UNITED STATES BANKRUPTCY COURT
WESTERN DISTRICT OF TENNESSEE
WESTERN DIVISION

In re:

WAVERLY GARDENS OF MEMPHIS, LLC, — Case No. 08-30218-PJD

KIRBY OAKS INTEGRA, LLC,
d/b/a WAVERLY GLEN, — Case No. 08-30221-PJD

Debtors. — Chapter 11

JOINTLY ADMINISTERED

DISCLOSURE STATEMENT FOR WAVERLY GARDENS OF MEMPHIS, LLC AND KIRBY OAKS INTEGRA, LLC

Dated: June 5, 2009

Respectfully submitted,

BUTLER, SNOW, O'MARA, STEVENS & CANNADA, PLLC
By /s/ Michael P. Coury
Michael P. Coury (TN 7002)
6075 Poplar Avenue, Suite 500
Memphis, Tennessee 38119
(901) 680-7200

Attorneys for the Debtors-in-Possession

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ARTICLE I

INTRODUCTION

The Debtors, Waverly Gardens of Memphis, LLC and Kirby Oaks Integra, LLC d/b/a Waverly Glen (collectively the "Debtors"), provide this Disclosure Statement pursuant to 11 U.S.C. § 1125 to all known creditors and interest holders to disclose that information deemed by the Debtors to be material, important and necessary for their creditors to arrive at a reasonably informed decision in exercising their right to vote for acceptance of the Plan of Reorganization (the "Plan"). Neither the Debtors nor the Bankruptcy Court have authorized the communication of any information about the Plan other than the information contained in this Disclosure Statement and the related materials transmitted herewith or filed with the Bankruptcy Court. No solicitation of votes on the Plan from a Creditor in an Impaired Class or Interest holder may be made, unless, at the time of or before such solicitation, this Disclosure Statement, in the form approved by the Bankruptcy Court for dissemination, is transmitted to such Persons.

NO REPRESENTATIONS CONCERNING THE DEBTORS (PARTICULARLY AS TO THEIR FUTURE BUSINESS OPERATIONS, VALUE OF PROPERTY, OR THE PLAN) ARE AUTHORIZED BY THE DEBTORS OTHER THAN AS SET FORTH IN THIS DISCLOSURE STATEMENT. ANY REPRESENTATIONS OR INDUCEMENTS MADE TO SECURE YOUR ACCEPTANCE WHICH ARE OTHER THAN AS CONTAINED IN THIS DISCLOSURE STATEMENT SHOULD NOT BE RELIED UPON BY YOU IN ARRIVING AT YOUR DECISIONS, AND SUCH ADDITIONAL REPRESENTATIONS AND INDUCEMENTS SHOULD BE REPORTED TO COUNSEL FOR THE DEBTORS WHO IN TURN SHALL DELIVER SUCH INFORMATION TO THE BANKRUPTCY COURT FOR SUCH ACTION AS MAY BE DEEMED APPROPRIATE. THE INFORMATION CONTAINED HEREIN HAS NOT BEEN SUBJECT TO A CERTIFIED AUDIT. THE RECORDS KEPT BY THE DEBTORS IS DEPENDENT UPON ACCOUNTING PERFORMED BY THE DEBTORS OR THEIR AGENTS. FOR THE FOREGOING REASON, THE DEBTORS IS UNABLE TO

WARRANT OR REPRESENT THAT THE INFORMATION CONTAINED HEREIN IS WITHOUT ANY INACCURACY. IN ADDITION TO THIS DISCLOSURE STATEMENT, THE ATTACHED PLAN OF REORGANIZATION SHOULD ALSO BE REVIEWED FOR A BETTER UNDERSTANDING OF THE TREATMENT OF ALL CLASSES OF CREDITORS. THE PLAN IS ATTACHED AS EXHIBIT 1TO THIS DISCLOSURE STATEMENT AND INCORPORATED HEREIN BY REFERENCE.

THIS DISCLOSURE STATEMENT HAS BEEN PREPARED BY THE DEBTORS IN GOOD FAITH AND IN COMPLIANCE WITH THE APPLICABLE PROVISIONS OF THE BANKRUPTCY CODE. NO REPRESENTATIONS BY ANY PERSON OR ENTITY CONCERNING THE DEBTORS, THEIR OPERATIONS, FUTURE SALES, PROFITABILITY, VALUES OR OTHERWISE, OTHER THAN AS SET FORTH IN THIS DISCLOSURE STATEMENT, HAVE BEEN AUTHORIZED.

THE INFORMATION CONTAINED IN THIS DISCLOSURE STATEMENT IS BELIEVED TO BE CORRECT AT THE TIME OF THE FILING OF THIS DISCLOSURE STATEMENT. ANY INFORMATION, REPRESENTATION, OR INDUCEMENT MADE TO SECURE OR OBTAIN ACCEPTANCES OR REJECTIONS OF THE PLAN WHICH ARE, OTHER THAN, OR ARE INCONSISTENT WITH, THE INFORMATION CONTAINED IN THIS DISCLOSURE STATEMENT OR OTHER MATERIALS AUTHORIZED TO BE TRANSMITTED BY THE BANKRUPTCY COURT SHOULD NOT BE RELIED UPON BY ANY PERSON IN ARRIVING AT A DECISION TO VOTE FOR OR AGAINST THE PLAN. ANY SUCH ADDITIONAL INFORMATION, REPRESENTATIONS, AND INDUCEMENTS SHOULD BE IMMEDIATELY REPORTED TO THE ATTENTION OF THE DEBTORS AND THE BANKRUPTCY COURT.

AS TO CONTESTED MATTERS, ADVERSARY PROCEEDINGS AND OTHER ACTIONS, THIS DISCLOSURE STATEMENT SHALL NOT CONSTITUTE OR BE CONSTRUED AS ADMISSION OF ANY FACT OR LIABILITY, STIPULATION OR WAIVER, BUT RATHER AS A STATEMENT MADE IN SETTLEMENT NEGOTIATIONS. THIS DISCLOSURE STATEMENT SHALL NOT BE ADMISSIBLE IN ANY NON-BANKRUPTCY PROCEEDING NOR SHALL IT BE CONSTRUED TO BE CONCLUSIVE ADVICE ON THE TAX, SECURITIES OR OTHER LEGAL EFFECTS OF THE PLAN AS TO THE HOLDERS OF CLAIMS AGAINST, OR EQUITY INTERESTS IN THE DEBTORS OR DEBTORS-IN-POSSESSION IN THIS CASE.

Except with respect to the projections and except as otherwise specifically and expressly indicated herein, this Disclosure Statement does not reflect any events that may occur subsequent to the date hereof and that may have a material impact on the information contained in this

The Debtors do not intend to update the Projections. Nor do the Debtors anticipate that any amendments or supplements to this Disclosure Statement will be distributed to reflect such occurrences, unless otherwise ordered by the Bankruptcy Court. Accordingly, the delivery of this Disclosure Statement shall not under any circumstance imply that the information contained therein is correct or complete as of any time subsequent to the date hereof.

THIS DISCLOSURE STATEMENT CONTAINS SUMMARIES OF CERTAIN PROVISIONS OF THE PLAN, CERTAIN STATUTORY PROVISIONS, CERTAIN RELATED DOCUMENTS, CERTAIN EVENTS, AND CERTAIN FINANCIAL INFORMATION. WHILE THE DEBTORS BELIEVE THAT THE PLAN AND RELATED DOCUMENT SUMMARIES ARE FAIR AND ACCURATE, SUCH SUMMARIES ARE QUALIFIED TO THE EXTENT THAT THEY DO NOT SET FORTH THE ENTIRE TEXT OF SUCH DOCUMENTS OR STATUTORY PROVISIONS. EXCEPT AS OTHERWISE SPECIFICALLY NOTED, FACTUAL INFORMATION CONTAINED IN THIS DISCLOSURE STATEMENT HAS BEEN PROVIDED BY A REVIEW OF THE CERTAIN PARTS OF THE RECORD IN THE CASE AND BY CERTAIN PERSONS HAVING A FAMILIARITY WITH THE DEBTORS' BUSINESS. CERTAIN OF THE FINANCIAL INFORMATION CONTAINED HEREIN HAS NOT BEEN SUBJECT TO AN AUDIT. NEITHER THE DEBTORS NOR COUNSEL FOR THE DEBTORS IS ABLE TO WARRANT OR REPRESENT THAT THE INFORMATION CONTAINED HEREIN, INCLUDING THE FINANCIAL INFORMATION, IS WITHOUT ANY INACCURACY OR OMISSION.

