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12 **UNITED STATES BANKRUPTCY COURT**
 13 **FOR THE EASTERN DISTRICT OF CALIFORNIA**

14 In re:

15 CHICO HEALTH IMAGING, LLC,

16 Debtor.

Case No.: 2017-20247

DC No.

Chapter 11

17
 18 **DISCLOSURE STATEMENT TO ACCOMPANY DEBTOR'S PLAN OF**
 19 **REORGANIZATION DATED MAY 23, 2017**
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APPENDIX

EXHIBIT “1”: DEBTOR’S PLAN OF REORGANIZATION

EXHIBIT “2”: LIQUIDATION ANALYSIS

I.
INTRODUCTION

On January 16, 2017 (the "Petition Date"), Chico Health Imaging, LLC ("Debtor") filed its voluntary petition under Title 11, Chapter 11 of the United States Code (the "Bankruptcy Code")¹ with the United States Bankruptcy Court for the Eastern District of California (the "Bankruptcy Court") to commence the above-captioned case (the "Chapter 11 Case").

Debtor has prepared this Disclosure Statement in connection with the solicitation of votes on *Debtor's Plan of Reorganization Dated May 23, 2017* (the "Plan") filed May 23, 2017, proposed by Debtor to treat the Claims of Creditors in the Chapter 11 Case.

CAPITALIZED TERMS USED BUT NOT DEFINED IN THIS DISCLOSURE STATEMENT HAVE THE MEANINGS ASCRIBED TO SUCH TERMS IN THE PLAN. IN THE EVENT OF A CONFLICT OR DIFFERENCE BETWEEN THE DEFINITIONS USED IN THIS DISCLOSURE STATEMENT AND IN THE PLAN, THE DEFINITIONS CONTAINED IN THE PLAN SHALL CONTROL.

The Exhibits to this Disclosure Statement included in the Appendix are incorporated into, and are a part of, this Disclosure Statement. The Plan is attached hereto as **Exhibit "1."** Any interested party desiring further information should contact:

Garman Turner Gordon LLP
Gerald M. Gordon, Esq.
Teresa M. Pilatowicz, Esq.
650 White Drive, Ste. 100
Las Vegas, Nevada 89119
Telephone: (725) 777-3000
Email: ggordon@gtg.legal
Email: tpilatowicz@gtg.legal

Interested parties may also obtain further information from the Bankruptcy Court at the following website: <http://www.caeb.uscourts.gov>. Each Holder of a Claim entitled to vote on the Plan should read this Disclosure Statement, the Exhibits hereto including the Plan, and the instructions accompanying the Ballots in their entirety before voting on the Plan. These

¹ All references to "Chapter" and "Section" hereinafter shall be to the Bankruptcy Code; all references to a "Bankruptcy Rule" shall refer to the Federal Rules of Bankruptcy Procedure; and all references to a "Local Rule" shall refer to the Local Rules of Practice for the United States Bankruptcy Court, Eastern District of California.

1 documents contain important information concerning the classification of Claims and Equity
2 Securities for voting purposes and the tabulation of votes.

3 **II.**
4 **INFORMATION REGARDING THE PLAN AND THIS DISCLOSURE STATEMENT**

5 The following are answers to common questions about a Chapter 11 reorganization:

6 **What is Chapter 11?**

7 Chapter 11 is the principal business reorganization chapter of the Bankruptcy Code.
8 Under Chapter 11, a debtor is authorized to reorganize its business for the benefit of itself, its
9 creditors, and equity interest holders. The commencement of a Chapter 11 case creates an estate
10 that is comprised of all of the legal and equitable interests of the debtor as of the filing date. The
11 Bankruptcy Code provides that the debtor may continue to operate its business and remain in
12 possession of its property as a “debtor-in-possession.”

13 **What is the objective of a Chapter 11 bankruptcy case?**

14 The objective of a Chapter 11 bankruptcy case is the confirmation (*i.e.* approval by the
15 bankruptcy court) of a plan of reorganization. Here, Debtor commenced its Chapter 11 Case in
16 order to complete a sale of its assets, liquidate its remaining assets through a plan of
17 reorganization, and to tender a distribution to the holders of allowed claims.

18 **What is a plan of reorganization?**

19 A plan describes in detail (and in language appropriate for a legal contract) the means for
20 satisfying claims against, and equity interests in, a debtor.

21 **What happens after a plan is filed?**

22 After a plan has been filed, the holders of claims and equity interests that are impaired (as
23 defined in Section 1124 of the Bankruptcy Code) and receiving some cash and/or property on
24 account of such claims or equity interests are permitted to vote to accept or reject the plan.

25 **What is a disclosure statement and its purpose?**

26 Before a debtor or other plan proponent can solicit acceptances of a plan, Section 1125 of
27 the Bankruptcy Code requires the debtor or other plan proponent to prepare a disclosure
28 statement containing adequate information of a kind, and in sufficient detail, to enable those

1 parties entitled to vote on the plan to make an informed voting decision about whether to accept
2 or reject the plan.

3 The purpose of this Disclosure Statement is to provide sufficient information about
4 Debtor and the Plan to enable Holders of Impaired Claims to make an informed voting decision
5 about whether to accept or reject the Plan.

6 **What will happen after the Bankruptcy Court approves this Disclosure Statement?**

7 This Disclosure Statement will be used to solicit acceptances of the Plan only after the
8 Bankruptcy Court has found that this Disclosure Statement provides adequate information in
9 accordance with Section 1125 of the Bankruptcy Code and has entered an order approving this
10 Disclosure Statement. Approval by the Bankruptcy Court is not an opinion or ruling on the
11 merits of the Plan and it does not mean that the Plan has been or will be approved by the
12 Bankruptcy Court.

13 **Who may vote to accept or reject a plan?**

14 A claim is defined by the Bankruptcy Code to include a right to payment from a debtor.
15 In order to vote on the Plan, a Creditor must have an Allowed Claim. The solicitation of votes
16 on the Plan will be sought only from Holders of Allowed Claims whose Claims are Impaired and
17 who will receive property or rights under the Plan. As explained further below, to be entitled to
18 vote, a Person must be a Holder of a Claim that is both an “Allowed Claim” and “Impaired.”

19 **Do I have an Allowed Claim?**

20 You have an Allowed Claim if: (i) you or your representative timely files a proof of
21 Claim and no objection has been filed to your Claim within the time period set for the filing of
22 such objections; (ii) you or your representative timely files a proof of Claim and an objection is
23 filed to your Claim upon which the Bankruptcy Court has ruled and allowed your Claim; (iii)
24 your Claim is listed by a Debtor in its Schedules or any amendments thereto (which are on file
25 with the Bankruptcy Court as a public record) as liquidated in amount and undisputed and no
26 objection has been filed to your Claim; or (iv) your Claim is listed by a Debtor in its Schedules
27 as liquidated in amount and undisputed and an objection was filed to your Claim upon which the
28 Bankruptcy Court has ruled to allow your Claim. Under the Plan, the deadline for filing

1 objections to Claims is thirty (30) calendar days following the Effective Date. If your Claim is
2 not an Allowed Claim, it is a Disputed Claim and you will *not* be entitled to vote on the Plan
3 unless the Bankruptcy Court temporarily or provisionally allows your Claim for voting purposes
4 pursuant to Bankruptcy Rule 3018. If you are uncertain as to the status of your Claim or if you
5 have a dispute with Debtor, you should check the Bankruptcy Court record carefully, including
6 Debtor's Schedules, and seek appropriate legal advice. Neither Debtor nor its professionals can
7 advise you about such matters.

8 **Is my Claim or Equity Security Impaired?**

9 Impaired Claims include those whose legal, equitable, or contractual rights are altered by
10 the Plan, even if the alteration is beneficial to the Creditor, or if the full amount of the Allowed
11 Claim will not be paid under the Plan. Holders of Claims that are not Impaired under the Plan
12 will be deemed to have accepted the Plan pursuant to Section 1126(f) of the Bankruptcy Code,
13 and Debtor need not solicit acceptance of the Plan by Holders of such Unimpaired Claims.
14 Holders of Claims that are to receive nothing under the Plan will be deemed to have voted to
15 reject the Plan pursuant to Section 1126(g) of the Bankruptcy Code, and Debtor need not solicit
16 votes from such Holders.

17 Class 2 is Unimpaired and deemed to accept the Plan, and therefore, will not vote on the
18 Plan.

19 Class 1, Class 3, Class 4, and Class 5 are Impaired, and therefore, will vote on the Plan.

20 Class 6 Equity Securities will not receive anything under the Plan. Class 6 is thus
21 Impaired and deemed to reject the Plan, and therefore, will not vote on the Plan.

22 **How generally is a plan approved?**

23 In order for a plan to be confirmed, it must be accepted by at least one impaired class of
24 claims, excluding the affirmative votes of any insiders within that class. A class of claims is
25 deemed to have accepted the plan if and when allowed votes representing at least two-thirds in
26 amount and a majority in number of the claims of the class actually voting cast votes in favor of
27 the plan.

28 **What is the general construct of Debtor's Plan?**

1 The primary objective of the Plan is to maximize returns to those Creditors entitled to
2 recoveries from the Estate. Debtor desires to achieve this objective through liquidating, through
3 settlement, all possible claims against Debtor's principals, Robert Woolley and Kenneth
4 Woolley, to obtain funds to pay Allowed Claims. These are the only assets available for
5 distribution. To avoid any doubt, Debtor is unaware of any such valid claims, and Robert
6 Woolley and Kenneth Woolley deny any such claims exist against them.

7 **Will Reorganized Debtor be able to meet the financial terms of the Plan?**

8 If the Plan is confirmed, the proposed settlement that provides the funding of the Plan
9 will be approved, thus ensuring that Reorganized Debtor can meet the financial terms of the
10 Plan.

11 **What happens at the Confirmation Hearing?**

12 At the Confirmation Hearing, the Bankruptcy Court will consider whether the Plan
13 satisfies the requirements of the Bankruptcy Code.

14 **What is the effect of Plan Confirmation?**

15 Confirmation of a plan of reorganization by the bankruptcy court makes the plan binding
16 upon Debtor, any issuer of securities under the Plan, any person acquiring property under the
17 Plan, and *every Creditor of Debtor*, regardless of whether such creditor receives or retains any
18 property under the Plan. Subject to certain limited exceptions, and other than as provided in the
19 Plan itself or the Confirmation Order, the Confirmation Order discharges Debtor from any debt
20 that arose prior to the date of confirmation of the Plan and substitutes the obligations specified
21 under the Plan.

22 **Has the Securities Exchange Commission reviewed and approved this Disclosure
23 Statement?**

24 This Disclosure Statement has been prepared in accordance with Section 1125 of the
25 Bankruptcy Code and Bankruptcy Rule 3016(b) and not necessarily in accordance with federal
26 or state securities laws or other non-bankruptcy laws. This Disclosure Statement has not been
27 approved or disapproved by the United States Securities and Exchange Commission (the
28

1 “SEC”), nor has the SEC passed upon the accuracy or adequacy of the statements contained
2 herein.

