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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 II, 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 II, LLC's First Amended Plan of Reorganization Dated July 25, 2013* (the "Disclosure Statement") is submitted by the following debtor-in-possession:

- Sunshine Hotels II, LLC ("Sunshine II" and the "Debtor"), the debtor-in-possession in Chapter 11 case number 0:13-bk-01561-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 II, 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. FOR THE CONVENIENCE OF CREDITORS AND  
22 HOLDERS OF EQUITY INTERESTS, THE PLAN IS SUMMARIZED IN THIS DISCLOSURE STATEMENT.  
23 ALL SUMMARIES ARE QUALIFIED IN THEIR ENTIRETY BY THE PLAN ITSELF. IN THE EVENT OF  
24 ANY INCONSISTENCY BETWEEN THIS DISCLOSURE STATEMENT AND THE PLAN, THE PLAN WILL  
25 CONTROL.**

26 **B. Representations.**

This Disclosure Statement has not been subjected to a certified audit; however, it  
has been prepared in part from information compiled by the Debtor from records  
maintained in the ordinary course of business or from information received by the Debtor  
from third parties. Every effort has been made to be as accurate as possible in the  
preparation of this Disclosure Statement. Nevertheless, the inclusion of financial  
information in this Disclosure Statement and exhibits is subject to adjustment, and the  
Debtor reserves all rights to object to or challenge any Claims that are filed or asserted in  
the Case. This is a solicitation by the Debtor only and is not a solicitation by its  
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 II is a California limited liability company formed in 2007 to purchase  
16 and operate the Courtyard by Marriott hotel (the "Sunshine II Hotel") in Hesperia,  
17 California. The Sunshine II Hotel is an 88,000 square foot, four story hotel with 131  
18 rooms and 4 suites available for guests. The Sunshine II Hotel also has an indoor heated  
19 swimming pool, spa, fitness room, conference center, and wireless high speed internet.<sup>1</sup>

20 The Debtor's primary secured creditor is S2 Hospitality, LLC ("S2 Hospitality").  
21 S2 Hospitality holds a first position Lien on the real and personal property that comprises  
22 the Sunshine II Hotel (the "Sunshine II Loan"). The Sunshine II Loan was originally  
23 obtained by the Debtor from Specialty Finance Group, LLC on or about January 18,  
24 2008. Upon information and belief, S2 Hospitality, along with other undisclosed  
25 participants, purchased the Sunshine II Loan from the FDIC on April 8, 2011.

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

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<sup>1</sup> See <http://www.marriott.com/hotels/travel/onths-courtyard-victorville-hesperia>, and  
photographs of the Sunshine II Hotel are attached hereto as Exhibit "E".

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

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

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

**1. Filing of Bankruptcy Petitions.**

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

**2. Early Case Filings.**

On the Petition Date, the Debtor filed several "first day" motions, including (a) *Application for an Order Under 11 U.S.C. § 327 (a) Authorizing the Employment of Gallagher & Kennedy, P.A. as General Bankruptcy Counsel and Restructuring Counsel to the Debtor* [Docket No. 4] (the "G&K Employment Application"); (b) *Emergency Motion For Interim And Final Orders Authorizing Use Of Cash Collateral* [Docket No. 6] (the "Cash Collateral Motion"); (c) *Emergency Motion For An Order Determining Adequate Assurance Of Payment For Future Utility Services* [Docket No. 7] (the "Utility Motion") (d) *Emergency Motion For Order Authorizing The Payment Of Pre-Petition Employee Wages, Salary, And Other Compensation And Authorizing Banks To Honor 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.