On June ____________, 2009, after notice and a hearing, the Bankruptcy Court approved this Disclosure Statement as containing "adequate information" (as defined in

11 U.S.C. § 1125) of a kind and in sufficient detail to enable a hypothetical, reasonable investor typical of Creditors in Impaired Classes to make informed judgments about the Plan. The Bankruptcy Court's Order Approving this Disclosure Statement (the "Order Approving Disclosure Statement and Scheduling Confirmation Hearing") is attached as **Exhibit 2** to this Disclosure Statement. In that Order the Bankruptcy Court also (i) approved the solicitation materials and the procedures for distributing such materials, (ii) approved the form and manner of notice of the Confirmation Hearing, (iii) established the Voting Record Date, (iv) approved the forms of ballots, (v) established the deadline for submitting ballots on the Plan, (vi) approved the procedures for the tabulation of votes, and (vii) scheduled the Confirmation Hearing for _________, 2009 at ____ (time).

ARTICLE II

2.1. VOTING PREREQUISITES AND PROCEDURES

As a Creditor or interest holder, your vote is important. The Plan can be confirmed by the Court if it is accepted by the holders of two-thirds (2/3) in amount and more than one-half (½) in number of claims in each Impaired Class of claims or interests in a class voting on the Plan. Under certain circumstances more fully described in 11 U.S.C. § 1129(b), the Court may confirm a plan notwithstanding the rejection thereof by more than one-third (1/3) in amount and one-half (½) in number of the creditors voting on the plan in any given class. The Debtors intends to seek confirmation under 11 U.S.C. § 1129(b) in the event any class of creditors rejects the Plan.

The purpose of this statement is to provide the holders of claims against or interests in the Debtors with adequate information about the Debtors and the Plan to make an informed judgment when voting on the Plan.

2.2 Persons Entitled to Vote on the Plan.

Impaired Classes Entitled to Vote on the Plan

Pursuant to the Bankruptcy Code, only Classes of Claim and Interests that are Impaired under the terms and provisions of the Plan are entitled to vote accept or reject the Plan. Classes of Claims and Interests that are not Impaired are not entitled to vote on the Plan and are deemed to have accepted the Plan. Impaired Classes of Claims or Interests that receive no distributions under the Plan are not entitled to vote on the Plan and are deemed to have rejected the Plan. The following Classes of Claims and Interests are Impaired under the Plan and, accordingly, are entitled to vote to accept or reject the Plan. All other Creditor Classes are (a) not Impaired under the Plan; or (b) Classes not statutorily entitled to vote; and, in both instances are not entitled to vote to accept or reject the Plan.

Class Description

1 A- Allowed Administrative Claims pursuant to 11 U.S.C. § 503(b)(1)(a).

1B- Allowed Administrative Claims pursuant to 11 U.S.C. § 503(b)(9)

2 - Secured Claims of First Tennessee Bank, N.A.

3- Secured Claim of Marger Partnership

4- Claims of Creditors holding claims entitled to priority (other than Claims entitled to priority under Section 507(a)(8)) under 11 U.S.C. § 507(a)

5- Cure Payments Due to Lessors of Non-residential Real or Personal Property upon the Assumption of Leases

6 - Unsecured Claims Not Entitled to Priority Under the Code.

7- Unsecured Claims Not Entitled to Priority Under the Code of Less than $1,000.

8- Interests in the Debtors.

2. 3 Claims in Impaired Classes Entitled to Vote

Any holder of a Claim in an Impaired Class at ______ at 5:00 p.m. CDT on _________, 2009, the Voting Record Date, whose Claim has not previously been disallowed by the Bankruptcy Court is entitled to vote if and only if either (i) such holder's Claim has been Scheduled by the Debtors and is not a Disputed, Contingent or Unliquidated Claim or (ii) a proof of claim was filed and (x) neither the Debtors nor any other party in interest have filed an objection to such asserted claim or (y) such asserted claim has been Allowed by a Final Order. Accordingly, any Claim as to which an objection has been filed is not entitled to vote unless the Bankruptcy Court, after notice and a hearing, temporarily allows such Claim pursuant to 11 U.S.C. § 502 and FED. R. BANKR. P. 3018 in an amount that Bankruptcy Court deems proper for the purpose of voting to accept or reject the Plan. Thus, although the holders of Disputed Claims may receive ballots, these ballots will not be counted unless such Disputed Claims are Allowed temporarily for voting purposes by the Bankruptcy Court. Further, a vote may be disregarded by if the Bankruptcy Court determines that such vote was not solicited or procured in good faith or in accordance with the provisions of the Bankruptcy Code.

2.4 Voting Instructions

The Voting Record Date is five o'clock (5:00) p.m. Central Daylight Time on _________, 2009. Only holders of Allowed Claims or Allowed Interest in Impaired Classes as of the Voting Record Date are eligible to vote on the Plan. Entities that acquire Allowed Claims after the Voting Record Date will not be entitled to vote on the Plan, but, if they hold such Claims on the Distribution Record Date (or are otherwise lawfully

entitled to receive distributions under the Plan in respect of such Claims) they will be entitled to receive distributions under the Plan. A ballot to be used for voting to accept or reject the Plan is enclosed with all copies of this Disclosure Statement that are transmitted to Creditors in Impaired Classes. A ballot shall not constitute and shall not be deemed to constitute a filed proof of claim or proof of interest or an amendment to a filed proof of claim or proof of interest.

IN ORDER TO BE COUNTED FOR VOTING PURPOSES, BALLOTS MUST BE MARKED, SIGNED, DATED AND RETURNED SO THAT THEY ARE STAMPED AS HAVING BEEN RECEIVED BY NO LATER THAN FIVE O'CLOCK (5:00) P.M., CENTRAL DAYLIGHT TIME ON _________________, 2009, AT THE FOLLOWING ADDRESS AS SET FORTH ON THE ENCLOSED RETURN ENVELOPE:

BUTLER, SNOW, O'MARA, STEVENS & CANNADA, PLLC
6075 POPLAR AVENUE
SUITE 500
MEMPHIS, TN 38119
ATTENTION: MICHAEL P. COURY

VOTES MAY BE TRANSMITTED BY FAX, MAIL OR OVERNIGHT COURIER. VOTES MAY BE FAXED TO (901) 680-7201 TO THE ATTENTION OF MICHAEL P. COURY.

THIS IS NOT A PROXY SOLICITATION. CREDITORS IN IMPAIRED CLASSES ARE REQUIRED TO MARK THEIR BALLOT TO INDICATE THEIR VOTES. BEFORE COMPLETING A BALLOT, CREDITORS IN IMPAIRED CLASSES ELIGIBLE TO VOTE ON THE PLAN ARE ADVISED TO READ CAREFULLY THE INSTRUCTION SHEET THAT ACCOMPANIES THE BALLOT. IF THE BALLOT IS NOT PROPERLY COMPLETED, MARKED, SIGNED, DATED, RETURNED AND TIMELY RECEIVED, IT MAY NOT BE COUNTED. CREDITORS MUST VOTE ALL CLAIMS IN A PARTICULAR CLASS IN THE SAME WAY (i.e. ALL "ACCCEPT" OR ALL "REJECT"). IF A BALLOT IS DAMAGED OR LOST, OR THE RECIPIENT THEREOF HAS ANY QUESTIONS CONCERNING VOTING PROCEDURES, SUCH RECIPIENT SHOULD CONTACT THE ATTORNEY FOR THE DEBTORS: MICHAEL P. COURY, BUTLER, SNOW, O'MARA, STEVENS & CANNADA, PLLC, 6800 POPLAR AVENUE, SUITE 500, MEMPHIS, TN 38119, 901-680-7200. ONCE SUBMITTED, A BALLOT ACCEPTING THE PLAN CANNOT BE CHANGED OR WITHDRAWN EXCEPT FOR CAUSE SHOWN TO THE BANKRUPTCY

COURT WITHIN THE TIME SET FOR VOTING ON THE PLAN. BALLOTS OF CREDITORS IN IMPAIRED CLASSES THAT ARE SIGNED AND RETURNED BUT THAT DO NOT EXPRESSLY PROVIDE A VOTE EITHER FOR ACCEPTANCE OR REJECTION OF THE PLAN SHALL BE COUNTED AS ACCEPTANCES.