3 **Can I rely upon the statements and financial information contained in this Disclosure**
4 **Statement?**

5 DEBTOR MAKES THE STATEMENTS AND PROVIDES THE FINANCIAL
6 INFORMATION CONTAINED HEREIN AS OF THE DATE HEREOF. UNLESS
7 OTHERWISE SPECIFIED, PERSONS REVIEWING THIS DISCLOSURE
8 STATEMENT SHOULD NOT INFER THAT THE FACTS SET FORTH HEREIN HAVE
9 NOT CHANGED SINCE THE DATE THIS DISCLOSURE STATEMENT WAS
10 INITIALLY PREPARED.

11 DEBTOR’S MANAGEMENT HAS REVIEWED THE FINANCIAL
12 INFORMATION PROVIDED IN THIS DISCLOSURE STATEMENT. ALTHOUGH
13 DEBTOR HAS ENDEAVORED TO ENSURE THE ACCURACY OF THIS FINANCIAL
14 INFORMATION, THE FINANCIAL INFORMATION CONTAINED IN, OR
15 INCORPORATED BY REFERENCE INTO, THIS DISCLOSURE STATEMENT HAS
16 NOT BEEN AUDITED, UNLESS OTHERWISE STATED HEREIN.

17 **Can I rely upon the Disclosure Statement for other purposes?**

18 THE INFORMATION IN THIS DISCLOSURE STATEMENT IS INCLUDED
19 HEREIN FOR PURPOSES OF SOLICITING ACCEPTANCES OF THE PLAN AND
20 MAY *NOT* BE RELIED UPON FOR ANY PURPOSE OTHER THAN TO DETERMINE
21 HOW TO VOTE ON THE PLAN. THIS DISCLOSURE STATEMENT THEREFORE
22 DOES NOT CONSTITUTE, AND MAY NOT BE CONSTRUED AS, AN ADMISSION OF
23 FACT OR LIABILITY, A STIPULATION, OR A WAIVER IN ANY PROCEEDING
24 OTHER THAN THE SOLICITATION OF ACCEPTANCES OF THE PLAN AND
25 CONFIRMATION OF THE PLAN. FOR ALL PURPOSES OTHER THAN THE
26 SOLICITATION OF ACCEPTANCES OF THE PLAN, THIS DISCLOSURE
27 STATEMENT SHOULD BE CONSTRUED AS A STATEMENT MADE IN
28 SETTLEMENT NEGOTIATIONS RELATED TO CONTESTED MATTERS,

1 **ADVERSARY PROCEEDINGS, AND OTHER PENDING OR THREATENED**
2 **LITIGATION OR ACTIONS.**

3 **Who provided the information contained in this Disclosure Statement?**

4 This Disclosure Statement was prepared by Debtor's management in conjunction with
5 Debtor's bankruptcy counsel, the law firm of Garman Turner Gordon LLP.

6 **Should I consult with my own financial and legal advisors?**

7 This Disclosure Statement does not constitute legal, business, financial, or tax advice. All
8 persons desiring such advice or any other advice should consult with their own advisors.

9 **I have heard statements from outside sources regarding the Plan. Can I rely on these**
10 **statements?**

11 Debtor has not authorized any representations about the Plan, itself, or the value of its
12 assets other than those set forth in this Disclosure Statement. Holders of Claims proceed at their
13 own risk to the extent that they rely on any information, representations, or inducements made or
14 given about the Plan that differ from, or are inconsistent with, the information contained herein
15 and in the Plan.

16 **What if there is an inconsistency between this Disclosure Statement and the Plan?**

17 This Disclosure Statement summarizes certain provisions of the Plan and certain other
18 documents and financial information that are incorporated by reference herein (collectively, the
19 "Incorporated Documents"). The summaries contained herein are qualified in their entirety by
20 reference to the Incorporated Documents. In the event of any inconsistency or discrepancy
21 between a description in this Disclosure Statement and the actual content of any of the
22 Incorporated Documents, the Incorporated Documents shall govern for all purposes.

23 **III.**
GENERAL OVERVIEW OF THE PLAN

24 The Plan generally provides for the repayment of Claims against Debtor as follows:
25 Debtor is resolving any possible claims against the Released Parties as defined in the Plan to
26 generally include (i) Accellus Health Services, LLC, (ii) Kesstra, LLC, (iii) OSI, (iv) Kenneth
27 Woolley, (v) Robert Woolley, (vi) Scot Woolley, based on their management of or involvement
28 in Debtor, which claims are generalized creditor claims. The settlement funds, defined in the

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Plan as the Woolley Settlement Fund, will be used to provide a distribution to Holders of Allowed Claims. On the Dissolution Date, being the first Business Day after all distribution to Holders of Allowed Administrative Claims and Allowed Claims in Classes 2, 3 and 4 have received full payment as provided for in the Plan, upon which the Reorganized Debtor shall dissolve as provided for in its organizational documents and applicable California law.

The following is a general overview of the provisions of the Plan, which Plan treatment is discussed more fully herein and is qualified in its entirety by reference to the provisions of the Plan itself.

A. Classification of Claims.

Section 1123 of the Bankruptcy Code provides that a plan of reorganization shall classify the claims of a debtor’s creditors and equity interest holders. In compliance therewith, the Plan divides Claims into various Classes and sets forth the treatment for each Class. Debtor is also required under Section 1122 of the Bankruptcy Code to place a Claim into a particular Class only if such Claim is substantially similar to the other Claims in such Class. Debtor believes that the Plan has classified all Claims in compliance with the provisions of Section 1122 of the Bankruptcy Code, but it is possible that a Holder of a Claim will challenge the Plan’s classifications and that the Bankruptcy Court will find that different classifications are required in order for the Plan to be confirmed. In such event, Debtor reserves the right, to the extent permitted by the Bankruptcy Code, to make reasonable modifications of the classifications under the Plan to permit Confirmation of the Plan and to use the Plan acceptances received in this solicitation for the purpose of obtaining the approval of the reconstituted Class or Classes of which the accepting Holders are ultimately deemed members.

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1 The Plan's treatment of each classified Class of Claims is summarized in the following
2 table:

<u>Class</u>	<u>Description</u>	<u>Summary of Treatment</u>	<u>Estimated Claim²</u>
Class 1	Secured Claims	Each Holder of a Secured Claim shall be entitled to the repossession of its collateral if not already repossessed, and to conclude its foreclosure sale as provided by the applicable loan documents and law. Any Claim for a deficiency shall be treated in Class 3.	\$0.00
Class 2	Priority Unsecured Claims	Each Holder of an Allowed Priority Unsecured Claim shall be paid in full in Cash from the Creditor Fund.	\$4,000
Class 3	General Unsecured Claims	Each Holder of an Allowed General Unsecured Claim, shall be paid in Cash it pro rata share of the Creditor Fund after payment of Allowed Class 2 Priority Unsecured Claims.	\$185,000
Class 4	NSR Claim	The Holder of an Allowed NSR Claim shall be paid in full in Cash it pro rata share of the Creditor Fund after payment of Allowed Class 2 Priority Unsecured Claims.	unknown
Class 5	Subordinated Claims	Provided that the Woolley Agreement is approved and this Plan confirmed, (i) the Subordinated Claims shall be subordinated in payment to all allowed General Unsecured Claims, and (ii) the Reorganized Debtor shall assign all right, title and interest in the NSR Claim to Kenneth Woolley and Robert Woolley.	\$3,675,00
Class 6	Equity Securities	On the Dissolution Date the Equity Securities shall be cancelled and Holders of Class 6 Equity Securities shall not receive any distribution on account of such Equity Interests	N/A

25 _____
26 ² The *estimated* Claim amounts were compiled by combining the undisputed, liquidated, and non-contingent Claims
27 included in Debtor's Schedules, as amended, and the proofs of Claim on file on or about April 17, 2017. Debtor
28 may file objections to certain of the filed proofs of Claim, as may other parties-in-interest. The allowance or
disallowance of such Claims will alter the aggregate amount of Allowed Claims. *Nothing herein shall be deemed an
acknowledgment of the amount or allowance of any asserted Claim; rather, Debtor hereby expressly reserves its
right to object to any and all asserted or scheduled Claims.*

1 **B. Non-Classified Claims.**

2 **1. Allowed Administrative Claims.**

3 Pursuant to Section 1123(a)(1), Allowed Administrative Claims are not designated as a
4 Class. The Holders of such unclassified Claims shall be *paid in full* under the Plan consistent
5 with the requirements of Section 1129(a)(9)(A) and are not entitled to vote on the Plan. Pursuant
6 to Section 331 of the Bankruptcy Code, Debtor's duly-retained professionals are able to seek the
7 allowance and payment of their incurred fees and costs and may do so prior to the Confirmation
8 Hearing. Debtor anticipates that Garman Turner Gordon LLP ("GTG"), Debtor's bankruptcy
9 counsel, will seek the approval and payment of approximately \$200,000 in fees and expenses on
10 or around the Effective Date of the Plan. The foregoing are only estimates and may increase
11 depending on the timing of the Plan's Effective Date and the number and extent of the contested
12 matters arising in the Chapter 11 Case.

13 Each Allowed Administrative Claim shall be paid by Reorganized Debtor (or otherwise
14 satisfied in accordance with its terms) upon the latest of: (i) the Effective Date or as soon
15 thereafter as is practicable; (ii) such date as may be fixed by the Bankruptcy Court, or as soon
16 thereafter as practicable; (iii) the fourteenth (14th) Business Day after such Claim is Allowed, or
17 as soon thereafter as practicable; and (iv) such date as the Holder of such Claim and Reorganized
18 Debtor shall agree upon. The Allowed Administrative Claims will be paid from Debtor's cash
19 on hand.

20 All requests for payment of Administrative Claims against Debtor and all final
21 applications for allowance and disbursement of Professional Fees must be filed by the
22 Administrative Claims Bar Date or the Holders thereof shall be forever barred from asserting
23 such Administrative Claims against Debtor and Reorganized Debtor. All Professional Fees
24 applications must be in compliance with all of the terms and provisions of any applicable order
25 of the Bankruptcy Court, including the Confirmation Order, and all other orders governing
26 payment of Professional Fees. Unless otherwise ordered by the Bankruptcy Court, from and
27 after the Effective Date, no professional shall be required to file fee applications with the
28

1 Bankruptcy Court and Reorganized Debtor may pay all professionals in the ordinary course for
2 fees and expenses incurred after the Effective Date.

3 **2. Allowed Priority Tax Claims.**

4 Except to the extent a Holder of an Allowed Priority Tax Claim agrees to less favorable
5 treatment, each Holder of an Allowed Priority Tax Claim, if any, will, in full and final
6 satisfaction of such Claim, be paid in full (or be treated in compliance with Section
7 1129(a)(9)(C) of the Bankruptcy Code) by Reorganized Debtor, as applicable, on the latest of: (i)
8 the Effective Date, or as soon thereafter as practicable; (ii) such date as may be fixed by the
9 Bankruptcy Court, or as soon thereafter as practicable; (iii) the fourteenth (14th) Business Day
10 after such Claim is Allowed, or as soon thereafter as practicable; and (iv) such date as the Holder
11 of such Claim and Reorganized Debtor, as applicable, shall agree upon. Debtor does not
12 anticipate having any Allowed Priority Tax Claims.

