

UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF INDIANA
NEW ALBANY DIVISION

IN RE:)
)
KMC REAL ESTATE INVESTORS, LLC) CHAPTER 11
)
Debtor) CASE NO. 11-90930-BHL-11
_____)

DEBTOR'S FIRST AMENDED DISCLOSURE STATEMENT
DATED FEBRUARY 13, 2012

Respectfully submitted,

/s/ Courtney E. Chilcote

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I. INTRODUCTION

This is the first amended disclosure statement (the “Disclosure Statement”) in the chapter 11 case of KMC Real Estate Investors, LLC (“KMCREI,” or alternatively referred to herein as “Debtor” and “Plan Proponent”) which was commenced on April 1, 2011 (the “Petition Date”). This Disclosure Statement contains information about the Debtor and describes its first amended Plan of Reorganization (the “Plan”) filed on February 13, 2012. A full copy of the Plan accompanies this Disclosure Statement and is incorporated herein by reference.

The proposed distributions under the Plan are discussed at pages 7-10 of this Disclosure Statement. The Plan classifies claims of general unsecured creditors in Class 3-A, and contemplates partial repayment of said claims through *pro rata* cash distributions from the Debtor’s cash generated from future operations after the Effective Date.

Your rights may be affected. You should read the Plan and this Disclosure Statement carefully and discuss them with your attorney. You are further encouraged to read the second disclosure statement and second amended plan submitted by Kentuckiana Medical Center, LLC in case no. 11-90930 (the “KMC Plan Documents”) for additional information regarding the restructuring described herein. If you do not have an attorney, you may wish to consult one.

A. Purpose of this Disclosure Statement

This Disclosure Statement describes:

- the Debtor and significant events during the bankruptcy case;
- how the Plan proposes to treat claims or equity interests of the type you hold (*i.e.*, what you can expect to receive on your claim or equity interest if the plan is confirmed);
- who may vote on and/or object to the Plan;
- what factors the Bankruptcy Court will consider when deciding whether to confirm the Plan;
- why the Debtor believes the Plan is feasible;
- how the treatment of your claim or equity interest under the Plan compares to what you would receive on your claim or equity interest in liquidation; and
- the effect of confirmation of the Plan.

It is important to read the Plan as well as the Disclosure Statement. This Disclosure Statement describes the Plan, but it is the Plan itself that will, if confirmed, establish your rights.

B. Disclaimers

No person is authorized by the Debtor in connection with the Plan or the solicitation of acceptances of the Plan to give any information or to make any representation other than as contained in this Disclosure Statement and the exhibits attached hereto or incorporated by reference or referred to herein, and, if given or made, such information or representation may not be relied upon as having been authorized by the Debtor. Although the Debtor will make available to creditors entitled to vote on the Plan such additional information as may be required by applicable law prior to the Voting Deadline, the delivery of this Disclosure Statement will not under any circumstances imply that the information herein is correct as of any time after the date hereof.

The information contained in this Disclosure Statement, including the information regarding the history, business and operations of the Debtor, the financial information regarding the Debtor and the liquidation analysis relating to the Debtor, is included for purposes of soliciting acceptances of the Plan, but, as to contested matters and adversary proceedings, is not to be construed as admissions or stipulations, but rather as statements made in settlement negotiations.

All creditors are encouraged to read and carefully consider this Disclosure Statement, including the Risk Factors described under Section III.E, and the Plan prior to submitting ballots in response to this solicitation.

C. Important Deadlines; Date of Confirmation Hearing

If the Bankruptcy Court determines that this Disclosure Statement contains adequate information, the Order Approving this Disclosure Statement will contain important information concerning the dates by which you may vote on and/or object to confirmation of the Plan.

The Bankruptcy Court has not yet confirmed the Plan described in this Disclosure Statement. This section describes the procedures pursuant to which the Plan will or will not be confirmed.

1. *Time and Place of the Hearing to Confirm the Plan*

The hearings at which the Bankruptcy Court will determine whether to approve the Disclosure Statement and confirm the Plan will take place in Room 103, Federal Building, 121 West Spring Street, New Albany, Indiana 47150, at a date and time to be determined by the Bankruptcy Court and published pursuant the provisions of the first paragraph of this Section I.C.

2. *Voting to Accept or Reject the Plan*

See Section IV.A below to determine whether you may be eligible to vote on the Plan.

If you are entitled to vote to accept or reject the Plan, indicate your vote on the ballot provided to you by Debtor's counsel and return the ballot via one (1) of the following methods:

If by Regular U.S. Mail:

Hostetler & Kowalik, P.C.
Attn: Courtney Chilcote
101 West Ohio Street, Suite 2100
Indianapolis, Indiana 46204

If by Facsimile:

(317) 262-1010

If by Electronic Mail:

cchilcote@hkclawfirm.com
Subject: 11-90930 KMC Real Estate Investors, LLC ballot

Your ballot must be received by the Voting Deadline (as described in the Order Approving the Disclosure Statement or other Bankruptcy Court Order) or it will not be counted.

3. *Deadlines for Objecting to the Adequacy of Disclosure and Confirmation of the Plan*

Objections to approval of this Disclosure Statement or to the confirmation of the Plan must be filed with the Bankruptcy Court and served upon counsel for the Debtor and the Office of the United States Trustee by the respective Objection Deadlines (as described in the Order Approving the Disclosure Statement or other Bankruptcy Court Order).

4. *Identity of Person to Contact for More Information*

If you want additional information about the Plan, you should contact counsel for the Debtor via the contact information below:

Courtney Chilcote
HOSTETLER & KOWALIK, P.C.
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II. BACKGROUND

A. Description and History of the Debtor's Business

The Debtor is a limited liability company organized under the laws of the State of Indiana that was established for the ownership and lease of an approximately ten (10) acre campus located in Clarksville, Indiana (the "KMCREI Real Property") on which a for-profit acute care medical facility is operated (the "Hospital"). The Debtor's former lessee and intended future lessee, Kentuckiana Medical Center, LLC ("KMC"), occupies and operates the Hospital, in which it offers a range of care including cardiovascular, oncology, urology, internal medicine and plastics within its planned 60-bed facility. KMC typically employs approximately 200 individuals at the Hospital.

