UNITED STATES BANKRUPTCY COURT
DISTRICT OF CONNECTICUT
HARTFORD DIVISION

In re:	)	Chapter 11
SPECTRUM HEALTHCARE LLC, ET AL[1]	)	Case Nos. 16-21635(JJT) through 16-21639(JJT)
Debtors.	)	(Jointly Administered)

~~FIRST~~ SECOND AMENDED DISCLOSURE STATEMENT FOR PLAN OF REORGANIZATION FOR SPECTRUM HEALTHCARE MANCHESTER, LLC

Pullman & Comley, LLC
Attorneys for the Debtor
SPECTRUM HEALTHCARE MANCHESTER, LLC

By: /s/ Elizabeth J. Austin
Elizabeth J. Austin (ct04383)
Irve J. Goldman (ct02404)
PULLMAN & COMLEY, LLC
850 Main Street, P.O. Box 7006
Bridgeport, CT 06601-7006
(203) 330-2000 Fax: 576-8888
eaustin@pullcom.com
igoldman@pullcom.com

[1] Spectrum Healthcare, LLC, Case No. 16-21635; Spectrum Healthcare Derby, LLC, Case No. 16-21636; Spectrum Healthcare Hartford, LLC, Case No. 16-21637; Spectrum Healthcare Manchester, LLC, Case No. 16-21638; and Spectrum Healthcare Torrington, LLC, Case No. 16-21639.

I. INTRODUCTION

On October 6, 2016 (the "Petition Date"), Spectrum Health Care, LLC ("Spectrum"), Spectrum Healthcare Torrington, LLC ("Torrington"), Spectrum Healthcare Derby, LLC ("Derby"), Spectrum Healthcare Hartford, LLC ("Hartford") and Spectrum Healthcare Manchester, LLC ("Manchester" or "Debtor") (collectively, the "Debtors") filed Voluntary Petitions under Chapter 11 of the United States Bankruptcy Code in the United States Bankruptcy Court for the District of Connecticut, Hartford Division (the "Bankruptcy Court"). On October 11, 2016, the Bankruptcy Court entered an Order granting the Motion filed by the Debtors for joint administration of their cases. On or about October 21, 2016, the United States Trustee appointed the Official Committee of Unsecured Creditors (the "Committee"). Manchester, by and through its undersigned counsel, has proposed and filed its Plan of Reorganization dated October 13, 2017 (the "Plan") with the Bankruptcy Court.[1] This Plan of Reorganization is for Manchester only and not for any of the other of the Debtors and the Plan does not provide for payments to creditors other than those creditors who are creditors of Spectrum Manchester. By the confirmation order of the Plan, the Debtors will no longer deem to be jointly administered. A copy of the Plan is annexed hereto as Exhibit A. Manchester is seeking confirmation of the Plan by the Bankruptcy Court. This Plan addresses only the reorganization of Manchester and not any of the other affiliated Debtors as more fully explained herein.

[1] All capitalized terms not defined herein shall have the meaning ascribed to them in the Plan filed simultaneously herewith.

This Disclosure Statement (the "Disclosure Statement") is provided pursuant to Section1125 of the Bankruptcy Code to all known creditors of the Debtor. The purpose of this Disclosure Statement is to provide the holders of claims in this case with sufficient and adequate information with respect to the Plan. It enables such holders to make an informed decision in exercising their right to vote on the Plan. This Disclosure Statement discusses, among other things, voting instructions, classification of Claims against the Debtor, the treatment of such Claims, and the history of the Debtors' businesses. This Disclosure Statement also contains a summary and analysis of the Plan.

The Plan is a reorganizing plan that contemplates a financial rehabilitation of the Debtor and the continuation of its business. The primary purpose of the Plan is to ensure that the Debtor can service its secured debt and to satisfy the Debtor's obligations to, among others, holders of Allowed Unsecured Claims. The restructuring proposed in the Plan will enable the Debtor to exit Chapter 11, service its debts, and continue its existing operations. The Debtor will retain its assets and operate its businesses after confirmation of the Plan. The Creditors will receive payment of their Claims against the Debtor, either on the Effective Date of the Plan or over time.

As described herein, the Debtor believes that any alternatives to the Plan would produce less for Creditors than they will receive under the Plan and would endanger or terminate the operation of the Debtor's business.

By order of the Bankruptcy Court dated _____ __, 2017, this Disclosure Statement was approved as containing "adequate information," as that term is defined in Section 1125 of the Bankruptcy Code to enable the Debtor's Creditors to make an

informed judgment about whether to accept or reject the Plan. **APPROVAL OF THIS DISCLOSURE STATEMENT DOES NOT, HOWEVER, CONSTITUTE A DETERMINATION BY THE BANKRUPTCY COURT OF THE FAIRNESS OR MERITS OF THE PLAN OR THE ACCURACY OR COMPLETENESS OF THE INFORMATION CONTAINED IN THIS DISCLOSURE STATEMENT.**

NO REPRESENTATIONS CONCERNING THE DEBTOR, INCLUDING THOSE RELATING TO ITS BUSINESS OPERATIONS, OR THE VALUE OF ITS ASSETS, ITS PROPERTY AND CREDITORS' CLAIMS INCONSISTENT WITH ANYTHING CONTAINED HEREIN, HAVE BEEN AUTHORIZED. ANY REPRESENTATION OR INDUCEMENT MADE TO SECURE YOUR ACCEPTANCE OR REJECTION OF THE PLAN THAT IS OTHER THAN AS CONTAINED IN THIS DISCLOSURE STATEMENT SHOULD NOT BE RELIED UPON BY YOU IN ARRIVING AT YOUR DECISION. THE DEBTOR DOES NOT WARRANT OR REPRESENT THAT THE INFORMATION CONTAINED HEREIN IS COMPLETE OR WITHOUT OMISSIONS. THE BANKRUPTCY COURT'S APPROVAL OF THIS DISCLOSURE STATEMENT DOES NOT CONSTITUTE A RECOMMENDATION BY THE BANKRUPTCY COURT FOR OR AGAINST ANY FILED PLAN. NOTWITHSTANDING THE FOREGOING, THE DEBTOR HAS USED ITS BEST EFFORTS TO HAVE ALL THE INFORMATION CONTAINED HEREIN BE TRUTHFUL AND ACCURATE AND, TO THE BEST OF DEBTOR'S KNOWLEDGE, SUCH INFORMATION IS TRUTHFUL AND ACCURATE.

THIS DISCLOSURE STATEMENT MAY NOT BE RELIED UPON FOR ANY PURPOSE OTHER THAN TO DETERMINE HOW TO VOTE ON THE PLAN, AND NOTHING CONTAINED HEREIN SHALL CONSTITUTE AN ADMISSION OF ANY

FACT OR LIABILITY BY ANY PARTY, OR BE DEEMED CONCLUSIVE ADVICE ON THE TAX OR OTHER LEGAL EFFECTS OF THE REORGANIZATION ON HOLDERS OF CLAIMS.

THE STATEMENTS CONTAINED IN THIS DISCLOSURE STATEMENT ARE MADE AS OF THE DATE HEREOF UNLESS ANOTHER TIME IS SPECIFIED HEREIN, AND NEITHER DELIVERY OF THIS DISCLOSURE STATEMENT NOR ANY EXCHANGE OF RIGHTS MADE IN CONNECTION WITH THIS DISCLOSURE STATEMENT SHALL, UNDER ANY CIRCUMSTANCES, CREATE AN IMPLICATION THAT THERE HAS BEEN NO CHANGE IN THE FACTS SET FORTH HEREIN SINCE THE DATE OF THE DISCLOSURE STATEMENT AND SINCE THE DATE THAT THE MATERIALS RELIED UPON IN PREPARATION OF THIS DISCLOSURE STATEMENT WERE COMPILED.

Accompanying the Disclosure Statement are copies of:

(a) the Plan;

(b) the Order Scheduling Expedited Hearing on Plan Confirmation and Shortening the Objection and Balloting Deadline in connection therewith;

(c) the Notice fixing (i) the time for submitting acceptances or rejections of the Plan; (ii) the date and time of the hearing to consider confirmation of the Plan and related matters; (iii) the time for filing objections to the Plan (the "Confirmation Hearing Notice"); and

(d) ballots for acceptance or rejection of the Plan.

Pursuant to provisions of the Code, only classes of Claims and Interests that are "impaired" under the terms and provisions of the Plan, may vote to accept or reject the

Plan. ACCORDINGLY, A BALLOT FOR ACCEPTANCE OR REJECTION OF THE PLAN IS BEING PROVIDED ONLY TO MEMBERS OF THE IMPAIRED CLASSES.

In order for the Plan to be confirmed, Section 1129(a) of the Bankruptcy Code requires that each impaired Class of Allowed Claims in the Plan vote to accept that Plan, subject to certain exceptions. The Bankruptcy Code defines acceptance of a plan of reorganization by a class of creditors as acceptance by holders of two-thirds in dollar amount and a majority in number of the Claims in that Class of those creditors that have actually cast ballots for acceptance or rejection of a plan. Creditors that fail to vote are not counted as either accepting or rejecting a Plan. Only a Class of Claims that is "impaired" is entitled to vote to accept or reject the Plan. As set forth in Section 1124 of the Bankruptcy Code, a Class is impaired "if the legal, equitable or contractual rights attaching to the Claims of that Class are modified by a plan."

The Bankruptcy Code contains provisions for confirmation of a plan even if it is not accepted by all impaired Classes, as long as (a) the plan otherwise satisfies the requirements for confirmation, (b) at least one impaired Class of Claims has accepted the plan without taking into account the votes of any insiders in such Class and (c) the plan is "fair and equitable" and does not "discriminate unfairly" as to any impaired Class that has not accepted the plan. The so-called "cram down" provisions are set forth in Section 1129(b) of the Bankruptcy Code §1129(b). **THE DEBTOR WILL NOT SEEK CONFIRMATION OF THE PLAN UNDER THE CRAM DOWN PROVISIONS IN THE EVENT THAT AN IMPAIRED CLASS REJECTS THE PLAN.**

Each holder of a Claim or Interest in a voting class should read this Disclosure Statement, together with its exhibits, in their entirety. After carefully reviewing the Plan

and its exhibits, and this Disclosure Statement and its exhibits, please indicate your vote on the Plan on the enclosed ballot and return it in the envelope provided. If you have an impaired Claim or Interest in more than one class, you will receive a separate coded ballot for each Claim. See Section I.A. “Voting Instructions". **PLEASE VOTE EVERY BALLOT YOU RECEIVE.**

For a summary description of the treatment of each Class of Claims and Interests and the estimated value of distributions to each class of claims in interest as provided in the Plan, see I.C. "Overview of the Plan".

