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6 Proposed Attorneys for Debtor in Possession  
Los Gatos Hotel Corporation  
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8 UNITED STATES BANKRUPTCY COURT  
9 NORTHERN DISTRICT OF CALIFORNIA  
10 SAN JOSE DIVISION

11 In re  
12 LOS GATOS HOTEL CORPORATION,  
13 Debtor in Possession.

Case No. 10-63135

Chapter 11

**DECLARATION OF JEFF CURRAN IN  
SUPPORT OF DEBTOR'S  
(1) EMERGENCY FIRST DAY MOTION  
FOR INTERIM ORDER AUTHORIZING  
USE OF CASH COLLATERAL AND  
SETTING FINAL HEARING ON CASH  
COLLATERAL MOTION AND  
(2) MOTION FOR FINAL ORDER  
AUTHORIZING USE OF CASH  
COLLATERAL**

Preliminary Hearing

Date: January 3, 2011

Time: 2:30 p.m.

Final Hearing

Date: TBD

Time: TBD

Judge: Arthur S. Weissbrodt

24  
25 I, Jeff Curran, declare:

26 1. I am the president of Los Gatos Hotel Corporation (the "Debtor"), the debtor and  
27 debtor in possession in the above-captioned chapter 11 case. I am authorized to make the statements  
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1 contained herein on behalf of the Debtor. I can testify to the facts herein based on personal  
2 knowledge.

3 2. I make this Declaration in support of the Debtor's (1) Emergency First Day Motion  
4 for Interim Order Authorizing Use of Cash Collateral and Setting Final Hearing on Cash Collateral  
5 Motion and (2) Motion for Final Order Authorizing Use of Cash Collateral.

6 3. The Hotel's business will be severely harmed if the Debtor does not have immediate  
7 authorization to use cash collateral. The hotel business is very competitive and one of the most  
8 important variables that guests consider when choosing a hotel is the quality of service. Unless the  
9 Debtor obtains immediate authorization to use Lender's cash collateral to pay all ordinary and  
10 necessary expenses, the operations of the Hotel, and the Hotel's reputation for providing high-  
11 quality service, will be adversely impacted. As a result, occupancy levels will almost certainly  
12 decline, reducing revenues and the value of the estate's assets. In contrast, if the relief requested in  
13 the Motion is granted immediately, the value of the Debtor's assets will be preserved.

14 4. Los Gatos Hotel Corporation, a California corporation (the "Debtor"), was formed in  
15 2000 to build and operate Hotel Los Gatos (the "Hotel"), a full-service boutique hotel located in  
16 downtown Los Gatos, California. The Hotel, constructed in 2002, offers 72 guest rooms, over 2,000  
17 square feet of meeting and conference space, a Michelin star restaurant, and a 3,600 square foot spa  
18 and fitness facility. The Debtor, through Folio Hospitality Management, operates all aspects of the  
19 Hotel except for the restaurant, which is owned and operated by a third party under a lease of the  
20 restaurant space from the Debtor.

21 5. In 2006, the Debtor refinanced its debt on the Hotel through a loan (the "Loan") from  
22 Greenwich Capital Financial Products, Inc., which was evidenced by a promissory note in the  
23 amount of \$12,000,000, payable over a period of five (5) years, and coming due in full in March  
24 2011. The Debtor is informed, but has not confirmed, that the Loan was subsequently bundled with  
25 other loans and sold as part of a commercial mortgage-backed security to Greenwich Capital  
26 Commercial Funding Corp. GCCFC 2006-GG7 Los Gatos Lodging Limited Partnership ("Lender")  
27 claims that it currently holds the Loan, which is serviced by LNR Partners, LLC ("LNR"). Bank of  
28 America, NA acts as trustee for the registered holders of the Loan. As of the petition date, the

1 principal balance of the Loan had been reduced to \$11,606,981. In addition, LNR has claimed that  
2 penalties and interest in arrears total approximately \$1,500,000. The Loan is allegedly secured by  
3 substantially all of the Debtor's assets, including the real property on which the Hotel operates (the  
4 "Real Property").

