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13 **IN THE UNITED STATES BANKRUPTCY COURT**
14 **FOR THE DISTRICT OF ARIZONA**

15 In re:
16 SUNSHINE HOTELS, LLC,
17 SUNSHINE HOTELS II, LLC,
18
19 Debtors.

20 In Proceedings Under Chapter 11
21 Case No. 0:13-bk-01560-BMW
22 Case No. 0:13-bk-01561-BMW
23
24 (Jointly Administered)

25 Filing applies to:

26 SUNSHINE HOTELS, LLC,
27 SUNSHINE HOTELS II, LLC
28 BOTH

29 **FIRST AMENDED DISCLOSURE STATEMENT IN SUPPORT OF**
30 **SUNSHINE HOTELS, LLC'S**
31 **FIRST AMENDED PLAN OF REORGANIZATION DATED JULY 25, 2013**

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I.
INTRODUCTION

Pursuant to 11 U.S.C. § 1125, this *First Amended Disclosure Statement in Support of Sunshine Hotels, LLC's First Amended Plan of Reorganization Dated July 25, 2013* (the "Disclosure Statement") is submitted by the following debtor-in-possession:

- Sunshine Hotels, LLC ("Sunshine" and the "Debtor"), the debtor-in-possession in Chapter 11 case number 0:13-bk-01560-BMW.

The purpose of this Disclosure Statement is to provide adequate information to the holders of claims or interests in this matter so that they may make an informed judgment in exercising their right to vote for acceptance or rejection of the *Sunshine Hotels, LLC's First Amended Plan of Reorganization dated July 25, 2012* (the "Plan"), a copy of which is attached as Exhibit "A". **THE DEBTOR RECOMMENDS THAT YOU VOTE TO ACCEPT THE PLAN IN ORDER TO MAXIMIZE THE RECOVERY OF YOUR CLAIM.**

Capitalized terms used in this Disclosure Statement will correspond to terms defined in the Plan and the Bankruptcy Code. Terms used in this Disclosure Statement that are also defined in the Plan are defined solely for convenience; and the Debtor does not intend to change the definitions of those terms from the Plan. If there is any inconsistency between the Plan and this Disclosure Statement, the Plan is, and will be, controlling.

II.
OVERVIEW OF CHAPTER 11

A. Information Regarding the Plan and Disclosure Statement.

The objective of a Chapter 11 case is the confirmation (*i.e.*, approval by the Bankruptcy Court) of a plan of reorganization or liquidation. A Chapter 11 plan describes in detail (and in language appropriate for a legal contract) the means for satisfying the claims against and equity interests in a debtor, or in this case, the Debtor. After a plan has been filed, the holders of claims and equity interests are permitted to vote to accept or reject the plan. Before a debtor can solicit acceptances of its plan, however, 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 those parties entitled to vote on the plan to make an informed judgment about the plan and about whether they should accept or reject the plan.

The purpose of this Disclosure Statement is to provide sufficient information about the Debtor and the Plan to enable you to make an informed decision in exercising

1 your right to accept or reject the Plan. Therefore, this Disclosure Statement provides
2 relevant information about the Debtor, their property and financial condition, and the
3 Plan.

4 This Disclosure Statement will be used to solicit acceptances of the Plan only after
5 the Bankruptcy Court has entered an order approving this Disclosure Statement.
6 Approval by the Bankruptcy Court of this Disclosure Statement means only that the
7 Bankruptcy Court has found that this Disclosure Statement contains sufficient
8 information for the Debtor to transmit the Plan and Disclosure Statement to Creditors and
9 to solicit acceptances of the Plan.

10 After the Bankruptcy Court has granted approval of this Disclosure Statement and
11 there has been voting on the Plan, the Bankruptcy Court will conduct a Confirmation
12 Hearing concerning whether the Plan should be approved. At the Confirmation Hearing,
13 the Bankruptcy Court will consider whether the Plan satisfies the various requirements of
14 the Bankruptcy Code. The Bankruptcy Court also will receive and consider a ballot
15 report prepared by the Debtor that will present a tally of the votes accepting or rejecting
16 the Plan cast by those entitled to vote. Accordingly, all votes are important because they
17 can determine whether the Plan will be confirmed. Once confirmed, the Plan is
18 essentially a new contract between the Debtor and its Creditors and is binding on all
19 Creditors and other parties-in-interest in the Debtor's Bankruptcy Case regardless of
20 whether any particular Creditor voted to accept the Plan.

21 **THIS DISCLOSURE STATEMENT IS NOT THE PLAN.
22 FOR THE CONVENIENCE OF CREDITORS AND
23 HOLDERS OF EQUITY INTERESTS, THE PLAN IS
24 SUMMARIZED IN THIS DISCLOSURE STATEMENT.
25 ALL SUMMARIES ARE QUALIFIED IN THEIR
26 ENTIRETY BY THE PLAN ITSELF. IN THE EVENT OF
ANY INCONSISTENCY BETWEEN THIS DISCLOSURE
STATEMENT AND THE PLAN, THE PLAN WILL
CONTROL.**

27 **B. Representations.**

28 This Disclosure Statement has not been subjected to a certified audit; however, it
29 has been prepared in part from information compiled by the Debtor from records
30 maintained in the ordinary course of business or from information received by the Debtor
31 from third parties. Every effort has been made to be as accurate as possible in the
32 preparation of this Disclosure Statement. Nevertheless, the inclusion of financial
33 information in this Disclosure Statement and exhibits is subject to adjustment, and the
34 Debtor reserves all rights to object to or challenge any Claims that are filed or asserted in
35 the Case. This is a solicitation by the Debtor only and is not a solicitation by its
36 attorneys, agents, financial advisors, or accountants. No statement or information

1 concerning the Debtor or its assets or securities is authorized, other than as set forth in the
2 Disclosure Statement.

