UNITED STATES BANKRUPTCY COURT
DISTRICT OF SOUTH CAROLINA

In re:	**CHAPTER 11**
The Cliffs Club & Hospitality Group, Inc., *et al.*,[1] *d/b/a* The Cliffs Golf & Country Club,	**Case No. 12-01220**
	Jointly Administered
Debtors.	

DEBTORS' STATUS REPORT ON BIDDING PROCESS

COME NOW The Cliffs Club & Hospitality Group, Inc. and its affiliated debtors in the above-captioned Chapter 11 cases, as debtors and debtors-in-possession (collectively, the "Debtors"), by and through undersigned counsel, and hereby submit this status report on the bidding process conducted in connection with the bidding procedures (the "Bidding Procedures") approved by that certain Order (A) Approving Bidding Procedures for Auction to Become the Designated Sponsor of the Debtors' Chapter 11 Plan of Reorganization; (B) Approving Break Up Fee and Expenses Reimbursement Payable in Certain Circumstances to the Carlile Development Group (the "Stalking Horse Bidder"); and (C) Approving the "Substitution Conditions" Contained in the DIP Loan Agreement [Docket Entry No. 182] (the "Bidding Procedures Order"), and respectfully represent as follows:

[1] The Debtors, followed by the last four digits of their respective taxpayer identification numbers and Chapter 11 case numbers, are as follows: The Cliffs Club & Hospitality Group, Inc. (6338) (12-01220); CCHG Holdings, Inc. (1356) (12-01223); The Cliffs at Mountain Park Golf & Country Club, LLC (2842) (12-01225); The Cliffs at Keowee Vineyards Golf & Country Club, LLC (5319) (12-01226); The Cliffs at Walnut Cove Golf & Country Club, LLC (9879) (12-01227); The Cliffs at Keowee Falls Golf & Country Club, LLC (3230) (12-01229); The Cliffs at Keowee Springs Golf & Country Club, LLC (2898) (12-01230); The Cliffs at High Carolina Golf & Country Club, LLC (7576) (12-01231); The Cliffs at Glassy Golf & Country Club, LLC (6559) (12-01234); The Cliffs Valley Golf & Country Club, LLC (6486) (12-01236); and Cliffs Club & Hospitality Service Company, LLC (9665) (12-01237).

BACKGROUND

1. On February 28, 2012 (the "Petition Date"), the Debtors filed voluntary petitions for relief under Chapter 11 of the Bankruptcy Code.

2. On March 12, 2012, the United States Trustee appointed the Official Committee of Unsecured Creditors (the "Committee") in these Chapter 11 cases pursuant to that certain Fourth Amended Appointment of Committee of Unsecured Creditors [Docket Entry No. 141]. No trustee or examiner has been appointed in these Chapter 11 cases.

3. The Debtors are authorized to operate their businesses as debtors-in-possession pursuant to Sections 1107 and 1108 of the Bankruptcy Code.

4. A description of the Debtors' businesses, the reasons for filing these Chapter 11 cases, and the relief sought from this Court to allow for a smooth transition into operations under Chapter 11 are set forth in the Declaration of Timothy P. Cherry in Support of First Day Motions (the "Cherry Declaration"), which has been filed with the Court [Docket Entry No. 44].

5. On the Petition Date, the Debtors filed their Motion for an Order (A) Approving Bidding Procedures for Auction to Become the Designated Sponsor of the Debtors' Chapter 11 Plan of Reorganization; (B) Approving Break Up Fee and Expenses Reimbursement Payable in Certain Circumstances to the Carlile Development Group; and (C) Approving the "Substitution Conditions" Contained in the DIP Loan Agreement [Docket Entry No. 42] (the "Bidding Procedures Motion").

6. On March 16, 2012, this Court entered the Bidding Procedures Order, which: (i) approved the Bidding Procedures Motion, (ii) approved the Bidding Procedures, (iii) required the Debtors to provide a report at the omnibus hearing scheduled in these cases on May 8, 2012 regarding any auction conducted pursuant to the Bidding Procedures, and (iv) provided that the Court will address any objections with respect to such auction at such hearing.

