

**UNITED STATES BANKRUPTCY COURT  
FOR THE EASTERN DISTRICT OF PENNSYLVANIA**

In re:

KidsPeace Corporation, et. al.

Debtors.<sup>1</sup>

Chapter 11

Case No. 13-14508 (REF)

Jointly Administered

**FIRST MODIFIED DISCLOSURE STATEMENT RELATING TO FIRST MODIFIED  
JOINT CHAPTER 11 PLAN OF REORGANIZATION OF KIDSPeACE  
CORPORATION, KIDSPeACE CHILDREN'S HOSPITAL, INC., KIDSPeACE  
MESABI ACADEMY, INC., KIDSPeACE NATIONAL CENTERS, INC., KIDSPeACE  
NATIONAL CENTERS OF NEW ENGLAND, INC., KIDSPeACE NATIONAL  
CENTERS OF NORTH AMERICA, INC., IRON RANGE SCHOOL, INC., AND  
KIDSPeACE NATIONAL CENTERS OF NEW YORK, INC.<sup>2</sup>**

Dated: February 4, 2014

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<sup>1</sup> The Debtors and the last four digits of their respective taxpayer identification numbers are as follows: KidsPeace Corporation (3394); KidsPeace Children's Hospital, Inc. (4910); KidsPeace Mesabi Academy, Inc. (4179); KidsPeace National Centers, Inc. (4908); KidsPeace National Centers of Georgia, Inc. (7440); KidsPeace National Centers of New England, Inc. (1326); KidsPeace National Centers of North America, Inc. (4765); Iron Range School, Inc. (0561); and KidsPeace National Centers of New York, Inc. (1888). The Debtors' address is 5300 KidsPeace Drive, Orefield, Pennsylvania 18069. For purposes of this Disclosure Statement, the definition of Debtors shall mean all Debtors, except for KidsPeace National Centers of Georgia, Inc., who is not a proponent of Joint Chapter 11 Plan of Reorganization.

<sup>2</sup> KidsPeace National Centers of Georgia, Inc. ("KPGA") will file its own Plan of Reorganization and is not included in this First Modified Joint Chapter 11 Plan of Reorganization.

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## 1. INTRODUCTION

All capitalized terms used in this First Modified Disclosure Statement and not otherwise defined herein shall have the meanings ascribed thereto in the First Modified Joint Chapter 11 Plan of Reorganization of KidsPeace Corporation, *et al.* dated February 3, 2014 (the “Plan”) (see Article 1 of the Plan entitled “Definitions”).

THIS DISCLOSURE STATEMENT INCLUDES AND DESCRIBES THE PLAN, A COPY OF WHICH IS ATTACHED HERETO AS EXHIBIT A, FILED BY KIDSPEACE CORPORATION (Case No. 13-14508), KIDSPEACE CHILDREN’S HOSPITAL, INC. (Case No. 13-14509), KIDSPEACE MESABI ACADEMY, INC. (Case No. 13-14510), KIDSPEACE NATIONAL CENTERS, INC. (Case No. 13-14511), KIDSPEACE NATIONAL CENTERS OF NEW ENGLAND, INC. (Case No. 13-14513), KIDSPEACE NATIONAL CENTERS OF NORTH AMERICA, INC. (Case No. 13-14514), IRON RANGE SCHOOL, INC. (Case No. 13-14515), AND KIDSPEACE NATIONAL CENTERS OF NEW YORK, INC. (Case No. 13-14516) (COLLECTIVELY, THE “DEBTORS”).

CLASSES A1, B1, C1, D1, E1, F1, G1, AND H1 (PRIORITY NON-TAX CLAIMS) AND CLASSES A4, B4, C3, D4, E3, F3, G3, AND H3 (OTHER SECURED CLAIMS) ARE UNIMPAIRED UNDER THE PLAN AND ARE THEREFORE DEEMED TO HAVE ACCEPTED THE PLAN.

THE DEBTORS ARE SOLICITING ACCEPTANCES OF THE PLAN FROM THE HOLDERS OF ALL CLAIMS OTHER THAN THOSE HOLDING CLASS A1, B1, C1, D1, E1, F1, G1, AND H1 CLAIMS (PRIORITY NON-TAX CLAIMS), CLASS A4, B4, C3, D4, E3, F3, G3, AND H3 CLAIMS (OTHER SECURED CLAIMS).

**THE DEBTORS, THE BOND TRUSTEE, ACA, THE MAJORITY BONDHOLDERS, THE COMMITTEE AND THE PBGC BELIEVE THAT THE PLAN IS IN THE BEST INTERESTS OF AND PROVIDES THE HIGHEST AND BEST RECOVERIES TO HOLDERS OF ALL CLASSES OF CLAIMS UNDER THE CIRCUMSTANCES OF THESE CASES.**

ALL HOLDERS OF CLAIMS ENTITLED TO VOTE TO ACCEPT OR REJECT THE PLAN ARE URGED TO VOTE IN FAVOR OF THE PLAN. TO BE COUNTED, YOUR BALLOT MUST BE DULY COMPLETED, EXECUTED AND RECEIVED BY 5:00 P.M., EASTERN TIME, ON MARCH 24, 2014 (THE “VOTING DEADLINE”). FOR THE AVOIDANCE OF DOUBT, THE DEBTORS RESERVE THE RIGHT TO OBJECT TO CLAIMS RECEIVED AFTER THE VOTING DEADLINE.

FOR YOUR ESTIMATED PERCENTAGE RECOVERY UNDER THE PLAN, PLEASE SEE THE CHART SET OUT IN “OVERVIEW OF THE PLAN – SUMMARY OF DISTRIBUTIONS UNDER THE PLAN.”

IN ADDITION, SUPPLEMENTAL INFORMATION PERTAINING TO THE CHAPTER 11 CASES CAN BE OBTAINED BY VISITING THE CASE WEBSITE AT [www.omnimgt.com](http://www.omnimgt.com) AND SELECTING THE “CASES” TAB WHERE THE REFERENCE TO KIDSPEACE CORPORATION, *et al.* MAY BE FOUND.



## 2. NOTICE TO HOLDERS OF CLAIMS

The purpose of this Disclosure Statement is to enable all voting creditors to make an informed decision in exercising their rights to accept or reject the Plan.

**THIS DISCLOSURE STATEMENT CONTAINS IMPORTANT INFORMATION THAT MAY BEAR UPON YOUR DECISION TO ACCEPT OR REJECT THE PLAN. PLEASE READ THIS DOCUMENT WITH CARE.**

**PLAN SUMMARIES AND STATEMENTS MADE IN THIS DISCLOSURE STATEMENT ARE QUALIFIED IN THEIR ENTIRETY BY REFERENCE TO THE PLAN, THE EXHIBITS ANNEXED TO THE PLAN AND THIS DISCLOSURE STATEMENT. THE STATEMENTS CONTAINED IN THIS DISCLOSURE STATEMENT ARE MADE ONLY AS OF THE DATE HEREOF, AND THERE CAN BE NO ASSURANCE THAT THE STATEMENTS CONTAINED HEREIN WILL BE CORRECT AT ANY TIME AFTER THE DATE HEREOF. IN THE EVENT OF ANY CONFLICT BETWEEN THE DESCRIPTIONS SET FORTH IN THIS DISCLOSURE STATEMENT AND THE TERMS OF THE PLAN, THE TERMS OF THE PLAN SHALL GOVERN.**

**THIS DISCLOSURE STATEMENT HAS BEEN PREPARED IN ACCORDANCE WITH SECTION 1125 OF THE BANKRUPTCY CODE AND BANKRUPTCY RULE 3016(b) AND NOT NECESSARILY IN ACCORDANCE WITH FEDERAL OR STATE SECURITIES LAW OR OTHER NON-BANKRUPTCY LAW. THIS DISCLOSURE STATEMENT HAS NEITHER BEEN APPROVED NOR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION, NOR HAS THE SECURITIES AND EXCHANGE COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THE STATEMENTS CONTAINED HEREIN. PERSONS OR ENTITIES TRADING IN OR OTHERWISE PURCHASING, SELLING OR TRANSFERRING CLAIMS OF THE DEBTORS SHOULD EVALUATE THIS DISCLOSURE STATEMENT AND THE PLAN IN LIGHT OF THE PURPOSE FOR WHICH THEY WERE PREPARED.**

**THE DISCLOSURE STATEMENT SHALL NOT BE CONSTRUED TO BE CONCLUSIVE ADVICE ON THE TAX, SECURITIES OR OTHER LEGAL EFFECTS OF THE PLAN AS TO HOLDERS OF CLAIMS AGAINST THE DEBTORS AND DEBTORS IN POSSESSION IN THESE CHAPTER 11 CASES.**

Each holder of a Claim entitled to vote to accept or reject the Plan should read this Disclosure Statement and the Plan in their entirety before voting. No solicitation of votes to accept or reject the Plan may be made except pursuant to this Disclosure Statement and Section 1125 of the Bankruptcy Code. Moreover, except for the Debtors and certain of the Debtors' Professionals, no person has been authorized to use or promulgate any information concerning the Debtors, their businesses, or the Plan, other than the information contained in this Disclosure Statement, and if given or made, such information may not be relied upon as having been authorized by the Bankruptcy Court.

After carefully reviewing this Disclosure Statement, including the attached exhibits, please indicate your acceptance or rejection of the Plan by voting for or against the Plan on the enclosed Ballot and return the same to the address set forth on the Ballot in the enclosed, postage prepaid, return envelope so that it will be received by the Balloting Agent no later than the Voting Deadline.

DO NOT RETURN ANY OTHER DOCUMENTS WITH YOUR BALLOT.

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

**PLEASE NOTE THAT SECTIONS 14.4, 14.5 AND 14.6 OF THE PLAN SET FORTH DETAILED RELEASE, EXCULPATION AND INJUNCTION PROVISIONS RELATING TO VARIOUS PERSONS, INCLUDING DEBTOR PARTIES, BOND TRUSTEE, MAJORITY BONDHOLDERS, ACA PARTIES, THE PBGC, COMMUTING BONDHOLDERS, DIP LENDERS, THE COMMITTEE AND OTHERS.**

Pursuant to Section 1128 of the Bankruptcy Code, the Bankruptcy Court has scheduled a Confirmation Hearing commencing on April 3, 2014, at 11:00 a.m., prevailing Eastern Time, before the Honorable Richard E. Fehling. The Bankruptcy Court has directed that objections, if any, to confirmation of the Plan be filed and served on or before March 24, 2014, at 4:00 p.m. prevailing Eastern Time, in the manner described in the related order.

**THE DEBTORS, THE BOND TRUSTEE, ACA, THE MAJORITY BONDHOLDERS, THE COMMITTEE AND THE PBGC SUPPORT CONFIRMATION OF THE PLAN AND URGE ALL HOLDERS OF IMPAIRED CLAIMS TO VOTE TO ACCEPT THE PLAN.**

### 3. EXPLANATION OF CHAPTER 11

Chapter 11 is the principal reorganization chapter of the Bankruptcy Code, pursuant to which a debtor-in-possession may reorganize its business for the benefit of its creditors, equity holders and other parties-in-interest. The formulation of a plan of reorganization is the principal purpose of a chapter 11 case. The plan sets forth the means for satisfying the holders of claims against, and interests in, the debtor's estate.

Although referred to as a plan of reorganization, a plan may provide anything from a complex restructuring of a debtor's business and its related obligations to a liquidation of a debtor's assets. In either event, upon confirmation of the plan, the plan becomes binding on a debtor and all of its creditors and equity holders, and the obligations owed by a debtor to such parties are compromised and exchanged for the obligations specified in the plan.

After a plan of reorganization has been filed, the holders of impaired claims against, and interests in (if any), a debtor are permitted to vote to accept or reject the plan. Before soliciting acceptances of the proposed plan, Section 1125 of the Bankruptcy Code requires the debtor to prepare a disclosure statement containing adequate information of a kind, and in sufficient detail, to enable a hypothetical reasonable investor to make an informed judgment about the plan. This Disclosure Statement is presented to holders of Claims against the Debtors in order to satisfy the

requirements of Section 1125 of the Bankruptcy Code in connection with the Debtors' solicitation of votes on the Plan.

A bankruptcy court may confirm a plan of reorganization even though fewer than all the classes of impaired claims and equity interests accept such plan. For a plan of reorganization to be confirmed despite its rejection by a class of impaired claims or equity interests, the plan must be accepted by at least one class of impaired claims (determined without counting the vote of insiders) and the proponent of the plan must show, among other things, that the plan does not "discriminate unfairly" and the plan is "fair and equitable" with respect to each impaired class of claims or equity interests that has not accepted the plan. For present purposes, the Plan has been structured so that it will satisfy the foregoing requirements as to any rejecting class of Claims and can therefore be confirmed, if necessary, over the objection of any (but not all) classes of Claims.

#### 4. OVERVIEW OF THE PLAN

4.1 Summary of Key Terms of the Plan. The Plan provides for the treatment of Claims against all of the Debtors in In re KidsPeace Corporation, et al., Case No. 13-14508-REF (Jointly Administered), except for KidsPeace National Centers of Georgia, Inc. (Case No. 13-14512-REF). UMB Bank, N.A, the Indenture Trustee (the Bond Trustee for the Lehigh County General Purpose Authority Revenue Bonds, Series of 1998 and 1999 (the "1998 Bonds" and the "1999 Bonds," and collectively, the "Bonds") (the "Bond Trustee") and the Pension Benefit Guaranty Corporation (the "PBGC") hold the largest secured and unsecured claims against the Debtors by a significant amount and the Plan has been structured around a negotiated agreement with the Bond Trustee, which is one of the members of the Official Committee of Unsecured Creditors (the "Committee"), the PBGC (also a Committee member), ACA and the Committee (excluding the Bond Trustee and the PBGC), all of which believe that the Plan affords a significantly greater recovery than which creditors would receive under a chapter 7 or any other alternative options.

Although creditors and parties-in-interest should review the "Summary of Distributions Under the Plan" set forth below, as well as the full terms of the Plan itself, the Plan implements and is built around the following key elements:

(a) *Settlement with the Bond Trustee and the Majority Bondholders.* As described in greater detail below, prior to the Petition Date, KidsPeace Corporation, *et al.* commenced negotiations with the Bond Trustee and the Majority Bondholders (the "Majority Bondholders") and ACA regarding the amount of the secured Claim held by the Bond Trustee on behalf of the holders of Bonds ("Bondholders"), the amount of the unsecured Claim and the proposed payment terms thereon. The Plan reflects the culmination of these negotiations. The Debtors believe the negotiated treatment with the Bond Trustee, ACA and the Majority Bondholders is favorable to Bondholders and all other creditors. The resolution is the result of intensive, arms-length negotiations with the Bond Trustee and the Majority Bondholders, and is supported by the Majority Bondholders, who hold in the aggregate in excess of 82% of the principal amount of the Bonds.

(b) *Settlement with the PBGC.* As described in greater detail below, prior to the Petition Date, KidsPeace Corporation, *et al.* commenced negotiations with the PBGC regarding the distress termination of its defined benefit plan and a resolution of a significant liability in excess of \$100,000,000 relating thereto. The Plan reflects the culmination of these negotiations. The Debtors believe the negotiated treatment with the PBGC is favorable to the PBGC and all other creditors. The resolution is the result of intensive, arms-length negotiations with the PBGC.

(c) *Negotiations with the Committee.* As described in greater detail below, subsequent to the Petition Date, the Committee was formed to represent the interests of all unsecured creditors against the Debtors. KidsPeace Corporation, *et al.* commenced negotiations with the Committee with respect to all General Unsecured Claims, except for the unsecured portions of the claims held the Bondholders or the PBGC, each of whom had their own respective counsel and entered into their own negotiations with the Debtors regarding the treatment of the entirety of their respective claims. The Committee successfully negotiated for the benefit of the holders of all General Unsecured Claims (other than the PBGC or the Bondholders) a distribution percentage greater than the distribution percentage to be paid under the Plan to either the Bondholders or the PBGC on their respective unsecured claims. The negotiations with the Committee also resulted in the agreement of the Debtors to accelerate the payment of Allowed Section 503(b)(9) Claims and the waiver and release of Avoidance Actions against General Unsecured Creditors. The Bond Trustee and the PBGC actively participated in this resolution. The Debtors believe the negotiated treatment of unsecured claims with the Committee is favorable to all creditors.

With respect to all of the above referenced resolutions, all creditors will receive a greater recovery than the recovery that would be realized under a chapter 7 or other disposition of the assets of the Debtors. The resolutions provide all creditors a quicker recovery than they would realize if the Debtors were liquidated. The resolutions will avoid the Debtors incurring legal and other fees and costs in connection with a protracted chapter 11 proceeding. These amounts (should they continue accruing) would likely be deducted from the recovery otherwise payable to creditors.

**FOR THESE REASONS, THE DEBTORS, THE BOND TRUSTEE, ACA, THE MAJORITY BONDHOLDERS, THE COMMITTEE AND THE PBGC STRONGLY URGE BONDHOLDERS AND ALL OTHER VOTING CREDITORS TO VOTE TO ACCEPT THE PLAN.**

4.2 Funding. The funds required for the initial distributions under the Plan are to come from cash contributions from the Debtors, except as set forth in Section 9.12 if the Plan and proceeds of the Exit Facility. The Plan also contemplates ongoing post-confirmation payments to creditors. During the Chapter 11 Cases, the Debtors obtained financing from Healthcare Finance Group, LLC (“HFG”) aggregating in excess of \$15 million to fund the Plan and future operations. HFG has agreed to provide the Debtors with exit, or post-confirmation, financing on substantially similar terms.

4.3 Summary of Distributions Under the Plan. The following is a summary of the Plan Distributions. It is qualified in its entirety by reference to the full text of the Plan, which is

attached to this Disclosure Statement as Exhibit A. The Claim amounts set forth below reflect what the Debtors believe to be reasonable estimates of the likely resolution of outstanding disputed Claims. The amounts utilized may differ from the outstanding filed Claims amounts. Any creditor that filed a proof of claim in an amount, or with a priority, different from that set forth in the applicable Debtor's Schedules is subject to potential objection regarding the appropriate amount and/or priority of such creditor's Allowed Claim. Intercompany Claims are being waived and released and thus, will not be participating in any distributions set forth below. The Debtor's respective equity interests are being retained.

<i>Class</i>	<i>Class Name</i>	<i>Debtor</i>	<i>Estimated Claim Amounts</i>	<i>Estimated Recovery &amp; Treatment</i>
n/a	Administrative	All	\$2,526,844.82 <sup>3</sup>	Cash payment of 100% on the Plan's Effective Date or as soon thereafter as is reasonably practicable
n/a	Priority Tax Claims	All	\$4,908.51	Cash payment of 100% on the Plan's Effective Date or as soon thereafter as is reasonably practicable
A1	KPC Priority Non-Tax Claims	KPC	\$831.88	Cash payment of 100% on the Plan's Effective Date or as soon thereafter as is reasonably practicable
A2	Bond Trustee/Bondholders Secured and Unsecured Claims	KPC	Secured Claim: \$46,650,000 <sup>4</sup>  Unsecured Claim: \$10,000,000	Bondholders Secured Claims and Unsecured Claims will receive, or have received, the following:  <u>Treatment.</u> In full satisfaction of the Bond Trustee/Bondholder Claims, the Bondholders will receive, under the settlement described in Section 7.1(b) of the Plan, their pro rata share of: (A) the Initial Bondholder Payment, (B) a Cash distribution equal to the Excess Debt Service Reserve Fund Amount, and (C) the New Bonds. In addition, Insured Bondholders shall have the opportunity to either participate in the ACA Insurance Commutation or affirmatively opt out of the ACA Insurance Commutation. Each Commuting Bondholder shall receive a Cash payment equal to the

<sup>3</sup> Includes: (i) Claims for Professional Fees associated with, among other things, counsel for the various constituents, bond issuance, Exit Facility documentation, which are estimated to total in the aggregate approximately \$2,067,000; (ii) Cure Costs, which are estimated in the aggregate to total approximately \$400,000; and (iii) 503(b)(9) claims, which are estimated to total in the aggregate approximately \$126,180.81. Excludes ordinary course of business obligations, post-petition trade, payroll, foster care, etc. obligations and post-petition Intercompany obligations.

<sup>4</sup> Includes Debt Service Reserve Fund estimated at \$3,706,968 and includes the mortgage on the Orchard Hills Campus at a maximum collateral value of \$15,000,000.

<i>Class</i>	<i>Class Name</i>	<i>Debtor</i>	<i>Estimated Claim Amounts</i>	<i>Estimated Recovery &amp; Treatment</i>
				<p>Commutation Payment on, or as soon as reasonably practicable after, the Effective Date. If all Insured Bondholders participate in the commutation offer, the Commuting Bondholders shall receive a total upfront Cash payment equal to \$3,170,698.02 in addition to their pro rata distribution from the Debtors described in (A) through (C) above. Non-Commuting Bondholders, however, shall only receive the interest and principal payments with respect to the Non-Commutated Bonds, <i>provided, however,</i> that all payments made with respect to the Bond Trustee/Bondholders Claims of the Non-Commuting Bondholders including, without limitation, any payments made with respect to the New Bonds held for the benefit of the Non-Commuting Bondholders by the Custodian shall be deemed to be partial payments under the Non-Commutated Bonds. The New Bonds will be issued on the Effective Date by the Lehigh County General Purpose Authority and will be in three series, as follows: (a) \$20,110,000 in principal amount of new Series A Bonds, with terms as shown on Exhibit A attached to the Plan; (b) \$5,000,000 in initial principal amount of new Series B Bonds, with terms as shown on Exhibit A attached to the Plan; and (3) \$15,000,000 in principal amount of new Series C Bonds, with terms as shown on Exhibit A attached to the Plan. Each of the Debtors is jointly and severally liable for all obligations under the New Bond Documents. The New Bonds will be secured by the New Collateral and will be subject to the New Intercreditor Agreement and the New PBGC Intercreditor Agreement. The Liens securing the New Bonds shall be junior and subordinate to (i) the Liens of the PBGC on (a) the "Broadway" campus located at 1620 Broadway, Bethlehem, PA 18015; (b) the KidsPeace corporate headquarters located at 4085 Independence Dr., Schnecksville, PA 18078; (c) the Wilson Sarig building, located at 8<sup>th</sup> Avenue &amp; Hay Road, Temple, PA 19560; and (d) the Maine campus, located on Route 80, Ellsworth ME 04605; and (ii) the Liens securing the Exit Facility Lender on the Orchard Hills Campus and the accounts receivable and the proceeds thereof. All Bonds will be cancelled on the Effective Date, except as provided in Section 7.4(a) of the Plan. Insured Bonds held by Non-Commuting</p>

<i>Class</i>	<i>Class Name</i>	<i>Debtor</i>	<i>Estimated Claim Amounts</i>	<i>Estimated Recovery &amp; Treatment</i>
				<p>Bondholders will remain outstanding but will be payable only under the New Indenture and under the Bond Insurance Policies as further provided in the Plan Supplement. Additional terms for the settlement of the Bond Trustee/Bondholder Claims are set forth in Section 7.7 of the Plan.</p> <p><u>Allowance.</u> The Bond Trustee/Bondholder Claims against KPC (together with the Bond Trustee/Bondholder Claims against KPCH and KPNC) shall be deemed Allowed as a Secured Claim in an aggregate amount equal to \$46,650,000 minus the Existing Debt Service Reserve Amount. The Bondholders will receive nothing under this Plan on account of the Bond Trustee/Bondholder Unsecured Claims.</p> <p>Additional terms for the settlement of the Bond Trustee/Bondholder Claims are set forth in Section 7.7 of the Plan.</p>
A3	PBGC Secured Claim and PBGC Unsecured Claim	KPC	<p>Secured Claim: \$5,715,225</p> <p>Unsecured Claim, including Termination Premium: \$105,000,000<sup>5</sup></p>	<p><u>Treatment.</u> In full satisfaction of all PBGC Prepetition Claims, the PBGC will receive in the aggregate from all Debtors, including KPGA in the event it files a plan of reorganization, total payments of \$13,500,000, as follows: (a) a payment of the Initial PBGC Amount in Cash on the Effective Date; and (b) the remainder of \$13,050,000 represented by the PBGC Note. As security for the PBGC Note, the PBGC shall receive or retain the PBGC Liens on the PBGC Note Collateral. Provisions relating to the priority of the PBGC Liens on the PBGC Note Collateral as well as provisions relating to enforcement and remedies will be governed by the New Intercreditor Agreement and the New PBGC Intercreditor Agreement. The PBGC Note Collateral shall consist of (i) Liens superior to the Bond Trustee on (a) the "Broadway" campus located at 1620 Broadway, Bethlehem, PA 18015; (b) the KidsPeace corporate headquarters located at 4085 Independence Dr., Schnecksville, PA 18078; (c) the Wilson Sarig building, located at 8<sup>th</sup> Avenue &amp; Hay Road, Temple, PA 19560; and (d) the Maine campus, located on Route 80, Ellsworth ME 04605; (ii) Liens junior and subordinate to the liens of the</p>

<sup>5</sup> The amount referenced herein as the PBGC Unsecured Claim is an amount alleged by the PBGC. The Debtors dispute this amount.

<i>Class</i>	<i>Class Name</i>	<i>Debtor</i>	<i>Estimated Claim Amounts</i>	<i>Estimated Recovery &amp; Treatment</i>
				<p>Exit Facility Lender and the Bond Trustee on the Orchard Hills Campus; and (iii) Liens junior and subordinate to the Liens of the Exit Lender and the Bond Trustee on the accounts receivable and the proceeds thereof.</p> <p><u>Allowance.</u> The PBGC Prepetition Claims shall be deemed an Allowed Secured Claim against all Debtors, including KPGA in the event it files a plan of reorganization, in the amount of the PBGC Liens. The PBGC Prepetition Claims shall be deemed an Allowed Unsecured Claim against all Debtors, including KPGA in the event it files a plan of reorganization, in the amount of \$13,500,000 less the PBGC Liens.</p> <p>Additional terms for the settlement of the PBGC Prepetition Claims are set forth in Section 7.8 of the Plan</p>
A4	KPC Other Secured Claims (M & T and NatPenn)	KPC	\$3,084,570 <sup>6</sup>	100% in accordance with their respective loan documents or agreements, which shall remain in full force and effect.
A5	General Unsecured Claims	KPC	Trade and other claims, excluding PBGC and Bondholder Unsecured Claims: \$2,499,649.50	<p>The Holders of General Unsecured Claims against KPC, KPCH, Mesabi, KPNE, KPNC, KPNewEng, KPNA, Iron Range and KPNY will receive a total distribution of 15% of the Allowed Amount of their respective General Unsecured Claim payable in 3 equal installments with the first payment on the Effective Date (or such later date when the Claim becomes Allowed).</p> <p>The Holders of Allowed General Unsecured Claims in an amount equal to or less than \$10,000 may alternatively elect to receive a one-time distribution of 10% on the Effective Date (or such later date when the Claim becomes Allowed) and any Holder of an Allowed General Unsecured Claim in excess of \$10,000 may elect to receive a one-time distribution of \$1,000 on the Effective Date (or such later date when the Claim becomes Allowed).</p> <p>For clarity, the Bond Trustee/Bondholder Unsecured Claims, the PBGC Unsecured</p>

<sup>6</sup> This amount is composed primarily of the following Claims: (a) Claim of M&T Bank for approximately \$1,879,516, relating to LOCs aggregating \$1,900,661 with cash collateral aggregating \$1,960,382; and (b) a Claim of NatPenn for approximately \$1,205,054, secured by a mortgage on 4085 Independence Drive, Schnecksville, PA.



<i>Class</i>	<i>Class Name</i>	<i>Debtor</i>	<i>Estimated Claim Amounts</i>	<i>Estimated Recovery &amp; Treatment</i>
				<p>Claims and Intercompany Claims shall not be included in the Classes of General Unsecured Claims of any Debtors and will not receive the treatment afforded the members of such classes.</p> <p>Additional terms for the treatment of the General Unsecured Claims are set forth in Section 7.9 of the Plan</p>
B1	Priority Non-Tax Claims	KPCH	\$0.00	100%
B2	Bond Trustee/ Bondholders Secured and Unsecured Claims	KPCH	See A2 above	See treatment outlined for A2.
B3	PBGC Secured Claim and Unsecured Claim	KPCH	See A3 above	See treatment outlined for A3.
B4	KPCH Other Secured Claims	KPCH	\$0.00	100%
B5	General Unsecured Claims	KPCH	Trade and other claims, excluding PBGC and Bondholder Unsecured Claims: \$0.00  Intercompany: \$ 21,707,520.37	See treatment outlined for A5.
C1	Priority Non-Tax Claims	Mesabi	\$0.00	100%
C2	PBGC Unsecured Claim	Mesabi	See A3 above	See treatment outlined for A3.
C3	Mesabi Other Secured Claims	Mesabi	\$0.00	100%
C4	General Unsecured Claims	Mesabi	Trade and other claims, excluding PBGC Unsecured Claims: \$100,509.68	See treatment outlined for A5.

<i>Class</i>	<i>Class Name</i>	<i>Debtor</i>	<i>Estimated Claim Amounts</i>	<i>Estimated Recovery &amp; Treatment</i>
			Intercompany: \$38,962,987.84	
D1	Priority Non-Tax Claims	KPNC	\$0.00	100%
D2	Bond Trustee/ Bondholders Secured and Unsecured Claims	KPNC	See A2 above	See treatment outlined for A2.
D3	PBGC Secured Claim and Unsecured Claim	KPNC	See A3 above	See treatment outlined for A3.
D4	KPNC Other Secured Claims	KPNC	\$0.00	100%
D5	General Unsecured Claims	KPNC	Trade and other claims, excluding PBGC and Bondholder Unsecured Claims:  \$0.00  Intercompany: \$26,905,644.08	See treatment outlined for A5.
E1	Priority Non-Tax Claims	KPNE	\$0.00	100%
E2	PBGC Secured and Unsecured Claim	KPNE	See A3 above	See treatment outlined for A3.
E3	KPNE Other Secured Claims	KPNE	\$0.00	100%
E4	General Unsecured Claims	KPNE	Trade and other claims, excluding PBGC Unsecured Claims:  \$53,323.41  Intercompany: \$7,563,555.63	See treatment outlined for A5.

<i>Class</i>	<i>Class Name</i>	<i>Debtor</i>	<i>Estimated Claim Amounts</i>	<i>Estimated Recovery &amp; Treatment</i>
F1	Priority Non-Tax Claims	KPNA	\$0.00	100%
F2	PBGC Secured and Unsecured Claim	KPNA	See A3 above	See treatment outlined for A3.
F3	KPNA Other Secured Claims	KPNA	\$0.00	100%
F4	General Unsecured Claims	KPNA	Trade and other claims, excluding PBGC Unsecured Claims: \$479.50 Intercompany: \$12,591,926	See treatment outlined for A5.
G1	Priority Non-Tax Claims	Iron Range	\$0.00	100%
G2	PBGC Secured Claim and Unsecured Claim	Iron Range	See A3 above	See treatment outlined for A3.
G3	Iron Range Other Secured Claims	Iron Range	\$0.00	100%
G4	General Unsecured Claims	Iron Range	Trade and other claims, excluding PBGC Unsecured Claims: \$32,171.05	See treatment outlined for A5.
H1	Priority Non-Tax Claims	KPNY	\$0.00	100%
H2	PBGC Secured Claim and Unsecured Claim	KPNY	See A3 above	See treatment outlined for A3.
H3	KPNY Other Secured Claims	KPNY	\$0.00	100%

<i>Class</i>	<i>Class Name</i>	<i>Debtor</i>	<i>Estimated Claim Amounts</i>	<i>Estimated Recovery &amp; Treatment</i>
H4	General Unsecured Claims	KPNY	Trade and other claims, excluding PBGC Unsecured Claims: \$0.00  Intercompany: \$75,000	See treatment outlined set forth for A5.

## 5. GENERAL INFORMATION

5.1 The Debtors. The Debtors proposing the Joint Plan of Reorganization are: KidsPeace Corporation (“KPC”), KidsPeace Children’s Hospital, Inc. (“KPCH”), KidsPeace Mesabi Academy, Inc. (“Mesabi”), KidsPeace National Centers, Inc. (“KPNC”), KidsPeace National Centers of New England, Inc. (“KPNE”), KidsPeace National Centers of North America, Inc. (“KPNA”), Iron Range School, Inc. (“Iron Range”), and KidsPeace National Centers of New York, Inc. (“KPNY”). KidsPeace National Centers of Georgia, Inc. (“KPGA”), a wholly owned subsidiary of KPC, although a Debtor in the Chapter 11 Cases, is not a proponent of the Plan. Pursuant to the Plan, KPC will retain its ownership interest in KPGA. KPGA intends to file its own plan of reorganization independent of the Plan proposed herein.

5.2 History of the Debtors. KPC, which is located in Orefield, Pennsylvania, is a nonprofit corporation organized under the laws of the Commonwealth of Pennsylvania. KPC traces its roots to the Thurston Home for Children, an unincorporated orphanage established in 1882 in Bethlehem, Pennsylvania. In 1886, the Thurston Home for Children was incorporated under the laws of the Commonwealth of Pennsylvania. As part of the original Articles of Incorporation, the organization’s name was changed to the Children’s Home of South Bethlehem. In 1926, the corporate name was changed to the Children’s Home of Bethlehem and Allentown, and again in 1975, to Wiley House. Finally, in 1992, through Articles of Amendment, the corporate name was changed to KidsPeace Corporation.

5.3 Organizational Structure. KPC operates through six “subsidiary” nonprofit Pennsylvania member corporations and one “subsidiary” nonprofit New York Corporation. KPC is the sole member of each corporation.<sup>7</sup> Except for the employees of Mesabi, all full-time and part-time employees are employed by KPC, regardless of which subsidiary operates a particular

<sup>7</sup> Prior to the Petition Date, there were 5 additional affiliated subsidiaries: KidsPeace National Centers of Pennsylvania, Inc. (a Pennsylvania corporation); Martin Hughes School, Inc. (a Minnesota corporation); KidsPeace School of Georgia, Inc. (a Georgia Corporation); National Family Resource Center, Inc. (a Pennsylvania corporation); and KidsPeace Services, Inc. (a Pennsylvania corporation). All of these subsidiaries have been inactive since 2009. KidsPeace National Centers of Pennsylvania, Inc. was merged into KidsPeace National Centers, Inc.; Martin Hughes School, Inc. was merged into KidsPeace Mesabi Academy, Inc.; KidsPeace School of Georgia, Inc. was merged into KidsPeace National Centers of Georgia, Inc.; National Family Resource Center, Inc. was merged into KidsPeace Corporation; and KidsPeace Services, Inc. was merged into KidsPeace National Centers of North America, Inc.

program. All full-time and part-time employees of Mesabi are employed by Mesabi. There is also one inactive subsidiary corporation that provides no services or programs. The eight subsidiary corporations are as follows:

(a) *KidsPeace Children's Hospital, Inc. (Pennsylvania Corporation)* – This Corporation was formed in 1991 and oversees the Hospital programs (discussed below), Pennsylvania Community Programs (with the exception of the Berks County Community Programs) and Behavioral Health Rehabilitation Wraparound Services.

(b) *KidsPeace Mesabi Academy, Inc. (Pennsylvania Corporation)* – This Corporation was formed in 1998 and oversees Mesabi Academy in Buhl, Minnesota, and Prairie Academy, in Worthington, Minnesota (currently closed). Mesabi Academy provides a juvenile justice residential program with a clinical component.

(c) *KidsPeace National Centers, Inc. (Pennsylvania Corporation)* – This Corporation was formed in 2000 and oversees the Orchard Hills Residential Campus, Pennsylvania Foster Care, Berks County Community Programs and Pennsylvania Schools.

(d) *KidsPeace National Centers of Georgia, Inc. (Pennsylvania Corporation)* – This Corporation was formed in 2003 and oversees the Residential Campus in Bowdon, Georgia.

(e) *KidsPeace National Centers of New England, Inc. (Pennsylvania Corporation)* – This Corporation was formed in 2006 and oversees all Maine programs, including the Graham Lake Residential Campus in Ellsworth, Maine, and Maine Foster Care.

(f) *KidsPeace National Centers of North America, Inc. (New York Corporation)* – This Corporation was formed in 1993 and oversees all Foster Care programs, with the exception of Pennsylvania and Maine Foster Care.

(g) *Iron Range School, Inc. (Pennsylvania Corporation)* – This Corporation was formed in 2000 and oversaw the schools at Prairie Academy and Mesabi Academy. Prairie Academy is currently closed, and the Mesabi Academy clients are now being educated by the Mt. Iron Buhl School District.

(h) *KidsPeace National Centers of New York, Inc. (New York Corporation)* – This Corporation was formed in 1999, is currently inactive, and provides no programs or services.

5.4 Businesses of the Debtors. KPC, through its subsidiary corporations, operates a unique psychiatric hospital, the KidsPeace Children's Hospital, and also provides a comprehensive range of residential treatment programs, accredited educational services, and a variety of foster care and community-based treatment programs to help children, adolescents and young adults overcome challenges and transform their lives. KPC, through its subsidiary corporations, provides emotional and physical health care and educational services in an atmosphere of teamwork, compassion and creativity.

KPC employs approximately 1,958 full and part-time employees, including approximately 121 licensed nurses, 8 physicians and 56 specialized teachers, providing various services, including, but not limited to, residential and educational services, foster care placement, community-based programs and outpatient services to children, families, and communities at the Pennsylvania, Georgia, and Maine campuses, and through foster care offices across the country. Mesabi employs approximately 128 full and part-time employees. KPC also contracts with approximately 740 foster parents, who are not employees but who are provided with twice per month stipends whenever foster children are placed in their homes.

(a) *KidsPeace Hospital Services.* KPC, through its subsidiary KPCH, operates the Hospital, an acute psychiatric facility that provides healthcare services to children ages 4 to 18 and young adults ages 18 to 21 from Pennsylvania and surrounding states. At present, the Hospital is licensed to operate 96 beds, and it is currently staffing at that level. The Hospital provides a full range of in-patient and out-patient psychiatric treatment programs for children, adolescents, and young adults. KPC employs at the Hospital approximately 283 full and part-time employees, including approximately 47 nurses, and 8 affiliated physicians.

(b) *KidsPeace Residential and Educational Services.* KPC, through four of its subsidiaries, operates residential treatment facilities in Pennsylvania, Maine and Georgia, as well as a juvenile justice residential facility in Minnesota. KPNC operates the residential program in Pennsylvania, KPNE operates the residential program in Maine, KPGA operates the residential program in Georgia, and Mesabi operates the juvenile justice program in Minnesota. The residential programs vary in intensity and address a variety of diagnoses including behavior disorders, depression, anxiety, emotional problems, low IQ with mental disorders, male sexual issues, attention deficit hyperactivity disorder, autism, and a variety of other diagnoses that require 24-hour treatment and monitoring, as well as classroom time to allow clients to keep up with their school work. The juvenile justice facility services delinquent and non-delinquent males, many of whom are referred by the juvenile justice system. This facility offers several levels of secure and non-secure care, diagnostic services, residential programs, sexual issues treatment, a fire-setter program, and aftercare to reduce recidivism.

KPC, through three of its subsidiaries, provides educational services in Pennsylvania, Maine, and Georgia. KPNC has two schools in Pennsylvania that serve its residential clients and a third school that offers partial hospitalization and specialized mental health/education programs for students requiring emotional support. KPNE and KPGA operate schools on their respective campuses for their residential clients. In Minnesota, the local school district provides on-site schooling for the clients of Mesabi.

KPC employs approximately 770 full and part-time employees, including 46 nurses and 50 teachers, in Residential and Educational Services and 5 physicians affiliated with Residential Services. Mesabi employs approximately 127 full-time and part-time employees for the juvenile justice program.

(c) *KidsPeace Foster Care Services.* KPC, through three of its subsidiaries, provides foster care services through 28 offices in 8 states (Indiana, Maryland, Maine, Nevada, New York, North Carolina, Pennsylvania and Virginia) and the District of Columbia. This service line includes therapeutic/regular foster care, medically fragile care, respite care,

diagnostic assessments, adoption, and issue-specific programs. In Pennsylvania and Maine, the foster care programs are operated by KPNC and KPNE, respectively. In all other locations, foster care programs are operated by KPNA. KPC employs approximately 346 full and part-time employees in foster care. This number does not include foster parents. KPC also contracts with 740 foster parents who are provided a twice per month stipend whenever foster children are placed in their homes. Foster parents are not employees of KPC.

(d) *KidsPeace Community-Based Services.* KPC, through four of its subsidiaries, provides community-based outpatient services to children, families, and communities at the Pennsylvania, Georgia, and Maine campuses, and through foster care offices across the country. This service line includes acute partial hospitalization, several autism programs, targeted case management, family and individual counseling, diagnostic services, medication management, nutritional assessments, pediatric evaluations, and many other outpatient treatment opportunities. In Pennsylvania, Georgia, and Maine, community-based programs are operated by KPNC, KPGA, and KPNE, respectively. In all other locations, community-based programs are operated by KPNA. KPC employs approximately 256 full and part-time employees in community-based programs and has 6 physicians affiliated with the community-based programs.

(e) *Internet Services.* KPC provides Internet-based services through two portals, TeenCentral.net and ParentCentral.net. On these sites, teens and parents can raise issues or ask questions and receive guidance from Masters or Ph.D.-level counselors within 24 hours. The users remain anonymous on these sites, and KPC provides the guidance at no charge.

#### 5.5 Insurance Coverage.

(a) *Medical Malpractice Coverage.* As discussed above, to cover claims for alleged personal injuries and/or wrongful death, the Debtors maintain certain primary and excess insurance coverage, as well as the Medical Care Availability and Reduction of Error Fund, all subject to certain limits, terms and conditions. As set forth below, such potentially available coverage, including the amount of any self-insured retention, varies by policy year:

(b) *Officer and Director Coverage.* The Debtors maintain primary officer and director insurance coverage through Zurich American Insurance Company and excess insurance coverage through Ace American Insurance Company, One Beacon and the Great American Insurance Company covering past and/or current officers and/or directors of any Debtor, subject to certain retention, limits, terms and conditions. The Debtors are not aware of any claims that have been made under these policies.

Under the Federal Volunteer Protection Act, 42 U.S.C. § 14503, a director is insulated from claims of a third party, so long as he/she acted within the scope of his/her responsibilities and the injury was not caused by willful or wanton misconduct. Under Pennsylvania law, each director will be immune from a claim brought by the bankruptcy estate unless (1) the director breached or failed to perform the duties of the office and (2) the breach or failure to perform constitutes self-dealing, willful misconduct or recklessness. Pennsylvania Nonprofit Corporation Statute, at 15 Pa.C.S.A. § 5713. See also 15 Pa.C.S.A. §§ 5711-5717 (describing duties and obligations of a director of a Pennsylvania non-profit corporation).

(c) *Other Coverage.* The Debtors maintain, among other types of insurance, general liability, automobile, property and workers compensation insurance.

5.6 Management. On the Petition Date, William Isemann was the President and Chief Executive Officer and James Horan was the Executive Vice President and Chief Financial Officer. Mr. Isemann and Mr. Horan have continued to serve in such capacity through the Chapter 11 Cases and it is anticipated that they will continue in such capacity post-Confirmation. Annexed hereto as Exhibit B is a list of the select current management team of the Debtors, including Mr. Isemann and Mr. Horan, a brief description of their positions and their respective compensation. It is anticipated that the management team of each of the Debtors who are serving as of the Confirmation Date will continue to serve in such capacities post-Confirmation. Entry of the Confirmation Order shall ratify and approve all actions taken by the managers and officers of the Debtors from the Petition Date through and until the Effective Date and will provide authorization for the Debtors to enter into certain employment agreements and implement an incentive program as more particularly described in Exhibit B; provided however, any incentive program payments are subject to all payments owed to the General Unsecured Creditor's being timely made.

5.7 Summary of Assets and Liabilities. Annexed hereto as Exhibit C is a summary of the Debtors assets and liabilities on a debtor-by-debtor basis. Below are brief descriptions of each Debtor's assets and liabilities as of October 31, 2013.

(a) *KidsPeace Corporation Assets.*

Cash on hand - \$10,568,691  
Accounts Receivable- \$74,740  
Intercompany Receivable - \$113,940,918  
Real Estate –

National Headquarters, 4085 Independence Drive, Schnecksville, PA-5.76 acres with a 30,228 sq. ft. office building having an appraised value as of February 2, 2012 of \$3,200,000 and a “go dark” value of \$1,950,000.

Orchard Hills Campus, 5300 KidsPeace Drive, Orefield, PA-262 acres with multiple structures, including a 96-bed psychiatric hospital, 11 residential buildings, 1 educational center, and several other recreational and maintenance buildings having an appraised “go dark” value as of October 20, 2012 of \$22,100,000.

Broadway Campus, 1650 Broadway, Bethlehem, PA-5 acres with multiple structures, including a 9,500 sq. ft. outpatient facility, 5 residential buildings and 2 multi-purpose structures having an appraised value “as is” market value as of September 7, 2012 of \$7,980,000 and an appraised “go dark” value as of October 30, 2012 of \$4,700,000.

Green St. Building, 801 East Green Street, Allentown, PA-0.33 acres with an 8,954 sq. ft. multi-purpose building.



Blue Ridge Facility, 213 Blue Ridge Road, Saylorsburg, PA-9 acres with 1 residential building and 1 multi-purpose building.

Carlton Street Building, 531-535 Carlton Street, Allentown, PA-0.5 acres with 3 multi-purpose buildings.

There are no appraisals for the Green St. Building, the Blue Ridge facility, the Carlton Street Building; however, their aggregate value may approximate \$1,000,000.

(b) *KidsPeace Children's Hospital, Inc. Assets.*

Cash on hand - \$2,000  
Accounts Receivable - \$ 4,810,007

(c) *KidsPeace Mesabi Academy, Inc. Assets.*

Cash on hand - \$122,595  
Accounts Receivable - \$ 1,016,856

(d) *KidsPeace National Centers, Inc. Assets.*

Cash on hand - \$23,225  
Accounts Receivable - \$13,572,653

(e) *KidsPeace National Center of New England, Inc. Assets.*

Cash on hand - \$11,797  
Accounts Receivable - \$1,860,658  
Real Estate –

Graham Lake Campus, Route 180, P.O. Box 787, Ellsworth, ME-12 acres with 1 residential building and 3 multi-purpose buildings having an appraised value as of December 28, 2012 of \$420,000.

(f) *KidsPeace National Centers of North America, Inc. Assets.*

Cash on hand - \$ 8,407  
Accounts Receivable - \$3,941,169

(g) *Iron Range School, Inc. Assets.*

Cash on hand - \$ - 0 -  
Accounts Receivable - \$ - 0 -  
Intercompany Receivable - \$1,937,246

(h) *KidsPeace National Centers of New York, Inc. Assets.*

Cash on hand - \$ - 0 -

Accounts Receivable - \$ - 0

Intercompany Receivable - \$0

5.8 Liabilities. The Debtors' liabilities consist of the following:

(a) *HFG.* As discussed below, the Debtors obtained DIP financing from HFG in an amount not to exceed \$15 million. A description of the loan terms is set forth below. As of this date, the outstanding amount owing to HFG approximates \$2,000,000, which is the minimum amount that the Debtors are required to draw down.

(b) *NatPenn.* The Debtors currently have a mortgage payable to NatPenn at a fixed rate of interest of 6.7% due in monthly installments of principal and interest of \$16,308 through May 2014, with a final payment of \$1,088,428 in June 2014. The mortgage payable is secured by the National Headquarters building in Schnecksville, PA.

(c) *M & T.* Certain insurance programs of the Debtors require the Debtors to post letters of credit (the "LOCs"). The Debtors have LOCs with M & T. The Debtors are required to cash collateralize these LOCs. The secured letters of credit totaling \$1,879,516.00 were outstanding on December 31, 2012, and remain in place to secure obligations under various insurance policies. The letters of credit expire on varying dates between November of 2013 and April of 2014, which the Debtors intend on renewing. The cash collateral put in place for the letters of credit was \$1,900,660.56, and the cash is in an account with M & T. The LOCs include a \$350,000 LOC for legacy liability policies with Lexington Insurance from 2002-2004, a \$100,000 LOC for Philadelphia Insurance for prior and current liability policy years, and a \$150,000 LOC for a Liberty Mutual 2007 Workers Compensation policy. In addition, the Debtors have a \$1,200,000 LOC for the Commonwealth of Pennsylvania as required security for potential losses under their self-insured workers compensation program.

(d) *Bond Debt.* KPC, KPNC, and KPCH (the "Obligated Group") are obligated on the Bonds in the original principal amount of \$74,985,000. The Bond Trustee serves as the successor trustee with respect to the Bonds. As of the Petition Date, the amount of Bond debt outstanding was \$51,310,000 plus accrued interest. The Bond Trustee was granted a lien on, and security interest in, all of the Gross Receipts (as defined in the Trust Indenture for the Bonds) to secure the Bonds. As a result of the default by the Obligated Group in the payment of debt service on the Bonds in 2012, Debtors, with the exception of KPGA, entered into a Forbearance Agreement (the "Forbearance Agreement") dated January 11, 2013 with the Bond Trustee, consented to by the Majority Bondholders whereby, among other things, KPC executed a mortgage limited to \$15,000,000 on the Debtors' Orchard Hills Campus in Orefield, PA in favor of the Bond Trustee, as mortgagee, as partial consideration for the Bond Trustee's agreement to forbear from the exercise of remedies available to it due to the defaults of the Obligated Group and for other consideration. As of the Petition Date, the Obligated Group Gross Receipts (excluding intercompany receivables) and the proceeds thereof held in bank accounts approximated \$29,038,763. Intercompany receivables owing to the Obligated Group by the non-Obligated Group Debtors approximated \$67,264,999; however, the collectability

thereon may be questionable. In addition, the Bonds were secured by a Debt Service Reserve Fund aggregating approximately \$3,650,000 as of the Petition Date. In addition, holders of the Series 1998 Bonds bearing CUSIPS 524805F45 and 524805F52, in the current principal amount of \$8,807,494.49 have the benefit of the Bond Insurance Policies. The Custodian is the nominal holder of the Insured Bonds and has issued the CBIs to the Insured Bondholders.

(e) *PBGC Debt.* The Debtors were formerly sponsors of the KidsPeace Defined Benefit Pension Plan (the "Pension Plan"), which is an ERISA-qualified defined benefit pension plan, guaranteed by the PBGC. The Debtors have not made any contributions to the Pension Plan since September 2011, benefits under the Pension Plan were "frozen" as of January 1, 2009, and the PBGC alleges that the Pension Plan is underfunded by approximately \$100,000,000. In addition, KidsPeace did not make its annual Pension Plan contributions of approximately \$2.2 million in the fiscal year ending on December 31, 2011 and approximately \$4.8 million in the fiscal year ended December 31, 2012. Changes in federal law significantly increased the Debtors' required annual contributions to the Pension Plan, in amounts that the Debtors could no longer afford to pay. Therefore, the Debtors' Board of Directors made the decision to stop making annual contributions and pursue the Pension Plan's termination with the PBGC. On March 27, 2012, the PBGC filed a lien against KidsPeace for approximately \$2.9 million, representing the missed contributions through the end of 2011 and then another lien for \$4,175,029 in December, 2012 (collectively, the "PBGC Liens"). The PBGC Liens encumber substantially all of the Debtors' assets with various priorities. On January 10, 2013, the Debtors, the PBGC, the Bond Trustee and Gemino entered into a PBGC Subordination and Intercreditor Agreement (the "PBGC Subordination Agreement"), in which the PBGC agreed to subordinate the PBGC liens to Gemino's liens under the Credit Agreement and the Bond Trustee's liens under the Indenture, other than in respect to real property.

The PBGC terminated the Pension Plan as of March 31, 2012 and became Trustee of the Pension Plan effective April 30, 2013, as provided in the Agreement for Appointment of Trustee and Termination of Plan between the Debtors and the PBGC dated April 30, 2013.

The PBGC filed proofs of claim against each of the Debtors asserting (i) a claim of \$5,727,115 for contributions owed the Pension Plan, which the Debtors believe that the PBGC is asserting is secured by all assets of the Debtors subject to the PBGC Liens; (ii) an unsecured claim for insurance premiums, interest and premiums, characterized by the PBGC as Flat-Rate and Variable Rate Premiums totaling \$1,438,339 and a termination premium of \$9,127,500; and (iii) an unsecured claim of \$99,100,000 for underfunded benefit liabilities. The Debtors contend that the Reorganized Debtor will have no liability for the termination premium. The Debtors also dispute the amount of the balance of the claims alleged by the PBGC.

(f) *Trade and Other Debt.* The Debtors estimate that they owe trade creditors approximately \$2,000,000, net of payments that will be made to creditors on account of Cure Costs and 503(b)(9) Claims and including anticipated rejection claims. In addition, the Debtor's estimate other unsecured claims, inclusive of asserted claims related to termination of excess benefit plan, litigation claims, etc. that may participate in a general unsecured claim distribution to approximate in the range of \$1,500,000 to \$2,000,000. These amounts do not include any intercompany debts or the Bond Unsecured Claims or the PBGC Unsecured Claim.

(g) *Employee and Foster Care Obligations.* As more particularly set forth below, on the Petition Date, the Debtors had unpaid payroll obligations aggregating approximately \$3,200,000. In addition, the Debtors contract with approximately 740 foster parents, who are not employees and who are provided with bi-weekly stipends whenever foster children are placed in their homes. As of the Petition Date, the foster care obligations approximated \$470,000. Also, the Debtors had unpaid obligations owing to psychiatric mental behavioral health specialists aggregating approximately \$60,000. As a result of the Bankruptcy Court orders respecting First Day Pleadings, the Debtors obtained authorization to pay these pre-Petition Date obligations.

5.9 Events Leading to the Commencement of the Chapter 11 Cases. During fiscal year 2008, the Debtors began to experience a decline in their patient service revenue. This decline was attributable to a number of factors, including: (a) the general economic recession in the region; (b) a decline in residential and foster care census; and (c) no increases in reimbursement rates, and for some programs, actual cuts in reimbursement rates.

Throughout the 2009 and 2010 calendar year, the Debtors engaged in a concerted and targeted effort to implement a clinical transformation process across its various programs. The purpose of this transformation was to improve the quality of services, decrease overhead expenses, expand the number of referrals and referral sources, and grow the revenue stream. Although not apparent in the financial figures for 2010, the clinical transformation began to have some positive fiscal impact in 2011.

Despite the above referenced measures, the Debtors continued to experience annual operating losses of nearly \$6.5 million in 2010, in excess of \$1.6 million in 2011 and \$4.6 million in 2012. These losses were substantially attributed to the lack of rate increases and the growing pension obligations. Select historical financial information for the last 3 years of operations is annexed hereto as Exhibit D.

The Debtors continue to take other actions to improve their financial condition. These actions include operational improvements, marketing enhancements and expansions, and program development. In 2011, the Debtors also engaged an investment bank in order to locate potential acquisition or merger partners.

As previously stated, the Debtors sponsored the KidsPeace Defined Benefit Retirement Plan (the "Pension Plan"). The Pension Plan covered their full-time employees that were plan participants prior to January 1, 2009. Effective December 31, 2008, the Debtors adopted an amendment to freeze all subsequent accruals of benefits in their Pension Plan in an effort to better manage their financial responsibilities. Although the Debtors sought to satisfy their minimum funding requirements under the Pension Plan following this cessation of benefit accruals, the Debtors found that as a result of significant increases for the minimum funding requirements, as explained below, and the decrease in revenues that the Debtors would be unable to satisfy these on-going obligations. Thus, the Debtors determined that it was in the best interest of the organization to terminate the Pension Plan as soon as practical.

The current funding liabilities arising under the Pension Plan increased dramatically over the past several years due, in substantial part, to changes in the federal law

governing the funding requirements associated with defined benefit pension plans. These changes effectively increased the total amount of funding required to be made to the trust maintained under the Pension Plan and accelerated payment of the annual amounts that would otherwise have not been required until future years. By way of example, for each of the next 3 years, the Debtors funding requirements would have been \$11,784,000, \$13,841,000, and \$13,533,000, respectively. On a current funding basis, the shortfall between the value of the accrued benefits under the Pension Plan and the value of its current assets is estimated, by the PBGC, at \$99 million.

PBGC is a wholly owned United States government corporation, and an agency of the United States, that administers the defined benefit pension plan termination insurance program under Title IV of the Employee Retirement Income Security Act of 1974. PBGC is now the Statutory Trustee of the Pension Plan and pays the plan benefits, subject to certain statutory limitations.

On or about September 2011, the Debtors attempted to commence negotiations with the Bank of New York (“BNY”), as former trustee on the 1998 Bonds and the 1999 Bonds (the “Former Bond Trustee”), in an effort to obtain debt relief by way of either a debt reduction or an extended payment plan through an exchange offer. At that time, commencement of the negotiation efforts, the Debtors were current on the bond obligations.

Negotiations with the PBGC and the Former Bond Trustee were delayed. During the delay, the Debtors were faced with cash constraints that precluded the Debtors from satisfying the upcoming obligations due to the Pension Plan and the Former Bond Trustee. As previously stated, the Debtors missed the PBGC minimum funding requirements starting with the September 15, 2011 payment and the 1998 Bonds and 1999 Bonds payments to the Former Bond Trustee starting with the January 15, 2012 obligation.

The Debtors engaged counsel, Norris McLaughlin & Marcus, PA, to assist them in the negotiations with the PBGC and the Bond Trustee and to represent them in the Chapter 11 Cases. In addition, the Debtors engaged EisnerAmper LLP as their financial advisors. The Debtors also engaged Morgan Keegan (“MK”), an investment banking firm. Since March of 2012, MK has been exploring possible affiliation or acquisition opportunities; however, no offer of an affiliation or acquisition has been presented to the Debtors.

On or about April 10, 2012, the Bondholders replaced the former Bond Trustee with the current Bond Trustee, UMB. UMB retained the services of Schiff Hardin, LLP as its counsel, and Capstone Advisory Group as its financial advisors. UMB immediately commenced its assessment of the Debtors’ operations. As a result of this assessment, the Bond Trustee and the Debtors commenced negotiations toward a Plan Support Agreement in August 2012. On January 11, 2013, the Bond Trustee and the Debtors memorialized their resolution in a Term Sheet, Forbearance Agreement and Plan Support Agreement entered into by and among the Debtors, except for Georgia, and UMB, as the Bond Trustee, and the Majority Bondholders (collectively, as amended from time to time, the “Bondholder Resolution”).

Pursuant to the Bondholders Resolution, the 1998 Bonds and the 1999 Bonds would be cancelled and new bonds, Series A Bonds, Series B Bonds and Series C Bonds

(collectively, "New Bonds") would be issued to the Bondholders. The Series A Bonds would be in the principal amount of \$18,035,000 and the Series B Bonds would be in the principal amount of \$5,000,000, both of which would be secured by liens on all of the Debtors' assets, subject to pre-existing liens, including the PBGC Liens and HFG's liens. Both the Series A Bonds and the Series B Bonds would bear interest at 7.5% with a maturity date of 30 years from the effective date of the plan of reorganization. Payments on the Series A Bonds would commence immediately. The Series B Bonds would accrete for a period of 10 years to 14 years for which no payments will be due until the end of the accretion period. From a cash flow perspective, the Debtors would not be obligated to pay more than \$1,500,000 of per annum debt service in the aggregate on the Series A Bonds and the Series B Bonds. The Bondholders would also be issued Series C Bonds in the principal amount of \$15,000,000, which would bear no interest and would have an end day 30 years after the effective date of the plan of reorganization. The Series C Bonds would receive payments in the future based solely on the Debtors' on-going operations and more particularly, pursuant to a complex excess cash flow formula developed and agreed upon by the Debtors and the Bond Trustee. The Series C Bonds would be unsecured and on the 30th anniversary any unpaid balance would be discharged and forgiven. The Bondholders Resolution also provided that the Debtors could retire the Series C Bonds with a one-time lump-sum payment of \$3,000,000.

The Debtors, the Bond Trustee, ACA and the Majority Bondholders agreed that in addition to the distributions described above, the Debtors' plan of reorganization would include an offer by ACA to the Insured Bondholders to receive on an opt-out basis an upfront Cash payment in full satisfaction of a corresponding amount of ACA's obligations under the Bond Insurance Policies.

Also, pursuant to the Term Sheet, Forbearance Agreement and Plan Support Agreement, the Debtors agreed to provide the Bondholders with a \$15 million mortgage on the Orchard Hills Campus. In exchange the Bond Trustee and the Majority Bondholders, who hold 82% in dollar amount of the 1998 Bonds and the 1999 Bonds agreed to enter into the Term Sheet and support a plan of reorganization proposed by the Debtors incorporating the terms as set forth in the Term Sheet.

The Bondholders Resolution provided a limitation on what the Debtors may offer the PBGC and the General Unsecured Creditors under a plan of reorganization; provided, however, that any proposed treatment was acceptable to the Bond Trustee and the Majority Bondholders.

As more particularly discussed in Section 6.14 below, the Debtors were desirous of offering the PBGC and the General Unsecured Creditors a better proposal than the Bond Trustee and the Majority Bondholders were prepared to agree on. In order for the Debtors to make the proposal set forth in the Plan, the Bond Trustee and the Majority Bondholders requested a revised treatment from that which was proposed under the Term Sheet, including an upfront cash payment, the retiring of the cash flow payment obligations under the Series C Bonds, an increase in the amount of the Series A Bonds and partial redemption and self-amortization of the Series B Bonds, all as more particularly set forth Section 7.3 hereof. Notwithstanding these requests, the total payments over the life of the restructured Bond

Trustee/Bondholders Claims as set forth in the Plan remain the same as was contemplated by the Term Sheet.

## 6. THE CHAPTER 11 CASES

6.1 Commencement of the Chapter 11 Cases. On May 21, 2013, each of the Debtors filed voluntary petitions for relief under chapter 11 of the Bankruptcy Code in the United States Bankruptcy Court for the Eastern District of Pennsylvania. The Debtors' cases have been assigned to the Honorable Richard E. Fehling.

As discussed below, the Court established certain notice, case management and administrative procedures for these Chapter 11 Cases and authorized the retention of Rust Omni, LLC for purposes of maintaining a Case Website. Parties in interest may supplement the below information by visiting the Case Website at [www.omnimgt.com](http://www.omnimgt.com) and selecting the "Cases" tab where the reference to the KidsPeace Corporation, *et al.* may be found.

6.2 Continuation of Business After the Petition Date. Since the Petition Date, the Debtors have continued to operate their businesses and manage their properties as debtors-in-possession pursuant to Sections 1107(a) and 1108 of the Bankruptcy Code. As discussed below, during the period immediately following the Petition Date, the Debtors sought and obtained authority from the Bankruptcy Court with respect to a number of matters that were, in the Debtors' view, essential to the Debtors' orderly transition into chapter 11 and the stabilization of the Debtors' operations.

6.3 Debtor in Possession Financing and Use of Cash Collateral. Without the debtor in possession financing and the use of cash collateral, the Debtors would have been unable to ensure adequate patient care and likely would have been forced immediately to discontinue all business operations. Accordingly, shortly after the Petition Date, the Debtors filed a motion for the entry of an interim order: (i) authorizing the Debtor to obtain post-petition financing from HFG on a senior secured and superpriority basis, in the form of a revolving credit facility in an aggregate principal amount at any time outstanding not to exceed \$13,000,000 (the "Revolver") and a term line not to exceed \$5,000,000 (the "Term Line"), the aggregate principal amount not to exceed \$15,000,000, pursuant to the terms and conditions of a certain DIP Loan Agreement, by and between the Debtors, as borrowers, and HFG; (ii) authorizing the use of cash collateral; (iii) granting senior secured liens and superpriority claims to HFG, as post-petition lender and as adequate protection for the use of cash collateral; (iv) granting relief from the automatic stay to implement the terms of the Interim and Final Order; (v) scheduling a final hearing to consider approval of the relief requested on a final basis (the "DIP Financing Motion") [D.I. 13]. The DIP Financing Motion requested, among other things, that certain adequate protection be provided to the Bond Trustee and the PBGC. This adequate protection included: replacement liens on certain of the Debtors' assets, with the same validity, priority as their respective liens as of the Petition Date and only to the extent that there is a diminution in their respective pre-Petition Date collateral. The Committee raised certain informal objections to the DIP Financing Motion which were resolved prior to the hearing thereon.

On May 23, 2013, the Bankruptcy Court entered an interim order [D.I. 56] authorizing the Debtors to obtain DIP Financing, to use cash collateral and granting adequate

protection. On June 20, 2013, the Bankruptcy Court entered a final order approving the DIP Financing Motion [D.I. 156]. Detailed terms of the DIP Facility can be found at D.I. 13, 56, 147 and 156.

6.4 Bankruptcy-Related Relief. The Debtors sought various other types of “first day” relief, including, among other things, orders: (i) directing the joint administration of the Debtors’ related bankruptcy cases; (ii) authorizing the Debtors to continue using their existing cash management systems; (iii) authorizing the Debtors to pay certain pre-petition obligations to their employees; (iv) prohibiting the Debtors’ utility companies from altering, refusing or discontinuing service; and (v) establishing procedures for the assertion of claims pursuant to Section 503(b)(9) of the Bankruptcy Code.

The Debtors filed a motion (the “Joint Administration Motion”) pursuant to Section 105(a) of the Bankruptcy Code and Rule 1015(b) of the Bankruptcy Rules for an order directing the joint administration of the Debtors’ Chapter 11 Cases for procedural purposes only. This motion was granted by the Bankruptcy Court on May 23, 2013 [D.I. 36].

The Debtors filed a motion (the “Case Management Motion”) pursuant to Rule 2002 of the Bankruptcy Rules for an order establishing certain notice, case management, and administrative procedures for the Debtors’ Chapter 11 Cases. This motion was granted by the Bankruptcy Court on May 23, 2013 [D.I. 39].

The Debtors also filed a motion (the “Cash Management Motion”) pursuant to Sections 105(a) and 363(c) of the Bankruptcy Code seeking authority, *inter alia*, to: (i) continue to use their pre-Petition Date cash management system, bank accounts, business forms and investment practices; and (ii) grant administrative expense priority to post-petition intercompany claims. On May 23, 2013, this motion was granted by the Bankruptcy Court [D.I. 42].

The Debtors filed a motion for authority to pay, among other things, pre-petition wages, salaries, bonuses and other compensation, reimbursable employee benefits and employee medical benefits (the “Employee Motion”). The Debtors also sought authority to: (i) continue to use their pre-Petition Date physician incentive program; (ii) pay fees to a temporary agency for work performed by temporary employees; (iii) allow employees to use paid vacation days in the ordinary course of the Debtors’ businesses; (iv) remit pre-petition amounts withheld or deducted from employee wages to the appropriate third parties; and (v) make further payments in the ordinary course of, or with respect to, employee benefits, workers’ compensation obligations, union obligations and obligations to administrative service providers. This motion was granted by order dated May 23, 2013 [D.I. 44].

The Debtors filed motions for authority to pay the pre-Petition Date stipends to its 740 foster parents and pre-Petition obligations owing to the Debtors’ psychiatric behavioral health specialists as critical vendors pursuant to the necessity doctrine. The foster parent program represents 20% of the Debtors’ revenues and the specialists are very difficult to replace. These motions were granted by orders dated May 23, 2013 [D.I. 47 and D.I. 49].

The Debtors filed a motion seeking entry of interim and final orders under Sections 105(a) and 366 of the Bankruptcy Code: (i) determining that utility providers were



provided with adequate assurance of payment; (ii) approving procedures whereby utility providers may request additional or different adequate assurance; and (iii) prohibiting utility providers from altering, refusing or discontinuing service to the Debtors (the “Utilities Motion”). Several utility providers objected to the relief sought in the Utilities Motion and the Debtors consensually resolved such objections pursuant to stipulations. On May 23, 2013, the Bankruptcy Court granted certain of the relief requested in the Utilities Motion with, among other things, modifications to account for the terms of the stipulations [D.I. 51].

The Debtors also filed a motion [D.I. 53] seeking entry of an order establishing procedures for the assertion of Section 503(b)(9) claims. The Bankruptcy Court entered an order approving this motion on May 23, 2013 [D.I. 54], pursuant to which Section 503(b)(9) claims are subject to the bar date set for the filing of all pre-Petition Date claims. The Bankruptcy Court specified in its order that Section 503(b)(9) claimants were not to file motions to compel the allowance and payment of their claims, and that all motions or other proceedings initiated to assert rights under Section 503(b)(9) would be stayed.

#### 6.5 Representation of the Debtors.

On May 28, 2013, the Debtors filed an application to retain Norris McLaughlin and Marcus P.A., as bankruptcy counsel in connection with the chapter 11 Cases [D.I. 78]. By order dated June 17, 2013, the Bankruptcy Court approved this application [D.I. 141].

By orders dated June 17, 2013 and June 7, 2013 [D.I. 140 and D.I. 113, respectively], the Bankruptcy Court also approved the Debtors’ applications to retain EisnerAmper LLC as their financial advisor, and Rust Omni, LLC, as Claims Agent.

6.6 Formation and Representation of the Committee. On June 3, 2013, the United States Trustee appointed the Committee [D.I. 96]. The current members of the Committee are: (i) UMB Bank, N.A., the Bond Trustee; (ii) PBGC; (iii) Performance Food Group d/b/a AFI; (iv) W. B. Mason Co., Inc.; and (v) Teresa Laudenslager.

By orders dated July 3, 2013, 2013, the Bankruptcy Court approved the Committee’s application to retain the law firm of Lowenstein Sandler, LLP [D.I. 178] as its counsel and Fitzpatrick Lentz & Bubba, P.C. as its local counsel [D.I. 177]. On July 3, 2013, the Bankruptcy Court approved the Committee’s application to retain FTI Consulting, Inc. as its financial advisor [D.I. 179].

6.7 Appointment of Patient Care Ombudsman. On June 20, 2013, the Bankruptcy Court entered a consent order for the United States Trustee to appoint a patient care ombudsman to carry on the obligations set forth in Sections 333(b) and 333(c) of the Bankruptcy Code [D.I. 158]. On July 1, 2013, the United States Trustee appointed Eric Huebscher (the “PCO”), as patient care ombudsman [D.I. 172]. On July 26, 2013 the PCO filed an application to retain Bryan Cave LLP as his counsel [D.I. 218].

Since the appointment of the PCO, a dispute has arisen between the Debtors and the PCO. On July 31, 2013, the PCO filed a Motion for Authorization to Access Patient Health Information on an emergent basis [D.I. 219]. On August 2, 2013, the Debtors filed a Motion to Terminate the PCO or Alternatively to Limit the Scope of Such Appointment and Cap Fees and

Expenses [D.I. 234]. The Debtors also challenged the qualifications of the PCO. The Bond Trustee and HFG joined in the Debtor's termination motion and the Committee supported the relief sought in the motion. The Debtors also objected to the PCO's retention of counsel. The Court conducted a hearing on the termination motion on September 3, 2013. On September 30, 2013, the Court entered an Order Holding in Abeyance Debtors' Motion to Terminate Patient Care Ombudsman [D.I. 405], which effectively continued the PCO's appointment.

Pursuant to Section 333(b) of the Bankruptcy Code, no later than 60 days after the date of a patient care ombudsman's appointment, and at least every 60 days thereafter, the patient care ombudsman must report to the court, after notice to parties in interest, regarding the quality of patient care provided to the debtor's patients. In the present case, as a result of the pending disputes with the PCO, the PCO's first reports was filed on or about October 16, 2013 and can be found at the Case Website located at [www.omnimgt.com](http://www.omnimgt.com). The PCO has also filed subsequent reports, which can also be found at the Case Website. The Debtors have filed a response to each of the PCO's reports because the Debtors disagree with the PCO's assessment and believe that such reports are incomplete and misleading. Throughout the PCO's appointment, the Debtors have contested his continued appointment, actions, assessments and fees and the fees of his counsel. The total fees requested by the PCO and his counsel through October 31, 2013 aggregated in excess of \$300,000, which the Court has substantially reduced.

6.8 Matters Relating to Unexpired Leases and Executory Contracts. Section 365 of the Bankruptcy Code grants a debtor the authority, subject to the approval of the Bankruptcy Court, to assume or reject executory contracts and unexpired leases. Section 365(d)(4) of the Bankruptcy Code further provides that if a debtor does not assume or reject an unexpired lease of nonresidential real property under which the debtor is the lessee within (i) 120 days after the petition date (the "Section 365(d)(4) Deadline"), (ii) an additional 90-day period as the bankruptcy court, for cause, may allow, or (iii) such additional time as the Bankruptcy Court may permit with the consent of the landlord of the leased premises, such lease will be deemed rejected.

By order of the Bankruptcy Court entered September 17, 2013, the Bankruptcy Court extended the initial Section 365(d)(4) Deadline through and including December 17, 2013 [D.I. 390].

The Debtors are parties to approximately 2,000 executory contracts and unexpired leases. Generally, the Plan contemplates the rejection of all executory contracts and unexpired leases as of, and subject to, the occurrence of the Effective Date, except for any executory contract or unexpired lease specifically designated for assumption, as set forth in the Plan.

