UNITED STATES BANKRUPTCY COURT
DISTRICT OF SOUTH CAROLINA

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

DECLARATION OF KATIE S. GOODMAN IN SUPPORT OF CONFIRMATION OF THE FIRST AMENDED AND RESTATED JOINT CHAPTER 11 PLAN FILED BY THE DEBTORS AND THE PLAN SPONSOR

STATE OF SOUTH CAROLINA

COUNTY OF GREENVILLE

I, Katie S. Goodman, being duly sworn, hereby declare that the following is true and correct to the best of my knowledge, information and belief:

1. I am the Chief Restructuring Officer ("CRO") of the Debtors and the Managing Partner of GGG Partners, LLC ("GGG Partners"), a turnaround management firm retained by 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"), to provide

[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).

services to the Debtors in the Debtors Chapter 11 Cases pursuant to that certain order, dated March 16, 2012 [Dkt. No. 175].

2. I submit this declaration in support of confirmation of the First Amended and Restated Joint Chapter 11 Plan filed by the Debtors and the Plan Sponsor, dated June 30, 2012 (the "Plan"),[2] as amended and supplemented. Unless otherwise indicated, I have personal knowledge of the information provided and the matters described herein, and if called as a witness, I would testify competently to the facts and opinions set forth herein.

Background and Qualifications

3. I hold a Bachelor's degree from Lancaster University and a MBA in Finance summa cum laude from Georgia State University – J. Mack Robinson College of Business. I joined GGG Partners, one of the oldest turnaround consulting firms in the United States, in 2001. Since then, I have worked with more than 100 public and private companies, focusing in particular on middle-market firms in the Southeastern United States. I have a strong background in finance, operations, and mergers and acquisitions. I often serve as a director of reorganization or restructuring officer for companies and advise board of directors and management teams in out of court restructurings as well as in chapter 11. I have been retained to restructure and advise companies in various industries, including real estate, automotive, textiles, finance, telecommunications, restaurants and retail, commercial and residential contracting, general manufacturing, commercial distribution, publishing, government contracting, business-to-business distribution and consumer products companies.

[2] Capitalized terms used herein and not otherwise defined shall have the meanings ascribed thereto in the Plan.

Retention of GGG Partners, LLC

4. GGG Partners is the Debtors' restructuring advisor. The Debtors retained GGG Partners in February of 2012 to assist the Debtors with, among other things, reviewing the Debtors' options with regard to restructuring or sale of their businesses. After the commencement of these Chapter 11 Cases, the Debtors formally retained GGG Partners to act as the Debtors' financial advisor in these Chapter 11 Cases, and GGG Partners has been involved throughout the entirety of these Chapter 11 Cases.

5. As the Debtors' CRO, I have become generally familiar with the Debtors and their day-to-day operations and finances and the Debtors' capital structure.

Substantive Consolidation of the Debtors is proper

6. I believe that consolidation of the Debtors is appropriate in these cases because the Debtors' financial statements historically have been prepared and reviewed on a consolidated basis, all of the Debtors, are owned directly or indirectly, by CCI (defined below), all of the Debtors are jointly and severally liable on the Debtors' major secured obligations to the Indenture Trustee, the Debtors have commingled business functions and commingled cash generated from operations, Cliffs Club & Hospitality Service Company, LLC ("ServCo") acts as Manager/Agent of all of the Clubs and employs most of the Debtors' employees, all of the subsidiary Debtors are under the control of The Cliffs Club and Hospitality Group Inc., d/b/a The Cliffs Golf and Country Club, and it appears to me that customers, vendors and other creditors typically have assumed they are doing business with The Cliffs Golf and Country Club.

7. If reorganized as separate entities, the Debtors will incur significant administrative expenses identifying and assessing intercompany claims that the Debtors hold against one another. I believe that such an exercise is not justified because, as discussed below,

no individual creditor will be impaired by consolidation. It also may be impossible to separately review accounting information for each Debtor.

8. Because of the nature of the Debtors' operations, nearly all customers, vendors and creditors typically assume they are transacting with Cliffs Golf and Country Club. The Indenture Trustee and the Note Holders dealt with the Debtors as a single economic unit and relied on all of the Debtors when entering into the Indenture. It is very unlikely that any creditor relied on the separate credit of any one of the Debtors. No creditor will be harmed by consolidation because substantially all unsecured creditor claims are obligations of ServCo for the benefit of the other Debtors and because the Club members had privileges at all Clubs notwithstanding their home club membership.

