IN THE UNITED STATES BANKRUPTCY COURT
FOR THE NORTHERN DISTRICT OF TEXAS
DALLAS DIVISION

In re:	§	**CASE NO. 10-34176**
	§	
	§	**CHAPTER 11**
LINCOLNSHIRE CAMPUS, LLC, *et al.*,[1]	§	
	§	**Jointly Administered**
Debtors.	§	

DISCLOSURE STATEMENT FOR DEBTORS' FIRST AMENDED JOINT PLAN OF REORGANIZATION UNDER CHAPTER 11 OF THE BANKRUPTCY CODE

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Dated: September 23, 2010

1 The Debtors in these chapter 11 cases are (a) Lincolnshire Campus, LLC, Case No. 10-34176, (b) Naperville Campus, LLC, Case No. 10-34177, (c) Monarch Landing, Inc., Case No. 10-34179, and (d) Sedgebrook, Inc., Case No. 10-34178.

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IF YOU ARE ENTITLED TO VOTE TO APPROVE THE PLAN, YOU ARE RECEIVING A BALLOT WITH YOUR COPY OF THIS DISCLOSURE STATEMENT. THE DEBTORS URGE YOU TO VOTE TO ACCEPT THE PLAN.

EACH HOLDER OF A CLAIM AGAINST OR INTEREST IN THE DEBTORS ENTITLED TO VOTE TO ACCEPT OR REJECT THE PLAN SHOULD READ THIS DISCLOSURE STATEMENT AND THE PLAN IN THEIR ENTIRETY BEFORE VOTING. NO SOLICITATION OF VOTES TO ACCEPT OR REJECT THE PLAN MAY BE MADE EXCEPT PURSUANT TO THIS DISCLOSURE STATEMENT AND BANKRUPTCY CODE SECTION 1125. NO HOLDER OF A CLAIM SHOULD RELY ON ANY INFORMATION RELATING TO THE DEBTORS, THEIR PROPERTY OR THE PLAN OTHER THAN THAT CONTAINED IN THIS DISCLOSURE STATEMENT AND THE ATTACHED EXHIBITS.

THIS DISCLOSURE STATEMENT IS THE ONLY DOCUMENT AUTHORIZED BY THE COURT TO BE USED IN CONNECTION WITH THE PLAN. NO SOLICITATIONS FOR OR AGAINST THE PLAN MAY BE MADE EXCEPT THROUGH THIS DISCLOSURE STATEMENT.

THIS DISCLOSURE STATEMENT CONTAINS A SUMMARY OF CERTAIN PROVISIONS OF THE PLAN. ALTHOUGH THE DEBTORS BELIEVE AND HAVE MADE EVERY EFFORT TO ENSURE THAT THIS SUMMARY PROVIDES ADEQUATE INFORMATION WITH RESPECT TO THE PLAN, IT DOES NOT PURPORT TO BE COMPLETE AND IS QUALIFIED TO THE EXTENT IT DOES NOT SET FORTH THE ENTIRE TEXT OF THE PLAN. IF THERE IS ANY INCONSISTENCY BETWEEN THE PLAN AND THE SUMMARY OF THE PLAN CONTAINED IN THIS DISCLOSURE STATEMENT, THE PLAN SHALL CONTROL. ACCORDINGLY, EACH HOLDER OF A CLAIM SHOULD REVIEW THE PLAN IN ITS ENTIRETY.

THIS DISCLOSURE STATEMENT HAS BEEN PREPARED IN ACCORDANCE WITH BANKRUPTCY CODE SECTION 1125 AND BANKRUPTCY RULE 3016 AND NOT IN ACCORDANCE WITH FEDERAL OR STATE SECURITIES LAW OR OTHER APPLICABLE NONBANKRUPTCY LAW. PERSONS OR ENTITIES TRADING IN OR OTHERWISE PURCHASING, SELLING OR TRANSFERRING CLAIMS AGAINST THE DEBTORS SHOULD EVALUATE THIS DISCLOSURE STATEMENT AND THE PLAN IN LIGHT OF THE PURPOSE FOR WHICH IT WAS PREPARED. THIS DISCLOSURE STATEMENT SHALL NOT BE CONSTRUED TO BE ADVICE ON THE TAX, SECURITIES OR OTHER LEGAL EFFECTS OF THE REORGANIZATION OF THE DEBTORS AS TO HOLDERS OF CLAIMS AGAINST THE DEBTORS.

IRS CIRCULAR 230 NOTICE: TO ENSURE COMPLIANCE WITH IRS CIRCULAR 230, HOLDERS OF CLAIMS AND EQUITY INTERESTS ARE HEREBY NOTIFIED THAT: (A) ANY DISCUSSION OF U.S. FEDERAL TAX ISSUES CONTAINED OR REFERRED TO IN THIS DISCLOSURE STATEMENT IS NOT INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED, BY HOLDERS OF CLAIMS OR EQUITY INTERESTS FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED ON THEM UNDER THE INTERNAL REVENUE CODE; (B) SUCH DISCUSSION IS WRITTEN IN CONNECTION WITH THE PROMOTION OR MARKETING BY THE DEBTORS OF THE TRANSACTIONS OR MATTERS

ADDRESSED HEREIN; AND (C) HOLDERS OF CLAIMS AND EQUITY INTERESTS SHOULD SEEK ADVICE BASED ON THEIR PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.

THIS DISCLOSURE STATEMENT HAS NEITHER BEEN APPROVED NOR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION (THE "SEC") NOR HAS THE SEC PASSED UPON THE ACCURACY OR ADEQUACY OF THE STATEMENTS CONTAINED HEREIN.

AS TO CONTESTED MATTERS, ADVERSARY PROCEEDINGS AND OTHER ACTIONS OR THREATENED ACTIONS, THIS DISCLOSURE STATEMENT SHALL NOT CONSTITUTE OR BE CONSTRUED AS AN ADMISSION OF ANY FACT OR LIABILITY, STIPULATION OR WAIVER BUT RATHER AS THE DEBTORS' STATEMENT OF THE STATUS OF THE RESPECTIVE MATTER.

ALL OF THE PROJECTED RECOVERIES TO CREDITORS ARE BASED UPON THE ANALYSES PERFORMED BY THE DEBTORS AND THEIR PROFESSIONALS. ALTHOUGH THE DEBTORS HAVE MADE EVERY EFFORT TO VERIFY THE ACCURACY OF THE INFORMATION PRESENTED HEREIN AND IN THE EXHIBITS ATTACHED HERETO, THE DEBTORS CANNOT MAKE ANY REPRESENTATIONS OR WARRANTIES REGARDING THE ACCURACY OF THE INFORMATION.

THE DEBTORS RECOMMEND THAT CREDITORS SUPPORT AND VOTE TO ACCEPT THE PLAN. IT IS THE OPINION OF THE DEBTORS THAT THE TREATMENT OF CREDITORS UNDER THE PLAN CONTEMPLATES A GREATER RECOVERY THAN THAT WHICH IS LIKELY TO BE ACHIEVED UNDER OTHER ALTERNATIVES FOR THE REORGANIZATION OR LIQUIDATION OF THE DEBTORS. ACCORDINGLY, THE DEBTORS BELIEVE THAT CONFIRMATION OF THE PLAN IS IN THE BEST INTERESTS OF CREDITORS.

I. INTRODUCTION

A. General.

The following introduction is qualified by the Amended Plan of Reorganization of Lincolnshire Campus, LLC ("***Lincolnshire***"), Naperville Campus, LLC ("***Naperville***"), Monarch Landing, Inc. ("***Monarch***") and Sedgebrook, Inc. ("***Sedgebrook***") debtors and debtors in possession (the "***Debtors***") dated September 23, 2010 (the "***Plan***"),[2] which is attached hereto as **Exhibit 1**, and the more detailed information and financial statements contained elsewhere in this document. The Debtors believe that confirmation and implementation of the Plan is in the best interest of creditors and that the Plan provides the best available alternative to creditors.

This disclosure statement ("***Disclosure Statement***") and the other documents described herein are being furnished by the Debtors to holders of Claims in the Debtors' Chapter 11 Cases pending before the United States Bankruptcy Court for the Northern District of Texas (the "***Court***").

Under the Bankruptcy Code, only holders of Claims and interests that are "impaired" are entitled to vote to accept or reject the Plan. The Bankruptcy Code further provides that a Class that is left unimpaired under the Plan is deemed to have accepted the Plan and a Class that receives no distribution under the Plan is deemed to have rejected the Plan. To become effective, the Plan must be accepted by certain Classes of Claims and confirmed by the Court.

B. Classification and Treatment of Claims Under the Plan.

Certain Classes of Claims are impaired under the Plan and, accordingly, are entitled to vote on the Plan. The Debtors are seeking votes to accept the Plan from holders of Claims in these Classes. For a description of the Classes of Claims and their treatment under the Plan, see Section 3 of the Plan – Classification and Treatment of Claims and Interests.

Estimated Claim amounts for certain Classes are based upon a preliminary analysis by the Debtors and their Professionals of Claims filed in the Debtors' Chapter 11 Cases. There can be no assurance that these estimates are correct. The following treatments are possible only if the Plan is approved and the Debtors' estimate of the Claims is determined to be valid by the Court. The timing of distributions under the Plan, if any, is subject to conditions and determinations described in later sections of this Disclosure Statement.

Each Class of Claims, except Administrative Claims, Priority Tax Claims and Trustee Fees are placed in the following Classes and will receive the following treatment under the Plan:

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2 All capitalized terms not defined herein shall have the meanings ascribed to them in the Plan.

Summary of Classification
and Treatment of Claims Under the Plan

Class Description	Estimated Amount of Allowed Claims	Impaired	Treatment
Class 1 – Secured Tax Claims	$[29,270,000]	No	Each Allowed Claim in this Class shall be assumed by the Purchaser pursuant to the APA as part of the Asset Sale.
Class 2 – Senior Mechanic's Lien Claims	[$510,000]	No	Each Allowed Claim in this Class shall be in a separate subclass. Unless otherwise agreed by the holder of any Allowed Claim in this Class, each holder of an Allowed Senior Mechanic's Lien Claim against Sedgebrook will be satisfied by payment in Cash from the Mechanic's Lien Escrow upon entry of an order or orders resolving the Mechanic's Lien Claims, in full satisfaction of the Allowed Senior Mechanic's Lien Claims. Each holder of an Allowed Junior Mechanic's Lien Claim shall receive a distribution, if any, as a Class 7 Unsecured Claim.
Class 3 – Monarch Secured Lender Claims	$[142,154,270]	Yes	Unless otherwise agreed by the Monarch Bond Trustee, the Monarch Bond Trustee shall receive the following on account of the Monarch Secured Lender Claim: (A) at the Closing, all Monarch Closing Proceeds, less amounts relating to the Monarch Holdback; (B) as soon as is practicable after the Closing, all Monarch Sale Escrow Proceeds; and (C) [tbd]. Any portion of the Monarch Secured Lender Claim not indefeasibly satisfied in cash by the foregoing distributions shall be an Allowed Unsecured Deficiency Claim.
Class 4 – Sedgebrook Secured Lender Claims	$[142,284,000]	Yes	Unless otherwise agreed by the Sedgebrook Bond Trustee, the Sedgebrook Bond Trustee shall receive the following on account of the Sedgebrook Secured Lender Claim: (A) at the Closing, all Sedgebrook Closing Proceeds, less amounts relating to the Sedgebrook Holdback; (B) as soon as is practicable after the Closing, all Sedgebrook Sale Escrow Proceeds; and (C) [tbd]. Any portion of the Sedgebrook Secured Lender Claim not indefeasibly satisfied in cash by the foregoing distributions shall be an Allowed Unsecured Deficiency Claim.