The Bankruptcy Court has scheduled a hearing to consider confirmation of the Plan for _____, 2017 at __:__ A.M./P.M. at the United States Bankruptcy Court, 450 Main Street, Courtroom 715B, 7th Floor, Hartford, Connecticut, (the "Confirmation Hearing"), the Bankruptcy Court has directed that objections, if any, to confirmation of the Plan be served and filed on or before _____, 2017**,** in the manner described in the Confirmation Hearing Notice accompanying this Disclosure Statement. The Court will consider only objections that are properly filed and served by the deadline. The day of the Confirmation Hearing may be adjourned from time to time without further notice.

THE DEBTOR URGES ALL CREDITORS TO VOTE IN FAVOR OF THIS PLAN BECAUSE IT PROVIDES THE GREATEST POSSIBLE RECOVERIES TO CREDITORS. YOUR "YES" VOTE ON THE ENCLOSED BALLOT IS RECOMMENDED FOR THE FOLLOWING REASONS:

The Debtor believes that the failure to confirm the Plan would result in cessation of operations and liquidation of the Debtor’s business. In the event of a liquidation, the

Debtor would have insufficient funds to pay in full the Claims of Creditors asserting Administrative Expense Claims and no money to pay General Unsecured Claims. The Plan allows Creditors to participate in distributions in excess of those that would be available if the Debtor was liquidated under Chapter 7 of the Code.

Capitalized terms used in this Disclosure Statement and not defined herein shall have the respective meanings assigned to them in the Plan.

A. Voting Instructions

1. Ballots

In voting for or against the Plan, please use only the ballot or ballots sent to you with this Disclosure Statement. If you have an impaired claim in more than one Class under the Plan, you will receive multiple ballots. IF YOU RECEIVE MORE THAN ONE BALLOT, YOU SHOULD ASSUME THAT EACH BALLOT IS FOR A SEPARATE CLAIM OR INTEREST AND YOU SHOULD COMPLETE AND RETURN ALL OF THEM.

IF YOU ARE A MEMBER OF A VOTING CLASS AND DID NOT RECEIVE A BALLOT, IF YOUR BALLOT IS DAMAGED OR LOST, OR IF YOU HAVE ANY QUESTIONS CONCERNING VOTING PROCEDURES, CONTACT ELIZABETH J. AUSTIN, PULLMAN & COMLEY, LLC AT (203) 330-2243 or VIA E-MAIL at eaustin@pullcom.com.

2. Returning Ballots

YOU SHOULD COMPLETE AND SIGN EACH ENCLOSED BALLOT AND RETURN IT IN THE ENCLOSED ENVELOPE BY FIRST CLASS MAIL ADDRESSED TO: PULLMAN & COMLEY, LLC, 850 MAIN STREET, 8TH FLOOR, BRIDGEPORT, CT

06604, ATTN: ROSA McCOY. IF YOU ARE RETURNING THE ENCLOSED BALLOT SEND IT TO RMCCOY@PULLCOM.COM. IN ORDER TO BE COUNTED, BALLOTS MUST BE RECEIVED ON OR BEFORE _____, 2017.

B. Acceptance or Rejection of the Plan

As a Creditor of the Debtor, your vote on the Plan is most important. In order for the Plan to be accepted by Creditors, votes representing at least two-thirds (2/3) in amount and more than one-half (1/2) in number of claims allowed for voting purposes of each impaired class that are voted must be received for the acceptance of the Plan. The Debtor is soliciting acceptances from members of the following Classes of Claims: Class 1 (Secured Claim of MidCap); Class 2 (Secured Claim of DRS); Class 3 (Holders of General Unsecured Claims); Class 4 (Convenience Class Claims) and Class 5 (Members Interests).

C. Overview of the Plan

THE DESCRIPTION OF THE PLAN SET FORTH BELOW CONSTITUTES A SUMMARY ONLY. CREDITORS ARE URGED TO REVIEW THE MORE DETAILED DESCRIPTION OF THE PLAN CONTAINED IN THIS DISCLOSURE STATEMENT. SEE III " PLAN OF REORGANIZATION" BELOW AND THE PLAN ITSELF, WHICH IS INCLUDED AS **EXHIBIT A** TO THIS DISCLOSURE STATEMENT. ALL SUMMARIES ARE QUALIFIED BY THE PLAN ITSELF. THE PLAN IS CONTROLLING IN THE EVENT OF ANY INCONSISTENCY BETWEEN A SUMMARY AND THE PLAN.

The Plan is a reorganizing plan. If the Plan is confirmed, on the Effective Date of the Debtor will pay Allowed Claims as provided in the Plan.

The following table summarizes the classification and treatment of Allowed Claims under the Plan: A more detailed discussion is set forth in Section III.

Claim and Estimated Amount of Claims in Class	**Treatment Under the Plan**
Administrative Claims	Paid (a) the amount of such unpaid Allowed Claim in Cash on the later of: (i) the Effective Date, (ii) the date on which such Administrative Claim becomes allowed by Final Order, and (iii) a date agreed to by the Debtor and the Holder; or (b) such other treatment as may be agreed to in writing by the Debtor and the Holder of such Claim.
Allowed Priority Tax Claims	Paid in cash in equal quarterly installments over a period ending not later than 5 years after the Petition Date.
Class 1 - MidCap's Secured Claim	As of the Effective Date, the Debtor and the Real Estate Entity shall enter into the Exit Financing Facility as described in Section 4.01(c) of the Plan. $1,590,000 of the outstanding balance under the MidCap Revolving Credit Agreement shall be rolled into the Exit Financing Facility. The Exit Financing Facility shall be in full repayment of MidCap's Allowed Secured Claim against Manchester.
Class 2 - Secured Claim of DRS	Paid in full in cash in equal quarterly installments over a period ending not later than 5 years from the Effective Date.
Class 3 – Holders of Unsecured Claims	Each holder of a General Unsecured Claim that is an Allowed Claim classified in Class 3 of the Plan shall receive its pro rata share of an amount equaling five percent (5%) of its Allowed Claims classified in Class 3 of the Plan, which shall be paid in equal quarterly cash installments beginning on the tenth day of the third month following the month in which the Effective Date occurs, and continuing over a five year period. Such distribution shall be funded by the Debtor over a five year period from Debtor's operations.
Class 4 – Convenience Class Claims	Allowed Convenience Claims will receive an amount equal to five percent of the Allowed Amount of such Allowed Convenience Claim on the one month anniversary of the Effective Date or the date such Convenience Claim becomes an Allowed Claim.
Class 5 – Members Interests	Members Interests will retain their membership interests, but will waive or cause to be waived any distribution on account of, and forgive any and all pre-petition intercompany claims and pre-petition claims held by the Real Estate Entity against the Debtor. Members Interests who also hold General Unsecured Claims against the Debtor, will waive any distribution under the Plan on account of such Claims.

D. Background and General Information

Spectrum is a management company that is responsible for the operations of Torrington, Derby, Hartford and Manchester which are four skilled nursing facilities located in the State of Connecticut. Each of the facilities began operating as Spectrum facilities at different times. Spectrum was created in November of 1999 at the same time Derby began its operations. In December of 2003, Hartford began operating as a Spectrum facility. In April of 2008, Manchester began operating as a Spectrum facility and in July of 2008, Torrington began operating as a Spectrum facility.

E. Events Leading up to the Bankruptcy

Debtors previously filed for relief under Chapter 11 of the Bankruptcy Code on September 10, 2012, and after eight months of operating in Chapter 11, the Debtors confirmed a joint Chapter 11 plan of reorganization (the "Joint Plan") and emerged from bankruptcy on May 7, 2013 (the "First Bankruptcy"). The Joint Plan confirmed in the First Bankruptcy substantively consolidated the Debtors for the purposes of making distributions to General Unsecured Creditors. The Joint Plan provided for distribution to General Unsecured Creditors of approximately 10 percent of the total allowed claims. Such distributions were to be funded by the Debtors in the First Bankruptcy over a five year period.

Unfortunately, after emerging from the First Bankruptcy, the Debtors continued to encounter financial obstacles and once again had no choice but to file Chapter 11 in order to stabilize operations. The Schedules filed by the Debtors reflected not only the amounts owed by each of the Debtors since emerging from the First Bankruptcy but also those amounts which remain unpaid by reason of the Debtors' failure to make all

the payments contemplated by the Joint Plan in the First Bankruptcy. All such creditors were given notice of the filing of these Chapter 11 cases and an opportunity to file a proof of claim if such creditors disagreed with the amounts reflected on the Schedules.

The Debtors commenced these Chapter 11 cases to restructure their operations in the hope of obtaining the prospect of their long-term viability through a plan of reorganization subject to Court approval, but after considering the desires of their principal secured creditor, and the other major constituents in these cases, committed to a process of attempting to sell substantially all of their assets. As noted above, however, this Debtor's Plan relates only to Manchester. As more fully explained below viable sales could not be accomplished for any of Manchester, Torrington, Derby or Hartford, so the Debtor turned to reorganizing Manchester through the proposed Plan. As more fully discussed below, Torrington, Hartford and Derby are subject to their own, unrelated resolutions. Torrington is in the process of being wound down and closed and thus, there is no prospect of reorganizing Torrington. Hartford has been placed into a State Court Receivership, and a Motion to Dismiss the Hartford proceeding has been filed. Derby is continuing to negotiate with Love Funding and HUD regarding a restructure of the mortgage and are very close to finalizing the terms of same. Assuming that can be accomplished and MidCap's debt on Derby can be refinanced, then Derby will be filing a plan to reorganize Derby. None of the outcomes for these other four Debtors has any involvement or impact upon the Debtor's Plan.