13 **C. Treatment of Classified Claims.**

14 **1. Class 1 – Secured Claims.** Class 1 is comprised of Secured Claims. Each
15 Allowed Secured Claim, if any, shall, in full and final satisfaction of such Claim, be entitled on
16 the Effective Date, to the repossession of its collateral if not already repossessed, and to conclude
17 its foreclosure sale as provided by the applicable loan documents and law. Any Claim for a
18 deficiency shall be a General Unsecured Claim to be treated in Class 3 under the Plan.

19 **2. Class 2 – Priority Unsecured Claims.** Each Allowed Priority Unsecured Claim,
20 if any, shall, in full and final satisfaction of such Claims, be paid in full in Cash from the
21 Creditor Fund on the latest of: (i) the Effective Date, or as soon thereafter as is practical; (ii) such
22 date as may be fixed by the Bankruptcy Court, or as soon thereafter as is practicable; (iii) the
23 fourteenth (14th) Business Day after such Claim is Allowed, or as soon thereafter as is
24 practicable; or (iv) such date as the Holder of such Claim and Debtor or Reorganized Debtor, as
25 applicable, have agreed or shall agree.

26 **3. Class 3 – General Unsecured Claims.** Except to the extent that a Holder of an
27 Allowed General Unsecured Claim agrees to less favorable treatment, each Creditor with an
28 Allowed General Unsecured Claim, shall, in full and final satisfaction of such Claim, be paid in

1 full in Cash it *pro rata* share of the Creditor Fund after payment of Allowed Class 2 Priority
2 Unsecured Claims on the latest of: (i) thirty (30) days after the Effective Date, as soon thereafter
3 as is practical; (ii) such date as may be fixed by the Bankruptcy Court, or as soon thereafter as is
4 practicable; (iii) the fourteenth (14th) Business Day after such General Unsecured Claim is
5 Allowed, or as soon thereafter as is practicable; or (iv) such date as the Holder of such General
6 Unsecured Claim and Debtor or Reorganized Debtor, as applicable, have agreed or shall agree.

7 **4. Class 4 – NSR Claim.** Except to the extent that the Holder of the NSR Claim
8 agrees to less favorable treatment, the Holder with an Allowed NSR Claim, shall, in full and
9 final satisfaction of the Claim, be paid in Cash it *pro rata* share of the Creditor Fund after
10 payment of Allowed Class 2 Priority Unsecured Claims on the latest of: (i) thirty (30) days after
11 the Effective Date, as soon thereafter as is practical; (ii) such date as may be fixed by the
12 Bankruptcy Court, or as soon thereafter as is practicable; (iii) the fourteenth (14th) Business Day
13 after the NSR Claim is Allowed, or as soon thereafter as is practicable; or (iv) such date as the
14 Holder of the NSR Claim and Debtor or Reorganized Debtor, as applicable, have agreed or shall
15 agree.

16 **5. Class 5 – Subordinated Claims.** On the Effective Date, provided that the
17 Woolley Agreement is approved and the Plan as confirmed is consistent with the relief provided
18 for in the Woolley Agreement, (i) the Subordinated Claims shall not participate as allowed
19 General Unsecured Claims in Classes 3 and 4 of the Plan, but shall be subordinated in payment
20 to all Allowed General Unsecured Claims and the Allowed NSR Claim, and (ii) the Reorganized
21 Debtor shall assign all right, title and interest in the NSR Claim to Kenneth Woolley and Robert
22 Woolley, with the understanding and proviso that the NSR Claim will not be asserted or
23 prosecuted against NSR unless NRS seeks relief against either of them, OSI, and/or the Released
24 Parties related to the Debtor or the Asset Sale.

25 **6. Class 6 – Equity Securities.** On the Dissolution Date the Equity Securities shall
26 be cancelled and Holders of Class 6 Equity Securities shall not receive any distribution on
27 account of such Equity Interests.

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IV.
DISCLAIMER

In formulating the Plan, Debtor relied on financial data derived from their books and records. Debtor represents that as of the date of this Disclosure Statement, everything stated in this Disclosure Statement is true to the best of their knowledge and belief. However, Debtor cannot and does not confirm the current accuracy of the statements appearing in this Disclosure Statement.

The discussion in this Disclosure Statement regarding Debtor may contain “forward-looking statements,” as that term is used in the Private Securities Litigation Reform Act of 1995. Such statements consist of any statement other than one of historical fact, and can be identified by the use of forward-looking terminology such as “may,” “expect,” “believe,” “anticipate,” “estimate,” “likely,” “probable,” or “continue” or the negative thereof or other variations thereof or comparable terminology. All such forward-looking statements are speculative, and there are risks and uncertainties that could cause actual events or results to differ materially from those referred to in such forward-looking statements. The liquidation analysis and distribution projections are estimates only, and the timing and amounts of actual distributions may be affected by many factors that cannot be predicted. Therefore, any analysis, estimates, or recovery projections may not turn out to be accurate.

NOTHING IN THIS DISCLOSURE STATEMENT IS, OR SHALL BE DEEMED, AN ADMISSION OR STATEMENT AGAINST INTEREST BY DEBTOR FOR PURPOSES OF ANY PENDING OR FUTURE LITIGATION MATTER OR PROCEEDING.

ALTHOUGH THE ATTORNEYS AND OTHER PROFESSIONALS EMPLOYED BY DEBTOR HAVE ASSISTED IN PREPARING THIS DISCLOSURE STATEMENT BASED UPON FACTUAL INFORMATION AND ASSUMPTIONS RESPECTING FINANCIAL, BUSINESS, AND ACCOUNTING DATA FOUND IN THE BOOKS AND RECORDS OF DEBTOR, THEY HAVE NOT INDEPENDENTLY VERIFIED SUCH INFORMATION AND MAKE NO REPRESENTATIONS AS TO THE ACCURACY

1 CT, 3D Mammography, Ultrasound, DEXA, and X-ray. Debtor provided necessary healthcare
2 services to citizens of Chico and the surrounding community.

3 3. CHI was one of three imaging centers located in Chico, the other two being North
4 State Medical Group, Inc. dba North State Imaging (“NSR”) and Open System.

5 **B. Debtor’s Financial Condition as of the Petition Date.**

6 4. Debtor’s revenue was derived solely from its imaging operations. In 2016, Debtor’s
7 gross operating income averaged approximately \$150,000 per month.

8 5. From this income, Debtor was required to pay various operating expenses including
9 rent pursuant to the real property lease (the “Real Property Lease”) at the Springfield Location
10 and expenses related to several lease agreements for equipment from General Electric, along
11 with a master servicing agreement with General Electric (the “GE Agreements”). Debtor also
12 incurred significant monthly expenses for, among other things, salaries and wages, IT supplies
13 and services, radiology fees, and medical supplies. Debtor’s monthly expenses averaged
14 approximately \$325,000 per month.

15 6. The Real Property Lease extended through October 2026, with estimated future
16 liabilities of approximately \$1,520,388. The monthly lease cost was \$25,515 per month which is
17 generally market value; as such, and in light of the present specialized improvement of the leased
18 premises, the Debtor did not believe there was any excess value in the Real Property Lease.

19 7. The GE Agreements required payments over the next five years totaling in excess of
20 \$5,000,000. The Debtor believed that the value of the leased equipment was significantly less
21 than the amount remaining due under the GE Agreements.

22 8. In addition to the GE Agreements, Debtor was the borrower on four loans from
23 General Electric Capital Corporations (“GE”). Those four loans (collectively, the “GE Loans”),
24 used to provide tenant improvements and acquire certain equipment currently owned by Debtor,
25 have current outstanding balances of \$915,585.77, \$601,737.76, \$116,920.05, and \$70,844.06,
26 for total loan obligations of \$1,705,087.64. The GE Loans are secured by furniture and
27 equipment at the Springfield Location. Given that the security is tenant improvements and used
28

1 equipment, the Debtor believed it was highly unlikely that the value of the collateral was equal to
2 the outstanding balances of the GE Loans.

3 9. As a result of, among other things, these substantial liabilities, Debtor was operating
4 at a net loss each month of no less than \$170,000.

5 **C. The Events Necessitating the Bankruptcy Filing.**

6 10. While Debtor continued its operations for the benefit of patients in the Chico and
7 surrounding communities, Debtor recognized that, as a result of its revenue shortfall, it would
8 not be able to continue to operate as a going concern.

9 11. Furthermore, Debtor is the target of a lawsuit by competitor NSR Group³, which
10 owns and operates North State Radiology. The lawsuit, captioned *North State Radiology Medical*
11 *Group, Inc. v. Chico Health Imaging, LLC, et al*, and pending before the Superior Court of the
12 State of California for the County of Butte as Case No. 16-CV-00965 (the “NSR Lawsuit”),
13 relates to the alleged actions of one of Debtor’s former managers. While Debtor sought to reach
14 a consensual agreement with the NSR Group to bring the NSR Lawsuit to a conclusion, the NSR
15 Group advised Debtor that it had no interest in resolving the litigation but instead, desired to see
16 Debtor shuttered completely thereby limiting the consumer/patient options for imaging services
17 in Chico.

18 12. Despite its continued revenue losses and ongoing litigation, Debtor endeavored to
19 locate a means by which it could transition Debtor’s operations without interrupting patient care.

20 13. To that end, Debtor undertook an exhaustive effort to locate a purchaser for Debtor’s
21 assets. After attempts to locate a purchaser, only one potential buyer emerged. As a result of
22 Debtor’s financial condition, the NSR Litigation, and a series of meetings between Debtor and its
23 advisors and the prospective purchaser, Open System, it became apparent that it would be both in
24 Debtor’s best interests and a condition to a purchase by Open Systems to conduct a sale process
25 under the supervision and jurisdiction of the Bankruptcy Court. Thus, on or about January 14,
26

27 _____
28 ³ The NSR Group has not yet filed a proof of claim in the Chapter 11 case of otherwise indicated
on intent to continue to pursue Debtor

1 2017, Debtor and Open System entered into the *Bill of Sale and Assignment and Assumption of*
2 *Leases and Contracts* (the “Sale Agreement”).

3 **D. The Approved Sale Terms**

4 14. On February 27, 2017, the Court, following a contested sale hearing, entered the
5 *Order Approving the Sale of Debtor’s Assets Free and Clear of Liens, Claims, and Interests and*
6 *Assuming and Assigning Executory Contracts Pursuant to 11 U.S.C. § 365* [ECF No. 172] (the
7 “Sale Order”) thereby approving the Sale Agreement.

8 15. Pursuant to the Sale Order, Debtor sold (the “Sale”) all of its assets for
9 \$10.00 and the value of the Assumed Liabilities (collectively, the “Purchase Price”). The
10 Assumed Liabilities, described in greater detail below, included, among other things, the Real
11 Property Lease, GE Agreements, and GE Loans, which liabilities totaled more than \$8,000,000
12 over the next five to ten years

13 16. The assets (“Assets”) included, among other things: all equipment office
14 equipment, computers, phone systems, furniture and fixtures; all inventories and supplies on site;
15 all accounts receivable after payment of administrative claims, all obligations, rights, and
16 interests in executory contracts and unexpired equipment leases; all general intangibles,
17 including software, all obligations, rights, and interests in the leases for the premises; all books
18 and records; and all licenses and permits; and patient records.

