THIS PROPOSED DISCLOSURE STATEMENT HAS NOT BEEN APPROVED UNDER SECTION 1125(b) OF THE BANKRUPTCY CODE BY THE BANKRUPTCY COURT AS CONTAINING ADEQUATE INFORMATION FOR USE IN CONNECTION WITH THE SOLICITATION OF ACCEPTANCES OR REJECTIONS OF THE PLAN OF REORGANIZATION DESCRIBED HEREIN. ACCORDINGLY, THE FILING AND DISSEMINATION OF THIS PROPOSED DISCLOSURE STATEMENT ARE NOT INTENDED AND SHOULD NOT IN ANY WAY BE CONSTRUED AS A SOLICITATION OF VOTES ON THE PLAN, NOR SHOULD THE INFORMATION CONTAINED HEREIN BE RELIED UPON FOR ANY PURPOSE BEFORE A DETERMINATION BY THE BANKRUPTCY COURT THAT THE PROPOSED DISCLOSURE STATEMENT CONTAINS ADEQUATE INFORMATION.

IN THE UNITED STATES BANKRUPTCY COURT
FOR THE WESTERN DISTRICT OF TEXAS
EL PASO DIVISION

IN RE:	§	
EL PASO CHILDREN'S HOSPITAL	§	
CORPORATION,	§	**CASE NO. 15-30784-HCM**
DEBTOR.	§	**CHAPTER 11**
	§	
EIN: 26-3075429	§	
	§	
4845 ALAMEDA AVENUE	§	
EL PASO, TEXAS 79905	§	

DEBTOR'S DISCLOSURE STATEMENT IN SUPPORT OF CHAPTER 11 PLAN OF REORGANIZATION

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Pursuant to § 1121(a), El Paso Children's Hospital Corporation ("Debtor"), proposes the following Disclosure Statement for its Chapter 11 Plan of Reorganization for the Debtor (the "Plan").

I. INTRODUCTION

A. General Information Concerning Disclosure Statement and Plan

The Debtor submits its Disclosure Statement ("Disclosure Statement") under section 1125 of the Bankruptcy Code, and Rule 3016 of the Federal Rules of Bankruptcy Procedure ("Bankruptcy Rules") to all of their known creditors.

The purpose of this Disclosure Statement is to disclose information adequate to enable Holders of Claims to arrive at a reasonably informed decision in exercising the right to vote on the Debtor's Chapter 11 Plan of Reorganization (the "Plan"). A copy of the Plan is attached hereto as Exhibit A. Capitalized terms used herein, if not separately defined, have the meanings assigned to them in the Plan, or in the Bankruptcy Code and Bankruptcy Rules.

This Disclosure Statement is not intended to replace a careful review and analysis of the Plan, including the specific treatment you will receive under the Plan. It is submitted as an aide and supplement to your review of the Plan in an effort to explain the terms and implications of the Plan. Every effort has been made to fully explain various aspects of the Plan as it affects creditors. If any questions arise, the Debtor urges you to contact the Debtor's counsel, and every effort will be made to resolve your questions. You may, of course, wish to consult with your own counsel.

A general discussion of the projected Assets and Distributions under the Plan are set out below in this Disclosure Statement. The following summary is general in nature. Creditors are referred to the full Disclosure Statement and Plan for a full discussion of these matters.

The Disclosure Statement is prepared to reflect all relevant information known to the Debtor's management as of the date of this Disclosure Statement. The Debtor is not aware of any events subsequent to such date that would materially affect this analysis. There can be no assurance that the assumptions underlying this analysis would be made or accepted by the Bankruptcy Court.

ACCORDINGLY, THERE CAN BE NO ASSURANCE THAT THE VALUES AND AMOUNTS REFLECTED IN THIS DISCLOSURE STATEMENT WILL BE REALIZED AND ACTUAL RESULTS COULD VARY MATERIALLY FROM THOSE SHOWN HERE.

After a plan has been filed with a bankruptcy court, it must be accepted by at least one Class of impaired Claims against, or interests in, the Debtor that is entitled to vote. Section 1125 of the Bankruptcy Code requires that a plan proponent fully disclose sufficient information about the Debtor, its Assets, and the Plan to creditors and stockholders before acceptances of the Plan may be solicited. This Disclosure Statement is being provided to the holders of Claims against the Debtor to satisfy such requirements of section 1125 of the Bankruptcy Code. Notably, the Debtor is a nonprofit corporation and has no equity interest holders.

The Bankruptcy Code provides that creditors and stockholders are to be grouped into "classes" under a plan and that they are to vote to accept or reject a plan by class. While courts have disagreed on the proper method to be used in classifying creditors and stockholders, a general rule of thumb (which is subject to exceptions) is that creditors with similar legal rights

are placed together in the same class, and that stockholders with similar legal rights are placed together in the same class. For example, all creditors entitled to priority under the Bankruptcy Code might be placed in one class, while all creditors holding subordinated unsecured claims might be placed in a separate class.

The Bankruptcy Code does not require that each individual claimant or stockholder vote in favor of a plan for the Court to confirm a plan. Rather, each class of claimants and stockholders must accept a plan (subject to the exception discussed below). A class of claimants accepts a plan if, of the claimants in the class who actually vote on a plan, such claimants holding at least two-thirds in dollar amount and more than one-half in number of allowed claims vote to accept the plan. For example, if a hypothetical class has ten creditors that vote and the total dollar amount of those ten creditors' claims is $1,000,000, then for such class to have accepted the plan, six or more of those creditors must have voted to accept the plan (a simple majority), and the claims of the creditors voting to accept the plan must total at least $666,667.00 (a two-thirds majority).

The Court may confirm a plan even though fewer than all classes of claims and interests vote to accept the plan. In this instance, the plan must be accepted by at least one "impaired" class of claims, without including any acceptance of the plan by an Insider. Section 1124 of the Bankruptcy Code defines "impairment" and generally provides that a claim as to which legal, equitable or contractual rights are altered under a plan is deemed to be "impaired." Under the Plan, Claims in Classes 2, 3, 4, 5, 6, and 7 are impaired.

If all impaired classes of claims and interests under a plan do not vote to accept the plan, the Debtor is entitled to request that the Court confirm the plan pursuant to the "cramdown" provisions of section 1129(b) of the Bankruptcy Code. These "cramdown" provisions permit a plan to be confirmed over the dissenting votes of classes of claims and/or interests if at least one impaired class of claims votes to accept a plan (excluding the votes of insiders) and the Court determines that the plan does not discriminate unfairly and is fair and equitable with respect to each impaired, dissenting class of claims and interests.

Independent of the acceptance of a plan as described above, to confirm a plan, the Court must determine that the requirements of section 1129(a) of the Bankruptcy Code have been satisfied. See, *infra*, "Confirmation Procedure," Section XVIII, for a discussion of the section 1129 requirements for confirmation of a plan of reorganization.

THE DEBTOR BELIEVES THAT THE PLAN SATISFIES EACH OF THE CONFIRMATION REQUIREMENTS OF SECTION 1129(a) AND, IF NECESSARY, SECTION 1129(b) OF THE BANKRUPTCY CODE.

The Bankruptcy Code requires that the Debtor solicit acceptances and rejections of the proposed Plan before the Plan can be confirmed by the Bankruptcy Court. Before the Debtor can solicit acceptances of the Plan, the Bankruptcy Court must have approved the Disclosure Statement and determined that the Disclosure Statement contains information adequate to allow creditors to make informed judgments about the Plan. After the Bankruptcy Court has approved the Disclosure Statement, a "solicitation package" consisting of the Disclosure Statement, proposed Plan and, for those Holders of Claims entitled to vote, a Ballot, are sent to the Holders of Claims. The Holders of impaired Claims entitled to receive Distributions will then have the opportunity to vote on the Plan and should consider this Disclosure Statement for such vote.

At the Confirmation Hearing set by the Court, the Court will consider whether the Plan should be confirmed. Section 1129 of the Bankruptcy Code contains the requirements for confirmation of a Plan. YOUR VOTE IS IMPORTANT. As noted, in order for the Plan to be accepted, at least two-thirds in amount and more than one-half in number of the voting Creditors in each Class must affirmatively vote for the Plan. Even if all Classes of Claims accept the Plan, the Bankruptcy Court may refuse to confirm the Plan. The Court must find that the Plan complies with the applicable provisions of the Bankruptcy Code and that the proponent of the Plan has also complied with the Bankruptcy Code. The Court must also find that the Plan has been proposed in good faith and not by any means forbidden by law. The Court must find that the proponent of the Plan, the Debtor, has disclosed the identity and affiliation of the persons who will manage the Debtor after confirmation, that the appointment of such persons is consistent with the interest of Creditors and with public policy, and that the identity and compensation of any Insiders that will be employed or retained by the Debtor have been disclosed. The Court must additionally find that each Class of Claims has either accepted the Plan or will receive at least as much as it would under a Chapter 7 liquidation of the Debtor. The Code also provides for the treatment of certain Priority Claims. If any Classes of Claims are impaired under the Plan, the Court must find that at least one Class of Claims that is impaired has accepted the Plan without counting any votes by Insiders. Additionally, the Plan must provide for payment of certain required fees to the U.S. Trustee.

As noted, in the event that the Plan is not accepted by all Classes of Claims, the Debtor may attempt to obtain confirmation under what is known as “cram-down” which requires a finding that the Plan does not discriminate unfairly and is fair and equitable with respect to each Class of Claims that is impaired by the Plan and has not accepted the Plan. The Code provides several options for the Plan to be “fair and equitable” to a Secured creditor. Included among these options are that the Secured creditor retains its Lien(s) and receives deferred Cash payments at a market interest rate totaling either the value of the property securing the Claim or the amount of the Allowed Claim as found by the Court, whichever is less. With respect to a Class of unsecured Claims, the requirement that a Plan be “fair and equitable” requires that the Holder of an unsecured Claim be paid the Allowed amount of its Claim or that no junior Claim receive or retain any property on account of such Claim.

B. Disclaimers.

NO SOLICITATION OF VOTES HAS BEEN OR MAY BE MADE EXCEPT PURSUANT TO THIS DISCLOSURE STATEMENT AND SECTION 1125 OF THE BANKRUPTCY CODE, AND NO PERSON HAS BEEN AUTHORIZED TO USE ANY INFORMATION CONCERNING THE DEBTOR TO SOLICIT ACCEPTANCES OR REJECTIONS OF THE PLAN OTHER THAN THE INFORMATION CONTAINED IN THIS DISCLOSURE STATEMENT. CREDITORS SHOULD NOT RELY ON ANY INFORMATION RELATING TO THE DEBTOR OTHER THAN THAT CONTAINED IN THIS DISCLOSURE STATEMENT AND THE EXHIBITS ATTACHED HERETO OR SUBMITTED HEREWITH.

EXCEPT AS SET FORTH IN THIS DISCLOSURE STATEMENT AND THE EXHIBITS, NO REPRESENTATION CONCERNING THE DEBTOR, ITS ASSETS, PAST OR FUTURE OPERATIONS, OR CONCERNING THE PLAN IS AUTHORIZED, NOR ARE ANY SUCH REPRESENTATIONS TO BE RELIED UPON IN ARRIVING AT A DECISION WITH RESPECT TO THE PLAN. ANY

REPRESENTATIONS MADE TO SECURE ACCEPTANCE OR REJECTION OF THE PLAN OTHER THAN AS CONTAINED IN THIS DISCLOSURE STATEMENT SHOULD BE REPORTED TO COUNSEL FOR THE DEBTOR.

UNLESS ANOTHER TIME IS SPECIFIED, THE STATEMENTS CONTAINED IN THIS DISCLOSURE STATEMENT ARE MADE AS OF THE DATE HEREOF.

NEITHER DELIVERY OF THE DISCLOSURE STATEMENT NOR ANY EXCHANGE OF RIGHTS MADE IN CONNECTION WITH THE DISCLOSURE STATEMENT AND THE PLAN SHALL UNDER ANY CIRCUMSTANCES IMPLY THAT THERE HAS BEEN NO CHANGE IN THE FACTS SET FORTH HEREIN SINCE THE DATE THE DISCLOSURE STATEMENT AND THE MATERIALS RELIED UPON IN PREPARATION OF THE DISCLOSURE STATEMENT WERE COMPILED.

THE APPROVAL BY THE BANKRUPTCY COURT OF THIS DISCLOSURE STATEMENT DOES NOT CONSTITUTE AN ENDORSEMENT BY THE BANKRUPTCY COURT OF THE PLAN OR A GUARANTEE OF THE ACCURACY OR THE COMPLETENESS OF THE INFORMATION CONTAINED HEREIN.

THIS DISCLOSURE STATEMENT AND THE PLAN ATTACHED HERETO SHOULD BE READ IN THEIR ENTIRETY PRIOR TO VOTING ON THE PLAN. FOR THE CONVENIENCE OF HOLDERS OF CLAIMS, THE TERMS OF THE PLAN ARE SUMMARIZED IN THIS DISCLOSURE STATEMENT, BUT ALL SUMMARIES ARE QUALIFIED IN THEIR ENTIRETY BY THE PLAN, WHICH CONTROLS IN THE EVENT OF ANY INCONSISTENCY.

II. HISTORICAL BACKGROUND

A. The Debtor's Nonprofit Operations

Organizational Structure & Background

The Debtor is an independent non-profit 501(c)(3) corporation that is governed by a board of directors ("EPCH Board") consisting of entirely volunteer board members. The sole mission of the Debtor has been to provide pediatric care to the children of El Paso and the surrounding region. The Debtor's primary operations have consisted of owning and operating a 122-bed children's hospital.

i. The Debtor's Opening

The conception of the Debtor arose from the performance of five separate feasibility studies completed between 1993 and 2007 to address El Paso's desperate need for quality pediatric care. Until the Debtor opened its doors, El Paso was the largest U.S. city without a separately licensed children's hospital. Even today, the Debtor is the only separately licensed, non-taxing, independent, not-for-profit children's hospital in the entire El Paso region. The Debtor is the only dedicated pediatric hospital within a 205-mile radius of El Paso.

The opening of the Debtor attracted high-caliber specialists and subspecialists to El Paso, along with experienced registered nurses and highly trained clinical staff that provide high quality care to the children of the El Paso region on a daily basis. The relatively rare pediatric specialists and subspecialists are attracted to work in a separately licensed, independent

children's hospital because pediatric programs within a general hospital face constraints on growth and modernization because of competition for dollars with highly profitable adult programs. Children's hospitals such as the Debtor are fixated on advancing the state of the art in children's healthcare, and endeavor to bring together patients whose needs require new technology, pharmacology, and healthcare systems, physicians who are quickly adaptive, and researchers and educators committed to advancing their particular specialties. In addition, children's hospitals provide novel, cutting-edge treatments, and are proving grounds of advances in children's care. Indeed, the Debtor has numerous review board-approved protocols and clinical trials already in place; prior to the Debtor's opening, novel pediatric treatments were late in reaching El Paso's children for want of participation in nationwide progress, research, and development.

