

MESCH, CLARK & ROTHSCCHILD, P.C.  
259 North Meyer Avenue  
Tucson, Arizona 85701  
Phone: (520) 624-8886  
Fax: (520) 798-1037  
Email: mmcgrath@mcraszlaw.com  
knye@mcraszlaw.com  
By: Michael McGrath, #6019  
Kasey C. Nye, #20610

BROWNSTEIN HYATT FARBER  
SCHRECK, LLP  
410 Seventeenth Street, Suite 2200  
Denver, CO 80202-4432  
Phone: (303) 223-1100  
Fax: (303) 223-1111  
Email: mpankow@bhfs.com  
jhantman@bhfs.com  
By: Michael J. Pankow (Pro Hac Vice)  
Joshua M. Hantman (Pro Hac Vice)

Attorneys for Debtors

**UNITED STATES BANKRUPTCY COURT  
FOR THE DISTRICT OF ARIZONA**

In re:

REGIONAL CARE SERVICES CORP.,  
  
CASA GRANDE COMMUNITY  
HOSPITAL  
REGIONAL CARE PHYSICIAN'S  
GROUP, INC., and  
CASA GRANDE REGIONAL  
RETIREMENT

Debtors.

Chapter 11 Proceedings

Case Nos. 4:14-bk-01383-EWH  
4:14-bk-01384-EWH  
4:14-bk-01385-EWH  
4:14-bk-01386-EWH  
(Joint Administration)

This Filing Applies to:

☒ All Debtors  
☐ Specified Debtor(s)

Hearing Date: March 17, 2014  
Hearing Time: 1:30 p.m.  
Location: , Courtroom #329, U.S. Bankruptcy  
Court, 38 S. Scott Avenue, Tucson, AZ

**DISCLOSURE STATEMENT FOR  
DEBTORS' SECOND AMENDED JOINT CHAPTER 11 PLAN OF REORGANIZATION**

**Dated: March 28, 2014**

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## I. INTRODUCTION

### A. Overview

#### 1. The Purpose of the Disclosure Statement

Regional Care Services Corp. (“RCSC”), Casa Grande Community Hospital d/b/a Casa Grande Regional Medical Center (“CGRMC”), Regional Care Physician’s Group, Inc. (“RCPG”), and Casa Grande Regional Retirement Community (“CGRRC”) (collectively, the “Debtors”) hereby submit this disclosure statement (the “Disclosure Statement”) pursuant to 11 U.S.C. § 1125.

The purpose of this Disclosure Statement is to provide Creditors<sup>1</sup> and interested parties in this proceeding with such information as is sufficient to allow Creditors and interested parties to make an informed decision regarding the Debtors’ Amended Joint Chapter 11 Plan of Reorganization, attached hereto as Exhibit A (the “Plan”). The Disclosure Statement describes the Plan and explains the Debtors’ pre-bankruptcy operations; debt obligations; financial history; and events leading up to the commencement of their chapter 11 cases (the “Chapter 11 Cases” or “Cases”).

#### 2. Source of Information

Substantially all of the factual information utilized in this Disclosure Statement, including but not limited to the amount of claims, was obtained from information provided by the Debtors’ books and records, the knowledge of their officers, including Rona Curphy as Chief Executive officer and Karen Francis as Chief Financial Officer, and the advisory services of Grant Thornton LLP, the court-appointed Financial Advisor to the Debtors. The financial information, including the value of assets, is based on information provided by the Debtors’ officers to their professionals and was prepared for the purposes of this Disclosure Statement. Certain materials contained in this Disclosure Statement are taken directly from other readily accessible documents or are summaries of other documents. While every effort has been made to retain the meaning of

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<sup>1</sup> See Section (I)(C)(1).

1 such documents, creditors and other parties in interest are urged to rely upon the contents of such  
2 documents only after a thorough review of the documents themselves.

### 3 **3. Proposed Sale Transaction Under the Plan**

4 The Debtors filed these Cases to effectuate a sale of substantially all of their assets to  
5 Banner Health (“Banner”) (the “Sale”). Assets will be transferred to Banner in exchange for up  
6 to \$87 million in cash (subject to adjustments) and forgiveness of loans that Banner has extended  
7 or is expected to extend to maintain hospital operations. Cash proceeds received upon the Sale  
8 Closing (the “Sale Proceeds”) will pay the Debtors’ bond indebtedness, in the aggregate principal  
9 amount of \$63,785,000 plus accrued interest and fees, in full in exchange for subordination of the  
10 \$1.3 million prepayment fee to all other claims. The remainder of the Sale Proceeds will be  
11 placed in a trust for the benefit of Creditors (the “Creditor Trust”). Administrative expenses,  
12 priority claims, and secured claims will be paid in full from the Creditor Trust. Remaining funds  
13 will be distributed to general unsecured creditors followed by payment of the Allowed Bond  
14 Redemption Premium Claim. The Debtors project there will be sufficient funds to pay all  
15 creditors in full upon closing of the Sale; any surplus would be returned to Banner. Following  
16 final distributions, the Debtors’ estates will be wound down.

17 With the Sale, and by bringing the hospital the Debtors own and operate under the Banner  
18 umbrella, the Debtors expect to be able to (1) ensure continued availability of outstanding  
19 medical care to the Casa Grande community, (2) preserve jobs for the Debtors’ approximately  
20 800 employees, and (3) generate cash in an amount that, by current projections, should be  
21 sufficient to pay creditors in full or close to full.

22 The Sale is proposed in response to significant financial challenges facing this and other  
23 hospitals, and comes after a considerable effort in searching for purchasers or strategic partners  
24 conducted for the benefit of Creditors and the community the Debtors serve.

### 25 **4. Brief Explanation of Chapter 11**

26 Debtors filed a petition for Chapter 11 relief on February 4, 2014 (the “Petition Date”). In  
27 Chapter 11, a debtor may reorganize its business or liquidate its assets under the protection of the  
28 Bankruptcy Court. To facilitate this process, all efforts to collect prepetition claims from a debtor

1 and any secured creditor's attempt to foreclose on or seize property of the debtor are stayed  
2 during the pendency of the proceeding. A debtor in Chapter 11 is authorized to maintain  
3 possession of its assets as a "debtor-in-possession" and operate its business in the ordinary course.  
4 Among powers that a debtor-in-possession may exercise subject to Bankruptcy Court approval, a  
5 debtor may sell assets free and clear of liens, it may borrow money on terms approved by  
6 Bankruptcy Court, and it may assume or reject leases and executory contracts.

7 **B. Disclaimers and Limitations**

8 The information contained in this Disclosure Statement is included for purposes of  
9 soliciting acceptances of, and obtaining confirmation of, the Plan and may not be relied upon for  
10 any other purpose.

11 Creditors should note that amendments beneficial to one or more classes of claims without  
12 further impairment of other classes may be made to the Plan prior to confirmation. Amendments  
13 of that nature may be approved by the Bankruptcy Court at the confirmation hearing without re-  
14 solicitation of Creditors and membership interest holders.

15 The descriptions of the Plan contained in this Disclosure Statement are summaries and are  
16 qualified in their entirety by reference to the Plan. Each Creditor is encouraged to analyze the  
17 terms of the Plan carefully.

18 The statements contained in this Disclosure Statement are believed to be accurate as of the  
19 date of its filing unless another time is specified in the Disclosure Statement. They should not be  
20 construed as implying that there has been no change in the facts set forth since the date the  
21 Disclosure Statement was prepared and the materials relied upon in preparation of the Disclosure  
22 Statement were compiled. Counsel for the Debtors makes no representation as to the accuracy of  
23 the information contained in this Disclosure Statement.

24 This Disclosure Statement has been neither approved nor disapproved by the Securities  
25 and Exchange Commission or any state securities regulator, and neither the Securities and  
26 Exchange Commission nor any state securities regulator has passed upon the accuracy or  
27 adequacy of the statements contained in this Disclosure Statement.

1           **C.     Definitions**

2                   **1.     Defined Terms In the Plan**

3           Various terms are defined in Article II of the Plan. These defined terms are also used in  
4 the Disclosure Statement and have the same meaning in this Disclosure Statement as set forth in  
5 the Plan.

6                   **2.     Other Terms**

7           The words “herein,” “hereof,” “hereto,” “hereunder,” and others of similar inference refer  
8 to the Disclosure Statement as a whole and not to any particular section, subsection, or clauses  
9 contained in the Disclosure Statement unless otherwise specified herein. A term used herein or  
10 elsewhere in the Disclosure Statement that is not defined herein or in the Plan shall have the  
11 meaning ascribed to that term, if any, in the Bankruptcy Code or the Bankruptcy Rules. The  
12 headings in the Plan are only for convenience of reference and shall not limit or otherwise affect  
13 the provisions of the Plan.

14                  **3.     Exhibits**

15           All exhibits to the Plan and Disclosure Statement are incorporated into and are a part of  
16 the Plan and Disclosure Statement as if set forth in full herein.

17           **D.     Classification and Treatment of Claims**

18

19    Class	20    Status	21    Treatment Under Plan	22    Estimated 23    Distribution
24    Class 1 25    (Allowed Bond-Related 26    Claims)	27    Impaired	28    The Allowed Bondholder Claim will be allowed in the principal amount of \$63,785,000 plus accrued interest, fees and expenses. After application of reserves, the Allowed Bondholder Claim will be paid in full in Cash at Sale Closing or as soon as reasonably practicable thereafter. In exchange, the Allowed Bond Redemption Premium Claim will be subordinated to Class 4 General Unsecured Claims.	100%

Class	Status	Treatment Under Plan	Estimated Distribution
Class 2 (Banner Assumed Liabilities)	Unimpaired	The rights of the holders of Class 2 Claims shall not be affected by the Plan or Confirmation Order. Banner has agreed to assume these liabilities pursuant to the APA.	100%
Class 3A (Allowed Cardinal Claim)	Impaired	The Allowed Cardinal Claim shall be paid in full as soon as practicable after the Effective Date.	100%
Class 3B (Allowed Siemens Claim)	Impaired	The Allowed Siemens Claim shall be paid in full as soon as practicable after the Effective Date.	100%
Class 3C (Allowed Baxter Claim)	Impaired	The Allowed Baxter Claim shall be paid in full as soon as practicable after the Effective Date.	100%
Class 3D (Allowed Morgan Stanley Secured Claim)	Impaired	The Allowed Morgan Stanley Secured Claim shall receive the collateral securing the claim, <i>i.e.</i> , the Morgan Stanley Collateral, on the Effective Date.	100%
Class 3E (Allowed Great Western Claim (Pavilion))	Impaired	The Allowed Great Western Claim (Pavilion) shall be paid in full as soon as practicable after the Effective Date.	100%
Class 3F (Allowed Great Western Claim (Urgent Care Center))	Impaired	The Allowed Great Western Claim (Urgent Care Center) shall be paid in full as soon as practicable after the Effective Date.	100%
Class 3G (Allowed First Financial Corporate Claim)	Impaired	The Allowed First Financial Corporate Claim shall be paid in full as soon as practicable after the Effective Date.	100%
Class 4A (General Unsecured Claims Against CGRMC)	Impaired	Commencing on the Initial Distribution Date, Holders of Allowed Claims in Classes 4A, 4B, 4C and 4D will receive a <i>pro</i>	100%

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Class	Status	Treatment Under Plan	Estimated Distribution
		<i>rata</i> distribution of funds available for distribution from the Creditor Trust after (a) the Reserves, (b) payment of Administrative Expenses, Priority Claims, and Tax Claims not otherwise contained in the Reserve, and (c) payment on account of Allowed Class 1 and Allowed Class 3 Claims.	
Class 4B (General Unsecured Claims Against RCSC)	Impaired	See Treatment of Class 4A above.	100%
Class 4C (General Unsecured Claims Against RCPG)	Impaired	See Treatment of Class 4A above.	100%
Class 4D (General Unsecured Claims Against CGRRC)	Impaired	See Treatment of Class 4A above.	100%
Class 5 (Membership Interests)	Impaired	Class 5 Membership Interests shall be cancelled and shall not receive anything under the Plan.	0%

The estimated Distributions set forth above are based upon the Debtors' estimates of the Allowed Claims in each class. There is no guaranty that each Class will receive the distribution estimate above.

**E. Parties Entitled to Vote on the Plan**

Under the provisions of the Bankruptcy Code, not all parties in interest are entitled to vote on the Chapter 11 Plan. Creditors whose Claims are not impaired by the Plan are deemed to accept the Plan under Bankruptcy Code § 1126(f) and are not entitled to vote. Further, a Holder of Claim or Interest that does not receive or retain any property under the Plan on account of such Claims or Interests is deemed to reject the Plan under Bankruptcy Code § 1126(g). Accordingly,

Classes 1, 3 and 4 are entitled to vote on the Plan. Class 2 (Banner Assumed Liabilities) is deemed to accept the Plan. Class 5 is deemed to reject the Plan.

**F. Voting Procedures, Confirmation Hearing, and Cramdown**

**1. Classified Claims and Interests**

After approval of the Disclosure Statement by the Bankruptcy Court, certain Creditors will have an opportunity to vote on the Plan. Voting will be by class as set forth in the Plan and described later in this Disclosure Statement. For classes containing more than one Claim or Interest, a class is deemed to have accepted the Plan if at least one-half of the Creditors in number holding at least two-thirds of the aggregate amount of Claims voting elect to accept the Plan.