9. In sum, it would be cost prohibitive, unnecessary and impractical not to consolidate these cases for Plan purposes.

The Cliffs Development Company Affiliate Claims Should be Recharacterized from Debt to Equity

10. The books and records of the Debtors indicate that the Cliffs Development Company Affiliates Claims (as defined in the Debtors' First Omnibus Objection To The Allowance Of Claim Nos. 1251, 1252, 1253, 1254, 1255, 1258, 1259, 1261, 1262, 1263, 1268, 1270, 1271, 1272, 1273, and 1274 Filed By Cliffs Development Company Affiliates [Dkt. No. 525-540] are not truly debt obligations. None of them is evidenced by any debt instruments. At most, they are reflected by accounting journal entries as intercompany accounts. Accordingly, the claims are unenforceable against the Debtors, and should be disallowed or recharacterized as equity in the Debtors. Unless the Cliffs Development Company Affiliates Claims are disallowed as general unsecured claims and recharacterized as equity interests in the

Debtors, these affiliates of the Debtors will receive a larger recovery than that to which they should be entitled.

11. The Debtors' books and records when presented on a consolidated basis net intercompany accounts between the Debtors and the Cliffs Development Company Affiliates Claims and show a balance due by the Cliffs Development Company Affiliates Claims and James B. Anthony to the Debtors of $42,234,326.04. When presented on an unconsolidated basis, the Debtors' intercompany payables journal indicates the Debtors' balance owing to the Cliffs Development Company Affiliates totaling $94,679,844.48 and a balance from James B. Anthony and the Cliffs Development Company Affiliates owing to the Debtors totaling $136,914,170.52.

12. The application of the eleven factors enumerated in the Fourth Circuit decision of In re Dornier Aviation, 453 F.3d 225 (4th Cir. 2006) to the Cliffs Development Company Affiliate Claims, cited in the Debtors' objection, reveals that all of the factors support the recharacterization of the claims of the Cliffs Development Company Affiliates Claims against the Debtors to equity. For example, none of the Cliffs Development Company Affiliates Claims is based upon debt instruments, there is no maturity date, no security, no interest payments have ever been made, no interest accrued, and there exist no principal or interest repayment terms. The Cliffs Development Company Affiliates' Claims are more properly considered equity investments among affiliates of the Debtors whose ultimate owner, James B. Anthony, tracked transactions between his various subsidiaries without documenting the transfers as loans.

The Plan Satisfies Section 1129 of the Bankruptcy Code

13. Compliance with Chapter 11 Requirements. On the basis of my understanding of the Plan and discussions with counsel, the events that have occurred throughout the Debtors'

Chapter 11 Cases, the obligations imposed upon the Debtors as a result of various orders entered during the Debtors' Chapter 11 Cases, and the requirements of the Bankruptcy Code, I believe that the Plan complies with the applicable provisions of the Bankruptcy Code for confirmation of a liquidating plan of reorganization.

14. I believe, based, in part, on discussions with counsel, that the Debtors have complied with the applicable provisions of the Bankruptcy Code, including the provisions of Bankruptcy Code sections 1125 and 1126, as well as the Order Approving Disclosure Statement and Fixing Time for Filing Acceptances or Rejections of Plan, Combined with Notice Thereof (the "Disclosure Statement Order") regarding disclosure and Plan solicitation. [Dkt. No. 478].

15. Ownership Structure of the Debtors and Relationship to Affiliates. Each of the Debtors is owned, directly or indirectly, by Cliffs Communities, Inc. ("CCI"). CCI has other subsidiaries or affiliates that on the Petition Date were dedicated to the development and sale of residential real estate, unimproved company lots and finished homes at a number of "Cliffs" communities located in the States of South Carolina and North Carolina. CCI and these non-debtor affiliates are generally referred to as the Cliffs development companies or "DevCos" while the Debtors are referred to as the "ClubCos" (collectively, "The Cliffs"). One of the DevCos, namely Keowee Falls Investment Group, LLC ("KFIG"), also filed a petition for relief under Chapter 11 of the Bankruptcy Code. KFIG has filed a proof of claim as an unsecured creditor in the Chapter 11 Cases to which the Debtors have file an objection. [Dkt. No. 532]. With the exception of KFIG, neither CCI nor any of the other DevCos has sought bankruptcy relief.

