Jeffry A. Davis (SBN 103299)
Joseph R. Dunn (SBN 238069)
Abigail V. O'Brient (SBN 265704)
MINTZ LEVIN COHN FERRIS GLOVSKY AND POPEO P.C.
3580 Carmel Mountain Road, Suite 300
San Diego, CA 92130
Tel: 858-314-1500
Fax: 858-314-1501

Attorneys for Debtor in Possession
Los Gatos Hotel Corporation

UNITED STATES BANKRUPTCY COURT

NORTHERN DISTRICT OF CALIFORNIA

SAN JOSE DIVISION

In re LOS GATOS HOTEL CORPORATION, Debtor in Possession.	Case No. 10-63135-ASW Chapter 11 **DISCLOSURE STATEMENT IN SUPPORT OF DEBTOR'S CHAPTER 11 PLAN OF REORGANIZATION (DATED JULY 7, 2011)** **<u>Disclosure Statement Hearing</u>** Date: August 26, 2011 Time: 2:00 p.m. Place: Courtroom 3020 280 S. First St. San Jose, California **<u>Plan Confirmation Hearing</u>** Date: TBD Time: TBD Ctrm: Courtroom 3020 280 S. First St. San Jose, California Judge: Arthur S. Weissbrodt

[THE COURT HAS NOT YET DETERMINED THAT THIS DOCUMENT CONTAINS "ADEQUATE INFORMATION." THE INFORMATION CONTAINED HEREIN SHOULD NOT BE RELIED UPON FOR ANY PURPOSE.]

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Los Gatos Hotel Corporation, the debtor and debtor in possession in the above-captioned case (the "Debtor" or "LGHC"), 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") on December 27, 2010 (the "Petition Date"), thereby commencing this chapter 11 case (the "Case"). The Case is pending in the United States Bankruptcy Court for the Northern District of California, San Jose Division, before the Honorable Arthur S. Weissbrodt (the "Bankruptcy Court" or "Court"). Since the Petition Date, the Debtor has managed its affairs as a debtor in possession pursuant to Bankruptcy Code sections 1107 and 1108.

The Debtor is the proponent (the "Plan Proponent") of the *CHAPTER 11 PLAN OF REORGANIZATION (DATED JULY 7, 2011)* (the "Plan") that has been filed concurrently with this Disclosure Statement.[1] **THE DOCUMENT THAT YOU ARE READING IS THE DISCLOSURE STATEMENT FOR THE PLAN. FOR A COMPLETE UNDERSTANDING OF THE PLAN, YOU SHOULD READ THIS DISCLOSURE STATEMENT, THE PLAN, AND THE EXHIBITS TO THESE DOCUMENTS IN THEIR ENTIRETY.**

The Plan sets forth the manner in which the remaining Claims against and Interests in the Debtor will be treated upon the Debtor's reorganization under chapter 11 of the Bankruptcy Code. This Disclosure Statement describes the Debtor's prior and current business operations and the principal terms of the Plan, pursuant to which claims against the Debtor will be satisfied and monies will be distributed to the holders of Allowed Claims under the Plan.

This Disclosure Statement sets forth the assumptions underlying the Plan, describes the process that the Court will follow when determining whether to confirm the Plan, and describes how the Plan will be implemented if it is confirmed by the Bankruptcy Court. Bankruptcy Code section 1125 requires that a disclosure statement contain "adequate information" concerning a plan of reorganization. *See* 11 U.S.C. § 1125(b).

The Court has approved the form of this document as an adequate disclosure statement that

[1] Capitalized terms not otherwise defined in this Disclosure Statement shall have the meanings ascribed to them in the Plan. The Plan is the legally operative document regarding the treatment of Claims and Interests and the terms and conditions of the Debtor's reorganization. Accordingly, to the extent that there is any inconsistency between the terms contained in this Disclosure Statement and those contained in the Plan, the terms of the Plan shall govern.

contains enough information to enable entities affected by the Plan to make an informed judgment when deciding whether to vote to accept or to reject the Plan. Court approval of the adequacy of this Disclosure Statement, however, does not constitute a determination by the Court with respect to the fairness or the merits of the Plan or the accuracy or completeness of the information contained in the Plan or Disclosure Statement.

THE COURT HAS NOT YET CONFIRMED THE PLAN DESCRIBED IN THIS DISCLOSURE STATEMENT. THEREFORE, THE TERMS OF THE PLAN ARE NOT YET BINDING ON ANYONE. IF THE COURT LATER CONFIRMS THE PLAN, AND THE EFFECTIVE DATE OCCURS, THEN THE PLAN WILL BE BINDING ON THE DEBTOR AND ON ALL CREDITORS AND INTEREST HOLDERS IN THIS CASE.

The Plan Proponent believes that the Plan is appropriate and in the best interests of Creditors, equity security holders and the Estate. In view of the foregoing, the Plan Proponent strongly recommends that all eligible Creditors entitled to vote on the Plan cast their ballots to accept the Plan.

I.

GENERAL DISCLAIMERS AND INFORMATION

Please carefully read this document and the Exhibits to this document. These documents explain who may object to confirmation of the Plan, who is entitled to vote to accept or reject the Plan, and the treatment that Creditors of the Debtor and Holders of Existing Equity Interests can expect to receive if the Court confirms the Plan. This Disclosure Statement also describes the Debtor's history, the events precipitating the Case, the effect of Plan confirmation, and some of the issues the Court may consider in deciding whether to confirm the Plan. The statements and information contained in the Plan and Disclosure Statement, however, do not constitute financial or legal advice. You therefore should consult your own advisors if you have questions about the impact of the Plan on your Claims or Interests.

The financial information used to prepare the Plan and Disclosure Statement was prepared by the Plan Proponent (and its professionals) from information in the Debtor's books and records and is the sole responsibility of the Debtor. The Plan Proponent's professionals prepared the Plan and

Disclosure Statement at the direction of, and with the review, input and assistance of, the Debtor's management.

The statements and information concerning the Debtor that are set forth in this document constitute the only statements and information that the Bankruptcy Court has approved for the purpose of soliciting votes to accept or reject the Plan. Therefore, statements and/or information that are inconsistent with anything contained in this Disclosure Statement are not authorized unless otherwise ordered by the Bankruptcy Court.

You may not rely on the Plan and Disclosure Statement for any purpose other than to determine whether to vote to accept or reject the Plan. Nothing contained in the Plan or Disclosure Statement constitutes an admission of any fact or liability by any party or may be deemed to constitute evidence of the tax or other legal effects that the Debtor's reorganization may have on entities holding Claims or Interests.

Unless another time is expressly specified in this Disclosure Statement, all statements contained in this document are made as of July 7, 2011. Under no circumstances will the delivery of this Disclosure Statement or the exchange of any rights made in connection with the Plan create an implication or representation that there has been no subsequent change in the information included in this document.

Where a particular word (such as "Debtor") or term (such as "Allowed Claim" or "Allowed Interest") is capitalized in this Disclosure Statement, that word or phrase has the meaning ascribed to it in the Plan. Where, however, a particular word (such as "debtor") or phrase (such as "allowed claim" or "allowed interest") is not capitalized in this Disclosure Statement, that word or phrase is not intended to refer to the definitions provided in the Plan, but rather the word or phrase is intended to have the general meaning ascribed to it in common bankruptcy parlance.

II.

WHO MAY VOTE TO ACCEPT OR REJECT THE PLAN

To vote to accept or reject the Plan, your Claim must be an impaired Claim or Interest and not a Disputed Claim or Interest and the Plan must provide for you to receive or retain some value on account of your Claim or Interest. Holders of unimpaired Claims and Interests are deemed to have accepted the Plan and do not vote, though they may object to confirmation of the Plan to the extent they otherwise have standing to do so. Holders of Claims and/or Interests who do not receive or retain any value under the Plan on account of such Claim or Interest are deemed to reject the Plan. As defined by the Bankruptcy Code, a claim generally includes all rights to payment from the debtor, while an interest generally represents an ownership stake in the debtor.