Class Description	Estimated Amount of Allowed Claims	Impaired	Treatment
Class 5 – Other Secured Claims and Capital Equipment Lessors	[AMOUNT TO FOLLOW]	No	Each Allowed Claim in this Class shall be in a separate subclass. Unless otherwise agreed by the holder of any Claim in this Class, each holder of an Allowed Claim in this Class will be satisfied by: (a) the return of the property subject to the senior, perfected and indefeasible lien or security interest; or (b) the payment of any amounts owed by the Purchaser, as assignee, pursuant to the Asset Sale. Any difference with respect to the amount of a Class 5 Claim and the fair market value of the equipment shall constitute an Unsecured Deficiency Claim, which claim shall be classified as a Class 7 Claim.
Class 6 – Unsecured Priority Claims	[$0]	No	Each Allowed Claim in this Class shall be in a separate subclass. Unless otherwise agreed by the holder of any Claim in this Class, each Allowed Claim under Bankruptcy Code section 507(a), which have not been satisfied as of the Effective Date shall satisfied by payment in Cash in full by the Plan Administrator on the later of: (a) the third (3rd) Business Day after the Effective Date or as a soon as reasonably practicable thereafter as determined by the Plan Administrator; and (b) the date on which there is a Final Order allowing such Claim.
Class 7 – Unsecured Claims	[$0]	Yes	Unless otherwise agreed by the holder of any Allowed Claim in this Class, each holder of an Allowed Unsecured Claim shall be entitled to receive Cash equal to such holder's *pro rata* share of the Creditor Trust, on the later of: (a) the third (3rd) Business Day after the Effective Date or as a soon as reasonably practicable thereafter as determined by the Plan Administrator; and (b) the date on which there is a Final Order allowing such Claim.
Class 8 – Subordinated Claims	$0.00	Yes	Each holder of an Allowed Claim in this Class shall receive no distribution on account of such claims.
Class 9 – Interests in Debtors	$0.00	Yes	Each such Interest shall not receive or retain an Interest in the Debtors, the Estates, or other property or interests of the Debtors on account of such Interests.

C. Plan Overview.

The following is a brief overview of the Plan and it is qualified by reference to the Plan itself. For a more detailed description of the terms and provisions of the Plan, see Article IV - The Plan of Reorganization.

The Plan is the result of negotiations by and among the Debtors, certain significant creditor constituencies, and the Purchaser. The Plan contemplates the liquidation of substantially all of the Debtors assets by way of the Asset Sale, pursuant to Bankruptcy Code section 363.

The Plan provides for the payment and/or full satisfaction of all Allowed Secured Tax Claims, Allowed Senior Mechanic's Lien Claims, Allowed Administrative Claims, and Allowed Unsecured Priority Claims. The Plan also provides that the holders of Allowed Monarch Secured Claims and Allowed Sedgebrook Secured Claims will receive Cash equal to their *pro rata* share of the Cash Proceeds after the payment of (or after an adequate reserve having been made for the payment of) Allowed Administrative Claims, Allowed Senior Mechanic's Lien Claims, and the costs for administering the Plan (including all professional fees and expenses payable under the Plan). Based upon the Distribution Analysis attached hereto as **Exhibit 2**, it is estimated that the holders of Allowed Unsecured Nonpriority Claims will receive a distribution of approximately [$0].

The potential recoveries provided on the Distribution Analysis are only estimates and the actual recovery will either increase or decrease depending upon the occurrence or non-occurrence of numerous factors, including, but not limited to the risk factors discussed in Article VI of this Disclosure Statement.

D. Summary of Confirmation Requirements.

Under the Bankruptcy Code, only classes of claims that are "impaired" are entitled to vote to accept or reject the Plan. The Bankruptcy Code requires, as a condition to confirmation of a consensual plan of reorganization, that each impaired class of claims accepts the Plan. A class of creditors is deemed to accept a plan if the holders of at least two-thirds in dollar amount, and more than one-half in number, of those creditors that actually cast ballots, vote to accept such plan.

Liabilities incurred in the ordinary course of business by the Debtors since the Petition Date that are described in the Plan as Allowed Administrative Claims will be paid on the later of: (1) the third (3rd) Business Day after the Effective Date; (2) the date on which such Person becomes the holder of an Allowed Administrative Claim; or (3) the date or dates on which that Claim is payable by its terms, consistent with past practice and in accordance with past terms. Holders of Administrative Claims will not be entitled to vote on the Plan.

Any Claims arising from the rejection of executory contracts and unexpired leases are treated under the Bankruptcy Code as if they arose before the filing of the Chapter 11 petition.

Any Claim in an impaired Class that is subject to a pending objection or is scheduled as unliquidated, disputed or contingent is not entitled to vote unless the holder of such Claim has obtained an order of the Court temporarily allowing the Claim for the purpose of voting on the Plan.

E. Voting Instructions and Deadline.

The Debtors have prepared this Disclosure Statement as required by Bankruptcy Code section 1125 and Bankruptcy Rule 3016(c). It is being distributed to holders of Claims against the Debtors to assist such holders in evaluating the feasibility of the Plan, the manner in which their Claims are treated and in determining that the Plan satisfies the requirements for confirmation set forth in Bankruptcy Code section 1129. A copy of the Plan is attached hereto as **Exhibit 1**. The purpose of this Disclosure Statement is to assist those entitled to vote on the Plan to make an informed judgment in voting to accept or reject the Plan.

This Disclosure Statement is subject to the Court's approval on [October 26, 2010], as containing information of a kind, and in sufficient detail, adequate to enable a hypothetical, reasonable investor typical of each of the Classes whose votes are being solicited to make an informed judgment with respect to the Plan.

THE COURT'S APPROVAL OF THIS DISCLOSURE STATEMENT DOES NOT CONSTITUTE A DETERMINATION WITH RESPECT TO THE MERITS OF THE PLAN. ALL CREDITORS ARE ENCOURAGED TO READ THIS DISCLOSURE STATEMENT AND ITS EXHIBITS CAREFULLY AND IN THEIR ENTIRETY BEFORE DECIDING TO VOTE TO ACCEPT OR REJECT THE PLAN.

This Disclosure Statement describes the background of the Debtors and the significant events leading up to and following the filing of the Chapter 11 Cases on the Petition Date. It summarizes the major events that have taken place during the Debtors' Chapter 11 Cases and describes the Plan, which divides creditor Claims into Classes and provides for the treatment of Allowed Claims.

1. General Information. Under the Bankruptcy Code, certain Classes of creditors are deemed to accept or reject the Plan and the vote of these Classes will not be solicited.

2. Unimpaired Classes Are Deemed to Accept the Plan and Do Not Vote. If a Creditor holds a Claim included within a Class that is not impaired under the Plan, under Bankruptcy Code section 1126(f), the Creditor is deemed to have accepted the Plan with respect to such Claim and its vote of such Claim will not be solicited. Classes 1, 2, 5 and 6 are unimpaired under the Plan.

3. Certain Classes Are Deemed to Reject the Plan and Do Not Vote. Under Bankruptcy Code section 1126(g), Classes 7, 8, and 9, will receive no distributions on account of such claims. Thus, Classes 7, 8, and 9 are deemed to have rejected the Plan and the vote of holders of such Claims in these Classes will not be solicited.

4. Claims Which Are Not Allowed. The Bankruptcy Code provides that only the holders of Allowed Claims are entitled to vote on the Plan. A Claim to which an objection has been filed is not an Allowed Claim unless and until the Court rules on the objection and allows the Claim. In addition, parties listed on the Debtors' schedules as disputed, contingent or unliquidated who failed to timely file a proof of claim shall not be entitled to vote on the Plan. If the Court has not ruled on the objection or status of such a Claim, but the holder of a Claim wishes to vote, the holder of the Claim may petition the Court to estimate its claim for voting purposes under Bankruptcy Rule 3018(a). Consequently, although holders of such Claims may receive ballots, their votes will not be counted unless the Court, prior to the Voting Deadline, rules on the objection and allows the Claim or, on proper request under Bankruptcy Rule 3018(a) prior to the hearing on Confirmation, temporarily allows the Claim in an amount that the Court deems proper for the purpose of voting on the Plan.

5. Voting and Record Date. If a Creditor holds a Claim classified in a voting Class of Claims under the Plan, the Creditor's acceptance or rejection of the Plan is important and must be in writing and filed on time. The record date for determining which creditors may vote on the Plan is [September 23, 2010].

a. How to Vote. IN ORDER FOR A VOTE TO BE COUNTED, THE BALLOT MUST BE PROPERLY COMPLETED IN ACCORDANCE WITH THE VOTING INSTRUCTIONS ON THE BALLOT AND RECEIVED BY THE VOTING DEADLINE BY THE BALLOTING AGENT AS SET FORTH ON THE BALLOT.

b. Ballots. Creditors must use only the ballot or ballots sent to them with this Disclosure Statement. If a Creditor has Claims in more than one Class, it should receive multiple ballots. IF A CREDITOR RECEIVES MORE THAN ONE BALLOT THE CREDITOR SHOULD ASSUME THAT EACH BALLOT IS FOR A SEPARATE CLAIM AND SHOULD COMPLETE AND RETURN ALL OF THEM.

IF A CREDITOR IS A MEMBER OF A VOTING CLASS AND DID NOT RECEIVE A BALLOT FOR SUCH CLASS, OR IF SUCH BALLOT IS DAMAGED OR LOST, OR IF

A CREDITOR HAS ANY QUESTIONS CONCERNING VOTING PROCEDURES, PLEASE CONTACT:

If by regular mail:	**If by messenger or overnight delivery:**
Lincolnshire Ballot Processing c/o BMC Group Inc PO BOX 3020 Chanhassen, MN 55317-3020 Telephone: (888) 909-0100 Email: info@bmcgroup.com	Lincolnshire Ballot Processing c/o BMC Group Inc 18750 Lake Drive East Chanhassen, MN 55317 Telephone: (888) 909-0100 Email: info@bmcgroup.com

F. The Confirmation Hearing.

The Court has scheduled a hearing to consider confirmation of the Plan on **[October 26], 2010 at [TIME]**, before the Honorable Stacey G. Jernigan, at the United States Bankruptcy Court, Northern District of Texas, Earle Cabell Building, U.S. Courthouse, 1100 Commerce Street - Room 1254, Dallas, Texas 75242-1496. The Court has ordered that objections, if any, to confirmation of the Plan be filed and served within the time and in the manner described in the Confirmation Notice and Order that accompany this Disclosure Statement. The date of the Confirmation Hearing may be continued at such later time(s) as the Court may announce during the Confirmation Hearing or any continued hearing without further notice.

If the Plan is confirmed by the Court, it will be binding on all Claim holders regardless of whether an individual Claim holder has supported or opposed the Plan.

G. Definitions.

1. Defined Terms. As used in this Disclosure Statement, terms defined in the Plan annexed hereto and not otherwise specifically defined herein will have the meanings attributed to them in the Plan.

2. Interpretation of Terms. Each definition in this Disclosure Statement and in the Plan includes both the singular and the plural, and references in this Disclosure Statement include the masculine and feminine where appropriate. Headings are for convenience or reference and shall not affect the meaning or interpretation of this Disclosure Statement.

II. Background Information

A. Description of the CCRCs

Monarch Campus and Sedgebrook Campus are continuing care retirement communities (the "***CCRCs***") that offer seniors a full lifecycle of services during their retirement years from independent living to skilled nursing care on the same campus. The CCRCs provide affordable living accommodations and related healthcare and support services to a target market of middle-income seniors aged sixty-two (62) years and older.

Unlike limited purpose senior living facilities that specialize in providing care for a particular set of healthcare needs, the CCRCs do not require seniors to relocate as their needs change. Rather, the CCRCs enable seniors to remain in the same place as they age and their needs change by providing various levels of support and care at the same facility. In addition, the CCRCs provide the residents with multiple entertainment outlets and other social benefits for all stages of their retirement living.

The CCRCs are akin to small college campuses with multiple interconnected buildings which typically include several on-site dining rooms, an on-site medical center, on and off-campus transportation, on-site classes, fully-staffed fitness centers, card rooms, game rooms, an indoor aquatics center for exercise and recreation, an auditorium, an in-house television studio run by the residents, a library, full-service branch banks, beauty salons, convenience stores, and other amenities.

The CCRCs are generally developed in three (3) phases. First, Erickson Retirement Communities, LLC ("***ERC***") would select sites for the construction of new CCRCs and create wholly-owned subsidiaries to purchase the land (the "***Landowners***"), in these cases Lincolnshire and Naperville. Second, the construction and development of the new CCRC would begin. When the CCRCs were ready for occupancy by residents, independent not-for-profit operators (the "***NFPs***"), in these cases Monarch and Sedgebrook, would begin to operate the new campuses, and the NFPs would enter into management agreements with ERC to manage the campuses. Third, when the construction of the CCRCs is complete, the land and campuses would be sold to the NFPs.

