

# SECURITIES AND EXCHANGE COMMISSION

## FORM 10KSB/A

Annual and transition reports of small business issuers [Section 13 or 15(d), not S-B Item 405]  
[amend]

Filing Date: **1996-08-26** | Period of Report: **1995-12-31**  
SEC Accession No. **0000930661-96-001130**

([HTML Version](#) on [secdatabase.com](http://secdatabase.com))

### FILER

#### GREENBRIAR CORP

CIK: **105744** | IRS No.: **752399477** | State of Incorporation: **NV** | Fiscal Year End: **1231**  
Type: **10KSB/A** | Act: **34** | File No.: **000-08187** | Film No.: **96620741**  
SIC: **8051** Skilled nursing care facilities

Mailing Address  
4265 KELLWAY CIRCLE  
ADDISON TX 75244

Business Address  
4265 KELLWAY CIRCLE  
ADDISON TX 75244  
2144078400

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION

FORM 10-KSB/A  
(Amendment No. Four)

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE  
ACT OF 1934

For the fiscal year ended December 31, 1995

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES  
EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 0-8187

GREENBRIAR CORPORATION

(Formerly Medical Resource Companies of America)

(Name of Small Business Issuer in its charter)

Nevada

75-2399477

(State or other jurisdiction of  
incorporation or organization)

(I.R.S. Employer  
Identification No.)

4265 Kellway Circle, Addison, Texas

75244

(Address of principal executive offices)

(Zip Code)

Issuer's telephone number, including area code: (214) 407-8400

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class -----	Name of Each Exchange on Which Registered -----
Common Stock, \$.01 par value	American Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Check whether the issuer (1) filed all reports required to be filed by Section  
13 or 15(d) of the Securities Exchange Act of 1934 during the past 12 months (or  
for such shorter period that the issuer was required to file such reports), and  
(2) has been subject to such filing requirements for the past 90 days.

YES X NO

-----

Check if there is no disclosure of delinquent filers in response to Item 405 of  
Regulation S-B contained in this form, and no disclosure will be contained, to  
the best of issuer's knowledge, in definitive proxy or information statements  
incorporated by reference in Part III of this Form 10-KSB or any amendment to  
this Form 10-KSB.

The issuer's revenues for its most recent fiscal year were: \$ 9,710,000

The aggregate market value of the voting stock held by non-affiliates of the  
issuer, computed by reference to the closing sales price on March 26, 1996, was  
approximately \$14,200,000.

At March 26, 1996, the issuer had outstanding approximately 3,440,000 shares of  
par value \$.01 common stock.

Documents Incorporated by Reference

Part III of this Annual Report on Form 10-KSB incorporates certain information  
by reference from the definitive Proxy Statement for the registrant's Annual  
Meeting of Stockholders held on May 24, 1996.

Transitional Small Business Disclosure Format (check one):

Yes

-----

No X

-----

ITEM 7: FINANCIAL STATEMENTS

-----

The financial statements required by this Item begin at page F-1  
hereof.

(a) The following exhibits required to be filed by Item 601 of Regulation S-B are filed as part of this Annual Report on Form 10-KSB:

Exhibit Number	Description of Exhibits
3.1	Articles of Incorporation of Medical Resource Companies of America ("Registrant") (filed as Exhibit 3.1 to Registrant's Form S-4 Registration Statement, Registration No. 33-55968, and incorporated herein by this reference).
*3.1.1	Restated Articles of Incorporation of Greenbriar Corporation.
3.2	Bylaws of Registrant (filed as Exhibit 3.2 to Registrant's Form S-4 Registration Statement, Registration No. 33-55968, and incorporated herein by this reference).
3.2.1	Amendment to Section 3.1 of the Bylaws of Registrant adopted upon approval of the Merger (filed as Exhibit 3.2.1 to Registrant's Form S-4 Registration Statement, Registration No. 33-55968, and incorporated herein by this reference).
*3.3	Certificate of Decrease in Authorized and Issued Shares.
4.1	Certificate of Designations, Preferences and Rights of Preferred Stock dated October 7, 1992 relating to Registrant's Series A Preferred Stock (filed as Exhibit 4.1 to Registrant's Form S-4 Registration Statement, Registration No. 33-55968, and incorporated herein by this reference).
4.1.2	Certificate of Designations, Preferences and Rights of Preferred Stock dated May 7, 1993, relating to Registrant's Series B Preferred Stock (filed as Exhibit 4.1.2 to Registrant's Form S-3 Registration Statement, Registration No. 33-64840, and incorporated herein by this reference).
4.1.3	Certificate of Designations, Preferences and Rights of Preferred Stock dated August 18, 1993, relating to Registrants' Series C Preferred Stock (filed as Exhibit 4.1.3 to Registrant's Form 10-KSB for the year ended December 31, 1993).
*4.1.3.1	Amendment to Certificate of Designations, Preferences and Rights of Preferred Stock dated August 18, 1993, relating to Registrants' Series C Preferred Stock.
*4.1.4	Certificate of Designations, Preferences and Rights of Preferred Stock dated March 15, 1996, relating to Registrants' Series D Preferred Stock.
*4.1.5	Certificate of Designations, Preferences and Rights of Preferred Stock dated March 15, 1996, relating to Registrants' Series E Preferred Stock.
4.3.2	Registration Rights Agreement dated April 27, 1990 between Registrant's predecessor and International Health Products, Inc. (assumed by Registrant), which has been assigned to JRG Investments, Inc., relating to 4,150,000 shares of Registrant's Common Stock, the benefits of which were further assigned to Professional Investors Insurance, Inc. as to 600,000 shares in November 1992 (filed on June 5, 1990, as an Exhibit to the Registrant's predecessor's Current Report on Form 8-K and incorporated herein by reference).

2

Exhibit Number	Description of Exhibits
4.3.3	Form of Assignment of Registration Rights Agreement dated September 30, 1992 between JRG Investments, Inc. and Professional Investors Insurance, Inc. relating to 600,000 shares of Registrant's Common Stock (filed as Exhibit 4.3.3 to Registrant's Form S-4 Registration Statement, Registration No. 33-55968, and incorporated herein by this reference).
4.4	Form of Registration Rights Agreement dated December 1, 1991 between Registrant and W. Michael Gilley (filed as Exhibit 4.4 to

