 2 Note after the date of issuance of the Class 2 Note, at the rate of 5% simple interest per annum.

(d) Amortization. The Class 2 Note shall be amortized, over twenty-five (25) years.

(e) Term. The term of the Class 2 Note shall be five (5) years.

(f) Payment. The Class 2 Note shall be paid in equal monthly installments of principal and interest commencing 30 days following the date of issuance of the Class 2 Note and continuing on the same day of each successive month thereafter for 59 months with a final balloon payment on the 60th month equal to the remaining balance due under the Class 2 Note.

Pre-Allowance Treatment. Until such time the Lender Secured Claim is Allowed, the Debtor shall pay ORIX monthly Pendency Interest Payments of \$38,331.32.

Should the Bankruptcy Court determine in that ORIX is not the proper party to receive any payments in connection with the Lender Loan Documents, ORIX must return all payments received under the Plan to the Reorganized Debtor. If ORIX does not make that payment within ten (10) Business Days after written notice of non-payment is received from the Reorganized Debtor, the Reorganized Debtor may proceed with applicable state law remedies and remedies under the Bankruptcy Code for collection of such payments. The Bankruptcy Court shall retain jurisdiction after Confirmation to enter and implement orders or take such other actions as may be necessary or appropriate to assure such payments are returned.

Prepayment. Notwithstanding anything contained to the contrary in the Lender Loan Documents, the Reorganized Debtor may prepay the Allowed Lender Claim in full, with all then accrued interest, at any time without any prepayment or other penalty.

Release of Liens. Upon Payment in Full of the Class 2 Note, the Holder of the Class 2 Note shall release all liens, security interests, and rights against all collateral securing the Class 2 Note. In the event of any dispute concerning the same, or the refusal of the Lender to release the same, the Lender or Reorganized Debtor may initiate a proceeding concerning the same, including as necessary, by the Reorganized Debtor to enforce this Plan, for breach of this Plan as a contract, to specifically enforce this Plan, or to obtain an appropriate injunction. For the avoidance of doubt, nothing in this Plan prejudices or limits the ability of the Reorganized Debtor to refinance the Allowed Secured Claim, provided the Reorganized Debtor complies with this section 4.05(c)(8) of the Plan.

#### 5.05.03 *Class 3 - General Unsecured Claims*

Class 3 shall consist of all Unsecured Claims against the Debtor not otherwise classified in the Plan.

The Debtor believes that there is at most \$95,212.79 in valid General Unsecured Claims. Creditors have filed proofs of claim for General Unsecured Claims totaling \$306,901.75. The Claim containing the largest disputed amount is the General Unsecured Claim filed by Howard Johnson Franchise System and concerns an unliquidated, disputed Claim in connection with a breach of contract lawsuit. The Debtor has scheduled a disputed, unliquidated amount of \$30,909.65, in connection with this lawsuit, while Howard Johnson Franchise System has filed a proof of claim alleging \$218,516.11 in damages. The second-largest disputed amount also concerns a contract dispute. Travelclick.net has filed a proof of claim for unliquidated breach of contract damages in the amount of \$37,816.65. The Debtor has disputed this claim in its entirety.

The Plan provides that, except to the extent that a holder of an Allowed Class 3 General Unsecured Claim has agreed to receive other lesser treatment, each holder of an Allowed Class 3 Claim shall receive one hundred percent (100.00%) of their total Allowed Class 3 Claim which will be paid in equal monthly installments commencing on the later to occur of the first day of the month following 30 days after (a) the Effective Date, or (b) the date on which the Class 3 Claim becomes an Allowed Claim, and continuing on the same



day of each successive month thereafter for 24 months in full and final satisfaction, discharge, and release of the General Unsecured Claims.

Depending on the final aggregate amount of Allowed General Unsecured Claims, the monthly installments would range between \$3,967.20 (the General Unsecured Claims scheduled by the Debtor) and \$12,787.57 (the General Unsecured Claims filed by creditors).

5.05.04            ***Class 4 – Insider Claims***

Class 4 shall consist of all Insider Claims in the Debtor. All Insider Claims shall be converted to equity on the Effective Date in full and final satisfaction, discharge, and release of the Insider Claims.

5.05.05            ***Class 5– Equity Interest***

Class 5 shall consist of all Equity Interests in the Debtor.

Class 5 Equity Interests shall retain their Equity Interests in the Debtor as they existed on the Petition Date.

