

THIS PROPOSED DISCLOSURE STATEMENT HAS NOT BEEN APPROVED UNDER SECTION 1125(b) OF THE BANKRUPTCY CODE BY THE BANKRUPTCY COURT AS CONTAINING ADEQUATE INFORMATION FOR USE IN CONNECTION WITH THE SOLICITATION OF ACCEPTANCES OR REJECTIONS OF THE PLAN OF REORGANIZATION DESCRIBED HEREIN. ACCORDINGLY, THE FILING AND DISSEMINATION OF THIS PROPOSED DISCLOSURE STATEMENT ARE NOT INTENDED AND SHOULD NOT IN ANY WAY BE CONSTRUED AS A SOLICITATION OF VOTES ON THE PLAN, NOR SHOULD THE INFORMATION CONTAINED HEREIN BE RELIED UPON FOR ANY PURPOSE BEFORE A DETERMINATION BY THE BANKRUPTCY COURT THAT THE PROPOSED DISCLOSURE STATEMENT CONTAINS ADEQUATE INFORMATION.

**IN THE UNITED STATES BANKRUPTCY COURT
FOR THE WESTERN DISTRICT OF TEXAS
EL PASO DIVISION**

IN RE:	§	
EL PASO CHILDREN’S HOSPITAL	§	
CORPORATION,	§	CASE NO. 15-30784-HCM
DEBTOR.	§	CHAPTER 11
	§	
EIN: 26-3075429	§	
	§	
4845 ALAMEDA AVENUE	§	
EL PASO, TEXAS 79905	§	

**AMENDED DISCLOSURE STATEMENT IN SUPPORT
OF JOINT CHAPTER 11 PLAN OF REORGANIZATION**

TABLE OF CONTENTS

I. INTRODUCTION 1

 A. General Information Concerning Disclosure Statement and Plan 1

 B. Disclaimers..... 3

II. HISTORICAL BACKGROUND 4

 A. The Debtor’s Nonprofit Operations..... 4

III. THE BANKRUPTCY CASE 7

 A. General 7

 B. The Debtor’s Schedules and Bar Date..... 7

 C. Retention of Professionals..... 7

 D. Adversary Proceedings..... 8

 E. Miscellaneous Other Matters..... 8

 F. Agreement Between UMC and the Debtor..... 8

IV. SUMMARY OF THE JOINT PLAN 9

V. CLASSIFICATION OF CLAIMS 10

 A. General Provisions and Classifications 10

 B. Classification 10

 C. Impaired Classes of Claims 11

 D. Impairment and Classification Controversies..... 11

 E. Class Acceptance Requirement 11

 F. Cramdown 11

 G. Elimination of Classes..... 11

VI. PROVISIONS FOR TREATMENT OF CLAIMS UNDER THE PLAN 11

 A. Unclassified Claims: 12

 B. Treatment of Classified Claims and Interests..... 13

VII. ACCEPTANCE OR REJECTION OF THE PLAN; EFFECT OF REJECTION BY ONE OR MORE CLASSES OF IMPAIRED CLAIMS..... 18

 A. Classes Entitled to Vote 18

 B. Presumed Acceptance/Rejection of Plan..... 18

 C. Non-Consensual Confirmation..... 18

VIII. PROVISIONS GOVERNING EXECUTORY CONTRACTS AND UNEXPIRED LEASES; REJECTION CLAIMS BAR DATE..... 18

 A. Executory Contracts and Unexpired Leases 18

 B. Bar to Rejection Damages..... 19

IX. PROVISIONS REGARDING DISTRIBUTIONS 19

 A. Withholding and Reporting Requirements 19

 B. Funding of Distributions 19

C.	Delivery of Distributions	20
D.	Unclaimed Distributions.....	20
E.	Time Bar to Cash Payments	20
F.	Fractional Dollars	20
G.	De Minimis Distributions	20
H.	No Distributions Pending Allowance	20
X.	CONDITIONS PRECEDENT TO CONFIRMATION AND EFFECTIVENESS OF THE PLAN	21
A.	Conditions Precedent to Confirmation of the Plan	21
B.	Vesting of Property of the Estate in the Reorganized Debtor.....	21
C.	Conditions Precedent to the Effective Date of the Plan	22
D.	Effect of Non-Occurrence of Confirmation or Effective Date	23
XI.	MEANS FOR IMPLEMENTATION OF THE PLAN	23
A.	Source of Funds.....	23
B.	Preservation of & Assignment of Causes of Action.....	23
C.	Professional Fees	24
D.	Continuation of Anti-Discrimination Provisions of the Bankruptcy Code.....	24
E.	Default.....	24
XII.	PROVISIONS FOR MANAGEMENT.....	25
A.	Corporate Authority	25
B.	Transfer of Powers	25
XIII.	MISCELLANEOUS PROVISIONS.....	26
A.	Compromise and Settlement of Claims and Controversies	26
B.	Setoff and Other Rights.....	27
C.	Injunctions.....	27
D.	Lawsuits	27
E.	Releases.....	27
F.	Insurance	28
G.	Payment of Statutory Fees/U.S. Trustee Reports	28
H.	Governing Law.....	28
I.	Modification of the Plan.....	28
J.	Creditor Default.....	29
K.	Controlling Documents	29
L.	Severability	29
XIV.	CERTIFICATES OF INCORPORATION AND BY-LAWS OF THE DEBTOR/RESTRICTION ON TRANSFER OF SHARES	29
A.	Amendments to Certificates of Incorporation and By-Laws	29
XV.	PROCEDURES FOR RESOLVING AND TREATING/DISPUTED CLAIMS.....	29

A.	Claim Objection Deadline	29
B.	Prosecution of Objections	30
C.	Distribution Upon Allowance of Contested Claims Entitled to Payment in Full in One Payment.....	30
D.	Distributions Upon Allowance of Disputed Claims Entitled to Payment in Full in Installment Payments...	30
E.	Objections to and Resolution of Disputed Administrative Claims and Disputed Claims.....	30
XVI.	RETENTION OF JURISDICTION POST-CONFIRMATION	30
A.	Scope of Jurisdiction	30
B.	Failure of the Bankruptcy Court to Exercise Jurisdiction.....	31
XVII.	EFFECT OF CONFIRMATION OF THE PLAN.....	32
A.	Discharge of Debtor	32
B.	Binding Effect	32
C.	Certain Activities Enjoined	32
XVIII.	CONFIRMATION PROCEDURE	33
A.	Solicitation of Votes	33
B.	Confirmation Hearing.....	33
C.	Acceptance	33
D.	Fair and Equitable Test/Cramdown.....	34
E.	Feasibility	34
F.	Objections to Confirmation and/or Approval of Disclosure Statement.....	34
XIX.	PREFERENCES	35
A.	Fraudulent Conveyances/Insider Transfers	36
B.	Director and Officer Claims	36
C.	Other Rights of Action/Other Assets.....	36
D.	Disclaimer	37
XX.	FINANCIAL INFORMATION AND DISCLOSURES.....	37
XXI.	ALTERNATIVES TO CONFIRMATION AND CONSUMMATION OF THE PLAN	37
A.	Alternative Plans of Liquidation	37
B.	Liquidation Under Chapter 7.....	38
XXII.	RISK FACTORS TO BE CONSIDERED	39
A.	Allowance of Claims	39
B.	Post-Confirmation Date Administrative Claims.....	39
C.	Objection to Classifications.....	39
D.	Non-confirmation of the Plan.....	40
E.	Delays of Confirmation and/or Effective Date.....	40
F.	Business Risks.....	40
XXIII.	CONCLUSION AND RECOMMENDATION	40

Pursuant to § 1121(a), El Paso Children’s Hospital Corporation (“Debtor”), proposes the following Disclosure Statement for the Joint Chapter 11 Plan of Reorganization (the “Plan”) proposed by the Debtor and El Paso County Hospital District d/b/a University Medical Center of El Paso (“UMC,” and together with the Debtor, “Proponents”).

I. INTRODUCTION

A. General Information Concerning Disclosure Statement and Plan

The Proponents submit this Amended Disclosure Statement (“Disclosure Statement”) under section 1125 of the Bankruptcy Code, and Rule 3016 of the Federal Rules of Bankruptcy Procedure (“Bankruptcy Rules”) to all of the Debtor’s known creditors.

The purpose of this Disclosure Statement is to disclose information adequate to enable Holders of Claims to arrive at a reasonably informed decision in exercising the right to vote on the Plan. A copy of the Plan is attached hereto as Exhibit A. Capitalized terms used herein, if not separately defined, have the meanings assigned to them in the Plan, or in the Bankruptcy Code and Bankruptcy Rules.

This Disclosure Statement is not intended to replace a careful review and analysis of the Plan, including the specific treatment you will receive under the Plan. It is submitted as an aide and supplement to your review of the Plan in an effort to explain the terms and implications of the Plan. Every effort has been made to fully explain various aspects of the Plan as it affects creditors. If any questions arise, the Proponents urge you to contact the Debtor’s counsel or UMC’s counsel, and every effort will be made to resolve your questions. You may, of course, wish to consult with your own counsel.

A general discussion of the projected Assets and Distributions under the Plan are set out below in this Disclosure Statement. The following summary is general in nature. Creditors are referred to the full Disclosure Statement and Plan for a full discussion of these matters.

The Disclosure Statement is prepared to reflect all relevant information known to the Debtor’s management and professionals as of the date of this Disclosure Statement. The Debtor is not aware of any events subsequent to such date that would materially affect this analysis. There can be no assurance that the assumptions underlying this analysis would be made or accepted by the Bankruptcy Court.

ACCORDINGLY, THERE CAN BE NO ASSURANCE THAT THE VALUES AND AMOUNTS REFLECTED IN THIS DISCLOSURE STATEMENT WILL BE REALIZED AND ACTUAL RESULTS COULD VARY MATERIALLY FROM THOSE SHOWN HERE.

After a plan has been filed with a bankruptcy court, it must be accepted by at least one Class of impaired Claims against, or interests in, the Debtor that is entitled to vote. Section 1125 of the Bankruptcy Code requires that a plan proponent fully disclose sufficient information about the Debtor, its Assets, and the Plan to creditors and stockholders before acceptances of the Plan may be solicited. This Disclosure Statement is being provided to the holders of Claims against the Debtor to satisfy such requirements of section 1125 of the Bankruptcy Code. Notably, the Debtor is a nonprofit corporation and has no equity interest holders.

The Bankruptcy Code provides that creditors and stockholders are to be grouped into “classes” under a plan and that they are to vote to accept or reject a plan by class. While courts have disagreed on the proper method to be used in classifying creditors and stockholders, a

general rule of thumb (which is subject to exceptions) is that creditors with similar legal rights are placed together in the same class, and that stockholders with similar legal rights are placed together in the same class. For example, all creditors entitled to priority under the Bankruptcy Code might be placed in one class, while all creditors holding subordinated unsecured claims might be placed in a separate class.

The Bankruptcy Code does not require that each individual claimant or stockholder vote in favor of a plan for the Court to confirm a plan. Rather, each class of claimants and stockholders must accept a plan (subject to the exception discussed below). A class of claimants accepts a plan if, of the claimants in the class who actually vote on a plan, such claimants holding at least two-thirds in dollar amount and more than one-half in number of allowed claims vote to accept the plan. For example, if a hypothetical class has ten creditors that vote and the total dollar amount of those ten creditors' claims is \$1,000,000, then for such class to have accepted the plan, six or more of those creditors must have voted to accept the plan (a simple majority), and the claims of the creditors voting to accept the plan must total at least \$666,667.00 (a two-thirds majority).

The Court may confirm a plan even though fewer than all classes of claims and interests vote to accept the plan. In this instance, the plan must be accepted by at least one "impaired" class of claims, without including any acceptance of the plan by an Insider. Section 1124 of the Bankruptcy Code defines "impairment" and generally provides that a claim as to which legal, equitable or contractual rights are altered under a plan is deemed to be "impaired." Under the Plan, Claims in Classes 2, 3, 4, 5, and 7 are impaired.

If all impaired classes of claims and interests under a plan do not vote to accept the plan, the Debtor is entitled to request that the Court confirm the plan pursuant to the "cramdown" provisions of section 1129(b) of the Bankruptcy Code. These "cramdown" provisions permit a plan to be confirmed over the dissenting votes of classes of claims and/or interests if at least one impaired class of claims votes to accept a plan (excluding the votes of insiders) and the Court determines that the plan does not discriminate unfairly and is fair and equitable with respect to each impaired, dissenting class of claims and interests.

Independent of the acceptance of a plan as described above, to confirm a plan, the Court must determine that the requirements of section 1129(a) of the Bankruptcy Code have been satisfied. See, *infra*, "Confirmation Procedure," Section XVIII, for a discussion of the section 1129 requirements for confirmation of a plan of reorganization.

THE PROPONENTS BELIEVE THAT THE PLAN SATISFIES EACH OF THE CONFIRMATION REQUIREMENTS OF SECTION 1129(a) AND, IF NECESSARY, SECTION 1129(b) OF THE BANKRUPTCY CODE.

The Bankruptcy Code requires that the Proponents solicit acceptances and rejections of the proposed Plan before the Plan can be confirmed by the Bankruptcy Court. Before the Proponents can solicit acceptances of the Plan, the Bankruptcy Court must have approved the Disclosure Statement and determined that the Disclosure Statement contains information adequate to allow creditors to make informed judgments about the Plan. After the Bankruptcy Court has approved the Disclosure Statement, a "solicitation package" consisting of the Disclosure Statement, proposed Plan and, for those Holders of Claims entitled to vote, a Ballot, are sent to the Holders of Claims. The Holders of impaired Claims entitled to receive

Distributions will then have the opportunity to vote on the Plan and should consider this Disclosure Statement for such vote.

At the Confirmation Hearing set by the Court, the Court will consider whether the Plan should be confirmed. Section 1129 of the Bankruptcy Code contains the requirements for confirmation of a Plan. YOUR VOTE IS IMPORTANT. As noted, in order for the Plan to be accepted, at least two-thirds in amount and more than one-half in number of the voting Creditors in each Class must affirmatively vote for the Plan. Even if all Classes of Claims accept the Plan, the Bankruptcy Court may refuse to confirm the Plan. The Court must find that the Plan complies with the applicable provisions of the Bankruptcy Code and that the proponent of the Plan has also complied with the Bankruptcy Code. The Court must also find that the Plan has been proposed in good faith and not by any means forbidden by law. The Court must find that the Proponents of the Plan have disclosed the identity and affiliation of the persons who will manage the Debtor after confirmation, that the appointment of such persons is consistent with the interest of Creditors and with public policy, and that the identity and compensation of any Insiders that will be employed or retained by the Debtor have been disclosed. The Court must additionally find that each Class of Claims has either accepted the Plan or will receive at least as much as it would under a Chapter 7 liquidation of the Debtor. The Code also provides for the treatment of certain Priority Claims. If any Classes of Claims are impaired under the Plan, the Court must find that at least one Class of Claims that is impaired has accepted the Plan without counting any votes by Insiders. Additionally, the Plan must provide for payment of certain required fees to the U.S. Trustee.