19 **E. Debtor’s Assets.**

20 17. As a result of the Sale, Debtor’s only remaining assets not subject to security
21 interests,⁴ are potential litigation claims, including (1) the claims against the Released Parties for
22 potential actions resulting from their management of or involvement with Debtor; (2) the NRS
23 Counter-Claims; and (3) potential avoidance actions.

- 24 a. **The Claims Against the Released Parties** - While no such claims have been
25 asserted to date, it is understood that NSR has indicated that it believes certain
26 claims exist against the Released Parties related to management and

27 _____
28 ⁴ Debtor anticipates the recovery of certain accounts receivable, but those are subject to the security interest and carve-out as set forth in the DIP Loan Order.

1 operations of Debtor and CHI (the “Creditor General Claims”). The Creditor
2 General Claims are understood to be generalized claim of creditors related to
3 oversight of the operations of Debtor and CHI while Scot Woolley was
4 running the entity and therefore, are owned by the Estate.

5 b. **The NRS Counter-Claims**: The NRS Counter-Claims are those claims by
6 Debtor against NSR related to a defamatory marketing letter published by an
7 agent of NSR, as set forth in the NRS Litigation

8 c. **Potential Avoidance Actions**: Debtor may have claims for avoidance actions
9 through preference claims against Scot Woolley. However, based on Debtor’s
10 analysis, Debtor does not believe that, even if such valid claims exist, there is
11 any likelihood of recovery from the estate of Scot Woolley.

12 18. Debtor does not believe it has any other assets to distribute that would result in
13 any recovery for Creditors

14 **F. The Woolley Settlement**

15 19. While the Released Parties deny any wrongdoing and dispute the validity of the
16 alleged Creditor General Claims against them, the Released Parties nonetheless understand that
17 they are assets of the Estate and may be asserted against them. In order to fully and finally
18 resolve the Creditor General Claims, Debtor, on the one hand, and Robert Woolley and Kenneth
19 Woolley, on the other hand, have entered into the Woolley Agreement which provides that, in
20 exchange for a payment of \$250,000 (the “Woolley Funding Amount”) from Robert Woolley
21 and Kenneth Woolley, the Released Parties will be fully released from the Creditor General
22 Claims.

23 20. The Released Parties are defined in the Plan as (i) Accellus Health Services, LLC;
24 (ii) Kesstra, LLC; (iii) OSI; (iv) Kenneth Woolley; (v) Robert Woolley; (vi) Scot Woolley; and
25 with respect to (i) through (vi) such Person’s current and former Affiliates, estates, heirs,
26 managed accounts or funds, subsidiaries, officers, directors, principals, employees, agents,
27 financial advisors, attorneys, accountants, investment bankers, consultants, representatives and
28 other professionals, in each case in their capacity as such.

1 21. The Creditor General Claims are claims owned by the Estate. “[A] bankruptcy
2 trustee has the right to bring any action in which the debtor has an interest because this is
3 property of the estate, the trustee is acting to benefit the debtor’s estate, and is ultimately
4 benefiting the estate’s creditors upon distribution.” See Eddleman v. Thomas, No. 2:07-CV-207-
5 LDG (RJJ), 2007 WL 3051261, at *1 (D. Nev. Oct. 12, 2007)(citing In re AgriBio Tech, Inc.,
6 319 B.R. 216, 221 (D. Nev. 2004)) (internal quotations omitted). “[I]f a claim is a general one,
7 with no particularized injury arising from it, and if that claim could be brought by any creditor of
8 the debtor, the trustee is the proper person to assert the claim.” In re Folks, 211 B.R. 378, 387
9 (B.A.P. 9th Cir. 1997) (internal citations and quotations omitted). The “central issue” to
10 determining ownership of claims is whether “the debtor could have brought the asserted claims
11 against the defendant or whether the causes of action belong to individual creditors.”
12 AgriBioTech, 319 B.R. at 222. If the claim is a general one that could be brought by any
13 creditor of the debtor, the trustee is the proper person to bring the claim. Id.

14 22. In addition to resolving the General Creditor Claims, in exchange for the Woolley
15 Funding Amount, through the Woolley Agreement, the NSR Counter-Claims will be transferred
16 to Robert Woolley and Kenneth Woolley, but shall not be asserted so long as NSR does not
17 attempt to assert additional claims against Robert Woolley, Kenneth Woolley, OSI, and/or the
18 Released Parties.

19 23. The Woolley Funding Amount will be used to satisfy the amounts owed to the
20 Holders of Allowed Claims as set forth in the Plan through the proposed Distributions.

21 **G. Significant Events During the Chapter 11 Case.**

22 **1. Significant Early Motions in the Main Case.**

23 At the outset of the Chapter 11 Case, Debtor filed numerous motions, subsequently
24 approved, to facilitate the Chapter 11 Case, including regarding administrative procedures,
25 employment of professionals, and DIP financing. Among these motions, Debtor requested relief
26 including:

- 27 (1) the employment of Garman Turner Gordon LLP as Debtor’s’ lead bankruptcy
28 counsel;

- 1 (2) the employment of Phil Rhodes Law Group as Debtor's local bankruptcy counsel;
- 2 (3) the use of pre-petition bank accounts;
- 3 (4) authority to pay its employees;
- 4 (5) an order determining that adequate assurances had been paid to utility companies;
- 5 (6) a determination that a patient care ombudsman was not necessary;
- 6 (7) the approval of financing to enable the Debtor to complete a sale.

7 Consistent therewith, concurrently with the filing of the Voluntary Petition, the Debtor
8 filed its (1) *Application for Order Approving Final Employment of Garman Turner Gordon LLP*
9 *as Counsel for Debtor and Memorandum of Points and Authorities in Support*; (2) *Application*
10 *for Order Approving Employment of Phil Rhodes Law Corporation as Local Counsel to Debtor*
11 *and Memorandum of Points and Authorities in Support Thereof*; (3) *Emergency Motion for*
12 *Order Authorizing Maintenance of Prepetition Cash Management System and Maintenance of*
13 *Prepetition Bank Accounts and Memorandum of Points and Authorities in Support Thereof*; (4)
14 *Emergency Motion for Order: (I) Authorizing Debtor to Pay Wages, Salaries, Benefits, and*
15 *Other Employee Obligations; and (II) Authorizing and Directing Financial Institutions to Honor*
16 *and Process Checks and Transfers Related to Such Obligations and Memorandum of Points and*
17 *Authorities in Support*; (5) *Emergency Motion Pursuant to 11 U.S.C. §§ 105(a) and 366 For and*
18 *Order Determining that Adequate Assurance has been Provided to the Utility Companies and*
19 *Memorandum of Points and Authorities in Support*; (6) *Emergency Motion for Determination*
20 *That Appointment of a Patient Care Ombudsman is Not Necessary and Memorandum of Points*
21 *and Authorities in Support*; and (7) *Debtor's Emergency Motion Seeking Interim and Final*
22 *Orders: (1) Authorizing Debtor to Obtain Post-Petition Financing, (2) Granting Liens and*
23 *Superpriority Administrative Expense, and (3) Setting and Prescribing the Form and Manner of*
24 *Notice for a Final Hearing and Memorandum of Points and Authorities in Support Thereof.* See
25 ECF Nos. 9, 12, 29, 19, 23, 26 and 37. Each of these motions were subsequently granted by the
26 Court. See ECF Nos. 132, 133, 85, 86, 84, 83, 97, and 106.

27 **2. The Sale Motion and Approval Thereof.**

28

1 On January 23, 2017, Debtor filed the *Motion for Order Approving Sale of Debtor's*
2 *Assets Free and Clear of Liens, Claims, or Interests Pursuant to 11. U.S.C. § 363 and Assuming*
3 *and Assigning Executory Contracts Pursuant to 11 U.S.C. § 365* (the "Sale Motion"). See ECF
4 No. 70. The Sale Motion was heavily briefed and argued, with the following pleadings and
5 supporting documents filed both in support of, and in opposition to, the Sale Motion:

- 6 1. *Objection of Creditor North State Radiology Medical Group to Debtor's Motion for*
7 *Order Approving Sale of Debtor's Assets Free and Clear of Liens, Claims, or*
8 *Interests Pursuant to 11. U.S.C. § 363 and Assuming and Assigning Executory*
9 *Contracts Pursuant to 11 U.S.C. § 365* (ECF No. 114)
- 10 2. *Declaration of David Brown in Support of Creditor North State Radiology Group,*
11 *Inc.'s Opposition to Debtor's Proposed Asset Sale* (ECF No. 115)
- 12 3. *Declaration of Robert L. Cirillo, M.D. in Support of Creditor North State Radiology*
13 *Group, Inc.'s Opposition to Debtor's Proposed Asset Sale* (ECF No. 116)
- 14 4. *Declaration of James Schlund, M.D. in Support of Creditor North State Radiology*
15 *Group, Inc.'s Opposition to Debtor's Proposed Asset Sale* (**ECF No. 117**)
- 16 5. *Declaration of Kiran Singh, M.D. in Support of Creditor North State Radiology*
17 *Group, Inc.'s Opposition to Debtor's Proposed Asset Sale* (ECF No. 118)
- 18 6. *Declaration of Jack Praetzellis in Support of Objection of Creditor North State*
19 *Radiology Medical Group to Debtor's Motion for Order Approving Sale of Debtor's*
20 *Assets Free and Clear of Liens, Claims, or Interests Pursuant to 11. U.S.C. § 363 and*
21 *Assuming and Assigning Executory Contracts Pursuant to 11 U.S.C. § 365* (ECF No.
22 119)
- 23 7. *Errata to Objection of Creditor North State Radiology Medical Group to Debtor's*
24 *Sale Motion* (ECF No. 149)
- 25 8. *Reply to Objection of Creditor North State Radiology Medical Group to Motion for*
26 *Order Approving Sale of Debtor's Assets Free and Clear of Liens, Claims, or*
27 *Interests Pursuant to 11. U.S.C. § 363 and Assume and Assign Executory Contracts*
28 *Pursuant to 11 U.S.C. § 365* (ECF No. 137)
9. *Debtor's Reply in Support of Motion for Order Approving Sale of Debtor's Assets*
Free and Clear of Liens, Claims, or Interests Pursuant to 11. U.S.C. § 363 and
Assuming and Assigning Executory Contracts Pursuant to 11 U.S.C. § 365 (ECF No.
144)
10. *Declaration of Teresa M. Pilatowicz in Support of Debtor's Reply in Support of*
Motion for Order Approving Sale of Debtor's Assets Free and Clear of Liens, Claims,
or Interests Pursuant to 11. U.S.C. § 363 and Assuming and Assigning Executory
Contracts Pursuant to 11 U.S.C. § 365 (ECF No. 145)

1 After a contested hearing, the Sale Motion was approved and the Sale Agreement was
2 approved. On or about February 28, 2017, the sale of the majority of Debtor's assets was
3 completed. As a result, there are limited assets remaining with which to pay creditors. However,
4 the proposed Plan provides a recovery of \$250,000 from the Woolley Funding Amount through
5 the Woolley Agreement, which settles the General Creditor Claims, which were not sold
6 pursuant to the Sale Agreement, thereby allowing some distribution to Creditors pursuant to the
7 Woolley Agreement.