II. THE CHAPTER 11 CASE

On the Petition Date, the Debtors filed voluntary petitions for relief under Chapter 11 of Title 11 of the Bankruptcy Code and since that time have continued to operate as

debtors in possession pursuant to Sections 1107 and 1108 of the Bankruptcy Code. The Debtors' proceedings are being jointly administered by Orders dated October 11, 2016. On October 21, 2016, an Official Committee of Unsecured Creditors was appointed in these cases (the "Committee"). On November 23, 2016, the Court entered an Order authorizing the Debtors to retain Timothy J. Coburn as Chief Restructuring Officer of the Debtors (the "CRO").

As of the Petition Date, the Debtors had an annual combined revenue of approximately $50 million and the book value of the Debtor's' assets on an unaudited basis was approximately $13 million. As of the Petition Date, Manchester had an annual revenue of approximately $13.8 million and the book value of the Manchester's assets on an unaudited basis was approximately $2.5 million. Manchester employs 128 full-time and 79 part-time employees, none of which are members of any union.

MidCap holds a secured claim in the approximate amount of $14.55 million against the Debtor, which is secured by a lien on all of the Debtor's assets including, without limitation, the Debtor's accounts receivable pursuant to the terms of the MidCap Revolving Credit Agreement. DRS holds a secured claim against the Debtor in the amount of $455,904.42. The Debtor owes priority tax claims in the approximate amount of $222,000.00. Additionally, the Debtor estimates that Allowed Administrative Claims, including Professional Fees, will approximate $420,000.00. Further, the Debtor estimates that unsecured claims will total approximately $3,045,727.00.

Other than MidCap, Manchester shares no other joint obligations under any contract, loan or other financial instrument or other obligation with any of the other Debtors. Spectrum serves as the management company for Manchester, as well as

Derby and Torrington, and served as the management company for Hartford prior to going into receivership. Each of the Debtors are billed separately for the management services. Not all of the Debtors are current on the payment of management fees. Nonetheless, that does not bestow liability on any of the Debtors to cover shortfalls for management fees incurred by that Debtor.

Pursuant to the Joint Plan, in the first bankruptcy, all prepetition Inter-Company claims were forgiven. Since emerging from the first bankruptcy, some Inter-Company claims have accrued, but the lion's share of those amounts are owed by Hartford and Torrington to Manchester, and a smaller amount to Derby. While there is a small Inter-Company claim owed by Manchester to Derby, that amount is dwarfed by the amounts owed by Hartford and Torrington. If there were offsets by and between the Debtors, ultimately Hartford and Torrington would be the entities who owe money, primarily to Manchester, and some to Derby, and obviously, those claims are uncollectible. For that reason, Manchester is proposing that any Inter-Company claims owed by and between it and the other Debtors be waived. The waiver of same will have no impact on Manchester.

As such, the emergence of Manchester as a stand-alone entity will have no impact on the other Debtors because Manchester has no joint liabilities with the other Debtors other than MidCap which is being addressed as part of the Exit Financing Facility. Neither the Plan nor the Exit Financing Facility shall have any effect on MidCap's claims against the other Debtors. There are no shared services among Debtors other than the fact that Spectrum manages all of the Debtors for which each Debtor bears its own costs. If Derby can be successfully reorganized, then the new

management company described in Section IID herein will also provide services to a reorganized Derby. While a reorganized Derby and a reorganized Manchester would use the same management company, each would have their own agreement regarding the cost of management services.

A. The Debtors' Professionals

The Debtors retained Pullman & Comley, LLC ("P&C") to represent the Debtors in connection with their Chapter 11 proceedings. By order dated December 29, 2016, P&C's employment was approved, *nunc pro tunc* to the Petition Date. The Debtors also retained additional professionals to assist them in connection with their Chapter 11 proceedings. Such professionals included Blum Shapiro, accountants to the Debtors, whose employment was approved by the Bankruptcy Court by order dated December 2, 2016; Shipman, Shaiken & Schwefel, LLC as special tax appeal counsel, whose employment was approved by the Bankruptcy Court by order dated November 14, 2016; Michalik, Bauer, Silvia & Ciccarillo, LLC as collection counsel, whose employment was approved by the Bankruptcy Court by order dated December 12, 2016; and Murtha Cullina, LLP as special health care regulatory counsel, whose employment was approved by the Bankruptcy Court by order dated December 12, 2016.

B. Formation of Creditors Committee and Selection of Professionals

On October 21, 2016, the Office of the United States Trustee appointed the Committee comprised of Technical Gas Products, Inc. d/b/a O2 Safe Solutions, New England Health Care Employees Pension Fund, Griffin Hospital, Pharmacy Corporation of America d/b/a PharMerica, Select Rehabilitation, Inc., Healthcare Services Group, Inc., and Geriatric Medical & Surgical Supply, Inc. The Committee retained Klestadt Winters Jureller Southard & Stevens, LLP ("Klestadt") and Zeisler & Zeisler, P.C.

("Z&Z") as its attorneys to advise and represent the Committee in connection with these proceedings. By Order dated December 12, 2016, the Bankruptcy Court approved the employment of Z&Z and Klestadt.

C. Events During The Chapter 11 Case

i. Use of Cash Collateral

On October 12, 2016 the Court entered an interim order (1) authorizing the use of cash collateral, (2) granting adequate protection, and (3) granting related relief which order authorized the use of cash collateral of MidCap and CCP (the "Interim Cash Collateral Order"). Since the entry of the Interim Cash Collateral Order, eleven (11) additional cash collateral orders have since entered in this case, with the current order expiring on August 26, 2017.

ii. The Sale Process Engaged in by the Debtors

The Debtors engaged in extensive postpetition marketing efforts and analysis directed to the sale of the assets and operations owned and conducted, respectively, by each of the four nursing homes. The Debtors' pursuit of going concern sale transactions began in the fourth quarter of 2016, shortly after their retention of the CRO. One of the CRO's duties was to lead the Debtors in marketing the assets for sale.

A Seventh Cash Collateral Order entered which set milestones for the Debtors to accomplish the sale of the operations in a prompt and timely manner. Failure to meet milestones constituted defaults under the Seventh Cash Collateral Order. The milestones were reset several times because of the delay in receiving all of the change in ownership reports (the "CHOW Reports"), which made it impossible to obtain court

approval of a sale or sales by March 31, 2017 or a closing on a sale or sales by the dates as originally imposed by the Seventh Cash Collateral Order.

The bids received for Manchester and Derby were immediately determined to be inadequate and unacceptable, so the Debtors turned their attention to the possibility of reorganizing Manchester and Derby. The Debtors continued to negotiate with the potential bidders for Hartford and Torrington through mid-May 2017. Cognizant of their tight sale timeline and the rapidly dissipating availability of cash from which the Debtors could operate, the Debtors accomplished as much as possible with respect to the sale process from and after the time that sale milestones were first imposed.

Between December 2016 and March 2017, the CRO and the Debtors had communications with over eight potential buyers with the aim of attracting one or more bidders for the Debtors' assets. During this process, parties that executed non-disclosure agreements were granted access to an electronic data room containing significant diligence and other confidential information about all of the Debtors' businesses ("Data Room") and were given tours of the Facilities in which they were interested.

Despite the Debtors' extensive marketing efforts to these potential buyers, led by the CRO and aided by the Debtors' management, the Debtors received only four bids, one for each of the facilities. Colonial Health submitted two bids, one for Manchester and the other for Derby. The bid for the Debtor's estate assets was conditioned not only upon Colonial acquiring the real estate owned by Spectrum Manchester Realty, but upon MidCap providing financing for same. Colonial Health's bid on Manchester did not constitute a qualified bid as the purchase price for the Debtor's estate assets was wholly

inadequate. Further, one offer contained contingences and conditions that could not be satisfied by the Debtors and it was conditioned on the acquisition of the real estate owned by Spectrum Manchester Realty for a price and with financing conditions that were unacceptable to MidCap.

Colonial Health's bid for Derby was equally unqualified because like the bid for the Debtor's assets, the purchase price was wholly inadequate and the offer contained contingencies and conditions which could not be satisfied by the Debtors. Further, it was conditioned on the acquisition of the real estate owned by a non-debtor entity, Spectrum Derby Realty at a price and with financing conditions that were unacceptable to LFC, and HUD.

As a result of the inability to obtain acceptable offers for Manchester and Derby, the Debtors engaged in negotiations with MidCap regarding the reorganization of Manchester. Additionally, the Debtors are in negotiation with LFC and HUD and are making every effort to work toward a reorganization of Derby.

iCare submitted a bid to purchase the operations of Torrington. iCare had also negotiated the terms of an agreement with the landlord for Torrington and Hartford (the "Landlord") regarding the purchase of the Torrington real estate. Although the bid was not a qualified bid, the parties engaged in further discussions with iCare in an attempt to improve the offer and remove certain contingencies that were considered unattainable and, in any event, unacceptable. Despite extended negotiations with iCare, iCare refused to remove the contingencies and, as a result, the Debtors were unable to move forward with the sale of Torrington to iCare. Autumn Lake submitted a bid to purchase the operations of Hartford. Autumn Lake had also negotiated the terms of a purchase of

the real property with the Landlord. This offer was also unacceptable but like Torrington the parties continued to negotiate with Autumn Lake in an attempt to reach an agreement. However, ultimately final terms could not be negotiated in a timely manner.

Several stipulations extending the time within which Torrington and Hartford had to assume and/or reject the Real Estate Lease were approved by the Court, with the final date in the last extension being May 19, 2017. Because the Debtors were precluded by Section 365(d)(4)(B) of the Bankruptcy Code from obtaining an extension of time to assume or reject a lease of commercial real estate after 210 days from the Petition Date (which, in this case, was May 4, 2017), absent consent from the Landlord, the Debtors sought the Landlord's consent for a further extension. The Landlord declined to provide a further extension because it was the Landlord's position that a sale of Torrington and Hartford's operation could not be accomplished in a reasonable period of time at a price satisfactory to all parties, and that it was time to stem the losses. By operation of law (Section 365(d)(4)(A) of the Bankruptcy Code) the Debtors were required to surrender the premises to the Landlord.

It should also be noted that an obstacle to selling all four of the entities was the cost of improvements that new owners would had to have made upon a change of ownership. New owners would have been required to make improvements and updates, required in the ~~Chow~~CHOW Report, in order to acquire the operations of any of the Debtors. Because the ownership structure of Manchester is remaining the same and will not change upon emergence of bankruptcy, the requirements of the ~~Chow~~CHOW Report are inapplicable and the cost that a new owner would otherwise

have to incur are not costs that Manchester will be required to incur in order to emerge from Chapter 11.