B. The NFPs

One of the unique aspects of the CCRCs is the fact that a not-for-profit organization operates the campuses. Debtors Monarch and Sedgebrook, each an NFP, are classified as 501(c)(3) organizations based on their mission to provide affordable senior housing to seniors. The NFPs contract with ERC to provide for the management of the CCRCs. The goal upon the completion of the construction and development of the CCRCs is to sell the CCRC to the NFP.

The NFPs receive revenue from several sources—residents' IEDs, residents' monthly fees, and municipal bond offerings as a result of their 501(c)(3) status. The municipal bond offerings are explained in more detail below.

Prior to a resident's occupancy of an independent living unit in the community (a "***Unit***"), the NFPs enter into residence and care agreements (the "***Residence and Care Agreements***") with the residents. Under the terms of the Residence and Care Agreements, each resident agrees to pay the NFP an IED and monthly service fees, which average about $1,800 per Unit. In return, the resident is permitted to occupy a Unit in the community for a lifetime, subject to certain conditions. Pursuant to the Residence and Care Agreements, the residents receive a full refund of their IEDs upon their death, permanent transfer to a higher acuity unit, or departure from the community, subject to a successful resale of the Unit. The residents can terminate the Residence and Care Agreement without cause on a thirty-day notice, and the Residence and Care Agreements can be assigned to a new manager/operator of the community if the manager/operator is certified as a continuing care provider.

The Residence and Care Agreements are being assumed and assigned to the Purchaser.

C. The IEDs

The IEDs paid by the residents prior to their occupancy of a Unit range from $100,000 to $600,000. When a resident moves out or becomes deceased and the Unit's new entrance deposit is the same or greater than the IED paid by the departing resident, then the departing resident's IED will be 100% refunded and the NFP will keep the difference between the new entrance deposit and the departing resident's IED from the sale of the Unit. If, however, the new entrance deposit is less than the departing resident's IED, then the departing resident will generally receive the lesser amount. In this scenario, the NFP does not participate in the downside risk in this transaction.

As an example, if an IED on a Unit was $270,000 and a new entrance deposit of $300,000 is received, the NFP keeps the $30,000 difference for campus enhancements or improvements (and the $270,000 is returned to the departing resident once the Unit has been re-occupied, subject to payment of outstanding accounts). If an IED on a Unit was $270,000 and a new entrance deposit of $250,000 is received, then the $250,000 is returned to the departing resident. Generally the departing resident or his or her descendants must consent to sell the Unit at the lower price prior to the NFP making such a sale.

On June 29, 2010, the Court entered an order requiring, among other things, that the IEDs be placed in escrow in order to protect the residents' interests in their IEDs during the pendency of these chapter 11 cases. This measure was necessary in order to assure current and future residents that their IEDs would not be disturbed.

D. State Regulations

The CCRC industry is heavily regulated by state authorities. Each state has different regulations concerning, among other things, disclosure of financial statements, solvency of the facility, maintenance of a certain amount of reserves, and the refunding of IEDs.

The NFPs operating the CCRCs are required to satisfy the regulations of the state where its facilities are located, in this case the state of Illinois. Remedies for violations of these state regulations include temporary suspension of the facility's license, permitting residents to obtain liens, increased oversight of the facility, restricting the facility's ability to accept new residents, and closing the facility.

The Debtors have regularly consulted and fully cooperated with the appropriate regulatory authorities in the state of Illinois.

E. The CCRCs

1. Sedgebrook Campus

The Sedgebrook Campus, located in Lincolnshire, Illinois, opened in July 2005. Lincolnshire, the Landowner, leases the land and campus to Sedgebrook, the NFP that operates this community, pursuant to a Master Lease. The average monthly fee at this campus is

$1,865.91, and the average IED is $273,291. As of the Petition Date, the Sedgebrook Campus had (i) 469 completed independent living units, 409 occupied units, and an eighty-seven percent (87%) occupancy rate; (ii) 44 completed assisted living units, 10 residents, and an approximately twenty percent (20%) occupancy rate; and (iii) 44 completed skilled nursing units, 22 residents, and an approximately fifty percent (50%) occupancy rate. It was originally anticipated that the Sedgebrook Campus would include up to 1,392 independent living units, 96 assisted living units and 132 skilled nursing beds.

Management of the Sedgebrook Campus was not transferred to Redwood-ERC Senior Living Holdings, LLC, a Maryland limited liability company ("***Redwood***"), pursuant to the ERC Plan. Senior Living Retirement Communities, formerly known as ERC, has contracted with Redwood to manage the Sedgebrook Campus.

2. Monarch Campus

The Monarch Campus, located in Naperville, Illinois, opened in July 2006. Naperville Campus, LLC, the Landowner, leases the land and campus to Monarch, the NFP that operates this community, pursuant to a Master Lease. The average monthly fee at this campus is $1,752.88, and the average IED is $277,856. As of the Petition Date, the Monarch Campus had 360 completed independent living units, 257 occupied units and a seventy-one percent (71%) occupancy rate. It was originally anticipated that the Monarch Campus would include up to 1,498 independent living units, 96 assisted living units and 132 skilled nursing beds.

Management of the Monarch Campus was not transferred to Redwood pursuant to the ERC Plan. Senior Living Retirement Communities, formerly known as ERC, has contracted with Redwood to manage the Monarch Campus.

F. Organizational and Capital Structure of the Debtors

1. Lincolnshire

Lincolnshire is a Maryland limited liability company, with its principal place of business at 701 Maiden Choice Lane, Baltimore, Maryland. It does not have any employees.

As of July 31, 2010, on a book value basis, Lincolnshire has approximately $208.2 million in assets and $257.6 million in liabilities. Lincolnshire's main assets are: (a) the improved land located in Lincolnshire, Illinois upon which the Sedgebrook campus is constructed; (b) cash and cash equivalents in the amount of approximately $292,000; and (c) a lease agreement entered into between Lincolnshire and Sedgebrook.

Lincolnshire's main liabilities are: (a) the Lincolnshire Community Loan entered into between Lincolnshire and Sedgebrook, in the amount of $73.5 million; (b) the Lincolnshire Special Tax Bonds, in the amount of $14.3 million; and (c) the refund of the $125 million Purchase Option Deposit in the event that the NFP does not purchase the community. The other debt associated with the Sedgebrook Campus (i.e. the Illinois Finance Authority Revenue Bonds, Series 2007A, and Variable Rate Demand, Series 2007B) is owed by Sedgebrook (the NFP) and not Lincolnshire.

2. **Naperville**

Naperville is a Maryland limited liability company, with its principal place of business at 701 Maiden Choice Lane, Baltimore, Maryland. It does not have any employees.

As of July 31, 2010, on a book value basis, Naperville has approximately $175.6 million in assets and $196.6 million in liabilities.

Naperville's main assets are: (a) the improved land located in Naperville, Illinois upon which the Monarch Campus is constructed; (b) cash and cash equivalents in the amount of approximately $358,000; and (c) a lease agreement entered into between Naperville and Monarch, the not-for-profit organization that operates the Monarch Campus.

Naperville's main liabilities are: (a) the Naperville Community Loan entered into between Naperville and Monarch, in the amount of $35.8 million; (b) the Naperville Special Tax Bonds, in the amount of $14.5 million; and (c) the refund of the $130 million Purchase Option Deposit in the event that the NFP does not purchase the community. The other debt associated with the Monarch campus (i.e. the Illinois Finance Authority Revenue Bonds, Series 2007A, and Variable Rate Demand, Series 2007B) is the debt of Monarch and not Naperville.

3. **Sedgebrook**

Sedgebrook was established as a Maryland nonstock corporation to operate a continuing care retirement community in Lincolnshire, Illinois, which opened in July, 2005. Sedgebrook is classified as a Internal Revenue Code Section 501(c)(3) organization based on its mission to provide affordable senior housing to seniors. Sedgebrook is a supported organization of NSC, a not-for-profit organization organized to support Sedgebrook. NSC is the sole member of Sedgebrook and appoints all of the members of the Sedgebrook's board of directors.

Sedgebrook's existing asserted pre-petition indebtedness is comprised of (i) existing bond debt, and (ii) certain additional unsecured obligations.

Existing Bond Debt. Sedgebrook has existing asserted pre-petition debt in the form of the Sedgebrook Project Bonds in the original issued amount of $137,145,000. Of this amount, it is asserted that approximately $144,106,806.74 in principal and interest remains outstanding. The Sedgebrook Project Bonds are comprised of 2 series, Series A and Series B. Series B Bondholders are secured by a certain Letter of Credit issued by Sovereign Bank.

Unsecured Obligations. In addition to the foregoing, there are additional claims against the Sedgebrook existing as of the Petition Date in the amount of approximately [$209,492]

4. **Monarch**

Monarch was established as a Maryland nonstock corporation to operate a continuing care retirement community in Naperville, Illinois, which opened in July, 2006. Monarch is classified as a Internal Revenue Code Section 501(c)(3) organization based on its mission to provide affordable senior housing to seniors. Monarch is a supported organization of NSC, a not-for-profit organization organized to support Monarch. NSC is the sole member of

Monarch and appoints all of the members of Monarch's board of directors.

Monarch's existing asserted pre-petition indebtedness is comprised of: (i) existing bond debt; (ii) working capital debt; and (iii) certain additional unsecured obligations. Monarch's asserted prepetition secured creditors are: (a) holders of the Series 2007A and 2007B Illinois Finance Authority Revenue Bonds; and (b) Fifth Third Bank, as issuer of a letter of credit to the bond trustee for the benefit of the Bondholders of the Series 2007B IFA Revenue Bonds securing certain of Monarch's obligations with respect to the Bondholders.

Existing Bond Debt. Monarch has existing asserted pre-petition debt in the form of the Monarch Project Bonds in the original issued amount of $178,745,000. Of this amount, it is asserted that $141,909,230.39 in principal and interest remains outstanding. The Monarch Project Bonds are comprised of two series, Series A and Series B. Series B Bondholders are secured by a certain Letter of Credit issued by Fifth Third Bank.

Unsecured Obligations. In addition to the foregoing, there are additional claims against Monarch existing as of the Petition Date in the amount of approximately [$177,404].

III. Events Leading to Bankruptcy

A. The Decline in the Market.

The senior housing market has been hindered over the past 12 months by a weakened credit environment, including limited access to capital, falling real estate values, and significantly reduced liquidity due to realized and unrealized losses on investments. New senior housing units under construction have significantly declined since 2004. New units under construction in 2008 totaled 15,862, compared to 20,775 units in 2007, a 24% decline.

Senior living facilities have experienced substantial declines in occupancy as a result of the market changes. Prospective residents are faced with (i) difficulty selling their homes due to uncertainty in value and (ii) significant declines in their equity portfolio value. This has made it difficult, if not impossible, for seniors to move into or remain in senior housing facilities, as the IEDs are generally significant ($100,000 to $600,000).

The tightening of the credit market has also significantly affected the 2008 bond-issuance volume, making traditional fixed-rate debt essentially unavailable in the last quarter of 2008. The 2008 bond issuance for the senior living sector was $2.7 billion versus $8 billion in 2007, a decline of over 66%.

B. The ERC Cases.

Market conditions have contributed to decreased revenue, lower than anticipated absorption rates at retirement communities, and difficulty raising capital. In addition to these cases, the market conditions forced ERC and certain other of its related entities to seek chapter 11 protection approximately nine (9) months prior to the Petition Date by filing for bankruptcy in this Court (Main Case No. 09-37010) (the "ERC Cases"). ERC's Fourth Amended Joint Plan of Reorganization Under Chapter 11 of the Bankruptcy Code (the "ERC Plan") was confirmed on April 16, 2010. The ERC Cases are still pending before this Court.

C. Bond Trustee's Adverse Actions

As mentioned previously, the NFPs lease the Facilities from the Landowners (which ERC owns, directly or indirectly) pursuant to a master lease. Under the terms of the ERC Plan, the Bond Trustees were to negotiate in good faith with ERC and its affiliated debtors and Redwood, regarding the possible sale of the Facilities, as well as another related facility, Linden Ponds, Inc., to Redwood during the 90-day period following the confirmation of the Plan (i.e. from April 30, 2010 through July 31, 2010) (the "***Negotiation Period***").[3] Although the Bond Trustees had an obligation to negotiate in good faith during the Negotiation Period, on or about May 27, 2010, the Bond Trustee for Monarch inappropriately effectuated a set-off against Monarch's cash reserves in the amount of [$15,166,737.69].

