IN THE UNITED STATES BANKRUPTCY COURT
DISTRICT OF SOUTH CAROLINA

In re:	Case No. 11-06207-dd
	Chapter 9
Barnwell County Hospital,	
Debtor.	

DISCLOSURE STATEMENT TO PLAN FOR ADJUSTMENT OF DEBTS

THE DEBTOR BELIEVES THAT THE PLAN IS FEASIBLE AND IN THE BEST INTEREST OF ITS CREDITORS. THE DEBTOR RECOMMENDS THAT YOU CAST YOUR BALLOT IN FAVOR OF THE PLAN.

This Disclosure Statement to Plan for Adjustment of Debts, as modified, supplemented and amended (collectively, the "Disclosure Statement"), is being furnished by Barnwell County Hospital ("Debtor") to its creditors pursuant to Sections 901 and 1125 of Title 11 of the United States Code (the "Bankruptcy Code") in connection with a solicitation by the Debtor of Ballots for the acceptance of the Plan for Adjustment of Debts, filed by the Debtor, as modified, supplemented and amended (collectively, the "Plan"). Capitalized terms are defined in the text of this Disclosure Statement, and if not otherwise defined herein, shall have the meaning ascribed to it in the Plan.

On October 5, 2011, the Debtor filed a voluntary petition for relief under Chapter 9 of the Bankruptcy Code (the "Case"). The Chapter 9 Case is currently pending before the United States Bankruptcy Court for the Debtor of South Carolina (the "Bankruptcy Court"). On _____, 2012, the Debtor filed its Plan with this Disclosure Statement. On _____, 2012 (the "Approval Date"), the Bankruptcy Court approved this Disclosure Statement and authorized the Debtor to solicit acceptances of the Plan.

The Debtor is the proponent of the Plan, a copy of which is attached to this Disclosure Statement as **Appendix A**. As described more fully herein, the Debtor believes that the Plan provides the greatest and earliest possible recoveries to holders of claims, that acceptance of the Plan is in the best interests of all parties, and that any alternative restructuring would result in delay, expense, uncertainty, and ultimately, smaller or no distributions to creditors. Accordingly, the Debtor urges you cast your ballot in favor of the Plan.

CLAIMANTS SHOULD READ THIS DISCLOSURE STATEMENT IN ITS ENTIRETY BEFORE VOTING ON THE PLAN. NO SOLICITATION OF VOTES FROM CREDITORS WITH RESPECT TO THE PLAN MAY BE MADE EXCEPT PURSUANT TO THIS DISCLOSURE STATEMENT. NO PERSON HAS BEEN AUTHORIZED TO USE ANY INFORMATION CONCERNING THE DEBTOR OR ITS BUSINESS IN CONNECTION WITH THE SOLICITING OF VOTES FROM THE CLAIMANTS WITH

RESPECT TO THE PLAN OTHER THAN THE INFORMATION CONTAINED IN THIS DISCLOSURE STATEMENT. CLAIMANTS SHOULD NOT RELY ON ANY INFORMATION RELATING TO THE DEBTOR AND ITS BUSINESS OTHER THAN THAT CONTAINED IN THE PLAN, THIS DISCLOSURE STATEMENT AND THE EXHIBITS ATTACHED HERETO AND THERETO.

After carefully reviewing the Plan, this Disclosure Statement, and all other plan documents, please indicate your acceptance or rejection of the Plan by voting in favor of or against the Plan on the enclosed Ballot.

Holders of Claims are instructed to complete all required information on the Ballot, execute the Ballot, and return the completed Ballot to _____ such that the Ballot is actually received by _____ by _____ (the "Voting Deadline"). Any failure to follow the voting instructions included with the relevant Ballot may disqualify that Ballot and the corresponding vote.

ANY BALLOTS RECEIVED AFTER THE VOTING DEADLINE WILL NOT BE COUNTED AND SHALL BE DEEMED INVALID AND INEFFECTIVE (UNLESS OTHERWISE ALLOWED UNDER THE SOLICITATION PROCEDURES ORDER OR OTHER ORDER OF THE BANKRUPTCY COURT).

THE PURPOSE OF THIS DISCLOSURE STATEMENT IS TO ENABLE THOSE PERSONS WHOSE CLAIMS AGAINST THE DEBTOR ARE IMPAIRED UNDER THE PLAN TO MAKE AN INFORMED DECISION WITH RESPECT TO THE PLAN BEFORE EXERCISING THEIR VOTING RIGHTS TO ACCEPT OR REJECT THE PLAN IN ACCORDANCE WITH THE BANKRUPTCY CODE. ON THE APPROVAL DATE, AFTER NOTICE AND A HEARING, THIS DISCLOSURE STATEMENT WAS APPROVED BY THE BANKRUPTCY COURT AS CONTAINING INFORMATION OF A KIND AND IN SUFFICIENT DETAIL ADEQUATE TO ENABLE PERSONS WHOSE VOTES ARE BEING SOLICITED TO MAKE AN INFORMED JUDGMENT WITH RESPECT TO ACCEPTANCE OR REJECTION OF THE PLAN. A COPY OF THE ORDER APPROVING THE DISCLOSURE STATEMENT IS ENCLOSED HEREWITH. THE BANKRUPTCY COURT'S APPROVAL OF THIS DISCLOSURE STATEMENT DOES NOT CONSTITUTE EITHER A GUARANTEE OF THE ACCURACY OR COMPLETENESS OF THE INFORMATION CONTAINED HEREIN OR AN ENDORSEMENT OF ANY OF THE REPRESENTATIONS CONTAINED IN THE DISCLOSURE STATEMENT OR THE PLAN; NOR DOES IT CONSTITUTE AN ENDORSEMENT OF THE PLAN.

THE STATEMENTS CONTAINED IN THIS DISCLOSURE STATEMENT ARE MADE AS OF THE DATE HEREOF UNLESS ANOTHER TIME IS SPECIFIED IN THIS DISCLOSURE STATEMENT. THE DELIVERY OF THIS DISCLOSURE STATEMENT SHALL NOT, UNDER ANY CIRCUMSTANCES, IMPLY OR CREATE AN IMPLICATION THAT NO CHANGE HAS OCCURRED IN THE FACTS SET FORTH IN THIS DISCLOSURE STATEMENT SINCE THE DATE OF THIS DISCLOSURE STATEMENT OR SUCH OTHER SPECIFIED DATE.

THE DISCLOSURE STATEMENT SHALL NOT CONSTITUTE OR BE CONSTRUED AS AN ADMISSION OF, OR STIPULATION TO, ANY FACT OR LIABILITY, OR A WAIVER OF ANY RIGHTS, BUT RATHER AS STATEMENTS MADE IN THE CONTEXT OF SETTLEMENT NEGOTIATIONS. THIS DISCLOSURE STATEMENT SHALL NOT BE ADMISSIBLE IN ANY ADVERSARY PROCEEDING OR CONTESTED MATTER AGAINST THE DEBTOR OR ANY OTHER PARTY, NOR SHALL IT BE CONSTRUED TO BE ADVICE ON THE TAX, SECURITIES OR OTHER LEGAL EFFECTS OF THE PLAN AS TO ANY INTERESTED PARTY.

AS SET FORTH ELSEWHERE IN THIS DISCLOSURE STATEMENT, THE INFORMATION CONTAINED IN THIS DISCLOSURE STATEMENT HAS BEEN COMPILED BY THE DEBTOR AND ITS ADVISORS FROM VARIOUS SOURCES AND IS BELIEVED TO BE MATERIALLY RELIABLE. HOWEVER, SUCH INFORMATION HAS NOT BEEN INDEPENDENTLY AUDITED FOR INCLUSION IN THIS DISCLOSURE STATEMENT. THEREFORE, THE DEBTOR IS UNABLE TO WARRANT OR TO REPRESENT THAT THE INFORMATION CONTAINED HEREIN IS WITHOUT ANY INACCURACY OR OMISSION, ALTHOUGH EVERY REASONABLE EFFORT HAS BEEN MADE TO BE MATERIALLY ACCURATE. CREDITORS ARE URGED TO REVIEW THE PLAN AND ALL PLAN DOCUMENTS IN FULL PRIOR TO VOTING ON THE PLAN TO ENSURE A COMPLETE UNDERSTANDING OF THE PLAN AND THIS DISCLOSURE STATEMENT.

THIS DISCLOSURE STATEMENT IS INTENDED SOLELY FOR THE USE OF CREDITORS OF THE DEBTOR TO ENABLE SUCH CREDITORS TO MAKE AN INFORMED DECISION ABOUT THE PLAN.

INDEX FOR DISCLOSURE STATEMENT

I. INTRODUCTION.

The Debtor was created in 1953 by act of the South Carolina Legislature to provide hospital facilities to the residents of Barnwell County (the "County"). The legislature created the Barnwell County Hospital Board (the "Board") and charged it with the responsibility constructing a hospital and making all rules and regulations for the operations and management of the Debtor.

Debtor operates as a hospital located in the city of Barnwell, South Carolina on 811 Reynolds Road, Barnwell, South Carolina. Debtor is licensed for 53 beds but currently operates 31 beds with both private and semi-private rooms. The Debtor also owns and operates two provider-based Rural Health Clinics in the southwestern rural area of South Carolina serving the communities of Blackville and Williston. These Rural Health Clinics provide primary health services, basic lab services, emergency care services, after hours coverage, and make arrangements for patient hospital specialty care.

As described in greater detail below, the Debtor is and has been unable to pay its debts as they become due. For years, the County provided funding to keep the Debtor operating, but, the Debtor was informed that the County will no longer provide funding. Furthermore, as a rural hospital, Debtor does not have the customer volume to pay for new technology and facilities that larger hospitals in neighboring areas can provide. Therefore, Debtor is unable to bring specialty physicians to work at the hospital. Without those specialists, the Debtor cannot perform the specialty procedures which bring in the highest revenue- revenue that is needed to be able to invest in new technology and facilities.

Based upon those factors, the Debtor, along with Bamberg County Memorial Hospital, sought a third party purchaser to combine the existing primary service areas and healthcare facilities and businesses located in and owned by Bamberg and Barnwell Counties, South Carolina (collectively, the "Counties"), into one regional hospital or health system.[1]

The Counties determined that the residents in their Counties should have access to efficient and effective healthcare they desire, and to have that care delivered through well-equipped, contemporary facilities designed to meet the specific needs of each community in within the Counties region. The Counties believe that a strong regional healthcare system designed to allow coordination and cooperation for the greater good of all the people would attract and retain the medical professionals needed to provide an even higher quality of care to the residents of the Counties. In order to provide such access, it was decided that collaborative regional system for healthcare for the residents of the Counties would attract the financial support needed to provide healthcare services that can sustain themselves through changes in medical technology, regulations, and reimbursement, and can support continued upgrades in facilities and services.

To help the Counties find a third-party to work with in achieving the Counties' goals, the

[1] The Plan as proposed in this case originally contemplated the involvement of Allendale County as part of the regional health system. Allendale County was involved in the search process, but ultimately decided not to participate in the regional system contemplated by this Plan.

Counties engaged Stroudwater Capital ("Stroudwater") to reach out to all interested people in the region, determine what was important to the residents of the Counties and find potential parties who were interested in developing the regional health system After the solicitation process, SC Regional Health System, LLC ("RHS") was the only party who wished to purchase substantially all of the assets of the hospitals and create a regional health system.

On, September 29, 2011, the Debtor, along with Bamberg County Memorial Hospital (which has also filed a Chapter 9 bankruptcy petition), and the Counties, executed an Asset Purchase Agreement ("APA") with RHS for the purchase of substantially all of the assets of the hospitals, and the parties executed a Development Agreement which provides for the development of the proposed regional health system (the "Development Agreement"). Copies of the APA (exclusive of schedules)[2] and Development Agreement have been filed with the Clerk of the Bankruptcy Court and are available for inspection during regular court hours or via the PACER system, which may be accessed on a subscription basis at the following internet address: https://ecf.scb.uscourts.gov/. Written copies of these documents will be provided upon written request made to the Debtor's attorney at the following address: Stanley H. McGuffin, Haynsworth Sinkler Boyd, P.A., P.O. Box 11889, Columbia, SC 29211-1889.

