UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF HAWAII

IN RE:	§	**Case No. 11-02371**
	§	**(Chapter 11)**
M WAIKIKI, LLC,	§	
	§	
DEBTOR	§	

SECOND AMENDED JOINT DISCLOSURE STATEMENT WITH RESPECT TO SECOND AMENDED JOINT PLAN OF REORGANIZATION PROPOSED BY THE DEBTOR AND THE DAVIDSON FAMILY TRUST DATED DECEMBER 22, 1999, AS AMENDED

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Dated: April 2, 2012

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I. INTRODUCTION

M Waikiki LLC (the "Debtor"), the above-captioned debtor and debtor-in-possession herein, and The Davidson Family Trust dated December 22, 1999, as amended (the "Davidson Trust" and with the Debtor, the "Proponents"), submit this Second Amended Disclosure Statement With Respect to Second Amended Joint Plan of Reorganization (the "Disclosure Statement"). This Disclosure Statement is to be used in connection with the solicitation of votes on the Second Amended Joint Plan of Reorganization dated April 2, 2012, as amended (the "Plan"), filed and proposed by the Proponents. A copy of the Plan is attached hereto as Exhibit A. Unless otherwise defined herein, capitalized terms used herein have the meanings ascribed thereto in the Plan (see Article I of the Plan entitled "Definitions, Construction, and Interpretation").

For a summary of the proposed treatment of your Claim or Interest under the Plan, please see the charts on pages 8-20 below.

II. NOTICE TO HOLDERS OF CLAIMS AND INTERESTS

The purpose of this Disclosure Statement is to enable Holders of Claims against and Interests in the Debtor whose Claims and Interests are impaired under, and are entitled to vote on, the Plan to make an informed decision in exercising their right to vote to accept or reject the Plan.

THIS DISCLOSURE STATEMENT CONTAINS INFORMATION THAT MAY BEAR UPON YOUR DECISION TO ACCEPT OR REJECT THE PLAN. PLEASE READ THIS DOCUMENT CAREFULLY.

On March 12, 2012, the Bankruptcy Court conducted a hearing on the adequacy of the Disclosure Statement and subsequently entered an order pursuant to section 1125 of the Bankruptcy Code (the "Disclosure Statement Order") approving this Disclosure Statement as containing information of a kind, and in sufficient detail, adequate to enable a hypothetical, reasonable investor, typical of the solicited Holders of Claims against and Interests in the Debtor, to make an informed judgment with respect to the acceptance or rejection of the Plan. A copy of the Disclosure Statement Order is included in the materials accompanying this Disclosure Statement. APPROVAL OF THIS DISCLOSURE STATEMENT BY THE BANKRUPTCY COURT DOES NOT CONSTITUTE A DETERMINATION BY THE BANKRUPTCY COURT REGARDING THE FAIRNESS OR MERITS OF THE PLAN.

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

Each Holder of a Claim or Interest entitled to vote to accept or reject the Plan should read this Disclosure Statement and the Plan in their entirety before voting. No solicitation of votes to accept or reject the Plan may be made except pursuant to this Disclosure Statement and section

1125 of the Bankruptcy Code. Except for the Debtor and its professionals, no person has been authorized to use or promulgate any information concerning the Debtor, its business, or the Plan, other than the information contained herein, in connection with the solicitation of votes to accept or reject the Plan. No Holder of a Claim or Interest entitled to vote on the Plan should rely upon any information relating to the Debtor, its business, or the Plan other than that contained in the Disclosure Statement and the exhibits hereto. Unless otherwise indicated, the sources of all information set forth herein are the Debtor and its professionals, matters of record in the Debtor's chapter 11 case and information provided by Aqua/Modern, the Debtor's property management company that manages the day-to-day operations of the Debtor's Hotel.

After carefully reviewing this Disclosure Statement, including the attached exhibits, please indicate your acceptance or rejection of the Plan by voting in favor of or against the Plan on the enclosed ballot (if you are entitled to vote on the Plan) and returning the same to the address set forth on the ballot, in the enclosed return envelope so that it will be received by the Debtor's tabulation agent, Kathryn Tran, XRoads Case Management Services, 1821 E. Dyer Road, Suite 225, Santa Ana, CA 92705, no later than 5:00 p.m. Hawaii Daylight Savings Time ("HDST") on _____, 2012.

If you do not vote to accept the Plan, or if you are not entitled to vote on the Plan, you may be bound by the Plan if it is accepted by the requisite Holders of Claims or Interests who are entitled to vote on the Plan. See "Confirmation of the Plan — Solicitation of Votes; Voting Procedures," "Confirmation Hearing," "Requirements for Confirmation of a Plan," and "Cramdown" in Article VII below.

TO BE SURE YOUR BALLOT IS COUNTED, YOUR BALLOT MUST BE RECEIVED NO LATER THAN 5:00 P.M. HDST, ON _____, 2012. For detailed voting instructions and the name, address, and phone number of the person you may contact if you have questions regarding the voting procedures, see "Solicitation of Votes; Voting Procedures" in Section VII.A below.

Pursuant to section 1128 of the Bankruptcy Code, the Bankruptcy Court has scheduled a hearing to consider confirmation of the Plan (the "Confirmation Hearing"), on _____, **2012, at _____ __.m. HDST**, in the United States Bankruptcy Court for the District of Hawaii. **The Bankruptcy Court has directed that objections, if any, to confirmation of the Plan be filed and served on or before _____, 2012 at 5:00 p.m. HDST**, in the manner described under the caption, "Confirmation Hearing," in Section VII.B below.

THE PROPONENTS URGE ALL HOLDERS OF IMPAIRED CLAIMS AND INTERESTS TO ACCEPT THE PLAN.

III. EXPLANATION OF CHAPTER 11

A. Overview of Chapter 11

Chapter 11 is the principal reorganization chapter of the Bankruptcy Code. Pursuant to chapter 11, the debtor in possession attempts to reorganize its business for the benefit of the debtor, its creditors, and other parties in interest.

The commencement of a chapter 11 case creates an estate comprising all the legal and equitable interests of the debtor in property as of the date the bankruptcy petition is filed. Sections 1101, 1107, and 1108 of the Bankruptcy Code 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. In the present chapter 11 case, the Debtor has remained in possession of its properties as a debtor in possession.

The filing of a chapter 11 petition also triggers the automatic stay provisions of the Bankruptcy Code. Section 362 of the Bankruptcy Code provides, *inter alia*, for an automatic stay of all attempts to collect prepetition claims from the debtor or otherwise interfere with its property or business. Except as otherwise ordered by the Bankruptcy Court, the automatic stay remains in full force and effect until the effective date of a confirmed plan of reorganization.

The formulation of a plan of reorganization is the principal purpose of a chapter 11 case. The plan sets forth the means for satisfying the claims against and interests in the debtor. Generally, unless a trustee is appointed, only the debtor may file a plan during the first 120 days of a chapter 11 case (the "Exclusive Period"). However, section 1121(d) of the Bankruptcy Code permits the court to extend or reduce the Exclusive Period upon a showing of "cause." After the Exclusive Period has expired, a creditor or any other party in interest may file a plan, unless the debtor has filed a plan within the Exclusive Period, in which case, the debtor has until the date that is 180 days from the commencement of its chapter 11 case to solicit acceptances of its plan. This additional time during which only a debtor may file a plan is commonly referred to as the solicitation period (the "Solicitation Period"). The Solicitation Period may also be extended or reduced by the court upon a showing of "cause." In the Debtor's Bankruptcy Case, pursuant to an order entered on January 3, 2012 (docket #457), the Bankruptcy Court extended the Debtor's Exclusive Period through and including January 20, 2012, but did not extend the Solicitation Period. Pursuant to an order entered on February 23, 2012 (docket #627), the Bankruptcy Court terminated the Solicitation Period, thereby permitting any creditor or other party in interest to file a plan in the Debtor's Bankruptcy Case. As discussed in more detail in Section VI.C.11 below, on February 27, 2012, Marriott Hotel Services, Inc. and Marriott International, Inc. filed a competing plan of reorganization.

B. Plan of Reorganization

Although referred to as a plan of reorganization, a plan may provide for anything from a complex restructuring of a debtor's business and its related obligations to a simple liquidation of the debtor's assets. After a plan of reorganization has been filed, the holders of claims against or interests in a debtor are permitted to vote to accept or reject the plan. Before soliciting acceptances of the proposed plan, section 1125 of the Bankruptcy Code requires the debtor to prepare a disclosure statement containing adequate information of a kind, and in sufficient detail, to enable a hypothetical reasonable investor to make an informed judgment about the plan. This Disclosure Statement is presented to Holders of Claims against and Interests in the Debtor to satisfy the requirements of section 1125 of the Bankruptcy Code.

If all classes of claims and interests accept a plan of reorganization, the bankruptcy court may nonetheless deny confirmation of the plan unless the court independently determines that

the requirements of section 1129 of the Bankruptcy Code have been satisfied. Section 1129 sets forth the requirements for confirmation of a plan and, among other things, requires that a plan meet the "best interests" test and be "feasible." The "best interests" test generally requires that the value of the property to be distributed to the holders of claims and interests under a plan may not be less than those parties would receive if the debtor were liquidated pursuant to a hypothetical liquidation under chapter 7 of the Bankruptcy Code. Under the "feasibility" requirement, the court generally must find that there is a reasonable probability that the debtor will be able to meet its obligations under its plan without the need for further financial reorganization.

The Proponents believe that the Plan satisfies all the applicable requirements of section 1129(a) of the Bankruptcy Code, including, in particular, the "best interests" test and the "feasibility" requirement. The Proponents support confirmation of the Plan and urge all Holders of impaired Claims to accept the Plan.

Chapter 11 does not require that each holder of a claim against or interest in a debtor vote in favor of a plan of reorganization in order for the bankruptcy court to confirm the plan. At a minimum, however, the plan must be accepted by a majority in number and two-thirds in amount of those claims actually voting in at least one class of impaired claims under the plan. The Bankruptcy Code also defines acceptance of the plan by a class of interests (equity securities) as acceptance by holders of two-thirds of the number of shares actually voting. In the present case, only the Holders of Claims or Interests who are entitled to vote on the Plan, and who actually vote on the Plan, will be counted as either accepting or rejecting the Plan.

In addition, classes of claims or interests that are not "impaired" under a plan of reorganization are conclusively presumed to have accepted the plan and thus are not entitled to vote. Accordingly, acceptances of a plan will generally be solicited only from those persons who hold claims or interests in an impaired class. A class is "impaired" if the legal, equitable, or contractual rights attaching to the claims or equity interests of that class are modified in any way under the plan. Modification for purposes of determining impairment, however, does not include curing defaults and reinstating maturity or payment in full in cash. **Under the Plan, Claims against the Debtor in Classes 3, 4, 6, 9, 10 and 11, and Interests in the Debtor in Classes 12, 13 and 14 are impaired, and the Holders of those Claims and Interests are entitled to vote on the Plan. Claims against the Debtor in Classes 1, 2, 5, 7 and 8 are not impaired, and the Holders of those Claims are not entitled to vote on the Plan.** Administrative Claims and Priority Tax Claims are unclassified because their treatment is prescribed by the Bankruptcy Code, and the Holders of such Claims are not entitled to vote on the Plan.

The bankruptcy court may also confirm a plan of reorganization even though fewer than all classes of impaired claims and interests accept it. For a plan of reorganization to be confirmed despite its rejection by a class of impaired claims or interests, the proponent of the plan must show, among other things, that the plan does not "discriminate unfairly" and that the plan is "fair and equitable" with respect to each impaired class of claims or interests that has not accepted the plan.

Under section 1129(b) of the Bankruptcy Code, a plan is "fair and equitable" as to a class of rejecting claims if, among other things, the plan provides: (a) with respect to secured claims, that each such holder will receive or retain on account of its claim property that has a value, as of the effective date of the plan, equal to the allowed amount of such claim; and (b) with respect to unsecured claims and equity interests, that the holder of any claim or equity interest that is junior to the claims or equity interests of such class will not receive or retain on account of such junior claim or equity interest any property at all unless the senior class is paid in full.

A plan does not "discriminate unfairly" against a rejecting class of claims if, under the totality of circumstances, there is a reasonable basis for the discrimination, if any, and the extent of the discrimination is reasonable in light of the basis for the discrimination.

The Proponents believe that the Plan has been structured so that it will satisfy these requirements as to any rejecting Class of Claims, and can therefore be confirmed, if necessary, over the objection of any Class of Claims. The Proponents thus reserve the right to request confirmation of the Plan under the "cramdown" provisions of section 1129 of the Bankruptcy Code.

IV. SUMMARY OF THE PLAN

THIS IS ONLY A SUMMARY OF CERTAIN PROVISIONS OF THE PLAN. THE PLAN INCLUDES OTHER PROVISIONS THAT MAY AFFECT YOUR RIGHTS. YOU ARE URGED TO READ THE PLAN IN ITS ENTIRETY BEFORE VOTING ON THE PLAN.

A. Classification and Treatment of Claims and Interests

The following is a summary of the classification and treatment of Claims and Interests under the Plan. The classification and treatment of Claims and Interests herein is without prejudice to a party in interest asserting that it is entitled to a different classification or treatment under the Plan or applicable law. The Administrative Claims and Priority Tax Claims (i.e., unclassified claims) shown below constitute the Debtor's estimate of the amount of such Claims, taking into account amounts, if any, paid or projected to be paid prior to the Effective Date. The total amount of Claims shown below reflects the Debtor's current estimate of the likely amount of such Claims, subject to the resolution by settlement or litigation of Claims that the Debtor believes are subject to disallowance or reduction. Reference should be made to the entire Disclosure Statement and to the Plan for a complete description of the classification and treatment of Claims and Interests.

1. Unclassified Claims Against the Debtor

In accordance with section 1123(a)(1) of the Bankruptcy Code, unclassified Claims against the Debtor consist of Administrative Claims and Priority Tax Claims. Based on its books and records and its projections for future expenses, the Debtor presently estimates the amounts of such Claims, as of the Effective Date, as follows:

Administrative Claims	$9,921,016
Priority Tax Claims	$259,208

The foregoing estimate of Administrative Claims includes the following categories:

Professional Fees:	$500,000 (net of retainers)
DIP Loan Claim:	$9,384,788
Claims under Bankruptcy Code section 503(b)(9)	$36,227.95
Ordinary Course of Business Claims:	zero

The Holder of any Administrative Claim that is incurred, accrued or in existence prior to the Effective Date, other than (i) a Fee Claim, (ii) an Allowed Administrative Claim, or (iii) a liability in the Ordinary Course of Business must file with the Bankruptcy Court and serve on all parties required to receive such notice a request for the allowance of such Administrative Claim on or before thirty (30) days after the Effective Date. Such request must include at a minimum (i) the name of the Holder of the Claim, (ii) the amount of the Claim, and (iii) the basis of the Claim. Failure to timely and properly file and serve the request (as required under Section 2.01(a) of the Plan) shall result in the Administrative Claim being forever barred and discharged. Objections to such requests must be filed and served pursuant to the Bankruptcy Rules on the requesting party and the Debtor no later than fourteen (14) days before the hearing on the applicable request for payment of an Administrative Claim. No hearing may be held on less than twenty-eight (28) days notice.

Any Person who holds or asserts an Administrative Claim that is a Fee Claim for compensation for services rendered and reimbursement of expenses incurred prior to the Effective Date shall be required to file with the Bankruptcy Court and serve on all parties required to receive such notice a Fee Application within forty-five (45) days after the Effective Date. Failure to timely and properly file and serve a Fee Application as required under Section 2.01(b) of the Plan shall result in the Fee Claim being forever barred and discharged. No Fee Claim will be deemed Allowed until an order allowing the Fee Claim becomes a Final Order. Objections to Fee Applications must be filed and served pursuant to the Bankruptcy Rules on the Debtor and the Person to whose application the objections are filed no later than fourteen (14) days before the hearing on such Fee Application. No hearing may be held on less than twenty-eight (28) days' notice.

An Administrative Claim with respect to which notice has been properly filed pursuant to Section 2.01(a) of the Plan shall become an Allowed Administrative Claim if no timely objection is filed. If a timely objection is filed, the Administrative Claim shall become an Allowed Administrative Claim only to the extent Allowed by a Final Order. An Administrative Claim that is a Fee Claim, and with respect to which a Fee Application has been properly filed and served pursuant to Section 2.01(b) of the Plan, shall become an Allowed Administrative Claim only to the extent Allowed by a Final Order.

Holders of Administrative Claims based on liabilities incurred in the Ordinary Course of Business of the Debtor during the Bankruptcy Case (other than Claims of governmental units for

taxes or Claims and/or penalties related to such taxes; Administrative Claims arising under Bankruptcy Code section 503(b)(9); or alleged Administrative Claims arising in tort) shall not be required to file any request for payment of such Claims. Liabilities incurred in the Ordinary Course of Business will be paid by the Debtor pursuant to the terms and conditions of the transaction giving rise to such Administrative Claim, without any further action by the Holders of such Administrative Claim. The Debtor reserves the right to object before the Objection Deadline to any claim arising, or asserted as arising, in the Ordinary Course of Business and to withhold payment of such claim until such time as any objection is resolved pursuant to a settlement or a Final Order of the Bankruptcy Court.

