

**IN THE UNITED STATES BANKRUPTCY COURT  
FOR THE SOUTHERN DISTRICT OF TEXAS  
HOUSTON DIVISION**

**IN RE:** §  
§  
**TEXAS REGENCY APARTMENTS, L.P.,** § **CASE NO. 15-33188**  
§ **(Chapter 11)**  
**DEBTOR-IN-POSSESSION** §

**TEXAS REGENCY APARTMENTS, L.P.'S SUPPLEMENT TO DISCLOSURE  
STATEMENT FOR TEXAS REGENCY APARTMENTS, L.P.'S SECOND MODIFIED  
PLAN OF REORGANIZATION**

TO THE HONORABLE UNITED STATES BANKRUPTCY JUDGE:

Pursuant to Section 1125 of Chapter 11 of Title 11 of the United States Code, Texas Regency Apartments, L.P., Debtor-in-Possession, (hereinafter the "Debtor" or "Texas Regency") hereby submits this its Disclosure Statement for Texas Regency Apartments, L.P.'s Plan of Reorganization for approval by the Court and distribution to its creditors.

Respectfully submitted this the 14th day of January 2016.

By: /s/ Gordon Steele  
Gordon Steele, Chief Financial Officer  
of Texas Regency Apartments, L.P.

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APARTMENTS, L.P., DEBTOR-IN-POSSESSION

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I.

INTRODUCTION

Texas Regency Apartments, L.P., (hereinafter referred to as “Debtor” or “Texas Regency”) filed a voluntary petition for reorganization under Chapter 11 of the United States Bankruptcy Code, 11 U.S.C. Section 101 *et. seq.* in the United States Bankruptcy Court for the Southern District of Texas on June 10, 2015 (the “Petition Date”). The Chapter 11 case commenced thereby was assigned to the Honorable David R. Jones, United States Bankruptcy Judge, under Case Number 15-33188. The Debtor has operated its business as Debtor-in-Possession pursuant to Section 1108 of the Bankruptcy Code since the date of filing.

This Disclosure Statement (“Disclosure Statement”) is provided pursuant to Section 1125 of the Bankruptcy Code to all of Debtor’s known creditors, holders of interest and other parties in interest, including the United States Trustee. The purpose of this Disclosure Statement is to provide such information as will enable a hypothetical reasonable investor, typical of holders of claims or interests to make an informed judgment in exercising his, her or its rights either to accept or reject the Plan. A copy of the Plan is attached to this Disclosure Statement as Exhibit “A”.

This Disclosure Statement will be submitted to the Court after notice to all creditors. After a hearing, of which each creditor and party-in-interest will be notified, the Court may approve this Disclosure Statement as containing information of a kind and in sufficient detail as to enable a hypothetical creditor or party-in-interest typical of the classes being solicited to make an informed judgment about the Plan. Because of the unavoidable time lapse between this mailing and the conclusion of the hearing, the information and analysis set forth herein is as

current as possible as of the date of filing of this Disclosure Statement, but may not be current on the date of a hearing on this Disclosure Statement.

The Debtor provides this Disclosure Statement to all of its known creditors and parties-in-interest in order to disclose information deemed to be material, important and necessary for any creditor or party-in-interest to make a reasonably informed decision in exercising the right to vote for acceptance of the Plan of Reorganization.

In addition to this Disclosure Statement and a copy of the Plan, each creditor or party-in-interest affected by the Plan has been provided with a ballot for acceptance or rejection of the Plan. The form should be completed and returned to counsel for the Debtor prior to a hearing before the Court regarding the approval of the Plan. The time and date of the hearing is **January 19, 2016, at 2:30 p.m. (CST)**.

**YOUR ACCEPTANCE OF THE PLAN IS IMPORTANT.** In order for the Plan to be deemed “accepted” by creditors, at least 66-2/3% in dollar amount of the holders of claims or interests in the class actually voting, and more than 50% in number of the holders of claims or interests in the class actually voting, must accept the Plan. **IN THE EVENT THE REQUISITE ACCEPTANCES ARE NOT OBTAINED, THE COURT MAY NEVERTHELESS CONFIRM THE PLAN PURSUANT TO SECTION 1129 OF THE BANKRUPTCY CODE IF THE COURT FINDS THE PLAN ACCORDS FAIR AND EQUITABLE TREATMENT TO ANY CLASS REJECTING IT.** Whether or not you expect to be present at the hearing on acceptance of the Plan, each creditor is urged to fill in, date, sign and promptly mail the ballot form to the United States Bankruptcy Court, 515 Rusk Avenue, Houston, Texas 77002, with copies to the Law Offices of Matthew Hoffman, p.c., Attorney for Debtor, 2777 Allen Parkway, Suite 1000, Houston, Texas 77019.

II.

REPRESENTATIONS

THIS DISCLOSURE STATEMENT HAS BEEN PREPARED SOLELY FOR THE BENEFIT OF CREDITORS AND INTEREST HOLDERS OF THE DEBTOR. NO REPRESENTATIONS CONCERNING THE DEBTOR ARE AUTHORIZED BY THE DEBTOR OTHER THAN THOSE SET FORTH IN THIS STATEMENT. THE DEBTOR RECOMMENDS THAT ANY REPRESENTATION OR INDUCEMENT MADE TO SECURE YOUR ACCEPTANCE OF THE PLAN WHICH IS NOT CONTAINED IN THIS STATEMENT NOT BE RELIED UPON BY YOU IN REACHING YOUR DECISION ON HOW TO VOTE ON THE PLAN. ANY REPRESENTATION OR INDUCEMENT MADE TO YOU NOT CONTAINED HEREIN SHOULD BE REPORTED TO THE ATTORNEY FOR DEBTOR OR THE DEBTOR WHO SHALL DELIVER SUCH INFORMATION TO THE BANKRUPTCY COURT FOR SUCH ACTION AS MAY BE APPROPRIATE.

THE FINANCIAL INFORMATION CONTAINED IN THIS DISCLOSURE STATEMENT HAS BEEN OBTAINED FROM THE RECORDS OF THE DEBTOR, UNLESS SPECIFICALLY STATED TO BE FROM OTHER SOURCES. DEBTOR DOES NOT WARRANT OR REPRESENT THAT THE INFORMATION CONTAINED HEREIN IS CORRECT ALTHOUGH GREAT EFFORT HAS BEEN MADE TO BE ACCURATE.

THE INFORMATION CONTAINED HEREIN HAS NOT BEEN INDEPENDENTLY AUDITED. TO A GREAT EXTENT, THE ACCURACY OF DEBTOR'S RECORDS ARE DEPENDENT UPON PARTIES OVER WHOM THE DEBTOR HAS NO CONTROL. FOR THE FOREGOING REASONS, THE DEBTOR IS UNABLE TO WARRANT OR REPRESENT THAT THE INFORMATION CONTAINED HEREIN IS WITHOUT ANY

INACCURACY AND ONLY THAT EVERY REASONABLE EFFORT HAS BEEN MADE TO BE ACCURATE. THE FINANCIAL INFORMATION PROVIDED HEREIN IS CURRENT AS OF THE DATE OF THE FILING OF THIS DISCLOSURE STATEMENT.

THIS STATEMENT CONTAINS ONLY A SUMMARY OF THE PLAN. EACH CREDITOR IS URGED TO REVIEW THE PLAN PRIOR TO VOTING ON IT. CONFIRMATION MAKES THE PLAN BINDING UPON THE REORGANIZED DEBTOR AND ALL CREDITORS, HOLDERS OF INTERESTS AND OTHER PARTIES-IN-INTEREST, REGARDLESS OF WHETHER THEY HAVE ACCEPTED THE PLAN.

THE PLAN PROPONENT MAKES NO REPRESENTATIONS WITH RESPECT TO THE EFFECTS OF TAXATION (STATE OR FEDERAL) ON THE CREDITORS WITH RESPECT TO THE TREATMENT OF THEIR CLAIMS UNDER THE PLAN, AND NO SUCH REPRESENTATIONS ARE AUTHORIZED. PARTIES-IN-INTEREST ARE URGED TO SEEK THE ADVICE OF THEIR OWN PROFESSIONAL ADVISORS SHOULD THEY HAVE ANY QUESTIONS WITH RESPECT TO ANY TAXATION ISSUES.

