UNITED STATES BANKRUPTCY COURT
NORTHERN DISTRICT OF FLORIDA
TALLAHASSEE DIVISION
www.flnb.uscourts.gov

IN RE: Case No. 17-40185-KKS

CAMPBELLTON-GRACEVILLE HOSPITAL CORPORATION,[1] Chapter 11

Debtor.
_____/

SECOND AMENDED JOINT DISCLOSURE STATEMENT IN CONNECTION WITH CHAPTER 11 PLAN OF LIQUIDATION OF CAMPBELLTON-GRACEVILLE HOSPITAL CORPORATION, FILED BY THE DEBTOR AND THE OFFICIAL COMMITTEE OF UNSECURED CREDITORS

October 12, 2018

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[1] The last four digits of the taxpayer identification number for the Debtor are 9709. The mailing address for the Debtor is 5429 College Drive, Graceville, FL 32440.

1. DISCLOSURE STATEMENT

The Debtor, Campbellton-Graceville Hospital Corporation (the "**Debtor**") and the Official Committee of Unsecured Creditors of the Debtor ("**Committee**") provides this Disclosure Statement to all known creditors of the Debtor in order to disclose the information deemed to be material, important, and necessary for the creditors to arrive at a reasonably informed decision in exercising their right to abstain from voting or to vote for acceptance or rejection of the Plan of Liquidation, as amended, (the "**Plan**") proposed by the Debtor and Committee. A copy of the Plan is being filed in the Bankruptcy Case[2] simultaneously herewith, and will be provided all known creditors.

1. INTRODUCTION

This Disclosure Statement is presented to certain Holders of Claims against and Interests in the Debtor in accordance with the requirements of section 1125 of the United States Bankruptcy Code, 11 U.S.C. §§ 101-1330 (the "**Bankruptcy Code**"). Section 1125 of the Bankruptcy Code requires that a disclosure statement provide information sufficient to enable a hypothetical and reasonable investor, typical of the debtor's creditors and Interest Holders, to make an informed judgment whether to accept or reject a plan. This Disclosure Statement may not be relied upon for any purpose other than that described above.

This Disclosure Statement and the Plan are an integral package, and they must be considered together for the reader to be adequately informed. This introduction is qualified in its entirety by the remaining portions of this Disclosure Statement (including its Exhibits or Schedules), and this Disclosure Statement in turn is qualified in its entirety by the Plan. This

[2] Capitalized terms used herein have the meanings assigned to them in the Definitions section in the Plan. Whenever the words "include," "includes" or "including" are used in this Disclosure Statement, they are deemed to be followed by the words "without limitation."

Disclosure Statement contains only a summary of the Plan. You are strongly urged to review the Plan, a copy of which is provided herewith, before casting a Ballot.

No representations concerning the Debtor (particularly as to the values of its property) are authorized other than as set forth in this Disclosure Statement. You should not rely upon any representations or inducements made to secure your acceptance or rejection of the Plan other than as contained in this Disclosure Statement, and such additional representations and inducements should be reported to Debtor's counsel, who will in turn deliver such information to the proper authorities for such action as may be appropriate.

The information contained in this Disclosure Statement, including any exhibits concerning the financial condition of the Debtor, has not been subjected to an audit or independent review except as expressly set forth herein. The Debtor has endeavored in good faith to be accurate in this Disclosure Statement.

The statements contained in this Disclosure Statement are made as of the date of this Disclosure Statement unless another time is specified. There is no guaranty that facts will not change after this Disclosure Statement was filed; and it must be assumed that some facts will indeed change from that time until the hearing on the approval of the Disclosure Statement (discussed below), and thereafter during the periods in which the Debtor makes payments under the Plan.

This Disclosure Statement was prepared in accordance with section 1125 of the Bankruptcy Code and not in accordance with federal or state securities laws or other applicable non-bankruptcy law. Entities holding or trading in or otherwise purchasing, selling or transferring Claims against, Interests in or securities of, the Debtor should evaluate this Disclosure Statement only in light of the purpose for which it was prepared. This Disclosure Statement has not been approved or

disapproved by the Securities and Exchange Commission and the Securities and Exchange Commission has not passed upon the accuracy or adequacy of the statements contained herein; nor may this Disclosure Statement be construed to be advice on the tax, securities or other legal effects of the Plan. You should, therefore, consult with your own legal, business, financial and tax advisors as to any such matters concerning the solicitation, the Plan or the transactions contemplated thereby.

2. OVERVIEW OF CHAPTER 11

(a) Chapter 11 Generally.

Chapter 11 comprises the chapter of the Bankruptcy Code primarily used for business reorganization. Formulating a plan to restructure a debtor's finances forms a fundamental purpose of a case under chapter 11 of the Bankruptcy Code. Businesses also sometimes use chapter 11 as a means to conduct asset sales and other forms of liquidation.

Generally, the debtor (or any plan proponent) must file and get court approval of a written disclosure statement before there can be a vote on the plan of reorganization. 11 U.S.C. §§ 1121, 1125. The disclosure statement is a document that must contain information concerning the assets, liabilities, and business affairs of the debtor sufficient to enable a creditor to make an informed judgment about the debtor's plan of reorganization. 11 U.S.C. § 1125. The disclosure statement must provide "adequate information" concerning the affairs of the debtor to enable the holder of a claim or interest to make an informed judgment about the plan. 11 U.S.C. § 1125.

The contents of the plan must include a classification of claims and must specify how each class of claims will be treated under the plan. 11 U.S.C. § 1123. Creditors whose claims are "impaired," i.e., those whose contractual rights are to be modified or who will be paid less than the full value of their claims under the plan, vote on the plan by ballot. 11 U.S.C. § 1126. Upon

approval of a disclosure statement, the plan proponent must mail the following to the United States Trustee and all creditors and equity security holders: (1) the plan, or a court approved summary of the plan; (2) the disclosure statement approved by the court; (3) notice of the time within which acceptances and rejections of the plan may be filed; and (4) such other information as the court may direct. Fed. R. Bankr. P. 3017(d). In addition, the debtor must mail to the creditors and equity security holders entitled to vote on the plan: (1) notice of the time fixed for filing objections; (2) notice of the date and time for the hearing on confirmation of the plan; and (3) a ballot for accepting or rejecting the plan. After the disclosure statement is approved by the court and the ballots are collected and tallied, the court will conduct a confirmation hearing to determine whether to confirm the plan. 11 U.S.C. § 1128.

Section 1123(a) of the Bankruptcy Code lists the mandatory provisions of a chapter 11 plan, and section 1123(b) lists the discretionary provisions. Section 1123(a)(1) provides that a chapter 11 plan must designate classes of claims and interests for treatment under the reorganization. Generally, a plan will classify claim holders as secured creditors, unsecured creditors entitled to priority, general unsecured creditors, and equity security holders.

Under section 1126(c) of the Bankruptcy Code, an entire class of claims is deemed to accept a plan if the plan is accepted by creditors that hold at least two-thirds (2/3) in amount and more than one-half (1/2) in number of the allowed claims in the class. Under section 1129(a)(10), if there are impaired classes of claims, the court cannot confirm a plan unless it has been accepted by at least one (1) class of non-insiders who hold impaired claims (i.e., claims that are not going to be paid completely or in which some legal, equitable, or contractual right is altered). Moreover, under section 1126(f), holders of unimpaired claims are deemed to have accepted the plan.

Under section 1127(a) of the Bankruptcy Code, the plan proponent may modify the plan at

any time before confirmation, but the plan as modified must meet all the requirements of chapter 11. When there is a proposed modification after balloting has been conducted, and the court finds after a hearing that the proposed modification does not adversely affect the treatment of any creditor who has not accepted the modification in writing, the modification is deemed to have been accepted by all creditors who previously accepted the plan. Fed. R. Bankr. P. 3019. If it is determined that the proposed modification does have an adverse effect on the claims of non-consenting creditors, then another balloting must take place.

Any party in interest may file an objection to confirmation of a plan. The Bankruptcy Code requires the court, after notice, to hold a hearing on confirmation of a plan. If no objection to confirmation has been timely filed, the Bankruptcy Code allows the court to determine whether the plan has been proposed in good faith and according to law. Fed. R. Bankr. P. 3020(b)(2). Before confirmation can be granted, the court must be satisfied that there has been compliance with all the other requirements of confirmation set forth in section 1129 of the Bankruptcy Code, even in the absence of any objections. In order to confirm the plan, the court must find, among other things, that: (1) the plan is feasible; (2) it is proposed in good faith; and (3) the plan and the proponent of the plan are in compliance with the Bankruptcy Code. In order to satisfy the feasibility requirement, the court must find that confirmation of the plan is not likely to be followed by liquidation (unless the plan is a liquidating plan) or the need for further financial reorganization.

(b) This Case.

As explained above, a chapter 11 plan sets forth and governs the treatment and rights that creditors and interest holders will receive with respect to their claims against and equity interests in a debtor's bankruptcy estate. The Bankruptcy Code entitles only holders of impaired claims or equity interests who receive some distribution under a proposed plan to vote to accept or reject the

plan. The Bankruptcy Code conclusively presumes that holders of unimpaired claims or equity interests under a proposed plan have accepted the plan and need not vote on it.

The Claims in Class 3 and 5 of this Plan are impaired and thus may vote either to accept or reject the Plan. The Debtor has enclosed a Ballot with this Disclosure Statement to solicit the votes of the Creditors in Classes 3 and 5. Those Creditors (i.e., you) may vote on the Plan by completing the enclosed Ballot and mailing it to the following address:[3]

BERGER SINGERMAN LLP
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Those Creditors should use the Ballot sent with this Disclosure Statement to cast a vote for or against the Plan. Creditors may not cast Ballots or vote orally or by facsimile. **For a Ballot to be considered by the Bankruptcy Court, it must be received at the above address by 5:00 p.m. (prevailing Eastern time) by the date fixed by the Bankruptcy Court on the accompanying scheduling order (the "Voting Deadline").** If you are a Creditor in Classes 3 or 5 and did not receive a Ballot with this Disclosure Statement, please contact:

BERGER SINGERMAN LLP
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313 North Monroe Street, Suite 301
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A ballot that does not indicate acceptance or rejection of a plan will not be considered. An impaired class of claims accepts a plan if at least two-thirds (2/3) in amount and more than one-

[3] Claims that have been objected to may not be entitled to vote on the Plan, unless their claims have been allowed or estimated for voting purposes.

half (1/2) in number of the allowed claims in the class that actually vote are cast in favor of the plan. A class of interests accepts a plan if at least two-thirds (2/3) in amount of the allowed interests of such class that actually vote are cast in favor of the plan. Whether or not you vote, you will be bound by the terms and treatment set forth in the Plan if the Bankruptcy Court confirms the Plan. The Bankruptcy Court may disallow any vote accepting or rejecting the Plan if the vote is not cast in good faith.

Once it is determined which impaired classes have accepted a plan, the Bankruptcy Court will determine whether the plan may be confirmed. Section 1141(d)(1) generally provides that confirmation of a plan discharges a debtor from any debt that arose before the date of confirmation. After the plan is confirmed, the debtor is required to make plan payments and is bound by the provisions of the plan of reorganization. The confirmed plan creates new contractual rights, replacing or superseding pre-bankruptcy contracts.

For a plan to be confirmed, the Bankruptcy Code requires, among other things, that the plan be proposed in good faith and comply with the other applicable provisions of chapter 11 of the Bankruptcy Code, including a requirement that at least one class of impaired claims accept the plan, and that confirmation of the plan is not likely to be followed by the need for further financial reorganization. The Bankruptcy Court will confirm a plan only if it finds that all of the requirements enumerated in section 1129 of the Bankruptcy Code have been met. The Debtor believes that the Plan satisfies all of the requirements for confirmation.

