UNITED STATES BANKRUPTCY COURT
WESTERN DISTRICT OF WISCONSIN

In re:

FIRST PHOENIX-WESTON LLC, *et al.*,

Debtors.

Case No. 16-12820-cjf
Chapter 11
Jointly Administered[1]

SECOND AMENDED DISCLOSURE STATEMENT FOR THE SECOND AMENDED PLAN OF REORGANIZATION DATED JUNE 19, 2017 PROPOSED BY SABRA PHOENIX WISCONSIN, LLC

NOTICE:
THIS DISCLOSURE STATEMENT DESCRIBES A COMPETING PLAN OF REORGANIZATION FOR THE DEBTORS.

AN EXECUTIVE SUMMARY AND COMPARISON OF THE MATERIAL TERMS OF THIS PLAN AND DEBTORS' PLAN IS SHOWN ON THE NEXT PAGE.

CREDITORS ARE ENTITLED, AND ENCOURAGED, TO VOTE ON THIS PLAN WHETHER OR NOT THEY VOTED ON DEBTORS' PLAN, AND REGARDLESS OF HOW THEY VOTED.

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Dated: June 19, 2017.

[1] Jointly administered with *In re FPG & LCD, L.L.C.*, Case No. 16-12821-cjf.

EXECUTIVE SUMMARY AND COMPARISON

Weston			
Class	**Type of Claim or Interest**	**Estimated Recovery Under Debtors Plan**	**ESTIMATED RECOVERY UNDER SABRA'S PLAN**
1	Administrative Expenses	100% on the Effective Date	**100% ON THE EFFECTIVE DATE***
2	Priority Unsecured Claims	100% on the Effective Date	**100% ON THE EFFECTIVE DATE***
3A	Sabra Secured Claim	100% over 35 years, with 4.65% interest and a balloon payment after 10 years	**100% ON THE EFFECTIVE DATE AFTER CREDIT BID***
3B	Simplicity Claim	100% over 7 years, with 4% interest	**100% WITHIN 30 DAYS OF THE EFFECTIVE DATE***
3C	All-Lines Leasing Claim	100% over 7 years, with 4% interest	**100% WITHIN 30 DAYS OF THE EFFECTIVE DATE***
4	DIP Loan Claims	100% within 2 years of the Effective Date	**100% ON THE EFFECTIVE DATE***
6A	Sabra Deficiency Claim	100% over 35 years, with 4.65% interest and a balloon payment after 10 years	**FOLLOWING THE EFFECTIVE DATE, 50% OVER 7 YEARS, WITH 8% INTEREST, SUBJECT TO INCREASE IN THE EVENT OF A WESTON OVERBID; SABRA AGREES TO WAIVE DISTRIBUTION IF SABRA IS THE WESTON PURCHASER***
6B	Sabra Option Claim	Not addressed	**FOLLOWING THE EFFECTIVE DATE, 50% OVER 7 YEARS, WITH 8% INTEREST, SUBJECT TO INCREASE IN THE EVENT OF A WESTON OVERBID; SABRA AGREES TO WAIVE DISTRIBUTION IF SABRA IS THE WESTON PURCHASER***
7	General Unsecured Claims	100% within 21 months after the Effective Date	**100% WITHIN 30 DAYS OF THE EFFECTIVE DATE***
8	Unsecured Insider Claims	n/a	**FOLLOWING THE EFFECTIVE DATE, 50% OVER 7 YEARS, WITH 8% INTEREST, SUBJECT TO INCREASE IN THE EVENT OF A WESTON OVERBID; SUBJECT TO PURCHASER'S OFFSET RIGHTS**
9	Interests	Allowed to retain	**0%, BUT SUBJECT TO INCREASE IN THE EVENT OF A WESTON OVERBID**
*** An explanation of the Effective Date is set forth below.**			

FPG			
Class	**Type of Claim or Interest**	**Estimated Recovery Under Debtors Plan**	**ESTIMATED RECOVERY UNDER SABRA'S PLAN**
1	Administrative Expenses	100% on the Effective Date	**100% ON THE EFFECTIVE DATE***
2	Priority Unsecured Claims	100% over 5 years, with 9.625% interest	**100% WITHIN 30 DAYS ON THE EFFECTIVE DATE***
4	DIP Loan Claims	100% within 2 years of the Effective Date	**100% ON THE EFFECTIVE DATE***
5	Intercompany Claims	Quarterly installments equal to 10% of Debtor's net income after estimating for income taxes	**100% ON THE EFFECTIVE DATE***
7	General Unsecured Claims	100% within 21 months of the Effective Date	**100% WITHIN 30 DAYS OF THE EFFECTIVE DATE***
8	Unsecured Insider Claims	Subordinated to Class 7; paid as finances allow.	**FOLLOWING THE EFFECTIVE DATE, 50% OVER 7 YEARS, 8% INTEREST UPON ALLOWANCE OF CLAIM, SUBJECT TO INCREASE IN THE EVENT OF AN FPG OVERBID**
9	Interests	Allowed to retain	**0%, BUT SUBJECT TO INCREASE IN THE EVENT OF AN FPG OVERBID**
*** An explanation of the Effective Date is set forth below.**			

Explanation of the Effective Date

As described above, payments will be made to creditors after the Effective Date occurs. The Effective Date will occur under this Plan, for each Debtor, after the following events occur: the Confirmation Order becomes a Final Order; approvals are obtained for the issuance and/or transfer of licenses to the Weston Purchaser or the FPG Purchaser, as applicable; and the sale of the Weston Assets or the FPG Assets closes, as applicable. Note that the Plan might become effective for one Debtor before it does for the other, depending on when licenses are issued and whether auctions are necessary.

For both Debtors, Sabra estimates that the Effective Date will occur within 90-120 days after entry of the Confirmation Order, by which time the necessary licenses and approvals should have been received. **Accordingly, by way of example, the payments described above that will be made within thirty (30) days after the Effective Date will be made, by Sabra's estimation, 120-150 days after entry of the Confirmation Order, or within 4-5 months after confirmation.** This is only an estimate based upon the time needed to market the businesses, receive bids, conduct the auctions as necessary, and transfer all assets, including issuance of licenses to the Weston Purchaser and the FPG Purchaser.

The Plan's provisions for sales and new licenses mean that there are certain risks associated with the occurrence of the Effective Date and the payment of claims. If the issuance of new licenses is delayed for any reason and/or the sales of the FPG Assets and the Weston Assets are delayed for any reason, then the payments described above will be similarly postponed. **However, Sabra does not anticipate any delays with the issuance of licenses or the closing of the sales because Sabra has already submitted bids to acquire the Weston Assets and the FPG Assets (assuring that there is a buyer for both Debtors' assets) and because Sabra is prepared to close under the terms of its bids. With the assistance of regulatory counsel, Sabra will do its best to ensure that new licenses are issued promptly.** Finally, any risk associated with the issuance of licenses or the auctions and sales if Sabra is not the Weston Purchaser or the FPG Purchaser will be mitigated by the Plan Agent's review and evaluation of bids, if necessary with the assistance of counsel, for multiple criteria, including most notably the bidder's eligibility and qualifications for issuance of DHS licenses and ability to close the transactions on a timely basis. **As a result, Sabra believes that the sales and license issuances contemplated by the Plan will occur on a timely basis, and the Effective Date will occur for each Debtor within the timeframe described above whether or not Sabra is the Weston Purchaser or the FPG Purchaser.**

In the unlikely event that a sale is not consummated, or that a license application is rejected, the Plan Agent will first attempt to consummate a sale with a back-up bidder, and thereafter, if necessary, will be responsible for seeking appropriate relief from the Court, including, for example, requesting approval of amended auction procedures and/or setting a new auction date.

Sabra Phoenix Wisconsin, LLC ("**Sabra**") provides this Second Amended Disclosure Statement for the *Second Amended Plan of Reorganization Dated June 19, 2017 Proposed by Sabra Phoenix Wisconsin, LLC* (the "**Plan**"). A copy of the Plan accompanies this Disclosure Statement as **Exhibit A**. The Disclosure Statement summarizes certain provisions of the Plan for First Phoenix-Weston LLC ("**Weston**") and FPG & LCD, L.L.C. ("**FPG**") (each individually a "**Debtor**," and together, the "**Debtors**"). The above executive summary provides a comparison of the material terms of the Plan and Debtors' Joint Plan of Reorganization ("**Debtors' Plan**").

The Court has authorized Sabra to file this competing Plan. **Whether or not creditors have previously voted on Debtors' Plan, creditors are entitled, and encouraged, to vote on this Plan. Even if creditors have previously voted to accept Debtors' Plan, creditors may vote to accept this Plan. In such event, creditors are asked to indicate which plan they prefer on the enclosed ballot.**

For reasons explained throughout this Disclosure Statement, Sabra urges creditors of the Debtors to vote to accept this Plan and to indicate that they prefer this Plan.

This Disclosure Statement is presented to certain holders of Claims and Interests to satisfy the requirements of § 1125 of the United States Bankruptcy Code, 11 U.S.C. §§ 101-1330 (the "**Bankruptcy Code**"). Section 1125 of the Bankruptcy Code requires a disclosure statement to provide information sufficient to enable a hypothetical and reasonable investor, typical of the Debtors' creditors, to make an informed judgment whether to accept or reject the Plan. This Disclosure Statement may not be relied upon for any purpose other than that described above, and use of this Disclosure Statement for any other purpose is not authorized.

Accompanying this Disclosure Statement are the following documents:

1. The order of the Court approving this Disclosure Statement;
2. The Plan; and
3. Your ballot to accept or reject the Plan, if you are entitled to vote.

Capitalized terms that are not defined in this Disclosure Statement shall have the meanings given to them in the Plan.

DISCLAIMERS

THIS DISCLOSURE STATEMENT AND THE PLAN ARE AN INTEGRAL PACKAGE, AND THEY MUST BE CONSIDERED TOGETHER FOR THE READER TO BE ADEQUATELY INFORMED.

NO REPRESENTATIONS CONCERNING THE DEBTORS, INCLUDING THE VALUE OF THEIR PROPERTY, ARE AUTHORIZED OTHER THAN AS SET FORTH IN THE DISCLOSURE STATEMENT ACCOMPANYING DEBTORS' PLAN AND AS SET FORTH IN THIS DISCLOSURE STATEMENT.

INDUCEMENTS MADE TO SECURE YOUR ACCEPTANCE OF THE PLAN, OTHER THAN AS CONTAINED IN THIS DISCLOSURE STATEMENT, SHOULD

NOT BE RELIED UPON BY YOU IN ARRIVING AT YOUR DECISION, AND SUCH ADDITIONAL INDUCEMENTS SHOULD BE REPORTED TO COUNSEL FOR THE SABRA, WHO SHALL IN TURN DELIVER SUCH INFORMATION TO THE COURT FOR SUCH ACTION AS MAY BE APPROPRIATE.

THE INFORMATION CONTAINED IN THIS DISCLOSURE STATEMENT, INCLUDING EXHIBITS CONCERNING THE FINANCIAL CONDITION OF THE DEBTORS AND OTHER INFORMATION CONTAINED HEREIN, HAS NOT BEEN SUBJECT TO AUDIT OR INDEPENDENT REVIEW EXCEPT AS SPECIFICALLY SET FORTH HEREIN. ACCORDINGLY, ALTHOUGH EVERY EFFORT HAS BEEN MADE TO BE ACCURATE, SABRA IS UNABLE TO WARRANT OR REPRESENT THAT THE INFORMATION CONCERNING THE DEBTORS OR THEIR FINANCIAL CONDITION IS ACCURATE OR COMPLETE. BECAUSE OF THE UNCERTAINTY AND RISK FACTORS INVOLVED, THE ACTUAL RESULTS MAY NOT BE AS PROJECTED HEREIN. THE STATEMENTS MADE IN THIS DISCLOSURE STATEMENT ARE MADE AS OF THE DATE HEREOF, UNLESS ANOTHER TIME IS SPECIFIED. THE DELIVERY OF THIS DISCLOSURE STATEMENT SHALL NOT UNDER ANY CIRCUMSTANCES CREATE AN IMPLICATION THAT THE INFORMATION CONTAINED HEREIN IS CORRECT AT ANY TIME SUBSEQUENT TO THE DATE HEREOF.