The Allowed DIP Loan Claim shall be equal to the aggregate of all amounts due and owing by the Debtor as of the Effective Date pursuant to the DIP Loan Facility. The Allowed DIP Loan Claim shall be satisfied in full as follows: (a) $2.5 million of the Allowed DIP Loan Claim shall be satisfied from the Exit Capital Contribution and thus converted to New Senior Equity on account and to the extent thereof, and (b) the balance of the Allowed DIP Loan Claim shall be paid by the Secured Exit Loan.

Except to the extent that an Allowed Priority Tax Claim has been paid prior to the Initial Distribution Date, each Holder of an Allowed Priority Tax Claim, in full satisfaction, release, settlement, and discharge of and exchange for such Claim, shall receive (a) deferred Cash payments over a period not exceeding five (5) years after the Petition Date in an aggregate principal amount equal to the Allowed amount of such Priority Tax Claim, plus interest, from the Petition Date through the date such Claim is paid in full, on the unpaid portion thereof at the rate of interest determined under applicable nonbankruptcy law as of the calendar month in which the Confirmation Date occurs, in equal annual installments with the first payment to be due on the later of (i) the Initial Distribution Date or (ii) five (5) Business Days after the date a Priority Tax Claim becomes an Allowed Priority Tax Claim, and subsequent payments to be due on each anniversary of the Initial Distribution Date, or (b) such other, less favorable treatment to which such Holder and the Debtor agree in writing. Notwithstanding the foregoing, (a) the Holder of an Allowed Priority Tax Claim shall not be entitled to receive any payment on account of any penalty arising with respect to or in connection with the Allowed Priority Tax Claim, and (b) the Debtor shall have the right to pay any Allowed Priority Tax Claim, or any unpaid balance of such Claim, in full, at any time after the Effective Date, without premium or penalty.

The Debtor shall timely pay to the United States Trustee all quarterly fees incurred pursuant to 28 U.S.C. § 1930(a)(6). Any fees due as of the most recent quarterly invoice before the Confirmation Date will be paid in full within thirty (30) days after the Effective Date. After the Effective Date, the Debtor shall pay United States Trustee quarterly fees as they accrue until the Bankruptcy Case is closed. The Debtor shall serve on the United States Trustee a quarterly financial report for each quarter (or portion thereof) that the Bankruptcy Case remains open.

2. Classified Claims and Interests

The following is an estimate of the numbers and amounts of classified Claims and Interests to receive treatment under the Plan, and their respective treatment:

UNLESS OTHERWISE NOTED, THE DEBTOR'S ESTIMATES OF THE NUMBER AND AMOUNT OF CLAIMS IN EACH CLASS SET FORTH IN THE TABLE BELOW INCLUDE ALL CLAIMS ASSERTED AGAINST THE DEBTOR WITHOUT REGARD TO THE VALIDITY OR TIMELINESS OF THE FILING OF THE CLAIMS. THUS, BY INCLUDING ANY CLAIM IN THE ESTIMATES SET FORTH BELOW, THE DEBTOR IS NOT WAIVING ITS RIGHTS TO OBJECT TO ANY CLAIM ON OR BEFORE THE CLAIM OBJECTION DEADLINE ESTABLISHED BY THE PLAN. IN ADDITION, THE DEBTOR HAS NOT YET UNDERTAKEN AN ANALYSIS OF POTENTIAL AVOIDANCE ACTIONS, AND ALTHOUGH THE DEBTOR DOES NOT CURRENTLY ANTICIPATE ASSERTING SUCH ACTIONS (SEE SECTION VII.C BELOW), THE DEBTOR IS NOT WAIVING ITS RIGHT TO ASSERT AVOIDANCE ACTIONS. PAYMENTS RECEIVED BY NON-INSIDER CREDITORS WITHIN NINETY (90) DAYS PRIOR TO THE PETITION DATE AND BY INSIDER CREDITORS WITHIN ONE YEAR PRIOR TO THE PETITION DATE ARE LISTED IN THE DEBTOR'S SCHEDULES ON FILE WITH THE COURT. A COPY OF THE SCHEDULES IS AVAILABLE FOR EXAMINATION ON PACER OR BY WRITTEN REQUEST SENT TO THE DEBTOR'S COUNSEL.

Class	Treatment
Class 1 – Non-Tax Priority Claims Estimated Amount: $527.90 Estimated Number: 2	Unimpaired On or as soon as practicable after the later of (a) the Initial Distribution Date or (b) the Allowance Date with respect to a Non-Tax Priority Claim, each Holder of such Allowed Non-Tax Priority Claim shall receive from the Debtor, in full satisfaction, settlement, release and discharge of and in exchange for such Allowed Non-Tax Priority Claim, (y) Cash in an amount equal to the Allowed amount of its Non-Tax Priority Claim, or (z) such other, less favorable treatment to which such Holder and the Debtor agree in writing. To the extent an Allowed Non-Tax Priority Claim entitled to priority treatment under 11 U.S.C. §§ 507(a)(4) or (5) exceeds the statutory cap applicable to such Claim, such excess amount shall be treated as a Class 8 General Unsecured Claim against the Debtor.
Class 2 – Secured Tax Claims Estimated Amount: zero[1] Estimated Number: zero	Unimpaired With respect to any Allowed Secured Tax Claim for tax years prior to 2012, to the extent not already paid or otherwise satisfied, on or as soon as practicable after the later of (a) the Initial Distribution Date or (b) the Allowance Date with respect to a Secured Tax Claim, each Holder of an Allowed Secured Tax Claim shall receive from the Debtor in full satisfaction, settlement, release and discharge of and in exchange for such Allowed Secured Tax Claim, (x) Cash equal to the Allowed

[1] Pursuant to the terms of the Wells Fargo Prepetition Loan Documents, the Debtor paid into escrow with Wells Fargo funds sufficient to pay on a current basis all ad valorem taxes that could constitute a Secured Tax Claim. The Debtor believes that all such taxes have been paid in full when due or will be paid before the Effective Date and, thus, that no Secured Tax Claims will be Allowed as of the Effective Date.

Class	Treatment
	Amount of its Allowed Secured Tax Claim, plus interest thereon at the rate provided under applicable non-bankruptcy law pursuant to Section 511 of the Bankruptcy Code from the Petition Date through the date such Claim is paid in full, (y) the Collateral securing the Allowed Secured Tax Claim, or (z) such other, less favorable treatment as may be agreed upon in writing by such Holder and the Debtor. The Holder of a Secured Tax Claim for ad valorem taxes for any tax year from 2012 and thereafter shall retain all rights and remedies for payment thereof in accordance with applicable non-bankruptcy law. Each Holder of an Allowed Secured Tax Claim shall retain its Lien on any Collateral that secures its Claim or the proceeds of such Collateral (to the extent such Collateral is sold by the Debtor, free and clear of such Lien) to the same extent and with the same validity and priority as such Lien held as of the Petition Date until (a) the Holder of such Allowed Secured Tax Claim (i) has been paid Cash equal to the value of its Allowed Secured Tax Claim and/or (ii) has received a return of the Collateral securing its Allowed Secured Tax Claim, or (iii) has been afforded such other treatment as to which such Holder and the Debtor have agreed upon in writing, or (b) such purported Lien has been determined by a Final Order to be invalid or avoidable. To the extent that a Secured Tax Claim exceeds the value of the interest of the Estate in the property that secured such Claim, such Claim shall be deemed Disallowed pursuant to Bankruptcy Code section 502(b)(3).
Class 3 – Wells Fargo Secured Claim Estimated Amount: $114,900,000 plus interest and fees (including attorneys' fees) Estimated Number: 1	Impaired The Allowed amount of the Wells Fargo Secured Claim shall be equal to the aggregate of (a) $114,900,000 (i.e., the principal balance of the Wells Fargo Prepetition Note as of the Petition Date), plus (b) unpaid interest on the Wells Fargo Prepetition Note as of the Petition Date, calculated at the contractual default rate, plus (c) fees (including, without limitation reasonable attorneys' fees) and expenses of Wells Fargo through the Effective Date, plus (d) if the value of the Collateral, as determined by the Bankruptcy Court, that secures the Wells Fargo Secured Claim is greater than the Allowed amount of such Claim, then the Allowed Wells Fargo Secured Claim shall include interest on the Wells Fargo Prepetition Note that accrued from the Petition Date through the Effective Date, calculated at a contractual rate determined by the Bankruptcy Court. Without limiting the foregoing, all interest included in the Allowed Wells Fargo Secured Claim shall be capitalized and added to the principal amount of the Wells Fargo Plan Note.

Class	Treatment
	In full satisfaction, settlement, release and discharge of and in exchange for the Allowed Wells Fargo Secured Claim and all Liens securing such Claim, on the later of the Effective Date or the Allowance Date, Wells Fargo shall receive the following: (1) A Distribution of Cash from the Debtor in the amount of $20,000,000 (plus any additional amount that the Davidson Trust, in its sole discretion, may provide as an increase in the Exit Funding) (the "Paydown"), which shall be applied as a payment of the principal component of the Allowed Wells Fargo Secured Claim, determined pursuant to Section 5.03(a) of the Plan; provided, that if Wells Fargo votes to accept the Plan, then Wells Fargo may elect to apply the Paydown first to the components of the Allowed Wells Fargo Secured Claim that are attributable to unpaid interest, fees (including, without limitation reasonable attorneys' fees) and expenses included therein, determined pursuant to Section 5.03(a) of the Plan, and then to the principal component of the Allowed Wells Fargo Secured Claim; and. (2) The Wells Fargo Plan Note (the principal amount of which shall be equal to the Allowed Wells Fargo Secured Claim minus the Paydown) and the Wells Fargo Plan Mortgage, which shall include the following terms, among others: Maturity Date. The maturity date of the Wells Fargo Plan Note shall be the fifth anniversary of the Effective Date ("Maturity Date").. Interest. From the Effective Date through the Maturity Date, the interest rate on the Wells Fargo Plan Note shall be equal to: (a) if Wells Fargo votes against the Plan, either a fixed rate of four and one-half percent (4.5%) from the Effective Date through the second anniversary of the Effective Date and a fixed rate of five and one-half percent (5.5%) thereafter until the Maturity Date, or a fixed rate determined by a Final Order of the Bankruptcy Court, or (b) if Wells Fargo votes to accept the Plan, a floating rate equal to the three-month LIBOR rate plus 300 basis points, with a floor of 5.1% per annum, which shall be reset every three months. Payments. From the Effective Date until the Maturity Date, only accrued interest shall be payable on the Wells Fargo Plan Note, and the Debtor shall pay such interest monthly in arrears. All unpaid principal and interest on the Wells Fargo Plan Note shall become due and payable on the Maturity Date. The Debtor shall be permitted to prepay any portion of the Wells Fargo Plan Note without penalty or premium.

Class	Treatment
	Interest Reserve. On the later of the Effective Date or the Allowance Date, the Debtor shall transfer an amount of Cash to Wells Fargo equal to the greater of (a) $5,000,000 (plus any additional amount that the Davidson Trust, in its sole discretion, may provide for this purpose as an increase in the Exit Funding), and (b) the sum of all interest payments that will be payable during the first year after the Effective Date, which Wells Fargo shall hold in an interest-bearing escrow account. The Interest Reserve shall be additional Collateral to secure payment of the Wells Fargo Plan Note and shall be used solely to pay accrued unpaid interest on the Wells Fargo Plan Note in the event of a payment default by the Debtor (after giving effect to a fifteen (15)-day cure period). The balance of the Interest Reserve shall be released to the Debtor on the first Business Day of the month following the occurrence of the following conditions: (a) the second anniversary of the Effective Date has occurred, (b) the Debtor has timely paid all monthly debt service payments required under the Wells Fargo Plan Note (after giving effect to a fifteen (15)-day grace period) in the immediately preceding twelve (12)-month period; and (c) the Debtor has maintained a debt service coverage ratio (as defined in the Wells Fargo Plan Note and/or the Wells Fargo Plan Mortgage) of at least 1.2 for the monthly payments due under the Wells Fargo Plan Note in the immediately preceding twelve (12)-month period. The amount of the Interest Reserve remaining on Maturity Date, if any, shall be applied to the outstanding balance due on the Wells Fargo Plan Note. Application of Escrowed Funds. On the Effective Date, Wells Fargo shall (a) apply, or cause C-III Asset Management LLC ("C-III") to apply, $200,000 of the $287,250, presently held by C-III for an unearned prepetition extension fee, to closing fees if Wells Fargo votes to accept the Plan (as provided in the following paragraph); (b) apply the balance of the $287,250 to the Paydown, thereby reducing the amount to be provided for the Paydown from the Exit Financing; (c) pay to the applicable taxing authority from the amount of Cash held by C-III for such purposes any amount due and payable as of the Effective Date for ad valorem property taxes on the Hotel; and (d) transfer any remaining funds to the Interest Reserve, thereby reducing the amount to be provided for the Paydown from the Exit Financing. Closing Fees. If Wells Fargo votes to accept the Plan, upon delivery of the Wells Fargo Plan Note to Wells Fargo, the Debtor shall pay Wells Fargo a closing fee of $200,000. If Wells Fargo does not vote to accept the Plan, no such fee will be payable.

Class	Treatment
	Excess Cash. The Wells Fargo Plan Note and the Wells Fargo Plan Mortgage shall permit the Debtor to use any Cash in excess of the amount required to make timely payments due on the Wells Fargo Plan Note for any business purpose, including funding litigation against Marriott, paying Allowed Administrative Claims and Allowed Claims other than the Allowed Wells Fargo Secured Claim pursuant to the terms set forth in the Plan, and paying interest payments on the Exit Financing (subject to the limitations set forth in Section 6.03(c)(i) of the Plan), but excluding any Distributions to any Holder of the New Senior Equity with respect to such New Senior Equity. In addition to the foregoing, if Wells Fargo is the sole Holder of the Wells Fargo Secured Claim and votes to accept the Plan, the Debtor shall release and waive any and all claims, if any, against Wells Fargo, its servicer, agents, affiliates, employees and attorneys arising out of or relating to the Wells Fargo Prepetition Loan Documents on or before the Effective Date.
Class 4 – R.D. Olson Secured Claim Estimated Amount: $1,839,217.00 Estimated Number: 1	Impaired As a compromise and settlement of all disputes between R.D. Olson and the Debtor, as set forth in the Settlement Agreement between the Debtor and R.D. Olson dated January 5, 2012 (the "Olson Settlement Agreement"), which is subject to approval by the Bankruptcy Court, the R.D. Olson Secured Claim shall be Allowed in the amount of $1,839,217.00. Pursuant to the Olson Settlement Agreement, in full satisfaction, settlement, release and discharge of and in exchange for the Allowed R.D. Olson Secured Claim, the Debtor shall pay the Holder of such Claim the amount of $1,431,298.00 (the "Olson Settled Claim Amount") in Cash on the Effective Date, without interest; provided that if the Effective Date and payment of the foregoing amount of Cash do not occur before June 1, 2012, then the Olson Settled Claim Amount shall bear interest at a rate of five percent (5.0%) per annum from June 1, 2011 until the Olson Settled Claim Amount is paid in full. Upon approval of the Olson Settlement Agreement, Olson has agreed to support the Plan, provided that the treatment of its Claim is consistent therewith. All of the terms set forth in the Olson Settlement Agreement, including without limitation, the Lien securing the Olson Settled Claim Amount and all other rights and obligations of the Debtor and R.D. Olson provided therein, are incorporated in the Plan as if fully recited herein and shall remain in full force and effect after the Effective Date without further order of the Bankruptcy Court.

Class	Treatment
Class 5 – Marriott Secured Claim Estimated Amount: undetermined[2] Estimated Number: 1	Unimpaired The Marriott Secured Claim is a Disputed Claim and is subject to, among other things, various Causes of Action asserted by the Debtor against Marriott. The Allowed amount of the Marriott Secured Claim shall be agreed to by the Debtor and Marriott, or determined by one or more Final Orders. In full satisfaction, settlement, release and discharge of and in exchange for the Allowed Marriott Secured Claim and all Liens securing such Claim, on the later of the Effective Date or the Allowance Date, the Debtor shall pay the Allowed Marriott Secured Claim in cash, in full. Marriott shall retain its Lien on the Collateral that secures the Allowed Marriott Secured Claim to the same extent and with the same validity and priority as such Lien held as of the Petition Date until Marriott has received Cash equal to the value of the Allowed Marriott Secured Claim.
Class 6 – Davidson Trust Secured Claim Estimated Amount: $15,000,000, plus interest, late charges, costs and attorneys' fees Estimated Number: 1	Impaired The Davidson Trust Secured Claim shall be Allowed in the principal amount of $15,000,000, plus such accrued interest, late charges, attorneys' fees, and costs as provided for in the Davidson Trust Prepetition Loan Documents and as may be agreed to by the Debtor and the Davidson Trust or determined by the Bankruptcy Court. In full satisfaction, settlement, release and discharge of and in exchange for the Allowed Davidson Trust Secured Claim and all Liens securing such Claim, on the Effective Date, the Davidson Trust shall receive seventy-seven percent (77%) of the New Senior Equity in the reorganized Debtor, and all Liens securing the Allowed Davidson Trust Secured Claim shall be fully released and extinguished.
Class 7 – Miscellaneous Secured Claims Estimated Amount: $85,367 Estimated Number: 4[3]	Unimpaired Class 7 shall contain a separate subclass for each Miscellaneous Secured Claim in such Class. Each such subclass is deemed to be a separate Class for all purposes under the Bankruptcy Code and the Plan.