### III.

#### EXPLANATION OF CHAPTER 11

Chapter 11 is the principal reorganization chapter of the Bankruptcy Code. Upon filing of a Chapter 11 petition, section 362(a) of the Bankruptcy Code provides for a temporary automatic stay of all attempts to collect claims that arose prior to the Petition Date, or otherwise to interfere with the Debtor's property or business, in order to permit the debtor to attempt to reorganize.

Formulation of a plan of reorganization is the primary purpose of a Chapter 11 reorganization case. A plan of reorganization sets forth the means for satisfying the holders of

claims against, and interest in, a Debtor. A Debtor's Disclosure Statement must provide adequate information as required by 11 U.S.C. § 1125(a) for a hypothetical reasonable investor typical of holders of claims or interests of the relevant classes to make an informed judgment about the Debtor's proposed plan, including the following:

- a. Source of information for the Disclosure Statement.
- b. Incidents that led to the filing of the Chapter 11.
- c. Present condition of the Debtor while in Chapter 11.
- d. Description of the available assets and their value.
- e. Estimated return to the creditors if the estate were to be liquidated.
- f. Anticipated future of the Debtor.
- g. Identity and experience of the proposed management of the Debtor's business.
- h. Accounting process used and the identity of the person who furnished the information.
- i. The plan.
- j. Description of all pending litigation involving the Debtor.
- k. Tax information.

Confirmation of a Chapter 11 plan of reorganization requires that either (i) all classes of claims and interests entitled to vote accept the plan or (ii) that the plan be accepted by the holders of at least one impaired class of claims not held by "insiders" within the meaning of the

Bankruptcy Code and that the plan be confirmed as to each objecting class pursuant to section 1129(b) of the Bankruptcy Code.

In addition to the acceptance requirements, section 1129 of the Bankruptcy Code contains additional criteria that must be satisfied before a bankruptcy court may confirm a plan of reorganization. Among other things, section 1129 requires that a plan of reorganization be in the best interests of creditors and interest holders, which means that the cash or other property to be distributed to creditors and interest holders may not be less than the creditors would receive if all the Debtor's assets were liquidated under Chapter 7 of the Bankruptcy Code.

Acceptance of a plan of reorganization by a class requires that, of the holders of claims or interests in the class actually voting, more than one-half in number and at least two-thirds in amount of the total allowed claims vote in favor of the plan. Section 1125 of the Bankruptcy Code requires full disclosure of all relevant material information relating to a debtor and a plan of reorganization before acceptance or rejection of the plan may be solicited from any party-in-interest.

So long as one class of non-insider impaired claims or interests accepts a plan, it need not be accepted by all classes. A plan proponent may request that the Bankruptcy Court confirm a plan pursuant to its "cramdown" powers under section 1129(b) of the Bankruptcy Code. A plan may be "crammed down" if it does not "discriminate unfairly" and is "fair and equitable" with respect to each impaired, dissenting class.

The Claims of Creditors in Classes 4, 5, 6 and 7 are impaired under the Plan and their votes are hereby solicited.

Confirmation makes the Plan binding upon the Debtor and all creditors, whether or not they have accepted the Plan. Section 1141(d) of the Bankruptcy Code provides, in pertinent part, as follows:

- 1) Except as otherwise provided in this subsection, in the plan, or in the order confirming the plan, the confirmation of a plan –
  - A) discharges the debtor from any debt that arose before the date of such confirmation, and any debt of a kind specified in section 502(g), 502(h), or 502(i) of this title, whether or not –
    - (i) a proof of the claim based on such debt is filed or deemed filed under section 501 of this title;
    - (ii) such claim is allowed under section 502 of this title; or
    - (iii) the holder of such claim has accepted the plan; and
  - B) terminates all rights and interests of equity security holders and general partners provided for by the plan.
- 2) ....
- 3) The confirmation of a plan does not discharge a debtor if –
  - A) the plan provides for the liquidation of all or substantially all of the property of the estate;
  - B) the debtor does not engage in business after consummation of the plan; and
  - C) the debtor would be denied a discharge under section 727(a) of this title if the case were a case under chapter 7 of this title.
- 4) The court may approve a written waiver of discharge executed by the debtor after the order for relief under this chapter.
- 5) ....
- 6) Notwithstanding paragraph (1), the confirmation of a plan does not discharge a debtor that is a corporation from any debt –
  - A) of a kind specified in paragraph (2)(A) or (2)(B) of section 523(a) that is owed to a domestic governmental unit, or owed to a person as the result of an action filed under subchapter III of chapter 37 of title 31 or any similar State statute; or
  - B) for a tax or customs duty with respect to which the debtor –
    - (i) made a fraudulent return; or
    - (ii) willfully attempted in any manner to evade or to defeat such tax or such customs duty.

A. Procedure for Filing Proofs of Claim

To participate in the payments and other distributions under the Plan, a Creditor must have an Allowed Claim against the Debtor. The first step in obtaining an allowed claim or an allowed interest is generally filing a Proof of Claim.

A Proof of Claim is deemed filed for any Claim that appears in the Schedules which were filed in the Chapter 11 Case, except a Claim that is scheduled as disputed, contingent, unliquidated or in an unknown amount. In other words, if a Creditor agrees with the amount of the Claim as scheduled by the Debtor, and that Claim is not listed in the Schedules as being disputed, contingent or unliquidated, it is not necessary that a separate Proof of Claim be filed.

Claims that are unscheduled, or which are scheduled as disputed, contingent or unliquidated, or which are scheduled in an amount that varies from the amount claimed by the Creditor holder shall be recognized and allowed only if a Proof of Claim was timely filed. The deadline for the filing of Claims against the Debtor has been set by the Court as October 13, 2015 (the “Bar Date”).

B. Executory Contracts and Unexpired Leases

Claims allegedly arising from lease rejections made prior to the Bar Date should be filed on or before the Bar Date. The Debtor intends to file Motions to Assume Executory Contract relative to the following entities:

- **Orion Property Group, as property management company; and**
- **Summer Energy, as electricity service provider.**

prior to the date of confirmation of the Debtor’s Plan of Reorganization, as required by section 365(d)(2) of the Bankruptcy Code. The Plan constitutes a motion by the Debtor to reject, as of the Effective Date, all executory contracts and unexpired leases of the Debtor that were not

assumed prior, or were not assumed and assigned to a purchaser as part of the Plan, or were not the subject of a motion to assume pending on the Confirmation Date.

If the rejection of an executory contract or unexpired lease results in a claim for damages by the other party or parties thereto, a Claim for such damages, if not heretofore evidenced by a filed proof of Claim, shall be forever barred and shall not be enforceable against the Debtor, the reorganized Debtor or their respective properties or their agents, successors or assigns, unless a Proof of Claim is filed with the Bankruptcy Court and served upon counsel for the Debtor on or before thirty (30) days after the Effective Date.

C. Voting

Persons Entitled to Vote. Classes 4, 5, 6 and 7 may vote to accept or reject the Plan. Claimants in Classes 2, 3, 8 and 9 are unimpaired, are conclusively deemed to accept the Plan, and cannot vote. Any Claim as to which an objection is filed before voting has concluded is not entitled to vote, unless the Court, upon application or motion of the holder whose Claim has been objected to, temporarily allows the Claim in an amount that the Court deems proper for the purpose of voting to accept or reject the Plan. A vote may be disregarded or disallowed if the Court determines that it was not solicited or procured in good faith or in accordance with the provisions of the Bankruptcy Code.

D. Voting Instructions

Ballots. IT IS IMPORTANT THAT CREDITORS EXERCISE THEIR RIGHT TO VOTE TO ACCEPT OR REJECT THE PLAN. All known Creditors entitled to vote on the Plan have been sent a ballot with this Disclosure Statement. Creditors should read the ballot carefully and follow the instructions contained therein. In voting for or against the Plan, use only the ballot or ballots sent with this Disclosure Statement.

