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

In re:	§	
	§	**CHAPTER 11**
MASON COPPELL OP, LLC, et al.,	§	
	§	**CASE NO. 14-31327-sgj-11**
Debtors.	§	**(Jointly Administered)**
	§	

DISCLOSURE STATEMENT IN SUPPORT OF THE FIRST AMENDED PLAN OF LIQUIDATION FOR THE MASON DEBTORS [FILED OCTOBER 14, 2014]

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ATTORNEYS FOR THE OFFICIAL COMMITTEE OF UNSECURED CREDITORS

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DISCLOSURE STATEMENT IN SUPPORT OF
THE FIRST AMENDED PLAN OF LIQUIDATION FOR THE MASON DEBTORS

The Official Committee of Unsecured Creditors (the "Committee" or the "Proponent") for Mason Coppell OP, LLC; Mason Friendswood OP, LLC; Mason Georgetown OP, LLC; Mason Mesquite OP, LLC; and Mason Round Rock OP, LLC (collectively, the "Debtors"), the debtors in the above-captioned chapter 11 case pending before the United States Bankruptcy Court for the Northern District of Texas, Dallas Division (the "Bankruptcy Court"), submits this *Disclosure Statement in Support of the First Amended Plan of Liquidation for the Mason Debtors* (the "Disclosure Statement"). This Disclosure Statement is to be used in connection with the solicitation of votes on the *First Amended Plan of Liquidation for the Mason Debtor* (the "Plan"), filed on October 14, 2014, in the above-referenced chapter 11 cases. A copy of the Plan is attached hereto as Exhibit "A". Unless otherwise defined herein, terms used herein have the meanings ascribed thereto in the Plan (see Article I of the Plan entitled "Definitions").

For a general summary of the proposed treatment of your Claim or Interest under the Plan, please see the summaries beginning on Page 8 below.

I. OVERVIEW OF THE PLAN

Parties are cautioned to read the Plan carefully to fully understand its terms. This section offers a summary of the Plan only, given in lay and non-technical terms, and is not to be construed as conclusive.

During the administration of the Bankruptcy Cases, the Bankruptcy Court approved transactions authorizing the Debtors to sell substantially all their operating assets. The remaining estate assets comprise cash from those transactions, some cash from collection of accounts receivable, uncollected accounts receivable and potential causes of action against insiders, former management companies, third-party vendors and recipients of pre-petition payments.

Under this Plan, the Committee proposes to administer these assets through a Liquidating Trust and appoint a Liquidating Trustee to, among other things, (i) allocate the sale proceeds as set forth in Section 7.4 of the Plan (and described on Pages 7-8 below); (ii) pay all secured claims, administrative expenses and priority claims; (iii) liquidate all remaining assets, converting such assets to cash; and (iv) distribute such cash to unsecured creditors pursuant to the terms of the Plan.

Secured claims of Oxford Finance LLC will only be paid out of the assets of the Debtors obligated to Oxford Finance LLC. Mason Mesquite's estate will pay 20% of the Chapter 11 Administrative Claims incurred during the administration of the Bankruptcy Cases and 100% of any tax, secured or other priority claims asserted against its estate. The remaining cash will be allocated to a Liquidation Reserve established for the Oxford Debtors (the "Oxford Debtor Reserve" as defined in the Plan) and used to pay the Oxford Secured Claim, the remaining 80%

of the Chapter 11 Administrative Claims, and all other tax, secured or priority claims asserted against the Oxford Debtors. To ensure a fair balancing of the Oxford Debtors' assets, the Plan uses a formula to divide the remaining cash among the Oxford Debtors. The applicable proportions for each Oxford Debtor are set forth in Section 7.4 of the Plan and explained in Section VI.B of this Disclosure Statement. The percentage divisions were calculated to (x) allocate the remaining 75% of the sale proceeds from the Fundamental Sale among Mason Coppell, Mason Georgetown and Mason Round Rock; (y) shift a greater percentage of the burden to pay Administrative Claims on the three foregoing estates actually involved in the Fundamental sale (i.e., Mason Friendswood's estate pays a smaller share of the Administrative Claims); and (z) utilize all Oxford Debtors' assets equally to satisfy the Oxford Secured Claim.

Based on these proposed allocations and divisions, the Committee anticipates that general unsecured creditors of the Oxford Debtors will receive distributions of 4% - 7%, and creditors of Mason Mesquite will receive distributions in the range of 25% - 30% of their Allowed Claims.[1]

II. LEGAL DISCLOSURES

This Disclosure Statement is provided to you by the Proponent to summarize key provisions of the Plan, including provisions relating to the Plan's treatment of Claims against the Debtors. While the Proponent believes that the Disclosure Statement contains adequate information, as defined in section 1125(a) of the Bankruptcy Code, with respect to the information summarized herein, **CREDITORS SHOULD REVIEW THE ENTIRE PLAN AND EACH OF THE DOCUMENTS REFERENCED HEREIN AND SHOULD SEEK THE ADVICE OF THEIR OWN COUNSEL BEFORE CASTING THEIR BALLOTS.** Unless otherwise indicated, the Committee is the source of information provided in this Disclosure Statement, relying on data and other information provided by the Debtors, the Trustee or their respective professionals.

THE BANKRUPTCY COURT HAS REVIEWED THIS DISCLOSURE STATEMENT, AND HAS DETERMINED THAT IT CONTAINS ADEQUATE INFORMATION AND MAY BE SENT TO YOU TO SOLICIT YOUR VOTE TO ACCEPT THE PLAN.

The Proponent provides this Disclosure Statement solely for purposes of soliciting holders of claims and interests to accept or reject the Plan. **THE CONTENTS OF THIS DISCLOSURE STATEMENT SHALL NOT BE DEEMED AS PROVIDING ANY LEGAL, FINANCIAL, SECURITIES, TAX OR BUSINESS ADVICE. THE PROPONENT URGES EACH HOLDER OF A CLAIM OR INTEREST TO CONSULT WITH ITS OWN ADVISORS WITH RESPECT TO ANY SUCH LEGAL, FINANCIAL, SECURITIES, TAX OR BUSINESS ADVICE IN REVIEWING THIS DISCLOSURE STATEMENT AND THE PLAN.** Moreover, this Disclosure Statement does not constitute,

[1] These ranges are based on the claims presently on file and the anticipated accounts receivable collections as of September 25, 2014. The recoveries could be higher or lower if allowed claim totals are significantly different than shown in Section V.A.5 below, if administrative claim totals are significantly more or less than estimated below, or if future AR collections vary significantly from the amounts presently forecasted by the Trustee's collection agent. These estimates also do not include potential recoveries from litigation such as Chapter 5 Avoidance Actions and other Causes of Action reserved under the Plan.

and may not be construed as, an admission of fact, liability, stipulation or waiver. The summary of the Plan and other documents described in this Disclosure Statement are qualified by reference to documents themselves and any exhibits thereto. The Proponent believes that the information herein is accurate but is unable to warrant that it is without any inaccuracy or omission.

Except for the information set forth in this Disclosure Statement and any exhibits thereto, the Bankruptcy Court has not authorized the dissemination of any representations concerning the Debtors, their assets and liabilities, the past or future operations by the Debtors, the Plan or any alternatives to the Plan. **ACCORDINGLY, EXCEPT FOR THE INFORMATION PROVIDED IN THIS DISCLOSURE STATEMENT AND ANY EXHIBITS THERETO, ANY REPRESENTATION MADE TO SECURE ACCEPTANCE OR REJECTION OF THE PLAN IS UNAUTHORIZED AND SHOULD BE REPORTED TO THE PROPONENT.**

In the event of any inconsistency or discrepancy between a description contained in this Disclosure Statement and the terms and provisions of the Plan or the other documents or financial information incorporated herein by reference, the Plan or such other documents, as applicable, shall govern for all purposes.

While the Committee has endeavored to present information fairly in this Disclosure Statement, because of the complexity of the Debtors' financial matters, the Debtors' books and records upon which this Disclosure Statement is based might be incomplete or inaccurate. The financial information contained herein is unaudited.

Certain of the information contained in this Disclosure Statement is, by nature, forward looking, and contains estimates and assumptions which might ultimately prove to be incorrect, and contains projections which may be materially different from actual future experiences. There are uncertainties associated with any projections and estimates, and they should not be considered assurances or guaranties of the amount of funds or the amount of claims in the various classes that are ultimately allowed.

Additionally, the claim amounts set forth in the Disclosure Statement are based on various assumptions. The actual allowed claim amounts may differ significantly from those estimates should one or more of those underlying assumptions prove to be incorrect. Such differences may materially and adversely affect the percentage recovery to holders of claims under the Plan.

