

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

IN RE:

REITTER CORPORATION  
D/B/A HOSPITAL SAN GERARDO

Debtor

CASE NO. 10-07152 (ESL)

CHAPTER 11

**FIRST AMENDED DISCLOSURE STATEMENT**

**I. INTRODUCTION**

REITTER CORPORATION d/b/a HOSPITAL SAN GERARDO (“Debtor”) provides this Disclosure Statement to all of its known creditors and other parties in interest in order to disclose the information deemed by Debtor to be material, important and necessary for its creditors and other parties in interest to arrive at a reasonably informed decision in exercising their right to vote for acceptance of Debtor’s 11 U.S.C. Chapter 11 Plan (“Plan”) presently on file with the United States Bankruptcy Court for the District of Puerto Rico (“Bankruptcy Court”). A copy of the Plan is contemporaneously being filed with this Disclosure Statement.

Creditors are advised that they have the right to vote accepting or rejecting the Plan proposed by Debtor. They are further advised that in order for the Plan to be accepted by a class of creditors, the creditors composing such class, that hold at least two thirds in amount and more than one half in numbers, of the allowed claims of such class which vote, must accept the Plan. Therefore, it is very important for creditors to exercise their right to vote in reference to the acceptance or rejection of the Plan, since in accordance to Section 1141(d) of the Bankruptcy Code, except as otherwise provided therein, in the Plan or in the order confirming the Plan, the confirmation of a plan discharges a debtor from

any debt that arose before the date of confirmation and from any debt of a kind specified in Section 502(g), 502(h), or 502(i) of the Bankruptcy Code, whether or not the creditors have accepted the Plan or have filed their claims, or such claims are deemed filed or allowed under Section 502 of the Bankruptcy Code.

**NO REPRESENTATIONS CONCERNING THE DEBTOR (PARTICULARLY AS TO THE VALUE OF PROPERTY) ARE AUTHORIZED BY THE DEBTOR OTHER THAN AS SET FORTH IN THIS STATEMENT. ANY REPRESENTATIONS OR INDUCEMENTS OTHER THAN AS CONTAINED IN THIS STATEMENT SHOULD NOT BE RELIED UPON BY YOU AND SUCH ADDITIONAL REPRESENTATIONS AND INDUCEMENTS SHOULD BE REPORTED TO COUNSEL FOR THE DEBTOR WHO IN TURN SHALL DELIVER SUCH INFORMATION TO THE BANKRUPTCY COURT FOR SUCH ACTION AS MAY BE DEEMED APPROPRIATE.**

**THE FINANCIAL INFORMATION CONTAINED HEREIN AS OF OCTOBER 31, 2011, HAS NOT BEEN SUBJECT TO A CERTIFIED AUDIT, FOR WHICH REASON THE DEBTOR IS UNABLE TO WARRANT OR REPRESENT THAT IT IS WITHOUT ANY INACCURACY, ALTHOUGH GREAT EFFORTS HAVE BEEN MADE TO BE ACCURATE.**

## **II. ADEQUACY OF DISCLOSURE IN A CHAPTER 11 CASE**

Post-petition disclosure and solicitation is governed by the provisions of Section 1125 of the Bankruptcy Code.

Section 1125, requires that, other than in small business cases under Section 1125(f) of the Bankruptcy Code, which is not the situation in Debtor's case, a written "disclosure statement" approved by the Court after notice and hearing be transmitted to holders of claims and interests together with the plan

or a summary thereof. Post-petition solicitation of acceptances or rejections of a plan may be made only at the time of or after transmission of the "disclosure statement". 7 *Collier on Bankruptcy*, ¶1125.01 [1] (Matthew Bender, 15 Ed. Rev.).

Also, Section 1125(a)(1) requires that the disclosure statement contains "adequate information" in sufficient detail as far as reasonably practicable in light of the nature and history of the particular Debtor and the condition of the Debtor's financial records. It must be such information as would enable a hypothetical reasonable investor (typical of the holders of claims and interests of the relevant class) to make an informed judgment about the plan. Adequate information, however, need not include information about any other possible or proposed plan. *Collier on Bankruptcy*, op. cit. ¶1125.01 [2].

Section 1125(a)(2) defines the hypothetical investor referred to in subsection (a)(1) as an investor having:

a claim or interest of the relevant class,

such a relationship with the debtor as the holders of other claims or interests of such class generally have, and

such ability to obtain such information from sources other than the disclosure required by section 1125 as holders of claims or interests in such class generally. (*Collier on Bankruptcy*, op. cit. ¶1125.01[2][a]).

Disclosure is the pivotal concept in reorganization practice under the Bankruptcy Code.