THIS DISCLOSURE STATEMENT HAS NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY OTHER FEDERAL OR STATE REGULATORY AUTHORITY, NOR HAVE ANY SUCH BODIES PASSED UPON THE ACCURACY OR ADEQUACY OF THE STATEMENTS CONTAINED HEREIN.

THIS DISCLOSURE STATEMENT CONTAINS ONLY A SUMMARY OF THE PLAN. EACH CREDITOR IS URGED TO REVIEW THE PLAN PRIOR TO VOTING ON IT.

CONFIRMATION HEARING

This Disclosure Statement was initially filed on March 13, 2017. The Court held hearings on the adequacy of the information set forth in this Disclosure Statement on April 5, 2017 and April 11, 2017 On April 11, 2017, the Court approved the Disclosure Statement, and an order was subsequently entered to that effect on June [--], 2017.

The Court has scheduled a hearing to consider confirmation of the Plan on **August 28, 2017, 2017 at 9:00 a.m.** (the "**Confirmation Hearing**") in Room 340 of the United States Courthouse, 120 North Henry Street, Madison, Wisconsin 53701, and continuing on succeeding days as determined by the Court. The Court has directed that (i) ballots be returned to counsel for Sabra on or before **July 24, 2017** and (ii) objections, if any, to confirmation of the Plan be served and filed with the Court on or before **July 24, 2017**. The Confirmation Hearing may be adjourned by the Court without further notice except for the announcement of the adjournment made at the hearing or any subsequent adjourned hearing. At that time, the Court will review a ballot report concerning votes cast for acceptance or rejection of the Plan, along with objections to the confirmation of the Plan, and other evidence and arguments from Parties-in-Interest and will determine whether the Plan is in the best interests of creditors.

To obtain additional copies of this Disclosure Statement please contact:

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INTRODUCTION

Sabra proposes to invest millions of dollars in Debtors' businesses to make this Plan possible. Under Sabra's Plan, both Weston's business and FPG's business will be sold to Sabra on the Effective Date of the Plan, or another purchaser who offers a higher and better bid. As a result (see pages iii and iv, above, for an explanation of the Effective Date):

- The holders of General Unsecured Claims against both Debtors will be paid within 30 days of the Plan's Effective Date, unless there is an objection to the validity or amount of the Claim;

- Upon the occurrence of the Effective Date, the Weston Purchaser's operations will not be encumbered by the Sabra Secured Claim because the Sabra Secured Claim (approximately $13 million) will be paid in full and eliminated following the sale. In turn, this will eliminate the monthly debt service associated with Sabra's Secured Claim that currently impacts Weston's operations, and the funds that would otherwise be used under Debtors' Plan to pay the Sabra Secured Claim can be used by the Weston Purchaser to cover operational costs and invest in future operations;

- If Sabra is the Weston Purchaser, Sabra will waive any distribution on account of its Option Claim and the Sabra Deficiency Claim.

- All of Weston's secured creditors, and the debtor-in-possession financing, will be paid in full on the Effective Date of the Plan or within thirty (30) days thereof;

- Creditors of both Debtors not otherwise being paid in full stand to receive more depending on the results of the auctions;

- FPG's debtor-in-possession loan will be paid in full on the Effective Date, and other Claims will be paid shortly after the Effective Date of the Plan; and

- FPG's balance sheet will also be substantially improved by reducing FPG's obligations to creditors and permitting payments over time.

Sabra's Plan is designed to maximize recovery to unsecured creditors and ensure the future success of Debtors' businesses. The following table briefly summarizes the classification and treatment of Claims and Interests under the Plan and provides a more thorough comparison to Debtors' Plan:

Weston							
		Debtors' Plan			**Sabra's Plan**		
Class	**Type of Claim or Interest**	**Estimated Amount of Claims**	**Estimated Recovery**	**Voting**	**Estimated Amount of Claims**	**Estimated Recovery**	**Voting**
1	Administrative Expenses	$540,000	100% on the Effective Date	Deemed to Accept	$391,292	100% on the Effective Date	No
2	Priority Unsecured Claims	$627,848	100% on the Effective Date	Deemed to Accept	$0	100% on the Effective Date	No
3A	Sabra Secured Claim	$13,000,000	100% over 35 years, with 4.65% interest and a balloon payment after 10 years	Yes	$13,000,000	100% on the Effective Date after credit bid or within (3) days after the sale if Sabra is not the Weston Purchaser	Yes
3B	Simplicity Claim	$31,182	100% over 7 years, with 4% interest	Yes	$31,183	100% within 30 days of the Effective Date	Yes
3C	All-Lines Leasing Claim	$7,171	100% over 7 years, with 4% interest	Yes	$7,171	100% within 30 days of the Effective Date	Yes
4	DIP Loan Claims	$650,000	100% within 2 years of the Effective Date	Deemed to Accept	$650,000	100% on the Effective Date	No
5	Intercompany Claims	None	n/a	n/a	None	n/a	n/a
6A	Sabra Deficiency Claim	$4,773,438	100% over 35 years, with 4.65% interest and a balloon payment after 10 years	Yes	$4,773,438, subject to reduction following credit bid	50% over 7 years, with 8% interest, subject to increase in the event of a Weston Overbid; Sabra agrees to waive distribution if Sabra is the Weston Purchaser	Yes
6B	Sabra Option Claim	Unknown	Not addressed	Not Addressed	Unknown	50% over 7 years, with 8% interest, subject to increase in the event of a Weston Overbid; Sabra agrees to waive distribution if Sabra is the Weston Purchaser	Yes
7	General Unsecured Claims	$126,940	100% within 21 months after the Effective Date	Yes	$198,667	100% within 30 days of the Effective Date	Yes
8	Unsecured Insider Claims	None	n/a	n/a	$778,429	50% over 7 years, with 8% interest, subject to increase in the event of a Weston Overbid; subject to the Weston Purchaser's offset rights and defenses	Yes
9	Interests	$0	Allowed to retain	No	$0	0%, but subject to increase in the event of a Weston Overbid	Yes

FPG							
		Debtors' Plan			**Sabra's Plan**		
Class	**Type of Claim or Interest**	**Estimated Amount of Claims**	**Estimated Recovery**	**Voting**	**Estimated Amount of Claims**	**Estimated Recovery**	**Voting**
1	Administrative Expenses	$272,527	100% on the Effective Date	No	$380,600	100% on the Effective Date	No
2	Priority Unsecured Claims	$208,288	100% over 5 years, with 9.625% interest	No	$218,374	100% within 30 days of the Effective Date	Yes
3A	Sabra Secured Claim	n/a	n/a	n/a	n/a	n/a	n/a
3B	Simplicity Secured Claim	n/a	n/a	n/a	n/a	n/a	n/a
3C	All-Lines Leasing	n/a	n/a	n/a	n/a	n/a	n/a
4	DIP Loan Claims	$400,000	100% within 2 years of the Effective Date	No	$500,000	100% on the Effective Date	No
5	Intercompany Claims	$600,405	Quarterly installments equal to 10% of Debtor's net income after estimating for income taxes	No	$600,405	100% on the Effective Date	No
6	Unsecured Claim of Sabra	n/a	n/a	n/a	n/a	n/a	n/a
7	General Unsecured Claims	$124,348	100% within 21 months of the Effective Date	Yes	$124,348	100% within 30 days of the Effective Date	Yes
8	Unsecured Insider Claims	$2,142,039	Subordinated to Class 7; paid as finances allow.	No	Unknown	50% over 7 years, 8% interest upon allowance of Claim, subject to increase in the event of an FPG Overbid	Yes
9	Interests	$0	Allowed to retain	No	$0	0% but subject to increase in the event of an FPG Overbid	Yes

HISTORY OF THE DEBTORS AND EVENTS LEADING TO FILING

Background

The Debtors were formed in 2010 to organize, develop, manage, and own an assisted living and skilled nursing care facility (the "**Facility**") near three major regional hospitals in central Wisconsin—including St. Clare's Hospital, which is just a block away. The Facility combines an assisted living facility together with a skilled nursing facility in a resort-like atmosphere for its patients. The business, previously known as "Stoney River" has rebranded itself as "Pride TLC Therapy & Living Campus." Its new website and further details can be found at www.prideTLC.com.

The Facility is comprised of a 35-bed skilled nursing rehabilitation center (commonly referred to as the skilled nursing facility, or "**SNF**"), and a 60-bed assisted living facility (the "**ALF**"). The physical location—including the real property, building that comprises the Facility, and other related fixtures and personal property (the "**Real Estate**")—is owned by Weston. The Real Estate is located at 7805 Birch Street, Weston, Wisconsin and the overall size of the building is approximately 66,741 square feet. Weston owns and operates the ALF side of the business, including required licenses to operate, and other related personal property of the ALF. The ALF provides specialized care to residents, including assisted living, therapy, and medical services on a fee-for-service basis.

The second portion of the Facility, the SNF (including its state license, operating accounts, and personal property), is owned by FPG. FPG leases approximately 39% of the Facility from Weston to operate the SNF pursuant to a lease dated December 27, 2011 (the "**Facility Lease**"). As part of the Facility Lease, FPG, as tenant, pays Weston, as landlord, a portion of all operating costs, including payments towards: (a) the mortgage lender (Sabra) or REIT, (b) sales and real estate taxes, (c) property insurance, and (d) maintenance costs of the Facility and other ancillary expenses. The employees of the ALF and SNF provide services to both entities, depending on the needs of the patients admitted to each. As a result of a management change in January 2016, all facility employees became compensated through FPG's payroll, and Weston reimburses FPG for its share of wages, employment taxes, insurance, and worker's compensation. Reimbursement for wages is based on the census split of patients between the ALF and SNF for each payroll period. Payroll is made once every two week period through a third-party payroll processor. Occasionally, the Debtors face three payroll periods within the same month.

Debtors believed that that by combining the two businesses under one roof they could generate internal demand and patient sharing; e.g., rehab patients from the SNF side could transition on a longer term basis to the ALF component, or, as a patient's health and symptoms changed, he or she could move between the SNF and the ALF to receive the type and level of medical care required. Debtors also believed, because the Facility could provide different levels of care, it would become a preferred facility for hospitals.

According to Debtors, approximately 5-6% of the SNF admissions were referred to the ALF after discharge each month. Some of these admissions were short term, but others were long term. Debtors estimate that 43% of the current residents in the ALF came as direct referrals from the SNF, and Debtors further estimate that these residents are among the highest paying due to the level of care needed.

Revenues for the SNF are generated primarily through health care insurance reimbursements. Approximately 50% of the SNF's gross income is derived from Medicare payments from CMS; 45% from Medicare replacement (i.e., from insurance companies that are acting on behalf of the government); and 5% from private-pay or Medicaid. Revenues for the ALF are generated 90% from private pay, and 10% public assistance through Medicaid/Medicaid Waiver.

Formation, Ownership, and Management

The original owners of Weston were:

(1) First Phoenix Group LLC ("**Group**");
(2) Wanxiang America Real Estate Group, LLC ("**Wanxiang**"), an equity partner, managed by Lawrence Krueger;
(3) LJK Investments, LLC, wholly owned by Lawrence Krueger; and
(4) Mark Winkels, a minority shareholder.