On June 20, 2017, the Debtors filed motions for orders authorizing the Debtors to wind down and cease to operate both the Hartford and Torrington facilities (the "Motions to Wind Down"). The Motions to Wind Down were heard on June 26, 2017 and June 28, 2017. On July 12, 2017, the Bankruptcy Court issued a summary ruling and Orders on the Motion to Wind Down (the "Closure Orders"). The Closure Orders authorized the Debtors to wind down and cease to operate Torrington and Hartford, but stayed the effectiveness of the Closure Orders until midnight on July 21, 2017, when it would otherwise take full force and effect. The Closure Orders also contained provisions that permitted the State of Connecticut to seek, for cause shown, a stay or other relief to the Closure Orders to place Torrington and/or Hartford into receivership in State Court or otherwise provide an alternative disposition to the closure of Torrington and Hartford.

DSS filed a Motion to Stay the Hartford Closure Order on July 21, 2017, and on July 26, 2017, the Court granted DSS' request to stay the Hartford Closure Order for a period of two weeks.

On July 27, 2017, DSS filed a Motion for Relief From Stay to permit Hartford to be placed into a receivership, which Motion was granted on August 2, 2017. As such, Hartford is now in a State Court Receivership, and Jonathan Neagle is serving as the Receiver.

The closure and wind-down and closure of Torringtonproceeded after entry of the Closure Orders and was completed on September 29, 2017, the 60th day of the designated wind-down period.

iii. Exit Financing Facility

Manchester will receive the following financial accommodations from MidCap, to be more fully documented on or prior to the Confirmation Date: (1) a $3 million revolving loan facility, which shall include, as of the Effective Date, a $~~1,160,000~~1,235,000 overadvance. The Exit Financing Facility will replace the Debtor's obligations under the MidCap Revolving Credit Agreement, and $1,590,000 of the outstanding balance due under the MidCap Revolving Credit Agreement will be rolled into the Exit Financing Facility. $306,250~~185,000~~ in Professional Fees ~~(including all of the Professional Fees of the Debtor's Professionals set forth in Section 3.04 hereof)~~ will be paid from the proceeds of the Exit Financing Facility. The Exit Financing Facility will include the following terms: (i) the outstanding balance of the Exit Financing Facility will bear interest at five percent (5%) per annum plus the floating 30-day LIBOR rate, (ii) the Exit Financing Facility will mature three (3) years from the Effective Date, (iii) the $1,000,000.00 of the overadvance will be amortized on a 24-month straight line schedule beginning on the tenth day of the ninth month following the month in which Confirmation occurs and, in addition, will be paid down with the full amount of the refunds that the Debtor is entitled to receive from its workers' compensation insurance carrier; (iv) the remaining $235,000~~160,000~~ of the overadvance will be amortized on a 16-month straight line schedule beginning on the Effective Date and will be payable monthly; (v) $1,000,000 of the overadvance will terminate on the earlier of (x) the day that is 24 months after the Effective Date, or (y) payment by the Reorganized Debtor of its overadvance obligations in full; (vi) the remaining $235,000~~160,000~~ of the overadvance will terminate on the earlier of (x) the day that is 16 months after the

Effective Date, or (y) payment by the Reorganized Debtor of its overadvance obligations in full; (vii) MidCap will be entitled to collect a collateral management fee of 50 basis points and will have a right to accrue and charge interest for a period of three days after transmission of funds from the Reorganized Debtor to MidCap for application to the indebtedness under the Exit Financing Facility; and (viii) the Exit Financing Facility will be secured by a first priority security interest in the Reorganized Debtor's accounts receivable and all other assets; and (2) MidCap's existing term loan to and mortgage against the Real Estate Entity will be restructured to provide for a principal balance of $7,691,000.00 which will bear interest at 4.5% per annum plus the 30-day LIBOR rate, will be payable on a monthly basis based on a 25-year amortization schedule (with $60,000.00 of the principal balance amortizing over 12 months) and will fully mature three years after the Effective Date. To secure repayment of the Exit Financing Facility, the Debtors and Reorganized Debtor, as applicable, shall assign and divert all future payments of any workers' compensation premium refunds to MidCap. The Debtor and Reorganized Debtor, as applicable, shall execute all documentation as required by the Debtor's workers' compensation insurance carrier and MidCap in order to effectuate such an assignment prior to the Effective Date. The existing lease from the Real Estate Entity to the Reorganized Debtor will be modified to provide for payments that will correspond to the payments required under the restructured mortgage to the Real Estate Entity. The Exit Financing Facility and the term loan to the Real Estate Entity will be cross-collateralized and cross-guaranteed by the Debtor and the Real Estate Entity. MidCap's commitment to provide the Exit Financing Facility on the terms described

herein is conditioned upon the Effective Date occurring on or before November 30, 2017.

D. Post-Confirmation Management

Manchester will enter into a management agreement (the "Management Agreement") with a newly formed entity, the owners or members of which will be the same individuals who are members of Spectrum ("the Management Team"). Upon confirmation of this Plan, the Debtors will seek dismissal of the Spectrum proceeding.[2] The Management Agreement will be in the same form and content as the existing management agreement with Spectrum except that the management fees for Manchester will be fixed at 5% of the Manchester revenues and the term of the agreement will be three years. Other than the management fee, members of the new management company will not receive any compensation.[3] The Management Team is comprised of the following individuals:

Sean Murphy

Mr. Murphy handles all of the financial oversight for Manchester. He is responsible for developing and evaluating short and long-term strategic financial objectives for the Debtor. Other duties include financial reporting to the President, COO and other key executives to ensure they have timely accurate information to support their operational goals, all treasury and cash management for the Debtor, monitoring

[2] It is contemplated by the time this Plan is confirmed that motions to dismiss Torrington and Hartford will already be filed and possibly heard. If the Debtors are able to formulate a plan for Derby, then the Debtors will delay dismissing the bankruptcy of Spectrum Healthcare until that plan can be confirmed.

[3] Provided, however, that if a plan for Derby is confirmed, the management company will receive a management fee which will be fixed at three percent (3%) of the revenues from Derby.

and securing long-term debt needs, and analyzing new business development. Mr. Murphy's annual salary will be $191,644.00

Howard Dickstein, President & CEO

Mr. Dickstein oversees the Debtor's operations and management, reviews the Debtor's financial information and reports. He also works with the management team to coordinate the direction of the Debtor, creates plans to increase revenues for the Debtor and reviews drafts of all marketing materials and information. Mr. Dickstein also reviews and approves the Debtor's operational procedures, policies and standards. He provides leadership to the Debtor to positively position the Debtor in the skilled nursing facility industry. He enjoys an outstanding reputation among state nursing home regulators and is highly regarded within the Connecticut nursing home industry, having formerly served as a board member of CAHCF, the state's largest not-for-profit member association representing profit and not-for-profit health care facilities. Mr. Howard Dickstein's annual salary will be $75,636.00

Brian Dickstein, COO

Mr. Dickstein oversees the day to day oversight for the Debtor. He has direct line authority and responsibility for all nursing home operations including revenue and census growth; expense, cost and margin control; and ongoing financial goal management. Additional responsibilities are employee management, quality assurance/risk management and vendor relationships. In conjunction with the President he implements company strategy with the CFO, Director of Clinical Services, Director of Human Resources and the Director of Marketing/Admissions. Mr. Brian Dickstein's annual salary will be $191,644.00.

III. THE PLAN OF REORGANIZATION

The Debtor believes that under the Plan, holders with Allowed claims against the Debtor will obtain recoveries from the estate of the Debtor having a value in excess of what otherwise would be available if the assets of the Debtor were liquidated pursuant to Chapter 7 of the Code. Through a reorganization of the Debtor as going concerns, the Debtor will have sufficient assets to pay its liabilities, and confirmation of the Plan is not likely to be followed by the need for further financial reorganization of the Debtor.

The Debtor believes believe that the foregoing classification of Claims and Interests will permit all Claimants to obtain a fair distribution under the Plan and will accommodate the needs and particular attributes of the different types of Claims and Interests in this Chapter 11 Case. The classification results in the highest value being made available to all creditors. A description of each of the classes of Claims and Interests and their respective treatment under the Plan is set forth below.

THE FOLLOWING IS A SUMMARY OF THE SIGNIFICANT ELEMENTS OF THE PLAN. THE DISCLOSURE STATEMENT IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO THE MORE DETAILED INFORMATION SET FORTH IN THE PLAN AND THE ATTACHMENTS THERETO.

A. Classification

The Plan classifies the following Claims and Interests:

(a) Class 1 – Secured Claim of MidCap

(b) Class 2 – Secured Claim of DRS

(c) Class 3 – General Unsecured Claims

(d) Class 4 – Convenience Class Claims

(e) Class 5 – Members Interests

B. Treatment of Claims and Interests

The treatment of and consideration to be received by Holders of Allowed Claims and Allowed Interests pursuant to the Plan, including satisfaction of obligations to be performed by the Debtor under the Plan, when fully paid or performed shall be in full satisfaction, settlement, release, extinguishment and discharge of such Allowed Claims against and Allowed Interests in the Debtor and the Property of the Debtor, except as expressly provided in the Plan or the Confirmation Order.

1. United States Trustee Fees

Any unpaid statutory fees due pursuant to 28 U.S.C. § 1930 which are owed by the Debtor to the United States Trustee shall be paid in full, in cash, on or before the Effective Date.

2. Administrative Claims

Administrative Claims are **Unimpaired.** Unless otherwise provided herein, each Holder of an Allowed Administrative Claims shall receive in full satisfaction, settlement and discharge of such Claim (a) the amount of such unpaid Allowed Claim in Cash on the later of: (i) the Effective Date, (ii) the date on which such Administrative Claim becomes Allowed by Final Order, and (iii) a date agreed to by the Debtor and the Holder; or (b) such other treatment as may be agreed to in writing by the Debtor and the Holder of such Claim.

