

**UNITED STATES BANKRUPTCY COURT  
FOR THE DISTRICT OF PUERTO RICO**

IN RE:

MEDICAL EDUCATIONAL &  
HEALTH SERVICES, INC.

Debtor

CASE NO. 10-04905 (BKT)

**CHAPTER 11**

**DEBTOR'S DISCLOSURE STATEMENT**

TO THE HONORABLE COURT  
TO THE CREDITORS  
TO THE OTHER PARTIES IN INTEREST

Comes now the debtor-in-possession, through the undersigned counsel and respectfully submits this disclosure statement and accompanying plan of reorganization.

Respectfully submitted, this 1<sup>st</sup> day of October, 2010.

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## I. INTRODUCTION

Medical Educational and Health Services, Inc. (MEDHS), debtor and debtor in possession in the above captioned case, hereby proposes this Disclosure Statement under Chapter 11 of the United States Bankruptcy Code. The purpose of the Disclosure Statement is to provide such information as MEDHS believes may be deemed necessary for creditors to make an informed decision in exercising their rights to vote on Debtor's Plan of Reorganization (the "Plan") dated as of the date of the Disclosure Statement. The Plan, a copy of which accompanies the Disclosure Statement as **EXHIBIT A**, is being filed with the Bankruptcy Court simultaneously herewith. MEDHS recommends that you vote to accept the Plan. Each creditor must, however, review the Plan and the Disclosure Statement carefully, including all exhibits in their entirety, and determine whether or not to accept or reject the Plan based upon that creditor's independent judgment and evaluation. The description of the Plan in the Disclosure Statement is in summary form and is qualified by reference to the actual terms and conditions of the Plan, which should be reviewed carefully before making a decision to accept or reject the Plan. Capitalized terms not otherwise defined herein have the same meaning as set forth in the Plan; other terms shall have the meaning ascribed to them in the Bankruptcy Code. The information contained in the Disclosure Statement has been provided by MEDHS based upon its knowledge of its records, business and affairs, appraisal and valuation reports, and opinions of value. Except as otherwise expressly indicated, the information provided by MEDHS in the Disclosure Statement has not been subject to audit or independent review. Although great effort has been

made to be accurate, MEDHS, its counsel and other professional advisors do not warrant the accuracy of the information contained herein.

The Disclosure Statement has not yet been approved by the Bankruptcy Court. It provides information deemed adequate to permit creditors to make an informed judgment in exercising their right to vote for or against the Plan.

No representations concerning MEDHS. (“Debtor”, “Debtor-in- Possession”), including the value of its assets, or the aggregate dollar amount of claims which may be allowed, are authorized other than as set forth in the Disclosure Statement. Any representations, warranties or agreements made to secure acceptance or rejection of the Plan by creditors that differ from those contained in the Disclosure Statement should not be relied upon in voting on the Plan.

MEDHS believes that the Plan provides the quickest recovery and will maximize the return to creditors on their Claims. **ACCORDINGLY, MEDHS URGES ALL CREDITORS TO VOTE IN FAVOR OF THE PLAN.**

## **II. INFORMATION ABOUT THE REORGANIZATION PROCESS**

### **2.1 Purpose of Disclosure Statement**

This Disclosure Statement includes background information about the Debtor and identifies the classes into which creditors have been placed by the Plan. The Disclosure Statement describes the proposed treatment of each of those classes if the Plan is confirmed. It also contains information concerning the prospects in the event of confirmation or, in the alternative, the prospects if confirmation is denied or the proposed Plan does not become effective.

Upon its approval by the Bankruptcy Court, the Disclosure Statement and the

exhibits described herein will have been found to contain, in accordance with the provisions of the Bankruptcy Code, adequate information of a kind and in sufficient detail to enable a reasonable, hypothetical investor, typical of a holder of impaired claims or interests to make an informed judgment about the Plan. Approval of the Disclosure Statement, however, does not constitute a recommendation by the Bankruptcy Court either for or against the Plan.

## **2.2 Voting Procedure**

All creditors entitled to vote on the Plan may cast their votes for or against the Plan by completing, dating, signing and causing the Ballot Forms to be notified to creditors and parties an interest. The ballots are to be returned to the following address:

Medical Education and Health Services, Inc.  
Centro Médico de Mayaguez-Dr. Ramón Emeterio Betances  
Carr. #2 & Ave. Hostos, Mayaguez, Puerto Rico 00680

The Ballots must be received **on or before 4:00 P.M. (Eastern Standard Time) on [DATE, TO BE PROVIDED BY THE COURT]** , to be counted in the voting. Ballots received after this time will not be counted in the voting unless the Bankruptcy Court so orders. MEDHS recommend a vote for "ACCEPTANCE" of the Plan.

