CONFIDENTIAL PRIVATE PLACEMENT MEMORANDUM
OFFERING OF AGREED UNITS AND
6,500 UNITS OF CLASS E PREFERRED MEMBERSHIP INTERESTS
THE MERITAGE RESORT, LLC

The Meritage Resort, LLC, a California limited liability company ("**we**" or the "**Company**") is offering for sale (the "**Offering**") interests in the Class A Common Units, Class B Preferred Units, Class C Preferred Units and Class D Preferred Units (collectively, the "**Agreed Units**") as set forth on **SCHEDULE 1** hereto upon subscription to the Company, and 6,500 Class E Units ("**Class E Units**") of limited liability company ("**LLC**") membership interests at a price of $1,000 per Unit. The Agreed Units are being offered to the persons named, and in the percentages listed, on **SCHEDULE 1**, and the Class E Units are being offered first to such parties and, in the event less than all are subscribed for, to others.

The Agreed Units are being issued to the holders of the Class A Common Units, Class B Units, Class C Units and Class D Units for "**Agreed Contributions**" being provided in consideration for, among other things, the consent of such Unit holders to the purchase of the Hotel (defined below), including assumption of all secured and unsecured debt as well as other liabilities

The Class E Units will represent approximately 16.07% of the aggregate number of all LLC interests in the Company (the "**Membership Interests**") held by Members (the "**Members**") if all offered Class E Units are sold in the Offering. Upon our acceptance of Subscriptions for Membership Interests, you must pay us $500 for each Class E Unit on or before November 15, 2010, and the remaining $500 per Class E Unit will be due on March 15, 2011, unless the LLC Manager, on at least 30 days' prior notice, provides a later date.

Napa Hospitality Partners, LLC, a California limited liability company ("**NHP**") previously constructed, owned and operated a 158-unit hotel located in Napa, California, together with a spa and wine cave, operated as The Meritage Resort & Spa (the "**Hotel**"). NHP also purchased the parcel immediately to the east of the Resort (the "**Expansion Parcel**") and entitled it for an additional 165 rooms and other amenities. The Company is purchasing the Hotel and the Expansion Parcel and all associated rights for a price based on assumption of all debt. Information included in this Memorandum has been provided by NHP representatives.

Our purpose is to develop, construct and operate such 165-room expansion of the Resort together with additional meeting space and other amenities (the "**Expansion**"). This Offering is intended to afford investors, subject to available cash flow and other restrictions, a Preferred Return on the Class E Units of 9% per annum, and, after payment of certain other payments and such Preferred Return, to repay such Class E Members' initial capital contribution ("**Net Investment**"). Thereafter, distribution of any remaining cash flow will be made to all Members based upon their percentage interest in the Company. See "SUMMARY OF THE OFFERING" and "OPERATING AGREEMENT."

Pacific Hospitality Group, LLC, a California limited liability company (the "**LLC Manager**," "**PHG**" or the "**Hotel Manager**"), David L. Keligian and Gregory A. Busch as Trustees of the Lenawee Trust dated December 30, 1992, as amended and restated ("**Lenawee Trust**"), Todd Martin Pickup and Devon Renee Martin, Trustees of the Vintage Trust Dated October 28, 1993 ("**Vintage Trust**"), The Busch Firm, a Professional Corporation ("**the Busch Firm"**) and their affiliates (collectively, the "**Affiliated Group**") will be entitled to substantial fees and payments both from the proceeds of the Offering and any revenues generated by us. See "COMPENSATION AND FEES TO THE AFFILIATED GROUP AND LLC MANAGER." There is no public market for the Agreed Units or the Class E Units.

DELIVERY OF THIS MEMORANDUM DOES NOT CONSTITUTE AN OFFER TO SELL OR SOLICITATION OF AN OFFER TO BUY CLASS E UNITS UNLESS WE PROVIDE TO YOU A COMPLETED SUBSCRIPTION AGREEMENT INDICATING THE NUMBER OF CLASS E UNITS TO BE SUBSCRIBED FOR AND CERTAIN OTHER REQUIREMENTS ARE SATISFIED. NEVERTHELESS, WE RESERVE THE RIGHT, IN OUR SOLE DISCRETION TO ACCEPT OR REJECT IN WHOLE OR IN PART ANY SUBSCRIPTION FOR AGREED UNITS AND/OR CLASS E UNITS.

- **THIS INVESTMENT INVOLVES A HIGH DEGREE OF RISK. YOU SHOULD PURCHASE THESE SECURITIES ONLY IF YOU CAN AFFORD A COMPLETE LOSS OF YOUR INVESTMENT.**
- **PURCHASE OF THE OFFERED SECURITIES INVOLVES SIGNIFICANT RESTRICTIONS ON TRANSFERABILITY.**
- **THE VALUE OF THE UNITS BEING OFFERED IS MATERIALLY DEPENDENT ON THE FULFILLMENT OR ACCOMPLISHMENT OF A FUTURE CONDITION, PROMOTION, OR DEVELOPMENT INSTEAD OF OUR PRESENT TANGIBLE ASSETS OR CONDITIONS.**
- **THERE EXISTS A SIGNIFICANT CONFLICT OF INTEREST AMONG THE COMPANY, PHG, THE FIRM, LENAWEE TRUST, BUSCH FINANCIAL SERVICES ("BFS"), VINTAGE TRUST, PLUS FOUR MANAGEMENT, LLC, A NEVADA LIMITED-LIABILITY COMPANY ("PLUS FOUR"), AND THEIR RESPECTIVE MEMBERS, SHAREHOLDERS, PARTNERS, OFFICERS, DIRECTORS, ASSOCIATES AND AFFILIATES. (PHG, LENAWEE TRUST, BFS, THE FIRM, TIMOTHY R. BUSCH, VINTAGE TRUST, PLUS FOUR, AND THEIR RESPECTIVE MEMBERS, SHAREHOLDERS, PARTNERS, DIRECTORS, ASSOCIATES AND AFFILIATES ARE SOMETIMES REFERRED TO IN THIS MEMORANDUM AS THE "AFFILIATED GROUP.")**
- **SEE "RISK FACTORS"; "ABSENCE OF MARKET FOR SECURITIES"; AND "CONFLICTS OF INTEREST."**

	Purchase Price (1)	**Proceeds to Company** (1)(4)(5)
Class E Units(2)(3) **(Footnotes on Next Page)**	**$6,500,000**	**$6,500,000**

September 9, 2010

(1) In addition to paying $1,000 per Class E Unit, you may be requested (but are not required) to make Additional Capital Contributions ("**Additional Capital Contributions**") for Company purposes (such as to fund any construction cost overruns, negative operating cash flow, or other capital requirements) as provided in the Operating Agreement and the Subscription Agreement. See "OPERATING AGREEMENT" and "THE OFFERING." The subscription price has been arbitrarily established by the LLC Manager, is not based on earnings or assets and does not constitute any representation that the securities have a market value or could be sold at such price. See "RISK FACTORS" and "ABSENCE OF MARKET FOR SECURITIES." Under the terms of the Operating Agreement, you will be not personally liable to fund your proportionate share of Additional Capital Contributions, but your percentage interest in the Company is subject to dilution in the event you fail to provide such additional capital.

(2) There is no required minimum amount of Class E Units which we must sell before we may accept investors' subscriptions. The Offering commences on the date of this Memorandum and will continue until November 15, 2010, unless the Offering is fully subscribed for pursuant to subscriptions accepted by us or we terminate the Offering at an earlier date in our sole discretion or unless we extend the Offering for a period not to exceed an additional 90 days (the "**Offering Expiration Date**"). There is no assurance that we will sell all of the Class E Units as contemplated in this Memorandum. See "RISK FACTORS" and "THE OFFERING - Terms of the Offering." If you do not subscribe for your allotted share of Class E Units on or before September 30, 2010, they may be offered to other Company Members or to third parties.

(3) The Class A Common Units will be held by Lenawee Trust, Vintage Trust, Steve Arnold (President of PHG) and his wife, and Joe Morgan. There are three other classes of Preferred Units, Class B, Class C and Class D. If the Offering is fully subscribed, the Class A Common Units will continue to represent approximately 37.04% of the total Membership Interests in the Company (6,000 Common Units), the holders of the other three classes of Preferred Units (which will hold approximately 62.96% of the total Membership Interests in the Company prior to Class E Preferred Unit dilution) will be diluted to an approximate 46.9% ownership interest, and the Class E Units will cumulatively represent approximately 16.07% of the Membership Interests in the Company (6,500 Class E Units). See "RISK FACTORS – Dilutive Effect of Class E Units," "THE OFFERING – Terms of the Offering," and "CAPITALIZATION; DILUTION."

(4) We will be seeking subscriptions from members of NHP. Further, we will be privately soliciting subscriptions through PHG, the LLC Manager. The LLC Manager and other members of the Affiliated Group will receive no direct or indirect compensation for soliciting such subscriptions, but will be entitled to other payments described in this Memorandum (including payments funded through the proceeds of the Offering) and may be reimbursed for reasonable expenses, if any, incurred in connection with their solicitation. Members of the Affiliated Group will purchase Class E Units for their own account (expected to be in the amount of approximately $3,024,000 for approximately 3,024 Class E Units). See "THE OFFERING" and "COMPENSATION AND FEES TO THE AFFILIATED GROUP."

(5) The proceeds to us from the Offering will be reduced by legal, accounting, printing and other expenses. See "USE OF PROCEEDS."

THE SECURITIES OFFERED HEREBY HAVE NOT BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION (THE "**COMMISSION**") OR WITH ANY STATE SECURITIES ADMINISTRATOR, NOR HAS THE COMMISSION OR ANY SUCH ADMINISTRATOR PASSED UPON THE ACCURACY OR ADEQUACY OF THIS MEMORANDUM, OR ON THE FAIRNESS OF THE TERMS OF THIS OFFERING. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

THE SECURITIES OFFERED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**"), OR REGISTERED OR QUALIFIED UNDER APPLICABLE STATE SECURITIES LAWS IN RELIANCE UPON EXEMPTIONS THEREFROM. THEREFORE, THE SECURITIES MAY NOT BE SOLD, TRANSFERRED OR OTHERWISE DISPOSED OF UNLESS REGISTERED UNDER THE SECURITIES ACT AND REGISTERED OR QUALIFIED UNDER APPLICABLE STATE SECURITIES LAWS OR AN EXEMPTION THEREFROM IS AVAILABLE. THERE IS NO TRADING MARKET FOR THE AGREED UNITS OR THE CLASS E UNITS AND NO ASSURANCE CAN BE GIVEN THAT AN ACTIVE MARKET WILL DEVELOP IN ANY OF THESE SECURITIES, OR, IF DEVELOPED, THAT IT WILL BE SUSTAINED.

THIS MEMORANDUM HAS BEEN PREPARED FOR THE EXCLUSIVE USE OF THE PROSPECTIVE INVESTORS IN AGREED UNITS AND CLASS E UNITS. UNDER NO CIRCUMSTANCES SHALL THIS MEMORANDUM CONSTITUTE AN OFFER TO SELL OR THE

SOLICITATION OF AN OFFER TO BUY UNLESS (i) THE PROSPECTIVE INVESTOR TO WHOM THIS MEMORANDUM IS GIVEN SATISFIES THE SUITABILITY STANDARDS STATED HEREIN, AND (ii) THE PROSPECTIVE INVESTOR RECEIVES A COMPLETED SUBSCRIPTION AGREEMENT WITH THE AMOUNTS OF AGREED UNITS AND/OR CLASS E UNITS TO BE SUBSCRIBED FOR FILLED IN BY THE COMPANY. NOTWITHSTANDING THE FOREGOING, EVEN IF THE FOREGOING REQUIREMENTS HAVE BEEN COMPLIED WITH, THE COMPANY RESERVES THE RIGHT, IN ITS SOLE DISCRETION AND FOR ANY REASON IT DEEMS APPROPRIATE, TO ACCEPT OR REJECT IN WHOLE OR IN PART ANY SUBSCRIPTION FOR CLASS E UNITS.

NO PERSON HAS BEEN AUTHORIZED TO GIVE ANY INFORMATION OR REPRESENTATIONS WITH RESPECT TO THE COMPANY, THE AGREED UNITS OR THE CLASS E UNITS OTHER THAN THE INFORMATION SET FORTH IN THIS MEMORANDUM, AND IF GIVEN OR MADE, SUCH INFORMATION OR REPRESENTATIONS MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY THE COMPANY OR ANY OF THE AFFILIATED GROUP.

THIS MEMORANDUM DOES NOT CONSTITUTE AN OFFER TO SELL OR SOLICITATION OF AN OFFER TO BUY ANY OF THE AGREED UNITS OR CLASS E UNITS IN ANY STATE OR JURISDICTION TO ANY PERSON TO WHOM IT IS UNLAWFUL TO MAKE SUCH OFFER OR SOLICITATION IN SUCH STATE OR JURISDICTION.

THIS MEMORANDUM AND THE INFORMATION CONTAINED IN THIS MEMORANDUM IS CONFIDENTIAL AND IS INTENDED ONLY FOR THE USE OF QUALIFIED PERSONS TO WHOM IT IS DISTRIBUTED BY US OR BY THIRD PARTIES AUTHORIZED BY US. ANY REPRODUCTION OR DISTRIBUTION OF THIS MEMORANDUM IN WHOLE OR IN PART, OR DIVULGENCE OF ANY OF ITS CONTENTS, OTHER THAN TO PROSPECTIVE INVESTORS AND THEIR PROFESSIONAL ADVISORS, WITHOUT OUR, OR OUR AGENTS', PRIOR WRITTEN CONSENT, IS PROHIBITED.

EXCEPT AS OTHERWISE INDICATED, THIS MEMORANDUM SPEAKS AS OF THE DATE OF ITS ISSUANCE AND NEITHER DELIVERY OF THIS MEMORANDUM NOR ANY SALES MADE UNDER THIS OFFERING SHALL, UNDER ANY CIRCUMSTANCES, CREATE ANY IMPLICATIONS THAT THERE HAS BEEN NO CHANGE IN OUR CONDITION OR THE MATERIAL SET FORTH HEREIN SINCE SUCH DATE.

NO REPRESENTATION OR WARRANTY, EXPRESSED OR IMPLIED, IS MADE AS TO THE COMPLETENESS OF THE INFORMATION CONTAINED IN THE MEMORANDUM OR IN ANY DOCUMENTS FURNISHED BY US UPON REQUEST, AND NOTHING CONTAINED IN THIS MEMORANDUM IS, OR SHALL BE RELIED UPON AS, A PROMISE OR REPRESENTATION AS TO FUTURE PERFORMANCE OR EVENTS. THE MEMORANDUM DOES NOT PURPORT TO CONTAIN ALL OF THE INFORMATION THAT MAY BE REQUIRED TO EVALUATE AN INVESTMENT IN THE COMPANY AND YOU SHOULD CONDUCT YOUR OWN INDEPENDENT ANALYSIS.

YOU SHOULD NOT CONSTRUE THE CONTENTS OF THIS MEMORANDUM AS LEGAL, BUSINESS OR TAX ADVICE. EACH PROSPECTIVE INVESTOR SHOULD CONSULT HIS OWN ATTORNEY, BUSINESS ADVISOR AND TAX ADVISOR AS TO LEGAL, BUSINESS, TAX AND RELATED MATTERS CONCERNING HIS INVESTMENT. THE FIRM DOES NOT REPRESENT PROSPECTIVE INVESTORS IN THIS TRANSACTION OTHER THAN CERTAIN PARTICIPANTS IN THE AFFILIATED GROUP.

THIS INVESTMENT IS AVAILABLE ONLY TO THOSE PERSONS WHO ARE "ACCREDITED INVESTORS" AS DEFINED IN RULE 501(a) OF REGULATION D PROMULGATED UNDER THE SECURITIES ACT AND WHO ARE ABLE TO BEAR THE ECONOMIC RISK OF THEIR INVESTMENT, PROVIDED HOWEVER THAT WE RESERVE THE RIGHT TO ADMIT A LIMITED

NUMBER OF NON-ACCREDITED INVESTORS IN OUR SOLE DISCRETION. SEE "THE OFFERING" AND THE SUBSCRIPTION AGREEMENT ATTACHED AS AN EXHIBIT HERETO WITH RESPECT TO CERTAIN REPRESENTATIONS AND WARRANTIES WHICH AN INVESTOR WILL BE REQUIRED TO MAKE.

WE RESERVE THE RIGHT TO REJECT OR REDUCE YOUR SUBSCRIPTION EVEN IF YOU SATISFY ALL SUITABILITY STANDARDS DISCUSSED IN THIS MEMORANDUM. IF YOU DO NOT RECEIVE AN INVITATION TO SUBMIT AN OFFER TO PURCHASE CLASS E UNITS, OR IF YOUR OFFER IS SUBMITTED BUT NOT ACCEPTED BY US, YOU ARE OBLIGATED TO RETURN PROMPTLY THIS MEMORANDUM AND ALL ENCLOSED DOCUMENTS.

WE RESERVE THE RIGHT TO WITHDRAW OR MODIFY THIS OFFERING AT ANY TIME PRIOR TO ACCEPTANCE OF SUBSCRIPTIONS FROM INVESTORS WHO HAVE SUBSCRIBED FOR ALL OF THE CLASS E UNITS OFFERED IN THIS OFFERING.

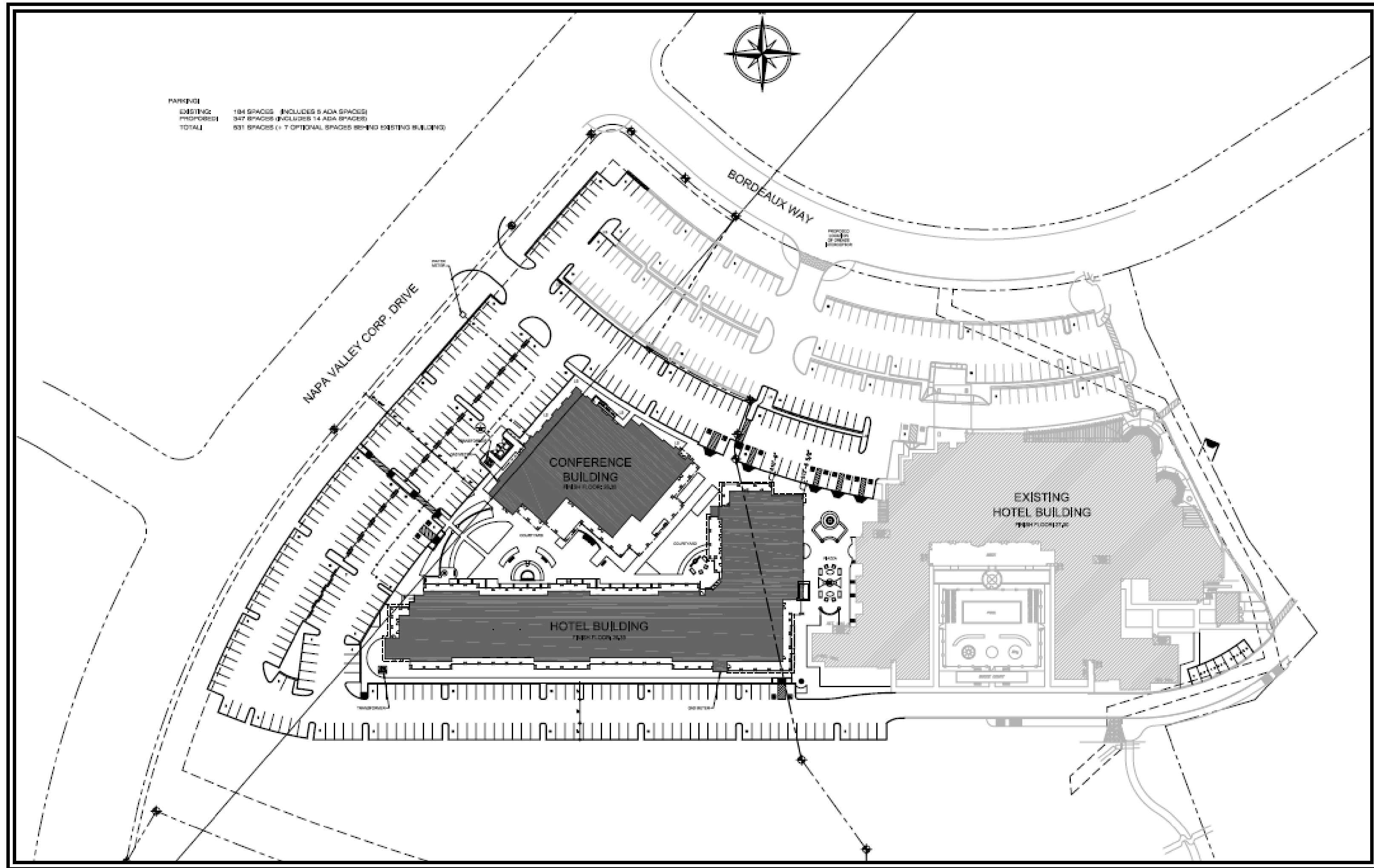
Our representatives will be available to you during normal business hours and will respond to questions concerning the terms and conditions of the Offering. These persons will also provide to you any additional information which is available to us or which can be obtained by us without unreasonable effort or expense that is necessary to verify the accuracy of the information furnished in this Memorandum. If you want to ask questions and receive answers or otherwise receive information to verify the accuracy of the information furnished in this Memorandum, please direct your inquiries to:

Pacific Hospitality Group, LLC
2532 Dupont Drive
Irvine, California 92612
(949) 474-7368 ext. 100
Fax No.: (781) 207-0713
email: tbusch@buschfirm.com
Attention: Timothy R. Busch

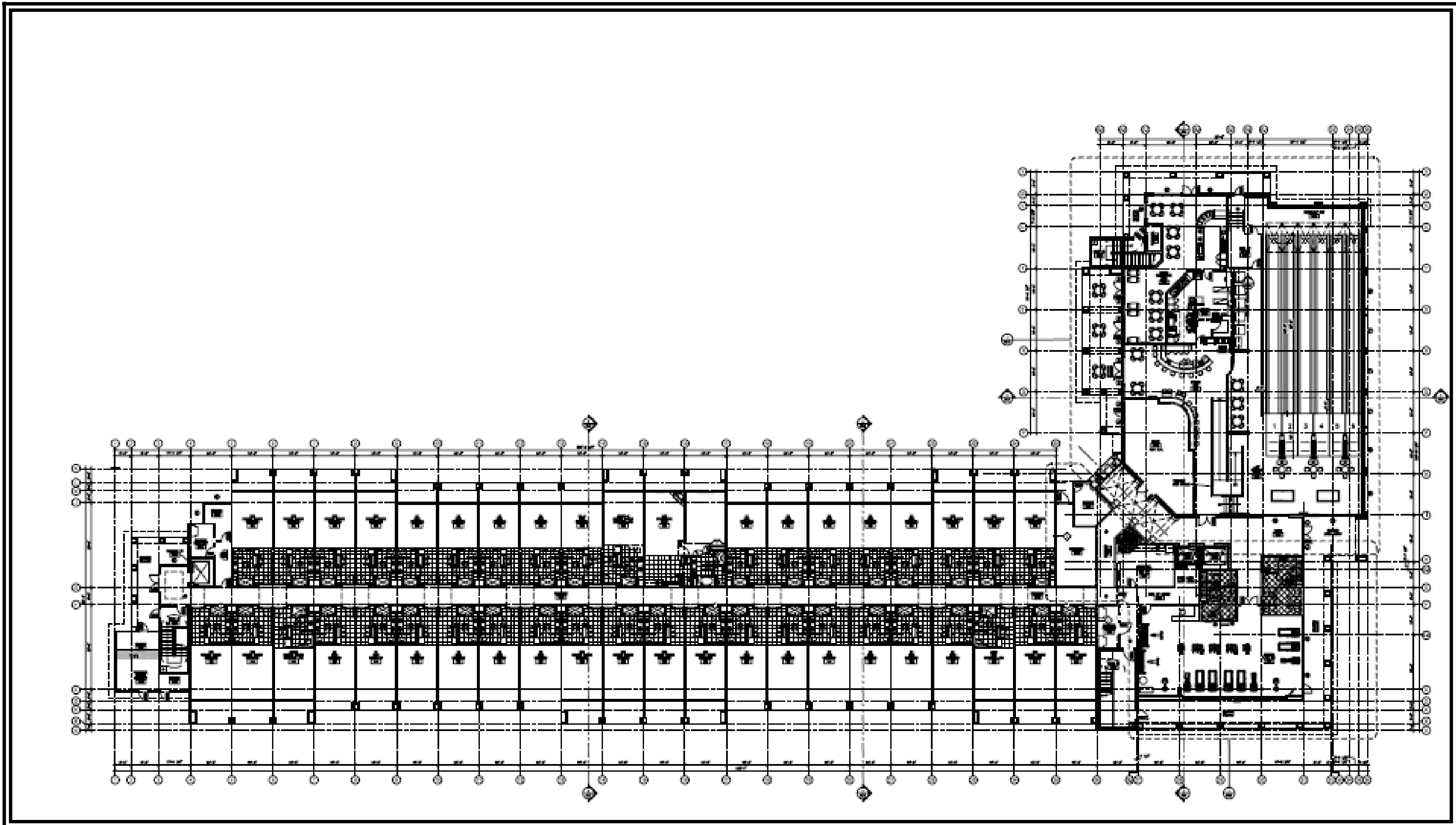
JURISDICTIONAL NOTICES

NOTICE TO RESIDENTS OF ALL STATES: IN MAKING AN INVESTMENT DECISION INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE PERSON OR ENTITY CREATING THE SECURITIES AND THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. THESE SECURITIES HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