3 **THE COURT HAS NOT VERIFIED THE ACCURACY OF THE**
4 **INFORMATION CONTAINED HEREIN. THE COURT'S APPROVAL OF THIS**
5 **DISCLOSURE STATEMENT IS NOT A CERTIFICATION BY THE COURT**
6 **REGARDING THE TRUTH AND ACCURACY OF THE STATEMENTS**
7 **CONTAINED HEREIN, NOR DOES THE COURT'S APPROVAL IMPLY THAT**
8 **THE COURT ENDORSES OR APPROVES THE PLAN, BUT ONLY THAT IF**
9 **THE INFORMATION CONTAINED IN THE DISCLOSURE STATEMENT IS**
10 **ACCURATE, IT IS SUFFICIENT TO PROVIDE AN ADEQUATE BASIS FOR**
11 **CREDITORS TO MAKE AN INFORMED DECISION WHETHER TO ACCEPT**
12 **OR REJECT THE PLAN.**

13 **III.**
14 **BACKGROUND & EVENTS LEADING TO FILING**

15 Sunshine is a California limited liability company, formed in 2002 to purchase and
16 operate the SpringHill Suites by Marriott hotel (the "Sunshine Hotel") located in
17 Hesperia, California. Sunshine Hotel is a 55,000 square foot, three story hotel that
18 opened in 2005 and has 63 suites for available for guests. Sunshine Hotel also has an
19 indoor heated swimming pool, spa, fitness room, meeting room, and wireless high speed
20 internet.¹

21 The Debtor's primary creditor is S2 Hospitality, LLC ("S2 Hospitality"). S2
22 Hospitality holds a lien on the real and personal property that comprises the Sunshine
23 Hotel (the "Sunshine Loan"). The Sunshine Loan is secured by, among other things, the
24 Sunshine Deed of Trust dated January 18, 2008 and recorded in the Official Records of
25 San Bernardino County Recorder on January 18, 2008, as record number 2008-0026098,
26 and a UCC-1 Financing Statement in the Office of the Secretary of State of California on
January 29, 2008 as Filing No. 08-7145682273. The Sunshine Loan was originally
obtained by the Debtor from Specialty Finance Group, LLC on January 18, 2008. Upon
information and belief, S2 Hospitality, along with other undisclosed participants,
purchased the Sunshine Loan from the FDIC on or about April 8, 2011.

On or about February 1, 2013 the Sunshine Loan matured. S2 Hospitality and the
Debtor engaged in preliminary negotiations to restructure the Sunshine Loan but could
not reach an agreement. With the potential for S2 Hospitality to foreclose on the
Sunshine Hotel, the Debtor was left with no other option but to seek Chapter 11

¹ See <http://www.marriott.com/hotels/travel/ontsh-springhill-suites-victorville-hesperia/>,
and photographs of the Sunshine Hotel attached hereto as Exhibit "E".

1 bankruptcy protection.

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3 **IV.**
POST-PETITION PROCEEDINGS AND EVENTS

4 **A. Summary of Key Events Related to the Bankruptcy Case.**

5 While more detailed information related to the events in the Bankruptcy Case can
6 be obtained by assessing the Bankruptcy Court's CM/ECF filing system and reviewing
7 the pleadings filed in Case Nos. 0:13-bk-01560-BMW and 0:13-bk-01561-BMW, the
8 following is a summary of certain key bankruptcy-related proceedings and events
9 associated with this Bankruptcy Case:

10 **1. Filing of Bankruptcy Petitions.**

11 On February 4, 2013, the Debtor filed a voluntary petition for relief under chapter
12 11 of title 11 of the United States Code, 11 U.S.C. §§ 101 et seq. (the "Bankruptcy
13 Code"). Debtor continues to be in possession of its property and the management of its
14 business as debtor-in-possession pursuant to §§ 1107 and 1108 of the Bankruptcy Code.
15 No trustee, creditor committee or examiner has been appointed.

16 **2. Early Case Filings.**

17 On the Petition Date, the Debtor filed several "first day" motions, including (a)
18 *Application for an Order Under 11 U.S.C. § 327 (a) Authorizing the Employment of
19 Gallagher & Kennedy, P.A. as General Bankruptcy Counsel and Restructuring Counsel
20 to the Debtor* [Docket No. 4] (the "G&K Employment Application"); (b) *Emergency
21 Motion For Interim And Final Orders Authorizing Use Of Cash Collateral* [Docket No.
22 6] (the "Cash Collateral Motion"); (c) *Emergency Motion For An Order Determining
23 Adequate Assurance Of Payment For Future Utility Services* [Docket No. 7] (the "Utility
24 Motion") (d) *Emergency Motion For Order Authorizing The Payment Of Pre-Petition
25 Employee Wages, Salary, And Other Compensation And Authorizing Banks To Honor
26 Checks For Employee Obligations* [Docket No. 8] (the "Wage Motion"); and (e) *Motion
For Order Authorizing Maintenance Of Debtors' Existing Bank Accounts And Cash
Management System* [Docket No. 9] (the "Bank Account Motion").

On February 8, 2013, the Court approved the *Order Authorizing Joint
Administration* of the Sunshine and Sunshine II bankruptcy cases and the G&K
Employment Application. On the same day the Debtor's Cash Collateral Motion, Wage
Motion and Bank Account Motion were approved on an interim basis.

1 On February 14, 2013 Debtors filed the *Application for Approval and*
2 *Reimbursement of Expenses Incurred by Advance Management for Funding Pre-Petition*
3 *Wages* (the “Reimbursement Application”) [Docket No. 37].

4 Following a hearing March 6, 2013 the Court entered orders granting the Cash
5 Collateral Motion, Wage Motion and Bank Account Motion on a final basis. The order
6 granting Debtors’ Reimbursement Application was filed and entered on March 15, 2013.

7 **V.**
8 **DESCRIPTION OF ASSETS AND LIABILITIES**

9 **A. Sunshine.**

10 Sunshine’s primary asset consists of the Sunshine Hotel. Payment of the Sunshine
11 Note was (and is) secured by a Lien on the Sunshine Hotel, which Lien is evidenced by,
12 among other things, a Deed of Trust, Assignment of Leases and Rents and Security
13 Agreement dated January 18, 2008 and UCC-1 Financing Statement in the Office of the
14 Secretary of State of California on January 29, 2008 as Filing No. 08-7145682273.
According to an appraisal dated October 31, 2012, acquired by the Debtor, but
commissioned by third-parties, the market value of the Sunshine assets is at least
\$7,420,000. Sunshine’s total unsecured debt is estimated at approximately \$17,350 and
consists mainly of trade debts.

15 More information regarding Sunshine’s assets and alleged liabilities may be
16 obtained by reviewing Sunshine’s bankruptcy Schedules and Statement of Financial
17 Affairs [Docket No. 1] and the Claims Register for Case No. 0:13-bk-01560-BMW.