As described in the House Report:

If adequate disclosure is provided to all creditors and stock holders whose rights are to be affected, then they should be able to make an informed judgment of [sic. on] their own rather than having a court or the Securities and Exchange Commission inform them in advance whether the proposed plan is a good plan. Therefore, the key to the consolidated chapter is the

disclosure section. (H.R. Rep. No. 95-595, 95th Cong., 1st Sess. 226-231 (1977)).

The definition of "adequate information" in Section 1125(a)(1) requires that a disclosure statement include information in sufficient reasonable detail as far as is practicable. *Collier*, op. cit. ¶1125.02[1].

As stated in the legislative history to Section 1125(a):

Precisely what constitutes adequate information in any particular instance will develop on a case-by-case basis. Courts will take a practical approach as to what is necessary under the circumstances of each case, such as the cost of preparation of the statements, the need for relative speed in solicitation and confirmation, and, of course, the need for investor protection. There will be a balancing of interests in each case. In reorganization cases, there is frequently great uncertainty. Therefore the need for flexibility is greatest. (H.R. Rep. No. 95-595, 95th Cong., 1st Sess. at 409 (1977)).

The Senate Report expands upon the House Report's description of Section 1125(a) in the following manner:

Reporting and audit standards devised for solvent and continuing businesses do not necessarily fit a Debtor in reorganization. Subsection (a)(1) expressly incorporates consideration of the nature and history of the Debtor and the condition of its books and records into the determination of what is reasonably practicable to supply. These factors are particularly pertinent to historical data and to discontinued operations of no future relevance.

A plan is necessarily predicated on knowledge of the assets and liabilities being dealt with and on factually supported expectations as to the future course of the business sufficient to meet the feasibility standard in section 1129(a)(11) of this title. It may thus be necessary to provide estimates or judgments for that purpose. Yet it remains practicable to describe, in such detail as may be relevant and needed, the basis for the plan and the data on which supporters of the plan rely.

S. R. Rep. No. 989, 95th Cong. 2d §§ 120-121 (1978).

The definition of "adequate information" contained in Section 1125(a)(1) must be considered together with the phrase, "investor typical of holders of claims or interest of the relevant class" defined in Section 1125(a)(2). That definition recognizes that the quality of information available to members of a given class will vary as will the sophistication of members of various classes. (*Collier*, op. cit. ¶1125.02[3]).

For example, a trade creditor may have a general unsecured claim for \$1,000 and be a member of a class, which includes a commercial bank holding a claim of \$1,000,000. The bank presumably will be more sophisticated in financial matters than the trade creditor and, depending on the circumstances of the case, may have access to detailed current and historical financial information concerning the Debtor's business which is not, and has not been, available to the trade. Trade creditors, on the other hand, may have information with respect to the Debtor's business and the sophistication necessary to interpret such information which is not enjoyed by the Debtor's debenture holders or shareholders. (*Collier*, op. cit. ¶1125.02[3]).

Section 1125(d) specifically provides that the adequacy of disclosure is not to be governed by any otherwise applicable non-bankruptcy law, rule or regulation. (*Collier*, op. cit. ¶1125.02[4]).

As stated in the House Report:

The bill also permits the disclosure statement to be approved without the necessity for compliance with the very strict rules of Section 5 of the Securities Act of 1933, section 14 of the Securities Exchange Act of 1934, or relevant State securities laws. Without such a provision, the court would have no discretion in approving disclosure statements that go to public classes, but would be required in every case to require a full proxy statement or prospectus whenever public classes were solicited [sic]. Such a statement

requires certified audited financial statements and extensive information. The cost of developing a prospectus or proxy statement for a large company often runs well over \$1 million. That cost would be nearly prohibitive in a bankruptcy reorganization. In addition, the information normally required under section 14 may simply be unavailable, because of the condition of the Debtor. Finally, court supervision of the contents of the disclosure statement will protect the public investor from any serious inadequacies in the disclosure statement.

The provision does not prohibit a section 14-type statement or a prospectus. In some cases it may indeed be appropriate to go that length in disclosure. The courts will have to determine the need on a case-by-case basis. The section merely does not require it in every public case. (H.R. Rep. No. 95-595, 95th Cong., 1st Sess. 227-229 (1977)).

The aforesaid is even more applicable to Debtor considering that this Disclosure Statement does not go to the general public.

### **III. THE DEBTOR**

Debtor is a corporation organized under the Laws of Puerto Rico to operate a Health Care Institution on the Municipality of San Juan. A large part of hospital services are for patients whose bills are paid in whole or in part by third party payors, such as Medicare, Blue Cross, Triple S and other private insurance carriers.

San Gerardo Hospital is a General Acute Care Hospital and Skill Nursing Facility with 160 licensed beds; 60 acute care and 100 SNF. It is located in Cupey on State Road 844 Km. 5 adjacent to Cupeyville School.