ARTICLE III

HISTORICAL BACKGROUND AND PRE-PETITION BUSINESS OPERATIONS

Waverly Gardens ("Gardens") is an Illinois limited liability company, with its corporate offices and principal place of business in Memphis, Tennessee. Gardens was originally owned 80% by CN Investments,LLC and 20% by Joseph A. Kennedy("Kennedy"). Gardens predominant business is the ownership and operation of an independent living facility comprised of 19 interconnected single story modular structures on an 11.5 acre site (the "Facility"). The Facility contains a total 196 rental units. The Facility is located at 6539 Knight Arnold Road, Memphis, Tennessee. Waverly Gardens collects rents from residents and ancillary income from providing meals and various personal services to the residents. Waverly Gardens currently employs approximately 40 individuals.

Waverly Gardens purchased the Facility in 2002. MB Financial Bank, N.A. provided the financing for the purchase with a loan in the principal amount of $ 3,375,000.00 . In 2004, Kennedy purchased the ownership interests of CN Investments in order to become the 99% owner of Gardens with his wife, Parke Kennedy, owning 1%. The purchase of the membership interests and a refinancing of the MB Financial debt was financed with two loans from First Tennessee Bank, in the combined amount of $ 6,129,000.00 which was secured by a first and second mortgage on the Gardens Facility and a third mortgage loan from CN Investments, LLC of $400,000. On or about April 26,

2005, the second mortgage note owed to CN Investments was purchased by Marger Partners.

In March of 2006, Kirby Oaks Integra, LLC, a Delaware limited liability company, was formed to enter into a management agreement to assume operation of an unlicensed and closed assisted living facility located at 6551 Knight Arnold Road, Memphis, Tennessee, adjacent to Gardens. Kirby Oaks Integra, LLC operates under the trade name of Waverly Glen ("Glen"). Glen is owned 100% by Joseph A. Kennedy. At the same time, Joseph Kennedy acquired an option to purchase the Glen property.

On March 10, 2006, Glen purchased the Glen Facility from Kirby Oaks Limited Partnership for the assumption of the existing mortgage debt in the original principal amount of $2,358,400 plus an option to purchase the underlying note indebtedness prior to March 1, 2007 for the sum of $1, 600,000 plus accrued interest. During 2006, Glen reopened the facility as an assisted living facility, with an Alzheimer's unit, and increased the occupancy from -0- to 24 residents. On January 31, 2007, the option was exercised and the original debt was refinanced with a new loan from First Tennessee Bank in the aggregate amount of $2, 383,000. It was contemplated at the time that there would be a symbiotic relationship between the business of the Debtor and Waverly Glen, with some residents of the Debtor being future prospective residents of Waverly Glen. It was also contemplated that there would be economies of scale to be realized in operating the two adjacent properties. First Tennessee's loans to Gardens and Glen are cross-collateralized.

At the time, Gardens acquired the Gardens Facility, it had an occupancy rate of approximately 80%. Following, Glen's acquisition of the Glen Facility, some residents of Gardens moved to Glen, thus reducing Garden's overall occupancy. It was

contemplated that it would take time to build up the occupancy for each facility. Unfortunately, the transition of combining the management, operation and marketing of the two properties as a single senior citizen community took longer than expected. This factor, combined with the increased debt incurred in the purchase of Glen and current overall economic conditions, have resulted in Gardens and Glen not achieving their target occupancy rates as quickly as had been projected. Nevertheless, both properties have shown increases in their occupancy rates over the last 12 months. As of October 2, 2008, Gardens had an occupancy rate of 69% and Glen had an occupancy rate of 64%. As of the date of the filing of this Disclosure Statement, Gardens had an occupancy rate of 65% and Glen had an occupancy rate of 74%. Joseph Kennedy is the managing member of both Gardens and Glens and oversees the daily operation of each business.

From their inception up to the date of filing, both Gardens and Glen was managed Integra Management Services, LLC ("Integra"), a Delaware limited liability company owned 100% by Joseph Kennedy. Although Gardens and Glen were separate legal entities, Integra managed the business on a consolidated basis. Revenue from Gardens and Glen was deposited into a single bank account in the name of Gardens. Integra would generally contract with trade vendors under Gardens name, even though goods and services might be used for both Gardens and Glen. Accounts payable for both companies were paid out of the single account. Books and records were kept on a consolidated basis and it was difficult to ascertain how each entity performed on a stand alone basis.

ARTICLE IV

EVENTS LEADING TO COMMENCEMENT OF THE CHAPTER 11 CASE.

The Debtors' decision to commence these chapter 11 reorganization cases was based upon several factors. Due to the fact that Gardens occupancy was greatly reduced as a result of Glen's opening and the fact that it was taking longer than projected to rebuild the occupancy of both Gardens and Glen, cash flow of the combined business was significantly below projections. As a result, the combined businesses fell behind in payment of various trade debt, withholding tax payments to Integra, and debt service on its secured debt.

In early 2008, the Debtors were in default with their loans with First Tennessee Bank. First Tennessee advised the Debtors that it would refrain from foreclosing upon the Facilities if the Debtors would engage Equity Partners, Inc.("Equity Partners") to attempt to market the sale of the Debtors' business as a going concern. The Debtors engaged Equity Partners to attempt to market the business in early spring. Unfortunately, the timing of these sale efforts coincided with a significant decline in the overall economy and a crisis in the financial markets which made investment capital and loans scarce and difficult to obtain. Consequently, the sale efforts by Equity Partners resulted in a single offer which was substantially below the value of the businesses based on recent appraisals. The proposed sale would not have satisfied the outstanding debt to First Tennessee and would have provided no recovery for any subordinate classes of creditors. When the Debtors declined to sell the business at such a low price, First Tennessee Bank commenced foreclosure proceedings against the Debtors. As a result, the Debtors filed their Chapter 11 cases on October 2, 2008.

ARTICLE V

MATTERS ARISING DURING THE CHAPTER 11 CASES

5.1 **Commencement of the Debtor's Cases.** Each of the Debtors' cases was commenced by the filing of a voluntary petition under Chapter 11 on October 2, 2008. Shortly after these cases were commenced, the Debtors filed several motions incident to the management of the Bankruptcy Cases that were granted by the Court, including the authority to retain certain professionals and the joint administration of the Debtors' cases.

5.2 **Use of Cash Collateral.** Subsequent to the filing of the petition, the Debtors filed a motion to use cash collateral. On March 4, 2009, the Court entered a consent order authorizing use of cash collateral through June 15, 2009. Pursuant to the order, the Debtors are required to make monthly adequate protection payments to First Tennessee Bank.

5.3. **Appointment of Statutory Committee**. No Official Committee of Unsecured Creditors pursuant to 11 U.S.C. § 1102 (the "Committee") was appointed in this case.

5.4 **Vendor Relationships**. The Debtors have attempted to maintain their relationships with their suppliers. The Debtors have remained substantially current with their post-petition trade payables. The Debtors have negotiated maintenance of utility services and deposits.

5.5. **Real Property Leases**. The Debtors are not parties to any real property leases.