- 4.5.1 Stock Purchase Agreement dated May 7, 1993 for the purchase of Complete Corporation and Remuda Acquisition Corporation (filed as Exhibit 4.5.1 to Registrant's Form 10-KSB for the year ended December 31, 1993).
- 4.5.2 Registration Rights Agreement dated May 7, 1993 granted to the shareholders of Complete Corporation and Remuda Acquisition Corp. (filed as Exhibit 4.5.2 to Registrant's Form 10-KSB for the year ended December 31, 1993).
- 4.5.3 Agreement and Plan of Merger dated June 30, 1994 with New Life Treatment Centers, Inc. relating to the disposition of Remuda Ranch Center for Anorexia and Bulimia, Inc. (filed as Exhibit 4.5.3 to Registrant's Form 10-KSB for the year ended December 31, 1994).
- 4.5.4 Amended and Restated Certificate of Incorporation of New Life Treatment Centers, Inc. (filed as Exhibit 4.5.4 to Registrant's Form 10-KSB for the year ended December 31, 1994).
- 4.5.5 Registration Right Agreement dated July 29, 1994 re. New Life Treatment Centers, Inc. (filed as Exhibit 4.5.5 to Registrant's Form 10-KSB for the year ended December 31, 1994).
- 4.5.6 Restricted Stock Agreement dated July 29, 1994 re. New Life Treatment Centers, Inc. (filed as Exhibit 4.5.6 to Registrant's Form 10-KSB for the year ended December 31, 1994).
- 4.6.1 Stock Purchase Agreement dated August 16, 1993 for the issuance of Series C Preferred Stock (filed as Exhibit 4.6.1 to Registrant's Form 10-KSB for the year ended December 31, 1993).
- 4.6.2 Stock Purchase Agreement dated August 16, 1993 between Clay Capital Corporation and Altman Nursing, Inc. (filed as Exhibit 4.6.2 to Registrant's Form 10-KSB for the year ended December 31, 1993).
- 4.7.1 Stock Purchase Agreement dated January 30, 1996 between Joseph L. Durant, Innovative Health Services, Inc. and Medical Resource Companies of America (filed as Exhibit 4.7.1 to Registrant's Form 8-K, dated February 20, 1996, and incorporated herein by this reference).
- 4.8.1 Stock Purchase Agreement dated March 15, 1996 between Wedgwood Retirement Inns, Inc., Victor L. Lund, Paul Dendy, Mark Hall, Frank R. Reeves, Doris Thornsbury, Teresa Waldroff and Medical Resource Companies of America (filed with Registrant's 8-K, dated March 15, 1996, and incorporated herein by this reference).
- 4.8.2 Amendment to Stock Purchase Agreement (dated March 15, 1996) dated March 15, 1996 between Wedgwood Retirement Inns, Inc., Victor L. Lund, Paul Dendy, Mark Hall, Frank R.

Exhibit Number	Description of Exhibits
	Reeves, Doris Thornsbury, Teresa Waldroff and Medical Resource Companies of America (filed with Registrant's 8-K, dated March 15, 1996, and incorporated herein by this reference).
10.1	Real Estate Lease of Alpha Mobility, Inc. (filed as Exhibit 10.1 to Registrant's Form S-4 Registration Statement, Registration No. 33-55968, and incorporated herein by this reference).
10.3.2	Form of \$62,500 Promissory Note dated December 27, 1991 payable to Registrant by Gene S. Bertcher representing the purchase price for 250,000 shares of Registrant's Common Stock (filed as Exhibit 10.3.2 to Registrant's Form S-4 Registration Statement, Registration No. 33-55968, and incorporated herein by this reference).
10.3.3	Form of Renewal of Promissory Note dated October 14, 1992 extending the maturity date of the Promissory Note referenced in Exhibit 10.3.2 (filed as Exhibit 10.3.3 to Registrant's Form S-4 Registration Statement, Registration No. 33-55968, and incorporated herein by this reference).
10.3.4	Form of Security Agreement - Pledge (Nonrecourse) between Gene S. Bertcher and Registrant securing the Promissory Note referenced in

Exhibit 13.3.2. (filed as Exhibit 10.3.4 to Registrant's Form S-4 Registration Statement, Registration No. 33-55968, and incorporated herein by this reference).

- 10.4.1 Form of Stock Option to purchase 150,000 shares of Registrant's Common Stock issued to Robert L. Griffis on October 12, 1992 (filed as Exhibit 10.4.1 to Registrant's Form S-4 Registration Statement, Registration No. 33-55968, and incorporated herein by this reference).
- 10.4.2 Form of \$75,000 Promissory Note dated October 12, 1992 payable to Registrant by Robert L. Griffis representing the purchase price for 150,000 shares of Registrant's Common Stock (filed as Exhibit 10.4.2 to Registrant's Form S-4 Registration Statement, Registration No. 33-55968, and incorporated herein by this reference).
- 10.4.3 Form of Security Agreement - Pledge (Nonrecourse) between Registrant and Robert L. Griffis securing the Promissory Note referenced in Exhibit 10.4.2 (filed as Exhibit 10.4.3 to Registrant's Form S-4 Registration Statement, Registration No. 33-55968, and incorporated herein by this reference).
- 10.6.1 Form of Stock Option to purchase 100,000 shares of Registrant's Common Stock issued to Oscar Smith on October 1, 1992 (filed as Exhibit 10.6.1 to Registrant's Form S-4 Registration Statement, Registration No. 33-55968, and incorporated herein by this reference).
- 10.6.2 Form of \$50,000 Promissory Note dated October 1, 1992 payable to Registrant by Oscar Smith representing the purchase price for 100,000 shares of Registrant's Common Stock (filed as Exhibit 10.6.2 to Registrant's Form S-4 Registration Statement, Registration No. 33-55968, and incorporated herein by this reference).
- 10.6.3 Form of Security Agreement - Pledge (Nonrecourse) between Registrant and Oscar Smith securing the Promissory Note referenced in Exhibit 10.6.2 (filed as Exhibit 10.6.3 to Registrant's Form S-4 Registration Statement, Registration No. 33-55968, and incorporated herein by this reference).

4

Exhibit  
Number  
-----

Description of Exhibits  
-----

- 10.7.1 Form of Stock Option to purchase 80,000 shares of Registrant's Common Stock issued to Lonnie Yarbrough on October 12, 1992 (filed as Exhibit 10.7.1 to Registrant's Form S-4 Registration Statement, Registration No. 33-55968, and incorporated herein by this reference).
- 10.7.2 Form of \$40,000 Promissory Note dated October 12, 1992 payable to Registrant by Lonnie Yarbrough representing the purchase price for 80,000 shares of Registrant's Common Stock (filed as Exhibit 10.7.2 to Registrant's Form S-4 Registration Statement, Registration No. 33-55968, and incorporated herein by this reference).
- 10.7.3 Form of Security Agreement - Pledge (Nonrecourse) between Registrant and Lonnie Yarbrough securing the Promissory Note referenced in Exhibit 10.7.2 (filed as Exhibit 10.7.3 to Registrant's Form S-4 Registration Statement, Registration No. 33-55968, and incorporated herein by this reference).
- 10.8.1 Form of Stock Option to purchase 80,000 shares of Registrant's Common Stock issued to Dennis McGuire on October 1, 1992 (filed as Exhibit 10.8.1 to Registrant's Form S-4 Registration Statement, Registration No. 33-55968, and incorporated herein by this reference).
- 10.8.2 Form of \$40,000 Promissory Note dated October 1, 1992 payable to Registrant by Dennis McGuire representing the purchase price for 80,000 shares of Registrant's Common Stock (filed as Exhibit 10.8.2 to Registrant's Form S-4 Registration Statement, Registration No. 33-55968, and incorporated herein by this reference).
- 10.8.3 Form of Security Agreement - Pledge (Nonrecourse) between Registrant and Dennis McGuire securing the Promissory Note referenced in Exhibit 10.8.2 (filed as Exhibit 10.8.3 to Registrant's Form S-4 Registration Statement, Registration No. 33-55968, and incorporated herein by this reference).