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

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

4 **V.**

5 **DESCRIPTION OF ASSETS AND LIABILITIES**

6 **A. Sunshine II.**

7 Sunshine II's primary assets consist of the Sunshine II Hotel. Payment of the  
8 Sunshine II Note was (and is) secured by a Lien on the Sunshine II Hotel, which Lien is  
9 evidenced by, among other things, a Deed of Trust, Assignment of Leases and Rents and  
10 Security Agreement dated February 20, 2008 and recorded in the Official Records of San  
11 Bernardino County Recorder on February 27, 2008, as record number 2008-0086733, and  
12 a UCC-1 Financing Statement in the Office of the Secretary of State of California on  
13 January 29, 2008 as Filing No. 08-7145681383. According to an appraisal dated October  
14 31, 2012, acquired by the Debtor, but commissioned by third-parties, the market value of  
15 the Sunshine II assets is at least \$14,800,000.

16 Sunshine II is indebted to a related debtor, Sunshine Hotels, LLC ("Sunshine"),  
17 for pre-petition unsecured loans in the amount of \$180,000 (the "Sunshine Unsecured  
18 Claim"). Sunshine II's total unsecured debt, excluding the unsecured debt owed to  
19 Sunshine, is estimated at approximately \$24,145, and consists mainly of trade debts.  
20 More information regarding Sunshine II's assets and alleged liabilities may be obtained  
21 by reviewing Sunshine II's bankruptcy Schedules and Statement of Financial Affairs  
22 [Docket No. 1] and the Claims Register for Case No. 0:13-bk-01561-BMW.

23 **VI.**

24 **FINANCIAL CONDITION AND ANALYSIS**

25 The persistent economic downturn in recent years has negatively impacted the  
26 Debtor's cash flow and ability to service debt, yet the Debtor remains in a cash flow  
positive position and the Debtor's business operations have remained fairly stable  
throughout the Chapter 11 case. Sunshine II 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.

Attached as **Exhibits "D"** is a copy of the most recent operating report filed by the  
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 (S2 Hospitality Secured Claim).** Class 1 consists of the Secured Claim of S2 Hospitality, LLC.

**2. Class 2 (Secured Claim of Ally Financial, Inc.).** Class 2 consists of the Secured Claim of Ally Financial, Inc.

**3. Class 3 (Unsecured Claims Against Sunshine II).** Class 3 consists of the Unsecured Claims against Sunshine II, other than Priority Claims.

1           4.     Class 4 (Sunshine Unsecured Claim Against Sunshine II). Class 4  
2 consists of the Sunshine Unsecured Claim against Sunshine II.

3           5.     Class 5 (Member Equity Interests in Sunshine II). Class 5 consists of  
4 the Member Equity Interests in Sunshine II.

5           6.     Class 6 (Secured Tax Claims of San Bernardino County). Class 6  
6 consists of the Secured Real Property Tax Claims Against Sunshine II.

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

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

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

16           The secured claim of the San Bernardino California Taxing Authority for the 2013-  
17 2014 fiscal year will be paid timely and in the normal course of business with all  
applicable costs, fees, charges and interest pursuant to 11 USC Sections 506(b) and 511.

18           2.     Administrative Claims Bar Date. Proofs of claim (or, for Professional  
19 Charges, fee applications) requesting payment of administrative costs and expenses  
20 incurred prior to the Effective Date pursuant to Sections 507(a)(1) and 503(b) of the  
21 Bankruptcy Code must be served and filed with the Bankruptcy Court no later than thirty  
22 (30) days after the Effective Date; provided, however, that proofs of claim will not be  
23 required with respect to any unpaid post-petition operating expenses incurred in the  
24 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.

25           3.     Priority Tax Claims. Priority Tax Claims are certain pre-Petition Date  
26 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 (S2 Hospitality Secured Claim).**

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

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

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

13 a. Effective Date Payment: On the Effective Date, the Reorganized Debtor  
14 shall pay S2 Hospitality \$50,000 in cash, which will reduce the Allowed S2 Hospitality  
Secured Claim to \$12,950,958.21.