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

13 7. In September 2009, the Debtor requested that LNR grant a temporary modification of  
14 its Loan. The Debtor did not receive a response until July 29, 2010, when LNR provided the Debtor  
15 with a draft forbearance agreement. Although the Debtor promptly provided feedback on the  
16 forbearance agreement and responded to LNR's inquiries, the Debtor was met with a general lack of  
17 responsiveness and the forbearance agreement was never executed. Instead, LNR filed a Notice of  
18 Default and scheduled a trustee's sale of the Real Property for December 7, 2010. That sale has  
19 since been rescheduled for January 31, 2011. Due in large part to the impending foreclosure, the  
20 Debtor commenced this chapter 11 case to protect the value of its assets for the Debtor's creditors  
21 and equity holders.


22 8. The Debtor's financial and operating performance has improved dramatically in the  
23 last year and the Hotel has both increased revenues and decreased expenses since May 2010. The  
24 Debtor believes revenues in 2011 will exceed \$4.4 million and generate gross operating income  
25 sufficient to pay all operating expenses. In addition, Lender holds cash reserves under the Loan  
26 (which are property of the estate) of more than \$732,000 for future property taxes, commercial  
27 insurance, and capital expenditures. Based on its recent and projected financial performance, the  
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1 Debtor has formulated a strategic plan which will pay creditors in full and preserve the value of the  
2 Hotel for the Debtor's equity holders.

3 9. The budget attached hereto as Exhibit 1 (the "Budget") projects the Debtor's cash  
4 needs over the next thirteen weeks. This projection was developed by the Debtor's management and  
5 financial advisor based upon current operating data and management's best estimate of future cash  
6 needs. The Debtor's recent operating results and future projections indicate that this trend will  
7 continue and that the Debtor's 2011 revenue will exceed \$4,400,000—enough to pay all operating  
8 expenses and debt service while generating significant income.

9 10. The Debtor estimates that the value of the Hotel is \$14,475,760.

10 I declare under penalty of perjury that the foregoing is true and correct. Executed on  
11 December 29, 2010 at Kailua, Hawaii.