16. The Debtors own and/or operate or intended to develop eight exclusive private membership clubs located in South Carolina and North Carolina focused on golf, tennis, wellness and social activities at eight Cliffs communities. The clubs (individually a "Club" collectively the "Clubs") are: (i) The Cliffs at Glassy Golf & Country Club ("The Club at Glassy"); (ii) The Cliffs Valley Golf & Country Club ("The Club at Cliffs Valley"); (iii) The Cliffs at Keowee Vineyards Golf & Country Club ("The Club at Keowee Vineyards"); (iv) The Cliffs at Walnut Cove Golf & Country Club ("The Club at Walnut Cove"); (v) The Cliffs at Keowee Falls Golf & Country Club ("The Club at Keowee Falls"); (vi) The Cliffs at Keowee Springs Golf & Country Club ("The Club at Keowee Springs"); (vii) The Cliffs at Mountain Park Golf & Country Club ("The Club at Mountain Park"); and (viii) The Cliffs at High Carolina Golf & Country Club ("The Club at High Carolina"). The Club at Walnut Cove and The Club at High Carolina are located in the State of North Carolina. The remaining six Clubs are each located in the State of South Carolina. Construction of the club amenities at six of the eight Cliffs communities is largely complete, while construction of the club amenities at two of the Cliffs communities is not. The golf course at The Club at Mountain Park has been 70% completed while construction of the club house and other amenities there has not been started. The amenities for The Club at High Carolina are still in the planning stage, and the Debtors do not own any real property at The Club at High Carolina. The Debtors' headquarters are located in Travelers Rest, South Carolina.

17. The Debtors have no ability or intent to develop The Club at High Carolina. The Debtors do not own any property at The Club at High Carolina. No property at High Carolina is currently intended to be part of the transaction contemplated by the Plan or transferred to the Debtors or the Plan Sponsor pursuant to the Asset Purchase Agreement.

18. The ClubCos are one of five operating units of CCI, which is the parent holding company of multiple qualified sub-chapter S subsidiaries and single-member limited liability companies. Each of CCI's subsidiaries represents specific communities, development companies, golf and country clubs and support organizations. CCI is owned by James B. Anthony, who owns 79.12%; Victoria Anthony, who owns 0.80%; Cliffs Tradition, LLC, which owns .08%; and an Employee Stock Ownership Plan trust (the "ESOP"), which owns 20.00%. CCI is governed by a Board of Directors. Mr. Anthony serves as the Chairman of the Board of Directors, as well as the President of CCI. Mr. Anthony is not an officer or director of the Debtors.

19. As of the Petition Date, CCI owned 100% of the stock of CCHG Holdings, Inc., CCHG Holdings, Inc. owned 100% of the stock of The Cliffs Club & Hospitality Group, Inc., and The Cliffs Club & Hospitality Group, Inc. was the sole member of the remaining Debtors, namely The Cliffs at Glassy Golf & Country Club, LLC; The Cliffs Valley Golf & Country Club, LLC; The Cliffs at Keowee Springs Golf & Country Club, LLC; The Cliffs at Keowee Falls Golf & Country Club, LLC; The Cliffs at Keowee Vineyards Golf & Country Club, LLC; The Cliffs at Mountain Park Golf & Country Club, LLC; The Cliffs at Walnut Cove Golf & Country Club, LLC; The Cliffs at High Carolina Golf & Country Club, LLC; and Cliffs Club & Hospitality Service Company, LLC.

20. **Good Faith of the Debtors and the Plan Sponsor in Proposing the Plan**. The Plan has been proposed with the legitimate and honest purpose of accomplishing an orderly restructuring of the Debtors' businesses and affairs through a sale of Debtors' assets, and maximizing the value available for distribution to Creditors. The Plan (including all documents necessary to effectuate the Plan) is the result of extensive arms-length negotiations

among the Debtors, the Indenture Trustee, the Plan Sponsor, the Creditors Committee and their respective advisors and representatives. In my opinion, each of these parties has acted in good faith. The Plan contemplates and is premised on the sale of substantially all of the assets of the Clubs to the Plan Sponsor, which will in turn contribute proceeds of the sale to fund the distributions contemplated by the Plan. The Plan also contemplates the restructuring of the Indenture Trustee Claims, an approximately 75% distribution to holders of General Unsecured Claims, and the potential for recoveries of Club Member Claims through the creation of a Liquidating Trust. The Plan, therefore, achieves one of the primary objectives underlying a chapter 11 case: the equitable distribution of value to creditors. At the same time, the Plan provides for the rehabilitation and continuation of the Debtors' businesses, albeit under different ownership. Further, the limited release and exculpation provided in sections 10.02 and 10.03 of the Plan have been agreed to in good faith and represent a valid exercise of the Debtors' business judgment, are fair and reasonable, and in the best interests of the Debtors' estates and their creditors. I believe that, inasmuch as the Plan promotes the rehabilitative objectives and purposes of the Bankruptcy Code, while also providing a recovery to creditors, the Plan and the related documents have been filed in good faith.

21. Beginning in August, 2011, I understand that the Debtors began an intensive process to locate a "stalking horse" for the purchase of the Debtors' assets. The Debtors negotiated with, among other parties, Reed Development, Arendale Holdings, the Advisory Board of Note Holders and Carlile Development Group. ("Carlile"). The Board of Directors of the Debtors, after a thorough and deliberative process, selected Carlile as its "stalking horse" and executed a term sheet.