[2] In its proof of claim, Marriott asserts a Secured Claim in the amount of $1,066,000. The Debtor disputes the Marriott Secured Claim and believes that upon the conclusion of the litigation of all claims asserted by Marriott and the Debtor against each other, the Marriott Secured Claim will be Disallowed in its entirety. However, the Debtor will have available funding under the Secured Exit Documents to pay the Marriott Secured Claim, if Allowed, up to the full amount asserted by Marriott in its proof of claim.

[3] The Miscellaneous Secured Claims estimated herein are based on proofs of claim filed by Standard Sheetmetal & Mechanical, Inc. in the amount of $58,484.62, Modern Management Services LLC in the amount of $22,727.13,

Class	Treatment
	The Allowed amount of each Miscellaneous Secured Claim shall be agreed to by the Debtor and the Holder thereof, or determined by the Bankruptcy Court. On or as soon as practicable after the later of (i) the Initial Distribution Date or (ii) the Allowance Date, each Holder of an Allowed Miscellaneous Secured Claim shall receive from the Debtor, in full satisfaction, settlement, release and discharge of and in exchange for such Claim, (x) Cash equal to the value of its Allowed Miscellaneous Secured Claim, (y) the Collateral securing the Allowed Miscellaneous Secured Claim, or (z) such other, less favorable treatment as to which such Holder and the Debtor agree in writing. Each Holder of an Allowed Miscellaneous Secured Claim shall retain its Lien in the Collateral that secures its Claim or the proceeds of such Collateral (to the extent such Collateral is sold by the Debtor free and clear of such Lien) to the same extent and with the same validity and priority as such Lien held as of the Petition Date until (i) the Holder of such Allowed Miscellaneous Secured Claim has received (A) Cash equal to the value of its Allowed Miscellaneous Secured Claim, (B) a return of the Collateral securing its Allowed Miscellaneous Secured Claim, or (C) such other treatment as to which such Holder and the Debtor shall have agreed upon in writing, or (ii) such purported Lien has been determined by a Final Order to be invalid or avoidable. If any Allowed Miscellaneous Secured Claim exceeds the value of the Collateral securing such Claim, then pursuant to Bankruptcy Code section 506(a), any such excess amount shall be deemed to be and shall be treated as a Class 8 General Unsecured Claim.
Class 8 – General Unsecured Claims Estimated Amount: $1,861,721[4] Estimated Number: 102	Unimpaired The Allowed amount of each General Unsecured Claim shall be agreed to by the Debtor and the Holder thereof, or determined by the Bankruptcy Court, and in either event shall not include interest. On or as soon as practicable after the later of (a) the Initial Distribution Date or (b) the Allowance Date with respect to a General Unsecured Claim, each Holder of such Allowed General

Schuman Aviation Company (Makani Kai Helicopters) in the amount of $3,651.79, and Office Max in the amount of $503.32. The Debtor reserves all objections to such Claims.

[4] The estimates of the amount and number of General Unsecured Claims (a) do not include Claims or claimants that were listed in the Schedules as disputed, contingent or unliquidated and for which no proof of claim has been filed and (b) include Claims asserted by proofs of Claim filed after the Bar Date, as to which the Debtor reserves the right to object on any and all grounds, including lateness.

Class	Treatment
	Unsecured Claim shall receive from the Debtor, in full satisfaction, settlement, release and discharge of and in exchange for such Allowed General Unsecured Claim, (y) Cash in an amount equal to the Allowed amount of its General Unsecured Claim, plus interest thereon from the Petition Date through the Effective Date at the rate, if any, specified in an enforceable agreement between the Debtor and the Holder of such Claim, or (z) such other, less favorable treatment to which such Holder and the Debtor agree in writing. The Debtor shall not sell the Hotel before all payments have been made on all Allowed General Unsecured Claims as provided herein, unless any remaining amount due for such Allowed General Unsecured Claims as of the closing of such sale is paid to the Holder thereof at such closing. Subject to the limitations set forth in Section 5.03 of the Plan, the Debtor may prepay part or all of any remaining balance of any Allowed General Unsecured Claim at any time.
Class 9 – Aqua/Modern Claims Estimated Amount: undetermined Estimated Number: 1	Impaired The Allowed amount of each Aqua/Modern Claim shall be agreed to by the Debtor and the Holder thereof, or determined by the Bankruptcy Court. To the extent the Allowed Aqua/Modern Claim constitutes an Operating Fee or a Reimbursable Cost, as such terms are defined in the Modern Management Agreement, the Debtor shall pay such Allowed Aqua/Modern Claim in cash, in full as soon as practicable after the later of the Initial Distribution Date or the Allowance Date. To the extent the Allowed Aqua/Modern Claim constitutes an Allowed Claim for indemnification to which Aqua/Modern is entitled under Section 6.1 of the Modern Management Agreement (the "Aqua/Modern Indemnity Claim"), the Debtor shall pay or otherwise satisfy the Aqua/Modern Indemnity Claim in full, as follows: (A) to the extent the Aqua/Modern Indemnity Claim is for reasonable attorneys' fees or expenses that are not paid or reimbursed by insurance, the Debtor shall pay such reasonable attorneys' fees or expenses in full as they become due and payable, in an amount not to exceed $150,000 per quarter, and any excess shall be paid on the first anniversary of the last such quarterly payment; (B) to the extent the Aqua/Modern Indemnity Claim is for damages that are not paid or reimbursed by insurance and arise

Class	Treatment
	from claims or causes of action asserted by Marriott against Aqua/Modern that are coextensive with, duplicative of or overlapping with claims or causes of action asserted by Marriott against the Debtor that underlie the Allowed Marriott Unsecured Claim, if any, then the Aqua/Modern Indemnity Claim shall be deemed paid and satisfied in full by the Debtor's payment of the Allowed Marriott Unsecured Claim pursuant to Section 5.10 of the Plan; and (C) to the extent the Aqua/Modern Indemnity Claim is for damages unrelated to claims or causes of action asserted by Marriott against Aqua/Modern, and such damages are not paid or reimbursed by insurance, then the Debtor shall pay such Claim in full after the Allowance Date as follows: either (y) within thirty (30) days after the Allowance Date if the amount is equal to or less than $1,000,000; or (z) if the amount is greater than $1,000,000, then in annual installments in the amount of $500,000 each, the first of which shall be payable no later than thirty (30) days after the Allowance Date and each remaining installment shall be payable on each anniversary of the Allowance Date thereafter until such amount is paid in full, provided that if any portion of such Aqua/Modern Indemnity Claim remains unpaid on the fifteenth (15th) anniversary of the Effective Date, such unpaid portion shall be paid in full on such anniversary. The Debtor shall not sell the Hotel before all payments have been made on the Allowed Aqua/Modern Management Claims as provided herein, unless any remaining amount due for such Allowed Aqua/Modern Management Claims as of the closing of such sale is paid to the Holder thereof at such closing. Subject to the limitations set forth in Section 5.03 of the Plan, the Debtor may prepay part or all of any remaining balance of the Allowed Aqua/Modern Management Claims at any time.
Class 10 – Marriott Unsecured Claim Estimated Amount: undetermined[5] Estimated Number: 1	Impaired The Marriott Unsecured Claim is a Disputed Claim and is subject to, among other things, various Causes of Action asserted by the Debtor against Marriott. The Marriott Unsecured Claim shall be Allowed to the extent, if any, that the Marriott Unsecured Claim is determined, by one or more Final Orders (such Final Order(s), the "Marriott Final Order"), to exceed the value of the Debtor's Causes of Action against Marriott (such excess, if any, the "Allowed Marriott Unsecured

[5] In its proof of claim, Marriott asserts an unsecured Claim in the amount of "[n]ot less than $72,000,000." The Debtor disputes the Marriott Unsecured Claim and believes that upon the conclusion of the litigation of all claims asserted by Marriott and the Debtor against each other, the Marriott Unsecured Claim will be Disallowed in its entirety. Marriott disagrees with the Debtor's position on the validity of Marriott's claim.

Class	Treatment
	Claim"). After the later of (a) the Initial Distribution Date and (b) the Allowance Date of the Allowed Marriott Unsecured Claim, Marriott shall receive the following from the Debtor, in full satisfaction, settlement, release and discharge of and in exchange for such Allowed Marriott Unsecured Claim: **If Marriott votes to accept the Plan, does not object to the Plan, and withdraws any competing plan,** the Debtor shall pay one hundred percent (100%) of the Allowed Marriott Unsecured Claim, plus interest from and after the Effective Date at the federal judgment rate provided in 28 U.S.C. § 1961 in effect on the Effective Date or a rate determined by a Final Order of the Bankruptcy Court, as follows: (A) a Distribution equal to one hundred percent (100%) of such Allowed Marriott Unsecured Claim up to the amount in the Marriott Reserve on the Allowance Date, payable within five (5) Business Days after the Allowance Date, plus (B) to the extent not fully paid from the Marriott Reserve, in annual Distributions of $800,000 each, payable on December 15 of each year, beginning with the first December 15 after the Allowance Date, until paid in full. If, on the date when an annual Distribution of $800,000 under Section 5.03(b)(i) of the Plan becomes due, the Debtor does not have sufficient funds in the Marriott Reserve or from its net cash flow both (y) to pay such Distribution and (z) to comply with the financial covenants in the Wells Fargo Plan Note and the Wells Fargo Plan Mortgage, the Davidson Trust shall make such additional advance to the Debtor under the terms of the Secured Exit Loan Documents as necessary to enable the Debtor to make that annual Distribution. **If Marriott votes to reject the Plan, objects to confirmation of the Plan, does not vote on the Plan, or does not withdraw any competing plan**, the Debtor shall pay the Allowed Marriott Unsecured Claim, plus interest from and after the Effective Date at the rate of 3.2% per annum or a rate determined by a Final Order of the Bankruptcy Court, as follows: (A) Subordinated Claim. To the extent that a Marriott Final Order determines that any portion or all of the Allowed Marriott Unsecured Claim, if any (the "Allowed Subordinated Marriott Claim"), is contractually or equitably subordinated to the Allowed Davidson Trust Secured Claim (Class 6), Allowed General Unsecured Claims (Class 8), the Allowed Aqua/Modern Claims (Class 9), and the Davidson Trust Unsecured Claim (Class 11) (collectively, the "Senior Claims"), and/or may be accorded different treatment pursuant to the Bankruptcy Code, the Debtor shall pay an amount thereof equal to the aggregate of (1) one hundred percent (100%) of such amount up to

Class	Treatment
	$6,000,000, plus (2) ten percent (10%) of the balance thereof, if any (collectively, the "Subordinated Marriott Payable"), as follows: (a) a Distribution equal to one hundred percent (100%) of the Subordinated Marriott Payable up to the amount in the Marriott Reserve on the Allowance Date, payable within five (5) Business Days after the Allowance Date, plus (b) to the extent not fully paid from the Marriott Reserve, in annual Distributions of $800,000 each, payable on December 15 of each year commencing on the later of December 15, 2015 or the first December 15 to occur after the Allowance Date, until the Subordinated Marriott Payable is paid in full; provided, however, that if the value of the Debtor's assets as of the Effective Date is determined, by a Final Order of the Bankruptcy Court, to be greater than the total amount of all Allowed Administrative Claims, all Allowed Priority Tax Claims and all Allowed Claims in Classes 1-9 and Class 11 (including any interest payable thereon under the Plan), then the foregoing annual Distributions shall continue until the Allowed Subordinated Marriott Claim is paid in full or in an amount equal to such excess value, whichever is less. If, on the date when an annual Distribution of $800,000 under Section 5.03(b)(ii)(A) of the Plan becomes due, the Debtor does not have sufficient funds in the Marriott Reserve or from its net cash flow both (y) to pay such Distribution and (z) to comply with the financial covenants in the Wells Fargo Plan Note and the Wells Fargo Plan Mortgage, the Davidson Trust shall make such additional advance to the Debtor under the terms of the Secured Exit Loan Documents as necessary to enable the Debtor to make that annual Distribution. (B) Non-Subordinated Claim. To the extent that a Marriott Final Order determines that any portion or all of the Allowed Marriott Unsecured Claim, if any, is not contractually or equitably subordinated to the Senior Claims and may not be accorded different treatment pursuant to the Bankruptcy Code, the Debtor shall pay the non-subordinated Allowed Marriott Unsecured Claim as follows: (1) a Distribution equal to one hundred percent (100%) of such Allowed Marriott Unsecured Claim up to the amount in the Marriott Reserve on the Allowance Date, payable within five (5) Business Days after the Allowance Date, plus (2) to the extent not fully paid from the Marriott Reserve, in annual Distributions of $800,000 each, payable on December 15 of each year, beginning with the first December 15 after the Allowance Date, until paid in full. If, on the date when an annual Distribution of $800,000 under Section 5.03(b)(ii)(B) of the Plan becomes due, the Debtor does not have sufficient funds in the Marriott Reserve or from its net cash flow both (y) to pay such Distribution and (z) to comply with the financial covenants in the Wells Fargo Plan Note and the Wells Fargo Plan Mortgage, the Davidson Trust shall make such

Class	Treatment
	additional advance to the Debtor under the terms of the Secured Exit Loan Documents as necessary to enable the Debtor to make that annual Distribution. Marriott Reserve. Any funds returned to the Debtor by Wells Fargo from the Interest Reserve, pursuant to Section 5.03(b)(v) of the Plan, shall be deposited in a separate, interest-bearing account to be held by the Debtor for application to the Allowed Marriott Unsecured Claims, if any, pending their determination by the Marriott Final Order. In addition, commencing on December 15, 2015 and on each December 15th thereafter until the Allowance Date of the Marriott Unsecured Claims, the Debtor shall pay $800,000 into the Marriott Reserve. The Marriott Reserve shall be distributed to Marriott in accordance with Sections 5.10(b)(i) and (ii) of the Plan, and after all such Distributions, if any, to Marriott have been made, the balance of the Marriott Reserve, if any, shall thereupon be paid to the Debtor, and the Marriott Reserve shall thereafter be discontinued. If any Distribution payable or to become payable at any time on account of the Allowed Marriott Unsecured Claim or the Subordinated Marriott Payable pursuant to Sections 5.10(b)(i) or (ii) of the Plan remains unpaid on the fifteenth (15th) anniversary of the Effective Date, the Debtor shall pay all such unpaid amounts, plus interest as provided above, in full on such anniversary. The Debtor shall not sell the Hotel before all payments have been made on the Allowed Marriott Unsecured Claim as provided herein, unless any remaining amount due for such Allowed Marriott Unsecured Claim as of the closing of such sale is paid to Marriott at such closing. Subject to the limitations set forth in Section 5.03 of the Plan, the Debtor may prepay part or all of any remaining balance of the Allowed Marriott Unsecured Claim at any time.
Class 11 – Davidson Trust Unsecured Claim Estimated Amount: $845,000 Number: 1	Impaired The Allowed amount of the Davidson Trust Unsecured Claim shall be $845,000.00. In full satisfaction, settlement, release and discharge of and in exchange for the Allowed Davidson Trust Unsecured Claim, on the Effective Date, the Davidson Trust shall receive percent (5%) of the New Senior Equity in the reorganized Debtor.
Class 12 – Class C Interest in the Debtor	Impaired On the Effective Date, the Class C Interest in the Debtor shall be

Class	Treatment
Estimated Number: 1	cancelled. If, and only if, all Allowed Claims are paid in full pursuant to the terms of the Plan, then the Holder of the Class C Interest shall receive the New Class C Interest. Thereafter, the Debtor shall make payments on account of the New Class C Interest on the terms specified in the New Operating Agreement.
Class 13 – Class B Interest in the Debtor Estimated Number: 1	Impaired On the Effective Date, the Class B Interest in the Debtor shall be cancelled. If, and only if, all Allowed Claims are paid in full pursuant to the terms of the Plan, then the Holder of the Class B Interest shall receive the New Class B Interest. Thereafter, the Debtor shall make payments on account of the New Class B Interest on the terms specified in the New Operating Agreement.
Class 14 – Class A Interest in the Debtor Estimated Number: 1	Impaired On the Effective Date, the Class A Interest in the Debtor shall be cancelled. If, and only if, all Allowed Claims are paid in full pursuant to the terms of the Plan, then the Holder of the Class A Interest shall receive the New Class A Note. Thereafter, the Debtor shall make payments on account of the New Class A Note on the terms specified in the New Operating Agreement.