8 **VI.**
9 **ADDITIONAL PLAN PROVISIONS**

10 **A. Plan Implementation Occurring on the Effective Date.** On the Effective Date, without
11 any further action by Debtor or Reorganized Debtor, all of Debtor's assets shall vest in
12 Reorganized Debtor and the following events shall occur in the following sequence:

- 13 1. The NSR Counter-Claims shall be assigned to Kenneth Woolley and Robert Woolley.
- 14 2. The Woolley Agreement shall be consummated.
- 15 3. The Creditor Fund shall be funded with the Woolley Funding Amount.
- 16 4. If not previously terminated, the 401(K) Plan shall be deemed terminated as provided
17 for in the Chico Health Imaging, LLC 4012(K) Profit Sharing Plan Safe Harbor
18 Notification to Eligible Employees, dated November 12, 2015. To the extent
19 necessary, _____⁵ shall be authorized to execute any documents necessary to
20 complete the termination but shall not be deemed substituted as a trustee for any other
21 purposes. All vested 401(k) plan accounts shall be distributed to the eligible
22 employees as provided for therein.

23 **B. Executory Contracts and Unexpired Leases.**

24 **1. Executory Contracts.**

25 Except for Executory Contracts and Unexpired Leases specifically addressed in the Plan,
26 assumed pursuant to prior order of the Bankruptcy Court, including but not limited to the Sale
27 Order, or set forth on the schedule of Assumed Executed Contracts and Unexpired Leases
28 attached to the Plan as Schedule 6.1 (which may be supplemented and amended up to the date

_____ ⁵ The identity of the individual to be deemed substitute trustee will be provided in a supplement to the Plan filed prior to the date of the Confirmation Hearing.

1 the Bankruptcy Court enters the Confirmation Order), all Executory Contracts and Unexpired
2 Leases that exist on the Confirmation Date shall be deemed rejected by Debtor on the Effective
3 Date

4 **2. Approval of Assumption or Rejection.**

5 Entry of the Confirmation Order shall constitute as of the Effective Date: (i) approval,
6 pursuant to Bankruptcy Code Section 365, of the rejection by Reorganized Debtor of each
7 Executory Contract and Unexpired Lease to which Debtor is a party that is not listed on Schedule
8 6.1 to the Plan, not otherwise provided for in the Plan, and neither assigned, assumed and
9 assigned, nor rejected by separate order of the Bankruptcy Court prior to the Effective Date; and
10 (ii) assumption by Debtor of each Executory Contract and Unexpired Lease to which Debtor is a
11 party that is listed on Schedule 6.1. Upon the Effective Date, each counter party to an assumed
12 Executory Contract or Unexpired Lease listed shall be deemed to have consented to an
13 assumption contemplated by Section 365(c)(1)(B) of the Bankruptcy Code, to the extent such
14 consent is necessary for such assumption. To the extent applicable, all Executory Contracts or
15 Unexpired Leases of Reorganized Debtor assumed pursuant to this Article 6 shall be deemed
16 modified such that the transactions contemplated by the Plan shall not be a “change of control,”
17 regardless of how such term may be defined in the relevant Executory Contract or Unexpired
18 Lease and any required consent under any such Executory Contract or Unexpired Lease shall be
19 deemed satisfied by confirmation of the Plan.

20 **3. Cure of Defaults.**

21 Reorganized Debtor shall Cure any defaults respecting each Executory Contract or
22 Unexpired Lease assumed pursuant to Section 6.1 of the Plan upon the latest of: (i) the Effective
23 Date or as soon thereafter as practicable; (ii) such dates as may be fixed by the Bankruptcy Court
24 or agreed upon by Debtor, and after the Effective Date, Reorganized Debtor; or (iii) the
25 fourteenth (14th) Business Day after the entry of a Final Order resolving any dispute regarding:
26 (a) a Cure amount; (b) the ability of Debtor or Reorganized Debtor to provide “adequate
27 assurance of future performance” under the Executory Contract or Unexpired Lease assumed
28 pursuant to the Plan in accordance with Section 365(b)(1) of the Bankruptcy Code; or (c) any

1 matter pertaining to assumption, assignment, or the Cure of a particular Executory Contract or an
2 Unexpired Lease.

3 **4. Objection to Cure Amounts.**

4 Any party to an Executory Contract or Unexpired Lease who objects to the Cure amount
5 determined by Debtor to be due and owing must file and serve an objection on Debtor's counsel
6 no later than thirty (30) days after the Effective Date. Failure to file and serve a timely objection
7 shall be deemed consent to the Cure amounts paid by Debtor in accordance with Section 6.3 of
8 the Plan. If there is a dispute regarding: (i) the amount of any Cure payment; (ii) the ability of
9 Reorganized Debtor to provide "adequate assurance of future performance" under the Executory
10 Contract or Unexpired Lease to be assumed or assigned; or (iii) any other matter pertaining to
11 assumption, the Cure payments required by Section 365(b)(1) of the Bankruptcy Code will be
12 made following the entry of a Final Order resolving the dispute and approving the assumption.

13 **5. Confirmation Order.**

14 The Confirmation Order will constitute an order of the Bankruptcy Court approving the
15 assumptions described in this Article 6 pursuant to Section 365 of the Bankruptcy Code as of the
16 Effective Date. Notwithstanding the forgoing, if, as of the date the Bankruptcy Court enters the
17 Confirmation Order, there is pending before the Bankruptcy Court a dispute concerning the Cure
18 amount or adequate assurance for any particular Executory Contract or Unexpired Lease, the
19 assumption of such Executory Contract or Unexpired Lease shall be effective as of the date the
20 Bankruptcy Court enters an order resolving any such dispute and authorizing assumption by
21 Debtor.

22 **6. Bar Date.**

23 All proofs of Claims with respect to Claims arising from the rejection of any Executory
24 Contract or Unexpired Lease shall be filed no later than thirty (30) calendar days after the
25 Effective Date. Any Claim not filed within such time shall be forever barred.

26 **C. Manner of Distribution of Property Under the Plan.**

27 **1. Distribution**

28 Reorganized Debtor shall be responsible for making the Distributions described in the

1 Plan. Reorganized Debtor may make such Distributions before the allowance of each Claim and
2 Equity Securities has been resolved if Reorganized Debtor has a good faith belief that the
3 Disputed Claims Reserve is sufficient for all Disputed Claims. Except as otherwise provided in
4 the Plan or the Confirmation Order, the Cash necessary for Reorganized Debtor to make
5 payments pursuant to the Plan may be obtained from existing Cash balances.

6 **2. Reserves**

7 Reorganized Debtor shall establish and maintain the Disputed Claim Reserve.

8 **3. Statements**

9 Reorganized Debtor shall maintain a record of the names and addresses of all Holders of
10 Allowed General Unsecured Claims and the Allowed NSR Claim as of the Effective Date for
11 purposes of mailing Distributions to them. Reorganized Debtor may rely on the name and
12 address set forth in Debtor's Schedules and/or proofs of Claim and the ledger and records
13 regarding Holders of Equity Securities as of the Record Date as being true and correct unless and
14 until notified in writing. Reorganized Debtor shall file all tax returns and other filings with
15 governmental authorities on behalf of Reorganized Debtor and the Assets it holds.

16 **4. Further Authorization**

17 Debtor and Reorganized Debtor shall be entitled to seek such orders, judgments,
18 injunctions, and rulings as it deems necessary to carry out the intentions and purposes, and to
19 give full effect to the provisions of the Plan.

20 **D. Conditions Precedent to Confirmation and the Effective Date.**

21 **1. Condition Precedent to Confirmation.** The Confirmation Order shall have been
22 entered and be in form and substance reasonable acceptable to Debtor.

23 **2. Conditions Precedent to Effectiveness.** The following are conditions precedent
24 to the occurrence of the Effective Date:

25 **2.1** The Confirmation Order shall be a Final Order, except that Debtor
26 reserves the right to cause the Effective Date to occur notwithstanding the
27 pendency of an appeal of the Confirmation Order, under circumstances
28 that would moot such appeal;

2.2 No request for revocation of the Confirmation Order under Section 1144
of the Bankruptcy Code shall have been made, or, if made, shall remain

1 pending, including any appeal;

2 **2.3** All documents necessary to implement the transactions contemplated by
3 the Plan shall be in form and substance reasonable acceptable to Debtor.

4 **2.4** The Woolley Agreement shall be in form and substance reasonably
5 acceptable to Robert Woolley and Kenneth Woolley and the Debtor, and
6 the Woolley Agreement shall have been executed;

7 **2.5** The Woolley Agreement shall have been approved by the Court;

8 **2.6** The NSR Counter-Claims have been assigned to Kenneth Woolley and
9 Robert Woolley as provided in the Woolley Agreement; and

10 **2.7** The Woolley Funding Amount shall have been funded.

11 **3. Waiver of Conditions.** Debtor, in its sole discretion, may waive any and all of
12 the other conditions set forth in the Plan and specifically Sections 8.1 and 8.2 above without
13 leave of or order of the Bankruptcy Court and without any formal action.

14 **E. Objections to Claims or Equity Securities.**

15 **1. Resolution of Objections** After the Effective Date. From and after the Effective
16 Date, Reorganized Debtor may litigate to judgment, propose settlements of, or withdraw
17 objections to, all pending or filed Disputed Claims and may settle or compromise any Disputed
18 Claim without notice and a hearing and without approval of the Bankruptcy Court.

19 **2. Late Filed Claims** No Claim filed after the Bar Date or, as applicable, the
20 Administrative Claim Bar Date, shall be allowed, and all such Claims are hereby disallowed in
21 full. After the Bar Date or the Administrative Bar Date, as applicable, no Creditor shall be
22 permitted to amend any claim to increase the claimed amount and any such amendment shall be
23 disallowed to the extent of the late-filed increase in the claimed amount.

24 **F. Miscellaneous Plan Provisions.**

25 **1. Effectuating Documents; Further Transactions; Timing.** Debtor and Reorganized
26 Debtor are each authorized to execute, deliver, file, or record such contracts, instruments,
27 releases, and other agreements or documents and to take such actions as may be necessary or
28 appropriate to effectuate and further evidence the terms and conditions of the Plan and any
securities issued, transferred, or canceled pursuant to the Plan. All transactions that are required

1 to occur on the Effective Date under the terms of the Plan shall be deemed to have occurred
2 simultaneously. Debtor and Reorganized Debtor are authorized and directed to do such acts and
3 execute such documents as are necessary to implement the Plan.

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

19 **3. Revocation or Withdrawal of the Plan.** Debtor reserves the right to revoke or
20 withdraw the Plan at any time prior to its substantial consummation. If the Plan is withdrawn or
21 revoked, then the Plan shall be deemed null and void and nothing contained herein shall be
22 deemed to constitute a waiver or release of any Claims by or against Debtor or any other Person
23 nor shall the withdrawal or revocation of the Plan prejudice in any manner the rights of Debtor or
24 any Person in any further proceedings involving Debtor. In the event the Plan is withdrawn or
25 revoked, nothing set forth herein shall be deemed an admission of any sort and the Plan and any
26 transaction contemplated thereby shall be inadmissible into evidence in any proceeding.

27 **4. Binding Effect.** The Plan shall be binding upon, and shall inure to the benefit of Debtor,
28 Reorganized Debtor, and the Holders of all Claims and Equity Securities and their respective
29 successors and assigns.