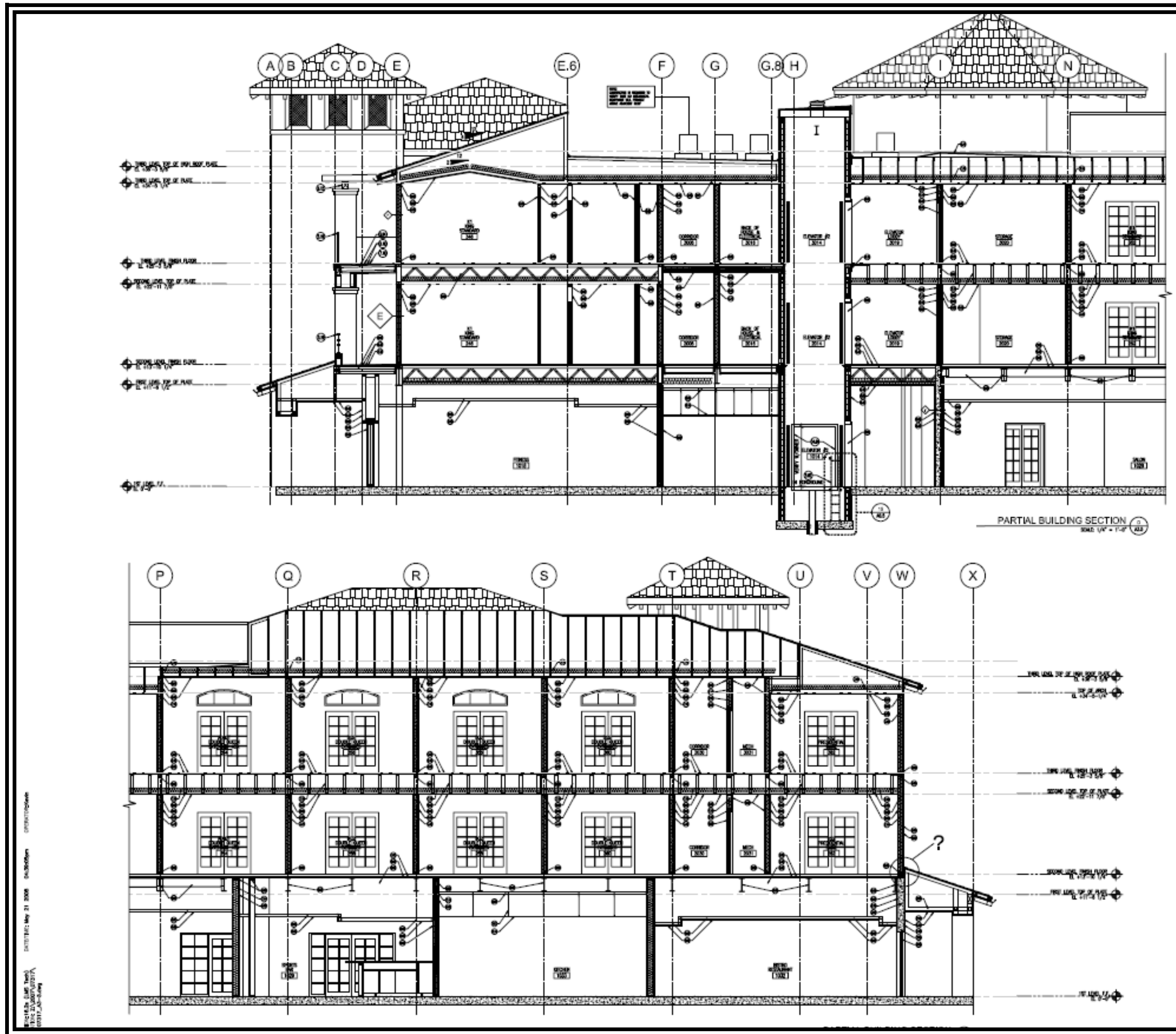
THESE SECURITIES ARE SUBJECT TO RESTRICTIONS ON TRANSFERABILITY AND RESALE AND MAY NOT BE TRANSFERRED OR RESOLD EXCEPT AS PERMITTED UNDER THE SECURITIES ACT, AND THE APPLICABLE STATE SECURITIES LAWS, PURSUANT TO REGISTRATION OR EXEMPTION THEREFROM. TRANSFER OF THE AGREED UNITS AND CLASS E UNITS WILL BE SUBJECT TO ADDITIONAL RESTRICTIONS ON TRANSFER CONTAINED IN THE OPERATING AGREEMENT. INVESTORS SHOULD BE AWARE THAT THEY WILL BE REQUIRED TO BEAR THE FINANCIAL RISKS OF THIS INVESTMENT FOR AN INDEFINITE PERIOD OF TIME.



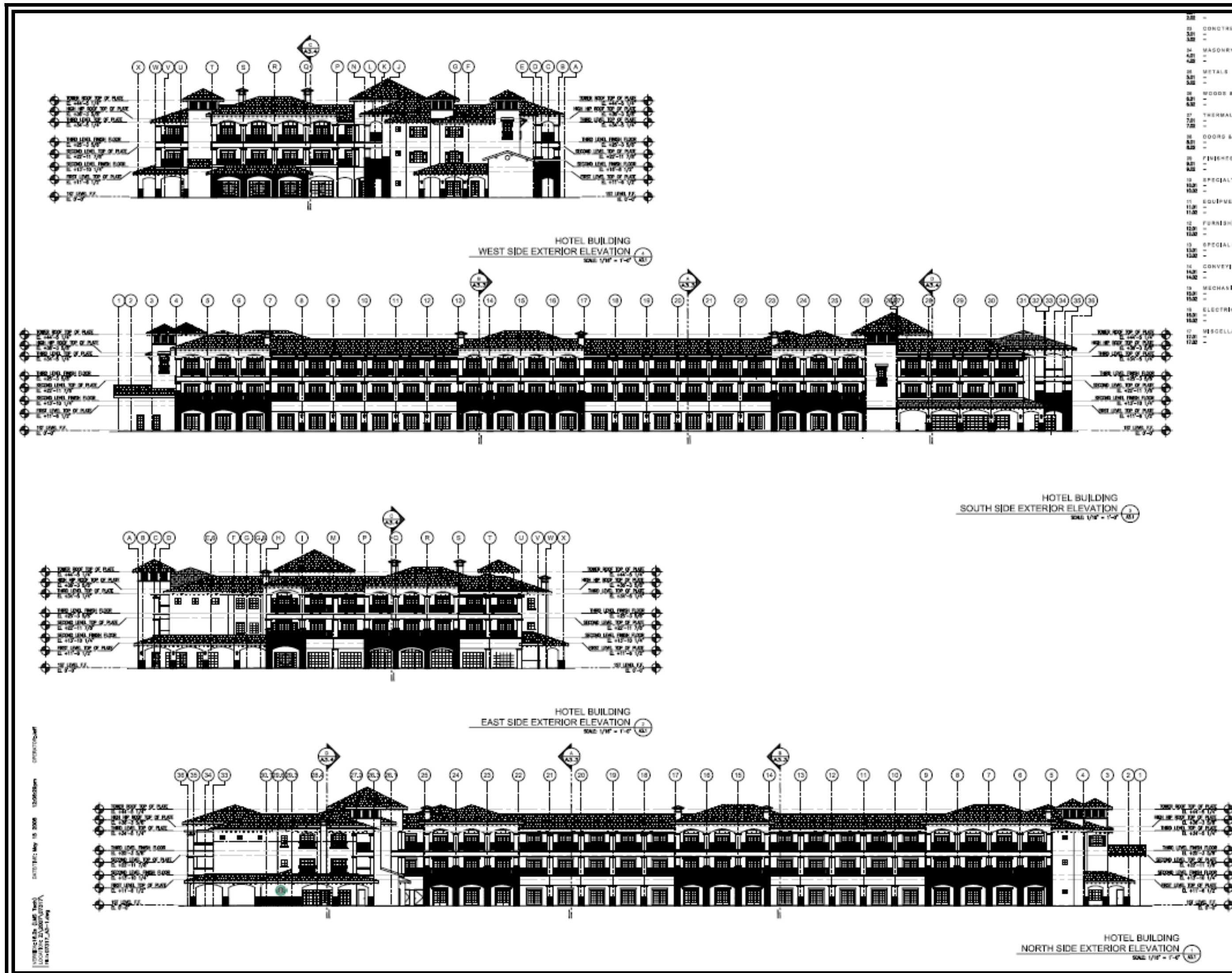
Site of Existing Hotel and Proposed Expansion



Floor Plan – Proposed Meritage Village (Hotel Building)



Elevation – Proposed Meritage Village (Hotel Building)



Rendering of Proposed Hotel Building

Vineyard Walkway Diagram

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B	Historical Operations Performance
C	Projections (Current Year Operating Performance (with Forecast for May – December 2010) and 7- Year Operating Pro Forma (2011-2017))
D	PKF Hotel Appraisal dated March 24, 2010
E	PKF Hotel Plus Expansion Appraisal dated April 6, 2010
F	Form of Operating Agreement
G	Development Agreement
H	Hotel Management Agreement
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SUMMARY OF THE OFFERING

The following summary is qualified in its entirety by, and should be read in conjunction with, the more detailed information and financial data, including the construction budget, financial information projections, agreements and forms of agreements included elsewhere in this Memorandum and the exhibits hereto, and agreements and other documents referenced herein and made available to you on request. You should carefully consider the matters set forth in "RISK FACTORS" and "CONFLICTS OF INTEREST." Market, geographical and other data used throughout this Memorandum were obtained from third party sources from material furnished to the Company that was dated April 6, 2010, or earlier, and certain industry and other publications. We believe the sources and the industry publications consulted to be reliable, but we have not independently verified such information nor have we conducted any studies or investigation to update such information or verify its accuracy.

Definitions

Capitalized terms not otherwise defined in this Memorandum are defined in the Operating Agreement or any other specifically referenced agreement. In reading this Memorandum, please refer to such defined terms.

"**Accredited Investors**" is defined in Rule 501(a) of Regulation D promulgated under the Securities Act.

"**Affiliated Group**" means PHG, Lenawee Trust, Vintage Trust, the Busch Firm, Plus Four and BFS and their respective members, shareholders, partners, and directors.

"**Agreed Contributions**" means the agreed initial capital contributions and preferred returns thereon as of September 1, 2010, of the Members for their Class A Common Units, Class B Preferred Units, Class C Preferred Units and Class D Preferred Units, as shown on **Schedule 1** hereto, in consideration for, among other things, the consent of such Unit holders to the purchase of the Hotel, including assumption of all secured and unsecured debt as well as other liabilities.

"**Agreed Units**" means Class A Common Units, Class B Units, Class C Units and Class D Units.

"**ANICO**" means American National Insurance Company, a Texas insurance company.

"**Board**" or "**Board of Managers**" means the Company's Board of Managers consisting of seven individuals who have been appointed and elected pursuant to the provisions of the Operating Agreement, and who have the authority over the Company's Major Decisions (as defined in the Operating Agreement).

"**Class A Common Units**" means the Units issued to Lenawee Trust, Vintage Trust and others in exchange for certain development rights and other services on which no Preferred Return accrues.

"**Class B Units**" means the Units being issued to Class B Members in recognition of Agreed Contributions of $9,000,000 used to construct the Hotel.

"**Class C Units**" means the Units being issued to Class C Members in recognition of Agreed Contributions of $1,200,000 used to cover cost overruns incurred in constructing the Hotel.

"**Class D Units**" means the Units being issued to the Class D Members in recognition of Agreed Contributions of $1,268,677 used to construct the Estate Cave.

"**Class E Units**" means the Units to be issued to Class E Members in exchange for capital contributions of up to $6,500,000 ($1,000 per Class E Unit) for the Expansion.

"**Commission**" means the Securities and Exchange Commission.

"**Construction Budget**" means the Preliminary Construction Budget attached as **Exhibit A** to this Memorandum.

"**Development Agreement**" means the Development Agreement entered into between the Company and PHG for the development of the Expansion, in the form attached hereto as **Exhibit G,** as the same may be amended from time to time.

"**Estate Cave**" means the facility located in the hillside behind the Hotel below the vineyards that includes a world-class spa with 10 treatment rooms, locker rooms, relaxation room, front office and related support areas, approximately 4,000 square foot area for conference, meeting and banquet functions and the Trinitas Tasting Room.

"**Expansion**" means improvements comprising 165 guest rooms, fitness center, salon, bowling and sports bar bistro, coffee/retail shop, conference center, and other amenities, as approved by the City of Napa Planning Commission on or about April 17, 2008, as the same may be modified from time to time prior to completion of construction thereof.

"**Expansion Construction Loan**" means a loan for the construction of the Expansion, expected to be made to the Company by ANICO in the amount of $31,500,000, which loan will be added to, amend and restate the Hotel Construction Loan entered into for the construction of the Hotel and Estate Cave and the acquisition of the Expansion Parcel.

"**Expansion Parcel**" means the parcel of real property immediately adjacent to the Original Property on which it was originally planned that office buildings would be constructed, but was acquired by NHP in April of 2007, comprising approximately 9.07 acres, which Expansion Parcel has now been merged with the Original Parcel to form the Property.

"**Firm**" means The Busch Firm, a Professional Corporation, a California professional corporation.

"**Hotel**" means the resort comprised of 158 units, currently known as The Meritage Resort & Spa, located on the Original Property, and includes the Estate Cave.

“**Hotel Construction Loan**” means the loan from ANICO in the original principal balance of $36,195,000 used for acquisition and construction of the Hotel and Estate Cave and the acquisition of the Expansion Parcel.

“**Hotel Management Agreement**” means the Hotel Management Agreement entered into between the Company and PHG, in the form attached hereto as **Exhibit H** as the same may be amended from time to time.

“**Hotel Manager**” means PHG.

“**Lenawee Trust**” means David L. Keligian and Gregory A. Busch as Trustees of the Lenawee Trust dated December 30, 1992, as amended and restated.

“**LLC Manager**” means PHG.

“**Loan Application**” means that certain Construction/Permanent Loan Application that spells out the terms on which the Company currently expects the Expansion Construction Loan will be made, a summary of which is found under “BUSINESS – Expansion Construction Loan” and a copy of which is available on request.

“**Member**” means an investor who has been admitted by the Company as a Member in accordance with the terms of the Operating Agreement.

“**Membership Interest**” means a Member’s rights in the Company, including such Member’s economic interest, right to vote or participate in the management of the Company, and rights to information as a Member concerning the business and affairs of the Company.

“**Memorandum**” means this Confidential Private Placement Memorandum.

“**NHP**” means Napa Hospitality Partners, LLC, a California limited liability company, the party that acquired and constructed the Hotel which is being sold to the Company.

“**Offering**” has the meaning as set forth in the opening paragraph of this Memorandum.

“**Offering Expiration Date**” means November 15, 2010, as such date may be extended as provided herein; however, if a Subscription Agreement is not accepted by September 30, 2010 from any person/entity reflected on Schedule 1, the Company may offer Class E Units to other Members and/or third parties thereafter.

“**Operating Agreement**” means the Operating Agreement for the Company, substantially in the form attached hereto as **Exhibit F (**a “redline” of the Operating Agreement which has been marked to show all changes since the NHP Amended and Restated Operating Agreement made to date and those made as part of the admission of the Class E Preferred Members is available upon request).

“**Original Property**” means the approximately 10.11 acre parcel of land previously described as 870 Trefethen, Napa, County of Napa, California (which, after lot line adjustments now equals approximately 11.57 acres), now described as 875 Bordeaux Way, on which the Hotel

and Estate Cave were constructed, which Original Property is bordered by the Timeshare Facility on one side and the Expansion Parcel on the other side.

"**Original Sub-Debt**" means that certain line of credit loan in the amount of $3,850,000 made by certain Members or their Affiliates to NHP and assumed by the Company, currently outstanding in the principal amount of $3,100,000 and due on December 31, 2010, which Original Sub-Debt is being assumed by the Company.

"**PHG**" means Pacific Hospitality Group, LLC, a California limited liability company.

"**PKF Hotel Appraisal**" means the Appraisal – Meritage Resort & Spa, Napa, California, prepared by PKF Consulting as of March 1, 2010, a copy of which is attached hereto as **Exhibit D**. The Addenda have been omitted from the copy attached hereto but a full copy of this appraisal is available upon request.

"**PKF Hotel Plus Expansion Appraisal**" means the Appraisal – Meritage Resort and Village, Napa, California, prepared by PKF Consulting dated April 6, 2010, a copy of which is attached hereto as **Exhibit E.** The Addenda have been omitted from the copy attached hereto but a full copy of this appraisal is available upon request.

"**Preferred Return**" means a preferred rate of return on the Preferred Units which accrues at the rate of 9% per annum on the investment of each Preferred Member, compounding annually.

"**Preferred Units**" means all Units of the Company other than the Class A Common Units.

"**Property**" means the Original Property, together with all improvements thereon, and the Expansion Parcel, together with all improvements thereon.

"**Proposed Sub-Debt**" means that certain line of credit loan expected to be made by certain Members or their Affiliates to the Company, in the expected principal amount of $1,936,774 and due on December 31, 2015, to bear interest at 9% per annum, paid monthly.

"**Purchase Agreement**" means that certain Agreement for Purchase and Sale of Real Property and Escrow Instructions dated as of September 1, 2010, by and between the Company, as "Buyer," and NHP, as "Seller," for the purchase and sale of the Hotel, a copy of which is available upon request.

"**Room Rate Agreement**" means that certain Sales, Marketing and Room Rate Agreement entered into between SVC and the Company as of June 22, 2004, as amended, a copy of which is available on request.

"**Securities Act**" means the Securities Act of 1933, as amended.

"**Sub-Debt**" means the Original Sub-Debt and the Proposed Sub-Debt.

"**SVC**" means SVC – Napa, L.P., a California limited partnership.

"**Timeshare Facility**" means the Vino Bello Resort, currently consisting of two buildings housing 120 guest suites, with a third building under construction, for a total of 182 guest suites upon completion of such third building.

"**Timeshare Management Agreement**" means that certain Timeshare Parcel Management Services Agreement dated as of June 21, 2004, between NHP, as the Operator, and SVC, as Owner, in connection with the management and daily operations of the Timeshare Facility, as amended, a copy of which is available on request, and which shall be assigned by NHP to the Company upon transfer of the Property to the Company.

"**Unit**" means a share of Membership Interest in the Company.

"**Vineyard Lease**" means that certain Ground Lease entered into between SVC, as Landlord, and the Company, as Tenant, for leasing of certain land of the Timeshare Facility for vineyard purposes, as amended, a copy of which is available on request and which shall be assigned by NHP to the Company upon transfer of the Property to the Company.

"**Vintage Trust**" means Todd Martin Pickup and Devon Renee Martin, Trustees of the Vintage Trust Dated October 28, 1993.

The Company

The Company was formed on July 14, 2010, to acquire the Property from NHP. NHP was formed to acquire the Original Property, and construct and operate the Hotel. The Original Property was purchased on June 22, 2004 and the Hotel was constructed and opened on July 7, 2006. The Estate Cave was subsequently added. NHP acquired the Expansion Parcel on March 15, 2007 for the purpose of more than doubling the room capacity of the Hotel (by adding 165 guestrooms to the 158-room Hotel) and adding other amenities thereto. To fund the acquisition and construction of the Hotel and Estate Cave and certain operating shortfalls, NHP received capital contributions from its Members totaling $11,468,677, entered into the Hotel Construction Loan in the amount of $36,195,000, and borrowed funds from Members or their affiliates (the "**Original Sub-Debt**") in the amount of $3,850,000.

The Company is acquiring the Property for a price based on assumption of all existing liabilities of NHP, including but not limited to obligations for the Hotel Construction Loan and the Original Sub-Debt. Further, the Company will obtain an Expansion Construction Loan for $31,500,000, the funds raised under this Offering and enter into the Proposed Sub-Debt by borrowing additional funds from Members or their affiliates in the anticipated amount of $1,936,774, all of which funds will be used for the construction of the Expansion.

Pursuant to the Operating Agreement, the Membership Interests of the Company are currently divided into five classes. Units in the first four classes are being issued as part of the consideration for the Company agreeing to purchase the Property for assumption of all secured and unsecured debt and other agreed items (the "**Agreed Units**"). The following is a short description of the outstanding classes of Units of the Company:

Class A Common – "promote" Units, held by Lenawee Trust (Tim Busch affiliate), Vintage Trust (Dick Pickup affiliate), Joe Morgan and Steve Arnold. This class holds a 37.037% interest in the Company.

Class B Preferred – being issued in recognition of $9,000,000 for construction of the Hotel. A Preferred Return of 9% is included in the Agreed Contribution shown on **Schedule 1** and compounds annually, calculated as of September 1, 2010.

Class C Preferred – being issued in recognition of a "cost overrun" of $1,200,000. A Preferred Return of 9% is included in the Agreed Contribution shown on **Schedule 1** and compounds annually, calculated as of September 1, 2010.

Class D Preferred – being issued in recognition of just under $1,300,000 for the Estate Cave. A Preferred Return of 9% is included in the Agreed Contribution shown on **Schedule 1** and compounds annually, calculated as of September 1, 2010.

Class E Preferred - the Company is now seeking $6,500,000 from investors in exchange for issuance of Class E Preferred Units, to accrue a Preferred Return of 9%, compounding annually from the date of payment, for construction of the Expansion. Those initially being offered such Units are listed on **Schedule 2**.

Class E Units will be issued for $,1000 per Unit and are expected to be issued to members of the Affiliated Group for capital contributions in an amount that is expected to be approximately $3,168,000 (approximately 3,168 Class E Units), if all members of the Affiliated Group fully subscribe. Upon full subscription of the Offering, the Class A Common Units will represent an approximate 37.04% Membership Interest, Class B Units will represent an approximate 36.20%, Class C Units will represent an approximate 5.52%, Class D would represent an approximate 5.18% and the Class E Units would represent an approximate 16.07% Membership Interest in the Company. See "RISK FACTORS – Dilutive Effect of Class E Units," "THE OFFERING – Terms of the Offering," and CAPITALIZATION; DILUTION."

Investors must pay $500 per Class E Unit on or before November 15, 2010. The remaining $500 per Class E Unit must be paid to the Company on March 15, 2011, unless extended to a later date on 30 days' notice from the LLC Manager. Members who fail to make full payment as required may suffer a dilution of their percentage ownership in the Company, be required to withdraw from the Company or be required to pay such amounts, together with all costs of collection and damages for delay in payment. Under the terms of the Operating Agreement, we may request Additional Capital Contributions from all Members (determined on a cumulative basis), but the Members will have no personal liability for payment and our sole recourse for non-payment of Additional Capital Contributions will be to reduce the non-contributing Members' Percentage Interest.

Our executive offices are currently located at 2532 Dupont Drive, Irvine, California 92612, our telephone number is (949) 474-7368. The Company is a California limited liability company and we will be governed by the provisions of the Operating Agreement substantially in the form attached as **Exhibit F** (the "**Operating Agreement**") to be entered into by the Class A, Class B, Class C and Class D Members, and by the purchasers of Class E Units upon the Closing and completion of the Offering. There are seven members of the Board of Managers. The Class A Common Members are entitled to elect three and the Members holding Preferred Units are entitled

to elect four. The current members of the Board of Managers are: Steve Arnold, Roberto Brutocao, Tim Busch, Bill Close, Al Crosson, Kevin Martin and Tom Parr.

The Original Property

NHP purchased the Original Property from SVC on June 22, 2004, for $3,500,000. The Property is located on approximately 10.11 acres in the City of Napa, California and is part of a 3-parcel development that includes the Expansion Parcel, the Timeshare Facility parcel and the Original Property on which the Hotel was constructed. The Hotel is approximately 127,715 square feet in size, and includes 158 guestrooms although 3 rooms are currently not utilized by guests, approximately 14,712 square feet of meeting space (with additional 4,375 square feet of pre-function area), a full-service restaurant, a wine bar, a chapel, a pool. The Hotel also includes the Estate Cave which currently includes ten spa treatment rooms, approximately 4,000 square feet of banquet / meeting space and the Trinitas Tasting Room.

The Construction Budget attached as **Exhibit A** includes $1,000,000 for renovation of certain areas of the existing Hotel in order to both allow it to tie in physically with the Expansion and to meet the operational needs that will be increased once the Expansion is open.

The renovation of the Hotel is expected to include the following:

1. The front check-in desk will be enlarged to include additional check-in space. (This is expected to be done by the end of the first quarter of 2011.)

2. The existing Business Center will be expanded with additional computers, Xerox machines, etc. (This is expected to be done by the end of the first quarter of 2011.)

3. The existing Fitness Center will be converted into a hair and nail salon. (The Expansion will include a new significantly larger fitness center and the existing Fitness Center will remain operational until the new one is open.)

4. The corridor from the lobby to the Meritage Village expansion will be retrofitted to become a major entrance to the Resort, and a realignment of the staircase will occur. (This is expected to occur toward the end of construction of the Expansion.)

5. There will be a renovation of the corridor leading to the rear entrance of the Siena Restaurant.

6. The laundry facilities at the Hotel will be expanded. The laundry facilities are overloaded now and run 24 hours/day when the Hotel is at capacity because they were not designed to include Spa Terra laundry originally, plus there will be more laundry from new guestrooms in the Expansion. (This will be done during the slow period in the first quarter of 2011.)

7. A new and larger employee break room and storage areas will be constructed at the rear of the existing Hotel. There will be additional employees when the Expansion opens and more storage room will be needed to stock supplies for the Expansion. (This will be done during the slow period in the first quarter of 2011.)

The Expansion Parcel

After acquiring the Original Property, NHP entered into lot line adjustments and then acquired the Expansion Parcel from NVCP, LLC, a California limited liability company, and Diepenbrock Investment Properties, LLC, a California limited liability company, on March 15, 2007, for a purchase price of $4,100,000. The Expansion Parcel includes approximately 9.07 acres of land. NHP has already planted grapevines on the hillside portion of the Expansion Parcel and intends to construct improvements comprising approximately 165 guest rooms, fitness center, bowling and sports bar bistro, coffee/retail shop, conference center, and other amenities, as approved by the City of Napa Planning Commission on or about April 17, 2008, as the same may be modified from time to time prior to completion of construction thereof (the "**Expansion**").