B. Means of Implementation of the Plan

1. Plan Distributions; Sources of Funds for Distributions Under the Plan

The Debtor will make all Distributions required under the Plan, subject to the provisions of the Plan. The sources of Cash necessary for the Debtor to pay Allowed Claims that are to be paid in Cash by the Debtor under the Plan will be: (a) the Cash of the Debtor on hand as of the Effective Date; (b) Cash arising from the operation, ownership, maintenance, and/or sale of the Hotel and other Assets owned, managed, and/or serviced by or at the direction of the Debtor on or after the Effective Date; (c) Cash in the amount of $34,581,186 (composed of the Cash component of the Exit Capital Contribution in the amount of $2,000,000 plus a portion of the Secured Exit Loan) to be provided to the Debtor by the Davidson Trust or one of its affiliates on the Effective Date, which the Debtor shall use to pay, inter alia, the Olson Settled Claim Amount, Allowed Administrative Claims (including the Allowed DIP Loan Claim), Allowed Priority Tax Claims, Allowed Miscellaneous Secured Claims, Allowed General Unsecured Claims, and any portion of the Allowed Wells Fargo Secured Claim payable to Wells Fargo on the Effective Date, and (d) any Cash generated or received by the Debtor on or after the Effective Date from any other source, including, without limitation, any recoveries from the prosecution of all Causes of Action.

2. Debtor's Management and Operations Post-Effective Date

From and after the Effective Date, the Debtor shall retain title, ownership, possession, and control over the management of the Hotel and all other Assets in its Estate, pursuant to the New Operating Agreement, a copy of which shall be included in the Plan Supplement. From and

after the Effective Date, Aqua/Modern shall continue to manage the Hotel pursuant to its modified and assumed management agreement, a copy of which shall be included in the Plan Supplement. From and after the Effective Date, the Manager (as defined in the New Operating Agreement) of the Debtor shall be McKinney Advisory Group, Inc., acting through Damian McKinney, or such other entity as is determined pursuant to the New Operating Agreement. On the Effective Date, McKinney Advisory Group, Inc. shall receive one-tenth of one percent (0.1%) of the New Senior Equity in consideration for its services as the Manager of the Debtor from and after the Effective Date.

All Cash necessary to pay Allowed Claims under the Plan and to fund the Debtor's operations after the Effective Date will be funded, in part, from Cash derived from the operations of the Hotel after the Effective Date and from borrowings under the Secured Exit Loan. Schedules setting forth the Debtor's projected income statement and projected cash flows for the period commencing with July 1, 2012 and ending on December 31, 2017 is attached hereto as Exhibit B.

3. Exit Funding

On the Effective Date, the Davidson Trust or one of its affiliates shall fund a portion of the Exit Funding, in the approximate amount of $34,581,186, and the Debtor shall execute the Secured Exit Loan Documents and the New Operating Agreement. The Debtor shall use the Exit Funding to pay certain Allowed Claims pursuant to the terms of the Plan. Pursuant to the Secured Exit Loan and the Secured Exit Loan Documents, additional funding in the amount of approximately $9.2 million shall be available to the Debtor, as needed, to fund reserves for the Marriott Secured Claim (if Allowed), litigation costs, and working capital. A schedule setting forth the anticipated funding available under the Secured Exit Loan Documents is attached hereto as Exhibit C.

The Exit Funding has two components: the Exit Capital Contribution and the Secured Exit Loan.

On the Effective Date, the Davidson Trust or one of its affiliates shall make the Exit Capital Contribution to the Debtor, and in exchange therefor, the Davidson Trust shall receive nineteen percent (19%) of the New Senior Equity in the reorganized Debtor.

On the Effective Date, the Davidson Trust or one of its affiliates shall fund the Secured Exit Loan in the amount of $32,581,186, and the Davidson Trust shall receive the Secured Exit Loan Documents from the Debtor, which shall include the following terms, among others:

(i) Interest. From the Effective Date until the Secured Exit Loan is paid in full, interest shall accrue on the principal amount thereof at the rate of eight percent (8%) per annum. The Debtor shall pay annual interest payments on January 15 of each year, commencing with January 15, 2016, at a pay rate equal to two percent (2%) per annum, provided only that (A) the Debtor is then current on any payments due and owing on the Wells Fargo Plan Note and any payments due and owing to Marriott on the Allowed Marriott Unsecured Claim, if any, and (B) the Debtor has maintained a debt service coverage ratio (as defined in the Wells Fargo Plan Note and/or the Wells Fargo Plan Mortgage) of at least 1.2 for the monthly payments due under the

Wells Fargo Plan Note during the immediately preceding twelve (12)-month period. All interest in excess of such pay rate shall accrue and be paid only after the Wells Fargo Plan Note has been paid in full.

(ii) Principal. The principal amount of the Secured Exit Loan shall become due and payable only upon the sale of the Hotel or the occurrence of an event of default under the Secured Exit Loan Documents[6], or the Maturity Date of the Wells Fargo Plan Note, and shall be subordinate to the payment in full of all sums then due under the Wells Fargo Plan Note.

(iii) Collateral. The Secured Exit Loan shall be secured by a Lien upon all of the collateral that secures the Wells Fargo Plan Note, but such Lien shall in all events be junior to the Lien on such collateral that secures the Wells Fargo Plan Note.

4. Settlement of Potential Claims Against the Davidson Trust

During the Bankruptcy Case, Marriott has asserted that some or all of the Claims held by the Davidson Trust are improperly characterized as secured debt and are instead equity interests in the Debtor, and that the Davidson Trust is a recipient of a fraudulent transfer by receiving a secured lien with respect to $15 million of funds advanced to the Debtor. The Davidson Trust disputes Marriott's assertions. The provisions of the Plan shall constitute a good-faith compromise and settlement of all claims or controversies relating to the proper characterization of any Claim held or asserted by the Davidson Trust (the "Plan Settlement"). In particular, pursuant to the Plan, the Davidson Trust will (a) voluntarily subordinate the Allowed Davidson Trust Secured Claim (Class 6) and the Allowed Davidson Trust Unsecured Claim (Class 11) to the payment of (i) all Allowed General Unsecured Claims (Class 8) in full, (ii) the Allowed Aqua/Modern Claims (Class 9) in full, and (iii) the Marriott Unsecured Claim (Class 10), if it is Allowed (which the Debtor disputes), in full; provided, however, to the extent that the Marriott Unsecured Claim is equitably or contractually subordinated and/or may be accorded different treatment pursuant to the Bankruptcy Code as set forth in Section 5.10(b)(ii)(A) of the Plan, it is not required to be paid in full; and (b) provide the Exit Funding with over $37 million in Cash on the Effective Date plus nearly $9.2 million of additional Cash as a line of credit to fund certain reserves for the Debtor after the Effective Date. Because the Plan Settlement provides for cash funding by the Davidson Trust in an amount sufficient to pay all Allowed Unsecured Claims (including Marriott's, if Allowed and not subordinated) in full (or, if the Marriott Unsecured Claim is subordinated, the Debtor will pay Marriott either the Subordinated Marriott Payable in full or an even greater amount determined by the value of the Debtor's assets as of the Effective

[6] Under the Secured Exit Loan Documents, events of default will include, but not be limited to: (1) the non-payment of any amount owed to the Davidson Trust thereunder; (2) the lien granted to the Davidson Trust becomes invalid, diminishes in priority or ceases to be perfected; (3) the occurrence of any event or existence of any condition that has or could reasonably be expected to have a Material Adverse Effect (as defined in the Secured Exit Loan Documents); (4) a final unstayed judgment or judgments against the Debtor for more than $50,000 in the aggregate that are not covered by insurance or discharged or bonded pending appeal; (5) the holder of any lien other than the Davidson Trust declares a default that is not cured within an applicable grace or cure period, or any such lien is accelerated or otherwise matures; (6) any change in the Debtor's manager (McKinney Advisory Group, Inc.) or the Holder of the Class A Interest or the New Class A Interest without the Davidson Trust's prior written consent; or (7) if Modern Management Services, LLC ceases to be the manager of the Hotel without the appointment of a successor satisfactory to the Davidson Trust. The foregoing description of the events of default is subject to the terms of the Secured Exit Loan Documents, which will be included in the Plan Supplement.

Date), this result is better than could be achieved even if the Debtor were successful in subordinating the Davidson Secured Claim or recharacterizing it as equity. In consideration for these substantial benefits provided by the Davidson Trust to fund and implement the Plan, the Davidson Trust will receive 99.9% of the New Senior Equity in the Debtor.

5. Vesting of Assets

Except as otherwise provided in the Plan and the Confirmation Order, all property and Assets of the Debtor shall vest in the Debtor, as reorganized under and in accordance with the terms of the Plan, free and clear of all Claims, Interests, Liens, encumbrances, charges and other interests. To the extent any unrecorded Liens against or ownership interests (including, without limitation, tenancy in common interests[7]) in any such Assets exist or are asserted by third parties, such Liens and interests shall be voided and transferred to the Debtor as of the Effective Date. Commencing on the Effective Date, the Debtor may deal with the Assets and its property and conduct its business without any supervision by, or permission from, the Bankruptcy Court or the Office of the United States Trustee, and free of any restriction imposed on the Debtor by the Bankruptcy Code or by the Bankruptcy Court during the Bankruptcy Case, other than any restrictions contained in the Plan, the Confirmation Order, and related documents.

6. Discharge of Debtor

Except as provided in the Bankruptcy Code, the Plan or the Confirmation Order, all consideration distributed under the Plan will be in exchange for, and in complete satisfaction, settlement, discharge, and release of, all Claims against and Interests in the Debtor of any nature whatsoever, whether known or unknown, or against the Assets of the Debtor that arose before the Effective Date. Except as provided in the Bankruptcy Code, the Plan or the Confirmation Order, upon the Effective Date, entry of the Confirmation Order acts as a discharge and release under Bankruptcy Code section 1141(d)(1)(A) of all Claims against and Interests in the Debtor and its Assets, arising at any time before the Effective Date, regardless of whether a proof of Claim or Interest was filed, whether the Claim or Interest is Allowed, or whether the Holder of the Claim or Interest votes to accept the Plan or is entitled to receive a Distribution under the Plan. Except as provided in the Plan or the Confirmation Order, upon the Effective Date, any Holder of a discharged Claim or Interest will be precluded from asserting against the Debtor or any Assets of the Debtor any other or further Claim or Interest based on any document, instrument, act, omission, transaction or other activity of any kind or nature that occurred before the Effective Date. Except as provided in the Plan or the Confirmation Order, and subject to the occurrence of the Effective Date, the Confirmation Order will be a judicial determination of discharge of all liabilities of the Debtor to the extent allowed under Bankruptcy Code section 1141, and the Debtor will not be liable for any Claims or Interests and will only have the obligations as are specifically provided for in the Plan.

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[7] In January 2007, Debtor executed a warranty deed (the "TIC Deed") for a tenancy in common interest in the Hotel in favor of MCK Hotel LLC, a Hawaii limited liability company ("MCK Hotel") a Class A Interest holder and company owned and controlled by eRealty Fund, LLC a California limited liability company, the manager of the Debtor. The TIC Deed was never recorded. For avoidance of doubt, MCK Hotel has executed a quitclaim deed in favor of the Debtor dated March 6, 2012, quitclaiming any interest in the Hotel

7. Exculpation

The Proponents and any of their respective present or former principals, agents, members, officers, directors, employees, advisors, representatives, successors, and assigns, shall not have or incur any liability or obligation, whether liquidated or unliquidated, fixed or contingent, matured or unmatured, known or unknown, foreseen or unforeseen, and whether asserted or assertable directly or derivatively, in law, equity, or otherwise, to any Holder of a Claim or Interest or any other Person for any act or omission originating or occurring on or after the Petition Date through and including the Effective Date in connection with, relating to, or arising out of the Debtor, the Estate, the administration of the Bankruptcy Case, the operation of the Debtor's business during the Bankruptcy Case, the formulation, negotiation, preparation, filing, dissemination, approval, or confirmation of the Plan, the Disclosure Statement, the solicitation of votes for or confirmation of the Plan, the consummation or administration of the Plan, or the property to be distributed under the Plan, except for their willful misconduct or gross negligence as determined by a Final Order of a court of competent jurisdiction. The foregoing parties will be entitled to rely reasonably upon the advice of counsel in all respects regarding their duties and responsibilities under the Plan.

8. Settlement and Release

In consideration of the Exit Funding to the Debtor and the related funding of the Plan and the voluntary subordination of the Davidson Trust Secured Claim and the Davidson Trust Unsecured Claim to the Allowed General Unsecured Claims, Allowed Aqua/Modern Claims, and, if it is Allowed (which the Debtor disputes), the Marriott Unsecured Claim to the extent provided in Section 5.10 of the Plan, any and all Causes of Action held by or assertable on behalf of the Debtor, and any causes of action that are derivative of the Debtor's rights, in any way relating to the Debtor, the Davidson Trust Secured Claim, the Davidson Trust Unsecured Claim, the Bankruptcy Case, the Plan, negotiations regarding or concerning the Plan, or the ownership, management and operations of the Debtor against the Davidson Trust, its Professionals, or any of their respective present or former principals, agents, members, officers, directors, employees, advisors, representatives, successors, and assigns (the "Releasees") shall be deemed settled and released as of the Effective Date, and the Releasees shall not have or incur any liability or obligation, whether liquidated or unliquidated, fixed or contingent, matured or unmatured, known or unknown, foreseen or unforeseen, and in law, equity, or otherwise, to the Debtor or its Estate (or, derivatively of the Debtor, to any Holder of a Claim or Interest or any other Person) for any act or omission originating or occurring before or after the Petition Date in connection with, relating to, or arising out of the Debtor.

9. Injunction

Except as otherwise provided in the Plan, the Confirmation Order shall provide that from and after the Effective Date, all Holders of Claims against and Interests in the Debtor are permanently enjoined from taking any of the following actions against the Debtor or any of its Assets on account of any such Claim or Interest: (a) commencing or continuing in any manner or in any place, any action or other proceeding; (b) enforcing, attaching, collecting, or recovering by any manner or means any judgment, award, decree, or order; (c) creating, perfecting, or enforcing any encumbrance or Lien; (d) asserting a setoff, subrogation, or recoupment of any kind against any debt, liability, or obligation due to the Debtor; and (e)

commencing or continuing, in any manner or in any place, any action that does not conform to or comply with, or is inconsistent with, the provisions of the Plan; provided, however, that nothing contained herein shall preclude such Persons from exercising their rights pursuant to and consistent with the terms of the Plan or the Confirmation Order. If allowed by the Bankruptcy Court, any Person injured by any willful violation of such injunction shall recover actual damages, including costs and attorneys' and experts' fees and disbursements, and, in appropriate circumstances, may recover punitive damages, from the willful violator.

10. Revocation or Withdrawal of the Plan

The Proponents reserve the right to revoke and/or withdraw the Plan at any time before the Confirmation Date. If the Proponents revoke or withdraw the Plan, or if confirmation or the Effective Date of the Plan does not occur, then the Plan shall be deemed null and void. In such event, nothing contained herein shall be deemed to constitute a waiver or release of any Claims by or against the Debtor or any other Person or to prejudice in any manner the rights of the Debtor or any other Person in any further proceedings involving the Debtor or any other Person.

11. Modification of the Plan

The Proponents reserve the right to modify the Plan in writing at any time before the Confirmation Date, provided that (a) the Plan, as modified, meets the requirements of Bankruptcy Code sections 1122 and 1123 and (b) the Proponents shall have complied with Bankruptcy Code section 1125. The Proponents further reserve the right to modify the Plan in writing at any time after the Confirmation Date and before substantial consummation of the Plan, provided that (a) the Plan, as modified, meets the requirements of Bankruptcy Code sections 1122 and 1123, (b) the Proponents shall have complied with Bankruptcy Code section 1125, and (c) the Bankruptcy Court, after notice and a hearing, confirms the Plan as modified, under Bankruptcy Code section 1129. A Holder of a Claim or Interest that has accepted or rejected the Plan shall be deemed to have accepted or rejected, as the case may be, such Plan as modified, unless, within the time fixed by the Bankruptcy Court, such Holder changes its previous acceptance or rejection.

C. Executory Contracts and Unexpired Leases

The Plan constitutes and incorporates a motion under Bankruptcy Code sections 365 and 1123(b)(2) to (a) reject, as of the Effective Date, all Executory Contracts to which the Debtor is a party, except for any Executory Contract that was terminated before the Effective Date or has been assumed or rejected pursuant to an order of the Bankruptcy Court entered before the Effective Date, and (b) assume all Executory Contracts identified in the Schedule of Assumed Contracts that will be included in the Plan Supplement.

The Prepetition Operating Agreement shall be amended and modified as provided in the New Operating Agreement, and as so amended and modified, shall be assumed and included in the Schedule of Assumed Contracts; provided, that no Cure Amount shall be Allowed with respect to the assumption of the Prepetition Operating Agreement. The Proponents anticipate that the New Operating Agreement provide for, among other things: (i) creating and issuing the New Senior Equity, which will be entitled to a preferred return of 20% per annum on all

unreturned New Senior Equity capital and a return of all unreturned New Senior Equity capital before any distributions are made to any other equity holders; (ii) cancelling the existing Class A Interest, Class B Interest and Class C Interest and, if all Allowed Claims are paid in full, creating and issuing the New Class A Interest, the New Class B Interest and the New Class C Interest, with the economic rights described in the Plan and more fully set forth in the New Operating Agreement; (iii) replacing the current manager of Debtor with McKinney Advisory Group, Inc., a California corporation; (iv) granting to the holders of the New Senior Equity voting rights with respect to a broad range of material actions; (v) limiting the voting rights of the holders of the New Class A Interest and the New Class C Interest, if and when they are issued, to the election and removal of the manager of Debtor; and (vi) permitting the holders of the New Senior Equity (and, if and when they are issued, the New Class A Interest and the New Class C Interest) to replace the manager of Debtor and providing for the buyout of the manager's New Senior Equity upon such removal. The foregoing is not a complete list of all of the anticipated amendments and modifications the Proponents anticipate will be included in the New Operating Agreement, and Holders of Claims and Interests should review the New Operating Agreement in its entirety before voting on the Plan. The New Operating Agreement will be included in the Plan Supplement. The Proponents also anticipate that certain conforming amendments will need to be made to the Second Amended and Restated Operating Agreement of eRF Hawaii Hotel Partners II LLC, the holder of the Class A Interest.