The Hospital serves the Louisville metropolitan market with its primary focus on the six (6) Indiana counties immediately across the Ohio River from Louisville. The majority of KMC's patients have been referred to the Hospital through its physician investors, with others being sent by non-equity physicians in the region who have privileges at the Hospital.

B. Insiders of the Debtor

The Debtor's Board of Managers (the "Board") consists of the following individuals:

Name	Title	Affiliation
Dr. Christodulos Stavens	Board Member	16.10% membership interest
Dr. Jeffrey Campbell	Board Member	4.47% membership interest
Dr. Eli Hallal	Managing Member	16.72% membership interest
Cardiovascular Hospitals of America, LLC (" <u>CHA</u> ")	Board Member	10.25% membership interest

The equity membership interests in the Debtor are held in the amounts indicated below by the following persons:

Doctor	Membership Interest
George L. Alcorn	2.54%
David Berry	1.78%
David Britt	1.18%
Abdul G. Buridi	1.65%
Jeffrey Campbell	4.47%
CHA	10.25
Keith B. Carter	1.29%
Marilyn L. Chamberlain	0.10%
Alexander G. Digenis	1.01%
Thomas Eckert	1.01%
Eugene Giles	1.52%
Shawn Glisson	3.20%
Eli R. Hallal	16.72%
Amy Hallal-Henderson	0.90%
John E. Hategan	1.01%
Samer H. Hussein	1.78%
Robert Karman	4.30%
Zaka Khan	0.10%
Renato LaRocca	1.27%
John W. McConnell	1.89%
Julio Melo	2.03%
Charles Oates	2.68%
Brian J. Paradowski	1.18%
R. Rahman	0.51%
Denis P. Raleigh	4.47%
Syed T. Raza Kaqvi	0.90%
Lawrence R. Rouben	2.68%
John D. Rumisek	4.47%
Warren Shaikun	0.10%
Anil K. Sharma	0.90%
Christodulos Stavens	16.10%
Mio M. Stikovac	4.47%
Leslie Strouse-Mattingly	0.51%
Brian Thornton	1.01%

In addition to the above-described holders of equity interests in the Debtor and its affiliates, the sole non-owner insider of the Debtor is KMC.

The Debtor's current management has earned and received normal, market-rate compensation and benefits packages in the periods both prior to and following the Petition Date, commensurate with the performance of their respective duties as officers of the Debtors.

C. Events Leading to Chapter 11 Filing

The Debtor experienced financial hardship from its inception due to its tenant's inability to meet its rental obligations under the parties' lease of the Hospital. On January 17, 2011, the unexpired lease of the Hospital between the Debtor and KMC was rejected by KMC, as a matter of law, following commencement of KMC's chapter 11 bankruptcy case. However, KMC remained on the premises as a holdover tenant, and the holder of the first mortgage on the KMCREI Real Property, RL BB Financial, LLC ("Rialto") initiated foreclosure proceedings in Clark County, Indiana. The Debtor commenced this chapter 11 bankruptcy case to preserve the going concern value of the KMCREI Real Property and halt Rialto's foreclosure efforts.

D. Significant Events During the Bankruptcy Case

1. *Termination of the Automatic Stay*

An immediate effect of the filing of the Debtor's chapter 11 petition was the imposition of the automatic stay under § 362(a) of the Bankruptcy Code which enjoined, with limited exceptions, the commencement or continuation of the enforcement of liens against the Debtor's property, the continuation of litigation against the Debtor and any other collection efforts by creditors. This relief afforded the Debtor the "breathing spell" necessary to assess and reorganize its business, but was terminated with respect to Rialto and its rights in the KMCREI Real Property by Order entered on July 27, 2011. Nevertheless, Debtor has remained in possession of the KMCREI Real Property and has continued to negotiate with Rialto to abate the foreclosure action.

2. *Solicitation of New Capital*

Because the Debtor's poor financial performance to date is primarily attributable to KMC's inability to generate profits while operating the Hospital in its current condition, the Debtor and KMC have determined that a joint effort for solicitation of a new capital investment in the Hospital is necessary to achieve financial performance that will enable both companies to achieve positive cash flows and service their debts as they come due. The affiliated debtors have thus marketed their assets and earning capacities as a "package deal" to parties who may be interested in and capable of financing the capital improvements in the Hospital. Based on the estimation of KMC's Chief Restructuring Officer, Timothy J. Donahue, that the structural improvements to the Hospital premises will require approximately \$5 million to complete, the Debtor and KMC set out to negotiate financial accommodations with multiple interested parties for an infusion of capital that would enable the Hospital completion projects to begin immediately while also providing the Debtor sufficient funding to satisfy its existing debt obligations through a plan of reorganization. After months of solicitation and negotiations, the Debtor and KMC have identified an exit financing arrangement which they believe

will enable the Hospital to achieve profitability and provide a meaningful recovery to creditors of the Debtor and KMC.

E. Projected Recovery of Avoidable Transfers

The Debtor has reviewed its financial records and accounts in light of its powers and duties as a debtor in possession. Based on its review of its records and advice of counsel, at this time the Debtor does not intend to pursue, but does not waive, any preference, fraudulent conveyance, or other avoidance actions at this time.

F. Claims Objections

Except to the extent that a claim is already an Allowed Claim pursuant to a Final Order, the Debtor reserves the right to object to claims. Therefore, even if your claim is allowed for voting purposes, you may not be entitled to a distribution if an objection to your claim is later upheld. The procedures for resolving disputed claims are set forth in Article VI of the Plan.

G. Current and Historical Financial Conditions

The identity and current fair market value of the estate's and KMC's assets are listed in **Exhibit A**. The values listed in Exhibit A are based upon the appraisal of the KMCREI Real Property which was conducted during the pendency of this case.

The Debtor has not generated any revenues since commencement of this case.