The transaction described in the term sheet was subject to higher and better offers in these Chapter 11 Cases pursuant to bidding procedures approved by the Bankruptcy Court, which provided for the payment of a "break up" fee to Carlile under certain circumstances.

22. The Debtors served the Bidding Procedures Motion, Bidding Procedures Order and the approved Bidding Procedures (each as defined in the Debtors' Status Report on Bidding Process filed April 26, 2012 [Dkt. No. 316]) 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 the Indenture Trustee.

23. Prior to and following the Petition Date (and service of the Bidding Procedures Motion, Bidding Procedures Order and the Bidding Procedures), numerous interested parties contacted the Debtors expressing interest in potentially acquiring the Debtors and/or their assets. In sum, approximately thirty-three (33) individuals and companies executed non-disclosure agreements to conduct due diligence regarding the Debtors' assets and liabilities. Following the Petition Date, approximately eleven (11) individuals and companies 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.

24. 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.

25. On March 23, 2012, Carlile 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 Carlile as the stalking horse be successful at the auction. Silver Sun Partners, LLC, whose members are SunTx Urbana GP I, L.P. ("Urbana"), Arendale Holdings Corp. ("Arendale"), and Carlile Cliffs Investment, LLC, is the indirect parent of Cliffs Club Partners. Despite the best efforts of the Debtors and the Debtors' CRO to market the Debtors' assets, no Qualified Bidders (as defined in the Bidding Procedures) existed as of the scheduled date of the auction. The Debtors filed their Status Report on Bidding Process on April 26, 2012 [Dkt. No. 316].

26. On April 23, 2012, (i) 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 would proceed with a joint Chapter 11 plan and (ii) Debtors' counsel provided the counsel for the Plan Sponsor with an initial draft of a joint Chapter 11 plan and a disclosure

statement. Thereafter, on May 9, 2012, the Committee and representatives of the Indenture Trustee Negotiating Committee met with the Plan Sponsor in another all day meeting at the Atlanta office of McKenna Long & Aldridge, LLP, to discuss the New Club Membership Agreement and related documents, and counsel for the Plan Sponsor and counsel for the Debtors met to review the Plan Sponsor's proposed revisions to the joint Chapter 11 plan. Thereafter, negotiations on a consensual plan continued between and among me as the CRO for the Debtors, the Plan Sponsor and the key stakeholder groups, including representatives for the Indenture Trustee and the Committee, which led to the filing of a Joint Chapter 11 Plan by the Debtors and the Plan Sponsor dated May 22, 2012. Negotiations continued regarding a consensual plan which led to the filing of the First Amended and Restated Plan on June 30, 2012.

27. **Payments to Retained Professionals**. I understand that all payments made or to be made by the Debtors to their retained advisors for services or for costs and expenses in or in connection with the Chapter 11 Cases, or in connection with the Plan and incident to the Chapter 11 Cases, have been approved by, or are subject to the approval of, the Bankruptcy Court.

28. **Officers and Directors of the Reorganized Debtors**. The Debtors and Plan Sponsor are required to disclose the identity and affiliations of any individuals who will serve as members of the board of the reorganized debtors. However, there will be no reorganized debtors. I will serve as the Liquidation Trustee under the Plan and I understand that the only two insiders that Cliffs Club Services, LLC, an affiliate of Silver Sun, may hire are two of the current officers and directors of the Debtors, namely David Sawyer and Brett Kist.

29. **Rates**. I understand that the Debtors are not charging any rates under the Plan that require approval by any governmental agency. I have been advised by counsel that the Debtors are not subject to any regulation over the rates they charge, nor will they be subject to such regulation after the confirmation of the Plan.

30. **Liquidation Analysis**. The Debtors and GGG Partners have prepared an analysis of the estimated recovery that holders of Claims and Interests in classes that are impaired under the Plan would receive if the Debtors were liquidated under chapter 7 of the Bankruptcy Code (the "Liquidation Analysis"). The Liquidation Analysis is set forth in "Exhibit D" to the Disclosure Statement [Dkt. No. 480-7] (the "Disclosure Statement").

31. The Liquidation Analysis estimates the effects that a conversion of the Debtors' chapter 11 cases to cases under chapter 7 would have on the proceeds available for distribution to holders of Claims and Equity Interests under the Plan. The Liquidation Analysis analyzes a hypothetical liquidation of the Debtors, and the proceeds that could be raised through a liquidation. The Liquidation Analysis assumes that a chapter 7 trustee would arrange for the Debtors to sell their assets on a going-concern basis. The other major assumptions used in the Liquidation Analysis are described therein. I believe that the assumptions underlying the Liquidation Analysis are reasonable and that the Liquidation Analysis provides a reasonable estimate of the chapter 7 liquidation value of the Debtors' assets and the distributions that holders of Claims and Interests would receive in a chapter 7 liquidation of the Debtors.