To ensure compliance with Treasury Department Circular 230, each holder of a Claim or Interest is hereby notified that: (a) any discussion of U.S. Federal tax issues in this Disclosure Statement is not intended to be relied upon, and cannot be relied upon, by any holder for the purpose of avoiding penalties that may be imposed on a holder under the Tax Code; (b) such discussion is included hereby by the Proponent in connection with the promotion or marketing (within the meaning of Circular 230) by the Proponent of the transaction or matters addressed herein; and (c) each holder should seek advice based on its particular circumstances from an independent tax advisor.

III. BACKGROUND OF THE DEBTORS[2]

A. ABOUT THE DEBTORS

When these bankruptcy cases were filed, the Debtors each separately leased and operated skilled nursing facilities in various facilities in Texas. Cumulatively, the Debtors' facilities had an operational capacity of approximately 699 beds.

The Debtors ownership and capitalization structures are as follows: In September 2008, M. Craig Kelly ("Kelly") and others founded Mason Capital Asset 1, LP, as a Texas limited partnership ("Mason Capital").[3] Mason Capital is the 100% owner of the membership interests in the following four Debtors: (i) Mason Coppell; (ii) Mason Georgetown; (iii) Mason Mesquite; and (iv) Mason Round Rock. The fifth Debtor, Mason Friendswood, is owned directly by Kelly, who owns 100% of its member interests.

As of the commencement of the bankruptcy cases, Mason Capital's 99% limited partner was Kelly, and its 1% General Partner was Mason Capital Partners, LLC ("Mason Partners"), neither of which is a debtor in bankruptcy as of the filing of this Disclosure Statement.

B. THE DEBTORS' OPERATIONS AND ASSETS

As noted above, these bankruptcy cases involved five related entities. A sixth affiliate of the Debtors—Mason Georgetown Realco, LLC—filed a bankruptcy petition on the same day the Debtors filed their petitions. That entity owned the real property in Georgetown and leased it to Debtor Mason Georgetown. The other four Debtors leased their facilities from third-party lessors. The five facilities and the respective Debtors are as follows:

- Edgewood Rehabilitation and Center Center – Mason Mesquite Op
  - Location: 1101 Windbell Drive, Mesquite, Texas
  - Capacity: 142 licensed beds
  - Operated Since: 2011
  - Lessor: Broadmore Health Realty, Ltd.

- Sandy Lakes Rehabilitation Center – Mason Coppell Op
  - Location: 1410 East Sandy Lake Road, Coppell, Texas
  - Capacity: 123 licensed beds
  - Operated Since: 2010
  - Lessor: Broadmore Health Realty, Ltd.

[2] The information provided in this Section III is a summary of the narratives provided in the "first day" affidavit of the Debtors' CRO. *See* Doc. No. 16. Capitalized terms used in this section but not otherwise defined in this Disclosure Statement or the Plan shall have the meaning ascribed in the first day affidavit.

[3] After forming Mason Capital, Kelly gained sole ownership and control of such entities pursuant to a settlement agreement not germane to these bankruptcy cases.

- San Gabriel Rehabilitation and Care Center – Mason Round Rock Op
  - Location: 4100 College Park Drive, Round Rock, Texas
  - Capacity: 142 licensed beds
  - Operated Since: 2011
  - Lessor: Broadmore Health Realty, Ltd.

- Estrella Oaks Rehabilitation and Care Center – Mason Georgetown Op
  - Location: 4011 Williams Drive, Georgetown, Texas
  - Capacity: 142 licensed beds
  - Operated Since: 2011
  - Lessor: Mason Georgetown Realco, LLC

- Friendship Haven Healthcare and Rehabilitation Center – Mason Friendswood Op
  - Location: 1500 Sunset Drive, Friendswood, Texas
  - Capacity: 150 licensed beds
  - Operated Since: 2008
  - Lessor: Friendswood SNF, LLC, affiliate of Cornerstone

C. CAPITAL STRUCTURE AND DEBT OBLIGATIONS

On June 19, 2013, certain Mason entities entered into a $12.15 million Term Loan Agreement (the "Term Loan") and an Amended and a Restated $6.0 million Revolving Credit Agreement and related Revolving Credit Note (the "RCN") with Oxford Finance LLC ("Oxford"). The Term Loan bears interest 8.6% and is secured by substantially all of the assets of Estrella Oaks, including the Estrella Oak Facility. The RCN bears interest at a variable rate of 30 day LIBOR plus 4.5% (subject to a LIBOR floor of 2%) and is secured by the Accounts Receivable of Mason Friendswood, Mason Coppell, Mason Georgetown Mason Round Rock (together with Mason Friendswood, Mason Coppell, Mason Georgetown, the "Oxford Debtors"), and Mason Dessau OP LLC (a non-debtor affiliate).

Importantly, the assets of Mason Mesquite are not subject to the liens of Oxford. The Term Loan and RCN were both scheduled to mature on August 31, 2016 and are cross-collateralized and cross-defaulted. Kelly is a guarantor of the Term Loan and RCN. As of March 14, 2014, approximately $12.06 million plus accrued interest was outstanding on the Term Loan, and approximately $3.6 million was outstanding under the RCN. The Oxford Debtors continued to pay down their obligations to Oxford from ordinary operations post-petition. The Committee believes that the aggregate balance due to Oxford as of the filing of this Disclosure Statement was approximately $1.16 million (before including accrued interest and attorneys' fees). However, the Committee has not received a full accounting from Oxford of the payments received prior to and following the Fundamental Sale closing. The Committee filed an objection to Oxford's Secured Claim. On September 5, 2014, the Trustee, Committee and Oxford filed a Stipulation concerning payment and treatment of Oxford's secured claim. Such stipulation provided for an immediate payment of $500,000 from the Oxford Debtors' cash on hand and agreements to pay down the balance of the then-remaining $1.16 million secured claim, in exchange for Oxford's agreement to reduce its secured claim by up to $120,000. *See* Doc. No. 290. The Stipulation also provides a means to resolve the Committee's objection to Oxford's claim.

In connection with and pursuant to the terms of the First Amended Credit Agreement, on March 1, 2013, the Oxford Debtors executed and delivered to Oxford a Secured Promissory Note in the original amount of $1,000,000.00 (the "Subordinate Secured Note"), which was secured by the Pre-petition Collateral (as defined in the First Amended Credit Agreement) but was subordinated to the obligations related to the Revolving Credit Note. The Subordinated Secured Note was issued with a maturity date of October 1, 2014 and bears interest at a rate of 12% per annum. Kelly is a guarantor of the Term Loan and RCN. As of March 14, 2014, approximately $333,333 plus accrued interest was outstanding on the Subordinated Secured Note. The Committee believes most or all of this obligation was paid in full as the result of the Court-approved sales but awaits a final accounting to verify how the sale proceeds and subsequent collections from Accounts Receivables have been applied.

D. PRE-PETITION MANAGEMENT AND THE EVENTS LEADING TO THE BANKRUPTCY FILING

Between the years of 2008 and 2011, Mason Health provided management services to the Debtors utilizing Mason Health's own internal management team. The Debtors incurred operating losses during this time frame.

Commencing in February 2012, the Debtors engaged HMG Services, LLC ("HMG"), as the manager of the facilities. The Debtors terminated their management agreements with HMG on or about November 12, 2012.[4] The parties then entered into a Termination of Management Agreement, effective as of December 31, 2012, under which the Debtors agreed to pay HMG $100,000.00.[5]

As of January 1, 2013, management of the facilities was performed "in-house" by the Debtors and/or affiliates of the Debtors. The Debtors experienced significant negative trends in the third quarter of 2013, which resulted in lower bed occupancy counts, lower revenues and negative net cash flow.

In October 2013, Mason entered into discussions with StoneGate Senior Living, LLC ("StoneGate") regarding, among other things, the management of the facilities. In November 2013, StoneGate assumed responsibility for the management of all billing and collections activities for the facilities pursuant to the parties' Back Office Services Agreement.

On January 1, 2014, StoneGate assumed overall management of operations for the facilities pursuant to the parties' Management Services Agreement.

Throughout late 2013 and early 2014, the day-to-day operations of the facilities became increasing fragile. The Debtors lost key employees at all of their locations. Trade vendors began to withhold services.

[4] HMG contends that such termination was without cause.
[5] HMG contends that such amount remains unpaid.

IV. SIGNIFICANT EVENTS DURING THE BANKRUPTCY

A. FIRST DAY MATTERS

The Debtors commenced their bankruptcy cases on March 18, 2014, and filed a number of "first day" motions with or shortly after filing their chapter 11 petitions. Such motions included a request to have the cases jointly administered under Mason Coppell's heading, a request to designate the cases as complex, and a request to utilize limited notice procedures to minimize costs and protect patient privacy. The Debtors also sought authority to borrow funds from Oxford post-petition and continue managing their cash through their pre-petition bank accounts. Finally, the Debtors sought authority to pay and continue to honor pre-petition employee compensation obligations for salaries, wages and other benefits.