A. <u>Allowed Claims and Interests</u>

Subject to the exceptions explained below, under the Bankruptcy Code, a claim or interest is generally allowed only if a proof of the claim or interest is properly filed before the Bar Date for doing so, and either no party in interest has objected to or the court has entered an order allowing the claim or interest.[2] Under certain circumstances provided in the Bankruptcy Code, a creditor may have an allowed claim even if a proof of claim was not filed and the bar date for filing a proof of claim has passed. For example, a claim may be deemed allowed if the claim is listed on the debtor's schedules of assets and liabilities filed with the court, is not scheduled as disputed, contingent, or unliquidated, and no party in interest has objected, or the court has entered an order allowing the claim or interest after such an objection was filed.

A Holder's Claim must be an Allowed Claim, or must be Allowed for purposes of voting, for the Holder of such Claim to have the right to vote on the Plan. Generally, for voting purposes only, a Claim is deemed Allowed to the extent that: (1) either (a) a proof of Claim was timely Filed, or (b) a proof of Claim was deemed timely Filed either under Bankruptcy Rule 3003(b)(1)-(2) or by a Final Order; and (2) (a) the Claim is not a Disputed Claim, or (b) the Claim is Allowed either by a Final Order or under the Plan.

Under the Plan, a Creditor whose Claim is not an Allowed Claim nevertheless may be entitled to vote to accept or reject the Plan if the Creditor has timely filed a proof of Claim that is not the subject of an objection filed before the Confirmation Hearing or a Court order disallowing the Claim entered before the Confirmation Hearing. An entity whose Claim is subject to an objection is not eligible to vote on the Plan unless and until (1) that objection is resolved in such entity's favor, provided, however, in the case of an objection which only seeks to reduce the amount of such

[2] *See* Section VIII.A.2 for specific information regarding the General Bar Date in the Case.

entity's Claim, the entity shall nonetheless still be eligible to vote the reduced amount of its Claim or (2) after notice and a hearing under Bankruptcy Rule 3018(a), the Bankruptcy Court temporarily allows the entity's Claim or portion thereof for the purpose of voting to accept or reject the Plan. Any entity that seeks temporary allowance of its Claim for voting purposes must promptly take steps necessary to arrange for an appropriate and timely hearing with the Court.

B. <u>Impaired Claims and Interests</u>

Generally speaking, under the Bankruptcy Code, a class of claims or interests is impaired if the plan alters the legal, equitable, or contractual rights of the members of the class, even if the alteration is beneficial to the creditors or interest holders. Section III.C of the Plan and Section IX.D of this Disclosure Statement, among other things, describe the Classes of Claims and Interests that the Plan Proponent believes to be impaired (or unimpaired) under the Plan.

III.

VOTES NECESSARY TO CONFIRM THE PLAN

Impaired claims or interests are placed in classes under the plan, and it is the class that must accept the plan by the requisite majorities. Section III.C of the Plan and Section IX.D of this Disclosure Statement summarize the classification of all Claims and Interests under the Plan. There also are some types of claims that are unclassified because the Bankruptcy Code requires that they be treated in a certain way. These claims are considered unimpaired, and their holders cannot vote.

A bankruptcy court may confirm a plan if at least one class of impaired claims has voted to accept that plan (without counting the votes of any insiders whose claims are classified within that class) and if certain statutory requirements are met both as to non-consenting members within a consenting class and as to rejecting classes. A class of claims has accepted the plan when at least a majority in number and at least two-thirds in amount of the allowed claims actually voting in that class vote to accept the plan. A class of interests has accepted the plan when at least two-thirds in amount of the allowed interests actually voting in that class vote to accept the plan.

Even if a plan receives the requisite number of votes to confirm it, the plan will not become binding unless and until, among other things, the Bankruptcy Court makes an independent determination that confirmation is appropriate. This determination will be the subject of the

Confirmation Hearing. Also, as described in Article IV below, even if all Classes do not vote in favor of the Plan, the Plan may nonetheless be confirmed if the dissenting Classes are treated in a manner prescribed by the Bankruptcy Code.

IV.

CRAMDOWN: TREATMENT OF NON-CONSENTING CLASSES

The Plan may be confirmed, even if all Classes do not consent to the proposed treatment of their claims under the Plan, if the dissenting Classes are treated in the manner prescribed by the Bankruptcy Code. The process by which a plan is confirmed, notwithstanding the existence of a dissenting class, is commonly referred to as "cramdown." The Bankruptcy Code allows dissenting classes to be crammed down if the plan does not "discriminate unfairly" and is "fair and equitable." The Bankruptcy Code does not define unfair discrimination, but it does set forth certain minimum requirements for "fair and equitable" treatment. A plan is fair and equitable to holders of secured claims if the holders are to receive property equal in value to the allowed amount of the secured claims. For a class of unsecured claims, a plan is fair and equitable if the claims in that class receive value equal to the allowed amount of the claims or, if the unsecured claims are not fully paid, no claim or interest that is junior to such class receives or retains anything under the plan. Accordingly, if a class of unsecured claims rejects a plan under which a junior class (*e.g.*, a class of interest holders) will receive or retain any property under the plan, the plan cannot be confirmed (with certain possible exceptions not relevant to the Plan) unless the plan provides that the class of unsecured creditors receives value equal to the allowed amount of the claims in that class.

V.

INFORMATION REGARDING VOTING

A. <u>Voting Instructions</u>

Classes 1, 2, 4 and 5 are impaired and the Holders of Claims in those Classes are entitled to vote on the Plan. Classes 3 and 6 are <u>not</u> impaired and the Holders of Claims and Interests in those Classes are <u>not</u> entitled to vote on the Plan and each of those Classes is deemed to accept the Plan. Similarly, Administrative Expenses are not classified under the Plan and the Holders thereof are not entitled to vote.

Any party that disputes the Plan Proponent's characterization of its Claim as unimpaired may request a finding of impairment from the Bankruptcy Court to obtain the right to vote, but should file and serve a motion requesting such a determination and arrange for such a motion to be heard by the Court *prior* to the hearing on confirmation of the Plan.

In voting to accept or reject the Plan, please use only the Ballot (if any) sent to you with this Disclosure Statement, and please carefully read the voting instructions on the Ballot for an explanation of the applicable voting procedures and deadlines. If you have received this Disclosure Statement without a Ballot, the Plan Proponent believes that you are: (i) a Holder of a Claim or Interest that is unimpaired by the Plan and that you, therefore, are not entitled to vote on the Plan; or (ii) otherwise not the Holder of a Claim or Interest that is entitled to vote to accept or reject the Plan.

If you nevertheless believe that you are entitled to vote on the Plan, you must file and serve a motion requesting a determination that you are entitled to vote on the Plan and arrange for such motion to be heard by the Court *prior* to the Confirmation Hearing. Before doing so, however, you should first confirm that the absence of a Ballot was not inadvertent by contacting Abigail O'Brient, Mintz Levin Cohn Ferris Glovsky and Popeo, PC, 3580 Carmel Mountain Road, Suite 300, San Diego, California 92130, Facsimile: (858) 314-1501, email: avobrient@mintz.com.

If you wish to vote to accept or reject the Plan, your Ballot must be received by Debtor's Counsel, at the address, e-mail address or facsimile number listed in the paragraph immediately above **no later than 5:00 p.m. (California time), on [date]**. If your Ballot is not timely received by Debtor's Counsel, it will not be counted. Ballots must be provided to Debtor's Counsel by mail, e-mail, overnight delivery, messenger, or facsimile.