The APA and Development Agreement provide that RHS will develop and operate an integrated healthcare delivery system to be known as the Regional Health System ("Regional Health System") to serve both Counties. The Regional Health System includes plans for a new "State-of-the-Art" 25 bed general acute care hospital ("Regional Hospital") that will be centrally located to ensure the most convenient access to the communities in both Counties; two county Multi-specialty Primary Ambulatory Care Centers ("MPACC") located on or near the existing County hospital campuses, and a multi-specialty physician office center in each of the Counties. RHS plans to develop and operate an MPACC in each County within six to twelve months of Closing of the transactions contemplated by the APA. The Regional Hospital is planned to include private rooms for inpatient care, multiple surgery suites, a full service emergency department, a labor and delivery department where newborns will be delivered, as well as many other services not currently being offered by the Debtor and the Bamberg County Memorial Hospital today. In addition, the planned multispecialty physician office centers should bring new specialist physicians into the community to see patients locally. Currently, the majority of county residents are traveling hours to see a specialist. RHS has been working with industry-leading, healthcare professionals for several months to determine the healthcare needs of the community and design facilities and programs to best meet those needs.

The following is a preliminary list of the services and specialties that are planned to be offered within the Regional Health System.

- General Surgery
- Urology
- Medical Cardiology
- Ophthalmology

[2] The schedules to the APA are voluminous and will be provided upon written request made to the Debtor's attorney at the following address: Stanley H. McGuffin, Haynsworth Sinkler Boyd, P.A., P.O. Box 11889, Columbia, SC 29211-1889.

- Obstetrics and Gynecology
- Orthopedics and Orthopedic Surgery
- Inpatient and Outpatient Services
- Emergency Medicine

RHS has acquired options to purchase land in Bamberg County on Highway 78, near the intersection of Ghents Branch Road where it intends to build the new Regional Hospital. The location is two miles from the Barnwell county line. RHS has consulted with officials of both Counties, leading hospital consultants and officials from other recently constructed South Carolina hospitals to determine the location. Based on logistical data accumulated over the last several months, the planned site will be closest to largest number of people from both Counties. The selected site is easily accessible for Barnwell County residents by driving along Highway 78 or Highway 70. Bamberg County residents will likely travel along Highway 78 to reach the new hospital site. The Regional Hospital is planned to be completed in approximately three and a half years.

Below are estimated driving times from cities within the counties to the closest existing hospital as well as the planned location of the new Regional Hospital.

City	Estimated Drive Time to Current Hospital	Estimated Drive Time to New Regional Hospital
Blackville	13 minutes	6 minutes
Williston	21 minutes	14 minutes
Barnwell	5 minutes	12 minutes
Hilda	10 minutes	6 minutes
Denmark	10 minutes	5 minutes
Bamberg	5 minutes	10 minutes

Estimated driving times will vary based on location within each city as well as traffic and other factors. In general, residents of the counties will see a reduction in driving times to the new Regional Hospital location as compared to the closest hospital today. Likewise, those residents that must drive a longer distance to the new Regional Hospital will generally only see an increase in driving times of less than ten minutes. Since the new Regional Hospital will be located on a federal highway, driving times should be reduced due to higher traveling speeds and fewer traffic signals.

The hospital currently operated by Debtor is planned to remain open for at least three years after its purchase by RHS has been completed and will be the headquarters for the health system until the Regional Hospital opens. Construction of the new hospital is expected to occur shortly after the closing of the APA. In addition, RHS is planning to begin working with local primary care physicians and recruiting specialty physicians to the area after the closing of the APA.

THE APA CONTEMPLATES THAT BOTH HOSPITALS WILL HAVE FILED CHAPTER 9 PETITIONS AND THAT THEIR RESPECTIVE PLANS OF DEBT ADJUSTMENT WILL BE BASED ON THE APA. UNLESS BOTH THE DEBTOR AND

THE BAMBERG COUNTY MEMORIAL HOSPITAL ARE SUCCESSFUL IN HAVING THEIR RESPECTIVE PLANS CONFIRMED, THE APA WILL NOT BE CONSUMMATED. EVEN IF THE RESPECTIVE PLANS ARE CONFIRMED, THERE ARE VARIOUS CONDITIONS THAT MUST BE SATISFIED IN ORDER TO CLOSE THE SALE, AS FURTHER DISCUSSED IN SECTION X.B. BELOW.

As part of the contemplated sales transaction, the Debtor filed its voluntary petition under Chapter 9 of the Bankruptcy Code in the Bankruptcy Court for the Debtor. Pursuant to the Court's Commencement Order dated October 6, 2011, the Debtor published notice of the filing of its Chapter 9 petition and request for the entry of an order for relief thereunder in *The State* and *Adveritzer-Herald,* and in addition, mailed notice to all known creditors and parties in interest.

The Debtor is sending this Disclosure Statement to all creditors and parties in interest to request their approval of a plan of debt adjustment of the Debtor's obligations. Debtor has proposed the Plan, which the Debtor believes is in the best interests of the Debtor's creditors. A copy of the Plan is attached to this Disclosure Statement at Appendix A and is incorporated herein by reference.

A. Explanation of Chapter 9 of the Bankruptcy Code.

Chapter 9 of the Bankruptcy Code permits a municipality (as such term is defined in the Bankruptcy Code) to adjust debts owed to creditors through a plan of adjustment while permitting the municipality to continue to operate. The Debtor has continued to manage and operate the hospital since the filing of the Chapter 9 Case.

The commencement of a Chapter 9 case creates an "estate" comprised of the legal and equitable interests of the debtor in property. Section 904 of the Bankruptcy Code provides that a municipal debtor may continue to operate the debtor's business. The Debtor has continued to operate on a limited basis since the commencement of this Chapter 9 case.

The filing of a Chapter 9 petition triggers the automatic stay provisions of the Bankruptcy Code. Sections 922 and 362 of the Bankruptcy Code provide for an automatic stay of all attempts to collect pre-petition claims from the chapter 9 debtor or otherwise interfere with its property or business. Except as otherwise ordered by the Bankruptcy Court, the automatic stay remains in full force and effect in a Chapter 9 case until the confirmation of a plan of adjustment.

Formulation of a plan of adjustment is the principal purpose of a Chapter 9 case. The plan is the vehicle for satisfying the holders of claims against the debtor. The Debtor proposes in the Plan to sell substantially all of its assets to RHS as provided in the APA.

B. Filing Proofs of Claim.

The Debtor filed a List of Creditors as required by Section 924 of the Bankruptcy Code. A Proof of Claim is deemed filed for any Claim that appears in the List of Creditors that was filed in this case, except a Claim that is scheduled as disputed, contingent, or unliquidated as to amount. If a creditor agrees with the amount of the Claim as listed by the Debtor and such Claim

was not listed as disputed, contingent, or unliquidated, the holder of that Claim need not have filed a Proof of Claim.

However, if (i) the Debtor did not list a holder's Claim, (ii) the Debtor listed such holder's Claim as disputed, contingent, or unliquidated, or (iii) the amount the Debtor listed for the holder's Claim varies from the amount claimed by the holder of such Claim, the holder of such Claim must have filed a Proof of Claim in the amount of such Claim. The Bankruptcy Court generally will recognize and allow a Proof of Claim only if such Proof of Claim is timely filed and is not objected to by the Debtor or any party in interest. If an objection to a Proof of Claim is filed, after notice and hearing, the Bankruptcy Court will determine to what extent, if any, such Claim will be allowed. The List of Creditors is on file with the Clerk of the Bankruptcy Court and is available for inspection during regular court hours or via the PACER system, which may be accessed on a subscription basis at the following internet address: https://ecf.scb.uscourts.gov/.

The Bankruptcy Court established January 5, 2012, as the last date for filing proofs of claim, and any Claim filed after that date is subject to disallowance for untimely filing, unless otherwise ordered by the Bankruptcy Court.

C. Representations.

NO REPRESENTATIONS CONCERNING THE DEBTOR (PARTICULARLY AS TO ITS FUTURE OPERATIONS, VALUE OF ITS ASSETS, OR THE VALUE OF ANY OTHER ASSETS TO BE CONSIDERED UNDER THE PLAN) ARE AUTHORIZED BY THE DEBTOR OTHER THAN THOSE SET FORTH IN THIS DISCLOSURE STATEMENT. ANY REPRESENTATIONS MADE TO SECURE YOUR ACCEPTANCE, WHICH ARE OTHER THAN AS SET FORTH IN THIS DISCLOSURE STATEMENT, SHOULD NOT BE RELIED UPON IN ARRIVING AT YOUR DECISION WHETHER TO VOTE FOR OR AGAINST THE PLAN. THE DEBTOR IS NOT MAKING ANY REPRESENTATIONS WHATSOEVER AS TO ANY TAX CONSEQUENCES TO SPECIFIC CREDITORS OR HOLDERS OF THE DEBTOR'S DEBT RESULTING FROM THE PLAN.

THE INFORMATION CONTAINED IN THIS DISCLOSURE STATEMENT HAS NOT BEEN INDEPENDENTLY AUDITED FOR INCLUSION IN THIS DISCLOSURE STATEMENT. THE DEBTOR IS UNABLE TO WARRANT OR TO REPRESENT THAT THE INFORMATION CONTAINED HEREIN IS WITHOUT ANY INACCURACY OR OMISSION, ALTHOUGH EVERY REASONABLE EFFORT HAS BEEN MADE TO BE ACCURATE. CREDITORS ARE URGED TO REVIEW THE PLAN AND ALL PLAN DOCUMENTS IN FULL PRIOR TO VOTING ON THE PLAN TO ENSURE A COMPLETE UNDERSTANDING OF THE PLAN AND THIS DISCLOSURE STATEMENT.

THIS DISCLOSURE STATEMENT IS INTENDED SOLELY FOR THE USE OF CREDITORS OF THE DEBTOR TO ENABLE SUCH CREDITORS TO MAKE AN INFORMED DECISION ABOUT THE PLAN.

IF ANY IMPAIRED CLASS DOES NOT VOTE TO ACCEPT THE PLAN, THE DEBTOR INTENDS, PURSUANT TO SECTIONS 901(a) AND 943 OF THE BANKRUPTCY

CODE, TO SEEK CONFIRMATION UNDER THE PROVISIONS OF SECTION 1129(b)[3] OF THE BANKRUPTCY CODE AND HEREBY GIVES NOTICE OF SUCH INTENT.

D. Purpose of the Disclosure Statement.

The Bankruptcy Code generally requires that the proponent of a plan of adjustment prepare and file with the Bankruptcy Code a "disclosure statement" that provides information that would enable a typical holder of claims in a class impaired under that plan to make an informed judgment with respect to the plan. This Disclosure Statement provides such information as to the Plan.

The Debtor is furnishing this Disclosure Statement to Classes of impaired creditors pursuant to the requirements of Sections 901(a) and 1125 of the Bankruptcy Code and Bankruptcy Rule 3017 thereunder, for the purpose of soliciting Ballots for the acceptance of the Plan under Chapter 9 of the Bankruptcy Code. **A successful reorganization under the Bankruptcy Code depends upon the receipt of sufficient numbers of votes in favor of the Plan or application of Bankruptcy Sections 901(a), 943 and 1129(b). Your vote, therefore, is important**.

The Disclosure Statement describes various transactions contemplated under the Plan as well as certain transaction or settlements embodied in the Plan.

This Disclosure Statement serves as notice to creditors and parties in interest of all such transactions, contracts or settlements as allowed or required by the Bankruptcy Code or Bankruptcy or Local Rules including Rule 9019 of the Federal Rules of Bankruptcy Procedure. The time fixed by the Bankruptcy Court for the filing of objections to Confirmation shall likewise be deemed to be the time fixed for the filing of any objections to the foregoing transactions, contracts or settlements, even if such transactions, contracts or settlements will be documented or consummated after Confirmation.