Returning Ballots. **THE VOTING DEADLINE IS JANUARY 15, 2016 AT 12:00 NOON (CST). ALL BALLOTS MUST BE RETURNED SO THAT THE PERSON DESIGNATED BY THE COURT (the “BALLOTING AGENT”) RECEIVES THEM PRIOR TO THE VOTING DEADLINE.**

**THE BALLOTING AGENT’S NAME AND ADDRESS IS PROVIDED ON THE BALLOT. UNLESS OTHERWISE ORDERED, THE CHAPTER 11 TRUSTEE INTENDS TO DESIGNATE ITS COUNSEL TO SERVE AS BALLOTING AGENT.**

**IN ORDER TO BE COUNTED, BALLOTS MUST BE SIGNED BY A PERSON HAVING AUTHORITY TO ACT ON BEHALF OF THE PERSON OR ENTITY VOTING, AND MUST BE ACTUALLY RECEIVED BY THE BALLOTING AGENT ON OR BEFORE THE VOTING DEADLINE.**

Incomplete or Irregular Ballots. Ballots that fail to provide the information to determine the Class to which they apply shall be counted, subject only to contrary determinations by the Court, in the Class determined by the Chapter 11 Debtor. Ballots that are signed and returned but not expressly voted either to accept or reject the Plan will be counted as a vote to accept the Plan.

E. Approval of Disclosure Statement

Conditional approval of the (original) Disclosure Statement filed by the Debtor on October 28, 2015, was granted by the Court on October 29, 2015.

F. Confirmation Hearing

The Court has set the Confirmation Hearing for January 19, 2016 at 2:30 p.m. (CST), in the courtroom of the Honorable David R. Jones, in the United States Bankruptcy Court for the Southern District of Texas, 515 Rusk, Courtroom 400, Fourth Floor, Houston, Texas. The Court may adjourn the Confirmation Hearing from time to time without further notice except for an announcement made in open court at the Confirmation Hearing or any continued hearing thereon.

G. Objections

Section 1128(b) of the Bankruptcy Code provides that any party in interest may object, in writing, to confirmation of a plan of reorganization. Written objections to confirmation of the Plan, if any, must be filed with the Court and a copy of such written objections must be actually received by counsel for the Debtor at the following address on or before January 15, 2016 at 12:00 noon (CST).

**Matthew Hoffman**  
**The Law Offices of Matthew Hoffman, p.c.**  
**2777 Allen Parkway, Suite 1000**  
**Houston, Texas 77019**  
**Attorney for Wentwood Baytown, L.P.,**  
**Debtor-in-Possession**

Objections not timely filed and actually received by either counsel at the above address will not be considered by the Court.

IV.

THE PLAN PROPONENT

This Plan is proposed by the Debtor-in-Possession, Texas Regency Apartments, L.P.

V.

SOURCE OF INFORMATION

The sources of information for this Disclosure Statement are the books and records of the Debtor, unless specifically stated to be from other sources. The source of information concerning assets is taken from the Debtor's schedules and supplemented with current information available to the Debtor. The valuations stated in the Disclosure Statement are those of Texas Regency Apartments, L.P.

VI.

THE CHAPTER 11 DEBTOR

A. Background and Events Leading to Chapter 11 Filing

The Debtor is a Texas limited partnership formed under the laws of the state of Texas. The 1.00% general partner is JMG Regency, Inc., a Texas corporation, formed under the laws of the State of Texas on June 16, 2008, and the 99.00% limited partner is Texas Regency Square Financing Partnership, Ltd., a Texas limited partnership, formed under the laws of the state of Texas on June 16, 2008.

The Debtor owns and operates the following real property asset:

- Regency Square Apartments.

Acquisition Date:	06/30/2008
Purchase Price:	\$9,600,000.00
Property Address:	7222 Bellerive Drive, Houston, TX 77036

Year of Construction:	[1978]/ Substantially renovated in [2010]
Capital Improvements (5 Years):	[TOTAL SPENT ON CAPITAL IMPROVEMENTS FOR PAST 5 YEARS \$2,022,868] or (\$6,462 per unit)
Number of Units / Buildings:	313 apartment units /29 buildings.
Rentable Area:	267,013 square feet / Average 853.08 square feet unit size
Site Area / Density:	[10.12] acres (per survey) / 31 units per acre
Flood Zone Status:	[OUTSIDE/INSIDE FLOOD ZONE] Outside
Average Monthly Market Rent:	\$687.00 per unit / \$0.80 cents per square foot
Property Amenities:	Two swimming pools and spa, community center, children’s play area, two clothes care centers, located adjacent to waterfront Britton Park.
Unit Amenities:	Four appliances, floor and window coverings, ceramic floor tile and carpet floor coverings, and patio or balcony with secure storage. Selected units feature full sized washer / dryer connections.
Construction:	Concrete slab foundations, wood framing, Hardiplank & brick exteriors, with flat roofs.
Current Occupancy:	54% physically occupied (June 2015 Rent Roll).

The purchase price and costs associated with acquisition, mortgage origination, and scheduled capital improvements totaled \$11,622,868 and operating losses of \$2,269,132 for a total of \$13,891,818 that was financed by total equity contributions of \$4,292,000 from Jaymor USA, Inc., through Texas Regency Square Financing Partnership, Ltd. and a single mortgage loan, secured by the apartment community, in the original principal amount of \$9,600,000.00, under a Promissory Note and Deed of Trust with Carolina First Bank. This acquisition loan bore an initial ARM interest rate at 3%.

On April 30, 2014, Debtor executed an Amended and Restated Promissory Note with TD Bank, the successor in interest to Carolina First Bank, in the original principal amount of \$9,232,382.31 (the “Amended Note”). On July 30, 2014, Debtor executed a Future Advance Promissory Note in the original principal amount of \$950,000.00 (the “Advance Note”). Debtor also executed a Modification and Amendment of Deed of Trust, Security Agreement and Fixture

Filing dated July 30, 2013 (the “Deed of Trust”), a Second Amendment to Loan Agreement dated July 30, 2014 (the “Second Amendment”), and the Escrow Agreement for Repairs dated July 30, 2014 (the “Escrow Agreement”) (collectively, the “Loan Agreements”).

The business plan for the apartment community was to operate as an income producing investment, with the further goal of enjoying value appreciation as the overall apartment market improved. As a result of the ARM interest rate under the Loan Agreements increasing from 3% to 5% in 2014, the monthly debt service expenses increased from approximately \$45,000 to approximately \$83,000 (\$19,000 approx. principal, \$42,000 interest, plus property taxes and escrow deposits). The increased debt service, the costs of needed capital improvements to the property, and a temporary decline in occupancy led to the apartment community to run a negative cash flow.

Texas Regency Apartments, L.P. filed its Chapter 11 bankruptcy petition on June 10, 2015, in order to: (i) prevent receivership action by its secured creditor (scheduled as a secured creditor in the amount of \$10,690,789), on Debtor’s primary real estate asset (as of the Petition Date, valued at \$10,600,000); (ii) modify the terms of the loans with the secured lender, refinance the loan, or sell the real estate asset; (iii) financially reorganize its affairs; (iv) pay its allowed unsecured (non-insider) creditors pursuant to a plan of reorganization; (v) protect the value of its business enterprise; and (vi) facilitate the implementation of various strategies to reorganize the business and maximize the value of the estate.

B. The Operation and Present Condition of the Debtor While in Chapter 11

The Debtor entered the Bankruptcy Court having debt exposure as follows:

(1) Secured debt	\$10,838,852.33
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(2)	Unsecured priority debt	\$175,256.68
(3)	Unsecured non-priority debt	\$407,513.47

Debtor has filed its Statement of Financial Affairs, Schedules of Assets and Liabilities and Summary of Debts.

At the Debtor's Section 341(a) Meeting of Creditors, which was held on July 28, 2015, no Creditors' Committee was appointed. Accordingly, there has been no Unsecured Creditors' Committee in these proceedings.

The Debtor has experienced significant improvement in overall property operations over the past three months - occupancy and related cash flow has increased, due to the following factors:

- TD Bank has agreed to release \$228,446.39 held in escrow to replace galvanized plumbing affecting (approx.) 175 units, which are now in the process of being replaced at a rate of 10 units per week/40 units per month.
- Debtor received an equitable contribution of approximately \$54,000 in funds from the Debtor's corporate guarantor, Jaymor USA, Inc., for (non-galvanized plumbing issue related) capital improvements (e.g. carpet/vinyl, electrical, HVAC).
- On June 1, 2015, the Debtor hired a new, strong, property management company, Orion Property Group, which immediately made significant improvements in the operations of the Debtor. With Orion Property Group's assistance, the vacant units on the property are rapidly becoming "rent ready" (in conjunction with the replace of the galvanized plumbing), and the Orion Property Group staff is now able to lease those units, and increase revenues.