5.05.06            ***Discharge of Claims***

The rights afforded in the Plan and the payments and distributions to be made thereunder are in complete exchange for, and in full satisfaction and release of, all existing Claims, and, debts and obligations of any kind, nature or description whatsoever of or against the Debtor or any of its assets or property to the fullest extent permitted under Section 1141 of the Bankruptcy Code. Upon the Effective Date, all existing Claims against the Debtor and the Reorganized Debtor shall be and shall be deemed to be discharged. All holders of Claims or Equity Interest shall be precluded from asserting against the Debtor, or any of its assets or property, any other or further Claim based upon any act or omission, transaction or other activity of any kind or nature that occurred prior to the Effective Date, whether or not such holder filed a proof of Claim or proof of interest. Upon the Effective Date, the Debtor shall be deemed discharged and released from any and all Claims, including, but not limited to, demands and liabilities that arose before the Effective Date, and all debts of the kind specified in Sections 502(g), 502(h) or 502(i) of the Bankruptcy Code, whether or not (i) a proof of Claim or Interest based upon such obligation is filed or deemed filed under Section 501 of the Bankruptcy Code; (ii) a Claim or Interest based upon such debt is Allowed under Section 502 of the Bankruptcy Code; or (iii) the holder of a Claim or Interest based upon such debt has accepted the Plan. Except as provided herein, the Confirmation Order shall be a judicial determination of discharge of all liabilities of the Debtor and the Reorganized Debtor. In accordance with Section 524 of the Bankruptcy Code, the discharge provided for hereunder shall void any judgment against the Debtor to the extent it relates to a Claim discharged, and operates as an injunction against the prosecution of any action against the Debtor or its Property to the extent it relates to a discharged Claim.

5.05.07            ***Plan Releases and Exculpation***

None of the Debtor, Reorganized Debtor, or any of their respective partners, general partners, members, officers, directors, employees, agents, advisors or Professionals have or may incur any liability to any holder of a Claim or Equity Interest, or any other party in interest, or any of their respective members or former partners, general partners, members, agents, employees, representatives, financial advisors, attorneys or affiliates, or any of their successors or assigns, for any act or omission in connection with, relating to or arising out of the Chapter 11 Case, the negotiation and pursuit of confirmation of the Plan, the consummation of the Plan or the administration of the Plan (the "Chapter 11 Activities"), except for their acts or omissions constituting willful misconduct or gross negligence, as finally determined by a court of competent jurisdiction, and in all respects are entitled to reasonably rely upon the advice of counsel with respect to their duties and responsibilities in connection with the Chapter 11 Activities. No holder of a Claim, Equity Interest or any other party in interest, including their respective agents, employees, representatives, financial advisors, attorneys or affiliates, have any right of action against the Debtor, the Reorganized Debtor, or any of their respective partners, general partners, officers, directors, members, employees, agents, advisors or Professionals for any act or omission in connection with the Chapter 11 Activities, except for their acts or omissions constituting willful misconduct or gross negligence as finally determined by a court of competent jurisdiction.

## **ARTICLE 6.**

### **IMPLEMENTATION OF PLAN**

#### **6.01 Summary of Implementation of the Plan**

The Plan contemplates that on the Effective Date, La Villita Motor Inns, J.V. will exist as the Reorganized Debtor and, except as otherwise provided in the Plan, the Reorganized Debtor will remain in possession and ownership of all of the assets of Debtor and shall operate them in their best business judgment without further oversight of the Bankruptcy Court. The Plan proposes to pay the Lender with a five-year Class 2 Note. The Plan proposes to pay the holders of General Unsecured Claims over a period of not more than two (2) years from the Effective Date.

All Cash necessary for the Reorganized Debtor to make payments pursuant to the Plan shall be obtained from the Debtor's existing Cash Balances and the operations of the Debtor or Reorganized Debtor.

#### **6.02 The Reorganized Debtor's Obligations Under the Plan.**

The Reorganized Debtor shall perform all of the obligations under the Plan, including obligations to pay or otherwise satisfy the Allowed Claims. From and after the Effective Date, the Reorganized Debtor shall, among other things:

- (1) administer the Plan and take all steps and execute all instruments and documents necessary to effectuate the Plan;
- (2) reconcile Claims and resolve Disputed Claims, and administer the Claims allowance and disallowance processes as set forth in the Plan, including, without limitation, objecting, prosecuting, litigating, reconciling, settling and resolving Claims and Disputed Claims in accordance with the Plan;

(3) make decisions regarding the retention, engagement, payment and replacement of professionals, employees and consultants;

(4) administer the Distributions under the Plan, including (i) making Distributions in accordance with the terms of the Plan and (ii) establishing and maintaining the various Reserves;

(5) exercise such other powers as necessary or prudent to carry out the provisions of the Plan;

(6) invest any Cash pending Distribution;

(7) file appropriate tax returns; and

(8) take such other actions as may be necessary or appropriate to effectuate this Plan.