(a) Professional Fees

The Debtor estimates that upon the Effective Date, there will be approximately $420,000.00 of accrued and unpaid professional fees by all of the Debtors. The

Reorganized Debtor shall pay ~~a portion of the Professional Fees by making a payment of $131,250.00 ($110,000.00~~$185,000 for the Debtor's Professionals and $~~21,250~~121,250 for the Creditors' Committee's Professionals) on the Effective Date, from the proceeds of the Exit Financing Facility, which payment will be held in escrow ~~as set forth below~~ pending approval of Professional Fees by the Bankruptcy Court. ~~An additional $75,000 of the Debtor's Professional Fees and an additional $100,000 of the Committee's Professional Fees will be paid from the Exit Financing Facility upon the closure of the Exit Financing Facility.~~ An additional $80,000 of the Debtor~~'~~s' Professional Fees will be satisfied from the collateral of the Debtors other than Manchester, pursuant to the carve-out provided for in the Cash Collateral Orders entered in the case. ~~Provided the carve-out amounts are satisfied, the Debtor Professionals will be forever barred and estopped from asserting any claim for professional fees against MidCap.~~ If the additional $80,000 of the Debtors' Professional Fees are not satisfied pursuant to the carve-out from MidCap's collateral, the ~~The~~ balance of any unpaid allowed Professional Fees will be satisfied from any excess cash generated by the Reorganized Debtor after payment of all ordinary course expenses. The Debtors' Professionals will be forever barred and estopped from asserting any claim for professional fees against the Reorganized Debtor, any of the other Debtors (except in connection with the carve-outs from MidCap's collateral, any excess cash generated by the Reorganized Debtor after payment of all ordinary course expenses, or as may be agreed upon in connection with the confirmation of a plan of reorganization for, or other disposition of the Chapter 11 case of, Derby), or MidCap, and the Debtors' Professionals sole recourse with respect to professional fees other than those paid from

the proceeds of the Exit Financing Facility shall be to the carve-outs from MidCap's collateral, any excess cash generated by the Reorganized Debtor after payment of all ordinary course expenses, or as may be agreed upon in connection with the confirmation of a plan of reorganization for, or other disposition of the Chapter 11 Case of, Derby. The Committee's~~. The Committee~~ Professional Fees with respect to all Debtors (except as may be agreed upon in connection with the confirmation of a plan of reorganization for, or other disposition of the Chapter 11 Case of, Derby) will be capped at $121,250~~.00~~. The Committee's Professionals will be forever barred and estopped from asserting any claim for professional fees against the Reorganized Debtor, any of the other Debtors (except as may be agreed upon in connection with the confirmation of a plan of reorganization with respect to Derby) or MidCap.

(b) 503(b)(9) Claims

Holders Of 503(B)(9) Claims are **Unimpaired** and do not vote on the Plan. The following holders of 503(b)(9) claims shall receive in full satisfaction, release and discharge of such Claim, the amount of such Allowed 503(b)(9) claim, Cash installments as agreed to by the Debtor and the Holders of the 503(b)(9) claims, as set forth below:

(i) **The Hartford Provision Co. d/b/a HPC Food Service** holds an administrative claim against the Debtor pursuant to Section 503(b)(9) of the Bankruptcy Code in the amount of $20,932.08, which claim will be paid in full on the Effective Date.

(ii) **The Pharmacy Corporation of America d/b/a PharMerica** holds an administrative claim against the Debtor pursuant to Section 503(b)(9) of the

Bankruptcy Code in the amount of $29,591.18, which claim will be paid in full on the Effective Date.

3. Priority Tax Claims

Priority Tax claims are **Unimpaired** and do not vote on the Plan. Each Holder of an Allowed Priority Tax Claim shall receive in full satisfaction, release and discharge of such Claim, the amount of such Allowed Priority Tax Claim in Cash installments, as agreed to by the Debtor and the Holders of the Allowed Priority Tax Claim, as set forth as follows:

(a) Unsecured Priority Tax Claim of the Town of Manchester ($14,399.05). This Claim shall be paid in equal quarterly Cash installments beginning on the tenth day of the third month following the month in which the Effective Date occurs and continuing for a period that is not longer than five years from the Petition Date, together with interest at the rate prescribed by Section 511 of the Bankruptcy Code, until paid in full.

(b) Unsecured Priority Tax Claim of DRS for Provider Taxes ($207,490.80). This Claim shall be paid in equal quarterly Cash installments beginning on the tenth day of the third month following the month in which the Effective Date occurs and continuing for a period not longer than five years from the Effective Date, together with interest at 4% per annum, until paid in full.

4. Secured Claims – Classes 1 through 2

(a) MidCap – Class 1

MidCap holds an Allowed Secured Claim against the Debtor pursuant to its proof of claim filed on January 23, 2017 and assigned Claim No. 18, the MidCap

Revolving Credit Agreement. The Spectrum Revolving Borrowers' obligations under the MidCap Revolving Credit Agreement are secured by all of the assets of the Spectrum Revolving Borrowers. Pursuant to the MidCap Revolving Credit Agreement, MidCap agreed to provide the Spectrum Revolving Borrowers with revolving loans in the maximum principal amount of $6,500,000.00, which maximum principal amount was later increased to $7,500,000.00. As of September 30, 2016, MidCap had advanced $2,565,000.00 to the Spectrum Revolving Borrowers above and beyond the Spectrum Revolving Borrowers' borrowing base, of which $1,170,000.00 of the overadvance was allocated to Spectrum Healthcare Manchester, LLC and $1,395,000.00 of the overadvance was allocated to the other Spectrum Revolving Borrowers. As of the Petition Date, on account of its obligations under the MidCap Revolving Credit Agreement, the Debtor was indebted to MidCap in an amount not less than $6,239,366.61. Pursuant to the MidCap Cross-Guaranty Agreement, the Real Estate Entity's obligations under the MidCap Manchester Realty Credit Agreement are guaranteed by the Spectrum Revolving Borrowers. Pursuant to the MidCap Manchester Realty Credit Agreement, MidCap agreed to provide the Real Estate Entity with a term loan in the maximum principal amount of $10,500,000.00. As of the Petition Date, on account of its obligations under the MidCap Cross-Guaranty Agreement, the Debtor was indebted to MidCap in the amount of $8,310,878.33. As of the Effective Date, the Debtor and the Real Estate Entity shall enter into the Exit Financing Facility as described in Section 4.01(c) of the Plan. $1,590,000.00 of the outstanding balance under the MidCap Revolving Credit Agreement shall be rolled into the Exit Financing Facility. The Exit Financing Facility shall be in full repayment of MidCap's Allowed

Secured Claim against Manchester. The treatment of MidCap's Claims as stated in this Section 3.07 and Section 4.01(c) shall be the only treatment of MidCap's Claims and Liens under the Plan. As to MidCap, such treatment (including the terms and conditions of the Exit Financing Facility) shall control over any inconsistent, additional, or different provisions of this Plan (or any documents reference herein), and any inconsistent, additional, or different provisions of the Plan (or any documents referenced herein) shall be superseded and inapplicable with respect to the treatment of MidCap's Claims and Liens. Without limiting the foregoing, the injunction provisions of this Plan shall not limit in any way MidCap's claims, rights, and remedies under the Exit Financing Facility.

Class 1 is **impaired** and votes on the Plan.

(b) DRS – Class 2

DRS shall be deemed to hold a Secured Claim in the total amount of $455,904.42 pursuant to its proof of claim filed on January 20, 2017 and assigned Claim No. 17. DRS shall receive on account of its Secured Claim equal quarterly Cash installments beginning on the third month following the month in which the Effective Date occurs and continuing for a period not longer than five years from the Effective Date, together with interest at 4% per annum, until paid in full. DRS shall retain its right of set-off to secure the foregoing treatment, but it shall be subordinate in priority to the security interest provided to MidCap to secure its treatment under the Plan.

Class 2 is **impaired** and votes on the Plan.

5. General Unsecured Claims – Class 3

Class 3 Claims include all General Unsecured Claims including all Rejection Claims, with the exception of the following which are expressly not included as General

Unsecured Claims classified in Class 3: (i) all Debtor's Intercompany Claims, (ii) Claims held by the Real Estate Entity against the Debtor, (iii) Convenience Claims, (iv) Claims held by any other person or entities with whom there are settlements of Administrative, Priority Non-Tax, Priority Tax, or Allowed Secured Claims, (v) Administrative Claims, Priority Non-Tax Claims, Priority Tax Claims, or Allowed Secured Claims included in other classes or otherwise treated in the Plan independent of this Class 3 or (vi) Unsecured Claims of affiliates of the Debtor and shareholders and members of the Debtor, which are being waived pursuant to Section 3.11.

Each Holder of a General Unsecured Claim that is an Allowed Claim classified in this Class 3 shall receive its Pro Rata Share of an amount equaling five percent (5%) of its Allowed Claim classified in Class 3, which shall be paid in equal quarterly Cash installments beginning on the tenth day of the third month following the month in which the Effective Date occurs and continuing over a five-year period until paid. Such distributions shall be funded by the Debtor over a five year period from the Debtor's operations.

Class 3 is **impaired** and votes on the Plan.

6. Convenience Claims – Class 4

A Convenience Claim is an Allowed Unsecured Claim that is $2,000 or less. In full and complete satisfaction of its claim, on the later of the one month anniversary of the Effective Date or the date such Convenience Claim becomes an Allowed Claim, each Holder of an allowed Convenience Claim will receive from the Debtor Cash equal to five percent (5%) of the allowed amount of such Convenience Claim, except to the extent that such Holder of an allowed Convenience Claim has been paid by the Debtor prior to the Effective Date and except to the extent that such Holder agrees to less favorable treatment.

Class 4 is **impaired** and votes on the Plan.

7. Members Interests – Class 5

Class 5 Interests consist of the membership interests in the Debtor. The Holders of the Class 5 Interests will retain their membership interests, but will waive or cause to be waived any distribution on account of, and forgive any and all pre-petition Intercompany Claims and prepetition Claims held by the Real Estate Entity against the Debtor. Holders of Class 5 Interests who also hold General Unsecured Claims against the Debtor, will waive any distribution under the Plan on account of such Claims.

Class 5 is **unimpaired** and does not vote on the Plan.