## **2.3 Ballots**

Pursuant to the provisions of the Bankruptcy Code, only the classes of claims or equity interests which are "impaired" under the terms and provisions of a plan are entitled to vote to accept or reject such plan. Members of impaired Classes will be asked to vote for acceptance or rejection of the Plan.

A party who holds claims in more than one impaired Class should complete

a Ballot for each Class with respect to the applicable portion of the claim included in each Class.

## **2.4 The Confirmation Hearing**

Pursuant to Sec. 1128 of the Bankruptcy Code, the Bankruptcy Court has scheduled a hearing on confirmation of the Plan to commence on **[DATE, TO BE SET BY THE COURT]**, at, **[TIME, TO BE SET BY THE COURT]** or as soon thereafter as the parties can be heard. The Confirmation Hearing will be held before the Honorable Brian K. Tester, United States Bankruptcy Judge, at the United States Bankruptcy Court for the District of Puerto Rico, located at **[DIRECCION DE TRIBUNAL QUIEBRAS, SALA DE SAN JUAN]**

At the Confirmation Hearing, the Bankruptcy Court will consider whether the Plan satisfies the various requirements of the Bankruptcy Code, including whether it is feasible and whether it is in the best interests of holders of claims and interests. The Bankruptcy Court will also receive and consider a Report of Plan Voting prepared by MEDHS, summarizing the votes for acceptance or rejection of the Plan by parties entitled to vote.

The Confirmation Hearing may be adjourned from time to time without further notice except for the announcement of the adjourned date made at the Confirmation Hearing or at any subsequent adjourned Confirmation Hearing.

At the Confirmation Hearing, with respect to the Plan, the Bankruptcy Court will (i) determine whether the requisite votes have been obtained for each Class, (ii) hear and determine objections, if any, to the Plan and to the confirmation of the Plan, that have not been previously disposed of, (iii) determine whether the Plan meets the

confirmation requirements of the Bankruptcy Code, and (iv) determine whether to confirm the Plan.

Any objection to confirmation of the Plan must be in writing, filed and served as required by the Bankruptcy Court pursuant to the order approving the Disclosure Statement, a copy of which is attached as **Exhibit B** hereto. **[To be included, when issued]**

### **2.5 Acceptances Necessary to Confirm the Plan**

The vote of each holder of an impaired claim is important, since at the Confirmation Hearing and as condition to the confirmation of the Plan on a consensual basis, the Bankruptcy Court must determine, among other things, whether each impaired Class has accepted the Plan. Under Section 1126 of the Bankruptcy Code, **an impaired Class is deemed to have accepted the Plan if at least 2/3 in amount and more than 1/2 in number of the Allowed Claims of the Class members who actually cast ballots to accept or reject the Plan, accept the plan.**

Further, unless there is acceptance of the Plan by all members of an impaired Class, the Bankruptcy Court must also determine that under the Plan, Class members will receive property of a value, as of the Effective Date, that is not less than the amount that such Class members would receive or retain if the Debtor were liquidated under Chapter 7 of the Bankruptcy Code on the Effective Date of the Plan.

### **2.6 Confirmation of the Plan Without the Necessary Acceptances**

If a Class or Classes of impaired Claims do not accept the Plan, MEDHS will request confirmation of the Plan under the “cram down” provisions of Section 1129(b) of the Bankruptcy Code, which permits confirmation, notwithstanding non-acceptance by

one or more impaired classes if the Bankruptcy Court finds that the Plan does not discriminate unfairly against and is fair and equitable as to each non-accepting Class, as long as at least one class of impaired creditors votes to accept the Plan. Section 1129(b) of the Bankruptcy Code requires among other things, that claimants must either receive the full value of their claims and if they received less, that no Class with junior liquidation priority may receive anything. **THESE CALCULATIONS ARE BASED ONLY ON THE CLAIM AMOUNTS AND NUMBER OF CREDITORS WHO ACTUALLY VOTE. ANY BALLOT THAT IS VALIDLY EXECUTED THAT DOES NOT CLEARLY INDICATE REJECTION OF THE PLAN, SHALL BE DEEMED TO CONSTITUTE A VOTE FOR ACCEPTANCE OF THE PLAN. THE VOTE OF EACH CREDITOR IS IMPORTANT.**

### **III. GENERAL INFORMATION**

#### **3.1 Debtor's Operational and Financial History:**

Debtor, MEDHS, is a non-profit corporation created under the laws of the Commonwealth of Puerto Rico, with corporate registry number 44,970, and Taxpayer Id. Number 66-0660473. Its principal place of business is located at Centro Médico de Mayaguez, Dr. Ramón Emeterio Betances, Carr. #2 & Ave. Hostos, Mayaguez, Puerto Rico 00680 (this is the corporate address), and its phone number is (787) 834.6070. It was created, specifically, to promote and advance the establishment and operation of medical educational facilities and institutions along the western areas of Puerto Rico. As part of the above described promotional activities, MEDHS entered into an agreement with the Autonomous Municipality of Mayaguz, to lease, sub-lease and administer the medical facility known as the Mayaguez Medical Center. Of particular

importance was the operation of the Hospital.