Of the five feasibility studies discussed above, Thomason Hospital (the former d/b/a of El Paso County Hospital District d/b/a University Medical Center of El Paso "UMC")) engaged Kurt Salmon Associates to prepare one such feasibility study (the "2007 Feasibility Study"). The results of the 2007 Feasibility Study were the platform through which UMC and the El Paso County Commissioners' County garnered support of El Paso taxpayers for the establishment of the Debtor. Under the 2007 Feasibility Study, UMC selected the option under which the Debtor would operate on the UMC campus. The 2007 Feasibility Study was presented to the El Paso County Commissioners' Court, the Chamber of Commerce, other stakeholders and the El Paso public; it was used to generate support to obtain voter approval of general revenue obligation bonds in the amount of $120.1 million.[1]

The Debtor was indeed built and equipped on the UMC campus using revenue from the general obligation bonds. When constructed, the immediate vision for the Debtor was to foster the establishment of core services of a children's hospital to serve the community of El Paso, including emergency room, radiology, laboratory, inpatient beds for pediatrics, neonatal intensive care, acute nursery, intensive care pediatrics, hematology, and oncology services. The 2007 Feasibility Study included an expectation that annual visits to a pediatric emergency room would peak at 10,000; the Debtor in fact treats in excess of 20,000 children annually in its emergency room. The 2007 Feasibility Study also predicted that out-migration of patients would be reduced by twenty percent (20%), but the Debtor has reduced that figure by eighty percent (80%).

UMC, particularly its Chief Executive Officer, James N. Valenti ("Mr. Valenti"), were instrumental in setting up the Debtor. Mr. Valenti as well as the Chief Financial Officer of UMC, Michael Nunez, attended multiple meetings of the Debtor's Board and voted at the meetings of the Debtor's Board. Mr. Valenti partnered with then-chairman of the Debtor's Board, Sam Legate, to hire the first Chief Executive Officer of the Debtor, Larry Duncan. Mr. Valenti also hired the first legal counsel for the Debtor, and pioneered the selection of the law firm of Kemp Smith by the Debtor for counsel. At the time, Kemp Smith also served as counsel to UMC.

[1] UMC is a validly existing hospital district created by the Texas Legislature and is a political subdivision of Texas. It is funded through tax revenue and its annual budget is approved by the El Paso County Commissioners' Court. Pursuant to Tex. Health & Safety Code Ann. § 281.046, UMC is obligated to provide care regardless of ability to pay to indigent and needy persons residing in its district as it receives ad valorem tax revenue from its constituents.

ii. The Agreements with UMC

Prior to its opening, the Debtor and UMC entered into a series of Agreements pursuant to which UMC provides services to the Debtor related to its operations. The Agreements include a Master Agreement ("Master Agreement") and a Facility Lease Agreement ("Lease") for the space on which Plaintiff operates on the UMC campus ("Leased Premises"), as well as several development series and repayment agreements that cover the provision and repayment of working capital, administrative services agreements for the provision of services necessary for the Plaintiff to operate, ranging from housekeeping and dietary to payroll, accounting, revenue cycle, human resources, equipment lease agreements, and labor service agreements ("Related Agreements," and together with the Master Agreement and Lease, the "Agreements"). The Agreements were necessary to have in place prior to the Debtor's opening in February 2012 so that the Debtor could timely open its doors to patients. The Agreements were entered into on the eve of and even after the Debtor's opening on February 14, 2012.

Shortly after the Debtor's opening, disputes arose between the Debtor and UMC due to myriad issues, including UMC's practice of overcharging the Debtor for services and mandating payment of rent under the Lease to UMC, even when funds from intergovernmental transfers ("IGT") were not available to pay the rent as promised by UMC. The Debtor entered into the Lease with UMC based on UMC's direction and promise that the purpose of including an amount of rent to be charged under the Lease was to facilitate the Debtor's receipt of IGT. As a public entity, UMC was able to serve as the Debtor's IGT sponsor. UMC promised the Debtor that if such IGT funding did not materialize, no amount of rent would be due, notwithstanding the inclusion of a rental amount in the Lease. The Debtor relied on UMC's promise to the Debtor's detriment.

The Debtor and UMC attempted negotiations to resolve the disputes. They also entered into a Joint Resolution on April 9, 2013, memorializing the fact that they jointly resolved "[t]o enter into agreements which are fair to both parties, not unreasonably favor or bias either party, and benefit the citizens of El Paso by serving the long-term purpose of improved quality and increased access to pediatric specialty and sub-specialty." There is no dispute that the Debtor and UMC have agreed not to profit from one another.

iii. The Avoidable UMC Lien

Because of the unusually close relationship between UMC and the Debtor, UMC has had knowledge of the Plaintiff's material operating losses and its lack of liquidity since at least 2013. Indeed, on February 1, 2013, the Debtor and UMC entered into the First Amendment to Agreement on Obligations between University Medical Center of El Paso and El Paso Children's Hospital ("Forbearance Agreement"). The Forbearance Agreement set forth that the Debtor had made payment to UMC of not less than $24,000,000 for the period October 1, 2012 through September 30, 2013, and was awaiting $16,000,000 in supplemental payments from the Texas Health and Human Services Commission ("HHSC"). The Forbearance Agreement further provided that any obligation owed to UMC by the Debtor was still subject to "any adjustments or reconciliations" that may be required under the particular Agreements.

A few months later after the execution of the Forbearance Agreement, UMC and the Debtor entered into a Pledge and Security Agreement dated April 11, 2013.

On or about May 27, 2014, the Debtor's Board decided that it needed to cease payments to UMC to preserve its liquidity. The next day, on May 28, 2014, UMC filed a UCC-1 Financing Statement with the Texas Secretary of State ("UMC Lien"). As UMC knew, the Debtor was insolvent at the time of the filing of the UMC Lien.

Financial

Since at least mid-April of 2014, the Debtor has had material losses and has suffered from a lack of liquidity. The Debtor's liquidity issues stem directly from UMC's systematic and calculated practice of overcharging the Debtor in connection with the UMC Agreements. The Debtor believes that its financial condition would improve if the terms of the Agreements were aligned with actual costs or even market rates for the services from UMC. The UMC Lien purports to cover all assets of the Debtor. The Debtor's financial circumstances also suffered due to drastic changes in healthcare regulations, reducing the amount of state and federal funding available to the Debtor that had otherwise been anticipated.

The Debtor is also a party to various agreements with Texas Tech ("Texas Tech Agreements"). Through such agreements, the Debtor has become the principal training site for the Texas Tech Pediatric Residency Program. The Debtor believes that its relationship with Texas Tech readily benefits both parties as it provides physicians to the Debtor, among other things, and enables Texas Tech to attract high-caliber residents to El Paso for pediatric residency programs. Children's hospitals train nearly thirty (30%) of all pediatricians and fifty (50%) of all pediatric subspecialists.

As part and parcel of the unusually close relationship between the Debtor and UMC, the Debtor has received charitable donations through the UMC Foundation of El Paso.[2] However, a separate foundation dedicated solely to the Debtor would increase the amount of charitable gifts that it receives due at least in part to the public's perception that UMC is supported by tax dollars whereas the Debtor is not.

The Debtor's Operations

Although still in its infancy, the Debtor has already built a strong relationship with the El Paso community, and has an excellent track record in terms of consistent provision of quality patient care. The Debtor recently received the highest praise from The Joint Commission[3] for quality care in March 2015. During The Joint Commission's survey of the Debtor in March 2015, The Joint Commission praised the Debtor's operations, stating that its report was "the best report we have ever issued."

Until recently, El Paso was the only city of the largest thirty (30) cities in the United States without access to a Children's Oncology Group ("COG") experimental protocols, many of which are rescue therapies for a child suffering from cancer that is resistant to standard

[2] As part of its mission, the UMC Foundation of El Paso states that it "is the beneficiary . . . of every mother and father with a heartfelt desire to treat their sick child close to home; . . . of a community that endorsed a children's hospital so that their children could have the best health care possible. As a Foundation, we are the keeper of dreams come true. We are the reminder that today's dreams are tomorrow's healthy children."

[3] The Joint Commission is an independent, nonprofit organization that accredits and certifies health care organizations and programs in the United States. Accreditation and certification by The Joint Commission is recognized nationwide as a symbol of quality that reflects an organization's commitment to meeting performance standards.

treatments. As a member of COG, the Debtor now has four (4) full-time subspecialists able to provide the same protocols to children with aggressive cancers as is available at St. Jude's Children's Research Hospital, in Memphis, Tennessee, The University of Texas M.D. Anderson Cancer Center, in Houston, Texas, and Memorial Sloan Kettering Cancer Center, in New York, New York.

Prior to the Debtor's opening, no El Paso hospital offered 24/7 in-house pediatric attending coverage of neonatal intensive care unit ("NICU"), pediatric intensive care unit ("PICU"), or general pediatrics. The Debtor already offers these services.

In addition, the Debtor has become the principal inpatient training site for the Texas Tech Pediatric Residency Program. The Debtor's emergency room department is staffed and operated 24/7 by Pediatric Emergency Medicine-trained physicians with rare instances of an adult attending physician providing coverage. The Debtor's rapid response and resuscitation teams is the Debtor's hospitalist group of six and a half (6.5) physicians who provide 24/7 in-house coverage. The Debtor's Pediatric Intensive Care Unit integrates care among all the Debtor's pediatric medical and surgical specialists for critically ill children. The Debtor's Endocrine Division has already expanded from only one (1) physician to three and a half (3.5) physicians providing care to children with diabetes, growth failure, and other endocrine conditions. In addition, the Debtor successfully recruited its first pediatric nephrologist for dialysis and management of pediatric kidney failure. Two pediatric gastroenterologists will also soon join the Debtor, further enhancing the Debtor's ability to provide excellent care in an array of specialties and sub-specialties to the children of El Paso in an unprecedented way.

III. THE BANKRUPTCY CASE

A. General

On May 19, 2015 (the "Petition Date"), the Debtor filed a voluntary petition for relief under chapter 11 of the United States Bankruptcy Code (the "Bankruptcy Cases") in the United States Bankruptcy Court for the Western District of Texas, El Paso Division (the "Bankruptcy Court"). As of the Petition Date, the Debtor operates a children's hospital located in El Paso, El Paso County, Texas. The Debtor has continued its operations throughout its Bankruptcy Case.

B. The Debtor's Schedules and Bar Date

The Debtor has filed its Schedules of Assets and Liabilities with the Bankruptcy Court. In the aggregate, the Debtor's scheduled pre-petition unsecured Claims total approximately $14,934,578.75. Because of the avoidability of the UMC Lien, the Debtor's Scheduled Secured Claims is unknown. In addition to Claims Scheduled by the Debtor, Proofs of Claim have been filed against the Debtor in the aggregate amount of $2,909,306 as of the date of filing of this Disclosure Statement.[4] The Debtor will examine all of the filed Claims. Upon completion of its evaluation, it is expected that objections to certain Claims, including scheduled Claims, will be filed, and the total aggregate amount of Allowed Claims will be reduced.

[4] The bar date for filing proof of claims is September 22, 2015. Thus, although the Debtor does not anticipate a substantial amount of creditors asserting substantial claims, additional claims may be filed against the Debtor subsequent to the filing of this Disclosure Statement.

C. Retention of Professionals

The Debtor obtained approval from the Bankruptcy Court to retain Professionals pursuant to §§ 105, 363(b), 330 and 331 of the Bankruptcy Code. The Debtor retained the law firm of Jackson Walker L.L.P. as bankruptcy counsel for the Debtor in the Bankruptcy Case.

The Debtor also obtained approval to retain AP Services, LLC ("AlixPartners"), as financial advisors. Mark Herbers of AlixPartners was appointed as the Debtor's Chief Executive and Restructuring Officer ("CERO") pursuant to the Court's Order Pursuant to 11 U.S.C. §§ 105(a) and 363(b) (i) Authorizing the Employment and Retention of AP Services, LLC and (ii) Designating Mark Herbers as Chief Executive and Restructuring Officer *Nunc Pro Tunc* to May 19, 2015 [Dckt. No. 219]**.**

The Debtor also obtained approval to utilize ordinary course professionals during the course of this Bankruptcy Case pursuant to the Order Authorizing the Debtor to Retain, Employ, and Compensate Professionals Utilized in the Ordinary Course of Business [Dckt. No. 265].

The Debtor has requested approval to retain the investment banking firm of Miller Buckfire & Co., LLC ("Miller Buckfire") to assist in its endeavor to locate a strategic partner (relative to Plan Scenario A) as well as to evaluate the options available to the Debtor in terms of ascertaining alternatives to an acquisition or combination with UMC. *See* Application to Approve Employment and Retention of Miller Buckfire & Co., LLC as Investment Bankers for the Debtor ("Miller Buckfire Application") [Dckt. No. 163]. As of the date of filing of this Disclosure Statement, the Miller Buckfire Application is still pending.[5] Despite the pendency of the Miller Buckfire Application, Miller Buckfire has already provided valuable services to the Debtor in this case and with respect to Plan Scenario A. The retention of Miller Buckfire is critical to obtaining third-party funding in light of UMC's threat to withdraw its Plan B.

D. Adversary Proceedings.

On May 19, 2015, the Debtor initiated Adv. Pro. No. 15-03005 against El Paso County Hospital District d/b/a University Medical Center of El Paso (the "UMC Litigation"). The UMC Litigation is set for trial for October 22-23, and 26-27 in El Paso, Texas. In addition, the Debtor has recently filed its Motion for Partial Summary Judgment against UMC, requesting entry of summary judgment on the Debtor's § 547(b) claim against UMC. In the UMC Litigation, the Debtor is also pursuing claims against UMC pursuant to §§ 544 and 548 of the Bankruptcy Code and for equitable subordination. The Debtor therein also requests entry of a declaratory judgment under both Federal and state law with respect to the rights of the parties related to the Lease, as the Debtor believes that the Lease constitutes a disguised financing transaction or a disguised equity transaction. The Debtor also requests in the UMC Litigation that the Lease be reformed to reflect that the rent charged thereunder by UMC should be lower and should be satisfied by the Debtor's provision of care to the indigent pediatric population of El Paso and the region.

On May 19, 2015, the Debtor initiated Adv. Pro. No. 15-03006 against El Paso Health Plans, Inc. ("EPF Adversary"). In the EPF Adversary, the Debtor is pursuing claims against El Paso First Health Plans, Inc. ("EPF"), the wholly-owned managed care company of UMC. As set forth therein, UMC mandated that the Debtor enter into the Provider Agreement, pursuant to which the Debtor agreed to provide healthcare services to enrollees of health plans of EPF.

[5] A hearing is set on the Miller Buckfire Application on September 29, 2015.

In the EPF Adversary, the Debtor has brought claims pursuant to §§ 544 and 548 of the Bankruptcy Code to recover fair market reimbursement for its provision of services to EPF enrollees. The reimbursement rates that historically applied to the Debtor's provision of services to EPF enrollees have been so far below market rates that the Debtor lost money in providing such services. The EPF Adversary has not yet been set for trial.

