UNITED STATES BANKRUPTCY COURT
WESTERN DISTRICT OF KENTUCKY
LOUISVILLE DIVISION

IN RE:	)	
	)	
SEVEN COUNTIES SERVICES, INC.	)	**CHAPTER 11**
	)	
Debtor	)	**CASE NO. 13-31442-jal**
	)	

DISCLOSURE STATEMENT FOR
PLAN OF REORGANIZATION
SUBMITTED BY SEVEN COUNTIES SERVICES, INC.
*** * * * * * * * ***

Respectfully submitted,

/s/ David M. Cantor

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Contents

1. INTRODUCTION

This is the disclosure statement (the "Disclosure Statement") in the chapter 11 bankruptcy case of Seven Counties Services, Inc. ("Seven Counties," or the "Debtor") which was commenced on April 4, 2013 (the "Petition Date"). This Disclosure Statement contains information about the Debtor and describes its Plan of Reorganization (the "Plan") filed on October 6, 2014.

You should read the Plan and this Disclosure Statement carefully and discuss them with your attorney. If you do not have an attorney, you may wish to consult one.

The Debtor is seeking Confirmation of the Plan, through approval of holders of Claims and Interests. This Disclosure Statement is submitted by the Debtor in connection with the solicitation of acceptances of the Plan.

THE DEBTOR BELIEVES THAT THE PLAN IS IN THE BEST INTERESTS OF CREDITORS AND OTHER STAKEHOLDERS. ALL CREDITORS ENTITLED TO VOTE ARE URGED TO VOTE IN FAVOR OF THE PLAN BY THE VOTING DEADLINE.

1.1 Purpose of this Disclosure Statement

This Disclosure Statement describes the Debtor and significant events during the Chapter 11 Case; how the Plan proposes to treat Claims or Interests of the type you hold (*i.e.*, what you can expect to receive based on your Claim or Interest if the Plan is confirmed); who may vote on and/or object to Confirmation of the Plan; what factors the Bankruptcy Court will consider when deciding whether to confirm the Plan; why the Debtor believes the Plan is feasible; how the treatment of your Claim or Interest under the Plan compares to what you would likely receive on your Claim or Interest in a liquidation of the Debtor; and the effect of Confirmation of the Plan. It is important to read the Plan as well as this Disclosure Statement. This Disclosure Statement describes the Plan, but it is the Plan itself that will, if confirmed, establish your rights.

1.2 Disclaimers

The summaries of the Plan and other documents contained in this Disclosure Statement are qualified by reference to the Plan itself, the exhibits thereto, and the documents described therein. The Debtor will file all exhibits to the Plan, in their final form, with the Bankruptcy Court no later than seven (7) days before the Voting Deadline.

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

The descriptions of the relief sought or obtained in this Chapter 11 Case throughout this Disclosure Statement are summaries only. All pleadings filed in the Chapter 11 Case and all orders entered by the Bankruptcy Court are publicly available and may be found, downloaded, and read from the Bankruptcy Court website found at www.kywb.uscourts.gov. Please note that access to pleadings at the Bankruptcy Court website requires registration on PACER and certain fees per page are charged.

This Disclosure Statement contains forward-looking statements based primarily on the current expectations of the Debtor, and projections about future events and financial trends affecting the financial condition of the Debtor. The words "believe," "may," "estimate," "continue," "anticipate," "intend," "expect," and similar expressions identify these forward-looking statements. These forward-looking statements are subject to a number of risks, uncertainties, and assumptions, including those described below under the caption "Risk Factors" in Article 7. In light of these risks and uncertainties, the forward-looking events and circumstances discussed in this Disclosure Statement may not occur, and actual results could differ materially from those anticipated in the forward-looking statements. The Debtor does not undertake any obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events, or otherwise.

The requirements for Confirmation, including the vote of creditors to accept the Plan and certain statutory findings that must be made by the Bankruptcy Court, are set forth in Article 6. Consummation of the Plan and the occurrence of the Effective Date are subject to a number of significant conditions, which are summarized in Section 9.3. There is no assurance that these conditions will be satisfied or waived.

1.3 Important Administrative Information

(A) Voting to Accept or Reject the Plan

If you are entitled to vote to accept or reject the Plan, complete and return the ballot enclosed with the Notice of Hearing on Confirmation of the Plan to counsel for the Debtor via one (1) of the following methods:

E-mail: belliott@derbycitylaw.com
Subject: 13-31442 Seven Counties ballot

Facsimile: (502) 371-9253

U.S. Mail: Seiller Waterman LLC
Attn: Rebecca Elliott
Meidinger Tower – 22nd Floor
462 S. Fourth Street
Louisville, Kentucky 40202

Ballots for voting on the Plan will also be available for download from https://sites.google.com/site/7counties31442.

(B) Deadlines for Voting or Objecting to Confirmation

The Bankruptcy Court typically establishes the date that is seven (7) days prior to the Confirmation Hearing as the deadline for submission of ballots and filing of objections to Confirmation of the Plan. Your completed ballot must be received on or before the Voting Deadline (as described in the Order approving this Disclosure Statement or other Bankruptcy Court Order) or it will not be counted. If no Voting Deadline is explicitly established by the Bankruptcy Court, the Voting Deadline is seven (7) days prior to the Confirmation Hearing. Objections to Confirmation of the Plan must be filed with the Bankruptcy Court and served upon counsel for the Debtor and the Office of the United States Trustee on or before the Objection Deadline (as described in the Order approving this Disclosure Statement or other Bankruptcy Court Order) or it will not be heard. If no Objection Deadline is explicitly established by the Bankruptcy Court, the Objection Deadline is seven (7) days prior to the Confirmation Hearing.

(C) Time and Place of the Confirmation Hearing

The hearing(s) at which the Bankruptcy Court will determine whether to confirm the Plan will take place at the Gene Snyder U.S. Courthouse in Courtroom #1, 5th Floor (use 7th Street elevators), 601 West Broadway, Louisville, Kentucky at a date and time to be determined by the Bankruptcy Court and published within the Order approving this Disclosure Statement.

(D) Whom to Contact for Additional Information

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

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2. GENERAL INFORMATION ABOUT THE DEBTOR

2.1 Description and History of the Debtor's Business

Seven Counties is a non-profit corporation organized under Chapter 273 of the Kentucky Revised Statutes. The organization provides behavioral health and development services at twenty-one (21) dedicated service locations and one hundred twenty (120) school and

community service sites in the Kentucky counties of Bullitt, Henry, Jefferson, Oldham, Shelby, Spencer, and Trimble. It is the largest non-hospital, not-for-profit entity in the Louisville-Metro area and currently employs more than 1,400 healthcare, support, and administrative professionals and serves approximately 33,000 clients annually. Seven Counties has thoroughly integrated itself into its service area as a primary safety net for persons with severe mental illnesses, children with severe emotional and behavioral disorders, persons with alcohol and drug addictions, and persons with developmental and/or intellectual disabilities.

Seven Counties has been designated by the Kentucky Cabinet for Health and Family Services (the "Cabinet") as the Community Mental Health Center (a "CMHC") for its service area, or "catchment." Seven Counties provides services within its designated catchment. Designation by the Cabinet makes Seven Counties eligible for certain state contracts.

Prior to the Petition Date, Seven Counties had been a participant in the Kentucky Employees Retirement System ("KERS"), a state-administered retirement system that provides a defined benefit plan to employees of participants. The relationship between Seven Counties and KERS was initiated by Governor Julian M. Carroll's Executive Order 79-78.[1]

2.2 Insiders of the Debtor

In accordance with Bankruptcy Code § 101(31), persons which may qualify as insiders of the Debtor include, without limitation, directors, officers, and other persons in control of the Debtor; relatives of such directors, officers, and other persons in control; affiliates of the Debtor; and the insiders of such affiliates. The directors, officers, and other persons in control of the Debtor are identified in Section 4.5(C), *infra*. Other than the individuals identified in Section 4.5(C), the only insider with whom the Debtor has engaged in any transactions in the two (2) years prior to the Petition Date or since the Petition Date is SCS Learning, Inc. d/b/a LearningRx, a non-profit corporation organized under the laws of the Commonwealth of Kentucky.

The Debtor has not transferred any money or property to any insiders in the two (2) years prior to the Petition Date or since the Petition Date other than each insider's normal, market-rate compensation and benefits packages and reimbursement of actual expenses incurred commensurate with the performance of their respective duties as officers of the Debtor.

2.3 Pre-Petition Capital Structure

(A) The 1999 Bonds

[1] The history and rationale behind Seven Counties' participation in KERS is beyond the scope of this Disclosure Statement. For a thorough account of the facts and circumstances leading to the parties' relationship, not to mention unassailable legal analysis concerning the Debtor's ability to obtain chapter 11 bankruptcy relief and exit KERS, see the Bankruptcy Court's May 30, 2014 *Memorandum Opinion* entered in Ky. Employees Ret. Sys. v. Seven Counties Services, Inc., AP No. 13-03019. For purposes of this Disclosure Statement and in support of a finding pursuant to Bankruptcy Code § 1129(a)(5)(A), it suffices to say that the Debtor's continued participation in KERS up to the Petition Date was not at the will of the individuals who will continue to serve as directors and officers of Seven Counties following Confirmation.

On February 1, 1999, Seven Counties delivered a promissory note to the County of Jefferson, Kentucky (the "County") in the principal amount of $2,680,000.00 (the "1999 Note") pursuant to a loan agreement (the "1999 Loan Agreement") entered into between the parties upon receipt of the sale proceeds of the Adjustable Rate Industrial Building Revenue Bonds, Series 1999A by the County (the "1999 Bonds"). The County issued the 1999 Bonds pursuant to a trust indenture (the "1999 Indenture") dated as of February 1, 1999 between Bank One, Kentucky, N.A. ("Bank One"), as trustee, and the County, whereby certain of the County's rights arising under the 1999 Loan Agreement, including all right, title, and interest in the 1999 Note, were assigned to Bank One. To secure repayment of the 1999 Note and 1999 Bonds, Seven Counties caused Fifth Third Bank ("Fifth Third") to issue and deliver a letter of credit (the "1999 Letter of Credit") in favor of Bank One, as trustee. In connection with issuance of the 1999 Bond and the 1999 Letter of Credit, Seven Counties and Fifth Third entered into a reimbursement agreement (the "1999 Reimbursement Agreement"), whereby Seven Counties was obligated to reimburse Fifth Third for any drawings against the 1999 Letter of Credit by Bank One as trustee of the 1999 Bonds. Seven Counties' obligations to Fifth Third under the 1999 Reimbursement Agreement were secured by mortgages and assignments of leases and rents on six (6) parcels of real estate owned by the Debtor and a security interest in the Debtor's business assets, including accounts receivable.