6.9 Other Motions. Throughout the course of the Chapter 11 Cases, the Debtors have filed motions and stipulations, *inter alia*, relating to operations, including rejection of certain contracts, extensions of letters of credit, authorization to make certain payments. These items can be obtained from the Case Website located at [www.omnimgt.com](http://www.omnimgt.com).

6.10 Schedules and Bar Date. On May 23, 2013, the Bankruptcy Court entered an order extending the deadline by which the Debtors were required to file their Schedules and Statements of Financial Affairs to July 5, 2013. On July 3, 2013, the Debtors filed their

Schedules and Statements of Financial Affairs. As set forth in the Schedules, as of the Petition Date, the Debtors' consolidated assets and liabilities were \$157,930,468 and \$168,768,707, respectively.

By order entered July 22, 2013, the Bankruptcy Court established August 30, 2013 as the deadline for holders of all alleged pre-petition claims against the Debtors, including holders of 503(b)(9) claims, to file proofs of claim [D.I. 212].

6.11 Review of Proofs of Claim and Asserted Claims. 367 proofs of claim were filed by the Bar Date and approximately 19 subsequent thereto. The Debtors are not in a position to opine on the validity of proofs of claim or determine which claims will be challenged. The Debtors reserve the right to challenge any claims that vary from the Debtors' books and records. In the ordinary course of business, the Debtors maintain books and records that reflect, *inter alia*, the Debtors' liabilities and the amounts owed to creditors in connection with such liabilities. To determine the validity of the proofs of claim submitted in the Chapter 11 Cases, the Debtors and their professionals will review the proofs of claim, including any supporting documentation, and compare the Claims asserted with the Debtors' books and records. Based upon this review, the Debtors may file procedural and substantive objections to Claims both before and after the Effective Date. Annexed hereto as Exhibit E is the Debtors' preliminary analysis of the filed proofs of claim.

6.12 Post-Petition Financial Information. The Debtors have filed monthly operating reports in accordance with Bankruptcy Code Section 704 and Federal Rule of Bankruptcy Procedure 2015 on the following dates: July 26, 2013 (May/June 2013 report); September 20, 2013 (July 2013 report); November 19, 2013 (August 2013 report); December 2, 2013 (October 2013 report); and January 2, 2014 (November 2013 report). Copies of these reports can be found at the Case Website located at: [www.omnimgt.com/kidspeace](http://www.omnimgt.com/kidspeace). Additional reports will be posted each month.

Financial information relating to the Debtors' post-petition operations is summarized in the attached Exhibit F.

6.13 Post-Petition Business Operations. Since early 2008, the Debtors have taken aggressive measures to continue their mission and reduce their loan obligations (other than those under the 1998 Bonds and the 1999 Bonds) by approximately \$4,500,000. In addition, the Debtors have reduced their full time equivalent employee count from 2,300 to 1,691 employees. Along with reducing the number of employees, the Debtors' employees took significant pay reductions, ranging from 50 basis points up to 10 percent of annual salary for executives in the organization.

Since 2008 and continuing into the post-petition period, the Debtors have made a number of operational improvements that, collectively, have enabled the Debtors to stabilize their operations and to improve their financial performance. These improvements include changes in management, certain technological improvements, physician-related changes, as well as other changes.

With respect to management, the Debtors have engaged a number of new key employees, such as (a) a new Executive Vice President/CFO starting in 2011, (b) a new Executive Director for Pennsylvania Residential/Education starting in 2011, (c) a new Vice President for Human Resources starting in March 2013, (d) a new Vice President – Contoller starting in November 2012. In addition, the Debtor has concentrated resources on process improvement projects seeking to reduce cost, improve safety and quality.

The Debtors also have made a number of technological improvements in the last few years. Among other things, the Debtors have: implemented an enhanced purchasing system; converted from a manual timekeeping system to an electronic system through ADP; developed a productivity management system, utilizing the ADP electronic time capture system, to better manage use of labor hours; improved their billing systems to track denial of payments and to help appeal denials of claims and improved their cash collection systems to more effectively manage cash flow prospectively at time of admission rather than after discharge.

The Debtors have made changes in physician personnel through the aggressive recruitment of highly qualified child and adolescent psychiatrists, using more aggressively, mid-level providers such as Advanced Practice Nurses in appropriate settings, and appointing a new Medical Director starting in January 2012. Separately, the Debtors have become more aggressive in collecting co-pays and deductibles, and have obtained assistance from a vendor to improve the overall collection process and the collection of old accounts receivable. The Debtors also have re-negotiated various managed care reimbursement contracts to include more favorable terms and conditions.

The Debtors are constantly evaluating the market for new opportunities to provide services. The KidsPeace Hospital has added capacity, now licensed for 96 beds; in 2008 it was licensed for 56 beds. Added new programs such as Tri-Care (the active military health program) residential, immigration shelter care, developmentally delayed programming in Minnesota and in Pennsylvania, and developed specialized autism programs in Maine and Pennsylvania.

Creditors and other parties seeking more detailed information regarding the Debtors' post-Petition Date operations should review the Summary of Post-Petition Operations attached hereto as Exhibit G. Additional detailed information relating the Chapter 11 Cases may be found at the case website: [www.omnimgt.com/kidspeace](http://www.omnimgt.com/kidspeace).

6.14 Post-Petition Negotiations. Subsequent to the commencement of the Chapter 11 Cases, the Debtors, the Bond Trustee and the Majority Bondholders continued negotiations relating to the proposed treatment of the Bondholders, the treatment of the PBGC and the treatment of the Allowed General Unsecured Claims. The negotiations culminated in the revised treatment of the Bondholders from that set forth in the Bondholders Resolution. The Bond Trustee and the Majority Bondholders would only agree to the Debtors proposed treatment of the PBGC and the Allowed General Unsecured Claims as set forth in the Plan if the Debtors agreed to a revised treatment of the Bondholders from that set forth in the Bondholder Resolution. The Bond Trustee contended that the PBGC would only receive approximately \$7,000,000 in a liquidation as opposed to the \$13,500,000 being proposed by the Debtors and that the General Unsecured Creditors would receive approximately 2% as opposed to the 15% ultimately agreed to by the Debtors (or the 10% under the Alternate Creditor Treatment). The Bond Trustee

contended that under the Bondholders Resolution that the Bondholders would be receiving approximately \$23,000,000 on its secured claim, which it now believes was worth approximately \$29,000,000 on the Petition Date, exclusive of the value of its mortgage on the Orchard Hills Campus. The Bond Trustee believes that the proposed treatment under the Plan provides it with its entitlement on its secured claim.

In addition to the Post-Petition Negotiations with the Bond Trustee and the Majority Bondholders, the Debtors have successfully negotiated with the PBGC and the Committee. The result of these negotiations are memorialized in the Plan.

## 7. THE CHAPTER 11 PLAN

7.1 Introduction. The following is a summary of certain terms and provisions of the Plan. This summary of the Plan is qualified in its entirety by reference to the full text of the Plan, which is attached to this Disclosure Statement as Exhibit A.

7.2 Classification of Claims Against the Debtors. The following is a classification of Claims under the Plan. As provided by Section 1123(a)(1) of the Bankruptcy Code, Administrative Expense Claims and Priority Tax Claims are not classified under the Plan, and will instead be treated separately as unclassified Claims on the terms set forth in Article VI of the Plan.

Classes of Claims against the Debtors are as follows:

(a) *Claims Against KidsPeace Corporation.*

(i) Class A1: KPC Priority Non-Tax Claims (Class A1 consists of all Priority Non-Tax Claims against KPC.)

(ii) Class A2: Bond Trustee/Bondholders Claim (Class A2 consists of the Bond Trustee/Bondholders Secured Claim and the Bond Trustee/Bondholders Unsecured Claim against KPC.)

(iii) Class A3: PBGC Pre-Petition Claim (Class A3 consists of the PBGC Secured Claim and the PBGC Unsecured Claim against KPC.)

(iv) Class A4: KPC Other Secured Claims (Class A4 consists of all Other Secured Claims against KPC, including M & T and NatPenn.)

(v) Class A5: KPC General Unsecured Claims (Class A5 consists of all General Unsecured Claims against KPC.)

(b) *Claims Against KidsPeace Children's Hospital, Inc.*

(i) Class B1: KPCH Priority Non-Tax Claims (Class B1 consists of all Priority Non-Tax Claims against KPCH.)

(ii) Class B2: Bond Trustee/Bondholders Claim (Class B2 consists of the Bond Trustee/Bondholders Secured Claim and the Bond Trustee/Bondholders Unsecured Claim against KPCH.)

(iii) Class B3: PBGC Prepetition Claim (Class B3 consists of the PBGC Secured Claim and the PBGC Unsecured Claim against KPCH.)

(iv) Class B4: KPCH Other Secured Claims (Class B4 consists of all Other Secured Claims against KPCH.)

(v) Class B5: KPCH General Unsecured Claims (Class B5 consists of all General Unsecured Claims against KPCH.)

(c) *Claims Against KidsPeace Mesabi Academy, Inc.*

(i) Class C1: Mesabi Priority Non-Tax Claims (Class C1 consists of all Priority Non-Tax Claims against Mesabi.)

(ii) Class C2: PBGC Prepetition Claim (Class C2 consists of the PBGC Secured Claim and the PBGC Unsecured Claim against Mesabi.)

(iii) Class C3: Mesabi Other Secured Claims (Class C3 consists of all Other Secured Claims against Mesabi.)

(iv) Class C4: Mesabi General Unsecured Claims (Class C4 consists of all General Unsecured Claims against Mesabi.)

(d) *Claims Against KidsPeace National Centers, Inc.*

(i) Class D1: KPNC Priority Non-Tax Claims (Class D1 consists of all Priority Non-Tax Claims against KPNC.)

(ii) Class D2: Bond Trustee/Bondholders Claim (Class D2 consists of the Bond Trustee/Bondholders Secured Claim and the Bond Trustee/Bondholders Unsecured Claim against KPNC.)

(iii) Class D3: PBGC Prepetition Claim (Class D3 consists of the PBGC Secured Claim and the PBGC Unsecured Claim against KPNC.)

(iv) Class D4: KPNC Other Secured Claims (Class D4 consists of all Other Secured Claims against KPNC.)

(v) Class D5: KPNC General Unsecured Claims (Class D5 consists of all General Unsecured Claims against KPNC.)

(e) *Claims Against KidsPeace National Centers of New England, Inc.*

(i) Class E1: KPNE Priority Non-Tax Claims (Class E1 consists of all Priority Non-Tax Claims against KPNE.)

(ii) Class E2: PBGC Prepetition Claim (Class E2 consists of the PBGC Secured Claim and the PBGC Unsecured Claim against KPNE.)

(iii) Class E3: KPNE Other Secured Claims (Class E3 consists of all Secured Claims against KPNE.)

(iv) Class E4: KPNE General Unsecured Claims (Class E4 consists of all General Unsecured Claims against KPNE.)

(f) *Claims Against KidsPeace National Centers of North America, Inc.*

(i) Class F1: KPNA Priority Non-Tax Claims (Class F1 consists of all Priority Non-Tax Claims against KPNA.)

(ii) Class F2: PBGC Prepetition Claim (Class F2 consists of the PBGC Secured Claim and the PBGC Unsecured Claim against KPNA.)

(iii) Class F3: KPNA Other Secured Claims (Class F3 consists of all Other Secured Claims against KPNA.)

(iv) Class F4: KPNA General Unsecured Claims (Class F4 consists of all General Unsecured Claims against KPNA.)

(g) *Claims Against Iron Range School, Inc.*

(i) Class G1: Iron Range Priority Non-Tax Claims (Class G1 consists of all Priority Non-Tax Claims against Iron Range.)

(ii) Class G2: PBGC Prepetition Claim (Class G2 consists of the PBGC Secured Claim and the PBGC Unsecured Claim against Iron Range.)

(iii) Class G3: Iron Range Other Secured Claims (Class G3 consists of all Secured Claims against Iron Range.)

(iv) Class G4: Iron Range General Unsecured Claims (Class G4 consists of all General Unsecured Claims against Iron Range.)

(h) *Claims Against KidsPeace National Center of New York, Inc.*

(i) Class H1: KPNY Priority Non-Tax Claims (Class H1 consists of all Priority Non-Tax Claims against KPNY.)

(ii) Class H2: PBGC Prepetition Claim (Class H2 consists of the PBGC Secured Claim and the PBGC Unsecured Claim against KPNY.)

(iii) Class H3: KPNY Other Secured Claims (Class H3 consists of all Other Secured Claims against KPNY.)

(iv) Class H4: KPNY General Unsecured Claims (Class H4 consists of all General Unsecured Claims against KPNY.)

7.3 Treatment of Claims Against the Debtors. The classes of Claims against, with respect to and to the extent applicable for, each Debtor are treated under the Plan as follows:

(a) *Claims Against KidsPeace Corporation.*

(i) **Class A1 - KPC Priority Non-Tax Claims (Unimpaired).** On, or as soon as reasonably practicable after, the latest of (i) the Effective Date, (ii) the date on which such KPC on Priority Non-Tax Claim becomes an Allowed KPC Priority Non-Tax Claim, or (iii) the date on which such KPC Priority Non-Tax Claim becomes due and payable pursuant to any agreement between the Debtors and a holder of a KPC Priority Non-Tax Claim, each holder of an Allowed KPC Priority Non-Tax Claim shall receive from the Disbursing Agent in full satisfaction, settlement, release and discharge of and in exchange for such Allowed KPC Priority Non-Tax Claim (a) Cash equal to the unpaid portion of such Allowed KPC Priority Non-Tax Claim or (b) such other treatment as the Debtors (or Reorganized Debtors) and such holder shall have agreed in writing. All Allowed KPC Priority Non-Tax Claims which are not by their terms due and payable on or before the Effective Date shall be paid in the ordinary course of business in accordance with the terms thereof.

(ii) **Class A2 -Bond Trustee/Bondholders Secured Claim and Unsecured Claim (Impaired).**

Treatment. In full satisfaction of the Bond Trustee/Bondholder Claims, the Bondholders will receive, under the settlement described in Section 7.1(b) of the Plan, their pro rata share of: (A) the Initial Bondholder Payment, (B) a Cash distribution equal to the Excess Debt Service Reserve Fund Amount, and (C) the New Bonds. In addition, Insured Bondholders shall have the opportunity to either participate in the ACA Insurance Commutation or affirmatively opt out of the ACA Insurance Commutation. Each Commuting Bondholder shall receive a Cash payment equal to the Commutation Payment on, or as soon as reasonably practicable after, the Effective Date. If all Insured Bondholders participate in the commutation offer, the Commuting Bondholders shall receive a total upfront Cash payment equal to \$3,170,698.02 in addition to their pro rata distribution from the Debtors described in (A) through (C) above. Non-Commuting Bondholders, however, shall only receive the interest and principal payments with respect to the Non-Commuting Bonds, *provided, however,* that all payments made with respect to the Bond Trustee/Bondholders Claims of the Non-Commuting Bondholders including, without limitation, any payments made with respect to the New Bonds held for the benefit of the Non-Commuting Bondholders by the Custodian shall be deemed to be partial payments under the Non-Commuting Bonds. The New Bonds will be issued on the Effective Date by the Authority and will be in three series, as follows: (a) \$20,110,000 in principal amount of new Series A Bonds, with terms as shown on Exhibit A attached to the Plan; (b)



\$5,000,000 in initial principal amount of new Series B Bonds, with terms as shown on Exhibit A attached to the Plan; and (3) \$15,000,000 in principal amount of new Series C Bonds, with terms as shown on Exhibit A attached to the Plan. Each of the Debtors is jointly and severally liable for all obligations under the New Bond Documents. The New Bonds will be secured by the New Collateral and will be subject to the New Intercreditor Agreement and the New PBGC Intercreditor Agreement. The Liens securing the New Bonds shall be junior and subordinate to (i) the Liens of the PBGC on (a) the "Broadway" campus located at 1620 Broadway, Bethlehem, PA 18015; (b) the KidsPeace corporate headquarters located at 4085 Independence Dr., Schnecksville, PA 18078; (c) the Wilson Sarig building, located at 8<sup>th</sup> Avenue & Hay Road, Temple, PA 19560; and (d) the Maine campus, located on Route 80, Ellsworth, ME 04605; and (ii) the Liens securing the Exit Facility on the Orchard Hills Campus and the accounts receivable and the proceeds thereof. All Bonds will be cancelled on the Effective Date, except as provided in Section 7.4(a) of the Plan. Insured Bonds held by Non-Commuting Bondholders will remain outstanding but will be payable only under the New Indenture and under the Bond Insurance Policies as further provided in the Plan Supplement. Additional terms for the settlement of the Bond Trustee/Bondholder Claims are set forth in Section 7.7 of the Plan.

Allowance. The Bond Trustee/Bondholder Claims against KPC (together with the Bond Trustee/Bondholder Claims against KPCH and KPNC) shall be deemed Allowed as a Secured Claim in an aggregate amount equal to \$46,650,000 minus the Existing Debt Service Reserve Amount. The Bondholders will receive nothing under this Plan on account of the Bond Trustee/Bondholder Unsecured Claims.

(iii) **Class A3 - PBGC Secured Claim and Unsecured Claim (Impaired).**

Treatment. In full satisfaction of all PBGC Prepetition Claims, the PBGC will receive in the aggregate from all Debtors, including KPGA in the event it files a plan of reorganization, total payments of \$13,500,000, as follows: (a) a payment of the Initial PBGC Amount in Cash on the Effective Date; and (b) the remainder of \$13,050,000 represented by the PBGC Note. As security for the PBGC Note, the PBGC shall receive or retain the PBGC Liens on the PBGC Note Collateral. Provisions relating to the priority of the PBGC Liens on the PBGC Note Collateral as well as provisions relating to enforcement and remedies will be governed by the New Intercreditor Agreement and the New PBGC Intercreditor Agreement. Additional terms for the settlement of the Bond Trustee/Bondholder Claims are set forth in Section 7.8 of the Plan.

Allowance. The PBGC Prepetition Claims shall be deemed an Allowed Secured Claim against all Debtors, including KPGA in the event it files a plan of reorganization, in the amount of the PBGC Liens. The PBGC Prepetition Claims shall be deemed an Allowed Unsecured Claim against all Debtors, including

KPGA in the event it files a plan of reorganization, in the amount of \$13,500,000 less the PBGC Liens.

(iv) **Class A4 - KPC Other Secured Claims (Unimpaired)** On, or as soon as reasonably practicable after, the latest of (i) the Effective Date, (ii) the date on which such KPC Other Secured Claim becomes an Allowed KPC Other Secured Claim or (iii) the date on which such KPC Other Secured Claim becomes due and payable pursuant to an agreement between KPC and the holder of an Allowed KPC Other Secured Claim, each holder of an Allowed KPC Other Secured Claim shall receive from Reorganized KPC in full satisfaction, settlement, release and discharge of and in exchange for such Allowed KPC Other Secured Claim, at the sole discretion of the Debtors, (a) Cash equal to the unpaid portion of such Allowed KPC Other Secured Claim, (b) reinstatement of the legal, equitable and contractual rights of the holder of such Allowed KPC Other Secured Claim, or (c) such other treatment as the Debtors (or Reorganized Debtors) and such holder shall have agreed in writing. Pursuant to the Plan, the Debtors' failure to object to any KPC Other Secured Claim in the Chapter 11 Cases shall be without prejudice to the rights of the Debtors or the Reorganized Debtors to contest or otherwise defend against such Claim in the appropriate forum when and if such Claim is sought to be enforced by the holder of such Claim. Nothing in the Plan or elsewhere shall preclude the Debtors or Reorganized Debtors from challenging the validity of any alleged Encumbrance on any asset of a Debtor or the value of any collateral.

(v) **Class A5 - KPC General Unsecured Claims (Impaired)**. Each holder of an Allowed KPC General Unsecured Claim shall, in full satisfaction of such holder's Allowed KPC General Unsecured Claim, receive from the Disbursing Agent the following:

Treatment. Each holder of an Allowed KPC General Unsecured Claim will receive, in full satisfaction of such holder's Allowed KPC General Unsecured Claim, fifteen percent (15%) of the Allowed Claim amount of such KPC General Unsecured Claim, to be paid in the following manner:

- (A) All KPC General Unsecured Claims that are Allowed Claims as of the Effective Date will receive: (A) five percent (5%) of such Allowed Claim in Cash on the Effective Date; (B) five percent (5%) of such Allowed Claim in Cash on the first anniversary of the Effective Date; and (C) five percent (5%) of such Allowed Claim in Cash on the second anniversary of the Effective Date;
- (B) All KPC General Unsecured Claims that are not Allowed Claims as of the Effective Date will receive: (A) five percent (5%) of such Allowed Claim in Cash on the date such KPC General Unsecured Claim becomes an Allowed Claim; (B) five percent (5%) of such Allowed Claim in Cash on the first anniversary of the Effective Date, or if the Claim is not an Allowed Claim by such date, the

date the claim becomes an Allowed Claim; and (C) five percent (5%) of such Allowed Claim in Cash on the second anniversary of the Effective Date, or if the Claim is not an Allowed Claim by such date, the date the claim becomes an Allowed Claim.

Alternate Treatment. Each Holder of a KPC General Unsecured Claim may elect, in the alternative, on an opt-in basis, in full satisfaction of such holder's Allowed KPC General Unsecured Claim, the following treatment (the "Alternate Creditor Treatment"):

- (A) Any Holder of an Allowed KPC General Unsecured Claim in an amount equal to or less than \$10,000 may elect to receive an amount equal to 10% of such Holder's Allowed Claim payable on the Effective Date (or upon such later date following the Effective Date that the Claim becomes an Allowed Claim).
- (B) Any holder of an Allowed KPC General Unsecured Claim in an amount over \$10,000 may elect to have such Holder's Claim treated as an Allowed Claim in a reduced amount equal to \$10,000 and to receive under the Plan, in lieu of the treatment specified in subsection (1) above, an amount equal to 10% of such \$10,000 Allowed Claim (i.e., **\$1,000**) payable in Cash on the Effective Date (or upon such later date following the Effective Date that the Claim becomes an Allowed Claim) in full satisfaction of such Holder's Allowed Claim.

For clarity, the Bond Unsecured Claims, the PBGC Unsecured Claims and the Intercompany Claims shall not be included in Class A5 and, accordingly, will not receive the treatment afforded members of Class A5 in this Plan.

The payments due to Holders of Allowed KPC General Unsecured Claims shall be the joint and several obligation of, and fully enforceable against, each of the Reorganized Debtors.

(b) *Claims Against KidsPeace Children's Hospital, Inc.*

(i) **Class B1 - KPCH Priority Non-Tax Claims (Unimpaired)**. On, or as soon as reasonably practicable after, the latest of (i) the Effective Date, (ii) the date on which such KPCH Priority Non-Tax Claim becomes an Allowed KPCH Priority Non-Tax Claim, or (iii) the date on which such KPCH Priority Non-Tax Claim becomes due and payable pursuant to any agreement between the Debtors and a holder of an KPCH Priority Non-Tax Claim, each holder of an Allowed KPCH Priority Non-Tax Claim shall receive from the Disbursing Agent in full satisfaction, settlement, release and discharge of and in exchange for such Allowed KPCH Priority Non-Tax Claim (a) Cash equal to the unpaid portion of such Allowed KPCH Priority Non-Tax Claim or (b) such other treatment as the Debtors (or Reorganized Debtors) and such holder shall have agreed in writing. All Allowed KPCH Priority Non-Tax Claims which are not by their terms due

and payable on or before the Effective Date shall be paid in the ordinary course of business in accordance with the terms thereof.

(ii) **Class B2 -Bond Trustee/Bondholders Secured Claim (Impaired).**

Treatment. In full satisfaction of the Bond Trustee/Bondholder Claims, the Bondholders will receive, under the settlement described in Section 7.1(b) of the Plan, their pro rata share of: (A) the Initial Bondholder Payment, (B) a Cash distribution equal to the Excess Debt Service Reserve Fund Amount, and (C) the New Bonds. In addition, Insured Bondholders shall have the opportunity to either participate in the ACA Insurance Commutation or affirmatively opt out of the ACA Insurance Commutation. Each Commuting Bondholder shall receive a Cash payment equal to the Commutation Payment on, or as soon as reasonably practicable after, the Effective Date. If all Insured Bondholders participate in the commutation offer, the Commuting Bondholders shall receive a total upfront Cash payment equal to \$3,170,698.02 in addition to their pro rata distribution from the Debtors described in (A) through (C) above. Non-Commuting Bondholders, however, shall receive the interest and principal payments with respect to the Non-Commutated Bonds, *provided, however,* that all payments made with respect to the Bond Trustee/Bondholders Claims of the Non-Commuting Bondholders including, without limitation, any payments made with respect to the New Bonds held for the benefit of the Non-Commuting Bondholders by the Custodian shall be deemed to be partial payments under the Non-Commutated Bonds. The New Bonds will be issued on the Effective Date by the Authority and will be in three series, as follows: (a) \$20,110,000 in principal amount of new Series A Bonds, with terms as shown on Exhibit A attached to the Plan; (b) \$5,000,000 in initial principal amount of new Series B Bonds, with terms as shown on Exhibit A attached to the Plan; and (3) \$15,000,000 in principal amount of new Series C Bonds, with terms as shown on Exhibit A attached to the Plan. Each of the Debtors is jointly and severally liable for all obligations under the New Bond Documents. The New Bonds will be secured by the New Collateral and will be subject to the New Intercreditor Agreement and the New PBGC Intercreditor Agreement. The Liens securing by the New Bonds shall be junior and subordinate to (i) the Liens of the PBGC on (a) the "Broadway" campus located at 1620 Broadway, Bethlehem, PA 18015; (b) the KidsPeace corporate headquarters located at 4085 Independence Dr., Schnecksville, PA 18078; (c) the Wilson Sarig building, located at 8<sup>th</sup> Avenue & Hay Road, Temple, PA 19560; and (d) the Maine campus, located on Route 80, Ellsworth, ME 04605; and (ii) the Liens securing the Exit Facility on the Orchard Hills Campus and the accounts receivable and the proceeds thereof. All Bonds will be cancelled on the Effective Date, except as provided in Section 7.4(a) of the Plan. Insured Bonds held by Non-Commuting Bondholders will remain outstanding but will be payable

only under the New Indenture and under the Bond Insurance Policies as further provided in the Plan Supplement. Additional terms for the settlement of the Bond Trustee/Bondholder Claims are set forth in Section 7.7 of the Plan.

Allowance. The Bond Trustee/Bondholder Claims against KPCH (together with the Bond Trustee/Bondholder Claims against KPC and KPNC) shall be deemed Allowed as a Secured Claim in an aggregate amount equal to \$46,650,000 minus the Existing Debt Service Reserve Amount. The Bondholders will receive nothing under this Plan on account of the Bond Trustee/Bondholder Unsecured Claims.

(iii) **Class B3 - PBGC Secured and Unsecured Claim (Impaired).**

Treatment. In full satisfaction of all PBGC Prepetition Claims, the PBGC will receive in the aggregate from all Debtors, including KPGA in the event it files a plan of reorganization, total payments of \$13,500,000, as follows: (a) a payment of the Initial PBGC Amount in Cash on the Effective Date; and (b) the remainder of \$13,050,000 represented by the PBGC Note. As security for the PBGC Note, the PBGC shall receive or retain the PBGC Liens on the PBGC Note Collateral. Provisions relating to the priority of the PBGC Liens on the PBGC Note Collateral as well as provisions relating to enforcement and remedies will be governed by the New Intercreditor Agreement and the New PBGC Intercreditor Agreement. Additional terms for the settlement of the Bond Trustee/Bondholder Claims are set forth in Section 7.8 of the Plan.

Allowance. The PBGC Prepetition Claims shall be deemed an Allowed Secured Claim against all Debtors, including KPGA in the event it files a plan of reorganization, in the amount of the PBGC Liens. The PBGC Prepetition Claims shall be deemed an Allowed Unsecured Claim against all Debtors, including KPGA in the event it files a plan of reorganization, in the amount of \$13,500,000 less the PBGC Liens.

(iv) **Class B4 - KPCH Other Secured Claims (Unimpaired).** On, or as soon as reasonably practicable after, the latest of (i) the Effective Date, (ii) the date on which such KPCH Other Secured Claim becomes an Allowed KPCH Other Secured Claim or (iii) the date on which such KPCH Other Secured Claim becomes due and payable pursuant to an agreement between KidsPeace Corporation and the holder of an Allowed KPCH Other Secured Claim, each holder of an Allowed KPCH Other Secured Claim shall receive from Reorganized KPCH in full satisfaction, settlement, release and discharge of and in exchange for such Allowed KPCH Other Secured Claim, at the sole discretion of the Debtors, (a) Cash equal to the unpaid portion of such Allowed KPCH Other Secured Claim, (b) reinstatement of the legal, equitable and contractual rights of the holder of such Allowed KPCH Other Secured Claim, or (c) such other treatment as the Debtors (or Reorganized Debtors) and such holder shall have

agreed in writing. Pursuant to the Plan, the Debtors' failure to object to any KPCH Other Secured Claim in the Chapter 11 Cases shall be without prejudice to the rights of the Debtors or the Reorganized Debtors to contest or otherwise defend against such Claim in the appropriate forum when and if such Claim is sought to be enforced by the holder of such Claim. Nothing in the Plan or elsewhere shall preclude the Debtors or Reorganized Debtors from challenging the validity of any alleged Encumbrance on any asset of a Debtor or the value of any collateral.

(v) **Class B5 - KPCH General Unsecured Claims (Impaired)**. Each holder of an Allowed KPCH General Unsecured Claim shall, in full satisfaction of such holder's Allowed KPCH General Unsecured Claim, receive from the Disbursing Agent the following:

Treatment. Each holder of an Allowed KPCH General Unsecured Claim will receive, in full satisfaction of such holder's Allowed KPCH General Unsecured Claim, fifteen percent (15%) of the Allowed Claim amount of such KPCH General Unsecured Claim, to be paid in the following manner:

- (A) All KPCH General Unsecured Claims that are Allowed Claims as of the Effective Date will receive: (A) five percent (5%) of such Allowed Claim in Cash on the Effective Date; (B) five percent (5%) of such Allowed Claim in Cash on the first anniversary of the Effective Date; and (C) five percent (5%) of such Allowed Claim in Cash on the second anniversary of the Effective Date;
- (B) All KPCH General Unsecured Claims that are not Allowed Claims as of the Effective Date will receive: (A) five percent (5%) of such Allowed Claim in Cash on the date such KPCH General Unsecured Claim becomes an Allowed Claim; (B) five percent (5%) of such Allowed Claim in Cash on the first anniversary of the Effective Date, or if the Claim is not an Allowed Claim by such date, the date the claim becomes an Allowed Claim; and (C) five percent (5%) of such Allowed Claim in Cash on the second anniversary of the Effective Date, or if the Claim is not an Allowed Claim by such date, the date the claim becomes an Allowed Claim.

Alternate Treatment. Each Holder of a KPCH General Unsecured Claim may elect, in the alternative, on an opt-in basis, in full satisfaction of such holder's Allowed KPCH General Unsecured Claim, the following treatment (the "Alternate Creditor Treatment"):

- (A) Any Holder of an Allowed KPCH General Unsecured Claim in an amount equal to or less than \$10,000 may elect to receive an amount equal to 10% of such Holder's Allowed Claim payable on the Effective Date (or upon such later date following the Effective Date that the Claim becomes an Allowed Claim).

- (B) Any holder of an Allowed KPCH General Unsecured Claim in an amount over \$10,000 may elect to have such Holder's Claim treated as an Allowed Claim in a reduced amount equal to \$10,000 and to receive under the Plan, in lieu of the treatment specified in subsection (1) above, an amount equal to 10% of such \$10,000 Allowed Claim (i.e., **\$1,000**) payable in Cash on the Effective Date (or upon such later date following the Effective Date that the Claim becomes an Allowed Claim) in full satisfaction of such Holder's Allowed Claim.

For clarity, the Bond Unsecured Claims, the PBGC Unsecured Claims and the Intercompany Claims shall not be included in Class B5 and, accordingly, will not receive the treatment afforded members of Class B5 in this Plan.

The payments due to Holders of Allowed KPCH General Unsecured Claims shall be the joint and several obligation of, and fully enforceable against, each of the Reorganized Debtors.

- (c) *Claims Against KidsPeace Mesabi Academy, Inc.*

(i) **Class C1 - Mesabi Priority Non-Tax Claims (Unimpaired)**. On, or as soon as reasonably practicable after, the latest of (i) the Effective Date, (ii) the date on which such Mesabi Priority Non-Tax Claim becomes an Allowed Mesabi Priority Non-Tax Claim, or (iii) the date on which such Mesabi Priority Non-Tax Claim becomes due and payable pursuant to any agreement between the Debtors and a holder of an Mesabi Priority Non-Tax Claim, each holder of an Allowed Mesabi Priority Non-Tax Claim shall receive from the Disbursing Agent in full satisfaction, settlement, release and discharge of and in exchange for such Allowed Mesabi Priority Non-Tax Claim (a) Cash equal to the unpaid portion of such Allowed Mesabi Priority Non-Tax Claim or (b) such other treatment as the Debtors (or Reorganized Debtors) and such holder shall have agreed in writing. All Allowed Mesabi Priority Non-Tax Claims which are not by their terms due and payable on or before the Effective Date shall be paid in the ordinary course of business in accordance with the terms thereof.

- (ii) **Class C2 - PBGC Secured and Unsecured Claim (Impaired)**.

Treatment. In full satisfaction of all PBGC Prepetition Claims, the PBGC will receive in the aggregate from all Debtors, including KPGA in the event it files a plan of reorganization, total payments of \$13,500,000, as follows: (a) a payment of the Initial PBGC Amount in Cash on the Effective Date; and (b) the remainder of \$13,050,000 represented by the PBGC Note. As security for the PBGC Note, the PBGC shall receive or retain the PBGC Liens on the PBGC Note Collateral. Provisions relating to the priority of the PBGC Liens on the PBGC Note Collateral as well as provisions relating to enforcement and remedies will be governed by the New Intercreditor Agreement and the New PBGC Intercreditor

Agreement. Additional terms for the settlement of the Bond Trustee/Bondholder Claims are set forth in Section 7.8 of the Plan.

Allowance. The PBGC Prepetition Claims shall be deemed an Allowed Secured Claim against all Debtors, including KPGA in the event it files a plan of reorganization, in the amount of the PBGC Liens. The PBGC Prepetition Claims shall be deemed an Allowed Unsecured Claim against all Debtors, including KPGA in the event it files a plan of reorganization, in the amount of \$13,500,000 less the PBGC Liens.

(iii) **Class C3 - Mesabi Other Secured Claims (Unimpaired).** On, or as soon as reasonably practicable after, the latest of (i) the Effective Date, (ii) the date on which such Mesabi Other Secured Claim becomes an Allowed Mesabi Other Secured Claim or (iii) the date on which such Mesabi Other Secured Claim becomes due and payable pursuant to an agreement between Mesabi and the holder of an Allowed Mesabi Other Secured Claim, each holder of an Allowed Mesabi Other Secured Claim shall receive from Reorganized Mesabi in full satisfaction, settlement, release and discharge of and in exchange for such Allowed Mesabi Other Secured Claim, at the sole discretion of the Debtors, (a) Cash equal to the unpaid portion of such Allowed Mesabi Other Secured Claim, (b) reinstatement of the legal, equitable and contractual rights of the holder of such Allowed Mesabi Other Secured Claim, or (c) such other treatment as the Debtors (or Reorganized Debtors) and such holder shall have agreed in writing. Pursuant to the Plan, the Debtors' failure to object to any Mesabi Other Secured Claim in the Chapter 11 Cases shall be without prejudice to the rights of the Debtors or the Reorganized Debtors to contest or otherwise defend against such Claim in the appropriate forum when and if such Claim is sought to be enforced by the holder of such Claim. Nothing in the Plan or elsewhere shall preclude the Debtors or Reorganized Debtors from challenging the validity of any alleged Encumbrance on any asset of a Debtor or the value of any collateral.

(iv) **Class C4 – Mesabi General Unsecured Claims (Impaired).** Each holder of an Allowed Mesabi General Unsecured Claim shall, in full satisfaction of such holder's Allowed Mesabi General Unsecured Claim, receive from the Disbursing Agent the following:

Treatment. Each holder of an Allowed Mesabi General Unsecured Claim will receive, in full satisfaction of such holder's Allowed Mesabi General Unsecured Claim, fifteen percent (15%) of the Allowed Claim amount of such Mesabi General Unsecured Claim, to be paid in the following manner:

(A) All Mesabi General Unsecured Claims that are Allowed Claims as of the Effective Date will receive: (A) five percent (5%) of such Allowed Claim in Cash on the Effective Date; (B) five percent (5%) of such Allowed Claim in Cash on the first anniversary of the



Effective Date; and (C) five percent (5%) of such Allowed Claim in Cash on the second anniversary of the Effective Date;

- (B) All Mesabi General Unsecured Claims that are not Allowed Claims as of the Effective Date will receive: (A) five percent (5%) of such Allowed Claim in Cash on the date such Mesabi General Unsecured Claim becomes an Allowed Claim; (B) five percent (5%) of such Allowed Claim in Cash on the first anniversary of the Effective Date, or if the Claim is not an Allowed Claim by such date, the date the claim becomes an Allowed Claim; and (C) five percent (5%) of such Allowed Claim in Cash on the second anniversary of the Effective Date, or if the Claim is not an Allowed Claim by such date, the date the claim becomes an Allowed Claim.

Alternate Treatment. Each Holder of a Mesabi General Unsecured Claim may elect, in the alternative, on an opt-in basis, in full satisfaction of such holder's Allowed Mesabi General Unsecured Claim, the following treatment (the "Alternate Creditor Treatment"):

- (A) Any Holder of an Allowed Mesabi General Unsecured Claim in an amount equal to or less than \$10,000 may elect to receive an amount equal to 10% of such Holder's Allowed Claim payable on the Effective Date (or upon such later date following the Effective Date that the Claim becomes an Allowed Claim).
- (B) Any holder of an Allowed Mesabi General Unsecured Claim in an amount over \$10,000 may elect to have such Holder's Claim treated as an Allowed Claim in a reduced amount equal to \$10,000 and to receive under the Plan, in lieu of the treatment specified in subsection (1) above, an amount equal to 10% of such \$10,000 Allowed Claim (i.e., **\$1,000**) payable in Cash on the Effective Date (or upon such later date following the Effective Date that the Claim becomes an Allowed Claim) in full satisfaction of such Holder's Allowed Claim.

For clarity, the Bond Unsecured Claims, the PBGC Unsecured Claims and the Intercompany Claims shall not be included in Class C4 and, accordingly, will not receive the treatment afforded members of Class C4 in this Plan.

The payments due to Holders of Allowed Mesabi General Unsecured Claims shall be the joint and several obligation of, and fully enforceable against, each of the Reorganized Debtors.

(d) *Claims Against KidsPeace National Centers, Inc.*

- (i) **Class D1 - KPNC Priority Non-Tax Claims (Unimpaired)**. On, or as soon as reasonably practicable after, the latest of (i) the Effective Date, (ii) the date on which such KPNC Priority Non-Tax Claim becomes an Allowed

KPNC Priority Non-Tax Claim, or (iii) the date on which such KPNC Priority Non-Tax Claim becomes due and payable pursuant to any agreement between the Debtors and a holder of an KPNC Priority Non-Tax Claim, each holder of an Allowed KPNC Priority Non-Tax Claim shall receive from the Disbursing Agent in full satisfaction, settlement, release and discharge of and in exchange for such Allowed KPNC Priority Non-Tax Claim (a) Cash equal to the unpaid portion of such Allowed KPNC Priority Non-Tax Claim or (b) such other treatment as the Debtors (or Reorganized Debtors) and such holder shall have agreed in writing. All Allowed KPNC Priority Non-Tax Claims which are not by their terms due and payable on or before the Effective Date shall be paid in the ordinary course of business in accordance with the terms thereof.

(ii) **Class D2 - Bond Trustee/Bondholders Secured Claim (Impaired).**

Treatment. In full satisfaction of the Bond Trustee/Bondholder Claims, the Bondholders will receive, under the settlement described in Section 7.1(b) of the Plan, their pro rata share of: (A) the Initial Bondholder Payment, (B) a Cash distribution equal to the Excess Debt Service Reserve Fund Amount, and (C) the New Bonds. In addition, Insured Bondholders shall have the opportunity to either participate in the ACA Insurance Commutation or affirmatively opt out of the ACA Insurance Commutation. Each Commuting Bondholder shall receive a Cash payment equal to the Commutation Payment on, or as soon as reasonably practicable after, the Effective Date. If all Insured Bondholders participate in the commutation offer, the Commuting Bondholders shall receive a total upfront Cash payment equal to \$3,170,698.02 in addition to their pro rata distribution from the Debtors described in (A) through (C) above. Non-Commuting Bondholders, however, shall receive the interest and principal payments with respect to the Non-Commutated Bonds, *provided, however,* that all payments made with respect to the Bond Trustee/Bondholders Claims of the Non-Commuting Bondholders including, without limitation, any payments made with respect to the New Bonds held for the benefit of the Non-Commuting Bondholders by the Custodian shall be deemed to be partial payments under the Non-Commutated Bonds. The New Bonds will be issued on the Effective Date by the Authority and will be in three series, as follows: (a) \$20,110,000 in principal amount of new Series A Bonds, with terms as shown on Exhibit A attached to the Plan; (b) \$5,000,000 in initial principal amount of new Series B Bonds, with terms as shown on Exhibit A attached to the Plan; and (3) \$15,000,000 in principal amount of new Series C Bonds, with terms as shown on Exhibit A attached to the Plan. Each of the Debtors is jointly and severally liable for all obligations under the New Bond Documents. The New Bonds will be secured by the New Collateral and will be subject to the New Intercreditor Agreement and the New PBGC Intercreditor Agreement. The Liens securing the New Bonds shall be junior and subordinate to (i) the Liens of the PBGC on (a) the “Broadway”

campus located at 1620 Broadway, Bethlehem, PA 18015; (b) the KidsPeace corporate headquarters located at 4085 Independence Dr., Schnecksville, PA 18078; (c) the Wilson Sarig building, located at 8<sup>th</sup> Avenue & Hay Road, Temple, PA 19560; and (d) the Maine campus, located on Route 80, Ellsworth, ME 04605; and (ii) the Liens securing the Exit Facility on the Orchard Hills Campus and the accounts receivable and the proceeds thereof. All Bonds will be cancelled on the Effective Date, except as provided in Section 7.4(a) of the Plan. Insured Bonds held by Non-Commuting Bondholders will remain outstanding but will be payable only under the New Indenture and under the Bond Insurance Policies as further provided in the Plan Supplement. Additional terms for the settlement of the Bond Trustee/Bondholder Claims are set forth in Section 7.7 of the Plan.

Allowance. The Bond Trustee/Bondholder Claims against KPNC (together with the Bond Trustee/Bondholder Claims against KPC and KPCH) shall be deemed Allowed as a Secured Claim in an aggregate amount equal to \$46,650,000 minus the Existing Debt Service Reserve Amount. The Bondholders will receive nothing under this Plan on account of the Bond Trustee/Bondholder Unsecured Claims.

(iii) **Class D3 - PBGC Secured Claim and Unsecured Claim (Impaired).**

Treatment. In full satisfaction of all PBGC Prepetition Claims, the PBGC will receive in the aggregate from all Debtors, including KPGA in the event it files a plan of reorganization, total payments of \$13,500,000, as follows: (a) a payment of the Initial PBGC Amount in Cash on the Effective Date; and (b) the remainder of \$13,050,000 represented by the PBGC Note. As security for the PBGC Note, the PBGC shall receive or retain the PBGC Liens on the PBGC Note Collateral. Provisions relating to the priority of the PBGC Liens on the PBGC Note Collateral as well as provisions relating to enforcement and remedies will be governed by the New Intercreditor Agreement and the New PBGC Intercreditor Agreement. Additional terms for the settlement of the Bond Trustee/Bondholder Claims are set forth in Section 7.8 of the Plan.

Allowance. The PBGC Prepetition Claims shall be deemed an Allowed Secured Claim against all Debtors, including KPGA in the event it files a plan of reorganization, in the amount of the PBGC Liens. The PBGC Prepetition Claims shall be deemed an Allowed Unsecured Claim against all Debtors, including KPGA in the event it files a plan of reorganization, in the amount of \$13,500,000 less the PBGC Liens.

(iv) **Class D4 - KPNC Other Secured Claims (Unimpaired).** On, or as soon as reasonably practicable after, the latest of (i) the Effective Date, (ii) the date on which such KPNC Other Secured Claim becomes an Allowed KPNC

Other Secured Claim or (iii) the date on which such KPNC Other Secured Claim becomes due and payable pursuant to an agreement between KPNC and the holder of an Allowed KPNC Other Secured Claim, each holder of an Allowed KPNC Other Secured Claim shall receive from Reorganized KPNC in full satisfaction, settlement, release and discharge of and in exchange for such Allowed KPNC Other Secured Claim, at the sole discretion of the Debtors, (a) Cash equal to the unpaid portion of such Allowed KPNC Other Secured Claim, (b) reinstatement of the legal, equitable and contractual rights of the holder of such Allowed KPNC Other Secured Claim, or (c) such other treatment as the Debtors (or Reorganized Debtors) and such holder shall have agreed in writing. Pursuant to the Plan, the Debtors' failure to object to any KPNC Other Secured Claim in the Chapter 11 Cases shall be without prejudice to the rights of the Debtors or the Reorganized Debtors to contest or otherwise defend against such Claim in the appropriate forum when and if such Claim is sought to be enforced by the holder of such Claim. Nothing in the Plan or elsewhere shall preclude the Debtors or Reorganized Debtors from challenging the validity of any alleged Encumbrance on any asset of a Debtor or the value of any collateral.

(v) **Class D5 - KPNC General Unsecured Claims (Impaired)**. Each holder of an Allowed KPNC General Unsecured Claim shall, in full satisfaction of such holder's Allowed KPNC General Unsecured Claim, receive from the Disbursing Agent the following:

Treatment. Each holder of an Allowed KPNC General Unsecured Claim will receive, in full satisfaction of such holder's Allowed KPNC General Unsecured Claim, fifteen percent (15%) of the Allowed Claim amount of such KPNC General Unsecured Claim, to be paid in the following manner:

- (A) All KPNC General Unsecured Claims that are Allowed Claims as of the Effective Date will receive: (A) five percent (5%) of such Allowed Claim in Cash on the Effective Date; (B) five percent (5%) of such Allowed Claim in Cash on the first anniversary of the Effective Date; and (C) five percent (5%) of such Allowed Claim in Cash on the second anniversary of the Effective Date;
- (B) All KPNC General Unsecured Claims that are not Allowed Claims as of the Effective Date will receive: (A) five percent (5%) of such Allowed Claim in Cash on the date such KPNC General Unsecured Claim becomes an Allowed Claim; (B) five percent (5%) of such Allowed Claim in Cash on the first anniversary of the Effective Date, or if the Claim is not an Allowed Claim by such date, the date the claim becomes an Allowed Claim; and (C) five percent (5%) of such Allowed Claim in Cash on the second anniversary of the Effective Date, or if the Claim is not an Allowed Claim by such date, the date the claim becomes an Allowed Claim.

Alternate Treatment. Each Holder of a KPNC General Unsecured Claim may elect, in the alternative, on an opt-in basis, in full satisfaction of such holder's Allowed KPNC General Unsecured Claim, the following treatment (the "Alternate Creditor Treatment"):

- (A) Any Holder of an Allowed KPNC General Unsecured Claim in an amount equal to or less than \$10,000 may elect to receive an amount equal to 10% of such Holder's Allowed Claim payable on the Effective Date (or upon such later date following the Effective Date that the Claim becomes an Allowed Claim).
- (B) Any holder of an Allowed KPNC General Unsecured Claim in an amount over \$10,000 may elect to have such Holder's Claim treated as an Allowed Claim in a reduced amount equal to \$10,000 and to receive under the Plan, in lieu of the treatment specified in subsection (1) above, an amount equal to 10% of such \$10,000 Allowed Claim (i.e., **\$1,000**) payable in Cash on the Effective Date (or upon such later date following the Effective Date that the Claim becomes an Allowed Claim) in full satisfaction of such Holder's Allowed Claim.

For clarity, the Bond Unsecured Claims, the PBGC Unsecured Claims and the Intercompany Claims shall not be included in Class D5 and, accordingly, will not receive the treatment afforded members of Class D5 in this Plan.

The payments due to Holders of Allowed KPNC General Unsecured Claims shall be the joint and several obligation of, and fully enforceable against, each of the Reorganized Debtors.

(e) *Claims Against KidsPeace National Centers of New England, Inc.*

(i) **Class E1 – KPNE Priority Non-Tax Claims (Unimpaired)**. On, or as soon as reasonably practicable after, the latest of (i) the Effective Date, (ii) the date on which such KPNE Priority Non-Tax Claim becomes an Allowed KPNE Priority Non-Tax Claim, or (iii) the date on which such KPNE Priority Non-Tax Claim becomes due and payable pursuant to any agreement between the Debtors and a holder of a KPNE Priority Non-Tax Claim, each holder of an Allowed KPNE Priority Non-Tax Claim shall receive from the Disbursing Agent in full satisfaction, settlement, release and discharge of and in exchange for such Allowed KPNE Priority Non-Tax Claim (a) Cash equal to the unpaid portion of such Allowed KPNE Priority Non-Tax Claim or (b) such other treatment as the Debtors (or Reorganized Debtors) and such holder shall have agreed in writing. All Allowed KPNE Priority Non-Tax Claims which are not by their terms due and payable on or before the Effective Date shall be paid in the ordinary course of business in accordance with the terms thereof.

(ii) **Class E2 - PBGC Secured Claim and Unsecured Claim (Impaired)**.

**Treatment.** In full satisfaction of all PBGC Prepetition Claims, the PBGC will receive in the aggregate from all Debtors, including KPGA in the event it files a plan of reorganization, total payments of \$13,500,000, as follows: (a) a payment of the Initial PBGC Amount in Cash on the Effective Date; and (b) the remainder of \$13,050,000 represented by the PBGC Note. As security for the PBGC Note, the PBGC shall receive or retain the PBGC Liens on the PBGC Note Collateral. Provisions relating to the priority of the PBGC Liens on the PBGC Note Collateral as well as provisions relating to enforcement and remedies will be governed by the New Intercreditor Agreement and the New PBGC Intercreditor Agreement. Additional terms for the settlement of the Bond Trustee/Bondholder Claims are set forth in Section 7.8 of the Plan.

**Allowance.** The PBGC Prepetition Claims shall be deemed an Allowed Secured Claim against all Debtors, including KPGA in the event it files a plan of reorganization, in the amount of the PBGC Liens. The PBGC Prepetition Claims shall be deemed an Allowed Unsecured Claim against all Debtors, including KPGA in the event it files a plan of reorganization, in the amount of \$13,500,000 less the PBGC Liens.

(iii) **Class E3 - KPNE Other Secured Claims (Unimpaired)**. On, or as soon as reasonably practicable after, the latest of (i) the Effective Date, (ii) the date on which such KPNE Other Secured Claim becomes an Allowed KPNE Secured Claim or (iii) the date on which such KPNE Other Secured Claim becomes due and payable pursuant to an agreement between KPNE and the holder of an Allowed KPNE Other Secured Claim, each holder of an Allowed KPNE Other Secured Claim shall receive from Reorganized KPNE in full satisfaction, settlement, release and discharge of and in exchange for such Allowed KPNE Other Secured Claim, at the sole discretion of the Debtors, (a) Cash equal to the unpaid portion of such Allowed KPNE Other Secured Claim, (b) reinstatement of the legal, equitable and contractual rights of the holder of such Allowed KPNE Other Secured Claim, or (c) such other treatment as the Debtors (or Reorganized Debtors) and such holder shall have agreed in writing. Pursuant to the Plan, the Debtors' failure to object to any KPNE Other Secured Claim in the Chapter 11 Cases shall be without prejudice to the rights of the Debtors or the Reorganized Debtors to contest or otherwise defend against such Claim in the appropriate forum when and if such Claim is sought to be enforced by the holder of such Claim. Nothing in the Plan or elsewhere shall preclude the Debtors or Reorganized Debtors from challenging the validity of any alleged Encumbrance on any asset of a Debtor or the value of any collateral.

(iv) **Class E4 - KP-New England General Unsecured Claims (Impaired)**. Each holder of an Allowed KPNE General Unsecured Claim shall, in full satisfaction of such holder's Allowed KPNE General Unsecured Claim, receive from the Disbursing Agent the following:

Treatment. Each holder of an Allowed KPNE General Unsecured Claim will receive, in full satisfaction of such holder's Allowed KPNE General Unsecured Claim, fifteen percent (15%) of the Allowed Claim amount of such KPNE General Unsecured Claim, to be paid in the following manner:

- (A) All KPNE General Unsecured Claims that are Allowed Claims as of the Effective Date will receive: (A) five percent (5%) of such Allowed Claim in Cash on the Effective Date; (B) five percent (5%) of such Allowed Claim in Cash on the first anniversary of the Effective Date; and (C) five percent (5%) of such Allowed Claim in Cash on the second anniversary of the Effective Date;
- (B) All KPNE General Unsecured Claims that are not Allowed Claims as of the Effective Date will receive: (A) five percent (5%) of such Allowed Claim in Cash on the date such KPNE General Unsecured Claim becomes an Allowed Claim; (B) five percent (5%) of such Allowed Claim in Cash on the first anniversary of the Effective Date, or if the Claim is not an Allowed Claim by such date, the date the claim becomes an Allowed Claim; and (C) five percent (5%) of such Allowed Claim in Cash on the second anniversary of the Effective Date, or if the Claim is not an Allowed Claim by such date, the date the claim becomes an Allowed Claim.

Alternate Treatment. Each Holder of a KPNE General Unsecured Claim may elect, in the alternative, on an opt-in basis, in full satisfaction of such holder's Allowed KPNE General Unsecured Claim, the following treatment (the "Alternate Creditor Treatment"):

- (A) Any Holder of an Allowed KPNE General Unsecured Claim in an amount equal to or less than \$10,000 may elect to receive an amount equal to 10% of such Holder's Allowed Claim payable on the Effective Date (or upon such later date following the Effective Date that the Claim becomes an Allowed Claim).
- (B) Any holder of an Allowed KPNE General Unsecured Claim in an amount over \$10,000 may elect to have such Holder's Claim treated as an Allowed Claim in a reduced amount equal to \$10,000 and to receive under the Plan, in lieu of the treatment specified in subsection (1) above, an amount equal to 10% of such \$10,000 Allowed Claim (i.e., \$1,000) payable in Cash on the Effective Date (or upon such later date following the Effective Date that the Claim becomes an Allowed Claim) in full satisfaction of such Holder's Allowed Claim.

For clarity, the Bond Unsecured Claims, the PBGC Unsecured Claims and the Intercompany Claims shall not be included in Class E4 and, accordingly, will not receive the treatment afforded members of Class E4 in this Plan.

The payments due to Holders of Allowed KPNE General Unsecured Claims shall be the joint and several obligation of, and fully enforceable against, each of the Reorganized Debtors.

(f) *Claims Against KidsPeace National Centers of North America, Inc.*

(i) **Class F1 – KPNA Priority Non-Tax Claims (Unimpaired)**. On, or as soon as reasonably practicable after, the latest of (i) the Effective Date, (ii) the date on which such KPNA Priority Non-Tax Claim becomes an Allowed KPNA Priority Non-Tax Claim, or (iii) the date on which such KPNA Priority Non-Tax Claim becomes due and payable pursuant to any agreement between the Debtors and a holder of an KPNA Priority Non-Tax Claim, each holder of an Allowed KPNA Priority Non-Tax Claim shall receive from the Disbursing Agent in full satisfaction, settlement, release and discharge of and in exchange for such Allowed KPNA Priority Non-Tax Claim (a) Cash equal to the unpaid portion of such Allowed KPNA Priority Non-Tax Claim or (b) such other treatment as the Debtors (or Reorganized Debtors) and such holder shall have agreed in writing. All Allowed KPNA Priority Non-Tax Claims which are not by their terms due and payable on or before the Effective Date shall be paid in the ordinary course of business in accordance with the terms thereof.

(ii) **Class F2 - PBGC Secured Claim and Unsecured Claim (Impaired)**.

Treatment. In full satisfaction of all PBGC Prepetition Claims, the PBGC will receive in the aggregate from all Debtors, including KPGA in the event it files a plan of reorganization, total payments of \$13,500,000, as follows: (a) a payment of the Initial PBGC Amount in Cash on the Effective Date; and (b) the remainder of \$13,050,000 represented by the PBGC Note. As security for the PBGC Note, the PBGC shall receive or retain the PBGC Liens on the PBGC Note Collateral. Provisions relating to the priority of the PBGC Liens on the PBGC Note Collateral as well as provisions relating to enforcement and remedies will be governed by the New Intercreditor Agreement and the New PBGC Intercreditor Agreement. Additional terms for the settlement of the Bond Trustee/Bondholder Claims are set forth in Section 7.8 of the Plan.

Allowance. The PBGC Prepetition Claims shall be deemed an Allowed Secured Claim against all Debtors, including KPGA in the event it files a plan of reorganization, in the amount of the PBGC Liens. The PBGC Prepetition Claims shall be deemed an Allowed Unsecured Claim against all Debtors, including KPGA in the event it files a plan of reorganization, in the amount of \$13,500,000 less the PBGC Liens.

(iii) **Class F3 - KPNA Other Secured Claims (Unimpaired)**. On, or as soon as reasonably practicable after, the latest of (i) the Effective Date, (ii) the date on which such KPNA Other Secured Claim becomes an Allowed KPNA



Other Secured Claim or (iii) the date on which such KPNA Other Secured Claim becomes due and payable pursuant to an agreement between KPNA and the holder of an Allowed KPNA Other Secured Claim, each holder of an Allowed KPNA Other Secured Claim shall receive from Reorganized KPNA in full satisfaction, settlement, release and discharge of and in exchange for such Allowed KPNA Other Secured Claim, at the sole discretion of the Debtors, (a) Cash equal to the unpaid portion of such Allowed KPNA Other Secured Claim, (b) reinstatement of the legal, equitable and contractual rights of the holder of such Allowed KPNA Other Secured Claim, or (c) such other treatment as the Debtors (or Reorganized Debtors) and such holder shall have agreed in writing. Pursuant to the Plan, the Debtors' failure to object to any KPNA Other Secured Claim in the Chapter 11 Cases shall be without prejudice to the rights of the Debtors or the Reorganized Debtors to contest or otherwise defend against such Claim in the appropriate forum when and if such Claim is sought to be enforced by the holder of such Claim. Nothing in the Plan or elsewhere shall preclude the Debtors or Reorganized Debtors from challenging the validity of any alleged Encumbrance on any asset of a Debtor or the value of any collateral.

(iv) **Class F4 - KPNA General Unsecured Claims (Impaired)**. Each holder of an Allowed KPNA General Unsecured Claim shall, in full satisfaction of such holder's Allowed KPNA General Unsecured Claim, receive from the Disbursing Agent the following:

Treatment. Each holder of an Allowed KPNA General Unsecured Claim will receive, in full satisfaction of such holder's Allowed KPNA General Unsecured Claim, fifteen percent (15%) of the Allowed Claim amount of such KPNA General Unsecured Claim (excluding post-petition interest), to be paid in the following manner:

- (A) All KPNA General Unsecured Claims that are Allowed Claims as of the Effective Date will receive: (A) five percent (5%) of such Allowed Claim in Cash on the Effective Date; (B) five percent (5%) of such Allowed Claim in Cash on the first anniversary of the Effective Date; and (C) five percent (5%) of such Allowed Claim in Cash on the second anniversary of the Effective Date;
- (B) All KPNA General Unsecured Claims that are not Allowed Claims as of the Effective Date will receive: (A) five percent (5%) of such Allowed Claim in Cash on the date such KPNA General Unsecured Claim becomes an Allowed Claim; (B) five percent (5%) of such Allowed Claim in Cash on the first anniversary of the Effective Date, or if the Claim is not an Allowed Claim by such date, the date the claim becomes an Allowed Claim; and (C) five percent (5%) of such Allowed Claim in Cash on the second anniversary of the Effective Date, or if the Claim is not an Allowed Claim by such date, the date the claim becomes an Allowed Claim.

Alternate Treatment. Each Holder of a KPNA General Unsecured Claim may elect, in the alternative, on an opt-in basis, in full satisfaction of such holder's Allowed KPNA General Unsecured Claim, the following treatment (the "Alternate Creditor Treatment"):

- (A) Any Holder of an Allowed KPNA General Unsecured Claim in an amount equal to or less than \$10,000 may elect to receive an amount equal to 10% of such Holder's Allowed Claim payable on the Effective Date (or upon such later date following the Effective Date that the Claim becomes an Allowed Claim).
- (B) Any holder of an Allowed KPNA General Unsecured Claim in an amount over \$10,000 may elect to have such Holder's Claim treated as an Allowed Claim in a reduced amount equal to \$10,000 and to receive under the Plan, in lieu of the treatment specified in subsection (1) above, an amount equal to 10% of such \$10,000 Allowed Claim (i.e., **\$1,000**) payable in Cash on the Effective Date (or upon such later date following the Effective Date that the Claim becomes an Allowed Claim) in full satisfaction of such Holder's Allowed Claim.

For clarity, the Bond Unsecured Claims, the PBGC Unsecured Claims and the Intercompany Claims shall not be included in Class F4 and, accordingly, will not receive the treatment afforded members of Class F4 in this Plan.

The payments due to Holders of Allowed KPNA General Unsecured Claims shall be the joint and several obligation of, and fully enforceable against, each of the Reorganized Debtors.

(g) *Claims Against Iron Range School, Inc.*

(i) **Class G1 – Iron Range Priority Non-Tax Claims (Unimpaired).**

On, or as soon as reasonably practicable after, the latest of (i) the Effective Date, (ii) the date on which such Iron Range Priority Non-Tax Claim becomes an Allowed Iron Range Priority Non-Tax Claim, or (iii) the date on which such Iron Range Priority Non-Tax Claim becomes due and payable pursuant to any agreement between the Debtors and a holder of an Iron Range Priority Non-Tax Claim, each holder of an Allowed Iron Range Priority Non-Tax Claim shall receive from the Disbursing Agent in full satisfaction, settlement, release and discharge of and in exchange for such Allowed Iron Range Priority Non-Tax Claim (a) Cash equal to the unpaid portion of such Allowed Iron Range Priority Non-Tax Claim or (b) such other treatment as the Debtors (or Reorganized Debtors) and such holder shall have agreed in writing. All Allowed Iron Range Priority Non-Tax Claims which are not by their terms due and payable on or before the Effective Date shall be paid in the ordinary course of business in accordance with the terms thereof.

(ii) **Class G2 - PBGC Secured Claim and Unsecured Claim (Impaired).**

**Treatment.** In full satisfaction of all PBGC Prepetition Claims, the PBGC will receive in the aggregate from all Debtors, including KPGA in the event it files a plan of reorganization, total payments of \$13,500,000, as follows: (a) a payment of the Initial PBGC Amount in Cash on the Effective Date; and (b) the remainder of \$13,050,000 represented by the PBGC Note. As security for the PBGC Note, the PBGC shall receive or retain the PBGC Liens on the PBGC Note Collateral. Provisions relating to the priority of the PBGC Liens on the PBGC Note Collateral as well as provisions relating to enforcement and remedies will be governed by the New Intercreditor Agreement and the New PBGC Intercreditor Agreement. Additional terms for the settlement of the Bond Trustee/Bondholder Claims are set forth in Section 7.8 of the Plan.

**Allowance.** The PBGC Prepetition Claims shall be deemed an Allowed Secured Claim against all Debtors, including KPGA in the event it files a plan of reorganization, in the amount of the PBGC Liens. The PBGC Prepetition Claims shall be deemed an Allowed Unsecured Claim against all Debtors, including KPGA in the event it files a plan of reorganization, in the amount of \$13,500,000 less the PBGC Liens.

(iii) **Class G3 - Iron Range Other Secured Claims (Unimpaired).** On, or as soon as reasonably practicable after, the latest of (i) the Effective Date, (ii) the date on which such Iron Range Other Secured Claim becomes an Allowed Iron Range Other Secured Claim or (iii) the date on which such Iron Range Other Secured Claim becomes due and payable pursuant to an agreement between Iron Range and the holder of an Allowed Iron Range Other Secured Claim, each holder of an Allowed Iron Range Other Secured Claim shall receive from Reorganized Iron Range in full satisfaction, settlement, release and discharge of and in exchange for such Allowed Iron Range Other Secured Claim, at the sole discretion of the Debtors, (a) Cash equal to the unpaid portion of such Allowed Iron Range Other Secured Claim, (b) reinstatement of the legal, equitable and contractual rights of the holder of such Allowed Iron Range Other Secured Claim, or (c) such other treatment as the Debtors (or Reorganized Debtors) and such holder shall have agreed in writing. Pursuant to the Plan, the Debtors' failure to object to any Iron Range Other Secured Claim in the Chapter 11 Cases shall be without prejudice to the rights of the Debtors or the Reorganized Debtors to contest or otherwise defend against such Claim in the appropriate forum when and if such Claim is sought to be enforced by the holder of such Claim. Nothing in the Plan or elsewhere shall preclude the Debtors or Reorganized Debtors from challenging the validity of any alleged Encumbrance on any asset of a Debtor or the value of any collateral.

(iv) **Class G4 - Iron Range General Unsecured Claims (Impaired).** Each holder of an Allowed Iron Range General Unsecured Claim shall, in full

satisfaction of such holder's Allowed Iron Range General Unsecured Claim, receive from the Disbursing Agent the following:

Treatment. Each holder of an Allowed Iron Range General Unsecured Claim will receive, in full satisfaction of such holder's Allowed Iron Range General Unsecured Claim, fifteen percent (15%) of the Allowed Claim amount of such Iron Range General Unsecured Claim (excluding post-petition interest), to be paid in the following manner:

- (A) All Iron Range General Unsecured Claims that are Allowed Claims as of the Effective Date will receive: (A) five percent (5%) of such Allowed Claim in Cash on the Effective Date; (B) five percent (5%) of such Allowed Claim in Cash on the first anniversary of the Effective Date; and (C) five percent (5%) of such Allowed Claim in Cash on the second anniversary of the Effective Date;
- (B) All Iron Range General Unsecured Claims that are not Allowed Claims as of the Effective Date will receive: (A) five percent (5%) of such Allowed Claim in Cash on the date such Iron Range General Unsecured Claim becomes an Allowed Claim; (B) five percent (5%) of such Allowed Claim in Cash on the first anniversary of the Effective Date, or if the Claim is not an Allowed Claim by such date, the date the claim becomes an Allowed Claim; and (C) five percent (5%) of such Allowed Claim in Cash on the second anniversary of the Effective Date, or if the Claim is not an Allowed Claim by such date, the date the claim becomes an Allowed Claim.

Alternate Treatment. Each Holder of an Iron Range General Unsecured Claim may elect, in the alternative, on an opt-in basis, in full satisfaction of such holder's Allowed Iron Range General Unsecured Claim, the following treatment (the "Alternate Creditor Treatment"):

- (A) Any Holder of an Allowed Iron Range General Unsecured Claim in an amount equal to or less than \$10,000 may elect to receive an amount equal to 10% of such Holder's Allowed Claim payable on the Effective Date (or upon such later date following the Effective Date that the Claim becomes an Allowed Claim).
- (B) Any holder of an Allowed Iron Range General Unsecured Claim in an amount over \$10,000 may elect to have such Holder's Claim treated as an Allowed Claim in a reduced amount equal to \$10,000 and to receive under the Plan, in lieu of the treatment specified in subsection (1) above, an amount equal to 10% of such \$10,000 Allowed Claim (i.e., **\$1,000**) payable in Cash on the Effective Date (or upon such later date following the Effective Date that the

Claim becomes an Allowed Claim) in full satisfaction of such Holder's Allowed Claim.

For clarity, the Bond Unsecured Claims, the PBGC Unsecured Claims and the Intercompany Claims shall not be included in Class G4 and, accordingly, will not receive the treatment afforded members of Class G4 in this Plan.

The payments due to Holders of Allowed Iron Range General Unsecured Claims shall be the joint and several obligation of, and fully enforceable against, each of the Reorganized Debtors.

(h) *Claims Against KidsPeace National Centers of New York, Inc.*

(i) **Class H1 – KPNY Priority Non-Tax Claims (Unimpaired)**. On, or as soon as reasonably practicable after, the latest of (i) the Effective Date, (ii) the date on which such KPNY Priority Non-Tax Claim becomes an Allowed KPNY Priority Non-Tax Claim, or (iii) the date on which such KPNY Priority Non-Tax Claim becomes due and payable pursuant to any agreement between the Debtors and a holder of a KPNY Priority Non-Tax Claim, each holder of an Allowed KPNY Priority Non-Tax Claim shall receive from the Disbursing Agent in full satisfaction, settlement, release and discharge of and in exchange for such Allowed KPNY Priority Non-Tax Claim (a) Cash equal to the unpaid portion of such Allowed KPNY Priority Non-Tax Claim or (b) such other treatment as the Debtors (or Reorganized Debtors) and such holder shall have agreed in writing. All Allowed KPNY Priority Non-Tax Claims which are not by their terms due and payable on or before the Effective Date shall be paid in the ordinary course of business in accordance with the terms thereof.

(ii) **Class H2 - PBGC Secured Claim and Unsecured Claim (Impaired)**.

Treatment. In full satisfaction of all PBGC Prepetition Claims, the PBGC will receive in the aggregate from all Debtors, including KPGA in the event it files a plan of reorganization, total payments of \$13,500,000, as follows: (a) a payment of the Initial PBGC Amount in Cash on the Effective Date; and (b) the remainder of \$13,050,000 represented by the PBGC Note. As security for the PBGC Note, the PBGC shall receive or retain the PBGC Liens on the PBGC Note Collateral. Provisions relating to the priority of the PBGC Liens on the PBGC Note Collateral as well as provisions relating to enforcement and remedies will be governed by the New Intercreditor Agreement and the New PBGC Intercreditor Agreement. Additional terms for the settlement of the Bond Trustee/Bondholder Claims are set forth in Section 7.8 of the Plan.

Allowance. The PBGC Prepetition Claims shall be deemed an Allowed Secured Claim against all Debtors, including KPGA in the event it files a plan of reorganization, in the amount of the PBGC Liens. The PBGC Prepetition Claims shall be deemed an Allowed Unsecured Claim against all Debtors, including

KPGA in the event it files a plan of reorganization, in the amount of \$13,500,000 less the PBGC Liens.

(iii) **Class H3 - KPNY Other Secured Claims (Unimpaired)**. On, or as soon as reasonably practicable after, the latest of (i) the Effective Date, (ii) the date on which such KPNY Other Secured Claim becomes an Allowed KPNY Other Secured Claim or (iii) the date on which such KPNY Other Secured Claim becomes due and payable pursuant to an agreement between KPNY and the holder of an Allowed KPNY Other Secured Claim, each holder of an Allowed KPNY Other Secured Claim shall receive from Reorganized KPNY in full satisfaction, settlement, release and discharge of and in exchange for such Allowed KPNY Other Secured Claim, at the sole discretion of the Debtors, (a) Cash equal to the unpaid portion of such Allowed KPNY Other Secured Claim, (b) reinstatement of the legal, equitable and contractual rights of the holder of such Allowed KPNY Other Secured Claim, or (c) such other treatment as the Debtors (or Reorganized Debtors) and such holder shall have agreed in writing. Pursuant to the Plan, the Debtors' failure to object to any KPNY Other Secured Claim in the Chapter 11 Cases shall be without prejudice to the rights of the Debtors or the Reorganized Debtors to contest or otherwise defend against such Claim in the appropriate forum when and if such Claim is sought to be enforced by the holder of such Claim. Nothing in the Plan or elsewhere shall preclude the Debtors or Reorganized Debtors from challenging the validity of any alleged Encumbrance on any asset of a Debtor or the value of any collateral.

(iv) **Class H4 - KPNY General Unsecured Claims (Impaired)**. Each holder of an Allowed KPNY General Unsecured Claim shall, in full satisfaction of such holder's Allowed KPNY General Unsecured Claim (excluding post-petition interest), receive from the Disbursing Agent the following:

Treatment. Each holder of an Allowed KPNY General Unsecured Claim will receive, in full satisfaction of such holder's Allowed KPNY General Unsecured Claim, fifteen percent (15%) of the Allowed Claim amount of such KPNY General Unsecured Claim, to be paid in the following manner:

- (A) All KPNY General Unsecured Claims that are Allowed Claims as of the Effective Date will receive: (A) five percent (5%) of such Allowed Claim in Cash on the Effective Date; (B) five percent (5%) of such Allowed Claim in Cash on the first anniversary of the Effective Date; and (C) five percent (5%) of such Allowed Claim in Cash on the second anniversary of the Effective Date;
- (B) All KPNY General Unsecured Claims that are not Allowed Claims as of the Effective Date will receive: (A) five percent (5%) of such Allowed Claim in Cash on the date such KPNY General Unsecured Claim becomes an Allowed Claim; (B) five percent (5%) of such Allowed Claim in Cash on the first anniversary of the

Effective Date, or if the Claim is not an Allowed Claim by such date, the date the claim becomes an Allowed Claim; and (C) five percent (5%) of such Allowed Claim in Cash on the second anniversary of the Effective Date, or if the Claim is not an Allowed Claim by such date, the date the claim becomes an Allowed Claim.