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14 Jeff Curran

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# EXHIBIT 1

Hotel Los Gatos

13 Week Cash Flow Projection

Week	1	2	3	4	5	6	7	8	9	10	11	12	13
	01/03/11	01/10/11	01/17/11	01/24/11	01/31/11	02/07/11	02/14/11	02/21/11	02/28/11	03/07/11	03/14/11	03/21/11	03/28/11
<b>Income</b>													
Rooms	57,318	57,471	57,471	57,471	57,471	54,346	54,346	54,346	54,346	68,078	68,078	68,078	68,078
Food & Beverage	2,255	2,255	2,255	2,255	2,255	2,148	2,148	2,148	2,148	1,328	1,328	1,328	1,328
Other Operating Departments	12,662	10,362	10,362	10,362	10,288	10,288	10,288	10,288	12,284	12,284	12,284	12,284	12,284
Other Income	43	43	43	43	43	43	43	43	43	336	336	336	336
<b>Total Income</b>	<b>72,278</b>	<b>70,131</b>	<b>70,131</b>	<b>70,131</b>	<b>70,057</b>	<b>66,824</b>	<b>66,824</b>	<b>66,824</b>	<b>68,820</b>	<b>82,026</b>	<b>82,026</b>	<b>82,026</b>	<b>82,026</b>
<b>Expenses</b>													
Payroll and Related	68,082	68,082	68,082	68,082	68,082	66,969	66,969	66,969	67,825	67,825	67,825	67,825	67,825
Technology	621	621	621	621	621	621	621	621	621	621	621	621	621
Guest Room Supplies	1,498	1,498	1,498	1,498	1,498	1,346	1,346	1,346	1,346	1,743	1,743	1,743	1,743
Reservations Service	543	543	543	543	543	485	485	485	485	604	604	604	604
Travel Agent Commissions	535	535	535	535	535	478	478	478	478	593	593	593	593
VIP Expenses	245	245	245	245	245	218	218	218	218	272	272	272	272
Food and Beverages	2,111	2,111	2,111	2,111	2,111	1,960	1,960	1,960	1,960	1,891	1,891	1,891	1,891
Treatment Supplies	584	584	584	584	584	546	546	546	546	583	583	583	583
Printing & Stationery	102	102	102	102	102	91	91	91	91	113	113	113	113
Outside Consultants	1,651	1,651	1,651	1,651	1,651	1,617	1,617	1,617	1,617	1,650	1,650	1,650	1,650
Advertising	754	754	754	754	754	688	688	688	688	822	822	822	822
Telephone	100	100	100	100	100	100	100	100	100	100	100	100	100
Laundry Supplies	150	150	150	150	150	133	133	133	133	166	166	166	166
Other	941	941	941	941	941	626	626	626	626	901	901	901	901
Office Expense	710	710	710	710	710	710	710	710	710	1,085	1,085	1,085	1,085
Credit Card Expense	2,728	2,728	2,728	2,728	2,728	2,504	2,504	2,504	2,504	2,916	2,916	2,916	2,916
Outside Services	909	909	909	909	909	805	805	805	805	805	805	805	805
Employee Relations	264	264	264	264	264	225	225	225	225	235	235	235	235
Other	582	582	582	582	582	282	282	282	282	390	390	390	390
Marketing	2,072	2,072	2,072	2,072	2,072	1,698	1,698	1,698	1,698	1,869	1,869	1,869	1,869
Sales Reports	131	131	131	131	131	131	131	131	131	213	213	213	213
Photography	0	0	0	0	0	0	0	0	0	0	0	0	0
Advertising, Print/Broadcast	112	112	112	112	112	104	104	104	104	121	121	121	121
Advertising, Web	160	160	160	160	160	142	142	142	142	177	177	177	177
Internet Marketing	914	914	914	914	914	289	289	289	289	289	289	289	289
Entertainment	147	147	147	147	147	148	148	148	148	161	161	161	161
Dues & Subscriptions	202	202	202	202	202	62	62	62	62	138	138	138	138
Preferred Hotels Membership Fee	31,000	0	0	0	0	0	0	0	0	0	0	0	0
Other	881	881	881	881	881	679	679	679	679	734	734	734	734
Painting/Decorations	297	297	297	297	297	206	206	206	206	257	257	257	257
Locks & Keys	332	332	332	332	332	332	332	332	332	332	332	332	332
Fire/Life Safety	170	170	170	170	170	152	152	152	152	189	189	189	189
Elevator	177	177	177	177	177	158	158	158	158	196	196	196	196
Computer Equipment	325	325	325	325	325	325	325	325	325	325	325	325	325
Other Furn, Fixtures & Equip	85	85	85	85	85	76	76	76	76	94	94	94	94
HVAC	0	0	0	0	0	500	500	500	500	0	0	0	0
Other	338	338	338	338	338	307	307	307	307	569	569	569	569
Electricity													9,276

Gas/Propane	2,737	3,410									2,902		
Water	1,833	1,635									2,037		
Waste Removal	1,125	1,125									1,125		
<b>Total Expenses</b>	89,343	35,808	89,345	21,365	85,707	36,121	85,707	18,739	88,981	41,016	95,231	21,156	
<b>Gross Operating Profit</b>	19,913	-19,212	34,323	-19,214	48,692	-18,883	30,704	-18,883	50,082	-6,955	41,010	-13,205	60,870
Management Fees	2,168	2,104	2,104	2,102	2,005	2,005	2,005	2,065	2,461	2,461	2,461	2,461	
<b>Income Before Fixed Charges</b>	17,745	-21,316	32,219	-21,318	46,590	-20,887	28,699	-20,887	48,017	-9,416	38,549	-15,666	58,409
<b>Fixed Charges</b>													
Insurance	18,000	3,814			3,814								
General & Liability Insurance	61	61	61	61	55	55	55	55	55	68	68	68	68
Owner Costs	18,061	3,875	61	61	3,869	55	55	55	3,882	68	68	68	68
<b>Total Fixed Charges</b>	316	-25,491	32,158	-21,379	46,529	-24,756	28,644	-20,942	47,963	-13,298	38,481	-15,734	58,341
<b>Net Operating Income</b>													
Rental and CAM Income		17,000		21,000	17,000				17,000				
<b>Excess Management Fee</b>	2,168	2,104	2,104	2,102	2,005	2,005	2,005	2,065	2,461	2,461	2,461	2,461	
Cash Flow Total for Week	1,852	-6,087	34,262	1,725	48,631	-5,751	30,649	-18,937	50,028	6,163	40,942	-13,273	60,802
<b>Cash at End of Week - Before Debt Service</b>	151,852	145,765	180,027	181,751	230,383	224,632	255,281	236,344	286,372	292,635	333,477	320,204	381,006