On May 19, 2015, the Debtor initiated Adv. Pro. No. 15-03007 against Navigant Healthcare Cymetrix Corporation f/k/a Cymetrix Corporation ("Navigant Adversary"). The Debtor and Navigant entered into a compromise that was approved by the Bankruptcy Court pursuant to Fed. R. Bankr. Pro. 9019, and an order was entered on July 14, 2015 [Dckt. No. 160]. Pursuant to the compromise of the Navigant Adversary and the Agreed Judgment [Adv. Dckt. No. 12], Navigant released to the Debtor $988,687.00 in unencumbered funds. The unencumbered funds from the Navigant Adversary provide funding for the Debtor's efforts in the UMC Litigation and the EPF Adversary.

E. Miscellaneous Other Matters

Other administrative orders entered by the Bankruptcy Court during the Bankruptcy Cases include orders granting (1) the Debtor's Motion for Order Establishing Monthly Fee and Expense Reimbursement Procedures [Dckt. No. 170]; and (2) Order Regarding Debtor's Motion to Compel Mediation [Dckt. No. 77].

In addition, the Bankruptcy Court also denied a motion by UMC to terminate the Debtor's exclusivity periods to permit it to file its own plan. *See* Order Denying Motion to Terminate Exclusivity Periods [Dckt. No. 262]. In connection with its request to terminate the Debtor's exclusivity periods, and subsequent to the day-long hearing concerning same, UMC filed a revised UMC's Chapter 11 Plan for Reorganization for Debtor ("UMC Plan Proposal") [Dckt. No. 177], which was denied by the Court via its Order Denying Motion to Terminate Exclusivity Periods [Dckt. No. 262]. Correspondingly, the Court upheld UMC's Objection to the Debtor's Motion to Extend Exclusivity [Dckt. No. 263]. As attached to the Plan, Plan Scenario B contains simplifying revisions to the UMC Plan Proposal, which the Debtor believes are in the best interest of its estate and in facilitating its operations post-confirmation.

The Court also ordered the Debtor to make rental payments to UMC during the pendency of the Bankruptcy Case that are subject to disgorgement pending entry of judgment in the UMC Litigation. *See* Order Granting Motion to Compel Payment of Facility Lease [Dckt. No. 325]. In conjunction with such order, the Court also extended the time by which the Debtor must assume or reject the Lease, extending such time up to and including December 15, 2015. *See* Order Granting Motion to Extend Time to Assume or Reject Leases of Nonresidential Real Property [Dckt. No. 310].

A patient care ombudsman was appointed in this case on June 12, 2015 [Dckt. No. 80], pursuant to which Ms. Suzanne Koenig was appointed as the patient care ombudsman for the Debtor.

A Committee of Unsecured Creditors ("Committee") was formed on September 1, 2015 [Dckt. No. 305].

IV. SUMMARY OF THE PLAN

Based on the circumstances of this case, including in particular the Debtor's need to propose a plan within its first exclusivity period, the Plan[6] proposed by the Debtor offers two different scenarios to achieve payment of Claims. Under Plan Scenario A ("Plan" or "Plan Scenario A"), the Debtor will enter into a transaction with a strategic partner for the benefit of the Debtor's creditors and for its future operations. A strategic partner transaction is in the best interest of its estate because it will provide for the payment of creditors and also facilitate the successful operations of the Debtor as an independent children's hospital subsequent to confirmation. Under Plan Scenario B, the latest plan proposed by UMC contains suggested changes from the Debtor that facilitate the Debtor's operations and transition to control under UMC in a manner that is reasonable and should cause less disturbance, and have less of an impact on the Debtor's future operations. Plan Scenario B, which includes the Debtor's August 18, 2015 revisions to the UMC Plan Proposal in the redline, is attached hereto as Exhibit B.[7]

At present, contrary to UMC's position in this Bankruptcy Case thus far, UMC has announced to the Debtor that it will seek to withdraw the UMC Plan Proposal.[8] UMC's threat to withdraw the UMC Plan Proposal comes after it formed the backdrop of contested hearings on exclusivity, UMC's motion to compel lease payments, and the Debtor's request for an extension of time to assume or reject leases of nonresidential property.[9] In tandem with its threatened withdrawal of the UMC Plan Proposal, UMC has tried to assert that the Debtor is facing a cost report issue previously unknown to UMC. To the contrary, the potential issue relied upon by UMC in conjunction with its withdrawal of the UMC Plan Proposal has been known by UMC for months prior to the Petition Date as part of its due diligence to acquire the Debtor.[10]

The most important difference between Plan Scenario A and Plan Scenario B is that under Plan Scenario A, the Debtor will maintain its status as an independent children's hospital, which it has always believed is integral to preservation of its mission. In the event that a transaction with a strategic partner is not consummated, the Debtor requests confirmation of Plan Scenario B, as revised. The Debtor believes that its revisions to the UMC Plan Proposal make the UMC Plan Proposal more reasonable and foster the successful operations of the Debtor going

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[6] For the avoidance of doubt, all references to the "Plan" herein shall refer to Plan Scenario A and all references to the Plan in Plan Scenario B (Exhibit 1 to the Plan) shall refer to Plan Scenario B.

[7] Plan Scenario B arose from UMC's Chapter 11 Plan for Reorganization for Debtor ("UMC Plan Proposal") [Dckt. No. 177], as proposed in connection with its Supplement to Motion to Terminate Exclusivity Periods [Dckt. No. 253], filed after its Motion to Terminate Exclusivity Periods [Dckt. No. 172], which was denied by the Court via the Order Denying Motion to Terminate Exclusivity Periods [Dckt. No. 262]. As attached hereto, Plan Scenario B contains revisions to the UMC Plan Proposal, which the Debtor believes are in the best interest of its estate and in facilitating its operations post-confirmation.

[8] Attached hereto as Exhibit C is email correspondence from bankruptcy counsel for UMC days before the Debtor's exclusivity expires and after two rulings by the Court, in which UMC indicates it will withdraw the UMC Plan Proposal.

[9] The Debtor reserves all rights with respect to its ability to request that judicial estoppel apply to UMC's threatened withdrawal of the UMC Plan Proposal. *See, e.g., In re A.P. Liquidating Co.,*350 B.R. 752 (E.D. Mi. 2006) (barring claimant's attempt to withdraw a proof of claim to avoid being subject to core jurisdiction after it was asserted as part of the chapter 11 plan under the doctrine of judicial estoppel and observing that "[t]he doctrine of judicial estoppel protects the integrity of the judicial process by preventing a party from taking a position inconsistent with one successfully and unequivocally asserted by the same party in a prior proceeding."));

[10] Attached hereto as Exhibit D is a true and correct copy of correspondence dated May 13, 2015, between Jerry Bell (counsel for UMC) and Susan Koch (counsel for the Debtor) regarding the cost report issue.

forward. The Debtor's revisions also align Plan Scenario B with the Debtor's nonprofit status and foster the preservation of the Debtor's mission, which the Debtor believes is integral to the success of the Debtor's future operations. If the Debtor loses its status as an independent, separately licensed children's hospital, it believes that a significant number of its specialists and sub-specialists will leave the Debtor resulting in a precipitous decline in revenues for which UMC provides no solution.

Each of Plan Scenario A and Plan Scenario B contemplate full payment of all Priority Claims and Secured Claims. Each of Plan Scenario A and Plan Scenario B contemplate payment in full of the Texas Tech Unsecured Claim with four and a half percent (4.5%) interest. Both Plan Scenarios A and B contemplate payment of the Patient Refund Claims and Patient Credit Balance Claims.

The source of payments under Plan Scenario A is consideration to be received in a potential transaction with a strategic partner, property to be vested in the Reorganized Debtor, ongoing operations of the Reorganized Debtor, recoveries from the UMC Litigation and the EPF Adversary, and anticipated state and federal funding to the Debtor. In addition, under Plan Scenario A, the Debtor may also seek to find a public entity other than UMC willing to serve as its sponsor for the receipt of intergovernmental transfers, including Texas Tech. The source of consideration under Plan Scenario B is UMC, including its voluntary subordination of its asserted claim to all other creditors and subsidizing the Debtor's operations.

Under each of Plan Scenario A and Plan Scenario B, the Debtor will seek to assume its agreements with Texas Tech University Health Science Center ("Texas Tech Agreements") with certain portions of the arrearage amounts treated in a payment plan over time. Under Plan Scenario A, the Debtor will seek to assume the HHSC Provider Agreement. The Debtor believes that no cure amount is due as a requirement of any assumption of the HHSC Provider Agreement.

Under Plan Scenario A, the Debtor will also seek to assume its Agreements with UMC, including the Lease, subject to reformation by the Court, and as desired by any strategic partner. Additionally, under Plan Scenario A, any Executory Contract to which the Debtor is a party shall be deemed rejected as of the Confirmation Date unless the Debtor has expressly assumed a particular Executory Contract before the Confirmation Date, or such Executory Contract is otherwise assumed under the Plan or is the subject of a pending motion to assume such Executory Contract on the Confirmation Date. One possibility under Plan Scenario A, however, is that the Debtor would reject the Lease and Agreements if a strategic partner has sufficient space and resources to house the Debtor's operations.[11]

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[11] The Debtor's deadline to assume or reject leases of nonresidential real property has been extended up to and including December 15, 2015 pursuant to the Order Granting Debtor's Motion to Extend Time to Assume or Reject Leases of Nonresidential Real Property [Dckt. No. 310].

V. CLASSIFICATION OF CLAIMS

A. General Provisions and Classifications

The categories of Claims listed below classify Claims for all purposes, including without limitation, voting, confirmation and Distributions under the Plan and under sections 1122 and 1123(a)(1) of the Bankruptcy Code. A Claim shall be deemed classified in a particular Class only to the extent that the Claim qualifies within the description of that Class and shall be deemed classified in a different Class to the extent that the remainder of such Claim qualifies within the description of such different Class. A Claim is in a particular Class only to the extent that such Claim is Allowed in that Class and has not been paid or otherwise settled before the Effective Date.

To the extent that a creditor has more than one Claim in a single Class, such Claims shall be aggregated and treated as a single Claim. To the extent that a Creditor has Claims in different Classes, such Claims shall not be aggregated. Notwithstanding the foregoing, Creditors who have filed duplicate Claims for the same debt against the Debtor shall be entitled to the allowance of only one Claim in the Debtor's Bankruptcy Cases.

B. Classification

Section 1123(a) of the Bankruptcy Code provides that Administrative Claims and Priority Tax Claims are not subject to classification under the Plan and are not entitled to vote to accept or reject the Plan. The Claims against the Debtor that are subject to classification are classified in the Classes described below. A Claim is in a particular Class only to the extent that such Claim fits within the description of such Class, and is in such other and different Class or Classes to the extent that the remainder of such Claim fits within the description of such other Class or Classes. Any Holder of a Claim that disputes the classification of Claims or impairment must file a motion with the Bankruptcy Court, with notice to the Debtor, and have such motion heard before the Voting Deadline. The Plan will only provide Distributions to Allowed Claims; and, except for statutory fees due to the U.S. Trustee, nothing in the Plan provides for the Allowance of any Claim. Allowed Claims are classified as follows:

Administrative Claims (unclassified)
Class 1: Allowed Priority Claims
Class 2: Allowed Secured Claims
Class 2(a): Allowed Amerisource Bergen Secured Claim
Class 2(b): Allowed ASD Secured Claim
Class 2(c): Allowed Cardinal Health Secured Claims
Class 3: Allowed Patient Claims
Class 3(a): Allowed Patient Refund Claims
Class 3(b): Allowed Patient Credit Balance Claims
Class 4: Allowed Texas Tech Unsecured Claims
Class 5: Allowed General Unsecured Claims
Class 6: Allowed EPCPG General Unsecured Claim
Class 7: Allowed General Unsecured Claim of UMC

C. Impaired Classes of Claims

Claims in Classes 2, 3, 4, 5, 6, and 7 are impaired under the Plan and entitled to receive Distributions. Holders of Claims in Classes 2, 3, 4, 5, 6, and 7 are entitled to vote to accept or

reject the Plan. Claims in Class 1 are unimpaired, and therefore, shall not be entitled to vote to accept or reject this Plan.

D. Impairment and Classification Controversies

As set forth above, if a controversy arises as to whether any Claim or any Class of Claims is impaired under the Plan or is classified incorrectly, the Bankruptcy Court shall, upon notice and a hearing, determine such controversy on or before the Voting Deadline.

E. Class Acceptance Requirement

A Class of Claims shall have accepted the Plan if it is accepted by at least two-thirds in amount and more than one-half in number of the Holders of Allowed Claims in such Class that have voted on the Plan.

F. Cramdown

If any Class of Claims fails to accept the Plan in accordance with § 1126(c) of the Bankruptcy Code, the Bankruptcy Court may still confirm the Plan in accordance with § 1129(b) of the Bankruptcy Code. The Debtor will seek confirmation of the Plan pursuant to § 1129(b) with respect to any non-accepting Class.

G. Elimination of Classes

Any impaired Class that is not occupied as of the date of the Confirmation Hearing shall be deemed deleted from the Plan for purposes of voting on acceptance or rejection of the Plan and determining whether the Plan has been accepted by such class pursuant to 11 U.S.C. § 1129.

VI. PROVISIONS FOR TREATMENT OF CLAIMS UNDER THE PLAN

The following summary of claims is derived from the Debtor's Schedules and a review of the claims filed in the Bankruptcy Cases. THE EXACT AMOUNT OF EACH CLAIM FOR PURPOSES OF THIS PLAN WILL BE AS STATED IN THE DEBTOR'S SCHEDULES EXCEPT THAT A PROOF OF CLAIM FILED BY A CREDITOR IS PRIMA FACIE EVIDENCE OF THE AMOUNT OF THE CLAIM, UNLESS AN OBJECTION TO THE PROOF OF CLAIM OR SCHEDULED AMOUNT IS FILED, IN WHICH CASE THE COURT WILL DETERMINE THE ALLOWED AMOUNT OF A PARTICULAR CLAIM. THOSE CLAIMS WHICH ARE LISTED AS DISPUTED IN THE DEBTOR'S SCHEDULES OR ARE OBJECTED TO BEFORE THE CLAIMS OBJECTION DEADLINE WILL BE SETTLED BY AGREEMENT OF THE PARTIES OR FIXED BY THE COURT BEFORE DISTRIBUTION UNDER THE PLAN OCCURS TO THAT CREDITOR. PROCEDURES GOVERNING DISPUTED CLAIMS ARE DESCRIBED LATER IN THIS DISCLOSURE STATEMENT. THE LISTING OF CLAIM AMOUNTS IN THE PLAN OR THIS DISCLOSURE STATEMENT IS FOR INFORMATION PURPOSES ONLY, AND THE DEBTOR RESERVES ALL RIGHTS TO CONTEST, REDUCE, RECHARACTERIZE OR SUBORDINATE ANY CLAIM.

EACH CREDITOR WILL BE PAID IN THE MANNER SET FORTH BELOW WHICH APPLIES TO THAT PARTICULAR CREDITOR AND ONLY AS TO THE ALLOWED AMOUNT OF THAT CREDITOR'S CLAIM IN THAT CLASS.