If you are entitled to vote to accept or reject the Plan, a Ballot is enclosed for the purpose of voting on the Plan. After carefully reviewing the Plan, this Disclosure Statement, and the detailed instructions accompanying your Ballot, please indicate your acceptance or rejection of the Plan by voting in favor of or against the Plan. **For your vote to be counted, you must complete and sign your original Ballot and return it by 5:00 p.m. on \_\_\_\_\_, 2014, which is the last date set by the Court to vote on the Plan.**

**2. Confirmation Hearing**

The Bankruptcy Court has set a hearing on Confirmation of the Plan and to consider objections to Confirmation, if any, for \_\_\_\_\_, 2014 at \_:\_:\_.m. The Confirmation hearing will be held in Courtroom \_\_\_\_\_, Tucson, Arizona. At the hearing, the Bankruptcy Court will consider whether the Plan satisfies the requirements of the Bankruptcy Code.

**3. Cramdown**

If any class of Claims or Interests fails to accept the Plan, the Bankruptcy Court may confirm the Plan in accordance with Bankruptcy Code § 1129(b) on the basis that the Plan is fair and equitable and does not discriminate unfairly with respect to any nonaccepting, Impaired Class. Because Class 5 Membership Interests are deemed to reject the Plan under Bankruptcy Code § 1126(f), the Debtors are seeking confirmation of the Plan pursuant to Bankruptcy Code § 1129(b).

1           **G.     Effect of Confirmation of the Plan**

2           Confirmation of the Plan makes the Plan and its provisions binding on the Debtors, all  
3   Creditors, and other parties in interest, regardless of whether they have accepted or rejected the  
4   Plan. As a result, Creditors may receive payment on their claims only in accordance with the  
5   Plan. If confirmed, the estimated Effective Date of the Plan will be 15 days after the Bankruptcy  
6   Court enters the Confirmation Order, unless such order is the subject of a stay by the Bankruptcy  
7   Court.

8           **H.     Approval of the Disclosure Statement**

9           A decision by the Bankruptcy Court to approve this Disclosure Statement under  
10   Bankruptcy Code § 1125 is a finding that the Disclosure Statement contains information of a kind  
11   and in sufficient detail to enable a reasonable, hypothetical investor typical of holders of impaired  
12   claims to make an informed judgment about the Plan and is not a recommendation by the  
13   Bankruptcy Court either for or against the Plan.

14                   **II.     HISTORY AND ORGANIZATION OF THE DEBTORS**

15           **A.     CGRMC**

16                   **1.     Operations of the Hospital**

17           CGRMC is an Arizona non-profit corporation that is exempt from federal income taxation  
18   under Section 501(c)(3) of the Internal Revenue Code of 1986, as amended. CGRMC was  
19   incorporated in November 1981 and is sponsored by RCSC.

20           CGRMC operates a 177-licensed bed, general acute care hospital located in Casa Grande,  
21   Arizona (the “Hospital”). CGRMC’s medical center campus includes the Hospital building,  
22   Desert Reflections Outpatient Imaging Center, four medical office buildings, and the Pavilion.  
23   CGRMC also operates a 12,500 square foot urgent care center (the “Urgent Care Center”) at a site  
24   near the main campus.

25           CGRMC offers a broad range of services for acute care and ancillary services in both  
26   inpatient and outpatient settings, with a significant amount of outpatient services provided at the  
27   Urgent Care Center. CGRMC, in conjunction with RCPG, provides a wide range of medical  
28

1 specialty services including cardiology, gastroenterology, gynecology, neurology, pediatrics,  
2 surgery, intensive care and urology.

3 CGRMC is licensed by the Arizona Department of Health Services through June 2015 and  
4 accredited by various organizations. CGRMC is accredited by Det Norske Veritas Healthcare,  
5 Inc. (DNV) through April 2014. CGRMC's mammographic imaging and ultrasound services are  
6 accredited by the American College of Radiology through September 2014 and October 2015,  
7 respectively. CGRMC's laboratory has been accredited by the College of American Pathologists  
8 through February 2014 and its sleep lab is accredited by the American Academy of Sleep  
9 Medicine.

10 CGRMC had net revenues of \$98,748,100 in 2013 and \$108,822,332 in 2012.

## 11 **2. Mission**

12 The Debtors' mission, as set forth in CGRMC's Articles of Incorporation, dated  
13 November 25, as amended, is as follows:

14 The Corporation is organized and shall be operated exclusively for charitable,  
15 educational, and scientific purposes. The general nature of the business of the  
16 corporation and the character of the affairs which the corporation initially intends  
17 to conduct in the State of Arizona, shall be the care and nursing of the sick,  
18 providing means for their sustenance, alleviation of their distress and to preserve  
19 and restore health, to seek the cause and cure of diseases and to educate those who  
20 would serve humanity. In furtherance and not in limitation of the purposes for  
21 which the corporation is organized, solely for the above purposes and without  
22 otherwise limiting its powers, the corporation is empowered to exercise all rights  
23 and powers by the laws of Arizona upon nonprofit corporations.

24 In addition, CGRMC's mission and vision statements are as follows:

25 *Mission Statement:* We exist to make a positive difference in the lives of those  
26 we serve through compassion and excellence in patient care.

27 *Vision Statement:* To be the healthcare system of choice for the communities we  
28 serve.

## 29 **3. Overview of Employees**

30 CGRMC has approximately 800 employees, consisting of physicians, nurses and finance,  
31 IT, billing, collections, accounting, administrative, and technical personnel. The medical staff

1 includes approximately 165 physicians, 81% of whom are board certified in their specialty. The  
2 medical staff includes 11 hospitalists that are contracted through a third-party. CGRMC employs  
3 one anesthesiologist and its affiliate, RCPG, employs six physicians: two general surgeons, one  
4 general and vascular surgeon, one OB/GYN physician, one GYN physician and one neurologist.  
5 CGRMC also has contracts with five independent anesthesiologists and a group of five Certified  
6 Registered Nurse Anesthetists (CRNAs).

#### 7 **4. Senior Management**

8 Senior management consists of Rona Curphy as Chief Executive Officer and President  
9 with an approximate annual base salary in the amount of \$365,000 and Karen Francis as Chief  
10 Financial Officer with an approximate annual base salary in the amount of \$300,000.

#### 11 **B. Background on Other Debtor Entities**

12 RCSC is an Arizona non-profit corporation that is exempt from federal income taxation  
13 under Section 501(c)(3) of the Internal Revenue Code of 1986, as amended. RCSC was  
14 incorporated in 1997 for charitable and educational purposes, and has the purpose of benefiting,  
15 performing the functions of, and carrying out the purposes of the medical care in the community.  
16 RCSC is the sole member and sponsor of CGRMC, RCPG and CGRRC. The RCSC board of  
17 directors consists of five members (four independent members and one physician). As of the  
18 Petition Date, RCSC's management consists of Rona Curphy as President, Karen Francis as  
19 Chief Financial Officer, Cherie McGlynn as Chairman, David Fitzgibbons as Vice Chairman, and  
20 John Robert McEvoy as Secretary/Treasurer.

21 CGRRC is an Arizona non-profit corporation that is exempt from federal income taxation  
22 under Section 501(c)(3) of the Internal Revenue Code of 1986, as amended. CGRRC was  
23 incorporated in 1989 with the purpose of, among other things, providing elderly and handicapped  
24 persons housing facilities and services specially designed to meet specific physical, social, and  
25 psychological needs. The organization's central purpose also included support for charitable,  
26 educational, and other exempt activities of CGRMC. CGRRC is the borrower on the loan for the  
27 Urgent Care Center utilized under Hospital operations but there has been no activity in this  
28 organization since 2005. As of the Petition Date, CGRRC's management consists of Rona Curphy

1 as President/CEO, Cherie McGlynn as Chairman, David Fitzgibbons as Vice Chairman, and John  
2 Robert McEvoy as Secretary/Treasurer.

3 RCPG is an Arizona non-profit corporation that is exempt from federal income taxation  
4 under Section 501(c)(3) of the Internal Revenue Code of 1986, as amended. RCPG was  
5 incorporated in 2008 with the purpose of providing medical services, medical programs and  
6 health care for the benefit of patients in the service area of Casa Grande, and to manage the  
7 operations of employed physicians that had formerly been under CGRMC operations. As of the  
8 Petition Date, RCPG's management consists of Rona Curphy as President/Chief Executive  
9 Officer and Karen Francis as Chief Financial Officer.

10 **C. Description of the Non-Debtor Affiliates**

11 Casa Grande Community Hospital Foundation, Inc. (the "Foundation") was formed solely  
12 and exclusively for the promotion of fundraising, charitable programs and to receive donations  
13 for the benefit of the CGRMC and its affiliates. The Foundation ensures that donors' intent is  
14 carried out in use of the funds. The Foundation raises and provides funds for, among other things,  
15 breast mammograms and diagnostics to uninsured women, pediatric clinic services, and  
16 medications. Officers of the Foundation are David Fitzgibbons as Chairman, Robert McEvoy as  
17 Secretary and Cherie McGlynn as Treasurer.

18 Regional Health Care Ventures, Inc. ("RHCV") was formed for the purpose of holding a  
19 minority interest in the joint venture for providing cancer treatment services for Arizona. There  
20 are no operations at this entity. Officers of RHCV are Cherie McGlynn as Chairman and Rona  
21 Curphy as President.

22 **D. Outstanding Debts**

23 **1. Bond Debt**

24 CGRMC issued certain Hospital Revenue Refunding Bonds (Casa Grande Regional  
25 Medical Center), Series 2001A, pursuant to the Bond Documents (as defined in the Plan) in the  
26 aggregate principal amount of \$41,485,000. CGRMC further issued certain Hospital Revenue  
27 Refunding Bonds (Casa Grande Regional Medical Center), Series 2001B pursuant to the same  
28 Bond Documents in the aggregate principal amount of \$4,645,000. Finally, CGRMC issued

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1 certain Hospital Revenue Bonds (Casa Grande Regional Medical Center) Series 2002A pursuant  
2 to the same Bond Documents in the aggregate principal amount \$25,475,000. The outstanding  
3 principal due and owing on the bond obligations totals approximately \$63,785,000.

4 To secure repayment of the Bonds, CGRMC granted liens on its interest in the “Casa  
5 Grande Hospital Site,” all “Buildings and Improvements” thereon, all “Collateral,” and all  
6 “Fixtures” as defined in the Bond Documents, which liens collectively may cover substantially all  
7 of CGRMC’s assets, including real estate. The grant of liens on rights to payment from Medicare  
8 and similar programs which provide 70 percent of the Debtors’ revenues, however, is subject to  
9 the federal Anti-Assignment Act. In addition, due to the nature of the Debtors’ operating bank  
10 accounts, the lien on the Debtors’ cash may be limited to identifiable proceeds of other collateral,  
11 reducing the scope of the lien. On November 18, 2013, the Bond Trustee with respect to the  
12 Bonds filed an amended UCC financing statement. To the extent that this financing statement  
13 was necessary to perfect security interests in CGRMC’s personal property, the filing could be  
14 subject to review pursuant to Bankruptcy Code section 547.

15 The Plan provides that the Allowed Bondholder Claim, but not the Allowed Bond  
16 Redemption Premium Claim, will be paid in full on or about the Effective Date, notwithstanding  
17 any questions or issues regarding the full extent of the collateral securing the Bonds or whether  
18 any grants of security are subject to preference or other avoidance challenge. In consideration,  
19 the Allowed Bond Redemption Premium Claim shall be subordinate in payment to Class 4  
20 General Unsecured Claims and shall be paid to the extent funds are available for distribution from  
21 the Creditor Trust after (a) the Reserves, (b) payment of Administrative Expenses, Priority  
22 Claims, and Tax Claims provided in Article IV of the Plan not otherwise contained in the  
23 Reserve, and (c) payment on account of Allowed Claims in Classes 1 (except for the Allowed  
24 Bond Redemption Premium Claim), 3, and 4.