Alternate Treatment. Each Holder of a KPNY General Unsecured Claim may elect, in the alternative, on an opt-in basis, in full satisfaction of such holder's Allowed KPNY General Unsecured Claim, the following treatment (the "Alternate Creditor Treatment"):

- (A) Any Holder of an Allowed KPNY General Unsecured Claim in an amount equal to or less than \$10,000 may elect to receive an amount equal to 10% of such Holder's Allowed Claim payable on the Effective Date (or upon such later date following the Effective Date that the Claim becomes an Allowed Claim).
- (B) Any holder of an Allowed KPNY General Unsecured Claim in an amount over \$10,000 may elect to have such Holder's Claim treated as an Allowed Claim in a reduced amount equal to \$10,000 and to receive under the Plan, in lieu of the treatment specified in subsection (1) above, an amount equal to 10% of such \$10,000 Allowed Claim (i.e., **\$1,000**) payable in Cash on the Effective Date (or upon such later date following the Effective Date that the Claim becomes an Allowed Claim) in full satisfaction of such Holder's Allowed Claim.

For clarity, the Bond Unsecured Claims, the PBGC Unsecured Claims and the Intercompany Claims shall not be included in Class H4 and, accordingly, will not receive the treatment afforded members of Class H4 in this Plan.

The payments due to Holders of Allowed KPNY General Unsecured Claims shall be the joint and several obligation of, and fully enforceable against, each of the Reorganized Debtors.

7.4 Intercompany Claims. Upon the Effective Date, each of the Debtors shall be deemed to have waived and released any Claims arising on or before the Effective Date against any other Debtor. Additionally, no Debtor shall pay any claim or administrative claim that KPGA may have against the Debtor.

7.5 Equity Interest of the Debtors.

The Debtors are each non-profit entities. The existing corporate organization structure will remain the same on the Effective Date, with the equity interest holder of each Debtor retaining its equity interest.

7.6 Treatment of Unclassified Claims Under the Plan.

(a) *Unclassified Claims.* Administrative Expense Claims and Priority Tax Claims are treated in accordance with Sections 1129(a)(9)(A) and 1129(a)(9)(C) of the Bankruptcy Code, respectively. Administrative Expense Claims and Priority Tax Claims are not designated as classes of Claims for the purposes of the Plan or for the purposes of Sections 1123, 1124, 1125, 1126 or 1129 of the Bankruptcy Code.

(b) *Treatment of Administrative Expense Claims.* All Administrative Expense Claims are treated as follows:

(i) Time for Filing Administrative Expense Claims. The holder of an Administrative Expense Claim, *other than* (i) a Fee Claim, (ii) the DIP Lender Debt, (iii) a liability incurred and payable after the Petition Date in the ordinary course of business by a Debtor, (iv) a Section 503(b)(9) Claim or (v) an Administrative Expense Claim that has been Allowed on or before the Effective Date, must file with the Bankruptcy Court and serve on the Debtors, the Committee (or the Committee Representative after dissolution) and the U.S. Trustee, notice of such Administrative Expense Claim within thirty (30) days after service of Notice of Effective Date or such other specific date as may be established by the Bankruptcy Court. Such notice must include (a) the name of the Debtor(s) that are purported to be liable for the Claim, (b) the name of the holder of the Claim, (c) the amount of the Claim and (d) the basis of the Claim (including any documentation evidencing or supporting such Claim). THE FAILURE TO FILE A NOTICE OF AN ADMINISTRATIVE EXPENSE CLAIM ON OR BEFORE THE FOREGOING DEADLINE AND THE FAILURE TO SERVE SUCH NOTICE TIMELY AND PROPERLY SHALL RESULT IN THE ADMINISTRATIVE EXPENSE CLAIM BEING FOREVER BARRED, DISALLOWED AND DISCHARGED WITHOUT FURTHER ORDER OF THE BANKRUPTCY COURT.

For the avoidance of any doubt, no holder of an Administrative Expense Claim on account of a liability incurred and payable after the Petition Date in the ordinary course of a Debtor's business shall be required to file a notice of an Administrative Expense Claim in accordance with Section 5.3(a) of the Plan, in order to be entitled to payment, in the ordinary course of business, on account of such Administrative Expense Claim.

(ii) Time for Filing Fee Claims. Each Professional who holds or asserts a Fee Claim shall be required to file with the Bankruptcy Court, and serve on the U.S. Trustee and the Debtors, and provide notice thereof to all parties on the Master Service List maintained by the Claims Agent, a Fee Application within forty-five (45) days after the Effective Date or such other specific date as may be established by the Bankruptcy Court. THE FAILURE TO FILE TIMELY AND SERVE SUCH FEE APPLICATION MAY RESULT IN THE FEE CLAIM BEING FOREVER BARRED, DISALLOWED AND DISCHARGED.



(iii) Time for Filing Section 503(b)(9) Claims. Each holder of a Section 503(b)(9) Claim was required to file with the Claims Agent a proof of claim asserting Section 503(b)(9) priority prior to August 30, 2013. THE FAILURE TO HAVE FILED SUCH A CLAIM BY THE SECTION 503(b)(9) BAR DATE SHALL RESULT IN THE SECTION 503(b)(9) CLAIM BEING DEEMED DISALLOWED AS AN ADMINISTRATIVE EXPENSE CLAIM; PROVIDED, HOWEVER, THAT SUCH CLAIM MAY STILL BE ALLOWED AS A GENERAL UNSECURED CLAIM..

(iv) Allowance of Administrative Expense Claims, Fee Claims and Section 503(b)(9) Claims. An Administrative Expense Claim (other than a Fee Claim or Section 503(b)(9) Claim) with respect to which notice has been properly filed and served pursuant to Section 5.2(a) of the Plan, or a Section 503(b)(9) Claim with respect to which a proof of claim has been properly filed before the Section 503(b)(9) Bar Date and which has not been paid before the Effective Date, shall become an Allowed Administrative Expense Claim if no objection is filed within sixty (60) days after the later of (i) the Effective Date or (ii) if applicable, the date of service of the applicable notice of Administrative Expense Claim or such later date as may be approved by the Bankruptcy Court on motion of a party in interest, without notice or a hearing. If an objection is filed within such 60-day period (or any extension thereof), the Administrative Expense Claim shall become an Allowed Administrative Expense Claim only to the extent allowed by Final Order. A Fee Claim in respect of which a Fee Application has been properly filed and served pursuant to Section 5.2(b) of the Plan shall become an Allowed Administrative Expense Claim upon and only to the extent allowed by Final Order.

(v) Payment of Allowed Administrative Expense Claims. On, or as soon as reasonably practical after, the latest of (a) the Effective Date, (b) the date on which an Administrative Expense Claim becomes Allowed or (c) the date on which such Administrative Expense Claim becomes due and payable pursuant to any agreement between the Debtors and the holder of the Administrative Expense Claim, each holder of an Allowed Administrative Expense Claim (other than (i) an Administrative Expense Claim on account of a liability incurred and payable after the Petition Date in the ordinary course of a Debtor's business or (ii) an Administrative Expense Claim, including but not limited to a Section 503(b)(9) Claim, already paid in full by the Debtors or the Reorganized Debtors) shall receive from the Disbursing Agent in full satisfaction of such Claims (i) the amount of such holder's Allowed Administrative Expense Claim in one Cash payment or (ii) such other treatment as may be agreed upon in writing by the Debtors and such holder; *provided* that an Administrative Expense Claim representing a liability incurred in the ordinary course of business of the Debtors shall be paid by the applicable Reorganized Debtor in the ordinary course of business. For the avoidance of doubt, nothing contained herein shall relieve the Debtors of their obligations to pay Allowed Section 503(b)(9) Claims following the first date scheduled for a hearing on the Disclosure Statement.

(c) *Treatment of Priority Tax Claims.* On, or as soon as reasonably practicable after the latest of (i) the Effective Date, (ii) the date on which a Priority Tax Claim becomes Allowed or (iii) the date on which such Priority Tax Claim becomes due and payable pursuant to any agreement between the Debtors and the holder of the Priority Tax Claim, each holder of an Allowed Priority Tax Claim shall receive from the Disbursing Agent in full satisfaction of such holder's Allowed Priority Tax Claim, (a) the amount of such holder's Allowed Priority Tax Claim in Cash, or (b) such other treatment as may be agreed upon in writing by such holder; *provided* that such agreed-upon treatment may not provide such holder with a return having a present value as of the Effective Date that is greater than the amount of such holder's Allowed Priority Tax Claim. The Confirmation Order shall enjoin any holder of an Allowed Priority Tax Claim from commencing or continuing any action or proceeding against any responsible person or officer of the Debtors that otherwise would be liable to such holder for payment of a Priority Tax Claim so long as the Debtors are in compliance with Section 5.3 of the Plan. The Plan further provides that so long as the holder of an Allowed Priority Tax Claim is enjoined from commencing or continuing any action or proceeding against any responsible person or officer under Section 5.3 of the Plan or pursuant to the Confirmation Order, the statute of limitations for commencing or continuing any such action or proceeding shall be tolled.

#### 7.7 Means for Implementation of the Plan

(a) *Effective Date and Initial Distribution Date Payments.* Unless otherwise stated in the Plan, the funds required to make the payments required under the Plan shall come from the Debtors' Cash on hand and proceeds of the Exit Facility.

(b) *Cash Contributions.* On, or as soon as reasonably practical after, the Effective Date, Reorganized KPC shall make a payment of \$3,266,892 in Cash, from funds on hand, to a segregated bank account for purposes of satisfying the Initial Distribution.

(c) *Exit Facility and Treatment of DIP Lender Claims.* On the Effective Date, the Debtors shall enter into and deliver the Exit Facility with the Exit Lender Group, satisfy the conditions precedent to the initial borrowing under the Exit Facility (including the entry into and delivery of the Exit Facility Security Agreements), and shall immediately borrow an amount sufficient to satisfy in full or assume the DIP Lender Debt and for working capital. For avoidance of doubt, the Exit Facility will have a senior security interest in the Debtors' accounts, accounts receivable and a senior lien on the Orchard Hills Campus, junior only to the Exit Facility Permitted Liens. The Debtor and the Exit Lender have entered into a term sheet outlining the terms of the Exit Facility, a copy of which is attached hereto as Exhibit G. The form of the Exit Facility Documents will be included in the Plan Supplement. On the Effective Date, the DIP Lender Debt shall be assumed or paid and satisfied in full with proceeds of the Exit Facility. Unless assumed, the DIP Loan shall terminate (except in respect of those provisions that expressly survive the termination thereof), and the DIP Lender shall be released by the Debtors in respect of any claims arising under the DIP Loan, the DIP Loan Documents or otherwise.

(d) *Cancellation of the Bonds and the Issuance of Series A, Series B and Series C Bonds to Bondholders.* On the Effective Date, the Bond Trust Documents shall be cancelled and deemed terminated, satisfied, and discharged, the Bond Trustee shall be

discharged from its duties and obligations arising the Bond Trust Indenture and any agreements, instruments and documents related thereto, and the Bond Trustee and Bondholders shall have no further rights or entitlements in respect thereof against the Debtors; provided, however, notwithstanding any provision contained herein to the contrary the Bond Trust Indenture shall continue in effect solely for the purposes of (i) allowing the Bond Trustee to make the distributions under this Plan of the funds deposited, credited, or otherwise held in the funds and accounts under the Bond Trust Indenture on account of the Bond Trustee/Bondholder Claims; (ii) permitting the Bond Trustee to maintain the Charging Lien that it has with respect to any Professional Fees that may be due and owing to the Bond Trustee and which have not been paid for any reason by the Debtors; and (iii) permitting (A) the Custodian to calculate any payments due to the Non-Commuting Bondholders with respect to the Non-Commuted Bonds, and (B) the Non-Commuting Bondholder to enforce any rights or remedies they may have against ACA under the Bond Insurance Policies or the Custody Agreement, provided, however, this Plan shall not be construed to release or impair any rights or remedies that any Non-Commuting Bondholders, the Custodian and ACA may have against each other under the Bond Insurance Policies and the Custody Agreement, including, without limitation, any rights of subrogation that ACA may have under this Plan and the Bond Insurance Policies or otherwise available at law and equity except as expressly provided by Section 7.13 of the Plan, and any rights of assignment ACA may have under the Custody Agreement, provided, further, that payments made under the New Bonds shall be treated also as payments under the Bonds solely with respect to Non-Commuting Bondholders. To the extent that the Debtors fail to make a timely distribution to the Custodian for the benefit of a Non-Commuting Bondholder on account of such Non-Commuting Bondholder's Bond Trustee/Bondholder Claim under the Plan and ACA makes such distribution to the Non-Commuting Bondholder, ACA: (1) shall be subrogated to the rights of such Non-Commuting Bondholder under the Insured Bonds and the New Bonds held by for the benefit of the Non-Commuting Bondholder; (2) shall retain its assignment rights resulting from such distribution made by ACA to the Non-Commuting Bondholder under the Bond Insurance Policies as set forth in the Custody Agreement; and (3) shall be deemed to be the holder of the Insured Bonds and the New Bonds, to the extent of such distribution.

A form of a new indenture (the "New Indenture"), new mortgages (the "New Mortgages") and other documents necessary to effect the issuance of the New Bonds (the "New Bond Documents") in replacement of the Bonds on the Effective Date shall be executed and delivered by Debtors to be effective on the Effective Date, forms of which shall also be included in the Plan Supplement. The New Bonds will have terms substantially consistent with those terms shown in Exhibit A to the Plan, which is attached hereto as Exhibit A.<sup>8</sup> The Debtors will be jointly and severally obligated to comply with the provisions of the New Bond Documents, including but not limited to all payment provisions. A New Debt Service Reserve Fund will support the Series A Bonds in the New Debt Service Reserve Fund Amount.

Each Bondholder holding an Allowed Class A2, B2 and D2 Claim will receive, in full and final satisfaction and discharge of such Claim, upon issuance of the New Bonds or as soon

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<sup>8</sup> The summaries contained in Exhibit A to the Plan are qualified in their entirety by reference to the Series A Bonds, the Series B Bonds, and each of the New Bond Documents, the forms of which will be provided in the Plan Supplement. In the event of any inconsistency between the provisions of this Plan and the New Bond Documents, the applicable provisions of the New Bond Documents will control in all respects.

thereafter as is practicable, (i) its Pro Rata share of (A) Cash in the amount of \$3,000,000 to be paid by Debtors to the Bond Trustee on the Effective Date, (B) the balance on the Effective Date of the Debt Service Reserve Funds less the New Debt Service Reserve Fund Amount , (C) approximately \$20,110,000 aggregate original principal amount of Series A Bonds, (D) approximately \$5,000,000 aggregate original principal amount of Series B Bonds, and (E) approximately \$15,000,000 in aggregate principal amount and maturity amount of Series C Bonds, in each case rounded down to the nearest multiple of \$1,000, and (ii) an additional initial amount of Series B Bonds and Series C Bonds (rounded to the nearest \$1,000 of stated value at maturity, but not less than \$1,000 of stated value at maturity) for any amounts not to be received under (i) due to rounding (the "Fractional Amount"). The Series C Bonds may only be traded along with the Series B Bonds.

The Debtors will establish a tax-exempt bond structure for the New Series A Bonds and the New Series B Bonds under the New Indenture and New Mortgages, which will contain covenants substantially similar to the covenants under the Bond Trust Indenture (except that the Financial Covenants and the Financial Reporting Covenants will replace all inconsistent financial or reporting covenants under the Bond Trust Indenture), and the Debtors will covenant in the New Indenture to maintain the tax-exemption of the New Series A Bonds and the New Series B Bonds. The Series C Bonds are not expected to be tax-exempt.

(e) *ACA Insurance Commutation.* ACA has proposed to make the Commutation Payment to each Insured Bondholder in full satisfaction of a corresponding amount of ACA's obligations under the Bond Insurance Policies as set forth in Section 7.13 of the Plan.

**EACH INSURED BONDHOLDER SHOULD REVIEW THIS SECTION CLOSELY, WHICH SETS FORTH AN EXPLANATION, THE PARAMETERS OF AND THE TERMS FOR SUCH COMMUTATION.**

**NO INSURED BONDHOLDER IS REQUIRED TO ACCEPT THE COMMUTATION PAYMENT. IT IS ENTIRELY OPTIONAL. IN ORDER TO REJECT THE COMMUTATION PAYMENT, AN INSURED BONDHOLDER MUST AFFIRMATIVELY OPT OUT OF THE COMMUTATION BY CHECKING A BOX THAT WILL BE PROVIDED ON THE BALLOTS FOR VOTING ON THE PLAN.**

**THERE IS NO ASSURANCE THAT INSURED BONDHOLDERS WHO CHOOSE TO OPT OUT OF THE COMMUTATION WILL RECEIVE ALL OF THE BENEFITS OF THE BOND INSURANCE POLICIES. SEE THE DISCUSSION OF ACA CONTAINED IN EXHIBIT J HERETO FOR MORE INFORMATION CONCERNING ACA AND ITS CLAIM-PAYING ABILITY.**

**WITH RESPECT TO THEIR BOND TRUSTEE/BONDHOLDERS CLAIM, EACH COMMUTING BONDHOLDER SHALL ALSO RECEIVE AN UPFRONT CASH PAYMENT THAT SHALL IMPROVE THEIR RECOVERY ON THEIR BOND TRUSTEE/BONDHOLDERS CLAIM BY 36%.**

**IF ALL INSURED BONDHOLDERS PARTICIPATE IN THE COMMUTATION OFFER, SUCH COMMUTING BONDHOLDERS SHALL RECEIVE A TOTAL UPFRONT CASH PAYMENTS EQUAL TO \$3,170,698.02 IN ADDITION TO THEIR PRO RATA DISTRIBUTIONS ON ACCOUNT OF THEIR BOND TRUSTEE/BONDHOLDERS CLAIM.**

- i. The terms of the ACA Insurance Commutation include the following: ACA shall offer to each Insured Bondholder the Commutation Payment and in exchange for accepting such Commutation Payment, each Commuting Bondholder will release, waive, quitclaim, and otherwise abandon any and all claims, rights, defenses, and causes of action, whether legal or equitable, known or unknown, that they may have against ACA under, in connection with, or related in any way to the Bond Insurance Policies (the “ACA Insurance Commutation”) as provided in Section 7.13 of the Plan.
- ii. A subclass comprised of the Insured Bondholders shall be established in Classes A2, B2 and D2. The Ballots issued to each member of the subclass will contain a box that may be checked by such Insured Bondholder that does not wish to participate in the ACA Insurance Commutation and desire instead to become a Non-Commuting Bondholder. Any Insured Bondholder that wishes to opt out of the ACA Insurance Commutation must so indicate on its Ballot. Any Insured Bondholder that does not check the box on the ballot, voluntarily accepts any portion of the Commutation Payment or fails to return a timely ballot shall be deemed to have elected to participate as a Commuting Bondholder in the ACA Insurance Commutation.
- iii. ACA shall distribute the Commutation Payment in accordance with Section 7.13 of the Plan. With respect to the Commuting Bondholders' Bond Trustee/Bondholder Claims, the Commuting Bondholders shall receive the treatment set forth in Sections 4.1(b), 4.2(b) and 4.4(b) of the Plan and the Commutation Payment. The Plan Supplement shall describe the procedures for enabling the prompt distributions to the Commuting Bondholders.
- iv. Non-Commuting Bondholders shall only receive interest and principal payment as originally scheduled in connection with the Insured Bonds, *provided, however*, that (i) payments under the New Bonds shall be deemed to be partial payments under the Insured Bonds solely with respect to Non-Commuting Bondholders; (ii) the Non-Commuting Bondholders retain any claims, suits, judgments, damages, demands, debts, rights, Causes of Action, or liabilities against, or obligations to, ACA with respect to the Bond Insurance Policies. and (iii) the obligations of the Debtors and the Reorganized Debtors with respect to Non-Commuting Bondholders shall be limited to such parties' obligations with respect to the New Bonds. The Plan Supplement shall

describe the procedures for enabling the prompt distributions to the Non-Commuting Bondholders. Once all of the payments as originally scheduled in connection with the Insured Bonds have been made to the Non-Commuting Bondholders, the CBIs shall be deemed cancelled in accordance with their terms and the Custodian shall assign and transfer to ACA the New Bonds and any remaining funds held with respect to the New Bonds. In the event that ACA defaults on its obligations under the Bond Insurance Policies, the Custodian shall assign and transfer to the Non-Commuting Bondholder their pro rata share of the New Bonds and any remaining funds held with respect to the New Bonds, *provided, however*, as noted above, the Non-Commuting Bondholders retain any claims, suits, judgments, damages, demands, debts, rights, Causes of Action, or liabilities against, or obligations to, ACA with respect to the Bond Insurance Policies. Finally, as set forth in the Plan Supplement, to the extent that the Reorganized Debtors default on the New Bonds and ACA continues to meet its obligations under the Bond Insurance Policies, ACA shall have the right to receive, through subrogation, assignment or otherwise, such interest and principal payments with respect to the New Bonds and exercise certain rights and remedies with respect to such defaults under the New Bonds. Except as set forth herein and in the Plan Supplement, the Custodian's rights and obligations with respect to the Insured Bonds and the Non-Commuting Bondholders as set forth in the Custody Agreement remain outstanding and unmodified.

- v. To the extent ACA makes any payments under the Bond Insurance Policies to the Custodian for the benefit of such Non-Commuting Bondholders, ACA shall be subrogated to the Custodian's rights under the New Bonds.
- vi. Proceeds from the ACA Insurance Commutation shall not be subject to any claims or liens by the Bond Trustee, and shall be solely for the benefit of the Commuting Bondholders.
- vii. ACA will waive subrogation rights against the Debtors and the Reorganized Debtors for all amounts commuted.
- viii. Insured Bondholders may participate in the ACA Insurance Commutation whether or not they vote to accept the Plan, and such Insured Bondholders may likewise vote to accept the Plan but opt out of the ACA Insurance Commutation.
- ix. Nothing herein shall be deemed to amend or modify the allowance or treatment of Bond Trustee/Bondholders Claim obtained by ACA through subrogation, assignment or otherwise, as of the Effective Date. As of the filing date of the Plan, ACA held \$637,505.51 of the Series 1998 Bonds.

ACA has prepared a further discussion of the ACA Insurance, which is attached as Exhibit J.

(f) *Operations Between the Confirmation Date and the Effective Date.* Through the Effective Date, the Debtors shall continue to operate their businesses as Debtors-in-Possession, subject to the oversight of the Bankruptcy Court as provided in the Bankruptcy Code, the Bankruptcy Rules and all orders of the Bankruptcy Court that are then in full force and effect.

(g) *Continued Corporate Existence.* The Debtors shall continue to exist, as Reorganized Debtors, after the Effective Date as separate entities, with all the powers available to such legal entities, in accordance with applicable law and pursuant to their constituent documents, as may be modified by the Plan.

(h) *Post-Confirmation Management.* As discussed in Section 5.6 above, as of the Effective Date, the officers and directors of each of the Reorganized Debtors and their respective compensation shall be as set forth in Exhibit B annexed hereto. Thereafter, the officers and directors of the Reorganized Debtors shall be selected and determined in accordance with the provisions of the organizational documents of the Reorganized Debtors and applicable law.

(i) *Exemption from Transfer Taxes.* Pursuant to Section 1146(a) of the Bankruptcy Code, (i) the issuance, distribution, transfer, or exchange of Estate property; (ii) the creation, modification, consolidation, or recording of any deed of trust or other interest, or the securing of additional indebtedness by such means or by other means in furtherance of, or in connection with the Plan or the Confirmation Order; (iii) the making, assignment, modification, or recording of any lease or sublease; or (iv) the making, delivery, or recording of a deed or other instrument of transfer under, in furtherance of, or in connection with, the Plan, Confirmation Order, or any transaction contemplated above, or any transactions arising out of, contemplated by, or in any way related to the foregoing shall not be subject to any document recording tax, stamp tax, conveyance fee, intangibles or similar tax, mortgage tax, stamp act or real estate transfer tax, mortgage recording tax, or other similar tax or governmental assessment and the appropriate state or local government officials or agents shall be, and hereby are, directed to forego the collection of any such tax or assessment and to accept for filing or recordation any of the foregoing instruments or other documents without the payment of any such tax or assessment.

(j) *Section 1145 Exemption.* To the maximum extent provided by Section 1145 of the Bankruptcy Code and applicable nonbankruptcy law, the issuance of the New Bonds and the PBGC Note under the Plan will be exempt from registration under the Securities Act of 1933, as amended, all rules and regulations promulgated thereunder, and any applicable state and local laws requiring registration of securities.

#### 7.8 The Disbursing Agent

(a) *Appointment of the Disbursing Agent.* Upon the occurrence of the Effective Date, the Reorganized KPC shall be appointed the Disbursing Agent under the Plan.

(b) *Powers and Duties.* Pursuant to the terms and provisions of the Plan, the Disbursing Agent shall be authorized and directed to (a) take all steps and execute all instruments and documents necessary to make Plan Distributions to holders of Allowed Claims, (b) comply with the Plan and its obligations hereunder, (c) pending distribution pursuant to the Plan, hold in a segregated trust accounts all Cash required by Section 7.10(a) of the Plan and deposit in the future in a segregated trust account and disburse there from any funds necessary to satisfy Subsequent Distributions; and (d) exercise such other powers as may be vested in the Disbursing Agent pursuant to the Plan, the Plan Documents or order of the Bankruptcy Court. The Disbursing Agent shall not be required to give any bond or surety or other security for the performance of its duties unless otherwise ordered by the Bankruptcy Court or required by the Bankruptcy Code or the Bankruptcy Rules. The Disbursing Agent shall be authorized and directed to rely upon the Claims Agent's books and records in determining Allowed Claims entitled to Distributions under the Plan.

On, or as soon as practicable after the Effective Date, and thereafter as provided under the Plan, the Reorganized Debtors shall turn over to the Disbursing Agent all of the Cash required by Section 7.10(a) of the Plan. The Disbursing Agent shall establish separate accounts with respect to such funds, which shall be held in trust for the purposes set forth in the Plan, provided, however, that the Disbursing Agent shall create segregated accounts to be used to pay (i) Allowed Fee Claims and Allowed Section 503(b)(9) Claims, if not previously paid prior to the Effective Date (ii) the Opt-In Creditor Amount, and (iii) for such other purposes as set forth in the Plan.

#### 7.9 Distribution Provisions.

(a) *Sources of Cash for Plan Distributions.* All Cash necessary for the Disbursing Agent to make payments and Plan Distributions shall be obtained from the Reorganized Debtors.

(b) *Plan Distributions.* Pursuant to the terms and provisions of the Plan, and except as stated in this Section 9.2 or otherwise in the Plan, the Disbursing Agent shall make the required Plan Distributions specified under the Plan. Notwithstanding anything to the contrary set forth herein, and unless otherwise agreed by the Bond Trustee, all Distributions payable under the Plan to holders of Bonds shall be paid by the Disbursing Agent to the Bond Trustee, which shall distribute such Distributions (net of any Bond Trustee fees, costs and expenses payable from such Distributions under the Indenture or applicable law), or cause such Distributions (net of any Bond Trustee fees, costs and expenses payable from such Distributions under the Indenture or applicable law) to be distributed, to the holders of the Bonds in accordance with the terms of the Bond Indenture. Distributions to holders of Bonds may be made by means of book-entry exchange through the facilities of the Depository Trust Corporation in accordance with the customary practices of the Depository Trust Corporation, as and to the extent practicable. In connection with such book-entry exchange, the Bond Trustee may deliver instructions to the Depository Trust Corporation directing the Depository Trust Corporation to effect distributions (net of the Bond Trustee's fees and expenses as permitted under the Indenture) as provided under the Plan.



(c) *Timing of Plan Distributions.* In the event a Plan Distribution is payable on a day other than a Business Day, such Plan Distribution shall instead be paid on the immediately succeeding Business Day, but shall be deemed to have been made on the date otherwise due. A Plan Distribution shall be deemed to have been timely made if made on such date or within fourteen (14) days thereafter. For federal income tax purposes, except to the extent a Plan Distribution is made in connection with reinstatement of an obligation pursuant to Section 1124 of the Bankruptcy Code, a Plan Distribution will be allocated first to the principal amount of a Claim and then, to the extent the Plan Distribution exceeds the principal amount of the Claim, to the portion of the Claim representing accrued but unpaid interest.

(d) *Manner of Payment under the Plan.* Unless the Person receiving a Plan Distribution agrees otherwise, any Plan Distribution to be made in Cash under the Plan shall be made, at the election of the Disbursing Agent, by check drawn on a domestic bank or by wire transfer from a domestic bank. Cash payments to foreign creditors may, in addition to the foregoing, be made, at the option of the Disbursing Agent, in such funds and by such means as are necessary or customary in a particular foreign jurisdiction.

(e) *Fractional Plan Distributions.* Notwithstanding anything to the contrary contained herein, no Plan Distributions of fractions of dollars are required to be made. At the Disbursing Agent's option, fractions of dollars may be rounded to the nearest whole unit (with any amount equal to or less than one-half dollar to be rounded down).

(f) *Surrender and Cancellation of Instruments.* Except as with respect to the Non-Commuting Bondholders, as a condition to receiving any Plan Distribution, the holder of an Allowed Claim evidenced by a certificate, instrument or note, other than any such certificate, instrument or note that is being reinstated or being left unimpaired under the Plan, shall (a) surrender such certificate, instrument or note representing such Claim, and (b) execute and deliver such other documents as may be necessary to effectuate the Plan in the sole determination of the Disbursing Agent. Such certificate, instrument or note shall thereafter be cancelled and extinguished. The Disbursing Agent shall have the right to withhold any Plan Distribution to be made to or on behalf of any holder of such Claims unless and until (i) such certificates, instruments or notes are surrendered, or (ii) any relevant holder provides to the Disbursing Agent an affidavit of loss or such other documents as may be required by the Disbursing Agent together with an appropriate indemnity in the customary form. Any such holder who fails to surrender such certificates, instruments or notes, or otherwise fails to deliver an affidavit of loss and indemnity prior to the second anniversary of the Effective Date, shall be deemed to have forfeited its Claims and shall not participate in any Plan Distribution. All property in respect of such forfeited Claims shall revert to the Reorganized Debtors, as applicable.

(g) *Record Date for Distributions.* At the close of business on the Distribution Record Date, the transfer records for Claims shall be closed, and there shall be no further changes in the record holders of such Claims. None of the Reorganized Debtors, the Claims Agent, the Disbursing Agent nor the Bond Trustee shall have any obligation to recognize any transfer of claims occurring after the Distribution Record Date, and they shall be entitled instead to recognize and deal for all purposes under the Plan with only those record holders as of the close of business on the Distribution Record Date. Notwithstanding the foregoing, or

anything to the contrary in the Plan, the Bond Trustee shall be entitled in its sole discretion to establish one or more record dates for the Bondholders for the purposes of distributions on the Bonds hereunder.

(h) *Subsequent Distributions.* The Disbursing Agent shall be authorized and directed to make subsequent Plan Distributions on account of such Claims which are either: (a) Allowed Claims as of the Initial Distribution Date; or (b) Contested Claims as of the Initial Distribution Date but which subsequently become Allowed Claims pursuant to Article 10 of the Plan. The Disbursing Agent shall make the subsequent Plan Distributions from time to time and in the exercise of its business judgment.

(i) *De Minimis Distributions.* The Disbursing Agent shall not have any obligation to make any distribution to any holder of an Allowed Claim if the amount to be distributed is less than \$10.00.

(j) *ACA Insurance Commutation Distributions.* ACA shall distribute the Commutation Payment on the Effective Date or as soon as practicable thereafter by either issuing a check to each Commuting Bondholder in the amount of the Commutation Payment or transferring to the Custodian, by wire transfer or check, an amount equal to the sum of all Commutation Payments for the Custodian to distribute to each Commuting Bondholder. Each check that ACA or the Custodian shall issue to each Commuting Bondholder shall contain a legend indicating that endorsement or deposit of such check shall constitute a voluntary release, quitclaim and waiver of any and all claims that the Commuting Bondholder may have against ACA under, pursuant to or in connection with the Bond Insurance Policies.

#### 7.10 Procedures for Resolving and Treating Contested Claims.

(a) *Prosecution of Contested Claims.* Except as provided herein, after the Effective Date, only the Reorganized Debtors may object to the allowance of Claims. All objections that are filed and prosecuted as provided herein shall be litigated to Final Order or compromised and settled in accordance with Section 10.3 of the Plan. Prior to the first scheduled date of the disclosure statement hearing on this Plan of Reorganization, the Debtors will use their best efforts to identify for the Committee all General Unsecured Claims over \$10,000 that will be subject to objections and the Debtors will have filed such objection; provided, however, that this disclosure obligation in no way precludes the Debtors or shall be deemed a waiver of the Debtors right to object to a Claim that is not set forth on the claims objection disclosure list.

(b) *Objection Deadline.* As soon as practicable, but in no event later than ninety (90) days after the Effective Date (subject to being extended as set forth herein or by order of the Bankruptcy Court upon motion of the Reorganized Debtors without notice or a hearing), objections to Claims shall be filed with the Bankruptcy Court and served upon the holders of each of the Claims to which objections are made. The holder of a Claim subject to an objection will not receive a distribution on account of such Claim until such Claim is Allowed, provided, however, that the filing of a motion to extend the deadline to file objections to Claims shall automatically extend the claim objection deadline until a Final Order is entered or such motion. In the event that such motion to extend is denied, the claims objection deadline shall be the later of the then-current claims objection deadline (as previously extended, if applicable) or fourteen

(14) days after the Bankruptcy Court's order denying the motion to extend the claims objection deadline. The Reorganized Debtors shall review any Rejection Damage Claims to determine whether an objection to any such Claim is appropriate.

(c) *Amendment of Schedules.* Upon further review of the Schedules, the Debtors have found that there is no longer an obligation to certain holders of claims listed in the Schedules (the "Scheduled Claim(s)") or such obligation should be reduced, modified or recharacterized. The Debtors are in the process of filing a motion, on notice to the named person and other parties in interest, to amend their Schedules to remove these persons since they are not a Holder of a Claim. The Debtors or Reorganized Debtors, after the Effective Date, shall have the authority to amend the Schedules with respect to any Claim and to make distributions based on such amended Schedules without approval of the Bankruptcy Court. If any amendment to the Schedules reduces the amount of a Claim or changes the nature or priority of a Claim, the Debtors will provide the holder of such Claim with notice of such amendment (with a copy to the Committee Representative) and the creditor parties will have 28 days to file an objection to such amendment with the Bankruptcy Court. If no such objection is filed, the Disbursing Agent may proceed with distributions based on such amended Schedules without approval of the Bankruptcy Court.

(d) *Objections to Certain Claims.* The Debtors have identified numerous claims they assert have been improperly filed in amount or priority or for which the Debtors have no liability. The Debtors have objected to or will be objecting to these claims to recharacterize, reduce or deny, as the case may be. Employee Claims: The Debtors have identified certain filed Proofs of Claim that were filed and which relate to unpaid employee wages and/or benefits. During the course of its Case and pursuant to an Order of the Court, the Debtors paid to the holders of these Claims the Allowed portion of such Claims. Only one active employee had a claim in excess of the allowed paid portion and which shall be addressed through a contract assumption. As such the balance of these claims filed by employees for wages and/or benefits the Debtors will request the disallowance. Pension Benefit Claims: The Debtors have identified certain filed Proofs of Claim that were filed and which relate to claims filed by retirees or employees of the Debtors regarding benefits under the Pension Plan. The PBGC is now the Statutory Trustee of the terminated Pension Plan. Claims filed by retirees or employees against the Debtors for benefits under the Pension Plan should be disallowed. Litigation Claims: The Debtors have identified certain filed Proofs of Claim that were filed and which relate to pending lawsuits where the Debtors have insurance to cover the defense costs and any associated liability. As such these Claim filed by such litigants should be disallowed as against the Debtors and such litigants should be authorized to pursue the respective insurance carrier.

(e) *Claims Settlement.* Notwithstanding any requirements that may be imposed pursuant to Bankruptcy Rule 9019, from and after the Effective Date, the Reorganized Debtors shall have authority to settle or compromise all Claims and Causes of Action without further review or approval of the Bankruptcy Court.

(f) *No Distribution Pending Allowance.* Notwithstanding any other provision of the Plan, if any portion of a Claim is a Contested Claim, and/or is subject to a pending objection that has not been resolved by Final Order, no payment or distribution provided under the Plan shall be made on account of such Claim unless and until such Claim becomes an

Allowed Claim that is not a Contested Claim, subject to the setoff rights preserved under the Plan.

(g) *Entitlement to Plan Distributions Upon Allowance.* When a Contested Claim becomes an Allowed Claim, the holder of such Claim shall thereupon become entitled to receive the Plan Distributions in respect of such Claim the same as though such Claim had been an Allowed Claim on the Effective Date.

7.11 Treatment of Executory Contracts and Unexpired Leases.

(a) *Assumption and Rejection of Executory Contracts and Unexpired Leases.* All executory contracts and unexpired leases of the Debtors shall be rejected pursuant to the provisions of Section 365 of the Bankruptcy Code effective as of and subject to the occurrence of the Effective Date, unless another date is specified in the Plan, except: (i) any executory contracts and unexpired leases that are the subject of a motion to assume filed pursuant to Section 365 of the Bankruptcy Code by the Debtors before the Effective Date; (ii) contracts and leases listed in Schedule 1 annexed hereto; (iii) all executory contracts and unexpired leases assumed under the Plan or by order of the Bankruptcy Court entered before the Effective Date; and (iv) any agreement, obligation, security interest, transaction, or similar undertaking that the Debtors believe is not executory or a lease that is later determined by the Bankruptcy Court to be an executory contract or unexpired lease that is not subject to assumption or rejection under Section 365 of the Bankruptcy Code. Any order entered post-confirmation by the Bankruptcy Court, after notice and a hearing, authorizing the rejection of an executory contract or unexpired lease shall cause such rejection to be a prepetition breach under Sections 365(g) and 502(g) of the Bankruptcy Code, as if such relief was granted and such order was entered pre-confirmation. The Debtors reserve the right to amend Disclosure Statement Schedule 1 prior to the entry of the Confirmation Order and subsequent to the entry of the Confirmation Order with respect to any executory contract or unexpired lease that is the subject of a dispute over the amount or manner of cure pursuant to Section 11.2 of the Plan and for which the Debtors make a motion to reject such contract or lease based upon the existence of such dispute filed at any time. Each executory contract and unexpired lease to be assumed or rejected by the Debtors shall include modifications, amendments, supplements, restatements, or other similar agreements made directly or indirectly by any agreement, instrument or other document that affects such executory contract or unexpired lease.

The inclusion of a contract, lease or other agreement on Disclosure Statement Schedule 1 shall not constitute an admission by the Debtors as to the characterization of whether any such included contract, lease or other agreement is, or is not, an executory contract or unexpired lease or whether any claimants under any such contract, lease or other agreement are time barred from asserting Claims against the Debtors. The Debtors reserve all rights with respect to the characterization of any such agreements.

The Plan shall constitute a motion to reject the executory contracts and unexpired leases rejected pursuant to Section 12.1 of the Plan, and the Debtors shall have no liability thereunder except as is specifically provided in the Plan. Entry of the Confirmation Order shall constitute approval of such rejections pursuant to Section 365(a) of the Bankruptcy Code, subject to the occurrence of the Effective Date, and a finding by the Bankruptcy Court that

each such rejected agreement, executory contract or unexpired lease is burdensome and that the rejection thereof is in the best interests of the Debtors and their Estates.

The Plan shall constitute a motion to assume all executory contracts and unexpired leases except those rejected pursuant to Section 12.1 of the Plan. Entry of the Confirmation Order by the Clerk of the Bankruptcy Court shall constitute approval of such assumption pursuant to Sections 365(a) and (b) of the Bankruptcy Code, effective as of and subject to the occurrence of the Effective Date.

(b) *Cure.* Any monetary defaults under each executory contract and unexpired lease to be assumed under the Plan shall be satisfied pursuant to Section 365(b)(1) of the Bankruptcy Code: (a) by payment of the default amount in Cash on the Effective Date or as soon thereafter as practicable; or (b) on such other terms as agreed to by the parties to such executory contract or unexpired lease. In the event of a dispute regarding: (i) the amount of any cure payments; (ii) the ability to provide adequate assurance of future performance under the contract or lease to be assumed or assumed and assigned; or (iii) any other matter pertaining to assumption or assumption and assignment, the cure payments required by Section 365(b)(1) of the Bankruptcy Code shall be made following the entry of a Final Order resolving the dispute and approving assumption or assignment, as applicable. Disclosure Statement Schedule 1 or the Plan Supplement, as the case may be, sets forth the Debtors' cure obligations for each agreement for which cure obligations must be satisfied as a condition to the assumption of such agreement. Any non-Debtor counterparty to an agreement listed on the Disclosure Statement Schedule 1 or the Plan Supplement who disputes the scheduled cure obligation (or objects to the omission of a scheduled cure obligation) must file with the Bankruptcy Court, and serve upon the Debtors, a written objection to the cure obligation in the manner, and within such time period, as the Bankruptcy Court may direct. If a non-Debtor counterparty fails to file and serve an objection which complies with the foregoing, the cure obligation set forth on the Disclosure Statement Schedule 1 or the Plan Supplement, as the case may be, shall be binding on the non-Debtor counterparty, and the non-Debtor counterparty shall be deemed to have waived any and all objections to the assumption of the relevant agreement as proposed by the Debtors.

(c) *Claims Arising from Rejected Contracts.* Rejection Damage Claims must be submitted to the Claims Agent, with copies to counsel for the Debtors, by (a) with respect to any executory contract or unexpired lease that is rejected pursuant to Section 11.1 of the Plan, the first Business Day that is at least thirty (30) days following the Effective Date or, (b) with respect to any executory contract or unexpired lease that is rejected other than pursuant to Section 11.1 of the Plan, the first Business Day that is at least thirty (30) days following the entry of an order of the Bankruptcy Court authorizing such rejection. Properly submitted Rejection Damage Claims shall be treated as General Unsecured Claims, subject to objection by the Reorganized Debtors. ANY REJECTION DAMAGE CLAIMS THAT ARE NOT PROPERLY SUBMITTED PURSUANT TO THIS SECTION 12.3 WILL FOREVER BE BARRED FROM ASSERTION AND SHALL NOT BE ENFORCEABLE AGAINST THE REORGANIZED DEBTORS, THEIR RESPECTIVE ESTATES, AFFILIATES OR ASSETS.

7.12 Conditions Precedent to Confirmation of the Plan and the Occurrence of the Effective Date.

(a) *Conditions Precedent to Confirmation.* As conditions precedent to confirmation of the Plan, the Clerk of the Bankruptcy Court shall have entered an order or orders:

(i) Approving the Disclosure Statement as containing “adequate information” pursuant to Section 1125 of the Bankruptcy Code;

(ii) authorizing the solicitation of votes with respect to the Plan; and

(iii) determining that all applicable tests, standards and burdens in connection with the Plan have been duly satisfied and met by the Debtors Plan.

(b) *Conditions Precedent to the Occurrence of the Effective Date.* Unless waived in writing by the Debtors and the Exit Lender with respect to clause (iii), the Bond Trustee with respect to clause (iv), the PBGC with respect to clause (v), or the Committee with respect to clause (vi), the following are conditions precedent to the occurrence of the Effective Date:

(i) the Confirmation Order shall have been entered by the Clerk of the Bankruptcy Court, be in full force and effect and not be subject to any stay or injunction;

(ii) any necessary regulatory consents, authorizations and approvals have been given;

(iii) all of the conditions precedent to the Exit Facility shall have been satisfied or waived and the Exit Facility shall have closed;

(iv) the New Bond Documents, the New Bond Intercreditor Agreement and the New PBGC Intercreditor Agreement shall each have been executed and delivered, the Initial Bond Payment made and the cancellation of the Bonds and the reissuance of the New Bonds shall have occurred;

(v) the assets in the Pension Plan shall have been transferred to the PBGC in connection with the prepetition termination of the Pension Plan, the New PBGC Intercreditor Agreement shall have been executed and delivered, the Initial PBGC Amount shall have been paid and the PBGC Note shall have been executed and delivered;

(vi) the Committee shall have appointed the Committee Representative and the Committee Representative Payment shall have been made;

(vii) all statutory fees and obligations then due and payable to the Office of the United States Trustee shall have been paid and satisfied in full;

(ix) all other actions necessary to implement the terms of the Plan shall have been taken.

(c) *Effect of Non-Occurrence of the Effective Date.* If the Effective Date shall not occur, the Plan shall be null and void and nothing contained in the Plan shall: (a) constitute a waiver or release of any Claims against a Debtor; (b) prejudice in any manner the rights of any party in interest; or constitute an admission, acknowledgement, offer, or undertaking by the Debtors or any other party in interest.

## **8. CERTAIN U.S. FEDERAL INCOME TAX CONSEQUENCES**

### **8.1 Introduction**

INTERNAL REVENUE SERVICE CIRCULAR 230 DISCLOSURE: TO ENSURE COMPLIANCE WITH REQUIREMENTS IMPOSED BY THE INTERNAL REVENUE SERVICE, BONDHOLDERS AND HOLDERS ARE HEREBY NOTIFIED THAT (A) ANY DISCUSSION OF FEDERAL TAX ISSUES CONTAINED IN THIS DISCLOSURE STATEMENT (INCLUDING ANY ATTACHMENTS) IS NOT INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED, BY ANY TAXPAYER FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED UNDER THE INTERNAL REVENUE CODE; (B) SUCH DISCUSSION CONTAINED IN THIS DISCLOSURE STATEMENT (INCLUDING ANY ATTACHMENTS) IS WRITTEN TO SUPPORT THE MARKETING OR PROMOTION OF THE TRANSACTIONS OR MATTERS ADDRESSED BY THIS DISCLOSURE STATEMENT, AND (C) EACH TAXPAYER SHOULD SEEK ADVICE BASED ON THE TAXPAYER'S PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.

The following discussion summarizes certain U.S. federal income tax consequences of the Plan to certain Holders of Claims. The following summary is based on the Internal Revenue Code of 1986, as amended (the "Tax Code"), Treasury Regulations promulgated thereunder (the "Regulations"), judicial decisions and published administrative rules and pronouncements of the Internal Revenue Service as in effect on the date hereof. Changes in such rules or new interpretations thereof may have retroactive effect and could significantly affect the federal income tax consequences described below.

The federal income tax consequences of the Plan are complex and are subject to significant uncertainties. The Debtors have not requested and will not request a ruling from the Internal Revenue Service or an opinion of counsel with respect to any of the tax aspects of the Plan. Thus, no assurance can be given as to the interpretation that the Internal Revenue Service may adopt. In addition, this summary addresses only U.S. federal income tax consequences and not foreign, state, or local tax consequences, or any estate or gift tax consequences, of the Plan. Also, this summary does not address the federal income tax consequences of the Plan to taxpayers subject to special treatment under the Tax Code (including, but not limited to, Persons who are related to the Debtors within the meaning of the Tax Code, foreign taxpayers, S corporations, broker dealers, banks, mutual funds, insurance companies, financial institutions, small business investment companies, regulated investment companies, tax exempt organizations, partnerships and other pass-through entities (and their beneficial holders),

Bondholders who are themselves in bankruptcy, and agents). Accordingly, this summary should not be relied upon for purposes of determining the specific tax consequences of the Plan with respect to a particular Bondholder or Holder. Furthermore, this discussion assumes that Bondholders do not separately hold Claims, and that Holders only hold Claims in a single class. Bondholders that separately own Claims and Holders of Claims in more than one class should consult their own tax advisors as to the effect that separately owning Claims or owning Claims in more than one class, respectively, may have on the U.S. federal income tax consequences described below.

Due to the possibility of changes in law, differences in the circumstances applicable to Bondholders and Holders, differences in individual Bondholders' and Holders' methods of accounting (including with respect to contingent payment debt instruments), and the potential for disputes as to legal and factual matters, the federal income tax consequences described below are subject to significant uncertainties. There can be no assurance that the Internal Revenue Service will not challenge any or all of the tax consequences described below, or that such a challenge, if asserted, would not be sustained.

THE FOLLOWING SUMMARY OF CERTAIN U.S. FEDERAL INCOME TAX CONSEQUENCES IS FOR INFORMATIONAL PURPOSES ONLY AND DOES NOT CONSTITUTE TAX ADVICE OR A TAX OPINION. IT IS NOT A SUBSTITUTE FOR CAREFUL TAX PLANNING AND ADVICE BASED UPON THE INDIVIDUAL CIRCUMSTANCES PERTAINING TO A BONDHOLDER OR HOLDER. ALL BONDHOLDERS AND HOLDERS ARE URGED TO CONSULT THEIR OWN TAX ADVISORS FOR THE FEDERAL, STATE, LOCAL, AND OTHER TAX CONSEQUENCES APPLICABLE TO THE BONDHOLDER OR HOLDER UNDER THE PLAN.

(a) *Federal Income Tax Consequences to Bondholders Receiving New Bonds in Exchange for the Current Bonds.*

In accordance with the Plan, and as described in more detail in Section 7.6(d) of this Disclosure Statement, Bondholders will receive, in exchange for their Bonds, the New Bonds. Such transaction is expected to be treated as an exchange or "significant modification" of the Bonds and accordingly a realization event for federal income tax purposes. Each Bondholder generally should realize gain or loss based on the difference between the "amount realized" by such Bondholder and the Bondholder's adjusted tax basis with respect to his, her or its Bonds. The determination of the amount realized by a given Bondholder in connection with such exchange will depend on the terms, structure and composition of the New Bonds received by the Bondholder, and should generally take into account, without limitation, the stated principal amount, imputed principal amount, and/or fair market value of each series of New Bonds received by the Bondholder, and potentially the amount of the ACA Commutation, if any, received by the Bondholder. The value of one or more series of New Bonds may be attributable, in whole or in part, to contingent payments (for example, payments derived from the Series C Bonds, if any), and Bondholders should consult their tax advisors as to the effect of such contingent payments on the "amount realized" in connection with the exchange. Any gain or loss realized by a Bondholder in connection with the exchange of Bonds for New Bonds should constitute ordinary income or loss to such Bondholder unless the Bonds are a capital asset in the hands of such Bondholder. If the Bonds are a capital asset that has been held by the Bondholder



for more than one year, the Bondholder should generally realize long-term capital gain or loss in connection with the exchange.

The federal income tax consequences to a Bondholder of holding the New Bonds will depend on the terms, structure and composition of the New Bonds held by the Bondholder. Bondholders should generally recognize ordinary income in connection with the receipt of payments on the New Bonds treated as interest for federal income tax purposes, except to the extent such interest qualifies as tax-exempt interest for federal income tax purposes. See Section B below. Certain payments on one or more series of New Bonds may consist of contingent payments (for example, payments derived from the Series C Bonds, if any), and Bondholders should consult their tax advisors as to the tax consequences associated with such contingent payments. In addition, because one or more of the New Bonds may be treated as issued with "original issue discount," Bondholders may be deemed to receive imputed interest, generally taxable as ordinary income, in connection with holding the New Bonds which may result in phantom income to such Bondholders (that is, taxable income without a corresponding cash receipt). ALL BONDHOLDERS SHOULD CONSULT THEIR TAX ADVISORS AS TO THE POTENTIAL FOR RECEIVING IMPUTED INTEREST/PHANTOM INCOME WITH RESPECT TO THE NEW BONDS.

THERE ARE MANY FACTORS THAT WILL DETERMINE THE TAX CONSEQUENCES TO EACH BONDHOLDER. FURTHERMORE, THE TAX CONSEQUENCES OF THE PLAN ARE COMPLEX AND IN SOME CASES UNCERTAIN. THEREFORE, IT IS IMPORTANT THAT EACH BONDHOLDER OBTAIN HIS, HER, OR ITS OWN PROFESSIONAL TAX ADVICE REGARDING THE TAX CONSEQUENCES TO SUCH BONDHOLDER OF THE PLAN.

(b) *Taxable or Tax-Exempt Interest.*

The Debtors make no representation and takes no position as to whether interest on any series of New Bonds will be excludable from federal gross income under section 103 of the Tax Code (or under any similar state or local taxation regime). Section 8.7 of the Plan sets forth certain limited undertakings of the Debtors to cooperate in the possible establishment and maintenance of a tax-exempt bond structure to the extent practicable for the New Series A Bonds and Series B Bonds. BONDHOLDERS SHOULD CONSULT WITH THEIR TAX ADVISORS AS TO WHETHER INTEREST ON THE NEW SERIES A BONDS OR SERIES B BONDS MAY BE EXCLUDABLE FROM GROSS INCOME, AND IF NOT, THE POTENTIAL CONSEQUENCES TO THE BONDHOLDER GIVEN HIS, HER OR ITS PARTICULAR CIRCUMSTANCES. FOR EXAMPLE, A BONDHOLDER THAT IS A "REGULATED INVESTMENT COMPANY" SHOULD CONSULT WITH ITS TAX ADVISOR CONCERNING THE CONSEQUENCES OF THE RECEIPT OF TAXABLE INTEREST OR OTHER TAXABLE INCOME ON THE BONDHOLDER'S ABILITY TO PAY "EXEMPT INTEREST DIVIDENDS" TO ITS OWN SHAREHOLDERS, AND ON THE BONDHOLDER'S OBLIGATIONS WITH RESPECT TO FORM 1099 REPORTING TO ITS SHAREHOLDERS AND TO THE INTERNAL REVENUE SERVICE.

(c) *Withholding and Reporting.*

Payments of interest, dividends, and certain other payments to non-exempt recipients are generally subject to backup withholding (currently at the rate of 28%) unless the payee of such payment furnishes such payee's correct taxpayer identification number (social security number or employer identification number) to the payor in the proper manner and certain other conditions are met. The payor may be required to withhold the applicable percentage of any payments made to a payee who does not provide his, her, or its taxpayer identification number. Backup withholding is not an additional tax, but an advance payment that may be refunded to the taxpayer by the Internal Revenue Service to the extent that the backup withholding results in an overpayment of tax by such taxpayer for the taxable year.

8.2 Importance of Obtaining Professional Tax Assistance.

THE FOREGOING DISCUSSION IS INTENDED ONLY AS A SUMMARY OF CERTAIN INCOME TAX CONSEQUENCES OF THE PLAN AND IS NOT A SUBSTITUTE FOR CAREFUL TAX PLANNING WITH A TAX PROFESSIONAL. THE ABOVE DISCUSSION IS FOR INFORMATIONAL PURPOSES ONLY AND IS NOT TAX ADVICE. THE TAX CONSEQUENCES ARE IN MANY CASES UNCERTAIN AND MAY VARY DEPENDING ON A CLAIM HOLDER'S PARTICULAR CIRCUMSTANCES. ACCORDINGLY, CLAIM HOLDERS ARE URGED TO CONSULT THEIR TAX ADVISORS ABOUT THE UNITED STATES FEDERAL, STATE AND LOCAL, AND APPLICABLE FOREIGN INCOME AND OTHER TAX CONSEQUENCES OF THE PLAN.

**9. ALTERNATIVES TO CONFIRMATION  
AND CONSUMMATION OF THE PLAN**

The Debtors have evaluated numerous alternatives to the Plan, including, without limitation, the sale of the Debtors as a going concern, either as an entirety or on limited bases, and the liquidation of the Debtors. After studying these alternatives, the Debtors have concluded that the Plan is the best alternative and will maximize recoveries of holders of Claims. The following discussion provides a summary of the analysis supporting the conclusion that a liquidation of the Debtors or an alternative plan of reorganization for the Debtors will not provide higher value to holders of Claims.

9.1 Liquidation Under Chapter 7 of the Bankruptcy Code. Section 1129(a)(7) of the Bankruptcy Code provides that, with respect to impaired classes, each holder of a claim or interest of such class must receive or retain under the plan on account of such claim or interest property of a value, as of the effective date of the plan, that is not less than the amount such holder would so receive or retain if the debtor liquidated under chapter 7 of Title 11 on such date. As demonstrated by the liquidation analysis attached hereto as Exhibit H, the Plan satisfies this standard.

The Debtors believe that liquidation under chapter 7 would result in smaller distributions being made to creditors than those provided for under the Plan because of (1) the increased costs and expenses of a liquidation under chapter 7 arising from fees payable to a trustee for bankruptcy and advisors to such trustee such as attorneys, accountants, health-care

consultants and real estate brokers/agents; (2) the erosion in value of Assets in the context of the expeditious liquidation required under chapter 7 and the “forced sale” environment in which such a liquidation would likely occur; (3) the significant costs that would be incurred in connection with a closing of the Debtors’ hospital and residential facilities including without limitation costs incurred in preserving patient records, purchasing required “tail” insurance, complying with the WARN Act, and complying with state and federal regulatory notice periods prior to the cessation of services; and (4) the substantial increases in Claims which would have to be satisfied on a priority basis or on parity with creditors in the Chapter 11 Cases. Accordingly, the Debtors have determined that confirmation of the Plan will provide each holder of a Claim with a greater recovery than it would receive pursuant to a liquidation of the Debtors under chapter 7.

Notwithstanding the foregoing, the Debtors believe that any liquidation analysis with respect to the Debtors is inherently speculative. The liquidation analysis for the Debtors necessarily contains estimates of the net proceeds that would be received from a sale of assets, as well as the amount of Claims that will ultimately become Allowed Claims. Claims estimates are based solely upon the Debtors’ incomplete review of any Claims filed and the Debtors’ books and records. No Order or finding has been entered by the Bankruptcy Court estimating or otherwise fixing the amount of Claims at the projected amounts of Allowed Claims set forth in the liquidation analysis. The estimate of the amount of Allowed Claims set forth in the liquidation analysis should not be relied on for any other purpose, including, without limitation, any determination of the value of any distribution to be made on account of Allowed Claims under the Plan. The estimate of Allowed Claims is based upon different assumptions and formula for different purposes than the estimates of Allowed Claims set forth in other sections of this Disclosure Statement.

9.2 Alternative Plans of Reorganization. If the Plan is not confirmed, any other party in interest could undertake to formulate a different plan of reorganization. Such a plan of reorganization might involve either (x) a reorganization and continuation of the business of the Debtors, (y) the sale of the Debtors as a going concern or (z) an orderly liquidation of the properties and interests in property of the Debtors. With respect to an alternative plan of reorganization, the Debtors have examined various other alternatives in connection with the process involved in the formulation and development of the Plan. The Debtors believe that the Plan, as described herein, enables holders of Claims to realize the best recoveries under the present circumstances. In a liquidation of the Debtors under chapter 11, the properties and interests in property would be sold in a more orderly fashion and over a more extended period of time than in a liquidation under chapter 7, probably resulting in marginally greater recoveries. Further, if a trustee were not appointed, since one is not required in a chapter 11 case, the expenses for professional fees would most likely be lower than in a chapter 7 case. However, although preferable to a chapter 7 liquidation, the Debtors believe that a liquidation under chapter 11 for the Debtors is a much less attractive alternative to holders of Claims than the Plan because the recovery realized by holders of Claims under the Plan is likely to be greater than the recovery under a chapter 11 liquidation.

## 10. FEASIBILITY OF THE PLAN

In connection with confirmation of the Plan, the Bankruptcy Court will have to determine that the Plan is feasible pursuant to Section 1129(a)(11) of the Bankruptcy Code, which means that the confirmation of the Plan is not likely to be followed by the liquidation or the need for further financial reorganization of the Debtors.

To support their belief in the feasibility of the Plan, the Debtors have relied upon, among other things, the financial projections attached to this Disclosure Statement as Exhibit I (the “Financial Projections”). The Financial Projections and, in particular, the assumptions contained therein, should be reviewed carefully. Among other things, the Financial Projections contain assumptions regarding (a) the future census of the Debtors; (b) the overall reimbursement rates, and the increases therein, expected to be obtained from the Debtors’ payors; (c) payor mix; (d) the Debtors’ ongoing expenses, including salary costs and benefits; (e) repairs and maintenance, (f) the cost of supplies, (g) the cost of outside services, and (h) future capital expenditures.

The Financial Projections indicate that the Reorganized Debtors should have sufficient cash flow to pay and service their debt obligations and to fund their operations as contemplated. Accordingly, the Debtors believe that the Plan complies with the financial feasibility standard of Section 1129(a)(11) of the Bankruptcy Code.

The Financial Projections were not prepared with a view toward compliance with the published guidelines of the American Institute of Certified Public Accountants or any other regulatory or professional agency or body or generally accepted accounting principles. Furthermore, no independent certified public accountants have compiled or examined the Financial Projections and accordingly no opinion or any other form of assurance has been obtained with respect thereto.

The Financial Projections assume that (1) the Plan will be confirmed and consummated in accordance with its terms, (2) there will be no material change in legislation or regulations, or the administration thereof, including environmental legislation or regulations, that will have an unexpected effect on the operations of the Reorganized Debtors, (3) there will be no change in United States generally accepted accounting principles that will have a material effect on the reported financial results of the Reorganized Debtors, and (4) there will be no material contingent or unliquidated litigation or indemnity claims applicable to the Reorganized Debtors. To the extent that the assumptions inherent in the Financial Projections are based upon future business decisions and objectives, they are subject to change. In addition, although they are presented with numerical specificity and are considered reasonable by the Debtors when taken as a whole, the assumptions and estimates underlying the Financial Projections are subject to significant business, economic and competitive uncertainties and contingencies, many of which will be beyond the control of the Reorganized Debtors. Accordingly, the Financial Projections are speculative in nature. It should be expected that some or all of the assumptions in the Financial Projections will not be realized and that actual results will vary from the Financial Projections, which variations may be material and may increase over time. The Financial Projections should therefore not be regarded as a representation by the Debtors or any other person that the results set forth in the Financial Projections will be achieved. In light of the foregoing, readers are cautioned not to place undue reliance on the Financial Projections. The

Debtors do not intend to update or otherwise revise the Financial Projections, including any revisions to reflect events or circumstances existing or arising after the date of this Disclosure Statement or to reflect the occurrence of unanticipated events, even if any or all of the underlying assumptions do not come to fruition. Furthermore, the Debtors do not intend to update or revise the Financial Projections to reflect changes in general economic or industry conditions.

## 11. THE SOLICITATION; VOTING PROCEDURES

The Bankruptcy Court may confirm the Plan only if it determines that the Plan complies with the technical requirements of chapter 11 of the Bankruptcy Code and that the disclosures by the Debtors concerning the Plan have been adequate and have included information concerning all payments made or to be made in connection with the Plan and the Chapter 11 Cases. In addition, the Bankruptcy Court must determine that the Plan has been proposed in good faith and not by any means forbidden by law and, under Rule 3020(b)(2) of the Bankruptcy Rules, it may do so without receiving evidence if no objection is timely filed.

In particular, the Bankruptcy Code requires the Bankruptcy Court to find, among other things, that (a) the Plan has been accepted by the requisite votes of the Classes of impaired Claims unless approval will be sought under Section 1129(b) of the Bankruptcy Code despite the dissent of one or more such classes, which will be the case under the Plan, (b) the Plan is “feasible,” which means that there is a reasonable probability that confirmation of the Plan will not be followed by liquidation or the need for further financial reorganization, and (c) the Plan is in the “best interests” of all holders of Claims and Interests, which means that such holders will receive at least as much under the Plan as they would receive in a liquidation under chapter 7 of the Bankruptcy Code. The Bankruptcy Court must find that all conditions mentioned above are met before it can confirm the Plan. Thus, even if all Classes of impaired Claims accept the Plan by the requisite votes, the Bankruptcy Court must make an independent finding that the Plan conforms to the requirements of the Bankruptcy Code, that the Plan is feasible, and that the Plan is in the best interests of the holders of Claims against, and Interests in, the Debtors. These statutory conditions to confirmation are discussed above.

11.1 Parties in Interest Entitled to Vote. Under Section 1124 of the Bankruptcy Code, a class of claims or interests is deemed to be impaired under a Plan unless (1) the Plan leaves unaltered the legal, equitable, and contractual rights to which such claim or interest entitles the holder thereof or (2) notwithstanding any legal right to an accelerated payment of such claim or interest, the plan cures all existing defaults (other than defaults resulting from the occurrence of events of bankruptcy) and reinstates the maturity of such claim or interest as it existed before the default.

In general, a holder of a claim or interest may vote to accept or to reject a plan if (1) the claim or interest is allowed, which means generally that no party in interest has objected to such claim or interest, and (2) the claim or interest is impaired by the plan. If the holder of an impaired claim or interest will not receive or retain any distribution under the plan in respect of such claim or interest, the Bankruptcy Code deems such holder to have rejected the plan. If the claim or interest is not impaired, the Bankruptcy Code deems that the holder of such claim or interest has accepted the plan and the plan proponent need not solicit such holder’s vote.

The holder of a Claim against a Debtor that is impaired under the Plan is entitled to vote to accept or reject the Plan if (i) the Plan provides a distribution in respect to such Claim and (ii) (a) the Claim has been Scheduled by the Debtors (and such claim is not Scheduled at zero or as disputed, contingent, or unliquidated) or (b) it has filed a Proof of Claim on or before the bar date applicable to such holder, pursuant to Sections 502(a) and 1126(a) of the Bankruptcy Code and Bankruptcy Rules 3003 and 3018. Any Claim as to which an objection has been timely filed and has not been withdrawn or dismissed or denied by Final Order is not entitled to vote unless the Bankruptcy Court, pursuant to Federal Rule of Bankruptcy Procedure 3018(a), upon application of the holder of the Claim with respect to which there has been objection, temporarily allows the Claim in an amount that the Bankruptcy Court deems proper for the purpose of accepting or rejecting the Plan.

A vote may be disregarded if the Bankruptcy Court determines, pursuant to Section 1126(e) of the Bankruptcy Code, that it was not solicited or procured in good faith or in accordance with the provisions of the Bankruptcy Code.

11.2 Classes Impaired under the Plan/Voting Classes. Classes A2, B2 and D2 (Bondholders), Classes A3, B3, C2, D3, E2, F2, G2, and H2 (PBGC Secured Claims and PBGC Unsecured Claims) and Classes A5, B5, C4, D5, E4, F4, G4, and H4 (General Unsecured Claims) may vote to accept or reject the Plan. Classes A1, B1, C1, D1, E1, F1, G1, and H1 (Priority Non-Tax Claims) and Classes A4, B4, C3, D4, E3, F3, G3, and H3 (Other Secured Claims) are unimpaired, and thus, pursuant to Section 1126(f) are deemed to have accepted the Plan.

11.3 No Liability for Solicitation or Participation. As specified in Section 1125(e) of the Bankruptcy Code, persons (including, but not limited to, the Released Parties and the Trustee Released Parties) that solicit acceptances or rejections of the Plan or that participate in the offer, issuance, sales, or purchase of securities offered or sold under the Plan, in good faith and in compliance with the applicable provisions of the Bankruptcy Code, shall not be liable, on account of such solicitation or participation, for violation of any applicable law, rule, or regulation governing the solicitation of acceptances or rejections of the Plan or the offer, issuance, sale, or purchase of securities.

## **12. TITLE TO PROPERTY; DISCHARGE; INJUNCTION.**

12.1 Vesting of Property. Upon the Effective Date, pursuant to Sections 1141(b) and (c) of the Bankruptcy Code, all property of the Debtors' Estates and any property acquired by a Debtor or Reorganized Debtor under the Plan shall vest in the Reorganized Debtors free and clear of all Claims, liens, encumbrances, charges and other interests, except as provided in the Plan. On and after the Effective Date, each Reorganized Debtor may operate its business and may use, acquire or dispose of property and, subject to Article 11 of the Plan, may compromise or settle any Claims without supervision or approval by the Bankruptcy Court and free of any restrictions of the Bankruptcy Code or Bankruptcy Rules, other than those restrictions expressly imposed by the Plan or the Confirmation Order. Without limiting the foregoing, each Reorganized Debtor may pay the charges that it incurs on or after the Effective Date for all fees, disbursements, expenses or related support services of professionals without application to, or

approval of, the Bankruptcy Court pursuant to the terms of any agreement between any such professional and the applicable Reorganized Debtor.

12.2 Waiver and Release of Avoidance Actions. As of the Effective Date all Avoidance Actions and all rights and remedies under Section 502(d) of the Bankruptcy Code with respect to Avoidance Actions shall be deemed fully and unconditionally waived and released by the Debtors and/or the Reorganized Debtors, on behalf of themselves, their estates and any party in interest who may have or acquire standing to pursue or recover the proceeds of any Avoidance Actions (including but not limited to the DIP Lender Group or the DIP Lender). Other than as specified above or otherwise expressly set forth herein, nothing in the Plan or the Confirmation Order shall be deemed a waiver or relinquishment of any Cause of Action, right of setoff, or other legal or equitable defense which the Debtors had immediately prior to the Petition Date other than with respect to Avoidance Actions.

12.3 Preservation of Litigation Claims. In accordance with Section 1123(b)(3)(B) of the Bankruptcy Code, and except as otherwise expressly provided herein, on the Effective Date all litigation claims shall be assigned to the Reorganized Debtors, and the Reorganized Debtors shall have the exclusive right to enforce, prosecute, settle, compromise, transfer or assign (or decline to do any of the foregoing) any or all of the litigation claims, including, without limitation, any and all derivative actions pending or otherwise existing against the Debtors or the Estates as of the Effective Date. On and after the Effective Date, all persons are permanently enjoined from commencing or continuing in any manner any action or proceeding (whether directly, indirectly, derivatively or otherwise) on account of or respecting any litigation claim which the Reorganized Debtors retain sole and exclusive authority to pursue in accordance with Section 8.12 of the Plan.

12.4 Settlement of Litigation Claims. At any time after the Confirmation Date and before the Effective Date, notwithstanding anything in the Plan to the contrary, the Debtor may settle any or all of the litigation claims with the approval of the Bankruptcy Court pursuant to Bankruptcy Rule 9019. After the Effective Date, the Reorganized Debtors may, and shall have the exclusive right to, compromise and settle any Claims against it and any claims it may have against any other person or entity, including, without limitation, any litigation claims (other than those claims expressly waived and released as set forth in Section 12.2 above), without notice to or approval from the Bankruptcy Court.

12.5 Discharge and Release Provisions.

(a) *Discharge of Debtors.* Except as otherwise provided in the Plan or the Confirmation Order, on the Effective Date, without further notice or order, all Claims of any nature whatsoever shall be automatically discharged forever. Except as otherwise provided in the Plan or the Confirmation Order, on the Effective Date, the Debtors, their Estates, and all successors thereto shall be deemed fully discharged and released from any and all Claims, including, without limitation, demands and liabilities that arose before the Effective Date, and all debts of the kind specified in Section 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 Section 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. The

Confirmation Order shall be a judicial determination of discharge of all liabilities of the Debtors, their Estates and all successors thereto. As provided in Section 524 of the Bankruptcy Code, such discharge shall void any judgment against the Debtors, their Estates, or any successor thereto 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 Reorganized Debtors or property of the Debtors or their Estates to the extent it relates to a discharged Claim.

Notwithstanding anything in the foregoing to the contrary, and further nothing in the Debtors' Chapter 11 Cases, Confirmation Order, Plan, Disclosure Statement, the Bankruptcy Code (and Section 1141 thereof), or any other document filed by the Debtors in the Chapter 11 Cases shall in any way be construed to discharge, release, limit, or relieve the Debtors, the Reorganized Debtors, or any other party, in any capacity, from any fiduciary liability or fiduciary responsibility with respect to the Pension Plan.

(b) *Release Provisions.* Sections 14.4, 14.5 and 14.6 of the Plan entitled **Releases by Debtors, Releases by the ACA Parties, the Bond Trustee, the Majority Bondholders and the PBGC, Exculpation- Debtors, Bond Trustee, Majority Bondholders, Committee, DIP Lenders and PBGC and Injunctions**, which provide as follows:

*Releases by Debtors.* For good and valuable consideration, the adequacy of which is hereby confirmed, upon the Effective Date, the Debtors shall be deemed forever to release, waive, and discharge all claims, obligations, suits, judgments, damages, demands, debts, rights, Causes of Action, and liabilities (other than any rights to enforce the terms of the Plan and the contracts, instruments, releases, and other agreements or documents delivered in connection with the Plan), 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, event, cause, matter, or thing taking place on or before the Effective Date against (i) the ACA Parties, if the Bondholders have voted to accept the Plan in accordance with section 1126(c) of the Bankruptcy Code, (ii) the Majority Bondholders, if the Bondholders have voted to accept the Plan in accordance with section 1126(c) of the Bankruptcy Code, (iii) the Bond Trustee, if the Bondholders have voted to accept the Plan in accordance with section 1126(c) of the Bankruptcy Code, unless the Bond Trustee has filed an objection to the Plan, (iv) the PBGC, if PBGC has voted to accept the Plan in accordance with section 1126(c) of the Bankruptcy Code, unless PBGC has filed an objection to the Plan, and (v) the DIP Lender Parties.