As of the Petition Date, the Bank of New York Mellon Trust Company, N.A., successor-in-interest to Bank One ("BONY-Mellon"), asserted a claim of $245,000.00 as the unpaid principal balance due under the 1999 Loan Agreement. Accordingly, the Debtor's contingent obligations to Fifth Third pursuant to the 1999 Reimbursement Agreement totaled $248,020.56 as of the Petition Date.

(B) The 2005 Bonds

On December 1, 2005, Seven Counties delivered a promissory note to the Louisville/Jefferson County Metro Government (the "County") in the principal amount of $3,500,000.00 (the "2005 Note") pursuant to a loan agreement (the "2005 Loan Agreement") entered into between the parties upon receipt of the sale proceeds of the Adjustable Rate Demand Industrial Building Revenue Bonds, Series 2005 by the County (the "2005 Bonds"). The County issued the 2005 Bonds pursuant to a trust indenture (the "2005 Indenture") dated as of December 1, 2005 between The Bank of New York Trust Company, N.A. ("BONY"), as trustee, and the County, whereby certain of the County's rights arising under the 2005 Loan Agreement, including all right, title, and interest in the 2005 Note, were assigned to BONY. To secure repayment of the 2005 Note and 2005 Bonds, Seven Counties caused Fifth Third to issue and deliver a letter of credit (the "2005 Letter of Credit") in favor of BONY, as trustee. In connection with issuance of the 2005 Bond and the 2005 Letter of Credit, Seven Counties and Fifth Third entered into a reimbursement agreement (the "2005 Reimbursement Agreement"), whereby Seven Counties was obligated to reimburse Fifth Third for any drawings against the 2005 Letter of Credit by BONY as trustee of the 2005 Bonds. Seven Counties' obligations to Fifth Third under the 2005 Reimbursement Agreement were secured by mortgages and assignments of leases and rents on six (6) parcels of real estate owned by the Debtor and a security interest in the Debtor's business assets, including accounts receivable.

As of the Petition Date, the Bank of New York Mellon Trust Company, N.A., successor-in-interest to BONY ("BONY-Mellon"), asserted a claim of $2,120,000.00 as the unpaid principal balance due under the 2005 Loan Agreement. Accordingly, the Debtor's contingent obligations to Fifth Third pursuant to the 2005 Reimbursement Agreement totaled $2,146,137.29 as of the Petition Date.

(C) The 2011 Bonds

On December 1, 2011, Seven Counties delivered a promissory note to the County in the principal amount of $2,600,000.00 (the "2011 Note," and collectively with the 1999 Note and the 2005 Note, the "Notes") pursuant to a loan agreement (the "2011 Loan Agreement," and collectively with the 1999 Loan Agreement and the 2005 Loan Agreement, the "Loan Agreements") entered into between the parties upon receipt of the sale proceeds of the Adjustable Rate Demand Industrial Building Revenue Bonds, Series 2011 by the County (the "2011 Bonds," and collectively with the 1999 Bonds and the 2005 Bonds, the "Bonds"). The County issued the 2011 Bonds pursuant to a trust indenture (the "2011 Indenture," and collectively with the 1999 Indenture and the 2005 Indenture, the "Indentures") dated as of December 1, 2011 between BONY-Mellon as trustee, and the County, whereby certain of the County's rights arising under the 2011 Loan Agreement, including all right, title, and interest in the 2011 Note, were assigned to BONY-Mellon. To secure repayment of the 2011 Note and 2011 Bonds, Seven Counties caused Fifth Third to issue and deliver a letter of credit (the "2011 Letter of Credit," and collectively with the 1999 Letter of Credit and the 2005 Letter of Credit, the "Letters of Credit") in favor of BONY-Mellon, as trustee. In connection with issuance of the 2011 Bond and the 2011 Letter of Credit, Seven Counties and Fifth Third entered into a reimbursement agreement (the "2011 Reimbursement Agreement," and collectively with the 1999 Reimbursement Agreement and the 2005 Reimbursement Agreement, the "Reimbursement Agreements"), whereby Seven Counties was obligated to reimburse Fifth Third for any drawings against the 2011 Letter of Credit by BONY-Mellon as trustee of the 2011 Bonds. Seven Counties' obligations to Fifth Third under the 2011 Reimbursement Agreement were secured by mortgages and assignments of leases and rents on six (6) parcels of real estate owned by the Debtor and a security interest in the Debtor's business assets, including accounts receivable.

As of the Petition Date, BONY-Mellon asserted claims of $2,495,000.00 as the unpaid principal balance and $3,000.00 in trustee fees due under the 2011 Loan Agreement. Accordingly, the Debtor's contingent obligations to Fifth Third pursuant to the 2005 Reimbursement Agreement totaled $2,525,760.48 as of the Petition Date.

(D) Commercial Card Agreement

On May 26, 2005, Seven Counties and Fifth Third entered into a commercial card company agreement (the "Card Agreement), pursuant to which Fifth Third had advanced credit to the Debtor on an as-needed basis prior to the Petition Date. Seven Counties' obligations to Fifth Third under the Card Agreement were secured by mortgages and assignments of leases and rents on six (6) parcels of real estate owned by the Debtor and a security interest in the Debtor's business assets, including accounts receivable. In accordance with its credit available under the Card Agreement, Seven Counties issued credit cards to certain authorized employees and agents to pay for expenses incurred on behalf of the Debtor or its consumers. Up to the Petition Date,

the Debtor regularly paid in full the balance due under the Card Agreement in the ordinary course of business.

As of April 8, 2013, Fifth Third asserted a claim of $114,696.67 as the unpaid principal balance due under the Card Agreement.

(E) Revolving Note

On October 25, 2010, Seven Counties delivered a revolving promissory note to Fifth Third in the maximum principal amount of $6,000,000.00 (the "Revolving Note"), pursuant to which Fifth Third loaned money to Seven Counties on a revolving basis as requested by Seven Counties from time to time. Seven Counties' obligations to Fifth Third under the Revolving Note were secured by mortgages and assignments of leases and rents on six (6) parcels of real estate owned by the Debtor and a security interest in the Debtor's business assets, including accounts receivable. The Revolving Note was amended from time to time by agreement of Seven Counties and Fifth Third.

As of the Petition Date, Fifth Third asserted a claim of $1,580,000.00 as the unpaid balance due under the Revolving Note.

2.4 Events Leading to Chapter 11 Filing

(A) KERS Obligations

As a participant in KERS, Seven Counties was required to make annual contributions to KERS in an amount proposed by the Board of Trustees of the Kentucky Retirement Systems and established in the biennial budget. The amount of Seven Counties' required contributions was based on (i) a percentage of each employee's "creditable compensation," and (ii) an additional amount known as the "actuarially accrued liability contribution." In 2006, Seven Counties' employer contribution percentage due to KERS was set at 5.89% of wages paid.

The required contributions of employers participating in KERS were artificially depressed for several decades as KERS benefits to employees expanded and the costs of administering KERS increased dramatically. Instead of addressing KERS' looming insolvency through fiscally responsible – though politically unpopular – legislative solutions, Kentucky lawmakers set the required employer contributions below amounts needed to insure long-term stability to KERS. Even when the Kentucky General Assembly finally imposed the actuarially recommended rates, it did so gradually and with delayed enforcement. Thus, while the actuarial recommended contribution rate for the fiscal year beginning July 1, 2013 was 45.28% of wages paid by Seven Counties, the required employer contribution rate was set to be 26.79%.

However, even the reduced rate of 26.79% was going to be unbearable for Seven Counties' limited resources, as it would consume twenty percent (20%) of Seven Counties' annual budget. Unlike the governmental entities that participate in KERS, Seven Counties and the other CMHC participants received only minimal allotments from the Kentucky legislative budget to cover the rising costs of required contributions.

In addition to the strain on Seven Counties' cash flow anticipated due to rising employer contributions, the prospective liability to be assessed to Seven Counties by KERS as a result of years of permitted underfunding loomed large on its balance sheet. Based upon KERS' total unfunded actuarial accrued liability—calculated to be nearly $11 billion as of June 30, 2012—the Debtor's "doomsday scenario" projected that the Board of Trustees of the Kentucky Retirement Systems might apportion a liability in excess of $225 million against Seven Counties.[2]

For several years prior to the Petition Date, Seven Counties' leadership tirelessly sought a consensual resolution to the crushing liability brought on through its continued participation in KERS, only to be repeatedly rebuffed by the Board of Trustees and the General Assembly. When the General Assembly's legislative session closed on March 27, 2013 without meaningful relief for Seven Counties or the other CMHCs, Seven Counties resolved to seek chapter 11 relief to protect its mission and preserve the vital services provided to its community.

(B) MCO Restructure

The burdensome effects of Seven Counties' KERS obligations were compounded by changes to certain Managed Care Organizations' ("MCOs") methodology for coding of medical services and payment that were introduced as Kentucky transitioned to a managed care system to address rising Medicaid costs. Seven Counties' cash flow was significantly impeded due to instability in the MCO system that yielded delays in payments, decreased payments, and non-payment for services rendered to Medicaid recipients by Seven Counties. To counteract these cash flow problems, Seven Counties began drawing against cash reserves and utilizing its credit available under the Revolving Note in January 2013 to cover normal operating expenses.

3. THE CHAPTER 11 CASE

3.1 Business Stabilization

(A) Continuation of Ordinary Course Transactions

Since the Petition Date, the Debtor has continued to operate as a debtor in possession subject to the supervision of the Bankruptcy Court in accordance with the Bankruptcy Code. While the Debtor is authorized to operate in the ordinary course of business, transactions outside the ordinary course of business require prior Bankruptcy Court approval. Actions with respect to which the Debtor has sought and obtained Bankruptcy Court approval as transactions outside the ordinary course of business primarily reflect the Debtor's strategic restructuring, including the rejection of certain Unexpired Leases and Executory Contracts. Additionally, the Bankruptcy Court has approved the Debtor's employment of attorneys and other professionals as required by the Bankruptcy Code to assist with its restructuring efforts and to guide the Debtor through its Chapter 11 Case.

[2] The Debtor identified its potential liability to KERS as a Disputed Claim within its bankruptcy petition. Notwithstanding its active participation in the Chapter 11 Case and related proceedings, KERS refused to timely file a proof of claim in accordance with the Bankruptcy Court's orders establishing claims bar dates, Section 3.3(A), *infra*.

(B) Automatic Stay

An immediate effect of the filing of the Debtor's chapter 11 petition was the imposition of the automatic stay under Bankruptcy Code § 362(a) that, with limited exceptions, enjoined the commencement or continuation of the enforcement of liens against the Debtor's property, the continuation of litigation against the Debtor, and any other collection efforts by creditors. This relief afforded the Debtor with the "breathing spell" necessary to assess and reorganize its business. The automatic stay remains in effect, unless modified by the Bankruptcy Court or applicable law, until the Effective Date.