Claims against the Debtor shall be treated under the Plan as follows:

A. Unclassified Claims:

1. Administrative Claims:

a. General: Except to the extent that any entity entitled to payment of any Allowed Administrative Claim agrees to a different treatment or unless paid in the ordinary course of the Reorganized Debtor's business, each holder of an Allowed Administrative Claim shall receive Cash in an amount equal to such Allowed Administrative Claim on the later of the Effective Date or the date such Administrative Claim becomes an Allowed Administrative Claim, or as soon thereafter as practicable.

b. Funding:

On the Effective Date, with cash on hand the Debtor will fund the Administrative Cash Reserve in an amount sufficient to pay all Allowed Administrative Claims, in full, on the Effective Date

c. Professional Fee Claims: Administrative claims for Professional Persons must be filed no later than sixty (60) days after the Confirmation Date.

d. Payment of Statutory Fees: All fees payable pursuant to 28 U.S.C. § 1930 shall be Allowed and shall be paid in Cash when due.

2. Bar Date for Administrative Claims:

a. General Provisions: Except as otherwise provided in this Article 4, requests for payment of Administrative Claims must be included within a motion or application and filed by a deadline to be set by the Court, which shall be the same date as the deadline for filing objections to confirmation of the Plan ("Administrative Claims Bar Date"). Except for Professionals approved by the Bankruptcy Court under 11 U.S.C. § 327, any holder of a claim under 11 U.S.C. §§ 503 and/or 507 that fails to file their claim(s) by the Administrative Claims Bar Date shall be forever barred from asserting the claim(s) against the Debtor or its estate, and the Debtor, its estate, and its property shall be forever discharged from any and all indebtedness or liability with respect to the claim. Requests for payments of Administrative Claims included within a proof of claim are of no force and effect, and are disallowed in their entirety as of the Confirmation Date unless such Administrative Claim is subsequently filed in a timely fashion as provided herein, and allowed. Except for Professional Persons approved by the Bankruptcy Court under 11 U.S.C. § 327, any holder of a claim under 11 U.S.C. §§ 503 and/or 507 that fails to file their claim(s) by the Administrative Claims Bar Date shall be forever barred from asserting the claim(s) against the Debtor or its estate, and the Debtor and its estate will be forever discharged from any and all indebtedness or liability with respect to the claim. Administrative claims for Professional Persons must be filed no later than sixty (60) days after the Confirmation Date.

3. Priority Tax Claims:

Each holder of an Allowed Priority Tax Claim shall be paid in full, through monthly cash payments commencing on the Effective Date, its Allowed Priority Tax Claims, together with

interest at the rate required by 11 U.S.C. § 511, or as otherwise agreed, over a period through the fifth anniversary of the Petition Date.

The Reorganized Debtor shall pay the Priority Tax Claims from funds available from the operations of the Reorganized Debtor.

At the Reorganized Debtor's option, Holders of Allowed Priority Tax Claims shall receive (i) 100% of the Allowed amount of such Claim on or as soon as reasonably practicable after the later of the Effective Date and the date the Claim becomes Allowed; (ii) 100% of the unpaid Allowed amount plus interest to be paid in Cash over a period not later than five (5) years from the Petition Date; or (iii) such alternative treatment as leaves unaltered the legal, equitable, and contractual rights of the Holders of such Claims.

As of the date or this Plan, the Claim Register reflects aggregate asserted Priority Tax Claims of $0. In the event that any Priority Tax Claim is filed against the Debtor, the Reorganized Debtor will review, reconcile and file objections to Priority Tax Claims. The Debtor does not anticipate the filing of any Priority Tax Claim. In addition, although the IRS initially filed a Proof of Claim asserting an amount due from the Debtor, the IRS has amended such Proof of Claim, asserting a zero amount due. *See* Claim No. 17.

4. **Impairment & Voting**:

Administrative Claims (including Professional Fee Claims) and Priority Tax Claims are not subject to classification under the Bankruptcy Code, and Holders of Administrative Claims and Priority Tax Claims are not entitled to vote to accept or reject the Plan.

B. Treatment of Classified Claims and Interests

Class 1: Allowed Priority Non-Tax Claims

***Classification*:** This class shall consist of Allowed Priority Non-Tax Claims arising under sections 507(a)(4),(5), or (7) of the Bankruptcy Code.

***Treatment*:** Each holder of an Allowed Priority Non-Tax Claim shall be paid in full, through quarterly cash payments commencing on the Effective Date, its Allowed Priority Non-Tax Claim, together with 5% interest, or as otherwise agreed, over a period through the fifth anniversary of the Effective Date.

Total Claims: As of the date of the filing of the Plan, the Bar Date has not yet passed. For information purposes, the estimated total of Class 1 Claims is $33,407.32 as of the date hereof. Subsequent to confirmation of the Plan, the Reorganized Debtor anticipates filing objections to certain of the Class 1 Claims and that the total amount paid to holders of Allowed Priority Non-Tax Claims will be less than $33,407.32.

***Voting*:** Class 1 is unimpaired. Acceptance of the Plan from holders of Class 1 Claims will not be solicited.

Class 2: Allowed Secured Claims

Class 2(a): Allowed Amerisource Bergen Secured Claim

***Classification*:** This class shall consist of the Allowed Amerisource Bergen Secured Claim.

***Treatment*:** Unless otherwise agreed, the Holder of the Allowed Amerisource Secured Claim shall be paid in full, to the extent not paid previously, in Cash in the amount of the Allowed Amerisource Claim, to be paid in three equal monthly installments beginning on the Effective Date.

Total Claims: The estimated total of the Class 2(a) Claim is $34,563.87 as of the date hereof.

***Voting*:** Class 2(a) is impaired. Acceptance of the Plan from the Holder of the Class 2(a) Claim will be solicited.

Class 2(b): Allowed ASD Secured Claim

***Classification*:** This class shall consist of the Allowed ASD Secured Claim.

***Treatment*:** Unless otherwise agreed, the Holder of the Allowed ASD Secured Claim shall be paid in full, to the extent not paid previously, in Cash in the amount of the Allowed ASD Secured Claim to be paid in three equal monthly installments beginning on the Effective Date. The Holder of the Allowed ASD Secured Claim shall retain its liens on collateral securing the Allowed ASD Secured Claim.

Total Claims: The estimated total of the Class 2(b) Claim is $1,183.95 as of the date hereof.

***Voting*:** Class 2(b) is impaired. Acceptance of the Plan from the Holder of the Class 2(b) Claim will be solicited.

Class 2(c): Allowed Cardinal Health Secured Claim

***Classification*:** This class shall consist of the Allowed Cardinal Health Secured Claim.

***Treatment*:** Unless otherwise agreed, the Holder of the Allowed Cardinal Health Secured Claim shall be paid in full, to the extent not paid previously, in Cash in the amount of the Allowed Cardinal Health Secured Claim, to be paid in three equal monthly installments beginning on the Effective Date. The Holder of the Allowed Cardinal Health Secured Claim shall retain its liens on collateral securing the Allowed Cardinal Health Secured Claim.

Total Claims: The estimated total of the Class 2(c) Claims is $283,000, with a current balance of $201,355.78, subject to reconciliation by the Debtor, as of the date hereof.

***Voting*:** Class 2(c) is impaired. Acceptance of this Plan from the Holder of the Class

2(c) Claim will be solicited.

Class 3: <u>Allowed Patient Claims</u>

Class 3(a): <u>Allowed Patient Refund Claims</u>

***Classification*:** This class shall consist of Allowed Patient Refund Claims.

***Treatment*:** Each Holder of an Allowed Patient Refund Claim shall receive payment in in equal quarterly payments until paid in full, with such first quarterly payment beginning on the Effective Date.

***Voting*:** Class 3(a) is impaired. Acceptance of the Plan from Holders of Class 3(a) Claims will be solicited.

Total Claims: As of the date of the filing of the Plan, the Bar Date has not yet passed. For information purposes, the estimated total of Class 1 Claims is $74,551.87 as of the date hereof.

Class 3(b): <u>Allowed Patient Credit Balance Claims</u>

***Classification*:** This class shall consist of Allowed Patient Claims, including Patient Credit Balance Claims and Patient Refund Claims.

***Treatment*:** Each holder of an Allowed Patient Credit Balance Claim shall receive payment in full, in equal quarterly payments until paid in full, with such first quarterly payment beginning on the Effective Date, or will receive a credit against future services, in the ordinary course of the Debtor's business.

***Voting*:** Class 3(b) is impaired. Acceptance of the Plan from Holders of Class 3(b) Claims will be solicited.

Total Claims: As of the date of the filing of the Plan, the Bar Date has not yet passed. For information purposes, the estimated total of Class 3(b) Claims is $74,760.13 as of the date hereof.

Class 4: <u>Allowed Texas Tech Unsecured Claim</u>

***Classification*:** This class shall consist of the Allowed Texas Tech Unsecured Claim.

***Treatment*:** The Holder of the Allowed Class 4 Claim (i) will receive an initial payment of $2,000,000 on the Effective Date or shortly thereafter and (ii) will receive payment of the remaining balance of the Allowed Texas Tech Unsecured Claim over a three (3) year period, with interest at the annual rate of 4.5%, in equal annual payments beginning on or before the one year anniversary date of the Effective Date and on the anniversary date of the Effective Date each year thereafter until paid in full.

***Voting*:** Class 4 is impaired. Acceptance of the Plan from the Holder of the Class 4 Claim will be solicited.

Total Claims: As of the date of the filing of the Plan, the Bar Date has not yet passed. For information purposes, the estimated total of the Class 4 Claim is $8,606,723.70 as of the date hereof.

Class 5: Allowed General Unsecured Claims

***Classification*:** Class 5 consists of General Unsecured Claims.

***Treatment*:** Each Holder of an Allowed Class 5 Claim shall receive its Pro Rata Share of Distributable General Unsecured Cash.

***Voting*:** Class 5 is impaired. Acceptance of this Plan from the Holders of Class 5 Claims will be solicited.

Total Claims: As of the date of the filing of this Plan, the Bar Date has not yet passed. For information purposes, the estimated total of Class 5 Claims is $4,143,413.42 as of the date hereof.

Class 6: Allowed EPCPG General Unsecured Claim

***Classification*:** Class 6 consists of the Allowed EPCPG General Unsecured Claim.

***Treatment*:** The Holder of a Class 6 Claim shall receive its Pro Rata Share of Distributable General Unsecured Cash paid in the ordinary course.

***Voting*:** Class 6 is impaired. Acceptance of this Plan from the Holder of Class 6 Claims will be solicited.

Class 7: Allowed General Unsecured Claim of UMC

Classification: Class 7 consists of the Allowed General Unsecured Claim of UMC.

Background: The present trial setting for the UMC Litigation is October 22-23 and 26-27, 2015, in El Paso, Texas. As of the date hereof, no judgment has yet been entered by the Court on any of the Debtor's claims against UMC. The Debtor has filed a Motion for Summary Judgment on Debtor's § 547(b) Claim, which is presently pending ("Summary Judgment Motion").

Ample facts support entry of judgment in its favor on all of its causes of action against UMC in the UMC Litigation. As set forth in the Summary Judgment Motion, there is no genuine dispute between UMC and the Debtor with respect to any material fact relevant to the finding that UMC is an insider of the Debtor, and accordingly, the UCC-1 filed by UMC against the Debtor ("UMC Lien") should be avoided. As the Debtor provides in the Summary Judgment Motion, the evidence in the record already, although trial has not yet occurred, supports entry of summary judgment in favor of the Debtor on its § 547(b) claim.

Treatment: As of the date hereof, UMC has not filed a proof of claim in the Debtor's

Bankruptcy Case, although the Bar Date has not yet passed. The Debtor's professionals, including in particular, APS, have analyzed the cost of the services provided by UMC to the Debtor which would form the basis of a prepetition claim, in keeping with the agreement between the Debtor and UMC that neither should profit from each other. A copy of the analysis is attached in Exhibit E. Based on the Debtor's analysis, the Debtor believes that the claim of UMC should be estimated at less than $12,000,000 ("UMC Claim") and in accordance with the Claim Estimation Procedures attached hereto as Exhibit F. Section 502(c) of the Bankruptcy Code mandates, for purposes of allowance, the estimation of "any contingent or unliquidated claim, the fixing or liquidation of which, as the case may be, would unduly delay the administration of the case." The UMC Claim is a claim subject to estimation pursuant to the Claim Estimation Procedures.

The UMC Claim should be subordinated as provided herein. Based upon UMC's assertions thus far in the Bankruptcy Case, the UMC Claim consists of amounts attributable to both the UMC Agreements and the Lease. The amounts asserted as due under the UMC Agreements and the Lease should be equitably subordinated or recharacterized pursuant to *Lothian Oil. See Grossman v. Lothian Oil, Inc. (In re Lothian Oil),* 650 F.3d 539, 544 (5th Cir. 2011). The *Lothian Oil* factors include the following:

> (1) the intent of the parties; (2) the identity between the creditors and shareholders; (3) *the extent of participation in management by the holder of the instrument*; (4) *the ability of the corporation to obtain funds from outside sources*; (5) *the 'thinness' of the capital structure in relation to debt*; (6) the risk involved; (7) the formal indicia of the arrangement; (8) *the relative position of the obligees as to other creditors regarding the payment of interest and principal*; (9) *the voting power of the holder of the instrument*; (10) the provision of a fixed rate of interest; (11) *a contingency on the obligation to repay;* (12) the source of the interest payments; (13) *the presence or absence of a fixed maturity date*; (14) a provision for redemption by the corporation; (15) a provision for redemption at the option of the holder; and (16) *the timing of the advance with reference to the organization of the corporation*.

(emphasis added) (referring to *Fin Hay Realty,* 398 F.2d at 696). Both the UMC Agreements and the Lease are agreements entered into by the Debtor with an insider, UMC. The Lease itself is a form of profiteering deserving of treatment that an equity claim would receive. Moreover, the agreement in the Lease and any amounts paid to UMC relating to the rental obligation therein constitute a recoverable fraudulent transfer. The Lease obligates the Debtor to pay a rental amount to UMC and section 1.8.1 of the Lease further obligates the Debtor to provide healthcare services to indigent and charity patients, which fulfills UMC's obligation as a hospital district, to provide medical and hospital care to indigent county residents pursuant to Chapter 281.046 of the Tex. Health & Safety Code. The Debtor has analyzed the value of its provision of care to indigent patients relative to §1.8.1 of the Lease and believes that its provision of care is worth at least $4 million per year. The Debtor has provided care to indigent patients relative to § 1.8.1 since the first day of its operations. Thus, UMC has received not only the value of

the Debtor's provision of indigent care for over three years, but also the rent charged under the Lease. Even if the rental amount charged under the Lease is found to be consistent with fair market value of the Lease, the total consideration received by UMC in relationship to the Lease equates to a fraudulent transfer recoverable by the Debtor under the Bankruptcy Code.

In addition to the *Lothian Oil* factors, the UMC Claim demonstrates UMC's motive prior to the Petition Date to both profit from, sabotage and control the Debtor so that UMC would be the only party to "rescue" the Debtor by making it a department or wing of UMC. Indeed, the UMC Plan Proposal is itself evidence in support of recharacterization and equitable subordination of the UMC Claim as it reflects UMC's acknowledgement that its claims are properly subordinated. Uncontroverted testimony in the Bankruptcy Case proves that UMC's expenditures on account of the Debtor's opening resulted in an increase of only $3.6 million per year even before accounting for medical cost inflation. Analysis of the true costs to UMC to provide services to the Debtor under the UMC Agreements and for use of the Leased Premises under the Lease is $4.871 million. Under the Fourth Interim Cash Collateral Order [Dckt. No. 209], the Debtor's current payments to UMC total an annualized $15,886,000, not counting the $2,326,452 lump sum payment and $869,113 per month beginning October 10, 2015 to be made by the Debtor pursuant to the Order Granting Motion to Compel Payment of Facility Lease [Dckt. No. 325].