15 b. Initial Term: The balance of the Allowed S2 Hospitality Secured Claim  
16 (\$12,950,958.21) shall be paid over three (3) years commencing as of September 1, 2013  
17 (the "Initial Term"). Payments during the Sunshine Initial Term shall be amortized over  
18 25 years and interest on the balance of the Allowed S2 Secured Claim during the Initial  
19 Term shall be at the rate equal to the sum of (x) the greater of (A) the LIBOR Rate (as  
20 that term is defined in the S2 Hospitality Loan Documents) or (B) 0.5% plus (y) 4.00%.  
21 Beginning on October 1, 2013 through and including August 31, 2015 at Borrower's  
22 election, and subject to Lender receiving from Borrower prior written notice of such  
23 election, Borrower may elect, with respect to any continuous six-month interval during  
24 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  
25 installment during such six-month interval. After August 31, 2015, monthly installments  
26 of principal and interest shall be due and payable in accordance with the Amended Loan  
Documents.

c. Extension Options: Reorganized Debtor shall have two (2) one-year further  
extension options of the Initial Term (such extension options of the Initial Term, the  
"First Extension Option" and the "Second Extension Option" and the term under each

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

12 d. Postpetition Adequate Protection Payments: S2 Hospitality shall retain the  
13 payments made by the Debtor in accordance with the Final Order Authorizing and  
14 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.

20 **2. Class 2 (Secured Claim of Ally Financial, Inc.).**

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

1           **3. Class 3 (Unsecured Claims Against Sunshine II).**

2           Class 3 consists of any Allowed Unsecured Claims against Sunshine II other than  
3 Priority Claims. Allowed Class 3 Claims will accrue interest from and after the Effective  
4 Date at the rate of 2% per annum (or such other rate as the Court may determine, if any, is  
5 required by the Code). Interest will not compound (simple interest) and will be paid with  
6 the annual payments. Holders of Allowed Class 3 Claims will be paid beginning on the  
7 first anniversary of the Effective Date, and continuing on the anniversary date each  
8 succeeding year until paid in full. All Allowed Class 3 Claims will be paid in full on or  
9 before the second anniversary of the Effective Date.

8           **4. Class 4 (Allowed Unsecured Claim of Sunshine Against Sunshine II).**

9           Class 4 consists of the Allowed Unsecured Claim held by Sunshine against  
10 Sunshine II in the amount of \$180,000. Payment of the Allowed Class 4 Claim will be  
11 subordinate to the payment of all other Allowed Claims against the Debtors. Sunshine  
12 shall be paid once all other Allowed Claims against the Debtor have been paid in full.  
13 Sunshine shall be paid in full no later than two years after all other Allowed Claims are  
14 paid in full. The Allowed Unsecured Claim held by Sunshine will accrue interest from  
15 and after the Effective Date at the rate of 2% per annum. Interest will not compound  
16 (simple interest) and will be paid with the annual payments.

14           **5. Class 6 (Allowed Secured Tax Claims of San Bernardino County**  
15 **Against Sunshine II).**

16           Allowed Class 6 Claims will be paid by the Debtor in full within five (5) years of  
17 the Petition Date through regular equal monthly payments of principal and interest,  
18 including all applicable costs, fees, charges and interest allowed pursuant to 11 USC  
19 Sections 506(b) and 511. The holder of Class 6 Claims will retain its lien on the  
20 applicable property that served as collateral for the Class 6 Claims as of the Petition Date.

20           The Class 6 Claims are for real property taxes assessed by San Bernardino County  
21 against Sunshine II real property. Holders of Allowed Class 6 Claims will retain their  
22 lien on the property that serves as security for repayment of Allowed Class 6 Claims.  
23 The Allowed Class 6 claims, including post-petition interest at 18% per annum, in  
24 accordance with 11 U.S.C. § 511 and California Revenue and Taxation Code Section  
25 4103(b), will be paid in full within five (5) years of the Petition Date through regular  
26 equal monthly payments of principal and interest. Real property taxes for fiscal tax year  
2013-14 and future fiscal years shall be paid in the ordinary course of business, timely  
and as such taxes become due including all applicable costs, fees, charges and interest  
allowed pursuant to 11 USC Sections 506(b) and 511.