18 **VI.**
19 **FINANCIAL CONDITION AND ANALYSIS**

20 The persistent economic downturn in recent years has negatively impacted the
21 Debtor’s cash flow and ability to service debt, yet the Debtor remains in a cash flow
22 positive position and the Debtor’s business operations have remained fairly stable
23 throughout the Chapter 11 case. Sunshine is current on all of its post-petition obligations.
Attached as **Exhibit “B”** are the Debtor’s 5 year financial projections, under the Plan.
The Debtor believes that the projections are conservative and evidence its ability to
timely fund all payments under the Plan.

24 Attached as **Exhibits “D”** is a copy of the most recent operating report filed by the
25 Debtor.
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VII.
SOURCES OF INFORMATION

The financial information contained in this Disclosure Statement is derived from a number of sources. Values ascribed to Debtor's Assets were provided by the Debtor and third party appraisers. Information on Claims of Creditors was obtained from the financial records of the Debtor, and the statements and schedules on file in the Bankruptcy Case.

The information contained in this Disclosure Statement represents the Debtor's best estimate in light of current market conditions and past experience. All the information provided is subject to change and represents the best information available at the time, the actual results may differ.

The accounting and financial information provided by the Debtor is based on Generally Accepted Accounting Principles ("GAAP") and the calculations were prepared by the Debtor's accountants and professionals.

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VIII.
SUMMARY OF THE PLAN

The following provides a summary of the overall structure and classification of claims against or interests of or in the Debtor and is qualified in its entirety by reference to the Plan, which is attached as **Exhibit "A"**. The statements in this Disclosure Statement include summaries of the provisions contained in the Plan. This summary does not purport to be a complete statement of all terms in the Plan, and reference is made to the Plan for the full and complete statement of such terms. The Plan controls the treatment of Claims against and Member Equity Interests of and in the Debtor and other parties-in-interest. Where Claims are divided into subclasses in the Plan, each subclass will be considered to be a separate class for all confirmation purposes, including treatment and voting on the Plan.

A. Classification and Treatment of Claims and Interests.

1. Class 1(a) (S2 Hospitality Secured Claim). Class 1(a) consists of the Secured Claim of S2 Hospitality, LLC.

2. Class 1(b) (Secured Claims of Salamone). Class 1(b) consists of the Secured Claims of Salamone.

3. Class 2 (Secured Claim of TD Auto Finance). Class 2 consists of the Secured Claim of TD Auto Finance.

1 **4. Class 3 (Secured Tax Claim).** Class 3 consists of the Secured Tax Claim of
2 San Bernardino County against Sunshine.

3 **5. Class 4 (Unsecured Claims Against Sunshine).** Class 4 consists of all
4 Unsecured Claims against Sunshine other than Priority Claims.

5 **6. Class 5 (Member Equity Interest in Sunshine).** Class 5 consists of the
6 Member Equity Interests in Sunshine.

7 **B. Summary of Treatment of Unclassified Claims Under the Plan.**

8 **1. Administrative Claims.** Every Creditor holding an Allowed
9 Administrative Claim against the Debtor will be paid, in full satisfaction of their Allowed
10 Claim: (a) fully and in Cash on or before the Effective Date if the Claim is then an
11 Allowed Claim; (b) fully and in Cash when and if the Claim becomes an Allowed Claim
12 after the Effective Date; or (c) as otherwise agreed in writing by the Creditor holding the
13 Allowed Administrative Claim or ordered by the Bankruptcy Court. Administrative
14 Claims are unimpaired pursuant to the Plan and votes to accept or reject the Plan will not
15 be solicited from Creditors holding Administrative Claims.

16 Pursuant to 11 U.S.C. Section 503(b)(1)(D): Notwithstanding the requirements of
17 subsection (a) a governmental unit shall not be required to file a request for the payment
18 of an expense described in subparagraph (B) as a condition of its being an allowed
19 administrative expense.

20 The secured claim of the San Bernardino California Taxing Authority for the 2013-
21 2014 fiscal year will be paid timely and in the normal course of business with all
22 applicable costs, fees, charges and interest pursuant to 11 USC Sections 506(b) and 511.

23 **2. Administrative Claims Bar Date.** Proofs of claim (or, for Professional
24 Charges, fee applications) requesting payment of administrative costs and expenses
25 incurred prior to the Effective Date pursuant to Sections 507(a)(1) and 503(b) of the
26 Bankruptcy Code must be served and filed with the Bankruptcy Court no later than thirty
(30) days after the Effective Date; provided, however, that proofs of claim will not be
required with respect to any unpaid post-petition operating expenses incurred in the
normal course of the Debtor's business prior to the Effective Date. Any such Claim that is
not served and filed within this time period will be forever barred. Any Claims for fees,
costs, and expenses incurred by any Chapter 11 Professionals after the Effective Date will
be paid in the ordinary course of the Debtor's business.

3. Priority Tax Claims. Priority Tax Claims are certain pre-Petition Date
unsecured income, employment and other taxes described by Section 507(a)(8) of the

1 Bankruptcy Code. The Bankruptcy Code requires, and thus this Plan provides, that each
2 holder of a Section 507(a)(8) Allowed Priority Tax Claim receives regular installment
3 payments in cash of a total value, as of the Effective Date, equal to the allowed amount of
4 such claim over a period ending not later than five (5) years after the Petition Date, in a
manner not less favorable than non-priority, unsecured claims.

5 **C. Summary of Treatment of Impaired Classes.**

6 **1. Class 1(a) (S2 Hospitality Secured Claim).**

7 (a) Description: Class 1(a) consists of the Allowed S2 Hospitality Secured
8 Claim.

9 (b) Treatment: On the Effective Date, Class 1(a) shall receive on account of
10 the Allowed S2 Hospitality Secured Claim the treatment described in the Amended Loan
11 Documents, which are incorporated by reference herein and made a part hereof. The
Amended Loan Documents shall provide, among other things, for the following:

12 1. Payment. The Allowed S2 Hospitality Secured Claim shall be paid
13 as follows:

14 a. Effective Date Payment: On the Effective Date, the Reorganized Debtor
15 shall pay S2 Hospitality \$150,000 in cash, which will reduce the Allowed S2 Hospitality
Secured Claim to \$5,592,567.88.