5.6. **Exclusivity.** The Debtors filed a Motion to extend the exclusive period within which only the Debtors may file a Plan. The Court granted that Motion extending the Debtors' exclusive period within which to propose a plan through and including May 15, 2009 and the exclusive period within which to obtain acceptances of such plan through and including July 15, 2009.

ARTICLE VI

ASSETS OF THE DEBTORS AND POST-PETITION OPERATIONS

The Debtors' assets consist primarily of their ability to generate revenue from the operation of their business and real and personal property that makes up the business. The following is a summary description of the Debtors' principal assets as they existed on the Petition Date, except where otherwise indicated. The information has been compiled from the Debtors' records and the Debtors' Schedules. Statement of Financial Affairs and Monthly Operating Reports.

6.1 Assets- Waverly Gardens.

The specific assets owned by the Debtors and their corresponding values reported in the Debtors' Schedules as of October 2, 2008 (the "Petition Date") are as follows:

a. Cash - $ 17,965.00

b. Rents Receivable - $ 194,083.000

c. Vehicles - $ 19,577.00

d. Furniture, Fixtures & Equipment - $ 389,000

e. Food Inventory $ 7,000.00

f. Kitchen equipment $ 137,550

g. Common area and resident furnishings $ 108,500

h. Real Estate - $10,430,000.00

Total - $11,303,675.00

6.2. Assets – Waverly Glen:

a. Cash – -2,487.00

b. Rents Receivable - $82,500.00

c. Furniture, Fixtures & Equipment* - $ 40,000.00

d. Real Estate: $3,870,000.00

Total - $3,994,987.00

Values of real estate and contents of facilities were based upon appraisals obtained by First Tennessee Bank in early 2008.

6.3 Debtors' Post-Petition Operations

The Debtors' operations for the one (1) year period ending September 30, 2008 reflect Earnings Before, Interest, Taxes, Depreciation and Amortization (EBITDA) of approximately $ 26,251.

The Debtors' Post-petition operations for the period from the Petition Date through December 31, 2008 reflect EBITDA of approximately $ 111,339. The Debtors projects EBITDA of approximately $174,855, $627,942, and $886,563, for 2009, 2010 and 2011, respectively. The Debtors' projected Profit and Loss Statements are attached hereto as **Exhibit 3 (Projections)**.

ARTICLE VII

LIABILITIES OF THE DEBTORS

7.1 <u>Administrative Claims: All Debtors</u>. Administrative Claims are any claim that is defined in § 503(b)(9) of the Code as being an "administrative expense" and granted priority under § 507(a)(1) of the Code, including:

(1) a Claim for any cost or expense of administration in connection with the Case, including, without limitation, any actual, necessary cost or expense of preserving the Debtor's estate and of operating the business of the Debtor incurred on or before the Effective Date;

(2) the full amount of all Claims for compensation for legal, accounting and other services or reimbursement of costs under § § 330, 331, or 503 of the Bankruptcy Code;

(3) all fees and charges assessed against the Debtor's estate under Chapter 123 of Title 28 of the U.S. Code; and

(4) a claim for post-petition taxes and related items, including any interest and penalties on such post-petition taxes.

7.2 <u>Claims of Professionals.</u> With Court approval, the Debtors employed Michael P. Coury and the law firm of Butler Snow O'Mara Stevens & Cannada, PLLC ("Butler Snow") as their bankruptcy counsel. Butler Snow has been paid interim fees and expenses of approximately $ 8500.00 through April 30, 2009. Prior to the retention of Butler Snow, the Debtors employed Farris Bobango Branan PLC as their bankruptcy counsel. Farris Bobango has been paid interim fees and expenses of $7,645.10 and are owed additional fees and expenses of $2,225.39.

The Debtors have also employed Frazee Ivy & Davis as it accountants in this case. Frazee Ivy is owed interim fees and expenses of approximately $3000.00 per month.

7.3 **<u>§ 503(b)(9) Claims</u>.** § 503(b)(9) of the Bankruptcy Code grants an administrative claim in favor of creditors who provide goods to a Debtor within 20 days of the Petition Date. As of the date of this Disclosure Statement, U.S. Foodservice, Inc. is the only creditor that holds an allowed § 503(b)(9) claim. Their combined claim is in the amount of $17,060.46

7.4 **<u>Secured Claims.</u>** The following creditors assert secured claims against the Debtors.

(a) **<u>Secured Claim of First Tennessee Bank</u>**. First Tennessee Bank is the holder of a secured claim in the amount of $5,925,228.21 against Gardens and a secured claim in the amount of $2,566,714.59 against Glen, secured by a first lien on all of the Debtors' real and personal property.

(b) **<u>Secured Claim of Marger Partners.</u>** Marger Partners is the holder of a secured claim in the amount of $ 357,141.86, secured by a second mortgage lien on all of Gardens' real and personal property.

(c) **<u>Secured Claim of Taxing Authorities.</u>** The City of Memphis asserts a secured claim for real property taxes in the amount of $106,045.75 against Gardens and $48,010.70 against Glen. Shelby County asserts a secured claim for real property taxes in the amount of $119,907.20 against Gardens and $54,814.72 against Glen. The Shelby County Trustee asserts a secured claim for personalty taxes of $2,357.76. The Tennessee

Department of Labor & Workforce Unemployment Insurance asserts a secured claim of $32,034.02

7.5 **Pre-petition Unsecured Priority Claims.** The Tennessee Department of Revenue holds a § 507(a)(8) claim in the amount of $ 18,127.03_. The bar date for filing governmental proof of claim was March 31, 2009.

7.6 **Unsecured Claims Per Schedules.** Per the Debtors' Schedules F, the Debtors have the following pre-petition unsecured claims as of the Petition Date :

Waverly Gardens - $608,536.70

Waverly Glen - $382,354.98

The bar date for filing non-governmental proof of claims was January 29, 2009.

c. Prepetition Unsecured Priority Claims (taxes) - $ 450,000

d. Prepetition Unsecured Nonpriority Claims - $ 495,840

Total - $2,030,840

7.7 **Filed Proofs of Claim.** The Court set January 29, 2009 and the deadline for governmental creditors to file proofs of claim as March 31, 2009. Additionally, certain creditors are permitted to file proofs of claim for damages arising out of the rejection of unexpired leases and executory contracts. These claim amounts are as follows:

a. Administrative Expense Claims (actual filed)- $__-0-_____

b. Prepetition Secured Claims (actual filed) - $6,188,746.40

c. Prepetition Unsecured Priority Claims (taxes) - $18127.03

d. Prepetition Unsecured Non-priority Claims - $260,799.19

Total - $6,467,672.62_

The Debtors have prepared a reconciliation of claims which sets forth the claims filed and the claims scheduled. This analysis is attached hereto as **Exhibit 4 (Claims Analysis).**

ARTICLE VIII

SUMMARY OF PLAN OF REORGANIZATION

The Debtors, pursuant to 11 U.S.C. §§ 1121, 1123 and 1127 and related applicable sections of the Bankruptcy Code, is proposing a plan of reorganization (the "Plan"). The Plan is based upon the Debtors' belief that the interests of the Debtors' creditors and interest holders will be best served if the Plan is approved and repayment of their debts are as set forth in this Plan.

The following summary is a general overview and is qualified in their entirety by, and should be read in conjunction with, the more detailed discussions, information and financial statements and notes appearing elsewhere in this Disclosure Statement and the Plan. All capitalized terms not defined in this Disclosure Statement have the meaning subscribed to such terms in the Plan, or applicable provisions of the Bankruptcy Code. This Disclosure Statement contains, among other things, descriptions and summaries of the provisions of the Plan being proposed by the Debtors as filed on June 5, 2009, with the United States Bankruptcy Court for the Western District of Tennessee. Certain provisions of the Plan, and thus the descriptions and summaries contained herein, may be the subject of continuing negotiations among the Debtors and various parties, have not been fully agreed upon and may be modified. Such modifications, however, will not have a material affect on the distributions contemplated by the Plan.