(C) Use of Cash Collateral

As of the Petition Date, all of the operating cash of the Debtor was pledged as collateral ("Cash Collateral") to secure the Debtor's obligations to Fifth Third under the Reimbursement Agreements, the Card Agreement, and the Revolving Note. The Debtor initially obtained temporary authorization to use the Cash Collateral in the ordinary course of its business through the First Interim Order Granting Motion for Authority to Use Cash Collateral, and to Provide Adequate Protection entered by the Bankruptcy Court on April 9, 2013 (the "First Interim Order"). Fifth Third was authorized, pursuant to the First Interim Order, to exercise its setoff rights under Bankruptcy Code § 553 to collect the amounts due under the Revolving Note from the Debtor's operating account maintained at Fifth Third. Following entry of the First Interim Order, the Debtor and Fifth Third negotiated and agreed to the continued use of the Cash Collateral, subject to certain restrictions, limitations, and periodic review by Fifth Third during the pendency of the Chapter 11 Case. The parties' agreements were memorialized in multiple subsequent Interim Orders Granting Motion for Authority to Use Cash Collateral, and to Provide Adequate Protection entered by the Bankruptcy Court (collectively, the "Cash Collateral Orders"). The Cash Collateral Orders have provided for the Debtor's continued use of the Cash Collateral on an interim basis, and have provided adequate protection of Fifth Third's interest in the Cash Collateral through the granting of replacement liens on post-petition assets of the Debtor and continued payments to Fifth Third in accordance with the terms of the Reimbursement Agreements. The Debtor is presently using Cash Collateral pursuant to the Eighth Interim Cash Collateral Order, which expires on the fourteenth day following the sooner of (i) entry of any final judgment vacating or reversing the Order entered in this Chapter 11 Case or Adversary Proceeding Number 13-03019 on May 30, 2014; (ii) entry of a Final Order confirming the Plan; or (iii) entry of an Order denying Confirmation of the Plan, provided that the Debtor is not in default of the terms thereof prior to the stated expiration date.

(D) First Day Motions and Emergency Motions

In the first days of this Chapter 11 Case, the Debtor filed several motions seeking certain relief under what are commonly referred to as "First-Day Orders." First-Day Orders are intended to facilitate the transition between a debtor's pre-petition and post-petition business operations by approving certain regular business practices that may not be specifically authorized under the Bankruptcy Code or as to which the Bankruptcy Code requires prior approval by the Bankruptcy Court.

In addition to the Debtor's motion for authority to use Cash Collateral, the relief requested immediately upon commencement of this Chapter 11 Case included, among other things: (i) authority from the Bankruptcy Court for banks to honor certain of the Debtor's checks issued

prior to the Petition Date; (ii) maintenance of the Debtor's bank accounts and continued operation of existing cash management systems; (iii) payment of employees' accrued pre-petition wages and benefits; (iv) enforcement and notice of the automatic stay; (v) approval of the Debtor's rejection of the Executory Contract with KERS and the Kentucky Retirement System (as amended, the "KERS Rejection Motion"); and (vi) authority to pay KERS for certain pre-petition obligations that came due in the ordinary course of business during April 2013.

Ultimately, the Bankruptcy Court entered appropriate corresponding orders authorizing the relief requested in each of the Debtor's first-day motions.

3.2 Retention of Professionals

The Bankruptcy Court approved retention of certain professionals to represent and assist the Debtor in connection with the Chapter 11 Case. These professionals include (a) Seiller Waterman LLC as lead counsel, (b) Hall, Render, Killian, Heath & Lyman, PLLC as special counsel for purposes of implementing a new software system and litigation against NextGen Healthcare Information Systems, Inc. ("NextGen"); (c) Lin Bell & Associates, Inc. as real property appraiser; (d) Wyatt, Tarrant & Combs LLP as special counsel for purposes of advising the Debtor with respect to issues of corporate governance, healthcare, labor, employee benefits, real estate, zoning, tax, trademarks and other intellectual property matters, and immigration which the Debtor encounters in the ordinary course of its business; (e) Commonwealth Commercial, Inc. d/b/a Commonwealth Commercial Real Estate as realtor; and (f) Bingham Greenebaum Doll LLP as special counsel for purposes of advising the Debtor with respect to its Affirmative Action Plan. The Bankruptcy Court also approved the Debtor's continued employment of numerous other "ordinary course" professionals not subject to the requirements of Bankruptcy Code §§ 327 and 330 and Bankruptcy Rule 2016.

3.3 Claims Against the Debtor

(A) Claims Bar Dates

The Bankruptcy Court entered an Order setting August 8, 2013 (the "Bar Date") as the last day to assert any Claim against the Debtor for any liability arising on or before the Petition Date, applicable to holders of Claims which were either (a) identified in the Schedules as disputed, contingent, and/or unliquidated or in an amount which the creditor believed to be incorrect, or (b) not listed in the Schedules in any manner. The Bankruptcy Court also entered an Order with respect to claims arising from the Debtor's rejection of Executory Contracts or Unexpired Leases, setting the later of (i) September 30, 2014, or (ii) ninety (90) days following the order approving rejection of such Executory Contract or Unexpired Lease (the "Rejection Bar Date") as the last day to assert any such Claim. Finally, the Bankruptcy Court also entered an Order with respect to Claims (a) arising or due between April 4, 2013 and June 30, 2014; (b) potentially allowable as an administrative expense under Bankruptcy Code § 503(b); and (c) entitled to first priority under Bankruptcy Code § 507(a)(1), setting September 30, 2014 (the "Administrative Claim Bar Date") as the last day on which parties may file an application for the allowance of such Claims. Claims of Professionals are not subject to the Administrative Claim Bar Date.

(B) Claims Objections

Except to the extent that a Claim is already an Allowed Claim pursuant to a Final Order, the Debtor reserves the right to object to Claims. Therefore, even if your Claim is allowed for voting purposes, you may not be entitled to a distribution if an objection to your Claim is later upheld. The procedures for resolving Disputed Claims are set forth in Article 6 of the Plan.

3.4 Executory Contracts and Unexpired Leases

Commensurate with its authority pursuant to Bankruptcy Code § 365(a), the Debtor has utilized this Chapter 11 Case as an opportunity to evaluate and, where appropriate in terms of maximizing long-term sustainability, discontinue or commit to future performance of its obligations arising under Executory Contracts and Unexpired Leases. Where the burden or benefit of a given Executory Contract or Unexpired Lease was readily apparent or where the Bankruptcy Code or Bankruptcy Court required assumption or rejection by an established deadline (i.e., an Unexpired Lease of nonresidential real property under which the Debtor is the lessee), the Debtor has previously obtained Bankruptcy Court approval of its decisions to assume or reject certain Executory Contracts and Unexpired Leases. All other Executory Contracts and Unexpired Leases for which the Debtor has not heretofore sought Bankruptcy Court approval of its decision to assume, assume and assign, or reject are addressed in the Plan, at Article 7, and the Bankruptcy Court's approval of the Debtor's election with respect to each Executory Contract or Unexpired Lease not previously assumed or rejected will be contained within the Confirmation Order.

(A) Rejection of Certain Agreements

During the pendency of this Chapter 11 Case, the Debtor has obtained Bankruptcy Court approval of its rejection of the following Executory Contracts: (i) a software license and services agreement with NextGen Healthcare Information Systems, Inc. ("NextGen") for installation and implementation of a new software system licensed by NextGen; (ii) a customer agreement with Iron Mountain Information Management, Inc. ("Iron Mountain") for storage and protection of Debtor's medical records; and (iii) a contractual relationship with KERS for the provision of retirement benefits to eligible employees of the Debtor. Each Executory Contract rejected by the Debtor was financially burdensome to the Debtor's continued operations, and the Debtor has, in its discretion, replaced the benefits provided by each rejected Executory Contract with more efficient and economical vendors.

(B) Assumption of Executory Contracts

In the course of this Chapter 11 Case, the Debtor identified certain Executory Contracts under which continued performance by all parties was vital to the Debtor's ongoing normal business operations. Prior to the submission of this Disclosure Statement, the Debtor has obtained Bankruptcy Court approval of its assumption of the following Executory Contracts: (i) a master services agreement with Behavioral Information Systems, LLC for Medicaid and private insurance billing consulting services; (ii) several agreements with Robert Half International Inc. for provision of staffing services; (iii) a global enterprise management services monitoring and management agreement with Boice Enterprises LLC d/b/a Boice.Net for secure remote monitoring of the Debtor's server and other network devices; and (iv) a statement of work with

Hogan Consulting Group, Inc. for the design and implementation of a software upgrade to facilitate the Debtor's transition to an electronic medical records system.

For those valuable contractual relationships that the Debtor desired to preserve through assumption under Bankruptcy Code § 365(a), the Debtor was required by Bankruptcy Code § 365(b) to cure or provide adequate assurance of a prompt cure of any existing default by the Debtor. The defaults existing under those Executory Contracts which the Debtor sought to assume were primarily due interruptions encountered due to the commencement of this Chapter 11 Case and not the result of any persistent nonperformance by the Debtor. For each such Executory Contract that the Debtor was required to cure, the Debtor was able to provide a cure to the satisfaction of the counter-party to the Executory Contract and at the approval of the Bankruptcy Court.

(C) Assumption of Unexpired Leases

Bankruptcy Code § 365(d)(4) constrained the amount of time the Debtor had to assume an Unexpired Lease of nonresidential real property under which the Debtor is the lessee. Accordingly, the Debtor previously considered its available options relative to its continuing needs and financial abilities, and has obtained court approval of its assumption of Unexpired Leases of the following premises occupied by Seven Counties as lessee: (i) 4710 Champions Trace, Suite 102, Louisville, Kentucky; (ii) 4710 Champions Trace, Suite 107, Louisville, Kentucky; (iii) 200 High Rise Drive, Louisville, Kentucky; 817-1/2 South Floyd Street, Louisville, Kentucky; (iv) 11001 Bluegrass Parkway, Suite 200, Louisville, Kentucky; (v) 914 East Broadway, Louisville, Kentucky; (vi) 600 South Preston Street, Louisville, Kentucky; (vii) 2817 Del Rio Drive, Louisville, Kentucky 40272; 1436 Shelby Street, Louisville, Kentucky 40299; (viii) 80 Main Street, Suite 4, Taylorsville, Kentucky; (ix) 1425 Bluegrass Avenue, Louisville, Kentucky; and (x) 758 South First Street, Louisville, Kentucky.

Due to the Debtor's option to reject Unexpired Leases and favorable market conditions, the Debtor was able to negotiate favorable modifications to certain Unexpired Leases that were assumed with Bankruptcy Court approval.

3.5 Litigation

As of the Petition Date, certain individuals had either instituted or otherwise indicated an intention to initiate civil litigation against Seven Counties. Certain litigation that was pending or initiated after the Petition Date, but that would be fully covered, including costs of defense, by insurance was allowed to proceed by Bankruptcy Court orders modifying the automatic stay. In addition to civil claims such as those related to employment discrimination and personal injury which the Debtor defends in the ordinary course of its business, litigation that directly impacts the course of this Chapter 11 Case and the future of Seven Counties has been brought before the Bankruptcy Court in adversary proceedings.