The Purchase Agreement

The Company is purchasing the Property from NHP and expects to borrow $31,500,000 from ANICO to construct the Expansion. ANICO desires to have the valuation fixed for the current Hotel for property tax purposes and therefore the property is being sold for a price equal to the total of all secured and unsecured debt and other liabilities of NHP, less the value of the current assets of NHP at book value (cash, deposits, inventory, etc.). NHP and the Company will execute a Agreement for Purchase and Sale of Real Property and Escrow Instructions dated as of September 9, 2010, a copy of which is available upon request. The purchase and sale of the Hotel will occur simultaneous with the closing of the Expansion Construction Loan, expected to occur around October 14, 2010.

The purchase and sale of the Property is conditioned upon ANICO approving the assumption of the Existing Loan by the Company as more fully described in "RISK FACTORS - Terms of Existing Hotel Construction Loan and Expansion Construction Loan." This assumption is expected to include a specific release by NHP of all claims, whether known or unknown, that NHP may have against ANICO. Further, the Purchase Agreement will include mutual releases between NHP and the Company of all claims other than the obligations set forth in the agreement.

Summary

The following summary of the Company and the Offering of the Agreed Units and Class E Units is intended only for convenient reference, does not purport to be complete, and is subject to and qualified in its entirety by reference to the more detailed information appearing elsewhere in this Memorandum and attached Exhibits, including, without limitation, the form of Operating Agreement attached as **Exhibit F** to this Memorandum.

The Company will acquire the Property and all associated personal property from NHP for a price based on assumption of all secured and unsecured debt (the Hotel Construction Loan and the Original Sub-Debt). (see "BUSINESS – The Purchase Agreement.") This is being done for several reasons, including the fact that ANICO desires to have the real property taxes on the Property in its current configuration locked into the values currently established by the Napa County Assessor or as close thereto as possible by transfer of the Property to the Company, and to identify and limit the liabilities being assumed by the Company. The members of NHP have been asked to approve such sale and the Board of Managers of NHP has already voted to approve it

subject to the written approval of a majority in interest of the holders of membership interests in NHP.

Members holding Class A, Class B, Class C and Class D Units will be credited with Agreed Contributions of $11,468,677. The accumulating Preferred Return on such contributions equals $7,157,254 as of September 1, 2010, is separately included in the Agreed Contributions, and is compounded annually from and after that date. If the full Offering is subscribed and paid, investors, including Lenawee Trust, Vintage Trust and other members of the Affiliated Group, will contribute $6,500,000 to us in Capital Contributions for the Class E Units in the Company.

We may request Additional Capital Contributions over the initial Capital Contributions from all Members but the Members will have no personal liability for payment, although failure to make such contributions will result in reduction of such Member's Membership Interest. Upon our acceptance of subscriptions for Membership Interests, you must pay for the Class E Units by paying $500 per Class E Unit on or before November 15, 2010, and paying the remaining $500 per Class E Unit on March 15, 2011, unless we extend the time, in our sole discretion, by giving written notice at least 30 days in advance.

Payments and Distributions on the Units are subject to available cash flow and other restrictions. See "OPERATING AGREEMENT."

You will be invited to subscribe for the Class E Units in the amount set forth in **Schedule 2**. The total investment by Class E Preferred Members, if the Offering is fully subscribed, will be $6,500,000.

The cumulative ownership interest of Lenawee Trust, Vintage Trust and other members of the Affiliated Group in the Company is expected to be greater than 65% due to the fact that members of the Affiliated Group will own almost all of the Class A Units, purchase Class B, Class C and Class D Units and are expected to make Capital Contributions for which they will receive Class E Units. The Affiliated Group will own a majority of the voting Units in the Company and will be able to control the decisions of the Company. See "RISK FACTORS – Control By The Affiliated Group.")

Other Terms

Name .... The Meritage Resort, LLC, a California limited liability company.

LLC Manager .... The LLC Manager is PHG. The Company is managed exclusively by the LLC Manager except for "Major Decisions" which require the approval of the Board of Managers and except for certain specific voting rights of the Members.
The Hotel Manager and the Developer of the Property are also PHG, pursuant to the terms of a separate Hotel Management Agreement and a separate Development Agreement attached as **Exhibit H** and **Exhibit G** to this Memorandum. Timothy R. Busch is CEO and Steve Arnold is President of PHG. See "MANAGEMENT."

Board of Managers................	The Board consists of 3 members appointed by the Class A Common Members and 4 members appointed by the Preferred Members. The members of the Board are: Steve Arnold, Tim Busch, Roberto Brutocao, Bill Close, Al Crosson, Kevin Martin, and Tom Parr. "Major Decisions" of the Company require the approval of the Board of Managers. See "MANAGEMENT."
Investment Objective	To operate the Hotel and Estate Cave on the Original Property, and to construct and operate the Expansion on the Expansion Parcel, located at 875 Bordeaux Way, Napa, California; and, ultimately, to sell the Property, including the Hotel, Estate Cave and Expansion. We will also manage the operations of the adjacent Timeshare Facility. See "BUSINESS."
Securities Offered	The Agreed Units currently representing 100% of the total Class A Common Units, Class B Units, Class C Units and Class D Units, and 6,500 Class E Units representing 100% of the Class E Units and approximately 16.07% of the total Membership Interests if all of the offered Class E Units are sold,. Lenawee Trust and Vintage Trust will hold approximately 60% of the outstanding Membership Interests in the Company (inclusive of Lenawee Trust's Class A Common Units). Vintage Trust, Lenawee Trust and other members of the Affiliated Group are expected to purchase approximately 3,168 of the total 6,500 Class E Units offered, if all members of the Affiliated Group fully subscribe for their share. Except for the election of members to the Board of Managers, voting by the Members will be done on the basis of all outstanding voting Units, combining Class A Common Units, Class B Units, Class C Units, Class D Units and Class E Units, and will not be broken down by class. See "OPERATING AGREEMENT" and "THE OFFERING."
Period of Offering	There is no required minimum amount of Class E Units which we must sell before we may accept subscriptions. The Offering commences on the date of this Memorandum and will continue until November 15, 2010, unless the Offering is fully subscribed pursuant to subscriptions accepted by us, or terminated by us at an earlier date in our sole discretion, or unless we extend the time for a period not to exceed an additional 90 days (the "**Offering Expiration Date**"). However, if you do not subscribe for the Class E Units assigned to you and listed on **Schedule 2** by September 30, 2010, the Company will offer those Units to other subscribing Members and/or to third parties.

Purchase Price........................ $1,000 per Class E Unit plus such additional amounts (with no personal liability) pursuant to Additional Capital Contributions if requested by the LLC Manager.

See "OPERATING AGREEMENT," "THE OFFERING" and "DETERMINATION OF OFFERING PRICE."

Payment of Purchase Price..... $500 for each Class E Unit will be due upon acceptance of your Subscription Agreement, no later than November 15, 2010. The remaining $500 per Class E Unit will be due on March 15, 2011, unless the LLC Manager notifies investors at least 30 days prior to that time of a later due date. No Preferred Return will begin to accrue on the amount paid until the dates set for payment, and late payment will result in dilution of your contribution to allow the Preferred Return to be calculated on all amounts as of their expected payment dates.

If you fail to pay for your Class E Units as set forth above, the LLC Manager may elect to do any of the following:

- cause other persons to make the unpaid Capital Contributions, resulting in a dilution of Class E Membership Interest of the Defaulting Member;
- withhold distributions otherwise payable to you until such time as the non-defaulting Preferred Members shall have received a return of such Members' Preferred Return and their net investment;
- take any and all legal action to collect such unpaid Capital Contributions, including, without limitation, commencement and prosecution of a suit or proceeding to collect such unpaid amounts; or
- cause you to be deemed to have withdrawn from the Company as a Class E Member, in which case you would no longer have any interest in the Company as a Class E Member. In such case, we may elect to offset any portion of the Capital Contributions previously received from you against our damages sustained due to your failure to timely pay all of your Capital Contributions when due.

The Company expects to deposit all checks and accept wires for subscriptions on November 15, 2010, and March 15, 2011. Any early payments will not begin to accrue the Preferred Return prior to the due date. Any late payments will be required to include an amount equal to 9% per annum to the date paid (the amount on which the Preferred Return is calculated) or will be reduced by that amount so that all Preferred Returns are calculated on contributions for Class E as of the same day. Such late payment will not be treated as a capital contribution but as a fee payable to the Company.

Use of Proceeds......................	Proceeds of the Offering and the Expansion Construction Loan will be used to: • reimburse a substantial portion of the money previously paid for Expansion expenses; • construct the Expansion; • acquire furniture, fixtures and equipment for the Expansion; • open and operate the Expansion; • pay legal and professional fees and costs (including sums payable to the Firm); • pay development, and other fees payable to PHG and its Affiliates; and • provide working capital and reserves. See "USE OF PROCEEDS."
Risk Factors and Conflicts of Interest................	This investment involves a high degree of risk. **You should purchase these securities only if you can afford a complete loss of your investment.** The Offering also involves significant payments to The Affiliated Group, and significant conflicts of interest among the Company and the Affiliated Group. See "RISK FACTORS, "COMPENSATION AND FEES TO THE AFFILIATED GROUP" and "CONFLICTS OF INTEREST."
Suitability Standards	The Agreed Units and Class E Units will only be sold to "accredited investors" as defined in Regulation D promulgated under the Securities Act, subject to our right in our sole discretion to accept subscriptions from a limited number of non-accredited investors. See "THE OFFERING – Private Placement, Investor Suitability Standards."
Fees and Expenses	All expenses incurred in connection with this Offering and the construction, financing and operation of the Expansion, including payments to members of the Affiliated Group, will be funded by the proceeds of this Offering and the Expansion Construction Loan. See "COMPENSATION AND PAYMENTS TO THE AFFILIATED GROUP."
LLC Distributions and Allocations	To the extent that cash is available after paying principal of the Sub-Debt to the extent required by the Board and taking into account Company reserves and expenditures as determined by the LLC Manager in its sole discretion and subject to any contractual or legal restrictions, we expect to cause cash to be distributed to the Members at least annually. However, it is not currently expected that any distributions will be made until after certain guaranties of the Expansion Construction Loan are released (see "RISK FACTORS - Terms of Existing Hotel Construction Loan and Expansion Construction Loan") and both the Original Sub-

Debt and Proposed Sub-Debt are repaid or substantially paid down, as approved by the Board.

Distributions of Net Cash Flow from Operations and Net Cash Proceeds from Sales or Refinancing will be determined by the LLC Manager.

Net Cash Flow from Operations will be used to: (i) pay a 9% Preferred Return on the Class C Capital Contributions, (ii) return the Net Investment of Class C Members; (iii) pay a 9% Preferred Return on the Class B, Class D and Class E Capital Contributions pro rata based on the total amount of Preferred Return outstanding among all Preferred Units; (iv) return the Net Investment of the Class E Members, and (v) then, any excess Net Cash Flow from Operations will be distributed among the Members proportionately according to their number of Units. However, if Additional Capital Contributions are made, the priority for payment from Net Cash Flow will be reset by the Board and will include a return not to exceed 15% (the "**Additional Contributions Return**") on any other Additional Capital Contributions of the holders of Units (any unreturned Capital Contributions are referred to as a Member's "**Net Investment**").

Net Cash Proceeds From Sales or Refinancing will be distributed: (i) to pay a 9% Preferred Return on the Class C Capital Contributions, (ii) to return the Net Investment of Class C Members; (iii) to pay a 9% Preferred Return on the Class B, Class D and Class E Capital Contributions pro rata based on the total amount of Preferred Return outstanding among all classes of Preferred Units; (iii) to the Members pro rata according to their respective percentage interests to repay their outstanding Net Investments; and (iv) any remaining funds will be distributed among the Members proportionately based upon their number of Units. However, if Additional Capital Contributions are made, the Board may re-order the priority of payments to include any Additional Contributions Return and return of Net Investment on Additional Capital Contributions.

Net Income generated during the operation of the Hotel will generally be allocated to the Class C Members in proportion to the amount of their Preferred Return and then to Class C Members until they receive distributions equal to their Net Investment, and then to Class B, D and E Members in proportion to the amount of their Preferred Return. The balance, if any, will be allocated to the Members according to their percentage ownership in the Company.

Any Net Losses from operations will be allocated to Class C Members up to the amount of their Capital Contributions, and then to Class B, D and E Members in proportion to the amount of

their Capital Contributions. The balance, if any, will be allocated to the Members proportionately according to their percentage ownership in the Company. However, if Members make either Additional Capital Contributions or loans to us as permitted under the Operating Agreement, Net Losses may, in the Board's discretion, be specially allocated to such Members up the amount of their additional contribution or principal loan amount.

Further, if any Member or an Affiliate of any Member provides personal guaranties of unrelated third-party financing for the Property, Net Losses may be allocated to such Member(s) while such guaranties are outstanding. The Lenawee Trust, Timothy R. Busch and their affiliates will be required to provide personal guarantees for the duration of the Expansion Construction Loan, resulting in a special allocation of losses to the Lenawee Trust for that period (but it is also expected that the Company will not have Net Losses during that period since the Hotel is in operation and is generating Net Income). See "THE OFFERING – Terms of the Offering."

Additional Contributions .... If the Board believes that additional capital is required, whether for construction of the Expansion, operating the Hotel or Expansion, for capital improvements to the existing facilities, or for any other reason that does not involve a change in the scope of the Hotel and Expansion, then all of the Members (the Class A Members and the Preferred Members) will be requested to provide Additional Capital Contributions. If Additional Capital Contributions are required for additions to the Hotel and/or Expansion, it is not expected that the Class A Common Members will be required to participate therein. Members will not have any personal liability for such Additional Capital Contributions and our sole recourse against any non-paying Member for such contributions will be a reduction in such non-paying Member's Membership Interest as provided in the Operating Agreement. We may offer a preferred return on such Additional Capital Contributions, at a rate to be determined by the Board, but not to exceed 15%, and may allow payment of such return to take priority over any or all other distributions to Members. In the alternative, at the discretion of the Board, one or more Members may make loans to the Company, which loans may bear interest of up to 15% per annum. See "OPERATING AGREEMENT" and "THE OFFERING."

Withdrawals by Members...... Unless otherwise permitted in the Operating Agreement, Members may not withdraw or demand the return of their Capital Contributions. See "OPERATING AGREEMENT – Resignations and Withdrawals."

Additional Members	Additional Members may be admitted in the future, although there are no present plans to do so following the expiration or earlier termination of this Offering. See "OPERATING AGREEMENT – Capital Contributions, Additional Capital Contributions and Member Loans."
Term.......................................	The Company has no stated term but will be dissolved by written consent of a Majority In Interest of the Members (based on the total percentage of Membership Units) or as otherwise provided in the Operating Agreement. See "OPERATING AGREEMENT – Term of the Company and Dissolution."
Taxation	The LLC Manager believes that we should be treated as a partnership for federal income tax purposes, but has not sought or obtained a ruling or legal opinion. See "CERTAIN TAX CONSIDERATIONS."

RISK FACTORS

INVESTMENT IN THE AGREED UNITS AND THE CLASS E UNITS IS SPECULATIVE AND INVOLVES A HIGH DEGREE OF RISK. NO ASSURANCE CAN BE GIVEN THAT YOU, AS A PURCHASER OF THE AGREED UNITS CLASS E UNITS, WILL REALIZE ANY RETURN ON YOUR INVESTMENT OR YOU WILL NOT LOSE A PORTION OR ALL OF YOUR INVESTMENT. YOU SHOULD CONSIDER THE FOLLOWING FACTORS (AS WELL AS THE DETAILED INFORMATION APPEARING ELSEWHERE IN THIS MEMORANDUM) BEFORE DECIDING TO PURCHASE THE CLASS E UNITS.

We believe that this Memorandum contains forward-looking statements within the meaning of Section 27A of the Securities Act. Discussions containing such forward-looking statements may be found in the material set forth under "SUMMARY OF THE OFFERING," "FINANCIAL PROJECTIONS AND ASSUMPTIONS" (and the Projections attached as **Exhibit C** to this Memorandum) and "BUSINESS" as well as within the Memorandum generally). In addition, when used in this Memorandum, the words "believes," "anticipates," "expects" and similar expressions are intended to identify forward-looking statements. Such statements are subject to a number of risks and uncertainties. Actual results in the future could differ materially from those described in the forward-looking statements as a result of the risk factors set forth below and the matters set forth in the Memorandum generally.

We have no obligation to publicly release the result of any revisions to these forward-looking statements that may be made to reflect any future events or circumstances. We caution you, however, that this list of risk factors may not be complete.

Dependence on This Offering and Need for Possible Additional Financing; Possibility of Future Dilution

We depend on the proceeds of this Offering and the Expansion Construction Loan to fund construction of the Expansion. At this point we expect that net income from operations of the

Hotel should fund all expenses of operation of the Hotel and also interest and other payments due under the Hotel Construction Loan and the Sub-Debt (see, however, "RISK FACTORS – Restructure of Sub-Debt"). We may have insufficient funds to construct the Expansion as projected if any of the following were to happen: (1) the full amount of Class E Units would not be subscribed and paid for in full; (2) the Expansion Construction Loan would not be made available in the full amount projected ($31,500,000) or terms of the loan change; (3) the Proposed Sub-Debt in the amount of $1,936,774 is not fully funded and the Original Sub-Debt is not restructured as projected (see "RISK FACTORS – Restructure of Sub-Debt"); or (4) the cost of construction of the Expansion is higher than we currently project (see "RISK FACTORS – Construction Cost Overruns and Delays").

Beyond these initial forms of financing, we may require additional financing if our projections as to the projected revenue and operations of the Hotel and/or Expansion are inaccurate. We could seek such capital though borrowing or investment.

We have entered into the ANICO Loan Application for the Expansion Construction Loan (a summary of which is found under "BUSINESS – Expansion Construction Loan" and a copy of which is available on request) with ANICO, but have not yet begun negotiating the terms of the loan documents or closed the Expansion Construction Loan. We believe that the terms outlined in "BUSINESS – Expansion Construction Loan" are reasonable, given discussions as of the date of this Memorandum with American National Insurance Company ("**ANICO**"), but there can be no guarantee that ANICO or any other lender would be willing, or able, to make a construction loan to us either on the terms outlined or on any terms.

Further, we have no commitments, nor have we sought any, regarding any additional financing, and we cannot guarantee that such financing will be available if needed on terms, including at interest rates, that may be acceptable to us or otherwise. Any additional investment financing may dilute Members' interests, and debt financing, if available, may involve restrictions on distributions to, and transfers of Membership Interests by, Members.

If there is inadequate funding, we likely would require Additional Capital Contributions from our Members. Adequate funds, whether through financial markets or other arrangements with Members or other sources, may not be available when needed or on terms we find acceptable. Insufficient funds could have a material adverse effect on construction of the Expansion and/or our operations. See "USE OF PROCEEDS" and "OPERATING AGREEMENT – Capital Contributions, Additional Capital Contributions and Member Loans."

Financial Stability of ANICO

We are in a time of economic uncertainty. We are all familiar with the credit crunch that has occurred throughout the country and concerns have been raised in the past about the ability of ANICO to timely provide the financing required under the Expansion Construction Loan. Based on ANICO's press releases, net income for second quarter 2010 was $26,622, compared to a net loss of $4,355,000 for the same period in 2009, and net income for the first quarter of 2010 was $34,778,000 compared to a net loss of $49,695,000 for the same period in 2009. Net income for the year ended December 31, 2009 was $15,625,000 as compared to a loss of $153,998,000 for the year ended December 31, 2008. For further information about ANICO, you can also visit the Company's website at www.anico.com.

Construction Cost Overruns and Delays

The estimated construction costs of the Expansion set forth in the Preliminary Construction Budget attached as **Exhibit A** to this Memorandum (“**Construction Budget**”) and the "USE OF PROCEEDS” section of this Memorandum are based on PHG’s current estimates, which are based on certain assumptions, including but not limited to the assumption that this Offering is successfully and timely consummated and that the Expansion Construction Loan is fully funded at the agreed 7.25% interest rate.

The Company is in final negotiations with Mid-State Construction Company, based in Petaluma, California, for a construction contract at an anticipated price not to exceed $23,892,500. The plans and specifications for construction of the Expansion and the other improvements on the Property are substantially completed and the cost of construction has been bid out to contractors. However, final bids have not yet been received and the construction contract has not been awarded. Until that time, the amount for construction of the Expansion set forth in the Construction Budget is only our current best estimate of costs. Even assuming the estimate is correct for purposes of finalizing a construction contract, construction cost overruns may occur for a variety of reasons, including but not limited to, the following:

- There may be delays in the consummation of this Offering.
- There may be delays in the payment by Class E Members of their remaining Capital Contributions ($500/Class E Unit, expected to be requested and paid around March 15, 2011).
- There may be delays in closing the Expansion Construction Loan or receiving construction draws.
- There may be delays caused by change orders or other changes in the construction of the Expansion due to additional work that may be needed once original work begins, to meet requirements of government authorities or otherwise.
- There may be delays in obtaining any necessary furniture, equipment or inventory for the Expansion.
- Napa is experiencing some growth and the construction could be delayed due to contractors being overbooked. Inclement weather may result in greater construction costs than currently anticipated.
- The Construction Budget does not include line items for certain improvements at the existing Hotel, specifically the addition of 4 “couples” rooms totaling four beds and expansion of retail space in the Estate Cave.
- If there are more than three street cuts for the Expansion, it is possible that additional City costs or fees may be imposed – while the Construction Budget includes approximately $100,000 for street cuts, the actual cost may be higher than planned.
- Construction delays and cost overruns may also occur due to unanticipated environmental, soil or other conditions impacting the Property, labor disputes, supplies shortages, transportation difficulties, earthquakes, or other natural disasters or other events affecting the site or the region generally.

The Construction Budget includes a $1,309,364 development fee payable to PHG which fee includes all costs for third party consultants. See “CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS – Development Agreement” and the Development Agreement attached as **Exhibit G**.

Entitlement Conditions

The Property is located within the Airport North / Bedford Industrial Park Specific Plan, within a tract allowing for, among other things, hotel and recreational facilities primarily to serve the industrial park. Hotels are identified as a conditional use within the zoning for the Property, and are expected to cater to the office park's users and guests.

On April 17, 2008, the Planning Commission approved the Company's application for a use permit to authorize the Expansion to the existing Hotel for the addition of 120,065 additional square feet, including a 165-room, three story hotel building, an approximately 17,152 square foot conference center building, and related improvements. The Planning Commission also approved the Company's application for a Design Review Permit approving the Site Plan and project design for the Expansion and also approved the Company's application for a lot line adjustment to complete a merger of the Original Property and the Expansion Parcel as more fully described below.

The City approvals included a number of conditions and requirements, and the Company will enter into a Project Improvement Agreement with the City, which provides that the Company will construct the Expansion in accordance with the City's conditions and requirements. The City is also requiring that the Company's obligations under the Project Improvement Agreement be secured by a Performance Bond in the amount of $425,000, and a Labor and Materials Bond in the amount of $212,500. These City bonds for the Expansion are one-half the amount that was required by the City in connection with the construction of the original Hotel. Upon the completion of the construction of the Expansion and compliance with the City's construction conditions, these bonds will be cancelled and released. As the current Expansion project is rebid, PHG will open discussions with the City concerning the amount and term of bonds to be provided.

One of the conditions of the City's approval of the Company's use permit application was a traffic mitigation fee to be paid by the Company in the amount of $500,000, which was determined to be the Company's fair share of 1.53% of the costs of constructing a flyover ramp for vehicles traveling southbound from State Route 21 to southbound State Route 29. The Company is currently negotiating with the City to reduce or defer the Company's obligation to pay this traffic mitigation fee until the later of the completion of construction of the Expansion or the date of the City's notification to the Company that the fee is due and payable. $100,000 of the traffic mitigation fee is included in the budget for the Expansion project.

There can be no assurance that the City will agree to reduce the amount and type of bonds required for the Expansion Project, or that they will agree to delay payment of $400,000 of the traffic mitigation fee until the Expansion is completed. Either of these items could have a significant impact on the Preliminary Construction Budget, a copy of which is attached as **Exhibit A**.

Appraisal of the Property

ANICO required, as part of the Expansion Construction Loan process, that the Company obtain an appraisal of the existing Hotel and the anticipated Expansion. ANICO has permitted the Company to use appraisals obtained by NHP According to the PKF Hotel Appraisal, a copy of which is attached as **Exhibit D,** the Hotel was valued at $42,400,000 as of March 1, 2010. Based on the PKF Hotel Plus Expansion Appraisal, a copy of which is attached as **Exhibit E**, upon completion of the Expansion, as of January 1, 2013, the fair market value of the Property (Hotel

and Expansion) is expected to be $100,000,000 and, upon stabilization assumed to be January 1, 2015, the prospective market value is $107,800,000. Total construction loan funding of $67,695,000 will have been provided by ANICO (including both the Hotel Construction Loan and the Expansion Construction Loan), and capital contributions from Members (assuming $6,500,000 is raised through this Offering) will total $17,968,677. Proposed Sub-Debt in the amount of $1,936,774 will have been incurred in addition to the Original Sub-Debt of $3,850,000 (which has a current balance of approximately $3,1000,000). There is bond financing in the current amount of $1,063,641 that is paid as part of the Company's property tax bills.

The PKF Hotel Appraisal and the PKF Hotel Plus Expansion Appraisal include, as an assumption, that the Room Rate Agreement with SVC, as amended, would remain in effect even though a sale of the Property to an unrelated third party is also assumed. The Room Rate Agreement is terminable by SVC in the event that the Company is no longer the manager of the Timeshare Facility under the Timeshare Management Agreement. Therefore, there can be no guarantee that the Room Rate Agreement would, in fact, remain in effect following any sale of the Property. Further, a portion of the Room Rate Agreement has already expired because certain provisions regarding room availability and minimum occupancy requirements by SVC guests expired in July of 2009.