The Court heard these first-day motions on an emergency basis on March 20, 2014. The motion to borrow funds was granted on an interim basis, pending a final hearing. The Committee was then appointed on March 28, 2014, and retained counsel on March 31, 2014. A final hearing had been scheduled for April 7, 2014.

B. SALES APPROVED BY BANKRUPTCY COURT

On March 26, 2014, the Debtors filed a motion to approve bid procedures for the sale of substantially all of the assets of the Mason Coppell, Mason Georgetown, Mason Georgetown Realco, Mason Mesquite and Mason Round Rock—that is, all of the Debtors except Mason Friendswood. The bid procedures were approved by order entered on April 4, 2014 [Doc. No. 111]. That same day, the Debtors filed their motion to approve a sale to THI of Baltimore, Inc., an affiliate of Fundamental Long Term Care ("Fundamental"), or the party making a higher or better offer. No higher or better offers were ultimately received. Thus, this Court approved the Fundamental Sale on April 18, 2014, and the Fundamental Sale closed on or about April 22, 2014.

The sale to Fundamental provided the following key terms. Fundamental paid a total of approximately $12.1 million for the real estate owned by Mason Georgetown Realco—substantially all of which was applied to taxes and secured obligations owed by that entity—and $4 million for the operations of Mason Coppell, Mason Georgetown, Mason Mesquite and Mason Round Rock.

The proceeds from the sale of the real estate, after payment of taxes and other closing costs, were applied toward the outstanding obligations due under the Oxford Term Loan. The Term Loan was satisfied by such proceeds. Based on the cross-collateralization, substantially all of the sale proceeds from the real estate were applied to the Oxford secured debt. Accordingly, Mason Georgetown Realco has no significant remaining cash or assets to administer and is not included in this Plan.

The Court order approving the Fundamental Sale did not allocate the proceeds among the Debtors. As discussed below, the Plan proposes to do this by effectively dividing the $4 million gross proceeds evenly among these Debtors' estates, and deducting the actual expenses paid at or immediately following the closing from the gross allocation to arrive at net allocations for each

entity. Based on information provided to the Committee, the Committee anticipates that the sale proceeds will be allocated as follows:[6]

	Mason Mesquite	**Mason Coppell**	**Mason Georgetown**	**Mason Round Rock**
Gross Proceeds	1,000,000.00	1,000,000.00	1,000,000.00	1,000,000.00
2013 Taxes	-	(171,544.00)	-	(215,010.00)
2014 Tax (prorated)	(53,335.00)	(50,809.00)	-	(63,439.00)
Rent Arrearages[7]	-	(143,764.00)	-	(34,070.00)
Landlord Settlement	(16,667.00)	(16,667.00)	-	(16,667.00)
Est. Payroll/PTO	(99,800.00)	(145,853.00)	(149,245.00)	(129,348.00)
Other Closing Costs	(5,000.00)	(5,000.00)	(5,000.00)	(5,000.00)
Allocable Proceeds (as of 4/30/14)	**825,198.00**	**466,363.00**	**845,755.00**	**536,466.00**

In addition to the Fundamental Sale, the Court approved the Friendswood Sale under which Mason Friendswood's landlord paid $20,000 cash and assumed certain specified operating liabilities in exchange for Mason Friendswood's transfer of assets and operations to an affiliate of Mason Friendswood's landlord.

C. APPOINTMENT OF THE TRUSTEE, ESTATE PROFESSIONALS AND OTHER AGENTS

The Debtors engaged Deloitte Transactions and Business Analytics LLP and Mr. Louis E. Robichaux IV to act as their Chief Restructuring Officer ("CRO") before the commencement of these cases. Such employment was approved on a post-petition basis on May 5, 2014. *See* Doc. No. 203. The Debtors retained Munsch Hardt as their bankruptcy counsel, and, to avoid conflicts of interest, Mason Georgetown Realco, LLC retained Wick Phillips as its separate bankruptcy counsel. The Committee retained Cox Smith Matthews Incorporated ("Cox Smith") as its bankruptcy counsel.

Shortly after the sales to Fundamental and Friendswood TRS closed, Mr. Kelly resigned from his management positions with the Debtors. Because this left the Debtors without an effective board to which Mr. Robichaux could report, the Debtors (after consulting with the Committee) moved for the appointment of a trustee, which this Court granted on June 2, 2014 [Doc. No. 220]. Dennis Faulkner was appointed as the Chapter 11 Trustee on June 4, 2014. The Trustee has retained Reid Collins & Tsai LLP as his general bankruptcy counsel, and Munsch Hardt as his special counsel. He has also employed Lain Faulkner & Co., P.C. to provide accounting and financial advisory services.

V. SUMMARY OF TREATMENT UNDER THE PLAN

A. CLASSES AND PROPOSED TREATMENT

The Plan has five main classes, but the Plan does not seek to consolidate the Debtors' cases for distribution. For purposes of this Plan, each Class summarized below has five separate

[6] Allocations are subject to the Liquidating Trustee's final reconciliation, which may be more or less than the estimates above, depending on actual PTO, payroll and other trailing operational costs were paid after closing. Amounts also reflect allocations as of April 30, 2014, before use of funds to pay trailing operating expenses, post-closing administrative expenses, and the $500,000 agreed-upon payment to Oxford on account of its secured claim.
[7] Net of deposits held by the landlord at the time of closing.

sub-classes (one for each Debtor). If Creditors have claims against multiple debtors, they will be able to submit a ballot in each case where they assert a claim. The actual distributions may vary from Debtor to Debtor because each Debtor has a different creditor body, different amounts of collectible Accounts Receivable, and different net sale proceeds (as outlined in the chart above). The following section and subsections discuss the classes, proposed treatment and other important information to help creditors determine whether or not they should support the Plan.

1. Class 1 – Oxford Secured Claims

   - Number of Creditors: 1
   - Estimated Claim Amount: Approximately $1.16 million or less
   - Estimated Recovery: 100%
   - Entitled to Vote: Yes, Class is Impaired and Entitled to Vote
   - Proposed Treatment: On the Effective Date or as soon as practicable after the Oxford Claim is Allowed by Final Order, whichever date is later, Oxford will receive Cash in the full amount of its Allowed Secured Claim from the Liquidating Trust Assets attributable to the Oxford Debtors. No distributions will be made from Mason Mesquite's assets, as Oxford does not have a claim in Mason Mesquite's case.

2. Class 2 – Secured Tax Claims

   - Number of Creditors: 0
   - Estimated Amount of Claims: $0 (should all have been paid at closing)
   - Estimated Recovery: 100%
   - Entitled to Vote: No – Claim is Unimpaired
   - Proposed Treatment: Each holder of an Allowed Secured Tax Claim will receive, in full satisfaction, settlement, release, and discharge of and in exchange for such Allowed Secured Tax Claim either (i) on, or as soon as reasonably practicable after, the later of the Effective Date or the date on which such Claim becomes an Allowed Claim, Cash equal to the due and unpaid portion of such Allowed Secured Tax Claim; or (ii) such different treatment as agreed to in writing. Each holder of an Allowed Secured Tax Claim shall retain the liens securing such Claim.

3. Class 3 – Priority Non-Tax Claims

   - Number of creditors: 5-10
   - Estimated Recovery: 100%
   - Estimated Amount of Claims: $81,037.00 (according to claims register)
   - Entitled to Vote: No – Class is Unimpaired
   - Proposed Treatment: Each Holder of an Allowed Priority Non-Tax Claim shall receive, in full satisfaction and release, of such Claim, either: (i) the amount of such Allowed Priority Non-Tax Claim, in Cash on the earlier of the Effective Date or the date that is fourteen (14) days after such Claim is Allowed; or (ii) such other treatment as may be agreed upon in writing by the holder of such Claim and the Liquidating Trustee.

4. Class 4 – Other Secured Claims

   - Number of creditors: 0
   - Estimated Recovery: 100%
   - Estimated Amount of Claims: $0
   - Entitled to Vote: No – Class is Unimpaired
   - Proposed Treatment: The validity, priority, extent and value of any Other Secured Claim shall be subject to determination by the Bankruptcy Court or pursuant to an agreement between the Holder of an Other Secured Claim and the Liquidating Trustee. At the option of the Liquidating Trustee,

the collateral can either be returned to the holder of the Secured Claim, or after a determination of value of the secured portion of the claim, paid for by the Liquidating Trustee.