The original owners of FPG were:

(1) Group;
(2) Wanxiang;
(3) LJK Investments, LLC;
(4) Mark Winkels, a minority shareholder; and
(5) Landcastle Diversified, an entity owned and controlled by Philip Castleberg ("**Castleberg**").

In early August 2016, Group sold its membership interest in Weston, and the current owners of Weston are Wanxiang, LJK Investments, LLC (together 60% of the membership interests), Mark Winkels (0.5% of the membership interests), and Castleberg (39.5% of the membership interests).

In early August 2016, Group sold its membership interest in FPG, and the current owners of FPG are Wanxiang (19.5% of the membership interests), Mark Winkels (0.5% of the membership interests), and Castleberg (80% of the membership interests).

Castleberg has been and still is a minority member in Group.

The Debtors disclose that both Weston (the ALF) and FPG (the SNF) are currently managed by Anchor Management Group L.L.C. ("**Anchor**"), a Florida limited liability company owned by Castleberg and his son, Benjamin Castleberg. The current terms of the management agreement are not disclosed. The Debtors disclose that both FPG and Weston will enter into a management agreement with Anchor for the future management of the Facility. The Debtors disclose that that this management agreement will provide for a management fee of no more than 4.5% of gross revenue. Debtors also disclose that Anchor will forego any payment on the management agreement until unsecured creditors in Class 7 are paid in full. It is unclear whether Anchor will accrue fees during this period.

According to the Debtors, the original ownership group required that a company called Browns Living, L.L.C. d/b/a LifeQuest be employed to oversee and manage the Facility, its employees, and operations. Browns Living, L.L.C. was owned and controlled by Terrance Howard (a principal owner of the original parent company). Sabra agreed to the selection of Browns Living L.L.C. as the manager. According to Debtors, Terrance Howard made multiple representations to Castleberg that in the event Browns Living, L.L.C. was terminated, Weston would default under its loan obligations to Sabra.

Construction Phase

Construction of the Facility began in March 2012, with the construction financing of approximately $13,000,000 provided by Contemporary Healthcare Capital, LLC, an investment bank out of New Jersey. A certificate of occupancy was issued in February 2013. Later that year, Weston was able to take out the construction loan with new financing from an entity known as Sabra Phoenix TRS Venture, LLC, in a total amount just shy of $15,000,000. The note is currently held by Sabra.

Weston gave a mortgage to Sabra, which was recorded against the Real Estate; additionally, Sabra has a security interest in the general business assets of Weston, including its cash collateral. FPG, Weston, and Sabra are parties to a Subordination, Non-Disturbance and Attornment Agreement, which is also recorded against the Facility. Additionally, Sabra was provided an Option Agreement, which Sabra believes entitles it to a Claim against Weston. In January and February, 2016, Sabra sent letters to Weston exercising its option to purchase Weston's assets for a purchase price of $0.00, although the formulas provided in the Option Agreement yielded a negative value for both the ALF and SNF purchase prices. These agreements with Sabra, and other supporting and related documents, have been filed by Sabra as part of its Claim against Weston (Claim No. 16) and can be viewed on the Court's electronic docket or requested from Sabra's counsel listed above.

Operational Issues & Chapter 11 Planning

Soon after opening, the Facility experienced management and cash flow problems. Just four months after opening, Castleberg claims he was asked to provide funds to support the Debtors. Castleberg and/or Landcastle Diversified agreed to do so and claims to have provided approximately $500,000 to FPG at that time, on an unsecured basis. Employee turnover was high and the Debtors burned through three nursing directors and two administrators in the first year. Occupancy levels were low because census at both the ALF and SNF were not rising to the levels projected. Castleberg asserts that quality of care was substandard.

Castleberg claims to have been asked to supply more funds to FPG to keep things running at the ALF and he claims to have provided additional funds to keep the SNF afloat. From time to time throughout 2015-2016, Castleberg and/or Landcastle Diversified claim to have provided additional funds to FPG. As of the Petition Date, Castleberg and/or Landcastle Diversified claim to have provided approximately $2,142,039 to FPG on an unsecured basis. Sabra believes that there is incomplete documentation for a substantial amount of the funds allegedly provided by Castleberg and/or Landcastle Diversified, and that it is unclear whether the funds were provided as loans or capital infusions, and what, if any, terms exist regarding repayment of the funds. In some instances, Sabra asserts that the documentation available is unsigned and indicates that the funds were provided by Landcastle Diversified, and not by Castleberg himself.

Castleberg inserted himself into a managerial role in December 2015.

Weston defaulted on payments owed to Sabra by August 2015.

In mid-2016, Wanxiang assumed management of Weston's operations under the terms of the Weston operating agreement. Since that time, with Wanxiang's oversight and approval, Castleberg has continued to play an active role in the day-to-day operations at the Facility.

In December 2015, Brown's Living which managed the Facility terminated its management agreement due to non-payment of its fees. Facility ownership did not replace the manager as required under the Sabra Loan and briefly engaged another operator, Health Dimensions Group, as a consultant. That operator ended its relationship with the Facility.

<u>Immediate Jeopardy Citation</u>

Pursuant to a May 25, 2016 letter to FPG, the State of Wisconsin Department of Health Services ("**<u>DHS</u>**") determined that the Facility was not in compliance with State and Federal requirements for nursing homes. DHS issued an "immediate jeopardy" citation due to an incident with a patient that occurred on October 1, 2015. The citation was issued against FPG as the operator of the SNF.

The timeline of these events is set forth below.

- October 1, 2015: Incident occurs that resulted in an "immediate jeopardy" citation that was assessed against FPG, and an immediate jeopardy citation was issued. At the time, Browns Living L.L.C. was managing the SNF.

- December 1, 2015: Castleberg takes over management for the SNF. Castleberg retained services of third parties for the purpose of improving care, staff education, and oversight of the Facility to bring it back into compliance.

- May 12, 2016: DHS completes a survey at FPG and determines that the SNF is not in substantial compliance with the Federal requirements for nursing homes participating in the Medicare and Medicaid programs and that the most serious deficiencies placed the health and safety of FPG's patients in immediate jeopardy. The surveyors also found that FPG continued to not be in substantial compliance with Federal requirements as a result of uncorrected deficiencies. The immediate jeopardy that began on October 1, 2015 and was removed on May 12, 2016.

- June 29, 2016: DHS completes a survey at FPG and determines that the SNF is not in substantial compliance with the Federal requirements for nursing homes participating in the Medicare and Medicaid programs.

- July 25, 2016: DHS completes a survey at FPG and determines that the SNF is not in substantial compliance with the Federal requirements for nursing homes participating in the Medicare and Medicaid programs.

- August 18, 2016: DHS completes survey at FPG and determines that the SNF has returned to substantial compliance effective as of July 29, 2016.

- October 25, 2016: CMS notifies FPG regarding the civil monetary penalty (the "**CMP**") and a denial of payment for new admissions (the "**DPNA**").

Debtors stated that they took the following steps to remedy the situation: utilizing Deana Westby, a certified nurse with a reputation for turning around struggling skilled nursing centers, promoted Sally Conway to the executive director of the Facility, implemented strenuous safety and patient care policies and procedures, hired new staff members who were competent and genuinely interested in caring for patients, and submitted corrective action plans to DHS for review and approval.

FPG's license and Medicare certification were not suspended, but the citation resulted in a fine (the CMP), plus recoupment of government-backed health insurance payments through CMS (the DPNA).

The CMP was "impos[ed] for each day of noncompliance." Pursuant to CMS's letter dated October 25, 2016, the dates of noncompliance were "beginning April 12, 2016 and continuing through May 11, 2016" and "beginning May 12, 2016 and continuing through July 28, 2016." Notwithstanding the timeline set forth above, the Debtors assert that the immediate jeopardy citation, the CMP, and the DPNA resulted from the overall prior mismanagement of the Facility by Browns Living, L.L.C.

DHS certified FPG's compliance effective July 29, 2016, and FPG eventually received case closure and final imposition of penalties from CMS by a letter dated September 8, 2016. The penalties and other amounts owed to CMS, to the extent not previously paid, will be paid by the FPG Purchaser as part of the Plan. Except for recent MDS level E citation which requires a desk review, the SNF has remained in substantial compliance since receiving DHS' July 29, 2016 approval.

As discussed below, CMS imposed a $2,063.00 per instance civil monetary penalty against FPG for noncompliance cited during a February 15, 2017 survey. The noncompliance is a level E classification, requiring a desk review by the State to get back into substantial compliance.

By late summer of 2016, in addition to the default under the loan with Sabra, the Debtors were concerned that DHS or CMS would begin suspension/recoupment of payments and that doing so would cause FPG to default on its obligations to Weston and to employees, among other items, which Debtors believed would have completely halted the Debtors' operations. The low cash flows and threat of revenue suspension caused the Debtors to seek protection under Chapter 11.

Sabra Option

Sabra asserts that:

- Sabra exercised its option to buy the Facility on January 6, 2016;
- Weston provided its sale price calculations to Sabra on January 22, 2016, which show that the purchase price was a negative number;
- By letter dated February 11, 2016, Sara confirmed that the purchase price was a negative number and set a closing date of March 28, 2016, pursuant to the Option Agreement;
- By letter dated February 22, 2016, Weston elected to delay the purchase closing date by ninety days, or until June 26, 2016, at the latest; and
- Weston never completed the closing, and filed for bankruptcy protection on August 15, 2016.

Weston objected to the Sabra Option Claim [Dkt. No. 237]. Weston asserts that the Option Agreement is not valid, is unconscionable, and is unenforceable. Weston further asserts that, even if the Option Agreement is enforceable, it expired without closing prior to the start of Weston's Chapter 11 Case and therefore cannot be a basis for a claim. The Court held a hearing on the estimation of Sabra's option claim on April 26, 2017, and has taken the matter under advisement.

Relevant Post-Petition Developments

CMS denied Medicare/Medicaid reimbursements from the period of June 14, 2016 through July 28, 2016, which, according to FPG, totals approximately $208,288. During FPG's Chapter 11 Case, CMS has recouped its entire share of reimbursements from FPG for the denial of payments issue. What remains to be paid to CMS are Claims for three items (a) a civil monetary penalty, (b) certain "claims accounts receivable," and (c) future, contingent cost report reconciliations. The approximate amount remaining to be paid to CMS is $218,374.

The civil monetary penalty issued by CMS totaled $208,500 (which was reduced to $135,525 due to FPG waiving its right to appeal). The penalty must be paid as part of FPG's Chapter 11 plan.

Claims accounts receivable occur due to adjustments made in the processing of claims (e.g., duplicative claims, incorrect rates, intermediary adjustments). Claims accounts receivable are adjusted in the normal course of business (monthly) when remittance advices are provided to FPG. CMS filed a Proof of Claim alleging that it is owed $83,394.90 for pre-petition claims accounts receivable, which have not been recovered since the Petition Date. Although FPG has stated that it received notice from CMS that the intermediary would recoup these amounts, the intermediary has not done so and the amount remains unpaid.

Cost report reconciliations, on the other hand, occur at the end of a cost year (in FPG's case, May of each year). As part of a cost report, FPG must adequately report and provide support for reimbursements received throughout the prior year. CMS reviews the cost report and makes any necessary adjustments (whether positively or negatively) to reconcile the annual cost reporting. These amounts are a contingent Claim of CMS, and will be paid in the normal course of FPG's operations. FPG indicated that it does not anticipate any significant payments necessary to reconcile the annual Medicare cost report with CMS that would be due in 2017. On the other hand, CMS filed a contingent Proof of Claim on April 5, 2017, in the amount of $646,288.26 relating to the unfiled cost report. FPG filed the cost report by the May 31, 2017 deadline. FPG has indicated that no money is owed for 2016.