- Debtor is receiving lease traffic, it is just a matter of repairing the units to bring them up to rent ready status. With surrounding lease market currently in the 90%+ range, Debtor has been receiving lease traffic, and is taking advantage of new tenants as the galvanized plumbing and other capital improvements are being made.

The Debtor believes that the apartment community will be able to continue to grow its net operating income such that all debt service payments will be kept current, and continued asset value enhancement will occur.

The recent improved operations of the apartment project has also led to increased interest from potential buyers of the Debtor's real estate asset. On September 16, 2015, Debtor entered into a Contract for Sale and Purchase of the apartment project to FCA Miami, LLC, for the purchase price of \$10,500,000.00. On September 21, 2015, Debtor filed its Expedited Motion for Authorization to Sell Regency Square Free and Clear of Liens, Claims, and Encumbrances, which was approved by the Bankruptcy Court on October 13, 2015. On December 4, 2015, FCA Miami, LLC, withdrew and terminated its (then pending) purchase and sale contract on (mainly because of difficulty with obtaining financing). Since then, the Debtor representatives have been very active in procuring a new purchaser or investor, in order to proceed with Plan Confirmation, now scheduled for January 19, 2016. On December 23, 2015, the Debtor representatives executed a Letter of Intent with a new investment company, which proposes to purchase either the apartment project, or a majority interest in the Debtor entity which owns the apartment project, for a price of \$10.8 million (a \$300,000 increase over the \$10.5 million previously offered by FCA Miami).

Since the Filing Date, Debtor has filed Monthly Operating Reports (with the Bankruptcy Court). The details of these and all monthly operating reports are made available to creditors

each month when the Debtor files its monthly operating reports with the Office of the United States Bankruptcy Clerk at 515 Rusk Ave., Houston, TX 77002.

**THE ABOVE COURT PAPERS, IN DEBTOR'S OPINION, REFLECT THE MORE IMPORTANT MATTERS WHICH HAVE BEEN PRESENTED TO THE COURT FOR CONSIDERATION DURING THE COURSE OF DEBTOR'S CHAPTER 11 CASE. YOU MAY REVIEW THE FULL RECORD BETWEEN THE HOURS OF 9:00 A.M. AND 4:30 P.M., MONDAYS THROUGH FRIDAYS, IN THE BANKRUPTCY COURT FILE ROOM ON THE FIFTH (5TH) FLOOR OF THE UNITED STATES COURTHOUSE, 515 RUSK, HOUSTON, TEXAS 77002.**

C. Description of Assets and Value

The value of the Debtor's assets is as reflected in the Debtor's Schedules of Assets A and B. As of the filing date (6/10/2015), Schedule A (Real Property) reflected an amount of \$10,600,000, and Schedule B (Personal Property) reflected an amount of \$491,235.82.

The Debtor had cash on hand at the time of Chapter 11 filing in the amount of \$6,002.00, and a total of \$83,527.00 (\$20,813 deemed uncollectable) in accounts receivable.

Recovery of Preferential or Otherwise Voidable Transfer (11 U.S.C. § 547, 548, 549 and 550 – Avoidable Transfers). The Debtor's review of its pre-petition transactions as reflected in its Statement of Financial Affairs indicates no preferences or fraudulent conveyances which could be recovered for the benefit of its creditors. Similarly, the Debtor is unaware of any avoidable post-petition transfers.

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**ASSETS AS OF THE PETITION DATE, JUNE 10, 2015****Schedules A and B – Real and Personal Property**

Real property:	Regency Square Apartments - \$10,600,00.00
Escrow Reserves Held with Mortgagor:	Property Tax Escrow - \$116,350  Plumbing Replacement Units in Escrow - \$228,446.39
Security Deposits:	City of Houston (water/sewer) – \$31,100.37  Centerpoint Energy (gas) – \$22,310.06
Accounts Receivable/ Estimated resident receivables	\$83,527.00 (\$20,813 is deemed uncollectable)
Furniture, Fixtures & Equipment:	\$3,500.00
Other Personal Property: • Cash on Hand	\$6,002.00
<b>TOTAL ASSETS</b> (as of 6/10/2015)	\$11,091,235

**D. Estimated Return to the Creditors if the Estate were Liquidated**

In light of the Debtor's pending Motion for Authorization to Sell Regency Square Free and Clear of Liens, Claims, and Encumbrances, the Debtor is in the process of selling its sole asset (the Regency Square apartment project), and will use proceeds from the sale to fund the Debtor's Chapter 11 Plan of Reorganization. Accordingly, the Debtor's Chapter 11 Plan of Reorganization is in the nature of a liquidating plan, which is contingent upon the closing of the sale of the Debtor's real estate asset to FCA Miami, LLC, pursuant to the terms described above. In the event the closing of the sale of the Debtor's real estate asset does not occur, then the

Debtor's proposed Plan of Reorganization, as now written, will not be feasible, and will need to be revised and resubmitted.

There known secured creditors are, as follows:

Mortgage Holder

- TD Bank, N.A. - \$9,683,297.63
- TD Bank, N.A. - \$1,007,491.98

Known Mechanic's Lien Claimants (per Debtor's Schedules of Assets and Liabilities and Title Commitment)

Lienholder	Lien claim(s) reflected on Title Commitment	Claim Amount Provided in Debtor Schedules	Differences	From Date	Pymts Made
Contello Plumbing Co., Inc.	\$57,774.66 \$19,963.98	\$37,692.12	\$40,046.52	9/9/2013	\$53,569.24
Express Painting	\$110,634.24	\$41,327.24	\$69,307.00	10/08/13	\$47,078.85
Elite Apartment Services, Inc.	\$42,331.41 \$5,950.00	\$32,608.05	\$15,673.36	4/7/2014	\$15,673.36
Gateman, Inc.	\$3,288.59 \$2,115.23 \$2,115.23	\$2,115.13	\$5,403.92	1/3/2014	\$3,288.59
Redi-Carpet Sales of Houston, Ltd.	\$10,753.93	\$3,149.37	\$7,604.56	11/26/2014	\$5,800.00
Southwest Painting Contractors, Inc.	\$31,195.61 \$36,304.26	\$21,609.44	\$45,890.43	12/3/2014	\$0.00
Presto Maintenance Supply, Inc.	\$18,563.26	\$19,273.22	(\$709.96)	1/15/2015	\$22,506.17
Three Amigos Painting Services	\$75,000	\$22,602.58	\$52,397.42	2/15/2015	\$0.00
Alex Painting and Services	\$9,162.18	\$12,162.18	(\$3,000.00)	3/12/2015	\$0.00

Warrior Electric, Inc.	\$7,500 \$9,500	\$6,985.00	\$10,015.00	3/20/2015	\$9,000.00
Keylo Painting & Construction	\$7,985.20	\$13,942.61	(\$5,957.41)	4/24/2015	\$0.00
Pavecon, Ltd.	\$24,991.00	\$19,831.00	\$5,160.00	6/16/2015	\$0.00
Ameristar Apartments Services, L.P.	\$3,406.32	\$2,956.32	\$450.00	6/23/2015	\$0.00
Texas Premier Apartments, LLC (Abstract of Judgment)	\$517.42		\$517.42	5/20/2011	\$0.00
<b>Total</b>	<b>\$479,052.52</b>	<b>\$236,254.26</b>	<b>\$242,798.26</b>		<b>\$156,916.21</b>

As reflected on the above chart, \$156,916.21 has been paid by the Debtor to reduce the maximum mechanic lien liability from \$479,052.52 (before crediting payments) down to no more than \$322,136.31.

Liquidation Analysis. The Debtor's schedules of assets and liabilities reflect the (100%) fee simple interest<sup>1</sup> as the real property asset currently owned by the Debtor.

The Debtor estimates the total value of its assets in liquidation at approximately \$10,350,000. See Exhibit "B" attached hereto for further detail and liquidation analysis.