32. The results of the Liquidation Analysis are described therein. The Liquidation Analysis indicates that after payment of administrative and priority claims, only the secured claim relating to the DIP Financing would receive any distribution in the event of a chapter 7 liquidation, and no other creditors would receive any distribution.

33. **The Plan**. The Plan contemplates the orderly liquidation of the Debtors through the restructuring of the Class 1 Claims followed by the sale of substantially all of the Debtors' assets to the Plan Sponsor subject to Permitted Liens and free and clear of all other liens, claims and encumbrances. Generally, the Plan classifies claims and interests into eight classes, comprising Indenture Trustee – Note Holder Claims (Class 1); Bridge Lender Claim (Class 2); Mechanic's Lien Claims (Class 3); Other Senior Secured Party Claims (Class 4); General Unsecured Claims (Class 5); Administrative Convenience Claims (Class 6); Club Member Claims (Class 7); and Equity Interests (Class 8). See Plan, Article II.

34. The Plan provides for the payment in full of all Allowed Administrative Expenses and priority claims including priority tax claims.

35. The Plan is premised on the modification of the Notes and security documents relating thereto evidencing the Class 1 Claims followed by the transfer to the Plan Sponsor of certain of the Debtors' Real Property Collateral and of substantially all of the Debtors' remaining assets, including the Personal Property Collateral, subject to the Permitted Liens and free and clear of all other liens, Claims and encumbrances, followed by the contribution of certain assets by the Plan Sponsor to the Indenture Trustee SPE, subject to the Permitted Liens, in return for a 100% member interest in the Indenture Trustee SPE (the Indenture Trustee will hold a 0% non-economic membership interest in the Indenture Trustee SPE), which will then assume the payment obligations under the modified Notes, in satisfaction of the Note Holder Claims against the Debtors and the Plan Sponsor, with the Sale Consideration including the payment on the Effective Date of Allowed Administrative Claims, DIP Facility Claims, Priority Claims, the Allowed Claim of the Bridge Lender, Allowed Mechanic's Lien Claims, Allowed Other Senior Secured Party Claims, and Allowed Administrative Convenience

Claims, the first payment of three to establish a fund for distribution to Holders of Allowed General Unsecured Claims, a fund for distribution to Holders of Allowed Rejecting Club Member Claims and the Post Effective Date Administration Plan Sponsor Funding in the manner outlined in the Plan. Equity interests will be cancelled.

36. Club Member Claims are dealt with in Class 7 of the Plan and the holders of such Claims are given under the Plan a choice between the following two options:

(a) Option to Join the New Clubs: A Club Member may elect in the ballot the New Club Membership Option and become one of the Accepting Club Members. If so, then upon payment of the applicable Transfer Fee, and any Membership Reinstatement Fee, if applicable, and execution of an agreement to pay at least one year of dues under the New ClubCo Membership Plan, the Class 7 Claimant will receive a membership with New ClubCo under the New ClubCo Membership Plan as well as the right to satisfaction by New ClubCo of any Membership Deposit Obligations in accordance with the Vesting Schedule. Accepting Club Members will also receive a release of claims by the Debtors.

(b) Option not to Join the New Clubs: A Club Member who does not (i) elect in the ballot the New Club Membership Option and (ii) become one of the Accepting Club Members, will thereby become one of the Rejecting Club Members and will receive its Pro Rata Share of the Rejecting Member Fund on or as soon as practicable after the later of (i) the first Distribution Date after the Claims Objection Deadline has occurred, if no objection to such Claim has been timely filed, or (ii) the first Distribution Date after the date on which any objection to such Rejecting Club Member Claim is settled, withdrawn or overruled pursuant to a Final Order of the Bankruptcy Court. On each subsequent Distribution Date or as soon thereafter as is reasonably practicable, the Liquidation

Trustee will continue to make Pro Rata Distributions to Holders of Allowed Class 7 of the Rejecting Member Fund.

37. I believe that it is appropriate to classify all Club Member Claims together in Class 7 of the Plan because each Club Member Claim is substantially similar to the other Club Member Claims in such Class. Each Club Member Claim is receiving the same treatment under the Plan. Each Club Member holds the same priority and legal rights against the assets of the Debtors' estates.