Additionally, beginning in December of 2009, the Bond Trustees began removing amounts held in escrow for the benefit of the Debtors in order to pay their professional fees. In doing so, the Bond Trustees did not follow the requisite procedures for removing such funds as proscribed in the bond documents, primarily the submission of bills and request of payment from the NFP. Moreover, the Bond Trustees neglected to provide notice of their removal of the funds to either Sedgebrook or Monarch. To date, the Bond Trustees have removed [$835,136] from the Sedgebrook reserve account, and [$792,562] from Monarch reserve account. The actions of the Bond Trustee threatened to destabilize Monarch's operations by severely limiting liquidity and endangering its residents. The Debtors filed these chapter 11 proceedings to protect their assets and to stop the Bond Trustee from causing further damage to their operations and threatening the well being of their residents.

The Bond Trustees dispute these allegations and it is the Bond Trustees' position that their actions at all times complied with the bond documents and/or applicable law.

IV. Sale Process

A. The Selection of the Stalking Horse Bidder

As contemplated by the ERC Plan, prepetition, the Debtors were in the process of negotiating the potential sale of the Debtors' campuses and other facilities. The sale of

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[3] Section 6.2.3.1 of the Plan provides:

Disposition. During the 90-day period immediately following the Plan Confirmation Date, Redwood will negotiate (non-exclusively) in good faith with the applicable NFPs and Bond Trustee for the Bond Communities to reach a resolution regarding such Bond Communities. During such 90-day period, the applicable NFP, with the consent of the applicable Bond Trustee, may market the applicable Bond Community for sale with the consent of the applicable Bond Trustee and letter of credit provider, may consummate such sale. At the conclusion of the 90-day period, if the parties have reached a resolution with respect to a particular Bond Community then the Debtors will facilitate a definitive agreement regarding such a resolution for such Bond Community. If Redwood does not reach an agreement with respect to resolution of a particular Bond Community during this 90-day period that is acceptable to Redwood, the applicable NFP, the letter of credit provider and the applicable Bond Trustee, then promptly at the end of such 90-day period, ERC's interests in the entity related to such Bond Community (Naperville Campus, LLC, Linconshire Campus, LLC and/or Hingham Campus, LLC, as applicable will be transferred to the applicable NFP.

substantially all of the Debtors' assets represents the only likely basis for emergence from chapter 11. In connection with the proposed sale pursuant to Bankruptcy Code section 363, the Debtors intend to confirm the Plan.

On April 29, 2010, CLW Realty Group, Inc. ("***CLW***") was retained to market the Monarch and Sedgebrook assets for sale. The Debtors and their professionals have extensively marketed Monarch's assets both prepetition and postpetition, including during the ERC bankruptcy cases. The Debtors contacted approximately 103 potential strategic and financial buyers for Monarch's assets and received 27 executed non-disclosure agreements. Approximately 5 parties conducted due diligence. The Debtors and their professionals have been marketing Sedgebrook's assets since the Petition Date and had discussions with numerous potential buyers.

On June 18, 2010, the Debtors received a non-binding letter of intent from Senior Care Development, LLC ("***SCD***") and selected SCD to serve as the stalking horse bidder. Upon receipt of the non-binding letter of intent, SCD, the Debtors and their respective professionals cooperated to draft the APA which the Debtors used as the stalking horse bid (the "***Stalking Horse Bid***"). The Stalking Horse Bid originally contemplated total consideration payable by SCD that will be equal to approximately $49,270,000 as follows: (a) cash in the amount of $20 million; (b) assumption of the Lincolnshire Special Tax Bonds in the amount of $14,515,000; and (c) assumption of the Naperville Special Tax Bonds in the amount of $14,755,000.

B. Bidding Procedures Order

On July 23, 2010, the Court entered an order approving the Motion of Lincolnshire Campus, LLC and Naperville Campus LLC for Order (I) Approving Bid Procedures and Providing Certain Protections to Senior Care Development, LLC; and (II) Authorizing the (A) Sale of Substantially all of the Debtors' Assets Free and Clear of all Liens, Claims, Interests and Encumbrances and (B) the Assumption and Assignment of Certain Executory Contracts and Leases (the "***Bid Procedures Order***"). The Bid Procedures Order, among other things, (i) approved the Debtors' bidding procedures and provided certain bid protections to the SCD, including a Break-Up Fee of $1,500,000 which includes an Expense Reimbursement of $350,000 and (ii) scheduled an auction for September 14, 2010 for all or substantially all of the Debtors' assets. Pursuant to the terms of the Stalking Horse Bid, the Stalking Horse Bidder proposed to purchase the Assets for total consideration equal to approximately $49,270,000 as follows: (a) cash in the amount of $20 million; (b) assumption of the Lincolnshire Special Tax Bonds in the amount of $14,515,000; and (c) assumption of the Naperville Special Tax Bonds in the amount of $14,755,000. The Stalking Horse Bid was subject to competitive bidding under Bankruptcy Code section 363 and Bankruptcy Rule 6004. Any Potential Bidders wishing to purchase the Assets were required to submit a bid that, among other things, (i) offered to consummate the sale of the Assets on terms no less favorable to those set forth in the Stalking Horse Bid; (ii) provided that the Potential Bidder would take assignment of, and agree to honor, all terms of the Residence and Care Agreements for each of the Resident's of the Debtors' facilities; and (iii) offered to pay a purchase price greater than $50,970,000 if bidding for all of the Assets, or if bidding on the Monarch and Sedgebrook Debtor's assets individually, $3,350,000 plus the assumption of debt in the case of the Monarch Debtor's assets and 17,100,000 plus the assumption of debt in the case of the Sedgebrook

Debtor's assets (a "***Qualified Bid***"). Qualified Bids were due no later than September 7, 2010 at 5:00 pm (Eastern Standard Time).

C. Auction

The Debtors received a Qualified Bids from Erickson Living Holdings, LLC ("***ELH***") for Monarch Landing in the amount of $3,350,000 plus assumption of the Naperville Special Tax Bonds and for Sedgebrook in the amount of $17,100,000 plus assumption of the Lincolnshire Special Tax Bonds. Having received Qualified Bids from two (2) bidders, the Auction for the purchase of the Acquired Assets was held on September 14, 2010 at 12:00 noon (Eastern Standard Time) in accordance with the Bid Procedures Order.

During the Auction, the Debtors agreed to certain bidding incentives as a condition of ELH making higher bids. Pursuant to the negations that occurred at the Auction ELH will be paid from the proceeds of the Asset Sale an (i) expense reimbursement of $350,000 and (ii) incentive payment of $2,295,000 (8% of the difference between $24 million and $25.5 million, and to 15% of the difference between $25.5 million and $40 million), upon the Asset Sale Closing Date.

At the conclusion of the Auction, SCD was identified as providing offered the highest and best offer for the purchase of the Acquired Assets of $40 million to be allocated as follows: $30 million for the Acquired Assets associated with the Sedgebrook campus and $10 million for the Acquired Assets associated with the Monarch Landing campus. The bid of ELH for $31.15 million for the Acquired Assets was designated the "Back Up Bid" for the Acquired Assets, which will remain open.

D. Sale Order and APA

The Bankruptcy Court issued the Sale Order on September [ ], 2010. The Sale Order and the APA provide, among other things, the following:

(a) SCD shall pay to the Debtors the $40 million purchase price, less the Good-Faith Deposit less $750,000 (half the Break-Up Fee), allocated as follows: $30 million for the assets associated with the Sedgebrook campus and $10 million for the assets associated with the Monarch Landing campus.

(b) The Residence and Care Agreements are being assumed by the Debtors and assigned to the SCD.

(c) All Initial Entrance Fee Deposits held by the Debtors as of the Petition Date or delivered to any Debtor postpetition and any partial deposits thereon, excluding deposits used to pay refunds owed to former residents as a result of the receipt of any such deposit, that are placed in escrow pursuant to the IED Orders issued by the Court as Docket Nos. 72 and 77 shall be transferred to SCD and any and all

prepaid rental payments made by residents and any and all deposits or similar payments made by assisted living residents or skilled nursing residents shall be transferred to SCD.

(d) The liabilities of Sedgebrook and Lincolnshire as landowners arising after the Closing with respect to the special tax payments set forth in Schedule 2.3(a) of the APA shall be assumed by SCD only to the extent and in accordance with the schedule of such liabilities set forth as Schedule 2.3(a) of the APA.

(e) The liabilities of Monarch Landing and Naperville as landowners arising after the Closing with respect to the special tax payments set forth in Schedule 2.3(a) of the APA shall be assumed by SCD only to the extent and in accordance with the schedule of such liabilities set forth as Schedule 2.3(a) of the APA.

(f) $3.5 million of the Sale proceeds shall be placed in Mechanic's Lien Escrow pending resolution of the holders of Mechanic's Lien Claims assertions that their claims are senior to those of the Bond Trustees pursuant to Illinois state law and other applicable statutes.

(g) SCD shall assume all obligations to complete environmental work required by the Lake County Stormwater Management Commission. A portion of the Asset Sale proceeds shall be placed in escrow so that SCD may fund such work and any remaining balance will be returned to the Bond Trustees upon completion.

(h) SCD shall assume all obligations to fund and supervise the work required by the City of Naperville (City Planning Department and City Engineering Department) and City of Warrenville with regard to certain non-conforming uses identified by the City of Naperville and/or the City of Warrenville with respect to the Monarch Landing property. A portion of the Asset Sale proceeds shall be placed in escrow so that SCD may fund such work and any remaining balance will be returned to the Bond Trustees upon completion.

V. Events Occurring During Debtors' Chapter 11 Cases

A. Bankruptcy Filing and First Day Orders.

The Debtors commenced the Chapter 11 Cases on June 15, 2010, the Petition

Date, by filing voluntary petitions under chapter 11 of the Bankruptcy Code. The debtors are considered debtors in possession pursuant to Bankruptcy Code section 1107(a) and 1108. The Debtors remain in possession of their assets and continue to operate their business without interruption.

On June 24, 2010, the Bankruptcy Court held an initial hearing to consider certain "first day" matters and entered orders (i) permitting the joint administration of the Debtors' Chapter 11 Cases; (ii) authorizing the use of prepetition secured lenders' cash collateral on an interim basis; (iii) approving the Debtors' continued use of their existing cash management system and business forms; and (iv) authorizing, but not directing, the Debtors to make certain payroll payments to employees and continue certain employee benefit plans and other practices.

B. Bidding Procedures Motion and Auction.

On June 24, 2010, the Debtors filed the motion (the "***Bidding Procedures Motion***") for orders (I) Approving Bid Procedures and Providing Certain Protections To Senior Care Development, LLC; and (II) Authorizing the (A) Sale of Substantially All of the Debtors' Assets Free and Clear of All Liens, Claims, Interests and Encumbrances and (B) the Assumption and Assignment of Certain Executory Contracts and Leases. As discussed above, the Court entered the Bid Procedures Order on July 23, 2010.

C. Motion to Escrow IEDs for Protection of Residents.

The Debtors filed motions (the "***IED Motion***") for orders authorizing the Debtors to escrow certain IEDs received postpetition from residents of the CCRCs to ensure the refunds of the residents' deposits will be secure during the Debtors' Chapter 11 Cases. The Bankruptcy Court entered orders approving the IED Motions on June 29, 2010.

D. Motion for Use of Cash Collateral.

The Debtors filed a motion (the "***Cash Collateral Motion***") for an order authorizing the Debtors to use cash collateral on an emergency basis in order to have access to funds necessary to satisfy its ordinary course of business cash needs including, working capital, liquidity needs, payroll obligations and other routine payables. The Bankruptcy Court entered interim orders approving the Cash Collateral Motions on June 29, 2010 and final orders approving the Cash Collateral Motions on July 28, 2010.

E. Appointment of Residents' Committee.

The Office of the United States Trustee has appointed a Residents' Committee on or about July 9, 2010. The Resident's Committee has retained Fulbright & Jaworski LLP.