(A) KERS Adversary Proceedings

The commencement of this Chapter 11 Case and the immediate filing of the KERS Rejection Motion provoked a series of adversary proceedings and contested matters within the main bankruptcy case. On April 29, 2013, Seven Counties initiated an adversary proceeding, A.P. No.

13-03014, against KERS and Kentucky Retirement Systems ("KRS") alleging that (i) Seven Counties was not eligible for participation in KERS and KERS therefore could not require Seven Counties to continue to participate, or (ii) KERS is not a governmental plan and therefore Seven Counties could withdraw from KERS pursuant to applicable federal law (the "Seven Counties AP"). On that same date, KERS and KRS requested an order from the Bankruptcy Court compelling Seven Counties to continue complying with KERS' reporting and payment requirements as a KERS participant for all periods following commencement of the Chapter 11 Case (the "Preliminary Injunction Motion"). On May 6, 2013, KERS and KRS filed a motion to dismiss this Chapter 11 Case on grounds that Seven Counties was a governmental unit not eligible to be a debtor under chapter 11 pursuant to Bankruptcy Code § 109(d) (the "Motion to Dismiss"). Subsequent to the Bankruptcy Court's preliminary denial of the Preliminary Injunction Motion and the Motion to Dismiss, KERS initiated an adversary proceeding, A.P. No. 13-03019, against Seven Counties to obtain (i) a determination that Seven Counties is a governmental unit and dismissal of the Chapter 11 Case on those grounds, and (ii) preliminary and permanent injunctions compelling Seven Counties to continue making all reports and payments required of KERS participants following the Petition Date (the "KERS AP").

Following an evidentiary hearing conducted between September 10, 2013, and September 18, 2013, the Bankruptcy Court denied Seven Counties' motion to dismiss the complaint filed in the KERS AP, KERS' request for a preliminary injunction within the KERS AP, and KERS' and KRS' motion to dismiss the Seven Counties AP. KERS and KRS have appealed the denial of their motion to dismiss the Seven Counties AP to the U.S. District Court for the Western District of Kentucky (the "District Court"), which is currently pending as Case No. 14-cv-00189-JHM (the "Seven Counties AP Appeal").

The Bankruptcy Court then conducted a trial between March 3, 2014, and March 11, 2014, on the complaint filed in the KERS AP and the KERS Rejection Motion filed in the Chapter 11 Case. On May 30, 2014, the Bankruptcy Court entered its Memorandum Opinion, Order, and Judgment in the KERS AP and the Chapter 11 Case (the "Memorandum Opinion"). As set forth in the Memorandum Opinion, the Bankruptcy Court determined that (i) Seven Counties is not a "governmental unit" as defined in Bankruptcy Code § 101(27), (ii) Seven Counties is a "person" as defined in Bankruptcy Code § 101(41); (iii) KERS is not entitled to a permanent injunction requiring Seven Counties to continue making required contributions to KERS post-petition; and (iv) Seven Counties is entitled to reject its Executory Contract with KERS in the exercise of its sound business judgment. As a result of the of the Memorandum Opinion, the Bankruptcy Court dismissed the complaint filed in the KERS AP, determined that Seven Counties is eligible for relief under chapter 11 of the Bankruptcy Code, and approved the relief requested in the KERS Rejection Motion.

On June 13, 2014, KERS and the Board of Trustees of the KRS filed their notice of appeal of the Memorandum Opinion and asked the Bankruptcy Court to stay the Memorandum Opinion pending appeal to the District Court. The Bankruptcy Court has denied the request to stay, and KERS' and KRS' motion for leave to appeal the Bankruptcy Court's approval of the KERS Rejection Motion is currently pending before the District Court as Case No. 14-MC-00019-JGH (the "Rejection Motion Appeal"). The appeal of the KERS AP (the "KERS AP Appeal") has not yet been docketed by the District Court. Seven Counties has filed a cross-appeal of the Memorandum Opinion as a precautionary measure to provide for affirming the Bankruptcy Court

on alternative grounds such that its ability to terminate its contractual relationship with KERS will be preserved.

Following the appeals of the Memorandum Opinion, the Debtor has moved the District Court to stay the proceedings in the Seven Counties AP Appeal in order to give deference to the issues presented in the Rejection Motion Appeal and/or the KERS AP Appeal. As of the date this Disclosure Statement is filed, the District Court has not ruled on Seven Counties' motion to hold the Seven Counties AP Appeal in abeyance.

(B) NextGen Adversary Proceeding

Following rejection of its Executory Contract with NextGen, the Debtor initiated an adversary proceeding against NextGen, NextGen Healthcare Information Systems, LLC, and Quality Systems, Inc. (the "NextGen Defendants") before the Bankruptcy Court, which assigned the matter A.P. No. 14-03003-jal (the "NextGen A.P."). Within the NextGen A.P., the Debtor seeks recovery of more than $3 million in compensatory and punitive damages for claims sounding in contract and in tort, as well as avoidance and recovery of pre-petition transfers from the Debtor as fraudulent conveyances, for the NextGen Defendants' failure to deliver services of any value to the Debtor or otherwise perform its obligations under the Executory Contract prior to rejection. The NextGen Defendants have yet to substantively respond to the allegations contained in the Debtor's complaint, but have filed motions seeking to (i) remove the NextGen A.P. from the Bankruptcy Court's jurisdiction, (ii) dismiss the NextGen A.P., or (iii) transfer venue to the United States Bankruptcy Court for the Central District of California – Santa Ana Division.

On August 12, 2014, the United States District Court for the Western District of Kentucky – Louisville Division denied the NextGen Defendants' motion to remove the NextGen A.P. from the Bankruptcy Court's jurisdiction. The NextGen Defendants have sought interlocutory appeal to the United States Court of Appeals for the Sixth Circuit, but the request has not been granted as of the date this Disclosure Statement is filed. The Bankruptcy Court has not yet ruled on the pending motions to dismiss or transfer venue to the United States Bankruptcy Court for the Central District of California – Santa Ana Division.

3.6 Assets of the Bankruptcy Estate

(A) Debtor's Balance Sheet

As of the Petition Date, the Debtor valued its real and personal assets in excess of $45.6 million, and showed nearly $232.6 million in liabilities including Disputed Claims. The Debtor's real property holdings are cumulatively valued at nearly $16 million, and its total receivables as of the Petition Date exceeded $13 million.

A true and correct copy of the Debtor's most recently prepared balance sheet for the fiscal year ending June 30, 2014 is attached hereto as **Exhibit A**.

(B) Avoidance Actions

The Debtor has reviewed its financial records and accounts in light of its powers and duties as a debtor in possession. Based on its review of its records and advice of counsel, the Debtor does

not intend to pursue preference, fraudulent conveyance, or other avoidance actions at this time other than as asserted in the NextGen A.P., but said avoidance actions shall not be waived or abandoned until the Effective Date.

3.7 Post-Petition Operations

During this Chapter 11 Case, the Debtor has maintained possession of its assets and continued normal business operations as a debtor in possession, without reliance on the Revolving Note or any other borrowing since the Petition Date. No requests for the appointment of a trustee or examiner have been made, and no committees of any kind have been appointed. A summary of the Debtor's financial performance since the Petition Date is attached hereto as **Exhibit B**.

3.8 Plan Exclusivity

The exclusive period during which only the Debtor may file a chapter 11 plan was extended through October 6, 2014. The period provided by Bankruptcy Code § 1121(c)(3) within which the Debtor may exclusively seek confirmation of the Plan has been extended through December 4, 2014.

4. SUMMARY OF THE PLAN

4.1 Overview of Chapter 11

Chapter 11 of the Bankruptcy Code is the principal business reorganization chapter of the Bankruptcy Code. Under Chapter 11 of the Bankruptcy Code, a debtor is authorized to reorganize its financial obligations and business for the benefit of itself, its creditors and its interest holders.

Chapter 11 promotes equality of treatment for similarly situated creditors and similarly situated interest holders with respect to the distribution of the value of a debtor's assets. The commencement of a chapter 11 case, by the filing of a petition, creates an estate that is comprised of all of the legal and equitable property interest held by the debtor as of the commencement date. The Bankruptcy Code provides that the debtor may continue to operate its business and remain in possession of its property as a "debtor in possession."

The confirmation and consummation of a plan of reorganization is the principal objective of a chapter 11 case. A plan of reorganization sets for the means for satisfying claims against and interests in a debtor. Confirmation of a plan by the Bankruptcy Court makes the plan binding upon the debtor, any issuer of securities under the plan, any person or entity acquiring property under the plan, and any creditor of or equity security holder in the debtor, whether or not such creditor or equity security holder (i) is impaired or has accepted the plan or (ii) receives or retains any property under the plan. Subject to certain limited exceptions and other than as provided in the plan itself or the confirmation order, the confirmation order discharges the debtor from any debt that arose prior to the commencement of the bankruptcy case and substitutes

therefor the obligations specified under the confirmed plan, and terminates all rights and interests of equity security holders.

Confirmation of a plan, which is the vehicle for satisfying the rights of holders of Claims against and equity Interests in a debtor, is the overriding purpose of a chapter 11 case. Although referred to as a plan of reorganization or liquidation, a plan may provide anything from a complex restructuring of a debtor's business and its related obligations to a simple liquidation of its assets. In either event, upon confirmation of a plan, it becomes binding on the debtor and all of its creditors and stakeholders, and the obligations owed by the debtor to those parties are compromised and exchanged for the obligations specified in the plan.

In this Chapter 11 Case, the Plan contemplates the reorganization of existing debt and continuation of the Debtor's normal business operations. The primary objectives of the Plan are to: (a) maximize the value of the ultimate recoveries to all creditor groups on a fair and equitable basis; and (b) settle, compromise, or otherwise dispose of certain Claims and Interests on terms that the Debtor believes to be fair and reasonable and in the best interests of the Debtor's Estate and its creditors.

4.2 Structure of the Plan

All capitalized terms used in this Disclosure Statement and not otherwise defined herein have the meanings ascribed in the Plan.

As required by the Bankruptcy Code, the Plan places Claims and Interests in various Classes and describes the treatment each Class will receive. The Plan also states whether each Class of Claims or Interests is impaired or unimpaired. If the Plan is confirmed, your recovery will be limited to the treatment provided by the Plan.

4.3 Claims and Interests

Pursuant to Bankruptcy Code § 1122, set forth below is a designation of classes of Claims against and Interests in the Debtor. A Claim or Interest is placed in a particular Class for purposes of voting on the Plan and receiving distributions pursuant to the Plan only to the extent that such Claim or Interest is an Allowed Claim or an Allowed Interest in that Class and such Claim or Interest has not been paid, released, or otherwise settled prior to the Effective Date.