5. Class 5 – General Unsecured Claims

- Number of creditors: Approximately 100 – 150 per estate
- Estimated Amount of Claims:
  - Mason Mesquite: 4,522,000.00
  - Mason Georgetown: 4,406,000.00
  - Mason Coppell: 4,004,000.00
  - Mason Round Rock: 3,733,000.00
  - Mason Friendswood: 3,069,000.00
- Estimated Recovery: Depends on Estate; estimates range from 4% - 30%
- Entitled to Vote: Yes – Class is Impaired and Entitled to Vote
- Proposed Treatment: Each sub-class will receive pro-rata distributions from the Liquidating Trust Assets allocated to the applicable Debtor. Such assets will include allocations of cash on hand, future collections of accounts receivable and potential recoveries from litigation, if applicable. For a complete explanation of the establishment and maintenance of the Liquidation Reserves, see Pages 11-13 below and Section 7.4 of the Plan.

6. Class 6 – Equity Interests

- Estimated Recovery: None
- Number of interest holders: 6
- Entitled to Vote: No – Class is Deemed to Reject
- Proposed Treatment: All Equity Interests in the Debtors will be cancelled as of the Effective Date. Equity is deemed to have rejected the Plan.

VI. MEANS OF IMPLEMENTATION OF THE PLAN

A. VESTING OF ASSETS (THE LIQUIDATING TRUST)

All Claims and Assets of the five Debtors' Estates will be assumed by and assigned to the Liquidating Trust to administer pursuant to this Plan. A Liquidating Trustee will be appointed under the Plan, and the Liquidating Trustee will implement the terms of the Plan pursuant to a Liquidating Trust Agreement, which will be filed as an Exhibit to the Plan and incorporated into the Plan. The Liquidating Trust Agreement will also appoint a Liquidating Trust Committee of at least three, but not more than five, Committee members who volunteer to serve on the post-confirmation Trust Committee. The Liquidating Trustee will report to and obtain authority from the Liquidating Trust Committee before taking the actions enumerated in Article VII of the Plan, such as pursuit of litigation or distributions to creditors.

As summarized above, the purpose of the Liquidating Trust is to implement the Plan in an efficient manner by appointing a single person to administer all Claims, liquidating all Assets, prosecute all Estate Causes of Action and disburse the proceeds accordingly.

The assets presently available for distribution include the net collections from accounts receivable of the Debtors and the cash proceeds derived from the Court-approved sale to

Fundamental.[8] There remain some uncollected accounts receivable which will be collected by the Liquidating Trustee's collection agent(s). Additionally, the transaction with Fundamental did not allocate the sale proceeds by entity. Accordingly, the Plan will provide for a meaningful allocation of such proceeds as described in Section IV.B above.

B. ESTABLISHMENT AND MANAGEMENT OF LIQUIDATION RESERVES

As set forth in Section 7.4 of the Plan, the Liquidating Trustee will establish two "pots," or Liquidation Reserves, which will be used to pay claims. One "pot" will be established solely for creditors of Mason Mesquite, and the other "pot" will be established for the benefit of creditors of the Oxford Debtors. The Committee believes a joint Liquidation Reserve is needed for the Oxford Debtors because Oxford asserted a secured claim jointly and severally against all Oxford Debtors and their assets. Without a single "pot" or Liquidation Reserve for the Oxford Debtors, Oxford's secured claim could be paid disproportionately by one Oxford Debtor simply because it may have more cash available on the date of payment. To avoid prejudicing the creditors of one estate simply because that estate has more cash on hand, the Plan proposes a re-balancing mechanism through a shared Liquidation Reserve. This mechanism allows the Liquidating Trustee to pay the Oxford Secured Claim and priority claims in full from the Oxford Debtor Reserve, collect out the Oxford Debtors' accounts receivable, and then divide the net distributable cash pursuant to the following percentages to rebalance the Oxford Debtors' cash.

Using the cash in the Oxford Debtor Reserve, the Liquidating Trustee will pay the remaining balance of the Oxford Secured Claim in full as set forth under Section 5.1(a) of the Plan, 80% of the Allowed Administrative Claims (the other 20% is paid out of the Mesquite Reserve, as discussed below), and any other secured, tax or priority claims asserted against the Oxford Debtors. Future collections of all Oxford Debtors' accounts receivable will be deposited into the Oxford Debtor Reserve, as well as net proceeds of litigation.

The Liquidating Trustee will then divide the existing cash and any future receipts maintained in the Oxford Debtor Reserve in a manner that assumes that the Oxford Secured Claim was paid equally from all four Oxford Debtors' cash, but that Mason Coppell, Mason Georgetown and Mason Round Rock paid a greater share (24% each) of the Administrative Claims, while Mason Friendswood paid a smaller share (only 8%) of the Administrative Claims. If Mason Friendswood was required to pay an equal 20% share of the Chapter 11 Administrative Claims incurred in these cases, creditors of Mason Friendswood might not receive any distributions. The Committee believes that Mason Friendswood should not have to pay a proportionate 20% share of the Chapter 11 Administrative Claims, because Mason Friendswood did not receive the same benefit that other Debtors did, as it was not included in the Fundamental Sale.

THE COMMITTEE INTENDS THE PROPOSED ALLOCATION OF ASSETS TO BE A CONSENSUAL RESOLUTION TO THE POTENTIAL DISPUTE OVER THE ALLOCATION OF SALE PROCEEDS AND ADMINISTRATIVE EXPENSES AMONG THE DEBTORS AND THEIR ESTATES. THE PROPOSAL IS BASED ON A ROUGH

[8] Mason Friendswood's operations were not sold to Fundamental, but instead to the landlord of the Mason Friendswood facility in exchange for $20,000 cash and assumption of certain liabilities.

ESTIMATE OF A REASONABLE RESULT. BECAUSE IT IS DIFFICULT (IF NOT IMPOSSIBLE) TO ENSURE THAT ALL DEBTORS MAKE EQUAL PAYMENTS TO OXFORD AND PAY A PROPORTIONATE SHARE OF THE CHAPTER 11 EXPENSES COMMENSURATE WITH THE BENEFIT RECEIVED BY THE APPLICABLE ESTATE, THE COMMITTEE BELIEVES THE ALLOCATIONS PROPOSED IN SECTION 7.4 OF THE PLAN (AS ILLUSTRATED IN THE CHART BELOW) ARE A FAIR AND EQUITABLE RESOLUTION.

The table below illustrates the division of cash among the Oxford Debtors—including potential distributions likely for each Oxford Debtor, based on the claims presently filed and the accounts receivable forecasted to be collectible by the Trustee's collection agent as of September 25, 2014—which the Committee believes is most equitable under the circumstances:

	Oxford Debtor Reserve	Georgetown	Coppell	Round Rock	Friendswood
Assets					
Adjusted Net Sale Proceeds[9]	**764,425.00**	350,114.73	193,058.93	221,251.33	-
Est. AR collection[10]	**2,089,464.94**	382,984.00	546,745.03	587,352.28	572,383.63
Subtotal	***$2,853,890.94***	733,098.73	739,803.96	808,603.61	572,383.63
Liabilities / Other Classes					
Admin Expenses[11]	**(640,000.00)**	(192,000.00)	(192,000.00)	(192,000.00)	(64,000.00)
Class 1 Oxford Claim[12]	**(1,160,000.00)**	(290,000.00)	(290,000.00)	(290,000.00)	(290,000.00)
Class 2 Secured Tax	**-**	-	-	-	-
Class 3 Priority Non-Tax	**(81,037.00)**	(20,259.25)	(20,259.25)	(20,259.25)	(20,259.25)
Liq. Trust Funding	**(200,000.00)**	(50,000.00)	(50,000.00)	(50,000.00)	(50,000.00)
Subtotal	***$(2,081,037.00)***	(552,259.25)	(552,259.25)	(552,259.25)	(424,259.25)
Share of Distributions[13]	**$772,853.94**	**$180,839.48**	**$187,544.71**	**256,344.36**	**$148,124.38**
		23.40%	*24.27%*	*33.17%*	*19.16%*

[9] This line item estimates the funds assuming that: (a) each Oxford Debtor received the sale proceeds allocated in Section IV.B above, as of April 30, 2014; (b) all of Mason Friendswood's $20,000.00 was used to pay administrative expenses and/or the Oxford Secured Claim; and (c) equal shares of Mason Coppell, Mason Georgetown and Mason Round Rock's allocated sale proceeds were used to pay down the Oxford Secured Claim and certain administrative expenses, including professional fees and trailing operating expenses paid prior to the filing of this Disclosure Statement.

[10] Anticipated accounts receivable that Trustee's collection agent believes is likely to be collectible, as of September 25, 2014. These amounts are significantly lower than the gross amounts of AR reflected on the Oxford Debtors' books: Mason Georgetown – $1.68 million, Mason Coppell – $2.17 million, Mason Round Rock – $1.72 million, and Mason Friendswood – $1.89 million. The Trustee's agent indicated that the actual collectible values may vary due to a number of factors including late filed claims or claims being subject to sequestration-related reductions not previously reflected in the Debtors' books. The Committee cannot definitively estimate the actual timing and amounts of collections.