As noted, in the event that the Plan is not accepted by all Classes of Claims, the Proponents may attempt to obtain confirmation under what is known as “cram-down” which requires a finding that the Plan does not discriminate unfairly and is fair and equitable with respect to each Class of Claims that is impaired by the Plan and has not accepted the Plan. The Code provides several options for the Plan to be “fair and equitable” to a Secured creditor. Included among these options are that the Secured creditor retains its Lien(s) and receives deferred Cash payments at a market interest rate totaling either the value of the property securing the Claim or the amount of the Allowed Claim as found by the Court, whichever is less. With respect to a Class of unsecured Claims, the requirement that a Plan be “fair and equitable” requires that the Holder of an unsecured Claim be paid the Allowed amount of its Claim or that no junior Claim receive or retain any property on account of such Claim.

B. Disclaimers.

NO SOLICITATION OF VOTES HAS BEEN OR MAY BE MADE EXCEPT PURSUANT TO THIS DISCLOSURE STATEMENT AND SECTION 1125 OF THE BANKRUPTCY CODE, AND NO PERSON HAS BEEN AUTHORIZED TO USE ANY INFORMATION CONCERNING THE DEBTOR TO SOLICIT ACCEPTANCES OR REJECTIONS OF THE PLAN OTHER THAN THE INFORMATION CONTAINED IN THIS DISCLOSURE STATEMENT. CREDITORS SHOULD NOT RELY ON ANY INFORMATION RELATING TO THE DEBTOR OTHER THAN THAT CONTAINED IN THIS DISCLOSURE STATEMENT AND THE EXHIBITS ATTACHED HERETO OR SUBMITTED HEREWITH.

EXCEPT AS SET FORTH IN THIS DISCLOSURE STATEMENT AND THE EXHIBITS, NO REPRESENTATION CONCERNING THE DEBTOR, ITS ASSETS, PAST OR FUTURE OPERATIONS, OR CONCERNING THE PLAN IS AUTHORIZED, NOR ARE ANY SUCH REPRESENTATIONS TO BE RELIED UPON IN ARRIVING AT A DECISION WITH RESPECT TO THE PLAN. ANY REPRESENTATIONS MADE TO SECURE ACCEPTANCE OR REJECTION OF THE PLAN OTHER THAN AS CONTAINED IN THIS DISCLOSURE STATEMENT SHOULD BE REPORTED TO COUNSEL FOR THE PROPONENTS.

UNLESS ANOTHER TIME IS SPECIFIED, THE STATEMENTS CONTAINED IN THIS DISCLOSURE STATEMENT ARE MADE AS OF THE DATE HEREOF.

ALL FINANCIAL INFORMATION CONTAINED IN THIS DISCLOSURE STATEMENT, INCLUDING SECTION XX AND THE LIQUIDATION ANALYSIS INCLUDED IN SECTION XXI, AND ANY RELATED EXHIBITS, WAS PREPARED BY THE DEBTOR, ITS FINANCIAL ADVISOR, APS, AND MARK HERBERS, THE DEBTOR'S CHIEF EXECUTIVE RESTRUCTURING OFFICER.

NEITHER DELIVERY OF THE DISCLOSURE STATEMENT NOR ANY EXCHANGE OF RIGHTS MADE IN CONNECTION WITH THE DISCLOSURE STATEMENT AND THE PLAN SHALL UNDER ANY CIRCUMSTANCES IMPLY THAT THERE HAS BEEN NO CHANGE IN THE FACTS SET FORTH HEREIN SINCE THE DATE THE DISCLOSURE STATEMENT AND THE MATERIALS RELIED UPON IN PREPARATION OF THE DISCLOSURE STATEMENT WERE COMPILED.

THE APPROVAL BY THE BANKRUPTCY COURT OF THIS DISCLOSURE STATEMENT DOES NOT CONSTITUTE AN ENDORSEMENT BY THE BANKRUPTCY COURT OF THE PLAN OR A GUARANTEE OF THE ACCURACY OR THE COMPLETENESS OF THE INFORMATION CONTAINED HEREIN.

THIS DISCLOSURE STATEMENT AND THE PLAN ATTACHED HERETO SHOULD BE READ IN THEIR ENTIRETY PRIOR TO VOTING ON THE PLAN. FOR THE CONVENIENCE OF HOLDERS OF CLAIMS, THE TERMS OF THE PLAN ARE SUMMARIZED IN THIS DISCLOSURE STATEMENT, BUT ALL SUMMARIES ARE QUALIFIED IN THEIR ENTIRETY BY THE PLAN, WHICH CONTROLS IN THE EVENT OF ANY INCONSISTENCY.

II. HISTORICAL BACKGROUND

A. The Debtor's Nonprofit Operations

Organizational Structure & Background

The Debtor is an independent non-profit 501(c)(3) corporation that is governed by a board of directors ("EPCH Board") consisting of entirely volunteer board members. The sole mission of the Debtor has been to provide pediatric care to the children of El Paso and the

surrounding region. The Debtor's primary operations have consisted of owning and operating a 122-bed children's hospital.

The Debtor's Opening

The conception of the Debtor arose from the performance of five separate feasibility studies completed between 1993 and 2007 to address El Paso's desperate need for quality pediatric care. Until the Debtor opened its doors, El Paso was the largest U.S. city without a separately licensed children's hospital. Even today, the Debtor is the only separately licensed, non-taxing, independent, not-for-profit children's hospital in the entire El Paso region. The Debtor is the only dedicated pediatric hospital within a 205-mile radius of El Paso.

The opening of the Debtor attracted high-caliber specialists and subspecialists to El Paso, along with experienced registered nurses and highly trained clinical staff that provide high quality care to the children of the El Paso region on a daily basis. The relatively rare pediatric specialists and subspecialists are attracted to work in a separately licensed, independent children's hospital because pediatric programs within a general hospital face constraints on growth and modernization because of competition for dollars with highly profitable adult programs. Children's hospitals such as the Debtor are fixated on advancing the state of the art in children's healthcare, and endeavor to bring together patients whose needs require new technology, pharmacology, and healthcare systems, physicians who are quickly adaptive, and researchers and educators committed to advancing their particular specialties. In addition, children's hospitals provide novel, cutting-edge treatments, and are proving grounds of advances in children's care. Indeed, the Debtor has numerous review board-approved protocols and clinical trials already in place; prior to the Debtor's opening, novel pediatric treatments were late in reaching El Paso's children for want of participation in nationwide progress, research, and development.

Of the five feasibility studies discussed above, Thomason Hospital (the former d/b/a of UMC) engaged Kurt Salmon Associates to prepare one such feasibility study (the "2007 Feasibility Study"). The results of the 2007 Feasibility Study were the platform through which UMC and the El Paso County Commissioners Court ("CCC") garnered support of El Paso taxpayers for the establishment of the Debtor. Under the 2007 Feasibility Study, UMC selected the option under which the Debtor would operate on the UMC campus. The 2007 Feasibility Study was presented to the CCC, the Chamber of Commerce, other stakeholders and the El Paso public; it was used to generate support to obtain voter approval of tax-exempt bonds in the amount of \$120.1 million.¹

The Debtor's facility was indeed built and equipped on the UMC campus using revenue from the tax-exempt bonds. When constructed, the immediate vision for the Debtor was to foster the establishment of core services of a children's hospital to serve the community of El Paso, including emergency room, radiology, laboratory, inpatient beds for pediatrics, neonatal intensive care, acute nursery, intensive care pediatrics, hematology, and oncology services. The 2007 Feasibility Study included an expectation that annual visits to a pediatric emergency room

¹ UMC is a validly existing hospital district created by the Texas Legislature and is a political subdivision of the State of Texas, duly created in accordance with the laws of the State of Texas. It is funded through tax revenue and its annual budget is approved by the El Paso County Commissioners Court. Pursuant to Tex. Health & Safety Code Ann. § 281.046, UMC is obligated to provide care regardless of ability to pay to indigent and needy persons residing in its district as it receives ad valorem tax revenue from its constituents.

would peak at 10,000; the Debtor in fact treats in excess of 20,000 children annually in its emergency room. The 2007 Feasibility Study also predicted that out-migration of patients would be reduced by twenty percent (20%), but the Debtor has reduced that figure by eighty percent (80%).

The Agreements with UMC

Prior to its opening, the Debtor and UMC entered into a series of Agreements pursuant to which UMC provides services to the Debtor related to its operations. The Agreements include a Master Agreement (“Master Agreement”) and a Facility Lease Agreement (“Lease”) for the space on which the Debtor operates on the UMC campus (“Leased Premises”), as well as several development series and repayment agreements that cover the provision and repayment of working capital, administrative services agreements for the provision of services necessary for the Debtor to operate, ranging from housekeeping and dietary to payroll, accounting, revenue cycle, human resources, equipment lease agreements, and labor service agreements (“Related Agreements,” and together with the Master Agreement and Lease, the “Agreements”).

Financial

Since at least mid-April of 2014, the Debtor has had material losses and has suffered from a lack of liquidity. The Debtor’s financial condition has improved dramatically due to reducing its expenses and reducing the Base Rent under the Lease. The Debtor’s financial circumstances also suffered due to drastic changes in healthcare regulations, reducing the amount of state and federal funding available to the Debtor that had otherwise been anticipated.

The Debtor is also a party to various agreements with Texas Tech (“Texas Tech Agreements”). Through such agreements, the Debtor has become the principal training site for the Texas Tech Pediatric Residency Program. The Debtor believes that its relationship with Texas Tech readily benefits both parties as it provides physicians to the Debtor, among other things, and enables Texas Tech to attract high-caliber residents to El Paso for pediatric residency programs. Children’s hospitals train nearly thirty (30%) of all pediatricians and fifty (50%) of all pediatric subspecialists.

The Debtor’s Operations

Although still in its infancy, the Debtor has already built a strong relationship with the El Paso community, and has an excellent track record in terms of consistent provision of quality patient care. The Debtor recently received the highest praise from The Joint Commission² for quality care in March 2015. During The Joint Commission’s survey of the Debtor in March 2015, The Joint Commission praised the Debtor’s operations, stating that its report was “the best report we have ever issued.”

Until recently, El Paso was the only city of the largest thirty (30) cities in the United States without access to a Children’s Oncology Group (“COG”) experimental protocols, many of which are rescue therapies for a child suffering from cancer that is resistant to standard treatments. As a member of COG, the Debtor now has four (4) full-time subspecialists able to

² The Joint Commission is an independent, nonprofit organization that accredits and certifies health care organizations and programs in the United States. Accreditation and certification by The Joint Commission is recognized nationwide as a symbol of quality that reflects an organization’s commitment to meeting performance standards.

provide the same protocols to children with aggressive cancers as is available at St. Jude's Children's Research Hospital, in Memphis, Tennessee, The University of Texas M.D. Anderson Cancer Center, in Houston, Texas, and Memorial Sloan Kettering Cancer Center, in New York, New York.

Prior to the Debtor's opening, no El Paso hospital offered 24/7 in-house pediatric attending coverage of neonatal intensive care unit ("NICU"), pediatric intensive care unit ("PICU"), or general pediatrics. The Debtor already offers these services.

In addition, the Debtor has become the principal inpatient training site for the Texas Tech Pediatric Residency Program. The Debtor's emergency room department is staffed and operated 24/7 by Pediatric Emergency Medicine-trained physicians with rare instances of an adult attending physician providing coverage. The Debtor's rapid response and resuscitation teams is the Debtor's hospitalist group of six and a half (6.5) physicians who provide 24/7 in-house coverage. The Debtor's Pediatric Intensive Care Unit integrates care among all the Debtor's pediatric medical and surgical specialists for critically ill children. The Debtor's Endocrine Division has already expanded from only one (1) physician to three and a half (3.5) physicians providing care to children with diabetes, growth failure, and other endocrine conditions. In addition, the Debtor successfully recruited its first pediatric nephrologist for dialysis and management of pediatric kidney failure. Two pediatric gastroenterologists will also soon join the Debtor, further enhancing the Debtor's ability to provide excellent care in an array of specialties and sub-specialties to the children of El Paso in an unprecedented way.

III. THE BANKRUPTCY CASE

A. General

On May 19, 2015 (the "Petition Date"), the Debtor filed a voluntary petition for relief under chapter 11 of the United States Bankruptcy Code (the "Bankruptcy Cases") in the United States Bankruptcy Court for the Western District of Texas, El Paso Division (the "Bankruptcy Court"). As of the Petition Date, the Debtor operated a children's hospital located in El Paso, El Paso County, Texas. The Debtor has continued its operations throughout its Bankruptcy Case.

B. The Debtor's Schedules and Bar Date

The Debtor has filed its Schedules of Assets and Liabilities with the Bankruptcy Court. In the aggregate, the Debtor's scheduled pre-petition unsecured Claims total approximately \$14,934,578.75. Proofs of Claim have been filed against the Debtor in the aggregate amount of \$117,919,675.46 as of the date of filing of this Disclosure Statement. The Proponents will examine all of the filed Claims. Upon completion of their evaluation, it is expected that objections to certain Claims, including scheduled Claims, will be filed, and the total aggregate amount of Allowed Claims will be reduced.

C. Retention of Professionals

The Debtor obtained approval from the Bankruptcy Court to retain Professionals pursuant to §§ 105, 363(b), 330 and 331 of the Bankruptcy Code. The Debtor retained the law firm of Jackson Walker L.L.P. as bankruptcy counsel for the Debtor in the Bankruptcy Case.

The Debtor also obtained approval to retain AP Services, LLC ("APS"), as financial advisors. Mark Herbers of AlixPartners was appointed as the Debtor's Chief Executive and

Restructuring Officer (“CERO”) pursuant to the Court’s Order Pursuant to 11 U.S.C. §§ 105(a) and 363(b) (i) Authorizing the Employment and Retention of AP Services, LLC and (ii) Designating Mark Herbers as Chief Executive and Restructuring Officer *Nunc Pro Tunc* to May 19, 2015 [Dckt. No. 219].

The Debtor also obtained approval to utilize ordinary course professionals during the course of this Bankruptcy Case pursuant to the Order Authorizing the Debtor to Retain, Employ, and Compensate Professionals Utilized in the Ordinary Course of Business [Dckt. No. 265].

D. Adversary Proceedings.

On May 19, 2015, the Debtor initiated Adv. Pro. No. 15-03005 against El Paso County Hospital District d/b/a University Medical Center of El Paso (the “UMC Litigation”).

On May 19, 2015, the Debtor initiated Adv. Pro. No. 15-03006 against El Paso Health Plans, Inc. (“EPF Adversary”).