One requirement for confirmation of a plan is called the "best interests test." Notwithstanding acceptance of the plan by each impaired class of claims, in order to confirm a plan, if even one member of an impaired class votes to reject the plan, the Bankruptcy Court must determine that the plan is in the best interests of each holder of a claim or interest in such class.

The best interests test requires that the Bankruptcy Court find that the plan provides to each member of such impaired class a recovery on account of the class member's claim or interest that has a value, as of the Effective Date of the Plan, at least equal to the value of the distribution that each such class member would have received if the debtor's assets were liquidated under chapter 7 of the Bankruptcy Code on such date.

The Bankruptcy Code also requires that, in order to confirm a plan, the Bankruptcy Court must find that confirmation of a plan is not likely to be followed by liquidation or the need for further financial reorganization of the Debtor ("financial feasibility test"). For a plan to meet this test, the Bankruptcy Court must find that the Debtor's estate and the Liquidating Trust possess the capital and should generate the other resources to meet their respective obligations under the Plan. The Debtor believes that following confirmation of the Plan, the Liquidating Trust will be able to fully perform all obligations under the Plan without any need for liquidation or further financial reorganization.

The Bankruptcy Court may confirm a plan notwithstanding the plan's rejection by some impaired classes, if the Bankruptcy Court finds that at least one impaired class of claims (not including any acceptances by "insiders" as defined in section 101(31) of the Bankruptcy Code) has accepted the plan and that the plan satisfies certain additional conditions. This provision, found in section 1129(b) of the Bankruptcy Code, is generally referred to as the "cramdown" provision. Pursuant thereto, the Bankruptcy Court may confirm a plan over the rejection by a class of secured claims if the plan is fair and equitable and satisfies one of the alternative requirements of section 1129(b)(2)(A) of the Bankruptcy Code (otherwise known as "cram down"). Likewise, the Bankruptcy Court may confirm a plan over the rejection by a class of unsecured claims if the plan is fair and equitable and if the non-accepting claimants will receive the full value of their

claims, or (even if the non-accepting claimants receive less than full value), if no class of junior priority will receive or retain anything on account of its pre-petition claims or interests.

THESE ARE COMPLEX STATUTORY PROVISIONS, AND THE PRECEDING PARAGRAPHS ARE NOT INTENDED TO BE A COMPLETE SUMMARY OF THE LAW. IF YOU DO NOT UNDERSTAND THESE PROVISIONS, PLEASE CONSULT WITH YOUR ATTORNEY. THE DEBTOR MAY HAVE TO RELY UPON THE "CRAMDOWN" PROVISION OF SECTION 1129(b) OF THE BANKRUPTCY CODE IN ORDER TO CONFIRM THE PLAN.

The Bankruptcy Court has set a hearing on confirmation of the Plan for. at 110 E. Park Avenue, 2nd Floor Courtroom, Tallahassee, Florida. Creditors may vote on the Plan by filling out and mailing the accompanying Ballot form to counsel for the Debtor. Your Ballot must be mailed to the address above and received by, the Voting Deadline.

3. BACKGROUND OF DEBTOR AND EVENTS LEADING TO THE FILING OF THE BANKRUPTCY CASE.

(a) History of Debtor

The Debtor is a non-profit corporation established pursuant to the laws of the State of Florida in 1961 and operated as a not-for-profit 25-bed critical access hospital serving northern Florida, as well as surrounding areas in Georgia and Alabama, and had approximately 100 employees. The Debtor offered comprehensive medical care, including emergency services, general hospitalization, X-Ray and laboratory services, swing bed, and physical therapy. The Debtor was directed by its Board of Trustees.

(b) Events Leading to the Filing

For several years the Debtor had been experiencing financial distress. This was due to a number of factors; including changing demographics, changes, reductions in overall reimbursement rates and timing and changes in the medical care field. In early 2015, the Debtor was experiencing extreme financial distress and lacked adequate funds to meet certain of its financial obligations. In fact, the Debtor announced at that time that it would permanently close

its doors effective April 20, 2015. In that critical time, the Debtor was approached by The People's Choice Hospital ("**PCH**") with a solution. PCH proposed that it would take over management of the hospital and fund operating losses. In an effort to save the hospital, the Debtor entered into a "Consulting Agreement" with PCH, dated May 11, 2015, in which PCH would provide healthcare management and related services for the Debtor (the "**Consulting Agreement**").[4] In exchange for these services, PCH received a monthly consulting fee of $30,000 and reimbursement for its expenses.

PCH made the necessary investments to keep the hospital open and operational, including paying all outstanding payroll taxes, eliminating the risk of personal liability for such taxes. To provide PCH with security for amounts owed in connection with the foregoing arrangement, including under the Consulting Agreement, the Debtor purportedly executed (a) a Security Agreement dated as of May 27, 2015 in favor of PCH,[5] granting PCH a security interest in all assets of the Debtor. On June 1, 2015, PCH perfected its security interest by filing a UCC-1 financing statement.[6] PCH's secured claim was alleged to be in excess of $1.3 million on the Petition Date. Disputes arose pre-petition between the Debtor and PCH regarding the management of the hospital, including the hiring of a CEO, Jorge A Perez ("Perez") who had access to the Debtor's patient records, financial information and the Reference Lab Program as described

[4] The Consulting Agreement is attached to *PCH's Omnibus Objection to First-Day Pleadings* ("Omnibus Objection") [ECF No. 22] as Exhibit A.

[5] A copy of which is attached to the Omnibus Objection [ECF No. 22] as Exhibit B.

[6] A copy of which is attached to the Omnibus Objection [ECF No. 22] as Exhibit C.[7] Providers of service participating in the Medicare program, such as the Debtor, are required to submit information to achieve settlement of costs relating to health care services rendered to Medicare beneficiaries ("Cost Reports"). 42 U.S.C. § 1395g. For cost reporting purposes, Medicare requires submission of annual reports covering a 12-month period of operations based upon the provider's accounting year. 42 C.F.R. § 413.20(b). The filing of the cost report is mandatory and failure to do so results in all payments to be deemed overpayment and 100 percent withhold until the cost report is received.

herein.

On June 21, 2016, the Debtor filed a one count complaint against PCH in the Circuit Court for the Fourteenth Judicial Circuit, Jackson County, Florida, captioned as Case No. 2016-CA-136 (the "**State Court Litigation**") and obtained *ex parte* relief prohibiting PCH from having access to the Debtor's bank accounts and generally banning PCH from the hospital. The suit, after initially being removed to federal court (Case No. 16-cv-00222-MW-GRJ, Northern District of Florida), was then remanded to state court. PCH filed an Answer, Affirmative Defenses, and Counterclaim against the Debtor in the State Court Litigation, asserting claims for breach of the Consulting Agreement, unjust enrichment for use of software installed and implemented by PCH, and for unjust enrichment for use of equipment and supplies. Both the Debtor and PCH disputed the allegations against one another.

The State Court Litigation emanated from a "Reference Lab Program" implemented in October 2015 during PCH's management, which was sold to the hospital as a way for the hospital to generate additional revenue though blood and urine sample analysis from the Debtor's diagnostic clinical laboratory. Outside independent lab testing services were aggressively driven through the Debtor's existing reimbursement contracts throughout the life of the Reference Lab Program, which continued for some time after PCH was removed, in total disregard of the hospital's provider agreements with third party payors. Multiple independent labs sued the Debtor claiming that they provided services in connection with the Reference Lab Program, but that they have not been paid for their services. These lawsuits aggregated in excess of $6 million in addition to their other claims for recoupment or reimbursement. The U.S. Office of Personnel Management, Office of the Inspector General, and a special insurance investigator, began investigating the Debtor with respect to alleged fraudulent and illegal billing practices related to

the Reference Lab Program in August 2016. Additionally, other investigations were being undertaken by insurers such as Blue Cross Blue Shield of Florida and United Healthcare.

After PCH assumed control over the Debtor, they (or Perez) integrated several software programs to support all areas of hospital operations. The software would have included the ability to manage, track and organize: (1) patient health information; (2) all billing and financial records of the Debtor, through its software suite for Laboratory Information Systems, Radiology Information Systems, Pharmacy Information Systems, Surgical Management Systems; and other patient information systems including the Empower Financial System (collectively the "Empower Software"). This Empower Software was provided by Emergency Care Dictation Services, Inc. d/b/a Empower Systems, an entity affiliated with PCH. The President of Empower Systems is Seth Guterman, whom is also the President of PCH. Based on discussions with PCH and its counsel, it is now believed that a separate software system outside of the Empower Software was responsible for the accounting and billing information for the Debtor and the Reference Lab Program. This program identified as Empower H.I.S. was owned by a separate entity, Empower H.I.S., LLC ("Empower HIS"). Perez is the President of Empower HIS.

When PCH (and ultimately Perez) were removed from management, the Debtor's access to the Empower Software, was terminated. PCH alleged that the Debtor had not paid for these services. Although PCH and its affiliates provided the Debtor with the raw data on the Empower Software (as it requested in connection with the state court litigation), the Debtor found that it needed full access to the Empower Software to prepare reports and otherwise access and use the information. The issues surrounding the Debtor's access to the Empower Software and PCH's rights therein was hotly contested by each side. The Debtor's lack of access to the Empower Software and the Empower HIS software, and resultant inability to use and work with its patient

and billing information, prevented the Debtor from complying with statutory reporting obligations and submitting critical Cost Reports.[7]

While PCH and/or Perez controlled the hospital and ran the Reference Lab Program, the Debtor was unable to obtain a full financial and operational picture of what transpired during their tenure in in their management role. However, as of the Petition Date, the Debtor believed that a substantial fraud occurred as hundreds of millions of dollars were billed and routed through the Debtor. PCH denied all allegations of impropriety concerning PCH's conduct and has alleged that it complied with its obligations under the Consulting Agreement. PCH has also alleged that any fraudulent activities were engaged by Perez and his related parties other than PCH and its affiliates.

The Debtor's lack of access to the Empower Software, and resultant inability to manipulate and work with its patient data, has prevented the Debtor from complying with statutory reporting obligations and submitting critical Cost Reports.[8] Without the ability to file these costs reports, CMS ceased funding Medicare and Medicaid reimbursements in February 2017. These reimbursements represented a significant percentage of the Debtor's revenue. This suspension of reimbursements further exacerbated the Debtor's precarious financial condition. Extensive efforts were made to extend the time period for filing cost reports, but those requests were denied. Thus,

[7] Providers of service participating in the Medicare program, such as the Debtor, are required to submit information to achieve settlement of costs relating to health care services rendered to Medicare beneficiaries ("Cost Reports"). 42 U.S.C. § 1395g. For cost reporting purposes, Medicare requires submission of annual reports covering a 12-month period of operations based upon the provider's accounting year. 42 C.F.R. § 413.20(b). The filing of the cost report is mandatory and failure to do so results in all payments to be deemed overpayment and 100 percent withhold until the cost report is received.

[8] Providers of service participating in the Medicare program, such as the Debtor, are required to submit information to achieve settlement of costs relating to health care services rendered to Medicare beneficiaries ("Cost Reports"). 42 U.S.C. § 1395g. For cost reporting purposes, Medicare requires submission of annual reports covering a 12-month period of operations based upon the provider's accounting year. 42 C.F.R. § 413.20(b). The filing of the cost report is mandatory and failure to do so results in all payments to be deemed overpayment and 100 percent withhold until the cost report is received.

the Debtor was running out of cash, was facing extensive exposure from litigation claims and could not sustain its operations.

These events led to the Debtor filing a voluntary petition for relief under chapter 11 of the Bankruptcy Code on May 5, 2017 (the "**Petition Date**").