It has a three story main Hospital building with a gross area of approximately 65,492.5 sq. ft. and an accessory building of approximately 1,353 sq ft. standing in a 17,311.82 square meter site. The parking lot has a capacity for 141 vehicles.

The Hospital's land has a gross total area of 17,311.82 sq meters or 4.3 cuerdas in two lots: Lot A is made up of approximately 9,039.91 square meters (2.3 cuerdas) and Lot B, 8,271.91 square meters (2.0 cuerdas).

San Gerardo's facilities are located in an area of middle to high income communities including Enantada, Los Paseos, Montehiedra, Sagrado Corazón, Arboles de Montehiedra, Andrea's Court, Estancias de Boulevard, Mansiones de Rio Piedras, Alturas de San Juan and others like Fairview, Colinas de Fairview and Venus Gardens. These are made up of single family dwellings as well as high rise and walk-up apartment complexes.

Operating revenue is derived from the expected per-diem rate to be negotiated with the insurance plan and/or third party payors.

Debtor has all required licenses and permits needed in the Commonwealth of Puerto Rico to operate a Hospital and Skill Nursing Facility at the level it currently operates, enclosed as **EXHIBIT A** are copies of licenses and permits currently held by Debtor.

### **Board of Directors**

Dr. Lorenzo Edgardo Bosque Hernández and his wife Dr. Marina Almenas Morales, Dr. Cesar Perez Machado and his wife Mrs. Joanne Colón Vázquez, and Dr. Jorge Valdesuso Hernández and his wife Dr. Advilda Loubriel Carrio are the sole stockholders of Reitter, in equal shares. Doctors Bosque, Perez, and Valdesuso are licensed physicians in the Commonwealth of Puerto Rico. The three currently make up the Board of Directors and are authorized to practice at Hospital San Gerardo. Actual Debtor's officers are:

Name: Dr. Jorge Valdesuso Hernández

Position: President Compensation: \$ 0.00

Name: Dr. Lorenzo Edgardo Bosque Hernández

Position: Treasurer Compensation: \$0.00

Name: Dr. Cesar Perez Machado

Position: Secretary Compensation: \$0.00

**Events leading up to filing:**

During Fiscal Year 1999-00 the Hospital's internal control system was deteriorated and did not provide proper safe guards of assets, nor assure proper recording of transactions of the services provided. Moreover the Hospital did not maintain an adequate subsidiary ledger of accounts receivable and bank reconciliations where not prepared timely resulting in significant differences.

The lack of financial control ultimately resulted in cash flow problems and on August 13, 2001, Debtor was forced to file for protection under the provisions of Chapter 11 of the Bankruptcy Code in order to protect its assets, improve its controls over operations, review and expand its operating activities and effectuate reorganization under the provisions of the cited Law. However, Debtor's first bankruptcy petition was voluntarily dismissed due to Debtor's inability to secure a post-petition loan in order to have a feasible Chapter 11 Plan.

Following the dismissal of its first bankruptcy petition, Debtor continued efforts to obtain a loan that would allow it to expand its physical capacities and increase its revenue. However, since Debtor's debts kept increasing and liens over Debtor's realty could continue to be registered by governmental entities,



Debtor was forced to file for protection once again under the U.S. Bankruptcy Code on October 9, 2006. Since Debtor's real estate is its most valuable asset and the only asset with enough equity to secure a loan, bankruptcy was the only option for Debtor to continue operations and pay its creditors to the best of its ability. Debtor was able to use that asset to secure an "exit financing" loan, which was the basis to fund its Reorganization Plan. That Plan was confirmed on December 13, 2006.

After confirming its plan, the last four years were particularly difficult for the Hospital resulting in a **negative** EBITDA of \$1,828,555 as of June 30, 2008, and at minus \$1,847,960 as of June 30, 2009. The situation developed as a result of managerial shortcomings including:

1. Lower than expected surgeries due to State Workmen Compensation Agency (Fondo del Seguro del Estado) contract having expired.
2. Underutilization of ancillary services, mainly the Imaging Center.
3. A low census (bed occupancy) resulting from the decision to not accept "reforma" patients, due to extended collection time.
4. A significant amount of denied patient days.
5. A limited amount of admitting medical faculty especially of surgical cases.
6. Medical and nursing quality of care issues.
7. Physical facilities deficiencies (i.e. breakdown of Power Generator)

In spite of these shortcomings Debtor had taken steps to improve its situation and finished the fiscal year with a negative EBITDA of minus \$703,973 as of June 30, 2010 or 38% of the previous year. The improvement was due mainly

to an increase in census (bed occupancy), and the opening of three operating rooms. The increase in census was a result of accepting the government's medical plan patients. Under the circumstances and recognizing that reorganization was viable, Debtor once again filed for protection on August 6, 2010.