III. SUMMARY OF THE PLAN OF REORGANIZATION

A. Purpose of the Plan of Reorganization

As required by the Bankruptcy Code, the Plan places claims and equity interests in various classes and describes the treatment each class will receive. The Plan also states whether each class of claims or equity interests is impaired or unimpaired. If the Plan is confirmed, your recovery will be limited to the amount provided by the Plan.

B. Unclassified Claims

Certain types of claims are automatically entitled to specific treatment under the Bankruptcy Code. They are not considered impaired, and holders of such claims do not vote on the Plan. They may, however, object if, in their view, their treatment under the Plan does not comply with that required by the Bankruptcy Code. As such, the Plan Proponent has *not* placed the following claims in any class:

1. *Administrative Expenses*

Administrative expenses are costs or expenses of administering the Debtor's chapter 11 case which are allowed under § 503(b) of the Bankruptcy Code and entitled to priority under § 507(a)(2) of the Bankruptcy Code. Administrative expenses also include claims allowed by Final Order (after notice and a hearing) for the value of any goods sold to the Debtor in the ordinary course of business and received within 20 days before the date of the bankruptcy petition. The Bankruptcy Code requires that all administrative expenses be paid on the Effective Date of the Plan, unless a particular claimant agrees to a different treatment.

The following table lists the Debtor's estimated administrative expenses, and their proposed treatment under the Plan:

<u>Type</u>	<u>Estimated Amount Owed</u>	<u>Proposed Treatment</u>
Expenses Arising in the Ordinary Course of Business After the Petition Date	\$0.00	Paid in full on the Effective Date of the Plan, or according to terms of obligation if later
The Value of Goods Received in the Ordinary Course of Business Within 20 Days Before the Petition Date	\$0.00	Paid in full on the Effective Date of the Plan, or according to terms of obligation if later
Professional Fees, as approved, or to be approved, by the Bankruptcy Court	\$20,000.00 ¹	Paid in full on the Effective Date of the Plan, or according to separate written agreement, or according to court order if such fees have not been approved by the Bankruptcy Court on the Effective Date of the Plan
Expenses deemed to have been actual and necessary to preservation of the estate	\$0.00	Paid in full on the Effective Date of the Plan, or according to separate written agreement.
Clerk's Office Fees	[NONE]	Paid in full on the Effective Date of the Plan
Other administrative expenses	[NONE]	Paid in full on the Effective Date of the Plan or according to separate written agreement
Office of the U.S. Trustee Fees	\$20,000.00 ²	Paid in full on the Effective Date of the Plan
TOTAL	\$40,000.00	

2. *Priority Tax Claims*

Priority tax claims are unsecured income, employment, and other taxes described by § 507(a)(8) of the Bankruptcy Code. Unless the holder of such a § 507(a)(8) priority tax claim agrees otherwise, it must receive the present value of such claim, in regular installments paid over a period not exceeding five (5) years from the order for relief. The Clark County Treasurer has asserted two (2) priority tax claims against the Debtor in the cumulative amount of \$409,445.53 for real and personal property tax assessments. The Debtor believes that the actual Allowed Priority Claim of the Clark County Treasurer is approximately \$890,452.00. On the Effective Date, the Debtor will satisfy in full

¹ Note: Prior to February 12, 2012, Hostetler & Kowalik, P.C. has incurred fees and expenses in the approximate amount of \$17,500. Hostetler & Kowalik, P.C. will file the appropriate fee applications but includes this information for consideration in conjunction with this Disclosure Statement.

² Note: U.S. Trustee fees are overestimated.

the Allowed priority tax Claims of the Clark County Treasurer through a cash payment equal to the total amount of its Allowed Claim. For all other Allowed priority tax Claims, except to the extent that a holder has agreed, in writing, to compromise the amount of its Allowed Claim and/or treatment which extends the payment period and/or reduces the applicable statutory rate of interest, each will receive regular installment payments, in cash, in an amount sufficient to satisfy its Allowed priority tax Claim, plus interest accruing at the applicable statutory rate (as determined pursuant to § 511 of the Bankruptcy Code), on or before April 1, 2016.

C. Classes of Claims and Interests

The following are the classes set forth in the Plan, and the proposed treatment that they will receive under the Plan:

1. *Priority Unsecured Claims*

Certain priority claims that are referred to in §§ 507(a)(1), (4), (5), (6), and (7) of the Bankruptcy Code are required to be placed in classes. The Bankruptcy Code requires that each holder of such a claim receive cash on the Effective Date of the Plan equal to the allowed amount of such claim. However, a class of holders of such claims may vote to accept different treatment.

As of the Date this Plan is proposed, there are no known holders of Allowed Class 1 Claims. To the extent that a Final Order provides that one or more Allowed Claim(s) is entitled to priority treatment under §§ 507(a)(1), (4), (5), (6), and/or (7) of the Bankruptcy Code, said Allowed Claim(s) will be paid in full in cash on the Effective Date or according to Final Order.

2. *Secured Claims*

Allowed Secured Claims are claims secured by property of the Debtor's bankruptcy estate to the extent allowed as secured claims under § 506 of the Bankruptcy Code. If the value of the collateral or setoffs securing the creditor's claim is less than the amount of the creditor's allowed claim, the deficiency will be classified as a general unsecured claim unless specifically otherwise provided in the Plan.

The following table identifies all classes containing holders of Allowed secured prepetition Claims against the Debtor and their proposed treatment under the Plan:

<u>Class #</u>	<u>Description</u>	<u>Impairment</u>	<u>Treatment</u>
2-A	<p><i>Secured Claim of:</i> Rialto</p> <p><i>Collateral:</i> Mortgage on KMCREI Real Property</p> <p><i>Priority of Lien:</i> First priority</p> <p><i>Total Claim:</i> \$21,000,000.00 (estimated to account for voluntary and involuntary payments made by guarantors and co-obligors since the Petition Date).</p> <p><i>Allowed Secured Claim:</i> \$21,000,000.00</p> <p><i>Allowed Unsecured Amount:</i> \$0.00</p>	Impaired	<p><i>Initial Payment:</i> \$1,000,000.00 cash on the Effective Date.</p> <p><i>Payment/Frequency:</i> \$80,172.75 per month.</p> <p><i>Monthly Payments Begin:</i> Thirty (30) days after the Effective Date.</p> <p><i>Maturity Date:</i> 360 months after the Effective Date.</p> <p><i>Interest Rate:</i> Fixed at 235 basis points above the one-month LIBOR rate as of the Effective Date.</p> <p><i>Treatment of Lien:</i> Retained until all amounts due Rialto have been paid in full.</p>

3. *General Unsecured Claims*

General unsecured claims are not secured by property of the estate and are not entitled to priority under § 507(a) of the Bankruptcy Code.