If the Debtor receives Ballots accepting the Plan from at least two-thirds in amount, and more than one-half in number, of those voting in at least one Class of Impaired creditors voting on the Plan, the Debtor intends to request confirmation of the Plan. Under the Bankruptcy Code, in order for the Plan to be confirmed, the Plan must be accepted by at least one Impaired Class of Claims entitled to vote thereon.

Under the Bankruptcy Code, after the commencement of a bankruptcy case, the solicitation of acceptances of a plan of adjustment must be accompanied by disclosure materials containing information of a kind and in sufficient detail to enable solicited creditors to make informed judgments about the plan and the acceptance or rejection thereof. On the Approval Date, the Bankruptcy Court determined that this Disclosure Statement contains information that is in compliance with the "adequate information" requirement of Section 1125(a) of the Bankruptcy Code, as indicated by its Order Approving Disclosure Statement enclosed herewith.

[3] This section is commonly referred to as the "cram-down" section of the Bankruptcy Code and permits the Bankruptcy Court to approve a plan over the objection of creditors if certain statutory requirements of the Bankruptcy Code are satisfied.

E. Legally Binding Effect of Plan with Respect to All Creditors.

If confirmed, the provisions of the Plan will discharge the Debtor and bind all creditors and the Debtor to the fullest extent permitted by the Bankruptcy Code, including Section 944 and, without limiting the foregoing, will (1) bind all creditors, whether or not they accept the Plan, and (2) discharge the Debtor from all debts that arose before the Effective Date, except as otherwise provided in the Plan.

F. Voting Requirements.

The Classes of Claims that are Impaired under the Plan and that are not deemed to have rejected the Plan, are entitled to vote to accept or reject the Plan. An Impaired Class of Claims will be determined to have accepted the Plan if the holders of Allowed Claims in the Class casting votes in favor of the Plan (1) hold at least two-thirds of the allowed amount of the Allowed Claims of the holders of such class who actually vote, and (2) constitute more than one-half in number of holders of the Allowed Claims in such class voting on the Plan. If a Ballot is submitted without an acceptance or rejection of the Plan the Debtor reserves the right to ask the Bankruptcy Court to either (i) disqualify the Ballot or (ii) count the Ballot as an acceptance of the Plan. If a Class of Impaired Claims does not receive or retain any property or interests in property under the Plan, such class is deemed to have rejected the Plan and the votes of creditors in such Class need not be solicited.

G. Summary of Entities Entitled to Vote on the Plan and of Certain Requirements Necessary for Confirmation of the Plan.

The Debtor will request Confirmation of the Plan at the Confirmation hearing to be scheduled by the Bankruptcy Court. Holders of Claims in Classes 1, 2, 5, 6 and 7 (collectively, the "Voting Classes") are entitled to vote on the Plan, because the Claims in each such class are Impaired.

II. HISTORY OF THE DEBTOR.

A. History and Background of the Debtor.

The Debtor operates as a hospital located in the city of Barnwell, SC on 811 Reynolds Road, Barnwell, South Carolina. The Debtor is licensed for 53 beds but currently operates 31 beds with both private and semi-private rooms. The Debtor has 2 general surgical suites and an Endoscopy room with three recovery bays. The Hospital's imaging department offers 2 radiographic rooms and a portable x-ray machine, ultrasound, mammography, 16 slice CT scanner, mobile MRI services on a weekly basis, and a C-arm for surgical and endoscopic procedures. The Debtor also operates a Critical Care Unit with 3 ICU beds and 4 step-down beds, a sleep center with 2 beds, Cardiovascular Services, Behavioral Health, and Rehabilitation Services. The hospital's ER is a 7 bed unit.

Prior to filing the Petition, the Debtor also owned and operated three provider-based Rural Health Clinics in the southwestern rural area of South Carolina serving the communities of Blackville, Williston, and Wagener. These Rural Health Clinics provide primary health services, basic lab services, emergency care services, after hours coverage and make arrangements for

patient hospital specialty care. Since the filing of the Petition, the Debtor has closed the Wagener facility.

As of the filing of the Case, the Debtor provided general medical and surgical care in inpatient, outpatient, and emergency room service areas, and had 14 physicians on active medical staff, 13 of whom were Board Certified. Since the filing of the Case, the Debtor has reduced its non-physician staff and scope of operations in order to reduce operating expenses. As of February 3, 2012, the Debtor had 120 non-physician staff members (111 full time employees and 9 part-time employees).

B. Financial Issues Facing the Debtor.

At the time of the filing the Case, the Debtor was facing a liquidity crisis that threatened its continued operations and was operating at a loss. The Debtor has been able to stay in business primarily because the County has provided funding to the Debtor. The Debtor has been informed by the County that the County does not have the ability or intent to continue funding the operating losses of the Debtor in the future. Even with the County providing supplemental funding, the Debtor has struggled to pay its debts in the ordinary course of business. Furthermore, as a rural hospital, Debtor does not have the customer volume to pay for new technology and facilities that larger hospitals in neighboring areas can provide. Therefore, Debtor is unable to bring specialty physicians to work at the hospital. Without those specialists, the Debtor cannot perform the specialty procedures which bring in the highest revenue- revenue that is needed to be able to invest in new technology and facilities.

Accordingly, without the County's funding and based upon its historical operating losses, the Debtor believes it will be unable to pay its bills in the future as they become due. As a result, the Board concluded that filing a Chapter 9 petition was the only available remedy to avoid litigation and collection actions against the Debtor, while allowing the Debtor to preserve its business operations and continue providing uninterrupted healthcare services to its patients.

III. FINANCIAL INFORMATION.

The Debtor has been unable to collect enough revenues to pay operating costs each year. Copies of the Debtor's financial statements dated as of September 30, 2011 are attached hereto as **Appendix B.** As described in more detail in the financial statements, year to date, for the 12 months ending September 2011, the Debtor has an overall net loss of $910,437.00, this despite the County contributing $769,713.00.

For the year ending September 30, 2011, the Debtor's current liabilities totaled $7,033,967.00.

IV. THE CHAPTER 9 CASE.

A. Eligibility of Debtor to File Chapter 9 Case.

Section 109(c) of the Bankruptcy Code sets forth the statutory criteria for eligibility as a Chapter 9 debtor. The debtor must: (1) be a municipality; (2) be specifically authorized to be a

Chapter 9 debtor; (3) be insolvent; (4) be willing to effect a plan to adjust its debts; and (5) also meet one of the following four requirements: (i) the debtor has obtained the agreement of creditors holding at least a majority in the amount of claims of each class that the debtor intends to impair through its plan; (ii) the debtor has negotiated in good faith but failed to obtain the agreement of creditors holding at least a majority in the amount of claims of each class that the debtor intends to impair under its plan; (iii) the debtor is unable to negotiate with its creditors because such efforts are impracticable; or (iv) the debtor reasonably believes that a creditor may attempt to obtain a preference. 11 U.S.C. § 109(c).

Section 109(c)(1) requires that the debtor filing a petition under chapter 9 must be a municipality. A "municipality" is defined in section 101 of the Bankruptcy Code to mean "political subdivision or public agency or instrumentality of a State." *Id.* § 101(40).

While the Bankruptcy Code does not define the terms "public agency, or instrumentality of a State," a legal test to determine public agency status was established in *Ex parte York County Natural Gas Authority,* 238 F. Supp. 964, 976 (W.D.S.C. 1965), *modified on other grounds*, 362 F.2d 78 (4th Cir. 1965), *cert. denied*, 383 U.S. 970 (1966), stating "the legal test between a private or public authority or agency is whether the authority or agency is subject to control by public authority, state or municipal." *Id*. (holding a gas authority with the power to issue revenue bonds was a "municipality" for purposes of Chapter 9).

In this case, the Debtor is a public agency, and thus a "municipality" as defined in section 101 (40) of the Bankruptcy Code. The Debtor was created by statute in the public interest and is supported in part by public funding through the County providing it funds. Furthermore, vacancies on the Board must be approved by County Council. Applying the public agency test set forth in *York County,* Debtor is a public agency and thus meets the statutory requirement for "municipality" status. *See Greene County Hospital*, 59 B.R. 388, 389-90 (Bankr. S.D. Miss. 1986) (hospital a "municipality" because the hospital was subject to control by a county board of supervisors); *see also Hospitality Ass'n of South Carolina v. County of Charleston*, 320 S.C. 219, 464 S.E.2d 113 (1995) (finding hospital was a public corporation and instrumentality of the state for purposes of qualifying under § 1983 where the hospital was created by statute in the public interest, supported in part by public funding, and the board members were approved by County Council); *Sloan v. Greenville Hosp. Sys*., 388 S.C. 152, 694 S.E.2d 536 (2010) (holding the hospital was not a state "governmental body"[4] subject to the procurement procedures detailed in the State's Procurement Code; rather, it was a "political subdivision,"[5] and more particularly a "special purpose debtor" and by law was required to, establish its own provisions embodying sound principles of appropriately competitive procurement).

Accordingly, the Debtor is a public agency or instrumentality of the State of South Carolina and is a municipality within the meaning of Section 109(c)(1).

[4] The Procurement Code defines Governmental Body as "a state government department, commission, council, board, bureau, committee, institution, college, university, technical school, agency, government corporation, or other establishment or official of the executive or judicial branch." S.C. Code Ann. § 11-35-310(18).

[5] The Procurement Code defines Political subdivision" as "all counties, municipalities, school Debtors, public service or special purpose Debtors." *Id.* § 11-35-310(23). Political subdivisions are excluded from the definition of a governmental body and are not subject to the procurement procedures outlined in the Procurement Code.

Section 109(c)(2) also requires that a municipality be "specifically authorized, in its capacity as a municipality or by name, to be a debtor under such chapter by State law, or by a governmental officer or organization empowered by State law to authorize such entity to be a debtor under such chapter." 11 U.S.C. § 109(c)(2).

South Carolina has adopted measures which expressly enable municipalities to file bankruptcy under federal law, without further restriction. S.C. Code Ann. § 6-1-10 provides:

> Power of political subdivisions to proceed under legislation dealing with bankruptcy or composition of indebtedness.
>
> The consent of the State is hereby granted to, and all appropriate powers are hereby conferred upon, any county, municipal corporation, township, school Debtor, drainage Debtor or other taxing or governmental unit organized under the laws of the State to institute any appropriate action and in any other respect to proceed under and take advantage of and avail itself of the benefits and privileges conferred, and to accept the burdens and obligations created, by any existing act of the Congress of the United States and any future enactment of the Congress of the United States relating to bankruptcy or the composition of indebtedness on the part of the counties, municipal corporations, townships, school Debtors, drainage Debtors and other taxing or governmental units or any of them.

This statute is applicable to the Debtor as the Debtor is a "governmental unit." While the term "governmental unit," is not defined in Title 6 of the South Carolina Code or by case law, under the Bankruptcy Code, "governmental unit" is defined to include a "municipality" and an "instrumentality of a … State." 11 U.S.C. § 101(27). Accordingly, because the Debtor is a municipality under 11 U.S.C. § 101(40) and for purposes of 11 U.S.C § 109 as detailed above, the Debtor is a "governmental unit" for purposes of S.C. Code Ann. § 6-1-10.

Section 6-1-10 of the South Carolina Code meets the "specific authorization" requirement under 11 U.S.C. § 109(c)(2) and authorizes the Debtor to bring its petition under Chapter 9. *See In re Orange County*, 183 B.R. 594 (Bankr. C.D. Cal. 1995) (holding that under § 109(c), the enabling or other legislation governing the debtor must show such specific authorization by exact, plain and direct language). Additionally, on September 27, 2011, the Board of Directors of the Debtor adopted a resolution to authorize the commencement and prosecution of this Case.