### **Significant Post-Petition Events**

Since the filing Debtor has:

- Hired a new Administrator;
- Hired CPA Luis Carrasquillo to analyze the feasibility of Debtor's operations and proposed plan of reorganization;
- Renewed contacts with medical faculty to add new staff;
- Added a new Power Generator;
- Recruited new patients references;
- Adopted the local government's new medical plan.

Dedicating a good part of its managerial efforts to solving the financial problems and developing a commercial alliance with Banco Popular of P.R. as its new bank, helped the transition from Westernbank. The Hospitals' actual situation presents a series of challenges which Debtor began addressing and which fall under the following major categories:

- a) Hospital's Image among medical community
- b) Management
- c) Physical Plant
- d) Patient medical and nursing care
- e) Client services
- f) Financial Position

Debtor's turnaround strategy consists of taken a series of immediate, aggressive measures like:

- ▶ Recruiting new medical staff that will increase census as well as surgical and imaging procedures. Debtor has specifically targeted radiologists, general surgeons, ENT, ophthalmologists, plastic surgeons, orthopedists, gastroenterologist and urologist. It expects this action to increase the average acute census by five patients generating \$1,003,750 additional income.
- ▶ The recruitment of at least two surgeons should assure at least 50 additional surgical procedures bringing approximately \$300,000 additional income.
- ▶ Immediate increase in at least 100 ER visits due to IPA contracts and participation in "Mi Salud" preferred providers representing at least \$150,000 additional income.
- ▶ Increase of 25 CT and 25 MRI monthly should bring approximately \$18,750 additional income (estimating CT at \$250 and MRI at \$500).
- ▶ Change utilization procedures and some staff reorganization should reduce at least \$240,000 in patient days loss.
- ▶ Reinforce executive management team with Medical Director, CNO and Institutional Programs Director
- ▶ Middle management leadership training
- ▶ Employee Service Excellence Training
- ▶ Separate Acute and SNF accounting
- ▶ CNC for 60 additional acute beds and 60 short term rehab beds
- ▶ Renegotiation of payment plans (quantification)

The summary of the above described actions is:

**Increase in NPR (Net Patient Revenue)**

	<u>Monthly</u>	<u>Annual</u>
Increase of 5 patients @ \$550	\$ 83,646	\$1,003,750
50 Surgeries @ \$500	\$ 25,000	\$ 300,000
100 ER additional visits @ \$125	\$ 12,500	\$ 150,000
25 CT @ \$250	\$ 6,250	\$ 75,000

25 MRI @ \$500	\$ 12,500	\$ 150,000
Reduction of Denied Days	<u>\$ 20,000</u>	<u>\$ 240,000</u>
	<b>\$159,895</b>	<b>\$1,918,750</b>

After Bankruptcy filing, Debtor has continued to improve to the point that it had a positive accumulated EBITDA of \$851,672, as of November 30, 2010. The actual financial results appear in the Monthly Operating Reports submitted during the pendency of the bankruptcy case.

The plan addresses the issues that have caused operational and financial problems in the past and the new adopted vision is that of a Hospital with 100% standards compliance and 100% patient satisfaction.

Debtor's focus is to create a culture of excellence where the highest quality of services and medical standards are provided. Debtor has established new standards of excellence for answering the telephone, greeting the patient, and began re-training supervisors and employees on service excellence.

The new Vision and revised Mission, along with a continued search for excellence will enable Debtor to reach the cash flows projections that are submitted herewith as **EXHIBIT B**, which includes notes prepared by CPA Luis Carrasquillo, which thoroughly evidence the feasibility of Debtor's plan of reorganization. All creditors are urged to read the enclosed **EXHIBIT B** to ascertain the feasibility of Debtor's plan of reorganization.

Debtor has included as **EXHIBIT C** of the instant Disclosure Statement the docket report of the instant case up to February 10, 2012, wherein creditors can review all pleadings that have been filed.

It must be underscored that as recently as November 1, 2011, Debtor has entered into a new contract with LBA Medical Services, Inc., ("LBA"), to provide

hospital and medical services to patients covered by the “Reforma” public medical plan (“Mi Salud”) which will increase its revenues and allow Debtor to have a feasible plan. LBA is an authorized IPA which controls over 14,000 “Reforma” patients (“the population”) and which normally made direct referrals to hospitals for certain medical services. Debtor is estimating that during the first year of this contract (which is an annual contract with automatic renewal options) it will capture at least 1% of the population referred to above. Debtor is also estimating that by December 31, 2014, its penetration ratio related to this contract will be approximately 1.5%.

Furthermore, capital contributions from Debtor’s shareholders of at least \$250,000 annually will be made during the three years of the plan of reorganization.