16 b. Initial Term: The balance of the Allowed S2 Hospitality Secured Claim
17 (\$5,592,567.88) shall be paid over three (3) years commencing as of September 1, 2013
18 (the "Initial Term"). Payments during the Sunshine Initial Term shall be amortized over
19 25 years and interest on the balance of the Allowed S2 Secured Claim during the Initial
20 Term shall be at the rate equal to the sum of (x) the greater of (A) the LIBOR Rate (as
21 that term is defined in the S2 Hospitality Loan Documents) or (B) 0.5% plus (y) 4.00%.
22 Beginning on October 1, 2013 through and including August 31, 2015 at Borrower's
23 election, and subject to Lender receiving from Borrower prior written notice of such
24 election, Borrower may elect, with respect to any continuous six-month interval during
such period, not to pay the principal component of any monthly installment of principal
and interest and, accordingly, shall make an interest-only payment for any such
installment during such six-month interval. After August 31, 2015, monthly installments
of principal and interest shall be due and payable in accordance with the Amended Loan
Documents.

25 c. Extension Options: Reorganized Debtor shall have two (2) one-year further
26 extension options of the Initial Term (such extension options of the Initial Term, the

1 “First Extension Option” and the “Second Extension Option” and the term under each
2 option, the “First Extension Term” and the “Second Extension Term”), subject to a single
3 0.40% extension fee of the unpaid balance of the Allowed S2 Hospitality Secured Claim
4 which shall be paid concurrently with the exercise of the First Extension Option. During
5 the First Extension Term, the remaining balance of the Allowed S2 Hospitality Secured
6 Claim shall bear interest at a rate equal to the sum of (x) the greater of (A) the LIBOR
7 Rate or (B) 0.5%, plus (y) 4.50%. During the Second Extension Term, the remaining
8 balance of the Allowed S2 Hospitality Secured Claim shall bear interest at the rate equal
9 to the sum of (x) the greater of (A) the LIBOR Rate or (B) 0.5%, plus (y) 5.0%. The
10 Reorganized Debtor’s right to exercise the First Extension Option and the Second
11 Extension Option is subject to the terms and conditions set forth in the Amended Loan
12 Documents including, without limitation (a) the non-existence of any defaults under the
13 Plan or the Amended Loan Documents, and (b) for the full calendar year immediately
14 preceding First Amended Maturity Date and the Second Amended Maturity Date,
15 respectively, (as those terms are defined in the Amended Loan Documents), DSCR (as
16 defined in the Amended Loan Documents) shall have been no less than 1.10:1.00.
17 Reorganized Debtor shall provide notice of the exercise of any further extension option in
18 the manner described in the Amended Loan Documents.

13 d. Postpetition Adequate Protection Payments: S2 Hospitality shall retain the
14 payments made by the Debtor in accordance with the Final Order Authorizing and
15 Approving Debtors’ Use of Cash Collateral [Docket No. 51].

15 2. Security: The Allowed S2 Hospitality Secured Claim shall continue
16 to be secured by all existing S2 Hospitality Loan Documents and the Liens provided for
17 therein, as amended and restated by the Amended Loan Documents.

18 3. Inconsistencies: To the extent of any inconsistency between the
19 Plan and the Amended Loan Documents, the Amended Loan Documents shall control.

19 **2. Class 1(b) (Secured Claims of Salamone).**

20 Class 1(b) consists of the Allowed Secured Claims of Salamone against Sunshine.
21 Salamone secured payment of the Salamone Note by a junior lien on the Sunshine Hotel,
22 which lien is evidenced by, among other things, a Deed of Trust dated December 31,
23 2008 (the “Cross Collateralization Lien”). The Cross Collateralization Lien was created
24 in conjunction with a Promissory Note secured by a Deed of Trust dated December 31,
25 2008 (the “Temecula Vineyard Note”). The Temecula Vineyard Note is not in default
26 and the underlying debt is being serviced according to the terms of the Temecula
Vineyard Note. Because of the performing nature of the Temecula Vineyard Note,
Salamone holds no actual Claim in this Case other than its interest under the Cross

1 Collateralization Lien. Salamone will retain its existing Cross Collateralization Lien on
2 the Sunshine Hotel, but will not receive any payments from the Debtor under the Plan.

3 The payment of the Allowed Secured Claims of Salamone is hereby expressly
4 subordinated to the payment in full of the Allowed S2 Hospitality Secured Claim; and
5 regardless of any priority otherwise available to Salamone by law or by agreement, S2
6 Hospitality shall hold first priority Liens in the collateral covered by the S2 Hospitality
7 Loan Documents, and the Cross-Collateralization Lien claimed by Salamone shall be
8 and remain fully subordinate for all purposes to the Liens of S2 Hospitality. Salamone
9 shall not exercise any rights and/or remedies against collateral covered by the S2 Loan
10 Documents unless and until the Allowed S2 Hospitality Secured Claim is paid in full.
11 Salamone will take no action to impede, or otherwise interfere with in any way
12 whatsoever, the exercise of rights and/or remedies by S2 Hospitality pursuant to the
13 Amended Loan Documents.

14 **3. Class 2 (Secured Claim of TD Auto Finance).**

15 Allowed Class 2 Claims will be paid by Debtor in monthly installments of
16 principal and interest. Allowed Class 2 Claims will be paid on a 4-year amortization
17 schedule. Interest on the Class 2 Claims will be computed at the contract rate from and
18 after the Effective Date. The first monthly installment on Allowed Class 2 Claims will be
19 due on the first day of the month that is thirty (30) days after the Effective Date.
20 Thereafter, monthly installments of principal and interest will be paid on the first day of
21 each succeeding month. No prepayment penalty or premium of any kind shall apply to
22 the repayment, and Debtor can prepay Allowed Class 2 Claims at any time after the
23 Effective Date for the amount of principal and interest then owing. The holder of the
24 Allowed Class 2 Claim will retain its lien on the vehicle that served as collateral for the
25 Class 2 Claim as of the Petition Date.