## 25 **2. Morgan Stanley Debt**

26 In May 2005, CGRMC entered into several derivative financial agreements and  
27 transactions (collectively, and together with the Term Sheet (defined below), the “Morgan  
28 Stanley Documents and Transactions”) with Morgan Stanley Capital Services LLC (f/k/a Morgan

1 Stanley Capital Services, Inc.) and/or Morgan Stanley & Co. LLC (f/k/a Morgan Stanley & Co.  
2 Incorporated) (collectively, “Morgan Stanley”), consisting of the ISDA Master Agreement, dated  
3 as of May 26, 2005, between CGRMC and Morgan Stanley Capital Services LLC (f/k/a Morgan  
4 Stanley Capital Services Inc.) (as subsequently amended and together with any schedules and  
5 exhibits thereto and confirmation thereunder), the Credit Support Annex to the schedule to the  
6 Master Agreement, dated as of May 26, 2005, between CGRMC and Morgan Stanley Capital  
7 Services LLC (f/k/a Morgan Stanley Capital Services Inc.) (as amended on April 1, 2010 and as  
8 subsequently amended and together with any schedules and exhibits thereto), the transactions  
9 entered into between CGRMC and Morgan Stanley under the ISDA Master Agreement, including  
10 those evidenced by the confirmations dated May 26, 2005 and bearing Morgan Stanley Reference  
11 Numbers AUD5K, AUD5J, AUD5M, AUD5N and AUD5P, the Debt Service Fund (Principal  
12 Account) Forward Delivery Agreement, dated as of May 26, 2005, by and among CGRMC,  
13 Wells Fargo Bank, National Association, as trustee, Morgan Stanley Capital Services LLC (f/k/a  
14 Morgan Stanley Capital Services, Inc.), and Morgan Stanley & Co. LLC (f/k/a Morgan Stanley &  
15 Co. Incorporated), the Debt Service Reserve Fund Forward Delivery Agreement, dated as of May  
16 26, 2005, by and among CGRMC, Wells Fargo Bank, National Association, as trustee, Morgan  
17 Stanley Capital Services LLC (f/k/a Morgan Stanley Capital Services, Inc.), and Morgan Stanley  
18 & Co. LLC (f/k/a Morgan Stanley & Co. Incorporated), and the Debt Service Fund (Interest  
19 Account) Forward Delivery Agreement, dated as of May 26, 2005, by and among CGRMC,  
20 Wells Fargo Bank, National Association, as trustee, Morgan Stanley Capital Services, LLC (f/k/a  
21 Morgan Stanley Capital Services, Inc.), and Morgan Stanley & Co. LLC (f/k/a Morgan Stanley &  
22 Co. Incorporated).

23 As collateral under the Morgan Stanley Documents and Transactions, Morgan Stanley  
24 maintained a bank account in its name (the “Collateral Account,” with funds in the Collateral  
25 Account that CGRMC was obligated to fund from time to time in accordance with the Morgan  
26 Stanley Documents and Transactions, the “Morgan Stanley Collateral”). The Debtors’ books and  
27 records indicate that \$752,372 is currently on deposit in the Collateral Account. CGRMC’s  
28 obligations under the Morgan Stanley Documents and Transactions were otherwise unsecured.



1 On April 1, 2010, CGRMC and Morgan Stanley Capital Services LLC (f/k/a Morgan  
2 Stanley Capital Services Inc.) entered into that certain Term Sheet, which, among other things, (i)  
3 resolved the parties' disagreement as to CGRMC's obligations to post eligible collateral pursuant  
4 to the Morgan Stanley Documents and Transactions, and (ii) terminated transactions evidenced by  
5 the confirmations bearing Reference Numbers AUD5N and AUD5P (the "Term Sheet").

6 On February 7, 2014, Morgan Stanley delivered notices to CGRMC that events of default  
7 had occurred and were continuing under the Morgan Stanley Documents and Transactions and  
8 that Morgan Stanley was exercising its right to immediately terminate the remaining Morgan  
9 Stanley Documents and Transactions in accordance with their respective terms. On February 21,  
10 2014, Morgan Stanley delivered to CGRMC a settlement statement (the "Morgan Stanley  
11 Settlement Statement") setting forth the amounts Morgan Stanley alleges are due and owing by  
12 the Debtors to Morgan Stanley under the Morgan Stanley Documents and Transactions.

13 Morgan Stanley's claims against the Debtors pursuant to the Morgan Stanley Documents  
14 and Transactions include: (i) a secured claim secured by and to the extent of the Morgan Stanley  
15 Collateral (the "Allowed Morgan Stanley Secured Claim") and (ii) a General Unsecured Claim  
16 for the remainder of the Debtors' outstanding obligations under the Morgan Stanley Documents  
17 and Transactions not secured by the Morgan Stanley Collateral, which Claim shall be Allowed in  
18 the amount of \$3,877,640<sup>2</sup> (the "Allowed Morgan Stanley Unsecured Claim").

### 19 3. Equipment Lease Obligations

20 The Debtors have certain debt obligations on account of medical equipment leases by and  
21 between CGRMC and various medical equipment and equipment service providers including, but  
22 not limited to, Siemens Financial Services, Inc. and First Financial Corporate Leasing. As of the  
23 Petition Date, capital lease obligations in the aggregate are estimated to be \$303,532. The Debtors  
24 intend to exercise a buyout with respect to all equipment as set forth in the respective leases under  
25 the Allowed Siemens Claim and the Allowed First Financial Corporate Claim, and sell the

26  
27 <sup>2</sup> Pursuant to the Morgan Stanley Settlement Statement, Morgan Stanley asserted that it is owed  
28 \$4,029,307 on account of the Allowed Morgan Stanley Unsecured Claim. The Debtors calculations  
indicate that Morgan Stanley is owed \$3,877,640 on account of the Allowed Morgan Stanley Unsecured  
Claim. Morgan Stanley has consented to the Debtors' calculated amount.

1 equipment free and clear of liens to Banner. Based on the Debtors' books and records, the buyout  
2 costs with respect to Siemens Financial Services, Inc. total approximately \$180,000, and the  
3 buyout costs with respect to First Financial Corporate Leasing total approximately \$83,000.

#### 4 **4. Trade Debt**

5 The Debtors' trade debt consists of unsecured vendor liabilities that, in the aggregate,  
6 approximate \$6.0 million as of the Petition Date. The Debtors' trade debt is typical for that of a  
7 hospital -- debts for medical supplies and other goods and services necessary to provide patient  
8 care and maintain the hospital.

#### 9 **5. Bank Loans**

10 The Debtors have two bank loans pursuant to a certain bank loan agreement, dated  
11 June 25, 2004, by and between RCSC and Sunstate Bank in the principal amount of \$1,500,000  
12 relating to the Pavilion; and a certain bank loan agreement, dated September 15, 2005, by and  
13 between CGRRC and Sunstate Bank in the principal amount of \$1,440,000 relating to the Urgent  
14 Care Center. Great Western Bank now holds the beneficial interest with respect to these bank  
15 loans.

#### 16 **E. Major Assets**

17 The Debtors operate the Urgent Care Center located at 1676 E. McMurray Blvd. Casa  
18 Grande, AZ (Tax Parcel No. 505-66-002, 505-66-001). The bank loan agreement dated  
19 September 15, 2005 by and between Sunstate Bank and CGRRC provides a security interest  
20 against this real property for the benefit of Great Western Bank, the Holder of the Claim.

21 In addition to the Urgent Care Center, the Debtors own real property located at 950 N.  
22 Arizola Rd., Casa Grande, AZ 85122 ((Tax Parcel Nos. 505-22-0200, 505-22-0210, 505-84-0020,  
23 505-84-0030, 505-84-0040, 505-84-0050). The bank loan agreement dated June 25, 2004 by and  
24 between Sunstate Bank and Regional Care Services Corp. provides a security interest against this  
25 real property for the benefit of Great Western Bank, the Holder of the Claim.

26 The Debtors own real estate, including property located at 1780 E. Florence Blvd. and  
27 1800 E. Florence Blvd. The property located at 1800 E. Florence Blvd. (505-22-022C, 505-22-  
28 022D505-22-0230, 505-22-0190, and 505-22-022B) is encumbered by two deeds of trust,

1 including one held by Wells Fargo and another held by Republic Bank. The property located at  
2 1780 E. Florence Blvd. (Tax Parcel Nos. 505-22-0730, 505-22-0700, and 505-22-0750) is  
3 comprised of three units (Unit 1, Unit 4, and Unit 6). Unit 4 is encumbered by a deed of trust  
4 originally held by Sunstate Bank.

5 Finally, the Debtors also own the following real properties: (i) property located at 1828 E.  
6 Florence Blvd. (Tax Parcel No. 505-22-0240), and (ii) raw land (Tax Parcel Nos. 505-22-0130  
7 and 505-22-012C).<sup>3</sup>

8 The Debtors have nineteen bank accounts including twelve operating accounts, two  
9 savings accounts, and five collateral accounts. The Debtors' obligations under the Bond  
10 Documents are secured by cash in the Collateral Account at Wells Fargo & Company. The  
11 Debtors' obligations under the Morgan Stanley Documents and Transactions are secured only by  
12 and to the extent of the cash in the Morgan Stanley Collateral Account.

13 The Debtors' assets also include intercompany receivables and non-intercompany  
14 receivables. The four non-intercompany receivables include: (1) patient receivables; (2) rent  
15 receivables ; (3) receivable by Oasis Pavilion Nursing & Rehabilitation; and (4) pharmacy  
16 receivables. The Debtors anticipate full collection on the four non-intercompany receivables  
17 because the amounts are based on net estimated collectible amounts. The Allowed Cardinal Claim  
18 and the Allowed Bondholder Claim are secured by these accounts.

19 The Debtors also own building fixtures and equipment. Schedule 3.3 to the APA provides  
20 a list of encumbrances on the Debtors' building fixtures and equipment.

21 The Debtors hold inventory with an estimated value of \$2,640,981. The Allowed Cardinal  
22 Claim and the Allowed Bondholder Claim are secured by inventory.

23 The Debtors' prepaid assets are comprised of the following: (i) prepaid insurance, (ii)  
24 prepaid service agreements, (iii) prepaid dues and subscriptions, (iv) prepaid accounts payable,  
25 and (v) prepaid software licensing and support. These prepaid assets are not likely to be recovered  
26 in a liquidation scenario.

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27 <sup>3</sup> Property located at 2111 Sweetwater Drive (Tax Parcel No. 504-51-0190) is owned by Casa  
28 Grande Community Hospital Foundation, Inc., a non-Debtor entity.

1 Finally, the Debtors expect an estimated potential recovery in the amount of \$480,505.95  
2 (plus costs and interest) from a pending litigation matter in front of the Ninth Circuit Court of  
3 Appeals titled Regional Care Services Corporation Health and Welfare Employee Benefit Plan v.  
4 Companion Life Insurance Company, United States District Court No. CV10-2597-PHX-LOA,  
5 Ninth Circuit No. 12-16538. The basis of the lawsuit was to recover on a denied claim under a  
6 stop loss policy. RCSC prevailed on its claim in district court and the matter has been fully  
7 briefed at the Ninth Circuit, awaiting arguments.

8 **F. Other Litigation**

9 The Debtors have a pending lawsuit brought by InterTech Computer Products, Inc. against  
10 Casa Grande Regional MedicalCenter ("CGRMC") and Bret Huth. In 2009, CGRMC entered  
11 into an IT Managed Services Agreement with InterTech to provide remote helpdesk and vendor  
12 management of CGRMC's computer systems. In May 2010, Huth, an InterTech employee, was  
13 assigned to be the primary InterTech technical support contact for CGRMC. Because the  
14 proposed renewal rates were excessive, CGRMC terminated the InterTech contract on April 30,  
15 2012 and posted an opening for the position to bring the services in house. Huth applied for the  
16 position in June 2012 and was offered the position. Before he commenced work, InterTech  
17 intervened claiming that CGRMC's employment of Huth violated their Agreement. Without  
18 admitting fault, CGRMC withdrew the employment offer to Huth. Notwithstanding, InterTech  
19 filed suit on July 27, 2012 alleging that CGRMC breached the terms of its Agreement, which  
20 caused immediate and irreparable harm and monetary damages. InterTech also alleged causes for  
21 breach of the implied covenant of good faith and fair dealing and aiding and abetting. It is  
22 CGRMC's position that the Agreement only prohibits solicitation of InterTech employees and the  
23 posting of a job opening is not a solicitation, therefore it did not breach the terms of the contract  
24 and the case has no merit. In addition, CGRMC did not ultimately hire Huth. The parties  
25 participated in a court ordered mediation on October 28, 2013. InterTech's demand for \$138,000  
26 to settle was rejected by CGRMC.

27 **G. Events Leading to Chapter 11 Filing**

28 **1. Financial Challenges**

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1 The Arizona Health Care Cost Containment System (“AHCCCS”) is Arizona’s Medicaid  
2 program. AHCCCS oversees contracted health plans in the delivery of health care to individuals  
3 and families who qualify for Medicaid and other medical assistance programs. AHCCCS,  
4 through its contracted health plans, pays hospitals and other health care providers for inpatient  
5 and outpatient services provided to AHCCCS members. Additionally, AHCCCS makes  
6 supplemental payments to hospitals for different purposes and activities.

7 In 2011, AHCCCS’s per diem reimbursement rates were reduced by more than ten  
8 percent. Effective October 1, 2011, AHCCCS eliminated reimbursement for AHCCCS-eligible  
9 patients after the twenty-fifth day of any inpatient treatment at a hospital or long-term acute care  
10 facility during the federal fiscal year from October 1st through September 30th. AHCCCS also  
11 eliminated coverage for otherwise eligible patients who do not have dependent children. These  
12 changes resulted in a dramatic decrease in the Hospital’s AHCCCS reimbursement for the  
13 medical services it provides to these indigent patients.

14 CGRMC estimates that these changes resulted in a decline of its revenue in excess of \$10  
15 million from 2011 to 2013. These AHCCCS changes also resulted in decreases in supplemental  
16 federal reimbursements linked to treatment of Medicaid-eligible patients of an additional \$1  
17 million annually.

18 Other external factors have also led to declining revenues including the industry-wide  
19 migration of treatment from inpatient to outpatient settings (which are reimbursed at significantly  
20 lower rates) and the 2% across the board reduction in Medicare reimbursement rates due to the  
21 federal budget sequestration. For the fiscal year ended June 30, 2013, the Hospital’s net patient  
22 service revenue declined by over 11% from 2011 levels. In the first six months of the current  
23 fiscal year, inpatient admissions have declined by approximately 15%, compared to the same  
24 period in the prior year resulting in a further reduction in revenue. These changing dynamics  
25 have substantially impacted CGRMC’s operating margins and liquidity over the last two and one-  
26 half years.