Equity of Members / Dilutive Effect of Class E

In the PKF Hotel Appraisal, a copy of which is attached as **Exhibit D,** PKF valued the Hotel, without the Expansion Parcel, at $42,400,000 as of March 1, 2010. PKF then valued the Hotel plus the Expansion Parcel at $100,000,000 upon completion of the Expansion, assumed as of January 1, 2013. Upon stabilization, assumed to be January 1, 2015, the entire Property is currently expected to be valued at $42,400,000 by PKF.

Upon completion and opening of the Expansion and assumed stabilization as of January 1, 2015, there would be approximately $42,400,000 in equity, inclusive of capital contributions of $17,968,677, to Members ($42,400,000 less ANICO debt of approximately $62,403,000, less bond financing of $1,063,641and less Proposed Sub-Debt financing of $1,936,774), assuming that there are no additional costs and assuming that the Original Sub-Debt, currently in the amount of $3,100,000, is paid off from operations by the date the Expansion is stabilized, but that the Proposed Sub-Debt remains outstanding as of that date. Note that the above numbers do not take into account the 9% Preferred Return that accrues on the Members' capital contributions and which will equal approximately $7,500,000 as of November 15, 2010 on the initial $11,468,677 contributed by Members. It also does not take into account paydowns on bonds that will be made with each property tax payment and that the Projections assume that the Proposed Sub-Debt will have been paid off by the end of the third quarter of 2012.

In determining the Membership Interest of the new Class E Units, the Board considered a number of items. They first determined that the Expansion constitutes a new project, akin to the Estate Cave. Therefore the Class A Units should not be diluted or expected to participate on a pro rata basis. However, all three classes of the Preferred Units were determined to participate pro rata.

The Board then reviewed the PKF Hotel Appraisal attached hereto as **Exhibit D** and the PKF Hotel Plus Expansion Appraisal attached as **Exhibit E**. The Board determined that the most equitable way of determining the value of the Class E Units was to utilize a pure mathematical

formula based on the time value of money, using the 9% Preferred Return for that purpose. The 16.07% Class E interest is derived by adding the current capital, $11,468,677, plus the outstanding 9% Preferred Return of $7,501,739 (as of November 15, 2010) to the incoming Class E capital of $6,500,000, then allocating ownership pro-rata among Classes B, C, D and E based on the Agreed Contributions and the new money being contributed by Members in exchange for Class E Units. The Class A Common Units, at 37.04%, will not be diluted by the Class E Units.

Management Discretion in Use of Offering Proceeds

The Company, through the Board, reserves the right to reallocate the use of Offering proceeds other than as currently provided in the Construction Budget attached as **Exhibit A** and the "USE OF PROCEEDS" section. Such reallocation may occur due to a number of factors including, without limitation, operational challenges of the Hotel, the progress in constructing the Expansion, changing competitive conditions in Napa and general economic conditions, including threats or actual occurrences of terrorism. If costs are reallocated within the Construction Budget due to cost overruns or otherwise, the Expansion may be constructed in a manner which is less desirable to guests than the current construction plans. The Company and the Members' investment in the securities offered will be dependent upon the judgment of Company management in allocating the proceeds of the Offering.

Competition

The competitive market, based on the PKF Hotel Plus Expansion Appraisal, includes lodging properties in the County of Napa, including the Cities of Napa, Yountville, St. Helena, and Calistoga and the unincorporated areas such as Rutherford. These lodging facilities include large franchised hotels, offering rooms for meetings and other functions; small boutique hotels, with luxurious guest rooms but limited public areas; resorts targeting leisure travelers with special amenities and services; and inexpensive motels catering primarily to tourists and families.

Eight properties have been identified as representing the primary competitive market for the Hotel (nine including the Hotel). There are other both larger and smaller hotels, motels and inns, including those that are part of national franchises and mom-and-pop operations, in the area that compete for guests and can be expected to compete with the Hotel/Expansion.

Since 2002, 15 hotels (including the Hotel) have opened or expanded in Napa County, representing a total of 1,404 rooms. Of these 15, six are included in the Hotel's primary competitive set. There are 5 more projects currently approved (including the Expansion), three of which are located in Napa County. The approved projects are deemed too speculative by PKF Consulting to include in its study of average daily rooms supply, but one hotel in the competitive set (Avia Hotel) is slated to add 70 rooms in 2010. No other room additions are taken into account through 2015 other than the 165 rooms contemplated to be added to the Hotel through the Expansions.

The success of the Hotel and the Expansion is and will be attendant upon, among other things, its ability to differentiate itself from other hotel facilities, commencing the Expansion opening prior to other new facilities to secure its market position, and providing reasonably affordable room rates. However, delays in opening the Expansion, or increased construction or operating costs, may adversely impact the ability of the Company to maintain an effective market position against competing facilities. See "BUSINESS – Competitive Market."

Location of the Property

The Property is located in South Napa County, at the southern boundary of the City of Napa. Generally, North Napa County and Sonoma County are viewed as more desirable locations for hotels since they are closer or in the immediate vicinity of the vineyards and wineries that draw so many tourists to the area. The PKF Hotel and Expansion Appraisal found at **Exhibit E** includes a good description of the area surrounding the Property. (See Section II of **Exhibit E**.)

All of the other hotels managed by PHG are located in Orange County, and PHG is based in Orange County. (There is a small Days Inn property located in Havasu City, Arizona, that is not taken into account in this Offering Memorandum.) At this point in time, and through completion of construction, representatives of PHG are expected to be onsite at the Hotel or Expansion between two and four days per week. However, once construction of the Expansion is complete and operations begin to stabilize, it is expected that PHG representatives will significantly lessen their physical presence at the Property. The distance from PHG's home base may result in less regular or unscheduled attention being given to the Hotel than to PHG's other managed properties, increasing the chances of either deliberate fraud or malfeasance or simple negligence in Hotel oversight.

General Economic and Industry Conditions / Historical Operations Performance for the Hotel

Occupancy rates and room charges within the hotel industry are dependent upon discretionary spending by both consumers and businesses, which may be adversely affected by general and regional economic conditions. For example, events of September 11, 2001 as well as the state of the economy in general caused financial problems for a hotel managed by the LLC Manager in Orange County, California. By working with the lender and engaging in cost savings and remarketing of such hotel, and now that the hotel industry in general has seen an increase in business, the owner was able to improve its financial picture.

As a second example, if threats of terrorism or an actual terrorist event were to occur, tourism and business travel would be expected to drop significantly. Further, if costs of gas increase, travelers may make decisions to vacation at spots closer to their homes. (It should be noted, however, that visitors to the Napa Valley and surrounding areas are predominantly from communities and businesses located with a two-hour drive of the region.)

We are in a time of economic uncertainty with tightened credit markets, little job growth and a general decrease in discretionary spending of consumers. A decrease in occupancy rates or room charges, either within the industry or locally, could have a negative impact on the Company's financial condition and results of operation. The Projections do not currently include any reduction in assumed room rates or occupancy, or increase in expenses that may result from the current economic uncertainty.

The Company's historical operating performance for fiscal years 2006 through 2009 (the "**Historical Operations Performance**") is attached as **Exhibit B.** Further, a budget showing actual performance through July 2010 and anticipated performance through the end of fiscal year 2015 (the "**Projections**", attached as **Exhibit C** to this Memorandum) are based upon certain information regarding rates of competitive hotels provided by third party sources as of April 6, 2010 or earlier. See "BUSINESS – Competitive Market." The Projections were not prepared by a certified public accounting firm and are based solely on internally prepared estimates of income and expenses based on two years of historical data.

While we believe that the assumptions in preparing the Projections are reasonable, we have not verified either our assumptions or third party information used in making such assumptions. Those assumptions as to occupancy and rate after the Expansion is open are based on the historical performance of the Hotel. When compared to projections of average daily rate, annual occupancy and rooms revenue found at Section V-34 of the PKF Hotel Plus Expansion Appraisal (**Exhibit E**), the Projections for years 2013 through 2017 include only slightly higher average daily rates, and slightly higher annual occupancy and room revenue numbers. Further, we have not validated assumptions as to income and expenses, both as to construction costs and as to operation expenses.

The Projections make the following assumptions:

- All costs of Expansion construction can be financed through the $6,500,000 Offering, the $1,936,774 Proposed Sub-Debt and the $31,500,000 Expansion Construction Loan.
- The Expansion Construction Loan will be based on interest-only financing for a period of 30 months at 7.25% per annum interest, commencing October 2010.
- The Construction Budget includes a line item for interest payable on the Expansion Construction Loan such that no funds from operations of the Hotel will be required to make payments on this loan (net operating income will be used, however, to continue to make payments on the Hotel Construction Loan which is amortized over a 25-year period – monthly loan payments of $238,767 – and it is assumed that no portion of the Expansion Construction Loan will be used to pay any operational expenses, the Hotel Construction Loan or the Original Sub-Debt).
- The Original Sub-Debt, currently $3,100,000 and maturing on December 31, 2010, is expected to be restructured to remain outstanding for up to five additional years (through December 31, 2015), with lenders thereof being given the right to demand payment of up to 20% of their portion of the principal thereof in any 12-month period upon giving 120 days' notice to the Company. Interest payments will be made monthly and the Company expects to reserve the right to make principal payments in disproportionate amounts (whether to allow payment to any party demanding repayment or otherwise).
- Proposed Sub-Debt will be put in place for $1,936,774 as part of the restructured Sub-Debt (i.e., with the same terms as outlined immediately above).
- Cash from operations of the Hotel has already contributed $2,247,814 to pay construction-related costs of the Expansion.
- The Expansion Construction Loan will include terms the effect of which is to extend or refinance the loan at the end of the 30 month interest-only period, at an amount sufficient to pay the outstanding principal balance, with interest accruing at a rate of 7.25% per annum and loan amortization over 25 years. The maturity day of the Expansion Construction Loan is expected to be April 1, 2017, the current maturity date of the Hotel Construction Loan.

While we believe that the Expansion Construction Loan terms are accurate based on the Loan Application terms (a summary of which is found under "BUSINESS – Expansion Construction Loan" and a copy of which is available on request), we have not yet received or negotiated loan documents from ANICO. We do not know if the projected cost of construction of the Expansion is correct. Further, we do not know whether there will be sufficient funds available from operations to pay down the Original Sub-Debt and whether the lenders thereof (or their assignees) will be willing to restructure the Original Sub-Debt as outlined above. We have not received confirmation from certain Members of the Company that they are willing to provide the Proposed Sub-Debt as outlined above. Any inaccuracy in these assumptions could substantially impact the Projections. See "FINANCIAL PROJECTIONS AND ASSUMPTIONS."

Merger of Parcels

The Property is located in the Napa Corporate Park and was originally comprised of two of three contiguous parcels. Merger of the Original Property and the Expansion Parcel was required in order to prevent certain zoning requirements that would apply to independent lots to be put into place. It also allows the Expansion to be physically attached to the Hotel, which could not occur if the two were on separate legal lots. The merger took place in November of 2008.

Parking

As noted above, the Property is located in the Napa Corporate Park and was previously comprised of two of three contiguous parcels which were merged into one legal parcel. The remaining parcel is owned by SVC and has been developed with the Timeshare Facility. The Timeshare Facility currently includes two completed buildings with 120 guest suites. The third and final building, for 62 guest rooms is currently under construction, and SVC has informed us that they expect open the third building in the second quarter of 2011. That will bring available guest suites at the Timeshare Facility to a total number of 182.

Upon completion of the Expansion, approximately 406 new on-site parking spaces will be created. These are in addition to approximately 243 existing parking spaces currently available for use by the Hotel and Timeshare Facility guests, visitors and patrons. The 406 new parking spaces added as part of the Expansion/hotel are more than the minimum number required by the City for the additional rooms, meeting space and amenities that are being added through the Expansion. In addition, the Company has obtained a Shared Parking Agreement to allow its use of the 96-space office parking lot at 855 Bordeaux Way on nights and weekends, to accommodate overflow parking which could occur during an event with an abnormally large attendance. Upon completion of the Expansion, all of the parking spaces on the Timeshare Facility Parcel and the combined Hotel Parcel will be subject to reciprocal parking for the Hotel and Timeshare guests pursuant to an Amended and Restated Reciprocal Parking and Access Agreement to be entered into between the Company and SVC, which amends and restates the original Reciprocal Parking and Access Agreement that was entered into by the Company, SVC and the owner of the Office Parcel before it was acquired by the Company. The Amended and Restated Reciprocal Parking and Access Agreement will also be subject to approval by the City of Napa.

Concurrent Completion of Timeshare Facility

The third building of the Timeshare Facility has been completely constructed, but has not yet been furnished. Based on information from SVC, the third building is expected to open around the second quarter of 2011.

We hope to start construction of the Expansion in the month of October 2010 and to complete construction and open for business by the end of the first quarter of 2012. While concurrent construction of the Timeshare Facility building and the Expansion means that there will be noise and other inconveniences from land on both sides of the Hotel for a short period of time, it also means that the overall period of time for construction in the area will be limited.

Impact of Construction on Hotel and Timeshare Facility Operations

In order to offset some of the noise and parking problems that will arise during construction of the Expansion, we are developing written policies that have been put in place with staff at the Hotel for the benefit of the guests. These policies address how to handle bookings, guest complaints, staging of construction to provide the least disruption to guests, and coordination with onsite construction manager.

The parking lot and landscaping on the perimeter is expected to be completed first, and work is anticipated to be staged onsite so that staging of parking can be coordinated. Finally, general contractor representatives have been introduced to the Hotel's general manager and director of sales/public relations to make sure they have updated construction timelines available at all times to coordinate bookings, parking, etc.

Financial Information Concerning Hotel and Expansion

The Hotel has been open since July 7, 2006. The historical performance of the Hotel for calendar years 2006 through 2009 can be seen in the information included as **Exhibit B**, the Historical Operating Performance of the Hotel. Actual performance through July 2010 and projections for performance of the Hotel through the remainder of 2010 and 2011, together with projections for performance of the Hotel and Expansion, following its opening which is currently anticipated to occur in March of 2012, through 2017, are included in **Exhibit C**, Projections. The Projections were prepared based on the almost four-year operating history of the Hotel, and PHG believes it has been conservatively optimistic in preparing such Projections.

Dependence on SVC

PHG entered into a Room Rate Agreement and a Timeshare Management Agreement, respectively, with SVC, both of which have been amended. Copies of these agreements, including all amendments, are available upon request. These agreements give SVC certain rights, and obligate us to perform certain obligations, that could affect the success of the Hotel. These include the following:

- SVC will continue to search for guests of the Timeshare Facility at the same time as we are seeking to provide clientele for the Hotel and Expansion – we are competing for the same guests.
- SVC staffs a concierge desk at the Hotel, giving them the right to solicit, albeit under stated parameters, Hotel guests to become timeshare owners.
- SVC has the right to approve the general manager of the Hotel and Expansion (who is also the general manager of the Timeshare Facility) and exercise some control over certain operations matters because we operate the Timeshare Facility along with the Hotel/Expansion, and we provide amenities such as check-in services, food and beverage services, and all operational services for the Timeshare Facility.
- Part of the consideration for entering into the Timeshare Management Agreement is the sharing of certain overhead costs (like the salary and benefits of the Hotel's general manager and other designated staff). Were the Timeshare Management Agreement to terminate, the Hotel would have to absorb 100% of those costs, reducing its profitability.

See “BUSINESS - Relationship with SVC, the Owner of the Timeshare Facility – Room Rate Agreement,” “BUSINESS - Relationship with SVC, the Owner of the Timeshare Facility - Timeshare Management Agreement.”

Further, if SVC were to fail to complete construction of the third building of its Timeshare Facility or otherwise cease operations, this could have a negative financial impact on the Hotel/Expansion and the Company.

Competition With SVC

While the long-term purpose of the Timeshare Facility is to service timeshare owners, SVC markets their units for transient occupancy at the same time as we are market the Hotel units and will be marketing the Expansion units. Therefore, we are in direct competition for the same guests. In such event, it must be recognized that SVC, through its marketing affiliations, has a national marketing program. SVC’s marketing plans are similar to our plans in that they may choose to reduce room rates or provide other incentives to drive guests to the Timeshare Facility who might otherwise have been guests of the Hotel. This direct competition could be most detrimental to us financially.

The competition has already impacted one source of income for the Hotel. Under a marketing addendum to the Timeshare Management Agreement, SVC agreed to pay to the Company a 35% commission for every room that Hotel staff (as opposed to SVC marketing staff) books at the Timeshare Facility. But such bookings are limited both as to availability and as to approval by SVC. SVC has not been receptive to us placing groups in the Timeshare Facility due to the required payment of the 35% commission. Therefore, we have reduced such commission to 25% and have even waived it entirely on numerous occasions.

Re-Structure of Sub-Debt

Currently, the Company is seeking to restructure certain loans (the Original Sub-Debt) that are outstanding from Members and Affiliates of the Company. Those loans currently total $3,100,000 in outstanding principal and accrue interest at the rate of 9% per annum. Interest is paid monthly and is current. Such loans are due in full on December 31, 2010.

We have not generated sufficient net operating income from operations of the Hotel to repay the Original Sub-debt in its entirety. Therefore, we are currently working with the Original Sub-Debt lenders to restructure the Original Sub-Debt. Some of the lenders may wish to either be paid in full or to convert a portion of their Original Sub-Debt to Class E Unit contributions. We have budgeted combining the remaining Original Sub-Debt ($3,100,000) with the Proposed Sub-Debt ($1,936,774) into a single note, payable at 9% interest, with monthly interest payments required and with the Company having the right to make disproportionate payments of principal at any time to any lender. Sub-Debt lenders will be given an opportunity to request partial principal payments, not to exceed 20% in any 12-month period, during the term. The Projections attached as **Exhibit C** assume that the combined Sub-Debt will be paid off from net operating income during the third quarter of 2012. It is possible that a portion of the Sub-Debt will be repaid and then “re-borrowed” during the term of the construction of the Expansion in order to limit the time in which the 9% interest accrues.

We do not yet have assurance that any of the lenders holding the Original Sub-Debt will be willing to restructure their loans as set forth above. If additional principal payments are required

by year end, this will impact the Company financially since funds from the Expansion Construction Loan are not budgeted for this use. The Company may have to seek further loans from Members or alternative sources of loan payment. Further, even if the Sub-Debt is paid down, there is always the risk that there will be insufficient money from Hotel operations to continue to make interest payments, meet demands for partial principal payments and make final payments by the restructured maturity date of December 31, 2015.

Terms of Existing Hotel Construction Loan and Expansion Construction Loan

The existing Hotel Construction Loan was in the original principal amount of $36,195,000. The lender is ANICO, the same party who will make the Expansion Construction Loan. The existing Hotel Construction Loan bears an interest rate of 6.25% and matures on April 1, 2017. As of February 1, 2009, the loan is amortizing over a 25-year period and monthly payments of $238,767 are made. As of June 1, 2010, the principal balance was $35,301,376.

The Expansion Construction Loan is expected to be in the principal amount of up to $31,500,000, and will be provided by ANICO. See "BUSINESS – Expansion Construction Loan." The loan will bear interest at the rate of 7.25% per annum, will be interest-only for a period of 30 months and then converts to more permanent financing with a 25-year amortization put into place. This Expansion Construction Loan will mature on April 1, 2017 at the same time as the Existing Hotel Construction Loan. It is expected that the Hotel Construction Loan will be amended and restated into a new promissory note with the Expansion Construction Loan rolled in, but we have not yet received loan documents from ANICO.

At this time, the documentation for the Expansion Construction Loan has not been negotiated and finalized, so there can be no guarantee that the Company will be able to finalize the loan on the terms and in the time projected by Management. Any delay in either would significantly impact the Projections set forth in **Exhibit C**.

The existing Hotel Construction Loan was guaranteed by Tim and Steph Busch during the construction stage until certain construction related requirements were met. That guaranty has been released.

In connection with the Expansion Construction Loan, Tim and Steph Busch will be required to provide a "completion guaranty" that will substantially mirror the guaranty provided on the Hotel Construction Loan but apply to the Expansion. However, they will also be required to provide a "payment guaranty," a guarantee of payment of the entire amount of the $31,500,000 Expansion Construction Loan, that will remain outstanding through the term of the loan (April 1, 2017). The payment guaranty will be subject to early release only if the trailing twelve-months operating income before FF&E reserves reaches $9,478,000. The forecasted net operating income before FF&E reserves in 2010 is $4,825,905 (remember, we will be more than doubling the number of hotel rooms). We project to achieve the required release number sometime during 2014, about two years after the opening of the expansion, assuming that all goes well.

In connection with the payment guaranty, the Board of Managers of the Company may choose to delay repayment of the Sub-Debt and/or distributions to the Members until a healthy cushion of cash is built up until the Hotel is stabilized and able to withstand another downturn in the economy such as happened in 2009.

Leverage and Ability to Service Debt

The Offering is expected to generate $6,500,000 in equity and we are expecting to enter into a $31,500,000 Hotel Construction Loan and Proposed Sub-Debt of $1,936,774 on top of the Original Sub-Debt, existing equity, construction financing and bond financing. We will not be unreasonably highly leveraged (i.e., we will have a loan to value ratio that is below 65% based on the PKF Hotel Plus Expansion Appraisal valuation of $107,800,000 as of the second anniversary of the opening of the Expansion, assumed to be January 15, 2015). Nonetheless, if costs are greater than projected, construction takes longer than planned or if operations from the Hotel do not allow paydown of Sub-Debt as planned, additional borrowings may be required. Further, this does not take into account the Preferred Return that continues to accrue on equity.

The Expansion Construction Loan is expected to be an interest-only loan for a period of 30 months from the loan closing and concurrent first construction draw (currently expected to occur around October 1, 2010), and a reserve has been built into the Construction Budget to pay such interest (i.e., we are not counting on operating income from the existing Hotel to fund the Expansion Construction Loan interest). Operating income from the Hotel is expected to continue to pay all operating expenses as well as the payments due on the Hotel Construction Loan and the combined Sub-Debt. If the operating income at the Hotel were to significantly decline, if the Expansion is not completed within the general time allotted or if the Expansion is not stabilized in time to allow it to service the payments on the Expansion Construction Loan, it may be difficult to seek new financing or meet conditions of ANICO to extend the term of the Expansion Construction Loan at that time. This could result in having to accept financing that is more expensive and under generally less acceptable terms than we would otherwise accept.

Based upon our current Projections, we believe that cash flow from operations will be adequate to meet our anticipated future requirements for working capital, capital expenditures and scheduled payments of principal and interest on our loans. We can provide no assurance, though, that business will generate sufficient cash flow from operations or that future working capital borrowings will be available in an amount sufficient to enable us to make loan payments or make any necessary capital expenditures. In the event of inadequate cash flow, we would probably request Additional Capital Contributions from our Members. See “OPERATING AGREEMENT – Capital Contributions, Additional Capital Contributions and Member Loans.”

No Flagging or Branding of Hotel

The LLC Manager operates the Hotel as a private hotel on an “unbranded” basis – the Hotel is not part of any nationally or regionally recognized chain of hotels and is not part of such franchised hotels’ reservations system. (Even if we want to “flag” or “brand” the Hotel at a later time, the options for doing so will be limited because most of the national chains will not allow it due to the association of the Hotel with the Timeshare Facility.)

There are certain risks in not operating the Hotel as part of a recognized hotel chain. These include:

- It takes time to develop “name recognition” for the Hotel, both locally and in the broader marketing area; there is no national or regional advertising that is done by a chain on behalf of the Hotel.

- Those potential hotel guests who insist on accumulating "points" or other multi-stay rewards may choose another hotel over our Hotel for that reason.
- There is no national reservations system available for the Hotel, so the Hotel utilizes a system made available to independent operators, which costs more on a per-guest basis than those for flagged hotels.
- There is no independent franchisor making sure that certain standards of maintenance and performance are upheld, increasing the risk of some delayed repairs and replacements.

To help offset some of these risks, the Company has entered into a contract with the Preferred Hotel Group ("**Preferred Hotels**"). Preferred Hotels handles reservation systems, web-site and communications with travel agents for luxury resorts, typically of 4-5 diamond ("**star**") quality, worldwide. Preferred Hotels operates a national sales organization the purpose of which is to generate sales for its affiliated hotels. See "BUSINESS – Preferred Hotels Affiliation" for a description of the Contract that has been entered into as of October 1, 2008. As discussed in that section, Preferred Hotels has reclassified the Hotel. Since its opening, the Hotel has been listed as being part of "Preferred Hotels® and Resorts," but this classification was later limited to high end destination resorts, such as the Montage, The Lodge at Pebble Beach and The Carneros Inn. The Hotel is now included as part of the "Summit Hotels & Resort" group, which is geared toward high end meeting and convention groups.

The Contract with Preferred Hotels is for a 5-year period ending on September 30, 2013, but automatically renewing for additional five-year periods unless either party provides notice of non-renewal to the other at least 180 days in advance. There are fees payable under the Contract which are subject to increases of at least 3% and no more than 5% per annum starting January 1, 2010. A copy of the Contract is available on request. The Contract is assignable by Preferred Hotels so there is no guaranty that the Hotel will continue to be directly affiliated with Preferred Hotels. Further, while Preferred Hotels can terminate the Contract for breach by us, requiring us to pay an early termination fee, we do not have the same right – the Contract is not terminable by us for any reason except by providing notice of termination at least 180 days prior to the scheduled expiration date.

Management is currently working to move the Hotel out of the "Summit Hotels & Resorts" category back to the "Preferred Hotels® and Resorts" category, but there can be no assurance that we will be successful in doing so.