C. Means of Implementation of the Plan

On the Effective Date, the Reorganized Debtor shall be authorized and directed to execute and deliver all documents and agreements and take all actions contemplated by the Plan. The Debtor will retain all of its property subject only to the Claims as provided in the Plan. The Debtor will make distributions provided for in the Plan from

the Debtor's cash on hand, operating revenue and from the Exit Financing Facility. As demonstrated by the Debtor's cash flow projections for the five year period following the Effective Date and annexed hereto as Exhibit B, the Debtor's cash flow in combination with the Exit Financing Facility will be sufficient to allow the Debtor to properly operate its properties and make all payments required under the Plan. The projections incorporated anticipate reductions in reimbursement rates presently being contemplated by the Connecticut State Legislature, and at this time, it is not certain that these reductions in reimbursement rates will be implemented.

D. Effect of Confirmation

Chapter 11 is the principal business reorganization chapter of the Bankruptcy Code. Under Chapter 11, the Debtor is authorized to reorganize its business for the benefit of itself and its creditors and interest holders. In addition to permitting rehabilitation of the Debtor, chapter 11 promotes equality of treatment of creditors and interest holders who hold substantially similar claims against or interest in the Debtor and its assets.

The consummation of a plan of reorganization that maximizes value for the benefit of all constituents is the principal objective of a Chapter 11 case. A plan of reorganization sets forth the means for satisfying claims and interest in the debtor. Confirmation of a plan of reorganization by a bankruptcy court makes the plan binding upon the debtor, any person or equity requiring property under the plan and any creditor of or equity holder in the debtor, whether or not such creditor or equity holder is (i) has accepted the plan or (ii) receives or retains any property under the plan subject to certain limitations and otherwise as provided in the plan itself or the confirmation order.

The confirmation discharges the debtor from any debt that arose prior to the date of confirmation of the plan and substitutes therefor the obligations specified under the confirmed plan, and terminates all rights and interest of equity security holders other than as provided in the plan.

Article X of the Plan also provides, with limited exceptions, for the release by Holders of Claims of any and all claims against the Debtor, the Creditors' Committee and its members and agents and representatives of the Debtor for claims relating in any way to the Debtor, the Chapter 11 Case or the Plan. In addition, MidCap will release the members of the Debtor of any claims on account of their personal guarantees of the Debtors' indebtedness to MidCap. Article X of the Plan further provides for a release of claims by the Debtor of its former and present officers, directors and employees, and of MidCap, its affiliates, employees, officers and agents.

E. Procedures for Resolving and Treating Disputed Claims

The Plan provides, inter alia, that notwithstanding any other provision in the Plan, if any portion of a Claim is a Disputed Claim, no payment or distribution provided hereunder shall be made on any portion of that Claim unless and until and only to the extent such Claim becomes Allowed. Under the Plan, the Reorganized Debtor and the Creditors' Committee shall have the right to the exclusion of all others (except as to applications for allowance of compensation and reimbursement of expenses under Section 328, 330 and 503 of the Bankruptcy Code) to make, file and prosecute objections to Claims, provided, however, the Creditors' Committee may only object to a Claim in the event the Debtor fails or refuses to pursue such objection. The Plan provides that the Reorganized Debtor shall serve a copy of each objection upon the

holder of the Claim to which the objection is made as soon as practicable (unless such Claim was already the subject of a valid objection by the Debtor), but in no event shall service of such objection be later than one (1) year after the Effective Date, unless such date is extended by order of the Bankruptcy Court. The Plan further provides that all objections shall be litigated to a Final Order except to the extent that the Reorganized Debtor elects to withdraw such objection, or Reorganized Debtor and the holder of the Disputed Claim compromise, settle or otherwise resolve any such objections, in which event they may settle, compromise or resolve any Disputed Claim without further notice of the Bankruptcy Court.

Under the Plan, the Reorganized Debtor shall be required to reserve (but not in a formal, segregated account) sufficient cash for Disputed Unsecured Claims, as set forth in the Plan. The Plan provides that if on or after the Effective Date any Disputed Claim becomes an Allowed Claim, as soon as practical following the date on which the Disputed Claim becomes an Allowed Claim, the Reorganized Debtor distributes to the Holder of such Allowed Claim in an amount that provides such Holder with the same percentage recovery, as of the date, as other Holders of Claims in the relevant Class that were allowed on the Effective Date.

An objection to the allowance of a Claim shall be in writing and may be filed with the Bankruptcy Court at any time on or before the Claim Objection Deadline, unless another date is established by order of the Bankruptcy Court. The failure of the Debtor and Creditors Committee to object to any Claim for voting purposes shall not be deemed a waiver of the Debtor's or Creditors' Committee right to object to any Claim, in whole or in part.

F. Assumption and Rejection Of Executory Contracts and Unexpired Leases

The Plan provides that pursuant to Sections 365(a) and 1123(b)(2) of the Bankruptcy Code, any and all pre-petition executory contracts and unexpired leases of the Debtor, that (i) have not been expressly assumed or rejected prior to the Effective Date by order of the Bankruptcy Court, as provided by the Plan or by operation of law; (ii) or which are not the subject of pending applications to assume or reject on or before the Effective Date and thereafter assumed or rejected, as the case may be, by order of the Bankruptcy Court, or (iii) is subject to Sections 6.02 and 6.03 of the Plan, shall be deemed rejected in accordance with Section 1123(b)(2) of the Bankruptcy Code.

Any Claims arising out of the rejection of executory contracts and unexpired leases shall, pursuant to Section 502(g) of the Code, be treated as a Class 3 Unsecured Claim.

Under the Plan, Claims arising out of the rejection of an executory contract or unexpired lease pursuant to the Plan, must be filed with the Bankruptcy Court and served upon the Debtor, or Reorganized Debtor, no later than thirty (30) days after the date notice of entry of the Confirmation Order is mailed. Any Holder of a Claim arising from the rejection of an executory contract or unexpired lease that fails to file a Proof of Claim relating to such rejection within such time shall be forever barred, estopped and enjoined from asserting such Claim in any manner against the debtor or its Property, or against Reorganized Debtor and its Property and the Debtor, Reorganized Debtor, and its Estate and Property shall be forever discharged and released from all indebtedness or liability with respect to such Claims, and such Holder shall not be permitted to vote on the Plan or to participate in any distribution and shall be bound by the terms of the Plan.

The Plan further provides that entry of the Confirmation Order shall, subject to and upon the occurrence of the Effective Date, constitute (i) the approval, pursuant to Sections 365(a) and 1123(b)(2) of the Bankruptcy Code, of the assumption of the executory contracts and unexpired leases assumed pursuant to the Plan, (ii) the extension of time, pursuant to Section 365(d)(4) of the Bankruptcy Code, within which the Debtor may assume and assign, or reject the unexpired leases specified in the Plan through the date of entry of an order approving the assumption, assumption and assignment, or rejection of such unexpired leases, and (iii) the approval, pursuant to Sections 365(a) and 1123(b)(2) of the Bankruptcy Code, of the rejection of the executory contracts and unexpired leases rejected pursuant to the Plan. Under the Plan, the Reorganized Debtor shall pay all cure amounts, if any, to the non-Debtor parties to the executory contracts and unexpired leases assumed pursuant to the Plan by the later to occur of (i) the Effective Date anniversary or (ii) ten (10) days after resolution of the cure amount by Final Order or agreement of the parties, except as otherwise agreed to by the parties. Under the Plan, if a non-Debtor party to an executory contract or unexpired lease assumed pursuant to the Plan timely objects to the assumption or the proposed cure amount for that agreement, the Debtor and the objecting party may settle, compromise, or otherwise resolve the proper cure amount without further order of the Court, or may submit the dispute to the Bankruptcy Court for determination as to the proper cure amount.

The only executory contracts or unexpired leases the Debtor intends to assume are the Provider Agreements and related third-party contracts identified in Part III.G. below, and its real estate lease with the Real Estate Entity, which is the Debtor's non-

debtor affiliate. As to the real estate lease, no cure amounts will be owed, but it will be amended to conform the monthly rental payment obligation to the new monthly mortgage payment that will be due under the Real Estate Entity's restructured mortgage with MidCap.

G. Provider Agreements

As of the Effective Date, provider agreements or other agreements that exist between the Debtor and either the federal government, state government or a third party in connection with the participation of the Debtor in the Medicare and Medicaid programs and/or commercial network insurance agreements are hereby assumed. A schedule reflecting cure amounts in connection with Provider Agreements is attached to the Plan as Exhibit 1. In summary, they are: (i) Aetna Life Insurance - $2292.00; (ii) United Healtcare - $1,635.31; (iii) Cigna Healthcare - $3,324.14; and (iv) Connecticare - $0. The cure amounts will be paid no later than sixty (60) days after the Effective Date. Notwithstanding anything to the contrary in the Plan or any of its exhibits, Medicare's right of recoupment and CMS's administration of the Debtor's Medicare Provider Agreements and federal Medicare laws and regulations, are unaffected by the confirmation of the Plan. Further, except as provided for in the Plan, Medicaid's right of recoupment, and DSS's administration of the Debtor's Medicaid Provider Agreement pursuant to state Medicaid laws and regulations, are unaffected by the confirmation of the Plan.

H. Distributions Under the Plan

The Plan provides, inter alia, that the Reorganized Debtor shall make all distributions required by the Plan.