#### **Assets as of Petition Date**

Assets listed on Debtor’s schedules are an integral reference to this Disclosure Statement and to the best of Management’s understanding are accurate **as of the filing** of the Bankruptcy petition. If Debtor understands that its schedules should be amended, it would do so within 20 days after the hearing to discuss the adequacy of the instant Disclosure Statement.

The principal asset of the Hospital, its real estate facility, has a current “As is” market value of \$13,130,000.00 and a “Going Concern” value of \$18,520,000.00 as per appraisal report dated July 30, 2010, copy of which is included herein as **EXHIBIT D**. Other assets include accounts receivable, inventory; and net value of fixed assets used in operation, as listed in the schedules as of the filing date. In the opinion of management these personal

property assets, will have inconsequential value in the event of liquidation, because they are encumbered by loans and/or leases and due to normal obsolescence.

### **Liabilities as of the Petition Date**

Liabilities as of the Petition Date can be ascertained through reviewing Debtor's schedules filed in the instant case. Moreover, as **EXHIBIT E** of the instant Disclosure Statement, creditors can ascertain the total amount of their claims that would be deemed allowed for purposes of the confirmation of Debtor's Plan. The total allowed claim would be the basis for the dividend to be offered by Debtor as part of its Plan.

Debtor does not have any pending claims entitled to priority by Section 507(a) (2), (3), (4), (5), (6), and (7) of the Bankruptcy Code, and accordingly, no class was created for said claims under the Plan.

### **IV. THE PLAN**

It is Debtor's intention to make payments to its creditors through the Plan primarily consisting of:

1. Payment of all administrative expenses on the later of the Effective Date and the date the Administrative Claims become allowed.
2. Secured Creditor Banco Popular will be paid by Debtor and its claim treated pursuant to the terms and conditions set forth in the BPPR Plan Settlement (which is attached as Exhibit H to this Disclosure Statement, and as Exhibit A to the Plan) and its exhibits, including, the Consent Judgment, Term Sheet, and Amended Loan Agreement (each such term as defined in the BPPR Plan Settlement) (collectively, the

“BPPR Plan Documents”). The BPPR Plan Documents are incorporated in full into this Disclosure Statement as if set forth in full herein, and creditors and parties in interest should refer to and read the BPPR Plan Documents as part of their analysis of the Disclosure Statement and Plan.

3. Priority Secured Creditor the IRS will be paid by Debtor in full within 37 months from the Effective Date, plus the statutory interest rate.
4. Payment of 100% of all allowed priority tax claims in monthly payments to be made within the sixth year of the date of assessment of each particular claim as detailed in **EXHIBIT F** hereto.
5. Payment of 100% of all claims from holders of Executory contracts that are being assumed by Debtor within 36 months from the Effective Date.
6. Payment of approximately 1% of allowed unsecured claims in 36 monthly payments, without interest, to begin on the Effective Date or 30 days after the claim is allowed by a final order.

### **Means of Funding the Plan**

The Plan will be funded from the Operating Margin being generated by the ongoing operation which, since the bankruptcy filing, has improved to the point where all payroll taxes are being paid on time, and the operating budget submitted to the bank is running ahead of projections. (See summary of the monthly operating reports filed up to January 31, 2011, included herein as **EXHIBIT G**). Furthermore, capital contributions from Debtor’s shareholders of at least \$250,000 annually will be made during the three years of the plan of

reorganization in order to fund the plan.

### **Feasibility of the Plan**

**EXHIBIT B** provides the Financial Cash Flows Projections of the Plan under the assumptions detailed therein. The Financial Projections of the Plan include projected statement of operations and the payment plans for all claims. While it cannot be foreseen with absolute certainty that the cash flow projections which accompany this Disclosure Statement will be met, Debtor has no reason to believe that the contrary will be the case. Debtor understands that the Plan is a confirmable Plan for the benefit of its creditors, which will prevent the loss of over 300 direct and indirect jobs, and will result in the creation of additional direct and indirect jobs while it will enable Debtor to continue providing healthcare services as successfully as in the past. The Plan's projected growth includes an increase in jobs as well as beds.

For the benefit of all creditors, it is worth while mentioning that the projected cash flows projections included herewith as **EXHIBIT B** was put together under the supervision of the Hospital's new Administrator and analyzed by CPA Luis Carrasquillo, who was retained by Debtor to prove the feasibility of its projections.

Based on the results of the past few months, Debtor understands that the Plan's cash flow projections are feasible.

### **Limitation on Payment of Dividends**

Debtor will not pay dividends to any shareholder, until creditors are paid in accordance with the Plan.



## **Post Confirmation Management**

As mentioned above, Debtor has made a significant recruitment and placed a seasoned manager capable of carrying out the instant Plan. The Vision and Mission has changed and so have the results. After confirmation of the Plan, Debtor's current management will remain in place; however, as agreed with its secured creditor Banco Popular, upon confirmation of the Plan an examiner will be appointed to monitor Debtor's performance and compliance with the cash flow projections included herein as **EXHIBIT B**. The powers of the Examiner are listed in the BPPR Plan Settlement included herewith as **EXHIBIT H**.