The following table identifies the proposed treatment of Allowed general unsecured Claims against the Debtor under the Plan:

<u>Class #</u>	<u>Description</u>	<u>Impairment</u>	<u>Treatment</u>
3-A	<p><i>Unsecured Claims of:</i> Cardinal Health and Healthcare Practice Consultants</p> <p><i>Total claims:</i> \$465,902.15</p> <p><i>Allowed Unsecured Amount:</i> Cardinal Health holds an Allowed Unsecured Claim in the amount of \$459,170.39, and Healthcare Practice Consultants holds an Allowed Unsecured Claim in the amount of \$6,731.76.</p>	Impaired	<p>On the date that is thirty (30) days after the Effective Date, the Debtor will commence making cash distributions to holders of Allowed Class 3-A Claims representing each such holder's <i>pro rata</i> portion of regular payments totaling \$7,765.00 per month for a period of sixty (60) months.</p>

<u>Class #</u>	<u>Description</u>	<u>Impairment</u>	<u>Treatment</u>
3-B	<p><i>Unsecured Claim of: DivLend Equipment Leasing, LLC ("DivLend")</i></p> <p><i>Total Claim: Unliquidated</i></p> <p><i>Allowed Unsecured Amount: Unliquidated</i></p>	Impaired	The Debtor's liability to DivLend under the subject guaranty shall remain intact following Confirmation. The payment obligations owing to DivLend shall be satisfied according with the KMC Plan Documents and/or any Confirmation Order entered in KMC's chapter 11 case.

4. *Equity Interests*

Holders of equity interests are parties who have an ownership interest (*i.e.*, equity interest) in the Debtor. In a corporation, entities holding preferred or common stock are equity interest holders. In a partnership, equity interest holders include both general and limited partners. In a limited liability company ("LLC"), the equity interest holders are the members.

The following table identifies proposed treatment of the class of equity interest holders under the Plan:

<u>Class #</u>	<u>Description</u>	<u>Impairment</u>	<u>Treatment</u>
4	Membership Interests in the Debtor	Impaired	Holders of Class 4 Interests shall have their membership interests canceled on or before the Effective Date.

D. Means of Implementing the Plan

1. *Source of Payments*

The Debtor's ability to fund the Plan is premised on the Debtor's and KMCREI's ability to obtain infusions of capital from affiliates of Granger Group, LLC (the "Exit Investors") in the aggregate amount of not less than \$10,820,357.00 (the "Exit Investment"). The proposed investments in the Debtor and KMCREI are anticipated to be sufficient to allow the Debtor to continue to operate the Hospital and be profitable after payment of debts provided for in the Plan.

2. *Use of Funds*

The Exit Investment will be utilized to fund necessary capital improvements to KMCREI and the Hospital, and pay the Claims treated in the Plan. The Debtor's anticipated use of the funds made available pursuant to the Exit Investment is more particularly described in the Proposed Use of Funds Statement attached hereto as **Exhibit A** (the "Use of Funds Statement"). Included within the Use of Funds Statement, and designated as "Unsecured Claims – Guaranteed," is a reserve amount to fund certain payments on the Effective Date to non-insider, non-Claim holders in a maximum total amount of \$240,000.00 from proceeds of the Exit Investment. Said payment is required by Granger as a condition to making the Exit Investment. The amounts and payees identified in the Use of Funds

Statement, and the transactions described in this Section III.D are projections and estimations based on the Debtor's and KMC's negotiations with Granger, and remain subject to change as may be required to consummate the Plan.

3. *Granger Affiliates as Exit Investors*

The Debtor and KMC have negotiated with Granger to create and fund two (2) entities which will serve as the Exit Investors. Granger has established the parameters of the restructuring transactions for which it is willing to infuse capital provide financing, and the plans of reorganization filed by Debtor and KMC are intended to meet Granger's requirements. Correspondence from Granger evidencing its commitment to the proposed restructuring of KMC and the Debtor is attached hereto as **Exhibit B**.

4. *Exit Investment Applied to KMCREI*

On the Effective Date of the Plan, one of the Exit Investors will contribute \$8,640,888 cash to the Debtor and obtain the sole membership interest in KMCREI (the "KMCREI Exit Investor"). Of that sum, \$3,670,452.00 will be utilized to satisfy the Debtor's payment obligations under the Plan on the Effective Date. The remaining \$4,970,436.00 will be delivered to KMC in order to enable the Debtor to consummate the Plan and execute a new triple net lease agreement substantially similar to the Lease Agreement attached hereto as **Exhibit C**.

5. *Post-Confirmation Ownership and Management of the Debtor*

Upon cancellation of the pre-petition membership interests in the Debtor pursuant to the Plan, the Debtor shall cause a distribution of new membership interests to the KMCREI Exit Investor. The KMCREI Exit Investor, as sole member, will manage the Debtor's operations, which will primarily consist of owning and managing the KMCREI Real Property pursuant to a triple net lease wherein KMC is the tenant.

E. Risk Factors

The holder of a claim against the Debtor should read and carefully consider the following factors, as well as the other information set forth in this Disclosure Statement (and the documents delivered together herewith and/or incorporated by reference herein), before deciding whether to vote to accept or reject the Plan. These factors should not, however, be regarded as constituting the only risks involved in connection with the Plan and its implementation.