*[Remainder of Page Intentionally Left Blank]*

<sup>1</sup> Debtor's fee simple interest is the Regency Square Apartments, 7222 Bellerive, Houston, Texas

**PREPETITION LIABILITIES AS OF THE PETITION DATE AND NOW (10/1/2015)**

Secured Claims (as of 6/10/2015)	\$10,849,041
<b>Secured Claims (as of 10/1/2015)</b>	\$10,849,041
Unsecured Priority Claims (as of 6/10/2015)	\$175,256.68
<b>Unsecured Priority Claims (as of 10/1/2015)</b>	\$61,392.12
Unsecured Nonpriority Claims (as of 6/10/2015) (including contingent liabilities – Tenant Deposits totaling \$30,723.00)	\$407,513.47
<b>Unsecured Nonpriority Claims (as of 10/1/2015)</b>	\$407,513.47
<b>TOTAL LIABILITIES (as of 6/1/2015)</b>	<b>\$11,431,810</b>
<b>TOTAL LIABILITIES (as of 10/1/2015)</b>	<b>\$11,317,946</b>

E. Anticipated Future of the Debtor

The Debtor believes that the proposed sale of the Regency Square apartment project (or sale of the majority interest in the Debtor which owns the Regency Square apartment project) is in the best interest of the Debtor and the creditors of its estate, as the (\$10,800,000) price received will enable the Debtor to pay the maximum amount possible to secured creditor TD Bank, N.A., along with the other secured and unsecured creditors of the Debtor.

Projected Income and Expenses After Plan

A monthly operating budget and payment projections for approx. three month time period prior to closing of the Debtor's pending sale of its real estate asset is attached hereto as Exhibit "C." Projected payments to creditors by class under the Plan are set forth in Exhibit "D", attached hereto.

F. Affiliated Persons and Entities

The Debtor has no subsidiary entities/persons.

The Debtor's list of equity security holders is, as follows:

- (i) JMG Regency, Inc.  
General Partner – 1%
- (ii) Texas Regency Square Financing Partnership Ltd.  
Limited Partner – 99%

VII.

PROFESSIONAL FEES

The Debtor paid to the Law Offices of Matthew Hoffman, p.c., 2777 Allen Parkway, Suite 1000, Houston, Texas 77019 (“LOMH, p.c.”) \$5,000 on May 8, 2015 as an initial retainer (which was disbursed on 5/12/2015 - \$1,000; 5/28/2015 - \$1,180; and 6/10/2015 - \$2,820) for representing the Debtor in connection with the Debtor's creditors' rights matters, and with determining whether the Chapter 11 case should be filed. The Debtor also paid to LOMH, p.c. \$1,717 on June 8, 2015 to pay the Chapter 11 filing fees, and another \$50,000 on June 8, 2015, in retainer funds for future Chapter 11 services. The remaining \$49,339.24 retainer balance amount was placed into a Debtor-in-Possession Attorney's Fee Trust Account by LOMH, p.c., to be applied to fees subject to approval by the Court, and will be included in any award the Court gives to the Law Offices of Matthew Hoffman, p.c., the attorneys responsible for the Debtor's initial filing, pursuant to LOMH, p.c.'s First and Final Fee Application. Upon the filing of the Chapter 11 case, Matthew Hoffman and Alan Brian Saweris of LOMH, p.c. undertook representation of the Debtor, with the approval of the Bankruptcy Court (approved June 19, 2015). The \$49,339.24 retainer amount is expected to be earned and drawn down pursuant to

(duly served) monthly Notices of Distribution of Retainer, subject to Court approval, and interim fees to be paid to LOMH, p.c. for all time spent and expenses incurred, going forward.

Legal fees for the month of June, 2015 amounted to \$9,583.86 and were distributed from the retainer amount without objection. Legal fees for the month of July, 2015 amounted to \$11,476.91, and were distributed from the retainer without objection. Legal fees for the month of August, 2015 amounted to \$6,748.40 and were distributed from the retainer without objection. On December 31, 2015, the Bankruptcy Court entered an Order approving the First Application of Debtor's Counsel for Allowance of Compensation and Reimbursement of Expense for the Time Period October 1, 2015 through November 30, 2015, and Approving Fee Payments and Expense Reimbursements Already Received for the Time Period from June 10, 2015 through October 31 2015, which authorized and directed the Debtor to pay the amount of \$11,995.65 for fees incurred through November 30, 2015, and approving total fees incurred for the time period June 10, 2015 through October 31, 2015 in the aggregate amount of \$54,044.15. Legal fees for the months of December, 2015 through March, 2016 are projected in the range of \$12,000 for each month, subject to Bankruptcy Court approval. The source of funds to pay the projected administrative expenses for fees (beyond fees and retainer already paid) for attorneys and other professionals is the Debtor's operations. Pursuant to §§ 503(b)(2) and 507(a)(2) of the Bankruptcy Code, administrative claims must be paid in full at the time of confirmation, unless other arrangements have been made. At this point in time, no other arrangements have been made.

#### VIII.

#### UNITED STATES TRUSTEE FEES

Provision for payment of pre-confirmation and post-confirmation quarterly fees and submission of statements of disbursements to the United States Trustee. The reorganized Debtor shall timely pay its quarterly fees to the U.S. Trustee, as follows:

- U.S. Trustee fees for the third quarter (ending September 30, 2015), in the amount of \$4,875.00, are included in the Debtor's Operating Budget (Exhibit C), and will be paid on or before October 31, 2015 from Debtor's operating revenues (as will be reflected on Debtor's Monthly Operating Report).
- U.S. Trustee Fees for the fourth quarter (ending December 31, 2015), in the amount of \$4,875.00, are included in the Debtor's Operating Budget (Exhibit C), and will be paid on or before January 31, 2016 from Debtor's operating revenues (as will be reflected on Debtor's Monthly Operating Report).

After confirmation, the reorganized Debtor shall file with the Bankruptcy Court and shall transmit to the United States Trustee a true and correct statement of all disbursements for each quarter, or portion thereof, that this chapter 11 case remains open, in a format prescribed by the United States Trustee.

#### IX.

##### ACCOUNTING PROCESS USED

The Debtor's projections contained in this Disclosure Statement and accompanying financial information are based on the accrual method of accounting. The information from which those statements are prepared comes from the Debtor's books and records.

#### X.

##### SUMMARY OF THE PLAN OF REORGANIZATION

THE FOLLOWING SUMMARY IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO THE FULL TEXT OF THE PLAN. CREDITORS ARE URGED TO READ THE PLAN IN FULL.

A. Means for Execution of the Plan

The Debtor is in the process of arranging to fund the Plan of Reorganization out of: (i) net sales proceeds from the pending sale of the Regency Square apartment project; (ii) new equity; and/or (iii) post-petition financing. The funds necessary for the satisfaction of the creditors' claims are to be generated, basically, as follows:

Source of Funds:

Estimated Sales Proceeds:	<u>\$10,800,000</u>
New Equity Contribution/Financing:	<u>\$115,000.00</u>
Escrow Reserves	<u>\$228,446.00</u>
 Total Sources of Funds	 <b><u>\$11,143,446</u></b>

Uses of Funds

Class 1 Payments (Attorneys, U.S. Trustee Fees)	<u>\$15,000</u>
Class 2 Payments (Taxing Authorities) <sup>2</sup>	<u>\$289,992</u>
Class 4 (Outstanding Lender Payments/Costs)	<u>\$10,690,790</u>
Class 5 Payments (Mechanic's Lien Claims)	<u>\$65,000</u>
Class 6 Payments (General Unsecured (20% of face amount of Allowed Claims)	<u>\$76,000</u>
Class 7 Payments (\$1,000 or less Unsecured (70% of face amount of Allowed Claims)	<u>\$3,500</u>
 <b>Total Uses of Funds</b>	 <b><u>\$11,140,282</u></b>

The Debtor may propose amendments or modifications of the Plan at any time prior to Confirmation, upon notice to all parties-in-interest. After Confirmation, the Debtor may, with approval of the Court and so long as it does not materially or adversely affect the interest of creditors, remedy any defect or omission or reconcile any inconsistencies in the Order of

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<sup>2</sup> Ad valorem taxes to be paid upon the closing of the sale of the Regency Square Apartments or majority interest in the Debtor entity which owns the Regency Square Apartments.

Confirmation in such manner as may be necessary to carry out the purposes and effect of this Plan.

B. Classification of Claims

The Plan provides for the division of claims of creditors into nine (9) classes.

Class 1 - Claims of attorneys and other professionals entitled to “priority,” as such term is defined 11 U.S.C. § 507, as well as administrative expenses, as such term is defined in 11 U.S.C. § 503(b)(1), as the same are allowed, approved and ordered paid by the Bankruptcy Court and the Bankruptcy Code. There are two (2) creditors in this class, as follows: 1) The Law Offices of Matthew Hoffman, p.c., Debtor’s Bankruptcy Counsel; and 2) United States Trustee Fees.