F. 2004 Motion

The Debtors filed a motion (the "***2004 Motion***") for an order pursuant to rule 2004 of the Federal Rules of Bankruptcy Procedure to examine Wells Fargo Bank National Association. The 2004 Motion remains outstanding.

G. Declaratory Judgment

On September 21, 2010, the Debtors filed a complaint for declaratory judgment (the "***Declaratory Judgment Complaint***") against certain holders of mechanic's lien claims seeking a declaratory judgment that the maximum amount of Sedgebrook's and Lincolnshire's liability to the holders of Senior Mechanic's Lien Claims, pursuant to Illinois law, is 1.7% of the value of the Sedgebrook Campus as determined by the Auction and Asset Sale of such campus pursuant to section 363 of the Bankruptcy Code. The Declaratory Judgment Complaint remains outstanding. Pursuant to the Sale Order, $3.5 million of the Sale proceeds shall be placed in Mechanic's Lien Escrow pending resolution of the holders of Mechanic's Lien Claims assertions that their claims are senior to those of the Bond Trustees pursuant to Illinois state law and other applicable statutes

VI. THE PLAN OF REORGANIZATION

THIS SECTION PROVIDES A SUMMARY OF THE STRUCTURE, CLASSIFICATION, TREATMENT AND IMPLEMENTATION OF THE PLAN, AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO THE PLAN, WHICH IS ATTACHED TO THIS DISCLOSURE STATEMENT AS EXHIBIT 1.

A. Classification and Treatment of Claims Under the Plan.

The Claims against the Debtors are divided into Classes according to their seniority and other criteria. The Classes of Claims in the Debtors and the funds and other property to be distributed under the Plan are described more fully below.

THE DEBTORS BELIEVE THAT THE PLAN AFFORDS CREDITORS THE POTENTIAL FOR THE GREATEST REALIZATION OF THE VALUE OF THE DEBTORS' ASSETS.

B. Treatment of Administrative Claims, Tax Claims and Trustee Fees.

Certain Claims need not be classified under a plan pursuant to the Bankruptcy Code, including Administrative Claims and Priority Tax Claims.

1. Administrative Claims. The Plan defines Administrative Claims as any Claim for payment of an administrative expense in the Debtors' bankruptcy case of a kind specified in Bankruptcy Code section 503(b) and referenced in Bankruptcy Code sections 507(a)(1), 507(b) or 114(e)(2) including, without limitation, the actual, necessary costs and expenses of preserving these Estates and operating the business of the Debtors including payment of wages, salaries or commissions for services rendered after the commencement of these Chapter 11 Cases, taxes incurred by the Debtors' Estates and allowed as administrative expenses, compensation for legal and other services and reimbursement of expenses allowed or awarded under Bankruptcy Code sections 328, 330(a) and 331 and all fees and charges assessed against the Debtors under chapter 123 of title 28 of the United States Code.

Holders of Allowed Administrative Claims will receive Cash equal to the unpaid portion of such Allowed Administrative Claim that has come due for payment under any applicable order or law, unless otherwise agreed to by the holder of an Allowed Administrative

Claim or order of the Court, as soon as practicable after the later of: (a) the third (3rd) Business Day after the Effective Date; (b) the date on which the Administrative Claim is Allowed; or (c) the date or dates when that Claim is payable by its terms, consistent with past practice and in accordance with past terms.

There are two (2) different types of Allowed Administrative Claims, each of which receives treatment as follows:

(1) Liabilities or obligations incurred by the Debtors in the ordinary course of their business during these Cases to vendors or trade creditors, shall be paid or performed by the Debtors, in the ordinary course of business in accordance with the terms and conditions of any agreements, orders, or applicable law relating thereto; and

(2) Allowed Fee Claims of the retained Professionals, including those amounts held back pursuant to an Order of the Court, shall be paid in full in Cash on the Effective Date.

The aggregate amount of unpaid Allowed Administrative Claims as of the Effective Date will be approximately $3,000,000. This includes approximately $1,000,000 in Administrative and Priority Claims plus approximately [$2,000,000] in Professional fees. These estimates are subject to change.

2. Priority Tax Claims. The Plan defines Priority Tax Claims as Claims of governmental units entitled to priority under Bankruptcy Code section 507(a)(8). Any Allowed Priority Tax Claims of governmental units that are secured by valid liens are not included within Bankruptcy Code section 507(a)(8) and, under the Plan, any Person holding an Allowed Priority Tax Claim will receive, as determined by the Debtors in its sole discretion and in full satisfaction of such Claim: (a) payment in Cash in full on the later of the Effective Date or the date such Claim becomes an Allowed Claim; or (b) Cash over a period not exceeding five (5) years after date of assessment of such Claim, with interest at a rate equal to four percent (4%) per year, payable monthly, in periodic payments, having the value of such Claim as of the Effective Date. The Debtors estimate that there will be approximately $[2,851,790] in Priority Tax Claims.

3. Trustee Fees. Trustee Fees include all fees and charges assessed against the Debtors' Estate under chapter 1930 of title 28, United States Code. All Trustee Fees will be paid in full by the Reorganized Debtors as they become due and owing.

C. Treatment of Classified Claims.

The Plan provides for certain Claims by Class, as provided in Bankruptcy Code sections 1122 and 1123(a)(1). The Classes established by the Plan and the treatment of each Class are set forth below. The Plan provides for certain general treatment provisions that, in addition to other generally applicable provisions (including distribution provisions described supra), apply to the treatment of all Claims under the Plan.

The Plan will not provide any distributions on account of a Claim to the extent that such Claim has been disallowed, released, withdrawn, waived or otherwise satisfied or paid

as of the Effective Date, including, without limitation, payments by third parties. Except as specifically provided in the Plan, the Plan will not provide any distributions on account of a Claim, the payment of which has been assumed by a third party.

1. Class 1 – Secured Tax Claims. Each Allowed Claim in this Class shall be assumed by the Purchaser pursuant to the APA as part of the Asset Sale.

2. Class 2 – Senior Mechanic's Lien Claims. Each Allowed Claim in this Class shall be in a separate subclass. Unless otherwise agreed by the holder of any Allowed Claim in this Class, each holder of an Allowed Senior Mechanic's Lien Claim against Sedgebrook will be satisfied by payment in Cash from the Mechanic's Lien Escrow upon entry of an order or orders resolving Mechanic's Lien Claims, in full satisfaction of the Allowed Senior Mechanic's Lien Claims. Each holder of an Allowed Junior Mechanic's Lien Claim shall receive a distribution, if any, as a Class 7 Unsecured Claim. The Debtors estimate that the Allowed Class 2 Claims will be approximately $[510,000] on the Effective Date.

3. Class 3 – Monarch Secured Lender Claims. Monarch Secured Lender Claims. This Class consists of the Monarch Secured Lender Claim, which shall be Allowed on the Effective Date in the amount of [$142,154,270.40]. Unless otherwise agreed by the Monarch Bond Trustee, the Monarch Bond Trustee shall receive the following on account of the Monarch Secured Lender Claim: (A) at the Closing, all Monarch Closing Proceeds, less amounts relating to the Monarch Holdback; (B) as soon as is practicable after the Closing, all Monarch Sale Escrow Proceeds; and (C) [tbd]. Any portion of the Monarch Secured Lender Claim not indefeasibly satisfied in cash by the foregoing distributions shall be an Allowed Unsecured Deficiency Claim.

4. Class 4 – Sedgebrook Secured Lender Claims. Sedgebrook Secured Lender Claims. This Class consists of the Sedgebrook Secured Lender Claim, which shall be Allowed on the Effective Date in the amount of [$142,284,000.00]. Unless otherwise agreed by the Sedgebrook Bond Trustee, the Sedgebrook Bond Trustee shall receive the following on account of the Sedgebrook Secured Lender Claim: (A) at the Closing, all Sedgebrook Closing Proceeds, less amounts relating to the Sedgebrook Holdback; (B) as soon as is practicable after the Closing, all Sedgebrook Sale Escrow Proceeds; and (C) [tbd]. Any portion of the Sedgebrook Secured Lender Claim not indefeasibly satisfied in cash by the foregoing distributions shall be an Allowed Unsecured Deficiency Claim.

5. Class 5 – Other Secured Claims and Capital Equipment Lessors. This Class consists of all Allowed Secured Claims and includes, but is not limited to, obligations to capital equipment lessors or other holders of Secured Claims. Each Allowed Claim in this Class shall be in a separate subclass. Unless otherwise agreed by the holder of any Claim in this Class, each holder of an Allowed Claim in this Class will be satisfied by: (a) the return of the property subject to the senior, perfected and indefeasible lien or security interest; or (b) the payment of any amounts owed by the Purchaser, as assignee, pursuant to the Asset Sale. Any difference with respect to the amount of a Class 5 Claim and the fair market value of the equipment shall constitute an Unsecured Deficiency Claim, which claim shall be classified as a Class 7 Claim. The Debtors estimate that the Allowed Class 5 Claims will be approximately [AMOUNT TO FOLLOW] on the Effective Date.

6. Class 6 – Unsecured Priority Claims. This Class consists of all Allowed Unsecured Priority Claims that are specified as having priority in Bankruptcy Code section 507(a), if any such Claims still exist as of the Effective Date. Each Allowed Claim in this Class shall be in a separate subclass. Unless otherwise agreed by the holder of any Claim in this Class, each Allowed Claim under Bankruptcy Code section 507(a), which have not been satisfied as of the Effective Date shall satisfied by payment in Cash in full by the Plan Administrator on the later of: (a) the third (3rd) Business Day after the Effective Date or as a soon as reasonably practicable thereafter as determined by the Plan Administrator; and (b) the date on which there is a Final Order allowing such Claim. The Debtors estimate that the Allowed Class 6 Claims will be approximately [$0] on the Effective Date.

7. Class 7 – Unsecured Claims. This Class consists of all Allowed Unsecured Claims, including, without limitation, Allowed Unsecured Claims arising from the rejection of executory contracts and unexpired leases and any Unsecured Deficiency Claims. Unless otherwise agreed by the holder of any Allowed Claim in this Class, each holder of an Allowed Unsecured Claim shall be entitled to receive Cash equal to such holder's *pro rata* share of the Creditor Trust, on the later of: (a) the third (3rd) Business Day after the Effective Date or as a soon as reasonably practicable thereafter as determined by the Plan Administrator; and (b) the date on which there is a Final Order allowing such Claim. The Debtors estimate that the Allowed Class 7 Claims will be approximately [$0] on the Effective Date.

8. Class 8 – Subordinated Claims. This Class consists of subordinated Claims under Bankruptcy Code section 510 against the Debtors. Each holder of an Allowed Claim in this Class shall receive no distribution on account of such claims.

9. Class 9 – Interests in Debtors. Each Holder of an Interest in Debtors will not receive any distribution on of such Interest. Each such Interest shall not receive or retain an Interest in the Debtors, the Estates, or other property or interests of the Debtors on account of such Interests.

D. Post-Effective Date Governance of Reorganized Debtors.

On the Effective Date, the following shall occur: (a) management, control and operations of the Debtors Estates shall become the general responsibility of the Plan Administrator; and (b) the Plan Administrator shall be authorized to enter into all related and ancillary agreements, documents and instruments required or contemplated under the Plan without further order of the Court or corporate action. The Plan Administrator shall be appointed prior to the Confirmation Hearing pursuant to the Plan and will be deemed appointed by the Debtors pursuant to the Confirmation Order.

E. Other Plan Provisions.

1. Avoidance and Other Actions. On and after the Effective Date, the Plan Administrator shall have the exclusive right to commence and to continue the prosecution of all Avoidance and Other Actions. Except as otherwise set forth in the Plan, all Avoidance and Other Actions shall survive confirmation and the commencement and/or prosecution of Avoidance and Other Actions shall not be barred or limited by any estopppel, whether judicial, equitable or otherwise. In reviewing this Disclosure Statement and the Plan, and in determining

whether to vote for or against the Plan, Creditors (including parties that received payments or transfers from the Debtors within ninety (90) days prior to the Petition Date and insiders that received payments or transfers from the Debtors within one (1) year prior to the Petition Date) and other parties should consider that Avoidance and Other Actions may exist against them, that, except as otherwise set forth in the Plan, the Plan preserves all Avoidance and Other Actions, and that the Plan authorizes the Plan Administrator to prosecute same.