MEDHS' sole business endeavor is the above mentioned lease of the Mayaguez Medical Center (hereinafter, the "medical center") from the Autonomous Municipality of Mayaguez and its sub-lease to different providers of medical and medical related services.

### **3.2 Events Leading To Bankruptcy**

Prior to the signing of the above mentioned lease, the Municipality demanded and obtained a certain corporate structure, which was finally materialized in the contract. As finally conceived, it entailed the participation of two entities, on the side of the non-government parties. One was to be MEDHS, the non-profit entity which would lease the premises and Sistemas Integrados de Salud del Sur Oeste, Inc. (SISSO), a profit oriented corporation which would sub-lease and administer most of the facility. Originally, MEDHS' directors and SISSO's stockholders were the same. Financial considerations, specifically the need for outside capital, required the sale of the controlling interest of SISSO to an outside investor, Dr. Orlando Marini. After some time in operation, Dr. Marini, citing financial constraints and the need for additional investment, demanded and obtained the transfer, to him, of the remaining stock. Several weeks later, Dr Marini sold his 100% interest in SISSO, to a third party.

The contract with the Municipality was signed on August the 27<sup>th</sup>, 2009. SISSO, as MEDHS future sub-lessee and administrator, appeared in the contract to guarantee MEDHS' compliance and payments. The agreed upon rent was \$900,000.00 a year, in equal installments of \$75,000.00 per month. A second contract was signed, on September 1<sup>st</sup>, 2009, by which SISSO sub-leased from MEDHS the greater part of the



center and agreed to pay rent to MEDHS in an amount of \$1,000,000.00 per year, that is, \$100,000 per year, in addition to the amount to be paid by MEDHS to the Municipality. Said amount would be paid in monthly installments of \$83,333.33.

In addition to the above described \$100,000 per month in surplus rent, MEDHS kept, to be exploited separately, certain parts of the center and certain rights which were expected to produce income at a later date. Among those were the right to develop certain real estate, the right to lease, separately, the radiology department and the right to control and exploit, when deemed convenient, Medical Center's parking. These rights were not leased to SISSO, but accommodations were made, to ease SISSO's load, given the Municipality's failure, described below.

The Municipality failed to deliver a fully operational hospital. Of the hospital's six floors, three were in a state of ruin. MEDHS and SISSO complained to the Municipality and attempted to negotiate their repair or a lower rent, but it was to no avail. The situation caused MEDHS and SISSO to lose income and cash flow and, in a matter of months, SISSO's principal sold his interest in the corporation. A third party bought SISSO, negotiated directly with the Municipality, bypassing MEDHS, and obtained a rent moratorium which MEDHS had been requesting for weeks. SISSO then stopped paying its rent to MEDHS and to the Municipality. The Municipality, notwithstanding the existing moratorium, which explicitly benefited MEDHS, notified MEDHS that it was cancelling the contract, for alleged lack of payment. Then, the Municipality signed a new lease contract, with a corporation owned by SISSO's new owners, Mayaguez Medical Center-Dr. Ramon Emeterio Betances, Inc. (MMC) The Municipality then allowed the purported new lessee to sublease the hospital facility to SISSO, the

supposed delinquent sub-lessee, the all ignored the fact that the facility was already leased to MEDHS and subleased to SISSO by MEDHS. While MEDHS was and is still affected by SISSO's failure to pay its due rent, the whole transaction was transparent for SISSO. It simply stopped paying rent to its legitimate landlord, MEDHS, and started paying, when the moratorium expired, to its sister company, MMC. At all times it maintained direct control of the portions of the Hospital originally sub-leased to it, by MEDHS.

### **3.3 Bankruptcy Proceedings**

The present bankruptcy is the result of the loss of income and cash flow, resulting from SISSO's non compliance with the terms of its contract with MEDHS, in particular its failure to pay the rent due. Debtor has used the respite provided by the law and, since it has no real operating expenses, funds provided by its principals, to pay for the bankruptcy expenses and the initial lawyer's retainer. Operating expenses, to the extent that they exist, have been paired down to the minimum and are being subsidized by related parties. Pursuant to the law, Debtor has been complying with the requirement of filing monthly operating reports and paying the U.S. Trustee's fees.