Upon filing bankruptcy, Weston sought authority to use cash collateral of Sabra pursuant to § 363(c)(2)(B) and (3) and Bankruptcy Rule 4001(b) to continue its operations. The Court held various preliminary hearings on Weston's request and granted interim relief; a final hearing on the use of cash collateral and approval of two debtor-in-possession loans was held October 31, 2016. As a result of the hearing, the Court granted Weston's request to use cash collateral and provide adequate protection to Sabra—and also approved post-petition financing for both FPG and Weston as described below.

Weston sought to obtain post-petition financing from Wanxiang, in the form of a $900,000 line of credit (the "**Weston DIP Loan**") to be used to pay for the following items: (i) 2014 and 2015 taxes, interest, penalties, and other charges totaling $577,090.16 owed to Marathon County which remained unpaid as of the Petition Date; (ii) the first installment of 2016 taxes, due January 31, 2017 of $136,157.71; (iii) one-half ($25,000) of the marketing costs for the Facility; (iv) two-thirds ($14,602.75) of the anticipated monthly tax escrow; and (v) one-half of any needed roof replacement costs. The balance of the Weston DIP Loan is $650,000; at this time, Weston has indicated that it does not expect to borrow additional funds. The balance of the Weston DIP Loan will be repaid by the Weston Purchaser on the Effective Date.

At the same time, FPG sought to obtain post-petition financing from Castleberg in the form of a line of credit in an amount of up to $500,000 (the "**FPG DIP Loan**"). As part of the FPG DIP Loan, FPG provided Castleberg with liens on all property of FPG's Estate that is not otherwise subject to a lien, pursuant to § 364(c)(2) of the Bankruptcy Code. The purpose of the FPG DIP Loan was to offset the DHS/CMS recoupment and allow FPG to continue operations while it went through the denial-of-payments period. The funds were used to pay (i) FPG's ongoing rent to Weston including FPG's share of operational expenses according to the terms of the Facility Lease; (ii) one-half ($25,000) of the marketing costs for the Facility; (iii) one-third of the anticipated tax escrow; and (iv) one-half of any necessary roof replacement costs. The balance of the FPG DIP Loan is $500,000. The balance of the FPG DIP Loan will be repaid on the Effective Date.

As additional adequate protection to Sabra, Weston also began making payments to Sabra of $45,000 per month in November 2016; those payments will continue throughout these Chapter 11 Cases. Additionally, pursuant to the Court's holding as a result of Sabra's *Motion to Compel Payment of Rent* from FPG, FPG began making rental payments to Weston in November 2016. The payment, per month, totals $52,763.50. FPG has paid Weston for all post-petition rents from October 15, 2016 through May 2017. Weston has an Administrative Claim against FPG for $105,527.00 for post-petition rents incurred from the Petition Date through October 14, 2016, which has not yet been paid. If this Administrative Claim is not paid prior to the Confirmation Hearing, the Administrative Claim will be paid in full on the Effective Date. Consistent with the Court's decision, FPG will not pay any Professional Claims unless and until the post-petition rents owed to Weston have been paid in full.

Pursuant to the Court's order on the Debtors' motion to establish a deadline for filing Proofs of Claim, the last date for creditors to file a Claim was December 23, 2016.

Additional CMS Penalties Against FPG

On March 29, 2017, CMS imposed a $2,063.00 per instance civil monetary penalty against FPG for noncompliance cited during a February 15, 2017 survey. The total amount of the denial of payment is currently unknown. Because the civil monetary penalty was assessed post-petition based on incidents that occurred post-petition, the penalty must be paid as an administrative expense claim. At this time, CMS has also identified $926.60 in post-petition Claims A/R debts.

The Debtors' Financial Performance During Chapter 11 Cases

Based on the most recently filed monthly operating reports, neither Debtor has been profitable during the Chapter 11 Cases. Weston disclosed that, notwithstanding the resumption of rent payments from FPG, Weston has accumulated net losses of approximately $97,657 during its Chapter 11 Case. FPG has accumulated net losses of approximately $675,939 during its Chapter 11 Case.

These figures represent accrual basis accounting (i.e., they reflect income when it is earned and debt when it is incurred, not when an item is actually paid). Debtors anticipated losses at the beginning of the Chapter 11 Cases. Going forward, expenses will likely be lower because the Debtors will no longer be accruing professional fees for the administration of the Chapter 11 Cases.

Due in large part to Debtors' borrowing $1.15 million (out of $1.4 million that is available) from Castleberg and Wanxiang, Debtors have accumulated Cash since the Petition Date. Without these borrowings, Debtors would have negative accumulated Cash.

During these Chapter 11 Cases, the Debtors operated the Facility, maintained the Debtors' bank accounts, and paid expenses, consistent with the Court's orders authorizing the use of cash collateral.

On the Petition Date, the patient census for FPG was approximately 5; this was because FPG deliberately reduced its census around the Petition Date to reduce the expected exposure to CMS during the denial-of-payments period. On the Petition Date, the resident census for Weston was 42. Three months later, FPG increased its census to 24 patients, and Weston increased its census to 46 long term residents (the high for December 2016).

Weston paid all delinquent, unpaid real estate taxes, penalties, and interest on December 8, 2016.

Weston also made its adequate protection payments to Sabra, which Weston will continue until such time as payments under the Plan commence.

Status of Professionals

Attorneys

Michael Best & Friedrich LLP. The Debtors applied to the Court to retain Michael Best & Friedrich LLP ("**Michael Best**") to act as their legal counsel in these Chapter 11 Cases. The employment of Michael Best was approved by the Court over the objection of Sabra, which raised questions about Michael Best's disinterestedness. As of April 30,2017, Michael Best is owed $201,586.69 in legal fees and in disbursements from Weston. As of April 30, 2017, Michael Best is owed $111,085.08 in legal fees and in disbursements from FPG. No amounts have been received from or will be paid by FPG to Michael Best until FPG's post-petition Administrative Claim owed to Weston is paid.

No special counsel has been retained by the Debtors for any matter.

Sabra has repeatedly objected to Michael Best's retention and Michael Best's representation of both Debtors based on Sabra's belief that conflicts exist between the Debtors arising from the Facility Lease, pre-petition rent payments, and the amount and/or existence of intercompany payables and that a conflict exists based on Michael Best's prior representation of Castleberg and Landcastle Diversified. Sabra retains its rights to reassert such objections in connection with the Court's consideration of Michael Best's final fee application, which could impact the total fees owed to Michael Best.

Accountants

Barbara DeBaere Poppy CPA. The Debtors applied to the Court to retain Barbara DeBaere Poppy, CPA ("**Poppy**") to act as their accountants during these Chapter 11 Cases. The employment of Poppy was approved by the Court. April 30, 2017, Poppy is owed $29,842.99 by Weston. As of April 30, 2017, Poppy is owed $31,481.43 by FPG. No amounts have been received from or will be paid by FPG to Poppy until FPG's post-petition Administrative Claim owed to Weston is paid.

U.S. Trustee Fees

The Office of the United States Trustee accrues quarterly fees while the Chapter 11 Cases remain open. Under the Plan, Weston will pay all fees due and payable pursuant to 28 U.S.C. § 1930 and not paid prior to the Effective Date. After the Effective Date and until the Weston Chapter 11 Case closes, the Weston Purchaser shall pay all fees due and payable pursuant to 28 U.S.C. § 1930. FPG will pay all fees due and payable pursuant to 28 U.S.C. § 1930 and not paid prior to the Effective Date. After the Effective Date and until the FPG Chapter 11 Case closes, the FPG Purchaser shall pay all fees due and payable pursuant to 28 U.S.C. § 1930.

Others

The Debtors have indicated that they may retain one or more expert witnesses for the Confirmation Hearing of the Debtors' Plan, or any potential valuation hearing of the Facility. The Debtors estimated that employing such expert(s) would cost the Debtors' Estates between $25,000 and $50,000.

As of the date of this filing, the Debtors have filed one application to employ an expert witness, The Griffing Group, LLC. The Debtors propose that The Griffing Group will provide expert testimony on valuation, interest rate(s), and feasibility. The Debtors estimate that total estimate fee for The Griffing Group, LLC will be between $40,000 and $50,000. The Debtors' retention of The Griffing Group, LLC was approved by the Court on April 7, 2017.

STATUS OF ANY PENDING LITIGATION

The Debtors are not plaintiffs under any current litigation outside of these Chapter 11 Cases. Except for certain Causes of Action, the Plan reserves the right to bring any Cause of Action that Debtors may have against any party as part of these Chapter 11 Cases or in any other state or federal court of appropriate jurisdiction. The Plan waives Causes of Action against all parties except Insiders and the holders of Disputed Claims. The right to bring Causes of Actions and non-waived Causes of Action will, in the case of Weston, vest in the Weston Purchaser and, in the case of FPG, vest in the FPG Purchaser.

In June 2016, Browns Living, L.L.C. commenced an action against Weston in Wood County, Wisconsin as Case No. 16-204. That matter was dismissed upon Weston's filing for bankruptcy. However, on November 29, 2016, Browns Living, L.L.C. appears to have docketed a judgment against Weston in Marathon County. Weston has indicated that it believes the docketing of the judgment was in violation of the automatic stay and Weston contacted Browns Living, L.L.C. to assess this matter and discuss resolution with or without Court assistance.

CLASSIFICATION OF CLAIMS AND INTERESTS

Classification Definitions

A. Intentionally Omitted.

B. **Class 2 – Priority Unsecured Claims**.

Priority Unsecured Claims means any Claim other than an Administrative Claim or a Priority Tax Claim, entitled to priority in payment as specified in §§ 507(a)(3), (4), (5), (6), (7), or (9) of the Bankruptcy Code.

C. Class 3.

1. **Class 3A – Sabra Secured Claim**.

Sabra Secured Claim means the Sabra Claim, but only to the extent that such Claim is a secured Claim as determined by Bankruptcy Code § 506(a)(1), currently estimated to be $13,000,000.

2. **Class 3B – Simplicity Claim**.

Simplicity Claim means the Claim of Simplicity Credit Union filed against Weston and assigned Claim number 13.

3. **Class 3C – All-Lines Leasing Claim**.

All-Lines Leasing Claim means the Claim of All-Lines Leasing filed against Weston and assigned Claim number 15.

D. Class 4 – DIP Loan Claims.

DIP Loan Claims means the FPG DIP Loan Claim and the Weston DIP Loan Claim.

E. Class 5 – Intercompany Claims

Intercompany Claim means the Claim held by Weston against FPG, estimated by Debtors to be Allowed in the amount of $600,405. There are no Intercompany Claims against Weston.

F. Class 6A – Sabra Deficiency Claim.

Sabra Deficiency Claim means the Sabra Claim, minus the Sabra Secured Claim and the Sabra Option Claim, in an amount currently estimated to be not less than $4,773,438, but subject to reduction following Sabra's credit bid in the Weston Auction.

G. Class 6B – Sabra Option Claim.

Sabra Option Claim means that portion of the Sabra Claim attributable to Sabra's claim for breach of the Option Agreement.

H. Class 7 – General Unsecured Claims.

General Unsecured Claims means any Claim that is not an Administrative Claim, Priority Tax Claim, Priority Unsecured Claim, Sabra Secured Claim, Simplicity Claim, All-Lines Leasing Claim, DIP Loan Claim, Intercompany Claim, Sabra Unsecured Claim, Unsecured

Insider Claim, or any Claim that is otherwise determined by the Court to be a General Unsecured Claim.