Section 109(c)(3) requires that the chapter 9 petitioner be insolvent. 11 U.S.C. § 109(c)(3). Section 101 of the Bankruptcy Code provides that a municipality is insolvent when its financial condition is such that it is (i) generally not paying its debts as they become due unless such debts are the subject of a bona fide dispute; or (ii) unable to pay its debts as they become due. 11 U.S.C. § 101(32)(C). Insolvency is determined based on the debtor's financial condition as of the date the petition is filed. As described in detail above, the Debtor is unable to pay its debts as they become due.

As of the Petition Date, it is clear the Debtor was and would be unable to pay its bills as they became due in the upcoming year. 11 U.S.C. § 101(32)(C). The Debtor is and has been operating at a loss and is unable to consistently pay its debts as they become due. As described in more detail in the financial statements, year to date, for the 12 months ending September 2011, the Debtor has an overall net loss of $910,437.00. As of the date the Debtor filed its petition and continuing today, it is clear the Debtor is unable to "pay its bills as they become due". 11 U.S.C. § 101(32)(C). In short, the Debtor is insolvent within the meaning of 11 U.S.C. §§ 101(32)(C) and 109(c)(3).

Section 109(c)(4) requires that a Chapter 9 petitioner desire to effect a plan to adjust its debts. As certified by the Debtor in its Statement of Qualifications Under 11 U.S.C. § 109(c), and demonstrated by the pre-petition efforts of the Debtor, the Debtor desires to effect a plan of adjustment with respect to its debts in this case.

Section 109(c)(5) requires that a Chapter 9 petitioner demonstrate that it has satisfied or is excused from certain pre-petition negotiation standards with respect to its creditors. *See* 11 U.S.C. § 109(c)(5). A debtor must satisfy one of the following four options to satisfy Section 109(c)(5):

> (1) The debtor has obtained the agreement of creditors holding at least a majority in the amount of claims of each class that the debtor intends to impair through its plan;
> (2) The debtor has negotiated in good faith but failed to obtain the agreement of creditors holding at least a majority in the amount of claims of each class that the debtor intends to impair under its plan;
> (3) The debtor is unable to negotiate with its creditors because such efforts are impracticable; or
> (4) The debtor must reasonably believe that a creditor may attempt to obtain a preference.

Of the Debtor's approximately 1,245 creditors, approximately 800 were former patients of Debtor and are owed patient reimbursements generally in an amount less than $100.00. The bulk of Debtor's remaining creditors are unsecured trade creditors holding claims of less than $10,000 each. It was simply impractical for the Debtor to negotiate with these creditors prior to filing its petition. *See Orange County*, 183 B.R. at 607 ("the impracticality requirement may be satisfied based on the sheer number of creditors involved."); *In re Villages at Castle Rock Metro. Dist*. No. 4, 145 B.R. 76, 85 (Bankr. D. Colo. 1990) ("It certainly was impracticable for [debtor] to have included several hundred Series D bondholders in these conceptual discussions.").

Numerosity of creditors is not the only circumstance under which the impracticability requirement might be satisfied. *In re Valley Health Sys*., 383 B.R. 156, 165 (Bankr. C.D. Ca. 2008). Negotiations may be impractical where it is necessary to file a Chapter 9 case to preserve the assets of a municipality, where a delay in filing a petition to negotiate with creditors would put those assets at risk. *See Orange County,* 183 B.R. 594 at 607-08 (negotiation impractical where there was no time to enter into negotiations with its participants due to the threat of liquidation assets); see also 2 Collier P 109.04[3][e][iii] at 109-35 ("[W]here it is necessary to file a chapter 9 case to preserve the assets of a municipality, delaying the filing to negotiate with

creditors and risking, in the process, the assets of the municipality makes such negotiations impracticable"). Even if the Debtor could negotiate with the majority of its creditors, which the Debtor cannot, the Chapter 9 filing is necessary to protect the Debtor's assets, continue its business operations, and continue providing uninterrupted healthcare services to its patients while simultaneously developing a comprehensive plan for adjustment of debts. Thus, the Debtor believes it has satisfied the third requirement: it is unable to negotiate with its creditors because such negotiation is impracticable.

Accordingly, Debtor believes it is eligible to be a "debtor" under Chapter 9 of the Bankruptcy Code.

B. Notice of the Chapter 9 Case.

The Debtor filed a mailing matrix listing the names and addresses of its creditors and other parties-in-interest on October 21, 2011, and filed an amended list of creditors on November 2, 2011. Additionally, pursuant to an Order (I) Approving Form and Manner of Notice to Creditors of the filing of Debtor's Creditor List, and (II) Extending Deadline to file Proofs of Claim entered November 9, 2011, the Debtor served the Order Upon Commencement of Chapter 9 Case Establishing Certain Deadlines and Notice of Commencement of Case, of the Automatic Stay and of the Order of Relief [Dkt. No. 56] ("Commencement Order") upon all creditors which explained to creditors that the Debtor filed bankruptcy, including the page of the Creditors List related to that creditor's particular claim.

C. Events Since the Filing of the Chapter 9 Case.

Since the filing of the Chapter 9 case, Debtor has continued to pay its creditors in the ordinary course for its post-petition debts. To the extent any post-petition obligations have not been paid such amounts may constitute an administrative expense which are treated as a separate class of creditors under the plan.

A copy of the Bankruptcy Court's claims matrix with a list of the creditors that filed proofs of claim by the Bar Date is attached as **Appendix C** hereto. In a few instances, creditors that were inadvertently omitted from the initial creditors list filed claims after the bar date. Debtor does not intend to object to the creditor's claims based on untimely filing if the creditor was not included on the initial list of creditors.

After the filing of the Petition, the Bankruptcy Court entered the Commencement Order which stated that unless there was objection to the Petition filed by November 11, 2011, the Commencement Order would be deemed the Order for Relief in the case. No objections to the Debtor's Petition were filed.

Subsequent to the filing of the Case, Debtor entered into an agreement with RHS to provide consulting services relating to hospital operations (the "Consulting Agreement"). A copy of the Consulting Agreement is attached hereto as **Appendix D**. Pursuant to the Consulting Agreement, Cannington Healthcare Consulting, LLC ("Cannington") was retained at the request of RHS to provide consulting services to the Hospital for operational issues. Under the Consulting Agreement, the Debtor also retained RHS for RHS to provide consulting services

in the area of financial management. Cannington is being paid $1,050.00 per day inclusive of expenses. RHS is being reimbursed for its expenses, and its compensation is limited to the equivalent of 65% of the profits of the Debtor from the date of execution of the Consulting Agreement until the Closing. The Debtor does not anticipate it will make a profit prior to the Closing.

D. Formation of Committee.

On November 14, 2011, the United States Trustee appointed the members of the Official Committee of Unsecured Creditors (the "Committee"). The Committee currently consists of the following members: a) GE Healthcare; b) Robert M. Peeples; and c) Nexsen Pruet, LLC. The Committee has not formally retained counsel but has communicated with the Debtor through Rodney Peeples, Esq.

E. Current Board of Directors for the Debtor.

Attached as **Appendix E** is a list of the current members of the Board of Directors of the Debtor.

F. Post Confirmation Operation of the Debtor.

Following Plan confirmation and until the Closing of the APA, current management and the current Board of Directors will be permitted to remain in place, subject to future re-election in accordance with the By-Laws of the Debtor.

G. Retention of Professionals.

Debtor contemplates the continued need for the retention of professionals in the ordinary course of business and will retain and pay such professionals in the ordinary course of business after the Effective Date.

H. Non-Bankruptcy Court Litigation.

There is no material non-bankruptcy court litigation pending at this time.

I. General Unsecured Creditors.

The Debtor is in the process of reviewing its records to ascertain the differences in amounts in the filed proofs of claims and the amounts reflected as owing to claimants in the Debtor's books and records. In furtherance of this claims analysis and resolution process, the Debtor will prepare an omnibus objection to those claims in the filed general unsecured claims which Debtor believes are barred, disputed or duplicative. It is important to note there is no assurance as to whether or not the Debtor will be successful in eliminating or reducing any of these claims.

J. Employees.

Employees of the Debtor have been paid their wages throughout the case. If the Plan is

confirmed and the Closing of the transaction contemplated by the APA occurs, all of the Debtor's employees will be terminated at Closing. Any paid time off benefits accrued by Debtor's employees ("PTO") which accrued after the Petition Date will be treated as an Allowed Administrative Claim. Any PTO accrued prior to the Petition Date will be treated as a general unsecured claim. RHS, in its sole discretion, may rehire certain employees after the Closing. Any employees hired by RHS would receive credit for years of service for their prior uninterrupted employment at the Debtor when applying the benefit rules for RHS' benefit plans should the employee be hired by RHS within 30 days after the Closing. For instance, RHS' 401(k) plan would require employees to have 1 year of service prior to being eligible to participate in the 401(k) plan. Any employees hired from the Debtor meeting the criteria above would have their years of service credited to RHS for determining eligibility. In addition, for vacation purposes, any employees hired by RHS within 30 days of the Closing would receive credit under RHS' paid time off benefit plan for days accrued since September 29, 2011 (the date of APA signing) less those days taken from September 29, 2011. Thus, employees rehired by RHS with more days accrued than taken from September 29, 2011, would start day 1 with RHS with a positive paid time off balance. For clarity, no paid time off accrued by Debtor's employees prior to September 29, 2011, would move to RHS nor will the Debtor's paid time off policies be followed by RHS. RHS shall have no responsibility for any paid time off for Debtor's employees not hired by RHS.

K. Priority Unsecured Claims.

A total of 5 proofs of claim were filed as priority unsecured claims (the "Filed Priority Claims"). The Filed Priority Claims assert an aggregate of $205,302.92 in obligations against the Debtor. Because Chapter 9 only incorporates administrative claims allowed under section 507(a)(2), which are Administrative Claims discussed in Section VI below, the Debtor believes that most, if not all, of the Filed Priority Claims are not eligible for priority status under chapter 9. Accordingly, the Debtor intends to object to the bulk of these claims such that the priority claim pool will be reduced to approximately $0.00.

L. Statement Regarding Liabilities.

The Debtor anticipates that it will dispute some of the claims that have been asserted against it, and the Debtor's review and analysis of claims is ongoing. Given the fact and inherent uncertainties in any litigation regarding claims, no assurance can be given regarding the successful outcome of any litigation that may be initiated in objection to such claims or regarding the ultimate amount of unsecured claims that will be allowed against the Debtor. As described below, the Plan enables the Debtor to file objections to claims at any time within ninety (90) days after the Effective Date. The Plan also provides for the Debtor to retain any and all defenses, offset and recoupment rights, and counterclaims that may exist with respect to any disputed claim, whether under section 502, 552, or 558 of the Bankruptcy Code or otherwise. The Debtor reserves all rights with respect to the allowance and disallowance of any and all claims. In voting on the Plan, creditors may not rely on the absence of a reference in this Disclosure Statement or the Plan or the absence of an objection to their proofs of claim as any indication that the Debtor ultimately will not object to the amount, priority, security, or allowance of their claims.

V. ASSETS OF THE DEBTOR.

Under the Plan, the Debtor will sell RHS substantially all of its assets free and clear of all liens. The consideration to be provided by RHS includes assumption of certain liabilities of Debtor. Additionally, upon closing of the APA, RHS will pay the brokers fee due and owing to Stroudwater by Debtor in an amount not to exceed $300,000.00.

Pursuant to Section 2.2 of the APA, among other things, the Debtor will retain: 1) all cash; 2) all accounts receivables,[6] as well as any rights to refunds, settlements and retroactive adjustments, including those arising in connection with Medicare and Medicaid, due to Debtor as of the Closing Date; 3) all Avoidance Actions; and 4) all rights, claims and causes of action against third parties. This assumption liabilities and retention of certain cash assets represents a significant portion of the funding for the Plan.

Parties in interest may not rely on the absence of a reference in this Disclosure Statement or Plan as any indication that the Debtor ultimately will not pursue any and all available claims and causes of action against them. All parties who previously dealt with the Debtor hereby are on notice that the Plan preserves certain of the Debtor's rights, claims, interests and defenses. The Debtor expects that any and all meritorious claims will be pursued and litigated after the Effective Date to the extent they remain vested in the Debtor.