Dependence on Key and Other Personnel

Our success largely depends on the efforts of certain key personnel of PHG, including Steve Arnold and Timothy R. Busch. The loss of the services of either of them would have a material, adverse effect on the Company. In addition, Messrs. Arnold and Busch, as well as other key personnel of the Company and the Affiliated Group have significant responsibilities apart from those to the Hotel. In the event that due to such other commitments, our management and other key personnel are unable to dedicate sufficient attention to the Hotel due to their other responsibilities, our operations and financial condition may suffer.

As discussed elsewhere, PHG manages three other hotels in Orange County, California. PHG is currently seeking to acquire another hotel site in California. If successful in finding another location, PHG, including Timothy R. Busch and Steve Arnold, is expected to spend considerable time arranging such acquisition, construction financing, finalizing construction or

renovation plans and working on operations and marketing matters for the benefit of the new hotel and its investors. Further, PHG has become the Executive Manager and will operate the Stone Eagle Golf Club in Palm Desert, California. This could distract attention of such key personnel away from the Hotel.

We are also dependent upon our and the Hotel Manager's ability to retain existing and hire additional qualified personnel to manage the day-to-day operations of the Hotel. The competition for qualified personnel in the Hotel industry is intense and, accordingly, there can be no assurance that we or the Hotel Manager will be able to hire other necessary personnel. This is especially true since additional hotels are under construction or in the planning stages in the City and County of Napa, which will increase such competition.

Further, SVC has the right to approve our selection of general manager of the Hotel, which may limit the pool of eligible applicants in the event the current Hotel Manager were to step down for any reason (SVC would want someone who has some familiarity with timeshare management as well as hotel management.) If we or the Hotel Manager are required to provide Hotel employees higher wages or more extensive or costly benefits as a result of competitive conditions or changes in government regulations, the expenses associated with operations of the Hotel could be substantially increased without an offsetting increase in our revenue.

Government Regulations; Minimum Wages and Environmental Regulations

We are, and will be, subject to numerous Federal, state and local laws and regulations affecting the construction and operation of the Hotel and Expansion including but not limited to state and local licensing, zoning, land use, construction, environmental, health, sanitation, safety and fire laws. Compliance with such laws and regulations, and any enforcement action taken by any government authority, could significantly adversely affect the construction and operations of the Hotel and Expansion due to unanticipated requirements, costs or timing issues. Moreover, any delays or suspensions of certain licenses and approvals (such as any delays in the issuance of any required building permits or other construction related permits) may significantly affect our financial condition and operations.

We, like most other businesses, will be subject to Federal and state laws governing minimum wages and regulating overtime and working conditions. While we plan to pay above minimum wage in a market where minimum wage is standard, increases in the minimum wage or changes to such laws may have a material adverse effect on our operations, particularly since many of the Hotel's staff is expected to be compensated at rates based upon Federal and state minimum wages.

Operation of the Hotel and Expansion involves the use and storage of various hazardous materials. Under various Federal, state and local laws, ordinances and regulations, an owner or operator of real property may be liable for the costs of removing such hazardous materials that are released on or in its property and for remediation of its property. Such laws often impose liability regardless of whether the property owner or operator knew of or was responsible for the release of hazardous materials.

We reviewed a Phase I Environmental Site Assessment for the Original Property dated as of January 13, 2000, which did not reveal problems that either have not or could not be corrected. We also reviewed a Phase I Environmental Site Assessment for the Expansion Property dated as of February 25, 2004, which found no evidence of "Recognized Environmental Conditions" with

respect to such property. Copies of such documents are available on request. However, the preparation of a Phase I Environmental Assessment does not ensure that there may be other unknown contamination which may exist on or in the vicinity of the Property.

Natural Disasters

Fires, earthquakes, draught, and other casualties and natural disasters may significantly impact the construction, development and operation of the Hotel and Expansion. There is no assurance that we will maintain sufficient insurance to cover all potential losses arising from all potential casualties or other natural disasters, or that the proceeds will be enough to restore the premises and/or replace lost business revenues. Without limiting the generality of the foregoing, we may not procure earthquake or flood insurance, or any insurance which is procured may be subject to such deductibles and other provisions that render such insurance of limited use.

In addition to the potential risk involving a casualty or natural disaster, increases in insurance premium costs (based on a prior casualty, general economic and industry conditions, or otherwise) may have a negative impact upon the Company's financial performance.

Control By The Affiliated Group

The Affiliated Group will control virtually all important decisions concerning the Company's affairs. PHG is part of the Affiliated Group and is the LLC Manager. The Operating Agreement gives very broad authority to PHG as the LLC Manager (there are only a few "Major Decisions" that require the approval of the Board and even fewer still that require the consent of a majority in interest of the Members).

Tim Busch, through his affiliated trust, Lenawee Trust, will own approximately 39.17% of the voting Units in the Agreed Units through the ownership of 82.5% of the Class A Common Units, 11.33% of the Class B Units, 40.8% of the Class C Units and 11.11% of the Class D Units. Vintage Trust will own approximately 25.3% of the Company's voting Units through its ownership of 12.5% of the Class A Common Units, 33.3% of the Class B Units, 26.2% of the Class C Units and 36.6% of the Class D Units.

Lenawee Trust and other members of the Affiliated Group are expected to purchase at least 1,000 Class E Units, and Vintage Trust has the automatic right to purchase 2,135 Class E Units. If they purchase their allotted shares of the Class E Units, Vintage Trust, Lenawee Trust and other members of the Affiliated Group will own almost one-half of the Class E Units being offered. If all Class E Units are purchased by the Members to whom they are initially allocated, members of the Affiliated Group would control over more than 66% of the voting Units, resulting in the controlling vote for those few decisions requiring the approval of the Members. Further, the Class A Common Members (primarily Lenawee Trust and Vintage Trust) elect 3 of the 7 members of the Board of Managers. The Preferred Members elect the remaining 4 Members. PHG, the Executive Manager, is owned by Lenawee Trust and an Affiliate.

In addition to the authority vested in PHG as the LLC Manager under the Operating Agreement, PHG is also the Hotel Manager and will have wide discretion in operating the Hotel and Expansion under the Hotel Management Agreement. PHG will also act as developer of the Expansion under the Development Agreement and will oversee its construction. Accordingly, the Affiliated Group, individually and collectively, are in a position to control the Company and the

Hotel/Expansion; other investors, although they may have a substantial financial stake in the Hotel, will be unable to exercise management control. The management control exercised by the Affiliated Group may not only impact the Company's operations, but also decisions with respect to distributions, a sale or refinancing of the Hotel, or other important items. See "MANAGEMENT."

In addition, the Affiliated Group, in its performance of services to us and the Hotel, will receive significant payments and will face conflicts of interest which conceivably may harm the interests of individual Investors. See "CONFLICTS OF INTEREST" and "COMPENSATION AND FEES TO THE AFFILIATED GROUP." Finally, members of the Affiliated Group are officers, members, members of boards, hotel manager and the manager of companies owning full-service hotels in Southern California. See "CONFLICTS OF INTEREST."

Arbitrary Determination of Offering Price

We have arbitrarily agreed to issue the Class A Common Units and the Class B Units, Class C Units and Class D Units for the Agreed Contributions in spite of the fact that the Company is purchasing the Property for a price based on assumption of all indebtedness.

We placed an arbitrary purchase price for the Class E Units of $1,000 per Unit. Such price bears no relationship to the Company's assets, book value, prospective earnings or any other established criteria of value. However, the overall percentage of ownership interest of the Class E Members (estimated to be 16.07%) was established by utilizing a pure mathematical formula based on the time value of money, using the 9% Preferred Return for that purpose. The 16.07% Class E interest is derived by adding the current capital, $11,468,677, plus the outstanding 9% Preferred Return of $7,501,739 (as of November 15, 2010) to the incoming Class E capital of $6,500,000, then allocating ownership pro-rata (based on capital contributions, whether assumed or paid in cash) among Classes B, C, D and E. Class A, at 37.04%, remains undiluted. See "SUMMARY OF THE OFFERING" and "DETERMINATION OF OFFERING PRICE."

No Public Market; Restrictions on Transferability

There is currently no market for the Agreed Units or the Class E Units, and no such market is expected to develop upon completion of the Offering or thereafter. Moreover, the Agreed Units and Class E Units have not been registered under the Securities Act or the securities laws of any state. Absent such registration, the Units will not be publicly saleable for at least a year from the date such securities are issued, if at all. In addition, an exemption from registration for public sale of such securities may not be available after such period and it is highly unlikely there will be any resale market thereafter. Purchasers of these securities must be prepared to bear the economic risk of an investment for an indefinite period of time, since the securities cannot be sold unless they are subsequently registered or an exemption from registration is available.

As one of the conditions to permitting any transfer of any Units, we may require an opinion of counsel satisfactory to it as to compliance with applicable securities laws. The ability to transfer Units also may be restricted under the terms of loans or other financing agreements that may be entered into by the Company, or potentially other agreements.

Transfer of the Units is subject to restrictions on transfer and rights of first refusal contained in the Operating Agreement. These may include any restrictions imposed by the

Construction Lender or any future secured lender. See "OPERATING AGREEMENT – Assignment of Membership Interests."

Distribution Policy/Allocation of Net Income

We do not anticipate making any distributions or payments on the Agreed Units or the Class E Units until the Expansion is constructed, operational and stabilized, and the Sub-Debt (both Original Sub-Debt and Proposed Sub-Debt) is entirely repaid. Further, cash from operations of the Hotel is expected to contribute $2,247,814 to pay construction-related costs of the Expansion. Even then, distributions are expected to be made only to the extent that the cash is available after taking into account reserves and expenditures as determined by the Board of Managers in its sole discretion. It should be anticipated that as long as the payment guaranty by Tim and Steph Busch remains outstanding to ANICO (see "BUSINESS – Expansion Construction Loan"), distributions may be withheld or severely restricted until a substantial cash reserve is established to prevent such guaranty from being called.

Currently, the Board does not anticipate making any distributions to Members until at least the third quarter of 2012. Accordingly, it is possible that we may not make distributions or payments at times desired by investors or at all. Moreover, there is no assurance that we will have sufficient revenues in order to make such distributions, or that such distributions will be adequate to pay the amount of tax liabilities incurred by the Members due to their ownership of Units.

At such time as distributions from operations are made, the Class C Members will receive their 9% Preferred Return and a return of their $1,200,000 net investment before the other Members receive any distributions. The remaining classes of Preferred Units will then receive distributions up to the amount of their accrued 9% Preferred Returns, pro rata based on the total amount of Preferred Return outstanding among all of such classes of Units. Thereafter, the Class E Members will receive a return of their Net Investment. Only after the Class E Members have received all of their Net Investment will all Members receive distributions pro rata based on their percentage interest in the Company. See "DISTRIBUTIONS AND PAYMENT POLICY" and "OPERATING AGREEMENT – Distributions and Allocations of Net Income and Net Losses."

Further, under the provisions in the Operating Agreement providing for allocation of Net Income, Net Income generated from the operation of the Hotel will generally be allocated to the Class C Members in the amount of their Preferred Return and then until they receive distributions equal to their Net Investment, and then to Class B, D and E Members in proportion to the amount of their Preferred Return. The balance, if any, will be allocated to the Members according to their percentage ownership in the Company. However, distributions of cash flow from operations does not follow this same order of priority. See "DISTRIBUTIONS AND PAYMENT POLICY" and "OPERATING AGREEMENT – Distributions and Allocations of Net Income and Net Losses."

Due to the special priority given to the Class E Members concerning return of their Net Investment (after payment in full of the Class C 9% Preferred Return and Net Investment and the 9% Preferred Return of Class B, Class D and Class E Units), the Members of the classes of Units other than Class E Units will be allocated income for an extended period of time when distributions will be made to Class E Members to return their Net Investment ($6,500,000 if all Class E Units are subscribed for). If Members participate pro rata in purchasing their share of Class E Units, such Members will then be receiving distributions on the Class E Units for the return of such Net Investment from which to pay taxes on their allocated share of income. Those not participating in the purchase of Class E Units, however, or even if holding Class E Units but

the Company is not in a position to make distributions while generating income for tax purposes may be faced with a situation of having to come "out of pocket" to pay taxes on income that is allocated to them when distributions may be less than the amount of such allocated income.

Limitations In Operating Agreement

The Operating Agreement contains certain restrictions on the rights of Members, including, but not limited to, vesting all management control in the Board of Managers and the LLC Manager, a prohibition on withdrawal of capital, an indefinite duration of the Company, remedies against Members who fail to pay all or any portion of their Capital Contributions when due, and the right of the Board to request Additional Capital Contributions and to admit additional Members on terms which may result in the dilution of the Membership Interest of existing Members. See "OPERATING AGREEMENT."

For all of the reasons above, you should view the Projections only as illustrative of potential operations and not in any manner as a guaranty or financial assurance. See "FINANCIAL PROJECTIONS AND ASSUMPTIONS."

USE OF PROCEEDS

The proceeds from this Offering will be an aggregate amount of $6,500,000 if all 6,500 Class E Units are sold. We intend to use the proceeds of the Offering, along with the Proposed Sub-Debt and Expansion Construction Loan as set forth below (the proceeds of the Offering, Proposed Sub-Debt and Expansion Construction Loan have not been separately allocated):

SOURCES			USES	
INVESTORS		$ 6,500,000	LAND VALUE	$4,100,000
LENDER		$31,500,000	CONSTRUCTION COSTS	$23,848,800
LAND		$4,100,000	CITY RELATED FEES & PERMITS	$2,240,576
PROPOSED SUB-DEBT		$1,936,774	FF&E & SUPPLIES	$5,547,692
HOTEL CONTRIBUTION		$2,247,814	SYSTEMS	$154,877
			ARCHITECTURAL & ENGINEERING	$1,412,370
			INT. RESERVE (INCL. STABILIZATION)	$2,191,756
			OPERATIONS AND TRAINING	$90,000
			OTHER SOFT COSTS	$50,000
			LENDER FEES AND EXPENSES	$430,000
			LEGAL & PROFESSIONAL FEES	$400,000
			LOAN DRAW ADMIN. & ACCOUNTING	$150,000
			FINANCING/BROKER FEES	$315,000
			PHG DEVELOPMENT FEES	$1,309,364

		PROJECT DEVELOPMENT COSTS	$63,417
		WORKING CAPITAL/OTHER	$3,980,736
TOTAL SOURCES	**$ 46,284,588**	**TOTAL USES**	**$46,284,588**

The information set forth above is subject to the Construction Budget attached to this Memorandum as **Exhibit A**.

Beyond the proceeds from the Offering, we may require additional financing if our projections as to construction costs, taxes, closing costs and expenses (including legal fees) or other costs are inaccurate, or if funds from either the Construction Loan or Bond Financing should be less than projected. We could seek such financing through borrowings or investments. We have entered into a loan commitment for the Expansion Construction Loan (a summary of which is found under "BUSINESS – Expansion Construction Loan" and a copy of which is available on request) but have not yet closed the Expansion Construction Loan or received any commitment for additional financing and can provide no guaranty that such financing will be available, if needed, on terms that are satisfactory or otherwise. Further, we have not yet received commitments from Members for restructure of all of the Original Sub-Debt or for the entire amount of the Proposed Sub-Debt.

Any additional investment financing or change in projected financing terms may reduce the Membership Interests of, and/or require additional investment by, the existing Members (who may be requested to provide Additional Capital Contributions) and any debt financing, if available, may involve restrictions on distributions. Adequate funds may not be available when needed or on terms that are acceptable. Insufficient funds would have a material adverse effect on our financial condition and operation. See "RISK FACTORS" and "BUSINESS."

ABSENCE OF MARKET FOR SECURITIES

There is no market for the Agreed Units or Class E Units, or the Membership Interests represented by the Units, and no such market can be expected to develop upon completion of the Offering. In addition, transfer of the Units is subject to restrictions on transfer imposed under the Securities Act and applicable state securities laws as well as other agreements that may be entered into in future. As one of the conditions to permitting any transfer of Units, we may require an opinion of counsel satisfactory to us as to compliance with applicable securities laws. Further, transfer of the Units is subject to restrictions on transfer and rights of first refusal as set forth in the Operating Agreement. See "OPERATING AGREEMENT – Assignment of Membership Interests" and "RISK FACTORS – No Public Market; Restrictions on Transferability."

DISTRIBUTIONS AND PAYMENT POLICY

We will not be in a position to make any distributions or payments on the Preferred Units until after the construction of the Expansion and repayment of the Sub-Debt, and any payments or distributions thereafter will be subject to available cash flow (after taking into account reserves established in the LLC Manager's discretion) and restrictions imposed under any secured loans or by applicable law. To the extent that the cash is available after taking into account Company reserves and expenditures, the LLC Manager expects to cause cash to be distributed by the Company.

The order of distributions is set forth in "RISK FACTORS – Distribution Policy / Allocation of Net Income." There can be no assurance that we will be in a position to or will in fact make any such distributions or payments, or that distributions when made will be sufficient to pay tax liabilities incurred by Members as a result of ownership of Units. (Because of the order of priority of distributions, there may be times when Members are allocated income without receiving distributions to pay the tax liability thereon.) In addition, our ability to make distributions and payments may be subject to restrictions contained in future credit arrangements with lenders, as well as by any applicable legal or regulatory restrictions.

The Operating Agreement and the Subscription Agreement each have provisions providing for the subordination of rights to payments on Preferred Units to the rights of lenders providing secured loans and the grant of a security interest by the Investors in favor of any secured lenders. Members will be required to execute such subordination agreements, security agreements and other agreements and documents as any secured lender may request order to cause such subordination and creation of security interests. Members may recognize income for tax purposes derived through Company operations without any distributions or payments by us to defray such tax liability.

CAPITALIZATION; DILUTION

If the Offering is fully subscribed, the Class E Members will be granted a Membership Interest in the Company of approximately 16.07%, this would result in approximate percentages of Membership Interests among the five classes of Units as follows: Class A Units, 37.04% (these Units are not diluted and, therefore, remain unchanged); Class B Units, 36.20%; Class C Units, 5.52%; Class D Units, 5.18%, and, as noted immediately above, Class E Units, 16.07%.

While the Hotel was owned by NHP, the Class A Common Units were originally issued to Lenawee Trust and Vintage Trust in consideration of their facilitation of the acquisition and construction of the Hotel, including the assignment and transfer by PHG, an Affiliate of Lenawee Trust, of all contract rights, feasibility and development studies, and all other tangible and intangible property owned or developed by PHG or its Affiliates in connection with the acquisition and development of the Hotel, providing unsecured loans made by Vintage Trust and Lenawee Trust, the guarantee of Hotel Construction Loan by Lenawee Trust and other Affiliates of PHG, and the ongoing hotel development and investor relations involvement of Vintage Trust (through Plus Four and other Affiliates of Vintage Trust) with PHG and the Project. At that point, the Class A Common Units represented a 40% Membership Interest in the Company.

The Class B Preferred Units were issued in exchange for $9,000,000 in capital contributions by Class B Preferred Members and originally comprised a 60% Membership Interest in the Company. There were cost overruns that necessitated a capital call on investors. Because the capital call was a result of missing the construction budget and other matters, the Class A Members as well as the Class B Members participated pro rata in the new Class C Units that were issued in exchange for $1,200,000. At that point, as a result of such dilution, the Class A Members owned 37.04% of the Membership Interests, the Class B Units represented 55.56% and the then new Class C Units represented 7.41% of the Membership Interests.

NHP then decided to add the Estate Cave to the amenities of the Hotel, borrowed money from ANICO and issued another capital call to investors for NHP Class D Units. Because the

money was being requested for a new project (an addition to the Hotel that had not been included in the initial plans), the NHP Board of Managers agreed that the Class A Common Units would not be required to participate or be diluted by the new Class D Units that were issued in exchange for contributions of $1,268,677. Further, the Class C Units also did not participate and only the Class B Units were diluted. As a result of such contributions, the ownership of the Company was (and currently is) held as follows: Class A Units, 37.04%; Class B Units, 48.61%; Class C Units, 7.41%; and Class D Units, 6.95%.

The Agreed Units are being issued by the Company based in part on the above information and in consideration for their agreement to acquire the Hotel under the terms of the Purchase Agreement. In determining the Membership Interest of the new Class E Units, the Company's Board considered a number of items. They first determined that the Expansion constitutes a new project, akin to the Estate Cave. Therefore the Class A Units should not be diluted or expected to participate on a pro rata basis. However, all three other classes of the Preferred Units were determined to participate pro rata.

The Board then reviewed the PKF Hotel Appraisal attached hereto as **Exhibit D** and the PKF Hotel Plus Expansion Appraisal attached as **Exhibit E**. They decided that the fairest method of allocating interests to Class E Units would be to utilize a pure mathematical formula based on the time value of money, using the 9% Preferred Return for that purpose. The 16.07% Class E interest is derived by adding the current capital, $11,468,677, plus the outstanding 9% Preferred Return of $7,501,739 (as of November 15, 2010) to the incoming Class E capital of $6,500,000, then allocating ownership pro-rata among Classes B, C, D and E. Class A, at 37.04%, remains undiluted.

Because the new Class E investors would be contributing $6,500,000, and would be granted a Membership Interest in the Company of approximately 16.07%, this would result in approximate percentages of Membership Interests among the five classes of Units as follows: Class A Units, 37.04% (these Units are not diluted and, therefore, remain unchanged); Class B Units, 36.20%; Class C Units, 5.52%; Class D Units, 5.18% and, as noted above, Class E Units, 16.07%.

FINANCIAL PROJECTIONS AND ASSUMPTIONS

Exhibit C to this Memorandum, the Projections, presents certain information with respect to the existing performance of the Hotel for January – July of 2010, and projected financial performance of the Hotel through April, 2012 and projected performance of the Hotel and Expansion following the projected opening of the Expansion in May of 2012 through 2017 and contains forward looking statements and information as defined by Section 27A of the Securities Act of 1933 (see additional cautionary information contained in "RISK FACTORS" herein). The Projections were prepared based on the four year operating history of the Hotel, and PHG believes it has been conservative in preparing such Projections. We believe that the Expansion will open before May of 2012 but the Projections were prepared based on a later than the planned opening date in order to keep the conservative nature of the Projections in place.

The Projections were not prepared with a view toward general public disclosure or compliance with published guidelines of the American Institute of Certified Public Accountants or the Securities and Exchange Commission regarding projected financial information, and were not compiled or reviewed by independent accountants.

As such, the Projections are based upon a number of estimates or assumptions made exclusively by us, and such estimates and/or assumptions are inherently subject to significant business, economic, regulatory and competitive uncertainties and contingencies, which are beyond our control. Among other things, we have entered into a time of economic uncertainty. This could affect the ability of our contractor and subcontractors to timely complete construction of the Expansion and the interest and ability of individuals, corporations and other groups to take vacations or hold meetings at the Property. The assumptions include the following:

- We would obtain the Expansion Construction Loan for $31,500,000 on an interest-only basis at 7.25% per annum for a period of 30 months commencing from the first construction draw (expected to occur around November 1, 2010).
- The Expansion Construction Loan would then convert to a fully amortizing loan based on a 25-year term, at 7.25% per annum, but would be due and payable in full on April 1, 2017.
- Certain overhead costs, like the salary and benefits of the Hotel's general manager and assistant, facility manager and front office manager would continue to be shared on a 50-50 basis (and other personnel shared on a rooms basis as set forth in the Timeshare Management Agreement) with the Timeshare Facility, thereby reducing the Hotel's overhead, which when looking only at salary and benefits for these positions, exceeds approximately $482,000 annually.
- On average, the average daily rate in the guestrooms in the Expansion are expected to be higher than those for the Hotel guestrooms because the Expansion rooms will be larger and each will have its own patio.
- It is planned that all "mini-vac" guests of SVC will stay at the Hotel and will not be booked into guestrooms at the Expansion because SVC pays the Company a contracted reduced rate for the mini-vac guests.

We cannot guarantee that we will obtain the Expansion Construction Loan on the assumed terms or on any terms. We are speculating as to refinancing terms. Were the Timeshare Management Agreement to terminate, the Hotel would have to absorb the increased overhead.

The Projections show a lower occupancy percentage (66.2% v. 72.5%) but a slightly higher average daily rate ($170.24 v $193.23) for 2010 as compared to the model included at Section V, starting a page V-16 of the PKF Hotel Plus Expansion Appraisal, **Exhibit E**), and are based on actual Hotel performance through July 2010 while the appraisal was based on Management's budget for 2010 prepared prior to the beginning of the year. Further, compared to projections of average daily rate, annual occupancy and rooms revenue found at Section V-34 of the appraisal, the Projections for years 2013 (the first full year that the Expansion is expected to be open) through 2017 include the same average daily rates and room revenue numbers, but slightly higher annual occupancy.

You should also be aware that we have no operating history for the Expansion. The results set forth in these Projections have been based on performance of the Hotel to date, but are still conjectural, may not be realized, and actual results may vary significantly from those shown. The differences may be materially adverse. Under no circumstances should the information be construed as representations or predictions that we will achieve, or is likely to achieve, any particular results. You must make your own evaluation of the merits and risks of purchases of the offered Class E Units, and the Projections should not be relied upon in your decision to purchase such securities.

BUSINESS

Information Available in PKF Hotel Appraisal

The PKF Hotel Appraisal is attached as **Exhibit D.** It explains how a value of $42,800,000, as of March 1, 2010, was established for the Hotel. It contains a wide variety of information and, rather than reproduce such information in this Memorandum, we urge you to review the appraisal carefully.

Information Available in PKF Hotel Plus Expansion Appraisal

Attached as **Exhibit E** is the PKF Hotel Plus Expansion Appraisal dated April 6, 2010, and establishing a value for the Hotel and Expansion upon completion (assumed to be January 1, 2013) of $100,000,000 and a value on stabilization (assumed to be January 1, 2015) of $107,800,000. As with the PKF Hotel Appraisal, it contains a wide variety of information and, rather than reproduce such information in this Memorandum, we urge you to review the appraisal carefully.

For information concerning a review of the area (including general information about the State of California, the San Francisco Bay Area and Napa County), please review Section II of the PKF Hotel Plus Expansion Appraisal. Section II also provides information concerning the area surrounding the Property.