I. Class 8 – Unsecured Insider Claims.

Unsecured Insider Claims means any Claim held by a Person who is currently an Insider or who was an Insider at the time the Claim arose, except those Claims which are DIP Loan Claims.

J. Class 9 – Interests.

Interests means any equity security (as defined in § 101(16) of the Bankruptcy Code) in the Debtors and any other rights, options, warrants, stock appreciation rights, phantom stock rights, restricted stock units, redemption rights, repurchase rights, convertible, exercisable, or exchangeable securities or other agreements, arrangements, or commitments of any character relating to, or whose value is related to, any such interest or other ownership interest in any Debtor.

Overview of Weston Classification

Class	Description	Amount	Impairment	Voting
1	Intentionally Omitted			
2	Priority Unsecured Claims	$0	Unimpaired	Deemed to Accept
3A	Sabra Secured Claim	$13,000,000	Impaired	Yes
3B	Simplicity Claim	$31,183	Impaired	Yes
3C	All-Lines Leasing Claim	$7,171	Impaired	Yes
4	DIP Loan Claims	$650,000	Unimpaired	Deemed to Accept
5	Intentionally Omitted			
6A	Sabra Deficiency Claim	$4,773,483	Impaired	Yes
6B	Sabra Option Claim	Unknown	Impaired	Yes
7	General Unsecured Claims	$198,667	Impaired	Yes
8	Unsecured Insider Claims	$778,429	Impaired	Yes
9	Interests	$0	Impaired	Yes

Overview of FPG Classification

Class	Description	Amount	Impairment	Voting
1	Intentionally Omitted			
2	Priority Unsecured Claims	$218,374	Impaired	Yes
3A	Intentionally Omitted			
3B	Intentionally Omitted			
3C	Intentionally Omitted			
4	DIP Loan Claims	$500,000	Unimpaired	Deemed to Accept
5	Intercompany Claims	$600,405	Unimpaired	Deemed to Accept
6A	Intentionally Omitted			
6B	Intentionally Omitted			
7	General Unsecured Claims	$124,348	Impaired	Yes
8	Unsecured Insider Claims	$2,143,363	Impaired	Yes
9	Interests	$0	Impaired	Yes

A summary of the above Classes and estimated Claims is attached to this Disclosure Statement as **Exhibit 1**. The first page (Exhibit 1-Weston) details the anticipated Claims against Weston. The second page (Exhibit 1-FPG) details the anticipated Claims against FPG.

Exhibit 1 contains estimated Allowed amounts of each Claim; Parties-in-Interest have the right to object to until the Claim Objection Deadline. Initially, and without limiting the right of parties to object to other Claims, Debtors have disclosed, or it otherwise appears, that there are potential objections to the following Claims: Anchor, Castleberg, Copeland Building Corporation; Group; Hoff, Barry & Kozar; Murdrovich Architects; Sysco Baraboo, LLC.

OVERVIEW OF PAYMENT PORTIONS OF THE PLAN

The material highlights of the payment portions of the Plan are set forth below. This outline below is intended solely as an overview of some of the material portions of the Plan. The Plan should be read in its entirety. **Any conflict between this Disclosure Statement and the Plan will be resolved in favor of the Plan**. The proposed treatment of the various Classes and their estimated Allowed amounts are detailed below.

Overview of Weston Treatment

A. Intentionally Omitted.

B. **Class 2 – Priority Unsecured Claims**.

Unless otherwise agreed to by the parties, the Weston Purchaser shall pay each holder of an Allowed Priority Unsecured Claim in Class 2 the Allowed amount of such Claim in full in Cash, without interest, on or before the later of (a) the Effective Date, or (b) the date such Priority Unsecured Claim becomes an Allowed Claim.

C. Class 3.

1. **Class 3A – Sabra Secured Claim**.

Class 3A – Sabra Secured Claim. Sabra shall be entitled to credit bid the aggregate amount of the Sabra Secured Claim and the Sabra Deficiency Claim at the Weston Auction. If Sabra is the Weston Purchaser, the Sabra Claim shall be reduced by the amount of the credit bid. If Sabra is not the Weston Purchaser, the Weston Purchaser shall pay Sabra the Weston Purchase Price within three (3) days following the Plan Agent's filing of the notice of sale as required by Section 13.2(IV)(f) of the Plan, which payment shall not affect the Sabra Deficiency Claim, which is expressly reserved.

Weston objected to Sabra's Proof of Claim. Weston has asserted that payments made to Sabra may have been misapplied against the balances owed to other facilities. Weston further contends that the interest, penalties, and late fees that were assessed pursuant to the loan agreement between Sabra and Weston were not properly calculated. The Debtors did not press the claim objection at a hearing on April 26, 2017, but as of the date of this filing, the objection has not been withdrawn.

2. **Class 3B – Simplicity Claim**.

Class 3B – Simplicity Claim. In full satisfaction of the Allowed Class 3C Claim, the Weston Purchaser shall pay the holder of the Simplicity Claim in full in Cash, without interest, within thirty (30) days of the Effective Date. The Simplicity Claim includes both the secured and unsecured portions of the Claim. For ease of comparison with Debtors' Plan, and because both the secured and unsecured portions of the Claim are receiving the same treatment under the Plan, the Simplicity Claim is classified as one Claim notwithstanding the fact that it has both a secured and unsecured component.

3. **Class 3C – All-Lines Leasing Claim**.

Class 3C – All-Lines Leasing Claim. In full satisfaction of the Allowed Class 3C Claim, the Weston Purchaser shall pay the holder of the All-Lines Leasing Claim in full in Cash, without interest, within thirty (30) days of the Effective Date. The All-Lines Leasing Claim includes both the secured and unsecured portions of the Claim. For ease of comparison with Debtors' Plan, and because both the secured and unsecured portions of the claim are receiving the same treatment under the Plan, the All-Lines Leasing Claim is classified as one Claim notwithstanding the fact that it has both a secured and unsecured component.

D. Class 4 – DIP Loan Claims.

In full satisfaction of the Allowed Class 4 Claim, the Weston Purchaser shall pay the holder of the Weston DIP Loan Claim in full in Cash on the Effective Date.

E. Intentionally Omitted.

F. **<u>Class 6 – Sabra Unsecured Claim</u>**.

1. **Class 6A – Sabra Deficiency Claim**.

Any amount of the Sabra Deficiency Claim not credit bid at the Weston Auction shall be preserved. In full satisfaction of the Allowed Class 6A Claim, the Weston Purchaser shall pay Sabra: (A) following payment of any Plan Agent expenses as provided in Section 13.1 of the Plan, one-third of any Weston Overbid; plus (B) an amount equal to 50% of the principal amount of the Allowed Sabra Deficiency Claim in equal monthly installments of principal with fixed interest at the rate of 8% per annum amortized over 7 years commencing on the first day of the first month following the Effective Date, continuing monthly thereafter until the earlier of: (x) the date such 50% is paid; or (y) the date on which 100% of the principal amount of the Allowed Sabra Deficiency Claim is paid. In the event that Sabra is the Weston Purchaser, Sabra shall waive any distribution it is otherwise entitled to pursuant to Section 4.6 of the Plan.

If the Weston Auction occurs, the Weston Overbid shall be paid: (i) first to the holders of the Sabra Deficiency Claim, the Sabra Option Claim, and the Unsecured Insider Claim in equal parts until they have all been paid 100% of the principal amount of their Allowed Claims; and (ii) second, after all payments in subsection (i) have been made in full, to the holders of Interests in accordance with their respective percentages of ownership. In all circumstances, such payments shall be subordinated to the payments required in Sections 4.3, 4.4, and 4.7 of the Plan.

Weston objected to Sabra's Proof of Claim. Weston has asserted that payments made to Sabra may have been misapplied against the balances owed to other facilities. Weston further contends that the interest, penalties, and late fees that were assessed pursuant to the loan agreement between Sabra and Weston were not properly calculated. The Debtors did not press the claim objection at a hearing on April 26, 2017, but as of the date of this filing, the objection has not been withdrawn.

2. **Class 6B – Sabra Option Claim**.

In full satisfaction of the Allowed Class 6B Claim, the Weston Purchaser shall pay Sabra: (A) following payment of any Plan Agent expenses as provided in Section 13.1, one-third of any Weston Overbid; plus (B) an amount equal to 50% of the principal amount of the Allowed Sabra Option Claim in equal monthly installments of principal with fixed interest at the rate of 8% per annum amortized over 7 years commencing on the first day of the first month following the Effective Date, continuing monthly thereafter until the earlier of: (x) the date such 50% is paid; or (y) the date on which 100% of the principal amount of the Allowed Sabra Option Claim is paid. In the event that Sabra is the Weston Purchaser, Sabra shall waive any distribution it is otherwise entitled to pursuant to Section 4.6(II) of the Plan.

If the Weston Auction occurs, the Weston Overbid shall be paid: (i) first to the holders of the Sabra Deficiency Claim, the Sabra Option Claim, and the Unsecured Insider Claim in equal parts until they have been paid 100% of the principal amount of their Allowed Claims; and (ii) second, after all payments in subsection (i) have been made in full, to the holders of Interests in accordance with their respective percentages of ownership. In all circumstances, such payments shall be subordinated to the payments required in Sections 4.3, 4.4, and 4.7 of the Plan.

The Sabra Option Claim is unliquidated. The Court held a hearing on the Sabra Option Claim on April 26, 2017, and has taken the matter under advisement.

G. Class 7 – General Unsecured Claims.

In full satisfaction of the Allowed Class 7 Claims, the Weston Purchaser will assume the liability for all Allowed General Unsecured Claims and shall pay each holder of an Allowed General Unsecured Claim in full in Cash, without interest, on or before the later of (a) thirty (30) days after the Effective Date, or (b) the date such General Unsecured Claim becomes an Allowed Claim.

H. Class 8 –Unsecured Insider Claims.

In full satisfaction of the Allowed Class 8 Claim, the Weston Purchaser shall pay the holder of the Allowed Unsecured Insider Claim: (A) following payment of any Plan Agent expenses as provided in Section 13.1 of the Plan, one-third of any Weston Overbid; plus (B) an amount equal to 50% of the principal amount of the Allowed Unsecured Insider Claim in equal monthly installments of principal with fixed interest at the rate of 8% per annum amortized over 7 years commencing on the first day of the first month following the Effective Date, continuing monthly thereafter until the earlier of: (x) the date such 50% is paid; or (y) the date on which 100% of the principal amount of the Allowed Unsecured Insider Claim is paid. If Sabra is the Weston Purchaser, Sabra shall satisfy the Allowed Unsecured Insider Claim by offsetting 50% of the Allowed Unsecured Insider Claim against the amount Group owes Sabra under the Group Guaranty.

If the Weston Auction occurs, the Weston Overbid shall be paid: (i) first to the holders of the Sabra Deficiency Claim, the Sabra Option Claim, and the Unsecured Insider Claim in equal parts until they have been paid 100% of the principal amount of their Allowed Claims; and (ii) second, after all payments in subsection (i) have been made in full, to the holders of Interests in accordance with their respective percentages of ownership. In all circumstances, such payments shall be subordinated to the payments required in Sections 4.3, 4.4 and 4.7 of the Plan.

I. Class 9 – Interests.

The holders of Class 9 Interests shall retain their Interests in Weston, but because the Weston Assets are being sold, holders of Interests will not receive or retain any property under the Plan on account of such Interests; provided, however, that if the Weston Auction occurs, any Weston Overbid that remains after the payments to Classes 6A, 6B and 8 shall be paid to holders of Class 9 Interests in accordance with their respective percentages of ownership.