*Releases by the ACA Parties, the Bond Trustee, the Majority Bondholders and the PBGC.* For good and valuable consideration, the adequacy of which is hereby confirmed, assuming that the Plan is confirmed as provided herein or otherwise with the consent of the ACA Parties, the Bond Trustee, the Majority Bondholders and the PBGC, upon the Effective Date, the ACA Parties, the Bond Trustee, the Majority Bondholders and the PBGC (each respectively only if it is eligible to receive a release pursuant to Section 14.4(a) of the Plan) shall be deemed forever to release, waive, and discharge all claims, obligations, suits, judgments, damages, demands, debts, rights, Causes of Action, and liabilities (other than any rights to enforce the terms of the Plan and the contracts, instruments, releases, and other agreements or documents delivered in



connection with the Plan), 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, event, cause, matter, or thing taking place on or before the Effective Date against the Debtor Parties. For the avoidance of doubt, Section these releases do not apply to any claims, obligations, suits, judgments, damages, demands, debts, rights, Causes of Action, or liabilities of the Bondholders against ACA with respect to the Bond Insurance Policies.

*Releases by the Commuting Bondholders.* For good and valuable consideration, the adequacy of which is hereby confirmed, upon the Effective Date, the Commuting Bondholders shall be deemed forever to release, waive, and discharge all claims, obligations, suits, judgments, damages, demands, debts, rights, Causes of Action, and liabilities (other than any rights to enforce the terms of the Plan and the contracts, instruments, releases, and other agreements or documents delivered in connection with the Plan), 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, event, cause, matter, or thing taking place on or before the Effective Date solely with respect to the ACA Parties and the Bond Insurance Policies.

For the avoidance of doubt, Section 14.4 of the Plan does not apply to (i) any claims, obligations, suits, judgments, damages, demands, debts, rights, Causes of Action, or liabilities of the Non-Commuting Bondholders against ACA with respect to the Bond Insurance Policies, and (ii) ACA's current and future subrogation rights with respect to the Bond Insurance Policies, the Insured Bonds and the New Bonds held by or for the benefit of the Non-Commuting Bonds and any assignment rights available to ACA pursuant to the terms of the Custody Agreement.

*Exculpation - Debtors, Bond Trustee, Majority Bondholders, Committee, DIP Lenders, Exit Lenders and PBGC.* Neither the Debtors, the Bond Trustee, the Majority Bondholders, the Committee, the DIP Lender Group, the Exit Lender Group, the PBGC, nor their officers, directors, employees, agents, members and/or Professionals shall be liable for any Claims or Causes of Action related to or arising in connection with or out of the administration of the Chapter 11 Cases, pursuit of confirmation of the Plan, the consummation of the Plan, or the administration of the Plan or the property to be distributed under the Plan, except for gross negligence or willful misconduct as determined by Final Order of the Bankruptcy Court. The Confirmation Order shall enjoin all holders of Claims and other parties from asserting or prosecuting any Cause of Action against the Debtors, the Bond Trustee, the Committee, the DIP Lender Group, the Exit Lender Group, and/or their officers, directors, employees, agents, members and Professionals as to which such Person has been exculpated from liability pursuant to the preceding sentence.

*Injunction.* All Entities who have held, hold, or may hold Claims arising on or before the Effective Date and all other parties in interest in the Chapter 11 Cases, along with their respective current and former employees, agents, officers, trustees, principals, and affiliates, permanently are enjoined, from and after the Effective Date,

from (i) commencing or continuing in any manner any action or other proceeding of any kind against the Debtors or the Reorganized Debtors or against the property or interests in property of the Debtors or Reorganized Debtors, (ii) enforcing, attaching, collecting, or recovering by any manner or means of any judgment, award, decree, or order against the Debtors or Reorganized Debtors or against the property or interests in property of the Debtors or Reorganized Debtors, (iii) creating, perfecting, or enforcing any encumbrance of any kind against the Debtors or Reorganized Debtors or against the property or interests in property of the Debtors or Reorganized Debtors, or (iv) asserting any right of setoff or subrogation of any kind against any obligation due from the Debtors or Reorganized Debtors or against the property or interests in property of the Debtors or Reorganized Debtors, on account of such Claims; *provided, however*, that nothing contained herein shall preclude such Entities from exercising their rights pursuant to and consistent with the terms of the Plan and the contracts, instruments, releases, indentures, and other agreements and documents delivered under or in connection with the Plan.

***Injunction Against Interference with Plan.*** Upon entry of the Confirmation Order, all Holders of Claims and their respective current and former employees, agents, officers, trustees, principals, and affiliates shall be enjoined from taking any action to interfere with the implementation or consummation of the Plan. Each Holder of an Allowed Claim, by accepting distributions pursuant to the Plan, shall be deemed to have consented to the injunction provisions set forth in Section 14.6 of the Plan.

12.6 Discharge of Liabilities. Except as otherwise provided in the Plan, upon the occurrence of the Effective Date, the Debtors shall be discharged from all Claims and Causes of Action to the fullest extent permitted by Section 1141 of the Bankruptcy Code, and all holders of Claims shall be precluded from asserting against the Reorganized Debtors, the Debtors, the Estates, the Assets, or any property dealt with under the Plan, any further or other Cause of Action based upon any act or omission, transaction, event, thing, or other activity of any kind or nature that occurred or came into existence prior to the Effective Date.

EXCEPT AS OTHERWISE PROVIDED IN THE PLAN, THE REORGANIZED DEBTORS SHALL NOT HAVE, AND SHALL NOT BE CONSTRUED TO HAVE OR MAINTAIN ANY LIABILITY, CLAIM, OR OBLIGATION THAT IS BASED IN WHOLE OR IN PART ON ANY ACT, OMISSION, TRANSACTION, EVENT, OTHER OCCURRENCE, OR THING OCCURRING OR IN EXISTENCE ON OR PRIOR TO THE EFFECTIVE DATE OF THE PLAN (INCLUDING, WITHOUT LIMITATION, ANY LIABILITY OR CLAIMS ARISING UNDER APPLICABLE NON-BANKRUPTCY LAW AS A SUCCESSOR TO THE DEBTORS) AND NO SUCH LIABILITIES, CLAIMS, OR OBLIGATIONS FOR ANY ACTS SHALL ATTACH TO THE REORGANIZED DEBTORS.

12.7 Indemnification. All indemnification provisions currently in place (whether in the bylaws, articles or certificates of incorporation, articles of limited partnership, limited liability company agreements, board resolutions (or resolutions of similar bodies), or employment contracts) for the directors, officers, employees, attorneys, or other professionals and agents of the Debtor (from the Petition Date forward) shall be assumed, and shall survive effectiveness of the Plan. All indemnification provisions in place on and prior to the Effective Date for current directors and officers of the Debtor (from the Petition Date forward) shall (a)

survive the Effective Date of the Plan for Claims related to or in connection with any actions, omissions, or transactions occurring prior to the Effective Date, and (b) remain liabilities of the Reorganized Debtor specifically on behalf of the Debtor.

12.8 Setoff. The Debtors or the Reorganized Debtors may, but shall not be required to setoff or recoup against any Claim and the payments or other distributions to be made pursuant to the Plan in respect of such Claim (before any distribution is made on account of such Claim), claims of any nature whatsoever that the Debtors or the Reorganized Debtors may have against the Holder of such Claim to the extent such Claims may be setoff or recouped under applicable law, but neither the failure to do so nor the allowance of any Claim hereunder shall constitute a waiver or release by the Debtors or Reorganized Debtors of any such Claim it may have against such Holder; provided, however, that nothing contained herein or in the Plan shall permit the Debtors or the Reorganized Debtors to set off against any Claim based on Avoidance Actions.

12.9 Further Information; Additional Copies. If you have any questions about (1) the procedures for voting your Claim, (2) the packet of materials that you have received or (3) the amount of your Claim, or if you wish to obtain an additional copy of the Plan or this Disclosure Statement, please contact:

KidsPeace Corporation, et al  
Attn: Andrew Burke, Esq.  
4085 Independence Drive  
Schnecksville, PA 18078  
(800) 257-3223 (phone)  
(610) 769-7972 (facsimile)

### **13. RECOMMENDATION AND CONCLUSION**

The Debtors believe that the Plan is in the best interest of all holders of Claims and urge all holders of impaired Claims to vote to accept the Plan and to evidence such acceptance by returning their Ballots in accordance with the instructions accompanying this Disclosure Statement. **IN ORDER FOR YOUR VOTE TO BE COUNTED, YOUR BALLOT MUST BE PROPERLY COMPLETED AND RECEIVED BY THE VOTING AGENT NO LATER THAN THE VOTING DEADLINE.**

Dated: February 4, 2014

Respectfully submitted,

/s/ William R. Isemann, President and CEO

KidsPeace Corporation, *et al.*

**List of Exhibits**

- Exhibit A- Joint Chapter 11 Plan of Reorganization of KidsPeace Corporation, et al
- Exhibit B- Post-Confirmation Management
- Exhibit C- Asset/Liability Summary
- Exhibit D- Select Historical Financial Information
- Exhibit E- Preliminary Analysis of Filed Proofs of Claim
- Exhibit F- Summary of Post-Petition Operations
- Exhibit G- Exit Facility
- Exhibit H- Liquidation Analysis
- Exhibit I- Financial Projections
- Exhibit J- ACA Insurance Discussion

**Schedules**

- Schedule 1: Schedule of Assumed Executory Contracts and Unexpired Leases and Cure Amounts

# **EXHIBIT A**

**UNITED STATES BANKRUPTCY COURT  
FOR THE EASTERN DISTRICT OF PENNSYLVANIA**

In re:

KidsPeace Corporation, et. al.

Debtors.<sup>1</sup>

Chapter 11

Case No. 13-14508 (REF)

Jointly Administered

**FIRST MODIFIED JOINT CHAPTER 11 PLAN OF REORGANIZATION OF  
KIDSPEACE CORPORATION; KIDSPEACE CHILDREN'S HOSPITAL, INC.;  
KIDSPEACE MESABI ACADEMY, INC.; KIDSPEACE NATIONAL CENTERS, INC.;  
KIDSPEACE NATIONAL CENTERS OF NEW ENGLAND, INC.; KIDSPEACE  
NATIONAL CENTERS OF NORTH AMERICA, INC.; IRON RANGE SCHOOL, INC.;  
KIDSPEACE NATIONAL CENTERS OF NEW YORK, INC.<sup>2</sup>**

Dated: February 4, 2014

NORRIS McLAUGHLIN & MARCUS, P.A.  
Morris S. Bauer, Esq.  
Joseph R. Zapata, Esq.  
The Paragon Centre  
Suite 300, 1611 Pond Road  
Allentown, PA 18104  
(610) 391-1800

Attorneys for the Debtors and  
Debtors in Possession

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<sup>1</sup> The Debtors and the last four digits of their respective taxpayer identification numbers are as follows: KidsPeace Corporation (3394); KidsPeace Children's Hospital, Inc. (4910); KidsPeace Mesabi Academy, Inc. (4179); KidsPeace National Centers, Inc. (4908); KidsPeace National Centers of Georgia, Inc. (7440); KidsPeace National Centers of New England, Inc. (1326); KidsPeace National Centers of North America, Inc. (4765); Iron Range School, Inc. (0561); and KidsPeace National Centers of New York, Inc. (1888). The Debtors' address is 5300 KidsPeace Drive, Orefield, Pennsylvania 18069.

<sup>2</sup> KidsPeace National Centers of Georgia, Inc. ("KPGA") will file its own Plan of Reorganization and is not included in this First Modified Joint Chapter 11 Plan of Reorganization.

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**DEBTORS' FIRST MODIFIED PLAN OF REORGANIZATION  
UNDER CHAPTER 11 OF THE BANKRUPTCY CODE**

KidsPeace Corporation (“KPC”), KidsPeace Children’s Hospital, Inc. (“KPCH”), KidsPeace Mesabi Academy, Inc. (“Mesabi”), KidsPeace National Centers, Inc. (“KPNC”), KidsPeace National Centers of New England, Inc. (“KPNE”), KidsPeace National Centers of North America, Inc. (“KPNA”), Iron Range School, Inc. (“Iron Range”) and KidsPeace National Centers of New York, Inc. (“KPNY”), as debtors and debtors in possession in the above captioned cases, respectfully propose the following plan of reorganization under chapter 11 of the Bankruptcy Code (the “Plan”).

**THE BOND TRUSTEE, ACA, THE MAJORITY BONDHOLDERS, THE PENSION BENEFIT GUARANTY CORPORATION, AND THE OFFICIAL COMMITTEE OF UNSECURED CREDITORS FULLY SUPPORT THIS PLAN AND URGE ALL ELIGIBLE CREDITORS TO VOTE IN FAVOR OF IT.**

Prior to voting to accept or reject the Plan, eligible creditors are encouraged to read the Plan, the accompanying Disclosure Statement, and their respective exhibits and schedules in their entirety. No materials other than the Plan, the Disclosure Statement, and their respective exhibits and schedules have been authorized by the Debtors for use in soliciting acceptances or rejections of the Plan.

**PLEASE NOTE THAT SECTIONS 14.4, 14.5 AND 14.6 OF THE PLAN SET FORTH DETAILED RELEASE, EXCULPATION AND INJUNCTION PROVISIONS RELATING TO VARIOUS PERSONS, INCLUDING DEBTOR PARTIES, BOND TRUSTEE, MAJORITY BONDHOLDERS, ACA PARTIES, THE PBGC, COMMUTING BONDHOLDERS, DIP LENDERS, THE COMMITTEE AND OTHERS.**

**ARTICLE 1  
DEFINITIONS**

In the Plan, the following definitions apply:

“*ACA*” means ACA Financial Guaranty Corporation.

“*ACA Insurance Commutation*” shall have the meaning given in Section 7.13(a).

“*ACA Insurance Commutation Commitment*” means an executed commitment from ACA to honor the ACA Insurance Commutation, a form of which will be included in the Plan Supplement.

“*ACA Parties*” means ACA and its affiliates, directors, officers, employees, representatives, financial advisors, attorneys, or agents acting in such capacity, or any of their successors or assigns.

“**Adjusted EBIDAR**” means, for any period, the sum, for the Obligated Group, of the following: (a) EBIDA, plus (b) to the extent deducted in determining consolidated excess revenue and expenses, restructuring and bankruptcy expenses, plus (c) to the extent deducted in determining consolidated excess revenue and expenses, extraordinary charges relating to non-scheduled litigation payments.

“**Administrative Bar Date**” means the date that is 45 days after the Confirmation Date.

“**Administrative Expense Claim**” means any right to payment, whether secured or unsecured, constituting a cost or expense of administration of any of the Chapter 11 Cases (incurred after the Petition Date and prior to the Effective Date, or in the case of a Section 503(b)(9) Claim, incurred prior to the Petition Date) described in Sections 330, 331, or 503(b) and entitled to priority under Sections 503(b) and 507(a)(2) of the Bankruptcy Code, including, without limitation, any actual and necessary costs and expenses of preserving the Debtors’ Estates, any actual and necessary costs and expenses of operating the Debtors’ businesses, any indebtedness or obligations incurred or assumed by the Debtors, as debtors in possession during the Chapter 11 Cases, including without limitation any allowances of compensation and reimbursement of expenses to the extent allowed by Final Order under Section 330 or 503 of the Bankruptcy Code. For the avoidance of doubt, Allowed (i) fees and expenses of the Bond Trustee, its counsel and advisors, (ii) fees and expenses of each Professional, and (iii) Section 503(b)(9) Claims shall be treated as Administrative Expenses.

“**Allowed**” means, with respect to a Claim: (i) any Claim against any Debtor which is listed by such Debtor in the Schedules as liquidated in amount and not disputed and/or contingent and for which no contrary proof of claim has been filed; (ii) any Claim, proof of which was filed on or before the Bar Date, that is not a Contested Claim and as to which no objection to the allowance thereof has been interposed on or before the Initial Distribution Date; (iii) any Claim, proof of which was filed on or before the Bar Date, which is neither a Contested Claim nor a Disallowed Claim; or (iv) any Claim, proof of which was filed on or before the Bar Date, expressly allowed by a Final Order or by agreement in accordance with the provisions of the Plan.

“**Alternate Creditor Treatment**” means the alternate treatment provided for General Unsecured Creditors on an opt-in basis in Classes A5, B5, C4, D5, E4, F4, G4, and H4 of this Plan.

“**Annual Evaluation Date**” means the forty-fifth (45th) day following the end of each Fiscal Year.

“**Assets**” means, with respect to any Debtor, all of such Debtor’s right, title and interest of any nature in property of any kind, wherever located, as specified in Section 541 of the Bankruptcy Code.

“**Authority**” means the Lehigh Valley General Authority.

“**Authorized Debtors’ Representative**” means the CEO or CFO of the Reorganized Debtors.

**“Available Liquidity”** means, on any day, the amount of unrestricted Cash available to be withdrawn from bank accounts of the Debtors, plus unused and available borrowing on any working capital line of credit, plus balances in the Repair and Replacement Fund. For this purpose, funds which are internally designated by the Board of Directors but not otherwise donor-restricted, shall be treated as unrestricted.

**“Avoidance Actions”** means any and all actual or potential Causes of Action to avoid and/or recover a transfer of property or an obligation incurred by a Debtor pursuant to any applicable Section of the Bankruptcy Code, including Sections 544, 545, 547, 548, 549, 550, 551, 553(b), and 724(a) of the Bankruptcy Code.

**“Ballot”** means those certain ballots sent to holders of Claims for purposes of voting on the Plan.

**“Balloting, Claims, and Notice Agent”** means Rust Omni, the Debtors’ Balloting, Claims, and Notice Agent.

**“Bankruptcy Code”** means the Bankruptcy Reform Act of 1978, as codified at Title 11 of the United States Code, as amended from time to time and applicable to the Chapter 11 Cases.

**“Bankruptcy Court”** means the United States Bankruptcy Court for the Eastern District of Pennsylvania, or such other court having jurisdiction over the Chapter 11 Cases.

**“Bankruptcy Rules”** means the Federal Rules of Bankruptcy Procedure, as prescribed by the United States Supreme Court pursuant to Section 2075 of Title 28 of the United States Code and as applicable to the Chapter 11 Cases.

**“Bar Date”** or **“Section 503(b)(9) Bar Date”** means August 30, 2013 at 5:00 Eastern Time, or such other supplemental deadline for the filing of proofs of claim as may be established pursuant to an order of the Bankruptcy Court.

**“Bar Date Order”** means the order of the Bankruptcy Court establishing the Bar Date and the Section 503(b)(9) Bar Date.

**“Bond Insurance Policies”** means Secondary Market Insurance Policy No. S0898-138, effective as of August 13, 1998, and Secondary Market Insurance Policy No. S0898-139, effective as of August 13, 1998.

**“Bond Secured Claim”** means that portion of the Bond Trustee/Bondholders Secured and Unsecured Claims that is secured by the Bond Trustee Liens, which is not less than \$46,000,000.

**“Bond Trust Documents”** means the Bond Trust Indenture, the 1998 Bonds, the 1999 Bonds (as such terms are defined in the Bond Trust Indenture) and all other documents executed in connection therewith.

**“Bond Trust Indenture”** shall mean that certain Loan and Trust Agreement dated as of November 1, 1989 among Northeastern Bank of Pennsylvania as the original trustee (**“Original Trustee”**), the Authority, and Wiley House (n/k/a KidsPeace), as amended and supplemented by that certain First Supplement to Loan and Trust Agreement dated as of April 1, 1991 among Original Trustee, KidsPeace and the Authority, that certain Joinder Agreement dated as of December 30, 1991 among Wiley House Treatment Centers, Inc. (n/k/a KidsPeace National Centers), the Authority and the Original Trustee and acknowledged by KidsPeace and National Hospital for Kids in Crisis, Inc. (n/k/a KidsPeace Children’s Hospital), that certain Joinder Agreement dated as of December 30, 1991 among National Hospital for Kids in Crisis, Inc. (n/k/a KidsPeace Children’s Hospital), Authority and Original Trustee and acknowledged by KidsPeace and Wiley House Treatment Centers, Inc. (n/k/a KidsPeace National Centers), that certain Joinder Agreement dated September 19, 1997 among KidsPeace National Centers for Kids in Crisis of Pennsylvania, Inc. (n/k/a KidsPeace National Centers of Pennsylvania, Inc.), Authority, SunTrust Bank, Central Florida, National Association as successor to Original Trustee, and acknowledged by KidsPeace, National Hospital for Kids in Crisis, Inc. (n/k/a KidsPeace Children’s Hospital) and KidsPeace National Centers for Kids in Crisis, Inc. (n/k/a KidsPeace National Centers), that certain Second Supplement to Loan and Trust Agreement dated as of August 1, 1998 among KidsPeace, KidsPeace National Centers for Kids in Crisis, Inc. (n/k/a KidsPeace National Centers), National Hospital for Kids in Crisis, Inc. (n/k/a KidsPeace Children’s Hospital), KidsPeace National Centers for Kids in Crisis of Pennsylvania, Inc. (n/k/a KidsPeace National Centers of Pennsylvania, Inc.), the Authority and Chase Manhattan Trust Company, National Association as successor trustee, that certain Third Supplement to Loan and Trust Agreement dated as of August 1, 1999 among Authority, KidsPeace, KidsPeace National Centers for Kids in Crisis, Inc. (n/k/a KidsPeace National Centers), National Hospital for Kids in Crisis, Inc. (n/k/a KidsPeace Children’s Hospital), KidsPeace National Centers for Kids in Crisis of Pennsylvania, Inc. (n/k/a KidsPeace National Centers of Pennsylvania, Inc.) and Chase Manhattan Trust Company, National Association as successor trustee, that certain Fourth Supplement to Loan and Trust Agreement dated as of February 1, 2002 among Authority, KidsPeace, KidsPeace National Centers for Kids in Crisis, Inc. (n/k/a KidsPeace National Centers), National Hospital for Kids in Crisis, Inc. (n/k/a KidsPeace Children’s Hospital), KidsPeace National Centers for Kids in Crisis of Pennsylvania, Inc. (n/k/a KidsPeace National Centers of Pennsylvania, Inc.) and J.P. Morgan Trust Company, National Association as successor trustee, and that certain Fifth Supplement to the Loan and Trust Agreement dated as of September 30, 2009, among Authority, KidsPeace, KidsPeace National Centers, Inc., KidsPeace Children’s Hospital, Inc., and KidsPeace National Centers of Pennsylvania, Inc., and The Bank of New York Mellon Trust Company, N.A., as Trustee.

**“Bond Trustee”** means UMB Bank, N.A., St. Louis, Missouri, as successor Indenture Trustee under the Bond Indenture for the Bonds and as Indenture Trustee under the New Indenture for the New Bonds.

**“Bond Trustee/Bondholders Claims”** includes the Bond Secured Claims and the Bond Unsecured Claims and means the entire Claim of the Bond Trustee and the Bondholders, which the Bond Trustee, the Majority Bondholders, and the Debtors have agreed to settle as set forth in the Plan. For avoidance of doubt, the Bond Trustee/Bondholders Secured and Unsecured Claims are the Claims in Classes A2, B2, and D2 of the Plan.

**“Bond Trustee Liens”** means the Bond Trustee’s Liens on the Existing Debt Service Reserve Funds, on the Gross Receipts (as defined in the Bond Trust Indenture) of the Obligated Group, and on the Orchard Hills Property as described in the Orchard Hills Mortgage.

**“Bond Unsecured Claim”** means any Claim of the Bond Trustee or the Bondholders that is not a Bond Secured Claim, Priority Non-Tax Claim or an Administrative Claim.

**“Bondholders”** means the holders of the Bonds on the Effective Date.

**“Bondholders Resolution”** means the Terms Sheet, Forbearance Agreement and Plan Support Agreement entered by and among the Debtors, except for Georgia, and UMB, as the Bond Trustee and the Majority Bondholders each dated as of January 11, 2013, as amended from time to time.

**“Bonds”** means the Lehigh County General Purpose Authority Revenue Bonds (KidsPeace Obligated Group), Series 1998 and 1999.

**“Budgeted CapEx”** means, beginning in 2014, \$2,000,000 in any Fiscal Year through the Fiscal Year ending December 31, 2016; \$3,000,000 in any Fiscal Year thereafter.

**“Business Day”** means any day other than a Saturday, a Sunday or any other day on which commercial banks are required or authorized to close for business.

**“Business Plan”** means the business plan that the Debtors will be required to provide to the Bond Trustee (with a copy to the Committee) prior to the Effective Date, which under the New Indenture the Obligated Group may subsequently revise for fiscal years starting with the Fiscal Year ending December 31, 2015, subject to approval of the Bond Trustee.

**“Cash”** means legal tender of the United States of America or readily marketable direct obligations of, or obligations guaranteed by, the United States of America.

**“Cash Available for Debt Service”** means, with respect to any period of 12 consecutive calendar months, the following (all determined in accordance with GAAP): the excess of revenues over expenses of the Debtors, excluding from revenues and expenses (i) gains or losses resulting from either the extinguishment of indebtedness or the sale, exchange or other disposition of capital assets not made in the ordinary course of business, (ii) non-recurring, unanticipated gains or losses that are considered to be extraordinary under GAAP, (iii) unrealized gains and losses on investments, (iv) receipts and payments on Rate Agreements (as defined in the Plan Supplement), (v) any so-called market charge or market credit attributable to any Rate Agreement under Financial Accounting Standard 133 or otherwise, and excluding from expenses those expenses incurred or recognized during such period in respect of (1) interest expense on Long Term Indebtedness (as defined in the Plan Supplement), (2) the amortization of bond discount and financing charges on Long Term Indebtedness (as defined in the Plan Supplement), (3) the amortization of any acquisition costs, and (4) depreciation expenses; provided, however, that the exclusion of losses described above shall be limited to the lesser of the aggregate amount of such losses or the aggregate amount of the Debtors’ Available Liquidity, as certified in an Officer’s Certificate. Any exclusion for purposes for calculating

Cash Available for Debt Service shall not affect the Debtors' obligation to disclose in its audited financial statements the non-operating revenues and non-operating expenses described in (i), (ii), (iii), (iv) and (v) above.

**"Causes of Action"** means all claims, rights, actions, causes of action, liabilities, obligations, suits, debts, remedies, dues, sums of money, accounts, reckonings, bonds, bills, specialties, covenants, contracts, controversies, agreements, promises, variances, trespasses, damages or judgments, whether known or unknown, liquidated or unliquidated, fixed or contingent, matured or unmatured, foreseen or unforeseen, asserted or unasserted, arising in law, equity or otherwise, including without limitation any claims, causes of action, rights or remedies created by or arising under the Bankruptcy Code, including without limitation transfers avoidable and/or recoverable under chapter 5 of the Bankruptcy Code, or under other applicable law, on behalf of the Debtors and their Estates.

**"CBIs"** means the Certificates of Bond Insurance bearing "enhanced" CUSIPs 524805G51 and 524805G69, issued by the Custodian, evidencing, among other things, a beneficial ownership in the Insured Bonds.

**"Chapter 11 Cases"** means the cases commenced under chapter 11 of the Bankruptcy Code and pending before the Bankruptcy Court with respect to each of the Debtors, styled as *In re KidsPeace Corporation et al.*, Case No. 13-14508-REF.

**"Charging Lien"** means any Lien or other priority in payment arising prior to the Effective Date to which the Bond Trustee is entitled under the Bond Trust Documents.

**"Claim"** means (a) any right to payment, whether or not such right is known or unknown, reduced to judgment, liquidated, unliquidated, fixed, contingent, matured, unmatured, disputed, undisputed, legal, equitable, secured, or unsecured, or (b) any right to an equitable remedy for breach of performance if such breach gives rise to a right of payment, whether or not such right to an equitable remedy is known or unknown, reduced to judgment, fixed, contingent, matured, unmatured, disputed, undisputed, secured, or unsecured.

**"Committee"** means the Official Committee of Unsecured Creditors appointed by the U.S. Trustee in the Chapter 11 Cases.

**"Committee Representative"** shall have the meaning given to such term in Section 7.9(c).

**"Committee Representative Payment"** shall have the meaning given to such term in Section 7.9(c).

**"Commutation Payment"** shall mean a Cash distribution made by ACA to each Commuting Bondholder equal to 36% of the par amount of the Insured Bonds held by such Commuting Bondholder on the Effective Date.

**"Commutation Percentage"** shall mean and refer to a fraction, the numerator of which is the par amount of the ACA Bonds held by the Commuting Bondholders and the denominator of which is the par amount of all outstanding ACA Bonds as of the Effective Date.



**“Commuting Bondholders”** shall mean and refer to the Insured Bondholders that (i) do not affirmatively elect to opt-out of the ACA Insurance Commutation in accordance with Section 7.13, (ii) voluntarily accept any portion of the Commutation Payment, or (iii) fail to return a timely ballot with respect to the Plan.

**“Confirmation Date”** means the date on which the Clerk of the Bankruptcy Court enters the Confirmation Order on the dockets of the Chapter 11 Cases.

**“Confirmation Hearing”** means the hearing held by the Bankruptcy Court, as it may be continued from time to time, to consider confirmation of the Plan pursuant to Section 1129 of the Bankruptcy Code.

**“Confirmation Order”** means the order of the Bankruptcy Court confirming the Plan.

**“Constituent Documents”** means the Articles of Incorporation and By-Laws of each of the Debtors and any other ancillary documents relating thereto.

**“Contested Claim”** means any Claim as to which either the Debtors, Reorganized Debtors or any other party in interest have filed an objection, provided that the holder thereof has been so notified in writing no later than ninety (90) days after the Effective Date unless such date has been extended in accordance with Section 10.2 hereof.

**“Cure Cost”** means any amount payable by a Debtor pursuant to Section 11.2 and Section 365(b)(1) of the Bankruptcy Code.

**“Custodian”** means US Bank, N.A., as the custodian pursuant to the Custody Agreement.

**“Custody Agreement”** means the Custody Agreement, dated as of November 3, 1997, between US Bank, N.A. as successor in interest to First Trust of New York, N.A., as custodian, and ACA, as successor in interest to American Capital Access Corporation, as insurer.

**“Days’ Cash on Hand”** means, for any period of time, a number determined by (A) multiplying (i) the number of days in such period, by (ii) the amount of Available Liquidity held on the last day of such period, and (B) dividing the amount determined in clause (A) by an amount equal to the total Operating Expenses of the Debtors for such period less depreciation, amortization, and provision for bad debt expense for such period, all of which shall be determined in accordance with GAAP. For this purpose, Operating Expenses shall be determined as the actual Operating Expenses for the twelve months ending with the date of calculation.

**“Debt Service Coverage Ratio”** means as of any Annual Evaluation Date, the ratio of Cash available for Debt Service for the Fiscal Year then ended to the aggregate Debt Service Requirements on the Series A Bonds and the Series B Bonds due in such Fiscal Year.

***“Debt Service Fund”*** means, collectively, the funds and accounts established under the New Indenture to receive payments by the Debtors on account of Debt Service Requirements on the New Bonds.

***“Debt Service Requirements”*** means, with respect to the period of time for which calculated, the aggregate of payments required to be made during such period in respect of principal (whether at maturity, as a result of mandatory sinking fund redemption, mandatory prepayment or otherwise) and interest on outstanding Indebtedness of the Reorganized Debtors; *provided* that: (a) interest shall be excluded from the determination of the Debt Service Requirements to the extent that capitalized interest is available to pay such interest; and (b) principal of Indebtedness shall be excluded from the determination of Debt Service Requirements to the extent that amounts are on deposit in an irrevocable escrow and such amounts (including, where appropriate, the earnings or other increment to accrue thereon) are required to be applied to pay such principal and such amounts so required to be applied are sufficient to pay such principal.

***“Debtor”*** means, as applicable, KPC, KPCH, Mesabi, KPNC, KPNE, KPNA, KPNY or Iron Range.

***“Debtor Parties”*** means the Debtors, each of their respective bankruptcy estates, and their respective affiliates, trustees, officers, employees, representatives, financial advisors, attorneys, or agents acting in such capacity, or any of their successors or assigns.

***“Debtors”*** means collectively, KPC, KPCH, Mesabi, KPNC, KPNE, KPNA, KPNY or Iron Range.

***“Debtors’ Real Property”*** means all interests in real property and the personal property and fixtures associated therewith owned by any of the Debtors, including the Orchard Hills Property.

***“Debtor-in-Possession”*** means any Debtor, in its capacity as a debtor-in-possession pursuant to Sections 1107(a) and 1108 of the Bankruptcy Code.

***“DIP Lender Group”*** or ***“DIP Lender”*** means (1) the Agent as defined in the DIP Loan Documents, (2) each Lender as defined in the DIP Loan Documents, and (3) each of their respective agents and delegates identified from time to time to effectuate the DIP Loan Documents, including HF-4 and HFG.

***“DIP Lender Debt”*** means and includes any and all amounts due, whether now existing or hereafter arising, under the DIP Loan or the DIP Loan Documents, including, without limitation, any and all principal, interest, penalties, fees (including, without limitation, the Non-Utilization Fee, the Facility Fee, the Collateral Tracking Fee and the Exit Facility Fee, each as defined in the DIP Loan), charges, premiums, indemnities and costs owed or owing to the DIP Lender by the Debtors, or any of them, in each instance, whether absolute or contingent, direct or indirect, secured or unsecured, due or not due, arising by operation of law or otherwise, and all interest and other charges thereon, including, without limitation, post-petition interest whether or not such interest is an allowable claim in a bankruptcy proceeding.

**“DIP Loan”** means the Loan and Security Agreement dated May 23, 2013, as amended and supplemented from time to time, entered among the Debtors and the DIP Lender Group.

**“DIP Loan Documents”** means the DIP Loan, the Orders (as defined in the DIP Loan), the Depository Agreements (as defined in the DIP Loan), the Existing Bond Intercreditor Agreements, the Existing PBGC Intercreditor Agreement, each Borrowing Base Report (as defined in the DIP Loan), each Monthly Report (as defined in the DIP Loan), the Budget (as defined in the DIP Loan), and each other document or instrument now or hereafter executed or delivered to the DIP Lender Group pursuant to or in connection therewith (including, without limitation, each other agreement now existing or hereafter created providing collateral security for the payment or performance of any DIP Lender Debt).

**“DIP Order”** means both the Interim Order (I) Authorizing the Debtors to Obtain Postpetition Financing, (II) Authorizing the Debtor to Use Prepetition Collateral, (III) granting adequate protection, (IV) Stipulating to the Validity, Enforceability and Non-Avoidability of Certain Pre-Petition Liens and (V) Scheduling Final Hearing (Docket No. 56) and the Final Order (I) Authorizing the Debtors to Obtain Postpetition Financing, (II) Authorizing the Debtor to Use Prepetition Collateral, (III) granting adequate protection, and (IV) Stipulating to the Validity, Enforceability and Non-Avoidability of Certain Pre-Petition Liens (Docket No. 147).

**“Disallowed”** when used with respect to any Claim, means:

- (a) Any Claim that has been disallowed or expunged by a Final Order;
- (b) Any Claim against any Debtor that has been listed by such Debtor in the Schedules in the amount of \$0 or as unliquidated in amount, disputed, or contingent and for which a Bar Date has been established but no proof of claim has been timely filed or, pursuant to a Final Order of the Bankruptcy Court, deemed timely filed; or
- (c) Any Claim that is not listed on the Schedules for the subject Debtor and for which a Bar Date has been established but no proof of claim has been timely filed or, pursuant to a Final Order of the Bankruptcy Court, deemed timely filed.

**“Disbursing Agent”** means the Reorganized KPC.

**“Disclosure Statement”** means the Disclosure Statement filed with respect to the Plan, as it may be amended or modified from time to time.

**“Discretionary CAPEX”** means any payments made by the Debtors for CapEx greater than Budgeted CapEx. Discretionary CapEx does not include Budgeted CapEx not spent in prior years.

**“Distribution Date”** means, with respect to any Allowed Claim either: (a) the Initial Distribution Date; and/or (b) the date on which a Subsequent Distribution is made, as defined in and subject to the provisions set forth in Article 9 herein.

**“Distribution Record Date”** shall mean the Confirmation Date or such other date as may be designated in the Confirmation Order.

**“EBIDA”** means, for any period, the sum, for the Debtors (determined on a consolidated basis without duplication in accordance with GAAP), of the following: (a) consolidated excess revenue and expenses, plus (b) consolidated interest expense, plus (c) depreciation and amortization expense, plus (d) noncash items for such period in each case to the extent deducted or added in determining consolidated excess revenue and expenses, including depreciation and amortization, impairment charges, unrealized gains or losses on financial instruments, noncash financial losses on the extinguishment of debt, and the noncash portion of postretirement benefits.

**“Effective Date”** means a date selected by the Debtors, which must be a Business Day, that is no later than thirty (30) Business Days after all of the conditions specified in Section 12.2 have been satisfied or waived (to the extent subject to waiver).

**“Encumbrance”** means, with respect to any property, whether tangible or intangible, any mortgage, lien, pledge, charge, security interest, assignment, or encumbrance of any nature in respect of such property (including, without express or implied limitation, any conditional sale or other title retention agreement to give, any financing statement under the Uniform Commercial Code or comparable law of any jurisdiction).

**“Entity”** means any Person or organization created by law, including, without limitation, any individual, company, corporation, limited liability company, partnership, association, joint stock company, joint venture, estate, trust, unincorporated organization, or government or any political subdivision thereof.

**“Estate”** means the estate of any Debtor created by Section 541 of the Bankruptcy Code upon the commencement of the Chapter 11 Cases.

**“Excess Cash Flow”** means (i) EBIDA for a given period; plus (ii) any Restricted Pension Payments made during such period; plus (iii) any Restricted Compensation made during such period; plus (iv) the positive (as a minus) or negative (as a plus) difference in working capital compared to the prior Fiscal Year; plus (v) the positive (as a minus) or negative (as a plus) difference in the Repair and Replacement Fund compared to the prior Fiscal Year; plus (vi) the positive (as a minus) or negative (as a plus) difference in the Debt Service Fund compared to the prior Fiscal Year, less (vii) interest expenses on all Indebtedness; less (viii) principal payments on all non-revolving Indebtedness; less (ix) Budgeted CapEx payments; less (x) to the extent not otherwise included in EBIDA, restructuring expenses related to the Bankruptcy Proceeding, including fees of Professionals, cure payments under assumed executory contracts, and payments to holders of Section 503(b)(9) Claims; less (xi) to the extent not otherwise included in EBIDA, payments made to the PBGC (including payments on the PBGC Note, less (xii) to the extent not otherwise included in EBIDA, payments made on the General Unsecured Creditors obligation, less (xiii) to the extent not otherwise included in EBIDA, any payments on non-scheduled litigation Claims, less (xiv) to the extent not otherwise included in EBIDA, funds disbursed in current year on the prior year Excess Cash Flow calculations, less

(xv) \$500,000 (\$750,000, commencing with the beginning of the amortization period for the Series B Bonds).

**“Excess Debt Service Reserve Fund Amount”** means the Existing Debt Service Reserve Amount less \$1,525,000.

**“Existing Bond Intercreditor Agreement”** means that certain Debtor in Possession Subordination and Intercreditor Agreement, dated as of May 24, 2013, by and among the DIP Lender Group and the Bond Trustee, and acknowledged by the Debtors.

**“Existing Debt Service Reserve Amount”** means the amounts held by the Bond Trustee on the Effective Date in the Debt Service Reserve Funds.

**“Existing Debt Service Reserve Fund(s)”** means collectively each debt service reserve fund and debt service fund established under, and with respect to, the Bond Indenture relating to the 1998 and 1999 Bonds.

**“Existing PBGC Intercreditor Agreement”** means that certain PBGC Subordination and Intercreditor Agreement, dated as of January 10, 2013, by and among the PBGC, Gemino and the Bond Trustee, and acknowledged by the Debtors, as supplemented by the PBGC Confirmation dated May 23, 2013 acknowledging the DIP Lender Group as the “Replacement Lender”, as such term is defined therein.

**“Exit Facility”** means the Loan and Security Agreement to be entered among the Debtors and the Exit Lender Group on the Effective Date for purposes of providing the necessary exit financing associated with the implementation of the Plan and the satisfaction of the DIP Lender Debt, which Exit Facility shall be in form and substance acceptable to each of the DIP Lender Group, the Exit Lender Group, the Bond Trustee and the Debtors, reasonably acceptable to the Committee and which shall constitute a Plan Document and be filed as part of the Plan Supplement.

**“Exit Facility Documents”** means the Exit Facility, the Exit Facility Security Agreements, the Depository Agreements (as defined in the Exit Facility), the Bond Intercreditor Agreement, the PBGC Intercreditor Agreement, each Borrowing Base Report (as defined in the Exit Facility), each Monthly Report (as defined in the Exit Facility), and each other document or instrument now or hereafter executed or delivered to the Exit Lender Group pursuant to or in connection therewith.

**“Exit Lender Group”** or **“Exit Lender”** means the agent and lenders under the Exit Facility and each of their respective agents and delegates identified from time to time to effectuate the Exit Facility, including HF-4 and HFG.

**“Exit Facility Security Agreements”** means the mortgages, security agreements, UCC financing statements and other security agreements and documents as required by the Exit Lender Group to secure the payment or performance of any Exit Facility obligation,

**“Fee Application”** means an application for allowance and payment of a Fee Claim.

**“Fee Claim”** means all Administrative Claims for the compensation of Professionals and the reimbursement of expenses incurred by such Professionals (to the extent allowed under Sections 328, 330, 331, 363, or 503 of the Bankruptcy Code) through the Effective Date.

**“Final Order”** means (a) an order or judgment of the Bankruptcy Court or any other court or adjudicative body as to which the time to appeal, petition for certiorari, or move for reargument or rehearing has expired and as to which no appeal, petition for certiorari, or other proceedings for reargument or rehearing is then pending, or (b) in the event that an appeal, writ of certiorari, reargument, or rehearing thereof has been sought, such order of the Bankruptcy Court or any other court or adjudicative body shall have been affirmed by the highest court to which such order was appealed, or certiorari has been denied, or from which reargument or rehearing was sought, and the time to take any further appeal, petition for certiorari or move for reargument or rehearing shall have expired; provided that no order shall fail to be a Final Order solely because of the possibility that a motion pursuant to Section 502 of the Bankruptcy Code, Rule 59 or Rule 60 of the Federal Rules of Civil Procedure or Bankruptcy Rule 9024 may be filed with respect to such order.

**“Financial Covenants”** means the following obligations of the Debtors following the Effective Date to be reflected in the New Indenture:

(a) the Debtors will be required to have \$3,500,000 of unrestricted Cash on hand at all times until December 31, 2016, which includes Cash in bank accounts, board-restricted Cash funds and amounts in the Repair and Replacement Fund. Unrestricted Cash on hand will increase to \$4,500,000 during 2015 as a result of the Initial RRF Funding;

(b) through December 31, 2016, the Debtors will be required to maintain Available Liquidity equal to the greater of 23 Days Cash on Hand, or \$6,500,000; after January 1, 2017, the Obligated Group will be required to maintain Available Liquidity equal to the greater of 24 Days Cash on Hand, or \$7,000,000 (the “Liquidity Requirement”). Debtors will have 60 days to cure any breach; failure to cure will be an automatic “event of default” under the New Indenture. If the Debtors do not meet the Liquidity Requirement as of a December 31, any Excess Cash Flow will be retained by the Obligated Group and not used for any Discretionary CapEx, Restricted Compensation or Restricted Pension Payments;

(c) at no time will the Debtors be permitted to allow Available Liquidity to drop below \$6,000,000 until December 31, 2016, and below \$6,500,000 thereafter (the “Minimum Liquidity Requirement”). The failure to meet the Minimum Liquidity Requirement at any time will be an automatic “event of default” under the New Indenture;

(d) the Debtors may, upon notice to the Bond Trustee, increase the maximum amount to be outstanding under all working capital lines of credit above \$18,000,000 by \$750,000 of additional borrowing capacity for every \$2.5 million of favorable revenue growth above the budget for the Fiscal Year;

(e) the Debtors will maintain occupancy (1) in the residential facility of a minimum of 75% of the forecasted amount until December 31, 2016 and 80% of the forecasted

amount in each Fiscal Year thereafter, and (2) in the hospital of a minimum of 75% of the forecasted amount until December 31, 2016 and 80% of the forecasted amount in each Fiscal Year thereafter (the “Minimum Occupancy Requirement”). The Minimum Occupancy Requirement will be tested quarterly on a trailing 4-quarter basis, starting with the fiscal quarter which ends after the first Fiscal Year after the Effective Date. The occupancy targets will be adjusted to reflect additions and subtractions of the maximum number of residences or hospital beds from time to time. The failure to meet the Minimum Occupancy Requirement in each of two consecutive fiscal quarters will be an automatic “event of default” under the New Indenture;

(f) the Debtors will maintain at all times a Fixed Charges Coverage Ratio of at least 1.00x. The Fixed Charges Coverage Ratio will be tested quarterly on a trailing 4-quarter basis, starting with the Fiscal Quarter which ends after the first Fiscal Year after the Effective Date. The failure to meet the Fixed Charges Coverage Ratio in each of two consecutive Fiscal Quarters will be an automatic “event of default” under the New Indenture;

(g) the Debtors will maintain at all times a Debt Service Coverage Ratio of at least 1.25x. The Debt Service Coverage Ratio will be tested annually starting with the first Fiscal Year after the Effective Date. The failure to meet the Debt Service Coverage Ratio in each of two consecutive fiscal years will be an automatic “event of default” under the New Indenture. The failure to have a Debt Service Coverage Ratio of at least 1:10 in any Fiscal Year will be an automatic “event of default” under the New Indenture.

“**Financial Reporting Requirements**” means the following reporting obligations of the Debtors following the Effective Date to be reflected in the New Indenture:

(a) as soon as available, and in any event within forty-five (45) days after the close of each Fiscal Quarter of the Debtors, (i) a copy of the consolidated and consolidating internal statements of financial position as of the close of such period and internal statements of activities of the Obligated Group for such period, all in reasonable detail showing in comparative form the figures for the corresponding date and period in the previous Fiscal Year prepared by the Debtors in accordance with GAAP but without notes and subject to ordinary year-end adjustments and certified to by an Authorized Debtors Representative, (ii) any information required to be provided under the continuing disclosure agreement, and (iii) upon written request by the Bond Trustee or any holder of at least \$250,000 in par amount of New Bonds to the President and the Chief Financial Officer of the Reorganized Debtor known as KidsPeace Corporation, a public conference call for such Fiscal Quarter, to be held at a mutually-acceptable date and time, to discuss all of the above;

(b) as soon as available, and in any event within one hundred fifty (150) days after the close of each Fiscal Year of the Debtors, a copy of the consolidated and consolidating statements of financial position of the Debtors as of the close of such Fiscal Year and statements of activities and changes in net Assets and statements of cash flows of the Debtors for such period, and accompanying notes thereto, all prepared in accordance with GAAP and in reasonable detail showing in comparative form the figures for the previous Fiscal Year (unless unavailable due to a switch in independent public accountants during the relevant period), accompanied by an unqualified opinion with respect thereto of a firm of independent public accountants of recognized regional standing, selected by the Debtors, to the effect that the

financial statements described herein have been prepared in accordance with GAAP and present fairly in accordance with GAAP the financial condition of the Debtors in all material respects as of the close of such Fiscal Year and the results of its operations and cash flows for the Fiscal Year then ended, and that an examination of such accountants in connection with such financial statements has been made in accordance with generally accepted auditing standards and, accordingly, such examination included such tests of the accounting records and such other auditing procedures as were considered necessary in the circumstances;

(c) within the period provided in subsection (b) above, to the extent that such independent public accounting firm is permitted to deliver such a statement under the then current recommendations of the American Institute of Certified Public Accounts, the written statement of the accountants who certified the audit report thereby required that in the course of their audit they have obtained no knowledge of any “event of default,” or, if such accountants have obtained knowledge of any such “event of default,” they shall disclose in such statement the nature and period of the existence thereof;

(d) within forty-five (45) days following the end of each Fiscal Year, a compliance certificate from an Authorized Debtors’ Representative demonstrating compliance with the Financial Covenants;

(e) within ten (10) Business Days following each regular meeting of the Board of Directors of each of the Debtors, a copy of (i) the development report depicting new contributions, pledges and donations made to the member during such period, and contributions, pledges and donations collected by the Borrower during such period, and (ii) any other internal financial statements and analyses provided to the Board of Directors for such meeting.

(f) prior to the Effective Date, the Debtors shall provide the Business Plan to the Bond Trustee (with a copy to the Committee), which the Obligated Group may subsequently revise for fiscal years starting with the Fiscal Year ending December 31, 2015, subject to the approval of the Bond Trustee;

(g) unless the Debtors’ EBIDA is equal to or greater than the EBIDA projected in the original Business Plan for the current fiscal year, the Obligated Group shall provide an operating budget annually to the Bond Trustee, which shall be subject to the approval of the Bond Trustee and which provides for payment when due of all scheduled payments on the New Bonds, the PBGC Note and the Allowed Claims of the General Unsecured Creditors of each of the Debtors; provided, that an operating budget for a Fiscal Year shall not be subject to the Bond Trustee’s approval if (i) the Debtors are in compliance with the covenants and requirements of the Bond Documents, (ii) the operating budget projects that the Debtors will remain in compliance with all terms of the New Bonds and can make full payment of all obligations thereunder, and (iii) the annual amount budgeted in the operating budget for capital expenditures does not exceed \$3,000,000; provided, further, that if in any Fiscal Year the Debtors are not in compliance with the covenants and requirements of the New Bonds, or if any future operating budget demonstrates an inability to remain in compliance, the operating budget for the next Fiscal Year shall again be subject to the approval of the Bond Trustee;



(h) the Debtors shall provide reports to the Bond Trustee (with a copy to the Committee Representative) within thirty (30) days after the end of each Fiscal Quarter of the Debtors' actual performance in comparison to the Business Plan or operating budget, as the case may be;

(i) if actual EBIDA in any fiscal year is less than the EBIDA projected in the operating budget for such year by greater than 10%, the Debtors' management shall submit a report of causes and corrective action to the Bond Trustee and present this report at a meeting with the Bond Trustee and, at the Bond Trustee's request, the Debtors shall retain a third party consultant acceptable to the Bond Trustee to review the operating budget for the following Fiscal Year; and

(j) the Debtors shall not make capital expenditures (including incurring obligations under a capital lease entered into after the Effective Date) in excess, on a rolling cumulative basis, of 110% of the Budgeted CapEx in any Fiscal Year; provided, however, that any actual capital expenditures in any Fiscal Year in excess of Budgeted CapEx shall reduce the Budgeted CapEx on a cumulative dollar-for-dollar basis in the next Fiscal Year, and provided, however, that if actual capital expenditures in any Fiscal Year are less than Budgeted CapEx, the shortfall may be carried forward to increase the Budgeted CapEx in any of the three subsequent years.

**"Fiscal Quarter"** means each calendar quarter ending on a March 31, June 30, September 30 or December 31.

**"Fiscal Year"** means, for each of the Debtors, a year which ends on December 31.

**"Fixed Charges Coverage Ratio"** means, for the period of any four consecutive fiscal quarters, the ratio of (a) Adjusted EBITDAR, less capital expenditures paid for by the Obligated Group, plus withdrawals from the Repair and Replacement Fund, less contributions to the Repair and Replacement Fund (other than the Initial RRF Funding") to (b) the sum for the Obligated Group (determined on a consolidated basis without duplication in accordance with GAAP), of the following: (i) Debt Service Requirements for such period plus (ii) non-scheduled litigation payments for such period.

**"GAAP"** means generally accepted accounting principles from time to time as they apply in the United States of America.

**"General Unsecured Claim"** means any unsecured Claim against a Debtor that is not an Administrative Expense Claim, a Section 503(b)(9) Claim, a Priority Tax Claim, a Priority Non-Tax Claim, a PBGC Unsecured Claim, the Bond Unsecured Claim, or a Claim of a Debtor.

**"HF-4"** means HFG Healthco-4, LLC.

**"HFG"** means Healthcare Finance Group, LLC.

**“Holder”** means (i) with respect to the holders of Claims under the Bonds, the beneficial owners thereof, and (ii) in all other cases, the beneficial holder of any Claim or New Bond.

**“Impaired”** means, with respect to a Claim, such Claim that is impaired within the meaning of Section 1124 of the Bankruptcy Code.

**“Initial Bondholder Payment”** means \$3,000,000 to be paid in Cash on the Effective Date.

**“Initial Distribution”** means all payments contemplated by the Plan to be distributed on or about the Effective Date or as soon thereafter as practical, including distributions for Allowed Fee Claims, Allowed Section 503(b)(9) Claims (to the extent not already paid following the first hearing seeking approval of the Disclosure Statement as has been agreed to by the Debtors), DIP Lender Debt, the Opt-In Creditor Amount, the Initial PBGC Amount and any other Effective Date obligation, but excluding the Initial Bondholder Payment.

**“Initial Distribution Date”** shall mean a Business Day that is no more than sixty (60) days after the Effective Date.

**“Initial DSRF Requirement”** means \$1,525,000.

**“Initial PBGC Amount”** means \$450,000.

**“Initial RRF Funding”** means mandatory quarterly payments of \$200,000 each into the Repair and Replacement Fund on or before each of April 1, 2015, July 1, 2015, October 1, 2015, January 1, 2016 and April 1 2016.

**“Insured Bonds”** shall mean those Series 1998 Bonds, bearing CUSIPs 524805F45 and 524805F52 that ACA insures pursuant to the Bond Insurance Policies.

**“Insured Bondholders”** shall mean those holders of the CBI's.

**“Intercompany Claim”** means any Claim by any Debtor against any other Debtor.

**“Internal Revenue Code”** means the Internal Revenue Code of 1986, as amended, and any applicable rulings, regulations (including temporary and proposed regulations) promulgated thereunder, judicial decisions, and notices, announcements, and other releases of the United States Treasury Department or the IRS.

**“Iron Range General Unsecured Claim”** means a General Unsecured Claim against Iron Range.

**“Iron Range Other Secured Claim”** means any Secured Claim against Iron Range that is not a PBGC Secured Claim.

**“IRS”** means the United States Internal Revenue Service.

***“KPC General Unsecured Claim”*** means a General Unsecured Claim against KPC.

***“KPC Other Secured Claim”*** means any Secured Claim against KPC that is neither a Bond Secured Claim nor a PBGC Secured Claim.

***“KPCH General Unsecured Claim”*** means a General Unsecured Claim against KPCH.

***“KPCH Other Secured Claim”*** means any Secured Claim against KPCH that is neither a Bond Secured Claim nor a PBGC Secured Claim.

***“KPNC General Unsecured Claim”*** means a General Unsecured Claim against KPNC.

***“KPNC Other Secured Claim”*** means any Secured Claim against KPNC that is neither a Bond Secured Claim nor a PBGC Secured Claim.

***“KPNA General Unsecured Claim”*** means a General Unsecured Claim against KPNA.

***“KPNA Other Secured Claim”*** means any Secured Claim against KPNA that is not a PBGC Secured Claim.

***“KPNE General Unsecured Claim”*** means a General Unsecured Claim against KPNE.

***“KPNE Other Secured Claim”*** means any Secured Claim against KPNE that is not a PBGC Secured Claim.

***“KPNY General Unsecured Claim”*** means a General Unsecured Claim against KPNY.

***“KPNY Other Secured Claim”*** means any Secured Claim against KPNY that is not a PBGC Secured Claim.

***“Lien”*** means a lien as defined in Section 101(37) of the Bankruptcy Code, including but not limited to any mortgage, lien, pledge, charge, security interest, easement or encumbrance of any kind whatsoever affecting such interest in property.

***“M & T”*** means M & T Bank.

***“Majority Bondholders”*** means those Bondholders which hold more than a majority of the par amount of the outstanding Bonds and that executed the Plan Support Agreement.

***“Mesabi General Unsecured Claim”*** means a General Unsecured Claim against Mesabi.

“**Mesabi Other Secured Claim**” means any Secured Claim against Mesabi that is not a PBGC Secured Claim.

“**NatPenn**” means National Penn Bank.

“**New Bonds**” has the meaning given to such term in Section 7.2(a).

“**New Bond Documents**” has the meaning given to such term in Section 7.7.

“**New Bond Collateral**” means all of Debtors’ Real Property, personal property, general intangibles, accounts, accounts receivable and all receipts, revenues, rentals, income, and other moneys received or receivable by or on behalf of any of the Debtors from any source, including all collateral subject to any liens currently disputed by the Debtors, except for, in each case, gifts, grants, bequests, donations and contributions heretofore or hereafter made which are designated at the time of making by the donor or maker as being for certain specified purposes inconsistent with the application thereof to the payments due under the New Bonds, and any income derived therefrom to the extent required by such designation or restriction, all as more fully provided in the Plan Supplement. The Liens securing the New Bonds in the New Bond Collateral shall be subject to the terms of the New Intercreditor Agreement and are junior and subordinate to (i) the Liens of the PBGC on (a) the “Broadway” campus located at 1620 Broadway, Bethlehem, PA 18015; (b) the KidsPeace corporate headquarters located at 4085 Independence Dr., Schnecksville, PA 18078; (c) the Wilson Sarig building, located at 8<sup>th</sup> Avenue & Hay Road, Temple, PA 19560; and (d) the Maine campus, located on Route 80, Ellsworth ME 04605; and (ii) the Liens of the Exit Facility Lender on the Orchard Hills Campus and the accounts receivable and the proceeds thereof.

“**New Debt Service Reserve Fund**” means the debt service reserve fund for the Series A Bonds created pursuant to the New Indenture and described in Section 7.7(b) of this Plan.

“**New Debt Service Reserve Fund Amount**” means \$1,525,000

“**New Indenture**” has the meaning given to such term in Section 8.7.

“**New Intercreditor Agreement**” means the Subordination and Intercreditor Agreement to be entered by and among the Exit Lender Group, the PBGC and the Bond Trustee, and acknowledged by the Debtors, which New Intercreditor Agreement shall be in form and substance reasonably acceptable to each of the Exit Lender Group, the PBGC, the Bond Trustee and the Debtors and shall constitute a Plan Document and be filed as part of the Plan Supplement. The New Intercreditor Agreement shall, among other things, reflect the first lien priority of the Exit Lender’s Liens in the receivables, the Orchard Hills Property and the proceeds thereof and limit the rights of the holders of subordinate liens in such assets in a manner acceptable to the Exit Lender.

“**New PBGC Intercreditor Agreement**” means the Subordination and Intercreditor Agreement to be entered by and among the PBGC and the Bond Trustee, and acknowledged by the Debtors, which shall be in form and substance reasonably acceptable to

each of the Exit Lender Group, the PBGC, the Bond Trustee and the Debtors and shall constitute a Plan Document and be filed as part of the Plan Supplement.

“*New Mortgages*” means mortgages on each of the Debtors’ Real Property under which the Debtors will pledge to the Bond Trustee the real property collateral securing the New Bonds, forms of which will be included in the Plan Supplement.

“*Non-Commuting Bondholder*” means and refers to any Insured Bondholder that affirmatively elects to opt-out of the ACA Insurance Commutation in accordance with Section 7.13.

“*Non-Commutated Bonds*” means Insured Bonds held by the Custodian for the benefit of the Non-Commuting Bondholders after the Effective Date.

“*Notice of Effective Date*” means the notice of entry of the occurrence of the Effective Date, to be filed with the Bankruptcy Court and mailed by the Claims Agent to holders of Claims.

“*Obligated Group*” means KPC, KPNC and KPCH, the obligors on the Bonds, and after the Effective Date, shall mean all of the Debtors as obligors under the New Bonds.

“*Objection Deadline*” means the deadline for filing objections to Claims as set forth in Section 10.2, as such deadline may from time to time be extended.

“*Operating Expenses*” means all operating expenses of the Debtors, determined in conformity with GAAP consistently applied.

“*Opt-In Creditor Amount*” means the amount due to all General Unsecured Creditors who elect the Alternate Creditor Treatment.

“*Orchard Hills Property*” means the real property located in Orefield, Pennsylvania commonly referred to as the “Orchard Hills Campus”, with the parcel containing the residence being referred to as the “Orchard Hills Residence Property” and the parcel containing the hospital being referred to as the “Orchard Hills Hospital Property”.

“*Orchard Hills Mortgage*” means that certain mortgage on the Orchard Hills Residence Property granted to the Bond Trustee dated January 11, 2013.

“*PBGC*” means the Pension Benefit Guaranty Corporation.

“*PBGC Claims*” includes the PBGC Secured Claims and the PBGC Unsecured Claims and means the entire Claim of the PBGC, which the PBGC and the Debtors have agreed to settle as set forth in the Plan. For avoidance of doubt, the PBGC Claims are the Claims in Classes A3, B3, C2, D3, E2, F2 and G2 of the Plan.

“*PBGC Liens*” means valid, perfected, and enforceable liens, not to exceed \$5,715,225 in the aggregate, on the PBGC Note Collateral.

**“PBGC Note”** means a new note issued by the Reorganized Debtors on a joint and several basis with a principal amount equal to \$13,050,000, a fifteen-year term, an interest rate of 0%, and equal quarterly payments of \$225,000 beginning on the first day of the ninth month following the Effective Date and continuing the first date of each quarter thereafter until fully paid. The PBGC Note will be secured by the PBGC Liens. A form of the PBGC Note, which will conform to the terms described herein and otherwise be in form and substance reasonably satisfactory to the PBGC, will be included in the Plan Supplement.

**“PBGC Note Collateral”** means: (i) Liens in favor of the PBGC and superior to the Bond Trustee on (a) the “Broadway” campus located at 1620 Broadway, Bethlehem, PA 18015; (b) the KidsPeace corporate headquarters located at 4085 Independence Dr., Schnecksville, PA 18078; (c) the Wilson Sarig building, located at 8<sup>th</sup> Avenue & Hay Road, Temple, PA 19560; and (d) the Maine campus, located on Route 80, Ellsworth ME 04605; (ii) Liens in favor of the PBGC junior and subordinate to the liens of the Exit Facility Lender and the Bond Trustee on the Orchard Hills Campus; and (iii) Liens in favor of the PBGC junior and subordinate to subordinate to the Liens of the Exit Lender and the Bond Trustee on the accounts receivable and the proceeds thereof of the Debtors.

**“PBGC Prepetition Claim”** means the Claim of PBGC for unfunded benefit liabilities under 29 U.S.C. § 1362(b), minimum funding contributions under 29 U.S.C. § 1362(c), and for insurance premiums due (if any) under 29 U.S.C. §§ 1306 and 1307, in each case as of the Petition Date, which shall be Allowed in the amount set forth in Section 7.8 of this Plan.

**“PBGC Secured Claim”** means that portion of the PBGC Prepetition Claim that is secured by the PBGC Liens or \$5,715,225.

**“PBGC Unsecured Claim”** means the portion of the PBGC Prepetition Claim that is not a Secured Claim, Priority Non-Tax Claim or an Administrative Claim.

**“Pension Plan”** shall mean the KidsPeace Defined Benefit Plan.

**“Person”** means an individual, corporation, partnership, limited liability company, joint venture, trust, estate, unincorporated association, unincorporated organization, governmental entity, or political subdivision thereof, or any other entity.

**“Petition Date”** means, with respect to any Debtor, the date on which the Chapter 11 Case of such Debtor was commenced.

**“Plan”** means this chapter 11 plan of reorganization, either in its present form or as it may be amended, supplemented, or otherwise modified from time to time, and the exhibits and schedules hereto, as the same may be in effect at the time such reference becomes operative.

**“Plan Distribution”** means payment(s) or distribution(s) under the Plan to the holder of an Allowed Claim.

**“Plan Documents”** means the documents that aid in effectuating the Plan as specifically identified as such herein and filed with the Bankruptcy Court as specified in Section 2.4.

***“Plan Support Agreement”*** means that certain plan support agreement, dated as of January 11, 2013, among the Debtors (except KPGA), the Bond Trustee and the Majority Bondholders, as amended and supplemented.

***“Plan Supplement”*** means the compilation of Plan Documents or forms of documents specified in the Plan, including, without limitation, any exhibits or schedules to the Plan not included herewith, each in form and substance acceptable to the Debtors, the Bond Trustee, the Majority Bondholders, the PBGC, the Committee and the Exit Lender that the Debtors shall, as provided in Section 2.4, file with the Bankruptcy Court on or before the date that is seven (7) days prior to the deadline for submitting Ballots on the Plan, or at such later time as the Bankruptcy Court may allow, all of which are incorporated herein by reference.

***“Priority Non-Tax Claim”*** means any Claim entitled to priority in payment as specified in Section 507(a)(3), (4), (5), (6), (7) or (9) of the Bankruptcy Code.

***“Priority Tax Claim”*** means any Claim, whether secured or unsecured, entitled to priority under Section 507(a)(8) of the Bankruptcy Code.

***“Pro Rata Share”*** means the proportion that an Allowed Claim bears to the aggregate amount of all Claims in a class or classes, as applicable, including Contested Claims, but excluding Disallowed Claims, and taking into account any Contested Claims Reserves (a) as calculated by the Disbursing Agent and/or (b) as determined or estimated by the Bankruptcy Court.

***“Professional”*** means a Person retained or to be compensated for services rendered or costs incurred on or after the Petition Date and on or prior to the Effective Date pursuant to Sections 327, 328, 329, 330, 331, 503(b) or 1103 of the Bankruptcy Code in these Chapter 11 Cases. For the avoidance of any doubt, the term “Professional” shall include, without limitation, any (i) patient care ombudsman appointed by the Bankruptcy Court pursuant to Section 333 of the Bankruptcy Code and his counsel and advisors, and (ii) the Bond Trustee and its counsel and advisors.

***“Professional Fee Order”*** means an order of the Bankruptcy Court establishing procedures for interim compensation and reimbursement of Professionals.

***“Rejection Damage Claim”*** means any Claim arising out of the rejection of an executory contract or unexpired lease.

***“Released Parties”*** means, collectively, effective as of the Effective Date, (a) any current or former officers of any of the Debtors, any director of any of the Debtors, and any employees of any of the Debtors serving as such as of the Petition Date, (b) the Professionals, and (c) with respect to the persons listed in the foregoing (a) and (b), such persons’ present and former officers, directors, shareholders, members, employees, attorneys, consultants, advisors, parents, subsidiaries, predecessors, successors, affiliates, professionals and agents.

***“Reorganized Debtors”*** means collectively, from and after the Effective Date, the Debtors and any successors thereto by merger, consolidation or otherwise.

***“Renewal and Replacement Fund”*** means the Renewal and Replacement Fund established under the New Indenture.

***“Restricted Compensation”*** means any payments made by the Debtors as executive management bonuses, executive management incentive compensation, executive management discretionary or contractual severance, and similar payments, but does not include any Restricted Pension Payments.

***“Restricted Pension Payments”*** means, beginning in the year 2014, payments made by the Debtors under any pension plan or 403(b) plan as matching payments or otherwise greater than one percent (1%) of payroll for a given Fiscal Year, and does not include any payment made by the Debtors to the PBGC pursuant to the Plan respecting the PBGC Claims.

***“Schedules”*** means the schedules of Assets and liabilities and the statements of financial affairs filed by each of the Debtors with the Bankruptcy Court, as required by Section 521 of the Bankruptcy Code and in conformity with the Official Bankruptcy Forms of the Bankruptcy Rules, as such schedules and statements have been or may be amended or supplemented by the Debtors from time to time in accordance with Bankruptcy Rule 1009.

***“Section 503(b)(9) Claims”*** means all Claims against any Debtor under Section 503(b)(9) of the Bankruptcy Code, which provides priority status to claims for the value of goods received by the Debtors within 20 days before the Petition Date and sold to a Debtor in the ordinary course of such Debtor’s business. Pursuant to an agreement reached between the Committee and the Debtors, all Section 503(b)(9) Claims with respect to which the Debtors have not interposed an objection shall be paid in full as soon as practicable after the first date scheduled for a hearing on the Disclosure Statement.

***“Secured Claim”*** means (a) a Claim secured by a Lien on any Assets, which Lien is valid, perfected and enforceable under applicable law and is not subject to avoidance under the Bankruptcy Code or applicable non-bankruptcy law, and which is duly established in the Chapter 11 Cases, but only to the extent of the value of the holder’s interest in the Estate’s interest in the Asset(s) that secure(s) payment of the Claim, (b) a Claim against any Debtor that is subject to a valid right of recoupment or setoff under Section 553 of the Bankruptcy Code, but only to the extent of the Allowed amount subject to recoupment or setoff as provided in Section 506(a) of the Bankruptcy Code and (c) a Claim deemed or treated under the Plan as a Secured Claim.

***“Subsequent Distribution”*** means Plan Distributions by the Disbursing Agent after the Initial Distribution Date on account of Claims which are either: (a) Allowed Claims as of the Initial Distribution Date; or (b) Contested Claims as of the Initial Distribution Date but which subsequently become Allowed Claims pursuant to Section 9.10 of this Plan.

***“U.S. Trustee”*** means the Office of the United States Trustee for the Eastern District of Pennsylvania

***“Unimpaired”*** means, with respect to any Claim, a Claim that is not Impaired.



**ARTICLE 2**  
**INTERPRETATION AND APPLICATION**

2.1 Interpretation. Unless otherwise specified, all Section, article, exhibit and schedule references in the Plan are to the respective Section in, article of, or exhibit or schedule to the Plan, as the same may be amended, waived, or modified from time to time. Words denoting the singular number shall include the plural and vice versa, as appropriate, and words denoting one gender shall include the other gender. The Disclosure Statement may be referred to for purposes of interpretation to the extent any term or provision of the Plan is determined by the Bankruptcy Court to be ambiguous.

2.2 Application of Definitions and Rules of Construction Contained in the Bankruptcy Code. Words and terms defined in Section 101 of the Bankruptcy Code have the same meanings when used in the Plan, unless a different definition is set forth in Article 1 hereof. The rules of construction contained in Section 102 of the Bankruptcy Code, other than Section 102(5) of the Bankruptcy Code, apply to the construction of the Plan. For the purposes of construction of the Plan, “or” is disjunctive.

2.3 Other Terms. The words “herein,” “hereof,” “hereto,” “hereunder,” and others of similar import refer to the Plan as a whole and not to any particular section, subsection, or clause contained in the Plan.

2.4 Incorporation of Plan Documents. All appendices, exhibits and schedules to the Plan and the Plan Documents are incorporated into the Plan by this reference and are a part of the Plan as if set forth in full herein. All Plan Documents shall be filed with the Bankruptcy Court as part of the Plan Supplement not less than seven (7) days prior to the deadline for submitting Ballots on the Plan, or at such later time as the Bankruptcy Court may allow, provided, however, that any Plan Documents that are or may be subject to confidentiality provisions or otherwise contain confidential or proprietary information may be filed in redacted form under seal.

Holders of Claims may obtain a copy of the Plan Documents (in redacted form, as applicable, and excluding any Plan Documents that are filed under seal), once filed, by a written request sent to either of the following:

KidsPeace Corporation, et al.  
Attn: Andrew Burke, Esq.  
4085 Independence Drive  
Schnecksville, PA 18078  
(610) 799-8379 (phone)  
(610) 799-8001 (facsimile)

or

Rust Consulting/Omni Bankruptcy  
5955 DeSoto Avenue, Suite 100  
Woodland Hills, CA 91367  
(866) 205-3143

or by visiting the case website at [www.omnimgt.com](http://www.omnimgt.com) and selecting the “CASES” tab where the reference to KidsPeace Corporation, *et al.* may be found.

**ARTICLE 3  
CLASSIFICATION, TREATMENT, AND VOTING RIGHTS OF CLAIMS**

Except as otherwise provided herein, for the purposes of organization, voting and all confirmation matters, all Claims against the Debtors will be classified as set forth in this Article 4. A Claim shall be deemed classified in a particular Class only to the extent that such Claim qualifies within the description of such Class and shall be deemed classified in a different Class to the extent that any 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 has not been paid or otherwise settled prior to the Effective Date.

3.1 Impaired and Unimpaired Classes of Claims. Priority Non-Tax Claims and Other Secured Claims are not impaired under the Plan. All other classes of Claims are impaired under the Plan.

3.2 Impairment Controversies. If a dispute arises as to whether any Claim, or any class of Claims, is impaired under the Plan, the Bankruptcy Court shall, after notice and a hearing, determine such dispute.

3.3 Claim Charts. Claims (except for Administrative Expense Claims, Professional Fee Claims, and Priority Tax Claims, which are required to be classified pursuant to Section 1123(a)(1) of the Bankruptcy Code) are classified according to the charts below.

3.4 Claim Charts.

(a) KidsPeace Corporation

<b>Claims Against KidsPeace Corporation</b>			
<b>Class</b>	<b>Designation</b>	<b>Impairment</b>	<b>Entitled to Vote</b>
A1	Priority Non-Tax Claims	Unimpaired	No
A2	Bond Trustee/Bondholders Claim	Impaired	Yes
A3	PBGC Prepetition Claim	Impaired	Yes
A4	KPC Other Secured Claims (Includes M & T and NatPenn)	Unimpaired	No
A5	General Unsecured Claims	Impaired	Yes

(b) KidsPeace Children’s Hospital, Inc.