Any interested party desiring further information with respect to the Plan, or seeking additional copies of this document, should contact Debtor's Counsel. All pleadings and other papers filed in these Cases may be inspected during regular court hours at the United States Bankruptcy Court, 280 South First Street, Room 3035, San Jose, California, 95113-3099.

VI.

WHO MAY OBJECT TO PLAN CONFIRMATION

A Confirmation Hearing has been scheduled for **[date], at [time]**, at the United States Bankruptcy Court, 280 South First Street, Room 3035, San Jose, California, 95113-3099, to determine whether the Bankruptcy Court will confirm the Plan. Any party that objects to confirmation of the Plan must file and serve its objection and evidence in support of its objection by the Plan Objection Deadline. Any objection to confirmation of the Plan must be in writing, specify the name and address of the party objecting, set forth the specific grounds for the objection, and be accompanied by the evidence the objecting party intends to present in support of its objection. Such objection and evidence in support thereof must be served on Debtor's Counsel, the U.S. Trustee and parties that have requested special notice in the Case. Any affiant or declarant with respect to an affidavit or declaration filed in support of an objection to Plan confirmation must be present at the Confirmation Hearing for cross-examination without the necessity of a subpoena. Failure to properly and timely file an opposition to Plan confirmation or appear at the Confirmation Hearing may be deemed consent to the Plan's confirmation.

VII.

DESCRIPTION OF THE DEBTOR, ITS BUSINESS, THE EVENTS PRECIPITATING THE FILING, AND SIGNIFICANT EVENTS IN THE CHAPTER 11 CASE

A. Description of the Debtor and Its Business

Los Gatos Hotel Corporation, a California corporation (the "Debtor"), was formed in 2000 to build and operate Hotel Los Gatos (the "Hotel"), a full-service boutique hotel located in downtown Los Gatos, California. The Hotel, constructed in 2002, offers 72 guest rooms, over 2,000 square feet of meeting and conference space, a Michelin star restaurant, and a 3,600 square foot spa and fitness facility. The Debtor, through Folio Hospitality Management, Inc., operates all aspects of the Hotel except for the restaurant, which is owned and operated by a third party under a lease of the restaurant space from the Debtor.

B. Management and Ownership of LGHC

Jeff Curran serves as the president of the Debtor. David Pinn, Alan Pinn, the Bypass Trust for the Benefit of the Issue of DJ Ogilvie and the Bypass Trust for the Benefit of the Issue of Christiansen each own 25% of the shares of the Debtor's stock.

C. Debt Structure and Events Leading to Chapter 11 Filing

In 2006, the Debtor refinanced its debt on the Hotel through a loan (the "Loan") from Greenwich Capital Financial Products, Inc., which was evidenced by a promissory note in the amount of $12,000,000, payable over a period of five (5) years, and coming due in full in March 2011. The Debtor is informed, but has not confirmed, that the Loan was subsequently bundled with other loans and sold as part of a commercial mortgage-backed security to Greenwich Capital Commercial Funding Corp. GCCFC 2006-GG7 Los Gatos Lodging Limited Partnership ("Lender") claims that it currently holds the Loan, which is serviced by LNR Partners, LLC ("LNR"). As of the petition date, the principal balance of the Loan had been reduced to $11,606,981. In addition, LNR has claimed that penalties and interest in arrears total approximately $1,500,000. The Loan is allegedly secured by substantially all of the Debtor's assets, including the real property on which the Hotel operates (the "Real Property").

From its inception in 2002, the Hotel thrived and was quickly established as one of the premier hotels in the greater Los Gatos area. However, in 2008, after six years of successful operations, the Hotel's revenues declined precipitously due to the national economic crisis, and in particular the collapse of the real estate and credit markets in 2008. In fact, the Hotel's revenues declined by approximately 30% between 2007 and 2009, from $5.2 million to $3.6 million. As operating losses mounted, the Debtor's shareholders injected cash to service the Loan and to meet operating expense obligations. This additional capital, however, proved insufficient to meet the Hotel's cash flow requirements.

LNR filed a Notice of Default and scheduled a trustee's sale of the Real Property for December 7, 2010. That sale was rescheduled for January 31, 2011. Due in large part to the impending foreclosure, on December 27, 2010 (the "Petition Date") the Debtor commenced this chapter 11 case to protect the value of its assets for the Debtor's creditors and equity holders.

D. Significant Events in the Case

1. Overview of Chapter 11 and the Plan Process

Chapter 11 is the principal business reorganization chapter of the Bankruptcy Code. Under chapter 11, the debtor attempts to reorganize its business for the benefit of itself, its creditors, its shareholders, and other parties in interest, or, in the alternative, uses chapter 11 to effectuate an orderly liquidation of its assets.

The commencement of a chapter 11 case creates an estate consisting of all of the legal and equitable interests of the debtor in property as of the date that its bankruptcy petition is filed. Bankruptcy Code sections 1107 and 1108 provide that a debtor may continue to operate its business and remain in possession of its property as a "debtor in possession," unless the bankruptcy court orders the appointment of a trustee. The Debtor has remained in possession of its property and is operating its business as a debtor in possession.

The filing of a voluntary petition under chapter 11 also operates as an automatic stay of, among other things, all attempts to collect on pre-petition claims from the debtor or otherwise interfere with the debtor's property or business. Unless otherwise ordered by the bankruptcy court, the automatic stay remains in full force and effect through the effective date of a confirmed chapter 11 plan.

The formulation of a reorganization plan is the principal objective of a chapter 11 case. A plan sets forth the means for satisfying the claims against and interests in the debtor. The Plan provides for the treatment of all Claims against and Interests in the Debtor, including payment in full of all Allowed Claims against the Debtor.

2. Filing of Petition

On December 27, 2010, the Debtor filed a petition for relief under chapter 11 of the Bankruptcy Code. A first meeting of creditors was held, pursuant to Bankruptcy Code section 341, on February 2, 16 and 25, 2011.

3. Cash Collateral

On December 29, 2010, the Debtor filed an emergency first day motion for interim and final orders authorizing the use of cash collateral. [Docket no. 11.] The next day, Lender filed an emergency motion for adequate protection. [Docket no. 18.] Shortly thereafter, the Debtor commenced negotiations with Lender regarding the use of cash collateral and the provision of adequate protection. Ultimately, these negotiations resulted in an agreement permitting the Debtor to use cash collateral for the duration of the case, subject to certain conditions.

4. Other First Day Motions

Shortly after the Petition Date, the Debtor filed a number of first day motions to allow it to continue operating Hotel Los Gatos without interruption, including motions for authorization to pay prepetition taxes and to honor certain prepaids, and a motion for an order prohibiting utility providers from discontinuing service.

5. Assumption of Hotel Management Agreement with Folio Hospitality Management, Inc. and Termination of Joie de Vivre

On March 29, 2011, the Court entered an order authorizing the Debtor to assume the amended and restated hotel management agreement with Folio Hospitality Management, Inc. ("Folio"), which the Debtor and Folio had entered into before the Petition Date. In mid-April, the Debtor replaced Joie de Vivre, the then-manager of Hotel Los Gatos, with Folio.

6. Professionals Retained at the Expense of the Estate

The Debtor has retained the following professionals to assist with the administration of the Estate:

- Mintz Levin Cohn Ferris Glovsky and Popeo, PC as the Debtor's bankruptcy counsel;
- OSAS, Inc. as the Debtor's financial advisor and investment banker;
- Sandra Haines and Lori Hensley as the Debtor's bookkeepers; and
- Crawford, Pimentel & Co., Inc. as the Debtor's accountant.