Uncontroverted testimony in the Bankruptcy Case also demonstrates that the origins of the Debtor were in a feasibility study commissioned by UMC (herein "2007 Feasibility Study") and when UMC advocated for the creation of the Debtor through garnering support for a tax increase to support the cost, UMC choose the option pursuant to which the Debtor would operate on the UMC campus. UMC, particularly its Chief Executive Officer, Mr. Valenti, were instrumental in setting up the Debtor. Mr. Valenti as well as the Chief Financial Officer of UMC, Michael Nunez, attended multiple meetings of the Debtor's Board of Directors ("Debtor's Board") and voted at the meetings of the Debtor's Board. Additionally, William Hanson simultaneously served on both the Debtor's Board and the Board of Directors for UMC during critical time periods in the Debtor's history. Stephen DeGroat, the present chairman of the UMC Board of Managers, has served on the Debtor's Board, the UMC Board of Directors, and the UMC Board of Managers, as well as on the Board of Directors of EPF (UMC's wholly-owned subsidiary with whom UMC forced the Debtor to contract for the provision of services by the Debtor to its enrollees at below-cost rates). Mr. Valenti and Mr. Nunez regularly attended and actively participated in joint strategy meetings of the Debtor and UMC to develop strategy related to the operations of the Debtor.

In addition, Mr. Valenti partnered with then-chairman of the Debtor's Board, Sam Legate, to hire the first Chief Executive Officer of the Debtor, Larry Duncan. Mr. Valenti also hired the first legal counsel for the Debtor, and pioneered the selection of the law firm of Kemp Smith by the Debtor for counsel. At the time, Kemp Smith also served as counsel to UMC. The above recitations of insider facts is not exhaustive.

Subsequent to the Claim Estimation Procedure, UMC shall not receive or retain any

property or interest in property on account of such Claims unless and until all Allowed Class 7 Claims have been paid in full. If all Allowed Class 7 Claims are paid in full, then any remaining Distributable General Unsecured Cash shall be distributed to each Holder of a Class 7 Claim.

Voting: Class 7 is impaired. Acceptance of this Plan from the Holder of Allowed Class 7 Claims will be solicited.

VII. ACCEPTANCE OR REJECTION OF THE PLAN; EFFECT OF REJECTION BY ONE OR MORE CLASSES OF IMPAIRED CLAIMS

A. Classes Entitled to Vote

Any creditor of the Debtor whose Claim is Impaired under the Plan is being solicited to vote, if either (i) its Claim has been scheduled by the Debtor and such Claim is not scheduled as Disputed, contingent or unliquidated, or (ii) it has filed a Proof of Claim on or before the Bar Date set by the Bankruptcy Court for such filings. Any Claim as to which an objection has been filed, and such objection is pending on the Voting Deadline, is not entitled to have its vote counted, unless the Bankruptcy Court temporarily allows the Claim upon motion by such creditor. If such a motion is filed and granted, such creditor will be allowed to vote in an amount that the Bankruptcy Court deems proper for the purpose of accepting or rejecting the Plan. Any such motion must be heard and determined by the Bankruptcy Court prior to the Voting Deadline established by the Bankruptcy Court to confirm the Plan. In addition, a creditor's vote may be disregarded if the Bankruptcy Court determines that the creditor's acceptance or rejection was not solicited or procured in good faith or in accordance with the provisions of the Bankruptcy Code, of if the creditor's Ballot fails to satisfy the requirements of the Solicitation Procedures Order.

B. Presumed Acceptance/Rejection of Plan

Claims in Classes 2, 3, 4, 5, 6, and 7 are impaired under the Plan and entitled to receive Distributions. Holders of Claims in Classes 2, 3, 4, 5, 6, and 7 are entitled to vote to accept or reject the Plan. Claims in Class 1 is unimpaired, and therefore, shall not be entitled to vote to accept or reject this Plan. As unimpaired classes, Class 1 is conclusively presumed to have accepted the Plan pursuant to section 1126(f) of the Bankruptcy Code. Any impaired Class that has a single member who does not vote to reject the Plan will be deemed to have accepted the Plan.

C. Non-Consensual Confirmation

If any impaired Class of Claims entitled to vote does not accept the Plan by the requisite statutory amounts as set forth herein, the Debtor reserve the right to amend the Plan or undertake to have the Bankruptcy Court confirm the Plan under section 1129(b) of the Bankruptcy Code, or both.

VIII. PROVISIONS GOVERNING EXECUTORY CONTRACTS AND UNEXPIRED LEASES; REJECTION CLAIMS BAR DATE

A. Executory Contracts and Unexpired Leases

The Plan constitutes a motion by the Debtor to assume the Texas Tech Agreements. The Debtor's proposed treatment of the Allowed Texas Tech Unsecured Claim represents its payment

of the total Cure Cost payment owed to permit its assumption of the Texas Tech Agreements.

The Plan also constitutes a motion by the Debtor to assume, as of the Confirmation Date, the Lease and Agreements, subject to reformation and recharacterization in the UMC Adversary, and if so desired by a potential strategic partner with the Debtor.

The Plan constitutes a motion by the Debtor to assume, as of the Confirmation Date, all Executory Contracts, which were not rejected prior to the Effective Date and/or that are not expressly rejected herein. Provided, however, that all insurance policies and indemnity agreements in which the Debtor or the Debtor's property are insured and/or indemnified against loss (whether for potential liability or the costs of defense) which were not assigned, are hereby assumed and assigned to the Reorganized Debtor.

With respect to any assumption of any Executory Contract, at least twenty-one days before the Confirmation Hearing, the Debtor shall cause notice of proposed assumption and proposed Cure Costs to be sent to the Executory Contract counter-party. Any objection by the Executory Contract counter-party must be filed, served, and actually received by the Debtor within fourteen (14) days after service of such notice. If no objection is timely filed, served, and actually received by the Debtor, the Executory Contract counter-party will be deemed to have assented to such assumption and Cure Cost.

B. Bar to Rejection Damages

If the rejection of an Executory Contract results in damages to the other party or parties to such Executory Contract, a Claim for such damages, if **not** heretofore evidenced by a filed Proof of Claim, shall be forever barred and shall not be enforceable against the Debtor, the Estate, its respective properties or its agents, successors or assigns, unless a Proof of Claim is filed with the Bankruptcy Court and served upon the Reorganized Debtor (as applicable) and its counsel on or before thirty (30) days after the Confirmation Date or such later date as may be ordered by the Bankruptcy Court with respect to such Claim.

IX. PROVISIONS REGARDING DISTRIBUTIONS

A. Distributions to Be Pro Rata Within Class

All Distributions constituting of a partial payment to a class of Allowed Claims will be made on a Pro Rata Share to the holders of Allowed Claims in such class.

B. Withholding and Reporting Requirements

In connection with Distributions, the Reorganized Debtor will comply with all withholding and reporting requirements imposed by any federal, state or local taxing authority. As a condition to the Holder of an Allowed Claim receiving any Distribution under the Plan, the Reorganized Debtor may require that the Holder provide such Holder's taxpayer identification number and such other information as the Reorganized Debtor may deem necessary to comply with applicable tax reporting and withholding laws. The failure of a Holder to respond timely to a request by the Reorganized Debtor for tax withholding or reporting information will result in the Holder being treated as the Holder of an undeliverable or unclaimed Distribution, whose treatment is summarized below and provided under Sections 9.3 and 9.4 of the Plan.

C. Funding of Distributions

Except as otherwise provided in the Plan, all Distributions to Holders of Allowed Claims will be made by the Reorganized Debtor and funded by Cash that the Reorganized Debtor, in its sole discretion, determines is available for Distributions to Holders of Allowed Claims in accordance with the Plan. Cash payments made pursuant to the Plan shall be in U.S. funds, by check, wire or other method as the Reorganized Debtor deems appropriate under the circumstances.

D. Delivery of Distributions

Subject to Bankruptcy Rule 9010 and the provisions of the Plan, Distributions to Holders of Allowed Claims shall be made at the address for such Holder set forth in the Schedules, unless superseded by the address set forth on such Holder's Proof of Claim, or in a written notice delivered to the Reorganized Debtor and its counsel. If any Distribution to any Holder is returned as undeliverable, the Reorganized Debtor may, but will not be required to, use reasonable efforts to determine the current address of such Holder, but no subsequent Distribution to any such Holder shall be made unless and until the Reorganized Debtor has determined the then current address of such Holder, at which time such Distribution will be made to such Holder without interest. The Reorganized Debtor will retain all amounts in respect of an undeliverable Distributions made by the Reorganized Debtor until such Distributions are claimed, subject to Section 9.4 of the Plan.

E. Unclaimed Distributions

If any Distribution is not claimed, or remains undeliverable under Section 9.3 of the Plan, by the Unclaimed Distribution Date applicable to such Distribution, the Distribution will be deemed unclaimed property under section 347(b) of the Bankruptcy Code, and such unclaimed Distribution(s) will be available for Distribution to other Holders of Allowed Claims as part of the next Distribution, in accordance with the terms of the Plan. The Holder of any Claim for which a Distribution is deemed unclaimed property under the Plan will not be entitled to receive any future Distributions and will be deemed to have relinquished all rights to any future Distributions and all such future Distributions will be available for Distribution to other Holders of Allowed Claims under the Plan.

F. Time Bar to Cash Payments

Distribution checks issued to Holders of Allowed Claims will be null and void if not negotiated within ninety (90) days after their date of issuance. Requests for reissuance of any check shall be made in writing directly to the Reorganized Debtor by the Holder to which or to whom such check originally was issued. All such requests must be made promptly and in time for the check to be reissued and cashed before the Unclaimed Distribution Date applicable to such Distribution. Distributions in respect of voided checks will be treated as unclaimed distributions under the Plan.

G. Fractional Dollars

Notwithstanding any other provision of the Plan, the Reorganized Debtor will not be required to make Distributions of fractions of dollars, and whenever any Distribution of a fraction of a dollar may be called for, the actual Distribution may be rounded to the nearest whole dollar (up or down) with half dollars being rounded down.

H. De Minimis Distributions

The Reorganized Debtor will have no obligation to make a Distribution if the amount to be distributed to a Holder of an Allowed Claim would be less than $50.00 in the aggregate.

I. No Distributions Pending Allowance

No payment or Distribution will be made with respect to (a) any Claim to the extent it is a Disputed Claim, unless and until such Disputed Claim becomes an Allowed Claim, (b) Claimants who are, or may be, defendants in Avoidance Actions and other parties subject to the application of § 502(d) of the Bankruptcy Code, and (c) reclamation claims pursuant to § 546(c)(2)(A) of the Bankruptcy Code, which are not Allowed Claims.

X. CONDITIONS PRECEDENT TO CONFIRMATION AND EFFECTIVENESS OF THE PLAN

A. Conditions Precedent to Confirmation of the Plan

Confirmation of the Plan is subject, in addition to the requirements provided in § 1129 of the Bankruptcy Code, to satisfaction of the following conditions precedent, unless such conditions precedent are waived by the Debtor:

a. A Final Order finding that the Disclosure Statement contains adequate information pursuant to section 1125 of the Bankruptcy Code shall have been entered by the Bankruptcy Court;

b. The Bankruptcy Court shall have entered the Confirmation Order in form and substance reasonably satisfactory to the Debtor;

c. All actions, documents, and agreements necessary to implement the Plan shall have been effected or executed; and

d. The Debtor shall have received all authorizations, consents, regulatory approvals, rulings, letters, no action letters, opinions, or documents that are determined by the Debtor to be necessary to implement the Plan.

B. Vesting of Property of the Estate in the Reorganized Debtor

1. On the Effective Date of the Plan, after funding of the Reserves, title to all assets and properties dealt with by the Plan shall vest in Reorganized Debtor, free and clear of liens, claims, and encumbrances, except as otherwise provided in the Plan (the "Vested Property"), on the condition that Reorganized Debtor complies with the terms of the Plan, including the making of all payments to creditors provided for in such Plan. If Reorganized Debtor defaults in performing under the provisions of this Plan and this case is converted to a case under chapter 7, all property vested in Reorganized Debtor and all subsequently acquired property owned as of or after the conversion date shall re-vest and constitute property of the bankruptcy estate in the converted case.

2. From and after the Effective Date, the Reorganized Debtor may operate the Debtor's business pursuant to the terms of the Plan and may use, acquire, and dispose of property free and clear of any restrictions imposed by or under the Bankruptcy Code.

3. The Confirmation Order shall provide the Reorganized Debtor with express authority to convey, transfer, and assign any and all Vested Property and to take all actions to effectuate same.

4. The Reorganized Debtor will be responsible for paying any quarterly U.S. Trustee fees that accrue after the Effective Date.

5. The Reorganized Debtor shall make all Distributions as and when provided for under this Plan.

6. From and after the Effective Date, and until all payments and distributions to holders of Allowed Claims have been made under the Plan, the Reorganized Debtor shall remain constituted and in existence. The Reorganized Debtor shall be authorized, without any supervision or approval of the Bankruptcy Court or the Office of the United States Trustee, as the case may be, to employ and compensate such persons, including counsel and accountants, as may be deemed necessary to enable it to perform its functions hereunder, and the fees and costs of such employment and other expenditures shall be paid by the Reorganized Debtor. Any fees and expenses of professionals incurred during the period between the Confirmation Date and the Effective Date shall remain subject to the jurisdiction of the Court and approved in accordance with the Plan.

7. After the Effective Date, the affairs of the Reorganized Debtor and all of the assets held or controlled by the Reorganized Debtor shall be managed under the direction of the Reorganized Debtor, as provided by the terms of the Plan. In the performance of its duties hereunder, the Reorganized Debtor shall have the rights and duties incident of a debtor in possession under 11 U.S.C. § 1107, and such other rights, powers, and duties incident to causing performance of the obligations under the Plan or as otherwise may be reasonably necessary, including, without limitation, filing any necessary tax returns.

8. Pursuant to 11 U.S.C. § 1123(b)(3)(B), as of the Effective Date, any Causes of Action that are already pending or that are accruing to the Debtor, shall become assets of the Reorganized Debtor, including for the avoidance of doubt the UMC Litigation and the EPF Adversary. The Reorganized Debtor shall have the authority to prosecute such Causes of Action on behalf of and for the benefit of the Debtor's estate and its creditors. The Reorganized Debtor shall have the authority to compromise and settle, otherwise resolve, discontinue, abandon or dismiss all such Causes of Action without approval of the Bankruptcy Court. All cash received by the Reorganized Debtor as a result of the prosecution or settlement of any Cause of Action shall be the property of the Reorganized Debtor to be distributed in accordance with the terms of the Plan. Any cash received from the proceeds of any Cause of Action in excess of Distributions made to Classes 1 through 7 shall be distributed in accordance with applicable law governing use of such funds by nonprofit corporations.