4. DEBTOR'S OPERATION IN CHAPTER 11.

Section 1107 of the Bankruptcy Code places the debtor in possession in the position of a fiduciary, with the rights and powers of a chapter 11 trustee, and it requires the Debtor to perform all but the investigative functions and duties of a trustee. These duties, set forth in the Bankruptcy Code and Federal Rules of Bankruptcy Procedure, include accounting for property, examining and objecting to claims, and filing informational reports as required by the Bankruptcy Court and the United States Trustee, such as monthly operating reports. 11 U.S.C. §§ 1106, 1107; Fed. R. Bankr. P. 2015(a). The debtor in possession also has many of the other powers and duties of a trustee, including the right, with the Bankruptcy Court's approval, to employ attorneys, accountants, appraisers, auctioneers, or other professional persons to assist the debtor during its bankruptcy case. Other responsibilities include filing tax returns and reports which are either necessary or ordered by the Bankruptcy Court after confirmation, such as a final accounting.

The Debtor has been operating its business and managing its affairs as a debtor-in-possession pursuant to §§ 1107 and 1108 of the Bankruptcy Code. The Debtor's priority has been to continue to provide healthcare to the community, continue to provide jobs, attempt to complete cost reports to restart Medicare/Medicaid reimbursement. Initially, the Debtor worked to cut costs and to reduce the monthly cash burn, but also recognized that it need to promptly find a transaction partner to purchase the assets of the hospital to continue the goal of providing the healthcare to the local community, albeit in a different form.

(a) Retention of Professionals

On, May 5, 2017, the Debtor filed its application to retain Berger Singerman, LLP ("**BSLLP**") to represent the Debtor in this case, *nunc pro tunc*, to the Petition Date ("**BSLLP Application**") [ECF No. 7]. BSLLP accepted a fee retainer from the Debtor in the amount of $186,744.52. [ECF No. 65] Of the $186,744.52 paid, the sum of $34,368.27 was applied toward payment in full of all prepetition fees and expenses incurred by Berger Singerman LLP. Accordingly, the remaining balance is $152,376.25 (the "**Bankruptcy Retainer**"), which is being held in Berger Singerman LLP's trust account, pending further order of the Bankruptcy Court. The Bankruptcy Court approved the BSLLP Application on June 6, 2017 [ECF No. 115].

As special counsel to the Debtor, the Debtor has sought to employ Kathryn Michelle Blankenship Jordan, Esq. and Blankenship Jordan, P.A. [ECF No. 9] on May 5, 2017, which the Bankruptcy Court approved on June 26, 2017 [ECF No. 139].

Also on May 5, 2015, the Debtor sought the employment of Marshall Glade of GlassRatner Advisory & Capital Group, LLC, *nunc pro tunc* to the Petition Date ("**GlassRatner Application**") [ECF No. 6] The Bankruptcy Court approved the Glass Ratner Application on June 9, 2017 [ECF No. 124].

On May 17, 2017, the Debtor sought to employ Sandra P. Greenblatt and the Law Firm of Lubell Rosen as Special Health Care Counsel to the Debtor [ECF No. 63], which the Bankruptcy Court approved on June 6, 2017 [ECF No. 114].

On June 9, 2017, Frank P. Terzo, Esq. filed an Application to Employ Frank P. Terzo, Esq. and the Law Firm of Broad and Cassel LLP ("**B&C**") as Counsel to Official Committee of Unsecured Creditors Committee [ECF No. 127] which the Bankruptcy Court approved on July 19, 2017 [ECF No. 157].

On July 11, 2017, the Debtor filed an Application to Employ Pamela C. Marsh, Esq. and the Law Firm of Ausley McMullen as Special Counsel to the Debtor, *nunc pro tunc* to July 3, 2017 [ECF No. 152], which was granted by the Bankruptcy Court on August 11, 2017 [ECF No. 191].

On October 4, 2017, the Committee filed an Application to Employ Wayne Black of Wayne Black and Associates, Inc. [ECF No. 256] as an Investigatory Assistant to further the Committee's investigation into the Laboratory Program and to assist Oscar Delatorre as a certified Encase program specialist. The Bankruptcy Court approved this Application on October 12, 2017 [ECF No. 262].

On October 5, 2017, the Committee filed an Application to Employ Oscar Delatorre of Detekted, Inc., as an I.T. professional to provide ESI support and imaging services. The Bankruptcy Court approved this Application on October 12, 2017 [ECF No. 263].

On November 16, 2017, the Committee filed an Application to Employ Kevin Hunter of Colaborate, Inc., as a Laboratory Consultant to further the Committee's investigation into the Laboratory Program. The Bankruptcy Court approved this Application on November 27, 2017.

On March 13, 2018, the Debtor augmented the employment of Kevin Hunter with the employment of Melissa Scott of Altegra Health Advisory Services, for further investigation into the validity of the reference laboratory relationships, and the accuracy and appropriateness of billing and reimbursement activity. The Bankruptcy Court approved this Application to employ Melissa Scott on March 29, 2018.

(b) Use of Cash Collateral

A debtor in possession may not use "cash collateral" without the consent of the secured party or authorization by the court, which must first examine whether the interest of the secured party is adequately protected. 11 U.S.C. § 363. Section 363 defines "cash collateral" as cash,

negotiable instruments, documents of title, securities, deposit accounts, or other cash equivalents, whenever acquired, in which the estate and an entity other than the estate have an interest. It includes the proceeds, products, offspring, rents, or profits of property and the fees, charges, accounts or payments for the use or occupancy of rooms and other public facilities in hotels, motels, or other lodging properties subject to a creditor's security interest.

When "cash collateral" is used (spent), the secured creditors are entitled to receive additional protection under section 363 of the Bankruptcy Code. The debtor in possession must file a motion requesting an order from the court authorizing the use of the cash collateral. Pending consent of the secured creditor or court authorization for the debtor in possession's use of cash collateral, the debtor in possession must segregate and account for all cash collateral in its possession. 11 U.S.C. § 363(c)(4). A party with an interest in property being used by the debtor may request that the court prohibit or condition this use to the extent necessary to provide "adequate protection" to the creditor.

PCH filed Omnibus Objections to the Debtor's first day motions and asserted arguments that the Debtor has failed to identify PCH as the Debtor's senior secured creditor, despite PCH's purported liens on all of the Debtor's assets, including its accounts receivable. *See* [ECF No. 22] PCH objected to the Debtor's use of cash collateral and alleged that it held a first priority lien on all of the Debtor's property, including cash collateral by virtue of the Consulting Agreement and associated security documents and UCC filings described in detail in the Limited Objection. PCH asserted that it was owed at least $1.3 million.

PCH also asserted, among other things, that PCH at all times complied with its obligations under the Consulting Agreement and that it was improperly terminated from its role. PCH has also made clear that notwithstanding the foregoing situation, and all of the animosity that has

accompanied it, it has no desire to see the hospital close. The Debtor asserted that PCH's lien does not attach to the Debtor's cash, but PCH disagreed.

With all parties recognizing the need to promptly resolve the issues facing the Debtor and PCH in order to provide the Debtor a chance to survive, the Debtor and PCH entered into an agreement whereby the Debtor was allowed to use PCH's purported cash collateral until June 14, 2017. *See* [ECF No. 39, 93].

(c) Settlement with The People's Choice Hospital

Since the commencement of this case, it was clear to bankruptcy counsel for the Debtor and for PCH that the result of continued litigation – including contested fights over cash collateral cash collateral use, competing affirmative claims, and the use of the proprietary Empower Software – would almost certainly result in the hospital closing. In an effort to avoid that, in the less than two weeks after the Debtor filed for bankruptcy protection, PCH and the Debtor engaged in intensive discussions in an effort to achieve a global resolution of entrenched disputes that were ongoing since mid-2015. The result of those discussions was the global resolution embodied in a Settlement Agreement,[9] which was beneficial for the Debtor's Estate and for all of the parties involved. The Settlement Agreement was believed to be the only path that would allow the Debtor to achieve its goal of keeping the hospital open to serve the emergency and medical needs of the community.

On May 19, 2017, the Debtor filed an *Emergency Motion to Approve Compromise or Settlement Between (I) the Debtor, Campbellton-Graceville Hospital Corporation and (II) The People's Choice Hospital and Certain Related Parties* ("**Settlement Motion**") [ECF No. 73] and

[9] The Settlement Agreement was filed with the Bankruptcy Court on May 19, 2017 [ECF No. 82].

the Bankruptcy Court held a hearing on May 26, 2017 on an expedited basis.

Without the approval of the Settlement Agreement, the Debtor would not have been able to pay its employees and would run out of money while litigating issues surrounding the priority, validity, and extent of PCH's security interests in the Debtor's assets. In that circumstance, the hospital would be forced to close and the community would suffer a true hardship that could cause the loss of lives for patients who have to travel to other facilities for care. The terms in the Settlement Agreement were in the best interest of all creditors and the bankruptcy Estate, and are summarized as follows:

Access to Empower Software. PCH will provide the Debtor with access, without cost, to the Empower Software for the purpose of helping the Debtor complete Cost Reports for sixty (60) days, and for a reasonable fee if access is required beyond that period.

Releases. Each Party will execute mutual releases of claims, including: (a) Claims allegedly held by PCH against the Debtor; and (b) All liens and security interests that PCH has against the Debtor's real and personal property, including its cash (resolving the cash collateral dispute).

Allowed Claims.

(a) PCH and its owner, Dr. Seth Guterman ("**Dr. Guterman**"), shall have a contingent allowed claim (the "**PCH-GE Claim**") in the amount that that they are required to pay, if any, on account of their guaranty dated as of February 3, 2014 (collectively, the "Guaranty"). The Guaranty guarantees the Debtor's obligations under an April 1, 2016 Assignment and Assumption Agreement of an equipment finance agreement with GE Healthcare Financial Services, dated February 3, 2014 (the "**GE Agreement**").

(i) If the GE Agreement is (i) assumed and assigned and PCH and Dr. Guterman are released from the Guaranty; or (ii) PCH and Dr. Guterman are otherwise released from the Guaranty, in each case without any payment from PCH or Dr. Guterman, the PCH-GE Claim shall be disallowed in its entirety.

(b) PCH may file an allowed general unsecured claim in the amount of $500,000 (the "**PCH General Unsecured Claim**" and collectively with the PCH-GE Claim, the "**PCH Claims**"). The PCH Claim shall not be entitled to a distribution until all other general unsecured creditors receive an aggregate distribution of $5.0 million.

Participation in Bankruptcy Case. With respect to PCH Claims, PCH and Dr. Guterman agree to waive any rights as unsecured creditor to (a) be considered a party in interest under § 1109(b) of the Bankruptcy Code; (b) vote on any plan proposed by the Debtor or any successor of the Debtor; except PCH may vote in favor of any plan proposed by the Debtor or any successor of the Debtor; and (c) to otherwise participate in the bankruptcy case.

GE Agreement. With respect to the PCH-GE Claim, the Debtor agrees to (i) continue making all payments under the GE Agreement, and will (a) not assume and assign the GE Agreement without either (i) PCH and Dr. Guterman's written consent or (ii) obtaining a cancellation of the Guaranty; or (b) not reject the GE Agreement without providing PCH at least five (5) business days prior written notice. PCH shall have the right to participate in all respects in any proceeding related to, or arising out of, the GE Agreement provided that it shall only be heard with respect to such agreement. Ultimately, PCH and GE reached an agreement regarding the GE Equipment and same was retrieved by PCH, with no further liability to the Debtor.

Cooperation. Both Parties agree to cooperate in litigation against Jorge Perez and Reliance

Laboratory Testing, Inc. ("**Reliance**") provided that PCH retains its right to pursue Jorge Perez and Reliance and any entity controlled by him or his family for damages caused to PCH.

The Bankruptcy Court approved the Settlement Motion on May 26, 2017 [ECF No. 92], subject to the limitations on the releases as set forth in the Settlement Motion.