Class 2 - Claims of taxing authorities entitled to “priority,” as such term is defined in 11 U.S.C. § 507, as the same are allowed, approved and ordered paid by the Bankruptcy Court. There are three known creditors in this class, as follows: 1) Internal Revenue Services; 2) Harris County, et.al; and 3) Texas Comptroller of Public Accounts.

Class 3 - Claims of governmental units enforcing its police and regulatory power, including the enforcement of a judgment other than a money judgment, obtained in an action or proceeding by the governmental unit to enforce such governmental unit’s police or regulatory power. There are no known governmental units seeking to enforce their police and regulatory power obtained in an action or proceeding by the governmental unit or units in this case or in this class.

Class 4 - Claims secured by a lien or security interest in property owned by the Debtor or its estate. There is one (1) known creditor in this class, TD Bank, N.A. - \$10,690,789.

Class 5 - Claims secured by a mechanic’s and materialmen’s lien in property owned by the Debtor or its estate. There are at least fourteen (14) known creditors in this class.

Class 6 - Claims not secured by a lien, security interest, encumbrance or right of set-off, as the same are allowed, approved and ordered paid by the Bankruptcy Court. There are at least thirty-four (34) known creditors in this class, exclusive of those (smaller) Class 7 creditors holding unsecured claims of \$1,000 or less.

Class 7 - Allowed, Unsecured Claims of \$1,000.00 or less, and those Allowed Unsecured Claims in excess of \$1,000.00 which are voluntarily reduced by the holders thereof to \$1,000.00 with the amount in excess of \$1,000.00 being waived, as the same are allowed, approved and ordered paid by the Bankruptcy Court. There are at least ten (10) known creditors in this class.

Class 8 - Claims not secured by a lien, security interest, encumbrance or right of set-off, as the same are allowed, approved and ordered paid by the Bankruptcy Court. There are no known creditors in this class.

Class 9 - Allowed Equity Interest Holders. There are two (2) equity interest holders in this class, as follows:

- (i) JMG Regency, Inc.  
General Partner – 1%
- (ii) Texas Regency Square Financing Partnership Ltd.  
Limited Partner – 99%

C. Treatment of Classes

CLASS 1 (Claims of Attorneys and Other Professionals)

Each creditor holding an allowed Class 1 Claim shall be paid in cash in full (unless such Claimant has agreed to other treatment) on the Effective Date or when such claim is allowed or ordered paid by Final Order of the Court, whichever date is later, with the exception of the United States Trustee Fees, which shall be paid, as follows:

- U.S. Trustee fees for the third quarter (ending September 30, 2015), in the amount of \$4,875.00, are included in the Debtor's Operating Budget (Exhibit C), and will be paid on or before October 31, 2015 from Debtor's operating revenues (as will be reflected on Debtor's Monthly Operating Report).
- U.S. Trustee Fees for the fourth quarter (ending December 31, 2015), in the amount of \$4,875.00, are included in the Debtor's Operating Budget (Exhibit C), and will be paid on or before January 31, 2016 from Debtor's operating revenues (as will be reflected on Debtor's Monthly Operating Report).

**Class 1 claims are not impaired.**

CLASS 2 (Claims of Taxing Authorities)

Each ad valorem property tax creditor holding an allowed Class 2 Claim is a tax creditor of Debtor and Debtor's Estate holding prior perfected liens against property of Debtor's Estate. The ad valorem property Taxing Authorities continue to hold their perfected liens for pre- and post-petition taxes against property of the Debtor's Estate until the ad valorem property Taxing Authorities' claims, including interest thereon, are paid in full, pursuant to 11 U.S.C. § 1129(b). The ad valorem property Taxing Authorities' claims are secured, pursuant to Texas Property Tax Code §§ 32.01 and 32.07, et seq., by the various pieces of real and personal property owned by the Debtor. Each creditor holding an allowed Class 2 Claim shall be paid in full upon the closing of the sale of the Regency Square apartments (or sale of the majority interest in the Debtor which owns the Regency Square apartment project), on the Effective Date, or when such claim is allowed or ordered paid by Final Order of the Court, whichever date is earlier. **Class 2 claims are not impaired.**

CLASS 3 (Claims of Governmental Units)

Each creditor holding a Class 3 Claim shall be paid 100% of such Allowed Claim and shall be paid in cash and in full on the Effective Date or when such claim is allowed or ordered paid by Final Order of the Court, whichever date is later. **Class 3 claims are not impaired.**

CLASS 4 (Allowed Secured Claim of Lender)

Upon the closing of the sale of the Regency Square apartments (or sale of the majority interest in the Debtor which owns the Regency Square apartments), the secured lender, TD Bank, N.A., shall receive the entirety of the net sales proceeds (estimated at \$10,477,507) from the sale of the Debtor's real estate asset, the Regency Square Apartments, plus a portion of the approx. \$228,446 in escrow reserves already held by TD Bank.

Although no deficiency is expected, pursuant to 11 U.S.C. § 506(a), any deficiency between the net sales proceeds received at the closing of the sale of the Debtor's real estate asset, and TD Bank, N.A.'s secured claim (stipulated at \$10,690,789, upon successful closing and funding of the sale of the Debtor's real estate asset or majority interest in the Debtor which owns the real estate asset) shall be treated the same as a General Unsecured (Class 6) Claim, and shall be paid at 20% of its allowed (deficiency) claim, in cash, on the Effective Date or when such (deficiency) claim is allowed or ordered paid by Final Order of the Court, whichever date is later, in consideration of the release of its liens (i.e., Release of Lien must be filed amongst the Harris County, Texas Real Property Records).

**Class 4 claims are impaired.**

CLASS 5 (Claims Secured by a Mechanic's and Materialmen's Lien)

Each creditor holding a Class 5 Claim is junior in time and right to the first mortgage holder, TD Bank, N.A., which is, therefore, entitled to the entirety of the net sales proceeds from the sale of the Debtor's real estate asset (or sale of the majority interest in the Debtor which owns

the Regency Square apartments). Pursuant to 11 U.S.C. § 506(a), Class 5 Claims are unsecured, as the value of such Class 5 Claimant's interests are less than the amount of such Class 5 Claimant's Allowed Claim. Accordingly, each creditor holding a Class 5 Claim shall be treated the same as General Unsecured (Class 6) claim holders, and shall be paid 20% of its allowed claim, in cash, on the Effective Date or when such claim is allowed or ordered paid by Final Order of the Court, whichever date is later, in consideration of the release of their respective lien claims (i.e., Release of Lien to be filed amongst the Harris County, Texas Real Property Records).

**Class 5 claims are impaired.**

CLASS 6 (Claims Not Secured by a Lien or Security Interest)

Each creditor holding a Class 6 Claim shall be paid 20% of its allowed claim, in cash, on the Effective Date or when such claim is allowed or ordered paid by Final Order of the Court, whichever date is later. **Class 6 claims are impaired.**

CLASS 7 (Allowed, Unsecured Claims of \$1,000 or less, and in Excess of \$1,000)

Each creditor holding an Allowed Class 7 Claim shall receive 70% of the amount of its claim, in cash, on the Effective Date or when such claim is allowed or ordered paid by Final Order of the Court, whichever date is later. **Class 7 claims are impaired.**

CLASS 8 (Claims not Secured by a Lien or Security Interest and not subject to setoff)

Each creditor holding a Class 8 Claim shall be paid 100% of such Allowed Claim and shall be paid in cash and in full on the Effective Date or when such claim is allowed or ordered paid by Final Order of the Court, whichever date is later. **Class 8 claims are not impaired.**

CLASS 9 (Allowed Equity Interest Holders)

Each equity interest holder in Class 9 shall retain such interest held. Upon confirmation of the Plan, the property of the estate will be free and clear of any and all claims and interests of all entities, except as provided in the Plan, and shall re-vest in the reorganized Debtor.

**Class 9 interests are not impaired.**

XI.