- 10.9.1 Form of Stock Option to purchase 10,000 shares of Registrant's Common Stock issued to Michael Merrell on October 12, 1992 (filed as Exhibit 10.9.1 to Registrant's Form S-4 Registration Statement, Registration No. 33-55968, and incorporated herein by this reference).
- 10.9.2 Form of \$5,000 Promissory Note dated October 12, 1992 payable to Registrant by Michael Merrell representing the purchase price for 10,000 shares of Registrant's Common Stock (filed as Exhibit 10.9.2 to Registrant's Form S-4 Registration Statement, Registration No. 33-55968, and incorporated herein by this reference).
- 10.9.3 Form of Security Agreement - Pledge (Nonrecourse) between Registrant and Michael Merrell securing the Promissory Note referenced in Exhibit 10.9.2 (filed as Exhibit 10.9.3 to Registrant's Form S-4 Registration Statement, Registration No. 33-55968, and incorporated herein by this reference).
- 10.9.4 Form of \$187,000 promissory note dated December 29, 1994, payable to Registrant by W. Michael Gilley representing the purchase price for 150,000 shares of Registrant's Common Stock (filed as Exhibit 10.9.4 to Registrant's Form 10-KSB for the year ended December 31, 1994).

5

Exhibit Number -----	Description of Exhibits -----
10.9.5	Form of Security Agreement-Pledge between Registrant and W. Michael Gilley securing the promissory note referenced in Exhibit 10.9.4 (filed as Exhibit 10.9.5 to Registrant's Form 10-KSB for the year ended December 31, 1994).
10.9.6	Form of \$62,500 promissory note dated December 29, 1994, payable to Registrant by L.A. Tuttle representing the purchase price of 50,000 shares of Registrant's common stock (filed as Exhibit 10.9.6 to Registrant's Form 10-KSB for the year ended December 31, 1994).
10.9.7	For of Security Agreement-Pledge between Registrant and L.A. Tuttle securing the promissory note reference in Exhibit 10.9.6 (filed as Exhibit 10.9.7 to Registrant's Form 10-KSB for the year ended December 31, 1994).
10.11	Stock Exchange Agreement dated December 31, 1991 for the acquisition of CareAmerica, Inc. (filed as Exhibit 10.13 to Registrant's Annual Report on Form 10-KSB for the fiscal year ended December 31, 1991 and incorporated herein by reference).
10.12	Employment Agreement and Agreement Not to Compete between Registrant and Dennis McGuire dated November 1, 1990 (filed as Exhibit 10.12 to Registrant's Form S-4 Registration Statement, Registration No. 33-55968, and incorporated herein by this reference).
10.13	Registrant's 1992 Stock Option Plan (filed as Exhibit 10.13 to Registrant's Form S-4 Registration Statement, Registration No. 33-55968, and incorporated herein by this reference).
10.13.1	Amendment to Registrant's 1992 Stock Option Plan (filed as Exhibit 10.13.1 to Registrant's Form 10-KSB for year ended December 31, 1994).
10.20.2	Contract of Sale dated December 28, 1994 with Autumn America Retirement, Ltd. regarding the sale of Fountainview Retirement Center (filed as Exhibit 10.20.2 to Registrant's Form 10-KSB for year ended December 31, 1994).
10.20.3	Exchange Agreement dated December 20, 1994 to settle the Fountainview second mortgage profit participation, (filed as Exhibit 10.20.3 to Registrant's Form 10-KSB for year ended December 31, 1994).
10.21.1	Extended and Consolidated Promissory Note in the principal amount of \$5,700,000 dated effective May 23, 1992 payable by JRG Investment Co., Inc. to M.S. Holding Co. Corp. (filed as Exhibit 10.22.1 to Registrant's Form S-4 Registration Statement, Registration No. 33-55968, and incorporated herein by this reference).
10.21.2	Extended and Consolidated Pledge Agreement dated effective May 23, 1992 between JRG Investment Co., Inc. and M.S. Holding Co. Corp. securing the Note referenced in Exhibit 10.22.1 (filed as

Exhibit 10.22.2 to Registrant's Form S-4 Registration Statement, Registration No. 33-55968, and incorporated herein by this reference).

- 10.21.3 Pledge Agreement dated as of May 23, 1992 between James R. Gilley and M.S. Holding Co. Corp. (filed as Exhibit 10.22.3 to Registrant's Form S-4 Registration Statement, Registration No. 33-55968, and incorporated herein by this reference).

6

Exhibit Number -----	Description of Exhibits -----
10.21.4	Irrevocable Proxy from James R. Gilley to M.S. Holding Co. Corp. relating to shares of capital stock of JRG Investment Co., Inc. (filed as Exhibit 10.22.4 to Registrant's Form S-4 Registration Statement, Registration No. 33-55968, and incorporated herein by this reference).
10.21.5	Blank Assignment and Power of Attorney signed by JRG Investment Co., Inc. relating to 482,000 shares of Registrant's Common Stock (filed as Exhibit 10.22.5 to Registrant's Form S-4 Registration Statement, Registration No. 33-55968, and incorporated herein by this reference).
10.21.6	Blank Assignment and Power of Attorney signed by JRG Investment Co., Inc. relating to 1,268,000 shares of Registrant's Common Stock (filed as Exhibit 10.22.6 to Registrant's Form S-4 Registration Statement, Registration No. 33-55968, and incorporated herein by this reference).
10.21.7	Three Blank Assignments and Powers of Attorney signed by JRG Investment Co., Inc., each relating to 600,000 shares of Registrant's Common Stock (filed as Exhibit 10.22.7 to Registrant's Form S-4 Registration Statement, Registration No. 33-55968, and incorporated herein by this reference).
10.21.8	Blank Assignment and Power of Attorney signed by JRG Investment Co., Inc. relating to 2,281,818 shares of Registrant's Common Stock (filed as Exhibit 10.22.8 to Registrant's Form S-4 Registration Statement, Registration No. 33-55968, and incorporated herein by this reference).
10.21.9	Blank Assignment and Power of Attorney signed by JRG Investment Co., Inc. relating to 905,557 shares of Registrant's Series A Preferred Stock (filed as Exhibit 10.22.9 to Registrant's Form S-4 Registration Statement, Registration No. 33-55968, and incorporated herein by this reference).
10.22	Purchase and Sale Agreement dated February 1, 1993 for the purchase of nursing homes in Houston and San Antonio, Texas (filed as Exhibit 10.23 to Registrant's Form S-4 Registration Statement, Registration No. 33-55968, and incorporated herein by this reference).
10.23.3	Assets Purchase Agreement dated December 13, 1994 with Hermann Park Manor and HCCI-Houston, Inc. for the Sale of Hermann Park manor (filed as Exhibit 10.23.3 to Registrant's Form 10-KSB for the year ended December 31, 1994).
10.23.4	Assets Purchase Agreement dated December 13, 1994 with Alta Vista Nursing Center, Inc. and HCCI-Houston, Inc. for the Sale of Alta Vista Nursing Center (filed as Exhibit 10.23.4 to Registrant's Form 10-KSB for the year ended December 31, 1994).
10.25.1	Agreement dated September 14, 1994 to terminate and settle Executive Employment Agreement with Arthur G. Weiss (filed as Exhibit 10.25.1 to Registrant's Form 10-KSB for the year ended December 31, 1994).
10.30.2	Memorandum of Understanding amending Exhibit 10.30.1. (Filed as Exhibit 10.30.2 to Registrant's Form 10-KSB for the year ended December 31, 1993).
10.30.3	Letter dated January 6, 1995, terminating Stock Purchase Agreement relating to Bankers Protective Life Insurance Company. (Filed as Exhibit 10.30.3 to Registrant's Form 10-KSB for the year ended December 31, 1994).