26 **4. Class 3 (Secured Tax Claims).**

Allowed Class 3 Claims will be paid by the Debtor in full within five (5) years of
the Petition Date through regular equal monthly payments of principal and interest,
including all applicable costs, fees, charges and interest allowed pursuant to 11 USC
Sections 506(b) and 511. The holder of Class 3 Claims will retain its lien on the
applicable property that served as collateral for the Class 3 Claims as of the Petition Date.
The Class 3 Claims are for real property taxes assessed by San Bernardino County against
Sunshine real property. Holders of Allowed Class 3 Claims will retain their lien on the
property that serves as security for repayment of Allowed Class 3 Claims. The Allowed
Class 3 claims, including post-petition interest at 18% per annum, in accordance with 11
U.S.C. § 511 and California Revenue and Taxation Code Section 4103(b), will be paid in
full within five (5) years of the Petition Date through regular equal monthly payments of

1 principal and interest. Real property taxes for fiscal tax year 2013-14 and future fiscal
2 years shall be paid in the ordinary course of business, timely and as such taxes become
3 due including all applicable costs, fees, charges and interest allowed pursuant to 11 USC
Sections 506(b) and 511.

4 **Class 4 (Unsecured Claims Against Sunshine).**

5 Class 4 consists of any Allowed Unsecured Claims against Sunshine other than
6 Priority Claims. Allowed Class 4 Claims will accrue interest from and after the Effective
7 Date at the rate of 2% per annum (or such other rate as the Court may determine, if any, is
8 required by the Code). Interest will not compound (simple interest) and will be paid with
9 the annual payments. Holders of Allowed Class 4 Claims will be paid beginning on the
10 first anniversary of the Effective Date, and continuing on the anniversary date each
succeeding year until paid in full. All Allowed Class 4 Claims will be paid in full on or
before the second anniversary of the Effective Date.

11 **IX.**
12 **OVERVIEW OF ADDITIONAL PLAN PROVISIONS**

13 **A. Implementation of the Plan & Conditions to Effectiveness.**

14 The means of execution of the Plan are and will be as follows:

15 **1. Conditions Precedent to Confirmation.** The Plan shall not be confirmed
16 by the Bankruptcy Court unless and until the following conditions shall have been
satisfied or waived:

17 (i) The Confirmation Order shall be in form and substance reasonably
18 acceptable to the Debtor and S2 Hospitality;

19 (ii) The Confirmation Order shall have been entered;

20 (iii) All exhibits to the Plan and the Amended Loan Documents shall be in form
21 and substance reasonably acceptable to the Debtor and S2 Hospitality and
approved by the Bankruptcy Court; and

22 (iv) The Confirmation Order shall not vary the terms and provisions of the
23 treatment of the Allowed S2 Hospitality Secured Claim as provided herein or the
24 provisions of the Amended Loan Documents.

25 **2. Condition to the Occurrence of the Effective Date.** The Plan shall not be
26 effective, and the Effective Date shall not occur unless and until the Confirmation Order
shall be a Final Order (with no modification or amendment thereof), and there shall be no

1 stay or injunction that would prevent the occurrence of the Effective Date unless this
2 provision has been waived by the Debtor and S2 Hospitality.

3 **3. Implementation.** The Plan will be funded from the Debtor's ongoing
4 business operations.

5 **4. Exit-Financing.** To the extent necessary, the Debtor will obtain a line of
6 credit, secured by Sunshine's unencumbered equipment, inventory, and other personal
7 property (if any), to fund Effective Date payments to Creditors under the Plan and to
8 cover short-term cash needs over the life of the Plan.

9 **5. Future Management of Debtor** after the Effective Date, the management
10 of the Debtor will continue to be provided by Advance Management & Investment, LLC.

11 **B. Resolution of Claims, Demands, and Causes of Action.**

12 **1. Preservation of Debtor's Claims, Demands, and Causes of Action.** All
13 claims, demands, and causes of action of any kind or nature whatsoever held by, through,
14 or on behalf of the Debtor arising before the Effective Date and that have not been
15 resolved or disposed of prior to the Effective Date, are preserved in full for the benefit of
16 the Debtor and the Debtor will own and retain, and may prosecute, enforce, compromise,
17 settle, release, or otherwise dispose of, any and all claims, defenses, counterclaims,
18 setoffs, and recoupments belonging to the Debtor.

19 **2. Procedure for Determination of Claims.**

20 **(a) Objections to Claims.** Except as to any Claim that has been
21 Allowed prior to the Effective Date, the Debtor may object to the allowance of any Claim
22 against the Debtor or seek estimation of any Claim. No other person shall have standing
23 to object to any Claims against the Debtor. The Bankruptcy Court will hear and
24 determine all objections to Claims.

25 **(b) Disputed Claims.** No payments or other distributions will be made
26 to holders of Claims unless and until such Claims are Allowed Claims pursuant to a Final
Order. If a Claim is not an Allowed Claim by or on the Effective Date or when payment
is otherwise due under the Plan, payment of the Allowed Claim will be made when a
Claim becomes an Allowed Claim after the Effective Date or as otherwise specifically
provided in the Plan.

(c) Treatment of Contingent Claims. Until such time as a contingent
Claim or a contingent portion of an Allowed Claim becomes fixed or absolute or is
Disallowed, such Claim will be treated as a Disputed Claim for all purposes related to
distributions under the Plan. The holder of a contingent Claim will only be entitled to a

1 distribution under the Plan when and if such contingent Claim becomes an Allowed
2 Claim.

3 **3. Administrative Claims Bar Date.** Proofs of claim (or, for Professional
4 Charges, fee applications) requesting payment of administrative costs and expenses
5 incurred prior to the Effective Date pursuant to Sections 507(a)(1) and 503(b) of the
6 Bankruptcy Code must be served and filed with the Bankruptcy Court no later than thirty
7 (30) days after the Effective Date; provided, however, that proofs of claim will not be
8 required with respect to any unpaid post-petition operating expenses incurred in the
9 normal course of the Debtor's businesses prior to the Effective Date. Any such Claim that
is not served and filed within this time period will be forever barred. Any Claims for fees,
costs, and expenses incurred by any Chapter 11 Professionals after the Effective Date will
be paid in the ordinary course of the Debtor's business.

10 **C. Treatment of Executory Contracts.**

11 **1. Rejection of Executory Contracts.** The Plan contemplates and provides
12 for the rejection, pursuant to Section 365 of the Bankruptcy Code, of any and all
13 Executory Contracts of the Debtor which are in force on the Confirmation Date, except
14 those Executory Contracts which were specifically assumed pursuant to an order of the
15 Court.