Debtor's Plan classifies the claims as follows:

### **ARTICLE I CLASSIFICATION OF CLAIMS**

1.1 Class I - Costs and expenses of administration as defined in the Bankruptcy Code as the same are allowed, approved and ordered paid by the Court. Debtor estimates that from now until the time of the confirmation of the Plan, Class I administrative claims will amount to approximately \$113,254.00.

1.2 Class II – Claims entitled to priority status by Section 507 (a) (8) of the Bankruptcy Code, as are finally approved and allowed by the Court. Debtor estimates these claims at \$2,347,918.00

1.3 Class III – The BPPR Allowed Secured Claim (as defined in the BPPR Plan Settlement), in the total amount of approximately \$9,955,887.67, and secured by substantially all of Debtor's assets, as set forth and pursuant to the terms of the BPPR Plan Settlement and BPPR Plan Documents.

1.4 Class IV - Priority secured claim of the IRS in the total estimated

amount of \$1,003,159 and secured by Debtor's accounts receivable and equipment.

1.5 Class V - Unsecured creditors holders of executory contracts, which as of the Effective Date will only include Infomedika, and whose contract is being assumed by Debtor with claims totaling approximately \$80,389.96.

1.6 Class VI –Unsecured creditors with no executory contracts and claims totaling approximately \$18,469,763.91 (including the unsecured portion of the tax creditors) and to the extent that such claims are approved and allowed by the Court or deemed allowed under the provisions of the Bankruptcy Code.

1.7 Class VII – Interest of the holders of issued and outstanding common share will retain their interest.

## **ARTICLE II CLAIMS NOT IMPAIRED UNDER THE PLAN**

2.1 Class I – Shall be paid in cash and in full on the later of (a) the Effective Date; (b) as soon as feasible after the date any such claim becomes an allowed Administrative Claim; (c) as otherwise agreed to with the particular claimants of each such class, or (d) as otherwise due in the normal course of Debtors' or the Reorganized Debtors' affairs.

2.2 Class II - Each holder of a unsecured priority tax claims shall receive 100% of the allowed amount of the claim in thirty seven (37) monthly payments from the Effective Date to be made within the sixth year of the date of assessment of each particular claim as detailed in **EXHIBIT F** hereto plus the statutory interest rate.

2.3 Class IV - The IRS' priority secured claim will be paid in full in approximately 37 months from the Effective Date, plus the statutory interest rate.

2.4 Class VII – Holders of outstanding common share will retain their interest.

**ARTICLE III  
TREATMENT OF CLASSES THAT ARE IMPAIRED  
UNDER THE PLAN**

3.1 Class III – Banco Popular's claim will be paid and treated pursuant to the terms and conditions set forth in the BPPR Plan Settlement (Exhibit A to the Plan), which is incorporated, with the Consent Judgment, Term Sheet, and Amended Loan Agreement (each such term as defined in the BPPR Plan Settlement), into the Plan as if set forth in full herein.

3.2 Class V - Unsecured creditors holders of executory contracts, and whose contract is being assumed by Debtor with claims totaling approximately \$80,389.96 will be paid arrears in 36 monthly payments concurrently with their monthly payment.

3.3 Class VI – Unsecured creditors with claims totaling approximately \$18,469,763.91 and to the extent that such claims are approved and allowed by the Court or deemed allowed will be paid approximately 1 % of their claim in 36 monthly payments beginning on the Effective Date of the Plan.

**THE FOREGOING IS A PRESENTATION OF THE CLASSIFICATION OF CLAIMS UNDER THE PLAN. CREDITORS ARE URGED TO READ THE PLAN IN FULL. THEY ARE FURTHER URGED TO CONSULT WITH COUNSEL OR WITH EACH OTHER IN ORDER TO FULLY UNDERSTAND THE PLAN. THE PLAN IS COMPLEX INASMUCH AS IT REPRESENTS A PROPOSED LEGALLY BINDING AGREEMENT BY THE DEBTOR AND AN INTELLIGENT JUDGMENT CONCERNING SUCH PLAN CANNOT BE MADE WITHOUT**

**UNDERSTANDING IT. FURTHER, IN THE EVENT OF ANY INCONSISTENCY BETWEEN THE DISCLOSURE STATEMENT AND THE PLAN, THE PLAN SHALL CONTROL.**

#### **V. FINANCIAL INFORMATION RESPECTING THE DEBTOR**

Debtor's audited financial statements as of June 30, 2009, 2010 and 2011 are attached as **EXHIBIT I**.

