

**IN THE UNITED STATES BANKRUPTCY COURT
FOR THE WESTERN DISTRICT OF VIRGINIA
Lynchburg Division**

IN RE:)
) **Chapter 11**
MINOR FAMILY HOTELS, LLC,)
) **Case No. 10-62543**
)
Debtor.)

**DISCLOSURE STATEMENT REGARDING PLAN OF LIQUIDATION OF
MINOR FAMILY HOTELS, LLC
UNDER CHAPTER 11 OF THE BANKRUPTCY CODE**

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Dated: January 13, 2012

I. INTRODUCTION

This is the Disclosure Statement (the "Disclosure Statement") in the Chapter 11 case of Minor Family Hotels, LLC ("MFH" or the "Debtor"). This Disclosure Statement contains information about the Debtor and describes the Plan of Liquidation (the "Plan") filed by the Debtor on January 13, 2012. A full copy of the Plan is attached to this Disclosure Statement as **Exhibit A**.

Certain terms used in this Disclosure Statement are defined in Article I of the Plan. You should refer to the Plan for the meaning of those defined terms.

Your rights may be affected. You should read the Plan and this Disclosure Statement carefully and discuss them with your attorney. If you do not have an attorney, you may wish to consult one.

The proposed distributions under the Plan are discussed at pages 5 – 8 of this Disclosure Statement. General Unsecured Creditors are classified in Class 7.

A. Purpose of This Document

This Disclosure Statement describes:

- The Debtor and significant events during the bankruptcy case,
- How the Plan proposes to treat claims or Equity Interests of the type you hold (*i.e.*, what you will receive on your claim or Equity Interest if the plan is confirmed),
- Who can vote on or object to the Plan,
- What factors the Bankruptcy Court will consider when deciding whether to confirm the Plan,
- Why the Debtor believes the Plan is feasible, and how the treatment of your claim or Equity Interest under the Plan compares to what you would receive on your claim or Equity Interest in liquidation, and
- The effect of confirmation of the Plan.

Be sure to read the Plan as well as the Disclosure Statement. This Disclosure Statement describes the Plan, but it is the Plan itself that will, if confirmed, establish your rights.

B. Deadlines for Voting and Objecting; Date of Plan Confirmation Hearing

The Bankruptcy Court has not yet confirmed the Plan described in this Disclosure Statement. This section describes the procedures pursuant to which the Plan will or will not be confirmed.

1. Time and Place of the Hearing to Confirm the Plan

The hearing at which the Bankruptcy Court will determine whether to confirm the Plan will take place on _____, 2012 at _____ at the United States Bankruptcy Court for the Western District of Virginia, Lynchburg Division, Courtroom 255 West Main Street, Charlottesville, Virginia 22901.

2. *Deadline For Voting to Accept or Reject the Plan*

The deadline to vote on the Plan is _____. Ballots must be sent to Richard C. Maxwell, Esq., Counsel for the Debtor, P.O. Box 14125, Roanoke, Virginia 24038-4125. See section III(C) below for a discussion of voting eligibility requirements.

3. *Deadline For Objecting to Confirmation of the Plan*

Objections to the confirmation of the Plan must be filed with the Bankruptcy Court and served upon Counsel for the Debtor, Counsel for the Unsecured Creditors Committee and the Office of the United States Trustee. You will receive separate notice as to the date by which you must object to the Plan.

4. *Identity of Person to Contact for More Information*

If you want additional information about the Plan, you should contact Richard C. Maxwell, Esq., Counsel for the Debtor, P.O. Box 14125, Roanoke, Virginia 24038-4125, Phone: 540-983-7600.

C. Disclaimer

The Bankruptcy Court has approved this Disclosure Statement as containing adequate information to enable parties affected by the Plan to make an informed judgment about its terms. The Bankruptcy Court has not yet determined whether the Plan meets the legal requirements for confirmation, and the fact that the Bankruptcy Court has approved this Disclosure Statement does not constitute an endorsement of the Plan by the Bankruptcy Court, or a recommendation that it be accepted.