38. I understand one High Carolina member has objected to the Plan arguing that High Carolina members should have been classified in their own class. Even if High Carolina members had been separately classified, I do not believe they would have rejected the Plan. Attached hereto as Exhibit 1 is a summary of how the High Carolina members actually voted on the Plan and elected whether to become members of the new clubs. As set forth in the Exhibit, twenty six (26) of the thirty six (36) High Carolina members submitted votes on the Plan. Twenty three (23) of the twenty six (26) voted to accept the Plan, meaning 88% of the voting High Carolina members voted to accept the Plan. These twenty three (23) accepting High Carolina members hold claims of $4,353,769.41, compared to $469,514 in claims held by the three (3) High Carolina members who voted to reject the Plan. Seventeen (17) of the twenty three (23) accepting High Carolina members agreed to re-join the new clubs. These seventeen (17) rejoining High Carolina members hold $3,390,046 of the $4,353,769.41 in claims held by the accepting High Carolina members.

39. The Plan provides for the formation of a Liquidating Trust pursuant to a Liquidating Trust Agreement, and I will serve as the Liquidation Trustee and will have all of the rights, powers and duties specified in the Liquidating Trust Agreement. Among the

Liquidation Trustee's rights and duties will be to receive the General Unsecured Creditors Fund, to liquidate and collect the Retained Actions and ultimately to calculate and make all Distributions to be made to General Unsecured Creditors and to Holders of Allowed Rejecting Club Member Claims pursuant to the Liquidating Trust Agreement. In addition, the Liquidation Trustee shall have the power and responsibility to review, investigate and object to unsecured claims asserted against the consolidated estate. The Plan provides that the Debtors or Liquidation Trustee will distribute to each Claim that is equal to or less than $1,000 a distribution equal to the Allowed Amount of such unsecured claim.

40. The Plan provides that the Class 8 Equity Interest will be canceled. Class 8 is deemed to have rejected the Plan. There is no claim or interest junior to the Class 8 Interest that is retaining or receiving anything under the Plan.

41. **Impaired Classes**. Holders of Claims in Classes 1, 3, 4, 5, 6, and 7 and Interests in Class 8 are impaired.

42. Holders of Class 8 Interests will not receive or retain any property on account of their Equity Interests in the Debtors under the Plan.

43. **Compliance with Bankruptcy Code Section 1129(a)(9)**. Based on my understanding of the Bankruptcy Code and the Plan, although not classified in the Plan, the Plan provides that administrative expenses will be paid as follows:

> Except as otherwise provided for in the Plan, on the later of (i) the Initial Distribution Date, if an Administrative Claim is Allowed as of the Effective Date, or (ii) as soon as practicable after the date such Administrative Claim becomes an Allowed Claim, if an Administrative Claim is not Allowed as of the Effective Date, each holder of an Allowed Administrative Claim will receive from the Debtors (before the Effective Date) or the Liquidation Trustee or Plan Sponsor thereafter, in full satisfaction, settlement and release of, and in exchange for, such Allowed Administrative Claim, (a) Cash equal to the unpaid portion of such Allowed Administrative Claim, or (b) such less favorable treatment to which the Debtors (with the consent of the Plan Sponsor) or

> Liquidation Trustee and the holder of such Allowed Administrative Claim will have agreed upon in writing; provided, however, that Allowed Ordinary Course Trade Claims will be paid in the ordinary course of business of New ClubCo and/or its sublessees in accordance with the terms and subject to the conditions of any agreements governing or relating thereto.

44. The administrative expenses include the DIP Facility Claims, with respect to which the Plan provides for payment as follows:

> The DIP Facility Claims will be repaid by the Debtors in full, in Cash, on the Effective Date in full and final satisfaction, settlement and release of such DIP Facility Claims.

45. Also not classified in the Plan, the Plan provides that priority tax claims will be paid as follows:

> Priority Tax Claims. Except as otherwise provided for in the Plan, on (i) the Initial Distribution Date, if a Priority Tax Claim is Allowed as of the Effective Date, or (ii) the first Distribution Date after the date such Priority Tax Claim becomes Allowed, each holder of an Allowed Priority Tax Claim will receive from the New ClubCo, in full satisfaction, settlement and release of, and in exchange for, such Allowed Priority Tax Claim, (A) Cash of New ClubCo equal to the amount of such Allowed Priority Tax Claim, (B) such less favorable treatment as to which such Debtors (with the consent of the Plan Sponsor), and the holder of such Allowed Priority Tax Claim will have agreed upon in writing; or (C) at the option of the Debtors, Cash of New ClubCo in an aggregate amount of such Allowed Priority Tax Claim payable in installment payments over a period of not more than five (5) years after the Petition Date, pursuant to section 1129(a)(9)(C) of the Bankruptcy Code.

46. Also not classified in the Plan, the Plan provides that other priority claims will be paid as follows:

> Except as otherwise provided for in the Plan, on the seventh (7^{th}) day following the later of the Closing Date under the Asset Purchase Agreement or the date on which such Priority Claim is Allowed, the New ClubCo will pay in full, in Cash, all other Priority Claims.