1. *The Debtor may not be able to obtain confirmation of the Plan.*

The Debtor cannot insure that it will receive the requisite acceptances from the holders of allowed claims to confirm the Plan. Even if all impaired classes accept or could be deemed to have accepted the Plan, the Debtor cannot insure that the Bankruptcy Court will confirm the Plan. One or more non-accepting holder(s) of claim(s), or the United States Trustee, might challenge the adequacy of this Disclosure Statement or the balloting procedures and results as not being in compliance with the Bankruptcy Code or the Bankruptcy Rules. Even if the Bankruptcy Court determined that this Disclosure Statement and the balloting procedures and results were appropriate, the Bankruptcy Court could still decline to confirm the Plan if it found any of the statutory requirements for confirmation had not been met. Section 1129 of the Bankruptcy Code sets forth the requirements for Confirmation and

requires, among other things, a finding by the Bankruptcy Court that (a) confirmation of the Plan is not likely to be followed by liquidation or a need for further financial reorganization; (b) the Plan “does not unfairly discriminate” and is “fair and equitable” with respect to any non-accepting classes; (c) the value of distributions to dissenting holders of claims and interests will not be less than the value of distributions such holders would receive if the Debtor was liquidated under chapter 7 of the Bankruptcy Code; and (d) the Plan and the Debtor have otherwise complied with the applicable provisions of the Bankruptcy Code. Although the Debtor believes that the Plan will meet all applicable tests, there can be no assurance that the Bankruptcy Court will reach the same conclusion.

If the Plan is not confirmed, it is unclear whether a restructuring of the Debtor could be implemented and what distributions holders of claims ultimately would receive with respect to their claims. If an alternative reorganization could not be agreed to, it is possible that the Debtor would have to liquidate its assets, in which case it is likely that holders of claims would receive substantially less favorable treatment than they would receive under the Plan.

2. *The actual allowed amounts of claims may vary from the estimated claims and reduce the percentage recovery on general unsecured claims.*

The estimated claims described in the Plan and Disclosure Statement are based on various assumptions and the actual allowed amounts of claims may significantly differ from the estimates. In addition, the Debtor may have omitted, whether by error or ignorance, a claim that is ultimately proven to be an Allowed Claim which could alter the recovery realized by holders of general unsecured claims. Should any of the underlying assumptions relied upon in the estimation of claims ultimately prove to be incorrect, the actual allowed amounts of claims may vary from the estimated claims contained herein. As a result, such differences may materially and adversely affect the percentage recovery on Class 3-B general unsecured claims under the Plan.

3. *The Debtor may attempt to achieve confirmation notwithstanding an inability to obtain necessary votes for consensual confirmation.*

Pursuant to the “cramdown” provisions of §1129 of the Bankruptcy Code, the Bankruptcy Court can confirm the Plan at the Debtor’s request if (i) at least one impaired class has accepted the Plan (with such acceptance being determined without including the acceptance of any “insider” in such class) and (ii) with respect to each impaired class that has not accepted the Plan, the Bankruptcy Court determines that the Plan “does not discriminate unfairly” and is “fair and equitable” with respect to impaired classes. In accordance with § 1129(a)(8) of the Bankruptcy Code, the Debtor will request that the Bankruptcy Court confirm the Plan without the acceptance of all impaired classes entitled to vote.

The Debtor hereby reserves the right to modify the terms of the Plan as necessary for confirmation without the acceptance of all impaired classes. Such modification could result in less favorable treatment for any non-accepting classes than the treatment currently provided for in the Plan. Such less favorable treatment could include a distribution of property of a lesser value than that currently provided in the Plan or no distribution of property whatsoever.

4. *The Debtor may be unable to obtain the necessary exit investment.*

The Debtor and KMC have identified Granger as a party willing to make the Exit Investment to fund the improvements to and continued operations of the Hospital. However, Granger’s

commitment to the Debtor is contingent upon KMC's ability to achieve Confirmation of its plan of reorganization by the Bankruptcy Court on terms acceptable to Granger. The Debtor and KMC are working diligently to jointly obtain Confirmation of their respective plans, but the KMC plan of reorganization has independent challenges and obstacles associated therewith. The Bankruptcy Court's refusal to confirm KMC's plan of reorganization or protracted confirmation battle in the KMC chapter 11 case could cause Granger and/or the Debtor to withdraw its commitment to the Plan.

5. *The Exit Investment and Plan may not result in the Debtor being profitable.*

The Debtor, KMC and Granger have negotiated a transaction which they believe will improve the Hospital's capital structure and maximize operational efficiencies in manners that will enable the Debtor to meet its obligations under the Plan. While the parties' independent decisions to engage in the transactions contemplated by the Plan are the direct result of negotiations and the exercise of business judgment among the professionals and advisors of the respective entities, the risks associated with the necessary transactions should not be overlooked. While the Exit Investment plan is designed with the intention of improving the Hospital and increasing its tenant's ability to consistently earn a profit, the Debtor's emergence from chapter 11 could be tedious to the point of reducing productivity and inhibiting the profitability of the Hospital after Confirmation.

6. *The Debtor's financial projections are inherently uncertain and actual results may materially differ.*

The Debtor's financial personnel have proceeded in utmost good faith in their attempt to produce a realistic projection of the company's financial position over the relevant years in which substantially all of the Debtor's restructured debts will be serviced under the Plan. Nonetheless, any undertaking in the area of financial projections necessarily requires a host of assumptions, and events and circumstances frequently do not occur as expected. The degree of difference between the projected and actual results cannot be known, but such differences may prove to be material with respect to the Debtor's financial well-being following Confirmation.

Because the actual results achieved throughout the periods covered by the financial projections may vary from the projected results, the projections should not be relied upon as a guaranty, representation or other assurance of or against the actual results that will occur. The Debtor does not intend to update the financial projections; thus, the financial projections will not reflect the impact of any subsequent events not already accounted for.

F. Executory Contracts and Unexpired Leases

The Plan, in Table 7.01, lists all executory contracts and unexpired leases that the Debtor will assume under the Plan. Assumption means that the Debtor has elected to continue to perform the obligations under such contracts and unexpired leases, and to cure defaults of the type that must be cured under the Bankruptcy Code, if any. Table 7.01 also lists how the Debtor will cure and compensate the other party to such contract or lease for any such defaults.