On May 19, 2015, the Debtor initiated Adv. Pro. No. 15-03007 against Navigant Healthcare Cymetrix Corporation f/k/a Cymetrix Corporation (“Navigant Adversary”). The Debtor and Navigant entered into a compromise that was approved by the Bankruptcy Court pursuant to Fed. R. Bankr. Pro. 9019, and an order was entered on July 14, 2015 [Dckt. No. 160]. Pursuant to the compromise of the Navigant Adversary and the Agreed Judgment [Adv. Dckt. No. 12], Navigant released to the Debtor \$988,687.00 in unencumbered funds. The unencumbered funds from the Navigant Adversary provided funding for the Debtor’s efforts in the UMC Litigation and the EPF Adversary.

E. Miscellaneous Other Matters

Other administrative orders entered by the Bankruptcy Court during the Bankruptcy Cases include orders granting (1) the Debtor’s Motion for Order Establishing Monthly Fee and Expense Reimbursement Procedures [Dckt. No. 170]; and (2) Order Regarding Debtor’s Motion to Compel Mediation [Dckt. No. 77].

The Court also ordered the Debtor to make rental payments to UMC during the pendency of the Bankruptcy Case, subject to disgorgement pending entry of judgment in the UMC Litigation. *See* Order Granting Motion to Compel Payment of Facility Lease [Dckt. No. 325]. In conjunction with such order, the Court also extended the time by which the Debtor must assume or reject the Lease, extending such time up to and including December 15, 2015. *See* Order Granting Motion to Extend Time to Assume or Reject Leases of Nonresidential Real Property [Dckt. No. 310].

A patient care ombudsman was appointed in this case on June 12, 2015 [Dckt. No. 80], pursuant to which Ms. Suzanne Koenig was appointed as the patient care ombudsman for the Debtor.

A Committee of Unsecured Creditors (“Committee”) was formed on September 1, 2015 [Dckt. No. 305].

F. Agreement Between UMC and the Debtor

On October 6, 2015, the Court entered the Agreed Order Abating Adversary Proceeding and Authorizing Deposit of Funds into Registry of Court (“Abatement Order”) [Adv. Dckt. No. 34]; [Bankr. Dckt. No. 386]. Pursuant to the Abatement Order, UMC agreed to be a co-

proponent and plan funder. In addition, on October 8, 2015, pursuant to the Abatement Order, UMC deposited with the Registry of the Bankruptcy Court the sum of seven million dollars (\$7,000,000) ("Plan Deposit"), which is earmarked for disbursement by the Reorganized Debtor to creditors holding Allowed Claims against the Debtor pursuant to this Plan once it is confirmed.

IV. SUMMARY OF THE JOINT PLAN

After intensive and extensive litigation and negotiations, the Proponents have agreed on the terms of the Plan. The Proponents' collective intent in proposing the Plan is to respectfully and fully make every reasonable effort to continue, and to enhance, the Debtor's mission of providing first class medical services to the children of El Paso County. In furtherance of this goal, the Plan includes provisions that reorganize the Debtor's obligations and operations to create a stable and sustainable future. The Proponents believe that the result of the Plan will be stronger and enhanced relationships among UMC, the Debtor, the CCC, and the El Paso medical community that facilitate and promote a cooperate and interactive environment among medical professionals, hospital management, and civic officials.

In that vein, the Plan contemplates payment in full of all Allowed Claims, except as otherwise agreed by the Holders of such Claims. The source of payments under the Plan include funds held by the Debtor, property to be vested in the Reorganized Debtor, the Plan Deposit, and future operating revenues of the Reorganized Debtor.

Under the Plan, the Debtor's agreements with Texas Tech University Health Science Center ("Texas Tech Agreements") will be assumed under an extended payment plan as agreed to by Texas Tech.

Under the Plan, the HHSC Provider Agreement will also be assumed. As set forth in the Plan, the Debtor believes that no cure amount is due as a requirement of any assumption of the HHSC Provider Agreement, but resolution of this cure claim, if any, shall be provided in the Plan.

Under the Plan, the Debtor's Agreements with UMC, including the Lease, will be assumed and modified. As set forth in the Plan, by agreement of the Debtor and UMC, the Lease will be assumed with the following modification: the Base Rent (as defined in the Lease) shall be reduced to \$500,000 per month. The Reorganized Debtor and UMC may both agree to further modification of the Base Rent, with the approval of the CCC in accordance with the Texas Health and Safety Code, or other applicable statute.

Additionally, under the Plan, any Executory Contract other than the Texas Tech Agreements, the UMC Agreements, and the Lease, to which the Debtor is a party shall be deemed assumed as of the Confirmation Date unless the Debtor has expressly rejected a particular Executory Contract before the Confirmation Date, or such Executory Contract is otherwise assumed under the Plan or is the subject of a pending motion to reject such Executory Contract on the Confirmation Date.

V. CLASSIFICATION OF CLAIMS

A. General Provisions and Classifications

The categories of Claims listed below classify Claims for all purposes, including without limitation, voting, confirmation and Distributions under the Plan and under sections 1122 and 1123(a)(1) of the Bankruptcy Code. A Claim shall be deemed classified in a particular Class only to the extent that the Claim qualifies within the description of that Class and shall be deemed classified in a different Class to the extent that the remainder of such Claim qualifies within the description of such different Class. A Claim is in a particular Class only to the extent that such Claim is Allowed in that Class and has not been paid or otherwise settled before the Effective Date.

To the extent that a creditor has more than one Claim in a single Class, such Claims shall be aggregated and treated as a single Claim. To the extent that a Creditor has Claims in different Classes, such Claims shall not be aggregated. Notwithstanding the foregoing, Creditors who have filed duplicate Claims for the same debt against the Debtor shall be entitled to the allowance of only one Claim in the Debtor's Bankruptcy Cases.

B. Classification

Section 1123(a) of the Bankruptcy Code provides that Administrative Claims and Priority Tax Claims are not subject to classification under the Plan and are not entitled to vote to accept or reject the Plan. The Claims against the Debtor that are subject to classification are classified in the Classes described below. A Claim is in a particular Class only to the extent that such Claim fits within the description of such Class, and is in such other and different Class or Classes to the extent that the remainder of such Claim fits within the description of such other Class or Classes. Any Holder of a Claim that disputes the classification of Claims or impairment must file a motion with the Bankruptcy Court, with notice to the Debtor, and have such motion heard before the Voting Deadline. The Plan will only provide Distributions to Allowed Claims; and, except for statutory fees due to the U.S. Trustee, nothing in the Plan provides for the Allowance of any Claim. Allowed Claims are classified as follows:

Administrative Claims (unclassified)

Class 1: Allowed Priority Non-Tax Claims

Class 2: Allowed Secured Claims

Class 2(a): Allowed AmerisourceBergen Secured Claim

Class 2(b): Allowed ASD Secured Claim

Class 2(c): Allowed Cardinal Health Secured Claims

Class 2(d): Allowed HHSC Secured Claim

Class 2(e): Allowed UMC Secured Claim

Class 3: Allowed Patient Claims

Class 3(a): Allowed Patient Refund Claims

Class 3(b): Allowed Patient Credit Balance Claims

Class 4: Allowed Texas Tech Unsecured Claims

Class 5: Allowed General Unsecured Claims

Class 6: Disallowed EPCPG General Unsecured Claim

Class 7: Allowed General Unsecured Claim of UMC

C. Impaired Classes of Claims

Claims in Classes 2, 3, 4, 5, and 7 are impaired under the Plan and entitled to receive Distributions. Holders of Claims in Classes 2, 3, 4, 5, and 7 are entitled to vote to accept or reject the Plan. Claims in Class 1 are unimpaired, and therefore, shall not be entitled to vote to accept or reject this Plan. For purposes of voting and Distribution, subclasses are each treated as a separate class.

D. Impairment and Classification Controversies

As set forth above, if a controversy arises as to whether any Claim or any Class of Claims is impaired under the Plan or is classified incorrectly, the Bankruptcy Court shall, upon notice and a hearing, determine such controversy on or before the Voting Deadline.

E. Class Acceptance Requirement

A Class of Claims shall have accepted the Plan if it is accepted by at least two-thirds in amount and more than one-half in number of the Holders of Allowed Claims in such Class that have voted on the Plan.

F. Cramdown

If any Class of Claims fails to accept the Plan in accordance with § 1126(c) of the Bankruptcy Code, the Bankruptcy Court may still confirm the Plan in accordance with § 1129(b) of the Bankruptcy Code. The Debtor will seek confirmation of the Plan pursuant to § 1129(b) with respect to any non-accepting Class.

G. Elimination of Classes

Any impaired Class that is not occupied as of the date of the Confirmation Hearing shall be deemed deleted from the Plan for purposes of voting on acceptance or rejection of the Plan and determining whether the Plan has been accepted by such class pursuant to 11 U.S.C. § 1129.

VI. PROVISIONS FOR TREATMENT OF CLAIMS UNDER THE PLAN

The following summary of claims is derived from the Debtor's Schedules and a review of the claims filed in the Bankruptcy Cases. THE EXACT AMOUNT OF EACH CLAIM FOR PURPOSES OF THIS PLAN WILL BE AS STATED IN THE DEBTOR'S SCHEDULES EXCEPT THAT A PROOF OF CLAIM FILED BY A CREDITOR IS PRIMA FACIE EVIDENCE OF THE AMOUNT OF THE CLAIM, UNLESS AN OBJECTION TO THE PROOF OF CLAIM OR SCHEDULED AMOUNT IS FILED, IN WHICH CASE THE COURT WILL DETERMINE THE ALLOWED AMOUNT OF A PARTICULAR CLAIM. THOSE CLAIMS WHICH ARE LISTED AS DISPUTED IN THE DEBTOR'S SCHEDULES OR ARE OBJECTED TO BEFORE THE CLAIMS OBJECTION DEADLINE WILL BE SETTLED BY AGREEMENT OF THE PARTIES OR FIXED BY THE COURT BEFORE DISTRIBUTION UNDER THE PLAN OCCURS TO THAT CREDITOR. PROCEDURES GOVERNING DISPUTED CLAIMS ARE DESCRIBED LATER IN THIS DISCLOSURE STATEMENT. THE LISTING OF CLAIM AMOUNTS IN THE PLAN OR THIS DISCLOSURE STATEMENT IS FOR INFORMATION PURPOSES ONLY, AND THE DEBTOR RESERVES ALL RIGHTS TO CONTEST, REDUCE, RECHARACTERIZE OR SUBORDINATE ANY CLAIM.

EACH CREDITOR WILL BE PAID IN THE MANNER SET FORTH BELOW WHICH APPLIES TO THAT PARTICULAR CREDITOR AND ONLY AS TO THE ALLOWED AMOUNT OF THAT CREDITOR'S CLAIM IN THAT CLASS.

Claims against the Debtor shall be treated under the Plan as follows:

A. Unclassified Claims:

1. Administrative Claims:

- a. General:** Except to the extent that any entity entitled to payment of any Allowed Administrative Claim agrees to a different treatment or unless paid in the ordinary course of the Reorganized Debtor's business, each holder of an Allowed Administrative Claim shall receive Cash in an amount equal to such Allowed Administrative Claim on the later of the Effective Date or the date such Administrative Claim becomes an Allowed Administrative Claim, or as soon thereafter as practicable.
- b. Funding:** On the Effective Date, with cash on hand, the Debtor will fund the Administrative Cash Reserve in an amount sufficient to pay all Allowed Administrative Claims, in full, on the Effective Date
- c. Professional Fee Claims:** Administrative claims for Professional Persons must be filed no later than sixty (60) days after the Confirmation Date.
- d. Payment of Statutory Fees:** All fees payable pursuant to 28 U.S.C. § 1930 shall be Allowed and shall be paid in Cash when due.

2. Bar Date for Administrative Claims:

- a. General Provisions:** Except as otherwise provided in Article 3 of the Plan, requests for payment of Administrative Claims must be included within a motion or application and filed by a deadline to be set by the Court, which shall be thirty (30) days after the Confirmation Date ("Administrative Claims Bar Date"). Except for Professionals approved by the Bankruptcy Court under 11 U.S.C. § 327, any holder of a claim under 11 U.S.C. §§ 503 and/or 507 that fails to file their claim(s) by the Administrative Claims Bar Date shall be forever barred from asserting the claim(s) against the Debtor or its estate, and the Debtor, its estate, and its property shall be forever discharged from any and all indebtedness or liability with respect to the claim, other than claims arising in the ordinary course of the Debtor's business. Requests for payments of Administrative Claims included within a proof of claim are of no force and effect, and are disallowed in their entirety as of the Confirmation Date unless such Administrative Claim is subsequently filed in a timely fashion as provided herein, and allowed. Except for Professional Persons approved by the Bankruptcy Court under 11 U.S.C. § 327, any holder of a claim under 11 U.S.C. §§ 503 and/or 507 that fails to file their claim(s) by the Administrative Claims Bar Date shall be forever barred from asserting the claim(s) against the Debtor or its estate, and the Debtor and its estate will be forever discharged from any and all indebtedness or liability with respect to the claim. Administrative claims for Professional Persons must be filed no later than sixty (60) days after the Confirmation Date.

3. Priority Tax Claims:

Each holder of an Allowed Priority Tax Claim shall be paid in full, through monthly cash payments commencing on the Effective Date, its Allowed Priority Tax Claims, together with interest at the rate required by 11 U.S.C. § 511, or as otherwise agreed, over a period through the fifth anniversary of the Petition Date.

The Reorganized Debtor shall pay the Priority Tax Claims from funds available from the operations of the Reorganized Debtor.

At the Reorganized Debtor's option, Holders of Allowed Priority Tax Claims shall receive (i) 100% of the Allowed amount of such Claim on or as soon as reasonably practicable after the later of the Effective Date and the date the Claim becomes Allowed; (ii) 100% of the unpaid Allowed amount plus interest to be paid in Cash over a period not later than five (5) years from the Petition Date; or (iii) such alternative treatment as leaves unaltered the legal, equitable, and contractual rights of the Holders of such Claims.

As of the date of the Plan, the Claim Register reflects aggregate asserted Priority Tax Claims of \$0. In the event that any Priority Tax Claim is filed against the Debtor, the Reorganized Debtor will review, reconcile and file objections to Priority Tax Claims. The Debtor does not anticipate the filing of any Priority Tax Claim. In addition, although the IRS initially filed a Proof of Claim asserting an amount due from the Debtor, the IRS has amended such Proof of Claim, asserting a zero amount due. *See* Claim No. 17.

4. Impairment & Voting:

Administrative Claims (including Professional Fee Claims) and Priority Tax Claims are not subject to classification under the Bankruptcy Code, and Holders of Administrative Claims and Priority Tax Claims are not entitled to vote to accept or reject the Plan.