STATUS REPORT

7. The Debtors served the Bidding Procedures Motion, Bidding Procedures Order and the approved Bidding Procedures on approximately eighty-two (82) individuals and companies that the Debtors believed may have a specific interest in submitting a bid pursuant to the Bidding Procedures, including individuals and companies identified by the financial advisor to Wells Fargo Bank, National Association, as trustee (in such capacity, the "Indenture Trustee") under that certain Indenture dated as of April 30, 2010 by and among the Debtors, the Guarantors (as defined therein) and the Indenture Trustee.

8. Prior to and following the Petition Date (and service of the Bidding Procedures Motion, Bidding Procedures Order and the Bidding Procedures), numerous interested parties have contacted the Debtors expressing interest in potentially acquiring the Debtors and/or their assets. In sum, approximately thirty-three (33) individuals and companies have executed non-disclosure agreements to conduct due diligence regarding the Debtors' assets and liabilities. Since the Petition Date, approximately eleven (11) individuals and companies have requested and received access to the Debtors' secure on-line data room in order to conduct due diligence in connection with their interest in participating in the bidding process.

9. Four parties in particular expressed serious interest in making a bid, specifically: (i) Wayne Edmondson; (ii) Reed Development (Steve Duby); (iii) NatureFirst Real Estate Holdings, LLC ("NatureFirst"); and (iv) The Seaport Group ("Seaport"). Eventually, Mr. Edmondson and Reed Development advised the Debtors that they were not interested in making a bid by the bid deadline. On April 13, 2012, the Debtors received a bid from NatureFirst. After consulting with counsel for the Indenture Trustee and the Committee, the Debtors qualified NatureFirst as a Potential Qualified Bidder (as defined in the Bidding Procedures) subject to delivery to the Debtors of the required $1 million deposit by April 16, 2012. On April 16, 2012,

NatureFirst advised the Debtors that it was either not willing or not able to deliver the deposit, and withdrew from the bidding process. On April 13, 2012, the Debtors received a bid from Seaport, along with the required $1 million deposit. After consulting with counsel for the Indenture Trustee and the Committee, the Debtors qualified Seaport as a Potential Qualified Bidder. On April 20, 2012, Seaport advised the Debtors that it no longer desired to participate in the bidding process, and requested the return of its $1 million deposit, which the Debtors have returned.

10. On March 23, 2012, the Stalking Horse notified the Debtors that an entity named Cliffs Club Partners, LLC ("Cliffs Club Partners") had been formed to be the operating entity of the clubs should the Stalking Horse be successful at the auction. Silver Sun, LLC, whose members are SunTx Urbana GP I, L.P. ("Urbana"), Arendale Holdings Corp. ("Arendale"), and Carlile Cliffs Investment, LLC ("Carlile"), is the indirect parent of Cliffs Club Partners. Cliffs Club Partners has been assigned the bidding rights of the Stalking Horse.

11. Despite the best efforts of the Debtors and Katie Goodman, as the Debtors' Chief Restructuring Officer (the "CRO"), to market the Debtors' assets, no Qualified Bidders (as defined in the Bidding Procedures) existed as of the scheduled date of the auction. Therefore, the Debtors, the CRO, the Indenture Trustee, the Committee, and Cliffs Club Partners conducted an all day meeting at the Atlanta office of McKenna Long & Aldridge, LLP, the Debtors' legal counsel, to negotiate the terms on which the parties will proceed with a plan of reorganization anticipated to be filed by May 13, 2012.

12. The Debtors are aware that certain parties have raised concern about the collaboration of Carlile, Urbana and Arendale, and have alleged without any evidence of any kind that such collaboration is some type of improper bid collusion. Generally, the elements of

improper bid collusion are: (i) there must be an agreement; (ii) among potential bidders; (iii) that controlled the bidding price at an auction. *See, e.g., Birdsell v. Fort McDowell Sand and Gravel (In re Sanner)*, 218 B.R. 941, 944 (Bankr. D. Ariz. 1998); 11 U.S.C. § 363(n); Jason Binford, *Collusion Confusion: Where Do Courts Draw The Line In Applying Bankruptcy Code Section 363(N)*, 24 Emory Bankr. Dev. J. 41 (2008).