7

Exhibit Number	Description of Exhibits
10.33	Stock Option Agreement dated November 21, 1993 between Registrant and Arthur G. Weiss. (Filed as Exhibit 10.33 to Registrant's Form 10-KSB for the year ended December 31, 1993).
10.34	Stock Option Agreement dated November 21, 1993 between Registrant and Gene S. Bertcher. (Filed as Exhibit 10.34 to Registrant's Form 10-KSB for the year ended December 31, 1993).
10.35.1	Purchase Agreement dated December 6, 1994 with Arizona Baptist Retirement Centers, Inc. for the Sale of Rivermont at the Trails. (Filed as Exhibit 10.35.1 to Registrant's Form 10-KSB for the year ended December 31, 1994).
11.1	Statement Regarding Computation of Earnings per Share of Registrant.
22.1	Subsidiaries of Registrant.
**23.1	Consent of Grant Thornton.
*27.1	Financial Data Schedule required by Item 601 of Regulation S-B.

\* Filed with the original of the Company's Annual Report on Form 10-KSB for the fiscal year ended December 31, 1995, filed with the Securities and Exchange Commission on April 14, 1996, or with Amendment No. One or Amendment No. Two to the original of the Company's Annual Report on Form 10-KSB/A, and incorporated herein by reference.

\*\* Filed herewith.

b) Reports on Form 8-K - None

8

SIGNATURES

In accordance with Section 13 or 15(d) of the Securities Exchange Act of 1934 (the "Act"), the Company has duly caused this Amendment No. Four to its Annual Report on Form 10-KSB to be signed on its behalf by the undersigned, thereunto duly authorized.

GREENBRIAR CORPORATION

August 26, 1996

By: /s/ Gene S. Bertcher

-----  
Gene S. Bertcher, Director,  
Executive Vice President and  
Chief Financial Officer  
(Principal Financial and  
Accounting Officer)

9

INDEX TO FINANCIAL STATEMENTS

<TABLE>  
<CAPTION>

	Page
<S>	----
Report of Independent Certified Public Accountants	F-2
Financial Statements	
Consolidated Balance Sheets as of December 31, 1994 and 1995	F-3
Consolidated Statements of Earnings for the years ended December 31, 1994 and 1995	F-5

Consolidated Statement of Changes in Stockholders' Equity for the years ended December 31, 1994 and 1995 F-6

Consolidated Statements of Cash Flows for the years ended December 31, 1994 and 1995 F-7

Notes to Consolidated Financial Statements F-9

</TABLE>

F-1

Report of Independent Certified Public Accountants

Board of Directors and Stockholders  
Greenbriar Corporation

We have audited the accompanying consolidated balance sheets of Greenbriar Corporation and subsidiaries as of December 31, 1994 and 1995, and the related consolidated statements of earnings, changes in stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Greenbriar Corporation and subsidiaries as of December 31, 1994 and 1995, and the consolidated results of their operations and their consolidated cash flows for the years then ended, in conformity with generally accepted accounting principles.

GRANT THORNTON LLP

Dallas, Texas  
March 8, 1996

F-2

Greenbriar Corporation

CONSOLIDATED BALANCE SHEETS  
(Amounts in thousands, except per share data)

December 31,

<TABLE>  
<CAPTION>

ASSETS	1994 -----	1995 -----	1995 Pro forma (Note O) ----- (unaudited)
<S>	<C>	<C>	<C>
CURRENT ASSETS			
Cash and cash equivalents	\$ 8,311	\$ 7,199	\$ 7,781

Accounts receivable - trade, less allowance of \$601 in 1994	1,925	23	170
Deferred income tax benefit	2,185	2,150	-
Real estate under contract of sale	14,889	-	-
Other current assets	1,455	1,536	2,017
	-----	-----	-----
Total current assets	28,765	10,908	9,968
REAL ESTATE OPERATIONS HELD FOR SALE, AT LOWER OF COST OR MARKET	3,204	3,190	5,473
NET ASSETS OF MOBILITY GROUP	3,330	3,371	3,371
INVESTMENT IN SECURITIES, AT COST	1,678	1,853	1,853
MORTGAGE NOTES RECEIVABLE	6,700	7,368	7,368
PROPERTY AND EQUIPMENT, AT COST			
Land	100	322	5,998
Buildings and improvements	767	767	45,742
Equipment and furnishings	192	203	1,786
Construction in progress	-	1,576	1,928
	-----	-----	-----
	1,059	2,868	55,454
Less accumulated depreciation	186	252	252
	-----	-----	-----
	873	2,616	55,202
RESTRICTED CASH AND INVESTMENTS	-	-	2,846
OTHER ASSETS	414	466	1,280
	-----	-----	-----
	\$44,964	\$29,772	\$87,361
	=====	=====	=====

</TABLE>

F-3

Greenbriar Corporation

CONSOLIDATED BALANCE SHEETS - CONTINUED  
(Amounts in thousands, except per share data)

December 31,

<TABLE>

<CAPTION>

	1994	1995	1995 Pro forma (Note O)
	-----	-----	-----
	<C>	<C>	(unaudited) <C>
LIABILITIES AND STOCKHOLDERS' EQUITY			
CURRENT LIABILITIES			
Note payable	\$ 5,008	\$ -	\$ -
Current maturities of long-term debt	379	8	1,525
Long-term debt collateralized by properties under contract of sale	8,933	-	-
Accounts payable - trade	1,149	412	1,360
Accrued expenses	1,753	343	1,735
Other current liabilities	1,405	130	499
	-----	-----	-----
Total current liabilities	18,627	893	5,119
LONG-TERM DEBT	1,110	901	37,218
DEFERRED INCOME TAXES	-	-	1,111
DEFERRED GAIN	3,083	3,083	3,083
STOCKHOLDERS' EQUITY			
Series A cumulative preferred stock, \$ .10 par value; liquidation value of \$1,085 in 1994; authorized, 10,000 shares; issued and			

outstanding, 1,085 shares in 1994	108	-	-
Series B cumulative convertible preferred stock, \$.10 par value; liquidation value of \$1,351 in 1994 and \$1,330 in 1995; authorized, 100 shares; issued and outstanding, 14 shares	1	1	1
Series C cumulative convertible preferred stock, \$.10 par value; liquidation value of \$2,000; authorized, issued and outstanding, 20 shares	2	2	2
Series D cumulative preferred stock, \$.10 par value authorized, 675 shares	-	-	68
Series E cumulative preferred stock, \$.10 par value authorized, 1,913 shares	-	-	191
Common stock, \$.01 par value; authorized, 20,000 shares; issued and outstanding, 3,708 and 3,452 shares in 1994 and 1995, respectively	185	35	35
Additional paid-in capital	36,442	33,957	49,633
Accumulated deficit	(12,156)	(6,584)	(6,584)
	-----	-----	-----
	24,582	27,411	43,346
Less stock purchase notes receivable (including \$2,438 from related parties)	(2,438)	(2,516)	(2,516)
	-----	-----	-----
	22,144	24,895	40,830
	-----	-----	-----
	\$ 44,964	\$ 29,772	\$87,361
	=====	=====	=====

</TABLE>

The accompanying notes are an integral part of these statements.