II. BACKGROUND

A. Description and History of the Debtor's Business

The Debtor is the owner of property located on the Downtown Mall in Charlottesville, Virginia. The Debtor intended to construct and operate a boutique hotel on the property. Various problems associated with the development of the project and the construction of the hotel occurred which resulted in the hotel being only partially constructed and a great deal of litigation.

B. Insiders of the Debtor

The following were the “insiders” of the Debtor within the meaning of § 101(31) of the Bankruptcy Code at the time the Debtor filed for bankruptcy on September 1, 2010:

Halsey Minor, sole member of the Debtor.

C. Management of the Debtor Before and During the Bankruptcy

Halsey Minor has continued in control of the Debtor during the bankruptcy case. Mr. Minor has not received any compensation from the Debtor during the case.

D. Events Leading to Chapter 11 Filing

Specialty Finance Group, LLC, the lender for the construction of the hotel, stopped funding the project and the Debtor brought suit against Specialty Finance Group and others in the Circuit Court of the City of Charlottesville. Specialty Finance Group brought suit in the Georgia State Court to recover from the Debtor. The general contractor and the sub contractors on the hotel filed mechanics liens and brought suit to determine and enforce those mechanics liens. The Debtor also commenced an action against the developer of the hotel, Hotel Charlottesville, LLC, and its principal, Lee Danielson and obtained an arbitration award in the approximate amount of \$8,000,000 against Hotel Charlottesville, LLC. This bankruptcy case was filed as a vehicle to resolve all the litigation in one forum so that the hotel could then be completed.

E. Significant Events During the Bankruptcy Case

Debtor filed its bankruptcy case on September 1, 2010.

The Bankruptcy Court remanded the action brought by Specialty Finance Group against the Debtor to the Georgia State Court which entered a judgment in favor of SFG in the amount of \$13,364,298.77 against the Debtor and Mr. Minor. That judgment is currently on appeal.

The Bankruptcy Court remanded the action concerning the mechanics liens to the Circuit Court of the City of Charlottesville. That Court has entered a Judgment Order determining the validity, extent, and priority of the liens against the Debtor’s real property. A copy of that Order is attached to this Disclosure Statement as **Exhibit “B”**.

The Bankruptcy Court authorized the Debtor to retain firm of Dixon Development to review the potential of the construction of the hotel being completed. The work of Dixon Development has resulted in an offer by Virginia Hotel Fund, LLC to purchase the real and personal property of the Debtor free and clear of all liens, claims, and interests. The Debtor has incorporated the provisions of the sale to Virginia Hotel Fund, LLC into this Plan.

F. Projected Recovery of Avoidable Transfers

The Debtor is not aware of and does not intend to pursue preference, fraudulent conveyance, or other avoidance actions.

G. Claims Objections

Except to the extent that a claim is already allowed pursuant to a final non-appealable Order, the Debtor reserves the right to object to claims. Therefore, you may not be entitled to a distribution on your claim if an objection to your claim is later upheld. The procedures for resolving disputed claims are set forth in Article VI of the Plan.

H. Current Financial Conditions

The Debtor's assets consist of the following:

- A) An arbitration award against Hotel Charlottesville, LLC and an action against Lee Danielson. The realizable value of this claim is not known.
- B) The partially constructed hotel located on real property with all improvements thereon owned by the Debtor. Based on the offer of Virginia Hotel Fund, LLC, the value of the project is \$2,800,000.
- C) A counterclaim against Clancy & Theys. The Debtor has nonsuited its counterclaim against Clancy & Theys.
- D) Avoidance actions. The debtor is not aware of any avoidance actions and does not intend to pursue any avoidance actions.
- E) An action against SFG if the Debtor is successful in its appeal. The value of this claim is not known.
- F) Any other personal property (tangible or intangible) owned by the Debtor.

III. SUMMARY OF THE PLAN OF LIQUIDATION AND TREATMENT OF CLAIMS AND EQUITY INTERESTS

A. What is the Purpose of the Plan?

As required by the Bankruptcy Code, the Plan places Claims and Equity Interests in various classes and describes the treatment each class will receive. The Plan also states whether each class of Claims or Equity Interests is impaired or unimpaired. If the Plan is confirmed, your recovery will be limited to the amount provided by the Plan.

This Plan proposes to distribute all of the net proceeds of sale of the Debtor's assets to its creditors under the priorities established by the Bankruptcy Code.