VI. DISCUSSION OF THE PLAN.

A. Purpose of the Plan and General Plan Requirements.

One purpose of the Plan is to implement a fair and equitable plan for treatment of all Claims based on the circumstances of this case. However, the Debtor believes that it has an equal or superior obligation to effectuate a plan that allows for a viable health care facility which provides convenient and accessible health care to the citizens of Barnwell County. The Debtor was originally created for this purpose and this is the sole purpose for its continued existence. The Debtor cannot remain a viable full service health care facility based upon its current financial condition. The only realistic option for continuing to provide any meaningful level of health care services generally offered through a hospital is the pursuit of a regional health system facility as contemplated by the APA.

The Plan separates creditors' Claims into 7 classes, exclusive of the Allowed Administrative Claims arising from the Case, which are unclassified in accordance with the Bankruptcy Code.

In order for the holder of a Claim to participate in the Plan and receive the treatment afforded to the applicable Class, such holder's Claim must be an Allowed Claim. A Claim will be allowed if it is filed or deemed filed, unless an objection to the allowance of the Claim is made. Generally, in order for a Claim to be allowed, a proof of Claim must be filed prior to the Bar Date on behalf of the holder thereof with the Bankruptcy Court. However, a Claim will be

[6] To the extent that Debtor makes a profit prior to the Closing, which Debtor does not anticipate, Debtor would have to remit 65% of that amount to RHS pursuant to the Consulting Agreement as described more fully in Section IV.C.

deemed to be filed if it is listed on the List of Creditors filed with the Bankruptcy Court, unless it is listed as disputed, contingent or unliquidated. If an objection to a Claim is made, the Bankruptcy Court must make a determination with respect to the allowance of such Claim. Only holders of Allowed Claims are entitled to vote upon, participate in and receive distributions in accordance with the Plan.

B. Summary of Plan Terms.

The discussion of the Plan set forth below is qualified in its entirety by reference to the more detailed provisions set forth in the Plan and its exhibits, the terms of which are controlling. Holders of claims and other interested parties are urged to read the Plan and its exhibits, copies of which are attached to this Disclosure Statement as Appendix A in their entirety so that they may make an informed judgment regarding the Plan.

The Plan is premised upon the APA by and between the Debtor and RHS under which RHS will acquire substantially all of the operating assets of the Debtor free of any liens. Furthermore, pursuant to the terms of the APA, RHS will acquire all Medicare and Medicaid incentives payments available to the Debtor under the HITECH Act as a result of the Debtor's use of certified electronic health record technology (collectively, the "HITECH Funds"). The HITECH Funds received by Debtor to date total $1,060,032.48, which are being held in trust by the Debtor until Closing at which time these funds would be transferred to RHS. RHS will use the HITECH Funds to make the payments contemplated by the Plan in Classes 1, 5, 6, and 7 as described in more detail in Section VI.C below. Additionally, the Debtor will provide all of its cash and accounts receivable to implement the Plan as set forth in more detail in Section IV.D.

C. Summary of the Plan Classes and Treatment of Claims.

The following is a summary of the Classes of creditors of the Debtor under the Plan, an estimation of the dollar amounts of such Classes and a summary of the provisions made in the Plan for the treatment of each Class.

1. Classification of Claims.

a. Administrative Claims. Allowed Administrative Claims are not classified under the Plan and are Unimpaired. Allowed Administrative Claims are claims of the kind described in sections 503(b) and 507(a)(2) of the Bankruptcy Code. Article II of the Plan provides for the treatment of Allowed Administrative Claims. Throughout the course of the Case, the Debtor has endeavored to satisfy administrative expenses as they became due. Accordingly, the Debtor believes that most Claims that otherwise would constitute Allowed Administrative Claims previously have been or will be satisfied in the ordinary course of business prior to the Effective Date.

b. Employee Accrued PTO. Any PTO which accrued after the Petition Date will be treated as an Allowed Administrative Claim. Any PTO accrued prior to the Petition Date will be treated as a general unsecured claim. If the Plan is confirmed and the Closing of the transaction contemplated by the APA occurs, all of the Debtor's employees will be terminated at Closing. However, RHS, in its sole discretion, may

rehire certain employees after the Closing. Any employees hired by RHS would receive credit for years of service for their prior uninterrupted employment at the Debtor when applying the benefit rules for RHS' benefit plans should the employee be hired by RHS within 30 days after the Closing. RHS shall have no responsibility for any paid time off for Debtor's employees not hired by RHS.

c. Professional Claims. Professional Claims are claims of professionals for services rendered or expenses incurred in rendering such services in the chapter 9 case or incident to the Plan. Article II.3 of the Plan provides that, pursuant to section 943(a)(3) of the Bankruptcy Code, all Professional Claims must be disclosed and be reasonable and that, upon being deemed reasonable, the Debtor or its agent will pay to each holder of a Professional Claim, in full satisfaction, release and discharge of such claim, cash in an amount equal to that portion of such claim that is deemed reasonable, except to the extent such claim previously has been paid or satisfied. The Debtor has paid the fees of its bankruptcy counsel and other professionals, on a regular basis during the chapter 9 case. A disclosure of (i) all amounts paid to professionals since the filing of the petition; (ii) any unpaid amounts outstanding; and (iii) an estimate of fees and expenses to complete the case will be filed with the Court prior to the hearing on confirmation of the Plan. Debtor anticipates filing a final report and application to close the case, at which time it will provide an accounting of all fees and expenses incurred by Debtor's professionals.

d. Class 1. Class 1 consists of the claims of The United States (on behalf of itself, its officers, agents, agencies, and departments) for Medicare overpayments.[7] This class is Impaired.

e. Class 2. Class 2 consists of the claims of general unsecured creditors. This class is Impaired.

f. Class 3. Class 3 consists of the interests of Defined Benefit Plan Participants.

g. Class 4. Class 4 consists of the interests of 401(k) Plan Participants. This class consists of any claims arising from the termination of the Debtor's 401(k) Plan. This class is Unimpaired.

h. Class 5. Class 5 consists of the interests of Creekridge Capital LLC d/b/a Healthland Financing ("Healthland"). This class is Impaired.

i. Class 6. Class 6 consists of the interest of First Citizens Bank and Trust Company, Inc. ("First Citizens"). This class is Impaired.

j. Class 7. Class 7 consists of the interest of South Carolina Office of Rural Health ("SCRH"). This class is Impaired.

[7] The Debtor listed the claim for Medicare overpayments on its Creditors List under Palmetto GBA, the entity which administers Medicare health insurance for the Centers for Medicare & Medicaid Services ("CMS").

2. Treatment of Claims

a. **General Administrative Claims.**

Allowed Administrative Claims are claims of the kind described in sections 503(b) and 507(a)(2) of the Bankruptcy Code. Throughout the course of the Chapter 9 Case, the Debtor has endeavored to satisfy administrative expenses as they became due. Accordingly, the Debtor believes that all Claims that otherwise would constitute Allowed Administrative Claims previously have been or will be satisfied in the ordinary course of business prior to or within ten (10) days after the Effective Date, by the Debtor unless such Claim or Claims are not yet an Allowed Claim(s) by order of the Bankruptcy Court where required. The Debtor expects to pay certain administrative expenses from cash on hand at Closing.

Employees' claims for PTO which accrued after the Petition Date will be treated as an Allowed Administrative Claim, and employees will be paid the balance of their PTO which accrued after October 5, 2011, in accordance with the existing employee benefit plan of the Debtor prior to or within ten (10) days after the Effective Date. Any PTO accrued prior to the Petition Date of October 5, 2011, will be treated as a general unsecured claim.

b. **Class 1. The United States (on behalf of itself, its officers, agents, agencies, and departments).**

Class 1 consists of the claims of The United States (on behalf of itself, its officers, agents, agencies, and departments) for Medicare overpayments. Under the APA, RHS will assume the Medicare provider numbers related to Debtor, without any liability associated with the provider numbers. However, the Debtor owes, as of October 1, 2011, $600,388.52 for overpayments it received, which liability would transfer to RHS if the provider number is transferred to RHS. The Debtor proposes to pay $600,388.52. In exchange for payment, The United States (on behalf of itself, its officers, agents, agencies, and departments) will release RHS, Barnwell Hospital and their respective affiliates (collectively, the "Releasees") from any civil or administrative monetary claim the United States has or may have for the Covered Conduct under the False Claims Act, 31 U.S.C. §§ 3729-3733; the Civil Monetary Penalties Law, 42 U.S.C. § 1320a-7a; the Program Fraud Civil Remedies Act, 31 U.S.C. §§ 3801-3812; the Civil Monetary Provisions of the Stark law, 42 U.S.C. § 1395nn(g)(3) and (4); common law theories of payment by mistake, unjust enrichment, and fraud. Furthermore, the OIG-HHS will agree to release and refrain from instituting, directing, or maintaining any administrative action seeking exclusion from Medicare, Medicaid, and other Federal health care programs (as defined in 42 U.S.C. § 1320a-7b(f)) against the Releasees under 42 U.S.C. § 1320a-7a (Civil Monetary Penalties Law) or 42 U.S.C. § 1320a-7(b)(7) (permissive exclusion for fraud, kickbacks, and other prohibited activities) for the Covered Conduct. The Covered Conduct would be defined broadly as the submission of any claims for services and cost reports submitted by Barnwell Hospital or its employed or contracted physicians for the period of time prior to the Closing of the sale transaction covered by the Plan. The funds for this payment to the United States will be made by RHS from the HITECH Funds. This class is Impaired.

c. **Class 2. Allowed General Unsecured Creditors.**

Class 2 consists of the Claims of allowed general unsecured creditors. This class is Impaired. The Debtor filed a List of Creditors as required by Section 924 of the Code. After payment of Allowed Administrative Claims, the holders of Allowed Claims in Class 2 will receive their pro rata share of the cash on hand and the amounts collected from the Pre-Closing Accounts Receivable, which distributions shall be paid in one installment without interest, on the first anniversary of the Closing. Additionally, at Closing, the Debtor will transfer the right to recover any preferential or fraudulent transfers to the Committee for the benefit of the Class 2 claimants.

d. **Class 3. Interests of Defined Benefit Plan Participants.**

The Barnwell County Hospital Retirement Plan was frozen in 1995, such that the "Accrued Benefit" of each plan participant was frozen as of this date, and participants have accrued no benefits under the Barnwell County Hospital Retirement Plan since then. The treatment to Class 3 will be supplemented.

e. **Class 4. 401(k) Plan Participant Claims.**

This class consists of any Claims arising from the termination of the Barnwell 401(k) Plan. Upon the Closing of the sale to RHS, all employees of Debtor will be terminated and certain employees may be rehired as employees of the RHS, in the sole discretion of RHS. Therefore, at Closing, the 401(k) Plan will terminate and the amounts in each employee's account will be distributed to employees. Pursuant to the provisions of the 401(k) Plan, each employee participant will be given the option to receive their funds either in a lump sum cash distribution or they can rollover their funds to an IRA or new plan. Any employee who does not make a proper election of either a lump sum cash distribution or a rollover of same to an IRA or new plan, then the employee will receive an annuity. Upon termination of the 401(k) Plan and distribution of the 401(k)'s Plan's assets, participants shall have no recourse to the Debtor or to any assets of the Debtor, or to RHS or its assigns, and shall not be entitled to receive any distributions under the Plan. Accordingly, the treatment of Allowed Class 4 Claims set forth in the Plan does not affect any legal, equitable or contractual rights to which the 401(k) Plan participants are entitled, and therefore, this class is Unimpaired.

f. **Class 5. Healthland.**

Class 5 consists of the Claim of Healthland. Healthland filed two proofs of claim, one in the amount of $701,512.00 and the second in the amount of $240,770.48 related to two contracts whereby Healthland provided the systems and software to Debtor to allow it to operate an Electronic Health Record System ("ERH System"). By acquiring and maintaining an EHR System, Debtor became eligible for the HITECH Funds. Healthland asserts that its claims are secured by the HITECH Funds. Debtor intends to object to the proofs of claim filed by Healthland if they are not resolved consensually, because Debtor disputes Healthland's rights to the HITECH Funds. Currently, the parties are in discussions whereby the Healthland contracts would be assumed by the Debtor and assigned to RHS in accordance with the terms set forth in

the description of the treatment of this class. There are two proposals being discussed which would resolved Healthland's claims against the Debtor:

> (1) At Closing, Healthland would provide RHS with the Centriq system, and RHS would pay $414,000.00 to Healthland to be escrowed at Closing and released based on certain milestones to be negotiated relative to the Centriq migration; or
>
> (B) At Closing, RHS would pay $175,000.00 to Healthland, and RHS would use the current Healthland software of Debtor for 12 months and pay the monthly maintenance fees associated with its use at the current rate set forth in the Healthland contracts. In addition, RHS would continue to have access to the Healthland system for cost report and other data needs in the future.