Below is a chart which sets forth the amount of Professional Fee Expenses incurred through June 30, 2011 by the Estate professionals and the amount projected to be incurred to and through the Effective Date:

Professionals	Estimated Fees and Costs through June 30, 2011	Projected Additional Fees and Costs through Effective Date	Total Projected Fees and Costs
Mintz Levin	$176,000.00	$150,000.00	$326,000.00

OSAS	$63,000.00	$35,000.00	$98,000.00
Sandra Haines	$15,100.00	$3,000.00	$18,100.00
Lori Hensley	$0.00	$0.00	$0.00
Crawford, Pimentel	$0.00	$1,500.00	$1,500.00
Totals	$254,100.00	$189,500.00	$443,600.00

Note: All amounts in the above table are estimated amounts and are subject to change. These amounts are estimates either by the respective professional or by the Plan Proponent based upon the professional's historical trends. Certain assumptions were made regarding timing and the amount of resistance the Plan and Disclosure Statement would encounter and an estimated Effective Date of September 30, 2011 was used. The actual amounts requested or Allowed by the Court may materially vary from the amounts shown here. The Plan Proponent's inclusion of these amounts in the Plan and Disclosure Statement should not and does not necessarily represent either an endorsement of or support for the amounts shown on this chart, and the Plan Proponent expressly reserves all rights to object to any or all of these amounts. Inclusion on this chart does not constitute a belief by the Plan Proponent that these amounts are authorized or reasonable.

7. Unexpired Leases and Executory Contracts

On the Petition Date, the Debtor was a party to certain unexpired leases and executory contracts. As of July 7, 2011, it is the Debtor's intent to assume the unexpired leases of nonresidential real property and executory contracts set forth on Exhibit A to the Plan, pursuant to Section 365 of the Bankruptcy Code, either through the Plan or prior to the Confirmation Date.

As described in Section X.A below, the Debtor intends to reject any and all unexpired leases and executory contracts not listed on Exhibit A to the Plan or previously assumed or rejected by Final Order of the Bankruptcy Court.

VIII.

DESCRIPTION OF LIABILITIES (INCLUDING CLAIMS AND PROCEDURES FOR OBJECTING TO CLAIMS), EQUITY INTERESTS IN THE DEBTOR, AND ASSETS OF THE DEBTOR (INCLUDING AVOIDANCE AND OTHER ACTIONS)

A. Claims

1. Schedules

On February 25, 2011 the Debtor filed amended schedules, which list total Claims against it as of the Petition Date in the amount of $20,482,967.50, including: Secured Claims in the amount of

$13,100,262.00, Priority Claims in the amount of $226,541.91, and Unsecured Claims in the amount of $7,156,163.59.

2. The Bar Date for Pre-Petition Claims

On December 28, 2010, the Bankruptcy Court entered an order establishing a deadline of May 3, 2011 for filing proofs of pre-petition claims against the Debtor [Docket No. 6]. The Court subsequently sent notice of the General Bar Date by first-class mail to all creditors and parties in interest. Prior to the deadline for filing proofs of prepetition claims, twenty-one proofs of claim totaling $13,856,545.55 were filed.

3. Claim Objections

Pursuant to the Plan, the Reorganized Debtor is authorized to file Claim Objections to Claims, through and including the Claim Objection Deadline, which is the later of 90 days after the Effective Date or 30 days after the proof of claim was filed. Accordingly, all rights are reserved on behalf of the Debtor and the Estate with respect to the allowance or disallowance of any and all Claims, including Claims not referenced in the Disclosure Statement. **THEREFORE, NO CREDITOR MAY RELY ON THE ABSENCE OF AN OBJECTION TO ITS PROOF OF CLAIM AS AN INDICATION THAT THE DEBTOR OR THE ESTATE WILL NOT OBJECT TO THE AMOUNT, PRIORITY, SECURITY, OR ALLOWABILITY OF SUCH CLAIM, OR SEEK TO SUBORDINATE SUCH CLAIM.**

B. Assets of the Debtor

On the Schedules, the Debtor listed total assets in the amount of $16,129,713. The Debtor's primary asset is the real property and hotel located at 210 East Main Street, Los Gatos, California, valued at $13,869,714.00. The Debtor also lists personal property worth $2,259,999.00, comprised of bank accounts, receivables, inventory, furniture, fixtures and equipment and impounds.

C. Potential Avoidance Actions and Litigation Claims

1. Potential Avoidance Actions

A debtor in possession has the right to bring actions on behalf of the bankruptcy estate to avoid and recover certain pre-petition and post-petition transfers to creditors and others to ensure all creditors receive as much of the amount of their claims as possible and no group of creditors receives inappropriate preference to other groups of creditors. Given that the Debtor's Plan provides for payment in full to all creditors, the Debtor does not anticipate that it will file any Avoidance Actions.

2. Preservation of All Claims, Causes of Action, and Rights

Under the Plan, all Litigation Claims shall be retained, preserved and vested with the Reorganized Debtor as of the Effective Date. From and after the Effective Date, the Reorganized Debtor may enforce any and all Litigation Claims that the Debtor or the Estate may hold or have against any person or entity, including (1) Avoidance Actions, (2) any legal or equitable rights to subordinate and/or disallow Claims, (3) any causes of action that could be brought by the Debtor, whether arising prior to or after the Petition Date, and (4) any and all other claims, rights, or causes of action of any kind or nature of the Debtor or the Estate that may exist under applicable bankruptcy law or nonbankruptcy law. To the extent any Litigation Claim is already pending on the Effective Date, the Reorganized Debtor may continue the prosecution of such Litigation Claim. Upon the Effective Date, the Reorganized Debtor (and only the Reorganized Debtor) shall have standing to assert any and all Litigation Claims and/or defenses vested in the Reorganized Debtor.

Except as otherwise provided in the Plan, any and all Litigation Claims shall be retained by the Reorganized Debtor free and clear of all Claims and Interests, and the Reorganized Debtor may pursue these rights of action in accordance with the Reorganized Debtor's best judgment.

IX.

SUMMARY OF MATERIAL PLAN PROVISIONS

The following is a narrative description of certain provisions of the Plan. The following summary of the Plan is qualified in its entirety by the actual terms of the plan. In the event of any conflict, the terms of the Plan will control over any summary set forth in this Disclosure Statement.

A. Designation of Classes and Treatment of Claims and Interests Generally

The Bankruptcy Code requires that a chapter 11 plan divide the different claims against, and equity interests in, a debtor into separate classes based upon their legal nature. Claims of a substantially similar legal nature are usually classified together, as are equity interests of a substantially similar legal nature. The Bankruptcy Code does not require the classification of administrative claims and certain priority claims, and they are typically denominated "unclassified claims."

Under Bankruptcy Code section 1124, a class of claims is "impaired" unless the plan (i) leaves unaltered the legal, equitable, and contractual rights of the holders of claims in the class; or (ii) cures all defaults (other than those arising from the debtor's insolvency, the commencement of the case, or nonperformance of a nonmonetary obligation) that occurred before or after the commencement of the case, reinstates the maturity of the claims in the class, compensates the holders for their actual damages incurred as a result of their reasonable reliance on any acceleration rights, and does not otherwise alter their legal, equitable, and contractual rights. Except for any right to accelerate the debtor's obligations, the holder of an unimpaired claim will be placed in the position it would have been if the case had not been commenced.

A chapter 11 plan must designate each separate class of claims and equity interests either as "impaired" (affected by the plan) or "unimpaired" (unaffected by the plan). If a class of claims is "impaired" under the Bankruptcy Code, the holders of claims in that class are entitled to vote on the plan (unless the plan provides for no distribution to the class, in which case the class is deemed to reject the plan), and to receive, under the plan, property with a value at least equal to the value that the holder would receive if the debtor were liquidated under chapter 7 of the Bankruptcy Code. If a class of claims is unimpaired, the holders of claims in that class are deemed to accept the plan.