9. Except for the released Causes of Action, no Cause of Action is released by confirmation of this Plan, and confirmation of this Plan shall not have any *res judicata* or collateral estoppel effect on the Reorganized Debtor's prosecution of any Cause of Action.

10. The Reorganized Debtor shall not be subject to any counterclaims with respect to any Causes of Action constituting Vested Property; provided, however, that Causes of Action constituting Vested Property will be subject to any set-off rights and/or defenses to the same extent as if the Debtor itself had pursued the Causes of Action constituting Vested Property. The

Reorganized Debtor may present such orders as may be necessary to require third parties to accept and acknowledge such conveyance to the Reorganized Debtor. Such orders may be presented without further notice other than as has been given in this Plan.

C. Conditions Precedent to the Effective Date of the Plan

1. The occurrence of the Effective Date of the Plan is subject to satisfaction of the following conditions precedent, unless such conditions precedent are waived by the Debtor:

2. Confirmation shall have occurred and the Confirmation Order shall have been entered and become a Final Order;

3. There shall not be in effect on the Effective Date any (i) Order entered by a U.S. court, (ii) order, opinion, ruling or other decision entered by any other court or governmental entity, or (iii) U.S. or other applicable law staying, restraining, enjoining or otherwise prohibiting or making illegal the consummation of any of the transactions contemplated by the Plan;

4. All other actions, documents and agreements necessary to implement the Plan shall have been effected or executed and sufficient reserves established; and

5. Estimation and subordination of the UMC Claim at a level consistent with the Debtor's projections.

D. Effect of Non-Occurrence of Confirmation or Effective Date

If the Plan is not confirmed or if the conditions listed in this Article 5 are not satisfied or waived, the Plan shall be null and void in all respects and nothing contained in the Plan or this Disclosure Statement shall (i) constitute a waiver or release of any Claims by or against the Debtor's Estate, (ii) prejudice in any manner the rights of the Debtor or any other Person or (iii) constitute an admission, acknowledgment, offer or undertaking by the Debtor or any other Person.

XI. MEANS FOR IMPLEMENTATION OF THE PLAN

A. Source of Funds

The source of Funds to implement the Plan under Plan Scenario A include consideration to be received in a potential transaction with a strategic partner, the Vested Property, proceeds from ongoing operations of the Reorganized Debtor, anticipated recoveries to the Debtor in the UMC Litigation and the EPF Adversary, as well as anticipated state and federal-government funding to the Debtor. The Debtor also anticipates procuring the sponsorship of a public entity to facilitate receipt of federal funding and establishing a separate foundation for charitable donations.

B. Preservation of & Assignment of Causes of Action

On the Effective Date, all rights and Causes of Action, including claims under §§ 502, 542, 544, 545, 546, 548, 550, and 553 of the Bankruptcy Code, preference claims under § 547 of the Bankruptcy Code, fraudulent transfer claims under § 548 of the Bankruptcy Code, and all other claims and causes of action of the Debtor's estate against any Person as of the Confirmation Date shall be preserved and transferred and assigned to the Reorganized Debtor, including without limitation, all Claims, actions, adversary proceedings, causes of action (including causes of action arising under any section of the Bankruptcy Code,

state, federal, or other nonbankruptcy law) as against Navigant Healthcare Cymetrix Corporation f/k/a Cymetrix Corporation ("Navigant"). In addition, all Causes of Action against all former counsel to the Debtor, including the law firm of Kemp Smith LLP, D. James Sorenson, and Jill Vogel; and as against all persons who served as a director or officer of the Debtor, including the following persons: James N. Valenti, Michael Nunez, Stephen DeGroat, William Hanson, Lawrence Duncan, Elias Armendariz, David Mier, James Sexton, Paul Ocon, Jill Vogel, Chris Barela, Sam Legate, Rosemary Castillo, Clarence Ansley, Natalia Chaparro, Dr. Sadhana Chheda, Amy Downs, Judge Thomas Spieczny, Carol Valles, Anne Semner-Grieshop, Mary Lou Camarena, Dr. Bradley Fuhrman, Guillermo Ochoa, Dr. John Guggedahl, Hector Almeida, Kristen Cox, Dr. Manuel De la Rosa, Dr. Carlos Gutierrez, Cynthia Vizcaino-Villa, Rodolfo Fierro-Stevens, Dr. Nicolas Rich, Chris Kleberg, Dean Tilahun Adera, Brother Nicolas Gonzalez, and James O'Keefe ("Miscellaneous Claims") shall be preserved, and transferred and assigned to the Reorganized Debtor. The Committee may investigate the Miscellaneous Claims and may pursue any of the Miscellaneous Claims as may be in the best interest of the Debtor's Estate.

C. Default

A failure by the Reorganized Debtor to make a payment to a Taxing Authority in accordance with the terms of the Plan shall be an Event of Default. If the Reorganized Debtor fails to cure an Event of Default as to such payments within thirty (30) days after service of written notice of default served on the Reorganized Debtor with a copy to counsel for the Reorganized Debtor, then such tax creditor may (a) enforce the entire amount of its claim, (b) exercise any and all rights and remedies under applicable non-bankruptcy law, and (c) seek such relief as may be appropriate in this Court.

A failure by the Reorganized Debtor to make a payment to a creditor in accordance with the terms of the Plan shall be an Event of Default. If the Reorganized Debtor fails to cure an Event of Default as to such payments within thirty (30) days after service of written notice of default served on the Reorganized Debtor with a copy to counsel for the Reorganized Debtor, then such creditor may seek such relief as may be appropriate in this Court.

XII. PROVISIONS FOR MANAGEMENT

A. Corporate Authority

All actions and transactions contemplated under the Plan shall be authorized upon confirmation of the Plan. The Confirmation Order shall include provisions directing the Debtor to execute such documents necessary to effectuate the Plan, which documents shall be binding on the Debtor, the Estate, the Debtor's creditors, and all Holders of Claims.

B. Professional Fees

All Allowed Professional Fee Claims will be paid in accordance with Article [4.1] of the Plan.

C. Transfer of Powers

1. Directors and Officers: As of the Effective Date, Mark Herbers is acting as Chief

Executive Officer and Chief Restructuring Officer ("CERO") of the Debtor. Elias Armendariz is acting as Chief Nursing Officer and Chief Operations Officer of the Debtor. Effective as of the Effective Date, the authority, power and incumbency of the aforementioned Persons then acting as officers and directors of the Debtor shall be deemed to be officers and directors of the Reorganized Debtor, without further action by the Debtor and shall serve as the directors of the Reorganized Debtor after the Confirmation Date, until removed or replaced by the Reorganized Debtor.

2. Debtor's Professionals: Upon the Effective Date, the Debtor's Professionals and agents shall be released from any further duties and responsibilities in the Bankruptcy Case and under the Bankruptcy Code, except with respect to any: (i) obligations arising under confidentiality agreements, joint interest agreements, and protective orders entered during the Bankruptcy Case, which shall remain in full force and effect according to their terms; (ii) applications for and/or objections to their Fee Claims; and (iii) motions or other actions seeking enforcement or implementation of the provisions of this Plan or the Confirmation Order. The Professionals retained by the Debtor shall not be entitled to compensation and reimbursement of expenses for services rendered in that capacity after the Effective Date, except for services rendered in connection with fee applications pending on the Effective Date or filed after the Effective Date in accordance with applicable law.

XIII. MISCELLANEOUS PROVISIONS

A. Setoff and Other Rights

In the event that the Reorganized Debtor has a claim of any nature whatsoever against the holder of a claim, the Reorganized Debtor, may, but is not required to, setoff against the Claim (any payments or other distributions to be made in respect of such Claim hereunder), subject to the provisions of § 553 of the Bankruptcy Code. Neither the failure to setoff nor the allowance of any Claim under the Plan shall constitute a waiver or release by the Debtor of any claim that the Debtor has against the holder of a Claim. No holder of a Claim may, on account of a pre-Effective Date Claim against the Debtor, setoff, offset, suspend, freeze, or recoup any amount from funds or other payments that such claimant may owe to the Debtor or Reorganized Debtor under any circumstances notwithstanding any applicable law or agreement. The Confirmation Order shall include an injunction prohibiting any such setoff, offset, suspense, freeze, or recoupment.

B. Injunctions

The Confirmation Order shall contain such injunctions as may be necessary and helpful to effectuate the discharge of the Debtor provided herein. Without limiting the generality of the foregoing, such injunction shall include an absolute prohibition from collecting Claims in any manner other than as provided for in the Plan.

C. Lawsuits

On the Effective Date, all lawsuits, litigations, administrative actions or other proceedings, juridical or administrative, in connection with the assertion of a Claim against the Debtor, shall be dismissed as to the Debtor and the Reorganized Debtor, except proof of claims and/or objections thereto pending in the Bankruptcy Court, and except for the matters pending in connection with this Bankruptcy Case styled: *El Paso Children's Hospital Corp. v. El Paso County Hospital District (In re El Paso Children's Hospital Corp.),* Adv. No. 15-03005 (Bankr.

W.D. Tex.) (herein "UMC Litigation") and *El Paso Children's Hospital Corp. v. El Paso First Health Plans, Inc. (In re El Paso Children's Hospital Corp.)* (Bankr. W.D. Tex.) ("EPF Adversary"), and any other adversary proceeding commenced by the Debtor before the Effective Date. All parties to any such action shall be enjoined by the Bankruptcy Court in the Confirmation Order from taking any action to impede the immediate and unconditional dismissal of such actions. All lawsuits, litigations, administrative actions or other proceedings, judicial or administrative, in connection with the assertion(s) of a claim by the Debtor or any entity proceeding in the name of or for the benefit of the Debtor against a person shall remain in place only with respect to the claim(s) asserted by the Debtor or such other entity, and shall become property of the Reorganized Debtor to prosecute, settle, or dismiss as the Reorganized Debtor sees fit. For the avoidance of doubt, as set forth in section 6.2 of the Plan, all rights and Causes of Action, including claims under §§502, 542, 544, 545, 546, 548, 550, and 553 of the Bankruptcy Code, preference claims under § 547 of the Bankruptcy Code, fraudulent transfer claims under § 548 of the Bankruptcy Code, and all other claims and causes of action of the Debtor's estate against any Person as of the Confirmation Date shall be preserved, and transferred and assigned to the Reorganized Debtor.

D. Insurance

Confirmation and consummation of the Plan shall have no effect on Insurance Policies of the Debtor in which the Debtor or any of the Debtor's Representatives are or were the insured party**.** Each insurance company is prohibited from, and the Confirmation Order shall include an injunction against, denying, refusing, altering or delaying coverage on any basis regarding or related to the Debtor's bankruptcy, the Plan or any provision within the Plan.

E. Payment of Statutory Fees/U.S. Trustee Reports

All fees payable pursuant to § 1930 of title 28 of the United States Code shall be paid through the entry of a Final Decree in the applicable Bankruptcy Case. The Reorganized Debtor shall be responsible for paying any quarterly fees under § 1930 that accrue after the Effective Date. The Reorganized Debtor shall also file such quarterly reports for each Debtor that is still required to submit such a report in the applicable quarter to the U.S. Trustee, setting forth all receipts and disbursements of the Reorganized Debtor, as required by its guidelines.

F. Governing Law

Unless a rule of law or procedure is supplied by federal law (including the Bankruptcy Code and Bankruptcy Rules) or the law of the jurisdiction of organization of any entity, the internal laws of the State of Texas shall govern the construction and implementation of the Plan and any agreements, documents and instruments executed in connection with the Plan or the Chapter 11 case, including the documents executed pursuant to the Plan.

G. Modification of the Plan

The Debtor may propose modifications of the Plan in writing at any time before the Confirmation Date, provided that (a) the Plan, as modified, meets the requirements of §§ 1122 and 1123 of the Bankruptcy Code and (b) the Debtor shall have complied with **§** 1125 of the Bankruptcy Code. The Plan may be modified at any time after the Confirmation Date and before substantial consummation by the Debtor, provided that (i) the Plan, as modified, meets the requirements of §§ 1122 and 1123 of the Bankruptcy Code, (ii) the Bankruptcy Court, after

notice and a hearing, confirms the Plan as modified, under § 1129 of the Bankruptcy Code and (iii) the circumstances warrant such modifications. A Holder of a Claim that has accepted the Plan shall be deemed to have accepted the Plan as modified if the modification does not materially and adversely change the treatment of the Claim of such Holder.

H. Creditor Default

An act or omission by a creditor in contravention of a provision within this Plan shall be deemed an event of default under this Plan. Upon an event of default, the Reorganized Debtor may seek to hold the defaulting party in contempt of the Confirmation Order. If such creditor is found to be in default under the Plan, such party shall pay the reasonable attorneys' fees and costs of the Reorganized Debtor in pursuing such matter. Furthermore, upon the finding of such a default by a creditor, the Bankruptcy Court may (a) designate a party to appear, sign and/or accept the documents required under the Plan on behalf of the defaulting party, in accordance with Rule 70 of the Federal Rules of Civil Procedure, (b) may enforce the Plan by order of specific performance, (c) may award judgment against such defaulting creditor in favor of the Reorganized debtor in an amount, including interest, to compensate the Reorganized Debtor for the damages caused by such default; and (d) make such other order as may be equitable that does not materially alter the terms of the Plan as confirmed.

I. Controlling Documents

To the extent the Plan is inconsistent with this Disclosure Statement, the terms of the Plan shall control. To the extent that the Plan is inconsistent with the Plan Supplement, the Plan shall control. To the extent the Plan is inconsistent with the Confirmation Order, the Confirmation Order shall control.

J. Severability

Should the Bankruptcy Court determine that any provision of the Plan is unenforceable either on its face or as applied to any Claim or transaction, the Debtor may modify the Plan in accordance with § 15.7 of the Plan so that such provision shall not be applicable to the Holder of any Claim. Such a determination of unenforceability shall not (a) limit or affect the enforceability and operative effect of any other provision of the Plan, or (b) require the resolicitation of any acceptance or rejection of the Plan.

XIV. CERTIFICATES OF INCORPORATION AND BY-LAWS OF THE DEBTOR/RESTRICTION ON TRANSFER OF SHARES

A. Amendments to Certificates of Incorporation and By-Laws

The Confirmation Order shall provide authorization pursuant to the applicable corporate law for the filing by the Debtor of amended governing documents to provide that the Debtor shall continue as it existed prior to the Petition Date; and any changes as necessary to effectuate other provisions of the Plan and § 1123(a)(6) of the Bankruptcy Code.

XV. PROCEDURES FOR RESOLVING AND TREATING/DISPUTED CLAIMS

A. Claim Objection Deadline

As soon as practicable, but in no event later than one year after the Effective Date, unless

extended by order of the Bankruptcy Court, objections to Claims shall be filed with the Bankruptcy Court and served upon holders of each of the Claims to which objections are made.

B. Prosecution of Objections

On and after the Effective Date, except as the Bankruptcy Court may otherwise order, the filing, litigation, settlement, or withdrawal of all objections to claims may be made by the Reorganized Debtor.