(d) Post-Petition Sale/Lease

Although the preparation, confirmation, and implementation of a plan of reorganization or liquidation is at the heart of a chapter 11 case, other issues may arise that must be addressed by the debtor in possession. The debtor in possession may use, sell, or lease property of the estate in the ordinary course of its business, without prior approval, unless the court orders otherwise. 11 U.S.C. § 363(c). If the intended sale or use is outside the ordinary course of its business, the debtor must obtain permission from the court.

On July 5, 2017, the Debtor filed its Emergency Motion to Sell Property under Section 363(b) (for Order Approving Substantially All of the Debtor's Assets Free and Clear From All Liens, Claims and Encumbrances to Northwest Florida Healthcare, Inc.("**NWFHC**" or "**Buyer**"), in addition to Motion to Assume Lease or Executory Contract and for Assignment of Certain Executory Contracts and Leases ("**Sale Motion**") [ECF No. 143], seeking entry of an order (i) approving the sale of substantially all of the assets of the Debtor used in the operation of the Debtor's business (the "**Business**") located at 5429 College Drive, Graceville, FL 32440 (the "**Real Property**"), free and clear of any and all liens, claims, encumbrances, and interests, to NWFHC, and (ii) authorizing the assumption and assignment of certain executory contracts and unexpired leases which Buyer agrees to assume, within Buyer's sole discretion. The asset purchase agreement ("**APA**") was filed with the Bankruptcy Court on July 14, 2017 [ECF No. 155].

The assets include, without limitation, the Real Property, including any improvements thereon, all equipment, tools, furniture, fixtures, motor vehicles, inventory, work product, books and records, and all other tangible personal property, other than the Excluded Assets[10]; all intellectual property (including, but not limited to, trade names, trademarks, copyrights, patents, licenses, data, software, domain names, and website content to the extent the Debtor is able to transfer such intellectual property, using its best efforts); patient lists, medical records, and goodwill; all rights and causes of action relating to the assets; and all other intangible and tangible property owned by the Debtor and/or used in, associated with, or necessary to operate the Debtor's business (collectively, the "**Assets**"). The Buyer would acquire title to, and ownership of, the Real Property, and shall assume the outstanding indebtedness to ServiceFirst (the "**Lender**") currently encumbering the Real Property, which, as of the date of a letter of intent ("**LOI**"), is approximately $420,000.00 in the aggregate (the "**Assumed Indebtedness**"). The purchase price for the sale of the Assets will be the principal balance of the Assumed Indebtedness as of the Closing (the "**Purchase Price**"). The Purchase Price would be satisfied by the assumption of the Assumed Indebtedness. The Bankruptcy Court approved the Sale Motion, however, the Debtor and NWFHC were unable to consummate the sale due to the inability to meet certain conditions precedent.

The Debtor and NWFHC continued to work towards a solution. Accordingly, on September 7, 2017, the Debtor filed its Emergency Motion To Approve Lease Agreement, With Purchase Option, By And Between (I) The Debtor, Campbellton-Graceville Hospital Corporation;

[10] The Excluded Assets are defined as (a) those seven items of medical equipment on the premises of the hospital the purchase of which was financed by General Electric and that are subject to liens in favor of General Electric and leases which shall be rejected; (b) the cash, cash equivalents, and accounts receivables of the Debtor; (c) Causes of Action, including Chapter 5 Avoidance Actions; and (d) certain excluded tangible personal property to be retained by the Estate.

And (II) Northwest Florida Healthcare, Inc. [ECF No. 230] (the "**Lease Motion**"). The Lease Motion sought approval of a transaction between the Debtor and NWFHC that that will allow NWFHC to lease the Debtor's real estate property, acquire the tangible personal property (excluding the tangible personal property that was previously excluded and which will be sold by the Debtor), maintain the Clinic's operations and provide healthcare and jobs for the community with NWFHC bearing the operational costs associated with the property. The Debtor and NWFHC worked diligently to have the law that may prohibit the conveyance of the real property clarified to clearly permit such conveyance. With the efforts of the Estate professionals and others, CS/CS/HB 1449 bill (the "**Bill**") was approved by both the Florida House of Representatives and the Florida Senate and signed by the Governor on March 23, 2018. Upon such change in the legislation, NWFHC now has the option to purchase the assets being leased on substantially the same terms as set forth in the original Sale Motion. The Debtor and NWFHC will seek to expeditiously close on the proposed sale transaction upon Confirmation of the Plan. Based upon the language of the Bill, the real estate will be conveyed to the District and the District will then convey the real estate to NWFHC. All other terms and conditions of the Sale shall remain the same. During the lease term NWFHC has been responsible for the costs and maintenance of patient records and continuing the operation of the Clinic on the premises during business hours.

The Debtor considered all alternatives, with the assistance of its advisors, and determined that the immediate lease and sale of substantially all of its assets is in the best interests of its Estate and creditors in order to preserve and maximize the value of the Debtor's assets. The ultimate lease was made pursuant to section 363 of the Bankruptcy Code and will return a greater benefit to the Debtor's Estate and its creditors than any alternatives. Absent the lease transaction, the Debtor would cease operating and close its doors.

Northwest Florida Healthcare, Inc. (the Lessee/Buyer) operates a hospital in Chipley, Florida. It is geographically well-situated to continue to operate the Debtor's healthcare clinic, has already hired some employees at the Chipley hospital, and will hire as many additional employees as is necessary to operate the Business, in the Buyer's sole discretion. Additionally, the Buyer will use commercially reasonable efforts to identify a third party that will utilize the Debtor's hospital facility for new services such as a geriatric psychological facility or memory care facility that is needed in the area and which may provide many jobs for the community. This lease is the best alternative available under the facts and circumstances of this case as it will provide for the best possible alternative for the community and the Debtor's constituents and employees.

(i) **Court Approval.**

The Bankruptcy Court held a final hearing on the Lease Motion on September 19, 2017 and approved the transaction.

(ii) **Sale Approval.**

On May 18, 2018, the Debtor filed its Motion to Approve the Purchase Option under the transaction with NWFHC [ECF No. 675]. On June 1, 2018, the Court entered its Order Granting this Motion and authorizing the sale [ECF No. 708]. The transaction is expected to close in September 2018.

(e) Miscellaneous Motions and Proceedings

In addition to the significant matters described above, the following matters were heard by the Bankruptcy Court or occurred in the early stages of the case:

The Section 341 Meeting of Creditors was held and concluded on June 13, 2017.

The Debtor filed a Motion for Entry of Order Finding that the Appointment of a Patient

Care Ombudsman is Unnecessary [ECF No. 55]. The Bankruptcy Court granted that Motion on June 2, 2017 [ECF No. 109].

The Debtor filed an Emergency Motion for Interim and Final Orders Determining Adequate Assurance of Payment for Future Utility Service [ECF No. 12]. This Motion was granted on an interim basis and on a final basis.

The Debtor filed an Emergency Motion for Authorization to (I) Continue to Administer Insurance Policies and Related Agreements; and (II) Honor Certain Obligations in Respect Thereof [ECF No. 15]. The Bankruptcy Court granted that Motion on May 11, 2017 [ECF No. 49].

The Debtor filed its Motion seeking approval of procedures for monthly and interim compensation procedures [ECF No. 121]. The Bankruptcy Court granted that motion on July 26, 2017 [ECF No. 177].

The Debtor filed its Schedules of Assets and Liabilities and Statement of Financial Affairs on June 2, 2017 [ECF Nos. 101 and 103].

On September 5, 2017, the Debtor filed its Motion to Extend Exclusivity Period for Filing a Chapter 11 Plan and Disclosure Statement [ECF No. 228]. This Motion was granted on October 24, 2017 [ECF No. 277].

On October 27, 2017, the Debtor and the Committee filed their Joint Motion for Order Establishing Procedures to Conduct Rule 2004 Examinations [ECF No. 286]. This Motion was granted on November 6, 2017 [ECF No. 290]. The procedures set forth in this Motion permit the taking and conducting of 2004 Examinations though the issuance of notices, with all rights and objections preserved. The Debtor and Committee have actively sought to conduct discovery in this manner, although certain objections have been received. These issues will be resolved through agreement or Bankruptcy Court Order.

5. THE CREDITORS' COMMITTEE

The United States Trustee docketed a Notice of Appointment of a Committee of Creditors Holding Unsecured Claims (as defined, the "**Creditors' Committee**") pursuant to 11 U.S.C. § 1102 [ECF No. 120] on June 8, 2017. The members of the Creditors Committee originally included: Sun Ancillary Management, LLC, Mission Toxicology, LLC, Physicians Stat Lab, Inc., Park Avenue Capital LLC, Gilpin Givhan, PC and Smith's Inc. of Dothan. The Committee, through its counsel and the professionals approved by the Bankruptcy Court as described above, has been actively involved in the case, including an intense investigation of the Reference Lab Program.

On August 22, 2017, the Bankruptcy Court entered an order granting the Committee's Motion to Establish Creditor Information Protocols to Provide Access to Information to Unsecured Creditors [ECF No. 202]. On January 30, 2018, Empower H.I.S. (the company owned by Jorge Perez) filed a Motion to Disqualify Frank Terzo, Esq. and Broad and Cassel as counsel for the Creditors' Committee [ECF No. 400] (the "**Disqualification Motion**"). B&C asserted that the Disqualification Motion was completely unfounded and that it was filed for pure litigation tactics. The Debtor agreed with B&C's position. Significant discovery and briefing was undertaken and the estate incurred significant expense opposing the Disqualification Motion. Ultimately, the Court entered and Order Denying the Disqualification Motion [ECF No. 517] and issued a Memorandum Opinion on the Disqualification Motion ruling, i*nter alia,* that the movant (Empower H.I.S.) did not have standing to even assert the Motion [ECF No. 539].

On February 22, 2018, The United States Trustee filed an Amended Notice of Appointment of Committee of Creditors Holding Unsecured Claims [ECF No. 484] removing Sun Ancillary

Management, LLC and Mission Toxicology from the Committee. On June 12, 2018, the United States Trustee filed a second amended notice removing Physician Stat Labs [ECF No. 720].

6. THE DEBTOR'S ASSETS AND LIABILITIES

As set forth in the Debtor's Case Management Summary, the Debtor's assets consisted of real property that includes the hospital building, the clinic building and a storage building. The Debtor has minimal remaining personal property which shall be liquidated, accounts receivables that total $2.1 Million (some of which may be uncollectable) and significant litigation claims, including Chapter 5 Avoidance Actions and potential claims against Directors and Officers (D&Os). A summary of potential litigation claims is attached hereto as **Exhibit B**. Additionally, the Debtor may have available certain ad valorem taxes collected for the year 2017 in the approximate amount of $400,000 provided from the Taxing District. The ability to utilize these funds will need to be ultimately determined. As of the Petition Date, the Debtor was generally current on its financial obligations to trade creditors but the litigation claims commenced against the Debtor exceeded $6 Million. Furthermore, governmental agencies were seeking recoupment of overpayments (including CMS seeking repayment of the HITECH incentive) and several insurance companies have filed proof of claims of claims aggregating in excess of $110 million.

7. THE CLOSING OF THE HOSPITAL AND PLACING THE LICENSE ON INACTIVE STATUS

In connection with the sale process and based upon the fact that the Debtor, despite reducing costs, was still not getting reimbursements, the Debtor closed the hospital on June 30, 2017. The clinic remained open, but the Debtor's license was placed on "inactive status". The closure of the hospital, while difficult, was required under the Asset Purchase Agreement with the

buyer and necessary to keep costs down. The inactive license was transferred to NWFHC in June 2018.