Monthly statements of cash receipts and disbursements for all months that Debtor has been in bankruptcy up to December 2011 have been filed by Debtor with the Bankruptcy Court and should be inspected by all interested parties. A summary of said reports filed up to November 30, 2011 is included herein as **EXHIBIT G**. Debtor will continue filing its operating reports on a timely manner.

#### **VI. LIQUIDATION ANALYSIS**

Before confirmation of Debtor's Plan, the Bankruptcy Court must analyze the Plan and determine that it is in the best interest of each impaired class of creditors. One major factor in this analysis is the determination of Debtor's liquidation value and a comparison as to whether this liquidation value exceeds the proposed recovery to impaired classes under the Plan. The proposed treatment of impaired classes under the Plan exceeds any potential recovery through liquidation.

In order to determine the effect on unsecured creditors if a Chapter 7 Trustee attempts liquidation, a Liquidation Analysis is included as **EXHIBIT J** hereto.

Accounts receivable, amounted to \$3,261,694 as of October 31, 2011. In

the Liquidation Analysis the receivables were valued at 50% for liquidation purposes based on past experience and the analysis performed by CPA Luis Carrasquillo. The receivables are held as collateral by the IRS in first rank and Banco Popular in second rank.

Inventory, which is mainly composed of medical material which is perishable, is estimated with a liquidation value of 20%. Equipment, which is almost entirely medically related and only useful in a hospital, is valued at 20% for liquidation. This type of equipment is auctioned at very low prices since it has to be dismantled, transported and re-assembled. These are also held as collateral by Banco Popular.

The liquidation process would result in additional expenses such as Chapter 7 Trustee's fees, legal and other professional's fees, such as expenses for auctioneers and appraiser. These expenses could reach conservatively up to \$938,584.00, including Court costs and Trustee's fees (4% of assets liquidation value and 3% in other expenses and commissions incurred in the sale of the assets, assuming they are not abandoned by the Trustee). Debtor also estimates around \$920,361 in Chapter 11 administrative expenses, including payment to suppliers.

Banco Popular's and the IRS' secured claims, plus the priority claims, leave no dividends for unsecured claims under this scenario.

### **Best Interest Test**

The proposed Plan provides for payment in full of all secured claims (subject to the BPPR Plan Settlement), priority claims, assumed executory

contracts deficiencies and administrative expenses. More importantly, the Plan provides for approximately a 1 % dividend payment to all general unsecured creditors. (See the Liquidation Analysis in **EXHIBIT J** and Claims Reconciliation in **EXHIBIT E**).

### **The Emerging Debtor**

Upon emergence from bankruptcy, Debtor will continue to operate as a domestic corporation engaged to provide medical services in Cupey, Puerto Rico. By continuing operations, Debtor will be able to maintain over 300 direct and indirect jobs, and create additional employment in Puerto Rico.

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

1. **General.** All executory contracts that are in effect as of the Effective Date, shall remain in effect and will be assumed by Debtor.

2. **Treatment**

Subject to the approval of the Bankruptcy Court, the Bankruptcy Code empowers a debtor in possession to assume or reject executory contracts and unexpired leases. Generally, an “executory contract” is a contract under which material performance is due from both parties. If an executory contract of unexpired lease is rejected by a debtor in possession, the other parties to the agreement may file a claim for damages incurred by reason of the rejection, which claim is treated as a prepetition claim. If such contract or lease is assumed by a debtor in possession, the debtor-in-possession has the obligation to cure any prepetition defaults there under.

Except as otherwise provided therein, any unexpired lease or executory

contract that has not been rejected or assumed by Debtor with the Bankruptcy Court's approval on or prior to the Confirmation Date will be deemed to have been assumed by Debtor as of the Effective Date, unless prior to the Confirmation Date there is pending before the Bankruptcy Court a motion to reject such lease or contract.

As to any unexpired leases or executory contracts assumed pursuant to the Plan, the Debtor will, pursuant to the provisions of Section 1123(a) (5) (G) of the Bankruptcy Code, cure of all defaults (except those specified in Section 365(b) (2) of the Bankruptcy Code), existing under and pursuant to such executory contracts or leases as specified in Class V of the Plan.

Each Person that is a party to an executory contract or unexpired lease that is rejected as of the Confirmation Date shall be entitled to file, no later than thirty (30) days after the Confirmation Date (unless an earlier date has been established by the Bankruptcy Court for such claimant, in which case such earlier date shall control), a proof of claim for damages alleged to have arisen from the rejection of such executory contract or unexpired lease, or be forever barred from asserting such Claim against Debtor or the Reorganized Debtor. Each Person that is a party to an executory contract or unexpired lease subject to a motion to reject that is pending before the Bankruptcy Court on the Confirmation Date shall be entitled to file, not later than thirty (30) days after the date that the Bankruptcy Court approves such motion, a proof of claim for damages alleged to have arisen from the rejection of such executory contract or unexpired lease, or be forever barred from asserting such Claim against Debtor or the Reorganized Debtor.