47. **Acceptance of the Plan by At Least One Impaired Class**. All impaired Classes have affirmatively voted to accept the Plan, without including the acceptances of the Plan by insiders in such Classes. See BMC Group Declaration.

48. **Feasibility of the Plan**. For purposes of determining whether the Plan is feasible, because the Plan contemplates the liquidation of the Debtors, I understand that the primary feasibility issue relates to whether the Plan Sponsor will close its purchase of substantially all of the assets of the Debtors in accordance with the Asset Purchase Agreement. Based on my review of the financial materials provided to me regarding the financial ability of the Plan Sponsor to consummate the Asset Purchase Agreement and to implement its business plan for the operation of the clubs following the Effective Date, and the declaration of John Kunkel, and months of working closely with the Plan Sponsor, I believe that confirmation of the Plan is not likely to be followed by another liquidation or the need for further reorganization.

49. **Statutory Fees**. It is my understanding that the Debtors have paid all of the chapter 11 filing and operating fees required to be paid during these cases and filed all fee statements required to be filed. Plan Section 3.03(b) contemplates that all fees payable pursuant to section 1930 of title 28 of the United States Code, as determined by the Bankruptcy Court at the Confirmation Hearing, shall be paid by the Debtors on or before the Effective Date.

50. **Inapplicability of Sections 1129(a)(13) – (16)**. Based on my understanding, Bankruptcy Code Sections 1129(a)(13), 1129(a)(14), 1129(a)(15) and 1129 (a)(16) are inapplicable to the Debtors.

51. **Treatment of Equity Interests**. No holders of Equity Interests in the Debtors will retain or receive any property on account of their interests.

52. **Releases**. As set forth in Plan Section 10.03, the Debtors are providing releases to the Releasees which includes the D&O Releasees. These terms are defined in the Plan as follows:

> "D&O Releasees" means those current and former directors, members, and managers of the Debtors or of the Parents, in each case as of the Petition Date or that have become directors, members, or managers thereafter but prior to the Effective Date, but only to the extent each such party agrees, via execution of an agreement (the form of which will be included as an exhibit to a Plan Supplement), to forever release, waive and discharge any and all Claims, obligations, suits, judgments, remedies, damages, demands, debts, rights, causes of action, and liabilities whatsoever (other than a Note Holder Claim or Club Member Claim) against the Debtors, the Estates, the Liquidating Trust, the Liquidation Trustee, the Indenture Trustee, the Negotiating Group, the Advisory Board, the Committee Members, CIPOC, CMAG, CMAHG, the Plan Sponsor or any of their respective current and former officers, directors, employees, agents, stockholders, shareholders, managers, members, affiliates, partners, attorneys, advisors and professionals, whether liquidated or unliquidated, fixed or contingent, matured or unmatured, known or unknown, foreseen or unforeseen, then existing or thereafter arising, in law, equity, or otherwise, that are based in whole or part on any act, omission, transaction, event, or other occurrence, taking place on or prior to the Effective Date in any way relating to the Plan Sponsor or any of its members, partners, shareholders or affiliates, the Debtors, the Estates, the conduct of the Debtors' business, the Chapter 11 Cases, the Plan, the Liquidating Trust or the Liquidation Trustee.
>
> "Releasees" means, provided the Plan is confirmed, and on the Effective Date: (a) the Debtors, (b) the CRO, (c) the DIP Lender, (d) the Bridge Lender, (e) the Indenture Trustee, Negotiating Group member (provided he or she is an Accepting Club Member), Advisory Board member (provided he or she is an Accepting Club Member), and any Note Holder who votes a Class 1 Claim to accept the Plan, (f) the Plan Sponsor, (g) the Committee, (h) officers and directors of CMAG, CMAHG or CIPOC provided they are an Accepting Club Member, (i) the respective current and former officers, directors, employees, agents, stockholders, shareholders, managers, members, affiliates, partners, attorneys, advisors and professionals of the parties identified in subclauses (a) through (h); and (j) and any Club Member who is an Accepting Club Member. Anything to the contrary notwithstanding, the releases of James B. Anthony, Lucas Anthony and Timothy Cherry are each conditioned upon the satisfaction by James B. Anthony of the following: (a) he becomes a D&O Releasee; and (b) he and any non-Debtor affiliates he directly or indirectly owns or controls: (i) waive and release any and all claims of any kind against the Debtors; (ii) transfer and convey to the Debtors or to the Plan Sponsor all real property, personal property and other assets used by the Debtors, or necessary to operate the businesses of the Debtors, or which is necessary to satisfy any condition precedent under the Plan or the

> Asset Purchase Agreement; (iii) fully cooperate with the transfer of the Acquired Assets, the Sale and the orderly transition of the Debtors' businesses to the Plan Sponsor; (iv) do not object to or oppose confirmation of the Plan; (v) vote to accept the Plan to the extent he or any of them hold a Claim entitled to vote, and (vi) otherwise cooperate fully with the consummation of the Plan, including without limitation, executing and delivering any settlement agreement and complying with any and all conditions of any settlement agreement.