PENDING LITIGATION

As of June 10, 2015, the Debtor is not aware of any pending litigation in which it is a party, except, as follows:

- *TD Bank, N.A. v. Texas Regency Apartments, L.P., et al*, Case No. 2015-14762, 61st Judicial District Court, Harris County, Texas;
- *Redi-Carpet Sales of Houston, Ltd. v. Texas Regency Apartments, L.P.*, Case No. 2015-22903, 215th Judicial District Court, Harris County, Texas
- *Contello Plumbing Co. Inc. v. Texas Regency Apartments, L.P.*, et al.; Case No. 1062268, County Court at Law #1, Harris County, TX
- *Southwest Painting Contractors, Inc. v. Texas Regency Apartments, L.P.*; Case No. 1058940, County Court at Law #3, Harris County, Texas
- *Star Personnel, Inc. v. Texas Regency Apartments, L.P., et al*; Case No. 1058414, County Court at Law #3, Harris County, Texas
- *Alex Painting & Services v. Texas Regency Apartments, L.P.*; Case No. 1060762, County Court at Law #2, Harris County, Texas

XII.

FEDERAL INCOME TAX CONSEQUENCES OF THE PLAN

A. Statutory Overview

The purpose of this provision to provide a discussion of the potential material Federal income tax consequences of the plan to Debtor and a hypothetical of the holders of claims or interests in the case that would enable such a hypothetical investor to make an informed judgment about the Plan, as contemplated in 11 U.S.C. § 1125(a)(1). The Federal income tax consequences discussed herein are those arising under the Internal Revenue Code of 1986, as amended (the “Tax Code”) and the income tax regulations promulgated thereunder (the “Regulations”), and case law, revenue rulings, revenue procedure and other authority interpreting the relevant sections of the Tax Code and the Regulations.

This summary does not address foreign, state or local tax law, or any estate or gift tax consequences of the Plan, nor does it purport to address the federal income tax consequences of the Plan to special classes of taxpayers (such as taxpayers who are not United States domestic corporations or citizens or residents of the United States, S corporations, banks, mutual funds, insurance companies, financial institutions, regulated investment companies, broker-dealers, non-profit entities or foundations, small business investment companies, persons that hold Claims or Equity Interests as part of a straddle or conversion transaction and tax-exempt organizations).

No administrative rulings will be sought from the Internal Revenue Service (“IRS”) with respect to any of the federal income tax aspects of the Plan. Consequently, there can be no assurance that the treatment described in this Disclosure Statement will be accepted by the IRS. No opinion of counsel has either been sought or obtained with respect to the federal income tax aspects of the Plan.

**THE DISCUSSION SET FORTH IN THIS DISCLOSURE STATEMENT IS INCLUDED FOR GENERAL INFORMATION ONLY. ALL CREDITORS AND EQUITY HOLDERS SHOULD CONSULT THEIR OWN TAX ADVISORS REGARDING THE FEDERAL INCOME TAX CONSEQUENCES CONTEMPLATED UNDER OR IN CONNECTION WITH THE PLAN, AS WELL AS STATE AND LOCAL TAX CONSEQUENCES AND FEDERAL ESTATE AND GIFT TAXES.**

B. Federal Income Tax Consequences to Debtor

The Plan contemplates that all known creditors of Debtor will be paid at least in part, if not in full. Therefore, the federal income tax issues associated with the cancellation of debt are subject to the provisions of the 1980 Bankruptcy Tax Act as set forth in Section 108 of the Internal Revenue Code.

Debtor files Form 1065 (U.S. Return of Partnership Income) for Federal income tax purposes. This means each partner of the Debtor receives a Schedule K-1. Debtor files returns of income, but is not liable for federal income tax. Instead, the equity owners report all items of income, gain, loss, deduction and credit on their individual returns and that Debtor has no federal income tax.

Debtor did not incur any tax liability for taxable income. Net Income or Loss is passed through to the partners of the Debtor on a Schedule K.

C. Federal Income Tax Consequences to Creditors

General. As to all debts being paid in full and in cash and since none of the Creditors, in its or their capacity as a Creditor are receiving any security in Debtor, a Creditor who receives cash in full satisfaction of a Claim will classify the payment in the same way it would have

classified that payment had it been made by Debtor if it were not in bankruptcy. Therefore, each Creditor should consult its own tax advisor.

Backup Withholding. Under current tax law, interest, dividends and other “reportable payments” may, under certain circumstances, be subject to “backup withholding” taxes. Withholding generally applies if the holder: (i) fails to furnish his social security number or other taxpayer identification number (hereinafter “TIN”), (ii) furnishes an incorrect TIN, (iii) fails properly to report interest or dividends, or (iv) under certain circumstances, fails to provide a certified statement, signed under penalty of perjury, that the TIN provided is his correct number and that he is not subject to backup withholding.

### XIII.

#### RISK FACTORS

Certain substantial risk factors are inherent in most Chapter 11 cases. There are risks, which all creditors should be aware of with respect to this Plan.

First, there is a risk that the market in which the Debtor operates will decline, thereby increasing Debtor’s inability to pay its creditors pursuant to the confirmed Plan of Reorganization. While the Debtor does not believe that its market will decline, this possibility must be recognized.

All creditors should be aware that the inability to confirm this Plan might be detrimental to all creditors of the Debtor’s estate. If this Plan is not confirmed, and the case is converted to Chapter 7, it is highly likely that the unsecured creditors would receive no distributions out of the Debtor’s estate. The Debtor’s assets consisted of only \$11,091,235 million (approx.), as of June 10, 2015, while the Debtor’s liabilities were at least \$11,315,460 million (approx.), as of June 10, 2015, but, in the event of conversion to Chapter 7, the assets would be significantly diminished

and there would be additional Trustee's fees (unknown amount), plus Trustee's professionals' fees (unknown amount).

XIV.

FINANCIAL INFORMATION

Debtor has filed monthly operating reports with the Clerk of the Bankruptcy Court, which have been incorporated herein by reference.

XV.

CRAMDOWN

Upon rejection of this Plan by any impaired class of claims, the Plan Proponent intends to, and hereby does, invoke the cramdown provisions of section 1129(b) of the Bankruptcy Code to obtain confirmation of the Plan.

XVI.

EFFECT OF CONFIRMATION

If the Plan is confirmed, its provisions will bind the Debtor and each creditor, whether or not the claim is impaired under the Plan and whether or not the creditor has accepted the Plan. Upon confirmation of the Plan, the property of the estate will be free and clear of any and all claims and interests of all entities, except as provided in the Plan, and shall re-vest in the reorganized Debtor.

XVII.

CONFIRMATION PROCEDURES AND STANDARDS

In order for the Plan to be confirmed, various statutory conditions must be satisfied, including (i) a finding by the Court that the Plan is feasible, (ii) the acceptance of the Plan by at

least one impaired class entitled to vote on the Plan and (iii) provision for payment or distribution under the Plan to each claimant of money and/or other property equal in value to at least what the claimant would have received in liquidation or, with respect to each Class, either acceptance by that Class or a finding by the Court that the Plan is “fair and equitable” and does not “discriminate unfairly” against the Class.

A. Who May Vote

Only classes that are impaired under the Plan are entitled to vote on acceptance or rejection of the Plan. Generally, section 1124 of the Bankruptcy Code provides that a class of claims or interests is considered impaired unless a plan does not alter the legal, equitable, and contractual rights of the holder of the claims or interest. In addition, these classes are impaired unless all outstanding defaults, other than defaults relating to the insolvency or financial condition of the Debtor or the commencement of the Chapter 11 case, have been cured and the holders of the claims or interests in these classes have been compensated for any damages incurred as a result of any reasonable reliance on any contractual provisions or applicable law to demand accelerated payment.

Any claim that is subject to an unresolved objection may not vote unless an order is obtained from the Court temporarily allowing the Claim for the purpose of voting.

Class 1, 2, 3 and 8 are not impaired under the Plan and, pursuant to section 1126(f) of the Bankruptcy Code, are deemed to have accepted the Plan without voting. All other Classes, except Class 9, are impaired under the Plan and are entitled to vote to accept or reject the Plan.

B. Confirmation of the Plan

Under the Bankruptcy Code, the following steps must be taken to confirm the Plan:

Confirmation Hearing. Section 1128(a) of the Bankruptcy Code requires the Court, after notice, to hold a hearing on confirmation of the Plan (the "Confirmation Hearing"). The Court will schedule the Confirmation Hearing, set deadlines and require notice to all creditors. Section 1128(b) of the Bankruptcy Code provides that any party in interest may object to confirmation of the Plan, regardless of whether it is entitled to vote. If the Plan is not confirmed, however, the theoretical alternatives include: (a) alternative plans of reorganization; or (b) liquidation of the Debtor under Chapter 7 of the Bankruptcy Code.