This class is Impaired.

g. **Class 6. First Citizens.**

Class 6 consists of the secured Claim of First Citizens. The Claim of First Citizens relates to the financing by First Citizens of certain equipment. The financing provided by First Citizens was pursuant to three equipment leases. First Citizens filed three proofs of claim relating to these leases in the amounts of $46,449.76, $36,570.51, and $111,450.52, for a total amount of $194,470.79. First Citizens will be paid the amount of $47,500.00 within ten (10) days after the Effective Date by RHS on behalf of the Debtor in full satisfaction of these three claims. At the time the payment is made, the leases will terminate and ownership and title to the leased equipment will vest in RHS free of any claims or interests of First Citizens. Prior to the Effective Date, the Debtor will continue to make the post-petition payments required under the terms of the leases. The remainder owing to First Citizens for these three claims will be treated as a general unsecured claim. This class is Impaired.

h. **Class 7. SCRH.**

Class 7 consists of the secured claim of SCRH. SCRH's secured claim against the Debtor is based upon a $100,000.00 promissory note secured by certain equipment of the Debtor. SCRH has filed a proof of claim relating to this secured loan in the amount of $73,707. SCRH will be paid the amount of $17,000.00 within ten (10) days after the Effective Date by RHS on behalf of the Debtor. At the time the payment is made, SCRH will release its lien on such equipment. The remainder of SCRH's Claim will be treated as a general unsecured claim. This class is Impaired.

3. Treatment of Executory Contracts and Unexpired Leases.

a. **Generally.**

The Bankruptcy Code empowers debtors, subject to the approval of the Bankruptcy Court, to assume or reject the debtors' executory contracts and unexpired leases. An "executory contract" generally means a contract under which material performance other than the payment of money is due by the parties. If an executory contract or unexpired lease is rejected by the

debtor, the rejection operates as a prepetition breach of such agreement. If an executory contact or unexpired lease is assumed by the debtor, the assumption obligates the debtor to perform under the agreement, and damages arising for any subsequent breach of the agreement are treated as administrative expenses.

b. **Assumption.**

As detailed in the APA, RHS must notify the Debtor in writing of any executory contract or unexpired lease that RHS has elected to assume. The Debtor will include such executory contracts and unexpired leases in an Assumption/Assignment Motion that will seek authority to assume and assign such executory contracts to RHS.

c. **Cure Payments and Future Performance.**

After the notice and opportunity for hearing on the Assumption/Assignment Motion, the Bankruptcy Court will resolve any disputes regarding: (a) the amount of any cure payment to be made in connection with the assumption of any contract or lease; (b) the ability of RHS to provide "adequate assurance of future performance" within the meaning of section 365 of the Bankruptcy Code under the contract or lease to be assumed; and (c) any other matter pertaining to such assumption and assignment.

d. **Rejection.**

The Debtor anticipates rejecting all executory contracts and unexpired leases not specifically assumed. The Debtor will file the Rejection Motion, pursuant to section 365(a) of the Bankruptcy Code, to seek approval and authorization for the rejection of such executory contracts and unexpired leases that RHS has not elected to assume, which the Debtor, in the exercise of its business judgment, deems warranted.

(i) Deadline for the Assertion of Rejection Damage Claims; Treatment of Rejection Damage Claims.

All proofs of Claims arising from the rejection of executory contracts or unexpired leases must be filed with the Bankruptcy Court and served on the Debtor no later than thirty (30) days after the date on which notice of entry of the order approving the rejection is mailed. Any Claim for which a proof of Claims is not filed and served within such time will be forever barred and shall not be enforceable against the Debtor or its assets, properties, or interests in property, or against RHS. Unless otherwise ordered by the Bankruptcy Court, all such Claims that are timely filed as provided herein shall be classified into Class 2 and treated accordingly.

D. Means for Execution and Implementation of the Plan.

1. RHS' Contribution.

Upon the Closing of the sale to RHS, RHS will provide the following combination of cash and assumption of liabilities to enable the Debtor to implement the Plan and satisfy its obligations under the Plan:

(l) Accept an immediate assignment of the executory contracts and leases that it notifies the Debtor to assume pursuant to the APA, and pay all cure amounts due and owing in connection with the assumption of any contract or lease;

(2) Pay the Debtor's transaction costs due to Stroudwater related to the sale in an amount not to exceed $300,000.00;

(3) Pay the amounts listed in Section VI.C.2 above with respect to the Claims of The United States (on behalf of itself, its officers, agents, agencies, and departments), Healthland, First Citizens, and SCRH; and

(4) RHS, in its sole discretion, may rehire certain employees after the Closing. Any employees hired by RHS would receive credit for years of service for their prior uninterrupted employment at the Debtor when applying the benefit rules for RHS' benefit plans should the employee be hired by RHS within 30 days after the Closing. For instance, RHS' 401(k) plan would require employees to have 1 year of service prior to being eligible to participate in the 401(k) plan. Any employees hired from the Debtor meeting the criteria above would have their years of service credited to RHS for determining eligibility. In addition, for vacation purposes, any employees hired by RHS within 30 days of the Closing would receive credit under RHS' paid time off benefit plan for days accrued since September 29, 2011 (the date of APA signing) less those days taken from September 29, 2011. Thus, employees rehired by RHS with more days accrued than taken from September 29, 2011, would start day 1 with RHS with a positive paid time off balance. For clarity, no paid time off accrued by Debtor's employees prior to September 29, 2011 would move to RHS nor will the Debtor's paid time off policies be followed by RHS. RHS shall have no responsibility for any paid time off for Debtor's employees not hired by RHS.

2. The Debtor's Contribution.

The Debtor will provide the following combination of cash to enable it to implement the Plan and satisfy its obligations under the Plan:

(l) The Debtor will contribute all of its cash on hand, all Pre-Closing Accounts Receivable, as well as any refunds, settlements and retroactive adjustments, including those arising in connection with Medicare and Medicaid, due to Debtor as of the Closing Date, first for payment of Allowed Administrative Claim and second to the payment to the Class 2 general unsecured creditors claims; and

(2) The Debtor will transfer the right to recover all preferential and fraudulent transfers to the Committee for the benefit of the Class 2 claimants (allowed general unsecured creditors).

3. Sale of Property of the Estate.

Pursuant to section 1123(a)(5)(D), the proposed sale of the Debtor's assets to RHS pursuant to the terms of the APA and as provided for in the Plan, will be free and clear of all liens. The sale, conveyance and assignment of the Assets under the APA are free and clear of all liens, claims, encumbrances, and interests, including without limitation, mortgages, deeds of trust, security interests, conditional sale or title retention agreements, pledges, liens, judgments,

demands, encumbrances, easements, restrictions, constructive or resulting trusts, or charges of any kind, including but not limited to any restriction on the use, voting, transfer, receipt of income, or other exercise of any attribute of ownership and all debts arising in any way in connection with any acts of the Debtor, claims (as that term is defined in Bankruptcy Code § 101(5)), obligations, demands, guarantees, options, rights, contractual commitments, arising before the Effective Date and whether imposed by an agreement, understanding, law, equity, or otherwise (collectively, "Interests"), with all such Interests released, terminated, and discharged as to the Assets and to attach and be satisfied from the assets of the Estate.

E. Rights of Action.

The Plan provides, pursuant to Section 2.2 of the APA, that Debtor retains all of the Debtor's claims, causes of action, rights of recovery, rights of offset, recoupment rights to refunds with certain limited exceptions set forth in the APA or schedules thereto (collectively, the "Rights of Action"). Unless a Right of Action is expressly waived, relinquished, released, compromised or settled in this Plan, the Debtor expressly reserves all Rights of Action for later adjudication and, as a result, no preclusion doctrine, including the doctrines of res judicata, collateral estoppel, issue preclusion, claim preclusion, estoppel (judicial, equitable or otherwise) or laches, shall apply to such Rights of Action upon or after the confirmation or consummation of this Plan or the Effective Date. In addition, the Debtor expressly reserves the right to pursue or adopt against any other entity any claims alleged in any lawsuit in which the Debtor is a defendant or an interested party.

F. Amount and Method of Payment of Administrative Claims.

The distributions to holders of Allowed Administrative Claims will be made prior to or within ten (10) days after the Effective Date, by the Debtor unless such Claim or Claims are not yet an Allowed Claim(s) by order of the Bankruptcy Court where required.

G. Distributions.

The Debtor may retain one or more agents to perform or assist it in performing the distributions to be made pursuant to the Plan, which agents may serve without bond. The Debtor may provide reasonable compensation to any such agent(s) without further notice or Bankruptcy Court approval. All distributions to any holder of an Allowed Claim shall be made at the address of such holder as set forth in the books and records of the Debtor or its agents, unless the Debtor has been notified by such holder in a writing that contains an address for such holder different from the address reflected.

1. Undeliverable Distributions.

If any distribution to any claim holder is returned to the Debtor or its agent as undeliverable, no further distributions shall be made to such holder unless and until the Debtor is notified in writing of such holder's then-current address. Unless and until the Debtor is so notified, such distribution shall be deemed to be "Unclaimed Property." Unclaimed Property shall be set aside and held in a segregated account to be maintained by the Debtor pursuant to the terms of the Plan. On the first anniversary of the Effective Date, the Debtor will file with the Bankruptcy Court a list of Unclaimed Property, together with a schedule that identifies the name

and last-known address of holders of the Unclaimed Property; the Debtor otherwise will not be required to attempt to locate any such entity. On the second anniversary of the Effective Date, all remaining Unclaimed Property and accrued interest or dividends earned thereon will be remitted to and vest in the Debtor

2. Timeliness of Payments.

Any payments or distributions to be made pursuant to the Plan shall be deemed to be timely made if made within fourteen (14) days after the dates specified in the plan; provided, however, that all distributions on the Class 1 Claims will be paid at the Sale Closing Date. Whenever any distribution to be made under the Plan shall be due on a day that is a Saturday, Sunday, or legal holiday, such distribution instead shall be made, without interest, on the immediately succeeding day that is not a Saturday, Sunday, or legal holiday, but shall be deemed to have been made on the date due.

H. No Postpetition Accrual.

Unless otherwise specifically provided in the Plan or allowed by order of the Bankruptcy Court, the Debtor will not be required to pay to any holder of a claim any interest, penalty or late charge accruing with respect to such claim on or after the Petition Date.

I. Disputed Claims. Claims Objection Deadline; Prosecution of Objections.

The Debtor will have the right to object to the allowance of claims filed with the Bankruptcy Court with respect to which liability or allowance is disputed in whole or in part. Unless otherwise ordered by the Bankruptcy Court, the Debtor must file and serve any such objections to claims by not later than ninety (90) days after the Effective Date (or, in the case of claims lawfully filed after the Effective Date, by not later than ninety (90) days after the date of filing of such claims).

J. Conditions Precedent to Confirmation.

Confirmation of the Plan shall not occur unless each of the following conditions precedent has occurred:

(1) The Bankruptcy Court has approved the Disclosure Statement by a Final Order; and

(2) The Bankruptcy Court has determined that all statutory requirements for Confirmation have been satisfied.