<b>Claims Against KidsPeace Children’s Hospital, Inc.</b>			
<b>Class</b>	<b>Designation</b>	<b>Impairment</b>	<b>Entitled to Vote</b>
B1	Priority Non-Tax Claims	Unimpaired	No
B2	Bond Trustee/Bondholders Claim	Impaired	Yes
B3	PBGC Prepetition Claim	Impaired	Yes
B4	KPCH Other Secured Claims	Unimpaired	No
B5	General Unsecured Claims	Impaired	Yes

(c) KidsPeace Mesabi Academy, Inc.

<b>Claims Against KidsPeace Mesabi Academy, Inc.</b>			
<b>Class</b>	<b>Designation</b>	<b>Impairment</b>	<b>Entitled to Vote</b>
C1	Priority Non-Tax Claims	Unimpaired	No
C2	PBGC Prepetition Claim	Impaired	Yes
C3	Mesabi Other Secured Claims	Unimpaired	No
C4	General Unsecured Claims	Impaired	Yes

(d) KidsPeace National Centers, Inc.

<b>Claims Against KidsPeace National Centers, Inc.</b>			
<b>Class</b>	<b>Designation</b>	<b>Impairment</b>	<b>Entitled to Vote</b>
D1	Priority Non-Tax Claims	Unimpaired	No
D2	Bond Trustee/Bondholders Claim	Impaired	Yes
D3	PBGC Prepetition Claim	Impaired	Yes
D4	KPNC Other Secured Claims	Unimpaired	No
D5	General Unsecured Claims	Impaired	Yes

(e) KidsPeace Centers of New England

<b>Claims Against KidsPeace National Centers of New England, Inc.</b>			
<b>Class</b>	<b>Designation</b>	<b>Impairment</b>	<b>Entitled to Vote</b>
E1	Priority Non-Tax Claims	Unimpaired	No
E2	PBGC Prepetition Claim	Impaired	Yes
E3	KPNE Other Secured Claims	Unimpaired	No
E4	General Unsecured Claims	Impaired	Yes

(f) KidsPeace National Centers of North America, Inc.

<b>Claims Against KidsPeace National Centers of North America, Inc.</b>			
<b>Class</b>	<b>Designation</b>	<b>Impairment</b>	<b>Entitled to Vote</b>
F1	Priority Non-Tax Claims	Unimpaired	No
F2	PBGC Prepetition Claim	Impaired	Yes
F3	KPNA Other Secured Claims	Unimpaired	No
F4	General Unsecured Claims	Impaired	Yes

(g) Iron Range School, Inc.

<b>Claims Against Iron Range School, Inc.</b>			
<b>Class</b>	<b>Designation</b>	<b>Impairment</b>	<b>Entitled to Vote</b>
G1	Priority Non-Tax Claims	Unimpaired	No
G2	PBGC Prepetition Claim	Impaired	Yes
G3	Iron Range Other Secured Claims	Unimpaired	No
G4	General Unsecured Claims	Impaired	Yes

(h) KidsPeace National Center of New York, Inc.

<b>Claims Against KidsPeace National Center of New York, Inc.</b>			
<b><u>Class</u></b>	<b><u>Designation</u></b>	<b><u>Impairment</u></b>	<b><u>Entitled to Vote</u></b>
H1	Priority Non-Tax Claims	Unimpaired	No
H2	PBGC Prepetition Claim	Impaired	Yes
H3	KPNY Other Secured Claims	Unimpaired	No
H4	General Unsecured Claims	Impaired	Yes

**ARTICLE 4  
PROVISIONS FOR TREATMENT OF CLAIMS UNDER THE PLAN**

Claims shall receive the following treatment:

4.1 Claims Against KidsPeace Corporation.

(a) *Class A1 — KidsPeace Corporation Priority Non-Tax Claims (Unimpaired).* On, or as soon as reasonably practicable after, the latest of (i) the Effective Date, (ii) the date on which such KPC Priority Non-Tax Claim becomes an Allowed KPC Priority Non-Tax Claim, or (iii) the date on which such KPC Priority Non-Tax Claim becomes due and payable pursuant to any agreement between the Debtors and a holder of a KPC Priority Non-Tax Claim, each holder of an Allowed KPC Priority Non-Tax Claim shall receive from the Disbursing Agent in full satisfaction, settlement, release and discharge of and in exchange for such Allowed KPC Priority Non-Tax Claim (a) Cash equal to the unpaid portion of such Allowed KPC Priority Non-Tax Claim or (b) such other treatment as the Debtors (or Reorganized Debtors) and such holder shall have agreed in writing. All Allowed KPC Priority Non-Tax Claims which are not by their terms

due and payable on or before the Effective Date shall be paid in the ordinary course of business in accordance with the terms thereof.

(b) *Class A2 — Bond Trustee/Bondholders Secured Claim and Unsecured Claim (Impaired).*

- (1) Treatment. In full satisfaction of the Bond Trustee/Bondholder Claims, the Bondholders will receive, under the settlement described in Section 7.1(b), their pro rata share of: (A) the Initial Bondholder Payment, (B) a Cash distribution equal to the Excess Debt Service Reserve Fund Amount, and (C) the New Bonds. In addition, Insured Bondholders shall have the opportunity to either participate in the ACA Insurance Commutation or affirmatively opt out of the ACA Insurance Commutation. Each Commuting Bondholder shall receive a Cash payment equal to the Commutation Payment on, or as soon as reasonably practicable after, the Effective Date. If all Insured Bondholders participate in the commutation offer, the Commuting Bondholders shall receive a total upfront Cash payment equal to \$3,170,698.02 in addition to their pro rata distribution from the Debtors describe in (A) through (C) above. Non-Commuting Bondholders, however, shall only receive the interest and principal payments with respect to the Non-Commuting Bonds, *provided, however*, that all payments made with respect to the Bond Trustee/Bondholders Claims of the Non-Commuting Bondholders including, without limitation, any payments made with respect to the New Bonds held for the benefit of the Non-Commuting Bondholders by the Custodian shall be deemed to be partial payments under the Non-Commuting Bonds. The New Bonds will be issued on the Effective Date by the Authority and will be in three series, as follows: (a) \$20,110,000 in principal amount of new Series A Bonds, with terms as shown on Exhibit A attached hereto; (b) \$5,000,000 in initial principal amount of new Series B Bonds, with terms as shown on Exhibit A attached hereto; and (3) \$15,000,000 in principal amount of new Series C Bonds, with terms as shown on Exhibit A attached hereto. Each of the Debtors will be jointly and severally obligated under the New Indenture and the New Bonds. The New Bonds will be secured by the New Collateral and will be subject to the New Intercreditor Agreement and the New PBGC Intercreditor Agreement. The Liens securing the New Bonds shall be junior and subordinate to (i) the Liens of the PBGC on (a) the “Broadway” campus located at 1620 Broadway, Bethlehem, PA 18015; (b) the KidsPeace corporate headquarters located at 4085 Independence Dr., Schnecksville, PA 18078; (c) the Wilson Sarig building, located at 8<sup>th</sup> Avenue & Hay Road, Temple, PA 19560; and (d) the Maine campus, located on Route 80, Ellsworth, ME 04605; and (ii) the Liens securing the Exit Facility on the Orchard Hills Campus and the accounts receivable and the proceeds thereof. All Bonds will be cancelled on the Effective Date, except as provided in Section 7.4(a) below. Insured Bonds held by Non-Commuting Bondholders will remain outstanding but will be payable only under the New Indenture and under the Bond

Insurance Policies as further provided in the Plan Supplement. Additional terms for the settlement of the Bond Trustee/Bondholder Claims are set forth in Section 7.7 of this Plan.

- (2) Allowance. The Bond Trustee/Bondholder Claims against KPC (together with the Bond Trustee/Bondholder Claims against KPCH and KPNC) shall be deemed Allowed as a Secured Claim in an aggregate amount equal to \$46,650,000 minus the Existing Debt Service Reserve Amount. The Bondholders will receive nothing under this Plan on account of the Bond Trustee/Bondholder Unsecured Claims.

(c) *Class A3 — PBGC Secured Claim and Unsecured Claim (Impaired).*

- (1) Treatment. In full satisfaction of all PBGC Prepetition Claims, the PBGC will receive in the aggregate from all Debtors, including KPGA in the event it files a plan of reorganization, total payments of \$13,500,000, as follows: (a) a payment of the Initial PBGC Amount in Cash on the Effective Date; and (b) the remainder of \$13,050,000 represented by the PBGC Note. As security for the PBGC Note, the PBGC shall receive or retain the PBGC Liens on the PBGC Note Collateral. Provisions relating to the priority of the PBGC Liens on the PBGC Note Collateral as well as provisions relating to enforcement and remedies will be governed by the New Intercreditor Agreement and the New PBGC Intercreditor Agreement. Additional terms for the settlement of the Bond Trustee/Bondholder Claims are set forth in Section 7.8 of this Plan.
- (2) Allowance. The PBGC Prepetition Claims shall be deemed an Allowed Secured Claim against all Debtors, including KPGA in the event it files a plan of reorganization, in the amount of the PBGC Liens. The PBGC Prepetition Claims shall be deemed an Allowed Unsecured Claim against all Debtors, including KPGA in the event it files a plan of reorganization, in the amount of \$13,500,000 less the PBGC Liens.

(d) *Class A4 — KidsPeace Corporation Other Secured Claims (Unimpaired).* On, or as soon as reasonably practicable after, the latest of (i) the Effective Date, (ii) the date on which such KPC Other Secured Claim becomes an Allowed KPC Other Secured Claim or (iii) the date on which such KPC Other Secured Claim becomes due and payable pursuant to an agreement between KPC and the holder of an Allowed KPC Other Secured Claim, each holder of an Allowed KPC Other Secured Claim shall receive from Reorganized KPC in full satisfaction, settlement, release and discharge of and in exchange for such Allowed KPC Other Secured Claim, at the sole discretion of the Debtors, (a) Cash equal to the unpaid portion of such Allowed KPC Other Secured Claim, (b) reinstatement of the legal, equitable and contractual rights of the holder of such Allowed KPC Other Secured Claim, or (c) such other treatment as the Debtors (or Reorganized Debtors) and such holder shall have agreed in writing. Pursuant to the Plan, the Debtors' failure to object to any KPC Other Secured Claim in the Chapter 11 Cases shall be without prejudice to the rights of the Debtors or the Reorganized Debtors to contest or otherwise defend against such Claim in the appropriate forum when and if such Claim is sought to be

enforced by the holder of such Claim. Nothing in the Plan or elsewhere shall preclude the Debtors or Reorganized Debtors from challenging the validity of any alleged Encumbrance on any asset of a Debtor or the value of any collateral.

(e) *Class A5 — KidsPeace Corporation General Unsecured Claims (Impaired).*

- (1) Treatment. Each holder of an Allowed KPC General Unsecured Claim will receive, in full satisfaction of such holder's Allowed KPC General Unsecured Claim, fifteen percent (15%) of the Allowed Claim amount of such KPC General Unsecured Claim, to be paid in the following manner:
  - (A) All KPC General Unsecured Claims that are Allowed Claims as of the Effective Date will receive: (A) five percent (5%) of such Allowed Claim in Cash on the Effective Date; (B) five percent (5%) of such Allowed Claim in Cash on the first anniversary of the Effective Date; and (C) five percent (5%) of such Allowed Claim in Cash on the second anniversary of the Effective Date;
  - (B) All KPC General Unsecured Claims that are not Allowed Claims as of the Effective Date will receive: (A) five percent (5%) of such Allowed Claim in Cash on the date such KPC General Unsecured Claim becomes an Allowed Claim; (B) five percent (5%) of such Allowed Claim in Cash on the first anniversary of the Effective Date, or if the Claim is not an Allowed Claim by such date, the date the claim becomes an Allowed Claim; and (C) five percent (5%) of such Allowed Claim in Cash on the second anniversary of the Effective Date, or if the Claim is not an Allowed Claim by such date, the date the claim becomes an Allowed Claim.
- (2) Alternate Treatment. Each Holder of a KPC General Unsecured Claim may elect, in the alternative, on an opt-in basis, in full satisfaction of such holder's Allowed KPC General Unsecured Claim, the following treatment (the "Alternate Creditor Treatment"):
  - (A) Any Holder of an Allowed KPC General Unsecured Claim in an amount equal to or less than \$10,000 may elect to receive an amount equal to 10% of such Holder's Allowed Claim payable on the Effective Date (or upon such later date following the Effective Date that the Claim becomes an Allowed Claim).
  - (B) Any holder of an Allowed KPC General Unsecured Claim in an amount over \$10,000 may elect to have such Holder's Claim treated as an Allowed Claim in a reduced amount equal to \$10,000 and to receive under the Plan, in lieu of the treatment specified in subsection (1) above, an amount equal to 10% of such \$10,000 Allowed Claim (i.e., \$1,000) payable in Cash on the Effective Date (or upon such later date following the Effective Date that the



Claim becomes an Allowed Claim) in full satisfaction of such Holder's Allowed Claim.

For clarity, the Bond Unsecured Claims, the PBGC Unsecured Claims and the Intercompany Claims shall not be included in Class A5 and, accordingly, will not receive the treatment afforded members of Class A5 in this Plan.

The payments due to Holders of Allowed KPC General Unsecured Claims shall be the joint and several obligation of, and fully enforceable against, each of the Reorganized Debtors.

#### 4.2 Claims Against KidsPeace Children's Hospital, Inc. .

(a) *Class B1 — KPCH Priority Non-Tax Claims (Unimpaired).* On, or as soon as reasonably practicable after, the latest of (i) the Effective Date, (ii) the date on which such KPCH Priority Non-Tax Claim becomes an Allowed KPCH Priority Non-Tax Claim, or (iii) the date on which such KPCH Priority Non-Tax Claim becomes due and payable pursuant to any agreement between the Debtors and a holder of a KPCH Priority Non-Tax Claim, each holder of an Allowed KPCH Priority Non-Tax Claim shall receive from the Disbursing Agent in full satisfaction, settlement, release and discharge of and in exchange for such Allowed KPCH Priority Non-Tax Claim (a) Cash equal to the unpaid portion of such Allowed KPCH Priority Non-Tax Claim or (b) such other treatment as the Debtors (or Reorganized Debtors) and such holder shall have agreed in writing. All Allowed KPCH Priority Non-Tax Claims which are not by their terms due and payable on or before the Effective Date shall be paid in the ordinary course of business in accordance with the terms thereof.

(b) *Class B2 — Bond Trustee/ Bondholders Secured Claim and Unsecured Claim (Impaired).*

- (1) Treatment. In full satisfaction of the Bond Trustee/Bondholder Claims, the Bondholders will receive, under the settlement described in Section 7.1(b), their pro rata share of: (A) the Initial Bondholder Payment, (B) a Cash distribution equal to the Excess Debt Service Reserve Fund Amount, and (C) the New Bonds. In addition, Insured Bondholders shall have the opportunity to either participate in the ACA Insurance Commutation or affirmatively opt out of the ACA Insurance Commutation. Each Commuting Bondholder shall receive a Cash payment equal to the Commutation Payment on, or as soon as reasonably practicable after, the Effective Date. If all Insured Bondholders participate in the commutation offer, the Commuting Bondholders shall receive a total upfront Cash payment equal to \$3,170,698.02 in addition to their pro rata distribution from the Debtors described in (A) through (C) above. Non-Commuting Bondholders, however, shall only receive the interest and principal payments with respect to the Non-Commuting Bonds, *provided, however*, that all payments made with respect to the Bond Trustee/Bondholders Claims of the Non-Commuting Bondholders including, without limitation, any payments made with respect to the New Bonds held to or for the

benefit of the Non-Commuting Bondholders by the Custodian shall be deemed to be partial payments under the Non-Commuted Bonds. The New Bonds will be issued on the Effective Date by the Authority and will be in three series, as follows: (a) \$20,110,000 in principal amount of new Series A Bonds, with terms as shown on Exhibit A attached hereto; (b) \$5,000,000 in initial principal amount of new Series B Bonds, with terms as shown on Exhibit A attached hereto; and (3) \$15,000,000 in principal amount of new Series C Bonds, with terms as shown on Exhibit A attached hereto. Each of the Debtors will be jointly and severally obligated under the New Indenture and the New Bonds. The New Bonds will be secured by the New Collateral and will be subject to the New Intercreditor Agreement and the New PBGC Intercreditor Agreement. The Liens securing the New Bonds shall be junior and subordinate to (i) the Liens of the PBGC on (a) the “Broadway” campus located at 1620 Broadway, Bethlehem, PA 18015; (b) the KidsPeace corporate headquarters located at 4085 Independence Dr., Schnecksville, PA 18078; (c) the Wilson Sarig building, located at 8<sup>th</sup> Avenue & Hay Road, Temple, PA 19560; and (d) the Maine campus, located on Route 80, Ellsworth, ME 04605; and (ii) the Liens securing the Exit Facility on the Orchard Hills Campus and the accounts receivable and the proceeds thereof. All Bonds will be cancelled on the Effective Date, except as provided in Section 7.4(a) below. Insured Bonds held by Non-Commuting Bondholders will remain outstanding but will be payable only under the New Indenture and under the Bond Insurance Policies as further provided in the Plan Supplement. Additional terms for the settlement of the Bond Trustee/Bondholder Claims are set forth in Section 7.7 of this Plan.

(2) Allowance. The Bond Trustee/Bondholder Claims against KPCH (together with the Bond Trustee/Bondholder Claims against KPC and KPNC) shall be deemed Allowed as a Secured Claim in an aggregate amount equal to the outstanding principal amount of, and accrued interest to the Petition Date, on, the Bonds minus the Existing Debt Service Reserve Amount.

(c) *Class B3 — PBGC Secured Claim and Unsecured Claim (Impaired)*.

(1) Treatment. In full satisfaction of all PBGC Prepetition Claims, the PBGC will receive in the aggregate from all Debtors, including KPGA in the event it files a plan of reorganization, total payments of \$13,500,000, as follows: (a) a payment of the Initial PBGC Amount in Cash on the Effective Date; and (b) the remainder of \$13,050,000 represented by the PBGC Note. As security for the PBGC Note, the PBGC shall receive or retain the PBGC Liens on the PBGC Note Collateral. Provisions relating to the priority of the PBGC Liens on the PBGC Note Collateral as well as provisions relating to enforcement and remedies will be governed by the New Intercreditor Agreement and the New PBGC Intercreditor

Agreement. Additional terms for the settlement of the Bond Trustee/Bondholder Claims are set forth in Section 7.8 of this Plan.

- (2) Allowance. The PBGC Prepetition Claims shall be deemed an Allowed Secured Claim against all Debtors, including KPGA in the event it files a plan of reorganization, in the amount of the PBGC Liens. The PBGC Prepetition Claims shall be deemed an Allowed Unsecured Claim against all Debtors, including KPGA in the event it files a plan of reorganization, in the amount of \$13,500,000 less the PBGC Liens.

(d) *Class B4 — KPCH Other Secured Claims (Unimpaired)*. On, or as soon as reasonably practicable after, the latest of (i) the Effective Date, (ii) the date on which such KPCH Other Secured Claim becomes an Allowed KPCH Other Secured Claim or (iii) the date on which such KPCH Other Secured Claim becomes due and payable pursuant to an agreement between KidsPeace Corporation and the holder of an Allowed KPCH Other Secured Claim, each holder of an Allowed KPCH Other Secured Claim shall receive from Reorganized KPCH in full satisfaction, settlement, release and discharge of and in exchange for such Allowed KPCH Other Secured Claim, at the sole discretion of the Debtors, (a) Cash equal to the unpaid portion of such Allowed KPCH Other Secured Claim, (b) reinstatement of the legal, equitable and contractual rights of the holder of such Allowed KPCH Other Secured Claim, or (c) such other treatment as the Debtors (or Reorganized Debtors) and such holder shall have agreed in writing. Pursuant to the Plan, the Debtors' failure to object to any KPCH Other Secured Claim in the Chapter 11 Cases shall be without prejudice to the rights of the Debtors or the Reorganized Debtors to contest or otherwise defend against such Claim in the appropriate forum when and if such Claim is sought to be enforced by the holder of such Claim. Nothing in the Plan or elsewhere shall preclude the Debtors or Reorganized Debtors from challenging the validity of any alleged Encumbrance on any asset of a Debtor or the value of any collateral.

(e) *Class B5 — KPCH General Unsecured Claims (Impaired)*.

- (1) Treatment. Each holder of an Allowed KPCH General Unsecured Claim will receive, in full satisfaction of such holder's Allowed KPCH General Unsecured Claim, fifteen percent (15%) of the Allowed Claim amount of such KPCH General Unsecured Claim, to be paid in the following manner:
  - (A) All KPCH General Unsecured Claims that are Allowed Claims as of the Effective Date will receive: (A) five percent (5%) of such Allowed Claim in Cash on the Effective Date; (B) five percent (5%) of such Allowed Claim in Cash on the first anniversary of the Effective Date; and (C) five percent (5%) of such Allowed Claim in Cash on the second anniversary of the Effective Date;
  - (B) All KPCH General Unsecured Claims that are not Allowed Claims as of the Effective Date will receive: (A) five percent (5%) of such Allowed Claim in Cash on the date such KPCH General Unsecured Claim becomes an Allowed Claim; (B) five percent (5%) of such Allowed Claim in Cash on the first anniversary of the Effective

Date, or if the Claim is not an Allowed Claim by such date, the date the claim becomes an Allowed Claim; and (C) five percent (5%) of such Allowed Claim in Cash on the second anniversary of the Effective Date, or if the Claim is not an Allowed Claim by such date, the date the claim becomes an Allowed Claim.

- (2) Alternate Treatment Each Holder of a KPCH General Unsecured Claim may elect, in the alternative, on an opt-in basis, in full satisfaction of such holder's Allowed KPCH General Unsecured Claim, the following treatment (the "Alternate Creditor Treatment"):
- (A) Any Holder of an Allowed KPCH General Unsecured Claim in an amount equal to or less than \$10,000 may elect to receive an amount equal to 10% of such Holder's Allowed Claim payable on the Effective Date (or upon such later date following the Effective Date that the Claim becomes an Allowed Claim).
  - (B) Any holder of an Allowed KPCH General Unsecured Claim in an amount over \$10,000 may elect to have such Holder's Claim treated as an Allowed Claim in a reduced amount equal to \$10,000 and to receive under the Plan, in lieu of the treatment specified in subsection (1) above, an amount equal to 10% of such \$10,000 Allowed Claim (i.e., \$1,000) payable in Cash on the Effective Date (or upon such later date following the Effective Date that the Claim becomes an Allowed Claim) in full satisfaction of such Holder's Allowed Claim.

For clarity, the Bond Unsecured Claims, the PBGC Unsecured Claims and the Intercompany Claims shall not be included in Class B5 and, accordingly, will not receive the treatment afforded members of Class B5 in this Plan.

The payments due to Holders of Allowed KPCH General Unsecured Claims shall be the joint and several obligation of, and fully enforceable against, each of the Reorganized Debtors.

#### 4.3 Claims Against KidsPeace Mesabi Academy, Inc.

(a) *Class C1 — Mesabi Priority Non-Tax Claims (Unimpaired)*. On, or as soon as reasonably practicable after, the latest of (i) the Effective Date, (ii) the date on which such Mesabi Priority Non-Tax Claim becomes an Allowed Mesabi Priority Non-Tax Claim, or (iii) the date on which such Mesabi Priority Non-Tax Claim becomes due and payable pursuant to any agreement between the Debtors and a holder of an Mesabi Priority Non-Tax Claim, each holder of an Allowed Mesabi Priority Non-Tax Claim shall receive from the Disbursing Agent in full satisfaction, settlement, release and discharge of and in exchange for such Allowed Mesabi Priority Non-Tax Claim (a) Cash equal to the unpaid portion of such Allowed Mesabi Priority Non-Tax Claim or (b) such other treatment as the Debtors (or Reorganized Debtors) and such holder shall have agreed in writing. All Allowed Mesabi Priority Non-Tax Claims which are not

by their terms due and payable on or before the Effective Date shall be paid in the ordinary course of business in accordance with the terms thereof.

(b) *Class C2 — PBGC Secured Claim and Unsecured Claim (Impaired).*

- (1) Treatment. In full satisfaction of all PBGC Prepetition Claims, the PBGC will receive in the aggregate from all Debtors, including KPGA in the event it files a plan of reorganization, total payments of \$13,500,000, as follows: (a) a payment of the Initial PBGC Amount in Cash on the Effective Date; and (b) the remainder of \$13,050,000 represented by the PBGC Note. As security for the PBGC Note, the PBGC shall receive or retain the PBGC Liens on the PBGC Note Collateral. Provisions relating to the priority of the PBGC Liens on the PBGC Note Collateral as well as provisions relating to enforcement and remedies will be governed by the New Intercreditor Agreement and the New PBGC Intercreditor Agreement. Additional terms for the settlement of the Bond Trustee/Bondholder Claims are set forth in Section 7.8 of this Plan.
- (2) Allowance. The PBGC Prepetition Claims shall be deemed an Allowed Secured Claim against all Debtors, including KPGA in the event it files a plan of reorganization, in the amount of the PBGC Liens. The PBGC Prepetition Claims shall be deemed an Allowed Unsecured Claim against all Debtors, including KPGA in the event it files a plan of reorganization, in the amount of \$13,500,000 less the PBGC Liens.

(c) *Class C3 — Mesabi Other Secured Claims (Unimpaired)*. On, or as soon as reasonably practicable after, the latest of (i) the Effective Date, (ii) the date on which such Mesabi Secured Claim becomes an Allowed Mesabi Other Secured Claim or (iii) the date on which such Mesabi Other Secured Claim becomes due and payable pursuant to an agreement between Mesabi and the holder of an Allowed Mesabi Other Secured Claim, each holder of an Allowed Mesabi Other Secured Claim shall receive from Reorganized Mesabi in full satisfaction, settlement, release and discharge of and in exchange for such Allowed Mesabi Other Secured Claim, at the sole discretion of the Debtors, (a) Cash equal to the unpaid portion of such Allowed Mesabi Other Secured Claim, (b) reinstatement of the legal, equitable and contractual rights of the holder of such Allowed Mesabi Other Secured Claim, or (c) such other treatment as the Debtors (or Reorganized Debtors) and such holder shall have agreed in writing. Pursuant to the Plan, the Debtors' failure to object to any Mesabi Other Secured Claim in the Chapter 11 Cases shall be without prejudice to the rights of the Debtors or the Reorganized Debtors to contest or otherwise defend against such Claim in the appropriate forum when and if such Claim is sought to be enforced by the holder of such Claim. Nothing in the Plan or elsewhere shall preclude the Debtors or Reorganized Debtors from challenging the validity of any alleged Encumbrance on any asset of a Debtor or the value of any collateral.

(d) *Class C4 — Mesabi General Unsecured Claims (Impaired)*.

- (1) Treatment. Each holder of an Allowed Mesabi General Unsecured Claim will receive, in full satisfaction of such holder's Allowed Mesabi General

Unsecured Claim, fifteen percent (15%) of the Allowed Claim amount of such Mesabi General Unsecured Claim, to be paid in the following manner:

- (A) All Mesabi General Unsecured Claims that are Allowed Claims as of the Effective Date will receive: (A) five percent (5%) of such Allowed Claim in Cash on the Effective Date; (B) five percent (5%) of such Allowed Claim in Cash on the first anniversary of the Effective Date; and (C) five percent (5%) of such Allowed Claim in Cash on the second anniversary of the Effective Date;
  - (B) All Mesabi General Unsecured Claims that are not Allowed Claims as of the Effective Date will receive: (A) five percent (5%) of such Allowed Claim in Cash on the date such Mesabi General Unsecured Claim becomes an Allowed Claim; (B) five percent (5%) of such Allowed Claim in Cash on the first anniversary of the Effective Date, or if the Claim is not an Allowed Claim by such date, the date the claim becomes an Allowed Claim; and (C) five percent (5%) of such Allowed Claim in Cash on the second anniversary of the Effective Date, or if the Claim is not an Allowed Claim by such date, the date the claim becomes an Allowed Claim.
- (2) Alternate Treatment. Each Holder of a Mesabi General Unsecured Claim may elect, in the alternative, on an opt-in basis, in full satisfaction of such holder's Allowed Mesabi General Unsecured Claim, the following treatment (the "Alternate Creditor Treatment"):
- (A) Any Holder of an Allowed Mesabi General Unsecured Claim in an amount equal to or less than \$10,000 may elect to receive an amount equal to 10% of such Holder's Allowed Claim payable on the Effective Date (or upon such later date following the Effective Date that the Claim becomes an Allowed Claim).
  - (B) Any holder of an Allowed Mesabi General Unsecured Claim in an amount over \$10,000 may elect to have such Holder's Claim treated as an Allowed Claim in a reduced amount equal to \$10,000 and to receive under the Plan, in lieu of the treatment specified in subsection (1) above, an amount equal to 10% of such \$10,000 Allowed Claim (i.e., \$1,000) payable in Cash on the Effective Date (or upon such later date following the Effective Date that the Claim becomes an Allowed Claim) in full satisfaction of such Holder's Allowed Claim.

For clarity, the PBGC Unsecured Claims and the Intercompany Claims shall not be included in Class C4 and, accordingly, will not receive the treatment afforded members of Class C4 in this Plan.

The payments due to Holders of Allowed Mesabi General Unsecured Claims shall be the joint and several obligation of, and fully enforceable against, each of the Reorganized Debtors.

4.4 Claims Against KidsPeace National Centers, Inc.

(a) *Class D1 — KPNC Priority Non-Tax Claims (Unimpaired)*. On, or as soon as reasonably practicable after, the latest of (i) the Effective Date, (ii) the date on which such KPNC Priority Non-Tax Claim becomes an Allowed KPNC Priority Non-Tax Claim, or (iii) the date on which such KPNC Priority Non-Tax Claim becomes due and payable pursuant to any agreement between the Debtors and a holder of a KPNC Priority Non-Tax Claim, each holder of an Allowed KPNC Priority Non-Tax Claim shall receive from the Disbursing Agent in full satisfaction, settlement, release and discharge of and in exchange for such Allowed KPNC Priority Non-Tax Claim (a) Cash equal to the unpaid portion of such Allowed KPNC Priority Non-Tax Claim or (b) such other treatment as the Debtors (or Reorganized Debtors) and such holder shall have agreed in writing. All Allowed KPNC Priority Non-Tax Claims which are not by their terms due and payable on or before the Effective Date shall be paid in the ordinary course of business in accordance with the terms thereof.

(b) *Class D2 — Bond Trustee/Bondholders Secured Claim and Unsecured Claim (Impaired)*.

- (1) Treatment. In full satisfaction of the Bond Trustee/Bondholder Claims, the Bondholders will receive, under the settlement described in Section 7.1(b), their pro rata share of: (A) the Initial Bondholder Payment, (B) a Cash distribution equal to the Excess Debt Service Reserve Fund Amount, and (C) the New Bonds. In addition, Insured Bondholders shall have the opportunity to either participate in the ACA Insurance Commutation or affirmatively opt out of the ACA Insurance Commutation. Each Commuting Bondholder shall receive a Cash payment equal to the Commutation Payment on, or as soon as reasonably practicable after, the Effective Date. If all Insured Bondholders participate in the commutation offer, the Commuting Bondholders shall receive a total upfront Cash payment equal to \$3,170,698.02 in addition to their pro rata distribution from the Debtors described in (A) through (C) above. Non-Commuting Bondholders, however, shall only receive the interest and principal payments with respect to the Non-Commuting Bonds, *provided, however*, that all partial payments made with respect to the Bond Trustee/Bondholders Claims of the Non-Commuting Bondholders including, without limitation, any payments made with respect to the New Bonds held for the benefit of the Non-Commuting Bondholders by the Custodian shall be deemed to be payments under the Non-Commuting Bonds. The New Bonds will be issued on the Effective Date by the Authority and will be in three series, as follows: (a) \$20,110,000 in principal amount of new Series A Bonds, with terms as shown on Exhibit A attached hereto; (b) \$5,000,000 in initial principal amount of new Series B Bonds, with terms as shown on Exhibit A attached hereto; and (3) \$15,000,000 in principal amount of new Series C Bonds, with terms as

shown on Exhibit A attached hereto. Each of the Debtors will be jointly and severally obligated under the New Indenture and the New Bonds. The New Bonds will be secured by the New Collateral and will be subject to the New Intercreditor Agreement and the New PBGC Intercreditor Agreement. The Liens securing the New Bonds shall be junior and subordinate to (i) the Liens of the PBGC on (a) the “Broadway” campus located at 1620 Broadway, Bethlehem, PA 18015; (b) the KidsPeace corporate headquarters located at 4085 Independence Dr., Schnecksville, PA 18078; (c) the Wilson Sarig building, located at 8<sup>th</sup> Avenue & Hay Road, Temple, PA 19560; and (d) the Maine campus, located on Route 80, Ellsworth, ME 04605; and (ii) the Liens securing the Exit Facility on the Orchard Hills Campus and the accounts receivable and the proceeds thereof. All Bonds will be cancelled on the Effective Date, except as provided in Section 7.4(a) below. Insured Bonds held by Non-Commuting Bondholders will remain outstanding but will be payable only under the New Indenture and under the Bond Insurance Policies as further provided in the Plan Supplement. Additional terms for the settlement of the Bond Trustee/Bondholder Claims are set forth in Section 7.7 of this Plan.

(2) Allowance. The Bond Trustee/Bondholder Claims against KPNC (together with the Bond Trustee/Bondholder Claims against KPC and KPCH) shall be deemed Allowed as a Secured Claim in an aggregate amount equal to the outstanding principal amount of, and accrued interest to the Petition Date, on, the Bonds minus the Existing Debt Service Reserve Amount.

(c) *Class D3 — PBGC Secured Claim and Unsecured Claim (Impaired)*.

(1) Treatment. In full satisfaction of all PBGC Prepetition Claims, the PBGC will receive in the aggregate from all Debtors, including KPGA in the event it files a plan of reorganization, total payments of \$13,500,000, as follows: (a) a payment of the Initial PBGC Amount in Cash on the Effective Date; and (b) the remainder of \$13,050,000 represented by the PBGC Note. As security for the PBGC Note, the PBGC shall receive or retain the PBGC Liens on the PBGC Note Collateral. Provisions relating to the priority of the PBGC Liens on the PBGC Note Collateral as well as provisions relating to enforcement and remedies will be governed by the New Intercreditor Agreement and the New PBGC Intercreditor Agreement. Additional terms for the settlement of the Bond Trustee/Bondholder Claims are set forth in Section 7.8 of this Plan.

(2) Allowance. The PBGC Prepetition Claims shall be deemed an Allowed Secured Claim against all Debtors, including KPGA in the event it files a plan of reorganization, in the amount of the PBGC Liens. The PBGC Prepetition Claims shall be deemed an Allowed Unsecured Claim against all Debtors, including KPGA in the event it files a plan of reorganization, in the amount of \$13,500,000 less the PBGC Liens.



(d) *Class D4 — KPNC Other Secured Claims (Unimpaired)*. On, or as soon as reasonably practicable after, the latest of (i) the Effective Date, (ii) the date on which such KPNC Other Secured Claim becomes an Allowed KPNC Other Secured Claim or (iii) the date on which such KPNC Other Secured Claim becomes due and payable pursuant to an agreement between KPNC and the holder of an Allowed KPNC Other Secured Claim, each holder of an Allowed KPNC Other Secured Claim shall receive from Reorganized KPNC in full satisfaction, settlement, release and discharge of and in exchange for such Allowed KPNC Other Secured Claim, at the sole discretion of the Debtors, (a) Cash equal to the unpaid portion of such Allowed KPNC Other Secured Claim, (b) reinstatement of the legal, equitable and contractual rights of the holder of such Allowed KPNC Other Secured Claim, or (c) such other treatment as the Debtors (or Reorganized Debtors) and such holder shall have agreed in writing. Pursuant to the Plan, the Debtors' failure to object to any KPNC Other Secured Claim in the Chapter 11 Cases shall be without prejudice to the rights of the Debtors or the Reorganized Debtors to contest or otherwise defend against such Claim in the appropriate forum when and if such Claim is sought to be enforced by the holder of such Claim. Nothing in the Plan or elsewhere shall preclude the Debtors or Reorganized Debtors from challenging the validity of any alleged Encumbrance on any asset of a Debtor or the value of any collateral.

(e) *Class D5 — KPNC General Unsecured Claims (Impaired)*.

- (1) Treatment. Each holder of an Allowed KPNC General Unsecured Claim will receive, in full satisfaction of such holder's Allowed KPNC General Unsecured Claim, fifteen percent (15%) of the Allowed Claim amount of such KPNC General Unsecured Claim, to be paid in the following manner:
  - (A) All KPNC General Unsecured Claims that are Allowed Claims as of the Effective Date will receive: (A) five percent (5%) of such Allowed Claim in Cash on the Effective Date; (B) five percent (5%) of such Allowed Claim in Cash on the first anniversary of the Effective Date; and (C) five percent (5%) of such Allowed Claim in Cash on the second anniversary of the Effective Date;
  - (B) All KPNC General Unsecured Claims that are not Allowed Claims as of the Effective Date will receive: (A) five percent (5%) of such Allowed Claim in Cash on the date such KPNC General Unsecured Claim becomes an Allowed Claim; (B) five percent (5%) of such Allowed Claim in Cash on the first anniversary of the Effective Date, or if the Claim is not an Allowed Claim by such date, the date the claim becomes an Allowed Claim; and (C) five percent (5%) of such Allowed Claim in Cash on the second anniversary of the Effective Date, or if the Claim is not an Allowed Claim by such date, the date the claim becomes an Allowed Claim.
- (2) Alternate Treatment. Each Holder of a KPNC General Unsecured Claim may elect, in the alternative, on an opt-in basis, in full satisfaction of such holder's Allowed KPNC General Unsecured Claim, the following treatment (the "Alternate Creditor Treatment"):

- (A) Any Holder of an Allowed KPNC General Unsecured Claim in an amount equal to or less than \$10,000 may elect to receive an amount equal to 10% of such Holder's Allowed Claim payable on the Effective Date (or upon such later date following the Effective Date that the Claim becomes an Allowed Claim).
- (B) Any holder of an Allowed KPNC General Unsecured Claim in an amount over \$10,000 may elect to have such Holder's Claim treated as an Allowed Claim in a reduced amount equal to \$10,000 and to receive under the Plan, in lieu of the treatment specified in subsection (1) above, an amount equal to 10% of such \$10,000 Allowed Claim (i.e., \$1,000) payable in Cash on the Effective Date (or upon such later date following the Effective Date that the Claim becomes an Allowed Claim) in full satisfaction of such Holder's Allowed Claim.

For clarity, the Bond Unsecured Claims, the PBGC Unsecured Claims and the Intercompany Claims shall not be included in Class D5 and, accordingly, will not receive the treatment afforded members of Class D5 in this Plan.

The payments due to Holders of Allowed KPNC General Unsecured Claims shall be the joint and several obligation of, and fully enforceable against, each of the Reorganized Debtors.

#### 4.5 Claims Against KidsPeace National Centers of New England, Inc.

(a) *Class E1 — KPNE Priority Non-Tax Claims (Unimpaired)*. On, or as soon as reasonably practicable after, the latest of (i) the Effective Date, (ii) the date on which such KPNE Priority Non-Tax Claim becomes an Allowed KPNE Priority Non-Tax Claim, or (iii) the date on which such KPNE Priority Non-Tax Claim becomes due and payable pursuant to any agreement between the Debtors and a holder of an KPNE Priority Non-Tax Claim, each holder of an Allowed KPNE Priority Non-Tax Claim shall receive from the Disbursing Agent in full satisfaction, settlement, release and discharge of and in exchange for such Allowed KPNE Priority Non-Tax Claim (a) Cash equal to the unpaid portion of such Allowed KPNE Priority Non-Tax Claim or (b) such other treatment as the Debtors (or Reorganized Debtors) and such holder shall have agreed in writing. All Allowed KPNE Priority Non-Tax Claims which are not by their terms due and payable on or before the Effective Date shall be paid in the ordinary course of business in accordance with the terms thereof.

#### (b) *Class E2 — PBGC Secured Claim and Unsecured Claim (Impaired)*.

- (1) Treatment. In full satisfaction of all PBGC Prepetition Claims, the PBGC will receive in the aggregate from all Debtors, including KPGA in the event it files a plan of reorganization, total payments of \$13,500,000, as follows: (a) a payment of the Initial PBGC Amount in Cash on the Effective Date; and (b) the remainder of \$13,050,000 represented by the PBGC Note. As security for the PBGC Note, the PBGC shall receive or retain the PBGC Liens on the PBGC Note Collateral. Provisions relating

to the priority of the PBGC Liens on the PBGC Note Collateral as well as provisions relating to enforcement and remedies will be governed by the New Intercreditor Agreement and the New PBGC Intercreditor Agreement. Additional terms for the settlement of the Bond Trustee/Bondholder Claims are set forth in Section 7.8 of this Plan.

- (2) Allowance. The PBGC Prepetition Claims shall be deemed an Allowed Secured Claim against all Debtors, including KPGA in the event it files a plan of reorganization, in the amount of the PBGC Liens. The PBGC Prepetition Claims shall be deemed an Allowed Unsecured Claim against all Debtors, including KPGA in the event it files a plan of reorganization, in the amount of \$13,500,000 less the PBGC Liens.

(c) *Class E3 — KPNE Other Secured Claims (Unimpaired)*. On, or as soon as reasonably practicable after, the latest of (i) the Effective Date, (ii) the date on which such KPNE Other Secured Claim becomes an Allowed KPNE Other Secured Claim or (iii) the date on which such KPNE Other Secured Claim becomes due and payable pursuant to an agreement between KPNE and the holder of an Allowed KPNE Other Secured Claim, each holder of an Allowed KPNE Other Secured Claim shall receive from Reorganized KPNE in full satisfaction, settlement, release and discharge of and in exchange for such Allowed KPNE Other Secured Claim, at the sole discretion of the Debtors, (a) Cash equal to the unpaid portion of such Allowed KPNE Other Secured Claim, (b) reinstatement of the legal, equitable and contractual rights of the holder of such Allowed KPNE Other Secured Claim, or (c) such other treatment as the Debtors (or Reorganized Debtors) and such holder shall have agreed in writing. Pursuant to the Plan, the Debtors' failure to object to any KPNE Other Secured Claim in the Chapter 11 Cases shall be without prejudice to the rights of the Debtors or the Reorganized Debtors to contest or otherwise defend against such Claim in the appropriate forum when and if such Claim is sought to be enforced by the holder of such Claim. Nothing in the Plan or elsewhere shall preclude the Debtors or Reorganized Debtors from challenging the validity of any alleged Encumbrance on any asset of a Debtor or the value of any collateral.

(d) *Class E4 — KPNE General Unsecured Claims (Impaired)*.

- (1) Treatment. Each holder of an Allowed KPNE General Unsecured Claim will receive, in full satisfaction of such holder's Allowed KPNE General Unsecured Claim, fifteen percent (15%) of the Allowed Claim amount of such KPNE General Unsecured Claim, to be paid in the following manner:
  - (A) All KPNE General Unsecured Claims that are Allowed Claims as of the Effective Date will receive: (A) five percent (5%) of such Allowed Claim in Cash on the Effective Date; (B) five percent (5%) of such Allowed Claim in Cash on the first anniversary of the Effective Date; and (C) five percent (5%) of such Allowed Claim in Cash on the second anniversary of the Effective Date;
  - (B) All KPNE General Unsecured Claims that are not Allowed Claims as of the Effective Date will receive: (A) five percent (5%) of such

Allowed Claim in Cash on the date such KPNE General Unsecured Claim becomes an Allowed Claim; (B) five percent (5%) of such Allowed Claim in Cash on the first anniversary of the Effective Date, or if the Claim is not an Allowed Claim by such date, the date the claim becomes an Allowed Claim; and (C) five percent (5%) of such Allowed Claim in Cash on the second anniversary of the Effective Date, or if the Claim is not an Allowed Claim by such date, the date the claim becomes an Allowed Claim.

- (2) Alternate Treatment. Each Holder of a KPNE General Unsecured Claim may elect, in the alternative, on an opt-in basis, in full satisfaction of such holder's Allowed KPNE General Unsecured Claim, the following treatment (the "Alternate Creditor Treatment"):
- (A) Any Holder of an Allowed KPNE General Unsecured Claim in an amount equal to or less than \$10,000 may elect to receive an amount equal to 10% of such Holder's Allowed Claim payable on the Effective Date (or upon such later date following the Effective Date that the Claim becomes an Allowed Claim).
- (B) Any holder of an Allowed KPNE General Unsecured Claim in an amount over \$10,000 may elect to have such Holder's Claim treated as an Allowed Claim in a reduced amount equal to \$10,000 and to receive under the Plan, in lieu of the treatment specified in subsection (1) above, an amount equal to 10% of such \$10,000 Allowed Claim (i.e., \$1,000) payable in Cash on the Effective Date (or upon such later date following the Effective Date that the Claim becomes an Allowed Claim) in full satisfaction of such Holder's Allowed Claim.

For clarity, the PBGC Unsecured Claims and the Intercompany Claims shall not be included in Class E4 and, accordingly, will not receive the treatment afforded members of Class E4 in this Plan.

The payments due to Holders of Allowed KPNE General Unsecured Claims shall be the joint and several obligation of, and fully enforceable against, each of the Reorganized Debtors.

#### 4.6 Claims Against KidsPeace National Centers of North America, Inc.

(a) *Class F1 — KPNA Priority Non-Tax Claims (Unimpaired)*. On, or as soon as reasonably practicable after, the latest of (i) the Effective Date, (ii) the date on which such KPNA Priority Non-Tax Claim becomes an Allowed KPNA Priority Non-Tax Claim, or (iii) the date on which such KPNA Priority Non-Tax Claim becomes due and payable pursuant to any agreement between the Debtors and a holder of a KPNA Priority Non-Tax Claim, each holder of an Allowed KPNA Priority Non-Tax Claim shall receive from the Disbursing Agent in full satisfaction, settlement, release and discharge of and in exchange for such Allowed KPNA Priority Non-Tax Claim (a) Cash equal to the unpaid portion of such Allowed KPNA Priority

Non-Tax Claim or (b) such other treatment as the Debtors (or Reorganized Debtors) and such holder shall have agreed in writing. All Allowed KPNA Priority Non-Tax Claims which are not by their terms due and payable on or before the Effective Date shall be paid in the ordinary course of business in accordance with the terms thereof.

(b) *Class F2 — PBGC Secured Claim and Unsecured Claim (Impaired).*

- (1) Treatment. In full satisfaction of all PBGC Prepetition Claims, the PBGC will receive in the aggregate from all Debtors, including KPGA in the event it files a plan of reorganization, total payments of \$13,500,000, as follows: (a) a payment of the Initial PBGC Amount in Cash on the Effective Date; and (b) the remainder of \$13,050,000 represented by the PBGC Note. As security for the PBGC Note, the PBGC shall receive or retain the PBGC Liens on the PBGC Note Collateral. Provisions relating to the priority of the PBGC Liens on the PBGC Note Collateral as well as provisions relating to enforcement and remedies will be governed by the New Intercreditor Agreement and the New PBGC Intercreditor Agreement. Additional terms for the settlement of the Bond Trustee/Bondholder Claims are set forth in Section 7.8 of this Plan.
- (2) Allowance. The PBGC Prepetition Claims shall be deemed an Allowed Secured Claim against all Debtors, including KPGA in the event it files a plan of reorganization, in the amount of the PBGC Liens. The PBGC Prepetition Claims shall be deemed an Allowed Unsecured Claim against all Debtors, including KPGA in the event it files a plan of reorganization, in the amount of \$13,500,000 less the PBGC Liens.

(c) *Class F3 — KPNA Other Secured Claims (Unimpaired)*. On, or as soon as reasonably practicable after, the latest of (i) the Effective Date, (ii) the date on which such KPNA Other Secured Claim becomes an Allowed KPNA Other Secured Claim or (iii) the date on which such KPNA Other Secured Claim becomes due and payable pursuant to an agreement between KPNA and the holder of an Allowed KPNA Other Secured Claim, each holder of an Allowed KPNA Other Secured Claim shall receive from Reorganized KPNA in full satisfaction, settlement, release and discharge of and in exchange for such Allowed KPNA Other Secured Claim, at the sole discretion of the Debtors, (a) Cash equal to the unpaid portion of such Allowed KPNA Other Secured Claim, (b) reinstatement of the legal, equitable and contractual rights of the holder of such Allowed KPNA Other Secured Claim, or (c) such other treatment as the Debtors (or Reorganized Debtors) and such holder shall have agreed in writing. Pursuant to the Plan, the Debtors' failure to object to any KPNA Other Secured Claim in the Chapter 11 Cases shall be without prejudice to the rights of the Debtors or the Reorganized Debtors to contest or otherwise defend against such Claim in the appropriate forum when and if such Claim is sought to be enforced by the holder of such Claim. Nothing in the Plan or elsewhere shall preclude the Debtors or Reorganized Debtors from challenging the validity of any alleged Encumbrance on any asset of a Debtor or the value of any collateral.

(d) *Class F4 — KPNA General Unsecured Claims (Impaired).*

- (1) Treatment. Each holder of an Allowed KPNA General Unsecured Claim will receive, in full satisfaction of such holder's Allowed KPNA General Unsecured Claim, fifteen percent (15%) of the Allowed Claim amount of such KPNA General Unsecured Claim, to be paid in the following manner:
  - (A) All KPNA General Unsecured Claims that are Allowed Claims as of the Effective Date will receive: (A) five percent (5%) of such Allowed Claim in Cash on the Effective Date; (B) five percent (5%) of such Allowed Claim in Cash on the first anniversary of the Effective Date; and (C) five percent (5%) of such Allowed Claim in Cash on the second anniversary of the Effective Date;
  - (B) All KPNA General Unsecured Claims that are not Allowed Claims as of the Effective Date will receive: (A) five percent (5%) of such Allowed Claim in Cash on the date such KPNA General Unsecured Claim becomes an Allowed Claim; (B) five percent (5%) of such Allowed Claim in Cash on the first anniversary of the Effective Date, or if the Claim is not an Allowed Claim by such date, the date the claim becomes an Allowed Claim; and (C) five percent (5%) of such Allowed Claim in Cash on the second anniversary of the Effective Date, or if the Claim is not an Allowed Claim by such date, the date the claim becomes an Allowed Claim.
- (2) Alternate Treatment. Each Holder of a KPNA General Unsecured Claim may elect, in the alternative, on an opt-in basis, in full satisfaction of such holder's Allowed KPNA General Unsecured Claim, the following treatment (the "Alternate Creditor Treatment"):
  - (A) Any Holder of an Allowed KPNA General Unsecured Claim in an amount equal to or less than \$10,000 may elect to receive an amount equal to 10% of such Holder's Allowed Claim payable on the Effective Date (or upon such later date following the Effective Date that the Claim becomes an Allowed Claim).
  - (B) Any holder of an Allowed KPNA General Unsecured Claim in an amount over \$10,000 may elect to have such Holder's Claim treated as an Allowed Claim in a reduced amount equal to \$10,000 and to receive under the Plan, in lieu of the treatment specified in subsection (1) above, an amount equal to 10% of such \$10,000 Allowed Claim (i.e., \$1,000) payable in Cash on the Effective Date (or upon such later date following the Effective Date that the Claim becomes an Allowed Claim) in full satisfaction of such Holder's Allowed Claim.

For clarity, the PBGC Unsecured Claims and the Intercompany Claims shall not be included in Class F4 and, accordingly, will not receive the treatment afforded members of Class F4 in this Plan.

The payments due to Holders of Allowed KPNA General Unsecured Claims shall be the joint and several obligation of, and fully enforceable against, each of the Reorganized Debtors.

4.7 Claims Against Iron Range School, Inc.

(a) *Class G1 — Iron Range Priority Non-Tax Claims (Unimpaired)*. On, or as soon as reasonably practicable after, the latest of (i) the Effective Date, (ii) the date on which such Iron Range Priority Non-Tax Claim becomes an Allowed Iron Range Priority Non-Tax Claim, or (iii) the date on which such Iron Range Priority Non-Tax Claim becomes due and payable pursuant to any agreement between the Debtors and a holder of an Iron Range Priority Non-Tax Claim, each holder of an Allowed Iron Range Priority Non-Tax Claim shall receive from the Disbursing Agent in full satisfaction, settlement, release and discharge of and in exchange for such Allowed Iron Range Priority Non-Tax Claim (a) Cash equal to the unpaid portion of such Allowed Iron Range Priority Non-Tax Claim or (b) such other treatment as the Debtors (or Reorganized Debtors) and such holder shall have agreed in writing. All Allowed Iron Range Priority Non-Tax Claims which are not by their terms due and payable on or before the Effective Date shall be paid in the ordinary course of business in accordance with the terms thereof.

(b) *Class G2 — PBGC Secured Claim and Unsecured Claim (Impaired)*.

(1) Treatment. In full satisfaction of all PBGC Prepetition Claims, the PBGC will receive in the aggregate from all Debtors, including KPGA in the event it files a plan of reorganization, total payments of \$13,500,000, as follows: (a) a payment of the Initial PBGC Amount in Cash on the Effective Date; and (b) the remainder of \$13,050,000 represented by the PBGC Note. As security for the PBGC Note, the PBGC shall receive or retain the PBGC Liens on the PBGC Note Collateral. Provisions relating to the priority of the PBGC Liens on the PBGC Note Collateral as well as provisions relating to enforcement and remedies will be governed by the New Intercreditor Agreement and the New PBGC Intercreditor Agreement. Additional terms for the settlement of the Bond Trustee/Bondholder Claims are set forth in Section 7.8 of this Plan.

(2) Allowance. The PBGC Prepetition Claims shall be deemed an Allowed Secured Claim against all Debtors, including KPGA in the event it files a plan of reorganization, in the amount of the PBGC Liens. The PBGC Prepetition Claims shall be deemed Allowed against all Debtors, including KPGA in the event it files a plan of reorganization, in the amount of \$13,500,000 less the PBGC Liens.

(c) *Class G3 — Iron Range Other Secured Claims (Unimpaired)*. On, or as soon as reasonably practicable after, the latest of (i) the Effective Date, (ii) the date on which such Iron

Range Other Secured Claim becomes an Allowed Iron Range Other Secured Claim or (iii) the date on which such Iron Range Other Secured Claim becomes due and payable pursuant to an agreement between Iron Range and the holder of an Allowed Iron Range Secured Claim, each holder of an Allowed Iron Range Other Secured Claim shall receive from Reorganized Iron Range in full satisfaction, settlement, release and discharge of and in exchange for such Allowed Iron Range Other Secured Claim, at the sole discretion of the Debtors, (a) Cash equal to the unpaid portion of such Allowed Iron Range Other Secured Claim, (b) reinstatement of the legal, equitable and contractual rights of the holder of such Allowed Iron Range Other Secured Claim, or (c) such other treatment as the Debtors (or Reorganized Debtors) and such holder shall have agreed in writing. Pursuant to the Plan, the Debtors' failure to object to any Iron Range Other Secured Claim in the Chapter 11 Cases shall be without prejudice to the rights of the Debtors or the Reorganized Debtors to contest or otherwise defend against such Claim in the appropriate forum when and if such Claim is sought to be enforced by the holder of such Claim. Nothing in the Plan or elsewhere shall preclude the Debtors or Reorganized Debtors from challenging the validity of any alleged Encumbrance on any asset of a Debtor or the value of any collateral.

(d) *Class G4 — Iron Range General Unsecured Claims (Impaired).*

- (1) Treatment. Each holder of an Allowed Iron Range General Unsecured Claim will receive, in full satisfaction of such holder's Allowed Iron Range General Unsecured Claim, fifteen percent (15%) of the Allowed Claim amount of such Iron Range General Unsecured Claim, to be paid in the following manner:
  - (A) All Iron Range General Unsecured Claims that are Allowed Claims as of the Effective Date will receive: (A) five percent (5%) of such Allowed Claim in Cash on the Effective Date; (B) five percent (5%) of such Allowed Claim in Cash on the first anniversary of the Effective Date; and (C) five percent (5%) of such Allowed Claim in Cash on the second anniversary of the Effective Date;
  - (B) All Iron Range General Unsecured Claims that are not Allowed Claims as of the Effective Date will receive: (A) five percent (5%) of such Allowed Claim in Cash on the date such KPC General Unsecured Claim becomes an Allowed Claim; (B) five percent (5%) of such Allowed Claim in Cash on the first anniversary of the Effective Date, or if the Claim is not an Allowed Claim by such date, the date the claim becomes an Allowed Claim; and (C) five percent (5%) of such Allowed Claim in Cash on the second anniversary of the Effective Date, or if the Claim is not an Allowed Claim by such date, the date the claim becomes an Allowed Claim.
- (2) Alternate Treatment. Each Holder of an Iron Range General Unsecured Claim may elect, in the alternative, on an opt-in basis, in full satisfaction of such holder's Allowed Iron Range General Unsecured Claim, the following treatment (the "Alternate Creditor Treatment"):



- (A) Any Holder of an Allowed Iron Range General Unsecured Claim in an amount equal to or less than \$10,000 may elect to receive an amount equal to 10% of such Holder's Allowed Claim payable on the Effective Date (or upon such later date following the Effective Date that the Claim becomes an Allowed Claim).
- (B) Any holder of an Allowed Iron Range General Unsecured Claim in an amount over \$10,000 may elect to have such Holder's Claim treated as an Allowed Claim in a reduced amount equal to \$10,000 and to receive under the Plan, in lieu of the treatment specified in subsection (1) above, an amount equal to 10% of such \$10,000 Allowed Claim (i.e., \$1,000) payable in Cash on the Effective Date (or upon such later date following the Effective Date that the Claim becomes an Allowed Claim) in full satisfaction of such Holder's Allowed Claim.

For clarity, the PBGC Unsecured Claims and the Intercompany Claims shall not be included in Class G4 and, accordingly, will not receive the treatment afforded members of Class G4 in this Plan.

The payments due to Holders of Allowed Iron Range General Unsecured Claims shall be the joint and several obligation of, and fully enforceable against, each of the Reorganized Debtors.

#### 4.8 Claims Against KidsPeace National Centers of New York, Inc.

(a) *Class H1 — KPNY Priority Non-Tax Claims (Unimpaired).* On, or as soon as reasonably practicable after, the latest of (i) the Effective Date, (ii) the date on which such KPNY Priority Non-Tax Claim becomes an Allowed KPNY Priority Non-Tax Claim, or (iii) the date on which such KPNY Priority Non-Tax Claim becomes due and payable pursuant to any agreement between the Debtors and a holder of an KPNY Priority Non-Tax Claim, each holder of an Allowed KPNY Priority Non-Tax Claim shall receive from the Disbursing Agent in full satisfaction, settlement, release and discharge of and in exchange for such Allowed KPNY Priority Non-Tax Claim (a) Cash equal to the unpaid portion of such Allowed KPNY Priority Non-Tax Claim or (b) such other treatment as the Debtors (or Reorganized Debtors) and such holder shall have agreed in writing. All Allowed KPNY Priority Non-Tax Claims which are not by their terms due and payable on or before the Effective Date shall be paid in the ordinary course of business in accordance with the terms thereof.

#### (b) *Class H2 — PBGC Secured Claim and Unsecured Claim (Impaired).*

- (1) Treatment. In full satisfaction of all PBGC Prepetition Claims, the PBGC will receive in the aggregate from all Debtors, including KPGA in the event it files a plan of reorganization, total payments of \$13,500,000, as follows: (a) a payment of the Initial PBGC Amount in Cash on the Effective Date; and (b) the remainder of \$13,050,000 represented by the PBGC Note. As security for the PBGC Note, the PBGC shall receive or retain the PBGC Liens on the PBGC Note Collateral. Provisions relating

to the priority of the PBGC Liens on the PBGC Note Collateral as well as provisions relating to enforcement and remedies will be governed by the New Intercreditor Agreement and the New PBGC Intercreditor Agreement. Additional terms for the settlement of the Bond Trustee/Bondholder Claims are set forth in Section 7.8 of this Plan.

- (2) Allowance. The PBGC Prepetition Claims shall be deemed an Allowed Secured Claim against all Debtors, including KPGA in the event it files a plan of reorganization, in the amount of the PBGC Liens. The PBGC Prepetition Claims shall be deemed an Allowed Unsecured Claim against all Debtors, including KPGA in the event it files a plan of reorganization, in the amount of \$13,500,000 less the PBGC Liens.

(c) *Class H3 — KPNY Other Secured Claims (Unimpaired)*. On, or as soon as reasonably practicable after, the latest of (i) the Effective Date, (ii) the date on which such KPNY Other Secured Claim becomes an Allowed KPNY Other Secured Claim or (iii) the date on which such KPNY Other Secured Claim becomes due and payable pursuant to an agreement between KPNY and the holder of an Allowed KPNY Secured Claim, each holder of an Allowed KPNY Other Secured Claim shall receive from Reorganized KPNY in full satisfaction, settlement, release and discharge of and in exchange for such Allowed KPNY Other Secured Claim, at the sole discretion of the Debtors: (a) Cash equal to the unpaid portion of such Allowed KPNY Other Secured Claim, (b) reinstatement of the legal, equitable and contractual rights of the holder of such Allowed KPNY Other Secured Claim, or (c) such other treatment as the Debtors (or Reorganized Debtors) and such holder shall have agreed to in writing. Pursuant to the Plan, the Debtors' failure to object to any KPNY Other Secured Claim in the Chapter 11 Cases shall be without prejudice to the rights of the Debtors or the Reorganized Debtors to contest or otherwise defend against such Claim in the appropriate forum when and if such Claim is sought to be enforced by the holder of such Claim. Nothing in the Plan or elsewhere shall preclude the Debtors or Reorganized Debtors from challenging the validity of any alleged Encumbrance on any asset of a Debtor or the value of any collateral.

(d) *Class H4 — KPNY Corporation General Unsecured Claims (Impaired)*.

- (1) Treatment. Each holder of an Allowed KPNY General Unsecured Claim as of the Effective Date will receive, in full satisfaction of such holder's Allowed KPNY General Unsecured Claim, fifteen percent (15%) of the Allowed Claim amount of such KPNY General Unsecured Claim (excluding post-petition interest), to be paid in the following manner:
  - (A) All KPNY General Unsecured Claims that are Allowed Claims as of the Effective Date will receive: (A) five percent (5%) of such Allowed Claim in Cash on the Effective Date; (B) five percent (5%) of such Allowed Claim in Cash on the first anniversary of the Effective Date; and (C) five percent (5%) of such Allowed Claim in Cash on the second anniversary of the Effective Date;

- (B) All KPNY General Unsecured Claims that are not Allowed Claims as of the Effective Date will receive: (A) five percent (5%) of such Allowed Claim in Cash on the date such KPNY General Unsecured Claim becomes an Allowed Claim; (B) five percent (5%) of such Allowed Claim in Cash on the first anniversary of the Effective Date, or if the Claim is not an Allowed Claim by such date, the date the claim becomes an Allowed Claim; and (C) five percent (5%) of such Allowed Claim in Cash on the second anniversary of the Effective Date, or if the Claim is not an Allowed Claim by such date, the date the claim becomes an Allowed Claim.
- (2) Alternate Treatment. Each Holder of a KPNY General Unsecured Claim may elect, in the alternative, on an opt-in basis, in full satisfaction of such holder's Allowed KPNY General Unsecured Claim, the following treatment (the "Alternate Creditor Treatment"):
- (A) Any Holder of an Allowed KPNY General Unsecured Claim in an amount equal to or less than \$10,000 may elect to receive an amount equal to 10% of such Holder's Allowed Claim payable on the Effective Date (or upon such later date following the Effective Date that the Claim becomes an Allowed Claim).
  - (B) Any holder of an Allowed KPNY General Unsecured Claim in an amount over \$10,000 may elect to have such Holder's Claim treated as an Allowed Claim in a reduced amount equal to \$10,000 and to receive under the Plan, in lieu of the treatment specified in subsection (1) above, an amount equal to 10% of such \$10,000 Allowed Claim (i.e., \$1,000) payable in Cash on the Effective Date (or upon such later date following the Effective Date that the Claim becomes an Allowed Claim) in full satisfaction of such Holder's Allowed Claim.

For clarity, the PBGC Unsecured Claims and the Intercompany Claims shall not be included in Class H4 and, accordingly, will not receive the treatment afforded members of Class H4 in this Plan.

The payments due to Holders of Allowed KPNY General Unsecured Claims shall be the joint and several obligation of, and fully enforceable against, each of the Reorganized Debtors.

4.9 Intercompany Claims. Upon the Effective Date, each of the Debtors shall be deemed to have waived and released any Claims arising on or before the Effective Date against any other Debtor. Additionally, no Debtor shall pay any Claim or Administrative Claim that KPGA may have against the Debtors.

4.10 Equity Interest of the Debtors

The Debtors are each non-profit entities. The existing corporate organization structure will remain the same on the Effective Date, with the equity interest holder of each Debtor retaining its equity interest.

**ARTICLE 5  
PROVISIONS FOR TREATMENT OF UNCLASSIFIED CLAIMS UNDER THE  
PLAN**

5.1 Unclassified Claims. Administrative Expense Claims and Priority Tax Claims are treated in accordance with Sections 1129(a)(9)(A) and 1129(a)(9)(C) of the Bankruptcy Code, respectively. Administrative Expense Claims and Priority Tax Claims are not designated as classes of Claims for the purposes of the Plan or for the purposes of Sections 1123, 1124, 1125, 1126 or 1129 of the Bankruptcy Code.

5.2 Treatment of DIP Lender Claims. On the Effective Date, the DIP Lender Debt shall be paid and satisfied in full with proceeds of the Exit Facility, the DIP Loan shall terminate (except in respect of those provisions that expressly survive the termination thereof), and the DIP Lender shall be released by the Debtors in respect of any Claims arising under the DIP Loan, the DIP Loan Documents or otherwise.

5.3 Treatment of Administrative Expense Claims.

All Administrative Expense Claims shall be treated as follows:

(a) *Time for Filing Administrative Expense Claims.* The holder of an Administrative Expense Claim, *other than* (i) a Fee Claim, (ii) the DIP Lender Debt, (iii) a liability incurred and payable after the Petition Date in the ordinary course of business by a Debtor, (iv) a Section 503(b)(9) Claim or (v) an Administrative Expense Claim that has been Allowed on or before the Effective Date, must file with the Bankruptcy Court and serve on the Debtors, the Committee (or the Committee Representative after dissolution) and the U.S. Trustee, notice of such Administrative Expense Claim within thirty (30) days after service of Notice of Effective Date or such other specific date as may be established by the Bankruptcy Court. Such notice must include (a) the name of the Debtor(s) that are purported to be liable for the Claim, (b) the name of the holder of the Claim, (c) the amount of the Claim and (d) the basis of the Claim (including any documentation evidencing or supporting such Claim). **THE FAILURE TO FILE A NOTICE OF AN ADMINISTRATIVE EXPENSE CLAIM ON OR BEFORE THE FOREGOING DEADLINE AND THE FAILURE TO SERVE SUCH NOTICE TIMELY AND PROPERLY SHALL RESULT IN THE ADMINISTRATIVE EXPENSE CLAIM BEING FOREVER BARRED, DISALLOWED AND DISCHARGED WITHOUT FURTHER ORDER OF THE BANKRUPTCY COURT.**

For the avoidance of any doubt, no holder of an Administrative Expense Claim on account of a liability incurred and payable after the Petition Date in the ordinary course of a Debtor's business shall be required to file a notice of an Administrative Expense Claim in

accordance with Section 5.3(a) of the Plan, in order to be entitled to payment, in the ordinary course of business, on account of such Administrative Expense Claim.

(b) *Time for Filing Fee Claims.* Each Professional who holds or asserts a Fee Claim shall be required to file with the Bankruptcy Court, and serve on the U.S. Trustee and the Debtors, and provide notice thereof to all parties on the Master Service List maintained by the Claims Agent, a Fee Application within forty-five (45) days after the Effective Date or such other specific date as may be established by the Bankruptcy Court. THE FAILURE TO FILE TIMELY AND SERVE SUCH FEE APPLICATION MAY RESULT IN THE FEE CLAIM BEING FOREVER BARRED, DISALLOWED AND DISCHARGED.

(c) *Time for Filing Section 503(b)(9) Claims.* Each holder of a Section 503(b)(9) Claim was required to file with the Claims Agent a proof of claim asserting Section 503(b)(9) priority prior to August 30, 2013. THE FAILURE TO HAVE FILED SUCH A CLAIM BY THE SECTION 503(b)(9) BAR DATE SHALL RESULT IN THE SECTION 503(b)(9) CLAIM BEING DEEMED DISALLOWED AS AN ADMINISTRATIVE EXPENSE CLAIM; PROVIDED, HOWEVER, THAT SUCH CLAIM TO THE EXTENT ALLOWED SHALL BE TREATED AS A GENERAL UNSECURED CLAIM.

(d) *Allowance of Administrative Expense Claims, Fee Claims and Section 503(b)(9) Claims.* An Administrative Expense Claim (other than a Fee Claim or Section 503(b)(9) Claim) with respect to which notice has been properly filed and served pursuant to Section 5.3(a), or a Section 503(b)(9) Claim with respect to which a proof of claim has been properly filed before the Section 503(b)(9) Bar Date and which has not been paid before the Effective Date, shall become an Allowed Administrative Expense Claim if no objection is filed within sixty (60) days after the later of (i) the Effective Date or (ii) if applicable, the date of service of the applicable notice of Administrative Expense Claim or such later date as may be approved by the Bankruptcy Court on motion of a party in interest, without notice or a hearing. If an objection is filed within such 60-day period (or any extension thereof), the Administrative Expense Claim shall become an Allowed Administrative Expense Claim only to the extent allowed by Final Order. A Fee Claim in respect of which a Fee Application has been properly filed and served pursuant to Section 5.2(b) shall become an Allowed Administrative Expense Claim only to the extent allowed by Final Order.

(e) *Payment of Allowed Administrative Expense Claims.* On, or as soon as reasonably practicable after, the latest of (a) the Effective Date, (b) the date on which an Administrative Expense Claim becomes Allowed or (c) the date on which such Administrative Expense Claim becomes due and payable pursuant to any agreement between the Debtors and the holder of the Administrative Expense Claim, each holder of an Allowed Administrative Expense Claim (other than (i) an Administrative Expense Claim on account of a liability incurred and payable after the Petition Date in the ordinary course of a Debtor's business or (ii) an Administrative Expense Claim, including but not limited to a Section 503(b)(9) Claim, already paid in full by the Debtors or the Reorganized Debtors) shall receive from the Disbursing Agent in full satisfaction of such Claims (i) the amount of such holder's Allowed Administrative Expense Claim in one Cash payment or (ii) such other treatment as may be agreed upon in writing by the Debtors and such holder; provided, however, that an Administrative Expense Claim representing a liability incurred in the ordinary course of business of the Debtors shall be

paid by the applicable Reorganized Debtor in the ordinary course of business. For the avoidance of doubt, nothing contained herein shall relieve the Debtors of their obligations to pay Allowed Section 503(b)(9) Claims following the first date scheduled for a hearing on the Disclosure Statement.

(f) *Treatment of Priority Tax Claims.* On, or as soon as reasonably practicable after the latest of (i) the Effective Date, (ii) the date on which a Priority Tax Claim becomes Allowed or (iii) the date on which such Priority Tax Claim becomes due and payable pursuant to any agreement between the Debtors and the holder of the Priority Tax Claim, each holder of an Allowed Priority Tax Claim shall receive from the Disbursing Agent in full satisfaction of such holder's Allowed Priority Tax Claim, (a) the amount of such holder's Allowed Priority Tax Claim in Cash, or (b) such other treatment as may be agreed upon in writing by such holder; provided that such agreed-upon treatment may not provide such holder with a return having a present value as of the Effective Date that is greater than the amount of such holder's Allowed Priority Tax Claim. The Confirmation Order shall enjoin any holder of an Allowed Priority Tax Claim from commencing or continuing any action or proceeding against any responsible person or officer of the Debtors that otherwise would be liable to such holder for payment of a Priority Tax Claim so long as the Debtors are in compliance with this Section 5.3. So long as the holder of an Allowed Priority Tax Claim is enjoined from commencing or continuing any action or proceeding against any responsible person or officer under this Section 5.3 or pursuant to the Confirmation Order, the statute of limitations for commencing or continuing any such action or proceeding shall be tolled.

5.4 Payment of Interim Amounts. Professionals shall be paid pursuant to the "Monthly Statement" process set forth in the Professional Fee Order with respect to all calendar months ending prior to the Effective Date.

5.5 Post-Effective Date Fees and Expenses. On the Effective Date, any requirement that Professionals comply with Sections 327 through 331 and 1103 of the Bankruptcy Code in seeking retention or compensation for services rendered after the Effective Date shall terminate and the Reorganized Debtors and the Committee Representative may employ and pay any Professional (including any Professional retained after the Effective Date) in the ordinary course of business without any further notice to or action, or, or approval of the Bankruptcy Court.