1 The Debtors have significant debt obligations, including its obligations under Bond  
2 Documents in the aggregate principal amount of \$63,785,000. As a result of these financial  
3 challenges, the Debtors violated certain bond covenants beginning on June 30, 2013.

4 The Debtors' business is very seasonal with patient volumes ramping up in the late Fall  
5 and Winter and dropping off in the Spring, mirroring the population of the community. As a  
6 result of this seasonality, CGRMC's working capital needs increase significantly as it increases  
7 its staffing levels, purchased supplies and services to provide care for patients well in advance of  
8 receiving reimbursement from Medicare, AHCCCS, commercial insurers and other payers.

9 Notwithstanding the financial challenges that CGRMC faces, the local community's need  
10 for its medical services is critical. CGRMC is the primary medical service provider in its service  
11 area, with an overall market share of approximately 59% in 2012. For the 12 months ended  
12 June 30, 2013, CGRMC admitted over 7,600 patients and had over 58,000 emergency room and  
13 urgent care visits.

## 14 **2. Review of Strategic Options**

15 In the summer of 2013, CGRMC commenced an intensive review of strategic options that  
16 would ensure that CGRMC could continue providing quality health care to the Casa Grande  
17 community and surrounding areas and that the Debtors' creditor obligations would be satisfied.

18 CGRMC and other hospitals who had been negatively impacted by the 2011 changes in  
19 AHCCCS applied to the federal government for a provider tax assessment program that was  
20 expected to generate an incremental \$11,756,252 of net income to the Hospital for the last three  
21 quarters of fiscal year 2013 and first two quarters in fiscal year 2014. This application was not  
22 approved by the appropriate government agencies.

23 CGRMC pursued a refinancing of its bonds through a federal program that would have  
24 reduced its financing costs by over \$2.5 million annually predicated on a successful  
25 implementation of the provider tax assessment program. This refinancing effort ultimately failed  
26 when the provider tax was not approved.

27 CGRMC also pursued a strategic partnership with a for-profit hospital system based in  
28 Brentwood, Tennessee. This effort ultimately failed.

1 In May 2013, CGRMC retained Hammond Hanlon Camp (“H2C”), a leading financial  
2 advisor and investment banker for hospital and health systems, to assess CGRMC’s strategic and  
3 restructuring options. CGRMC concluded that it would have inadequate cash to continue  
4 operations and was forced to evaluate all strategic options, including filing for bankruptcy.  
5 Nevertheless, CGRMC continued to search for other strategic partners and options that would  
6 avoid insolvency.

7 In October 2013, on behalf of CGRMC, H2C contacted twenty potential strategic partners,  
8 fifteen of which received CGRMC’s confidential information memorandum describing CGRMC,  
9 its operations, the Casa Grande market, and the Hospital’s financial condition. Six of the  
10 recipients submitted an indication of interest in CGRMC, including Banner, another potential not-  
11 for-profit strategic partner, and four for-profit health systems. Ultimately, Banner and three other  
12 potential strategic partners, including Dignity Health, a California non-profit public benefit  
13 corporation, submitted proposed term sheets for a potential partnership.

14 The CGRMC Board considered numerous factors in choosing a strategic partner,  
15 including the likelihood of satisfying creditor claims, execution risk, transition of the assets from  
16 the Debtors as a non-profit to Banner as a non-profit, and CGRMC’s mission, and determined that  
17 Banner presented the best option to satisfy the Debtors’ creditor obligations and continue  
18 CGRMC’s mission to provide and expand quality health care to the Casa Grande community and  
19 surrounding areas in a caring and compassionate environment. The CGRMC Board concluded  
20 that the terms proposed by Dignity Health were inferior to those proposed by Banner because of,  
21 among other reasons, the significant execution risk and the determination that the Banner  
22 transaction was more likely to continue CGRMC’s mission to provide quality health care to the  
23 Casa Grande community. Moreover, Banner played a greater role in understanding and  
24 facilitating the federal review process under Hart-Scott Rodino.

### 25 3. About Banner

26 Banner is a non-profit health system headquartered in Phoenix, Arizona that operates 24  
27 hospitals and health care facilities in Alaska, Arizona, California, Colorado, Nebraska, Nevada  
28 and Wyoming, in addition to the Banner Health Network and Banner Medical Group. It currently

1 employs approximately 36,000 individuals. Banner provides a strong financial option for  
2 CGRMC, with operating revenue of \$5.0 billion, operating earnings before interest, taxes,  
3 depreciation and amortization of \$683 million, cash and investments of \$3.6 billion, almost 300  
4 days cash on hand, and an Aa3/AA- rating. Significantly, the substantial capital of reserves on  
5 hand shows financial strength and ability to make needed capital investments. As important,  
6 Banner's non-profit mission of making a difference in people's lives through excellent patient  
7 care, and reinvesting all of its earnings back into improving patient care, aligns directly with  
8 CGRMC's mission.

#### 9 **4. Debtors' Current Financial Status**

10 According to the Debtors' books and records, as of February 28, 2014, CGRMC continues  
11 to demonstrate the severe financial stress the Hospital is operating under. The eight month fiscal  
12 year operating loss equals \$12.25 million, which is more than twice the loss from a year ago of  
13 \$5.8 million. The current year loss also includes a one-time transfer from its Foundation of \$1.45  
14 million and an additional \$1.47 million from Medicare Meaningful Use reimbursement. There  
15 will be no additional funds received from either of these sources the remainder of the fiscal year.  
16 Without these two sources of funding this year, the Hospital's loss year to date would be \$15.16  
17 million.

18 The Hospital has written off \$27 million in bad debts and charity. Medicaid (AHCCCS)  
19 expansion began in Arizona on January 1st, but will continue to be a very slow process as the  
20 state AHCCCS program more than doubles its enrolled members over the next eighteen months.  
21 As payments lag at least 60-90 days behind providing the services to patients, the Debtors do not  
22 anticipate seeing any significant positive impact to their cash position for several months. In  
23 addition, the expansion does not eliminate the reimbursement cuts put into place in 2011 by  
24 AHCCCS. Those cuts reduced the payment rate by over 10% and limited inpatient Hospital  
25 coverage payments to 25 days per year.

26 The Hospital had total unrestricted cash in the amount of \$6.464 million available for use  
27 on February 28th. This includes \$4.82 million of cash funding provided from Banner Health  
28 since January. Without the additional funding beginning in January, the Hospital would not have



1 been able to pay its payroll and would be completely insolvent at this time. The Hospital began  
2 delaying payments to its vendors last May. Prior to the bankruptcy filing many vendors began  
3 demanding payment for back invoices before they would deliver any more product or services.  
4 Since the filing, many additional vendors have now gone to COD or require a wire payment on  
5 the day of delivery to continue to provide goods. Even with the funding from Banner, trade  
6 accounts payable have still increased \$3.8 million over the prior year.

7 The Hospital has not funded its mandatory Bond sinking fund payments of approximately  
8 \$540,000 per month to preserve its cash since September 2013. This is a default under the Bond  
9 covenants as are its ongoing failure to meets its debt coverage ratio and required days of cash on  
10 hand ratio.

11 The Hospital has only expended \$1.5 million for its capital needs the past nineteen  
12 months. The industry standard for capital expenditures in Hospitals is to spend at least as much  
13 as current year depreciation to prevent the aging of the plant and equipment. This would have  
14 required total capital expenditures during this same nineteen month period of \$9.5 million. As a  
15 result, the Hospital's plant and equipment is rapidly aging. During this time, capital dollars have  
16 only been expended for two primary purposes: (1) when a piece of existing equipment breaks and  
17 cannot be repaired because the item is so old it is unserviceable, or the repair costs don't make  
18 sense in relation to the new purchase cost; and (2) additional investment has been required in  
19 information technology to enable the Hospital to continue to qualify for meaningful use dollars,  
20 which substantially exceed the cost of investment. If meaningful use is not met by a Hospital by  
21 2015, Medicare will begin reducing payments.

22 Were a significant piece of Hospital equipment to break today, there are no dollars  
23 available to replace it and there is no financing available due to the current financial situation.  
24 This has been the situation for over a year. An example of this is the Hospital's cardiac  
25 cathertization laboratory equipment. This equipment is more than fourteen years old, has gone  
26 down unexpectedly multiple times the past year with various part failures, and will cost \$2  
27 million to replace. This equipment provides a much needed service within the Community and  
28 has saved many lives.

### III. DESCRIPTION OF PLAN TERMS

#### A. Description of the Plan and Means of Implementation

The entire text of the Plan has been provided with this Disclosure Statement, and a general overview of the Plan is provided in Article I. The following is a summary of certain provisions of the Plan; however, this summary is not comprehensive. The Plan and not the Disclosure Statement is the legally operative document that controls the relationship between the Debtors and their Creditors. Therefore, the Plan should be read carefully and independently of this Disclosure Statement. Creditors are urged to consult with counsel and other professionals in order to fully resolve any questions concerning the Plan.

#### B. Plan Summary

The Plan proposes two basic sets of transactions. First, the Debtors would sell substantially all of their assets to Banner. Second, the net sales proceeds would be disbursed out of escrow to pay the Allowed Bondholder Claim in the compromised amount, with the balance placed in a trust for the benefit of creditors and distributed in accordance with their amounts, lien rights or statutory priority. If there are disputes as to claim amounts or other relevant matters, such disputes may be brought before the Bankruptcy Court for determination,

#### C. Banner Transaction

##### 1. Overview

A copy of the Asset Purchase Agreement, by and between the Debtors, as sellers, and Banner, as purchaser, dated as of February 4, 2014, and as may be amended, modified or supplemented from time to time (the “APA”), is attached as Exhibit A to the Plan. The details of the transaction set forth in the APA and its specific terms control. By way of a general description, however, Banner and the Debtors agreed that Banner would acquire, among other things, substantially all of the Debtors’ assets with the exception of certain excluded assets (as more specifically set forth in the APA, the “Transferred Assets”) and would assume certain liabilities.

Banner will pay Debtors cash equal to the lesser of (A) the aggregate amount necessary to pay Allowed Claims against the Debtors in full after payment of allowed, unpaid pre-

1 confirmation expenses of the bankruptcy and post-confirmation bankruptcy expenses approved by  
2 Banner or approved by the Court, excluding postpetition interest on unsecured claims and  
3 excluding all claims of Banner, or (B) \$87,000,000 minus certain paid time off obligations for  
4 employees who will work for Banner after the Sale Closing and certain pre-Closing taxes and also  
5 certain Cost Report liabilities of the Debtors (the “Purchase Price”). At Closing, Banner will  
6 deliver an amount the parties determine under alternative (B) into escrow. The escrow agent will  
7 record documents and disburse the funds. The amount necessary to pay the Allowed Bondholder  
8 Claim will be paid out of escrow and the balance will be disbursed to the Creditor Trust to be  
9 administered and disbursed in accordance with the APA, the Plan, and the Confirmation Order.  
10 Upon payment in full of certain bankruptcy expenses and Allowed Claims, the Creditor Trust will  
11 return any remaining cash to Banner.

12 In addition to the cash payment, prepetition and postpetition loans that Banner extended  
13 to the Debtors to sustain hospital operations and allow the Chapter 11 Cases to proceed, in a total  
14 principal amount up to \$9,507,845, will be deemed satisfied upon the Sale Closing.

## 15 **2. Conditions to Closing**

16 Pursuant to Section 7.1(a)(iii) of the APA, Banner had the right to terminate the APA any  
17 time up to and including February 28, 2014 if it determined, based on due diligence or otherwise,  
18 that it was no longer commercially reasonable to proceed to Closing. *See* APA at § 7.1(a)(iii).  
19 That date has passed and Banner has not exercised its option to terminate. Accordingly, Banner  
20 may only terminate the APA, without the consent of the Debtors, under three scenarios: (i) if a  
21 condition to Banner’s obligation to close, as set forth in Section 6.1 of the APA, is not satisfied;  
22 (ii) if an Action (as defined therein) is commenced by a governmental authority under applicable  
23 federal or state antitrust law seeking to enjoin, modify or otherwise prohibit the Sale; and (iii) if  
24 the Sale does not close by June 30, 2014. *Id.* at § 7.1.

25 The conditions to Banner’s obligation to close, provided under Section 6.1 of the APA,  
26 include: (i) the representations and warranties made by the Debtors are true and accurate, and the  
27 covenants and obligations of the Debtors have been performed; (ii) there is no stay of the  
28 Confirmation Order in effect and no injunction, restraining order proceeding or regulation in

1 effect that enjoins or prohibits the Sale; (iii) all governmental and third-party approvals necessary  
2 for consummation of the Sale have been obtained; (iv) any consents necessary to transfer the  
3 Transferred Assets have been obtained; (v) all Encumbrances other than Permitted Encumbrances  
4 (as those terms are defined in the APA) on the Transferred Assets have been released; and (vi) the  
5 Confirmation Order shall have been entered in a form and substance reasonably acceptable to  
6 Banner. The Debtors are confident that each of the conditions to Banner's obligation to close will  
7 be met.