I. Retention of Jurisdiction

Under the Plan, the Bankruptcy Court shall retain jurisdiction of the Chapter 11 Case for the following purposes:

(i) allow, disallow, determine, liquidate, classify, estimate or establish the priority or status of any Claim, whether arising before or after the Petition Date, including the compromise, settlement and resolution of any request for payment of any Administrative Expense Claim or Priority Claim, and to hear and determine any other issue presented relating to the Objection to any Claim or Interest;

(ii) issue injunctions, enter and implement other orders, or take such other actions as may be necessary or appropriate to restrain or prevent or restrain interference by any Person or entity with the consummation, implementation or enforcement of the Plan, Plan documents or the Confirmation Order; including (i) Claims subject to litigation pending as of the Effective Date and (ii) the waiver, release, injunction and exoneration provisions hereof;

(iii) to determine all matters that may be pending before the Court in the Case on or before the Effective Date with respect to any Person;

(iv) to determine any and all applications for allowance of compensation and expense reimbursement of Professionals for periods on or before the Effective Date;

(v) to adjudicate and resolve any dispute arising under or related to the implementation, execution, consummation or interpretation of the Plan and

any settlement approved as part of the Plan and the making of distributions hereunder;

(vi) to determine any and all motions for rejection, assumption or assignment of executory contracts or leases and to determine the allowance of Claims resulting from the rejection of executory contracts and unexpired leases;

(vii) to determine all applications, adversary proceedings, contested matters, actions and any other litigated matters instituted prior to the closing of the Case, including any remands;

(viii) to determine such other matters as may be provided in the Confirmation Order or as may be authorized under the provisions of the Bankruptcy Code, Rules, or the local bankruptcy rules;

(ix) to modify the Plan under Section 1127 of the Code, remedy any defect, cure any omission or reconcile any inconsistency in the Plan or the Confirmation Order so as to carry out the Plan's intent and purposes;

(x) to enter and implement such orders as may be appropriate in the event the Confirmation Order is for any reason stayed, revoked, modified or vacated;

(xi) to resolve any dispute or matter arising under or in connection with any order of the Court entered in the Chapter 11 Case;

(xii) to enter a Final Order closing the Chapter 11 Case;

(xiii) to determine such other matters as set forth in the Confirmation Order or as may arise in connection with the Plan or the Confirmation Order, and/or

in connection with any other agreement, settlement or transaction entered into pursuant to or in connection with this Plan; and

(xiv) to determine the Debtor's rights to set off or recoupment hereunder; and

(xv) to enforce, collect and/or recover, by an order of contempt, adjustment, disgorgement or otherwise, the payment of the amounts required by the Plan to be paid.

IV. VOTING ON AND CONFIRMATION OF THE PLAN

In order to confirm the Plan, the Code requires that the Bankruptcy Court make a series of determinations concerning the Plan that are set out in 16 separate subsections in section 1129(a) of the Bankruptcy Code. Not all of these requirements are applicable to the Debtor, but among those that are, the following are of particular significance:

(a) The Plan has classified Claims and interests in a permissible matter;

(b) The Plan complies with the technical requirements of Chapter 11 of the Code;

(c) The Debtor has proposed have proposed the Plan in good faith;

(d) The Debtor's disclosures as required by Chapter 11 of the Code have been adequate and have included information concerning all payments made or promised by the Debtor in connection with the Plan and the Chapter 11 case. The Debtor believes believe that all of these conditions will have been met by the date set for the hearing on Confirmation and will seek ruling of the Bankruptcy Court to such effect at such hearing; and

(e) The Code also requires that the Plan shall have been accepted by the requisite votes of Creditors, the Plan be feasible (that is, that there be a

reasonable prospect that the Debtor will be able to perform its obligations under the Plan and continue to operate its businesses without further financial reorganization), and that the Plan is in the "best interest" of all Creditors and equity security holders (that is that the Creditors and equity security holders will receive at least as much pursuant to the Plan, as they would receive in a Chapter 7 liquidation). To confirm the Plan, the Bankruptcy Court must find that all of these conditions are met. Thus, even if Creditors of the Debtor accept a Plan by requisite votes, the Bankruptcy Court must make independent findings respecting the Plan's feasibility and whether it is in the best interest of the Debtor, Creditors and equity security holders before it may confirm the Plan. The statutory conditions as to confirmation are discussed below.

A. Classification of Claims and Interests

The Code requires that a Plan of Reorganization place each Creditor's Claim, and each Interest Holder's Claim in a class with other Claims and interests that are "substantially similar" for the rationale, for the classification of Claims and Interests used in the Plan, see Article III "Classification and Treatment of Administrative Expense Claims, Tax Claims and of Claims and Interests." The Debtor believes that the Plan meets the classification requirements of the Code.

B. Voting

As otherwise provided in Section 1129(b) of the Bankruptcy Code, as a condition to confirmation, the Code requires that each Impaired Class of Claims accept the Plan. A class is "Impaired" if the legal, equitable, or contractual right attaching to the Claims of

that class are modified, other than by curing defaults and reinstating maturity or by payment in full in cash. The Code defines acceptance of a Plan by an impaired class of Claims as acceptance by holders of two-thirds (2/3) in dollar amount and majority in number of Claims of that class, but, for that purpose counts only those who actually vote to accept or reject the Plan. The Code defines acceptance of a Plan by an Impaired Class of interest or acceptance by holders of two-thirds (2/3) of the number of shares in such Claim, but for this purpose only shares actually voted are counted holders of claims of interest who fail to vote are not counted as either accepting or rejecting the Plan.

Classes of Claims that are not "Impaired" under the Plan are deemed to have accepted the Plan.

C. Confirmation Without Acceptance by All Impaired Classes

The Code contains provisions for confirmation of a Plan even if the Plan is not accepted by all impaired classes, as long as at least one impaired class has accepted it. The "cram down" provisions of the Bankruptcy Code are set forth in Section 1129(b) of the Bankruptcy Code. A Plan may be confirmed under the cram down provisions if in addition to satisfying the other requirements of the Section 1129 of the Bankruptcy Code, it (i) "does not discriminate unfairly", and (ii) is "fair and equitable", with respect to each class of Claims or Interests that is impaired under, and has not accepted the Plan. As used by the Code, the phrases "discriminate unfairly" and "fair and equitable" have narrow and specific meanings unique to bankruptcy law.

In general, the cram down standard requires that a dissenting class receive full compensation for its Allowed Claims or interest before any junior class receives any distribution.

The Debtor shall utilize provisions of Section 1129(b) of the Bankruptcy Code to satisfy the requirements for confirmation of the Plan as more fully described in the Plan, see Article XVI, "Miscellaneous Provisions."

D. Best Interests of Creditors and Shareholders

Notwithstanding acceptance of the Plan, as provided for in the Code, by creditors of each Class, in order to confirm the Plan, the Bankruptcy Court must independently determine that the Plan is in the best interests of all classes of creditors impaired by the Plan. The "best interests" test requires that the Bankruptcy Court find that the Plan provides to each member of each impaired class of Claims and Interests, a recovery that has a value at least equal to the value of the distribution that each such person would receive if the Debtor was liquidated under Chapter 7 of the Code.

To estimate what members of each impaired class of unsecured creditors would receive if the Debtor was liquidated, the Bankruptcy Court must first determine the aggregate dollar amount that would be generated from the Debtor's assets if the Chapter 11 Case was converted to a Chapter 7 case under the Bankruptcy Code and the assets were liquidated by a trustee in bankruptcy (the "Liquidation Value"). The Liquidation Value would consist of the net proceeds from the disposition of the assets of the Debtor, augmented by any cash held by the Debtor.

The Liquidation Value available to general unsecured creditors would be reduced by:

(a) The claims of secured creditors to the extent of the value of their collateral; and

(b) The costs and expenses of the liquidation, as well as other administrative expenses of the Debtor's Estate. The Debtor's costs of liquidation under Chapter 7 would include the compensation of a trustee or trustees, as well as counsel and other professional retained by the trustee; disposition expenses; all unpaid expenses incurred by the Debtor during their Chapter 11 reorganization proceedings (such as compensation for attorneys, financial advisors, and accountants) which are allowed in the Chapter 7 proceeding; litigation costs; and claims arising from the operation of the Debtor during the pendency of the Chapter 11 Case and the Chapter 7 liquidation proceedings. These claims which have priority over general unsecured claims, would be paid in full out of other liquidation proceeds before the balance would be made available to pay general unsecured claims, or to make any distribution respect to equity.

Once the percentage recoveries in the liquidation of secured creditors, priority claimants, general creditors and equity security holders are attained, the value of the distribution available out of the liquidation value, is compared with the value of the property offered to each of the Classes of Claims in interest under the Plan to determine if the Plan is in the best interest of each creditor and equity security holder class.

The Debtor has undertaken the detailed analysis of the Liquidation Value of its assets as set forth in Exhibit "C." Exhibit C demonstrates that there would not be sufficient funds to make any distribution to pay Allowed Unsecured Claims following a complete liquidation of the Debtor.

Due to the numerous uncertainties and time delays associated with liquidation under Chapter 7, and the circumstances of this particular case, it is not possible to predict with certainty the outcome of the liquidation of the Debtor or the priming of any distribution to creditors. However, based on the foregoing analysis, the Debtor has concluded the complete liquidation of the Debtor under Chapter 7 of the Code would result in a significantly lesser distribution to Creditors than provided for in the Plan.

E. Certain Federal Tax Consequences

The implementation of the Plan may have significant complex federal, state, local and foreign tax consequences for Creditors. No ruling from the IRS or any state, local or foreign taxing authority has been or will be sought or obtained with respect to any federal, state or local tax consequences of the Plan. The tax consequences for any particular creditor may be affected by matters not addressed in the Disclosure Statement or in the Plan. For example, certain types of investors (including non-resident aliens, life insurance companies and tax-exempt organizations) may be subject to special rules not discussed below. In addition, the Internal Revenue Code ("IRC"), the Treasury Department's regulations promulgated thereunder, and interpretations of the IRC and regulations by the IRS in its rulings and other announced positions and by the courts are continually subject to change. Thus, the potential tax consequences described below are general in nature, are not intended to be complete or detailed, and are subject to significant exceptions and uncertainties. The discussion below covers only certain of the federal income tax consequences associated with implementation of the Plan. This discussion does not attempt to comment all aspects of the federal income tax consequences associated with the Plan, nor does it attempt to consider various facts or limitations applicable to any particular Creditor, which may modify or alter the consequences described herein. This discussion does not address state, local or foreign tax consequences.

IN THIS SECTION AND IN THE DISCLOSURE STATEMENT GENERALLY, THE DEBTOR AND ITS PROFESSIONALS DO NOT INTEND TO AND ARE NOT GIVING TAX OR OTHER LEGAL ADVICE TO ANY CREDITORS. THE DEBTOR

ONLY PROVIDES THIS GENERAL INFORMATION TO ASSIST THE PARTIES INVOLVED IN EVALUATING HOW THE PLAN AFFECTS THEM FOR TAX PURPOSES. CREDITORS ARE ADVISED TO CONSULT WITH THEIR TAX ADVISORS REGARDING THE INDIVIDUAL TAX CONSEQUENCES OF THE TRANSACTIONS, INCLUDING STATE AND LOCAL TAX CONSEQUENCES. NO RULING HAS BEEN REQUESTED FROM THE IRS AS TO THE TAX CONSEQUENCES OF THE PLAN. ACCORDINGLY, THERE CAN BE NO ASSURANCE THAT THE IRS WOULD AGREE WITH THE FOLLOWING DISCUSSION.