The classification of Claims and Interests proposed by the Plan includes, among other things, the designation of two (2) distinct classes of Unsecured Claims. Bankruptcy Code § 1122(a) provides that a plan may place a claim in a particular class only if such claim is substantially similar to other claims of such class. Applicable precedent within the Sixth Circuit has established that Bankruptcy Code § 1122(a) affords broad discretion to a plan proponent's separate classification of arguably similar claims. *In re U.S. Truck Co., Inc.*, 800 F.2d 581 (6th Cir. 1986). Segregation of certain similar claims against a debtor is permissible when the business interests of the separated claimants are substantially different than those of purportedly similar claimants in a different class, particularly with respect to claimants' future relationship with the debtor. *Id*., at 587.

The classification of Claims and Interests for purposes of the distributions to be made under the Plan shall be governed solely by the terms of the Plan. The classification set forth on the Ballots tendered or returned by holders of Claims and Interests in connection with voting on the Plan: (a) are set forth on the Ballots solely for purposes of voting to accept or reject the Plan; (b) do not necessarily represent, and in no event shall be deemed to modify or otherwise affect, the actual classification of such Claims under the Plan for distribution purposes; (c) may not be relied upon by any holder of a Claim or Interest as representing the actual classification of such Claims under the Plan for distribution purposes; and (d) shall not be binding on the Debtor.

(A) Unclassified Claims

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

(1) Administrative Claims

Administrative Claims are Claims for costs and expenses of administering the Chapter 11 Case which are allowed under Bankruptcy Code § 503(b) and entitled to priority pursuant to Bankruptcy Code § 507(a). Administrative Claims also include Claims allowed by Final Order (after notice and a hearing) for the value of any goods sold to the Debtor in the ordinary course of business and received within twenty (20) days prior to the Petition Date. The Bankruptcy Code requires that all Administrative Claims be paid on the Effective Date of the Plan, unless a particular claimant agrees to different treatment.

The following table estimates the Allowed Administrative Claims against the Debtor that will exist on the Effective Date, and describes their proposed treatment under the Plan:

Type of Administrative Claim	**Projected Claim Amount**	**Proposed Treatment**
Expenses Arising in the Ordinary Course of Business after the Petition Date	$7,761,833.00	Paid in full on the Effective Date, or according to the terms of the obligation if later.
The Value of Goods Received in the Ordinary Course of Business within 20 Days before the Petition Date	$0.00	Paid in full on the Effective Date, or according to the terms of the obligation if later.
Professional Fees, as approved by the Bankruptcy Court	$200,000.00	Paid in full on the Effective Date, or according to separate written agreement, or according to court order if such fees have not been approved by the Bankruptcy Court on the Effective Date.
Clerk's Office Fees	[NONE]	Paid in full on the Effective Date.
Other Administrative Expenses	$0.00	Paid in full on the Effective Date or according to separate

		written agreement.
Office of the U.S. Trustee Fees	$20,000.00	Paid in full on the Effective Date.
TOTAL:	$7,981,833.00	

(2) Priority Tax Claims

Priority Tax Claims are unsecured income, employment, and other taxes described by Bankruptcy Code § 507(a)(8). Unless the holder of a Priority Tax Claim agrees otherwise, it must receive the present value of such Claim, in regular installments paid over a period not exceeding five (5) years from the Petition Date.

As of the Date this Disclosure Statement is filed, there have been no Claims asserted which may qualify as an Allowed Priority Tax Claim against the Debtor, and the Debtor is not aware of any Claim which may be entitled to allowance as a Priority Tax Claim.

(B) Classes of Claims and Interests

The following are the Classes set forth in the Plan, and the treatment that each Class is proposed to receive under the Plan:

(1) Priority Claims

Priority Claims that are referred to in Bankruptcy Code §§ 507(a)(1), (4), (5), (6), and (7) are required to be placed in Classes. The Bankruptcy Code requires that each holder of such a Claim receive cash on the Effective Date equal to the allowed amount of such Claim. However, a Class of holders of such Claims may vote to accept different treatment.

As of the Date this Disclosure Statement is filed, there have been no Claims asserted which may qualify as an Allowed Priority Claim against the Debtor, and the Debtor is not aware of any Claim which may be entitled to allowance as a Priority Claim. Therefore, the Debtor has not placed any Claims into a Class of Allowed Priority Claims.

(2) Secured Claims

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

The following table identifies all Classes containing Allowed Secured Claims against the Debtor:

Class	**Description**	**Impairment**	**Treatment**

2-A	*Secured Claim of*: Fifth Third *Collateral*: Recorded mortgages and assignments of leases and rents in and to the following real estate (the "Real Estate Collateral") owned by the Debtor: • 101-115 W. Muhammad Ali Blvd., Louisville, Kentucky; • 2650 W. Broadway, Louisville, Kentucky; • 2210 Tucker Station Road, Louisville, Kentucky; • 130 Vine Street, Shepherdsville, Kentucky; • 2131 Spencer Court, LaGrange, Kentucky; and • 250 Alpine Drive, Shelbyville, Kentucky; and all of the Debtor's business assets, including without limitation accounts receivable (the "Personal Property Collateral"), pursuant to a security agreement dated April 26, 2007, and a financing statement filed with the Kentucky Secretary of State. *Priority of Liens*: First *Total Claim*: $4,919,918.00 *Allowed Secured Claim*: $4,919,918.00 *Allowed Unsecured Claim*: $0.00	Unimpaired	The Plan does not affect the parties' rights arising under the Reimbursement Agreements or related mortgages and security agreements. The Debtor shall continue to make payments to the holder of the Class 2-A Claim as they come due.
2-B	*Secured Claim of*: Fifth Third *Collateral*: Real Estate Collateral and Personal Property Collateral *Priority of Lien*: First *Total Claim*: $114,696.67 *Allowed Secured Claim*: $114,696.67 *Allowed Unsecured Claim*: $0.00	Impaired	*Payment*: $114,696.00 total; twelve (12) monthly payments of $9,558.00 *Payments Begin*: Thirty (30) days after the Effective Date *Payments End*: One (1) year after the Effective Date *Interest Rate*: 0.00% *Treatment of Lien*: Satisfied and released upon payment by the Debtor
2-C	*Secured Claim of*: Iron Mountain *Collateral*: Personal property formerly located at facilities owned by Iron Mountain (warehouseman's lien). *Priority of Lien*: First *Total Claim*: $24,167.13	Impaired	*Payment*: $5,000.00 *Payments Begin*: Thirty (30) days after the Effective Date *Payments End*: Thirty (30) days after the Effective Date *Interest Rate*: N/A *Treatment of Lien*: Satisfied and released upon

	Allowed Secured Claim: $5,000.00 *Allowed Unsecured Claim*: $19,167.13		payment by the Debtor

(3) Unsecured Claims

Unsecured Claims are not secured by property of the Estate and are not entitled to priority treatment under Bankruptcy Code § 507(a).

The following table identifies all Classes containing Allowed Unsecured Claims against the Debtor:

Class	**Description**	**Impairment**	**Treatment**
3-A	Allowed Claims against the Debtor arising under loan agreements between the County of Jefferson, Kentucky and the Debtor or Louisville/Jefferson County Metro Government and the Debtor, as assigned to The Bank of New York Mellon Trust Company, N.A., as Trustee under certain trust indentures. *Estimated Number of Allowed Claims in Class*: 3 *Estimated Total of Allowed Claims in Class*: $4,863,000.00	Unimpaired	The Plan does not affect the various parties' rights arising under the Loan Agreements, Bonds, and Indentures. As of the date this Plan is proposed, the Debtor does not have any outstanding direct payment obligations to holders of Class 3-A Claims.
3-B	Allowed Claims against the Debtor arising from the rejection of any Executory Contract or Unexpired Leases ("Rejection Claims") *Estimated Number of Allowed Claims in Class*: 1 *Estimated Total of Allowed Claims in Class*: $19,167.13	Impaired	Between the Effective Date and the date that is six (6) months after the Effective Date, the Debtor will make a sum total of $19,167.13 available for pro rata distribution to all holders of Class 3-B Claims. The Debtor may increase the funds available for pro rata distribution to Class 3-B Claims, up to $50,000.00, to provide for full payment of the principal amount of all Allowed Claims eligible for Class 3-B.
3-C	Allowed Claims against the Debtor which are not Administrative Claims, Priority Tax Claims, Priority Claims, Secured Claims, Rejection Claims, or Cure Claims *Estimated Number of Allowed Claims in*	Impaired	Between the Effective Date and the date that is six (6) months after the Effective Date, the Debtor will make a sum total of $376,307.91 available for pro rata distribution to all holders of Class 3-C Claims. The Debtor may increase the funds available

	Class: 31 *Estimated Total of Allowed Claims in Class*: $376,307.91[3]		for pro rata distribution to Class 3-B Claims, up to $500,000.00, to provide for full payment of the principal amount of all Allowed Claims eligible for Class 3-C.

(4) Equity Interests

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

As a charitable organization, all of Seven Counties' revenues in excess of its direct maintenance costs are devoted to the implementation of its behavioral health programs. The Debtor has no shareholders or members, and therefore there are no holders of Allowed Interests in the Debtor to place in a Class.

4.4 Unexpired Leases and Executory Contracts

The Plan, in Table 7.1 lists all Executory Contracts and Unexpired Leases that the Debtor intends to assume under the Plan. Assumption means that the Debtor has elected to continue to perform the obligations under such contracts and leases, and to cure defaults of the type that must be cured under the Bankruptcy Code, if any. Table 7.1 also specifies how the Debtor proposes to cure and compensate the other party to such contract or lease for any such defaults.

The Confirmation Order will be deemed to be an Order approving the Debtor's assumption of Executory Contracts and Unexpired Leases identified in Table 7.1 of the Plan, as amended by the Debtor prior to Confirmation. If you object to the assumption of your Unexpired Lease or Executory Contract, the proposed cure of any defaults, or the adequacy of assurance of future performance, you must file and serve your objection to Confirmation within the objection deadline unless the Bankruptcy Court has set an earlier time.

All Executory Contracts and Unexpired Leases that are not referred to in Table 7.1 will be deemed rejected by the Debtor under the Plan upon Confirmation. Consult your advisor or attorney for more specific information about the effect of rejection on your Executory Contract or Unexpired Lease with the Debtor.

If you oppose the Debtor's rejection of your Executory Contract or Unexpired Lease, the characterization of your rights vis-à-vis the Debtor as arising under an Executory Contract or Unexpired Lease, or the proposed treatment of your claim for rejection damages under the Plan, you must file and serve your objection to Confirmation within the objection deadline unless the Bankruptcy Court has set an earlier time.

[3] A preliminary list of Claims contemplated to be eligible for treatment as Class 3-C Claims is attached hereto and marked **Exhibit C**.