Section III of the PKF Hotel Plus Expansion Appraisal includes a fairly in-depth description of the Hotel, the planned Expansion and the area immediately surrounding the Hotel. Section IV includes a hotel market analysis and discusses the highest and best use for the Property. Section V concerns valuation and applies the three methods of valuation – cost, sales comparison and income capitalization to the Property. The purpose of the PKF Hotel Plus Expansion Appraisal was to assist ANICO in determining the loan-to-value ratio of the combined ANICO loans to the completed project.

General Description of the Expansion

While the information below is included in the PKF Hotel Plus Expansion Appraisal attached as **Exhibit E**, we thought it would be helpful for you to provide a very brief overview of what the Expansion will include.

Property Address:	875 Bordeaux Way Napa, California
Parcel Number:	046-620-013-000, having been merged into single lot with Original Property
Lot Size:	Approx. 9.07-acre parcel (part of the larger 20+ acre Property – it was separately purchased by NHP and then merged into the Original Parcel to create one large parcel)
Zoning:	SP 83-006 Napa Valley Corporate Park Specific Plan Tract – IP-A(H)
Building Space and Parking:	149,467 sq. ft.**,** square feet, inclusive of approximately 21,833 "under roof" square feet of meeting space, and 406 parking spaces (inclusive of additional parking allowed on the adjacent lots (the Hotel and the Timeshare Facility) under a reciprocal parking agreement)
Construction:	Wood frame construction, stucco exterior walls
Rooms:	165 rooms
Building Configuration:	"L" shaped hotel building and modified rectangular conference building
Amenities:	Conference center, retail space, outdoor event center, bistro, coffee shop, and bowling/entertainment area.

Relationship with SVC, the Owner of the Timeshare Facility

SVC has constructed two buildings of a three building 182-suite Timeshare Facility at a cost of approximately $41,000,000. The third building has been built but has not yet been completed – SVC has informed us that this building is planned to open in the second quarter of 2011. The Timeshare Facility does not include a restaurant or any meeting space. PHG and NHP, the Company's predecessor in interest, have established a long-term relationship with SVC and its affiliates, which relationship is evidenced by some of the documents referenced above and by two additional agreements, the Room Rate Agreement and the Timeshare Management Agreement that were entered into upon acquisition of the Original Property and which have been amended from time to time.

Room Rate Agreement. The Room Rate Agreement, a copy of which is available on request, was entered into between NHP and SVC – West L.P., a California limited partnership ("**SVC-West**"), a marketing company for SVC, and will be assumed by us on acquisition of the Property. SVC-West provides certain sales and marketing services to the Hotel's guests and, in

exchange, agreed to purchase a guaranteed number of room nights in the Hotel for use by SVC-West's "mini-vac guests" (guests invited by SVC-West to stay at the Hotel at a discounted price in exchange for attending a timeshare sales presentation) at a specified price.

Under the Room Rate Agreement, the following occurs:

The Meritage Resort agrees to block at least 16 Hotel rooms per night for Fridays and Saturdays and 40 Hotel rooms per night Sunday – Thursday for SVC-Mini-Vac guests and customers based on availability and subject to black-out date changes

The nightly room rate charged to SVC-West ranges from \$79-\$144, depending on the month and the day of the week. We expect those rates to increase by 5% as of April 2011.

In 2006, when the Hotel was open for slightly less than six months, SVC-West utilized 2,030 room nights, at an average rate of \$104.61, bringing in revenues of over \$212,000. In 2007, 8,094 room nights were used, at an average rate of \$102.00, adding slightly over \$825,000. in room revenue. Through 2008, SVC-West utilized 8,662 room nights at an average rate of \$103.28, bringing in over \$890,000 in rooms revenue. For 2009, SVC-West utilized 5,897 room nights during a down economy at an average rate of \$101.62, bringing in over \$599,000 in rooms revenue. Through April 2010, SVC-West has utilized 674 room nights at an average rate of \$98.64 bringing in over \$66,000 in rooms revenue.

We charge the mini-vac guest only 50% of the daily resort fee, but do not include the wine which is included in the \$15 resort currently charged to other guests.

The types of rooms to be used by mini-vac guests is pre-set and, to the extent SVC-West wishes to book rooms other than the pre-set ones, an additional charge has been added in the agreement.

SVC-West operates a concierge welcome desk at the hotel

SVC West also has the right to place sales and marketing information concerning the Timeshare Facility in guest's check-in packets and to contact Hotel guests concerning it's timeshare program within guidelines established in the agreement.

The portion of the Room Rate Agreement concerning availability and pricing of rooms for mini-vac guests was initially for a period of three years that started in July of 2006. The Room Rate Agreement was recently amended to include the terms as set forth above. As amended, the portion of the agreement regarding room availability and rate remains in effect through December 31, 2011. The remainder of the agreement remains in effect until the earlier of (i) termination of the Timeshare Management Agreement or (iii) SVC-West ceases operation of a timeshare sales facility at the Timeshare Facility.

There can be no guarantee as to the number of room nights that may be booked by SVC-West in the future, but we believe that this agreement has been a great benefit to the Hotel, especially during its start-up-years. We are enforcing the limited number of room nights during peak occupancy periods since the rooms can and are booked with guests paying higher rates, but

this agreement does provide a good source of hotel guests during slow periods resulting in increased revenues in all outlets, including the Spa.

Timeshare Management Agreement. NHP also entered into a Timeshare Management Agreement with SVC and its managing agent, Shell Hospitality, Inc., an Illinois corporation, as amended from time to time, which we are assuming. Under this agreement, a copy of which is available on request, we (as successor to NHP) are appointed the operator of the Timeshare Facility, to manage the operation of the Timeshare Facility. (We are delegating our duties under this Timeshare Management Agreement to PHG and have agreed to pay PHG the fees received under this agreement.) The duties under the Timeshare Agreement do not include sales or marketing activities. The agreement includes the following:

- A general manager has been hired, with SVC's approval, to oversee the operations of both the Hotel and the Timeshare Facility. The cost of the joint general manager and other key management-level personnel are paid 50% by SVC and 50% by us.
- We will provide the following:
  - training and oversight of timeshare employees;
  - check-in and check-out services and bellhop services;
  - housekeeping and laundry services for the Timeshare Facility;
  - room service, through the Hotel kitchen facilities for Timeshare Facility guests;
  - maintenance of the physical plant and landscaping of the Timeshare Facility (the cost of all maintenance staff is charged 50% to SVC and 50% to us);
  - accounting, payroll and purchasing services;
  - department heads and administrative staff for human resources, housekeeping, front office management, reservations coordination and onsite accounting who provide services for both the Hotel and the Timeshare Facility, the cost of which staff is shared on the basis of the number of "keys" available in each facility. (SVC currently pays less than half since they have only 120 guestrooms right now while there are 155 guestrooms that are currently utilized in the Hotel. Three guestrooms have been taken out of service and are currently used as extra office space because of poor views and room configuration, but will be put back into service as "last use" rooms following completion of the Expansion). For a brief period after the third Timeshare Facility building is open and before the Expansion opens, SVC will pay more since they will then have 182 rooms. Once the Expansion opens, however, we will have 320 guestrooms in use (323 if and when the 3 guestrooms currently used as office space are put back in service) and will be paying about 64% of such expenses.
- Most of the timeshare employees are employed to provide services at both the Hotel and the Timeshare Facility and SVC pays its share of the cost.
- SVC and its affiliates have the right to oversee activities at the Timeshare Facility, to train the timeshare employees, and review the activities of the general manager.
- We provide an annual budget and then generally operate within that budget.
- The term of the Timeshare Management Agreement is for a period that is the earlier of 10 operating years (i.e., through December 31, 2016) or termination of a management agreement between Shell Hospitality, Inc. and a non-profit association established for the benefit of the timeshare owners of the Timeshare Facility.
- In exchange for the Company providing the operations services outlined above, SVC reimburses us for the entire cost and pays a fee equal to 10% of such operating expenses. (As

noted above, the Company pays this fee to PHG for providing the management services. See "CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS – Hotel Management Agreement.")

- SVC also pays an accounting fee equal to $2,000 per month. (This fee is also paid to PHG and is offset against the accounting fee (currently in the total amount of $6,800) paid by the Company to PHG under the Hotel Management Agreement.)
- The Timeshare Management Agreement generally provides that the Company and PHG may engage in competitive activities (but for timeshare activities, only with the permission of SVC).
- Any disputes among SVC and the Company under or relating to the terms of the Timeshare Management Agreement are to be resolved by binding arbitration.

The Timeshare Facility does not include any meeting space or a restaurant. Therefore, we provide these amenities to Timeshare Facility guests.

Conditions to Development of the Property

The City of Napa has imposed a series of conditions to the development of the Property under the resolutions authorizing the use of the Property as a hotel. Many of those conditions involve the construction of the building and infrastructure for the Hotel. A few relate specifically to the operation of the Hotel. Those include the following.

As part of the conditions imposed by the Planning Commission of the City of Napa, a $5 per night timeshare use payment must be collected from timeshare guests of the Timeshare Facility. To the extent that Timeshare Facility suites are occupied by transient (non-timeshare owner or user) guests, the traditional transient occupancy tax must be paid to the City of Napa. The fees must be remitted by the Company, as the operator of the Hotel, even if we were not also acting as the operations manager of the Timeshare Facility.

In the event that timeshare use payments and transient occupancy taxes are not collected from users of the Timeshare Facility, we will be liable to the City for the amount owed. Failure to remit the fees allows the City to exercise various remedies, including revocation of our use permit. This is not viewed as a problem during the time that the Timeshare Management Agreement is in effect, because we can assure that these amounts are collected on check-out. Should we cease being the Timeshare Facility operations manager, however, this could become a problem, potentially jeopardizing the conditional use permit for the Property.

Meeting Space and Other Amenities

The Hotel has the largest amount of meeting space of any hotels in the area other than the Silverado. This enhances the Hotel's ability to capture not only corporate group demand but also enhance our ability to host numerous social catering functions such as weddings and family re-unions. The Hotel currently provides 22,9257 square feet of meeting space in various configurations. (See Section III-10 of the PKF Hotel Plus Expansion Appraisal attached as **Exhibit E**.) As part of the Expansion, a conference center separate from the three-story building housing guests is planned. The proposed conference center will feature a gross building area of

21,883 square feet and will include an 8,000-square foot ballroom divisible into 12 meeting rooms, pre-function space, and a service kitchen.

Regarding amenities, the Hotel includes a 2,280 square foot restaurant that serves breakfast, lunch, and dinner and provides room service to guests at the Hotel and the Timeshare Facility. Other facilities include a wine bar where local wineries feature various varietals as well as miscellaneous retail goods. The Hotel offers a small wedding chapel, which will further enhance the subject's ability to capture wedding business. (Note that, upon completion of the Expansion, the 816 square foot existing fitness center will be moved to the Expansion and will be increased in size to 1,655 square feet of indoor space and outdoor space of approximately 400 square feet.)

The Estate Cave currently includes Spa Terra, approximately 4,000 square feet of banquet / meeting space and the Trinitas Tasting Room. Spa Terra is located entirely underground in the 22,000 square-foot Estate Cave. Spa Terra currently offers ten treatment rooms with services including massages, facials, aromatherapy, stone therapy, body scrubs, exfoliations, body wraps, couple's therapies and more. Additionally, the spa features a gift shop where indigenous products to Napa Valley are available for retail. The Board of Managers recently approved an expansion of Spa Terra to add two more "couples" rooms containing four beds which can be screened off to create four separate treatment rooms. We also plan to expand the retail area by reconfiguring the foyer to Spa Terra.

Preferred Hotels Affiliation

As noted above, we operate the Hotel as a private hotel on an "unflagged" or "unbranded" basis – the Hotel is not part of any nationally or regionally recognized chain of hotels and is not part of such franchised hotels' reservations system. (See "RISK FACTORS – No Flagging or Branding of Hotel.") However, we have entered into a Contract with Preferred Hotel Group, Inc., doing business as summit Hotels and Resorts ("**Preferred Hotels**") under which Preferred Hotels provides reservation services, performs promotional services and sales support. In exchange, we must maintain the Hotel (and the Expansion upon its opening) as a "four-star" facility.

Previously, the Hotel was classified as a "Preferred Hotel" and was marketed as such. However, Preferred Hotels is changing the classification of the Hotel to a different classification because "Preferred Hotels® & Resorts" level facilities charge $500+ per room night and are classified as destination resorts. These include the Montage, The Inn at Pebble Beach and The Carneros Inn. Instead, The Hotel is now classified as part of the "Summits Hotels & Resorts" group, which is geared toward high end meetings and convention groups.

As described on the Preferred Hotels® and Resort website, "Summit Hotels & Resorts provide the finer elements of upscale travel, such as innovative spa treatments, state-of-the-art business facilities, and individual dining experiences all surrounding guests in dynamic luxury." In exchange for agreeing to the change in classification, we received a new agreement (the "Contract" dated as of October 1, 2008, a copy of which is available on request) from Preferred Hotels that keeps the membership dues at $23,700 even after the Expansion opens (saving $24,750 per year because the dues were originally based on a rate of $150/guestroom), but increasing the co-op marketing fee from $10,000 under the original affiliation agreement to $15,000. All other

charges remain in place, and the term of the new agreement runs for five years from October 1, 2008, ending on September 30, 2013, and automatically renews for five-year periods unless terminated by either party on not less than 180 days notice.

PHG is beginning negotiations with Preferred Hotels to change back to the "Preferred Hotels® and Resorts" classification, but there can be no guaranty that such negotiations will be successful or that Preferred Hotels will agree to renew the current agreement on terms acceptable to us.

Room Configuration of the Hotel and Expansion

The use permit for the Expansion allows the construction and operation of a 165-room expansion of the 158-room Hotel (currently 155 rooms are utilized by guests and 3 guestrooms have been taken out of service because of poor views and room configuration, but will be put back into service as "last use" rooms following completion of the Expansion)

A chart showing the breakdown of guestrooms by type and floor in the Hotel can be found at page III-7 of the PKF Hotel Plus Expansion Appraisal, **Exhibit E**. In general, the standard guestroom units at the Hotel are approximately 375 square feet with the multiple-room suites ranging between 550 and 1,300 square feet. A number of the units offer private balconies, and four of the units on the third floor offer a fireplace. Typical guestrooms in the Hotel offer the following basic amenities:

- *King or double/queen bed(s);*
- *Headboard and nightstands with lamps;*
- *Separate living/working and sleeping areas;*
- *Coffee maker;*
- *Work desk with lamp and ergonomic chair;*
- *Two telephones with data ports and voicemail;*
- *Complimentary high-speed Internet access;*
- *Clock radio;*
- *Television with in-room movies;*
- *Iron with ironing board; and,*
- *Framed prints.*

All guestroom bathrooms have tile floors with a toilet and tub/shower combination. Bathroom amenities include toiletries and a hairdryer.

The Expansion will add an additional 165 guestrooms to the Hotel. The room configuration of the three-story building containing all of the guestrooms of the Expansion is as follows:

Room Type	Square Feet	Units
Double Queen Standard	481	70
King Standard	427	90
Suite	775	5
Total	**41**	**165**

Each unit will offer a private balcony and refrigerator, and four of the units on the third floor offer a fireplace. It is anticipated that the proposed 165 guestrooms will also feature similar amenities to the existing guestrooms. Please note that the room types described above are different than those set forth in the PKF Hotel Plus Expansion Appraisal (**Exhibit E)** at page III-7 – the changes were made in response to marketing personnel stating a higher need for double queen standard rooms than shown in the appraisal. This change was built into the Projections.

Vineyard Lease and Operations

A vineyard was incorporated into the hillside that makes up part of the Property and the Timeshare Facility. We will own the portion of the vineyard that is on the Property, and will lease the portion from SVC that is part of the Timeshare Facility (by assumption of a lease entered into between NHP and SVC). The lease is a long-term lease, expiring on December 31, 2014. SVC agreed to pay $35,000 as part of the costs of installing the vineyard on the Timeshare Facility property. In exchange, we pay $100 plus a portion of the property taxes assessed due to improvements in the vineyard yearly in rent, we maintain the hillside for SVC (and on our Property), including the walkways and gazebo that are located in the vineyard, and the SVC guests have full access to such amenities.

The vineyard does not use the reclaimed water irrigation that is used for the rest of the landscaping, so a separate irrigation system has been installed. We will assume a contract with a third party grape grower the terms of which are generally as follows: the 2008 grape harvest resulted in the first crop of grapes that could be used for wine purposes. Approximately 2 tons of grapes were harvested and sold to Trinitas Cellars for $3,400 per ton (the going "Napa" price for grapes at which the grapes could have been sold to any third party vintners). After acquiring the Expansion Parcel, chardonnay grapes were planted in that area. This will effectively double the grape yield because there are no walking paths or other amenities on the portion of the vineyard located on the Expansion Parcel (it is fairly steep in any case). The 2009 grape harvest was approximately twice as much as 2008. It is hoped that the 2010 grape harvest will yield over 5 tons of grapes. Note that chardonnay grapes sell for less than the red wine grapes. Recently red varietal grapes were grafted onto the chardonnay stock. Grape purchase prices at the going Napa rate fluctuate each year depending on supply and demand.

Restructure of Sub-Debt

The Company is seeking to restructure the Original Sub-Debt which it is assuming from NHP, which debt is currently in the amount of $3,100,000 in outstanding principal and accrues interest at the rate of 9% per annum. Interest is paid monthly and is current. The Original Sub-Debt matures on December 31, 2010. The Hotel has not generated sufficient net operating income from operations to repay the Original Sub-Debt in its entirety by that date. We are currently working with the Original Sub-Debt lenders to restructure a substantial portion of the Original Sub-Debt.

There is Proposed Sub-Debt of $1,936,774 which is planned as part of the Construction Budget. It is expected that the Proposed Sub-Debt will be added to the restructured Original Sub-Debt. Terms are expected to include 9% monthly interest payments, with the right to make discretionary and disproportionate principal paydowns as cash is available. Lenders will be given

the right to request payment of up to 20% of their outstanding loans in any 12 month period, which payment would be due within four calendar months after the date of notice.

We have budgeted paying off the entire Sub-Debt from net operating income of the Hotel during the third quarter of 2012, but there can be no guarantee that payment within this timeframe will be achieved. It is possible that a portion of the restructured Sub-Debt will be repaid and then "re-borrowed" during the term of the construction of the Expansion in order to limit the time in which the 9% interest accrues. (See "RISK FACTORS – Restructure of Sub-debt.")

Expansion Construction Loan

We have entered into a Construction/Permanent Loan Application (a copy of which is available on request) for the $31,500,000 Expansion Construction Loan from ANICO, but have not yet negotiated the loan documents therefor. Based on the ANICO Loan Application, the Expansion Construction Loan will include the following terms:

Amount:	$31,500,000
Facility Type:	Construction/Mini-Perm Loan
Purpose:	To expand The Meritage Resort & Spa with 165 additional hotel guestrooms, piazza village and outdoor courtyards, conference center, fitness center, coffee shop / retail, salon, and bowling / bar entertainment area.
Maturity:	April 1, 1017 (concurrent with maturity of the existing Hotel Construction Loan)
Interest Rate:	7.25% per annum
Upfront Fee:	1.00 % ($315,000) (plus 1% ($315,000) to Busch Financial Services which is outside of the loan application)
Construction Monitoring Costs:	Paid by Borrower.
Prepayment Fee:	1.00% ($315,000) paid at closing to allow us the right to prepay the loan in its entirety at any time on at least 30 days' notice
Repayment:	Interest only from interest reserve for 30 months following loan closing and concurrent first construction draw (expected to occur in October 2010, then from operations.
Interest Reserve for Construction Period:	$2,191,756 for construction period interest and the assumed stabilization period until January 1, 2013 at assumed 7.25% **Note,** the interest reserve is not a requirement of ANICO but has been included by PHG in the Preliminary Construction Budget so that there is no risk of shortfall in funds

from operations of the existing Hotel to pay interest on the Expansion Construction Loan.

Collateral: Amended 1st Trust Deed and UCC filing on the Original Property and the Expansion Parcel

Loan-To-value: Not to exceed 75% of appraised value or 70% of costs.

Guarantees: Full payment and completion guarantees from Timothy R. and Steph Busch and their related trusts. The completion guaranty requires the Busches to guaranty the outstanding balance of the loan until the Expansion is complete and certain additional conditions are satisfied which takes about six months after construction completion. The new "payment guaranty" to be provided by Steph and Tim will continue through the term of the loan (April 1, 2017), subject to early release if the trailing twelve-months operating income before FF&E reserves reaches $9,478,000.

We expect that that the Construction Expansion Loan will be made on the terms generally identified in the ANICO Loan Application a copy of which is available on request. However, we have not yet received or negotiated the final loan documents. There is no guarantee that we will be able to obtain the Expansion Construction Loan on the terms outlined above or on any terms acceptable to the Company.

Competitive Market

The Company believes that it is competing with specific hotels in the Napa area for guests. Those hotels are the following (the information below was provided by PKF Consulting – see Section IV of the PKF Hotel and Expansion Appraisal attached as **Exhibit E**):

Name	Year Opened	No. Rooms	Mtg. Space (1)
The Meritage Resort & Spa	2006	158 (to be increased by 165 with the Expansion)	13,718 (with 21,833 "under roof" included in the Expansion)
Napa River Inn	2000	66	2,260
River Terrace Inn	2003	106	1,750
The Carneros Inn	2003	86	3,200
Embassy Suites	1985	205	7,000
Napa Valley Marriott	1979/2002	272	10,450
Hilton Garden Inn	2002	80	1,200
Westin Verasa	2008	180	7,000
Avia Hotel	2009	141	In Sun Room and Suites

(1) Represents only indoor meeting space

All of the competitive hotels mentioned above have a restaurant, bar, swimming pool, whirlpool/spa and exercise room.

The Embassy Suites and the Napa Valley Marriott compete with the Hotel for group business – both derive more than half of their business from groups. The smaller hotels compete with the Hotel for transient guests, both leisure and business.

The City of Napa commissioned a Lodging Market Study of the Napa Valley which was prepared by HVS Consulting and Valuation as of August 17, 2007. A copy of the Lodging Market Study is available on request. The study concluded: "Currently, the limited supply of hotels and meeting space in the area has constrained meeting demand. While the depth of demand for group meetings in the Napa Valley remains to be evaluated as new hotel and meeting space comes on line, a gap will continue to exist for meeting facilities within a three- to four-star, full-service hotel . . . " This, of course, is the exact niche that is filled by the Hotel and the Expansion. This study has not been updated by the City of Napa and the economy has changed substantially in the interim.

Marketing Of The Hotel and Expansion

We aggressively market "The Meritage Resort & Spa" and have hired an offsite independent contractor who will be charged with listing the Hotel on third-party distributors, such as Hotels.com, Expedia.com, and Priceline.com, and updating the listings frequently as to price and availability.

Further, we utilize internet advertising by providing links to the Napa Tourism Bureau website, the Napa Chamber of Commerce website, and other general websites dealing with tourism. Use of the third-party distributors may result in lower net rates being paid by guests. (Lower rates will be received by us because we must pay any third-party distributor through which guest rooms are booked for each booking.) However, higher occupancy levels as a result of such bookings help offset such lower rates.

We have developed a website for the Hotel - www.meritageresort.com. We target leisure travelers by doing focused advertising in AAA, Traveler's Guide and other national media. The San Francisco Bay Area market is a main focus.

With new inventory coming to the marketplace, we work diligently to bring guests from Sacramento, the Bay Area, including Oakland, San Francisco and San Jose, and our home markets in Orange County. We utilize a sales force which includes ten sales persons to sell to PHG's existing corporate clients who desire a venue in Northern California and particularly Napa. Each sales person receives a commission of 3% of any rooms and 2% of any food and beverage which they sell into the Hotel. This will augment their compensation from their existing hotel employers and the same arrangements will be applicable to the Expansion.

There are be a Director of Sales, three sales managers, and a Director of Food and Beverage and Catering for the Hotel itself. This staff is expected to grow as the time for completion of the Expansion draws near and after it opens. While this is a lot of overhead, we are not be paying a franchise and marketing fee which usually is 8% of gross revenues, plus the frequent user points which is running about $15,000 per month at each of the PHG-affiliated Doubletree properties located in Orange County through the Hilton Honors program. We use those savings to specifically market the Hotel and will add the Expansion to the marketing program as it nears completion.

PHG offers accommodations gift certificates to individuals conducting potential group site inspections, for charitable auction and donation purposes and, for practicing Roman Catholic priests, on a space available basis only, on the condition that they celebrate Mass daily while they are guests of the Hotel.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The Offering

We anticipate that substantially all the Investors are likely to be members of The Affiliated Group, clients of the Firm or other Persons or entities who have family, business or financial relationships with members of the Affiliated Group, whether as clients of the Firm, as investors in other ventures in which the Affiliated Group has been involved, or through relationships with PHG, through its Chief Executive Officer, Timothy R. Busch.

Hotel Management Agreement

We are entering into a Hotel Management Agreement with PHG, the Hotel Manager, as of September 1, 2010, a copy of which is attached as **Exhibit H** to this Memorandum. That agreement was based on an agreement between PHG and NHP, and a redline showing the changes between the two agreements is available upon request. The descriptions below are summaries of, and are subject to and qualified in their entirety by reference to, the detailed provisions contained in the Hotel Management Agreement.

Under the Hotel Management Agreement, the Hotel Manager is appointed to supervise, direct and control the management, and to manage the operation, of the Hotel and Expansion for the term of the Agreement. The Hotel Management Agreement affords to the Hotel Manager wide discretion in connection with the operation of the Hotel and Expansion. The Hotel Manager is required to manage the Hotel and Expansion in a faithful and efficient manner and with the same standard of care customarily rendered by prudent managers in operating comparable motels and hotels.