30 **5. Governing Law.** Except to the extent that the Bankruptcy Code or other federal law is

1 applicable or as provided in any contract, instrument, release, or other agreement entered into in
2 connection with the Plan or in any document which remains unaltered by the Plan, the rights,
3 duties, and obligations of Debtor, Reorganized Debtor, and any other Person arising under the
4 Plan shall be governed by, and construed and enforced in accordance with, the internal laws of
5 the State of California without giving effect to Nevada's choice of law provisions.

6 **6. Modification of Payment Terms.** Reorganized Debtor reserves the right to modify the
7 treatment of any Allowed Claim in any manner adverse only to the Holder of such Allowed
8 Claim at any time after the Effective Date upon the prior written consent of the Holder whose
9 Allowed Claim treatment is being adversely affected.

10 **7. Providing for Claims Payments.** Distributions to Holders of Allowed Claims shall be
11 made by Reorganized Debtor: (i) at the addresses set forth on the proofs of Claim filed by such
12 Holders (or at the last known addresses of such Holders if no proof of Claim is filed or if Debtor
13 has been notified of a change of address); (ii) at the addresses set forth in any written notices of
14 address changes delivered to Reorganized Debtor after the date of any related proof of Claim; or
15 (iii) at the addresses reflected in the Schedules if no proof of Claim has been filed and
16 Reorganized Debtor has not received a written notice of a change of address. If any Holder's
17 distribution is returned as undeliverable, no further distributions to such Holder shall be made
18 unless and until Reorganized Debtor is notified of such Holder's then-current address, at which
19 time all missed Distributions shall be made to such Holder without interest. Amounts in respect
20 of undeliverable Distributions made through Reorganized Debtor shall be returned to
21 Reorganized Debtor until such Distributions are claimed. All claims for undeliverable
22 Distributions shall be made on or before the first anniversary of the Effective Date. After such
23 date, all unclaimed property shall revert to Reorganized Debtor and the Claim of any Holder or
24 successor to such Holder with respect to such property shall be discharged and forever barred
25 notwithstanding any federal or state escheat laws to the contrary. Nothing contained in the Plan
26 shall require Debtor or Reorganized Debtor to attempt to locate any Holder of an Allowed Claim.

27 **8. Set Offs.** Debtor and Reorganized Debtor may, but shall not be required to, set off or
28 recoup against any Claim and the payments or other distributions to be made pursuant to the Plan
in respect of such Claim (before any distribution is made on account of such Claim or Equity
Security), claims of any nature whatsoever that the applicable Debtor or Reorganized Debtor

1 may have against the Holder of such Claim to the extent such Claims may be set off or recouped
2 under applicable law, but neither the failure to do so nor the allowance of any Claim hereunder
3 shall constitute a waiver or release by Debtor or Reorganized Debtor of any such Claim that it
4 may have against such Holder.

5 **9. Notices.** Any notice required or permitted to be provided under the Plan shall be in
6 writing and served by either: (i) certified mail, return receipt requested, postage prepaid; (ii) hand
7 delivery; or (iii) reputable overnight courier service, freight prepaid, to be addressed as:

8 If to Debtor: Chico Health Imaging, LLC
9 Attn: Bill Gideon
10 1555 Springfield Drive
11 Chico, California 95928
12 Tel: (719) 323-6171
13 Email: bgideon@acellushealth.com

14 With a copy to: Garman Turner Gordon
15 Attn: Gerald M. Gordon, Esq.
16 650 White Drive, Suite 100
17 Las Vegas, NV 89119
18 Tel: (725) 777-3000
19 Email: ggordon@gtg.legal

20 **10. Severability.** If any provision of the Plan is determined by the Bankruptcy Court to be
21 invalid, illegal, or unenforceable or the Plan is determined to be not confirmable pursuant to
22 Section 1129 of the Bankruptcy Code, the Bankruptcy Court, at the request of Debtor shall have
23 the power to alter and interpret such term to make it valid or enforceable to the maximum extent
24 practicable, consistent with the original purpose of the term or provision held to be invalid, void,
25 or unenforceable, and such term or provision shall then be applicable as altered or interpreted.
26 Notwithstanding any such holding, alteration, or interpretation, the remainder of the terms and
27 provisions of the Plan shall remain in full force and effect and will in no way be affected,
28 impaired, or invalidated by such holding, alteration, or interpretation. The Confirmation Order
shall constitute a judicial determination and shall provide that each term and provision of the
Plan, as it may have been altered or interpreted in accordance with the foregoing, is valid and
enforceable pursuant to its terms.

11. Withholding and Reporting Requirements. In connection with the Plan and all

1 instruments and securities issued in connection therewith and Distributions thereon, Reorganized
2 Debtor shall comply with all withholding and reporting requirements imposed by any federal,
3 state, local, or foreign taxing authority and all Distributions hereunder shall be subject to any
4 such withholding and reporting requirements. Reorganized Debtor shall be authorized to take
5 any and all action that may be necessary to comply with such withholding and recording
6 requirements. Notwithstanding any other provision of the Plan, each Holder of an Allowed
7 Claim that has received a distribution pursuant to the Plan shall have sole and exclusive
8 responsibility for the satisfaction or payment of any tax obligation imposed by any governmental
unit, including income, withholding, and other tax obligation on account of such distribution.

9 **12. Modification and Amendment.** Prior to Confirmation, Debtor may alter, amend, or
10 modify the Plan under Section 1127(a) of the Bankruptcy Code at any time. After the
11 Confirmation Date and prior to substantial consummation of the Plan as defined in Section
12 1101(2) of the Bankruptcy Code, Debtor may, under Section 1127(b), (c), and (d) of the
13 Bankruptcy Code, alter, amend, or modify the Plan or institute proceedings in the Bankruptcy
14 Court to remedy any defect or omission or reconcile any inconsistencies in the Plan, the
15 Disclosure Statement, or the Confirmation Order, to make appropriate adjustments and
16 modifications to the Plan or the Confirmation Order as may be necessary to carry out the
17 purposes and effects of the Plan so long as such proceedings do not materially adversely affect
the treatment of Holders of Claims under the Plan.

18 **VII.**
POST-EFFECTIVE DATE OPERATIONS

19 **A. Vesting of Assets.** Subject to the provisions of the Plan and as permitted by Section
20 1123(a)(5)(B) of the Bankruptcy Code, the Assets, including the Litigation Claims and right,
21 title, and interest being assumed by Reorganized Debtor in the assumed Executory Contracts,
22 shall be transferred to Reorganized Debtor on the Effective Date. As of the Effective Date, all
23 such property shall be free and clear of all Liens, Claims, and Equity Securities except as
24 otherwise provided herein. On and after the Effective Date, Reorganized Debtor may operate its
25 business and may use, acquire, and dispose of property and compromise or settle any Claim
26 without the supervision of or approval of the Bankruptcy Court and free and clear of any
27 restrictions of the Bankruptcy Code or the Bankruptcy Rules, other than restrictions expressly
imposed by the Plan or the Confirmation Order.

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1 **B. Preservation and Settlement of Litigation Claims.** In accordance with Section
2 1123(b)(3) of the Bankruptcy Code, and except as otherwise expressly provided herein, all
3 Litigation Claims (but for the Cirillo/NSR Claims) shall be assigned and transferred to
4 Reorganized Debtor pursuant to Section 5.1 of the Plan. Reorganized Debtor, as the successor in
5 interest to Debtor and the Estate, may and shall have the exclusive right to sue on, settle, or
6 compromise any and all Litigation Claims, including derivative actions existing against Debtor
on the Effective Date.

7 **C. Injunction.** From and after the Effective Date, and except as provided in the Plan
8 and the Confirmation Order, all entities that have held, currently hold, or may hold a
9 Claim or an Equity Security or other right of an Equity Security Holder that is terminated
10 pursuant to the terms of the Plan are permanently enjoined from taking any of the
11 following actions on account of any such Claims or terminated Equity Securities or rights:
12 (i) commencing or continuing in any manner any action or other proceeding against
13 Reorganized Debtor or its property; (ii) enforcing, attaching, collecting, or recovering in
14 any manner any judgment, award, decree, or order against Reorganized Debtor or its
15 property; (iii) creating, perfecting, or enforcing any Lien or encumbrance against
16 Reorganized Debtor or its property; (iv) asserting a right of subrogation of any kind
17 against any debt, liability, or obligation due to Reorganized Debtor or its property; and (v)
18 commencing or continuing any action, in any manner or any place, that does not comply
19 with or is inconsistent with the provisions of the Plan or the Bankruptcy Code. The
injunction shall not alter any obligations of the Released Parties to GE as set forth in the
Sale Order or other documents approved by the Sale Order.

20 **D. Releases by Debtor.** Pursuant to section 1123(b) of the Bankruptcy Code, for good
21 and valuable consideration, including the funding of the Creditor Fund, the service of the
22 Released Parties to facilitate the expeditious reorganization of Debtor and the
23 implementation of the restructuring contemplated by this Plan, on and after the Effective
24 Date, the Released Parties are deemed released and discharged by Debtor, the Reorganized
25 Debtor, and the Estate from any and all claims, obligations, rights, suits, damages, Causes
26 of Action, remedies and liabilities whatsoever, including any derivative claims asserted on
27 behalf of the Debtor including the Creditor General Claims, whether known or unknown,
28 foreseen or unforeseen, existing or hereinafter arising, in law, equity or otherwise, that the
Debtor, the Reorganized Debtor, or and the Estate would have been legally entitled to

1 assert in their own right (whether individually or collectively) or on behalf of the Holder of
2 any Claim or Equity Security or other Entity, based on or relating to, or in any manner
3 arising from, in whole or in part, Debtor, Debtor's restructuring, Debtor's Chapter 11
4 Case, the purchase, sale or rescission of the purchase or sale of any security of the Debtor
5 or the Reorganized Debtor, the subject matter of, or the transactions or events giving rise
6 to, any Claim or Equity Security that is treated in the Plan, the business or contractual
7 arrangements between Debtor and any Released Party, the restructuring of Claims and
8 Equity Securities before or during the Chapter 11 Case, the negotiation, formulation or
9 preparation of the Plan, the Plan, the Disclosure Statement or related agreements,
10 instruments or other documents, or any other act or omission, transaction, agreement,
11 event or other occurrence relating to the Debtor taking place on or before the
12 Confirmation Date of the Plan, other than claims or liabilities arising out of or relating to
13 any act or omission of a Released Party that constitutes willful misconduct or gross
14 negligence. The releases shall not alter any obligations of the Released Parties to GE as set
15 forth in the Sale Order or other documents approved by the Sale Order.

14 E. **Exculpation.** From and after the Effective Date, neither Debtor, Reorganized
15 Debtor, the professionals employed on behalf of the Estate, nor any of their respective
16 present or former members, directors, officers, managers, employees, advisors, attorneys,
17 or agents, shall have or incur any liability, including derivative claims, but excluding direct
18 claims, to any Holder of a Claim or Equity Security or any other party-in-interest, or any
19 of their respective agents, employees, representatives, financial advisors, attorneys, or
20 Affiliates, or any of their successors or assigns, for any act or omission in connection with,
21 relating to, or arising out of (from the Petition Date forward), the Chapter 11 Case,
22 Reorganized Debtor, the pursuit of confirmation of the Plan, or the consummation of the
23 Plan, except for gross negligence and willful misconduct, and in all respects shall be entitled
24 to reasonably rely upon the advice of counsel with respect to their duties and
25 responsibilities under the Plan or in the context of the Chapter 11 Case.