Debtor estimates that rejection of executory contracts and unexpired leases during the Chapter 11 Case will not create general unsecured claims because all executory contracts that are currently in effect are being assumed under the Plan.

#### **EFFECTIVE DATE OF THE PLAN**

Debtor is estimating that the Effective Date of the Plan will be July 2, 2012, assuming that by that time the proposed plan is confirmed and the order confirming the same is final and unappealable.

### **VIII. MISCELLANEOUS**

#### **Professionals Employed**

Counsel for Debtor. With leave of the Bankruptcy Court, Debtor has retained Fuentes Law Offices, as its counsel in connection with its Chapter 11 and other proceedings.

Auditors for Debtor. With leave of the Bankruptcy Court, Debtor has retained the CPA firm of Rodriguez & Espada as its external auditors.

Accountant and Financial Advisor for Debtor. With leave of the Bankruptcy Court, Debtor has retained CPA Luis Carrasquillo to assist its management in the financial restructuring of its affairs and provide a feasibility analysis of Debtor's proposed plan of reorganization.

#### **Estimated Administrative Expenses**

Administrative expenses include professional services related to the reorganization as well as professional services that would be ordinary recurring



and necessary expenses of Debtor. They are estimated from now until the Effective Date of the plan as follows:

Legal Counsel	\$ 54,254.00
Accounting, audit & consulting	\$ 20,000.00
US Trustee's fees	<u>\$39,000.00</u>
Total estimated administrative expenses	<b>\$113,254.00</b>

### **Objections to Claims**

Debtor is in the process of reconciling the proofs of claims that have been filed with its records and will file objections to claims deemed objectionable before the deadline to be established by the Court.

### **Retention of Jurisdiction**

Notwithstanding confirmation of the Plan, the Bankruptcy Court will retain jurisdiction for all purposes provided by the Bankruptcy Code, including, but not limited to:

1. The determination of the allowance of claims upon the objection to such claims by Debtor or by any other party in interest;
2. The determination of requests for payment of claims entitled to priority under 11 USC §507(a)(1), including compensation of parties entitled thereto;
3. The resolution of any disputes regarding the interpretation of the Plan;
4. The implementation of the provisions of the Plan and entry of

orders in aid of consummation of the Plan;

5. The modification of the Plan pursuant to 11 USC §1127; and
6. The adjudication of any cause of action, including avoiding powers actions, brought by Debtor, by a representative of the estate, by the Unsecured Creditors' Committee, or by a Trustee under the Bankruptcy Code.
7. The adjudication of any controversy or issue related to the BPPR Plan Documents, other than the Consent Judgment.

### **Modification of the Plan**

Pursuant to the provisions of Section 1127 of the Bankruptcy Code, Debtor has the right to modify or alter the provisions of the Plan at any time prior or subsequent to Confirmation, but before substantial consummation of the Plan. However, as to any modification that alters, modifies, or impairs any of the BPPR Plan Documents, such modification shall be made only with BPPR's express written consent.

### **Effect of Confirmation and Discharge**

Confirmation and the Order of Confirmation will vest title of all property of the Estate in Debtor and will constitute final settlement of payment to all creditors. Completion of the payments contemplated in the Plan shall act, constitute, and operate as a discharge of any and all liability and indebtedness of Debtor which existed prior to Confirmation, subject to any applicable exception to discharge as provided for in 11 USC §1141(d) (2) and 11USC §523. Notwithstanding anything to the contrary, this section shall not apply to the

BPPR Allowed Secured Claim (as such term is defined in the BPPR Plan Settlement), which shall be treated pursuant to and in accordance with the terms of the BPPR Plan Settlement and BPPR Plan Documents.

## **IX. CONCLUSION**

Your receipt of this Disclosure Statement means that, either you request a copy upon filing and the Court granted the request or the Court has approved this Disclosure Statement as containing adequate information to enable you to make an informed choice. The Court's approval of the Disclosure Statement does not constitute a recommendation by the Court either for against the Plan, nor a guarantee of the accuracy or completeness of the information contained herein.

**DEBTOR'S MANAGEMENT BELIEVES THAT THE PLAN IS IN THE BEST INTEREST OF THE CREDITORS AND RECOMMENDS THAT YOU VOTE TO ACCEPT THE PLAN. YOUR VOTE IS IMPORTANT. PLEASE VOTE PROMPTLY.**

San Juan, Puerto Rico, this 13<sup>th</sup> day of February, 2012 .

**REITTER CORPORATION**

S/ Jorge Valdesuso Hernández  
JORGE VALDESUSO HERNANDEZ  
President