2. Agreements, Instruments, and Documents. All organizational agreements, charter documents, instruments, and documents required under the Plan to be executed or implemented, together with such others as may be necessary, useful or appropriate in order to effectuate the Plan shall be executed on or before the Effective Date or as soon thereafter as is practicable.

3. Prepetition Employment Agreements and Compensation Programs. As of the Effective Date, with the exception of the collective bargaining agreements, all employment, severance, retirement, indemnification, employee benefit, profit-sharing and related plans or agreements, whether or not qualified under ERISA, health care plans, disability plans and incentive plans, that were in effect on the Petition Date and that have not previously been terminated or superseded shall be terminated and deemed rejected. All employees currently employed by the Debtors under such agreements as of the Effective Date shall be terminated thereon.

4. Corporate Action. All matters provided under the Plan involving the corporate structure of the Debtors or corporate action to be taken by or required of the Debtors, shall be deemed to have occurred and be effective as provided herein, and shall be authorized and approved in all respects without any requirement or further action by directors of the Debtors.

5. Plan Distributions. All Cash necessary for the Plan Administrator to make payments pursuant to the Plan shall be obtained from the Asset Sale, Available Cash and the remaining Assets.

6. Preservation of Avoidance and Other Actions. Except as otherwise provided in the Plan, the Plan Administrator shall retain and hold all rights on behalf of the Debtors, the Estates, and post-confirmation Estates, to any and all Avoidance and Other Actions, rights and causes of action that they or the Estates may hold against any entity or Person. Except as otherwise set forth in the Plan, all Avoidance and Other Actions shall survive confirmation and the commencement and/or prosecution of Avoidance and Other Actions shall not be barred or limited by any estopppel, whether judicial, equitable or otherwise.

7. Bar Date for Certain Fee Claims. Each Person retained or requesting compensation in these Chapter 11 Cases, pursuant to Bankruptcy Code sections 327, 328, 330, 331, 503(b) and/or 1103, must file with the Court an application for allowance of such Fee Claims within sixty (60) days after the Effective Date. All such Fee Claims for which an application is not timely filed shall be forever barred. Objections to each such application may be filed in accordance with the Bankruptcy Rules. The Court shall determine all such Fee Claims.

8. Professional Fee Reserve. Two (2) Business Days after the Confirmation Date, each Professional shall provide the Debtors with estimates of all fees and disbursements that will be incurred by each Professional up to and including the Effective Date, which estimates shall be updated by an additional estimate provided to the Debtors one (1) Business Day prior to the Effective Date. The Debtors and Plan Administrator, as applicable, shall reserve, in an escrow account held by a reputable escrow agent, the aggregate amount of these estimates and no liens shall attach to said proceeds to the extent of unpaid Allowed Fee Claims of the Professionals, including, but not limited to, unpaid holdbacks until such fees are paid. The balance of the funds in the Professional Fee Reserve, after the payment of all final Allowed Fee Claims of the Professionals, shall be returned to the Debtors and shall be distributed by the Plan Administrator in accordance with the Plan.

9. Appointment of the Plan Administrator. The Confirmation Order shall provide for the appointment of the Plan Administrator, selected by the Debtors. The Plan Administrator shall be responsible for the liquidation of the Debtors' remaining Assets, administration of the Plan and the wind-down of the Debtors and their Estates post-Effective Date. The Debtors shall file notice of appointment of the Plan Administrator and the Plan Administrator's hourly rate on or before [DATE]. The Plan Administrator shall be a third-party non-affiliate of the Debtors with sufficient expertise and experience liquidating a Chapter 11 case. The compensation of the Plan Administrator shall be at the Plan Administrator's customary hourly rate. The Plan Administrator shall be deemed the Estate's representative in accordance with Bankruptcy Code section 1123 and shall have all powers, authority and responsibilities specified in the Plan, including, without limitation, the powers of a trustee under Bankruptcy Code sections 704 and 1106.

10. Resignation, Death or Removal of the Plan Administrator. The Plan Administrator may resign at any time upon not less than thirty (30) days' written notice to the Debtors. The Plan Administrator may be removed at any time for cause upon application to the Court on five (5) days' written notice to the Plan Administrator. In the event of resignation, removal, death or incapacity of the Plan Administrator and thereupon the successor Plan Administrator, without further act, shall become fully vested with all of the rights, powers, duties and obligations of his predecessor. No successor Plan Administrator hereunder shall in any event have any liability or responsibility for the acts or omissions of any of his or her predecessors.

11. Bar Date for Other Administrative Claims. Unless the Plan or the Court fixes a different date, with the exception of Fee Claims, must be filed no later than thirty (30) days after the Effective Date. All such Claims not timely filed shall be forever barred. The Debtors, the Plan Administrator or any other party in interest may object to the allowance of any such Claim filed before, on, or after the Effective Date.

12. Further Authorization. The Debtors or the Plan Administrator shall be entitled to seek such orders, judgments, injunctions and rulings from the Court, in addition to those specifically listed in the Plan, as may be necessary to carry out the intentions and purposes, and to give full effect to the provisions of the Plan. The Court shall retain jurisdiction to enter such orders, judgments, injunctions and rulings.

13. Satisfaction of Claims**.** Holders of Claims shall receive the distributions provided for in the Plan, if any, in full settlement and satisfaction of all such Claims, and any interest accrued thereon.

14. Abandoned Property. Any and all property whose abandonment is or has been approved by the Court pursuant to the Bankruptcy Code shall remain abandoned forever; shall not thereafter be deemed to be property of the Debtors or the Plan Administrator; shall not at any time re-vest in the Debtors, and shall not otherwise, whether by conveyance or otherwise, ever become the property of the Debtors or their Estates.

15. Post-Effective Date Effect of Evidences of Claims. Notes, shareholder certificates, and other evidences of liens or Claims against the Debtors shall, effective upon the Effective Date, represent only the right to participate in the distributions or rights, if any, contemplated by the Plan.

16. Term of Stays. Except as otherwise provided in the Plan, all injunctions and the stay provided for in the Debtors' Chapter 11 Cases pursuant to Bankruptcy Code section 362, shall remain in full force and effect until the Debtors' Chapter 11 Cases are closed.

Except as otherwise provided in the Plan, upon entry of the Confirmation Order, all Persons or entities who have held, hold, or may hold Claims or membership or other interests in the Debtors are permanently enjoined, on and after the Effective Date, with respect to all Claims and membership and other interests in the Debtors from (a) commencing, conducting or continuing in any manner, directly or indirectly, any proceeding of any kind against or affecting the Debtors, the Plan Releasees, the Plan Administrator, or their property, (b) enforcing, levying, attaching (including, without limitation, any prejudgment attachment), collecting or otherwise recovering by any means or manner, whether directly or indirectly, any judgment, award, decree, or order against the Debtors, the Plan Releasees, the Plan Administrator, or their property, (c) creating, perfecting, or otherwise enforcing in any manner, directly or indirectly, any encumbrance of any kind against the Debtors, the Plan Releasees, the Plan Administrator, or their property, (d) asserting any right of setoff, directly or indirectly, against any obligation due the Debtors, the Plan Releasees, the Plan Administrator, or their property, except as contemplated or allowed by the Plan, the Bankruptcy Code, or applicable law, (e) acting or proceeding in any manner, in any place whatsoever, that does not conform to or comply with the provisions of the Plan, (f) commencing, continuing or asserting in any manner any action or other proceeding of any kind with respect to any Claims and causes of action which are extinguished or released pursuant to the Plan, and (g) taking any action to interfere with the implementation and consummation of the Plan.

17. Post-Confirmation Date Employment and Payment of Professionals. The Plan Administrator is authorized, without further order of the Court, to employ such persons, including professionals (which may include the Debtors' Professionals), as the Plan Administrator may deem necessary to enable it to perform its functions hereunder. Such persons, shall be compensated and reimbursed for their reasonable and necessary fees and out-of-pocket expenses on a monthly basis from the Debtors' estates without further notice, hearing or approval of the Court.

18. Retention of Jurisdiction. Notwithstanding entry of the Confirmation Order or the Effective Date having occurred, the Court will retain jurisdiction to the fullest extent permitted by law, including jurisdiction to enter any orders or to take any action specified in the Plan, and including, without limitation, the following:

(a) To determine any motion, adversary proceeding, avoidance action, application, contested matter, and other litigated matter pending on or commenced after the Confirmation Date;

(b) To hear and determine applications for the assumption or rejection of executory contracts or unexpired leases and the allowance of Claims resulting therefrom;

(c) To ensure that distributions to holders of Allowed Claims are accomplished as provided in the Plan;

(d) To hear and determine objections to the allowance of Claims, whether filed, asserted or made before or after the Effective Date, including, without limitation, to hear and determine objections to the classification of Claims and the allowance or disallowance of disputed Claims, in whole or in part;

(e) To consider Claims or the allowance, classification, priority, compromise, estimation, or payment of any Claim;

(f) To enter, implement, or enforce such Orders as may be appropriate in the event the Confirmation Order is for any reason stayed, reversed, revoked, modified, or vacated;

(g) To issue injunctions, enter and implement other Orders, and take such other actions as may be necessary or appropriate to restrain interference by any Person with the consummation, implementation, or enforcement of the Plan, the Confirmation Order or any other Order of this Court;

(h) To hear and determine any application to modify the Plan in accordance with Bankruptcy Code section 1127, to remedy any defect or omission or reconcile any inconsistency in the Plan, this Disclosure Statement, or any Order of the Bankruptcy Court, including the Confirmation Order, in such a manner as may be necessary to carry out the purposes and effects thereof;

(i) To hear and determine all Professional Fee Claims;

(j) To hear and determine disputes arising in connection with the interpretation, implementation, or enforcement of the Plan,

the Confirmation Order, or any transactions or payments contemplated hereby or thereby, or any agreement, instrument, or other document governing or relating to any of the foregoing;

(k) To take any action and issue such Orders as may be necessary to construe, enforce, implement, execute, and consummate the Plan, including any release or injunction provisions set forth herein or in the Plan, or to maintain the integrity of the Plan following consummation;

(l) To determine such other matters and for such other purposes as may be provided in the Confirmation Order;

(m) To hear and determine matters concerning state, local, and federal taxes in accordance with Bankruptcy Code sections 346, 505, and 1146;

(n) To enter a final decree closing the Debtors' Chapter 11 Cases;

(o) To recover all assets of the Debtors and property of the Estates, wherever located; and

(p) To hear and determine any other matters related hereto and not inconsistent with the Bankruptcy Code, title 28 of the United States Code and other applicable law.

19. Executory Contracts and Unexpired Leases. With the exception of the executory contracts and unexpired leases designated for assumption pursuant to Bankruptcy Code section 365(a) by separate motion in connection with the Asset Sale, each executory contract or unexpired lease of the Debtors that has not previously been rejected by the Debtors is deemed rejected as of the Confirmation Date or sixty (60) days after the Asset Sale Closing, whichever is later, subject to the occurrence of the Effective Date, provided, however, in the event that the Asset Sale fails to close for any reason, the Debtors reserve their right to subsequently seek rejection of any executory contracts or unexpired leases previously designated for conditional assumption pursuant to the Asset Sale. As provided in the APA, the Debtors may perform all obligations under executory contracts up until sixty (60) days after the Asset Sale Closing Date provided that the Purchaser pays all expenses related thereto. Prior to the Effective Date, the Debtors shall provide the non-Debtor parties to any executory contract or unexpired lease, or any transferee enumerated on the Bankruptcy Rule 3001(e) list of transferred Claims with respect thereto, notice that it intends to reject such executory contract or unexpired lease on the Effective Date or sixty (60) days after the Asset Sale Closing.

The Purchaser shall be responsible for the cure amounts related to their respective assigned contracts, if any, upon their respective closing date. Nothing in any attachment thereto or any document executed or delivered in connection therewith, shall be deemed to create any

obligation or liability with respect to any executory contract or unexpired lease on the part of the Debtors or other Person that is not presently liable thereon.

20. Claims Arising from Certain Judgments. A Claim that arises in favor of an entity as a result of a judgment entered against the Debtors after the Petition Date for the recovery of money or property must be filed within thirty (30) days after the later of (a) the date the judgment becomes final or (b) the mailing of the notice of Confirmation hearing.