B. Treatment of Classified Claims and Interests

Class 1: Allowed Priority Non-Tax Claims

Classification: This class shall consist of Allowed Priority Non-Tax Claims arising under sections 507(a)(4),(5), or (7) of the Bankruptcy Code.

Treatment: Each holder of an Allowed Priority Non-Tax Claim shall be paid in full, through quarterly cash payments commencing on the Effective Date, its Allowed Priority Non-Tax Claim, together with 5% interest, or as otherwise agreed, over a period through the fifth anniversary of the Effective Date.

Total Claims: The estimated total of Class 1 Claims is \$183,750.07 as of the date hereof. Subsequent to confirmation of the Plan, the Reorganized Debtor anticipates filing objections to certain of the Class 1 Claims and that the total amount paid to holders of Allowed Priority Non-Tax Claims will be less than \$183,750.07.

Voting: Class 1 is unimpaired. Acceptance of the Plan from holders of Class 1 Claims will not be solicited.

Class 2: Allowed Secured Claims

Class 2(a): Allowed AmerisourceBergen Secured Claim

Classification: This class shall consist of the Allowed AmerisourceBergen Secured Claim.

Treatment: Unless otherwise agreed, the Holder of the Allowed AmerisourceBergen Secured Claim shall be paid in full, to the extent not paid previously, in Cash in the amount of the Allowed AmerisourceBergen Secured Claim, to be paid in three equal monthly installments beginning on the Initial Distribution Date.

Total Claims: The estimated total of the Class 2(a) Claim is \$34,563.87 as of the date hereof.

Voting: Class 2(a) is impaired. Acceptance of the Plan from the Holder of the Class 2(a) Claim will be solicited.

Class 2(b): Allowed ASD Secured Claim

Classification: This class shall consist of the Allowed ASD Secured Claim.

Treatment: Unless otherwise agreed, the Holder of the Allowed ASD Secured Claim shall be paid in full, to the extent not paid previously, in Cash in the amount of the Allowed ASD Secured Claim to be paid in three equal monthly installments beginning on the Initial Distribution Date. The Holder of the Allowed ASD Secured Claim shall retain its liens on collateral securing the Allowed ASD Secured Claim.

Total Claims: The estimated total of the Class 2(b) Claim is \$1,183.95 as of the date hereof.

Voting: Class 2(b) is impaired. Acceptance of the Plan from the Holder of the Class 2(b) Claim will be solicited.

Class 2(c): Allowed Cardinal Health Secured Claim

Classification: This class shall consist of the Allowed Cardinal Health Secured Claim.

Treatment: Unless otherwise agreed, the Holder of the Allowed Cardinal Health Secured Claim shall be paid in full, to the extent not paid previously, in Cash in the amount of the Allowed Cardinal Health Secured Claim, to be paid in three equal monthly installments beginning on the Initial Distribution Date. Cardinal has requested that the Allowed Cardinal Health Secured Claim be paid on the Effective Date. The Holder of the Allowed Cardinal Health Secured Claim shall retain its liens on collateral securing the Allowed Cardinal Health Secured Claim.

Total Claims: The Debtor's estimated total of the Class 2(c) Claims is \$201,355.78, subject to reconciliation by the Debtor, as of the date hereof. Cardinal asserts that the total estimated total of the Class 2(c) claim is \$436,250, with a current balance of

\$251,077.65, plus post-petition interest accruing on such amount from the Petition Date at 1.5% per month and attorneys' fees and disbursements incurred by Cardinal Health related to its claim, minus post-petition adequate protection payments received by Cardinal Health, subject to reconciliation by the Debtor, as of the date hereof.

Voting: Class 2(c) is impaired. Acceptance of this Plan from the Holder of the Class 2(c) Claim will be solicited.

Class 2(d): Allowed HHSC Secured Claim

Classification: This class shall consist of the Allowed HHSC Secured Claim.

Treatment: All rights of the HHSC and CMS, if any, to exercise their rights of recoupment with respect to Medicaid and Medicare payments are preserved including, but not limited to, fines and penalties. Before assessing any fines or penalties against the Debtor, HHSC agrees that it will take into careful consideration the following factors: (i) whether any of the wrongdoing that would give rise to fines and penalties occurred prior to the assumption of the HHSC Provider Agreement; (ii) the fact that the Reorganized Debtor is under applicable bankruptcy law a new and distinct legal entity from the pre-confirmation Debtor, and (iii) that the Reorganized Debtor is a non-profit entity. HHSC and the Office of the Inspector General agree to comply with all applicable restrictions on the imposition of potential sanctions and penalties against the Reorganized Debtor. The Reorganized Debtor and UMC, as appropriate, shall retain their rights to exhaust administrative remedies to both contest such recoupment rights and the dollar amount of any such recoupment(s) that may be effectuated and (ii) to contest the propriety of fines and penalties being assessed against the Reorganized Debtor for any misstatements made to HHSC and/or CMS by the pre-confirmation Debtor. Further, to the extent that it is determined that the HHSC and CMS have any recoupment rights, the HHSC and CMS shall negotiate, in good faith, with the Reorganized Debtor and UMC to ensure that the exercise of any recoupment rights does not adversely impact the Reorganized Debtor's financial and operational viability. The HHSC's and CMS's recoupment rights as provided herein are in full satisfaction of any and all claims HHSC and CMS may have against the Reorganized Debtor or UMC with respect to any pre-Effective Date claims they may otherwise have against the Debtor.

Total Claims: The Debtor believes that the total of the Class 2(d) Claim is zero.

Voting: Class 2(d) is impaired. Acceptance of this Plan from the Holder of the Class 2(d) Claim will be solicited.

Class 2(e): Allowed UMC Secured Claim

Classification: This class shall consist of the Allowed UMC Secured Claim.

Treatment: The Allowed UMC Secured Claim shall be in the amount of Fifteen Million Dollars (\$15,000,000). The Allowed UMC Secured Claim shall be subordinated to payment of all other Claims. Upon payment of all Claims in full, the Allowed UMC Secured Claim shall be paid from the proceeds of any recoveries involving the Causes of

Action and future operations as determined by the Reorganized Debtor's board of directors consistent with the duties of such directors to preserve the financial viability of the Reorganized Debtor and fulfillment of its mission.

Total Claims: The total of the Class 2(e) Claim is \$15,000,000.

Voting: Class 2(e) is impaired. Acceptance of this Plan from the Holder of the Class 2(e) Claim will be solicited.

Class 3: Allowed Patient Claims

Class 3(a): Allowed Patient Refund Claims

Classification: This class shall consist of Allowed Patient Refund Claims.

Treatment: Each Holder of an Allowed Patient Refund Claim shall receive payment in equal quarterly payments over six (6) months until paid in full, with such first quarterly payment beginning on the Initial Distribution Date. The Debtor, and/or the Reorganized Debtor, may in its discretion, apply an Allowed Patient Refund Claim against any amounts owed to the Debtor.

Voting: Class 3(a) is impaired. Acceptance of the Plan from Holders of Class 3(a) Claims will be solicited.

Total Claims: The estimated total of Class 1 Claims is \$74,558.33 as of the date hereof.

Class 3(b): Allowed Patient Credit Balance Claims

Classification: This class shall consist of Allowed Patient Claims, including Patient Credit Balance Claims and Patient Refund Claims.

Treatment: Each holder of an Allowed Patient Credit Balance Claim shall receive payment in full, in equal quarterly payments over six (6) months until paid in full, with such first quarterly payment beginning on the Initial Distribution Date, or will receive a credit against future services, in the ordinary course of the Debtor's business. The Debtor, and/or the Reorganized Debtor, may in its discretion, apply an Allowed Patient Credit Balance against any amounts owed to the Debtor.

Voting: Class 3(b) is impaired. Acceptance of the Plan from Holders of Class 3(b) Claims will be solicited.

Total Claims: The estimated total of Class 3(b) Claims is \$74,760.13 as of the date hereof.

Class 4: Allowed Texas Tech Unsecured Claim

Classification: This class shall consist of the Allowed Texas Tech Unsecured Claim.

Treatment: The Holder of the Allowed Class 4 Claim (i) will receive an initial payment

of \$2,000,000 on the Effective Date or within thirty (30) days of the Effective Date and (ii) will receive payment of the remaining balance of the Allowed Texas Tech Unsecured Claim over a three (3) year period, with interest at the annual rate of 4.5%, in equal monthly payments beginning on or before sixty (60) days from the Effective Date and each month thereafter until paid in full.

Voting: Class 4 is impaired. Acceptance of the Plan from the Holder of the Class 4 Claim will be solicited.

Total Claims: The estimated total of the Class 4 Claim is \$9,861,809.49 as of the date hereof.

Class 5: Allowed General Unsecured Claims

Classification: Class 5 consists of General Unsecured Claims.

Treatment: Each Holder of an Allowed Class 5 Claim shall receive payment in full of its Allowed Claim payable in cash without interest on or before forty-five (45) days after the Effective Date.

Voting: Class 5 is impaired. Acceptance of this Plan from the Holders of Class 5 Claims will be solicited.

Total Claims: The total of Class 5 Claims is \$4,357,789.17 as of the date hereof.

Class 6: Disallowed EPCPG General Unsecured Claim

Classification: Class 6 consists of the Disallowed EPCPG General Unsecured Claim.

Treatment: The Class 6 EPCPG General Unsecured Claim is Disallowed.

Voting: Class 6 is not entitled to vote on the Plan.

Class 7: Allowed General Unsecured Claim of UMC

Classification: Class 7 consists of the Allowed General Unsecured Claim of UMC.

Treatment: The Allowed UMC Unsecured Claim shall be allowed in the amount of Thirty-Three Million Dollars (\$33,000,000), and shall be subordinated in its entirety to the Allowed Claims of other creditors. Upon payment of all other Allowed Claims in full, the Allowed UMC Unsecured Claim shall be paid from the proceeds of any recoveries from the Causes of Action and future operations as determined by the Debtor's board of directors consistent with the duties of such directors to preserve the financial viability of the Debtor and fulfilment of its mission.

Voting: Class 7 is impaired. Acceptance of this Plan from the Holder of Allowed Class 7 Claims will be solicited.

**VII. ACCEPTANCE OR REJECTION OF THE PLAN; EFFECT OF REJECTION
BY ONE OR MORE CLASSES OF IMPAIRED CLAIMS**

A. Classes Entitled to Vote

Any creditor of the Debtor whose Claim is Impaired under the Plan is being solicited to vote, if either (i) its Claim has been scheduled by the Debtor and such Claim is not scheduled as Disputed, contingent or unliquidated, or (ii) it has filed a Proof of Claim on or before the Bar Date set by the Bankruptcy Court for such filings. Any Claim as to which an objection has been filed, and such objection is pending on the Voting Deadline, is not entitled to have its vote counted, unless the Bankruptcy Court temporarily allows the Claim upon motion by such creditor. If such a motion is filed and granted, such creditor will be allowed to vote in an amount that the Bankruptcy Court deems proper for the purpose of accepting or rejecting the Plan. Any such motion must be heard and determined by the Bankruptcy Court prior to the Voting Deadline established by the Bankruptcy Court to confirm the Plan. In addition, a creditor's vote may be disregarded if the Bankruptcy Court determines that the creditor's acceptance or rejection was not solicited or procured in good faith or in accordance with the provisions of the Bankruptcy Code, or if the creditor's Ballot fails to satisfy the requirements of the Solicitation Procedures Order.

B. Presumed Acceptance/Rejection of Plan

Claims in Classes 2, 3, 4, 5, and 7 are impaired under the Plan and entitled to receive Distributions. Holders of Claims in Classes 2, 3, 4, 5, and 7 are entitled to vote to accept or reject the Plan. Claims in Class 1 is unimpaired, and therefore, shall not be entitled to vote to accept or reject this Plan. As unimpaired classes, Class 1 is conclusively presumed to have accepted the Plan pursuant to section 1126(f) of the Bankruptcy Code. Claims in Class 6 are Disallowed and Class 6 is not entitled to vote to accept or reject the Plan. Any impaired Class that has a single member who does not vote to reject the Plan will be deemed to have accepted the Plan.

C. Non-Consensual Confirmation

If any impaired Class of Claims entitled to vote does not accept the Plan by the requisite statutory amounts as set forth herein, the Debtor reserve the right to amend the Plan or undertake to have the Bankruptcy Court confirm the Plan under section 1129(b) of the Bankruptcy Code, or both.

**VIII. PROVISIONS GOVERNING EXECUTORY CONTRACTS
AND UNEXPIRED LEASES; REJECTION CLAIMS BAR DATE**

A. Executory Contracts and Unexpired Leases

The Plan constitutes a motion by the Debtor to assume the Texas Tech Agreements. The Debtor's proposed treatment of the Allowed Texas Tech Unsecured Claim represents its payment of the total Cure Cost payment owed to permit its assumption of the Texas Tech Agreements.

The Plan also constitutes a motion by the Debtor to assume, as of the Confirmation Date, the UMC Agreements and the Lease. By agreement of UMC and the Debtor, the Lease will be assumed with the following modification: the Base Rent (as defined in the Lease) shall be reduced to \$500,000 per month. In addition, the Reorganized Debtor and UMC may both agree to further modification of the Base Rent, with the approval of the CCC in accordance with the

Texas Health and Safety Code, or other applicable statute.

The Plan constitutes a motion by the Debtor to assume, as of the Confirmation Date, all Executory Contracts, which were not rejected prior to the Effective Date and/or that are not expressly rejected herein. Provided, however, that all insurance policies and indemnity agreements in which the Debtor or the Debtor's property are insured and/or indemnified against loss (whether for potential liability or the costs of defense) which were not assigned, are hereby assumed and assigned to the Reorganized Debtor.

With respect to any assumption of any Executory Contract, at least twenty-one days before the Confirmation Hearing, the Plan Proponents shall cause notice of proposed assumption and proposed Cure Costs to be sent to the Executory Contract counter-party. Any objection by the Executory Contract counter-party must be filed, served, and actually received by the Plan Proponents within fourteen (14) days after service of such notice. If no objection is timely filed, served, and actually received by the Plan Proponents, the Executory Contract counter-party will be deemed to have assented to such assumption and Cure Cost.

B. Bar to Rejection Damages

If the rejection of an Executory Contract results in damages to the other party or parties to such Executory Contract, a Claim for such damages, if **not** heretofore evidenced by a filed Proof of Claim, shall be forever barred and shall not be enforceable against the Debtor, the Estate, its respective properties or its agents, successors or assigns, unless a Proof of Claim is filed with the Bankruptcy Court and served upon the Reorganized Debtor (as applicable) and its counsel on or before thirty (30) days after the Confirmation Date or such later date as may be ordered by the Bankruptcy Court with respect to such Claim.