16 **2. Assumption of Other Executory Contracts.** Before the Confirmation
17 Hearing, the Debtor may file one or more motions identifying any Executory Contracts
18 that it intends to assume as of the Effective Date; and such motions and the Bankruptcy
19 Court's orders thereon will be deemed incorporated in the Plan. All Executory Contracts
20 not otherwise assumed will be rejected as of the Confirmation Date.

21 **3. Rejection Claims Bar Date.** Every Claim asserted by a Creditor arising
22 from an Executory Contract that is rejected under the Plan must be filed with the
23 Bankruptcy Court no later than the first Business Day that is thirty (30) days after the
24 Effective Date. Every such Claim that is timely filed will be treated under the Plan as an
25 Unsecured Claim. Every such Claim that is not timely filed by the deadline stated above
26 will be forever barred, unenforceable, and discharged, and the Creditor holding the Claim
will not receive or be entitled to any distribution under the Plan on account of such
Claim.

D. Miscellaneous Plan Provisions.

1. Retention of Jurisdiction. As described in detail in the Plan, the Plan
provides for the retention of jurisdiction by the Bankruptcy Court over various aspects of
the Debtor's Bankruptcy Case from and after the Effective Date.

1 **2. General Injunction.** Except as otherwise expressly provided in the Plan,
2 the Confirmation Order shall provide, among other things, that all parties-in-interest who
3 have held, hold, or may hold Claims are permanently enjoined on and after the Effective
4 Date from: (a) commencing or continuing in any manner any action or other proceeding
5 of any kind with respect to any such Claim against the Debtor or any successor-in-interest
6 of the Debtor, against property of the Debtor, or against property of any successor-in-
7 interest of the Debtor; (b) the enforcement, attachment, collection, or recovery by any
8 manner or means of any judgment, award, decree, or order against the Debtor or any
9 successor-in-interest of the Debtor, property of the Debtor, or against property of any
10 successor-in-interest of the Debtor with respect to any such Claim; (c) creating,
11 perfecting, or enforcing any encumbrance of any kind against the Debtor or any
12 successor-in-interest of the Debtor, against property of the Debtor, or against property of
13 any successor-in-interest of the Debtor with respect to any such Claim; (d) from asserting
14 any setoff, right of subrogation, or recoupment of any kind against any obligation due the
15 Debtor or any successor-in-interest of the Debtor, against property of the Debtor, or
16 against property of any successor-in-interest of the Debtor, with respect to any such
17 Claim; (e) conducting any form of discovery from the Debtor with respect to any such
18 Claim, or any successor-in-interest of the Debtor; and/or (f) harassing the Debtor or any
19 successor-in-interest of the Debtor.

20 **3. Vesting.** As of the Effective Date of the Plan, Debtor shall be vested with
21 all of the Assets of the Estate. All assets transferred to the Debtor shall be free and clear
22 of all liens, claims, and interest of creditors and parties-in-interest, except as specifically
23 provided in the Plan. Upon the Effective Date, except as provided in the Plan, the Debtor
24 shall be free to borrow without further Bankruptcy Court order, such sums of money
25 upon such terms and conditions as it may, in its sole discretion, determine, including the
26 granting of liens and purchase money security interests.

4. Payment of Statutory Fees and Filing of Quarterly Reports. All fees
payable pursuant to 28 U.S.C. § 1980, as determined by the Bankruptcy Court at or in
conjunction with the Confirmation Hearing, will be paid on or before the Effective Date
and, thereafter, in accordance with applicable bankruptcy law. All quarterly reports of
disbursements required to be filed by applicable bankruptcy law will be filed in
accordance with applicable bankruptcy law.

X.
FEDERAL TAX CONSEQUENCES

A. No Federal Tax Consequences.

1 Each holder of a claim is urged to consult with its own tax advisor regarding the
2 federal, state, local and other tax consequences of the Plan. No rules have been requested
3 from the Internal Revenue Service with respect to any of the tax aspects of the Plan.

4 **XI.**
5 **VOTING PROCEDURES AND REQUIREMENTS**

6 **A. Parties Entitled to Vote.**

7 If you hold an Allowed Claim that is “impaired” under the Plan, you are entitled to
8 vote to accept or reject the Plan. Accordingly, to be entitled to vote, your Claim must be
9 “allowed” as set forth in Section 502 of the Bankruptcy Code or temporarily allowed as
10 set forth in Bankruptcy Rule 3018(a). Additionally, Section 1126(f) of the Bankruptcy
11 Code permits you to vote to accept or reject the Plan only if your Claim is “impaired.”

12 **B. Procedures for Voting.**

13 **1. Submission of Ballots.** After this Disclosure Statement has been approved
14 by the Bankruptcy Court, all Creditors whose votes are solicited (as explained above) will
15 be sent (a) a ballot, together with instructions for voting (the “Ballot”); (b) a copy of this
16 Disclosure Statement as approved by the Bankruptcy Court; and (c) a copy of the Plan.
17 You should read the Ballot carefully and follow the instructions. Please use only the
18 Ballot sent with this Disclosure Statement. You should complete your Ballot and return
19 it to:

20 GALLAGHER & KENNEDY, P.A.
21 Attn: Craig S. Ganz
22 2575 East Camelback Road, Suite 1100
23 Phoenix, AZ 85016
24 Telephone: (602) 530-8000

25 **TO BE COUNTED, YOUR BALLOT MUST BE RECEIVED AT THE ADDRESS
26 LISTED ABOVE BY 5:00 P.M., MOUNTAIN STANDARD TIME, ON [DATE
TBD]. IF YOUR BALLOT IS NOT TIMELY RECEIVED, IT WILL NOT BE
COUNTED IN DETERMINING WHETHER THE PLAN HAS BEEN ACCEPTED
OR REJECTED.**

A properly addressed, stamped return envelope will be included with your Ballot.

2 **2. Procedures for Vote Tabulation.** In determining whether the Plan has
3 been accepted or rejected, Ballots will be tabulated in accordance with the Court’s Order
4 approving this Disclosure Statement.

1 **3. Withdrawal of Ballots.** A Ballot may not be withdrawn or changed after it
2 is cast unless the Bankruptcy Court permits you to do so after notice and a hearing to
3 determine whether sufficient cause exists to permit the change.