As a further result of SISSO's and its principals intervention with MEDHS business relations with the Municipality and its noncompliance with the terms of its contract with MEDHS, the latter filed a complaint against SISSO, its principals, the Municipality, the mayor and other parties. It alleges conspiracy to deprive Debtor of its property and contract rights, tortious interference with business relations, noncompliance with the rent, by SISSO and non delivery of a fully operational hospital, by the Municipality, among other causes of action. The details of the complaint are best

understood by reading the complaint itself, *Medical Educational Health Services, Inc. v. Independent Municipality of Mayaguez, et als*, Case No. 10-04905 (BKT), Adversary No. 10-00148 (BKT). MEDHS filed said case to recover its losses and to obtain compliance with its contracts with SISSO and the Municipality.

Meanwhile, SISSO/MMC filed a complaint against MEDHS, attempting to establish its right to lease and administer the Mayaguez Medical Center. As a basis for their claim, they allege, in essence, that their right to operate the Center derives from the made-up contract between MMC and the Municipality. According to SISSO/MMC, MEDHS is an interloper which must be evicted from the facilities. For the full details of this later claim, refer to *Mayaguez Medical Center- Dr. Ramón Emeterio Betances, Inc. v. Medical Educational and Health Sservice, Inc.*, Bankruptcy Case No. 10-04905 (BKT) Adv. No. 10-00146 (BKT).

MEDHS has requested that the actions be joined, since each party's allegations are with respect to the same set of operative facts and directly in opposition.

Initial discovery tends to evidence that SISSO/MMC, notwithstanding their differences with MEHDS, are paying the Municipality its due rent. It is MEDHS' understanding that said payment benefits it. Independently of whether or not the Municipality's failure to deliver an operational hospital liberates MEDHS from its obligation to pay rent, SISSO/MMC's payments tend to assure that, after all due processes and hearings are held, MEDHS will not be found to be in arrears in its rent payments. Thus, Debtor/MEDHS is optimistic as to the outcome of the case and expects it to provide resources sufficient to fund the whole plan.

Additional actions against other parties, obliged to the estate, have and/or will

be filed, if needed. Further reference to them is made below.

### **3.4 Financial Information**

For more details on the subject, besides the schedules and monthly operating reports, we have included, as **Exhibit C**, a statement of projected yearly income and expenses and a statement of assets and liabilities. We do not call it a “Proforma Business Plan”, because Debtor’s present and projected financial activities are so simple that they do not merit to be so described. The same provides information which supports its projections of Debtor’s future income and expenses. We urge creditors to read it carefully and consider it when deciding how to vote.

## **IV. ASSETS AND LIABILITIES**

### **4.1 Assets As Of Petition Date**

As represented by Debtor, its assets at the time of the Chapter 11 petition are listed in its Schedule B, filed with the Bankruptcy Court. Further details relating to Debtor’s assets and their liquidation value, as compared with their scheduled value, are discussed in Debtor’s prepared liquidation analysis, discussed below.

#### **4.1.1 Real Property**

Debtor owns no real property. It does own the rights to enjoy, as lessee, the Mayaguez Medical Center, and to sub-lease it, as it sees fit. SISSO and SISSO’s principals and related companies interference with said rights are the cause for the litigation described above.

#### **4.1.2 Personal Property**

Personal property was valued, in the schedules, at a total of \$31,474,164. Said value resulted from adding the nominal value of the contingent claim mentioned above, against the Municipality of Mayaguez and others, presently before this Honorable Court, that is \$30,000,000, to the scheduled value of collectible rent, for \$1,474,164. The present value of the case against the Municipality, as is the case of all contingent credits, is lower than the claim amount. Yet, we can responsibly state that, if the prosecution of the case is in any way successful, the proceeds should more than suffice to fund the plan.

#### **4.2. Liabilities As Of Petition Date**

Debtor's creditors as of the time of the petition were listed as follows:

**Servicios Integrados de Salud del Sur Oeste**

P.O. Box 8043  
Marina Station  
Mayaguez, PR 00681-8043

**Advanced Cardiology Center, Corp.**

Edificio Parra  
Hospital Damas  
Ponce, PR 00717

**Harry Padilla**

P.O. Box 2131  
Mayaguez, PR 00681-2131

**Héctor Figueroa**

Suite 76 Box 10000  
Cayey, PR 00737

**Municipio de Mayaguez**

Box 447  
Mayaguez, PR 00681-0447

##### **4.2.1 Secured Creditors**

There are no secured creditors, in this case.

#### **4.2.2 Priorities**

There are no creditors with priority, in this case.

#### **4.2.3 General Unsecured Creditors**

General unsecured claims are scheduled for a total of \$6,331,144.50.