The Confirmation Order shall constitute an order of the Bankruptcy Court under Bankruptcy Code sections 365 and 1123(b)(2) approving the rejection or assumption, as applicable, of Executory Contracts pursuant to the Plan as of the Effective Date. Notice of the Confirmation Hearing shall constitute notice to any non-debtor party to an Executory Contract that is to be assumed or rejected under the Plan of the proposed assumption or rejection of such Executory Contract and any proposed Cure Amount.

Except as otherwise provided in a Final Order, pursuant to Bankruptcy Code sections 365(a), (b), (c) and (f), all Cure Amounts that may require payment under Bankruptcy Code section 365(b)(1) under any Executory Contract that is assumed pursuant to a Final Order of the Bankruptcy Court (which may be the Confirmation Order) shall be paid by the Debtor within fifteen (15) Business Days after such order becomes a Final Order with respect to undisputed Cure Amounts or within fifteen (15) Business Days after a Disputed Cure Amount is Allowed by agreement of the parties or a Final Order. If a party to an assumed Executory Contract has not filed an appropriate pleading on or before the date of the Confirmation Hearing disputing any proposed Cure Amount, the cure of any other defaults, the promptness of the Cure Amount payments, or the provisions of adequate assurance of future performance, then such party shall be deemed to have waived its right to dispute such matters. Any party to an assumed Executory Contract that receives full payment of a Cure Amount shall waive the right to receive any payment on a Class 8 General Unsecured Claim that relates to or arises out of such assumed Executory Contract.

Notwithstanding the foregoing, the Debtor may, in its sole discretion, file a motion to reject any Executory Contract as to which a Cure Claim is established by an order of the Bankruptcy Court, and any such motion shall be filed no later than five (5) Business Days after the order of the Bankruptcy Court allowing such Cure Claim becomes a Final Order.

If the rejection of an Executory Contract gives rise to a Claim by any non-Debtor party or parties to such Executory Contract, such Claim shall be forever barred and shall not be enforceable against the Debtor, the Estate, or the agents, successors, or assigns of the foregoing, unless a proof of such Claim is filed with the Bankruptcy Court and served upon the Debtor on or before the Rejection Bar Date. Any Holder of a Claim arising out of the rejection of an Executory Contract that fails to file a proof of such Claim on or before the Rejection Bar Date shall be forever barred, estopped, and enjoined from asserting such Claim against the Debtor, the Estate or any of their Assets. Nothing contained in the Plan shall extend the time for filing a proof of Claim for rejection of any Executory Contract rejected before the Confirmation Date.

Any Rejection Claim arising from the rejection of an Executory Contract shall be treated as a General Unsecured Claim pursuant to the Plan, except as limited by the provisions of Bankruptcy Code sections 502(b)(6) and 502(b)(7) and mitigation requirements under applicable law. Nothing contained herein shall be deemed an admission by the Debtor that such rejection gives rise to or results in a Rejection Claim or shall be deemed a waiver by the Debtor or any other party in interest of any objections to such Rejection Claim if asserted.

V. DESCRIPTION OF THE DEBTOR

A. History and Organizational Structure

The Debtor is a Hawaii limited liability company with its principal place of business located in San Diego, California. It is a special purpose entity that has approximately seventy-five indirect investors. The Debtor was formed to acquire the Hotel, which it currently owns. An organizational chart reflecting the ownership and capital structure of the Debtor is attached hereto as Exhibit D.

B. Principal Assets of the Debtor

The Debtor's principal asset consists of The Modern Honolulu hotel (f/k/a The Waikiki EDITION), an 18-story, 353-room hotel located at 1775 Ala Moana Boulevard, Honolulu, Hawaii 96815. The Debtor purchased the Hotel in July 2006 for the purchase price of approximately $112 million. The Debtor thereafter expended another approximately $138 million to renovate the Hotel. After completion of the renovation, the Hotel reopened on or about September 28, 2010. The Hotel includes an on-site restaurant, the Morimoto Waikiki (see Section VI.C.12 below).

The Debtor's Assets also include its claims and Causes of Action against Marriott.

C. Secured Indebtedness of the Debtor

1. Senior Secured Loan (Wells Fargo).

To finance the acquisition of the Hotel, on July 12, 2006, the Debtor issued a promissory note to Nomura Credit & Capital, Inc. ("Nomura Credit") in the principal amount of $114,900,000 (the "Senior Loan"), secured by a mortgage on the Hotel, among other collateral. Thereafter, Nomura Credit assigned the Senior Loan to Nomura CRE CDO Grantor Trust, Series

2007-2. The Senior Loan is presently held by Wells Fargo. The maturity date of the Senior Loan was August 9, 2011. On August 10, 2011, Wells Fargo declared the Senior Loan to be in default. As of the Petition Date, the outstanding balance due on the Senior Note was approximately $115.8 million, including principal, interest (including but not limited to applicable default interest), and other applicable fees and charges.

2. Junior Secured Loan (the Davidson Trust).

The Debtor owes secured debt to the Davidson Trust, in its capacity as lender under the terms of a promissory note, dated November 16, 2010, in the principal amount of $15,000,000 (the "Davidson Loan"). The Davidson Loan is secured by a mortgage on the Hotel as well as a Lien on cash generated by the Hotel and other property of the Debtor (the "Davidson Liens"). The Davidson Liens are subordinate to the Liens securing the Senior Loan. The maturity date of the Davidson Loan was August 9, 2011. On August 25, 2011, the Davidson Trust declared the Davidson Loan to be in default. As of the Petition Date, approximately $15.0 million of principal was due and payable under the Davidson Loan, in addition to interest, late fees, costs, and expenses (including attorneys' fees and expenses).

3. Mechanic's Lien (R.D. Olson).

On or about April 8, 2009, the Debtor entered into an agreement with The R.D. Olson Corporation ("Olson") pursuant to which Olson agreed to provide certain construction services and materials for renovating the Hotel. Olson asserted a Secured Claim in the Bankruptcy Case in the amount of at least $1,839,217.00 for unpaid amounts due and owing under the Contract, secured by a statutory mechanic's and materialman's lien against the Hotel. The Debtor disputed the validity and amount of the Secured Claim and the Lien asserted by Olson. However, the Debtor and Olson agreed to settle all disputes regarding such Secured Claim and Lien. The terms of such settlement are set forth in the Olson Settlement Agreement, and such settlement is incorporated into the Plan pursuant to Bankruptcy Code section 1123(b)(3)(A). Under the settlement, Olson will reduce its Secured Claim to the amount of $1,431,298.00, which will be secured by a Lien against the Hotel and paid by the Debtor in full in cash on or as soon as practicable after the Effective Date.

4. Marriott Secured Claim.

Marriott asserts a Secured Claim against the Debtor in the amount of $1,066,000, based on a contractual right of setoff that, according to Marriott, arises under a Management Agreement dated July 9, 2008 between the Debtor and Marriott (the "Marriott Management Agreement"). The Debtor disputes the validity and amount of the Secured Claim asserted by Marriott on the grounds, among others, that (a) the funds Marriott turned over to the Debtor were property of the Estate in which Marriott had no valid rights, and (b) any chargebacks against such funds that might be payable by Marriott were the result of Marriott's efforts to induce cancellations of reservations by customers. Further, the Debtor has asserted, and intends to assert, various claims and Causes of Action against Marriott (see Section VII.B below) that, if the Debtor prevails thereon, will far exceed the Secured Claim asserted by Marriott.

D. Unsecured Non-Priority Indebtedness of the Debtor

As of the Petition Date, the Debtor had total unsecured, non-priority debt of approximately $1,985,843 according to the Schedules the Debtor filed with the Bankruptcy Court, which amount includes numerous Claims that were listed in the Schedules as disputed, contingent or unliquidated and for which no proof of claim has been filed. Creditors, including creditors with unsecured, non-priority Claims listed on the Schedules, have filed proofs of unsecured, non-priority Claims against the Debtor in the approximate amount of $73,881,414 (including a proof of Claim filed by Marriott in an amount "not less than $72,000,000"). The Debtor intends to object to certain of these Claims and thus believes that the amount of Allowed General Unsecured Claims against the Debtor will be significantly less than the claims listed in the Schedules and asserted in the proofs of Claims.

To date, there has been no resolution of Disputed Claims. Any dispute regarding the validity and amount of any Claim will be resolved by a Final Order or by an agreement of the Debtor and the Claimant. The Debtor reserves all rights to object to Claims filed in the Bankruptcy Case.

VI. THE DEBTOR'S BANKRUPTCY CASE

A. Factors Leading to Chapter 11 Filing

1. The Debtor's Acquisition and Renovation of the Hotel

The Debtor acquired the Hotel in July 2006 with the intention of redeveloping the property as a destination lifestyle hotel. At that time, the Hotel was operated as the Renaissance Ilikai Waikiki. In late 2006, the Debtor ceased the operations of the Hotel to prepare for the renovation. In spring of 2007, the Debtor began construction on the renovations. The Debtor's initial construction plan and budget included mostly cosmetic changes to the Hotel necessary to position the property in the lifestyle category.

In 2007, the Debtor learned that Marriott, in conjunction with Ian Schrager ("Schrager"), was creating a new brand of boutique hotels to be operated under the "Edition" brand. The Debtor subsequently entered into negotiations with Marriott relative to the Hotel which resulted in the execution of a letter of intent in contemplation of Marriott managing the Hotel. On July 9, 2008, the Debtor and Marriott entered into the Marriott Management Agreement pursuant to which the Debtor engaged Marriott to manage and operate the Hotel under the "Edition" brand. On the same date, the Debtor, Marriott and an entity controlled by Schrager also entered into a Design and Technical Services and Pre-Opening Agreement (the "TSA"), which set forth the parties' rights and obligations with respect to the design and construction of the Hotel and certain pre-opening services in connection therewith, among other things.

The Debtor began construction of the improvements contemplated under the TSA in late 2008. The construction suffered from substantial cost overruns and delays, which the Debtor contends were largely the fault of Marriott due to, *inter alia*, a lack of design standards for the Edition brand and inattention to the project by Schrager, but the Hotel finally opened to the public on September 28, 2010. As renovated, the Hotel is a world-class property in Honolulu,

Hawaii close to Waikiki Beach. Its eighteen stories include 353 rooms (including 31 suites) and 22,200 square feet of meeting space.

2. The Hotel's Pre-Petition Performance and Disputes with Marriott

During the year from the opening of the Hotel in September 2010 until the commencement of the Debtor's Bankruptcy Case at the end of August 2011, the Hotel lost over $8.4 million on operations under Marriott's management. When debt service and other non-operating expenses were included, the total loss was at least $10.9 million. Marriott consistently missed its financial projections by a wide margin, failed to control expenses in light of the low occupancy rates (expenses that consistently and substantially exceeded Marriott's projections, whereas the occupancy rates consistently and substantially fell below Marriott's projections), and failed to attract customers at a sustainable rate. Further, under Marriott's management, the Hotel underperformed its "competitive set" (the benchmark of Marriott's performance under the Marriott Management Agreement) by substantial margins.

Facing mounting losses into the foreseeable future, the Debtor tried for months to work with Marriott to create a more sustainable model for the Hotel. Among other things, Marriott adamantly refused to reduce variable costs to align them more appropriately with low occupancy rates. When those efforts were unsuccessful, on May 26, 2011, the Debtor (1) provided Marriott with a notice of default; and (2) filed suit in the Supreme Court of the State of New York, County of New York (the "Marriott Litigation"). The Debtor asserted that Marriott had materially breached the Marriott Management Agreement by, among other things, its failure to operate the Hotel as a reasonable and prudent operator. Marriott disputed the Debtor's claims and moved to dismiss the Marriott Litigation.

The Hotel's operating performance continued to deteriorate after the Marriott Litigation was filed. Additionally, in August 2010, the Debtor's secured debts to Wells Fargo and the Davidson Trust matured. Wells Fargo declined to enter into a forbearance or extend the maturity date without a substantial paydown of its debt, which the Debtor was unable to provide so long as Marriott was continuing to manage the Hotel. Wells Fargo declared a default under the Senior Loan.

The Debtor's business was on the brink of total failure. After the Debtor's repeated efforts to resolve matters with Marriott failed, the Debtor concluded that a change in management of the Hotel was necessary. Thus, on May 26, 2011, the Debtor sent Marriott a notice that Marriott was in default under the Marriott Management Agreement, and on August 28, 2011, the Debtor terminated Marriott as the manager of the Hotel. Simultaneously, the Debtor installed Modern Management Services, LLC ("Modern Management"), an affiliate of Aqua Hotels & Resorts, as the interim Hotel manager. Modern Management currently manages the Hotel and will continue to do so after the Effective Date.

Marriott disputed the Debtor's termination of Marriott as the manager of the Hotel, and filed a Motion for a Temporary Restraining Order and Preliminary Injunction in the Marriott Litigation. On August 31, 2011, the Court in New York entered a temporary restraining order, and ordered the Debtor to return control of the Hotel to Marriott on August 31, 2011, by 2:30

p.m. local time, pending a hearing on Marriott's request for a preliminary injunction which was scheduled to occur on September 7, 2011.

Given the substantial, ongoing operating losses at the Hotel under Marriott's management, the maturity of the Debtor's secured debt, and the Debtor's inability to further fund the ongoing losses or restructure its debt outside of bankruptcy, the Debtor believed that allowing Marriott to resume operating the Hotel would result in the liquidation of the Hotel and the Debtor's business. Thus, the Debtor's management authorized the filing of the Bankruptcy Case.

B. Commencement of the Bankruptcy Case

On August 31, 2011 (the "Petition Date"), the Debtor filed a voluntary petition for relief under Chapter 11 of the Bankruptcy Code. The Debtor's Bankruptcy Case was assigned to the Honorable Judge Robert J. Faris, United States Bankruptcy Judge for the District of Hawaii.

C. Significant Events During the Bankruptcy Case

1. Retention of Bankruptcy Counsel for the Debtor

On September 2, 2011, the Debtor filed an Application to employ Neligan Foley LLP as bankruptcy counsel to the Debtor. The Bankruptcy Court granted that Application by an order entered on October 3, 2011.

On September 2, 2011, the Debtor also filed an Application to employ Klevansky Piper, LLP as local counsel for the Debtor. The Bankruptcy Court granted that Application by an order entered on October 3, 2011.

2. Retention of Special Litigation Counsel for the Debtor

On September 20, 2011, the Debtor filed an Application to employ Bickel & Brewer as special litigation counsel to the Debtor. The Bankruptcy Court granted that Application by an order entered on November 18, 2011.

3. Schedules and Statement of Financial Affairs

On October 19, 2011, the Debtor filed its Schedules of Assets and Liabilities and its Statement of Financial Affairs.

4. Appointment of Creditors' Committee

On September 9, 2011, the UST appointed the Creditors' Committee. The UST amended such appointment on September 12 and September 20, 2011. Currently, the members of the Creditors' Committee are: Hawaiian Electric Company, Inc., Communications Pacific, Inc., King Food Services, Inc., and United Laundry Services, Inc. Marriott Hotel Services, Inc. was formerly a member of the Creditors' Committee but recently resigned.

5. Retention of Bankruptcy Counsel for the Creditors' Committee

On September 15, 2011, the Creditors' Committee filed an Application to employ Wagner Choi & Verbrugge as bankruptcy counsel for the Creditors' Committee. The Bankruptcy Court granted that Application by an order entered on September 20, 2011.

6. Motion to Reject Management Agreement With Marriott

On September 1, 2011 Debtor filed its *Motion to Reject Management Agreement With Marriott Hotel Services, Inc.* ("Rejection Motion"). The Rejection Motion sought Court approval of the Debtor's prepetition termination of the Marriott Management Agreement in order to solidify the transition of the Hotel's management to Modern Management. The Bankruptcy Court has held various status conferences on the Rejection Motion, and the Rejection Motion has been carried on the Bankruptcy Court's docket since its filing. The Plan provides for the rejection of the certain Executory Contracts, which will include the Marriott Management Agreement. Thus, the Plan will supersede the Rejection Motion.

7. Marriott's Motion to Terminate Automatic Stay

On September 1, 2011 Marriott filed its "Motion For Relief From Stay To Enforce Specific Provision In Temporary Restraining Order" (the "Stay Motion") seeking to enforce certain provisions of the Temporary Restraining Order obtained in the Marriott Litigation. In its Stay Motion, Marriott instigated a dispute with the Debtor over ownership of certain personal property at the Hotel, including intellectual property, trade secrets, and confidential business information at the Hotel. The Stay Motion has resulted in numerous hearings, depositions, discovery and related conferences and remains pending before the Bankruptcy Court.