[11] Reflects approximately 80% of the accrued unpaid professional fees and other operating costs through August 2014 ($435,343.00), plus 80% of the total estimated through the effective date ($350,000). Under the plan, 20% will be paid from the Mesquite Reserve. As noted above, Mason Friendswood will pay a lower share of the administrative expenses.

[12] Oxford has received a $500,000 payment applied to the August 2014 balance, and has agreed to reduce its claim by up to $120,000 if paid on or before the Effective Date of the Plan. *See* Doc. No. 290. The chart does not factor in any payments that may come from a non-debtor co-obligor.

[13] Assumes that the total Oxford Debtor Reserve (after paying the Oxford Secured Claim, 80% of the total allowed Administrative Claims and 100% of the Oxford Debtors' Priority and Other Secured Claims) is divided in accordance with Section 7.4 of the Plan to achieve the proposed allocation of Chapter 11 Administrative Claims and Oxford Secured Claim.

Class 5 Claims (Est.)[14]		4,406,000.00	4,004,000.00	3,733,000.00	3,069,000.00
Distributions (Est.)		**4.10%**	**4.68%**	**6.87%**	**4.83%**

The Net Cash for distribution and actual distribution percentages to creditors for each estate could vary depending on a number of factors such as reductions to allowed claims as the result of objections, increases in allowed claims due to late filed or amended proofs of claim, unexpectedly higher or lower collection rates in the Debtors' remaining accounts receivable, changes in the anticipated Administrative Claims, significant recoveries through litigation, or payments on the Oxford Secured Claim from non-debtor affiliate sources, including co-obligor Mason Dessau OP, LLC d/b/a Cedarview.

On the other hand, the Mesquite Reserve will be managed independently from the Oxford Debtor Reserve. The Mesquite Reserve will be funded with: (a) all of Mason Mesquite's cash on hand as of the Effective Date (estimated to be approximately $320,000 as of October 1, 2014); (b) the Mesquite Net Sale Proceeds (as described above in Section IV.B above, estimated to be approximately $825,198); and (c) future collections of accounts receivable (estimated to be approximately $383,000 of the gross $1,375,000).

After using or holding back funds maintained in the Mesquite Reserve to pay 20% (or approximately $150,000) of the total Allowed Administrative Claims and 100% of any other priority, tax or secured claims asserted against Mason Mesquite, and allocating up to $50,000 for Liquidating Trust administrative costs, the Committee expects Class 5 creditors of Mason Mesquite to receive distributions of approximately 25-30% of their $4,522,000.00 asserted claims.

As with the distribution percentages forecasted for the Oxford Debtors, the recoveries for Mason Mesquite's creditors may vary depending on a number of factors, such as reductions to allowed claims as the result of objections, increases in allowed claims due to late filed or amended proofs of claim, unexpectedly higher or lower collection rates in the Debtors' remaining accounts receivable, changes in the anticipated Administrative Claims, significant recoveries through litigation.

C. ADMINISTRATION OF CLAIMS AND THE LIQUIDATING TRUST

The Liquidating Trustee will administer and pay Claims and implement all provisions of the Plan. The "Claim Objection Deadline" will be 45 days after the Effective Date.

The Plan provides other deadlines for administrative claims, including professional fee claims and other administrative expense claims. For all Administrative Claims, the deadline for requesting allowance and payment is 30 days after the Effective Date. All parties in interest will have an opportunity to review and object to professional fee claims and other administrative expense claims.

Administrative Claims will be paid 20% from the Mesquite Reserve and 80% from the Oxford Debtor Reserve. Secured, tax and other priority claims will be paid out of the

[14] Based on all unsecured proofs of claim filed. Actual amounts allowed may vary, depending on objections.

Liquidation Reserve established for the liable entity. Thus, tax claim, priority claims and secured claims asserted against Mason Mesquite, if any, will be paid from the Mesquite Reserve. All other tax claims, priority claims and secured claims (including the Oxford Secured Claim) will be paid from the Oxford Debtor Reserve.

Distributions to holders of Class 5 General Unsecured Claims will also come from the Liquidation Reserve established for the applicable liable entity. Thus, holders of claims against Mason Mesquite will receive distributions from the Mesquite Reserve (with the approval of the Liquidating Trust Committee and after satisfaction of secured claims, tax claims and other priority claims asserted against Mason Mesquite). Holders of Class 5 General Unsecured Claims against Mason Coppell, Mason Friendswood, Mason Georgetown, and Mason Round Rock will receive distributions from the appropriate share of the net distributable cash held in the Oxford Debtor Reserve (also, with the approval of the Liquidating Trust Committee and after satisfaction of secured claims, tax claims and other priority claims asserted against Mason Mesquite).

To pay future Liquidating Trust costs, the Liquidating Trustee will allocate an initial $200,000 for the Oxford Debtors' estates, plus $50,000 for Mason Mesquite's estate, provided, however, that the Liquidating Trustee will only be authorized to use such funds for the purposes approved by the Trust Committee under the terms of the Liquidating Trust Agreement. The Liquidating Trustee may be able to use additional cash to fund the administration of the Liquidating Trust, but only after obtaining approval from the Trust Committee.

D. CAUSES OF ACTION AND POTENTIAL LITIGATION RECOVERIES

All Causes of Action of all Debtors' Estates will be reserved under the Plan and assigned to the Liquidating Trust for the benefit of all Class 5 Creditors, subject to the terms of the Liquidating Trust Agreement. That does not mean that the Liquidating Trustee is compelled to pursue every Cause of Action reserved under the Plan, however. The Liquidating Trustee will be required to exercise his or her "litigation judgment" regarding the Causes of Action that are deemed to be beneficial to the Liquidating Trust beneficiaries, considering the likelihood of success, the likelihood of recovery, the likely costs of litigation and other relevant factors necessary to fulfill the Liquidating Trustee's fiduciary obligations. **THE LIQUIDATING TRUSTEE WILL ONLY BE AUTHORIZED TO PURSUE LITIGATION WITH THE EXPRESS APPROVAL OF THE TRUST COMMITTEE.**

Notwithstanding the foregoing, Accounts Receivable will be assigned to the Liquidating Trust and collected by the Liquidating Trustee independently for Mason Mesquite and for the Oxford Debtors. Thus, 100% of any collection costs attributable to the collection of Mason Mesquite's Accounts Receivable will be paid from the Mesquite Reserve, and 100% of the net proceeds of Mason Mesquite's Accounts Receivable will be deposited into the Mesquite Reserve for future distribution to Mason Mesquite's sub-Class 5 Creditors, consistent with the terms of the Plan. Similarly, 100% of any collection costs attributable to the collection of the Oxford Debtors' Accounts Receivable will be paid from the Oxford Debtor Reserve, and the Liqudiating Trustee will deposit 100% of the net proceeds from the Oxford Debtors' Accounts Receivable into the Oxford Debtor Reserve for future distribution to Oxford Debtors' sub-Class 5 Creditors pursuant to the terms of the Plan.

For all other Causes of Action other than the collection of Accounts Receivable, the Liquidating Trustee will have to see authority from the Trust Committee before pursuing litigation. If the Trustee Committee authorizes the Liquidating Trustee to pursue such Causes of Action through litigation, the Trust Committee will appoint a sub-committee comprised of no more than three members, at least one of which shall be a noteholder asserting a Class 5 General Unsecured Claim against Mason Mesquite.[15] For each Cause of Action (other than the collection of Accounts Receivable) that the Trust Committee authorizes the Liquidating Trustee to pursue through litigation, the sub-committee shall decide whether to participate in such litigation using funds held in the Mesquite Reserve. If the sub-committee comprised of a Mesquite noteholder votes to participate in such litigation, the Liquidating Trustee will be authorized to fund 20% of any litigation costs and expenses associated with the pursuit of such Cause of Action from the Mesquite Reserve, and the Liquidating Trustee shall be obligated to distribute 20% of all net proceeds (after payment of such litigation costs and expenses) realized from such Cause of Action to the Mesquite Reserve. If such sub-committee votes against participating in such Cause of Action, the Liquidating Trustee must pay 100% of the related litigation costs and expenses from the Oxford Debtor Reserve, and shall distribute 100% of the net proceeds (after payment of the litigation costs and expenses) realized from such Cause of Action to the Oxford Debtor Reserve.

THE DESCRIPTIONS OF POTENTIAL CAUSES OF ACTION BELOW ARE NOT INTENDED TO BE A DEMAND ON ANY OF THE POTENTIAL DEFENDANTS IN SUCH CAUSES OF ACTION, AND ARE NOT AN INDICATION OF WHETHER A MERITORIOUS CAUSE OF ACTION EXISTS.