Following the Effective Date the Debtor may pay its post Effective Date operating expenses in the ordinary course of its business without notice or orders of this Court.

#### **6.03 Exemption from Transfer Taxes**

Pursuant to section 1146(c) of the Bankruptcy Code, the issuance, transfer, or exchange of notes or equity securities under the Plan or the making or delivery of any deed or other instrument or transfer under, in furtherance of, or in connection with the Plan, including without express or implied limitation, any transfers to or by the Reorganized Debtor shall not be subject to any transfer, sales, stamp or other similar tax.

#### **6.04 Claims Objections**

Notwithstanding the occurrence of the Effective Date, and except as to any Claim that has been Allowed before the Effective Date, the Reorganized Debtor may object to the Allowance of any Claim against the Debtor or seek estimation of any Claim on any grounds permitted by the Bankruptcy Code. All objections to Claims must be brought by filing the appropriate pleading in the Bankruptcy Court before the first Business Day that is 60 days after the Effective Date, but the Bankruptcy Court may approve a later date on the Reorganized Debtor's motion filed (but not necessarily heard) before the first Business Day that is 60 days after the Effective Date.

#### **6.05 Contingent Claims**

Until a Contingent Claim becomes an Allowed Claim or is Disallowed, the Claim will be treated as a Disputed Claim for all purposes under this Plan. The holder of a Contingent Claim will be entitled to a distribution under this Plan only when the Contingent Claim becomes an Allowed Claim. Any Contingent Claim for reimbursement or contribution held by a Person that may be liable with the Debtor on a Claim of a Creditor is Disallowed as of the Effective Date if: (a) that Creditor's Claim is Disallowed; (b) the Claim for reimbursement or contribution is contingent as of the Effective Date; or (c) that

Person asserts a right of subrogation to the rights of the Creditor under Bankruptcy Code § 509.

**6.06 Distributions on Allowance or Disallowance of Disputed Claims**

No distributions will be made to any holder of a Claim unless and until the Claim becomes an Allowed Claim. If a Claim is not an Allowed Claim as of the Effective Date, distributions on account of that Claim will commence only when the Claim becomes an Allowed Claim after the Effective Date or as otherwise specifically provided in this Plan. If a Disputed Claim becomes an Allowed Claim, the Reorganized Debtor will make a distribution in accordance with the terms of this Plan applicable to Claims of the Class in which that Claim resides.

**6.07 Undeliverable/Returned Distributions**

Any distribution to be made to a Creditor will be sent to that Creditor at (i) the address set forth on the proof of claim filed for such Creditor, or (ii) if no proof of claim is filed, at the address set forth on the Debtor's schedules. In the event that a distribution as herein provided is returned as undeliverable, or a distribution is returned on account of there being no payment due to the affected Creditor, the Reorganized Debtor shall hold such distribution for the affected Creditor for a period of 60 days following the Date of that distribution for the benefit of the Creditor. If the affected Creditor does not make a demand, in writing, for such unclaimed distribution within the 60-day period, the Creditor shall forfeit all entitlement to the distribution, and the distribution shall revert to the Reorganized Debtor.

**6.08 De Minimis Distributions**

Any other provision of the Plan notwithstanding, the Plan Administrator shall not be required to make distributions to holders of Allowed Claims in an amount less than \$50.00 (unless such Allowed Claim is less than \$50.00). Cash allocated to an Allowed Claim but withheld from distribution pursuant to this subsection shall be held by the Liquidating Manager for the account of and future distribution to the holder of such Allowed Claim.

**6.09 Additional Charges**

Except as may be expressly provided in the Plan or allowed by Final Order of the Bankruptcy Court, no interest, penalty, attorney's fee or late charge shall be allowed or paid with respect to any Claim.