### 8 **3. Purchase and Sale**

9 Subject to the terms and conditions of the APA, and pursuant to the Plan, Banner will  
10 purchase, and the Debtors will sell, the Transferred Assets on the Effective Date or at a later date  
11 consistent with the terms of the APA. The Plan further provides that (i) Banner and the Debtors  
12 shall perform the terms and conditions of the APA, and (ii) upon the Effective Date and subject to  
13 the conditions of the APA, the Debtors are authorized and directed to execute, deliver, perform  
14 under, consummate and implement the APA, together with all additional instruments and  
15 documents reasonably necessary or desirable to implement it.

16 The Plan provides for a private sale to Banner. The Debtors do not intend to hold a public  
17 auction for the Transferred Assets. Dignity Health, an unsuccessful bidder whose proposal the  
18 Debtors decided not to pursue, has acquired roughly \$950 in claims in order to obtain standing to  
19 be heard in these Cases. Dignity Health has argued, among other things, that a private sale to  
20 Banner not subject to auction is improper. The Debtors are aware of no statute or rule requiring  
21 the Sale be subject to auction, and none have been cited by Dignity. The Debtors believe that a  
22 marketing and selection process additional to the one that was conducted prior to the  
23 commencement of these Cases would not be in the best interests of creditors nor would it serve to  
24 further CGRMC's mission. Several factors inform the Debtors' judgment in that regard.  
25 Proceeds from the Sale to Banner are anticipated to pay all Allowed Claims in full. The Debtors  
26 have made significant progress with Banner toward closing the transaction, and Banner is  
27 prepared to close, assuming all the conditions to closing are satisfied, once the confirmation order  
28 becomes final. The Debtors are confident that all conditions to Banner's obligation to close will

1 be satisfied. And discretionary regulatory approvals necessary to effectuate the Sale have  
2 occurred with respect to the Sale to Banner, leaving only non-discretionary actions still to be  
3 completed (e.g. issuance of a new hospital license and the like). To reopen the process to other  
4 potential purchasers could provide Banner incentive and the legal right to terminate the APA.  
5 Moreover, the sale to any party other than Banner would necessarily involve significant continued  
6 operating and bankruptcy costs, risk, delay, and incremental (unfunded) costs as those regulatory  
7 approval processes would start over, including the 90-day notice requirement under the Day Act,  
8 and no other potential purchaser has undertaken material diligence efforts. Accordingly, the  
9 Debtors believe that the Sale to Banner, as provided for under the Plan, is in the best interests of  
10 creditors and the estates.

#### 11 **4. Privacy Ombudsman**

12 On March 25, 2014, the United States Trustee for the District of Arizona filed a motion  
13 seeking appointment of a consumer privacy ombudsman pursuant to section 332 of the  
14 Bankruptcy Code. The Debtors conditionally do not oppose the appointment of such an  
15 ombudsman. If appointed, the ombudsman would report on whether the Sale to Banner, which  
16 includes the sale of “personally identifiable information”, complies with the Debtors’ privacy  
17 policy or non-bankruptcy law. To assist in this process, Banner has filed with the Court a  
18 declaration outlining its own privacy policies.

#### 19 **5. Corporate Authority**

20 The Plan and Confirmation Order shall constitute full corporate authorization to execute  
21 and perform the APA.

#### 22 **6. Transfer Free and Clear**

23 Pursuant to the Plan and Bankruptcy Code sections 363(f) and 1141(c), the sale and  
24 transfer of the Transferred Assets to Banner shall be free and clear of all claims and interests in  
25 such Transferred Assets, including liens, claims, interests, obligations and encumbrances  
26 whatsoever, held by Creditors or members of the Debtors. Liens shall attach to the Sale Proceeds  
27 in the same validity, scope and priority as existed against the Transferred Assets and shall be held  
28 in the Secured Claim Reserve pending distribution by the Creditor Trustee.

1                               **7.       Banner Assumes No Liability**

2               Except for the Assumed Liabilities (as defined in the APA), Banner shall assume no  
3       liability to any Creditor of the Debtors by virtue of the transactions provided for in the Plan and  
4       the APA under any theory of contract, tort or doctrine of successor liability. Banner shall be  
5       deemed not to be a successor to the Debtors for purposes of the doctrine of successor liability.  
6       Upon the Effective Date and the closing pursuant to the APA, each and every holder of a claim  
7       against the Debtors shall be permanently enjoined from commencing, continuing or otherwise  
8       pursuing or enforcing any remedy, claim, cause of action or encumbrance against Banner or the  
9       Transferred Assets.

10                           **8.       Employment Arrangements**

11              As of the date of execution of the APA, and except to the extent provided under Section  
12       5.8(e) of the APA, no member of the senior management team had received any promise by  
13       Banner regarding future employment or future compensation. As of March 12, 2014, Banner  
14       informed Ms. Curphy of its intent to continue her role under the same position, with the same  
15       responsibilities, and the same compensation structure with the exception of her transition into the  
16       benefits plan that Banner maintains for employees.

17                           **9.       Purchase Price**

18                           (i)       **Cash Purchase Price.** As generally described in the Overview  
19               above and set forth in detail in the APA, the Cash Purchase Price payable subject  
20               to the terms of the APA shall be paid to an escrow agent, who will pay the  
21               Allowed Bondholder Claim and disburse remaining funds to the Creditor Trust  
22               established pursuant to Section 9.01 of the Plan. Upon resolution of all Allowed  
23               and Disputed Claims, completion of distributions thereon and payment of the  
24               expenses of the Creditor Trust, all Professional Fees, and any fees due to the  
25               United States Trustee under 28 U.S.C. § 1930, and the Allowed Bond Redemption  
26               Premium Claim, any remaining funds shall be returned to Banner.  
27  
28

(ii) **Loan Forgiveness.** Pursuant to the Plan and in accordance with the APA, any and all obligations under the Prepetition Bridge Loan and the DIP Loan shall be deemed forgiven upon the Sale Closing.

#### **10. Professional Fees Reserve**

As provided in and subject to the terms of the DIP Loan, on the Effective Date Banner shall advance DIP Loan funds as part of the Carve-Out in an amount equal to the difference of (i) the cumulative amounts appearing in the Budget for professional fees and disbursements as of the Effective Date less (ii) the cumulative amounts actually funded for payment of Professional Fees and disbursements as of such date. The DIP Loan advance shall be deposited into a separate account maintained by the Creditor Trustee (the “Professional Fees Reserve Account”) and used exclusively for payment of allowed professional fees and disbursements incurred by Borrower or any committee appointed pursuant to 11 U.S.C. § 1102 prior to the Effective Date. In the event any balance remains in the Professional Fee Reserve Account after full payment of all such allowed professional fees and disbursements, such balance shall be returned to Banner.

#### **D. Treatment of Claims**

The Plan provides claims will be treated based upon their type, as follows:

##### **1. Administrative Expense Claims**

The deadline for filing an administrative expense claim (other than post-petition operating expenses or professional fees) (an “Administrative Expense Claim”) shall be 30 days after the Effective Date. Except to the extent any entity entitled to payment of an Allowed Administrative Expense Claim has received payment on account of such Claim prior to the Effective Date, each Holder of an Allowed Administrative Expense Claim shall receive, in full and final satisfaction of its Allowed Administrative Expense Claim, Cash in an amount equal to the amount of such Allowed Administrative Expense Claim, by the later of (i) the date that is 14 days after the Effective Date or (ii) the date that is 14 days after the Administrative Expense Claim is Allowed. Notwithstanding the foregoing, the Debtors are permitted to pay administrative expense claims arising from the ordinary course of business without the need for application or court order.

1 The estimated administrative expenses and fees to be paid for professionals are provided  
2 in further detail in the budget attached hereto as Exhibit B (the "Budget"). Based on the progress  
3 of these Cases, the Debtors currently estimate that the Plan Effective Date may occur on or  
4 around May 30, 2014. Assuming a May 30, 2014 Effective Date, the Budget provides for  
5 roughly \$3.7 million in administrative expenses and fees to be paid for professionals for the entire  
6 duration of these Cases, *i.e.*, the Petition Date through the Effective Date. That amount does not  
7 include a success fee payable to H2C, which is the greater of \$800,000 or 2% of the consideration  
8 received upon completion of the Sale closing. The \$3.7 million does include roughly \$250,000  
9 for fees of a creditors' committee, although one has not yet (and may not be) appointed. To the  
10 extent the Effective Date is delayed beyond May 30, 2014, administrative expenses and fees  
11 would increase, as set forth in the Budget. The Debtors believe that these administrative expenses  
12 and fees are commensurate with those that would be incurred if the Sale were to occur outside of  
13 bankruptcy.

## 14 **2. Tax Claims**

15 Except to the extent any entity entitled to payment of any Allowed Tax Claim has  
16 received payment on account of such Claim prior to the Effective Date, each Holder of an  
17 Allowed Tax Claim shall receive, in full and final satisfaction of its Allowed Tax Claim, Cash in  
18 an amount equal to the amount of such Tax Claim within 14 days after the Effective Date.

## 19 **3. Professional Fees**

20 Professionals retained by the Debtors or the Committee under §§ 327 of the Bankruptcy  
21 Code and to be compensated pursuant to §§ 327, 328, 330, 331, or 503(b)(2) or (4) of the  
22 Bankruptcy Code ("Professionals") seeking payment of professional fees or reimbursement of  
23 expenses incurred through and including the Effective Date under §§ 330(a) and 503(b)(2), of the  
24 Bankruptcy Code ("Professional Fees") shall file their respective final applications on or before  
25 the date that is 60 days after the Effective Date, unless otherwise directed by the Court.

26 Professionals include, but are not limited to: (i) Brownstein Hyatt Farber Schreck, LLP,  
27 the Debtors' bankruptcy counsel; (ii) Mesch Clark & Rothschild, P.C., local bankruptcy counsel;  
28 (iii) Grant Thornton LLP, the Debtors' financial advisor; (iv) Hammond Hanlon Camp LLP, the



Debtors' investment banker; (v) antitrust counsel; (vi) Epiq Bankruptcy Solutions, Inc., the Debtors' claims agent; and (vi) any Professionals retained by the Committee, if one is appointed. The Debtors estimate that the fees of the Professionals through the Effective Date of the Plan will not exceed the amounts budgeted by the Debtors.

#### **4. Priority Claims**

Each holder of a Priority Claim, if any, shall receive, in full and final satisfaction of its Priority Claim, Cash in an amount equal to the Allowed Amount of such Priority Claim within 14 days after the Effective Date.

#### **5. Statutory Fees**

On or before 30 days after the Effective Date, the Creditor Trustee shall make all payments required to be paid the U.S. Trustee pursuant to § 1930 of Title 28 of the United States Code. All fees payable pursuant to § 1930 of Title 28 of the United States Code after the Effective Date shall be paid by the Creditor Trustee on a quarterly basis until these Cases are closed, converted, or dismissed.

#### **6. Classified Claims**

The remaining Claims and Interests are divided into 5 Classes.

##### **(i) Class 1: Allowed Bond-Related Claims**

As of the Effective Date, the Allowed Bondholder Claim shall be deemed Allowed for all purposes in the aggregate principal amount of \$63,785,000, plus (ii) accrued interest thereon under the Bond Documents through the Confirmation Date, plus (iii) the reasonable fees and expenses of the Master Trustee and Bond Trustee, respectively, and their respective counsel and advisors in the amounts set forth in the Confirmation Order. By agreement, the Allowed Bondholder Claim does not include the Allowed Bond Redemption Premium Claim.

Also as of the Effective Date, the Master Trustee and the Bond Trustee shall be deemed to have applied all cash and cash equivalents held by each to reduce the aggregate amount of Allowed Bondholder Claim. According to the Debtors' books and records, this amount is estimated to be \$6.1 million. The remaining amount of the Allowed Bondholder Claim shall be paid through escrow at Sale Closing or as soon thereafter as reasonably practicable. The Allowed

1 Bond Redemption Premium Claim shall be subordinated to the Class 4 General Unsecured  
2 Claims and shall be paid if, and after, Allowed Claims in Classes 1 (except for the Allowed Bond  
3 Redemption Premium Claim), 3, and 4 are paid in full. This treatment of the Allowed Bondholder  
4 Claim and the Allowed Bond Redemption Premium Claim shall be in full and final satisfaction of  
5 the Allowed Bondholder Claim, the Allowed Bond Redemption Premium Claim, any and all  
6 Claims of the Bond Trustee, the Master Trustee, and all Holders of the Bonds, and all Claims in  
7 respect of, arising out of, or related to the Bond Documents.

8 (ii) Class 2: Banner Assumed Liabilities

9 The rights of the Holders of Class 2 Claims shall not be affected by the Plan or  
10 Confirmation Order. Banner has agreed to assume these liabilities pursuant to the APA.

11 (iii) Class 3: Secured Claims

12 **Class 3A.** Class 3A consists of the Secured Claim of Cardinal Health. According  
13 to the Debtors' books and records, this Claim totals approximately \$1.2 million. The Allowed  
14 Cardinal Claim shall be paid in full as soon as practicable after the Effective Date.