IX. PROVISIONS REGARDING DISTRIBUTIONS

A. Withholding and Reporting Requirements

In connection with Distributions, the Reorganized Debtor will comply with all withholding and reporting requirements imposed by any federal, state, or local taxing authority. As a condition to the Holder of an Allowed Claim receiving any Distribution under the Plan, the Reorganized Debtor may require that the Holder provide such Holder's taxpayer identification number and such other information as the Reorganized Debtor may deem necessary to comply with applicable tax reporting and withholding laws. The failure of a Holder to respond timely to a request by the Reorganized Debtor for tax withholding or reporting information will result in the Holder being treated as the Holder of an undeliverable or unclaimed Distribution, whose treatment is summarized below and provided under Sections 8.3 and 8.4 of the Plan.

B. Funding of Distributions

Except as otherwise provided in the Plan, all Distributions to Holders of Allowed Claims will be made by the Reorganized Debtor and funded by Cash that the Reorganized Debtor, in its sole discretion, determines is available for Distributions to Holders of Allowed Claims in accordance with the Plan. Cash payments made pursuant to the Plan shall be in U.S. funds, by check, wire or other method as the Reorganized Debtor deems appropriate under the circumstances.

C. Delivery of Distributions

Subject to Bankruptcy Rule 9010 and the provisions of the Plan, Distributions to Holders of Allowed Claims shall be made at the address for such Holder set forth in the Schedules, unless superseded by the address set forth on such Holder's Proof of Claim, or in a written notice delivered to the Reorganized Debtor and its counsel. If any Distribution to any Holder is returned as undeliverable, the Reorganized Debtor may, but will not be required to, use reasonable efforts to determine the current address of such Holder, but no subsequent Distribution to any such Holder shall be made unless and until the Reorganized Debtor has determined the then current address of such Holder, at which time such Distribution will be made to such Holder without interest. The Reorganized Debtor will retain all amounts in respect of an undeliverable Distributions made by the Reorganized Debtor until such Distributions are claimed, subject to Section 8.4 of the Plan.

D. Unclaimed Distributions

If any Distribution is not claimed, or remains undeliverable under Section 8.3 of the Plan, by the Unclaimed Distribution Date applicable to such Distribution, the Distribution will be deemed unclaimed property under section 347(b) of the Bankruptcy Code, and such unclaimed Distribution(s) will be available for Distribution to other Holders of Allowed Claims as part of the next Distribution, in accordance with the terms of the Plan. The Holder of any Claim for which a Distribution is deemed unclaimed property under the Plan will not be entitled to receive any future Distributions and will be deemed to have relinquished all rights to any future Distributions and all such future Distributions will be available for Distribution to other Holders of Allowed Claims under the Plan.

E. Time Bar to Cash Payments

Distribution checks issued to Holders of Allowed Claims will be null and void if not negotiated within ninety (90) days after their date of issuance. Requests for reissuance of any check shall be made in writing directly to the Reorganized Debtor by the Holder to which or to whom such check originally was issued. All such requests must be made promptly and in time for the check to be reissued and cashed before the Unclaimed Distribution Date applicable to such Distribution. Distributions in respect of voided checks will be treated as unclaimed distributions under the Plan.

F. Fractional Dollars

Notwithstanding any other provision of the Plan, the Reorganized Debtor will not be required to make Distributions of fractions of dollars, and whenever any Distribution of a fraction of a dollar may be called for, the actual Distribution may be rounded to the nearest whole dollar (up or down) with half dollars being rounded down.

G. De Minimis Distributions

The Reorganized Debtor will have no obligation to make a Distribution if the amount to be distributed to a Holder of an Allowed Claim would be less than \$50.00 in the aggregate.

H. No Distributions Pending Allowance

No payment or Distribution will be made with respect to (a) any Claim to the extent it is a Disputed Claim, unless and until such Disputed Claim becomes an Allowed Claim, (b) Claimants who are, or may be, defendants in Avoidance Actions and other parties subject to

the application of § 502(d) of the Bankruptcy Code, and (c) reclamation claims pursuant to § 546(c)(2)(A) of the Bankruptcy Code, which are not Allowed Claims.

**X. CONDITIONS PRECEDENT TO CONFIRMATION
AND EFFECTIVENESS OF THE PLAN**

A. Conditions Precedent to Confirmation of the Plan

Confirmation of the Plan is subject, in addition to the requirements provided in § 1129 of the Bankruptcy Code, to satisfaction of the following conditions precedent, unless such conditions precedent are waived by the Debtor:

- a. A Final Order finding that the Disclosure Statement contains adequate information pursuant to section 1125 of the Bankruptcy Code shall have been entered by the Bankruptcy Court;
- b. The Bankruptcy Court shall have entered the Confirmation Order in form and substance reasonably satisfactory to the Plan Proponents;
- c. All actions, documents, and agreements necessary to implement the Plan shall have been effected or executed; and
- d. The Plan Proponents shall have received all authorizations, consents, regulatory approvals, rulings, letters, no action letters, opinions, or documents that are determined by them to be necessary to implement the Plan; and
- e. The Cure Costs are within the tolerances established in the Plan Proponents' projections.

B. Vesting of Property of the Estate in the Reorganized Debtor

1. On the Effective Date of the Plan, title to all assets and properties dealt with by the Plan shall vest in Reorganized Debtor, free and clear of liens, claims, and encumbrances, except as otherwise provided in the Plan (the "Vested Property"), on the condition that the Reorganized Debtor complies with the terms of the Plan, including the making of all payments to creditors provided for in such Plan. If the Reorganized Debtor defaults in performing under the provisions of this Plan and this case is converted to a case under chapter 7, all property vested in Reorganized Debtor and all subsequently acquired property owned as of or after the conversion date shall re-vest and constitute property of the bankruptcy estate in the converted case.

2. From and after the Effective Date, the Reorganized Debtor may operate the Debtor's business pursuant to the terms of the Plan and may use, acquire, and dispose of property free and clear of any restrictions imposed by or under the Bankruptcy Code.

3. The Confirmation Order shall provide the Reorganized Debtor with express authority to convey, transfer, and assign any and all Vested Property and to take all actions to effectuate same.

4. The Reorganized Debtor will be responsible for paying any quarterly U.S. Trustee fees that accrue after the Effective Date.

5. The Reorganized Debtor shall make all Distributions as and when provided for

under this Plan.

6. From and after the Effective Date, and until all payments and distributions to holders of Allowed Claims have been made under the Plan, the Reorganized Debtor shall remain constituted and in existence. The Reorganized Debtor shall be authorized, without any supervision or approval of the Bankruptcy Court or the Office of the United States Trustee, as the case may be, to employ and compensate such persons, including counsel and accountants, as may be deemed necessary to enable it to perform its functions hereunder, and the fees and costs of such employment and other expenditures shall be paid by the Reorganized Debtor. Any fees and expenses of professionals incurred during the period between the Confirmation Date and the Effective Date shall remain subject to the jurisdiction of the Court and approved in accordance with the Plan.

7. After the Effective Date, the affairs of the Reorganized Debtor and all of the assets held or controlled by the Reorganized Debtor shall be managed under the direction of the Reorganized Debtor, as provided by the terms of the Plan. In the performance of its duties hereunder, the Reorganized Debtor shall have the rights and duties incident of a debtor in possession under 11 U.S.C. § 1107, and such other rights, powers, and duties incident to causing performance of the obligations under the Plan or as otherwise may be reasonably necessary, including, without limitation, filing any necessary tax returns.

8. Pursuant to 11 U.S.C. § 1123(b)(3)(B), as of the Effective Date, any Causes of Action that are already pending or that are accruing to the Debtor, shall become assets of the Reorganized Debtor. The Reorganized Debtor shall have the authority to prosecute such Causes of Action on behalf of and for the benefit of the Debtor's estate and its creditors. The Reorganized Debtor shall have the authority to compromise and settle, otherwise resolve, discontinue, abandon or dismiss all such Causes of Action without approval of the Bankruptcy Court. All cash received by the Reorganized Debtor as a result of the prosecution or settlement of any Cause of Action shall be the property of the Reorganized Debtor to be distributed in accordance with the terms of the Plan. Any cash received from the proceeds of any Cause of Action in excess of Distributions made to Classes 1 through 7 shall be retained by the Debtor in furtherance of its nonprofit mission in accordance with applicable state law.

9. Except for the released Causes of Action, no Cause of Action is released by confirmation of this Plan, and confirmation of this Plan shall not have any *res judicata* or collateral estoppel effect on the Reorganized Debtor's prosecution of any Cause of Action.

10. The Reorganized Debtor shall not be subject to any counterclaims with respect to any Causes of Action constituting Vested Property; provided, however, that Causes of Action constituting Vested Property will be subject to any set-off rights and/or defenses to the same extent as if the Debtor itself had pursued the Causes of Action constituting Vested Property.

11. The Reorganized Debtor may present such orders as may be necessary to require third parties to accept and acknowledge such conveyance to the Reorganized Debtor. Such orders may be presented without further notice other than as has been given in this Plan.

C. Conditions Precedent to the Effective Date of the Plan

1. The occurrence of the Effective Date of the Plan is subject to satisfaction of the following conditions precedent, unless such conditions precedent are waived by the Debtor:

2. Confirmation shall have occurred and the Confirmation Order shall have been

entered and become a Final Order;

3. There shall not be in effect on the Effective Date any (i) Order entered by a U.S. court, (ii) order, opinion, ruling or other decision entered by any other court or governmental entity, or (iii) U.S. or other applicable law staying, restraining, enjoining or otherwise prohibiting or making illegal the consummation of any of the transactions contemplated by the Plan;

4. All other actions, documents and agreements necessary to implement the Plan shall have been effected or executed and sufficient reserves established; and

5. Fixing of Cure Amounts at levels consistent with the Plan Proponents' projections.

D. Effect of Non-Occurrence of Confirmation or Effective Date

If the Plan is not confirmed or if the conditions listed in this Article 5 are not satisfied or waived, the Plan shall be null and void in all respects, the Plan Deposit shall be promptly returned to UMC except as provided in the Abatement Order and nothing contained in this Plan or the Disclosure Statement shall (i) constitute a waiver or release of any Claims by or against the Debtor's Estate, (ii) prejudice in any manner the rights of the Plan Proponents or any other Person or (iii) constitute an admission, acknowledgment, offer or undertaking by the Plan Proponents or any other Person.

XI. MEANS FOR IMPLEMENTATION OF THE PLAN

A. Source of Funds

The source of Funds to implement the Plan include funds held by the Debtor, property to be vested in the Reorganized Debtor, the Plan Deposit, and future operating revenues of the Reorganized Debtor. The Debtor and UMC shall file a joint motion between the Confirmation Date and the Effective Date to seek to have the Plan Deposit disbursed to the Debtor for payment of Claims under the Plan.

B. Preservation of & Assignment of Causes of Action

On the Effective Date, all rights and Causes of Action, including claims under §§ 502, 542, 544, 545, 546, 548, 550, and 553 of the Bankruptcy Code, preference claims under § 547 of the Bankruptcy Code, fraudulent transfer claims under § 548 of the Bankruptcy Code, and all other claims and causes of action of the Debtor's estate against any Person as of the Confirmation Date shall be preserved and transferred and assigned to the Reorganized Debtor, including without limitation, all Claims, actions, adversary proceedings, causes of action (including causes of action arising under any section of the Bankruptcy Code, state, federal, or other nonbankruptcy law) as against Navigant Healthcare Cymetrix Corporation f/k/a Cymetrix Corporation ("Navigant").

With the express exception of any claims against any of the following and/or any claims against the D&O policy by the Office of the Texas Attorney General ("OAG") on behalf of the public interest in charity, no claims, if any, are being released as may be asserted by any agency of the State of Texas, including but not limited to, HHSC, Office of Inspector General ("OIG"), CMS, and the OAG on behalf of the public interest in charities, all such claims being expressly preserved. With the exception of the foregoing and notwithstanding anything herein to the contrary, the D&O, all Causes of Action as against all persons who served as a director or officer

of the Debtor, including the following persons: James N. Valenti, Michael Nunez, Stephen DeGroat, William Hanson, Lawrence Duncan, Elias Armendariz, David Mier, James Sexton, Paul Ocon, Jill Vogel, Chris Barela, Sam Legate, Rosemary Castillo, Clarence Ansley, Natalia Chaparro, Dr. Sadhana Chheda, Amy Downs, Judge Thomas Spieczny, Carol Valles, Anne Semner-Griehop, Mary Lou Camarena, Dr. Bradley Fuhrman, Guillermo Ochoa, Dr. John Guggedahl, Hector Almeida, Kristen Cox, Dr. Manuel De la Rosa, Dr. Carlos Gutierrez, Cynthia Vizcaino-Villa, Rodolfo Fierro-Stevens, Dr. Nicolas Rich, Chris Kleberg, Dean Tilahun Adera, Brother Nicolas Gonzalez, and James O’Keefe (“D&O Claims”) shall be released as of the Effective Date.

C. Professional Fees

All Allowed Professional Fee Claims shall be paid in accordance with Article 3.1.1 of the Plan.

D. Continuation of Anti-Discrimination Provisions of the Bankruptcy Code

A Governmental Unit may not deny, revoke, suspend, or refuse to renew a license, permit, charter, franchise, contract, or other similar grant to, condition such a grant to, or discriminate with respect to such a grant against, the Debtor, the Reorganized Debtor, or another Person with whom the Debtor has been or is associated or affiliated, solely because of the commencement, continuation, or termination of the case or because of any provision of the Plan or the Confirmation Order, the insolvency of the Debtor, or the nonpayment of any debt that is dischargeable under 11 U.S.C. § 523, or the legal effect of the Plan or the Confirmation Order. The Confirmation Order will constitute an express injunction against any such discriminatory treatment by a Governmental Unit. Moreover, a Governmental Unit may not deny, revoke, suspend, or refuse to renew a license, permit charter, franchise, or other similar grant to the Debtor or the Reorganized Debtor based upon any requirement that the Debtor or the Reorganized Debtor place a bond or other surety obligation with such Governmental Unit as a condition of receipt of such a license, permit, charter, franchise, or other similar grant to the Debtor or the Reorganized Debtor. All licenses, permits, charters, franchises, or other similar grants to the Debtor is hereby transferred and assigned on the Effective Date (which transfer and assignment is without the assumption of any liabilities arising prior to the Effective Date which liabilities arise out of such license, permit, charter, franchise, or similar grant) to the Reorganized Debtor without the need for future application or approval by any Governmental Unit.

E. Default

A failure by the Reorganized Debtor to make a payment to a Taxing Authority in accordance with the terms of the Plan shall be an Event of Default. If the Reorganized Debtor fails to cure an Event of Default as to such payments within thirty (30) days after service of written notice of default served on the Reorganized Debtor with a copy to counsel for the Reorganized Debtor, then such tax creditor may (a) enforce the entire amount of its claim, (b) exercise any and all rights and remedies under applicable non-bankruptcy law, and (c) seek such relief as may be appropriate in this Court.