The above claims include \$18,645.90 in undisputed, liquid claims and the remaining amount is disputed. Of the disputed portion, \$1,295,831.60 is MEDHS estimate of rent owed to the Municipality, assuming that no payment of rent has been made by SISSO/MMC. The amount also assumes that no portion can be deduced for the Municipality's failure to deliver three of the hospital's six floors in operating condition. To the extent that said rent has been paid, the amount assumed owed is reduced. It is MEDHS understanding that rent payments to the Municipality are in compliance with the contract. The remaining \$5,016,667 correspond to the nominal amount of a contingent, disputed and unliquidated claim by the Medical Center's previous lessee, essentially for MEDHS' alleged participation in its eviction from the center. The case is known as Advanced Cardiology Center, Corp. v. Sistemas Integrados de Salud del Sur Oeste, Medical Educational and Health Center and Municipality of Mayaguez Civil No. ISCI2009-01449 (307) and is presently before the Tribunal de Primera Instancia, Sala Superior de Mayaguez. Because MEDHS did not enter the premises except after the previous administrator had been evicted and because said eviction was not performed until the Commonwealth's Supreme Court denied their requests for paralyzing the evictions, MEDHS is extremely confident that it will not be found answerable.

### **V. DESCRIPTION OF THE PLAN**

The following is a summary of the significant provisions of the Plan and is qualified in its entirety by said provisions. A copy of the Plan accompanies this Disclosure Statement. In the event and to the extent that the description of the Plan contained in this Disclosure Statement is inconsistent with any provisions of the Plan, the provisions of the Plan shall control and take precedence. All creditors are urged to carefully read the Plan.

### **5.1 Unclassified Claims**

(a) General: In accordance with Section 1123(a)(1) of the Bankruptcy Code, Administrative Expense Claims and Priority Tax Claims are not classified in the Plan. Debtor shall pay such Claim at the effective date of the plan and shall reserve said amount from the funding to be provided.

(b) U.S. Trustee's Fees: The United State Trustee's quarterly fees under 11 U.S.C. Section 1930 shall be paid in full on or before the Effective Date.

(c) Professional Fee Claims: Professionals retained in Debtor's Chapter 11 case have incurred fees and expenses from the date of their retention. As of the filing of this Disclosure Statement, Debtor's counsel has received the amount of \$5,000, as a retainer, against future billing as it may be approved by the Court. Said amount was provided by related parties and/or Debtor's principals. None of debtor's funds were used for said retainer. New application for approval of counsel as well as application for compensation for work already performed will be filed on, or before, November 15, 2010, for an approximate amount of \$50,000 to \$60,000 in fees and expenses for professional services, including accountant expert fees. The latter's services will include work in the preparation of this document and plan, as well as the essential

expert analysis, report and expert testimony in the case against the Municipality of Mayaguez and others, to which we have made reference, above. Since they have not yet been submitted, the applications are yet to be considered by the Bankruptcy Court. All such fees, including interim fees and expenses already paid, are subject to final Bankruptcy Court approval. Fees incurred after the approval of the plan, as a result of the ongoing litigation, will be presented at said time. MEDHS reserves the right to contest the allowance of any professional fees.

(d) Priority Tax Claims: There are no known priority tax claims in this case.

## **5.2 Priority Claims**

There are no priority claims, in this case.

# **VI. SUMMARY OF THE PLAN: CLASSIFICATION AND TREATMENT OF CLAIMS**

## **A. Designation of Classes of Claims and Equity Interest**

Designation of classes of claims and interest Debtor's plan has been drafted designating classes in accordance with the provisions of 11 U.S.C. 1122 and 1123. All creditors and other parties in interest are urged to read and consider the Plan in full inasmuch as it represents a proposed legally binding agreement. The classes of creditors as follows:

**Class 1 - General Unsecured Undisputed Creditors:** This class shall consist of Debtor's general unsecured and undisputed creditors. That means those common creditors that hold no security, whose claims enjoy no priority and are not disputed. This class will receive 100% payment, in equal monthly installments during a five year period. If success in the above described litigation permits it, they will be paid, in full,



upon receipt of the dividends. This class is impaired as to the terms of payment.

**Class 2 - General Unsecured Disputed Creditors:** This class shall consist of Debtor's general unsecured and disputed creditors. That means those common creditors that hold no security, whose claims enjoy no priority and are disputed. This class includes the Municipality of Mayaguez and the prior operator of the Medical Center, Advanced Cardiology Center, Corp. To the extent that they are found to be actual creditors of the estate, they will receive 100% payment, in equal monthly installments during a five year period. Otherwise they will receive no payment. Debtor considers the class, unimpaired.

**Class 3 - Equity Security and/or other interest holders:** This class includes all equity security and interest holders, which includes the holders of Debtor's shares.