15 **Class 3B.** Class 3B consists of the Secured Claim of Siemens Financial Services,  
16 Inc. According to the Debtors' books and records, this Claim totals approximately \$434,000,  
17 which Secured Claim consists of total amounts due, and the fair market value buyout amount for  
18 all equipment as set forth in, the aforementioned leases. The Allowed Siemens Claim shall be  
19 paid in full as soon as practicable after the Effective Date.

20 **Class 3C.** Class 3C consists of the Secured Claim of Baxter Healthcare Corp.  
21 According to the Debtors' books and records, this Claim totals approximately \$1,000. The  
22 Allowed Baxter Claim shall be paid in full as soon as practicable after the Effective Date.

23 **Class 3D.** Class 3D consists of the Allowed Morgan Stanley Secured Claim.  
24 Morgan Stanley has two claims in these Cases: (i) the Allowed Morgan Stanley Secured Claim,  
25 which is secured by and to the extent of the Morgan Stanley Collateral, and (ii) the Allowed  
26 Morgan Stanley Unsecured Claim, which represents the unsecured remainder of the Debtors'  
27 outstanding obligations to Morgan Stanley under the Morgan Stanley Documents and  
28 Transactions. On the Effective Date, Morgan Stanley shall receive, in full satisfaction of the

1 Allowed Morgan Stanley Secured Claim, the Morgan Stanley Collateral. The Allowed Morgan  
2 Stanley Unsecured Claim shall be treated as an Allowed Class 4A General Unsecured Claim  
3 under the Plan. This treatment of the Allowed Morgan Stanley Secured Claim and the Allowed  
4 Morgan Stanley Unsecured Claim shall be in full and final satisfaction of (i) the Allowed Morgan  
5 Stanley Secured Claim, (ii) the Allowed Morgan Stanley Unsecured Claim, and (iii) any and all  
6 Claims in respect of, arising out of, or related to the Morgan Stanley Documents and  
7 Transactions.

8 **Class 3E.** Class 3E consists of the Secured Claim of Great Western Bank.  
9 According to the Debtors' books and records, this Claim totals approximately \$700,000. The  
10 Allowed Great Western Claim (Pavilion) shall be paid in full as soon as practicable after the  
11 Effective Date.

12 **Class 3F.** Class 3F consists of the Secured Claim of Great Western Bank.  
13 According to the Debtors' books and records, this Claim totals approximately \$700,000. The  
14 Allowed Great Western Claim (Urgent Care Center) shall be paid in full as soon as practicable  
15 after the Effective Date.

16 **Class 3G.** Class 3G consists of the Secured Claim of First Financial Corporate  
17 Leasing. According to the Debtors' books and records, this Claim totals approximately \$149,000,  
18 which Secured Claim consists of total amounts due under, and the fair market value buyout  
19 amount of the equipment as set forth in, the aforementioned lease. The Allowed First Financial  
20 Corporate Claim will be paid in full as soon as practicable after the Effective Date.

21 (iv) Class 4: General Unsecured Claims

22 Commencing on the Initial Distribution date, Holders of Allowed Claims in Classes 4A,  
23 4B, 4C, and 4D will receive a *pro rata* distribution of funds available for distribution from the  
24 Creditor Trust after (a) the Reserves, (b) payment of Administrative Expenses, Priority Claims,  
25 and Tax Claims not otherwise contained in the Reserve, and (c) payment on account of Allowed  
26 Class 1 and Allowed Class 3 Claims. According to the Debtors' books and records, Debtors  
27  
28

1 anticipate the Allowed Class 4 Claims total roughly \$16.1 million.<sup>4</sup> The Debtors anticipate that  
2 Allowed Class 4 Claims shall be paid in full under the Plan. Disputed claims will be paid on a  
3 *pro rata* basis from the Reserve held back to account for such Disputed Claim to the extent  
4 ultimately Allowed. If Holders of Allowed Claims are not paid in full on the Initial Distribution  
5 Date or upon Allowance of their Claims, and cash remains after all Claims are Allowed or  
6 Disallowed, and all remaining costs to wind down the bankruptcy estates are paid or arranged to  
7 be paid, an additional *pro rata* distribution will be made to Holders of Allowed Claims in Classes  
8 4A, 4B, 4C, and 4D up to the full amount of their Allowed Claims, without postpetition interest.

9 Pursuant to the APA, the cap on the Purchase Price described in Section III.C.1 of this  
10 Disclosure Statement is projected to provide for payment of Allowed Class 4 Claims in full but  
11 does not provide for payment of interest accruing on such Claims after the Petition Date. Section  
12 502(b) of the Bankruptcy Code, which governs allowance of claims in bankruptcy cases,  
13 generally disallows claims for post-petition interest. Thus, while the Plan is expected to provide  
14 for payment of Allowed Claims in full, the Plan does not provide for payment of post-petition  
15 interest to unsecured creditors.

16 Bankruptcy Courts have, in limited circumstances, required payment of post-petition  
17 interest in Chapter 11 cases. Pursuant to Bankruptcy Code section 726(a)(5), when a bankruptcy  
18 estate administered pursuant to Chapter 7 of the Bankruptcy Code has assets available after  
19 payment of expenses of administration and payment of allowed claims in full, among other  
20 things, then unsecured creditors would receive payment of post-petition interest “at the legal rate”  
21 to the extent funds are available. In this case, the unsecured Allowed Bond Redemption Premium  
22 Claim will be paid after payment of unsecured creditors without interest and other costs and  
23 expenses, because of the subordination provisions of the settlement described in Section VI.D. of  
24

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25  
26 <sup>4</sup> The estimated total Allowed Claims for Class 4 is (i) derived from the Schedules filed with the Court, and (ii) also  
27 includes, among other things, anticipated damages arising from rejection of executory contracts and/or unexpired  
28 leases. Based on the Debtors’ books and records, the Debtors do not believe any unsecured claims exist in Class 4D  
(General Unsecured Claims Against CGRRC). CGRRC simply owns real estate and does not otherwise generate  
separate revenue or debts. However, to the extent there are unsecured claims in Class 4D, they will receive  
distributions on par with Classes 4A, 4B, and 4C.

1 this Disclosure Statement. It is possible that there would be no remaining funds thereafter to pay  
2 interest to holders of unsecured claims in any event.

3 The provision for payment of post-petition interest has been incorporated into  
4 requirements for Chapter 11 plan confirmation pursuant to the “best interest” test in section  
5 1129(a)(7), which requires that a plan of reorganization provide a return to creditors who have not  
6 voted in favor of the plan at least as much return on account of their claims as such creditor would  
7 receive in a hypothetical liquidation under Chapter 7 of the Bankruptcy Code. In the present  
8 case, the liquidation analysis attached as Exhibit D shows that creditors would receive  
9 substantially less than their Allowed Claim amounts in a Chapter 7 liquidation. Therefore, on the  
10 facts of these Chapter 11 Cases, the Debtors do not believe that section 726(a)(5) would provide  
11 for post-petition interest on Allowed Claims. In any event, the “legal rate” of interest accrual  
12 provided in section 726(a)(5) has been interpreted to refer to the federal judgment rate. *See Onink*  
13 *v. Cardelucci (In re Cardelucci)*, 285 F.3d 1231, 1235-36 (9<sup>th</sup> Cir. 2002). The federal judgment  
14 rate is currently 0.12% per annum. At that rate, post-petition interest would amount to less than  
15 0.05% of a creditors Allowed Claim.

16 (v) Class 5: Membership Interests

17 Class 5 Membership Interests shall be cancelled and shall not receive anything under the  
18 Plan.

19 **E. Executory Contracts and Unexpired Leases**

20 **1. Executory Contracts and Unexpired Leases Assigned to Banner**

21 **(i) Contracts and Leases to be Assigned**

22 Upon the Sale Closing, the executory contracts and unexpired leases listed on Exhibit B to  
23 the Plan (to be updated prior to the Confirmation Hearing with respect to any contracts or leases  
24 entered into by the Debtors after the Petition Date) shall be assumed and assigned to Banner (the  
25 “Banner Assigned Contracts”).

26 **(ii) Defaults**

27 The cure amounts under each Banner Assigned Contract shall be the amount set forth in  
28 Exhibit B to the Plan. Final cure amounts under each Banner Assigned Contract shall be the

1 amount set forth in the Confirmation Order after such notice to counterparties and opportunity for  
2 hearing as ordered by the Court. To the extent such default is monetary, the counterparty to the  
3 applicable Banner Assigned Contract shall receive payment in Cash as soon as practicable after  
4 the Effective Date from the Creditor Trustee or as otherwise agreed between Banner and the  
5 counterparty to the contract, in an amount equal to the final cure amount less any payments made  
6 during these Chapter 11 Cases on account thereof in accordance with Bankruptcy Court approval.  
7 Upon assignment, Banner shall have no liability in respect of any default that occurred prior to  
8 the assignment.

9 (iii) **No Further Liability**

10 After assignment, neither any of the Debtors, nor the Creditor Trust, shall have any  
11 liability in respect of the Banner Assigned Contracts.

12 **2. Assumption or Rejection of Executory Contracts and Unexpired**  
13 **Leases**

14 Pursuant to §§ 365(a) and 1123(b)(2) of the Bankruptcy Code, all executory contracts and  
15 unexpired leases that exist between the Debtors and any party that have not been previously  
16 assumed pursuant to an order of the Bankruptcy Court or are not a Banner Assigned Contract,  
17 shall be deemed rejected on the Effective Date.

18 **3. Claims Based on Rejection of Executory Contracts or Unexpired**  
19 **Leases**

20 With respect to Claims arising from the rejection of executory contracts or unexpired  
21 leases pursuant to the Plan, the bar date to file Proofs of Claim shall be 15 days after the Effective  
22 Date and all such Proofs of Claim must be filed during that time so that appropriate Reserves may  
23 be calculated. Any Claim arising from the rejection of an executory contract or unexpired lease  
24 pursuant to the Plan for which a Proof of Claim is not timely filed within that time period shall be  
25 forever barred from assertion against the Debtors officers, directors or agents of the Debtors, the  
26 Estates, its successors and assigns, or its assets and properties, unless otherwise ordered by the  
27 Bankruptcy Court or as otherwise provided herein.  
28

1           **F. Anticipated Litigation; Waiver of Avoidance Claims**

2           The Debtors do not anticipate any litigation. Pursuant to the Plan, upon the Effective Date  
3 and conditioned upon the Sale Closing, all Avoidance Claims shall be deemed waived. All other  
4 Causes of Action shall be assigned to the Creditor Trustee (discussed below) as the representative  
5 of the Estates. Pursuant to the terms of the Plan and as discussed in more detail below, various  
6 parties associated with these Cases, *i.e.*, the Released Parties (defined below), will receive  
7 releases from all Causes of Action other than those related to criminal conduct, willful negligence  
8 or gross misconduct.

9           Among potential Avoidance Claims that would not be pursued would be possible  
10 challenges to the security interests in the Debtors' personal property securing repayment of the  
11 Bonds and in the Debtors' cash. Pursuit of Avoidance Claims would result in a net reduction of  
12 recoveries to unsecured creditors, even if the elements under the particular claim exist, simply  
13 due to potential defenses and legal fees associated with litigating such claims.

14           Further, the Debtors made payments of approximately \$24,000,000 during the ninety days  
15 prior to the Petition Date. The vast majority of these transfers were made in the ordinary course of  
16 business. Any other transfers made during this period likely have other defenses under 11 U.S.C.  
17 §547. However, the Debtors have not conducted an exhaustive review.

18           The Debtors believe that waiver of avoidance claims is appropriate given the extremely  
19 high payouts proposed in the Plan; pursuit of such claims would create unnecessary delay and  
20 expense, and could reduce ultimate recoveries.

21           **G. Feasibility and Distributions to Creditors**

22           The Bankruptcy Code requires that a debtor demonstrate that confirmation of a plan is not  
23 likely to be followed by liquidation or the need for further financial reorganization unless the plan  
24 calls for liquidation. The Plan calls for (i) the sale of substantially all of the Debtors' assets to  
25 Banner pursuant to the terms of the executed APA, and (ii) subsequent wind-down of the Estates  
26 by the Creditor Trustee. The Debtors have analyzed their ability to meet their obligations under  
27 the Plan. The APA has already been executed and there has been significant progress towards a  
28 Sale closing. As of March 12, 2014, all regulatory approval and waiting periods have been

1 satisfied. The parties have also received premerger clearance under Hart-Scott Rodino. The  
2 Debtors expect to get to closing two weeks after the Confirmation Date. Banner has agreed,  
3 pursuant to the DIP Loan, to provide the Debtors with sufficient debtor-in-possession financing to  
4 operate their businesses until the estimated Sale Closing date. The Purchase Price is anticipated  
5 to be sufficient to pay all Allowed Claims in these Cases in full. Therefore, the Debtors anticipate  
6 being able to make all payments required under the Plan. Accordingly, the Debtors believe the  
7 Plan satisfies the feasibility requirement of the Bankruptcy Code. Moreover, the Plan calls for an  
8 orderly wind-down of the Estates after the Sale Closing, which, by definition, satisfies the  
9 feasibility requirement.

#### 10 **H. Federal Income Tax Consequences to Creditors**

11 Any tax advice contained in this Disclosure Statement is not intended or written to be  
12 used, and cannot be used, by any taxpayer for the purpose of avoiding tax-related penalties under  
13 the Internal Revenue Code of 1986, as amended. Any tax advice contained in this Disclosure  
14 Statement was written to support the promotion of the transactions described in this Disclosure  
15 Statement.