8.1 General Structure of the Plan. Waverly Gardens and Waverly Glen as the Debtors and Debtors-in-Possession, are the proponents of the Plan within the meaning of

11 U.S.C. § 1129. The Plan contains separate classes and proposes recoveries for holders of claims against and interest in the Debtors. After careful review of the Debtors' current business operations, estimated recoveries and a liquidation, and the prospects of ongoing business, the Debtors have concluded that the recovery to their creditors will be maximized by the reorganization of the Debtors as contemplated by the Plan. Specifically, the Debtors believe that their business and assets have a significant value that would not be realized in a liquidation either in whole or in part. According to the liquidation analysis prepared by the Debtors, the Debtors believe that the value of their estate is significantly greater in the proposed reorganization plan than in a forced liquidation.

8.2 Summary of the Plan Structure. Set forth below is a brief summary of the Plan. The effectiveness of the Plan, thus the consummation of the distributions provided for in the Plan, is subject to a number of conditions precedent. There can be no assurances that these conditions will be satisfied. In addition, the Debtors have reserved the right to amend or modify the Plan.

The Plan divides the claims of unsecured creditors into two groups for purposes of distribution. The first group consists of trade creditors, service providers and vendors with claims arising as a result of rejection of executory contracts. Under the Plan, the holders of such claims will share pro rata distributions of cash on account of their Allowed Claims. The second group of unsecured creditors is a "convenience" class of creditors that afford creditors with claims under $1,000 and creditors who elect to have their claims limited to $1,000 the option to be paid a portion of their claim in cash on an expedited basis.

The Plan provides that the Reorganized Debtors will substantively consolidated and merged into a single entity with Waverly Gardens of Memphis, LLC being the surviving entity. Membership interests in the reorganized debtor will be issued to Integra Management, LLC in satisfaction of its pre-petition claims. Membership interests incontinue to be owned and operated through their existing corporate structure.

8.3 Summary of Treatment of Claims and Interests under the Plan. The Plan contains separate classes for holders of claims against an interest in the Debtors. As required by the Bankruptcy Code, the administrative claims and priority tax claims, while designated as classes under the Plan for convenience, do not constitute classes of claims that will be entitled to vote on the Plan.

The classification and treatment of the principal pre-petition claims and interests addressed in the Plan is summarized below. Classification and treatment for all classes is described in more detail in the Plan and reference is made thereto. The Debtors' estimate of the amount of claims that will ultimately be allowed in each class is based upon a review by the Debtors of the claims scheduled by the Debtors, consideration of the provisions of the Plan that affect the allowance of certain claims, and a general estimate of the amount by which allowed claims may ultimately exceed the amount of claims scheduled by the Debtors. The following also includes estimated recoveries for the holders of claim in each class. For purposes of estimating the percentage of recoveries set forth below, any new membership interest issued pursuant to the Plan will be valued in accordance with the valuation of the Debtors based upon the liquidation value of the assets set forth on **Exhibit 5.**

The valuation assumptions include, among other things, an assumption that the operating results projected for the Reorganized Debtors will be achieved in all material respects; however, no assurance can be given that the projected results will be achieved. To the extent that the valuation assumptions are dependent upon the achievement of results projected by the Debtors, the valuation assumptions must be considered speculative.

In addition, in certain classes of claims, the actual amounts of allowed claims could materially exceed or could be materially less than the estimated amounts set forth below. Accordingly, no representation can be or is being made with respect to whether the estimated percentage of recoveries shown below will actually be realized by the holders of allowed claims in a particular class.

CLASS 1A: PRIORITY CLAIMS.

This Class consists of Allowed Claims entitled to priority under §507(a) of the Code other than non-classified Priority Claims described in Article II of the Plan. Claims in Class 1A will be paid 100% of the Allowed Amount of the Claims by the reorganized debtor on the later of 10 days after the effective date or 10 days after their Claims are Allowed.

CLASS 1B: SECTION 503(B)(9) ADMINISTRATIVE CLAIMS.

Claims in Class 1B will be paid the Allowed Amount of their Claims in 18 equal monthly installments commencing on 30 days after the effective date or 30 days after their Claims are Allowed.

CLASS 2: SECURED CLAIMS OF FIRST TENNESSEE BANK, N.A.

The existing note and loan documents will be modified as follows: the term of the notes will be 36 months from the Effective Date; the interest rate will be 5%; interest only will be paid monthly for the first 12 months following the Effective Date; and minimum consolidated principal payments of $ 14,260.00 per month shall commence 13 months following the Effective Date. Additionally, commencing the 19 month following the Effective Date, Class 2 Claims shall be entitled to receive additional principal payments based on 25% the monthly net cash flow of the Reorganized Debtors to be paid on the 15th day of the following month. Principal payments shall be based upon a 25-year amortization. At the end of 36 months, the restated note shall mature.

In the event of a post-confirmation default in the terms of the payment of the restated note, the Reorganized Debtor shall have 30 days from receipt of written notice of default from First Tennessee Bank to cure such default. In the event the Reorganized Debtor is unable to cure such default, the Reorganized Debtor shall retain Equity Partners, Inc., to sell the property. The sale shall take place within 120 days from the reorganized debtor's failure to cure the default, or on such other later date as may be agreed upon by First Tennessee Bank.

CLASS 3: SECURED CLAIM OF MARGER PARTNERS.

This Class consists of the Allowed Secured Claim of Marger Partners, which is secured by a third-priority lien on the real property owned by Gardens. The existing note and loan documents will be modified as follows: the term of the note will be 36 months from the Effective Date; the interest rate will be 3%; interest only will be paid monthly; minimum principal payments of one percent of the principal amount of the Allowed

Secured Claim will be paid annually at the end of each year to the extent not already paid from the sale of collateral securing the Allowed Secured Claim or from any refinancing of the prior mortgages, with the balance of any unpaid principal being paid at the end of 36 months. Marger shall retain its lien against the collateral. In the event of a post-confirmation sale of the Property, all net sale proceeds from the sales f all or part of such collateral shall be paid to First Tennessee Bank until its Allowed Secured Claim is paid in full, with any remaining funds from the sale of Gardens' property being paid to Marger until its Allowed Secured Claim is paid in full.

CLASS 4: SECURED TAX CLAIMS.

Allowed Claims in Class 4 will receive the following treatment: This Class consists of the Allowed Secured Tax Claims will be paid in equal monthly installments over a period of 60 months after the Petition Date, in equal monthly installments bearing interest at their applicable statutory rate, provided, however, that in the event of a sale of the Debtors' Assets, the balance of each Allowed Secured Tax Claim shall be paid out of the Net Proceeds of Sale after satisfaction of any Secured Claims or prior classes of claims. The holder of the Claim will retain its liens against the property securing the Claim.

CLASS 5: PRIORITY TAX CLAIMS.

Allowed Claims in Class 5 will receive the following treatment: This Class consists of the Allowed Secured Tax Claims will be paid in equal monthly installments over a period of 60 months after the Petition Date, in equal monthly installments bearing interest at their applicable statutory rate, provided, however, that in the event of a sale of the Debtors' Assets, the balance of each Allowed Secured Tax Claim shall be paid

out of the Net Proceeds of Sale after satisfaction of any Secured Claims or prior classes of claims.

CLASS 6: UNSECURED CLAIMS NOT ENTITLED TO PRIORITY.

Debtors' separate estates are being substantively consolidated under this plan. Unsecured claims against Gardens and Glen shall be paid over a 60-month period in annual installments commencing on the 12th month following the Effective Date. Each annual payment to unsecured creditors shall be not less than 8% of such creditor's claim with the balance due in 72 months following the Effective Date. In the event the property is sold by the Debtors, the Net Sale Proceeds after paying all prior mortgages, taxes, closing costs and priority claims shall be paid pro rata to the holders of Class 6 claims.

CLASS 7: GENERAL UNSECURED CLAIMS OF INTEGRA MANAGEMENT LLC.