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

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

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

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

- (i) The Confirmation Order shall be in form and substance reasonably acceptable to the Debtor and S2 Hospitality;
- (ii) The Confirmation Order shall have been entered;
- (iii) All exhibits to the Plan and the Amended Loan Documents shall be in form and substance reasonably acceptable to the Debtor and S2 Hospitality and approved by the Bankruptcy Court; and
- (iv) The Confirmation Order shall not vary the terms and provisions of the treatment of the Allowed S2 Hospitality Secured Claim as provided herein or the provisions of the Amended Loan Documents.

**2. Condition to the Occurrence of the Effective Date.** The Plan shall not be 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 stay or injunction that would prevent the occurrence of the Effective Date unless this provision has been waived by the Debtor and S2 Hospitality.

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

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

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

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

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

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

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

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

21 (c) **Treatment of Contingent Claims.** Until such time as a contingent  
22 Claim or a contingent portion of an Allowed Claim becomes fixed or absolute or is  
23 Disallowed, such Claim will be treated as a Disputed Claim for all purposes related to  
24 distributions under the Plan. The holder of a contingent Claim will only be entitled to a  
25 distribution under the Plan when and if such contingent Claim becomes an Allowed  
26 Claim.

**3. Administrative Claims Bar Date.** Proofs of claim (or, for Professional  
Charges, fee applications) requesting payment of administrative costs and expenses  
incurred prior to the Effective Date pursuant to Sections 507(a)(1) and 503(b) of the  
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 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.

1     **C.     Treatment of Executory Contracts.**

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

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

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

20     **D.     Miscellaneous Plan Provisions.**

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

24             **2.     General Injunction.** Except as otherwise expressly provided in the Plan,  
25 the Confirmation Order shall provide, among other things, that all parties-in-interest who  
26 have held, hold, or may hold Claims are permanently enjoined on and after the Effective  
Date from: (a) commencing or continuing in any manner any action or other proceeding  
of any kind with respect to any such Claim against the Debtor or any successor-in-interest  
of the Debtor, against property of the Debtor, or against property of any successor-in-  
interest of the Debtor; (b) the enforcement, attachment, collection, or recovery by any  
manner or means of any judgment, award, decree, or order against the Debtor or any  
successor-in-interest of the Debtor, property of the Debtor, or against property of any  
successor-in-interest of the Debtor with respect to any such Claim; (c) creating,  
perfecting, or enforcing any encumbrance of any kind against the Debtor or any  
successor-in-interest of the Debtor, against property of the Debtor, or against property of  
any successor-in-interest of the Debtor with respect to any such Claim; (d) from asserting

1 any setoff, right of subrogation, or recoupment of any kind against any obligation due the  
2 Debtor or any successor-in-interest of the Debtor, against property of the Debtor, or  
3 against property of any successor-in-interest of the Debtor, with respect to any such  
4 Claim; (e) conducting any form of discovery from the Debtor with respect to any such  
5 Claim, or any successor-in-interest of the Debtor; and/or (f) harassing the Debtor or any  
6 successor-in-interest of the Debtor.

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

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

20 **X.**  
**FEDERAL TAX CONSEQUENCES**

21 **A. No Federal Tax Consequences.**

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

25 **XI.**  
**VOTING PROCEDURES AND REQUIREMENTS**

26 **A. Parties Entitled to Vote.**

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

1 **B. Procedures for Voting.**

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

9 GALLAGHER & KENNEDY, P.A.  
10 Attn: Craig S. Ganz  
11 2575 East Camelback Road, Suite 1100  
12 Phoenix, AZ 85016  
13 Telephone: (602) 530-8000

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

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

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

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

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

**C. Summary of Voting Requirements.**

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



1 Section 1129(a) of the Bankruptcy Code have been satisfied, in which event the  
2 Bankruptcy Court will enter an order confirming the Plan. Such requirements include,  
3 among others:

4 (a) That the Debtor has complied with the applicable provisions of  
5 Chapter 11, including the provisions of Sections 1122 and 1123 of the Bankruptcy  
6 Code governing classification of claims and interests and contents of a plan of  
7 reorganization.