4 **4. Questions and Lost or Damaged Ballots.** If you have any questions
5 concerning voting procedures, if your Ballot is damaged or lost, or if you believe you
6 should have received a Ballot but did not receive one, you may contact Debtor's counsel,
7 Craig S. Ganz, at the address and telephone number listed above.

8 **C. Summary of Voting Requirements.**

9 In order for the Plan to be confirmed, the Plan must be accepted by at least one (1)
10 impaired Class of Claims. For a Class of Claims to accept the Plan, votes representing at
11 least two-thirds in claim amount and a majority in number of the Claims voted in that
12 Class (not including votes of insiders) must be cast to accept the Plan.

13 **IT IS IMPORTANT THAT HOLDERS OF ALLOWED
14 IMPAIRED CLAIMS EXERCISE THEIR RIGHTS TO
15 VOTE TO ACCEPT OR REJECT THE PLAN. THE
16 DEBTOR ASSERTS THAT THE TREATMENT OF
17 CREDITORS UNDER THE PLAN IS THE BEST
18 ALTERNATIVE FOR CREDITORS, AND THE DEBTOR
19 RECOMMENDS THAT THE HOLDERS OF ALLOWED
20 CLAIMS VOTE IN FAVOR OF THE PLAN.**

21 The specific treatment of each Class under the Plan is described in the Plan and is
22 summarized in this Disclosure Statement.

23 **XII.
24 LIQUIDATION ANALYSIS**

25 The Debtor's Liquidation Analysis is attached as **Exhibit "C"**.

26 **XIII.
27 CONFIRMATION OF THE PLAN**

28 **A. Confirmation Hearing.**

29 Section 1128(a) of the Bankruptcy Code provides that the Bankruptcy Court, after
30 notice, will hold a Confirmation Hearing on the Plan. The Confirmation Hearing will be
31 held at the United States Bankruptcy Court, 38 S. Scott Avenue, Courtroom 206, Tucson,
32 Arizona, on August 28, 2013 at 10:00 a.m. THE HEARING MAY BE ADJOURNED
33 FROM TIME TO TIME BY THE COURT WITHOUT FURTHER NOTICE
34 EXCEPT FOR AN ANNOUNCEMENT MADE AT THE HEARING.

1 **B. Objections to Confirmation.**

2 Section 1128(b) of the Bankruptcy Code provides that any party-in-interest may
3 object to confirmation of the Plan, regardless of whether it is entitled to vote. Objections
4 to confirmation of the Plan are governed by Bankruptcy Rule 9014. **IF AN**
5 **OBJECTION TO CONFIRMATION IS NOT TIMELY MADE, THE COURT**
6 **NEED NOT RECEIVE AND CONSIDER IT.** All objections to confirmation of the
7 Plan must be filed with the Bankruptcy Court and served on the Debtor's counsel at the
8 address set forth above, on the United States Trustee, and on any party-in-interest who
9 has requested notice in the Debtor's Bankruptcy Case, by **[DATE TBD]**.

10 **C. Requirements for Confirmation of the Plan.**

11 **1. Confirmation Under Section 1129(a) of the Bankruptcy Code.** At the
12 Confirmation Hearing, the Bankruptcy Court will determine whether the requirements of
13 Section 1129(a) of the Bankruptcy Code have been satisfied, in which event the
14 Bankruptcy Court will enter an order confirming the Plan. Such requirements include,
15 among others:

16 (a) That the Debtor has complied with the applicable provisions of
17 Chapter 11, including the provisions of Sections 1122 and 1123 of the Bankruptcy
18 Code governing classification of claims and interests and contents of a plan of
19 reorganization.

20 (b) That the Debtor has proposed the Plan in good faith and not by any
21 means forbidden by law.

22 (c) That any payment made or promised by the Debtor to any Person for
23 services, costs, or expenses in connection with the Bankruptcy Case or the Plan
24 has been approved by or is subject to approval by the Bankruptcy Court as
25 reasonable.

26 (d) That the Debtor has disclosed the identity and affiliations of Persons
proposed to serve as officers after confirmation.

(e) That one or more of the impaired Classes of Claims has voted to
accept the Plan.

(f) That the Plan is in the best interests of holders of Claims and
Member Equity Interests; that is, each holder of an Allowed Claim or Allowed
Member Equity Interest either has accepted the Plan or will receive on account of
its Claim or Member Equity Interest property with a value, as of the Effective
Date, that is not less than the amount that the holder of such Claim or Member

1 Equity Interest would receive if the Debtor was liquidated under Chapter 7 of the
2 Bankruptcy Code on the Effective Date.

3 (g) That the Plan is feasible; that is, confirmation is not likely to be
4 followed by the need for liquidation or further reorganization of the Debtor unless
5 that is provided for in the Plan.

6 **2. Debtor Believes the Plan Satisfies Bankruptcy Code Requirements.**

7 (a) **Best Interests Test and Liquidation Analysis.** Under the best
8 interests test, the Plan is confirmable if, with respect to each impaired Class of
9 Claims or Member Equity Interests, each holder of an Allowed Claim or Allowed
10 Member Equity Interest in such Class either: (i) has accepted the Plan; or (ii) will
11 receive or retain under the Plan, on account of its Claim or Interest, property of a
12 value, as of the Effective Date, that is not less than the amount such holder would
13 receive or retain if the Debtor was liquidated under Chapter 7 of the Bankruptcy
14 Code.

15 As set forth above, the Debtor believes the distributions to Creditors under
16 the Plan will meet or exceed the recoveries that Creditors would receive in a
17 Chapter 7 liquidation of the Debtor and its Estate. The Debtor believes that the
18 Plan provides an equal or better return to Creditors than they can otherwise receive
19 under Chapter 7, and therefore the best interests of creditors test is met.

20 (b) **Feasibility of the Plan.** Section 1129(a)(11) of the Bankruptcy
21 Code includes what is commonly described as the “feasibility” standard. In order
22 for the Plan to be confirmed, the Bankruptcy Court also must determine that the
23 Plan is feasible - that is, that the need for further reorganization or a subsequent
24 liquidation of the Debtor is not likely to result following confirmation of the Plan.
25 As set forth in this Disclosure Statement and in the Plan, the Debtor believes the
26 Plan is feasible. Attached to this Disclosure Statement as **Exhibit “B”** are cash
flow projections prepared by the Debtor which reflects the ability of the Debtor to
make the payments called for under the Plan.