F-4

Greenbriar Corporation

CONSOLIDATED STATEMENTS OF EARNINGS  
(Amounts in thousands, except share data)

Years ended December 31,

<TABLE>  
<CAPTION>

	1994	1995
	-----	-----
<S>	<C>	<C>
Revenue		
Long-term care facilities	\$7,939	\$ 557
Real estate operations	2,029	666
Gain on sales of assets	4,633	7,043
Interest	418	1,205
Other	-	239
	-----	-----
	15,019	9,710
Expenses		
Long-term care facilities	5,059	322
Real estate operations	1,486	337
General and administrative	4,028	2,764
Interest	2,979	206
	-----	-----
	13,552	3,629
	-----	-----
Earnings from continuing operations before income taxes	1,467	6,081

Income tax expense	240	186
	-----	-----
Earnings from continuing operations	1,227	5,895
Discontinued operations		
Loss from operations, net of income taxes	(617)	(98)
Gain on disposal, net of income taxes	1,178	-
	-----	-----
NET EARNINGS	1,788	5,797
Preferred stock dividend requirement	(327)	(225)
	-----	-----
Earnings allocable to common stockholders	\$1,461	\$5,572
	=====	=====
Earnings per share		
Continuing operations	\$.24	\$1.60
Net earnings	\$.40	\$1.57
Weighted average number of common and equivalent shares outstanding	3,679	3,539

</TABLE>

The accompanying notes are an integral part of these statements.

F-5

Greenbriar Corporation

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY  
(Amounts in thousands)

<TABLE>  
<CAPTION>

<S>	Preferred stock		Common stock		Additional paid in capital	Accumulated deficit	Stock purchase notes receivable	Treasury stock	Total equity
	Shares	Amount	Shares	Amount					
	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Balances at January 1, 1994	1,075	\$ 107	18,395	\$ 183	\$36,132	\$ (13,616)	\$ (2,250)	\$ (7)	\$20,549
Issuance of shares	-	-	147	2	179	-	(188)	7	-
Dividends on preferred stock, including imputed dividends of \$42	44	4	-	-	131	(328)	-	-	(193)
Net earnings	-	-	-	-	-	1,788	-	-	1,788
	-----	-----	-----	-----	-----	-----	-----	-----	-----
Balances at December 31, 1994	1,119	111	18,542	185	36,442	(12,156)	(2,438)	-	22,144
Issuance of shares	-	-	116	1	77	-	(78)	-	-
Conversion of preferred stock	(1)	-	19	-	-	-	-	-	-
Conversion of subordinated debt	-	-	67	1	199	-	-	-	200
Purchase of common stock	-	-	(1,226)	(12)	(1,998)	-	-	-	(2,010)
Purchase of preferred stock	(1,085)	(108)	-	-	(976)	-	-	-	(1,084)
Dividends on preferred stock	1	-	-	-	73	(225)	-	-	(152)
One-for-five reverse stock split	-	-	(14,066)	(140)	140	-	-	-	-
Net earnings	-	-	-	-	-	5,797	-	-	5,797
	-----	-----	-----	-----	-----	-----	-----	-----	-----
Balances at December 31, 1995	34	\$ 3	3,452	\$ 35	\$33,957	\$ (6,584)	\$ (2,516)	\$ -	\$24,895
	=====	=====	=====	=====	=====	=====	=====	=====	=====

</TABLE>

The accompanying notes are an integral part of this statement.

## Greenbriar Corporation

CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Amounts in thousands)

Years ended December 31,

&lt;TABLE&gt;

&lt;CAPTION&gt;

	1994	1995
<S>	----- <C>	----- <C>
Cash flows from operating activities		
Net earnings	\$ 1,788	\$ 5,797
Adjustments to reconcile net earnings to net cash used in operating activities		
Discontinued operations	(561)	98
Depreciation and amortization	1,306	182
Gain on sales of assets	(4,633)	(7,043)
Recognition of deferred gain	(1,070)	-
Stock dividends on investment securities	-	(175)
Changes in operating assets and liabilities		
Accounts receivable	(72)	1,902
Refundable income taxes	945	-
Deferred income tax benefit	369	35
Other current and noncurrent assets	(2,381)	(9)
Accounts payable and other liabilities	818	(3,546)
	-----	-----
Total adjustments	(5,279)	(8,556)
	-----	-----
Net cash provided by (used in) operating activities of:		
Continuing operations	(3,491)	(2,759)
Discontinued operations	(231)	209
	-----	-----
Net cash used in operating activities	(3,722)	(2,550)
Cash flows from investing activities		
Proceeds from sales of assets	32,196	21,885
Proceeds from sales of discontinued operations	6,557	-
Additions to real estate	(462)	(54)
Purchase of property and equipment	(608)	(1,809)
Net cash effect of sale of subsidiary	(273)	-
Additions to mortgage notes receivable	-	(668)
Investing activities of discontinued operations	(344)	(348)
	-----	-----
Net cash provided by investing activities	37,066	19,006

&lt;/TABLE&gt;

The accompanying notes are an integral part of these statements.

## Greenbriar Corporation

CONSOLIDATED STATEMENTS OF CASH FLOWS - CONTINUED  
(Amounts in thousands)

Years ended December 31,

&lt;TABLE&gt;

&lt;CAPTION&gt;

	1994	1995
<S>	----- <C>	----- <C>
Cash flows from financing activities		
Proceeds from borrowings		

Affiliates	\$ 1,000	\$ -
Other	10,156	-
Payments on debt		
Affiliates	(1,625)	-
Other	(35,434)	(14,321)
Dividends on preferred stock	(193)	(152)
Purchase of common and preferred stock	-	(3,095)
	-----	-----
Net cash used in financing activities	(26,096)	(17,568)
	-----	-----
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	7,248	(1,112)
Cash and cash equivalents at beginning of year	1,063	8,311
	-----	-----
Cash and cash equivalents at end of year	\$ 8,311	\$ 7,199
	=====	=====

</TABLE>

See Note C for supplemental disclosure of cash flows and noncash investing and financing transactions.

The accompanying notes are an integral part of these statements.

F-8

Greenbriar Corporation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE A - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING  
POLICIES

Nature of Operations

-----

As discussed in Note B, Greenbriar Corporation (formerly Medical Resource Companies of America) has disposed of substantially all of its nonassisted-living operating assets. Its business will consist of development and operation of assisted living facilities which provide housing, hospitality and personal and healthcare services to elderly individuals. At December 31, 1995, the Company had one facility under construction and sites under contract for four facilities. In March 1996, the Company acquired a business that operates 16 facilities. See Note O.