This Class consists of the Allowed Unsecured Claims of Integra management, LLC for payment of payroll taxes for employees leased to the Debtor by Integra in the approximate amount of $645,586.00 . The claim shall be deemed satisfied by issuance to Integra of 100% of the stock and/or membership interests in the reorganized debtor.

CLASS 8: INTEREST IN THE DEBTORS.

The membership interests of the Debtors' pre-petition members shall be extinguished on the Effective Date.

ARTICLE IX

ALTERNATIVES TO CONFIRMATION AND CONSUMMATION OF THE PLAN

The Debtors believes that the Plan affords the holders of Claims and Interests the potential for the greatest realization of value from the Debtors' assets and, therefore, is in the best interest of such holders. If the Plan is not confirmed, however, the theoretical alternatives include (a) continuation of the pending Chapter 11 case; (b) an alternative plan or plans of reorganization; or (c) the liquidation of the Debtors under Chapter 7 or Chapter 11 of the Bankruptcy Code.

A. Continuation of the Bankruptcy Case. If the Debtors remain in Chapter 11, they could continue to operate their business and manage their properties as Debtors-in-possession; however, their assets would remain subject to the jurisdiction of the Bankruptcy Court and provisions of the Bankruptcy Code. If the Debtors' Plan is confirmed, the Debtors believe that they will have accomplished the goals that they originally sought Chapter 11 relief to achieve. The remaining issues facing the Debtors are driven by the existing economic climate and the ability to operate therein and do not require that the company continue with the protection provided by Chapter 11.

B. Alternative Plans of Reorganization. If the Debtors' Plan is not confirmed, the Debtors or, after the expiration of the Debtors' exclusive period in which to propose and solicit a reorganization plan, any other party in interest of the Chapter 11 case could propose a different plan or plans. Such plans might involve both a reorganization and continuation of the Debtors' business or an orderly liquidation of their assets or a combination of both.

C. **Liquidation under Chapter 7 or Chapter 11.** If no plan is confirmed, the Debtors' Chapter 11 case may be converted to a case under Chapter 7 of the Bankruptcy Code. In a Chapter 7 case, a Trustee would be appointed to liquidate the assets of the Debtors. It is

impossible to predict the funds that would be received from a liquidation of the Debtors' assets or to predict a distribution to the respective holders of Claims against or Interests in the Debtors. The Debtors do, however, believe that creditors would lose substantially higher going concern value if the Debtors are forced to liquidate either in Chapter 7 or Chapter 11. In addition, the Debtors believes that in liquidation or Chapter 7, before creditors receive any distribution, additional administrative expenses involved in the appointment of a Trustee and attorneys, accountants and other professionals to assist the Trustee would cause a substantial diminution in value of the estate. The assets available for distribution to creditors would be reduced by such additional expenses and by claims, some of which would be entitled to priority, which would arise by reason of liquidation and from the rejection of leases and other executory contracts in connection with the cessation of operations and the failure to realize the greater going concern value of the Debtors' assets. Additionally, over 60 employees would lose their jobs.

The Debtors may also be liquidated pursuant to a Chapter 11 Plan. In a liquidation under Chapter 11, the Debtors' assets could be sold in an orderly fashion over a more extended prior of time than a liquidation under Chapter 7. Thus, a Chapter 11 liquidation might result in larger recoveries than a Chapter 7 liquidation, but the delay in distributions could result in lower present values received and higher administrative costs and there is no reason to believe that any other operator could realize higher values or better operating results than the Debtors. Because a trustee is not required in a Chapter 11 case, expenses for professional fees could be lower than in a Chapter 7 case, in which a Trustee must be appointed. However, any distribution to the holders of claims and interests under a Chapter 11 liquidation plan would likely experience a significant delay.

The Debtors have prepared a liquidation analysis which is premised upon a hypothetical liquidation in a Chapter 7 case and is attached hereto as **Exhibit 5**. In the analysis, the Debtors have taken into account the nature, status and underlying value of their assets, the realizable value of their assets, and the extent to which such assets are subject to any liens and security interests. The likely form of any liquidation will be the sale of the Garden and Glen properties as non-operating facilities. Based on this analysis, it is likely that a Chapter 7 liquidation of the Debtors' assets would produce less value for distribution to creditors than that recoverable in each instance under the Plan. In the opinion of the Debtors, the recoveries projected to be available in a Chapter 7 liquidation are not likely to afford the holders of claims and holders of interests as great a reorganization potential as the Plan.

ARTICLE X

FEASIBILITY OF PLAN AND BEST INTEREST OF CREDITORS TEST

A. Feasibility of the Plan. To confirm the Plan, the Bankruptcy Court must find that Confirmation of the Plan is not likely to be followed by the liquidation or the need for further financial reorganization of the Debtors. This requirement is imposed by § 1129(a) (11) of the Bankruptcy Code and is referred to as the "feasibility" requirement. The Debtors believes that they will be able to timely perform all the obligations described in the Plan, and therefore, that the Plan is feasible. To demonstrate the feasibility of the Plan, the Debtors have prepared financial projections for the remainder of 2009 and calendar years 2010 and 2011 which are set forth in **Exhibit 3** attached to this Disclosure Statement. The projections indicate that the Reorganized Debtors should have sufficient cash flow to pay and service their debt obligations and to fund their operations.

Accordingly, the Debtors believe that the Plan satisfies the feasibility requirement of Section 1129(a) (11) of the Bankruptcy Code. As noted in the projections, however, the Debtors caution that no representations can be made as to the accuracy of the projections or as to the Reorganized Debtors' ability to achieve the projected results. Many of the assumptions upon which the projections are based are subject to uncertainties outside the control of the Debtors. Some assumptions will not materialize, and events and circumstances occurring after the date on which the projections were prepared may be different than those assumed or may be unanticipated, and may adversely affect the Debtors' financial result. Therefore the actual results can be expected to vary from the projected results and the variations may be material and adverse.

THE PROJECTIONS WERE NOT PREPARED WITH A VIEW TOWARD COMPLIANCE WITH THE GUIDELINES ESTABLISHED BY THE AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS, THE PRACTICES RECOGNIZED TO BE IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES, OR THE RULES AND REGULATIONS OF THE SECURITIES AND EXCHANGE COMMISSION REGARDING PROJECTIONS. FURTHERMORE, THE PROJECTIONS HAVE NOT BEEN AUDITED BY THE DEBTORS' INDEPENDENT ACCOUNTANTS. ALTHOUGH PRESENTED WITH NUMERICAL SPECIFICTY, THE PROJECTIONS ARE BASED UPON A VARIETY OF ASSUMPTIONS, SOME OF WHICH IN THE PAST HAVE NOT BEEN ACHIEVED AND WHICH MAY NOT BE REALIZED IN THE FUTURE, AND ARE SUBJECT TO SIGNIFCIANT BUSINESS, ECONOMIC AND COMPETITIVE UNCERTAINTIES AND CONTINGENCIES, MANY OF WHICH ARE BEYOND

THE CONTROL OF THE DEBTORS. CONSEQUENTLY, THE PROJECTIONS SHOULD NOT BE REGARDED AS A REPRESENATATION OF WARRANTY BY THE DEBTORS, OR ANY OTHER PERSON, THAT THE PROJECTIONS WILL BE REALIZED. ACTUAL RESULTS MAY VARY MATERIALLY THAN THOSE PRESENTED IN THE PROJECTIONS.

B. Acceptance of the Plan. As a condition to confirmation, the Bankruptcy Code requires that each Class of Impaired Claims and Interests vote to accept the Plan, except under certain circumstances. Section 1126(c) of the Bankruptcy Code defines acceptance of the Plan by Class of Impaired Claims as acceptance by holders of at least two-thirds in dollar amount and more than one-half in number of the claims in that Class, but for that purpose counts only those who actually vote to accept or reject the Plan. Thus, a Class of claims will have voted to accept the Plan only if two-thirds in account and the majority number actually voting cast their ballots in favor of acceptance. Under Section 1126(d) of the Bankruptcy Code, a Class of Interests has accepted the Plan if holders of such interest holding at least two-thirds in amount actually voting have voted to accept the Plan. Holders of claims or interests who fail to vote are not counted as either accepting or rejecting the Plan.