B. <u>Summary of Classification and Treatment of Claims and Interests Under the Plan</u>

This Section describes the classification of Claims and Interests under the Plan -- except for Administrative Expenses and Priority Tax Claims, which are not classified -- for all purposes, including voting, confirmation and distributions under the Plan. A Claim or Interest is classified in a particular Class only to the extent that the Claim or Interest falls within the Class description. In addition, this Section describes the treatment of Claims and Interests under the Plan. The following table (a) estimates Claim amounts, based on Debtor's Schedules and proofs of Claim filed in the Debtor's Case, and (b) summarizes the classification and treatment of Claims and Interests under the Plan, to the extent Allowed, subject to the more specific provisions of the Plan and the following more detailed sections of this Disclosure Statement. A schedule of the Claims in each Class for purposes of treatment under the Plan is attached hereto as Exhibit 1.

CLASS/UNCLASSIFIED CLAIMS	DESCRIPTION[3]	TREATMENT	IMPAIRED/ UNIMPAIRED	VOTING STATUS
Unclassified Claims	U.S. Trustee Fees - Estimated Amount: $0.00	Paid in full in Cash from the Distribution Fund on the Effective Date	Unimpaired	Not Entitled to Vote
	Professional Fee Expenses - Estimated Amount: *See Chart in Section VII.D.3*	Paid in full in Cash within three (3) days after Final Order Allowing such Expense	Unimpaired	Not Entitled to Vote
	Ordinary Course Administrative Expenses - Estimated Amount: $0.00	Paid in full in Cash in accordance with terms and conditions of transaction giving rise to Expense	Unimpaired	Not Entitled to Vote
	Non-Ordinary Course Administrative Expenses - Estimated Amount: $0.00	Paid in full in Cash on later of the Effective Date or ten (10) Business Days after Expense is Allowed by Final Order	Unimpaired	Not Entitled to Vote
	Priority Tax Claims - Estimated Amount: $2,152.00	Paid in full in Cash in accordance with terms and conditions of transaction giving rise to Expense	Unimpaired	Not Entitled to Vote
Class 1	Secured Tax Claims - Estimated Amount: $0.00	*See discussion at Section IX.D.1*	Impaired	Entitled to Vote
Class 2	Secured Claim Held by GCCFC 2006-GG7 Los Gatos Lodging Limited Partnership - Estimated Claim Amount: $13,047,014.87	*See discussion at Section IX.D.2*	Impaired	Entitled to Vote
Class 3	Priority Unsecured Claims (other than Priority Tax Claims) - Estimated Amount: $136,343.91	Consists of gift certificates and customer deposits, which will be honored upon presentation	Unimpaired	Not Entitled to Vote
Class 4	General Unsecured Claims Not Otherwise Classified - Estimated Amount: $226,466.90	Paid over 24 months, starting 7 months after Effective Date, with 3% interest	Impaired	Entitled to Vote

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[3] The estimated amounts included in this chart are estimates based on the Debtor's Schedules and the proofs of Claims filed in the Debtor's Case. The Debtor continues to analyze these Claims. All Claims, unless previously Allowed, remain subject to dispute and disallowance. The inclusion of the estimated amounts herein does not constitute an admission by the Debtor as to the validity of the Claims or the amounts thereof.

CLASS/UNCLASSIFIED CLAIMS	DESCRIPTION[3]	TREATMENT	IMPAIRED/ UNIMPAIRED	VOTING STATUS
Class 5	Unsecured Claims Held by Insiders: $7,117,369.00	Paid in installments following payment of other Allowed Claims	Impaired	Entitled to Vote
Class 6	Existing Equity Interests	Not affected; holders retain all rights and interests in Reorganized Debtor	Unimpaired	Not Entitled to Vote

NOTWITHSTANDING ANYTHING TO THE CONTRARY IN THE PLAN OR DISCLOSURE STATEMENT, NO DISTRIBUTIONS WILL BE MADE AND NO RIGHTS WILL BE RETAINED ON ACCOUNT OF ANY CLAIM OR INTEREST THAT IS NOT ALLOWED.

The treatment in the Plan is in full and complete satisfaction of the legal, contractual, and equitable rights (including any Liens) that each Holder of an Allowed Claim or an Allowed Interest may have in or against the Debtor, the Estate, or their respective properties. This treatment supersedes and replaces any agreements or rights those entities may have in or against the Debtor, the Estate, or their respective properties.

C. Allowance and Treatment of Unclassified Claims

1. Administrative Claims

(a) U.S. Trustee Fees

U.S. Trustee Fees shall be allowed in accordance with 28 U.S.C. § 1930. The Plan provides that the Reorganized Debtor will pay to the U.S. Trustee all U.S. Trustee Fees due and owing under 28 U.S.C. § 1930 in Cash on the Effective Date.

(b) Professional Fee Expenses

Unless otherwise expressly provided in the Plan, Professional Fee Expenses will be Allowed only if (i) on or before ninety (90) days after the Effective Date, the entity seeking payment of such Professional Fee Expense both Files with the Court a fee application or a motion requesting Allowance of the Professional Fee Expense and serves the application or motion on the Reorganized Debtor and the U.S. Trustee; and (ii) the Bankruptcy Court determines such Professional Fee Expense should be Allowed. Any party in interest may File an objection to such application or motion within the time provided by the Bankruptcy Rules, the Local Rules, or within any other period that the Bankruptcy Court may establish. Unless otherwise agreed, the Reorganized Debtor will pay or cause to be paid an Allowed Professional Fee Expense, in Cash, within three (3) business days after the date on which the Bankruptcy Court order Allowing such Expense becomes a Final Order.

(c) Ordinary Course Administrative Expenses

Any entity seeking payment of an Ordinary Course Administrative Expense may, but need not, File a motion or request for payment of such Administrative Expense. The Debtor or any other party in interest may File an objection to an Ordinary Course Administrative Expense in its discretion. The Plan provides that, unless a party in interest objects to an Ordinary Course Administrative Expense, such Administrative Expense will be Allowed and paid by the Reorganized Debtor in accordance with the terms and conditions of the particular transaction that gave rise to the Administrative Expense.

(d) Non-Ordinary Course Administrative Expenses

Unless otherwise expressly provided in the Plan, a Non-Ordinary Course Administrative Expense will be Allowed only if: (i) on or before the Plan Objection Deadline or such earlier date as may be ordered by the Bankruptcy Court, the entity asserting such Non-Ordinary Course Administrative Expense both Files with the Court a motion requesting Allowance of the Non-Ordinary Course Administrative Expense and serves the motion on Debtor's Counsel and the U.S. Trustee, and (ii) the Bankruptcy Court determines such Administrative Expense should be Allowed. The Debtor or any other party in interest may File an objection to such motion within the time provided by the Bankruptcy Rules, the Local Rules, or within any other period that the Bankruptcy Court may establish.

Any entity seeking payment of a Non-Ordinary Course Administrative Expense that does not timely File and serve a request for payment will be barred forever from asserting such Administrative Expense against the Debtor, the Reorganized Debtor, the Estate or their property. Unless the entity holding an Allowed Non-Ordinary Course Administrative Expense agrees to different treatment, the Reorganized Debtor will pay such entity Cash in the full amount of such

Allowed Administrative Expense, on or before the Effective Date, or, if not Allowed by the Effective Date, not later than ten (10) Business Days after such Administrative Expense is Allowed by a Final Order.

2. Priority Tax Claims

As of the date of this Plan, the Debtor is not aware of any Priority Tax Claims. To the extent any such Priority Tax Claims exist, these claims are unimpaired under this Plan. Allowed Priority Tax Claims that have not been satisfied or extinguished as of the Effective Date shall be paid by the Reorganized Debtor in accordance with the terms of the agreement between such Holder and the Debtor.

D. Allowance and Treatment of Classified Claims and Interests

1. Class 1 (Secured Tax Claims)

Class 1 consists of all Secured Tax Claims. As of the date of the Plan, the Debtor is not aware of any Secured Tax Claims. To the extent any such Secured Tax Claims exist, the Reorganized Debtor will pay such entity in Cash on the later of (i) forty-five (45) days after the Effective Date or (ii) the last day that such Allowed Secured Tax Claim would have been due, without payment of penalty or interest, under applicable non-bankruptcy law. Class 1 is impaired under the Plan.