21. Objections to Claims. The Plan Administrator may object to the allowance of any Claim on or after the Effective Date of the Plan. As soon as practicable, but in no event later than one hundred and eighty (180) days after the Effective Date, the Plan Administrator may object to the allowance of any Claim. The foregoing deadline may be extended by the Court upon request of the Plan Administrator upon notice to the Plan Administrator, and such other parties as shall request such notice after the confirmation of the Plan. Nothing contained herein, however, shall limit the right of the Plan Administrator to object to Claims, if any, filed or amended after the Effective Date.

22. Distributions Under the Plan. Except as otherwise provided in the Plan, in the Confirmation Order, or in any Order of the Court in aid of consummation of the Plan, the following provisions shall govern distributions pursuant to the Plan:

Provisions for Distributions Pending Determination of Certain Claims for Income Taxes. Notwithstanding any other provision of the Plan, and unless the Court orders otherwise, prior to making distributions on account of Allowed Claims other than Administrative Claims and Priority Tax Claims, the Plan Administrator shall make adequate provision for the satisfaction of Claims for income taxes entitled to treatment as administrative expenses; ***provided***, ***however***, that unless otherwise ordered by a court, the Plan Administrator shall have no obligation to withhold funds, designate reserves, or make other provisions for the payment of any Claims for taxes that have been disallowed by order of the Court.

No Distributions on Account of Claims That Have Not Become Allowed Claims. Notwithstanding any other provision of the Plan, no payment or distribution shall be made with respect to any Claim that has not become an Allowed Claim, except that the Plan Administrator may distribute consideration attributable to any undisputed portion of a Claim and withhold the remainder.

Reserves for Claims That Have Not Become Allowed Claims. Distributions on account of Claims that have not become Allowed Claims shall be governed by the following provisions:

(a) Except as otherwise provided under the Plan, the Debtors shall not be required to withhold funds or consideration, designate reserves, or make other provisions for the payment of any Claims that have been disallowed by a Final Order of the Court.

(b) Except as otherwise provided in the Plan, the Debtors, or the Plan Administrator, as applicable, shall be required to reserve funds, designate reserves, or make other provisions

for the payment of any Claims that have been disallowed by an order of the Court until such order becomes a Final Order.

(c) With respect to Claims that have not become Allowed Claims and that are not governed by subparagraph (1) or subparagraph (2) above, the Plan Administrator, as applicable, shall reserve sufficient funds to allow for a distribution in accordance with the terms of the Plan, on account of the distribution attributable to such holders' Claims or as otherwise provided pursuant to any order of the Court with respect to the amount, if any, to be reserved; ***provided***, ***however***, that the Plan Administrator, as applicable, shall distribute consideration attributable to any undisputed portion and shall withhold and reserve the remainder. The Court may, after notice and a hearing (as defined in Bankruptcy Code section 102), fix a lesser amount than the distribution amount as the amount on account of which consideration shall be withheld. In the case of Claims not stating an amount, the Plan Administrator, or any holder of such Claims may request that the Court, after notice and a hearing (as defined in Bankruptcy Code section 102), determine an amount. Cash withheld pursuant to this subparagraph will be held in a segregated, interest-bearing fund or funds. Such Cash will be released when and if Claims are Allowed and disallowed and shall be distributed in accordance with the Plan.

Persons Responsible for Distribution of Plan Consideration. The Plan Administrator shall disburse all consideration to be distributed under the Plan and shall act as a disbursing agent.

Unclaimed Cash. If any Person entitled to receive Cash under the Plan cannot be located on the date a distribution under the Plan is due, such Cash will be set aside and held in a segregated, interest-bearing fund to be maintained by the Plan Administrator. If such Person is located within one hundred and twenty (120) days of the date of distribution, such Cash, together with any interest earned thereon, will be paid to such Person. If such Person cannot be located within one hundred and twenty (120) days of the date of distribution, any such Cash and accrued interest thereon shall be released to the Plan Administrator and distributed in accordance with the Plan. Nothing contained in the Plan shall require the Plan Administrator to attempt to locate such Person. It is the obligation of each Person claiming rights under the Plan to keep the Plan Administrator advised of their current address by sending written notice of any changes to the Plan Administrator.

Unnegotiated Distribution Checks. Checks or drafts issued pursuant to the Plan to Persons holding Allowed Claims and not presented for payment within one hundred and twenty (120) days following mailing thereof to the last known address of such Person shall be deemed nonnegotiable thereafter.

Fractional Dollars. Any other provision of the Plan notwithstanding, no payments of fractional dollars will be made to any holder of an Allowed Claim. Whenever any payment of a fraction of a dollar to any holder of an Allowed Claim would otherwise be called for, the actual payment made will reflect a rounding of such fraction to the nearest whole dollar (up or down).

Distribution Dates. Whenever any distribution to be made under the Plan is due on a day other than a Business Day, such distribution will instead be made, without penalty or interest, on the next Business Day. The Court shall retain power, after the Confirmation Date, to extend distribution dates for cause, upon motion and after notice and a hearing (as defined in Bankruptcy Code section 102) to affected parties.

Bankruptcy Code Sections 508, 509, and 510. Distributions under the Plan will be governed by the provisions of Bankruptcy Code sections 508, 509 or 510 where applicable.

Distributions to be Applied First to Administrative and Priority Claims. Any distribution under the Plan by the Plan Administrator on account of any Allowed Claim for which the Debtors is liable under any applicable law or order of the Court shall be applied by the recipient first to satisfy any Allowed Administrative Claims, Allowed Priority Tax Claims, or other Allowed Claims of the recipient against the Debtors which are entitled to priority under Bankruptcy Code sections 503 or 507 and, only after all such priority Claims are fully satisfied, to any Allowed Claims not entitled to such priority.

Orders Respecting Claims Distribution. After confirmation of the Plan, the Court shall retain jurisdiction to enter orders in aid of consummation of the Plan with respect to distributions under the Plan and to resolve any disputes concerning distributions under the Plan.

Allocation. To the extent that any Allowed Claim entitled to a distribution under the Plan is comprised of indebtedness and accrued and unpaid interest thereon, such distribution shall be allocated first to the principal amount of such Claim and then, to the extent the consideration exceeds the principal amount of such Claim, to accrued and unpaid interest.

F. Conditions Precedent for Confirmation of the Plan.

Confirmation of the Plan shall not occur and the Court shall not enter the Confirmation Order unless all of the requirements of the Bankruptcy Code for Confirmation of the Plan with respect to the Debtors shall have been satisfied. If Confirmation shall not occur, the Plan shall be null and void and shall have no force nor effect, and the Plan shall be deemed withdrawn unless the Court shall have entered all orders (which may be orders included within the Confirmation Order) required to implement the Plan.

G. Waiver and Nonfulfillment of Conditions to Confirmation.

In the event that the Debtors determine that the conditions to confirmation which they may waive cannot be satisfied and should not, in their sole discretion, be waived, the Debtors may propose a new plan, may modify the Plan as permitted by law, or may request other appropriate relief.

H. Confirmation Order Provisions for Pre-Effective Date Actions.

The Confirmation Order shall empower and authorize the Debtors to take or cause to be taken, prior to the Effective Date, all actions which are necessary to enable it to implement the provisions of the Plan and satisfy all other conditions precedent to the effectiveness of the Plan.

I. Conditions to Effective Date.

The Effective Date shall not occur unless: (a) the Court shall have entered the Confirmation Order, in form and substance reasonably satisfactory to the Debtors, which shall have become a Final Order; (b) no request for revocation of the Confirmation Order under Bankruptcy Code section 1144 shall have been made and still be pending; and (c) the Asset Sale Closing Date shall have occurred.

J. Nonfulfillment of Conditions to Effective Date.

In the event that the Debtors determine that the conditions to the Effective Date set forth in the immediately foregoing paragraph of the Plan cannot be satisfied, the Debtors may propose a new plan, may modify the Plan as permitted by law, or may request other appropriate relief.

K. Effective Date Events.

On the Effective Date, the following actions shall have taken place: (a) all payments to be made on the Effective Date and all other actions to be taken on or before the Effective Date pursuant to the Plan by the Debtors shall be made or taken or duly provided for; (b) any documents, including orders or agreements, necessary to implement the Plan as of the Effective Date must be executed; and (c) all other events and actions specified in the Plan to occur on the Effective Date.

L. Risk Factors in Connection with the Plan.

The Debtors believes that there are certain risk factors in connection with confirmation of the Plan including: (a) the level of Allowed Claims and Allowed Administrative Claims may exceed the Debtors' estimates; (b) the Debtors may not be able to close the Asset Sale contemplated by the Plan; (c) the amount of the Claims reduced by the Claims Objection process may be less than the Debtors' estimates.

VII. STATUTORY REQUIREMENTS FOR CONFIRMATION OF THE PLAN OF REORGANIZATION

The Plan must be approved by the Court after a confirmation hearing.

A. Elements of Confirmation.

In order for the Plan to be confirmed, the Bankruptcy Code requires that the Court determine that the Plan complies with the technical requirements of Chapter 11 of the Bankruptcy Code and that the disclosures concerning the Plan have been adequate and have included information concerning all payments made or promised in connection with the Plan and this Case. The Bankruptcy Code also requires that: (1) the Plan be accepted by the requisite

votes of Creditors except to the extent that confirmation despite dissent is available under Bankruptcy Code section 1129(b); (2) the Plan is feasible (that is, there is a reasonable probability that the Debtors will be able to perform its obligations under the Plan without needing further financial reorganization not contemplated by the Plan); and (3) the Plan is in the "best interests" of all Creditors (that is, Creditors will receive at least as much under the Plan as they would receive in a hypothetical liquidation case under chapter 7 of the Bankruptcy Code). To confirm the Plan, the Court must find that all of the above conditions are met, unless the applicable provisions of Bankruptcy Code section 1129(b) are employed to confirm the Plan, subject to satisfying certain conditions, over the dissent or deemed rejections of Classes of Claims.

B. Best Interests of Creditors.

In order to confirm a Plan, the Court must determine that the Plan is in the best interests of all Creditors impaired by the Plan who have not accepted the Plan. The "best interests" test requires that the Court find either that all members of an impaired Class of Claims have accepted the Plan or that the Plan will provide each such member a recovery that has a value at least equal to the value of the distribution that each such member would receive if the Debtors were liquidated under chapter 7 of the Bankruptcy Code. To calculate what members of each impaired Class of Creditors would receive if the Debtors were liquidated, the Court must first determine the aggregate dollar amount that would be generated from the Debtors' assets if its Chapter 11 Case were converted to a chapter 7 case under the Bankruptcy Code. The liquidation value of the Debtors' assets is indicated in the liquidation analysis ("***Liquidation Analysis***"), attached as **Exhibit 3** hereto.

This "liquidation value" would consist primarily of the proceeds from a forced sale of the Debtors' assets by a chapter 7 trustee. The liquidation value available to unsecured creditors would be reduced by the following factors: (a) the costs of liquidation under chapter 7 of the Bankruptcy Code would include the compensation of a trustee, as well as of counsel and other professionals retained by the trustee, asset disposition expenses, all unpaid expenses incurred in these Chapter 11 Cases (such as compensation of attorneys, accountants, and other professionals) that are allowed in the chapter 7 case, litigation costs, and Claims arising from the operations of the estate during the pendency of these Chapter 11 Cases; (b) the liquidation itself could trigger certain priority Claims and would accelerate other priority payments that otherwise would be due in the ordinary course of business; and (c) liquidation under chapter 7 of the Bankruptcy Code would likely prevent the Debtors from closing on the Asset Sale and would result in sale of these assets at less favorable terms.

For the reasons stated above, the Debtors believe that the Plan is in the best interests of Creditors because it provides creditors with a greater recovery than if the Debtors were liquidated and the proceeds of such liquidation were used to pay Creditors. Please refer to the Liquidation Analysis for specific valuation and estimated recovery figures. Any liquidation or distribution analysis is, at best, highly speculative. To the extent that confirmation of the Plan requires the establishment of hypothetical amounts for the value of assets or Claims and funds available to pay Claims, the Court may make those rulings.

C. Feasibility of the Plan.

In connection with confirmation of the Plan, the Court must determine that confirmation of the Plan is not likely to be followed by the liquidation or the need for further financial reorganization of the Debtors or any successor to the Debtors under the Plan, unless such liquidation or reorganization is proposed in the Plan. The Plan liquidates the Debtors' remaining assets and distributes them to creditors pursuant to the Plan and Bankruptcy Code.