24 F. **Post-Confirmation Reporting and Quarterly Fees to the UST.** Prior to the
25 Effective Date, Debtor, and after the Effective Date, Reorganized Debtor, shall file post-
26 confirmation quarterly operating reports and pay all quarterly fees payable to the Office of the
27 United States Trustee consistent with the sliding scale set forth in 28 U.S.C. § 1930(a)(6), and
28 the applicable provisions of the Bankruptcy Code and Bankruptcy Rules.

VIII.
RETENTION OF JURISDICTION

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A. Jurisdiction. Notwithstanding the entry of the Confirmation Order and the occurrence of the Effective Date, the Bankruptcy Court shall retain such jurisdiction over the Chapter 11 Case and Reorganized Debtor after the Effective Date as is legally permissible, including jurisdiction to:

1. Allow, disallow, determine, liquidate, classify, estimate, or establish the priority or secured or unsecured status of any Claim or Disputed Claim, including the resolution of any request for payment of any Administrative Claim and the resolution of any and all objections to the allowance or priority of Claims or Disputed Claims;

2. Grant or deny any applications for allowance of compensation or reimbursement of expenses authorized pursuant to the Bankruptcy Code or the Plan for periods ending on or before the Effective Date;

3. Resolve any matters related to the assumption, assignment, or rejection of any Executory Contract or Unexpired Lease to which Debtor or Reorganized Debtor are party and to hear, determine, and, if necessary, liquidate any Claims arising there from or Cure amounts related thereto;

4. Insure that distributions to Holders of Allowed Claims and Equities Securities are accomplished pursuant to the provisions of the Plan;

5. Decide or resolve any motions, adversary proceedings, contested or litigated matters (including the NSR Claims), and any other matters and grant or deny any applications or motions involving Debtor or Reorganized Debtor that may be pending on the Effective Date or commenced thereafter as provided for by the Plan;

6. Enter such orders as may be necessary or appropriate to implement or consummate the provisions of the Plan and all contracts, instruments, releases, and other agreements or documents created in connection with the Plan or the Disclosure Statement or the Confirmation Order, except as otherwise provided herein;

7. Decide or resolve any cases, controversies, suits, or disputes that may arise in connection with the consummation, interpretation, or enforcement of any Final Order, the Plan, the Confirmation Order, or any Person's obligations incurred in connection with the Plan or the Confirmation Order;

8. Modify the Plan before or after the Effective Date pursuant to Section

1 Disclosure Statement after that date does not imply that there has been no change in the
2 information set forth herein since that date. Debtor has no duty to update this Disclosure
3 Statement unless ordered to do so by the Bankruptcy Court.

4 **B. Information Presented Is Based on Debtor's Books and Records and Is**
5 **Unaudited.** While Debtor has endeavored to present information fairly in this Disclosure
6 Statement, there is no assurance that Debtor's books and records upon which this Disclosure
7 Statement is based are complete and accurate. Certain of the financial information contained
8 herein has not been audited.

9 **C. Projections and Other Forward-Looking Statements Are Not Assured and**
10 **Actual Results Will Vary.** Certain information in this Disclosure Statement is forward-looking,
11 and contains estimates and assumptions that might ultimately prove to be incorrect, and
12 projections that may differ materially from actual future results. Debtor believes that the
13 projections of future performance upon which the treatments under the Plan are based are
14 reasonable and fairly represent the future performance of Debtor's business operations.
15 However, there are uncertainties associated with all assumptions, projections, and estimates, and
16 they should not be considered assurances or guarantees of the amount of funds that will be
17 distributed, the amount of Claims in the various Classes that will be allowed, or the success or
18 results of Reorganized Debtor's business operations.

19 **D. No Legal or Tax Advice Is Provided to You by This Disclosure Statement.**
20 The contents of this Disclosure Statement should not be construed as legal, business, or tax
21 advice. Each Creditor or Holder of an Equity Interest should consult his, her, or its own legal
22 counsel and accountant as to legal, tax, and other matters concerning his, her or its Claim or
23 Equity Securities.

24 **E. No Admissions Made.** Nothing contained herein shall constitute an admission of
25 any fact or liability by Debtor or any other party nor shall it be deemed evidence of the tax or
26 other legal effects of the Plan on Debtor or on Holders of Claims.

27 **F. No Waiver of Right to Object or Right to Recover Transfers and Estate**
28 **Assets.** Unless specifically provided in the Plan, a Creditor's vote for or against the Plan does not
constitute a waiver or release of any claims or rights of Debtor (or any other party-in-interest) to
object to that Creditor's Claim, or recover any preferential, fraudulent, or other voidable transfer
of Estate assets, regardless of whether any claims or cause of action of Debtor or the Estate are
specifically or generally identified herein.

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Bankruptcy Law Risks and Considerations.

G. **Confirmation of the Plan Is Not Assured.** Although Debtor believes the Plan will satisfy all requirements for Confirmation, the Bankruptcy Court might not reach that conclusion. It is also possible that modifications to the Plan will be required for Confirmation and that such modifications would necessitate a resolicitation of votes. Confirmation requires, among other things, a finding by the Bankruptcy Court that it is not likely that there will be a need for further financial reorganization and that the value of distributions to dissenting members of Impaired Classes of Creditors and Holders of Equity Securities would not be less than the value of distributions such Creditors and Holders of Equity Securities would receive if Debtor was liquidated under Chapter 7 of the Bankruptcy Code (“Chapter 7”). Although Debtor believes that the Plan will not be followed by a need for further financial reorganization and that dissenting members of Impaired Classes of Creditors and Holders of Equity Securities will receive Distributions at least as great as they would receive in a liquidation under Chapter 7, there can be no assurance that the Bankruptcy Court will conclude that these tests have been met.

H. **No Assurance of Approval of the Woolley Agreement.** There is no assurance that the Woolley Agreement will be approved, which is a condition precedent to Plan confirmation. If the Woolley Agreement is not approved, there will be no Plan confirmation and no Distributions as set forth in the Plan and herein

I. **The Effective Date or Substantial Consummation Date Might Be Delayed or Never Occur.** There is no assurance as to the timing of the Effective Date, Substantial Confirmation Date, or that it will occur. If the respective conditions precedent to the Effective Date and Substantial Consummation Date do not occur, the Confirmation Order will be vacated. In that event, the Holders of Claims and Equity Securities would be restored to their respective positions as of the day immediately preceding the Confirmation Date, and Debtor’s obligations for Claims and Equity Securities would remain unchanged as of such day (except to the extent of any post-Effective Date payments).

J. **The Projected Value of Estate Assets in the Event of Liquidation Might Not Be Realized.** In the Best Interests Analysis, Debtor has projected the value of the Estate’s Assets that would be available for payment of expenses and Distributions to Holders of Allowed Claims as set forth in the Plan. Debtor has made certain assumptions, as described in the Liquidation Analysis that should be read carefully.

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1 IRS will take on the tax consequences of the transactions that are to occur in connection with the
2 Plan.

3 This summary does not address foreign, state, or local tax consequences of the Plan, nor
4 does it address the U.S. federal income tax consequences of the Plan to the particular
5 circumstances of any Holder or to Holders subject to special income tax rules (such as regulated
6 investment companies, insurance companies, financial institutions, small business investment
7 companies, broker-dealers, tax-exempt organizations (including pension funds), persons holding
8 a Claim as part of an integrated constructive sale or straddle or part of a conversion transaction,
9 and investors in pass-through entities). In addition, the summary does not include a summary of
10 the consequences to Holders of Claims who are not "U.S. Persons" (as defined in the IRC) or
11 who are tax-exempt Holders. However, there may be some potentially significant consequences
12 to non-U.S. Persons which are not discussed below, and such non-U.S. Persons are encouraged
13 to carefully consider their particular tax consequences with their own tax advisers.

14 This discussion assumes that the various debt and other arrangements to which each
15 Debtor is a party will be respected for federal income tax purposes in accordance with their form.
16 The following discussion is a general summary of certain U.S. federal income tax aspects of the
17 Plan and should not be relied upon for purposes of determining the specific tax consequences of
18 the Plan with respect to a particular Holder of a Claim.

19 EACH HOLDER OF A CLAIM OR EQUITY SECURITY AFFECTED BY THE PLAN
20 SHOULD CONSULT ITS OWN TAX ADVISOR REGARDING THE SPECIFIC TAX
21 CONSEQUENCES OF THE PLAN WITH RESPECT TO THAT HOLDER'S CLAIM OR
22 EQUITY SECURITY, INCLUDING UNDER ANY APPLICABLE STATE, LOCAL, OR
23 FOREIGN LAW.

24 ***IRS CIRCULAR 230 NOTICE: TO ENSURE COMPLIANCE WITH IRS CIRCULAR***
25 ***230, HOLDERS OF CLAIMS AND EQUITY SECURITIES ARE HEREBY NOTIFIED***
26 ***THAT: (i) ANY DISCUSSION OF U.S. FEDERAL TAX ISSUES CONTAINED OR***
27 ***REFERRED TO IN THIS NOTEHOLDER DISCLOSURE STATEMENT IS NOT***
28 ***INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED, BY HOLDERS OF***

1 *CLAIMS AND EQUITY SECURITIES FOR THE PURPOSE OF AVOIDING PENALTIES*
2 *THAT MAY BE IMPOSED ON THEM UNDER THE TAX CODE; (ii) SUCH DISCUSSION*
3 *IS WRITTEN IN CONNECTION WITH THE PROMOTION OR MARKETING BY THE*
4 *PROONENTS OF THE TRANSACTIONS OR MATTERS ADDRESSED HEREIN; AND*
5 *(C) HOLDERS OF CLAIMS AND EQUITY SECURITIES SHOULD SEEK ADVICE*
6 *BASED ON THEIR PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX*
7 *ADVISOR.*

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11 **XI.**
12 **CONFIRMATION OF THE PLAN**

13 **A. Confirmation of the Plan.**

14 Pursuant to Section 1128(a) of the Bankruptcy Code, the Bankruptcy Court will hold a
15 hearing regarding confirmation of the Plan at the United States Bankruptcy Court for the Eastern
16 District of California, 501 I Street, Suite 3200, Sacramento, California, commencing on
17 _____, 2017, at ____:____ a.m. (prevailing Pacific Time).

18 **B. Objections to Confirmation of the Plan.**

19 Section 1128(b) provides that any party-in-interest may object to confirmation of a plan.
20 Any objections to confirmation of the Plan must be in writing, must state with specificity the
21 grounds for any such objections, and must be timely filed with the Bankruptcy Court and served
22 upon counsel for Debtor at the following address:

23 Garman Turner Gordon LLP
24 Teresa M. Pilatowicz, Esq.
25 650 White Drive, Ste. 100
26 Las Vegas, Nevada 89119
27 Telephone: (725) 777-3000
28 Email: tpilatowicz@gtg.legal

For the Plan to be confirmed, the Plan must satisfy the requirements stated in Section
1129. In this regard, the Plan must satisfy, among other things, the following requirements.