If the Weston Auction occurs, the Weston Overbid shall be paid: (i) first to the holders of the Sabra Deficiency Claim, the Sabra Option Claim, and the Unsecured Insider Claim in equal parts until they have been paid 100% of the principal amount of their Allowed Claims; and (ii) second, after all payments in subsection (i) have been made in full, to the holders of Interests in accordance with their respective percentages of ownership. In all circumstances, such payments shall be subordinated to the payments required in Sections 4.3, 4.4 and 4.7 of the Plan.

Overview of FPG Treatment

A. Intentionally Omitted.

B. Class 2 – Priority Unsecured Claims.

Unless otherwise agreed to by the parties, the FPG Purchaser shall pay each holder of an Allowed Priority Unsecured Claim in Class 2 the Allowed amount of such Claim in full in Cash, without interest, on or before the later of (a) thirty (30) days after the Effective Date, or (b) the date such Priority Unsecured Claim becomes an Allowed Claim.

C. Intentionally Omitted.

D. Class 4 -- DIP Loan Claims.

In full satisfaction of the Allowed Class 4 Claim, the FPG Purchaser shall pay the holder of the FPG DIP Loan Claim in full in Cash on the Effective Date.

E. Class 5 -- Intercompany Claim.

In full satisfaction of the Allowed Class 5 Intercompany Claim, the FPG Purchaser shall pay the Weston Purchaser in full in Cash on the Effective Date.

F. Intentionally Omitted.

G. Class 7 – General Unsecured Claims.

In full satisfaction of the Allowed Class 7 Claims, the FPG Purchaser will assume the liability for all Allowed General Unsecured Claims and shall pay each holder of an Allowed General Unsecured Claim the amount of its Allowed Claim on or before the later of (a) the date that is 30 days after the Effective Date, and (b) the date such General Unsecured Claim becomes an Allowed Claim.

H. Class 8 – Unsecured Insider Claims.

In full satisfaction of the Allowed Class 8 Claim, the FPG Purchaser shall pay the holder of the Allowed Unsecured Insider Claim: (A) following payment of any Plan Agent expenses as provided in Section 13.1 of the Plan, the amount of any FPG Overbid; plus (B) an amount equal to 50% of the principal amount of the Allowed Unsecured Insider Claim in equal monthly installments of principal with fixed interest at the rate of 8% per annum amortized over 7 years commencing on the first day of the first month following the Effective Date, continuing monthly thereafter until the earlier of: (x) the date such 50% is paid; or (y) the date on which 100% of the principal amount of the Allowed Unsecured Insider Claim is paid.

If the FPG Auction occurs, the FPG Overbid shall be paid: (i) first to the holder of the Unsecured Insider Claim until it has been paid 100% of the principal amount of its Allowed Claim; and (ii) second, to the holders of Interests in accordance with their respective percentages of ownership. In all circumstances, such payments shall be subordinated to the payments required in Sections 6.2, 6.4, 6.5, and 6.7 of the Plan.

I. **<u>Class 9 – Interests</u>**.

The holders of Class 9 Interests shall retain their Interests in FPG, but because the FPG Assets are being sold, holders of Interests will not receive or retain any property under the Plan on account of such Interests; provided, however, that if the FPG Auction Occurs, any FPG Overbid that remains after the payments to Class 8 shall be paid to holders of Class 9 Interests in accordance with their respective percentages of ownership.

If the FPG Auction occurs, the FPG Overbid shall be paid: (i) first to the holder of the Unsecured Insider Claim until it has been paid 100% of the principal amount of its Allowed Claim; and (ii) second, to the holders of Interests in accordance with their respective percentages of ownership. In all circumstances, such payments shall be subordinated to the payments required in Section 6.2, 6.4, 6.5, and 6.7 of the Plan.

<u>FUNDING THE PLAN AND FEASIBILITY</u>

<u>Appointment of a Plan Agent</u>

The Plan proposes to appoint Michael S. Polsky as the plan agent (the "**<u>Plan Agent</u>**").

Mr. Polsky is a 1977 graduate of the University of Wisconsin-Madison School of Business, and a 1980 graduate of Marquette University School of Law. Mr. Polsky is a licensed Wisconsin attorney who has been practicing bankruptcy and debtor/creditor law in Wisconsin for the last 37 years. He has been listed by *Best Lawyers* annually since 2008, and listed in Wisconsin's *Super Lawyers* annually since 2005.

Mr. Polsky is admitted to practice in the Federal and Bankruptcy Court in the Western District of Wisconsin and has extensive Bankruptcy Court experience over the last 37 years. He has represented debtors, secured creditors, buyers, landlords and other parties-in-interest in numerous Chapter 11 proceedings.

For the last seventeen years, most of Mr. Polsky's legal practice has involved acting as a state court receiver under Chapter 128 of the Wisconsin Statutes. In that time, he has acted as a court-appointed receiver in 287 separate matters in Wisconsin, including several matters involving licensed health care services:

- In December, 2014, Mr. Polsky was appointed receiver of Lincoln Lutheran of Racine. Among other things, Lincoln Lutheran of Racine owned and operated Lincoln Village Convalescent Center, a 122 bed long term care nursing facility. In his capacity as receiver, Mr. Polsky oversaw the operation and going concern sale of the nursing home and the going concern sale of Lincoln Villas Senior Apartments, a 99-unit senior affordable housing complex managed by Lincoln Lutheran of Racine.

- In April, 2014, Mr. Polsky was appointed receiver over KCare, Inc. which owned 6 assisted living facilities totaling 82 beds in Vilas County, Wisconsin. In his capacity as receiver, Mr. Polsky retained a management firm to oversee the operations until January, 2017, when the receiver closed on going concern sale of the 6 assisted living facilities and the real estate which housed those facilities.

- In May, 2012, Mr. Polsky was appointed receiver of Elite Senior Living. Elite Senior Living operated a skilled nursing facility known as Wellspring of Milwaukee.

- Mr. Polsky has also served as receiver of two Managed Care Organizations that had contracts with DHS to administer the State's Family Care Program.

Mr. Polsky is familiar with the operational and regulatory issues associated with running a skilled nursing facility and with the licensing issues involved in the sale of a skilled nursing facility.

Many of the duties Mr. Polsky performs in his role as a state court receiver are the same as those that he will perform as Plan Agent in these Chapter 11 Cases. Specifically, many of the administrative matters involved overseeing operations and a commercially reasonable going concern sale or winding-down the financial affairs of a business under receivership law are the same as those which would be involved in this matter.

On the Confirmation Date, the Plan Agent shall act as agent for and manage all right, title and interests of the Debtors' Estates, their businesses and their property with sole and absolute authority to: (1) administer the tangible and intangible assets of Weston and FPG, including but not limited to all of the Debtors' licenses and certifications, during the Interim Period; (2) operate Weston and FPG's businesses during the Interim Period; (3) provide consent to the DHS and CMS to review license or certification applications submitted by the FPG Purchaser and the Weston Purchaser; (4) conduct the Weston Auction and the FPG Auction as described below; (5) wind down the affairs of Weston and FPG as described below; and (6) carry out all other duties and responsibilities described in the Plan Agent Agreement, including, without limitation, requesting plan modification(s), requesting that either of the Chapter 11 Cases be converted to Chapter 7 proceedings, and requesting Court approval of supplemental auction procedures, and accessing, modifying, and otherwise controlling Debtors' bank accounts including Debtors' electronic fund transfer accounts. The Plan Agent will be authorized to operate the Facility on the Confirmation Date. The Plan Agent may employ one or more professionals as the Plan Agent deems necessary during and after the Interim Period, and shall engage the Manager to manage and operate the Debtors' businesses during the Interim Period.

The Manager shall be Health Dimensions Group. Health Dimensions Group is a senior living and health care management consulting firm based in Minnetonka, Minnesota, operating skilled nursing, assisted living, and memory care facilities as well as providing services for over 20 years. Health Dimensions Group has the expertise to operate facilities that deliver high levels of care as well as manage the regulatory and reimbursement environment of skilled nursing operations. It has also been successful at taking over and turning around skilled nursing facilities and senior housing properties that were performing poorly and had experienced regulatory issues. Sabra brought Health Dimensions Group in to turn around and operate a skilled nursing project in the Minneapolis area that had encountered multiple issues. Health Dimensions Group is familiar with Weston and FPG, having been brought in as a consultant by prior ownership shortly after Browns Living, L.L.C. terminated its management agreement. Debtors have disclosed that Health Dimensions Group holds a Claim against Weston in the amount of $72,851.

The Auctions

The Plan proposes to sell all of the assets of Weston (the "**Weston Assets**") through an auction (the "**Weston Auction**") to be conducted by the Plan Agent, an independent third-party. Through the Plan, Sabra submitted an opening bid for the Weston Assets pursuant to which Sabra shall purchase the Weston Assets by $13,000,000 credit bid of the Allowed Sabra Claim, and shall assume the Claim liabilities described in Articles II and IV of the Plan pursuant to the Weston Asset Purchase Agreement to be filed as a Supplemental Plan Document.

The Plan also proposes to sell all the assets of FPG (the "**FPG Assets**") through an auction (the "**FPG Auction**") to be conducted by the Plan Agent. Through the Plan, Sabra submitted an opening bid for the FPG Assets pursuant to which Sabra will purchase the FPG Assets for the dollar amount equal to the sum of the FPG Assumed Liabilities, in accordance with the FPG Asset Purchase Agreement to be filed as a Supplemental Plan Document.

The Plan establishes bidding procedures whereby interested parties can submit bids for the purchase of the Weston Assets and/or the FPG Assets. The bidding process will be overseen by the Plan Agent. The Plan also establishes procedures for both the Weston Auction and the FPG Auction in the event a party other than Sabra submits a bid for the Weston Assets and/or the FPG Assets. In the event there is an auction, the auction will be conducted by Plan Agent, and the Plan Agent will select a back-up bidder that is obligated to close in the event that the winning bidder does not close.

If there are no bids other than Sabra's opening bid for the Weston Assets, then the Weston Assets will be sold to Sabra. Sabra's Secured Claim will be satisfied, Sabra will waive payment on the Sabra Deficiency Claim, and the Sabra Option Claim, and Sabra, as the Weston Purchaser, will assume and pay certain Plan liabilities.

If the Weston Auction is conducted, the proceeds of the Weston Auction will be used to satisfy the Sabra secured debt. In addition, the Weston Purchaser will be required to assume and pay certain Plan liabilities. Creditors not otherwise paid in full stand to receive more in the event of a Weston Overbid.

If there are no bids other than Sabra's opening bid for the FPG Assets, then the FPG Assets will be sold to Sabra. Sabra, as the FPG Purchaser, will assume and pay certain Plan liabilities.

If the FPG Auction is conducted, the proceeds of the FPG Auction, will be used to pay certain plan liabilities. Creditors not otherwise paid in full stand to receive more in the event of an FPG Overbid.

Issuance of New Facility Licenses

There are two licenses issued by DHS that are central to the licensing and approvals process. The SNF also requires Medicare and Medicaid certifications, in addition to its license.

Weston

Weston operates a licensed assisted living facility (License Number 0014504).

Change of Ownership ("**CHOW**") applications for the license must be submitted, along with additional documentation in support of the CHOW application. The Bureau of Assisted Living within the DHS Division of Quality Assurance has developed a centralized submission process for assisted living applications. Review is by regulation to be completed within 70 days of application.

FPG

FPG operates a licensed nursing facility (License No. 5040). It is certified to participate in both Medicare and Medicaid programs. The Medicare provider agreement will be assumed by FPG and assigned to the FPG Purchaser, whereas the new operator will obtain a Medicaid provider agreement between it and the State of Wisconsin.