A summary of the significant accounting policies applied in the preparation of the accompanying consolidated financial statements follows.

Principles of Consolidation

-----

The consolidated financial statements include the accounts of Greenbriar Corporation and its majority-owned subsidiaries (collectively, the Company). All significant intercompany transactions and accounts have been eliminated.

Depreciation

-----

Depreciation is provided for in amounts sufficient to relate the cost of property, plant and equipment to operations over their estimated service lives. Depreciation is computed by the straight-line method.

Profit Recognition on Sales of Real Estate

-----

Gains on sales of real estate are recognized when the requirements of Statement of Financial Accounting Standards No. 66, "Accounting for Sales of Real Estate," are met. Until the requirements for full profit recognition have been met, a transaction is accounted for using either the deposit, cost recovery, installment sale or financing method, whichever is appropriate under the circumstances.

Use of Estimates

-----  
 In preparing financial statements in conformity with generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash Equivalents  
 -----

The Company considers all short-term deposits and money market investment with a maturity of less than three months to be cash equivalents.

Impairment of Notes Receivable  
 -----

A note receivable is identified as impaired when it is probable that interest and principal will not be collected according to the contractual terms of the note agreement. The accrual of interest is discontinued on such notes, and no income is recognized until all past due amounts of principal and interest are recovered in full.

F-9

Greenbriar Corporation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

NOTE A - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Impairment of Long-Lived Assets  
 -----

The Company reviews its long-lived assets and certain identifiable intangibles for impairment when events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. In reviewing recoverability, the Company estimates the future cash flows expected to result from using the assets and eventually disposing of them. If the sum of the expected future cash flows (undiscounted and without interest charges) is less than the carrying amount of the asset, an impairment loss is recognized based on the asset's fair value.

NOTE B - DISCONTINUED OPERATIONS

In 1994, management concluded that operation of skilled medical care facilities, consisting of nursing homes and eating disorder clinics, was not in the best interest of the Company. In June 1994, the Company sold its investment in Remuda Ranch Center for Anorexia and Bulimia, Inc. for shares of the buyer's preferred stock, which is not marketable, valued at \$1,678,000. The sale resulted in a gain of \$804,000. The preferred stock bears a cumulative dividend of 8% and is convertible into shares of common stock equal to approximately 4.9% of the outstanding shares at December 31, 1995. Valuation was based on estimated discounted future cash flows. In December 1994, the Company's subsidiary, Altman Nursing, Inc., sold its two skilled nursing facilities for an aggregate price of \$6,400,000, which resulted in a gain of \$981,000. The aggregate gain of \$1,785,000 has been presented net of applicable income taxes of \$607,000.

In 1995, management decided to sell the mobility products segment. The segment was sold in February 1996 for stock and notes valued at approximately \$4,300,000. A gain of approximately \$930,000, less applicable income taxes, will be recorded in the first quarter of 1996.

Summarized balance sheet data for the mobility products segment is as follows (amounts in thousands):

<TABLE>  
 <CAPTION>

	December 31,	
	1994	1995
	-----	-----
<S>	<C>	<C>
Assets		
Current assets		
Cash	\$ 65	\$ 220
Inventories	370	363

Other	158	174
	-----	-----
Total current assets	593	757
Net property, plant and equipment	1,052	989
Other noncurrent assets, primarily goodwill and patents	1,945	1,811
	-----	-----
	3,590	3,557
Liabilities		
Current liabilities	260	186
	-----	-----
Net assets	\$3,330	\$3,371
	=====	=====

</TABLE>

F-10

Greenbriar Corporation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

NOTE B - DISCONTINUED OPERATIONS - Continued

The operations of the skilled medical care segment and the mobility products segment have been presented in the accompanying financial statements as discontinued operations.

Summarized operating results of these segments are as follows (in thousands):

<TABLE>  
<CAPTION>

	1994	1995
	-----	-----
<S>	<C>	<C>
Revenues	\$13,581	\$2,027
	=====	=====
Loss before income taxes	\$ (935)	\$ (149)
Income tax benefit	(318)	(51)
	-----	-----
Net loss from operations	\$ (617)	\$ (98)
	=====	=====

</TABLE>

NOTE C - CASH FLOW INFORMATION

Supplemental information on cash flows and noncash investing and financing transactions is as follows (in thousands):

<TABLE>  
<CAPTION>

	Years ended December 31,	
	1994	1995
	-----	-----
<S>	<C>	<C>
Supplemental cash flow information		
Interest paid	\$ 3,722	\$ 211
Income taxes paid	27	46
Supplemental data on noncash investing and financing activities		
Stock dividend paid on preferred shares	93	73
Sale of stock in exchange for notes receivable from employees and officers	186	78
Conversion of subordinated debt to common stock	-	200
Sale of subsidiary		
Securities received	\$ (1,678)	\$ -
Assets sold	4,462	-

Liabilities transferred	(3,861)	-
Gain on sale	804	-
	-----	-----
Net cash effect of sale of subsidiary	\$ (273)	\$ -
	=====	=====

</TABLE>

F-11

Greenbriar Corporation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-CONTINUED

NOTE D - DEBT

Long-term debt is comprised of the following (in thousands):

<TABLE>

<CAPTION>

	December 31,	
	1994	1995
	-----	-----
<S>	<C>	<C>
Mortgage note payable to a bank, payable monthly through maturity in 1996.	\$ 8,933	\$ -
Mortgage notes payable to a corporation bearing interest at 11.52% principal and interest payable in monthly installments through maturity in 2004.	916	909
Note payable to a corporation bearing interest at 5%; principal and interest payable in monthly installments through maturity in December 1995.	341	-
Convertible note payable to an individual bearing interest at 6%; interest due quarterly and principal due at maturity in 1998 (convertible into common stock at \$3 per share).	200	-
Other	32	-
	-----	-----
	10,422	909
Less: Current maturities	(379)	(8)
Debt collateralized by properties under contract of sale	(8,933)	-
	-----	-----
	\$ 1,110	\$ 901
	=====	=====

</TABLE>

NOTE E - INCOME TAXES

At December 31, 1995, the Company had net operating loss carryforwards of approximately \$7,500,000 which expire between 1999 and 2008. However, approximately \$5,100,000 of these net operating loss carryforwards have limitations that restrict utilization to approximately \$600,000 for any one year. Also, carryforwards of \$1,800,000, which expire between 2006 and 2008, may only be used to offset future taxable income of the subsidiaries in which the losses were generated.