8. FORENSIC ACCOUNTING AND LITIGATION CLAIMS

With the sale completed, the remaining primary assets of the Debtor consist of litigation claims. The Reference Lab Program appears to have been fraud based and the Debtor asserts that significant litigation claims exist. The Debtor, through Glass Ratner, has initiated a detailed forensic accounting and submits that significant claims to recover preferences, fraudulent transfers and other claims exist against a significant number of parties. The face value of these claims may exceed $100 Million. However, the pursuit and ultimate recovery of these claims will depend on a number of factors. On September 27, 2017, the Debtor sent out twenty eight (28) demand letters to Laboratories that, pursuant to the forensic accounting performed by Glass Ratner, participated in the Laboratory Program. The Debtor demanded that these Laboratories deliver to Debtor funds received from the Debtor as fraudulent transfers, within 14 days of receipt. The total sum of the demand on these laboratories equate to $128 Million dollars. The Debtor has received some responses and is negotiation some settlements related to these claims. Claims that cannot be settled will be litigated.

On February 8, 2018, the Debtor filed a Motion to Approve a settlement with Labpro, Inc. [ECF No. 415] (the "**Labpro Settlement**"). The Court entered its Order approving the settlement on March 6, 2018 [ECF No. 523]. The Labpro Settlement proceeds will be $175,000, with $100,000 having already been received by the Estate. The remaining $75,000.00 is to be paid over ten (10) consecutive months in equal payments of $7,500.00.

9. THE DEBTOR'S LICENSES AND STATUS

The Debtor's licenses are attached hereto as **Exhibit C**.

10. CLAIMS RESOLUTION PROCESS

The Bankruptcy Code defines a claim as: (1) a right to payment; (2) or a right to an equitable remedy for a failure of performance if the breach gives rise to a right to payment. 11 U.S.C. § 101(5). Generally, any creditor whose claim is not scheduled (i.e., listed by the debtor on the debtor's schedules) or is scheduled as disputed, contingent, or unliquidated must file a proof of claim (and attach evidence documenting the claim) in order to be treated as a creditor for purposes of voting on the plan and distribution under it. Fed. R. Bankr. P. 3003(c)(2). But filing a proof of claim is not necessary if the creditor's claim is scheduled (but is not listed as disputed, contingent, or unliquidated by the debtor) because the Debtor's Schedules are deemed to constitute evidence of the validity and amount of those claims. 11 U.S.C. § 1111. If a scheduled creditor chooses to file a claim, a properly filed proof of claim supersedes any scheduling of that claim. Fed. R. Bankr. P. 3003(c)(4). It is the responsibility of the creditor to determine whether the claim is accurately listed on the debtor's schedules.

The Bar Date for all creditors (other than governmental entities) was September 13, 2017. The claims bar date for all governmental entities was December 11, 2017. Pursuant to the Plan, the Debtor may object to any Scheduled Claim or Proof of Claim filed against the Debtor. Such an objection shall preclude the consideration of any claims as "allowed" for the purposes of timely distribution in accordance with the Plan. However, payment on account of the pro rata amount shall be set aside in a Disputed Claim Reserve. The Debtor anticipates filing objections to claims of various creditors pursuant to the procedures and time-frame established in the Plan and Confirmation Order. We want to preserve our right to object to claims for 180 days after the Liquidating Trust becomes effective. The present deadline for filing objections to Claims is February 27, 2018, subject to further requests for extensions (the "**Claim Objection Deadline**").

11. THE MOTION TO DISMISS LITIGATION AND SETTLEMENTS WITH RELIANCE AND LIFEBRITE

On January 30, 2018, LifeBrite Laboratories, LLC ("**LifeBrite**") filed a Motion to Dismiss the Debtor's Chapter 11 Case (the "**Motion to Dismiss**"). LifeBrite had a disputed claim and was the subject of a demand letter issued by the Debtor seeking the recovery of in excess of $21 Million. LifeBrite asserted that the Debtor was ineligible for Chapter 11 relief and thus the Debtor's case should be dismissed. Reliance Laboratory Testing, Inc. ("**Reliance**") joined the Motion to Dismiss. Reliance was not a creditor of the estate and was the recipient of a demand letter from the Debtor seeking the recovery of in excess of $67 Million in alleged fraudulent transfers. The Debtor strongly opposed the Motion to Dismiss and asserted, *inter alia,* that is was clearly eligible to be a Chapter 11 debtor.

Ultimately, the parties (the Debtor, the Committee, LifeBrite and Reliance) agreed to mediate the issues between them. Mediations were conducted on March 21-23. The Mediations were successful and resulted in the separate settlement agreements which resolved of all issues by and between the Debtor, the Committee, LifeBrite and Reliance (the "**Initial Settlements**"). The Motions to approve the Initial Settlements were filed (ECF Nos. 631and 632) and multiple objections were received , primarily related to the inclusion of a bar order in the settlements. As a result of the objections, the parties commenced with discussions regarding the terms of the settlements which could not be fulfilled and/or satisfied and the bar order language. This process resulted in several months of negotiations between the Debtor, the Committee, LifeBrite, Cigna, United Healthcare, Aetna, Inc. and Florida Blue. With the extensive participation by mediator, Liz Green, the parties were able to reach a consensual resolution of the objections. The settlements resulted in amended settlements with Reliance and LifeBrite (the "**Amended Settlements**"). The

Amended Settlements are incorporated herein by reference. The Amended Settlements will be the subject of separate Amended Settlement Motions, seeking approval of same and the Plan proposes to seek approval of these settlements pursuant to Rule 9019 as part of the confirmation process.

In Summary, the Initial Settlements provided for the following:

a. LifeBrite- LifeBrite shall pay the Estate $2.5 Million;

b. Reliance shall pay the Estate $5 Million;

c. The settlement provides for mutual releases and the Debtor and Committee shall obtain the entry of a "bar order" barring third party claims against Reliance and LifeBrite;

d. Reliance and LifeBrite shall provide certain documents and information to the Debtor and the Committee.

The Amended Settlements include a "carve-out" from the "bar order" for United Healthcare and Aetna, subject to the language provided for therein, a modified "bar order" for Cigna and a modified "bar order" for Florida Blue. The approved bar order language for Florida Blue, Aetna, Cigna and United Healthcare is attached to the Amended Settlement Motions, which are attached hereto.

Based upon the modified and carved out bar orders, the settlement consideration was reduced and as reflected in the Amended Settlement Motions, LifeBrite shall pay the sum of $1,300,000 and Reliance shall pay the sum of $2,500,000 to the estate.

Rule 9019(a) of the Bankruptcy Rules, which governs the approval of compromises and settlements, provides, in part, that: "[o]n motion by the trustee and after notice and a hearing, the court may approve a compromise or settlement." Bankruptcy Rule 9019(a). "It has long been the law that approval of a settlement in a bankruptcy proceeding is within the sound discretion of the court and will not be disturbed or modified on appeal unless approval in an abuse of discretion".

In re Litten, 2007 WL 2020159, at *1 (Bankr. S.D. Fla. July 5, 2007) (citing *In re Arrow Air, Inc*., 85 B.R. 886, 890-891 (Bankr. S.D. Fla. 1988)).

There is a general policy encouraging settlements and favoring compromises in chapter 11 cases. *In re Bicoastal Corp*., 164 B.R. 1009, 1016 (Bankr. M.D. Fla. 1993) (recognizing that the law favors compromise of disputes); *see also Myers v. Martin (In re Martin)*, 91 F.3d 389, 394 (3d Cir. 1996); *Florida Trailer and Equip. Co. v. Deal*, 284 F.2d 567, 571 (5th Cir. 1960). In fact, some courts have held that a proposed settlement should be approved unless it yields less than the lowest amount that the litigation could reasonably produce. *In re Holywell Corp.*, 93 B.R. 291, 294 (Bankr. S.D. Fla. 1988). The United States Supreme Court requires that all court-approved settlements must be "fair and equitable" before they can be approved by the court. *See Protective Comm. for Independent Stockholders of TMT Trailer Ferry, Inc. v. Anderson*, 390 U.S. 414, 424 (1968). To help establish whether a settlement is fair and equitable, courts located in the Eleventh Circuit look to a four factor test identified in *Wallis v. Justice Oaks, II Ltd. (In re Justice Oaks II, Ltd.)*, 898 F.2d 1544, 1549 (11th Cir. 1990), including: (i) the probability of success in litigation; (ii) the difficulties, if any, to be encountered in the matter of collection; (iii) the complexity of the litigation involved and the expense, inconvenience and delay necessarily attending it; and (iv) the paramount interest of the creditors and a proper deference to their reasonable views in the premises. *Id.*

It is not necessary for a bankruptcy court to explicitly consider all four *Justice Oaks'* factors when approving a proposed settlement. *Chira v. Saal et al. (In re Chira)*, 567 F.3d 1307, 1313 (11th Cir. 2009) (affirming bankruptcy court's approval of settlement agreement where bankruptcy court explicitly evaluated only two of the four *Justice Oaks* factors). In determining whether to approve a compromise, a bankruptcy court is not obligated to actually rule on the

merits of the various claims, only the probability of succeeding on those claims or conduct a "mini trial" on the merits of the underlying cause of action. *In re Van Diepen, P.A.,* 236 F. Appx. 498, 503 (11th Cir. 2007); *U.S. v Alaska National Bank of the North (In the Matter of Walsh Construction, Inc.)*, 669 F.2d 1325, 1328 (9th Cir. 1982). Rather, courts consider the *Justice Oaks* factors to determine the fairness of a proposed settlement agreement. *In re Chira*, 567 F.3d at1312-1313. In ruling on a proposed compromise, a court should not substitute its own judgment for that of the trustee or debtor in possession. *See McMasters v. Morgan (In re Morgan)*, 2011 WL 3821103, at *1 (11th Cir. Aug. 29, 2011) (affirming bankruptcy court order approving "settlement because it was the Trustee's best business judgment that the settlement be approved"); *Myers v. Martin (In re Martin)*, 91 F.3d 389, 395 (3d Cir. 1996) ("under normal circumstances the court would defer to the trustee's judgment so long as there is a legitimate business justification."); *In re Purofied Down Prods. Corp*., 150 B.R. 519, 522 (S.D.N.Y. 1993) ("The reviewing court need not conduct its own investigation concerning the reasonableness of the settlement and may credit and consider the opinion of the Trustee and counsel that the settlement is fair and equitable."). Nor is the Court's task to determine whether the settlement was the best that the trustee could have obtained. *See Cosoff v Rodman (In re W.T. Grant)*, 699 F.2d 599, 608, 613 (2d Cir.), *cert. denied* 464 U.S. 822, 104 S. Ct. 89, 78 L. Ed.2d 97 (1983). Rather, the Court should "canvass the issues and see whether the settlement fall[s] below the lowest point in the range of reasonableness." *Id*. at 608; *see also In re Bell & Beckwith*, 87 B.R. 472, 474 (N.D. Ohio 1987).

The Amended Settlements are critical components of the Plan as they provide funding and resolve significant litigation issues without further expense and each meets the criteria set forth by the courts for approving settlements and compromises. After extensive discussions and mediated negotiations by a skilled bankruptcy mediator, the Debtor and the Committee submit that the

settlements are in the best interest of the estate and request that the Plan and Confirmation order approve the settlements, including the "bar order".

The settlements bring significant funds into the Estate. In factoring in the amount to be recovered, the Debtor and the Committee considered many factors, including the defenses asserted by Reliance and LifeBrite, the significant complexity of the case, the ultimate ability to collect on any judgments that could be obtained, and the time and effort required for same and the documents and cooperation being provided by Reliance and LifeBrite. There are mitigating factors related to these settlements that may or may not apply to settlement efforts with other targets of Litigation Claims. Further, the Debtor and Committee submit that the settlements are the direct result of the exercising of the Debtor's business judgment, as the settlements are in the best interests of the Debtor's estate when considering the factors set forth above. As a result, the Debtor believes that the resolution of these claims as set forth herein is reasonable and falls wells above the lowest point on the range of reasonableness as required by Rule 9019(a) of the Federal Rules of Bankruptcy Procedure and applicable case law from this district. *Arrow Air, Inc.*, 85 B.R. at 891 (court to evaluate whether the proposed compromise falls below the "lowest point in the range of reasonableness") (quoting *In re Teltronics Servs., Inc.*, 762 B.2d 185, 189 (2d Cir. 1985)).