8. Debtor-in-Possession Financing

On September 7, 2011, the Debtor filed an emergency motion for, *inter alia*, interim and final orders authorizing the Debtor to borrow up to $2.5 million from the Davidson Trust to finance the Hotel's operations and pay other administrative expenses of the Debtor's Bankruptcy Case. The Bankruptcy Court granted that motion on an interim and then a final basis by orders entered on September 15, 2011 and September 29, 2011, respectively.

On December 9, 2011, the Debtor filed an emergency motion for, *inter alia*, interim and final orders authorizing the Debtor to borrow an additional $550,000 from the Davidson Trust to finance the Hotel's operations. The Bankruptcy Court granted that motion on an interim and then a final basis by orders entered on January 17 and February 10, 2012, respectively.

On January 1, 2012, the Debtor filed a motion for, *inter alia*, authorization to enter into an amended and restated credit agreement with the Davidson Trust, pursuant to which the Debtor would be authorized to borrow up to a maximum of $9 million from the Davidson Trust (inclusive of amounts previously authorized) to finance the Hotel's operations and pay other administrative expenses of the Debtor's Bankruptcy Case. The Bankruptcy Court granted that motion on a final basis by order entered on February 10, 2012.

9. The Debtor's Post-Petition Operating Performance

Following the Petition Date, the Debtor and its new hotel manager, Modern Management, undertook efforts to stabilize the Hotel's operations. Specifically, the Debtor and Modern Management sought to substantially reduce the large recurring monthly operating losses at the Hotel.

These efforts have been successful. Year-over-year improvement in the net operating income of the Hotel from the fourth quarter of 2010 (under Marriott's management) to the fourth quarter of 2011 (under Modern Management's management) was approximately $3 million. Similar improvements have been recognized in the average monthly operating losses sustained by the Hotel. During the period from October 2010 (the Hotel's first full month of operations) through July 2011, when Marriott managed the Hotel, the average monthly operating losses were approximately $837,000, while from September 2011 through January 2012, when Modern Management has managed the Hotel, the average monthly operating losses were approximately $264,000. The total cost to run the Hotel under Marriott averaged approximately $2.53 million per month. Under Modern Management, these costs have been reduced to an average of approximately $1.95 million per month.

During the first full four-month period of Marriott's management (from October 2010 to January 2011), the Hotel realized an occupancy of 31.5%, ADR of $218.93, RevPAR of $69.90, and an average monthly net operating loss of approximately $1.2 million. During the comparable period under Modern Management's management (using the same calendar months, October 2011 through January 2012), the Hotel achieved an occupancy of 54.7%, ADR of $221.75, RevPAR of $119.98, and an average monthly net operating loss of approximately $223,000. Further, in January 2012, the latest month for which financial reporting has been completed, the Hotel achieved an occupancy of 72.2%, ADR of $200.36, and RevPAR of $144.61, all contributing to a net operating loss of approximately $67,000.

Through the Effective Date, Modern Management expects to continue to improve the operational performance of the Hotel. The Hotel is projected to be profitable on a net operating income basis by the Summer of May 2012.

10. Marriott's Proof of Claim and Estimation Hearing

On January 3, 2012, Marriott filed a proof of claim against the Debtor in an amount "not less than $72 million" (the "Marriott Claim"). The Marriott Claim consists of the following: (i) alleged gross revenue associated with the amount of management fees Marriott contends it would have earned during the remaining 47 years of the Management Agreement, for a total of approximately $65.5 million, which was allegedly lost as a result of the Debtor's alleged breach of the Management Agreement; (ii) approximately $5.6 million in alleged unreimbursed working capital loans Marriott contends it made to cover operating losses and other expenses at the Hotel; (iii) approximately $28,271 in customer chargebacks; and (iv) contingent and/or unliquidated claims arising from the Debtor's alleged misappropriation of Marriott's confidential and proprietary information, employee claims and "other amounts not yet matured, accrued or identified under the Management Agreement."

The Debtor disputes the Marriott Claim, and has filed an objection to the Marriott Claim (the "Claim Objection"), contending that the Marriott Claim should be disallowed or, at a minimum, reduced, because: (i) Marriott has failed to offer sufficient evidence in support of the Marriott Claim; (ii) the Marriott Claim is precluded by Marriott's prior material breaches of the Management Agreement and/or offset in full by the damages sustained by the Debtor as a result of Marriott's material breaches of the Management Agreement, among other things; and (iii) Marriott's claim for lost management fees is speculative, improperly based on lost revenues instead of lost profits, and, at a minimum, overstated because Marriott would not have met certain performance standards in the sixth and seventh years of the agreement, among other things. The Debtor also contends that Marriott is, or was at the time its alleged claims were incurred, an "insider" of the Debtor as that term is defined in section 101(31) of the Bankruptcy Code, and will be filing a complaint seeking to subordinate Marriott's claims to certain other claims on equitable and other grounds.

The Debtor has also filed a motion to estimate the Marriott Claim for purposes of voting and assessing the feasibility of the Plan (the "Estimation Motion"). The purpose of the Estimation Motion is to aid the Court in determining whether the Plan is feasible (i.e., whether, assuming that the Marriott Claim were to be Allowed, it is likely that the Debtor will be able to make the Distributions on the Marriott Claim set forth in Section 5.10 of the Plan). On January 30, 2012, the Court entered a scheduling order with respect to the estimation of the Marriott Claim. The scheduling order establishes certain deadlines for discovery in connection with the estimation of the Marriott Claim, establishes pre-trial procedures, and sets an estimation hearing for April 3, 2012 (the "Estimation Hearing").

On February 7, 2012, Marriott filed a Motion to Limit Scope of Discovery and Hearing on the Estimation of Marriott's Claim, or Alternatively, to Dismiss Certain of Debtor's Objections and Disallow Discovery Related to Those Objections (the "Motion to Limit"). Pursuant thereto, Marriott sought to limit the scope of discovery sought by the Debtor in connection with the Marriott Claim (including the time period that the Debtor was seeking documents and the topics for which documents were sought). Marriott also sought to limit the scope of the Estimation Hearing. Alternatively, Marriott sought to dismiss certain aspects of the Debtor's Claim Objection. The Debtor objected to the Motion to Limit and filed a cross-motion to compel the production of documents withheld by Marriott.

On March 5, 2012, the Bankruptcy Court held a hearing on the Motion to Limit and the Debtor's cross-motion, and resolved nearly all of the discovery disputes in the Debtor's favor. The Bankruptcy Court also denied Marriott's request to dismiss portions of the Debtor's Claim Objection. Finally, the Debtor agreed that the Estimation Hearing will be limited to estimating the value of Marriott's alleged affirmative claims against the Debtor and will not address the value of the Debtor's claims against Marriott or whether such claims constitute a complete defense to the Marriott Claim. Consequently, for purposes of the Estimation Hearing, the Bankruptcy Court will estimate the amount of the Marriott Claim without considering the Debtor's claims against Marriott (including the Debtor's assertion that Marriott has no claim as a result of Marriott's prior material breaches of the Management Agreement).

11. Termination of Exclusivity and Marriott's Competing Plan

On December 2, 2011, the Debtor filed a "Motion to Extend the Debtor's Exclusive Period to File and Solicit Acceptances of a Plan or Reorganization" (the "Exclusivity Motion"). The purpose of the requested extension was to enable the Debtor to stabilize its operations and improve the Hotel's operations and emerge from chapter 11 as a viable, reorganized entity that can service its debt and make payments to creditors under a plan of reorganization. On January 3, 2012, the Bankruptcy Court entered an order (the "Exclusivity Order") partially granting the Exclusivity Motion, extending the Debtor's Exclusive Period for filing a plan to January 20, 2012. However, the Bankruptcy Court's order did not extend the corresponding Solicitation Period during which only the Debtor may file a plan. On January 20, 2012, the Debtor and the Davidson Trust filed the Plan.

On February 2, 2012, Marriott filed a motion for, *inter alia*, an order clarifying the Exclusivity Order or, alternatively, terminating the Debtor's Solicitation Period before it would otherwise expire on February 27, 2012 as provided by the Bankruptcy Code, so that Marriott could file a competing plan. On February 23, 2012, the Bankruptcy Court entered an order terminating the Solicitation Period and permitting Marriott or any other party in interest to file a plan.

On February 27, 2012 (the date the Solicitation Period would have expired anyway), Marriott filed a plan of reorganization (the "Marriott Plan") and a related disclosure statement (the "Marriott Disclosure Statement"). As filed, the Marriott Plan provides for a forced sale of all of the Debtor's assets to Marriott (over the Debtor's objection), including, without limitation, the Hotel and the Debtor's claims against Marriott, in return for both (i) a release of Marriott's alleged claims against the Debtor, and (ii) a yet-to-be-determined amount of cash based on the amount of claims that are ultimately allowed against the Debtor. For example, if the total amount of allowed claims against the Debtor is $130 million, Marriott will pay $130 million in cash for all of the Debtor's assets which will be distributed to holders of allowed claims. If the total amount of allowed claims against the Debtor is $115 million, Marriott will only pay $115 million in cash for all of the Debtor's assets which will be distributed to holders of allowed claims. In either case, under the Marriott Plan, all equity interests in the Debtor will be extinguished and the existing holders of equity interests will not receive any distribution on account of their interests.

A hearing to consider the adequacy of the Marriott Disclosure Statement, and to determine whether it should be approved pursuant to section 1125 of the Bankruptcy Code, has been scheduled for March 21, 2012. The Debtor believes that the Marriott Disclosure Statement does not satisfy the requirements of section 1125 of the Bankruptcy Code and should not be approved, and that the Marriott Plan is unconfirmable as a matter of law, and intends to file objections to both. The Debtor further believes that because the Marriott Plan calls for a sale of all of the Debtor's assets to Marriott, and the Debtor's assets have not previously been marketed for sale, that such an effort would need to be undertaken before the Marriott Plan can be confirmed to ensure that the value of the Debtor's assets are being maximized for the benefit of all stakeholders. Such a marketing process, in the Debtor's view, would delay consideration of the confirmation of the Marriott Plan, and delay payments to creditors under the Marriott Plan.

The Bankruptcy Court will determine whether and when the Marriott Plan is scheduled for confirmation.

12. Management and Operation of Morimoto Waikiki Restaurant

One of the amenities at the Hotel is a gourmet Japanese restaurant called Morimoto Waikiki (the "Restaurant") The Restaurant is owned and operated by MM Restaurant Hawaii, LLC, a Delaware limited liability company ("MM Restaurant"). MM Restaurant was initially a joint venture (the "Joint Venture") between 1775 Ala Moana Restaurant, LLC, a Hawaii limited liability company ("1775 LLC") and a wholly owned subsidiary of the Debtor, and Mori Hawaii, LLC ("Mori"), a Delaware limited liability company owned and controlled by "Iron Chef" Masaharu Morimoto ("Chef Morimoto"). Under the Joint Venture, Mori acted as manager of MM Restaurant and was responsible for the Restaurant's day to day activities and for providing the culinary services and expertise of Chef Morimoto. Under the Joint Venture, the Restaurant produced substantial gross revenue, but did not yield any profit.

On February 29, 2012, MM Restaurant, 1775 LLC, and Mori modified the terms of the ownership, management and operation of the Restaurant. First, Mori withdrew as a member of MM Restaurant and assigned one hundred percent (100%) of its interests in the company to 1775 LLC. Second, Mori relinquished day-to-day control and management responsibilities of the Restaurant to 1775 LLC. Third, MM Restaurant entered into a new license agreement (the "License Agreement") with Mori to provide culinary services and the right to use the trademarks and other intellectual property associated with Chef Morimoto. Under the License Agreement, the Restaurant will continue to be operated as Morimoto Waikiki, and Chef Morimoto will continue to make appearances and provide culinary direction. Thus, the change in ownership and management structure will not alter the Restaurant's favorable appeal to the dining public.

The new License Agreement structure will bring immediate benefits to MM Restaurant. First, under the License Agreement, Mori's "fee" will be reduced from six percent (6%) of gross revenue to a flat fee of thirty-four thousand dollars ($34,000) per month. Based on the current 2012 projections for the Restaurant, this change will yield a savings for MM Restaurant of over one hundred thousand dollars ($100,000) for the February-December 2012 period. Additionally, with the day-to-day control shifted to 1775 LLC, the Hotel will have greater coordination and cooperation with the Restaurant to maximize revenue possibilities for both the Hotel and the Restaurant. The License Agreement expires at the end of 2012 and a longer-term extension is expected to be negotiated in the intervening time period. The ultimate goal of the License Agreement structure is to bring profitability to the Restaurant. Initial changes implemented at 1775 LLC's direction before the execution of the License Agreement are encouraging, with the Restaurant posting profitable results in January and February of 2012.

D. Subordination of the Marriott Unsecured Claim

The Proponents intend to file a complaint to subordinate the Marriott Unsecured Claim before the Confirmation Hearing (the "Subordination Complaint"). The Plan contemplates that if the Subordination Complaint is successful and the Marriott Unsecured Claim is subordinated to other Unsecured Claims and the Davidson Trust Secured Claim, Marriott will receive Distributions on account of its Allowed Subordinated Marriott Claim that equal either the

Subordinated Marriott Payable[8] or a greater amount, up to the full amount of the Allowed Subordinated Marriott Claim, depending on the value of the Debtor's assets as of the Effective Date, as determined by the Bankruptcy Court. If the Subordination Complaint is unsuccessful, the Marriott Unsecured Claim will be paid in full as provided in Section 5.10(b)(ii)(B) of the Plan.

1. The Basis for Equitable Subordination of the Marriott Unsecured Claim

Based upon equitable principles, bankruptcy courts have the power and authority to subordinate claims that would otherwise have equal or higher priority rights to the assets of a bankrupt debtor to the claims of junior claimants. 11 U.S.C. § 510(c)(1). This equitable subordination inquiry, which can be used to subordinate both secured and unsecured claims, focuses on the conduct of the claimant at issue, and the nature of its relationship to the debtor. Equitable subordination is warranted if: (a) the claimant who is to be subordinated engaged in some type of inequitable conduct; (b) the misconduct resulted in injury to the creditors or conferred an unfair advantage on the claimant to be subordinated; and (c) equitable subordination of the claim is not inconsistent with bankruptcy law. The degree of inequitable conduct required before a claim will be subordinated is significantly lower if the claim being challenged was incurred by an insider, because of the insider's presumed control over the debtor. When the claimant is an insider of the debtor, the proof required to prove equitable subordination is "not demanding." In such cases, the requisite showing is satisfied by "material evidence" of unfair conduct or where the conduct constitutes a commercial breach "plus some advantage-taking."

In support of their equitable subordination claim against Marriott in the Subordination Complaint, the Proponents will contend that, as the manager of the Hotel with essentially full control of all aspects of the Debtor's business operations and finances, Marriott was the "managing agent" within the meaning of Section 101(31)(F) of the Bankruptcy Code, and therefore qualified as an "insider" of the Debtor. Under the Marriott Management Agreement, Marriott's duties and powers included, among other things, overseeing the day-to-day functions of the Hotel; developing and implementing the Hotel's business plans and marketing strategies; hiring all of the Hotel's employees; purchasing all of the Hotel's supplies; paying all of the Hotel's operating bills; generating substantially all of the Hotel's operating financial records; preparing the Hotel's operating budgets and forecasts; reporting the Hotel's financial information to the Debtor; and employing, training and supervising the Hotel staff. This degree of control over the Debtor's assets, finances, and operations made Marriott an insider at the time that it engaged in the conduct constituting the basis for subordination of the Marriott Unsecured Claims.

Marriott was not entitled to take advantage of its control of the Debtor to the detriment of the Debtor's general creditors, both the Holders of General Unsecured Claims in Class 8 and the Davidson Trust in Classes 6 and 11. Among other things, the Debtor expects to be able to show that Marriott intentionally or negligently misled the Debtor by repeatedly providing financial projections that were completely unrealistic and overly optimistic. This led the Debtor to invest

[8] Section 5.10(b)(ii)(A) of the Plan defines the Subordinated Marriott Payable as a portion of the Allowed Subordinated Marriott Claim equal to the aggregate of (1) one hundred percent (100%) of such Claim up to $6,000,000, plus (2) ten percent (10%) of the balance thereof, if any.

significant sums of money in the Hotel beyond what could ever be expected to yield a reasonable (or any) return, to the detriment of the Debtor and other creditors. Furthermore, Marriott misled the Debtor about the future of the Edition brand. This inequitable conduct caused the Debtor to incur debts that Marriott knew could not be repaid in the ordinary course, and that could not be repaid from the Debtor's assets in this Bankruptcy Case but for the infusion of loans and equity by the Davidson Trust, putting at risk the recovery of all of the Senior Classes to which the Marriott Unsecured Claim is to be subordinated.

Claims may be subordinated either under a plan or by separate complaint. If they are to be subordinated under a plan, the subordination allegations must be litigated as part of the confirmation hearing. Here, however, the Proponents have opted to proceed by complaint for subordination, which means that the Plan can be confirmed and can become effective without waiting for the subordination litigation against Marriott to be completed. Section 5.10 of he Plan provides for either alternative: if the Marriott Claims are subordinated, then Marriott will receive Distributions that will pay the Allowed amount of such Claim (the Allowed Subordinated Marriott Claim) up to a cap, but if the Marriott Claims are not subordinated, then Marriott will receive Distributions that will pay the Allowed amount of such non-subordinated Claim in full over time. Most importantly, by providing for post-confirmation litigation of the Marriott subordination issues, other creditors' Allowed Claims can be paid on the Effective Date (or, if later, the Allowance Date) without delay.