If a party objects to the assumption of its unexpired lease or executory contract, the proposed cure of any defaults, or the adequacy of assurance of performance, it must file and serve an objection to the Plan within the deadline for objecting to the confirmation of the Plan, unless the Bankruptcy Court has set an earlier time.

All executory contracts and unexpired leases that are not listed in Table 7.01 will be rejected under the Plan. Consult your adviser or attorney for more specific information about particular contracts or leases.

If a party objects to the rejection of its contract or lease, it must file and serve an objection to the Plan within the deadline for objecting to the confirmation of the Plan (the "Objection Deadline").

Unless the Debtor has rejected a particular lease or contract prior to entry of the Confirmation Order, the deadline for filing a Proof of Claim based on a Claim arising from the rejection of a lease or contract is twenty-eight (28) days after entry of the Confirmation Order. Any claim based on the rejection of a contract or lease will be barred if the proof of claim is not timely filed, unless the Bankruptcy Court orders otherwise.

G. Tax Consequences of Plan

Creditors and Equity Interest Holders Concerned with How the Plan May Affect Their Tax Liability Should Consult with Their Own Accountants, Attorneys, and/or Advisors.

IRS Circular 230 Disclosure: To ensure compliance with requirements imposed by the IRS, we inform you that any U.S. federal tax advice contained in this communication (including any attachments) is not intended or written to be used, for the purpose of (a) avoiding penalties under the Internal Revenue Code or (b) promoting, marketing or recommending to another party any transaction or matter addressed herein.

1. General

A DESCRIPTION OF CERTAIN U.S. FEDERAL INCOME TAX CONSEQUENCES OF THE PLAN IS PROVIDED BELOW. NO RULING HAS BEEN REQUESTED FROM THE IRS AND NO LEGAL OPINION HAS BEEN REQUESTED FROM COUNSEL CONCERNING ANY TAX CONSEQUENCE OF THE PLAN, AND NO TAX OPINION IS GIVEN BY THIS DISCLOSURE STATEMENT.

THIS DESCRIPTION DOES NOT COVER ALL ASPECTS OF FEDERAL INCOME TAXATION THAT MAY BE RELEVANT TO THE DEBTORS OR HOLDERS OF CLAIMS. FOR EXAMPLE, THE DESCRIPTION DOES NOT ADDRESS ISSUES OF SPECIAL CONCERN TO CERTAIN TYPES OF TAXPAYERS, SUCH AS DEALERS IN SECURITIES, LIFE INSURANCE COMPANIES, FINANCIAL INSTITUTIONS, TAX EXEMPT ORGANIZATIONS AND FOREIGN TAXPAYERS, NOR DOES IT ADDRESS TAX CONSEQUENCES TO HOLDERS OF INTERESTS IN THE DEBTORS. THIS DESCRIPTION DOES NOT DISCUSS THE POSSIBLE STATE TAX OR NON-U.S. TAX CONSEQUENCES THAT MIGHT APPLY TO THE DEBTORS OR TO HOLDERS OF CLAIMS.

FOR THESE REASONS, THE DESCRIPTION THAT FOLLOWS IS NOT A SUBSTITUTE FOR CAREFUL TAX PLANNING AND PROFESSIONAL TAX ADVICE BASED UPON THE INDIVIDUAL CIRCUMSTANCES OF EACH HOLDER OF A CLAIM. HOLDERS OF CLAIMS ARE URGED TO CONSULT WITH THEIR OWN TAX ADVISORS REGARDING THE FEDERAL, STATE, LOCAL AND FOREIGN TAX CONSEQUENCES OF THE PLAN.

2. *Tax Consequences of Payment of Allowed Claims Pursuant to Plan Generally*

The federal income tax consequences of the implementation of the Plan to the holders of allowed claims will depend, among other things, on the consideration to be received by the holder, whether the holder reports income on the accrual or cash method, whether the holder receives distributions under the Plan in more than one taxable year, whether the holder's claim is allowed or disputed on the Effective Date, and whether the holder has taken a bad debt deduction or worthless security deduction with respect to its claim.

a. Recognition of Gain or Loss

In general, a holder of an allowed claim should recognize gain or loss equal to the amount realized under the Plan in respect of its claim less the holder's tax basis in the claim. Any gain or loss recognized in the exchange may be long-term or short-term capital gain or loss or ordinary income or loss, depending upon the nature of the allowed claim and the holder, the length of time the holder held the claim and whether the claim was acquired at a market discount. If the holder realizes a capital loss, the holder's deduction of the loss may be subject to limitation. The holder's tax basis for any property received under the Plan generally will equal the amount realized. The holder's amount realized generally will equal the sum of the cash and the fair market value of any other property received by the holder under the Plan on the Effective Date or a subsequent distribution date, less the amount (if any) treated as interest, as discussed below.

b. Post-Effective Date Distributions

Because certain holders of allowed claims, including disputed claims that ultimately become allowed claims, may receive cash distributions after the Effective Date, the imputed interest provisions of the Internal Revenue Code may apply and cause a portion of the subsequent distribution to be treated as interest. Additionally, because holders may receive distributions with respect to an allowed claim in a taxable year or years following the year of the initial distribution, any loss and a portion of any gain realized by the holder may be deferred. All holders of allowed claims are urged to consult their tax advisors regarding the possible application of (or ability to elect out of) the "installment method" of reporting with respect to their claims.

c. Receipt of Interest

Holders of allowed claims will recognize ordinary income to the extent that they receive cash or property that is allocable to accrued but unpaid interest which the holder has not yet included in its income. If an allowed claim includes interest, and if the holder receives less than the amount of the allowed claim pursuant to the Plan, the holder must allocate the Plan consideration between principal and interest. The holder may take the position that the amounts received pursuant to the Plan are allocable first to principal, up to the full amount of principal, and only then to interest. However, the proper allocation of Plan consideration between principal and interest is unclear and holders of allowed claims should consult their own tax advisors in this regard. If the Plan consideration allocable to interest with respect to an allowed claim is less than the amount that the holder has previously included as interest income, the previously included but unpaid interest may be deducted, generally as a loss.

d. Bad Debt or Worthless Securities Deduction

A holder who receives in respect of an allowed claim an amount less than the holder's tax basis in the claim may be entitled in the year of receipt (or in an earlier or later year) to a bad debt deduction in some amount under § 166(a) of the Internal Revenue Code or a worthless securities deduction under § 165(g) of the Internal Revenue Code. The rules governing the character, timing and amount of bad debt and worthless securities deductions place considerable emphasis on the facts and circumstances of the holder, the obligor and the instrument with respect to which a deduction is claimed. Holders of allowed claims, therefore, are urged to consult their tax advisors with respect to their ability to take such a deduction.