2. Class 2 Secured Claim Held by GCCFC 2006-GG7 Los Gatos Lodging Limited Partnership

Class 2 consists of the Secured Claim presently held by GCCFC 2006-GG7 Los Gatos Lodging Limited Partnership ("Lender"). Class 2 is impaired under this Plan because the Holder of the Allowed Class 2 Claim, although paid in full, will be paid over time pursuant to the provisions of this Plan. The Reorganized Debtor shall pay Lender according to the following terms: (a) all late fees and interest above the non-default rate of interest provided in the Promissory Note dated February 10, 2006 (the "Promissory Note") between the Debtor and Greenwich Capital Financial Products, Inc. (the "Non-Default Interest Rate") will be waived and released; (b) all interest accruing, but unpaid, on the Promissory Note at the Non-Default Interest Rate and Lender's attorneys' fees allowable under Bankruptcy Code section 506(b) shall be added to the existing principal balance owing under the Promissory Note to arrive at the New Balance; (c) beginning on the Effective Date, interest shall accrue on the New Balance at the rate of four and one-quarter percent per annum (the “New Interest Rate”) and shall be paid monthly in arrears; (d) starting on the first day of the thirty-seventh full calendar month after the Effective Date, the Reorganized Debtor shall pay the monthly amount necessary to amortize the Allowed Class 2 Claim over a period of twenty years with interest at the New Interest Rate; and (e) the remaining unpaid New Balance shall be paid in full on or before the seventh anniversary of the Effective Date. The Holder of the Allowed Class 2 Claim will retain any Lien on any Collateral as it existed prior to the Petition Date until the Reorganized Debtor has paid the Allowed Class 2 Claim in full.

3. Class 3 (Priority Unsecured Claims)

Class 3 consists of Priority Unsecured Claims and is comprised of consumer deposits and gift certificates made or issued prior to the Petition Date and not yet used by the consumer. Class 3 is not impaired under the Plan and is not entitled to vote. The Reorganized Debtor will honor gift certificates when presented and will apply deposits towards the reservations for which they were paid.

4. Class 4 (General Unsecured Claims Not Otherwise Classified)

Class 4 consists of General Unsecured Claims Not Otherwise Classified. Class 4 is impaired under the Plan because Holders of Allowed Class 4 Claims, although paid in full, will be paid over time pursuant to the provisions of this Plan. Beginning on the first day of the seventh full calendar month after the Effective Date, the Reorganized Debtor shall pay each holder of an Allowed Class 4 Claim its Allowed Class 4 Claim in such amount as is Allowed, in twenty-four (24) equal monthly cash payments in an aggregate amount equal to such Allowed Class 4 Claim, together with interest on the unpaid balance at the rate of three percent (3%) per annum beginning on the Effective Date until such Allowed Class 4 Claim is paid in full.

5. Class 5 (Unsecured Claims Held by Insiders)

Class 5 consists of Unsecured Claims held by Insiders. Class 5 is impaired under the Plan because Holders of Allowed Class 5 Claims are subordinated to all other Classes and will be paid over time to the extent funds are available pursuant to the provisions of this Plan. To the extent funds are available, each holder of an Allowed Class 5 Claim shall be paid up to its Allowed Class 5 Claim in such amount as is Allowed, in five equal annual payments, together with interest at the rate of three percent (3%) per annum, commencing after all other Allowed Claims (except Allowed Class 3 Claims that have not been used by consumers as of the time that all other Allowed Claims have been paid), including the Allowed Class 2 Claim, have been paid in full.

6. Class 6 (Existing Equity Securities)

Class 6 consists of all Existing Equity Security Interests. Class 6 is not impaired under this Plan and is not entitled to vote. All Interests of Holders of Existing Equity Security Interests shall remain Interests in the Reorganized Debtor as of the Effective Date.

X.

TREATMENT OF EXECUTORY CONTRACTS AND UNEXPIRED LEASES

A. Assumption

The Plan provides that the Reorganized Debtor shall assume, as of the Effective Date, those executory contracts and unexpired leases listed in Exhibit A to the Plan, unless previously rejected by the Debtor. All monetary defaults under the executory contracts and unexpired leases assumed by the Reorganized Debtor under the Plan will be cured within ninety (90) days after the Effective Date. The Confirmation Order shall constitute an order approving the assumption of each lease and contract. Any party to an executory contract or unexpired lease to be assumed under the Plan who objects to the assumption of such contract or lease must file and serve an objection to assumption not later than the Plan Objection Deadline.

XI.

MEANS OF EXECUTION AND IMPLEMENTATION OF THE PLAN

A. Execution of Plan

1. Funding of Plan

This Plan shall be funded by cash on hand as of the Effective Date and the payments to be received by the Debtors from the operation of the Hotel after the Effective Date.

2. Projected Budget and Payment of Claims

As stated above in Section IX.B-D, Allowed Class 1, Class 2, Class 4, and Class 5 Claims will be paid over time from hotel revenue. Attached hereto as Exhibit 2 is a pro forma estimated budget of revenues and expenses through July 2016. The budget set forth in Exhibit 2 is only a projection and is based on a number of assumptions, including, but not limited to: (i) extensive repairs will not be needed due to a catastrophic event and (ii) hotel revenue will not decline due to a decrease in the occupancy rate of the Hotel or a decrease in market hotel room rates.

Because of the uncertain nature of the projections in Exhibit 2, and unknown factors that may affect the assumptions on which the projections are based, Creditors should not rely on these projections as a basis for determining when such Creditor's respective Claim will be satisfied. The projections in Exhibit 2 are for purposes of illustration only and are not binding on the Debtor, the Reorganized Debtor, or any successor-in-interest.

The Reorganized Debtor anticipates that payment to the Secured Creditor at the end of the seven-year period following the Effective Date will be funded by the proceeds of new financing of the Debtor's real property or from the sale of such real property.

B. Authority to Effectuate Plan

Upon entry of the Confirmation Order by the Bankruptcy Court, all matters provided under the Plan will be deemed to be authorized and approved without further approval from the Bankruptcy Court. The Confirmation Order will act as an order modifying the Debtor's articles of incorporation and bylaws, if necessary, such that the provisions of the Plan can be effectuated. The Debtor will be authorized, without further application to or order of the Bankruptcy Court, to take whatever action is necessary to consummate and carry out the Plan and to effectuate the distributions provided for under the Plan.

C. Distribution of Property Under the Plan

The following procedures set forth in the Plan apply to distributions made pursuant to the Plan by the Reorganized Debtor:

1. Provision Regarding Disputed Claims

As set forth in the Plan, the Debtor shall implement the following procedures with respect to the allocation and distribution of Cash in accordance with this Plan to the Holders of Disputed Claims that become Allowed Claims:

(a) Cash on account of the disputed portion of Disputed Claims shall not be distributed, but shall be withheld by the Reorganized Debtor in an amount equal to the distributions that would have otherwise been made to the Holders of such Claims if such Claims had been Allowed Claims, based on such disputed portion (the "Disputed Reserve Amount").

(b) The Bankruptcy Court may estimate the amount of any Disputed Claim pursuant to Bankruptcy Code section 502(c), in which event the amounts so fixed or liquidated shall be deemed to be Allowed Claims pursuant to Bankruptcy Code section 502(c) for purposes of distribution under this Plan. In lieu of estimating the amount of any Disputed Claim, the Bankruptcy Court or the Debtor may determine the amount to be reserved for such Disputed Claim, or such amount may be fixed by agreement in writing by and between the Debtor and the Holder thereof.