(c) **Acceptance by an Impaired Class.** Because the Plan impairs some
Classes of Claims, Section 1129(a)(10) of the Bankruptcy Code requires that, for
the Plan to be confirmed, at least one impaired Class must accept the Plan by the
requisite vote without counting the votes of any “insiders” (as that term is defined
in Section 101(31) of the Bankruptcy Code) contained in that Class. The Debtor
believes that at least one impaired Class will vote to accept the Plan.

1 **(d) Confirmation Under Section 1129(b) of the Bankruptcy Code.**

2 Although Section 1129(a)(8) of the Bankruptcy Code requires that the Plan be
3 accepted by each Class that is impaired by the Plan, Section 1129(b) of the
4 Bankruptcy Code provides that the Bankruptcy Court may still confirm the Plan at
5 the request of the Debtor if all requirements of Section 1129(a) of the Bankruptcy
6 Code are met except for Section 1129(a)(8) and if, with respect to each Class of
7 Claims or Member Equity Interests that (a) is impaired under the Plan, and (b) has
8 not voted to accept the Plan, the Plan “does not discriminate unfairly” and is “fair
9 and equitable.” This provision commonly is referred to as a “cramdown.” The
10 Debtor has requested cramdown confirmation of the Plan with respect to any such
11 non-accepting Class of Creditors. **The Debtor believes that, with respect to
12 such Class or Classes, the Plan meets the requirements of Section 1129(b) of
13 the Bankruptcy Code.**

14 **(1) Unfair Discrimination.** A plan of reorganization “does not
15 discriminate unfairly” if: (i) the legal rights of a non-accepting class are
16 treated in a manner that is consistent with the treatment of other classes
17 whose legal rights are related to those of the non-accepting class; and (ii)
18 no class receives payments in excess of that which it is legally entitled to
19 receive on account of its Claims or Member Equity Interests. The Debtor
20 asserts that under the Plan: (i) all classes of impaired Claims are being
21 treated in a manner that is consistent with the treatment of other similar
22 classes of Claims; and (ii) no Class of Claims will receive payments or
23 property with an aggregate value greater than the sum of the Allowed
24 Claims in the Class. Accordingly, the Debtor believes that the Plan does
25 not discriminate unfairly as to any impaired Class of Claims or Member
26 Equity Interests.

(2) Fair and Equitable Test. The Bankruptcy Code establishes
different “fair and equitable” tests for Secured Creditors, Unsecured
Creditors, and holders of Member Equity Interests, as follows:

(i) Secured Creditors. With respect to a secured claim,
“fair and equitable” means that a plan provides that either (A) the
holder of the secured claim in an impaired class retains the liens
securing such claim, whether the property subject to such liens is
retained by the debtor or transferred to another entity, to the extent
of the amount of such allowed claim, and that the holder of such
claim receives on account of such claim deferred cash payments
totaling at least the amount of such allowed claim, of a value, as of
the effective date, of at least the value of such holder’s interest in the

1 estate's interest in such property; (B) for the sale, subject to Section
2 363(k) of the Bankruptcy Code, of any property that is subject to the
3 liens securing such claim, free and clear of such liens, with such
4 liens to attach to the proceeds of such sale, and the treatment of such
5 liens on proceeds under clauses (A) and (C); or (C) the realization by
6 such holder of the "indubitable equivalent" of such claim.

7
8 (ii) **Unsecured Creditors.** With respect to an unsecured
9 claim, "fair and equitable" means that a plan provides that either (A)
10 each impaired unsecured creditor receives or retains property of a
11 value, as of the effective date, equal to the amount of its allowed
12 claim; or (B) the holders of claims and equity interests that are junior
13 to the claims of the dissenting class will not receive or retain any
14 property under the plan.

15
16 (iii) **Equity Interest Holders.** With respect to holders of
17 equity interests, "fair and equitable" means that a plan provides that
18 either (A) each holder will receive or retain under the plan property
19 of a value, as of the effective date, equal to the greater of: (1) the
20 fixed liquidation preference or redemption price, if any, of such
21 interest; or (2) the value of such interest; or (B) the holders of equity
22 interests that are junior to the non-accepting class will not receive
23 any property under the plan.

24
25 The Debtor believes the Plan complies with the Claims priority established by the
26 Bankruptcy Code and thus the "fair and equitable" test of the Bankruptcy Code
(including the absolute priority rule) is met with respect to the Secured Creditors and the
Member Equity Interest holders under the Plan.

27 28 **XIV.** 29 **ALTERNATIVES TO THE PLAN**

30
31 If the Plan is not confirmed, several different events could occur: (1) the Debtor or
32 a third party could propose another plan providing for different treatment of certain
33 Creditors; (2) Secured Creditors, if any, could move for relief from the automatic stay to
34 allow them to foreclose their liens against their collateral, which may be granted by the
35 Court if an alternative plan is not confirmed in a reasonable period of time; (3) the
36 Bankruptcy Court (after appropriate notice and hearing) could dismiss the Bankruptcy
Case or convert such to a case under Chapter 7 if an alternative plan is not confirmed in a
reasonable period of time; or (4) the Bankruptcy Court could approve a sale of the
Debtor's remaining assets to the highest and best bidder an auction sale under Section
363 of the Bankruptcy Code.

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XV.
RECOMMENDATION AND CONCLUSION

The Debtor believes that the Plan provides the best available alternative for maximizing the recoveries that Creditors will receive from the Debtor's Assets. Therefore, the Debtor recommends that all Creditors that are entitled to vote on the Plan vote to accept the Plan.

Date: July 25, 2013

SUNSHINE HOTELS, LLC

/s/ Nilay Patel

By: Nilay Patel

Its: Managing Member

PREPARED AND SUBMITTED BY:

GALLAGHER & KENNEDY, P.A.

By/s/ *Craig S. Ganz*
John R. Clemency
Craig S. Ganz
2575 E. Camelback Road
Phoenix, Arizona 85016
Attorneys for Sunshine Hotels, LLC

LIST OF EXHIBITS

Exhibit A – Plan of Reorganization

Exhibit B - Financial Projections

Exhibit C - Liquidation Analysis

Exhibit D – Sunshine Monthly Operating Report for June, 2013

Exhibit E – Sunshine Hotel Photos