The deadline for filing a proof of claim based on a Claim arising from the rejection of an Executory Contract or Unexpired Lease under the Plan is twenty-eight (28) days after entry of the Confirmation Order. For all other Claims arising from the rejection of an Executory Contract or Unexpired Lease as approved by any other Bankrutpcy Court order, the Rejection Bar Date (Section 3.3(A), *supra*), shall apply. Any Claim based on the rejection of a contract or lease will be barred if the proof of claim is not timely filed, unless the Bankruptcy Court orders otherwise.

4.5 Means of Implementing the Plan

(A) Source of Payments

Upon entry of the Confirmation Order, the Debtor will continue to operate its business and manage its assets, which will generate income projected to be sufficient for the Debtor to meet its ongoing expenses and obligations contemplated under the Plan.

(B) Financial Projections

The Debtor's anticipated future revenues and expenses, as of the date this Disclosure Statement is filed, are attached hereto as **Exhibit D** (the "Financial Projections").

(C) Post-Confirmation Management

Following Confirmation, the Debtor will continue to be subject to the control of its Board of Directors. As of the date this Disclosure Statement is filed, the Debtor anticipates that the Board of Directors will consist of the following individuals on the Effective Date:

Board Member	**SCS Committee Membership**	**Terms**	**Occupation and/or Other Business Interest(s)**
Abate, Michael	External Affairs	June 2014 – September 2018	Attorney at Dinsmore & Shohl, LLP
Bain, Nina	Nominating/Governance SCS Learning, Inc. Board	June 2008 – September 2017	Retired educator; endorsed by Bullitt County Judge Executive
Beran, John	Finance External Affairs (Chair)	September 2011 – September 2018	Business consultant
Cooper, Elizabeth	External Affairs	October 2009 – September 2015	Case Management Supervisor for Family & Children's Place
Fawns, Maresa	External Affairs (Vice Chair)	November 2013 – September 2017	Associate Executive – Kentucky Justice Association
Garrison, Peter	Executive (Treasurer) Finance (Chair) Program and Strategy	February 2012 – September 2018	CPA with Trover Solutions, Inc.

Gimmel, Emily	External Affairs Program and Strategy	May 2014 – September 2015	Owner, Graceship
Ginn, June	Nominating/Governance	April 2007 – September 2016	Retired Circuit Court Clerk; endorsed by Trimble County Judge Executive
Gunn, Kevin	Nominating/Governance External Affairs	October 2009 – September 2015	Vocational
Holton, David II	Chair of the Board Executive (Chair) Nominating/Governance	October 2008 – September 2017	Jefferson County District Judge
Hoy, Thomas	Program and Strategy (Chair)	October 2011 – September 2017	Attorney at Dinsmore & Shohl, LLP
Huggins, Sara C.	Finance Nominating/Governance	July 2006 – September 2016	Retired Attorney
Jolly Bowling, Kay	Program and Strategy (Vice Chair)	November 2012 – September 2017	UofL Pediatrics; endorsed by Spencer County Judge Executive
Marsh, Gary	External Affairs Finance	December 2013 – September 2018	President & CEO of Masonic Homes
Miller, David	Finance	January 2014 – September 2016	Consultant for Healthcare Strategy Group
Miller, Matt	External Affairs	December 2013 – September 2015	Senior Loan Underwriter for Farm Credit Mid-America
Overpeck, Keith	External Affairs	July 2006 – September 2015	Retired journalist – Courier-Journal
Perry, Denise	Executive (Secretary) Nominating/Governance (Chair) Program and Strategy	May 2009 – September 2016	Director of Student Services for Henry County Schools; endorsed by Henry County Judge Executive
Ray, David	Finance	August 2014 – September 2015	VP of Technology and Planning for Galen College
Ringswald, Michael	Executive (Vice Chair) Finance	October 2009 – September 2016	Attorney and Banker, Republic Bank; endorsed by Oldham County Judge Executive

Zipple, Anthony	Ex-officio of all committees		CEO of Seven Counties

The Debtor does not anticipate that the Board of Directors will cause any immediate or substantial changes to the management of the Debtor after Confirmation. Therefore, the Debtor anticipates that the daily operations of the Debtor will be managed by the following individuals on the Effective Date:

Individual	Position	Salary	Length of Service
Brazeau, Gerald	Chief Information Officer	$127,968.00	14.9 years
Gannon, Kelley	Chief Operating Officer	$127,504.00	2.8 years
Hedges, Scott M.D.	Sr. VP of Medical Services	$237,598.40	19.8 years
Zipple, Anthony	Chief Executive Officer	$254,987.20	3.4 years

4.6 Federal Tax Consequences of Plan

Holders of Claims and/or Interests concerned with how the Plan may affect their tax liabilities should consult with their own accountants, attorneys, and/or advisors.

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

(A) General

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

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

DOES NOT DISCUSS THE POSSIBLE STATE TAX OR NON-U.S. TAX CONSEQUENCES THAT MIGHT APPLY TO THE DEBTOR OR TO HOLDERS OF CLAIMS.

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

(B) Tax Consequences of Payment of Allowed Claims Pursuant to Plan

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

(1) Recognition of Gain or Loss

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

(2) Post-Effective Date Distributions

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

(3) Receipt of Interest

Holders of Allowed Claims will recognize ordinary income to the extent that they receive cash or property that is allocable to accrued but unpaid interest which the holder has not yet included in

its income. If an Allowed Claim includes interest, and if the holder receives less than the amount of the Allowed Claim pursuant to the Plan, the holder must allocate the Plan consideration between principal and interest. The holder may take the position that the amounts received pursuant to the Plan are allocable first to principal, up to the full amount of principal, and only then to interest. However, the proper allocation of Plan consideration between principal and interest is unclear and holders of Allowed Claims should consult their own tax advisors in this regard. If the Plan consideration allocable to interest with respect to an Allowed Claim is less than the amount that the holder has previously included as interest income, the previously included but unpaid interest may be deducted, generally as a loss.

(4) Bad Debt or Worthless Securities Deduction

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

(C) Information Reporting and Withholding

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

5. CONFIRMATION PROCEDURES

5.1 Approval of Disclosure Statement

This Disclosure Statement has been prepared in accordance with Bankruptcy Code § 1125 and Bankruptcy Rule 3016(b), and not necessarily in accordance with federal or state securities laws or other non-bankruptcy laws. The purpose of this Disclosure Statement is to provide adequate information to enable the holder of a Claim against or equity Interest in the Debtor to make a reasonably informed decision with respect to the Plan prior to exercising its right to vote to accept or reject the Plan. Prior to the Debtor's dissemination of this Disclosure Statement to holders of Claims and Interests for the purpose of soliciting votes to accept the Plan, the Debtor must obtain Bankruptcy Court approval of this Disclosure Statement as containing information of a kind and in sufficient and adequate detail to enable such holders to make an informed

judgment with respect to acceptance or rejection of the Plan. The Bankruptcy Court's approval of this Disclosure Statement does not constitute either a guarantee of the accuracy or completeness of the information contained herein or an endorsement of the Plan by the Bankruptcy Court.

5.2 Solicitation of Votes

No person is authorized by the Debtor in connection with the Plan or the solicitation of acceptances of the Plan to give any information or to make any representation other than as contained in this Disclosure Statement and the exhibits attached hereto or incorporated by reference, and, if given or made, such information or representation may not be relied upon as having been authorized by the Debtor.

5.3 Voting on the Plan

In accordance with the Bankruptcy Code, only Classes of Claims against or equity Interests in the Debtor that are "impaired" under the terms of the Plan are entitled to vote to accept or reject the Plan. A Class is "impaired" if the legal, equitable, or contractual rights attaching to the Claims or Interests of that Class are modified, other than by curing defaults and reinstating maturity. Classes of Claims and Interest that are not impaired are not entitled to vote on the Plan and are conclusively presumed to have accepted the Plan. In addition, Classes of Claims and Interests that receive no distributions under the Plan are not entitled to vote on the Plan and are deemed to have rejected the Plan unless such Class otherwise indicates acceptance. The classification and treatment of Claims and Interests is summarized in Section 4.3(B).

VOTING ON THE PLAN BY EACH HOLDER OF AN IMPAIRED CLAIM ENTITLED TO VOTE ON THE PLAN IS IMPORTANT. IF YOU HOLD CLAIMS IN MORE THAN ONE CLASS, IF YOU HOLD MULTIPLE GENERAL UNSECURED CLAIMS, OR UNDER CERTAIN OTHER CIRCUMSTANCES, YOU MAY SUBMIT MORE THAN ONE BALLOT. YOU SHOULD COMPLETE, SIGN, AND RETURN A CORRESPONDING BALLOT FOR EACH CLAIM YOU HOLD AGAINST THE DEBTOR.

PLEASE CAREFULLY FOLLOW ALL OF THE INSTRUCTIONS CONTAINED ON THE BALLOT MADE AVAILABLE TO YOU. ALL BALLOTS MUST BE COMPLETED AND RETURNED IN ACCORDANCE WITH THE INSTRUCTIONS PROVIDED THEREON.

TO BE COUNTED, YOUR BALLOT MUST ACTUALLY BE RECEIVED BY THE VOTING DEADLINE. IT IS OF THE UTMOST IMPORTANCE TO THE DEBTOR THAT YOU VOTE PROMPTLY TO ACCEPT THE PLAN.

Votes cannot be transmitted orally. Accordingly, you are urged to return your signed and completed Ballot by hand delivery, facsimile, e-mail, overnight service, or regular U.S. mail.

(A) Eligibility

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

In this case, the Debtor believes that Classes 2-B, 2-C, 3-B, and 3-C are impaired and that holders of Allowed Claims in each of those Classes are therefore entitled to vote on the Plan.

(1) Allowed Claims and Allowed Interests

Only the holder of an Allowed Claim or an Allowed Interest has the right to vote on the Plan. When a Claim or Interest is not allowed, the purported creditor or equity interest holder cannot vote to accept or reject the Plan unless the Bankruptcy Court, after notice and hearing, either determines in a Final Order that the disputed claim or interest is an Allowed Claim or an Allowed Interest, or allows the Claim or Interest for voting purposes pursuant to Bankruptcy Rule 3018(a).

(2) Impairment

The holder of an Allowed Claim or Allowed Interest has the right to vote only if it is in a Class that is *impaired* under the Plan. As provided in Bankruptcy Code § 1124, a Class is considered impaired if the Plan alters the legal, equitable, or contractual rights of the members of that Class.

(B) Voting in Multiple Classes

The holder of an Allowed Claim that has been allowed in part as a Secured Claim and in part as an Unsecured Claim, or multiple Allowed Claims in multiple Classes, is entitled to accept or reject the Plan in each capacity, and should cast one ballot for each Class in which the holder is a member.

(C) Persons Not Entitled to Vote

The holders of the following types of Claims and Interests are *not* entitled to vote on the Plan unless they hold other Allowed Claims in one or more impaired Classes: those that have been disallowed by Final Order of the Bankruptcy Court; those that are in a Class that is unimpaired by the Plan; those entitled to priority pursuant to Bankruptcy Code §§ 507(a)(2), (a)(3), and (a)(8); those that will not receive or retain any value or property under the Plan; and those that are Administrative Expenses.