(c) When a Disputed Claim becomes an Allowed Claim, there shall be distributed to the Holder of such Allowed Claim, in accordance with the provisions of this Plan, Cash equal to what the Holder would have received on account of the disputed portion of the Claim which has been Allowed through such a date.

(d) No Holder of a Disputed Claim shall have any Claim against the Cash reserved with respect to such Claim until such Disputed Claim shall become an Allowed Claim. In no event shall any Holder of any Disputed Claim be entitled to receive (under this Plan or otherwise) any payment which is greater than the amount reserved for such Claim pursuant to this Plan or, except as otherwise permitted under this Plan, of interest or other compensation for delays in distribution.

(e) To the extent a Disputed Claim ultimately becomes an Allowed Claim in an amount less than the Disputed Amount or Disputed Reserve Amount reserved for such Disputed Claim (as applicable), then the resulting surplus of Cash shall be distributed among the Holders of

Allowed Claims until such time as each Holder of an Allowed Claim has been paid the Allowed Amount of its Claim.

2. Objections to Claims

Unless another date is established by order of the Bankruptcy Court, any objection to a Claim shall be filed with the Bankruptcy Court and served on the Creditor holding such Claim on or before the Claim Objection Deadline. The Reorganized Debtor shall have the right to request that the Bankruptcy Court extend the Claim Objection Deadline.

3. Disallowance of Claims Held by Avoidance Action Defendant

As set forth in the Plan, all Claims held by persons against whom an Avoidance Action has been asserted shall be deemed disallowed pursuant to Bankruptcy Code section 502(d), and Holders of such Claims may not vote to accept or reject the Plan, both consequences to be in effect until such time as such Avoidance Action against the Holder has been settled or resolved by a Final Order and all sums due to the Reorganized Debtor by the Holder are turned over to the Reorganized Debtor. As of the date of this Disclosure Statement, the Debtor does not anticipate that it will be filing any Avoidance Actions.

4. Time When Distributions Deemed Made

The Plan provides that all distributions by check shall be deemed made at the time such check is duly deposited in the United States mail, postage prepaid, and all distributions by wire transfer shall be deemed made as of the date the Federal Reserve Bank deems the wire transfer is made.

5. Delivery of Distributions and Undeliverable/Unclaimed Distributions

(a) Delivery of Distributions in General

The Plan provides that the Reorganized Debtor shall make distributions to each Holder of an Allowed Claim by mail as follows: (a) at the address set forth on the proof of Claim Filed by such Holder of an Allowed Claim; or (b) at the address reflected in the Schedules if no proof of Claim is Filed, provided, however, to the extent a Holder of an Allowed Claim notifies the Reorganized Debtor of a new address, the Distribution shall be sent to that new address.

The Reorganized Debtor may withhold the entire distribution due to any Holder of an Allowed Claim until such time as the Holder provides the Reorganized Debtor with the information necessary to make a distribution to such Holder in accordance with this Plan and applicable law, and Holders of Allowed Claims who do not provide such information shall be barred from participating in distributions under the Plan.

(b) Undeliverable and Unclaimed Distributions

Under the Plan, if the distribution to the Holder of any Allowed Claim is returned as undeliverable, the Reorganized Debtor shall make reasonable efforts to locate the Holder's current address and shall send distributions to that address. If, after these efforts, the Reorganized Debtor is unable to locate the Holder, no further distribution will be made to the Holder unless and until the Reorganized Debtor is notified in writing of the Holder's then current address. Subject to the other provisions of this Plan, undeliverable distributions will remain in the possession of the Reorganized Debtor pursuant to this Section until the earlier of: (i) such time as a distribution becomes deliverable; or (ii) ninety (90) days following the payment in full of all Allowed Claims in such Class for which distributions were deliverable. Any undeliverable distributions that are not claimed within ninety (90) days following the payment in full of Allowed Claims for which distributions were deliverable will be transferred to the Reorganized Debtor.

D. Management of the Reorganized Debtor

Jeff Curran, the president of the Debtor, will continue to manage the Reorganized Debtor at the pleasure of the Reorganized Debtor's Board of Directors. Mr. Curran will not receive any compensation from the Reorganized Debtor for these services. Folio Hospitality Management, Inc. will continue to manage Hotel Los Gatos, subject to replacement by the Reorganized Debtor's Board of Directors, and will be compensated according to the terms of the hotel management agreement between it and the Reorganized Debtor dated December 10, 2010, as amended and restated.

E. Effect of Confirmation

On the Effective Date, except as otherwise specifically provided in the Plan, the Debtor, the Reorganized Debtor, and their property shall be discharged and released from any and all Claims, Administrative Expenses, and other debts, demands and liabilities of any Creditor for which the

Debtor is or is alleged to be liable, including those which are contingent, unliquidated or disputed, that arose before entry of the Confirmation Order and any and all debts of every kind, character and description specified in Bankruptcy Code sections 502(g), 502(h) or 502(i), whether or not (i) a proof of Claim based on such debt has been filed under Bankruptcy Code section 501, (ii) such Claim is an Allowed Claim under Bankruptcy Code section 502, (iii) such Claim has been listed in the Schedules, or (iv) the Holder of such Claim has accepted the Plan, pursuant to Bankruptcy Code section 1141. Pursuant to Bankruptcy Code section 524, this discharge shall, as of the Effective Date: (1) void any judgment at any time obtained, to the extent that such judgment is a determination of such person's liability with respect to any debt or Claim discharged, whether or not discharge of such debt is waived; and (2) operate as an injunction against the commencement or continuance of any action, the employment of any process, or any act, to collect, recover or offset any liability of such person with respect to any debt discharged, whether or not discharge of such debt is waived.

F. <u>Revesting of Property in the Reorganized Debtor</u>

The Plan provides that as of the Effective Date, the assets of the Debtor distributed under the Plan shall be free and clear from any and all liens, encumbrances, debts, demands, liabilities or other claims of the Holders of Claims and Interests except as otherwise provided under this Plan or the Confirmation Order. All other property of the Estate shall revest in the Reorganized Debtor, including, but not limited to (i) claims, causes of action, and other Litigation Rights, (ii) rights to pursue Claim Objections, (iii) rights to pursue affirmative relief against Creditors, Interest Holders and others, including, but not limited to, Avoidance Actions, (iv) claims, causes of action and litigation brought prior to the Effective Date, and (v) any other rights the Debtor may have.

XII.

BEST INTERESTS OF CREDITORS AND FEASIBILITY

A. <u>The "Best Interests" Test</u>

In addition to the other requirements described in this Disclosure Statement, the Bankruptcy Code requires that a chapter 11 plan satisfy the "best interests of creditors" test (the "Best Interests Test"). Under this test, if the holder of an allowed claim or allowed interest is in an impaired class and does not vote to accept the plan, that holder must receive or retain property of a value not less than the amount that such entity would receive or retain if the debtor was liquidated under chapter 7 of the Bankruptcy Code. In a chapter 7 case, a debtor's assets are typically sold by a chapter 7 trustee. Secured creditors are paid first from the sales proceeds of property on which the secured creditors have liens. Any remaining proceeds from the sale of estate property are next distributed to satisfy administrative claims, including a fee to the trustee. Unsecured creditors are then paid from any remaining sales proceeds according to the priorities set forth in the Bankruptcy Code. Unsecured creditors with the same priority share on a pro rata basis with other unsecured creditors of the same priority. Finally, interest holders receive any remaining proceeds on a pro rata basis with other interest holders.

In order to confirm the Plan, the Bankruptcy Court must find that Creditors and Interest Holders in an impaired Class who do not accept the Plan will receive at least as much under the Plan as they would receive under a chapter 7 liquidation. The recovery that may be realized by General Unsecured Creditors on account of their Claims is greater under the terms of the Plan than it would be in a chapter 7 liquidation. The Plan provides that the Reorganized Debtor's Cash, as replenished by the revenues received from operation of the Hotel, will be distributed in accordance with the priority scheme established by the Bankruptcy Code. As such, there is no reason to believe that Creditors of the Debtor would receive more in a chapter 7 liquidation than they would receive under the Plan.