D. Confirmation of the Plan if One or More Classes Do Not Accept.

Certain provisions of the Bankruptcy Code permit confirmation of a plan of reorganization even if a class or classes do not accept the plan so long as one impaired Class votes to accept the plan. These provisions, set forth in Bankruptcy Code section 1129(b), allow for the confirmation of the plan even though some classes vote to or are deemed to reject the plan, provided that the plan "does not discriminate unfairly" and is "fair and equitable" as to each impaired class that has not accepted it.

A plan is fair and equitable as to a class of secured claims that rejects a plan if the plan provides either (1) that the holders of claims included in the rejecting class retain the liens securing those claims, whether the property subject to those liens is retained by the Debtors or transferred to another entity, to the extent of the allowed amount of such claims; and (2) receive, on account of such claims, deferred cash payments totaling at least the allowed amount of such claims, possessing a value as of the effective date of the plan, of at least the value of the holder's interest in the estate's interest in such property; (3) for the sale, subject to the Bankruptcy Code section 363(b), of any property that is subject to the liens securing such claims, free and clear of such liens, with such liens to attach to the proceeds of the sale, and that such liens on proceeds will be treated in accordance with clause (a) of this subparagraph; or (4) for the realization by such holders of the indubitable equivalent of their claims.

A plan is fair and equitable to a class of unsecured claims that rejects or is deemed to have rejected the plan if the plan provides: (1) for each holder of a claim included in the rejecting class to receive or retain on account of that claim property that has a value, as of the effective date of the plan, equal to the allowed amount of such claim, or (2) that the holder of any claim or interest that is junior to the claims of such class will not receive or retain on account of such junior claim or interest any property at all.

IF NECESSARY, AND IF THE REQUIREMENTS OF 1129(b) OF THE BANKRUPTCY CODE HAVE BEEN SATISFIED, THE DEBTORS RESERVE THEIR RIGHT TO ASK THE COURT TO RULE THAT THE PLAN MAY BE CONFIRMED ON THE GROUND THAT THE REQUIREMENTS OF SECTION 1129(b) HAVE BEEN SATISFIED.

The Bankruptcy Code provides that because holders of Subordinated Claims will not receive or retain any property under the Plan on account of their Claims against the Debtors, Class 7 is deemed not to have rejected the Plan and, accordingly, ballots for voting on the Plan will not be distributed to holders of Subordinated Claims. Notwithstanding this deemed rejection of the Plan, the Plan may still be confirmed as long as the Plan provides: (1) for each holder of an Claims included in the rejecting Class to receive or retain on account of that Claim property that has a value, as of the Effective Date of the Plan, equal to the greatest of the allowed amount of any fixed liquidation preference to which such holder is entitled, any fixed redemption price to

which such holder is entitled, or the value of such Claim; or (2) that the holder of any Claim that is subordinated to the interest of such Class will not receive or retain under the Plan on account of such Subordinated Claim any property. Because no Subordinated Claims exist, the Debtors believe the Plan may be confirmed notwithstanding the deemed rejection of Class 7 Claims.

IF OTHER CONFIRMATION REQUIREMENTS ARE SATISFIED AT THE CONFIRMATION HEARING, THE DEBTORS WILL ASK THE COURT TO RULE THAT THE PLAN MAY BE CONFIRMED NOTWITHSTANDING THE DEEMED REJECTION OR ANY VOTE TO REJECT THE PLAN BY THE CLASS OF HOLDERS OF SUBORDINATED CLAIMS AGAINST THE DEBTORS.

E. Hearing on Confirmation of the Plan.

At the time and place given in the notice served with this Disclosure Statement, the Court will hold a hearing to determine if the Plan has been accepted by a requisite number of Claims and whether the other requirements for Confirmation of the Plan have been satisfied.

CREDITORS ARE NOT REQUIRED TO ATTEND THE HEARING ON CONFIRMATION UNLESS THEY HAVE EVIDENCE OR ARGUMENT TO PRESENT TO THE COURT CONCERNING THE MATTERS TO BE ADDRESSED AT THE HEARING ON CONFIRMATION.

VIII. CERTAIN FEDERAL INCOME TAX CONSEQUENCES OF THE PLAN

This Disclosure Statement does not discuss any federal income tax consequences of the Plan to Creditors. Accordingly, Creditors should consult their own tax advisors regarding their ability to recognize a loss for tax purposes and any other tax consequences to them of the Plan.

DUE TO A LACK OF DEFINITIVE JUDICIAL OR ADMINISTRATIVE AUTHORITY AND INTERPRETATION, SUBSTANTIAL UNCERTAINTIES EXIST WITH RESPECT TO VARIOUS TAX CONSEQUENCES OF THE PLAN. FOR THE FOREGOING REASONS CREDITORS ARE URGED TO CONSULT WITH THEIR OWN TAX ADVISORS AS TO SPECIFIC TAX CONSEQUENCES (FEDERAL, STATE AND LOCAL) OF THE PLAN.

IX. EFFECTS OF PLAN CONFIRMATION

A confirmed plan leaves the holders of Claims with new rights as set forth in the confirmed plan. Therefore, in the event of a default after Confirmation, a holder of a Claim may pursue its remedies under the Plan. Some rights may remain with holders of Claims after the provisions of the confirmed Plan have been carried out. The automatic stay of Bankruptcy Code section 362(a) as to actions against the Debtors remains in effect until the Chapter 11 Cases are closed. Thereafter, all parties in interest will be enjoined from taking any action inconsistent with the Plan.

A. Vesting and Liens.

Except as otherwise expressly provided in the Plan or the Confirmation Order, property of the Estates will vest in the applicable post-Effective Date Debtor, free and clear of all Claims, liens, encumbrances, charges, membership interests and other interests.

B. Releases.

Except as otherwise specifically provided in the Plan, (a) the Debtors, together with their current and prior officer, members and directors of the Debtors and their respective agents, counsel and advisors (all in their respective capacities as such) (collectively, the "***Plan Releasees***"), are released and discharged from any and all claims, obligations, rights, causes of action and liabilities relating to the Debtors, these Cases, the formulation, negotiation, preparation, confirmation, implementation and administration of or any consent, action, omission, transaction or business dealing from and after the Petition Date and prior to the Effective Date; provided, however, that the Plan Releasees shall not be released from claims arising under (a) the Internal Revenue Code, or any state, city or municipal tax code; (b) the environmental laws of the United States, any state, city or municipality; (c) any criminal laws of the United States, any state, city or municipality; (d) the Plan; or (e) actions related to willful misconduct, gross negligence, misuse of confidential information that causes damages, breach of fiduciary duty and ultra vires acts. Any of the foregoing parties in all respects shall be entitled to rely on the advice of counsel with respect to any of the foregoing. With respect to Plan Releasees that are attorney professionals, such professionals shall not be released from any violations of the Code of Professional Responsibility. From and after the Effective Date, except as otherwise provided under this section, all holders of Claims or membership and other interests in the Debtors shall be permanently enjoined from commencing or continuing in any manner any suit, action or other proceeding, on account of or respecting, any Claim or membership or other interest in the Debtors.

C. Releases By the Debtors and Holders of Claims.

Except as otherwise specifically provided by the Plan, for good and valuable consideration, including the services and agreements to facilitate the expeditious reorganization of the Debtors, the implementation of the restructuring contemplated by the Plan, on and after the Effective Date, the Plan Releasees shall be deemed released by the Debtors, the Plan Administrator and holders of Claims and membership and other interests in the Debtors from any and all claims, obligations, rights, suits and causes of action whatsoever, whether known or unknown, foreseen or unforeseen, existing or hereafter arising, in law, equity or otherwise, that the Debtors, the Estates or such Person or entity would have been entitled to assert whether directly, indirectly, derivative or otherwise, based in whole or in part upon any action, omission, transaction, agreement, event, conduct or other occurrence taking place on or before the Effective Date in any way relating or pertaining to or dealings in connection with the Debtors, its officers (in their capacity as such), directors (in their capacity as such) and shareholders (in their capacity as such), the Estates or these Cases; provided, however, that nothing in this section shall constitute a release of any party from Claims arising under (a) the Internal Revenue Code, or any state, city or municipal tax code; (b) the environmental laws of the United States, any state, city or municipality; (c) any criminal laws of the United States, any state, city or municipality; and (d) actions related to willful misconduct, gross negligence, misuse of confidential information that causes damages, breach of fiduciary duty and ultra vires acts. With respect to releases of attorney professionals, such professionals shall not be released from any violations of the Code of Professional Responsibility.

D. Prior Directors and Officers.

Notwithstanding anything in the Plan to the contrary, nothing in the Plan shall release any entity or Person who served prepetition in the capacity of director, officer or trustee of one or more of the Debtors and was removed, voluntarily resigned from or otherwise vacated their position as director, officer or trustee with one or more of the Debtors within the six (6) months prior to the Petition Date from liability arising from any action or inaction in such capacity for any pending or potential cause of action, claim, obligation, right, suit and/or cause of action whatsoever, whether known or unknown, foreseen or unforeseen, existing or hereafter arising, in law, equity or otherwise, that the Debtors, Plan Administrator, the Estates or such other Person or entity would be entitled to assert whether directly, indirectly, derivative or otherwise.

E. Limitation of Liability.

Without limiting any other provision or term hereunder, the Debtors and its directors, officers, trustees, employees and professionals (acting in such capacity) shall neither have nor incur any liability to any Person for any act taken or omitted to be taken in connection with or related to the formulation, preparation, dissemination, implementation, confirmation or consummation of the Plan, this Disclosure Statement or any contract, instrument, release or other agreement or document created or entered into, or any other act taken or omitted to be taken in connection with the Plan or these Cases; provided, however, that the foregoing provisions shall have no effect on the liability of any Person from any such act or omission to the extent that such act or omission is determined in a Final Order to have constituted gross negligence or willful misconduct.

X. ALTERNATIVES TO CONFIRMATION AND CONSUMMATION OF THE PLAN

A. Liquidation Under Chapter 7.

If no Chapter 11 Plan can be confirmed, the Chapter 11 Case may be converted to a case under chapter 7 of the Bankruptcy Code, in which a trustee would be elected or appointed to liquidate the assets of the Debtors. The Debtors believe that liquidation under chapter 7 would result in smaller distributions, if any, being made to Creditors than those provided for in the Plan because of the additional administrative expenses involved in the appointment of a trustee and attorneys and other professionals during such liquidation.

The Debtors, with the assistance of its professionals, have prepared a Liquidation Analysis, attached hereto as **Exhibit 3**. The Liquidation Analysis is based upon a hypothetical liquidation in a chapter 7 case. The Debtors have taken into account the nature, status and underlying value of its assets, the ultimate realizable value of its assets, and the extent to which such assets are subject to the liens and security interests.

The likely form of any liquidation would be the sale of the Debtors' individual assets. Based on this analysis, it is likely that a chapter 7 liquidation of the Debtors' assets would produce less value for distribution to creditors than that recoverable under the Plan. Among other things, a chapter 7 liquidation would prevent the Debtors from closing on the Asset

Sale and any alternative sale of such assets would likely be on less favorable terms than are now contemplated under the Plan. In the opinion of the Debtors, the recoveries projected to be available in a chapter 7 liquidation are not likely to afford the holders of Claims as great a realization potential as do the Plan.

B. Alternative Plan of Reorganization.

If the Plan is not confirmed, the Debtors or any other party in interest could attempt to formulate a different plan of reorganization. During the course of negotiation of the Plan, the Debtors explored various other alternatives and concluded that the Plan represented the best alternative to protect the interests of creditors, residents and other parties in interest. The Debtors have not changed their conclusions.

XI. CONCLUSION AND RECOMMENDATIONS

The Debtors urge all creditors entitled to vote on the Plan to vote to accept the Plan and to evidence such acceptance by immediately returning their properly completed ballots to the appropriate voting agent as set forth on the ballots within the time stated in the notice served with this Disclosure Statement.

Dated: September 23, 2010
Baltimore, Maryland

Respectfully submitted,

Lincolnshire Campus, LLC
Naperville Camups, LLC
Monarch Landing, Inc.
Sedgebrook, Inc.

By: /s/ Paul Rundell
Name: Paul Rundell
Title: Chief Restructuring Officer