6. CONFIRMATION REQUIREMENTS

To be confirmable, the Plan must meet the requirements listed in Bankruptcy Code §§ 1129(a) or (b). These include the requirements that: the Plan must be proposed in good faith; at least one impaired Class of claims must accept the Plan, without counting the votes of insiders; the Plan must distribute to each creditor and equity interest holder at least as much as the creditor or equity interest holder would receive in a chapter 7 liquidation, unless the creditor or equity interest holder votes to accept the Plan; and the Plan must be feasible. These requirements are

not the only requirements listed in Bankruptcy Code § 1129, and they are not the only requirements for Confirmation.

6.1 Feasibility of the Plan

Bankruptcy Code § 1129(a)(11) requires that the Bankruptcy Court must find that Confirmation of the Plan is not likely to be followed by liquidation or the need for further financial reorganization of the Debtor unless contemplated by the Plan. This requirement is commonly referred to as the "feasibility" requirement. The Plan does not contemplate a subsequent liquidation or financial reorganization, and the Debtor believes that it will be able to timely perform all obligations described in the Plan. Therefore, the Debtor believes that the Bankruptcy Court will find that the Plan is feasible.

In order to substantiate a finding that the Plan meets the feasibility requirement, the Debtor has prepared the Financial Projections for fiscal year 2015 as set forth in Exhibit D to this Disclosure Statement. A more detailed description of the Financial Projections and underlying assumptions is set forth in Section 4.5(B), *supra*.

6.2 Best Interests Test

(A) Finding of Fact Required

Even if the Plan is accepted by each Class of Holders of Claims and Interests, the Bankruptcy Code requires the Bankruptcy Court to determine that the Plan is in the best interests of all holders of Claims and Interests that are impaired by the Plan and that have not accepted the Plan. The "best interests" test, as set forth in Bankruptcy Code § 1129(a)(7), requires the Bankruptcy Court to find either that (i) all members of an impaired Class of Claims or Interests have accepted the Plan, or (ii) the Plan will provide a member who has not accepted the Plan with a recovery of property of a value, as of the Effective Date, that is not less than the amount such holder would recover if the Debtor was liquidated under chapter 7 of the Bankruptcy Code.

(B) Liquidation Analysis

To calculate the probable distribution to members of each impaired Class of Claims or Interests if the Debtor was liquidated under chapter 7 of the Bankruptcy Code, the Bankruptcy Court must first determine the aggregate dollar amount that would be generated from the Debtor's assets if this Chapter 11 Case was converted to a case under chapter 7 of the Bankruptcy Code. This "liquidation value" would consist primarily of the proceeds from a forced sale of the Debtor's assets by a Chapter 7 Trustee. As discussed in Section 8.1, *infra*, the amount of liquidation value available to unsecured creditors would be reduced by the administrative costs of the case proceeding under chapter 7 of the Bankruptcy Code.

Once the Bankruptcy Court ascertains the secured creditors' and priority claimants' recoveries in a liquidation, it must determine the probable distribution to general unsecured creditors and equity security holders from the remaining available proceeds in a liquidation. If such probable distribution has a greater value than the distributions to be received by such creditors and equity security holders under a chapter 11 plan, then such plan is not in the best interests of creditors and equity security holders.

(C) Application of Bests Interests Test

Notwithstanding the difficulties in quantifying recoveries to creditors in a hypothetical liquidation with precision, the Debtor believes that, considering that the distributions contemplated under the Plan will fully pay all Allowed Claims in impaired Classes in short amount time after the Effective Date, the Plan clearly satisfies the "best interests" test of Bankruptcy Code § 1129(a)(7). The Debtor believes that the members of each impaired Class will receive at least as much under the Plan as they would through liquidation in a hypothetical chapter 7 case.

Creditors will receive a better recovery through the distributions contemplated by the Plan because the continued operation of the Debtor as a going concern rather than its forced liquidation will allow the realization of more value for the Debtor's assets. In liquidation, the Debtor's substantial secured debt obligations could potentially preclude any meaningful recovery by holders of Unsecured Claims. Moreover, as a result of the Debtor's reorganization, creditors such as the Debtor's employees will retain their jobs and most likely make few, if any, claims against the Estate. Finally, if the Debtor was liquidated in a chapter 7 case, the aggregate amount of general Unsecured Claims would increase significantly and be subordinated to increased Priority Claims. For example, employees would file Administrative Expense Claims for post-petition wages, pensions, and other benefits; landlords and certain contract parties would file rejection damage claims; and the Chapter 7 Trustee and his professionals would be entitled to administrative priority. The resulting increase in both general Unsecured and Priority Claims would undoubtedly decrease percentage recoveries to unsecured creditors currently positioned to receive distributions under the Plan.

6.3 Votes Necessary for Confirmation

As a condition to Confirmation, the Bankruptcy Code requires that each Class of Impaired Claims vote to accept the Plan, except under certain circumstances.

(A) Class Acceptance

Bankruptcy Code § 1126(c) defines acceptance of a plan by a class of impaired claims as acceptance by holders of (i) at least two-thirds (2/3) in dollar amount and (ii) more than one-half (1/2) in number of claims in that class but, for the latter purpose, counts only those who actually vote to accept or reject the plan. Thus, a Class of Claims will have voted to accept the Plan only if two-thirds in amount and a majority in number actually voting cast their Ballots in favor of acceptance.

A Class of Interests accepts the Plan if the holders of at least two-thirds (2/3) in amount of the Allowed Interests in the Class who cast votes on the Plan accept the Plan.

(B) Treatment of Non-Accepting Classes

Even if one or more Impaired Class votes to reject the Plan, the Bankruptcy Court may nonetheless confirm the Plan if at least one (1) impaired Class of Claims has accepted the Plan,

and the non-accepting Classes are treated in a manner prescribed by Bankruptcy Code § 1129(b). A plan that binds non-accepting Classes is commonly referred to as a "cramdown" plan.

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

6.4 "Cramdown" Confirmation

Bankruptcy Code § 1129(b) provides that a plan can be confirmed even if it has not been accepted by all impaired classes as long as at least one impaired class of claims (excluding the votes of "insiders") has accepted it. The Bankruptcy Court may confirm the Plan at the Debtor's request notwithstanding an impaired Class' rejection of the Plan as long as the Plan "does not discriminate unfairly" and is "fair and equitable" as to each impaired Class that has not accepted it.

A plan is fair and equitable as to a class of secured claims that rejects such plan if the plan provides (1)(a) that the holders of such claims in the rejecting class retain their liens securing those claims to the extent of the allowed amount of such claims, whether the collateralized property is retained by the debtor or transferred to another entity, and (b) that each holder of such a claim receives on account of that claim deferred cash payments totaling at least the allowed amount of that claim, of a value, as of the effective date of the plan, of at least the value of the holder's interest in the estate's interest in such property; (2) for the sale, subject to Bankruptcy Code § 363(k), of any property that is subject to the liens securing the claims including in the rejecting class, free and clear of the liens, with the liens to attach to the proceeds of the sale, and the treatment of the liens on proceeds under clause (a) or (b) of this sentence; or (3) for the realization by such holders of the indubitable equivalent of their claims.

A plan is fair and equitable as to a class of unsecured claims that rejects such plan if the plan provides (1) for each holder of a claim included in the rejecting class to receive or retain on account of that claim property that has value, as of the effective date of the plan, equal to the allowed amount of such claim; or (2) that the holder of any claim or interest that is junior to the claims of such rejecting class will not receive or retain on account of such junior claim or interest any property at all.

A plan is fair and equitable as to a class of equity interests that rejects a plan if the plan provides (1) that each holder of an interest included in the rejecting class receive or retain on account of that interest property that has a value, as of the effective date of the plan, equal to the greatest of the allowed amount of any fixed liquidation preference to which such holder is entitled, any fixed redemption price to which such holder is entitled, or the value of such interest; or (2) that the holder of any interest that is junior to the interest of such rejecting class will not receive or retain under the plan on account of such junior interest any property at all.

In the event that any impaired Class votes to reject the Plan, the Debtor will seek Confirmation of the Plan pursuant to Bankruptcy Code § 1129(b).

7. RISK FACTORS

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

7.1 Considerations Regarding the Chapter 11 Case

(A) Any significant delay in the Debtor's emergence from bankruptcy may disrupt business operations.

The impact that prolonging of the Chapter 11 Case may have on the Debtor's operations cannot be accurately predicted or quantified. Although the Debtor has endeavored to minimize the effects of any bankruptcy-related disturbances since the commencement of this case, certain disruptions in operations have been unavoidable. The continuation of this Chapter 11 Case, particularly if the Plan is not approved or confirmed within the targeted timeframe, could further adversely affect the Debtor's operations and relationships with its suppliers, employees, consumers, and agents. If Confirmation and consummation of the Plan do not occur within the periods currently contemplated, the Chapter 11 Case could result in, among other things, increased costs for professional fees and similar Administrative Expenses.

In addition, a prolonged exit from this Chapter 11 Case may make it more difficult for the Debtor to retain management and other key personnel, and is likely to require the Debtor's senior management to expend significant amounts of time and effort dealing with the financial reorganization instead of focusing on the operation of the business.

(B) The Debtor may not be able to obtain Confirmation of the Plan.

The Debtor cannot insure that it will receive the requisite acceptances from the holders of Allowed Claims to confirm the Plan. Even if all impaired Classes accept or could be deemed to have accepted the Plan, the Debtor cannot insure that the Bankruptcy Court will confirm the Plan. One or more non-accepting holders(s) of Claims and/or Interests, or the United States Trustee, might challenge the adequacy of this Disclosure Statement or the balloting procedures and results as not being in compliance with the Bankruptcy Code or the Bankruptcy Rules. Even if the Bankruptcy Court determined that this Disclosure Statement and the balloting procedures and results were appropriate, the Bankruptcy Court could still decline to confirm the Plan if it found that any of the statutory requirements for Confirmation had not been met. Bankruptcy Code § 1129 sets forth the requirements for Confirmation and requires, among other things, a finding by the Bankruptcy Court that (a) Confirmation of the Plan is not likely to be followed by liquidation or a need for further financial reorganization; (b) the Plan "does not unfairly discriminate" and is "fair and equitable" with respect to any non-accepting Classes; (c) the value of distributions to dissenting holders of Claims and Interests will not be less than the value of distributions such holders would receive if the Debtor was liquidated under chapter 7 of the Bankruptcy Code; and (d) the Plan and the Debtor have otherwise complied with the applicable provisions of the Bankruptcy Code. Although the Debtor believes that the Plan will meet all

applicable tests, there can be no assurance that the Bankruptcy Court will reach the same conclusion.