The approvals necessary to transfer FPG's licenses are the CHOW for both the state-issued license and the Medicare certification through CMS. At the state level, the FPG Purchaser must submit the license application and required additional documents to the DHS Division of Quality Assurance for review to determine if applicant is "fit and qualified" per the requirements of Wis. Stat. Ch. 50 and Wis. Admin. Code Ch. DHS 132. The Division of Quality Assurance has sixty (60) days from submission to review and process a complete application.

For the Medicare certification, both FPG (through the Plan Agent) and the FPG Purchaser must submit an application indicating submission of the CHOW. The information is submitted to a fiscal intermediary for initial processing. Upon completion of the review, the intermediary submits the Medicare CHOW to CMS, who then provides initial approval to DHS. The FPG Purchaser will operate under FPG's Medicare certification until the Medicare "tie-in" notice is provided recognizing the CHOW. The FPG Purchaser will assume FPG's Medicare certification, including compliance and billing history. The Medicare certification process can take several months from submission until CHOW approval.

Medicaid certification is much less difficult than Medicare, in that new operator, prior to operations transfer, makes application to participate in the Wisconsin Medical Assistance program. Timely and complete application should allow for Medicaid certification for new operator as of operations transfer date.

Once the Plan Agent is appointed, and when the Weston Purchaser and the FPG Purchaser are prepared to submit the three licenses, the Plan Agent will develop an authorization letter to the applicable licensing officials indicating that licensee authorizes the DHS to review the CHOW application submitted by the Purchasers.

<u>Operation of the Debtors During the Sales Process</u>

The Plan Agent, upon confirmation of the Plan, will assume operational authority for both Weston and FPG. The Plan Agent will engage the Manager, Health Dimensions Group, a qualified management company, to run the operations pending sales. The Plan Agent will notify DHS officials to inform the officials as to the new management company. Any changes in the Nursing Home Administrator or Director of Nursing will be provided to the DHS Division of Quality Assurance. The Plan Agent will also provide any additional required notices, including but not limited to notices to the Wisconsin Bureau of Assisted Living.

The SNF and the ALF will remain under their current licenses, with the Plan Agent authorized to act as the agent of licensees.

There is a risk that the Weston Purchaser and/or the FPG Purchaser will not receive all necessary licenses and approvals, and that the Plan Agent will be required to take further action to transfer ownership and management to entities that are authorized and able to operate the ALF and the SNF. Sabra believes that any risk associated with issuance of licenses or the auctions will be mitigated by the Plan Agent's review and evaluation of bids, if necessary with the assistance of counsel, for multiple factors including the bidder's eligibility and qualifications for issuances of licenses from DHS and ability to close the transactions on a timely basis.

<u>Financial Viability of the Debtors</u>

Sabra's monthly projections from 2017 through 2019 are included as **Exhibit 2** to the Disclosure Statement. Funding of the Cash payments due on the Effective Date will be from the proceeds of the Weston Auction and the FPG Auction. Funding of the Plan's future installments to creditors will come from the normal operations of the Debtors' business after confirmation of the Plan. In addition, because the Plan requires not just the payment of the Claims, but the assumption of the liabilities by the Weston Purchaser or the FPG Purchaser, as appropriate, any payments that cannot be covered by operations must still be paid by the relevant purchaser from its general assets.

The projections were prepared by Sabra, with input from their accountants and attorneys. Future projections were determined by reviewing (i) historical revenues and expenses of the Debtors, (ii) the Debtors' current operations, (iii) anticipated events that may impact the ability to operate positively and negatively, and (iv) the obligations that will be owed pursuant to the Plan.

In general, Sabra believes that its projections are more realistic than Debtors'. First, the projections are more consistent with the Debtors' past performance. Second, the projections assume a slower and more gradual increase in performance. Finally, the projections are more consistent with industry standards. In this way, Sabra believes that its projections give creditors more certainty and a better likelihood of receiving full payment.

Financial Details For Weston (the ALF)

The projections assume that Weston's initial census will be 43, and that the census will increase by one patient per month until it stabilizes at 51 patients, which is about 85% occupancy. While this is somewhat lower than industry average, Sabra believes that this assumption is more consistent with Weston's actual performance, and is, therefore, more realistic. Revenue from room, board and services is a function of the number of residents in the ALF with resident rates increasing annually, compared with the Debtors' projections where residents are charged monthly increases.

Variable expenses are increased based on industry standard amounts per occupied bed or unit which is increased annually. Fixed expenses are increased by the addition of a full-time activities director, higher maintenance costs offset by the removal of substantial legal fees included in the Debtors' Weston projections. Fixed and variable costs are increased annually by 2.5%.

Additionally, the projections include a reserve for capital expenditures of $500 per unit per year. This ensures that the ALF will have sufficient funding to repair or replace furnishings, finishes and equipment that need to be addressed during the course of normal operations in order to ensure that the Facility remains competitive and attractive to residents. The Debtors' projections do not include such reserves or planned expenditures.

The projections also remove debt service associated with the Sabra Loan as it is assumed that the Weston Purchaser will acquire the Facility by credit bid or with cash.

Financial Details for FPG (the SNF)

The projections assume that FPG's January census is 18 patients, and that the census will increase by 1.5 patients per month until it stabilizes at 29.5 patients, reflecting 84% occupancy. This is in line with FPG's projections, although the ramp-up in occupancy is quicker in FPG's projections. Sabra's assumptions for rates per-patient- day are not increased throughout the projection period except for "private pay." In addition, the projections assume that the payor mix includes some Medicaid patients and does not optimize payor mix to maximize revenue, a conservative approach.

Sabra's projections eliminate FPG's payment of the ALF's payroll. Sabra's expenses include a management fee using a market rate of 5% of revenue, and a rent expense assuming 39% of 8% of $13,000,000, in line with the terms of the existing lease.

Additionally, the projections include a reserve for capital expenditures of $1,000 per unit per year. This ensures that the ALF will have sufficient funding to repair or replace furnishings, finishes and equipment that need to be addressed during the course of normal operations in order to ensure that the Facility remains competitive and attractive to residents. The Debtors' projections do not include such reserves or planned expenditures.

Sabra Has Waived the Election under 11 U.S.C. § 1111(b).

At the hearing on Debtors' Joint Disclosure Statement, Sabra waived its option to elect to have its Claims against Weston be treated as fully secured pursuant to § 1111(b) of the Bankruptcy Code.

VOTING AND CONFIRMATION

Voting

Creditors are entitled to vote on confirmation of the Plan unless (i) the Class is unimpaired (presumed to accept) or is to receive no distribution (presumed to reject); (ii) an objection or adversary proceeding has been filed with respect to that creditor's Claim; or (iii) the Claim is unclassified (required by law to be paid in full). A creditor whose Claim has been objected to and who wishes to vote must move to have its Claim allowed for voting purposes by filing a motion for such relief in time for that motion to be heard at or before the confirmation hearing.

All ballots must be received on or before **5:00 pm (Central Time)** on July 24, 2017. Ballots should be delivered to Sabra's counsel:

Frank W. DiCastri
HUSCH BLACKWELL LLP
555 E. Wells Street, Suite 1900
Milwaukee, WI 53202
Telephone: (414) 273-2100
Fax: (414) 223-5000
frank.dicastri@huschblackwell.com

Ballots may be mailed, hand-delivered, delivered by overnight courier, e-mailed, or faxed.

If you do not vote to accept the Plan, or if you are the holder of an Impaired Claim, you may be bound by the Plan if it is accepted by the requisite holders of the Claims.

If you have any questions about the procedure for voting, or if you did not receive a ballot, received a damaged ballot, or lost your ballot, please contact Frank W. DiCastri, attorney for Sabra, at (414) 978-5621, or email him at frank.dicastri@huschblackwell.com.

Confirmation Hearing

At the Confirmation Hearing, the Court will determine, among other things, whether the Plan has been accepted by each Impaired Class of creditors.

An Impaired Class is deemed to have accepted the Plan if at least two-thirds in amount and more than one-half in number of the Allowed Claims or Interests of Class members who have voted to accept or reject the Plan have voted for acceptance of the Plan. Unless there is unanimous acceptance of the Plan by the members of an Impaired Class of Claims, the Court must also determine that under the Plan the members of such Class will receive property of a value as of the Effective Date which is not less than the amount that the members of such Class would receive or retain if the Debtors' assets were liquidated under Chapter 7 of the Bankruptcy Code.

<u>Confirmation of Plan Without Necessary Acceptances</u>.

The Plan may be confirmed even if it is not accepted by one or more classes if (a) the Plan is accepted by at least one Impaired Class of Claims, and (b) the Court finds that the Plan does not discriminate unfairly against, and is fair and equitable as to each Impaired Class which has not accepted the Plan.

SABRA MAY SEEK CONFIRMATION UNDER 11 U.S.C. § 1129(B) IF LESS THAN THE REQUIRED CLASSES VOTE TO ACCEPT THE PLAN.

With respect to secured Claims, "fair and equitable" means the secured creditors must (a) receive deferred cash with payments equal in value to the value of their Claims and retain the lien securing their secured Claims, (b) receive a lien on the proceeds of the sale of the property securing their liens, or (c) receive the indubitable equivalent of their Claims.

With respect to unsecured Claims, "fair and equitable" means that (a) unsecured creditors must receive or retain on the Effective Date property equal to the Allowed amount of the Claim or (b) holders of Claims or Interests junior to those creditors will not receive or retain any property.

<u>TREATMENT OF EXECUTORY CONTRACTS</u>

<u>Assumed Contracts</u>

As part of the Plan, the Debtors will assume and assign, as modified in the Plan, the Facility Lease between them (as modified, the Facility Lease is referred to as the "**<u>Modified Facility Lease</u>**"). The modifications include a revision to the calculation of the annual rent payment determined in connection with the "Property Loan and/or Real Estate Investment Trust Payment" (as such term is used in the Facility Lease) to reflect the sale of the Weston Assets; the addition of standard terms regarding approval of third-party agreements for operation of the SNF; and the addition of certain default provisions.

The defaults and other amounts due under the Facility Lease will be cured and paid pursuant to the Plan.

Any and all Resident Contracts that have not otherwise (i) expired by their own terms prior to the Confirmation Date, or (ii) been rejected by the Debtors by motion or within this Plan, shall be assumed by the Debtors on the Effective Date, and assigned to the Weston Purchaser in the case of Weston and to the FPG Purchaser, in the case of FPG. All parties to each Resident Contract shall retain their contractual rights pursuant to the terms of such Resident Contract. The Debtors disclosed that they are not in default of the Resident Contracts and therefore there are no cure amounts due. Any resident trust funds and/or security deposits will be transferred in accordance with applicable law.

FPG will assume and assign the Medicare provider agreement to the FPG Purchaser on the Effective Date. The assumption and assignment of the Medicare provider agreement will be pursuant to certain conditions mandated by CMS. These conditions are described in detail in the Plan.

Additionally, unless otherwise rejected by a motion filed with the Court and served on interested parties, the Debtors shall assume all executory contracts that may exist for services with various vendors, including medical providers, utility providers, garbage, internet, cable television, water, electricity, as well as any insurance policy of the Debtors.