13. The Debtors have investigated the matter and, for the following reasons, do not believe that any type of improper bid collusion has occurred. First, neither Urbana nor Arendale were bidders or potential bidders when they entered into an agreement with Carlile. Urbana has never expressed an interest to be a bidder for the Debtors' assets, prior to or following the Petition Date.

14. Arendale originally expressed an interest to be a bidder for the Debtors' assets prior to the Petition Date, and Arendale engaged in substantial prepetition negotiations with the Debtors in an effort to acquire the Debtors' assets pursuant to a plan of reorganization. The Debtors, however, chose the Carlile bid in part because Arendale refused to allow its bid to be used as a stalking horse bid for the purpose of soliciting other bids and stated an unwillingness to participate in a bidding process as proposed by the Debtors. Nearly a month prior to the Petition Date, Arendale advised the Debtors that it had executed a letter of intent with Urbana to enter into a joint venture relating to Arendale's interest in acquiring the Debtors' assets. Following the Petition Date, Arendale notified the Debtors both orally and in writing that it was no longer interested in being a bidder for the Debtors' assets.

15. Second, Carlile had a legitimate business need to collaborate with Urbana and Arendale that is unique to this case. As the Carliles' counsel noted at the final hearing on postpetition financing, a viable business model for buying the assets that are held by these

bankruptcy estates -- golf clubs and golf courses -- depends upon the acquisition or control of assets that are not property of any of these estates, most notably: (i) lots for future residential development in the Cliffs Communities; and (ii) land that the Debtors use for golf purposes, including parts of some of the golf courses themselves, but that the Debtors do not own. The arrangement among Carlile, Arendale and Urbana has been disclosed to all parties.

16. In conclusion, the Debtors understand that Urbana, Arendale and Carlile collaborated to form Cliffs Club Partners for purposes of acquiring the Debtors' assets pursuant to a plan of reorganization, which the Debtors understand was motivated by a desire to sponsor a more feasible plan of reorganization for the Debtors. The Debtors have no evidence, and no one has provided any evidence to the Debtors, of any agreement among Carlile, Urbana and Arendale to control in a collusive manner the price at the auction.

17. Accordingly, the Debtors believe that the collaboration among Urbana, Arendale and Carlile represents a legitimate effort among parties to enter into an agreement to purchase the Debtors' property through a plan of reorganization, motivated by legitimate business reasons, and that any allegations of improper collusion in violation of section 363(n) of the Bankruptcy Code or any other section of the Bankruptcy Code are wholly unfounded.

NOTICE

18. No trustee or examiner has been appointed in these Chapter 11 cases. Notice of this status report will be served pursuant to the Order Establishing Certain Notice, Case Management and Administrative Procedures [Docket Entry No. 121]. The Debtors submit that, under the circumstances, no other or further notice is required.

Dated: April 26, 2012

Respectfully submitted,

/s/ Däna Wilkinson
Däna Wilkinson
District Court I.D. No. 4663
LAW OFFICE OF DÄNA WILKINSON
365-C East Blackstock Road
Spartanburg, SC 29301
864.574.7944 (Telephone)
864.574.7531 (Facsimile)
danawilkinson@danawilkinsonlaw.com

-and-

/s/ J. Michael Levengood
Gary W. Marsh
Georgia Bar No. 471290
J. Michael Levengood
Georgia Bar No. 447934
Bryan E. Bates
Georgia Bar No. 140856
MCKENNA LONG & ALDRIDGE LLP
303 Peachtree Street, Suite 5300
Atlanta, Georgia 30308
404-527-4000 (phone)
404-527-4198 (fax)
gmarsh@mckennalong.com
mlevengood@mckennalong.com
bbates@mckennalong.com

Attorneys for the Debtors and Debtors in Possession