16 The following discussion is not intended as a substitute for professional tax advice,  
17 including the evaluation of recently enacted and pending legislation, since recent changes in the  
18 federal income taxation of reorganizations under the Bankruptcy Code are complex and lack  
19 authoritative interpretation. The Debtors have not received, nor will they request, a ruling from  
20 the IRS as to any of the tax consequences of the Plan with respect to Holders of Claims. The  
21 Debtors assume no responsibility for the tax effect that Confirmation and receipt of any  
22 distribution under the Plan may have on any given creditor or other party in interest. The brevity  
23 of the following discussion requires omission of matters that might affect one or more Holders of  
24 Claims against the Debtors depending upon their circumstances. **Accordingly, the Debtors**  
25 **recommend that Creditors and other parties in interest consult with their own tax advisors**  
26 **concerning the federal, state and local tax consequences of the Plan.**

27 Creditors may be required to report income or may be entitled to a deduction as a result of  
28 implementation of the Plan.



1 To the extent a Creditor receives, or expects to receive, less pursuant to the Plan than the  
2 Creditor's basis in the claim to which such amount relates, the Creditor may be permitted to claim  
3 a bad debt deduction. The amount, timing and character of the deduction will depend, among  
4 other things, upon the Creditor's tax accounting method for bad debts, the Creditor's tax status,  
5 the nature of the Creditor's claim, whether the creditor receives consideration in more than one  
6 year, and whether the creditor has previously taken a bad debt deduction or worthless security  
7 deduction with respect to the Creditor's claim. If the debt is not business related, a deduction is  
8 only available if the debt is worthless. A cash basis taxpayer can deduct a bad debt only if an  
9 actual cash loss has been sustained or if the amount deducted was included in income. All  
10 accrual-basis taxpayers must use the specific charge-off method to deduct business bad debts.

11 To the extent that a Creditor receives payment pursuant to the Plan in an amount in excess  
12 of the Creditor's adjusted tax basis in the claim to which payment relates, the excess will be  
13 treated as income or gain to the Creditor. A Creditor not previously required to include in its  
14 taxable income any accrued but unpaid interest on a claim may be treated as receiving taxable  
15 interest, to the extent the amount it receives pursuant to the Plan is allocable to such accrued but  
16 unpaid interest. A Creditor previously required to include in its taxable income any accrued but  
17 unpaid interest on a claim may be entitled to recognize a deductible loss, to the extent the amount  
18 of interest actually received by the Creditor is less than the amount of interest taken into income  
19 by the Creditor.

#### 20 IV. THE CREDITOR TRUST

##### 21 A. Creditor Trust Agreement

22 The Plan provides for the formation of a Creditor Trust as of the Effective Date, which  
23 shall be governed by the Creditor Trust Agreement substantially in the form filed with a Plan  
24 Supplement. The Creditor Trust shall receive all assets of the Debtors' Estates, excluding  
25 Transferred Assets, but including the Sale Proceeds, net of payment of the Allowed Bondholder  
26 Claim, and any Excluded Assets under the APA. The Creditor Trustee shall receive the Sale  
27 Proceeds free and clear of liens, claims and encumbrances except for funds to be held in the  
28 Secured Claims Reserve.

1           **B.     Appointment of Creditor Trustee**

2           Scott Davis, a Partner at Grant Thornton LLP, shall be appointed as the Creditor Trustee.  
3           Mr. Davis' professional bio is attached as Exhibit C to this Disclosure Statement.

4           **C.     Powers and Duties of the Disbursing Agent**

5           The Plan provides that the Creditor Trustee shall have the following powers and duties:

- 6                     1.       To take control of, preserve, and convert to Cash property of the Estates,  
7                     subject to the terms of the Plan;
- 8                     2.       To investigate, prosecute and/or abandon all Causes of Action belonging to  
9                     or assertible by the Estates, excluding all Avoidance Claims (it being expected that the Creditor  
10                    Trustee would only bring a claim or Cause of Action after careful consideration of the costs and  
11                    benefits, in light of the distributions otherwise to be made under the Plan);
- 12                    3.       To review and object to Claims filed against the Debtors;
- 13                    4.       To compromise all disputes, including all Causes of Action and Objections  
14                    to Claims;
- 15                    5.       To make distributions on account of all Allowed Claims consistent with the  
16                    terms of the Plan, and if funds remain after treatment of all Allowed Claims in accordance with  
17                    the Plan and satisfaction or reservation for all wind-down expenses, return the excess funds to  
18                    Banner in accordance with the APA;
- 19                    6.       To retain Persons and professionals to assist in carrying out the powers and  
20                    duties enumerated pursuant to the Plan;
- 21                    7.       To enter into contracts as necessary to assist in carrying out the powers and  
22                    duties enumerated pursuant to the Plan;
- 23                    8.       To hire employees and/or terminate current employees of the Debtors;
- 24                    9.       To pay expenses incurred in carrying out the powers and duties enumerated  
25                    pursuant to the Plan, including Professional Fees incurred after the Effective Date;
- 26                    10.      To take all necessary actions to ensure that the corporate existence of the  
27                    Debtors remains in good standing until entry of a final decree closing the Chapter 11 Cases;

11. To open and maintain bank accounts and deposit funds and draw checks and make disbursements in accordance with the Plan;

12. In general, without in any manner limiting any of the foregoing, to deal with the assets of the Estates or any part or parts thereof in all other ways as would be lawful for any Person owning the same to deal therewith; provided, however, that the investment powers of the Debtors, other than those reasonably necessary to maintain the value of the Debtors' assets and to further the liquidating purpose, are limited to the power to invest in demand and time deposits, such as short term certificates of deposit, in banks and other savings institutions, or other temporary, liquid investments, such as United States Treasury Bills; and

13. At the appropriate time, to ask the Bankruptcy Court to enter the final decree.

**D. Corporate Authority**

Under the Plan, from and after the Sale Closing, the Creditor Trustee will have all corporate authority for each of the Debtors entities to execute any documents or instruments necessary or appropriate post-Sale Closing and to take any other corporate action to wind up and dissolve the corporate entities.

**E. Compensation of Creditor Trustee and Professionals Retained by Him**

Under the Plan, the Creditor Trustee and any professionals retained by the Creditor Trustee are entitled to reasonable compensation at their standard rates. When seeking payment, the Creditor Trustee or the relevant professional shall provide a copy of the statement to Banner and the Master Trustee (if any amounts remain outstanding on the Bonds). If no written objection to the payment request is received within 10 days, then the sum requested shall be promptly paid. Any objection shall specify the amount objected to and reasons. If an objection is made, the undisputed amount shall be promptly paid. If the parties are unable to resolve any remaining disputes, the Bankruptcy Court shall resolve the dispute upon notice and a hearing.

**F. Post-Effective Date Statutory Fees**

All fees payable pursuant to 28 U.S.C. § 1930 incurred after the Effective Date shall be paid in accordance with applicable law.

1           **G.     Post Confirmation Reports**

2           The Creditor Trustee shall submit post-confirmation reports in accordance with applicable  
3 law.

4           **H.     Exculpation**

5           The Plan provides that neither the Creditor Trustee nor its designees, retained  
6 professionals or any duly designated agent or representative shall be liable for anything other than  
7 such Person's own acts as shall constitute willful misconduct or gross negligence in the  
8 performance (or nonperformance) of its duties, or acts contrary to the express terms of the Plan.  
9 The Creditor Trustee may, in connection with the performance of its functions, consult with  
10 counsel, accountants and its agents, and may reasonably rely upon advice or opinions received in  
11 the course of such consultation. If the Creditor Trustee determines not to consult with counsel,  
12 accountants or its agents, such determination shall not in itself be deemed to impose any liability  
13 on the Creditor Trustee, or its members and/or its designees. The Creditor Trust shall indemnify  
14 the Creditor Trustee for any and all damages, fees and expenses incurred in connection with these  
15 Cases or the Plan; except that the Creditor Trustee shall not be indemnified from damages, fees or  
16 expenses arising from its gross negligence or willful misconduct.

17       **V.     PROCEDURES FOR RESOLVING AND TREATING CONTESTED CLAIMS**

18       **A.     Term of the Automatic Stay**

19       The automatic stay provided for under section 362 of the Bankruptcy Code shall remain  
20 in full force and effect until the earliest of the time these Cases are closed or dismissed, as  
21 provided under section 362(c)(2) of the Bankruptcy Code.

22       **B.     Objections to Claims and Settlements**

23       After the Effective Date, Objections to Claims may be made, and Objections to Claims  
24 made previous thereto shall be pursued, only by the Creditor Trustee at his sole discretion. After  
25 the Effective Date, the Creditor Trustee may settle any Disputed Claim where the proposed  
26 Allowed Claim is to be less than \$25,000 without notice and a hearing and without an order of the  
27 Bankruptcy Court. All other settlements shall be subject to notice and a hearing pursuant to §  
28

1 102(1) of the Bankruptcy Code and a Final Order of the Bankruptcy Court approving the  
2 settlement.

3 **C. Reserves for Disputed Claims**

4 If any Claim is a Disputed Claim, no distribution shall be made on account of such Claim  
5 unless and until said Disputed Claim becomes an Allowed Claim. In the event a Distribution is  
6 made while there is a Disputed Claim, the Distribution that would be paid on account of the  
7 Disputed Claim shall be withheld and remain in the a bank account maintained in compliance  
8 with Article VII of the Plan until the Claim is Allowed or Disallowed. If the Claim is Allowed,  
9 the Holder of the Allowed Claim will receive its withheld Distribution.

10 **D. Other Provisions**

11 Additional provisions concerning Objections to Claims are described further in Article VII  
12 of the Plan.

13 **VI. MISCELLANEOUS PLAN PROVISIONS**

14 **A. Waiver of Avoidance Claims**

15 The Plan provides that, upon the Effective Date and conditioned upon Sale Closing,  
16 Avoidance Claims shall be deemed waived and abandoned.

17 **B. Committee Dissolved**

18 The Committee, if one is appointed, shall be dissolved automatically and its members  
19 shall be deemed released of all their duties, responsibilities and obligations in connection with  
20 these Cases and the Plan.

21 **C. Discharge**

22 Except as otherwise provided in the Plan, and irrespective of any prior orders of the  
23 Bankruptcy Court or any other court of competent jurisdiction, effective as of the Confirmation  
24 Date: (1) the rights afforded in the Plan and the treatment of all Claims and Membership Interests  
25 in the Plan shall be in exchange for and in complete satisfaction, discharge and release of all  
26 Claims and Membership Interests of any nature whatsoever, including any interest accrued on  
27 such Claims from and after the Petition Date, or any of its assets, property or its Estates; (2) the  
28 Plan shall bind all Holders of Claims and Membership Interests, regardless of whether any such

1 Holders failed to vote to accept or to reject the Plan or voted to reject the Plan; and (3) all Claims  
2 against and Membership Interests in the Debtors, and the Debtors in its capacity as debtor-in-  
3 possession, shall be satisfied, discharged and released in full, and the Debtors' liability with  
4 respect thereto shall be extinguished completely, including, without limitation, any liability of the  
5 kind specified under § 502(g) of the Bankruptcy Code; *provided, however*, that nothing in the  
6 Plan shall discharge any liabilities of the Debtors arising after the Confirmation Date or that is not  
7 otherwise a Claim within the meaning of § 101(5) of the Bankruptcy Code.

8 **D. Approval of Settlements and Releases**

9 In consideration of the subordination of the Allowed Bond Redemption Premium Claim  
10 and other consideration and benefits provided in the Chapter 11 Cases and under the Plan, the  
11 treatment of the Class 1 Allowed Bond-Related Claims, including releases and exculpations  
12 provided under the Plan, constitute a good-faith compromise and settlement of the Estates'  
13 Causes of Action and any and all Claims and Liens of the Bond Trustee, the Master Trustee, and  
14 the beneficial Holders of the Bonds, respectively. Entry of the Confirmation Order would  
15 constitute the Bankruptcy Court's approval of such compromise and settlement of all Causes of  
16 Action, and any and all Claims and Liens of the Bond Trustee, the Master Trustee, and the  
17 beneficial Holders of the Bonds pursuant to the Plan as well as a finding that such settlement is  
18 fair, reasonable and in the best interest of the Debtors and their Estates.

19 **E. Exculpation**

20 The Plan provides for the exculpation of the following parties (collectively, the  
21 "Exculpated Parties"): (i) the Debtors; (ii) the Master Trustee in any capacity; (iii) the Bond  
22 Trustee in any capacity; (iv) the beneficial Holders of the Bonds; (v) the members of the  
23 Committee, if one is appointed; (vi) Banner; and (vii) the current and former officers, directors,  
24 members, managers, employees, attorneys, advisors and any other Professionals, each in their  
25 respective capacities as such, of each of the foregoing.

26 Section 13.04 of the Plan provides that none of the Exculpated Parties shall have or incur  
27 any liability to any Person for any act or omission in connection with, related to, or arising out of  
28 these Cases, including, without limitation, the preparation, formulation or consummation of the

1 Plan, the Disclosure Statement, or any contract, instrument, release or other agreement or  
2 document entered into during the Chapter 11 Cases or otherwise created in connection with the  
3 Plan, the pursuit of confirmation of the Plan, or the administration of the Plan or the property to  
4 be distributed under the Plan, except for willful misconduct or gross negligence, and, in all  
5 respects, the Exculpated Parties shall be entitled to rely upon the advice of counsel with respect to  
6 their duties and responsibilities under the Plan.