2. The Basis for Contractual Subordination of the Marriott Unsecured Claim

The Subordination Complaint will also seek a determination that the Marriott Unsecured Claim is also contractually subordinated to the Davidson Trust Secured Claim. In November 2010, prior to completion of the Hotel, the Davidson Trust, Marriott and the Debtor entered into a Subordination, Non-Disturbance and Attornment Agreement ("SNDA") as part of the Davidson Trust's secured loan of $15 million to Debtor. The SNDA provided that "all right, title and interest" of Marriott "in and to the Hotel" under the TSA and the Marriott Management Agreement "are and shall be subject and subordinate in all respects to the lien of the [Davidson Loan] Mortgage." The SNDA further provided that, in the event of bankruptcy, Marriott would "waive[] any claim to such monies other than pursuant to the terms and conditions of the Management Agreement, the Senior Loan SNDA or at law or equity."

VII. LITIGATION

A. Pending Litigation

The following is a description of litigation involving the Debtor that was pending as of the Petition Date:

Caption of Suit and Case Number	Nature of Suit	Court	Status of Suit
Approved Electric, inc. v. M Waikiki, LLC et al.; M.L. No. 11-1-0011	Mechanic's and Materialman's Lien in the principal amount of $1,204,501.25	Circuit Court of the First Circuit State of Hawaii	Pending

Caption of Suit and Case Number	Nature of Suit	Court	Status of Suit
Standard Sheetmetal & Mechanical, Inc. v. M Waikiki LLC, et al. M.L. No. 10-1-0041	Mechanic's and Materialman's Lien in the principal amount of $2,000,000.	Circuit Court of the First Circuit State of Hawaii	Pending
M Waikiki LLC v. Marriott Hotel Services, Inc., I.S. International, LLC and Ian Schrager, Index No. 651457/11	Breach of Contract	Supreme Court of the State of New York, County of New York, Trial Term Part 3; Removed to the U.S. District Court for the S.D.N.Y.	Pending
Marriott Hotel Services, Inc. v. M Waikiki LLC Index No. 651457/11	Counter-claim in the same action styled M Waikiki LLC v. Marriott Hotel Services, Inc.	Supreme Court of the State of New York, County of New York, Trial Term Part 3; Removed to the U.S. District Court for the S.D.N.Y.	Pending
M Waikiki LLC, a Hawaii Limited Liability Company v. Association of Apartment Owners of Ilikai, a Hawaii Corporation; Jane Does 1-20; Jane Does 1-20 Does Partnerships 1-20; Doe Limited Liability Companies 1-20; Doe Corporations 1-20; and Doe Entities 1-20, Defendants. Case #11-1-0162-01-VLC	Easement Dispute	Circuit Court of the First Circuit State of Hawaii	Pending
R.D. Olson Construction & Robert D Olson Corporation v. M Waikiki LLC Case #11-02371	Mechanic's and Materialmen's Lien for $1,839,217	Circuit Court of the First Circuit State of Hawaii	Pending

B. Potential Litigation Under Non-Bankruptcy Law

Any and all potential claims and Causes of Action of the Debtor against Marriott arising from the factual circumstances described in Section VI.A.2 above or otherwise are expressly preserved under the Plan and vested in the reorganized Debtor upon the Effective Date of the Plan. The Debtor intends to continue prosecuting those claims and Causes of Action after the Effective Date.

C. Causes of Action (Including Avoidance Actions) Revest in the Reorganized Debtor

Section 547 of the Bankruptcy Code enables a debtor in possession to avoid a transfer to a creditor made within 90 days before the petition date (or within one year before the petition date in the case of a transfer to an insider) if the transfer was made on account of an antecedent debt and enabled the creditor to receive more than it would in a liquidation. A creditor can assert certain defenses to the avoidance of such a preferential transfer based upon, among other things, the transfer's occurring as part of the ordinary course of the debtor's business or that, subsequent to the transfer, the creditor provided the debtor with new value. Section 548 of the Bankruptcy Code allows a debtor in possession to avoid a transfer to a creditor made within one year before the petition date if (a) the transfer was made with actual intent to hinder, delay, or defraud other creditors or (b) the transfer was for less than reasonably equivalent value and the debtor was insolvent or undercapitalized at the time of the transfer or became insolvent or undercapitalized as a result of the transfer.

A list of all transfers by the Debtor to unsecured creditors within 90 days before the Petition Date, and one year to insiders, is provided in the Debtor's Statements of Financial Affairs filed with the Bankruptcy Court on October 19, 2011.

As of the Effective Date, all Causes of Action (including, without limitation, all Avoidance Actions, whether based on sections 547 and 548 of the Bankruptcy Code or otherwise) will revest in the Debtor, as reorganized under the Plan. In accordance with section 1123(b)(3)(B) of the Bankruptcy Code, the reorganized Debtor shall retain the exclusive right to assert, prosecute, settle, or compromise any Cause of Action vested in it under the Plan as well as any and all defenses, counterclaims, and rights that have been asserted or could be asserted by the Debtor against or with respect to all Claims asserted against the Debtor or property of the Debtor's Estate.

Notwithstanding the foregoing, the Debtor has determined that because all Allowed Claims are to be paid in full under the Plan, the Debtor does not currently intend (but does not hereby waive the right) to assert or prosecute any Avoidance Actions except as a defense to any Claim or a setoff asserted by any Holder of a Claim.

VIII. CONFIRMATION OF THE PLAN

A. Solicitation of Votes; Voting Procedures

1. Ballots and Voting Deadlines

A ballot to be used for voting to accept or reject the Plan, together with an addressed return envelope, is enclosed with all copies of this Disclosure Statement mailed to all Holders of Claims and Interests entitled to vote. BEFORE COMPLETING YOUR BALLOT, PLEASE READ CAREFULLY THE INSTRUCTION SHEET THAT ACCOMPANIES THE BALLOT.

The Bankruptcy Court has directed that in order to be counted for voting purposes, ballots for the acceptance or rejection of the Plan must be received no later than 5:00 p.m. HDST on _____, 2012, at the following address or fax number:

Kathryn Tran
XRoads Case Management Services
1821 E. Dyer Road, Suite 225
Santa Ana, CA 92705
Fax: 949-567-1741

YOUR BALLOT MAY NOT BE COUNTED IF IT IS RECEIVED AT THE ABOVE ADDRESS OR FAX NUMBER AFTER 5:00 P.M. HDST ON _____, 2012.

2. Parties in Interest Entitled to Vote

Any Holder of a Claim or Interest against the Debtor as of the Voting Record Date (_____, 2012) and whose Claim or Interest has not previously been disallowed by the Bankruptcy Court is entitled to vote to accept or reject the Plan, if such Claim or Interest is impaired under the Plan and either (a) such Holder's Claim has been scheduled by the Debtor (and such Claim is not scheduled as disputed, contingent, or unliquidated), (b) such Holder of an Interest has been identified in the Debtor's Statement of Financial Affairs filed with the Bankruptcy Court or is authorized by the Bankruptcy Court to vote on the Plan, or (c) such Holder has filed a proof of Claim or Interest on or before the Bar Date.[9] The Holder of a Claim or Interest as to which an objection has been filed is not entitled to vote unless the Bankruptcy Court, upon motion of the Debtor or the Holder to whose Claim or Interest an objection has been made, temporarily allows such Claim or Interest in an amount that it deems proper for the purpose of voting to accept or reject the Plan. Any such motion must be heard and determined by the Bankruptcy Court on or before commencement of the Confirmation Hearing. A vote may be disregarded if the Bankruptcy Court determines, after notice and a hearing, that such vote was not solicited or procured in good faith or in accordance with the provisions of the Bankruptcy Code.

3. Definition of Impairment

As set forth in section 1124 of the Bankruptcy Code, a class of claims or equity interests is impaired under a plan of reorganization unless, with respect to each claim or equity interest of such class, the plan:

(a) leaves unaltered the legal, equitable, and contractual rights of the holder of such claim or equity interest; or

(b) notwithstanding any contractual provision or applicable law that entitles the holder of a claim or equity interest to demand or receive accelerated payment of such claim or equity interest after the occurrence of a default:

(i) cures any such default that occurred before or after the

[9] If a Holder did not file a proof of claim on or before the Bar Date, but such Holder subsequently obtained an order from the Bankruptcy Court allowing the Holder to file a proof of Claim or Interest thereafter, such Holder will be entitled to vote to accept or reject the Plan.

commencement of the case under the Bankruptcy Code, other than a default of a kind specified in section 365(b)(2) of the Bankruptcy Code;

(ii) reinstates the maturity of such claim or interest as it existed before such default;

(iii) compensates the holder of such claim or interest for any damages incurred as a result of any reasonable reliance on such contractual provision or such applicable law; and

(iv) does not otherwise alter the legal, equitable or contractual rights to which such claim or interest entitles the holder of such claim or interest.

4. Classes Impaired Under the Plan

Classes of claims or equity interests that are not "impaired" under a plan of reorganization are conclusively presumed to have accepted the plan and thus are not entitled to vote. Classes of Claims or Interests that are impaired under a plan and are not receiving any distribution under the plan are conclusively presumed to have rejected the plan and thus are not entitled to vote on the plan. Accordingly, acceptances of a plan will generally be solicited only from those persons who hold claims or equity interests in an impaired class and are receiving a distribution under the plan. A class is "impaired" if the legal, equitable, or contractual rights attaching to the claims or equity interests of that class are modified in any way under the plan. Modification for purposes of determining impairment, however, does not include curing defaults and reinstating maturity, or payment in full in Cash.

Claims against the Debtor in Classes 3, 4, 6, 8, 9, 10 and 11, and Interests in the Debtor in Classes 12, 13 and 14 are impaired and will receive a distribution under the Plan, and the Holders of those Claims and Interests are entitled to vote on the Plan. Claims against the Debtor in Classes 1, 2, 5 and 7 are not impaired and the Holders of those Claims are not entitled to vote on the Plan.

Administrative Expense Claims and Priority Tax Claims are unclassified. The Bankruptcy Code prescribes the treatment of those Claims, and the Holders of such Claims are not entitled to vote on the Plan.

5. Vote Required For Class Acceptance

The Bankruptcy Code defines acceptance of a plan by a class of claims as acceptance by holders of at least two-thirds in dollar amount and more than one-half in number of the claims of that class that actually cast ballots for acceptance or rejection of the Plan. The Bankruptcy Code also defines acceptance of the plan by a class of interests (equity securities) as acceptance by holders of two-thirds of the number of shares actually voting.

B. Confirmation Hearing

Section 1128(a) of the Bankruptcy Code requires the Bankruptcy Court, after notice, to hold a hearing on confirmation of a plan. By order of the Bankruptcy Court, **the Confirmation Hearing on the Plan has been scheduled for _____, 2012 at __:__ __.m. HDST** in the United States Bankruptcy Court for the District of Hawaii. The Bankruptcy Court may adjourn the Confirmation Hearing from time to time without further notice except for an announcement made at the confirmation hearing or any adjournment thereof.

Section 1128(b) of the Bankruptcy Code provides that any party in interest may object to confirmation of a plan. **Any objection to confirmation of the Plan must be made in writing and filed with the Bankruptcy Court on or before _____, 2012 at __:__ __.m. HDST**, at the following address:

Clerk of the United States Bankruptcy Court
District of Hawaii
1132 Bishop Street, Suite 250
Honolulu, HI 96813

In addition, any such objection must be served upon the following parties, together with proof of service, so that they are ***received*** **by such parties on or before 5:00 p.m. HDST on _____, 2012:**

Patrick J. Neligan, Jr. James P. Muenker Neligan Foley LLP 325 N. St. Paul, Suite 3600 Dallas, TX 75201 (214) 840-5301 (fax) Email: pneligan@neliganlaw.com COUNSEL FOR THE DEBTOR	Simon Klevansky Klevansky Piper, LLP Davies Pacific Center, Suite 1707 841 Bishop Street Honolulu, HI 96813 (808) 237-5757 (fax) Email: sklevansky@kplawhawaii.com COUNSEL FOR THE DEBTOR
Lisa Hill Fenning Arnold & Porter LLP 777 South Figueroa Street, 44th Floor Los Angeles, CA 90017-5844 (213) 243-4000 (213) 243-4199 (fax) Email: Lisa.Fenning@aporter.com COUNSEL FOR THE DAVIDSON FAMILY TRUST	Tom E. Roesser Carlsmith Ball LLP 1001 Bishop Street 2200 Pacific Tower Honolulu, HI 96813 (808) 523-2500 (808) 523-0842 (fax) Email: troesser@carlsmith.com COUNSEL FOR THE DAVIDSON FAMILY TRUST

Office of the U.S. Trustee Terri Didion 1132 Bishop Street, Suite 602 Honolulu, HI 96813-2830 (808) 522-8186 (fax) Email: ustpregion15.hi.ecf@usdoj.gov	James A. Wagner Chuck C. Choi Wagner Choi & Verbrugge 745 Fort Street, Suite 1900 Honolulu, HI 96813 (808) 566-6900 (fax) Email: cchoi@hibklaw.com COUNSEL FOR THE CREDITORS' COMMITTEE

Objections to confirmation of the Plan are governed by Bankruptcy Rule 9014 and the Order Approving Disclosure Statement and Setting Deadline for Objections. **UNLESS AN OBJECTION TO CONFIRMATION IS SERVED AND FILED ON THE DEBTOR AND ITS COUNSEL SO THAT IT IS ACTUALLY RECEIVED BY NO LATER THAN 5:00 P.M. HDST ON _____, 2012, THE BANKRUPTCY COURT MAY NOT CONSIDER IT.**

The Proponents believe that the key dates leading up to and including the Confirmation Hearing may be summarized as follows:

1. _____, 2012, 5:00 p.m. HDST: Deadline for parties to file and serve any objection to the Plan.

2. _____, 2012, 5:00 p.m. HDST: Deadline for parties entitled to vote on the Plan to have their ballots received by the tabulation agent.

3. _____, 2012, 5:00 p.m. HDST: Commencement of the Confirmation Hearing.

C. Requirements For Confirmation of a Plan

At the Confirmation Hearing, the Bankruptcy Court must determine whether the Bankruptcy Code's requirements for confirmation of the Plan have been satisfied, in which event the Bankruptcy Court will enter an order confirming the Plan. As set forth in section 1129 of the Bankruptcy Code, these requirements are as follows:

1. The plan complies with the applicable provisions of the Bankruptcy Code.

2. The proponent of the plan complied with the applicable provisions of the Bankruptcy Code.

3. The plan has been proposed in good faith and not by any means forbidden by law.

4. Any payment made or promised by the debtor, by the plan proponents, or by a person issuing securities or acquiring property under the plan, for services or for

costs and expenses in, or in connection with, the case, or in connection with the plan and incident to the case, has been approved by, or is subject to the approval of, the Bankruptcy Court as reasonable.

5. (a) (i) The proponent of the plan has disclosed the identity and affiliations of any individual proposed to serve, after confirmation of the plan, as a director, officer, or voting trustee of the debtor, an affiliate of the debtor participating in a joint plan with the debtor, or a successor to the debtor under the plan; and

(ii) the appointment to, or continuance in, such office of such individual, is consistent with the interests of creditors and equity security holders and with public policy; and

(b) the proponent of the plan has disclosed the identity of any insider that will be employed or retained by the reorganized debtor, and the nature of any compensation for such insider.

6. Any governmental regulatory commission with jurisdiction, after confirmation of the plan, over the rates of the debtor have approved any rate change provided for in the plan, or such rate change is expressly conditioned on such approval.

7. With respect to each impaired class of claims or interests:

(a) each holder of a claim or interest of such class has accepted the plan or will receive or retain under the plan on account of such claim or interest property of a value, as of the effective date of the plan, that is not less than the amount that such holder would so receive or retain if the debtor liquidated on such date under chapter 7 of the Bankruptcy Code on such date; or

(b) if section 1111(b)(2) of the Bankruptcy Code applies to the claims of such class, the holder of a claim of such class will receive or retain under the plan on account of such claim property of a value, as of the effective date of the plan, that is not less than the value of such holder's interest in the estate's interest in the property that secures such claims.

8. With respect to each class of claims or interests:

(a) such class has accepted the plan; or

(b) such class is not impaired under the plan.