**6.10 Treatment of Executory Contracts and Unexpired Leases**

(a.) **Assumption or Rejection of Executory Contracts and Unexpired Leases.** On the Effective Date, except as otherwise provided in the Plan, any unexpired lease or executory contract that has not been previously assumed or rejected by the Debtor pursuant to an order of the Bankruptcy Court shall be deemed rejected by the Debtor under Sections 365(a) and 1123 of the Bankruptcy Code, other than those executory contracts and unexpired leases that are (a) listed on the Plan at Exhibit A hereto (as such list may be amended, supplemented or modified on or before the Confirmation Date) or (b)

subject to a motion to reject that is pending on the Effective Date. Entry of the Confirmation Order shall constitute approval of such assumptions, and the rejection of the executory contracts or unexpired leases listed in Plan Exhibit A hereto (as such list may be amended, supplemented or modified on or before the Confirmation Date), pursuant to Sections 365(a) and 1123 of the Bankruptcy Code. Any motions to assume executory contracts and unexpired leases pending on the Effective Date shall be subject to approval by the Bankruptcy Court on or after the Effective Date by a Final Order.

(b). **Objections to Assumption and Assignments of Executory Contracts and Unexpired Leases.** To the extent that any party to an executory contract or unexpired lease identified for assumption, or any other party in interest, (a) asserts arrearages or damages pursuant to § 365(b)(1) of the Bankruptcy Code in an amount different from the amount, if any, set forth in the Petition and Schedules, (b) has any objection to the proposed adequate assurance of future performance, if required, or (c) has any other objection to the proposed assumption, cure, or assignment of a particular executory contract or unexpired lease on the terms and conditions provided for herein, all such asserted arrearages and any other objections shall be filed and served within the same deadline and in the same manner established for filing objections to Confirmation.

Failure to assert any arrearages different from the amount set forth in the Schedules (or the exhibits thereto), or to file an objection within the time period set forth above, shall constitute consent to the assumption, cure, and assignment on the terms provided for herein, including acknowledgment that (a) the Debtor (or its assignee) has provided adequate assurance of future performance, if required, (b) the amount identified for “cure,” if any, is the amount necessary to compensate for any and all outstanding defaults or actual pecuniary loss under the executory contract or unexpired lease to be assumed, and (c) no other defaults exist under such executory contract or unexpired lease.

If an objection to assumption and assignment is Filed based upon lack of adequate assurance of future performance or otherwise, and the Court determines that the Debtor cannot assume the executory contract or unexpired lease either as proposed or as may be proposed pursuant to a modified proposal submitted by the Debtor, then the unexpired lease or executory contract shall automatically thereupon be deemed to have been rejected

(c). **Payments Related to Assumption of Executory Contracts and Unexpired Leases.** Any monetary defaults, including claims for actual pecuniary loss, under each executory contract and unexpired lease to be assumed under the Plan shall be satisfied, pursuant to Section 365(b)(1) of the Bankruptcy Code, by payment of the cure amount, if any, as otherwise agreed by the parties, or as ordered by the Bankruptcy Court in Cash within 90 days following the Effective Date, or on such other terms as may be agreed to by the parties to such executory contract or unexpired lease. In the event of a dispute regarding (a) the amount of any cure or pecuniary loss payment, (b) the ability of Reorganized Debtor to provide adequate assurance of future performance under the contract or lease to be assumed, if required, or (c) any other matter pertaining to assumption, the cure or pecuniary loss payments required by § 365(b)(1) of the Bankruptcy Code shall be made within a reasonable time following entry of a Final Order resolving the dispute and approving assumption.

(d). **Bar Date for Rejection Damages.** If the rejection of an executory contract or unexpired lease pursuant to Article 6 of the Plan gives rise to a Claim by the other party or

parties to such contract or lease, such Claim, to the extent that it is timely Filed and is a Allowed Claim, shall be classified in Class 3; provided, however, that the Unsecured Claim arising from rejection shall be forever barred and shall not be enforceable against a Debtor, Reorganized Debtor, their successors or properties, unless a proof of Claim is Filed and served on the Reorganized Debtor within 30 days after the date of the notice of the entry of an order of the Bankruptcy Court authorizing rejection of the executory contract or unexpired lease, which order may be the Confirmation Order.

#### 6.11 **Pending Claims and Causes of Action**

The following is a general discussion of the type and nature of claims and causes of action of the Estate:

NOTE: THE FOLLOWING DISCUSSION IS NOT INTENDED TO BE EXHAUSTIVE AND SHALL NOT LIMIT OR MODIFY ANY CLAIMS OR CAUSES OF ACTION OF THE ESTATE.