The bar order, as modified and subject to the carve-outs as more fully described in the settlement motions, are appropriate under the circumstances and an integral part of the settlements and the Plan. It is a condition and an essential component of the settlements. LifeBrite and Reliance would not settle without receiving the bar order. This Court has the inherent power under the Bankruptcy Code, including section 105(a), to issue any order necessary or appropriate to carry out the provisions of Title 11. *Munford v. Munford, Inc., (In re Munford)*, 97 F.3d 449, 454 (11th Cir. 1996)(finding bankruptcy court had authority under section 105(a) to enter order barring claims

against certain defendants). The Eleventh Circuit concluded that (i) public policy favors settlements, (ii) the cost of litigation can be burdensome on a bankruptcy estate, and (iii) "bar orders pay an integral role in facilitating settlements." *Munford* 97 F.3d at 455; accord *In re S&I Investments*, 421 B.R. 569, 583-586 (Bankr. S.D. Fla. 2009)(J. Ray) (approving a bar order as part of a settlement with the estate); *In re Certified HR Serv. Co., No.* 05-22912-RBR, Order Granting Motion of Liquidating Trustee James S. Feltman To Approve Settlement and Compromise [ECF No. 2200] (Bankr. S.D. Fla. June 8, 2008)(J. Ray); *In re First NLC Financial Serv. LLC.*, 2009 Bankr. LEXIS 1083 (Bankr. S.D. Fla. March 12, 2009)(J. Hyman).

12. BRIEF SUMMARY OF THE PLAN

(a) Treatment of Claims and Equity Interests Under the Plan.

THIS SECTION PROVIDES A SUMMARY OF THE STRUCTURE, CLASSIFICATION, TREATMENT AND IMPLEMENTATION OF THE PLAN, AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO THE PLAN, WHICH IS ATTACHED TO THIS DISCLOSURE STATEMENT AS EXHIBIT "A".

The Claims against the Debtor are divided into Classes according to their seniority and other criteria. The Classes of Claims for the Debtor and the funds and other property to be distributed under the Plan are described more fully below.

(i) Administrative and Priority Claims.

a. Administrative Expense Claims.

The Debtor shall pay each holder of an Allowed Administrative Claim Expense, in satisfaction of such Allowed Administrative Expense Claim, the full unpaid amount of such Allowed Administrative Expense Claim in Cash: (1) on the Effective Date or as soon as practicable thereafter (or, if not then due, when such Allowed Administrative Expense Claim is due or as soon as practicable thereafter); (2) if such Claim is Allowed after the Effective Date, on the date such

Claim is Allowed or as soon as practicable thereafter (or, if not then due, when such Allowed Expense Administrative Claim is due or as soon as practicable thereafter); (3) at such time and upon such terms as may be agreed upon by such holder and the Debtor; or (4) at such time and upon such terms as set forth in an order of the Bankruptcy Court. The deadline for filing Administrative Expense Claims was February 27, 2018 (the "Administrative Expense Claim Bar Date"). One Administrative Expense Claim was filed by Airgas South, Inc. in the amount of $332.42.

b. Accrued Professional Compensation Claims.

The deadline for submission by Professionals for Bankruptcy Court approval of accrued Professional Compensation Claim was originally March 1, 2018, but was been extended. Any Professional or other Person or Entity that is required to file and serve a request for approval of accrued Professional Compensation Claim and fails to timely file and serve such request on or before such date shall be forever barred, estopped and enjoined from asserting such request or participating in Distributions under the Plan on account thereof. All Professionals employed by the Debtor or the Creditors' Committee, shall provide in their final fee applications to be filed in connection with confirmation of the Plan an estimate of their accrued Professional Compensation through the Effective Date (including an estimate for fees and expenses expected to be incurred prior to the Effective Date to prepare and prosecute allowance of final fee applications). From and after the Confirmation Date until the Effective Date, the Debtor, in the ordinary course of business and without the necessity for any approval by the Bankruptcy Court, shall pay the reasonable fees and expenses of Professionals during such period in accordance with the Interim Compensation Order; provided, however, that the Interim Compensation Order is hereby modified to provide for one hundred (100%) percent of reasonable fees and expenses during the period covering the

Confirmation Date through the Effective Date.

c. Priority Tax Claims.

The Debtor shall pay each holder of an Allowed Priority Tax Claim, in satisfaction of such Allowed Priority Tax Claim, the full unpaid amount of such Allowed Priority Tax Claim in Cash, on the later of (i) the Effective Date, (ii) the date such Allowed Priority Tax Claim becomes Allowed or as soon as practicable thereafter and (iii) the date such Allowed Priority Tax Claim is payable under applicable non-bankruptcy law; provided, however, that the Debtor shall not pay any premium, interest or penalty in connection with such Allowed Priority Tax Claim.

(ii) Classification of Claims and Equity Interests.

a. Classified Claims Against and Equity Interests in the Debtor.

Except as set forth in the Plan, all Claims against and Equity Interest are placed in a particular Class. The Debtor has not classified Administrative Claims, Professional Compensation Claims or Priority Tax Claims.

The following table classifies Claims against and Equity Interests in the Debtor for all purposes, including voting, confirmation and Distribution pursuant hereto and pursuant to sections 1122 and 1123(a)(1) of the Bankruptcy Code. The Plan deems a Claim or Equity Interest to be classified in a particular Class only to the extent that the Claim or Equity Interest qualifies within the description of that Class and shall be deemed classified in a different Class to the extent that any remainder of such Claim or Equity Interest qualifies within the description of such different Class. A Claim or Equity Interest is in a particular Class only to the extent that any such Claim or Equity Interest is Allowed in that Class and has not been paid or otherwise settled prior to the Effective Date. Each Class set forth below is treated hereunder as a distinct Class for voting and Distribution purposes.

Class	Type of Claim or Equity Interest	Status	Entitled to Vote
1	Other Priority Claims	Unimpaired	No; Deemed to Accept the Plan
2	Secured Claims	Unimpaired	No; Deemed to Accept the Plan
3	General Unsecured Claims	Impaired	Yes; Entitled to Vote on the Plan
4	Equity Interests	Impaired	No; Deemed to Reject the Plan
5	Convenience Class	Impaired	Yes: Entitled to Vote on the Plan

The following lists all Classes of Claims and their proposed treatment under the Plan:

Class 1 - Allowed Other Priority Claims

Class 1 consists of Allowed Priority Claims.

Except to the extent that a holder of an Allowed Other Priority Claim has been paid by the Debtor prior to the Effective Date or agrees to a less favorable classification and treatment, each holder of an Allowed Other Priority Claim shall receive the full unpaid amount of such Allowed Other Priority Claim in Cash, on the later of (i) the Effective Date or as soon as practicable thereafter, (ii) the date such Allowed Other Priority Claim becomes Allowed or as soon as practicable thereafter and (iii) the date such Allowed Other Priority Claim is payable under applicable non-bankruptcy law; provided, however, that the Debtor shall not pay any premium, interest or penalty in connection with such Allowed Other Priority Claim.

Class 1 is Unimpaired, and, therefore, the holders of Other Priority Claims in Class 1 are not entitled to vote to accept or reject the Plan.

Class 2 - Secured Claim of Cardinal Health 200, LLC

Class 2 consists of the Allowed Secured Claim of Cardinal Health 200, LLC, in the amount of $7,855.78, of which the sum of $1,355.44 is secured and the sum of $6,520.34, is unsecured for products sold.

Except to the extent that the holder of the Allowed Class 2 Secured Claim has been paid by the Debtor prior to the Effective Date or agrees to a less favorable classification and treatment, the holder of the Allowed Secured Claim shall receive the full unpaid amount of such Allowed Secured Claim in Cash, on the later of (i) the Effective Date or as soon as practicable thereafter, (ii) the first Business Day after the date that is ten (10) Business Dates after the date such Claim becomes an Allowed Secured Claim; and (iii) the date or dates agreed to by the Debtor and the holder of the Allowed Secured Claim.

Class 2 is Unimpaired, and, therefore, the holders of the Allowed Secured Claim in Class 2 is not entitled to vote to accept or reject the Plan.

Class 3 - General Unsecured and Deficiency Claims

Class 3 consists of Allowed General Unsecured and Deficiency Claims. The General Unsecured Claims total approximately $118,465,785.27. Allowed Unsecured Claims are claims that are not secured by property of the Debtor's bankruptcy Estate (or that are subject to setoff) to the extent allowed as secured claims under Section 506 of the Bankruptcy Code. These claims included allowed Unsecured Claims, undersecured claims and deficiency claims. The general unsecured claims consist primarily of third party payors alleging overpaid insurance claims not properly reimbursed by Debtor. The majority of remaining claims were received by reference laboratories that participated in the Laboratory Program alleging unpaid invoices for services performed. Except to the extent that a holder of an Allowed General Unsecured Claim has been paid by the Debtor prior to the Effective Date or agrees to a less favorable classification and treatment, each holder of an Allowed General Unsecured Claim shall receive a Pro Rata Distribution from the Liquidating Trust, pursuant to the terms of the Liquidating Trust Agreement.

Class 3 is Impaired, and, therefore, the holders of General Unsecured Claims in Class 3 are entitled to vote to accept or reject the Plan.

Class 4 - Interests.

Class 4 consists of all Interests.

Holders of Interests will receive no distributions on account of such Holder's Interest. On the Effective Date, all Interests in the Debtor will be canceled.

Class 4 is presumed to have rejected the Plan.

Class 5 – Convenience Class

Class 5 consists of all creditors holding claims less than $25,000 or are willing to have their claim adjusted to an amount not to exceed $25,000 with no further deficiency claim.

Holders of Allowed Class 5 Claims shall be paid 50% of their Allowed Claims on the Effective Date and 50% upon the receipt of an additional $5 Million into the Estate/Liquidating Trust.

Class 5 is Impaired, and, therefore, the holders of Convenience Class Claims are entitled to vote to accept or reject the Plan.

(b) Means for Implementing the Plan. To support the Plan and Liquidating Trust, the Debtor anticipates that the proceeds from the Amended Settlements, along with cash presently on hand, will be sufficient to pay all claims necessary to confirm the Plan. Alternatively, if the Amended Settlements are not approved, the Debtor will seek approval of "exit financing" to fund payments necessary to confirm and fund ongoing litigation.

(c) Based upon the passage of the Bill, pursuant to the Plan, the real estate will be conveyed to the District and then sold pursuant to the purchase option as set forth in the Lease Motion. Pursuant to section 1146(a) of the Bankruptcy Code, any transfers of property pursuant

hereto shall not be subject to any stamp tax or other similar tax or governmental assessment in the United States, and the Confirmation Order shall direct the appropriate state or local governmental officials or agents to forego the collection of any such tax or governmental assessment and to accept for filing and recordation instruments or other documents pursuant to such transfers of property without the payment of any such tax or governmental assessment.

(d) A Liquidating Trust will be created. A copy of the proposed Trust Agreement will be filed with the Bankruptcy Court no later than ten (10) days prior to the Confirmation Hearing. All Assets, including Avoidance Actions, Litigation Claims and Causes of Action of the Debtor, and any Assigned Claims, will be transferred and/or assigned to the Trust for the purpose of commencing, prosecuting, settling, or otherwise resolving such Avoidance Actions, Litigation Claims, any and Causes of Action. The Liquidating Trustee will liquidate any and all remaining assets and aggressively collect the outstanding account receivables. The forensic accounting and review all potential litigation claims that may be commenced will continue. The sale of assets, collection of accounts receivables and the pursuit and recovery from these claims will generate funds to pay Allowed Unsecured Claims. It is impossible to determine the extent of the recovery at this time. Likewise, claims against the Estate may exceed $100 Million. All Claims will be reconciled and Allowed Claims will receive pro rata distribution from the recoveries. Marshall Glade shall serve as the Liquidating Trustee.