The term of the Hotel Management Agreement is for a period of at least five full calendar years (therefore the initial term will expire on December 31, 2016) and thereafter the term will automatically renew for one five (5) year period and a second period equal to the lesser of five (5) years or the remaining term of any franchise license agreement we may have entered into for the Hotel (none has been entered into), unless either party timely elects not to renew the Hotel Management Agreement. Under the agreement, the Hotel Manager is entitled to base management fees equal to 3% of gross revenues of the Hotel (and Expansion once opened for business) and will be entitled to incentive fees based on performance of the Hotel and Expansion.

To the extent that the Hotel Manager performs off-site accounts payable disbursement and financial statement services, the Hotel Manager is entitled to an additional monthly fee of $6,800 plus reasonable out-of-pocket expenses (apart from fees and expenses which may be payable to the Firm and other members of the Affiliated Group for legal, accounting, tax return preparation and other services). A portion of that amount ($2,000) is expected to be paid to the Company by SVC under the Timeshare Management Services Agreement (discussed below), and the balance is

subject to annual increases based on changes in the consumer price index as of January 1 of each year.

In the event of a termination of the Hotel Management Agreement by the Hotel Manager for cause or due to a sale of the Hotel to an unaffiliated party which elects to terminate the Hotel Management Agreement, the Hotel Manager may be entitled to liquidated damages or a termination fee of equal to management payable for the 36-month period preceding the date of termination (subject to certain adjustments).

The Hotel Management Agreement requires the Company to maintain certain levels of working capital reserves, reserves for furniture, fixture and equipment replacements and capital expenditures and provides generally that Hotel employees will remain on our payroll rather than the Hotel Manager's payroll. The Hotel Management Agreement generally provides that the Hotel Manager may engage in competitive activities and will be entitled to indemnification. The Hotel Manager will not be liable for any actions, other than those arising from the gross negligence, willful misconduct or willful breach of the Hotel Management Agreement by Timothy R. Busch or Steve Arnold on behalf of the Hotel Manager. Any disputes among the Hotel Manager and the Company under or relating to the terms of the Hotel Management Agreement are to be resolved by binding arbitration.

In light of the fact that PHG acts as Hotel Manager and is also the LLC Manager, and the significant ownership of the Company by members of the Affiliated Group, including PHG, Investors who are not part of the Affiliated Group have little ability to exercise any control over actions to be taken by us with respect to the Hotel Manager under the Hotel Management Agreement, such as declaring an event of default and terminating the Hotel Management Agreement or electing not to renew the Hotel Management Agreement. Moreover, the terms of the Hotel Management Agreement are not the subject of arms-length bargaining (although such terms were negotiated with a subcommittee of the Board of Managers and approved by such Board with interested Board members abstaining) and may be considered significantly more favorable to the Hotel Manager than management agreements negotiated between unrelated parties.

Development Agreement

We have entered into a Development Agreement with PHG, a copy of which is attached as **Exhibit G.** For PHG's services in obtaining entitlements to the Expansion Parcel, for supervising the development of the Expansion and for supervising the rehabilitation of the Hotel, PHG will be entitled to a development fee of $1,309,364. PHG must pay all third party consultant costs and fees and all of its own travel expenses. PHG personnel are permitted to stay at the Hotel without cost subject to availability. If the Hotel is booked, PHG personnel must either find other lodgings or pay for their room on such nights. The development fee is payable in 24 monthly installments, without interest, beginning on November 30, 2010.

Accounting and Financial Services Agreement

We have entered into a letter agreement with Plus Four to provide accounting and construction budgeting services through and including reconciliation of the final construction draw under the Expansion Construction Loan. A fee of $150,000 will be paid over 24 months beginning November 15, 2010. A copy of the letter agreement is available on request.

Timeshare Management Agreement

The terms of the Timeshare Management Agreement are described above in "BUSINESS - Relationship with SVC, the Owner of the Timeshare Facility – Timeshare Management Agreement." The fees under the Timeshare Management Agreement will be paid to PHG under the Hotel Management Agreement in exchange for PHG's agreement to undertake the management duties thereunder on behalf of the Company.

BFS Financing Fees

We have retained BFS to arrange the Expansion Construction Loan for a fee equal to 1% of the amount financed (expected to be approximately $315,000). Further, BFS has been granted an exclusive right in the future to facilitate refinancing of the Hotel Construction Loan and/or Expansion Construction Loan for a fee equal to 0.5% of the refinanced loan, or any additional financing as we may need.

Legal, Administrative and Other Services

The Firm has and will continue to perform legal, tax return preparation and other services on our behalf Company pursuant to the Firm's then standard hourly rates and other terms set forth in its engagement agreements with its clients. The Firm will be paid legal fees for representing us in the syndication of the Class E Units, and construction and financing of the Expansion. The Firm has entered into an agreement with the Company to limit legal fees to $400,000 for work involved in preparation of all of the offering documents in connection with this Memorandum (except as described below), from February 1, 2008. The $400,000 limit also includes completion of the Expansion Construction Loan and legal oversight of construction issues through the opening date of the Hotel.

Through October 31, 2008, the Firm had incurred, and has been paid, legal fees and costs in the amount of $128,820 in working with PHG on legal issues concerning an earlier iteration of the Meritage Village expansion. Those fees and costs are included in the $400,000 cap discussed above.

The fees do not include any work in transferring the Hotel from NHP to the Company or in formation of the Company (i.e. the fixed fee is related solely to the Expansion). Further, such fees do not include future work that may be necessary in negotiating and documenting future contracts or amendments to contemplated contracts, substantial changes to the Expansion or contracts related thereto after they have been executed, loans other than the Expansion Construction Loan, future improvements to the Hotel or Expansion or establishment of affiliation relationships with other entities (like golf courses, wineries or other visitor-oriented companies), conversion of any of the Hotel guest rooms to condominiums or other change in use, tax preparation or advice, any work performed after the opening date of the Expansion, or the later sale of all or a portion of the Hotel / Expansion.

CONFLICTS OF INTEREST

Due to the structure of the transactions described in this Memorandum and the continuing business activities of the Affiliated Group, you should be fully aware that certain activities of the LLC Manager, the Developer, the Hotel Manager, the Firm and/or other members of the Affiliated

Group will involve conflicts of interest which may be contrary to your interests. There is no assurance that the conflicts will be resolved to meet your best interests. See "RISK FACTORS."

Limited Arm's Length Bargaining.

The terms of the transactions among the Company, NHP, PHG as the LLC Manager, the Hotel Manager and the Developer, BFS, the Firm, and other members of the Affiliated Group have been fixed through negotiation between a subcommittee of the Board of Managers and the Affiliated Group and approved by the Board of Managers. These agreements provide substantial benefits to members of the Affiliated Group. The terms may not be as favorable to the Company (and, therefore, you as an investor therein) as they would have been had we entered into such arrangements through arm's length bargaining with unrelated parties and independent counsel and advisors. You should evaluate the issuance of the Agreed Units and the purchase of the Class E Units on the basis of the transactions as negotiated and should not purchase such securities unless you are satisfied with the transactions as described or contemplated in this Memorandum.

Other Hotels and Other Ventures

The Operating Agreement, the Hotel Management Agreement and other agreements pertaining to us and the Hotel permit PHG as the LLC Manager, the Hotel Manager and/or the Developer, and other members of the Affiliated Group, to conduct other activities in the hotel, real estate and other industries and to enter into hotel projects or other ventures which may compete with the Hotel and Expansion. This presently includes the Doubletree Hotel – Irvine Spectrum, the Crowne Plaza Resort Garden Grove, and the Doubletree Santa Ana/Orange County Airport, all of which were developed by The Affiliated Group, and are managed by PHG. Further, an Affiliate of PHG acquired an inn in Lake Havasu City, Arizona. Earlier in 2010, PHG became the Executive Manager of Stone Eagle Holdings, LLC and the sole manager of its subsidiary entities, and manages the Stone Eagle Golf Club in Palm Desert, California.

Although PHG as the LLC Manager and Hotel Manager is generally required to devote such time as it deems appropriate to manage the Company and the Hotel respectively, there is no assurance that there will be an allocation of resources which will be timely or sufficient to meet our needs or those of the Hotel and Expansion. In such event, the financial performance and operations of the Company and the Hotel may suffer.

Members of the Affiliated Group have established significant business and financial relations with the individuals and entities who are likely to be potential Investors. There is no assurance that the administration and operation of the Company, the Hotel and the Expansion may not create conflicts of interest you and/or other Investors. Additionally, other activities of the Affiliated Group could have a favorable or unfavorable impact upon you and your participation in the Company.

No Independent Legal Representation.

We employed the Firm to prepare this Memorandum and various material agreements pertaining to the Company, the Hotel and its acquisition from NHP, and the Expansion and to represent us in various transactions including, without limitation, the Operating Agreement, the Timeshare Management Agreement, the Hotel Management Agreement, the Development Agreement and related documents, the acquisition and construction of the Hotel, the acquisition of

the Expansion Parcel, all matters pertaining to the Expansion (including financing the cost thereof and syndication of Class E Units), and other matters. The Firm also represented NHP in the syndication of the classes of Preferred Units (Class B, Class C and Class D), and the financing of the acquisition and construction of the Hotel. The primary owner of the Firm, Timothy R. Busch, is a principal of PHG. PHG is owned by Lenawee Trust (an irrevocable trust established for the benefit of Timothy R. Busch and his family) and another Busch family entity.

Also, other members and employees of the Firm or other members of the Affiliated Group plan to participate in the Offering by acquiring Agreed Units and purchasing Class E Units. The Firm has provided services in connection with the Company's organization and the acquisition of the Hotel to the LLC Manager, the Hotel Manager and other members of the Affiliated Group and will likely continue to represent not only us but also such other members of the Affiliated Group in connection with the transactions described in this Memorandum. Additionally, the Firm has and will likely continue to provide representation to the Affiliated Group and at least some of our Investors in connection with unrelated matters or projects.

The financial interests of members and attorneys of the Affiliated Group and the representation by the Firm of various parties as described above give rise to present and future conflicts of interest. The nature of such conflicts, the relevant circumstances and the reasonably foreseeable adverse consequences with respect to such financial interests and conflicts will be further described in separate conflict waiver letters or non-representation letters which will be provided to you prior to your investment. You are directed to review the provisions of such letters carefully.

Due to individual circumstances involving each Investor's relationship with the Firm, the conflict waiver letters or non-representation letters given to each Investor may differ from each other. As a condition of purchasing Class E Units in this Offering, you will be required to execute a copy of the letter addressed to you waiving such conflicts of interest and acknowledging that the Firm has not, and will not, represent you individually in connection with this Transaction. You are urged to seek the advice of independent counsel of your own choice prior to your participation in the Offering and execution of the conflict waiver letter when considering an investment in the Company.

MANAGEMENT

PHG

Pacific Hospitality Group, LLC ("**PHG**") has and will continue to serve as the LLC Manager responsible for the operation of the Company. PHG also served as developer of the Hotel under an agreement with NHP and will act as developer of the Expansion under the Development Agreement. Further, PHG is the Hotel Manager responsible for the operation of the Hotel pursuant to the Hotel Management Agreement. The members of PHG are the Lenawee Trust and SLB Realty, Inc., a California corporation (both Affiliates of Timothy R. Busch). Timothy R. Busch and Steve Arnold serve as Chief Executive Officer and President, respectively, of PHG.

PHG was previously the manager of the Doubletree Club Hotel LAX in El Segundo, California, which hotel was previously owned by an Affiliate of Mr. Busch. PHG also serves as manager of the Doubletree Hotel – Irvine Spectrum ("**Doubletree Spectrum**"), the Crowne Plaza

Resort – Anaheim / Garden Grove ("**Crowne Plaza**"), the Doubletree Santa Ana/Orange County Airport ("**Doubletree Santa Ana**"), and the Inn at Lake Havasu in Lake Havasu City, Arizona, and is in the process of finding and negotiating for the purchase of other potential hotel sites (and existing hotels) in California. Recently, PHG became the Executive Manager of Stone Eagle Holdings, LLC and its affiliated companies concerning the Stone Eagle Golf Course in Palm Desert, California.

Timothy R. Busch

Mr. Busch (age 55) is an executive officer and principal owner of PHG and BFS and is also CEO and principal shareholder of the Firm. In addition to legal and accounting matters, Mr. Busch has been involved in the hotel business for over 22 years. In 1987, Mr. Busch, with Affiliates, constructed a 200 room "Compri," a/k/a Doubletree, hotel in Southfield, Michigan. Mr. Busch was responsible for the coordination of all financing, equity, construction, and assisted in the hotel's management and operation.

Mr. Busch and his Affiliated entities in the Affiliated Group have developed and have a significant ownership interest in the 252-room Doubletree Spectrum located in the Irvine Spectrum in Irvine, California, which opened in June, 1999; in the 384-room Crowne Plaza in Garden Grove, which opened on October 11, 2000; and the 256-room Doubletree Santa Ana, which opened on January 16, 2002, and a 90-unit Days Inn, in Lake Havasu City, Arizona, acquired in June of 2004. Through PHG, Mr. Busch continues to look for and negotiate the acquisition of other potential hotel sites (and existing hotels) in California.

Mr. Busch is a member and also a Manager of Stone Eagle Holdings, LLC, which, through affiliates, owns and operates the Stone Eagle Golf Course in Palm Desert, California.

Steve Arnold

Mr. Arnold (age 45) is the president of PHG. Mr. Arnold has been involved in the hotel business for over 20 years. In prior years, Mr. Arnold has held management positions with Tarsadia Hotels, West Coast Hotel/Northwest Hospitality, Embassy Suites/Doubletree Hotels Corporation, Queen Mary Hotel/Disney Hotels and Stovall Hotels. Mr. Arnold joined PHG in March 2003. As President of PHG, he oversees the Doubletree Spectrum in Irvine, California (252 rooms), the Crowne Plaza (376 rooms) in Garden Grove, the Doubletree Santa Ana (256 rooms) and a Days Inn (90 rooms) in Lake Havasu City, Arizona. He also oversees the Stone Eagle Golf Course in Palm Desert, California. Through PHG, Mr. Arnold assists Timothy R. Busch in negotiations for the acquisition of other potential hotel sites or existing hotels in California.

BFS

Busch Financial Services ("**BFS**") provides financial services such as loan placement, structuring and negotiations for its clients. John F. Moody (age 54) is the President of BFS and is a former banker with over 17 years of experience with Bank of America and Security Pacific National Bank. John Moody joined BFS in 1993. BFS arranges debt and equity transactions, provides consulting services to its clients, and has facilitated the placement of over $1.8 billion in financings, including loans aggregating over $400,000,000 for PHG's Doubletree Spectrum, Crowne Plaza Resorts Anaheim / Garden Grove and Doubletree Santa Ana.

COMPENSATION AND FEES TO THE AFFILIATED GROUP

As summarized below, members of the Affiliated Group will receive certain compensation, payments and reimbursement of expenses in connection with this Offering. Most of the payments will be made regardless of the success or profitability of the Company or the operations of the Hotel and Expansion. The payments were negotiated between the LLC Manager, the Hotel Manager and their Affiliates, on the one hand, and a special committee of the Board of Managers, on the other hand, and then approved by the Board of Managers with interested Managers abstaining from voting thereon. See "CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS" AND "CONFLICTS OF INTEREST."

ENTITY RECEIVING COMPENSATION OR OTHER PAYMENTS	TYPE OF PAYMENT	METHOD AND AMOUNT OF COMPENSATION
	CONSTRUCTION STAGE	
PHG	Development Fee	Fee of $1,309,364 paid in 20 equal monthly installments beginning November 30, 2010; PHG is responsible for the costs and expenses of construction oversight work, travel and lodging, and other reasonably related expenses. PHG personnel may stay at the Hotel, subject to availability, without payment therefor, but if the Hotel is fully booked, such personnel must either find other lodgings or pay for the rooms used. Should PHG retain anyone to act as an owner's representative onsite during construction, PHG shall be responsible for all costs and expenses thereof and shall reimburse any amounts therefor previously paid by the Company.
BFS	Financing Fee	1% of total amount of Expansion Construction Loan facility payable upon initial funding of the Expansion Construction Loan. Such Fee is estimated to be $315,000.
Plus Four	Accounting and Financial Services	$150,000 for accounting services through and including reconciliation of the final construction draw under the Expansion Construction Loan will be paid monthly over 24 months beginning November 15, 2010. Plus Four is an Affiliate of Vintage, not Lenawee or Timothy R. Busch.
	OPERATIONAL STAGE	
PHG and the Affiliated Group	Hotel Management Fees	PHG, as Hotel Manager, is entitled to a base management fee of 3% of Hotel gross revenues other than from sales of alcoholic beverages, and an incentive management fee of up to 2% of Hotel gross revenues provided that certain

		benchmarks set forth in the annual budget are satisfied. Additionally, the Hotel Manager is entitled to a monthly fee of $6,800 ($2,000 per month will be offset by fees paid under the Timeshare Management Agreement) for accounts payable disbursement and quarterly investor reports financial statement preparation services during the term of the Hotel Management Agreement. $4,800 of such fee is subject to annual increase based on changes in the consumer price index as of January 1 of each year. (PHG retains Plus Four for preparation of quarterly reports and financial recaps for approximately $1,040 per month at PHG's expense.) In addition, Van (Wescomp) Hotel Corporation or another member of the Affiliated Group is entitled to receive 3% of gross revenues collected from sales of alcoholic beverages in exchange for operating the bar and maintaining the liquor license for the Hotel.
PHG	Timeshare Management Fee	PHG receives a fee equal to 10% of operating expenses for the Timeshare Facility paid by SVC. The Company also allocates a portion of the overhead attributable to the staffing of the Timeshare Facility to SVC.
Busch Financial Services	Financing Fee	0.5% of the total amount of any construction and/or permanent financing payable upon refinancing of the initial Hotel Construction Loan, the Expansion Construction Loan and any other loans as required by the Company.
The Busch Firm	Legal Fees	Legal fees for syndication of the Class E Units, negotiation of the Expansion Construction Loan and construction of the Expansion are not to exceed $400,000 between February 1, 2008 and the date of opening of the Expansion, except as otherwise agreed in terms of engagement. Such fees do not include those incurred in formation of the Company or transfer of the Hotel from NHP to the Company, and do not include fees that will be incurred from and after the opening of the Expansion.
Lisa Mauck	Procurement Fees	Fees for procuring and overseeing installation of furniture, fixtures and equipment for the Expansion in the amount of $6,250 per month for 20 months ($125,000) in lieu of paying a fee based on the price of such items. Lisa Mauck is Timothy Busch's sister-in-law and performed the same services for the Hotel.

Trinitas Cellars	Sale of Wine for Guest Rooms	We currently pay $5.50 for each bottle of wine that is placed in the guestrooms of the Hotel which is provided as part of the resort fee paid by guests.
Trinitas Cellars	Lease for Storage Space	Trinitas Cellars leases storage space at the Hotel and pays $800 per month for such space.
Van (Wescomp)	Bar Lease	Van (Wescomp) hold the liquor license for the Hotel and pays $1,500, including cleaning fee, as rent. The lease is terminable by either party on six months' notice. Under a Royalty Agreement, the tasting room is called the "Trinitas Tasting Room."
The Affiliated Group	Distributions of Cash Flow and Allocations of Profits and Losses From Operations	Members of the Affiliated Group, as to the Common Units, and to the extent of any Preferred Units which are owned, will be entitled to distributions of cash flow and allocations of profits, losses and tax credits from operations according to the terms of the Operating Agreement.

LIQUIDATION STAGE

PHG	Management Termination Fee	PHG, as Hotel Manager, will be entitled to certain termination fees and/or liquidated damages up to the Management Fees payable during the preceding 36 months upon a termination of the Hotel Management Agreement due to the Company's default, or due to the sale of the Hotel to an unrelated third party which elects to terminate the Hotel Management Agreement. If less than 36 months remain in the term, the fee will be based on payments made in the immediately preceding months equal to the number of months remaining prior to expiration of the term had such termination not occurred. PHG would also be entitled to any termination fee payable under the Timeshare Management Agreement.
The Affiliated Group	Proceeds From Sales or Refinance and Allocations of Profits and Losses From Sales and Refinances.	Members of the Affiliated Group will be entitled to receive distributions from a sale or refinance of the Hotel and allocations of profits and losses from these transactions according to the terms of the Operating Agreement.

ALL STAGES

The Firm	Legal and Other Fees and Expenses	The Firm is entitled to payment of its legal fees and expenses for legal and other services rendered to the Company and members of the Affiliated Group in connection with the Hotel

		and Expansion (except as limited above under a fixed fee arrangement) based upon their then standard hourly rates and other terms of engagement.
The Affiliated Group	Expense Reimbursement and Indemnification Rights	The LLC Manager, the Hotel Manager and other members of the Affiliated Group are entitled to reimbursement of expenses and rights of indemnification with respect to certain claims which may be asserted against any of them according to the provisions of the Operating Agreement, Hotel Management Agreement and other documents and agreements referenced herein.

OPERATING AGREEMENT

The descriptions hereunder are summaries of, and subject to and qualified in their entirety by reference to, the detailed provisions contained in the proposed Operating Agreement which is attached as **Exhibit F** to this Memorandum. A "redline" of the Operating Agreement which has been marked to show all changes since the NHP Amended and Restated Operating Agreement made to date and those made as part of the admission of the Class E Preferred Members is available upon request. The following description is not a complete summary and only describes certain terms and prospective Investors are urged to review the form of Operating Agreement attached as **Exhibit F** to this Memorandum.

Term of the Company and Dissolution

We will remain in legal existence for an indefinite period until terminated pursuant to the Operating Agreement or by applicable law. Under the Operating Agreement, dissolution may occur upon written consent of a Majority In Interest of Members (based on the total number of votes cast by voting Units issued by the Company), upon the occurrence of an act specified under applicable law as effecting dissolution except as otherwise provided in the Operating Agreement or upon the sale or other disposition of all or substantially all of the assets of the Company and the Company's receipt of all consideration due it in connection with such sale.

Capital Contributions, Additional Capital Contributions and Member Loans

As noted in the "SUMMARY OF THE OFFERING," the holders of the Class A Common Units, Class B Units, Class C Units and Class D Units are being issued such Units for "Agreed Contributions" being provided in consideration for, among other things, the consent of such Unit holders to the purchase of the Hotel, including assumption of all secured and unsecured debt as well as other liabilities.

Also as discussed in the "SUMMARY OF THE OFFERING," each Class E Preferred Member will be obligated to make an initial Capital Contribution of $1,000 per Class E Unit. You must make your initial Capital Contribution by paying $500 per Class E Unit on or before November 15, 2010, and paying the remaining $500 on March 15, 2011, unless notified by the LLC Manager on at least 30 days' notice to extend the date for payment to a later date. In the event that a Member fails to pay the agreed Capital Contribution when due, we may assert various rights and remedies as provided for in the Operating Agreement and the Subscription Agreement,

including, but not limited to, causing the Member to be withdrawn from the Company as a Member or otherwise using any legal remedies to collect the Capital Contribution.

Additionally, if the Board of Managers determines, after taking into account the future cash needs and liquid assets of the Company, that Additional Capital Contributions are required, the LLC Manager may notify all Members of the terms of the Additional Capital Contributions, including the rate of preferred return and priority of allocation of income and losses and distributions, if any. The notice will further state that Members have no less than 30 days after the issuance of such notice to elect whether to participate by providing Additional Capital Contributions, and the Members will have a minimum of 60 days from the date of such notice to provide such contributions.

The Operating Agreement sets forth procedures by which, if any Member fails to fully participate in the capital call, other Members may elect to make the Additional Capital Contribution of the non-paying Member and if the other Members fail to take the entire amount to be provided by non-paying Members, the Board may elect to sell additional Units to third parties and admit them as new Members or to enter into Member Loans or other financing devices.

Preferred Members are entitled to receive a Preferred Return equal to 9% on the portion fo their Agreement Contributions allocated to capital contributions and to their initial Capital Contributions for the Class E Units until the same are repaid. If the Board requests Additional Capital Contributions under the procedure outlined above, the Board may establish a preferred return (not to exceed 15%) to be paid on such Additional Capital Contributions. However, the obligations of the Members to make Additional Capital Contributions will be on a non-recourse basis (e.g., the Member will have no personal liability) and the sole remedy of the Company for any Member's failure to make such Additional Capital Contributions is a reduction of such defaulting Member's Percentage Interest.

As an alternative to Additional Capital Contributions, the Board of Managers may arrange financing through loans or other means from third party sources or, through loans or advances by one or more of the Members. All such Member advances will be treated as a loan which bears interest at a rate of not to exceed the lesser of 15% or the highest rate allowed by law, and the Board may set the terms of security for repayment, and may provide for special allocations of losses and/or distributions.

Resignations and Withdrawals

No Member will be entitled to resign, withdraw or to demand the sum of any part of such Member's Capital Contribution or to receive any distributions from us except as provided in the Operating Agreement.

Management, LLC Manager

Our business, property and affairs are managed by the LLC Manager except that the vote of a majority of the Board of Managers is required to approve any "Major Decisions" (see the discussion of the Board of Managers below). For only a few decisions, the vote of a Majority Interest of the Members (based on the total number of votes cast by Units authorized to vote) is required to approve certain very limited "Member Matters" (see "Voting By Members" below). Except as expressly required by law, or as provided in the Operating Agreement, the LLC Manager has the full, complete and exclusive authority, power and discretion to manage and

control the business, property and affairs of the Company and to make all decisions regarding those matters. We have one LLC Manager: PHG. The LLC Manager may be removed for cause (as defined in the Operating Agreement) by the affirmative vote of a Majority in Interest of the Members.