1 **C. The Best Interest Test and Feasibility of the Plan.**

2 For the Plan to be confirmed, it must satisfy the requirements discussed below:

3 **1. Best Interest Test.**

4 Pursuant to Section 1129(a)(7) of the Bankruptcy Code, for the Plan to be confirmed, it
5 must provide Holders of Allowed Claims or Allowed Equity Securities with at least as much
6 under the Plan as they would receive in a liquidation of Debtor under Chapter 7 of the
7 Bankruptcy Code (the “Best Interest Test”). The Best Interest Test with respect to each Impaired
8 Class requires that each Holder of an Allowed Claim or Allowed Equity Interest in such Class
9 either: (i) accepts the Plan; or (ii) receives or retains under the Plan property of a value, as of the
10 Effective Date, that is not less than the value such Holder would receive or retain if Debtor were
11 liquidated under Chapter 7. The Bankruptcy Court will determine whether the value to be
12 received under the Plan by the Holders of Allowed Claims in each Class of Creditors or Holders
13 of Allowed Equity Securities equals or exceeds the value that would be allocated to such Holders
14 in a liquidation under Chapter 7. Debtor believes that the Plan meets the Best Interest Test and
15 provides value which is not less than what would be recovered by each Holder of an Impaired
16 Claim or Impaired Equity Interest in a Chapter 7 proceeding for Debtor.

17 **2. Liquidation Analysis.**

18 The Liquidation Analysis attached as **Exhibit “2”** hereto summarizes Debtor’s best
19 estimate of recoveries by Creditors and Holders of Allowed Equity Securities in the event of
20 liquidation of Debtor as of April 30, 2017.

21 Generally, to determine what Holders of Allowed Claims and Allowed Equity Securities
22 in each Impaired Class would receive if Debtor was liquidated, the Bankruptcy Court must
23 determine what funds would be generated from the liquidation of Debtor’s Assets and properties
24 in a Chapter 7 liquidation case for Debtor, which for unsecured Creditors would consist of the
25 proceeds from the disposition of the Assets of Debtor, augmented by the unencumbered Cash
26 held by Debtor upon the completion of the liquidation. Such Cash amounts would be reduced by
27 the costs and expenses of the liquidation and by such additional Administrative Claims and Other
28

1 Priority Claims as may result from the Chapter 7 case and the use of Chapter 7 for the purpose of
2 liquidation.

3 In a Chapter 7 liquidation, holders of allowed claims receive distributions based on the
4 liquidation of the non-exempt assets of a debtor. However, there are no exempt assets in the
5 Chapter 11 Case, and, as such, the distributions would include the same Assets being collected
6 and liquidated under the Plan, namely the interests of Debtor in the Assets. In this case, the
7 Assets consists largely of the Debtor's Claims against Debtor's managers, which are being
8 settled through the Plan. In a liquidation scenario, it is unclear whether a Chapter 7 Trustee
9 would pursue the Debtor's Claims or, if such claims were pursued, how much estate funds would
10 be spent in such pursuit.

11 Furthermore, the proceeds from the collection and sale of property of the Estate available
12 for distribution to Creditors would be first reduced by the satisfaction of any liens and security
13 interests in the Assets, costs of sale, any commission payable to the Chapter 7 trustee, the
14 trustee's attorneys' and accounting fees, as well as the administrative costs of the Chapter 7
15 estate. In a Chapter 7 case, the Chapter 7 trustee would be entitled to seek a sliding-scale
16 commission based upon the funds distributed by such trustee to secured creditors.

17 The distributions from the liquidation proceeds would be paid Pro Rata according to the
18 amount of the aggregate Claims held by each Creditor in each Chapter 7 case in accordance with
19 the distribution scheme of the Bankruptcy Code. Debtor believes that the most likely outcome
20 under Chapter 7 would be the application of the "absolute priority rule." Under that rule, no
21 junior Creditor in a Chapter 7 case may receive any distribution until all senior Creditors are paid
22 in full, with interest, and no Holder of an Equity Security may receive any distribution until all
23 Creditors are paid in full.

24 **3. Feasibility.**

25 The Bankruptcy Code requires that in order to confirm the Plan, the Bankruptcy Court
26 must find that Confirmation is not likely to be followed by liquidation or the need for further
27 financial reorganization of Debtor (the "Feasibility Test"). For the Plan to meet the Feasibility
28 Test, the Bankruptcy Court must find that Reorganized Debtor will possess the resources and

1 working capital necessary to meet their obligations under the Plan. In this case, the Plan requires
2 a one time payment to creditors based on the available Estate resources as of the Confirmation
3 Date based on the Woolley Agreement. The Woolley Agreement will be approved as part of
4 confirmation, making feasibility certain.

5 Furthermore, through the Plan, Debtor is seeking to liquidate its remaining Assets, and
6 not to continue operations. Therefore, there is no concern of a future liquidation.

7 At the Confirmation Hearing, the Bankruptcy Court will determine whether the Plan
8 satisfies the statutory requirements for Confirmation.

9 **4. Confirmation of the Plan Without Acceptance By All Impaired Classes: the**
10 **“Cramdown” Alternative.**

11 Section 1129(b) of the Bankruptcy Code provides that a plan of reorganization may be
12 confirmed even if it has not been accepted by all impaired classes, as long as at least one
13 impaired class of claims has accepted it. Consequently, the Bankruptcy Court may confirm the
14 Plan at Debtor’s request notwithstanding the Plan’s rejection by Impaired Classes, as long as at
15 least one Impaired Class has accepted the Plan and the Plan “does not discriminate unfairly” and
16 is “fair and equitable” as to each Impaired Class that has not accepted it.

17 A plan will be deemed fair and equitable as to a class of secured claims that rejects the
18 plan if the plan provides: (i)(a) that the holders of claims in the rejecting class retain the lien
19 securing those claims, whether the property subject to those liens is retained by the debtor or
20 transferred to another entity, to the extent of the allowed amount of such claims, and (b) that
21 each holder of a claim in such class receives on account of that claim deferred cash payments
22 totaling at least the allowed amount of that claim of a value, as of the effective date of the plan,
23 at least equal to the value of the holder’s interest in the estate’s interest in such property; (ii) for
24 the sale, subject to Section 363(k) of the Bankruptcy Code, of any property that is subject to the
25 liens securing the claims included in the rejecting class, free and clear of the liens, with the liens
26 to attach to the proceeds of the sale, and the treatment of the liens on such proceeds as described
27 under clause (i) or (ii) of this paragraph; or (iii) for the realization by such holders of the
28 indubitable equivalent of such claims.

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

7 **5. Accepting Impaired Class.**

8 Since at least one Class of Claims is Impaired under the Plan, in order for the Plan to be
9 confirmed, the Plan must be accepted by at least one Impaired Class of Claims (not including the
10 acceptance votes of Insiders of Debtor). For an Impaired Class of Claims to accept the Plan,
11 those representing at least two-thirds in amount and a majority in number of the Allowed Claims
12 voted in that Class must be cast for acceptance of the Plan.

13 **XII.**
ALTERNATIVES TO THE PLAN

14 Debtor believes that the Plan provides Creditors the best and most complete form of
15 recovery available. As a result, Debtor believes that the Plan serves the best interests of all
16 Creditors and parties-in-interest in the Chapter 11 Case.

17 In formulating and developing the Plan, Debtor explored numerous alternatives. Debtor
18 believes not only that the Plan fairly adjusts the rights of various Classes of Creditors and
19 enables the Creditors to realize the greatest sum possible under the circumstances, but also that
20 rejection of the Plan in favor of some theoretical alternative method of reconciling the Claims of
21 the various Classes would require, at the very least, an extensive and time-consuming negotiation
22 process and would not result in a better recovery for any Class.

23 Under the Bankruptcy Code, a debtor has an exclusive period of one hundred twenty
24 (120) days and an additional vote solicitation period of sixty (60) days from the entry of the
25 order for relief during which time, assuming that no trustee has been appointed by the
26 Bankruptcy Court, only a debtor may propose a plan of reorganization. After the expiration of
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1 the initial 180-day period and any extensions thereof, the debtor or any other party-in-interest
2 may propose a different plan, unless the Bankruptcy Court has extended the exclusivity periods.

3 If a plan of reorganization cannot be confirmed, a Chapter 11 case may be converted to a
4 Chapter 7 case, in which a trustee would be elected or appointed to liquidate the assets of the
5 debtor for distribution to creditors in accordance with the priorities established by the
6 Bankruptcy Code. For a discussion of the effect that a Chapter 7 liquidation in the Chapter 11
7 Case would have on recovery by Creditors, see Section XIII.C. and **Exhibit “2.”**

8 As previously stated, Debtor believes that liquidation under Chapter 7 would result in a
9 substantially reduced recovery of funds by the Creditors of the Estate because of: (i) additional
10 administrative expenses involved in the appointment of a trustee for Debtor and attorneys and
11 other professionals to assist such trustee; and (ii) additional expenses and Claims, some of which
12 would be entitled to priority, which would be generated during the liquidation. Accordingly,
13 Debtor believes that Holders of all Classes of Claims will receive substantially smaller
14 distributions in Chapter 7 liquidation than under the Plan and therefore encourage all Holders of
15 Impaired Claims that are entitled to vote on the Plan to cast ballots accepting the Plan.

16 **XIII.**
PREFERENCE AND OTHER AVOIDANCE ACTIONS

17 A bankruptcy trustee (or the debtor as a debtor-in-possession) may avoid as a preference
18 a transfer of property made by a debtor to a creditor on account of an antecedent debt while a
19 debtor was insolvent, where that creditor receives more than it would have received in a
20 liquidation of the entity under Chapter 7 had the payment not been made, if: (i) the payment was
21 made within ninety (90) days before the date the bankruptcy case was commenced; or (ii) the
22 creditor is found to have been an “insider,” as defined in the Bankruptcy Code, within one year
23 before the commencement of the bankruptcy case. A debtor is presumed to have been insolvent
24 during the ninety (90) days preceding the commencement of the case.

25 A bankruptcy trustee (or the debtor as a debtor-in-possession) may avoid as a fraudulent
26 transfer a transfer of property made by a debtor within two years (and under applicable
27 California law, four years) before the date the bankruptcy case was commenced if the debtor: (i)
28

1 received less than reasonably equivalent value in exchange for such transfer; and (ii) was
 2 insolvent on the date of such transfer or became insolvent as a result of such transfer, such
 3 transfer left the debtor with an unreasonably small capital, or the debtor intended to incur debts
 4 that would be beyond the debtor's ability to pay as such debts matured.

5 Debtor does not believe any such viable actions with likely recovery exist and does not
 6 intend to pursue any such actions as part of the Plan.

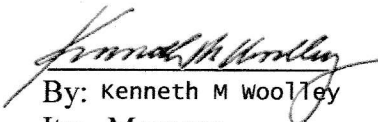
7 **XIV.**
RECOMMENDATION AND CONCLUSION

8 The Plan provides the best possible recovery for all parties-in-interest. Accordingly,
 9 Debtor recommends that all Creditors who are entitled to vote on the Plan timely submit their
 10 votes to accept the Plan.

11 DATED this 23 day of May, 2017.


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 13 A California limited liability company,

14 By: Accellus Health, LLC
 15 Its: Manager

16 
 17 By: Kenneth M Woolley
 18 Its: Manager

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