#### **B. Treatment of Classes of Claims and Interests**

**Class 1 - General Unsecured Undisputed Creditors:** These are common creditors who hold no security and enjoy no priority for this class of claims. They represent claims totaling the amount of \$18,645.90, all of which are undisputed. They will be paid in full, as described below, in a combination of ways, depending on the source of the funding used to pay the claims.

(a) Impairment and Voting. Class 1 is impaired as to the terms of payment. General Unsecured Creditors shall be entitled to vote to accept or reject the Plan.

(b) Distribution. This class is impaired as to the terms of payment. The basic plan is that, unless otherwise agreed to, General Unsecured Creditors will be paid in full, in equal monthly installments, commencing thirty days after the effective date of

the plan and for a period of five (5) years after the effective date. If success in the litigation permits it, they will be paid in full upon receipt of the dividends. The primary source of the funds for this plan will be the dividends resulting from the case against the Municipality of Mayaguez and others. Additional funds will be obtained from rents to be provided by SISSO and by other tenants, as well as the rent of the parking spaces at a future time, as further illustrated in *Exhibit C*.

**Class 2 – General Unsecured Disputed Creditors:** This class is made up by disputed creditors, as described above. The amount of \$1,295,831.60 is MEDHS estimate of rent possibly owed to the Municipality, assuming that no payment of rent has been made by SISSO/MMC and that no amount can be deduced for the Municipality's failure to deliver three of the hospital's six floors in operating condition. The remaining \$5,016,667 correspond to the nominal amount of a contingent, disputed and unliquidated claim by the Medical Center's previous lessee, essentially for MEDHS' alleged participation in its eviction from the center.

(a) Impairment and Voting. Class 2 is unimpaired as to the terms of payment. General Unsecured Disputed Creditors shall not be entitled to vote to accept or reject the Plan.

(b) Distribution. This class is unimpaired as to the terms of payment. The basic plan is that, unless otherwise agreed to, General Unsecured Disputed Creditors will not be paid any amount. Debtor reserves any and all rights to set off it have against these creditors.

**Class 3 - Equity Security and/or other interest holders:** This class includes all equity security and interest holders, which includes the holders of Debtor's shares.

(a) Impairment and Voting. Class 3 is impaired. General Unsecured Creditors shall be entitled to vote to accept or reject the Plan.

(b) Distribution. Upon compliance with the plan, all remaining equity, including real and personal property, including future proceeds of litigation not needed to implement the plan, will benefit Equity Security and/or other interest holders in a manner proportional to their interest in the company.

## **VII. LEASES AND EXECUTORY CONTRACTS**

As of the petition date Debtor was a party to the following leases: (1) Lease of radiology facilities to Mayaguez Advanced Radiotherapy Center (MARC) signed September 2, 2009; (2) lease of main portion of Mayaguez Municipal Hospital to Sistemas Integrados de Salud del Sur-Oeste, Inc. signed September 1<sup>st</sup>, 2009; and (3) lease of the Mayaguez Medical Center, from the Independent Municipality of Mayaguez, signed on August the 27<sup>th</sup>, 2009.

### **Assumption of Designated Executory Contracts and Unexpired Leases**

It is Debtors intent to assume all the contracts referred to in the above paragraph. Pursuant to Sections 1123(b)(2) and 365(a) of the Bankruptcy Code, the entry of the Confirmation Order by the Bankruptcy Court shall constitute approval of the assumption of the contracts listed above, as of the Effective Date. All other executory contracts and leases not otherwise previously assumed will be deemed rejected.

On the Effective Date or as agreed upon with the other party or as promptly as possible thereafter Debtor shall cure the defaults under the above listed executory contracts as set forth in the Plan. To the extent the Debtor has rights of setoff against

any of the parties to these leases and contracts, Debtor reserves the right to exercise this right of setoff.

## **7.2 Rejection of Executory Contracts and Unexpired Leases.**

Pursuant to Sections 1123(b)(2) and 365(a) of the Bankruptcy Code, the entry of the Confirmation Order by the Bankruptcy Code shall constitute approval of the rejection, as of the Effective Date, of each executory contract and/or unexpired lease not assumed as indicated above.

## **7.3 Executory Contracts and Unexpired Leases Which Were Not Assumed or Rejected To Date.**

Any executory contract or unexpired lease (other than insurance policies) which (i) has not expired by its own terms on or prior to the Confirmation Date, (ii) has not been assumed or rejected with the approval of the Bankruptcy Court on or prior to the Confirmation Date, (iii) is not the subject of a motion to assume or reject which is pending at the time of the Confirmation Date, or (iv) is not designated in the Disclosure Statement, as to be assumed at the time of confirmation of this Plan, shall be deemed rejected and the entry of the Confirmation Order by the Bankruptcy Court shall constitute approval of such rejection pursuant to Section 365(a) and 1123(b)(2) of the Bankruptcy Code.