THE DESCRIPTIONS ARE ALSO NOT INTENDED TO LIMIT CLAIMS OR CAUSES OF ACTION WHICH MAY BE ASSERTED AGAINST ANY POTENTIAL DEFENDANT.

NEVERTHELESS, BY THE DESCRIPTIONS BELOW, AND SUBJECT TO ALL OTHER PROVISIONS OF THE PLAN, THE PROPONENT, ON BEHALF OF THE DEBTORS' ESTATES, EXPRESSLY, SPECIFICALLY AND UNEQUIVOCALLY RESERVES ALL RIGHTS IN ALL CAUSES OF ACTION, INCLUDING ALL CAUSES OF ACTION DESCRIBED BELOW. ANY POTENTIAL DEFENDANT WHO IS ALSO A CREDITOR IN THESE CASES SHOULD ASSUME THAT A CAUSE OF ACTION MAY BE PURSUED BY THE LIQUIDATING TRUSTEE AND ACT ACCORDINGLY.

Unless expressly waived, released or abandoned under the Plan or by a prior order of the Bankruptcy Court, all Causes of Action, including such Causes of Action described below, will be reserved under the Plan and assigned to the Liquidating Trust. The Liquidating Trustee will use his or her best efforts to maximize the value of the Causes of Action for the benefit of the beneficiaries of the Liquidating Trust. As such, the Liquidating Trustee will be authorized, but not required, to pursue the Causes of Action.

[15] All other members appointed to such sub-committee also must be Creditors of Mason Mesquite.

1. Avoidance Actions

Chapter 5 of the Bankruptcy Code allows a debtor or trustee to avoid and recover certain transfers made before the Petition Date so that such funds may be redistributed to creditors of the Bankruptcy Estate. On or about April 14, 2014, the Debtors filed Statements of Financial Affairs [Doc. Nos. 155-160] (the "SOFAs") which, among other things, listed approximately 400 transfers to third-party creditors for a total of $4.3 million, all made within the 90-days immediately before the Petition Date, and at least another $2 million to or for the benefit of certain non-debtor insiders within one year of the Petition Date. **THE LIST OF PRE-PETITION TRANSFERS LISTED IN THE SOFAS IS INCORPORATED HEREIN BY REFERENCE AND MAY BE SUPPLEMENTED BY ANY PLAN DOCUMENTS.**

Such transfers are potentially avoidable under chapter 5 of the Bankruptcy Code or applicable state law, and could be recovered by the Debtors for the benefit of creditors. All rights to pursue a recovery of the foregoing transfers are expressly reserved under the Plan and will be assigned to the Liquidating Trust, and the Liquidating Trustee may (but shall not be required to) pursue such Causes of Action on behalf of the Liquidating Trust beneficiaries.

Notwithstanding the foregoing, as of the filing of this Disclosure Statement, the Committee has conducted a preliminary analysis of the pre-petition transfers made to third-party vendors during the 90 days before the Petition Date, consistent with this Bankruptcy Court's instructions in *In re Brook Mays Music Company*, 2007 Bankr. LEXIS 2902 (Bankr. N.D. Tex. Aug. 1, 2007). In all, the Committee found approximately 400 transfers made to over 40 transferees for a total of approximately $4.3 million. While this amount seems significant on its face, the Committee believes most of these transfers would either be too small to pursue or would be protected by obvious ordinary course or new value defenses, except as noted below.

For Mason Mesquite, the Committee found three transfers that might be vulnerable to avoidance for a maximum recovery of approximately $180,000.[16] All transferees are still creditors of Mason Mesquite, however, and have asserted claims against Mason Mesquite far in excess of the potentially avoidable transfers they received pre-petition.

For the Oxford Debtors, the Committee found a total of approximately 56 transfers that might be subject to avoidance for a maximum recovery of approximately $1.2 million, in the aggregate.[17] The maximum recovery for each estate ranges from $150,000, for Mason Georgetown, to $430,000 for Mason Coppell. As with Mason Mesquite, these transferees are all creditors of the Oxford Debtors, and most of them have asserted claims in excess of the transfers they received pre-petition. Accordingly, the Committee does not anticipate a significant recovery from third-party preference actions. If litigation is likely to generate a recovery of any significance, that recovery will more likely stem from avoidance actions and other claims against insiders and former management companies, as described below.

[16] The Committee expects that the transferees would have other defenses not readily apparent from the payments history or claims on file. Such defenses could reduce the recovery significantly, if not completely.

[17] Once again, the Committee expects that these transferees would have other defenses not readily apparent from the payments history or claims on file. Such defenses could reduce the recovery significantly, if not completely.

The Committee's findings and conclusions stated above do not limit in any way the Trustee's right or responsibility to fully evaluate any avoidance actions.

2. Other Causes of Actions

The Trustee also reserves other Chapter 5 causes of action, including, but not limited to, turnover actions under section 542 and 543 of the Bankruptcy Code, setoff actions under section 553 of the Bankruptcy Code, and state and federal fraudulent transfer actions under sections 544 and 548 of the Bankruptcy Code and applicable state fraudulent transfer laws. **ANY PERSON (INCLUDING INDIVIDUALS AND ENTITIES) THAT RECEIVED MONEY OR PROPERTY, DIRECTLY OR INDIRECTLY, FROM THE DEBTOR SINCE MARCH 18, 2010, IS A POTENTIAL DEFENDANT FOR SUCH LAWSUITS**, although the Proponent has not fully investigated the merits of such potential claims remains ongoing as of the presentation of the Plan.

Finally, the Plan reserves all Causes of Action that existed on the Petition Date or arose under Chapter 5 of the Bankruptcy Code. For the avoidance of doubt, the Plan reserves all Causes of Action against insiders or third parties for mismanagement, gross mismanagement, breach of contract, breach of fiduciary duty, negligence, gross negligence, and fraud to the extent facts to support any such claims exist, and any actual or constructively fraudulent transfers made in the form of inflated management fees or other payments for which there was no reasonably equivalent consideration given to the Debtors. Potential defendants include, but shall not be limited to, HMG LLC, StoneGate Senior Living, LLC, Mason Health, LLC, Mason Capital Partners, LLC, Mason Capital Asset 1, LP, MCK Holdings, LLC, Mason Capital Asset 2, LP, Mason Capital Asset 3, LP, Mason Capital Asset 4, LP, Mason Capital Asset 5, LP, and any agent, principal, manager, officer, director, or controlling member or shareholder of the foregoing, including, without limitation, M. Craig Kelly, Gregory Moore, Mark Minor, Lance Cornell, Robert Cramer, James Bray, Doug Bray, Robin Hayes, Marybeth Thompson, Derek Prince, Greg Lentz and Laurence Daspit. Such Causes of Action may also be asserted derivatively on behalf of any of the Debtors, as well as against or derivatively through any other past or present officer, manager, member, insider or person in control of the Debtors, *provided, however*, that such Causes of Action may only be pursued by the Liquidating Trustee. Regardless of where, how and by whom such Causes of Action are brought, the Plan specifically and unequivocally reserves all such Causes of Action and assigns them to the Liquidating Trust.

ALL CAUSES OF ACTION DESCRIBED IN THIS SECTION ARE EXPRESSLY RESERVED UNDER THE PLAN AND WILL BE ALLOCATED TO THE APPROPRIATE LIQUIDATION RESERVE FOR POSSIBLE PURSUIT BY THE LIQUIDATING TRUSTEE.

3. Causes of Action Asserted by Kelly and Non-Debtor Affiliates Controlled by Kelly

On August 18, 2014, Kelly and certain non-debtor affiliates controlled by Kelly, either directly or indirectly, filed a lawsuit in the County Court at Law in Dallas County (Cause No. CC-14-04133-E) against HMG, Derek Prince, Lawrence Daspit and C. Wayne Culp alleging claims arising from or relating to certain management agreements, pursuant to which HMG managed certain of the Debtors' facilities, including claims for, among other things, breach of contract ("Kelly Action").

On or about September 12, 2014, HMG, Derek Prince, Lawrence Daspit and C. Wayne Culp removed the Kelly Action to this Court, and filed a Motion to Dismiss and/or For Summary Judgment.