VII. VOTING PROCEDURES.

A. Ballots and Voting Deadline

A Ballot to be used to accept or reject the Plan for creditors whose Claims are Impaired under the Plan and who are not deemed to reject the Plan accompanies this Disclosure Statement.

Pursuant to Rule 3018 of the Federal Rule of Bankruptcy Procedure, the Bankruptcy Court has established _____ as the record date for the determination of the identity of the Impaired Creditors from whom acceptances or rejections of the Plan will be solicited.

Except to the extent allowed by the Bankruptcy Court, Ballots received after the Voting Deadline may not be accepted or used by or against the Debtor in connection with the Debtor's request for Confirmation of the Plan or any modification thereof.

B. Claimants Entitled to Vote to Accept or Reject the Plan.

1. Allowance for Voting Purposes. All creditors holding Allowed Claims in an Impaired Class that are not deemed to reject the Plan may vote to accept or reject the Plan. Generally, a claim is deemed "allowed" for voting purposes if a proof of claim was timely filed, and no objection to the claim has been filed that has not been resolved. If such an objection has been filed, the Claimant cannot vote on the Plan unless the Bankruptcy Court, after notice and hearing, either overrules the objection or temporarily allows the claim for voting purposes pursuant to Bankruptcy Rule 3018(a). Thus, the definition of "Allowed Claim" used in the Plan for purpose of determining whether creditors are entitled to receive distributions is different from that used by the Bankruptcy Court to determine whether a particular claim is "allowed" for purposes of voting. Holders of claims are advised to review the definitions of "Allowed," "Claim," and "Disputed" set forth in Article I of the Plan to determine whether they may be entitled to vote on, and/or receive distributions under, the Plan.

2. Impaired Classes of Claims. As noted above, the holder of a claim has the right to vote on the Plan if that claim is allowed and classified into a Class that is Impaired under the Plan and that is not deemed to reject the Plan. A Class is Impaired if the Plan alters the legal, equitable, or contractual rights of the members of that Class with respect to their claims or interests. The Debtor believes that Classes 1, 2, 5, 6, and 7 are Impaired under the Plan.

3. Claimants Not Entitled to Vote. The holders of the following types of claims are not entitled to vote on the Plan: (a) Claims that have been disallowed; (b) Claims that are subject to a pending objection and which have not been allowed for voting purposes pursuant to Bankruptcy Rule 3018(a); (c) Claims that are not impaired or are deemed to reject the Plan; and (d) Claims entitled to priority pursuant to section 507(a)(2) of the Bankruptcy Code (defined as "Allowed Administrative Claims" in the Plan). Holders of Allowed Administrative Claims are not entitled to vote because such claims are not classified and are required to receive certain treatment specified by the Bankruptcy Code. Any party that disputes the characterization of its claim as unimpaired, however, may request that the Bankruptcy Court find that its Claim is Impaired in order to obtain the right to vote on the Plan.

C. Vote Required for Class Acceptance.

As part of the Confirmation Hearing, the Bankruptcy Court will determine whether the Impaired voting classes have accepted the Plan by determining whether sufficient acceptances have been received from the holders of Allowed Claims in such Classes. An Impaired Class of Claims will be determined to have accepted the Plan if the holders of Allowed Claims in the Class casting votes in favor of the Plan (i) hold at least two-thirds of the allowed amount of the

Allowed Claims of the holders in such Class who vote, and (ii) constitute more than one-half in number of holders of the Allowed Claims in such Class voting on the Plan. Ballots of holders of impaired Claims that are signed and returned, but not expressly voted for either acceptance or rejection of the Plan, may be disqualified or counted as Ballots for the acceptance of the Plan if permitted by the Bankruptcy Court. Except as may be allowed by the Bankruptcy Court, a Ballot accepting the Plan may not be revoked.

D. Possible Reclassification of Creditors

The Debtor is required pursuant to Section 1122 of the Bankruptcy Code to place Claims in Classes that contain Claims substantially similar to each other. While the Debtor believes it has classified all Claims in compliance with Section 1122, it is possible a creditor may challenge the Debtor's classification of such creditor's Claim. If the Debtor is required to reclassify any Claims under the Plan, the Debtor, to the extent permitted by the Bankruptcy Court, intends to continue to use the acceptances received from any creditor pursuant to the solicitation of acceptance using this Disclosure Statement for the purpose of obtaining the approval of the Class or Classes of which such creditor is ultimately deemed a member. Any reclassification of Claims could adversely affect the Class in which such Claims were initially a member, or any other Class under the Plan, by changing the composition of such Class and the required vote thereof on approval of the Plan. Further, a reclassification of Claims could necessitate the re-solicitation of votes.

VIII. CONFIRMATION OF THE PLAN

A. Confirmation Hearing

The Bankruptcy Code requires that the Bankruptcy Court, after notice, hold a Confirmation hearing. The Bankruptcy Court may adjourn the Confirmation hearing from time to time without further notice except for an announcement made at the Confirmation hearing.

B. Requirements for Confirmation of the Plan

At the Confirmation hearing, the Bankruptcy Court will determine whether the requirements of Section 943 of the Bankruptcy Code have been satisfied in which event the Bankruptcy Court will enter an order confirming the Plan. Some of the principal requirements include:

1. Best Interests Test

One of the determinations that the Bankruptcy Court must make before confirming the Plan is whether the Plan is in the best interests of creditors and is feasible. There are very few authorities on what constitutes the best interests of creditors under chapter 9 of the Bankruptcy Code. One leading commentator notes that the proposed plan must be better than the alternative available to creditors:

> In the chapter 9 context, the alternative is dismissal of the case, permitting every creditor to fend for itself in the race to obtain the mandamus remedy and to collect the proceeds. Clearly, such a result is chaos, especially in those cases

> where the debt burden of the municipality is too high to support the taxes that the lands of the municipality will bear or the taxes or fees that the inhabitants or the users of municipal services will pay.

See 6 Collier on Bankruptcy § 943.03 [a] (15th ed. Rev. 2002). This test does not contemplate the Bankruptcy Court considering the liquidation test commonly used in Chapter 11 proceedings.

The Debtor believes that the Plan is in the best interests of creditors because the Plan maximizes the economic return to the Debtor's creditors of available funds in the most practicable way given the unusual and complex nature of this Case. The Plan devotes all of the Debtor's cash and accounts receivables to payment of the Debtor's creditors. The Debtor has obtained a fair price for its assets under the APA, and the Plan will therefore result in satisfaction of certain of Debtor's secured debts, the payment of Allowed Administrative Claims, and payment of all remaining cash to unsecured claims, albeit over time. By implementing the APA, the Debtor will be able to convey its hospital assets as a going concern. As a going concern, the value of the Debtor's assets, although small, is enhanced by several factors, including the experience and talent of employees, the value of assembled contracts and equipment, and the connections of the business to the community and other providers. The Plan allows the Debtor to realize that value, and distribute it to its creditors.

In contrast, in the absence of the Plan, the Debtor's creditors would be left to "fend for themselves." Individual creditor collection actions will likely aggregate through suits and attachments, to make continued operation of the Hospital untenable, thus eliminating the value of the Debtor's assets as a going concern. Furthermore, the Debtor does not have enough money coming in to keep the hospital operating, and therefore the hospital would have to shut its doors and close down completely. Without operating, the value of the Debtor's assets would consist of only the value of used equipment. This value would likely not be distributed pro rata. Instead, those creditors able to pursue litigation most quickly would benefit at the expense of others.

Finally, the Plan preserves the availability of healthcare services to patients in Barnwell County. In absence of the Plan, the hospital will cease operations to the determinant of all persons in Barnwell County.

2. Feasibility.

To satisfy the requirement set forth in Bankruptcy Code section 943(b)(7) that the Plan be feasible, the Debtor must demonstrate the ability to make the payments required under the Plan and still maintain its operations at the level that it deems necessary to the continued viability of the health care Debtor.

The Debtor submits that the Plan is feasible. Under the Plan, the ability to make the payments required by the Plan turns on the ability of RHS, the Debtor, the Bamberg County Memorial Hospital, and the Counties to close that transaction, and on collection of the outstanding accounts receivable.

3. Acceptance by Impaired Classes

Section 1129(a)(8) of the Bankruptcy Code requires that, unless the Plan satisfies the "cramdown" provisions of Section 1129(b) as discussed below, each Impaired Class must accept the Plan by their requisite vote for Confirmation to occur. As more fully described herein, a class of Claims will have accepted the Plan if holders of at least two-thirds in amount and more than one-half in number of Allowed Claims in such class voting to accept or reject the Plan have voted in favor of acceptance.

It is important to recognize that the majorities required by Section 1126(b) of the Bankruptcy Code are calculated based on those creditors in a class that actually vote on a plan. Thus, for example, if there were 100 creditors, and only five creditors voted to accept or reject the Plan, such creditors could determine the acceptance or rejection of the plan for the entire class of creditors. Thus it is important that each holder of Claims in Classes 1, 2, 5, 6 and 7, votes on the Plan.

The Bankruptcy Code provides that the Bankruptcy Court may confirm a plan of adjustment that is not accepted by all Impaired classes if at least one Impaired class of Claims accepts the Plan and the "cramdown" provisions set forth in Section 1129(b)(1) and 1129(b)(2) are satisfied. The Plan may be confirmed under the cramdown provisions if, in addition to satisfying the other requirements of Section 943(b) of the Bankruptcy Code, the Plan is (i) fair and equitable; and (ii) does not discriminate unfairly with respect to each class of claims that is Impaired under and has not accepted the Plan.

Among other things, the "fair and equitable" standard requires that unless a dissenting unsecured class of claims receives payment in full for its allowed claims, no holder of allowed claims in any class junior to that class may receive or retain any property on account of such claims. Additionally, the "fair and equitable" standard has been interpreted to prohibit any class senior to a dissenting class from receiving under a plan more than 100% of its allowed claims. Under the Plan, no class senior to a dissenting unsecured class will receive more than 100% payment of its allowed claims, and therefore, the Debtor believes the Plan satisfies the "fair and equitable" standard.

The requirement that the plan not "discriminate unfairly" means that a dissenting class must be treated substantially equally with respect to other classes of equal rank. The Debtor does not believe that the Plan unfairly discriminates against any class that may not accept or otherwise consent to the Plan.

As noted above, the Debtor has reserved the right to request the Bankruptcy Court to confirm the Plan by "cramdown" in accordance with section 1129(b)(1), (b)(2)(a), and (b)(2)(b). The Debtor also has reserved the right to modify the Plan to the extent, if any, that confirmation of the Plan under sections 943 and 1129(b) of the Bankruptcy Code requires such modifications.

C. Effective Date.

l. Conditions to the Occurrence of the Effective Date.

The Plan will not become effective and operative unless and until the Effective Date occurs. Article IX.C. of the Plan sets forth certain conditions to the occurrence of the Effective Date. The Debtor or RHS may waive in whole or in part the condition regarding agreements and instruments contemplated by, or to be entered into pursuant to, the Plan. Any such waiver of a condition may be effected at any time, without notice or leave or order of the Bankruptcy Court and without any formal action, other than the filing of a notice of such waiver with the Bankruptcy Court.

The Effective Date will occur on the first Business Day after which the conditions set forth in Article IX.C of the Plan are satisfied or waived; provided that the Effective Date must occur by no later than one year after the Confirmation Date.

2. Non-Occurrence Of Effective Date.

The Plan provides that, if confirmation occurs but the Effective Date does not occur within the period authorized by the Plan (one year after the Confirmation Date), upon notification submitted by the Debtor to the Bankruptcy Court: (a) the Confirmation Order shall be vacated; (b) no distributions under this Plan shall be made; (c) the Debtor and all holders of Claims shall be restored to the status quo as of the day immediately preceding the Confirmation Date as though the Confirmation Date never occurred; and (d) all of the Debtor's obligations with respect to the Claims shall remain unchanged and nothing contained herein shall be deemed to constitute a waiver or release of any claims by or against the Debtor or any other entity or to prejudice in any manner the rights of the Debtor or any entity in any further proceedings involving the Debtor. The failure of the Effective Date to occur, however, will not affect the validity of any order entered in the Case other than the Confirmation Order.