C. Best Interest Test. Even if a Plan is accepted by a class of holders of claims and interests, the Bankruptcy Code requires a Bankruptcy Court to determine that the Plan is in the best interest of all holders of claims and interests that are impaired by the Plan and have not accepted the Plan. The “best interest” test, as set forth in § 1129(a)(7) of the Bankruptcy Code, requires a Bankruptcy Court to find either that (i) all members of an impaired class or claims of interests have accepted the Plan or (ii) the Plan will

provide a member who has not accepted the Plan with the recovery of property with a value, as of the Effective Date of the Plan, that is not less than the amount that such holder would recover if the Debtors would liquidated in a Chapter 7 of the Bankruptcy Code.

To calculate the probable distribution to members in an impaired class of holders of claims and interests if the Debtors were liquidated under Chapter 7, the Bankruptcy Court must first determine the aggregate dollar amount that would be generated from the Debtors' assets if their Chapter 11 case were converted to a Chapter 7 case under the Bankruptcy Code. This "liquidation value" would consist primarily of the proceeds from a forced sale of the Debtors' assets by a Chapter 7 trustee.

The amount of liquidation value available to unsecured creditors would be reduced by, first, the claims of secured creditors to the extent of the value of their collateral, and, second, by the costs and expenses of liquidation as well as by other administrative expenses and costs of both the Chapter 7 case and the Chapter 11 case. As a general matter, liquidation under Chapter 7 will not affect the rights of certain sureties who posted bonds that the Debtors purchased for various business, litigation, and other reasons. Cost of liquidation under Chapter 7 of the Bankruptcy Code would include the compensation of a trustee, as well as counsel and other professional retained by the trustee, asset disposition expenses, all unpaid expenses incurred by the Debtors in their bankruptcy case (such as compensation of attorneys, financial advisors and accountants) that are allowed in the Chapter 7 case, the litigation costs, and claims arising from the operations of the Debtors during the pendency of the bankruptcy case. The liquidation itself would trigger certain priority payments which otherwise would be due in the

ordinary course of business. These priority claims would be paid in full from the liquidation proceeds before the balance would be made to pay the general unsecured claims or to make any distribution in respect to equity interests. Liquidation also would prompt the rejection of a large number of executory contracts and unexpired leases and thereby creating a significantly higher number of unsecured claims.

Once the Court ascertains the recoveries in liquidation of secured creditors and priority claimants, it must determine the probable distribution to unsecured creditors and equity security holders from their remaining available proceeds in liquidation. If such probable distribution has a higher value than the distributions to be received by such creditors and equity security holders under a Debtors' plan, then such plan is not in the best interest of creditors and equity security holders.

D. Estimated Valuation of the Debtors and Liquidation Analysis. A copy of the liquidation analysis prepared by the Debtors is attached as **Exhibit 5** to this Disclosure Statement. The Debtors believes that any liquidation analysis is speculative. For example, the liquidation analysis necessarily contains an estimate amount of claims which ultimately will become allowed claims. In preparing the liquidation analysis, the Debtors have projected the amount of claims based upon a review of their scheduled and filed proofs of claim. No order or finding has been entered by the Bankruptcy Court estimating or otherwise fixing the amount of claims at the projected amount of claims set forth in the liquidation analysis. In preparing the liquidation analysis, the Debtors have projected a range for the amount of the allowed claims with the low end of the range the lowest reasonable amount of claims and the high end of the range the highest reasonable amount of the claims, thus allowing assessment of the most likely range of Chapter 7

liquidation dividends to the holders of allowed claims. The estimate of the amount of allowed claims as set forth in the liquidation analysis should not be relied upon for any other purpose, including without limitation, any determination of the value of any distribution to be made on account of allowed claims and interests under the Plan. In addition, as noted above, the liquidation analysis contains numerous estimates and assumptions.

ARTICLE XI

LITIGATION DISCLOSURES

A. Avoidance Actions.

Pursuant to Bankruptcy Code §§ 547 and 550, transfers made to or for the benefit of a creditor for or on account of an antecedent debt on or within ninety (90) days before the petition date (or within one year of the petition date in the case of an insider of the Debtors) may be avoided as preferential transfers and recovered by the Debtors subject to certain defenses available to such creditor (or insider) under the Bankruptcy Code. Additionally, the fixing of a lien against property of the Debtors may constitute a transfer of an interest in property and the fixing of such lien on account of an antecedent debt within the applicable preference period may be avoided. The Debtors have not identified any potential preferential transfers at this time. The Debtors reserve the right to pursue any or all of such avoidance action claims against such parties. The Debtors have two (2) years from the Petition Date to commence most actions to avoid transfers. 11 U.S.C. § 546.

B. Pending Litigation Against The Debtors.

The Debtors were involved in minor general collections matters as of the Petition Date as set forth in the Debtors' statement of financial affairs. To the extent such creditors have Allowed Claims; such claims shall be dealt with in the Plan.

ARTICLE XII

CERTAIN FEDERAL INCOME TAX CONSEQUENCES OF THE PLAN

Events subsequent to the date of this Disclosure Statement, such as the enactment of additional tax legislation, could change the federal income tax consequences of the Plan and the transactions contemplated therein. Furthermore, certain significant federal income tax consequences of the Plan are subject to uncertainties due to the complexity of the Plan and the federal tax system. The Debtors assumes no responsibility for the tax effect that Confirmation and receipt of any distribution under the Plan may have on any given creditor or party in interest.

NO RULING HAS BEEN SOUGHT OR OBTAINED FROM THE IRS WITH RESPECT TO ANY OF THE TAX ASPECTS OF THE PLAN AND NO OPINION OF COUNSEL HAS BEEN OBTAINED BY THE PLAN PROPONENTS WITH RESPECT THERETO. NO REPRESENTATIONS OR ASSURANCES ARE BEING MADE WITH RESPECT TO FEDERAL INCOME TAX CONSEQUENCES AS DESCRIBED HEREIN. CERTAIN TYPES OF CLAIMANTS AND INTEREST HOLDERS MAY BE SUBJECT TO SPECIAL RULES NOT ADDRESSED IN THIS SUMMARY OF FEDERAL INCOME TAX CONSEQUENCES. FURTHER, STATE, LOCAL OR FOREIGN TAX CONSIDERATIONS MAY APPY TO A HOLDER OF A CLAIM OR INTEREST WHICH ARE NOT ADDRESSED HEREIN. BECAUSE THE TAX CONSEQUENCES OF THE PLAN ARE COMPLEX AND MAY VARY BASED ON INDIVIDUAL CIRCUMSTANCES, EACH HOLDER OF A CLAIM OR INTEREST AFFECTED BY THE PLAN MUST CONSULT, AND RELY UPON, HIS OR HER OWN TAX ADVISOR REGARDING SPECIFIC TAX CONSEQUENCES OF THE PALN WITH RESPECT TO THAT HOLDER'S CLAIM OR INTEREST. THIS INFORMATION MAY NOT BE USED OR QUOTED IN WHOLE OR IN PART IN CONNECTION WITH THEOFFERING FOR SALE OF SECURITIES.

A. Tax Consequences of the Debtors. Under the IRC, a taxpayer generally must

include in gross income the amount of any discharge of indebtedness income realized during the taxable year. Section 108(a) (1) (A) of the IRC provides an exception to this general rule, however, in the case of a taxpayer that is under the jurisdiction of the bankruptcy court in a case brought under the Bankruptcy Code where the discharge of indebtedness is granted by the court or is pursuant to a Plan approved by the court, provided that the amount of discharged indebtedness that would otherwise be required to be included in income is applied to reduce certain tax attributes of the taxpayer. Section 108(e) (2) of the IRC provides that a taxpayer shall not realize income from the discharge of indebtedness to the extent that satisfaction of the liability would have given rise to a deduction. As a result of § 108(a) (1) (A) and § 108(e) (2) of the IRC, the Debtors do not anticipate that either of them will recognize any taxable income from the discharge of any indebtedness through the Chapter 11 Cases. Reductions in tax attributes (net operating loss carryover) will occur to the extent of cancellation of indebtedness income not recognized due to the above.