9. Except to the extent that the holder of a particular claim has agreed to a different treatment of such claim, the plan provides that:

(a) with respect to a claim of a kind specified in section 507(a)(2) or 507(a)(3) of the Bankruptcy Code, on the effective date of the plan, the holder of such

claim will receive on account of such claim cash equal to the allowed amount of such claim;

(b) with respect to a class of claims of a kind specified in section 507(a)(1), 507(a)(4), 507(a)(5), 507(a)(6), or 507(a)(7) of the Bankruptcy Code, each holder of a claim of such class will receive:

(i) if such class has accepted the plan, deferred cash payments of a value, as of the effective date of the plan, equal to the allowed amount of such claim; or

(ii) if such class has not accepted the plan, cash on the effective date of the plan equal to the allowed amount of such claim; and

(c) with respect to a claim of a kind specified in section 507(a)(8) of the Bankruptcy Code, the holder of a claim will receive on account of such claim regular installment payments in cash –

(i) of a total value, as of the effective date of the plan, equal to the allowed amount of such claim;

(ii) over a period ending not later than 5 years after the date of the order for relief under section 301, 302, or 303; and

(iii) in a manner not less favorable than the most favored nonpriority unsecured claim provided for by the plan (other than cash payments made to a class of creditors under section 1122(b)); and

(d) with respect to a secured claim that would otherwise meet the description of an unsecured claim of a governmental unit under section 507(a)(8), but for the secured status of that claim, the holder of that claim will receive on account of that claim, cash payments, in the same manner and over the same period, as described in subparagraph (c) above.

10. If a class of claims is impaired under the plan, at least one class of claims that is impaired has accepted the plan, determined without including any acceptance of the plan by any insider holding a claim of such class.

11. 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 under the plan, unless such liquidation or reorganization is proposed in the plan.

12. All fees payable under 28 U.S.C. § 1930, as determined by the Bankruptcy Court at the hearing on confirmation of the plan, have been paid or the plan provides for the payments of all such fees on the effective date of the plan.

13. The plan provides for the continuation after its effective date of payment of all retiree benefits, as that term is defined in section 1114 of the Bankruptcy Code, at the level established pursuant to subsection (e)(1)(B) or (g) of section 1114, at any time prior to confirmation of the plan, for the duration of the period the debtor has obligated itself to provide such benefits.

The Proponents believe that the Plan satisfies all the statutory requirements of chapter 11 of the Bankruptcy Code, that they have complied or will have complied with all the requirements of chapter 11, and that the Plan is proposed in good faith.

D. Cramdown

If any impaired Class of Claims or Interests does not accept the Plan, the Bankruptcy Court may still confirm the Plan at the request of the Debtor if, as to each impaired Class that has not accepted the Plan, the Bankruptcy Court determines that the Plan "does not discriminate unfairly" and is "fair and equitable" with respect to that Class. A plan of reorganization "does not discriminate unfairly" within the meaning of the Bankruptcy Code if no Class receives more than it is legally entitled to receive for its claims or equity interests.

"Fair and equitable" has different meanings with respect to the treatment of secured and unsecured claims. As set forth in section 1129(b)(2) of the Bankruptcy Code, those meanings are as follows:

1. With respect to a class of *secured claims*, the plan provides:

(a) (i) that the holders of such claims retain the liens securing such claims, whether the property subject to such liens is retained by the debtor or transferred to another entity, to the extent of the allowed amount of such claims; and

(ii) that each holder of a claim of such class receive on account of such claim deferred cash payments totaling at least the allowed amount of such claim, of a value, as of the effective date of the plan, of at least the value of such holder's interest in the estate's interest in such property;

(b) for the sale, subject to section 363(k) of the Bankruptcy Code, of any property that is subject to the liens securing such claims, free and clear of such liens, with such liens to attach to the proceeds of such sale, and the treatment of such liens on proceeds under clause (a) or (c) of this paragraph 1; or

(c) the realization by such holders of the "indubitable equivalent" of such claims.

2. With respect to a class of *unsecured claims*, the plan provides:

(a) that each holder of a claim of such class receive or retain on account of such claim property of a value, as of the effective date of the plan, equal to the allowed amount of such claim; or

(b) the holder of any claim or interest that is junior to the claims of such class will not receive or retain under the plan on account of such junior claim or interest any property.

3. With respect to a class of *equity interests*, the plan provides:

(a) that each holder of an interest of such class receive or retain on account of such interest property of a value, as of the effective date of the plan, equal to the greatest of the allowed amount of any fixed liquidation preference to which such holder is entitled, any fixed redemption price to which such holder is entitled, or the value of such interest; or

(b) that the holder of any interest that is junior to the interests of such class will not receive or retain under the plan on account of such junior interest any property.

If any impaired Class of Claims or Interests does not accept the Plan, the Bankruptcy Court will determine at the Confirmation Hearing whether the Plan is fair and equitable with respect to, and does not discriminate unfairly against, any such Class. For the reasons set forth above, the Proponents believe the Plan does not discriminate unfairly against, and is fair and equitable with respect to, each impaired Class of Claims or Interests.

IX. RISK FACTORS

The following is intended as a summary of certain risks associated with the Plan, but it is not exhaustive and must be supplemented by the analysis and evaluation made by each Holder of a Claim or Interest of the Plan and this Disclosure Statement as a whole with such Holder's own advisors.

A. Insufficient Acceptances

For the Plan to be confirmed, each impaired Class of Claims is given the opportunity to vote to accept or reject the Plan, unless the Plan provides that the Holders in such Class will not receive any Distribution under the Plan (in which event such Holders are deemed to reject the Plan). With regard to such impaired voting Classes, the Plan will be deemed accepted by a Class of impaired Claims if the Plan is accepted by claimants of such Class who hold at least two-thirds (2/3) in amount and more than one-half (1/2) in number of the total Allowed Claims in that Class that actually vote on the Plan. Only those members of a Class who vote to accept or reject the Plan will be counted for voting purposes. The Debtor reserves the right to request confirmation of the Plan pursuant to the cramdown provisions in section 1129(b) of the Bankruptcy Code, which will allow confirmation of the Plan even if a particular Class of impaired Claims has not accepted the Plan. Although usually there can be no assurance that any impaired Class of Claims will accept the Plan, in this Case, upon approval of the Olson Settlement Agreement, R.D. Olson (Class 4) is obligated to vote for the Plan, so the requirement of an accepting impaired class will be satisfied. However, there can be no assurance that the

Debtor would succeed in achieving confirmation of the Plan under the cramdown provisions of the Bankruptcy Code with respect to any other impaired Classes that do not accept the Plan.

B. Confirmation Risks

The following specific risks exist with respect to confirmation of the Plan:

(i) Any objection to confirmation of the Plan filed by any Holder of a Claim or Interest could either prevent confirmation of the Plan or delay confirmation for a significant period of time.

(ii) Since the Debtor may be seeking to obtain approval of the Plan over the rejection of one or more impaired Classes of Claims or Interests, the cramdown process could delay confirmation.

(iii) Marriott has informed the Proponents that it does not intend to vote in favor of the Plan and that it contends that the Plan is unconfirmable because it allegedly: (a) improperly classifies and treats Marriott's claims separately from other unsecured creditors, (b) unfairly discriminates against Marriott's claims, and (c) is not "fair and equitable" to Marriott. The Proponents disagree with Marriott's contentions and believe that the Plan is confirmable over Marriott's objections and without Marriott's vote to accept the Plan. If the Bankruptcy Court agrees with some or all of Marriott's arguments, it could either prevent confirmation of the Plan or delay confirmation for a significant period of time.

C. Conditions Precedent

Confirmation of the Plan and occurrence of the Effective Date are subject to certain conditions precedent that may never occur. The Proponents, however, will work diligently with all parties in interest to ensure that all conditions precedent are satisfied.

D. Risk Regarding Amounts and Classification of Claims

The estimated number and amount of Claims in each Plan Class set forth on pages 8-20 of this Disclosure Statement are based on the Debtor's review and analysis of its Schedules and the proofs of Claim filed in the Bankruptcy Case, and on the Debtor's assumptions regarding how certain Claims may be classified and treated under the Plan and the Allowed amount of various Disputed Claims. There can be no assurance that the Debtor's estimates of the number and amount of Claims in each Class, or the Debtor's assumptions regarding the Allowed amount of any specific Disputed Claim, and the concomitant amount of Distributions to the Holder or any Claim in any Class (whether in amount or as a percentage of any Allowed Claim), will prove to be accurate. The actual Allowed Claim amounts, Distributions and recoveries may be substantially less than estimated.

E. Competition

The Debtor operates in a highly competitive market for hotels, condominiums, and restaurants on the basis of quality, location, innovation and price. The reorganized Debtor will face competition from a number of other properties, and such competition may result in the loss of existing business or inability to secure future business. Some of the Debtor's competitors have greater resources, which could give them certain competitive advantages. Further, the construction of new properties, or the upgrading of existing properties, in the market may lead to increased competition and could adversely affect the Debtor's revenue and profitability (and thus obtain the funds necessary to pay Allowed Claims under the Plan) within the time period currently anticipated by the Debtor as provided in the Plan.

F. Economic Pressures

The current recessionary conditions in the domestic and global economies, the duration of which is unknown and unpredictable, and other general economic conditions could adversely affect the reorganized Debtor's financial performance and its ability to produce earnings necessary to pay ongoing operating costs and potential capital improvements, and pay Allowed Claim according to the terms of the Plan.

G. Litigation Risks

The Debtor is involved in material litigation with Marriott in various courts that is unlikely to be finally resolved for several years. This litigation includes direct claims of Marriott against the Debtor and direct claims of the Debtor against Marriott. In addition, the Debtor faces potential indemnity claims related to the Debtor's indemnification of Aqua/Modern for claims asserted against it by Marriott. At the Estimation Hearing, the Bankruptcy Court will estimate the amount, if any, of Marriott's claims against the Debtor for purposes of determining whether the Plan is feasible, but such determination is not a final determination on the merits of any litigation with Marriott regarding the actual Allowed amount, if any, of Marriott's claims against the Debtor or the Debtor's claims against Marriott. In the event that Marriott's claims are eventually Allowed by a Final Order in an amount materially in excess of the amount estimated by the Bankruptcy Court for feasibility purposes, such a determination could adversely affect the Debtor's ability to pay Marriott's Allowed Claim according to the terms of the Plan and satisfy the Debtor's other obligations under the Plan.

X. ALTERNATIVES TO CONFIRMATION AND CONSUMMATION OF THE PLAN

Section 1129(a)(7) of the Bankruptcy Code requires that every creditor in an impaired class who has not accepted a proposed plan of reorganization receive at least as much under the plan as that creditor would receive in a hypothetical liquidation of the debtor under chapter 7 of the Bankruptcy Code. That is, each creditor who votes to reject the plan is entitled to be certain that it is no worse off under the plan than it would be if the debtor were liquidated and the proceeds of that liquidation were distributed among all the debtor's creditors in accordance with the distribution priorities established by the Bankruptcy Code. This requirement is generally known as the "best interests of creditors" test.

A liquidation analysis prepared by the Debtor is attached hereto as Exhibit E. Nothing in the liquidation analysis shall be dispositive of the allowance of any Claims or constitute a waiver by the Debtor of its right to object to any Claim. Unless otherwise provided in the Plan, the Debtor is not stipulating to the validity or amount of any of the Claims set forth in the liquidation analysis. The amounts set forth in the liquidation analysis are based upon the proofs of Claim filed as of the date of this Disclosure Statement (including those filed after the Bar Date), as well as amounts reflected on the Debtor's Schedules. The liquidation analysis may be updated as the Debtor continues to analyze the Claims and file objections to Claims. To the extent that confirmation of the Plan requires the establishment of hypothetical amounts for the value of the Debtor and funds available to pay Allowed Claims, the Bankruptcy Court will make those rulings at the Confirmation Hearing.

The Proponents believe that Holders of all Allowed Claims impaired under the Plan will receive payments or other property under the Plan having a present value as of the Effective Date not less than the amounts such Holders would likely receive if the Debtor were liquidated in a case under chapter 7 of the Bankruptcy Code. Thus, the Proponents believe that the Plan satisfies the best interests test as to such Holders. If necessary, the Proponents will seek such a determination from the Bankruptcy Court.

XI. CERTAIN FEDERAL INCOME TAX CONSEQUENCES OF THE PLAN

The following discussion summarizes certain federal income tax consequences of the implementation of the Plan to the Debtor and certain Holders of Claims. This summary does not address all aspects of federal income taxation that may be relevant to all persons considering the Plan. Special federal income tax considerations not discussed in this summary may be applicable to, among other persons, financial institutions, insurance companies, foreign corporations, tax-exempt institutions and persons who are not citizens or residents of the United States. In addition, this summary does not discuss the effect of any foreign, state or local tax law, the effect of which may be significant. Furthermore, this discussion assumes that the Debtor is classified as a partnership for U.S. federal income tax purposes.

This summary is based on the Internal Revenue Code of 1986, as amended ("IRC"), the regulations promulgated thereunder, judicial decisions, and administrative positions of the Internal Revenue Service (the "Service"). All Section references in this summary are to Sections of the IRC. Any change in the foregoing authorities may be applied retroactively in a manner that could adversely affect persons considering the Plan.

No ruling will be sought from the Service with respect to the federal income tax aspects of the Plan and there can be no assurance that the conclusions set forth in this summary will be accepted by the Service. No opinion has been sought or obtained with respect to the tax aspects of the Plan.

THIS SUMMARY IS INTENDED FOR GENERAL INFORMATION ONLY. PERSONS CONSIDERING THE PLAN ARE ADVISED TO CONSULT THEIR OWN TAX ADVISORS CONCERNING THE PARTICULAR TAX CONSEQUENCES TO THEM OF THE REORGANIZATION OF THE DEBTOR, THE RECEIPT OF ANY PAYMENT UNDER THE PLAN, AND THE IMPACT ON THAT PERSON OR ANY OTHER PERSON OF ANY

OBLIGATION IMPOSED UNDER THE PLAN. THE DEBTOR MAKES NO REPRESENTATION WITH RESPECT TO THE TAX CONSEQUENCES OF CONFIRMATION OF THE PLAN, OR THE TAX TREATMENT TO HOLDERS OF CLAIMS OR INTERESTS UNDER THE PLAN.

IRS Circular 230 Disclosure: To ensure compliance with requirements imposed by the IRS in Circular 230, you are hereby informed that (i) any tax advice contained in this Disclosure Statement is not intended or written to be used, and cannot be used, for the purpose of avoiding penalties under the Internal Revenue Code, (ii) the advice is written to support the promotion or marketing of the transactions or matters addressed in the Disclosure Statement and (iii) each Holder should seek advice based on its particular circumstances from an independent tax advisor.

A. Tax Consequences to the Debtor

Under the IRC, a taxpayer generally must include in gross income the amount of any discharge-of-indebtedness income realized during the taxable year. If, as contemplated under the Plan, the Debtor pays all Allowed Claims, the Debtor will not recognize any discharge-of-indebtedness income pursuant to Section 108 of the IRC. If, however, the Debtor does not pay all Allowed Claims in full, then the Debtor may be required to realize discharge-of-indebtedness income.

B. Tax Consequences To Holder of Interests

Under the Plan, each Holder of an Interest in the Debtor will retain its Interest in the Debtor after the Effective Date, unless otherwise provided under the Plan. The amount, character and timing of any gain or loss recognized by the Holder of any Interest depends on a variety of factors, including the individual circumstances of such Holder. Each Holder of an Interest in the Debtor should consult with its own tax advisor to determine the impact of retaining its Interest in the Debtor.

C. Tax Consequences to Holders of Claims

A Holder of an Allowed Claim who receives Cash or other consideration in satisfaction of any Allowed Claim may recognize ordinary income. Each Holder of a Claim is urged to consult with its tax advisor regarding the tax implications of any Distributions it may receive under the Plan.

D. Information Reporting and Withholding

All Distributions to Holders of Claims or Interests are subject to any applicable withholding (including employment tax withholding). Under the IRC, interest, dividends and other "reportable payments" may, under certain circumstances, be subject to "backup withholding" then in effect. Backup withholding generally applies if the Holder (1) fails to furnish its social security number or other taxpayer identification number ("TIN"), (2) furnishes an incorrect TIN, (3) fails properly to report interest or dividends or (4) under certain circumstances, fails to provide a certified statement, signed under penalty of perjury, that the TIN provided is its correct number and that it is not subject to backup withholding. Backup

withholding is not an additional tax but merely an advance payment, which may be refunded to the extent it results in an overpayment of tax. Certain persons are exempt from backup withholding, including, in certain circumstances, corporations and financial institutions.

THE FOREGOING SUMMARY OF CERTAIN MATERIAL FEDERAL INCOME TAX CONSEQUENCES HAS BEEN PROVIDED FOR INFORMATIONAL PURPOSES ONLY AND IS NOT A SUBSTITUTE FOR CAREFUL TAX PLANNING AND ADVICE BASED UPON THE INDIVIDUAL CIRCUMSTANCES PERTAINING TO A HOLDER OF A CLAIM OR INTEREST. EACH HOLDER OF A CLAIM OR INTEREST IS URGED TO CONSULT ITS OWN TAX ADVISOR FOR THE FEDERAL, STATE, LOCAL AND FOREIGN INCOME AND OTHER TAX CONSEQUENCES THAT MAY BE APPLICABLE UNDER THE PLAN.

XII. CONCLUSION

The Proponents urge Holders of Claims to vote to **ACCEPT** the Plan and to evidence such acceptance by returning their ballots so that they will be received by **5:00 p.m. HDST on _____, 2012.**

M WAIKIKI, LLC

By: */s/ Damian McKinney*
Damian McKinney
Its Manager

THE DAVIDSON FAMILY TRUST DATED DECEMBER 22, 1999, AS AMENDED

By: */s/ Mark R. Herron*
Mark R. Herron
Its Authorized Representative

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