F-12

Greenbriar Corporation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-CONTINUED

NOTE E - INCOME TAXES - Continued

The following is a summary of the components of income tax expense from

continuing operations (in thousands):

<TABLE>  
<CAPTION>

	Year ended December 31,	
	1994	1995
<S>	<C>	<C>
Current	\$ 160	\$ 151
Deferred	80	35
	-----	-----
	\$ 240	\$ 186
	=====	=====

Deferred tax assets and associated valuation allowances were comprised of the following (in thousands):

<CAPTION>

	December 31,	
	1994	1995
<S>	<C>	<C>
Deferred tax assets:		
Net operating loss carryforwards	\$ 4,650	\$ 2,570
Real estate	488	141
Charitable contribution carryforwards	-	606
Tax credits	125	220
Accrued expenses	60	103
Other	187	195
	-----	-----
Total deferred tax assets	5,510	3,835
Valuation allowance	(3,325)	(1,430)
Deferred tax liabilities:		
Investment in securities	-	(237)
Other	-	(18)
	-----	-----
Total deferred tax liabilities	-	(255)
	-----	-----
Net deferred tax asset	\$ 2,185	\$ 2,150
	=====	=====

</TABLE>

Management expects the net deferred tax asset will be recovered within two to three years from earnings of the Company.

F-13

Greenbriar Corporation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-CONTINUED

NOTE E - INCOME TAXES - Continued

Following is a reconciliation of income tax expense from continuing operations with the amount of tax computed at the statutory rate (in thousands):

<TABLE>  
<CAPTION>

	Year ended December 31,	
	1994	1995
<S>	<C>	<C>
Tax at the statutory rate	\$ 499	\$ 2,004
Amortization of intangibles	113	30
Change in deferred tax asset valuation allowance, exclusive of reductions for sold company in 1994	(547)	(1,895)

Correction of prior period estimates	138	-
Other	37	47
	-----	-----
Tax expense	\$ 240	\$ 186
	=====	=====

</TABLE>

Reductions in the deferred tax asset valuation allowance result from assessments made by the Company each year of its expected future taxable income available to absorb its carryforwards.

NOTE F - STOCKHOLDERS' EQUITY

On November 17, 1995, the Board of Directors authorized a one-for-five reverse stock split effective December 1, 1995. All share and per share data has been retroactively restated to give effect to the stock split.

The Series A preferred stock had a liquidation value of \$1 per share and an initial dividend rate of 6% that escalated to a maximum rate of 12% in 1994. For accounting purposes, the preferred stock was deemed issued at a discount. Such discount was being accreted in a manner that resulted in a constant imputed dividend rate of 12%. Dividends were payable in cash or additional shares at the stockholders' option. The Series A preferred stock was redeemed in 1995.

The Series B preferred stock has a liquidation value of \$1 per share and is convertible into common stock over a ten-year period at prices escalating from \$25.00 per share in 1993 to \$55.55 per share by 2001. Dividends at a rate of 6% are payable in cash or preferred shares at the option of the Company. At December 31, 1995 and 1994, there were cumulative, unpaid dividends of approximately \$73,000.

The Series C preferred stock has a liquidation value of \$1 per share and is convertible into common stock at a price of \$15.00 per share. Dividends are payable in cash at a rate of 6%.

F-14

Greenbriar Corporation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-CONTINUED

NOTE F - STOCKHOLDERS' EQUITY - Continued

Information relating to stock option activity during 1995 and 1994 is as follows:

<TABLE>

<CAPTION>

	Year ended December 31,	
	1994	1995
<S>	<C>	<C>
Outstanding at beginning of year	327,500	155,500
Granted	-	10,000
Cancelled	(30,000)	-
Expired	-	(10,000)
Reacquired	(142,000)	-
	-----	-----
Outstanding at end of year	155,500	155,500
	=====	=====

</TABLE>

The options are exercisable at various times through 2005 at prices ranging from \$11.25 to \$13.20 per share. In 1994, the Company purchased options covering 142,000 shares of common stock from a former employee/director for \$178,000.

At December 31, 1995, options to purchase 133,500 shares were exercisable.

NOTE G - EARNINGS PER SHARE

Earnings per share are determined by dividing net earnings, adjusted for preferred stock dividends, by the weighted average number of common shares outstanding during the period. Dilutive stock options are included in weighted average shares outstanding. Fully diluted earnings per share, giving effect to assumed conversion of convertible preferred stock and notes, are not presented because the effect of these securities is insignificant.

NOTE H - RELATED PARTY TRANSACTIONS

1994  
----

The Company sold to W. Michael Gilley, Executive Vice-President/Director of the Company, 30,000 shares of common stock for a noninterest-bearing note of \$187,500; principal is due in December 1999. Additional loans to executives and directors of \$55,000 were made in 1994. Also, a former executive of the Company was paid commissions of \$145,000 relating to the sale of property.

Sylvia Gilley, wife of the Company's Chief Executive Officer, James R. Gilley, made a loan of \$1,000,000 to the Company. The loan was repaid during 1994.

1995  
----

The Company purchased land from Sylvia Gilley for \$221,000.

F-15

Greenbriar Corporation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-CONTINUED

NOTE I - SALES OF ASSETS

Gains on the sale of assets result from the following transactions (amounts in thousands):

<TABLE>  
<CAPTION>

1995 -----	Gain -----
<S>	<C>
Sale of Fountainview retirement center for cash of approximately \$18,000	\$5,149
Sale of economic interest in legal claim for \$1,085 in cash	654
Sale of rights to the interest on escrow funds for cash of \$1,140	1,140
Other	100
	-----
	\$7,043
1994 -----	Gain -----
<S>	<C>
Sale of Rivermont retirement center for cash of approximately \$6,900	\$1,720
Sale of five commercial properties for approximately \$22,000 in cash and \$2,050 in notes	1,095
Sale of investment securities for cash of \$2,730	736
Recognition of deferred gain on long-term care facilities sold in 1991 for approximately \$15,400 in notes	1,070
Other	12
	-----
	\$4,633
	=====

</TABLE>

The sale of the economic interest in a legal claim resulted from a claim the Company held against Wespac Investors Trust III ("Wespac") based upon an award of legal fees following a protracted lawsuit. Wespac subsequently filed for protection under Chapter 11 of the Bankruptcy Code. The Company then sold its claim for \$1,085,000. The buyer required acquisition of the interest of an unrelated 49% Wespac shareholder as a condition precedent to the purchase of the claim. To facilitate the transaction, the Company acquired the 49% equity interest from the shareholder and immediately conveyed the interest to such

buyer. The Company recorded a gain on the sale of its claim of \$654,000, the excess of the proceeds of \$1,085,000 over the Company's cost of the claim of \$431,000.

At December 31, 1994 and 1995, the balance sheet reflects a deferred gain of \$3,083,000. This gain resulted from the sale in 1991 of four nursing homes in exchange for notes in the principal amount of \$15,400,000. The original gain of \$7,259,000 was deferred and is being accounted for by the installment method. Sales in previous years by the Company of some of the notes resulted in a reduction of the deferred gain to \$3,083,000.

NOTE J - CONTINGENCIES

The Company and a subsidiary, CareAmerica, Inc. (CareAmerica) are defendants in lawsuits brought by a corporation that purchased nursing homes from the Company in 1991. The plaintiff alleges mismanagement of the homes during the period that CareAmerica provided management services, seeks damages in excess of \$1,500,000, seeks cancellation of \$6,700,000 of mortgage notes payable to the Company and secured by the nursing homes, and seeks recovery of interest payments made on the mortgage notes. The Company has filed a counterclaim for breach of the management contract and to confirm the indebtedness. The plaintiff terminated the contract and claimed that the mortgage notes had previously been discharged. The Company believes that the plaintiff's actions, including payments against the indebtedness, are inconsistent with the plaintiff's claims that the notes have been discharged. The company intends to vigorously contest those lawsuits and pursue its counterclaims against the plaintiff.