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

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

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

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

18 (f) That the Plan is in the best interests of holders of Claims and Equity  
19 Interests; that is, each holder of an Allowed Claim or Allowed Equity Interest  
20 either has accepted the Plan or will receive on account of its Claim or Equity  
21 Interest property with a value, as of the Effective Date, that is not less than the  
22 amount that the holder of such Claim or Equity Interest would receive if the  
23 Debtor was liquidated under Chapter 7 of the Bankruptcy Code on the Effective  
24 Date.

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

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

3 (a) **Best Interests Test and Liquidation Analysis.** Under the best  
4 interests test, the Plan is confirmable if, with respect to each impaired Class of  
5 Claims or Equity Interests, each holder of an Allowed Claim or Allowed Equity  
6 Interest in such Class either: (i) has accepted the Plan; or (ii) will receive or retain  
7 under the Plan, on account of its Claim or Interest, property of a value, as of the

1 Effective Date, that is not less than the amount such holder would receive or retain  
2 if the Debtor was liquidated under Chapter 7 of the Bankruptcy Code.

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

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

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

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

**(1) Unfair Discrimination.** A plan of reorganization “does not  
discriminate unfairly” if: (i) the legal rights of a non-accepting class are

1 treated in a manner that is consistent with the treatment of other classes  
2 whose legal rights are related to those of the non-accepting class; and (ii)  
3 no class receives payments in excess of that which it is legally entitled to  
4 receive on account of its Claims or Equity Interests. The Debtor asserts  
5 that under the Plan: (i) all classes of impaired Claims are being treated in a  
6 manner that is consistent with the treatment of other similar classes of  
7 Claims; and (ii) no Class of Claims will receive payments or property with  
8 an aggregate value greater than the sum of the Allowed Claims in the Class.  
9 Accordingly, the Debtor believes that the Plan does not discriminate  
10 unfairly as to any impaired Class of Claims or Equity Interests.

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(2) **Fair and Equitable Test.** The Bankruptcy Code establishes different “fair and equitable” tests for Secured Creditors, Unsecured Creditors, and holders of 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 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 claim, 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 clauses (A) and (C); or (C) the realization by such holder of the “indubitable equivalent” of such claim.

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

(iii) **Equity Interest Holders.** With respect to holders of equity interests, “fair and equitable” means that a plan provides that either (A) each holder will receive or retain under the plan property

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of a value, as of the effective date, equal to the greater of: (1) the fixed liquidation preference or redemption price, if any, of such interest; or (2) the value of such interest; or (B) the holders of equity interests that are junior to the non-accepting class will not receive any property under the plan.

The Debtor believes the Plan complies with the Claims priority established by the 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 Equity Interest holders under the Plan.

**XIV.**  
**ALTERNATIVES TO THE PLAN**

If the Plan is not confirmed, several different events could occur: (1) the Debtor or a third party could propose another plan providing for different treatment of certain Creditors; (2) Secured Creditors, if any, could move for relief from the automatic stay to allow them to foreclose their liens against their collateral, which may be granted by the Court if an alternative plan is not confirmed in a reasonable period of time; (3) the 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.

**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 II, LLC**

*/s/ Nilay Patel*  
\_\_\_\_\_  
By: Nilay Patel  
Its: Managing Member

1 PREPARED AND SUBMITTED BY:

2 **GALLAGHER & KENNEDY, P.A.**

3

4 By/s/ *Craig S. Ganz*

5 John R. Clemency  
6 Craig S. Ganz  
7 2575 E. Camelback Road  
8 Phoenix, Arizona 85016  
9 *Attorneys for Sunshine Hotels II, LLC*

8

LIST OF EXHIBITS

9

10 Exhibit A – Plan of Reorganization

11 Exhibit B - Financial Projections

12 Exhibit C - Liquidation Analysis

13 Exhibit D – Sunshine II Monthly Operating Report for June, 2013

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15 Exhibit E – Sunshine II Hotel Photos

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