##### 6.11.01 ***Preferences***

Some of the payments made by the Debtor to creditors within ninety (90) days of the filing of bankruptcy (or to an insider within one year of the filing of bankruptcy) may be subject to a claim for recovery as preferential transfers under 11 U.S.C. §547, and while the Debtor may have made transfers to affiliates that could qualify as voidable transfers, the transferee affiliates are now unable to repay any such claims.

While the Debtor is unaware of any recoverable preferential or other voidable transfers at this time, the Reorganized Debtor will retain the right to object to claims pursuant to 11 U.S.C. § 502(d) or pursue any preferences.

##### 6.11.02 ***State Court Lawsuits***

On the date of the petition, the Debtor was a party to the following State Court lawsuits:

*La Villita Motor Inns, J.V., et al. v. Howard Johnson et al.*, Civil Action No. 5:10-CV-00852-OLG, U.S. District Court for the Western District of Texas, San Antonio Division (Breach of Contract)

*Travelclick, Inc. v. La Villita Motor Inns, J.V.*, Cause No. 3600017, County Court at Law No. 10, Bexar County, Texas (Suit for Sworn Account, Breach of Contract)

*La Villita Motor Inns, J.V. et al. v. ORIX Capital Markets, LLC, et al.*, Case No. 09-CI-07339, 150<sup>th</sup> District Court, Bexar County, Texas (Injunction, Declaratory Judgment)

##### 6.11.03 ***Lender Adversary Proceeding***

On May 12, 2011, the Debtor filed the Lender Adversary Proceeding requesting the Bankruptcy Court to avoid lien claims of one or more of the Defendants pursuant to section 544 of the Bankruptcy Code and seeking a determination of the Allowed amount of the Lender Secured Claim, if any.

##### 6.11.04 ***Notice to Creditors that All Claims are Preserved***

**ALL CLAIMS OF THE BANKRUPTCY ESTATE ARE BEING PRESERVED AND TRANSFERRED TO REORGANIZED DEBTOR UNDER THE PLAN.**

Any and all causes of action which the Debtor may have, including, but not limited to Avoidance Actions, which may be enforceable under any statute, shall be preserved and shall constitute Property of the Estate to be conveyed to Reorganized Debtor in accordance with the Plan. The Court shall retain jurisdiction to determine all such causes of action.

**YOU MAY BE SUED IF:**

- i) You were or are a creditor and you received a payment on a prior debt within ninety (90) days before the Petition Date;
- ii) You were an insider of the Debtor and you received a payment on a prior debt within one (1) year before the Petition Date;
- iii) You received any payments or property from the Debtor for goods or services you did not deliver or provide before the Petition Date;
- iv) You received any payments of property from the Debtor without providing reasonably equivalent value;
- v) You received pre-payments, advances or deposits from the Debtor which you did not earn;
- vi) You were an officer or director of the Debtor and you breached your fiduciary duties;
- vii) You were involved in pending litigation with the Debtor at the time of the Petition Date;
- viii) You owe the Debtor any money under a contract or as a result of your breach of contract with the Debtor;
- ix) Potential claims against you or any of your affiliates are described or referred to in this Disclosure Statement; or
- x) The Debtor has any claims against you under state or federal law, whether in contract or in tort, whether known or unknown.

**ARTICLE 7.  
CONFIRMATION OF THE PLAN**

**7.01 Feasibility**

As a condition to confirmation of a plan, Section 1129 of the Bankruptcy Code requires, among other things, that the Bankruptcy Court determine that confirmation is not likely to be followed by the liquidation or the need for further financial reorganization of the debtor.

Based upon the value of the Debtor's cash reserves, the projected income to be generated from operating the Hotel during the five years commencing upon the Effective Date, and a capital contribution of \$500,000 by the Equity holder, it is evident that the Reorganized Debtor has sufficient resources available to it to perform the tasks and meet the obligations assigned to it under the Plan. *See* Reorganized Debtor's Pro Forma attached hereto at Exhibit C. Accordingly, the Debtor believes the Plan is feasible.

#### **7.02 Best Interests Test**

In order to confirm the Plan, the Court must find that each holder of an impaired Claim or Equity Interest either (i) accepted the Plan or (ii) received or retained 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 debtor was liquidated under Chapter 7 of the Bankruptcy Code. In a typical Chapter 7 case the debtor ceases operations and a trustee is appointed to conduct an orderly liquidation of the Debtor's assets. The proceeds, net of trustee's fees and other costs and expenses incurred in conducting the liquidation, are distributed to creditors in accordance with their Lien rights and statutorily prescribed priorities of payment.