A failure by the Reorganized Debtor to make a payment to a creditor in accordance with the terms of the Plan shall be an Event of Default. If the Reorganized Debtor fails to

cure an Event of Default as to such payments within thirty (30) days after service of written notice of default served on the Reorganized Debtor with a copy to counsel for the Reorganized Debtor, then such creditor may seek such relief as may be appropriate in this Court.

XII. PROVISIONS FOR MANAGEMENT

A. Corporate Authority

All actions and transactions contemplated under the Plan shall be authorized upon confirmation of the Plan. The Confirmation Order shall include provisions directing the Debtor to execute such documents necessary to effectuate the Plan, which documents shall be binding on the Debtor, the Estate, UMC, CCC, the Debtor's creditors, and all Holders of Claims.

B. Transfer of Powers

1. **Amendment of the Reorganized Debtor's Governing Documents.** After the Effective Date, the Reorganized Debtor shall continue to maintain its corporate existence. On the Effective Date, the Amended and Restated Certificate of Incorporation and the Amended and Restated Bylaws (collectively referred to as the "Amended EPCH Governing Documents") will take effect.

2. **Debtor's Board of Directors on the Effective Date.** Upon the Effective Date, current members of the Debtor's board of directors shall be replaced, and the new EPCH board of directors, including the Transitional Board Members, shall take office pursuant to the Amended EPCH Governing Documents. Within ten (10) days of the Effective Date, the Transitional Board Members shall each nominate at least one person to serve a full term as a member of the Reorganized Debtor's Board. The Reorganized Debtor's Board shall approve or reject such nominations within twenty (20) days. If rejected, within ten (10) days of such rejection the Transitional Board Members shall nominate two additional persons for consideration by the Reorganized Debtor's Board. The Reorganized Debtor's Board shall approve or reject one of such subsequent nominations within twenty (20) days. If each of these subsequent nominees is rejected by the Reorganized Debtor's Board, all three sets of nominees of the Transitional Board Members shall be placed before the CCC for consideration, and the CCC shall accept one of such nominees, or reject each of them, within twenty (20) days. If each of such nominees is rejected, the Transitional Board Members shall nominate an additional candidate within ten (10) days, and the CCC shall approve or reject such candidate within ten (10) days. The nominations by the Transitional Board Members shall continue until a candidate is approved by CCC. The Transitional Board Members shall serve until the ninetieth (90th) day after the Effective Date or until three (3) days after approval of the succeeding board member by the Reorganized Debtor's Board or the CCC, whichever is later. The Transitional Board Members shall be Rosemary Castillo and Sadhana Chheda. None of the current or former members of the Debtor's board of directors shall be nominated to succeed a Transitional Board Member to serve a full term of board service.

3. **Proponents' Professionals.** Upon the Effective Date, the Proponents' Professionals and agents shall be released from any further duties and responsibilities in the Bankruptcy Cases and under the Bankruptcy Code, except with respect to any: (i) obligations arising under confidentiality agreements, joint interest agreements, and protective orders entered during the Bankruptcy Cases, which shall remain in full force and effect according to their terms;

(ii) applications for and/or objections to their Fee Claims; and (iii) motions or other actions seeking enforcement or implementation of the provisions of this Plan or the Confirmation Order. The Professionals retained by the Debtor shall not be entitled to compensation and reimbursement of expenses for services rendered in that capacity after the Effective Date, except for services rendered in connection with fee applications pending on the Effective Date or filed after the Effective Date as permitted by applicable law.

4. **Reorganized Debtor's Interim Management.** On the Effective Date, the Debtor shall retain Deloitte CRG to act as interim chief executive officer until such time a new CEO is retained. UMC and Debtor will conduct concurrent searches for their respective permanent CEOs. UMC's current CEO will have no role in selecting the new permanent CEO for either the Debtor or UMC. The selection of the new permanent CEO for the Debtor shall be made with input from those individuals serving as members of the Debtor's board of directors as of October 9, 2015. Final selection of the Reorganized Debtor's new CEO shall be a joint decision of the UMC and EPCH board.

5. For a minimum period of two (2) years following the Effective Date, any increases or decreases in the Reorganized Debtor's services shall be implemented only with the prior approval of CCC.

XIII. MISCELLANEOUS PROVISIONS

A. Compromise and Settlement of Claims and Controversies

In conjunction with their proposal of the Plan, the Debtor and UMC reached a compromise and settlement of claims and controversies ("Plan Settlement"). As set forth herein, the Debtor initiated the UMC Litigation and the EPF Litigation, pursuing a variety of causes of action against UMC and its wholly owned subsidiary, El Paso Health Plans, Inc. ("EPF"). In conjunction with the entry of the Abatement Order, the making by UMC of the Plan Deposit, and in consideration for the Distributions and other benefits provided pursuant to the Plan, the provisions of the Plan shall constitute a good faith compromise of all Claims and controversies between UMC, including EPF, and the Debtor and its officers and directors. In addition, as part of the agreement among the parties, the Plan Settlement provides for a release of all claims by the Debtor of claims against persons who serve or served as the Debtor's officers or directors.

The Proponents believe that the Plan Settlement meets the standards for approval of settlements under Rule 9019 of the Federal Rules of Bankruptcy Procedure. *See Connecticut Gen. Life Ins. Co. v. United Cos. Fin. Corp. (In re Foster Mortgage Corp.)*, 68 F.3d 914, 917 (5th Cir. 1995). The Plan Settlement is in the best interest of the Debtor's creditors and its estate. The Plan Settlement is truly the product of arms-length bargaining and not of fraud or collusion. *See id.* at 198. In agreeing to enter into the Plan Settlement, the Debtor has weighed the cost of pursuing the UMC Litigation and the EPF Litigation to judgment and the likelihood of ultimate recovery. In addition, all of the releases given by the Debtor, including of any D&O claims in the Plan are part of the Plan Settlement. Furthermore, the Plan Deposit, and the material agreements made by UMC under the Plan result in payment in full of the Debtor's creditors holding Allowed Claims. Accordingly, for all of these reasons, the Debtor believes that approval of the Plan Settlement is in the best interest of the Debtor's estate and its creditors.

The entry of the Confirmation Order shall constitute the Bankruptcy Court's approval of the Plan Settlement. In addition, the entry of the Confirmation Order shall constitute a finding

by the Bankruptcy Court that the Plan Settlement is in the best interests of the Debtor, the Estate, and Holders of Claims, and is fair, equitable, and reasonable.

B. Setoff and Other Rights

In the event that the Reorganized Debtor has a claim of any nature whatsoever against the holder of a Claim, the Reorganized Debtor, may, but is not required to, setoff against the Claim (any payments or other distributions to be made in respect of such Claim hereunder), subject to the provisions of § 553 of the Bankruptcy Code. Neither the failure to setoff nor the allowance of any Claim under the Plan shall constitute a waiver or release by the Debtor of any claim that the Debtor has against the holder of a Claim. Except as provided in the Plan, no holder of a Claim may, on account of a pre-Effective Date Claim against the Debtor, setoff, offset, suspend, freeze, or recoup any amount from funds or other payments that such claimant may owe to the Debtor or Reorganized Debtor under any circumstances notwithstanding any applicable law or agreement. The Confirmation Order shall include an injunction prohibiting any such setoff, offset, suspense, freeze, or recoupment.

C. Injunctions

The Confirmation Order shall contain such injunctions as may be necessary and helpful to effectuate the discharge of the Debtor provided herein. Without limiting the generality of the foregoing, such injunction shall include an absolute prohibition from collecting Claims in any manner other than as provided for in the Plan.

D. Lawsuits

On the Effective Date, all lawsuits, litigations, administrative actions or other proceedings, juridical or administrative, in connection with the assertion of a Claim against the Debtor, shall be dismissed as to the Debtor and the Reorganized Debtor, except proof of claims and/or objections thereto pending in the Bankruptcy Court. All parties to any such action shall be enjoined by the Bankruptcy Court in the Confirmation Order from taking any action to impede the immediate and unconditional dismissal of such actions. Within three (3) business days of the Effective Date, UMC and the Debtor shall cooperate to file necessary motions with the Bankruptcy Court to dismiss each of the UMC Litigation and the EPT Litigation with prejudice. Except as otherwise provided in the Plan, all lawsuits, litigations, administrative actions or other proceedings, judicial or administrative, in connection with the assertion(s) of a claim by the Debtor or any entity proceeding in the name of or for the benefit of the Debtor against a person shall remain in place only with respect to the claim(s) asserted by the Debtor or such other entity, and shall become property of the Reorganized Debtor to prosecute, settle, or dismiss as the Reorganized Debtor sees fit. For the avoidance of doubt, as set forth in section 5.2 of the Plan, all rights and Causes of Action, including claims under §§502, 542, 544, 545, 546, 548, 550, and 553 of the Bankruptcy Code, preference claims under § 547 of the Bankruptcy Code, fraudulent transfer claims under § 548 of the Bankruptcy Code, and all other claims and causes of action of the Debtor's estate against any Person as of the Confirmation Date shall be preserved, and transferred and assigned to the Reorganized Debtor.

E. Releases

Pursuant to § 1123(b) of the Bankruptcy Code, and except as otherwise specifically provided in the Plan, for good and valuable consideration, including the contributions of the

Released Parties to facilitate the implementation of the Plan, the Released Parties and each of them shall be deemed released and discharged by the Debtor and its Estate from any and all claims, obligations, rights, suits, damages, Causes of Action, remedies and liabilities whatsoever, including any derivative claims, asserted or assertable on behalf of the Debtor, whether known or unknown, foreseen or unforeseen, liquidated or unliquidated, fixed or contingent, matured or unmatured, existing or hereinafter arising in law, equity or otherwise, that the Debtor or the Estate would have been legally entitled to assert in its own right (whether individually or collectively) on or behalf of the Holder of any Claims or other Person, based in whole or in part on any act, omission, transaction, event, or other occurrence taking place on or prior to the Effective Date in any way relating to the Debtor, the Bankruptcy Case, the Plan or the Disclosure Statement, or any related agreements, instruments or other documents, other than Claims or liabilities arising out of or relating to any act or omission of a Released Party that constitutes gross negligence, fraud, or willful misconduct, as determined by a Final Order.

F. Insurance

Confirmation and consummation of the Plan shall have no effect on Insurance Policies of the Debtor in which the Debtor or any of the Debtor's Representatives are or were the insured party. Each insurance company is prohibited from, and the Confirmation Order shall include an injunction against, denying, refusing, altering or delaying coverage on any basis regarding or related to the Debtor's bankruptcy, the Plan or any provision within the Plan.

G. Payment of Statutory Fees/U.S. Trustee Reports

All fees payable pursuant to § 1930 of title 28 of the United States Code shall be paid through the entry of a Final Decree in the applicable Bankruptcy Case. The Reorganized Debtor shall be responsible for paying any quarterly fees under § 1930 that accrue after the Effective Date. The Reorganized Debtor shall also file such quarterly reports for each Debtor that is still required to submit such a report in the applicable quarter to the U.S. Trustee, setting forth all receipts and disbursements of the Reorganized Debtor, as required by its guidelines.

H. Governing Law

Unless a rule of law or procedure is supplied by federal law (including the Bankruptcy Code and Bankruptcy Rules) or the law of the jurisdiction of organization of any entity, the internal laws of the State of Texas shall govern the construction and implementation of the Plan and any agreements, documents and instruments executed in connection with the Plan or the Chapter 11 case, including the documents executed pursuant to the Plan.

I. Modification of the Plan

The Proponents may propose modifications of the Plan in writing at any time before the Confirmation Date, provided that (a) the Plan, as modified, meets the requirements of §§ 1122 and 1123 of the Bankruptcy Code and (b) the Debtor shall have complied with § 1125 of the Bankruptcy Code. The Plan may be modified at any time after the Confirmation Date and before substantial consummation by the Proponents, provided that (i) the Plan, as modified, meets the requirements of §§ 1122 and 1123 of the Bankruptcy Code, (ii) the Bankruptcy Court, after notice and a hearing, confirms the Plan as modified, under § 1129 of the Bankruptcy Code and (iii) the circumstances warrant such modifications. A Holder of a Claim that has accepted the Plan shall be deemed to have accepted the Plan as modified if the modification does not

materially and adversely change the treatment of the Claim of such Holder.

J. Creditor Default

An act or omission by a creditor in contravention of a provision within this Plan shall be deemed an event of default under this Plan. Upon an event of default, the Reorganized Debtor may seek to hold the defaulting party in contempt of the Confirmation Order. If such creditor is found to be in default under the Plan, such party shall pay the reasonable attorneys' fees and costs of the Reorganized Debtor in pursuing such matter if ordered by the Bankruptcy Court. Furthermore, upon the finding of such a default by a creditor, the Bankruptcy Court may (a) designate a party to appear, sign and/or accept the documents required under the Plan on behalf of the defaulting party, in accordance with Rule 70 of the Federal Rules of Civil Procedure, (b) may enforce the Plan by order of specific performance, (c) may award judgment against such defaulting creditor in favor of the Reorganized debtor in an amount, including interest, to compensate the Reorganized Debtor for the damages caused by such default; and (d) make such other order as may be equitable that does not materially alter the terms of the Plan as confirmed.

K. Controlling Documents

To the extent the Plan is inconsistent with this Disclosure Statement, the terms of the Plan shall control. To the extent that the Plan is inconsistent with the Plan Supplement, the Plan shall control. To the extent the Plan is inconsistent with the Confirmation Order, the Confirmation Order shall control.

L. Severability

Should the Bankruptcy Court determine that any provision of the Plan is unenforceable either on its face or as applied to any Claim or transaction, the Debtor may modify the Plan in accordance with § 15.7 of the Plan so that such provision shall not be applicable to the Holder of any Claim. Such a determination of unenforceability shall not (a) limit or affect the enforceability and operative effect of any other provision of the Plan, or (b) require the resolicitation of any acceptance or rejection of the Plan.

XIV. CERTIFICATES OF INCORPORATION AND BY-LAWS OF THE DEBTOR/RESTRICTION ON TRANSFER OF SHARES

A. Amendments to Certificates of Incorporation and By-Laws

The Confirmation Order shall provide authorization pursuant to applicable nonprofit corporate law for the filing by the Debtor of amended governing documents to provide that the mission of the Debtor shall continue as it existed prior to the Petition Date; and any changes as necessary to effectuate other provisions of the Plan and § 1123(a)(6) of the Bankruptcy Code.

XV. PROCEDURES FOR RESOLVING AND TREATING/DISPUTED CLAIMS

A. Claim Objection Deadline

As soon as practicable, but in no event later than one year after the Effective Date, unless extended by order of the Bankruptcy Court, objections to Claims shall be filed with the Bankruptcy Court and served upon Holders of each of the Claims to which objections are made.

B. Prosecution of Objections

On and after the Effective Date, except as the Bankruptcy Court may otherwise order, the filing, litigation, settlement, or withdrawal of all objections to claims may be made by the Reorganized Debtor.