## **ARTICLE 6 ACCEPTANCE OR REJECTION OF THE PLAN; EFFECT OF REJECTION BY ONE OR MORE CLASSES OF CLAIMS**

6.1 Classes Entitled to Vote. The Debtors are soliciting acceptances of the Plan from the holders of all Claims other than those holding Class A1, B1, C1, D1, E1, F1, G1 and H1 Claims (Priority Non-Tax Claims) and Class A4, B4, C3, D4, E3, F3, G3, and H3 Claims (Other Secured Claims).

6.2 Class Acceptance Requirement. A class of Claims shall have accepted the Plan if it is accepted by at least two-thirds (2/3) in amount and more than one-half (1/2) in number of the Allowed Claims in such class that have voted on the Plan.

6.3 Tabulation of Votes on a Non-Consolidated Basis. The Balloting Agent will tabulate all votes on the Plan on a non-consolidated basis by class and by Debtor for the purpose of determining whether the Plan satisfies Sections 1129(a)(8) and/or (10) of the Bankruptcy Code with respect to each Debtor.

6.4 Cramdown. If all applicable requirements for confirmation of the Plan are met as set forth in Section 1129(a) of the Bankruptcy Code, except sub-Section (8) thereof, the Plan shall be treated as a request that the Bankruptcy Court confirm the Plan in accordance with Section 1129(b) of the Bankruptcy Code, notwithstanding the failure to satisfy the requirements of Section 1129(a)(8), on the basis that the Plan is fair and equitable and does not discriminate unfairly with respect to each class of Claims that is impaired under, and has not accepted, the Plan.

6.5 Confirmation of All Cases. Except as provided in Section 14.15 and absent the Debtors' election otherwise, the Plan shall not be deemed to have been confirmed unless and until the Plan has been confirmed as to each of the Debtors.

## **ARTICLE 7 MEANS FOR IMPLEMENTATION OF THE PLAN**

### 7.1 Compromise of Controversies.

(a) The provisions of the Plan constitute a good faith compromise and settlement, in consideration for the distributions and other benefits provided under the Plan, of all Claims and controversies resolved under the Plan. The entry of the Confirmation Order shall constitute the Bankruptcy Court's approval of such compromise and settlement under Bankruptcy Rule 9019.

(b) The provisions of the Plan, and in particular Sections 4.1-4.9, 7.2, 7.4, 7.7, 7.8, 7.9, 7.10, and 7.13, represent a settlement between the Debtors, the Bond Trustee, the Majority Bondholders and ACA following extensive arm's-length and good faith negotiations and, pursuant to Section 7.1(a), the Bankruptcy Court's entry of the Confirmation Order shall constitute the Bankruptcy Court's approval of such settlement under Bankruptcy Rule 9019. A Bondholder may accept this settlement by voting all of his, her, or its Claims in Classes A2, B2 and D2 to accept the Plan. Any split vote by a Bondholder, or any vote by a Bondholder to accept the Plan with respect to Claims against one Debtor but not another Debtor, shall be deemed a vote to reject the Plan with respect to all Debtors.

### 7.2 Vesting and Distribution of Assets.

On the Effective Date:

(a) the Reorganized Debtors shall cause the Authority to issue under the settlement described in Section 7.1(b): (A) the Initial Bondholder Payment, (B) a Cash distribution equal to the Excess Debt Service Reserve Fund Amount, and (C) the New Bonds. The New Bonds will be issued on the Effective Date by the Authority and will be in three series, as follows: (a) \$20,110,000 in principal amount of new Series A Bonds, with terms as shown on Exhibit A attached hereto; (b) \$5,000,000 in initial principal amount of new Series B Bonds, with terms as shown on Exhibit A attached hereto; and (3) \$15,000,000 in principal amount of new Series C

Bonds, with terms as shown on Exhibit A attached hereto (the “New Bonds”). The New Bonds will be secured by the New Collateral and will be subject to the New Intercreditor Agreement and the New PBGC Intercreditor Agreement. All Bonds will be cancelled on the Effective Date, except as provided in Section 7.4(a) below. Additional terms for the settlement of the Bond Trustee/Bondholder Claims are set forth in Section 7.7 of this Plan. New Bonds and to grant Liens to the Bond Trustee on the New Collateral, and to execute and deliver the New Bond Documents;

(b) ACA shall make the Commutation Payment, if any, in accordance with Section 9.12 of the Plan.

(c) the Reorganized Debtors shall issue the PBGC Note to the PBGC and grant the PBGC Liens to the PBGC on the PBGC Note Collateral;

(d) the Debtors will release the Existing Debt Service Reserve Amount in excess of the New Debt Service Reserve Fund Amount to the Bond Trustee (to the extent not previously released) to be applied to reduce the principal amount of the Bond Trustee/Bondholders Claims; and

(e) upon the Effective Date, pursuant to Sections 1141(b) and (c) of the Bankruptcy Code, all property of the Debtors’ Estates and any property acquired by a Debtor or Reorganized Debtor under the Plan shall vest in the Reorganized Debtors free and clear of all Claims, liens, encumbrances, charges and other interests, except as provided herein. On and after the Effective Date, each Reorganized Debtor may operate its business and may use, acquire or dispose of property and, subject to Article 11 hereof, may compromise or settle any Claims without supervision or approval by the Bankruptcy Court and free of any restrictions of the Bankruptcy Code or Bankruptcy Rules, other than those restrictions expressly imposed by the Plan or the Confirmation Order. Without limiting the foregoing, each Reorganized Debtor may pay the charges that it incurs on or after the Effective Date for all fees, disbursements, expenses or related support services of professionals without application to, or approval of, the Bankruptcy Court pursuant to the terms of any agreement between any such professional and the applicable Reorganized Debtor.

### 7.3 Continued Corporate Existence.

Each of the Debtors, as Reorganized Debtors, shall continue to exist on and after the Effective Date, with all the powers available to such legal entity under applicable law and pursuant to the applicable Constituent Documents, and without prejudice to any right to alter or terminate such existence (whether by merger, sale, or otherwise) in accordance with such applicable law. On and after the Effective Date, the Reorganized Debtors may operate their respective businesses and use, acquire, lease, sell, or dispose of their assets without supervision or approval by the Bankruptcy Court and free from any restrictions of the Bankruptcy Code or the Bankruptcy Rules.

### 7.4 Cancellation of Bonds, Notes and Instruments.

(a) *Cancellation of Bond Trust Documents.* On the Effective Date, the Bond Trust Documents shall be cancelled and deemed terminated, satisfied, and discharged, the Bond



Trustee shall be discharged from its duties and obligations arising the Bond Trust Indenture and any agreements, instruments and documents related thereto, and the Bond Trustee and Bondholders shall have no further rights or entitlements in respect thereof against the Debtors; provided, however, notwithstanding any provision contained herein to the contrary the Bond Trust Indenture shall continue in effect solely for the purposes of (i) allowing the Bond Trustee to make the distributions under this Plan of the funds deposited, credited, or otherwise held in the funds and accounts under the Bond Trust Indenture on account of the Bond Trustee/Bondholder Claims; (ii) permitting the Bond Trustee to maintain the Charging Lien that it has with respect to any Professional Fees that may be due and owing to the Bond Trustee and which have not been paid for any reason by the Debtors; and (iii) permitting (A) the Custodian to calculate any payments due to the Non-Commuting Bondholders with respect to the Non-Commuted Bonds, and (B) the Non-Commuting Bondholder to enforce any rights or remedies they may have against ACA under the Bond Insurance Policies or the Custody Agreement, provided, however, this Plan shall not be construed to release or impair any rights or remedies that any Non-Commuting Bondholders, the Custodian and ACA may have against each other under the Bond Insurance Policies and the Custody Agreement, including, without limitation, any rights of subrogation that ACA may have under this Plan and the Bond Insurance Policies or otherwise available at law and equity except as expressly provided by Section 7.13 of the Plan, and any rights of assignment ACA may have under the Custody Agreement, provided, further, that payments made under the New Bonds shall be treated also as payments under the Bonds solely with respect to Non-Commuting Bondholders. To the extent that the Debtors fail to make a timely distribution to the Custodian for the benefit of a Non-Commuting Bondholder on account of such Non-Commuting Bondholder's Bond Trustee/Bondholder Claim under the Plan and ACA makes such distribution to the Non-Commuting Bondholder, ACA: (1) shall be subrogated to the rights of such Non-Commuting Bondholder under the Insured Bonds and the New Bonds held by for the benefit of the Non-Commuting Bondholder; (2) shall retain its assignment rights resulting from such distribution made by ACA to the Non-Commuting Bondholder under the Bond Insurance Policies as set forth in the Custody Agreement; and (3) shall be deemed to be the holder of the Insured Bonds and the New Bonds, to the extent of such distribution.

(b) *Reduction of Liens of the PBGC.* On the Effective Date, the prepetition Liens of the PBGC recorded in any office respecting the Debtors will be deemed reduced to an amount not greater than the PBGC Liens.

(c) *Cancellation of Other Instruments.* On the Effective Date, and except as otherwise provided in this Plan, including Section 7.1(a) and Section 7.1(b), any notes, bonds, certificates, or other instruments or documents evidencing or creating any Claims that are Impaired by the Plan shall be automatically cancelled without further act or action under any applicable agreement, law, regulation, order, or rule and deemed terminated, satisfied, and discharged. Any Holder of an Impaired Claim shall have no further rights or entitlements in respect thereof against the Debtors except the right to receive the distributions, if any, to which the Holder is entitled under the Plan.

#### 7.5 Officers, Directors and Post Confirmation Management.

Pursuant to section 1129(a)(5) of the Bankruptcy Code and as of the Effective Date, the officers and directors of each of the Reorganized Debtors and their respective

compensation shall be as set forth in Exhibit B annexed to the Disclosure Statement; provided, however, any incentive program payments set forth therein shall be subject to and conditioned upon all payments owed to the General Unsecured Creditors under this Plan being timely made. Subsequent to the Effective Date, the officers and directors of the Reorganized Debtors shall be selected and determined in accordance with the provisions of the Constituent Documents and applicable law.

#### 7.6 Corporate Action.

(a) *Entry of Confirmation Order.* The entry of the Confirmation Order shall constitute authorization for the Debtors and the Reorganized Debtors, as the case may be, to take or cause to be taken all corporate actions necessary or appropriate to implement all provisions of, and to consummate, the Plan prior to, on and after the Effective Date, and all such actions taken or caused to be taken shall be deemed to have been authorized and approved by the Bankruptcy Court without further approval, act or action under any applicable law, order, rule or regulation, including without limitation any action required by the officers or directors of the Debtors and the Reorganized Debtors, including, among other things, (i) all transfers of Assets that are to occur pursuant to the Plan; (ii) the incurrence of all obligations contemplated by the Plan and the making of all Plan Distributions; (iii) the reinstatement and assumption of all indemnity obligations to the officers, directors and employees of the Debtors, subject to Section 7.7(b) of the Plan; (iv) the implementation of all settlements and compromises as set forth in or contemplated by the Plan; and (v) entering into any and all transactions, contracts or arrangements permitted by applicable law, order, rule or regulation including the Exit Facility, the New Bond Documents, the New Bonds, the New Mortgages, the New Bond Intercreditor Agreement, the New PBGC Intercreditor Agreement, the PBGC Note, and all other documents contemplated by the Plan.

(b) *Debtors' Indemnification Obligations.* Any obligations of the Debtors to indemnify and hold harmless their current and former officers, directors and employees, whether arising under the Debtors' Constituent Documents, contract, law or equity, shall be fully reinstated and assumed by the Reorganized Debtors upon the occurrence of the Effective Date with the same effect as though such obligations constituted executory contracts that are assumed under Section 365 of the Bankruptcy Code, and all such obligations shall be fully enforceable on their terms from and after the Effective Date, provided, however, that any such obligations shall be payable solely from insurance coverage, if any. Nothing in the Plan shall release any obligations of the Debtors to indemnify and hold harmless their current and former officers, directors and employees provided, however, that any such obligations shall be payable solely from insurance coverage, if any.

#### 7.7 New Bond Documents.

(a) A form of a new indenture (the "New Indenture"), new mortgages (the "New Mortgages") and other documents necessary to effect the issuance of the New Bonds (the "New Bond Documents") in replacement of the Bonds on the Effective Date shall be executed and delivered by Debtors to be effective on the Effective Date, forms of which shall also be included in the Plan Supplement. The New Bonds will have terms substantially consistent with those

terms shown in Exhibit A attached hereto.<sup>3</sup> The Debtors will be jointly and severally obligated to comply with the provisions of the New Bond Documents, including but not limited to all payment provisions. A New Debt Service Reserve Fund will support the Series A Bonds in the New Debt Service Reserve Fund Amount.

(b) As security for the New Bonds, the Bond Trustee shall receive or retain Liens on the New Collateral. Provisions relating to the priority of the Bond Trustee's Liens on the New Collateral as well as provisions relating to enforcement and remedies will be governed by the New Intercreditor Agreement, the form of which will be in the Plan Supplement.

(c) As set forth in Article 4, each Bondholder holding an Allowed Class A2, B2 and D2 Claim will receive, in full and final satisfaction and discharge of such Claim, upon issuance of the New Bonds or as soon thereafter as is practicable, (i) its Pro Rata share of (A) Cash in the amount of \$3,000,000 to be paid by Debtors to the Bond Trustee on the Effective Date, (B) the balance on the Effective Date of the Debt Service Reserve Funds less the New Debt Service Reserve Fund Amount, (C) approximately \$20,110,000 aggregate original principal amount of Series A Bonds, (D) approximately \$5,000,000 aggregate original principal amount of Series B Bonds, and (E) approximately \$15,000,000 in aggregate principal amount and maturity amount of Series C Bonds, in each case rounded down to the nearest multiple of \$1,000, and (ii) an additional initial amount of Series B Bonds and Series C Bonds (rounded to the nearest \$1,000 of stated value at maturity, but not less than \$1,000 of stated value at maturity) for any amounts not to be received under (i) due to rounding (the "Fractional Amount"). The Series C Bonds may only be traded along with the Series B Bonds.

(d) The Debtors will establish a tax-exempt bond structure for the New Series A and the New Series B Bonds under the New Indenture and New Mortgages, which will contain covenants substantially similar to the covenants under the Bond Trust Indenture (except that the Financial Covenants and the Financial Reporting Covenants will replace all inconsistent financial or reporting covenants under the Bond Trust Indenture), and the Debtors will covenant in the New Indenture to maintain the tax-exemption of the New Series A Bonds and the New Series B Bonds.

#### 7.8 Resolution, Settlement and Treatment of the Claims of the PBGC.

As provided in Section 7.1(a), the entry of the Confirmation Order shall constitute the Bankruptcy Court's approval of the settlement with PBGC described in this Section 7.8 under Bankruptcy Rule 9019. Upon the occurrence of, and as of, the Effective Date:

(a) The PBGC Prepetition Claims shall be deemed an Allowed Secured Claim against all Debtors, including KPGA in the event it files a plan of reorganization, in the amount of the PBGC Liens. The PBGC Prepetition Claims shall be deemed an Allowed Unsecured Claim against all Debtors, including KPGA in the event it files a plan of reorganization, in the amount

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<sup>3</sup> The summaries contained in Exhibit A are qualified in their entirety by reference to the Series A Bonds, the Series B Bonds, and each of the New Bond Documents, the forms of which will be provided in the Plan Supplement. In the event of any inconsistency between the provisions of this Plan and the New Bond Documents, the applicable provisions of the New Bond Documents will control in all respects.

of \$13,500,000 less the PBGC Liens. All other PBGC Prepetition Claims and any other Claim based upon the Pension Plan shall be deemed waived; and

(b) As set forth in Article 4, in full satisfaction and discharge of the Allowed PBGC Prepetition Claims:

- (i) The PBGC will receive the PBGC Note; and
- (ii) As security for the PBGC Note, the PBGC shall receive or retain the PBGC Liens on the PBGC Note Collateral. Provisions relating to the priority of the PBGC Liens on the PBGC Note Collateral as well as provisions relating to enforcement and remedies will be governed by the New Intercreditor Agreement and the New PBGC Intercreditor Agreement, the form of each of which will be in the Plan Supplement.<sup>4</sup>
- (iii) The New Intercreditor Agreement and the New PBGC Intercreditor Agreement will provide that the PBGC will have no right to exercise any remedies against the Orchard Hills Campus for any default on the PBGC Note, but could only receive any surplus value in the Orchard Hills Campus, after the satisfaction of the Liens of the Exit Lender and the Bond Trustee, in the event of a sale of the Orchard Hills property. Further, the PBGC will be required to “marshal” and collect its Allowed Secured Claim from the other PBGC Note Collateral prior to receiving any value from the Orchard Hills Campus.
- (iv) The New Intercreditor Agreement and the New PBGC Intercreditor Agreement will provide that the PBGC will subordinate its Lien on the Debtors’ receivables and the proceeds thereof, both to any Exit Lender and to the Bond Trustee.
- (v) The New Intercreditor Agreement and the New PBGC Intercreditor Agreement will provide (i) that all payments to be made to the Indenture Trustee for the benefit of the Bondholders under the Plan and all payments to be made to the PBGC under the Plan shall be pari passu, such that if, in any year, the Debtors do not have sufficient cash flow to make all payments due both to the Bond Trustee and the PBGC, such payments will be shared based upon the proportion of the amount available for payment in such year multiplied by a fraction the numerator of which is either the annual payment due to the Bond Trustee or to the PBGC, as the case may be, and the denominator is the sum of the then annual payment due to

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<sup>4</sup> The summaries of certain provisions of the New Intercreditor Agreement and the New PBGC Intercreditor Agreement are qualified in their entirety by reference to the New Intercreditor Agreement and the New PBGC Intercreditor Agreement, the forms of which will be provided in the Plan Supplement. In the event of any inconsistency between the provisions of this Plan and the New Intercreditor Agreement and the New PBGC Intercreditor Agreement, the applicable provisions of the New Intercreditor Agreement and the New PBGC Intercreditor Agreement will control in all respects.

both; and (ii) the PBGC Liens will remain until all amounts due to the PBGC under the Plan have been made (but not in excess of the then total unpaid amount of the original \$13,500,000).

(c) The PBGC will agree that its treatment may be separately classified under the Plan and it will agree to accept this treatment even though other unsecured creditors (including the Bond Trustee and the Bondholders) may receive treatment on their unsecured claims in amounts greater than the PBGC.

#### 7.9 Treatment of General Unsecured Claims.

(a) All General Unsecured Claims shall be treated as set forth in Section 3.4 and Article 4 hereof.

(b) Claims Objection and Settlement Procedures. The Debtors will handle claims reconciliation and objection process and commence claims objections as set forth in Article 10 hereof, subject to the rights of the Committee Representative (as defined and set forth below) Prior to the first scheduled date of the disclosure statement hearing on this Plan of Reorganization, the Debtors will use their best efforts to identify for the Committee all General Unsecured Claims over \$10,000 that will be subject to objections and the Debtors will have filed such objections; provided, however, that this disclosure obligation in no way precludes the Debtors or shall be deemed a waiver of the Debtors right to object to a Claim that is not set forth on the claims objection disclosure list.

(c) Committee Representative. On the Effective Date, the Committee will appoint a representative (the "Committee Representative") to serve until all General Unsecured Claims are paid in full all amounts to which they are entitled under this Plan. The Committee Representative shall have standing to appear and be heard before the Bankruptcy Court or other appropriate court with competent jurisdiction (i) on any matter relating to the claims objection process (other than the decision of the Debtors or Reorganized Debtors to object to a Claim and the basis for such objection), and (ii) with respect to compliance by the Debtors or Reorganized Debtors with the terms for payment of the General Unsecured Claims under this Plan, including in order to bring any action seeking enforcement of such payment terms. Debtors will pay \$50,000 to the Committee Representative on the Effective Date (the "Committee Representative Payment") to cover the reasonable fees and expenses of the Committee Representative (including any professionals retained by the Committee Representative). Any unused portion of the Committee Representative Payment (following payment of all fees and expenses of the Committee Representative and any professional retained by the Committee Representative) shall be refunded to the Debtors following the payment by the Debtors in full of all Allowed Claims to which they are entitled under this Plan. The Reorganized Debtors shall not be responsible for any obligation to the Committee Representative or any professional retained by the Committee Representative above the \$50,000 paid pursuant to this Section 7.9(c).

(d) Reorganized Debtors to Make all Payments. Payments of all amounts owed to Holders of Allowed General Unsecured Claims under the Plan will be made by the Disbursing Agent to the Holders of such Allowed General Unsecured Claims. Debtors will not be required to pre-fund the amounts owed to Holders of Allowed General Unsecured Claims, except that as a

condition precedent to confirmation of the Plan, the Debtors or Reorganized Debtors shall be required to have sufficient cash on hand to fund all payments required to be made to Holders of Allowed General Unsecured Claims on the Effective Date as part of the Initial Distribution. The Reorganized Debtors' obligation to make all required payments to the holders of Allowed General Unsecured Claims will be an unsecured joint and several obligation of each of the Reorganized Debtors and the Bankruptcy Court will retain jurisdiction to enforce the required payments to the holders of Allowed General Unsecured Claims.

7.10 Effective Date and Initial Distribution Date Payments. Unless otherwise stated, the funds required to make the payments and distributions required under the Plan shall come from the following sources:

(a) *Initial Distribution.* On, or as soon as reasonably practical after, the Effective Date, Reorganized KPC shall make a payment of \$3,266,892 in Cash, from funds on hand, to a segregated bank account for purposes of satisfying the Initial Distribution.

(b) *Initial Bondholder Amount.* On the Effective Date, Reorganized KPC shall pay the Initial Bondholder Payment to the Disbursing Agent for payment to the Bond Trustee.

(c) *Exit Facility.* On the Effective Date, the Debtors shall enter into and deliver the Exit Facility with the Exit Lender Group, satisfy the conditions precedent to the initial borrowing under the Exit Facility (including the entry into and delivery of the Exit Facility Security Agreements), and shall immediately borrow an amount sufficient to satisfy in full or assume the DIP Lender Debt, for working capital and to the extent necessary, to make any payments that they are required to make under the Plan. For avoidance of doubt, the Exit Facility will have a senior security interest in the Debtors' accounts, accounts receivable and a senior lien on the Orchard Hills Campus. A form of the Exit Facility Documents will be included in the Plan Supplement.

(d) *New Bonds.* On, or as soon as reasonably practical after, the Effective Date, the New Bonds shall be issued and delivered to the Bondholders or, if applicable, to the Custodian in connection with the Non-Commuting Bondholders.

7.11 Operations Between the Confirmation Date and the Effective Date. Through the Effective Date, the Debtors shall continue to operate their businesses as Debtors in Possession, subject to the oversight of the Bankruptcy Court as provided in the Bankruptcy Code, the Bankruptcy Rules and all orders of the Bankruptcy Court that are then in full force and effect.

7.12 Waiver and Release of Avoidance Actions. As of the Effective Date all Avoidance Actions and all rights and remedies under Section 502(d) of the Bankruptcy Code with respect to Avoidance Actions shall be deemed fully and unconditionally waived and released by the Debtors and/or the Reorganized Debtors, on behalf of themselves, their estates and any party in interest who may have or acquire standing to pursue or recover the proceeds of any Avoidance Actions (including but not limited to the DIP Lender Group or the DIP Lender).

Other than as specified above or otherwise expressly set forth herein, nothing in the Plan or the Confirmation Order shall be deemed a waiver or relinquishment of any Cause of

Action, right of setoff, or other legal or equitable defense which the Debtors had immediately prior to the Petition Date other than with respect to Avoidance Actions.

7.13 Insurance Commutation. ACA has proposed to make the Commutation Payment to each of the Insured Bondholders in full satisfaction of the corresponding amount of ACA's obligations under the Bond Insurance Policies in accordance with the following terms and conditions:

(a) ACA shall offer to each Insured Bondholder an opportunity to participate in the Commutation Payment and, in exchange for accepting such Commutation Payment, each Commuting Bondholder will release, waive, quitclaim, and otherwise abandon any and all claims, rights, defenses, and causes of action, whether legal or equitable, known or unknown, that they may have against ACA under, in connection with, or related in any way to the Bond Insurance Policies (the "ACA Insurance Commutation") as provided in Section 14.3(c) of the Plan.

(b) A subclass comprised of the Insured Bondholders shall be established in Classes A2, B2 and D2. The Ballots issued to each member of the subclass will contain a box that may be checked by such Insured Bondholder that does not wish to participate in the ACA Insurance Commutation and desires instead to become a Non-Commuting Bondholder. Any Insured Bondholder that wishes to opt out of the ACA Insurance Commutation must so indicate on its Ballot. Any Insured Bondholder that does not check the box on the ballot or fails to return a timely ballot shall be deemed to have elected to participate as a Commuting Bondholder in the ACA Insurance Commutation.

(c) ACA shall distribute the Commutation Payment in accordance with Section 9.12 of the Plan. With respect to the Commuting Bondholders' Bond Trustee/Bondholder Claims, the Commuting Bondholders shall receive the treatment set forth in Sections 4.1(b), 4.2(b) and 4.4(b) above and the Commutation Payment. The Plan Supplement shall describe the procedures for enabling the prompt distributions to the Commuting Bondholders.

(d) Non-Commuting Bondholders shall only receive interest and principal payment as originally scheduled in connection with the Insured Bonds, *provided, however*, that (i) payments under the New Bonds shall be deemed to be partial payments under the Insured Bonds solely with respect to Non-Commuting Bondholders; (ii) the Non-Commuting Bondholders retain any claims, suits, judgments, damages, demands, debts, rights, Causes of Action, or liabilities against, or obligations to, ACA with respect to the Bond Insurance Policies. and (iii) the obligations of the Debtors and the Reorganized Debtors with respect to Non-Commuting Bondholders shall be limited to such parties' obligations with respect to the New Bonds. The Plan Supplement shall describe the procedures for enabling the prompt distributions to the Non-Commuting Bondholders. Once all of the payments as originally scheduled in connection with the Insured Bonds have been made to the Non-Commuting Bondholders, the CBIs shall be deemed cancelled in accordance with their terms and the Custodian shall assign and transfer to ACA the New Bonds and any remaining funds held with respect to the New Bonds. In the event that ACA defaults on its obligations under the Bond Insurance Policies, the Custodian shall assign and transfer to the Non-Commuting Bondholder their pro rata share of the New Bonds and any remaining funds held with respect to the New Bonds, *provided, however*, as noted

above, the Non-Commuting Bondholders retain any claims, suits, judgments, damages, demands, debts, rights, Causes of Action, or liabilities against, or obligations to, ACA with respect to the Bond Insurance Policies. Finally, as set forth in the Plan Supplement, to the extent that the Reorganized Debtors default on the New Bonds and ACA continues to meet its obligations under the Bond Insurance Policies, ACA shall have the right to receive, through subrogation, assignment or otherwise, such interest and principal payments with respect to the New Bonds and exercise certain rights and remedies with respect to such defaults under the New Bonds. Except as set forth herein and in the Plan Supplement, the Custodian's rights and obligations with respect to the Insured Bonds and the Non-Commuting Bondholders as set forth in the Custody Agreement remain outstanding and unmodified.

(e) To the extent ACA makes any payments under the Bond Insurance Policies to the Custodian for the benefit of such Non-Commuting Bondholders, ACA shall be subrogated to the Custodian's rights under the New Bonds.

(f) Proceeds from the ACA Insurance Commutation shall not be subject to any claims or liens by the Bond Trustee, and shall be solely for the benefit of the Commuting Bondholders.

(g) ACA will waive subrogation rights against the Debtors and the Reorganized Debtors for all amounts commuted.

(h) Insured Bondholders may participate in the ACA Insurance Commutation whether or not they vote to accept the Plan, and such Insured Bondholders may likewise vote to accept the Plan but opt out of the ACA Insurance Commutation.

(i) Nothing herein shall be deemed to amend or modify the allowance or treatment of Bond Trustee/Bondholders Claim obtained by ACA through subrogation, assignment or otherwise, as of the Effective Date. As of the filing date of the Plan, ACA held \$637,505.51 of the Series 1998 Bonds.

## **ARTICLE 8 THE DISBURSING AGENT**

8.1 Appointment of the Disbursing Agent. Upon the occurrence of the Effective Date, the Reorganized KPC shall be appointed the Disbursing Agent under the Plan.

8.2 Powers and Duties. Pursuant to the terms and provisions of the Plan, the Disbursing Agent shall be authorized and directed to (a) take all steps and execute all instruments and documents necessary to make Plan Distributions to holders of Allowed Claims, (b) comply with the Plan and its obligations hereunder, (c) pending distribution pursuant to the Plan, hold in a segregated trust accounts all Cash required by Section 7.10(a) of the Plan and deposit in the future in a segregated trust account and disburse there from any funds necessary to satisfy Subsequent Distributions; and (d) exercise such other powers as may be vested in the Disbursing Agent pursuant to the Plan, the Plan Documents or order of the Bankruptcy Court. The Disbursing Agent shall not be required to give any bond or surety or other security for the performance of its duties unless otherwise ordered by the Bankruptcy Court or required by the Bankruptcy Code or the Bankruptcy Rules. The Disbursing Agent shall be authorized and



directed to rely upon the Claims Agent's books and records in determining Allowed Claims entitled to Distributions under the Plan.

On, or as soon as practicable after the Effective Date, and thereafter as provided under the Plan, the Reorganized Debtors shall turn over to the Disbursing Agent all of the Cash required by Section 7.10(a) of the Plan. The Disbursing Agent shall establish separate accounts with respect to such funds, which shall be held in trust for the purposes set forth in the Plan, provided, however, that the Disbursing Agent shall create segregated accounts to be used to pay (i) Allowed Fee Claims and Allowed Section 503(b)(9) Claims, if not previously paid prior to the Effective Date (ii) the Opt-In Creditor Amount, and (iii) for such other purposes as set forth in the Plan.

## **ARTICLE 9 DISTRIBUTION PROVISIONS**

9.1 Sources of Cash for Plan Distributions. All Cash necessary for the Disbursing Agent to make payments and Plan Distributions shall be obtained from the Reorganized Debtors, including the proceeds of the Exit Facility.

9.2 Plan Distributions. Pursuant to the terms and provisions of the Plan, and except as stated in this Section 9.2 or otherwise in the Plan, the Disbursing Agent shall make the required Plan Distributions specified under the Plan.

Notwithstanding anything to the contrary set forth herein, and unless otherwise agreed by the Bond Trustee, all Distributions payable under the Plan to holders of Bonds shall be paid by the Disbursing Agent to the Bond Trustee, which shall distribute such Distributions (net of any Bond Trustee fees, costs and expenses payable from such Distributions under the Indenture or applicable law), or cause such Distributions (net of any Bond Trustee fees, costs and expenses payable from such Distributions under the Indenture or applicable law) to be distributed, to the holders of the Bonds in accordance with the terms of the Bond Indenture. Distributions to holders of Bonds may be made by means of book-entry exchange through the facilities of the Depository Trust Corporation in accordance with the customary practices of the Depository Trust Corporation, as and to the extent practicable. In connection with such book-entry exchange, the Bond Trustee may deliver instructions to the Depository Trust Corporation directing the Depository Trust Corporation to effect distributions (net of the Bond Trustee's fees and expenses as permitted under the Indenture) as provided under the Plan.

9.3 Timing of Plan Distributions. In the event a Plan Distribution is payable on a day other than a Business Day, such Plan Distribution shall instead be paid on the immediately succeeding Business Day, but shall be deemed to have been made on the date otherwise due. A Plan Distribution shall be deemed to have been timely made if made on such date or within fourteen (14) days thereafter.

For federal income tax purposes, except to the extent a Plan Distribution is made in connection with reinstatement of an obligation pursuant to Section 1124 of the Bankruptcy Code, a Plan Distribution will be allocated first to the principal amount of a Claim and then, to

the extent the Plan Distribution exceeds the principal amount of the Claim, to the portion of the Claim representing accrued but unpaid interest.

9.4 Address for Delivery of Plan Distributions/Unclaimed Distributions. Subject to Bankruptcy Rule 9010, any Plan Distribution or delivery to a holder of an Allowed Claim shall be made at the address of such holder as set forth (a) in the Schedules, (b) on the proof of Claim filed by such holder, (c) in any notice of assignment filed with the Bankruptcy Court with respect to such Claim pursuant to Bankruptcy Rule 3001(e), or (d) in any notice served by such holder giving details of a change of address. If any Plan Distribution is returned to the Disbursing Agent as undeliverable, no Plan Distributions shall be made to such holder unless the Disbursing Agent is notified of such holder's then current address within ninety (90) days after such Plan Distribution was returned. After such date, if such notice was not provided, a holder shall have forfeited its right to such Plan Distribution, and the undeliverable Plan Distributions shall be returned to the applicable Reorganized Debtor.

9.5 Time Bar to Cash Payments. Checks issued in respect of Allowed Claims shall be null and void if not negotiated within ninety (90) days after the date of sending to the Holder of each such Allowed Claim. Requests for reissuance of any voided check shall be made directly to the Disbursing Agent by the holder of the Allowed Claim to whom such check was originally issued. Any claim in respect of such a voided check shall be made within one hundred and eighty (180) days after the date of issuance of such check. If no request is made as provided in the preceding sentence, any Claims in respect of such void check shall be discharged and forever barred and such unclaimed Plan Distribution shall revert to the applicable Reorganized Debtor.

9.6 Manner of Payment under the Plan. Unless the Person receiving a Plan Distribution agrees otherwise, any Plan Distribution to be made in Cash under the Plan shall be made, at the election of the Disbursing Agent, by check drawn on a domestic bank or by wire transfer from a domestic bank. Cash payments to foreign creditors may, in addition to the foregoing, be made, at the option of the Disbursing Agent, in such funds and by such means as are necessary or customary in a particular foreign jurisdiction.

9.7 Fractional Plan Distributions. Notwithstanding anything to the contrary contained herein, no Plan Distributions of fractions of dollars are required to be made. At the Disbursing Agent's option, fractions of dollars may be rounded to the nearest whole unit (with any amount equal to or less than one-half dollar to be rounded down).

9.8 Surrender and Cancellation of Instruments. Except as with respect to the Non-Commuting Bondholders, as a condition to receiving any Plan Distribution, the holder of an Allowed Claim evidenced by a certificate, instrument or note, other than any such certificate, instrument or note that is being reinstated or being left unimpaired under the Plan, shall (a) surrender such certificate, instrument or note representing such Claim, and (b) execute and deliver such other documents as may be necessary to effectuate the Plan in the sole determination of the Disbursing Agent. Such certificate, instrument or note shall thereafter be cancelled and extinguished. The Disbursing Agent shall have the right to withhold any Plan Distribution to be made to or on behalf of any holder of such Claims unless and until (i) such certificates, instruments or notes are surrendered, or (ii) any relevant holder provides to the Disbursing Agent an affidavit of loss or such other documents as may be required by the

Disbursing Agent together with an appropriate indemnity in the customary form. Any such holder who fails to surrender such certificates, instruments or notes, or otherwise fails to deliver an affidavit of loss and indemnity prior to the second anniversary of the Effective Date, shall be deemed to have forfeited its Claims and shall not participate in any Plan Distribution. All property in respect of such forfeited Claims shall revert to the Reorganized Debtors, as applicable.

9.9 Record Date for Distributions. At the close of business on the Distribution Record Date, the transfer records for Claims shall be closed, and there shall be no further changes in the record holders of such Claims. None of the Reorganized Debtors, the Claims Agent, the Disbursing Agent nor the Bond Trustee shall have any obligation to recognize any transfer of claims occurring after the Distribution Record Date, and they shall be entitled instead to recognize and deal for all purposes under the Plan with only those record holders as of the close of business on the Distribution Record Date. Notwithstanding the foregoing, or anything to the contrary in the Plan, the Bond Trustee shall be entitled in its sole discretion to establish one or more record dates for the Bondholders for the purposes of distributions on the Bonds hereunder.

9.10 Subsequent Distributions. The Disbursing Agent shall be authorized and directed to make subsequent Plan Distributions on account of such Claims which are either: (a) Allowed Claims as of the Initial Distribution Date, (b) Contested Claims as of the Initial Distribution Date but which subsequently become Allowed Claims pursuant to Article 10 of this Plan, or (c) payments to Holders of Allowed Claims as otherwise required under the Plan. The Disbursing Agent shall make the subsequent Plan Distributions from time to time and in the exercise of its business judgment.

9.11 De Minimis Distributions. The Disbursing Agent shall not have any obligation to make any distribution to any holder of an Allowed Claim if the amount to be distributed is less than \$50.00.

9.12 ACA Insurance Commutation Distributions. ACA shall distribute the Commutation Payment on the Effective Date or as soon as practicable thereafter by either issuing a check to each Commuting Bondholder in the amount of the Commutation Payment or transferring to the Custodian, by wire transfer or check, an amount equal to the sum of all Commutation Payments for the Custodian to distribute to each Commuting Bondholder. Each check that ACA or the Custodian shall issue to each Commuting Bondholder shall contain a legend indicating that endorsement or deposit of such check shall constitute a voluntary release, quitclaim and waiver of any and all claims that the Commuting Bondholder may have against ACA under, pursuant to or in connection with the Bond Insurance Policies.

## ARTICLE 10

### PROCEDURES FOR RESOLVING AND TREATING CONTESTED CLAIMS, OBJECTION TO CERTAIN CLAIMS AND AMENDMENT TO SCHEDULES

10.1 Prosecution of Contested Claims. Except as provided herein, after the Effective Date, only the Reorganized Debtors may object to the allowance of Claims. All objections that

are filed and prosecuted as provided herein shall be litigated to Final Order or compromised and settled in accordance with Section 10.3.

10.2 Objection Deadline. As soon as practicable, but in no event later than ninety (90) days after the Effective Date (subject to being extended as set forth herein or by order of the Bankruptcy Court upon motion of the Reorganized Debtors without notice, except to the Committee Representative, or a hearing), objections to Claims shall be filed with the Bankruptcy Court and served upon the holders of each of the Claims to which objections are made. The holder of a Claim subject to an objection will not receive a distribution on account of such Claim until such Claim is Allowed, provided, however, that the filing of a motion to extend the deadline to file objections to Claims shall automatically extend the claim objection deadline until a Final Order is entered or such motion. In the event that such motion to extend is denied, the claims objection deadline shall be the later of the then-current claims objection deadline (as previously extended, if applicable) or fourteen (14) days after the Bankruptcy Court's order denying the motion to extend the claims objection deadline. The Reorganized Debtors shall review any Rejection Damage Claims to determine whether an objection to any such Claim is appropriate.

10.3 Amendment of Schedules. The Debtors or Reorganized Debtors, after the Effective Date, shall have the authority to amend the Schedules with respect to any Claim and to make distributions based on such amended Schedules without approval of the Bankruptcy Court. If any amendment to the Schedules reduces the amount of a Claim or changes the nature or priority of a Claim, the Debtors will provide the holder of such Claim with notice of such amendment (with a copy to the Committee Representative) and the creditor parties will have 28 days to file an objection to such amendment with the Bankruptcy Court. If no such objection is filed, the Disbursing Agent may proceed with distributions based on such amended Schedules without approval of the Bankruptcy Court.

10.4 Claims Settlement. Notwithstanding any requirements that may be imposed pursuant to Bankruptcy Rule 9019, from and after the Effective Date, the Reorganized Debtors shall have authority to settle or compromise all Claims and Causes of Action without further review or approval of the Bankruptcy Court, except for Avoidance Actions against Holders of General Unsecured Claims, all of which Avoidance Actions are waived and released in accordance with Section 7.12.

10.5 No Distribution Pending Allowance. Notwithstanding any other provision hereof, if any portion of a Claim is a Contested Claim, and/or is subject to a pending objection that has not been resolved by Final Order, no payment or distribution provided hereunder shall be made on account of such Claim unless and until such Claim becomes an Allowed Claim that is not a Contested Claim, subject to the setoff rights preserved under the Plan.

10.6 Entitlement to Plan Distributions Upon Allowance. When a Contested Claim becomes an Allowed Claim, the holder of such Claim shall thereupon become entitled to receive the Plan Distributions in respect of such Claim the same as though such Claim had been an Allowed Claim on the Effective Date.

**ARTICLE 11**  
**TREATMENT OF EXECUTORY CONTRACTS AND UNEXPIRED LEASES**

11.1 Assumption and Rejection of Executory Contracts and Unexpired Leases.

(a) *Executory Contracts and Unexpired Leases.* All executory contracts and unexpired leases of the Debtors shall be rejected pursuant to the provisions of Section 365 of the Bankruptcy Code effective as of and subject to the occurrence of the Effective Date, unless another date is specified in the Plan, except: (i) any executory contracts and unexpired leases that are the subject of a motion to assume filed pursuant to Section 365 of the Bankruptcy Code by the Debtors before the Effective Date; (ii) contracts and leases listed in Schedule 1 attached to the Disclosure Statement; (iii) all executory contracts and unexpired leases assumed under the Plan or by order of the Bankruptcy Court entered before the Effective Date; (iv) any agreement, obligation, security interest, transaction, or similar undertaking that the Debtors believe is not executory or a lease that is later determined by the Bankruptcy Court to be an executory contract or unexpired lease that is not subject to assumption or rejection under Section 365 of the Bankruptcy Code; and (v) any executory contracts and unexpired leases listed in the Plan Supplement. Any order entered post-confirmation by the Bankruptcy Court, after notice and a hearing, authorizing the rejection of an executory contract or unexpired lease shall cause such rejection to be a prepetition breach under Sections 365(g) and 502(g) of the Bankruptcy Code, as if such relief was granted and such order was entered pre-confirmation. The Debtors reserve the right to amend Disclosure Statement Schedule 1 prior to the entry of the Confirmation Order and subsequent to the entry of the Confirmation Order with respect to any executory contract or unexpired lease that is the subject of a dispute over the amount or manner of cure pursuant to Section 11.2 hereof and for which the Debtors make a motion to reject such contract or lease based upon the existence of such dispute filed at any time. Each executory contract and unexpired lease to be assumed or rejected by the Debtors shall include modifications, amendments, supplements, restatements, or other similar agreements made directly or indirectly by any agreement, instrument or other document that affects such executory contract or unexpired lease.

(b) *Disclosure Statement Schedule 1 or Plan Supplement.* The inclusion of a contract, lease or other agreement on Disclosure Statement Schedule 1 or in the Plan Supplement shall not constitute an admission by the Debtors as to the characterization of whether any such included contract, lease or other agreement is, or is not, an executory contract or unexpired lease or whether any claimants under any such contract, lease or other agreement are time barred from asserting Claims against the Debtors. The Debtors reserve all rights with respect to the characterization of any such agreements.

(c) *Motion to Reject.* The Plan shall constitute a motion to reject the executory contracts and unexpired leases rejected pursuant to this Section 11.1, and the Debtors shall have no liability thereunder except as is specifically provided in the Plan. Entry of the Confirmation Order shall constitute approval of such rejections pursuant to Section 365(a) of the Bankruptcy Code, subject to the occurrence of the Effective Date, and a finding by the Bankruptcy Court that each such rejected agreement, executory contract or unexpired lease is burdensome and that the rejection thereof is in the best interests of the Debtors and their Estates.

(d) *Motion to Assume.* The Plan shall constitute a motion to assume all executory contracts and unexpired leases listed in Schedule 1 attached to the Disclosure Statement or listed in the Plan Supplement. Entry of the Confirmation Order by the Clerk of the Bankruptcy Court shall constitute approval of such assumption pursuant to Sections 365(a) and (b) of the Bankruptcy Code, effective as of and subject to the occurrence of the Effective Date.

11.2 Cure. Any monetary defaults under each executory contract and unexpired lease to be assumed under the Plan shall be satisfied pursuant to Section 365(b)(1) of the Bankruptcy Code: (a) by payment of the default amount in Cash on the Effective Date or as soon thereafter as practicable; or (b) on such other terms as agreed to by the parties to such executory contract or unexpired lease. In the event of a dispute regarding: (i) the amount of any cure payments; (ii) the ability to provide adequate assurance of future performance under the contract or lease to be assumed or assumed and assigned; or (iii) any other matter pertaining to assumption or assumption and assignment, the cure payments required by Section 365(b)(1) of the Bankruptcy Code shall be made following the entry of a Final Order resolving the dispute and approving assumption or assignment, as applicable. Disclosure Statement Schedule 1 or the Plan Supplement, as the case may be, sets forth the Debtors' cure obligations for each agreement for which cure obligations must be satisfied as a condition to the assumption of such agreement. Any non-Debtor counterparty to an agreement listed on the Disclosure Statement Schedule 1 or the Plan Supplement who disputes the scheduled cure obligation (or objects to the omission of a scheduled cure obligation) must file with the Bankruptcy Court, and serve upon the Debtors, a written objection to the cure obligation in the manner, and within such time period, as the Bankruptcy Court may direct. If a non-Debtor counterparty fails to file and serve an objection which complies with the foregoing, the cure obligation set forth on the Disclosure Statement Schedule 1 or the Plan Supplement, as the case may be, shall be binding on the non-Debtor counterparty, and the non-Debtor counterparty shall be deemed to have waived any and all objections to the assumption of the relevant agreement as proposed by the Debtors.

11.3 Claims Arising from Rejected Contracts. Rejection Damage Claims must be submitted to the Claims Agent, with copies to counsel for the Debtors, by (a) with respect to any executory contract or unexpired lease that is rejected pursuant to Section 11.1 of the Plan, the first Business Day that is no more than thirty (30) days following the Effective Date or, (b) with respect to any executory contract or unexpired lease that is rejected other than pursuant to Section 11.1 of the Plan, the first Business Day that is no more than thirty (30) days following the entry of an order of the Bankruptcy Court authorizing such rejection. Properly submitted Rejection Damage Claims shall be treated as General Unsecured Claims, subject to objection by the Reorganized Debtors. ANY REJECTION DAMAGE CLAIMS THAT ARE NOT PROPERLY SUBMITTED PURSUANT TO THIS SECTION 11.3 WILL FOREVER BE BARRED FROM ASSERTION AND SHALL NOT BE ENFORCEABLE AGAINST THE REORGANIZED DEBTORS, THEIR RESPECTIVE ESTATES, AFFILIATES OR ASSETS.

## **ARTICLE 12**

### **CONDITIONS PRECEDENT TO CONFIRMATION OF THE PLAN AND THE OCCURRENCE OF THE EFFECTIVE DATE**

12.1 Conditions Precedent to Confirmation. As conditions precedent to confirmation of the Plan, the Clerk of the Bankruptcy Court shall have entered an order or orders:

- (i) approving the Disclosure Statement as containing “adequate information” pursuant to Section 1125 of the Bankruptcy Code;
- (ii) authorizing the solicitation of votes with respect to the Plan; and
- (iii) determining that all applicable tests, standards and burdens in connection with the Plan have been duly satisfied and met by the Debtors and the Plan.

12.2 Conditions Precedent to the Occurrence of the Effective Date. Unless waived in writing by the Debtors or the DIP Lender with respect to clause (iii), the Bond Trustee with respect to clause (iv), the PBGC with respect to clause (v), or the Committee with respect to clause (vi), the following are conditions precedent to the occurrence of the Effective Date:

- (i) the Confirmation Order shall have been entered by the Clerk of the Bankruptcy Court, be in full force and effect and not be subject to any stay or injunction;
- (ii) any necessary regulatory consents, authorizations and approvals have been given;
- (iii) all of the conditions precedent to the Exit Facility shall have been satisfied or waived and the Exit Facility shall have closed;
- (iv) the New Bond Documents, the New Bond Intercreditor Agreement and the New PBGC Intercreditor Agreement shall each have been executed and delivered, the Initial Bond Payment made and the cancellation of the Bonds and the reissuance of the New Bonds shall have occurred;
- (v) the assets in the Pension Plan shall have been transferred to the PBGC in connection with the prepetition termination of the Pension Plan, the New PBGC Intercreditor Agreement shall have been executed and delivered, the Initial PBGC Amount shall have been paid and the PBGC Note shall have been executed and delivered;
- (vi) the Committee shall have appointed the Committee Representative and the Committee Representative Payment shall have been made;
- (vii) all statutory fees and obligations then due and payable to the Office of the United States Trustee shall have been paid and satisfied in full;
- (ix) all other actions necessary to implement the terms of the Plan shall have been taken.

12.3 Effect of Non-Occurrence of the Effective Date. If the Effective Date shall not occur by June 30, 2014, the Plan shall be null and void and nothing contained in the Plan shall: (a) constitute a waiver or release of any Claims against a Debtor; (b) prejudice in any manner the rights of any party in interest; or (c) constitute an admission, acknowledgement, offer, or undertaking by the Debtors or any other party in interest.

**ARTICLE 13**  
**RETENTION OF JURISDICTION**

Pursuant to Sections 105(a) and 1142 of the Bankruptcy Code, but solely to the extent permitted by applicable law, the Bankruptcy Court shall retain and shall have exclusive jurisdiction over any matter (a) arising under the Bankruptcy Code, (b) arising in or related to the Chapter 11 Cases or the Plan or (c) that relates to the following:

(i) To hear and determine any and all motions or applications pending on the Confirmation Date or thereafter brought in accordance with Article 12 hereof for the assumption or rejection of executory contracts or unexpired leases to which any of the Debtors is a party or with respect to which any of the Debtors may be liable, and to hear and determine any and all Claims and any related disputes (including, without limitation, the exercise or enforcement of setoff or recoupment rights, or rights against any third party or the property of any third party resulting therefrom or from the expiration, termination or liquidation of any executory contract or unexpired lease);

(ii) To determine any and all adversary proceedings, applications, motions and contested or litigated matters that may be pending on the Effective Date or that, pursuant to the Plan, may be instituted by the Disbursing Agent, the Reorganized Debtors, as applicable, after the Effective Date;

(iii) To hear and determine any objections to the allowance of Claims, whether filed, asserted, or made before or after the Effective Date, including, without limitation, to hear and determine any objections to the classification of any Claim and to allow, disallow or estimate any Contested Claim in whole or in part;

(iv) To issue such orders in aid of execution of the Plan to the extent authorized or contemplated by Section 1142 of the Bankruptcy Code;

(v) To consider any modifications of the Plan, remedy any defect or omission, or reconcile any inconsistency in any order of the Bankruptcy Court, including, without limitation, the Confirmation Order;

(vi) To hear and determine all Fee Applications and applications for allowances of compensation and reimbursement of any other fees and expenses authorized to be paid or reimbursed under the Plan or the Bankruptcy Code;

(vii) To hear and determine all controversies, suits and disputes that may relate to, impact upon, or arise in connection with the Plan, the Plan Documents or their interpretation, implementation, enforcement or consummation;

(viii) To hear and determine all controversies, suits and disputes that may relate to, impact upon, or arise in connection with the Confirmation Order (and all exhibits to the Plan) or its interpretation, implementation, enforcement or consummation;



(ix) To the extent that Bankruptcy Court approval is required, to consider and act on the compromise and settlement of any Claim or Cause of Action by, on behalf of, or against the Estates;

(x) To determine such other matters that may be set forth in the Plan, or the Confirmation Order, or that may arise in connection with the Plan, or the Confirmation Order;

(xi) To hear and determine matters concerning state, local and federal taxes, fines, penalties, or additions to taxes for which the Reorganized Debtors, the Debtors in Possession, or the Disbursing Agent may be liable, directly or indirectly, in accordance with Sections 346, 505 and 1146 of the Bankruptcy Code;

(xii) To hear and determine all controversies, suits and disputes that may relate to, impact upon, or arise in connection with any setoff and/or recoupment rights of the Debtors or any Person under the Plan;

(xiii) To hear and determine all controversies, suits and disputes that may relate to, impact upon, or arise in connection with Causes of Action of the Debtors (excluding Avoidance Actions) commenced before or after the Effective Date;

(xiv) To enter an order or final decree closing the Chapter 11 Cases;

(xv) To hear any motion filed or action commenced by the Committee Representative in accordance with the terms of the Plan;

(xvi) To issue injunctions, enter and implement other orders, or take such other actions as may be necessary or appropriate to restrain interference by any Person with consummation, implementation or enforcement of the Plan or the Confirmation Order; and;

(xvii) To hear and determine any other matters related hereto and are not inconsistent with chapter 11 of the Bankruptcy Code.

#### **ARTICLE 14 MISCELLANEOUS PROVISIONS**

14.1 Subordination. The right of the Debtors to seek subordination of any lien, security interest, or Claim pursuant to Section 510 of the Bankruptcy Code is fully reserved, and the treatment afforded any Claim that becomes subordinated at any time after the Petition Date shall be modified to reflect such subordination. Unless the Confirmation Order provides otherwise, no Plan Distributions shall be made on account of a subordinated claim.

14.2 Payment of Statutory Fees. All fees payable pursuant to Section 1930 of Title 28 of the United States Code, as determined by the Bankruptcy Court at the Confirmation Hearing, shall be paid by the Debtors on or before the Effective Date.

14.3 Satisfaction of Claims. The rights afforded in the Plan and the treatment of all Claims herein shall be in exchange for and in complete satisfaction, discharge and release of all Claims of any nature whatsoever, including any accrued post-petition interest, against the Debtors and the Debtors in Possession, or any of their Estates, Assets, properties, or interests in property. Except as otherwise expressly provided in the Plan, on the Effective Date, all Claims against the Debtors and the Debtors in Possession shall be satisfied, discharged and released in full. The Reorganized Debtors shall not be responsible for any pre-Effective Date obligations of the Debtors or the Debtors in Possession, except those expressly assumed by any Reorganized Debtor(s), as applicable. Except as otherwise provided herein, all Persons and Entities shall be precluded and forever barred from asserting against the Reorganized Debtors, their respective successors or assigns, or their Estates, Assets, properties, or interests in property, any event, occurrence, condition, thing, or other or further Claims or causes of action based upon any act, omission, transaction, or other activity of any kind or nature that occurred or came into existence prior to the Effective Date, whether or not the facts of or legal bases therefore were known or existed prior to the Effective Date.

14.4 Releases.

(a) *Releases by Debtors.* **For good and valuable consideration, the adequacy of which is hereby confirmed, upon the Effective Date, the Debtors shall be deemed forever to release, waive, and discharge all claims, obligations, suits, judgments, damages, demands, debts, rights, Causes of Action, and liabilities (other than any rights to enforce the terms of the Plan and the contracts, instruments, releases, and other agreements or documents delivered in connection with the Plan), 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, event, cause, matter, or thing taking place on or before the Effective Date against (i) the ACA Parties, if the Bondholders have voted to accept the Plan in accordance with section 1126(c) of the Bankruptcy Code, (ii) the Majority Bondholders, if the Bondholders have voted to accept the Plan in accordance with section 1126(c) of the Bankruptcy Code, (iii) the Bond Trustee, if the Bondholders have voted to accept the Plan in accordance with section 1126(c) of the Bankruptcy Code, unless the Bond Trustee has filed an objection to the Plan, and (iv) the PBGC, if PBGC has voted to accept the Plan in accordance with section 1126(c) of the Bankruptcy Code, unless PBGC has filed an objection to the Plan, and (v) the DIP Lender Parties.**

(b) *Releases by the ACA Parties, the Bond Trustee, the Majority Bondholders and the PBGC.* **For good and valuable consideration, the adequacy of which is hereby confirmed, assuming that the Plan is confirmed as provided herein or otherwise with the consent of the ACA Parties, the Bond Trustee, the Majority Bondholders and the PBGC, upon the Effective Date, the ACA Parties, the Bond Trustee, the Majority Bondholders and the PBGC (each respectively only if it is eligible to receive a release pursuant to Section 14.4(a)) shall be deemed forever to release, waive, and discharge all claims, obligations, suits, judgments, damages, demands, debts, rights, Causes of Action, and liabilities (other than any rights to enforce the terms of the Plan and the contracts, instruments, releases, and other agreements or documents delivered in connection with the Plan, including without limitation, the obligations of the Debtor Parties and the Reorganized Debtors with respect**

**to the New Bonds), 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, event, cause, matter, or thing taking place on or before the Effective Date against the Debtor Parties.**

(c) *Releases by the Commuting Bondholders.* **For good and valuable consideration, the adequacy of which is hereby confirmed, upon the Effective Date, the Commuting Bondholders shall be deemed forever to release, waive, and discharge all claims, obligations, suits, judgments, damages, demands, debts, rights, Causes of Action, and liabilities (other than any rights to enforce the terms of the Plan and the contracts, instruments, releases, and other agreements or documents delivered in connection with the Plan), 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, event, cause, matter, or thing taking place on or before the Effective Date solely with respect to the ACA Parties and the Bond Insurance Policies.**

For the avoidance of doubt, Section 14.4 does not apply to (i) any claims, obligations, suits, judgments, damages, demands, debts, rights, Causes of Action, or liabilities of the Non-Commuting Bondholders against ACA with respect to the Bond Insurance Policies, and (ii) ACA's current and future subrogation rights with respect to the Bond Insurance Policies, the Insured Bonds and the New Bonds held by or for the benefit of the Non-Commuting Bonds and any assignment rights available to ACA pursuant to the terms of the Custody Agreement.

14.5 Exculpation - Debtors, Bond Trustee, Majority Bondholders, Committee, DIP Lenders, Exit Lenders and PBGC. Neither the Debtors, the Bond Trustee, the ACA Parties, the Majority Bondholders, the Committee, the DIP Lender Group, the Exit Lender Group, the PBGC, nor their officers, directors, employees, agents, members and/or Professionals shall be liable for any claims, obligations, suits, judgments, demands, debts, rights, causes of action or liabilities related to or arising in connection with or out of the administration of the Chapter 11 Cases, pursuit of confirmation of the Plan, the consummation of the Plan, or the administration of the Plan or the property to be distributed under the Plan, except for gross negligence or willful misconduct as determined by Final Order of the Bankruptcy Court. The Confirmation Order shall enjoin all holders of Claims and other parties from asserting or prosecuting any claims, obligations, suits, judgments, demands, debts, rights, causes of action or liabilities against the Debtors, the Bond Trustee, the ACA Parties, the PBGC, the Committee, the DIP Lender Group, the Exit Lender Group and/or their officers, directors, employees, agents, members and Professionals as to which such Person has been exculpated from liability pursuant to the preceding sentence.

14.6 Injunction.

(a) *General.* **All Entities who have held, hold, or may hold Claims arising on or before the Effective Date and all other parties in interest in the Chapter 11 Cases, along with their respective current and former employees, agents, officers, trustees, principals, and affiliates, permanently are enjoined, from and after the Effective Date, from**

**(i) commencing or continuing in any manner any action or other proceeding of any kind against the Debtors or the Reorganized Debtors or against the property or interests in property of the Debtors or Reorganized Debtors, (ii) enforcing, attaching, collecting, or recovering by any manner or means of any judgment, award, decree, or order against the Debtors or Reorganized Debtors or against the property or interests in property of the Debtors or Reorganized Debtors, (iii) creating, perfecting, or enforcing any encumbrance of any kind against the Debtors or Reorganized Debtors or against the property or interests in property of the Debtors or Reorganized Debtors, or (iv) asserting any right of setoff or subrogation of any kind against any obligation due from the Debtors or Reorganized Debtors or against the property or interests in property of the Debtors or Reorganized Debtors, on account of such Claims; provided, however, that nothing contained herein shall preclude such Entities from exercising their rights pursuant to and consistent with the terms of the Plan and the contracts, instruments, releases, indentures, and other agreements and documents delivered under or in connection with the Plan.**

**(b) *Injunction Against Interference with Plan.* Upon entry of the Confirmation Order, all Holders of Claims and their respective current and former employees, agents, officers, trustees, principals, and affiliates shall be enjoined from taking any action to interfere with the implementation or consummation of the Plan. Each Holder of an Allowed Claim, by accepting distributions pursuant to the Plan, shall be deemed to have consented to the injunction provisions set forth in this Section 14.6.**

14.7 Discharge of Liabilities. Except as otherwise provided in the Plan, upon the occurrence of the Effective Date, the Debtors shall be discharged from all Claims and Causes of Action to the fullest extent permitted by Section 1141 of the Bankruptcy Code, and all holders of Claims shall be precluded from asserting against the Reorganized Debtors, the Debtors, the Estates, the Assets, or any property dealt with under the Plan, any further or other Cause of Action based upon any act or omission, transaction, event, thing, or other activity of any kind or nature that occurred or came into existence prior to the Effective Date.

EXCEPT AS OTHERWISE PROVIDED IN THE PLAN, THE REORGANIZED DEBTORS SHALL NOT HAVE, AND SHALL NOT BE CONSTRUED TO HAVE OR MAINTAIN ANY LIABILITY, CLAIM, OR OBLIGATION THAT IS BASED IN WHOLE OR IN PART ON ANY ACT, OMISSION, TRANSACTION, EVENT, OTHER OCCURRENCE, OR THING OCCURRING OR IN EXISTENCE ON OR PRIOR TO THE EFFECTIVE DATE OF THE PLAN (INCLUDING, WITHOUT LIMITATION, ANY LIABILITY OR CLAIMS ARISING UNDER APPLICABLE NON-BANKRUPTCY LAW AS A SUCCESSOR TO THE DEBTORS) AND NO SUCH LIABILITIES, CLAIMS, OR OBLIGATIONS FOR ANY ACTS SHALL ATTACH TO THE REORGANIZED DEBTORS.

14.8 Discharge of Debtors. Except as otherwise provided in the Plan or the Confirmation Order, on the Effective Date, without further notice or order, all Claims of any nature whatsoever shall be automatically discharged forever. Except as otherwise provided in the Plan or the Confirmation Order, on the Effective Date, the Debtors, their Estates, and all successors thereto shall be deemed fully discharged and released from any and all Claims, including, without limitation, demands and liabilities that arose before the Effective Date, and all debts of the kind specified in Section 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 Section 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. The Confirmation Order shall be a judicial determination of discharge of all liabilities of the Debtors, their Estates and all successors thereto. As provided in Section 524 of the Bankruptcy Code, such discharge shall void any judgment against the Debtors, their Estates, or any successor thereto 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 Reorganized Debtors or property of the Debtors or their Estates to the extent it relates to a discharged Claim.

**Notwithstanding anything to the contrary, nothing in the Debtors' Chapter 11 Cases, Confirmation Order, Plan, Disclosure Statement, the Bankruptcy Code (and Section 1141 thereof), or any other document filed by the Debtors in the Chapter 11 Cases shall in any way be construed to discharge, release, limit, or relieve the Debtors, the Reorganized Debtors, or any other party, in any capacity, from any fiduciary liability or fiduciary responsibility with respect to the Pension Plan.**

14.9 Notices. Any notices, requests and demands required or permitted to be provided under the Plan, in order to be effective, shall be in writing and, unless otherwise expressly provided herein, shall be deemed to have been duly given or made when actually delivered or, in the case of notice by facsimile transmission, when received and telephonically confirmed, addressed as follows:

KidsPeace Corporation  
Attn: William Isemann, President and Chief Executive Officer  
4085 Independence Drive  
Schnecksville, PA 18078  
(800) 257-3223 (phone)  
(610) 769-7972 (facsimile)

and

Norris McLaughlin & Marcus, PA  
Attn: Morris Bauer, Esq.  
721 Route 202-206  
P.O. Box 5933  
Bridgewater, NJ 08807-5933  
(908) 252-4345 (phone)  
(908) 722-0755 (facsimile)

14.10 Headings. The headings used in the Plan are inserted for convenience only, and neither constitute a portion of the Plan nor in any manner affect the construction of the provisions of the Plan.

14.11 Governing Law. Unless a rule of law or procedure is supplied by federal law (including the Bankruptcy Code and the Bankruptcy Rules), the laws of the Commonwealth of Pennsylvania, without giving effect to the conflicts of laws principles thereof, shall govern the

construction of the Plan and any agreements, documents and instruments executed in connection with the Plan, except as otherwise expressly provided in such instruments, agreements or documents.

14.12 Notice of Entry of Confirmation Order and Relevant Dates. Promptly upon entry of the Confirmation Order, the Debtors shall publish as directed by the Bankruptcy Court and serve on all known parties in interest and holders of Claims, notice of the entry of the Confirmation Order and all relevant deadlines and dates under the Plan.

14.13 Interest. Interest accrued after the Petition Date will accrue and be paid on Claims only to the extent specifically provided for in the Plan, the Confirmation Order or as otherwise required by the Bankruptcy Court or by applicable law.

14.14 Modification of the Plan. Any modification of the Plan shall be subject to the requirements of the Bankruptcy Code, including Section 1127 thereof, and the Bankruptcy Rules.

14.15 Revocation of Plan. The Debtors reserve the right to revoke and withdraw the Plan or to adjourn the Confirmation Hearing with respect to any one or more of the Debtors prior to the occurrence of the Effective Date. If the Debtors revoke or withdraw the Plan with respect to any one or more of the Debtors, or if the Effective Date does not occur as to any Debtor by June 30, 2014, then, as to such Debtor, the Plan and all settlements and compromises set forth in the Plan and not otherwise approved by a separate Final Order shall be deemed null and void and nothing contained herein and no acts taken in preparation for consummation of the Plan shall be deemed to constitute a waiver or release of any Claims against such Debtor or to prejudice in any manner the rights of any of the Debtors or any other Person in any other further proceedings involving such Debtor. In the event that the Debtors choose to adjourn the Confirmation Hearing with respect to any one or more of the Debtors, the Debtors reserve the right to proceed with confirmation of the Plan with respect to those Debtors in relation to which the Confirmation Hearing has not been adjourned. With respect to those Debtors with respect to which the Confirmation Hearing has been adjourned, the Debtors reserve the right to amend, modify, revoke, or withdraw the Plan and/or to submit any new plan of reorganization at such times and in such manner as they consider appropriate, subject to the provisions of the Bankruptcy Code.

14.16 Setoff Rights. In the event that any Debtor has a Claim of any nature whatsoever against the holder of a Claim against such Debtor, then such Debtor may, but is not required to, set off against the Claim (and any payments or other Plan Distributions to be made in respect of such Claim hereunder) such Debtor's Claim against such holder, subject to Section 553 of the Bankruptcy Code. Neither the failure to set off nor the allowance of any Claim under the Plan shall constitute a waiver or release of any Claims that any Debtor may have against the holder of any Claim; provided, however, that nothing contained herein shall permit the Debtors or the Reorganized Debtors to set off against any Claim based on any Avoidance Actions that have been waived and released pursuant to Section 12.2 of the Plan.

14.17 Compliance with Tax Requirements. In connection with the Plan, the Disbursing Agent shall comply with all withholding and reporting requirements imposed by federal, state, local, and foreign taxing authorities and all Plan Distributions hereunder shall be subject to such

withholding and reporting requirements. Notwithstanding the foregoing, each holder of an Allowed Claim that is to receive a Plan Distribution shall have the sole and exclusive responsibility for the satisfaction and payment of any tax obligations imposed by any government unit upon it, including income, withholding and other tax obligations, on account of such Plan Distribution, and no holder of an Allowed Claim shall have responsibility for the satisfaction and payment of any tax obligations imposed by any government unit upon any other holder of an Allowed Claim. The Disbursing Agent has the right, but not the obligation, to not make a Plan Distribution until such holder has made arrangements satisfactory to the Disbursing Agent for payment of any such tax obligations.

14.18 Rates. The Plan does not provide for the change of any rate that is within the jurisdiction of any governmental regulatory commission after the occurrence of the Effective Date.

14.19 Binding Effect. The Plan shall be binding upon the Reorganized Debtors, the holders of all Claims, all parties in interest and all Persons and Entities, and their respective successors and assigns. To the extent any provision of the Disclosure Statement or any other solicitation document may be inconsistent with the terms of the Plan, the terms of the Plan shall be binding and conclusive.

14.20 Severability. In the event the Bankruptcy Court determines that any provision of the Plan is unenforceable either on its face or as applied to any Claim or transaction, the Debtors may modify the Plan in accordance with Section 15.13 so that such provision shall not be applicable to the holder of any such Claim or transaction. 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.

14.21 Dissolution of Committee; Discharge of Patient Care Ombudsman. On the Effective Date, the Committee shall be dissolved, the members of the Committee shall be released and discharged from any further authority, duties, responsibilities, liabilities and obligations related to, or arising from, the Chapter 11 Cases, except that the Committee shall have standing and capacity to prepare and prosecute (i) applications for or objections to the payment of fees and reimbursement of expenses incurred by the Committee or any of the estates' Professionals, and (ii) any pending appeals of the Confirmation Order.

In the event that the patient care ombudsman appointed by the Bankruptcy Court pursuant to Section 333 of the Bankruptcy Code has not been previously discharged, the patient care ombudsman shall be deemed discharged and relieved of any further duties upon the entry of the Confirmation Order, except that the patient care ombudsman shall have standing and capacity to prepare and prosecute applications for the payment of fees and reimbursement of expenses incurred by the patient care ombudsman and his counsel.

14.22 Successors and Assigns. The rights, benefits and obligations of any Person named or referred to in the Plan shall be binding on, and shall inure to the benefit of, any heir, executor, administrator, successor, trustee or assign of such Person.

14.23 Corrective Action. The Debtors, the Reorganized Debtors and the Disbursing Agent shall be authorized to take such actions as necessary and appropriate to carry out the plan, including the correction of mistakes or other inadvertent action. In making distributions or transfers under the Plan, the Debtors, Reorganized Debtors and/or Disbursing Agent, as applicable, may seek return of transfers to the extent of any errors, notwithstanding that the transfer is otherwise irrevocable under the plan.

Dated: February 4, 2014

Respectfully submitted,

/s/ William R. Iseman, President and CEO  
KidsPeace Corporation



# **EXHIBIT A**

**EXHIBIT A**  
**TO PLAN OF REORGANIZATION**  
**ADDITIONAL TERMS OF NEW BONDS**

**Capitalized terms used in this Exhibit A have the meanings given to such terms in the Plan.**

**Principal Terms of New Bonds:**

The principal terms of the Series A Bonds, the Series B Bonds, the Series C Bonds and the Amended and Restated Bond Documents are as follows:

1. Series A Bonds

*Principal Amount:* \$20,110,000

*Interest Rate:* 7.50% per annum

*Final Maturity:* December 1, 2043

*Debt Service:* Payments of principal and accrued interest in an approximate aggregate annual amount of \$1,700,000, (payable semiannually), as shown on **Schedule 1**, will be made through and including December 1, 2043. The payment dates stated in **Schedule 1** are subject to adjustment in the event that the Effective Date occurs after December 1, 2013.<sup>1</sup>

*Call Features:* The Debtors will have the right to prepay the Series A Note and direct redemption of the Series A Bonds in the amounts and at the prices below. The redemption dates below are subject to adjustment in the event that the Effective Date occurs after December 1, 2013.<sup>2</sup> All Series B Bonds and Series C Bonds then outstanding must

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<sup>1</sup> For clarity, if the Effective Date of the Plan is later than December 1, 2013, then the payment dates for the Series A Bonds, the Series B Bonds and the Series C Bonds, their scheduled redemption amounts, optional call dates, or any other similarly situated dates will be pushed back to dates commensurate with the time after December 1, 2013, that the Effective Date occurs. The par (or accreted) amounts, interest rates, number of payments, and other features will not change.

<sup>2</sup> See footnote 1.

be redeemed on the same date as any optional redemption of Series A Bonds.

<u>Proposed</u> <u>Redemption Date</u>	<u>Amount</u>	<u>Price</u>
12/1/2017 to 11/30/2018	Full	103%
12/1/2018 to 11/30/2019	Full	102%
12/1/2019 to 11/30/2020	Full	101%
12/1/2020 to Maturity	Full/Partial	100%

*Security:* Collateral (as described in “The Exchange” above)

*Debt Service Reserve Fund:* The New Series A DSRF will be funded and maintained in the amount of \$1,525,000. The New Debt Service Reserve Fund will provide that any withdrawals from the New Debt Service Reserve Fund will constitute an Event of Default and will additionally require the Debtors to replenish any deficiency in the New Debt Service Reserve Fund in twelve equal monthly installments.

The Bond Trustee will, on the Effective Date, contribute \$1,525,000 from the Existing Debt Service Reserve Funds to the New Debt Service Reserve Fund on the Effective Date to fund the New Debt Service Reserve Fund Amount.

2. Series B Bonds

*Original Amount:* \$5,000,000

*Accreted Amount:* up to approximately \$15,100,000 as of December 1, 2028

*Interest Rate:* 7.5% per annum

*Final Maturity:* December 1, 2043

*Debt Service:* Payments of principal and accrued interest in an approximate aggregate annual amount of \$1,303,000 (payable semiannually), as shown on **Schedule 2**, will be made starting on June 1,

2029 through and including December 1, 2043. The payment amounts and dates stated in **Schedule 2** are subject to adjustment in the event that the Effective Date occurs after December 1, 2013.<sup>3</sup>

*Accreted Values:* The Series B Bonds will accrete at 7.5% per year for 15 years (i.e., until not later than December 1, 2028<sup>4</sup>). The accretion will end and the Series B Bonds will then have approximate level annual amortization of principal and interest to December 1, 2043, at such time as the PBGC Note is discharged. The payment amounts and dates stated in **Schedule 2** are subject to adjustment in the event that the Effective Date occurs after December 1, 2013.<sup>5</sup>

*Call Features:* The Debtors will have the right to prepay the Series B Note in full and to direct full redemption of the Series B Bonds, without premium or penalty, at any time after December 1, 2017<sup>6</sup> at the then-accreted value (or principal amount). The accreted value as of any redemption date other than June 1 or December 1 of any year will be determined on the basis of straight-line interpolation between the preceding and succeeding payment dates.