It is intended that nothing in the Plan shall adversely affect, or be interpreted inconsistently with, the tax status of the Debtor. Accordingly, the Debtor does not expect the implementation of the Plan to have any adverse federal income tax consequences to the Debtor, including, without limitation, in connection with (i) the discharge of debt pursuant to the Plan, or (ii) any other transaction contemplated thereunder.

The federal income tax treatment of payments received by a Creditor in this Chapter 11 Case will vary depending upon a number of factors, including the classification of the Creditor for tax purposes, the Creditor's method of accounting, the creditor's tax residence, and the origin or genesis of the Creditor's claim. Thus, tax treatment will depend upon whether the creditor is an individual, a partnership or corporation, whether the Creditor uses a cash method or the accrual method of accounting, and whether the Creditor is a foreign purpose for income tax purposes.

In general, a Creditor receiving a distribution under the Plan and in satisfaction of the claim will realize income gained or loss measured by the difference between (i) the cash in the fair market value of the property received under the Plan and (ii) the Creditor's adjusted tax basis in the claim. The income, gain or loss realized by the Creditor will be ordinary income or loss if the distribution is in satisfaction of accounts or notes receivable required in the ordinary course of the Creditor's trade or business for the performance of services or for sale of goods or merchandise. Generally, the gain or loss will be capital gain or loss if the claim is a capital asset in the Creditor's hands. The federal income tax consequences of the distribution under the Plan will also depend on the nature of the original transaction pursuant which the claim arose. For example, a distribution on account of the principal amount due on a loan is not included in the Creditor's gross income, whereas distribution on account of interest on a loan or an account of rent is included in the Creditor's gross income to the extent it was not previously included in the income.

The federal income tax consequences of a distribution to a Creditor will also depend on whether an amount representing the distribution has previously been included in the Creditor's gross income or whether the Creditor has previously claimed a loss or bad debt deduction for that amount. For example, if a distribution is made in satisfaction of an account or note receivable acquired in the ordinary course, the Creditor's trade or business for the performance of services or the sale of goods or merchandise, then the Creditor has previously included the amount of the distribution in its gross income under its method of accounting, and has not previously written off the account or note receivable, the receipt of the distribution would not result in additional

income to the Creditor. On the other hand, if such Creditor has written off the account or note receivable in a prior year, the Creditor would have to treat the amount of the distribution as income.

Section 166 of the IRC permits a deduction for indebtedness that becomes wholly or partially worthless during the taxable year. In order to provide the worthlessness of the debt, the taxpayer must establish the existence of a "identifiable event" indicating worthlessness.

F. Alternatives to the Plan

The only known alternatives to the Debtor's Plan would be conversion of the case from a Chapter 11 reorganization to a Chapter 7 liquidation of Debtor's assets by a trustee or an outright dismissal of the Chapter 11 case.

In the event of a liquidation under a Chapter 7, the going concern value and substantial good will that has been developed by the Debtor over close to ten years of operation would be lost, and the value of the assets substantially diminished to a point where not only would there be nothing for unsecured creditors, but the Estates would likely become administratively insolvent.

Alternatively, if the Plan is not confirmed under Section 1129 of the Bankruptcy Code, the Debtor's case could be dismissed. The Debtor believes that the dismissal of the Chapter 11 Case would result in piece meal litigation and attachment of the Debtor's assets without Bankruptcy Court supervision. Such litigation, would in the Debtor's opinion, generate substantially less for Creditors than sums which will be realized under the Plan and resulting in inequitable recoveries among Creditors.

If the Debtor remains in Chapter 11, it would remain subject to the operational difficulties and costs associated with a Chapter 11 bankruptcy case. Professional fees and other Chapter 11 costs have been substantial in this case, the Debtor cannot continue to incur these costs indefinitely, and the Debtor believes that the continuation of these costs will reduce the amount available to Creditors. The continued payment of these costs would not be of any benefit to the Creditors, as the Debtor believes that a confirmation of a plan superior to the Plan is not possible.

For the reasons described above, the Debtor believes that the distribution to each impaired Class under the Plan would be greater and earlier than distributions that might be received after liquidation of the Debtor by a Chapter 7 trustee.

The Debtor believes the confirmation of the Plan is preferable to the alternatives described above because the Plan provides for an equitable, early distribution to Creditors. Creditors and any alternative confirmation of the Plan would result in significant delays in and probable diminution of recoveries.

Further, the Debtor's business provides essential services to the community. The Debtor is a nursing home that provides the highest level of care to close to 115 patients who depend on the Debtor for health safety and well-being. Additionally, the Debtor employs over 185 employees. As such, reorganization of the Debtor so that operations can continue is a better alternative.

G. Modification of the Plan

The Debtor reserves the right, in accordance with the Code, and with MidCap's consent to amend or modify the Plan prior to the Confirmation Date, or as soon thereafter as practicable after the confirmation date, the Debtor may, upon order of the

Bankruptcy Court in accordance with Section 1127(b) of the Bankruptcy Code, remedy any defect or omission or reconcile any inconsistencies in the Plan in such a manner as may be necessary to carry out the purposes and intent of the Plan.

H. Confirmation Hearing

The Code requires that the Bankruptcy Court, after notice, to hold a hearing on the confirmation of the Plan to consider whether the foregoing requirements have been met. The confirmation hearing has been scheduled for _____, ___, **2017 at** _____**:00 a.m./p.m.** The confirmation hearing may be adjourned from time to time by the Bankruptcy Court without further notice, except for the announcement of the adjourned date made at the confirmation hearing. Any objection to confirmation must be made in writing and filed with the Bankruptcy Court and served upon the following on or before _____, 2017.

Elizabeth J. Austin, Esq.
Irve J. Goldman, Esq.
Pullman & Comley, LLC
850 Main Street, P.O. Box 7006
Bridgeport, CT 06601-7006
Attorneys for the Debtors

Steven E. Mackey, Esq.
Office of the U.S. Trustee
The Giaimo Federal Building
150 Court Street, Room 302
New Haven, CT 06510
U.S. Trustee

John C. Tishler, Esq.
Katie~~Kobie~~ G. Stenberg, Esq.
Tyler N. Layne, Esq.
Waller Lansden ~~Deutch~~ Dortch & Davis, LLP
511 Union Street, Suite 2700
Nashville, TN 37219
Attorneys for MidCap

Fred Stevens, Esq.
Klestadt, Winters, Jureller, Southard & Stephens, LLP
900 West 41st Street, 17th Floor
New York, NY 10036
Attorneys for the Official Committee of Unsecured Creditors

and

Steven M. Kindseth, Esq.
Zeisler & Zeisler, P. C.
558 Clinton Avenue
P. O. Box 3186
Bridgeport, CT 06605-0186
Attorneys for the Official Committee of Unsecured Creditors

V. RELEASES

Release by Holders of Claims. Upon the Effective Date, and in consideration of the property to be distributed to or on behalf of the Holders of Claims pursuant to this Plan, such Holders shall have been deemed to have released the Debtor, the Creditors Committee and its members, and each of their respective agents, professional persons, advisors and representatives in such capacity, from any and all claims, obligations, rights, causes of action and liability (other than the right to enforce the Debtor's obligations under the Plan and/or the Exit Financing Facility, and except solely for actions or omissions arising out of their respective gross negligence or exculpatory willful misconduct), which such Holder may be entitled to assert, whether known or unknown, foreseen or unforeseen, then existing or thereafter arising based in whole or in part on events prior to the Effective Date, in any way relating to the Debtor, the Chapter 11 Case or the Plan, except as otherwise provided in the Exit Financing Facility documentation contemplated by Section 7.01 of the Plan. No current Holder of a Claim or an Interest, or representative thereof, shall have or pursue any cause of action (a)

against the Reorganized Debtor for making payments in accordance with the Plan, or for implementing the provisions of the Plan, or (b) against any Holder of a Claim for receiving or retaining distributions or other payments as provided for in the Plan. In addition, upon the Effective Date, MidCap shall have been deemed to release any and all of its claims against the Debtor's Members on account of their personal guaranties of the Debtors' indebtedness to MidCap, and promptly after the Effective Date, shall dismiss with prejudice any pending actions which seek to enforce or collect on such guaranties.

Release by the Debtor. On the Effective Date, the Debtor, in consideration for services rendered by the Debtor's officers, directors and employees prior to and during the pendency of the Chapter 11 Case shall be deemed to have released any and all claims, obligations, rights, causes of action and liabilities, whether known or unknown, foreseen or unforeseen, then existing or thereafter arising, which are based in whole or in part on actions taken on or prior to the Effective Date ("Released Matters"), and which may be asserted by or on behalf of the Debtor against such former and present officers, directors and employees. Moreover, as an inducement to MidCap to provide the Exit Financing Facility, the Debtor shall be deemed to have waived and released any and all Released Matters against MidCap and MidCap's affiliates, employees, officers and agents, arising before the Effective Date.

VI. RECOMMENDATION TO ACCEPT THE PLAN

FOR ALL THE REASONS SET FORTH IN THIS DISCLOSURE STATEMENT, THE DEBTOR BELIEVES THAT THE CONFIRMATION AND CONSUMMATION OF THE PLAN IS PREFERABLE TO ALL OTHER ALTERNATIVES.

VII. CONCLUSION

THE DEBTOR URGES ALL VOTING CLASSES TO ACCEPT THE PLAN AND TO EVIDENCE SUCH ACCEPTANCE BY RETURNING THEIR BALLOTS SO THAT THEY WILL BE RECEIVED BY _____, _____, 2017.

Dated at Bridgeport, Connecticut this 1~~3~~8th day of October, 2017.

Spectrum Healthcare Manchester, LLC

By: /s/ Sean Murphy
Sean Murphy
Its CFO

Pullman & Comley, LLC
Attorneys for the Debtors
SPECTRUM HEALTH CARE, LLC, ET AL

By: /s/ Elizabeth J. Austin
Elizabeth J. Austin (ct04383)
Irve J. Goldman (ct02404)
Pullman & Comley, LLC
850 Main Street, P.O. Box 7006
Bridgeport, CT 06601-7006
(203) 330-2000
eaustin@pullcom.com
igoldman@pullcom.com