If this Case was converted to a liquidation under Chapter 7, the Court would likely lift the automatic stay to permit the Lender to foreclose upon its Collateral. Since the Liens of Lender encumber substantially all of the Property of the Estate, only a small amount of Property would remain for other creditors. It is likely that all unencumbered Property value, if any, would be consumed in the payment of administrative claims of the Chapter 7 and Chapter 11 estates, leaving nothing for distribution to unsecured creditors.

Based upon the forgoing liquidation analysis, unsecured creditors and equity interest holders would receive no distributions on account of their Claims in a Chapter 7 liquidation. Under the Plan, those creditors will receive distributions equal to 100% of their claims, significantly more than they would get in a Chapter 7 Liquidation. The Plan proposes to pay secured creditors in full. Accordingly, Secured Claims are receiving at least as much as they would get under a Chapter 7 liquidation.

### **ARTICLE 8. ALTERNATIVES TO THE PLAN**

#### **8.01 General**

The Debtor believes that the Plan affords the holders of Claims the potential for the greatest realization on the Debtor's assets and, therefore, is in the best interests of such holders. If the Plan is not confirmed, however, the theoretical alternatives include: (a) an alternative plan of reorganization; or (b) liquidation of the Debtor under Chapter 7 of the Bankruptcy Code; or (c) dismissal of the Chapter 11 Case. THE DEBTOR BELIEVES THAT THE CREDITORS' CHOICE IS CLEAR. BASED UPON DEBTOR'S ASSESSMENT, UNSECURED CREDITORS WOULD RECEIVE NO DISTRIBUTIONS IN A CHAPTER 7 CASE OR IN THE EVENT OF DISMISSAL OF THE CASE.

#### **8.02 Alternative Plans**

If the Plan is not confirmed, the Debtor or any other party in interest in the case could attempt to formulate and propose a different plan. Other parties may propose



alternative plans, but the Debtor does not believe that any other plan will provide a greater recovery for the Creditors than proposed by Debtor's Plan, or that any such plans will be feasible. Furthermore, it is highly unlikely that any alternate plan could produce a superior result to the Plan, as the Debtor has operated the Hotel for over 30 years and has gained extensive knowledge of the Hotel and its operations.

#### 8.03 Liquidation Under Chapter 7

If no Plan can be confirmed, this Chapter 11 Case may be converted to a case under Chapter 7 of the Bankruptcy Code. In a Chapter 7 case, a trustee would be elected or appointed to liquidate the assets of the Debtor. The proceeds of the liquidation would be distributed to the respective holders of Claims against the Debtor in accordance with the priorities established by the Bankruptcy Code.

If this Case were converted to Chapter 7, a trustee would be appointed. He or she would almost certainly not operate the Debtor's Hotel. The Court would likely lift the automatic stay, and the Lender would foreclose upon its Collateral. Unless a buyer with substantial means appeared at the posted foreclosure sale, the Lender would bid in its interest in the Hotel for some or all of the Lender Secured Claim, what is known as "credit bidding." At the end of this process, it is unlikely there would remain any assets – or any significant assets – for the Chapter 7 trustee to administer, and he or she would in all likelihood close the case and distribute nothing to the unsecured creditors, even if those creditors held priority claims.

Based on the foregoing, the Plan is clearly superior to a Chapter 7 liquidation. No separate liquidation analysis has been prepared as an exhibit.

#### 8.04 Dismissal of the Case

If no Plan of Reorganization can be confirmed in this Chapter 11 Case, one alternative would be dismissal of the Debtor's Case. Since substantially all of the Debtor's assets are subject to the Lender's Lien, dismissal would result in a foreclosure by the Lender. Under this scenario, the Unsecured Creditors would receive nothing on account of their Claims.

### **ARTICLE 9.** **RISK FACTORS**

#### 9.01 General

The Plan is subject to a number of material risks, some of which are described below. The primary risk confronting Creditors under the Plan is the same risk that faces all businesses: economic uncertainty.

The Debtor's Plan contemplates that the Hotel would generate revenue as set out in the five-year Reorganized Debtor's Pro Forma, attached hereto as Exhibit C. Many factors will affect the Debtor's future performance, including how well the Hotel performs, advertising (both nationally and locally), consumer preferences for hotels, the tourism industry in San Antonio, the local economy, and the overall national economy. If the projected income attributable to room revenue is incorrect or significantly declines, the

Debtor might also not be able to continue to fund the payments proposed by the Plan or to continue operating the Hotel.