The Company is also defendant in several other lawsuits arising in the ordinary course of business. Management of the Company is of the opinion that these lawsuits will not have a material effect on the consolidated results of operations or financial position of the Company.

F-16

Greenbriar Corporation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-CONTINUED

NOTE K - SEGMENT INFORMATION

The Company's operations are classified into two business segments: real estate and residential retirement centers. The real estate segment involves the ownership and operation of commercial real estate. The residential retirement segment involves the ownership and management of retirement centers. The Company's mobility products segment has been presented as a discontinued operation (Note B). Information with respect to business segments for the years ended December 31, 1995 and 1994 is set forth below (amounts in thousands):

<TABLE>  
<CAPTION>

	Real estate	Residential retirement	Corporate and other	Total
<S>	<C>	<C>	<C>	<C>
1995				
----				
Revenues	\$ 789	\$ 5,706	\$ 3,215	\$ 9,710
Gain on sale of assets	93	5,149	1,801	7,043
Earnings from continuing operations before income taxes	271	5,274	536	6,081
Identifiable assets	3,326	1,527	24,919	29,772
Depreciation	77	43	62	182
Capital expenditures	54	353	11	418
1994				
----				
Revenues	\$ 5,132	\$ 9,660	\$ 227	\$15,019
Gain on sale of assets	2,913	1,720	-	4,633
Earnings (loss) from continuing operations before income taxes	2,483	1,848	(2,864)	1,467

Identifiable assets	11,608	15,038	18,318	44,964
Depreciation	239	683	66	988
Capital expenditures	462	43	573	1,078

</TABLE>

NOTE L - FAIR VALUE OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate values:

Cash and cash equivalents - The carrying amount approximates fair value because of the short maturity of these instruments.

Investment in securities - The investment in securities consists of 8% convertible preferred stock of a private company. Fair value, based on estimated future discounted cash flows, approximates carrying value.

F-17

Greenbriar Corporation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-CONTINUED

NOTE L - FAIR VALUE OF FINANCIAL INSTRUMENTS - Continued

Mortgage notes receivable - The mortgage notes receivable consist primarily of \$6,700,000 of notes with a stated interest rate of 14%, due in 2021 from Southern Care Corp., the plaintiff in the lawsuit discussed in Note J. The obligor has brought suit to cancel the notes, and as a result, future cash flows are not predictable. Therefore, it is not practicable to estimate the fair value of the notes.

Long-term debt - The fair value of the Company's long-term debt is estimated based on market rates for the same or similar issues. At December 31, 1995, the carrying amount of long-term debt approximates its fair value.

Accounts receivable and payable - The carrying amount approximates fair value because of their short maturity.

<TABLE>

<CAPTION>

NOTE M - NOTES RECEIVABLE

Stock Purchase Notes

-----

	December 31,	
	-----	
	1994	1995
	-----	-----
	(in thousands)	
<S>	<C>	<C>

Related party

Note from James R. Gilley, chief executive officer, principal and interest at 5-1/2%, due November 2003 \$2,250 \$2,250

Note from W. Michael Gilley, executive vice-president/director, noninterest-bearing and due in December 1999 188 188

Other employees 78 -

	-----	-----
	\$2,516	\$2,438
	=====	=====

</TABLE>

All stock purchase notes are collateralized by common stock of the company and are presented in the balance sheet as a deduction from stockholders' equity.

<TABLE>

<CAPTION>

Mortgage Notes

-----

December 31,

	1994	1995
<S>	<C>	<C>
Notes receivable from a corporation, collateralized by a third lien on real property, interest at 14% due annually, principal due in 2021	\$6,700	\$6,700
Other notes	668	-
	\$7,368	\$6,700
	=====	=====

</TABLE>

F-18

NOTE M - NOTES RECEIVABLE - Continued

In connection with certain litigation in which the Company is defendant (see Note J), the maker of the \$6,700,000 note stopped making the interest payments required under the note. As a result, the Company ceased recording the accrual of interest income. Had the Company been accruing interest on this note, the amount recognized would have been approximately \$900,000 in 1995. No interest income was recognized on this note in 1995.

Based on the value of the underlying collateral at December 31, 1995, no impairment reserve is required for this note.

NOTE N - FOURTH QUARTER ADJUSTMENTS

During the fourth quarter of 1995, the Company made an adjustment to reduce the deferred tax valuation allowance by \$1,895,000.

During the fourth quarter of 1994, the Company wrote off goodwill related to a 1992 acquisition of approximately \$150,000, made other adjustments reducing earnings by approximately \$175,000 and reduced the deferred tax valuation allowance by approximately \$550,000. The goodwill write off resulted from the decision to discontinue the sale of mobility products to third parties.

The adjustments to the deferred tax valuation allowance resulted from assessments made by the Company of its expected future taxable income available to absorb its net operating loss carryforwards.

NOTE O - ACQUISITION OF WEDGWOOD RETIREMENT INNS, INC. AND AFFILIATES

In March 1996, the Company acquired substantially all of the assets and liabilities of a number of companies under common control and managed by Wedgwood Retirement Inns, Inc. The business of these companies consists of the operation of 16 assisted living, congregate and Alzheimer's facilities. To structure the Wedgwood acquisition as a tax-free exchange, the Company also acquired a shopping center in North Carolina from James R. Gilley and members of his family (the Gilley Group). Due to the fact that the Gilley Group is a majority shareholder of Greenbriar and owner of the shopping center, the property was recorded at the Gilley Group's historical cost basis of approximately \$2,300,000. Consideration given was 675,000 shares of Series D preferred stock. Wedgwood's assets were valued at approximately \$58,000,000 (\$54,000,000 of property and equipment) and liabilities assumed were approximately \$44,000,000. In exchange, Greenbriar issued 1,949,950 shares of Series E preferred stock, valued at approximately \$14,000,000, to the Wedgwood shareholders. The Series D and E preferred stock is convertible, upon approval of the common stockholders, into 1,962,458 shares of common stock.

The 1995 unaudited pro forma balance sheet presents the consolidated financial position of the Company as if the acquisition had occurred at December 31, 1995. The pro forma balance sheet is for illustrative purposes only and does not purport to be indicative of the actual financial position had the transaction been consummated as of that date.

F-19

Consent of Independent Certified Public Accountants

We have issued our report dated March 8, 1996, accompanying the consolidated financial statements included in the Annual Report of Greenbriar Corporation on Form 10-KSB for the year ended December 31, 1995. We hereby consent to the incorporation by reference of said report in the Registration Statements of Greenbriar Corporation on Form S-3 (File No. 33-64840) and Form S-8 (File No. 33-65856).

/s/ Grant Thornton LLP

-----  
GRANT THORTON LLP

Dallas, Texas

August 23, 1996