Rejected Contracts

Unless otherwise specifically assumed in the Plan or prior to confirmation of the Plan by an appropriate motion filed with the Court, **all other executory contracts and unexpired leases not by then assumed or rejected pursuant to a Final Order of the Court shall be deemed rejected pursuant to the Plan as of the Confirmation Date. For the avoidance of doubt, any contract or agreement, whether oral or written between one or both Debtors, on the one hand, and Castleberg, Anchor, or any other Castleberg-related entity, on the other hand, shall be rejected on the Confirmation Date.**

Proofs of Claim(s) for damages arising out of the rejection of an executory contract or unexpired lease pursuant to the Plan must be filed with the Court no later than thirty (30) days after the Confirmation Date. **All such Claims not filed within this time shall be forever barred and extinguished against the Debtors, their Estates, the Weston Purchaser, and the FPG Purchaser.**

LIQUIDATION ANALYSIS

In a chapter 7 liquidation scenario, Sabra estimates that unsecured creditors would be paid 0% of their Claims at Weston, and far less than 100% of their Claims at FPG.

Weston Analysis

The value of the Facility owned by Weston is based off of the tax-assessed valuation by Marathon County, which indicates that the land (real estate) is valued at $804,400 and the building (the Facility) is valued at $11,976,800 for a total of $12,781,200. Marathon County also estimates the fair market value (for the land and building together) to be $11,853,100, which is less than the assessed value. The cost of construction of the Facility was approximately $12,000,000. Weston has disclosed its belief that the Weston Assets have an estimated total value of $13,000,000. Consequently, Sabra’s Claim against Weston of not less than $17,773,438 would not be paid in full. Because Sabra’s secured Claim would take priority over all lower classes, including all unsecured creditors, unsecured creditors would receive nothing in the event of liquidation.

FPG Analysis

FPG has no real estate assets. Based on its schedules, FPG's assets and liabilities are as follows:

Assets:	*Scheduled*	*Estimated Liquidation Value*
Bank Account Balances	$104,216.88	$104,216.88
Pre-paid Rent to Weston	$820,387.27	$0.00[a]
Accounts Receivable	$83,269.57	$83,269.57
Personal Property	$30,892.11	$30,892.11
SNF Bed Licenses	$875,000.00[b]	Unknown
Totals:	**$1,913,765.83**	**$218,378.56**

Liabilities:	
Chapter 11 Administrative Claims	$380,600.00
Priority Unsecured Claims	$218,374.00
FPG DIP Loan Claim	$500,000.00
Chapter 7 Administrative Claims	$25,000.00
Totals:	**$1,123,974**

Notes:
[a] Debtors assert that certain pre-paid rent held by Weston was offset by Weston as part of its filed Claim against FPG (*see* Claim No. 7.) Assuming the set-off was appropriate and the Debtors representation regarding the amount of the Intercompany Claims is accurate, the resulting value of any pre-paid rents would be $0.00 and no available amounts would be available to distribute in liquidation.
[b] The scheduled value of the SNF bed licenses was based off of the original book value on FPG's books.

FPG's most valuable asset is the SNF's bed licenses. In a liquidation scenario, Debtors assert that FPG's licenses would not be transferrable to any third-party purchaser (unless Castleberg retained a 33% interest in such purchaser), and therefore would not be saleable or otherwise transferable. Therefore, FPG estimates a value of $0.00 for the bed licenses in the event of liquidation.

FPG asserts that FPG's liquidation value of the assets other than the SNF's bed licenses ($218,378.56) would not even cover Administrative Claims of FPG—let alone Priority Unsecured Claims or the FPG DIP Loan Claim (secured by all of FPG's property). As a result, FPG believes it is unlikely that funds would be available in a liquidation for distribution to unsecured creditors in any class.

Sabra believes, on the other hand, that a liquidation sale of all of FPG's tangible and intangible assets would be possible as a "change of ownership" controlled by Chapter 50 of the Wisconsin Statutes, which requires, among other things, that the buyer be approved as a nursing home operator and that a new license be issued to the buyer. If the SNF's tangible and intangible assets were valued at $1,093,378 to include FPG's estimated value of the bed licenses, there would not be any funds left to satisfy General Unsecured Claims and Intercompany Claims (putting aside Unsecured Insider Claims for purposes of this analysis), which total $724,753. That is, the holders of General Unsecured Claims and Intercompany Claims against FPG would receive no distribution on account of their Claims in a liquidation scenario, compared to the 100% they stand to receive under the Plan.

Based on the Debtors' representations, it does not appear that either Debtor has valuable claims or Causes of Action except potential claims and Causes of Action against Insiders and the holders of Disputed Claims. However, the Debtors have not provided information regarding the investigation of payments to Insiders. Accordingly, while the Plan waives Causes of Action against most creditors, it does not waive Causes of Action against Insiders or the holders of Disputed Claims. As a result, the value of these claims, which have not yet been properly evaluated by an independent party, is preserved under the Plan for the benefit of creditors.

CERTAIN FEDERAL INCOME TAX CONSEQUENCES OF THE PLAN

THE INCOME TAX LAWS APPLICABLE TO RECEIVING A DISTRIBUTION OR DEDUCTING A LOSS FROM A BANKRUPT ESTATE ARE COMPLEX. SABRA HAS NOT REQUESTED A RULING FROM THE INTERNAL REVENUE SERVICE NOR HAS SABRA OBTAINED AN OPINION OF COUNSEL WITH RESPECT TO THESE MATTERS. THUS, NO ASSURANCES CAN BE GIVEN AS TO THE TAX CONSEQUENCES OF THE PLAN. EACH HOLDER OF A CLAIM SHOULD CONSULT ITS TAX ADVISOR TO UNDERSTAND FULLY THE FEDERAL, STATE AND LOCAL TAX CONSEQUENCES TO THEM OF THE PLAN.

Tax Consequences to Creditors

A creditor that receives Cash in satisfaction of its Claim will generally recognize gain or loss in an amount that is equal to the difference between (i) the amount of Cash received by such creditor in respect of its Claim (excluding any Cash received in respect of a Claim for accrued interest) and (ii) the creditor's tax basis in its Claim. The character of any gain or loss recognized as long-term or short-term capital gain or loss or as ordinary income or loss will be determined by a number of factors, including, among other things, the tax status of the creditor, whether the Claim constitutes a capital asset in the hands of the creditor, whether the Claim has been held for more than one year, and whether and to what extent the creditor previously claimed a bad debt deduction (or charged a reserve for bad debts) with respect to the Claim. In the case of a Cash basis creditor, any amounts received that are allocable to a Claim for accrued interest (unless previously reported as taxable income by the creditor) may be includable as interest income. In the case of an accrual basis creditor, any amounts received that are allocable to a Claim for accrued interest, to the extent not previously included in gross income, may be includable as interest income. The extent to which consideration distributable under the Plan is allocable to such interest is not clear. Creditors are advised to consult their own tax advisors to determine the amount, if any, of consideration received under the Plan that is allocable to interest.

DISPUTED CLAIMS

If any objection or opposition is made to the allowance of the Claim or Interest of any creditor hereunder and such objection or opposition is pending on the date that payments or distributions are to be made under the Plan, then no payment or distribution shall be made to such creditor until an order of the Court determining the validity and amount of such Claim or Interest is entered and no longer subject to further review or appeal, at which time such payment and distribution of the amount awarded such creditor shall be made.

Debtors disclose, or it otherwise appears, that the following Claims will be "Disputed Claims," which will not receive a distribution unless and until such Claims are Allowed by a Final Order: Anchor, Castleberg, Copeland Building Corporation; Group; Hoff, Barry & Kozar; Murdrovich Architects; Sysco Baraboo, LLC. If no objection is filed with respect to these Claims on or before the Claim Objection Deadline, then such Claims shall be considered Allowed notwithstanding this provision.

Unless the Court orders otherwise, objections to Claims are due on or before the date that is 90 days after the Effective Date (the "**Claim Objection Deadline**").

EFFECTS OF CONFIRMATION

Limitation of Liability

Upon entry of the Confirmation Order, so long as the Exculpated Parties comply with the terms and provisions of this Plan, none of the Exculpated Parties shall have or incur any liability for, and each of the Exculpated Parties shall be released from, any Claim, Cause of Action or liability to any Party-in-Interest, for any act or omission that occurred during and in connection with the Chapter 11 Cases or in connection with the preparation and filing of the Chapter 11 Cases, the negotiation and consummation of the Weston Auction and the FPG Auction, the formulation, negotiation, and/or pursuit of confirmation of the Plan, the consummation of the Plan, and/or the administration of the Plan and/or the property to be distributed under the Plan, except for Claims, Causes of Action or liabilities arising from the willful misconduct, fraud, or breach of the fiduciary duty of loyalty, in each case subject to determination of such by Final Order of a court of competent jurisdiction and provided that the Exculpated Parties shall be entitled to reasonably rely upon the advice of counsel with respect to its duties and responsibilities (if any) under the Plan. Without limiting the generality of the foregoing, Sabra and its officers, members, employees, attorneys, financial advisors, and other Professionals shall be entitled to and granted the benefits of § 1125(e) of the Bankruptcy Code.

Plan Injunction

Except as otherwise expressly provided in the Plan or in the Confirmation Order, on the Effective Date, all Persons who have held or asserted, hold or assert, or may in the future hold or assert a Claim that was or could have been brought in these Chapter 11 Cases shall be permanently stayed, enjoined, and restrained from taking any action, directly or indirectly, for the purposes of asserting, enforcing, or attempting to assert or

enforce any Claim, including: (i) commencing or continuing in any manner, any action or any other proceeding of any kind with respect to any Claim against the Debtors, the Plan Agent, the Weston Purchaser, the FPG Purchaser, or the property of the Weston Purchaser or the FPG Purchaser; (ii) seeking the enforcement, attachment, collection, or recovery by any manner or means of any judgment, award, decree, or order against the Debtors, the Plan Agent, the Weston Purchaser, the FPG Purchaser, or the property of the Weston Purchaser or the FPG Purchaser; (iii) creating, perfecting, or enforcing any encumbrance or lien of any kind against the Debtors, the Plan Agent, the Weston Purchaser, the FPG Purchaser, or the property of the Weston Purchaser or the FPG Purchaser; (iv) asserting any setoff right of subrogation, or recoupment of any kind against any obligation due to the Weston Purchaser or the FPG Purchaser with respect to any Claim; and (v) taking any act, in any manner and in any place whatsoever, that does not conform to or comply with provisions of the Plan. In the event any Person takes any action that is prohibited by, or is otherwise inconsistent with the provisions of this injunction, the Plan or Confirmation Order, then, upon notice to the Court by an affected party, the action or proceeding in which the Claim of such Person is asserted will automatically be transferred to the Court or the District Court for enforcement of the Plan. In a successful action to enforce the injunctive provisions of this paragraph in response to a willful violation thereof the moving party may seek an award of costs (including reasonable attorneys' fees) against the non-moving party, and such other legal or equitable remedies as are just and proper, after notice and a hearing.

Vesting of Assets

Except as otherwise provided in the Plan or the Confirmation Order, upon occurrence of the Effective Date, all assets of Weston shall vest in the Weston Purchaser free and clear of all Claims, liens, encumbrances and Interests except as provided in the Plan.

Except as otherwise provided in the Plan or the Confirmation Order, the Confirmation Order, upon occurrence of the Effective Date, all assets of FPG shall vest in the FPG Purchaser free and clear of all Claims, liens, encumbrances and Interests except as provided in the Plan.

Binding Effect of Plan

The provisions of the Plan shall be binding upon the Debtors and any creditor, whether or not such creditor has accepted the Plan and regardless of whether the Claims of such creditor are Impaired under the Plan. Creditors are enjoined from pursuing Claims against the Debtors, the Plan Agent, the Weston Purchaser, and the FPG Purchaser except as provided in this Plan.

CONCLUSION

Sabra proposes its Plan because it believes the Plan is in the best interests of all parties. The Plan maximizes the value of the Debtors' businesses as going concerns. For these reasons, Sabra requests that creditors vote in favor of the Plan and specifically indicate their preference for the Plan on the enclosed ballot.