C. Distribution Upon Allowance of Contested Claims Entitled to Payment in Full in One Payment

The holder of a Claim entitled to payment in full on one specific payment date, which Claim is a Contested Claim on such payment date, but which Claim subsequently becomes an Allowed Claim, will receive payment of its Allowed Claim within thirty (30) Business Days following the date on which such Claim becomes a Allowed Claim pursuant to a Final Order.

D. Distributions Upon Allowance of Disputed Claims Entitled to Payment in Full in Installment Payments

The Holder of a Claim entitled to payment in installments, which Claim is a Contested Claim on the initial or any later date the installment would otherwise be made, but which Claim subsequently becomes an Allowed Claim, shall receive the amount of any missed installments on the first date payments to other Holders of Claims in the same Class are scheduled to be made that arises after the date on which such Claim becomes an Allowed Claim by Final Order. If such Claim does not become an Allowed Claim until after all the other Claims in the Class have received their total Distributions as authorized under the Plan, then the holder thereof shall receive payment of its Allowed Claim within ten (10) Business Days following the date on which such Claim becomes an Allowed Claim pursuant to a Final Order.

XVI. RETENTION OF JURISDICTION POST-CONFIRMATION

A. Scope of Jurisdiction

Notwithstanding the entry of the Confirmation Order and the occurrence of the Effective Date, and to the extent permitted by applicable law, pursuant to §§ 1334 and 157 of title 28 of the United States Code, the Bankruptcy Court shall retain and have jurisdiction over all matters arising in, arising under and related to the Bankruptcy Cases or the Plan after Confirmation including, without limitation, jurisdiction to:

(a) hear and determine pending applications for the assumption or rejection of Executory Contracts and the allowance of Claims resulting therefrom;

(b) hear and determine any and all adversary proceedings, applications and contested matters, including any remands of appeals;

(c) ensure that Distributions to Holders of Allowed Claims are accomplished as provided herein;

(d) hear and determine any timely objections to or applications concerning Claims or the allowance, classification, priority, estimation or payment of any Claim;

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

(f) enter and implement such orders as may be necessary or appropriate to execute, interpret, implement, consummate or enforce the Plan and the transactions contemplated thereunder;

(g) consider any modification of the Plan pursuant to § 1127 of the Bankruptcy Code, to cure any defect or omission or to reconcile any inconsistency in any order of the Bankruptcy Court, including, without limitation, the Confirmation Order;

(h) hear and determine all Fee Applications and Fee Claims;

(i) hear and determine disputes arising in connection with the execution, interpretation, implementation, consummation or enforcement of the Plan;

(j) enter and implement orders or take such other actions as may be necessary or appropriate to restrain interference by any entity with the consummation or implementation of the Plan, including, without limitation, to issue, administer and enforce injunctions provided for in the Plan and the Confirmation Order;

(k) recover all assets of the Debtor and property of the Estate, wherever located;

(l) hear and determine matters concerning state, local and federal taxes in accordance with §§ 346, 505 and 1146 of the Bankruptcy Code;

(m) hear and determine any other matter not inconsistent with the Bankruptcy Code and title 28 of the United States Code that may arise in connection with or related to the Plan;

(n) hear and determine all Causes of Action;

(o) hear and determine all actions to enforce the releases, exculpation and injunctive provisions in the Plan; and

(p) enter a Final Decree closing the Chapter 11 cases.

B. Failure of the Bankruptcy Court to Exercise Jurisdiction

If the Bankruptcy Court abstains from exercising, or declines to exercise, jurisdiction or is otherwise without jurisdiction over any matter arising in, arising under or related to the Chapter 11 case, including the matters set forth in Section 12.1 of the Plan, this Article 12 shall have no effect upon and shall not control, prohibit or limit the exercise of jurisdiction by any other court having jurisdiction with respect to such matter.

XVII. EFFECT OF CONFIRMATION OF THE PLAN

A. Discharge of Debtor

The rights afforded in the Plan and the treatment of all Claims shall be in exchange for and in complete satisfaction, discharge and release of all Claims of any nature whatsoever against the Debtor and any of its property, and, except as otherwise provided herein or in the Plan, upon the Effective Date, the Debtor shall be deemed discharged and released to the extent permitted by § 1141 of the Bankruptcy Code from any and all Claims, including but not limited to demands and liabilities that arose before the Effective Date, and all debts of the kind specified in §§ 502(g), 502(h), or 502(i) of the Bankruptcy Code, whether or not (a) a Proof of Claim

based upon such debt is filed or deemed filed under § 501 of the Bankruptcy Code; (b) a Claim based upon such debt is allowed under Section 502 of the Bankruptcy Code; or (c) the holder of a Claim based upon such debt has accepted the Plan. Except as provided herein, the Confirmation Order shall be a judicial determination of discharge of all liabilities of the Debtor. As provided in § 524 of the Bankruptcy Code, such discharge shall void any judgment against the Debtor at any time obtained to the extent it relates to a claim discharged, and operates as an injunction against the prosecution of any action against the Debtor, or its property, including the Vested Property, to the extent it relates to a Claim discharged.

B. Binding Effect

On and after the Effective Date, the provisions of the Plan shall bind all present and former Holders of Claims against the Debtor and such Holders' successors and assigns, whether the Claim of such Holder is Impaired under the Plan and whether such Holder has filed a Proof of Claim or has accepted the Plan. The Confirmation Order shall survive and remain effective after entry of any order converting the Bankruptcy Cases to cases under chapter 7 of the Bankruptcy Code, and the terms and provisions of this Plan shall continue to be effective in this or any superseding case under the Bankruptcy Code.

C. Certain Activities Enjoined

Except as expressly provided herein, at all times on and after the Effective Date, all Persons who have been, are, or may be holders of Claims in the Debtor arising prior to the Effective Date, shall be enjoined from taking any of the following actions against or affecting the Debtor, its estate, or its property, including the Vested Property, with respect to such Claims (other than actions brought to enforce any rights or obligations under the Plan):

(a) commencing, conducting or continuing in any manner, directly or indirectly any suit, action, or other proceeding of any kind against the Debtor, its estate, or its property, including the Vested Property (including, without limitation, all suits, actions, and proceedings that are pending as of the Effective Date which shall be deemed to be withdrawn or dismissed with prejudice);

(b) enforcing, levying, attaching, collecting, or otherwise recovering by any manner or means whether directly or indirectly any judgment, award, decree, or order against the Debtor, its estate, or its property, including the Vested Property;

(c) creating, perfecting, or otherwise enforcing in any manner, directly or indirectly, any Lien against the Debtor, its estate, or its property, including the Vested Property;

(d) asserting any right of subrogation, or recoupment of any kind, directly or indirectly against any obligation due the Debtor, its estate, or its property, including the Vested Property; and

(e) proceeding in any manner in any place whatsoever that does not conform to or comply with the provisions of the Plan.

XVIII. CONFIRMATION PROCEDURE

The Bankruptcy Court will confirm the Plan only if it finds that all of the requirements of Section 1129 of the Bankruptcy Code are met. Among the requirements for confirmation of a

plan are that the Plan: (i) is accepted by all impaired Classes of Claims or, if rejected or deemed rejected by an impaired Class, "does not discriminate unfairly" and is "fair and equitable" as to each rejecting Class; (ii) is feasible; and (iii) is in the "best interest" of creditors impaired under the Plan.

A. Solicitation of Votes

Any creditor of the Debtor whose Claim is Impaired under the Plan and classified in a Class entitled to receive Distributions is being solicited to vote, if either (i) its Claim has been Scheduled by the Debtor and such Claim is not Scheduled as Disputed, contingent or unliquidated, or (ii) it has filed a Proof of Claim on or before the Bar Date set by the Bankruptcy Court for such filings. Any Claim as to which an objection has been filed, and such objection is still pending on the Voting Deadline, is not entitled to have its vote counted, unless the Bankruptcy Court temporarily allows the Claim upon motion by such creditor whose Claim has been objected to, in an amount which the Bankruptcy Court deems proper for the purpose of accepting or rejecting the Plan. Such motion must be heard and determined by the Bankruptcy Court prior to the Voting Deadline. In addition, a creditor's vote may be disregarded if the Bankruptcy Court determines that the creditor's acceptance or rejection was not solicited or procured in good faith or in accordance with the provisions of the Bankruptcy Code.

B. Confirmation Hearing

The Bankruptcy Code requires the Bankruptcy Court to hold a hearing on confirmation of the Plan after Ballots have been cast. The Confirmation Hearing has been scheduled for _ ______. prevailing Mountain Time at the United States Courthouse, 511 E. San Antonio Street, 4th Floor, El Paso, Texas 79901. The Confirmation Hearing may be continued from time to time by the Bankruptcy Court without further notice except for an announcement of the continuance made at the Confirmation Hearing. At the Confirmation Hearing, the Bankruptcy Court will (i) determine whether the Plan has been accepted by the requisite majorities of each Class entitled to vote; (ii) hear and determine all objections to the Plan and to confirmation of the Plan; (iii) determine whether the Plan meets the requirements of the Bankruptcy Code and has been proposed in good faith; and (iv) confirm or refuse to confirm the Plan.

C. Acceptance

Each Class entitled to vote will be deemed to have accepted the Plan if the Plan is accepted by at least two-thirds in dollar amount and more than one-half in number of the Claims of such Class (excluding certain Claims designated under Section 1126(e) of the Bankruptcy Code) that have voted to accept or reject the Plan.

D. Fair and Equitable Test/Cramdown

The Bankruptcy Code establishes different "fair and equitable" tests for Secured and Unsecured Creditors as follows:

1. Secured Creditors. Either (i) each Secured Creditor in a non-accepting impaired Class retains the Liens securing its Secured Claim and receives on account of its Secured Claim deferred Cash payments having a present value equal to the amount of its Allowed Secured Claim, (ii) each Secured Creditor in a non-accepting impaired Class realizes the indubitable equivalent of its Allowed Secured Claim, or (iii) the property securing the Claim is sold free and clear of Liens with such Liens to attach to the proceeds of sale and the treatment of such Liens on proceeds as provided in clauses (i) and (ii) of this subparagraph.

2. Unsecured Creditors. Either (i) each Unsecured Creditor in a non-accepting impaired Class receives or retains under the Plan property having a present value equal to the amount of its Allowed Claim, or (ii) the Holders of Claims that are junior to the Claims of the dissenting Class will not receive or retain any property under the Plan.

THE DEBTOR BELIEVES THAT THE PLAN DOES NOT DISCRIMINATE UNFAIRLY WITH RESPECT TO ANY CLASS, AND THAT IT IS FAIR AND EQUITABLE WITH RESPECT TO EACH IMPAIRED CLASS. THEREFORE, THE DEBTOR WILL SEEK CONFIRMATION OF THE PLAN EVEN IF LESS THAN THE REQUISITE NUMBER OF FAVORABLE VOTES ARE OBTAINED FROM ANY VOTING CLASS. THE DEBTOR RECOMMENDS THAT ALL CREDITORS VOTE TO ACCEPT THE PLAN.

E. Feasibility

The Bankruptcy Code requires that in order to confirm the Plan, the Bankruptcy Court must find that confirmation of the Plan is not likely to be followed by liquidation or the need for further financial reorganization of the Debtor (the "Feasibility Test"), except as otherwise provided for under the Plan. In addition, the Bankruptcy Court must determine that the values of the Distributions to be made under the Plan to each Class will equal or exceed the values which would be allocated to such Class in liquidation under Chapter 7 of the Bankruptcy Code (the "Best Interest Test"). The Best Interest Test with respect to each impaired Class requires that each holder of a Claim in such Class either (i) accept the Plan, or (ii) receive or retain under the Plan property of a value, as of the Effective Date, that is not less than the value such holder would receive or retain if the Debtor were liquidated under Chapter 7 of the Bankruptcy Code.

The Debtor believes that the Plan meets the requirements of the Feasibility Test and of the Best Interest Test by facilitating a transaction with a strategic partner, providing for the Vested Property to vest in the Reorganized Debtor, and providing for proceeds from the ongoing operations of the Reorganized Debtor to provide the means for implementation of the Plan, with the Cash proceeds being distributed as set forth in the Plan and in accordance with the priority scheme set forth in the Bankruptcy Code. No liquidation or further financial reorganization is expected.

F. Objections to Confirmation and/or Approval of Disclosure Statement

Objections to confirmation of the Plan must be in writing and specify in detail the name and address of the objector, all grounds for the objection and the amount of the Claim in the Debtor held by the objector. Any such objection must be filed with the Bankruptcy Court and served upon the following so that it is received by them on or before ____________, 4:00 p.m. prevailing central time upon:

Patricia Baron Tomasco
Jennifer F. Wertz
JACKSON WALKER L.L.P.
100 Congress Avenue, Suite 1100
Austin, Texas 78701
(512) 236-2000
(512) 236-2002
ptomasco@jw.com
jwertz@jw.com

Counsel to the Debtor

UNITED STATES TRUSTEE
Kevin Epstein, Trial Attorney
615 E Houston Street, Room 533
San Antonio, Texas 78205

XIX. PREFERENCES

Section 547 of the Bankruptcy Code allows a debtor-in-possession to recover certain payments known as "voidable preferences." A "voidable preference" is a payment made by a debtor within ninety (90) days prior to its bankruptcy on account of an antecedent debt owed by the debtor that is made while the debtor is insolvent and which allows a creditor to recover more than it would have on such debt if the payment had not been made and the debtor's assets were liquidated under Chapter 7. Payments made to insiders of a debtor may be preferences if they satisfy these requirements and were made within one year prior to bankruptcy. Certain payments are protected from recovery as preferences. These include, among others, payments made in the ordinary course of business and upon ordinary business terms, payments after which the defendant provided new value to the Debtor, payments representing a substantially contemporaneous exchange of new value and payments on consumer debts for less than $600.

Exhibit G to this Disclosure Statement lists payments known at this time to have been made by the Debtor during the ninety (90) days immediately prior to the Petition Date. Also included is a chart which lists payments to the Debtor's insiders within 365 days immediately prior to the Petition Date. After the Effective Date, the Reorganized Debtor will have the authority to pursue the Avoidance Actions, including by initiating additional actions to recover voidable preferences under 11 U.S.C. § 547, including those payments listed in Exhibit G, and any other payments discovered to have been made by the Debtor during the ninety (90) days immediately prior to the Petition Date.

A. Fraudulent Conveyances/Insider Transfers

Sections 548 and 544 of the Bankruptcy Code allow a debtor-in-possession to recover certain payments or other transfers of assets as "fraudulent conveyances." A fraudulent conveyance under section 548 of the Bankruptcy Code is a transfer made within two years of bankruptcy while the Debtor were insolvent which either was made with fraudulent intent or was made without receiving reasonably equivalent value. Section 544 of the Bankruptcy Code allows a debtor-in-possession to pursue non-bankruptcy fraudulent conveyance claims that may have a longer 'lookback' period than two years. Additionally, as referenced above, section 547

of the Bankruptcy Code provides for avoidance of certain payments to Insiders made within one year. The Debtor is unaware of any fraudulent conveyance actions or Insider transactions that can be avoided under section 547, except for the litigation already pending, but the Reorganized Debtor will investigate and pursue any and all such actions that may exist.