## **7.4 Rejection Damages Claim.**

If the rejection of an executory contract or unexpired lease results in a claim for damages to the other party or parties to such contract or lease, any claim for such damages, if not heretofore evidenced by a filed proof of claim, shall be forever barred and shall not be enforceable against the Debtor's Estate, or their respective

properties or agents, successors or assigns, unless a proof of claim is filed with the Bankruptcy Court and served upon counsel to Debtor on or before 30 days after the Confirmation Date. Unless otherwise ordered by the Court or provided for in the Plan, all such Allowed Claims for which proof of claims are timely filed will be treated as General Unsecured Claims subject to the provisions of the Plan and to Section 502(b)(6) of the Bankruptcy Code, to the extent applicable. Debtor shall have the right to object to any such rejection damages claims filed in accordance with this Section.

### **VIII. PENDING LITIGATION**

As of the date of the Chapter 11 petition, Debtor was a party to certain pending matters. Specifically, the case before the Commonwealth Court is:

Advanced Cardiology Center, Corp. v. Sistemas Integrados de Salud del Sur Oeste, Medical Educational and Health Service and Municipio de Mayaguez, Civil No. ISCI 2009-01449 (307) Tribunal de Primera Instancia, Sala de Mayaguez.

In said case, A.C.C. complains that, after being forcibly evicted from the Medical Center, they left some patient records and equipment in the premises. Allegedly, by assuming control, MEDHS, SISSO and the Municipality caused A.C.C. and its patients damages by, with their mere assumption of control, violating the secrecy provisions of HIPAA. Also, they allege, they left certain equipment at the premises, which is being used by SISSO.

Because physical control of the premises was assumed by SISSO, MEDHS made no use of the equipment nor assumed control of the records. At any case, we are dealing with self inflicted damages, since A.C.C. was in violation of the Courts orders and should have withdrawn the records and equipment from the facility.

Subsequent to the filing of the bankruptcy, Debtor has become involved in three adversary actions, all of which stem from the same common set of operative facts. The first two are described in pages 12 and 13, above. Their names and designations are Mayaguez Medical Center- Dr. Ramón Emeterio Betances, Inc. v. Medical Educational and Health Service, Inc., Adversary No. 10-00146 (BKT) and Medical Educational and Health Service, Inc. v. Municipality of Mayaguez, et al, Adversary No. 10-00148 (BKT).

The third one is a case filed by SISSO/MMC against Mayaguez Advanced Radiotherapy Center (MARC), to evict it from the facilities that MARC leases from MEDHS. Mayaguez Medical Center- Dr. Ramón Emeterio Betances, Inc. v. Mayaguez Advanced Radiotherapy Center, Adversary No. 10-00150 (BKT). In it SISSO/MMC allege that they are the true holders of the lease of the Mayaguez Municipal Center and that MARC derived its leasehold from MEDHS. Since MEDHS, according to said theory, is no longer the valid lessee of said facilities, MARC no longer has a valid lease right to the facilities in question. MARC brought MEDHS into the controversy as an indispensable party, demanding that MEDHS defend its rights and MARC's, to remain in enjoyment of the leased facilities. MEDHS intends to petition the Court to join the case with the other two.

### **LIQUIDATION ANALYSIS**

A requirement for the confirmation of a plan under Chapter 11 of the Bankruptcy Code is that with respect to each impaired class of claims, each claim holder of such class has accepted the plan or will receive or retain under the plan on account of such allowed claim, a value as of the effective date of the plan, that is not less than the

amount such claim holder would receive or retain if the debtor were liquidated under Chapter 7 of the Bankruptcy Code, on such date.

Debtor's estate, if liquidated, would be of inconsequential value to the unsecured creditors.

In a Chapter 7 liquidation, the more certain and substantial asset that would remain for distribution to unsecured creditors would be the pending litigation against the Municipality of Mayaguez and others. Said litigation, though, can be pursued just as well under the proposed plan as under a Chapter 7 trustee. Better, in fact, because Debtor has a much higher stake in achieving a successful outcome, as well as more time to achieve it.

#### **X. PROOF OF CLAIMS NOT FILED**

The Plan provides that where a proof of claim has not been filed, the Allowed Claim shall be in the amount appearing in the Schedules filed by Debtor, provided however, that the scheduled amount is not shown as unliquidated, contingent or disputed, in which case no amount will be allowed unless such creditor has filed a timely proof of claim. To the extent no debt was listed by Debtor in its Schedules, no amount will be provided for claimants who have not filed proof of claims.