B. Unclassified Claims

Certain types of Claims are automatically entitled to specific treatment under the Bankruptcy Code. They are not considered impaired and holders of such claims do not vote on the Plan. They may, however, object if, in their view, their treatment under the Plan does not comply with that required by the Bankruptcy Code. As such, the Debtor has not placed the following claims in any class:

1. *Administrative Expenses*

Administrative expenses are costs or expenses of administering the Debtor's chapter 11 case which are allowed under § 507(a)(2) of the Bankruptcy Code, including Professional Fee Claims. The Bankruptcy Code requires that all administrative expenses be paid on the effective date of the Plan, unless a particular claimant agrees to a different treatment.

The only administrative claims of which the Debtor is aware are ongoing quarterly fees owed to the Office of the United States Trustee, including fees owed as a result of the sale of the Debtor's property, Professional Fees, and amounts owed to Dixon Development. It is anticipated that these will be paid from the proceeds of sale of the Debtor's property. The Debtor believes the fees to the U.S. Trustee will be approximately \$11,000.00. The amount owed to Dixon Development is \$165,000.00. The amount currently owed to counsel for the Debtor is approximately \$35,000.00.

Any Person wishing to assert an Administrative Claim must file request with the Bankruptcy Court on or before thirty (30) days from the date of the entry of the Order Confirming the Plan.

2. *Priority Tax Claims*

Priority tax claims are unsecured income, employment, and other taxes described by § 507(a)(8) of the Bankruptcy Code. Unless the holder of such a § 507(a)(8) priority tax claim agrees otherwise, it must receive the present value of such claim, in regular installments paid over a period not exceeding 5 years from the order of relief.

The Debtor does not believe that there are any priority tax claims. There may be taxes owed as a result of the sale to Virginia Hotel Fund, LLC. Any such taxes shall be paid from the proceeds of such sale.

C. Classes of Claims and Equity Interests

1. *Class 1 – Other Priority Unsecured Claims*

Certain priority claims that are referred to in §§ 507(a)(1), (4), (5), (6), and (7) of the Bankruptcy Code are required to be placed in classes. The Bankruptcy Code requires that each holder of such a claim receive Cash on the effective date of the Plan equal to the allowed amount of such claim. However, a class of holders of such claims may vote to accept different treatment. The Debtor does not believe that there are any priority unsecured claims.

2. *Secured Claims*

The Circuit Court of the City of Charlottesville has determined the amount and priority of the liens against the Debtor's real property and improvements. After the payment of expenses of sale and Administrative Claims, the following secured claims will be paid in the following order:

a. Class 2 - Real Property Taxes owed to the City of Charlottesville. \$128,183.02 plus accruing penalties and interest. This Class will be paid in full from the net proceeds of sale of the Debtor's property. This class is not impaired and is not entitled to vote on the Plan.

b. Class 3 - The Mechanics Lien claim of Clancy & Theys. \$2,076,545.37 plus accrued interest as of December 5, 2011 of \$449,332.87 plus accruing interest. See the Order of the Circuit Court of the City of Charlottesville for the sharing of this lien position with R. D. Jones and the rights of subcontractors to amounts paid to Clancy & Theys. This Class will be paid Pro Rata with Class 4 from the net proceeds of sale of the Debtor's property. In the event that the net proceeds of sale are not sufficient to pay this Class in full, any amount remaining due (with the exception of interest, costs, and charges accruing after the Petition Date) will be treated for payment purposes as a General Unsecured Claim. This Class is impaired and is entitled to vote on the Plan.

c. Class - 4 - The Mechanics Lien claim of R.D. Jones. \$136,654.51 plus accruing interest. See the Order of the Circuit Court of the City of Charlottesville for the sharing of this lien position with Clancy & Theys. This Class will be paid Pro Rata with Class 3 from the net proceeds of sale of the Debtor's property. In the event that the net proceeds of sale are not sufficient to pay this Class in full, any amount remaining due (with the exception of interest, costs, and charges accruing after the Petition Date) will be treated for payment purposes as a General Unsecured Claim. This Class is impaired and is entitled to vote on the Plan.