*Mandatory Redemption:* There will be a special mandatory redemption of approximately \$3,600,000 on December 1, 2028.

Additionally, all Series B Bonds then outstanding must be redeemed at the same time as any optional redemption of Series A Bonds.

*Security:* Collateral (as described in “The Exchange” above)

*Debt Service Reserve Fund:* None

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<sup>3</sup> See footnote 1.

<sup>4</sup> See footnote 1.

<sup>5</sup> See footnote 1

<sup>6</sup> See footnote 1

3. Series C Bonds

*Original Amount:* \$15,000,000

*Maturity Amount:* \$15,000,000

*Interest Rate:* 0% per annum

*Final Maturity:* December 1, 2043

*Payment only*

*Upon Default:* The Series C Bonds will bear no interest. The Series C Bonds are payable only in the event of an Event of Default which is (i) an uncured payment default under the New Bond Documents, or (ii) the voluntary or involuntary bankruptcy of any of the Debtors or involuntary bankruptcy of any of the Debtors (if not dismissed within 60 days or if the involuntary bankruptcy was the result of collusion by the holders of the New Bonds or the Bond Trustee).

The Series C Bonds will be automatically discharged upon the full payment of the Series A Bonds and the Series B Bonds, including as a result of a refinancing thereof.

The Series C Bonds will be “stapled” to the Series B Bonds and will not be tradable except as part of the Series B Bonds.

*Mandatory*

*Redemption:* All Series C Bonds will be deemed to be refunded and extinguished upon full payment of the Series A and B Bonds.

*Optional*

*Redemption:* All Series C Bonds will be deemed to be refunded and extinguished upon full payment of the Series A and B Bonds.

*Security:*

Collateral (as described in “The Exchange” above)

*Debt Service*

*Reserve Fund:* None

*Tax Exempt:* The Series C Bonds will not be tax-exempt.

4. Other Terms

*Authorized*

*Denominations:* The New Bonds will be issued in such authorized denominations, including as low as \$1.00, as is necessary in the opinion of bond counsel to effect the Exchange without fractional cash payments to be made to bondholders. All fractional amounts will be issued as additional Series B Bonds and Series C Bonds in accordance with the Plan.

*Bond Funds:*

The following funds will be established under the New Bond Indenture and maintained by the Indenture Trustee: (a) Bond Fund; (b) New Debt Service Reserve Fund; (c) Rebate Fund; and (d) Repair and Replacement Fund: the Debtors will be required to fund a quarterly amount, which is the lesser of \$200,000 or the amount necessary to increase the balance of the Repair and Replacement Fund to \$1,000,000, beginning with the first fiscal quarter that ends after the Effective Date. Although it is anticipated that the Obligated Group will pay for Budgeted CapEx directly, the Obligated Group may draw from the Repair and Replacement Fund during each Fiscal Year for Budgeted CapEx, only in the event that such expenditure is deemed by management as necessary and would not otherwise result in a violation of the minimum liquidity covenant provisions. Any withdrawal is subject to replenishment to maintain the balance in the Fund after 2015 at \$1,000,000 at all times. To the extent budgeted CAPEX is not spent in a given year, the Obligated Group shall be able to spend the deferred amount in future years depending on Available Liquidity.

*Additional Debt:* The Debtors will be restricted from incurring additional debt except under certain circumstances, including (a) debt incurred to

refund all New Bonds then outstanding, (b) parity debt incurred for capital expenses, provided that the Obligated Group’s projected debt service coverage ratio on the Series A Bonds and Series B Bonds for the ensuing five fiscal years is at least 1.25; (c) an Exit Facility not to exceed \$15,750,000<sup>7</sup> incurred for working capital expenses; (d) debt incurred to General Unsecured Creditors pursuant to the terms of the Plan, and (e) debt incurred to the PBGC under the Plan not to exceed \$900,000 per year (the “PBGC Debt”), or such alternative amount for the senior debt, the Exit Facility and the PBGC Note as jointly agreed upon by the Debtors, the Bond Trustee and the Majority Bondholders.

Financial Covenants: See the Plan

Financial Reporting Requirements: See the Plan

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<sup>7</sup> Increases above the \$15,000,000 can occur as follows: for each \$2,500,000 increase in the Obligated Group’s annual operating revenues over budgeted levels based on the Business Plan annexed as Exhibit “C” to the Forbearance Agreement, the maximum amount of the working capital financing may, upon notice to the Indenture Trustee, increase by \$750,000, to a maximum of \$20,000,000.

**SCHEDULE 1**

**NEW BONDS – SERIES A**



		Assume Level Rate of:		7.500%		\$1,700,000.00		Coverage Target		100.000%		
Series A of 2013												
Revenue Bonds (KidsPeace Affiliated Group Restructuring)												
		Principal	Coupon	Yield	Interest	Total Debt Service	Annual Debt Service	Test Annual Debt Service	Projected Revenue and Pledged Earnings	Net Coverage		
Price	Days	Date										Free Cash*** Earnings
		12/1/2013										2,000,000.00
												2,000,000.00
												2,000,000.00
100.000	180.00	6/1/2014		7.500%	7.500%	754,125.00	754,125.00		\$1,700,000.00			
100.000	360.00	12/1/2014	195,000.00	7.500%	7.500%	754,125.00	949,125.00	1,703,250.00	\$1,700,000.00	2,040,000.00	1.20	
100.000	540.00	6/1/2015		7.500%	7.500%	746,812.50	746,812.50		\$1,700,000.00			
100.000	720.00	12/1/2015	210,000.00	7.500%	7.500%	746,812.50	956,812.50	1,703,625.00	\$1,700,000.00	2,080,000.00	1.22	
100.000	900.00	6/1/2016		7.500%	7.500%	738,937.50	738,937.50		\$1,700,000.00			
100.000	1,080.00	12/1/2016	225,000.00	7.500%	7.500%	738,937.50	963,937.50	1,702,875.00	\$1,700,000.00	2,120,000.00	1.24	
100.000	1,260.00	6/1/2017		7.500%	7.500%	730,500.00	730,500.00		\$1,700,000.00			
100.000	1,440.00	12/1/2017	240,000.00	7.500%	7.500%	730,500.00	970,500.00	1,701,000.00	\$1,700,000.00	2,160,000.00	1.27	
100.000	1,620.00	6/1/2018		7.500%	7.500%	721,500.00	721,500.00		\$1,700,000.00			
100.000	1,800.00	12/1/2018	260,000.00	7.500%	7.500%	721,500.00	981,500.00	1,703,000.00	\$1,700,000.00	2,200,000.00	1.29	
100.000	1,980.00	6/1/2019		7.500%	7.500%	711,750.00	711,750.00		\$1,700,000.00			
100.000	2,160.00	12/1/2019	280,000.00	7.500%	7.500%	711,750.00	991,750.00	1,703,500.00	\$1,700,000.00	2,240,000.00	1.31	
100.000	2,340.00	6/1/2020		7.500%	7.500%	701,250.00	701,250.00		\$1,700,000.00			
100.000	2,520.00	12/1/2020	300,000.00	7.500%	7.500%	701,250.00	1,001,250.00	1,702,500.00	\$1,700,000.00	2,280,000.00	1.34	
100.000	2,700.00	6/1/2021		7.500%	7.500%	690,000.00	690,000.00		\$1,700,000.00			
100.000	2,880.00	12/1/2021	320,000.00	7.500%	7.500%	690,000.00	1,010,000.00	1,700,000.00	\$1,700,000.00	2,320,000.00	1.36	
100.000	3,060.00	6/1/2022		7.500%	7.500%	678,000.00	678,000.00		\$1,700,000.00			
100.000	3,240.00	12/1/2022	345,000.00	7.500%	7.500%	678,000.00	1,023,000.00	1,701,000.00	\$1,700,000.00	2,360,000.00	1.39	
100.000	3,420.00	6/1/2023		7.500%	7.500%	665,062.50	665,062.50		\$1,700,000.00			
100.000	3,600.00	12/1/2023	370,000.00	7.500%	7.500%	665,062.50	1,035,062.50	1,700,125.00	\$1,700,000.00	2,400,000.00	1.41	
100.000	3,780.00	6/1/2024		7.500%	7.500%	651,187.50	651,187.50		\$1,700,000.00			
100.000	3,960.00	12/1/2024	400,000.00	7.500%	7.500%	651,187.50	1,051,187.50	1,702,375.00	\$1,700,000.00	2,440,000.00	1.43	
100.000	4,140.00	6/1/2025		7.500%	7.500%	636,187.50	636,187.50		\$1,700,000.00			
100.000	4,320.00	12/1/2025	430,000.00	7.500%	7.500%	636,187.50	1,086,187.50	1,702,375.00	\$1,700,000.00	2,480,000.00	1.46	
100.000	4,500.00	6/1/2026		7.500%	7.500%	620,062.50	620,062.50		\$1,700,000.00			
100.000	4,680.00	12/1/2026	465,000.00	7.500%	7.500%	620,062.50	1,085,062.50	1,705,125.00	\$1,700,000.00	2,520,000.00	1.48	
100.000	4,860.00	6/1/2027		7.500%	7.500%	602,625.00	602,625.00		\$1,700,000.00			
100.000	5,040.00	12/1/2027	500,000.00	7.500%	7.500%	602,625.00	1,102,625.00	1,705,250.00	\$1,700,000.00	3,520,000.00	2.06	
100.000	5,220.00	6/1/2028		7.500%	7.500%	583,875.00	583,875.00		\$1,700,000.00			
100.000	5,400.00	12/1/2028	535,000.00	7.500%	7.500%	583,875.00	1,118,875.00	1,702,750.00	\$1,700,000.00	3,590,400.00	2.11	
100.000	5,580.00	6/1/2029		7.500%	7.500%	563,812.50	563,812.50		\$1,700,000.00			
100.000	5,760.00	12/1/2029	575,000.00	7.500%	7.500%	563,812.50	1,138,812.50	1,702,625.00	\$1,700,000.00	3,660,800.00	2.15	
100.000	5,940.00	6/1/2030		7.500%	7.500%	542,250.00	542,250.00		\$1,700,000.00			
100.000	6,120.00	12/1/2030	620,000.00	7.500%	7.500%	542,250.00	1,162,250.00	1,704,500.00	\$1,700,000.00	3,731,200.00	2.19	
100.000	6,300.00	6/1/2031		7.500%	7.500%	519,000.00	519,000.00		\$1,700,000.00			
100.000	6,480.00	12/1/2031	665,000.00	7.500%	7.500%	519,000.00	1,184,000.00	1,703,000.00	\$1,700,000.00	3,801,600.00	2.23	
100.000	6,660.00	6/1/2032		7.500%	7.500%	494,062.50	494,062.50		\$1,700,000.00			
100.000	6,840.00	12/1/2032	715,000.00	7.500%	7.500%	494,062.50	1,209,062.50	1,703,125.00	\$1,700,000.00	3,872,000.00	2.27	
100.000	7,020.00	6/1/2033		7.500%	7.500%	467,250.00	467,250.00		\$1,700,000.00			
100.000	7,200.00	12/1/2033	770,000.00	7.500%	7.500%	467,250.00	1,237,250.00	1,704,500.00	\$1,700,000.00	3,942,400.00	2.31	
100.000	7,380.00	6/1/2034		7.500%	7.500%	438,375.00	438,375.00		\$1,700,000.00			
100.000	7,560.00	12/1/2034	825,000.00	7.500%	7.500%	438,375.00	1,263,375.00	1,701,750.00	\$1,700,000.00	4,012,800.00	2.36	
100.000	7,740.00	6/1/2035		7.500%	7.500%	407,437.50	407,437.50		\$1,700,000.00			
100.000	7,920.00	12/1/2035	890,000.00	7.500%	7.500%	407,437.50	1,297,437.50	1,704,875.00	\$1,700,000.00	4,083,200.00	2.40	
100.000	8,100.00	6/1/2036		7.500%	7.500%	374,062.50	374,062.50		\$1,700,000.00			
100.000	8,280.00	12/1/2036	955,000.00	7.500%	7.500%	374,062.50	1,329,062.50	1,703,125.00	\$1,700,000.00	4,153,600.00	2.44	
100.000	8,460.00	6/1/2037		7.500%	7.500%	338,250.00	338,250.00		\$1,700,000.00			
100.000	8,640.00	12/1/2037	1,025,000.00	7.500%	7.500%	338,250.00	1,363,250.00	1,701,500.00	\$1,700,000.00	4,224,000.00	2.48	
100.000	8,820.00	6/1/2038		7.500%	7.500%	299,812.50	299,812.50		\$1,700,000.00			
100.000	9,000.00	12/1/2038	1,105,000.00	7.500%	7.500%	299,812.50	1,404,812.50	1,704,625.00	\$1,700,000.00	4,294,400.00	2.52	
100.000	9,180.00	6/1/2039		7.500%	7.500%	258,375.00	258,375.00		\$1,700,000.00			
100.000	9,360.00	12/1/2039	1,185,000.00	7.500%	7.500%	258,375.00	1,443,375.00	1,701,750.00	\$1,700,000.00	4,364,800.00	2.56	
100.000	9,540.00	6/1/2040		7.500%	7.500%	213,937.50	213,937.50		\$1,700,000.00			
100.000	9,720.00	12/1/2040	1,275,000.00	7.500%	7.500%	213,937.50	1,488,937.50	1,702,875.00	\$1,700,000.00	4,435,200.00	2.60	
100.000	9,900.00	6/1/2041		7.500%	7.500%	166,125.00	166,125.00		\$1,700,000.00			
100.000	10,080.00	12/1/2041	1,370,000.00	7.500%	7.500%	166,125.00	1,536,125.00	1,702,250.00	\$1,700,000.00	4,505,600.00	2.65	
100.000	10,260.00	6/1/2042		7.500%	7.500%	114,750.00	114,750.00		\$1,700,000.00			
100.000	10,440.00	12/1/2042	1,475,000.00	7.500%	7.500%	114,750.00	1,589,750.00	1,704,500.00	\$1,700,000.00	4,576,000.00	2.68	
100.000	10,620.00	6/1/2043		7.500%	7.500%	59,437.50	59,437.50		\$1,700,000.00			
100.000	10,800.00	12/1/2043	1,585,000.00	7.500%	7.500%	59,437.50	1,644,437.50	1,703,875.00	\$1,700,000.00	4,646,400.00	2.73	
Total			20,110,000.00			30,977,625.00	51,087,625.00	51,087,625.00	103,054,400.00			

Projected Debt Size	\$17,500,000.00
Level Annual Debt Service	
Coupon Rate:	7.500%
Test Annual Debt Service:	\$1,481,746.63

\*\* If Series A is called, any remaining CABs must be called at the same time.  
 \*\*\* Free Cash assumes \$1,000,000 annual payments to PBGC and OCC Obligations

**SCHEDULE 2**

**NEW BONDS – SERIES B**

**Series B of 2013 - Capital Appreciation Bonds  
 Revenue Bonds (KidsPeace Affiliated Group Restructuring)**

Price	Principal	Coupon	Yield	Accreted Interest	Accreted Amount
100.000					
100.000					
100.000					
100.000	12/1/2013	7.50%	7.500%		\$5,000,000.00
100.000	180.00 6/1/2014	7.50%	7.500%	187,500.00	\$5,187,500.00
100.000	360.00 12/1/2014	7.50%	7.500%	194,531.25	\$5,382,031.25
100.000	540.00 6/1/2015	7.50%	7.500%	201,826.17	\$5,583,857.42
100.000	720.00 12/1/2015	7.50%	7.500%	209,394.65	\$5,793,252.08
100.000	900.00 6/1/2016	7.50%	7.500%	217,246.95	\$6,010,499.03
100.000	1,080.00 12/1/2016	7.50%	7.500%	225,393.71	\$6,235,892.74
100.000	1,260.00 6/1/2017	7.50%	7.500%	233,845.98	\$6,469,738.72
100.000	1,440.00 12/1/2017	7.50%	7.500%	242,615.20	\$6,712,353.92
100.000	1,620.00 6/1/2018	7.50%	7.500%	251,713.27	\$6,964,067.19
100.000	1,800.00 12/1/2018	7.50%	7.500%	261,152.52	\$7,225,219.71
100.000	1,980.00 6/1/2019	7.50%	7.500%	270,945.74	\$7,496,165.45
100.000	2,160.00 12/1/2019	7.50%	7.500%	281,106.20	\$7,777,271.66
100.000	2,340.00 6/1/2020	7.50%	7.500%	291,647.69	\$8,068,919.34
100.000	2,520.00 12/1/2020	7.50%	7.500%	302,584.48	\$8,371,503.82
100.000	2,700.00 6/1/2021	7.50%	7.500%	313,931.39	\$8,685,435.21
100.000	2,880.00 12/1/2021	7.50%	7.500%	325,703.82	\$9,011,139.03
100.000	3,060.00 6/1/2022	7.50%	7.500%	337,917.71	\$9,349,056.75
100.000	3,240.00 12/1/2022	7.50%	7.500%	350,589.63	\$9,699,646.37
100.000	3,420.00 6/1/2023	7.50%	7.500%	363,736.74	\$10,063,383.11
100.000	3,600.00 12/1/2023	7.50%	7.500%	377,376.87	\$10,440,759.98
101.000	3,780.00 6/1/2024	7.50%	7.500%	391,528.50	\$10,832,288.48
102.000	3,960.00 12/1/2024	7.50%	7.500%	406,210.82	\$11,238,499.30
103.000	4,140.00 6/1/2025	7.50%	7.500%	421,443.72	\$11,659,943.02
104.000	4,320.00 12/1/2025	7.50%	7.500%	437,247.86	\$12,097,190.88
105.000	4,500.00 6/1/2026	7.50%	7.500%	453,644.66	\$12,550,835.54
106.000	4,680.00 12/1/2026	7.50%	7.500%	470,656.33	\$13,021,491.88
107.000	4,860.00 6/1/2027	7.50%	7.500%	488,305.95	\$13,509,797.82
108.000	5,040.00 12/1/2027	7.50%	7.500%	506,617.42	\$14,016,415.24
109.000	5,220.00 6/1/2028	7.50%	7.500%	525,615.57	\$14,542,030.81
110.000	5,400.00 12/1/2028	7.50%	7.500%	545,326.16	\$15,087,356.97

Projected Bullet at 12/1/28 \$15,087,356.97

Mandatory Redemption 12/1/28 3,600,000.00

See Next Sheet For Amortization Schedule After 12/1/28

If the term of the PBGC obligation is less than 15 years or the annual obligation is less than \$900,000 the annual debt service on the Series B bonds and the amortization start date will be adjusted accordingly

Total \$0.00 10,087,356.97 \$0.00

Initial Amount: 7.50% 7.500% \$ 5,000,000.00

\* Callible at accreted value at any time on or after 6/1/2018 \$0.00

Revenue Bonds (KidsPeace Affiliated Group Restructuring), CAB										Coverage Target	100.000%		
Series B of 2013										Inflation %	2.000%		
Assume Level Rate of: 7.500% \$1,300,000.00										Projected Revenue and Pledged Earnings	Net Coverage		
Price	Days	Date	Principal	Coupon	Yield	Interest	Debt Service	Annual Debt Service	Test Annual Debt Service	Free Cash***	Earnings	2,000,000.00	-
		12/1/2023									2,000,000.00	-	-
											2,000,000.00	-	-
											2,000,000.00	-	-
100.000	180.00	6/1/2014									-	-	-
100.000	360.00	12/1/2014									-	-	-
100.000	540.00	6/1/2015									2,040,000.00	-	-
100.000	720.00	12/1/2015									-	-	-
100.000	900.00	6/1/2016									2,080,000.00	-	-
100.000	1,080.00	12/1/2016									-	-	-
100.000	1,260.00	6/1/2017									2,120,000.00	-	-
100.000	1,440.00	12/1/2017									-	-	-
100.000	1,620.00	6/1/2018									2,160,000.00	-	-
100.000	1,800.00	12/1/2018									-	-	-
100.000	1,980.00	6/1/2019									2,200,000.00	-	-
100.000	2,160.00	12/1/2019									-	-	-
100.000	2,340.00	6/1/2020									2,240,000.00	-	-
100.000	2,520.00	12/1/2020									-	-	-
100.000	2,700.00	6/1/2021									2,280,000.00	-	-
100.000	2,880.00	12/1/2021									-	-	-
100.000	3,060.00	6/1/2022									2,320,000.00	-	-
100.000	3,240.00	12/1/2022									-	-	-
100.000	3,420.00	6/1/2023									2,360,000.00	-	-
100.000	3,600.00	12/1/2023									-	-	-
100.000	3,780.00	6/1/2024									2,400,000.00	-	-
100.000	3,960.00	12/1/2024									-	-	-
100.000	4,140.00	6/1/2025									2,440,000.00	-	-
100.000	4,320.00	12/1/2025									-	-	-
100.000	4,500.00	6/1/2026									2,480,000.00	-	-
100.000	4,680.00	12/1/2026									-	-	-
100.000	4,860.00	6/1/2027									2,520,000.00	-	-
100.000	5,040.00	12/1/2027									-	-	-
100.000	5,220.00	6/1/2028									3,520,000.00	-	-
100.000	5,400.00	12/1/2028									-	-	-
100.000	5,580.00	6/1/2029	3,600,000.00	7.500%	7.500%	-	3,600,000.00	3,600,000.00	\$1,300,000.00		3,590,400.00	-	-
100.000	5,760.00	12/1/2029				431,250.00	431,250.00	431,250.00	\$1,300,000.00		\$1,300,000.00	-	-
100.000	5,940.00	6/1/2030	440,000.00	7.500%	7.500%	431,250.00	871,250.00	1,302,500.00	\$1,300,000.00		3,660,800.00	-	2.81
100.000	6,120.00	12/1/2030				414,750.00	414,750.00	414,750.00	\$1,300,000.00		-	-	-
100.000	6,300.00	6/1/2031	475,000.00	7.500%	7.500%	414,750.00	889,750.00	1,304,500.00	\$1,300,000.00		3,731,200.00	-	2.86
100.000	6,480.00	12/1/2031				386,937.50	386,937.50	386,937.50	\$1,300,000.00		-	-	-
100.000	6,660.00	6/1/2032	510,000.00	7.500%	7.500%	386,937.50	906,937.50	1,303,875.00	\$1,300,000.00		3,801,600.00	-	2.92
100.000	6,840.00	12/1/2032				377,812.50	377,812.50	377,812.50	\$1,300,000.00		-	-	-
100.000	7,020.00	6/1/2033	545,000.00	7.500%	7.500%	377,812.50	922,812.50	1,300,625.00	\$1,300,000.00		3,872,000.00	-	2.98
100.000	7,200.00	12/1/2033				357,375.00	357,375.00	357,375.00	\$1,300,000.00		-	-	-
100.000	7,380.00	6/1/2034	590,000.00	7.500%	7.500%	357,375.00	947,375.00	1,304,750.00	\$1,300,000.00		3,942,400.00	-	3.02
100.000	7,560.00	12/1/2034				335,250.00	335,250.00	335,250.00	\$1,300,000.00		-	-	-
100.000	7,740.00	6/1/2035	630,000.00	7.500%	7.500%	335,250.00	965,250.00	1,300,500.00	\$1,300,000.00		4,012,800.00	-	3.09
100.000	7,920.00	12/1/2035				311,625.00	311,625.00	311,625.00	\$1,300,000.00		-	-	-
100.000	8,100.00	6/1/2036	680,000.00	7.500%	7.500%	311,625.00	991,625.00	1,303,250.00	\$1,300,000.00		4,083,200.00	-	3.13
100.000	8,280.00	12/1/2036				286,125.00	286,125.00	286,125.00	\$1,300,000.00		-	-	-
100.000	8,460.00	6/1/2037	730,000.00	7.500%	7.500%	286,125.00	1,016,125.00	1,302,250.00	\$1,300,000.00		4,153,600.00	-	3.19
100.000	8,640.00	12/1/2037				258,750.00	258,750.00	258,750.00	\$1,300,000.00		-	-	-
100.000	8,820.00	6/1/2038	785,000.00	7.500%	7.500%	258,750.00	1,043,750.00	1,302,500.00	\$1,300,000.00		4,224,000.00	-	3.24
100.000	9,000.00	12/1/2038				229,312.50	229,312.50	229,312.50	\$1,300,000.00		-	-	-
100.000	9,180.00	6/1/2039	845,000.00	7.500%	7.500%	229,312.50	1,074,312.50	1,303,625.00	\$1,300,000.00		4,294,400.00	-	3.29
100.000	9,360.00	12/1/2039				197,625.00	197,625.00	197,625.00	\$1,300,000.00		-	-	-
100.000	9,540.00	6/1/2040	910,000.00	7.500%	7.500%	197,625.00	1,107,625.00	1,305,250.00	\$1,300,000.00		4,364,800.00	-	3.34
100.000	9,720.00	12/1/2040				163,500.00	163,500.00	163,500.00	\$1,300,000.00		-	-	-
100.000	9,900.00	6/1/2041	975,000.00	7.500%	7.500%	163,500.00	1,138,500.00	1,302,000.00	\$1,300,000.00		4,435,200.00	-	3.41
100.000	10,080.00	12/1/2041				126,937.50	126,937.50	126,937.50	\$1,300,000.00		-	-	-
100.000	10,260.00	6/1/2042	1,050,000.00	7.500%	7.500%	126,937.50	1,176,937.50	1,303,875.00	\$1,300,000.00		4,505,600.00	-	3.46
100.000	10,440.00	12/1/2042				87,562.50	87,562.50	87,562.50	\$1,300,000.00		-	-	-
100.000	10,620.00	6/1/2043	1,125,000.00	7.500%	7.500%	87,562.50	1,212,562.50	1,300,125.00	\$1,300,000.00		4,576,000.00	-	3.52
100.000	10,800.00	12/1/2043				45,375.00	45,375.00	45,375.00	\$1,300,000.00		-	-	-
100.000	10,980.00	6/1/2044	1,210,000.00	7.500%	7.500%	45,375.00	1,255,375.00	1,300,750.00	\$1,300,000.00		4,646,400.00	-	3.57
		Total	15,100,000.00			8,040,375.00	23,140,375.00	23,140,375.00			103,054,000.00		

Projected Debt Size \$15,087,356.97  
 Level Annual Debt Service  
 Coupon Rate: 7.50% Test Annual Debt Service: \$1,599,260.26

Final Maturity include a bullet payment of \$2,000,000  
 \*\* If Series A is called, any remaining CABs must be called at the same time.  
 If the term of the PBGC obligation is less than 15 years or the annual obligation is less than \$900,000 the annual debt service on the Series B bonds and the amortization start date will be adjusted accordingly

\*\*\* Free cash does not take into account payments on Series A Bonds

# **EXHIBIT B**

EXHIBIT B

**KIDSPEACE CORPORATION AND AFFILIATES PROPOSED POST-EFFECTIVE DATE SENIOR MANAGEMENT, SENIOR MANAGEMENT COMPENSATION AND POST-CONFIRMATION KEY EMPLOYEE INCENTIVE PACKAGE (“KEIP”)**

**KIDSPEACE MANAGEMENT**

*William R. Isemann, President and Chief Executive Officer.* Mr. Isemann has served as the President and CEO since September 2008 after joining the company in June 2006 as Executive Vice President and Treasurer. Mr. Isemann has worked against challenging national financial trends in the behavioral healthcare industry, strengthening management and accountability within the company. Mr. Isemann has more than 30 years experience serving as CEO, COO and CFO at Danville (VA) Regional Health System, and in senior positions with several for-profit and not-for-profit health systems primarily located in the Southeast. Mr. Isemann holds a Masters Degree in Health Administration from the Fuqua School of Business at Duke University, and is a Fellow in both the American College of Healthcare Executives (FACHE) and the Healthcare Financial Management Association (HFMA). Current Annual Salary: \$297,000

*James Horan, Executive Vice President and Chief Financial Officer.* Mr. Horan has served as the Executive Vice President and Chief Financial Officer of KidsPeace since June 2011. He is responsible for all corporate and administrative matters. He focuses on planning, developing, organizing, directing and evaluating the organization’s strategic, operating and financial operations and performance. Prior to joining the Company, Mr. Horan held a number of financial, operating and Board roles in both venture-backed and privately held companies. He began his career at Deloitte & Touché where he was responsible for managing audit engagements focused in the healthcare and financial services sector. He has over 20 years of accounting, finance and operational experience. Mr. Horan holds a BS and MBA from LaSalle University and is a CPA. Current Annual Salary: \$173,575

*Michael Slack, Executive Vice President Business Development.* Mr. Slack has served as Executive Vice President of Business Development since January 2011. He joined the Company in January 2001 as Director of Business Development and is responsible for all fundraising, business development, strategic planning and foster care services. Prior to joining the Company, Mr. Slack served as Director of Business Development for Genesis Health Ventures, a national for-profit provider of elder care services, assisting in the establishment and oversight of management contracts and developing a consulting practice to serve outside clients’ healthcare needs. Mr. Slack holds a BSBA degree from the University of Delaware and an MBA in Health Care Administration from Temple University. Current Annual Salary: \$165,000

*Susan Mullen, Executive Vice President Programs.* Ms. Mullen, RN, has served as the Executive Vice President of Programs since September 2011. She has provided nursing and clinical management services for KidsPeace clients for more than 19 years and is familiar with all phases of treatment. She has also assisted six out-of-state KidsPeace programs in establishing nursing care services and adherence to quality nursing standards. In addition to extensive clinical experience at KidsPeace, Ms. Mullen acted as Vice President of Clinical Services at a Visiting

Nurse Association. Ms. Mullen holds a BA in Education from Virginia Intermont College, a Masters Degree in Healthcare Administration from Bellevue University and an Associate Degree in Nursing from Lehigh County Community College. She is also a member of the American Organization of Nurse Executives and the American Psychiatric Nurse Association. Current Annual Salary: \$150,000

### **KIDSPEACE BOARD OF DIRECTORS**

(Board members receive no compensation or stipend)

*Chair - Mary Jane Willis, DE, Public Education Smyrna, Delaware School District*

*First Vice Chair - Dr. Larry Bell, PA, President, Gold Partners*

*Second Vice Chair – L. Richard Plunkett, GA, Owner, Plunkett Associates*

*Dr. Ira Blake, PA, Provost and Vice President for Academic Affairs, Bloomsburg University*

*John Marsland, PA, Senior Vice President and General Manager Global Merchant Gases, Air Products and Chemicals, Inc.*

*Dr. Scott Reines, PA, Independent Consultant*

*Dr. Constance Porter, TX, Visiting Professor of Marketing, JGSB, Rice University*

*David Small, NJ, Senior Vice President/Chief Technical Officer, Verizon Wireless, Inc.*

*Richard Tisinger, GA, Partner, Tisinger, Vance Attorneys at Law*

*Mario Turco, PA, President – Philadelphia Tri-State Region, Verizon Wireless, Inc.*

*John Moses, WV, President/CEO, Youth Services System, Inc.*

*Christian Bauer, PA, Corporate Counsel, Shire Pharmaceuticals, Inc.*

*William Isemann, President/Chief Executive Officer, KidsPeace Corporation*

*James Horan, Executive Vice President/Treasurer, KidsPeace Corporation*

*Michael Slack, Executive Vice President/Business Development, KidsPeace Corporation*

*Susan Mullen, Executive Vice President/Programs, KidsPeace Corporation*

### **OTHER KEY KIDSPEACE LEADERSHIP**

*Susan Leyburn, Vice President Compliance.* Ms. Leyburn has served as the Vice President for Compliance since August 2006. She joined the Company in July 2004 as the Director of Compliance. Ms. Leyburn is responsible for planning, organizing, and managing the KidsPeace Compliance Program, as well as oversight of the policy development process, medical records, legal affairs, risk management activities and the quality assessment and improvement program. Prior to joining the Company, Ms. Leyburn served as the Director for LifePath, a non-

profit provider of services for individuals with developmental challenges. Ms Leyburn holds a BS in Education and a Masters Degree in Public Administration from Kutztown University.

*Eileen Tkacik, Vice President Patient Accounting/Technology.* Ms. Tkacik joined KidsPeace in June of 2008 as the Director of Internal Audit. In this position she was responsible for the development and implementation of the annual audit plan based on a risk management process. In December of 2009 Ms. Tkacik assumed a new role as the Director of Information Technology where she was responsible for all aspects of strategic IT planning to include the design and support of all technology. In April 2013, Ms Tkacik was promoted to the position of Vice President, Patient Accounting/Technology. This position assumed the added responsibility of leading and directing all revenue cycle activities related to billing and collections.

*Gerard Gleeson, Vice President Finance - Controller.* Mr. Gleeson joined KidsPeace in October 2012 and assumed his present position in January 2013. Mr. Gleeson is responsible for the daily functioning of the finance department. Prior to KidsPeace, Mr. Gleeson held senior finance positions in both public and private companies in the for-profit sector. Mr. Gleeson is a Fellow of the Association of Chartered Accountants (FCCA).

*Elizabeth Perrong, Vice President Human Resources.* Ms. Perrong joined KidsPeace in March 2013. Ms Perrong is responsible for planning, organizing, and managing the overall Human Resources function including benefits administration, compensation administration, recruiting & employment, workers compensation, employee health, HR policy development and compliance. Prior to assuming her duties at KidsPeace, she was the Vice President for Human Resources in a number of healthcare organizations and has over 25 years of HR experience. Ms. Perrong holds a Bachelors degree in Communications from Bloomsburg University and a Masters degree in Human Resources from Leicester University in England.

*Andrew Burke, In-House Counsel.* Mr. Burke is a Juris Doctor graduate of the Villanova University School of Law. He joined KidsPeace in May 2013. Prior to joining KidsPeace, Mr. Burke served as General Counsel for USM, Inc., a subsidiary of EMCOR Group, Inc.

*Andrew Clark, M.D., Medical Director.* Dr. Clark attended medical school at Drexel University College of Medicine. He completed both adult and child and adolescent psychiatric residencies at the Medical University of South Carolina. He was employed in private practice before joining KidsPeace as a staff psychiatrist in July 2011 and became Medical Director in January 2012.

*Ray Culp, Executive Director for Foster Care.* Mr. Culp has served as the Executive Director of Foster Care and Community Programs since October 2006. He joined the Company in October 1993 as a Program Development Specialist. Mr. Culp is responsible for planning, organizing, and oversight of the operations. Prior to joining the Company, Mr. Culp served as a program supervisor, for Counseling and Care Services, a non-profit provider of services for foster children. Mr. Culp holds a BA in Criminal Justice from Mansfield University and a Masters degree in Health Care and Human Resources from Scranton University.

*Paul Jacobson, Executive Director for Mesabi Academy.* Mr. Jacobson has served as Executive Director at Mesabi Academy since February 2013. He joined the Company in 1999 as a Youth Care Worker (direct care). Since that time, he has been a Unit Supervisor, Counselor/Case Manager, and Manager of Quality Assurance and Admissions. Prior to joining



the Company, Mr. Jacobson was Director of Security at the North Central University in Minneapolis, MN. Mr. Jacobson holds a BS in Youth Ministry from North Central Bible College and a Masters Degree in Business Administration from the University of Phoenix.

*Scott Merritt, Executive Director for Georgia Residential.* Mr. Merritt joined the company in June 2004 as the Executive Director of the Georgia facility, which opened in September 2004. He is responsible for the day-to-day operations of the facility's residential, clinical and educational programs. Mr. Merritt received his BA in Political Science/History and Business Administration/Economics from King College in Bristol, Tennessee. He also received his Masters degree in Counseling & Human Development from the University of Georgia in Athens, Georgia. Prior to joining the company, Mr. Merritt served as the Chief Operating Officer for Peachford Behavioral Health Systems of Atlanta, a subsidiary of Universal Health Services and as the Campus Administrator of the Devereux Georgia Treatment Network in Kennesaw, Georgia.

*Ken Olson, Executive Director for New England.* Mr. Olson has served as Executive Director for KidsPeace New England since 2010. He has administrative oversight of all Maine programs, including the Graham Lake Campus, Maine Foster Care and Community Programs. He joined the organization in 1999 when KidsPeace acquired a community based mental health and therapeutic foster care program that had operated under his leadership. He holds a Master's degree in Clinical Psychology and is a Licensed Clinical Professional Counselor in Maine.

#### **PROPOSED EMPLOYMENT AGREEMENTS**

*William R. Iseman, President and Chief Executive Officer.* Mr. Iseman is a party to an employment agreement with Kidspeace. The salient terms of the employment agreement provide (a) a salary of \$330,000, currently reduced to \$297,000 per annum; (b) a term that expires on December 31, 2014; (c) \$500,000 in deferred compensation paid \$100,000 per year for each of the years 2015 through 2019; and (d) auto allowance, vacation, life insurance and other benefits. Pursuant to the Plan, Kidspeace is assuming the Employment Agreement, as modified, and entering into a two-year extension with Mr. Iseman that would run through the end of 2016. The salient terms of the assumption and the extension are as follows: (a) Mr. Iseman's salary for 2014 would be \$330,000 and for 2015 and 2016 would be \$350,000. These amounts fall within the 25th percentile based on a Mercer's study on CEOs in Kidspeace's industry; (b) the \$500,000 deferred compensation under the employment agreement would be paid \$100,000 for the years 2015, 2016 and 2017 and \$200,000 for 2018; (c) professional association dues of \$600 per year; (d) term life insurance in addition to the amount paid for all employees, which life insurance is currently in the amount of \$554,000 at a cost of \$3,000 per year; (e) auto allowance of \$780 per month (\$9,360 per year); (f) 20 days vacation; (g) severance for 1 year; and (h) other benefits consistent with what is provided to all employees of Kidspeace.

*James Horan, Executive Vice President and Chief Financial Officer.* There is no current employment agreement with Mr. Horan and his current salary is \$173,575 per year. Kidspeace will be entering into a three-year employment agreement with Mr. Horan covering the years 2014, 2015 and 2016. The salient terms of the employment agreement are as follows: (a) salary of \$230,000 in 2014 and for 2015 and 2016 would be \$250,000; (b) a \$250,000 bonus at the end of the three-year term; provided Mr. Horan completes the entire term; (c) professional association dues of \$600 per year; (d) term life insurance in addition to the amount paid for all employees in an amount to be negotiated; (e) auto allowance of \$780 per month (\$9,360 per

year); (f) 20 days vacation; (g) severance for 1 year; and (h) other benefits consistent with what is provided to all employees of Kidspace.

**KIDSPEACE EXECUTIVE INCENTIVE PLAN (KEIP)**

The KEIP would apply to Mike Slack, Susan Mullen, Dr. Clark and Sue Leyburn. In addition to their salaries, these individuals would receive an incentive bonus of 70% of their current salary for Mr. Slack and Ms. Mullen and 45% of their current salary for Dr. Clark and Ms. Leyburn payable as follows: 25% on the Effective Date of the Plan of Reorganization; 25% on the 1st anniversary of the Effective Date; and 50% on the 2nd anniversary of the Effective Date. Payment will only be made if such individual remains in the employ of Kidspace on the respective payment date; provided, however, that no such KEIP payments shall be made in the event the Debtors are in default under any of their obligations to General Unsecured Creditors under the Plan and the Confirmation Order shall so provide.

The total anticipated payments assuming each remains employed through the respective payments dates is \$98,660.36 on the Effective Date; \$98,660.36 one year later; and \$197,320.72 two years later. Total KEIP payout aggregates \$394,677.45

A breakdown by person is as follows: (1) Mike Slack - \$28,875 on the Effective Date; \$28,875 one year later; \$57,750 two years later for a total of \$115,500; (2) Susan Mullen - \$26,250 on the Effective Date; \$26,250 one year later; \$52,500 two years later for a total of \$105,000; (3) Sue Leyburn - \$13,732.76 on the Effective Date; \$13,732.76 one year later; \$27,465.53 two years later for a total of \$54,931.05; and (4) Dr. Andrew Clark - \$29,811.60 on the Effective Date; \$29,811.60 one year later; \$59,623.20 two years later – total of \$119,246.40

**OTHER CURRENT EMPLOYMENT/SEVERANCE AGREEMENTS**

Employment/severance agreements that would be reaffirmed at confirmation:

Susan Mullen, EVP/Programs – Severance 1 year

Jim Horan, EVP/CFO – Severance 1 year

Michael Slack, EVP/Business Dev – Severance 1 year

Sue Leyburn, VP/Compliance – Severance 1 year

Eileen Tkacik, VP/Patient Accounting/Technology – Severance 6 months

# **EXHIBIT C**

	Oct-13									
REVENUE	KP Corp	KP Nat Centers	KP Hospital	KP New England	KP Nat Centers NA	KP Georgia	KP Mesabi	KP Iron Range	KP New York	KP Consolidated
<b>ASSETS</b>										
<b>CURRENT ASSETS</b>										
CASH-GENERAL	10,568,691	23,225	2,000	11,797	8,407	3,000	122,595	-	-	10,739,716
CASH-RESTRICTED	2,573,569	10,000	10,553	-	-	36,829	-	-	-	2,630,951
CASH-BOND	3,655,880	-	-	-	-	233,380	-	-	-	3,889,260
ACCOUNTS REC-CLIENT BILLING	-	11,839,395	6,626,968	1,927,953	4,585,424	494,086	911,869	-	-	26,385,696
ACCOUNTS REC-OTHER	74,740	1,914,148	-	(61,295)	252,745	114,871	141,987	-	-	2,437,196
ALLOWANCE FOR DOUBTFUL ACCTS	-	(180,890)	(1,829,515)	(6,000)	(897,000)	(39,000)	(37,000)	-	-	(2,989,404)
NET ACCOUNTS RECEIVABLE	74,740	13,572,653	4,797,453	1,860,658	3,941,169	569,957	1,016,856	-	-	25,833,487
PREPAID EXPENSES	1,107,575	-	-	47,186	9,011	21,883	79,153	-	-	1,264,808
ASSETS HELD FOR SALE (NET)	182,550	-	-	-	-	-	-	-	-	182,550
INVENTORY	35,726	-	-	-	-	-	-	-	-	35,726
<b>TOTAL CURRENT ASSETS</b>	<b>18,198,732</b>	<b>13,605,878</b>	<b>4,810,007</b>	<b>1,919,641</b>	<b>3,958,587</b>	<b>865,049</b>	<b>1,218,604</b>	<b>-</b>	<b>-</b>	<b>44,576,499</b>
<b>LONG TERM ASSETS</b>										
LAND	4,203,523	-	-	251,083	-	125,000	50,000	-	-	4,629,606
LAND IMPROVEMENTS	4,910,390	-	-	300,351	-	66,534	27,707	-	-	5,304,983
FURNITURE & FIXTURES	4,220,073	-	-	358,594	-	304,917	419,432	-	-	5,303,015
EQUIPMENT	26,138,213	-	-	1,088,011	-	607,498	1,207,645	-	-	29,041,367
BUILDINGS	64,406,756	-	-	2,740,923	-	6,358,904	8,112,205	-	-	81,618,788
CONSTRUCTION IN PROGRESS	233,949	-	-	-	-	-	107,979	-	-	341,928
LESS:ACCUMULATED DEPRECIATION	(73,832,621)	-	-	(3,626,248)	-	(2,489,424)	(5,336,862)	-	-	(85,285,156)
<b>TOTAL PP&amp;E</b>	<b>30,280,283</b>	<b>-</b>	<b>-</b>	<b>1,112,713</b>	<b>-</b>	<b>4,973,429</b>	<b>4,588,107</b>	<b>-</b>	<b>-</b>	<b>40,954,531</b>
INSURANCE PROCEEDS RECEIVABLE	545,420	-	-	-	-	-	-	-	-	545,420
BOND ISSUANCE COSTS	708,495	-	-	-	-	165,218	-	-	-	873,713
<b>TOTAL LONG TERM ASSETS</b>	<b>31,534,198</b>	<b>-</b>	<b>-</b>	<b>1,112,713</b>	<b>-</b>	<b>5,138,646</b>	<b>4,588,107</b>	<b>-</b>	<b>-</b>	<b>42,373,664</b>
<b>TOTAL ASSETS</b>	<b>49,732,929</b>	<b>13,605,878</b>	<b>4,810,007</b>	<b>3,032,354</b>	<b>3,958,587</b>	<b>6,003,696</b>	<b>5,806,711</b>	<b>-</b>	<b>-</b>	<b>86,950,162</b>
<b>LIABILITIES &amp; FUND BALANCE</b>										
<b>LIABILITIES</b>										
ACCOUNTS PAYABLE	6,254,707	999,756	649,983	361,316	249,476	219,991	134,173	373,240	-	9,242,641
ACCRUED INVENTORY	12,479	-	-	-	-	-	-	-	-	12,479
ACCRUED VACATION	51,650	95,281	37,252	32,325	26,291	16,203	16,012	-	-	275,014
ACCRUED PAYROLL	1,466,713	2,114,834	698,372	528,083	367,472	247,084	313,958	-	-	5,736,515
ACCRUED PENSION	82,830,668	-	-	-	-	-	-	-	-	82,830,668
BOND INTEREST PAYABLE	3,054,132	-	-	-	-	45,194	-	-	-	3,099,326
REVENUE BONDS PAYABLE	51,310,000	-	-	-	-	2,910,000	-	-	-	54,220,000
NOTES PAYABLE	2,000,000	-	-	-	-	93,428	10,388	-	-	2,103,816
CAPITAL LEASE	88,538	-	-	-	-	-	423,169	-	-	511,708
MORTGAGES PAYABLE	1,168,296	-	-	-	-	-	-	-	-	1,168,296
OTHER LIABILITIES	1,420,837	-	-	-	-	-	381,884	-	-	1,802,721
<b>TOTAL LIABILITIES</b>	<b>149,658,020</b>	<b>3,209,871</b>	<b>1,385,607</b>	<b>921,723</b>	<b>643,239</b>	<b>3,531,899</b>	<b>1,279,585</b>	<b>373,240</b>	<b>-</b>	<b>161,003,184</b>
FUND BAL-UNRESTRICTED	13,911,523	(16,519,460)	(18,296,805)	(5,511,321)	(9,435,374)	(5,613,728)	(34,436,162)	1,563,406	(75,000)	(74,412,920)
FUND BAL-TEMP RESTRICTED	104,304	9,823	13,684	58,396	158,796	13,995	300	600	-	359,898
<b>TOTAL FUND BALANCE</b>	<b>14,015,827</b>	<b>(16,509,637)</b>	<b>(18,283,121)</b>	<b>(5,452,925)</b>	<b>(9,276,578)</b>	<b>(5,599,733)</b>	<b>(34,435,862)</b>	<b>1,564,006</b>	<b>(75,000)</b>	<b>(74,053,022)</b>
<b>TOTAL LIAB &amp; FUND BALANCE</b>	<b>163,673,847</b>	<b>(13,299,766)</b>	<b>(16,897,514)</b>	<b>(4,531,201)</b>	<b>(8,633,339)</b>	<b>(2,067,834)</b>	<b>(33,156,277)</b>	<b>1,937,246</b>	<b>(75,000)</b>	<b>86,950,162</b>
<b>INTERCOMPANY ACTIVITY</b>										
DUE FROM AFFILIATE	113,940,918	-	-	-	-	-	-	1,937,246	-	115,878,164
DUE TO/DUE FROM	-	26,905,644	21,707,520	7,563,556	12,591,926	8,071,529	38,962,988	-	75,000	115,878,164

\*Please note KP Georgia is not part of the Plan of Reorganization but is included to reflect historical consolidated figures

\*This analysis is based on the companies books and records and has not been updated to include filed proofs of claim regardless of whether the Debtors agree or dispute such proofs of claim

# **EXHIBIT D**

	October YTD 2013	December 2012	December 2011	December 2010
<b>ASSETS</b>				
<b>CURRENT ASSETS</b>				
Cash and cash equivalents	\$ 10,739,716	\$ 6,229,357	\$ 2,225,401	\$ 3,129,592
Accounts receivable from clients, net	25,913,321	26,626,355	27,217,221	24,471,372
Assets limited as to use:				
Restricted cash	2,630,951	1,799,536	1,830,534	1,797,323
Held by trustees		3,843,239	26,325	26,722
Assets held for sale, net	182,550	230,058	367,760	359,400
Other current assets	1,300,535	3,110,549	2,052,288	1,780,081
Total current assets	<u>40,767,072</u>	<u>41,839,094</u>	<u>33,719,529</u>	<u>31,564,490</u>
Assets limited as to use:				
Internally designated by board for certain activities	-	286,145	421,959	447,383
Held by trustees	3,889,260	-	6,916,356	6,916,356
	<u>3,889,260</u>	<u>286,145</u>	<u>7,338,315</u>	<u>7,363,739</u>
Insurance recovery receivable	545,420	293,000	2,013,500	-
Pledges receivable, net - designated for capital acquisition	-	34,256	60,888	141,773
Property and equipment, net	40,874,697	43,273,435	46,414,441	49,898,458
Bond issuance costs, net	873,713	941,060	1,021,877	1,102,693
Total assets	<u>\$ 86,950,162</u>	<u>\$ 86,666,990</u>	<u>\$ 90,568,550</u>	<u>\$ 90,071,153</u>
<b>LIABILITIES AND NET ASSETS (DEFICIENCY)</b>				
<b>CURRENT LIABILITIES</b>				
Line of credit borrowing	\$ 2,000,000	\$ 3,946,214	\$ 4,700,000	\$ 3,300,000
Current portion of long-term debt	54,220,000	51,667,398	2,866,112	2,723,393
Accounts payable and accrued expenses	15,266,650	13,391,679	12,073,616	11,308,201
Accrued interest payable	3,099,326	496,576	521,899	577,001
Estimated third-party payor settlements	-	-	130,655	-
Accrued retirement benefits	-	58,553	58,646	58,732
Total current liabilities	<u>74,585,975</u>	<u>69,560,420</u>	<u>20,350,928</u>	<u>17,967,327</u>
Long-term debt, net of current portion	1,783,819	4,539,423	53,509,165	56,408,018
Accrued retirement benefits	82,830,668	83,049,412	60,850,824	46,018,379
Other liabilities	1,802,721	1,438,744	3,994,180	1,869,199
Total liabilities	<u>161,003,184</u>	<u>158,587,999</u>	<u>138,705,097</u>	<u>122,262,923</u>
<b>COMMITMENTS AND CONTINGENCIES</b>				
<b>NET ASSETS (DEFICIENCY)</b>				
Unrestricted	(74,412,920)	(72,188,764)	(48,688,840)	(28,788,333)
Temporarily restricted	359,898	267,755	552,293	596,563
Total net assets (deficiency)	<u>(74,053,022)</u>	<u>(71,921,009)</u>	<u>(48,136,547)</u>	<u>(28,191,770)</u>
Total liabilities and net assets (deficiency)	<u>\$ 86,950,162</u>	<u>\$ 86,666,990</u>	<u>\$ 90,568,550</u>	<u>\$ 94,071,153</u>

KidsPeace Corporation and Subsidiaries  
Select Financial Information - Accrual Basis

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS (DEFICIENCY)

	October 2013	December 2012	December 2011	December 2010
<b>UNRESTRICTED REVENUES, GAINS AND OTHER SUPPORT</b>				
Net client service revenue	\$ 98,868,277	\$ 115,490,320	\$ 113,257,136	\$ 109,984,637
Contributions	532,563	341,567	353,450	361,341
Donated services	293,897	397,325	147,459	171,219
Investment returns	7,405	18,490	26,791	183,664
Rent	268,377	348,445	275,138	232,376
Other revenue	1,192,193	2,641,764	2,159,411	3,165,985
Net assets released from restrictions for operations	-	535,005	150,765	52,543
	<u>101,162,712</u>	<u>119,772,916</u>	<u>116,370,150</u>	<u>114,151,765</u>
<b>EXPENSES</b>				
Salaries and wages	55,537,873	65,150,161	63,181,620	63,057,645
Employee benefits and related taxes	13,759,459	20,131,448	17,306,631	17,927,143
Professional fees	6,880,817	6,013,260	3,953,875	4,178,819
Foster care payment expense to families	8,097,611	9,593,478	9,710,597	10,616,552
Medical supplies and drugs	680,361	990,824	1,066,494	965,912
Transportation	1,719,552	1,942,219	1,872,086	1,966,345
Insurance	863,022	998,124	981,926	756,972
Utilities	1,284,218	2,166,843	2,252,164	2,763,936
Repairs and maintenance	863,236	2,541,292	2,447,309	2,704,193
Depreciation and amortization	2,969,494	3,865,612	4,265,445	4,505,140
Interest	3,063,150	3,807,066	3,836,794	3,938,082
Provision for bad debt	-	431,261	415,961	584,957
Other operating expenses	7,575,931	6,699,237	6,714,079	6,682,732
	<u>103,294,724</u>	<u>124,330,825</u>	<u>118,004,981</u>	<u>120,648,428</u>
<b>DEFICIENCY OF REVENUES, GAINS AND OTHER SUPPORT OVER EXPENSES</b>				
	(2,132,012)	(4,557,909)	(1,634,831)	(6,496,663)
Other changes in unrestricted net assets (deficiency):				
Other changes in benefit obligations		(19,022,014)	(18,373,819)	(11,452,044)
Net assets released from restrictions for purchase of property and equipment		80,000	108,143	4,296,840
		<u>80,000</u>	<u>108,143</u>	<u>4,296,840</u>
<b>CHANGE IN UNRESTRICTED NET ASSETS (DEFICIENCY)</b>	(2,132,012)	(23,499,923)	(19,900,507)	(13,651,867)
<b>TEMPORARILY RESTRICTED NET ASSETS</b>				
Contributions and grants		330,467	214,638	1,290,274
Net assets released from restrictions		(615,005)	(258,908)	(4,349,383)
		<u>(615,005)</u>	<u>(258,908)</u>	<u>(4,349,383)</u>
<b>CHANGE IN TEMPORARILY RESTRICTED NET ASSETS</b>	-	(284,538)	(44,270)	(3,059,109)
<b>CHANGE IN NET ASSETS (DEFICIENCY)</b>	(2,132,012)	(23,784,461)	(19,944,777)	(16,710,976)
<b>NET ASSETS (DEFICIENCY), JANUARY 1</b>	(71,921,009)	(48,136,548)	(28,191,770)	(11,480,794)
<b>NET ASSETS (DEFICIENCY), DECEMBER 31</b>	<u>\$ (74,053,021)</u>	<u>\$ (71,921,009)</u>	<u>\$ (48,136,547)</u>	<u>\$ (28,191,770)</u>

**FOOTNOTE:**

KidsPeace prepares financial statements on the accrual basis of accounting in accordance with the accounting principles generally accepted in the United States of America.

Accrued Pension Contributions are included in the 2010, 2011 and 2012 financial statements. The October YTD does not include accrued pension expense. These figures are included in the Employee Benefit line item.

Accrued Bond Costs are included in the 2010, 2011, 2012 and 2013 financial statements.

# **EXHIBIT E**



Exhibit E: Preliminary Analysis of Filed Proofs of Claim

Filed Proofs of Claim	KidsPeace Corporation	KidsPeace Children's Hospital, Inc.	KidsPeace Mesabi Academy, Inc.	KidsPeace National Centers, Inc.	KidsPeace National Centers of New England, Inc.	KidsPeace National Centers of North America, Inc.	Iron Range School, Inc.	KidsPeace National Centers of New York, Inc.	Total
Administrative Claims	795,545	49,770	1,522	11,814	11,725	403	-	-	870,779
Secured Claims	3,000,643	-	-	-	-	-	-	-	3,000,643
Unsecured Claims	15,452,968	186,343	13,256	67,601	1,107,368	1,008,933	-	-	17,836,469
Total Proofs of Claim	19,249,156	236,113	14,779	79,415	1,119,093	1,009,336	-	-	21,707,892

\*Above excludes a Claim of M&T Bank for approximately \$1.9 million, relating to LOCs, and a Claim of NatPenn for approximately \$1.2 million, secured by a mortgage on 4085 Independence Drive, Schnecksville, PA.

\*Above excludes proofs of claim of PBGC, PA Bond Indenture Trustee, and ACA Financial Guarantee Corporation whose claims shall be resolved through plan settlements

\*The Bond Trustee/Bondholders are estimated to have a secured claim of \$46.65 million and unsecured claim of \$10.0 million

\*The PBGC is estimated to have a secured claim of \$5.72 million and unsecured claim (including termination premium) of \$105.0 million

Estimate of Plan Claims	KidsPeace Corporation	KidsPeace Children's Hospital, Inc.	KidsPeace Mesabi Academy, Inc.	KidsPeace National Centers, Inc.	KidsPeace National Centers of New England, Inc.	KidsPeace National Centers of North America, Inc.	Iron Range School, Inc.	KidsPeace National Centers of New York, Inc.	Total
Administrative Claims	2,526,845	-	-	-	-	-	-	-	2,526,845
Secured Claims	5,740	-	-	-	-	-	-	-	5,740
Unsecured Claims	2,499,649	-	100,510	-	53,323	480	32,171	-	2,686,133
Total Estimated Plan Claims	5,032,235	-	100,510	-	53,323	480	32,171	-	5,218,718

\*Above excludes a Claim of M&T Bank for approximately \$1.9 million, relating to LOCs, and a Claim of NatPenn for approximately \$1.2 million, secured by a mortgage on 4085 Independence Drive, Schnecksville, PA.

\*Above excludes proofs of claim of PBGC, PA Bond Indenture Trustee, and ACA Financial Guarantee Corporation whose claims shall be resolved through plan settlements

\*The Bond Trustee/Bondholders are estimated to have a secured claim of \$46.65 million and unsecured claim of \$10.0 million

\*The PBGC is estimated to have a secured claim of \$5.72 million and unsecured claim (including termination premium) of \$105.0 million

# **EXHIBIT F**

**Exhibit F Summary of Post Petition Operations**

<b>ACTUAL RESULTS &amp; ADDBACKS</b>	<b>Dec-12</b>	<b>Jan-13</b>	<b>Feb-13</b>	<b>Mar-13</b>	<b>Apr-13</b>	<b>May-13</b>	<b>Jun-13</b>	<b>Jul-13</b>	<b>Aug-13</b>	<b>Sep-13</b>	<b>Oct-13</b>
TOTAL REVENUE	9,360,959	10,205,641	9,334,400	10,942,062	10,639,307	11,822,529	9,810,072	9,327,653	8,879,292	9,947,727	10,382,055
SALARIES	5,565,859	5,872,651	5,096,888	5,664,413	5,431,659	5,797,298	5,442,688	5,549,823	5,433,470	5,516,748	5,732,237
OTHER BENEFITS	2,093,132	1,609,599	1,416,555	1,704,748	988,476	1,096,988	1,350,721	1,576,964	1,403,417	1,342,321	1,269,674
DIRECT FAMILY COSTS	820,195	785,342	768,122	809,023	833,261	809,176	799,941	847,975	807,889	819,322	817,556
BAD DEBT EXPENSE	-	-	-	-	-	-	-	-	-	349	-
OTHER EXPENSE	3,041,934	1,500,418	1,769,652	1,809,547	1,817,113	2,914,408	1,891,216	2,420,724	2,091,684	1,646,105	2,204,826
<b>TOTAL DIRECT EXPENSES</b>	<b>11,521,120</b>	<b>9,768,010</b>	<b>9,051,217</b>	<b>9,987,731</b>	<b>9,070,509</b>	<b>10,617,870</b>	<b>9,484,566</b>	<b>10,395,486</b>	<b>9,736,460</b>	<b>9,324,845</b>	<b>10,024,293</b>
EBITDA	(2,160,161)	437,631	283,183	954,331	1,568,798	1,204,659	325,506	(1,067,833)	(857,168)	622,882	357,762
PENSION EXPENSE ADDBACK	310,097	291,724	291,699		(583,400)						
RESTRUCTURING FEES ADDBACK	1,118,871	100,000	194,847	193,763	152,295	1,214,554	410,000	926,000	499,000	(118,000)	294,000
RESTRUCTURING BONUS ADDBACK		256,531									
<b>ADJUSTED EBITDA</b>	<b>(731,193)</b>	<b>1,085,887</b>	<b>769,729</b>	<b>1,148,094</b>	<b>1,137,694</b>	<b>2,419,213</b>	<b>735,506</b>	<b>(141,833)</b>	<b>(358,168)</b>	<b>504,882</b>	<b>651,762</b>

Notes:

\*Filing was 5/21/13

**FOOTNOTES:**

**Revenue:** Revenue earned and recorded during the month presented. This includes patient revenue, grant revenue, contributions and other revenue.

**Salaries:** Salaries and hourly wages paid to KidsPeace Associates

**Other Benefits:** Includes Employee Health Insurance, Workers Compensation, and Payroll Taxes

**Direct Family Costs:** Costs associated with our FosterCare Program. Costs to cover Foster Families and the children.

**Other Expenses:** Other Operating Expenses include Professional Fees, Utilities, Telephone, Transportation, Insurance, Repairs & Maintenance.

**Add backs:** The above analysis adds back Pension and Restructuring expenses, which are included in the "Other Expense" categories. These are added back because they reference non-recurring restructuring costs that should not be included in an EBITDA calculation when reflecting a true financial picture for the Debtors operations.

# **EXHIBIT G**



199 Water Street  
31st Floor  
New York, NY 10038

December 10, 2013

Mr. William Isemann, President & Chief Executive Officer  
Mr. James Horan, EVP & Chief Financial Officer  
KidsPeace Corporation  
4085 Independence Drive  
Schnecksville, PA 18078

Dear Will and Jim:

Healthcare Finance Group, LLC ("HFG") is pleased to set forth below the proposed terms of a financing that will provide funds to KidsPeace for exit financing pursuant to a plan of reorganization for KidsPeace and certain of its affiliated debtors ("Plan") to repay KidsPeace's existing debtor-in-possession financing facility with HFG, fund certain Plan obligations and for working capital following the effective date ("Effective Date") of the Plan.

**INDICATIVE SUMMARY OF TERMS AND CONDITIONS**

- GENERAL OVERVIEW:** The proposed financing will consist of an \$18,000,000 Senior Secured Revolving Credit Facility (the "Senior Secured Revolving Credit Facility").
- TERM SHEET EXPIRATION DATE:** If not accepted by the Borrower prior thereto, this term sheet will expire at the close of business on December 20, 2013.
- BORROWER:** Those entities currently included as Borrowers in the existing Debtor-In-Possession Loan and Security Agreement (the "Existing Agreement"), including KidsPeace Corporation, KidsPeace National Centers, Inc., KidsPeace Children's Hospital, Inc., KidsPeace National Centers of New England, Inc., KidsPeace National Centers of North America, Inc., KidsPeace Mesabi Academy, Inc. and Iron Range School, Inc. and all subsidiaries and affiliates, but not including KidsPeace National Centers of Georgia, Inc. (collectively, "KidsPeace" or the "Borrower").
- LENDER:** HFG or its assigns (the "Lender").
- COMMITTED AMOUNT:** \$15,750,000 (the "Initial Committed Amount"). Upon request of the Borrower and approval of the Lender, the Committed Amount may be increased in \$750,000 increments up to \$18,000,000.
- ADVANCE RATE:** 85% of the collectible value of Eligible Receivables as defined within the existing Agreement. Lender will consider advances on eligible receivables aged between 150 and 180 days, subject to

evaluation of payment history on these receivables. The borrowing base will also include \$5,000,000 in availability associated with real estate, subject to HFG's satisfaction with an updated real estate appraisal of Borrower's Orchard Hill campus ("Orchard Hill") and HFG's being granted a mortgage and first priority lien on Orchard Hill.

- INTEREST RATE:** U.S. dollars three-month LIBOR + 4.25%.
- LIBOR FLOOR:** The rate set for U.S. dollars three-month LIBOR shall not be less than 1.25%.
- FACILITY FEE:** 1.25% of the Initial Committed Amount and 1.25% on any increases to the Initial Committed Amount; provided however, the Exit Facility Fee (as defined in the Existing Agreement) actually paid to the agent under the Existing Agreement in connection with the repayment in full of obligations under the Existing Agreement shall be applied towards the Facility Fee.
- NON-UTILIZATION FEE:** 0.50% per annum, payable monthly, on the difference between the Committed Amount and the average outstanding balance of the Senior Secured Revolving Credit Facility.
- COLLATERAL TRACKING FEE:** \$2,500 per month.
- MINIMUM USAGE:** Borrower agrees to maintain a minimum loan balance under the Senior Secured Revolving Credit Facility of not less than \$2,000,000.
- MATURITY:** 3 years following the Effective Date.
- EARLY TERMINATION FEE:** 2.0% in year one, 1.0% in year two and 0.5% thereafter.
- ELIGIBLE RECEIVABLES:** All accounts receivable due from third-party payors acceptable to the Lender in its sole discretion consistent with the criteria set forth in the existing Agreement.
- EXPENSES:** The Borrower is responsible for all due diligence and legal expenses of the Lender related to this transaction (including attorneys' fees and expenses related to enforcing this provision) whether or not it is entered into or closes. A \$35,000 non-refundable advance against expenses is due and payable upon signing this letter. The Borrower shall be required to provide additional advances against expenses as requested by the Lender during the due diligence and documentation process. The Borrower shall obtain Bankruptcy Court approval for the payment of such expenses.
- COLLATERAL:** The Senior Secured Revolving Credit Facility will be secured by a first priority lien on all unencumbered non-real estate assets of the Borrower, whether now existing or owned or hereafter arising or acquired, all receivables, all general intangibles and payment intangibles, contract rights, deposits and deposit

accounts, goods, inventory, goodwill and investment property, membership rights, privileges and interests in any person, Orchard Hills and leasehold interests, fixtures, machinery and equipment associated with Orchard Hills, and all cash and non-cash proceeds of the foregoing.

**LOCKBOXES:**

All payors on the receivables will be instructed to send payments to designated lockboxes for deposit. The deposits will be swept to the Lender daily, made available for draws by the Borrower on a same-day basis, and credited against the Senior Secured Revolving Credit Facility in three business days.

**REPRESENTATIONS AND WARRANTIES:**

Usual and customary, including with respect to organization in good standing, validity of agreements, tax status, compliance with laws, litigation and the Borrower's billing and collection policies and procedures.

**PLAN, EXIT FINANCING DOCUMENTS AND RELATED DOCUMENTATION:**

In general, the Plan, the disclosure statement related to the Plan, the order confirming the Plan, the contemplated financings as proposed in this term sheet and all documents, agreements, schedules and exhibits related to this financing, and all other documents, agreements, schedules and exhibits related to or entered into or delivered in connection with the Plan shall be acceptable to the Lender in its sole discretion.

**DUE DILIGENCE:**

Before closing, desk and onsite reviews of the Borrower's historical and projected financial information, accounts receivable performance, systems, management controls, servicing capabilities and other matters will be conducted. Pending consummation of the proposed financing, the Borrower will keep the Lender advised with respect to the Borrower's business activities and financial condition, and they will furnish to the Lender such information as may be requested. Additionally, the Borrower will provide to the Lender all third-party diligence including quality of earnings reports, industry and reimbursement risk reports, cash testing reports, and other financial and operational analysis performed on behalf of the Borrower. Lender shall also obtain an updated real estate appraisal of Orchard Hills.

**FINANCIAL COVENANTS:**

To be determined by the Lender, in consultation with the Borrower.

**INTERCREDITOR AGREEMENT:**

As a condition to the exit financing, (a) Lender, Borrower and UMB Bank, N.A. ("UMB"), as trustee for the bondholders, and Pension Benefit Guaranty Corporation ("PBGC") shall have entered into an Intercreditor Agreement, which shall reflect Lender's first lien collateral position as set forth herein and shall be acceptable to Lender, Borrower, UMB and PBGC.

**GOVERNING LAW,  
WAIVER OF JURY TRIAL,  
JURISDICTION:**

In connection with the transaction outlined herein, all parties, as of the date hereof, agree: (i) that the law of the State of New York governs without regard to any conflicts of law principles; (ii) to the waiver of a trial by jury; and (iii) to the jurisdiction of the state and federal courts located in New York City, New York County, New York.

This Indicative Summary of Terms and Conditions is for discussion purposes only and does not constitute a commitment to lend, arrange or provide financing or an agreement or understanding to issue a commitment letter with respect to the transaction set forth herein. HFG's issuance of any commitment letter and its consummation of this financing will be predicated upon, but not limited to: (a) the Borrower and the Lender reaching final agreement on the terms, conditions and other provisions to be included in the supporting documentation for the financing, (b) authorization and approval of the transaction by the Board of Directors of the Borrower and the Credit Committee of the Lender, (c) Lender's satisfaction with all terms of the Plan, (d) confirmation of the Plan and emergence of KidsPeace from bankruptcy on terms acceptable to the Lender in its sole discretion, (e) liquidity and capitalization of the Borrower acceptable to the Lender, (f) absence of any major dislocation in the capital markets prior to the Lender receiving final credit approval, (g) successful closing of the transactions on the terms and conditions described herein with 90 days from the signing of this letter and (h) satisfaction of the Lender's counsel with the documentation, proceedings, and legal opinions incident to the proposed transaction including the Intercreditor Agreement.

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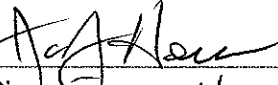
If the terms and conditions set forth above are acceptable to you, please so indicate by signing the enclosed this letter in the place indicated and returning the same to me, along with the \$35,000 advance.

Sincerely,



Patrick Reid  
Senior Vice President – Team Leader Portfolio Management  
Healthcare Finance Group, LLC

Accepted and agreed to:

By:  on this date: December 17, 2013  
Name: James Hara  
Title: EVP / CFO

**WIRE TRANSFER INSTRUCTIONS**

Bank Name: JP Morgan Chase  
ABA: 021000021  
Account #: 6302088541  
Account Name: Healthcare Finance Group, LLC  
Reference: KidsPeace



# **EXHIBIT H**

KidsPeace Corporation, et al (excluding KidsPeace Georgia)

Liquidation Analysis

*Based on information available as of October 31, 2013 (financial statements)*

*Based on information available as of December 8, 2013 (cash flows)*

The Liquidation Analysis reflects the estimated recovery that would be realized by pre-petition general unsecured creditors if the Debtor's Chapter 11 cases were to be converted to a Chapter 7. Although the Debtors believe these assumptions are reasonable under current circumstances, actual results could differ significantly from those shown herein. The Liquidation Analysis assumes that both operating and professional administrative expenses shall be paid in full.

The wind-down of the Debtors assumes three phases of operation, a Normal Operating Period, a facility Closure Period, and a Post-Closure Period. The facility closure period will allow for safe and orderly transition of resident/patients to alternative facilities and the foster care management transferred to alternative service providers. The facility closure period would be managed by the Debtors. The post-closure period would provide for orderly wind-down of the estate and the marketing/sale of the physical assets and real property. It is anticipated that during the post-closure period that the case would be converted to a Chapter 7.

Normal Operating Period:

- KidsPeace et al (KidsPeace) would continue to operate with full staff between January-March '14.
- 90 day written notice of the closure shall be issued.
- A detailed closure plan shall be prepared.
- Provisions shall be made for document storage.

Closure Period:

- KidsPeace will cease admitting residents and patients.
- KidsPeace will transfer residents/patients to pre-designated alternative facilities.
- KidsPeace will transition the foster care services to pre-designated alternative providers.
- Debtors project to transfer 50% of residents/patients during first three weeks of Closure Period after which staff shall be reduced by 50%. It is anticipated that the remaining residents/patients shall be transferred in in the four week thereafter. Please note resident/patient transfer timeline may be longer due to the high length of stay of the Debtors census.
- Fixed operating costs are assumed unchanged during the Closure Period, variable costs shall be reduced after the initial three weeks commensurate with the reduced census.
- Leased properties shall be vacated.

Post Closure Period:

- The Post-Closure Period is comprised of two phases, estate wind-down operations under the management of the Debtors and wind-down/asset sale operations under the management of a Chapter 7 Trustee.
- The Post-Closure Period overseen by the Debtors is projected to be for the period June '14 – October '14 during which time accounts receivable shall be collected, administrative expenses paid, document record storage will be prepared and transferred, marketing agents selected for the assets, and other estate wind-down issues addressed. This phase will require continued employment of a skeletal staff for support estimated at 5% of historical levels.
- The Post-Closure Period overseen by the Chapter 7 Trustee is projected to begin November '14 after accounts receivable collection has ceased. The Chapter 7 Trustee would oversee the asset marketing period and final disposition of assets. Security and utilities would continue so as to safeguard assets.

Recovery Assumptions:

- The Accounts Receivable figure is based net A/R excluding Georgia plus approximately \$6.1 million of projected Closure Period new billings. The projected recovery range is between 50%-65%.
- Real Property recoveries are based on appraisals adjusted for commissions. The projected recovery range is between 28%-38% of gross book value.
- Personal Property recoveries are based on approximate net asset value of equipment and fixtures. The projected recovery range is between 6%-7% of gross book value.

General Unsecured Claims

For purposes of this analysis, the amount of general unsecured claims is based on the Debtors' estimate and are comprised of Trade claims, PBGC claim, Bondholder deficiency claim, rejection claims, and litigation claims.