Alternative Plans of Reorganization. If the Plan is not confirmed, the Debtor or some other party in interest in the Bankruptcy case could attempt to formulate and propose a different plan or plans. After a thorough review and analysis of the course of action set forth in the proposed Plan, the Debtor has concluded that the Plan as proposed provides the Holders of impaired claims and equity interests with the optimal opportunity for the maximum recovery such that the interests of each will thereby be best served.

Objections to Confirmation. The Court will schedule a hearing to consider objections by parties in interest to confirmation of the Plan. The hearing may be adjourned from time to time by the Court without further notice except for an announcement made at the hearing. While the Plan Proponent expects that any hearing to consider objections to the confirmation of the Plan will be held in conjunction with the Confirmation Hearing, there can be no assurance that such will be the case.

Objections to confirmation of the Plan are governed by Bankruptcy Rule 9014. UNLESS AN OBJECTION TO CONFIRMATION IS TIMELY MADE IT MAY NOT BE CONSIDERED BY THE COURT.

Requirements for Confirmation of the Plan. At the Confirmation Hearing, the Court will determine whether the requirements of section 1129 of the Bankruptcy Code have been satisfied, in which event the Court will enter an order confirming the Plan. These requirements are as follows:

Feasibility of the Plan. In order for the Plan to be confirmed, the Court must determine that a further reorganization or subsequent liquidation of the Debtor is not likely to result following confirmation of the Plan. The Plan Proponent believes that the Plan is feasible.

Best Interests Test. With respect to each impaired class contemplated by section 1129(a)(7)(A), each member either (a) has accepted the Plan or (b) will receive or retain under the Plan, on account of its Claim or Interest, property of a value, as of the Effective Date of the Plan, that is not less than the amount the holder would receive or retain if the Debtor were liquidated under Chapter 7 of the Bankruptcy Code. Only Classes 4, 5, 6 and 7 are affected by the best interests test, since all other classes are receiving payment in full under the Plan. Of course, no class may receive more than payment in full in either Chapter 7 or Chapter 11.

To determine what the holders in Classes 4, 5, 6 and 7 would receive if the Debtor was liquidated, the Bankruptcy Court must determine that the dollar amount which would be generated from the liquidation of the assets in the context of Chapter 7 liquidation is not more than the present value of the funds to be distributed under the Plan. The cash amount that would be available would consist of the proceeds resulting from the disposition of the unencumbered assets of the Debtor, reduced by the costs and expenses of the liquidation and by such additional administrative and priority expenses that may result.

The costs of liquidation under Chapter 7 would include the fees payable to the trustee appointed in the Chapter 7 case, as well as those that might be payable to additional attorneys

and other professionals that the trustee might engage. Costs of liquidation would also include any unpaid expenses incurred by the Debtor during the Chapter 11 case, such as compensation for attorneys, appraisers, and accountants and costs and expenses of operations, which remained unpaid. In addition, Claims may arise by reason of the rejection of obligations incurred and contracts entered into by the Debtor in Possession during the pendency of the Chapter 11 case.

To determine if the Plan is in the best interests of the members of Classes 4, 5, 6 and 7, the present value of the distributions from the proceeds of the liquidation of all the Debtor's assets and properties (after subtracting the amounts attributable to the claims described above) are then compared with the present value offered to each of the members of Classes 4, 6 and 7 under the Plan. It is the Debtor's opinion that if a Chapter 7 liquidation were to occur, no allowed unsecured creditor or interest holder would receive any distribution nor would the (priority) taxing entities' allowed, undisputed claims be paid in full.

Acceptance by Impaired Classes. Section 1129(a)(8) of the Bankruptcy Code requires that, subject to the "cram-down" exception contained in section 1129(b), each impaired class must accept the Plan by the requisite votes for confirmation to occur. A class of impaired claims will have accepted the Plan if at least two-thirds in amount and more than on-half in number of Allowed Claims in the class voting to accept or reject the Plan have voted in favor of acceptance. In addition, regardless of whether recourse is had to the cram-down provisions of section 1129(b), at least one impaired class must accept the Plan, without counting the votes of any "insiders" contained in the class, as defined in section 101(31) of the Bankruptcy Code.

Fair and Equitable Test. If any impaired class of claims does not accept the Plan, the Bankruptcy Court may still confirm the Plan at the request of the Proponent pursuant to the cram-down provisions of section 1129(b) if, as to such impaired class, the Plan "does not

discriminate unfairly” and is “fair and equitable” with respect to that class. A plan does not discriminate unfairly if no class receives more than it is legally entitled to receive for its claims or equity interests. “Fair and equitable” has different meanings for secured claims, unsecured claims and interests.

With respect to a secured claim, “fair and equitable” means that either (i) the impaired secured creditor retains its liens to the extent of its allowed secured claims and receives deferred cash payments at least equal to the allowed amount of its claim with a present value as of the effective date of the plan at least equal to the value of the creditor's interest in the property securing its liens, (ii) property subject to the lien of an impaired secured creditor is sold free and clear of the lien, with the lien attaching to the proceeds of the sale, or (iii) the impaired secured creditor realizes the “indubitable equivalent” of its claims under the Plan.

With respect to an unsecured claim, “fair and equitable” means that either (i) each impaired unsecured creditor receives or retains property of a value equal to the amount of its Allowed Claim or (ii) the holders of claims and interests that are junior to the claims of the dissenting class will not receive any property under the Plan in exchange for such claims or interest held prior to the filing.

The Bankruptcy Court must determine at the Confirmation Hearing whether the Plan is fair and equitable and does not discriminate unfairly against any impaired class of Claims.

The Debtor believes that each holder of a Claim impaired under the Plan will receive payments under the plan having a present value as of the Effective Date of an amount not less than the amount likely to be received if the Debtor was liquidated in a case under Chapter 7 of the Bankruptcy Code. The Debtor believes that each holder of a Claim impaired under the Plan will receive substantially greater payments under the proposed Plan of Reorganization.

Absolute Priority Rule. Section 1129(b)(2)(B)(ii) controls the payment of senior and junior classes of claims or interests in the event that all of the applicable requirements of Section 1129(a), other than paragraph (8), are met with respect to a plan. Under the Debtor's Plan, no junior classes of claims or interests are to receive more than senior classes of claims. Moreover, since creditors are entitled to be paid in full before junior classes of claims or interests receive any payments, the Debtor's Plan provides that no holder of any claim or equity interest that is junior to the claims of such senior claimants shall receive any payment on account of such junior claim or interest.

New Value Exception. In the event that any impaired class (that is not an "insider", as defined in 11 U.S.C. § 101(31)) rejects the Plan, the equity interest holders (or other interests junior to unsecured creditors) may retain their interest in the reorganized Debtor in return for capital contributions infused into the reorganized Debtor so long as the contribution is: (1) new; (2) substantial; (3) reasonably equivalent to the value received by the equity interest holder; (4) necessary to the effective reorganization of the Debtor; and (5) in the form of money or money's worth. *Bank of Am. Nat. Trust & Sav. Ass'n v. 203 N. LaSalle St. P'ship*, 526 U.S. 434, 445 (1999). The assessment of the required capital contribution amounts for the equity interest holders (or other interests junior to unsecured creditors) is to be made in the event that any impaired class (that is not an "insider") rejects the Plan.

C. Voting Procedures

Counting Votes. In order to be counted a ballot must be RECEIVED at the following address no later than the date set by the Bankruptcy Court:

**The Law Offices of Matthew Hoffman, p.c.  
2777 Allen Parkway, Suite 1000  
Houston, Texas 77019**

**Attorneys for Wentwood Baytown, L.P.,  
Debtor-in-Possession**

Solicitation of Votes. The Ballot included herewith will serve as the ballot for indicating acceptance of the Plan pursuant to the requirements of sections 1125 and 1126 of the Bankruptcy Code and Bankruptcy Rule 3018(c). Section 1125(b) of the Bankruptcy Code and Bankruptcy Rule 3018 govern the solicitation and the binding effect of acceptances. Any holder of a contested Claim may ask the Bankruptcy Court pursuant to Bankruptcy Rule 3018, to have its Claims allowed for the purpose of accepting or rejecting the Plan.

[SIGNATURE PAGE TO FOLLOW]

Respectfully submitted this the 14th day of January, 2016.

Texas Regency Apartments, L.P.,  
Debtor-in-Possession

By:       /s/ Matthew Hoffman      

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