On or about September 23, 2014, HMG, Derek Prince, Lawrence Daspit and C. Wayne Culp amended their Proofs of Claim to assert, among other things, claims for indemnification against the Debtors' estates pursuant to Section 9.2 of the subject management agreements, providing in relevant part as follows:

> Indemnification of Manager by Operator. Operator agrees to indemnify and hold harmless Manager, and its directors, officers, employees, representatives, agents and attorneys from, against, for and in respect of any and all damages, penalties, fines, interest and monetary sanctions, losses, obligations, liabilities, claims, deficiencies, costs and expenses, including, without limitation, reasonable attorneys' fees and other costs and expenses incident to any investigation, claim or Proceeding (hereinafter referred to collectively as "Manager's Losses") suffered, sustained, incurred or required to be paid by any of them in connection with Manager's performance of its obligations under this Agreement other than Manager's Losses resulting from Manager's willful misconduct, bad faith or gross negligence in the performance of its obligations under this Agreement….

On or about September 23, 2014, Kelly initiated Case No. 14-34582-bjh-7, with the filing of a voluntary Chapter 7 petition.

On or about October 3, 2014, the Trustee filed a Limited Response to the Motion to Dismiss and/or For Summary Judgment filed by HMG, among others, urging that "the Petition should be dismissed for lack of standing pursuant to Rule 12(b)(1) of the Federal Rules of Civil Procedure." The Trustee further asserted that "all causes of action for mismanagement of the Debtors' facilities, including those asserted in the [Kelly Action], are reserved" by the Plan for the Liquidating Trust. Finally, the Trustee disagreed with other factual and legal arguments made in the Motion to Dismiss and/or For Summary Judgment including, but not limited to, arguments regarding the effects of the Termination of Management Agreement and indemnification.

The Committee agrees that the claims asserted by the insider-plaintiffs in the Kelley Action constitute Causes of Action that belong to the Debtors' Estates. The Plan expressly reserves such claims, including the right to intervene or otherwise assert that such claims and causes of action belong to the Debtors' Estates and may be pursued only by the Liquidating Trustee.

To the extent that litigation is initiated by the Liquidating Trustee against HMG arising out of, or relating to, its management of the facilities, and HMG prevails, it is the position of HMG that it may recover its attorneys' fees in accordance with the terms of the management agreements pursuant to which HMG managed the facilities.

The Trustee and the Committee dispute HMG's right to receive attorneys' fees and reserve the right to object to HMG's Proof of Claim, as amended on September 23, 2014, or thereafter.

4. Other Reserved Causes of Action

The Debtors also hold certain causes of action against payors, residents, counterparties and other persons for open accounts receivable and services provided before the effective date of the sales to Fundamental and the Mason Friendswood landlord. The Proponent, on behalf of the Debtors' estates, expressly reserves all rights with respect to such claims, causes of action and defenses, and such rights will be assigned to the Liquidating Trust, as with all other Causes of Actions reserved under the Plan. To the extent any facts exist, known or unknown, that would create claims against any of its employees or contract counterparties, such claims are also reserved. The Proponent also retains claims, counterclaims, causes of action and defenses with respect to its trade vendors who assert claims in the Bankruptcy Case.

ALL SUCH CLAIMS, COUNTERCLAIMS, CAUSES OF ACTION AND DEFENSES ARE EXPRESSLY RESERVED UNDER THE PLAN AND ASSIGNED TO THE LIQUIDATING TRUST, UNLESS OTHERWISE EXPRESSLY RELEASED IN THE PLAN, CONFIRMATION ORDER OR OTHER ORDER OF THE BANKRUPTCY COURT.

E. RELEASES UNDER THE PLAN

As is typical in bankruptcy cases such as this one, the Proponent proposes releases for itself, the Debtors, the Trustee, their Professionals, Committee members and their respective employees, agents, principals, shareholders, partners and associates from claims arising from: (i) its management of the estate affairs during the Bankruptcy Case; (ii) the implementation of any of the transactions provided for, or contemplated in, the Plan; (iii) any action taken in connection with either the enforcement of the Proponent's rights in this Bankruptcy Case; (iv) any action taken in the negotiation, formulation, development, proposal, solicitation, disclosure, confirmation, or implementation of the Plan or the other document; and (v) the administration of the Plan, the Debtors' assets or any other property to be distributed under the Plan.

For avoidance of doubt, the releases provided in this Section do not release or otherwise affect any Causes of Action that existed on the Petition Date or arose under Chapter 5 of the Bankruptcy Code.

F. PAYMENT OF DEBTS AND INJUNCTIONS

The Plan and Confirmation Order will act as a permanent injunction against all parties in interest from pursuing claims and causes of action against the Debtors, the Trustee, the Liquidating Trustee and the Liquidating Trust Assets, except as expressly authorized in the Plan and Confirmation Order. **THIS MEANS THAT ALL CLAIMS, RIGHTS AND REMEDIES THAT A CREDITOR OR OTHER PARTY IN INTEREST COULD HAVE ASSERTED AGAINST THE DEBTORS (INCLUDING INTRACOMPANY CLAIMS AMONG THE DEBTORS) OR DERIVATIVELY THROUGH THE DEBTORS WILL BE BARRED, AND SUCH CREDITORS OR INTERESTED PARTIES WILL BE ENJOINED FROM PURSUING SUCH REMEDIES PROVIDED THAT THE LIQUIDATING TRUSTEE SATISFIES THE OBLIGATIONS IMPOSED UNDER THE PLAN AND CONFIRMATION ORDER.**

The specific provisions of the Plan governing such injunction may be found in Section 11.2 of the Plan.

VII. VOTING PROCEDURES

A. DEADLINE FOR SUBMISSION OF BALLOTS AND OBJECTIONS TO CONFIRMATION

On or about October 15, 2014, the Bankruptcy Court enter an order pursuant to section 1125 of the Bankruptcy Code (the "Solicitation Order") approving this Disclosure Statement as containing information of a kind, and in sufficient detail, adequate to enable a hypothetical, reasonable investor, typical of the solicited holders of Claims against and Interests in the Debtor, to make an informed judgment with respect to the acceptance or rejection of the Plan. A copy of the Solicitation Order is included in the materials accompanying this Disclosure Statement. APPROVAL OF THIS DISCLOSURE STATEMENT BY THE BANKRUPTCY COURT DOES NOT CONSTITUTE A DETERMINATION BY THE BANKRUPTCY COURT REGARDING THE FAIRNESS OR MERITS OF THE PLAN.

After carefully reviewing this Disclosure Statement, including the attached exhibits, please indicate your acceptance or rejection of the Plan by voting in favor of, or against, the Plan on the enclosed ballot and returning the same to the address set forth on the ballot, so that it will be received by the Balloting Agent, no later than 4:00 p.m., Central Time, on November 18, 2014 (the "Voting Deadline").

If you do not vote to accept the Plan, or if you are the holder of an unimpaired Claim or Interest, you may be bound by the Plan if it is accepted by the requisite number of Claimants and amount of Claims in the applicable subclass.

TO BE SURE YOUR BALLOT IS COUNTED, YOUR BALLOT MUST BE RECEIVED NO LATER THAN 4:00 P.M., CENTRAL TIME, ON NOVEMBER 18, 2014. For detailed voting instructions and the name, address, and phone number of the person you may contact if you have questions regarding the voting procedures.

Pursuant to section 1128 of the Bankruptcy Code, the Bankruptcy Court has scheduled a hearing to consider confirmation of the Plan (the "Confirmation Hearing"), on **Monday, November 24, 2014, at 10:30 a.m., Central Time**, in the United States Bankruptcy Court for the Northern District of Texas, Dallas Division.

The Bankruptcy Court has directed that objections, if any, to confirmation of the Plan be filed and served on or before **November 18, 2014, at 4:00 p.m.**.

B. CREDITORS SOLICITED TO VOTE

Each Creditor holding a Claim in Classes 1 and 5, each of which are impaired under the Plan, is being solicited to vote on the Plan. Creditors will receive Ballots for each Class in which they are entitled to vote, and Creditors may submit a ballot for each Debtor against whom they have asserted or are scheduled as holding a Claim classified within these Classes. As an example, a trade creditor who supplied goods to the Debtors may submit up to five ballots if it holds Claims against all five Debtors. Similarly, Oxford will have the right to submit up to four

ballots—one in each of the Oxford Debtors' cases. Unsecured noteholders of Mason Mesquite will only be allowed to submit a ballot for Mason Mesquite, unless such creditors have Claims in the other Cases.

A Creditor's vote will not be counted if there is an objection to such Creditor's Claim, unless and to the extent that the Bankruptcy Court temporarily allows the Claim. To obtain temporary allowance of a Claim for voting purposes, a Creditor must file a Rule 3018 Motion before the Voting Deadline. Such motion must be heard and determined by the Bankruptcy Court prior to the date and time established by the Bankruptcy Court for determination of confirmation of the Plan. In addition, a Creditor's vote may be disregarded if the Bankruptcy Court determines that the Creditor's acceptance or rejection of the Plan was not solicited or procured in good faith or in accordance with the provisions of the Bankruptcy Code.