C. Distribution Upon Allowance of Contested Claims Entitled to Payment in Full in One Payment

The Holder of a Claim entitled to payment in full on one specific payment date, which Claim is a Contested Claim on such payment date, but which Claim subsequently becomes an Allowed Claim, will receive payment of its Allowed Claim within thirty (30) Business Days following the date on which such Claim becomes a Allowed Claim pursuant to a Final Order.

D. Distributions Upon Allowance of Disputed Claims Entitled to Payment in Full in Installment Payments

The Holder of a Claim entitled to payment in installments, which Claim is a Contested Claim on the initial or any later date the installment would otherwise be made, but which Claim subsequently becomes an Allowed Claim, shall receive the amount of any missed installments on the first date payments to other Holders of Claims in the same Class are scheduled to be made that arises after the date on which such Claim becomes an Allowed Claim by Final Order. If such Claim does not become an Allowed Claim until after all the other Claims in the Class have received their total Distributions as authorized under the Plan, then the Holder thereof shall receive payment of its Allowed Claim within ten (10) Business Days following the date on which such Claim becomes an Allowed Claim pursuant to a Final Order.

E. Objections to and Resolution of Disputed Administrative Claims and Disputed Claims

The Administrative Bar Date applies to all Administrative Claims except claims for § 327 professionals. After the Confirmation Date, the Reorganized Debtor shall have the right to maintain, make, and file objections to Administrative Claims and objections to Claims. All objections shall be litigated to Final Order; provided, however, that the Reorganized Debtor shall have the authority to compromise, settle, otherwise resolve or withdraw all objections, other than applications for allowance of compensation and reimbursement of expenses under §§ 330 and 503 of the Bankruptcy Code, without approval of the Bankruptcy Court.

XVI. RETENTION OF JURISDICTION POST-CONFIRMATION

A. Scope of Jurisdiction

Notwithstanding the entry of the Confirmation Order and the occurrence of the Effective Date, and to the extent permitted by applicable law, pursuant to §§ 1334 and 157 of title 28 of the United States Code, the Bankruptcy Court shall retain and have jurisdiction over all matters arising in, arising under and related to the Bankruptcy Case or the Plan after Confirmation including, without limitation, jurisdiction to:

- (a) hear and determine pending applications for the assumption or rejection of Executory Contracts and the allowance of Claims resulting therefrom;

- (b) hear and determine any and all adversary proceedings, applications and contested matters, including any remands of appeals;
- (c) ensure that Distributions to Holders of Allowed Claims are accomplished as provided herein;
- (d) hear and determine any timely objections to or applications concerning Claims or the allowance, classification, priority, estimation or payment of any Claim;
- (e) enter and implement such orders as may be appropriate in the event the Confirmation Order is for any reason stayed, revoked, modified, reversed or vacated;
- (f) enter and implement such orders as may be necessary or appropriate to execute, interpret, implement, consummate or enforce the Plan and the transactions contemplated thereunder, including for avoidance of doubt, entry of an order withdrawing the Plan Deposit from the Registry and transferring the Plan Deposit to the Reorganized Debtor;
- (g) consider any modification of the Plan pursuant to § 1127 of the Bankruptcy Code, to cure any defect or omission or to reconcile any inconsistency in any order of the Bankruptcy Court, including, without limitation, the Confirmation Order;
- (h) hear and determine all Fee Applications and Fee Claims;
- (i) hear and determine disputes arising in connection with the execution, interpretation, implementation, consummation or enforcement of the Plan;
- (j) enter and implement orders or take such other actions as may be necessary or appropriate to restrain interference by any entity with the consummation or implementation of the Plan, including, without limitation, to issue, administer and enforce injunctions provided for in the Plan and the Confirmation Order;
- (k) recover all assets of the Debtor and property of the Estate, wherever located;
- (l) hear and determine matters concerning state, local and federal taxes in accordance with §§ 346, 505 and 1146 of the Bankruptcy Code;
- (m) hear and determine any other matter not inconsistent with the Bankruptcy Code and title 28 of the United States Code that may arise in connection with or related to the Plan;
- (n) hear and determine all Causes of Action;
- (o) hear and determine all actions to enforce the releases, exculpation and injunctive provisions in the Plan; and
- (p) enter a Final Decree closing the Chapter 11 cases.

B. Failure of the Bankruptcy Court to Exercise Jurisdiction

If the Bankruptcy Court abstains from exercising, or declines to exercise, jurisdiction or is otherwise without jurisdiction over any matter arising in, arising under or related to the Chapter 11 case, including the matters set forth in Section 11.2 of the Plan, Article 11 shall have no effect upon and shall not control, prohibit or limit the exercise of jurisdiction by any other court having jurisdiction with respect to such matter.

XVII. EFFECT OF CONFIRMATION OF THE PLAN

A. Discharge of Debtor

The rights afforded in the Plan and the treatment of all Claims shall be in exchange for and in complete satisfaction, discharge and release of all Claims of any nature whatsoever against the Debtor and any of its property, and, except as otherwise provided herein or in the Plan, upon the Effective Date, the Debtor shall be deemed discharged and released to the extent permitted by § 1141 of the Bankruptcy Code from any and all Claims, including but not limited to demands and liabilities that arose before the Effective Date, and all debts of the kind specified in §§ 502(g), 502(h), or 502(i) of the Bankruptcy Code, whether or not (a) a Proof of Claim based upon such debt is filed or deemed filed under § 501 of the Bankruptcy Code; (b) a Claim based upon such debt is allowed under Section 502 of the Bankruptcy Code; or (c) the holder of a Claim based upon such debt has accepted the Plan. Except as provided herein, the Confirmation Order shall be a judicial determination of discharge of all liabilities of the Debtor. As provided in § 524 of the Bankruptcy Code, such discharge shall void any judgment against the Debtor at any time obtained to the extent it relates to a claim discharged, and operates as an injunction against the prosecution of any action against the Debtor, or its property, including the Vested Property, to the extent it relates to a Claim discharged.

B. Binding Effect

On and after the Effective Date, the provisions of the Plan shall bind all present and former Holders of Claims against the Debtor and such Holders' successors and assigns, whether the Claim of such Holder is Impaired under the Plan and whether such Holder has filed a Proof of Claim or has accepted the Plan. The Confirmation Order shall survive and remain effective after entry of any order converting the Bankruptcy Cases to cases under chapter 7 of the Bankruptcy Code, and the terms and provisions of this Plan shall continue to be effective in this or any superseding case under the Bankruptcy Code.

C. Certain Activities Enjoined

Except as expressly provided herein or in the Plan, at all times on and after the Effective Date, all Persons who have been, are, or may be holders of Claims in the Debtor arising prior to the Effective Date, shall be enjoined from taking any of the following actions against or affecting the Debtor, its estate, or its property, including the Vested Property, with respect to such Claims (other than actions brought to enforce any rights or obligations under the Plan):

- (a) commencing, conducting or continuing in any manner, directly or indirectly any suit, action, or other proceeding of any kind against the Debtor, its estate, or its property, including the Vested Property (including, without limitation, all suits, actions, and proceedings that are pending as of the Effective Date which shall be deemed to be withdrawn or dismissed with prejudice);
- (b) enforcing, levying, attaching, collecting, or otherwise recovering by any manner or means whether directly or indirectly any judgment, award, decree, or order against the Debtor, its estate, or its property, including the Vested Property;
- (c) creating, perfecting, or otherwise enforcing in any manner, directly or indirectly, any Lien against the Debtor, its estate, or its property, including the Vested Property;

- (d) asserting any right of subrogation, or recoupment of any kind, directly or indirectly against any obligation due the Debtor, its estate, or its property, including the Vested Property; and
- (e) proceeding in any manner in any place whatsoever that does not conform to or comply with the provisions of the Plan.

XVIII. CONFIRMATION PROCEDURE

The Bankruptcy Court will confirm the Plan only if it finds that all of the requirements of Section 1129 of the Bankruptcy Code are met. Among the requirements for confirmation of a plan are that the Plan: (i) is accepted by all impaired Classes of Claims or, if rejected or deemed rejected by an impaired Class, “does not discriminate unfairly” and is “fair and equitable” as to each rejecting Class; (ii) is feasible; and (iii) is in the “best interest” of creditors impaired under the Plan.

A. Solicitation of Votes

Any creditor of the Debtor whose Claim is Impaired under the Plan and classified in a Class entitled to receive Distributions is being solicited to vote, if either (i) its Claim has been Scheduled by the Debtor and such Claim is not Scheduled as Disputed, contingent or unliquidated, or (ii) it has filed a Proof of Claim on or before the Bar Date set by the Bankruptcy Court for such filings. Any Claim as to which an objection has been filed, and such objection is still pending on the Voting Deadline, is not entitled to have its vote counted, unless the Bankruptcy Court temporarily allows the Claim upon motion by such creditor whose Claim has been objected to, in an amount which the Bankruptcy Court deems proper for the purpose of accepting or rejecting the Plan. Such motion must be heard and determined by the Bankruptcy Court prior to the Voting Deadline. In addition, a creditor’s vote may be disregarded if the Bankruptcy Court determines that the creditor’s acceptance or rejection was not solicited or procured in good faith or in accordance with the provisions of the Bankruptcy Code.

B. Confirmation Hearing

The Bankruptcy Code requires the Bankruptcy Court to hold a hearing on confirmation of the Plan after Ballots have been cast. The Confirmation Hearing has been scheduled for _____, prevailing Central Time at the United States Courthouse, 903 San Jacinto, Blvd., Austin, Texas, 78701. The Confirmation Hearing may be continued from time to time by the Bankruptcy Court without further notice except for an announcement of the continuance made at the Confirmation Hearing. At the Confirmation Hearing, the Bankruptcy Court will (i) determine whether the Plan has been accepted by the requisite majorities of each Class entitled to vote; (ii) hear and determine all objections to the Plan and to confirmation of the Plan; (iii) determine whether the Plan meets the requirements of the Bankruptcy Code and has been proposed in good faith; and (iv) confirm or refuse to confirm the Plan.

C. Acceptance

Each Class entitled to vote will be deemed to have accepted the Plan if the Plan is accepted by at least two-thirds in dollar amount and more than one-half in number of the Claims of such Class (excluding certain Claims designated under Section 1126(e) of the Bankruptcy Code) that have voted to accept or reject the Plan.

D. Fair and Equitable Test/Cramdown

The Bankruptcy Code establishes different “fair and equitable” tests for Secured and Unsecured Creditors as follows:

1. Secured Creditors. Either (i) each Secured Creditor in a non-accepting impaired Class retains the Liens securing its Secured Claim and receives on account of its Secured Claim deferred Cash payments having a present value equal to the amount of its Allowed Secured Claim, (ii) each Secured Creditor in a non-accepting impaired Class realizes the indubitable equivalent of its Allowed Secured Claim, or (iii) the property securing the Claim is sold free and clear of Liens with such Liens to attach to the proceeds of sale and the treatment of such Liens on proceeds as provided in clauses (i) and (ii) of this subparagraph.

2. Unsecured Creditors. Either (i) each Unsecured Creditor in a non-accepting impaired Class receives or retains under the Plan property having a present value equal to the amount of its Allowed Claim, or (ii) the Holders of Claims that are junior to the Claims of the dissenting Class will not receive or retain any property under the Plan.

THE PROPONENTS BELIEVE THAT THE PLAN DOES NOT DISCRIMINATE UNFAIRLY WITH RESPECT TO ANY CLASS, AND THAT IT IS FAIR AND EQUITABLE WITH RESPECT TO EACH IMPAIRED CLASS. THEREFORE, THE PROPONENTS WILL SEEK CONFIRMATION OF THE PLAN EVEN IF LESS THAN THE REQUISITE NUMBER OF FAVORABLE VOTES ARE OBTAINED FROM ANY VOTING CLASS. THE PROPONENTS RECOMMEND THAT ALL CREDITORS VOTE TO ACCEPT THE PLAN.

E. Feasibility

The Bankruptcy Code requires that in order to confirm the Plan, the Bankruptcy Court must find that confirmation of the Plan is not likely to be followed by liquidation or the need for further financial reorganization of the Debtor (the “Feasibility Test”), except as otherwise provided for under the Plan. In addition, the Bankruptcy Court must determine that the values of the Distributions to be made under the Plan to each Class will equal or exceed the values which would be allocated to such Class in liquidation under Chapter 7 of the Bankruptcy Code (the “Best Interest Test”). The Best Interest Test with respect to each impaired Class requires that each holder of a Claim in such Class either (i) accept the Plan, or (ii) receive or retain under the Plan property of a value, as of the Effective Date, that is not less than the value such holder would receive or retain if the Debtor were liquidated under Chapter 7 of the Bankruptcy Code.

The Proponents believe that the Plan meets the requirements of the Feasibility Test and of the Best Interest Test by providing for payment in full of Allowed Claims, providing for the Vested Property to vest in the Reorganized Debtor, and providing for proceeds from the ongoing operations of the Reorganized Debtor to provide the means for implementation of the Plan, with the Cash proceeds being distributed as set forth in the Plan and in accordance with the priority scheme set forth in the Bankruptcy Code. No liquidation or further financial reorganization is expected.

F. Objections to Confirmation and/or Approval of Disclosure Statement

Objections to confirmation of the Plan must be in writing and specify in detail the name and address of the objector, all grounds for the objection and the amount of the Claim in the Debtor held by the objector. Any such objection must be filed with the Bankruptcy Court and

served upon the following so that it is received by them on or before _____, 5:00 p.m.
prevailing Central Time upon:

Patricia Baron Tomasco
Jennifer F. Wertz
JACKSON WALKER L.L.P.
100 Congress Avenue, Suite 1100
Austin, Texas 78701
ptomasco@jw.com
jwertz@jw.com

Counsel to the Debtor

Louis R. Strubeck, Jr.
Elizabeth Boydston
NORTON ROSE FULBRIGHT US LLP
2200 Ross Ave., Suite 3600
Dallas, Texas 75201
louis.strubeck@nortonrosefulbright.com
liz.boydston@nortonrosefulbright.com

**Counsel to El Paso County Hospital District
d/b/a University Medical Center of El Paso**

UNITED STATES TRUSTEE
Kevin Epstein, Trial Attorney
615 E Houston Street, Room 533
San Antonio, Texas 78205
kevin.m.epstein@usdoj.gov

Counsel for the United States Trustee

XIX. PREFERENCES

Section 547 of the Bankruptcy Code allows a debtor-in-possession to recover certain payments known as “voidable preferences.” A “voidable preference” is a payment made by a debtor within ninety (90) days prior to its bankruptcy on account of an antecedent debt owed by the debtor that is made while the debtor is insolvent and which allows a creditor to recover more than it would have on such debt if the payment had not been made and the debtor’s assets were liquidated under Chapter 7. Payments made to insiders of a debtor may be preferences if they satisfy these requirements and were made within one year prior to bankruptcy. Certain payments are protected from recovery as preferences. These include, among others, payments made in the ordinary course of business and upon ordinary business terms, payments after which the defendant provided new value to the Debtor, payments representing a substantially contemporaneous exchange of new value and payments on consumer debts for less than \$600.