Under § 1141 of the Bankruptcy Code, confirmation of the Plan will discharge the Debtors from all debts except as provided for in the Plan. Implementation of the Plan, including the possible liquidation and ultimate dissolution of the Debtors may result in discharge of indebtedness to the Debtors as a matter of tax law to the extent of any unsatisfied portion of such Claims. Any such discharge of indebtedness should not be included in gross income of the Debtor, however, because of the exceptions to such inclusion discussed above.

B. Tax Consequences to Creditors. A Creditor who receives cash or other consideration in satisfaction of any Claim may recognize ordinary income. The

impact of such ordinary income, as well as the tax year for which the income shall be recognized, shall depend upon the individual circumstances of each Claimant, including the nature and manner of organization of the Claimant, the applicable tax bracket for the Claimant, and the taxable year of the Claimant. Each Creditor is urged to consult with its tax advisor regarding the tax implications of any payments or distributions under the Plan.

In general, the principal federal income tax consequences of the Plan to holders of Claims will be (a) recognition of loss or a bad debt deduction to the extent that the total payments received under the Plan with respect to the Claim are less than the adjusted basis of the holder of such claim, or (b) recognition of taxable income by the holder of the Claim to the extent of the excess of the amount of any payments made under the Plan in respect of the Claim over the holder's adjusted basis therein.

Common examples of holders of Claims who may recognize income upon receipt of payments under the Plan include (a) former employees with Claims for services rendered while serving as employees of a Debtor, (b) trade creditors whose claims represent an item not previously reported as income (including Claims for lost income upon rejection of leases or other contracts with the Debtors), (c) holders of Claims who had previously claimed a bad debt deduction with respect to their Claims in excess of their ultimate economic loss, and (d) holders of Claims that include amounts of pre-petition interest that had not previously been reported in income. Common examples of Claims who may recognize a loss or deduction for tax purposes as a result of implementation of the Plan, provided that such holders are not paid in full, include holders of Claims that arose out of cash actually loaned or advanced to a Debtor, and

holders of Claims consisting of items that were previously included in income of such holders on the accrual method of accounting, to the extent, in both cases, that the economic loss to such holders has not been allowed as a tax deduction in a prior year.

The amount and character or any resulting income or loss recognized for federal income tax consequences to a holder of any Claim as a result of implementation of the Plan will, however, depend on may factors. The most significant of these factors include (a) the nature and origin of the Claim, (b) whether the holder is a corporation, (c) the extent to which the Plan provides for payment of the particular Claim, (d) the extent to which any payment made is allocable to pre-petition interest which is part of such Claim, and (e) the prior tax reporting positions taken by the holder with respect to the item that constitutes the Claim. As to the last factor, relevant tax reporting positions include whether the holder had to report under its method of accounting any portion of the Claim (including accrued and unpaid interest) as income prior to receipt and whether the holder previously claimed a bad debt or worthless deduction with respect to the Claim, which would affect the adjusted basis of the holder in the Claim

General rules for the deduction of bad debts are provided in I.R.C. § 166 as follows:

If either (a) the creditor's corporation, or (b) the debt is a business bad debt in the hands of the creditor, and the creditor demonstrates that the debt is collectible only in part, a deduction for partial worthlessness of the debt will be allowed to the extent that the debt is charged off in the accounting records of the creditor.

For a creditor not described in the previous paragraph, a bad debt deduction is allowable only in the year that the debt becomes wholly worthless.

If the creditor is not a corporation and the debt is a non-business bad debt, the bad debt deduction is treated as a short-term capital loss, which can offset only capital gain income and a limited amount of ordinary income.

For purposes of I.R.C. § 166, a "non-business debt" means a debt other than (i) a debt created or acquired in connection with the creditor's trade or business, or (ii) a debt the loss from the worthlessness of which was incurred during the operation of the creditor's trade or business.

The time as of which a debt becomes worthless (or partially worthless), and therefore the tax year in which a creditor may claim a bad debt deduction, is a question of fact. Pursuant to income tax regulations ("Regs") § 1.166-2(c), as a general rule, bankruptcy is an indication of the worthlessness of at least a part of an unsecured, non-priority debt. In bankruptcy cases, a debt may become worthless before settlement in some instances, and only when settlement and bankruptcy has been reached in other instances. The mere fact that bankruptcy proceedings instituted against the debtor are terminated in a later year, thereby confirming the conclusion that the debt is worthless (or partially worthless), does not necessarily shift the deduction to such later year. Thus, even though the precise amount the holders of General Unsecured Claims or other Claims will receive under the Plan may not be known until the final distribution date, the determination of the precise amount that will be paid under the Plan with respect to a Claim, or that no amount will be paid, does not necessarily establish that any resulting bad debt deduction is properly allowable in the creditor's tax year in which the final distribution is made, rather than in an earlier year. Accordingly,

to the extent that a Creditor may claim a bad debt deduction which it has not previously claimed, it is possible that the Creditor will be required to amend its return for a prior year and claim the deduction in that year, rather than in the year in which the final distribution is made. Creditors should consult with their individual tax advisors with respect to this issue.

The extent to which gain or loss may be recognized by a holder of a Claim upon implementation of the Plan may be significantly affected by any bad debt deduction that may have been claimed by the holder in a prior year with respect to the debt on which the Claim is based. If the holder took a bad debt deduction in a prior year which is recovered in whole or in part through a payment made to the holder pursuant to the Plan, the holder will generally be required to include in income the amount recovered in the year the holder receives the payment. An exception to this rule permits exclusion of a recovery of a prior bad debt deduction to the extent that the earlier bad debt deduction did not produce a tax benefit to the holder.

THE FOREGOING IS INTENDED TO BE A SUMMARY ONLY AND NOT A SUBSTITUTE FOR CAREFUL TAX PLANNING OR CONSULTATION WITH A TAX ADVISOR. THE FEDERAL, STATE, LOCAL, AND FOREIGN TAX CONSEQUENCES OF THE PLAN ARE COMPLEX AND, IN SOME CASES, UNCERTAIN. SUCH CONSEQUENCES MAY ALSO VARY BASED ON THE INDIVIDUAL CIRCUMSTANCES OF EACH HOLDER OF A CLAIM OR INTEREST. ACCORDINGLY, EACH HOLDER HAVING A CLAIM OR INTEREST IS STRONGLY URGED TO CONSULT WITH HIS OR HER OWN TAX ADVISOR REGARDING THE FEDERAL, STATE, LOCAL AND FOREIGN TAX CONSEQUENCES OF THE PLAN.

THE DEBTORS BELIEVES THAT THE PLAN PROVIDES THE BEST RECOVERIES POSSIBLE FOR THE HOLDERS OF CLAIMS AGAINST AND INTERESTS IN THE DEBTORS. THE DEBTORS STRONGLY RECOMMENDS THAT YOU VOTE TO ACCEPT THE PLAN.

[Signature Page Follows]

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Respectfully submitted:

WAVERLY GARDENS OF MEMPHIS,

LLC

By: /s/ Joseph A. Kennedy
Chief Manager

KIRBY OAKS INTEGRA, LLC
d/b/a Waverly Glen

By: /s/ Joseph A. Kennedy
Chief Manager

BUTLER, SNOW, O'MARA, STEVENS
CANNADA, PLLC
By /s/ Michael P. Coury
Michael P. Coury (TN 7002)
6075 Poplar Avenue
Suite 500
Memphis, Tennessee 38119
(901) 680-7200
Attorneys for the Debtors-in-Possession

Certificate of Service

The undersigned hereby certifies that a true and correct copy of the foregoing Disclosure Statement, was served via electronic service or first class U.S. Mail, postage prepaid, this May , 2009 on all persons listed on the court's matrix.

/s/ Michael P. Coury

Memphis 1125524v.1