The Committee expressly supports confirmation and urges all Claimants to vote to accept the Plan.

VIII. EXPLANATION OF CHAPTER 11

A. OVERVIEW OF CHAPTER 11

The commencement of a chapter 11 case creates an estate comprising all the legal and equitable interests of the debtor in property as of the date the petition is filed. Sections 1101, 1107, and 1108 of the Bankruptcy Code provide that a debtor may continue to operate its business and remain in possession of its property as a "debtor in possession" unless the bankruptcy court orders the appointment of a trustee. In the present Chapter 11 Cases, the Debtors remained in possession of their estates and acted as Debtors in Possession from the Petition Date through the appointment of the Trustee on June 4, 2014.

The filing of a chapter 11 petition also triggers the automatic stay provisions of the Bankruptcy Code. Section 362 of the Bankruptcy Code provides, *inter alia*, for an automatic stay of all attempts to collect pre-petition claims from the debtor or otherwise interfere with its property or business. Except as otherwise ordered by the bankruptcy court, the automatic stay remains in full force and effect until the effective date of a confirmed plan for the Debtors.

The formulation of a plan is the principal purpose of a chapter 11 case. The plan sets forth the means for satisfying the claims against and interests in the debtor. Because a trustee was appointed in this case, any party in interest may propose its own plan.

B. PLAN OF LIQUIDATION

A chapter 11 plan may provide anything from a complex restructuring of a debtor's business and its related obligations to a simple liquidation of the debtor's assets.

Generally, after a plan of reorganization has been filed, the holders of claims against or interests in a debtor are permitted to vote to accept or reject the plan. Before soliciting acceptances of the proposed plan, section 1125 of the Bankruptcy Code requires the debtor to prepare a disclosure statement containing adequate information of a kind, and in sufficient detail, to enable a hypothetical reasonable investor to make an informed judgment about the plan. This

Disclosure Statement is presented to holders of Claims against and Interests in the Debtor to satisfy the requirements of section 1125 of the Bankruptcy Code.

If all classes of claims and interests accept a plan of reorganization, the bankruptcy court may nonetheless still not confirm the plan unless the court independently determines that the requirements of section 1129 of the Bankruptcy Code have been satisfied. Section 1129 sets forth the requirements for confirmation of a plan and, among other things, requires that a plan meet the "best interest" test and be "feasible." The "best interests" test generally requires that the value of the consideration to be distributed to the holders of claims and interests under a plan may not be less than those parties would receive if the debtor were liquidated pursuant to a hypothetical liquidation occurring under chapter 7 of the Bankruptcy Code. Under the "feasibility" requirement, the court generally must find that there is a reasonable probability that the debtor will be able to meet its obligations under its plan without the need for further financial reorganization.

The Proponent believes that the Plan satisfies all the applicable requirements of section 1129(a) of the Bankruptcy Code, including, in particular, the "best interests of creditors" test and the "feasibility" requirement.

THE COMMITTEE, AS THE SOLE PROPONENT, SUPPORTS CONFIRMATION OF ITS PLAN AND URGE ALL HOLDERS OF IMPAIRED CLAIMS ENTITLED TO VOTE TO ACCEPT THE PLAN.

C. CONFIRMATION REQUIREMENTS

Chapter 11 does not require that each holder of a claim against or interest in a debtor vote in favor of a plan of reorganization for the bankruptcy court to confirm the plan. At a minimum, however, the plan must be accepted by a majority in number and two-thirds in amount of those claims actually voting in at least one class of impaired claims under the plan. The Bankruptcy Code also defines acceptance of the plan by a class of interests (equity securities) as acceptance by holders of two-thirds of the number of shares actually voting. In the present case, only the holders of Claims who actually vote will be counted as either accepting or rejecting the Plan. Further, because there is no substantive consolidation, the solicitation process will require the Plan to be confirmable as to each Debtor.

In addition, classes of claims or interests that are not "impaired" under a plan of reorganization are conclusively presumed to have accepted the plan and thus are not entitled to vote. Accordingly, acceptances of a plan will generally be solicited only from those persons who hold claims or interests in an impaired class. A class is "impaired" if the legal, equitable, or contractual rights attaching to the claims or interests of that class are modified in any way under the plan. However, if holders of the claims or interests in a class do not receive or retain any property on account of such claims or interests, then each such holder is deemed to have voted to reject the plan and does not actually cast a vote to accept or reject the plan.

Because Class 6 Interest holders receive nothing under the Plan, they are deemed to reject the Plan and are not entitled to vote. Claims in Classes 1 and 5 are entitled to vote on the Plan. To be clear, the Proponent will solicit votes from holders of claims classified in Classes 1 and 5.

The Bankruptcy Court may also confirm a plan of reorganization even though fewer than all the classes of impaired claims and interests accept it. For a plan of reorganization to be confirmed despite its rejection by a class of impaired claims or interests, the proponents of the plan must show, among other things, that the plan does not "discriminate unfairly" and that the plan is "fair and equitable" with respect to each impaired class of claims or interests that has not accepted the plan.

Under section 1129(b) of the Bankruptcy Code, a plan is "fair and equitable" as to a class of rejecting claims if, among other things, the plan provides: (a) with respect to secured claims, that each such holder will receive or retain on account of its claim property that has a value, as of the effective date of the plan, equal to the allowed amount of such claim; and (b) with respect to unsecured claims and interests, that the holder of any claim or interest that is junior to the claims or interests of such class will not receive or retain on account of such junior claim or interest any property at all unless the senior class is paid in full.

A plan does not "discriminate unfairly" against a rejecting class of claims if (a) the relative value of the recovery of such class under the plan does not differ materially from that of any class (or classes) of similarly situated claims, and (b) no senior class of claims is to receive more than 100% of the amount of the claims in such class.

The Proponent believes that the Plan has been structured so that it will satisfy these requirements as to any rejecting Class of Claims or Interests, and can therefore be confirmed, if necessary, over the rejection of such Classes. The Proponent, however, reserves the right to request confirmation of the Plan under the "cramdown" provisions of section 1129 of the Bankruptcy Code.

IX. ALTERNATIVES TO CONFIRMATION

The Proponent evaluated several alternatives to the Plan, including the liquidation of the Debtors through chapter 7 cases, substantive consolidation of the estates or dismissal of the cases entirely. After studying the alternatives, the Proponent has concluded that the Plan is the best alternative and will maximize creditors' recoveries in a manner that is consistent with the Bankruptcy Code and the most fair and equitable to the estates' many creditors. The following discussion provides a summary of the Proponent's analysis leading to its conclusion that the Plan will provide the greatest value to creditors without violating bankruptcy policy.

For the Plan to be implemented successfully, it must be confirmed in all five cases. If the Plan is not confirmed as to all Debtors, the Trustee and Committee will have to consider conversion of the Cases to chapter 7, where a different trustee could be appointed in each of the Debtors' cases to liquidate their remaining assets. In the latter event, collection of accounts receivable may decrease, and distributions could take substantially more time.

Alternatively, the Trustee or Committee could move to dismiss the cases and allow creditors to pursue their state law remedies. Under this scenario, there would like be no fiduciary or representative available to manage the Debtor's affairs and Oxford would most likely seek to have a receiver appointed to complete the collection of its collateral Accounts Receivable. This would leave no one in place to administer or allocate the sale proceeds, ensure that collected Accounts Receivable are distributed fairly or pursue causes of action for the benefit of the

Estates' remaining creditors. For these reasons, the United States Trustee has also indicated that dismissal would be opposed.

Accordingly, the Committee believes the present proposal under the Plan is the best solution to allow the estates to be administered quickly and efficiently.

A. EFFECT OF CONFIRMATION ON TAXES

THE PLAN AND ITS RELATED TAX CONSEQUENCES HAVE THE POTENTIAL TO BE COMPLEX. THERE MAY BE STATE, LOCAL OR OTHER TAX CONSIDERATIONS APPLICABLE TO EACH CREDITOR. CREDITORS ARE URGED TO CONSULT THEIR OWN TAX ADVISORS AS TO THE CONSEQUENCES OF THE PLAN TO THEM UNDER FEDERAL AND APPLICABLE STATE, LOCAL AND OTHER TAX LAWS. NOTHING IN THIS DISCLOSURE STATEMENT OR IN THE PLAN IS MEANT TO PROVIDE ANY TAX ADVICE TO ANY CREDITOR OR PARTY IN INTEREST.

X. CONCLUSION

Based on the foregoing analysis, the Proponent believes that its Plan proposes the best alternative for creditors. For those reasons, the Proponent urges creditors entitled to vote on the Plan to **ACCEPT** the Plan and to evidence such acceptance by returning their ballots so that they will be received on or before **4:00 p.m., Central Time, on November 18, 2014**.

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DATED: October 14, 2014

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