3. *Information Reporting and Withholding*

Under the Internal Revenue Code's backup withholding rules, the holder of an allowed claim may be subject to backup withholding with respect to distributions or payments made pursuant to the Plan unless the holder comes within certain exempt categories (which generally include corporations) and, when required, demonstrates that fact, or provides a correct taxpayer identification number and certifies under penalty of perjury that the taxpayer identification number is correct and that the holder is not subject to backup withholding because of a failure to report all dividend and interest income. Backup withholding is not an additional tax, but merely an advance payment that may be refunded to the extent it results in an overpayment of tax. Holders of allowed claims may be required to establish exemption from backup withholding or make arrangements with respect to the payment of backup withholding.

IV. **CONFIRMATION REQUIREMENTS AND PROCEDURES**

To be confirmable, the Plan must meet the requirements listed in §§ 1129(a) or (b) of the Bankruptcy Code. These include the requirements that: the Plan must be proposed in good faith; at least one impaired class of claims must accept the plan, without counting votes of insiders; the Plan must distribute to each creditor and equity interest holder at least as much as the creditor or equity interest holder would receive in a chapter 7 liquidation case, unless the creditor or equity interest holder votes to accept the Plan; and the Plan must be feasible. These requirements are not the only requirements listed in § 1129, and they are not the only requirements for confirmation.

A. **Who May Vote or Object**

Any party in interest may object to the confirmation of the Plan if the party believes that the requirements for confirmation are not met.

Many parties in interest, however, are not entitled to vote to accept or reject the Plan. A creditor or equity interest holder has a right to vote for or against the Plan only if that creditor or equity interest holder has a claim or equity interest that is both (1) allowed (or allowed for voting purposes) and (2) impaired.

In this case, the Plan Proponent believes that classes 2, 3-A and 3-B are impaired and that holders of allowed claims in each of these classes are therefore entitled to vote to accept or reject the Plan. Although holders of Class 4 Interests are impaired under the Plan, Class 4 members are deemed to have rejected the Plan because they will not receive or retain any property under the Plan on account of their interests in the Debtor. The Plan Proponent believes that class 3-C is unimpaired and that holders of claims in that class, therefore, do not have the right to vote to accept or reject the Plan.

1. *What Is an Allowed Claim or an Allowed Equity Interest?*

Only a creditor or equity interest holder with an allowed claim or an allowed equity interest has the right to vote on the Plan. A claim or equity interest is allowed only if the creditor or equity interest holder has timely filed a proof of claim or interest in accordance with the Bar Date Order or other applicable Bankruptcy Court Order, unless an objection has been filed to such proof of claim or equity interest. When a claim or equity interest is not allowed, the creditor or equity interest holder holding the claim or equity interest cannot vote unless the Bankruptcy Court, after notice and hearing, either overrules the objection or allows the claim or equity interest for voting purposes pursuant to Rule 3018(a) of the Bankruptcy Rules.

2. *What Is an Impaired Claim or Impaired Equity Interest?*

As noted above, the holder of an allowed claim or equity interest has the right to vote only if it is in a class that is *impaired* under the Plan. As provided in § 1124 of the Bankruptcy Code, a class is considered impaired if the Plan alters the legal, equitable or contractual rights of the members of that class.

3. *Who is Not Entitled to Vote*

The holders of the following types of claims and equity interests are *not* entitled to vote:

- claims and equity interests that have been disallowed by a Final Order of the Bankruptcy Court;
- other claims or equity interests that are not “Allowed Claims” or “Allowed equity interests” (as discussed above), unless they have been “allowed” for voting purposes;
- claims or equity interests in unimpaired classes;
- claims entitled to priority pursuant to §§ 507(a)(2), (a)(3), and (a)(8) of the Bankruptcy Code;
- claims or equity interests in classes that do not receive or retain any value under the Plan; and
- administrative expenses.

Even If You Are Not Entitled to Vote on the Plan, You Have a Right to Object to the Confirmation of the Plan and/or to the Adequacy of the Disclosure Statement.

4. *Who Can Vote in More Than One Class*

A creditor whose claim has been allowed in part as a secured claim and in part as an unsecured claim, or who otherwise hold claims in multiple classes, is entitled to accept or reject a Plan in each capacity, and should cast one ballot for each claim.

B. Votes Necessary to Confirm the Plan

If impaired classes exist, the Bankruptcy Court cannot confirm the Plan unless (i) at least one impaired class of creditors has accepted the Plan without counting the votes of any insiders within that class, and (ii) all impaired classes have voted to accept the Plan, unless the Plan is eligible to be confirmed by cramdown on non-accepting classes, as discussed later in Section IV.B.2.

1. Votes Necessary for a Class to Accept the Plan

A class of claims accepts the Plan if both of the following occur: (i) the holders of more than one-half (1/2) of the allowed claims in the class, who vote, cast their votes to accept the Plan, and (ii) the holders of at least two-thirds (2/3) in dollar amount of the allowed claims in the class, who vote, cast their votes to accept the Plan.

A class of equity interests accepts the Plan if the holders of at least two-thirds (2/3) in amount of the allowed equity interests in the class, who vote, cast their votes to accept the Plan.