However, the Debtor believes that this risk is nominal and that it is not so material as to jeopardize recoveries under the Plan. The Debtor's projections, as attached to this Disclosure Statement, demonstrate the correctness of the Debtor's belief that the Debtor will be able to make all future payments required by the Plan. Moreover, the Debtor note two important facts. First, the Debtor has been in business under the present management for over 30 years and was always current on its obligations up until the balloon of the Lender Loan Documents. Accordingly, the Debtor's history demonstrates the Debtor's ability to generate positive cash flow and to pay its creditors. Second, the hotel market has been recovering and is projected to continue recovering, and then growing for the foreseeable future. The worst of the market for the Debtor has passed. In spite of the risk associated with the Plan, the Debtor believes that its Plan offers creditors with a greater recovery than they would receive in a Chapter 7 Liquidation or alternative plan.

#### **9.02 Uncertainty in the Financial Projections**

The Projections are based on numerous assumptions that are an integral part of the projections. The assumptions and estimates underlying the projections are inherently uncertain and are subject to business, economic and competitive risks and other uncertainties which could materially affect the accuracy of the Projections. Consequently, the Projections contained in this Disclosure Statement are not intended, nor should they be received as representations that the projections will be achieved.

### **ARTICLE 10.** **CERTAIN FEDERAL INCOME TAX CONSEQUENCES OF THE PLAN**

#### **10.01 Income Tax Consequences**

The transactions contemplated by the confirmation of the Plan may have an impact on the tax treatment received with respect to distributions under the Plan. That impact may be adverse to a creditor or interest holder. The Debtor has attempted to structure the Plan to preserve any valuable tax attributes.

An analysis of federal income tax consequences of the Plan to creditors, interest holders, and the Debtor requires a review of the Internal Revenue Code ("IRS Code"), the Treasury regulations promulgated there under, judicial authority and current administrative rulings and practice. The Plan and its related tax consequences are complex. Neither the Debtor nor the Debtor's counsel have requested a ruling from the Internal Revenue Service with respect to these matters. Accordingly, no assurance can be given as to the IRS's interpretation of the Plan.

THE TRANSACTION CONTEMPLATED BY THE CONFIRMATION OF THE PLAN MAY HAVE AN IMPACT ON THE TAX TREATMENT OF ANY CREDITOR OR INTEREST HOLDER. THAT IMPACT MAY BE ADVERSE TO THE CREDITOR OR INTEREST HOLDER. NOTHING HEREIN IS INTENDED TO BE ADVICE OR OPINION AS TO THE TAX IMPACT OF THE PLAN ON ANY INDIVIDUAL CREDITOR OR INTEREST HOLDER. EACH CREDITOR OR INTEREST HOLDER IS CAUTIONED

TO OBTAIN INDEPENDENT AND COMPETENT TAX ADVICE PRIOR TO VOTING ON THE PLAN.

**ARTICLE 11**  
**JURISDICTION OF THE COURT**

**11.01 General Retention of Jurisdiction**

Until the Bankruptcy Case is closed, the Bankruptcy shall retain the fullest and most extensive jurisdiction permissible, including, without limitation, that necessary (a) to ensure that the purposes and intent of the Plan are carried out, (b) to enforce and interpret the terms and conditions of the Plan, and (c) to enter such orders or judgments including, without limitation, injunctions necessary to enforce the rights, title, and powers of the Debtor and/or the Reorganized Debtor. Except as otherwise provided in the Plan, the Bankruptcy Court shall retain jurisdiction to hear and determine all Claims against and Interests in the Debtor and to adjudicate and enforce all other causes of action that may exist on behalf of the Debtor.

**11.02 Specific Purposes**

Without limiting the effect of Section 11.01 the Bankruptcy Court shall retain jurisdiction after Confirmation to:

(a) modify the Plan after entry of the Confirmation Order, pursuant to the provisions of the Plan, the Bankruptcy Code, and the Bankruptcy Rules;

(b) correct any defect, cure any omission, reconcile any inconsistency, or make any other necessary changes or modifications in or to the Plan, or the Confirmation Order as may be necessary to carry out the purposes and intent of the Plan;

(c) hear and determine any cause of action, and to enter and implement such orders as may be necessary or appropriate, to execute, interpret, implement, consummate, or enforce the Plan and the transactions contemplated thereunder;

(d) hear and determine disputes arising in connection with the execution, interpretation, implementation, consummation, or enforcement of the Plan, and to enforce, including by specific performance, the provisions of the Plan;