#### **XI. OBJECTION TO CLAIMS**

Debtor's estate may file an objection to any claim as to its validity or amount within 30 days prior to the Confirmation Hearing. If an objection is filed payment to such claimant will be made only after the entry of a final order by the Court allowing such claim and in accordance with the provisions of the Plan governing the class to which such claim belongs.

## **XII. EFFECTIVE DATE AND CONDITIONS PRECEDENT TO EFFECTIVE DATE**

Because the plan requires the adjudgment of the pending litigation, before the Honorable Bankruptcy Court, to which we have made reference above, the effective date of the Plan will be one hundred and twenty days (120) after final judgment is entered in the Adversary cases discussed above.

### **12.1 Conditions Precedent to Effectiveness.**

The Plan shall not become effective and the Effective Date shall not occur, unless and until the following conditions shall have been satisfied or such conditions shall have been waived pursuant to Section 12.2 hereof:

(a) the Confirmation Order, in form and substance reasonably acceptable to MEDHS, shall have been entered by the Bankruptcy Court and shall have become a Final Order;

(b) each of the Plan Documents, in form and substance reasonably acceptable to Debtor; (i) shall have been executed, delivered and, if necessary, properly recorded; (ii) shall have become effective; and (iii) shall have been filed with the Bankruptcy Court;

(c) all actions, other documents and agreements necessary to implement the Plan shall have been executed, delivered and, if necessary, properly recorded, and shall have become effective; and

### **12.2 Waiver of Conditions.**

Debtor may waive one or more of the conditions precedent to the effectiveness of the Plan set forth in this Section.



### **XIII. MEANS OF EXECUTION OF THE PLAN AND MANAGEMENT OF DEBTOR**

Debtor shall be able to comply with the payment plan provided for in these documents if it is finally found to be successful in its adversary proceeding against the Municipality of Mayaguez and others. All dividends will be used to fund the plan. If no damages are granted, but MEDHS; rights as lease holder are recognized, the rent proceeds from SISSO and at a later date, from MARC, will fund the plan. Alternative sources of funds would be the economic exploitation of the parking and the sale or assignment to third party developers of the right to develop the office building and mall.

### **XIV. ALTERNATIVES TO THE PLAN**

If the Plan is not confirmed and consummated, the alternatives include (a) liquidation of the Debtor under Chapter 7 of the Bankruptcy Code, (b) dismissal of the Cases, and the possible foreclosure by the Lien Holders, or (c) the proposal of an alternative plan.

#### **A. Liquidation Under Chapter 7**

If no plan can be confirmed, the Case may be converted to Chapter 7 of the Bankruptcy Code, and as indicated above, a trustee would be elected or appointed to liquidate Debtor's assets for distribution to creditors in accordance with the priorities established by the Bankruptcy Code.

As set forth in the Liquidation Analysis, Debtor believes that conversion of the Case to Chapter 7 of the Bankruptcy Code would result in diminished distributions to all creditors due to increased costs of administration, reduced interest in what is complex litigation, resulting in a decreased value of Debtor's assets

Debtor believes that creditors would receive a lower distribution, with further delays, under Chapter 7.

### **B. Dismissal of the Cases and/or Foreclosure by the Lien Holders**

Dismissal of the Case would likely create substantial problems for all parties involved, including a run to the courthouse, which most likely would result, in a disregard of the orderly and structured equitable payments provided by the Plan, under the provisions of the Bankruptcy Code. Therefore, dismissal of the Cases is not a viable alternative for creditors.

### **C. Alternative Plan of Reorganization**

If the Plan is not confirmed, Debtor could attempt to formulate a different plan. Debtor believes, however, that the Plan described herein will provide the greatest and most expeditious return to creditors. **THE FOREGOING SUMMARY IS NOT A COMPLETE DESCRIPTION OF THE PLAN OR A FULL STATEMENT OF ITS TERMS. THE PLAN CONTAINS ADDITIONAL TERMS AND CONDITIONS NOT HERE DISCUSSED HEREIN. IN ADDITION THE TERMS AND CONDITIONS HEREIN DISCUSSED HEREIN MAY HAVE ADDITIONAL PROVISIONS TREATED FULLY ONLY IN THE PLAN. THE PLAN CONTROLS THIS SUMMARY, WHICH IS PROVIDED FOR CONVENIENCE ONLY. READ THE PLAN FOR AN UNDERSTANDING OF ITS TERMS.**

## **XV. CONCLUSION**

MEDHS believes that the Plan is fair and reasonable and is the best interest of the Estate and Creditors and offers the best possible recoveries for creditors under the circumstances. Debtor therefore, urges creditors to vote in favor

of the Plan.

Date: **[Month and day]**, 2010.

Medical Educational and Health Services, Inc.

By:   
Dr. Orestes Castellanos, President