d. Class - 5 - The lien of Specialty Finance Group determined to be in the amount of \$13,364,298.77 plus accruing interest. This Class will be paid from the net proceeds of sale of the Debtor's property. In the event that the net proceeds of sale are not sufficient to pay this Class in full, any amount remaining due (with the exception of interest, costs, and charges accruing after the Petition Date) will be treated for payment purposes as a General Unsecured Claim. This Class is impaired and entitled to vote on the Plan.

e. Class - 6 - The judgment lien of Core Group, PC. This judgment lien is in the amount of \$287,652.16. There will be no funds available to pay this Class and it shall be treated as a General Unsecured Claim. This Class is impaired and entitled to vote on the Plan.

3. *Class 7 - General Unsecured Claims*

General Unsecured Claims are not secured by property of the estate and are not entitled to priority under Bankruptcy Code § 507(a). The Debtor does not believe that there will be sufficient funds after payment of Administrative Expenses and Secured Claims for any payment on General Unsecured Claims. However, under the Plan, Virginia Hotel Fund, LLC has agreed to provide a Convenience Fund in an amount not to exceed \$200,000 which will pay holders of General Unsecured Claims in the amount of \$100,000.00 or less who elect to be treated as a Convenience Claim 10% of the amount of their claim amount in full satisfaction of such claim. Holders of General Unsecured Claims in excess of \$100,000.00 may elect to reduce their claim to \$100,000.00 and accept a payment of \$10,000 in full satisfaction of such claim. This Class is impaired and entitled to vote on the Plan.

4. *Class 8 - Equity Interest Holders*

Equity Interests consist of membership interests in the Debtor and represent an ownership interest in the Debtor. The Debtor does not believe that there will be funds for any payment to Equity Interest Holders. Equity Interests are impaired, but since they will not receive any payment under the Plan they are deemed to have rejected the Plan and are not entitled to vote on the Plan.

D. Means of Implementing the Plan

All of the Debtor's real property, including all improvements thereon, and all of the Debtor's personal property (tangible and intangible) will be sold to Virginia Hotel Fund, LLC free and clear of all liens, claims, and interests, pursuant to section 363 of the Bankruptcy Code for a price of \$2,800,000.00. This purchase offer is conditioned upon Virginia Hotel Fund, LLC being entitled to a break up fee of \$100,000 in the event that the Debtor's property is purchased by someone else at a higher price. The net proceeds of sale after deduction of expenses of sale, Professional Fees, amounts due to the Office of the United States Trustee, amounts due to Dixon Development, and any taxes due as a result of the sale, will be used to fund distributions under the Plan. An appraisal filed by Specialty Finance Group in the Georgia State Court litigation reflected the AS-IS value of the hotel project at \$2,100,000. A portion of this appraisal is attached as **Exhibit "C"**.

E. Risk Factors

The Debtor believes there are no significant risks that might affect the Debtor's ability to make payments as required by the Plan except that the sale to Virginia Hotel Fund, LLC may not be completed.

F. Executory Contracts and Unexpired Leases

The Debtor listed the loan agreement with Specialty Finance Group and agreements related to construction of the hotel as executory contracts and unexpired leases. The Plan provides that upon request from Virginia Hotel Fund, LLC, the Debtor will assign its rights under such agreements to Virginia Hotel Fund, LLC.

G. Tax Consequences of Plan

Creditors and Equity Interest Holders Concerned with How the Plan May Affect Their Tax Liability Should Consult with Their Own Accountants, Attorneys, and/or Advisors.

The Debtor makes no representation as to the tax consequences of the Plan with respect to any creditor or other party in interest and encourages any creditor or other party in interest that needs information in this regard to seek independent tax advice.

IV. CONFIRMATION REQUIREMENTS AND PROCEDURES

To be confirmable, the Plan must meet the requirements listed in §§ 1129(a) or (b) of the Bankruptcy Code. These include the requirements that: the Plan must be proposed in good faith; at least one impaired class of claims must accept the plan, without counting votes of insiders; the Plan must distribute to each creditor and Equity Interest holder at least as much as the creditor or Equity Interest holder would receive in a Chapter 7 liquidation case, unless the creditor or Equity Interest holder votes to accept the Plan; and the Plan must be feasible. These requirements are not the only requirements listed in § 1129, and they are not the only requirements for confirmation.