(e) hear and determine disputes arising in connection with the execution, interpretation, implementation, consummation, or enforcement of the settlement agreements, asset purchase agreements or other agreements entered into by any of the Debtors during the Case,

(f) enter and implement orders or take such other actions as may be necessary or appropriate to restrain interference with the consummation or implementation of the Plan, including, without limitation, to issue, administer, and enforce injunctions, releases, assignments, transfers of property or property rights, or other obligations contained in the Plan and the Confirmation Order;

(g) assure the performance by Reorganized Debtor of its obligations to make distributions under the Plan;

(h) enter such orders or judgments, including injunctions, as necessary to enforce the title, rights, and powers of the Debtor, Reorganized Debtor, or the Plan;

(i) hear and determine any and all adversary proceedings, applications, and contested matters, including any remands after appeal;

(j) ensure that distributions to holders of Allowed Claims are accomplished as provided herein;

(k) hear and determine any timely objections to or motions or applications concerning Claims or the allowance, classification, priority, compromise, setoff, estimation, or payment of any Claim, to the fullest extent permitted by the provisions of Section 157 of title 28 of the United States Code;

(l) enter and implement such orders as may be appropriate in the event the Confirmation Order is for any reason stayed, revoked, modified, reversed, or vacated;

(m) hear and determine any motions, contested matters or adversary proceedings involving taxes, tax refunds, tax attributes, tax benefits, and similar or related matters with respect to the Debtor and/or Reorganized Debtor arising on or prior to the Effective Date, arising on account of transactions contemplated by the Plan, or relating to the period of administration of the Case;

(n) hear and determine all applications for the employment or compensation of Professional Persons and reimbursement of expenses under Sections 330, 331, or 503(b) of the Bankruptcy Code or the Plan;

(o) recover all assets of the Debtor and Property of the Estates wherever located, including actions under chapter 5 of the Bankruptcy Code;

(p) hear and determine any and all motions pending as of the Confirmation Date for the rejection, assumption, or assignment of executory contracts or unexpired leases and the allowance of any Claim resulting therefrom;

(q) hear and determine such other matters and for such other purposes as may be provided in the Confirmation Order;

(r) consider and act on the compromise and settlement of any Claim against, or Interest in, the Debtor, including, without limitation, any disputes relating to any Administrative Claims, any Bar Date, or Bar Date Order;

(s) hear and determine all questions and disputes regarding title to the assets of any of the Debtors, their respective Estates;

(t) hear and determine any other matters related hereto, including the implementation and enforcement of all orders entered by the Bankruptcy Court in the Case; and

(u) enter such orders as are necessary to implement and enforce any injunctions provided for in the Plan and Confirmation Order.

**ARTICLE 12.**  
**MISCELLANEOUS**

**12.01 Amendment or Modification of the Plan**

This Plan may be amended or modified by the Debtor prior to the hearing on confirmation without notice or hearing and without an additional Disclosure Statement pursuant to § 1127(a) of the Bankruptcy Code and, to the extent applicable, Bankruptcy Rule 3019. Post-confirmation amendments or modifications of the Plan may be allowed by the Court under § 1127(b) of the Bankruptcy Code if the proposed amendment or modification is offered before the Plan has been substantially consummated. The sole right to amend or modify the Plan at any time shall be reserved to the Debtor.

**12.02 Modification of Loan and Collateral Documents**

To the extent that the Plan proposes changes in the treatment of the Lender Secured Claim, restated or amended or modified documents will be executed in order to properly document and reflect the terms of the plan for the benefit and protection of the affected Lender. The form of such documents will be subject to lender approval.

**12.03 Effective Date**

The effective date will be the first Business Day that is five (5) days after the Confirmation Date on which (a) no stay of the Confirmation Order is in effect; and (b) all conditions to effectiveness set forth in Section 8.02 of the Plan have been satisfied or waived in accordance with the terms of the Plan. No payments to creditors will be made prior to the Effective Date.

**ARTICLE 13.**  
**REQUEST FOR APPROVAL AND ACCEPTANCE OF PLAN**

WHEREFORE, DEBTOR LA VILLITA MOTOR INNS, J.V., submits this Disclosure Statement and the information contained therein, in good faith, in accordance with the provisions of Title 11, U.S.C. § 101 et. seq. for consideration by Creditors and other parties in interest, and as the sole source of information furnished by the Debtor, or to be furnished by the Debtor, in solicitation of acceptance of Debtor's Plan.

Dated this the 17th day June of 2011.

BY: /s/ Debra L. Innocenti

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