Exhibit B to this Disclosure Statement lists payments known at this time to have been made by the Debtor during the ninety (90) days immediately prior to the Petition Date. Also included is a chart which lists payments to the Debtor’s insiders within 365 days immediately

prior to the Petition Date. After the Effective Date, the Reorganized Debtor will have the authority to pursue the Avoidance Actions, including by initiating additional actions to recover voidable preferences under 11 U.S.C. § 547, including those payments listed in Exhibit B, and any other payments discovered to have been made by the Debtor during the ninety (90) days immediately prior to the Petition Date.

A. Fraudulent Conveyances/Insider Transfers

Sections 548 and 544 of the Bankruptcy Code allow a debtor-in-possession to recover certain payments or other transfers of assets as “fraudulent conveyances.” A fraudulent conveyance under section 548 of the Bankruptcy Code is a transfer made within two years of bankruptcy while the Debtor were insolvent which either was made with fraudulent intent or was made without receiving reasonably equivalent value. Section 544 of the Bankruptcy Code allows a debtor-in-possession to pursue non-bankruptcy fraudulent conveyance claims that may have a longer ‘lookback’ period than two years. Additionally, as referenced above, section 547 of the Bankruptcy Code provides for avoidance of certain payments to Insiders made within one year. The Debtor is unaware of any fraudulent conveyance actions or Insider transactions that can be avoided under section 547, except for the litigation already pending, but the Reorganized Debtor will investigate and pursue any and all such actions that may exist.

Section 549 of the Bankruptcy Code allows an estate to recover transfers which were made without Court approval. The Debtor is unaware of any unauthorized post-petition transfers the Estates can recover under section 549.

The Debtor may recover payments made between 1 and 4 years pre-petition under either § 548 of the Bankruptcy Code (up to 2 years prior to the petition date), or under UFTA, if the requisite showing can be found. To this point, no evidence or accusations have emerged asserting an actual fraud during that time period. Therefore, analysis must be done to determine whether constructive fraud has occurred. Under this analysis, the Debtor must prove that less than reasonable value was received in return for the transfer, and either the Debtor was insolvent, had unreasonably small capital, could not pay its debts as they became due, or payment was to an insider under an employment contract outside of the ordinary course of business.

In order to fully define the extent of the timeframe where recovery under fraudulent conveyance theories are more likely, a deeper solvency analysis is required. The below analysis outlines the transfers during the potential look back period which can be reasonably identified for the sake of disclosure only.

B. Director and Officer Claims

Under applicable non-bankruptcy laws, any debtor may have Causes of Action arising from the conduct of such debtor’s current and former directors, and officers, including, but not limited to, claims under state law for breach of fiduciary duties, self-dealing and breach of contract. As set forth herein, the Debtor has agreed to release any claims it may have against any of the Debtor’s current and former directors and officers as part of the UMC-Debtor Settlement.

C. Other Rights of Action/Other Assets

In addition to the Causes of Action described above, the Debtor may possess other Causes of Action, including, but not limited to, breach of contract Claims, insurance adjustments

or refunds, tax refunds, bank account surpluses, deposits and prepayments, unused retainers currently held by professionals, escrows and other miscellaneous Assets.

D. Disclaimer

The Debtor has attempted to disclose all material Causes of Action, including potential actions under chapter 5 of the Bankruptcy Code that the Debtor may hold against third parties. However, the Debtor has not performed an exhaustive investigation or analysis of potential Claims against third parties. Additionally, any and all of the above described Causes of Action may have defenses, partial or total, to recovery by the Reorganized Debtor. **Accordingly, the ultimate resolution of such claims may result in zero distributable Assets being received by the Reorganized Debtor.** It is the contemplation of the Plan that the investigation and analysis of Causes of Action will continue post-confirmation by the Reorganized Debtor. The Debtor may hold other potential Claims or Causes of Action against third parties that the Debtor has not disclosed herein. You should not rely on the omission of the disclosure of a Claim to assume that the Debtor or the Reorganized Debtor holds no Claim against any third party, including any creditor that may be reading this Disclosure Statement and/or casting a Ballot. Unless expressly released by Final Order of the Bankruptcy Court or under the Plan, any and all such Claims against third parties are specifically reserved and transferred to the Reorganized Debtor. The Proponents' failure to identify a Claim herein is specifically not a waiver of any Claim or Cause of Action. The Proponents will not ask the Court to rule or make findings with respect to the existence of any Cause of Action or the value of the entirety of the Debtor's Estate at the Confirmation Hearing; accordingly, except for Claims released by Final Order or expressly released under the Plan, the Proponents' failure to identify a Claim or Cause of Action herein shall not give rise to any defense of judicial estoppel with respect to Claims which could be asserted against third parties, including creditors of the Debtor which may be reading this Disclosure Statement and/or casting a Ballot. When casting your Ballot, you should consider and take into account the possibility that the Debtor may hold a Claim against you that will be transferred to the Reorganized Debtor and, if the Reorganized Debtor deems advisable, fully pursued post-confirmation.

XX. FINANCIAL INFORMATION AND DISCLOSURES

Attached hereto as Exhibit C is the most recent Monthly Operating Report filed by the Debtor for the month of August 2015. Attached as Exhibit D is the financial projections that shows the sources and uses of cash to make distributions under the Plan prepared by the Debtor, the Debtor's financial advisor, APS, and Mark Herbers, the Debtor's Chief Financial Officer, that shows the sources and uses of cash to make distributions under the Plan.

XXI. ALTERNATIVES TO CONFIRMATION AND CONSUMMATION OF THE PLAN

If the Plan is not confirmed and consummated, the Debtor's alternatives include the confirmation of an alternate plan of liquidation or the liquidation of the Debtor under Chapter 7 of the Bankruptcy Code.

A. Alternative Plans of Liquidation

The Proponents believe that failure to confirm the Plan will inevitably result in additional Allowed Administrative Expense Claims which will reduce and delay the likelihood of

Distributions to General Unsecured Creditors. The Proponents believe that the Plan, as described herein, fairly adjusts the rights of various Classes of Creditors consistent with the distribution scheme embodied in the Bankruptcy Code and enables creditors to realize the most possible under the circumstances.

B. Liquidation Under Chapter 7

One of the requirements to confirm a Chapter 11 plan is that creditors receive at least as much as they would under a Chapter 7 liquidation. In a Chapter 7 liquidation, a trustee would be appointed to liquidate the Debtor's property and pay the Claims of creditors. Property subject to Liens would either be sold for enough to pay the Liens or foreclosed upon by the creditor. Once the property was liquidated, Claims would be paid in the following order:

- 1) First, expenses of the Chapter 7 trustee would be paid;
- 2) Second, expenses incurred during the Bankruptcy Cases and allowed by the Court -- including the all Allowed Administrative Claims -- would be paid; and
- 3) Third, Priority and Secured Claims would be paid; and
- 4) Fourth, any remaining funds would be distributed to General Unsecured Creditors on a Pro Rata basis.

The Proponents believe that a liquidation under Chapter 7 would result in a reduced recovery of funds by the Debtor's Estate because of the additional Administrative Expenses involved in the appointment of a Chapter 7 trustee for the Debtor and attorneys and other professionals to assist such a Chapter 7 trustee. Unsecured creditors would be further harmed in a Chapter 7 liquidation because a Chapter 7 trustee would lack the personal knowledge and familiarity with the Debtor and the technical expertise required to best operate the Debtor, particularly given that the Debtor operates a children's hospital that is still in its infancy. Accordingly, the Proponents believe that if Holders of Claims could or would receive anything in a Chapter 7 liquidation, their recoveries would be less than what they otherwise receive on account of their Claims under the Plan. The Debtor's liquidation analysis, which reflects what the Proponents believe Creditors would receive under a chapter 7 liquidation, is attached to this Disclosure Statement as Exhibit E.

The liquidation analysis indicates that the Distributions to General Unsecured Creditors would be limited in a liquidation under Chapter 7, but reflects that the Plan projects a greater potential for recovery. To determine what holders of Claims in each impaired Class would receive if the Debtor were liquidated under Chapter 7, the Bankruptcy Court must determine what funds could be generated from the liquidation of the Debtor's assets and property in the context of a Chapter 7 liquidation case, which would consist of the proceeds resulting from the disposition of the unencumbered assets of the Debtor. Such asset amounts would be reduced by post-petition Chapter 11 administrative costs, and costs incurred by the Chapter 7 trustee and any professional retained by the Chapter 7 trustee. To determine if the Plan is in the best interest of each Impaired Class, the present value of the distributions from the proceeds of the liquidation of the Debtor's assets and property (after subtracting the amounts attributable to the aforesaid Claims) are then compared with the present value offered to such Classes of Claims under the Plan.

In applying the Best Interest Test, Claims in a hypothetical Chapter 7 case would be classified according to the same priority provided in the Plan. In the absence of a contrary determination by the Bankruptcy Court, all pre-Chapter 11 General Unsecured Claims that have the same rights upon liquidation would be treated as one Class for the purposes of determining the potential distribution of the liquidation proceeds resulting from the Debtor's hypothetical Chapter 7 case. The distributions from the liquidation proceeds would be calculated ratably according to the amount of the aggregate Claims held by each Creditor.

The Proponents' management and professionals have analyzed the Chapter 7 liquidation alternative to the Plan. Results of this analysis show clearly that liquidation of Debtor's remaining Assets would result in most creditors receiving zero. As a result, the Debtor is led irrevocably to the conclusion that liquidation of its assets in a Chapter 7 proceeding would result in a significantly lower distribution to General Unsecured Creditors and may leave many Priority Claims unpaid.

XXII. RISK FACTORS TO BE CONSIDERED

HOLDERS OF CLAIMS AGAINST THE DEBTOR SHOULD READ AND CONSIDER CAREFULLY THE FACTORS SET FORTH BELOW, AS WELL AS THE OTHER INFORMATION SET FORTH IN THIS DISCLOSURE STATEMENT (AND THE DOCUMENTS DELIVERED TOGETHER HERewith AND/OR INCORPORATED HEREIN BY REFERENCE), PRIOR TO VOTING TO ACCEPT OR REJECT THE PLAN. THESE RISK FACTORS SHOULD NOT, HOWEVER, BE REGARDED AS CONSTITUTING THE ONLY RISKS INVOLVED IN CONNECTION WITH THE PLAN AND ITS IMPLEMENTATION.

A. Allowance of Claims

Distributions by the Reorganized Debtor will be affected by the pool of Allowed Claims, in particular, the costs associated with the reconciliation of Disputed Claims. However, the Debtor has not yet fully analyzed the Claims filed against its Estate. Upon the completion of further analyses of the Proofs of Claim, which will likely lead to Claims objection litigation and related matters, the total amount of Claims that ultimately become Allowed Claims in these Bankruptcy Cases may differ from the Debtor's estimates, and such difference could be material.

B. Post-Confirmation Date Administrative Claims

Because the Administrative Claims Bar Date will occur after the Confirmation Date, there is a risk that Administrative Claims that are, to date, unknown to the Debtor could be filed and, subsequently, Allowed, which could adversely affect or eliminate Distributions. Depending on the amount of Cash on hand in the Estate, the Reorganized Debtor may also lack the Cash to pay any unexpected or unknown Allowed Administrative Claims as and when such Claims are Allowed.

C. Objection to Classifications

Section 1122 of the Bankruptcy Code provides that a plan may place a claim or an interest in a particular class only if such claim or interest is substantially similar to the other claims or interests of such class. The Proponents believe that the classification of Claims under the Plan complies with the requirements set forth in the Bankruptcy Code. However, there can be no assurance that the Bankruptcy Court will reach the same conclusion. Notwithstanding

anything to the contrary herein, the Debtor expressly reserves the right to object to the amount, priority or classification of any Claim.

D. Non-confirmation of the Plan

Even if Classes 2, 3, 4, 5, and 7 (the only voting Classes) accept the Plan, there is a risk that the Bankruptcy Court may not confirm the Plan if the cram down requirements discussed above are not met. The Proponents believe that the Plan satisfies all the requirements for confirmation under the Bankruptcy Code. There can be no assurance, however, that the Bankruptcy Court will also conclude that the requirements for confirmation of the Plan have been satisfied.

E. Delays of Confirmation and/or Effective Date

Any delay in confirmation and effectiveness of the Plan could result in, among other things, increased Administrative Claims. These or any other negative effects of delays in confirmation or effectiveness of the Plan could endanger the ultimate approval of the Plan by the Bankruptcy Court and reduce recoveries to Creditors.

F. Business Risks

Financial Projections are Inherently Uncertain

Although the Financial Projections suggest that the Debtor will be able to meet all of its financial obligations following consummation of the Plan, the financial projections are “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Because the actual results achieved through the periods covered by the Financial Projections may vary from the projected results, the Financial Projections should not be relied upon as a guaranty, representation, or other assurance of the actual results that will occur. In addition, the Financial Projections are dependent on factors outside of the Debtor’s control, including the availability of state and federal funding and business and competitive factors.

XXIII. CONCLUSION AND RECOMMENDATION

THE PROPONENTS BELIEVE THAT CONFIRMATION OF THE PLAN IS PREFERABLE TO ANY OF THE ALTERNATIVES DESCRIBED ABOVE AND THAT THE PLAN IS DESIGNED TO PROVIDE GREATER RECOVERIES THAN THOSE AVAILABLE IN ANY OTHER FORM OF LIQUIDATION. ANY OTHER ALTERNATIVE WOULD CAUSE SIGNIFICANT DELAY AND UNCERTAINTY, AS WELL AS ADDITIONAL ADMINISTRATIVE COSTS. THUS, THE PROPONENTS RECOMMEND THE CONFIRMATION OF THE PLAN.

Dated: October 21, 2015.

**EL PASO CHILDREN'S HOSPITAL
CORPORATION**

By: /s/ Mark E. Herbers

Its: Chief Executive and Restructuring
Officer

JACKSON WALKER L.L.P.
100 Congress Avenue, Suite 1100
Austin, Texas 78701
(512) 236-2000 – Main Telephone
(512) 236-2002 – Main Facsimile

By: /s/ Patricia B. Tomasco

Patricia B. Tomasco
State Bar No. 01797600
(512) 236-2076 – Direct Phone
(512) 691-4438 – Direct Fax
Email address: ptomasco@jw.com

Jennifer F. Wertz
State Bar No. 24072822
(512) 236-2247 – Direct Phone
(512) 391-2147 – Direct Fax
Email address: jwertz@jw.com

**COUNSEL FOR THE DEBTOR-IN-
POSSESSION**