7 Exculpation provisions, such as this one, are relatively common in Chapter 11 plans and  
8 have been approved by the Bankruptcy Court and others in the Ninth Circuit. *See, e.g., In re*  
9 *Transwest Resort Prop., Inc.*, Case No. 10-37134 (Bankr. D. Ariz. Dec. 30, 2011); *In re W.*  
10 *Asbestos Co.*, 313 B.R. 832, 846-47 (Bankr. N.D. Cal. 2003); *see also In re PWS Holding Corp.*,  
11 228 F.3d 224, 245-46 (3d Cir. 2000) (affirming order confirming plan that contained provisions,  
12 similar to those in the Plan, exculpating and releasing claims against the debtors, the reorganized  
13 debtors, the creditors' committee, the creditors' representative and their respective members,  
14 directors, officers and professionals, finding such release provisions permissible, and stating that  
15 such release provisions are "*a commonplace provision in Chapter 11 plans*") (emphasis added).

16 The Debtors propose the exculpation provision because it furthers the purpose of finality  
17 and reducing variability of outcomes to creditors. Each of the Exculpated Parties made  
18 significant contributions prior to and during these Cases to achieve a Plan that provides for  
19 creditors to likely be paid in full or very close. The exculpation provision takes effect only if the  
20 Plan is confirmed and is consistent with acceptance and approval of the general Plan. Moreover,  
21 the exculpation provision benefits the estate and creditors because many of the Exculpated Parties  
22 may have rights of indemnification against the Debtors' estates in the event such actions were  
23 permitted and brought.

#### 24 **F. Releases**

25 The Plan provides for the release of claims by the Debtors against the following parties  
26 (collectively, the "Released Parties"): (i) the Master Trustee in any capacity; (ii) the Bond Trustee  
27 in any capacity; (iii) the beneficial Holders of the Bonds; (iv) the members of the Committee, if  
28 one is appointed; (v) Banner; and (vi) the current and former officers, directors, members,

1 managers, employees, attorneys, advisors and any other Professionals, each in their respective  
2 capacities as such. The specific release in the Plan is as follows:

3 **RELEASES BY THE DEBTORS.** ON THE EFFECTIVE DATE, FOR GOOD AND  
4 VALUABLE CONSIDERATION AND IN RETURN FOR THE COMPROMISES EMBODIED  
5 IN THE PLAN, THE RECEIPT AND ADEQUACY OF WHICH ARE HEREBY CONFIRMED,  
6 THE DEBTORS, ON BEHALF OF THEMSELVES AND THEIR ESTATES, THE  
7 REORGANIZED DEBTORS, AND THE CREDITOR TRUSTEE, SHALL BE DEEMED TO  
8 HAVE IRREVOCABLY RELEASED ANY AND ALL CLAIMS AND CAUSES OF ACTION,  
9 INCLUDING AVOIDANCE CLAIMS, AGAINST THE RELEASED PARTIES ARISING  
10 PRIOR TO THE EFFECTIVE DATE.

11 The Debtors believe that this release of claims against the Released Parties is necessary  
12 and appropriate, especially given the unique facts of these Cases. The causes of action being  
13 released are property of the Debtors' estates under section 541 of the Bankruptcy and their release  
14 is authorized under section 1123(b)(3)(A) of the Bankruptcy Code. Here, the Released Parties  
15 made significant contributions to these Cases and to a Plan that is anticipated to pay creditors in  
16 full. Released were a negotiated deal point for many of the Released Parties. *See, e.g.,*  
17 Disclosure Statement § VI.D.

18 Moreover, it is the Debtors' business judgment that there would be nominal, if any,  
19 benefit to creditors and the estates in preserving and pursuing causes of action against the  
20 Released Parties. Among other reasons, that is why Article X of the Plan provides that  
21 Avoidance Actions are deemed waived and abandoned as of the Effective Date. Moreover,  
22 because the Plan is anticipated to pay creditors in full, creditors would unlikely receive any  
23 benefit from the pursuit of such causes of action. To the contrary, the Debtors believe that  
24 investigating and pursuing these causes of action could distract from the goal of a quick sale and  
25 distribution to creditors and would lead to increased administrative expense claims, which, in  
26 turn, could actually reduce overall recoveries for creditors. Moreover, the Released Parties might  
27 assert counterclaims or indemnification claims in response to such litigation, which could further  
28 deplete funds otherwise available for distribution to creditors.



1           **G. Other Provisions**

2           Creditors and other parties in interest are directed to the Plan with respect to the  
3           provisions that are not specifically discussed in this Disclosure Statement.

4                           **VII. RISK FACTORS**

5           As with any plan or other financial transaction, there are certain risk factors which must  
6           be considered. It should be noted that all risk factors cannot be anticipated, that some events will  
7           develop in ways that were not foreseen and that many or all of the assumptions that have been  
8           used in connection with this Disclosure Statement and the Plan will not be realized exactly as  
9           assumed. Some or all of such variations may be material. While every effort has been made to  
10          be reasonable in this regard, there can be no assurance that subsequent events will bear out the  
11          analysis set forth herein. Not all possible risks can be, or are discussed in this Disclosure  
12          Statement. Under the Plan, some of the principal risk that Holders of Claims should be aware of,  
13          in the Debtors' view, are as follows:

- 14               • Risk Related to the Sale Closing. Banner's right to terminate the APA based upon  
15               results of due diligence expired on February 28, 2014, and Banner is proceeding  
16               towards the Sale closing under the APA. Banner's commitment to purchase is  
17               subject to, among other things, state and federal regulatory approval. The Federal  
18               Trade Commission has completed its review of the parties' required submission  
19               under the Hart-Scott-Rodino Act and has determined not to challenge the sale.  
20               The Arizona Attorney General has also completed and closed its premerger  
21               investigation. The Day Act hearing, which provided for a state regulatory review  
22               process, was completed on March 13, 2014 and the required report from the  
23               hearing was issued March 17, 2014. The Arizona Corporate Commission has  
24               confirmed receipt of the summary report of the public hearing, thus satisfying  
25               A.R.S. §10-11253. Banner is financially strong and its ability to perform is not  
26               considered to be a material risk.
- 27               • Dilution of Distributions Based on Allowed Claims The Claims Bar Date has not  
28               yet passed and to the extent there are additional claims filed before the Bar Date,

1 the amount of Allowed Claims may increase, subjecting the Holders of Allowed  
2 Claims to the risk of dilution. Additionally, no final determination has been made  
3 as to which Claims will be Disputed Claims, and it is possible that the number of  
4 Disputed Claims may be material and that the amounts allowed in respect of such  
5 Disputed Claims may be materially in excess of the estimates of Allowed Claims  
6 used to develop the Plan and this Disclosure Statement. The Holders of Allowed  
7 Claims are subject to the risk of dilution if the amount of actual Allowed Claims  
8 exceeds such estimates. Accordingly, distributions to the Holders of Allowed  
9 Claims are at risk of being adversely affected by the total amount of Allowed  
10 Claims. Factors that may cause Allowed Claims to exceed projected amounts  
11 include claims arising from contract rejections, unknown claims and liabilities, or  
12 differences in books and records between the Debtor and the relevant Creditor.

- 13 • Costs of Administering the Estate The disbursement of the proceeds of any  
14 litigation recoveries will require certain administrative costs that may vary based  
15 on a variety of factors. Such administrative costs cannot be predicted with  
16 certainty and will be paid from cash on hand. Accordingly, such expenses may  
17 affect recoveries under the Plan, in particular if the Creditor Trustee elects to  
18 pursue any litigation.
  - 19 • Hospital Operations. The estimated payouts on Allowed Claims assumes that the  
20 Debtors will operate the hospital at certain levels of profit and loss. If the Debtors'  
21 performance is below those projections, return to Creditors could be diminished.
  - 22 • Adjustments to Purchase Price. The APA provides for certain adjustments to the  
23 Purchase Price. If these adjustments reduce cash proceeds of sale, payouts to  
24 Creditors would be affected accordingly.
- 25  
26  
27  
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## VIII. ALTERNATIVES AND POTENTIAL PLAN RECOVERY

### A. Chapter 7 Liquidation

An alternative to confirmation of the Plan would be liquidation of the Debtors' assets by a trustee appointed in a case under Chapter 7 of the Bankruptcy Code. In that event, a trustee would be appointed to liquidate the assets of the Debtors for distribution to holders of Claims and Membership Interests in accordance with the priorities established by the Bankruptcy Code. The Chapter 7 trustee would make all of his or her own decisions with respect to the liquidation of the Estate, the hiring of professionals, the pursuit of any claims or litigation, and the payment or objection to Claims. If a Chapter 7 trustee were appointed, the Chapter 7 trustee would be paid pursuant to the provisions of § 326(a) of the Bankruptcy Code, which would add an additional Administrative Expense Claim.

Under § 1129(a)(7), a debtor's plan must provide that creditors receive no less under the plan than they would in a liquidation scenario under Chapter 7. Such analysis is unusually hypothetical in these Cases because the Debtors are non-profit entities and not "moneyed, business, or commercial corporation[s]" and, as such, their Cases cannot be converted to Chapter 7 without their consent. 11 U.S.C. § 1112(c). *See also In re Hyperion Foundation, Inc.*, 2009 WL 2477392 (holding that 11 U.S.C. § 1112(c) bars conversion of non-profit debtor with the charitable purpose of operating nursing homes and related healthcare facilities); *In re Hospital de Damas, Inc.*, 2012 WL 1190651 at n.1 (noting that a non-profit hospital is not eligible to be converted to Chapter 7 under 11 U.S.C. § 1112(c)).

Nevertheless, Debtors have included a hypothetical liquidation analysis attached hereto as Exhibit D (the "Liquidation Analysis"). As more fully demonstrated in the Liquidation Analysis, the Debtors believe that Confirmation of the Plan will provide each holder of a Claim entitled to receive a distribution under the Plan with a recovery that is not less than it would receive if the

1 Debtors were liquidated under Chapter 7 of the Bankruptcy Code. For instance, the average  
2 recovery for Secured Claims under the Plan is 100%, whereas under a liquidation scenario  
3 Secured Claims are estimated to recover anywhere from 13.3% to 39.2%. Similarly, Unsecured  
4 Claims are estimated to recover on average 100% under the Plan and 0% under a liquidation  
5 scenario.

6  
7 The Debtors submit that the Banner Transaction pursuant to the terms of the Plan is in the  
8 best interest of Creditors. A Chapter 7 trustee would not be able to operate a hospital. As a result,  
9 the Banner Transaction would be unavailable and assets would be sold at liquidation values. The  
10 Banner Transaction provides value far in excess of liquidation values.

11 **B. Alternative Plan**

12 If the Plan is not confirmed as to one or more Debtors, one or more Debtors (or if the  
13 Debtors' exclusive period in which to file a plan or plan of reorganization has expired, any other  
14 party in interest) may be entitled to file a different plan. However, the Debtors believe that the  
15 proposed Plan provides holders of Claims and Interests with the greatest value possible under the  
16 circumstances. The Debtors believe that any subsequently-proposed plan would likely provide a  
17 less favorable treatment than the Plan by further delaying distribution, resulting in additional  
18 expense. Moreover, the Debtors do not believe that they can propose an alternative plan without  
19 additional capital, no known source of which is available, and for other reasons believe that a sale  
20 is in the best interests of creditors and the community the Debtors serve. A sale pursuant to an  
21 alternative plan would be subject to the risks described in Section VII of the Disclosure Statement  
22 under "Risks Related to Sale Closing."

23 **C. Dismissal of Bankruptcy Case**

24 The Debtors do not believe that dismissal of the Bankruptcy Case would be to the  
25 advantage of parties in interest.  
26  
27  
28

1 March 28, 2014

2 Debtors and Debtors-in-Possession

3  
4 By: s/   
5 Title: Chief Executive Officer

6  
7 APPROVED AS TO FORM:

8 Michael McGrath Az. #6019  
9 Kasey C. Nye Az. #20610  
10 **MESCH, CLARK & ROTHSCHILD, P.C.**  
11 259 North Meyer Avenue  
12 Tucson, Arizona 85701  
13 Telephone: 520.624.8886  
14 Facsimile: 520.798.1037  
15 Email: mmcgrath@mcratzlaw.com  
16 knye@mcratzlaw.com

17 AND

18 Michael J. Pankow (Co. # 21212)  
19 Joshua M. Hantman (Co. # 42010)  
20 **BROWNSTEIN HYATT FARBER SCHRECK, LLP**  
21 410 Seventeenth Street, Suite 2200  
22 Denver, CO 80202-4432  
23 Telephone: 303.223.1100  
24 Facsimile: 303.223.1111  
25 Email: mpankow@bhfs.com  
26 jhantman@bhfs.com

27 *Attorneys for Debtors-In-Possession*  
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**ATTACHMENTS TO AMENDED DISCLOSURE STATEMENT**

- EXHIBIT A: The Plan
- EXHIBIT B: The Budget
- EXHIBIT C: Professional Bio of Scott Davis
- EXHIBIT D: Liquidation Analysis