Assignment of Creditor Causes of Action

On the Effective Date of the Plan, and without further order of the Bankruptcy Court, the Creditor Causes of Action related to the Debtor owned by Assigning Creditors, may at the Creditor's option be assigned to or otherwise transferred to the Liquidating Trust for the purpose of commencing, prosecuting, settling, releasing, and/or liquidating the Creditor Causes of Action

for the benefit of Liquidating Trust Beneficiaries. Provided however, that the Liquidating Trust, pursuant to the Amended Settlements with Reliance and LifeBrite, shall not bring or assert any cause of action or other claim against Reliance or LifeBrite. All such Creditor Causes of Action of Assigning Creditors shall be treated as Litigation Claims.

To the Extent that the Liquidating Trustee obtains any benefit or collects any consideration arising out of a Creditor Cause of Action assigned by an Assigning Creditor, the Liquidating Trustee shall request Bankruptcy Court approval, upon notice and a hearing, to increase the allowed amount of such Assigning Creditor's Allowed Class 3 Claim based on such obtained benefit and/or collected consideration by an appropriate amount of up to fifty percent (50%) of the Net Proceeds attributable to such Creditor Cause of Action. For avoidance of doubt, we should use an example here.

Notwithstanding anything to the contrary in the Plan, it shall be a condition to any effective transfer of a Creditor Cause of Action by a Holder of an Unsecured Claim, and therefore a condition to benefitting from this section, that such Holder (a) evidence its ownership of such Creditor Cause of Action to the Liquidating Trustee and (b) execute an assignment agreement

13. CLAIMANTS AND IMPAIRED INTEREST HOLDERS

Claimants and Interest Holders entitled to vote under the Plan must affirmatively act in order for the Plan to be confirmed by the Bankruptcy Court. According to the Debtor's Plan, Classes 3 and 5 are "impaired" within the meaning of § 1124 of the Bankruptcy Code. This class, accordingly, must vote to accept the Plan in order for the Plan to be confirmed without a cram down. A claimant who fails to vote to either accept or reject the Plan will not be included in the calculation regarding acceptance or rejection of the Plan.

A Ballot to be completed by the Holders of Claims entitled to vote is included in the packet

being mailed out to creditors. Instructions for completing and returning the ballots are set forth thereon and should be reviewed at length. The Plan will be confirmed by the Bankruptcy Court and made binding upon all claimants and Interest Holders if (a) with respect to impaired Classes of claimants, the Plan is accepted by holders of two-thirds (2/3) in amount and more than one-half (1/2) in number of claims in each such class voting upon the Plan and (b) with respect to classes of Interest Holders, if the Plan is accepted by the holders of at least two-thirds (2/3) in amount of the allowed interests of such class held by holders of such interests. In the event the requisite acceptances are not obtained, the Bankruptcy Court may, nevertheless, confirm the Plan if it finds that the Plan accords fair and equitable treatment to any class rejecting it. Your attention is directed to Section 1129 of the Bankruptcy Code for details regarding the circumstances of such "cram down" provisions, and as explained above.

14. LIQUIDATION ANALYSIS

Although this Disclosure Statement is intended to provide information to assist a Claim or Holder in determining whether to vote for or against the Plan, a summary of the alternatives to confirmation of the Plan may be helpful. If the Plan is not confirmed, the following alternatives are available: (a) confirmation of another Chapter 11 plan; or (b) dismissal of the Chapter 11 Case leaving creditors and Interest Holders to pursue available non-bankruptcy remedies. These alternatives to the Plan are very limited and not likely to benefit creditors.

As this is a liquidating Plan, no liquidation analysis is required.

15. RISK ANALYSIS

The Debtor believes there is minimal risk to the creditors if the Plan is confirmed. However, in deciding how to cast your vote, you should consider the following risk factors.

(a) Failure to Satisfy Vote Requirement

The Debtor is seeking to receive votes in number and representing claims in amount sufficient to enable the Bankruptcy Court to confirm the Plan. If the Plan does not receive sufficient votes for Confirmation pursuant to section 1129(a) of the Bankruptcy Code, then the Debtor may and specifically reserve the right to seek to employ the "cram down" procedures set forth in section 1129(b) of the Bankruptcy Code.

(b) The Plan May Not Be Accepted or Confirmed

While the Debtor believes the Plan is confirmable under the standards set forth in section 1129 of the Bankruptcy Code, there can be no guarantee that the Bankruptcy Court will find the Plan to be confirmable. Additionally, the Plan as drafted requires acceptance by at least one of the impaired classes. And if the conditions precedent to the Effective Date have not been satisfied or waived, the Confirmation Order may not be entered and/or the Bankruptcy Court may vacate the Confirmation Order. However, there can be no assurance that all of the various conditions to effectiveness of the Plan will be timely satisfied or waived. In the event that the conditions to effectiveness have not been timely satisfied or waived, the Plan would be deemed null and void and the Debtor may propose or solicit votes on an alternative plan that may not be as favorable to parties in interest as the Plan.

(c) Allowed Claims May Exceed Estimates

The timing and amount of distributions set forth in the Plan and described in this Disclosure Statement are based upon the Debtor's good faith estimates. The actual amount of Plan expenses could be greater than expected for a variety of reasons, including greater than anticipated administrative and litigation costs associated with resolving Disputed Claims. Additionally, the actual amount of Allowed Claims in any class could be materially greater than anticipated (based

on, among other things, success in disputing claims), which will impact the timing and amount of distributions to be made on account of Allowed Claims.

(d) Litigation Recoveries Are Not Guaranteed.

The Liquidating Trustee will vigorously pursue the Avoidance Actions, Causes of Action, Litigation Claims and Creditor Causes of Action. The amount sought in the recovery of these claims may not exceed the total amount of Claims asserted against the Estate (i.e. the potential recoveries are approximately $40-50MM dollars). However, with any litigation there exist inherent risks. These risks include (1) the claims not being successful; (2) recovery efforts not being successful; or (3) costs of litigation exceeding the ultimate amounts recovered. The Proponents submit the claims to be litigated are strong claims and have a strong likelihood of success, which ultimately should lead to distributions to creditors, but there can be no assurance of ultimate recoveries.

16. CONFIRMATION BY CRAM DOWN

For a plan to be confirmed, the Bankruptcy Code requires, among other things, that the plan be proposed in good faith and comply with the other applicable provisions of chapter 11 of the Bankruptcy Code, including a requirement that at least one class of impaired claims accept the Plan, and that confirmation of the plan is not likely to be followed by the need for further financial reorganization. The Bankruptcy Court will confirm a plan only if it finds that all of the requirements enumerated in section 1129 of the Bankruptcy Code have been met. The Debtor believes that the Plan satisfies all of the requirements for Confirmation.

The Debtor reserves the right, in the event that impaired classes reject the Plan, to seek confirmation of the Plan if the Bankruptcy Court finds that the Plan does not discriminate unfairly and is fair and equitable with respect to each dissenting class.

The Plan is deemed fair and equitable if it provides (i) that each holder of a Secured Claim retains its lien and receives deferred cash payments totaling at least the allowed amount of its claim, of a value, as of the effective date of the Plan, of at least the value of its secured interest in the property subject to his lien, and (ii) that each holder of an Unsecured Claim receives property of a value equal to the allowed amount of its claim, or no holder of a junior claim receives or retains any property.

17. CONDITIONS PRECEDENT TO EFFECTIVENESS OF THE PLAN

The Plan shall not become effective and the Effective Date shall not occur unless and until:

a. The Bankruptcy Court shall have entered the Confirmation Order in form and substance satisfactory to the Debtor authorizing and directing the Debtor to take all actions necessary or appropriate to enter into, implement, and consummate the contracts, instruments, releases, indentures and other agreements or documents created, amended, supplemented, modified, or adopted in connection with the Plan and the Confirmation m Order has become a Final Order;

b. The Bankruptcy Court shall have approved the information contained in the Disclosure Statement as adequate pursuant to section 1125 of the Bankruptcy Code;

c. No stay of the Confirmation Order shall be in effect at the time the other conditions set forth in this Section are satisfied, or, if permitted, waived;

d. All documents, instruments and agreements, in form and substance satisfactory to each of the Debtor, provided for under this Plan or necessary to implement this Plan shall have been executed and delivered by the parties thereto, unless such execution or delivery has been waived by the parties benefited thereby; and

e. The Plan has not been withdrawn, which right the Proponents fully reserve through the

date of Confirmation.

18. EFFECT OF CONFIRMATION

Pursuant to Sections 105, 1123, 1129 and 1141 of the Bankruptcy Code, in order to preserve and implement the various transactions contemplated by and provided for in the Plan, as of the Effective Date, except as otherwise expressly provided in the Plan or in the Confirmation Order, all Persons or Entities that have held, currently hold or may hold a Claim, Debt, Liability or Interest that is discharged or terminated pursuant to the terms of the Plan are and shall be permanently enjoined and forever barred from taking any of the following actions on account of any such discharged or terminated Claims, Debts, Liabilities, or Interests, other than actions brought to enforce any rights or obligations under the Plan or the: (a) commencing or continuing in any manner any action or other proceeding against the Debtor and its Property or Business; (b) enforcing, attaching, collecting or recovering in any manner any judgment, award, decree or order against the Debtor and its Property or Business; (c) creating, perfecting or enforcing any Lien or encumbrance against the Debtor, and its Property or Business; (d) asserting a setoff, right of subrogation or recoupment of any kind against any debt, liability or obligation due to the Debtor; (e) commencing or continuing, in any manner or in any place, any action that does not comply with or is inconsistent with the provisions of the Plan or the Confirmation Order; or (f) interfering with or in any manner whatsoever disturbing the rights and remedies of the Debtor. The Debtor shall have the right to independently seek enforcement of this general injunction provision. This general injunction provision is an integral part of the Plan and is essential to its implementation. Notwithstanding anything to the contrary contained herein, the

provisions of this Article shall not release or be deemed a release of any of the Causes of Action.

19. PRESERVATION OF ACTIONS AND CAUSES OF ACTIONS

The debtor in possession or the trustee, as the case may be, has what are called "avoiding" powers. These powers may be used to undo a transfer of money or property made during a certain period of time before the filing of the bankruptcy petition. By avoiding a particular transfer of property, the debtor in possession can cancel the transaction and force the return or "disgorgement" of the payments or property, which then are available to pay all creditors. Generally, and subject to various defenses, the power to avoid transfers is effective against transfers made by the debtor within 90 days before filing the petition. But transfers to "insiders" (i.e., relatives, general partners, and directors or officers of the debtor) made up to a year before filing may be avoided. 11 U.S.C. §§ 101(31), 101(54), 547, 548. In addition, under 11 U.S.C. § 544, the trustee is authorized to avoid transfers under applicable state law, which often provides for longer time periods. Avoiding powers prevent unfair prepetition payments to one creditor at the expense of all other creditors.