Consummation of the Plan is also subject to certain conditions described in Section 9.3, *infra*. If the Plan is not confirmed, it is unclear whether a restructuring of the Debtor could be implemented and what distributions holder of Claims ultimately would receive with respect to their Claims. If an alternative reorganization could not be agreed to, it is possible that the Debtor would have to liquidate its assets, in which case it is likely that holders of Claims would receive substantially less favorable treatment than they would receive under the Plan.

(C) Parties in interest may object to the Debtor's classification of Claims and Interests.

Bankruptcy Code § 1122 provides that a plan of reorganization may place a claim or an interest in a particular class only if such claim or interest is substantially similar to the other claims or interests in such class. The Debtor believes that the classification of Claims and Interests under the Plan complies with the requirements set forth in the Bankruptcy Code, as augmented or clarified by controlling legal precedent.

(D) The actual amounts of Allowed Claims may vary from the Debtor's estimated amounts of Allowed Claims and reduce the percentage recovery on general unsecured claims.

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

(E) The Debtor may attempt to achieve Confirmation notwithstanding an inability to obtain necessary votes for consensual Confirmation.

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

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

7.2 Considerations Regarding the Debtor's Business

(A) The Debtor's financial projections are inherently uncertain and actual results may materially differ.

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

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

(B) The Memorandum Opinion may be altered or reversed on appeal.

As described in Section 3.5(A), *supra*, numerous appeals stemming from Bankruptcy Court orders entered in this Chapter 11 Case are pending before the District Court. The disposition of any one of these appeals may materially and substantially impact the Debtor's ability to consummate the Plan or otherwise reorganize. The Debtor has premised the Plan on the Memorandum Opinion becoming a Final Order, or that an order terminating its obligations to make required employer contributions to KERS and/or discontinuing Seven Counties' designation as a participant in KERS will become a Final Order. The Debtor is presently unable to project with any certainty the timeframe in which the District Court or other court may enter a Final Order with respect to an adjudication of the rights and liabilities among Seven Counties, KERS, and KRS. The Debtor reserves the right to seek dismissal of one or more of the pending appeals as moot on grounds of substantial consummation of the Plan if it elects to waive one or more conditions to occurrence of the Effective Date.

(C) The Debtor may not continue to secure valuable contracts with the Commonwealth of Kentucky.

Consistent with the mission of Kentucky's CMHC system, the Debtor provides mental and behavioral health services to an underserved population of severely limited means. As a social safety net for individuals largely dependent on government benefit programs, Seven Counties has and will continue to rely on generating revenues from numerous contracts with the Commonwealth of Kentucky and its agencies. Perhaps unsurprisingly, the Debtor's termination of its contractual relationship with KERS through this Chapter 11 Case has cost the Debtor some political goodwill with various representatives of the Commonwealth. This has prompted the Debtor to speculate on the numerous ways in which the Commonwealth may be inclined to punish Seven Counties for seeking chapter 11 protection in an effort to survive and continue to deliver excellent services to citizens of its region. As a result, the Debtor must acknowledge the threat that certain service contracts that the Debtor performs for the Cabinet for Health and

Family Services may be revoked or not renewed. Alternatively, the Cabinet for Health and Family Services could revoke Seven Counties' designation as a CMHC, and replace or discontinue public mental health services for the catchment served by the Debtor. Under either scenario, the Debtor's continued viability and ability to pay its operating expenses would be substantially impaired.

8. ALTERNATIVES TO CONFIRMATION OF THE PLAN

8.1 Chapter 7 Liquidation

Notwithstanding acceptance of the Plan by the requisite number of members of any Class, the Bankruptcy Court must still independently determine that the Plan provides each member of each impaired Class of Claims and Interests a recovery that has a value at least equal to the distribution that each such Claim or Interest holder would receive if the Debtor was liquidated under chapter 7 of the Bankruptcy Code on the Effective Date.

If no plan is confirmed, the Debtor's Chapter 11 Case may be converted to a case under chapter 7 of the Bankruptcy Code. In a chapter 7 case, a trustee would be appointed to liquidate the assets of the Estate. It is impossible to predict precisely how the proceeds of the liquidation would be distributed to the respective holders of Claims against or Interests in the Debtor.

However, the Debtor believes that creditors would lose the benefit of a substantially higher going concern value if the Debtor was forced to liquidate. In addition, the Debtor believes that in liquidation under chapter 7, before holders of Allowed Claims received any distribution, additional administrative expenses involved in the appointment of a trustee and the necessary attorneys, accountants, and other professionals to assist such trustee(s) would cause a substantial diminution in the value of the Estate. The assets available for distribution to creditors would be reduced by such additional expenses and by Claims, some of which would be entitled to priority, which would arise by reason of the liquidation and from the rejection of Unexpired Leases and other Executory Contracts in connection with the cessation of the Debtor's operations.

8.2 Chapter 11 Liquidation

The Debtor could also be liquidated pursuant to a chapter 11 plan if the Plan is not confirmed. In liquidation under chapter 11, the Debtor's assets could be sold in an orderly fashion over a more extended period of time than in liquidation under chapter 7. Thus, a chapter 11 liquidation might result in greater recoveries than a chapter 7 liquidation, but the delay in distributions could result in lower present values received and higher administrative costs. Because a trustee is not required in a chapter 11 liquidation, expenses for professional fees could be lower than in a chapter 7 case in which a trustee must be appointed. Any distribution to the holders of Claims and Interests under a chapter 11 liquidation plan probably would be delayed substantially. Notwithstanding the potentially lower administrative costs associated with a chapter 11 liquidation, the value of any distributions to holders of Claims against the Debtor would be substantially diluted by the increased amount and value of Claims resulting from the cessation of the Debtor's operations.

The likely form of any liquidation would by piecemeal sale of individual assets. Based on this analysis, a liquidation of the Debtor's assets likely would produce less value for distribution to creditors than that recoverable in each instance under the Plan. In the Debtor's opinion, the recoveries projected to be available in liquidation are not likely to afford holders of Claims and Interests as great a realization potential as provided for under the Plan.

8.3 Alternative Plans

If the Plan is not confirmed, the Debtor or any other party in interest in this Chapter 11 Case could, after the expiration of the Debtor's exclusivity period, propose a different plan.

9. EFFECT OF CONFIRMATION OF THE PLAN

The effectiveness of the Plan is subject to material conditions precedent, some of this may not be satisfied. See § 9.3(A). There is no assurance that these conditions will be satisfied.

9.1 Discharge of Debtor

Upon Confirmation of the Plan, the Debtor shall be discharged from any debt that arose prior to Confirmation, subject to the occurrence of the Effective Date, to the extent specified in Bankruptcy Code § 1141(d)(1)(A), provided, however, that the Debtor shall not be discharged of any debt (1) imposed by the Plan, (2) of a kind specified in Bankruptcy Code § 1141(d)(6)(A) if a timely complaint was filed in accordance with Bankruptcy Rule 4007(c), or (3) of a kind specified in Bankruptcy Code § 1141(d)(6)(B). After the Effective Date your Claims against the Debtor will be limited to the debts described in clauses (1) through (3) of the preceding sentence.

9.2 Modification of Plan

The Debtor may modify the Plan at any time prior to Confirmation. However, the Bankruptcy Court may require a new disclosure statement and/or additional voting on the Plan.

The Debtor may also seek to modify the Plan at any time after Confirmation only if (1) the Plan has not been substantially consummated, and (2) the Bankruptcy Court authorizes the proposed modifications after notice and hearing.

9.3 Consummation of Plan

(A) Conditions Precedent

The Effective Date shall occur on or prior to April 1, 2015, unless such date is extended by written consent of the Debtor. The following are conditions precedent to the occurrence of the Effective Date, each of which must be satisfied or waived in accordance with Section 9.3(B) of this Disclosure Statement:

(1) The Bankruptcy Court shall have entered one or more Orders (which may include the Confirmation Order) authorizing the assumption or rejection of Unexpired

Leases and Executory Contracts by the Debtor as contemplated by Section 4.4 of this Disclosure Statement;

(2) The Memorandum Opinion has become a Final Order;

(3) The Confirmation Order has been entered, has not been reversed, stayed, modified, or amended, and has become a Final Order;

(4) The Bankruptcy Court shall have entered an Order (contemplated to be part of the Confirmation Order) approving and authorizing the Debtor to take all actions necessary or appropriate to implement the Plan in form and substance reasonably acceptable to the Debtor, which Order shall include provisions for the implementation and completion of all transactions contemplated by the Plan and the implementation and consummation of the contracts, instruments, releases, and other agreements or documents entered into or delivered in connection with the Plan; and

(5) All other actions, documents, consents, and agreements necessary to implement the Plan shall have been effected, obtained, and/or executed.

(B) Waiver of Conditions

The conditions set forth Section 9.3(A) of this Disclosure Statement may be waived by the Debtor without any notice to other parties in interest or the Bankruptcy Court and without a hearing. The failure of the Debtor to exercise any of the foregoing rights, in their sole discretion, shall not be deemed a waiver of any other rights, and each such right shall be deemed an ongoing right, which may be asserted at any time.

9.4 Notice of Effective Date

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

9.5 Retention of Jurisdiction

Pursuant to Bankruptcy Code §§ 105(a) and 1142, the Debtor will request that the Confirmation Order provide that the Bankruptcy Court retains exclusive jurisdiction of all matters arising out of, and related to, the Chapter 11 Case and the Plan, including, without limitation, the matters described in Section 13.2 of the Plan. Notwithstanding the foregoing, the Debtor and any party may agree in writing that the jurisdiction of the Bankruptcy Court shall not be exclusive, but concurrent with other courts of competent jurisdiction.

9.6 Final Decree

Once the Estate has been fully administered, as provided in Bankruptcy Rule 3022, the Debtor or such other party as the Bankruptcy Court may designate in the Confirmation Order shall file a

motion with the Bankruptcy Court to obtain a final decree to close the case. Alternatively, the Bankruptcy Court may enter such final decree on its own motion.

10. RECOMMENDATION AND CONCLUSION

It is the Debtor's position that the Plan is substantially preferable to liquidation under chapter 7 of the Bankruptcy Code. Conversion of the Chapter 11 Case to a case under chapter 7 would result in: (i) substantial delays in the distribution of proceeds (if any) available under such alternative; (ii) increased uncertainty as to whether payments would be made to unsecured creditors; and (iii) substantially increased administrative costs.

It is important that you exercise your right to vote on the Plan. It is the Debtor's belief that the Plan fairly and equitably provides for the treatment of all Claims against and Interests in the Debtor. **The Debtor recommends and urges all parties to vote to accept the Plan.**

IN WITNESS WHEREOF, the Debtor has submitted this Disclosure Statement this 6th day of October, 2014.

SEVEN COUNTIES SERVICES, INC.
DEBTOR AND DEBTOR IN POSSESSION

/s/ Anthony Zipple
ANTHONY ZIPPLE, SC.D., MBA
Chief Executive Officer

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