**Comparative Balance Sheet Liquidation Analysis**  
 KIDSPACE CORPORATION & AFFILIATES  
 (excluding KP Georgia)

	2013 Q4 '13	2014 Q1 '14						
	Actual Oct-13	Projected Mar-14	Median		Low		High	
ASSETS			Recovery Value	Recovery Basis %	Recovery Value	Recovery Basis %	Recovery Value	Recovery Basis %
CURRENT ASSETS								
CASH-GENERAL	10,736,716	3,997,000	3,997,000	100%	3,997,000	100%	3,997,000	100%
CASH-RESTRICTED	2,594,123	2,594,123	250,000	10%	250,000	10%	250,000	10%
CASH-BOND	3,655,880	3,655,880					-	
ACCOUNTS REC-CLIENT BILLING	25,891,609	33,733,976						
ACCOUNTS REC-OTHER	2,322,325	3,135,129						
ALLOWANCE FOR DOUBTFUL ACCTS	(2,950,404)	(2,950,404)						
NET ACCOUNTS RECEIVABLE	25,263,530	33,918,701	19,195,625	57%	17,276,063	51%	22,074,969	65%
PREPAID EXPENSES	1,242,925	1,242,925	248,585	20%	124,293	10%	372,878	30%
ASSETS HELD FOR SALE (NET)	182,550	182,550						
INVENTORY	35,726	38,500						
<b>TOTAL CURRENT ASSETS</b>	<b>43,711,449</b>	<b>39,517,955</b>	<b>23,691,210</b>	<b>60%</b>	<b>21,647,355</b>	<b>55%</b>	<b>26,694,846</b>	<b>68%</b>
LONG TERM ASSETS								
LAND	-	-						
LAND IMPROVEMENTS	4,504,606	4,504,606	see buildings					
FURNITURE & FIXTURES	5,238,449							
EQUIPMENT	4,998,098		1,700,000		1,530,000		1,870,000	
BUILDINGS	28,433,869		29,286,225		23,428,980		32,214,848	
CONSTRUCTION IN PROGRESS	75,259,884							
OTHER DEPRECIABLE ASSETS	341,928							
LESS:ACCUMULATED DEPRECIATION	-	114,855,562						
TOTAL PP&E	(82,795,732)	(84,420,732)	30,986,225	89%	24,958,980	71%	34,084,848	98%
INSURANCE PROCEEDS RECEIVABLE	35,981,102	34,939,436						
BOND ISSUANCE COSTS	545,420	750,000	-		-		-	
TOTAL LONG TERM ASSETS	708,495	708,495	30,986,225	85%	24,958,980	69%	34,084,848	94%
<b>TOTAL ASSETS</b>	<b>80,946,466</b>	<b>75,915,885</b>	<b>54,677,435</b>	<b>72%</b>	<b>46,606,335</b>	<b>61%</b>	<b>60,779,694</b>	<b>80%</b>
Closure/Wind-Down Payroll & Benefits			(14,733,548)		(14,733,548)		(14,733,548)	
Closure/Wind-Down Operating Expenses			(5,818,459)		(5,818,459)		(5,818,459)	
Closure/Wind-Down Restructuring Expenses			(3,124,587)		(3,124,587)		(3,124,587)	
DIP Loan Repayment (value as of beginning wind-down period)			(6,365,875)		(6,365,875)		(6,365,875)	
<b>Proceeds Available for Distribution to Secured Lenders</b>			<b>24,634,967</b>		<b>16,563,867</b>		<b>30,737,225</b>	
PBGC Lien			(5,715,225)		(5,715,225)		(5,715,225)	
Corporate Headquarters Mortgage			(1,168,296)		(1,168,296)		(1,168,296)	
PA Bondholder Mortgage			(15,000,000)		(15,000,000)		(15,000,000)	
PA Bondholder Adequate Protection Liens			(23,976,438)		(22,594,353)		(26,049,565)	
<b>Proceeds Available for Priority &amp; Unsecured Claims</b>			<b>(21,224,992)</b>		<b>(27,914,007)</b>		<b>(17,195,861)</b>	
<b>Unsecured Liabilities</b>								
Other Priority Claims		5,740	-	0%				
PBGC Unsecured Claim (excluding secured deficiency)		105,000,000	-	0%				
PA Bondholder Unsecured Claim (excluding secured deficiency)		10,000,000	-	0%				
Estimate of Trade and rejection claims		4,000,000	-	0%				
Intercompany Claims		105,869,389	-	0%				
<b>Estimated Total Unsecured Claims</b>		<b>224,875,129</b>	<b>-</b>	<b>0%</b>				

(a) The adequate protection lien of the PA Bondholders is comprised of the DIP balance at the beginning of the wind-down period, the Obligated Group accounts receivable consumed in the wind-down, and the deficiency of A/R proceeds during the wind-down to cover all closure/wind-down expenses. It is assumed in the analysis that the PA Bondholder liens are valid.

(b) Liquidation Analysis assumes all operational and professional administrative claims are paid during the closure/wind-down period and once the facilities are decommissioned the case would be converted to a Chapter 7 for disposal of the assets. The expenses reflected are represented in the median case phased cashflow exhibit herein combining the Closure Period and Post Closure Period operating and other disbursements.

(c) Accounts Receivable is adjusted for projected \$6.1 million in billings during Closure Period

(e) Assets held for sale are assumed to be disposed through the recoveries on real property and personal property.

(f) Insurance Proceeds Receivable has not cash value, it has an offsetting liability.

KidsPeace	Normal Operations
Liquidity Projection	
Cumulative Cash Flow	1/5/14-4/6/14
<b>Weekly Cash Collections</b>	
Patient Collections	30,500,000
Other Revenue	490,000
OJJDP Grant	-
DSH Share Pymt	-
<b>Total Collections</b>	30,990,000
Revolver Fees	(134,100)
<b>Net Collections</b>	30,855,900
<b>Operational Disbursements</b>	
Payroll	13,125,000
Fed/FICA/PA Emp./Other	5,460,000
Health & Dental	3,150,000
Workers Compensation	420,000
Accounts Payable	9,100,000
Service Fees	10,500
Bond Payment	
Pension	
Insurance Premiums	93,972
Loans & Leases	49,260
Misc.	466,000
<b>Total Operational Disbursements</b>	31,874,732
<b>CashFlow from Operations</b>	(1,018,832)
<b>Other Disbursements</b>	
Debt Principal and Interest Payor	-
Capital Expenditures	-
Ombudsman & Counsel	208,000
US Trustee & Chapter 7 fees	147,200
Settlement	
Audit	-
Debtor Professional Fees - Debtor	672,000
Non-Debtor Professional Fees	117,600
<b>Total Other Disbursements</b>	1,787,200
<b>Net Cash Flow</b>	(2,806,032)

KidsPeace	Wind-Down
Liquidity Projection	Closure Operations
Cumulative Cash Flow	4/13/14-5/25/14
<b>Weekly Cash Collections</b>	
Patient Collections	11,000,000
Other Revenue	-
OJJDP Grant	-
DSH Share Pymt	-
<b>Total Collections</b>	11,000,000
Revolver Fees	(80,875)
<b>Net Collections</b>	10,919,125
<b>Operational Disbursements</b>	
Payroll	5,755,000
Fed/FICA/PA Emp./Other	2,690,000
Health & Dental	1,575,000
Workers Compensation	210,000
Accounts Payable	3,400,000
Service Fees	3,750
Bond Payment	
Pension	
Insurance Premiums	23,493
Loans & Leases	16,476
Misc.	197,000
<b>Total Operational Disbursements</b>	13,870,719
<b>CashFlow from Operations</b>	(2,951,594)
<b>Other Disbursements</b>	
Debt Principal and Interest Payor	-
Capital Expenditures	-
Ombudsman & Counsel	175,000
US Trustee & Chapter 7 Fees	45,000
Settlement	
Audit	-
Debtor Professional Fees - Debtor	350,000
Non-Debtor Professional Fees	-
<b>Total Other Disbursements</b>	695,000
<b>Net Cash Flow</b>	(3,646,594)

KidsPeace	Post-Closing
Liquidity Projection	Post Closing
Cumulative Cash Flow	6/1/14-1/10/16
<b>Weekly Cash Collections</b>	
Patient Collections	8,400,000
Other Revenue	30,986,225
OJJDP Grant	-
DSH Share Pymt	-
<b>Total Collections</b>	39,386,225
Revolver Fees	(123,500)
<b>Net Collections</b>	39,262,725
<b>Operational Disbursements</b>	
Payroll	2,908,840
Fed/FICA/PA Emp./Other	709,458
Health & Dental	792,000
Workers Compensation	93,250
Accounts Payable	1,880,000
Service Fees	750
Bond Payment	
Pension	
Insurance Premiums	20,906
Loans & Leases	84
Misc.	276,000
<b>Total Operational Disbursements</b>	6,681,288
<b>CashFlow from Operations</b>	32,581,437
<b>Other Disbursements</b>	
Debt Principal and Interest Payor	-
Capital Expenditures	-
Ombudsman & Counsel	50,000
US Trustee Trustee & Chapter 7 Fees	1,904,587
US Trustee Prof. Fees	
Audit	-
Debtor Professional Fees - Debtor	50,000
Non-Debtor Professional Fees	-
<b>Total Other Disbursements</b>	2,429,587
<b>Net Cash Flow</b>	30,151,850

Real/Personal Property Assumptions

Campus	Location	"Go Dark" Appraised Value
Orchard Hills Campus	Orefield, PA	22,100,000
Broadway Campus	Bethlehem, PA	4,700,000
Corporate Headquarters	Orefield, PA	1,950,000
Berks Campus	Temple, PA	1,100,000
Graham Lake Campus	Ellsworth, ME	420,000
Appraised Properties		30,270,000
Equipment	no appraisals	2,000,000
Gross Value		32,270,000
Equipment Commission (a)	15.0%	(300,000)
Property Commission (a)	3.3%	(983,775)
Net Value		\$ 30,986,225
*Excludes maintenance costs during marketing period		
Chapter 7 Trustee Commission		3%
Chapter 7 Trustee Sale Fee		\$ 929,587

(a) The commissions reflected for the sale of equipment and property are reflective of recent similarly sized dispositions

(b) There are no appraisals for equipment. The \$2.0 million estimated proceeds is based on net depreciated value of equipment and fixtures.



# **EXHIBIT I**

**Exhibit I- Financial Projections**

**KidsPeace Corporation, et al**

The attached Financial Projections comprise the ongoing consolidated operations of KidsPeace Corporation and its affiliates (KidsPeace Children's Hospital, Inc., KidsPeace Mesabi Academy, Inc., KidsPeace National Centers, Inc., KidsPeace National Centers of New England, Inc., KidsPeace National Centers of North America, Inc., Iron Range School, Inc., and KidsPeace National Centers of Georgia, Inc.). KidsPeace National Centers of New York, Inc. is not an operating entity. KidsPeace National Centers of Georgia ("KP Georgia") is not part of this Plan of Reorganization and Disclosure statement but may be part of the future affiliated operations subject to negotiations with its respective bondholders and its own Plan of Reorganization. Two versions of the three year projections are provided herein, one including the KP Georgia operations and the second version excluding KP Georgia operations. The exclusion of KP Georgia is relatively cost neutral over three year period based on the underlying assumptions.

Prior to the petition date an earlier version of the attached projections was vetted by the PA bondholder financial advisors. During the bankruptcy both the Committee financial advisors and the PA bondholder financial advisors have vetted multiple iterations of the projections and have reviewed and provided feedback to the attached version.

The projections have been created on an entity by entity basis and consolidated. Key assumptions include average daily census per entity, the number of full time equivalent employees per entity (FTEs), average reimbursement rates by entity, average wage rate per FTE per entity, direct and indirect overhead costs. The projection assumptions were predominantly derived from trailing twelve month performance and adjusted for known or projected changes.

#### **Revenue**

2013 had unusually strong census and revenue performance in the Spring which may not result in 2014. As a result 2014 revenues are projected to be approximately \$2.7 million lower than 2013. The projections anticipate approximately 2% revenue growth driven by census growth in 2015 and 2016.

#### **Wages/Benefits and Direct Family Payments**

Labor and foster care reimbursement are projected to represent approximately 79% of the consolidated Debtors revenues. 2014 FTE employees is projected to be approximately 28 individuals lower predominantly driven by reduced anticipated census as compared to 2013 but includes some anticipated staff reduction at corporate headquarters as a result of anticipated streamlining efficiencies. FTE increases in 2015 and 2016 are a result of higher census in order to maintain staffing ratios.

#### **Other Expenses**

Other expenses excluding labor and foster care reimbursement includes such line items as utilities, trade vendor purchases, repairs/maintenance, leases/rental and professional expenses. 2014-2016 other expenses are projected to be approximately 16% of revenues. The decline in other expenses from 2013-2014 is the result of cessation of restructuring expenses (while projected restructuring expenses are represented below the EBITDA line, the actual reported figures include these expenses in professional services during 2012-YTD 2013).

The Debtors project to maintain a 5% EBITDA margin during the 2014-2015 period (average EBITDA of \$6.3 million/year). Capital expenditures are projected at \$2.0 million per year.

Throughout the years 2014-2016 maintaining a minimum cash balance of \$4.0 million is assumed. The exit lending facility is projected to have a year-end outstanding balance during 2014-2016 of approximately \$8.2-\$9.2 million net of Plan payments.

The following page summarizes key assumptions for both versions of the projections.

**KidsPeace Consolidated (w/ KP Georgia)**  
**Summary of Key Assumptions (\$000)**

	Actual 2010	Actual 2011	Actual 2012	Mix 2013	Projection 2014	Projection 2015	Projection 2016
<b>Total Revenue (\$000)</b>	<b>115,000</b>	<b>116,382</b>	<b>118,994</b>	<b>120,568</b>	<b>117,821</b>	<b>119,729</b>	<b>120,461</b>
% Annual Change		1%	2%	1%	-2%	2%	1%
<b>Total Wage Related Expenses (\$000) (includes Direct Family)</b>	<b>91,601</b>	<b>90,199</b>	<b>94,875</b>	<b>92,904</b>	<b>92,593</b>	<b>94,569</b>	<b>95,575</b>
Wage Related Expense % of Revenue	80%	78%	80%	77%	79%	79%	79%
<b>Total Other Operating Expenses (\$000)</b>	<b>20,604</b>	<b>19,704</b>	<b>21,700</b>	<b>23,580</b>	<b>18,692</b>	<b>18,733</b>	<b>18,775</b>
Operating Expense % of Revenue	18%	17%	18%	20%	16%	16%	16%
<b>EBITDA (\$000)</b>	<b>2,795</b>	<b>6,479</b>	<b>2,419</b>	<b>4,084</b>	<b>6,536</b>	<b>6,426</b>	<b>6,110</b>
EBITDA % Revenue	2%	6%	2%	3%	6%	5%	5%
<b>KidsPeace Corporate Payroll</b>	<b>14,326</b>	<b>13,905</b>	<b>13,397</b>	<b>12,178</b>	<b>12,554</b>	<b>12,845</b>	<b>13,194</b>
% of Revenue	12%	12%	11%	10%	11%	11%	11%
Capital Expenditures	(598)	22	395	486	2,000	2,000	2,000
Days Sales Outstanding (average)	71	79	80	85	87	87	87
Days Payable Outstanding (average)	86	89	77	87	82	82	82
Days Inventory Outstanding (average)	4	3	2	2	3	3	3
FTEs	1,624	1,625	1,683	1,696	1,678	1,689	1,689
Average Daily Census (Residential/Hospital)	395	440	456	463	454	458	460
Average Daily Census (Foster Care)	823	746	730	728	741	748	755
Cash	3,130	2,225	6,229	6,000	4,000	4,000	4,000
Gemino Revolver	3,448	4,834	4,064	-	-	-	-
HFG Revolver	-	-	-	2,022	8,935	8,275	8,427

**KidsPeace Consolidated**  
**Summary of Key Assumptions (\$000)**

	Actual 2010	Actual 2011	Mix 2012	Projection 2013	Projection 2014	Projection 2015	Projection 2016
<b>Total Revenue (\$000)</b>	<b>115,000</b>	<b>116,382</b>	<b>118,994</b>	<b>120,568</b>	<b>113,746</b>	<b>114,319</b>	<b>115,051</b>
% Annual Change		1%	2%	1%	-6%	1%	1%
<b>Total Wage Related Expenses (\$000) (includes Direct Family)</b>	<b>91,601</b>	<b>90,199</b>	<b>94,875</b>	<b>92,904</b>	<b>89,569</b>	<b>90,498</b>	<b>91,472</b>
Wage Related Expense % of Revenue	80%	78%	80%	77%	79%	79%	80%
<b>Total Other Operating Expenses (\$000)</b>	<b>20,604</b>	<b>19,704</b>	<b>21,700</b>	<b>23,580</b>	<b>18,001</b>	<b>17,664</b>	<b>17,656</b>
Operating Expense % of Revenue	18%	17%	18%	20%	16%	15%	15%
<b>EBITDA (\$000)</b>	<b>2,795</b>	<b>6,479</b>	<b>2,419</b>	<b>4,084</b>	<b>6,176</b>	<b>6,157</b>	<b>5,923</b>
EBITDA % Revenue	2%	6%	2%	3%	5%	5%	5%
<b>KidsPeace Corporate Payroll</b>	<b>14,326</b>	<b>13,905</b>	<b>13,397</b>	<b>12,178</b>	<b>12,554</b>	<b>12,845</b>	<b>13,194</b>
% of Revenue	12%	12%	11%	10%	11%	11%	11%
Capital Expenditures	(598)	22	395	486	1,910	1,930	1,960
Days Sales Outstanding (average)	71	79	80	85	90	90	90
Days Payable Outstanding (average)	86	89	77	87	82	82	82
Days Inventory Outstanding (average)	4	3	2	2	3	3	3
FTEs	1,624	1,625	1,683	1,696	1,678	1,689	1,689
Average Daily Census (Residential/Hospital)	395	440	456	463	454	458	460
Average Daily Census (Foster Care)	823	746	730	728	741	748	755
Cash	3,130	2,225	6,229	6,000	4,000	4,000	4,000
Gemino Revolver	3,448	4,834	4,064	-	-	-	-
New Revolver	-	-	-	2,022	9,163	8,426	8,416

KIDSPeACE CORPORATION &amp; AFFILIATES (with KP Georgia)

Exhibit I Page 5 of 10

	Dec-10	Dec-11	Dec-12	Mix Dec-13	Projected Dec-14	Projected Dec-15	Projected Dec-16
<b>REVENUE</b>							
MEDICAID	47,456	52,363	57,609	62,477	117,346	119,345	120,104
IN-STATE PUBLIC	41,368	41,684	39,734	37,535	-	-	-
OUT OF STATE PUBLIC	11,367	9,364	8,384	8,543	-	-	-
COMMERCIAL/SELF PAY	10,093	10,311	11,962	9,050	-	-	-
REVENUE WRITE-OFFS	(956)	(1,307)	(3,533)	(2,418)	(2,217)	(2,309)	(2,336)
STATE FOOD REVENUE	655	840	903	654	-	-	-
NET PATIENT REVENUE	109,983	113,254	115,058	115,841	115,129	117,036	117,768
INTEREST INCOME	184	27	14	0	-	-	-
CONTRIBUTIONS	477	568	672	533	-	-	-
GIFTS IN KIND	171	147	397	290	-	-	-
GRANTS	3,040	1,738	1,170	2,757	-	-	-
OTHER REVENUE	1,145	647	1,682	1,147	2,692	2,692	2,692
TOTAL REVENUE	115,000	116,382	118,994	120,568	117,821	119,729	120,461
<b>EXPENSES</b>							
SALARIES	63,058	63,182	65,150	66,444	66,075	67,207	67,981
EMPLOYEE HEALTH	8,933	8,079	8,730	7,606	-	-	-
OTHER BENEFITS	3,659	4,058	6,073	4,598	16,864	17,612	17,750
PAYROLL TAXES	5,335	5,170	5,328	4,545	-	-	-
SUPPLIES	1,624	1,463	1,662	1,508	-	-	-
PROFESSIONAL SERVICES	4,179	3,954	6,362	6,881	-	-	-
TELEPHONE	948	670	608	562	-	-	-
EQUIP RENTAL/MAINT	1,406	1,673	1,667	1,404	-	-	-
LEASE OF PROPERTY	1,464	1,371	1,214	1,070	-	-	-
UTILITIES	1,816	1,582	1,559	1,284	-	-	-
INSURANCE	757	982	998	863	-	-	-
TRANSPORTATION	1,966	1,872	1,942	1,720	-	-	-
MEDICAL	966	1,066	991	680	-	-	-
FOOD	1,427	1,497	1,552	1,371	-	-	-
CLIENT INCIDENTALS	682	637	663	562	-	-	-
REPAIRS & MAINTENANCE	1,298	774	874	863	-	-	-
STAFF DEV/RECRUIT	483	606	474	361	-	-	-
DIRECT FAMILY COSTS	10,617	9,711	9,594	9,711	9,655	9,749	9,844
BAD DEBT EXPENSE	585	416	(0)	8	7	7	7
OTHER EXPENSE	1,003	1,140	1,135	4,443	18,686	18,726	18,768
TOTAL DIRECT EXPENSES	112,205	109,903	116,575	116,484	111,286	113,302	114,350
EBITDA	2,795	6,479	2,419	4,084	6,536	6,426	6,110
ADJUSTMENT	0	0	(0)	0	-	-	-
DEPRECIATION/AMORT	4,505	4,265	3,866	3,619	3,900	3,900	3,900
DISPOSAL OF ASSETS	(390)	(52)	(487)	(53)	-	-	-
INTEREST	3,938	3,837	3,807	3,116	2,596	2,776	2,767
RESTRUCTURING EXPENSES	-	-	-	1,070	2,204	99	197
EXTRAORDINARY ITEMS	11,452	18,374	19,022	0	5,000	1,125	1,125
MANAGEMENT FEES	-	-	(0)	-	-	-	-
BUILDING & EQUIP RENT	-	-	-	-	-	-	-
INTERCO INTEREST	-	-	(5)	(16)	(16)	(16)	(16)
TOTAL OTHER EXPENSES	19,506	26,424	26,204	7,736	13,684	7,883	7,973
EXCESS REV/(EXP)	(16,711)	(19,945)	(23,784)	(3,652)	(7,148)	(1,457)	(1,863)
FTE (Residential/Other)	1,331	1,359	1,421	1,429	1,405	1,415	1,415
FTE (Foster Care)	293	266	262	268	272	273	273
AVE HOURLY PAY RATE	18.62	18.64	18.56	18.78	18.89	19.08	19.30
AVERAGE DAILY CENSUS (Residential/Other)	395	440	456	463	454	458	460
AVERAGE DAILY CENSUS (Foster Care)	823	746	730	728	741	748	755
STAFF/CLIENT RATIO (combined Residential/Foster)	1.33	1.37	1.42	1.42	1.40	1.40	1.39
PATIENT REV/CLIENT DAY (combined Residential/Foster days)	0.25	0.26	0.27	0.27	0.26	0.27	0.27
CONTRIBUTION/CLIENT DAY (combined Residential/Foster days)	0.006	0.015	0.006	0.009	0.015	0.015	0.014

KIDSPeACE CORPORATION & AFFILIATES (with KP Georgia)

Exhibit I Page 6 of 10

(\$000)	Dec-10	Dec-11	Dec-12	Mix Dec-13	Projected Dec-14	Projected Dec-15	Projected Dec-16
<b>ASSETS</b>							
<b>CURRENT ASSETS</b>							
CASH-GENERAL	3,130	2,225	6,229	6,000	4,000	4,000	4,000
CASH-RESTRICTED	2,245	2,252	2,085	2,631	2,631	2,631	2,631
CASH-BOND	6,943	6,943	3,844	3,889	3,889	3,889	3,889
INSURANCE RESERVE	-	-	-	-	225	300	300
PLEDGE RECEIVABLE	142	61	34	-	-	-	-
ACCOUNTS REC-CLIENT BILLING	24,159	25,721	25,222	27,329	28,691	27,979	28,208
ACCOUNTS REC-OTHER	4,461	4,678	4,389	3,000	3,250	3,250	3,250
ALLOWANCE FOR DOUBTFUL ACCTS	(3,420)	(2,806)	(2,847)	(2,989)	(2,989)	(2,989)	(2,989)
NET ACCOUNTS RECEIVABLE	25,200	27,593	26,764	27,340	28,952	28,240	28,469
PREPAID EXPENSES	905	1,170	1,248	1,265	1,265	1,265	1,265
ASSETS HELD FOR SALE (NET)	359	368	230	183	183	183	183
INVENTORY	34	33	26	47	48	48	48
DUE FROM AFFILIATE	-	-	-	-	-	-	-
TOTAL CURRENT ASSETS	38,958	40,645	40,459	41,354	41,192	40,555	40,784
<b>LONG TERM ASSETS</b>							
LAND	4,630	4,630	4,630	4,630	4,630	4,630	4,630
LAND IMPROVEMENTS	5,282	5,291	5,293	-	-	-	-
FURNITURE & FIXTURES	5,127	5,169	5,197	-	-	-	-
EQUIPMENT	29,062	28,803	29,015	-	-	-	-
BUILDINGS	80,935	81,244	81,611	-	-	-	-
CONSTRUCTION IN PROGRESS	384	305	91	-	-	-	-
OTHER DEPRECIABLE ASSETS	-	-	-	121,693	123,693	125,693	127,693
LESS:ACCUMULATED DEPRECIATION	(75,522)	(79,028)	(82,563)	(85,935)	(89,835)	(93,735)	(97,635)
TOTAL PP&E	49,898	46,414	43,273	40,388	38,488	36,588	34,688
INSURANCE PROCEEDS RECEIVABLE	3,242	2,488	1,993	750	750	750	750
BOND ISSUANCE COSTS	1,103	1,022	941	874	1,474	1,874	1,874
TOTAL LONG TERM ASSETS	54,243	49,924	46,207	42,012	40,712	39,212	37,312
TOTAL ASSETS	93,201	90,569	86,667	83,366	81,904	79,767	78,095
<b>LIABILITIES &amp; FUND BALANCE</b>							
<b>LIABILITIES</b>							
ACCOUNTS PAYABLE	7,463	7,413	7,459	7,328	7,423	7,411	7,445
A/P SUBJECT TO COMPROMISE	-	-	-	-	-	-	-
ACCRUED ADJUSTMENTS	(111)	131	58	-	-	-	-
ACCRUED INVENTORY	12	6	11	12	12	12	12
ACCRUED VACATION	245	293	275	275	275	275	275
ACCRUED PAYROLL	3,538	3,862	3,874	5,700	4,400	4,400	4,400
ACCRUED PENSION	42,077	60,909	83,108	82,831	82,831	82,831	82,831
PENSION SUBJECT TO COMPROMISE	-	-	-	-	-	-	-
BOND INTEREST PAYABLE	577	522	497	3,099	3,099	3,099	3,099
DUE TO/DUE FROM	-	-	-	-	-	-	-
REVENUE BONDS PAYABLE	56,870	54,335	54,220	54,220	26,780	26,964	27,162
BONDS SUBJECT TO COMPROMISE	-	-	-	-	27,610	27,610	27,610
NOTES PAYABLE	3,448	4,834	4,064	-	-	-	-
CAPITAL LEASE	647	539	607	497	407	317	227
MORTGAGES PAYABLE	1,467	1,368	1,262	1,151	1,049	947	845
NEW LENDER REVOLVER	-	-	-	2,022	8,935	8,275	8,427
NEW LENDER TERM FACILITY	-	-	-	-	-	-	-
OTHER LIABILITIES	5,161	4,494	3,153	1,803	1,803	1,803	1,803
TOTAL LIABILITIES	121,393	138,705	158,588	158,939	164,624	163,944	164,136
FUND BAL-UNRESTRICTED	(28,788)	(48,689)	(72,189)	-	-	-	-
FUND BAL-TEMP RESTRICTED	597	552	268	-	-	-	-
TOTAL FUND BALANCE	(28,192)	(48,137)	(71,921)	(75,573)	(82,721)	(84,178)	(86,040)
TOTAL LIAB & FUND BALANCE	93,201	90,569	86,667	83,366	81,904	79,767	78,095

Schedule I: FINANCIAL STATEMENTS		Case 13-14508-ref Doc 837-9 Filed 02/04/14 Entered 02/04/14 14:59:04		Desc				
KIDSPACE CORPORATION & AFFILIATES (with KP Georgia)		Exhibit I Page 7 of 10		Mix	Projected	Projected	Projected	
(\$000)		Dec-10	Dec-11	Dec-12	Dec-13	Dec-14	Dec-15	Dec-16
<b>STATEMENT OF CASH FLOWS</b>								
OPERATING ACTIVITIES								
Net Profit (Loss)	(16,711)	(19,945)	(23,784)	(3,652)	(7,148)	(1,457)	(1,863)	
Adjustments to Reconcile Net Income (Loss) to Net Cash								
Provided by (Used In) Operating Activities:								
Depreciation and Amortization	1,654	3,506	3,536	3,372	3,900	3,900	3,900	
Amortization of deferred financing costs	-	-	-	-	-	-	-	
Deferred Income Tax	-	-	-	-	-	-	-	
Stock based compensation	-	-	-	-	-	-	-	
Provision for Doubtful Accounts	-	-	-	-	-	-	-	
Change in fair value of foreign currency contract	-	-	-	-	-	-	-	
Change in fair value of interest rate swap	-	-	-	-	-	-	-	
Litigation judgment charge	-	-	-	-	-	-	-	
Accounts Receivable - DIP	-	-	-	-	-	-	-	
Changes in operating assets and liabilities:								
(Inc) Dec in Inventory	12	1	7	(21)	(1)	0	(0)	
(Inc) Dec in Accounts Receivable	(1,013)	(2,393)	829	(576)	(1,612)	712	(229)	
(Inc) Dec in Pledge Receivable	516	81	27	34	-	-	-	
(Inc) Dec in Prepaids & Other Assets	308	(273)	60	30	-	-	-	
(Inc) Dec in Restricted Cash	4,463	(8)	167	(546)	(225)	(75)	-	
(Inc) Dec in Bond Fund	212	0	3,099	(46)	-	-	-	
(Inc) Dec in Other Long Term Assets	(3,161)	835	575	1,310	(600)	(400)	-	
Inc (Dec) in Accounts Payable	(1,231)	(50)	46	(131)	95	(12)	33	
Inc (Dec) in A/P Subject to Compromise	-	-	-	-	-	-	-	
Inc (Dec) in Accrued Payroll/Benefits	84	372	(6)	1,826	(1,300)	-	-	
Inc (Dec) in Other Liabilities	(203)	236	(67)	(57)	-	-	-	
Inc (Dec) in Accrued Pension	11,826	18,832	22,198	(277)	-	-	-	
Inc (Dec) in Pension Subject to Compromise	-	-	-	-	-	-	-	
Inc (Dec) in Bond Interest	(1)	(55)	(25)	2,603	-	-	-	
Inc (Dec) in Other Liabilities Subject to Compromise	-	-	-	-	-	-	-	
<b>Net Cash Provided By (Used In) Operating Activities</b>	<b>(3,246)</b>	<b>1,141</b>	<b>6,663</b>	<b>3,870</b>	<b>(6,891)</b>	<b>2,668</b>	<b>1,842</b>	
INVESTING ACTIVITIES								
Purchase of Property, Plant & Equipment	598	(22)	(395)	(486)	(2,000)	(2,000)	(2,000)	
<b>Net Cash Provided By (Used In) Investing Activities</b>	<b>598</b>	<b>(22)</b>	<b>(395)</b>	<b>(486)</b>	<b>(2,000)</b>	<b>(2,000)</b>	<b>(2,000)</b>	
FINANCING ACTIVITIES								
Net Borrowings(Repayment) of Notes Payable	1,786	1,386	(770)	(4,064)	-	-	-	
Net Borrowings(Repayment) of Capital Lease	(3)	(108)	68	(111)	(90)	(90)	(90)	
Net Borrowings(Repayment) of Mortgage Payable	(93)	(99)	(106)	(110)	(102)	(102)	(102)	
Net Borrowings(Repayment) of Revenue Bonds Payable	(2,400)	(2,535)	(115)	-	(27,440)	184	198	
Net Borrowings(Repayment) of Bonds Subject to Compromise	-	-	-	-	27,610	-	-	
Net Borrowings(Repayment) of Other Liabilities (Gemino)	3,124	(667)	(1,342)	(1,350)	-	-	-	
Net Borrowings(Repayment) of New Lender Revolver	-	-	-	2,022	6,913	(660)	152	
Net Borrowings(Repayment) of New Lender Term Facility	-	-	-	-	-	-	-	
Net Borrowings(Repayment) of Other 3rd Parties	-	-	-	-	-	-	-	
Net Borrowings(Repayment) of Officers/Shareholders	-	-	-	-	-	-	-	
Proceeds from issuance of common stock	-	-	-	-	-	-	-	
Proceeds from exercising stock options/warrants	-	-	-	-	-	-	-	
Repurchasing Stock (Treasury Stock)	-	-	-	-	-	-	-	
Principal Withdrawals/Contributions	-	-	-	-	-	-	-	
Other Change in Owners Equity	-	-	-	-	-	-	-	
<b>Net Cash Provided By (Used In) Financing Activities</b>	<b>2,414</b>	<b>(2,023)</b>	<b>(2,264)</b>	<b>(3,613)</b>	<b>6,891</b>	<b>(668)</b>	<b>158</b>	
Increase (Decrease) in Cash	(233)	(904)	4,004	(229)	(2,000)	(0)	(0)	
Beginning Cash	3,363	3,130	2,225	6,229	6,000	4,000	4,000	
Ending Cash	3,130	2,225	6,229	6,000	4,000	4,000	4,000	

KIDSPeACE CORPORATION & AFFILIATES (without KP Georgia)

Exhibit I Page 8 of 10

(\$000)	Dec-10	Dec-11	Dec-12	Mix Dec-13	Projected Dec-14	Projected Dec-15	Projected Dec-16
<b>REVENUE</b>							
MEDICAID	47,456	52,363	57,609	62,477	113,474	114,206	114,966
IN-STATE PUBLIC	41,368	41,684	39,734	37,535	-	-	-
OUT OF STATE PUBLIC	11,367	9,364	8,384	8,543	-	-	-
COMMERCIAL/SELF PAY	10,093	10,311	11,962	9,050	-	-	-
REVENUE WRITE-OFFS	(956)	(1,307)	(3,533)	(2,418)	(2,206)	(2,294)	(2,322)
STATE FOOD REVENUE	655	840	903	654	-	-	-
<b>NET PATIENT REVENUE</b>	<b>109,983</b>	<b>113,254</b>	<b>115,058</b>	<b>115,841</b>	<b>111,268</b>	<b>111,912</b>	<b>112,644</b>
INTEREST INCOME	184	27	14	0	-	-	-
CONTRIBUTIONS	477	568	672	533	-	-	-
GIFTS IN KIND	171	147	397	290	-	-	-
GRANTS	3,040	1,738	1,170	2,757	-	-	-
OTHER REVENUE	1,145	647	1,682	1,147	2,478	2,407	2,407
<b>TOTAL REVENUE</b>	<b>115,000</b>	<b>116,382</b>	<b>118,994</b>	<b>120,568</b>	<b>113,746</b>	<b>114,319</b>	<b>115,051</b>
<b>EXPENSES</b>							
SALARIES	63,058	63,182	65,150	66,444	63,707	64,040	64,789
EMPLOYEE HEALTH	8,933	8,079	8,730	7,606	-	-	-
OTHER BENEFITS	3,659	4,058	6,073	4,598	16,207	16,709	16,839
PAYROLL TAXES	5,335	5,170	5,328	4,545	-	-	-
SUPPLIES	1,624	1,463	1,662	1,508	-	-	-
PROFESSIONAL SERVICES	4,179	3,954	6,362	6,881	-	-	-
TELEPHONE	948	670	608	562	-	-	-
EQUIP RENTAL/MAINT	1,406	1,673	1,667	1,404	-	-	-
LEASE OF PROPERTY	1,464	1,371	1,214	1,070	-	-	-
UTILITIES	1,816	1,582	1,559	1,284	-	-	-
INSURANCE	757	982	998	863	-	-	-
TRANSPORTATION	1,966	1,872	1,942	1,720	-	-	-
MEDICAL	966	1,066	991	680	-	-	-
FOOD	1,427	1,497	1,552	1,371	-	-	-
CLIENT INCIDENTALS	682	637	663	562	-	-	-
REPAIRS & MAINTENANCE	1,298	774	874	863	-	-	-
STAFF DEV/RECRUIT	483	606	474	361	-	-	-
DIRECT FAMILY COSTS	10,617	9,711	9,594	9,711	9,655	9,749	9,844
BAD DEBT EXPENSE	585	416	(0)	8	7	7	7
OTHER EXPENSE	1,003	1,140	1,135	4,443	17,995	17,657	17,649
<b>TOTAL DIRECT EXPENSES</b>	<b>112,205</b>	<b>109,903</b>	<b>116,575</b>	<b>116,484</b>	<b>107,571</b>	<b>108,162</b>	<b>109,128</b>
EBITDA	2,795	6,479	2,419	4,084	6,176	6,157	5,923
ADJUSTMENT	0	0	(0)	0	-	-	-
DEPRECIATION/AMORT	4,505	4,265	3,866	3,619	3,732	3,676	3,676
DISPOSAL OF ASSETS	(390)	(52)	(487)	(53)	-	-	-
INTEREST	3,938	3,837	3,807	3,116	2,543	2,715	2,695
RESTRUCTURING EXPENSES	-	-	-	1,070	2,204	99	197
EXTRAORDINARY ITEMS	11,452	18,374	19,022	0	5,000	1,125	1,125
MANAGEMENT FEES	-	-	(0)	-	-	-	-
BUILDING & EQUIP RENT	-	-	-	-	-	-	-
INTERCO INTEREST	-	-	(5)	(16)	(16)	(16)	(16)
<b>TOTAL OTHER EXPENSES</b>	<b>19,506</b>	<b>26,424</b>	<b>26,204</b>	<b>7,736</b>	<b>13,462</b>	<b>7,598</b>	<b>7,677</b>
<b>EXCESS REV/(EXP)</b>	<b>(16,711)</b>	<b>(19,945)</b>	<b>(23,784)</b>	<b>(3,652)</b>	<b>(7,286)</b>	<b>(1,440)</b>	<b>(1,754)</b>
FTE (Residential/Other)	1,331	1,359	1,421	1,429	1,405	1,415	1,415
FTE (Foster Care)	293	266	262	268	272	273	273
AVE HOURLY PAY RATE	18.62	18.64	18.56	18.78	18.21	18.18	18.40
AVERAGE DAILY CENSUS (Residential/Other)	395	440	456	463	454	458	460
AVERAGE DAILY CENSUS (Foster Care)	823	746	730	728	741	748	755
STAFF/CLIENT RATIO (combined Residential/Foster)	1.33	1.37	1.42	1.42	1.40	1.40	1.39
PATIENT REV/CLIENT DAY (combined Residential/Foster days)	0.25	0.26	0.27	0.27	0.26	0.25	0.25
CONTRIBUTION/CLIENT DAY (combined Residential/Foster days)	0.006	0.015	0.006	0.009	0.014	0.014	0.013



KIDSPeACE CORPORATION & AFFILIATES (without KP Georgia)

(\$000)	Dec-10	Dec-11	Dec-12	Mix Dec-13	Projected Dec-14	Projected Dec-15	Projected Dec-16
<b>ASSETS</b>							
<b>CURRENT ASSETS</b>							
CASH-GENERAL	3,130	2,225	6,229	6,000	4,000	4,000	4,000
CASH-RESTRICTED	2,245	2,252	2,085	2,631	2,631	2,631	2,631
CASH-BOND	6,943	6,943	3,844	3,889	3,889	3,889	3,889
INSURANCE RESERVE	-	-	-	-	225	300	300
PLEDGE RECEIVABLE	142	61	34	-	-	-	-
ACCOUNTS REC-CLIENT BILLING	24,159	25,721	25,222	27,329	28,691	27,979	28,208
ACCOUNTS REC-OTHER	4,461	4,678	4,389	3,000	3,250	3,250	3,250
ALLOWANCE FOR DOUBTFUL ACCTS	(3,420)	(2,806)	(2,847)	(2,989)	(2,989)	(2,989)	(2,989)
NET ACCOUNTS RECEIVABLE	25,200	27,593	26,764	27,340	28,952	28,240	28,469
PREPAID EXPENSES	905	1,170	1,248	1,265	1,265	1,265	1,265
ASSETS HELD FOR SALE (NET)	359	368	230	183	183	183	183
INVENTORY	34	33	26	47	46	45	45
DUE FROM AFFILIATE	-	-	-	-	-	-	-
TOTAL CURRENT ASSETS	38,958	40,645	40,459	41,354	41,190	40,553	40,782
<b>LONG TERM ASSETS</b>							
LAND	4,630	4,630	4,630	4,630	4,630	4,630	4,630
LAND IMPROVEMENTS	5,282	5,291	5,293	-	-	-	-
FURNITURE & FIXTURES	5,127	5,169	5,197	-	-	-	-
EQUIPMENT	29,062	28,803	29,015	-	-	-	-
BUILDINGS	80,935	81,244	81,611	-	-	-	-
CONSTRUCTION IN PROGRESS	384	305	91	-	-	-	-
OTHER DEPRECIABLE ASSETS	-	-	-	121,693	123,603	125,533	127,493
LESS:ACCUMULATED DEPRECIATION	(75,522)	(79,028)	(82,563)	(85,935)	(89,835)	(93,735)	(97,635)
TOTAL PP&E	49,898	46,414	43,273	40,388	38,398	36,428	34,488
INSURANCE PROCEEDS RECEIVABLE	3,242	2,488	1,993	750	750	750	750
BOND ISSUANCE COSTS	1,103	1,022	941	874	1,474	1,874	1,874
TOTAL LONG TERM ASSETS	54,243	49,924	46,207	42,012	40,622	39,052	37,112
TOTAL ASSETS	93,201	90,569	86,667	83,366	81,812	79,604	77,893
<b>LIABILITIES &amp; FUND BALANCE</b>							
<b>LIABILITIES</b>							
ACCOUNTS PAYABLE	7,463	7,413	7,459	7,328	7,219	7,174	7,196
A/P SUBJECT TO COMPROMISE	-	-	-	-	-	-	-
ACCRUED ADJUSTMENTS	(111)	131	58	-	-	-	-
ACCRUED INVENTORY	12	6	11	12	12	12	12
ACCRUED VACATION	245	293	275	275	275	275	275
ACCRUED PAYROLL	3,538	3,862	3,874	5,700	4,400	4,400	4,400
ACCRUED PENSION	42,077	60,909	83,108	82,831	82,831	82,831	82,831
PENSION SUBJECT TO COMPROMISE	-	-	-	-	-	-	-
BOND INTEREST PAYABLE	577	522	497	3,099	3,099	3,099	3,099
DUE TO/DUE FROM	-	-	-	-	-	-	-
REVENUE BONDS PAYABLE	56,870	54,335	54,220	54,220	26,802	27,010	27,233
BONDS SUBJECT TO COMPROMISE	-	-	-	-	27,610	27,610	27,610
NOTES PAYABLE	3,448	4,834	4,064	-	-	-	-
CAPITAL LEASE	647	539	607	497	407	317	227
MORTGAGES PAYABLE	1,467	1,368	1,262	1,151	1,049	947	845
NEW LENDER REVOLVER	-	-	-	2,022	9,163	8,426	8,416
NEW LENDER TERM FACILITY	-	-	-	-	-	-	-
OTHER LIABILITIES	5,161	4,494	3,153	1,803	1,803	1,803	1,803
TOTAL LIABILITIES	121,393	138,705	158,588	158,939	164,671	163,904	163,947
FUND BAL-UNRESTRICTED	(28,788)	(48,689)	(72,189)	-	-	-	-
FUND BAL-TEMP RESTRICTED	597	552	268	-	-	-	-
TOTAL FUND BALANCE	(28,192)	(48,137)	(71,921)	(75,573)	(82,859)	(84,300)	(86,054)
TOTAL LIAB & FUND BALANCE	93,201	90,569	86,667	83,366	81,812	79,604	77,893

**STATEMENT OF CASH FLOWS**

OPERATING ACTIVITIES

Net Profit (Loss)	(16,711)	(19,945)	(23,784)	(3,652)	(7,286)	(1,440)	(1,754)
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided by (Used In) Operating Activities:							
Depreciation and Amortization	1,654	3,506	3,536	3,372	3,900	3,900	3,900
Amortization of deferred financing costs	-	-	-	-	-	-	-
Deferred Income Tax	-	-	-	-	-	-	-
Stock based compensation	-	-	-	-	-	-	-
Provision for Doubtful Accounts	-	-	-	-	-	-	-
Change in fair value of foreign currency contract	-	-	-	-	-	-	-
Change in fair value of interest rate swap	-	-	-	-	-	-	-
Litigation judgment charge	-	-	-	-	-	-	-
Accounts Receivable - DIP	-	-	-	-	-	-	-
Changes in operating assets and liabilities:							
(Inc) Dec in Inventory	12	1	7	(21)	1	1	(0)
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(Inc) Dec in Pledge Receivable	516	81	27	34	-	-	-
(Inc) Dec in Prepaids & Other Assets	308	(273)	60	30	-	-	-
(Inc) Dec in Restricted Cash	4,463	(8)	167	(546)	(225)	(75)	-
(Inc) Dec in Bond Fund	212	0	3,099	(46)	-	-	-
(Inc) Dec in Other Long Term Assets	(3,161)	835	575	1,310	(600)	(400)	-
Inc (Dec) in Accounts Payable	(1,231)	(50)	46	(131)	(110)	(45)	22
Inc (Dec) in A/P Subject to Compromise	-	-	-	-	-	-	-
Inc (Dec) in Accrued Payroll/Benefits	84	372	(6)	1,826	(1,300)	-	-
Inc (Dec) in Other Liabilities	(203)	236	(67)	(57)	-	-	-
Inc (Dec) in Accrued Pension	11,826	18,832	22,198	(277)	-	-	-
Inc (Dec) in Pension Subject to Compromise	-	-	-	-	-	-	-
Inc (Dec) in Bond Interest	(1)	(55)	(25)	2,603	-	-	-
Inc (Dec) in Other Liabilities Subject to Compromise	-	-	-	-	-	-	-
<b>Net Cash Provided By (Used In) Operating Activities</b>	<b>(3,246)</b>	<b>1,141</b>	<b>6,663</b>	<b>3,870</b>	<b>(7,232)</b>	<b>2,652</b>	<b>1,939</b>

INVESTING ACTIVITIES

Purchase of Property, Plant & Equipment	598	(22)	(395)	(486)	(1,910)	(1,930)	(1,960)
<b>Net Cash Provided By (Used In) Investing Activities</b>	<b>598</b>	<b>(22)</b>	<b>(395)</b>	<b>(486)</b>	<b>(1,910)</b>	<b>(1,930)</b>	<b>(1,960)</b>

FINANCING ACTIVITIES

Net Borrowings(Repayment) of Notes Payable	1,786	1,386	(770)	(4,064)	-	-	-
Net Borrowings(Repayment) of Capital Lease	(3)	(108)	68	(111)	(90)	(90)	(90)
Net Borrowings(Repayment) of Mortgage Payable	(93)	(99)	(106)	(110)	(102)	(102)	(102)
Net Borrowings(Repayment) of Revenue Bonds Payable	(2,400)	(2,535)	(115)	-	(27,418)	207	223
Net Borrowings(Repayment) of Bonds Subject to Compromise	-	-	-	-	27,610	-	-
Net Borrowings(Repayment) of Other Liabilities (Gemino)	3,124	(667)	(1,342)	(1,350)	-	-	-
Net Borrowings(Repayment) of New Lender Revolver	-	-	-	2,022	7,141	(737)	(10)
Net Borrowings(Repayment) of New Lender Term Facility	-	-	-	-	-	-	-
Net Borrowings(Repayment) of Other 3rd Parties	-	-	-	-	-	-	-
Net Borrowings(Repayment) of Officers/Shareholders	-	-	-	-	-	-	-
Proceeds from issuance of common stock	-	-	-	-	-	-	-
Proceeds from exercising stock options/warrants	-	-	-	-	-	-	-
Repurchasing Stock (Treasury Stock)	-	-	-	-	-	-	-
Principal Withdrawals/Contributions	-	-	-	-	-	-	-
Other Change in Owners Equity	-	-	-	-	-	-	-
<b>Net Cash Provided By (Used In) Financing Activities</b>	<b>2,414</b>	<b>(2,023)</b>	<b>(2,264)</b>	<b>(3,613)</b>	<b>7,142</b>	<b>(722)</b>	<b>21</b>
Increase (Decrease) in Cash	(233)	(904)	4,004	(229)	(2,000)	(0)	(0)
Beginning Cash	3,363	3,130	2,225	6,229	6,000	4,000	4,000
Ending Cash	3,130	2,225	6,229	6,000	4,000	4,000	4,000

# **EXHIBIT J**

EXHIBIT J

**THE FOLLOWING DISCLOSURE IS  
PROVIDED BY ACA FINANCIAL GUARANTY CORPORATION**

ACA INSURANCE COMMUTATION

**1. Background Information Concerning ACA**

Founded in 1997, ACA Financial Guaranty Corporation (“ACA”) is a monoline bond insurance company domiciled in the state of Maryland and regulated by the Maryland Insurance Administration (the “MIA”). As discussed below, while ACA holds licenses to write business in all 50 states and 5 territories, pursuant to an order by the MIA, ACA is presently in runoff and is no longer issuing new bond insurance policies.

Based on, among other things, financial difficulties encountered due to massive disruptions in the financial markets, and the downgrade of ACA’s financial strength rating from “A” to “CCC”, ACA and certain counterparties to its guarantees of structured finance products agreed on a restructuring plan for ACA, which became effective on August 8, 2008. The plan, which was approved by the MIA, provided for; (i) the settlement of ACA’s obligations under its guarantees of structured finance obligations, and (ii) the continuation of insurance coverage on ACA’s remaining in-force business, substantially all of which consisted of insured tax exempt bonds. Under the terms of the plan and pursuant to an order by the MIA, ACA ceased issuing new policies or guarantees, except when given the express permission of the MIA in connection with loss remediation. Accordingly, ACA currently operates as a runoff insurance company, focused on managing its remaining insured tax exempt obligations.

ACA’s in-force insurance guarantee portfolio as of September 30, 2013 consists of guarantees provided to approximately 230 mostly unrated high-yield tax exempt obligors on obligations with an outstanding principal balance at September 30, 2013 of approximately \$3.7 billion. ACA’s claim paying resources were approximately \$402 million as of September 30, 2013.

ACA does not produce financial statements in accordance with U.S. generally accepted accounting principles (“GAAP”). ACA does, however, produce financial statements in accordance with the requirements of the MIA, which may be viewed at [www.aca.com](http://www.aca.com). In evaluating ACA’s financial health, holders of the Insured Bonds are encouraged to review, in particular, ACA’s Quarterly Statement as of September 30, 2013 and its Annual Statement as of December 31, 2012 (together, the “ACA Financial Disclosures”) in their entirety.

## 2. The Insured Bonds and the ACA Insurance Policies

Certain of the Debtors (the “Bond Debtors”) are parties to the Loan and Trust Agreement. The Loan and Trust Agreement provides for the issuance of the bonds by the Lehigh County General Purpose Authority, and requires the Bond Debtors to make payments to the Trustee into accounts established for the Bonds equal to the amounts necessary to make payments on the Bonds as and when they come due up until their final maturity in 2023.

As of the Petition Date, there was approximately \$51,300,000 million in principal outstanding under the Bonds, of which ACA insures \$9.0 million in principal. As security for the Bond Debtors’ obligations with respect to the Bonds, the Debtors have pledged all of their Gross Revenues and mortgaged a certain portion of their real property.

On or after the issuance of the Bonds, certain holders of the 1998 Bonds (the “Insured Holders”) purchased the ACA Insurance Policies. Each of the policies provides that ACA will pay “that portion of principal and interest on the Bonds which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.” It is important to note that the ACA Insurance Policies are guarantees of payment only as and when due. The Policies do not permit the Insured Holders to accelerate the repayment of the Insured Bonds even if the Bond Debtors obtain a complete discharge of their obligation to repay the Insured Bonds. ACA guarantees the payment of scheduled periodic principal and interest on the Insured Bonds only as and when due between now and the final maturity of the Insured Bonds in 2023.

In the absence of the ACA Insurance Commutation, an Insured Holder’s recovery on the policies would depend upon, among other things, the continuing financial health of ACA between now and 2023, which cannot be assured.

## 3. Certain Risks Associated with the Long-Term Nature of ACA’s Obligations

For various reasons, including the reasons set forth below, neither ACA, nor the Insured Holders can be certain that ACA will be in a position to honor claims on the Policies through 2023, the final maturity date of the Insured Bonds.

- ***Loss Reserve Estimates are Subject to Change.*** Reserves for unpaid losses and loss adjustment expenses reflect ACA management’s best estimate of the present value of ACA’s ultimate loss and not, necessarily, the worst possible outcome. Actual experience may, and likely will, differ from those estimates and such difference may be material because the ultimate dispositions of such claims are subject to the outcome of events that have not yet occurred and, in certain cases, will occur over many years in the future.
- ***Estimated unrecognized losses.*** ACA has policies in-force insuring bonds on which it expects to incur material losses as a result of future defaults. These expected future losses are not yet recognized in ACA’s financial statements, because (pursuant to statutory accounting practices) ACA is only permitted to recognize losses upon the initial payment default by the issuer of an insured bond

obligation. As of September 30, 2013, ACA's best estimate of such unrecognized losses ranged from \$90 million to \$110 million. In addition, ACA may incur losses on currently performing obligations in the future due to changing events that are not currently anticipated or able to be anticipated and no assurance can be given that such losses will not be materially adverse to ACA's financial position.

- **Potential failure to maintain minimum policyholders' surplus requirement.** If, among other things, ACA fails to maintain its regulatory required minimum policyholders' surplus, the MIA may intervene in ACA's operations which could lead to a suspension of claims payments and/or a liquidation of ACA.
- **Legal Proceedings and Regulatory Risk.** ACA is involved in a number of legal proceedings, both as plaintiff and defendant, as well as regulatory inquiries and investigations. ACA's management cannot predict the outcomes of these proceedings and other contingencies with certainty.

**The foregoing represent a summary of risk factors affected ACA and are qualified in their entirety by the risk factors disclosed in ACA's Quarterly Statement as of September 30, 2013. ACA's Quarterly Statement as of September 30, 2013 is available at [www.aca.com](http://www.aca.com) for a complete discussion of risk factors affecting ACA.**

There can be no assurance that ACA will have the financial ability to meet its obligations under the Policies through maturity of the Insured Bonds, although ACA intends to attempt to honor all of its insurance policies in accordance with their express terms and applicable law and regulation.

#### **4. The ACA Insurance Commutation**

In order to mitigate the risks to Insured Holders associated with ACA's present and potential future financial condition, and to allow the Insured Holders to avoid exposure to the credit risk of ACA, ACA has determined to offer all Insured Holders the opportunity to participate in the ACA Insurance Commutation. In exchange for a complete release of any claims under the Policies, a Commuting Bondholder will receive a cash payment equal to its pro rata share of \$3,170,698.02 in addition to such other cash payments and new bonds as set forth in the Debtors' Plan of Reorganization (the "Plan"). ACA's commutation payment represents approximately 36% of the face amount of each Commuted Bond.

ACA believes that this level of recovery is reasonable given the risks associated with ACA's continued ability to honor claims under its insurance policies. ACA therefore strongly encourages all Insured Holders to accept the benefit of the upfront cash payment offered by the ACA Insurance Commutation.

The statements set forth herein do not constitute legal, tax or financial advice and the Insured Holders are encouraged to consult their own advisors.

**5. Opt Out Option**

ACA believes that the ACA Insurance Commutation is in the best interest of the Insured Holders, and therefore strongly encourages the holders of the Insured Bonds to participate. Nevertheless, each Insured Holder will have the option to opt out of the ACA Insurance Commutation, and each of the Insured Holders and ACA shall retain their respective rights, remedies and defenses available under the Policies and applicable non-bankruptcy law. Each Insured Holder should consider carefully the information about ACA presented herein and available on ACA's website, [www.aca.com](http://www.aca.com).

UNDER THE TERMS OF THE PLAN, EACH INSURED HOLDER WILL BE DEEMED TO HAVE ACCEPTED THE ACA INSURANCE COMMUTATION, UNLESS THE INSURED HOLDER AFFIRMATIVELY OPTS OUT OF THE ACA INSURANCE COMMUTATION BY MARKING THE APPROPRIATE BOX OF THE BALLOT FOR THE SUBCLASSES RESPECTING THE INSURED BOND OF CLASSES A2, B2 AND D2 AND RETURNING IT ON OR BEFORE THE DEADLINE SET FORTH IN THE BALLOT.

FURTHERMORE, ENDORSEMENT OR DEPOSIT OF ANY CHECK ISSUED OR ACCEPTANCE OF ANY WIRE TRANSFER MADE REPRESENTING ANY PORTION OF THE COMMUTATION CONSIDERATION SHALL CONSTITUTE A VOLUNTARY RELEASE, QUITCLAIM, AND WAIVER OF ANY AND ALL CLAIMS THAT SUCH INSURED HOLDER MAY HAVE AGAINST ACA UNDER, PURSUANT TO, OR IN CONNECTION WITH, THE POLICIES.

ANY INSURED HOLDER THAT ELECTS TO OPT OUT OF THE ACA INSURANCE COMMUTATION SHOULD BE ADVISED THAT ACA INTENDS TO HONOR THE POLICIES ONLY IN ACCORDANCE WITH THEIR SPECIFIC TERMS. ACA SHALL DETERMINE THE VALIDITY OR ENFORCEABILITY OF THE POLICIES WITH RESPECT TO ANY NON-COMMUTING INSURED HOLDER ONLY AT THE TIME A PARTICULAR CLAIM IS MADE, BASED ON, AMONG OTHER THINGS, THE LANGUAGE OF THE POLICIES AND THE FACTS AND CIRCUMSTANCES AND APPLICABLE LAW IN EXISTENCE AT SUCH TIME. AT THIS TIME, NO DETERMINATION HAS BEEN MADE REGARDING THE ENFORCEABILITY OR VALIDITY OF THE POLICIES WITH RESPECT TO THE NON-COMMUTING INSURED HOLDERS, NOR SHOULD ANY PRESUMPTION OF VALIDITY OR ENFORCEABILITY BE INFERRED HEREFROM. ACA EXPRESSLY RESERVES ALL RIGHTS, REMEDIES AND DEFENSES IN CONNECTION WITH ANY EFFORT TO ENFORCE THE POLICIES BY ANY NON-COMMUTING INSURED HOLDER. MOREOVER, YOU MAY ELECT TO OPT OUT OF THE ACA INSURANCE COMMUTATION REGARDLESS OF HOW YOU VOTE ON THE PLAN ITSELF.

THE DEBTORS MAKE NO RECOMMENDATION REGARDING THE ACA INSURANCE COMMUTATION.

# **SCHEDULE 1**



## **KIDSPEACE, et al**

### **Schedule of Assumed Executory Contracts and Unexpired Leases and Cure Amounts**

**Schedule 1a- Contract Categories**

**Schedule 1b- Individual Contracts**

**Note: Additional contract assumptions will occur between now and the Plans confirmation. The Debtor has budgeted up to \$400,000, in cure payments for any additional potential contract assumptions.**

## **Schedule 1a- Contract Categories Assumed**

### **Schedule 1b- Additional Individual Contracts Assumed**

#### **Schedule 1a**

- **Any post-petition executed contracts**
- **Any Foster Care Parent Contracts**
- **Any Business Associate Agreements**
- **Any Contract/Service Agreement/Human Service Agreement with a County or State Agency with exception to any contract with New York Board of Education.**
- **Provider Agreement / Contract with Managed Care Organizations (MCO) or Insurance Companies related to reimbursements of services provided by KidsPeace Corporation and its affiliates.**
- **Letter Agreements (Individual) completed for Out of Network Services, Non-Contracted State Agencies, or Private Pay (Families)**
- **Linkage agreements with other Mental Health or Physical Health providers for the purpose of continuity of care and after care services**
- **Any agreements between the Debtors and the following employees Eileen Tkacik, Jeff Long, Jim Horan, Mike Slack, Sue Leyburn, Susan Mullen and Will Isemann.**

Note: Additional contract assumptions will occur between now and the Plans confirmation. The Debtors have budgeted up to \$400,000, in cure payments for any additional potential contract assumptions.

Schedule 1B

Type	Vendor	Property / Description	Cure	Comment
Real Property Lease	Stillwater Avenue, LLC74 Gilman RoadBangor, ME 04402	444 Stillwater Ave.Ste. 204Bangor, ME 04401, ME	\$ -	
Real Property Lease	American Real Estate Investment Holdings Inc.100 4th StreetHonesdale, PA 18431	100 4th StreetHonesdale, PA 18431, PA	\$ -	
Real Property Lease	Buhl Economic DevelopmentCity of BuhlP.O. Box 704Buhl, MN 55713	200 Wanless Street Buhl, MN 55713, MN	\$ -	
Real Property Lease	Continental-Poplarwood- Cedar, LLC c/o Trinity Partners 8020 Arco Corporate Drive Suite 175 Raleigh NC 27617	3109 Poplarwood CourtCedar West Bldg., Ste. 310Raleigh, NC 27604, NC	\$ -	
Real Property Lease	CRE CT21 OTHER LLC C/O ONE WEST BANK 401 E. ColfaxSte. 108South Bend, IN 46617	401 E. ColfaxSte. 108South Bend, IN 46617, IN	\$ -	
Real Property Lease	Cynthia DeConto102 Gary RoadCarrboro, NC 27510	1804 Martin Luther King Jr. ParkwaySte. 112Durham, NC 27707, NC	\$ -	
Real Property Lease	David PattP.O. Box 949Altoona, PA 16603-0949	534 Third Avenue Duncansville, PA 16635, PA	\$ -	
Real Property Lease	Doylestown Landmark4081 Route 202Unit #1Doylestown, PA 18902	10 South Clinton Street, Suite 106 Doylestown, PA 18901, PA	\$ -	
Real Property Lease	Dutko Worldwide, LLCDBA Dutko GraylingPo Box 903018Charlotte, NC 28290- 3018	422 1st Street SE2nd FloorWashington, DC 20003, DC	\$ -	
Real Property Lease	Ettore J. Lippi, A.I.A.Park Building400 Third AvenueKingston, PA 18704	480 Pierce Street Kingston, PA 18704, PA	\$ -	
Real Property Lease	Hanning Realty, LLP200 Plaza CourtSuite AEast Stroudsburg, PA 18301	100 Community Drive Suite 208Tobyhanna, PA 18466, PA	\$ -	
Real Property Lease	Howard Research & DevelopmentDBA Town Center EastBusiness TrustOne Galleria Tower13355 Noel Rd Ste 950Dallas, TX 75240	5575 Sterrett PlaceSuite 200Columbia, MD 21044, MD	\$ -	

Real Property Lease	J.W. Walker Investments/AAIMS Property Management, Inc.100 Westlake Road, Suite 200Fayetteville, NC 28314	2711 Breezewood AvenueFirst FloorFayetteville, NC 28303, NC	\$	-
Real Property Lease	K.E. Hunsicker Properties, LLCPO Box 29Slatedale, PA 18079-0029	3438 Route 309Orefield, PA 18069, PA	\$	-
Real Property Lease	Michael CurridAideen CurridP.O. Box 138Danville, Pa 17821	304 Railroad Street Danville, PA 17821, PA	\$	-
Real Property Lease	NAMBE EnterpriseC/O Jack Jensen10 Lockwood DriveKennebunk, ME 04043	411 Alfred Road Park One ElevenBiddeford, ME 04005, ME	\$	-
Real Property Lease	North Forest Properties #1 LLC8201 Main St, Suite 12Williamsville, NY 14221	2801 Wehrle Dr.Ste. 13-14Williamsville, NY 14221, NY	\$	-
Real Property Lease	OLS Partners 5405 Jonestown Road Suite 101 Harrisburgh PA 17112	4807 Suite 241 Jonestown Road Harrisburgh PA 17109, PA	\$	-
Real Property Lease	Parkway RealtyP.O. Box 1935Lewiston, ME 04240	25 Westminster St.Lewiston, ME 04240, ME	\$	-
Real Property Lease	PBB III, LLCC/O Harshman Property Srvs LLCP.O. Box 532968Indianapolis, IN 46253	3266 N Meridan Street, Suite 501 Indianapolis, IN 46208, IN	\$	-
Real Property Lease	Pittston Avenue RealtyCorporation101 Pittston AvenueScranton, PA 18505	101 Pittston AvenueFirst Floor, Ste. 3Scranton, PA 18505, PA	\$	-
Real Property Lease	Renaissance Place, LLC325 S WalnutMuncie, IN 47305	309 S. Walnut StreetMuncie, IN 47305, IN	\$	-
Real Property Lease	Southlake Community Mental Health Center, Inc.Attention: Mr. Robert Krumwied8555 Taft StreetMerrillville, In 46410	1441 E. 84th PlaceMerrillville, IN 46410, IN	\$	-
Real Property Lease	Spectrum RealtyC/O TAS ConstructionP.O. Box 11018Portland, ME 04104	324 Gannett Drive Ste. 300South Portland, ME 04106, ME	\$	-
Real Property Lease	Tarry-Elm Associates, LLCC/O Silverman Realty Group Inc.237 Mamaroneck AvenueWhite Plains, NY 10605	5 West Main St.Ste. 104Elmsford, NY 10523, NY	\$	-

	Tprf Sahara c/o Birtcher Anderson Realty, LLC 6655 W. Sahara Suite B200 Las Vegas NV 89146	1785 E. Sahara Ave.Suite 445Las Vegas, NV 89104, NV	\$	-
Real Property Lease				
	Vinson Investments, Inc.7631 Hull St. Road, Suite 101North Chesterfield, VA 23235	7631 Hull Street Rd.2nd floorChesterfield,, VA 23235, VA	\$	-
Real Property Lease				
	Water Tower Square, LLC1000 Commerce Park Drive Suite 102Williamsport, PA 17701	1020 Commerce Drive, Suite 8B Williamsport, PA 17701, PA	\$	-
Real Property Lease				
	William A. LoganDBA Brookewood Builders747 Western AvenueManchester, ME 04351	747 Western Ave.Ste. 4Manchester, ME 04351, ME	\$	-
Real Property Lease				
	Willow Park, Inc.65 Albany Ave., Suite GKingston, NY 12401	200 Aaron CourtWillow Park Office Complex Kingston, NY 12401, NY	\$	-
Real Property Lease				
	Advantage Technologies, Jim Marrone, 228 East 45th St. 4th FL, New York, NY, 10017	Support for software used to capture clinical data from scorecards	\$	178.15
Information Technology				
	Airwatch, Adam Brown, P.O. Box 742332, Atlanta, GA, 30374	Support and Hosted Subscriptions (52)	\$	-
Information Technology				
	A-Prompt, Holly Rivea, P.O. Box 20463, Lehigh Valley, PA, 18002	Yearly school licensing agreement	\$	-
Information Technology				
	A-Prompt, Holly Rivera, P.O. Box 20463, Lehigh Valley, PA, 18002	AV for servers and desktops	\$	-
Information Technology				
	Atrion, Jennifer Farlow, 185- I Industrial Parkway, Branchburg, NJ, 08876	Juniper firewalls support and licenses	\$	1,135.64
Information Technology				
	ATS, Kathy Kearns, 3046-1 Breaksville Rd, Richfield, OH, 44286	Hardware support for WHTL3K	\$	202.97
Information Technology				
	BSI, , 155 Technology Pkwy #100, Norcross, GA, 30092	Miant/Upgrades -Used by Payroll for local tax rates	\$	-
Information Technology				
	Citrix c/o Subscription Advantage, , P.O. Box 932841, Atlanta, GA, 31193	DataSync Renewal	\$	-
Information Technology				
	Cleverbridge, Teela H., 360 N. Michigan Ave, Ste 1900, Chicago, IL, 60601	Asset scanning solution	\$	-
Information Technology				

Information Technology	CNI Sales, Michael Mulroy, 2960 Skippack Pike, Worcester, PA, 19490	Maint on equipment purchased in 2005-2006	\$ -
Information Technology	CNI Sales, Michael Mulroy, 2960 Skippack Pike, Worcester, PA, 19490	Maint on equipment purchased in 2011	\$ -
Information Technology	CommSolutions, Diego Castano, 140 Quaker Lane, Malvern, PA, 19355	Energize updates/instant replacement Barracuda Firewall 400	\$ -
Information Technology	CommSolutions, Diego Castano, 140 Quaker Lane, Malvern, PA, 19355	SN# BAR-YF-302551 Energize update & instant replacement	\$ -
Information Technology	Comodo, Kim Parker, 1255 Broad St, Clifton, NJ, 07013	Instant SSL certificate	\$ -
Information Technology	Computer Resources, LLC, , P.O. Box 60, Barrington, NH, 03825	Education Software	\$ -
Information Technology	Core BTS, Melissa Tumelty, P.O. Box 774419, Chicago, IL, 60677	Core Switch - Capital Purchase	\$ 19,185.00
Information Technology	Core BTS, Melissa Tumelty, P.O. Box 774419, Chicago, IL, 60677	Cisco Smartnets on productions servers, routers and switches	see above
Information Technology	Core BTS, Melissa Tumelty, P.O. Box 774419, Chicago, IL, 60677	EMC Enhanced Software Support	see above
Information Technology	eRate360, Keith Oakley, 903 Swift Bear St, Henderson, NV, 89002	eRate filing	\$ -
Information Technology	FrontRange, Kevin Collins, Dept. 0493, P.O. Box 120493, Dalas, TX, 75312	HEAT Maintenance	\$ -
Information Technology	Infor, Carla Ramberg, 380 St. Peter St, St. Paul, MN, 55102	Customer Support/Maintenance Renewal	\$ -
Information Technology	NextGen, Kathleen Patentreger, P.O. Box 809390, Chicago, IL, 60680	Sapphire (SMS Software Support)	\$ 19,033.46
Information Technology	Online Power, Gregg Nielsen, 503 Zucksville Road, Easton, PA, 18040	DPE310 10KVA- UPS	\$ 4,318.29
Information Technology	Online Power, Gregg Nielsen, 503 Zucksville Road, Easton, PA, 18040	UPS	see above
Information Technology	Online Power, Gregg Nielsen, 503 Zucksville Road, Easton, PA, 18040	UPS	see above

Information Technology	Online Power, Gregg Nielsen, 503 Zucksville Road, Easton, PA, 18040	UPS	see above
Information Technology	Online Power, Gregg Nielsen, 503 Zucksville Road, Easton, PA, 18040	UPS	see above
Information Technology	Online Power, Gregg Nielsen, 503 Zucksville Road, Easton, PA, 18040	UPS	see above
Information Technology	Online Power, Gregg Nielsen, 503 Zucksville Road, Easton, PA, 18040	UPS	see above
Information Technology	Online Power, Gregg Nielsen, 503 Zucksville Road, Easton, PA, 18040	UPS	see above
Information Technology	Online Power, Gregg Nielsen, 503 Zucksville Road, Easton, PA, 18040	UPS	see above
Information Technology	Online Power, Gregg Nielsen, 503 Zucksville Road, Easton, PA, 18040	UPS	see above
Information Technology	Pinnacle, Doug Partie, 1947 Camino Vida Roble, Ste 103, Carlsbad, CA, 92008	Software support Whtl3k	\$ 3,483.22
Information Technology	Pinnacle , Doug Partie, 5900 LA Place Ct, Ste 110, Carlsbad, CA, 92008	SMS Hardware Support and Maintenance	see above
Information Technology	Printronic, Fanny Guerra, 14600 Myford Rd, Irvine, CA, 92606	SMS line printer SN 2D82211858	\$ 110.25
Information Technology	Velocity, Doug Kitrell, 850 3rd Ave, 10th FL, New York, NY, 10022	Hosting of Laswon	\$ 35,557.19
Information Technology	Volt Delta, Greg Pacitti, 4 Commerce Drive , Cranford, NJ, 7016	Contract for Dell servers	\$ 4,887.75
Information Technology	Iron Mountain, Customer Service, PO Box 27128, New York, NY, 10087	Letter dated May 31, 2013	\$ 831.88
Information Technology	O'Brien's Records Management, Rick Christ, 7066 Snowdrift Rd, Allentown, PA, 18105	Service Contract for Records Storage/Certified Destruction	\$ 177.58
Information Technology	Topp Copy Products, Maryann Devers, 1110 Saginaw Street, Scranton, PA, 18505	Maintenance Agreement	\$ -
Information Technology	WellsFargo Financial Leasing Inc. , Paige Behounek, 800 Walnut Street, MAC F4031- 050, Des Moines, IA, 50309	related to proof of claim #C3	\$ -

GE Capital Information  
Technology Solutions Inc.,  
Bankruptcy Administration,  
PO Box 13708, Macon, GA,

Information Technology 31208 related to proof of claim #365 \$ 15,000.00 estimate

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