A. Who May Object to or Vote on the Plan

Any party in interest may object to the confirmation of the Plan if the party believes that the requirements for confirmation are not met.

A creditor or Equity Interest holder has a right to vote for or against the Plan only if that creditor or Equity Interest holder has a Claim or Equity Interest that is both (1) allowed or allowed for voting purposes and (2) impaired. **Only holders of Allowed Claims in Classes 3, 4, 5, 6, and 7 are entitled to vote on the Plan.** Holders of Equity Interests in Class 8 will not receive any payment under the Plan. Accordingly, Class 8 is deemed to have voted against the Plan and is not entitled to vote.

Just because your Claim is in a Class that is entitled to vote on the Plan does not mean that you will receive any payment on your Claim.

1. *What Is an Allowed Claim or an Allowed Equity Interest?*

Only a creditor or Equity Interest holder with an Allowed Claim or an Allowed Equity Interest has the right to vote on the Plan. Generally, a claim or Equity Interest is allowed if either (1) the Debtor has scheduled the claim on the Debtor's schedules, unless the claim has been scheduled as disputed, contingent, or unliquidated, or (2) the creditor has filed a proof of claim or Equity Interest, unless an objection has been filed to such proof of claim or Equity Interest. When a claim or Equity Interest is not allowed, the creditor or Equity Interest holder holding the claim or Equity Interest cannot vote unless the Bankruptcy Court, after notice and hearing, either overrules the objection or allows the claim or Equity Interest for voting purposes pursuant to Rule 3018(a) of the Federal Rules of Bankruptcy Procedure.

The deadline to file a proof of claim in this case is _____.

2. *What Is an Impaired Claim or Impaired Equity Interest?*

As noted above, the holder of an Allowed Claim or Equity Interest has the right to vote only if it is in a class that is *impaired* under the Plan. As provided in § 1124 of the Bankruptcy Code, a class is considered impaired if the Plan alters the legal, equitable, or contractual rights of the members of that class. Classes 3, 4, 5, 6, and 7 are considered impaired under the Plan.

3. *Who is Not Entitled to Vote*

Under this Plan, Class 2 is deemed to have voted for the Plan and is not entitled to vote. Class 8 is deemed to have voted against the Plan and is not entitled to vote.

Even If You Are Not Entitled to Vote on the Plan, You Have a Right to Object to the Confirmation of the Plan.

B. Liquidation Analysis

To confirm the Plan, the Bankruptcy Court must find that all creditors and Equity Interest holders who do not accept the Plan will receive at least as much under the Plan as such claim and Equity Interest holders would receive in a Chapter 7 liquidation. This Plan is a Liquidation Plan and all Debtor's assets will be distributed under this Plan. Since all of the Debtor's assets will be liquidated, no liquidation analysis is attached.

C. Feasibility

The Bankruptcy Court must find that confirmation of the Plan is not likely to be followed by the liquidation, or the need for further financial reorganization, of the Debtor or any successor to the Debtor. In this case, the Debtor is proposing a Liquidation Plan, so it believes this requirement is met.

V. EFFECT OF CONFIRMATION OF PLAN

A. No Discharge of Debtor

The Debtor will not receive a discharge at the conclusion of this Bankruptcy Case.

B. Modification of Plan

The Debtor may modify the Plan at any time before confirmation of the Plan. However, the Bankruptcy Court may require a new disclosure statement and/or revoting on the Plan.

The Debtor may also seek to modify the Plan at any time after confirmation only if (1) the Plan has not been substantially consummated *and* (2) the Bankruptcy Court authorizes the proposed modifications after notice and a hearing.

C. Final Decree

Once the estate has been fully administered, as provided in Rule 3022 of the Federal Rules of Bankruptcy Procedure, the Debtor, or such other party as the Bankruptcy Court shall designate in the Plan Confirmation Order, shall file a motion with the Bankruptcy Court to obtain a final decree to close the case. Alternatively, the Bankruptcy Court may enter such a final decree on its own motion.

MINOR FAMILY HOTELS, LLC

By: /s/ Richard C. Maxwell
Richard C. Maxwell, Esq.
Attorney for the Debtor