D. Conditions Precedent to Confirmation and Effectiveness

At the Confirmation hearing, the Bankruptcy Court will determine whether the Plan meets all of the requirements of Section 943 of the Bankruptcy Code governing the confirmation of a plan of adjustment. Among the conditions precedent to the Bankruptcy Court's Confirmation of the Plan are: (i) a finding that the Plan was solicited upon disclosure of adequate information as defined in Section 1125(a) of the Bankruptcy Code; and (ii) a finding that at least one of the Impaired Classes of Claims that is voting in the Case has accepted the Plan by the affirmative vote of Claimants that hold at least two-thirds in amount and not less than one-half in number of the Allowed Claims of such Classes that have voted on such Plan, but excluding any Claimants designated under Section 1126(e) of the Bankruptcy Code.

E. Effect of Confirmation and Discharge of Debtor

Article X of the Plan provides that confirmation of the Plan and the occurrence of the Effective Date will have a number of important and binding effects, some of which are summarized below. Readers are encouraged to review Article X of the Plan carefully and in its entirety to assess the various consequences of confirmation of the Plan.

1. Discharge of the Debtor.

Pursuant to Section 944 of the Bankruptcy Code, except as otherwise provided in the Plan, **the entry of the Confirmation Order, as of the Effective Date, will act as a full and complete discharge of all Claims against the Debtor, its past and present directors, officers, employees and agents, and the attorneys and other retained professionals of any of them, the post-Effective Date Debtor, and the Debtor's property or interests in property, including all assets transferred to RHS pursuant to the APA and the terms of the Plan of any nature whatsoever,** including, without limitation, any liability of a kind specified in Sections 502(g), 502(h) or 502(i) of the Bankruptcy Code, that arose or have been asserted against the Debtor, its past and present directors, officers, employees and agents, and the attorneys and other retained professionals of any of them, at any time before the entry of the Confirmation Order or that arise from any pre-Confirmation conduct of the Debtor, its past and present directors, officers, employees and agents, and the attorneys and other retained professionals of any of them, whether or not the Claim(s) are known to or knowable by the Claimant. **The discharge of the Debtor, its past and present directors, officers, employees and agents, and the attorneys and other retained professionals of any of them, will become effective as to each Claim, whether or not the Claim constituted an Allowed Claim and whether or not the holder of the Claim voted to accept the Plan. In addition, the Confirmation Order will operate as a general resolution with prejudice, as of the Effective Date, of all pending legal proceedings against the Debtor, its past and present directors, officers, employees and agents, and the attorneys and other retained professionals of any of them, and the Debtor's respective assets and properties as well as any proceedings not yet instituted against the Debtor, its past and present directors, officers, employees and agents, and the attorneys and other retained professionals of any of them, or the Debtor's respective assets and properties, except as otherwise provided in this Plan. As provided in section 524 of the Bankruptcy Code, the discharge provided in the Plan operates as an injunction against the prosecution of any Claim so discharged**.

The rights afforded in this Plan and the treatment of claims will be in exchange for and in complete satisfaction, discharge and release of all claims of any nature whatsoever arising on or before the Effective Date, known or unknown, including any interest accrued or expenses incurred thereon from and after the Petition Date, whether against the Debtor or any of its properties, assets, of interests in property. Except as otherwise provided in the Plan, on the Effective Date, all claims against the Debtor will be deemed to be satisfied, discharged and released in full.

2. Injunction.

Except as otherwise expressly provided in this Plan, all entities who have held, hold or may hold pre-Effective Date claims will be permanently enjoined, from and after the Effective Date, from (a) commencing or continuing in any manner any action or other proceeding of any kind with respect to any such pre-Effective Date claim against the Debtor, its past and present directors, officers, employees and agents, and the attorneys and other retained professionals of any of them; (b) enforcing, attaching, collecting, or recovering by any manner or means any judgment, award, decree or order against the Debtor, its past and present directors, officers, employees and agents, and the attorneys and other retained professionals of any of them or the

Debtor's property or interests in property, including all assets transferred to RHS pursuant to the APA and the terms of the Plan, with respect to such pre-Effective Date claims; (c) creating, perfecting, or enforcing any lien or encumbrance of any kind against the Debtor or its property or interests in property, including all assets transferred to RHS pursuant to the APA and the terms of the Plan; and (d) asserting any right of setoff, subrogation or recoupment of any kind against any obligation due to the Debtor, its past and present directors, officers, employees and agents, and the attorneys and other retained professionals of any of them with respect to any such pre-Effective Date claim, except as otherwise permitted by section 553 of the Bankruptcy Code.

3. Term of Existing Injunctions And Stays.

Unless otherwise provided, all injunctions or stays provided for in the Case pursuant to sections 105, 362, or 922 of the Bankruptcy Code, or otherwise, and in existence on the Confirmation Date, will remain in full force and effect until the Effective Date.

IX. ALTERNATIVES TO CONFIRMATION OF THE PLAN.

The Debtor believes that it has an obligation to effectuate a plan that allows for a viable health care facility which provides convenient and accessible health care to the citizens of Barnwell County. The Debtor was originally created for this purpose and this is the sole purpose for its continued existence. With this overall purpose, the Debtor believes that the Plan affords all creditors the potential for the greatest economic return from the Debtor's assets; therefore, it is in the best interest of all creditors. The Debtor cannot remain a viable full service health care facility based upon its current financial condition. The only realistic option for continuing to provide any meaningful level of health care services generally offered through a hospital is the pursuit of a regional health system facility as contemplated by the APA.

The Debtor has considered alternatives to the Plan. In the opinion of the Debtor, such alternatives would not afford creditors as great a return as achieved under the Plan.

The Debtor is unaware of any feasible alternative to this Plan. If this Plan is not confirmed then the possible alternatives are discussed below. These alternatives are bleak for the creditors of this Debtor and for the citizens of Bamberg County.

A. Analysis of Dismissal of the Case.

The Debtor could dismiss the Case. In the event of a dismissal of the Case, the hospital will be closed. It will be unlikely that creditors would receive any payment on their claims.

B. Alternative Plan under Chapter 9.

In the event the Plan is not confirmed, the Debtor will likely have to dismiss its case. The hospital will be closed. It will be unlikely that creditors would receive any payment on their claims.

Accordingly, the Debtor believes that this Plan represents the best alternative for creditors.

X. CERTAIN FACTORS TO BE CONSIDERED.

A. Factors Relating to Chapter 9 and the Plan.

1. Preferences.

Under federal bankruptcy law, an estate representative may avoid transfers of assets of a debtor as a "preferential transfer." To constitute a preferential transfer, the transfer must be (1) of an interest of the debtor in property; (2) for or on account of an antecedent debt; (3) made while the debtor was insolvent; (4) made within 90 days before the filing of a bankruptcy petition or made within one year if to an "insider" and (5) a transfer that enables the creditor to receive more that it would receive under a Chapter 7 liquidation of the debtor's assets. The Bankruptcy Code creates a rebuttable presumption that the debtor was insolvent during the 90 days immediately before the filing of the bankruptcy petition. The Debtor has not performed any analysis of whether any pre-petition transfers made by the Debtor might be avoidable as "preferential transfers." The Plan contemplates that the Debtor will transfer the right to recover any such transfers to the Committee for the benefit it of the Class 2 claimants (allowed general unsecured creditors).

2. Fraudulent Transfers.

Generally speaking, fraudulent transfer law is designed to avoid two types of transactions: (i) conveyances that constitute "actual fraud" upon creditors, and (ii) conveyances that constitute "constructive fraud" upon creditors. In the bankruptcy context, fraudulent transfer liability arises under Sections 548 and 544 of the Bankruptcy Code. Section 548 permits the estate representative or debtor-in-possession to "reach back" for a period of two years and avoid fraudulent transfers made by the Debtor or fraudulent obligations incurred by the Debtor during the two years prior to the Petition Date. Section 544 permits the trustee or debtor-in-possession to apply applicable state fraudulent transfer law. Assuming that South Carolina law were to apply, the estate representative could challenge conveyances, transfers or obligations made or incurred by the Debtor within at least three (3) years prior to the Petition Date. However, under Section 544 of the Bankruptcy Code, it is necessary to establish that at the time of the challenged conveyance or obligation, there in fact existed a creditor whose Claim remains unpaid on the Petition Date. The Debtor has not performed any analysis of whether any transfers might be fraudulent transfers to recover in this case. The Plan contemplates that the Debtor will transfer the right to recover any such transfers to the Committee for the benefit of the Class 2 claimants (allowed general unsecured creditors).

B. Risk Factors Attendant to the Implementation of the Plan and Relating to the Repayment of Claims and Other Considerations.

Prior to deciding whether to accept the Plan, each solicited person should carefully consider all of the information contained in this Disclosure Statement, including the factors described or cross-referenced in the following paragraphs, and other risks described elsewhere in this Disclosure Statement. These risk factors should not, however, be regarded as constituting the only risks involved in connection with the Plan and its implementation.

One of the risks involved with respect to the implementation of the Plan, is that the APA Closing does not occur. As set forth in Article VIII of the APA, the obligation of RHS to purchase the Debtor's assets is subject to certain conditions, which, if not met, frees RHS of its agreement to purchase the Assets. A copy of Article VIII of the APA is attached hereto as **Appendix F.** The most notable of these conditions are 1) the securing of a release from The United States (on behalf of itself, its officers, agents, agencies, and departments) of all claims relating to the Debtor's Medicare payor numbers; 2) the receipt from the State of South Carolina of a Certificate of Need for the Regional Healthcare System to be developed by RHS; and 3) successful resolution of the Chapter 9 proceedings filed on behalf of the Debtor and Bamberg County Memorial Hospital authorizing consummation of the APA in accordance with its terms. RHS may waive any of the closing conditions recited in the APA. If these conditions are not met or not waived by RHS, the Closing will not occur and the Plan as currently formulated could not be implemented.

There is also a risk that the amount of allowed administrative expenses claims and general unsecured claims may be greater than currently estimated, in which case distributions to creditors may be reduced. Furthermore, it is unclear how much of the Debtor's accounts receivables will be uncollected, thus reducing the amounts paid to general unsecured claims.

XI. INCOME TAX CONSEQUENCES OF THE PLAN.

The federal, state and local and other tax consequences of the Plan to the holders of Claims may vary based upon the individual circumstances of each holder, including as to tax issues peculiar to certain types of taxpayers (such as life insurance companies, S corporations, financial institutions, tax exempt organizations and foreign taxpayers). The Debtor urges each creditor to seek and obtain its own careful tax planning and advice based upon the individual circumstances of each holder of a Claim. Accordingly, holders of Claims are urged to consult their own tax advisors for the federal, state, local and other tax consequences peculiar to them under the Plan.

This Disclosure Statement does not constitute and is not intended to constitute either a tax opinion of tax advice to any person.

XII. SOURCES OF INFORMATION CONTAINED IN THIS DISCLOSURE STATEMENT.

The information contained in this Disclosure Statement has been compiled from various sources including: (1) management of the Debtor; (2) the books and records of the Debtor; and (3) the Debtor's general counsel and bankruptcy counsel, which has provided to management the discussion of the procedures applicable in a Chapter 9 bankruptcy case and other legal matters.

XIII. RECOMMENDATION FOR ACCEPTANCES.

The Debtor believes that the Plan is feasible, and in the best interest of the Creditors of the Debtor and is preferable to all other alternatives. **Accordingly, the Debtor recommends that holders of Impaired claims to vote to accept the Plan by so indicating on their Ballots and returning them as specified in this Disclosure Statement and on their Ballots.**

A Ballot for acceptance or rejection of the Plan is enclosed. It is important that you vote.

HAYNSWORTH SINKLER BOYD, P.A.

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