2. Treatment of Non-Accepting Classes

Even if one or more impaired classes reject the Plan, the Bankruptcy Court may nonetheless confirm the Plan if the non-accepting classes are treated in the manner prescribed by § 1129(b) of the Bankruptcy Code. A plan that binds non-accepting classes is commonly referred to as a cramdown plan. The Bankruptcy Code allows the Plan to bind non-accepting classes of claims or equity interests if it meets all the requirements for consensual confirmation except the voting requirements of § 1129(a)(8) of the Bankruptcy Code, does not “discriminate unfairly,” and is “fair and equitable” toward each impaired class that has not voted to accept the Plan.

You should consult your own attorney if a cramdown confirmation will affect your claim or equity interest, as the variations on this general rule are numerous and complex.

C. Best Interests of Creditors

To confirm the Plan, the Bankruptcy Court must find that all creditors and equity interest holders who do not accept the Plan will receive at least as much under the Plan as such claim and equity holders would receive in a chapter 7 liquidation. The Debtor hereby submits that the cumulative amount of its liabilities secured by property of the estate, liabilities arising since the Petition Date and pre-petition liabilities far exceed the cash value that the KMCREI Real Property would obtain in a forced sale such that a liquidation under chapter 7 of the Bankruptcy Code would not generate any money or property for unsecured creditors to receive or retain. Thus, Debtor submits that the restructuring and payments to holders of Allowed Claims proposed herein is in the best interests of creditors.

D. Feasibility

The Bankruptcy Court must also find that confirmation of the Plan is not likely to be followed by the liquidation, or the need for further financial reorganization, of the Debtor or any successor to the Debtor, unless such liquidation or reorganization is proposed in the Plan. To that end, the Debtor has relied on the financial projections developed by KMC and submitted as part of the KMC Plan

Documents to develop what it considers to be reasonable expectations of the Hospital's future profitability and the Debtor's rental income to be realized upon consummation of the Plan.

V. EFFECT OF CONFIRMATION OF PLAN

A. Discharge of Debtor

On the Confirmation Date of the Plan, the Debtor shall be discharged from any debt that arose before confirmation of the Plan, subject to the occurrence of the Effective Date, to the extent specified in § 1141(d)(1)(A) of the Bankruptcy Code, except that the Debtor shall not be discharged of any debt (i) imposed by the Plan, (ii) of a kind specified in § 1141(d)(6)(A) if a timely complaint was filed in accordance with Rule 4007(c) of the Bankruptcy Rules, or (iii) of a kind specified in § 1141(d)(6)(B). After the Effective Date your claims against the Debtor will be limited to the debts described in clauses (i) through (iii) of the preceding sentence.

B. Injunctions and Releases

As of the Effective Date, in consideration of the compromises, settlements, agreements, and transfers embodied in the Plan, the Debtor, on its own behalf and as representative of the bankruptcy estate, all guarantors or co-obligors of the Debtor, and each holder of a Claim or Interest shall be enjoined from pursuing or asserting any claims (including derivative claims), obligations, suits, judgments, damages, demands, debts, rights, causes of action and liabilities (other than the right to enforce the Debtor's obligations under the Plan and the contracts, instruments, releases, agreements and documents delivered thereunder), whether liquidated or unliquidated, fixed or contingent, matured or unmatured, known or unknown, foreseen or unforeseen, then existing or thereafter arising in law, equity or otherwise, that are based in whole or in part on any act, omission, transaction or other occurrence taking place on or prior to the Effective Date in any way relating to the Debtor, the chapter 11 case, the Plan or the Disclosure Statement that such entity has, had or may have against any of (i) the Debtor; (ii) the Debtor's guarantors or co-obligors; and/or (iii) a holder of a Claim or Interest; provided, however, that this shall not enjoin or release any party from any cause of action existing as of the Effective Date, based on (i) the Internal Revenue Code or other domestic state, city or municipal tax code, (ii) the environmental laws of the United States or any domestic state, city or municipality, or (iii) any criminal laws of the United States or any domestic state, city or municipality. Nothing set forth in the Plan or the Confirmation Order shall be construed to preclude the United States from pursuing any cause of action against any of the released parties based upon any civil laws of the United States.

C. Modification of Plan

The Plan Proponent may modify the Plan at any time before confirmation of the Plan. However, the Bankruptcy Court may require a new disclosure statement and/or revoting on the Plan.

The Plan Proponent may also seek to modify the Plan at any time after confirmation only if (i) the Plan has not been substantially consummated *and* (ii) the Bankruptcy Court authorizes the proposed modifications after notice and a hearing.

D. Notice of Effective Date

Within seven (7) days of the occurrence of the Effective Date, the Plan Proponent, or such other party as the Bankruptcy Court shall designate in the Confirmation Order, shall file a Notice of the Effective Date.

E. Final Decree

Once the estate has been fully administered, as provided in Rule 3022 of the Bankruptcy Rules, the Plan Proponent, or such other party as the Bankruptcy Court shall designate in the Confirmation Order, shall file a motion with the Bankruptcy Court to obtain a final decree to close the case. Alternatively, the Bankruptcy Court may enter such a final decree on its own motion.

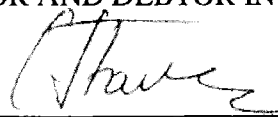
VI. RECOMMENDATION AND CONCLUSION

It is Debtor's position that the Plan is substantially preferable to a liquidation under chapter 7 of the Bankruptcy Code. It is important that you exercise your right to vote on the Plan. It is the belief of the Debtors that the Plan fairly and equitably provides for the treatment of all claims against the Debtor. **The Debtor recommends and urges all creditors to vote to accept the Plan.**

IN WITNESS WHEREOF, the Debtor has submitted this Disclosure Statement this 13th day of February, 2012.

DEBTOR AND DEBTOR IN POSSESSION

By: _____


DR. CHRISTODULOUS STAVENS
Managing Member
KMC REAL ESTATE INVESTORS, LLC

INDEX OF EXHIBITS

Exhibit

- A Proposed Use of Funds Statement
- B Commitment Letter from Granger
- C Proposed Triple Net Lease Agreement