53. Based on my participation in the negotiation of the DIP Financing and the use of Cash Collateral at the commencement of the Cases, in the sale efforts and the auction of the plan sponsorship rights, and in the negotiation of the Plan and Plan implementation documents, I believe that the Debtors' releases are an integral part of the Plan and were required in order to induce several parties to support the Plan and/or to contribute substantial value to the Debtors' estates. Moreover, many of the parties being released specifically, the DIP Lender, Bridge Lender, Plan Sponsor, Indenture Trustee, Negotiating Committee, the Committee and the various membership groups were critical in formulating the Plan and obtaining the overwhelming support of the Plan. Furthermore, I do not believe that the Debtors are forfeiting any valuable claims or causes of action against the Releasees because I am not aware of any claims that the Debtors have against the Releasees. To the extent any release is provided, to James Anthony it will only occur if Anthony contributes assets currently leased by the Debtors which will enable the transaction to close and benefit the Noteholders and Members. Currently, the conditions for Jim Anthony to obtain a release have not been met. The releases against non-debtors that are held by third parties (the "Non-Debtor Releases") are consensual and are an integral part of the bargain struck among numerous parties to achieve a consensual Plan.

54. I believe that the Non-Debtor Releases are narrowly tailored to release parties whose efforts, assets, or support was essential to these Chapter 11 Cases, the sale process that

will result in substantial payments to secured and unsecured creditors under the Plan, and the development and acceptance of the Plan.

55. **Exculpation**. I understand that the exculpation provision in Plan Section 10.02 limits liability arising out of postpetition acts and omissions of the Releasees and certain parties related to them. The exculpation contains an express carve-out for willful misconduct and gross negligence.

56. **Good Faith**. I participated in the negotiations regarding the Asset Purchase Agreement, the Plan and the Disclosure Statement with the Plan Sponsor, the Indenture Trustee, the Negotiating Committee, the Advisory Group, the Committee and other groups of members and property owners, and I believe that such negotiations were conducted at arms-length and in good faith. Accordingly, I believe that the Plan Sponsor agreed to purchase the assets of the Debtors, in good faith, and that the Debtors and the Plan Sponsor have proposed the Plan in good faith.

I declare under penalty of perjury pursuant to 28 U.S.C. § 1746 that the foregoing is true and correct to the best of my knowledge, information and belief.

[*signature follows*]

Dated: August 3, 2012

Katie S. Goodman
Debtors' Chief Restructuring Officer and
Managing Partner of GGG Partners, LLC

EXHIBIT 1

Voting By High Carolina Members

Last Name (36 HC members)	Vote for Plan	Membership	Claim Amount
Aguiar	yes	agree	$148,897
Barth/Green	yes	agree	$225,000
Black			
Brandon	yes	decline	$100,271
Bush	yes	agree	$102,570
Blanchard/Kelly			
Carlile	yes	agree	$613,513
Carmichael	yes	agree	$177,592
Crutchfield			
Fuhs	yes	decline	$175,000
George	yes	agree	$150,000
Goldberg	no	decline	$150,000
Goodman	yes	decline	$170,000
Guerrieri			
Gisel			
Hughes	yes	agree	$250,000
Johnson	yes	decline	$150,006
King	yes	decline	$168,827
Kulkarni			
Kern	yes	agree	$152,481
Lee	yes	agree	$152,387
Levy	yes	agree	$150,000
Megison	yes	agree	$154,487
Morein			
Myers	no	blank	$150,000
Meek			
Natale			
Neuwirth	yes	decline	$199,619
Price	yes	agree	$275,000
Patterson	yes	agree	$56,000
Quillen	no	decline	$169,514
Robshaw/Benge			
Stites	yes	agree	$388,566
Stewart	yes	agree	$154,047
Thode	yes	agree	$121,456
Wade	yes	agree	$118,051

26 of 36 HC members voted

23 of 36 HC members voted to ACCEPT the Plan (88% of voting HC members)

- NOTE: the 23 ACCEPTING HC members represent $4,353,769 in claims

3 of 36 HC members voted to REJECT the Plan (12% of voting HC members)

- NOTE: the 3 REJECTING HC members represent $469,514 in claims

17 of 36 HC members elected to REJOIN the new clubs (68% of voting HC members)

- NOTE: the 17 REJOINING HC members represent $3,390,046 in claims

8 of 36 HC members elected NOT to REJOIN the new clubs (31% of voting HC members)

- NOTE: the 8 NON-REJOINING HC members represent $1,283,237 in claims