Neither the LLC Manager nor any member of the Board of Managers will be personally liable under any judgment of a court or in any other manner for any debt, obligation or liability of the Company solely by reason of being the LLC Manager or a member of the Board. The LLC Manager, members of the Board of Managers and their respective members, manager, officers, employees and agents are entitled to indemnification from any loss, expenses, action, damage or claim suffered or incurred by them while acting in our interest, provided that the acts, omissions or alleged acts or omissions upon which such action or threatened action, proceedings or claims are based were made by the LLC Manager or the Board of Managers in good faith and not performed or omitted fraudulently or in bad faith or as a result of wanton or willful misconduct or gross negligence by the LLC Manager or the Board of Managers.

IN THE OPINION OF THE SECURITIES AND EXCHANGE COMMISSION, INDEMNIFICATION FOR LIABILITIES ARISING UNDER THE SECURITIES ACT OF 1933 IS AGAINST PUBLIC POLICY AND IS THEREFORE UNENFORCEABLE.

The LLC Manager is not obligated to, and will not, devote all of its time and business efforts or the time and business efforts of its employees to the affairs of the Company or the Hotel and Extension, and may (and does) engage and invest in, independently or with others, any business activity including those which may be the same or similar to our business or may be in direct or indirect competition with us.

The LLC Manager and its Affiliates may engage in any transaction so long as such transactions are not prohibited by the Operating Agreement and the terms and conditions of such transactions on an overall basis are fair and reasonable to us and are at least as favorable to us as those generally available from persons capable of similarly performing them and in similar transactions between parties operating at arm's length. Notwithstanding the foregoing, a transaction between the LLC Manager and/or its Affiliates on the one hand and the Company on the other is conclusively determined to be fair and reasonable to us if it is disclosed in the Operating Agreement or this Memorandum or is otherwise approved as set forth in the Act.

Except for expense reimbursements and payments otherwise described in this Memorandum and the Operating Agreement, the LLC Manager is not entitled to payment for services rendered or goods provided to us.

Board of Managers

The Board of Managers of the Company will consist of three members appointed by majority vote of the Class A Common Members and four members appointed by majority vote of the Preferred Members. The Board of Managers' authority is limited to all "Major Decisions" as defined in the Operating Agreement attached hereto as **Exhibit F** (which includes any decision to request Additional Capital Contributions from Members, sell, transfer or exchange substantially all of the Company's assets, merger or consolidation of the Company, and amend or terminate the Hotel Management Agreement or Development Agreement, and certain other actions set forth in the Operating Agreement). The Operating Agreement also contains provisions governing voting by the Board of Managers, the holding of Board meetings, and the removal of members of the

Board of Managers. The members of the Board of Managers are subject to similar limitations on liability and indemnification provisions applicable to the LLC Executive Manager.

Voting by Members

Generally, each Class A Common Member and each Preferred Member will be afforded one vote for each Unit held by it. Assuming all Class E Units are sold in this Offering, the Preferred Members will generally control approximately 63% of the voting power, and Lenawee Trust and Vintage Trust (and other minor Class A Members), through the Class A Common Units, will generally control 37% of the voting power. When including their interests in Class B Units, Class C Units and Class D Units, members of the Affiliated Group currently control and, if they purchase their full allotment of the Class E Units, the Affiliated Group would own almost 67% of the Company's then outstanding Units upon full funding of the Offering. Most matters are decided by the vote of a Majority in Interest of Members, which generally means more than 50% of the votes cast by Units having voting rights.

The Operating Agreement contains provisions governing voting and the holding of meetings of Members or action by Members taken by written consent without a meeting. Generally, Members holding 20% or more of the outstanding Units may call a special meeting. Actions required or permitted to be taken at a meeting of Members may be taken without a meeting if the action is evidenced by one or more consents signed by at least a Majority in Interest of the Members or such other number required by applicable law or the Operating Agreement.

The voting rights of the Members are limited under the Operating Agreement, and include the decision to sell or otherwise dispose of substantially all of the Company's assets, the removal of an LLC Manager for cause and the election of a new LLC Manager following removal of or the resignation by the LLC Manager, the amendment of the Operating Agreement or the Articles of the Company in certain cases or the dissolution and liquidation of the Company, and only such other items as are expressly stated in the Operating Agreement.

Distributions and Allocations of Net Income and Net Loss

Distributions by the Company are subject to available cash flow (including reserves in the sole discretion of the Board), and any contractual and legal restrictions imposed upon the Company. Subject to such limitations, distributions of "Net Cash Flow from Operations" (as defined in the Operating Agreement) will be made in the following order: (i) to pay a 9% Preferred Return on the Class C Capital Contributions, (ii) to return the Net Investment of Class C Members; (iii) to pay a 9% Preferred Return on the Class B, Class D and Class E Capital Contributions pro rata based on the total amount of Preferred Return outstanding among all Preferred Units; (iv) to return the Net Investment of the Class E Members, and (v) then, any excess Net Cash Flow from Operations will be distributed among the Members proportionately according to their number of Units. However, if Additional Capital Contributions are made, the priority for payment from Net Cash Flow may be reset by the Board and may include a return not to exceed 15% on any other Additional Capital Contributions of the holders of Units.

Net Cash Flow from Sales and Refinancing will be distributed in the following order: (i) to pay a 9% Preferred Return on the Class C Capital Contributions, (ii) to return the Net Investment of Class C Members; (iii) to pay a 9% Preferred Return on the Class B, Class D and Class E Capital Contributions pro rata based on the total amount of Preferred Return outstanding among all classes of Preferred Units; (iii) to the Members pro rata according to their respective percentage

interests to repay their outstanding Net Investments; and (iv) any remaining funds will be distributed among the Members proportionately based upon their number of Units. However, if Additional Capital Contributions are made, the Board may re-order the priority of payments to include any Additional Contributions Return and return of Net Investment on Additional Capital Contributions. All of such distributions will be made in such intervals or from time to time as determined by the Board in its sole discretion.

Profits (net income) of the Company will be allocated among the Members first to Class C Preferred Members in an amount equal to their Class C Preferred Return, then to Class C Members until they receive distributions equal to their Net Investment, and then to Class B, D and E Members in proportion to the amount of their Preferred Return. The balance, if any, will be allocated to the Members according to their percentage ownership in the Company. However, if Additional Capital Contributions are requested, the Board may provide for a different allocation of profits to the extent of the priority given regarding distributions of cash flow discussed in the paragraph above.

Any net losses will be allocated to Class C Members up to the amount of their Capital Contributions, and then to Class B, D and E Members in proportion to the amount of their Capital Contributions. The balance, if any, will be allocated to the Members proportionately according to their percentage ownership in the Company. However, if Additional Capital Contributions are made or if any Members make loans to the Company, net losses may be specially allocated to the Member(s) making such Additional Capital Contributions or loans up to the amount contributed or loaned. Further, if any Member or Affiliate of a Member is required to provide personal guarantees in connection with third party financing for the Project, such Member may be specially allocated net losses during the time any personal guaranty is outstanding. It is expected that Lenawee Trust and its Affiliates will be required to provide guarantees during the term of the Expansion Construction Loan, but it is not expected that there will be any net losses during that period since the Hotel is open, operational and generating income. See "THE OFFERING - Terms of the Offering" and "BUSINESS – Construction Loan."

Assignment of Membership Interests

Except for certain permitted transfers to other Members or related parties of a Member, any transfer of a Membership Interest and admission of a substitute Member requires the prior written consent of the Board of Managers. Any transfer is subject to compliance with all federal and state securities laws, the terms of any other Company indebtedness and such transfer when added to the total of all other Membership Interests sold or exchanged in the preceding twelve months, may not cause a termination of the Company under Section 708 of the Internal Revenue Code unless the Company first receives an opinion of counsel that the transaction would not lead to or have an adverse tax result to the Members.

Additionally, subject to certain exceptions, each time a Member proposes to transfer such Member's interest either voluntarily or pursuant to an involuntary transfer by law, such Member must first offer the Membership Interests to the Company and non-transferring Members at the purchase price and the terms of payment for which the Member proposes to transfer such Membership Interests to a third party.

Finally, if and to the extent that any secured lender would so require, further limitations on transfer may be imposed on the Members.

Amendment of Operating Agreement

The Operating Agreement generally may only be amended upon written consent or affirmative vote of a "Majority in Interest of the Members" which is defined in the Operating Agreement to mean more than 50% of the votes cast by Units having voting rights. Except as otherwise provided in the Operating Agreement, no amendment may be made without the affirmative consent of any Member who is treated differently than others in such Member's class if such amendment would enlarge the obligations of any Member under the Operating Agreement, enlarge the responsibilities of the LLC Manager to the Members, or amend the allocation and distribution sections of the Operating Agreement. The LLC Manager may amend Exhibit "A" to the Operating Agreement, Membership Interests, at any time so that it accurately reflects the Members' interests in the Company.

Arbitration

The Operating Agreement provides that in the event of a dispute under or relating to the terms of the Operating Agreement or any breach of the Operating Agreement, such dispute must be submitted to binding arbitration before the Judicial Arbitration and Mediation Service ("**JAMS**") in Orange County.

Non-Affiliation with Blocked Entities

Each Member must certify that such Member is not personally, and is not acting, directly or indirectly, for or on behalf of any person, group, entity or nation, named by an Executive Order or the United States Treasury Department as a terrorist, "Specially Designated National and Blocked Person," or other banned or blocked person, entity, nation, or transaction pursuant to any law, order, rule, or regulation that is enforced or administered by the Office of Foreign Assets Control; and that such Member is not engaged in this transaction, directly or indirectly on behalf of, or instigating or facilitating this transaction, directly or indirectly on behalf of, any such person, group, entity or nation.

CERTAIN TAX CONSIDERATIONS

General

We have not sought and will not seek a ruling from the Internal Revenue Service (the "**IRS**") or any other federal, state or local agency with respect to any of the tax aspects of an investment in the Company, nor will we obtain an opinion of counsel with respect to any aspects of federal income tax law. You should therefore consult your own tax advisor with respect to the federal, state and local income tax consequences of an investment in the Company.

We will file annual partnership/limited liability company information returns with the IRS and the State of California, and each Member will be required to report separately on his or its personal income tax return for each year their distributive share of the Company's taxable income, regardless of whether, during or in respect of the year for which such income is reportable, any distribution is in fact made to such Member.

Classification of the Company

Neither we nor the LLC Manger have received an opinion of counsel to the effect that the Company will be treated as a partnership for federal and state income tax purposes. If we were to be classified as an association taxable as a corporation, the Members would be treated as shareholders of a corporation with the result that, among other things, income, gains, losses, deductions and credits would not flow through to the Members to be accounted for in their individual federal and state income tax returns; rather, double taxation of income could result because (i) distributions would be treated as corporate distributions to the Members, causing taxable dividends to the extent of our earnings and profits, and (ii) our taxable income would be subject to federal and state income tax imposed on corporations.

Allocation of Profits and Losses

Our Operating Agreement provides that a Member's distributive share of any item of income, gain, loss, deduction or credit will be allocated for tax purposes as follows:

Net Income generated from operations of the Hotel will generally be allocated to the Class C Members in proportion to the amount of their Preferred Return and then to Class C Members until they receive distributions equal to their Net Investment, and then to Class B, D and E Members in proportion to the amount of their Preferred Return. The balance, if any, will be allocated to the Members according to their percentage ownership in the Company.

Any Net Losses from operations will be allocated to Class C Members up to the amount of their Agreed Contributions, and then to Class B, D and E Members in proportion to the amount of their Agreed Contributions or Capital Contributions, as applicable. The balance, if any, will be allocated to the Members proportionately according to their percentage ownership in the Company. However, if Members make either Additional Capital Contributions or loans to us as permitted under the Operating Agreement, Net Losses may, in the Board's discretion, be specially allocated to such Members up the amount of their additional contribution or principal loan amount. Under Section 704 of the Code, a Member's distributive share of any item of income, gain, loss, deduction or credit will be governed by the Operating Agreement unless the allocation provided by the Operating Agreement does not have "substantial economic effect." Even if the allocation provisions of the Operating Agreement of the Company do not satisfy all the requirements imposed by applicable Treasury Regulations, it would appear that its provisions should govern the allocation of Company items to the Members because such provisions are consistent with the Members' respective interest in the Company (taking into account all facts and circumstances). Notwithstanding the foregoing, the Company can provide no assurance that the allocations will be upheld if challenged by the IRS. A successful challenge by the IRS could result in a Member recognizing a larger amount of gain or income or smaller amount of loss or deduction than he would have otherwise recognized under the allocations in the Operating Agreement.

Passive Activity Loss Provision

Most investors' interest in the Company's activities will most likely constitute a passive activity. Therefore, to the extent the Company has losses, such losses from the Company will be subject to the passive activity loss limitation rules, among other limitations, and income from non-Company activities which are not subject to the passive activity loss limitation rules may not be

offset against losses from the Company. In addition, investors will only be able to deduct any losses to the extent such losses are "at risk."

Tax Information

The Company will furnish all Members with annual financial statements and tax information for completion of their respective individual tax returns.

Tax Provisions With Respect to Membership Interests

The Company will be taking the position that the holders of Agreed Units and Class E Units are members of the Company for tax purposes and are not debt holders. Therefore, the Company will not be deducting the Preferred Return as an interest expense on an annual basis under the original issue discount rules of the Internal Revenue Code. There is no assurance that the IRS will not challenge the Company's position on the Preferred Units.

Tax Consequences. Generally, a sale of all of its property by an LLC such as NHP would result in a taxable gain or loss to the LLC. The gain or loss would be equal to the difference between the amount realized by the LLC and the LLC's tax basis in the assets that were sold. Each member would realize their proportionate share of the LLC's taxable gain or loss.

In the proposed sale by NHP, the purchase price is treated as if NHP sold its properties for the assumption of all of NHP's unsecured and secured liabilities (the "Debt Assumption"). Based upon this purchase price, it is possible that NHP will realize either a taxable gain, or loss, on the sale of its assets to the Company. The actual results depend upon NHP's operating results and several other items at the actual time of the sale. (We are not trying to "hedge" by saying there will "be either a taxable gain or loss." Based upon present numbers, tax projections at NHP's level show that the sale would be very close to break even from a tax standpoint. Bear in mind that even if the eventual property sale results in no taxable gain or loss, in the aggregate, at NHP's level, individual members may still end up with a taxable gain or loss as explained in more detail below.)

It is also likely that certain members of NHP may realize a gain on NHP's disposition even if NHP, in the aggregate, realizes a loss. As a result of NHP's sale, each NHP member will be treated as if they received a constructive cash distribution in the amount of their allocable share of the Debt Assumption. If a member's income tax basis in their NHP membership interest is less than their allocable share of the Debt Assumption, such member will recognize a gain for tax purposes even though they received no cash or property.

The differing tax rules applicable to any gain or loss realized by NHP are explained below.

Loss Deferral. As noted above, it is possible NHP will realize either a gain or loss on the sale of its assets to the Company. If there is a loss, Code Section 707(b)(1)(B) does not allow a deduction for any loss incurred by NHP on the sale because the same parties own more than 50% of the capital and profits interests in both NHP and the Company.

The amount of the disallowed loss under Section 707(b) is not permanently lost. Code Section 707(b)(1) provides that in the case of a subsequent sale or exchange of the property by Meritage, any gain from that subsequent property disposition by the Company will be recognized only to the extent it exceeds a member's share of the disallowed Section 707(b) loss incurred from

the prior sale of the property by NHP. Thus, you can use any deferred loss incurred by NHP against any future gains realized when the Company sells the property it purchases from NHP.

Even though the disallowed loss is available to offset future gains from the disposition by the Company of the property, it will not constitute basis for purposes of computing depreciation in the Company's hands. The Company's depreciable basis will be limited to the purchase price, less the amount allocable to land and other non-depreciable assets.

Ordinary Income if Gain. If NHP realizes a gain on its sale of assets to the Company, any NHP gain which is attributable to assets other than capital assets will (because NHP and the Company are treated as related) be taxed as ordinary income. For this purpose, this means that NHP level gains on the sale of the real property (because it is used in a trade or business), as well as certain other items like inventory, accounts receivable, and similar items, will be taxed as ordinary income.

Other Consequences. Following the sale of assets by NHP to the Company, NHP will remain in existence for a certain period of time. Certain NHP assets, primarily intangible assets (such as loan costs and fees) which no longer have value, will be written off. Such expenses will generate ordinary losses which may be available to offset any ordinary income if the NHP asset sale results in the realization of ordinary income under the rules discussed above.

In addition, it is likely that most of the NHP members will, following NHP's sale to the Company, have remaining income tax basis in their NHP membership units. Upon NHP's formal liquidation, any remaining basis may result in realization of a capital loss by such members.

Individual members should consult their own tax advisers about the availability of such losses for any excess remaining basis. Although Section 707 does not, by its terms, prohibit a deduction for such losses, it is possible that, due to the similarity of ownership between NHP and the Company, the IRS may seek to disallow such losses. The IRS could conceivably argue that NHP's sale of assets was, for tax purposes, a distribution of NHP's assets to its members, followed by a recontribution of such assets to the Company. In such case, the members would, as opposed to obtaining a capital loss for their remaining basis in NHP, instead have a higher basis in their membership units in the Company.

THE ABOVE IS ONLY A BRIEF AND GENERAL SUMMARY OF CERTAIN FEDERAL AND CALIFORNIA TAX CONSEQUENCES OF AN INVESTMENT IN THE COMPANY BY INVESTORS WHO ARE CITIZENS OR RESIDENTS OF THE UNITED STATES. IT DOES NOT ADDRESS THE PARTICULAR TAX CONSEQUENCES OF AN INVESTMENT IN THE COMPANY WHICH DEPENDS LARGELY ON EACH MEMBER'S PARTICULAR CIRCUMSTANCES, AND IT DOES NOT ADDRESS THE TAX CONSEQUENCES TO INVESTORS THAT ARE SUBJECT TO SPECIAL TAX RULES, SUCH AS PENSION PLANS OR OTHER TAX EXEMPT ENTITIES. YOU ARE URGED TO CONSULT YOUR OWN TAX ADVISOR AS TO YOUR PARTICULAR FEDERAL, STATE, LOCAL AND FOREIGN TAX CONSEQUENCES.

THE OFFERING

General Information

You may only subscribe for such number of Agreed Units and Class E Units in denominations as the LLC Manager in its sole discretion may permit. Members of the Affiliated Group may reallocate among themselves portions of their Membership Interest such that the proportions of their net Capital Contributions and number of Class E Units may be disproportionate with each other; provided that the aggregate proportion of all Capital Contributions and Class E Units for all of the Affiliated Group participants will be proportionate with the Capital Contributions and Class E Units of all Investors purchasing Class E Units.

Subscriptions will be accepted solely through a properly completed and signed Subscription Agreement, the form of which is attached as **Exhibit I** to this Memorandum. Additionally, the LLC Manager may require you to complete an Investor Questionnaire, or such other documents as the LLC Manager in its sole discretion may require.

Terms of the Offering

There is no required minimum amount of Agreed Units or Class E Units which the Company must sell before it may accept Investors' subscriptions. The Offering commences on the date of this Memorandum and will continue until November 15, 2010, unless the Offering is fully subscribed for pursuant to subscriptions accepted by the Company or terminated at an earlier date by the Company in its sole discretion or unless extended by the Company for a period not to exceed an additional 90 days (the "**Offering Expiration Date**"). There is no assurance that the Company will sell all of the Class E Units as contemplated in this Memorandum. Members of the Affiliated Group will subscribe for a significant portion of the Agreed Units and Class E Units offered as the Units to be sold by the Company.

Private Placement; Investor Suitability Standards

The Agreed Units and the Class E Units offered pursuant to this Memorandum will not be registered under the Securities Act or applicable State securities laws. They must be acquired for investment and not with a view to distribution or resale within the meaning of the Securities Act. Sales of Agreed Units and Class E Units will be made by the Company only to prospective Investors that satisfy, in the sole judgment of the LLC Manager, the suitability standards in the Company's Subscription Agreement which is set forth in full as **Exhibit I** to this Memorandum, and which are summarized below. Each Investor must, at a minimum, meet the definition of "accredited investor" in Regulation D under the Securities Act, provided, however, that the LLC Manager reserves the right in its sole discretion to admit a certain limited number of non-accredited Investors. Further, the LLC Manager has limited the number of categories of persons that might otherwise be deemed "accredited" under Regulation D, as described below.

Additionally, you will be required to represent that, in connection with evaluating the merits and risks of an investment in the Company, you and your advisors have such knowledge and experience in financial and business matters that you are capable of evaluating the merits and risks of an investment in the Company and of making an informed investment decision. The Company reserves the right, in its sole discretion, to reject any potential Investor and to limit the amount of the investment in Class E Units by any purchaser, or to accept subscriptions from non-accredited investors.

The definition of an "accredited investor," as approved by the LLC Manager, includes the following:

- An individual having a net worth or a joint net worth with spouse at the time of purchase in excess of $1,000,000.
- An individual whose net income was in excess of $200,000 in each of the two most recent years, or whose joint income with spouse was in excess of $300,000 in each of those years, and who reasonably expects his net income to reach such level in the current year.
- A corporation, partnership, Massachusetts or similar business trust, not formed for the specific purpose of acquiring the Class E Units, having total assets in excess of $5,000,000.
- A trust with total assets in excess of $5,000,000 not formed for the specific purpose of acquiring Class E Units, whose purchase is directed by a sophisticated Person (i.e., a Person who has such knowledge and experience in financial and business matters that he is capable of evaluating the merits and risks of the prospective investment).
- Any entity in which all the equity owners are accredited investors.

You will be required to make certain other representations in the Subscription Agreement and may be required to provide certain information in the Subscription Agreement and any Investor Questionnaire. The LLC Manager will determine, in its sole discretion, which of the subscriptions received it will accept and whether, in the case of any particular Investor, a limit will be placed on his maximum investment in the Company.

Access to Information

The LLC Manager will make available you any available non-proprietary materials relating to the Company, and will answer all of your inquiries concerning the Company, the Company's management, and any other matters relating to the offer and sale of the Agreed Units and Class E Units. The LLC Manager will also give you the opportunity to obtain any additional non-proprietary information (to the extent the LLC Manager possesses that information or can acquire it without unreasonable effort or expense) necessary to verify the accuracy of any information in this Memorandum. Such non-proprietary materials include all documents referenced in this Offering Memorandum as being available upon request.

Method of Subscription

A fully executed copy of the Subscription Agreement and one copy of the signature page of the Operating Agreement (including spousal consent, if applicable) should be executed and delivered to the Company c/o Pacific Hospitality Group, LLC, 2532 Dupont Drive, Irvine, California 92612, Attn: Timothy R. Busch. Each entity which is not an individual should also submit, upon request, its (i) organizational documents (e.g., articles and bylaws or partnership agreement, trust agreement), (ii) evidence of authority to invest in the Company (e.g., resolutions), (iii) a list of its beneficial owners, and (iv) other materials upon the LLC Manager's reasonable request.

A Capital Contribution in the amount of $500 per Class E Unit (representing the first half of the total requirement payment of $1,000 per Class E Unit) should be remitted by the subscribers to the Company c/o Pacific Hospitality Group, LLC, 2532 Dupont Drive, Irvine, California 92612, Attn: Timothy R. Busch, for payment to the account of The Meritage Resort, LLC, phone (949) 474-7368 ext. 109. Fax (949) 474-7732. Email: tbusch@buschfirm.com. **Checks should be made payable to The Meritage Resort, LLC.** The balance of $500 per Class E Unit will be payable on March 15, 2011, unless extended to a later date upon 30 days' notice from the Executive Manager at any time prior to March 15, 2011.

The LLC Manager may accept or reject all or part of a subscription. If a subscription is not accepted, the amount received will be refunded in full, without interest, together with all documents submitted.

A subscriber of Agreed Units will become a Member effective as of September 1, 2010. A Subscriber of Class E Units will become a Member no earlier than at the applicable Closing and the subscriber is admitted as a Member by receiving a copy of an executed Subscription Agreement, without regard to the date on which the individual subscriber subscribed for his interest. The executed Subscription Agreement will represent a record of the individual subscriber's investment in the Agreed Units and/or the Class E Units.

DETERMINATION OF OFFERING PRICE

There is presently no market for the Agreed Units, the Class E Units, or the Membership Interests represented by the Agreed Units and Class E Units. Therefore, the value attributed to the Agreed Units and the offering price for the Class E Units have been determined solely by the Company on an arbitrary basis.

ADDITIONAL INFORMATION

The Company will provide to you and your advisors, if any, with the opportunity to ask questions and receive answers concerning the terms and conditions of this Offering and to obtain any additional information which the Company may possess or obtain without unreasonable effort or expense that is necessary to verify the accuracy of the information furnished to you. Any questions should be directed to 2532 Dupont Drive, Irvine, California 92612, Attention: Timothy R. Busch, (949) 474-7368, Ext. 100, Fax (781) 207-0713, Email tbusch@buschfirm.com.

EXHIBIT A

PRELIMINARY CONSTRUCTION BUDGET

EXHIBIT B

HISTORICAL OPERATIONS PERFORMANCE

EXHIBIT C

PROJECTIONS

(Current Year Operating Performance and 7-Year Operating Pro Forma)

EXHIBIT D

PKF HOTEL APPRAISAL DATED MARCH 24, 2010

The Addenda have been omitted from the copy attached hereto but a full copy of this appraisal is available upon request.

EXHIBIT E

PKF HOTEL PLUS EXPANSION APPRAISAL DATED APRIL 6, 2010

The Addenda have been omitted from the copy attached hereto but a full copy of this appraisal is available upon request.

EXHIBIT F

FORM OF OPERATING AGREEMENT

EXHIBIT G

DEVELOPMENT AGREEMENT

EXHIBIT H

HOTEL MANAGEMENT AGREEMENT

EXHIBIT I

FORM OF SUBSCRIPTION AGREEMENT

EXHIBIT J

IRR SCHEDULE (WITH ASSUMED SALE IN 2017)

EXHIBIT K

DILUTION EFFECT OF CLASS E

EXHIBIT L

CAPITAL CALL COMPARISON 2008 vs. 2010