Section 549 of the Bankruptcy Code allows an estate to recover transfers which were made without Court approval. The Debtor is unaware of any unauthorized postpetition transfers the Estates can recover under section 549.

The Debtor may recover payments made between 1 and 4 years pre-petition under either § 548 of the Bankruptcy Code (up to 2 years prior to the petition date), or under UFTA, if the requisite showing can be found. To this point, no evidence or accusations have emerged asserting an actual fraud during that time period. Therefore, analysis must be done to determine whether constructive fraud has occurred. Under this analysis, the Debtor must prove that less than reasonable value was received in return for the transfer, and either the Debtor was insolvent, had unreasonably small capital, could not pay its debts as they became due, or payment was to an insider under an employment contract outside of the ordinary course of business.

In order to fully define the extent of the timeframe where recovery under fraudulent conveyance theories are more likely, a deeper solvency analysis is required. The below analysis outlines the transfers during the potential look back period which can be reasonably identified for the sake of disclosure only.

B. The UMC Adversary

As set forth herein, in the UMC Adversary, the Debtor is pursuing claims against UMC under §§ 544, 547(b), and 548 of the Bankruptcy Code with respect to avoidance of the UMC Lien and for recovery of transfers to UMC. In addition, the Debtor has also requested that the Court enter a declaratory judgment under applicable Federal law and state law setting forth the parties' rights and obligations under the Lease. The Debtor has also requested that the Court reform the Lease to align it with the parties' true intent in entering into the Lease and among other things, reforming the Lease to reflect that any rental payment owed to UMC by the Debtor is satisfied by the provision of pediatric indigent care by the Debtor or through other nominal consideration or that UMC pay the Debtor for all indigent care-related costs to date in the future. The Debtor has also alleged claims against UMC for its fraudulent inducement and negligent misrepresentation to the Debtor in conjunction with the execution of the Lease and the Agreements.

The UMC Adversary is set for trial in El Paso on October 22 and 23, and 26 and 27, 2015. Pending before the Court is the Debtor's Summary Judgment Motion, which requests entry of summary judgment in the Debtor's favor on the Debtor's § 547(b) claim against UMC.

C. The EPF Adversary

As set forth herein, the EPF Adversary is presently pending before the Bankruptcy Court. In the EPF Adversary, the Debtor has advanced claims against EPF, the wholly owned managed care company of UMC. UMC mandated that the Debtor enter into the Provider Agreement, pursuant to which the Debtor agreed to provide healthcare services to enrollees of health plans of EPF. In the EPF Adversary, the Debtor has brought claims pursuant to §§ 544 and 548 of the Bankruptcy Code to recover fair market reimbursement for its provision of services to EPF enrollees. The reimbursement rates that historically applied to the Debtor's provision of services

to EPF enrollees have been so far below market rates that the Debtor lost money in providing such services. The EPF Adversary has not yet been set for trial.

D. Director and Officer Claims

Under applicable non-bankruptcy laws, any debtor may have Causes of Action arising from the conduct of such debtor's current and former directors, and officers, including, but not limited to, claims under state law for breach of fiduciary duties, self-dealing and breach of contract. As set forth in Section XI.B hereto, the Committee may investigate the Miscellaneous Claims, and may pursue any of the Miscellaneous Claims as may be in the best interest of the Debtor's' estate.

E. Other Rights of Action/Other Assets

In addition to the Causes of Action described above, the Debtor may possess other Causes of Action, including, but not limited to, breach of contract Claims, insurance adjustments or refunds, tax refunds, bank account surpluses, deposits and prepayments, unused retainers currently held by professionals, escrows and other miscellaneous Assets.

F. Disclaimer

The Debtor has attempted to disclose all material Causes of Action, including potential actions under chapter 5 of the Bankruptcy Code that the Debtor may hold against third parties. However, the Debtor has not performed an exhaustive investigation or analysis of potential Claims against third parties. Additionally, any and all of the above described Causes of Action may have defenses, partial or total, to recovery by the Reorganized Debtor. **Accordingly, the ultimate resolution of such claims may result in zero distributable Assets being received by the Reorganized Debtor.** It is the contemplation of the Plan that the investigation and analysis of Causes of Action will continue post-confirmation by the Reorganized Debtor, or as set forth herein with respect to the Miscellaneous Claims by the Committee. The Debtor may hold other potential Claims or Causes of Action against third parties that the Debtor has not disclosed herein. You should not rely on the omission of the disclosure of a Claim to assume that the Debtor or the Reorganized Debtor holds no Claim against any third party, including any creditor that may be reading this Disclosure Statement and/or casting a Ballot. Unless expressly released by Final Order of the Bankruptcy Court or under the Plan, any and all such Claims against third parties are specifically reserved and transferred to the Reorganized Debtor. The Debtor's failure to identify a Claim herein is specifically not a waiver of any Claim or Cause of Action. The Debtor will not ask the Court to rule or make findings with respect to the existence of any Cause of Action or the value of the entirety of the Debtor's Estate at the Confirmation Hearing; accordingly, except for Claims released by Final Order or expressly released under the Plan, the Debtor's failure to identify a Claim or Cause of Action herein shall not give rise to any defense of judicial estoppel with respect to Claims which could be asserted against third parties, including creditors of the Debtor which may be reading this Disclosure Statement and/or casting a Ballot. When casting your Ballot, you should consider and take into account the possibility that the Debtor may hold a Claim against you that will be transferred to the Reorganized Debtor and, if the Reorganized Debtor deems advisable, fully pursued post-confirmation.

XX. FINANCIAL INFORMATION AND DISCLOSURES

Attached hereto as Exhibit H is the most recent Monthly Operating Report filed by the Debtor for the month of July 2015. Attached as Exhibit I is the Debtor's Plan A financial projections that shows the sources and uses of cash to make distributions under the Plan.

XXI. ALTERNATIVES TO CONFIRMATION AND CONSUMMATION OF THE PLAN

If the Plan is not confirmed and consummated, the Debtor's alternatives include the confirmation of an alternate plan of liquidation or the liquidation of the Debtor under Chapter 7 of the Bankruptcy Code.

A. Alternative Plans of Liquidation

The Debtor believes that failure to confirm the Plan will inevitably result in additional Allowed Administrative Expense Claims which will reduce and delay the likelihood of Distributions to General Unsecured Creditors. The Debtor believes that the Plan, as described herein, fairly adjusts the rights of various Classes of Creditors consistent with the distribution scheme embodied in the Bankruptcy Code and enables creditors to realize the most possible under the circumstances.

B. Liquidation Under Chapter 7

One of the requirements to confirm a Chapter 11 plan is that creditors receive at least as much as they would under a Chapter 7 liquidation. In a Chapter 7 liquidation, a trustee would be appointed to liquidate the Debtor's property and pay the Claims of creditors. Property subject to Liens would either be sold for enough to pay the Liens or foreclosed upon by the creditor. Once the property was liquidated, Claims would be paid in the following order:

1) First, expenses of the Chapter 7 trustee would be paid;

2) Second, expenses incurred during the Bankruptcy Cases and allowed by the Court -- including the all Allowed Administrative Claims -- would be paid; and

3) Third, Priority and Secured Claims would be paid; and

4) Fourth, any remaining funds would be distributed to General Unsecured Creditors on a Pro Rata basis.

The Debtor believes that a liquidation under Chapter 7 would result in a reduced recovery of funds by the Debtor's Estate because of the additional Administrative Expenses involved in the appointment of a Chapter 7 trustee for the Debtor and attorneys and other professionals to assist such a Chapter 7 trustee. Unsecured creditors would be further harmed in a Chapter 7 liquidation because a Chapter 7 trustee would lack the personal knowledge and familiarity with the Debtor and the technical expertise required to best operate the Debtor, particularly given that the Debtor operates a children's hospital that is still in its infancy. Accordingly, the Debtor believes that if Holders of Claims could or would receive anything in a Chapter 7 liquidation, their recoveries would be less than what they otherwise receive on account of their Claims under the Plan. The Debtor's liquidation analysis, which reflects what the Debtor believes Creditors would receive under a chapter 7 liquidation, is attached to this Disclosure Statement as Exhibit J.

The liquidation analysis indicates that the Distributions to General Unsecured Creditors may be limited under the Plan as well as under a liquidation under Chapter 7, but reflects that the Plan projects a greater potential for recovery. To determine what holders of Claims in each impaired Class would receive if the Debtor were liquidated under Chapter 7, the Bankruptcy Court must determine what funds could be generated from the liquidation of the Debtor's assets and property in the context of a Chapter 7 liquidation case, which would consist of the proceeds resulting from the disposition of the unencumbered assets of the Debtor. Such asset amounts would be reduced by post-petition Chapter 11 administrative costs, and costs incurred by the Chapter 7 trustee and any professional retained by the Chapter 7 trustee. To determine if the Plan is in the best interest of each Impaired Class, the present value of the distributions from the proceeds of the liquidation of the Debtor's assets and property (after subtracting the amounts attributable to the aforesaid Claims) are then compared with the present value offered to such Classes of Claims under the Plan.

In applying the Best Interest Test, Claims in a hypothetical Chapter 7 case would be classified according to the same priority provided in the Plan. In the absence of a contrary determination by the Bankruptcy Court, all pre-Chapter 11 General Unsecured Claims that have the same rights upon liquidation would be treated as one Class for the purposes of determining the potential distribution of the liquidation proceeds resulting from the Debtor's hypothetical Chapter 7 case. The distributions from the liquidation proceeds would be calculated ratably according to the amount of the aggregate Claims held by each Creditor. The Debtor believes that the most likely outcome of liquidation proceedings under Chapter 7 would be the application of the rule of absolute priority of distributions. Under that rule, no junior Creditor may receive any distribution until all senior Creditors are paid in full with interest.

The Debtor's management and professionals has analyzed the Chapter 7 liquidation alternative to the Plan. Results of this analysis show clearly that liquidation of Debtor's remaining Assets would result in most creditors receiving zero. As a result, the Debtor is led irrevocably to the conclusion that liquidation of their remaining assets in a Chapter 7 proceeding would result in a significantly lower distribution to General Unsecured Creditors and may leave many Priority Claims unpaid.

XXII. RISK FACTORS TO BE CONSIDERED

HOLDERS OF CLAIMS AGAINST THE DEBTOR SHOULD READ AND CONSIDER CAREFULLY THE FACTORS SET FORTH BELOW, AS WELL AS THE OTHER INFORMATION SET FORTH IN THIS DISCLOSURE STATEMENT (AND THE DOCUMENTS DELIVERED TOGETHER HEREWITH AND/OR INCORPORATED HEREIN BY REFERENCE), PRIOR TO VOTING TO ACCEPT OR REJECT THE PLAN. THESE RISK FACTORS SHOULD NOT, HOWEVER, BE REGARDED AS CONSTITUTING THE ONLY RISKS INVOLVED IN CONNECTION WITH THE PLAN AND ITS IMPLEMENTATION.

A. Allowance of Claims

Distributions by the Reorganized Debtor will be affected by the pool of Allowed Claims, in particular, the costs associated with the reconciliation of Disputed Claims. However, the Debtor has not yet fully analyzed the Claims filed against its Estates. Upon the completion of further analyses of the Proofs of Claim, which will likely lead to Claims objection litigation and

related matters, the total amount of Claims that ultimately become Allowed Claims in these Bankruptcy Cases may differ from the Debtor's estimates, and such difference could be material.

B. Post-Confirmation Date Administrative Claims

Because the Administrative Claims Bar Date will occur after the Confirmation Date, there is a risk that Administrative Claims that are, to date, unknown to the Debtor could be filed and, subsequently, Allowed, which could adversely affect or eliminate Distributions. Depending on the amount of Cash on hand in the Estate, the Reorganized Debtor may also lack the Cash to pay any unexpected or unknown Allowed Administrative Claims as and when such Claims are Allowed.

C. Objection to Classifications

Section 1122 of the Bankruptcy Code provides that a plan may place a claim or an interest in a particular class only if such claim or interest is substantially similar to the other claims or interests of such class. The Debtor believes that the classification of Claims under the Plan complies with the requirements set forth in the Bankruptcy Code, including the classification of the Claim held by Dow. However, there can be no assurance that the Bankruptcy Court will reach the same conclusion. Notwithstanding anything to the contrary herein, the Debtor expressly reserves the right to object to the amount, priority or classification of any Claim.

D. Non-confirmation of the Plan

Even if Classes 2 through 7 (the only voting Classes) accept the Plan, there is a risk that the Bankruptcy Court may not confirm the Plan if the cram down requirements discussed above are not met. The Debtor believes that the Plan satisfies all the requirements for confirmation under the Bankruptcy Code. There can be no assurance, however, that the Bankruptcy Court will also conclude that the requirements for confirmation of the Plan have been satisfied.

E. Delays of Confirmation and/or Effective Date

Any delay in confirmation and effectiveness of the Plan could result in, among other things, increased Administrative Claims. These or any other negative effects of delays in confirmation or effectiveness of the Plan could endanger the ultimate approval of the Plan by the Bankruptcy Court and reduce recoveries to Creditors.

F. Business Risks

Financial Projections are Inherently Uncertain

Although the Financial Projections suggest that the Debtor will be able to meet all of its financial obligations following consummation of the Plan (Plan Scenario A), the financial projections are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Because the actual results achieved through the periods covered by the Financial Projections may vary from the projected results, the Financial Projections should not be relied upon as a guaranty, representation, or other assurance of the actual results that will occur. In addition, the Financial Projections are dependent on factors outside of the Debtor's control, including the availability of state and federal funding the consummation of a transaction with a strategic partner and business and competitive factors.

XXIII. CONCLUSION AND RECOMMENDATION

THE DEBTOR BELIEVES THAT CONFIRMATION OF THE PLAN IS PREFERABLE TO ANY OF THE ALTERNATIVES DESCRIBED ABOVE AND THAT THE PLAN IS DESIGNED TO PROVIDE GREATER RECOVERIES THAN THOSE AVAILABLE IN ANY OTHER FORM OF LIQUIDATION. ANY OTHER ALTERNATIVE WOULD CAUSE SIGNIFICANT DELAY AND UNCERTAINTY, AS WELL AS ADDITIONAL ADMINISTRATIVE COSTS. THUS, THE DEBTOR RECOMMEND THE CONFIRMATION OF THE PLAN.

Dated: September 16, 2015.

EL PASO CHILDREN'S HOSPITAL CORPORATION

By: /s/ *Mark E. Herbers*
Its: Chief Executive and Restructuring Officer

JACKSON WALKER L.L.P.
100 Congress Avenue, Suite 1100
Austin, Texas 78701
(512) 236-2000 – Main Telephone
(512) 236-2002 – Main Facsimile

By: /s/ *Patricia B. Tomasco*
Patricia B. Tomasco
State Bar No. 01797600
(512) 236-2076 – Direct Phone
(512) 691-4438 – Direct Fax
Email address: ptomasco@jw.com

Jennifer F. Wertz
State Bar No. 24072822
(512) 236-2247 – Direct Phone
(512) 391-2147 – Direct Fax
Email address: jwertz@jw.com

COUNSEL FOR THE DEBTOR-IN-POSSESSION