Attached hereto as <u>Exhibit 3</u> is a schedule setting forth the Debtor's estimate as to the result of a hypothetical chapter 7 liquidation. The values ascribed to the assets, claims, expenses and other items on Exhibit 3 are the Debtor's estimates as to the liquidation value of such items only. The Debtor's estimates are based on numerous assumptions, including those set forth in the notes to Exhibit 3, the accuracy of which may significantly affect the actual liquidation value of such items. BECAUSE OF THE UNCERTAIN NATURE OF THE PROJECTIONS AND VALUATIONS IN EXHIBIT 3, AND THE FACTORS, BOTH KNOWN AND UNKNOWN, AFFECTING THE ASSUMPTIONS ON WHICH EXHIBIT 3 IS BASED, CREDITORS SHOULD NOT RELY ON EXHIBIT 3 AS AN ACCURATE PREDICTION OF THE POTENTIAL RESULTS OF A CHAPTER 7 LIQUIDATION OF THE DEBTOR'S ASSETS OR THE DISTRIBUTION

CREDITORS WOULD RECEIVE UNDER SUCH A SCENARIO. THE PLAN PROPONENT MAKES NO REPRESENTATIONS REGARDING THE ACTUAL LIQUIDATION VALUE OF THE DEBTOR'S ASSETS OR THE DISTRIBUTION, IF ANY, CREDITORS WOULD RECEIVE IN A CHAPTER 7 LIQUIDATION. THE PROJECTIONS IN EXHIBIT 3 ARE MADE FOR PURPOSES OF ILLUSTRATING ONE POSSIBLE RESULT OF A CHAPTER 7 LIQUIDATION ONLY, AND ARE NOT BINDING ON THE DEBTOR, THE REORGANIZED DEBTOR, OR ANY SUCCESSOR-IN-INTEREST.

It is the Debtor's belief that liquidation under chapter 7 would yield a less favorable result for Holders of Class 4 and 5 Claims because such claims might not be paid in full.

Even assuming that the Debtor's assets can be liquidated for any positive value, a chapter 7 liquidation will increase Administrative Expenses and other Claims against the estate. In addition to having to pay the fees of a chapter 7 trustee, the chapter 7 trustee is likely to hire separate counsel, an accountant, auctioneers, brokers, sales agents and/or other professionals to assist in his or her duties. This will undoubtedly result in significant additional Professional Fee Expenses which would likely offset any positive net value obtained from the Debtor's remaining assets. The Administrative Expenses of the chapter 7 trustee and the trustee's professionals would be paid prior to any distribution to General Unsecured Creditors. A liquidation may also give rise to Claims against the Debtor for debts incurred during the ordinary course of the Debtor's operations during the Case and any Claims arising under 11 U.S.C. § 502 from recoveries made in Avoidance Actions.

In light of the foregoing, the Plan Proponent believes that the Plan is in the best interests of Creditors and should be confirmed.

B. <u>Feasibility</u>

The Bankruptcy Code requires that, in order for the Plan to be confirmed by the Bankruptcy Court, it must be demonstrated that consummation of the Plan is not likely to be followed by the liquidation or the need for further financial reorganization of the Debtor, unless such liquidation or reorganization is proposed in the Plan. "The feasibility test is firmly rooted in predictions based on objective fact and looks at the probability of actual performance of the provisions of the proposed plan." *In re Sound Radio, Inc.*, 93 B.R. 849, 855 (Bankr. D. N.J. 1988).

As set forth in Exhibit 2, it is very likely that the Reorganized Debtor will be able to timely make all periodic payments required under the Plan. While the current market conditions would make it difficult for the Reorganized Debtor to sell or refinance its real property at the present time, the Reorganized Debtor expects that within the seven-year period before payment in full is due to be made to the Holder of the Allowed Class 2 Claim, the commercial real estate sale and financing markets will be revived and the Reorganized Debtor will be able to refinance or sell the real property for an amount sufficient to pay the Allowed Class 2 Claim in full.

XIII.

RISK FACTORS

There exist certain risk factors which may affect consummation of the Plan and the payment of amounts necessary to satisfy Allowed Claims.

First, the restaurant tenant may default on its lease and fail to make its rent payments. This would significantly affect the level of Cash available for distribution and the resources available to make payments on account of Allowed Claims under the Plan.

Second, the restaurant lease may expire before the Class 2 Claim is paid in full. If the Reorganized Debtor is unable to re-let the restaurant, this will significantly affect the level of Cash available for distribution and the resources available to make payments on account of the Allowed Class 2 Claim under the Plan.

Third, the Hotel's occupancy rate or market hotel room rates may significantly decrease. This decline would negatively affect the amount of Cash available for distribution.

Fourth, based on the vitality of the commercial real estate financing and sale markets over the next seven years, the Reorganized Debtor may not be able to refinance or sell the real property for an amount sufficient to pay the Allowed Class 2 Claim in full.

Finally, certain unforeseen circumstances may prevent the Reorganized Debtor from meeting its obligations under the Plan. These circumstances generally involve risks associated with doing business, including, but not limited to, unforeseen litigation or liability, decreased market share due to increased competition in the hotel industry, increased operating costs, and the unlikely possibility of a catastrophic event, making the hotel, or a signification portion of it, unfit for use.

XIV.

CERTAIN FEDERAL INCOME TAX AND OTHER TAX CONSEQUENCES OF PLAN

The following discussion is a summary of certain U.S. federal income tax consequences of the Plan to the Debtor. This discussion is based on the Internal Revenue Code, Treasury Regulations, judicial decisions and published administrative rules and pronouncements of the IRS as in effect on the date hereof. Due to the possibility of changes in the law and the potential for disputes as to legal and factual matters with the IRS, the tax consequences described in the Plan are subject to significant uncertainties. No legal opinions have been requested from counsel with respect to any tax aspects of the Plan and no rulings have been or will be requested from the IRS with respect to any of the issues discussed below. Furthermore, legislative, judicial or administrative changes may occur, perhaps with retroactive effect, which could affect the accuracy of the statements and conclusions set forth below as well as the tax consequences to the Debtor. Notwithstanding the foregoing, the Plan is not expected to have any significant impact on the Debtor.

THE FOREGOING IS INTENDED ONLY TO BE A SUMMARY OF TAX CONSEQUENCES TO THE DEBTOR AND IS NOT INTENDED TO CONSTITUTE A DISCUSSION OF TAX CONSEQUENCES APPLICABLE TO HOLDERS OF CLAIMS AND INTERESTS. THE U.S. FEDERAL INCOME TAX CONSEQUENCES OF THE PLAN ON HOLDERS OF CLAIMS AND INTERESTS MAY BE COMPLEX. EACH HOLDER OF A CLAIM OR INTEREST IS URGED TO CONSULT SUCH HOLDER'S TAX ADVISORS CONCERNING THE U.S. FEDERAL, STATE, LOCAL, AND OTHER TAX CONSEQUENCES APPLICABLE TO SUCH HOLDERS UNDER THE PLAN.

XV.

RECOMMENDATION AND CONCLUSION

The Plan Proponent believes that acceptance of the Plan is in the best interests of the parties, and that any alternative would likely result in a reduced or delayed recovery to Holders of Allowed Claims, as well as additional expense. Accordingly, the Plan Proponent urges Holders of impaired

Claims (and which are entitled to vote), to vote to accept the Plan, by so indicating on their Ballots, and returning them as specified in this Disclosure Statement and on their Ballots.

Date: July 7, 2011

LOS GATOS HOTEL CORPORATION
Debtor in Possession

By:____________________________
Jeff Curran
President