From and after the Effective Date, to the extent not otherwise adjudicated or settled prior to or as a part of the Plan, all rights pursuant to sections 502, 510, 541, 542,544, 545 and 546 of the Bankruptcy Code; all preference claims pursuant to section 547 of the Bankruptcy Code; all fraudulent transfer claims pursuant to section 544 or 548 of the Bankruptcy Code; all claims relating to post-petition transactions under section 549 of the Bankruptcy Code; all claims recoverable under section 550 of the Bankruptcy Code; and, all claims (including claims arising at common law or equity) against any person, entity, etc., on account of any debt, other claim or right in favor of the Debtor, including claims to equitably subordinate their claim, seek a determination that they are under-secured or wholly unsecured, that they do not have a lien on the

Debtor's assets, including cash, that their claim should be disallowed and or other legal or equitable claims, and any and all claims against Perez and/or his successors and assigns, are hereby preserved, retained and assumed for enforcement by the Debtor, who shall, at its election, have the right to prosecute or settle, to execute and enforce any judgment or settlement agreement therein and to exercise all such avoidance powers. The Debtor reserves the right to investigate any and all claims and file causes of action, if appropriate. Provided however, that the Debtor and/or Liquidating Trust, pursuant to the Amended Settlements with Reliance and LifeBrite, shall not bring or assert any cause of action or other claim against Reliance or LifeBrite

20. U.S. FEDERAL INCOME TAX CONSIDERATIONS

A summary description of certain U.S. federal income tax consequences of the Plan is provided below. This description is for informational purposes only and is subject to significant uncertainties. Only the principal consequences of the Plan for the Debtor and for the holders of Claims and Interests who are entitled to vote to confirm or reject the Plan are described below. No opinion of counsel has been sought or obtained with respect to any tax consequences of the Plan, and no tax opinion is being given in this Disclosure Statement. No rulings or determinations of the Internal Revenue Service ("**IRS**") or any other tax authorities have been obtained or sought with respect to the Plan, and the description below is not binding upon the IRS or such other authorities.

The following discussion of U.S. federal income tax consequences is based on the Internal Revenue Code of 1986, as amended (the "**Tax Code**"), regulations promulgated and proposed thereunder and judicial decisions and administrative rulings and pronouncements of the IRS as in effect on the date hereof. Legislative, judicial or administrative changes or interpretations enacted or promulgated in the future could alter or modify the analyses and conclusions set forth below. It

cannot be predicted at this time whether any tax legislation will be enacted or, if enacted, whether any tax law changes contained therein would affect the tax consequences to holders. Any such changes or interpretations may be retroactive and could significantly affect the U.S. federal income tax consequences discussed below.

THIS DISCUSSION DOES NOT ADDRESS FOREIGN, STATE OR LOCAL TAX CONSEQUENCES OF THE PLAN, NOR DOES IT PURPORT TO ADDRESS THE U.S. FEDERAL TAX CONSEQUENCES OF THE PLAN TO SPECIAL CLASSES OF TAXPAYERS. FURTHERMORE, ESTATE AND GIFT TAX ISSUES ARE NOT ADDRESSED AND TAX CONSEQUENCES RELATING TO THE ALTERNATIVE MINIMUM TAX ARE GENERALLY NOT DISCUSSED HEREIN.

NO REPRESENTATIONS ARE MADE REGARDING THE PARTICULAR TAX CONSEQUENCES OF THE PLAN TO ANY HOLDER OF A CLAIM OR INTEREST. EACH HOLDER OF A CLAIM OR INTEREST IS STRONGLY URGED TO CONSULT ITS OWN TAX ADVISOR REGARDING THE U.S. FEDERAL, STATE, LOCAL AND FOREIGN TAX CONSEQUENCES OF THE TRANSACTIONS DESCRIBED HEREIN AND IN THE PLAN.

Holders of Claims should generally recognize gain (or loss) to the extent the amount realized under the Plan (generally the amount of Cash received) in respect of their Claims exceeds (or is exceeded by) their respective tax bases in their Claims. The tax treatment of holders of Claims and the character and amount of income, gain or loss recognized as a consequence of the Plan and the distributions provided for by the Plan will depend upon, among other things, (a) the nature and origin of the Claim, (b) the manner in which a holder acquired a Claim, (c) the length of time a Claim has been held, (d) whether the Claim was acquired at a discount, (e) whether the holder has taken a bad debt deduction in the current or prior years, (f) whether the holder has previously included in income accrued but unpaid interest with respect to a Claim, (g) the method of tax accounting of a holder; and (h) whether a Claim is an installment obligation for U.S. federal income tax purposes. **Therefore, holders of Claims should consult their own tax advisors for information that may be relevant to their particular situations and circumstances and the particular tax consequence to such holders as a result thereof.**

The tax treatment of a holder of a Claim that receives distributions in different taxable years is uncertain. If such a holder treats the transaction as closed in the taxable year it first receives (or is deemed to have received) a distribution of Cash and/or other property, it should recognize gain or loss for such tax year in an amount equal to the cash and the value of other property actually (and deemed) received in such tax year (other than that received in respect of accrued interest) with respect to its Claim (other than any portion of the Claim that is attributable to accrued interest) plus the estimated value of future distributions (if any) less its tax basis in its Claim (except to the extent its Claim is for accrued interest). A holder should then subsequently recognize additional income or loss when additional property distributions are actually received in an amount equal to the Cash and/or value of such other property (other than that received in respect of accrued interest) less the holder's allocable tax basis in its Claim with respect to such subsequent distribution. A holder may have to treat a portion of any such subsequent distribution as imputed interest recognizable as ordinary income in accordance with the holder's method of tax accounting. If instead the open transaction doctrine applies as a result of the value of the Subsequent Distributions that a holder may receive not being ascertainable on the Effective Date, such holder should not recognize gain (except to the extent the value of the Cash and/or other property already received exceeds such holder's adjusted tax basis in its Claim (other than any Claim for accrued interest)) or loss with respect to its Claim until it receives the final distribution thereon (which may not be until the Final Distribution Date). It is the position of the IRS that the open transaction doctrine applies only in rare and extraordinary cases. The Debtor believes that the open transaction doctrine should not apply and that holders may be entitled to take the position that on the Effective Date no value should be assigned to the right to receive any Subsequent Distributions. **Creditors are urged to consult their own tax advisors regarding the application of the open transaction**

doctrine and how it may apply to their particular situations, whether any gain recognition may be deferred under the installment method, whether any loss may be disallowed or deferred under the related party rules and the tax treatment of amounts that certain Creditors may be treated as paying to other Creditors.

Holders of Allowed Claims will be treated as receiving a payment of interest (in addition to any imputed interest as discussed in the preceding paragraph) includible in income in accordance with the holder's method of accounting for tax purposes, to the extent that any Cash and/or other property received pursuant to the Plan is attributable to accrued but unpaid interest, if any, on such Allowed Claims. The extent to which the receipt of Cash and/or other property should be attributable to accrued but unpaid interest is unclear. The Plan provides, and the Debtor intends to take the position, that such Cash and/or other property distributed pursuant to the Plan will first be allocable to the principal amount of an Allowed Claim and then, to the extent necessary, to any accrued but unpaid interest thereon. Each holder should consult its own tax advisor regarding the determination of the amount of consideration received under the Plan that is attributable to interest (if any) and whether any such interest may be considered to be foreign source income. A holder generally will be entitled to recognize a loss to the extent any accrued interest was previously included in its gross income and is not paid in full.

Certain payments, including the payments of Claims and Interests pursuant to the Plan, are generally subject to information reporting by the payor to the IRS. Moreover, such reportable payments are subject to backup withholding under certain circumstances. Under the backup withholding rules, a holder of a Claim may be subject to backup withholding at the applicable tax rate with respect to distributions or payments made pursuant to the Plan, unless the holder: (a) comes within certain exempt categories (which generally include corporations) and, when

required, demonstrates this fact or (b) provides a correct taxpayer identification number and certifies under penalty of perjury as to the correctness of its taxpayer identification number and certain other tax matters. Backup withholding is not an additional tax. Rather, the U.S. federal income tax liability of those subject to backup withholding will be reduced by the amount of tax withheld. If withholding results in an overpayment of U.S. federal income taxes, a holder may obtain a refund of any excess amounts withheld under the backup withholding rules by timely filing the appropriate claim for refund with the IRS.

THE FOREGOING DISCUSSION IS INTENDED ONLY AS A SUMMARY OF CERTAIN U.S. FEDERAL INCOME TAX CONSEQUENCES OF THE PLAN AND IS NOT A SUBSTITUTE FOR CAREFUL TAX PLANNING WITH A TAX PROFESSIONAL. THE ABOVE DISCUSSION IS FOR INFORMATIONAL PURPOSES ONLY AND IS NOT TAX ADVICE. THE TAX CONSEQUENCES OF THE PLAN ARE IN MANY CASES UNCERTAIN AND MAY VARY DEPENDING ON A HOLDER'S INDIVIDUAL CIRCUMSTANCES. ACCORDINGLY, HOLDERS ARE URGED TO CONSULT WITH THEIR OWN TAX ADVISORS ABOUT THE U.S. FEDERAL, STATE, LOCAL AND FOREIGN INCOME AND OTHER TAX CONSEQUENCES OF THE PLAN.

CIRCULAR 230 DISCLAIMER: The IRS now requires written advice (including electronic communications) regarding one or more Federal (i.e., United States) tax issues to meet certain standards. Those standards involve a detailed and careful analysis of the facts and applicable law which we expect would be time consuming and costly. We have not made and have not been asked to make that type of analysis in connection with any advice given in this Disclosure Statement. As a result, we are required to advise you that any Federal tax advice rendered in this e-mail is not intended or written to be used and cannot be used for the purpose of avoiding penalties that may be imposed by the IRS.

21. MISCELLANEOUS PROVISIONS

A. Notwithstanding any other provisions of the Plan, any Claim which is scheduled as disputed, contingent, or unliquidated or which is objected to in whole or in part on or before the date for distribution on account of such claim shall not be paid in accordance with the provisions of the Plan until such claim has become an Allowed Claim by a Final Order. If allowed, the Claim shall be paid on the same terms as if there had been no dispute.

B. At any time before the Confirmation Date, the Proponents may modify the Plan,

but may not modify the Plan so that the Plan, as modified, fails to meet the requirements of sections 1122 and 1123 of the Bankruptcy Code. After the Proponents file a modification with the Bankruptcy Court, the Plan, as modified, shall become the Plan.

C. At any time after the Confirmation Date, and before substantial consummation of the Plan, the Proponents may modify the Plan with permission of the Bankruptcy Court so that the Plan, as modified, meets the requirements of sections 1122 and 1123 of the Bankruptcy Code. The Plan, as modified under this paragraph, shall become the Plan.

D. After the Confirmation Date, the Proponents may, with approval of the Bankruptcy Court, and so long as it does not materially and adversely affect the interest of creditors, remedy any defect or omission, or reconcile any inconsistencies in the Plan or in the Order of Confirmation, in such manner as may be necessary to carry out the purposes and effect of the Plan.

E. The Debtor shall pay the United States Trustee the appropriate sum required pursuant to 28 U.S.C. §1930(a)(6), within ten (10) days from the entry of an order confirming this Plan, for pre-confirmation periods and simultaneously provide to the United States Trustee an appropriate affidavit indicating the cash disbursements for the relevant period. The Liquidating Trust, shall further pay the United States Trustee the appropriate sum required pursuant to 28 U.S.C. §1930(a)(6) for post-confirmation periods within the time period set forth in 28 U.S.C. §1930(a)(6), based upon post-confirmation disbursements made by the Liquidating Trust, until the earlier of the closing of this case by the issuance of a Final Decree by the Bankruptcy Court, or upon the entry of an order by the Bankruptcy Court dismissing this case or converting this case to another chapter under the United States Bankruptcy Code, and the Debtor or the Liquidating Trustee shall provide to the United States Trustee upon the payment of each post-confirmation payment an appropriate affidavit indicating all the cash disbursements for the relevant period.

22. CONCLUSION

Under the Debtor and Committee's Plan, all Creditors and will participate in some manner in the distribution to be made thereunder. Debtor and Committee believe that the distributions contemplated in its Plan are fair and afford all Claimants and Interest Holders' equitable treatment. ACCORDINGLY, THE DEBTOR AND COMMITTEE RECOMMEND THAT ALL CLAIMANTS AND INTEREST HOLDERS VOTE TO ACCEPT THE PLAN.

DATED: October 12, 2018.

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